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Item No. 11.2.1
Halifax Regional Council
June 29, 2021

TO: Mayor Savage and Members of Halifax Regional Council

SUBMITTED BY: ORIGINAL SIGNED

Councillor Paul Russell, Chair, Audit and Finance Standing Committee

DATE: June 17, 2021

SUBJECT: Funding Request – Neptune Theatre

ORIGIN

June 16, 2021 meeting of the Audit and Finance Standing Committee, Item 12.2.1

LEGISLATIVE AUTHORITY

Halifax Regional Municipality Charter

Section 7A

The purposes of the Municipality are to

- (a) provide good government;
- (b) provide services, facilities and other things that, in the opinion of the Council, are necessary or desirable for all or part of the Municipality; and
- (c) develop and maintain safe and viable communities

Section 79A

(1) Subject to subsections (2) to (4), the Municipality may only spend money for municipal purposes if

- (a) the expenditure is included in the Municipality's operating budget or capital budget or is otherwise authorized by the Municipality
- (b) the expenditure is in respect of an emergency under the Emergency Management Act; or
- (c) the expenditure is legally required to be paid.

Administrative Order One, *Procedures of Council Administrative Order*, Schedule 2, Audit and Finance Standing Committee Terms of Reference

Section 8

The Audit and Finance Standing Committee shall review and make recommendations on proposals coming to the Council outside of the annual budget or tender process including:

- (g) the creation or modification of reserves and withdrawals not approved in the approved budget.

RECOMMENDATION ON PAGE 2

RECOMMENDATION

It is recommended that Halifax Regional Council authorize the Chief Administrative Officer to execute a contribution agreement with Neptune Theatre for a contribution of up to \$100,000, subject to Neptune Theatre providing certain informational requirements as set forth in the May 5, 2021 staff report.

BACKGROUND

A staff recommendation report dated May 5, 2021 pertaining to funding support for Neptune Theatre was before the Audit and Finance Standing Committee for consideration at its June 16, 2021 meeting.

For further information, please refer to the attached staff recommendation report dated May 5, 2021 (Attachment 1).

DISCUSSION

The Audit and Finance Standing Committee considered the request and approved the recommendation as outlined in this report.

FINANCIAL IMPLICATIONS

Financial implications are outlined in the attached May 5, 2021 staff report.

RISK CONSIDERATION

Risk considerations are outlined in the attached May 5, 2021 staff report.

COMMUNITY ENGAGEMENT

The agenda, reports, and minutes of the Audit and Finance Standing Committee are posted on Halifax.ca.

ENVIRONMENTAL IMPLICATIONS

Environmental implications are outlined in the attached May 5, 2021 staff report.

ALTERNATIVES

Alternatives are outlined in the attached May 5, 2021 staff report.

ATTACHMENTS

Attachment 1: Staff recommendation report dated May 5, 2021.

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Annie Sherry, Legislative Assistant, Office of the Municipal Clerk, 902.943.8741.

RECOMMENDATION

It is recommended that the Audit and Finance Standing Committee recommend that Halifax Regional Council authorize the Chief Administrative Officer to execute a contribution agreement with Neptune Theatre for a contribution of up to \$100,000, subject to Neptune Theatre providing certain informational requirements as set forth in this report.

BACKGROUND

This report originates with correspondence dated November 10th, 2020 from the General Manager of Neptune Theatre (Attachment 1) formally requesting the opportunity to present to the Community Planning and Economic Development (CPED) Standing Committee. The purpose of the presentation, which was held on January 28, 2021, was to advise the Committee of the operational challenges and financial hardships experienced by Neptune Theatre as a direct result of COVID-19 impacts and corresponding Public Health restrictions. The presentation also delivered a formal request of the Municipality to provide \$100,000 in one-time emergency support from the 2021-2022 municipal budget to assist in Neptune Theatre's efforts to safely reopen.

Consistent with the precedent established by similar funding requests, the presentation from Neptune Theatre was forwarded to the Audit and Finance Standing Committee (Attachment 2) and delivered to that body on February 11, 2021.

DISCUSSION

Neptune Theatre Organizational History and Status

Neptune Theatre was established in 1963 with a mandate to develop, produce and present professional theatre in Halifax. It is the largest year-round professional theatre in Atlantic Canada. The theatre facility is located at 1593 Argyle Street and consists of two performance stages: Fountain Hall (450 seat capacity) and Scotiabank Stage (192 seat capacity).

The organization's application to the municipality's 2020-2021 Grants to Professional Arts Organizations program reflected a programming calendar of more than four hundred performances the previous operating year, attracting over 105,000 patrons to its downtown location.

In addition to its staged productions, Neptune Theatre also operates a theatre school for children, youth and adults (1,300 participants in 2019-2020), theatre camps, and an annual school tour which travels to between twenty and thirty HRM schools each spring (approximately 10,000 student engagements).

Current Municipal Support for Neptune Theatre

The *Grants to Professional Arts Organization Program* was first approved by Regional Council in 2014 under Administrative Order 2014-007-ADM. The program provides financial support to registered non-profit professional arts organizations located within the geographic boundary of the Municipality to assist in the production, presentation and support of professional arts practices. The program is divided into two funding categories: Operating Assistance, which supports regular operations, and Project Assistance, which allocates funding to discrete, non-recurrent arts initiatives. Funding applications are made annually, meaning there is no multi-year funding under this program.

Neptune Theatre is classified as an *Anchor Organization* under the parameters of the program, which refers to those organizations having operating budgets in excess of \$3 million annually. Under AO 2014-007-ADM, these organizations are eligible to be awarded a maximum of \$100,000 in operating assistance.

The overall budget for the program in 2020-2021 was \$435,000 of which Neptune Theatre was awarded \$35,000 through the Operating Assistance program stream. Neptune Theatre has applied to the 2021-2022 program and while award amounts are generally consistent year-over-year, the structure of the program is such that applicants are evaluated each intake cycle. This means that the financial award levels of previous years are not an indication of the same level of funding in any successive application year.

The Grants to Professional Arts Organizations Program - Operating Assistance category funds the general and ongoing, *regular* operating of municipally-based arts organizations. It does not provide needs-based funding on a special request basis. However, all changes to the operational climate in which an organization operates, whether positive or negative, are factors that be would be considered during any annual assessment process.

Neptune Theatre has also qualified for 100% tax exemption under the Tax Relief for Non-Profit Organizations Program since 2001. This ongoing subsidy carries an approximate value of \$482,000.

Previous Municipal Support for Neptune Theatre

In addition to the current and ongoing funding provided to local professional arts organizations through the Grants to Professional Arts Organizations Program, there is a history of the Municipality having provided support for Neptune Theatre in the following ways:

- 1993 donation of the former civic building to Neptune Theatre Foundation as part of the theatre expansion;
- \$20,000 awarded annually from 2007-2013 from the Community Grants Program;
- \$10,000 toward roof maintenance in 2014 from the Community Grants Program;
- Operating Assistance, Grants to Professional Arts Organizations Program
 - \$40,000 in 2014/2015, 2015/2016 and 2016/2017;
 - \$35,000 in 2017/2018;
 - \$25,000 in 2018/2019;
 - \$35,000 in 2019/2020;
- \$50,000 in one-time capital funding toward facility improvements in 2016.

Current Operating Climate Under COVID-19 Public Health Restrictions

In response to growing numbers of COVID-19 infections, the Province of Nova Scotia declared a provincial state of emergency on March 22, 2020 prohibiting social gatherings of more than 5 people. Neptune Theatre, as well as all other performing arts and culture venues in the province, have been unable to host live performances since that date. Neptune Theatre hosted a two-week film screening in September but has otherwise been closed to the viewing public. The Neptune Theatre School has also been operating over summer and the fall months in keeping with public health protocols and social gathering limitations, and Neptune Theatre has also generated some additional revenue through rental of its space to television and film companies over the last 6 months.

Statistics posted by the Canadian Association for the Performing Arts (CAPACOA) as of January 2021 show that performing arts organizations that operate brick-and-mortar facilities have been hard hit by COVID-19 impacts:

- Arts organizations that operate a facility are disproportionately impacted by the loss of revenue from ticket sales and rentals (45%) compared with organizations without a facility (24%). Only 13% of organizations with a facility believe they can survive more than 9 months in “maintenance” mode, compared to 38% for organizations without a facility. *Source: Greater Vancouver Professional Theatre Alliance, COVID-19 Impact Survey: British Columbia Arts and Culture Sector, June 2020. Data collected between March 12 and May 20, 2020; n=866.*

Neptune Theatre’s earned revenue from 2020 as submitted as part of its 2021-2022 request to the Grants to Professional Arts Organizations program shows earned revenue as typically being 77.5% of the organization’s annual revenue. This includes box office sales, workshops, theatre school revenues as well

as bookings and all other revenues generated by the regular operating model of the organization. It is notable that no other organization submitting to the Municipality's grant program during the same application period reflected an earned revenue of greater than 42% of their annual revenue.

The loss of earned revenue is not the only measure of the negative impacts of COVID-19 and associated public health restrictions on the cultural sector (declines in fundraising and corporate sponsorship would be other indicators). However, it is significant that Neptune Theatre's letter to the Community Planning and Economic Development Standing Committee reflects a 93% revenue loss over the past fiscal year. The letter also states that subscription sales for the forthcoming season are down 70% from the previous year, indicating that earned revenue streams in particular will be slow to recover in the first phases of the reopening process.

Changing social gathering limits under COVID-19 public health guidelines continue to cause planning and programming uncertainty for Neptune Theatre and other arts organizations. On February 26, the Province of Nova Scotia re-introduced public health protocols prohibiting live performance. The Province had only recently eased this restriction on February 5th, allowing a maximum of 100 audience members (or 50% venue capacity) for arts and culture events. The Province lifted these restrictions again on March 4th, returning them to allow a maximum of 100 audience members, before reintroducing restrictions on April 23rd.

Funding Precedence

The Municipality provides ongoing operating support to not-for-profit (NFP) organizations through the Grants to Professional Arts Organizations Program as well as the Community Museum Assistance Program. There are also examples of the Municipality providing ongoing financial support (both operating assistance as well as ongoing contributions toward capital upgrades and deferred maintenance costs) to NFPs outside of existing programs.

A year-long shutdown in the face of a global pandemic is an unprecedented scenario and as such there are few (if any) examples where the Municipality has been asked to provide emergency assistance to address operational challenges of this magnitude for an organization as established as Neptune Theatre. As the pandemic continues, there is risk that the Municipality will be asked to provide support to NFP organizations to support their operations. However, there is some precedence for providing one-time funds to address situational hardships faced by NFP arts organizations, including a one-time \$50,000 grant to Symphony Nova Scotia in 1995 and a \$45,000 grant to the Khyber Art Society over three years starting in 2014.

Neptune Theatre's Financial Position

Organizations making application to the Grants to Professional Arts Organizations Program are required to submit copies of their most recent audited financial information for assessment under that program. Neptune Theatre submitted audited financial information and budgetary projections in advance of the March 26 submission deadline for the 2021-22 program.

Neptune Theatre's submitted financial information reflects a very challenging fiscal outlook both for 2021-2022 and beyond. Neptune Theatre is projecting an annual deficit of \$955,574 and an accumulated deficit of almost \$2M at the end of fiscal 2020-2021. In addition, the submitted budget projects that deficit will climb to almost \$3.2M by the end of fiscal 2021-2022. The basis for the deficit is due in part to debt servicing related to the 2017 renovation, but also to current and projected loss of revenue due to COVID-19 restrictions (estimated \$1.4 in the final quarter of 2020-2021).

Neptune Theatre does project a slight reduction in the accumulated deficit in 2022-2023 on the basis of a much greater revenue projection under a presumed return to normal (pre-COVID) operating conditions. On balance, however, the financial outlook for Neptune Theatre is very concerning.

Recommendation

Based on their committee presentations and on a general understanding of the current climate for performing arts organizations under existing public health restrictions, the stated financial and operational challenges being experienced by Neptune Theatre are significant.

There is justifiable concern that to provide emergency COVID-19 relief to one arts organization might expose the Municipality to similar requests from other organizations. Both the provincial and the federal governments have created emergency relief programs for arts and cultural organizations who continue to experience financial hardship during this period of shutdown. As such, those levels of government are seen as the appropriate funders for these types of requests.

Neptune Theatre is unique, however, among the arts organizations in Halifax. Symphony Nova Scotia and Neptune Theatre are the two qualifying 'anchor' organizations under the Grants to Professional Arts Organizations Program, and Neptune Theatre is the only organization that currently owns and operates a major venue in downtown Halifax. In addition to the local impact of audience attendance at performances, school shows and workshops, Neptune Theatre also employs 22 full-time and 140 seasonal/part-time employees, engaging between 260-300 individual arts professionals, 80% of whom are drawn from the regional theatre community.

Based upon Neptune Theatre's importance to the arts sector as well as to the health and vibrancy of downtown, and recognizing that Neptune Theatre's bricks-and-mortar carrying costs and heavily-earned-revenue-dependent operating model are both unique to arts organizations operating locally, it is recommended that HRM provide a one-time grant in the amount of \$100,000 to assist in the Theatre's reopening efforts.

The Municipality's standard contribution agreement will be used to govern the contribution to Neptune Theatre. This agreement provides for various conditions and requirements to be met by the recipient of the funding prior to the Municipality releasing portions of the contribution amount. In this case, in light of the fact that emergency programs have been created by both provincial and federal governments, the contribution agreement will require Neptune Theatre to submit:

- (a) a summary of their current reopening strategy that includes contingency-based scenario planning to account for the uncertain timeline for reopening and potential volatility of future recovery phases;
- (b) an organizational debt recovery strategy, as further described below; and,
- (c) a list of other funding sources, confirmed or pending, directed to reopening efforts as further described below.

Debt Recovery Strategy

The short term fiscal outlook for Neptune Theatre is poor, as is its current financial position. The carrying costs of the organization- the high operating costs of its facility, administrative costs as well as its current debt servicing related to the 2017 renovation, have created considerable challenges in navigating the new and unanticipated challenges posed by the COVID-19 public health crisis and response. Review of available financial information suggests that Neptune's current position is unsustainable, and while the compounding challenges caused by COVID-19 are certainly understandable, the Municipality nevertheless requires assurance in contributing to Neptune Theatre's recovery that the organization is and will continue to be viable. It is therefore recommended that Neptune Theatre provide a detailed debt recovery strategy for review and approval prior to the release of emergency funding.

Other Funding Sources

The presentation from Neptune Theatre administration at the Audit and Finance Committee indicates that they have received \$30,000 from the Province of Nova Scotia to support digital content offerings as well as an additional \$75,000 toward emergency COVID-19 relief in the form of ongoing operational support.

Federally, Neptune has indicated that they have made a loan application to the Highly Affected Sectors Credit Availability Program (HASCAP) through Scotiabank and is awaiting confirmation of maximum amount available. It was indicated at the Audit and Finance Standing Committee presentation that the request made of federal funding programs would be in excess of what was being requested of the Municipality. Neptune has been deemed ineligible for both the Canada Business Account and the Regional Relief and Recovery Program. Neptune Theatre has received a total of \$623,373 from the Canada Employee Wage Subsidy program through February 2021.

At present Neptune cannot access restricted funds contributed to its endowment fund (the Trident Fund) through the federal government's Endowment Incentives Component of the Canada Cultural Investment Fund (CCIF). Neptune's endowment fund currently has \$2,681,386 in capital which is to be held in perpetuity. The total market value of the fund as of January 31, 2021 is \$2,819,474. The Neptune Theatre Board did authorize a draw of \$100,000 in income available from the endowment fund in late February.

Neptune Theatre has indicated that they continue to take steps to access private sector revenue through fundraising efforts while they remain closed. These include a telethon, a 50/50 draw and an online fundraiser auction which cumulatively have netted approximately \$63,000. In February Neptune announced a limited-seating concert series to run Saturdays from March 6- April 3. The series had been conceived as a means of generating funds to ensure a 2021/2022 programming season but was postponed due to public health restrictions prohibiting live performance issued on February 26.

Staff recommend that Neptune Theatre submit confirmation of funding received to-date to support their reopening plans. Staff also recommends Neptune Theatre submit an accounting of pending funding applications made to other levels of government and Neptune Theatre's fundraising plans to access donations, sponsorship funds and private sector support.

FINANCIAL IMPLICATIONS

Funding is available in the General Contingency Reserve Q421 for the one-time contribution of \$100,000.

Budget Summary: General Contingency Reserve Q421

Projected Net Available Balance, April 1/21	\$ 18,688,610
Withdrawal as per recommendation #1	<u>\$ 100,000</u>
Net Available Balance	\$ 18,588,610

Risk Reserve – General Contingency Reserve Q421 is to receive the annual operating surplus of the Municipality as prescribed by the Provincial Financial Accounting and Reporting Manual, and can be used to fund operating costs, offset deficits, or fund new operating and/or capital expenditures. This is an unbudgeted withdrawal from the reserve.

RISK CONSIDERATION

The assessed risk to the Municipality is medium and primarily reputational and potential for additional asks for funding support from other organizations. However, for the reasons outlined in the report, there are unique circumstances associated with this request which can reduce the precedent. Any risks associated with provision of grant funding are mitigated through the requirement of a contribution agreement.

COMMUNITY ENGAGEMENT

Not applicable in relation to unsolicited funding request.

ENVIRONMENTAL IMPLICATIONS

No environmental implications were identified.

ALTERNATIVES

Audit and Finance Standing Committee may choose to recommend that Halifax Regional Council :

1. Re-allocate a portion of the approved \$125,000 increase to the Grants to Professional Arts Organizations Program as contained in the 2021-2022 Parks and Recreation budget toward a one-time contribution to Neptune Theatre. The balance of the proposed increase would be included in the 2021/22 program budget.
2. Decline the request for emergency funding outside an established municipal grant program and direct the CAO to consider the request as part of the 2021-2022 Grants to Professional Arts Organizations Program.

ATTACHMENTS

Attachment 1: November 10, 2020 Correspondence from the General Manager of Neptune Theatre
Attachment 2: February 11, 2021 Presentation to Audit and Finance Standing Committee

A copy of this report can be obtained online at halifax.ca or by contacting the Office of the Municipal Clerk at 902.490.4210.

Report Prepared by: Jamie MacLellan, Community Developer, Culture and Events, 902.456.8384



HALIFAX REGIONAL
MUNICIPALITY

NOV 11 2020

MUNICIPAL CLERK

Municipal Clerks Office

Date Distributed: January 11, 2021
CPED, Solicitor
Other: N/A

Tuesday, November 10, 2020

Re: Formal Request to Present to the Community Planning and Economic Development Standing Committee

COVID-19 has had an immediate and unprecedented impact on Neptune Theatre. The 58 year old theatre is looking to the future and seeking support to manage the protracted shutdown of its operations. Neptune is taking steps to mitigate the long term impact of the closure on artists, employees and patrons; developing contingency plans and working with private sector partners to defer expenses, drive revenue and preserve capital in order to reopen.

The theatre would like to formally request support from the Halifax Regional Municipality to navigate the unprecedented challenges caused by COVID-19.

Neptune management met with Mayor Savage and Chief of Staff Shaune MacKinlay on November 3, 2020 to outline the issues facing the theatre. Management was advised to formalize its request by making a presentation to the **Community Planning and Economic Development Standing Committee**. Neptune is respectfully requesting an opportunity to present to CPED at the earliest possible opportunity.

BACKGROUND:

- Neptune responded immediately to provincial recommendations on March 13, 2020 to reduce public gatherings to curb the spread of the coronavirus (COVID-19).
- The theatre cancelled productions, postponed its season-closing musical **Billy Elliot** and its annual fund raiser. Neptune suspended its school tour across Halifax and the province and subsequently postponed the balance of the 2020 2021 season.
- Ticket sales and subscription renewals halted immediately. Revenues are down **94 per cent**, year on year.
- The theatre has found it difficult to manage cash flow due to unexpected costs from the cancellation and postponement of productions and the loss of revenue. The theatre paid more than **\$145,000** in cancellation and postponement fees to artists alone.
- Outstanding tickets for cancelled and postponed productions exceeds **\$650,000**. The theatre has encouraged patrons to retain approximately **\$400,000** in tickets for **Billy Elliot**. Neptune hopes to mount the production in 2021.
- Each spring Neptune announces its next season and opens its season-ending musical, which typically generates 25 to 30 per cent of the theatre's annual earned revenue from ticket sales.

Between March 13 and May 31, 2019 Neptune processed more than **\$1.3 million** in ticket sales, subscription renewals and donations.

- Subscription sales are down **70%** from last year. Revenue from subscriptions are currently **\$183,000**, compared to **\$604,000** in 2019.
- Neptune welcomed a record **105,000** patrons, presented over **400** performances, engaged more than **320** artists, directors, designers and theatre educators and posted a second consecutive surplus in 2019.

Contact: **Lisa Bugden**
General Manager Neptune Theatre



JEREMY WEBB artistic director

Presentation
to the
Audit and Finance
Standing Committee

THURSDAY, FEBRUARY 11, 2021

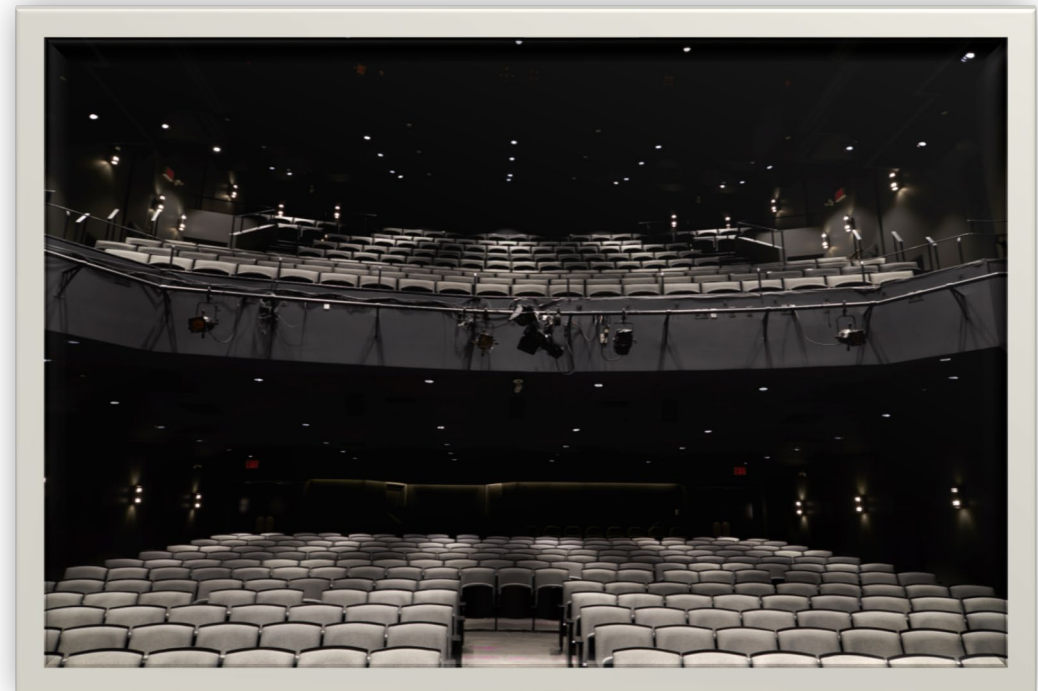
Neptune's Mission & Vision



Evolving the Business Model

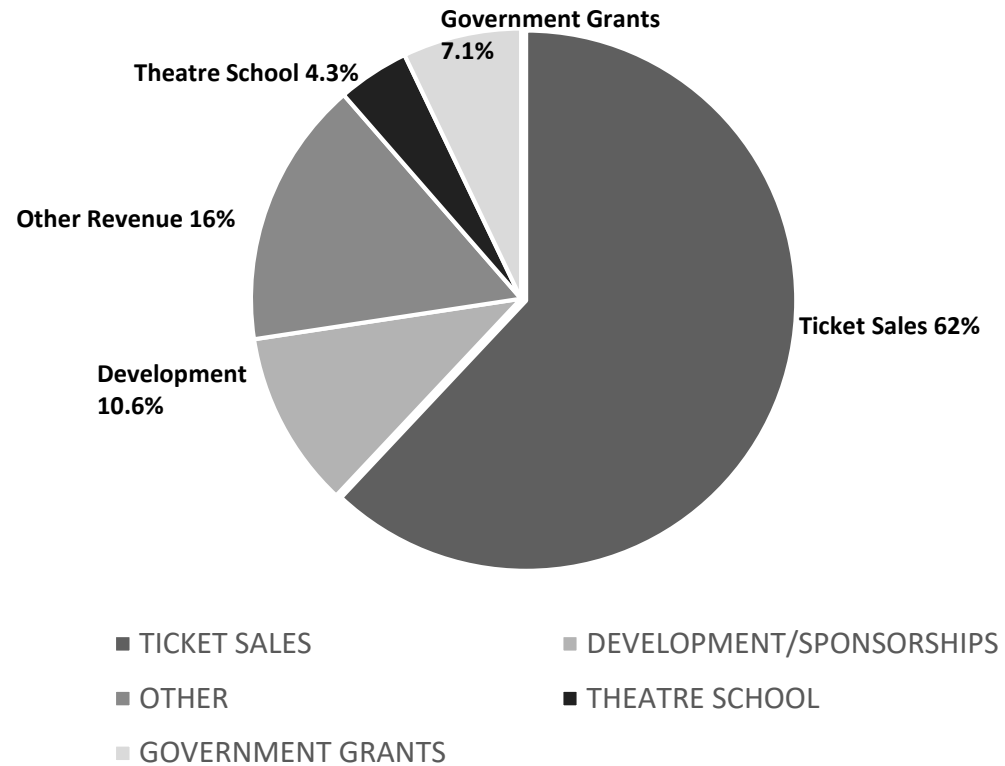


Current Financial Position

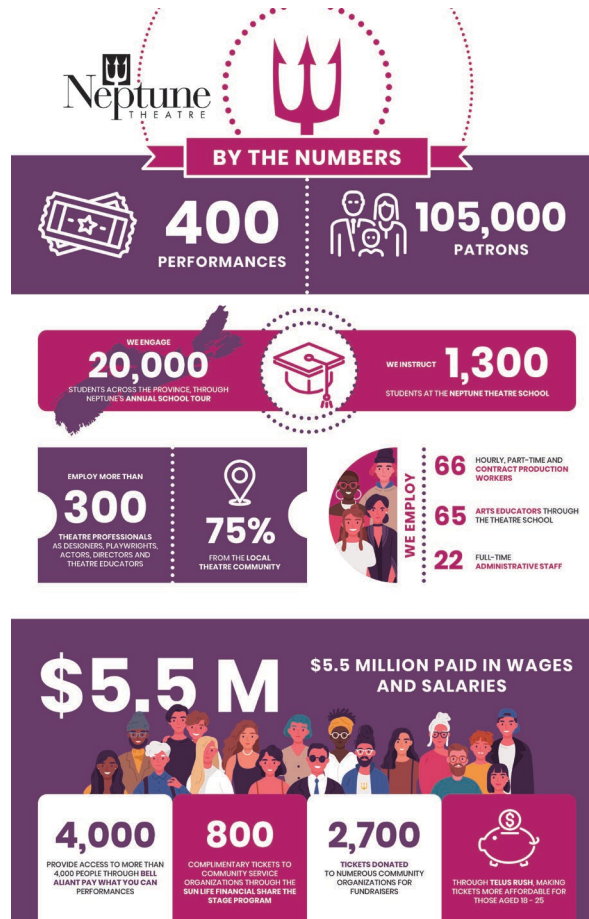


Government & Funding Partners

REVENUE 2019



Neptune by the Numbers



Maintaining Connections



Our Request

- ▶ We are requesting one-time emergency relief of **\$100,000** to help Neptune Theatre reopen and continue to enrich the cultural, social and economic well-being of our community.

Questions