

Hammer Theatre Advisory Committee

Minutes

December 9, 2014, 5-7pm, San Jose City Hall, Wing Room 118-119

Meeting was called to order at 5:05pm.

Present: Rich Braugh, Brad Erickson, Chris Esparza, Richard James, Connie Martinez, Michael Miller, Elisa Orona, Eva Terrazas, Geri Wong, Irene Wong

Absent: Julie Fry

City Staff: Kerry Adams Hapner (OCA); Karen Park (OCA); Kevin Baker (DPW)

1. Minutes were approved as distributed.
2. Review of Web-based Resources, Timeline, Goals and Proposed Workplan for Monthly Meetings. Ms. Adams Hapner reviewed the Hammer Theater Advisory Committee resources that are located on the City's website at: <http://www.sanjoseculture.org/index.aspx?nid=4498>. She reviewed the workplan for the HTAC.
3. Presentation on report, Best-Use Options for the Hammer Theatre Center, Report prepared by the Northern California Community Loan Fund, July 2014. Ms. Andrea Papanastassiou, Deputy Director of Consulting, Real Estate Program, Northern California Community Loan Fund, gave an overview of the report that was completed in July 2014: *Best-use Options for the Hammer Theatre Center*. Ms. Papanastassiou reviewed the PowerPoint presentation that was developed for this purpose. This PowerPoint is attached to these Minutes.
4. City Fiscal Context; City Operations and Maintenance Subsidy and Costs. Ms Adams Hapner reviewed the City Fiscal Context and City Operations and Maintenance Subsidy Costs. This PowerPoint presentation is also attached to these Minutes.
5. Request for Interest (RFI). Ms. Adams Hapner noted that the RFI was in progress and distributed the draft guiding principles and criteria for the RFI, noting that it was a preliminary draft for discussion purposes. Committee members offered several comments including: advising against asking for extremely detailed information in a business plan as it may put off potential responders at this stage; importance of including the level of subsidy that was offered in the past; potential impact of new operators on the existing other theaters; importance of financial and programmatic criteria; identification of other theaters in the area and the rent for those theaters; the capacity of the theaters that exist in SJ now; importance of including what the living wage requirements are; criteria should allow for assessment of qualifications as well as past experience so that potential new collaborators with no experience as a unit but prior experience separately would not be excluded; leave room for "creative models" to surface rather than be too prescriptive. Ms. Adams Hapner also provided information on the private activity use restrictions associated with the building as a result of its bond financing.

Ms. Adams Hapner asked the Committee for assistance with outreach and identification of distribution outlets for the RFI.
6. Open Forum

Roma Dawson noted that including information on the RFI about past City subsidies for the Hammer is important so that proposers have this as a point of reference.

Phil Hammer advocated for resident professional theater in the facility as its primary use as a resident professional theater is important element of every major city.

Robert Ragazza noted that union labor in the theater may be cost prohibitive for smaller groups.

Noelani Stallings noted the importance of considering cultural relevance in programming at the theater as well as including arts education as a priority.

Forrest Williams encouraged a workable and sustainable model focused on the arts, which would likely involve some subsidies.

Viera Whye had a question about the process for determining a resident groups and noted union costs have tended to be prohibitive for community groups.

Minutes submitted by Karen Park (OCA)

Best-Use Options for the San Jose Hammer Theatre Center

Presented by
Andrea Papanastassiou, Deputy Director of Consulting
 Northern California Community Loan Fund
 December 9, 2014

MISSION

We promote economic justice and alleviate poverty by increasing the financial resilience and sustainability of community-based nonprofits and enterprises.

©2013 Northern California Community Loan Fund 2

About NCCLF

Financial Solutions. Stronger Communities.

(c) Northern California Community Loan Fund 2012 3

Geographical Area Served

46 counties of Northern California:

- San Francisco Bay Area
- Sacramento/Yolo area
- North and Central Coast
- Central Valley
- Foothills
- Northern Counties

(c) Northern California Community Loan Fund 2012 4

City of San Jose Hammer Theatre Scope of Report

- The City of San Jose engaged NCCLF to:
 - Review options and make recommendations for the best-use and financially sustainable programming models for this 528-seat existing City-owned performing arts facility
 - Identify the ideal financial and programmatic profile of an operator that could successfully implement the recommended programming model(s);
 - Identify further research necessary for the City to make a sound selection decision among available options.

(c) Northern California Community Loan Fund 2014 5

Analysis

- NCCLF identified and analyzed the operations of ten theatres, performing arts centers, and presenting/rental organizations, evaluating them in the following areas of Financial Performance and Health:
 - Net Assets, Net Income, Income Diversity, Endowment/Fixed Assets/Total Debt/Rental Expense, Attendance & Occupancy, and Staffing

(c) Northern California Community Loan Fund 2014 6

Findings

- Maintaining a balance between earned and contributed income contributes to financial success, as does diversifying earned income from classes, workshops, and rental fees as well as ticket sales.
- High rates of attendance and ticket sales are a key measure of success.
- Organizations that operate more than one theatre will achieve an economy of scale in operations and financial performance.

(c) Northern California Community Loan Fund 2012 7

Preferable Operator Characteristics: Financial & Programmatic Profile

- Activate the space as much as possible
- Programming that meets market/audience demand
- Financial Sustainability
- Solid performance on standard financial benchmarks and ratios

(c) Northern California Community Loan Fund 2014 8

Theater Operating Models

- Producing, Presenting, Rental, and Hybrid Models:
 - A Producing Organization will operate the theatre by creating and performing its own works
 - A Presenting Operator will purchase a show and bring it to the theatre.
 - A Rental Facility may be managed and operated by an organization that operates one or more performing arts venues.
 - Hybrids: Presenting and Producing; Presenting and Rental; Presenting, Resident, and Rental

(c) Northern California Community Loan Fund 2014 9

Issues of Theater Size

- As a Presenting theater, the Hammer Theatre is too small to attract large traveling shows and musicals, which typically require 1,500 – 2,500 seat theatres, but there is still room for smaller regional productions as an operator grows into the space
- Few experimental theater groups can fill 550 seats
- The operating costs of a theater this size are significant, and difficult to amortize over a single, typical 6-8 month production season

(c) Northern California Community Loan Fund 2014 10

Preferable Operating Model for the Hammer Theatre

- Presenting/Rental or Resident/Rental Hybrid Advantages:
 - Increased potential for broader access to performance space for multiple performing arts organizations
 - Greater variety of programming genres and events, such as dance, music, theatre, arts education, arts and lecture series, and other cultural events
 - Less reliance on a single performing organization to maintain program activity in the space
 - Potential for economies of scale with an operator that rents and manages more than one venue

(c) Northern California Community Loan Fund 2014 11

Preferable Operating Model for the Hammer Theatre

- Presenting/Rental or Resident/Rental Hybrid Drawbacks:
 - Less certainty in the occupancy of the Theatre, at least during a transitional period
 - The Theatre may not have as cohesive or identifiable a presence as it might with a single producing operating company
 - The size of the Hammer Theatre presents some occupancy and operating costs challenges for any organization, regardless of whether there is a single producing operator or a rental operator

(c) Northern California Community Loan Fund 2014 12

COMMUNITY LOAN FUND

Key Features of a Successful Presenting/Rental Model

- The Operator meets the appropriate characteristics and benchmarks described above.
- The success of this model relies heavily on the ability of the Operator to consistently attract high quality, exciting, and culturally relevant and attractive organizations and productions.
- Value-added services, such as providing back office support functions could also help stabilize smaller performing arts organizations.

(c) Northern California Community Loan Fund 2014 13

COMMUNITY LOAN FUND

Local Example

- Team San Jose/San Jose Theaters experience operating 4 theaters of various sizes:
 - City National Civic (3,036 seats): Rental
 - Center for the Performing Arts (2,677 seats): Ballet San Jose & Broadway San Jose; Rental
 - California Theatre (1,122 seats): Symphony Silicon Valley & Opera San Jose; Rental
 - Montgomery Theater (475 seats): Children's Musical Theater & Lyric Theatre of San Jose; Rental



(c) Northern California Community Loan Fund 2014 14

COMMUNITY LOAN FUND

Comparable Example

- Columbus Association for Performing Arts (CAPA):
 - Owns and operates 3 theaters, manages 6 more theaters
 - Theaters range from a 60-seat studio to the 2800-seat Palace Theatre
 - Operates on a Hybrid model, as a Presenter, Resident home for performing arts organizations, and Rents the theaters
 - Provides back office functions to smaller performing arts organizations, including finance & accounting, marketing/advertising/publicity, graphics, IT, HR, box office, & operations



(c) Northern California Community Loan Fund 2014 15

HAMMER THEATRE ADVISORY GROUP

Meeting of December 9, 2014



Ensuring that the Hammer Theatre remains a viable cultural asset

REVIEW OF WEB-BASED RESOURCES, TIMELINE, GOALS & WORKPLAN



PRESENTATION ON REPORT, *BEST-USE OPTIONS FOR THE HAMMER THEATRE CENTER* NCCLF, 2014

CITY FISCAL CONTEXT; CITY OPERATIONS AND MAINTENANCE SUBSIDY AND COSTS

City Fiscal Context

- The City has faced tremendous fiscal challenges for over a decade. Since 2002-2003, the City has had to address a cumulative General Fund shortfall of \$670 million and reduced the total number of employees from 7,445 to 5,759.
- Though revenues and expenditures are now balanced, there is a tremendous amount of community needs in a variety of sectors (public safety, libraries, recreation, etc.) that competes for very limited funding.

O&M Subsidy and Costs

- The City had previously provided an annual facility O&M subsidy of \$285,000 to the Rep. Does not represent the full amount to operate and maintain the facility.
- Rep also received an OCA annual operating grant of over \$100,000.
- Of the City \$2m loan to the Rep, \$1.865 remained outstanding.
- If the City operated the theater, the estimated net shortfall is \$700,000 - \$1.2m. For 2015-16, without an operator, the City has budgeted \$250,000 for basic building maintenance and operations, even though the building is assumed to be dormant.
- It is important that any future operator or use of the facility minimizes financial risk to the City.

REQUEST FOR INTEREST



RFI PROCESS AND OUTREACH

RFI Timeline

- Late January, 2015 - RFI release
- Late January – March, 2015 - City conducts public tours and info sessions on the facility
- Late March, 2015 - RFI deadline
- April, 2015 - Review of responses & interview finalists
- May 2015 – Develop recommendation to Council

Outreach

- What are the networks that should be sought?
- Organizations or people?
- Please submit any names of networks, organizations or people that should be notified of the RFI.

DISCUSSION OF GUIDING PRINCIPLES

QUESTIONS & OPEN FORUM



DRAFT – FOR DISCUSSION PURPOSES

GUIDING PRINCIPLES AND CRITERIA FOR PERMANENT OPERATING MODEL FOR HAMMER THEATRE CENTER

CONSIDERATIONS FOR DISCUSSION PURPOSES

CITY’S GUIDING PRINCIPLES AND GOALS

The City seeks to maximize the use of the Phil and Susan Hammer Theatre Center (“Theater”) as a core downtown cultural facility. The City is open to a full continuum of options for the Hammer Theatre Center.

It is envisioned that maximum utilization of the Hammer Theater for cultural purposes will support several goals in the City of San Jose’s Cultural Plan, *Cultural Connection*, which include:

- Support residents’ active, personal participation in arts and culture.
- Support the availability of diverse cultural spaces and places throughout the community.
- Strengthen downtown San José as the creative and cultural center of the Silicon Valley.
- Expand residents’ access to arts and cultural learning opportunities.
- Foster destination quality events in San José.
- Strengthen communitywide marketing and audience engagement.
- Strengthen the cultural community’s infrastructure.

There are several characteristics of a desired permanent operator:

- Maximum activation of the Theater with priority given to cultural uses.
- Offering of programs that meet market/audience demand.
- Experience in facility operations and management of a theater of similar scale as the Hammer Theatre Center, including familiarity with routine and preventive maintenance needs of mid-size theaters.
- Sound fiscal health and financial sustainability, supported by a realistic Business Plan.

STRUCTURE OF AGREEMENT

Open to a full continuum of options for the Hammer Theatre Center, the City is seeking interest from parties to operate and program the theater. This could include entering into a long term operation and management (O&M) agreement with the operator, the potential sale of the facility, or another option.

REQUIREMENTS FOR AGREEMENT (IF A LONG TERM O & M)

At minimum, the operator shall be responsible for the daily operations and management of the facility, including routine and preventive maintenance for a period of fifteen (15) years.

At a minimum, the selected operator will assume the following responsibilities related to the facility:

- Manage and fund the operations of the Hammer Theatre Centre, including utilities, routine and preventive maintenance and the marketing of the Theater to support operating needs.
- Provide sufficient staffing for theater operations including on-site technical personnel.