Attachment 2
(to Section B)

CITY OF MOUNTAIN VIEW
MEMORANDUM

DATE: April 1, 2010

TO: City Council

FROM: Scott Whisler, Performing Arts Manager

SUBJECT: SUMMARY OF THE CENTER FOR THE PERFORMING ARTS (CPA)

PURPOSE

The purpose of this memorandum is to respond to Council's inquiry from the February 23, 2010 Study Session regarding the Mountain View Center for the Performing Arts (Center) operations and what it would take for the Center to be financially self-supporting.

BACKGROUND

The Center opened in 1991 and attracts between 118,000 and 170,000 visitors to the downtown each year. The Center offers diverse, high-quality performances; supports local arts groups who do not have the resources to produce their own performances; and introduces youth to the performing arts through children's programs and performance opportunities.

Center facilities include MainStage, a 600-seat traditional proscenium theater; SecondStage, a "black box" theater featuring flexible seating for 150 to 200 people; ParkStage, a small outdoor amphitheater that can seat up to 300 people; the Center Lobby, which serves both indoor theaters; a Rehearsal Studio; production support spaces, including control rooms, a scenery repair shop, a costume shop, a green room and dressing rooms; and offices for the Performing Arts Division. The Center also includes the Bean Scene Café, which is leased by an independent operator.

The Center operates on a rental basis; client organizations contract with the Center for performance and rehearsal dates and for ticketing, audience and technical services. The Center does not "produce" (defined as paying for and controlling all aspects of putting a performance together and retaining all ticket proceeds), and it does not "present" (defined as paying someone else to put together the performance and retaining ticket proceeds or splitting proceeds by formula with the producer).

The Center also does not control production content or quality, except to the degree that it provides quality in-house technical and audience services, nor is preference given to any client outside of the Council-approved Home Company program discussed below.

Home Companies

The concept of Home Companies was approved by Council and was developed as a marketing strategy for the newly opened Center to boost bookings, guarantee a minimum usage and capitalize on the audience base already built by established organizations. Home Companies at present (TheatreWorks and Peninsula Youth Theatre (PYT)) contract with the City for a predetermined period of time and receive priority booking status. The Home Companies serve as a mechanism to maintain quantity, quality and a diversity of programs at the Center; provide an ongoing base of programs; provide an established audience and public recognition; and provide stability to both the management of the calendar and the revenue base of the Center. Of the 333 scheduled performances at the Center in Fiscal Year 2009-10, 257 (77.0 percent) are contracted to the two Home Companies.

TheatreWorks is a professional theater company with a national reputation for high-quality production of new plays and provides a loyal audience base along with an important revenue stream for the Center. PYT is a community-based educational theater group which generates less revenue and provides learning and performance opportunities for hundreds of youth each year through stage performances and summer camps.

Rate Structure

The Center's rate structure is a two-tiered system with rates based on a percentage of gross ticket sales and/or a minimum base rental fee. (Home Companies and nonprofits pay the minimum base fee or a percentage of gross ticket sales, whichever is greater. Commercial users pay the minimum base fee plus the percentage of gross sales.) The ability to retain a percentage of gross sales allows the potential for increased Center revenue over and above the minimum base fee and is predicated on the success of the individual user's production. At no time does the City receive less than the minimum base fee. The minimum base fee is regularly adjusted for inflation, with a more significant upward adjustment proposed in Fiscal Year 2010-11 as a means to recoup a greater percentage of the Center's operating costs.

Minimum/base rates for each of the three primary theatres are provided below:

- MainStage—$575 to $875 per performance for Home Companies and $2,325 for commercial renters.

- SecondStage—$375 for Home Companies to $1,050 for commercial renters.

- ParkStage—$375 for Home Companies to $900 for commercial renters.

Nonprofits' rates for each theater fall between those of the Home Companies and commercial renters.

The percentage of gross ticket sales is negotiable for each contract within a range established by Council. That range is between 10.0 percent and 20.0 percent for nonprofit organizations and from 15.0 percent to 50.0 percent for commercial users. Schools receive a reduced rate of 5.0 percent. Home Company percentages are negotiated and established for the entire contract period.

Rehearsal and technical time is charged on an hourly basis, ranging from $40 to $170 per hour based on stage location and category of user.

Booking Structure

Home Companies receive priority booking by contract. After Home Company dates are confirmed, requests from non-Home Company users are added to the calendar with priority given to requests for full-week runs, then for progressively shorter runs until finally single-day requests are filled in. Remaining dates, if any, are available on a first-come, first-served basis.

Over the past 10 fiscal years, the Center has booked an average of 403 use days each year. (A "use day" is defined as a calendar day with any number of activities by a client in a single Center space, whether for rehearsals, performances, technical work or a combination of the above.) Bookings for the MainStage have remained relatively stable over the years, varying between 326 use days in Fiscal Year 2002-03 to a low of 306 in Fiscal Year 2008-09.

Bookings for SecondStage have dropped significantly in recent years, going from 100 use days in Fiscal Year 2008-09 to 50 use days in Fiscal Year 2009-10. Factors limiting use of the SecondStage include the small seating capacity, which limits revenue potential for users, and lack of independent support space, which makes it difficult to use SecondStage simultaneously with MainStage or ParkStage. There is currently a Capital Improvement Program project, CIP 10-30, to address these design constraints, which is hoped to increase SecondStage usage.

At the February 23, 2010 Budget Study Session, a member of the public expressed concern that they had recently experienced difficulty obtaining a performance date at the Center. Staff researched the request and determined that the MainStage theater dates requested had already been booked by a Home Company. MainStage bookings have remained strong and available space is limited. Staff is working with this client to develop alternative means of presenting their performances, including trying to use SecondStage or possibly partnering with other organizations to combine performance dates.

Financial

Center revenue is derived from the following fee categories: base fees (including rehearsal hour fees); percentage of gross ticket sales; ticket-based fees or service charges, including facility use fees (FUF) (fees charged to cover a portion of facility overhead) and other per-transaction charges; labor charges; sale of advertising in *Preview* Magazine; and lease revenue from the Bean Scene Café. In addition, there are occasional grants and donations. The following table shows the breakdown of Center revenue in Fiscal Year 2008-09:

	2008-09 Audited Revenue	Percent of Total
Base Fees	$302,493	31.9%
Percentage of Gross	147,496	15.6%
Facility Use Fee and Other Ticket-Based Fees	232,942	24.6%
Charge-Back Labor (Technical, Audience Services, Tickets)	187,542	19.8%
Ad Sales (*Preview*)	35,214	3.7%
Bean Scene Café Lease	34,586	3.7%
Other	6,585	0.7%
Total	$946,858	100.0%

Revenue from FUF fees and labor charge-backs are estimated to increase by approximately $80,000 in Fiscal Year 2009-10 due to more comprehensive charge-backs and a new tiered FUF fee structure.

Percent of Cost Recovery

The following table illustrates Center revenue, expenditures, General Operating Fund subsidies and percentage of cost recovery over the last 10 years:

Fiscal Year	Total Revenue	Total Expenditures	General Fund Subsidy	% of Recovery
1999-00	$536,365	$1,060,380	$524,015	50.6%
2000-01	$598,786	$1,061,274	$462,488	56.4%
2001-02	$613,269	$1,110,412	$497,143	55.2%
2002-03	$648,442	$1,088,847	$440,405	59.6%
2003-04	$636,312	$995,974	$359,662	63.9%
2004-05	$830,364	$880,198	$49,834	94.3%
2005-06	$878,515	$982,625	$104,110	89.4%
2006-07	$991,825	$1,084,668	$92,843	91.4%
2007-08	$926,130	$1,176,572	$250,442	78.7%
2008-09	$946,858	$1,209,314	$262,456	78.3%

Total expenditures above includes only the direct expenditures associated with Center for the Performing Arts Division and does not include other costs associated with the maintenance and operations of the facility (e.g., debt service, insurance, utilities, facilities maintenance, equipment replacement, administrative overhead, etc.).

Increased Market Competition

Since the Center opened in 1991, the market has become much more competitive as various theaters of comparable size have opened around the South Bay. These include theaters with approximately 400 seats at Mountain View High School, Los Altos High School, Foothill College, De Anza College, Ohlone College and the Oshman Family Jewish Community Center in Palo Alto, as well as theaters with seating capacity near the Center's MainStage capacity of 600 at the Mexican Heritage Plaza in San Jose and San Jose Rep. All of these theaters are available for rent. Though none of these theaters offer the range of production and front-of-house services offered by the Center, they are viable alternatives. This increased competition between facilities has made the Center more vulnerable to market changes and competitive pricing.

How Can the Center Be Financially Self-Sustaining?

The design of the Center makes it extremely difficult to balance the budget entirely on operating revenue. The small seating capacities in MainStage and SecondStage limit the potential for revenue based on ticket sales and, therefore, limit the rent that producers are able and/or willing to pay.

A recent study commissioned by the International Association of Assembly Managers suggests that this is not unusual; it showed that the average cost recovery among the 25 top-performing, privately owned and municipal performing arts centers in the country is 72.0 percent, with a range of 34.0 percent to 90.0 percent. The Center is currently at 78.3 percent cost recovery for Fiscal Year 2008-09. The Center's percentage of cost recovery has increased significantly over the last 10 years, going from 50.6 percent in Fiscal Year 1999-2000 to 78.3 percent in Fiscal Year 2008-09. The increase in the percentage of cost recovery is due to the recent changes to the fee structure and charging back more labor costs to the client. While significant gains have been made in the percentage of cost recovery, the rate and fee increases proposed as part of the Fiscal Year 2010-11 budget may prevent some smaller community groups from booking the Center.

In addition to the additional fees and charge-backs proposed in the Fiscal Year 2010-11 budget, the unfunding of the Performing Arts Assistant will result in a $93,000 savings to the Center. This reduction will eliminate technical services traditionally provided to clients as part of their rental, except to those willing to pay additional charges for the service. The reduction in the technical services will primarily impact smaller clients and may affect the number of community art groups that are able to use the Center because they lack the resources to provide the services themselves or to pay the additional fees. This may result in decreased bookings.

One way to eliminate the General Fund subsidy would be to discontinue all client support services and booking the facility via a "four-wall" model approach. Under this model, no technical, audience or ticket services would be provided. Alternatively, the building could be leased to an outside commercial or nonprofit operator. Either alternative would significantly reduce operating expenses and overhead costs. However, either has the potential to exclude some or all of the Center's smaller, community-based organizations and could jeopardize the Home Company program.

Other revenue sources that are often used to fund or support performing arts centers include, but are not limited to, special taxes (i.e., redevelopment districts, transient occupancy taxes), parking fees, on-site concessions, fundraising and foundations. The concept of a nonprofit foundation was among the topics discussed by Council and the Performing Arts Committee (PAC) in Study Session on November 12, 2009 and is included the Fiscal Year 2010-11 PAC Work Plan.

CONCLUSION

The Center for the Performing Arts is a community asset, fostering the arts and community theater, bringing visitors to the downtown and exposing youth to the performing arts and providing them performance opportunities. The design of the building and the number of seats limit the revenue that can be generated and makes it difficult for the Center to pay for its programs entirely through operating revenue. The Center has made significant strides in increasing the level of cost recovery, going from 50.6 percent cost recovery 10 years ago to 78.3 percent in Fiscal Year 2008-09 and achieving a cost-recovery level above the average industry standard. The Center's relationship with the Home Companies has brought a stable revenue stream, increased visitorship to the downtown and provided the opportunity to connect youth with art programs. The way in which the Center supports arts in the community is one of the things that sets Mountain View apart from other municipalities and makes the downtown an evening destination.

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