

CITY OF OAKLAND
COUNCIL AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2003 MAY 29 PM 5: 28

TO: Office of the City Manager
ATTN: Robert Bobb
FROM: Community and Economic Development Agency
DATE: June 10, 2003

RE: ANNUAL INFORMATIONAL REPORT ON THE OAKLAND
PARAMOUNT THEATRE OF THE ARTS FY- 2001-2002

SUMMARY

This informational report provides an update on the Paramount Theatre of the Arts (PTA) and includes a status report prepared by Leslee Stewart, General Manager of the Paramount Theatre. The Board of Directors and General Manager have continued to make progress in improving facility operations, and are working on completing a business plan.

In the past year, the Paramount worked on increasing revenues, usage and improving marketing. Clear progress was made in the area of usage during FY 2001-2002. The total number of uses during that time period was 178 days (an increase of 13% from 2000-2001, with a total of 158 days); however, FY 2002-2003 started out very slowly in terms of commercial bookings and has continued that way up to the present time. This trend will probably continue through the remainder of the fiscal year and will create an operating deficit.

The 2001-2002 Fiscal Year was the third in which the Paramount operated without a City subsidy. The operating fund ended with a surplus of \$303,020. This amount represents the revenues over expenses before operating transfers to the endowment and before investment income (loss). Because of the economic slow-down and the negative impact on revenues, the Paramount will focus added attention on marketing, advertising and sponsorship. This should impact revenues in a positive fashion and help reduce the shortfall for the current fiscal year.

FISCAL IMPACTS

This is an informational report that has no direct fiscal impact. Subsidy to PTA from the City of Oakland has ceased.

BACKGROUND

The Paramount Theatre is owned by the City of Oakland and operated by the non-profit corporation Paramount Theatre of the Arts (PTA), under an Operating Agreement. A 10 member Board of Directors oversees general management and operations. Jeff Chew, staff person from the Community and Economic Development Agency, Redevelopment Division serves as liaison to the Paramount Board and attends their Board meetings.

KEY ISSUES AND IMPACTS

Goals and Objectives

The Paramount Theatre of the Arts is making progress on many of the goals stated in the last semi-annual report, in particular:

- Increasing revenues
- Increasing usage
- Improving marketing

Increasing Revenues

Over the last year, the General Manager has worked to increase revenues in the theater, focusing on beverage service, ticket sales and deal making. Overall revenues for FY 00-01 were up 22% from the previous year with the largest increases in Event Services (18%); Theater Box Office and Equipment Rental (7%); Concessions and Tours (10%) and Box Office Services (71%). In contrast, total expenses for FY 01-02 increased by only 17%.

Increasing Usage

The total number of uses in the FY 01-02 was 178 days (an increase of 13% from 2000-2001, with a total of 158 days). The number of events held at the Paramount increased 10% from the previous fiscal year.

Popular events included Melissa Etheridge, Mary J. Blige , Alicia Keys, Pat Metheny Group, Harry Connick Jr., Enrique Iglesias, Prince, Boney James, Patti LaBelle, Bonnie Raitt, the Temptations, Jamie Foxx, Bjork, Brian McKnight, The O'Jays, Maze featuring Frankie Beverly, Tori Amos, Maxwell, Luther Vandross, Natalie Merchant and Steve Harvey.

Annually presented events at the theatre included: the Golden Gate Geographic Society Film Series, Temple Sinai, Paramount Movie Classics, and The Bay Area Black Comedy Competition.

This past year the Paramount was successful in attracting the MPSF Lecture Series that previously played Berkeley Community Theater. The series, which opened September 2002, has been re-named the "Oakland Speakers Lecture Series" and featured such

notable personalities as General Henry Hugh Shelton, and former President of the United States, William J. Clinton. It has a full slate of speakers for this coming year.

Despite the downturn in the economy, the theatre was also successful in hosting a number of corporate meetings and receptions, including, PeopleSOFT, Diocese of Oakland, Tech TV, Cystic Fibrosis Foundation, Art Deco Society and Marcus A. Foster Institute.

Improved Marketing

The General Manager and the Board of Directors are continuing to pursue an aggressive strategy to increase events by strengthening relationships with current promoters and by cultivating new relationships. For example, the General Manager has been in communication with the Shorenstein Hays-Nederlander Group to discuss the feasibility of them expanding into the Oakland market with touring shows that are suitable for replay at the Paramount Theater after first playing in the San Francisco market. A business Ad Hoc Committee is working on a strategic plan which will focus on marketing for new events and securing funds from corporations and individuals in order to strengthen the PTA Endowment.

A successful marketing strategy depends in large part on the public perception of safety in and around the theater. Public safety has continued to improve around the Paramount thanks to a successful commitment by the City Manager and the Oakland Police Department to increase patrols in the area, especially on performance nights.

Budget/Financial Stability

FY 99-00 was the first in which the Paramount operated without a City subsidy. In FY 00-01, the second year without City subsidy, the operating fund ended with a loss of \$11,885. This past year the Paramount finished FY 01-02 with a surplus of \$303,020 in the Operating Fund. This was primarily a result of event service revenues exceeding the budget by \$260,000, more events and The Movie Classic Series, and beverage sales which both did better than expected due, again, to more events and an increase in alcoholic beverage sales.

Revenue sources for the endowment fund include beverage sales, ticket surcharges, and donations, in addition to income from dividends. The endowment fund is currently sufficient to cover operating losses. However, additional drops in the stock market, international events, and an uncertain economy could negatively affect the ability to sustain losses long-term.

Business Plan

The Paramount Board of Directors is currently preparing a new business plan focusing on:

- Optimizing the use of the facility
- Maximizing revenue streams and opportunities
- Improving Guest Services

The plan is underway and staff is hopeful it will be completed by June 2003.

SUSTAINABLE OPPORTUNITIES

This report does not include the approval of any specific projects or programs and does not impact any sustainable development opportunities, including those of an environmental, economic or social equity nature.


DISABILITY AND SENIOR CITIZEN ACCESS

This report does not include the approval of any specific projects or programs. The existing facility is already fully compliant with senior access and disability requirements as required by the American Disabilities Act.

RECOMMENDATION

It is recommended that the City Council accept this informational report, including the attached State of the Corporation report prepared by the Paramount Theatre of the Arts.

Respectfully submitted,


Robert C. Bobb, City Manager for the
Community & Economic Development
Agency

**APPROVED AND FORWARDED
TO THE LIFE ENRICHMENT
COMMITTEE**

Prepared by:
Jeff Chew, Project Manager
Redevelopment

Attachment A: Paramount Theatre of the Arts, INC.
Annual Information Report March 31, 2003

PARAMOUNT THEATRE OF THE ARTS, INC.
ANNUAL INFORMATIONAL REPORT
March 31, 2003

The following annual report is based on the activities at the Paramount Theatre for the fiscal year July 1, 2001 to June 30, 2002 and the activities at the Paramount Theatre for the first six months of fiscal year July 1, 2002 to June 30, 2003.

Commencing with fiscal year July 1, 2001 to June 30, 2002, the following is a summary of activities:

Events

- a) **TOTAL NUMBER OF EVENTS NUMBERED 95. This equates to a 10% increase over 2000/2001.**

Total number of events in fiscal year 2000/2001 was 87.

Total number of events in fiscal year 1999/2000 was 77.

Total number of events in fiscal year 1998/1999 was 75.

- b) **TOTAL PERFORMANCES NUMBERED 160.**

- c) **TOTAL EVENT DAYS NUMBERED 138. (Event Days do not include move-in/out days and rehearsal days).**

- d) **TOTAL MOVE-IN/OUT DAYS AND REHEARSAL DAYS NUMBERED 40.**

- e) **TOTAL NUMBER OF USES WAS 178 DAYS. This equates to a 13% increase over 2000/2001.**

Total number of uses in fiscal year 2000/2001 was 158 days.

Total number of uses in fiscal year 1999/2000 was 139 days.

Total number of uses in fiscal year 1998/1999 was 128 days.

Attendance

A TOTAL OF 252,655 GUESTS ATTENDED EVENTS IN FISCAL YEAR 2001/2002.

Total number of guests that attended events in fiscal year 2000/2001 was 257,981.

Total number of guests that attended events in fiscal year 1999/2000 was 173,941.

7
LIFE ENRICHMENT CMTE.
JUN 10 2003

Theatre Uses

There was a modest change in the types of events presented at the Paramount Theatre while the number of events increased. The theatre continued to host the seasons of the two residents companies, the Oakland Ballet and the Oakland East Bay Symphony.

Two (2) graphs attached to this report show the following:

Graph 1 shows the types of events as a percentage of the total number of events.

Graph 2 shows the total number of tickets sold for each type of event.

Bill Graham Presents, Haymon Entertainment, A.W.L. Entertainment, Marvelous Entertainment, and Brian Martin Productions are the major promoters licensing the theatre on a regular basis. Popular shows included Melissa Etheridge, Steve Harvey, Bjork, Brian McKnight, Jamie Foxx, Maxwell, Tori Amos, Luther Vandross, Natalie Merchant, Sinbad, Temptations, Teddy Pendergrass, Mary J. Blige, Alicia Keys, Pat Metheny Group, Harry Connick Jr., Enrique Iglesias, The O'Jays, Prince, Boney James, Maze featuring Frankie Beverly, Patti LaBelle, Bonnie Raitt, and New Edition.

Annually presented events at the theatre included Golden Gate Geographic Society Film Series, Temple Sinai, Paramount Movie Classics, and the Bay Area Black Comedy Competition.

Promoters new to the theatre included 462 Concerts, Inc., Temple Sinai, Urban Indian Health Board, New Day Entertainment, Impact3 LLC, and MPSF Lecture Series Inc.

The theatre was successful in hosting a number of corporate meetings and receptions, namely, PeopleSOFT, Diocese of Oakland, Tech TV, Cystic Fibrosis Foundation, Art Deco Society, and Marcus A. Foster Institute.

The Paramount was also successful in attracting the MPSF Lecture Series that previously played Berkeley Community Theatre. The series which opened September 2002 has been named the "Oakland Speakers Lecture Series" and features such notable personalities as 4-star General Henry Hugh Shelton, former President of the United States William J. Clinton and entertainer Tim Conway to name a few.

Canceled Events

The Paramount Theatre experienced the loss of a few events this fiscal year, however, the losses may be attributed to factors beyond the control of the theatre. For example, due to the events of September 11, 2001, the show "Sisters in the Spirit" scheduled to play the Paramount Theatre on November 22, 2002 was canceled. The tour, which originated on the east coast, was forced to cancel following the terrorist attacks.

Another example was Bill Cosby who decided to play San Francisco rather than Oakland. Cosby played four (4) sold out shows at Davies Symphony Hall.

Although last year, the San Francisco Jazz Organization made a business decision to hold all of their events in the City of San Francisco proper, it has also come to light that the issue of ticketing is a stumbling block for SFJAZZ to play the Paramount. Since SFJAZZ holds a ticketing agreement with Tickets.com and the Paramount Theatre has an exclusive ticketing agreement with Ticketmaster, SFJAZZ is unwilling to honor the theatre's exclusive ticketing contract.

Paramount Movie Classics

A total of fifteen (15) films were presented over 3 series. Due to increased commercial activity in the theatre it was impossible to secure dates from September to December in order to present a Fall series. Unlike last year, management this year noted an increased shift in attendance and demographics, likely due to the selection of films; several articles publicizing the series in such magazines as VIA; the downturn in the economy; and finally, the price of admission remaining a good value at \$5.00.

Ticket Surcharge

The ticket surcharge of \$0.50 on tickets priced over \$10.00 and \$0.25 on tickets priced under \$10.00 generated revenues in the amount of \$102,756. The amount last year was \$104,535. This amount was added to the Endowment Fund.

House Ticket Surcharge

The house ticket surcharge of \$10.00 is applied to each house ticket ordered by the Board of Directors, VIP's, and clients of the Paramount Theatre. The amount added to the Endowment totaled \$3,053. Last year, the amount added to the Endowment totaled \$3,384. The House Ticket Surcharge amount was previously included in the Donations category, however, it has since been accounted for as a separate item from those making individual donations. The past practice of sending a letter of thanks to those who either made an individual donation or those who purchased house tickets with the surcharge added continued.

Donations

Donations to the Endowment Fund totaled \$4,310. Last year, donations to the Endowment Fund totaled \$4,338. This amount was comprised of individual unrestricted donations only.

Beverage Sales

The Paramount Theatre finished with \$286,000 in gross beverage sales. Last year, the Paramount Theatre finished with \$243,000 in gross beverage sales.

In summary, over the past three (3) fiscal years, gross beverage sales have increased from \$121,000 to \$243,000. This represents an increase of 101%.

It should be noted that gross beverage sales numbers are net of CA sales tax.

Concessions (merchandise)

Merchandise is comprised of 2 categories –

a) Artist merchandise sales

The Paramount Theatre receives a share of artists' merchandise sales. The published rates at the Paramount Theatre comply with industry standards. If the artists' vendor sells, the split is 75/25 in favor of the artist. If the artist requires vendors, which the theatre is able to provide, the split is 70/30 in favor of the artist. The theatre assumes the responsibility of remitting the CA sales tax on behalf of the artist.

The Paramount Theatre closed this fiscal year with \$91,000 as its share of artist merchandise sales. This equates to an increase of 31% from last year's share of \$70,000.

b) In-house merchandise sales

The Paramount Theatre sells its own line of merchandise. Although limited, sales are comprised of Paramount Theatre t-shirts, hardcover books, dec-o-win magnets, grand opening posters and Jim Riggs, House Organist CD's. In-house sales comprised of \$5,000 this fiscal year. Last year, sales also totaled \$5,000.

Tours (public and private)

Public tours of the Paramount Theatre are held on the 1st and 3rd Saturdays of each month. The admission is \$1.00 per person.

Private tours are booked through the administration offices. Private tours, depending on the number of persons, range in price from \$50 to \$100.

Public and private tour income is represented collectively and this fiscal year totaled \$4,000. Last year public and private tours generated income of \$3,000.

In summary over the last 3 fiscal years the combined revenue of concessions and tours has increased from \$33,000 to \$100,000, which represents an increase of 203%.

Budget

This was the third fiscal year in which the Paramount Theatre operated without a city subsidy. The Paramount finished the 2001-2002 fiscal year with a surplus in the Operating Fund of \$303,020, although the budget projected an Operating Fund surplus of \$17,765. **This amount represents the revenues over expenses before operating transfers to the endowment and before investment income (loss).**

Why was there a \$303,020 Operating Fund surplus compared to the projected Operating Fund surplus of \$17,765? The reasons are:

- a) Event Services revenue exceeded budget by \$260,000 as a result of more events.
- b) Combined base and percentage rent exceeded budget amount by \$147,000 as a result of more events.
- c) Paramount Theatre's ticketing contract exceeded budget amount by \$53,000 as a result of higher ticket prices.
- d) Movie Classic revenue exceeded budget by \$30,000. Expenses amounted to \$50,000 compared to the budgeted amount of \$62,000 primarily due to increased attendance.
- e) Artists' merchandise sales exceeded budget by \$36,000 due to more events and more artists carrying merchandise.

- f) Beverage sales revenue exceeded budget by \$86,000 due to more events whose audience consumes alcoholic beverages vs. non-alcoholic beverages and a more experienced and streamline operation.

Building Improvements

Improvements to the building were again minimal this fiscal year. The work consisted of removing the old asbestos floor in the Performer's Lounge and replacing it with a new tiles; the purchase of 2-way radios to maximize communication between event staff during events; new fire extinguishers that proved to be more cost-effective than refilling the ones purchased 30 years ago; automation control added to the HVAC system and the backstage area adjacent to stage left was painted along with the auditorium floor.

Personnel Changes

Mr. Don Wysinger, Chief of Security retired March 31, 2002. Mr. Aulton Purnell was hired as the Security Manager March 15, 2002.

Overall Summary

Although the number of events and performances has increased, along with the average ticket price, it appears that less people are purchasing tickets. However, those people who purchased tickets are also purchasing beverages and merchandise once inside the theatre.

In the past year, the Paramount Theatre and the General Manager again demonstrated clear progress on increasing revenues and usage. The total number of uses in the 2001-2002 Fiscal Year was 178 days (an increase of 13% from 2000/2001 with a total of 158 uses). Overall revenues for the 2001-2002 Fiscal Year were up 4% from the previous year with the largest dollar increases in Event Services (13%), Rental Income (14%), Ticket Office Services (13%), Beverage Services (18%), and Merchandise and Tours (22%). In contrast, overall expenses for the 2001-2002 Fiscal Year increased by 15%. As a result, the overall increase in net assets for the 2001-2002 Fiscal Year was \$30,094, which was reflected as an increase of \$123,863 in endowment net assets and a deficiency of (\$93,769) in operating net assets. The 2001-2002 Fiscal Year was the third in which the Paramount operated without a City subsidy.

In the coming months, the Paramount will focus on generating additional revenue streams such as parking, sponsorship plus a review of rental fees. This should have a positive impact on revenues in years when theatre bookings are falling short of projections.

First Six Months of Fiscal Year July 1, 2002 to December 31, 2002

A. Events

The Paramount Theatre's inventory of calendar days continues to be our largest and most limiting asset. The number of days the theatre is used needs to be increased. Berkeley Community Theatre continues to be our main competitor for popular shows as it has 500 more seats than the Paramount. Paramount Theatre management has also noticed, in these difficult economic times, a trend toward events that normally would have been considered for the Paramount are being taken into smaller venues, i.e. Fillmore and Warfield. With the downturn in the economy, promoters are offsetting their financial risk on shows by seeking venues with less overhead in terms of expenses since artist fees have not decreased and ticket sales are less predictable.

The General Manager has been in communication with the Shorenstein Hays-Nederlander group to discuss the feasibility of them expanding into the Oakland market with touring shows that are suitable for replay at the Paramount Theatre after first playing the San Francisco market.

The number of performances from July 1, 2002 to December 31, 2003 was 71. In the same period in the previous year, the number of performances was 92. The main reason for the reduced number of performances is attributed to the downturn in the economy coupled with the fact that there is less product touring theatres.

B. Guest Services

Silicon Valley Training has been retained to work with the Paramount Theatre in the area of Quality Guest Service. A training program will commence at the end of October 2002 in which all staff who interact with guests will receive the new Guest Services Guide; learn about employee policies; workplace policies; guest policies and how to excel at delivering quality guest services to our guests and patrons.

C. Paramount Movie Classics

With the introduction of a wider variety of films coupled with several articles on the movie series, Paramount Theatre management noticed a transition in the demographics of the movie classics audience from an older established crowd to a younger group comprised of students living in the Berkeley area. Of the 15 films shown over fiscal year 2001/2002, North by Northwest and Vertigo were sold-out.

Although our findings, through testing, found Friday evenings to be the preferred evening for films, our sense is that this new audience may react well to films on Thursday evenings as well. Management will over the course of the next year test the audience to ascertain if this is in fact accurate.

The booking priority will be committed to attracting commercial events that add to the theatre's bottom line.

The number of films shown from July 1, 2002 to December 31, 2003 was 10. In the same period in the previous year, the number of films shown was 5. This is due to the reduced number of commercial bookings this fiscal year and hence, the availability of Friday evenings.

D. Building Maintenance

Management will ensure the maintenance of the building remains a top priority. New carpet is imperative over the next year from a risk management perspective. Also, there is no extra carpet left in which to do repairs.

Estimates for painting along with waterproofing the exterior of the building need to be secured. The building will also require a new roof in the next couple of years.

E. Ticketing services

The contract with Ticketmaster continues to be of financial benefit to both parties. The number of events and number of tickets sold this past fiscal year has again exceeded both Ticketmaster's and the Paramount's expectations. Ticketmaster like the Paramount Theatre is customer-driven and last year that was evidenced by Ticketmaster establishing a local telephone number for charge by phone orders at the 510 area code. This year, Ticketmaster has agreed to test, without charge to the Paramount Theatre, the new "TicketFast" system. "TicketFast" is a new, innovative addition to the ticketmaster.com buying experience. Consumers can choose to print their tickets themselves on a standard piece of paper, rather than standing in a will-call or waiting for tickets to be mailed. Each ticket contains the customer's name, account number, and partial credit card number. The full-page ticket has extra space for seating charts, directions, and other relevant information not printed on traditional ticket stock. The unique barcode printed on the ticket is scanned at the gate (door) utilizing Ticketmaster eEntry technology, verifying ticket validity automatically. This system will be implemented for the first time at the November 26, 2002 Beck concert. The system has been proven to reduce counterfeit tickets and scalping.

F. Union negotiations

The CBA with I.A.T.S.E. Local 107 stagehands expired June 30, 2002. The parties were able to agree to a three-year contract with the help of a Federal Mediator. The union had prepared to strike in mid November 2002 to halt the Bill Clinton speaker's event but the federal mediator was able to bring both parties back to the table.

The CBA with I.A.T.S.E. Local B-18 representing front of house and ticket office staff expired June 30, 2002 and a one-year agreement was reached.

The CBA with I.A.T.S.E. Local 169 projectionists expired June 30, 2002 and a new two-year agreement was reached.

G. Neighborhood Environment

It is my continued goal to ensure the area around the Paramount Theatre is clean, comfortable and safe. The issue of safety is foremost as a catalyst to attract a new audience into downtown Oakland after business hours. In continuing to work with the District #1 OPD headed by Lt. Ed Poulson and his team, we have been able to achieve a sense of safety and well being by visible police presence outside the theatre before and after events. The rise of homicides in the city, to our knowledge has not adversely affected ticket sales. However, the psychological impact may translate into fewer tickets being sold if homicides continue at the current rate.

With the financial impact the City of Oakland is facing, it is the Paramount Theatre management's hope that police presence outside the theatre following events will continue.

H. Artist Merchandise

As I have discussed in the past, artists license product to be sold at their performances, i.e. t-shirts, sweatshirts, jackets, hats, photos, posters, etc. The City of Oakland unfortunately continues to have a reputation for not enforcing a "no peddling" ordinance around the perimeter of the Paramount Theatre. First order of business would be the city erecting "no peddling" signs around the perimeter of the theatre. Unfortunately, I have been unsuccessful in acquiring this much-needed signage from the city. Artists derive revenue to support their tours and recordings through ticket sales, royalties, record sales, and merchandise. Merchandise is a business unto itself. The selling of merchandise is also a revenue stream to a building. Bootleg merchandisers realize the financial opportunities and follows

shows from city to city standing outside an artists' performance venue peddling illegal unlicensed merchandise. In order for the Paramount Theatre to maintain a self-sufficient financial state and a safe environment to those venturing to downtown Oakland at night, the City of Oakland needs to rid the streets of illegal activity when so advised.

I. Security

Following the tragic events of September 11, 2001, the theatre immediately instituted a "no in and out" policy for events along with inspection of handbags and not permitting large bags into the building. In some cases, artists requested that guests be inspected via wands for contraband. As the theatre's general manager is an active member of I.A.A.M. (International Association of Assembly Managers), the theatre has been following security practices as suggested by I.A.A.M. which set industry standards. Currently the "no in and out" policy is in effect for all shows. Theatre management has also been testing a smoking area outside the Broadway doors at intermission which is manned and patrolled by Paramount Theatre security personnel.

J. Overall Summary

Fiscal year 2002/2003 started out very slowly in terms of commercial bookings and has continued that way for the first 6 months. I unfortunately expect this trend to continue through the remainder of the fiscal year and therefore, expect an operating deficit. It is clear that commercial events are essential to the fiscal health of this organization. With this in mind, the board and management are investigating new streams of revenue that may help avert an operating deficit in the future since our business is cyclical. For example, parking revenues would greatly assist this organization. The board and management are also exploring sponsorship potential and a report from an outside sponsorship company will be presented to the board at its May meeting. A business plan will be prepared to determine if the Music Library owned by the Paramount Theatre of the Arts, Inc. is used and managed to its potential.

Since the six-month financials indicate that an operating deficit is a harsh reality, the Paramount Theatre's general manager has suspended all spending, unless essential and approved by the general manager, to help mitigate the amount of loss expected.