Get Smart, Hold Tight

Theatres are deftly negotiating the bumps and curves of an economy in flux. *Theatre Facts 2011* tracks their progress.

From left, Richard Klautsch, David Anthony Smith and Joe Conley Golden in *The 39 Steps* at Idaho Shakespeare Festival in 2011.

BY SARAH HART

THEATRE MANAGERS HAVE ALWAYS BEEN creatures of many talents—balancing a budget here, chatting up a playwright there, painting sets at midnight on occasion—but more than ever this resourceful bunch is stretching its expertise, maximizing resources and employing sheer force of will to keep their theatres strong.

Hard work and stamina were the markers of fiscal year 2011, the second year of recovery after the crisis years of '08 and '09, according to the statistical analysis in *Theatre Facts 2011*, TCG's annual report on the fiscal state of the field, written by Zannie Giraud Voss and Glenn B. Voss with Christopher Shuff and Ilana B. Rose (The full report, as well those from past years, can be found online at *www.tcg.org/tools/facts*.)

As *Theatre Facts*'s zoomed-out lens pans the not-for-profit theatrical world, it reveals some 34 million audience members attending 177,000 performances generated by 130,000 professionals. This economic engine begins with the $1.94 billion in payments for goods and services, as well as hired personnel, but extends far beyond that, as the act of theatregoing often leads to other economic-enriching activities: dining out, parking, hiring child care, etc. This broad constellation of theatres came through the 2010–11 season in the black, with a positive change in unrestricted net assets (or CUNA—a useful measure for the financial health of an organization). Statistics for this Universe section of *Theatre Facts* are extrapolated from data provided by the 179 member theatres that filled out TCG's 2011 Fiscal Survey, plus the 1,697 additional theatres that completed IRS Form 990.

Theatre Facts divides its more in-depth analysis between the Profiled Theatres, those 179 theatres that completed the survey, and the Trend Theatres, a group of 113 that has filled out the Fiscal Survey in each of the past five years. Profiled Theatres provide current-year numbers broken down by budget group, as well as an overall analysis. Trend Theatres offer a comparison look over the past five years (with a smaller subset of theatres also providing a 10-year view).

Earned income financed 59.1 percent of expenses in Profiled Theatres, with 48.6 percent covered by contributed income (for a total of 107.7 percent—leading to that positive CUNA). Larger theatres tended to cover a higher proportion of expenses with earned income than contributed (a 66.3 to 43.2 ratio in the highest budget group of Profiled Theatres), while smaller theatres relied more on contributed income (40.2 to 66.2 in the smallest budget group). The Trend Theatre view shows a second year of earned income growth after dipping in '08 and '09. Earned income was at its highest dollar level of the past five years, though an adjustment for inflation takes it below its '07 level by 3.9 percent. Ticket income accounted for 69 percent of all earned income (covering 41.3 percent of expenses), with additional revenue coming from presenting fees, educational/outreach programs, rentals, concessions, co-production income, endowment earnings, capital gains and interest/dividends.

SINGLE-TICKET INCOME WAS THE HIGHEST INCOME provider overall (earned or contributed) in each of the past five years, and was at a five-year high in '11, with a 13.3-percent increase (with the inflation adjustment) over '07. Subscriptions—the second-biggest income generator—remained relatively level from '10 to '11, although the line dropped 17.6 percent overall during the five-year period. Booked-in events, though not a large piece of theatres' income pie, were nevertheless noteworthy for growing 39.1 percent over the past five years.

Theatre leaders continue to pinpoint ideal programming, pricing and marketing strategies to appeal to subscribers both new and old, as well as to capitalize on the energy of single-ticket buyers. "Single-ticket sales have been strong in the past two years, but I'm seeing changed behavior from the audience," reports Susan Medak, managing director of Berkeley Repertory Theatre in California. "People aren't taking as much risk. There is much, much stronger attendance for work with name recognition. Work that is hard to describe is very hard to sell right now. One reason that single tickets are so high is we've learned to be more aggressive about capitalizing on successful shows. We build in extensions for any shows we think may be popular. We have to take advantage of the ones that will sell." (For more on audiences' appetite for something familiar, see box, page 37.)

One or two hit shows can certainly make up income gaps where other shows, or overall subscription income, may fall short—a situation many theatre managers interviewed here noted gratefully had occurred in the '10 or '11 seasons. But stacking the deck to create the next hit can lead to a commercial business model that doesn't necessarily mesh with not-for-profit missions. Another option is to change pricing strategies for both subscribers and single-ticket buyers—though this can also give theatre leaders pause. Offering cheaper tickets could result in all higher-paying consumers switching to the lower-priced offerings, rather than enticing non-theatregoers into the fold. Hiking prices could exclude the community and reduce attendance further. Overall, prices for subscription and single tickets rose above inflation by 6 and 7 percent, respectively, for the past five years. The gains in single-ticket income were driven mostly by higher prices, rather than increased audience numbers. Subscription prices were slightly higher, and overall the discounts offered in '11 were lower than in the previous three years. Anecdotal reports indeed suggest that some movement—either up or down—on the pricing front can yield healthy results.

"Going into '10 and '11, we didn't want to see our attendance go down for a fourth straight year," relates Mark Hofflund, managing director of Idaho Shakespeare Festival. "We offered a low-price student subscription package. Ticket sales went through the roof, and we panicked. We thought traditional subscribers were finding the discount and switching. But our subscribers increased more than 30 percent in 2011. Our core audiences were retaining their subscriptions. The new package really did bring in a lot of growth."


T. CHARLES ERICKSON

Kimiye Corwin and Brian Tee in *Snow Falling on Cedars* at Hartford Stage Company in 2011.

Likewise, the leaders of Perseverance Theatre of Juneau, Alaska, saw an opportunity to introduce demand-pricing based on attendance disparity during the week. "We needed to be making more off tickets, but, at the same time, didn't want to price out the community," confirms producing director Ruth Kostik. "By lowering the price on certain nights, it helped to drive attendance to those nights, while keeping them accessible, while making more money off the more highly attended nights." Now, reports Art Rotch, executive artistic director, Friday sits at the middle of the structure; Saturday and Thursday are the highest attended nights, with Saturday selling at the highest price, and Thursday at the lowest.

When managing director Dean Gladden arrived at the Alley Theatre in Houston in '07, he found three subscription sections of the house, with the smallest seating section priced the highest and the largest priced the lowest. The theatre tweaked the sections so that eventually the largest section was the most expensive, on down. "We've been on an uptick [in subscription income] consistently since then, finally flattening out in 2010–11. So we're going in a different direction than the national trend," says Gladden.

"Subscription income is only telling part of the story," suspects Medak. "The actual number of people subscribing is going way up, even though the dollar increases are not as dramatic." In fact, subscriptions were indeed at their highest renewal point of the past 10 years in '11, at 75 percent, after a low of 70 percent in '05. And while the

Ruined at Berkeley Repertory Theatre in 2011.

KEVIN BERNE

average number of individual subscribers at Trend Theatres fell by 2 percent over the past year (17 percent over the past five years), those subscribers actually purchased slightly more tickets than in '10.

"[At Berkeley Rep] we've seen subscriptions going up over three years," says Medak. "We are beginning to see our highest subscription levels coming back into view. There was a period of time that was so far away we couldn't see them, but now the number of people subscribing is beginning to come close to the level before the decline began. Subscriptions have a purpose. It's a concept that is changing, but not in any way dead. We have affirmation of that now." (For more on the changing nature of subscriptions, see "Subscribe to This!" on page 30.)

Regional economics or proclivities can also affect a theatre's overall subscription trend. "Hartford has been very hard hit, with high unemployment, 16 percent," notes Michael Stotts, managing director at Hartford Stage Company in Connecticut. "In general, ticket sales are not rebounding from 2008 in the Hartford area—although, going forward, for next season, we're tracking ahead of our goals for subscriptions."

By contrast, his counterpart in Houston, Gladden, cites his city's relative economic vitality. "Houston was the last major city to enter the recession, and the first to exit. Having lived in Cleveland for 25 years [18 as managing director of the Cleveland Play House], I know what it feels like when you're fighting the economy; all 25 years we were fighting. You have to acknowledge that it's a different situation in Houston. Texas provides 25 to 30 percent of new jobs in America. That's an incredible statistic."

And just good, old-fashioned tradition claims its part in the mix. Criss Henderson, executive director of Chicago Shakespeare Theater, notes that "Chicago and the Midwest have always enjoyed strong subscription commitment, and held onto it."

BEYOND TICKETS, THEATRES' HIGHEST EARNED income lines in '11 were from capital gains and endowment earnings and transfers, which have both regained some footing from the hard-hit '09 fiscal year. Capital gains, in particular, increased 163.3 percent over '10, and 13.9 percent over the five-year period. Endowment earnings and transfers lost a bit of ground from the recovery in '10, and were down 39 percent from '07's peak (which stands as the high over the past 10 years as well), but are still considerably healthier than '09's nadir. Total investment income (also including the smaller interest and dividends line) covered 7.3 percent of theatres' expenses.

Rental income in '11 increased 27.5 percent over the previous year, and 45.7 percent over the past five, suggesting that theatres have capitalized on cutbacks in number of performances by earning on their physical spaces—both for rentals and for an increase in booked-in events. Between 80 and 86 percent of theatres earned rental income each year.

"Our biggest resource is our space itself," declares Rebecca Hopkins, managing director of Florida Studio Theatre in Sarasota. "A dark theatre is a hemorrhage. If we have a hole in the calendar, we bring in something that fits our mission and has the potential to be financially useful. I think as a field we'll see even more of that. From an artistic view, there's just so much interesting work being done, and technology is making it easier to find these shows and make great artistic matches. We have a space, they have a show, let's do it."

"We've been experimenting with off-night programming for some time," reports Freddie Ashley, artistic director of

From top, Joseph Ditmyer, Lisa McMillan, Michael Kevin Baldwin and Juliana Black in *Shear Madness* at Florida Studio Theatre in 2011.

AMY STEINMETZ

Atlanta's Actor's Express, "but now we're doing a lot more straight-up rentals as well as co-producing or splitting the door. We've started relying more on concessions, especially since our liquor license was finalized in '09. Before that, we had maybe 1 percent of our revenue from concessions, and now it's just about 5 percent. Frankly, that's also a benefit of offering rentals and off-night programming—it drives more traffic to the bar." (In fact, concessions took a big jump in '11 across the field, up 18.4 percent from what had been a fairly level trajectory over the previous four years.)

Making use of rentals and booked-in events can also give theatres a bit more time and space to deal with internal working models. That strategy was particularly useful in the '11 season for Perseverance, which is working to expand its presence to Anchorage in addition to Juneau. "During that year, we really scaled back our mainstage producing and filled it with booked-in and co-productions, opportunities that came to us," reports Rotch. "That worked well, and allowed us to get a grip on cash flow, work on long-range planning and reinvent our business model."

Co-production income, along with commercial-partner enhancement dollars, surpassed inflation by 24.8 percent over the past five years, with a particularly big upswing from '10 to '11. Between 18 and 25 Trend Theatres reported co-production income each year, with 11 to 16 reporting enhancement money. Education income remained fairly steady over the past five years, and covered 2.8 percent of expenses in '11, which (not counting the miscellaneous "other" category) was the next-biggest earned income generator after tickets and investments.

"There is strength for us in the diversity of our programmatic services," concludes Chicago Shakespeare's Henderson. "We have a very large education and outreach program and a very large international presenter series. These strands are all significant—not little pieces of the pie. While subscriptions are really important, it's not our sole driving force. That diversity kept us very healthy through this period."

THE VAGARIES OF THE FUNDING WORLD HAVE LEFT their mark on contributed-income blueprints over the past several years. As Michelle Woster, managing director of Minnesota's Ten Thousand Things, puts it, "It's a moving target. Everybody's priorities and commitments have shifted a lot. When I compare financial statements from recent seasons, they don't look anything like in earlier years. We have different revenue sources, and different percentages."

For Ten Thousand Things, a company whose mission is to bring theatre to those with little access to it (in homeless shelters, prisons, low-income communities), a high dependence on contributed income is a given—but shifting the balance within that has become more important. "Our strategic goal is to bring up our percentage of individual donors," says Woster. "When I first started here, corporate and foundation giving together made up 50 percent of our income, but that's changed. Everybody tells you now that individual giving is the best source, the healthiest way."

Indeed, individual donors were the highest source of contributed income in each of the past five years (and the second-highest income source for theatres overall, following ticket sales). Combined with board member donations, these gifts covered 18.1 percent of expenses at Trend Theatres, and

COMEDY TONIGHT

BRING ON THE LOVERS, LIARS AND clowns: *The 39 Steps* was the most-produced play of the 2010–11 season at TCG member theatres—and audiences and theatres alike seemed to have had a specific appetite for the comedic turn.

"We regained three years of audience decline in 2011," notes Mark Hofflund, managing director at Idaho Shakespeare Festival. "We did two physical comedies, *Two Gentlemen of Verona* and *The Taming of the Shrew*. Comedies typically sell well, but we had never done two in one year. We also did a musical. That worked. This summer, we're back to tragedies, but our audience has held—or even surpassed. That's a good sign."

More than swings in the economy, some theatre leaders found that programming had a much greater effect on attendance. "For us," reports Dean Gladden, managing director at Alley Theatre in Houston, "2010 was stronger than '11. In anticipation of the downturn in '10, we did three comedies on the main stage. We also did a show that went to Broadway, which drove single tickets through the roof. In '11, we only did one comedy. Well, common sense will tell you that, of course, your numbers are going to go down. It didn't have anything to do with the economy."

The programming control—yet another dial on a theatre manager's dashboard—is perhaps being fine-tuned even further in season and fiscal planning than before the downturn. "We're looking at programming and really zeroing in on choices that will resonate with the audience more," says Freddie Ashley of Atlanta's Actor's Express. "That doesn't necessarily mean we're doing *War Horse*, but definitely event-driven programming."

In fact, though comedies and musicals are the traditional foolproof sell, some theatres have had luck by simply making the world of the play more familiar to audiences—whether for new work or classics. "The pattern here has been that we were in a 10-year decline in subscriptions, which sort of ended in 2008–09," says Jeffrey Woodward, managing director of Syracuse Stage in New York. Woodward attributes that reversal partly to several new marketing and community engagement strategies, including partnering with a medical school for Sarah Ruhl's *The Clean House* and a local history organization for *The Miracle Worker*, which turned up the detail that Helen Keller's typewriter had been manufactured in Syracuse.

"We've reimagined how this place responds to the community," explains Woodward. "Sometimes Tim [Bond, artistic director] will select a play that he knows will respond to issues in Syracuse. In 2010–11, we did *Radio Golf*, which deals with urban renewal. The neighborhood of Syracuse Stage used to be a middle class African-American community, which was destroyed by a highway that split the neighborhood. We brought in an urban planner, had a lobby display with the history. All these things have started adding up to make the community more aware of what's going on here—and that has expanded our audience." —*Hart*

Regina Marie Williams in *Doubt* by Ten Thousand Things in 2011.

PAULA KELLER

both board and regular individual giving rose considerably between '10 and '11. "Really, individuals in Sarasota almost carry too much of the burden," assesses Hopkins.

Still, even with healthy numbers, some changes can be noted within this area. "We used to take great pride in having a broad base of donors," says Medak. "After '08, we saw a sudden and drastic fall-off in small donors. They were dramatically impacted by the economic environment. We're now finally seeing some of these individual donors return to the fold. But I think the thing that has probably changed for a long time is that a large proportion of our individual gifts will be from, at least, the top 5 percent, if not the top 1 percent." The '11 numbers bear out this hypothesis, as the survey shows fewer individual donors contributing higher average gifts over the past several years. The average non-trustee gift was $530 in '11, as opposed to a range of $460 to $499 between '07 and '10.

As with subscription patterns, regional and cultural specificity can skew individual giving results as well. "Alaska has the third most millionaires per capita, and is 50th in giving," cites Rotch. "No one knows why that is, but we have a lot of moral support in the nonprofit arts field here trying to change that culture. It takes time. They don't know what arts organizations are. That's part of what Alaska is."

Robert Federico, executive director of Repertorio Español in New York City, notes that, "in Repertorio's case—and I think I can generalize about Latino organizations—we have a target audience that doesn't have disposable income." So a necessary heavier reliance on corporate, foundation and government grants directs that organization's energies to areas which, in the past several years, have become harder to predict. Local and state government funding showed considerable swings, largely due to one or two theatres' capital campaigns. From '10 to '11 alone, state funding spiked 242 percent, and city/county funding by 107.8 percent. Together with the significantly smaller federal line, government funding covered 8.7 percent of expenses in '11. Corporate gifts, which covered 3.7 percent of expenses, were up 21.9 percent from '10, but down 20.3 percent over the past five years.

"We had a lot of corporate donations in '08 that evaporated almost overnight, especially the banks and financial institutions," recalls Federico. "We don't see them coming back anytime soon. They've changed the aim of their philanthropy, and much less of it is for small arts organizations. Goldman Sachs is focusing on entrepreneurs, not the arts, and the same with Citibank, Chase, HSBC. That's where we've suffered our biggest setbacks—corporate giving."

A general pessimism for the future of corporate funding was represented across the field of interviewees. "It's too soon to speak to foundation priorities, but it's pretty clear that corporations, even as their bottom lines improve, have embarked on a steady abandonment of culture," surmises Medak. "Though [at Berkeley Rep] we have grown our corporate giving over the past two years, that's been a brutal slog. It feels more and more uncertain in every year."

"There's no growth in corporate funding," concurs Jeffrey Woodward, managing director of Syracuse Stage in upstate New York. "You're lucky to maintain what you got last year. Companies have left town, or elected not to continue supporting the arts, or downsized. There's a big pharmaceutical company [in Syracuse] that now gives nothing to the arts. And that's happening everywhere."

"There are a lot of oil companies up here," reports Perseverance's Kostik. "Everybody was scaling back, and because our primary operations aren't along the pipeline, we were an easy cut for them." Rotch notes that a deal brokered several years ago by the state, in which merging oil companies were required to maintain their levels of giving, ran out, coinciding with the onset of the recession, further compounding the volatility in corporate funding options.

Woster cites Minnesota's 2008 Legacy Amendment, allotting a percentage of sales tax to support the arts and the environment, as having some backlash across other funding areas. "It's a huge balloon," she confirms. "But I've spoken to two executives involved in philanthropic decision-making, on the record, who said that the Legacy money allows their corporations to allocate money in different ways."

Though fewer corporations donated in '11 (with an average of 26 per theatre) than in the peak year of '07 (34), the size of the gift itself averaged $10,800, which was the second-highest of the five-year period. A relatively high 10 percent of corporate gifts were specifically for capital campaigns.

"In the past, every time we've been hit in one sector, it was made up by another sector," says Federico. "We're seeing hardship in government and corporate giving, but nothing else in 2011 has grown to offset it. Foundations are supportive. They are taking responsibility to help organizations in trouble—but every organization is in trouble."

Foundations have, in each of the past five years, provided the second-highest contributed income line for theatres, following individual givers (but before board giving). In '11, foundation giving increased 21.6 percent in one year, though this area trailed inflation by 7.2 percent over the past five years. Recent foundation giving peaked in '09, when the economic crisis prompted a cycle of emergency and stabilizing funds.

"When the economy first crashed, local foundations stepped up with bridge-year grants for general operating support to help theatres stay strong," confirms Hopkins. "The 2011 season was the year they stopped doing that, figuring they had bridged us, we should be back on solid ground. Well, we weren't, quite. Things were tight."

Federico agrees: "There was a lot of emergency aid in '09–10, stretching into '11, but then the chickens came home to roost. People think the economy is growing, but for our target audiences—middle class, Spanish dominant—the economy hasn't shown growth."

And as with corporate philanthropy, a few theatre leaders suspect changing trends in foundation giving may be on the horizon. "We're seeing a change in the internal structure of foundations," says Hopkins. "Instead of fielding traditional grant requests, our local foundations are initiating their own projects. I'm not sure how that's going to shake out."


PETER GOLDBERG

Steve Kidd and Jeanine Kane in *A Doll's House* at Gamm Theatre in 2011.

Truly, while "the new normal" catchphrase has all but lost its meaning from overuse, theatre managers cannot stress enough how the financial universe has changed. "As a young institution, we [at Chicago Shakespeare] understand what it is to be lean," says Henderson. "But what we had never felt before [the downturn] was the fear outside the walls of the theatre, among our board and constituents. It was a profound experience, to sit with our board and funders and experience the sorrow in our city of not feeling able to make those investments and take risks on behalf of the creation of work. From an emotional standpoint, I do feel in 2011 we started to feel people getting their feet under them in this new environment."

"The growing economic disparity in this country has to have an impact on us," Medak avers. "We won't be exempt from that, even with the best of intentions. It's going to require that we all rethink our language, rethink how we make our case, and all be more self-sufficient than we were. That's the unpleasant truth. I'm not saying we shouldn't be trying to raise money, and everything else, but we're not exempt."

AFTER CUTBACKS IN NEARLY EVERY EXPENSE category in '10, '11 showed a resurgence in spending, coming in at the highest dollar level of the past five years, with a 1.8-percent rise above inflation. This expansion, though a good sign for the buoyancy of the field, throws the lackluster growth in earned income—which did not keep pace with inflation—into more worrisome relief.

Payroll, the greatest portion of expenses, was up in '11 from '10 in each of its three categories—artistic, administrative and production—by 6, 5 and 9.2 percent, respectively, with each at their highest dollar level of the past five years, but with artistic payroll narrowly falling behind inflation, by 1.7 percent. Artistic, administrative and production staff costs represented 18.1, 20.6 and 14.4 percent of theatres' overall expenses, respectively, which was a consistent distribution over the past five years.

COME RIGHT IN

SPACE-RELATED ANCILLARY INCOME—booked-in events, rentals, concessions—all rose significantly over the five-year period, but that perk still might not tell the whole story. Theatres that have thrown open their doors to the community have discovered other dividends, such as broader audiences and stronger stakeholders.

"Our overall attendance over the past seven years has grown an average of 17 percent each year," reports Yvonne Seggerman, executive director of the Gamm Theatre in Pawtucket, R.I. "We've grown in the public trust. Our patrons are our donors, and they see the Gamm as more than the place to create art onstage. The theatre is a link to the city's revitalization and contributes to public value."

And while that aspirational notion has rolled off the tongues of many a civic and arts institution leader over time, in Gamm's case, the building itself has kept it close to the pulse of the city. In 2003, Gamm moved from Providence to Pawtucket to the historic-but-underutilized Armory, becoming the cornerstone in an economic revitalization plan for the district.

"We do rent out the theatre," confirms Seggerman, "but we also define that in different ways. The theatre hosts public forums. The mayoral debates happen at our theatre. We're a centerpiece for certain city events that could only happen at the Gamm, because of our beautiful lobby. We're mentioned in all the city's press releases—even a new vegan/vegetarian initiative. You cannot be a partner in the city and *not* do other things than the art."

Those ties to the community at large had a strong effect on Gamm's bottom line for fiscal year '11. The theatre had embarked on a campaign to buy its space (the Gamm had been under contract to manage the building in '09 and '10), and had raised a down payment of $260,000 in restricted gifts. When bank financing didn't come through, the majority of the donors converted their gifts into operating support.

"They said, 'Come back when you're ready in a few years,'" affirms Seggerman. "Our donors were generous in converting those gifts—and they did it because they weren't strangers to us." —*Hart*

T. CHARLES ERICKSON

From left, Linda Marie Larson, Carol Halstead, Alma Cuervo and Gisela Chipe in *The Clean House* at Syracuse Stage in 2011.

Smaller theatres tended to spend a greater proportion of their budget on artistic staff, whereas larger theatres spent more on administration staff (though the gap between the two payroll areas in larger theatres was less than in smaller theatres). Roughly 55.7 percent of Profiled Theatres' expenses go toward compensation, including salaries, benefits and royalty payments to playwrights.

Increases in payroll costs could suggest that theatres as a whole are recovering and replacing staff positions that may have gone unfilled or been eliminated in the worst of the downturn; another analysis is that theatres have been operating with a skeleton staff for as long as possible, and simply cannot do so any longer. "The energies of moving through 2008–09 and '10—it was hard on everyone," agrees Henderson. "When you're short-staffed and overworked and the tone is not all that you want it to be, it does take a toll. We wanted to respond by bringing in a few key people. We're not suddenly swarming with people now. It's always about key people in key roles, moving the organization to a healthier place."

While both development/fundraising and marketing costs (including concessions and customer service) trailed inflation over the past five years more than any other expense area, both saw gains in '11, by 8.8 and 5.5 percent, respectively. "While technology has created new opportunities, it's also created huge needs for marketing and development personnel," notes Medak. "It's placing much more pressure on hiring and about budgeting for new expenses in those areas. The tools available have created a market where people expect personalization, which drives some increases in administrative expenses. We used to be able to simply advertise in the local paper. You can't *not* do that, but somebody's got to be out there tweeting, blogging, creating content. There's an insatiable public need for that kind of engagement. We don't know yet whether in the end it brings warm bodies in to see the performances. But we know we can't afford not to do it."

Over the past five years, theatres have become more efficient in marketing, both with initiatives focusing specifically on single-ticket buyers and those for subscribers bringing in more earned dollars per marketing dollar spent, not including personnel. Development expenses (excluding personnel) also became more cost-effective over the five-year period, while education and outreach income dollars required more money to bring in.

"The hardest strain [in cutting budgets] is on the production staff. That's where we see it the most," says Woodward, and, in fact, the one expense area to not increase in '11 was physical production costs (non-payroll). Many theatres reduced seasons to try to contain spending during the crisis years—the number of productions being one of the only expenses for already slimmed-down theatres that weren't fixed—and adding productions back has been a cautious process. "In 2008 [at Syracuse Stage], we cut everything, which meant reducing the season by one production, eliminating seven or eight positions on staff," describes Woodward. "We did all that the first year, and since then we've been stable, but we haven't added back. We're getting to the place where we can start talking about that again." The total number of performances offered did show measured growth in '11 (2.5 percent over '10) but was still down 6 percent over the past five years.

Zero-sum budgeting for individual productions, rather than letting deficits and surpluses balance out over the season, was also the way of life for some theatres. "We're pretty hawkish now when it comes to keeping shows under expenses," confirms Ashley. "We're like Depression-era housewives." On the other hand, no theatre wants to compromise mission, so expense-cutting in the production department can be a tightrope walk. Particularly for theatres with a commitment to large-cast shows, there are only so many cuts that can be made. "In some ways, we're more like an opera company in the way we produce," affirms Henderson of Chicago Shakespeare. "There are no two-man shows on our stages. We're lucky when we get below a 22-person show."

Co-producing can also help reduce production costs without compromising product. Idaho Shakespeare Festival has been in the unique position to take this collaboration even further. The theatre shares its artistic director, Charles Fee, with Great Lakes Theater Festival, and now, since '10, with Lake Tahoe Shakespeare Festival as well. "We've driven down costs over the past decade through intense collaboration with Great Lakes Theater, which has saved more than $150,000 a year in production expense," notes Hofflund. "Adding Lake Tahoe in 2010 has given us wind in our sails coming out of the recession. We're cutting expenses in ways that are sustainable, more reliably than one co-production model might allow. Collaborating can be about reducing expenses and providing another revenue source. But it also deepens the theatre artistically. If an artist has more time, there's a better product—so you can save costs and have a better product."

Theatres have mastered the lean budget with creative cutting and difficult decisions over the past several years.

Now, sums up Stotts, "It's a revenue problem, not an expense problem. We're all trying to find new strategies. But we've done what we can on the expense side. It's a revenue challenge."

CASH RESERVES—OR LACK THEREOF—WERE STILL a reason for concern in '11. Working capital, the total unrestricted net assets minus fixed assets and unrestricted long-term investments—in other words, the total cash available to meet every day needs—continued to be severely negative, though it showed an improvement over '10. While theatres should determine their own needs based on cash flow, a 25-percent working capital ratio (or three months worth of working capital) is considered a healthy benchmark in the field. Of the Trend Theatres, between 8 and 12 reached that benchmark over the past five years. The working capital ratio averaged negative 26 percent in '11, up from negative 37 percent in '10, but still not up to '08's negative 8 percent (not to mention, of course, the aforementioned positive 25-percent benchmark).

"Our operating reserve is woefully low," maintains Hofflund. "We're outside. Weather patterns are scary. If we have fires, droughts, floods, we could get into trouble. We need a reserve fund. We absolutely need a capital building fund. You have to do that before you do anything else." Hofflund cites the emphasis on capitalization put forward by the Kresge Foundation (see box below) as having helped Idaho Shakespeare Festival to re-strategize its cash reserves, beginning in '11.

"FY11 was a lot better than '10 in terms of working capital and cash flow," notes Henderson. "FY10 was a year that reminded me of the early days of this theatre—cash was not available. But [from our early days] we grew and matured and learned to better manage that issue. In '10, it became unmanageable again."

One somewhat positive spin on low working capital is that it can reflect an increase in fixed assets, which grew from 50 percent of theatres' total net assets in '07 to a high of 67 percent in '10 and 65 percent in '11. Investment ratios (investments as related to total expenses), which managed well can also garner operating income, rebounded in '11 to 68 percent, up from 59 percent in '09. Successful capital campaigns have aided growth in both of these areas, though the authors of *Theatre Facts* note that that success has not translated into sufficient levels of readily available funds. Capital campaigns were at their highest level of the past five years, with 36 percent of Trend Theatres reporting income from that source. (Only 26 percent of theatres in '07 were undergoing such campaigns.)

Theatre managers strive to meet the market's challenges and leverage investments toward short-term cash and long-term health—yet another skill set to be honed to razor-sharp acumen. Though bottom lines have started to rebound, recovery has taken a toll. "This is the most stressful time I've ever experienced in being a theatre manager," says Woodward.

"We're trying to learn as much as we can about capitalization, best investment practices here [in Alaska]," notes Rotch. "It's challenging."

"It's incredible that an executive director of a small Off-Broadway Latino theatre needs to know the spread of Spanish bonds, or German bonds, or what the market needs to be," echoes Federico. "I've realized how globalization is affecting us in the moment. And we're adapting."

"The increased societal focus on market forces feels like a danger to our field," regards Medak. "I think that many of the premises we have held dear for the past 50 or 60 years are being challenged in ways they weren't before. The notion that all things that are worthwhile in a society cannot be measured by dollar value is a concept that is being questioned and is no longer universally supported as an idea."

Sarah Hart is a former managing editor of this magazine.

FUNDING FOR SUCCESS

IN 2010, GRANTMAKERS IN THE ARTS set out to study the subject of poor capitalization in nonprofit arts organizations and, following two convenings of regional and national funders, proposed a new philosophy in foundation giving under the auspices of the National Capitalization Project. Participants included the Paul G. Allen Family Foundation, Doris Duke Charitable Foundation, Fidelity Foundation, Ford Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, the John S. and James L. Knight Foundation, the Kresge Foundation, McKnight Foundation, the Andrew W. Mellon Foundation, National Endowment for the Arts, William Penn Foundation, the Pew Charitable Trusts and the Rockefeller Foundation.

While the convened funders acknowledged that foundations do not have the overall influence (or funding) to provide for sweeping transformation in the capitalization of the arts, this is the time to seed change. The economic downturn obviously brought to light in some particularly painful ways the undercapitalization in the arts sector, but the grantmakers note that changed habits in theatregoing and other arts patronage also demand new considerations for how to create and maintain organizational strength.

The resulting report, penned by Elizabeth Cabral Curtis of Technical Development Corporation, defines six components of capital fund needs that include:

- Operating funds for day-to-day operations under planned, normal circumstances;
- Working capital funds to maintain day-to-day operations during cash-flow challenges that arise from normal business cycles;
- Operating reserves for day-to-day operations under unplanned or changed circumstances—i.e., the rainy day fund;
- Capital improvement reserves for long-term facility improvement, repair or replacement;
- Endowment or longevity funds earning income through investment interest—ideally permanently restricted moneys; and
- Innovation fund/risk capital to give organizations freedom to try out new ideas and strategic directions.

Notes the GIA report: "Success will only be achieved by a group of funders coming together to understand and promote a common set of principles and behaviors in their grantmaking, and by agreeing to have a different conversation with grantees." —*Hart*