



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Peter Jensen
Kim Walesh

SUBJECT: MEXICAN HERITAGE PLAZA
TRANSITION PROGRESS REPORT

DATE: April 9, 2010

Approved Paul Kent Date 4/12/10

COUNCIL DISTRICT: District 5

RECOMMENDATION

Accept the staff report updating the CED Committee on the transition plan for the Mexican Heritage Plaza (MHP).

BACKGROUND

The February update apprised the CED Committee on the progress of the MHP Steering Committee through their January meeting. At that time, the Committee was exploring two models: 1) an Arts and Cultural Center and 2) a School of the Arts. The Committee has had a number of meetings since then, and has agreed on a single recommended model. This memo describes the process by which the Committee developed its recommended model, provides preliminary information on the model and its implementation, and outlines the role envisioned for the City.

ANALYSIS

After presentations of the two models to the full Steering Committee at its public meeting in January, the Committee decided to reshuffle the ad hoc study groups to further explore the strengths of both models and identify commonalities that exhibited financial viability and community support. At the reconvening of the Steering Committee in March, the Committee reached consensus to proceed with a recommendation of a School of Arts and Culture model.

This model would make the Mexican Heritage Plaza a center for arts and culture with classes and cultural experiences for children and families at the core. Classes offered at the School of Arts and Culture at Mexican Heritage Plaza (the working name) would be high quality, accessible to families of all income levels and would reflect a priority toward Mexican American arts and cultural programming themes. The classes would be open to all area residents. The Committee recognizes, however, that East Side residents would likely be a primary clientele.

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A key element in the Committee's review was to examine which model was likely to achieve the Council's goal of making the Plaza self-sustaining. The School of Arts and Culture model is likely to be more attractive to corporate and institutional funders, who are more apt to invest in programs for children and educational initiatives in general. With a model focused on classes, there is also earned revenue potential from class fees paid by parents interested in seeing their children receive quality instruction in arts and culture, and from adults interested in developing their skills and interests.

The recommended model envisions a business model of *50% earned income* from class fees, a modest rentals program, and performance ticket sales as well as *50% contributed income* from foundations, corporations, individual donors and City operations and maintenance support.

The concept of the School of Arts and Culture is comparable to other successful and sustainable community schools of the arts serving similar communities. Examples of these include the Los Angeles Music and Art School, located in East L.A., and the San Francisco Community Music Center, located in the heart of the Mission District.

Implementation Plan

The Committee aims to present its recommendations regarding this model to the City Council on May 25. While its work will outline funding considerations and fundraising goals, more work will need to be done with a larger group (including people locally and nationally with direct experience in operating and maintaining similar facilities) in order to develop a detailed business plan. Therefore, the work that will be presented to Council in May should be considered Phase I, and represents a considerable achievement in consensus about a new working model for the venue that could be financially viable.

The May presentation will also propose a Phase II work plan. This phase will include the development of an in depth business plan and *pro forma* budgets, and is estimated to take a minimum of an additional six months. Phase II is likely to include the assembly of three new leadership teams focused on different aspects of the work: financial modeling, fundraising and leadership development, and program prototyping. Each of the teams is envisioned to be a mix of experts and community members, and current Steering Committee members will be encouraged to continue their work by serving on one of the teams.

The key to the Phase II work is the development of a group of individuals and/or organizations that can be positioned to assume the responsibility of operating the school. This process is envisioned to take two to three years, during which the City would continue to operate and maintain the Plaza, and begin to prototype uses that fit the new model.

The City's role

The success of the new model is contingent upon continued City support in the short and long term. As mentioned above, the Committee is likely to recommend that the City continue to operate the Plaza during a 2-3 year transition period, and to provide some level of staff support for the Phase II work described above.

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The Committee also expects to communicate its preliminary conclusion that the City's contribution to the Plaza's basic building operation and maintenance will need to be sustained in the \$400K-\$500K range annually to implement this model. This range of expenditures is expected both during Phase II and as an ongoing commitment once the school model is implemented. The chart below compares current expenditure levels to the likely range to be recommended.

Fiscal Year	Expenditures	Revenue	Net City Investment
2009-2010	\$826,000	\$150,000	\$676,000
2-3 Year Phase II Transition*	655,000	150,000	505,000
New Model	\$400,000 - \$500,000		\$400,000 - \$500,000

* Assumes a planned 2010-2011 base budget reduction approved by Council in 2009.

At this stage, the Committee has not developed a detailed *pro forma* budget indicating revenue and expenses during the transition years and at full implementation of the model. As a result, the Committee's estimate of the ongoing City investment is based primarily on historical experience with the Plaza building operations and the Committee's knowledge of financial models for other schools of art and culture.

The cultural facility specialist who has been supporting the Steering Committee's work, Laurie MacDougall, has affirmed the Steering Committee's conclusion that the school model, compared to any other, offers the best possibility for significant ongoing earned income, for contributed income from sources other than the City, and for long-term financial sustainability of the Plaza as a community cultural center. It is possible that required City investment could be reduced over time.

Steering Committee members note that the estimated \$400,000 to \$500,000 would be in the lower range of the City's annual investments in other major City-owned cultural facilities, as 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

Next Steps

The Committee determined that their April meeting should be a Town Hall in which the Committee will present the proposed school model to the community at large and solicit their feedback. The program will include a presentation by Committee members Connie Martinez and Chris Esparza, an opportunity for public comment, and a survey for community members to express their desires for future classes at the Plaza.

The Town Hall meeting is scheduled for April 12th and has been widely publicized in order to draw as many attendees as possible. At the April 26th CED Committee meeting, staff will be prepared to present a verbal report on the results of the Town Hall.

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EVALUATION AND FOLLOW-UP

As discussed above, the Committee intends to present recommendations to the City Council at the May 25th, 2010 Council meeting. The Arts Commission will be given a report at its May 12th meeting and will provide feedback to the Committee prior to the final recommendation to the Council.

The Steering Committee recommendations to the Council will include ongoing updates to the CED Committee to report on the work of the leadership teams in Phase II of the business planning process.

PUBLIC OUTREACH/INTEREST

Steering Committee members, City staff and community organizations participated in a wide distribution of the Town Hall announcement. All meetings of the MHP Steering Committee are open to the public and publicly noticed. In accordance with the Brown Act and the City's Open Government reforms, each month's meeting announcement and the summary from the previous meeting are distributed to the public interested in the progress of the MHP Steering Committee. Agendas and meeting summaries are also posted on the City's MHP web site.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office.

CEQA

Not applicable.

/s/

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/s/

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For questions please contact Peter Jensen, General Services Director, (408) 975-7290.