CED AGENDA: 11/26/18
ITEM: D (4)

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE

FROM: Kerry Adams Hapner

SUBJECT: SEE BELOW

DATE: November 13, 2018

Approved

Date Nov. 15, 2018

SUBJECT: HISTORY SAN JOSE OPERATIONS AND MAINTENANCE AGREEMENT

RECOMMENDATION

Accept report and forward to the full City Council to be heard at the December 18 City Council meeting, a recommendation to adopt a resolution authorizing the City Manager to negotiate and execute a five-year agreement with History San Jose (HSJ), from July 1, 2019 to June 30, 2024, for the operations and maintenance of the City-owned historical facilities within History Park at Kelly Park and the Peralta Adobe - Fallon House Historic Site, as well as management of the City's historic collections for an annual amount of $825,000 plus an annual adjustment according to the consumer price index, subject to annual appropriations as approved by City Council.

BACKGROUND

HSJ is a nonprofit organization that manages three City-owned sites: History 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.

History Park, located in Kelley Park, is a 14-acre town-like assemblage of 32 original and reconstructed homes, businesses, and landmarks highlighting the culture and history of San Jose and Santa Clara Valley. History Park is also home to 21 community partner organizations who each provide exhibits and programming that showcase their constituencies and contributions to San Jose and the Santa Clara Valley.

The Peralta Adobe - Fallon House Historic Site is located in historic San Pedro Square at 175 West St. John Street. The 1855 Victorian Fallon House showcases 15 furnished period rooms. Across the street, the Peralta Adobe, built in 1797, is San Jose's oldest surviving address and the only structure remaining from El Pueblo de San José de Guadalupe.

The Collection Center is located at the City's Central Service Yard at 1661 Senter Road, just across from History Park. It houses the largest collection of regional artifacts in California. Researchers from throughout the state, nation, and from at least 28 countries use the Research Library & Archives, further promoting the importance of San Jose and the Santa Clara Valley.

The City provides operating subsidies to the nonprofit organizations operating City-owned cultural facilities, one of which is HSJ. These subsidies are provided in accordance with the operations and maintenance (O&M) agreements that were separately developed with each of the operators. To provide organizational stability, most are long-term agreements ranging from 15 to 50 years. The original O&M agreement with HSJ began on April 1, 1998, when the operations and maintenance of the facilities was transitioned from the City to HSJ. This transition to a nonprofit organization was made to increase support for the facilities, programs, and care of the collections through HSJ's ability to operate at lower costs than the City, and through its fundraising efforts.

Organizational Mission, History and Governance

The mission of HSJ is to preserve and enrich the cultural heritage of San Jose and the Santa Clara Valley through research, collections, partnerships, educational programs and events. In 1971, the Historical Museum of San José was established in Kelley Park to become the City's focal point for the preservation and promotion of local history. The City operation developed a nonprofit support organization known initially as the Historical Museum of San José (now HSJ) and managed by the City. HSJ was incorporated with its current name as an independent 501(c)3 nonprofit organization in 1998. Over the decades, HSJ has grown to include three sites: History Park, the Peralta Adobe-Fallon House Historic Site, and the Collection Center/Research Library & Archives.

Since becoming a nonprofit organization, HSJ has maintained a capable, experienced, and specialized staff to operate the museum in a professional manner consistent with the standards established by the American Alliance of Museums for accredited museums. HSJ staff and a large corps of volunteers have over 20 years of experience managing museum education programs, events, festivals, collections, and exhibits. HSJ has a nine-member board of directors that oversees all programming and governance of the organization.

Programming and Events

HSJ provides a variety of school programs at History Park, the Peralta Adobe-Fallon House Historic Site, and the Collection Center. HSJ currently serves over 20,000 school children annually with programs at History Park and the Peralta Adobe – Fallon House Historic Site.

Programming highlights include:

- The Collections Center/Research Center & Archives serves 1,200 researchers annually.

- 2018-2019 *Immigration: What's Your Story?* Grant Program through the Chinese Historical and Cultural Project (CHCP) is providing grant opportunities to teachers of grades 4-6 interested in attending HSJ's program *Immigration: What's Your Story?*
- Annual events at History Park include: San Jose Poetry Festival, Italian Family Festa, Dia de Portugal, Mexica New Year, Dia de San Juan, Lunar New Year Celebration, San Jose Mini Maker Faire, Spirit of '45 Day, Haunt History Park, Children's Heritage Holiday, and Bay Area Printers Faire & Wayzgoose (+100,000 attendees).
- Re:Think Summer Camp, Bay Area Glass Institute and Schmahl Science Workshop are among classes offered on-site.
- *Happy Birthday, San Jose!* at San Pedro Square Market and the Peralta Adobe – Fallon House Historic Site celebrates the founding of San Jose.

Partnerships

HSJ has developed numerous partnerships to enrich and inform all programming and events, including current partnerships with the following groups: Academic Film Archive of North America, African American Heritage House, California Pioneers of Santa Clara County, California Trolley & Railroad Corporation, Chinese Historical & Cultural Project, Connie L. Lurie College of Education Assoc., Epic Immersive, Digital Clubhouse Network, Immigrant Resettlement and Cultural Center, Inc., Master Gardeners of Santa Clara County, Poetry Center San Jose, Portraits of the Past, Portuguese Heritage Society of California, Rotary Club of San Jose, San Jose Fire Museum, San Jose Printers Guild, Schmahl Science Workshop, Silicon Valley Shakespeare and Spirit of '45. Now at its new location in History Park, the Bay Area Glass Institute (BAGI) provides accessible, hands-on glass experiences that educate and inspire current and future generations of patrons, students, and artists. BAGI offers a variety of glass-working classes, free public demonstrations, and brings in international and locally renowned guest artists to conduct free demonstrations and lectures.

Recent Council Actions and Direction

On June 23, 2009, the City Council authorized the City Manager to negotiate and execute an amended and restated O&M agreement with HSJ for the operations and maintenance of the City-owned historical facilities within History Park at Kelly Park and the Peralta Adobe - Fallon House Historic Site, as well as management of the City's historic collections. The term of the amended agreement was from July 1, 2009 through March 31, 2018. On February 13, 2018, City Council approved an amendment to extend the original term through June 30, 2018 to align the term of agreement with the City's and HSJ's fiscal year.

On May 8, 2018, the City Council approved a recommendation to extend the current O&M contract for an additional year and directed the City Manager to return to the Community and Economic Development Committee prior to the end of the extended term of agreement and include: 1) Outcomes-focused performance measures and objectives that align with HSJ operation principles and standards in the current O&M agreement, 2) provision of an Annual

Report based on performance measures and objectives, and 3) to encourage HSJ to encourage partnerships with other entities where there are opportunities to activate.

ANALYSIS

The recommended O&M agreement will be based on the current agreement with HSJ, which terminates on June 30, 2019, with revisions made to follow through on the May 8, 2018 direction from City Council and capacity building efforts.

HSJ Maintenance and Capital Repairs

The cultural facilities managed by HSJ are currently maintained in good condition. Ensuring that the City-owned asset remains in this condition and maintains its status as a regional destination, the City and HSJ agree to be collaborative stewards of the facilities and collections. Through the term of the agreement with HSJ, significant capital maintenance needs will arise. It is important to note that, as with all City-owned cultural facilities, the needs typically far outweigh the available funds.

Under the proposed agreement, HSJ will submit a proposed list of capital improvements in priority order including estimated costs for design, materials, construction and the proposed contingency for each identified capital improvement based on HSJ's knowledge of the museum and related construction and its costs, knowledge of revenue-enhancing strategies, and HSJ's role in maintaining the quality of the museum. The HSJ capital improvement requests will be considered by the City in conjunction with the City's review of the overall Capital Improvement Program for the City of San Jose and will be contingent upon approval by the City and the availability of funds. If the balance of City funding is insufficient to fund needed capital replacements, HSJ and the City agree to work collaboratively to develop alternative funding strategies.

The proposed agreement will also include a matrix developed by HSJ, Public Works, OCA, and Parks, Recreation and Neighborhood Services that specifies which agency is responsible for the various maintenance items (i.e., items within HVAC and electrical systems, landscaping, building safety systems, plumbing, etc).

Recommend New Terms

Per the May 2018 Council direction, the recommended agreement terms include several new elements.

HSJ Standards: The agreement will include year-over-year performance measures and objectives to monitor operational and financial performance of HSJ. City staff has worked with HSJ to develop a set of performance measures and objectives. The measures to be included in the O&M agreement are listed here:

Year-Over-Year Performance Measures	Actual 2017-2018	Goal 2018-2019	Forecast 2019-2020	Proposed 2020-2021
Retain American Alliance of Museums Accreditation	Yes	Yes	Yes	Yes
# of days History Park is open to the public.	353	353	353	353
Visitor attendance at History Park	124,000	129,000	130,000	130,000
# of days Peralta Adobe is open to the public for (regular weekend hours).		45-50	45-50	45-50
Visitor attendance at Peralta Adobe	300	1,000	1,500	2,000
# of days Fallon House is open to the public for (regular weekend hours).		45-50	45-50	45-50
Visitor attendance at Fallon House	650	1,000	1,500	2,000
School Program attendance at History Park	12,000	12,000	12,000	12,000
School Program attendance at Peralta – Fallon Historic Site	8,000	8,000	8,000	8,000
Researchers served at Collections Center	1,200	1,200	1,200	1,200
Clean Opinion in the Independent Financial Auditor's Report	Yes	Yes	Yes	Yes
A reduction in operating deficit from previous year	Yes	Yes	Yes	Yes

Reporting Requirements

HSJ will provide an Annual Report for the previous fiscal year that includes all performance measure data and the following:

- An annual financial report audited by an independent certified public accounting firm with respect to HSJ for the previous fiscal year.
- An annual narrative report on the operations of HSJ for the previous fiscal year, which details the status of HSJ activities, visitors, special events, programs, and other material activities affecting the operation and maintenance of History Park, the Peralta Adobe – Fallon House Historic Site, and the Collections Center/Research Center & Archives.
- A report assessing the status of physical condition of the facilities operated by HSJ, including any needed capital improvements and repairs.
- An approved budget for the current fiscal year.
- A fee, operations, program outreach and special event schedule for the current fiscal year.

Partnerships

Per the Council direction in May 2018, HSJ has recently developed additional distinctive partnerships that will enable increased activation of and public access to these sites including:

- San Pedro Square Market: San Pedro Square Market and HSJ have entered a new agreement for partnership and activation of the historic Peralta Adobe and Fallon House sites. This new partnership will enable regular weekend hours open to the public for visits and tours.
- La Raza Historical Society (LRHS) and the Chiechi House in History Park: La Raza Historical Society has become a new affiliate organization with HSJ in a collaborative effort to collect, disseminate and increase the understanding of La Raza community history in the Santa Clara Valley. LRHS will lease the Chiechi House as its office.

HSJ Budget

HSJ's annual operating budget is approximately $1.6 million. Leveraging City funds, HSJ raises significant additional support for its operations and programs from contributed and earned revenue. Its breakdown of revenue is:

- 39.5% City of San Jose O&M subsidy;
- 30.1% Members & Individuals;
- 17.4% Corporations, Foundations, Organizations; and
- 13.0% Earned Income: Events/Programs/Other.

This does not include the significant in-kind support from volunteers and community-based partners. HSJ's in-kind support in FY 2017-18 is estimated at $67,000.

Since FY 2009-10, City support of HSJ operations and maintenance has ranged from $875,000 to $784,000 annually. In FY 2010-11, in response to the City's deficit, the amount was reduced from $875,000 to $825,000. In FY 2011-12, again in response to the City's structural deficit, the amount was reduced by 5% to its current level of annual O&M subsidy of $784,000. The current contract has no consumer price index (CPI). Per the CPI inflation calculator, $875,000 in 2009 would be $1.025 million in 2018. The City reductions have undercapitalized the organization. According to its most recent financial audit, HSJ experiences consecutive deficits since these cuts. In FY 2017-18, it experienced a $70,000 deficit and now has an accumulated deficit of $328,365. Loans have been taken out and key positions like a development director cut.

The City used to manage these historic sites and collection. HSJ has been an important partner in stewarding its historic sites and collections through earned and contributed funds – at a cost much lower than if managed by the City.

Capacity Building

HSJ has taken recent steps to identify and implement solutions to improve operations sustainability while aligning with realistic revenue projections. These include:

- Earned Income: HSJ streamlined and expanded event production capacity through a new partnership with Giant Creative Services. The focus is on increasing earned income. HSJ's venue rental fees have been increased and updated. Where many services were

previously included in the rental fees, they are now itemized as separate charges in accordance with the best practices of rental facilities. All new clients will pay the new fees, while a matrix of increasing fees annually is being negotiated individually with returning long-term clients. Giant Creative staffing will be charged to the client, thus decreasing staffing costs for HSJ.

- Board Development: Through a $25,000 grant from the City, HSJ is currently working with historic preservation nonprofit consultant Brent Glass on board development with the goal of deepening its board matrix, community support and reach.
- Operational Costs: In 2017, HSJ secured a proposal from Clean Solar to install a solar system at History Park that would immediately save $24,000, increasing to a $48,000 savings the following year. Other operating costs have been streamlined as much as possible. Program expenses are privately funded and restricted to that purpose.

While these efforts are significant steps, additional steps are recommended to support HSJ's stabilization.

Based on this, our recommendation is the following:

1. Execute a five-year contract with HSJ, with two five year options to extend.
2. Restore the contract to its FY 2010-11 level of $825,000 with an adjustable consumer index. The contract will be adjusted annually as the cost of living in San Jose has increased over the preceding base period as shown by the CPI for the San Francisco-Oakland-San Jose Area limited to 3% annually.
3. In addition to the Council direction in May 2018, include the following capacity building requirements: a) board development b) organizational plan c) financial improvement and d) quarterly meetings with between HSJ staff/board and City staff to review progress on performance metrics, capacity building and financial position.

Upon completion of the first three years of the term, if satisfactory financial improvement has not been made, the City will conduct an assessment to review the financial viability of the business model and subsidy level.

In summary, HSJ is an important community-based partner that provides significant services on behalf of the City. The recommended contract terms are anticipated to deepen HSJ's community impact, enhance awareness of San Jose's unique history to the world, and preserve these City-owned historic sites and collections while strengthening the financial sustainability of the organization.

EVALUATION AND FOLLOW-UP

HSJ will be monitored on a regular quarterly basis to ensure that their activities and governance are compliant with the requirements of the O&M agreement. HSJ will submit an annual financial audit to the City and post the audit on its public website.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the November 26, 2018, Community and Economic Development Committee meeting.

COORDINATION

This memorandum was coordinated with the Department of Public Works, the Department of Parks, Recreation and Neighborhood Services, the Budget Office and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Arts Commission, as approvals for operation and maintenance agreements with operators of City-owned cultural facilities do not fall under the functions, powers, and duties of the Commission delineated in Section 2.08.850 of the San Jose Municipal Code.

FISCAL/POLICY ALIGNMENT

The recommendation aligns with the goals and strategies of the Council-adopted *Cultural Connection: City of San Jose's Cultural Plan from 2011-2020*, which has the strategic goals of supporting the availability of diverse cultural spaces and places throughout the community, stewarding the sustainability of City-owned cultural facilities, and expanding residents' access to arts and cultural learning opportunities.

The item also aligns with the Arts and Cultural Development goals of *Envision San Jose 2040*, which state "integrate arts and cultural activities into San Jose's neighborhoods and foster a thriving arts community citywide."

COST SUMMARY/IMPLICATIONS

This recommendation will result in up to $825,000 in annual support for the O&M agreement, plus an annual adjustment according to the consumer price index, subject to annual appropriations as approved by City Council.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
KERRY ADAMS HAPNER
Director of Cultural Affairs

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