City Council Chambers
3300 Capitol Avenue
Fremont, California

AGENDA
FREMONT REDEVELOPMENT AGENCY & CITY COUNCIL
JOINT MEETING
JULY 21, 2009
7:00 P.M.

1. CALL TO ORDER

2. CONSENT CALENDAR

Items on the Consent Calendar are considered to be routine by the Redevelopment Agency and will be enacted by one motion and one vote. There will be no separate discussion of these items unless an Agency Member or citizen so requests, in which event the item will be removed from the Consent Calendar and considered in its normal sequence on the agenda. Additionally, other items without a "Request to Address the Redevelopment Agency Board" card in opposition may be added to the consent calendar. (In the report section of the agenda, consent items are indicated by an asterisk.)

2.1 Approval of Minutes – None

3. PUBLIC COMMUNICATIONS

3.1 Oral and Written Communications

4. PUBLIC HEARINGS – None

5. OTHER BUSINESS

5.1 Report Out from Closed Session of Any Final Action

5.2 CENTER THEATER PROGRESS REPORT AND PROPOSED NEXT STEPS
Progress Report and Agency Board Direction on Two Center Theater Concepts: The Center for Investment in the Arts, and a Film, Food and Arts Concept

Contact Person:

Name:	Barbara Szudy	Elisa Tierney
Title:	Project Manager	Redevelopment Agency Director
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RECOMMENDATIONS: Staff recommends that the Agency Board:

1. Authorize City staff to negotiate the acquisition of the Center Theater property, including entering into an option agreement.
2. Direct staff to either: a) select the Center for Investment for the Arts concept as outlined in Step 4.A and enter into a Memorandum of Understanding (MOU) with CPTG, understanding that the MOU with CTPG will play a critical role in minimizing risks as the project moves forward and that if the goals set forth in the MOU are not met or the operation is not financially feasible, the Agency may reassess its commitment to the project or, b) select the Film, Food and Arts concept as outlined in Step 4.B and authorize staff to interview, shortlist and recommend to the Agency Board potential operators for further consideration.

6. ADJOURNMENT

REPORT SECTION
FREMONT REDEVELOPMENT AGENCY REGULAR MEETING

JULY 21, 2009

5.1 Report Out from Closed Session of Any Final Action

5.2 CENTER THEATER PROGRESS REPORT AND PROPOSED NEXT STEPS

Progress Report and Agency Board Direction on Two Center Theater Concepts: The Center for Investment in the Arts, and a Film, Food and Arts Concept

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Executive Summary: Staff is recommending that, after careful consideration of the information and analysis outlined in this report, the Agency Board considers negotiating to acquire the Center Theater property, including entering into an option agreement, and selecting an operating model for operating the Theater.

For many years, the Centerville community and City leaders have struggled to determine and implement the steps to revitalize the Center Theater as a key factor in a comprehensive Centerville redevelopment effort. Most recently, the Redevelopment Agency has received two reports on potential uses for the Center Theater. One report, prepared by AMS Planning & Research, proposes a Film, Food and Arts concept for the property. The second report, a business plan from VenueTech Management Group, Inc., supported by the Center Theater Preservation Group (CTPG), recommends that the theater be operated as a Center for Investment in the Arts. In tonight's report, staff presents an analysis of both proposals in light of the City's and community's goals for the Theater, and a comparison of the operating models, including a risk analysis of each. Staff's recommendation is that the Agency: 1) authorize City staff to negotiate the acquisition of the Center Theater property, including entering into an option agreement and 2) direct staff to either: a) select the Center for Investment for the Arts operating model and enter into a Memorandum of Understanding (MOU) with CTPG understanding that the MOU with the CTPG will play a critical role in minimizing risks as the project moves forward, and that if the goals set forth in the MOU are not met or the operation is not financially feasible, the Agency may reassess its commitment to the project, or b) select the Film, Food and Arts operating model and authorize staff to interview, shortlist and recommend to the Agency Board potential operators for further consideration.

BACKGROUND: For well over a decade, organized efforts have been undertaken to restore and operate the Center Theater as a centerpiece in the revitalization of Centerville. In early 2001, the City of Fremont Redevelopment Agency provided a grant to fund a study of the future of the Center Theater. A business plan was developed by VenueTech Management Group, Inc., and provided to the Agency Board as an informational item in March 2003. This report outlined a detailed step-by-step approach to serve as a planning and implementation mechanism for approximately five years of the project. The plan identified critical action items that required the participation of the Center Theater Preservation Group (CTPG) in order to develop organizational readiness and ensure the success of the project.

The CTPG initiated work on each of the action items in the plan, and made some progress. However, in 2007, the CTPG acknowledged that it had not been able to build the necessary organizational structure, raise adequate funding, secure commitment from primary users, and work with the property owner to renovate the theater, and asked the Agency Board to pay for the assistance of VenueTech in meeting these goals. At its June 26, 2007 meeting, the Agency Board authorized staff to take two actions: first, to enter into a contract with VenueTech Management Group. Inc., on behalf of the CTPG, to develop and begin to implement a work plan for the Center Theater; and second, to conduct a feasibility study of current performing arts venues and the Center Theater's context among those venues.

Center for Investment in the Arts

VenueTech Management Group, Inc. worked with the CTPG to develop a set of clear and quantifiable deliverables, and it was agreed that the CTPG would meet these goals in order to continue any further discussions and activities by the Agency on the project. One key deliverable was an update to the 2003 business plan which subsequently evolved into a new concept proposed by VenueTech and supported by the CTPG called the Center for Investment in the Arts. A public relations plan was developed to promote the new concept, but the CTPG advised Agency staff that it was encountering difficulties in achieving its fundraising goals (setting up a $3 million endowment) since it did not have site control of the Center Theater. For this reason, and because the Agency Board had requested information on the broader performing arts market in Fremont, staff and the CTPG did not execute an MOU. On June 2, 2009, VenueTech presented its vision for the Center Theater to the Agency Board.

The Center for Investment in the Arts is intended to strengthen Fremont's performing arts community by building alliances between artists and arts organizations, and individuals and businesses committed to funding artistic and creative development. The 400-seat theater would be renovated to provide a venue for cultural programming, performing arts, entertainment, film, and other activities. The flexible stage would allow for adaptable configurations to provide for various artistic needs. A new building to the rear of the theater would house a Cultural Arts Resource Center, which would provide office space for arts organizations, a training center for non-profit arts management, an arts volunteer clearinghouse, a professional quality board room, a mail center, and small exhibit and rehearsal space.

Feasibility Study of Current Performing Arts Venues in Relation to Center Theater

Also at the June 26, 2007 meeting, staff was directed to conduct a feasibility study of current performing arts venues and the Center Theater's context among those venues. AMS Planning and Research was hired to undertake a study of the performing arts market in Fremont, review the VenueTech plan for the proposed reuse of the Center Theater, and identify possible re-uses for the newly vacated Centerville Fire Station. The results of this study were presented at the Agency Work Session on April 21, 2009.

The Agency Board has now received the analysis from AMS on the broader performing arts context, and heard proposals from both AMS and VenueTech on the proposed reuse of the Center Theater. As a result, the Agency has directed staff to review both alternatives, and return with a report that analyzes the two approaches. Tonight's presentation provides an analysis of the two proposed operating models and seeks direction for next steps from the Agency Board.

DISCUSSION/ANALYSIS:

Goals for Center Theater: The overarching goals for the Center Theater, some of which have been formally adopted and others that have been articulated by the Agency include:

1. The renovation of a historic building located in the center of the commercial district
2. The creation of a project that could serve as an economic catalyst for Centerville and would be supported by the Centerville business and residential community
3. The establishment of an operating model that would not require an annual operating subsidy from the City

Comparison of Two Operating Models:

Film, Food and Arts, and the Center for Investment in the Arts

Category	Film, Food and Arts	Center for Investment in the Arts
Concept	Show mainstream, art, and independent films, with food and beverage service; use would also include community events and small scale live performing arts programming, such as jazz and comedy	Performing arts theater. A separate building addition would be added to the rear of the building to provide space for a cultural arts resource center that will provide support and rehearsal space for local arts community organizations
Theaters	Two screening rooms, with provision for performing arts in lower theater	Single theater
Seats	350: 142 seats upper level, 218 seats lower level in film mode 204 seats lower level in playhouse mode	400-450

Summary of Renovation and Operating Budgets: The information presented in this section addresses goals #1 (The renovation of a historic building located in the center of the commercial district) and #3 (The establishment of an operating model that would not require an annual operating subsidy from the City), with information on renovation costs and revenue and operating expenses for both concepts. The models below are based upon figures supplied by AMS and VenueTech. While it appears that there is a higher initial capital investment for the Center for Investment in the Arts, the operating budgets both show a narrow profit margin.

Chart I: Construction/Renovation Costs for the Center Theater

Category:	Food, Film and Arts Concept		Center for Investment in the Arts		Difference
Direct Construction					
Theater Renovation Cost *	$4,640,000		$2,115,000		
Cultural Arts Addition **	NA		$3,969,000		
Total Direct Construction	$4,640,000		$6,084,000		$1,444,000
Equipment					
Total Equipment	$637,000		$1,319,999		$682,999
Subtotal before Other Costs	$5,277,000		$7,403,999		$2,126,999
Other Costs					
Acquisition ***	To be determined		To be determined		
Demolition	$150,000		Not estimated	****	
Soft Costs (Indirects)*****	$1,392,000	30.0%	Not estimated	****	
Contingency	$681,000	10.0%	Not estimated	****	
Total Other Costs	$2,223,000		Not estimated		
Total Costs	$7,500,000		$7,403,999 plus other costs		

* AMS: $450/sf VenueTech $4700/seat (450 seats) $300/psf
** $450/sf
***Assumed to be the same for both models
**** The VenueTech plan does not include estimates for demolition, soft, and contingency costs
***** Soft costs are usually estimated as a percentage of construction and renovation costs. These include architectural, engineering, and legal fees, permits, impact studies, testing, and developer fees.
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Chart II: Revenue and Operating Expenses

Category:	Film, Food, and Arts	Center for Investments in the Arts	Difference
Revenue:			
Film Admissions	$495,000		
Food/Beverage Sales	594,000	$10,000	
Rental Events/Income	12,000	205,500	
Endowment Income		60,000	
Annual Fund		108,500	
Other		84,000	
Total Revenue	$1,101,000	$468,000	($633,000)
Operating Expense:			
Payment to Film Distributor	$173,000		
Labor/Personnel	383,000	$207,800	
Consulting Services		75,000	
Food/Beverage	249,000	4,000	
Overhead (utilities, insurance, etc.)	124,000	121,200	
Administration	12,000		
Marketing	39,000	14,000	
Equipment Maintenance	24,000	3,000	
Credit Card Fees	8,000		
Capital Repair Allowance	50,000	17,000	
Grants to Non-Profits		20,000	
Total Expense	$1,062,000	$462,000	($600,000)
Net Revenue	$39,000	$6,000	($33,000)

Revenue /Operating Assumptions: Film, Food and Arts

Film: An average ticket price of $5, and an average of 40% per screening, with an average of 28 film screenings per week (based on 170 seats average capacity).

Food & Beverage: Average revenue of $6 per patron.

Performing Arts: Flexible scheduling would allow an average of two events/month, each yielding net revenue of $500, in addition to the full film schedule.

Overhead: Annual cost (including utilities, insurance, security, and routine maintenance) of $12/square foot.

Revenue/Operating Assumptions: Center for Investment in the Arts:

Rental income:

Existing restaurant tenants: $60,000/year
Primary partners: $45,000 (60 events at $750/event)
Primary partner office and rehearsal space rental: $24,000/year
Non-partner: $76,500 (60 events at $1275/event with one technician)

Endowment income: $60,000 (interest from $3,000,000 endowment growing at 2%/year)

Fund development: $108,500 (special partners' contribution, annual membership drive, annual sponsorship, grants, fundraising events)
Labor/Personnel: It needs to be determined whether administrative and management costs have been included for the Cultural Arts Resource Center.

Audience Served and Economic Spinoff: Either model would effectively accomplish goal #1, the renovation of an existing historic resource. The information in this section addresses goal #2, which aims for a concept that would provide the most positive economic impact throughout the existing community.

The audience for both models will depend on the programming offered and both venues should prove attractive to a broad audience. The age range of attendees will vary depending upon the event or film being shown.

In regards to the economic spinoff, it is likely that film and food attendees would spend less on meals in the neighborhood since food is served in the movie theater and is part of the experience of attending. However, there will be patrons who may attend a movie, but visit a restaurant either before or after the film; in fact, there is some anecdotal evidence from the City of El Cerrito that when their food and film movie theater closed, one of the restaurants in the same block saw a drop off in business.

It is difficult to obtain empirical research which provides direct economic spinoff numbers. There are numerous references on various websites to performing arts theater renovations, and their effects on revitalizations of neighborhoods. In many cases, the cities involved have made significant investments in renovation and operating subsidies to seed these projects. The payback has often been the creation of a vibrant, cultural and relevant district.

While the movie theater, which would hold 112 screenings per month, would attract patrons to the neighborhood, the average ticket film price is $5 per person, and the average food revenue is $6 per patron. There would also be an average of two performing arts events per month, which would bring additional customers into the area.

The performing arts model will have a higher price point, depend on the event, and it is anticipated that there would be five events per month presented by primary partners, while five events per month would

be non-partner performances. Patrons would probably dine in local restaurants before or after a performance, which would act as a catalyst for existing restaurants and draw new restaurants to the area. One significant difference in the models is the role of the Cultural Arts Resource Center. It is anticipated that through the use of the building during the day, such as for rehearsals and various classes offered to the community, that additional activity and foot traffic would be generated. Parents dropping off their children for rehearsals during the day may patronize new coffee shops in the district, and retailers may respond to a critical mass of patrons by locating in the district.

Strength of Models Against Goals:

Goal	Film , Film & Entertainment	Center for Investment in the Arts
Historic renovation	Yes	Yes
Does not require operating subsidy	Model appears to be self-sufficient; may be rent-producing	Model requires endowment to be self-sufficient
Economic catalyst supported by the community	Potential to create a pedestrian-oriented neighborhood	Potential to create a pedestrian-oriented neighborhood; supported by CTPG

Other Cities' Experience:

Film, Food and Arts - The film, food, and arts concept has been adopted by cities in the Bay Area (El Cerrito and Oakland), as well as communities in other states, such as Portland and Salt Lake City. The Bay Area experience with the concept started out successfully with the Parkway and Cerrito Theaters, both operations run by the same family, Downey Street Productions. The Parkway Theater worked successfully for over ten years, and the El Cerrito operators met their rental obligation during the first twelve months of operation. However, the Redevelopment Agency of the City of El Cerrito was renting the theater to the operators at a fairly high amount in order to recoup their costs of acquisition and renovation, approximately $5 million. In the City of Oakland, new owners purchased the building in which the Parkway was located, and were unable to agree upon an acceptable rent with the theater operators. Both cities are working with new operators to reopen their respective venues.

Table A in the Appendix summarizes two film, food, and arts operations, one local and a second in Portland, Oregon. The Portland location is a family-run business, and the manager works closely with the community to bring patrons to the theater for events such as author readings which are coordinated with Powell's Books, an extremely successful independent bookstore.

Performing Arts Centers - Cities throughout California, including Vacaville, Campbell, Auburn and Livermore, have all developed successful performing arts centers through a variety of approaches. Their

individual experiences are summarized in Table B in the Appendix. Two cities, Vacaville and Campbell, contract with VenueTech to manage and program their venues. Both cities subsidize their centers' costs, ranging from $100,000 to $500,000 annually. The cities of Auburn and Livermore relied upon non-profits groups to raise the funding and oversee construction of their centers. The non-profit hires the operators, and funds operations.

Risks

Film, Food and Arts:

1. Concept: Because there have been recent difficulties encountered by the two film, food and arts venues in the Bay Area, staff has had an opportunity to assess the critical components of this type of operation. Foremost is the rent charged to the operators. The cities of Oakland and El Cerrito are now working with new operators; the Speakeasy in El Cerrito is due to reopen in mid-July with the owners of the Rialto Theater chain, with a new rent structure proposed by the operator. There is not a long track record for these types of venues; existing movie operations that have converted to film and food operations include the Kabuki in San Francisco, which has a much higher price point and larger audience.

2. Mix: It will be a challenge to develop a mix of films and small live performances that will appeal to a broad range of patrons. As currently proposed, this model is primarily film-oriented. More than two live performances a month could draw in a larger, more diverse audience.

3. Food: A large portion of the revenue (54%) derives from food and beverage sales. It will be critical to find an operator with food and beverage experience who can produce high quality food which is considered an asset by the community.

Center for the Investment in the Arts:

1. Memorandum of Understanding (MOU): To pursue this concept, the Agency would enter into an MOU with a non-profit group to establish a fundraising program to raise an endowment estimated at $3-5 million. Proceeds from the endowment are a critical component of the Center's annual operating revenue. It would be appropriate to tie attainment of fundraising goals to incremental efforts to aquire the Center Theater. In addition, the City will need to determine whether to fund staff assistance for organizational development, fundraising, and administrative oversight for a certain defined period as requested by the CTPG.

2. Mix: This model will require an operator for the performing arts programming. In addition, the Cultural Arts Resource Center will require a manager/administrator to assist the smaller arts organizations. It is not clear whether these services would be provided by the Theater operator or would be provided by another entity.

3. Partners: The primary partners (possibilities include the Fremont Symphony, the Fremont Opera, and StarStruck Children's Theatre) will need to be committed to the success of the theater, both through programming and fund raising for the theater. However, this will mean balancing their own

fund raising needs with that of the theater. There may also be a risk of losing primary partners in a difficult economic climate.

4. Endowment and Fundraising: A significant portion (approximately 36%) of the breakeven revenue ($168,500) is projected to come from endowment income and annual fund development.

DISCUSSION: Staff has identified two major risks associated with the operating models: a) an untested market, and b) economic uncertainty.

1. The market for both the food, film and arts concept and the Center for Investment in the Arts concept are untested in the City of Fremont. Based on local demographic information and experiences in other communities, the AMS study predicts that there is a market for a locally-serving performing arts theater in Fremont, rather than a regional theater. The Center for Investment in the Arts concept is more complicated than a traditional performing arts venue, because it relies on partnerships with many arts organizations. The business plan assumes that these groups will use the theater for rehearsal and performance space, along with office space and other production support. The financial commitment associated with this range of uses is a unique construct, and essential to funding the operations of the theater. If the concept succeeds, this could form a nucleus of support for a larger regional performing arts venue in the future.

   The AMS study also predicted support in the TriCity area for a movie theater and small performing arts venue that serves food, again based on local demographics and experiences in other communities. By its very nature, however, this concept must be customized to fit specific local tastes and interests, and it could take time for an operator to find the right blend of programming.

2. There is a global risk associated with the economy. The current economic decline has significantly affected the fundraising efforts of most non-profit organizations through a lack of discretionary income among the population, as well as a freeze on funding for new business ventures. This could have an impact on soliciting donations for the Center for Investment in the Arts; it is difficult to predict whether the public will return to supporting arts organizations, and increase their spending on food, movies and live theater once the economy recovers. The economy has also affected the likelihood of finding operators willing to invest in the theater.

   On the positive side, the Center for Investment in the Arts has support within the existing community, and was developed by members of the CTPG in conjunction with VenueTech. If the decision is made to move forward with the VenueTech proposal, the CTPG has committed to ensuring that its Board includes members of the arts community, and community members who can assist in fundraising (see attached letter). There is no corollary group for the Food, Film, and Arts concept.

In either case, there is a risk that the City will have to provide subsidies in the initial years of any operation. Such a subsidy could put a strain on the City's General Fund, which funds core City services such as public safety and street and park maintenance, and which has been seriously impacted by the current recession.

A final risk is the continued State budget crisis. Both operating models assume the Redevelopment Agency will cover the restoration costs of the theater. However, in the event that the State is successful in its effort to take redevelopment funds to help solve the State's budget crisis, the anticipated impact on the Agency for the current fiscal year could be as much as $10,000,000. If this were to occur, it would severely limit the Agency's ability both to undertake its existing projects, as well as to add the Center Theater project.

Alternatives: The Agency could elect to put the project on hold pending improvement in the economy, and then rely upon the private sector to finance the theater renovation.

Timelines for Each Model: Both models would require that the City acquire control of the Center Theater. Ideally, an operator for the selected model would be identified who would work with the City or non-profit group on theater renovation. The Center for Investment in the Arts envisions an initial period of fundraising (at least an additional year) prior to moving ahead with the renovation. If the economy recovers during this time period, construction costs could increase. However, fund raising could benefit from a strengthened economic climate.

Film, Food & Arts Model: The theater would need to be renovated and an operator selected. It is likely to take 18-24 months to complete the entitlement process and operator selection prior to starting construction.

Center for Investment in the Arts: The level of achieved endowment required before the City would a) acquire the building and b) commit to renovation funding would need to be determined. The Agency can then review progress at the end of the first or second year, and elect to look at other alternatives if financial goals are not being met.

The theater would need to be renovated and an operator selected. It is likely that 12-15 months would be required to develop and execute the MOU and to begin initial fundraising. Another 18-24 months would be required to complete the entitlement process and operator selection prior to starting construction.

Parking for All Models: Sufficient parking for both models would need to be identified during the entitlement stage; construction, if necessary, could begin at the same time as theater renovation. Parking needs and resources for all models are now being studied as part of the visioning and strategic planning underway for Centerville. This plan will evaluate the parking needs associated with several initiatives proposed for Centerville, and outline design guidelines and common architectural elements for the district.

Next Steps:

1. Determine whether to pursue public investment in the Center Theater.
2. Identify the operating model that meets the majority of the City's goals.
3. Direct staff to negotiate acquisition of the Center Theater property, including entering into an option agreement.

4a. If the Agency Board selects the Center for Investment for the Arts as the preferred model, then authorize staff to work with CTPG and other stakeholders to develop a Memorandum of Understanding documenting responsibilities associated with pursuing the Center for Investment in

the Arts operating model. Specifically, the MOU would define fund raising milestones and partner commitments that must be met prior to exercise of the purchase option for the Theater.

4b. If the Agency Board selects the Film, Food and Arts concept as the preferred model, then authorize staff to interview, shortlist and recommend to the Agency Board potential operators for consideration.

Either process should include a more detailed assessment of construction estimates and the amount of any requested Agency contribution for building renovation and other associated capital costs. Regardless of the operating model selected or developed, the City's intent is to avoid any annual contribution toward operating costs.

ENCLOSURES:

- Enclosures A: Appendix of Film, Food & Arts Examples
- Enclosure B: Appendix of Performing Arts venues in other cities
- Enclosure C: Letter from the Center Theater Preservation Group Board of Directors

RECOMMENDATION: Staff recommends that the Agency Board:

1. Authorize City staff to negotiate the acquisition of the Center Theater property, including entering into an option agreement.

2. Direct staff to either: a) select the Center for Investment for the Arts as outlined in Step 4.A and enter into a Memorandum of Understanding (MOU) with CPTG, understanding that the MOU with CTPG will play a critical role in minimizing risks as the project moves forward and that if the goals set forth in the MOU are not met or the operation is not financially feasible, the Agency may reassess its commitment to the project or, b) select the Film, Food and Arts concept as outlined in Step 4.B and authorize staff to interview, shortlist and recommend to the Agency Board potential operators for further consideration.