

Memorandum

TO: Alan Ziter, Executive Director
NTC Foundation

FROM: Tom Hall, Managing Partner
AlbertHall&Associates

RE: Luce Auditorium – Operating Modeling Study
Status Report/Findings Summary

DATE: August 27, 2013

Introduction and Summary Findings

The following information is provided as an update report on the Luce Auditorium Survey results and suggested next steps in the process. Once you and the leadership of the Foundation have had an opportunity to review the information and our current recommendations, let me know if anything contained in the document needs further clarification or delineation.

As discussed below, we undertook a user survey and environmental scan last year and have recently reviewed the potential user sample group's most recent 1099's to determine if there has been a substantive change in either the external environment or potential users' operational/financial status. We have concluded from the recent data collected that there have been no significant changes in either instance that would cause us to alter our conclusions or recommendations regarding the feasibility of creating a financially self-sustaining, mixed use, film/dance facility as was defined in our initial scope of work.

Responses from potential users and data from the environmental scan suggest that Luce Auditorium can be physically reconfigured to serve the needs of identified prospective users, however, in our view, there is no realistic means to operate the facility under the film/dance model without significant and ongoing subsidies either from NCTF, an independent facility manager or the tenants themselves.

For this reason, AlbertHall&Associates would recommend that NCTF look at alternative uses for the facility if the Foundation is not in the position or chooses not to provide both the capital required to physically reconfigure and upgrade the facility and substantial operating subsidies for the facility into the foreseeable future.

Methodology

The study process commenced with approximately 40 organizational contacts. AlbertHall&Associates, NTC Foundation Leadership and NTC's Architect held an initial

meeting with representatives from interested organizations to provide an overview of the concept, explain the anticipated steps for the process moving forward and answer any questions from attendees. AHA and NTCF reviewed the organizations that expressed initial interest and after hearing from a number of organizational leaders who self-selected out of the process, identified a survey group of organizations that fit the operational profile for the facility, had demonstrated a history of organizational sustainability in both programming and financial operations and had an expressed interest in being included among study participants.

- The study survey was circulated to 18 organizations
- Full or partial responses were received from 11 organizations

After reviewing the content of the survey a number of potential respondents chose to opt out of the process and another group of potential respondents proved to be unresponsive to repeated contacts from AHA and/or NTC Foundation representatives.

Survey Data Summary

The survey was designed to identify 1) potential users' facility needs, 2) current facility utilization patterns at other venues in San Diego County and 3) current rental rates paid by users over the past three years.

Respondents

Dance Companies

- Malashock Dance
- San Diego Ballet
- City Ballet
- San Diego Dance Theatre (Incomplete)
- Eveoke Dance (Incomplete)

Film Presenters

- Media Arts
- San Diego Jewish Film Festival (Incomplete)
- San Diego Asian Film Festival
- San Diego Film Festival (Incomplete)
- San Diego Christian Film Festival
- San Diego Black Film Festival
- San Diego Cinema Society

Survey Response Data Summary

- **Current annual rental days 2011 – '12:**
 - Aggregate - +/- 180
 - Dance - +/- 75 days
 - Film - +/- 105 days

- **Current Rental Rates:**
 - Film Rental Ranges¹
 - Per performance: \$160 - \$2,000
 - Weekly: \$2,500 - \$5,000
 - Avg. Daily: +/- \$1,000 - \$1,500
 - Dance Rental Ranges
 - Per performance²: \$0 - \$1,000
 - Weekly: \$6,000 - 8,500
 - Projected Daily Avg: \$1,500
- **Projected revenue from participating potential user groups based on current rental patterns would total approximately \$245,000 annually with the breakdown as follows:**
 - Dance³ - \$112,000
 - Film - \$131,250
- **Average number of venues used simultaneously:**
 - Dance - 1
 - Film - 1 to 4
- **Optimal number of venues desired:**
 - Dance - 1
 - Film - 3 to 4
- **Optimal Seating Capacity requirements:**
 - Dance
 - Range - 350 to 500⁴
 - Aggregate average optimal - 400
 - Film
 - Range - 100 to 400
 - Aggregate average optimal - 250 to 300
- **Technical requirements summary:**
 - Film - Projection technology including HD, BluRay, 35mm, DigiBeta, DC
 - Dance - Full technical capability including lighting, sound, fly space and dance floor. Optimal avg. dimensions for dance – 40' W x 35' D x 30' H
- **Staffing requirements summary:**
 - Film - Projectionists, House Staff, F&B, B.O.
 - Dance - Technical, House Staff, F&B, B.O.
- **Additional interests:**
 - # of participants interested in office space: 8⁵
 - # of participants interested in classroom space: 8
 - # of participants interested in F&B services: All

¹ Film presenters have no standard rent arrangement at this time. Varies from \$1 per seat, to daily or weekly per facility

² Malashock Dance is currently provided a complimentary performance venue at LJPH and has a long history of being hosted by other arts organizations on similar terms

³ Assumes Malashock will move to rental agreement from current arrangement

⁴ One respondent noted that they would require 1,000+ seating capacity to participate

⁵ Four currently located at NTC

- # of participants interested in storage space: 10
- # of participants interested in Dressing room: 6
 - Range of dressing spaces needed – 12 - 24
 - Other – Participants inquired about a number of other possible facility and staff support possibilities but no shared trends or interests surfaced in those comments

Business Modeling Research – Update and Comment:

In order to move the process forward in an efficient manner, AHA undertook preliminary research on various business models to determine the potential viability of the Luce concept. Although the research was not exhaustive, it is important to note that we found no free-standing non-profit centers of this type that were self-sustaining without significant subsidy from either some form of commercial activity, significant annual contributed income or a combination of the two.

Most non-profit centers with similar programming and financial structures are either freestanding non-profits with robust fund-raising capabilities, subsidized university affiliated performing arts centers, or community based performing arts centers with both a commercial programming component and contributed income to offset non-profit programmatic losses.

The last group typically houses at least one venue with a seating capacity in excess of 2,000 – 2,500 seats in order to accommodate large scale commercial productions, classical forms, and rock music presentations, etc. Even with those physical advantages, the data below for both performing arts centers and film centers shows that both require substantial annual contributed income to operate and many still experience a deficit from their operations.

CHART #1 – Performing Arts Center Sample Group

| PERFORMING ARTS CENTERS | Earned Income | | Contributed Income | | Total Expenses | Surplus/Deficit |
|---|----------------|------------|--------------------|------------|----------------|-----------------|
| Leddy PAC | \$135,706.00 | 88 | \$19,114.00 | 12 | \$164,439.00 | -\$9,622.00 |
| Lensic Pac | \$1,300,383.00 | 45 | \$1,609,449.00 | 55 | \$2,898,899.00 | \$10,933.00 |
| Katy V&PAC | \$631,231.00 | 87 | \$96,412.00 | 13 | \$729,973.00 | -\$2,330.00 |
| Algonquin Arts Theatre | \$657,757.00 | 59 | \$460,575.00 | 41 | \$1,201,071.00 | -\$82,739.00 |
| Carlisle Regional PAC | \$290,853.00 | 70 | \$120,366.00 | 30 | \$487,491.00 | -\$76,272.00 |
| East Bay PAC | \$483,043.00 | 16 | \$2,396,127.00 | 84 | \$1,879,893.00 | \$999,277.00 |
| Gallo Center for the Arts | \$3,708,803.00 | 66 | \$1,914,264.00 | 34 | \$5,794,636.00 | -\$171,569.00 |
| Foundation for Performing Arts San Luis Obispo | \$148,890.00 | 23 | \$506,614.00 | 77 | \$847,346.00 | -\$191,842.00 |
| Montalvo PAC | \$1,356,499.00 | 28 | \$3,476,833.00 | 72 | \$4,687,651.00 | \$145,681.00 |
| Lancaster PAC | \$59,460.00 | 44 | \$76,306.00 | 56 | \$89,038.00 | -\$29,578.00 |
| California Center for the Arts | \$652,889.00 | 21 | \$2,489,570.00 | 79 | \$2,923,408.00 | \$219,051.00 |
| Cerritos PAC | \$60,520.00 | 21 | \$231,012.00 | 79 | \$509,096.00 | -\$217,564.00 |
| Diablo Regional Arts/ Leshner Center for the Arts | \$174,263.00 | 8 | \$2,130,499.00 | 92 | \$970,072.00 | -\$1,334,690.00 |
| Poway Center for the Arts | \$227,190.00 | 47 | \$256,608.00 | 53 | \$444,178.00 | \$39,620.00 |
| Hobby Center for the Performing Arts | \$4,743,649.00 | 86 | \$749,035.00 | 14 | \$6,914,994.00 | -\$1,422,310.00 |
| Jamaica Center for the Arts | \$166,873.00 | 14 | \$1,031,485.00 | 86 | \$1,096,974.00 | \$101,384.00 |
| Average - Earned to Contributed Income | | 45% | | 55% | | |

The data in Chart #1 indicates that, for the sample group of performing arts centers that most closely approximate Luce Auditorium’s size and potential scope of operations, 55% of annual revenues are derived from contributions. Yet, even with such strong philanthropic support, 10 of the 16 sample organizations ended the last reported fiscal year with a sizable deficit according to their most recent 1099 tax returns.

It is also of note that the centers that operated at a surplus over the same time period were most dependent upon on contributed income to sustain their operation with the aggregate average percentage of contributed income for that group constituting 71.5% of total annual revenues.

Finally, San Diego County has a history of performing arts centers that have not been able to find a fully sustainable business model for significant periods of time. Many of those organizations have had to repeatedly reorganize or downsize operations and in extreme situations, such as the East County Performing Arts Center, have had to suspended operations for lack of adequate financial support.

Chart #2 – Film Center Sample Group

| DATA SOURCE 2010/2011 990s | Earned Income | % | Contributed Income | % | Expenses | Surplus/(Deficit) |
|---|----------------|------------|--------------------|------------|----------------|-------------------|
| FILM CENTERS | | | | | | |
| The Avalon Film Center | \$1,076,777.00 | 75 | \$350,054.00 | 25 | \$1,437,576.00 | -\$10,745.00 |
| Jacob Burns Film Center | \$2,601,407.00 | 53 | \$2,283,650.00 | 47 | \$6,065,267.00 | -\$1,180,170.00 |
| Echo Park Film Center | \$34,310.00 | 19 | \$141,732.00 | 81 | \$136,684.00 | \$39,358.00 |
| Miami World Cinema Center | \$255,759.00 | 50 | \$253,349.00 | 50 | \$536,309.00 | -\$31,197.00 |
| Downing Film Center | \$148,039.00 | 89 | \$17,839.00 | 11 | \$149,195.00 | \$17,671.00 |
| East Bay Media Center | \$101,184.00 | 58 | \$74,500.00 | 42 | \$118,350.00 | \$57,334.00 |
| Northwest Film Center (Portland Art Museum) | \$896,710.00 | 59 | \$618,852.00 | 41 | \$1,515,562.00 | \$0.00 |
| Robinson Film Center | \$773,141.00 | 70 | \$335,174.00 | 30 | \$1,611,365.00 | -\$503,050.00 |
| The Michigan Theatre | \$1,901,584.00 | 61 | \$1,206,609.00 | 39 | \$2,986,571.00 | \$121,622.00 |
| Film Society of Lincoln Center | \$2,635,106.00 | 19 | \$11,217,783.00 | 81 | \$8,561,969.00 | \$5,290,920.00 |
| Lyric Theatre | \$375,037.00 | 75 | \$122,632.00 | 25 | \$496,793.00 | \$876.00 |
| San Francisco Cinematheque | \$18,586.00 | 12 | \$134,767.00 | 88 | \$155,837.00 | -\$2,484.00 |
| Pickford Film Center | \$285,191.00 | 41 | \$411,172.00 | 59 | \$475,105.00 | \$221,258.00 |
| Denver Film Society | \$1,686,996.00 | 43 | \$2,234,862.00 | 57 | \$3,383,348.00 | \$538,510.00 |
| Christopher B Smith Rafael Film Center | \$1,637,764.00 | 44 | \$2,069,254.00 | 56 | \$3,670,386.00 | \$36,632.00 |
| Ninth Street Independent Film Center | \$409,299.00 | 62 | \$255,550.00 | 38 | \$654,607.00 | \$10,242.00 |
| Salt Lake Film Society | \$1,417,762.00 | 85 | \$242,634.00 | 15 | \$1,609,908.00 | \$50,488.00 |
| Austin Film Society | \$435,196.00 | 23 | \$1,432,350.00 | 77 | \$2,191,014.00 | -\$323,468.00 |
| Minnesota Film Arts | \$693,979.00 | 61 | \$450,764.00 | 39 | \$1,136,991.00 | \$7,752.00 |
| Broward County Film Society | \$426,659.00 | 63 | \$251,976.00 | 37 | \$678,541.00 | \$94.00 |
| Denver Film Society | \$1,686,996.00 | 43 | \$2,234,862.00 | 57 | \$3,383,348.00 | \$538,510.00 |
| Average - Earned to Contributed Income | | 53% | | 47% | | |

Similar to the data in the first chart, Chart #2 compares financial results for film centers located across the country and, although a higher percentage of this sample group ended their most recent fiscal year with an increase in net assets, as with performing arts centers, film centers required nearly half of their annual revenues be realized from contributions. As with performing arts centers, those film centers with the healthiest financial results relied upon an average of 45% of their annual gross income from tax-deductible contributions.

Chart #3 – Dance Center Sample Group

As with both performing arts centers and film centers, dance centers as a group, rely heavily on annual contributed income to balance their budgets. Although there are a few organizations in the sample group that manage to derive the majority of their income from earned sources, with few exceptions, even those entities look for contributions in excess of 30% of their annual revenue.

| DANCE CENTERS | Earned Income | | Contributed Income | | Total Expenses | Surplus/Deficit |
|---|-----------------|------------|--------------------|------------|-----------------|-----------------|
| Creative Dance Center | \$264,873.00 | 90 | \$27,932.00 | 10 | \$301,649.00 | \$8,844.00 |
| Joy of Motion Dance Center | \$2,057,305.00 | 88 | \$286,250.00 | 12 | \$2,306,439.00 | \$37,116.00 |
| Stages Folsom Dance Arts | \$45,059.00 | 14 | \$265,727.00 | 86 | \$301,868.00 | \$8,918.00 |
| Joyce Foundation, NYC | \$4,345,763.00 | 50 | \$4,409,910.00 | 50 | \$8,376,283.00 | \$379,390.00 |
| Dance Place, Washington DC | \$386,214.00 | 29 | \$941,282.00 | 71 | \$1,463,275.00 | -\$135,779.00 |
| American Dance Institute, DC | \$962,411.00 | 39 | \$1,478,996.00 | 61 | \$1,943,554.00 | \$111,639.00 |
| Joan Weill Center for Dance, NYC | \$21,521,793.00 | 64 | \$11,957,843.00 | 36 | \$33,450,373.00 | \$1,899,263.00 |
| Chen Dance Ctr., NYC | \$199,747.00 | 34 | \$394,227.00 | 66 | \$496,376.00 | \$97,598.00 |
| Jacobs Pillow Dance | \$2,504,616.00 | 54 | \$2,155,859.00 | 46 | \$4,829,792.00 | -\$169,317.00 |
| Boston Ballet, Boston MA | \$15,375,164.00 | 54 | \$12,906,440.00 | 46 | \$27,902,556.00 | \$379,048.00 |
| Mark Morris Dance | \$3,213,890.00 | 61 | \$2,060,749.00 | 39 | \$5,506,895.00 | -\$232,256.00 |
| Parsons Dance Foundation | \$907,988.00 | 68 | \$424,620.00 | 32 | \$1,492,442.00 | -\$149,834.00 |
| Dance Theatre of Harlem | \$1,282,025.00 | 24 | \$4,129,348.00 | 76 | \$3,933,730.00 | \$1,477,643.00 |
| Jose Limon Dance Foundation | \$318,325.00 | 28 | \$815,945.00 | 72 | \$14,408,692.00 | -\$274,422.00 |
| Repertory Dance Theatre | \$222,396.00 | 35 | \$410,709.00 | 65 | \$658,875.00 | -\$25,770.00 |
| Average - Earned to Contributed Income | | 49% | | 51% | | |

The two companies that out-performed the group in terms of earned v unearned income, Creative Dance Center and Joy of Motion Dance Center, are both non-professional dance education organizations that derive the majority of their income from tuition and offer little if any professional performance or concert opportunities such as those that are contemplated as a mainstay in the Luce Auditorium programming model. Of the remaining organizations in the sample group, the aggregate average level of annual contributed income required to sustain their operations is 54%.

Chart #4 – Film Festival Sample Group

As with the various organizations discussed above, film festivals operating in a similar format to the San Diego Latino Film Festival or the San Diego Asian Film Festival rely more heavily on contributed income to meet their general operating needs.

As the data in Chart #4 below indicates, the aggregate percentage for the full sample group is 61% and if the Telluride and Palm Springs Festivals are removed from the sample group to more closely reflect the size and current scope of the potential Luce user groups, the aggregate average percentage of annual contributed income rises to 64%.

| FILM FESTIVALS | Earned Income | | Contributed Income | | Total Expenses | Surplus/Deficit |
|---|----------------|------------|--------------------|------------|----------------|-----------------|
| Telluride Film Festival | \$2,004,585.00 | 53 | \$1,785,343.00 | 47 | \$3,047,952.00 | \$741,976.00 |
| San Francisco Jewish Film Festival | \$263,712.00 | 23 | \$896,348.00 | 77 | \$1,523,695.00 | -\$363,635.00 |
| Sarasota Film Festival | \$381,912.00 | 37 | \$643,963.00 | 63 | \$780,084.00 | \$245,791.00 |
| Cinema Napa Valley | \$335,637.00 | 16 | \$1,763,186.00 | 84 | \$919,348.00 | \$1,179,475.00 |
| Provincetown International Film Festival | \$280,769.00 | 34 | \$535,494.00 | 66 | \$463,826.00 | \$352,437.00 |
| Woodstock Film Festival | \$496,330.00 | 70 | \$216,150.00 | 30 | \$657,501.00 | \$54,979.00 |
| Palm Springs International Film Festival | \$2,249,292.00 | 42 | \$3,166,262.00 | 58 | \$5,183,176.00 | \$232,378.00 |
| Average - Earned to Contributed Income | | 39% | | 61% | | |

The San Diego film festivals and cinema society have long benefited from working relationships with commercial film presenters, allowing them to utilize those vendors’ facilities during slower periods at affordable rental rates. Unfortunately, venues are becoming less available under such arrangements although it may be feasible to negotiate such an arrangement were a commercial film presenter to move on to the Liberty Station campus.

Chart #5 – Potential Tenant Sample Group

As mentioned, the potential tenant sample group was developed through a series of direct contacts by both NTCF and AlbertHall&Associates staff. Those organizations that expressed interest were then surveyed as to their facility needs and current annual rental expenses. Through that process, five dance companies and six film festivals/presenters were identified as interested parties. Upon further research that group of potential users was further reduced to those organization that were deemed to both have the interest and capacity to meet the requirement of long-term tenancy at Luce.

Through self selection City Ballet chose not to participate as the envisioned physical configuration of a repurposed Luce Auditorium would not meet their seating capacity or physical production needs. Additionally, Evoke Dance was not able to satisfy our data requirements at the time the survey was taken and has since gone on hiatus due to financial problems associated with their current facility and operations. With those companies self selecting out of the process, the dance companies remaining as potential tenants include, San Diego Dance Theatre, San Diego Ballet and Malashock Dance Company.

Similarly, the original group of film festivals/presenters that showed interest was reduced to the three with demonstrated ongoing interest and the capacity to engage in a long-term rental agreement with the venue. That group includes The Cinema Society of San Diego, Media Arts Center of San Diego (Latino Film Festival) and Pacific Arts Movement (Asian Film Festival).

Unfortunately, the balance of interested San Diego film festivals and film presenters have not reached either the financial and/or operational capacity to undertake a long-term rental agreement at the time of the survey.

| Luce Possible Tenant Organizations | Earned Income | | Contributed Income | | Total Expenses | Surplus/Deficit |
|---|------------------------------|------------|--------------------|------------|----------------|-----------------|
| Dance Companies | | | | | | |
| City Ballet | \$409,982.00 | 60 | \$298,103.00 | 40 | \$679,096.00 | \$28,289.00 |
| Eveoke Dance | \$177,278.00 | 54 | \$148,994.00 | 46 | \$282,597.00 | \$43,675.00 |
| San Diego Dance Theatre | \$193,920.00 | 47 | \$221,116.00 | 53 | \$390,913.00 | \$24,123.00 |
| Malashock Dance | \$170,407.00 | 34 | \$337,812.00 | 66 | \$589,344.00 | -\$81,125.00 |
| San Diego Ballet | \$254,404.00 | 60 | \$167,224.00 | 40 | \$449,253.00 | -\$25,626.00 |
| Average - Earned to Contributed Income | | 51% | | 49% | | |
| Film Festivals/Media Arts Orgs. | | | | | | |
| Cinema Society of San Diego | Not available from Guidestar | | | | | |
| Media Arts Center of San Diego | \$355,984.00 | 31 | \$786,823.00 | 69 | \$1,095,042.00 | \$47,801.00 |
| Pacific Arts Movement/SD Asian Film Fest. | \$330,943.00 | 45 | \$400,630.00 | 55 | \$697,442.00 | \$35,473.00 |
| San Diego Black Film Festival | Exempt Status Revoked | | | | | |
| San Diego Christian Film Festival | Not available from Guidestar | | | | | |
| San Diego Jewish Film Festival* | \$84,315.00 | | | | \$328,955.00 | |
| *Program of SD Center for Jewish Culture | | | | | | |
| Average - Earned to Contributed Income | | 38% | | 62% | | |

As with all of our sample groups, the potential Luce users follow a similar pattern of operational financing with dance companies requiring nearly 50% of their annual operating revenues from contributed income and the film presenters currently relying on an aggregate average of 62% of their annual revenues from contributions. This comports with the financing pattern of the vast majority of the non-profit arts organizations included in our research and our experience over time.

Given the relative short annual performance and presenting schedules of the potential Luce user group, coupled with the need by all for ongoing support from contributors, it is clear that the group, as currently defined, is not in a position to provide NTCF with the necessary revenues to meet the goal of a self-sustaining operating model. Even were those organizations able to fill substantially more rental dates over time or be augmented by one or more additional uses for that purpose, research into similar models and long-term practice by performing arts centers, film centers or mixed-use facilities overwhelmingly indicates that, in order to achieve a self-sufficient, sustainable business model, Luce would still require substantial annual subsidies from contributed income or an alternative funding source.

Summary and Recommendations

Based upon our research, user surveys, and community input, the initial development strategy for Luce Auditorium to be repurposed as a Film/Dance Center does not currently meet the feasibility requirements for a financially self-sustainable business model.

With the proposed tenants for Luce Auditorium all following a similar financing pattern to other sample group organizations, which includes substantial reliance upon annual contributed income, the greatest challenge to developing a sustainable business model is two-fold:

1. The current aggregate rental days of the six potential tenant organizations are approximately 180 days per annum. Although this number might increase incrementally over time, there is no indication that members of the user group would be in a position to rent the facility for enough days during the balance of the year to provide an appropriate level of annual earned revenue to approximate or equal the levels of earned revenue required of performing arts facilities of similar scope and purpose.
2. Even if members of the proposed tenant group significantly increased their utilization or additional tenants were recruited to increase the number of annual rental days to a substantially higher level of daily occupancy, our research into industry business models and practices clearly indicates that there would remain the need for substantial annual subsidies from contributed income or another consistent revenue stream to support annual operations at a break-even level or better.

For those reasons, among others, it is our conclusion that the envisioned business model to repurpose Luce Auditorium as a dance/film center is not currently feasible given identified available resources and the extant pool of interested and qualified user groups. We have a very high level of certainty that given these current findings, continuing to develop a business model within the same scope and criteria for self-sustainability will not yield a positive outcome and therefore, is not in NTCF's best interests to move the study process forward without consideration of alternative approaches.

At this juncture we believe the best options to creating a long-term sustainable use for Luce Auditorium are as follows:

1. Solicit proposals from single users (nonprofit or commercial) to undertake full operational and financial responsibility for the operation of Luce on a long-term basis.
2. NTCF might then look to renovate another facility on the Liberty Station campus as a smaller, less expensive alternative venue(s) that could accommodate the dance companies' and/or film presenters' needs.
3. Provide the user group or some other coalition of nonprofit users with the opportunity to take over management of the facility, absolving NTCF of operational and financial liability and indemnifying the Foundation in that regard.
4. Seek-out a major donor(s) to endow the operation of the Luce Auditorium as a dance/film center or for such other purpose as NTCF deems appropriate and engage a qualified third party to recruit qualified tenants and manage the property on NTCF's behalf.