



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kay Winer

SUBJECT: Quarterly Advance Payment for
History San José

DATE: August 30, 2007

Approved

Date

8/30/07

COUNCIL DISTRICT: City-Wide
SNI AREA: N/A

RECOMMENDATION

Adopt a resolution authorizing the City Manager to negotiate and execute the Third Amendment to the Operations Agreement between the City of San José and the History Museums of San José, (now History San José) to advance the second quarter payment for the period of October to December 2007 in the amount of \$143,705.75.

OUTCOME

Advancing the second quarterly payment will allow History San José (HSJ) to continue to operate during the period of time that staff prepares recommendations on long-term funding for HSJ based on findings and results of an audit being completed by Macias Consulting Company. The results of Macias' audit and staff recommendations on long-term funding will be scheduled for Council consideration on October 2, 2007.

BACKGROUND

At the Rules and Open Government Committee meeting on August 22, 2007, staff presented a response to an emergency request from HSJ for advance payments from its annual subsidy due to cash flow problems. HSJ requested an advance of both their second and third quarter payments (each quarterly payment is \$143,705.75). HSJ further stated that it had spent its reserve and endowment. Without emergency financial assistance, programs and other functions would be curtailed. HSJ stated that it would be unable to meet its next bi-weekly payroll on August 29, estimated at approximately \$45,000.

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City staff recommended two alternatives for consideration:

1. Consider an advance payment for one quarter only at the September 11, 2007 Council meeting.
September 11 is the soonest that Council could take action on a funding request due to "sunshine" requirements. An amendment to the Operations Agreement is required. Since the audit is close to completion, only one quarterly advance would be required. The audit and staff recommendations on long-term funding options will be considered at the October 2 Council meeting.
2. City will assume responsibility for managing special events and core programs beginning September 1, 2007.

Under this alternative, PRNS staff would assume responsibility for core services and events previously booked, using funds from the operating subsidy to cover costs. This would be an interim measure only and would require the cooperation of HSJ to provide its events and programming schedule. The City would offer temporary employment to HSJ employees. An amendment to the Operations Agreement would be required to implement this alternative.

The Rules and Open Government Committee directed staff to place an item on the September 11, 2007 City Council agenda to approve Alternative 1 to advance one quarter of the annual subsidy (\$143,705.75). Staff was further directed to continue to look at costs and a plan to implement Alternative 2 should that be needed.

ANALYSIS

The Council approved Manager's Budget Addendum #4 (MBA#4) in response to HSJ's request for a higher amount of permanent funding on an annual basis. The MBA recommended that a full financial analysis be completed and findings and recommendations be submitted to the Council for consideration and action. While the audit was being completed, HSJ would receive its annual subsidy per the funding schedule in the Agreement in the amount of \$574,823 and disbursed in quarterly payments of \$143,705.75.

When HSJ approached the City for emergency advance of funds, staff requested financial information to determine the need for an advance payment and how those funds would be spent. HSJ was also asked to provide an explanation of why an advance was requested just a month after the first quarterly payment had been disbursed. The financial information provided by HSJ also allowed staff to determine when the organization would again be facing a deficit in the current fiscal year.

The financial information provided by HSJ was reviewed by the Budget Office. Attached is a summary cash flow report for July through December that shows major sources of revenue and categories of expenses. With the infusion of the second quarter payment on the week of September 9, 2007, HSJ will not face a deficit until the beginning of November. The quarterly

advance will be sufficient for HSJ to continue to operate while the City Council considers the findings and recommendations from the audit that include the following:

- Assessment of HSJ's overall financial viability;
- Assessment of HSJ's compliance with the 1998 operations and maintenance agreement;
- Determination of the cost to operate an organization of similar nature and size through benchmarking, including determining at what funding level the City should support; and
- Determination of appropriate performance/outcome expectations.

The budget information submitted by HSJ for FY 2007-08 shows that the organization will have a deficit of approximately \$475,000 by the end of the June 2008. It closed last fiscal year with a deficit of approximately \$300,000. Consequently, the first quarterly payment in July 2007 was used to pay past due expenses. This, and other pertinent financial information, will be included in the audit and discussed fully with Council when the audit findings and recommendations are discussed on October 2.

The Macias audit will be finalized with sufficient time for detailed review by City staff in order to prepare recommendations to Council for its October 2, 2007 meeting. Macias also scheduled a meeting with HSJ to review preliminary findings and recommendations of the audit. Due to public interest in this item, the audit and staff report will have an early distribution by September 18, 2007 to provide ample time for review of the audit and staff's recommendations.

EVALUATION AND FOLLOW-UP

Council approval of the recommendation will advance a quarterly payment to HSJ in order for the organization to remain operational. The major, long term funding and viability of HSJ will be considered by Council on October 2.

POLICY ALTERNATIVES

Alternative #1: Do not provide the second quarter advance payment of \$143,705.75.

Pros: The annual subsidy schedule is maintained without any disruption.

Cons: HSJ will not be able to continue operating its programs and honoring its booking commitments.

Reason for not recommending: There is no financial impact on the City, as the total annual subsidy remains unchanged.

PUBLIC OUTREACH/INTEREST



Criterion 1: Requires Council action on the use of public funds equal to \$1 million or greater.

(Required: Website Posting)

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This report was coordinated with the Budget Office, Parks, Recreation and Neighborhood Services and the City Attorney's Office. The contents of this report were provided to HSJ.

CEQA

Exempt


Kay Winer
Chief Deputy City Manager

Attachment

For questions, please contact Kay Winer, Chief Deputy City Manager at 535-8130.

History San Jose Cash Flow Analysis July 2007 - December 2007

The Week of	10/7/07	10/14/07	10/21/07	10/28/07	11/4/07	11/11/07	11/18/07	11/25/07	12/2/07	12/9/07	12/16/07	12/23/07	12/30/07
Beginning Balance	(17,165)	(20,287)	(5,787)	(20,660)	(28,746)	67,838	67,838	3,290	27,106	(20,016)	(20,016)	(60,802)	(108,802)
City Subsidy					143,706								
Other Revenues			26,632					38,360			23,762		
San Jose Rocks	59,000	29,500	29,500										
Total Revenue	59,000	29,500	56,132	-	143,706	-	-	38,360	-	-	23,762	-	-
Total Source	41,835	9,213	50,345	(20,660)	143,960	67,838	67,838	41,650	27,106	(20,016)	3,746	(60,802)	-
Payroll	37,000		37,000		37,000		37,000		37,000		37,000		
Others Expenses	25,122	15,000	34,005	8,086	10,122	-	27,548	14,544	10,122		27,548	48,000	
Total Expenditure	62,122	15,000	71,005	8,086	47,122	-	64,548	14,544	47,122	-	64,548	48,000	-

Original date of third subsidy transfer

History San Jose Cash Flow Analysis July 2007 - December 2007

The Week of	7/8/07	7/15/07	7/22/07	7/29/07	8/5/07	8/12/07	8/19/07	8/26/07	9/2/07	9/9/07	9/16/07	9/23/07	9/30/07
Beginning Balance	(14,581)	115,956	62,236	37,644	(3,632)	21,354	(9,265)	(14,703)	(40,696)	(20,183)	76,401	61,401	2,322
City Subsidy	143,706												
Other Revenues	24,360		7,347	20,343	28,892	12,039	3,313	55,000	25,000			30,725	
San Jose Rocks													
Total Revenue	168,066	-	7,347	20,343	28,892	12,039	3,313	55,000	25,000	143,706	-	30,725	-
Total Source	168,485	115,956	69,583	57,987	25,260	33,393	(5,952)	40,297	(16,696)	123,523	76,401	92,126	2,322
Payroll		32,247		34,030		31,950		37,000		37,000		37,000	
Others Expenses	37,529	21,473	31,939	27,589	3,906	10,708	8,751	43,993	4,487	10,122	15,000	52,804	19,487
Total Expenditure	37,529	53,720	31,939	61,619	3,906	42,658	8,751	80,993	4,487	47,122	15,000	89,804	19,487

143,706 ←

Total Revenue	425,273
City Subsidy	431,118
Expenditure	950,612
Net	(94,221)
Beginning Balance	(14,581)
Ending Balance (by Dec 2007)	(108,802)

Original date of second
subsidy transfer