

Meeting Date: 5/7/2013

Report Type: Staff/Discussion

Report ID: 2013-00377



City Council Report

915 I Street, 1st Floor

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Title: Recommendations on City Council Requests Related to the Community Center Theater, Crocker Art Museum, the Studio for the Performing Arts and the B Street Theatre

Location: District 4

Issue: This report provides information requested at the March 26, 2013 Council meeting related to the status and financing of the Community Center Theater Renovation project, the Crocker Art Museum, the Studio for the Performing Arts (Studio project) and the B Street Theatre

Recommendation Pass a Resolution: (1) committing \$8.5 million in General Funds, available from the closure of assessment districts, for the financing of the Community Center Theater Renovation project (M17100100); (2) committing \$2.5 million from the CalEPA Fund to fund the first phase of a revised Studios project (B13000400); and (3) directing the City Manager to (a) continue working with the City Treasurer and return to Council in September with financing options for the Community Center Theatre Renovation project; (b) renegotiate the agreements between the Crocker Art Museum Association (CAMA) Board of Directors and the City of Sacramento to address CAMA cash flow issues and minimize risk to the City; (c) amend the scope of work for the Studio for the Performing Arts Project, and negotiate amendments to the Memorandum of Understanding (2006-0798) with the participating arts organizations, for future council approval; and (d) continue working with and assisting the B Street Theatre in the evaluation of financing alternatives for the proposed new theatre center.

Contact: John Dangberg, Assistant City Manager, 808-1222; Barbara Bonebrake, Director of Convention, Culture and Leisure, (916) 808-7733 and Leyne Milstein, Director of Finance, (916) 808-8491, Finance Department

Presenter: John Dangberg, Assistant City Manager, 808-1222; Barbara Bonebrake, Director of Convention, Culture and Leisure, (916) 808-7733 and Leyne Milstein, Director of Finance, (916) 808-8491, Finance Department

Department: Finance

Division: Finance

Dept ID: 06001011

Attachments:

1-Description/Analysis

2-Resolution

City Attorney Review

Approved as to Form

Matthew Ruyak 5/2/2013 at 12:40 p.m. [Via Email]

~~Approvals/Acknowledgements~~

Department Director or Designee: Leyne Milstein 5/2/2013 at 12:40 p.m.[Via Email]



Description/Analysis

Issue Detail: This report provides information requested at the March 26, 2013 Council meeting related to the status and financing of the Community Center Theater Renovation project, the Crocker Art Museum, the Studio for the Performing Arts (Studios project) and the B Street Theatre.

Community Center Theater Renovation Project

The Community Center Theater (Theater) has not had a major renovation since its construction in 1974. In 2007 a conceptual design for the renovation of the Theater was completed identifying critical needs for building system replacement, American's with Disability Access (ADA) accessibility, customer service requirements and loading dock improvements. In 2010, the City Council approved the use of the design-assist project delivery method and awarded an architectural services contract to Westlake Reed Leskosky and a professional services contract to Kitchell Construction (Kitchell) for design assist services. Since 2010 schematics, cost estimating and value engineering have been completed and the project is now ready for formal design approval and to proceed to construction documents which are included within the Kitchell contract. The cost of this project is currently estimated at \$50 million.

While the project is ready to move forward on a design basis, development of a comprehensive financing package is proving to be a challenge. The economic downturn significantly affected the Community Center Fund, the primary source of funding for this project. In fiscal years 2008/09 and 2009/10 the main source of revenue for the Community Center Fund, the Transient Occupancy Tax (TOT), suffered a two-year decline, the worst decline in the history of the TOT. While TOT revenues have started to rebound, projected growth does not support the debt service that would be required to fund the entire \$50 million project. The Treasurer's Office is currently evaluating the estimated cash flow and the City's financing capacity given the current bond financing climate, which makes this type of project more difficult to finance (this project is not considered to be essential for tax-exempt bond financing purposes). At this time, the financing gap is estimated at \$15-20 million. This shortfall must be bridged with alternate resources in order to complete the financing of this project. Staff expects to complete the financing analysis and return to Council in September with financing recommendations.

However, to begin to address the shortfall between the cost of the project and the amount that can be financed, staff is recommending that the \$8.5 million available from the closing of assessment districts be designated for the financing of the Community Center Theater Renovation project (M17100100) to augment bond financing to ensure that the funding necessary to complete this project is available. Efforts will be made to identify additional alternate funding sources, including sale of naming rights and private donors.

Crocker Art Museum

In 2000 the CAMA Board of Directors (CAMA Board) initiated a capital campaign for the expansion and transformation of the Crocker Art Museum into a premier arts institution. This effort constituted one of the largest capital campaigns of its type ever undertaken in this region. As the owner of the museum and its collections, the City of Sacramento contributed substantially to the effort. The capital campaign was initiated with lead donations from two local families totaling \$13 million. The CAMA Board, together with the City, raised approximately \$100 million to triple the size of the Museum.

The City's financial contributions to the expansion totaled \$49 million as follows:

| Source | Amount | Description |
|---------------|--------------------------|--|
| CRCIP* | 15,000,000 | Consideration for release of Lot X rights |
| RDA** | 10,000,000 | Grant |
| CRCIP | 2,000,000 | Grant |
| CRCIP | 12,000,000 | Bridge Loan #1 -- fully amortized 2017 |
| CRCIP | 5,000,000 | Bridge Loan #2 -- interest-only payments; due June 2014 |
| CRCIP | 5,000,000 | Bridge Loan #3 -- zero interest/no payments; due June 2014 |
| Total | \$ 49,000,000 | |

*Community Reinvestment Capital Improvement Program

**Redevelopment Agency

The City's initial contributions included a \$2 million CRCIP grant and a \$10 million redevelopment grant. A third contribution of \$15 million was provided in exchange for the City's unrestricted rights to the Lot X parking site. In addition, the City financed a \$12 million bridge loan (Bridge Loan #1) for which CAMA is responsible for annual debt service payments of \$1.2 million. A "bridge loan" is an interim loan held until take-out financing can be obtained to pay off the bridge loan. In this case long-term pledged donations to the Crocker are used to repay the bridge loan. An additional \$10 million in two bridge loans were subsequently provided as further described below.

In 2009, as the Crocker construction project reached 80% completion, pledges fell short. To complete construction the project required an immediate \$10 million capital infusion. Concurrent with this need, rising costs and the downturn in the economy significantly affected the ability to deliver the fundraising necessary to move forward with the Studios project as detailed below. At that time, the City Council approved the temporary use of \$10 million in CRCIP funds originally allocated to the Studios project to meet cash shortfalls in the Crocker project.

The City and CAMA Board formalized the use of these funds as a Line of Credit (LOC), and Council approved the amendment of the formal agreement between the City and the CAMA Board for the delivery of this project.

The use of these funds by CAMA also benefited the Studios project since that project was not ready to proceed. The interim use of the funds for the Crocker relieved the Studios group of their obligation to make \$350,000 in annual loan payments to the City. It is important to note that there are two distinct funding sources within the Crocker/Studios \$10 million bridge loans:

- a) Bridge Loan #2 was funded from \$5 million in CRCIP funds originally slated as a 30-year loan to the Studios. (The debt-service was to be paid by the California Musical Theater, Sacramento Opera, Sacramento Philharmonic and the Sacramento Ballet (Arts Organizations) from the rent each would have normally paid at their existing separate locations).
- b) Bridge Loan #3 was funded from \$5 million in CRCIP funds originally slated as a grant to the Studios project (debt-service funded by the General Fund)

The terms with CAMA for Bridge Loan #2 requires annual interest-only payments of \$350,000 (effectively relieving the Arts Organizations of the \$350,000 debt service payment and negating any loss to the City's General Fund). The terms for both Bridge Loan #2 and #3 include a balloon payment for the combined \$10 million due June 30, 2014. While current on all payments to date, CAMA has indicated that due to cash flow challenges they will not be able to remit the \$350,000 interest-only payments beginning this calendar year (June 2013).

There are, however, estate gifts in excess of the \$10 million loan amount which as they "mature" (i.e. become available upon distribution of an estate), would be available to make the loan repayment. In most cases the estate gifts may be used for the building capital costs (e.g. loan repayment) or as a permanent endowment for the benefit of future Crocker Museum operations.

Given that CAMA has secured commitments to repay Bridge Loans #2 and #3 when estate gifts mature, staff is recommending the renegotiation of the repayment terms to reflect CAMA's cash flow challenges and be structured to allow for the repayment of the loans upon receipt of estate gifts. In addition, it would be prudent to incentivize the establishment of an endowment for a financially sustainable future for CAMA. If Council directs the City Manager to renegotiate the agreement with CAMA, revised agreements will be brought to the Council for approval. The City Manager's recommended terms for the revised agreements are as follows:

- Bridge Loan #1: No change. CAMA will continue to make annual payments of \$1.2 million until the debt is retired.
- Bridge Loan #2: City would waive the 2013 and 2014 interest only payments totaling \$700,000. Upon retirement of Bridge Loan #1 CAMA will commence amortized repayment of Bridge Loan #2 on a schedule to be defined in the amended agreement.
- Bridge Loan #3: If payments on the above loans are current, the City will annually forgive on a dollar-for-dollar basis an amount equal to the cumulative retained principal funds deposited to an agreed upon endowment fund for the benefit of the Crocker Art Museum.
- Parking: The City acknowledges the need for adequate parking resources to support the Crocker and will ensure sufficient parking to meet those needs on appropriate sites proximate to the Crocker.
- Lot Y: CAMA will release any and all rights to the City-owned parcel commonly known as Lot Y.

Finally, staff will continue to monitor CAMA's cash flow to ensure that resources are available to continue to repay the City for the debt service on CAMA's \$12 million Bridge Loan #1. The payments on this loan are structured over a 10-year period, requiring \$1.2 million annually in debt service. CAMA is current on the bridge loan payments, with a remaining balance of approximately \$5 million. As long as the planned signed pledges are received as scheduled, CAMA will be able to make the remaining bridge loan payments. CAMA is also currently receiving the proceeds from the Lot X and Y parking operations as it has since 1995. Upon the City's transfer to a third party or reuse of Lot X and Y (whichever comes first), those funds will no longer be available for Crocker Art Museum operations.

Studios for the Performing Arts (Studios project)

The Council-approved Studios project included the purchase of land at the northeast corner of 14th and H Streets and the construction of a 48,000 square foot building which would allow for the co-location of the Arts Organizations. The building would provide administrative offices, rehearsal and studio/classroom and space to operate a ballet school.

Due to the significant increases in project costs (\$18 million to almost \$26 million) and the inability of the Arts Organizations to raise the additional funding for the project, they are considering a major change in this project. The project scope currently being considered would no longer result in new construction at 14th and H Streets. Rather the project would address the unmet critical need to relocate the Sacramento Ballet to space that would provide suitable rehearsal space and the opportunity to grow the ballet school which will provide income to sustain the Ballet over the long term.

The administrative collaboration efforts are continuing absent the facility project for the short-term. Over the last 18 months the Philharmonic and Opera have agreed to consolidate into one organization, renamed the Sacramento Region Performing Arts Alliance (SRPAA). The newly formed SRPAA and the Ballet administrative offices have temporarily moved to the Convention Center administrative offices located in the City-owned 15th/K Streets building. The California Musical Theater (CMT) has renegotiated their rent down and will remain in their current office space over the short-term; however it is expected that CMT will need to relocate its office space over the long-term.

The Ballet rehearsal and studios/school needs must be addressed in the near-term as their current lease at 17th and K Streets expires in summer 2014 year and the condition of the space is inadequate. A revised project scope will be based on the following:

- No new construction
- Partnering with the Sacramento City Unified School District (SCUSD) for the reuse of an existing school, tentatively identified as the Fremont School at 2420 N Street
- Phasing the project to address highest priority needs first
 - Phase 1 (currently estimated at \$4-\$6 million): Renovate SCUSD site and relocate Ballet rehearsal and studios/classrooms to school site
 - Future phases: Renovate SCUSD site to provide office space to relocate the Ballet, newly formed SRPAA, and eventually the CMT offices. Renovation of additional studios/classroom space.

This proposed project scope revision will require not only the agreement of private capital donors to continue to use their contributions for the revised scope but the City will need to advance \$2.5 million of the project's allocation of the CRCIP from an alternate source as these funds will remain with the Crocker Museum until Bridge Loan #2 is repaid. When the Loan is repaid, or at least the first \$2.5 million, the remaining Studios project allocation (\$2.5 million) would be utilized for future phases of the revised project scope.

In order to take advantage of the opportunity to partner with SCUSD and move the Studios project forward, staff will work with the Arts Organizations to amend the project scope and Memorandum of Understanding, both of which will need to be approved by the City Council prior to the release of City funding. In addition, the revised MOU will include a requirement that the balance of matching funds for the first phase be secured prior to the release of City funds.

Staff is recommending that \$2.5 million of the CRCIP allocation for this project (currently diverted to Crocker Bridge Loan #2) be advanced to the project prior to the repayment of the Crocker Loan for Phase 1 of the Studios project as outlined above. Funding has been identified in the CalEPA Fund that can be used to complete this phase of the project. Additional detail is included in the financial considerations section of this report.

Staff will return to Council with options for the use of the City-owned property at 14th and H. This site is a valuable asset in completing the arts block which includes the City-owned Sacramento Theater Company site and the California Musical Theater Music Circus site.

B Street Theatre

Sacramento's Theatre for Children Inc., more commonly known as the B Street Theatre (B Street), is seeking to develop a purpose-built venue on land donated by Sutter Health at 27th and Capitol Avenue. The new 40,000 square-foot facility would include two theaters along with state of the art patron amenities, a restaurant and space for community and cultural events. Both existing and expanded programs would be offered including their Theatre School Tour (educational program for children), Mainstage, B3 and Family Series programs. The new center will facilitate the continuation of B Street's 22-year history of promoting education, literacy, social interaction and cultural enrichment by engaging children and adults in the highest quality theatre arts and playwriting.

B Street has made significant progress in advancing the project and fundraising. The design of the project is now complete and the focus is to raise funds needed to start the construction of the project by June 2014. Staff was asked to assess the ability of the City to finance a loan on reasonable terms to B Street. Since the City does not currently have a source to directly lend to the project, private financing mechanisms are being explored. The primary challenge in private borrowing for B Street is that their source of repayment is ticket surcharges, pledges and other event revenues. Those sources are not considered as creditworthy as others thus requiring a high debt coverage ratio, collateral security or guarantees backed by more bankable revenue sources.

A high debt coverage ratio reduces the borrowing capacity by requiring revenues in excess of two times the debt service amount. The high debt coverage ratio could be mitigated by securing loan guarantees or other forms of security from third parties. Although the City itself cannot provide blanket guarantees under the California Constitution's debt limitations, alternatives exist whereby the City may be able to assist.

Although the City is not in a position to provide direct financing, Staff will continue to work diligently with B Street to evaluate alternatives, assist in securing private guarantees and enhancement of their borrowing capacity. Staff will also evaluate opportunities to utilize City-created entities such as the Downtown Sacramento Revitalization Corporation for alternative financing structures that might strengthen the credit of B Street's revenue streams in ways that are not legally permissible for the City to undertake directly.

Policy Considerations: The recommendations included in this report reflect Council's desire to ensure that these priority capital investment projects, that support the "Arts" and enhance downtown, continue to move forward. Additionally, these recommendations reflect the challenges of the current economy and the City's financial limitations.

Economic Impacts: This report does not have direct economic impacts. Future staff reports recommending award of public project contracts funded by the capital appropriations created by these resolutions will define the economic impacts/benefits.

Environmental Considerations: The requested actions are not subject to the provisions of the California Environmental Quality Act (CEQA). Environmental review for the approved projects will be performed in conjunction with planning, design and approval of each specific project as appropriate.

Sustainability: There are no applicable sustainability considerations.

Commission/Committee Action: None.

Rationale for Recommendation: The allocation of funding for the Community Center Renovation project and the revised Studios project continues to support Council's efforts to invest in significant projects within the community. The recommendations within this report provide needed financial support to allow these projects to move forward. Renegotiation of the LOC repayment schedule with CAMA will address CAMA's cash flow challenges relative to the currently scheduled balloon payment on June 30, 2014 and provide flexibility by allowing for repayment upon receipt of estate gifts.

Financial Considerations: Based on current revenue estimates and associated cash flow, the Community Center Fund does not have the capacity to support the debt service required for the entire \$50 million project. Staff is recommending that the \$8.5 million transferred to the General Fund with the closure of assessment districts be designated (“committed” in accounting terms) for the financing of the Community Center Theater Renovation project (M17100100) in order to ensure that funding necessary to complete this project is available.

The CalEPA Fund is a special revenue fund used to reimburse the City for administrative costs associated with the management of the CalEPA office building located on the City block bound by H and I Streets on the north and south and 10th and 11th Streets on the east and west. As of June 30, 2012 this fund has an accumulated balance of \$3.1 million. This fund is not restricted and has previously been used for capital improvement projects. At this time, staff is recommending designating \$2.5 million for Phase 1 of the revised Studios project.

Actual appropriation of these funds will be included in future Council reports.

Emerging Small Business Development (ESBD): None.



RESOLUTION NO. 2013-XXXX

Adopted by the Sacramento City Council

COMMITTING FUNDS FOR THE COMMUNITY CENTER THEATER (M17100100) AND STUDIO FOR THE PERFORMING ARTS (B13000400) PROJECTS

BACKGROUND

- A. On March 26, 2013, the City Council directed the City Manager to bring forward a report with information and recommendations to address project funding needs for the Community Center Theater Renovation project, the Crocker Art Museum, the Studios for the Performing Arts (Studios project), and the B Street Theatre.
- B. On April 23, 2013, the City Council took action to close two assessment district redemption funds totaling \$8.5 million in General Fund resources.
- C. The CalEPA Fund is a special revenue fund used to reimburse the City for administrative costs associated with the management of the CalEPA facility located on the City block bounded by H and I Streets on the north and south and 10th and 11th Streets on the east and west. As of June 30, 2012, this fund has an accumulated balance of \$3.1 million. This fund is not restricted and has previously been used for capital improvement projects.
- D. On April 18, 2006, City Council approved the Community Reinvestment Capital Improvement Program (CRCIP) final Tier I and Tier II project list and bridge financing.
- E. The CRCIP Tier I project list included a \$9 million grant as well as a \$5 million Bridge Loan from the CRCIP funds to participating arts organizations for the construction of the Studios project and the purchase (\$2.9 million) of property at the northeast corner of 14th and H Streets.
- F. The CRCIP Tier I project list included \$2 million in grant funds and a \$12 million Bridge Loan to the Crocker Art Museum Association (CAMA) for the Crocker Art Museum expansion project.
- G. On May 23, 2006, City Council authorized the issuance of approximately \$150 million in bonds, authorized funding for the Tier I CRCIP projects, and adopted policy directives.
- H. The economic recession that began in 2008 hampered the Studios' and Crocker Art Museum's fundraising ability.
- I. On July 21, 2009, City Council approved the First Amendment to City Agreement 2006-798 with the Studios, extending the date for commencement of construction of the project to June 1, 2014, to permit the Studios to secure pledges and funding necessary to complete the project; and approved the Third Amendment to City

Agreement 2002-215 with the CAMA to permit the City to use up to \$10 million in CRCIP funds earmarked for the Studios project to establish a \$10 million line of credit to CAMA to complete the Crocker Art Museum expansion.

- J. Since 2010, the extent of the recession has exacerbated the delay in the Studios fundraising, forcing the organization to revise their development plans to include locating in an existing building rather than developing the 14th Street site.
- K. In addition, the delay in the conversion of pledges for the Crocker expansion project has put CAMA's ability to make the debt payments on the CRCIP loans at risk.
- L. In 2000 the City initiated planning and design work for renovation of the Community Center Theater, which has not had a major renovation since opening in 1974. The project is estimated at \$50 million, \$33 million of which is related to improving access for compliance with the Americans with Disabilities Act with the majority of the balance for replacement of 40-year-old mechanical, electrical, and theatrical systems.
- M. The B Street Theatre is a private, non-profit organization. In 2006 the City Council approved a \$1 million grant to the organization as part of the City's CRCIP.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. Committing \$8.5 million in General Funds, available from the closure of assessment districts, for the financing of the Community Center Theater Renovation project (M17100100).
- Section 2. Committing \$2.5 million from the CalEPA Fund to fund the first phase of a revised Studios project (B13000400).
- Section 3. The City Manager shall continue working with the City Treasurer and return to Council in September with financing options for the Community Center Theatre Renovation project.
- Section 4. The City Manager shall renegotiate the agreements between the Crocker Art Museum Association (CAMA) Board of Directors and the City of Sacramento to address CAMA cash flow issues and minimize risk to the City and return to Council with an amended Memorandum of Understanding (2002-0215).
- Section 5. The City Manager shall amend the scope of work to be completed for the Studio for the Performing Arts Project, renegotiate the agreements with the participating arts organizations, and return to Council with an amended Memorandum of Understanding (2006-0798) for the project.
- Section 6. The City Manager shall continue to work with and assist the B Street Theatre in the evaluation of financing alternatives for the proposed new theatre center.