



Memorandum

TO: Mayor & City Council

FROM: Vice Mayor Cindy Chavez
and Councilmembers
Forrest Williams &
Ken Yeager

SUBJECT: San Jose Repertory Theater

DATE: August 28, 2006

APPROVED:

RECOMMENDATION:

- 1) Approve the staff recommendation for the advance payment of \$225,000; and,
- 2) Direct the City Manager to:
 - a) Form a corrective fiscal team. Direct the team to join with San Jose Repertory Theater and the appropriate foundations to produce a concrete plan to correct infrastructure problems at the nonprofit, and ensure its long term financial stability. The team shall include, but not be limited to, a representative from each of the following: Office of the City Manager, Office of the Finance Director, Office of Cultural Affairs and City Council Liaison to the San Jose Arts Commission (District 2).
 - b) Return to the September 12 City Council meeting with a menu of loan options with clearly defined performance standards to keep the San Jose Repertory Theater in operation for the remainder of Fiscal Year 2006-07.
 - c) Establish a monthly review of the Rep's progress and with reports to the team described above.
 - d) Create a best practices standard for City interaction with nonprofits in crisis utilizing lessons learned with the Rep and report progress to the Council through the Building Strong Neighborhoods Committee.

ANALYSIS

The City's priority must be to protect basic city services. We cannot allow any nonprofit to overburden our General Fund. It is imperative that we do not continue a pattern of bailouts that, to-date, has not resulted in profound change in the culture of San Jose Repertory Theater (Rep). There is always the potential for other arts organizations and nonprofits to need City assistance. We must establish a procedure that creates a level playing field for all organizations and demands fiscal responsibility.

The Rep has been a significant regional theatre for over 25 years. It contributes to the economic health of the downtown area, attracting well over a 100,000 people every year. Playgoers patronize downtown restaurants, clubs and businesses. The Rep is not only vital to the arts and culture of San Jose but to the business economy of downtown.

The Rep lived beyond its means for the past five years. It survived by onetime, crisis-driven fundraising efforts. The Rep expected to raise the necessary revenue to fund programs. When revenue did not meet projections, spending was not curtailed within revenue, hence deficit spending. Insufficient financial reporting and controls created an environment where neither the Board nor the Rep staff exercised necessary fiscal oversight.

A new management team was formed beginning in April and is now in place. The new team has already taken the following steps to bring back fiscal responsibility:

- Reduced the size of the organization by reducing its budget from \$6.3M to \$5.28M for next year (20% reduction).
- Written a five-year debt reduction plan and a five-year plan to build a cash reserve.
- Developed a written strategy to eliminate the practice of using future year subscription income for current year expenses.
- Completely revamped its accounting and financial reporting systems.
- Reduced its show season to allow hosting San Jose Children's Musical Theatre, Cinequest, Zero-One Festival and the San Jose Jazz Festival. These partnerships with other local arts groups are consistent with the original intent for the building and generate revenue.

The new management team is acutely aware of the Rep's history of reoccurring financial distress. This is symptomatic of underlying organizational problems that have persisted for years and must be corrected immediately.

A consultant hired by the Hewlett Foundation recommended the following additional steps:

- Hire an outside consultant to revamp the structure of the Board of Trustees and clearly define their governance roles and responsibilities.
- Develop an artistic vision that is creative and appropriate for the community and matches the resources available.
- Develop a new five-year strategic plan.
- Change the Rep's corporate culture to one of fiscal responsibility and openness.
- Improve communication with foundation contributors.

A collaborative effort among the City, foundations, the private sector and individual contributors can solve the Rep's current financial crisis. As the City invests in the arts, it is critical that we hold these organizations to the highest fiscal standards.

Cc: Lee Price

City Clerk