



Request for City Council Committee Action from the Department of Community Planning and Economic Development

Date: June 17, 2014

To: Council Member Lisa Goodman, Chair, Community Development & Regulatory Services

Subject: Amendment #1 to Historic Theater Lease

Recommendation: Authorize the appropriate City officials to execute Amendment #1 to the 2005 lease with Hennepin Theatre Trust as outlined herein.

Previous Directives:

On September 26, 2003, the City Council appointed a Theatre Study Committee to develop principles for management of the three City-owned historic theaters. On May 14, 2004, the City Council approved the Theatre Study Committee report and directed staff to issue a request for proposals for management of the three theatres. On November 19, 2004, the City Council awarded exclusive negotiation rights to the team led by Hennepin Theatre Trust. On April 15, 2005, the City Council authorized the execution of a long-term lease of the theaters to Hennepin Theatre Trust, including related documents. On October 7, 2005, the City Council approved the sale of revenue bonds for the theaters, as well as other actions related to the initiation of the theater lease. Numerous earlier actions were taken by the City Council and MCDA Board related to the acquisitions, renovations and management of the three theaters.

Department Information

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Catherine A. Polasky, Director, Economic Policy & Development _____
Presenter in Committee: Ann Calvert

Financial Impact

- No financial impact

Community Impact

- Neighborhood Notification: Not applicable
- City Goals: Not applicable
- Comprehensive Plan: Not applicable
- Zoning Code: Not applicable

Background Information

As part of its downtown and Hennepin Avenue revitalization efforts, the Minneapolis Community Development Agency (MCDA) acquired three downtown theaters that had been part of Hennepin Avenue's history as Minneapolis' Great White Way and center of culture and entertainment. The Orpheum Theatre (910 Hennepin) was acquired in 1988, the State (805 Hennepin) in 1989 and the Pantages (710 Hennepin) in 2000. After acquisition, the MCDA proceeded to renovate all three theaters back to their historic grandeur using a variety of funding sources. Once the renovations were completed, the MCDA then operated the theaters to generate cultural and entertainment activity and bring visitors to downtown Hennepin Avenue. This was accomplished through a series of management agreements with Historic Theatre Group and its related entities. Ownership of all three theaters was transferred to the City of Minneapolis when the MCDA was folded into the City through the creation of the Community Planning and Economic Development Department in 2004.

A Theatre Study Committee was appointed by the City Council in 2003 with the charge of developing principles to guide the long-term management and booking of the three theaters. An outcome of this process was the issuance in 2004 of a request for proposals for management of the theaters and the eventual selection in late 2004 of a lease proposal from a team led by Hennepin Theatre Trust (HTT).

In 2005, the City approved the execution of a long-term lease with the HTT team under which the three theaters were leased to HTT for a period of 30 years. The City also approved taxable revenue bonds to re-finance the various bonds and financing still outstanding from the earlier acquisitions and renovation projects. The day-to-day control and responsibility for management and operation of the theaters shifted to the HTT team under the lease, subject to a variety of requirements and provisions. At the successful end of the lease term and repayment of the taxable bonds, HTT will have the option to acquire the theaters for \$1. The lease was executed on December 1, 2005, and the lease term began on December 20, 2005.

In the eight-plus years since the lease was executed, HTT has been successful in maintaining the theaters to a high standard, offering a wide variety of events and performances in the three theaters and attracting patrons to those events. Through the end of the most recent HTT fiscal year (6-30-2013), the theaters have hosted a total of over 3,000 events, the vast majority of which were considered "Broadway/First Class Events," which attracted over 3.6 million patrons. The primary driver of the numbers of both events and patrons has been the annual Broadway season, supplemented by musical, comedy and holiday performances, other events and a growing number of productions created by HTT. The guests attracted to the theaters support a broad range of economic activity in downtown Minneapolis, particularly restaurant and parking usage, as well as hotel stays.

HTT also has been very successful in establishing a variety of educational programs, including the Spotlight Musical Theatre for high schools, Critical Review, Distance Learning, Broadway Confidential, Family Day, Teen Usher and Access programs and regular theater tours.

Lease Amendment

One of the many provisions in the lease was the establishment of certain goals for the number of events (total and those considered “First Class/Broadway”) to be hosted in the three theaters and the number of patrons who would attend those events. HTT has been reporting on an annual basis the number of events and patrons in the fiscal year covered by each report. Recent discussions have highlighted the fact that the definitions for the various types of events that were included in the lease were not detailed enough to clarify what should and should not be counted as an “event” in certain scenarios that happen on a regular basis in a standard theater operation. This report proposes an amendment to the lease to further clarify these definitions and provide some level of staff latitude in applying the goals in any year with a major maintenance project.

Event Classification Clarification

Hennepin Theatre Trust and its manager put a significant amount of resources into booking events into the theaters. Events are “held” on the theater calendar by a presenter who, once the act is confirmed with the agent, confirms the date on the calendar. A Use Agreement is then issued for the date and, once signed and a deposit remitted, confirms the date for the event. This confirmation guarantees the theater and prevents any other conflicting booking from taking place. If a performance is canceled (e.g., due to weather or a performer’s illness), it often occurs within days of the scheduled performance and there is no possibility of securing a substitute booking; the promoter also absorbs the expenses incurred, including all marketing dollars expended. The amendment will clarify that any “event” that was canceled after a Use Agreement was signed can be included in the reporting as either an “Event” or “First Class Performing Arts Attraction” depending on how the activity would have been classified had it occurred. (There obviously would be no patron attendance reported for a canceled event.)

The amendment also will revise the definition of the two types of events to clearly include the load-in, rehearsal and load-out days related to a specific play or performance. A First Class/Broadway Performing Arts Attraction simply *cannot occur* without the load-in (and, where appropriate, load-out and rehearsal days), which occupies, pays rent for and uses the theater to the exclusion of any other stage production. These additional days will be classified in the reporting as “Events” or “First Class/Broadway Performing Arts Attractions,” depending on the classification of the underlying event (again, with no attendance reported).

Theatre tours, educational events and private/fundraising events and meetings align with the Lease’s approved uses of the theaters for events other than live performances and thus also may be reported. These gatherings will be reported as an “Event,” but not as a “First Class/Broadway Performing Arts Attraction.”

Major Maintenance Projects

The final revision provided in the proposed amendment will allow an adjustment in the reported number of events and attendance for a particular year if during that year HTT completed a major capital maintenance project that limited the availability of the theater for event booking.

The historic State, Orpheum and Pantages theaters were renovated ten to twenty years ago, and many of the improvements are reaching the ends of their useful lives. While maintenance projects have been shorter in duration in the past, HTT anticipates the upcoming required maintenance to be of longer duration as they tackle major maintenance and repair projects such as seating replacements or HVAC upgrades. Every effort is made to schedule maintenance during the slower theater months to minimize revenue loss and to remain compliant with the event and attendance requirements in the Lease Agreement. However, Broadway shows usually have inflexible routing requirements that can make scheduling difficult. When it's not possible to avoid losing a show due to maintenance, the loss of a Broadway engagement can have a disproportionate impact on the attendance and event totals (e.g. on average a Broadway week is comprised of eight performances and draws approximately 20,000 people to the Orpheum Theatre). Moreover, it is important that the Lease requirements for attendance and events do not create a disincentive to maintain the theaters as first class performing arts facilities.

If HTT does not meet its penalty goals outlined in the Performance Standards per Lease Exhibit C in a particular year and a significant (in excess of five days) maintenance event occurred during the year, the lease amendment will provide for the addition of an *Event and Attendance Credit* to the actual event and attendance totals to determine if the goals would have been met had the theater been available during the maintenance period. The credit will be proportionate to the duration of the maintenance project that made the theater unavailable and will take into account the average occupancy of the theater in question, the average ratio between First Class and total Events and the average attendance per event. This credit also will be added to the Performance Standards calculation for the duration of the three (or four) year rolling average calculation.