



Memorandum

TO: COMMUNITY & ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Kay Winer

SUBJECT: UPDATE ON EFFORTS TO
STABILIZE ARTS ORGANIZATIONS

DATE: May 4, 2007

Approved

Date

COUNCIL DISTRICT: City-wide

RECOMMENDATION

Accept this report regarding efforts to stabilize arts organizations including use of the revolving lines of credit to the San José Repertory Theatre and the American Musical Theatre of San José and the Arts Commission's progress in developing policy and guidelines for the use of the Arts Stabilization Fund.

OUTCOME

Provide the Community & Economic Development Committee with a current understanding of the efforts to stabilize arts organizations that have received lines of credit from the City and an update on the efforts by the Arts Commission to create policy and guidelines regarding the use of the Arts Stabilization Fund.

BACKGROUND

Establishment of Arts Stabilization Fund and Awards to the San José Repertory Theatre and American Musical Theatre of San José from the New Fund

On October 17, 2006 the City Council authorized the creation of a \$4 million Arts Stabilization Fund as part of the City Manager's 2005-2006 Annual Report and appropriated funds in that amount. At the same October 17, 2006 meeting, Council approved a resolution authorizing the City Manager to negotiate and execute an agreement for a ten-year revolving line of credit in the amount of \$2 million with provisions for reductions in the amount available in the line of credit for years six through 10 with the San José Repertory Theatre (REP).

On October 31, 2006, the City Council approved a resolution authorizing the City Manager to negotiate and execute an agreement for a five-year revolving line of credit in the amount of \$1 million for the American Musical Theatre of San José (AMT) from the Arts Stabilization Fund. The line of credit agreement contained essentially the same conditions and requirements that are incorporated in the REP's Agreement but specific to AMT's situation. The City Council had directed the City Auditor to complete a full financial analysis of both organizations and the Auditor's reports were presented to the Council prior to their action to approve the revolving lines of credit.

In addition, City Council directed that the Arts Commission develop a policy and criteria for use of the Arts Stabilization Fund and present its recommendations to the City Council.

The Council also directed that the condition be added, subject to the City Manager's satisfaction, that a full analysis be prepared by the REP to examine options for partnerships with AMT, Team San José, and possibly others that would help the REP save money and possibly reduce their debt.

Council approval of the lines of credit required the REP and AMT to comply with all the terms and conditions contained in their respective reports submitted to Council, including:

- Monthly financial reporting, including balance sheet and income statements for the preceding month, and a 12 month rolling cash flow schedule. Monthly meetings are held with staff from Finance and the City Manager's Office for approval of the monthly financial reports prior to disbursement of funds;
- If there is an unfavorable budget to actual variances of 10% or greater, a corrective action plan must be submitted to the Finance Director. If the plan is unsatisfactory, the loan may be "called" and the outstanding balance becomes due and payable (principal and interest) within 30 days of written notice from the City;
- Annual budget submitted one month prior to end of the REP's and AMT's fiscal years;
- Any and all debt incurred after date of executing line of credit agreement must be subordinate to the City loan;
- Provides for \$50,000 working capital requirement;
- City serves as ex-officio member of the Board, Finance and Audit Committees.

In addition, the REP report included restructuring the workplan and completion of a reorganization plan with the REP required to submit a draft business plan on or before December 31, 2006.

Arts Commission Development of Criteria and Process for Arts Stabilization Fund

The Arts Commission has developed Arts Stabilization Guidelines that have been approved by their Programs Committee and are agendaizing them for review and action by the full Arts Commission at the May 9, 2007 meeting. The proposed Guidelines describe the Arts Stabilization Fund as a revolving fund that can be borrowed, repaid and reborrowed during the commitment period and includes language regarding a reasonable timeline for repayment so that the Fund will be available to other organizations. In developing the guidelines, the Arts Commission committee included the concepts of transparency and equity to the arts community. The committee was also aware that once lines of credit are extended, the funds are essentially encumbered for that purpose and not available should other organizations request stabilization efforts. With the lines of credit extended to the REP and AMT totaling \$3 million, \$1 million of the \$4 million remains available for future stabilization efforts.

ANALYSIS

The Arts Stabilization Fund was created at a critical time for San José arts community with both the REP and AMT requiring extraordinary assistance. Both the REP and AMT are in full compliance with the terms of their Agreements. Staff serves as ex-officio members of each of the Boards, as well as the organizations' Finance Committee. Monthly meetings are held to review and discuss the financials, organizational and program accomplishments.

In addition to the REP and AMT, the Mexican Heritage Corporation (MHC) has been requesting additional City support to address their own financial challenges. To date, the Arts Stabilization fund has not been recommended as a source to assist the MHC. The MHC already has a zero-interest loan from the City in the amount of \$650,000 of which \$500,000 is outstanding with a repayment plan based on \$50,000 per year with the next payment due in FY 2007-08 with a final payment of \$150,000 due in FY 2014-15. The issues facing MHC that were identified in the Auditor's report are being addressed via separate recommendations to the City Council. The Arts Commission has been engaged in all the discussions and recommendations related to the MHC.

San José Repertory Theatre Progress Highlights During Stabilization

The San José Repertory Theatre board and staff have been diligent in meeting the requirements associated with their Arts Stabilization Fund line of credit, as well as in making other administrative and operational improvements. Specifically:

- The REP completed and submitted to the City a Business plan meeting the December 31, 2006 deadline;
- The Rep submitted the FY 2007-08 budget to the City as required;
- The REP plans to furnish the City with a five year financial capacity plan by July 31, 2007;

- The REP pursued collaborative efforts with AMT on box office operations and determined not to proceed at this point. There were reasonable reasons not to enter into a collaboration at this time;
- As of April 23, 2007 the REP had an outstanding balance on the line of credit of \$771,771.99; which is approximately \$145,000 higher than the projected balance per the auditor's projection
- To date, the REP has paid the City \$11,971.89 in interest on the line of credit;
- The REP has developed a draft of the company's new mission and vision statement;
- REP has worked extensively with Albert Hall & Associates (consultant funded by a foundation grant) to revamp Board structure, governance and fiduciary oversight;
- REP's last three plays exceeded sales projections;
- REP hired a new Director of Finance;
- REP has approved two of the six 2007-08 season productions as co-productions with cost savings impacts;
- REP continues to provide educational and other related programming.

American Musical Theater of San José Progress Highlights During Stabilization

The American Musical Theatre of San José board and staff have met the requirements associated with their Arts Stabilization Fund line of credit and made other improvements. Specifically:

- The AMT concluded steps to allow for the implementation of its new business model with the 2007-08 season, planning co-productions in collaboration with Seattle, Minneapolis, Pittsburgh, Dallas and Houston;
- On March 21, 2007, AMT repaid the line of credit to a zero balance, which is four months ahead of the projected schedule, but also acknowledges the need for the line-of-credit to continue to be available as planned for cash flow purposes. The auditor's projection estimated the balance on the line of credit at March 31, 2007 would be \$150,000. Note: the auditor's projection assumed a \$900,000 line of credit;
- Accrued interest to date on the line of credit totals \$11,515.35. Per the term of the line-of-credit agreement, the first interest payment is due twelve months after the initial revolving loan made in November 2006;
- AMT combined box office operations with Ballet San José, Children's Musical Theatre of San José and continues to have conversations with Team San José regarding box office opportunities;
- AMT plans to open a downtown box office this summer located next to Ballet San José on North First Street titled SJ Tix;
- AMT hired an experienced Director of Development who started in April 2007;
- AMT has reinstated all education and outreach programming with a combined impact of over 13,000 individuals within the community;
- AMT has placed an offer for the purchase of the Old Armory, a San José historical landmark located at 240 North Second Street to house administration, studios and a costume shop that will include rehearsal space. This new space is smaller than AMT's current space and will have similar operating costs but will create stability for the organization, as their lease situation will be less tenuous. In addition, the new space is in

closer proximity to the Center for Performing Arts theater venue than AMT's current location.

- AMT continues in discussion with the REP regarding future possibilities to combine scene shop activities when the REP lease expires within two to three years.

POLICY ALTERNATIVES

Alternative #1: One alternative is to not accept this report and/or ask for additional information.

Pros: Not approving this report and/or asking for additional information could possibly provide additional opportunities for discussion in the near future regarding arts stabilization related efforts.

Cons: Not approving this report and/or asking for additional information at this time could delay current efforts that are gaining momentum as these arts stabilization efforts are implemented requiring attention from staff and the community through the Arts Commission.

Reason for not recommending: This report provides the current information in an effort that is complex, time consuming and evolving with many stakeholders including various City Departments, the Arts Commission and community based arts organizations.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

COORDINATION

This memorandum has been coordinated with the Office of Economic Development including the Office of Cultural Affairs, members of the Arts Commission, City Attorney's Office, City Auditor's Office, Finance Department and the executive staff of the San José Repertory Theatre and the American Musical Theatre of San José.

FISCAL/POLICY ALIGNMENT

Providing awareness of the health and stability of San José arts organizations allows the City in special circumstances to take action as appropriate and to consider providing funding as available from the newly created Arts Stabilization fund subject to review and recommendation from the Arts Commission.

Supporting the stabilization of the arts aligns to the San José Economic Development Strategy, a “Creative Community: item 4. Evolve and Position Downtown as a Unique and Cultural Center of Silicon Valley.”

COST SUMMARY/IMPLICATIONS

Not applicable.

BUDGET REFERENCE

Not applicable.

CEQA

Not a project.

KAY WINER
Chief Deputy City Manager

For questions please contact Kay Winer, Chief Deputy City Manager at 535-8130