

February 17, 2009

Memo to: The SFAC Ad Hoc Committee

From: Nancy Gonchar, Deputy Director

Re: Overview on the SFAC Budget, Agency Background and Suggestions for the Committee Process

With a full understanding and appreciation that it is not appropriate for me to sit on this Ad Hoc Committee, and being fully cognizant that my tenure at the Arts Commission is coming to a close, I submit this memo in the interest of supporting this committee's efforts, and to offer my help in exploring solutions that focus on the sustainability of this agency to which we are all deeply dedicated.

Though the FY 2009-2010 SFAC budget is \$393,562, we will certainly face further reductions in the next budget cycle if not sooner. Planning for that inevitability should begin now.

What follows are some suggested topics of discussion that might help inform a more comprehensive plan for the future to address inevitable reductions in all funding sources.

In this memo I outline:

- 1) History of this agency's annual budget preparation process and budget reductions.
- 2) A reality check on the unavoidable impact of the economic recession.
- 3) Important questions to pose during tough economic times.
- 4) Agency history/programs.
- 5) Highlights of the 11/21/08 Commissioner/Senior Staff Retreat—Agency Mission
- 6) Facts about the City's budget and SFAC cuts.
- 7) Mayor's Office FY 2009-2010 budget instructions.
- 8) Suggestions for SFAC Restructuring.
- 9) Proposed cost saving and revenue generating activities.

1) History of SFAC Annual Budget Preparation and Budget Reduction Process

In my 14 years serving as the SFAC Deputy Director, I have worked closely with the arts community and my colleagues here and in other City departments to ensure that a vibrant arts environment is sustained in San Francisco. I have crafted all of the annual budget submissions to the Mayor except for the current year. I have had to submit budget reductions in at least five of those years. The FY 2009-2010 budget exercises are not unique; it is only the scope of the City deficit that is unprecedented.

After several years of cutbacks at this agency, thanks to the efforts of the arts community we had experienced an increase in General Fund support—though it has again been eroded over the last two years. The Arts Commission General Fund budget fluctuates with each budget cycle requiring an enormous six-month effort to convince the Mayor's Office and Board of Supervisors to maintain funding. Staff time would be better served by developing strategies to create a sustainable financial model to support the infrastructure of the agency. That sustainable model should consider the Arts Commission's capacity to be responsive to new initiatives and/or funding streams, such as the Federal Economic Stimulus Package.

2) Economic Reality Check

Currently the City is challenged by an unprecedented budget deficit that has been created by a number of factors impacting the City, State and nation. **We have a unique opportunity to re-imagine the agency that serves the arts in San Francisco. This will require nothing less than a radical restructuring to create a sustainable model for a department of cultural affairs.**

In such uncertain times it is only natural for staff to be apprehensive about their futures. As civil servants we all are always vulnerable to the loss of our jobs. We need to stay focused on creating an agency whose infrastructure is in balance with the range of programs and services provided. It is imperative that we all have a clear vision of the goals and priorities of a City agency that serves the arts. The infrastructure of the agency follows that vision.

3) Questions to be Asking Ourselves

(From "Managing in Tough Times: 7 Steps," The Bridgespan Group)

- Are we managing costs as aggressively as possible?
- Do we know what, specifically, we would do if we had to cut our budget by 10 percent, by 20 percent, by 30 percent?
- Have we identified the triggers that will set our contingency plans in motion?
- Do we know which of our programs and activities are mission-critical, and what each costs?
- Are our discretionary dollars allocated to these programs and activities?
- Should we be cutting programs
- ?Who are the people most critical to our success, now and in the future?
- What are our most important relationships and are we attending to them?
- Are we actively in touch with our funders?
- How much of our revenue is "in the bank"? How much is at risk?
- Are there steps we can take to simplify our operations?
- Should we be thinking of a merger?
- Do we have low- or no-cost ways to strengthen the organization?
- Is this an opportunity to bring critically needed skills onto our leadership team?
- Are we involving our board members and using their talents and connections appropriately?
- Are we helping our folks stay focused on the people and causes we serve or getting bogged down in our woes?

4) Agency History / Programs

History:

The Arts Commission was established by charter in 1932 with the mandate to maintain a Civic Arts Collection and to review the City's building projects to ensure excellence in design. The Agency was also charged with supporting the municipal symphony orchestra. The Arts Commission added several functions along the way in response to community pressure and the desire for a greater role for government in supporting the arts in San Francisco. These included neighborhood arts, the street artists program, the gallery and cultural equity grants. The public art program was added by ordinance in 1969.

SFAC Programs Today:

See attached document: Commission Programs – Legislative Authority

- 1) Public Art Program (permanent and temporary)
- 2) Civic Art Collection (part of the Public Art Program; includes collection maintenance and management)
- 3) Civic Design Review
- 4) Street Artists Licensing
- 5) Cultural Equity Grants (currently has 6 grant programs + convenings and technical assistance)
- 6) SFAC Gallery (currently has a total of 4 venues for exhibitions and educational programs)
- 7) Summer in the City Concert Series (funded by the property tax to support SF Symphony)
- 8) Community Arts & Education (currently includes 2 grants programs, Cultural Centers, WritersCorps and Arts Education)

5) Highlights from SFAC Commission / Senior Staff Retreat on November 21, 2008

SFAC Mission:

Believing that a creative cultural environment is essential to the City's well-being, our programs integrate the arts into all aspects of city life.

Values:

Equity

Access

Quality

Mission-driven priorities: How do these values drive our program priorities?

This was not fully resolved in the time allocated at the retreat and discussions should be ongoing.

6.1) Facts about the City Budget

Total General Fund budget	\$6.53 billion
Discretionary portion of General Fund budget (available for numerous City services)	\$1.21 billion
Total projected FY 2009-2010 budget deficit:	\$575.6 million
Estimated FY 2009-2010 deficit after FY 2008-2009 mid-year reductions*:	\$460.4 million

6.2) Facts about SFAC's Recent Budget Cuts and Projections of Future Deficits:

- > **The Arts Commission must cut a total of \$393,562 for the start of FY 2009-2010.**

- > ***The Arts Commission provided \$85,000 from administrative savings for FY 2008-2009 mid-year cut.**

- > **Recent tax revenue projections are showing weakness in all tax revenues that may result in an additional \$90 million shortfall for FY 2009-2010.**

- > **For example, hotel occupancy was at 70% in January 2008 and is at 40% in January 2009.**

7) Mayor's Office FY 2009-2010 Budget Instructions:

- **Creatively explore internal and interdepartmental strategies to meet targets through revenue and expense strategies.**
- **Prioritize solutions such as: administrative efficiencies, consolidation of programs and functions, restructuring service delivery and revenue options.**
- **City-wide workgroups have been convened to explore broad changes.**

Includes: public safety, community based organization contracting, departmental consolidation, human resources

- **Prepare a budget with a 12.5 % reduction in the general fund budget equaling \$196,781 and a 12.5% contingency reduction in the general fund of \$196,781 for a total of \$393,562.**

8) Possible Restructure Scenarios:

Many of these ideas will involve amending legislation and possibly the City Charter. The Mayor’s Office is considering all options including those that require amending legislation and the Charter. During these extraordinary times, it behooves us to remain open to these changes and willing to consider charter and legislative revisions to ensure program sustainability.

Create a Department of Cultural Affairs

by merging Grants for the Arts and the Arts Commission. The new Department of Cultural Affairs would be located within Administrative Services and be a department of the GSA. This was the leading recommendation of the Arts Task Force.

Pros & Cons: Topic for discussion and review of Arts Task Force Report (2006) and the Arts Element of the San Francisco Master Plan.

Major Program Areas of Proposed Department of Cultural Affairs (merged SFAC & GFTA):

<p><u>1) Grants—Supported by Hotel Tax Fund</u></p> <ul style="list-style-type: none"> • GFTA grants • CEG grants (includes OPG, Level 1, Level 2, Creative Space, ACIP, Individual Artists) • CAE grants (includes Program in the Community and Festival grants) • Cultural Center grants—(CAE) 	<p><u>Impact:</u> <i>Consolidation of functions would reduce the number of staff, administrative cost savings could be realized, such as accounting and grant management. Actual savings would need to be calculated based on number of staff retained.</i></p>
<p><u>2) Community Arts and Education—Supported by Youth Arts, CAC, NEA and private foundations</u></p> <ul style="list-style-type: none"> • Arts Education • Community Partnerships (incl. Cultural Centers) • Technical Assistance • Outreach & Convenings • Job Creation for Artists • Community / Economic Development 	<p><u>Impact:</u> <i>Better interagency communication for Citywide arts programs; better poised in City Hall to respond to Federal Economic Stimulus Package (and/or future federal initiatives).</i></p>
<p><u>3) Visual Arts—Supported by Construction Bond Funds, General Fund, POPS, Fees, Grants</u></p> <ul style="list-style-type: none"> • Public Art • Civic Art Collection • Gallery • Civic Design 	<p><u>Impact:</u> <i>Coordinate all visual arts activities and policies within one division, resulting in staff efficiencies and stronger program collaboration.</i></p>
<p><u>4) Administration—Supported by General Fund, POPS, Administrative Fee on all SFAC programs</u></p> <ul style="list-style-type: none"> • Finance • Operations • Development • HR • Strategic Planning • Commission Relations & Government Relations • Communications 	<p><u>Impact:</u> <i>The number of staff could be reduced if Administrative Services absorbs some of the more generalized work, especially accounting and HR.</i></p>

9.1) Proposed Cost-Savings:

- > Reduce all feasible administrative costs without compromising the effectiveness of the organization.
- > Move the Grants, Community Arts and some administration to City Hall eliminating the Suite 200 space. (*Savings in rent and overhead costs; offices in City Hall are rent-free.*)
- > New Visual Arts Program and some administration remain in Suite 240 (\$60,000 in rent savings, additional savings in overhead).
- > When the renovation of the War Memorial is complete the Department of Cultural Affairs occupies new offices there.
- > Reduce the scope of the Gallery program or create a separate non-profit.

(Note: We have an excellent gallery program but the question has to be answered: Is a municipal gallery central to the mission when there are so many non-profit arts spaces throughout the City?

Many of the Arts Commission's programs have dedicated and restricted funding sources within the City budget. Those that do not include the Gallery, WritersCorps, and Arts Education. With the little discretionary funding (POPS & Youth Arts Fund) that the Arts Commission has, is it wise to fund programs that are not mandated or is a discussion necessary to review those programs that are currently funded by discretionary dollars? All of these programs have to secure other funds to support their activities. The question is one of priorities and sustainability, not of value.)

- > Reduce the scope of special projects and new initiatives, such as the Mayor's Arts Awards, convenings, anniversary celebrations, allowing for significant cost savings. Alternatively, fund ceremonies and initiatives such as these with private funds raised through development efforts.
- > Merge programs with other agencies
 - WritersCorps to the SF Public Library (retain Library and DCYF funding);
 - Street Artists to Office of the Treasurer and Tax Collector
(1 FTE funded by license fees, clerical duties associated with issuing licenses and maintain street artist database would be assumed by Treasurer's Office with Street Artist fees to fund Treasurer's Office expenses related to added responsibility, program could be managed more efficiently at less cost, Street Artists Director would still screen street artists and handle administrative duties of the Street Artists Committee);
 - Facilities Management to the Department of Real Estate
(Provide percentage of funding from Cultural Center allocation to assist with management; SFAC to continue to lobby for capital funds along with the Real Estate Department and SFAC Development Director would continue to submit grants for capital renovations).

> Shift Funds to Achieve General Fund Target Reduction

- *Public Art (cover all staff salaries & much of admin. expenses associated with program);*
- *Civic Art Collection (1 GF salary, other salaries covered by PAP or grant funds);*
- *Gallery (1.5 – 2 FTEs funded by POPS with other salaries covered by grants or earned income);*
- *Civic Design (1 FTE funded by civic design review fee)*

9.2) Proposed Revenue Generation:

> Increase Civic Design Review fee.

> Charge all funding sources a 15% to 20% overhead fee to cover all administrative costs.

> Renegotiate arrangement with the SFS to take a higher percentage of Municipal Symphony fund.

> Sell some objects in the Civic Art Collection to create a Collection Endowment.

> All grants received are charged an admin. fee to support the Development Director salary.

> Look at furlough scenarios: 2 days/month furlough = 10% = \$240,000
 4 days/month furlough = 20% = \$480,000

(Based on total FY 2009-2010 estimated payroll at \$2.4 million)

> Cut multiple people (4) back to .75 time instead of losing a whole FTE. If this is an option—to reduce total FTEs.

> Consider creating a Friends of the Arts Commission similar to the Friends of Recreation & Parks, the Friends of the Main Library, etc.