

# AGENDA ITEM 6.01

California Cultural and Historical Endowment Board Meeting  
10/17/2011

## STAFF REPORT

<b>GRANTEE:</b>	The Mexican Museum
<b>PROJECT:</b>	The Mexican Museum
<b>LOCATION:</b>	San Francisco
<b>PROJECT SUMMARY:</b>	Mexican Museum construction in the Yerba Buena Art District of San Francisco.
<b>FUNDING RESERVED:</b>	\$800,000
<b>FUNDING RESERVATION DATE:</b>	06/22/2010
<b>FUNDING APPROVAL DATE:</b>	
<b>IN GRANT AGREEMENT?:</b>	No
<b>GRANT AGREEMENT TERM:</b>	NO GA-
<b>FUNDING ROUND:</b>	Funding Round 2

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### BACKGROUND INFORMATION

The Mexican Museum is a Round 2 applicant that received an initial Board Approval of Funding for a construction project in the amount of \$2.4 million in February 2007. Six months later, in August 2007, the applicant returned to the Board to request approval of a material change to their CCHE project. The City and County of San Francisco (City), the site owners, had approached the applicant about their proposed museum in the Yerba Buena District, suggesting that the City's land could be better used if a high-rise, mixed-use structure could be sited on both its parcel and the adjacent lot. The revised construction plan required new CEQA compliance. The CCHE Board deliberated and approved the project revision, but required that an approved EIR for the revised project be in place within 18 months, by April 30, 2009.

The EIR was not completed by May 1, 2009, and the applicant had failed to submit all the required progress reports and had been non-communicative on many issues with staff. The Board continued the reservation of \$2.4 million and asked staff to further evaluate project plans and concerns expressed about the applicant's financial and organizational capacity.

Due to ongoing concerns about the applicant's capacity that were not allayed by reports submitted and meetings held between June of 2009 and January of 2010, the Board removed the reservation of funding of \$2.4 million on February 2, 2010.

The applicant requested a reconsideration of the decision and the applicant, at the April 14, 2010, Board Meeting, indicated that additional information had not been considered by the staff or the Board. The Board allowed the applicant one month to provide additional evidence, but no new significant documentation was provided. The Board voted to reserve \$800,000 as a planning grant for the applicant at the June 22, 2010, Board Meeting, contingent upon the completion of several milestones which would demonstrate the required financial and organizational capacity to manage the grant funds. The milestones included the hiring of an executive director, the completion of a financial audit, and the correction and re-filing of inaccurate 990 tax forms.

Although the applicant completed the necessary milestones, staff had continuing concerns about the financial capacity of the organization as confirmed by the completed financial audit. At the Board Meeting on November 9, 2010, staff

recommended that the Board remove the reservation of funding because of these concerns. (See Nov. 9, 2010, staff report.) The Board allowed the applicant additional time to demonstrate financial capacity and to see how a fundraising gala which was anticipated to raise \$300,000 for the applicant would turn out. The gala ended up netting profits of \$51,000 for the applicant.

In January of 2011, Department of Finance (DOF) auditors informed CCHE of a DOF report from December of 2010, which indicated that the applicant was unable to substantiate \$625,000 in expenses from two California Arts Council (CAC) grants. The Mexican Museum submitted a variety of documents at the April 2011 CCHE board meeting to demonstrate allowability of the expenses. Further documentation is to be delivered to the CAC on or around September 12, 2011, and the CAC expects to be able to render a decision on the expenditures by September 30th. A letter from Kevin Shelley was found and submitted to the CAC substantiating the Mexican Museum's claim that the 2001-2002 grant of \$500,000 was originally intended for programming rather than capital improvements. CCHE staff believes the extensive efforts of the Mexican Museum to find substantiating documentation will be successful and is no longer concerned about this issue.

CCHE staff remains concerned, however, regarding the financial capacity of the applicant.

At the April 5, 2011 Board Meeting, the Board asked that the applicant provide a five-year plan that demonstrates the financial sustainability of the museum with the following elements:

- 1) Staffing Costs;
- 2) Hours of Operation;
- 3) Operating Expenses, by functional category by year;
- 4) Fundraising Projections and Development Plan;
- 5) The budgeted use of \$800K in CCHE planning grant funding; and
- 6) The timeline for use of CCHE funding relative to the whole construction project completion.

The applicant provided the requested information on August 1, 2011, and the submitted documents are attached for your consideration. The submission shows staffing costs ranging from over \$650,000 to \$750,000 per year for the five years and operating expenses ranging from \$140,000 to \$150,000 per year for total annual budgets of roughly \$800,000 to \$900,000 per year.

The submission includes projections for contributed and earned revenue. The contributed revenue ranges from a high of \$814,000 to a low of \$663,000 per year.

Contributed revenue of \$3.7 million includes over \$2.8 million in government contributions (over 75%), but the plan does not specify from which governmental source these funds will come.

Projected earned revenue includes funds raised from a bi-ennial Gala and an annual fundraising effort. Both events are expected to bring in nearly \$100,000 each.

The fundraising submission included a fundraising report from 2003 and an updated fundraising plan. Both items submitted are short on details and appear overly optimistic about the response of donors to requests for funding for the revamped museum. The plan also states that "government funding in general is down for museums..." yet still indicates that government contributions will make up over 75% of contributed revenue.

The expectation of fundraising success of a minimum of \$100,000 every year and \$200,000 every other year in addition to a \$2 million dollar capital campaign seems unlikely since those amounts exceed by a large scale funds raised in prior years. It is unclear what steps the applicant intends to take that would increase the amount to be raised in future years.

Accordingly, staff continues to have concerns regarding the financial capacity of the applicant. The submitted materials do not diminish those concerns because they rely on anticipated, but as yet unsubstantiated contributions from both governmental and private donors and there is no track record for the level of donations that are both needed and expected. The current economic climate adds to the unlikelihood that the needed contributions will materialize.

#### **STAFF RECOMMENDATION**

Due to the CCHE's obligation to ensure the continued viability of organizations receiving bond funding, staff recommends that the Board remove the reservation of funding for the museum.

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