



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: David Sykes

SUBJECT: MEXICAN HERITAGE PLAZA
TRANSITION PROGRESS REPORT

DATE: April 11, 2011

Approved

Kim Walsh

Date

April 12, 2011

COUNCIL DISTRICT: District 5

RECOMMENDATION

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

BACKGROUND

In February, the CED Committee, and subsequently the full Council, approved the recommendation of the MHP Steering Committee to negotiate and execute an agreement with 1stACT Silicon Valley (or an organization created for this purpose affiliated with 1stACT Silicon Valley), subject to its interest, to become the Interim Incubator Operator (IIO) of the School of Arts & Culture at the Mexican Heritage Plaza.

1stACT's role as IIO entails the following major responsibilities:

- **Key Operational Functions** – These are focused on developing partnerships to begin to offer school programming, developing and implementing an operating budget, and raising earned and contributed income for the school.
- **Key Planning & Incubation Functions** – These include working with the Steering Committee in the short-term on development of the business plan to be presented to Council in May, developing models for governance, programming, and organizational structure, and most importantly, identifying, mentoring, and developing the key leaders (with an emphasis on developing Latino leadership) of the eventual organization that would assume the ongoing responsibility of operating the school.
- **Core Qualities & Capabilities** – This category focuses on the attributes of the IIO organization, addressing understanding the vision for MHP, cultural competency, the absence of any conflict of interest in the long-term solutions, organizational capacity, and the ability to position the school to achieve the vision of sustainability, superior programming, and community accessibility that the Steering Committee has created and the Council has adopted.

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Since the February report, City staff has drafted an operating agreement establishing 1stACT as Interim Incubator Operator (IIO). The document is currently under review by the City Attorney's Office and 1stACT's board of directors. The MHP Steering Committee met on March 15th to review the business plan outline presented by the financial modeling team. In the meeting, the Steering Committee determined that 1stACT should take the lead in drafting the full document for 1stACT Board approval and subsequent review and approval by the Steering Committee in April.

ANALYSIS

Operating Agreement Status

The operating agreement describes the responsibilities that 1stACT will assume in their role of IIO of the School of Arts and Culture at MHP. The operating agreement will delineate key elements such as the City's financial support, programming guidelines, access to meeting space for neighborhood groups, ongoing relationships with the existing Cultural Arts Partners and the possibility of adding more, and developing transparent processes to keep the Council and public informed about the progress toward a permanent operator for the school. A proposed agreement is scheduled to be presented to the Council May 24.

Business Plan Status

The outline proposed by the financial modeling team at the March 15th Steering Committee is attached to this memo. 1stACT's board of directors will take under consideration the commitments, strategy and risk assessment described in the business plan at their board retreat on April 11th. The board's decision to assume the role of IIO of the School of Arts and Culture at MHP will be based on their buy-in of all elements of the business plan, as well as their confidence in the progress towards finalizing the operating agreement. It is understood that 1) the business plan will require final approval by the Steering Committee, 2) certain terms of the operating agreement may still be up for discussion pending legal review by either party up until the City Council meeting, and 3) final approval of all actions will be determined by the full Council. The outcome of 1stACT's board retreat and the draft of the final business plan will be provided to the CED Committee in a supplemental memo. Additionally, the outcome of the April 19th Steering Committee meeting will be presented to the CED Committee in staff's verbal report.

The work of the Steering Committee teams (Fundraising, Prototyping Team and Financial Modeling) continues with the following updates:

- **Fundraising** team, under the auspices of 1stACT, has secured funds from the Shortino Family Foundation in the amount of \$50,000 to support the establishment and incubation of a School of Arts and Culture at MHP. Distribution of the funding is contingent on San Jose City Council approval of 1stACT's role as interim incubator operator of MHP and City funding to support the operation of the facility. The fundraising team has also launched the "Los Arcos Donor Circle" micro-donor campaign on behalf of the Steering Committee, which utilizes a chain letter format to request small donations (\$25, \$50, \$100) to support the launching of the first programs of the School of Arts and Culture. These recent efforts reflect the fundraising team's strategy to identify institutional

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funding support, as well as organizations and individuals from the community to support the execution of the vision.

- **Prototyping** team executed an RFP process to identify artist instructors and service providers to pilot an offering of Summer Arts & Culture Day Camps starting in July. The RFP process closed on March 31st and yielded 24 proposals. The selection process is currently underway with an official announcement of selections scheduled for April 14th. The selection committee is representative of the prototyping team, City and 1stACT. The summer camps would be fee based, with scholarships made available using funds raised by 1stACT. Pending Council approval in May of 1stACT assuming incubation operations of the Plaza, artist instructors and service providers would enter directly into contracts with 1stACT to provide summer instruction.
- **Financial modeling** team will finalize the business plan following 1stACT board retreat discussion and feedback. The team will then lead the presentation and discussion of the final business plan at the Steering Committee's April 19th meeting.

Financial Issues

- **Budget Impacts** – In FY 2010-2011, MHP operations and maintenance work is supported through a City-wide appropriation of \$670,558. In addition, the General Services personal services appropriation includes approximately \$130,000 for the Transition Manager position. These expenditures are partially offset by events revenue estimated at \$120,000. This produces a net General Fund investment of approximately \$680,000.

A preliminary look at financial projections for the school indicates that the net investment by the City could be reduced in 2011-12 by about 10%, and suggests that it may be possible to reduce that investment further in subsequent years. The City Manager's Office is considering a wide range of options for the level of investment in 2011-12 within the context of the entire General Fund budget. Ultimately, a proposal will be included in the Manager's Proposed Operating Budget, and the Council will consider it as part of its budget review.

The Steering Committee intends to present the full business plan with financial projections to the Council in May, which will give the Council further information with which to make a budget decision.

Next Steps

Following the April 11th 1stACT Board Retreat, and pending the board's approval to proceed with the IIO role, the draft business plan will be released to the MHP Steering Committee and the public. Comments on the plan from all interested parties will be collected and summarized for the April 19th Steering Committee meeting.

The purpose of the Steering Committee's April 19th meeting is to review and approve the business plan and discuss preparations for the May 24th City Council presentation, at which the

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Committee will present for Council approval the business plan, and staff will present a proposed agreement with 1stACT. This will allow the Council to consider the plan and the level of City investment in the context of the entire 2011-12 budget.

EVALUATION AND FOLLOW-UP

The Steering Committee intends to present recommendations to the City Council on May 24th. Furthermore, staff will be presenting the Steering Committee's business plan to the Arts Commission at its May 11th meeting for its review.

PUBLIC OUTREACH/INTEREST

All meetings of the MHP Steering Committee are open to the public and publicly noticed. In accordance with the Brown Act, 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/

David Sykes
Acting Director of Public Works

For questions please contact PETER JENSEN, Acting Assistant Director of Public Works, (408) 975-7290.