

Memorandum

TO: ARTS COMMISSION

FROM: Paul Krutko

SUBJECT: ARTS COMMISSION-ADVISED FUNDING ALLOCATIONS - 2007-08 **DATE:** May 2, 2007

RECOMMENDATION

Review and take action on a recommendation that:

- a. City Council approve the 2007-08 funding allocations for Arts and Cultural Programs, Projects, Grants, Activities and Support in the amount of \$4,283,770, in the amounts specified in the Attachment lines 1-31, and that
- b. The Arts Commission discuss and take action on a staff recommendation regarding the use of an additional \$190,600 in 2007-08 Transient Occupancy Tax revenues as specified in the Attachment lines 32-33: \$152,000 for an ongoing Deputy Director of OED for Cultural Affairs, and \$38,600 not earmarked for a specific use; and that
- c. The Arts Commission recommend to City Council the use of said \$190,600 in Transient Occupancy Tax revenues.

BACKGROUND

Each year, Arts Commission committees review the proposed funding allocations for arts and cultural programs, projects, grants, activities and support, and forward recommendations to the Commission. After review, the Commission forwards its recommended funding allocations (the "Arts Budget") to the City Council for inclusion as part of the annual budget process. The recommended 2007-08 Arts Budget is presented in the Attachment.

For 2007-08, the Arts Budget has been developed within the following parameters:

1. Transient Occupancy Tax (TOT) revenue projections made by the Budget Office, projected General Fund allocations, and other available funding;
2. Review and discussion of program priorities with the Commission's committees, and
3. An assessment of staff resources available in 2007-08 to implement the proposed budget.

ANALYSIS

Available Funding

Projected total funding is \$4,474,370, representing a third consecutive year of increased funding. On March 14, the Arts Commission allocated 2007-08 grant funding and reserves based on the February estimate of \$3,399,386 in 2007-08 TOT revenue, a 20.5% increase over the 2006-07

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estimate. Subsequently, the Budget Office revised the estimate to \$3,589,986 in late March, which is reflected in this proposed Arts Budget. In addition, the Arts Budget includes \$155,897 in “Mid-Year Adjustment” TOT (received by an October 2006 Council action) that the Commission allocated in a December, 2007 action to the Long-Term Reserve. Therefore, although General Fund (GF) support is reduced, the proposed 2007-08 Arts Budget represents an overall 27.4% increase over the 2006-07 Arts Budget.

The following chart compares Arts Budget funding, by source, for the last six years plus the proposed 2007-08 Arts Budget. The amounts shown are those approved at the beginning of each fiscal year. However, in 2002-03 and 2003-04, TOT revenue shortfalls occurred after the Arts Budget was adopted, causing funding shifts that are detailed in footnotes:

<i>Year</i>	<i>Total Arts Budget</i>	<i>SOURCE OF FUNDS</i>		
		<i>TOT Projected Revenues</i>	<i>TOT Rebudget</i>	<i>General Fund¹</i>
2001-02	\$6,016,227	\$3,919,386	\$68,500	\$1,411,841
2002-03	\$5,072,538	\$3,339,386 ²	\$278,454	\$1,454,698 ³
2003-04	\$3,839,236	\$2,536,323 ⁴	\$218,933	\$1,083,980 ⁵
2004-05	\$2,913,023	\$2,250,000	\$31,827	\$631,196
2005-06	\$3,111,310	\$2,489,994	\$119,000	\$502,316
2006-07	\$3,510,841	\$2,834,438	\$324,068	\$352,335
2007-08	\$4,474,370	\$3,589,986	\$584,135	\$300,249

Note that General Fund support for the Arts Budget has declined most precipitously, from \$1.4 million in 2001-02 to the \$300,249 proposed in 2007-08.

Funding sources and uses, 2007-08 Arts Budget

Sources of funding, described below, are reflected in the Attachment columns A-F, and uses in columns G-H:

Column A. Rebudget TOT – \$584,135 in unspent 2006-07 TOT, consisting of:

- \$282,000 Midyear Reserve
- 205,897 Long-term Reserve
- 80,000 Cultural Development Strategy Reserve
- 12,238 Arts Grant Funding
- 4,000 Grant Review Funding

¹ During the years 2001-02, 2002-03 and 2003-04, this column includes General Fund support and funding from the Convention/Cultural Affairs Fund 536 (a “special fund” not related to the General Fund). In 2004-05, OCA was moved entirely out of Fund 536 and into the General Fund.

² At mid-year, this amount was reduced \$326,000 due to a TOT shortfall.

³ At mid-year, this amount was increased by \$326,000 to replace a TOT shortfall.

⁴ At mid-year, this amount was reduced \$225,000 due to a TOT shortfall.

⁵ At mid-year, this amount was increased by \$225,000 to replace a TOT shortfall.

Column B. Gate Fees- \$11,860 payment by event producers, representing 5% of admission fees for outdoor events on public property

Column C. Gift Trust - \$5,000 from trust designated for Arts Education expenditures

Column D. Projected TOT - \$3,589,986 in projected revenue mandated by ordinance to support cultural grants and the OCA

Column E. OCA General Fund - \$261,000 General Fund allocation to support OCA

Column F. Citywide General Fund - \$22,389 General Fund allocation earmarked by City Council for specific arts/cultural-related uses

Column G. 2007-08 Totals - Recommended funding, grouped by program category

Column H. Change from 2006-07 - Increase or reduction in funding from previous year, for same or similar line items

Comments on Selected Line Items in Proposed Arts Budget (see Attachment)

Line 1FPC Grant award recommendations represent a 9% increase over 2006-07.

Line 2The FPC Review Panel awarded all but \$5,000 of funds allocated for 2007-08 FPC Grants, based on the merits of the grant applications. This amount is recommended to remain earmarked to support an event-related need during 2007-08.

Line 3-4.....Arts Grant award recommendations represent an 8% increase over 2006-07. However, should all Arts Grant funding be awarded (see Line 6 below), total Arts Grant awards will represent a 17% increase over 2006-07.

Line 6This line item derives from funds left over from the 2007-08 Arts Grants allocation after grant award recommendations were made, and from 2006-07 Arts Grants funds that will not be distributed. The Operating Grant review panel is reconvening on May 19 to consider a 2007-08 grant for the Mexican Heritage Corporation from this funding. The Programs Committee will recommend additional uses (potential uses include Project Mini-Grants, individual artist project grants, etc.).

Line 7The Arts Venture Fund is proposed to be suspended for 2007-08 to meet the General Fund shortfall. Council will make a final determination on this Fund in June.

Line 8The Mid-Year Reserve - 10% of projected TOT revenue - is withheld annually to meet any TOT revenue shortfall, to avoid the need for grant repayments or program cuts. (The unspent 2006-07 TOT Mid-Year Reserve of \$282,000 has been rebudgeted to support this line item.)

Line 9The TOT Long-Term Reserve sets aside funds in growth years for use when the TOT falls. (The unspent 2006-07 TOT Long-Term Reserve of \$50,000 has been rebudgeted to support this line item, as has the 2006-07 "Mid-Year Adjustment" of \$155,897 that the Commission recommended for the Long-Term Reserve.)

Line 10Support for cultural strategy/planning efforts, to guide the City's future arts/cultural development and resource allocation policies.

Line 12TOT-funded staff position for grants administration.

Line 19Supports potential arts initiatives that bring arts/culture to neighborhoods (e.g., Japantown, the SoFA District, branch libraries).

Line 20New line item, intended to build on the successful initiation of an International Cultural Exchange with East England and with ZeroOne Festival in 2006-07.

Line 32-33..These funds are the difference between the Budget Office's initial estimate of 2007-08 TOT revenue, upon which the funding allocation to grants and reserves was made in March 2007, and the subsequent revised estimate. Of this amount, \$152,000 is recommended to underwrite a reinstatement of cultural leadership for the City (see *Cultural Leadership Proposal* below). Recommendation for use of the remaining \$38,600 will be developed and presented to the Commission during 2007-08.

Cultural Leadership Proposal

This budget proposes to reinstate the leadership position of the Office of Cultural Affairs that was eliminated at the end of 2004-05 as significant General Fund cutbacks were required of OCA. The City Manager is supportive of adding this position (Deputy Director of OED for Cultural Affairs) to the 2007-08 Budget if it is funded with TOT revenue, as the General Fund shortfall is anticipated to continue for a number of years.

The ordinance allocating the 4% of San Jose's 10% Transient Occupancy Tax to the arts clearly envisions TOT revenue supporting the Office of Cultural Affairs, by specifying two uses: 1) "*cultural grants*" and 2) "*funding the expenses of the fine arts division of the convention and cultural department [i.e., Office of Cultural Affairs], including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.*"

OCA staff and OED leadership believe strongly that it is time for national recruitment of a top-flight, experienced arts professional to lead OCA and San Jose's arts community to the next level. This full-time leadership is particularly critical in light of the expanding economic development responsibilities of Paul Krutko and Kim Walesh, and in light of Chief Deputy City Manager Kay Winer's retirement in June (and elimination of her position).

As San Jose grows as a global center of creativity and innovation, the Deputy Director will be charged with being a fully engaged, vital force in that effort. This leadership position will be selected to bring national, state, and/or regional experience and recognition as an effective arts administrator; and will be able to focus a full-time effort on engaging with and representing the interests of the arts community, residents and visitors. He/she will be expected to attend arts and cultural events, meet with arts institutions and educators, and address all arts and culture-related issues before City Council and with the City Manager.

This position will be a change agent within the City structure, to integrate arts/culture into the standard list of considerations involving City resource decisions and policy development, and to insure OCA's place at the table in all City discussions that involve arts or cultural facilities, neighborhood arts development, special events and all other arts/cultural matters. The Deputy Director will support and encourage the Arts Commission as an active and effective advocate for San Jose's role as a regional center for arts and culture. This position will also be expected to develop a multi-layered, creative approach to build beneficial partnerships between the City, other public agencies, funders and private industry for the sponsorship of cultural activities.

In addition to establishing a strong identity for OCA and being a significant presence and catalyst in the arts community, the Deputy Director would assume responsibility for managing the relationships with large cultural institutions that operate city-owned facilities. This is an area that has been managed by Kay Winer, and has been a point of emphasis recently as several institutions experienced financial difficulties.

While the Deputy Director position will not appear formally in the City Manager's Budget proposal to be released on May 1 (out of consideration for the May 9 Arts Commission discussion), the City Manager is prepared to issue a Manager's Budget Addendum (MBA) to add this position to the draft budget.

OUTCOME

The recommended Arts Budget will:

- assist community-based arts organizations to provide arts and cultural opportunities, activities, performances and experiences to residents and visitors;
- support a wide range of outdoor special events and celebrations;
- provide arts experience and education to thousands of school children through the Arts Express and San Jose After School programs;
- provide for Public Art Program community outreach and limited critical maintenance of the collection; and
- ensure that OCA staff, the Arts Commission and San Jose's arts community have the kind of full-time, experienced leadership required for the next stage of cultural evolution.

PUBLIC OUTREACH

The opportunity to apply for the 2007-08 Festival, Parade & Celebration Grants, Project and Program Arts Grants, and Operating Arts Grants was made public in a variety of ways – publication in local newspapers; emailed notices to current grantees and prospective applicants; and downloadable application forms and complete eligibility/funding information on the OCA website. All recommended grant awards were developed by Peer and Community Review Panels that met in March and April, 2006.

At the publicly noticed April 18, 2007, Programs Committee meeting, the recommended grant awards and all other proposed funding allocations in the Grants, Community Development and Arts Education programs were reviewed. At the publicly noticed April 17, 2007 Public Art Committee meeting, the recommended funding allocations to support public art maintenance, conservation, public outreach and the emergency reserve were reviewed. At the publicly noticed April 30, 2007, Executive Committee meeting, the recommended funding allocations to support Special Projects/Activities and Cultural Leadership were reviewed. Notices for the May 9, 2007 Arts Commission meeting were postal mailed and emailed to the arts organization/grantees distribution list, and the agenda was posted on the OCA website.

BUDGET REFERENCE

Approval of funding for the proposed Arts Budget is dependent on City Council approval of the 2007-08 Proposed Operating Budget, which will be acted upon in June 2007. The sources of funding and levels of proposed funding indicated in this reference have been identified in coordination with the Budget Office. When the Arts Commission's recommendations are forwarded to City Council, the appropriate budget page numbers will be inserted:

Fund #	Appn #	Appn Name	Total Appn	2007-2008 Proposed Budget Page	Last Budget Action
461	0096	Cultural Grants/OCA (TOT)	\$3,589,986		
001	2603	Festival, Parade & Celebration (Citywide)	\$22,389		
001	0182	Non-Personal / Equipment-OED/Cultural Affairs	\$261,000		
461	0096	Cultural Grants/OCA (TOT) (rebudget)	\$584,135		
001	0182	Non-Personal / Equipment OED/Cultural Affairs (gate fee revenues)	\$11,860		
139	2347	Arts and Education Week Gift Trust	\$5,000		
		Total	\$4,474,370		

PAUL KRUTKO
Chief Development Officer
City Manager's Office

Attachment

