



# Memorandum

**TO:** Community and Economic  
Development Committee

**FROM:** Peter Jensen  
Jeff Ruster

**SUBJECT: MEXICAN HERITAGE PLAZA  
TRANSITION PLAN**

**DATE:** April 10, 2008

Approved

Date

4/13/08

**COUNCIL DISTRICT:** District 5

## RECOMMENDATION

Accept staff's draft transition plan for the Mexican Heritage Plaza and the timeline for its implementation.

## BACKGROUND

On March 18, 2008, Council approved item 3.6, Actions Related To The Mexican Heritage Plaza, including Mexican Heritage Corporation (MHC). Included in this action were five recommendations from staff and 12 additional recommendations contained in a memo from Mayor Reed and Councilmember Campos, aimed at achieving the vision for the Mexican Heritage Plaza as a Community Arts and Cultural Center with a new non-profit model. The staff memo included the following desired outcomes:

- Develop a new management future for Mexican Heritage Plaza,
- Stabilize and transition the facility management to the City so it continues to be accessible to the community,
- Provide support to encourage the transition of Mexican Heritage Corporation into a new role as they work to stabilize their financial standing, and
- Provide marketing support to assist the 2008 Mariachi Festival.

In addition, the memo from Mayor Reed and Councilmember Campos cited the following goals for the Plaza:

- Reconnect with the community by ensuring that the Plaza is grounded within the community and extends beyond the Plaza's walls
- Establish a Board that is reflective of all stakeholders
- Remain transparent and accountable, and
- Develop a business plan that is self-sustaining.

The primary components in the recommendations include establishment of a Membership Program, development of a sustainable business plan through the use of an Independent Convening Institution working in support of a Steering Committee, transitional financial support for Mexican Heritage Corporation, and interim operational management by the City of the Plaza's facility maintenance and event services.

The purpose of this report is to present to the committee the proposed transition plan, actions to date and associated timeline and implementation strategy considerations for the establishment of a Plaza Membership Program, Independent Convening Institution, and Steering Committee.

## **TRANSITION PLAN**

### **Plaza Membership**

The memo from Mayor Reed and Councilmember Campos directed staff to establish an annual "membership" program for Mexican Heritage Plaza, and specified at least three different levels of annual membership (30 volunteer hours, \$100, \$1,000). This program was to be completed within a three-month time frame.

Experience and best practices with nonprofit membership programs suggest several issues that may present impediments to successfully establishing such a program within the next three months. Typically, successful membership campaigns include the following elements, among others:

- The ability for members to understand what specific benefits they will receive for their membership.
- The ability for members to direct their contributions to a 501(c)3 charitable organization so contributions are tax-deductible.
- A significant staff effort to "sell", close, and ultimately renew memberships.

Staff is concerned that, at the outset, the City is not able to successfully address any of these elements. However, over time, it is possible to establish a structure that would allow these key elements to be in place, with the help of an Independent Convening Institution. Staff recommends the following interim approach in order to meet Council's intent:

- **Plaza Pledge**—Potential members would make a pledge to support the Plaza at one of the three specified levels, but would not actually provide the funds or service hours until there is significantly more clarity about a) the nonprofit entity that could receive the funds on a tax deductible basis, b) the purpose for which funds would be used, and c) a plan for effectively using and managing volunteer hours.
- **Pledge Made Online**—Members would make their pledges primarily through an on-line form. A hard copy form could be made available at the Plaza for people who do not have access to the Internet.

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The membership campaign could be launched with an e-mail to all those who participated in the Plaza community forums, followed by outreach through other sources, such as neighborhood and business organizations, and supporters of the Plaza's Resident Arts Partners. Pledges could be taken starting May 1 on an ongoing basis.

### **Independent Convening Institution**

Council has directed staff to assist in the selection of an Independent Convening Institution to support the Steering Committee/Business Plan process to achieve the full Community Arts and Cultural Center vision. In accordance with the direction included in the memo from Mayor Reed and Councilmember Campos, staff will conduct a competitive process with potential convening institutions. Staff recommends that the competitive process include appropriate conflict of interest requirements that would prohibit the firm, its board, or staff who will ultimately serve in the role of the Independent Convening Institution from engaging in future contracts at the Mexican Heritage Plaza as a result of their actions. Staff will present a status report of the competitive process with the goal of providing a recommendation and information regarding all of the participating institutions to the CED Committee at their June 23 meeting. The committee's recommendation would go to Council in August for approval.

Staff recommends that the competitive process elicit the following information from potential Independent Convening Institutions:

1. *Expertise.* Explain how the Independent Convening Institution is "community-based", "culturally competent", and has "philanthropic experience"—the three Council-directed areas of required expertise.
2. *Resource Commitment and Needs.* Identify the financial and other resources that the Independent Convening Institution will commit to the Steering Committee/Business Plan process. Identify sources of funds and provide commitment letters. Identify any specific funds that might be requested from government. (Note: the March 18 City Council action did not allocate City funds for the Steering Committee process.)
3. *Process Design.* Provide a draft process design, including key steps of the Business Plan process and length of time to completion. Identify what the final product and outcomes are likely to look like.
4. *Community Engagement.* Demonstrate how the Independent Convening Institution and Steering Committee will continue to engage the community and other stakeholders in the Plaza through the Business Planning Process.
5. *Consultant/Staff Team.* Identify the consultant and/or staff of the Independent Convening Institution who would facilitate and support the Steering Committee Business Planning Process, and provide information on their qualifications and experience. Identify any other experts who would be involved.

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6. *Board Member Oversight.* Identify the Board Members of the Independent Convening Institution, including those who will help ensure a satisfactory outcome of this planning project.
7. *Partner Institutions.* Identify any other institutions that would partner with or otherwise have a role with the independent convening institution.
8. *Plaza Operations with City.* Describe any role that the Independent Convening Institution offers to play vis a vis the Plaza and the City team managing the Plaza, including programming prior to June 2009. Describe the role it envisions for the Steering Committee in this area as well.
9. *Conflict of Interest.* Describe steps that will be taken to adhere to the proposal requirements intended to prevent actual or perceived direct interest of the Independent Convening Institution, its board, or staff in the specific outcome of the Business Planning Process.

### Nominations for Steering Committee

Council directed the formation of a 13-member Steering Committee with the help of the interim Membership-Based Advisory Committee. The direction included parameters for potential nominees and identification of which groups will have the ability to select Steering Committee members and the number of members each group will select.

Staff recommends starting with an open nomination process, running at least from May 1 to May 30. Nominations would be made via an on-line form, with hard copy nomination forms also available at the Plaza. Potential Steering Committee members could nominate themselves, or be nominated by someone else. Staff will work with the Membership-Based Advisory Committee to publicize the nomination process.

In addition to basic contact information, the Nomination Form would require that nominees check boxes to indicate their areas of expertise and their sector experience/perspective. Staff suggests the following:

*Expertise/Experience (can check more than one)*

Non-profit management	Surrounding neighborhoods
Cultural facilities	San Jose community-based organizations
Philanthropy and fundraising	Arts education
Mexican-American arts/culture/heritage	Non-profit accounting/ Finance
Arts/culture/heritage-other	Organizational development
Civic leadership and engagement	MHP Resident Art Partners
Business	Academics
Other (describe)	

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*Sector/Perspective (can check more than one)*

Public Benefit/Non-profit sector	Surrounding neighborhoods perspective
Private sector	San Jose citywide perspective
Public sector	Silicon Valley/Bay Area perspective
Education sector	National/global perspective
Other (describe)	

The Selection Process would then take place in July and August, as outlined in the March 14 memo from Mayor Reed and Councilmember Campos, with the Steering Committee ready to begin work September 1. Selections will be made as follows:

- The group of people who have pledged membership will select six Steering Committee members from among themselves, two members from each pledged membership level
- The Mayfair and Gateway East Neighborhood Action Coalitions will each select one member from among the remaining nominees
- The Arts Commission will select two members from among the remaining nominees
- The City Council will select three members from among the remaining nominees

### **MHC Transition and Stabilization Support**

The MHC Transition and Stabilization support seeks to (i) enhance MHC's organizational capacity, (ii) strengthen its balance sheet, and (iii) provide *some* working capital to assist the organization as it transitions into its new business and programming model.

Key components of this support include:

- **The City Manager has been authorized to negotiate and execute an amendment to the loan agreement with MHC in order to incorporate a challenge grant to give MHC the opportunity to reduce the outstanding balance owed on its loan with the City.** For every dollar that MHC is able to raise between April 1 and December 1, 2008, two dollars of the \$500,000 loan currently outstanding from the City will be reduced, and subsequently by one dollar for each dollar raised thereafter. MHC has been actively fundraising with corporations and philanthropic organizations to garner funding support for the challenge grant. According to MHC projections, they anticipate achieving the \$250,000 of matching funds required to reduce the City loan in its entirety no later than November 2008.
- **Transitional Funding** in the amount of \$350,000 will be provided by the City for two purposes: the first is to give priority to assisting MHC in resolving their past due accounts payables and other liabilities balances; the second is to provide some working capital during the period leading up to the September 2008 Mariachi Festival. According to the Transition Agreement currently being negotiated between the City and MHC, \$225,000 of the \$350,000 of available funding will be targeted to pay down directly or reimburse MHC for payments made to vendors associated with the past due accounts payable. The actual disbursement of the \$225,000 of past due accounts payables will commence upon execution of the contract and continue as accounts payable are resolved through the 15-month term. To the extent that

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MHC is successful in negotiating a reduction in the balance of their accounts payable past due below \$225,000, then the difference will be applied to augment the working capital available to MHC.

Of the remaining \$125,000 of Transitional Funding, a monthly disbursement of funds will take place prior to the Mariachi Festival. The intent of this \$125,000 is to provide some working capital to allow MHC to transition into its new business and programming model, while focusing on the preparations required for the Mariachi Festival. MHC must provide a variety of information regarding its financial status and the transition of responsibilities for maintenance and events services in order to qualify for this funding, with the first milestone scheduled for May 1. To date, many of these requirements have already been met, and the remaining requirements are on track to be completed by the deadline. It is anticipated that the full \$125,000 for working capital will likely be drawn down during the time period prior to the Mariachi Festival.

- **Technical Assistance Funding** of \$50,000 will be provided under a separate Technical Assistance Agreement. According to the Technical Assistance Plan submitted by MHC to the City, the key components of this Plan include the following:
  - Developing a business plan and associated fund raising plan and strategy;
  - Enhancing their budgeting and financial reporting systems and related staff capacity to implement these new systems;
  - Developing written operating policies and procedures; and
  - Providing support to negotiate reduction of outstanding accounts payable balance with vendors.

Payments under the Technical Assistance Agreement will be conditioned upon City receipt of pre-specified deliverables, including without limitation, monthly reports tracking accounts payable balance, policies and procedures manual, modified/updated business plan, and related fund raising plan.

- **Marketing Support for the 2008 Mariachi Festival**  
As part of the Transition Package, MHC will receive a \$100,000 grant to support various marketing and advertising expenses associated with the September 2008 Mariachi Festival. The San Jose Redevelopment Agency (SJRA) anticipates formalizing the grant agreement in April with disbursements commencing soon thereafter. Subsequently, and as part of the FY 08-09 Budget process, the City will reimburse SJRA for \$50,000 of the total grant amount.

### **City as Interim Facility Operator**

Staff from General Services began transition efforts with MHC to assume the Maintenance and Utility, and Facility Leasing and Event Services responsibilities for the Plaza effective April 1, 2008. It is anticipated that this transition will require a full three-month period during which time the City will be the operator of the Mexican Heritage Plaza with technical support from MHC on an as needed basis. This period of time is required to accommodate the transfer and hiring of staff, vendor assignment, utilities transfer, and the development of event / leasing related policies and

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procedures. General Services will assume full operations responsibility in these areas with no support from MHC effective July 1, 2008. Key elements in this transition include:

- **Staffing** – In order to retain and leverage the knowledge of key MHC staff members in the areas of facility maintenance and facility leasing and events management, five existing MHC employees have been hired by the City as of April 6. Existing General Services staff with expertise in these specific disciplines have been working closely with the former MHC employees to provide support and to discuss how to further strengthen the existing operations. These new City staff members will be joined by an additional new hire whose recruitment is expected to be completed in April. These six employees will remain at the MHP but will be integrated into the General Services organizational structure.

Event Captains and other part-time MHC employees who provide services related to events will also become part-time City employees, serving on an as-needed basis in support of events and performances.

In addition, a position will be added that will provide staff support for the membership, independent convener selection, and Steering Committee processes described above. This person will also provide assistance to the General Services staff described above in the maintenance and event services areas as necessary. The key areas of focus for this person will be community outreach, process support, and reporting to Council and the Community & Economic Development Committee, according to the timeline delineated in the memo from Mayor Reed and Councilmember Campos.

All of these positions are authorized on a temporary basis through June 2009, in accordance with the Council's March 18 direction.

- **Vendor Assignment and Utility Transfer** – Staff has reviewed MHC's current list of service vendors and has recommended that all contracts be terminated, as many of these vendor services will be completed by City staff or existing City contracts. Through this early analysis of MHC's vendor list, there are a number of contracts that require upwards of 90 days notice to close accounts thereby extending MHC's financial accountability as operator through the full 3-month transition period. In addition, all utility bills were transferred from MHC to the City as of April 1.
- **Facility Leasing, Events Management and Policy Development** – Staff has reviewed event bookings and business procedures. Additional work is needed to update documents, policies and procedures. Work in this area will include the following:
  - Update facility leasing documents and language for all Resident Arts Partners,
  - Update written event booking and operating policies and procedures to align with those of City Hall where appropriate,
  - Link MHP facility use requests to City Hall's on-line Event Management System, and
  - Review the facility rental fee structure and develop a "free use" policy recommendation for Council consideration, in accordance with Recommendation #1 in the memo from Mayor Reed and Councilmember Campos.

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It is anticipated that this work will be completed during the initial three-month period of the transition.

- **Other Operational Issues** – Staff has conducted preliminary meetings with the Plaza's current Resident Arts Partners (RAPs), Teatro Visión and the San José Multicultural Artists Guild, to better understand operations, review scheduling processes, and discuss areas of mutual benefit. It is staff's intent to negotiate and execute agreements by July 1 with these two organizations, along with MHC as a new RAP, to address facility leasing issues as described above, office space leases, and scheduling processes. Scheduling commitments already made through MHC will be honored for all three groups.

Staff is working with MHC on a number of issues that will be resolved during the three-month transition period, including:

- Transfer of ownership of fixtures, furniture, and equipment
- Creating links between the MHC and City internet sites, particularly related to facility leasing and event information
- Creating connectivity to the City's network for employees located at MHC
- Transition of the Plaza's telephone system and billing structure
- Reviewing issues associated with office space, reception, and other logistical considerations.

### **FOLLOW-UP**

Staff will report implementation progress as outlined in the memo from Mayor Reed and Councilmember Campos in a CED Committee report in June along with an Informational Memo to Council. Further informational reports, as well as decision points related to selection of an Independent Convening Institution, selection of Steering Committee members, approval of a business plan, and selection of a new non-profit operator and/or programmer, will be provided according to the schedule approved by Council as part of the aforementioned memo. Should any elements of this timeline need to be delayed, staff will ask for the Committee's approval as part of upcoming status reports.

### **COORDINATION**

This report has been coordinated with the Finance Department and the City Attorney's Office.



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