

# CITY OF SACRAMENTO -- COUNTY OF SACRAMENTO



September 27, 1999



To: Mayor, Members of the Sacramento City Council  
Sacramento County Board of Supervisors

**APPROVED**  
BY THE CITY COUNCIL

From: Robert P. Thomas, City Manager  
Terry Schutten, County Executive

**OCT 5 1999**

OFFICE OF THE  
CITY CLERK

**SUBJECT: CONCEPTUAL APPROVAL FOR H STREET THEATER PROJECT  
PROPOSAL AND FINANCING**

**LOCATION AND DISTRICT:** 1419 'H' Street  
City Council District 1  
Supervisorial District 1

**RECOMMENDATION:**

It is recommended that the Sacramento County Board of Supervisors and the Sacramento City Council adopt a resolution to:

- (1) Conceptually approve the City of Sacramento and County of Sacramento's joint participation in a capital improvement program at the City/County-owned property at 1419 "H" Street currently being used by the Sacramento Theater Company (STC) and Sacramento Light Opera Association (SLOA).
- (2) Conceptually approve a capital financing plan, including:
  - (a) Establishment of a Joint Powers Authority (JPA),
  - (b) A bond issuance to finance the improvements,
  - (c) Commitment of new revenues by STC and SLOA for debt service (at a minimum),
  - (d) Continuation of the existing City/County investment in the property.
- (3) Approve a short-term loan from the City of Sacramento not to exceed \$475,000 to finance pre-construction expenses.
- (4) Establish a City Capital Improvement Project (xxxx) to be funded from existing dedicated City/County revenues with authority to spend funds for first year (Phase 1) project costs.

**CONTACT PERSON:** Thomas Friery, City Treasurer, 264-8455  
Geoffrey Davey, County Chief Financial Officer, 874-5803  
Barbara Bonebrake, EDREA Manager, 264-7733

**FOR COUNCIL/BOARD OF SUPERVISORS MEETING OF:** October 5, 1999

**SUMMARY:**

This report recommends conceptual approval for the City and County of Sacramento to participate, in an \$8.2 million capital improvement program at property jointly owned by the City and County at 1419 'H' Street and currently used by the Sacramento Theater Company and Sacramento Light Opera Association. This proposal continues the City/County long-term commitment to this property and overall support of the arts while minimizing the financial risk.

STC and SLOA are requesting City/County conceptual approval of the project and a first-year loan in order to begin their fund-raising campaign. Also, because this project would likely not qualify for traditional financing, STC and SLOA are requesting the City and County to issue tax-exempt bonds through a newly created Joint Powers Authority to finance the improvements. This would take advantage of the City and County's AAA credit ratings (insured), resulting in lower borrowing costs and making the bonds more marketable. To minimize the City and County's risk, the proposed financial plan is designed to review the fiscal performance of the STC and SLOA prior to the bond issuance.

**COMMITTEE/COMMISSION ACTION:**

This proposal has been reviewed and approved by the Boards of Directors of the Sacramento Theater Company and Sacramento Light Opera Association.

**BACKGROUND INFORMATION:**

*History of City/County Involvement with H Street Property*

- The Sacramento Theater Company is in its 58<sup>th</sup> year of operation and presents live stage performances at the H Street Theater. Its season normally runs from September to May with 7-8 productions presented annually. Last year, it held 293 performances with a total attendance of 40,000. While STC has faced fiscal difficulties in recent years, it ended last season with a small surplus and was able to reduce its long-term debt obligations. The STC is completing preparation of a Five-Year Business Plan to guide its future operations and fiscal management.
- The Sacramento Light Opera Association has been in operation since 1951 and is the largest non-profit musical theater in the State. It is best known for its

popular Music Circus summer theater program at its H Street venue and Broadway Series performances at the Community Center Theater that together drew a total attendance of 294,468 in FY 1999—an all-time high.

- In August 1986, the City and County purchased the property at 1419 H Street from the Sacramento Theater Company. The City would manage the property. A 10-year sublease was executed with STC allowing for a sublease to SLOA. STC and SLOA have been jointly using the property since 1951.
- In December 1995, by Resolution 95-713, the City executed a thirty-year sublease agreement with STC and SLOA for joint operating use, and a management agreement between STC and the City. The sublease agreement included respective maintenance and operations obligations. The sublease also required that, beginning in May 1997, STC and SLOA would make annual contributions for extraordinary and substantial repairs and replacements.
- In May 1997, the City and County conceptually approved joint funding totaling \$1,320,000 (\$66,000 each over the next ten years subject to annual appropriation) to STC and SLOA for Life Safety Code and Americans with Disabilities Act Improvements, new construction and existing building improvements. Under the agreement, STC and SLOA must secure private matching funds.

#### *H Street Project Proposal*

The Sacramento Theater Company and Sacramento Light Opera Association are asking the City and County of Sacramento to help secure financing for an estimated \$8.2 million capital improvement program at the 1419 'H' Street property they jointly use. The improvements would include:

- Expansion of the current Theater, including new seating, installation of a new tent and related structural, mechanical and electrical improvements (See Figures 1-3)
- Installation of new performance stage and rehearsal stage
- Improvements to box office, retail and restroom facilities for audiences.
- Construction of new concession area
- Expansion and renovation of lobby facilities
- Aesthetic renovations to Arts Park and Courtyard

The H Street Theater Project would involve two phases. **Phase I** would begin upon conceptual approval of the plan by the City Council and Board of Supervisors and culminate with a bond sale to finance the capital construction no later than September 2000. **Phase II** would include construction of the improvements over a three-year period and retirement of the debt service over several years.

This project will also compliment the recently approved Lot C parking garage across the street. Lot C will provide 1,200 covered and secured parking spaces as well as new retail and office space on the ground floor. This will greatly ease the parking burden on residential streets during performances while providing joint use rehearsal and office space for SLOA and other arts groups.

#### **FINANCIAL CONSIDERATIONS:**

The financing plan proposed for the H Street Theater Project is designed to help STC and SLOA meet their long-term capital improvement goals while minimizing the financial risk to the City and County. Total financing would be approximately \$8.2 million. As Table 1 shows, of that amount, \$5.8 million would be used for SLOA improvements, \$442,000 for STC projects and \$2.0 million for joint use improvements. Under one bond structuring under consideration, annual debt service payments would be \$585,000 annually over 20 years.

Table 2 presents a possible financing plan, with debt maturity of 18 and 20 years, that includes the following components:

##### *Phase I*

During Phase I, the City and County would create a new Joint Powers Authority, comprised of representatives from both agencies. The JPA would sell the bonds. If conceptual approval is given, it is recommended that the City and County representatives to the JPA be appointed at a later date when the JPA Agreement is brought forward.

Also, during Phase 1, STC and SLOA will commit to spend up to \$870,000 for drawings, construction documents, etc. The accumulated reserve of \$396,000 paid by the City and County (FY 98-FY 00 contributions) will be used to fund the first part of the expenses. The balance of approximately \$475,000 will be lent by the City at an interest rate of 6 percent. Both the City and County stand behind the short-term loan but the City will be advancing the cash as the County is unable to fund this portion.

Should we not proceed with Phase 2, which will be the bond sale, the City and County will pay the City back from the \$66,000 annual fixed payments both entities have committed to paying into a reserve for STC. If the fiscal milestones are met, a bond sale will be completed by the JPA which will complete the project, including paying the City back.

It is recommended that a City Capital Improvement Project be established to deposit the current accumulated reserves and future City/County contributions.

##### *Minimizing the Risk to the General Fund*

This financing approach puts the City and County at risk in the form of a debt service guarantees. It envisions that City and County Transient Occupancy Tax (TOT) revenues

would be the primary source of that guarantee. It relies on the ability of STC and SLOA to meet the financial commitments necessary to finance the debt service. To minimize the risk to the City and County, STC and SLOA are initially required to demonstrate certain "milestones" in raising the revenues they will need to support the project and the debt service. A precondition for proceeding with the bond sale is that the following fundraising goals be met:

- An agreement for **Naming Rights** for the facility been secured for \$200,000 annually for at least 10 years requiring the first year's revenues collected by September 1, 2000.
- A "**Name a Seat**" campaign with secured pledges of at least \$66,667 per year over the next three years with the first installment due to be collected by September 1, 2000.
- A **foundation grant** for at least \$250,000 due to be collected by September 1, 2000.
- Addition of a **Ticket Surcharge** to the ticket prices for STC and SLOA dedicated to repaying the debt. Projected revenues from the surcharge are \$364,000 from FY 2000 through FY 2002, \$440,000 from FY 2003 through FY 2009 and \$350,000 thereafter. The first year's revenues for each group would be collected prior to the start of and during their respective 2000 performance seasons.

#### *Phase II*

If these conditions were met, the JPA would sell approximately \$8.2 million in bonds no later than September 1, 2000. To pay the debt service over the life of the bonds, the ongoing revenues generated by the Name-a-Seat campaign, naming rights and the ticket surcharge would be used along with the following:

- Continuation of the annual \$66,000 contribution the City and County each make to the theater facility. Because the current term for those payments is scheduled to expire in 2007, before the bonds are paid off, it is recommended that the obligation be extended to 2020, subject to the annual appropriation process of the City and County.
- SLOA is currently scheduled to make payments on a promissory note for a land purchase until 2007. The payments total \$121,056 per year. Under this proposal, the note will be refinanced by the bond issuance and the funds SLOA would have used to repay the note will now be used for debt service until 2007. After that, the obligation will be reduced to \$60,000 from 2008 to the maturity of the bonds.

Taken together, the revenues would total nearly \$1.8 million in available resources by 2002 and would be used to finance construction. The City Treasurer and County Chief Financial Officer is recommending this approach because it reduces the amount that needs to be borrowed and the debt service payments.

#### *Property Reappraisal*

SLOA is proposing property it owns at 1422 G Street as collateral for the bond issuance. The last appraisal was performed in 1997 and is out of date. If the conditions for bond sale are met, a new appraisal will be performed prior to sale to determine the value of the asset. It is our view that the appraisal is substantially in excess of the mortgage on the land. Securing an appraisal at this time would result in having to secure another later should we proceed with Phase 2 as it would be out of date.

#### *Preliminary Analysis of Bond Structures*

The City Treasurer and County Chief Financial Officer have performed an initial analysis of alternative bond structures, using the 18 and 20-year bond maturity options. As Table 3 shows, it requires little margin for error in STC and SLOA projections for the new revenue sources to fully cover debt service costs. For instance, to meet *Percent of Ticket Surcharge Revenue* needed for debt service requirements, 99 percent of the projected surcharge revenue would have to be collected for bonds maturing in 18 years. When the debt is extended to 20 years, the amount falls to 91 percent of projection. While additional analysis will be performed, a bond maturity of this length seems prudent.

#### *Timeline*

If this plan is conceptually approved, City and County staff will meet with representatives of the Sacramento Theater Company and Sacramento Light Opera Association to develop a detailed financing proposal, including the following, which will be brought back to the City Council and County Board of Supervisors for consideration:

- Agreement establishing Joint Powers Authority
- Relevant documents to issue bonds
- Relevant agreements between City, County, STC and SLOA to implement financing plan

These actions would likely occur in the summer of 2000 pending successful completion of STC/SLOA revenue generating goals.

#### **ENVIRONMENTAL CONSIDERATIONS:**

The proposed action will allow staff to proceed with the development of a potential project description for City Council approval. Once a project description is defined, the appropriate environmental review will be prepared and forwarded to the City Council as part of any

action to allow projects to be implemented.

**POLICY CONSIDERATIONS:**

This proposal is consistent with City policy to support activities that improve City property and which enrich the community through the cultural and entertainment activities provided thereon. It is also consistent with the County's traditional use of TOT revenues to support cultural activities for the entire community. In addition, the improvement of City/County property will aid in drawing new audiences to the facilities, contributing to the revitalization of Downtown. Finally, the financial conditions placed on STC and SLOA to develop outside sources of revenues will contribute to their economic stability while minimizing financial risk to the City and County.

**ESBD CONSIDERATIONS:**

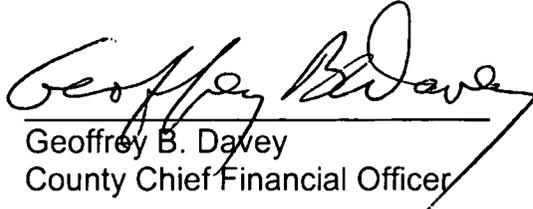
All purchases and contract requirements will fall under the City's ESBD requirements.

Respectfully submitted,



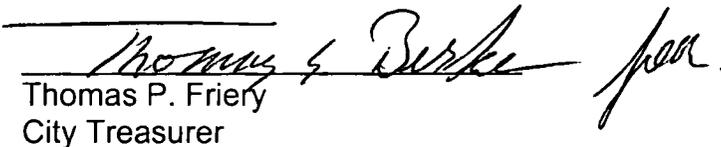
Thomas V. Lee  
Deputy City Manager

Respectfully submitted,



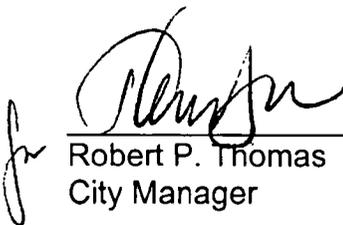
Geoffrey B. Davey  
County Chief Financial Officer

Respectfully submitted,



Thomas P. Friery  
City Treasurer

RECOMMENDATION APPROVED:



Robert P. Thomas  
City Manager

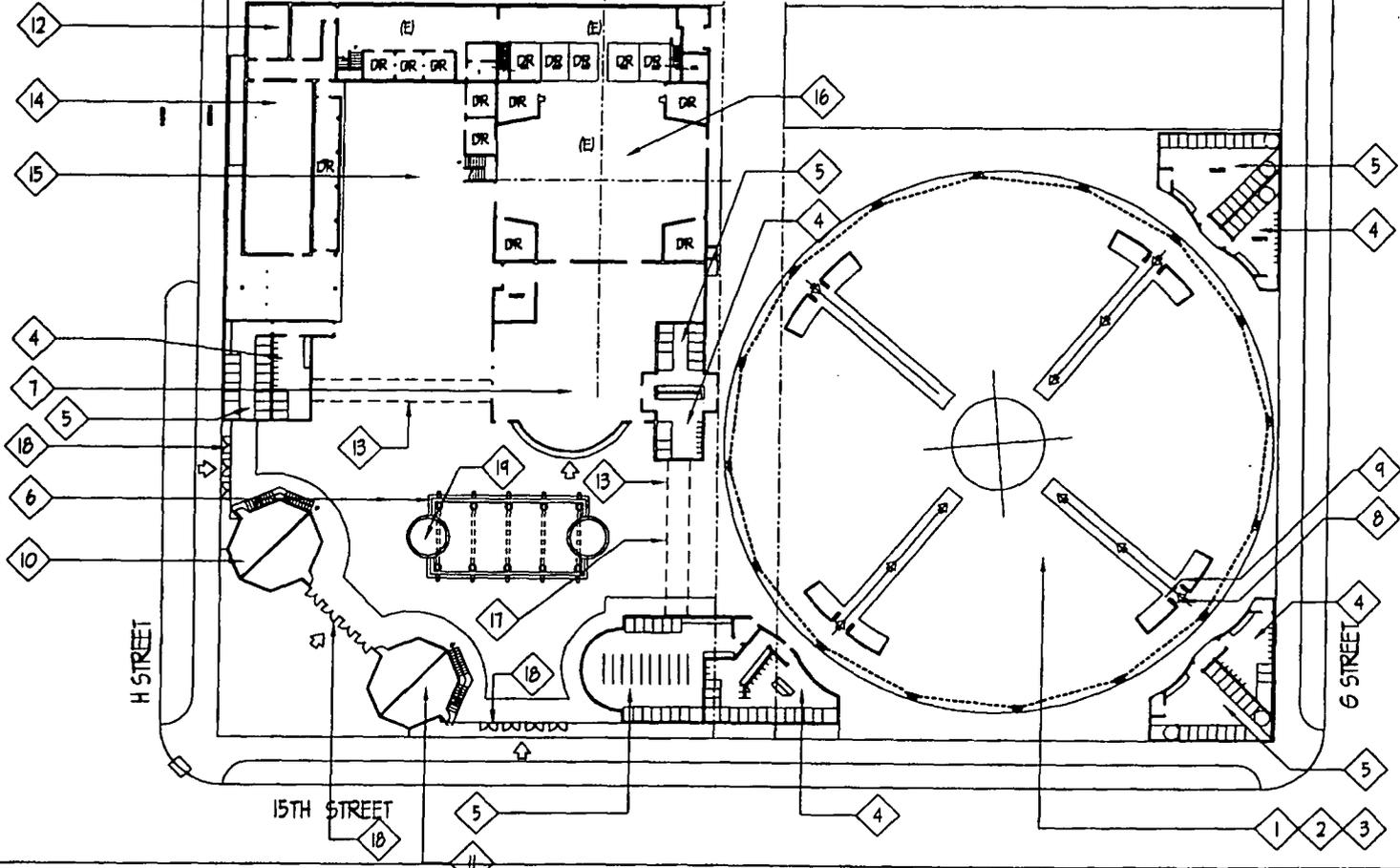
RECOMMENDATION APPROVED:



Terry Schutten  
County Executive

14TH STREET

RIGHT OF WAY



### KEY NOTES

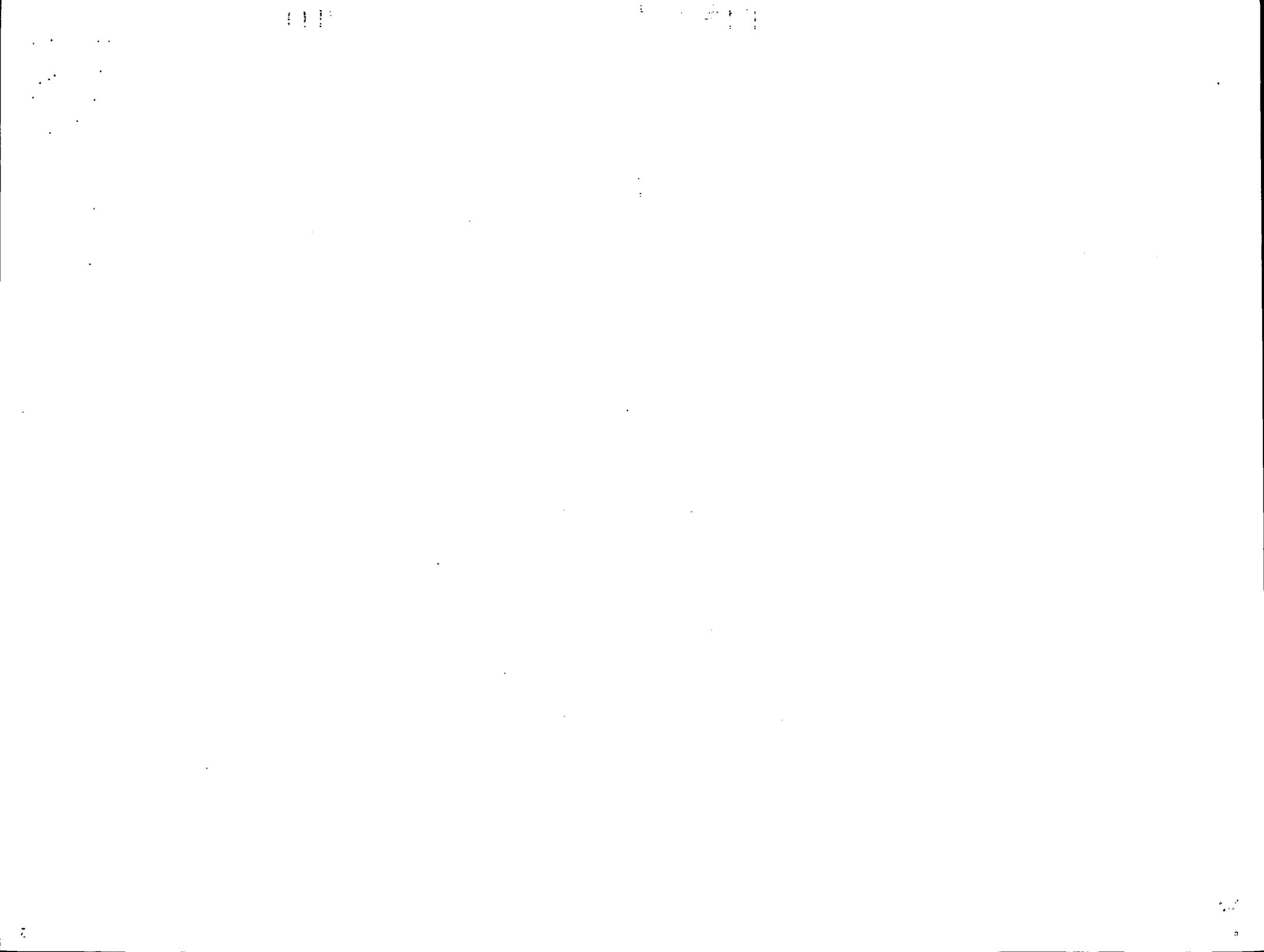
#### FACILITIES (SUMMER)

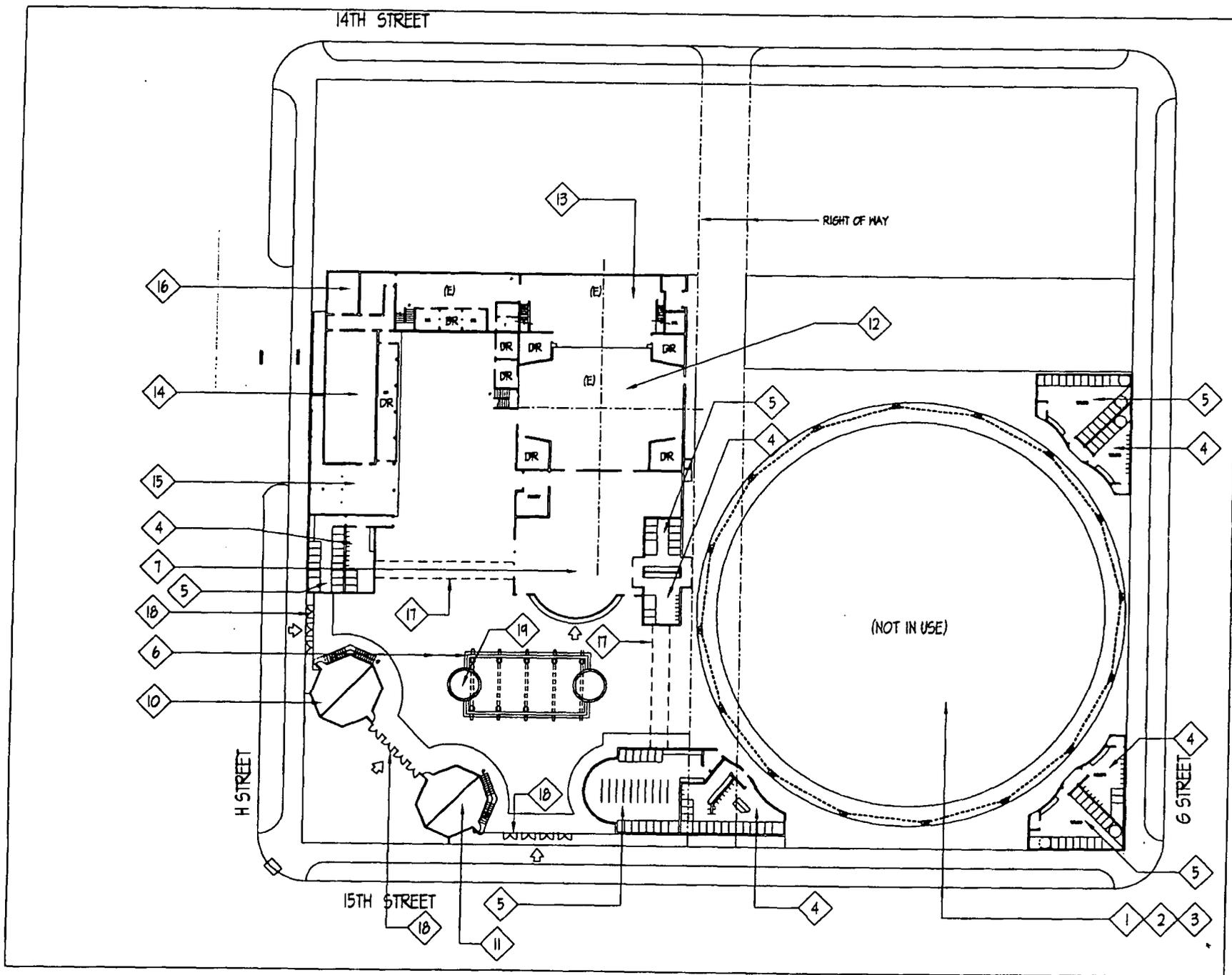
- 1 TEXT SUPERSTRUCTURE
- 2 STAGE & LOFT
- 3 THEATRE SEATING FORM
- 4 AUDIENCE MEN'S TOILET
- 5 AUDIENCE WOMEN'S TOILET
- 6 ART PARK/COURTYARD
- 7 NIGHT SUBSCRIBERS LOUNGE
- 8 ACTOR ENTRANCE (TYPICAL)
- 9 QUICK CHANGE (TYPICAL)
- 10 TICKET SALES OFFICE/TREASURER
- 11 GIFT SHOP
- 12 COSTUME SCENERY PROP LOAD-IN
- 13 COVERED LINK-WAY
- 14 HARD
- 15 PATRONS LOUNGE
- 16 BLOCKING REHEARSAL ROOM
- 17 CONTROL POINT
- 18 ORNAMENTAL IRON GATE
- 19 FOUNTAIN
- DR - DRESSER
- EX - EXISTING

PHASE I - SCOPE DIAGRAM

SCALE 1/4" = 1'-0"

FIGURE 1





# KEY NOTES

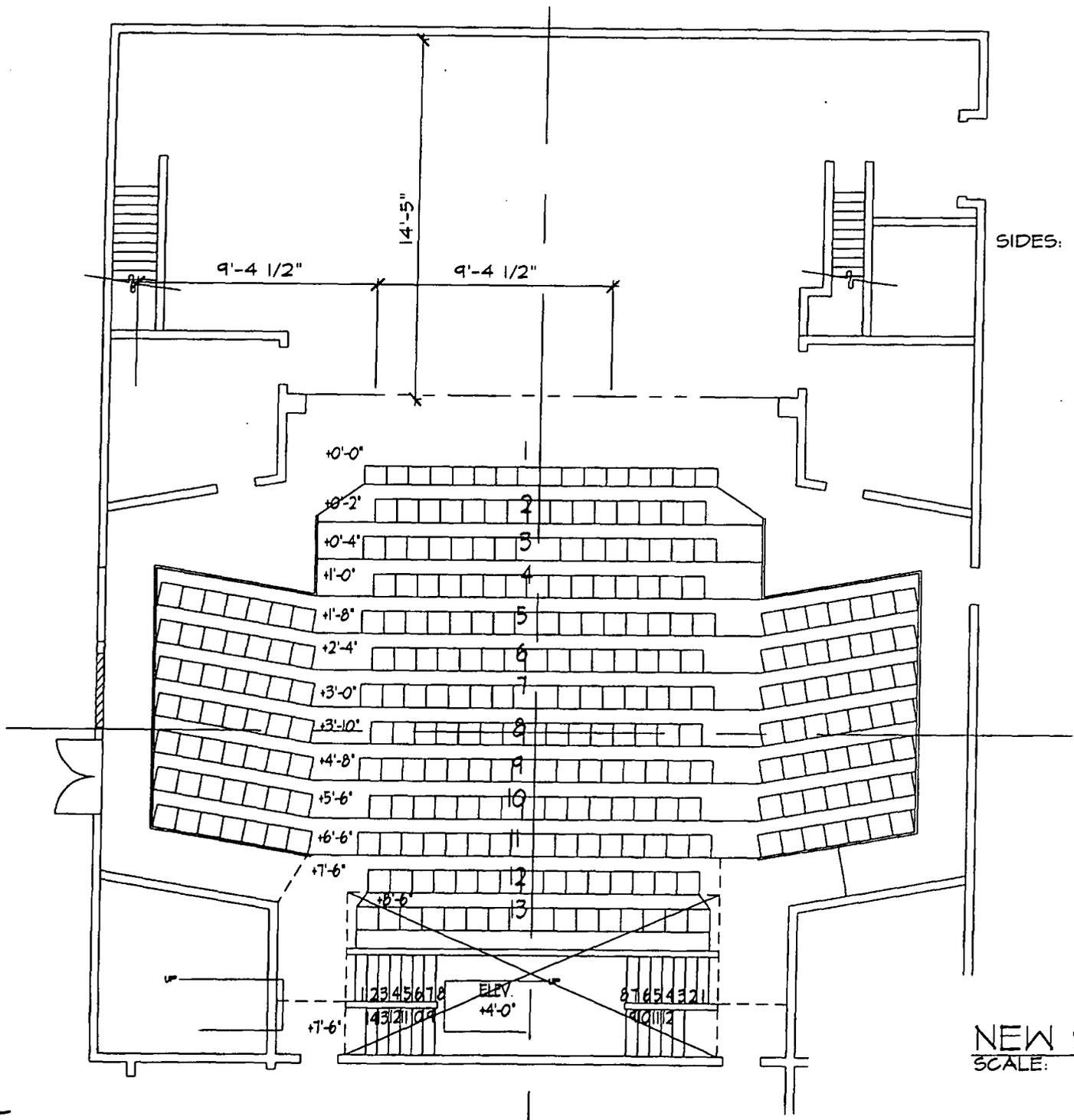
## FACILITIES (WINTER)

- 1 TENT SUPERSTRUCTURE (NOT IN USE)
- 2 STAGE & LOFT (NOT IN USE)
- 3 THEATRE SEATING FORM (NOT IN USE)
- 4 AUDIENCE MENS TOILET
- 5 AUDIENCE WOMENS TOILET
- 6 ART PARK/COURTYARD
- 7 LOBBY-A / CONTROL POINT
- 8 (NOT IN USE)
- 9 (NOT IN USE)
- 10 TICKET SALES OFFICE/TREASURER
- 11 GIFT SHOP
- 12 300 THEATRE SEATS
- 8 STAGE
- 14 99 SEATS AUDITORIUM
- 15 LOBBY-BV / CONTROL POINT
- 16 SCENERY LOAD-IN
- 17 COVERED LINK-WAY
- 18 ORNAMENTAL IRON GATE
- 19 FOUNTAIN
- DR - DRESSER
- (E) - EXISTING

PHASE I - SCOPE DIAGRAM

SCALE 1/4" = 1'-0"

FIGURE 1A



CAPACITY SUMMARY

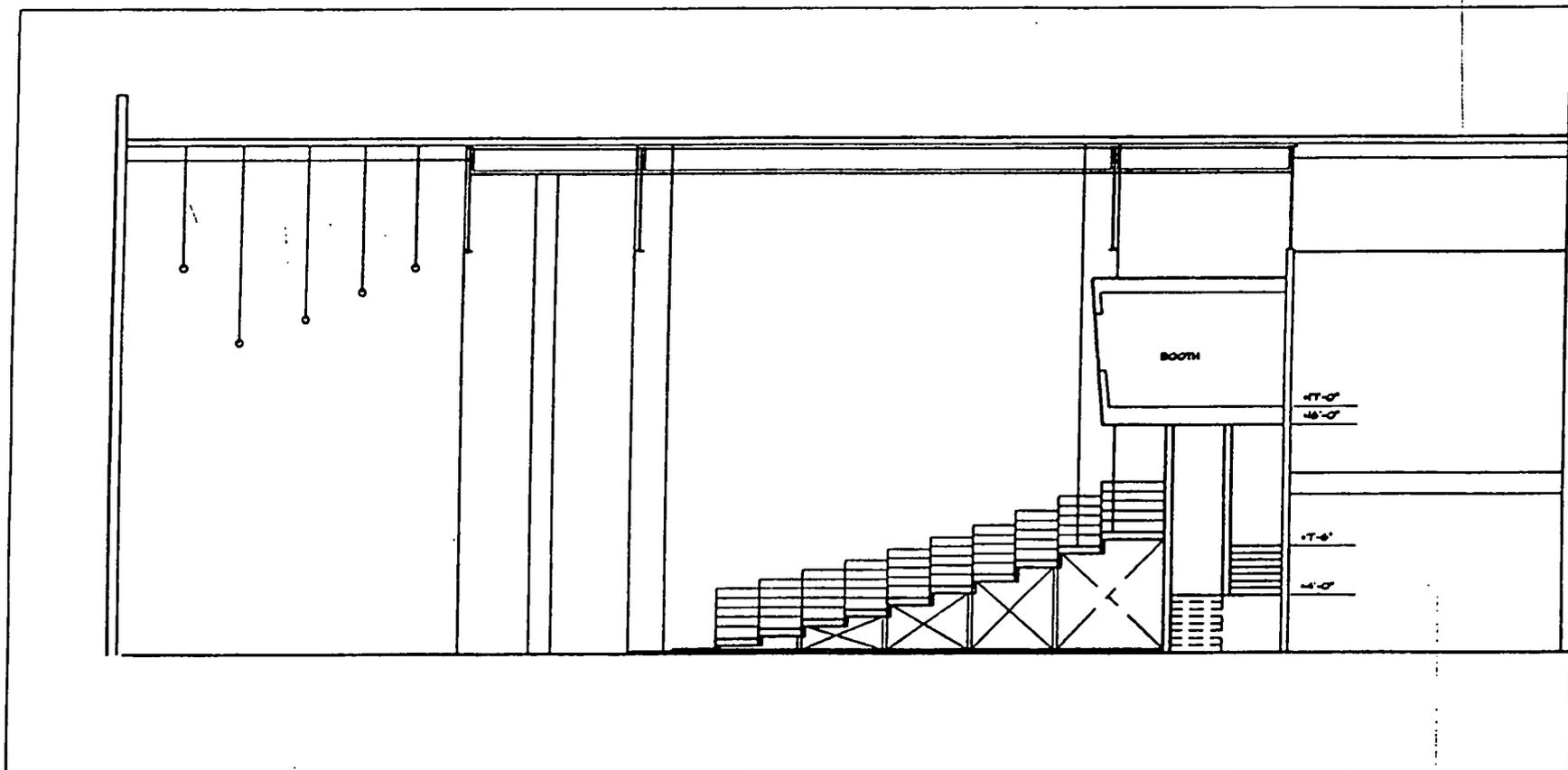
CENTER:  
 FIXED SEATS 171  
 PORTABLE SEATS 31

SIDES:  
 FIXED SEATS 98  
 300

NEW SEATING PLAN  
 SCALE:

FIGURE 2

FIGURE 3



**LONGITUDINAL SECTION**  
SCALE: 1/8"=1'-0"

*Sacramento Theatre Company*  
**300 SEAT THEATRE**  
R.F. McCann & Company  
Theatre Architects

**R.F. McCANN & CO. THEATRE ARCHITECTS**  
5-10-99

(AMENDED)

## RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

### H STREET THEATER PROJECT AND FINANCING

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO THAT:

1. Conceptual approval is given for the City of Sacramento's participation in a capital improvement project at the City/County joint-owned property at 1419 'H' Street currently used by the Sacramento Theater Company (STC) and Sacramento Light Opera Association (SLOA)
2. Conceptual approval is given for development of a financing plan including:
  - (a) Establishment of a Joint Powers Authority.
  - (b) Commitment of new revenues by STC and SLOA to finance the project.
  - (c) Continuation of the existing City/County investment in the property.
  - (d) Issuance of a bond to finance the capital improvements if STC/SLOA revenue milestones are met.
3. Approval is given for a short-term loan not to exceed \$485,000 from the City of Sacramento to finance pre-construction expenses.
4. A new City Capital Improvement Project (xxxx) be established to be funded from existing dedicated City/County revenues with authority to spend funds for first year (Phase 1) project costs.
5. The following conditions are met:
  - (a) SLOA and STC meet the fiscal milestone requirements specified in the staff report.
  - (b) STC and SLOA meet with neighborhood representatives to address impacts of the project including, but not limited to, noise, lighting and parking.
  - (c) The project is designed to compliment the 14<sup>th</sup> Street "Streetscape" plan, including consideration of installing compatible lighting (e.g. "acorn" design).

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RESOLUTION NO: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

\_\_\_\_\_  
MAYOR

**ATTEST:**

\_\_\_\_\_  
CITY CLERK

\_\_\_\_\_  
**FOR CITY CLERK USE ONLY**

RESOLUTION NO: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

APPROVED  
BY THE CITY COUNCIL

OCT 5 1999

OFFICE OF THE  
CITY CLERK

**RESOLUTION NO. 99-566 as amended**

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

**H STREET THEATER PROJECT AND FINANCING**

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3. Approval is given for a short-term loan not to exceed \$475,000 from the City of Sacramento to finance pre-construction expenses.
4. A new City Capital Improvement Project (xxxx) be established to be funded from existing dedicated City/County revenues with authority to spend funds for first year (Phase 1) project costs.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

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RESOLUTION NO: \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

**TABLE 1**

**H STREET PROJECT  
DISTRIBUTION OF FINANCIAL RESPONSIBILITIES**

Rev. 5/10/99

Project	SLOA	%	STC	%	TOTAL
<b>Music Circus</b>					
<b>SLOA Property Improvements</b>	5,575,313.00	100%	0.00	0%	5,575,313.00
Arena Superstructure					
Seating Area					
Grid, Theatrical Equipment & Rigging					
Restrooms & Concourse					
Concessions					
<b>Music Circus</b>					
<b>City/County Property Improvements</b>	230,000.00	100%	0.00	0%	230,000.00
Restrooms & Concessions					
<b>Communal Project</b>	742,142.00	50%	742,142.00	50%	1,484,284.00
Expanded Lobby Facilities					
Existing Lobby renovation					
Arts Park					
Box Office					
Retail Sales					
HVAC					
<b>STC Upgrade (Joint Usage)</b>	126,682.00	25%	380,045.00	75%	506,727.00
Seating Form					
Stage - Sprung Floor					
Stage - Power & Distribution					
Dressing Rooms					
Scene Dock					
Building Power					
<b>STC Upgrade (STC Only)</b>	0.00	0%	441,675.00	100%	441,675.00
<b>Total</b>	<b>6,674,137.00</b>		<b>1,563,862.00</b>		<b>8,237,999.00</b>

**City of Sacramento and County of Sacramento  
Sacramento Light Opera Association/Sacramento Theatre Company Financing  
Analysis of Bond Structures  
2 1/2 Years of Capitalized Interest**

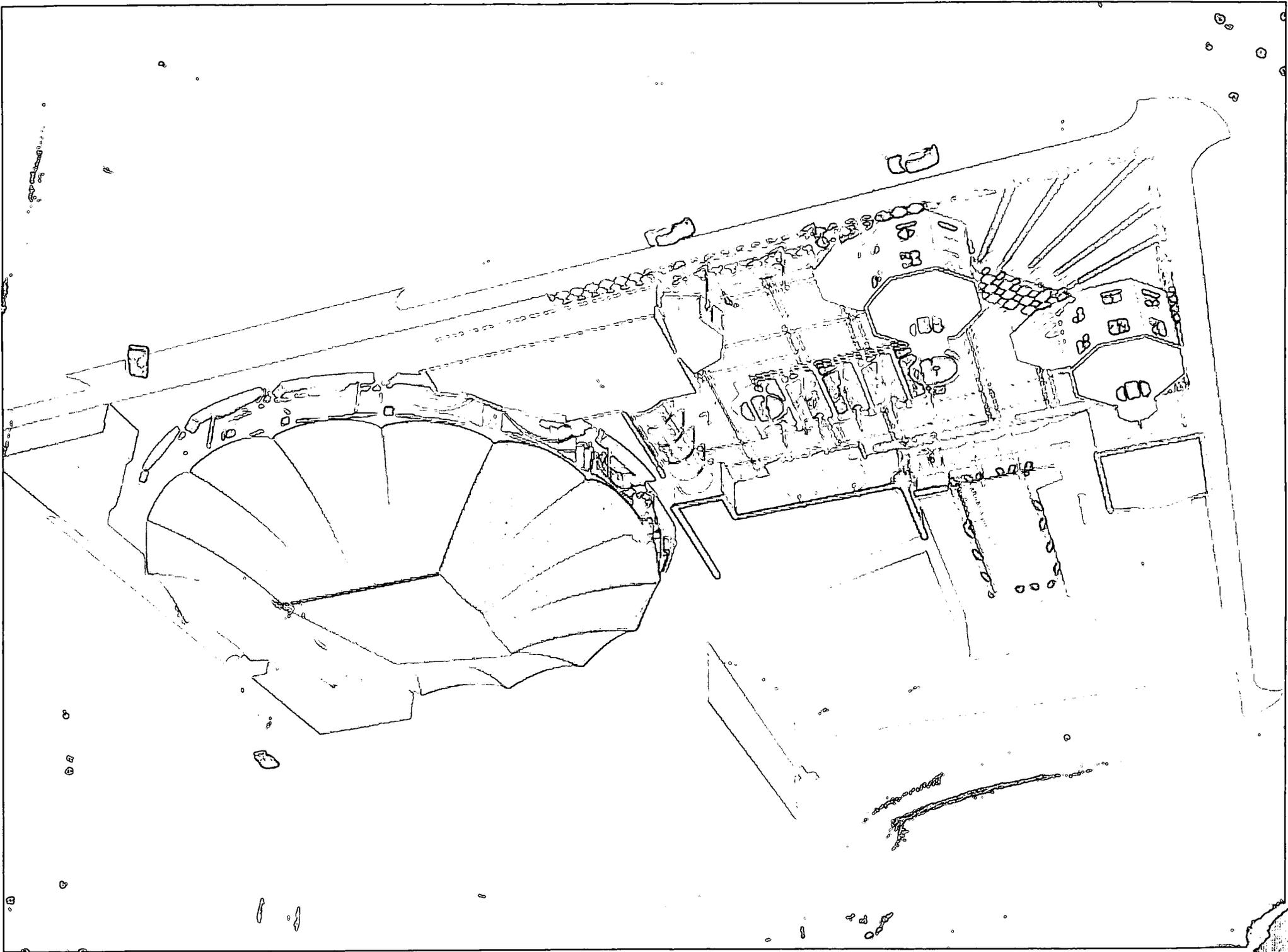
	18 Year Maturity	20 Year Maturity	
Total construction requirement	8,237,999	8,237,999	
Requirement before 9/1/2000	(878,571)	(878,571)	
Requirements after bond issuance	<u>7,359,428</u>	<u>7,359,428</u>	
Requirements before 9/1/2000	878,571	878,571	
Current reserve	(264,000)	(264,000)	
Deposits to reserve	(132,000)	(132,000)	
Loan from City	482,571	482,571	
Interest @ 6.00% for 9 months	21,716	21,716	
Loan repayment requirement	<u>504,287</u>	<u>504,287</u>	
Requirements after bond issuance	7,359,428	7,359,428	
2000 and 2001 revenues to offset requirements			
Naming Rights	400,000		\$200,000 per year
Name-A-Seat	133,333		\$66,667 per year
Foundation Grant	250,000		One time grant received by 9/1/2000
Ticket Surcharge	728,000		\$364,000 per year
City/County Contribution	132,000		2001 contribution (2000 contribution accounted for above)
Property Note repayment	151,320		Scheduled quarterly payments from 10/1/2000 through 1/1/2002
Total	<u>1,794,653</u>	<u>(1,794,653)</u>	<u>(1,794,653)</u>
Net to be funded from bond issue	5,564,775	5,564,775	
Less interest earnings	(578,585)	(586,791)	
Deposit to construction fund	<u>4,986,190</u>	<u>4,977,984</u>	
<b>Bond Sizing</b>			
Construction Fund	4,986,190	4,977,984	
Debt Service Reserve Fund	814,500	815,000	10% of issue size
Capitalized Interest Fund	922,052	934,242	2 1/2 years
City Loan Repayment	504,287	504,287	
Property Note Repayment	668,221	668,221	
All-in Costs of Issuance	249,750	250,268	Bond insurance, underwriter's discount, other costs of issuance
Total	<u>8,145,000</u>	<u>8,150,000</u>	

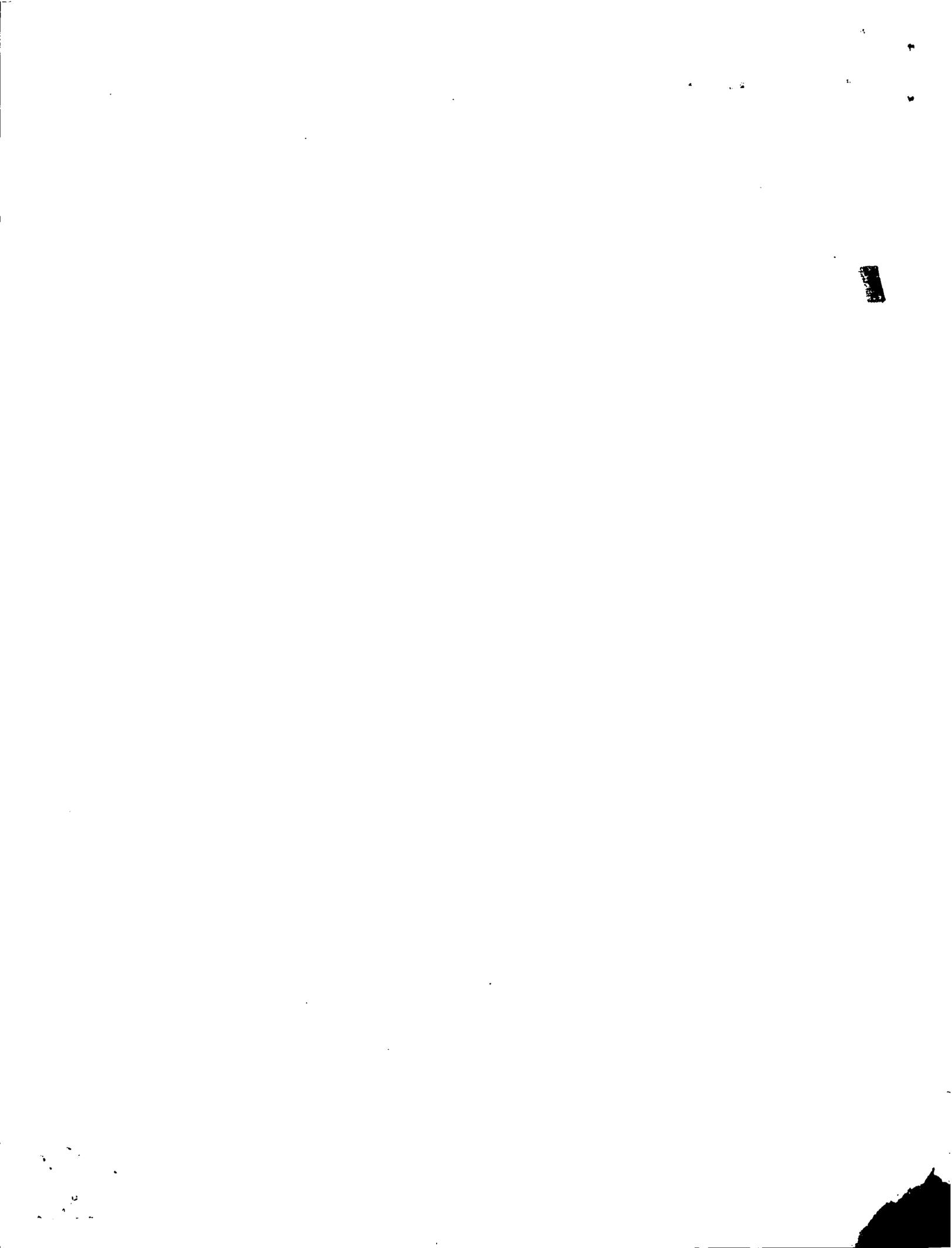
TABLE 2

**City of Sacramento and County of Sacramento  
 Sacramento Light Opera Association/Sacramento Theatre Company Financing  
 Summary of Financing Alternatives**

<b>Scenario</b>	<b>1</b>	<b>2</b>
<b>Final Maturity</b>	18	20
<b>Years of Capitalized Interest</b>	2.5	2.5
<b>Par Amount of Bonds</b>	\$ 8,145,000	\$ 8,150,000
<b>Average Annual Excess Revenues</b>	\$ 5,000	\$ 37,000
<b>Size of Additional Reserve at Maturity</b>	\$ 3,267,000	\$ 4,541,000
<b>Percentage of Ticket Surcharge Revenue Needed</b>	99%	91%
<b>Years to Redemption from Additional Reserve</b>	15	15







# RESOLUTION NO.

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF \_\_\_\_\_

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  - (a) Establishment of a Joint Powers Authority.
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  - (d) Issuance of a bond to finance the capital improvements if STC/SLOA revenue milestones are met.
3. Approval is given for a short-term loan not to exceed \$475,000 from the City of Sacramento to finance pre-construction expenses.
4. A new City Capital Improvement Project (xxxx) be established to be funded from existing dedicated City/County revenues with authority to spend funds for first year (Phase 1) project costs.

5. Conditions of this approval include meeting the fiscal conditions set out in this staff report and ~~the attached noise mitigation plan~~ <sup>a) meeting the</sup> ~~and~~ <sup>concern</sup> ~~lighting~~

~~STC and SLOA~~ <sup>b) work with surrounding neighborhood</sup> ~~regarding concerns related to noise, lighting, design of streetscape before this site a convention center and acorn lighting on the site.~~

ATTEST:

MAYOR

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO: \_\_\_\_\_

DATE ADOPTED