

Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Kerry Adams Hapner

SUBJECT: SEE BELOW

DATE: October 9, 2018

Approved

Kin Waleh

Date

10/15/18

**SUBJECT: EXTENSION OF AGREEMENT WITH SAN JOSE STATE UNIVERSITY
TO OPERATE THE HAMMER THEATRE CENTER**

RECOMMENDATION

Accept report and forward a recommendation to the full City Council to extend the agreement with San Jose State University (SJSU) through June 30, 2020 to operate and maintain the Hammer Theatre Center.

BACKGROUND

Built by the San Jose Redevelopment Agency for the San Jose Repertory Theatre (the Rep), the four-story, 528-seat and 58,000 square foot Susan and Phil Hammer Theatre Center ("Hammer Theatre") was opened in the heart of the downtown in 1997 and operated by the Rep until 2014. Following the bankruptcy of the Rep in summer 2014, the City undertook a year-long public process to identify a new operator to reactivate the City-owned theater so that the facility could continue to be a vital arts and cultural anchor in the downtown.

An 11-member body was formed to advise staff and inform the final recommendation of the long-term operating model for the Hammer Theatre. Comprised of representatives with experience in the performing arts and nonprofit theaters, entertainment, nonprofit management, downtown issues, and facility management, the Hammer Theatre Advisory Committee oversaw an extensive Request for Interest process that resulted in the recommendation of San Jose State University (SJSU) to be the new operator for an initial incubation period of three years with options to extend for a longer period.

On December 1, 2015, City Council voted unanimously to approve an operations and maintenance (O&M) agreement with SJSU for a term of three (3) years commencing December 1, 2015 through July 31, 2018 to develop an innovative model for operating, programming and stewarding the Hammer Theatre. On October 7, 2016, the agreement was extended through

December 31, 2018 to encompass a full three-year start-up phase. The incubation model emphasizes co-creation and ongoing iterative improvement based on actual operational experience.

As submitted by SJSU in its proposal to operate the Hammer Theatre, the core programmatic business model encompasses:

1. **SJSU programming:** cultural and other events (including concerts, plays, exhibits, lectures, etc.) created by SJSU academic programs and vetted by a campus committee to ensure that the offerings are suitable for the scale and character of the facility and are likely to appeal to diverse local and student audiences;
2. **SJSU sponsored programming:** sponsored by SJSU academic and other units for the benefit of the university and the community, including co-produced theater and other cultural programming between SJSU and outside cultural organizations; and
3. **Community rentals:** the tiered rental model encompasses rental of all performance and reception spaces at the facility, including the auditorium, Hammer 4 (4th floor rehearsal studio/black box theater), Curtain Call Café, Mercury News Lounge, the rooftop terrace and the lobby area.

ANALYSIS

The City's partnership with SJSU to operate the Hammer Theatre has provided ongoing, high quality cultural programming in the iconic downtown venue. Now nearing the end of its third year of operating the Hammer Theatre, SJSU has laid a solid foundation for a financially sustainable operating model which retains the Hammer Theatre as a vital arts and cultural anchor in the downtown and supports the educational mission of SJSU. As with the City's other cultural facility operating agreements with nonprofit partners, SJSU receives an operations and maintenance subsidy to operate the Hammer Theatre. The subsidy amount for the O&M agreement is \$285,000, which is the same amount provided to the facility's previous operator.

Expiring on December 31, 2018, the City's initial three-year O&M agreement term was intended to serve as a demonstration period to incubate the new operating model for the Hammer Theatre. Due to the positive momentum and benefits of the programming model for both the City and SJSU, City staff and SJSU leadership seek to extend the O&M agreement for 18-months, through June 30, 2020, to allow time review and evaluate any mutually beneficial enhancements to the arrangement before a substantially longer term agreement is implemented. The extension will also allow the contract cycle to align with the City's fiscal year.

The only change being proposed by SJSU during the 18-month extension is to allow the option to offer limited theater and/or arts-related classes in the facility, provided that the classes do not impact the rental potential of the auditorium as a performance or event venue. For example, courses in costuming or arts management could be held in the former costume shop space or in the café area during the day when the venue is not likely to host performances. This provision

allows a richer educational experience for future artists and arts administrators in spaces that would otherwise be underutilized. SJSU will provide advance notice to City staff of proposed classes for review and approval.

Highlights of Accomplishments To Date Under SJSU's Management of the Hammer Theatre

Programming: Under SJSU management, Hammer Theatre programming has reflected a rich diversity of offerings by a variety of producers including SJSU, community arts and nonprofit groups and national touring entities. In keeping with its history as a theater venue, about a third of the performances featured theater offerings for the public. The full calendar of events for the season just concluded is included as **Attachment A**.

Programming highlights to date include:

- Since opening in March 2016, attracted 85,000 people downtown to enjoy 290 diverse, high quality events produced by SJSU, local arts and community partners and national and international producers.
- Upheld the tradition of the Hammer Theatre as a place to see high quality theater, with one-third of its FY2017-18 offerings focused on theater (60 performances).
- Served as popular venues for annual San Jose Jazz and Cinequest festivals, as well as presentations by other local and regional arts organizations.
- Partnered with Emory Entertainment to bring national touring productions to San Jose audiences including *Menopause the Musical*, *Elvis My Way*, *Book of Moron* and *Late Night Catechism*.
- Initiated a new presenting series including *ArtTech*, with innovative works that combine art and technology in new ways, featuring cutting-edge performances by Enra, ElevenPlay and others.
- Inaugurated highly acclaimed series of *National Theater Live* and *National Geographic Live* so San Jose audiences can experience filmed broadcasts of productions from the National Theatre in London and the work of respected National Geographic explorers.
- Activated former rehearsal hall on the fourth floor into a new performance space, Hammer 4, for smaller intimate productions in a black box environment.
- Activated the public area surrounding the theater with popular and free public events such as Paseo Prototyping Festival, International Jazz Day, South First Fridays monthly art walk, and most recently, Theatre Plaza Celebration which attracted 3,700 people over two nights to see aerial dancers perform on the walls of the Hammer Theatre in late September 2018.
- Provided family-friendly winter holiday programming featuring local, regional and national productions for residents and visitors, including The New Ballet's popular *San Jose Nutcracker* which features historical references to the history and heritage of Santa Clara Valley.

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- Created new dedicated website with online ticket selling capability (<http://hammertheatre.com>) and produced regular programming brochures (See **Attachment B** for most recent brochure.)

Staffing: In the second year of the agreement, SJSU was able to fully staff the Hammer Theatre with four full-time experienced professionals who have strong qualifications in production management, client services and patron support. The professional staff are supported by a cadre of trained student interns and volunteers who gain valuable experience that gives them an edge in securing future jobs in the arts or related disciplines.

Staffing highlights to date include:

- As a seasoned arts administrator with over 20 years of experience, Mr. Christopher Burrill has provided consistent leadership for the Hammer Theatre since June 2016.
- Patron Service, Client Service and Production Managers are experienced professionals with roots in the San Jose arts community.
- Marketing team is led by a full-time marketing director who works with student interns on promotions for all programs within the College of Humanities and the Arts, including the Hammer Theatre.
- Contracted publicist provides focused publicity for presenting programs.
- Partnership with International Alliance of Technical Stage Employees (IATSE) provides students with the opportunity to earn credit towards their journeyman card while working with IATSE professionals. This arrangement helps reduce technical costs for theater users while providing a new pipeline for emerging technical professionals.

Facility Maintenance and Improvements: Under the agreement, SJSU is responsible for performing maintenance on the interior of the facility, preventive maintenance of the building systems and capital repairs. The City is responsible for exterior facility maintenance and internal building systems that have reached the end of their usual life. The City and SJSU jointly address facility issues that require coordination, and SJSU provides input in the City's multi-year Capital Improvement Plan (CIP) for the Hammer Theatre. Comprehensive updates to the Heating, Ventilation and Air Conditioning (HVAC) system to improve operations and energy efficiency are a high priority for SJSU. This input is balanced with the needs of the City's other cultural facilities which also have CIPs in place.

During the initial three-year term of the agreement, both the City and SJSU made significant capital investments to bring the facility and its technical theater equipment to competitive standards.

Capital investments to date include:

- Critical building and safety systems repaired and theater technical controls upgraded with City's start-up capital investment of \$900,000.

- New lighting, sound and audio-visual equipment, state-of-the-art orchestra shell system and other purchases made with SJSU start-up investment of \$1.5M.
- Two digital signs upgraded with advanced electronic features to promote Hammer Theatre programming.
- Lobby, cafe and restroom areas refreshed with new paint, fixtures and furnishings resulting in an improved customer experience, and plans for lobby carpeting scheduled to be replaced by December 2018.
- Rooftop terrace, which boasts grand City views, upgraded with fresh paint and amenities, making the space an attractive rental venue for receptions and parties.
- Controls to HVAC operations improved to allow better zone controls (part of Phase 1 of multi-phase HVAC capital project).
- Elevator controls modernized to improve safety and reliability for patrons and staff.

Progress Towards a Fiscally Sustainable Model: SJSU tracks the Hammer Theatre as its own cost center according to a fiscal year that is aligned with the City. The FY2017-18 budget for the Hammer Theatre was \$2.5 million. During FY2017-18, SJSU reported that operating expenses for the Hammer Theatre exceeded revenues by 2.3% (\$58,000). In addition to support from the University, sources of revenues for Hammer Theatre operations include the City's \$285,000 O&M subsidy, rental income including a tiered rental structure for nonprofit organizations, proceeds from presenting performances and a facility fee of \$1 per ticket.

Operating the Hammer Theatre as a performing arts facility is an expensive undertaking with significant costs. Separate from the operating budget, SJSU has reported that the capital maintenance and repair budget for the Hammer Theatre in FY2017-2018 was approximately \$375,000, after reimbursement by City for eligible expenses related to building systems upgrades. SJSU has raised questions about the future adequacy of the City's O&M subsidy given the high cost of facility operations and maintenance and its own financial ability to support the partnership. As with the other City-owned cultural facilities that are managed by nonprofit partners, the City provides an operations and maintenance subsidy that is intended to partially offset the costs, but operators understand that they have the primary financial responsibility for facility operations as a benefit for utilizing the property without rent and with maximum flexibility.

To increase the level of contributions, SJSU has recently inaugurated a new Friends of the Hammer membership program with multiple benefit levels as well as targeted sponsorship opportunities. In addition, to increase the growth of revenues from new renters, especially those with broad audience appeal and a potential for multi-year commitments, the Office of Cultural Affairs has set aside up to \$50,000 from Transient Occupancy Tax funds in FY2018-2019. These incentives reduce the initial risk of renting a venue in a new market and have helped bring high quality productions with broad appeal to the Hammer Theatre.

Cost Implications

The current subsidy amount of \$285,000 is budgeted on an ongoing basis in the 2018-2019 Adopted Operating Budget. The Cultural Facilities Capital Maintenance Reserve has been the source of funding for the recent City-funded improvements at the Hammer Theatre. This reserve was established by the City Council as part of the 2014-2015 Adopt Budget to set aside a portion of the Transient Occupancy Tax allocated to the General Fund. With the adoption of the 2017-2018 Operating Budget, this direction was modified by the City Council such that a flat \$450,000 per year is now added to the Cultural Facilities Capital Maintenance Reserve, which generally funds capital improvement projects within the City's portfolio of cultural facility assets, including the Hammer Theatre, Children's Discovery Museum, Tech Museum, History San Jose Facilities, San Jose Museum of Art, and the Mexican Heritage Plaza. With a current balance of \$3.1 million, based on the anticipated needs of the City's suite of cultural facilities, this funding source is anticipated to provide sufficient funding to complete the majority of anticipated projects through 2020-2021.

Next Steps

City Council, through the Community and Economic Development Committee (CEDC) and Arts Commission, will continue to receive semi-annual progress updates during the 18-month contract extension period. In addition, SJSU will continue to be advised by the Hammer Theatre Advisory Group (HTAG), a team comprised of faculty, City, and community advisors, that has been meeting periodically since the initiation of the agreement to support the success of the City-University partnership. The City is currently represented by Councilmember Raul Peralez, Arts Commission member Richard James, and Director of Cultural Affairs Kerry Adams Hapner. Now convening semi-annually, HTAG met on October 1, 2018 to receive an update of Hammer Theatre activities and expressed support for the contract extension. The Arts Commission is scheduled to take action at its meeting on October 15 to forward a recommendation to the CEDC to extend the agreement.

/s/

KERRY ADAMS HAPNER
Director of Cultural Affairs

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

Attachment A: FY2017-2018 Event Calendar

Attachment B: Fall 2018 Programming Brochure