



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jen Baker

SUBJECT: See Below

DATE: March 16, 2026

Approved

Date:

3/17/26

COUNCIL DISTRICT: 5

SUBJECT: California Natural Resources Agency Grant for the School of Arts and Culture at Mexican Heritage Plaza

RECOMMENDATION

- (a) Adopt a resolution approving the acceptance of General Fund Grant Funds for the School of Arts and Culture at Mexican Heritage Plaza.
- (b) Adopt a resolution authorizing the City Manager or her designee to negotiate and execute:
 - (1) A grant agreement with the California Natural Resources Agency for an amount not to exceed \$2,000,000 to the City of San José, the amount of which will be passed through to the School of Arts and Culture at Mexican Heritage Plaza, less reimbursement for City staff expenses in administering the grant, and all other actions necessary to effectuate the grant.
 - (2) A grant agreement with the School of Arts and Culture at Mexican Heritage Plaza for an amount not to exceed \$2,000,000, to disburse the funds from the California Natural Resources Agency, less reimbursement for City staff expenses in administering the grant, and all other actions necessary to effectuate the grant.

SUMMARY AND OUTCOME

In June 2025, the adopted 2025-2026 California State Budget included a budget trailer bill that included a \$2,000,000 allocation to the City of San José (City) for the purpose of planning and construction by the School of Arts and Culture at Mexican Heritage Plaza (SOAC).

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For the City to receive this state allocation, the City must enter into a grant agreement with the California Natural Resources Agency (CNRA) as the primary Grantee of the funds. The City must subsequently enter into a grant agreement with SOAC that would allow the City to accept the state funds and pass the grant funding through to SOAC, less any funds to reimburse staff costs, to support planning and construction of the La Placita project, a 28,000-square-foot adaptive reuse project designed to expand equitable access to arts, culture, community wellness, and economic opportunity in one of San José's most historically underinvested neighborhoods.

The project is being developed through a cross-sector partnership in which SOAC serves as managing partner with a 55% ownership stake, alongside Gardner Health Services (35%) and Community Arts Stabilization Trust (10%). Following the seven-year New Markets Tax Credit compliance period, SOAC intends to acquire the Community Arts Stabilization Trust ownership interest, further strengthening long-term community stewardship of the asset.

The \$2,000,000 state funding allocation will directly support tenant improvements for two high-impact community assets within the La Placita project: 1) the build-out of the Black Box Theatre, a flexible and affordable performance venue; and 2) the build-out of the Community Café, a publicly accessible gathering and activation space.

BACKGROUND

State Senator Dave Cortese submitted a \$2,000,000 request for SOAC. The funding request was ultimately included in the final Adopted Budget (Budget Act of 2025-2026) through a trailer bill that was signed by Governor Gavin Newsom on September 17, 2025. The funds will be administered by CNRA and will be transferred to the City as a grant, which will be passed through to SOAC. To receive the state funding allocation, the City must enter into a grant agreement with the State Agency by May 1, 2026, so that the appropriated funds can be transferred to the City and passed through to SOAC in the form of a grant. The funds must be fully expended by March 1, 2028.

The City Manager's Office of Economic Development and Cultural Affairs has been identified as the City department responsible for managing this grant.

ANALYSIS

On June 27, 2025, Governor Gavin Newsom signed the 2025-2026 California State Budget and associated trailer bills into law. Within the state budget was a budget trailer, which refers to the process of assigning money for a special purpose. The trailer bill revised the Budget Act of 2025-2026 by amending, adding, and repealing items of appropriation. The trailer bill, Senate Bill 105, signed by the Governor on September 17,

2025, indicated that \$2,000,000 in state funds shall be available to the City to support the planning and construction of SOAC. The distribution of state funds will be managed by CNRA. The trailer bill specifically names the City as Grantee and limits the use of the funds to planning and construction by SOAC.

To that end, the City must operate as a pass-through entity by receiving money from CNRA and providing the funds to SOAC. In order to accomplish this, the City must enter into a grant agreement with CNRA and an additional, separate agreement with SOAC. The following paragraphs detail the anticipated and/or potential agreements that require negotiation and approval/execution with CNRA and SOAC, and the associated scope and terms of each.

The significant terms and parameters of the agreement with CNRA are as follows:

1. The agreement shall be executed by May 1, 2026, and the funds shall be fully expended by March 1, 2028.
2. CNRA shall grant to the City an amount not to exceed \$2,000,000, which shall be passed through to SOAC, less reimbursement for City staff expenses in administering the grant.
3. CNRA shall receive periodic progress reports detailing progress on the project.
4. Payments from CNRA shall generally be made on a reimbursement basis, where expenses are incurred, and the grantee subsequently submits a reimbursement request. Ten percent of each reimbursement request shall be retained by CNRA until project completion.
5. Multiple advances of funds totaling 25% of the total grant or less, per advance, may be requested based on immediate cash needs. Advances are not subject to retention; however, the last 10% of a grant cannot be advanced and instead must be requested through reimbursement.
6. When CNRA evaluates whether to approve funds under this grant, it shall follow the guiding principles for each expense. Specifically, expenses should always include appropriate documentation. Expenses must serve a public purpose and should be cost-effective and tied to the approved scope and budget. Categories of expenses that will have specific limitations include food and beverage, staff labor, contracted services, indirect costs, mileage costs, and hourly equipment costs. Costs incurred prior to the execution of the agreement do not qualify for funding under this grant.
7. The final 10% of the funds available shall be reimbursed upon project completion and submission of a final payment request to CNRA. Reimbursement may be contingent on a final project inspection by CNRA.
8. The state may perform annual audits during the project and for up to four years after project completion.
9. Any changes to the project must be submitted in writing to CNRA for approval.
10. Any extensions of time to complete a project and its affiliated justification must be submitted to CNRA for approval.

The agreement with SOAC shall largely mirror the agreement with CNRA. Significant terms and parameters of the agreement with SOAC are as follows:

1. The City shall pass funds received from CNRA under the affiliated Grant agreement to SOAC, less reimbursement for City staff expenses in administering the grant.
2. SOAC shall submit to the City periodic progress reports detailing progress on the project, which the City shall then submit to CNRA.
3. SOAC shall prepare any requested cost estimates, document all expenses incurred, and prepare all reimbursement requests.
4. SOAC shall prepare requests for advance payments when necessary.
5. SOAC shall review CNRA's guiding principles for approved funds and shall adhere to those principles whenever possible.
6. SOAC shall retain sufficient funds in its accounts such that the final 10% of the value of the grant will be reimbursed and SOAC will not incur hardship as a result of reimbursement, rather than advance payments.
7. SOAC shall retain any forms or documentation required for annual audits during the project and for four years after project completion.
8. SOAC shall prepare any written requests for project changes in a manner that meets CNRA standards.
9. SOAC shall prepare any written requests for extensions of time to complete a project.
10. SOAC shall indemnify and hold harmless the City in the event of any liability claims.
11. In the event that CNRA does not accept an expense as reimbursable that SOAC reports under the terms of the agreement, the City shall be under no obligation to reimburse SOAC.
12. In the event that grant terms are not satisfied by SOAC, City shall be under no obligation to administer a balance of funds to SOAC.

SOAC is planning a 12-month construction schedule to complete the build-out of the Black Box Theatre and the Community Café and anticipates submitting quarterly reimbursement draws to the City once the two grant agreements are executed. City staff will review the reimbursement request materials once received from SOAC and forward the materials to CNRA for reimbursement. CRNA shared that the City will receive reimbursement within six to eight weeks of submitting a properly completed payment request to CRNA. Once reimbursement funds are received from CNRA, City staff will process the reimbursement payment to SOAC. Once the project is completed and a notice of completion has been issued, final close-out and release of retention funds will be processed in this same manner.

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EVALUATION AND FOLLOW-UP

Follow-up will be made through a report to City Council or a City Council Committee, an information memorandum, or other appropriate means.

FISCAL IMPACTS

The recommended actions authorize the City to enter into a grant agreement with the CNRA in an amount not to exceed \$2,000,000 to support SOAC's La Placita project. The actions also authorize the City to enter into a separate agreement with SOAC to pass through the grant funds for eligible project planning and construction activities. The state will advance funds to the City in increments consistent with the terms of the grant agreement. Revenues and corresponding expenditures will be recognized and appropriated through a future budget process.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, City Manager's Budget Office, and the City Manager's Office of Administration, Policy, and Intergovernmental Relations.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the April 7, 2026 City Council meeting.

BOARD, COMMISSION, COMMITTEE RECOMMENDATION AND INPUT

No board, commission, or committee recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

A handwritten signature in black ink, appearing to read 'Jen Baker', written in a cursive style.

JEN BAKER

Director of the City Manager's
Office of Economic Development
and Cultural Affairs

For questions, please contact Kerry Adams Hapner, Director of Cultural Affairs, City Manager's Office of Economic Development and Cultural Affairs, at kerry.adams-hapner@sanjoseca.gov or (408) 793-4333.