Title: Amendment to Agreement with California Musical Theatre for Line of Credit

Location: District 4

Recommendation: Pass a Resolution authorizing the City Manager or the City Manager’s designee to: 1) execute the attached third amendment to City Agreement 2011-0572 with Broadway Sacramento (formerly California Musical Theatre) to extend the draw-down period on the loan to Broadway Sacramento until May 8, 2021; and 2) make necessary budget adjustments when funds are loaned and repaid under Agreement 2011-0572, as amended.

Contact: Leslie Wisniewski, Administrative Officer, (916) 808-8920; Jody Ulich, Director, (916) 808-5105, Department of Convention & Cultural Services

Presenter: None

Attachments:
1-Description/Analysis
2-Resolution
3-Third Amendment
4-CMT Update: Continued Stabilization
Description/Analysis

**Issue Detail:** In 2011, the City Council authorized execution of City Agreement 2011-0572 ("Agreement") with California Musical Theatre ("CMT"), which extended a $300,000 line of credit (the "Loan") to CMT to cover potential cash-flow shortages over the following three years (through April 15, 2014). In 2014, the Agreement was extended for an additional three years (through April 15, 2017). In 2017, the Agreement was extended for another year (through April 15, 2018). CMT has never drawn on the Loan. CMT recently amended its corporate status to become "Broadway Sacramento."

While the economy and Broadway Sacramento's financial outlook have improved since execution of the Agreement, Broadway Sacramento’s cash flow remains precarious. Accordingly, Broadway Sacramento is requesting, and City staff is recommending, that City Council authorize extension of the draw-down period on the Loan for an additional three years until May 8, 2021. The proposed third amendment to the Agreement also assigns all rights and obligations under the Agreement to Broadway Sacramento.

**Policy Considerations:** The City 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.

**Economic Impacts:** None.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):** Under CEQA Guidelines section 15378(b)(2), continuing administrative activities do not constitute a project and are therefore exempt from CEQA review.

**Sustainability:** Not applicable.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** Broadway Sacramento’s continued success and operation is important to the City not just from a cultural arts perspective but also from a fiscal perspective. In 2017, Broadway Sacramento’s total annual revenues exceeded $15 million, while providing employment to over 569 employees. Approximately 210,000 people attended Broadway Sacramento’s events in 2017. Broadway Sacramento also paid roughly $683,000 last year in rent and related performance costs to the Community Center Fund for use of the City’s Community Center Theater. Current bond payments made by Broadway Sacramento for
the H Street property improvements to the Wells Fargo Pavilion are approximately $672,225 per year, with the City and County each contributing $66,000 in funding towards the improvements.

In December 2010, CMT adopted a recovery plan for FY2010/11 and FY2011/12 to restructure its organization and operations to balance costs with attendance levels. These changes included salary reductions and reduction of production weeks for Broadway On Tour. Since then, additional progress has been made to stabilize the organization as described in the attached “CMT Update: Continued Stabilization.”

Financial Considerations: FY2017/18 funding for the Loan is already included as part of the FY2017/18 Approved Budget. Funding for the next three fiscal years is subject to City Council approval. Staff recommends that funding for the Loan continue through May 8, 2021. The funding will only be used if Broadway Sacramento makes any draws against the Loan.

Pursuant to the Agreement, Broadway Sacramento 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 May 8, 2021. Under the Agreement, Broadway Sacramento 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 Broadway Sacramento located at 1422 G Street.

Local Business Enterprise (LBE): Not applicable.
RESOLUTION NO.

Adopted by the Sacramento City Council

, 2018

AMENDMENT TO AGREEMENT WITH BROADWAY SACRAMENTO
FOR LINE OF CREDIT

BACKGROUND

A. The arts and culture industry is an economic driver in communities that supports jobs, generates revenue, and serves as a cornerstone of tourism.

B. In 2011, the City Council authorized the execution of City Agreement 2011-0572 (“Agreement”) with California Musical Theater (CMT), now Broadway Sacramento, to extend a $300,000 line of credit (“Loan”) to CMT to cover potential cash-flow shortages over the following three years (through April 15, 2014).

C. In 2014, the Agreement was extended for an additional three years through April 15, 2017. In 2017, the Agreement was extended for another year (through April 15, 2018). Given that Broadway Sacramento’s cash flow is still precarious, City staff recommends further extension of the Agreement through May 8, 2021. To date, Broadway Sacramento has never drawn from the Loan.

D. For FY 2017/18, funding was set aside in the Community Center Fund (Fund 6010) for this Loan, and funding for subsequent years will be approved annually in the City’s budget process. With the extension, Broadway Sacramento will be able to draw up to $300,000 until May 8, 2021, according to the terms and conditions of Agreement 2011-0572.

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

Section 1. The City Manager or the City Manager’s designee is authorized to execute the third amendment to City Agreement 2011-0572 with Broadway Sacramento, attached hereto as Exhibit A, to extend the drawdown period on the loan to May 8, 2021.

Section 2. The City Manager or the City Manager’s designee is authorized to make necessary budget adjustments when funds are loaned and repaid under
City Agreement 2011-0572, as amended.

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Exhibit A – Third Amendment to City Agreement 2011-0572
THIRD AMENDMENT TO CITY LOAN AGREEMENT 2011-0572
WITH BROADWAY SACRAMENTO

This third amendment ("Third Amendment") to City Agreement 2011-0572 ("Agreement") dated , 2018, for purposes of identification only, is between the City of Sacramento, a municipal corporation ("City"), and Broadway Sacramento, a California non-profit public benefit corporation. The City and Broadway Sacramento 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 Broadway Sacramento, formerly “CMT”, ("Loan") over the following three years (to April15, 2014). 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.

B. In 2014, the Agreement was extended for an additional three years to April15, 2017. In 2017, the Agreement was extended for another one year to April15, 2018. No draws could be made after April15,2018. As of the effective date of this Third Amendment, Broadway Sacramento has never drawn from the Loan.

C. Since the execution of the Agreement, Broadway Sacramento has made numerous programmatic changes, including closing the Cosmopolitan Cabaret, which have yielded significant gains in revenue. Nonetheless, the economy remains fragile and Broadway Sacramento’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 Broadway Sacramento production could create an unmanageable strain on Broadway Sacramento’s cash flow.

D. To provide a safety net and ensure Broadway Sacramento’s continued operation, the Parties would like to extend the draw period on the loan to May 8, 2021. 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 Broadway Sacramento agree to amend the Agreement as follows:

1. Loan. The first sentence of Section 2(a) of the Agreement is deleted and replaced in its
entirety with the following:

The City hereby establishes for a period extending from July 1, 2011, to May 8, 2021, a Credit Limit for Broadway Sacramento in the principal amount of $300,000.00.

2. **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 May 8, 2021.

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 May 8, 2021, 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 Third Amendment, the Agreement is ratified, affirmed, and remains in full force and effect.

5. **Authority.** The person signing this Third Amendment on Broadway Sacramento’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 Broadway Sacramento to this Third Amendment.

6. **Effective Date.** This Third 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: _________________________________
Jody Ulich, Director of Convention and Cultural Services

Date: _________________

APPROVED AS TO LEGAL FORM
Sacramento City Attorney

By: _________________________________
Maila Hansen, Deputy City Attorney

ATTEST:
Sacramento City Clerk

By: _________________________________
Date: _________________

Broadway Sacramento, Inc.

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

Date: _________________

APPROVED AS TO LEGAL FORM
Hefner, Stark & Marois, LLP

By: _________________________________
Martin B. Steiner
Attorney for Broadway Sacramento, Inc.
THIRD AMENDMENT TO CITY LOAN AGREEMENT 2011-0572

This third amendment ("Third Amendment") to City Agreement 2011-0572 ("Agreement") dated ______________, 2018, for purposes of identification only, is between the City of Sacramento, a municipal corporation ("City"), California Musical Theatre ("CMT") and Broadway Sacramento, a California nonprofit corporation.

Recitals

A. In 2011, the City entered into the Agreement with CMT wherein the City established a $300,000 revolving loan ("Loan") to CMT through April 15, 2014. 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.

B. In 2014, the Agreement was extended for an additional three years through April 15, 2017. In 2017, the Agreement was extended for another year through April 15, 2018. No draws could be made after April 15, 2018. As of the Effective Date of this Third Amendment, CMT has never drawn from the Loan.

C. CMT recently amended its corporate status to become "Broadway Sacramento." Accordingly, Broadway Sacramento now desires to assume all rights and obligations of CMT under the Agreement.

D. Additionally, Broadway Sacramento has made numerous programmatic changes, including closing the Cosmopolitan Cabaret, which have yielded significant gains in revenue, but the economy still remains fragile and Broadway Sacramento’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 Broadway Sacramento production could create an unmanageable strain on Broadway Sacramento’s cash flow.

E. To provide a safety net and ensure Broadway Sacramento’s continued operation, the City and Broadway Sacramento would like to extend the draw period on the Loan to May 8, 2021. 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, CMT, and Broadway Sacramento agree to amend the Agreement as follows:

1. **Loan.** The first sentence of Section 2(a) of the Agreement is deleted and replaced in its entirety with the following:

   The City hereby establishes for a period extending from July 1, 2011, to May 8, 2021, a Credit
Limit for Broadway Sacramento in the principal amount of $300,000.00.

2. **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 May 8, 2021.

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 May 8, 2021, 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. **Assignment and Assumption.** As of the Effective Date of this Third Amendment, CMT hereby assigns its rights and obligations under the Agreement to Broadway Sacramento, and Broadway Sacramento hereby accepts assignment of the Agreement. Accordingly, Broadway Sacramento hereby assumes all of CMT’s obligations under the Agreement, including without limitation all of CMT’s obligations under the promissory note, and Broadway Sacramento agrees to be bound by all of the provisions of the Agreement and perform all obligations of “CMT” under the Agreement as a direct obligation to City from and after the Effective Date of this Third Amendment. CMT shall not be released or discharged from any obligations of CMT under the Agreement arising before the Effective Date of this Third Amendment.

5. **Ratification.** Except as modified by this Third Amendment, the Agreement is ratified, affirmed, and remains in full force and effect.

6. **Authority.** The person signing this Third Amendment on CMT and Broadway Sacramento’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 and Broadway Sacramento to this Third Amendment.

7. **Effective Date.** This Third Amendment is effective as of May 8, 2018.

   *(Signature Page Follows)*
CITY OF SACRAMENTO

By: __________________________________________
Jody Ulich, Director of Convention and Cultural Services

APPROVED AS TO LEGAL FORM
Sacramento City Attorney

By: __________________________________________
Maila Hansen, Deputy City Attorney

ATTEST:
Sacramento City Clerk

By: __________________________________________

CALIFORNIA MUSICAL THEATRE

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

APPROVED AS TO LEGAL FORM
Hefner, Stark & Marois, LLP

By: __________________________________________
Martin B. Steiner
Attorney for California Musical Theatre

BROADWAY SACRAMENTO

State I.D. No. 0273994

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

APPROVED AS TO LEGAL FORM
Hefner, Stark & Marois, LLP

By: __________________________________________
Martin B. Steiner
Attorney for Broadway Sacramento
Update: Continued Stabilization

As of April 2018
Statement of Purpose

Broadway Sacramento, formerly California Musical Theatre (CMT), is a 67 year tradition in the City of Sacramento. Since 1951 Broadway Sacramento has expanded to produce and present stage musicals and plays at two different venues: Broadway On Tour at the Sacramento Community Center Theater and Broadway at Music Circus at the Wells Fargo Pavilion.

With the advent of the economic recession in 2009, Broadway Sacramento’s previously tried and true business model had to be re-invented. New business practices were implemented which continue to stabilize Broadway Sacramento and, as a result, it has not been necessary to draw on the $300,000 line of credit extended by the City of Sacramento in 2011 (renewed in 2014 and then again in 2017). However, cash flow is an ongoing concern. Broadway Sacramento is requesting a three year extension on the existing line of credit, which will expire in April of 2018.

Continued Progress Toward Stability

Broadway Sacramento’s Board of Directors, Management and Staff are dedicated to continually improving upon the business model that has significantly stabilized the company. Below is a list demonstrating some of the success resulting from that commitment. The list has been updated to reflect progress since Broadway Sacramento’s previous request to renew its line of credit with the City of Sacramento.

- Broadway Sacramento utilizes market pricing. This practice gained an additional $303,631.30 in revenue from ticket sales for Fiscal Year 2017 and $189,469.70 to date for Fiscal Year 2018.
- Beginning with the 2011-2012 Broadway On Tour season, Broadway Sacramento reduced the performance schedule from two weeks to one. Exceptions continue to be made for productions deemed as “blockbuster” titles that have proven sales records in other markets. As a direct result of this change, Broadway Sacramento achieved a breakeven budget for Fiscal Year 2017.
- Broadway Sacramento continues to host an annual Gala event on the first Saturday of May. In 2017, this event netted $127,319.00.
- Since 2014, Sacramento Theatre Company has remitted $31,000.00 in past due facility fees to Broadway Sacramento.
- In January of 2016, Broadway Sacramento refinanced the debt on the Wells Fargo Pavilion which has reduced bond payments by approximately $388,000 a year, and will continue to do so for the next 14 years.
The Board of Directors for Broadway Sacramento continues to be 100% committed to the preservation of the company. Along with providing their expertise and guidance, the Board helps to sponsor numerous events including the Annual Gala. In order to expand the Board, Broadway Sacramento’s bylaws were changed to allow a maximum of 25 members. The nomination committee continues to meet with potential candidates, all with a strong sense of community and the vision to see what Broadway Sacramento brings to the City of Sacramento, the region and the State.

**Broadway Sacramento Board of Directors**

- Margaret L. Kane, Chair
  - President & CEO / Kane Bank Services

- Richard Lewis, President
  - President & CEO / Broadway Sacramento

- Donna Kaylor, Vice-Chair/Chair Elect
  - Director / Government Relations Pfizer, Inc.

- Steve Kyriakis, Secretary
  - Arts Patron / Community Volunteer

- Martin Steiner, Treasurer
  - Partner / Hofner, Stark & Marois, LLP

- Robin C. Bevier, ESQ.
  - Attorney at Law / Martorana & Bevier

- Todd Bryan, CSS CSW
  - California Lottery

- Jacqueline M. Calkin, M.D.
  - Calkin & Boudreaux Dermatology Associates

- Jennifer Davidson
  - CFO / SMUD

- Phillip E. Gibbons
  - Attorney at Law / Phil E. Gibbons, Inc.

- Josh Hart
  - Regional Area Manager / Wells Fargo Northern California Business Banking

- Cassandra H.B. Jennings
  - President & CEO / Greater Sacramento Urban League

- Betty Loftus
  - Chair / Loftus Investment Advisors

- Lisa Maas
  - Executive Director / Californians Allied for Patient Protection

- Jennifer Randlett Madden
  - Partner / Delfino Madden O'Malley-Coyne & Kowaler LLP

- Dr. Linda Merksamer
  - Arts Patron / Community Volunteer

- Kellie Randle
  - Partner / Randle Communications

- Sandy Sharon, RN
  - Senior VP and Area Manager / Kaiser Foundation Hospitals/Health Plan, Sacramento

- Sandra R. Smoley
  - CEO / The Sandy Smoley Group

- Rob Stewart
  - Host & Executive Producer / Rob on the Road, PBS KVIE

- Mike Ueltzen
  - Partner / Eissner Amper
Strategies for Continued Stability

- Broadway Sacramento is constantly re-evaluating ticket pricing as well as subscriber and group discounts for both Broadway at Music Circus and Broadway On Tour to maximize revenue.

- Though Broadway at Music Circus has been a resounding artistic success, Broadway Sacramento is still trying to find the right formula for it to break even or create a surplus. Broadway Sacramento is making every effort to renegotiate labor contracts and cut production costs in order to achieve this goal.

- Broadway Sacramento continues to scrutinize every aspect of Marketing to find potential ways to increase ticket sales for Broadway at Music Circus in 2018. A Social Media/Digital Coordinator was hired in the spring of 2017 to promote and increase exposure to Broadway Sacramento via all digital platforms.

- Broadway Sacramento is in the process of rebranding Music Circus to try to attract new audiences and more accurately reflect the Broadway quality productions at The Wells Fargo Pavilion. To this end, the umbrella company name of California Musical Theatre has been changed to Broadway Sacramento and the Music Circus season is now called Broadway at Music Circus. The look and professionalism of brochures and television ads have been boosted in an effort to match the unique experience and level of excellence of the Broadway at Music Circus productions.

- Broadway Sacramento has invested in Tessitura, an integrated Customer Relationship Management system, tailor-made for arts and cultural organizations. More than just a ticketing system, Tessitura enables connections with prospects, donors, members, single-ticket buyers, and subscribers. This makes it an equally strong platform for ticketing, fundraising, marketing, customer relationship management, data mining and web capabilities. Not only will Tessitura provide greater, more intricate marketing tools which should translate to higher sales, but it will also allow Broadway Sacramento to collect more revenue related to online sales.

- The Broadway Sacramento 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 been recovering, Broadway Sacramento’s reserves have been depleted and the outlook remains 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 Broadway Sacramento.

- Reducing the Broadway On Tour 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.

- Broadway Sacramento is still searching for the correct strategy to make Broadway at Music Circus a self-supporting operation.
- The rising cost of doing business continues to be a challenge. The increase in minimum wage significantly impacts Broadway Sacramento’s budget each year, particularly for Broadway at Music Circus where hundreds of seasonal employees are hired (concessions, operations, additional help in the box office, production assistants, etc.) The increase in minimum wage has a snowball effect on all wages/salaries. This ballooning of labor costs, along with the increase of all expenses related to producing the shows, make the margin for a breakeven budget tighter than ever.

- While the transformation of the Sacramento Community Center Theater is exciting and should ultimately have a positive effect on Broadway On Tour, presenting shows at the Memorial Auditorium in the interim is an unknown factor. Since Broadway Sacramento has not presented a Broadway On Tour show in this venue, there may be unbudgeted expenses that arise. There is also a question as to what the capacity will be. If it is reduced, breaking even on a given show will prove even more challenging. In addition, change is often met with resistance, and the unique seating configuration of the Auditorium may not draw the same audience and possibly adversely affect attendance.

- Broadway Sacramento faces several time periods in the year when available cash is extremely low. Experience has shown that during a normal month, without a Broadway On Tour or Broadway at 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 the recent past and estimates the near future:
Executive Summary

- Broadway at Music Circus has been a Sacramento tradition since 1951, 67 years.

- Broadway On Tour shows are not only vital to the cultural life of the Sacramento metropolitan region, but also have an estimated economic impact of $17.28 per person attending each performance.

- 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 Broadway Sacramento will be around for generations to come.

- The reinvention of Broadway Sacramento’s business model has been successful in generating more revenue and cutting costs to help stabilize the company, but reserves have been depleted and there is still uncertainty in the economy which translates to uncertainty in cash flow.