

City looks to restructure San Jose Rep bailout to ensure program continues

By [John Woolfolk](#)
jwoolfolk@mercurynews.com

10/13/2011

San Jose officials want to restructure a \$2 million 2006 bailout of the San Jose Repertory Theatre because despite the troupe's financial improvements, it cannot repay the city \$400,000 this month under the current deal.

San Jose officials, grappling with the city's own financial woes, recommend a restructuring that reduces annual repayments and spreads them over a longer period. The City Council will consider the deal Oct. 25.

"We think it's a positive step forward for the Rep and a fair and honorable deal for the city," said Nick Nichols, the Rep's managing director since 2006. "We're not asking for more money. We're not asking for any payment forgiveness."

San Jose officials say that because the city's current budget didn't count on the \$400,000 repayment from the Rep to fund other needs, the proposed restructuring won't cause a shortfall or require more layoffs.

The city in June laid off 140 employees including 66 police officers and cut hundreds of other jobs to close a \$115 million budget deficit, its 10th straight shortfall. Another gap of at least \$78 million is expected next year as ballooning employee pension costs outpace revenues.

Kerry Adams Hapner, the city's director of cultural affairs, said the restructured deal will allow the Rep to survive and continue drawing patrons downtown while allowing a more realistic repayment schedule. An analysis this year showed the Rep draws about 75,000 visitors to downtown San Jose and contributes \$9.1 million annually to the local economy, she said.

Founded in 1980, the Rep operated out of the Montgomery Theatre until 1997 when it moved into its \$24 million, 584-seat blue cube-shaped auditorium in downtown's Paseo de San Antonio. Built with \$20 million in city redevelopment funds, it's now named after former Mayor Susan Hammer and her husband, Phil, who had fought to get it built. The troupe has enjoyed rent-free use of the building with the city kicking in \$300,000 a year for maintenance and annual arts grants of more than \$100,000 from hotel tax receipts.

But like many city-assisted arts groups it has struggled in the new century's sputtering economy wracked by repeated recessions after the bursting dot-com and housing bubbles.

By 2006, the Rep teetered on insolvency and asked the city for a bailout. A city audit found the organization in financial disarray with substantial debt and doubts about its ability to survive.



San Jose Repertory Theatre, 2010. (Karen T. Borchers, Mercury News)

The city approved a bailout much like a credit-card arrangement in which the Rep could borrow up to \$2 million from the city's general fund at the same interest rate the city earns on its investment portfolio. That 10-year deal called for the Rep's borrowing limit to shrink annually by \$400,000 starting this year and required the troupe to repay outstanding balances above that limit.

The proposed restructuring would convert the \$2 million bailout to something more like a 25-year mortgage in which the troupe would continue paying interest with regular payments toward the principal. Hapner said the proposal calls for the Rep to pay \$35,000 in the spring toward reducing the amount owed the city while continuing to pay monthly interest on the outstanding balances. The current interest rate based on the city's earnings is 0.727 percent, and the loan would be repaid by April 1, 2037.

Hapner acknowledged the Rep continues to struggle amid the economic downturn, with financial auditors expressing doubts about its ability to remain a "going concern." In its 2010 fiscal year, the Rep had \$4.8 million in debt and posted a \$773,019 operating loss.

The city also has reduced its annual aid to the Rep this year, dropping its \$300,000 maintenance subsidy to \$285,000 and shaving its \$101,703 arts grant down to \$100,482.

But Hapner said the Rep has made tremendous improvements under its current leadership and is expected to show its first operating surplus since 2007 in its upcoming financial audit due next month, the result of increasing revenue from fundraising and ticket sales as well as tight cost controls. Programming has proved increasingly popular under artistic director Rick Lombardo, who took over in 2008.

Councilman Sam Liccardo, who represents the downtown district, supports the restructuring. And Hapner noted the city has few viable alternatives since the Rep would default under the current terms. And without the Rep, the city would face annual costs of either \$105,000 to maintain the shuttered theater or \$685,000 to run it while searching for a new entertainment company.

"It's really not the preferred situation," Hapner said. "We don't have anybody in the wings."

Contact John Woolfolk at 408-975-9346.