



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Peter Jensen

**SUBJECT: FOLLOW-UP ACTIONS RELATED  
TO HISTORY SAN JOSÉ FUNDING**

**DATE:** June 2, 2008

Approved

Date

6/12/08

**COUNCIL DISTRICT: #7**

## RECOMMENDATION

Adoption of a resolution authorizing the City Manager to negotiate and execute the Seventh Amendment to the Operation Agreement with History San José, as directed by Council on December 18, 2007, to increase the compensation for fiscal year 2008-09 from \$335,085 to \$875,000, subject to appropriations.

## OUTCOME

Implementing this recommendation follows through on direction and recommendations adopted or approved by City Council at the December 18, 2007 meeting.

## BACKGROUND

The memorandum detailing the recommendations related to History San José (HSJ) is attached and provides background information regarding HSJ's Operation Agreement with the City that covers a twenty year period that commenced in 1998 and runs through FY 2017-18. The agreement provided a twenty-year funding schedule that was designed to gradually decline over the first ten years of the agreement then stabilize in the eleventh year. As detailed in the attached memorandum, HSJ indicated that the funding was not adequate. The City responded by engaging the services of Macias Consulting Group who presented their findings to City Council on October 16, 2007. Based on discussions and direction from City Council, staff made recommendations in the December 18, 2007 memorandum that were adopted and approved by City Council.

The first two recommendations as adopted were implemented resulting in HSJ receiving their fourth quarter payment for FY 2007-08 in the amount of \$143,705.75 in advance as documented in the Fifth Amendment to the Operation Agreement. A Sixth Amendment to the Operation

Agreement was executed that provided an increase in the annual operating subsidy for FY 2007-08 from \$574,823 to \$875,000. This amount was appropriated as a mid-year budget action in February 2008.

As part of the Sixth Amendment, monthly financial reporting requirements were added to the agreement. HSJ is required to provide the City Manager (or her designee, a role that I am currently performing) with copies of its monthly cash flow projections; monthly reconciliation of actual revenues and expenditures to cash flow projections for the preceding month; balance sheets for the preceding month's end, and monthly budget and financial forecast updates for HSJ's fiscal year, showing prior month's actuals and most recently projected forecasts for the remaining months of HSJ's fiscal year.

If there are unfavorable budget to actual variances of 10% or more for total year to date amounts appearing on the monthly cash flow reports in any of the following categories – sources (cash receipts), or uses (cash disbursements), or ending cash balances, HSJ is required to submit a written explanation and provide a corrective action plan, subject to the approval of the City Manager at the same time HSJ submits its monthly reports. If HSJ fails to provide a corrective action plan acceptable to the City Manager or fails to implement the corrective action plan in a manner acceptable to the City Manager, the City may immediately discontinue the operating subsidy payments and, upon 30 days' notice to HSJ, terminate the agreement.

The last two recommendations involved future subsidies and the operation agreement with History San José. The Council directed staff to:

- **Include a recommendation for an increased subsidy in the 2008-09 Proposed Budget, to allow that to be considered as part of the Council's budget deliberations.** This increase, from \$335,085 to \$875,000, is included in the Proposed Budget. Its adoption would allow the proposed amendment to go forward.
- **Bring forward for Council consideration a revised operation agreement reflecting an increased subsidy as part of the 2009-10 budget process.** Staff will work with HSJ to create a funding plan and other adjustments to the existing operation agreement. The proposed revised operation agreement with recommended subsidy will come forward as part of the 2009-10 budget process.

## ANALYSIS

The proposed action, which is subject to Council approval of an increased appropriation for History San José as part of the 2008-2009 Adopted Budget, would implement the next step of the City Council's December 2007 actions, resulting in the opportunity for the non-profit HSJ to stabilize its operations and continue to improve its capacity to manage within the funding available to it, including the City's annual subsidy, earned income, and contributed income. The General Services Department is providing oversight for HSJ that includes a monthly review of all financial records submitted as described in the Background section of this document. It is proposed that the Seventh Amendment include the same performance measures and financial

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reporting requirements, in order to ensure that HSJ does not move into another difficult or crisis situation regarding funding and its capacity to manage the facilities and provide the services required in the agreement.

Since the Council's December 2007 actions, HSJ's financial picture has improved. The pace of contributed income has increased, board members have been added, and advance ticket sales for the upcoming "Valley of Heart's Delight" fundraising event are running at more than double last year's pace. At the same time, the organization has slowed its spending to reflect the adjusted budget level necessitated by the level of Council-approved subsidy. As a result, HSJ is projecting it will finish the fiscal year slightly in the black (excluding depreciation, as was done in the projections used for the December actions), and the City's analysis agrees.

### **EVALUATION AND FOLLOW-UP**

Through the General Services Department, HSJ's financial situation is carefully monitored and will continue to be, through the performance measures and financial reporting requirements that will be incorporated in the Seventh Amendment to the Operation Agreement.

### **PUBLIC OUTREACH/INTEREST**

This item was discussed at the City Council meetings on both October 16, 2007 and December 18, 2007 where actions were taken. Both Council meetings involved the participation of HSJ and the public.

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- 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 has been coordinated with the City Manager's Budget Office, the City Attorney's Office, and the Office of Economic Development.

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**BUDGET REFERENCE**

The table below identifies the fund and appropriation proposed to fund the contract recommended as part of this memorandum and remaining project costs, including project delivery, construction, and contingency costs.

Fund #	Appn #	Appn. Name	Total Appn	Amt. for Contract	2008-2009 Proposed Budget (Page)	Last Budget Action (Date, Ord. No.)
<b>Current Funding Available</b>						
001	2913	History San José Subsidy	\$875,000*	\$875,000	IX - 10	
<b>Total Funding for Project</b>			<b>\$875,000</b>	<b>\$875,000</b>		

This is subject to City Council approval. Adoption of the Proposed Operating Budget is scheduled for June 24<sup>th</sup>, 2008.

**CEQA**

Exempt

PETER JENSEN  
Director, General Services

For questions please contact Peter Jensen, Director, at 975-7290.

Attachment: December 12, 2007 Memorandum: Actions Related to Additional Funding for History San José