



Office of the Mayor

CONSENT CALENDAR

December 15, 2020

To: Members of the City Council

From: Mayor Jesse Arreguin and Councilmember Susan Wengraf

Subject: Deferral of Remaining Permit Fees for 2009 Addison Street

RECOMMENDATION

Approve the deferral of \$720,000 in remaining permit and inspection fees for Berkeley Repertory Theater's housing project at 2009 Addison Street for a period of ten years, after which point the fees will be repaid to the City of Berkeley. Authorize the City Manager to execute a written agreement to memorialize this deferral and repayment requirements.

FINANCIAL IMPLICATIONS

According to the Berkeley Rep roughly \$385,000 in permit fees have already been paid to the Permit Service Center Enterprise Fund, with a remaining \$720,000 in fees due in order to receive building permits to complete construction. Through adoption of this item, the remaining permit and inspection fees would be deferred for a period of ten years, after which time they would need to be repaid in full. This would enable the project to proceed and allow Berkeley Rep time to recover from the COVID-19 pandemic and recover economically. The funding to cover the remaining \$720,000 would be borne from the balance of the Permit Service Center Enterprise Fund.

BACKGROUND

The Berkeley Repertory Theater has received approval in 2018 for a seven-story, mixed use project at 2009 Addison Street in Downtown Berkeley. The project will provide housing for Berkeley Rep's visiting artists as well as the 15 young professionals who are awarded fellowships every year. In addition to 45 apartment units, the building will include two spaces for the Berkeley Rep School of Theatre, an outdoor terrace, and an 88-foot video display marquee on the mezzanine level. This groundbreaking project provides artist housing in collaboration with a regional theater company. 2009 Addison will bring more residents and economic vitality to our Downtown area, further bolstering our tax base.

Due to the COVID-19 pandemic and increasing costs, the project budget has increased significantly making it financially prohibitive to proceed with construction. Berkeley Rep has requested that the City consider deferring remaining permit fees in order to help make the project economically feasible and to allow construction to proceed. Berkeley Rep has agreed to repay remaining permit fees 10 years from the date of deferral. While this will result in a short-term impact on the Permit Service Center (PSC) Fund, the PSC Fund has a sufficient balance to be able to cover this amount, and fees will be repaid over time. City Council action is required to defer any permit fees over \$50,000.

CONTACT PERSON

Mayor Jesse Arreguin 510-981-7100

Attachments:

- 1: Letter from Berkeley Rep requesting fee deferral for 2009 Addison Street

To: Mayor Jesse Arreguin and the Berkeley City Council
From: Berkeley Repertory Theater
Re: 2009 Addison Street - Artists' Housing

Permit and inspection fees for 2001 Addison Street are expected to be approximately \$1,100,000, of which BRT has already paid \$385,000. Given extenuating circumstances, BRT requests a deferral of the remaining fees until September 1, 2030 - a period of 10 years - a period during which the Theater will need to rebuild its producing capacity, which has been devastated by this crisis. It also recognizes that, regardless of the availability of a vaccine, we expect it to take years to rebuild audience trust and reestablish norms of cultural attendance.

As a reminder:

Project Description:

- 45 units of artist housing
- 3 classrooms for Berkeley Rep School of Theater
- Exterior deck with 200 person capacity
- Enclosed backstage and loading dock for the Roda Theater
- LEED Gold ??? certification
- Union construction

Project Vision:

For over 30 years, Berkeley Rep has struggled to find adequate housing for its guest artists and for its fellowship program. Our collective bargaining agreements require that artists be housed within half a mile of the theater, with stipulations about furnishings and safety. As a result of increased employment and the tight housing market, our housing costs have increased from \$300,000 to almost \$2,000,000 in just twelve years. And the experts on our facilities committee have advised us that after the pandemic, which has slowed and even lowered rents, the rental market will continue to be heated with limited availability and continued increases in rental rates. Over a year ago, with rental costs now absorbing almost 12% of the theater's budget, Berkeley Rep's board committed to construction of a building to address our long term housing needs. While those needs will drop for a few years as Berkeley Rep stabilizes after this pandemic, we anticipate that eventually, we will again need this housing.

State of Affairs of the Theater:

Berkeley Rep closed our doors on March 16, 2020. In a matter of weeks, we deconstructed what it had taken us 50 years to build. Over a matter of weeks, we were forced to lay off most of our employees. Our staff went from 180 employees to 30. Many of those were people who had worked with us for 35, 25, and 15 years. Those who we lost have been devastated. They are seeking new professions, they have moved to new cities. Some await our reopening and are living off their savings. We don't know who will be able to return when we finally reopen our doors. Since March 16, we have lost approximately \$6,000,000 in ticket and related income. We cancelled or postponed four productions. We laid off most of our staff and we shut down our buildings. As a result,

we reduced our year-end deficit to \$1.5,000,000. Our budget for the current fiscal year reflects a total of \$150,000 in production income and a reduction in contributed income. To balance that budget we will require, and our Board is committed to finding, an additional \$2,500,000 in extraordinary funding. As we look to the 2022 fiscal year, in which we fully expect to start producing again, we are projecting more need for extraordinary funding to replace what we anticipate will be an extremely cautious return to the theater by our patrons.

Project Status 2009:

Financing -

It is fortuitous that lending for 2009 Addison was secured pre-pandemic in a way that allows the theater the choice of whether to build even now, despite its lack of revenue. In a more typical finance package, BRT might have tripped covenants that would have stopped the project. Covenants that would have scrutinized its lack of revenue due to Covid. It so happens that conditions of the loan required the theater borrow all of its \$29,000,000 up front (and begin paying interest on that loan immediately). While this has cost us a great deal in interest payments as the permit process has been a slow one, the benefit is that the theater has the money to build. The theater has been paying on that debt despite not being able to build, adding tremendous stress to an already difficult situation. The construction is now scheduled to begin construction in January, a 15 months later than first planned. And this has added \$1,000,000 to the project budget.

Construction Budget -

Prior to Covid, the project faced rising costs from a building boom and as increase in the cost of labor and materials. In the face of these increases, we trimmed \$1,000,000 from the budget. With the onset of Covid, counter-intuitively, base costs have only increased. Covid-related expenses and slow-downs have further increased the budget (as an example, our construction insurance increased from \$20,000 to almost \$300,000) while materials and labor have only continued to rise. As a result, we are facing yet another \$1,000,000 in increased costs - that is another \$1,000,000 over-budget. We have proposed another round of cost-engineering that will bring us back towards budget, but it is the last set of compromises we can make without threatening the vision of the project. Since they were a cornerstone of the project and the vision of the theater, we have preserved the housing through this round of cost-cutting. Any further reduction will cut into vital components of the building and specifically, the housing.

Berkeley Repertory Leadership -

We are blessed with an extraordinary team at this time - from the core 30 staff-members to a committed board of 34, who bring expertise from varying sectors of the economy and professional backgrounds. We have built this team of staff and Board members upon a shared vision of theater within the cultural life of our greater society and more specifically upon a vision of the Berkeley Repertory as a partner in the cultural and economic life of the City of Berkeley. At a recent Board meeting, at which staff presented the budget shortfalls and projected various options for paths forward, the Board was asked the fundamental question of whether or not to proceed with this project. They voted unanimously to proceed with the project in spite of the recognition that it will be a very difficult path, and with full knowledge that the Berkeley Repertory Theater, its leadership, its staff and its board, bore a responsibility to this community to forge ahead and to lead at this time.

The Path Forward:

The operational budget of the theater will operate at a deficit of for the next five years. While we expect to start rehiring staff beginning in summer of 2021, we do not expect to achieve previous levels of employment until 2025. An emergency Resilience campaign will be needed to close our operating gap in each of those years. Our Board has committed to raising as much as \$20,000,000 to help us through this time. What we already have tested is that funds raised must be committed to employment of artists and staff and to the making of Theater. Our donors have prioritized that. This has made us very aware that we will have real difficulty raising additional funds for the housing project. The Board has committed to raising this money, have yet to actually raise those dollars. There will be extraordinary need throughout the Country in the next few years. We do not know whether this campaign will be successful. We hope that by 2026 we can wean ourselves from the funds raised through this Resilience campaign, at which point we will need to stabilize based on whatever the new normal has become. Without the funds from the Resilience campaign we will have to test our capacity to raise additional annual funds and hope that attendance will stabilize at pre-pandemic levels. This is all new territory and we do not have any roadmap to help us know what the future holds. It is our expectation that once stabilized, we can begin to plan to pay off the fees for which we now ask a deferment.

Our request:

Defer up to \$720,000 in City of Berkeley fees for ten years.

Summary:

Total Fees:	\$1,100,000
Already paid:	<u>\$380,000</u>
Deferred:	<i>\$720,000 (Until September 1, 2030)</i>

Why deferral matters to the City of Berkeley?

- **Employment:** Berkeley Rep, prior to the pandemic, employed over 100 people full-time per season and another 350 artists, artisans, technicians and administrators throughout the course of each season;
- **Economic Multiplier:** Our operating budget of \$18-\$20 million resulted in total economic impact to the city of over \$60 million (using a 3:1 multiplier that is generally considered a conservative estimate);
- **Benefit to Local Vendors:**
 - The Berkeley Rep budget prioritizes local vendors. A new company policy also prioritizes BIPOC owned companies. Our vendors include Truitt and White, ACE Hardware, Minuteman Press, ACT Catering, just to reference a few who are vital to the City;

- Berkeley Rep patrons provide much needed business for one of the most threatened and also our most special sectors - local restaurants. Our patrons visit restaurants running the gamut from Pollo and Jupiter to Revival and Chez Panisse;
- **Regional Draw:** Berkeley Rep draws patrons to our downtown from nine counties, and even has regular attendees from Fresno, Stockton and even Austin, Texas.
- **BRT as Gateway:** Because of our role as a 'gateway to the arts for many arts lovers, Berkeley Rep's patrons have become fans of Aurora Theater the Freight and other local arts venues.
- **Local Leadership:** Berkeley Rep not only takes its leadership role seriously as an entity, but also our staff are expected and do serve on civic boards and volunteer in civic activities;
- **As a Resource for other Nonprofits:** Throughout this pandemic, Berkeley Rep has shared resources and opportunities for training and learning with other local arts organizations (i.e., Berkeley Rep is storing all of California Shakespeare Company's props and shop goods since that company has lost their scene shop).

Why 2009 Addison is Important to Berkeley Rep:

- **Cost-Control:** Berkeley Rep will be able to control its cost of housing in a market that has risen even in the face of Covid, and which will continue to rise after the pandemic.
- **Local Work/The Ground Floor:** BRT will attract new work for its nationally recognized Ground Floor new play development program, which supports and features young artists from the most varied social, economic and political backgrounds. This program is rare in the country and one of the most responsive to the stresses of our time;
- **Berkeley Rep School of Theater:** the classrooms will facilitate the expansion of our school, preserving our capacity to offer programs to children and adults within easy access to public transit;
- **Fellowship Program:** Will provide housing for Berkeley Rep's nationally respected Fellowship program, which each year trains 15 early career aspiring theater professionals. For over 15 years, Berkeley Rep has been at the forefront, with this program, of training BIPOC professionals;
- **Reduction of Carbon Footprint:** BRT will reduce its carbon footprint by creating living spaces immediately adjacent to the two theaters and school;
- **National and International Standing:** Improved housing for artists will attract more world-renowned artists and projects to Berkeley - in the spirit of projects like PARADISE SQUARE, AMERICAN IDIOT, and NO MAN'S LAND featuring Ian McKellen and Patrick Stewart;

In Summary:

We are not asking for permit fees to be waived. We understand that the City, itself, anticipates its own adverse impacts from the pandemic. The City of Berkeley has been steadfast in its commitment to preserving the life and well-being of all its residents and we are so grateful for that. We have only the greatest respect for and appreciation for all that you, our leaders and our City staff, have accomplished to protect us. We are aware that the decisions are difficult and often treacherous, and that the situation has cost the City millions of dollars in lost revenue. In recognition that we have a role to play in rebuilding the economic life of the City, we are asking, instead, simply for a deferment of payments until we have the capacity and resources to repay them.

The Theater must survive this health and economic crisis, and it will emerge with greater experience and greater resilience - for its inner resources, but also and most importantly in partnership with the City. The need for housing, and specifically housing in support of artists and the arts is no less important now than it ever was - it is, rather, even greater. There can be no better statement of our will to survive, our commitment to artists and commitment to our community, than to proceed with this project. It reflects our aspirations, once we have the pandemic behind us, to once again, produce world-class theater, to teach children and adults the joy of creative expression, to house our programs for teens and young professionals and welcome back to Berkeley, arts-lovers from throughout the Bay area.

If there is one feature of our lives that we have all come to understand during shelter-in-place, it is the value of being able to commune together in a shared, real space and to be able to enjoy the pleasure of live, unmediated artistic expression. The virtual world may have been our lifeline during this long, long spell, but it has birthed in many of us, a newfound appreciation for what we have lost.

Susan Medak
Managing Director
Berkeley Repertory Theater

