



COUNCIL AGENDA: 9/25/18
FILE: 18-1260
ITEM: 4.1

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh

SUBJECT: SAN JOSE STAGE COMPANY
EQUIPMENT ASSISTANCE GRANT

DATE: September 12, 2018

Approved

D. D. Syl

Date

9/13/18

COUNCIL DISTRICT: 3

RECOMMENDATION

Approve an Equipment Assistance Agreement with the San Jose Stage Company in an amount not to exceed \$1,000,000 for modern theater equipment and furniture to be installed in a new mixed-use renovated facility located at 490 South First Street.

OUTCOME

Council approval of this agreement will result in the following outcomes:

- Allow the San Jose Stage Company ("The Stage") to acquire modern theater equipment and furniture as part of a mixed-use development of its facility, attracting new regional audiences to downtown;
- Provide the community access to a well-equipped theater for performances and events; and
- Ensure the downtown retains a theater or other cultural facility in perpetuity in the South of First Area (SoFA) arts and theater district through the recording of a legal covenant.

BACKGROUND

Established in 1983, The Stage is recognized as a leading Bay Area off-Broadway theater company that draws a regional audience of 30,000 and has an economic impact estimated at \$1.9M. The Stage is an anchor organization in SoFA, a unique multi-block area in the downtown known for its concentrated arts and cultural activities. Since its inception 35 years ago, The Stage has produced over 165 productions, premiering over 47 new works, including 14 world premieres. The Stage has achieved operating surpluses nine of the past ten fiscal years through careful management and financial controls and has an operating budget of just over \$1M.

In addition to its core programming, The Stage provides emerging artists and arts organizations access to its downtown theater facility through its community rentals program. The organization has provided its venue and professional services to various arts group such as Cinequest, San Jose Jazz, Movimiento de Arte y Cultura Latina Americana, Institute of Contemporary Art, and San José Museum of Quilts & Textiles. They have offered their theater space for outside productions, presentations, and meetings organized by Northside Theatre Company, Silicon Valley Creates, Roshii Productions, and the City. The Stage is also committed to employing local talent that is reflective of the region's diverse community of performing artists and to developing the next generation of theater professionals through award-winning educational programs and active internship partnerships with San Jose State University and Santa Clara University.

As the original anchor arts organization in SoFA, The Stage has been providing award-winning theater programming in its current facility since 1990 when it was the first arts group in San Jose to build out and lease its own theater facility from the San Jose Redevelopment Agency. In recognition of their enduring leadership, The Stage's Executive Director, Cathleen King, and Artistic Director, Randall King, will be honored with the 2018 Cornerstone of the Arts Award presented by the Office of Cultural Affairs and the Arts Commission on October 12, 2018.

Following the dissolution of all redevelopment agencies in the State of California in 2012, the Successor Agency to the Redevelopment Agency (SARA) was tasked with the disposition of the former San Jose Redevelopment Agency properties, including 490 South First Street, the property inhabited by The Stage. SARA, at the direction of its Oversight Board, adopted a disposition process for its properties that allowed local governmental agencies and non-profits the ability to acquire certain SARA properties for the fair market value based on an appraisal. After notice of this process by SARA, The Stage elected to acquire the 490 South First Street property ("Property"). After obtaining two appraisals, the SARA board settled on a purchase price of \$2.3M. At its meeting on May 15, 2018, SARA approved the sale of the Property to The Stage. The Stage has deposited a ten percent (10%) deposit with the escrow holder, and the Property is now in escrow with closing scheduled for October 9, 2018.

ANALYSIS

Recognizing the potential for City funds to leverage substantial contributions from private or other public sources to advance cultural priorities in SoFA, the Mayor's Budget Message for FY2016-2017 directed the City Manager to support The Stage in its efforts to acquire and develop the facility located at 490 South First Street with supplemental funds from the Cultural Facilities Maintenance Reserve Fund (Transient Occupancy Tax). The Stage's budget to acquire, expand and renovate its theater is estimated at \$6.8M, of which \$2.3M (33%) is allocated for site acquisition. The County of Santa Clara has approved a \$435,000 grant to support The Stage's site acquisition costs, and The Stage has secured private financing for the remaining \$1,865,000 required to purchase the Property. It is important to note that the Stage's

ability to secure facility acquisition funds was significantly enhanced by the City's intention to contribute to this project.

With facility acquisition funds successfully secured, The Stage has requested \$1M from the City to assist in the purchase of equipment and furniture, including theater seating, for its future renovated facility. With a seating capacity of 200, the current facility is approximately 6,700 square feet with a theater, a small lobby, and an office area. The Stage's goal is to renovate and expand to about 20,000 square feet, with capacity for 325 seats, administrative offices and a large lobby that can function as a cabaret/cafe space. To realize this goal, The Stage intends to work with private entities to realize a mixed-use development on the current site which would include a new theater on the ground floor. In this strategy, the private entity would bear the majority of the development costs, and The Stage would be responsible for the costs associated with build-out and equipping of the theater. In addition to the \$2.3M for property acquisition, The Stage estimates its portion of the cost to be approximately \$4.5M.

The City's \$1M commitment will provide significant leverage for The Stage to raise the additional \$3.5M for the new theater. The Stage has worked with recognized capital campaign consultants, Netzel Grigsby Associates, to conduct a thorough feasibility study, which is a precursor to a successful capital campaign for facility development projects. The Stage has also received a competitive Capitalization and Sustainability Grant from the City to continue to retain Netzel Grigsby as independent consultants for capital campaign implementation. A capital campaign committee comprised of Stage supporters and recognized community leaders is in place to plan and oversee the entire campaign.

Grant Terms

The Equipment Assistance Agreement is conditioned upon the following:

1. Recordation of a covenant ("Covenant") at the close of escrow for The Stage's acquisition of the Property requiring that any future development of the Property contain a ground floor facility with direct access and visibility from South First Street for a community theater or other cultural facility of not less than six thousand seven hundred (6,700) square feet with an accessible loading dock. The Covenant will remain in place for perpetuity; and
2. The Stage obtaining a building permit for theater tenant improvements as a component of a larger mixed-use development that is anchored by a ground floor theater within two years of execution of the Equipment Assistance Agreement.

Eligible Equipment and Furniture: Upon satisfaction of the above conditions and approval of invoices, the City will provide up to \$1M of assistance to The Stage for a) theater equipment, including lighting, sound and technical control systems and b) furniture, including theater seating. This new equipment and furniture will be installed in a new theater in a mixed-use

building, so that it can be a flagship facility that will continue to attract regional audiences to SoFA for years to come.

Covenant: In order to ensure that SoFA maintains at least one professional theater to anchor this vital arts and cultural district, The Stage is required to record a Covenant that will require that a theater or other cultural facility be located on the site for future generations, regardless of who owns the land.

Specified Time Period: To provide a helpful stimulus for timely fundraising and tenant improvements as a component of mixed-use development, there is a stipulation that a building permit for the development be obtained within two years of grant execution.

Security Interest: The City will retain a security interest in the items purchased with this grant, enabling a legal claim to the equipment and furniture if The Stage does not perform its obligations under the agreement. If The Stage ceases operations within a period of 15 years, the City will be entitled to be reimbursed a portion of the grant disbursed, according to the following schedule: 90% reimbursement in the first five-years, 67% between 5-10 years, and 33% in the final five-years.

City-use: Similar to other cultural facilities in which the City has significantly invested, the agreement also includes a City-use clause which enables the City to reserve the facility without cost for up to twelve dates a year for public purposes. Although facility rental costs are waived under this agreement, the City will be responsible to pay the costs of any equipment rental or incremental technical and/or administrative personnel needed to support the rental event.

EVALUATION AND FOLLOW-UP

Staff will monitor the progress of the Stage's capital campaign and provide updates to the Arts Commission.

PUBLIC OUTREACH

This memorandum will be posted on the City Council's Agenda website for September 25, 2018 Council meeting.

COORDINATION

This memorandum was coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

The Arts Commission has actively supported the efforts of The Stage to acquire and develop its facility, most recently recommending a grant to support its capital campaign feasibility study and subsequently approving a competitively awarded grant to implement a capital campaign for its new facility.

FISCAL/POLICY ALIGNMENT

This project aligns with the City's Economic Development goal of advancing Downtown San José as Silicon Valley's cultural center. It also aligns with the Council-adopted *Cultural Connection: San José's Cultural Plan for 2011-2020*.

COST SUMMARY/IMPLICATIONS

This grant provides funding for theater equipment and furniture to be utilized in The Stage's new facility as part of its planned renovation and expansion. The appropriation action for this grant was originally intended to provide funding for necessary appraisals, planning and potential purchase of the site. It is now recommended that funds be used to support the purchase of modern theater equipment and furniture given that The Stage was able to secure a separate County grant and external financing to cover site acquisition costs. Both The Stage's grant from the County and The Stage's ability to arrange external financing for property acquisition were significantly influenced by the City's intention to support The Stage in its facility acquisition and development plans. The Stage's portion of the cost for property and theater build-out is expected to be approximately \$6.8M. The City's \$1M investment will ultimately leverage \$5.8M in private and other public dollars for a new theater facility that will enhance the vibrancy of the downtown.

BUDGET REFERENCE

The table below identifies the funds and appropriations proposed to fund the grant agreement recommended as part of this memorandum.

Fund#	Appn#	Appn. Name	Current Total Appn.	Amt. for Contract	2018-2019 Proposed Capital Budget Page	Last Budget Action (Date, Ord. No.)
001	7874	San José Stage Company	\$1,000,000	\$1,000,000	N/A	6/19/2018 Ord. No. 30124

The 2018-2019 Operating Budget was adopted by the City Council on June 19, 2018

HONORABLE MAYOR AND CITY COUNCIL

September 12, 2018

Subject: San Jose Stage Company Equipment Assistance Agreement

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CEQA

Not a Project, File No.PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

KIM WALESH

Deputy City Manager

Director of Economic Development

For questions, please contact Kerry Adams Hapner, Director of Cultural Affairs, at (408) 793-4333.