

# Memorandum

---

**TO:** ARTS COMMISSION

**FROM:** Paul Krutko

**SUBJECT: ARTS STABILIZATION FUND  
RECOMMENDATIONS**

**DATE:** May 2, 2007

---

## **RECOMMENDATION**

Recommend that the City Council accept the Arts Commission's recommendations regarding the Arts Stabilization Fund, as attached, and authorize the City Manager to implement them subject to appropriation of funds.

## **BACKGROUND**

On October 17, 2006, the City Council approved two measures that promised potentially significant impact on the arts sector in San Jose. The Council authorized a \$2 million, limited term line of credit for San Jose Repertory Theatre (SJRT) to assist the organization with a financial crisis that threatened its continued existence, and it authorized the establishment of a \$4 million "arts stabilization fund" to finance the line of credit and potential City responses to future crises among arts organizations.

The Council requested that the Arts Commission develop and recommend guidelines and/or policies for the new Arts Stabilization Fund. Subsequently, the Arts Commission assigned the task of developing guidelines and policies to the Program Committee, which began to discuss the issue with Office of Cultural Affairs staff at its regularly scheduled meeting in November 2006.

The committee and staff identified major issues and a work plan. Representatives of interested arts organizations and the team leader of the City Auditor team that had investigated and reported on the financial status of the San Jose Repertory Theatre were invited to offer their perspectives and views to the committee on the handling of the crisis and on potential directions for the City with respect to organizations in crisis in the future. These presentations and discussions, involving representatives of small, mid-sized and large organizations, took place at publicly noticed regular meetings of the Program Committee.

In addition, various individuals provided input, including the executive directors of American Musical Theatre, which had come to the City requesting assistance with its own fiscal crisis, San Jose Repertory Theatre, San Jose Stage Company, San Jose Institute of Contemporary Art, San Jose Taiko, MACLA, and Teatro Vision. Eduardo Luna, the City Auditor team leader, joined with OCA staff in some of these meetings.

An outline of ideas and proposals growing out of these discussions was presented to the Program Committee in March 2007. The committee discussed and offered refinements to the outline. These were then integrated into a set of recommendations that were presented for the committee's review at its regular meeting in April. If City Council accepts the recommendations, staff will work on providing further details necessary to implement the revolving fund in a manner consistent with the recommendations.

## **ANALYSIS**

Key to understanding the proposed recommendations is a strong belief shared by the members of the committee and reinforced by all of the parties who offered input to the committee that the City would better serve the public interest, as well as the arts sector, by helping arts organizations become and stay financially healthy and out of crisis, then by positioning itself to bail organizations out of crisis. Consistent with this belief, the committee proposes that the Arts Stabilization Fund would best be used to enable the development and delivery of assistance, especially technical assistance, to organizations when they are in the earliest stages of financial difficulty, rather than when organizations are near collapse.

Although the development of such specific assistance mechanisms fell outside the scope of the Program Committee's currently assigned task, the committee proposes that developing recommendations for such assistance be incorporated into its work plan in the near future.

Presently, the Program Committee proposes the adoption of recommendations that would capture all earnings, from both interest on credit extended from the Arts Stabilization Fund and the City's normal investment activities on that part of the Fund that is not borrowed at any given time, in order to finance the kind of preventative and early-intervention assistance generally envisioned above.

For the \$4 million that constitutes the Arts Stabilization Fund proper, the committee makes the following recommendations:

- Keep the \$4 million as a rotating fund and not allow it to be fully spent down. This will allow the fund to serve as a permanent or, at least, long-term, asset for the community.
- Use the \$4 million for two purposes:
  - On rare occasions, extending a highly conditioned, limited-term line of credit to an organization in such difficult financial straits that it might readily be regarded as a crisis that calls its continued existence into question; and
  - On an ongoing basis from interest generated, providing preventative and early-intervention services for organizations that may be headed towards significant financial difficulty.

In its proposed recommendations, the Program Committee refers to the \$4 million as the "Permanent Fund," and the accumulating earnings on the \$4 million as the "Flexible Fund."

The majority of recommendations focus on the Permanent Fund of \$4 million, which was the focus of the Program Committee's charge. The recommendations recognize the need for significant expertise when addressing financial management issues of organizations in crisis. They propose that the kind of due diligence that the City exercised with respect to the SJRT crisis serve as the benchmark for the approach that the City should take if a future occurrence arises. They describe the way in which the Arts Commission should be kept informed and involved in such circumstances. They suggest that extending crisis assistance should be an extraordinary action by the City, rather than an ordinary one, and should be preceded by careful investigation and consideration of all the circumstances, including whether the organization has a realistic chance of repairing itself for the long term.

Finally, the Program Committee also makes the point that an effective approach to financial management capacity building and crisis avoidance also requires coordination across several grant areas, notably the Operating Grants program and the Organization Development Grant program. Such coordination will improve the capacity of the City to recognize when organizations face potential financial management challenges early and initiate conversations that can bring to bear the kinds of capacity improvement services recommended by the committee for support by the proposed Flexible Fund of the Arts Stabilization Fund.

### **PUBLIC OUTREACH**

The Program Committee developed the recommendations attached over the course of publicly noticed, monthly regular and special meetings from November 2006 through April 18, 2007. During these meetings, the committee discussed proposals and feedback, and took testimony from the public.

PAUL KRUTKO  
Chief Development Officer  
City Manager's Office

Attachment: Arts Stabilization Fund recommendations