

# Agenda Report

DATE: MAY 17, 2004

TO: City Council

FROM: Cynthia J. Kurtz, City Manager

SUBJECT: AUTHORIZATION TO PROVIDE CREDIT ENHANCEMENT TO A LOAN BETWEEN PASADENA PLAYHOUSE STATE THEATRE AND A BANK TO BE DETERMINED IN A PRINCIPAL AMOUNT NOT TO EXCEED \$750,000

## **RECOMMENDATION**

It is recommended that the City Council authorize the City Manager to enter into an agreement with the Pasadena Playhouse State Theatre to utilize the City's credit quality in order to provide credit enhancement to a loan between Pasadena Playhouse State Theatre (PPST) and a bank to be determined in a principal amount not to exceed \$750,000.

## **BACKGROUND**

In 2001, the City helped negotiate a settlement agreement between PPST and Pasadena Playhouse Association (PPA) that resulted in PPA's ability to sell the property that houses PPST. This property has a recorded lease between the property owner and the City for the use of the west wing of the building. The City has a comparable sub-lease with PPST to operate the theatre and produce plays throughout the year.

This settlement agreement marked a new beginning for PPST and its ability to raise funds for both capital and operating expenses. Because of the downturn in the economy, financial support to many cultural organizations were significantly impacted. As a result, PPST has been required to use the cashflow from future ticket sales, a bridge loan, borrowed funds from personal friends and board members, and has accumulated accounts payable that are over 90 days in arrears in order to keep the doors open. All of these liabilities have been recorded on PPST's books and as a result hinder its ability to fund raise substantial sums of money.

## **DISCUSSION**

Earlier this year, PPST came to the City to discuss its current situation and future outlook. In addition, PPST staff asked the City if it could provide financial assistance. Given the State's budget crisis and its impact (both known and that which is yet to be determined), City staff did not believe it would be appropriate to recommend to the City Council that a loan be made, at least at this time.

After exploring several options, a viable solution that was acceptable to both City and PPST staff was developed. City staff would recommend to the City Council that it authorize the City to back a "low" interest loan between PPST and a bank in exchange for PPST imposing a \$1 ticket charge on every ticket sold and dedicate these funds to repayment of the loan. Based upon historical information, this should generate approximately \$100,000 per year in additional revenue. Attached is a letter from the Executive Director of PPST to the City Manager, with this formal request.

The revenue from this source would be placed into a bank account jointly controlled by the City and PPST and would be for the sole purpose of repaying the bank loan. The term of the note would be for a maximum of ten years, however, could be paid back sooner based upon revenues collected in excess of what the annual note requirements.

The City would work with PPST to establish the procedures for ensuring that the appropriate sums of moneys are deposited in a timely manner. This arrangement between the City and PPST would require PPST to deposit the first dollar of every ticket sale into this account and would not try to differentiate between the base ticket price and any ticket surcharge.

If approved by the City Council, it is expected that PPST would be able to substantially reduce its borrowing costs, repay the current obligations that make up the \$750,000, clean-up its balance sheet and income statement, and improve its ability to raise funds from major donors.

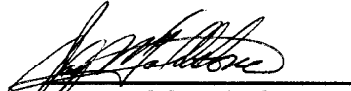
## **FISCAL IMPACT**

It is expected that this action will not have any fiscal impact on the City either through the repayment of the loan or on the City's borrowing capacity for any future City needs. The maximum City exposure will be \$750,000 plus any unpaid interest. This exposure will decrease over time. In addition, this will not be booked as a liability on the City's balance sheet.

Respectfully submitted,

  
CYNTHIA J. KURTZ  
City Manager

Approved by:

  
JAY M. GOLDSTONE  
Director of Finance