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CENTERPIECE

FOCUS ON: GOVERNANCE

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SURVIVING CRISIS: SEATTLE'S ACT THEATRE

BY JUDY HANSEN

With the economic downturn and the influence of the *2002 Sarbanes-Oxley Act* on not-for-profit governance practices, trustees are under more pressure than ever to ensure the long-term growth of their theatres. Trustees need to be aware—without micromanaging—of their theatre's vulnerability in all areas from programming practices to the audit process.

Yet, service on today's board requires more than just an awareness of a theatre's vulnerable spots: it also requires a consistent level of community activism. In his closing speech at the 2003 Fall Forum, TCG's executive director Ben Cameron advocated that the old ideas of what constitutes traditional board service—e.g., sitting on a committee and giving money—must give way to the *activist* board member. The activist board member, according to Cameron, goes out into the community, takes kids to the theatre, writes letters to the local newspaper editor and, most importantly, *articulates the value of the theatre to the community*.

This particularly rings true in moments of crisis: Last winter, the theatre community was shaken by the impending doom of a theatre that was almost 40-years old. Seattle's ACT Theatre was under the gun and had to reverse itself quickly in order to survive. What strikes me about ACT's story is how the board members—*and staff*—became activists on behalf of their theatre, even in the face of public criticism from donors, artists and the press. Managing director Susan Trapnell and the ACT Board chose to focus their emergency fundraising efforts on the value ACT provided to the community, rather than on keeping ACT alive. The story that follows is their incredible journey of recovery.

A Year of Disaster and Grace: ACT Theatre Survives Its Near Demise

BY SUSAN TRAPNELL, WITH KATE JANEWAY

"…Allow me to explain about the theatre business. The natural condition is one of insurmountable obstacles on the road to imminent disaster."

—*Shakespeare in Love* by Marc Norman and Tom Stoppard

Tremendous Drama—Backstage

In mid-February of 2003, the Seattle media, followed by *The New York Times*, told a story of imminent closure at A Contemporary Theatre (ACT) in Seattle. This theatre, with a budget just shy of $6 million, was $2.7 million in debt and could not go forward with the 2003 season, scheduled to open in May.

The story was worthy of front-page coverage in the local media and prominent attention in the national papers for at least two reasons. ACT had a 38-year history, making it one of the oldest LORT theatres, and ACT had a reputation in Seattle for extraordinary fiscal stability. Locally and nationally, the news was of earthquake proportions—for artists, audiences, colleagues and the media.

For a theatre of ACT's history and stature to have "suddenly" become insolvent, was almost unimaginable. Theories about what happened at ACT proliferated. The easiest assessment was that ACT was the victim of a sudden reversal of fortunes, caught by the bad economy. But in much of the local press, the theory was that ACT was the victim of its own hubris—an unwillingness to adapt to a changing market. There is some truth to every theory, but only a colossal failure of honest communication between board and staff could have brought the theatre to the brink of bankruptcy. Evidence of severe financial stress was everywhere, but collectively the blinders were on. The "irrational exuberance" of the late 1990s had pervaded board and staff leadership. The boardroom became an environment conducive to good news and bold vision, not to financial scrutiny, hard choices or honest airing of differing assessments of the situation. Board and staff leadership would address the cash crises with the board and then shift to all the positive indicators on the horizon. Financial stresses were a constant topic of discussion, but if payroll was met, the problem was considered solved. ACT was completely preoccupied with its artistic ambitions, rather than its financial reality.

A year later, we are still trying to separate symptoms from root causes. Malice or theft would have been much easier to face. We would then have had a villain. Instead, we've had to recognize the complicity of everyone involved and to examine the internal and external, board and management, personal and professional, intentional and unintentional decisions that contributed to ACT's situation.

For the purposes of this *Centerpiece,* however, we believe that the interesting part of the story is the recovery, not the demise. The near closure demonstrates how fragile theatres are, but, more importantly, the recovery reveals how strong they are. ACT's turnaround—as, we now feel confident, we can call it—is the result of a lot of hard work by a lot of people. It is also the result of a great deal of sheer good fortune. The people with the time, skills, generosity and confidence we needed were available to the theatre when ACT needed them. This good fortune began when Kate Janeway stepped in as president on January 1, 2003.

The Crisis Exposed

The truth about ACT's financial condition became clear to Kate on the very day that she officially took over as president—six weeks before the full story was revealed to the public. She had assumed the presidency as a capstone to her 8 years on the board and to help the transition to new artistic leadership—necessitated by artistic director Gordon Edelstein's move to the Long Wharf Theatre. Kate was an involved and active member of the board; and she knew that there were financial challenges resulting from overly ambitious and unmet income goals in 2002. She was prepared to pave the way for new artistic director Bob Egan's arrival in the theatre and in the community and to tackle financial difficulties.

She was completely unprepared, however, for what she would discover in a phone call from the CFO on the day she took over—January 1, a holiday. The theatre had no money and had mounting bills, ongoing obligations and no plan for how to pay for them.

Kate set a meeting for the following Monday with the CFO and the managing director and insisted that the entire financial picture of the theatre be brought into focus. The situation was indeed dire. Almost $1,000,000 of subscription receipts for the 2003 season had been spent; nearly half a million dollars in accounts payable were past due; the theatre's $1,000,000 line of credit at the bank was fully exhausted; and there was $3,000 in the bank.

This was not a cash-flow problem. This was insolvency. There is no time of the year when ACT should have more cash on hand than January. The implications were enormous. Bob Egan's vision for the theatre clearly could not be achieved under these circumstances. A telemarketing campaign was successfully selling subscriptions to a season that could not be produced. As Kate delved, the extent of the problem came into focus. ACT would have to close until it could figure out the means to continue.

Those of lesser stock than Kate might reasonably have resigned and left it to the prior leadership to address and disclose the depth of the problem. Kate, however, took control and took responsibility. In doing so, she laid the cornerstone for the foundation upon which ACT would rebuild.

Grappling with Disaster

Her first official action as president was to call an emergency meeting of the theatre's most influential past leaders and its most stalwart supporters—with the hope of finding a bailout. During that meeting, it became clear that most of these people had heard it all before and had responded many times—without, it turned out—full knowledge of the board. None were willing to step up now.

Kate followed that meeting with an emergency board meeting. She laid out a paralyzing set of facts to a board that had been wearing blinders. The board was shaken to its core by the emerging reality. Kate managed to focus the energy, to divide them into teams to address different aspects of the emergency, and to get each member to write a generous check. Just over $70,000 was raised to hold back the mounting flood of debt. Although a small amount given the extent of the need, it was an indication that the board was willing to face the problem and to start taking responsibility for the situation. Over a three-month period, the board gave close to $600,000 in "extraordinary" gifts.

If Kate's move into the role of president was a stroke of good luck, good fortune had in fact struck before when Sheena Aebig, one of Seattle's most prominent bankruptcy attorneys, joined the board five months earlier. Although a novice on the board, Sheena was professionally familiar with insolvent organizations and fearless in the face of what had paralyzed and embarrassed others. She offered to manage the cash, the vendors, the legal issues and the payment priorities. By mid-January, she had consented to become co-president and focused on stabilizing the day-to-day financial picture, while Kate grappled with the elements of a strategy for going forward.

Kate's straightforward presentation of the facts, her call to action and her clear recognition that the board was accountable created a positive and productive energy. There would be plenty of time for finger pointing if the theatre survived. In the meantime, productive action was required. Sheena's particular expertise and her unflappable demeanor meant ACT took all the right steps to keep from completely collapsing. Sheena was free of both sentiment and panic. She simply did what had to be done: stopped the telemarketing campaign, laid off all staff (before asking some to come back), took control of the cash, set up a trust account for any receipts, handled all calls from vendors and made it possible for others to think about a future without being mired in the problems of everyday.

While vendors were being held in abeyance, the new artistic director released from contract, and the staff laid off, Kate and Sheena were also struggling to keep ACT's problems out of the media. Their working partnership provided the only comforting counterpoint to the disintegrating situation at ACT. A true friendship had developed. They worked together through weeks of long days, husbanding ACT's meager resources while struggling to devise a sound strategy that would permit ACT to survive.

The first strategy for survival was to postpone the start of the 2003 season from early May to late September. The reasoning was not much deeper than the need to buy time, but it was "spun" as a means to build on the artistic vision of the incoming artistic director. In reality, it was apparent behind the scenes that ACT could not meet its obligations to the incoming artistic director and might not be able to put on a season at all. As he gracefully withdrew, Bob Egan generously continued to consult with the theatre to help develop a plan.

The second strategy was to develop the skeleton of an operating budget to present to prospective donors. The treasurer worked with a few senior staff to develop realistic financial targets for a possible 2003 operating budget. Parameters were set: total expenses would be capped at $3.8 million, including $500,000 for debt reduction, leaving $3.3 million for all operating and producing expenses—a 44-percent reduction from 2002. There had to be $100,000 in operating surplus at year-end. Revenues were targeted at $3.9 million. Of that amount, $1.5 million in contributions had to be pledged—and immediately payable—before the board would commit to go forward. Cash was now king. Cash would have to be managed so that any subscription revenues for the 2004 season, which were received in 2003, would be put in a trust account. The years of borrowing from next year to pay for this year would be ended. The board was adamant that it would not reopen the doors without certainty that 2003 could improve the theatre's position. But this was a plan with no flesh on the bones, with no certainty that it was achievable and no programming to generate the revenues projected.

As ACT's situation was illuminated, however, it became evident that more was wrong than was right. Donors shared the fatigue of ACT's persistent and unsolved income problems. No person or entity with the funds to do so was interested in stepping up to help. If ACT were to get out of the situation, it would not be due to one donor. It would have to be a broader effort.

Harvesting Dormant Good Will

It was at this point that Kate called me in Minneapolis and Sheena called Kurt Beattie, who was directing in Milwaukee, to ask for our help. Kurt had been associate artistic director for 2 years and had a long history with ACT. I had been the managing director from 1982 to 2000. We both said yes. Kate offered me an apartment in downtown Seattle, as I was living in Minneapolis. Kurt agreed to work from Milwaukee until he finished a directing obligation, when he would return to Seattle. We both agreed to volunteer our time until the theatre could vote to go forward or to close the doors. I flew to Seattle several days later to join Kate and Sheena in two critical meetings—one with a major foundation to request a major bailout, and one with the *Seattle Times* to lay out all the facts. It was February 14.

Avoiding the press, up to this point, had been more defensive than strategic; but in retrospect, it had the advantage of allowing everyone time to grasp fully the details and implications of ACT's situation, to develop the skeleton of a plan and to pull together a leadership team. Once ready to talk to the media, ACT was completely forthcoming. There was nothing to be gained by hiding the problems. We laid the situation out on Friday.

By the following Monday, the foundation had said no to our desperate request. Kate had left town for a long anticipated but unavoidable absence of eight weeks, and the issues that had stunned, angered and preoccupied the board and staff for six weeks became the issues that stunned, angered and preoccupied an entire community.

Despite the trauma, the disappointment and the embarrassment, the ACT board, advisory council, senior staff and key members of the community were determined to find a way out. I moved into the apartment three blocks from ACT on February 18 and set to work. Although I knew most of the board members from prior years, I had only just met Sheena. Soon, we were joined at the hip.

The first priority was to flesh out a real season and an operating plan within the financial parameters set by the board, while still serving the mission and values of the theatre artistically. The plan had to be realistic, achievable and believable. At a meeting on February 19, Sheena and I asked the board to pay essential operating costs during a period of up to 10 weeks when we could complete the plan and do the fundraising. A decision to go forward would have to be made by June 1, or the theatre would fold.

With the parameters set and the stakes high, we recruited a few additions to a core group of board and staff. Three essential staff members were still working day and night to keep the place functioning: Vito Zingarelli (producing director), Ashley Leasure (development director) and Harley Rees (box office manager). Although ACT was virtually closed, we still had certain obligations to other organizations that were renting space in the building. This threesome, along with four or five other staff members, always found a way to live up to ACT's obligations. They were the glue during the first six weeks. It was with these three that Kurt and I fleshed out the plan that set the parameters.

The second priority was to manage the communications—with actors, with laid-off staff, with past board members, with the media, with donors, with those offering to help, with those subscribers who wanted refunds and with those subscribers who wanted to give more.

The story in the paper had not gone unnoticed.

Those actors who were most closely associated with ACT rose up in a howl of outrage that this important theatre and source of livelihood could have been allowed to reach this point. Jean Falls, wife of the founder of the theatre, invited 25 artists to her home one night to meet with Sheena and me—to air their frustrations and ask their questions. A week later, a similar opportunity was offered in the theatre for any and all who wanted to come. Meanwhile, a past president of ACT offered to send a weekly update to board, donors, advisory council and key members of the community.

Hundreds of people stepped up to help. Theatre artists did fundraisers, volunteers made phone calls, subscribers sent donations, community friends opened doors, staff worked at reduced salaries (if any salary at all), the production staff from Seattle Repertory Theatre even brought lunch to those still working at ACT who weren't getting paid. Students from the University of Washington's Professional Actor Training Program did a benefit for ACT. The national touring company of *Phantom of the Opera* offered to do a benefit when they got to town later in the year. We received unsolicited gifts that ranged from $5 to $10,000 from hundreds of people. As difficult as the financial realities were to face, the outpouring of good will kept all of us working longer and harder, with ever more determination and ever more confidence.

By the first week in March, the Recovery Plan was completed. It covered two years, including a fully developed plan for a five-play mainstage season and the annual production of *A Christmas Carol* for 2003. The traditional four-week mainstage run was cut to three weeks. Instead of the 16 productions and projects of 2002, there would only be six, but the standards of production would not change.

Fleshing out the plan made it clear that ACT couldn't afford to wait until June 1 for a decision to go ahead. The season could open no later than July 17 and a "go ahead" would have to be given by April 15. Kurt had commitments from all the artists involved and a willingness to hold out until April 15. But that meant fundraising for the first $1.5 million would have to happen within six weeks. With the forbearance of her law partners, Sheena Aebig virtually gave up her law practice and dedicated herself full time to ACT—managing ACT's debt, vendors and cash, working on the plan and on the fundraising.

Once completed, I tested the plan on one particular donor who was a past president and close friend of the theatre and a tough and honest critic. If Sam would give to our plan, I thought, others would as well. I sent him an electronic version of the plan with a request to meet with him about it, although I knew he was away for the winter. Before the day was out, the response came back asking if $100,000 would help get us started. It was the first significant pledge; it was a vote of confidence and it launched our fundraising effort.

The First Miracle

Between March 6 and April 16, with lots of people opening doors, and armed with the plan, we raised $1.5 million in cash and pledges in amounts ranging from $25,000 to $100,000. All of it came from individuals and all but one gift was from previous supporters of ACT. We had to ask the people who had known us under better circumstances. This was not your ideal fundraising campaign. We had to focus on those who could give

$25,000 or more and could make a decision and give the money almost immediately. We made it clear we would not use the money or call in the pledges unless we raised the full amount by April 16. We asked that pledges by payable by August 1.

I received a valuable piece of advice from the city's previous mayor, for whom I had worked while developing the plan: "Remember, Seattle has never 'saved' anything—except the Pike Place market—but Seattle will always 'invest' in a better community." That advice drove the tone of our plan and our solicitations. We stopped talking about saving ACT and began talking about what ACT could provide the community.

At a meeting on April 16, the board voted to go forward. We were just shy of the full $1.5 million, so board members filled the gap. Two days later, Sheena received a call from the ailing wife of a long past board member who said she'd like to pledge $200,000—the largest gift of the campaign. We had exceeded our goal. It was a remarkable feat and still appears miraculous as we look back. Every gift became a story in itself—and fuel to our determination. These donors scolded us sometimes, analyzed and scrutinized our plan every time and often asked for a lot of explanations. Some measure of disappointment and doubt was reflected in their questions, while some greater measure of hope and confidence was reflected in their decisions to give. No one turned us down completely.

With the capitalization money raised, we now had to deliver on our representations. We had to produce within a very tight schedule and a very tight budget. We had to lure back the staff whose experience we desperately needed. We had to replace our collective fear with collective purpose. We had to re-establish the principles and practices that should have prevented the crisis in the first place. Board responsibilities and obligations were reviewed, revised and strengthened. Board leadership met with every member individually to review these responsibilities and to ensure that each was fully informed and fully prepared for a new era. Every department was a scaled down version of the prior year. Each and every staff member gave up something in compensation or took on more in workload. But each and everyone gave it their all.

Opening night on July 17 was a reason to celebrate. Seattle's comedic acting power was on stage together in Alan Ayckbourn's *Absurd Person Singular*. Seattle's cultural, political and corporate power was together in the audience. The mayor proclaimed it ACT Theatre Day. This was a houseful of people who wanted to welcome ACT back from the brink, who had been reminded over the prior months just how much ACT was a part of the community they knew, and who wanted to celebrate with us. The energy was electric.

Absurd Person Singular was the first of five extraordinary productions— Edward Albee's *The Goat, or Who Is Sylvia* played to record houses, and hundreds were turned away on the last weekend. *Omnium Gatherum, A Moon for the Misbegotten* and *The Syringa Tree* followed. Kurt Beattie had designed a season that fit all the constraints of a tight budget and met all the highest expectations of our subscribers and critics. As it turned out, it proved to be the most broadly and consistently acclaimed season in ACT's history. In part, the acclaim was due to the extraordinary cast in each production and in part it was due to the energy from the audience that brought so much collective good will into the theatre each night. The work on stage was not taken for granted.

Fortunately for ACT, there was enough good will within the donor community to invest in a second chance for us. There was enough good will within the staff to give up months of work and pay raises and still want to return; enough good will within the artistic community both to do fundraisers for us and to hold their schedules free until we could contract with them; and there was enough spine and responsibility within the board to stretch their giving and their time. Fortunately, there was enough good luck to allow the right expertise, personalities and commitment to fuse together in the time frame open to us.

How It Looks Today

One year later, we have preliminary results from the 2003 fiscal year. Earned and contributed revenues exceeded budget; expenses came in under budget; and we ended the year with $300,000 in working capital. All vendor debt has been settled; all payables are current; all subscription funds for 2004 are in a trust account. Our chairman, Phil Condit, pledged $500,000 to pay down half what we owe at the bank. We have added almost $350,000 in cash and pledges to our endowment. We have strengthened the board and the finance office. We have clarified the roles and responsibilities of board and staff leadership. We have a fabulous staff. ACT still owes a great deal of money and still has fences to mend but we're on the way and we intend to celebrate our upcoming 40th season with confidence, gratitude and realistic ambitions.

Between 1997 and 2000, 95 percent of the positions at ACT turned over at least once. ACT's financial disintegration is not unrelated to this statistic. The disruption of such turnover affected every aspect of the organization and triggered nearly comparable turnover on the board. We've learned something from this, and ACT has never placed greater importance on creating an environment conducive to skilled, loyal and empowered staff.

True disaster has the one advantage of bringing the essential into clear focus. Part of our challenge is to preserve the cohesion and discipline that brought us through 2003. We've had the unique opportunity to find out if we really are valued in our community. The resounding "yes" has been a great reminder that we are here to serve the community from which we derive our support and to nurture the artists and staff through whose work we build our reputation and good will.

Note: The first draft of this Centerpiece *was written in part by Kate Janeway and in part by me. In an effort, however, to bring the cohesion of one voice, I have rewritten it. In the process, I have flagrantly plagiarized Kate's original work and ask her forbearance. This has given me the opportunity, however, to give her the credit she deserves in ACT's recovery.*

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