Expect the Unexpected

With the worst of the recession behind them, theatre leaders must lay plans for an unpredictable future

BY SARAH HART

LARA GOETSCH

From left, Demetria Thomas, Benjamin Sprunger, Sean Fortunato and Matt Holzfeind in Lucy Prebble's *ENRON* at Chicago's TimeLine Theatre Company.

IF ONLY ARTS MANAGEMENT PROGRAMS offered coursework in soothsaying! For all the reports on economic trending, past season examples and gut instinct, there's still a lot that can't be predicted in a year—ticket sales in particular, followed by funding arenas and even weather patterns. Such was the word from the field on the occasion of *Theatre Facts 2012*, the 33rd edition of TCG's annual report on the fiscal state of nonprofit theatre, authored by Zannie Giraud Voss and Glenn B. Voss of the National Center for Arts Research at Southern Methodist University, with Ilana B. Rose and Laurie Baskin at TCG.

Theatre Facts is based on TCG's Fiscal Survey 2012, which captured data from the fiscal year that theatres completed between Oct. 31, 2011, and Sept. 30, 2012, and presents detailed data sets for Profiled Theatres—all of the participants in the 2012 survey—as well as a smaller subset of Trend Theatres that have completed the survey in each of the past five years. The full report, as well those from prior years, can be found online at *www.tcg.org/tools/facts*.

"You used to be able to plot ticket sales trends on a graph over time," says Mark Bernstein, managing director of the Repertory Theatre of St. Louis. "Now there is enormous variation from year to year, which makes it very hard to plan. Ticket-buyers are becoming more fickle. We make our best projection about ticket sales for the following year based on what we have seen in the current year, but that can be way off."

Susan Nelson, a principal at Technical Development Corporation (TDC), which has published several reports on the financial situation for nonprofit arts organizations, agrees: "It's a volatile market. That's one reason that people are running through cash reserves. You look at profit-and-loss statements over five years, and they're bouncing all over the place."

Such a mutable environment worsens the effects of increasingly negative working capital and often nonexistent cash reserves throughout the field. While half of the Trend Theatres ended 2012 with break-even or better CUNA (the change in unrestricted net assets, or total unrestricted income minus total unrestricted expenses), and many income and expense lines regained or surpassed their pre-recession levels, working capital remains a critical cause for concern.

Working capital—the unrestricted resources available to meet day-to-day obligations and cash needs, and a fundamental building block of a theatre's capital structure—has been severely negative for theatres in each of the past five years. Following a dramatic turn for the worse in 2009, working capital became even more negative in 2010; it improved slightly in 2011, but dipped again in 2012. More theatres reported negative working capital in 2012 than in any of the previous four years.

A lack of cash reserves limits theatres' ability to grow and take risks—not to mention the ability to deal with the unpredictable. To that end, several organizations, including TCG and TDC, are pushing a field-wide conversation about capitalization structure, and providing theatres and funders tools to rethink the breakeven status quo. (An interview with TDC's Nelson is included as a running sidebar to this article.)

But lack of a crystal ball hasn't stymied theatres' affinity for experimentation, and for many the 2011–12 season was a time of trying new things—even if those efforts didn't always meet with success. Says Matthew Cameron Clark, artistic director of Idaho's Boise Contemporary Theater, "We ended the 2010–11 season feeling like we had survived, and so we didn't want to settle. That continues to be the case, and we continue to find different ways of doing things. That year, 2011–12, was one of particular confidence and experience, with great success and educational failures."

Echoes Chris Widdess, managing director of Penumbra Theatre in St. Paul, Minn., "We invested a lot of time and resources over the last five years testing new types of programming locally and nationally, new collaborations and partnerships, and new revenue streams—with strong positive results. Unfortunately, this experimentation resulted in some unexpected expense, which caused us to cancel shows."

***THEATRE FACTS* OFFERS A BROAD OVERVIEW OF** the universe of U.S. nonprofit professional theatres—the 178 Profiled Theatres and an additional 1,604 theatres that completed IRS Form 990—which collectively saw positive CUNA in 2012. Approximately 52 percent of their income came from earned sources and 48 from contributed. The estimated workforce of 123,000 included 63 percent artistic, 24 percent production and technical, and 13 percent administrative. That host of workers produced 211,000 performances of 18,500 productions—which were attended by 36.7 million people. Universe Theatres contribute nearly $2 billion to the U.S. economy for goods and services, though the ripple effects extend far beyond that number, with theatregoers paying for dining out, parking and childcare, and theatre employees paying for property and daily living expenses in their communities.

The 112 Trend Theatres saw a decline in earned income in 2012, primarily driven by capital losses; earned income covered 53.5 percent of expenses in 2012, as opposed to roughly 61 percent in the previous two years. Ticket sales, however—the largest portion of earned income, covering 42.4 percent of total expenses—climbed across the board with a third straight year of increased single-ticket income, and the second year of growth in subscription income. Total ticket income kept pace with inflation, ending 2012 dead even with 2008 after adjusting for the compounded growth rate.

Broken into its parts, however, ticket income reflected changes in audience behaviors, as subscription income fell by 13.7 percent from 2008, while single-ticket income rose 9.2 percent. Income from booked-in events, though responsible for only 1.1 percent of theatres' expenses in 2012, increased 52.5 percent over the five-year period.

"We have seen enormous variation [in ticket sales] in recent years," reports Bernstein of the Rep in St. Louis. "The 2009–10 season through 2010–11 were the strongest years ever for single tickets, which doesn't make sense in terms of economy. [Single tickets] crashed for us in 2011–12. I think it's about the plays. We have a challenging market because

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IN 2009 TECHNICAL DEVELOPMENT Corporation (TDC) completed a two-year study on the capitalization needs of arts organizations in Philadelphia and published a report, "Getting Beyond Breakeven," by Susan Nelson. Encore studies in Detroit and Massachusetts yielded similar results: The nonprofit arts sector as a whole is dramatically undercapitalized, and the funding mechanisms available often constrain healthy growth rather than support the unrestricted cash reserves necessary to deal with challenges or take risks.

"Living in consistent deficit creates inconsistent art," says Nelson. "People spend time worrying about business instead of art, can't hire who they want, can't put into the production value what they need. Beyond that, what advances the organization over time? You have to make sure you have long-term free cash to do that, and that is only built up from surplus." How to budget and fundraise toward surpluses—rather than break-even budgets—is now a question confronting the field, particularly as *Theatre Facts 2012* reports critical declines in working capital and a lack of significant growth in unrestricted net assets.

TDC recommends five baseline funds—though not every one is appropriate for theatres of various sizes and at various points in their lifecycle: working capital, operating reserve, opportunity/risk capital, facilities reserve and endowment.

SARAH HART: You've noted how many theatre leaders can point to poor capitalization, but feel powerless to address it. Where do you start?

SUSAN NELSON: 'Powerless as to how' is a critical issue. People who run theatres, they know this stuff. It's not like we're coming and saying, "You don't know you have a bad balance sheet. You don't know you need to take risk." Everybody knows that. What is much more reflected in our conversations is that no one, from boards to donors, is giving money in a way that allows theatres to blossom. Boards won't encourage capitalization because it feels like too much of a stretch. Funders give money in ways that are restrictive—and punish surpluses. It's a chaotic capital market. People don't know how to move the sector forward. That's what we hear in conversations: How do we get together on this idea?

Two things are critical. First, a complete understanding of your market, and what is possible in it. Wishing is not market analysis. You need to understand what your marketplace is capable of on the earned and contributed side—what can the marketplace of-

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Matthew Cameron Clark, left, and Stephen C. Bradbury in Boise Contemporary Theater's Idaho production of *Off the Record* by Lynn Allison.

ANDY LAWLESS

unknown titles don't sell well. We have to keep that in mind when putting together a program."

Jon White-Spunner, whose Bloomsburg Theatre Ensemble (BTE) in Pennsylvania opened the 2011–12 season in the midst of catastrophic flooding of the Susquehanna River due to Tropical Storm Lee, echoes that sentiment. "I do know that our ticket revenue would be better were we to program *A Christmas Carol* more often. But there are plays for which you know the numbers will be down, and you budget accordingly. We had our highest revenue from single tickets in 2010–11, driven by the content of that season. We settled back down by about 20 percent last year. We're so dependent on name recognition [of play titles]—but I think [the drop] would have been less noticeable had it not been for the flooding."

The average number of season ticket holders declined 15 percent at Trend Theatres between 2008 and 2012, with a 73-percent renewal rate in 2012, a decrease from the high in 2011. But although two-thirds of theatres reported subscriber attrition, one-third did gain more subscribers in 2012 than in the previous years.

Regarding the traditional subscription, White-Spunner adds, "I think a lot of people are trying different models now. We're definitely seeing fewer and fewer people who want to be tied to a date five months out. We're definitely pushing the 'group of tickets' at discount. People are buying them in blocks of six or four or eight, but if you want to talk about traditional subscriptions, that's going away."

Still, good old supply and demand can still drive audience members to the subscription model in some cases. Managing director Elizabeth K. Auman describes a unique situation that befell Chicago's TimeLine Theatre Company. Following unprecedented success with a production of *The History Boys* in 2009 that extended for six months, "Our subscription base had grown so much that we couldn't accommodate when subscribers wanted to come, or flex passes, and we couldn't get in single tickets at the rate we wanted. In 2011–12 we rented another theatre for one show. That drove subscription and single-ticket income growth. But the other reason subscriptions grew so well was that that was the only way to get a ticket to the show. Now, with more seats, we're seeing a decrease in the urgency and need, because people can now buy single tickets. We created capacity, and now we have to do the work to fill it again."

More performances were offered at Trend Theatres in 2012 than in each of the previous four years, along with gains in attendance for mainstage series and special productions that brought them closer to pre-recession 2008 levels—or, in the case of booked-in events, vastly exceeded them. But though performances were also added for children's series in 2012, and the number of touring performances remained constant from the previous year, attendance dropped in both areas.

Smaller offerings, such as staged readings, workshops and "other" events (a category that includes lectures, late-night cabarets and pre-show education events), reduced the number of performances from the previous year, and attendance fell accordingly (although staged readings and workshops were still up by 38.8 percent for the five-year period). Total in-residence paid capacity utilization was 72.5 percent in 2012, the second-lowest of the five-year period (2009 was the lowest).

This overall increase in performances speaks to a strategy tested by Boise Contemporary Theater in 2011–12. "That season we were trying something new, which makes it an outlier for us," says Clark. "We did more. That was indicative of where we felt we were headed in terms of recovery. In our audience survey at the end of the previous season, one common request was, 'We want more.' But the way that we tried to expand was not necessarily sustainable—which has to do with the model we were using. We had been doing a four-show season. That year we added two productions, but each was a much shorter run. That felt very truncated, like a lot of energy was put into them for a short run. What we learned is that we need the time to give every show its due run in order to make that work."

Trend Theatres' ticket prices held steady from the previous year (the average price per subscription ticket dropped by 1 percent; single tickets had negligible change), but rose slightly over the five-year period at 4 percent above inflation for subscriptions and 2 percent for single tickets. Average 2012 ticket prices in both categories were within 12 cents of each other. Theatres discounted subscription tickets less than in the previous four years.

While *Theatre Facts* doesn't specifically track discount rates for single tickets, dynamic pricing has been a tantalizing strategy in the field over the past several years—with mixed results. Of Boise Contemporary Theater's experience, Clark reports, "In 2011–12 we were in the middle of a three-year experiment. We had an elaborate system built by Tessitura that used dynamic pricing on a much more detailed level, based on paid occupancy with an automatic ratcheting. Since then we've ended that and gone back to flat-rate pricing. We realized that until we're closer to filling the room consistently, the benefits aren't there, but the sacrifices are. Single tickets were $15 until 25 percent sold. We actually had patrons saying, 'I would have paid more.' We had patrons that were frustrated by not knowing what the price was going to be. Every 12 tickets we sold, the price would go up. You could check the price, call your friends, and then the price would be different. Airline ticketing generally doesn't have a good reputation, so I'm not sure why we thought that idea was a good model."

JERRY NAUNHEIM JR.

Sunday in the Park with George by Stephen Sondheim and James Lapine at Repertory Theatre of St. Louis in Missouri.

Investment income was at the second lowest point of the past five years. Interest and dividends followed the December 2008 decrease in the U.S. prime interest rate by declining annually. Endowment earnings/transfers and capital gains/losses reflected five years of market turbulence with significant shifts from year to year. Earned income from other sources—including education/outreach, concessions, production income, rentals, presenting fees, advertising and royalties—covered 10.3 percent of expenses in 2012, about a percentage point less than in each of the previous four years.

"We're trying to be more reliant on things other than ticket sales—less reliant on what comes out of play selection," says BTE's White-Spunner. "We have probably the only Noh training program in the country—that's been ongoing for 20 years, but it grows a little each year. We're looking for funding to get into schools, residencies—that's our biggest area of growth."

Education and outreach income was at a five-year high, with the average number of people served rising to 18,776. About one-third of education and outreach income comes from arts-in-education programs and youth services, with two-thirds from training programs.

Penumbra's Widdess reports "gains in education/outreach,

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fer for you—and then size the organization accordingly. Second, once you understand the size and scope of the marketplace, and you develop strategy on how you want to capitalize, your board has to be 150 percent behind it. If your board does not believe, it's not going to happen. So, getting your board in alignment and understanding your place in the market are critical. Then you can start to make inroads in the marketplace. Push the message with donors and funders. Show what you are doing and how you are doing it.

Are there some specific ways theatres can strategize?

We always say money and strategy go hand in hand. Never talk about capital structure without a strategy. It doesn't have to be formal. A strategic plan and vision can be: What do you want to do? How do you get there? Capitalization has to be incorporated into strategy. [Arts workers] are the only people who divorce strategy and money. They're the same thing. It's a change in conversation. In looking at your resources, planning, you have to constantly reiterate how much does it cost, what is the income expected, how to create the surplus to build capital. It's doing the hard work of business planning where cash is part of conversation.

Can theatres use capital campaigns in funding reserves? How can they avoid using them merely for stopgap measures?

I think capital campaigns have inappropriately focused on one part of the capital solution, the building. The idea in art forms such as museums and theatres is that the building is a critical part of the art. That's true—if the overall picture is taken into account. Often organizations don't clean up bad capital before they start a new campaign. They don't include capital needs for a changed organization, the ongoing maintenance. Capital campaigns can end up being very expensive stopgap measures as opposed to solutions. For them to be solutions, organizations would have to clean up the balance sheet going in. There needs to be an operating reserve for the expanding operation. Make sure you have the revenue/expense mix to make the profit-and-loss statement right.

If people reverse-engineered the numbers rather than running the facility up to the edge of what they can raise, campaigns would be better solutions. You might sit back and say, "I believe in my community to build my building, support my art, raise $50 million." That's great. But really, you should

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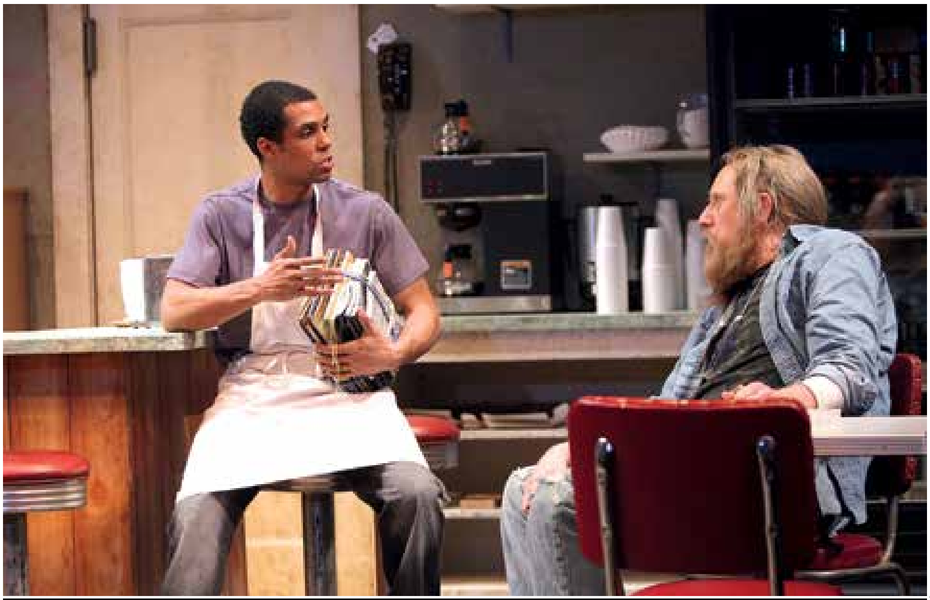

James Holloway, left, and Skip Greer in *Superior Donuts* by Tracy Letts at Geva Theatre Center in upstate New York.

KEN HUTH / COURTESY OF GEVA THEATRE CENTER, ROCHESTER, NY

production income and what we term 'project income,' which is income that is generated by our scenic shop building scenery for other performing arts companies."

"Where we see significant earned income [other than ticket sales] are royalties from shows [begun at La Jolla Playhouse] that move on," says Michael Rosenberg, managing director of the California-based theatre, "but that number continues to decline. The big driver has been *Jersey Boys*. In FY12 we were getting royalties from *Memphis* and *Peter and the Starcatcher*, which were both very successful, but nothing compared to *Jersey Boys* in London, New York, Vegas and two national tours." Indeed, across the field, royalty income fell 33 percent from 2008.

More than 80 percent of theatres received rental income in each year, which outpaced inflation by 19 percent (rental income and concessions were the two areas of non-ticket earned income that saw the greatest gains). Anecdotally, though, some theatre leaders noted the importance of a strategic or curated handling of rentals. According to Tom Parrish, executive director at Geva Theatre Center in Rochester, N.Y., "Geva had used a second stage for rentals, rather than producing."

In 2011–12, that stage was re-launched as a subscription season for Geva. "A profitable series in that room might be a way to grow income—but really, it's about trying to preserve the brand identity of the organization. When we were doing a lot of rentals in that venue, it confused the brand for consumers. In that inaugural season we did a lot of presenting—the economics wouldn't support producing. We still do some rentals, but try to be more selective. We're really trying to curate an experience. Everything has consequences."

Stageworks Theatre in Tampa, Fla., moved into its own building in August 2011, opening up rental income not only as a viable income source, but also as a way to contribute to artistic mission. "A quarter of our rentals are with other theatre groups," says founding director Anna Brennen. "We house one as kind of our unspoken resident theatre, once a year. We can begin to build on that, which builds our theatre."

THEATRE FACTS BREAKS OUT Profiled Theatres into six budget categories for targeted analysis, and the ratio of earned income versus contributed income as a proportion of expenses varied by budget group. The largest theatres (Group 6, with budgets in excess of $10 million) covered a higher proportion, 55.4 percent, with earned income than the smallest theatres (Group 1, with budgets less than $500,000), which covered 41.3 percent of expenses via earned income. Group 6 theatres also saw a significantly higher proportion of expenses supported by ticket sales, to the tune of 45.5 percent, with Groups 1 and 2 (between $500,000 and $999,999) each reporting around 26 percent. For the remaining groups, ticket income supported between 34 and 37 percent of expenses.

But finding an ideal ratio between earned and contributed income is a constant balancing act for theatres, with no true magic number. "We are unlike some of our peers, in that 75 percent of our revenue is coming from earned sources, primarily ticket sales," says Parrish (Geva falls into Group 5). "Ticket numbers fluctuate a lot depending on what shows we're producing, so our overall revenue has fluctuated based on that. The 2011–12 season was a year of transition into a new strategic plan, a turning point for us artistically, operationally and financially. We have a strong, stable subscription base. We want to leverage that base to grow charitable giving and the annual fund—where we consistently underperform our peers."

At the other end of the budget spectrum, White-Spunner of BTE, a Group 2 theatre, reports, "Our ticket income was 21 percent [of total income]. That's half of what other theatres report. That we can make up the difference in other ways speaks to the connection that this theatre has with the community. People are prepared to support it; they recognize that what they have in terms of small towns in America is pretty unusual. The thing we feel we have most control over is our ability to fundraise. Our ability to sell tickets depends on the shows. We're definitely looking at our ability to fundraise as being very important over the next three to five years—diversifying and bringing in more funding to back up what we as an ensemble do."

Individual givers remained a paramount source of income in a fluctuating funding terrain. Income from non-trustee individuals was at its highest rate of the past five years among Trend Theatres, and showed a 14.9-percent increase over 2011. Individual giving covered 12.3 percent of theatres' expenses in 2012 (17.2 percent when combined with trustee giving). Moreover, more individual donors (non-trustees) contributed higher average gifts over time. Among Profiled

Theatres, individual giving was high across budget size, with only Groups 1 and 2 reporting higher rates from foundations.

A connection between the theatre and its audience and community is, of course, key in cultivating individual donors, and theatres have also worked to become more savvy in turning ticket-buyers into donors, often combining the strength and resources of marketing and development departments to this end. But what accounts for the rise of the individual giver might be in the smallest of details. As Boise Contemporary Theater's managing director Helene Peterson puts it, "I feel like we've been doing the same thing. I think the way we're thanking members has changed—we're calling to thank them for the gift, whether $5 or $1,000. Those kinds of touches have increased."

Sometimes it's a matter of creatively packaging very specific needs. "We have a new thing called Dreamkeepers," explains Brennen of Stageworks. "They fund—they 'own' an artist for a year. That goes to pay for an Equity contract. 'Selling' people sounds horrible—but people love it. The audiences know the actors. I can call and say, 'We need Ricky for *Biloxi*, can you help me? Here's what it costs, Level 1 with medical.' I just mention the name and they say, 'Sure!'"

"Historically, theatres of color have less than 10 percent [of contributed income] from individuals. Penumbra is considered a rare exception," says Widdess. "Individual giving [to Penumbra] represented an average of 18 percent of total contributed income over the past five years. In FY12, this group represented 34 percent—an increase of more than 32 percent over the year prior in both number of donors and total dollars contributed. We attribute this increase to the combined impact of 18 months of strong, consistent media coverage and artistic milestones. Penumbra went into FY12 with a great deal of momentum."

Other areas of funding were often unpredictable. "We have two countervailing forces at work in contributed giving," notes Bernstein. "Private contributions have been on an upward trend. What drags that down is that we've seen big reductions in government funding. Taking the composite, our total for 2011–12 barely changed."

Likewise, says White-Spunner, "For the first time in years we didn't get an NEA grant in 2011–12. It almost had become a part of the budget because we got it every year. We made an appeal to replace it, which accounted for the highest numbers of individual givers we've ever had—but even without [the appeal] we would have been about as high as we were in 2008 [in terms of individual donors]. Government funding is all over the place—state, federal, local. The state has been down every year since 2008, and it just keeps going down. I don't know where the bottom is on that one."

Concurs Geva's Parrish, "Government giving fluctuates widely year to year. It's an unsustainable and unreliable form of support. We're very grateful when we receive some." The Trend Theatre numbers bear this out, with a 43.2-percent decrease in federal funding over the five-year period, 27-percent drop in state and an 84.9-percent rise in city/county (largely driven by exceptional unrestricted support of a few theatres' capital campaigns). City/county funding accounted for 3.5 percent of expenses in 2012, while state was at 1.2 percent and federal at 0.4 percent.

Foundations made up the second-highest contributed income category after individual giving for Trend Theatres, and saw a 27-percent gain in 2012 over the previous year, and 31.8-percent gain over the five-year period, after adjusting for inflation. Increases in 2009 and 2012 were somewhat skewed by one theatre's strong overall foundation support and another theatre's exceptionally high capital campaign support

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be putting $5 or $6 million in a building reserve, plus a capitalization program, so now you're left with a $40-million building. Will a $40-million building do it? People fall in love with designs of buildings before they pay for them. Reverse-engineer back to what you can afford—understanding that the totality of what you can raise cannot all go to building. That's how to stick to a capital campaign.

Benchmarking isn't necessarily the most useful tool for theatres seeking better capitalization—"That's just the way it is" ends up being a common refrain. *Theatre Facts* is perhaps one of the most visible benchmarking resources for the field. Are there other comparative resources that can also serve the field?

Understand local market support. Find the local market. Just because you can do it in Peoria does not mean it will fly in Kansas City. Different capital markets have different sociological and economic markers, funder ecology, wealth index, cost of living, competitive environments. You have to look at your city and demographic and ask how big is the audience, and who is competing for it? Who are my natural funders, and who are we competing with for those? If you don't understand size and scope and market, you can't make an honest estimate about how much to grow. Benchmarking will never get you that. It has to be an examination. State-of-the-union reports—such as *Theatre Facts*—are helpful. But they aren't a way to solve individual business problems.

When we worked with the Cultural Data Project, a lot of organizations told us they pulled comparisons. Because so many people were in dire straits, things didn't seem so bad. That's like the smell in a monkey cage—after a few days you don't notice it anymore. It says that the state of being broke is a lot of people's state, so maybe we're not doing so bad. That has a real effect on your ability to confront the core issue of doing the hard work. No one should say it's easy to realign an organization. It's unbelievably hard. You have to really want to do it.

How does capitalization planning fit with changes in audience behavior? Earned revenue can be less predictable and more dependent on programming. Does it require more reliance on contributed income?

I think there is a lot of hard work that needs to get done around the changes in audience behavior. That needs to be a group effort. That's something people could share infor-

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From left, Daniel Roth, Laurie McCants and Tanner Lenhart in Truman Capote's *Holiday Memories* at Bloomsburg Theatre Ensemble in Pennsylvania.

MEGAN L. COMBS

from foundations—but eliminating those outliers from the equation still leaves foundation support 10 percent higher in 2012 than in 2008, after adjusting for inflation. "We've seen significant foundation growth, partly due to growth of the organization and our visibility in the community," reports TimeLine's Auman. Parrish adds that at Geva, "We've clarified our message and amped up artistic offerings, and that has translated into increased foundation support."

Corporate giving ended the year 19.1 percent lower than in 2008, adjusted for inflation. Shifts in the American corporate landscape directly affected some theatres. "A number of substantial six-figure corporate contributions fell away in 2008 and didn't come back," notes Barry Grove, executive producer of Manhattan Theatre Club. "We're in New York, and obviously the market recession and the TARP (Troubled Asset Relief Program) regulations had a material effect on the Wall Street community. That effect will diminish as markets return."

"The corporate community in Rochester has been taking it on the chin a bit with the Kodak bankruptcy, Bausch + Lomb moving to New Jersey," adds Parrish. "What had been a corporate environment dominated by large national companies is now an environment of small companies, regional headquarters. It's more expensive to make contacts. You can't get big gifts, so you're looking for a lot of smaller gifts. We've looked at some different corporate offerings that will appeal to small business." Still, the average corporate gift was at a five-year high, at $12,200. On average, theatres received donations from 23 corporations in 2012, as opposed to the high of 28 in 2008.

Some corporate donations—as well as other donor areas—also found their way into the fundraising events income line, which accounted for 4.7 percent of expenses at Trend Theatres in 2012. "I will say that special events are a major piece of corporate participation," says Grove, "so while direct corporate philanthropy is down, support of the gala fundraising remained pretty steady." This continued to be a growth area, rising in each of the past three years, as theatres leveraged talent and resources to create ever more popular events.

"We've definitely changed the way we do our gala over the past four or five years, and made it a much more desirable ticket," says La Jolla's Rosenberg. "San Diego has a high-tech, biotech, very entrepreneurial community, and we've grown our event to become the premier networking event of the year. Because our donors and trustees have access to key decision makers, we're able to get those key players to come together—so [gala attendees] are getting to network with actual decision makers."

Total expenses rose for the second year in a row, following reductions in the leaner recession years. Payroll accounted for the largest portion of expenses at 54 percent in 2012. Increases were seen in every area of payroll—artistic, administrative and production—over the past year, and combined payroll exceeded inflation by 3.4 percent over the past five. The average number of paid employees was highest in 2012, at 262 (which includes full-time, part-time and jobbed-in workers). Nearly every other expense line went up as well in 2012, and several were at a five-year peak. General operations/management was the only expense line to fall, to its second-lowest point of the period, indicating that this is still an area where theatres are able to find and sustain budget cuts.

"My mantra for the past two-and-half years has been trying to hold the line on expenses to inflation or less while we grow revenue as fast as possible," says Geva's Parrish. "I'm always looking for efficiency, including outsourcing non-mission-critical functions. In 2011–12 we moved to outsourcing our IT and HR, which allowed us to pick up cost savings, while also getting high-quality service in those areas. Overall, when we look to really tighten expenses, we're looking mostly in administrative areas. Expense management is done in the vein that we don't want the patrons to notice any of it. It shouldn't be important how much we spend on paper or printing, as long as they get the high-quality productions they are used to."

"Electricity is our largest operations nightmare," reports Stageworks's Brennen. "We can't do without it. So I've tried to budget rentals to cover the electric. Now that we have our own space, we can save materials. That has helped enormously [with production costs]. Leftover lumber, set units, balustrades, flats—now we can recycle instead of starting from scratch."

"Expenses are up to pre-recession levels," according to Manhattan Theatre Club's Grove, "though spending is not in exactly the same places. With the growth in ticket sales, there is a concomitant rise in advertising and marketing costs.

In a world where you were marketing predominantly to subscribers, we were spending less money. Now there's been a substantial increase in single-ticket buyers. Single-ticket marketing doesn't happen in one season; it happens all year long, and it takes a concerted effort and focus to do that. We're not doing it with more people, but with more effort."

Marketing and advertising expenses—though fairly steady over the past five years—were slightly more efficient in 2012 than in 2008, requiring two cents less in resources, including personnel costs, to generate a dollar of ticket income (28 cents in 2012, to be exact). Still, theatres were quick to point to the increase in time and brainpower required to keep up in the digital/social sphere. "I think it is a misconception that social media is free," says Geva's Parrish. "The way that marketing is shifting, back in the day you placed an ad and people would come. Now it's much more labor intensive, and what were expenses going to advertising are now going to labor. So the pool of money for promoting productions and the institution hasn't changed a whole lot—it's just being spent in different ways."

ANN K. MARSDEN

Lou Bellamy, left, and Amiri Baraka in conversation at Penumbra Theatre in Minnesota.

Similarly, total development expense improved its efficiency, laying out 14 cents for each dollar of contributed income, as opposed to the high of 16 cents in 2010. "I think what we're seeing much more is that our patrons are looking for a deeper relationship with more meaningful touches throughout the year," says La Jolla's Rosenberg. "It's about subscriber events, engagement for ticket-buyers, cocktail parties for donors. We're spending money in different ways."

Of course, efficiency can only take a theatre so far, particularly where labor is concerned. "Staff exhaustion is a huge issue," confirms Auman, whose TimeLine falls into the Group 3 budget category, and is a prime example of a midsize theatre in the midst of a growth spurt. "There's a perception that we are bigger than we are. Locally we don't have a lot of models. We're desperately looking for ideas about how to grow—because it's not sustainable. There are not a lot of theatres with 99 seats producing 300 performances a year with staff of six."

ROOM TO BLOSSOM: ADDRESSING UNDERCAPITALIZATION

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mation about. I think the data in our system is being masked, and that the problem is worse than we understand it. The older generation is still swamping the data. The new behavior is 10 times worse than we think it is. There's a profound shift that is weakly understood in the system. You really have to think about budgeting in a way that allows for you to learn about the marketplace. Budget at the worst-case scenario. Then you have room to run. Budget to the lower end of expectations, and when you beat those odds, you're putting money away, smoothing it out. We're just living through a time of immense turbulence. No one's figured it out yet. We will. Great answers come at crucible moments.

There's a fascination with earned income that people need to get over. People think if they got to 90-percent earned income all of their problems would be solved, and that's just not the case.

What kind of feedback have you received, both from arts organizations and the funding community?

I can't repeat this enough: Organizations are really smart about this. They might not have the technical ways to get at it, might not have thought about the marketplace or gotten the board on board, but everywhere I go people say, "Yes, this is great, this is what I want." Funders struggle to try to embrace it. Boards are the last frontier. When you actually get boards to talk about it, they say yes, but they are hard to convince. You're reteaching them what they think the business is. I've had this conversation a million times. The board will say the organization needs to market more, try new things, do brand work. I listen respectfully, because they are usually right. But with what cash? An organization that is bootstrapped has to come up with excess cash somewhere, because it hasn't accumulated any to do these things that would move the dial. The board has created the situation by passing break-even budgets and allowing deficit.

FURTHER RESOURCES:

- Grantmakers in the Arts, *www.giarts.org*
- National Capitalization Project National Arts Strategy, *www.artstrategy.org*
- Operating Reserves Policy Toolkit Nonprofit Finance Fund, *www.nonprofitfinancefund.org*
- Case for Change Capital in the Arts TDC, *www.tdcorp.org*
- "Getting Beyond Breakeven" and "Beyond Breakeven: Why Capitalization Matters"

From left, Jeff Marlow, Manu Narayan, Johnny Wu and Ray Anthony Thomas in *Glengarry Glen Ross*, by David Mamet, at La Jolla Playhouse in California.

CRAIG SCHWARTZ

TimeLine's growth so far has been buffered by a strong organizational balance sheet. "Very early on in TimeLine's development there was a commitment to building cash reserves and to not spending more than the organization had," explains Auman. "When there was surplus, that money was left to be used for capital improvements, to fund deficits if they did come. The founding members really wanted the business to be as well run and well produced as the art; it's part of the DNA of the organization. That was very attractive to me about coming to work here."

OF COURSE, LIKE MANY NONPROFIT ORGANIZAtions, theatres must contend with more complicated capital structures, taking into account considerable restricted assets. Successful capital campaigns have increased theatres' long-term investments and fixed assets—but that very success can potentially lead to weakened working capital, as new buildings and equipment eat up more operational expense and drive depreciation—and are certainly not liquid. Fixed assets grew by 24 percent above inflation over the five-year period and accounted for 69 percent of total net assets in 2012, as opposed to 54 percent in 2008. Capital campaigns affected between 33 and 37 percent of theatres in each of the past five years. Total cash reserves lagged inflation by 16 percent (after removing one theatre's extraordinary activity in 2009, which skews the analysis). Profiled Theatre analysis suggested that midsize theatres—Groups 3 and 4—had the most severe working capital shortage in ratio with expenses.

But strengthening working capital—as well as overall capital structure—was definitely on the minds of many theatre leaders interviewed, regardless of budget size. "I think there's no question that MTC is a solid institution," says Grove. "But it's not an institution without working capital concerns. We don't have a massive endowment. We are blessed that the bulk of funds in reserve are unrestricted, the result of a donor gift for naming. But there's a slight, modest downward drift in working capital. In 2008–09, with the leadership of the board, and also the Mellon Foundation, we created a push to supplement working capital. Now our push is to get back the ground we lost."

"Part of our strategic plan is to improve capitalization by funding depreciation expense," says Parrish. "We're taking steps in that direction, balancing the budget with depreciation expenses included, as well as building capital reserves for our building, so we don't need to do a capital campaign every time we need to replace something."

"In 2006 BTE almost closed, and we had a very big campaign, and the community came through," shares White-Spunner. "We paid off every single creditor and renegotiated the mortgage on the theatre building. We've been careful in every year since then to make sure the budgets that we produce are realistic. The board mandated a 5-percent surplus in each budget, or it wouldn't pass it. We were able to do that for a few years. Last year it was 3 percent."

A shortage of working capital indicates that theatres are experiencing a cash-flow crunch, borrowing funds (from deferred subscription revenue, delayed payables, lines of credit) in order to meet daily operating needs—a state of affairs that certainly resonates with many across the field. "Cash flow is a monster," says Brennen of Stageworks. "A monster. I struggle with it every week. Grants don't come in until October. You have to account for money before you get it."

"Cash flow is tricky," concurs La Jolla's Rosenberg. "It's something we've had to get better at—particularly because of the decline in royalties. We rescheduled a major fundraising event to better suit the needs of the community—so the gala now occurs at the end of our fiscal year. That plays havoc with cash flow. One strategy is to create professional development opportunities for the staff, the people who are managing large and small budgets, to learn cash-flow management. Do we have to pay this bill today? Is it net 30 or net 60? We can pay a little more attention to when we're paying things and get better at estimating when the money is coming in."

So, while 2012 continued to show recovery from the worst of the recession years—with growth in areas such as attendance, contributions from individuals and money going to pay artistic, administrative and production staff—theatre leaders are clear-eyed about the challenges that remain. Changes in audience behavior and funder ecology will likely continue their unpredictable tracks into the future, but theatres are preparing for the uncertain—all while holding fast to the convictions of art and mission.

Sarah Hart is a former managing editor of this magazine.