



MEMORANDUM

TO: Sara Belz, City Council Central Staff
FROM: Ned Dunn, Seattle Center
DATE: November 9, 2011
RE: **Amendment to Seattle Repertory Theatre Agreement**

Introduction

This legislation authorizes a 5-year interim agreement between the Seattle Repertory Theatre (SRT) and the City of Seattle. This interim agreement defers certain provisions of the existing 1996 agreement that were scheduled to take effect June 1, 2009. Due to the severe economic downturn that began in 2008, SRT was not able to take on certain added financial responsibilities of the existing agreement in 2009. The parties have negotiated a five-year interim agreement under two guiding principles:

- SRT is an anchor arts institution whose success is very important to Seattle Center and to the local and regional arts community.
- The interim agreement will maintain the intent of the 1996 agreement that SRT assume more of its facility and maintenance costs.

The interim agreement does not require any additional City funding, and in fact Seattle Center revenues increase by \$60,000 per year beginning in 2012.

At the end of the 5-year interim agreement, the parties will have fully transitioned to the terms of the existing agreement.

Background and Highlights

The Seattle Repertory Theatre, founded in 1963 under the leadership of Bagley Wright, is one of the oldest resident organizations on the Seattle Center campus. They will be celebrating their 50th anniversary in 2013, one year after Seattle Center.

SRT's home for its first twenty years was the Seattle Center Playhouse, a performance space built for the 1962 Seattle World's Fair. In 1983 the Bagley Wright Theatre opened as SRT's new home. The cost was \$10 million, with the City providing \$5.6 million in bond proceeds and SRT providing the remaining \$4.4 million.

The Bagley Wright Theatre (BWT) was the first new facility constructed on the Seattle Center campus after the World's Fair, and the first public/private partnership undertaken by Seattle Center. SRT was the first arts group to make such a substantial contribution to a Seattle Center facility. Under the original financial model, SRT was a tenant in the building and the City was financially responsible for building maintenance and for the replacement costs of all building and theatrical systems.

By the mid-1990's, the standards for financial terms with the City had changed. The new model was for arts organizations to have exclusive use and also be financially responsible for the internal building systems and regular maintenance and operating expenses of the facilities. When SRT was ready to construct a smaller, second stage addition in 1996, the financial terms for this new space reflected this new model. In May 1996, the City Council authorized an agreement with SRT which incorporated the second stage addition (now known as the Leo Kreielsheimer Theatre, or the "Leo K") and the BWT lease into one agreement, ending in 2026, resulting in the lease term for the BWT being extended from 2009 to 2026.

For the Leo K addition, SRT covered 100% of the construction costs and is responsible for all operating and maintenance costs including theatrical and other internal building systems. The City is responsible for the building shell. The 1996 agreement was structured to transition the lease terms for the BWT to a similar financial structure by June 1, 2009.

To achieve this transition, the 1996 agreement specified that the City and SRT each make annual contributions into separate capital reserve funds for replacement and renovation of internal building systems, primarily theatrical systems, of the BWT. City contributions ended in 2009, with SRT contributions continuing through the full term of the agreement.

The 1996 agreement also specified that as of June 1, 2009, the rent for the BWT reduced to \$1.00 per month, provided SRT made an investment of \$1 million in capital renovations and improvements to the BWT by September 1, 2010.

As was true with nearly all arts organizations, the severe economic downturn that began in 2008 had a major impact on SRT. In April 2009, SRT announced a one-third reduction in their operating budget, including layoffs, furloughs, a 4-day work week for full-time staff, two fewer productions, a reduction of a full performance week for each production in the BWT, and a reduction of one performance per week in both theatres. Because of a reduction in the value of its endowment, SRT was not able to draw on its endowment for the 2009-10 season, unlike in previous years when the endowment provided support averaging 10% of the theatre's operating budget.

In light of these severe financial difficulties, SRT approached Seattle Center and asked for additional time to meet the increased financial obligations of the existing agreement. Subsequently, Seattle Center and SRT negotiated a five-year interim agreement, for the period from June 1, 2009 through June 30, 2014, which gives SRT time to make a financial recovery and work its way back to meeting the intent of the 1996 agreement.

The interim agreement is structured so that it does not create a deficit in the Seattle Center operating budget. To achieve this, SRT continues to pay annual rent at the higher, pre-June 2009 level (\$101,776 in 2011), adjusted annually for inflation, and both parties can take advantage of higher than projected balances in the capital reserve funds created under the 1996 agreement to fund replacement and renovation of theatrical and other building systems. Other key provisions include:

- SRT foregoes two years of contributions to the SRT capital reserve fund and then "stair steps" back to the full level of scheduled annual contribution by year five.
- Over the course of the five-year interim agreement, SRT steps up to paying 100% of routine maintenance work performed by Seattle Center staff. This provides a net benefit to Seattle

Center's operating budget of \$60,000 per year by 2012. A portion of the reserve funds are available to make this transition.

- During the interim agreement period, a full assessment will be made of the status of all building and theatrical systems in the BWT and a corresponding repair and replacement schedule will be created to allow for adequate financial planning to meet identified needs.
- The requirement for a \$1 million SRT capital contribution is delayed by five years to September 1, 2015. In order to preserve the value of this capital contribution, the \$1 million capital contribution amount will have annual CPI adjustments from 2010 to 2015.
- At the end of the 5-year interim agreement, the parties will be fully transitioned to the terms of the existing agreement.

SRT's management and board of trustees are currently engaged in a strategic planning process to set a sustainable path for SRT as it enters its second fifty years, including meeting the amended financial obligations of its agreement with the City.

The Interim Agreement before City Council is designed to assist the financial recovery of an anchor arts institution in this region, while at the same time reducing the City's ongoing financial obligation for a City facility.

cc: Robert Nellams, Director, Seattle Center
Benjamin Moore, Managing Director, Seattle Repertory Theatre
Greg Shiring, City Budget Office