

Meeting Date: 3/25/2014

Report Type: Consent

Report ID: 2014-00147

Title: Extend Line of Credit with California Musical Theatre

Location: District 3

Recommendation: 1) Pass a Motion authorizing the City Manager or his designee to execute the first amendment to City Agreement 2011-0572 ("Agreement") with the California Musical Theatre ("CMT") to extend the drawn down period on the Loan to CMT to April 15, 2017; and 2) pass a Resolution authorizing the City Manager or his designee to a) appropriate from the available fund balance of the Community Center Fund (Fund 6010) to fund the revolving loan to CMT in an amount not to exceed \$300,000 in accordance with the Agreement; and b) make necessary budget adjustments when funds are loaned and repaid under the Agreement.

Contact: Rebecca Bitter, Interim Director, (916) 808-5047; Eva Chiang, Administrative Officer, (916) 808-5898, Convention, Culture and Leisure

Presenter: None

Department: Convention Culture & Leisure

Division: CCL Administration

Dept ID: 17001011

Attachments:

1-Description/Analysis

2-Resolution

3-Exhibit A - First Amendment to C2011-0572

4-CMT Update as of Nov 2013

City Attorney Review

Approved as to Form

Kourtney Burdick

3/7/2014 1:49:56 PM

Approvals/Acknowledgements

Department Director or Designee: Rebecca Bitter - 3/4/2014 10:47:43 AM

Description/Analysis

Issue Detail: In 2011, the city council authorized the execution of City Agreement 2011-0572 ("Agreement"), with the California Musical Theatre ("CMT"), which extended a \$300,000 line of credit to CMT ("Loan") to cover potential cash-flow shortages over the following three years (to April 15, 2004). To date, CMT has never drawn on the Loan. While the economy and CMT's financial outlook has improved since the execution of the agreement, CMT's cash flow remains precarious. Accordingly, CMT is requesting, and staff is recommending, that City Council authorize amending the Agreement to extend the draw-down period on the Loan for an additional three years to April 15, 2017.

Policy Considerations: The City of Sacramento has a long history of supporting and investing in local cultural activities. The arts are an essential piece of a vibrant downtown nightlife and play an important role in the cultural and creative life of area residents.

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: None.

Rationale for Recommendation: CMT's continued success and operation is important to the City not just from a cultural arts perspective, but a fiscal perspective as well. CMT's total annual revenues exceed \$12 million, while providing employment to over 520 employees. Approximately 223,000 people attend CMT's events each year. CMT also pays roughly \$900,000 each year in rent and related performance costs to the Community Center Fund for use of the Community Center Theater. Current bond payments made by CMT for the H Street property improvements are approximately \$1,050,000 per year, with the City and County each contributing \$66,000 in funding. The continued success of CMT is important to the City.

In December 2010, CMT adopted a recovery plan for FY2010/11 and FY2011/12 to restructure their organization and operations to balance costs with attendance levels. These changes included salary reductions and reduction of production weeks for the Broadway Series. Since then additional progress has been made to stabilize the organization as described in Attachment 2.

This report requests the extension of the Loan to April 15, 2017.

Financial Considerations: Instead of defunding the Community Theater Renovation Project (M17100100) by \$300,000 and using those funds to extend a revolving loan to CMT as Resolution No. 2011-259 suggested, staff recommends directly appropriating the available fund balance of the Community Center Fund (Fund 6010) for an amount up to

\$300,000 for the next three years through April 15, 2017. The funding will only be used if CMT makes any draws against the Loan.

CMT may request a draw on the Loan once per calendar quarter, in multiples of \$50,000. No draw, when added to the outstanding balance, shall cause the Loan total to exceed \$300,000. No draws may be made after April 15, 2017. Under the Agreement, CMT is required to submit quarterly financial and operational reports.

As originally contemplated by the Agreement, the Loan will continue to be evidenced by a promissory note and secured by a deed of trust on the property owned by CMT located at 1422 G Street.

Local Business Enterprise (LBE): No goods or services are being purchased as a result of the agreements.

RESOLUTION NO.

Adopted by the Sacramento City Council

March 25, 2014

EXTEND LINE OF CREDIT WITH CALIFORNIA MUSICAL THEATRE

BACKGROUND

- A. The arts and culture industry is an economic driver in communities – a growth industry that supports jobs, generates government revenue, and service as a cornerstone of tourism.
- B. In 2011, the City Council authorized the execution of City Agreement 2011-0572 (“Agreement”), with the California Musical Theatre (“CMT”), which extended a \$300,000 line of credit (“Loan”) to CMT to cover potential cash-flow shortages over the following three years (to April 15, 2014). To date, CMT has never drawn on the Loan.
- C. While the economy and CMT’s financial outlook have improved since the execution of the agreement, CMT’s cash flow remains precarious. Accordingly, the City Council, concurrent with this Resolution, has authorized the first amendment to the Agreement to extend the draw-down period on the Loan for an additional three years to April 15, 2017 (agreement attached as Exhibit A).
- D. In Resolution No. 2011-259, the \$300,000 line of credit to CMT is supported by defunding the Community Theater Renovation Project (M17100100) by \$300,000. Instead of defunding M17100100 to fund the extension of the draw-down period, staff recommends appropriating directly from the available fund balance of the Community Center Fund (Fund 6010) in an amount up to \$300,000 when CMT makes draws against the line of credit. The Community Center Fund has a healthy fund balance. As of the beginning of FY2013/14, its fund balance is \$1,752,000.

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

- Section 1. The City Manager or his designee is authorized to appropriate from the available fund balance of the Community Center Fund (Fund 6010) to fund the revolving loan to the California Musical

Theatre in accordance with the First Amendment to City Loan Agreement 2011-0572 (attached as Exhibit A).

Section 2. The City Manager or his designee is authorized to make necessary budget adjustments when funds are loaned and repaid under the Agreement.

Table of Contents

Exhibit A – First Amendment to City Loan Agreement 2011-0572



Requires Council Approval: No YES Meeting: 3/25/14

Real Estate Other Party Signature Needed Recording Requested

General Information

Type: Other Attachment: Original Number: 1
PO Type: Select PO Type Original Document Number: 2011-0572
\$ Not to Exceed: \$ 300,000 Original Contract Amount: \$ 300,000
Other Party: California Musical Theatre (CMT) Deed: [X]None []Included []Separate
Project Name: First amendment to C2011-0572 No. Certified Copies of Document: 1
Project Number:
Bid Transaction #: E/SBE-DBE-M/WBE:

Department Information

Department: CCL Division: Admin
Project Mgr: Eva Chiang Supervisor: Rebecca Bitter
Contract Services: Date:02/27/14 Division Mgr: Rebecca Bitter
Phone Number: 808-5898 Org Number: 17001011
Comment:

Review and Signature Routing

Department Signature or Initial Date
Project Mgr: [Signature] 2/27/14
Accounting:
Contract Services:
Supervisor:
Division Manager: [Signature] 2/27/14

City Attorney Signature or Initial Date
City Attorney: [Signature] 3/3/14

[] Send Interoffice Mail [X] Notify for Pick Up

Authorization Signature or Initial Date
Choose Director
Department Director:
City Mgr: yes [] No [X]

Contract Cover/Routing Form: Must Accompany ALL Contracts; however, is not part of the Contract

For City Clerk Processing
Finalized:
Initial:
Date:
Imaged:
Initial:
Date:
Received:
(City Clerk Stamp Here)

**FIRST AMENDMENT TO CITY LOAN AGREEMENT 2011-0572
WITH THE CALIFORNIA MUSICAL THEATRE**

This first amendment (“**First Amendment**”) to City Agreement 2011-0572 (“**Agreement**”), dated _____, 2014, for purposes of identification only, is between the City of Sacramento, a California municipal corporation (“**City**”), and the California Musical Theatre, a California non-profit public benefit corporation (“**CMT**”). The City and CMT may be referred to collectively as “**Parties**” or in the singular as “**Party**,” as the context requires.

Recitals

- A. In 2011, the Parties entered into the Agreement wherein the City established a \$300,000 revolving loan to CMT (“**Loan**”). Draws against the Loan were to be evidenced by a promissory note and secured by a deed of trust on the real property at 1422 G Street, Sacramento, California (the “**Property**”) as defined in the Agreement. No draws could be made after April 15, 2014. As of the effective date of this First Amendment, CMT has never drawn from the Loan.
- B. Since the execution of the Agreement, CMT has made numerous programmatic changes, including closing the Cosmopolitan Cabaret, which have yielded significant gains in revenue. Nonetheless, the economy remains fragile and CMT’s cash flow continues to be a concern. Going to the theatre is a discretionary expense that consumers are cautious to incur. A drop in attendance at any given CMT production could create an unmanageable strain on CMT’s cash flow.
- C. To provide a safety net and ensure CMT’s continued operation, the Parties would like to extend the draw period on the Loan to April 15, 2017. The Loan will continue to be evidenced by a promissory note and secured by the deed of trust on the Property, which was executed concurrently with the Agreement.

Based on the facts in the foregoing recitals, the City and CMT agree to amend the Agreement as follows:

- 1. **Draws.** The last sentence of Section 2(b) of the Agreement is deleted and replaced in its entirety with the following:

No Draws may be made after April 15, 2017.

2. **Notices and Payments.** CMT's mailing address referenced in Section 10(d) of the Agreement is amended to read as follows:

California Musical Theatre
1510 J Street, Suite 200
Sacramento, CA 95814

3. **Exhibit A.** Section 1 of Exhibit A to the Agreement is deleted and replaced in its entirety with the following:

For all disbursements in a fiscal year, Payor shall pay Payee, in full, the Outstanding Balance and accrued interest on or before June 30 of the fiscal year; however, at any time before April 15, 2017, Payor may borrow, repay, and borrow again on this Note so long as the Outstanding Balance at any one time does not exceed the principal sum of \$300,000.00.

4. **Ratification.** Except as modified by this First Amendment, the Agreement is ratified, affirmed, and remains in full force and effect.
5. **Authority.** The person signing this First Amendment on CMT's behalf represents that he or she is authorized to do so and that no further action beyond his or her signature is required to bind CMT to this First Amendment.
6. **Effective Date.** This First Amendment is effective on the date both parties have signed it, as indicated by the dates in the signature blocks below.

(Signature Page Follows)

CITY OF SACRAMENTO

By: _____
Rebecca Bitter, Interim Director of Convention,
Culture & Leisure

Date: _____

APPROVED AS TO LEGAL FORM
Sacramento City Attorney

By: Kourtney C. Burdick
Kourtney Burdick, Deputy City Attorney

ATTEST:
Sacramento City Clerk

By: _____

California Musical Theatre, Inc.

By: Richard Lewis
Richard Lewis, President and C.E.O.

Date: 2/27/14

APPROVED AS TO LEGAL FORM
Hefner Stark & Marolis, LLP

By: Martin B. Steiner
Martin B. Steiner
Attorneys for California Musical Theatre, Inc.

CALIFORNIA MUSICAL THEATRE



A SACRAMENTO TRADITION FOR OVER 60 YEARS

Update: Stabilization

As of November 2013

Statement of Purpose

California Musical Theatre (CMT) is a 62 year tradition in the City of Sacramento. Since 1951 CMT has expanded to produce and present stage musicals and plays at two very different venues: Broadway Sacramento at the Community Center Theater and Music Circus at the Wells Fargo Pavilion.

With the advent of the economic recession in 2009, California Musical Theatre's previously tried and true business model had to be re-invented. The implementation of new business practices over the past few years has helped to stabilize the company and prevent it from utilizing the \$300,000 line of credit extended by the City of Sacramento in 2011. However, cash flow is an ongoing concern. California Musical Theatre is asking for a three year extension on the existing line of credit, which will expire in April of 2014.

Progress Toward Stability

California Musical Theatre's Board of Directors, Management and Staff are dedicated to continuing and improving upon the business model that has significantly stabilized the company. The list below demonstrates some of the success resulting from that commitment.

- California Musical Theatre has implemented demand based pricing. This practice has gained CMT an additional \$967,600.00 over the past three years.
- California Musical Theatre reduced the Broadway Sacramento performance schedule from two weeks to one. Exceptions are made for productions deemed as "blockbuster" titles that have proven sales records in other markets. This change has resulted in an average surplus of \$885,000.00 over the past two seasons.
- California Musical Theatre made the difficult decision to close The Cosmopolitan Cabaret. This eliminated a yearly average shortfall of \$340,000.00.
- In 2012, California Musical Theatre began hosting an annual Gala event on the first Saturday of May. The Wicked Gala and The Les Misérables Gala had a combined net of over \$140,000.00.
- California Musical Theatre has reconfigured the Music Circus summer season schedule at The Wells Fargo Pavilion. The total number of shows performed was reduced from seven weeks to five weeks. In addition, the performances are no longer held in consecutive weeks. There is a "dark" week between the run of each show. Before the retooling of the production schedule in 2011, there were 6,569 subscribers. In 2013, that number had grown to 9,599.
- California Musical Theatre sold the costume package for *Disney's The Little Mermaid* recouping \$40,000.00 in production expenses.
- In the past three years, Sacramento Theatre Company has remitted \$20,000.00 in past due facility fees to California Musical Theatre.
- California Musical Theatre rented out the Wells Fargo Pavilion to the promoters of comedian Louis C.K. in February of 2013. This event not only brought in \$13,000 in facility fees but also netted over \$6,000.00 in rent and bar sales.

- The Board of Directors for California Musical Theatre continues to be 100% committed to the preservation of the company. Along with providing their expertise and guidance, the Board helped to sponsor numerous events including both Galas. In addition, over the last three years, the Board has expanded to include seven additional members, all with a strong sense of community and the vision to see what California Musical Theatre brings to the City of Sacramento, the region and the State.

California Musical Theatre Board of Directors

Elizabeth McClatchy, Chair

President/CEO / Safety Center Incorporated

Richard, Lewis, President

President/CEO / California Musical Theatre

Scott Robertson, Vice-Chair

Senior Vice President/Regional Area Manager / Wells Fargo Bank

Dennis H. Mangers, Secretary

Member, Board of Governors / State Bar of California

Margaret Kane, Treasurer

President/CEO / Kane Bank Services

Gil Caravantes

President, Commerce Printing Services

Charles Dukes

Director of National Advertising Mobile Technology Company / StepLeader Digital

Phillip E. Gibbons

CPA/JD / Phillip E. Gibbons, Inc.

Lisa Maas

Executive Director / Californians Allied for Patient Protection

Laura Mason-Smith

President/Principle Consultant / Mason-Smith Success Strategies

Dr. Linda Merksamer

Arts Patron

Nancy Miller

Partner / Miller & Owen

Ann-Marie Petrie

Vice-President/Political Director / CBS Radio's California Stations

Kellie Randle

Partner / Randle Communications

Allan Robin

Allan Robin Insurance & Financial Services

Julie Sloat

Attorney-at-Law/Consultant

Sandra R. Smoley

CEO / The Sandy Smoley Group

Celestine Syphax

Arts Patron

Dr. L. Steven Winlock

Executive Director / Sacramento County Office of Education Leadership Institute

Strategies for Continued Stability

- California Musical Theatre is building upon the success of the Louis C. K. event, and actively pursuing other promoters to rent the Wells Fargo Pavilion.
- The Wells Fargo Pavilion is now listed with the Sacramento Convention and Visitors Bureau as an offsite meeting facility.
- California Musical Theatre is constantly re-evaluating ticket pricing and subscriber discounts for both Music Circus and Broadway Sacramento to maximize revenue.
- Though Music Circus has been a resounding artistic success for the past two seasons, California Musical Theatre is still trying to find the right formula to break even or create a surplus. CMT is making every effort to renegotiate labor contracts and cut production costs in order to achieve this goal.
- California Musical Theatre is scrutinizing every aspect of Marketing to find potential ways to increase single ticket sales for Music Circus in 2014.
- The California Musical Theatre Foundation has accumulated a small reserve. If the need arises, CMT will first turn to the Foundation for financial support.

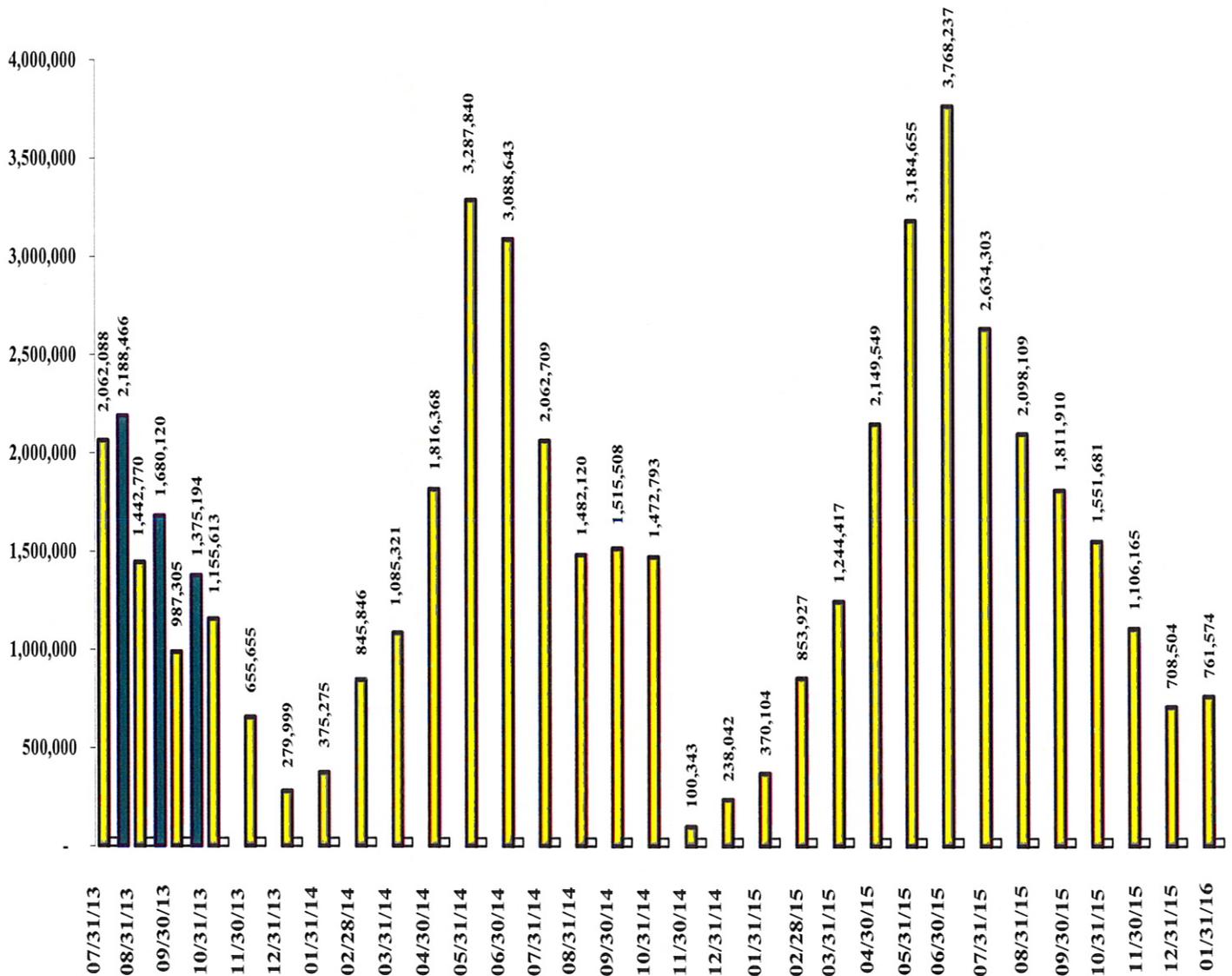
Areas of Concern

- While the economy has shown signs of recovery, the outlook remains extremely uncertain. Since going to the theatre is discretionary spending, a precarious economy has a direct effect on ticket buying, which could lead to dangerously low cash flow for California Musical Theatre.
- Reducing the Broadway Sacramento engagements to one week has created a better balance of supply and demand, but sales are still very much show driven. A drop in attendance on any given show could tip the scales and create a dangerous shortfall.
- California Musical Theatre is still searching for the correct strategy to make Music Circus a self-supporting operation.

- California Musical Theatre faces several time periods in the year when available cash is extremely low. Experience has shown that during a normal month, without a Broadway Sacramento or Music Circus production, a minimum of \$250,000 in cash flow will usually suffice. In months where either venue has a production scheduled, \$500,000 is the in-bank minimum requirement. The chart below illustrates cash flow high and low points in recent past and estimates the near future:

Net Cash Flow
7/31/2013 to 1/31/2016
Revision Date 10/21/2013

■ PROJECTED CASH ■ ACTUAL CASH



Executive Summary

- Music Circus has been a Sacramento tradition since 1951, over 60 years.
- Broadway Sacramento tours are vital to the cultural life of the Sacramento metropolitan region.
- While it has not become necessary to utilize the current \$300,000 line of credit from the City of Sacramento, it is critical to keep this safety net in place for another 3 years to ensure that CMT will be around for generations to come.
- The reinvention of California Musical Theatre's business model has been successful in generating more revenue and cutting costs to help stabilize the company, but there is still uncertainty in the economy which translates to uncertainty in cash flow.