

# Memorandum

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**TO:** ARTS COMMISSION

**FROM:** Paul Krutko

**SUBJECT: RECOMMENDATIONS FOR 2007-08  
OPERATING GRANTS AWARDS**

**DATE:** May 2, 2007

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## **RECOMMENDATION**

Recommend that the City Council approve a resolution authorizing the City Manager to negotiate and execute agreements for 29 Operating Grant awards as attached for a total amount not to exceed \$2,107,123 from the FY 2007-2008 Office of Cultural Affairs budget.

## **BACKGROUND**

The Operating Grant program (OpG) provides generally unrestricted grants to support an arts provider's overall operations, including its programs, for its next fiscal year.

The FY 2007-08 cycle of OpG is the second since the implementation of several significant changes to the program: reduced eligibility requirements, streamlined funding guidelines made possible by the elimination of categories within the OpG, the introduction of Expected Standards of Practice, and the introduction of applications covering a two-year period (two-year applications).

Twenty-four applications were submitted in this cycle, 10 of them two-year applications. The organizations filing the latter have been Operating Grant recipients for at least this year and last, had annual expenditures averaged over the three most recently completed fiscal years of not more than \$750,000, broke even or attained operating surpluses in the last fiscal year and were projecting the same would be true for the current one. The remaining applications were for one year.

A review panel comprised of eight individuals considered each eligible application against the four evaluation criteria:

- Artistic Program
- Operational Effectiveness
- Relationship to Community
- Youth-focused Programming

The criteria are explained in greater detail in the Operating Grants information booklet. The panel met on March 23-24 to complete its evaluation of the applications.

## **Review Panel**

### **Alyssa Byrkit**

*Director of Development, Dr. Martin Luther King, Jr. Library, San Jose State University*

### **Frances Phillips**

*Senior Program Officer, Walter and Elise Haas Fund*

### **Ernest Guzman**

*Arts Commissioner, City of San Jose*

### **Ted Russell**

*Senior Program Officer, The James Irvine Foundation*

### **Jenny Louie**

*Fiscal and Policy Analyst, Mayor's Office of Public Policy and Finance, City & County of San Francisco*

### **Ruth Tunstall-Grant**

*Arts Commissioner, City of San Jose; Visual Artist; Director of Art Education Programs, Children's Shelter of Santa Clara County*

### **Laurie MacDougall**

*Principal, MacDougall & Associates*

### **Virginia Wright**

*Executive Director, Santa Cruz County Symphony*

## **ANALYSIS**

Rather than applying for arbitrary grant amounts, applications are assigned a "grant reference," expressed both as a percentage — "index" — and as a dollar equivalent of the percentage — "amount." An organization's grant awards may be higher or lower than its grant reference, depending on the strength of its application, as determined by the review panel.

The grant reference is calculated from an organization's average annual expenses over its last three completed fiscal years, using a sliding scale published in the Operating Grants information booklet. The scale is divided into five budget ranges and is adjusted overall up or down to reflect the funds available for granting. For the FY 2007-08 cycle, OCA staff were able to adjust the sliding scale upwards by nearly 28 percent, thanks to a projected increase in Transient Occupancy Tax revenues.

In addition to budget size, a grant reference reflects whether an organization meets all of the published Expected Standards of Practice for its budget size. Among this year's applications, 11 organizations missed one Expected Standard of Practice; all but one had experienced a year-end operating loss in its most recently completed fiscal year. In accordance with the program guidelines, a 10 percent deduction was automatically applied to the Grant Reference for each missed Expected Standard of Practice.

The review panel assessed 23 applications using the published evaluation criteria. Overall scores for the 23 ranged from 85.1 percent to 44.4 percent.

In developing its proposal for funding, the review panel organized the applications into two groups, the two smaller budget ranges as one, and the three larger budget ranges as the other.

Following existing practice, the panel identified the more significant gaps in the scores and used those gaps to delineate between clusters of stronger and weaker applications. The panel proposed that grant awards be based on the following adjustment of Grant Reference Amounts:

**Group 1** (19 organizations — smaller)

Scores 78.8 and above: + 25 percent

Scores 72.6 – 76.3: + 15 percent

Scores 68.4 – 70.6: + 10 percent

Scores 59.4 – 62.4: no change

Scores 51.9 – 56.4: - 10 percent

**Group 2** (4 organizations — larger)

Score 80.4: + 25 percent

Scores 55.8 – 60.4: - 10 percent

Score 44.4: - 50 percent

OCA staff finalized the adjustments to align the panel's proposals for consistency with the funds available. The resulting proposed grant awards range from \$11,390 for one of the smallest organizations, to \$232,115 for the largest. (Attachment A-1)

In addition to the 23 applications discussed above, six organizations qualified for and submitted two-year applications in the last cycle. These organizations rolled over into the current cycle without requirement for an additional review. They are proposed for funding using the same grant reference adjustments as were assigned last year. These proposed grants range from \$67,763 to \$210,217. (Attachment A-2)

The combined value of the proposed grants for FY 2007-08 applications and the rollovers from the previous cycle is \$2,107,123. The size of the average grant increases from \$63,076 in the FY 2006-07 cycle to about \$72,660, a 15 percent rise.

**Pending**

In the two days immediately prior to the review panel meeting, significant new information was released to the public regarding the financial challenges of one of the 24 OpG applicants, Mexican Heritage Corporation (MHC). This included a report by the City Auditor, a memorandum by the City Attorney, and, most critically, a front-page headline story in the San Jose Mercury News, as well as television news reports.

Prompted by an enquiry from a review panelist and arts commissioner, OCA staff, in consultation with senior staff and the chairs of the Arts Commission and the Program Committee, offered MHC an opportunity to hold its application temporarily until the substantial

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negative publicity had subsided. After some deliberation, MHC accepted the offer, and its application was not discussed and scored by the review panel that week.

MHC has since requested that its application proceed to review, and staff will reconvene the review panel on May 19, 2007.

### **PUBLIC OUTREACH**

The Program Committee, at a publicly noticed special meeting March 28, reviewed the proposed grant awards and recommended their approval. The committee also reviewed the action taken with respect to MHC and recommended the proposal of a sufficient unallocated budget to allow for any grant that might be recommended at a later date.

PAUL KRUTKO  
Chief Development Officer  
City Manager's Office

#### Attachments

- A. Tables of proposed Operating Grant awards.
- B. Review panel bios.