

Meeting Date: 11/6/2014

Report Type: Staff/Discussion

Report ID: 2014-00843

Title: Funding for B Street Theatre

Location: District 4

Recommendation: Pass a Resolution conditionally approving \$2.5 million from the General Fund Administrative Contingency for the B Street Theatre Project.

Contact: Leslie Fritzsche, Senior Project Manager, (916) 808-5450, Economic Development Department

Presenter: Leslie Fritzsche, Senior Project Manager, (916) 808-5450, Economic Development Department

Department: Economic Development Dept

Division: Citywide Development

Dept ID:

Attachments:

1-Description/Analysis

2-Resolution

3-Location Map

4-Background

City Attorney Review

Approved as to Form

Michael Sparks

10/30/2014 1:59:35 PM

Approvals/Acknowledgements

Department Director or Designee: John Dangberg - 10/30/2014 12:40:42 PM

Description/Analysis

Issue Detail: The Theatre for Children, Inc., commonly referred to as the B Street Theatre (B Street), is seeking a \$2.5 million investment from the City for the development of its new 45,000 square foot theater complex to be located at 27th Street and Capitol Avenue (“B Street Project”, see attached Location Map). The \$25.693 million project has already received a conditional award of an \$8.4 million loan from the California Infrastructure and Economic Development Bank (IBank). In addition, Sutter Health has committed to contributing the land for the project valued at \$5.958 million, to providing \$50,000 in annual operating funds, and to providing a \$1 million guarantee for the IBank loan. The project team is working on securing an award of New Market Tax Credits to complete the project funding. The City’s pledge of \$2.5 million will enhance the project’s ability to secure the New Market Tax Credits and solidify the IBank commitment to the project. The City’s investment is contingent upon B Street securing all the necessary funds for the project.

Policy Considerations: The B Street Project is consistent with the 2030 General Plan as it will add to Sacramento’s cultural amenities and contribute to the quality of life for residents and visitors.

Economic Impacts: The economic impact estimates are calculated using a calculation tool developed by the Center for Strategic Economic Research (CSER). The total estimated cost of construction for the B Street Project is \$12.3 million, which is projected to create 42 direct jobs and 30.8 indirect jobs. Additionally, according to the CSER calculation over \$7.7 million in direct output and over \$4.2 million in indirect or induced activities will be generated by the construction of the B Street Project. Actual impacts could differ significantly from the estimates and neither the City of Sacramento nor CSER shall be held responsible for consequences resulting from such differences.

A study completed in 2010 by Economic Planning Systems for the project estimated that, in addition to the benefits outlined above, total off-site visitor spending will increase by \$625,000 annually.

Environmental Considerations: The project was reviewed under the California Environmental Quality Act (CEQA) as part of the Environmental Impact Report that was completed for the entire Sutter General Expansion project.

Sustainability: The B Street Project will intensify the use of land near the Sutter Medical Center complex and align with sustainable infill goals.

Commission/Committee Action: None.

Rationale for Recommendation: B Street began in 1986 as a touring theatre for children. Over 25 years later, the company’s two-theatre playhouse on B Street in Sacramento is home to its Main stage, B3, and Family Series programs (see attached Background section). The theater has been a mainstay of the arts and cultural offerings in Sacramento and is known as one of the best professional regional theaters in the nation. It has had steady levels of annual ticket sales averaging over 95,000 tickets annually. In addition it introduces approximately 200,000 school children annually to high quality, educational theater. In total the theater serves over 300,000 annually.

B Street has long envisioned the development of a more state-of-the-art facility to fulfill its mission of education, literacy, and cultural enrichment by engaging children and adults in high quality theatrical arts and playwriting. Currently B Street turns away approximately 2,000 school children from attending the matinees due to space constraints. The proposed theater complex would house two theater spaces including a 364-seat children’s theater, an intimate 250-seat theater, and a 3,000

square foot restaurant. This configuration will enable B Street to serve approximately 35,000 more children and families annually and allow for an expansion of the current offerings. The new theatre will be in the heart of the midtown area adjacent to restaurants, shopping, and the medical complexes. These attributes will help the visibility and marketing of B Street, thus increasing its ability to attract new audiences, a factor critical to the company’s survival. With this expansion, the theater will enhance its position as a regional draw for Sacramento as well as provide California’s first year-round professional theater for children.

The City’s involvement with B Street dates back to May 2006 when the City provided \$1 million for pre-development work for a new theater as part of the \$150 million City’s Community Reinvestment Capital Improvement Program (CRCIP) bond issuance. At that time, the project included residential units above the theater. The City funds were used for architectural, engineering, and other pre-development costs for that mixed-use project. The funds for construction did not materialize and the project did not move forward.

Staff and supporters of B Street have continued to work to bring the project to fruition. B Street has received all of the required entitlements and environmental clearances except for final design review. Construction drawings have been completed and submitted for permits in June 2014.

Financial Considerations: The total project cost is \$25.693 million. The sources and uses for the project are listed in the table below:

Proposed Uses/Sources	Amount
<u>Uses</u>	
Value of Land Contribution	\$5,958,000
Construction and Contingency	\$14,300,000
Furniture, Fixtures, and Equipment	\$2,500,000
Soft Costs including Architectural/Engineering, Permits, Loan Fees and Relocation Costs	\$1,835,000
IBank Loan Reserve Fund	\$1,100,000
Total Uses	\$25,693,000
<u>Sources</u>	
IBank Loan	\$8,400,000
B Street Theatre	\$247,000
Sutter Health	\$5,958,000
New Market Tax Credits	\$8,588,000
City Assistance (Proposed in this report)	\$2,500,000
Total Sources	\$25,693,000

The IBank loan was conditionally approved by the IBank Board of Directors on May 30, 2014. B Street will utilize its ongoing ticket sales revenues, a new ticket surcharge, and restaurant revenues as the main sources of the loan's repayment. The main condition for the IBank loan is the identification and finalization of all financing sources for the Project.

Sutter Health has been a major contributor to this project, donating the property at 27th Street and Capitol Avenue, which was valued at \$5.958 million. In addition, it has committed \$50,000 annually in operating funds for ten years and a \$1 million guarantee for the IBank loan.

B Street staff have been working to secure approximately \$8.588 million in New Market Tax Credits and the project is currently included in several applications for New Market Tax Credit awards. These applications were filed in early October with awards expected in February 2015. The proposed City financial commitment is conditioned upon B Street securing all the funds necessary to completely finance the project including sources such as the California Infrastructure and Economic Development Bank loan ("IBank"), New Market Tax Credits and private donations. Additional conditions include confirmation of Sutter Health's \$1 million guarantee of debt service payments for the IBank loan and their contribution of \$50,000 annually for ten years to the B Street. A complete list of proposed conditions is included in Exhibit 1 of the attached resolution.

Because the IBank loan requires the pledge of most of B Street's operating revenue sources, the City assistance is proposed to take the form of a 20-year forgivable loan with one-twentieth of the loan forgiven annually. A condition of the City's funding is B Street's securing of all other funds needed to complete the project. The project will be required to comply with Chapter 1 (commencing with Section 1720) of Part 7 of Division 2 of the Labor Code (regarding prevailing wages) as it might apply.

If B Street receives the New Market Tax Credits and the rest of the funding for the project, staff would return to Council for approval of the funding agreement for the proposed \$2.5 million contribution of City funds. The recommended funding source for this is the General Fund Administrative Contingency, which would utilize a portion of the funds originated from the City's sale of the land at the southwest corner of Fair Oaks Boulevard and Howe Avenue (Resolution 2014-0207).

Local Business Enterprise (LBE): None at this time.

RESOLUTION NO.

Adopted by the Sacramento City Council

CONDITIONAL COMMITMENT OF \$2,500,000 FOR THE B STREET THEATRE PROJECT

BACKGROUND

- A. On October 11, 2005, City Council authorized the City Manager to identify projects for a Community Reinvestment Capital Improvement Program (CRCIP) bond issuance.
- B. On April 18, 2006, City Council approved the Final Tier I and Tier II project list and project financing of which the B Street Theatre project was included as a Tier 1.
- C. On May 23, 2006, City Council authorized the issuance of approximately \$150 million in 2006 bonds, authorized funding for the Tier I CRCIP projects and adopted policy directives.
- D. On September 11, 2007, City Council approved the Memorandum of Understanding providing \$1 million in predevelopment costs for Theatre for Children, Inc. for the B Street Theatre project.
- E. These funds were expended by Theatre for Children, Inc. for pre-development work for a mixed-use project that included the B Street Theatre project as well as a residential component.
- F. On March 26, 2013, the City Council directed the City Manager to bring forward information with recommendations to address project funding needs for the Community Center Theatre Renovation project, the Crocker Art Museum, the Studios for Performing Arts, and the B Street Theatre.
- G. On May 7, 2013, the City Council directed the City Manager to continue to work and assist Theatre for Children, Inc. in the evaluation of financing alternatives for the proposed B Street Theatre project.
- H. On May 30, 2014, the California Infrastructure and Economic Development Bank conditionally approved an \$8.4 million loan to B Street from the Infrastructure State Revolving Fund.
- I. On June 17, 2014 the City Council authorized the sale of property at the corner of Fair Oaks Boulevard and Howe Avenue resulting in \$3.1 million which was added to the General Fund Administrative Contingency (Resolution 2014-0207).

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

Section 1. The City Council hereby conditionally approves \$2.5 million in funding from the General Fund Administrative Contingency for the Theatre for Children, Inc.'s B Street Theatre Project.

Section 2. The conditions precedent for final approval of this commitment and disbursement of these funds are outlined in Exhibit 1, which is a part of this resolution.

Attachment:

Exhibit 1 - Funding Conditions for B Street Theatre Project

Funding Conditions for B Street Theatre Project

The City of Sacramento's final approval of \$2.5 million in funding is contingent upon satisfaction of the following conditions. The City of Sacramento will determine in its sole discretion whether a condition has been satisfied. The conditions precedent include:

- 1) Theatre for Children, Inc. shall secure all other funding (besides the City's \$2.5 million) necessary to completely finance the project including sources such as the California Infrastructure and Economic Development Bank loan ("IBank"), New Market Tax Credits and private donations
- 2) An agreement by Sutter Health to guarantee \$1,000,000 of debt service payments for the IBank loan.
- 3) An agreement by Sutter Health to contribute \$50,000 annually for ten years to the B Street Theatre.
- 4) No material adverse change in the Theatre for Children, Inc.'s financial condition or operations.
- 5) Theatre for Children, Inc. shall impose a ticket surcharge to assist with IBank debt service payments.
- 6) City Council approval in its sole discretion of a funding agreement between the Theatre for Children, Inc. and the City of Sacramento.

Attachment 1



Background

Project Information

B Street Theatre (B Street) is a tax-exempt 501(c) 3 organization that began over 25 years ago as a touring theatre for children. Today at their two-theatre playhouse on B Street they offer a variety of programs

A key feature of their mission is to promote education and literacy for children and to engage children in social interaction and cultural enrichment. Recognized as one of Northern California's top theaters, B Street produces 19 shows per year with a focus on new work for youth and adult audiences throughout Northern California.

The proposed project had its inception over 10 years ago, with discussions with Sutter Medical Center about the possibility of incorporating a new B Street Theatre facility into their plans for an expanded medical campus in Midtown Sacramento. Plans proceeded and the corner of 27th Street and Capitol Avenue was identified as B Street's future home. Sutter Medical Center has provided a gift of the land and ongoing operating funds.

Plans for the project originally included a residential component but the current proposal is for two theaters, a 365-seat theater for children and an intimate 250-seat theater with a large public lobby, courtyard, and restaurant. The children's theater, once constructed, will be the only year-round professional theater for children in California.

The project was included in the Sutter Medical Center's Environmental Impact Report and has thus obtained environmental clearance under CEQA. The project has received its required entitlements and regulatory approvals. The project was submitted for building permits in June 2014.

Project Financing

The B Street Project has been more than eight years in development. The total project cost is estimated at \$25.7 million of which \$14.3 million is for construction. The funds for the project are envisioned to come from a number of sources including the Infrastructure Financing Bank, corporate donations such as Sutter's, foundation grants, and tax credits.

B Street Theatre's professional staff, consultants, and Board of Directors have been active in identifying resources for the project. They are in the midst of a Capital Campaign to raise the remaining funds through gifts as well as utilizing grassroots giving through its patron base of 40,000 households. The project is still securing funding and can finalize entitlements and begin construction once the loan from the California Infrastructure and Economic Development Bank and New Market Tax Credits are secured. It is anticipated that construction could begin by Fall 2015.