



SUBJECT: Drury Lane Theatre Joint Venture Loan

TO: Committee of the Whole

FROM: Parks & Recreation Department

Report Number: PR-05-19

Wards Affected: 2

File Numbers: 900-04

Date to Committee: June 10, 2019

Date to Council: June 17, 2019

Recommendation:

Approve the Drury Lane Theatrical Productions Inc. request for Joint Venture Financing up to an amount of \$100,000 to support the theatre renovation project as specified in report PR-05-19 in accordance with the City of Burlington's Joint Venture Policy; and

Direct the City Clerk to prepare the necessary debenture by-law and obtain necessary approvals for a 10-year non-tax supported debenture to be fully repaid to the City of Burlington by Drury Lane Theatrical Productions Inc.; and

Authorize the Mayor and City Clerk to sign the necessary agreements prepared to the satisfaction of the City Solicitor, Director of Parks and Recreation and Director of Finance for the financing of the Drury Lane Theatre renovation.

Purpose:

The purpose of this report is to seek Council's approval for a Joint Venture Loan with Drury Lane Theatrical Productions Inc. to support renovations to the theatre facility. This initiative supports the following strategic directions of the City of Burlington:

A Healthy and Greener City

- Healthy Lifestyles

An Engaging City

- Community Building through Arts and Culture via Community Activities
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Background and Discussion:

Drury Lane Theatrical Productions Inc. (DLTP) is a not for profit community organization that utilizes a City-owned facility at 2269 New Street in Central Park under a current Joint Venture Agreement with the City. The organization has operated this facility as a community theatre since 1984. Under the Joint Venture Agreement, the organization is responsible for all facility operating and programming costs as well as all capital renewal and enhancement costs.

Interestingly, the original facility was built in 1952 as an arena. In 1968 the arena operation ceased, and the facility was converted to a community centre. In 1984, the City issued a Request for Expressions of Interest for the exclusive use/lease of the facility and Drury Lane Theatrical Productions Inc. emerged as the preferred tenant.

Over the years, DLTP has invested significant dollars into the facility including:

- the initial facility re-purposing cost
- a major revitalization project in 2002 that included an expansion for a new lobby, box office, stair access, air conditioning and recladding of the building exterior
- a new elevator was installed in 2006
- roof was replaced in 2008

DLTP is a well-known community-based theatre company that has been entertaining Burlington residents for decades and providing a creative outlet for local performing artists. The organization relies on hundreds of volunteers providing thousands of hours of service to run its operations and programs. DLTP is known for its musical theatre productions which are presented in an intimate cabaret style setting. DLTP typically runs 3 productions with around 50 shows a year. In the 2017/2018 theatre season they had a total show attendance of 5,604. Ticket prices are typically under \$30 making theatre experience very affordable and inclusive for all segments of Burlington's population. Overall, DLTP contributes to the cultural vibrancy and quality of life in the City.

Strategy/process

Project Description:

In the Fall 2018, DLTP advised the City that they were interested in undertaking various renovations to their facility. The theatre renovation project focuses on the second floor of the building. The scope of work includes the following:

- Construct a new accessible washroom
- Revamp the sound and lighting control booth in the mezzanine

- Remodel the bar area
- Create a new beverage storage area
- Create new storage and utility rooms
- Upgrade electrical and plumbing services

These renovations will enhance production quality, operations, revenue generation and theatre patron experience and accessibility. The timing of construction would be between July and October 2019 which is the theatre's off-season. This is a very tight timeline with little tolerance for delays. Under the Joint Venture Agreement, DLTP is responsible for covering the entire cost of the initiative. DLTP has accumulated funding to undertake this project but is requesting a joint venture loan from the City to cover the balance of the project cost. This is discussed in more detail in the Financial section.

Under the City's Joint Venture Policy, the City manages Joint Venture capital projects that require a city loan. City oversight of this project will ensure that the renovations are designed and built to the City standards.

Project Status to Date and Next Steps:

The following steps have been completed in respect to this project at the time of writing this report:

- Letter of Commitment signed outlining how the project will be handled and responsibilities of each party
- A project team was assembled with representatives from DLTP, Parks and Recreation, and Capital Works
- City capital account was created for the project
- Funds from DLTP transferred into the City account (\$25,000 for design fees and permits)
- Architect hired by City
- Schematic design completed
- Detailed design in progress

Next steps to be completed:

- Finalize detailed design (mid May)
- Apply for building permit (mid May)
- Issue construction tender (late May)

- Council approval of joint venture loan (mid June – subject of this report)
- Award tender (mid-late June)
- Construction (July-October)

Options considered

The following options and implications were considered:

- a) Joint Venture Loan not approved by the City: Under this scenario the project would be cancelled and the theatre would not be able to improve production quality, patron experience, accessibility and revenues. Business could be lost to other theatres, and donors who have contributed to this initiative would be disappointed. DLTP could undertake the project when they have enough funds to cover the entire cost.
- b) Reduce Project Scope: Under this scenario, DLTP may consider reducing the scope of the project to match the funding that they currently have available. This means that certain aspects of the project would have to be undertaken in future years. Staff advise that undertaking work over many years would be disruptive and inefficient as opposed to doing it all at once. Staff advise that better value and economies of scale can be achieved if the whole project is done at once.
- c) Joint Venture Loan approved by the City: If Council approves the loan, the entire renovation project can proceed as planned. Staff believe this approach is more efficient, economical and would have a greater impact to the theatre and its patrons.

In consideration of the above, staff recommend Option C. The joint venture loan program is specifically designed to assist joint venture groups with capital project financing. The investment DLTP is making will enhance the city-owned facility.

Financial Matters:

Based on a preliminary estimate, the total cost of the theatre renovation project is \$300,000. This includes hard costs (construction), soft costs (design fees, permits, project administration, etc.) and a contingency allowance.

Source of Funding

Based on the cost estimate above, the proposed funding sources for the project are outlined as follows:

\$200,000 – DLTP total upfront cash contribution.

\$100,000 – Requested Joint Venture City Loan to be repaid over 10 years.

Based on the final cost at time of tender, the loan amount will be adjusted accordingly, with the contribution from DLTP remaining constant. Under the Joint Venture Policy, the City requires a minimum upfront cash contribution of 10% of the total project cost to qualify for a loan. The DLTP cash contribution exceeds this amount.

The City has debt capacity to support the loan request of up to \$100,000. The loan will be subject to the signing of a Joint Venture Financing Agreement with a repayment period of 10 years. Based on a loan amount of \$100,000 at an estimated interest of 3.2%, the estimated annual payment will be approximately \$12,000.

Staff received financial statements from DLTP for the last 5 years. DLTP has indicated that they forecast increased revenues as a result of the renovation which would provide the financial support to meet the annual loan payment, provided DLTP is able to keep operating costs at a minimum. While DLTP's revenues from ticket and concession sales have been historically consistent, DLTP has also relied on donations. As with any non-profit organizations, donations and other similar activities such as fundraising or crowdsourcing are not guaranteed financial income and pose risk. Furthermore, as mentioned earlier in the report, DLTP has undertaken previous capital investments to upgrade the facility at their cost.

Any financial risk of DLTP not being able to meet its loan obligations would result in a financial obligation to the City.

Other Resource Impacts

City staff will continue to be involved in project administration. All joint venture capital projects that require a City loan are managed by the City. This project has been incorporated into staff workplans. Staff costs are included in the project budget and will be recovered from DLTP.

Connections:

There are two outstanding staff directions related to Joint Ventures as follows:

1. Direct the City Solicitor and the Director of Parks and Recreation to undertake a review of the Joint Venture Policy (JVP) particularly with respect to the undertaking of capital projects and report back on any recommended changes.

2. Direct the Director of Parks and Recreation to include in the Joint Venture Policy Review consideration of including operating agreements that outline how the community will be served as part of each facility lease agreement.

Staff are currently working on the Joint Venture Policy Review and will be providing an update to Council later this year.

Staff advise that this project complies with the City's current Joint Venture Policy and Practices. This project cannot wait for the Joint Venture Review. Many donors to the project are anxious to move forward with this initiative.

Public Engagement Matters:

DLTP continues to communicate information about this project to their ticket holders and members. As the renovation work focuses on the interior of the building, staff do not expect any impacts to the surrounding community.

Conclusion:

City staff have been working with Drury Lane Theatrical Productions Inc. on a renovation to the facility they operate under a Joint Venture Agreement with the City. Architectural drawings have been prepared and the City will be tendering this construction project. Drury Lane Theatrical Productions Inc. have accumulated a significant amount of funds for this project. The organization has requested a Joint Venture Loan from the City to augment the funding they may need for the project. Staff recommends that Council approve the requested loan subject to the signing of a Joint Venture Financing Agreement. Once the final costs are confirmed the loan amount will be adjusted in the Joint Venture Financing Agreement.

Respectfully submitted,

Jim Seferiades

Planner – Recreation Services

905-335-7600 ext. 7785

Notifications:

Joanne Warren, President, Drury Lane Theatrical Productions Inc.

Michael Belton, Past President, Drury Lane Theatrical Productions Inc.

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.