

Tateuchi Center – Bellevue, Washington

Supporting Materials
City Council Study Session

February 9, 2015



B Squared Consulting



Tateuchicenter
MUSIC • DANCE • THEATRE • LIFE



Evolution of PACE Project – From Private to Public

- There is a long-held community vision of a performing arts center in downtown Bellevue.
- PACE was established in 2002 as a private nonprofit corporation, to pursue a privately funded and designed performing arts center project. There were to be no City funds included in the project.
- In 2002, City endorsed the private project proposal as consistent with community vision.
- Since then, about \$65M has been raised from variety of sources including a naming gift from the Tateuchi Foundation.
- The project changed from solely private to a public/private partnership as PACE requested and received funding from the City, County and State.
- At PACE's request, City invested \$2M in 2010, in exchange for ownership interest in designs and various programming commitments to broaden community access.

Evolution of PACE Project – MOU Tasks

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- In 2013, PACE came to the City requesting a new commitment of public capital funding to re-energize the capital funding campaign.
- Based on that request, Council directed staff in 2014 to develop an MOU between City and PACE to explore this funding challenge and undertake other tasks.
 - The City researched fiscal and legal implications such as how to meet the State Constitution's requirement of commensurate public benefit.
 - The Project meets the standards set in the City's Investment Principles, adopted in 2006 for evaluating potential investments in cultural facilities.
 - PACE is re-energizing Board and fundraising efforts, provides City information required for its due diligence.
 - The parties are collaborating to raise community awareness of Tateuchi Center and possible City involvement.
- Ensuring ongoing public benefit commensurate with any public investment is required by the State Constitution.

Consultant's Findings

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- Although the project faces significant challenges, there are several possible paths forward.

- Findings:
 - Capital Funding needed; the challenge is considerable
 - Thorough update of 10-year financial and operating *pro forma* shows, if built, operation could be feasible with these considerations:
 - Replace Cabaret with Education Center to engage more of the community.
 - Place a strong emphasis on programs produced by PACE - “PACE Presents”
 - Ongoing operating subsidy is realistic to expect.

Background for B Squared Consulting

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- Steven Bronfenbrenner will present B Square's findings
- Significant experience in senior management and consulting roles in the non-profit sector, with an emphasis on cultural arts and public-private partnerships.
- Expertise in strategic planning, capital and operational fundraising, fiscal management, project assessment and advancement.
- Sampling of current and recent projects:
 - San Francisco Ballet/San Francisco War Memorial Opera House
 - Nashville Symphony Orchestra/Schermerhorn Symphony Center
 - The Charleston Gaillard Center (under construction)
 - Ordway Center for the Performing Arts (venue opening February 28, 2015)
 - Kansas City Symphony/Kauffman Center for the Performing Arts



- B Squared Consulting (B²) is retained by the City of Bellevue (City) to assess key components of the planned Tateuchi Center (Center) – a proposed performing arts venue in downtown Bellevue.

- Core elements of the project Scope of Work are as follows:
 - Assess the audience demand for the proposed programming in Tateuchi Center.
 - Evaluate the availability of program content for the Center, including a utilization forecast.
 - Identify competitive facilities and programs.
 - Develop an updated *Financial and Operating Model*, identifying capital requirements and risk factors.
 - Consider key factors for success and offer any additional recommendations and observations.



- Assessment timing: November 2014 – January 2015

- Activities included:
 - Progress meetings with the *Project Committee*.
 - 28 key constituent interviews.
 - Utilization and market demand assessment.
 - In depth review of PACE's initial *Financial and Operating Plan*.
 - Preparation and submission of *Draft Project Report*.
 - This evening's Study Session.

Capital Funding



TATEUCHI CENTER - CAPITAL OVERVIEW: 12/31/14

Capital requirements include funding for pre-opening operations. Cost estimates were recently updated as reflected in the chart.

Capital Funding Requirements	
Total Capital Costs (2016 Groundbreaking)	\$191,100,000
One-Year Delay to 2017 Groundbreaking	\$2,700,000
Operations Through Opening Including Staff	\$3,721,751
Opening Year Operational Funding	\$600,000
TOTAL CAPITAL FUNDING REQUIREMENTS	\$198,121,751
Capital Funds Expended to Date	
Capital Design and Planning Costs	(\$21,000,000)
Capitalized Operating Costs	(\$11,600,000)
TOTAL CAPITAL FUNDS EXPENDED TO DATE	(\$32,600,000)
NET REMAINING CAPITAL REQUIREMENT	\$165,521,751
Calculation of Available Funds	
Funds Pledged and Received To Date	\$64,000,000
Less Capital Funds Expended to Date (above)	(\$32,600,000)
Less Funds Restricted to Endowment by Donors	(\$1,321,120)
Less Funds Restricted to Programming by Donors	(\$3,000,000)
NET AVAILABLE FUNDS	\$27,078,880
REMAINING CAPITAL FUNDING NEED	\$138,442,871
<i>Potential adjustments:</i>	
Reduced capital cost for recommended change in design concept.	
Repermitting of the project.	

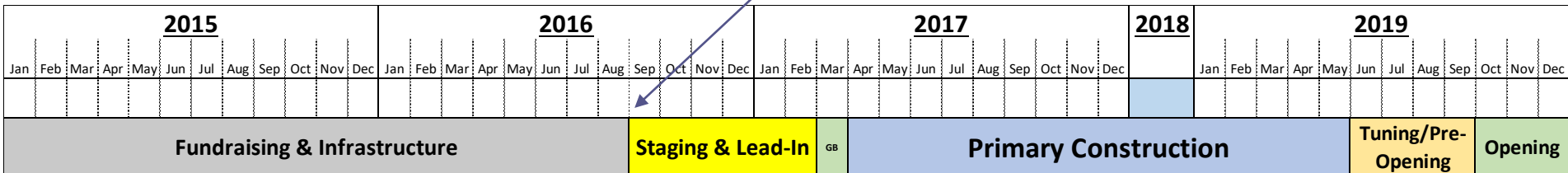
Capital Funding/Project Timeline



Findings

- PACE should continue its accelerated and re-energized efforts to advance capital fundraising.
- The magnitude of the remaining capital funding challenge defines a project calendar with an opening in the fall of 2019.
- Project commissioning – a “go” decision is made at the beginning of the *Staging and Lead-In Phase*.
- A fall opening is necessary and appropriate.

Go/No-Go Decision





Findings

The capital funding mix for the project can be assembled in several ways. City Council will determine whether to invest further in Tateuchi Center. If Council elects to invest:

- The Capital Campaign will benefit from a *Statement of Support* from the City of Bellevue indicating conditional intent to allocate capital funds to the project.
- Further and timely progress in private-sector fundraising toward the remaining \$138.4 million goal should be considered as a prerequisite for City support.
- Including *A Call to the Community* in the City's *Statement of Support* would be helpful.



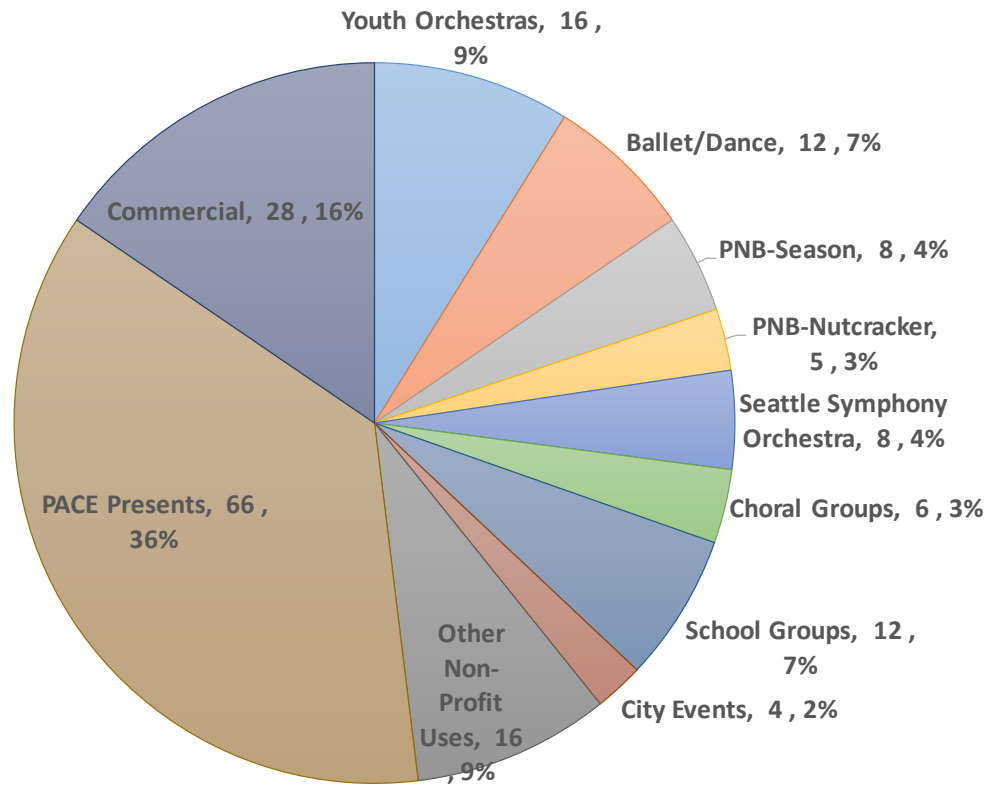
Findings

- Forecast utilization includes program offering by local and regional performing arts and educational organizations.
- Regional organizations such as Seattle Symphony and Pacific Northwest Ballet will offer sustained programming. The venue is viewed favorably by these groups.
- Presentation programming – PACE Presents – will be a core element of utilization and will include a broad range of activity – although Broadway programming will be limited due to market conditions.

Program Utilization Demand



Tateuchi Center Projected Utilization - Year 2



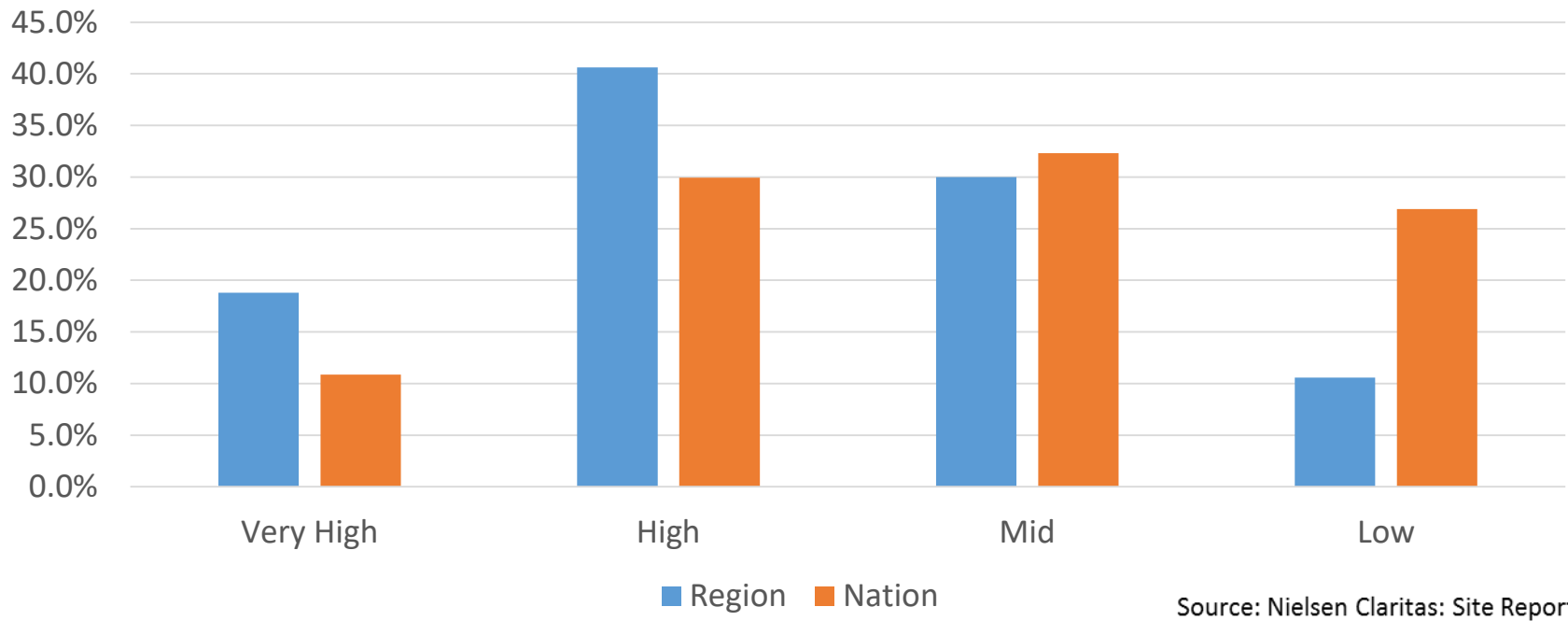


Findings

- B² utilized a Claritas-PRIZM resource to characterize the regional market segments and characteristics.
- Demographics and market segmentation of the region are remarkably favorable to consumption of culture and entertainment.
- The high-level analysis compares the percentage of households in ranked socio-demographic groups for the region vs national averages.
- The Bellevue market is among the top four regional markets for measures such as household income, wealth, education, philanthropy, etc.
 - These characteristics have a strong link to consumption of arts and culture and a commitment to education.



Propensity to Consume Arts and Entertainment Region Compared to Nation Households by Socio-Economic Status (Income and Education)





Satellite City Trends

- Satellite city venues are proving to be in high demand and successful. Examples include:
Green Music Center, Strathmore Hall complex, Scottsdale Center for the Performing Arts, Los Angeles area venues, college and university campuses.
- Responsive to patron preferences for ease of access, flexibility, and quality.
- Key components:
 - ▣ Proximity and convenience
 - ▣ Traffic
 - ▣ Free parking
 - ▣ Surrounding amenities



Competition

- The Center's Concert Hall and Education Center are not competitive with the Theatre at Meydenbauer Center but rather complement that venue and fill out the inventory of Eastside performance spaces. Programming will migrate to the venue of best fit.
- *“There may be some displacement of high-room-night-generating events from the Meydenbauer Center (i.e. conventions, meetings and tradeshow) as a result of the addition of a new performing arts center being contemplated adjacent to the Hyatt Hotel. The addition of this adjacent facility may result in a modest level of lost corporate convention activity currently using Meydenbauer Center.”*
- Regional organizations such as Seattle Symphony Orchestra and Pacific Northwest Ballet view Tateuchi Center as offering opportunities for program growth and diversification.
- Competitive analysis highlights the importance of presentation programs - responding to trends and conditions.

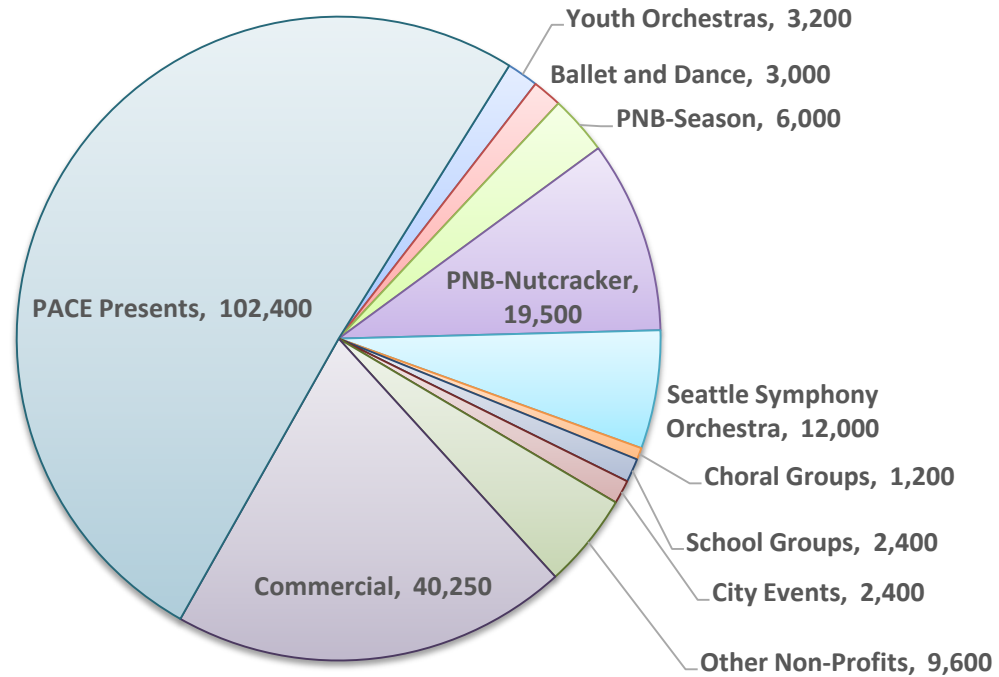


- Attendance and participation rates are forecast for each user group and type for both rentals and presentation programs.
- Data inputs include audience statistics for current activities, the experience of other venues, and assessment of opportunities for presentation programs.
- Extended forecasts assume modest annual growth in per-event attendance.
- Access to all residents can be developed through extensive outreach and educational programming.
- The high level of attendance contributes significantly to the venue's community impact.



Tateuchi Center Projected Attendance and Participation

Forecasts based on interviews with potential user groups and PACE management, and the experience of similar venues.

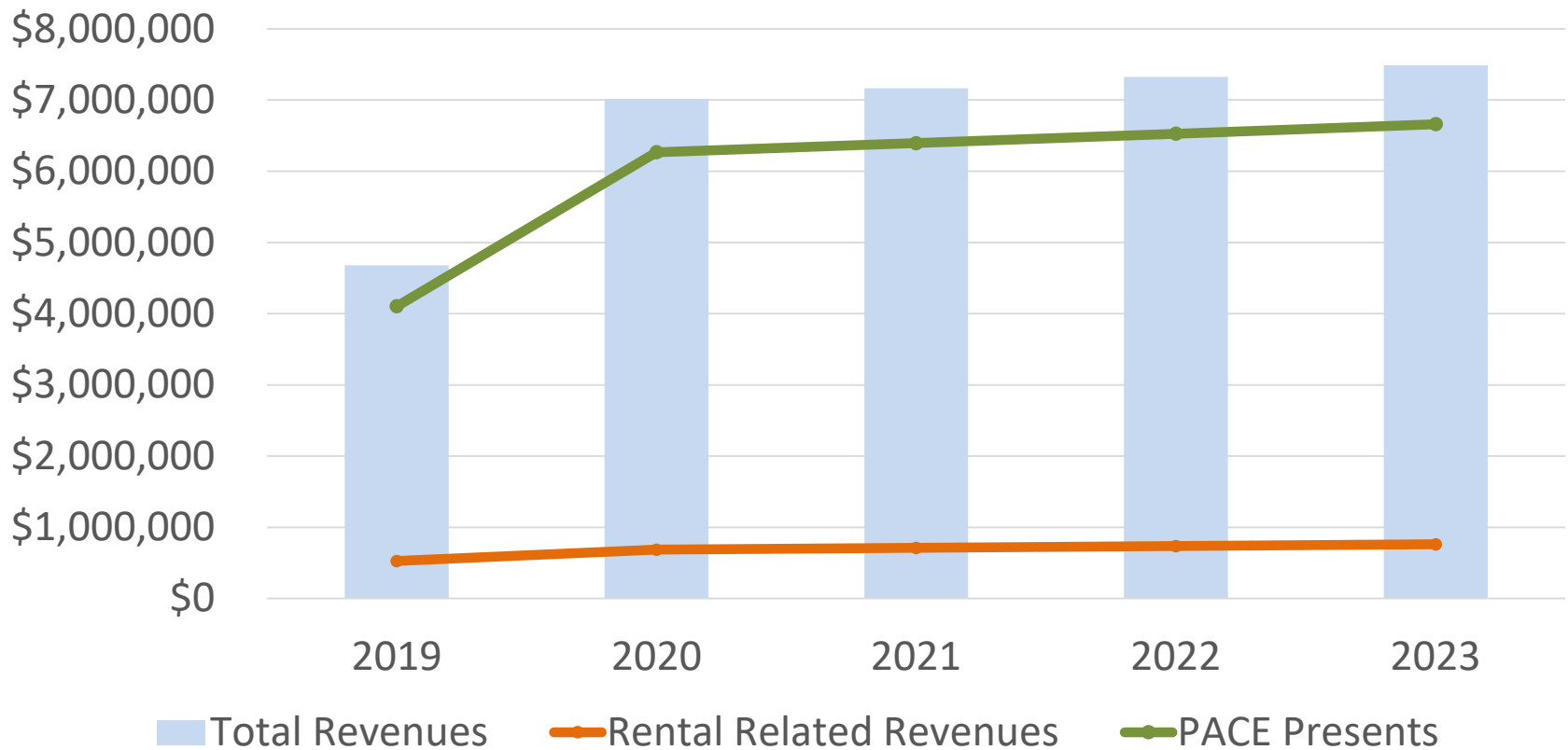




- B² completed a detailed assessment of PACE's preliminary *Financial and Operating Model*.
- An updated version of the *Model* was developed, endorsed by PACE staff, and advanced by B² as an ambitious yet realistic framework for moving ahead.
- Further collaboration identified opportunities for modifications to design elements of the facility and associated recommendations included herein.



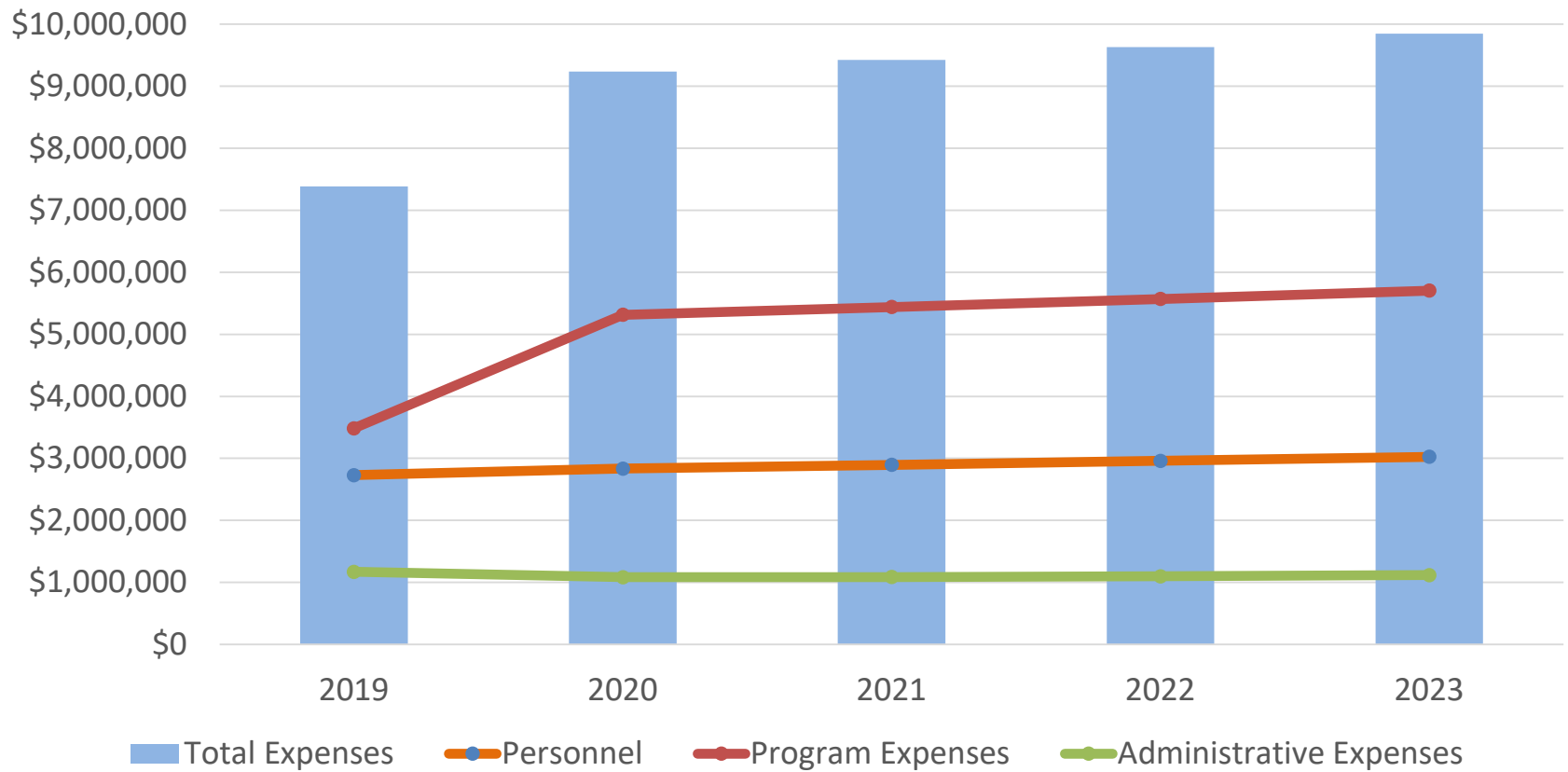
Earned Revenue Profile



Operating Expenses



Expense Profile





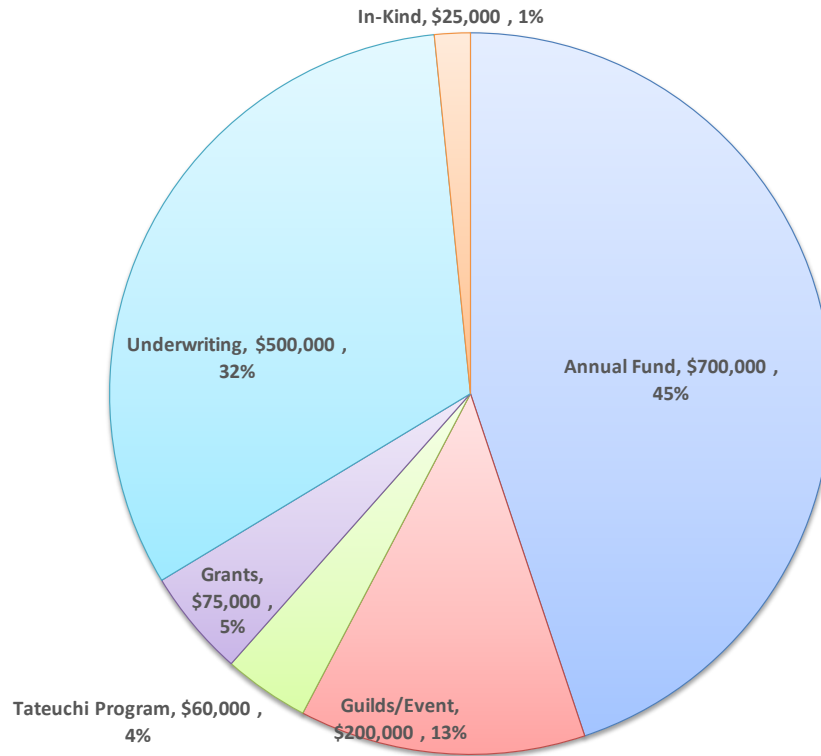
Presentation Series Analysis: Averages

Genre	Classical	Popular	Jazz/ Folk	Ballet/ Dance	Musicals and Theater	Spoken Word/ Comedy	Education/ Family	TOTALS
Number of Events	10	16	8	6	8	8	10	66
<u>REVENUES</u>								Totals
Ticket Revenues	\$1,084,500	\$1,910,800	\$530,400	\$596,700	\$1,067,800	\$456,000	\$312,150	\$5,958,350
Ticket Surcharge	\$36,000	\$54,400	\$19,200	\$21,600	\$30,400	\$19,200	\$24,000	\$204,800
TOTAL REVENUES	\$1,120,500	\$1,965,200	\$549,600	\$618,300	\$1,098,200	\$475,200	\$336,150	\$6,163,150
TOTAL EXPENSES	\$751,760	\$1,634,464	\$402,832	\$687,336	\$938,224	\$185,480	\$242,472	\$4,842,568
NET CONTRIBUTION	\$368,740	\$330,736	\$146,768	(\$69,036)	\$159,976	\$289,720	\$93,678	\$1,320,582

Gifts and Grants/Net Position



Tateuchi Center
Gifts and Grants Profile: FY2020



	2019	2020	2021	2022	2023
NET OPERATING POSITION	(\$2,704,795)	(\$2,215,828)	(\$2,246,405)	(\$2,294,022)	(\$2,349,929)
GIFTS AND GRANTS	\$1,745,000	\$1,560,000	\$1,655,000	\$1,758,250	\$1,870,513
NET FINANCIAL POSITION	(\$959,795)	(\$655,828)	(\$591,405)	(\$535,772)	(\$479,417)



Observations

- Modest forecast for guilds and special events – upside opportunity.

- Core funding levers:
 - Education and community outreach
 - Economic impact and quality of life
 - Program sponsorship and marketing

	Bellevue Arts Museum	Village Theater	Kirkland Center	Broadway Center - Tacoma	Seattle Theatre Group	Tateuchi Center
Earned Income <i>as % of total</i>	\$832,601 32%	\$8,100,359 79%	\$695,952 59%	\$2,779,463 54%	\$32,997,579 94%	\$7,013,163 82%
Gifts and Grants <i>as % of total</i>	\$1,782,388 68%	\$2,155,782 21%	\$477,840 41%	\$2,415,678 46%	\$2,163,237 6%	\$1,560,000 18%
Total Income	\$2,614,989	\$10,256,141	\$1,173,792	\$5,195,141	\$35,160,816	\$8,573,163

Source: IRS Forms 990



Observations

- The updated forecasts identify a funding gap beginning at \$750,000 in year 1 and declining steadily, leveling at \$250,000 in year 5.

- Upside potential is available in important areas including:
 - ▣ Increased income from presentation programs.
 - ▣ Further utilization activities and revenue.
 - ▣ Greater success in annual fundraising.



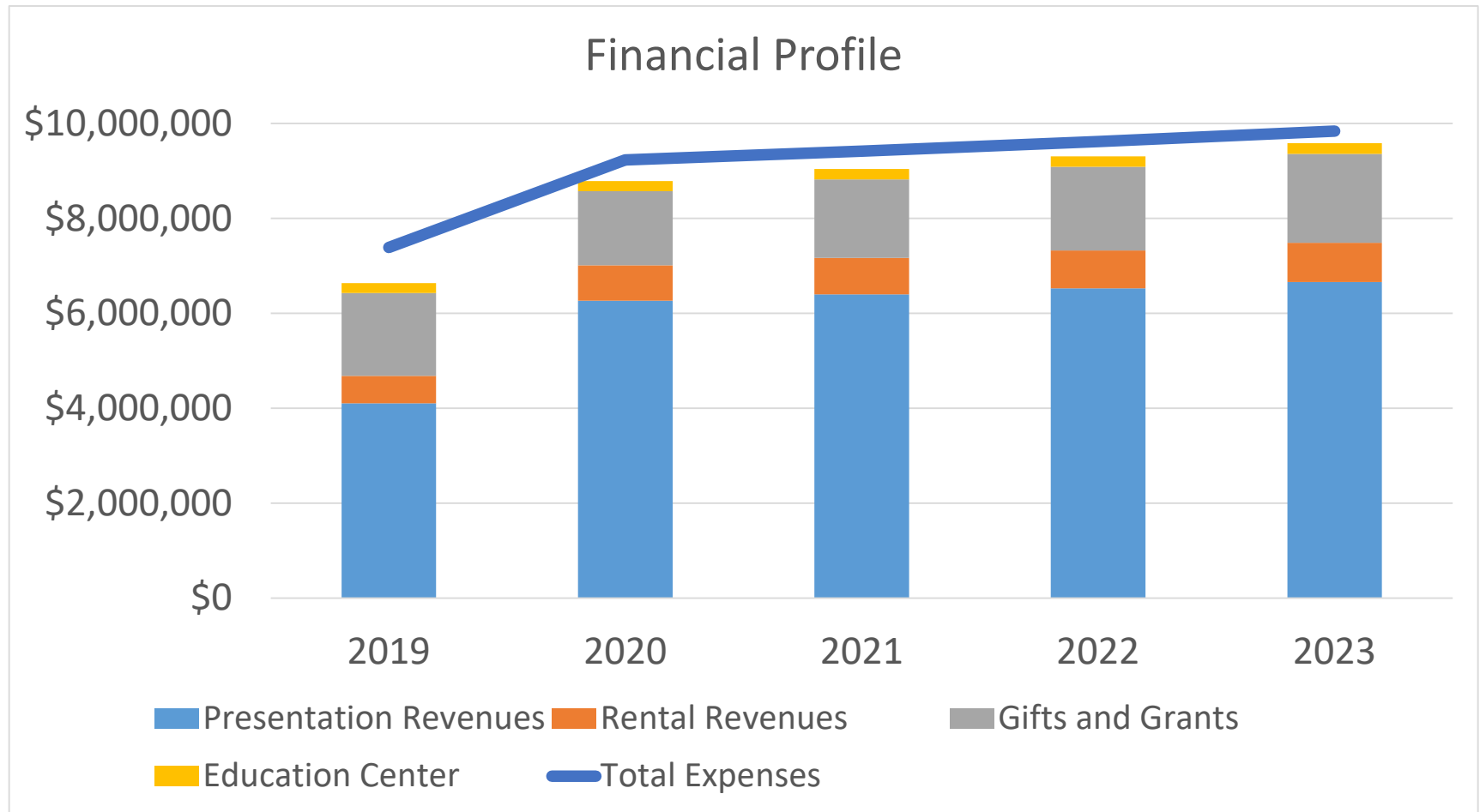
Cabaret

- ❑ Significant risk
- ❑ Use conflicts
- ❑ “Dark” space
- ❑ Duplicates private-sector amenities

Education Center

- ❑ Increases and diversifies utilization
- ❑ Consistent daytime programming
- ❑ Engages students of all ages
- ❑ Reduces capital and operating costs
- ❑ Enhances fundraising capacity

Education Center Proposal



Discussion of Economic Impact



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- Tateuchi Center will have a significant and sustained positive impact on the region's economy.
- B² has studied the economic impact of cultural facilities and programming in other settings. We anticipate that the construction and operation of Tateuchi Center will generate significant and favorable economic impact as follows:
 - Construction (one-time): The impact of expenditures on labor and materials in the Bellevue market.
 - Attendee Spending (ongoing): Direct and indirect expenditures by venue for tickets, dining, and associated items.
 - Operating Impact (ongoing): Expenditures for payroll, goods and services.
- Findings in other communities demonstrate that the specific impact in each setting differs based on market characteristics – thoughtful examination is required to identify the anticipated economic impact for Tateuchi Center.
- The City has commissioned an independent study of the Center's anticipated economic impact in the above areas.

Project Challenges and Risks



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- Capital fundraising achievement and timeline.
- Construction cost inflation/Project management.
- Program development mandate (PACE Presents).
- Requirement for an annual operating subsidy and achieving sustained annual funding.

Potential Benefits to the City



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- Direct economic impact
- Indirect economic impact
- Community engagement and activities
- Sustainable venue and program
- Education focus

Summary of Findings



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- Major private capital fundraising challenge ahead.
- Operations will be heavily dependent on success of PACE programming efforts. Additional effort by PACE is needed here.
- Annual operating deficit is projected. Declining in first five years, but ongoing. This is normal for performing arts centers nationally.
- To reduce deficit and broaden community use of the facility, a design change is recommended: replace the Cabaret with an Education Center.
- Assuming these items are addressed, the project is feasible.
- If the City decides to support the project with some sort of capital investment, a Statement of Support to that effect should be issued and be conditional on the success of private fundraising and meeting other conditions the City determines are appropriate.
 - A City statement of capital support in the near term is also critical to keep forward momentum on the private fundraising challenge.
- There are risks and benefits.

Next Steps

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- Spring 2015:
 - Consider options for funding commitment and conditions.
 - If Council's decision is to proceed, define requirements for public benefit and engage in community outreach and involvement.
- Fall, 2015: Review PACE fundraising progress.
- Fall, 2016: Based on PACE success, make final decision.



Contact Information



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Thank you!

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