Lean and Mean, But True to Mission

“**A CRISIS IS A TERRIBLE THING TO WASTE,**” pronounced Stanford University economist Paul Romer at a venture-capitalist meeting in 2004—an epigram popularly paraphrased in 2008, in the midst of America’s economic downturn, by newly appointed White House chief of staff Rahm Emanuel.

Jeffrey Herrmann, managing director of Woolly Mammoth Theatre Company in Washington, D.C., is quick to apply that contemporary proverb to the art of overseeing a theatre in an environment of financial uncertainty. “The economy laid bare problems that had been hidden by the up market for a few years,” he says. “I saw this crisis as a kind of gut check. It was almost liberating in a way. It was like the rules no longer apply. You had a license to rethink everything. We could question anything and restructure.”

Indeed, the 2008–09 season—the one analyzed in the most recent round of *Theatre Facts*, based on TCG’s annual Fiscal Survey—was for many theatres an opportunity to refocus and find clarity in mission statements, branding, financial practices and staffing structures. The report, authored by Zannie Giraud Voss and Glenn B. Voss with Christopher Shuff and Ilana B. Rose, scrutinizes the fiscal year that not-for-profit theatres completed anytime between Oct. 31, 2008, and Sept. 30, 2009—in other words, seasons that generally began just as panic proliferated over the collapse and bailout of Wall Street titans and the ensuing global credit squeeze.

“There was a lot of fear in the marketplace. A lot of uncertainty,” recalls Tim Evans, executive director of Northlight Theatre in Skokie, Ill. “At least in our community, people were seeing that uncertainty even in the summer of ’08, before the whole financial meltdown during the fall of that year. In Illinois, there was elation over the election of Obama, but generally speaking everybody was concerned about getting through the year.”

“We were saturated with news about how ‘the world was ending.’ That’s a difficult climate for not-for-profits,” adds Herrmann.
Theatre Facts 2009—downloadable in full from TCG’s website at www.tcg.org/tools/facts—uses a trio of lenses to zero in on fiscal year ’09: a wide-angle Universe view that extrapolates from the information provided by 1,825 not-for-profit theatres that filed IRS form 990; a Trend Theatres scan of the 112 TCG member theatres that have responded to the Fiscal Survey in each of the past 5 years, as well as a subsection of 66 theatres that have responded in each of the past 10; and a detailed Profiled Theatres examination of the 180 theatres that completed the survey in 2009, drilling down data by six budget categories.

Those 1,825 Universe theatres contributed $1.9 billion to the U.S. economy in payments for goods, services and salaries. They gave 187,000 performances for 30 million audience members and employed 128,000 workers, of which 63 percent were artists, 12 percent were administrators and 25 percent were production/technical hands. Overall, this broad spectrum of theatres experienced negative CUNA equivalent to 6 percent of expenses.

CUNA, or the change in unrestricted net assets, includes operating income and expenses, unrestricted equipment and facility, board designated and endowment gifts, capital gains/losses, capital campaign expenses and gifts released from temporary restrictions in the current year—which makes it a particularly useful gauge for a theatre’s yearly health. The plunge in CUNA for fiscal year ’09 is primarily due to capital losses at bigger-budget theatres. On average, smaller theatres were more likely to achieve positive CUNA in ’09 [see sidebar, page 41]. Following the healthier period from 2005 to 2007, the percentage of theatres with negative CUNA was roughly the same in ’08 as in ’09, at 57 and 60 percent, respectively—but the size of the deficits themselves grew significantly in 2009.

Entering the Trend Theatres portion of Theatre Facts 2009, we find that contributed income exceeded earned income for the first time in the past five years. Individual donors were heroes, once again, as the greatest benefactors, with gifts totaling more than $126 million. The trend also continued that fewer donors were making higher average gifts. Woolly Mammoth’s Herrmann corroborates: “Bigger donors stepped up in 2009—not necessarily new donors, but existing donors that saw this was an important time to give support. That probably got us over the hump.” And Andrew Hamingson, executive director of New York City’s Public Theater, adds that, “Even in the economic crisis, people were rallying around us, increasing gifts, saying, ‘I don’t want the Public to go anywhere.’ We saw an increase in gifts and in the amount of the gift itself.” In-kind contributions also reached a five-year high in 2009, which the Theatre Facts authors note is in keeping with tendencies in tough economic times, when donors may want to support the arts, but don’t have the cash on hand.

Foundations also seemed to be trying to pick up some of the earned income slack with the average gift at a five-year high in ’09, at nearly $35,000, following a five-year nadir in 2008. This largesse is not likely to be sustained in coming years as foundations are hit by depreciating returns from stock portfolios in later funding cycles. “What we’re hearing from foundations,” notes Bruce Allardice, managing director of Ping Chong and Company in New York City, “is that, leaving aside the organizations that were caught up in the Madoff mess, 2009 wasn’t a bad year for foundations. Commitments were still at a high point. What you’re looking at today is foundations saying, ‘We’re not so sure, coming off three lean years.’”

Federal and state funding—which have covered smaller and smaller portions of theatres’ expenses since ’05—continued to decline. The exceptional activity of one theatre in ’09 skews the average of federal funding to actually reflect a 66.7 percent growth between ’08 and ’09 and a five-year inflation-adjusted growth of 27.8 percent—but removing that theatre from the analysis reveals an inflation-adjusted 31-percent decline in federal funding from ’05 to ’09. Local funding has fluctuated over the past five years, mostly due to unrestricted gifts to capital campaigns, and was down 23.4 percent in ’09. And even though all government contributions together covered less than a third of what individual and trustee donations did in ’09, theatres are still reeling from those incremental losses. “The Ohio Arts Council, at one time one of the strongest in the country, is slowly being dismantled,” reports Kevin Moore, managing director of the Human Race Theatre Company in Dayton, Ohio. “After Michigan, Ohio was hit harder than any other state by the problems in the auto industry—and has not bounced back. Between 2008–09 and 2009–10, state funding dropped 40 percent. County funding was flat, projected to go down 50 percent. Those are big hits that we keep trying to make up for.”

Corporate Support Has Also Seen Erosion over the past five years, with its highest levels in ’05 and ’07. Though it was actually up 0.5 percent in ’09 over ’08 levels, growth over the five-year period still trailed inflation by 23.8 percent. Larger theatres—particularly Group 6 theatres, with budgets of $10 million or more—are feeling the brunt of corporate falloff. “We got hammered on corporate sponsorship—down 25 percent from the previous year,” confirms the Public’s Hamingson. “Also, we have the Delacorte investors—law firms bring summer associates and so forth, buy a block of seats and dinner for Shakespeare in the Park. That was down 50 percent. I attribute it to nothing but the economy. Law firms weren’t hiring, so they didn’t have to woo summer associates. Between that and corporate sponsorship, we were half a million down from the year before.”

All told, contributed income outpaced inflation slightly, but those funds couldn’t match skyrocketing costs and plummeting earned income. The majority of earned-income losses can be chalked up to falling endowment yields and capital losses. If investment income/loss were excluded, earned income actually increased 0.8 percent over inflation over the past five years. Average total ticket income—combining subscriptions, single tickets and booked-in events—was down by $210,000, or 7.3 percent, from ’08 to ’09. Additional smaller sources of income—such as advertising, royalties and presenting fees—were also down, though other areas did show modest growth, such as education/outreach income, concessions and rentals. Theatres continue
to think smarter about maximizing revenue sources, though that certainly takes a toll on staff time and energy.

Still, even with the drop in overall ticket income, most theatre leaders remained positive about attendance, given the dire fears they had moving into the recession. “We primarily saw nervousness from donors, not from ticket buyers,” recalls Jennifer Bielstein, managing director of Actors Theatre of Louisville in Kentucky. “Ticket sales were solid. I spent a lot of time asking people why they came—and they said they valued the theatre, that it was of value to come for the quality of work on our stages.” “Our ticket drop was not catastrophic,” echoes Woolly’s Herrmann. “After the worst of the news of the economic problems, we saw a five- or ten-percent drop in single-ticket sales. People were being cautious with disposable incomes, but the bottom didn’t drop out.”

The battle to get people in the seats, though, wasn’t borne of economic doldrums—most theatres will report a drawn-out tug-of-war with potential ticket-buyers over the years. “Arguably, we’ve consistently underperformed in selling tickets,” confirms Mark Hadley, managing director of Dallas Theater Center until his recent departure. “It’s the bane of my existence here, and ’09 was no different. We were not able to unlock the magic of selling more tickets and earning more dollars.” Ticket pricing also accounts for fluctuating box-office income, with theatres trying to find that perfect number to entice audiences, while still earning top dollars. “Where we really took the hit was in average ticket price,” Hadley continues. “We hit historic lows in ’09. This is partly because we started to aggressively push the student-rush program. We were doing shows that were more contemporary and hard-hitting and fun, so it made sense. But we started seeing it for our regular shows, where people who might have been paying full price before were actively choosing cheaper seats or seeking out discounts.” [See sidebar, page 39, for more on the ticket-discount conundrum.]

Even though overall ticket income slumped in ’09, single-ticket sales actually rose 6.2 percent over the five-year period, but dropped 12.1 percent from ’08. Single tickets continued to top subscriptions as the preferred option for many audiences. Subscription income, which has fallen steadily in the past three years, sloped at a considerably less alarming rate than single-ticket sales—by 1.6 percent from ’08. But if the slow and steady subscription decline is not a shining beacon for the future, the fickle single-ticket model may not be the most advantageous replacement. Lesley Malin, managing director of Chesapeake Shakespeare Company in Ellicott City, Md., cites her New York University managers-program training, which heralded the death of subscriptions—but without insight into what would replace them. “At Chesapeake, I said, ‘Okay, we won’t do subscriptions,’” she says, “but I still don’t know what will replace them.”

“We actually saw a spike in single tickets by about 25 percent over the previous year—with subscriptions stabilizing,” reports the Public’s Hamingson. “People are buying closer to the time of performance and choosing shows rather than taking a full subscription and paying a larger chunk of money. That was a revelation to us. As you know, it costs more to sell a single ticket than a subscription, so our advertising dollars were up 20 percent. It’s great to have that single-ticket spike, but it costs more!” In fact, it costs more to the tune of 10 cents on the dollar—in ’09, it cost 24 cents (excluding personnel expenses) to generate every dollar of single-ticket income, and only 14 cents for every dollar of subscription income.

“I’m a big believer in spending money on marketing,” says Chesapeake Shakespeare’s Malin. In keeping with that sentiment, marketing expenses exceeded inflation by 4.4 percent over the five-year period, yet theatre leaders still reported feeling stumped by where those dollars were best spent. “Marketing is the one line that continues to challenge us,” says Northlight’s Evans. “We’re in a saturated market [in Chicago]. There are a lot of quality theatres—we have to play with larger theatres in town, with a smaller budget than, say, the Goodman. We did a little more web marketing and got a little more involved in social networking. We didn’t see initial results in terms of sales, but we created awareness where we hadn’t before. We rebranded the theatre, redesigned the website. That said, we still struggled with single tickets. We tried to be aggressive with things that wouldn’t affect the budget in a huge way. But more direct mail—that’s where we decided to really throw down, rather than for a print ad budget.” The Human Race’s Moore adds, “We started to niche market individual shows to make sure we were targeting the right audience—being specific about where to spend advertising dollars. What about
this show? Does it have name recognition or not? Is this the light radio station or the rock?”

Agonizing over where to put marketing dollars was only the tip of the iceberg—every cent spent in ’09 was carefully weighed. As news reports piled on about the failing economy and the losses businesses were feeling, many theatres reacted quickly with budget cuts. “In November of ’08, all hell was breaking loose,” recollects Benjamin Moore, managing director of Seattle Repertory Theatre. “It was a choppier time for what was going on in the economy, as well as being our first season with an interim artistic director. We were looking at a $1.7-million operating loss at the end of the following June. With that shortfall in our sights, we started to cut pretty drastically—not so that people were shoveled out the door, but positions that were vacant were not filled. We managed to save $600,000 by June.”

“My first day on the job was the day Lehman Brothers was going down,” reports Hamingson, who took on the executive director job at the Public in September of ’08. “I don’t know whether or not that was auspicious. But I had the fresh eye to turn over every rock. We cut a million in operating expenses. We limited the number of people we would have to lay off, and did it once—a surgical slice, rather than over a long period of time with salary cuts and furloughs.”

Layoffs, salary cuts and freezes, and furloughs were among the tactics used by theatres to shed weight. The average number of paid employees hit its lowest point of the five-year period in ’09, both as full-time staffers (51 in ’09, versus the high of 63 in ’05) and jobbed-in or fee-based workers (five fewer in ’09 versus ’05). Still, total payroll increased by 3.5 percent from ’08 and 10.7 percent over inflation since ’05. Payroll accounted for 54.5 percent of an average theatre’s total expenses, with the percentage of administrative payroll holding almost steady for the past five years (at 21 percent in ’09), while the percentage of artistic payroll (18.6 in ’09) has dropped 0.9 percent below inflation in the past five years. The percentage of production/technical payroll has gone up slightly, ending the five-year cycle at 14.9 percent, with a growth rate of 0.9 percent above inflation, with the sharpest incline between ’08 and ’09.

But theatres weren’t simply taking a big chunk out of the payroll budget line and calling it a day. As pressure to slash spending grew in ’09, theatre administrators searched for even the smallest, most quotidian solutions to becoming leaner, meaner machines. Woolly’s Herrmann reports that the theatre cut its cleaning service to four days a week and turned off the HVAC system between midnight and 8 a.m. Upon close examination of the phone bill, they discovered services were shoveled out the door, but positions that were vacant were not filled. We managed to save $600,000 by June.”

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Faced with consumer trepidation and years of trend surveys pointing to audience decline, theatres must grapple with the marketplace conundrum: If we discount it, will they come? “It’s an unfortunate pattern,” confirms Mark Hadley, former managing director of Dallas Theater Center. “You see ticket sales not happening as expected. We were a little more aggressive with discounting single tickets—and trying to reflect that in marketing and direct mail,” echoes Tim Evans, executive director of Northlight Theatre in Illinois. “We did a lot more e-mail offers than we normally would do. We tried to generate early-on activity with discounting. I think it helped with single-ticket sales. But we found ourselves having to be more creative about how we marketed those shows toward the back end. That was the case all year long.”

When to discount might actually be one of the keys to the equation. “We developed a nasty habit of discounting tickets at end of run, when things looked dire,” recalls Benjamin Moore, managing director of Seattle Repertory Theatre. “That wasn’t paying off, it never really has. Based on what we tried in ’08–09, we reversed that practice and decided to do everything we could to frontload performances, discount at that time. In 2008–09, we rewarded people who bought early, which enabled us to start using dynamic pricing.”

And discounting—especially in times of economic stress—may give off an air of desperation that can do more harm than good. “It’s like the ship is sinking and everything must go,” suggests Jeffrey Herrmann, managing director at Woolly Mammoth Theatre Company. “We tried to project an atmosphere of calm. No crazy sales. No crazy discounting. We didn’t switch out programming.”

—Hart
says his theatre was able to make changes in the hours of the building operation—usually 7 a.m. to 3 a.m.—to generate savings, as well as deferring some routine maintenance, knowing that the theatre was going into renovation soon. Looking for more co-producing partners was a good solution for Actors Theatre of Louisville, says Bielstein. At the Human Race, the production staff veered away from using lumber in favor of more affordable steel, doing more welding work with less expensive materials. Partnerships with area universities and community theatres, as well as a dedication to “green” set-building, have also helped to bring production costs down. Moore also reports that following the 2008–09 season, the Human Race joined with a PEO (professional employer organization), making its employees co-employees of that group, putting them in a larger pool to bring down the cost of health coverage, workers’ comp and human resources.

**EVEN WITH SUCH DEDICATED BELT-TIGHTENING,** though, expenses have outpaced inflation over the past five years by 9.7 percent, with only the categories of royalties and production expenses decreasing. From ’08 to ’09, most spending areas did abate somewhat, with the exceptions of payroll, occupancy/building/equipment/maintenance and depreciation.

The threat of the economic crisis led many theatres to self-examination and fine-tuning that brought on changes that have extended beyond the difficult ’09 fiscal year. “We started having weekly meetings,” recalls Northlight’s Evans. “That kept everybody in balance—the esprit de corps, if nothing else. We’re a small organization with 15 full-time employees, and we made time every week to sit together, with a much more intense look at the everyday results of what we were attempting to do. It allowed everybody to have a place to be concerned and present ideas, and at times vent—and the overall attitude was that we were in the midst of something that we would eventually find a way out of.”

“We spent the spring of ’09 developing a new business model—one crafted to live within our means,” says Seattle Rep’s Moore. “That model gave a framework for what we could expect and led to every aspect that we’ve had to take on: fewer productions, more co-productions, eliminating performance days, doing less performances in the big house, a four-day workweek for all salaried employees.”

“For all my career, we’ve worked to make sure that every year the income statement has a positive number at the end to report to donors, foundations, etc.,” recalls Dallas Theater Center’s Hadley. “Starting in 2008–09, cash flow became the number-one business tool for guiding our organization. We were growing the theatre with our new artistic director’s bigger, bolder vision, and with our advancement campaign, our expenses were getting ahead of the cash. We didn’t have a sophisticated enough model to look forward down the line to map this out. This was all happening at the same time as the economic downturn, so we started not to hit ticket expectations, and we started not to make cash. We were fortunate to have a trustee on our finance committee who assigned someone from his company to work with our finance department to rework our cash-flow statement into a deeper, more sophisticated model that helps predict ups and downs more accurately and sooner. Now we have a proper dashboard. It doesn’t make decisions to alter or cut things any easier, but we have better information more quickly.”

“We were about to roll out a big fundraising campaign last year when everything went to hell,” says Woolly’s Herrmann. “Now we’re sticking our heads back out of the turtle shell. In the wake of the collapse, we restructured the campaign. We decided not to raise money for the endowment because so many theatres have been hurt by their endowments in the past year. The campaign had been broad, but now we’ve refocused on particular areas of operation. It’s easier to communicate and sell than what we had before.”

For San Diego Repertory Theatre in California, an up-close scrutiny of the theatre dovetailed with the problem economy, but wasn’t prompted directly by it. “That was a rebuilding year for us,” reports managing director Larry Alldredge, whose first season at the theatre was 2008–09. “We wanted to revisit our mission—not to change it, but find better ways to express it. We reorganized our staff and finance procedures, turned marketing and development into one department. We realized they serve the same constituency as one continuous process—we want to bring people to our theatre, have them subscribe to our theatre, then give to our theatre. Support functions within both departments—graphics, database, copy editors, functional skills—could be shared. We ended up with a more cohesive
support system. It used fewer people, and because of that, we could pay them more and attract a higher skill set.”

Often such deep probing of a theatre's practices and raison d'etre improved overall morale in ways not expected in a challenging year of budget cutbacks. “What I would term our biggest success is that our staff rode into this storm together, and we’ll ride out together,” says Northlight’s Evans. “Almost all of the staff that we started the recession with are still here. That's a tribute to them as dedicated theatre administrators.”

“Our staff turnover rate dropped dramatically that year,” adds San Diego Rep’s Alldredge. “We really haven’t lost people since that rebuilding and restructuring. People are excited about where the theatre is going, and they like what they’re doing. That’s one of the best metrics I can use as manager to see how the theatre is doing.”

One place most theatres balked at making extreme cuts was in what went on the stage. “You don’t want to argue that we don’t have money, so let’s not do art,” sums up Bethany Gladhill, managing director of Nautilus Music-Theater in St. Paul, Minn. “In our internal conversations, we had to put everything on the table, not knowing how bad it would get,” admits Actors Theatre of Louisville’s Bielstein. “The only place we could cut back programmatically during the course of the season would have been the Humana Festival. We agreed early on that we were committed to this and would not pull a play.”

In fact, many theatre leaders reported additional risk-taking in the midst of the ’09 season tribulations. “It’s easy to talk about fidelity of mission when things are going well, but it’s even more important in a time of crisis,” notes Hermann. “In February of ’09, at one of the darkest moments, we booked Pig Iron Theatre Company’s Hell Meets Henry Halfway, one of the more challenging shows we’ve produced here at Woolly. I’m proud that at a time we might have flinched, we doubled down.”

“We took risks that year with a new play in our third slot,” echoes Northlight’s Evans. “We did what was arguably a risky choice, The Lieutenant of Inishmore, in our fifth slot. We didn’t want to shy away from the work that we wanted to do. We could have changed up things, and pulled the work back in, but we felt committed. It was a terrific production and audiences embraced it as a bold move.”

Hamingson reports similar results from the Public’s season: “Given that fact that there was the ‘Great Recession,’ we were fortunate that we had a strong artistic year and took risks in our programming, even in the face of that. We didn’t go off mission. We didn’t cut cast size. That paid dividends in the long run.”

“We focused on making sure the work we did was true to who we are and who we want to be, and less on how to sell tickets,” concurs San Diego Rep’s Alldredge. “We’d seen a drop

**SIZE MATTERS**

**WE WEREN’T PARTICULARLY pummeled by the recession. I’m pretty sure it’s because we’re small and young,” reports Lesley Malin, managing director of Chesapeake Shakespeare Company in Ellicott, Md. Of the six budget groups, only Group 1—thes between us and the creditors is not a stretch. It’s even more important in a time of crisis.”

“Here’s what happened: there was a drop in subscriptions, and that led to a drop in revenue, which led to a drop in expenses. But the expenses didn’t drop as much as the revenue, so we were left with a larger deficit.”

“I think the biggest lesson is that we should have planned for this. We should have been more proactive in our planning. We should have been more aggressive in our marketing. We should have been more creative in our fundraising. We should have been more nimble in our operations.”

Bethany Gladhill, managing director of Budget Group 1's Nautilus Music-Theater in St. Paul, Minn., compares her working experience at the small-budget Nautilus to that at medium-sized theatres: “Midsized is awkward. Trying to act flexibly and nimbly at a midsize organization was like turning an enormous boat with straw as a rudder. We can react more quickly at Nautilus—even as the group has expanded somewhat—than we can at other theatres. And we can react more quickly at Nautilus—though some of that reacting amounts to, ‘We won’t be able to pay you for three months.’”

“It’s really about fixed costs,” concurs Bruce Allardice, managing director of New York City’s Ping Chong and Company, a budget Group 2 theatre. “We don’t have to keep the theatre operating all the time. In a way, it’s a big advantage for us. If you have a staff of 30 people, that’s a big nut to make every week. We just finished a production with Oregon Shakespeare Festival, a highly successful, beautifully run theatre. I think they’re doing very well. [OSF Executive Director] Paul Nicholson has 100 times my five employees. He has 10 times the income opportunities as well, but there’s a different kind of pressure knowing that there are 500 people who have to be paid on Friday.”

There are, of course, downsides to that degree of latitude: “Our debt is internal,” notes Gladhill, “so our creditors are friendly. It’s easier—but it puts us in conflict of interest most of the time. And we have horrible net assets. If we went out of business tomorrow, we’d be able to sell a 10-year-old computer.”

But the exuberance of being flexible can carry a theatre a long way. Malin recounts that Chesapeake had been scheduled to produce a Shakespeare spoof in the 2008–09 season, but “something in the water” made them decide to reproduce an earlier, successful production of Macbeth as a promenade piece. “It became an identifiable production for us. There was an energy that came from being able to change to this new show.”

Returning to an organization’s essentials is also easier with a smaller theatre, which Ping Chong and Company has sought to maintain, even as the group has expanded somewhat through the years. “There are three elements we’ve always emphasized,” says Allardice. “We put enormous emphasis on the artistic side of the organization. We’ve always kept our fixed operating costs as modest as we can. And we have pursued strategic partnerships in the creation of work. Those three elements turned out to be advantageous as we went into bumpy times. It didn’t prevent us from having a challenging year. But it did mean that we were not overwhelmed by it.” —Hart
in earned revenue and tickets for a couple years. That year, we put some shows in the season that our artistic director had wanted to do for 10 or 15 years, but couldn’t figure out how to budget. We did *Threepenny Opera*, which was one of our most successful shows in years. Our love of that piece really came through, and people came to see it.”

Looking back on ‘09, most theatre leaders concur it was a lousy year—one that could have been a lot worse, and one that led the way to many structural alterations that make for a stronger field going forward—but certainly a year most are happy to have put in the rearview mirror.

“I might have given myself an ulcer with worry,” says Herrmann. “There was an emotional and spiritual cost of theatre leadership around the country. It was no fun. I was exhausted at the end of the year from these continual panic conversations with the board and finance committee.”

And hard times may be here for a while longer. “In conversations I’ve been having with people in the field, people talk about how tough it is to plan for fiscal year ‘11 and ‘12. These challenges still exist,” forecasts Bielstein. “We haven’t bounced back completely. We’ve really been at maximum efficiency in fiscal years ‘09 and ‘10, extremely lean, with the staff going above and beyond for a long, long time. We’re looking at the future and not knowing where the resources are to increase salaries and not having people work 24/7.”

But, notes Evans, there is strength built from having made it this far: “Really, the shock of not knowing had more of an impact than the year itself did,” he notes. “Now that we know it’s tough and will remain tough for a while, we can do business in a more entrepreneurial and creative way.”

Sarah Hart is a former managing editor of this magazine.

**UNCONVENTIONAL BORROWING**

In the face of what promised to be a particularly difficult year for Seattle Repertory Theatre, the company opted for what managing director Benjamin Moore calls an unorthodox plan: They decided to borrow from their endowment—an unconventional course in a year when theatres were generally taking hits on their endowment earnings.

“We were set to receive $1.1 million, authorized, from the endowment in 2008–09,” Moore reports. “When the endowment went underwater, the foundation that governs the endowment knew that money was embedded, and agreed to donate the money on an interest-free-loan basis, which would be converted to a grant when the market improved. We then borrowed on the endowment for a further $1 million.”

That money was then used to leverage a matching campaign, which brought in an additional million, with around 1,000 new gifts of, on average, $100 apiece, leaving the theatre with the original endowment distribution, plus an additional $2 million. That money, plus the aggressive budget cuts the theatre instituted at the start of the season, gave Seattle Rep an unexpected surplus of $500,000. “We didn’t expect to do better than break even,” says Moore. The theatre then chose to use half that surplus to create a working capital reserve. “We had some dollars from the Ford Foundation back in the era of working capital grants,” notes Moore, “but we had sucked up that reserve over the years since the turn of the century.” The other half of the reserve went to fund a search for a permanent artistic director, which couldn’t be budgeted as general operations, as well as bonuses for the staff, who had worked tirelessly all season to find savings.

“I think the reason we came out of the year so well was this technique—if not a gim-mick of sorts,” says Moore. “We were a bit hazy as to the legality of it to begin with. We did a lot of checking with legal counsel and our CPA to check that we were in a position to dip into the endowment.” A reassuring nod came at the end of the fiscal year when the state of Washington adjusted its wording for laws governing restraints on the distributions from endowments underwater. (The legislation is UPMIFA.) “They used the word ‘prudent.’ I don’t know how you interpret that as a piece of statute. So it’s vague. But we were a little ahead of the game. When that law passed, it eased our minds about what we have pulled off.” —Hart

(To find out more about UPMIFA and to see if your state has passed this new legislation, visit www.upmifa.org.)