

Meeting Date: 1/28/2014

Report Type: Staff/Discussion

Report ID: 2014-00112

Title: Loan to the Sacramento Region Performing Arts Alliance for Cultural Programming and Services

Location: Citywide

Issue: Due to a continued decline in revenue and an outdated operating model, the Sacramento Region Performing Arts Alliance (SRPAA) will be forced to cancel the spring 2014 opera and symphonic performances if it does not receive financial assistance. The likely result is the termination of this organization.

Recommendation: Pass a Resolution a) finding it in the best interest of the City extend to SRPAA a forgivable non-revolving line of credit in an amount not to exceed \$350,000, subject to specified terms and conditions; b) authorizing the City Manager or his designee to execute a forgivable non-revolving line of credit in an amount not to exceed \$350,000, subject to specified terms and conditions; c) authorizing the City Manager or his designee to execute additional necessary documents and to take additional necessary actions to implement this resolution; and d) authorizing the City Manager or his designee to transfer \$350,000 from the General Fund administrative contingency to the Citywide and Community Support Department to be used for the loan to SRPAA.

Contact: John Shirey, City Manager, (916) 808-7495, Office of the City Manager; Leslie Wisniewski, Administrative Officer, (916) 808-8920, Convention Culture & Leisure

Presenter: Robert Tannenbaum, General Director, (916) 808-2001, Sacramento Region Performing Arts Alliance

Department: Convention Culture & Leisure

Division: CCL Administration

Dept ID:

Attachments:

- 1-Description/Analysis
- 2-Attachment 1
- 3-Attachment 2
- 4-Attachment 3
- 5-Resolution

City Attorney Review

Approved as to Form
Kourtney Burdick via email
1/23/2014 3:55 PM

Approvals/Acknowledgements

Department Director or Designee: Leyne Milstein via email - 1/23/2014 2:55 PM

Description/Analysis

Issue Detail: SRPAA came into existence on July 1, 2013 in order to merge its two predecessor institutions, the Sacramento Philharmonic and the Sacramento Opera. This was the culmination of a complex two-year process financially supported by organizations such as the Irvine Foundation, the Sacramento Region Community Foundation and the City of Sacramento.

SRPAA began the present season overextended and, despite the best efforts of its Board, staff and supporters in the community, has not been able to break even financially. In combination with a reformed board and a new General Director, a process was undertaken to identify the weaknesses of the traditional operating model. The conclusion of this review is that the traditional model is unsustainable, as the continually shrinking pool of remaining donors simply cannot support the current operating model of costly large scale performances. The result is an operation that is on the brink of bankruptcy, as expenses will exceed revenues that continue to decline. Based on a review of SRPAA's current financial position it is apparent that without additional resources of \$350,000 the organization will be unable to proceed with the operatic and philharmonic performances currently scheduled for spring 2014. The SRPAA cash flow as of December 31, 2013 is included as Attachment 1.

In addition to the analysis of the systemic problems that have plagued these types of organizations for years, the organizational review also included the consideration of new business models that would align the organizations more closely to the demographic and cultural makeup of Sacramento region in the years 2014 and beyond. This process was very successful in delineating the needed changes and how to make those changes. Based on this review, SRPAA proposes to shift to a "community service/jewel-box" model of operations, which involves new programming in smaller forms and venues. This transition will move performances away from venues such as the Community Center Theater and into smaller spaces throughout the city, offering a new level of access to cultural resources by broader audiences that is not currently available. A more detailed description of the new business model is included in the Background section prepared by SRPAA (Attachment 2).

Although the changes needed to ensure SRPAA's success have been identified, necessary continuity of operations has resulted in SRPAA presenting an opera and symphonic concert season to the community that is primarily based on the old model, which is experiencing the same funding challenges faced in the past. As was stated earlier, SRPAA began the present season overextended and, despite the best efforts of its Board, staff and supporters in the community, has not been able to break even financially. If SRPAA does not survive this season, the opportunity to update its business model in order to serve the Sacramento area in a more relevant fashion in the

future will be lost. This will provide a challenge to the City of Sacramento since the city without the classical performing arts cannot attract the necessary business investment which will allow us to grow and compete in the coming decades as a Tier 1 community (operating an opera, philharmonic and ballet). The SRPAA Board and General Director are committed to implementing the changes necessary to modernize and stabilize their organizations and to safeguard these cultural resources for the benefit of our community (Attachment 3).

Policy Considerations: The City of Sacramento has a long history of supporting and investing in local cultural activities. Investment in the efforts to transition the SRPAA to a modern and sustainable operation will allow for the delivery of the spring 2014 programming and provide the SRPAA the opportunity to restructure into an organization with the capacity to deliver programming to a wider range of audiences well into the future.

Economic Impacts: The potential economic impact of losing the Opera and Philharmonic is significant. SRPAA employs seven administrative staff. The Opera Chorus employs 40 staff for productions and there are approximately 60 orchestra musicians per concert. The attendance last year was 7,223 for the Philharmonic and 5,352 for the Opera. In addition to the direct impact on employees, as noted above, cultural arts programming such as that offered by SRPAA is an important attribute of a vibrant flourishing city and the loss of these types of amenities will likely weaken the City's ability to attract economic investment.

Environmental Considerations: Under the CEQA guidelines, California Code of Regulations, title 14, section 15301, the proposed activities are categorically exempt from CEQA review.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: Future investment in Sacramento is fundamentally tied to what the city can offer residents and investors. The performing arts play a large part in creating that sense of “attractiveness” which defines a vibrant and successful city. As such, the loan of \$350,000 will provide the resources necessary for SRPAA to continue its operations, and develop and implement the transition to a sustainable operational model.

This loan is subject to the conditions outlined below, to be memorialized in an agreement to be executed between the City and SRPAA within 30 days of Council action on this report:

- Provide a schedule for implementation of the new business model.
- Provide a detailed financial report identifying how SRPAA intends to use the loan funds.
- Provide a proposed timeline for additional reports to the City, such that these reports shall be no less frequently given than the 5th of each month after the first report required above. Additional reports shall include an updated narrative outlining progress in the implementation of the new business model, an updated cash flow report, and any changes to the business partnerships identified in the original business plan, or other information deemed necessary for the City Manager’s approval.
- Verification that the members of the SRPAA board have satisfied the required fundraising of \$2,500 each in support of the financial stability of the organization.
- Funds will be released solely on an as-needed basis, with a maximum draw of \$150,000 per draw. Requests for funding shall include a detailed report outlining specific uses in relation to programs and/or line item categories and how it will affect SRPAA’s cash flow.
- The drawdown period for the loan shall expire no later than June 30, 2015, or all of the funding has been expended, whichever comes first.
- This loan would be forgivable at the end of the term as long as, in the City’s sole discretion, SRPAA has met all of its obligations under the terms of the proposed agreement.
- SRPAA will return to the City with a detailed business plan outlining the future business model and business partnerships necessary to achieve organizational stability by June 30, 2015, within 45 days of council action on this report.

Financial Considerations: Given the urgent need for funding, it is recommended that funding, in an amount not to exceed \$350,000, be authorized from the General Fund administrative contingency, subject to the conditions outlined in this report, to provide SRPAA with the needed cash flow during its transition to a new business model and a sustainable organization beginning with the 2014/15 season. As detailed in the criteria above, funds will be released solely on an as-needed basis, with a maximum draw of \$150,000 per draw. Requests for funding shall include a detailed report outlining specific uses in relation to programs and/or line item categories and how it will affect SRPAA's cash flow.

Staff further recommends a team of representatives from the Finance and Convention Culture and Leisure Departments participate in the review of operations and cash flow on a monthly basis in order to monitor the transition implementation efforts. If the City determines that loaning funds to SRPAA is no longer fiscally prudent, the City may terminate the loan agreement.

Local Business Enterprise (LBE): Not applicable.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	
1	SACRAMENTO REGION PERFORMING ARTS ALLIANCE							Ticket Escrow \$75K Utilized	Ticket Escrow Reimbursed \$75K		Cash Shortfall \$22K Projected For Operations		Accumulated Cash Shortfall \$248,866	Accumulated Cash Shortfall \$360,563			
2	13-14 Cash Flow Report																
3	31-Dec-13																
4				Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	
5				Actual	Actual	Actual	Actual	Actual	Actual	Plan	Plan	Plan	Plan	Plan	Plan	Plan	
6	Cash (Opening Balance)			257,493	370,766	344,142	331,773	182,397	235,742	279,282	200,658	230,643	(116,720)	(263,417)	(309,597)	(348,477)	
7	Cash (Sequestered Cash)			(170,822)	(315,496)	(300,904)	(168,492)	(213,580)	(233,553)	(222,312)	(146,729)	(132,146)	(97,146)				
8	Cash In																
9	Ticket Sales			50,200	28,675	14,345	34,153	683	1,925	9,366		85,000	20,000				
10	CE/Education Fees				140												
11	Contract Fees				1,000		2,025		57,905	1,025							
12	Advertising				600		623		1,000		1,000	1,000	1,000				
13	Contributions (Grants/Foundation)			250				110,000	7,500	68,000							
14	Contributions (Corporate)			200						10,350							
15	Contributions (Individual)			10,772	6,703	1,447	2,158	17,813	84,496	18,720	10,270	270	1,270	270	270		
16	Contributions (Board)			10,032	9,000	2,800	24,200	11,370	6,050	18,050	550	850	550	550	3,050		
17	Special Event: Gala							1,000	1,850	1,360	65,790						
18	Other Income				1,072	15,038	245	172	3,698	184							
19	Total Cash In			71,454	47,190	33,630	63,404	141,038	164,424	127,055	77,610	87,120	22,820	820	3,320	0	
20	Cash Out																
21	Payroll Expense			(30,454)	(31,532)	(25,772)	(93,649)	(27,064)	(78,407)	(101,769)	(28,000)	(129,000)	(102,017)	(28,000)	(28,000)		
22	General Expenses			(28,469)	(16,259)	(12,254)	(24,590)	(10,768)	(7,260)	(9,200)	(6,000)	(6,000)	(6,000)	(6,000)	(6,000)		
23	Special Event: Gala						(500)	(2,800)	(10,075)	(11,625)							
24	Marketing Expenses			(621)	(13,937)	(5,546)	(19,368)	(15,562)	(4,312)	(16,000)	(13,000)	(13,000)	(13,000)	(13,000)	(7,200)		
25	Program Expenses - Artistic			(9,575)	(12,398)	(2,127)	(74,600)	(27,226)	(17,180)	(63,510)	(625)	(284,483)	(46,500)		(1,000)		
26	Program Expenses - CE/Education			(5,880)		(300)	(73)			(3,575)		(2,000)	(2,000)				
27	Total Cash Out			(74,999)	(74,126)	(45,999)	(212,780)	(83,420)	(117,234)	(205,679)	(47,625)	(434,483)	(169,517)	(47,000)	(42,200)	0	
28	Net Cash In/(Cash Out) From																
29	Operations			(3,545)	(26,936)	(12,369)	(149,376)	57,618	47,190	(78,624)	29,985	(347,363)	(146,697)	(46,180)	(38,880)	0	
30	Cash Ending Balance (Before																
31	Special Items)			83,126	28,334	30,869	13,905	26,435	49,379	(21,654)	83,914	(248,866)	(360,563)	(309,597)	(348,477)	(348,477)	
32	Special Items																
33	Sequestered Cash:																
34	Deferred Ticket Revenue			166,362	200,780	210,824	84,807	132,658	132,658	96,000	35,000	35,000					
35	Restricted Assets + Savings			56,013	49,763	50,080	43,685	36,649	63,395	88,812	74,229	59,646	59,646				
36	Board Designated Assets			40,000	40,000	40,000	40,000	40,000	37,500	37,500	37,500	37,500	37,500				
37	Savings for Opera Irvine Grant			25,265	25,265												
38	Prepaid Expense FY15								(3,650)								
39																	
40	Cash Ending Balance (After Special																
41	Items)			370,766	344,142	331,773	182,397	235,742	279,282	200,658	230,643	(116,720)	(263,417)	(309,597)	(348,477)	(348,477)	
95																	
96																	
97																	
98																	



Sacramento Region Performing Arts Alliance

The New Model

In order to create an organization that truly serves the community and its demographics in the years 2014 and beyond, while at the same time creating a model of fiscal sustainability, the changes that need to be made are threefold:

- 1. Commit to a "community service through professional music" model of operations**
- 2. Match the art forms to the current level of financial support by producing Opera and Symphonic Music in smaller, less costly "chamber" forms of the highest quality**
- 3. Change our pricing structure so that we meet the "40% of total revenue" benchmark.**

1. Commit to a "community service through professional music" model of operations

Instead of making community outreach and educational efforts nice "by-products" of mainstage seasons, we are committed to turning the equation around. Our community and educational efforts will become our most important mission. We have many programs on tap to complete the mission, some of which have begun already this season and some of which will begin next season:

- a. Student Dress Rehearsals – we began a program last month of bringing close to 1000 students to dress rehearsals of Opera and Philharmonic performances by using donor monies to provide the buses to the school districts to bring the children to the theater. Our efforts here are focused on the Title 1 schools in all Council Districts of the city. This program will continue in the present season and in the 14-15 and future Seasons.



Sacramento Region Performing Arts Alliance

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b. *Opera on the Go* – this will be the first full-scale outreach program in the history of the Sacramento Opera, *Opera on the Go* is based on the concept that opera can move out of the theater into the community and maintain relevancy. The project addresses 3 issues - many people don't have the time in their busy lives to attend full-length opera performances; many people don't have the disposable income to pay for tickets, parking, food and drink, etc.; many people feel alienated by music sung in a language they do not understand. *Opera on the Go* addresses all of these issues and contains three tiers based on the size and scale of the presentation, *Opera Express*, *FlashOpera*, and *Arias for Lunch*. *Opera Express* brings fully staged and rehearsed operatic performances in English of Gian Carlo Menotti's *The Telephone* and Ermanno Wolf-Ferrari's *Susan's Secret (Il Segreto di Susanna)* to a variety of locations for a combined total of 26 performances for this portion of the project. Spontaneity and surprise is paramount in *FlashOpera* – the operatic equivalent of today's popular flash mobs. Our plan is to take sixteen members of our opera chorus and two soloists out in public and suddenly perform Verdi's "Libiamo ne' lieti calici" from *La Traviata* with recorded accompaniment to the surprise of all around. Finally *Arias for Lunch* is an opportunity to bring a performer and an accompanist out into public spaces over the lunch hour. This program offers young singers the opportunity to showcase their skills in a variety of settings. Bringing these performers to office cafeterias, for example, during the lunch hour allows busy corporate Americans the opportunity to hear beautiful music on their schedule. However, many working Americans don't find the time to leave their desk for lunch and end up spending the lunch hour working. In response to this reality, we will also be offering the *Arias for Lunch* concerts as a free online broadcast via Google+ Hangouts which will stream live from our Google+ account, our YouTube account, and our website, reaching audiences across the state, country, and world. With performance dates to be determined, we have begun scheduling conversations with representatives of a variety of locations including; the streets of Old Sacramento, the Sacramento Railway Museum, the Sacramento International Airport, the Sacramento Amtrak station, the Sacramento Greyhound Station, the Arden Fair Mall, the Sacramento Loaves & Fishes, the State Capitol Building, various Farmers Markets, and the office cafeterias of major

corporations like Intel, GenCorp, and Aerojet Rocketdyne. *Opera on the Go* brings high quality opera to the audience instead of insisting that the audience come to the opera.

- c. In-School Programming – our very successful *String Fever*, *Musicians on the Move* and *Carnegie Hall LinkUp* programs will continue to bring classical music training and exposure to schools throughout the Capital Region.
- d. Opera Design Project with Sacramento State – we are in the planning stages for a higher education design project giving students the opportunity to learn about and participate in the design of opera productions, culminating in a new production of an opera designed by students and their professional mentors.
- e. Future Projects – as soon as funding allows, we will be starting our *Sacramento Youth Opera*, where opera is produced and performed by young people, connecting them to the art form of opera by doing instead of through being passive listeners.

2. Match the art forms to the current level of financial support by producing opera and symphonic music in smaller, less costly “chamber” forms of the highest quality

The traditional “larger than life” versions of opera and symphonic music require a financial investment that our community clearly cannot come up with at this time. In addition, we have been trying to compete with San Francisco, the Mondavi Center, live HD broadcasts from the cultural centers of the world and other providers with different audience markets and monetary resources. By shifting our work to what we refer to as “jewel-box” chamber versions of these art forms – produced to the highest international standards of quality – we will create performances in smaller venues with manageable budgets, while at the same time carving out a special niche for these traditional performing arts in Sacramento. We are considering partnering with arts organizations in town who already produce in smaller venues in order to take advantage of the structures they have already built.

3. Change our pricing structure so that we meet the “40% of total revenue” benchmark.

Sacramento has one of the lowest median price points for opera tickets in California, while at the same time taking in inadequate revenues at the box office. This has to do with the cost of the “larger than life” versions of these

art forms and not adjusting ticket prices over the past two decades to stay on track with increasing costs. Our new performance model will be reasonably priced but still take in at least 40% of our needed revenue at the box office, as our overall expenses will be lower.

Our organization has had serious issues with attracting corporate and foundation funding for our activities, as well as only receiving individual donations from a very small portion of the community-at-large. This is directly tied to an organizational structure that is not performing community service and is not in relationship with the various demographic groups that make up modern-day Sacramento. When we are truly serving the community and the electorate of the city with programs that resonate with their needs, we can certainly expect a new level of financial support from previously less-than-interested parties, both individual and corporate. A detailed business plan with a multi-year budget is on our agenda for completion, once we have stabilized operations for this season through the assistance of the City and the Council.



January 22, 2014

Memorandum for the City Manager, City of Sacramento

From: Rob Tannenbaum, General Director 

Subject: Proposed contract between the Alliance and the City of Sacramento for \$350,000 of support to complete the 2013-14 Season and implementation of a new model for the Alliance commencing in the 2014-2015 season

Background: In a meeting between Rob Tannenbaum, Marta Quinn and John Shirey, City Manager, on January 21, 2014, an agreement was reached that the City would consider providing the Alliance with \$350,000 to complete the 2013-14 Season. These funds would be conditioned (not an unrestricted gift) as provided in a contract between the City and the Alliance which would outline the future business model of the organization. In order for Rob Tannenbaum to negotiate with the City of Sacramento in good faith, this memorandum outlines the commitment of the Alliance Board to a new the operating model of the Alliance beginning with the 14-15 Season and putting the elements for this shift in place.

Commitments:

1. The Alliance will shift to a combined "community service/jewel-box" model of operations as discussed at its Board retreat in November 2013. The new model will have as its primary goal serving the Sacramento community in its true demographic makeup, not perpetuation of an outdated model that does not reflect the Sacramento community-at-large. This model will involve new programming, in smaller forms, in order to respond to the micro-demographics of our community and will include working in tandem with other performing arts organizations in the city, such as B Street Theater.
2. The Alliance will promptly reorganize itself in order to fully implement this new model.
3. The Alliance will promptly create a business plan which achieves organizational stability by June 30, 2015.
4. Implementation of this new model may cause the Alliance to begin our 14-15 Season as late as January 2015.
5. Any Alliance Board member who does not unconditionally support this model shift will resign from the Board.
6. The Alliance Board and staff will work to explain the reasons for this model shift to our audience and the community-at-large in order to develop broader support and acceptance for our organization.

The Alliance Board of Directors unanimously agreed to the foregoing at its special meeting on January 21, 2014 (see attached resolution).



Sacramento Region Performing Arts Alliance
Board of Directors Meeting

RESOLVED: This board approves in concept the proposal submitted by Robert Tannenbaum, General Director, respecting a change in the Alliance's business model commencing in the 2014-15 season, including the details of the change as discussed during the course of the meeting.

X *Sue E. Miller*

The above resolution was duly adopted by the Board of Directors of the SRPAA on Jan 21, 2014

Sue Miller
Sacramento Region Performing Arts Alliance
Secretary to the Board of Directors

RESOLUTION NO.

Adopted by the Sacramento City Council

XXX 2014

**AGREEMENT AND LOAN DOCUMENTS WITH SACRAMENTO REGION
PERFORMING ARTS ALLIANCE**

BACKGROUND

- A. The Sacramento Region Performing Arts Alliance (SRPAA) came into existence on July 1, 2013, in order to merge its two predecessor institutions, the Sacramento Philharmonic and the Sacramento Opera. Both organizations had experienced funding challenges and were consistently operating on the brink of bankruptcy.
- B. SRPAA has experienced these same funding challenges. Due to a continued decline in revenue and an outdated operating model, SRPAA will be forced to cancel its spring 2014 opera and symphonic performances if it does not receive financial assistance. While SRPAA has a plan for turning the organization around, implementation of that plan will take time and cannot be put into effect in time for the spring 2014 season.
- C. The city supports SRPAA's mission to perform quality symphonic music and opera for the Sacramento region. These performances inspire, enrich, and excite the Sacramento community. Further, cultural arts and programming contribute to the economic vitality of the city, supporting jobs, generating revenue, and attracting tourism. The loss of these types of amenities would alter the city's identity and hamper its economic vitality.
- D. To support SRPAA's continued operation, the city would like to extend to the organization a forgivable non-revolving line of credit, subject to the terms and conditions set forth below.

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

- Section 1. It is in the best interest of the City to extend to SRPAA a forgivable non-revolving line of credit in an amount not to exceed \$350,000, subject to the terms and conditions stated herein.
- Section 2. The City Manager or his designee is authorized to execute a forgivable non-revolving line of credit agreement in an amount not to exceed \$350,000, subject to the following terms and conditions:

- (a) *Loan.* From the effective date of the agreement to June 30, 2015, the City shall establish a credit limit for SRPAA in the principal amount of \$350,000.
- (b) *Draws.* SRPAA may request a draw against the credit limit once each calendar quarter of up to \$150,000. All draws shall be subject to the City's approval and may be denied by the City, in its sole discretion, based on SRPAA's continued viability and its value to the community.
- (c) *Promissory Note.* The Loan is to be evidenced by a promissory note.
- (d) *Interest.* Interest on each Draw will accrue from the disbursement at a percentage rate equal to the City's annual earning rate on Pool A funds for the previous fiscal year, plus two percentage points, per annum.
- (e) *Forgiveness.* The loan, plus interest, shall be forgiven in total if SRPAA, in the city's sole discretion, complies with the following:
 - a. SRPAA shall return to the City, acting through the City Manager, within 45 days of the adoption of this Resolution to present a detailed business plan that describes its proposed revised business model and partnerships that will achieve organizational stability by June 30, 2015, and also includes:
 - i. A proposed schedule for the implementation of the new business model;
 - ii. A detailed explanation of SRPAA's plan for the loaned funds;
 - iii. Confirmation that each member of the SRPAA board has made a personal contribution of \$2,500 to support the financial stability of the organization;
 - b. The business plan is subject to the City's approval, acting through the City Manager or his designee;
 - c. On a monthly basis, provide a written report to the City which describes SRPAA's progress on the implementation of the new business model, a current cash flow report, any changes to the plan or business partnerships identified in the original plan, and other information deemed necessary by the City in its sole discretion.
- (f) If the City determines that loaning funds to SRPAA is no longer fiscally prudent, the City may terminate the loan agreement.
- (g) *Other Terms and Conditions.* Any other terms and conditions the City Manager and the City Attorney, or their respective designees,

determine to be consistent with this resolution and necessary to the proper execution of the agreement and protection of public funds.

Section 3. The City Manager or his designee is authorized to execute such additional necessary documents and to take such necessary additional actions to implement this resolution.

Section 4. The City Manager or his designee is authorized transfer \$350,000 from the General Fund administrative contingency to the Citywide and Community Support Department to be used for a loan to the SRPPA.