



Memorandum

TO: MAYOR REED

FROM: Councilmembers
Sam Liccardo
Rose Herrera
Ash Kalra

SUBJECT: BUDGET DOCUMENT

DATE: May 21, 2009

Approved

Date

5-21-09

RECOMMENDATION

Ash Kalra A.D.

That the following recommendation be enacted.

BACKGROUND

City-Council Initiated Neighborhood Improvement Reserve Fund/Other Budget Proposals

Program/Project Title: Arts Grants Multi-Year Stabilization Fund

Amount of City Funding Required: \$1,352,211 (Fund/Line Item Transfers -- No New Funding)

Fund Type (i.e. General Fund, C&C funds, etc.): General Fund/Fund 461 (TOT)/Fund 887 (Public Art)

Anticipated Outcomes: Requested funding changes would affect benefits or services for San José residents, businesses, community groups, etc., as described below: (Use as much space as required.)

The Arts Alliance noted in a recent letter to Mayor and Council that the San Jose arts and cultural community is facing a "perfect storm" caused by the impacts of proposed San Jose McEnery Convention Center expansion and renovation projects combined with the recession. The reduction in Office of Cultural Affairs (OCA) arts grants "could be a fatal blow to many organizations." The total 2009-2010 Transient Occupancy Tax (TOT) projected revenue -- \$2,348,404 -- is over \$1.5 million less than the amount allocated for 2008-2009. OCA Operating grants are always critical to our arts organizations because they provide one of the few sources of unrestricted funds used to pay part of salaries and overhead. Traditional sources like corporations and foundations link funding to specific programs with a cap usually set at a maximum of 10-12% for administrative overhead. The Festival, Parade and Celebration (FPC) grants sometimes are used just to pay City services fees. Over the last three years, FPC grants to fall far short of the cost of required City services. This shortfall contributed to the demise of America Festival and its Fourth of July Fireworks Show and threatens to doom other large special events.

Hotel room rates and number of booked room-nights continued to decline this spring according to Team San Jose's latest occupancy report. The City's hospitality consultant expects a cumulative decline of millions in TOT throughout five years of Convention Center construction and post-construction stabilization. Private

donations, corporate contributions and foundation giving – usually based on portfolio values – decreased substantially in just the last few months. Our local arts organizations, regardless of size, lacked the ability to anticipate the magnitude of the current financial crisis. Like the City of San Jose, they right-sized and continue cutting expenses to the bone. Without a realignment of City arts-related priorities and expenditures, we should expect many to cease programming or face bankruptcy.

To ensure that a maximum amount of TOT revenue directly supports local arts organizations, I recommend that monies already allocated to arts endeavors be transferred to a newly created fund entitled “Arts Grants Multi – Year Stabilization Fund.” The Fund should preserve the OCA grants allocations at 2008-2009 funding levels to the extent financially feasible. Given that next fiscal year’s deficit is projected for an amount similar to 2009-2010, the arts community should view the new fund as its only additional resources beyond TOT for the two-year period of convention center expansion and renovation and for the three-year stabilization period required in which TOT is expected to gradually increased, of course depending on the economy. Arts Commission grants allocations remain subject to the approval of Council during the annual budget process; therefore, they are subject to change.

OCA staff proposes to make one-time salary expenditure (TOT Fund 461) for the Deputy Director, Cultural Affairs permanent. Since the position is head of the Office of Cultural Affairs, we propose that 50% of the costs be supported by Public Art Fund 887 which is funded by a 1% fee on all development. Leaders of several arts organizations have suggested that uses of the Public Art Fund be broadened to best support the City’s economic goals especially a vibrant downtown filled with varied entertainment choices attractive to people of all ages. I further recommend that the Arts Commission include a review of allowable uses of Public Art Fund 887 under the current Public Art ordinance at its earliest convenience. Also included should be a discussion of an ordinance change to allow maintenance and conservation to be funded from the Public Art Fund instead of TOT. For example, this would allow \$51,000 to be moved into the Arts Grants Multi-Year Stabilization Fund. As San Jose’s public art collection grows and ages, conservation and maintenance will become a significant drain on TOT resources.

The total economic impact of spending by nonprofit arts and cultural audiences in the City of San Jose (excluding the cost of event admission) is \$39,695,729. The economic impact of spending by nonprofit arts and cultural organizations is \$63,545,456 with 965 full-time equivalent jobs generated.

Funding Source

Program/Project Title: Arts Grants Multi-Year Preservation Fund

<u>Rebudget: Arts Stabilization Flexible Fund</u>	<u>\$263,000</u>	<u>(IX – 5)</u>
<u>Rebudget: Arts Stabilization Loan Fund</u>	<u>\$900,000</u>	<u>(IX – 5)</u>
<u>Rebudget: Arts Venture Fund</u>	<u>\$85,000</u>	<u>(IX – 3)</u>
<u>Deputy Director Salary Allocation to Fund 887</u>	<u>\$104,211</u>	
<u>Total</u>	<u>\$1,352,211</u>	

Amount of City Funding Change: \$ None

Fund Type (i.e. General Fund, C&C funds, etc.) General Fund/Special Funds

Anticipated Outcomes: Requested funding changes would affect benefits or services for San José residents, businesses, community groups, etc., as described below: (Use as much space as required.)

The Arts Stabilization Loan Fund and the Arts Stabilization Flexible Fund will no longer exist. The loan funds available for arts organizations in the Operating Budget will be limited to the amount repaid by the Repertory Theater which has a \$2 million revolving loan fund over the next 10 years. Any arts organization facing bankruptcy would have to find an alternative funding source or file bankruptcy. The Arts Stabilization Fund was established in 2006 with \$4 million dollars. It was part of the same Council action that approved a \$1 million dollar line-of-credit for American Musical Theater which is now bankrupt.

Department or Organization: Office of Economic Development

Department or Organization Contact (Please list contact information for the individual that certified cost estimates contained within your recommendation.)

Name: Jennifer Maguire, Budget Director

Phone number: _____

E-mail address: _____

This change is:

One-time Ongoing

The City Service Area to which the change best relates:

- Community and Economic Development Services**
- Environmental and Utility Services
- Neighborhood Services
- Public Safety
- Strategic Support
- Transportation and Aviation Services

