



Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Kerry Adams Hapner

SUBJECT: SEE BELOW

DATE: October 15, 2018

Approved

Date

10/15/18

SUBJECT: CITY-OWNED CULTURAL FACILITIES OVERVIEW

RECOMMENDATION

It is recommended that the Committee accept a report on City-owned Cultural Facilities.

BACKGROUND

As regional destinations, San Jose's City-owned cultural facilities generate significant economic impact and cultural vibrancy, while providing multi-disciplinary and education programs to approximately 2 million visitors a year. City-owned cultural facilities are a major attraction of visitors to San Jose, in addition to the SAP Center, convention center, and special events.

This informational report will provide an overview of the City's partnerships with cultural facility operators for the following City-owned cultural facilities: California Theatre, Center for the Performing Arts, Children's Discovery Museum (CDM), City National Civic Auditorium, Susan and Phil Hammer Theatre Center, History Park in Kelley Park, Mexican Heritage Plaza (MHP), Montgomery Theatre, Peralta Adobe - Fallon House Historic Site, San Jose Museum of Art (SJMA), and The Tech Museum of Innovation (The Tech).

By the end of FY 18-19, three agreements with cultural facility operators will be up for renewal. These include the agreements with San Jose State University (SJSU), History San Jose (HSJ), and Team San Jose. Therefore, the Administration seeks to provide an overview on its agreements with community-based partners to operate and maintain these facilities.

ANALYSIS

The City has agreements with seven community-based nonprofit organizations operating these City-owned cultural assets, each receiving subsidies. These subsidies are provided in accordance with the City's Operations and Maintenance (O & M) or management agreements. Most are long term agreements, ranging from 5 to 55 years with options to extend. Each organization's history has a distinct set of circumstances. In some cases, the nonprofit organization raised substantial capital funds to build or make significant capital investments into the facilities; the agreements were developed with the operators as the facilities came online. This is true of CDM, The Tech, and SJMA. In some cases, the facilities were originally managed by the City and the City entered into a new operating model in which the City assets were managed by a third party operator. This is the case with the Team San Jose-managed theaters and the properties managed by HSJ. Finally, two major facilities – the Hammer Theatre and MHP- were originally built in partnership with a community-based organization that no longer operates the facility. After extensive community process, the City entered into agreements with different operators with new operating and business models. In addition, the scope of programming, building size and responsibility vary from organization to organization, affecting the agreements and subsidy amounts. In all cases, the City's financial support does not cover the full cost of operating and maintaining the City-owned assets, nor the programming costs. Each organization leverages City support to raise additional private and public funding sources. In all cases, the operators possess specialized skill-based capacity to provide a unique management service.

All of the organizations have their own staff and boards of directors that provide fiduciary, governance and programmatic oversight. The City does not serve in any voting capacity to the organizations. All of the organizations are monitored according to their agreements, and the City monitors the ongoing financial health of the organization through financial audits.

City-owned Cultural Facility Operating Partners

CDM operates the eponymous downtown facility, serving as a regional destination to over 400,000 annual visitors. CDM provides nationally recognized experiential cultural and educational programs for youth and their multilingual and multigenerational families. The facility has recently been expanded to provide an exterior environmental garden and learning center called Bill's Backyard as well as critical exhibit builder space. The City's O & M subsidy of \$285,000 is funded through the General Fund. Developed in 1990, the agreement will expire in 2045.

HSJ operates and maintains three sites: History Park, located in Kelley Park, the Peralta - Adobe Fallon House Historic Site, and the Collection Center/Research Library & Archives. Over 120,000 visitors attend exhibits and events at these sites each year. The City's O & M subsidy of \$784,000 is funded through the General Fund. Developed in 2009 (but original agreement began in 1998), the agreement will expire in 2019.

SJMA is a leading showcase in the Bay Area for modern and contemporary art, attracting over 100,000 visitors a year. The museum has earned a reputation for its distinctive programming that addresses major trends in international contemporary art, architecture, and design, with an ongoing commitment to the work of California artists. Offering a range of educational programs that provide critical early exposure to the visual arts, SJMA is the largest provider of in-school arts education in Santa Clara County. The City's O & M subsidy of \$475,000 is funded through the General Fund. Developed in 1998, the agreement will expire in 2053.

SJSU operates and maintains the Hammer Theatre. After a year-long community process to identify a new operating model from the civic asset after the San Jose Repertory Theatre ceased operating the facility, the City entered into a three-year incubation agreement in 2015 with SJSU to realize a new partnership. The new programming model for Hammer Theatre encompasses a) high quality SJSU programming that is created by SJSU and vetted by a campus committee to ensure quality programming that is likely to appeal to diverse audiences, b) SJSU-sponsored programming that includes programs produced in collaboration with outside cultural institutions and c) community rentals offered at tiered rates. This model is proving to be successful for the Hammer Theatre with over 46,000 people enjoying performances in FY 17-18. The City's O & M subsidy of \$285,000 is funded through the General Fund.

School of Arts and Culture @ MHP (SAC) operates and maintains MHP. Serving over 70,000 annually, MHP is an anchor facility in Eastside San Jose with a theatre, pavilion, and classroom space. SAC provides afterschool arts education programs, youth camps and lifelong learning opportunities rooted in Mexican and multicultural arts. SAC also rents the facility to outside groups for special events and performances. The City's O & M subsidy of \$450,000 is funded through the General Fund. Developed in 2014, the agreement will expire in 2029.

Team San Jose manages the San Jose McEnery Convention Center and venues including the California Theatre, Center for the Performing Arts, Montgomery Theater, City National Civic, Parkside Hall, and South Hall. Per the municipal code, the City provides 4.5% of the collected 10% Transient Occupancy Tax (TOT) to TSJ to manage the convention center, venues, and the Convention and Visitor Bureau. The TOT is collected from visitors of San Jose hotels. The four TSJ-managed theaters are rented to resident art partners - such as Broadway San Jose, Children's Musical Theatre of San Jose, Opera San Jose, Symphony Silicon Valley – and for other performing arts and special events.

The Tech operates the eponymous facility which draws over 500,000 visitors annually to experience family-friendly interactive science and technology exhibits and popular IMAX screenings. Through hands-on educational programs such as *The Tech Challenge*, an annual team design competition for youth, and internationally renowned programs such as *The Tech for Global Good*, which honors people doing work to benefit humanity, The Tech serves as a valuable resource for education and innovation. A major expansion of The Tech is being planned as part of a larger mixed-use development in the next few years. The City's O & M subsidy of \$1,105,000 is funded through the General Fund. Developed in 1994, the agreement will expire in 2049.

Facility Maintenance and Capital Repairs

Each O & M contract outlines each partners' responsibilities related to facility maintenance and capital repairs. Each contract varies. Through the General Fund and the TOT, the Department of Public Works supports some maintenance and cultural facility capital repair costs, which vary from year to year. The City has made strides towards identifying the capital maintenance needs of its cultural facilities. The City is working in collaboration with the nonprofit operators to ensure that these cultural facilities remain competitive as regional facilities and community hubs that serve well over a million people a year. The Department of Public Works develops a capital maintenance plan schedule in coordination with the facility operators and the Office of Cultural Affairs which manages and stewards the O & M contracts.

In FY 12-13, the Cultural Facilities Capital Maintenance Matching Fund was established to set aside reserves to address the facilities' life cycle needs, in which the City would match 5% of the current level of each facility O&M subsidy and set it aside into this fund. CDM, the Tech, and SAC participate in this optional partnership. Annually, each facility would work with the City to determine the projects for the funds. The projects would be capital replacement in nature and selected from a project list of current critical needs.

Team San Jose, through its TOT allocation and revenues, supports the operations and maintenance of the four theaters that it manages. Select capital needs of those facilities are also supported through the Theater Preservation Fund, a nonprofit that collects \$1 per ticket sold for events occurring in those facilities.

Other City Support of Cultural Facilities and Facility Operators

Some cultural facility operators whose primary mission is arts-focused are eligible to receive grants from the City through the competitive grants administered through the Office of Cultural Affairs. For FY 18-19, CDM, SJMA, and the SAC were awarded unrestricted Cultural Affairs operating grants. In unique situations, the City provides special grants to the facility operators for important projects through the Mayor's Budget Message.

Reductions to O&M Agreements in FY 11-12

To meet the General Fund shortfall for FY 11-12, cultural facility O & M costs were reduced by a collective 10%, totaling \$358,000. As each organization is in a unique state, reductions were not made uniformly at 10%; reductions ranged from 5% to 15%. The following cultural facility operators receive continued O & M support through the General Fund in FY 18-19 per their existing agreements:

Cultural Facility	Current O & M Level	Pre 11-12 O & M Level
Children's Discovery Museum	\$285,000	\$300,000
History San Jose**	\$784,000	\$825,000

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San Jose Museum of Art	\$475,000	\$500,000
Hammer Theatre Center (SJSU)	\$285,000	\$300,000
School of Arts & Culture at Mexican Heritage Plaza* (SAC)	\$450,000	N/A
Tech Museum of Innovation** (Tech)	\$1,105,000	\$1,300,000
TOTAL	\$3,384,000	

*SAC O & M was renegotiated and an O & M agreement established effective FY 14-15 after a multi-year facility reuse process. The O & M amount was based on the new operating model.

**HSJ, SJSU, and The Tech do not receive general operating support through the City.

In conclusion, City-owned cultural facilities are critical assets that not only deliver high-quality programs and services to our residents, but drive significant visitorship and economic impact. It is important that the assets remain well stewarded so that they can remain competitive with similar regional museums, theaters, and history sites. In each case, the City's partners provide valued management services that meet our cultural, community and economic development goals.

PUBLIC OUTREACH

This item was presented to the Arts Commission at its regular meeting of October 15, 2018.

COORDINATION

This memo was coordinated with the City Attorney's Office and the Department of Public Works.

/s/

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Director of Cultural Affairs

For questions, contact Kerry Adams Hapner, Director of Cultural Affairs, at (408) 793-4333.