

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Peter Jensen  
Kim Walesh

**SUBJECT:** SEE BELOW

**DATE:** May 11, 2010

Approved

Date

5/11/10

Council District: 5  
SNI: Mayfair

**SUBJECT: MEXICAN HERITAGE PLAZA CONCEPTUAL MODEL AND WORK PLAN AND AGREEMENT WITH ALUM ROCK UNION ELEMENTARY SCHOOL DISTRICT**

## RECOMMENDATION

- (a) Approval of the Mexican Heritage Plaza Steering Committee's recommendations for:
  - (1) The conceptual model of a School of Arts & Culture at the Mexican Heritage Plaza.
  - (2) A Phase II work plan to: analyze financial modeling; begin fundraising and leadership development, and plan and prototype the types of programming and curriculum to be offered.
- (b) Council direction to staff to present based on the work of the Phase II:
  - (1) A progress report to the Community & Economic Development Committee by January 2011.
  - (2) Meaningful opportunities for community input.
  - (3) Specific recommendations related to financial (including the level of future City financial support), programming, and operational issues as part of the 2011-2012 Proposed Operating Budget.
- (c) Adopt a resolution authorizing the City Manager to negotiate and execute an agreement with the Alum Rock Union Elementary School District to convert the second floor office space at the Mexican Heritage Plaza to classrooms and operate during the 2010-2011 school year.

## OUTCOME

Approval of these recommendations would result in continued work to identify a non-profit operator of a school of arts and culture at the Mexican Heritage Plaza. Any City funding commitment would be considered as part of the City's annual budget process. The recommendations would also result in a partnership with the Alum Rock Union Elementary

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School District to convert office space to additional classrooms for the District's use in the 2010-2011 school year, and subsequently, for use by the school of arts and culture.

## **BACKGROUND**

In March 2008, based on two prior community meetings regarding the future of the Mexican Heritage Plaza (Plaza), the Council provided direction on how to further develop plans for the Plaza as the Community Arts and Cultural Center envisioned by the community. This direction included:

- Transferring responsibility for the Plaza's operations and maintenance from the Mexican Heritage Corporation to City staff
- The formation of a Steering Committee to:
  - Provide guidance on vital decisions for the Plaza.
  - Help ensure that the Plaza reconnects with the community, is reflective of all stakeholders, remains transparent and accountable, and develops a business and governance model that is self-sustaining.
  - Upon completion of a business model that is self-sustaining, develop a process for establishing a permanent non-profit operator that is capable of implementing the model.

The composition of the Steering Committee is listed below:

Alcario Castellano  
Maria de la Rosa  
Moy Eng  
Chris Esparza  
Manuel Fimbres  
Danny Garza  
Guadalupe Gonzalez

Erin Goodwin-Guerrero  
Roy Hirabayashi  
Connie Martinez  
Olivia Mendiola  
Carlos Perez  
Linda Snook

The Steering Committee members represent a broad array of stakeholder groups invested in the future of the Plaza. The Steering Committee held meetings from July 2009 through May 2010, conducting eight public meetings that culminated in a Town Hall meeting in April to gather community input about its findings. The community was actively engaged in these meetings throughout the process, and has generally reacted positively to the recommendations presented in this memo. The Committee's work included:

- A review of the physical characteristics of the various spaces at the Plaza
- A review of the history of programming and operations at the Plaza
- A presentation by the Redevelopment Agency about development issues in the surrounding neighborhood
- Presentations by the Plaza's Resident Arts Partners (Teatro Visión, Mexican Heritage Corporation, and San Jose Multicultural Artists' Guild) about their activities
- Information about other arts facilities and their programs
- Discussions of various operating models and their program and financial characteristics, including their ability to generate earned and contributed income

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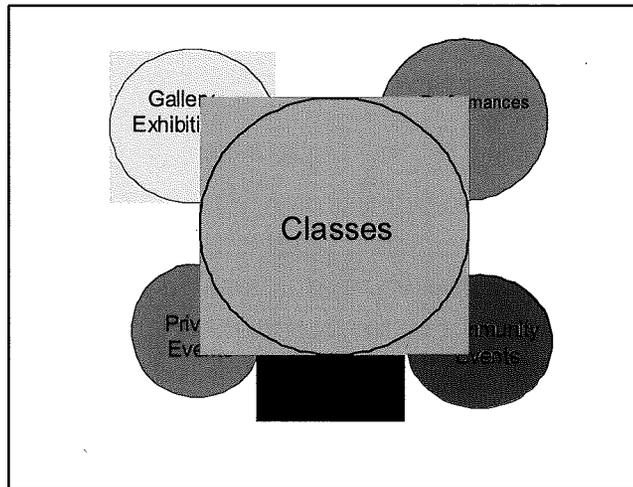
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- Consideration of the region's funding environment and market

## **ANALYSIS**

As mentioned above, the Steering Committee was asked by the City Council to recommend a business and governance model that is self-sustaining. The Committee's recommendation is to develop a School of Arts & Culture at the Mexican Heritage Plaza (working title). The model envisions classes, primarily focused on children and families, as the core programming activity, as shown in the diagram at right.



The guiding principles for the model include engaging the community, taking a realistic view of capacity and the pace of movement toward the new model, and building relationships and partnerships. The Committee expects the conversion of programming to the new model to occur over time, with the share of programming devoted to classes growing gradually, thus causing the share devoted to other uses to shrink at the same pace.

## **Operations & Programming**

The Committee's vision for the way the school of arts and culture would be operated is that a culturally competent organization would be assembled over time, through the Phase II process described below. The organization would continue to work with the current Resident Arts Partners, but they would become Cultural Partners. The name change reflects the expectation that current Resident Arts Partners would no longer have offices at the Plaza, since those would be converted to classroom space, but that they would continue to be a part of the programming and education activities of the school.

The school approach would be modeled after examples such as the Community Music Center in the Mission District of San Francisco and the Los Angeles Music & Art School in East Los Angeles, which are situated in comparable areas and serving comparable populations in their cities. The Committee also believes that the Community School of Music & Arts in Mountain View offers some useful lessons for the proposed model. There is also an opportunity to learn from other schools that are part of the 300-member National Guild for Community Arts Education.

Another potential approach would be to partner with existing school districts and charter schools. Staff has had initial conversations with school representatives about this option. This option will be fully explored more fully as part of the Phase II work described below.

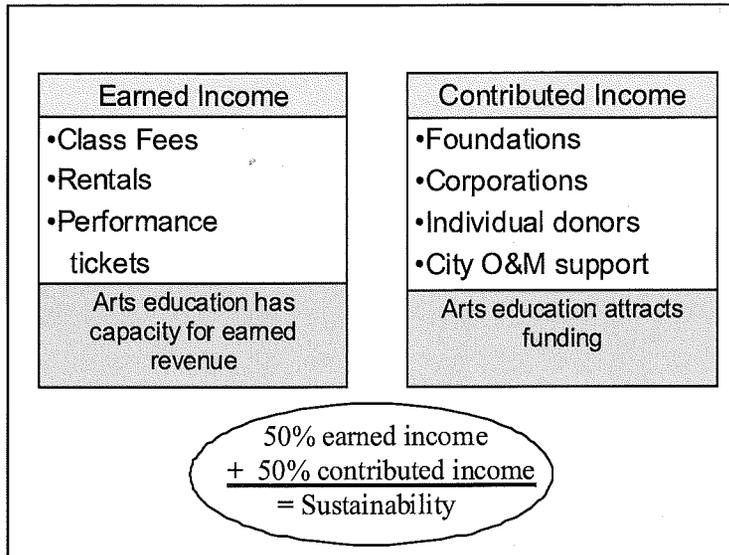
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**Financial Planning**

A key reason for the Steering Committee’s recommendation is that it believes the school model offers the best opportunity for the Plaza to achieve fiscal sustainability. As shown in the chart below, the Committee envisions that the funding sources for the school would be evenly divided between earned income and contributed income.



The example institutions cited above have proven track records for both earned and contributed income. Committee members with experience in fundraising have emphasized that foundation and corporate giving places a high priority on education and programs aimed at children and families, so they believe that the recommended model would receive stronger consideration for funding than a facility focused only on arts and culture without an education focus.

The Committee believes that the contributed income sources must include an ongoing City investment of between \$400,000 and \$500,000. This is based on a number of factors. The Committee does not expect donors to look favorably on supporting basic operations and maintenance costs of a city-owned facility; donors will expect the City to have some ongoing financial interest in the success of the Plaza. On a practical level, the Committee does not expect earned revenue to be sufficient, at least in the early years, to cover the O&M costs. In addition, while the Steering Committee acknowledged the value and beauty of the Mexican Heritage Plaza facility, they confirmed prior findings that the City did not design the facility to enable low operating costs, energy efficiency, and maximum space utilization.

By comparison, the City’s annual operating agreement payments to other major cultural facilities are shown below:

- Tech Museum of Innovation \$1,300,000
- History San Jose 875,000
- San Jose Museum of Art 500,000
- Children’s Discovery Museum 300,000
- San Jose Repertory Theater 300,000

The more detailed financial analysis proposed below as part of Phase II would produce a more refined estimate of the likely City investment required over time, as well as a better understanding of the other revenue factors affecting it.

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**Phase II**

The second element of the Steering Committee's charge, after identifying a viable business model, was to develop a process for establishing a permanent non-profit operator that is capable of implementing the model. The Committee recommends a multi-pronged approach to that task that it describes as Phase II.

In Phase II, Steering Committee members will work with subject matter experts and community representatives to develop pro forma budgets and revenue estimates, raise funds, develop a leadership and governance structure, recruit and develop leaders, examine programming and curriculum options, and test new types of programming that are compatible with the new model.

This work would be supported by Hispanic Foundation Silicon Valley serving as the fiscal agent and 1stACT Silicon Valley providing staff support. City staff will ensure that the Phase II work is linked to ongoing operations and maintenance and programming, and to ensure that staff is appropriately informed before making further recommendations to Council.

The chart below describes the types of work that will be involved in Phase II:

<b>Financial Modeling</b>	<b>Fundraising, Leadership &amp; Board Development</b>	<b>Program &amp; Curriculum Development</b>
<b>Key Tasks</b> Develop the business plan Create pro forma budgets Recommend level of City investment	<b>Key Tasks</b> Raise seed money Focus on developing culturally competent leadership Germinate a new operating organization	<b>Key Tasks</b> Develop mission-compatible programming Develop prototype programming to test during transition period

As noted in the chart, it is expected that Phase II will include an effort to create an operating organization, rather than lead toward some sort of competitive selection. If existing organizations express interest in operating the school, a competitive process could still be used, but the Steering Committee believes that a new operating organization is the best and most likely result.

Key staff from the General Services Department and the Office of Economic Development/Cultural Affairs will work closely with the Steering Committee and subject matter experts and community representatives. During the Phase II efforts, the City would continue to operate and maintain the Plaza as it currently does, but would test and prototype new types of programming at the Plaza that would be compatible with the new model.

The table below provides information on the current and anticipated City resources and role at the Plaza, based on the Steering Committee's recommendations:

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Time Frame	City Role	Staffing	City Investment	Council Approval
2009-2010	<ul style="list-style-type: none"> <li>▪ Operations &amp; maintenance</li> <li>▪ Support of Steering Committee and transition work</li> </ul>	5 FTE's  1 FTE	\$696,000 – expenditures  \$130,000 – expenditures  (\$150,000) – revenue \$676,000 - net	Approved as part of 2009-2010 Adopted Budget
2010-2011 and 1-2 additional transition years*	<ul style="list-style-type: none"> <li>▪ Operations &amp; maintenance</li> <li>▪ Support of Phase II transition work</li> </ul>	4 FTE's  1 FTE	\$671,000 – expenditures  \$130,000 – expenditures  (\$150,000) – revenue \$651,000 - net	Reduction was approved in 2009-2010, included in 2010-2011 Proposed Budget
Post-Transition*	Oversight of contract with non-profit operator	No City staff	\$400,000 - \$500,000 payment to non-profit operator of school	Level of investment to be proposed as part of review of 2011-2012 budget

\* - Any city funding commitment will be determined in the context of the annual City budget process.

The future level of City investment, as described in the above chart and in the Financial Planning section of this memo, would be determined based on the business plan and pro forma budget that are developed and within the context of the annual City budget process. The pro forma budget will project all sources of revenue for the school, which will serve as a basis for recommendations regarding the level of City investment. Any recommended City funding will be included in the annual Proposed Operating Budget for discussion with the City Council as part of the 2011-2012 budget process in May 2011. Ultimately, any long-term commitment for City funding would be determined and presented to the City Council for consideration as part of a proposed agreement with the future operator of the school.

Alum Rock Union Elementary School District Agreement

The Alum Rock Union Elementary School District is in discussion with City staff about its interest in using classrooms and other facilities at the Plaza for San Antonio School students during the 2010-2011 school year. The District plans improvements at San Antonio that will make portions of the campus unusable during the 2010-2011 school year, and is interested in using the Plaza to meet the needs of the students who will be displaced as a result.

The terms of the proposed agreement would include:

- The District would be responsible for all demolition and construction work necessary to convert office space on the second floor of the Plaza to classrooms.
- The District would provide payment to the City for the operations and maintenance requirements associated with its use of the Plaza.
- The District would be entitled to use the newly-constructed classrooms, the existing classrooms, and other Plaza facilities as needed. These uses would be reserved as part of the

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City's management of the facilities, and would be scheduled to accommodate the District's needs while allowing other programming at the Plaza to continue, although the District's needs would take precedence.

- The City would work with the District to allow for the converted classrooms to be constructed in a way that would help accommodate future needs for a school of arts and culture, such as additional soundproofing and smaller practice spaces.
- The agreement would cover only the 2010-2011 school year, and the City would maintain all of the improved facilities thereafter.

This proposed partnership with the District would allow the District to provide needed space for its students at a lower cost than the alternative of renting portable classrooms, while the City would receive improvements that would be needed for the school model at no cost for construction.

### **POLICY ALTERNATIVES**

The following alternatives were considered in the development of the recommendations included in this report:

#### **Alternative #1:** Recommend a model of an Art & Culture Center

**Pros:** This model is consistent with the way the Plaza has been operated since its opening. It would provide greater capacity for performances, gallery exhibitions, and events than the school model will provide.

**Cons:** Based on past experience and current funding trends, this model is likely to produce less earned and contributed income than the school model.

**Reason for not Recommending:** The Steering Committee's judgment was that this model would not offer the same capacity for revenue generation as the school model, and designed the school model in a way that incorporates many of the elements of the Art & Culture Center model. In addition, the strongest community interest is in arts education.

#### **Alternative #2:** Recommend that the Plaza be sold to an independent operator.

**Pros:** The City would receive income from a sale and would eliminate its current expenditures.

**Cons:** The City would not have any control over the operations of the Plaza, which could diminish its capacity to serve the community. There is no known interest from potential buyers at this time.

**Reason for not Recommending:** The Council direction focused on the Plaza as a community asset, so the Steering Committee recommended a model that retained City ownership. A sale would jeopardize the ability to achieve the Community and Cultural Center vision expressed in

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the Council's direction. In addition, the community has expressed concern about commercialization of the Plaza.

**Alternative #3:** Recommend that the City continue to operate and maintain the Plaza

**Pros:** The expenses involved in this alternative are known based on the City's experience. The transition to interim City operations was well-received.

**Cons:** The City does not currently have the capacity to proactively market the facility or do programming beyond what can be done in partnership with the existing Resident Arts Partners, which falls short of the community's vision for the Plaza. Short of further efficiencies, the only way for the City to reduce its investment is to reduce service levels.

**Reason for not Recommending:** The school model offers better opportunities for programming and community engagement at the Plaza, and also offers the ability to raise earned and contributed income that could reduce the City's potential level of investment over time.

**Alternative #4:** Recommend that the Plaza be closed

**Pros:** The City's expenditures would be eliminated.

**Cons:** The Plaza would not become a Community and Cultural Center. This was the overriding vision in the Council's direction to the Steering Committee.

**Reason for not Recommending:** The Council direction was to create a self-sustaining model that would allow the Plaza to be a Community and Cultural Center, which would not be achieved if it were to be closed. Closing the Plaza would undermine efforts to revitalize the Alum Rock corridor and surrounding neighborhoods.

## **PUBLIC OUTREACH**

- 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)**

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The Steering Committee held eight public meetings, culminating in a community Town Hall meeting April 12. In addition, this memorandum will be posted on the City Council's Agenda website prior to the May 25, 2010 Council meeting.

### **COORDINATION**

This memo was coordinated with the City Attorney's Office and the City Manager's Budget Office.

### **COST SUMMARY/IMPLICATIONS**

The recommendations are consistent with the recommended funding for the Mexican Heritage Plaza in the 2010-2011 Proposed Operating Budget of \$670,558, which is offset by an estimated \$150,000 in revenues related to events and space rentals. This recommended funding covers events planning and support, utilities, and maintenance needs.

The recommendation to negotiate and execute an agreement with the Alum Rock Union Elementary School District to convert the second floor office space to classrooms to support the District's 2010-2011 school year is anticipated to generate a portion of the projected revenue reflected in this report. Staff negotiations regarding the lease that will produce this revenue will take into account the value of the improvements to be made, but will also recognize the fact that the District would otherwise have expenditures related to the rental of portable classrooms.

Staff also expects to negotiate consideration from the District for the City's operations and maintenance costs, designed to cover the additional costs associated with the District's use of the facility. These potential elements of the agreement would not have any effect on the 2010-2011 proposed budget amount, as the City's expenditures to support events and maintain the facility would need to continue.

From a longer-term point of view, the capital improvements to convert the second floor would help position the proposed school of arts and culture to generate earned revenue in the future, which could serve to reduce the City's investment over time.

### **CEQA**

File No. PP10-097

/s/  
Peter Jensen  
Director of General Services

/s/  
Kim Walesh  
Chief Strategist