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## CITY COUNCIL STUDY SESSION ITEM

### SUBJECT

Tateuchi Center Feasibility Study briefing

### STAFF CONTACT

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### POLICY ISSUE:

#### Previous Council actions:

- 2002: Council adopted Resolution No. 6670 supporting the Performing Arts Center Eastside (PACE) proposal to construct a performing arts center.
- 2006: Investment Principles for Cultural Facilities adopted.
- 2014: Council adopted Resolution No. 8695 authorizing an MOU with PACE "...to advance public and private efforts to secure a major performing arts facility, the Tateuchi Center, in Bellevue for the benefit of the community and the entire Eastside." Mayor Balducci appointed Councilmember John Stokes to serve as Council's liaison for the PACE collaboration.
- 2014: Adopted budget for 2015-16 included a \$1M "placeholder" for Tateuchi Center, in anticipation of further study and decision by Council on the project.

#### Comprehensive Plan:

The following Comprehensive Plan Policies support City participation in development of performing arts and cultural facilities.

- **Economic Development: ED-17.** Recognize the economic development benefits of city and private sector investments in urban amenities like arts and culture, open space and recreational facilities, and high quality urban design. Strengthen the city's assets in these areas as an explicit component of the city's economic development strategy.
- **Urban Design: UD-36.** Encourage development, display, and performance opportunities for a wide range of artistic expression throughout the city.
- **Parks & Recreation: PA-14.** Develop partnerships with other public agencies and the private sector to meet the demand for cultural and recreational facilities in the city.

#### Downtown Subarea Plan:

The **Downtown Subarea Plan** states as its vision: "To become the symbolic and functional heart of the Eastside Region through the continued location of cultural, entertainment, residential, and regional uses." **Policy S-DT-11** encourages the development of major civic, convention and cultural uses within the Downtown.

Cultural Compass:

The **Cultural Compass**, which is the City’s Cultural Plan and a reference document for the Comprehensive Plan, acknowledges the need for a variety of performing arts venues in the community and specifically includes the PACE project as an example of how to accomplish its vision of a thriving Downtown.

- **Cultural Compass GOAL 5:** Develop a mix of flexibly designed, quality visual and performing arts spaces to serve Bellevue and Eastside organizations, artists, and residents.

**DIRECTION NEEDED FROM COUNCIL**

	Action
X	Discussion
X	Information

The larger policy question is whether the City should invest additional public funds in support of Tateuchi Center, and if so, how much, when and under what conditions. Tonight’s briefing is informational and is focused on the results of the City-commissioned feasibility study examining Tateuchi Center and PACE’s operating and marketing plans. Council will hear the results of the consultant’s study and have the opportunity to ask questions of the consultant, Mr. Steven Bronfenbrenner of B<sup>2</sup> Consulting.

**BACKGROUND/ANALYSIS**

In May 2014, the PACE Board and City signed a Memorandum of Understanding (MOU) which set the framework for a collaborative process to consider options for the financing and operation of Tateuchi Center, a proposed 2,000 seat performing arts center to be located in downtown Bellevue. Pursuant to this effort, last October the City hired B Squared Consulting of California (B<sup>2</sup> Consulting) to conduct an independent feasibility analysis of Tateuchi Center assessing likely demand for programming and use of the venue, patronage demand for the proposed offerings at Tateuchi Center, and a review of the 10-year operating *pro forma* PACE has developed for Tateuchi Center. Based on their national experience working with performing arts centers, B<sup>2</sup> Consulting also was asked to identify the potential risks for additional City investment and to provide any additional relevant advice. B<sup>2</sup> Consulting has completed its work. The main focus of this Study Session is to hear the results of the consultant’s study and provide an opportunity for Council to ask questions of the consultant. Mr. Bronfenbrenner will represent B<sup>2</sup> Consulting at the meeting.

B<sup>2</sup> Consulting was selected through a competitive process based on the firm’s significant experience in senior management roles and consulting in the non-profit sector with an emphasis on cultural arts and public-private partnerships. Their practice alternates consulting with serving in interim roles managing major performing arts centers, providing both a national perspective and practical experience.

This firm previously worked with Bellevue on the performing arts center question. In 2001 the City hired B<sup>2</sup> Consulting to provide an assessment of three competing proposals for a performing arts center in Downtown Bellevue, including what was to become the PACE project.

**Progress Update:**

As contemplated by the 2014 MOU between the City and PACE, staff representatives from both parties have met twice monthly since last spring to examine options for private and potential additional public funding of Tateuchi Center. Legal implications of investing public funds in Tateuchi Center were also

examined. As reported to Council last October, a survey of comparable facilities was completed, and a community outreach effort launched.

Since October, PACE has added four new members to its board and reorganized its fundraising efforts, including the addition of new fundraising staff expertise.

For a re-cap of Tateuchi Center scope and status, see Attachment A.

### **The Feasibility Study**

The scope of work for the B<sup>2</sup> Consulting project can be summarized as follows:

1. Assess the availability of programming for, and anticipated utilization of Tateuchi Center.
2. Identify and assess potential market and patron demand for programs offered in Tateuchi Center.
3. Evaluate and propose improvements to the ten-year financial and operating pro forma developed by PACE as a projection of Tateuchi Center's operating costs and revenues.
4. Identify any major risks surrounding possible additional City financial support for the project and provide additional relevant advice.

In sum, B<sup>2</sup> Consulting finds that with a design change to the facility -- replacing the Cabaret with a flexible space style "Education Center" with "black box" theatre capability -- and assuming a ramped up self-generated programming effort by PACE, the project is feasible and expenses and revenues are on par with similarly-sized performing arts centers.

B<sup>2</sup> Consulting finds that there is a strong market for patrons in the Eastside region, and a moderate demand from other organizations to present their programming and events at Tateuchi Center. B<sup>2</sup> Consulting finds Tateuchi Center will not be in competition with Meydenbauer Center but rather complements that venue and fills out the inventory of Eastside performance spaces. Programming will migrate to the venue of best fit.

B<sup>2</sup> Consulting recommends a more conservative assumption about philanthropic giving in support of Center operations, which means that the Center will have an annual operating shortfall. In the first 5 years of operation, this shortfall is estimated to decline, from about \$750,000 a year to slightly less than \$250,000 a year. Again, this assumes the change in facility design and a successful programming effort by PACE. B<sup>2</sup> Consulting reports that this operating deficit is in line with the profile of performing arts centers nationwide, including many B<sup>2</sup> has worked with. B<sup>2</sup> Consulting expects that the City similarly will need to assist in filling this gap.

Based on the feasibility of the project and the economic development and other benefits to the City from Tateuchi Center (with the revised design), B<sup>2</sup> Consulting recommends that if Council decides to support the project, such support should take the form of a *conditional commitment* to provide capital funding on a "last dollar in" basis. They see this as an important step in maximizing the likelihood of success of the private fundraising effort. The current capital gap to secure full construction/start-up funding is about \$138.4M. This does not include funding of an endowment but does include PACE's operating costs through the opening of the Facility and its first year of operation. PACE may or may not be successful in meeting this challenge despite any City statement of support. B<sup>2</sup> Consulting recommends that if Council wishes to make such a statement of support it should be made very soon -- this spring -- in order to sustain and support the private sector fundraising.

A statement of support, if authorized by Council, would be a non-binding statement to provide funds, contingent on PACE closing the construction funding gap first through other commitments, and contingent on reaching agreement on adequate security/public benefit for any public investment. Additional conditions could be placed on the commitment such as a timeline, a dollar limitation, or other conditions.

B<sup>2</sup> Consulting recommends that if the City decides to proceed the City should review PACE's fundraising progress in about 9 months (this September). In the view of the consulting team, it likely will take an additional year to secure all the needed private sector funds – September 2016. If successful, groundbreaking would occur that fall and the facility would be open in the fall of 2019.

### **Discussion: Providing Additional Public Funding For Tateuchi Center**

**Capital Funding:** The City has a long list of capital project demands. Tateuchi Center will compete with these demands should Council decide to invest additional public funds in the project.

Any investment of City (or other public) funds towards the project must be structured in exchange for public benefit to ensure the investment complies with the state constitutional prohibition against a gift of public funds. As the project is currently (and most likely will continue to be) structured, Tateuchi Center will be owned and operated by PACE, a nonprofit corporation. Nonprofit corporation *operation* of performing arts facilities is commonplace in our region. Nonprofit corporation *ownership* is not, and this makes the securing of public benefit more important and more complex. The only similarly structured investment staff are aware of is the City's approximately \$3M investment towards the construction of the Bellevue Art Museum (BAM), which is owned and operated by a nonprofit corporation. Tateuchi Center is a different project, of different size, scope and use than BAM. The amount of additional City funding contribution to PACE, if any, is as yet unknown. Therefore, the terms and conditions associated with a future City investment are not determinable now; it will require negotiation among the City, PACE and almost certainly the current underlying property owners.

To date, the City has invested \$2M in the project, in exchange for rights to the design drawings and securing a wide range of public programming and access commitments by PACE. The City has identified an additional \$1M in the CIP as a placeholder for a possible larger investment in the future. The County and State have committed an additional combined \$6.25M. The practical reality is that additional major public funding support for construction of Tateuchi Center will require further leadership from the City of Bellevue. When built, Tateuchi Center can be expected to serve residents throughout King County and could be used by performance groups based throughout the County (and the nation). That said, the facility will be located in the heart of downtown Bellevue and the primary direct economic benefit from the facility largely will accrue to the City. If the City were to make a major funding commitment towards construction, it would be in a strong position to advocate for additional public funding from other agencies.

As described above, if the Council decides to issue a statement of support for the project and intent to provide additional funding, that statement should be contingent on PACE first closing the construction funding gap through other commitments, and contingent on reaching agreement on adequate security/public benefit for any such additional public investment. Note that this approach makes use of publicly voted funding problematic. To avoid negative impact from a possible loss at the ballot, or a delay in the project, a councilmanic source of funding is the most feasible approach. It is also consistent with the approach of nearly every other performing arts center surveyed in the region—the exception

being McCaw Hall, which was funded through a Seattle ballot measure combining McCaw Hall funding with parks and improvements to Seattle Center.

**Operating Funding:** One of the major findings from the B<sup>2</sup> Consulting report is that, like nearly all performing arts centers nationally (including all those surveyed in our region), Tateuchi Center will have ongoing annual operating deficits. The gap is expected to be in the range of \$750,000 to \$250,000, declining through the first five years. There is likely to be an expectation (and need) that the City contribute towards closing this gap after the opening of the facility. The size of the gap will depend on PACE's success in generating revenue from other sources each year. From the City's perspective, operating support would typically be a decision made on a year-to-year basis as part of the City's regular budget process, and as such, will be an item in competition with other budget demands. Any operating funds would also need to be supported by a defined public benefit received in exchange.

### **Next Steps**

In late March or early April, staff will seek Council's decision whether to issue a statement of support for Tateuchi Center, including a statement of intent to make a substantial capital funding investment by the City – either with no dollar amount identified, or a range -- subject to confirmation that PACE has secured the balance of construction funding necessary and that other terms and conditions necessary for City investment are met. This statement of support and intent to fund would not be a binding contract. However, should the outlined conditions be met, there would be a strong expectation that the City would proceed as initially stated. In the meantime, staff will work to frame out the parameters of consideration/security/public benefit necessary for a substantial additional public investment in Tateuchi Center, should the Council decide to proceed.

If Council decides to proceed, a formal check-in with PACE on fundraising efforts should occur later this year in September. At the point PACE has accomplished the necessary fundraising (B<sup>2</sup> Consulting expects this is most likely to occur by September 2016), the City would need to be prepared to quickly enter into a final agreement for construction funding support, so as not to slow down the project schedule.

A critical path schedule is provided at Attachment B.

### **ALTERNATIVES**

No action is requested of Council at this time.

### **RECOMMENDATION**

No action is requested of Council at this time.

### **ATTACHMENTS:**

- A. Tateuchi Center Project Recap and Status
- B. Critical Path Summary

### **AVAILABLE IN COUNCIL DOCUMENT LIBRARY:**

Comparative Facilities Survey