

City of El Cajon  
Mayor's Blue Ribbon Commission on the  
Performing Arts Center  
FINAL REPORT  
April 1, 2005

**Background Information**

The City of El Cajon acquired the theater building from Grossmont-Cuyamaca Community College District in 1997. Christian Community Theater operated the theater with an annual subsidy of \$50,000 to cover utility bills. The Council voted to create an Arts Foundation to raise money for the theatre. Foundation members concluded they could raise funds more effectively if they also managed the theater so the Council voted to shift operation to the Foundation. The contract specified that the City would pay the Foundation's bills and be reimbursed within 30 days - eventually the grace period was extended to 90 days. Rising energy costs increased the City's utility bill contribution to \$125,000 per year. By June 2002, the Foundation was experiencing financial difficulty and the City forgave a \$550,000 loan for theatre improvements. Additionally, the City gave them an interest free loan of \$773,000 and three annual subsidies of \$350,000 each (more than a million dollars over three years). In June 2004 the City granted a 6 month extension so ACF could bring their account current. The Foundation has been unable to make payments to the City and will soon be in debt for more than \$2 million. This Blue Ribbon Commission was created to investigate the situation and report our findings to the City Council.

**Requested information**

The directive received from the City requested our evaluation of the following:

- **Programming:** The focus of the Arts Center Foundation has been on attracting Headliner acts and then supplementing the use of the theater with local community rentals and educational events. The Headliner acts have not been fiscally successful, and increased competition from local Indian casinos has proved that this focus will become even more challenging. Some of the Headliner acts have actually doubled or tripled their artist fees and some will not even consider performing at ECPAC because the casinos can offer a more attractive compensation package. The ACF concedes that a new focus is required which will mean they intend to pursue emerging artists while reducing the number of headliners. They intend to collaborate with Grossmont Community Concert Association (GCCA) and increase community rental opportunities. The Blue Ribbon Commission agrees that the above-mentioned changes

in programming need to be implemented if the City chooses to maintain the current management team.

- *An evaluation of current management:* We acknowledge that the current management team is competent but we recognize that their methods and efforts are not compatible with the City's vision and the community's needs. In addition, it is clear that they have not evolved with the changing market place. Finally, we note that in the past two seasons there have been approximately 100 days of paid use out of 365 days available (equivalent to less than 28% use). The Commission feels that more effort should have been expended to maximize the use of the theater.
- *Requirements to become self-sufficient:* In order for the Arts Center Foundation to become fiscally self sustaining, they must successfully raise \$400,000 to \$600,000 annually. To date the fundraising efforts have consistently fallen short of their budgeted goals. ACF has suggested implementing a new tax that would supplement the theater's income. We do not believe the taxpayers of El Cajon would support this proposition.
- *Recommendation regarding the ACF's proposal to cure the existing breach:* There is no cure for the existing fiscal breach.

### **Mission**

Our mission as assigned by the City of El Cajon includes the following goals:

1. Maximize usage of the facility year round
2. Provide quality entertainment for the citizens of El Cajon
3. Evaluate the current mix of entertainment, education and rental income
4. Progress toward financial self-sufficiency with minimal annual contributions from the City of El Cajon
5. Enhance business by bringing people to the downtown area
6. Determine optimal method(s) of operating and managing the theater
7. Become financially independent of the City

### **Method**

Our five member commission held four meetings. The meetings averaged three hours. We interviewed relevant individuals. We held public hearings to get community input. We discussed possible options and solutions. We reviewed many documents submitted by the City of El Cajon, the Arts Center Foundation and the Foundation's accountant. After many hours of analysis, we formulated the following conclusions and recommendations.

### **Conclusions**

- 1) The first option we recognize is the simplest: maintain the current management. In order to move forward with the same Board, the City would be required to forgive any and all debts incurred to date (estimated in excess of

\$2.5 million). Additionally, the City must provide upfront funding in the amount of \$600,000 - \$800,000 to jump start the 2005/2006 fiscal year. [Please note that the Arts Center Foundation budget projection suggests that a \$400,000 subsidy would be sufficient, but commission members were not comfortable with that figure as a realistic assessment of the financial need.] The Arts Center Foundation would need to receive the funding in advance and then would be responsible for paying their own bills and working within the parameters of their budget. We recognize that this process may incur additional expenses such as hiring an accounts payable clerk which is another reason we believe that \$400,000 would be insufficient. We believe that this option would provide a solution for one year, but we anticipate that more funding would be required for subsequent years. The ACF would likely be bankrupt at the conclusion of each calendar year.

2) Another option is to dissolve the current Arts Center Foundation and form a new one whose advisory board is comprised of existing tenants (such as Grossmont Community Concert Association, Christian Community Theater and local symphony or ballet groups). A new foundation would not be willing to assume the previous management group's liabilities, so again the City would need to write-off the \$2+ million in debt. ANY FUNDING REQUIRED UPFRONT HERE? The new foundation would manage the theater as a rental house. As a result, any performance groups or headliner acts would rent the theater and manage their own ticket sales, advertising, etc. This would greatly reduce the financial risk assumed by the theater.

3) A third option is for the City to take over management of the theater, either by creating a new department or by incorporating its operation as part of the Recreation department. The City could manage the theater as a rental house. The current foundation would be dissolved and the debt would be written off.

4) Conversely, the City may choose to seek new management by soliciting a Request for Proposal (RFP). In essence, the City would take over management on an interim basis while they consider proposals offered by organizations interested in assuming the management role of the theater. Our commission believes that in this case the City should provide basic management guidelines, but within a flexible environment to allow for creative input from industry professionals. Once again, the current foundation would be dissolved and the debt would be written off.

### **Recommendations**

The City needs to consider the four options outlined above. The City may need to hire an interim or permanent director to replace Dick Zellner immediately (whose resignation has been tendered). Additionally, the City may wish to ask

Mr. Zellner to continue his employment until the current season is concluded and to train the interim manager.

The City needs to define the operational goals of the Performing Arts Center and communicate them to the management team. For example, the Council may wish to specify an increased focus on local community rentals, an emphasis on family friendly entertainment, and specify increased usage such as 180 days per year. A primary goal should be to maximize the number of people and events that use the facility.

The City needs to incorporate specific Arts Education goals for youth in the community. Perhaps a volunteer group can be created specifically for the purpose of raising funds for Arts Education. The City should consider financial incentives in lieu of outright subsidies such as matching funds from community sponsors (up to a limited amount) or by partnering with other downtown businesses and restaurants. An incentive program can be devised to encourage new local community groups to use the theater, particularly groups like GCCA and CCT that have repetitive marketing and a cultivated donor base.

In addition to choosing one of the four options outlined above, we believe the City should consider soliciting an RFP for the excess available land adjacent to the theater. The City could lease the land to an appropriate tenant at market rent and donate the income to the theater. Any cost for improvements to the land would be the responsibility of the tenant.

The City should allocate funds to analyze the feasibility of renovating the existing flyspace to accommodate theatrical productions which do not compete with the Indian casinos and would make the theater unique and more marketable in the East County. We estimate the cost of the feasibility study will be about \$25,000.

Finally, the City Council must insist on regular financial reporting requirements during the interim period as changes are being implemented. Profit and loss analysis of specific events must be revised to include an allocation of overhead costs in order to be more comprehensive. The City and/or the management team could cultivate an advisory committee consisting of existing facility clients to provide feedback and community input to promote economic recovery.

March 29, 2005

JWG

### ECPAC STATISTICS

#### Worst Headliner Show

Jerry Siegel four Show Series

4 Shows - Total Attendance 813

Gross Income (Ticket Sales)	\$8,425	(ave net sale price \$10.36)
Advertising \$ spent to promote series	\$9,000	(\$11.75 per ticket)
Total Direct Expenses	\$28,000	(\$35.71)
Add: Indirect Expenses	\$13,600	(\$450,000Subsidy/33 shows)
Hall rental	\$10,000	(2,500 night)
Total Expenses	\$53,000	(\$65.00/Ticket cost produce)

Net Loss to Subsidize Jerry Siegel (\$44,700)

City Subsidy per Patron to attend Jerry Siegel \$55.00 per ticket

Crystal Gayle One of the Better Performers

1 Show 700 Tickets Gross Income \$19,000 (ave net sale price \$27.)

Total Direct costs	\$27,000
Add: Indirect Costs	\$13,600
Hall Rental	\$ 2,500
Total Expenses	\$44,000

Net Loss to Subsidize Crystal Gale (\$24,000) (\$62.85/Ticket cost produce)

City Subsidy per Patron to attend Crystal Gale \$34.00 per ticket

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ECPAC STATISTICS 03/04

18,300 Headliner attendance @ \$425,000 Subsidy = \$23.60/ Ticket Subsidy  
Average Costs per ticket to produce headliners \$1M/18,300 = \$55.00/ticket

61 Community Shows/Days  
33 Headliner Shows/Days  
94 Total Days Utilized – 25.7% Occupancy

Headliners 18,300/33 shows = 554 Ave Attendance  
Local Shows 46,000/72 shows = 639 Ave Attendance  
Local Shows 46,000/61 days rented = 754 Attendance/Day  
GCCA Shows 5284/6 shows = 880 Ave Attendance  
CCT Shows 12372/22 shows = 802 Ave Attendance  
Temple 3080/4 days = 772 Ave Attendance  
SD Ballet 1004/2 shows = 502 or 1004 Day  
Our Lady P 1924/2 days = 962 Ave Attendance

Art/Education

Overhead	42,000	
Direct Exp	25,000	
Total		\$67,000/660 Students = \$101/student event