Contending with THE NEW NORMAL

INGENUITY AND FLEXIBILITY ARE THEATRES' ACES IN THE HOLE FOR MANEUVERING A DISTRESSED ECONOMY

Gossamer, by Lois Lowry, in late 2009 at Adventure Stage Chicago.
JOHNNY KNIGHT

BY SARAH HART

"THE NEW NORMAL—that's the phrase that gets thrown around," remarks Scott Letscher, managing director of Adventure Stage Chicago. "This is where we're living now."

The economic difficulties of 2007–08 and, particularly, 2008–09 have left the theatre field in a new landscape, one that increasingly demands austerity—but one that also engenders imagination and ingenuity. Theatre leaders in the 2009–10 season, as detailed in TCG's Fiscal Survey and analyzed in *Theatre Facts 2010*, were recalibrating for current realities, whether that involved figuring out the precise number of performances to maximize season attendance, slashing revenue projections by a third or more just to find the space to move forward again, or unearthing new donor partnerships.

For many theatre leaders, though, hard work and fresh ideas were merely enough to maintain the status quo—which they see as a reality preferable to many less appealing alternatives. "'Open' is the new 'growth'—that's what my shop manager says," jokes Mark Fleischer, producing artistic director at Adirondack Theatre Festival in New York. And Sharon Fogarty, co-artistic director of New York City's Mabou Mines, sums up the times: "We've just hovered for two years. But I think this next year won't be like that."

While recovery is still tentative, *Theatre Facts 2010* does offer some room for guarded optimism. That ever-useful yardstick for measuring fiscal health, CUNA (the change in unrestricted net assets, or unrestricted income minus unrestricted expenses), was positive for the majority of theatres, after more than half of those surveyed ended '08 and '09 in negative territory. The rebounding stock market delivered capital gains instead of losses, and earned income outpaced inflation. On the flip side, overall contributed income fell, and though expenses were cut for a second year, they still surpassed inflation by 3.1 percent.

But the greatest cause for concern, according to the *Theatre Facts* authors, is plummeting working capital in '09 and '10, in an environment that's already shown negative numbers for the past five years, leaving theatres with little room to maneuver as they grapple with economic realities.

Theatre Facts 2010, the 31st installment of TCG's report on the annual Fiscal Survey, was authored by Zannie Giraud Voss and Glenn B. Voss, with Christopher Shuff and Ilana B. Rose, and compiles information from American not-for-profit theatres' fiscal years completed anytime between Oct. 31, 2009, and Sept. 30, 2010. (The full report can be found at *www.tcg.org/tools/facts*.) As in years past, information is divided into three sections: the Universe, a broad overview of 1,807 not-for-profit theatres that either filed IRS Form 990 or completed the Fiscal Survey; Trend Theatres, a longitudinal analysis of the 113 theatres that completed the Fiscal Survey in each of the past five years, along with a 10-year view from 78 theatres; and Profiled Theatres, a detailed breakdown of the 171 theatres that participated in 2010's survey, including comparisons by budget size.

Universe statistics—estimated by comparing total annual expenses from 2010's Profiled Theatres, plus the 1,636 additional not-for-profit theatres identified through IRS 990s—indicate that 16,000 productions hit the boards in '09–10, with 163,000 individual performances given before 31 million audience members. Theatres—which employed 71,400 artists, 32,900 production and technical workers, and 15,500 administrators—directly contributed nearly $1.9 billion to the U.S. economy, to say nothing of the indirect monies exchanged over babysitters, restaurant meals and parking fees, as well as theatre employees' own contribution to the tax base and to their communities.

MOVING TO THE TREND THEATRES, WE SEE THAT increases in ticket profits helped to propel positive earned income, although data also indicates that total attendance was down, as was the number of performances offered. Higher ticket prices—or at least audiences selecting higher-priced tickets—at the single-ticket level explains that discrepancy. Subscription income dropped again, as it has for the past three years, but single-ticket income regained the footing it lost in '09 to end the season slightly higher than in '08, for a five-year peak. Flexible subscriptions continued to increase their share of total subscribership (these smaller packages accounted for 8 percent of subscribers in '06 and 13 percent in '10), though several theatre leaders confessed misgivings about flex futures [see sidebar]. The percentage of theatre expenses covered by ticket income has hovered at about 40 percent for the past five years, coming in at 42.7 percent in '10 (the highest of the past five years was 43.3 percent in '06, and the low was 40 percent in '09). Breaking out that percentage for the 171 Profiled Theatres indicates that larger theatres tended to finance a higher percentage of expenses with ticket income, while Group 1 and 2 theatres (with budgets of up to $999,999) only covered 23.4 and 24.1 percent, respectively.

Anecdotally, many theatres say it's a bit like comparing apples to oranges to look at attendance numbers and income over the past few years. Resident productions played to 72 percent paid capacity (as opposed to 71 percent in '09 and 73 percent in the previous three years). But the number of resident performances tallied by Trend Theatres dropped by more than 1,000 from '09, the severest descent of the past five years. As Steven Stolen, managing director at Indiana Repertory Theatre, puts it, "It's hard to see what the numbers mean when you're selling less product." IRT cut two productions from its 10-play schedule in '09–10 and ended the season with a surplus, but has struggled to add back plays since then without ending in the red. "Something we've learned about ourselves is that we have to make that additional choice based on something that will sell really, really well," he notes. "From a flexibility and creative standpoint, no one loves that sort of economic pressure, but in this theatregoing town, we've got to get that right."

Still, IRT broke its single-ticket attendance record twice in '09–10. Oregon Shakespeare Festival, which operates only in single tickets, also turned in a record season, with a 5-percent increase in capacity, reports executive director Paul Nicholson. Dawn Helsing Wolters, managing director at Milwaukee Repertory Theater, says the Wisconsin theatre's single-ticket sales were also significantly up over the past season. "Milwaukee Rep has a really strong tradition of subscribing, so we're behind other communities in seeing the seismic shift in subscription patterns," she notes. "We might be starting to see it now. A new artistic director put us on the radar of new audiences. It will be interesting to see how they behave in the future—whether they work their way up the ladder of engagement, or stay single-ticket buyers. We're paying very close attention." Worth noting also is that Milwaukee Rep belongs to Budget Group 5 (theatres with budgets of $5 million to $9,999,999), which was the only group to report slightly higher subscription sales than single-ticket sales.

A time of transition actually helped Arena Stage, in Washington, D.C., pick up both subscribers and single-ticket buyers, says managing director Edgar Dobie. "Even though there were fewer shows in that season, the shows played for longer, so there were more single tickets available. Single-ticket revenue went up 20 percent. We moved half the season to Crystal City, Va., and our audience stayed with us. We actually picked up audience as well—and we've built upon that base to draw a higher percentage of our audience from Virginia." Meanwhile, Dobie reports that a subscription-growth trend began in '09–10 as well. "People were motivated by the fact that we were able to give a date of when we'd be back in the new building. They wanted to protect their night and their seats—their place in the line, if you will."

TICKET PRICES FOR SUBSCRIBERS AND SINGLE- ticket buyers both rose above inflation over the past five years, at 7 and 5 percent, respectively. "Our average ticket price went up," confirms Adirondack's Fleischer, "but not because we increased prices. People were buying the more expensive tickets. We've found that price point is not the issue [in declining audiences]—it's time and the density of activities in the area."

Other theatres zeroed in on the willingness of some ticket-buyers to pay top dollar by instating dynamic pricing. "We're striving to keep our ticket prices stable, especially for subscriptions," says Elisbeth Challener, managing director at Austin's ZACH Theatre. "But we've been aggressive with dynamic ticket pricing, and received very little pushback. We'll start dynamic pricing once a certain percentage of tickets have sold, and people are just happy to be able to buy that seat. Then there's more validity when we talk to subscribers about their savings." Nicholson also claims success with the dynamic pricing model, which Oregon Shakespeare Festival piloted in '09 (OSF's season runs by calendar year, and factors into the


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Kenneth Lee, Michael Markham, Avery Clark in Arkansas Repertory Theatre's 2010 *Hamlet*.

'09–10 *Theatre Facts*) for an additional $270,000 in ticket income. An expanded program the following year netted an additional $430,000 above normal ticket revenues.

But in some quarters, the discount habit can be hard to break. "We were selling the same number of single tickets, but more at a discounted price," confesses Michael McCurdy, managing director of Arkansas Repertory Theatre in Little Rock. "We did offer more discounts than we had in the past, but I think we corrected that trend the following year. It was reactive discounting rather than strategic discounting, and that's something we've tried to fix. Of course, we're in Walmart-ville here. People want discounts."

Several anomalies show up in attendance statistics. Touring is down, with a 39.6-percent drop in performances over the past five years. Meanwhile, theatres report considerable growth for readings, workshops and "other" paid performances, which include backstage tours, walking tours, play talks and lectures, cabaret performances and other late-night offerings. Attendance at readings and workshops (which are counted together) ballooned 19.6 percent from '09 to '10 with only 4.3 percent more offerings, while "other" happenings increased by a whopping 72.3 percent (but only attracted 14 percent more customers). It's likely that theatres—trying to find more ways to bring in audiences and their dollars—have upped their normal options for offstage extras, but audiences themselves seem to be seeking out additional aspects of the theatrical process. "We do one reading a year, and that's part of our subscription package. Attendance was actually quite high in '09–10," bears out Adirondack's Fleischer. "We've groomed our audiences so that that's part of the experience."

Suggests David Mack, managing director of Watts Village Theater Company in Los Angeles: "Like many small theatres in L.A., we've seen a major shift. Audiences are more interested in different types of projects that fit their schedule—projects that are new, that incorporate not being in a typical venue, that involve experiencing new things on their feet with music and dance and not simply the formal acting of a scene. This is a time for different kinds of artistic programming."

The biggest fluctuation in earned income, however, was generated purely by market recovery. Total investment income (interest and dividends, endowment earnings and capital gains) was up 183.4 percent from '09, hitting a three-year high, though still falling short of '07's numbers. Adjusted for inflation, investment income saw a negative 12.6-percent change over the past five years. Elsewhere on the earned-revenue side, rentals and other income (from ticket handling, insurance claims and other miscellaneous sources) were up 22.9 and 29.9 percent, respectively, over the five-year period (after adjusting for inflation). Meanwhile, advertising and royalty income were down 25.3 and 29 percent.

Education and outreach income was at its highest five-year level in '10, although that area fell short of inflation by 0.4 percent. The average number of people served by education and outreach ranged between a high of 18,600 in 2006 and a low of 16,800 in 2010. Schools and other constituents seemed to seek out education options, despite many cutbacks. "We actually are finding that the demand is more than our ability to provide, and we've had to cut back because we don't have the space," says Nicholson of OSF's record year for education programming.

But, as experienced by Adventure Stage, some programming growth might be coming at the expense of other options. "We're a theatre for young audiences, and rely heavily on school field trips, particularly from Chicago public schools," explains Letscher. "The '09–10 season started okay, then the bottom dropped out. We had a 40-percent drop in field trip money. Meanwhile, our residency program grew—it was the one thing that did—by 30 percent. Maybe people were hoarding money for in-school programs instead of field trips, whereas they used to have money for both."

Production income—combined income from co-productions and enhancement funds—rose 14.5 percent, adjusted for inflation, over the five-year period. Total dollars of enhancement income peaked in '09 (mostly due to one theatre's exceptional activity), and was at a five-year low in '10, but more theatres now report receiving funds (15 in '10 as opposed to 8 in '06). Money from co-productions was at a five-year high in '10, with an average of $152,692 reported (as opposed to a low of $85,700 in '08). Joining forces not only allowed theatres to tap additional production funds—it also connected them to new audiences and new sources for funding. "This was the first season that we produced a mainstage production in collaboration with a non-arts organization," reports Mack, whose Watts Village Theater Company worked with both Los Angeles County Metropolitan Transportation Authority and the Census Bureau to produce community-specific work in '09–10. "That led to revenue and in-kind support we hadn't had access to before. It was also the first time the company partnered with multiple theatres—six in the case of *Meet Me at Metro*—and that yielded successful results in audience participation and excitement among granters."

NEW ACCESS TO DONORS AND GRANTERS IS GOLD IN this new fiscal terrain, as theatre leaders seek to reverse falling income across contributed lines. Individual donors, trustees and foundations were particularly heroic in '09, helping to offset fall-offs in earned income. But all three funding areas slumped in '10, with funds from individual donors down 11.7 percent from the previous year, trustees down 15.8, and foundations down 30. Corporation giving, though a lesser piece of the pie than the aforementioned givers, also fell by 19.7 percent. State and local government funding, often the most variable of sources as giving is frequently tied to capital campaigns, declined 6.1 percent and 37.2 percent, respectively, over the five-year period. Federal funding fell from its '09 level (which skewed high due to one theatre's exceptional activity), but did manage to grow 45.9 percent over the past five years.

Foundations tend to operate on three-year cycle averages, so the effects of the economic downturn might just now be hitting grantees. The five-year view shows a 30.8-percent drop, and the wider 10-year lens (consisting of mostly larger-sized theatres) shows that foundation funding levels are 6 percent lower in '10 than in '01, adjusted for inflation. The average gift amount was at a five-year low, at $26,000, following the high in '09 of $34,500. "A lot of funders have stopped or decreased programs," confirms Mabou Mines's Fogarty. "We had had $75,000 over three years for operating support from the Lila Acheson Wallace Theater Fund. Losing that was pretty harsh." Foundation money not tied to specific projects is an especial holy grail, as many theatres can only attract grants with specific or large-scale work. "We have a project every other year that's foundation-worthy," says Arkansas Rep's McCurdy, "so our foundation numbers rollercoaster from year to year."

"Our board always says, 'More grants! More grants!' but that's becoming harder money to get," notes Fleischer, whose Adirondack Theatre Festival saw a 27-percent drop in foundation giving in '10. "The big local foundation asked us to sit out that year. We decided to focus on local and corporate donors that season. We used to hold on announcing the season until our benefit—but who cares? We nailed down the shows early and went out and got sponsors." His West Coast colleague concurs: "This is a time for different strategies in funding models," says Mack. "Watts had mostly been government funded, but government grants were always very specific. There was nothing that we could use for cash on hand. A project was finished, and the company was out of money until we got a grant for the next project. A lot of major foundations had suffered cuts in endowments; the NEA told us to be happy if we got what we got last season. The writing was on the wall: If we wanted to grow as a company, we had to make a change and shift toward in-kind, individual and corporate funding. We saw positive results in that after the '09–10 season."

WITH CORPORATE SUPPORT CONSISTENTLY EBBING since '06 and covering only 3.6 percent of theatres' expenses in '10 (individual donors, by contrast, cover 10.3 percent, foundations 6.9 percent and trustees 5.1 percent), it may seem surprising that several theatre leaders interviewed trumpeted corporate giving as the wave of the future. But going after corporate donors may be an area in which theatres can reposition themselves in the current climate. Stolen's Indiana Repertory Theatre saw its biggest fundraising year in history in '10, with record-breaking corporate support, which accounts for a third of the company's contributed income. "We're very intentional about trying to do well corporately," says Stolen. "We have a small staff, and we really believe that the time we spend with corporate spenders is the most worthwhile. We've tried to step away from working with corporate marketing directors, and get face-to-face with CEOs and various people in the company, create deeper relationships, connect on mission work."

Meanwhile, significant gains were seen in income from fundraising events, in-kind support and contributions classi-

THE ACCUMULATED DEBT CONUNDRUM

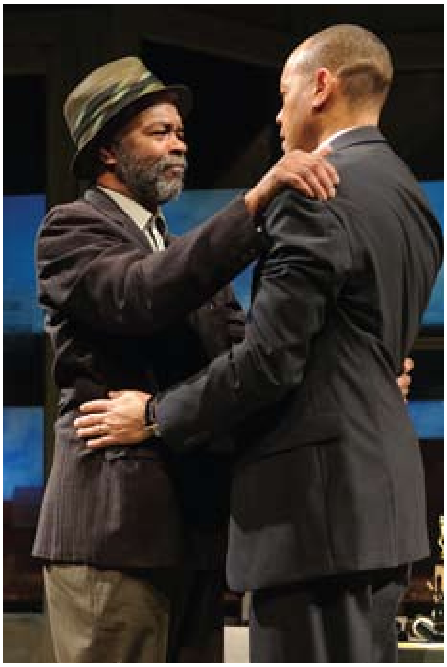
HAVING WEATHERED THE FINANCIAL turbulence of the past two years and slimmed down to fighting weight, many theatres—particularly those with smaller budgets—realized that the next priority for survival was to eliminate, or at least greatly reduce, outstanding debt.

"We had a deficit in '08–09," reports Mark Fleischer, producing artistic director of New York's Adirondack Theatre Festival (a Budget Group 1 theatre). "When we wrote the budget for '09–10, which was a tight budget, the first line item was to erase the deficit. People said, 'You don't have to do that,' but just watching recent history, accumulated deficit has been the downfall of too many organizations. With aggressive fundraising, ticket sales and belt-tightening, we erased that deficit in one year, which is a big deal for a small group."

"When you have $900,000 coursing through your bank accounts, it's fine to have some debt," concedes Sharon Fogarty, co-artistic director of Mabou Mines in New York, which saw its total budget line fall in '09–10. "But when you're down to $650,000, as we were in '09–10, you feel it a lot more. We made an extra effort to pay some debt."

Even theatres that have historically been sheltered by parent organizations—as Chicago's Adventure Stage has by Northwestern Settlement—were feeling the heat. "We're usually subsidized by other programs in the organization, so there's a level of deficit spending that we've understood to do," says managing director Scott Letscher. "That deficit grew, unfortunately, to the point that we had to turn around and cut the budget at the end of '09–10." A particularly down season for that theatre also led to its first solo push for individual donors beyond the fundraising efforts of Northwestern Settlement. "We were happy with the initial return, which generated $5,000 that had not been budgeted," reports Letscher. "Of course, that didn't make up the deficit on the earned revenue side."

Denis Griesmer, general manager of Cleveland Public Theatre, credits staff as well as artists for a shared commitment in pulling CPT out of debt. "Five years ago, we were in a negative cash position with a lot of debt," he says. "Since then, we've worked conservatively, adding $25,000 a year to our working capital. Because we're closely engaged with a lot of artists, they are as committed as our staff to keeping CPT fiscally sound, including working for less money. Artists have been strong stakeholders in the company." —*Hart*



JAY WESTHAUSER

Left, William C. Mitchell and Tyrone Mitchell Henderson in *Radio Golf* at Milwaukee Rep, 2010; above, James Patterson, Krista Kurtzberg and Justin Goodemoot in *What a Glorious Feeling* at Adirondack Theatre Festival, 2010 (a co-production with Westport, N.Y.'s Depot Theatre).

JIM MCLAUGHLIN

fied as "other." Fundraising events, which were the third most lucrative area of contributed income after individual donors and foundations, were up 12 percent over the previous year and 11.4 percent over the past five. In-kind services, materials and facilities saw a 4.9-percent bump in '10 from '09 and a 21.5-percent increase over five years, and fell just behind corporations in terms of total expenses covered. But the biggest change came in the "other" category (including cash support from sheltering and service organizations), which mushroomed 46.3 percent in '10 for a 133.6-percent growth over five years, bringing it ahead of corporate support for the first time in the five-year period.

Of course, special events dollars don't come easy. As ZACH's Challener puts it, "Austin loves its parties. Special events are a primary source of income for us, but we'd rather see growth in other areas. Events are time-consuming and costly to put on. We need to wean our donors off special events and onto annual giving." One way ZACH has accomplished that is through a program begun in '08–09: an evening of vignettes previewing the upcoming season, followed by testimonies from actors, students, staff and board on why the theatre is important. "It's a really celebratory and festive evening that has become a catalyst for individual donations," explains Challener. "If we're going to give them a party, then at least it's tied to mission—and to annual giving."

And though individual giving leads the way in contributed financial support (and has, by far, over the past 10 years), encouraging and maintaining donors can require quite a bit of elbow grease. "Seventy percent of our contributed income is coming from individuals," notes OSF's Nicholson. "Now, that didn't happen by coincidence—that's due to our ongoing work with individuals, building relationships. A consultant we once had here said that OSF is the highest-touched organization he had ever seen. We do touch our patrons a lot to connect with art, connect with each other."

Social networking and other web-based connections continue to make the back-and-forth between individuals and theatre more immediate. "It does feel different with individual donors," belives Mabou Mines's Fogarty, whose organization used online donations for the first time in '09–10. "There's Kickstarter and all these ways of making donations that are easy. We didn't use Kickstarter, but it does feel like people are more willing to give 10 bucks these days than they used to be." Still, while people may be more willing to give at low levels, they may not be inclined to stick around. Says Matthew Wiener, producing artistic director for Arizona's Actors Theatre of Phoenix, "Between '09 and '10 our individual contributed income line went up, but the number of gifts went down. We did an analysis of that partway through the year. Our donors of $500 or more had increased their giving, but there had been a 70-percent drop in low-level gifts." Indeed, the average number of individual donors was at a five-year low in '10 (1,444) after a high in '09 (1,643), but the average gift ($465) finished at the second-highest level of the five-year period.

Size of gifts varied by budget group for the Profiled Theatres, with Group 4 (budgets of $3 million to $4,999,999) reporting the highest average gift at $508. Perhaps not surprisingly, Group 1 theatres reported the lowest at $207. Group 6 theatres received considerably higher foundation support in absolute terms, but Group 1 and 2 theatres covered a larger proportion of their expenses from foundation income. Groups 2 and 4 had the highest levels of individual donor funds in proportion to expenses; Groups 2 and 3 led the way in corporate support; and Group 1 topped out in-kind donations and fundraising event income. Overall, Group 3 relied most heavily on contributed income, with 68.2 percent of expenses covered.

All of this toiling to bring in dollars was carried out by the smallest workforce of the five-year period. The average number of paid employees—full-time, part-time and jobbed-in—fell to 214 in '10 after a five-year peak of 229 in '09. Though theatres cut spending in nearly every category in '09 and '10, expenses still outpaced inflation by 3.1 percent over the past five years. "At $400,000, there aren't many paper clips you can cut anymore," sums up Adirondack's Fleischer. "We're pretty thin anyway," echoes Fogarty of Mabou Mines. "If we cut back anymore we wouldn't be able to set the thing up in order to produce." Adds Arkansas Rep's McCurdy, "We have been a barebones employee force from well before any kind of recession. It's not an option to decrease our workforce."

These lean theatre machines were more efficient in fundraising efforts, laying out 14 cents (including fundraising event and personnel expenses) for every dollar of returned contributed income. That same dollar came at a price of 15 cents for the previous three years. Excluding personnel expense, single-ticket income came more cheaply as well in '10, clocking in at 21 cents on the dollar, the best record of the past five years. Likewise, subscription dollars could be had for 12 cents, compared to the 13-to-15-cent range between '06 and '09. The total expense lines for both development and marketing were cut over the past two years for a five-year shrinkage of 1.9 and 5.8 percent, respectively.

Still, greater efficiency doesn't necessarily dovetail with bigger cuts, particularly in the case of marketing. OSF's Nicholson cites an essay that appeared in the *New Yorker* in April '09 by James Surowiecki, "Hanging Tough." Surowiecki summons Great Depression–era gambits by the likes of Kellogg and Chrysler to illustrate that "companies that keep spending on acquisition, advertising and R&D during recessions do significantly better than those which make big cuts."

"That really guided us," says Nicholson. "Each year we are researching and developing a new product line, so investment in that is crucial. We invested much more in marketing, and became more strategic, especially with the Internet."

The sharpest proportional cut in expenses was for general artistic non-payroll, i.e., housing and travel, per diems, company management and stage management expenses, which fell 12.6 percent from '09. Stolen notes that, at least for Indiana Repertory Theatre, such cuts could be a blessing. "We have the economic opportunity to do more casting with local actors—and we have a good cadre of local actors and are happy to be able to offer that work for them without feeling as though we're compromising quality. It's kind of a happy necessity—it's the right thing to do for our artistic product, but we can also maximize resources in artistic and production with less travel and housing."

Only two expense areas exhibited growth in '10: production expenses, which swelled 36.4 percent over the past five years, and occupancy costs (including building, equipment and maintenance), which rose 9.4 percent in the same time period. "It's a balancing act," says Milwaukee Rep's Wolters, "looking at a given year and deciding how much can you invest in keeping a facility up-to-date, and how much in the art on stage."

THE *THEATRE FACTS* AUTHORS PROFFER THAT WORKING capital (total unrestricted net assets minus fixed assets and unrestricted long-term investments) indicates a theatre's day-to-day operating position better than CUNA—but the results aren't pretty. The average 10-year Trend Theatre has experienced negative working capital annually since '02, and though small improvements were seen in the 5-year Trend Theatres in '07 and '08 (still negative, but less negative), that number nosedived in '09 and '10, nearly quadrupling the aggregate negative working capital between '08 and '10. One theatre in particular skews the average in the past two years, but even eliminating it from the computation still leaves negative working capital in '10, nearly double '06's level after adjusting for inflation. Cool Spring Analytics, the financial consulting service that recommends balance-sheet equations for *Theatre Facts*, advocates a working-capital ratio (the proportion of unrestricted resources available to meet operating expenses) benchmark of 25 percent, or three months of working capital. The average ratio in '10 was negative 35 percent. Dialing into the Profiled Theatres' budget breakdowns reveals the worst problems among mid-sized thea-

THE RECESSION PROGRESSION

"WHERE DID THIS RECESSION HIT people, and how do we all turn out of it?" wonders Michael McCurdy, managing director of Arkansas Repertory Theatre in Little Rock. "We're not all going to turn out of it at the same time. It would be interesting to look at this region by region."

While the Fiscal Survey doesn't return a broad enough sample size to break down the numbers by state or region, experience certainly suggests location could play an important factor in theatres' season-by-season fiscal health. "If you took a broad stroke of the economic downturn, I think some people started to feel it earlier and came out of it earlier," McCurdy surmises. "The ramifications of the recession hit us later than the more metropolitan areas or the coasts. I had a worse season in '09–10 than in '08–09. I think we're a year behind the curve."

Meanwhile, Elisbeth Challener, managing director at Austin's ZACH Theatre, observes that "the economy in Texas has worked in our favor. Texas hasn't had some of the same challenges as the Midwest or California. I worked in Northern California five years ago [as the executive director of Montalvo Arts Center near San Francisco], so I know what happened to real estate in the '90s and 2000s. Coming to Texas, there wasn't that lead-up, so the cutbacks weren't as drastic."

To be sure, political candidates have wasted no time in pointing to the Lone Star State's "miraculous" eluding of the recessionary crisis (and prominent media critics have subsequently submitted their debunkings of that miracle). But it's interesting to peruse an October '09 list of the 40 U.S. metropolitan areas least pummeled by the recession and best poised for recovery. The list, compiled by *Bloomberg Businessweek* from data collected by the Brookings Institution, placed Austin at number two and Little Rock in the four spot. Five of the top 10 are in Texas, and 4 of the remaining 5 are in the contiguous states of Arkansas, Louisiana and Oklahoma.

Being a little further down the recessionary line might just mean a delayed hit—as evidenced by Arkansas Rep's numbers. But Challener thinks the timing allowed ZACH to be proactive and retool its '09–10 budget, so that even when the downturn reached Texas (which was the last state to enter a recession), the theatre was prepared with a leaner budget. —*Hart*

Andy Agne in *Metamorphoses* at Austin's ZACH Theatre in summer 2010.

KIRK R. TUCK

tres, Group 3 in particular, with negative 38 percent. (Budget Group 6's numbers were again skewed by one theatre; retooling the ratio without that theatre brings it to negative 24 percent from 44—still a worrisome figure.) Only Group 1 theatres posted a positive line, with an average of 18 percent working capital ratio.

"We're in bad shape with working capital," acknowledges Stolen. "It's a perilous situation. After the deficit challenges of '08–09, then the ones we faced in '10–11, we're in a challenging position with accessible cash, and we're aggressively trying to address that. Cash flow could become a problem for us."

"We were building a new building and had a $125-million capital campaign," recalls Arena Stage's Dobie. "Such an abundance of funds flowing can mask things like working capital. But the fundamentals remain a challenge for all Group 6 theatres, basically operating from subscription campaign to subscription campaign."

"As the whole idea of foundations changes, working capital is what theatres really need to focus on these days," contends Wolters.

But even as theatre leaders agree with the grave ramifications spelled out by the *Theatre Facts* authors, many are still at a loss on how to fix such deeply ingrained patterns. "Show me a theatre with operating capital: I want to know what they do," begs McCurdy of Arkansas Rep. "Especially in this midrange, mid-sized theatre. What are those models? Our biggest weakness is cash flow. It's all functional on the success of the season, and I cannot improve upon that situation."

Others find it useful to identify different barometers to guide working capital planning. "We express our working capital as a percentage of next year's budget, to tell us how much of next year's budget is covered by reserves," relates OSF's Nicholson. "The board policy is to have 15 percent of next year's budget covered by reserves. At the end of '09, we were up about 23 percent." ZACH's Challener adds, "We started using our deferred revenue as a metric—our goal was to have our operating cash equal or greater to our deferred revenue."

Theatre Facts outlines an altered playing field from that of three years ago, but overall theatres are adjusting to this *new normal*—going after new sources of funding, turning inward to fine-tune institutional efficiency and making plans for the future. "I'm feeling bullish about the enthusiasm out there," says Stolen. "The phones are ringing. We've got a good chance."

Sarah Hart is a former managing editor of this magazine.

GOOD THINGS DON'T ALWAYS COME IN SMALL PACKAGES

OH, FLEX PASSES! THOSE SAVIORS of the subscription model! Those seducers of the sexy single-ticket buyer! Those....

Well, to tell the truth, theatre leaders just aren't feeling that vibe anymore. Although small packages and flexible buying plans have slowly expanded their share of the subscription market over the past five years (up to 13 percent in '10), many interviewees expressed frustration or even a growing distaste for the small-package model.

"We went the opposite way and reduced the number of flex passes," says Edgar Dobie, managing director of Arena Stage in Washington, D.C. "It was a year of simplifying for us, and that streamlined the transaction. But our overall strategy has been to try and build a bigger commitment. We were moving back into three theatres [instead of two] and would be producing bigger seasons with bigger packages. We've been successful in growing—as we call them—'full boat' subscriptions."

Likewise, says Elisbeth Challener of ZACH Theatre in Austin, "We haven't been pushing exec passes [a flexible 10-play package]. They were down in '10 to 31 percent of ticket sales, as opposed to 37 percent the year before. People forget to use them and aren't as motivated to renew, or they use all the tickets for one or two shows, and don't get a full season experience. We're stepping away from that, but wouldn't want to not offer it at all, since some subscribers do really want it."

Strategy is key, if theatres want to see growth across the whole subscription board. "We've offered more flex passes, but adjusted the way we sell them," offers Dawn Helsing Wolters, managing director at Milwaukee Repertory Theater in Wisconsin. "Which packages we push can help to prevent the typical lack of renewal. People don't redeem them, then don't renew, so you have to be smart about how you use them."

Steven Stolen, managing director of Indiana Repertory Theatre, wholeheartedly concurs: "We missed badly in our small-packages projections in '10, I think due to choice of material in the season blocks. According to surveys, that really is a fickle audience, and we opened with two plays without notable name recognition. We tried to learn from that and calibrate differently. We need to add more choices in the fall, early on in the season."

But some theatre leaders are simply ready to cut the cord. "We're discontinuing flex subscriptions next year," confirms Scott Letscher, managing director of the Chicago theatre for young audiences Adventure Stage. "We started it about three or four years ago as an experiment, but it's not a viable model for the audience we're dealing with. Family audiences don't want to commit to even a flex subscription—they just go with single tickets." *—Hart*