

Memorandum

TO: COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE
FROM: Kerry Adams Hapner
SUBJECT: UPDATE ON HAMMER THEATRE CENTER
DATE: October 11, 2019

Approved /s/ Date
 Kim Walesh

RECOMMENDATION

Accept the update on the partnership with San Jose State University 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 oversee an extensive Request for Interest process that resulted in the recommendation of San Jose State University (SJSU) to be the new operator. City Council voted unanimously on December 1, 2015 to approve an Operations and Maintenance (O&M) agreement for an initial incubation period of three years with options to extend for a longer period. The incubation model emphasizes co-creation and ongoing iterative improvement based on actual operational experience.

In October 2018, O&M agreement was extended for 18-months through June 30, 2020 to allow review of three fully-staffed seasons of operations and to allow the contract cycle to align with the City’s and SJSU’s fiscal year. At SJSU’s request, the extension included an option for SJSU to request 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. This provision allows a richer educational experience for future artists and arts administrators in spaces that would otherwise be underutilized such as the costume shop and café area.

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 has been \$285,000, which is the same amount provided to the

facility's previous operator. In FY2019-2020, the subsidy amount for cultural facility operators, including SJSU, is projected to increase per the Mayor's June Budget Message which restores O&M subsidies to pre-recession levels and provides a small percentage increase for inflation. The revised O&M amount for the Hammer Theatre Center operations will increase by \$30,000 to a total annual allocation of \$315,000, pending City Council's approval of the Annual Report on October 22, 2019.

ANALYSIS

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), the rooftop terrace, downstairs Curtain Call Café, the VIP lounge, and lobby.

All policies regarding rentals, safety, employment, and facility use are consistent with SJSU's broader university policies.

To support the success of this partnership during the initial incubation years, SJSU convened the Hammer Theatre Advisory Group (HTAG), a team comprised of SJSU faculty, City, and community advisors. Initially meeting monthly in the early stages of implementation, HTAG is now convened as necessary once or twice year. The City is currently represented by Councilmember Raul Peralez, Arts Commission member Richard James, and Director of Cultural Affairs Kerry Adams Hapner.

Highlights of Accomplishments To Date

SJSU has laid a solid foundation for a 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. The City's partnership with SJSU to operate the Hammer Theatre has provided consistent and high quality cultural programming in the iconic downtown venue.

Programming: Under SJSU management, Hammer Theatre programming continues to reflect a rich diversity of offerings by a variety of producers including SJSU, community arts and nonprofit groups and national touring entities. The full calendar of events for the FY2018-2019

season is included as **Attachment A**. SJSU maintains a dedicated website for the Hammer Theatre (<http://hammertheatre.com>) with online ticket selling capability and produces programming brochures to promote the fall and spring performance season. See **Attachment B** for most recent brochure.

Programming accomplishments during the past season include:

- Annual attendance of over 57,000, an increase of 6% from the prior year.
- Almost 200 performances in the Hammer Theatre, a 17% increase from the prior year.
- Upheld tradition of the Hammer Theatre as a place to see high quality theater, with one-quarter of its offerings focused on theater (48 performances).
- High quality productions for the community produced by SJSU including *Frankenstein @ 200* (talks, screenings and radio play), *Urinetown: The Musical*, *American Night*, *The Ballad of Juan Jose*, Leonard Bernstein's *MASS*, *Pasquale Esposito*, and *The Dreamer Project*.
- Over one-third of performances presented by community-based groups such as San Jose Jazz and Cinequest, as well as other local cultural organizations such as New Ballet, San Jose Dance Theatre, Grupo Folklórico Los Laureles, San Jose Youth Symphony, Starting Arts, EnActe Arts and Ballet Folklórico Fuego Nuevo.
- Partnership with Emory Entertainment to bring national touring productions to San Jose including *Nat King Cole Christmas* and *Men Are From Mars, Women Are From Venus*.
- Increased audiences for highly acclaimed *National Theater Live* and *National Geographic Live*.
- Continuation of *ArtTech*, a new presenting series featuring innovative works that combine art and technology.
- Increased activation of the plaza surrounding the theater with popular and free public events such as International Jazz Day, South First Fridays monthly art walk, and 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 and 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.

Staffing: After a ramp-up phase in the first year of the agreement, SJSU has operated fully staffed since the second year with four full-time experienced senior managers who have strong qualifications in production management, client services and patron support. Hammer Theatre staffing is currently comprised of seven full-time staff and two part-time staff. The professional staff are supported by a cadre of volunteers and paid student assistants who gain valuable experience that gives them an edge in securing future jobs in the arts or related disciplines.

Staffing remains consistent with the following highlights:

- Mr. Christopher Burrill, a veteran arts administrator, has provided experienced leadership for the Hammer Theatre since June 2016. Key senior leadership positions in client and patron services and production have also remained consistent.
- Faculty and staff in the College of Humanities and the Arts develop marketing materials for the Hammer Theatre, assisted by qualified student interns, and a contracted publicist provides targeted publicity for presenting programs.
- Partnership with International Alliance of Technical Stage Employees (IATSE) provides students with the opportunity to earn credit towards their journey person 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 capital replacement of building systems that have reached the end of their serviceable 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 for the Hammer Theatre.

In the first year, both the City and SJSU made significant initial capital investments to bring the facility and its technical theater equipment to competitive standards. The City's start-up capital investment of \$900,000 funded critical building and safety systems and repairs and upgrades to theater technical controls. SJSU's start-up investment of \$1.5M funded new lighting, sound and audio-visual equipment, state-of-the-art orchestra shell system and other upgrades. City and SJSU shared costs for upgrading the digital signs with advanced electronic features.

In each successive year, both the City and SJSU have continued to make capital investments in the Hammer Theatre to maintain the facility at professional standards. In FY2018-2019, the City's capital investments primarily focused on replacement of carpet in the theater auditorium and other areas and on the upgrade of Heating, Ventilation and Air Conditioning (HVAC) controls which is part of a larger phased project for overall HVAC refurbishment. Comprehensive updates to the 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 five other cultural facilities that are operated by nonprofit partners.

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 FY2018-19 operating budget for the Hammer Theatre remained relatively steady at \$2.48M. In addition to the City's \$285,000 O&M subsidy, SJSU's annual appropriation has remained at \$1.35M, while its appropriation to support start-up costs has declined by approximately 75% to \$74,000, reflecting a decrease in expenses associated with start-up. Despite a reduction in start-up cost allocation, the other sources of revenues for Hammer Theatre operations show an overall increase of 40%, due to robust increases in income from rentals and presenting activities. At the end of FY2018-2019, SJSU reported that revenues for the Hammer Theatre exceeded expenses by \$73,609, not counting capital-related expenses.

Operating the Hammer Theatre as a performing arts facility is an expensive undertaking with significant costs in both operating and capital expenses. In FY2018-2019, SJSU reported capital maintenance and repair expenses of approximately \$300,000 and continues to raise questions about the adequacy of the City's O&M subsidy given the high cost of facility operations and maintenance and their limited capacity for additional investment. As with the other City-owned cultural facilities 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 revenue for future years, SJSU has launched a Friends of the Hammer fundraising initiative to cultivate individual donors at multiple benefit levels. The initiative also includes specific sponsorship opportunities to support Hammer Presents events. In addition, to continue to further catalyze the growth of rental income, especially those with broad audience appeal and a potential for multi-year commitments, the Office of Cultural Affairs is continuing to set aside up to \$50,000 from Transient Occupancy Tax funds in FY2019-2020. These incentives have proven successful in reducing the initial risk of investing in a new market and have helped bring high quality productions with broad appeal to the Hammer Theatre.

COST SUMMARY/IMPLICATIONS

If approved as part of the Annual Report budget process, the increased subsidy of \$315,000 will be reflected in the 2019-2020 Modified Budget for the Hammer Theatre Center O&M. 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 Adopted Budget to set aside a portion of the Transient Occupancy Tax allocated to the General Fund. With the adoption of the 2017-2018 budget, this direction was modified by the City Council such that a flat \$850,000 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 resources to complete the majority of anticipated projects through 2020-2021.

NEXT STEPS

Staff has begun working with SJSU to develop a longer-term contract for approval by City Council prior to the June 30, 2020 expiration date. At this time, it is not expected that there will be major changes to primary elements of the agreement. City Council, through the Community and Economic Development Committee (CEDC) and Arts Commission, will continue to receive semi-annual progress updates. The Arts Commission is scheduled to review this update at its regular meeting on October 21, 2019.

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/s/

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Director of Cultural Affairs

For questions, please contact Kerry Adams Hapner, Director of Cultural Affairs
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Attachment A: FY2018-2019 Event Calendar

Attachment B: Fall 2019 Programming Brochure