



Memorandum

TO: EXECUTIVE COMMITTEE

FROM: Kerry Adams Hapner

SUBJECT: (SEE BELOW)

DATE: May 2, 2019

Approved

Date

SUBJECT: PROPOSED AWARDS FOR CAPITALIZATION AND SUSTAINABILITY GRANTS

RECOMMENDATION

Recommend that the Arts Commission recommend that the City Council approve the proposed Capitalization and Sustainability Grant recommendations as specified in Attachment A.

BACKGROUND

As defined by the Nonprofit Finance Fund (NFF), capitalization is “the accumulation and application of financial resources to support the achievement of an organization’s mission over time.” A well-capitalized organization has the appropriate financial resources to deliver on its mission and the ability to adapt to changes in its external environment.

Although most commonly associated with money raised in a capital campaign for building acquisition, the term “capital” is broad and encompasses several different categories of funds, each with its own purpose, including:

- **Working Capital and Operating Reserve** for liquidity and reserves;
- **Change Capital and Risk/Opportunity Capital** for innovation, rightsizing, and changes in business model;
- **Facility & Equipment Capital** for acquisition of hard assets; and
- **Endowment** to generate investment income.

A simplified way of thinking about capital is money that is *invested* to build the organization and strengthen its financial balance sheet for long-term sustainability. This is contrasted with “operating revenue,” which is money that a nonprofit uses to *operate* (i.e., support its regular annual programming).

Recognizing the importance of supporting the healthy capitalization of nonprofit arts organizations in ways that are not accomplished through its operating grant program, the Office of Cultural Affairs with the support of the Arts Commission began a pilot initiative for a Capitalization and Sustainability Grant program in FY2016-17 with \$200,000 in funding.

ANALYSIS

Capitalization and Sustainability Grants are intended to be significant one-time catalytic investments that improve the capitalization and sustainability of an organization. Because organizations have different capitalization and sustainability challenges, this grant provides flexibility for the applicant to put forth a strategy to address its most pressing capitalization and sustainability needs. Grants have a two-year term.

Capitalization and Sustainability Grants are focused on organizations with budgets of \$500,000 and higher that receive City operating grant support. Larger budget organizations are targeted because of their complex capitalization needs and the breadth and depth of their impact on the San Jose arts and cultural ecosystem. These organizations provide year-round programs that reach thousands of patrons and create steady employment for significant numbers of professional artists, technicians and administrators.

On April 4, 2019, the Office of Cultural Affairs received Capitalization and Sustainability Grant applications from six organizations requesting a total of \$240,000, with a maximum grant request of \$40,000. The total amount allocated for this cycle was \$200,000. In order to apply, all interested applicants viewed a webinar produced by the Nonprofit Finance Fund in order to gain a strong foundation on capitalization principles.

The number of applications in this round were impacted by the fact that organizations that were awarded a grant last year are required to wait a year before applying again. In addition, several organizations that were funded in the inaugural year are nearing completion of their projects and thus were ineligible to apply in this round.

Grant Review Panel and Evaluation Criteria

The Review Panel was comprised of the following experienced arts management and capitalization professionals and an Arts Commissioner:

- **Roma Dawson**, *San Jose Arts Commission*
- **Laurie MacDougall**, *Arts Management Consultant*
- **Nancy Ragey**, *Arts Management Consultant*
- **Margaret Southerland**, *Financial Consultant*

The qualifications for each review panelist are described in **Attachment B**.

The Grant Review Panel ("Panel") met on April 23, 2019 to evaluate the applications based on the three criteria contained in the Capitalization and Sustainability guidelines:

- **Project Appropriateness & Outcomes (40%);**
- **Ability to Complete the Project Successfully (30%); and**
- **Impact of the Organization in San Jose (30%).**

Grant Panel Recommendations

The panel reviewed each application against the published criteria. The final overall scores ranged from 92 to 57, out of a maximum of 100. See Attachment A for full list of applicants and scores.

After careful deliberation, the panel recommended full funding for the four highest scoring applications that scored 75 and greater, for a total amount of \$160,000. Given that these are project grants, the panel felt that full funding was important to the successful implementation of each proposal.

Although rated highly in the Organizational Impact criteria, the organizations that were not recommended for funding received relatively weak scores in the areas of "Project Appropriateness & Outcomes" and "Ability to Complete the Project Successfully," which accounted for 40% and 30% of the overall score, respectively.

The following four applications are recommended for full funding (listed in order of score):

1) San Jose Institute of Contemporary Art

Acquisition of video and audio equipment to create Immersive Multimedia Installations to expand revenue through attendance and memberships.

Score: 92. Recommended Award: \$40,000

2) City Lights Theater Company

Support the Design Phase of a Capital Campaign for facility transition and facility/equipment reserves.

Score: 86. Recommended Award: \$40,000

3) San Jose Museum of Art

Acquisition of furnishings in lobby/café that will expand revenue through increased attendance, rentals and concessions.

Score: 79. Recommended Award: \$40,000

4) School of Arts and Culture at MHP

Establish an operating reserve and increase it annually by \$25,000 through targeted fund development initiatives.

Score: 75. Recommended Award: \$40,000

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In addition to grant recommendations, the panel made two additional recommendations:


- Allocate the remaining amount in this grant pool (\$40,000) to a future round of Capitalization and Sustainability Grants; and
- Adjust the weights of the evaluation criteria to reduce the weighting of “Impact of the Organization” to provide more weight on the actual project and its feasibility.

The panel noted that it would be important to have sufficient funding in future cycles, rather than recommending funding to weaker applications in the current cycle. The panel also noted that the next funding cycle will likely contain higher numbers of applicants due to the expected completion of capitalization projects from previous rounds.

In making the second suggestion, the panel observed that “Project Appropriateness & Outcomes” and “Ability to Complete the Project Successfully” criteria are the most pertinent when evaluating the potential impact and effectiveness of a capitalization proposal. Although the impact of an organization on San Jose’s cultural vibrancy has a role to play in the evaluation, the panel recognized that organizations eligible for Capitalization and Sustainability Grants have already been vetted through the Operating Grant process. Thus, the weight of this criteria could be reduced to allow greater emphasis on the capitalization project itself and the likelihood of successful implementation. One modified scenario it recommended for consideration was: “Project Appropriateness & Outcomes” 50%, “Ability to Complete the Project Successfully” 40%, and Organizational Impact 10%.

PUBLIC OUTREACH

Notice of grant opportunities were distributed to all eligible grant organizations. In addition, two public information sessions for potential applicants were held at City Hall on March 8 and March 11, 2019.


KERRY ADAMS HAPNER
Director of Cultural Affairs

Attachments:

- A. Capitalization and Sustainability Grant Applicants and Scores
- B. Review Panelist Bios

Attachment A:
List of Capitalization and Sustainability Grant Applicants

	Organization	Request	Project
1	Cinequest	\$40,000	Conduct a Capital Campaign for \$1M for operating reserves and risk/opportunity reserves.
2	City Lights Theater Company	\$40,000	Support the Design Phase of a Capital Campaign for facility transition and facility/equipment reserves.
3	San Jose Institute of Contemporary Art	\$40,000	Acquisition of video and audio equipment to create Immersive Multimedia Installations to expand revenue through increased attendance and memberships.
4	San Jose Museum of Art	\$40,000	Acquisition of furnishings in lobby/café that will expand revenue through increased attendance, rentals and concessions.
5	San Jose Taiko	\$40,000	Support change capital through major gift cultivation and expanded board and staff.
6	School of Arts and Culture at MHP	\$40,000	Establish an operating reserve and increase it annually by \$25,000 through targeted fund development initiatives.
		\$240,000	

Capitalization and Sustainability Panelist Bios

Roma Dawson*Arts Commissioner, City of San Jose*

Ms. Dawson has been a member on the San Jose Arts Commission since 2013 and currently serves as chair of the Public Art Committee. Prior to retirement, Ms. Dawson served as a key staff member for a number of elected officials including Mayor Tom McEnery, Congresswoman Zoe Lofgren, Councilmember (now Mayor) Sam Liccardo, Councilmember (now Supervisor) Cindy Chavez and Councilmember Charlotte Powers. She also served as Director of Cultural Tourism for the San Jose Convention and Visitors Bureau where she developed San Jose's first cultural tourism program and managed a \$3M advertising and public relations campaign. Ms. Dawson also worked for the San Jose Downtown Association and was Festival Director for the first two America Festivals which was a large-scale festival in the downtown held during July 4th weekend to celebrate the diversity of San Jose. She has also managed several political campaigns including two city council races, a supervisorial campaign and was Assistant Campaign Manager for Mayor Susan Hammer. Early in her career, Ms. Dawson owned a fundraising business and started her professional life as a teacher. She has a degree in psychology from University of California, Berkeley.

Laurie MacDougall*Principal, MacDougall & Company*

Ms. MacDougall has been an independent management consultant to the field of nonprofit arts and culture for over twenty years, specializing in organizational development and sustainability. She has worked with hundreds of enterprises at all stages of development, nationwide. Special skills include organizational and program assessments, strategic and business planning, income generation through marketing and development, and facility feasibility analysis and planning. In addition, Ms. MacDougall is frequently called upon by the philanthropic community to conduct large-scale studies about issues relating to the field as a whole, such as: San Francisco Space for the Arts Study, documenting the impact of real estate fluctuations on arts organizations; a study of all the arts facility projects in Central California for the David and Lucile Packard Foundation; regional cultural planning for cities and counties in California. She is the author of *The Arts Managers Toolbox: Fundraising*, published by the National Endowment for the Arts, and *Planning for Marketing (and Other Exotic, Quixotic Notions)*, commissioned by the Council of Literary Magazines and Presses.

Capitalization and Sustainability Panelist Bios

Nancy Ragey*Principal, NKR Consulting*

Ms. Ragey has over twenty years experience as a nonprofit executive who works primarily with local and regional nonprofit and philanthropic organizations in the areas of strategic and program planning, evaluation, fundraising, and board development. She served on the staff of Community Foundation Silicon Valley in the early 2000's and prior to that served in senior leadership roles at TheaterWorks, a professional theater company serving the San Francisco Bay Area. Ms. Ragey was also the director of the Foundation for the Future, Menlo-Atherton High School and has worked as a consultant for CompassPoint Nonprofit Services. As a volunteer, she serves as Vice President of the Dirk and Charlene Kabcenell Foundation, board member of Lenders for Community Development, and is on the advisory board for the Theatre Department at the University of Kansas.

Margaret Southerland*Principal, Padma Consulting*

Ms. Southerland is an active consultant to the nonprofit sector through her firm, Padma Consulting. She is the former California Program Officer for the J.P. Morgan Chase Foundation and its predecessor firms, where she reviewed thousands of grant applications from nonprofits in the arts, education, and social service sectors. She is active in the California philanthropic and nonprofit communities and has served in a variety of capacities with entities, including the Arts Education Funders Collaborative, Arts for All Pooled Fund in Los Angeles, Autry National Center Acquisition Committee, and Nonprofit Space Capital Fund Performing Arts Program. She has presented at Grantmakers in the Arts and provided training to participants of the Center for Cultural Initiatives' Business of Art™ program in San Jose on financing options for individual artists. She is currently providing consulting services to Northern California Grantmaker's Arts Loan Fund, assessing capitalization and capacity in the evaluation of loan applications from arts organizations in the Bay Area. Prior to her work in the philanthropic sector, Ms. Southerland worked for commercial and investment banks in advertising, marketing, public and investor relations, and as a commercial banker.