

INITIAL RESPONSES TO COUNCILMEMBERS' INQUIRIES FROM JOE MCILWAIN

1. What effect does competition from nearby facilities in Kent, Auburn and Tacoma have on the proposed PACC?

Competition in the performing arts and conference center marketplace from the facilities mentioned here, as well as many other facilities across the Puget Sound Region, is important to understand and consider.

The Cities of Kent and Auburn each present performing arts series of less than 10 events per year in their respective venues. Their facilities are located on high school campuses. They are restricted in the number and scope of events they can present due to limited date availability (they compete for dates with their school districts), as well as significant budget constraints that limit flexibility and creativity in programming and can present challenges in developing and sustaining audience. Further, each of these series/venues is managed the Cultural Services Department in each City. As a result, fundraising to support the programming and operation of the Auburn and Kent facilities is constrained or, more likely, impossible without the benefit of working with an independent 501c3 not-for-profit organization.

The Broadway Center in Tacoma is a more comparable structure to the one proposed for Federal Way. The Broadway Center's facilities are owned by the City of Tacoma, but they are operated by a separate, 501c3 not-for-profit corporation. This organization operates three venues: The Pantages Theatre (1,169 seats), the Rialto Theatre (738 seats) and the Theatre on the Square (302 seats). The Broadway Center presents roughly 45 performing arts events each season, and boasts a tremendous history and a strong audience base. In addition, each of the three theatres is rented regularly by local and regional arts groups, independent promoters and others throughout the year. The Broadway Center, like the proposed FWPACC, relies on ticket sales, rental revenue, concessions and fundraising to operate. The not-for-profit organization and the City also have a contract in place that guarantees an annual allocation from the City's general fund to the not-for-profit organization to assist with annual facility maintenance and capital replacement. The not-for-profit organization, its staff and Board are solely responsible for the balanced and successful operation of the Center and its facilities.

Competition in the market can present programming and audience development challenges. However, there are two important factors that could help strengthen the new FWPACC's position: 1) Partnership – developing a strong working relationship with the leadership of other PACs in the region is critical. The PACs in the Puget Sound region have worked very hard to develop partnerships that can be leveraged to secure high-quality performing arts presentations and reasonable costs. They work together to build tours in the region, and they take great care to communicate throughout the programming process in order limit "competition" for available programs. 2) Community Pride and Support – The most successful venues in the region are those that are owned by Cities, and operated by non-profit organizations whose missions are to serve their communities with diverse, high-quality, affordable arts events and education/outreach programs. This leads to stronger audiences, increased ticket revenue, and contributed revenue to support the organization's programs and services (individual gifts, grants from private foundations, corporate sponsorships, etc.).

2. There is no contingency fund factored in the plan.

Mid-sized, not-for-profit arts organizations operate on very thin margins, particularly in the start-up phase. The highest cost is labor, and the balance of the business is run very lean. Until an audience is developed more fully and contributions strengthen, it is very difficult to generate net revenue and build contingency funds (operating and/or capital reserves). The pro forma budget as presented to the City Council projects reasonable net revenue, leading to a projected \$108,000 in the reserve account year 5. It is recommended that this surplus revenue be used to establish both operating and capital reserve funds beginning in Year 4. Dependent upon the growth and success of the PACC, these reserves may be generated earlier in the life of the organization.

3. Operating expenses do not include:

- a. Elevator maintenance contract.
- b. Roof maintenance contract.
- c. Parking lot restriping and patching and maintenance.
- d. HVAC maintenance contract.
- e. Lighting replacements (Requires heavy equipment).
- f. Wear and tear facility maintenance.

This is a good observation and the current pro forma has been updated to reflect most of these additional maintenance-contract-related costs. In Year One most of these potential expenses would be covered by the Contractor's one-year warranty on construction of the facility. In Edmonds we cover lighting-related replacement costs and activities with custodial staff. "Wear and tear" maintenance would come out of the reserve account mentioned under #2 above.

4. The number of positions needed to move and set tables is underestimated.

The number of hours estimated to support conferences and meetings is based on the projected level of activity. When the size and scope of events increases, or if the beginning estimates are indeed lower than the level of actual activity in the initial phase, additional staff can be hired to meet demand. It is important to note that the cost of any additional labor required to support events is borne by the rental client and not by the PACC. Standard practice is to pass the cost of event-specific labor directly through to the renter. That includes labor associated with setup and breakdown of tables, chairs, stages, technical equipment and all other event-related costs.