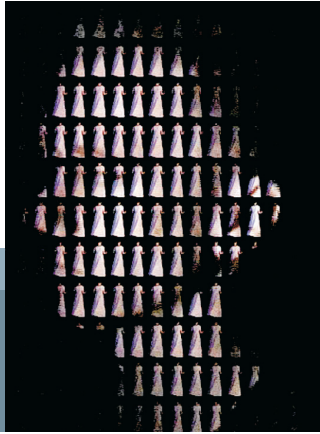


# Business Plan



## The Center for Art and Visual Studies

at the university of california, santa cruz



Prepared By Museum Management Consultants, Inc.  
March 2005

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# INTRODUCTION

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Museum Management Consultants, Inc. (MMC) was retained by the Division of the Arts, University of California Santa Cruz (UCSC) to assist in creating this *Business Plan*, including a projected three-year budget for operating The Center for Art and Visual Studies (“Center”) once it opens. The Center will be a donor-funded project; however, to be successful it will also need UCSC financial support. The Center is in the early stages of conceptual development, and there is still much to be defined operationally about the Center, but for planning purposes it is assumed that it will open in seven years (2011). The ultimate cost to operate the Center will depend on many decisions yet to be made. For example: It has not been determined if the Center will be primarily an exhibition space or the extent to which it will be a collecting institution. The physical size will be somewhat dependent upon the stakeholders’ capacity for raising private capital that has yet to be evaluated. The extent of UCSC support for operations has been the subject of general discussion with the administration, but no commitments have been made. As a result, this *Business Plan* must be viewed as a starting point for operational planning to be refined and re-evaluated, as “unknowns” become “knowns.”

Pre-opening operating expenses, such as bringing on new Center staff prior to opening, are to be treated as capital expenses of the project, rather than as part of this *Business Plan*. These expenses will need to be estimated as part of the overall project cost.

The Division of the Arts is spearheading the development of the Center, but the project is being viewed as a campus-wide resource that will enhance not only teaching and research, but which will also serve the surrounding Santa Cruz community as an exhibition venue, with educational programs. The Center’s mission is:

The Center for Art and Visual Studies at the University of California, Santa Cruz is a cultural and intellectual laboratory where multidisciplinary domains of knowledge are explored through the lens of the arts. The Center’s exhibitions and programs invite diverse audiences to encounter ideas and images that illuminate our understanding of ourselves and the world.

The typical pattern for university museums throughout the United States is that university funds support approximately half of the operating budget. These funds although referred to collectively as “university funds” often come from a number of different campus sources such as line item budget allocations, discretionary administrative funds, school or departmental funds, and student fees. In addition it is usual for most facility costs, including utilities, janitorial and maintenance, to be provided “in-kind” by university property management departments. Although the University of California is currently experiencing a good deal of fiscal stress system-wide due to state budget issues, it is hoped that the UCSC administration will ultimately agree to pay annual facility costs and certain other expenses, including a portion of the salaries and benefits, to cover a significant part of the Center’s annual costs. Support for the balance of the Center operating expenses, including programmatic activities (exhibitions and any acquisitions of art), will be raised through private contributions, governmental and foundation grants, and earned income (the sale of museum memberships, fees-for-service derived from revenue streams such as the rental of the Center space for social and business functions, gift shop sales, and participant fees for certain educational and social activities at or sponsored by the Center).

## Methodology

MMC has developed two sets of three-year projections of potential revenues and expenses based on the operating assumptions and the proposed programs using:

- The projected size of the facility. To give the stakeholders a sense of the impact of facility size on operating expenses we have suggested two budget scenarios:
  - Scenario I with 10,000 gross square feet of space
  - Scenario II with 20,000 gross square feet of space
- Financial information from other university art museums gleaned by MMC from data published confidentially by the Association of Art Museum Directors (AAMD) in *The 2003 Statistical Survey (FY 2001-02 Data)*.
- Data from *MFI 1999 AAM Museum Financial Information*, American Association of Museums (1999 MFI) and *2003 Museum Financial Information*, American Association of Museums (2003 MFI).

- Salary information from the *California Association of Museums Salary Survey of Museum Personnel 2002 (CAM Survey)*, the latest survey published by the California Association of Museums; and,
- MMC experience with approximately a dozen other university art museums specifically, and well over 100 art museums in general.

This *Business Plan* assumes, to simplify the model, that the Center will have a “soft opening” on or about July 1, 2011 and a “grand opening” during the fall semester of that year. This assumption allows seven years to plan, fund, and build the project.

The *Business Plan* covers fiscal years July 1, 2011 – June 30, 2012, July 1, 2012 – June 30, 2013, and July 1, 2013 – June 30, 2014. The second and third years of the budget have been modified to account for a 3% inflation factor and for expanded levels of activity at the Center.

Our methodology has been to develop the budgets by combining two approaches. The first is “top down” using average AAMD data and *MFI* financial profiles for art museums to pattern the makeup of the Center financial projections on industry averages. The second is “bottom up” using as much data as possible to develop the size of the personnel and facilities costs. We started with the museum expenses, and then, once the overall costs were projected, estimated the sources of income to cover those costs. These income and expense projections are based upon assumptions that are discussed in the notes that follow the budgets. This *Business Plan* projects the minimum costs we at MMC believe are necessary to support museum operations in a professional manner that will ultimately earn accreditation by the American Association of Museums. This is a “lean and mean” charter that will require hard work from the staff, but that will provide a solid platform for future growth supported by aggressive fundraising efforts and earned income streams.

We have developed more detailed information on two major Center expenses (personnel and facilities costs).

## **Personnel Costs**

Since personnel typically account for approximately 50% of operating costs<sup>1</sup> in art museums, particular attention has been paid to estimating the number and type of staff required to effectively and efficiently operate the Center. Two recommended organizational charts for the Center are included in Appendices A and B with the variable being the physical size of the museum. Salaries have been suggested in Appendices C & D based on regional standards reported in the *CAM Survey*. The cost of benefits is based on the current UCSC budget guidelines of 13.5% of salary plus \$6,700 per full-time employee (FTE).

## **Facilities Costs**

A member of the UCSC Office of Plant Management staff has provided MMC with an estimate of the costs associated with maintaining the Center building and grounds including utilities, maintenance, and janitorial services at approximately \$6.50 per year per gross square foot serviced. At virtually all university museum facilities these expenses are paid directly by the university and often are not part of the museum operating budget. Although we assume that this would be the practice at UCSC, we have included the estimated facility costs in the Center budget to get a full picture of the cost to operate the Center, regardless of the source of funds or services. We have noted in the budget that it is likely the services will be provided “in-kind” and can, therefore, ultimately be deducted from the Center expense budget with an offsetting reduction in the required contributed income.

We at MMC advocate a continuous cycle of planning, execution, and evaluation. With regard to the financial performance of the Center, this means careful budgeting and thoughtful review of performance to assure that the UCSC administration and the other funders are receiving value in return for their support. The Center is intended to be an integral part of UCSC, and there are evaluative processes that can be used to measure its contributions. Some of these measures are qualitative, such as surveying faculty, students, visitors, and program participants concerning their satisfaction with the exhibitions and the educational programs being offered. Other measures are quantitative, including the number and demographics of museum users; the level of participation in the Center programs by UCSC faculty, students, and the general public; the amount of earned income; the non-

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<sup>1</sup> MFI 1999 & MFT 2003 AAM Museum Financial Information, American Association of Museums

university support being raised annually; and, of course, the financial “bottom line” that will show the relationship between income and expenses.

## BENCHMARK DATA

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Industry data on university art museums is limited. The Association of College and University Museums and Galleries does not collect financial data from members. Individual university museums are often handicapped in providing complete financial information by the fact that services, such as maintenance, utilities, and janitorial, are provided “in-kind” on a campus-wide basis by the university and are not reflected in the museum operating budgets. Frequently, all or a portion of the salaries and related benefit costs are also paid directly by the university and may be charged back to a department or school, rather than to the museum.

The best source for data on university art museums comes from the AAMD. The AAMD survey is considered proprietary by the Association and is difficult to obtain for non-members. MMC has fortunately been able to access the data from *The 2003 Statistical Survey* that includes data from fiscal year 2001 – 2002. We excerpted information from the 17 smallest university museums in the survey (that range in size from approximately 13,000 to 54,000 square feet). The average size of this sample is approximately 35,000 square feet, substantially larger than even the largest square footage proposed for the Center in Scenario II. Additionally, it should be noted that the museums in this group are largely collecting museums, and therefore, their operating expenses include costs related to the acquisition, care, and storage of collections that may not be applicable to the Center. Finally, many of the museums in this sample have large endowments to support operations.

MMC calculated the average operating expense per gross square foot from the AAMD sample to be \$57.54. Trending this figure at 3% for inflation brings the cost to approximately \$61 in 2004 – 2005 dollars. It seems unlikely that this figure includes facility expenses for the reasons discussed in the previous section, so we arbitrarily adjusted for those costs. The *2003 MFI* indicates the median costs for building operations and maintenance expenses are \$3.90 per square foot in 2002 dollars for all museums. Trending



for inflation brings this up to approximately \$4 per square foot in 2004 – 2005 dollars<sup>2</sup>. Adding the two figures together gives us a working average of approximately \$65 in operating expenses per square foot to use to set the overall size of the Center budget. Therefore, on average, a 10,000 square foot Center can be anticipated to have an operating budget of approximately \$650,000 (Scenario I), while a 20,000 square foot Center would cost \$1,300,000 to operate (Scenario II). This \$65 figure compares to approximately \$77 (2004 – 2005 dollars) per square foot for all art museums reported in the AAMD study.

The average number of staff per 10,000 square feet in the AAMD university art museum sample is 5, compared to 6 per 10,000 square feet for all reporting museums in the AAMD study. Thus, based on the averages the staff at the Center can be projected at 5 to 6 FTEs if the facility is 10,000 square feet (Scenario I), and 10 to 12 FTEs if the size is 20,000 square feet (Scenario II).

Once the scope and size of the Center has been better defined, it would be useful to identify two or three specific university art museums comparable in location, size, and function and compare their financials with the preliminary projections in this *Business Plan*.

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<sup>2</sup> The actual UCSC facility costs are approximately \$6.50 per square foot maintained per year according to the UCSC Office of Plant Management, and this amount is used later in the budget projections.

## CRITICAL FINANCIAL CONSIDERATIONS

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When the Center has been completed, it will be a somewhat unique institution on the UCSC campus, and if it is to be viable over the long-term, we at MMC believe there are four critical financial components that will need to be addressed. These are:

- UCSC financial support for personnel and facility costs on the basis that the Center fulfills valuable educational and community service functions;
- The ability of the Center to raise earned and contributed income to support exhibitions, educational programs, and (possibly) art acquisitions;
- The ability of the Center stakeholders ultimately to raise a significant endowment to help support operations; and,
- The aggressive management of personnel and other costs.

### UCSC Financial Support

This *Business Plan* is based on the “industry practice” that university museums in the United States generally receive direct university financial support in the form of the payment of personnel costs (salaries and benefits) and in-kind facilities services. In total this equates to something on the order of half of total expenses anticipated for the Center. This funding is typically provided because the administration believes that a museum strengthens the educational function by supporting instruction and research. Without this financial support from UCSC it will be extremely difficult for the Center to raise the necessary funding from other sources to fulfill its anticipated mission.

### Earned and Contributed Income

If UCSC, collectively, funds half of the operating costs, the other half must come from earned and contributed income, until such time as an endowment can be raised to provide investment income to support annual operating expenses.

Earned income possibilities at the Center are limited by the nature and size of the projected facility. For instance, it is likely that admission for most users will be free and, given the

projected size of the Center, the museum shop and café must, by necessity, be relatively small. This leaves museum membership income, merchandise sales, event rentals, food service, and fee-for-service educational programming for adults as sources of earned revenue. It may be possible for the Center to earn additional income by organizing traveling exhibitions for other museums. Museum-organized excursions are another potential source of income. The average for all art museums reported in the *2003 MFI* was that 24% of revenues were earned, but the average for the 79 reporting college/university museums in the *2003 MFI* was that only 9% of income was earned.

If it is assumed for the moment that in Scenario I (10,000 square feet) 60% (50% for personnel, 10% for facilities costs) of the Center budget will be funded by UCSC sources, that 21% will be earned income, and that 4% will be investment income, this leaves 15% that will need to be raised annually from donors. Scenario II suggests that earned and investment income will decline as a percentage of the overall budget, and that 28% will need to be raised annually from donors. Given the relative youth of the UCSC alumni and the small size of the surrounding Santa Cruz community, and the competition for foundation grants and governmental funding, this will be a challenge.

## **Raising an Endowment**

As noted previously, the Center will be a donor-funded project. A fundraising feasibility study has yet to be conducted, but it is hoped that as construction funds are raised, a \$5,000,000 endowment component could be raised as well. The typical endowment spins off approximately 5% of the corpus in annual income. This is a conservative figure that allows for the principal to keep pace with inflation, and it means that a significant amount needs to be raised before the investment income becomes a meaningful percentage of the overall operating budget. For example, a \$5,000,000 endowment would produce \$250,000 in revenue. In terms of the 2004/2005 Baseline Budgets, this would amount to 38% of Scenario I and 19% of Scenario II. However, for planning purposes we have assumed that a \$500,000 endowment will be in place when the Center first opens.

## **Aggressive Expense Management**

It probably goes without saying, but it will be extremely important for the Center to carefully manage the expense budget, especially in the first few years of operations when no cash reserves will have been accumulated. The largest single expense is personnel, so controlling the head count will be key.

## 2004/2005 BASELINE BUDGETS

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We have converted the available data into 2004/2005 dollars to illustrate the Center budgets in current terms. The figures are keyed off of the 1999 MFI profile of typical museum income and expenses and personnel costs from the *CAM Salary Survey*. These baseline budgets serve as the basis for the inflation adjusted three-year budgets that follow.

### SCENARIO I (10,000 square feet, 6 FTEs)

<b>REVENUE<sup>3</sup></b>	<b>2004/2005</b>
University Contribution <sup>4</sup> (50%)	\$325,000
Governmental Support (10%)	65,000
Contributed Income (15%)	97,500
Earned Income (21%)	137,500
Investment Income (4%)	25,000
<b>Total Revenues</b>	<b>\$650,000</b>
<b>EXPENSES<sup>5</sup></b>	
Facilities (10%)	\$65,000
Collections (2%)	12,500
Educational Programs (5%)	32,500
Exhibitions (10%)	64,500
Personnel Costs (50%)	363,092
Public Relations/Marketing (3%)	19,500
Other (14%) <sup>6</sup>	92,908
<b>Total Expenses</b>	<b>\$650,000</b>
<b>Excess of Revenues over Expenses</b>	<b>\$0</b>

<sup>3</sup> Revenues have been split based on the assumption that the University contribution will be 50% of the budget, that 10% of the budget can be raised from other governmental sources, and that a \$500,000 endowment will produce \$25,000 in investment return. Earned income was “guestimated” from sources identified in the Budget Assumptions that follow. Contributed income is the remainder. The splits are arbitrary, and actual income could vary significantly.

<sup>4</sup> University Sources include funds from UCSC Administration, the Division of the Arts, and, perhaps, Student Activity Fees.

<sup>5</sup> Expenses are based on the MFI averages adjusted for Facilities at actual (down from 14%), Collections at 2%, down from 5% assuming relatively small collections, Education at 5%, Exhibitions at 10%, down from 13%, Personnel at 50%, Public Relations/Marketing at 3%, and Other at 14%, down from 19% to allow for higher Facilities and Personnel costs.

<sup>6</sup> The “Other” category includes a number of significant expenses: security at the MFI average of 2.4% (\$15,600), the purchase of shop merchandise at \$40,000 and the expense component of the other enterprise and fundraising activities.

**SCENARIO II**  
**(20,000 square feet, 10 FTEs)**

<b>REVENUE<sup>7</sup></b>	<b>2004/205</b>
University Contribution <sup>8</sup> (50%)	\$650,000
Governmental Support (10%)	130,000
Contributed Income (28%)	357,500
Earned Income (10%)	137,500
Investment Income (2%)	25,000
<b>Total Revenues</b>	<b>\$1,300,000</b>
<b>EXPENSES<sup>9</sup></b>	
Facilities (10%)	\$130,000
Collections (2%)	28,605
Educational Programs (5%)	65,000
Exhibitions (10%)	130,000
Personnel Costs (51%)	660,395
Public Relations/Marketing (3%)	39,000
Other (19%) <sup>10</sup>	247,000
<b>Total Expenses</b>	<b>\$1,300,000</b>
<b>Excess of Revenues over Expenses</b>	<b>\$0</b>

<sup>7</sup> The revenue splits were developed the same way as in Scenario I, but the Contributed Income required grows substantially in absolute dollars and as a percentage of Revenues because Earned and Investment Income were held constant.

<sup>8</sup> University Sources include funds from UCSC Administration, the Division of the Arts, and, perhaps, Student Activity Fees.

<sup>9</sup> Expense splits were adjusted as in Scenario I: Collections from 5% to 2%, Exhibitions from 13% to 10%, and Facilities and Personnel adjusted upward to actual.

<sup>10</sup> The "Other" category includes a number of significant expenses including estimated security at 2.4% (\$31,200), the purchase of shop merchandise at \$40,000, and the expense component of the other enterprise and fundraising activities.

## FISCAL 2011/2013 INCOME AND EXPENSE BUDGETS

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The following budgets are for the first three full fiscal years of operations following a “soft” opening in the summer of 2011 and a “Grand Opening” during the 2011 Fall Semester. These budgets were developed by applying a 3% per year inflation factor to the baseline budgets.

### SCENARIO I (10,000 square feet, 6 FTEs)

REVENUE	2011/2012	2012/2013	2013/2014
University Contribution <sup>11</sup> (50%)	\$399,750	\$411,743	\$424,095
Governmental Support (10%)	79,950	82,349	84,819
Contributed Income (15%)	119,925	123,523	127,229
Earned Income (21%)	169,125	174,199	179,425
Investment Income (4%)	30,750	31,673	32,623
<b>Total Revenues</b>	<b>\$799,500</b>	<b>\$823,487</b>	<b>\$848,191</b>
EXPENSES			
Facilities (10%)	\$79,950	\$82,349	\$84,819
Collections (2%)	15,375	15,836	16,311
Educational Programs (5%)	39,975	41,174	42,409
Exhibitions (10%)	79,335	81,715	84,167
Personnel Costs (50%)	446,603	460,002	473,801
Public Relations/Marketing (3%)	23,985	24,706	25,446
Other (14%) <sup>12</sup>	114,277	117,705	121,238
<b>Total Expenses</b>	<b>\$799,500</b>	<b>\$823,487</b>	<b>\$848,191</b>
<b>Excess of Revenues over Expenses</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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<sup>11</sup> University Sources include funds from UCSC Administration, the Division of the Arts, and, perhaps, Student Activity Fees.

<sup>12</sup> The “Other” category includes a number of significant expenses including estimated security at 2.4% of budget (\$19,188 in 2011/2012), the purchase of shop merchandise (\$49,200 in 2011/2012), and the expense component of the other enterprise and fundraising activities.

**SCENARIO II**  
**(20,000 square feet, 10 FTEs)**

<b>REVENUE</b>	<b>2011/2012</b>	<b>2012/2013</b>	<b>2013/2014</b>
University Contribution <sup>13</sup> (50%)	\$799,500	\$823,485	\$848,189
Governmental Support (10%)	159,900	164,697	169,638
Contributed Income (28%)	439,725	452,917	466,504
Earned Income (10%)	169,125	174,198	179,425
Investment Income (2%)	30,750	31,673	32,623
<b>Total Revenues</b>	<b>\$1,599,000</b>	<b>\$1,646,970</b>	<b>\$1,696,379</b>
<b>EXPENSES</b>			
Facilities (10%)	\$159,900	\$164,697	\$169,638
Collections (2%)	35,184	36,240	37,327
Educational Programs (5%)	79,950	82,349	84,819
Exhibitions (10%)	159,900	164,697	169,638
Personnel Costs (51%)	812,286	836,654	861,754
Public Relations/Marketing (3%)	47,970	49,409	50,891
Other (19%) <sup>14</sup>	303,810	312,924	322,312
<b>Total Expenses</b>	<b>\$1,599,000</b>	<b>\$1,646,970</b>	<b>\$1,696,379</b>
<b>Excess of Revenues over Expenses</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<sup>13</sup> University Sources include funds from UCSC Administration, the Division of the Arts, and, perhaps, Student Activity Fees.

<sup>14</sup> The "Other" category includes a number of significant expenses including estimated security at 2.4% of budget (\$38,376 in 2011/2012), the purchase of shop merchandise (\$49,200 in 2011/2012), and the expense component of the other enterprise and fundraising activities.



## BUDGET OBSERVATIONS

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The Scenario I revenue budget certainly is more manageable than Scenario II; the staffing projections in both models result in personnel costs equal to, or above, the 50% average for museums. The question is whether the 10,000 square foot model provides enough “critical mass” to fulfill the mission envisioned for the Center. Scenario II more closely resembles the industry averages, but it will be a challenge to fund the annual budget unless a substantial endowment can be raised as a part of the capital campaign.

## BUDGET ASSUMPTIONS

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The preceding budgets are based on assumptions developed by MMC with the assistance of the Center Executive Planning Team. While these parameters have been given considerable thought, it is difficult to anticipate how operations actually will play out once the Center opens.

### General Operating Assumptions

#### Attendance

No market research has been undertaken to estimate the potential attendance at the Center, but from data on comparable university art museums and other non-university museums in the immediate region, it has been “guestimated” that 30,000 people will visit the museum during the fiscal year 2011 - 2012, and following the pattern of many new museums, attendance would be expected to drop to 25,000 and stabilize at that figure by fiscal year 2013 - 2014. It is also anticipated that attendance will be cyclical and generally follow the campus calendar with peak attendance in the fall and steady attendance in the spring and even during the summer though most faculty and students are away. (Shakespeare Santa Cruz brings in an estimated 40,000 people during July and August to the arts area of the campus.) Faculty and students are expected to make up approximately 40% of the attendance with the remaining 60% being made up by the general public. Of course, attendance is a function of the exhibition schedule and public program offerings. Great exhibitions draw great crowds, and educational programming can be an excellent draw, particularly in a community like Santa Cruz where “hip” or “avant garde” programs should appeal to the art-savvy community.

However, because turnstile revenue is not being counted upon as a source of revenue, the number of visitors is less important than it might otherwise be, although anticipated attendance does have importance when considering staffing needs and in making the case to the UCSC administration and the community that that the Center is an asset worth funding.

## **Museum Operating Hours**

It is expected that the museum operating hours will be:

Monday:	Closed
Tuesday – Thursday:	Noon to 7:00 p.m.
Friday:	Noon to 8:00 p.m.
Saturday & Sunday:	Noon to 5:00 p.m.

The Center will be available during morning hours for academic activities including scheduled classes and group tours. After-hours the Center will be available for special events and for rentals for academic, social, and business events. The practice of keeping the Center open until 8:00 p.m. on Friday may conflict with opportunities to rent the Center for evening parties. This schedule will require staff to stagger their working schedules so that supervisory personnel can be present throughout the time the Center is open to the general public and while it is being rented for special events after hours.

## **Assumptions about Revenues**

### **UCSC Sources**

It is anticipated that there will be a series of revenue streams from the University:

- The administrative University funds (personnel and facilities costs)
- The Division of the Arts funds from the Dean's office (primarily for educational programming) but perhaps including:
  - Several faculty positions at \$52,000 each per year plus benefits
  - Instructional support funds at \$50,000
  - Faculty assistance/stipends
  - Student internships
  - Educational programming
  - Transfer of the current \$50,000 Sesnon Gallery budget
- Student activity fees for such items as free admissions to lectures.

In addition, the Center will benefit from receiving certain in-kind professional services from the University such as accounting, legal, and human resources support.

### **Governmental Sources**

The typical art museum receives 17% of revenue from governmental sources according to the 2003 MFI, but it is not clear how respondents characterized university support when, like UCSC, the university was a public (governmental) entity. College/University museums (of

all disciplines) receive 35% of their income from governmental sources. It is suggested that, not counting UCSC support, the Center should be able to raise 10% of the budget from governmental sources. Support could theoretically come from the City of Santa Cruz, the County of Santa Cruz, the State of California, or the Federal Government, although at the present time the availability of public governmental funding is severely limited.

## **Private Sources**

### Museum Membership Fees

The membership program can be an important component of Center annual revenues. The *2003MFI* indicates that membership fees represent a median value of 5.8% of revenue. A separate study by AAMD indicates this number at 6%. As a point of reference, the 17 smallest university art museums reported in the AAMD data had an average membership of 870. If we use the 6% figure as a target, that would mean that in 2004/2005 dollars memberships would account for from \$39,000 (Scenario I) to \$78,000 (Scenario II) in income. If the Center could match the average AAMD university art museum membership of 870, this would mean an average membership fee of \$44.92 (Scenario I) and \$89.66 (Scenario II) would be required.

As a point of reference Shakespeare Santa Cruz had a donor base of 601 individuals and corporations<sup>15</sup> in 2004. The total raised was \$334,769, or an average of \$557 per donor.

## **Earned Income**

### Admissions

Admission fees can be a significant source of revenue for a museum, but in light of the importance of the Center to UCSC and in consideration of supporting outreach to the local communities surrounding UCSC, it is likely that the UCSC “family” and residents of Santa Cruz would be admitted to the Center without charge. Additionally, museum members, wherever they reside, would be admitted free. This would leave only a small percentage of the anticipated visitors having to pay a fee, and for that reason, the Center Executive Planning Team felt that there should be no admission charge.

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<sup>15</sup> Defined as contributing \$25 or more.

### Campus Box Office

The Center will be the location for a campus box office selling tickets for Shakespeare Santa Cruz and other campus events such as stage productions and concerts. While this service will not directly produce revenue to the Center, the box office will be a “draw” that will bring people to the Center.

### Facility Rentals

Renting the museum for social and business events can be very lucrative. For instance, the University Center rents the full facility on weekdays after 6:00 PM or on weekends at \$1,050 for University affiliated renters, and \$1,625 for non-University renters. Museum of Art & History (MAH) in Santa Cruz rents the museum for approximately 105 paying events per year at an average rental fee of \$350. Average attendance at these events is 25 to 30 people. The MAH staff notes that their space is limited, including a maximum of 80 people seated. The Monterey Museum of Arts (MMA) rents the museum for approximately 12 to 15 events per year for 80 to 100 people. The average MMA facility rental fee is \$2,500. It would seem likely that the Center would have experience more comparable to MAH than to MMA. It has been suggested that the Center might be rented approximately twice per month. Center revenues from this source could be in the magnitude \$10,000 to \$20,000 annually. For example, 25 museum rentals per year would produce annual gross revenue of \$12,500 ( $\$500 \times 25 = \$12,500$ ).

### Food Service/Catering Commissions

The assumption is that an independent contractor will operate the cafe (like the Hungry Slug at Porter College which grosses approximately \$290,000 during the school year and pays 5% of that gross for the 1,400 square foot space) as an amenity to keep visitors at the Center longer, rather than as a significant revenue source, and that the lease at the Center will produce \$6,000 in annual rent.

Catering for academic, social, and business events at the Center will be limited to several approved catering firms, and the Center will receive a commission from the caterers. A typical arrangement would be a 10% - 15% commission in excess of a fixed minimum per event. While this source of income could be substantial if the Center is rented for certain

kinds of events (like weddings), it could also be small or non-existent for other types of events, such as a student reception. Because of the uncertainties involved, we are not assuming any income from catering at this time. As the plans for the Center move forward, it may develop that this will be a revenue source.

### Museum Shop

The Center shop is anticipated to be approximately 500 sq. ft. in size. The Museum Store Association *2002 Museum Retail Industry Report* indicates that the median art museum shop has sales per square foot of \$200. However, the two nearby art museums (Museum of Art and History and the Monterey Museum of Art) average sales of approximately \$120 per square foot. This would suggest that sales might range in the area of \$60,000 to \$100,000. Selecting the mid-point of \$80,000 in annual sales indicate merchandise needed to support sales would be \$40,000, assuming that merchandise is marked up 100% over cost. The shop will be operated either by Center volunteers or by a part-time manager. Additionally, students can fill in as clerks at a cost ranging from minimum wage to \$10 per hour.

### Education/Public Programs

Prioritizing audiences will be important in the early years of operation because there are limited financial and staff resources. It will be important to start with a smaller number of programs focused on the target audiences that are the most important to the mission of the Center. Once the initial programs are successful in serving key audiences, other programs can be added as experience and resources permit the Center to reach out to attract other target groups. Therefore, when budgeting for programs, audiences to be served, in order of priority, are identified as:

- UCSC Students
- UCSC Faculty
- Museum Members
- Residents

The Center staffing includes a professional educator whose primary function it is to act as liaison to the faculty in designing curriculum related offerings at the Center to support the teaching and research functions of UCSC. Specific academic classes in many different

disciplines could be offered that would draw directly on the Center exhibitions as an integral part of the course work. In addition, it is anticipated that a Faculty Advisory Committee will be organized to consult with the museum staff on exhibitions and programs to be certain that the Center is well integrated into the campus.

The Center is considering the following programs that could produce revenues:

- *Traveling Exhibits* – The Center will organize art exhibitions so that one or more per year can travel to other venues. These exhibitions might cost on the order of \$7,500 - \$10,000 to develop, and in addition other direct costs can include custom-made crates, insurance premiums, transportation charges, and interim storage fees. The profitability on these exhibitions depends on the prices they command and the number of venues they will visit. We are estimating an annual profit on traveling exhibits of \$10,000.
- *Annual Art Auction* – A fundraiser that would produce \$15,000 in sales of donated art and a net of \$10,000 to the Center after expenses.
- *Fundraising Lecture Series* – The Center will present a “star quality” annual speaker from the visual arts world such as the executive director of a prominent art museum or a major artist. The guest would give a free noon lecture in one of the larger UCSC theater spaces and then be available for an elite evening event. Net proceeds to the Center from the evening event could be in the range of \$10,000.
- *Museum Excursions* – The Center plans to schedule periodic trips led by the executive director or a curator. In the early years it is anticipated that the travel program would produce a donation to the Center of \$5,000.
- *UCSC Lifelong Learners* – The Center can support current campus programming for adults by offering appropriate classes in art appreciation, art history, etc. at the Center. In addition the Center will host a summer camp program with UC credit offered. The income and expense implications for the Center in participating in this program are nominal.

### **Investment Income**

The Center will be conducting a capital campaign for the building that will, it is anticipated, include an endowment component to support future operations. If a \$5,000,000 endowment can be raised as a part of the initial capital campaign, at a 5% rate of return, investment income would be \$250,000 per year. We have illustrated the income from a \$500,000 endowment.

## Assumptions about Expenses

We have used the AAMD \$65 average cost per gross square foot from the 17 smallest university art museums to establish the overall size of the baseline 2004/2005 budgets. Scenario I (10,000 square feet, 6 FTEs) will cost \$650,000 to operate in current dollars, and Scenario II (20,000 square feet, 10 FTEs) will cost \$1,300,000.

As noted earlier, it would be hoped that UCSC ultimately support would cover the personnel and facilities costs. The balance of expenses will need to be covered by Center fundraising activities.

### Personnel

Because this is the single largest cost to the Center, we have detailed the staff positions to as accurately as possible to project personnel costs (See Appendices C and D for costs in 2004/2005 dollars). Benefit costs have been added at the current UCSC load of 13.5% plus \$6,700 per FTE. The two alternative staffing plans detail the suggested positions and salaries. In addition it is anticipated that docents and other volunteers will augment the paid staff.

### Exhibitions

The average art museum as reported in the *1999 MFI* spends 13% of its budget on exhibitions. We have reduced this figure to 10% to allow for other categories of expense at the Center that will exceed the average.

Even if the Center “self-insures” its own art collection, it will be necessary to insure the temporary exhibitions when art and other objects of value are on loan to the Center. Theresa A. Cousins, CPCU, CIC of Huntington T. Block Insurance Agency, Inc., San Francisco, recently provided MMC with the following rough indications of annual insurance costs for temporary exhibitions: \$1 million limit, \$2,500 premium; \$3 million limit, \$6,000 premium. Limits in transit or at any location other than the Center would be 50% of the limit for art at the museum. Block also has a small museums program, which can be accessed at [www.huntingtontblock.com](http://www.huntingtontblock.com). Other insurance firms offer comparable programs.



## **Educational Programs**

A number of educational programs have been conceptualized for the Center; these activities are central to the mission of the museum as an educational institution, but they generally break even from a budgetary perspective. The *1999 MFI* reports that art museums spend approximately 5% of their budget on “education.” This statistic is grossly misleading because it omits the personnel costs associated with educational activities. In the case of the Center, we are projecting 5% of the budget for the direct costs of supporting educational activities through the purchase of educational materials and supplies, etc. In reality one could make the argument that well over half of the Center budget is directly related to education when counting the costs of the staff that are responsible for delivering the museum experience.

## **Collections**

This category of expense includes acquisitions, care of the collections, and storage costs. It has not yet been determined if the Center will be a collecting institution, and, even if it is to collect, in the early years collections care costs should be small. Any acquisitions would need to be made from donated funds for that purpose. The average art museum as reported in the *1999 MFI* spends 5% of its budget on collections. Because initially the collections expenses are expected to be below average for other art museums (which generally are collecting institutions), we have reduced this category of expense to 2% of the budget.

## **Public Relations/Marketing**

Using the *1999 MFI* profile of typical art museum expenses, we are assuming that approximately 3% of the Center budget will go for public relations and marketing activities, including not only the cost of media advertising for exhibitions and programs, but also other printed material such as brochures that describe museum offerings. We have used the industry average for this category.

## **Other Costs**

### Security

Security can be a significant expense to an art museum, and the Center will need to consider the best approach for protecting the art. The *2003 MFI* indicates that security costs on

average for art museums run 2.4% of the budget. At many universities, security is provided directly in-kind to the museum, and the costs are outside of the museum budget. However, at UCSC there are few spaces requiring independent security, so there is no model to follow in determining the cost. It would seem that the Center will need somewhat enhanced security beyond what can be provided by the campus police department, and this expense projection will need to be refined as facility and operational planning moves forward. For the time being, security costs are assumed to be included with “Other” expenses.

#### Professional Fees – Accounting, Legal and Human Resources

The Center will receive support and oversight from the University. For instance the business office could provide bookkeeping service to the enterprise activities at the Center, including the reconciliation of cash accounts, and assisting the executive director with budgeting and the monitoring of cash flow. Any charge back costs or fees paid to independent professionals are included in the “Other” category of expenses.

#### **Facilities Costs**

The UCSC Office of Plant Management has indicated that the charge back costs for facility costs are \$6.50 per year per gross square foot of building area in 2004/2005 dollars. As noted earlier, however, it is hoped that these services will be furnished in-kind by UCSC. Nevertheless, to get a full picture of the cost to operate the Center, we have included the facilities costs in the budget projections. If, in fact, UCSC does provide the services in-kind, that amount can be deducted from the cash expense budget and the funds needed to be raised privately can be reduced by a like amount.

#### **Depreciation**

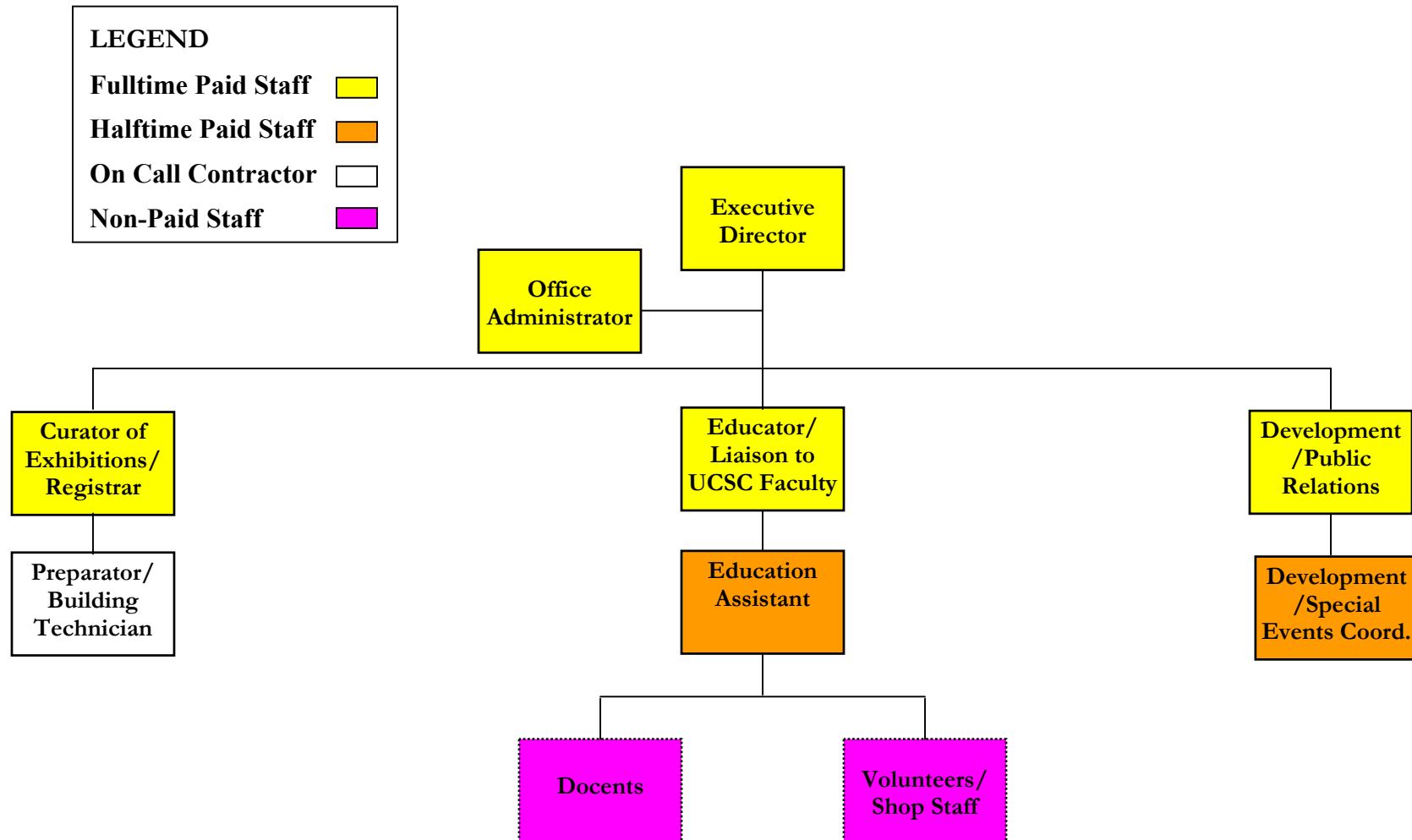
No provision has been made in the budget projections for depreciation. This is a non-cash expense that for years was addressed “below the line” by many museums. In recent years, however, more museums are beginning recognize depreciation as an operating expense “above the line” to allow them to accumulate cash for future building repairs, replacement and renovations.

## APPENDICES

## APPENDIX A: ORGANIZATIONAL CHART

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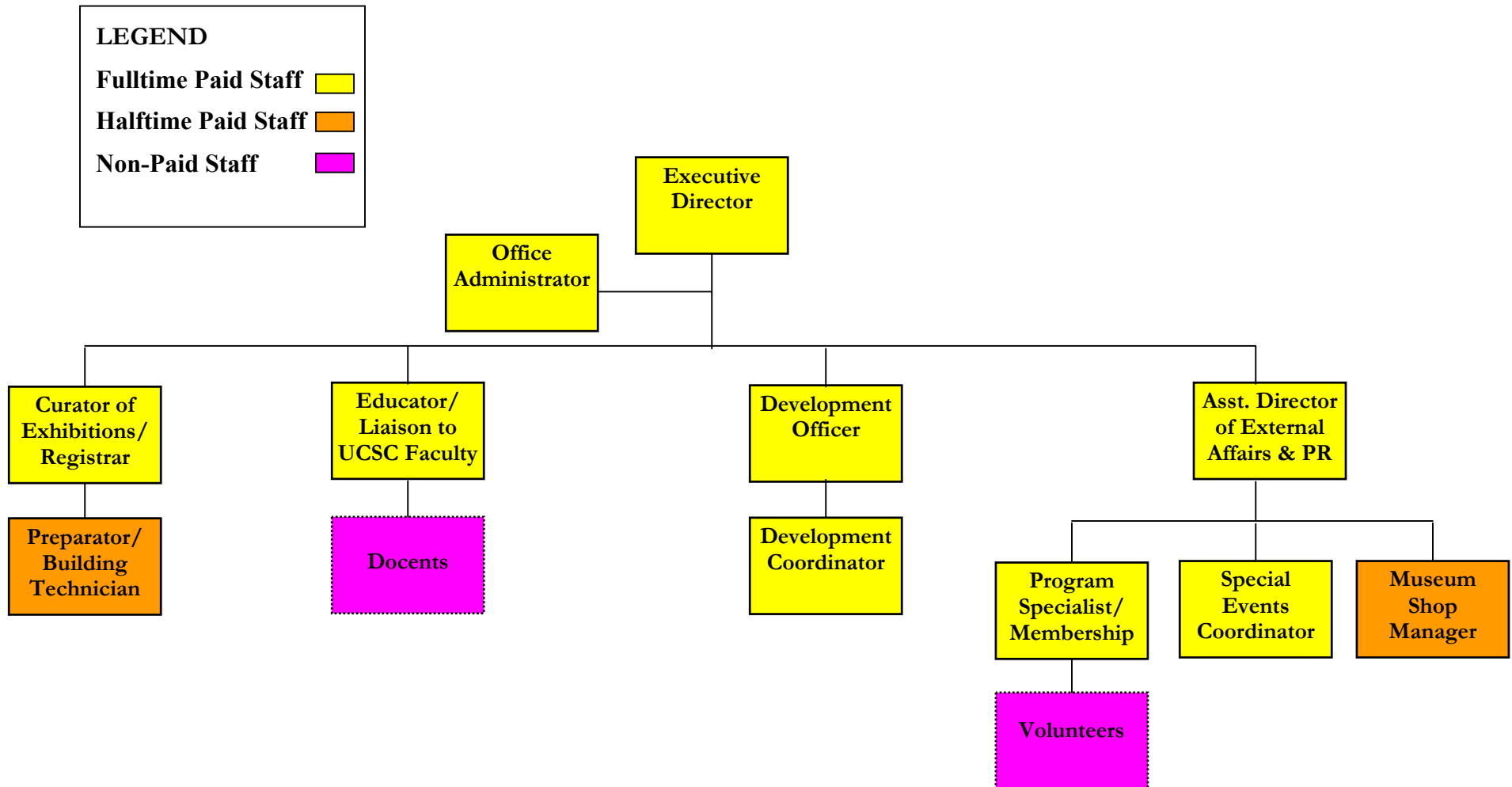
SCENARIO I:  
10,000 SQUARE FEET, 6 FTE



## APPENDIX B: ORGANIZATIONAL CHART

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SCENARIO II:  
20,000 SQUARE FEET, 10 FTE



## APPENDIX C:

### STAFFING PLAN (2004/2005 Dollars)

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#### SCENARIO I: 10,000 SQUARE FEET, 6 FTE

The following projected salaries have been developed by MMC using CAM Salary Survey 2002. For Scenario I we used the CAM Mean Salaries for museums with annual budgets of \$500,000 to \$1 million that are approximately 27% below the average for all museums in the survey.

Position	CAM Mean Salary (2004) <sup>16</sup>
Executive Director	\$78,631
Development/Public Relations	55,101
Development/Special Events Coord. <sup>17</sup>	16,976
Curator Exhibitions/Registrar	41,339
Educator/Liaison to UCSC Faculty	37,426
Education Assistant <sup>12</sup>	13,528
Preparator/Tech	On Call Contractor
Office Administrator	41,485
Total Direct Compensation	\$284,486
Benefits @ 13.5% + \$6,700/ FTE	\$78,606
Total Compensation & Benefits	\$363,092

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<sup>16</sup> Trended from 2002 at 3%/year inflation.

<sup>17</sup> Half Time

## APPENDIX D: STAFFING PLAN (2004/2005 Dollars)

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### SCENARIO II: 20,000 SQUARE FEET, 10 FTE

The following projected salaries have been developed by MMC using CAM Salary Survey 2002. For Scenario II we have used the CAM Mean Salaries for museums with annual budgets of \$1 to \$2 million that are approximately 9% below the average for all museums in the survey.

<b>Position</b>	<b>CAM Mean Salary (2004)<sup>18</sup></b>
Executive Director	\$87,667
Assistant Director External Affairs/PR	60,600
Curator Exhibitions/Registrar	44,408
Development Officer	87,106
Development Coordinator	32,681
Educator/Liaison to UCSC Faculty	57,086
Preparator/Tech <sup>19</sup>	14,651
Program Specialist/Membership	30,421
Special Events Coordinator	54,192
Office Administrator	38,121
Museum Shop Manager <sup>14</sup>	15,162
Total Direct Compensation	\$522,815
Benefits @ 13.5% + \$6,700/ FTE	\$137,580
Total Compensation & Benefits	\$660,395

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<sup>18</sup> Trended from 2002 at 3%/year inflation.

<sup>19</sup> Half Time

## APPENDIX E:

### LOCAL COMPARABLE INSTITUTIONS

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	<b>Museum of Art and History</b>	<b>Monterey Museum of Art</b>	<b>Seymour Center</b>
Building(s) Area	31,000 sq. ft.	37,500 sq. ft. (?)	20,000 sq. ft.
Expense Budget	\$1,330,000	\$1,200,000 (?)	\$1,000,000
FTE Staff	14 Excl. security & janitorial	8.6 (?) Excl. security, reception, & janitorial	10.7 Excl. janitorial, business services, & technical
Annual Attendance	21,000	30,000	50,000
Shop Size <sup>20</sup>	1,170 sq. ft.	500 sq. ft.	325 sq. ft.
Gross Shop Sales <sup>21</sup>	\$140,000.00	\$60,000.00	\$140,000.00
Operating Cost/ Square Foot	\$42.90	\$32.00	\$50.00
FTE/10,000 Sq. Ft.	4.5	2	5.5
Shop Sales/Sq. Ft.	\$119.66	\$120.00	\$431.00
Number of Paid Memberships <sup>22</sup>	±1,450	1,600	1,000

(2004 Data)

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<sup>20</sup> The Museum Store Association's 2002 *Museum Retail Industry Report* indicates that the median art museum shop metrics are \$150,000 in sales, 750 square feet in size, and sales per square foot of \$200.

<sup>21</sup> The UCSC Arboretum Norrie's Gift Shop occupies approximately 800 square feet, and had gross sales of \$142,000 in 2004. Merchandise is plants are grown on site.

<sup>22</sup> Shakespeare Santa Cruz has a donor base of 601 individuals and corporations who gave \$25 or more in 2004. The total raised was \$335,000.