



EXECUTIVE COMMITTEE: 05-7-18
ITEM: V.A

Memorandum

TO: EXECUTIVE COMMITTEE

**SUBJECT: PROPOSED 2018-2019 OPERATING
BUDGET RELATED TO CULTURAL
DEVELOPMENT PROGRAMS
AND SERVICES**

FROM: Kerry Adams Hapner

DATE: May 3, 2018

RECOMMENDATION

Review and receive the proposed FY 2018-2019 funding allocations for Arts and Cultural Development Programs and Services.

BACKGROUND

The purpose of this memo is to: 1) convey the elements of the City Manager's Proposed 2018-2019 Operating Budget that describe the proposed funding available for cultural development services and programs, 2) outline cultural development priorities, 3) describe the proposed 2018-2019 projected and rebudgeted Transient Occupancy Tax (TOT) allocations, and 4) outline City-wide General Fund support for cultural facilities.

An overview of the Cultural Development TOT Fund, including grant funding recommendations, will be presented for City Council approval as part of the City Manager's Proposed 2018-2019 Operating Budget.

ANALYSIS

The Office of Cultural Affairs (OCA) is funded through TOT, Percent for Art (capital improvement), and grant and/or interagency service agreement funds. The level of TOT collections is directly related to the status of the economy. When the economy is growing, conventions, business travel and tourism activity increase, which leads to higher occupancy rates in hotels. With increased occupancy, the hotels are able to raise room rates, which positively impacts TOT collections. Conversely, when the economy is declining, TOT revenues tend to decrease and can do so quite rapidly.

Fifteen percent of the collected TOT is used for the funding of cultural arts grants and the OCA. Per the municipal code, allowable uses are OCA operating costs (staff and administration), arts programs and arts grants. Each year, grant awards are recommended based on projected TOT.

The total 2018-2019 TOT projected revenue for the arts is \$7,512,636, an estimated growth of 4% as compared to the 2017-2018 projection. Current year TOT receipts mark the eighth year of growth, which is in stark contrast to the declines of 11.5% and 18.5% in 2009-2010 and 2008-2009, respectively.

During the economic downturn and the decade of the City of San Jose's ongoing structural deficit, the OCA's General Fund support was eliminated. To minimize and mitigate the effects of the economic crisis on San Jose's arts sector, the City sought to stabilize services to the arts sector, specifically arts grants, by implementing several strategies including reducing the number of FTE OCA staff positions from 20 to 10 and eliminating core programs and services such as Arts Express, technical assistance grants, small project grants, and special event production, among others. Given the increase in TOT collections, some small programs such as technical assistance grants and project grants have been restored. Additionally, the OCA has been able to restore some positions with approximately 10 FTE funded through the TOT and another 2 FTE funded through Percent for Art funds.

Available Funding

Available 2018-2019 TOT funding for Arts and Cultural Development Programs and Services outlined in the attachment is estimated at \$6,492,424. These funds include:

- Projected TOT revenues, based on the Budget Office's estimate, and
- Estimated "Rebudgeted TOT" from one-time appropriations and unspent 2017-2018 funds (derived primarily from Long Term Reserve, Programmatic Reserve, and unspent program funds).

This amount of funding does not include Percent for Art Funds, which are tracked and managed through the Capital Improvement Program. Also, this funding does not reflect the \$215,000 in secured grant funds from the Packard Foundation, Knight Foundation and National Endowment for the Arts to support the Cultural Development programs.

An additional \$3,349,000 in City-wide General Fund supports the operations and maintenance agreements for six City-owned cultural facilities. Separate from the OCA-managed TOT for arts programs and services, there are additional funds identified to support the capital maintenance and repair needs of these City-owned cultural facilities.

Cultural Development Funding Priorities

As part of the implementation of the Council-adopted *Cultural Connection: San Jose Cultural Plan for 2011-2020*, the OCA's workplan has been developed that reflects the top priorities for cultural development in San Jose.

Cultural Connection strategic goals include:

- Support residents' active, personal participation in arts and culture;
- Support the availability of diverse cultural spaces and places throughout the community;
- Strengthen Downtown San Jose as the creative and urban center of the Silicon Valley;

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- Integrate high impact public art and design throughout the community;
- Expand residents' access to arts and cultural learning opportunities;
- Foster destination quality events in San Jose;
- Strengthen community-wide marketing and audience engagement;
- Enhance support for creative entrepreneurs and the commercial creative sector;
- Strengthen the cultural community's infrastructure; and
- Increase funding for cultural development.

The proposed budget reflects these priorities through allocations for specific initiatives outlined in *Cultural Connection*. Among the priorities are:

- Cultural Funding Portfolio: Operating Grants (OpG); Festival, Parade, and Celebration Grants (FPC); take pART Grants; Fiscal Capitalization Technical Assistance Grants (CAP); Creative Entrepreneur Creative Capacity Grants; Creative Industries Incentive Fund; and International Arts and Cultural Exchange Grants;
- Participation in the Northern California Grantmakers' Arts Loan Fund, which provides needed bridge loans for cash flow to San Jose nonprofit art organizations;
- Arts Marketing, including the *Live and Local* live music campaign and a *Content* magazine sponsorship;
- City Hall Art Exhibits;
- Creative placemaking in the Downtown and City-wide, including the *Playa to Paseo* initiative developed through a partnership with Burning Man Project and a portion of the estimated costs associated with a long term installation of *Sonic Runway*;
- Hammer Theatre Incentive Grants to support the new operating model of the theatre;
- *San Jose Creates & Connects*, a City-wide and neighborhood arts activation strategy; and
- Special events such as CityDance and Make Music Day San Jose.

Proposed Program Funding for the Cultural Funding Portfolio and Cultural Development

The recommended 2018-2019 level for the competitive arts and cultural grant programs of the Cultural Funding Portfolio were developed by the following calculation:

Projected 2018-2019 TOT	\$7,512,636
Less Cultural Development Personnel and Non Personnel Costs	- 2,605,495
Less 10% Variance Contingency	-\$492,714

Total Available for Cultural Funding Portfolio **\$4,434,427**

This reflects an increase of 7% in funding available from 2017-2018 for the Cultural Funding Portfolio.

Since grants are awarded based on projected TOT revenues, the variance contingency was established to cover shortfalls of up to 10% in TOT revenues actually received by the City,

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compared with TOT revenues projected. This situation occurred in 2008-2009 and the variance contingency was critical to offset the TOT fluctuations without impacting awarded grants.

The Budget Office does not estimate an upward adjustment or “bump” in TOT for FY 2017-2018, meaning that the FY 2017-2018 projection is tracking closely with the collections. Estimated unspent funds from FY 2017-2018, including reserves, are included in the rebudgeted TOT column of the attached budget, and are used to fund cultural development and implementation of *Cultural Connection*. Rebudgeted TOT funds are “one-time.” It is envisioned that the estimated rebudgeted TOT be allocated to planned *Cultural Connection* initiatives over multiple years. Because there is no upward adjustment or “bump,” there are less rebudgeted funds for initiatives, and therefore some program reserves are recommended for use. Furthermore, additional recurring competitive grant programs are proposed to be funded through the projected TOT. Important to note is that the overall Cultural Funding Program is experiencing a 7% increase. The combined proposed funding level for OpG, FPC, take pART, and CAP - the OCA’s largest grant programs - reflects an increase of 5%.

2018-2018 Cultural Development Budget

There are minimal proposed budget impacts to Cultural Development in the proposed FY 2018-2019 Operating Budget. A Special Event Coordinator is proposed in the Operating Budget to be ongoing to support the significant increase of outdoor special event coordination, applications, inquiries and the City’s significant involvement in the solicitation and hosting of large national events such as the 2019 College Football Championships.

In the Council-approved Mayor’s March Budget Message for FY 2018-2019, the City Manager was directed to support the 2018 Rotary Fireworks event. Per that direction, the OCA is supporting the event in the amount of \$80,000. The funding is being distributed in FY 2017-2018 through TOT reserves. Those reserve funds are being backfilled through projected FY 2018-2019 TOT funds as reflected on line 10b in Attachment A.

Cultural Facilities

Through the General Fund, the City will continue to support the operations and maintenance (O&M) agreements with nonprofit partners operating City-owned cultural facilities. To meet the General Fund shortfall for FY 2011-2012, cultural facility O&M costs were reduced by a collective 10%, totaling \$358,000. The following cultural facility operators are recommended to receive continued O&M support through the General Fund in FY 2018-2019 per their existing agreements:

Cultural Facility Operator	O&M agreement
Children’s Discovery Museum	\$285,000
History San Jose	\$784,000
San Jose Museum of Art	\$475,000
Hammer Theatre Center / Former San Jose Rep	\$285,000
School of Arts & Culture at Mexican Heritage Plaza	\$450,000
Tech Museum of Innovation	\$1,105,000
TOTAL	\$3,384,000

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Through the General Fund, the City supports some maintenance and cultural facility capital repair costs, which vary from year to year. The City has made strides towards identifying the capital maintenance needs of its cultural facilities. The City is working in collaboration with the nonprofit operators to ensure that these cultural facilities remain competitive as regional facilities and community hubs that serve well over a million people a year. The Department of Public Works develops a capital maintenance plan schedule in coordination with the facility operators and the OCA. In 2012-2013, the Cultural Facilities Capital Maintenance Matching Fund was established to set aside reserves to address the facilities' life cycle needs, in which the City would match 5% of the current level of each facility O&M subsidy and set it aside into this fund. The Children's Discovery Museum, the Tech Museum of Innovation and the School of Arts & Culture at MHP participate in this optional partnership.

Team San Jose, through its TOT allocation and revenues, supports the operations and maintenance of the Center for the Performing Arts, California Theater, Civic Theater, and the Montgomery Theatre. Select capital needs of those facilities are also supported through the Theater Preservation Fund, a nonprofit that collects \$1 per ticket sold for events occurring in those facilities.

OUTCOME

The proposed 2018-2019 Operating Budget will:

- assist San Jose-based arts organizations and creative entrepreneurs to provide arts and cultural activities and experiences for residents and visitors;
- support a wide range of outdoor special events and celebrations; and
- foster cultural development and creative placemaking in San Jose.

Should the Arts Commission, in its role advising the City Council on all matters pertaining to the arts, choose to comment on any items in the proposed budget, those comments will be forwarded to the City Council for its consideration as part of the annual budget process.



KERRY ADAMS HAPNER
Director of Cultural Affairs

Attachment A. Proposed 2018-2019 Projected and Rebudgeted TOT Allocations

Attachment B. Descriptions of Proposed 2018-2019 Projected and Rebudgeted TOT Allocations

2018-2019 TOT Allocations for Cultural Development

Funding Sources:

Projected 2018-19 TOT Revenues	Rebudgeted TOT Funds (One Time Funds)	2018-19 TOTALS
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CULTURAL FUNDING PORTFOLIO

Competitive Grant Programs

1	Festival, Parade & Celebration Grants	608,330	0	608,330
2	Operating Grants	3,132,897	0	3,132,897
3	take pART Grants	313,200	0	313,200
4	Fiscal Capitalization Tech. Assist. Grants	200,000	0	200,000
5	Creative Entrepreneur Grants (CCF)	30,000	0	30,000
6	Creative Industries Incentive Fund	45,000	0	45,000
7	Internat'l Arts & Cultural Exchange Grants	25,000	0	25,000
<i>Sub-Total Competitive Grants</i>		4,354,427	0	4,354,427

Grants Admin

8	Grant Review Expenses	0	20,000	20,000
9	TOT Revenue Shortfall Contingency	492,714	0	492,714
10a	TOT Long-Term Reserve		702,283	
10b	TOT Long-Term Reserve Augmentation	80,000	0	
10c	Total TOT Long-Term Reserve		782,283	782,283
<i>Sub-Total Cultural Funding Portfolio</i>		4,927,141	802,283	1,294,997

CULTURAL DEVELOPMENT AND CULTURAL CONNECTION IMPLEMENTATION (INITIATIVES/GRANTS)

11	Arts Loan Fund (No. CA Grantmakers)		20,000	20,000
12	Arts Marketing (Content magazine)		25,000	25,000
13	City Hall Art Exhibits		20,000	20,000
14	Cornerstone of the Arts Award/Arts & Leadership Event		15,000	15,000
15	Creative Placemaking/Temp. Installations: D3 & City-Wide		150,000	150,000
16	Creative Placemaking: Sonic Runway LT Install		100,000	100,000
17	Cultural Connection Implementation Strategies		50,000	50,000
18	Fourth of July Grants (D6 and D10)		20,000	20,000
19	Hammer Theatre Activation Incentive Grants		50,000	50,000
20	Live and Local Live Music Marketing Campaign (SJDA)		40,000	40,000
21	Make Music Day (SJ Creates & Connects)		40,000	40,000
22	Programmatic Reserve		65,000	65,000
23	San Jose Creates & Connects Initiatives incl Murals		95,000	95,000
24	SV Creates Capacity Building Workshop Series		20,000	20,000
25	Special Events (CityDance series)		65,000	65,000
<i>Sub-Total Cultural Development Impl.</i>		0	755,000	755,000

PUBLIC ART

26	Conservation/Maintenance, Public Outreach, and Policy		80,000	80,000
<i>Sub-Total Public Art</i>		0	80,000	80,000

SPECIAL ACTIVITIES

27	Arts Commission Activities		8,000	8,000
<i>Sub-Total Special Projects / Activities</i>		0	8,000	8,000
Totals		4,927,141	1,645,283	6,492,424

Sources of Funds: 2017-18 Arts Budget

Columns A, B ... Transient Occupancy Tax (TOT): City ordinance allocates a portion of San Jose's TOT to the arts for two allowable uses: 1) cultural grants; and 2) funding the expenses of the Office of Cultural Affairs, including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.

Column A: Represents the City's projection of TOT revenues to be received from July 2018 through June 2019 less anticipated cultural development personnel and nonpersonnel costs.

Column B: Includes actual TOT collections that have been carried over ("rebudgeted") from the previous year, including various reserves, unspent funds, liquidated purchase orders and grants, revenues that exceeded projections in previous years, etc. One time funding.

Column C The total estimated amount of projected and rebudgeted TOT (sum of columns A and B).

Uses of Funds: 2018-19 Arts Budget

Lines 1-7 Cultural Funding Portfolio Competitive Grant Programs: Festival, Parade and Celebration grants; Operating Grants; take pART Grants; Fiscal Capitalization Technical Assistance Grants; Creative Entrepreneur Creative Capacity Fund Grants; Creative Industries Incentive Fund; and International Arts and Cultural Exchange Grants.

Lines 8..... Grant review panel materials, advertising of grant opportunities, honoraria, etc.

Line 9 TOT Revenue Shortfall Contingency: 10% of TOT revenues are withheld in case revenues do not meet projections, to minimize the need for midyear grant reductions or program cuts.

Lines 10a-c.... TOT Long-Term Reserve: Funds set aside in growth years for use when TOT falls. A long-range purpose, if the growth of the Reserve supports it, is to switch to basing grants on collected rather than on projected TOT revenues.

Line 10a – Funds allocated to the Long-Term Reserve at beginning of 2018-19

Line 10b – Long Term Reserve recommended for augmentation

Line 10c – Remaining Long Term Reserve after augmentation

Lines 11-25..... Cultural Development/*Cultural Connection* Implementation: Strategic initiatives such as a special three year grant to support a pooled fund for loans to arts organizations through Northern California Grantmakers' Arts Loan Fund, arts marketing, City Hall exhibits, Cornerstone of the Arts Award Program and Event; Creative Placemaking downtown and City-wide; partial funding for a long term installation of *Sonic Runway*; San Jose Creates & Connects City-wide initiative including Neighborhood Gateway Galleries and Make Music Day, downtown and city-wide placemaking, Hammer Theater activation grants, special grants for D6 and D10 Fourth of July events, capacity building services through a special grant to SV Creates; CityDance and other cultural development strategies aligned with *Cultural Connection*. Programmatic Reserve is the source of funding for future arts programs and implementation strategies - both existing programs and new program opportunities - as rebudgeted TOT is one-time funding.

Line 26 Funding for public artwork conservation, maintenance, and outreach. Includes costs of public art staff time to perform these responsibilities. Note that \$21,000 of General Fund is in the Dept of Public Works budget set aside for general public art maintenance.

Line 27 Supports all expenses directly related to the Commission, including events, meetings, retreat, business cards, materials and supplies.