MANAGEMENT CONSULTANTS FOR THE ARTS

EXECUTIVE SEARCH • PLANNING • ORGANIZATIONAL ANALYSIS

Harris Center

Three Stages at Folsom Lake College

Organizational Analysis and Sustainability Report

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Table of Contents

Submitted
by
David Mallette, President
Jason Palmquist, Consultant

Management Consultants for the Arts, Inc.
www.mcaonline.com

INTRODUCTION

Harris Center for the Arts ("HCA" throughout) has engaged Management Consultants for the Arts ("MCA" hereafter) to conduct an organizational assessment and to draft this analysis report as part of a long-term sustainability evaluation. To gather information for this assessment and conclusions, David Mallette and Jason Palmquist interviewed HCA staff members, District and College administrators and staff, trustees, faculty members, and professional and lay leadership of local arts groups that are renters of HCA. In all, 26 individuals were interviewed over a period of three weeks. These interviews were generally conducted by video. Further, we requested and received many internal documents, including financial information, year-end actuals, development and marketing materials, giving and ticket sales histories, and booking information.

The structure of this document is based on the various functions of the organization, outlined above in the table of contents. Each area is given its own "SWOT" box (strengths, weaknesses, opportunities, threats). Throughout this document, <u>MCA recommendations or areas for follow-up are underlined.</u>

A NOTE on the PANDEMIC

This project has been conducted in the midst of the COVID-19 pandemic. College and LRCCD leadership had made the difficult decision to close HCA prior to engaging MCA for this evaluation. Data used for this report and the consultants' recommendations are from pre-pandemic operations. To state the obvious, at this juncture (January 2021), the entire arts industry is in an economic tailspin. If our country continues to be ineffective in slowing the spread, it is quite likely that many organizations will close their doors permanently or enter a long-term hiatus. The arts field has already suffered much economic damage with the likelihood that the state-of-the-field will worsen further before seeing a recovery.

Out of every crisis comes innovation. This is not a rose-tinted platitude. Inventions generally come from need and frustration. Every crisis also offers opportunity. As the "herd is thinned" in the arts world, there will be a shift in where audiences go – existing organizations that reach out or new organizations that rise up to fill the void. Before the 1973 Arab Oil Embargo, no one would have predicted that foreign manufacturers would now represent more than half of the U.S. automobile market; it was less than 10% in 1970. But to manage your expectations, it is doubtful you will find anything that can be defined as innovative in this report. It has been written from a pre-pandemic point of view, although some references and allowances are made to COVID throughout. The SWOT boxes purposely do not include references to the pandemic (to keep referring to it would be redundant). Nonetheless, the recommendations here will be useful, we hope, as the field moves through this challenging time.

Following this assessment report, the consultants will offer options on new or modified operating models for HCA, including pros and cons for each model and our recommendations for your consideration.

DEFINITIONS and ABBREVIATIONS

Throughout the report, we will define terms and abbreviate as follows:

1) College – specific reference to Folsom Lake College
2) Commercial Renter – a for profit independent presenter using the HCA
3) CBA – collective bargaining agreement
4) FOH – front of house
5) HCA – Harris Center for the Arts
6) LRCCD – Los Rios Community College District
7) MCA – Management Consultants for the Arts (consultants for this report)
8) PAC – performing arts center
9) Resident Company/Companies – regular nonprofit organization renter that is given priority vis-à-vis scheduling and/or rental rates. For HCA, these have been identified as Folsom Lake Symphony (FLS), El Dorado Musical Theatre (EDMT), Folsom Concert Association (FCA), and Pamela Hayes Classical Ballet (Ballet).

OPERATING MODEL

Nonprofit PACs operate on a number of variables, each of which impacts their programming model, finances, and ultimately, their sustainability. These variables include the following:

- Audience capacity of venue/s;
- Type of stage/s (e.g., proscenium, thrust, in-the-round, black box, etc.);
- Owned vs. leased venue;
- Backstage size and technical capabilities;
- Relationships with resident companies;
- Types of work produced and/or presented (including renters);
- Earned / contributed revenue ratio;
- Scope and size of educational, training, and community engagement activities;
- Union representation (or lack of) for administrative and production functions (stagehands, FOH, musicians, etc.).

While some of these variables likely indicate a level of quality – for example, in some markets, union performers may offer a higher quality of performance ability – there are pluses and minuses on each of these variables. Here are the primary variables of HCA's operating model:

1) Three stages with 851, 207, and 95-seat capacities;
2) Owned venue (vs. leased);
3) Presenting organization (vs. producing, such as the Symphony or EDMT);
4) Significant operating support from the College and LRCCD;
5) Union representation throughout, but notably, no traditional performing arts unions (e.g., IATSE, AFM., etc.[1])
6) Booking priority given to academic teaching units.
7) Booking priority given to resident companies, which includes both prime calendar dates as well as the length of time booked;
8) Modest education programs – daytime matinees during the school year and College-sponsored camps in the summer.

Outside of support of local arts groups and academics, HCA operates primarily as a commercial roadhouse with self-presented shows.

[1] International Alliance of Theatrical Stage Employees and American Federation of Musicians

This operating profile offers several positives:

- HCA's size and location offers opportunistic (albeit late) chances to get bookings;
- Audience capacity for Stage One offers a suitable gross income model for many touring productions;
- Presentation seasons are scalable;
- Significant support from the College and LRCCD;
- Presenting is scalable and offers flexibility for types of work presented;
- A home base providing support of local arts organizations;
- A high-quality venue for the College's teaching units.

There are also negatives, of course:

- Large-scale productions are less likely to be economically viable with 851 seats;
- There are several competing venues in the area;
- Calendar priorities that are properly given to academics and resident companies also represent a commensurate loss of potential revenue;
- There is some competing programming between HCA Presents and local user groups and commercial renters;
- Existing CBAs, both FOH and backstage, do not work well with the needs of a PAC.

CALENDAR

A crucial aspect of successfully operating a PAC is successfully managing the calendar. To state the obvious, a dark night is a lost revenue opportunity. While it is possible to schedule *TOO* much activity in relation to staffing capacity – and multiple interviewees stated that they believed this has occurred at HCA – the critical mass of activity must be economically productive.

There are no formal policies at HCA regarding scheduling. That is not to say that the multiple users of the facility have not been served well. While nearly every constituency would like more time or priority in booking or both, we found overall satisfaction with nearly every user of HCA. A modest exception exists with some of the faculty. Their opinions range from "*We need a few more hours a week…*" to "…[HCA} *should be completely run by faculty as a full-time teaching center*." For resident companies with higher production needs, HCA allows a generous rental period as well as consecutive weekends of performances.

<u>MCA Recommendation: Many, if not most, PACs adopt formal policies around scheduling dates. In some instances, dates are booked two, three, even four years in advance - a "HOLD" period - which gives renters the assurance of their specific dates. During a HOLD period, however, other potential renters can request the dates, and the HOLD client must then confirm usage and guarantee payment or release the dates to the second renter.</u>

After the HOLD period comes a final confirmation by the users. The confirmation assures the PAC that the dates held will be paid for by the resident companies and allows resident companies to book their artists, performers, and designers with confidence. With HCA, the resident companies are either run by volunteers (FLS, FCA) or are student groups (Ballet, EDMT), so the much shorter planning window has been workable – and perhaps preferable – for them. However, this disadvantages HCA in terms of managing the calendar toward the most economically robust usage. Further, for building a strong subscriber base – one of the tools for building financial strength – a campaign needs to roll out in January or February (more on this in the financial section). The current planning cycle does not allow for this. Although no formal booking policies exist, the priority order for booking appears to be as follows, in this sequence of priority:

1) Academic teaching units;
2) Resident companies;
3) HCA Presents;
4) Commercial presenters;
5) Other rentals.

Much of the current calendar can be traced to the initial year opening of HCA. Even in the absence of formal booking policies, expectations for calendar dates get "baked in" and carry forward year-to-year. One result is that HCA Presents has negligible time on the calendar during the critical Thanksgiving to New Year's time period. Those dates are filled with end-of-semester performances by students at the College and resident companies.

Finally, calendars are set late in the planning stage – generally by February in the same calendar year, just six months in advance of the start of the performing year. Although some dates are "protected" by HCA earlier to confirm touring acts, this creates an extremely short window.

Operating Model SWOT

Strength:
- Support of resident companies and academics

Weakness:
- Late booking deadlines
- Calendar dates and length of rentals for resident groups preclude more remunerative HCA Presents dates
- CBAs don't work well in a PAC

Opportunity:
- Better calendar management
- Holiday programming
- Education and community engagement programming

Threat:
- Renters booking competing programming

MISSION

Our firm's process and belief are fully rooted in clarity of the three key elements of mission for your organization:

- Purpose. What is your purpose for existence? In other words, WHY do you do what you do? What changes are you trying to accomplish in your community and why do those changes matter?
- Core Values. What are the fundamental and nonnegotiable beliefs to which you adhere?
- Long-term Vision. Where is the organization headed over the next ten to twenty years? What in this picture will pull you into the future?

While a discussion of mission is not included in the charge for this assessment, and our interviews did not focus deeply on mission questions, it is always interesting to see if the principals in an organization speak about it as part of their day-to-day thinking.

We found that stakeholders consistently reinforced the three primary areas of mission focus, namely providing a venue for the presentation of professional artists, creating an artistic home for local artists, and facilitation of work created and/or performed by students.

The Harris Center for the Arts Mission Statement:

> ***The Harris Center for the Arts seeks to enrich the lives of people throughout California's capital region by providing venues and opportunities to experience artistic work, celebrate cultural traditions and participate in the creative process. It does this through operation of a $50 million, 80,000 square foot regional arts center opened in 2011, and an evolving array of vibrant programs geared for people of all ages and backgrounds. Among these,***
>
> - ***Presentations bring artists from around the world to the Center to perform and share,***
> - ***Partnerships make the Center a home for local artists and arts organizations, and***
> - ***Productions are work created and/or developed on site.***
>
> ***The Center is home to Folsom Lake College's visual and performing arts instructional offerings, as well as other life-long learning programs for the broader community. Special youth arts education programs include a Summer Arts Academy, Youth Chamber Orchestra and Class Acts! Schooltime Matinee Series.***

In almost every organization, there are two types of values, even though they are seldom categorized separately: 1) Core Values – those beliefs are nonnegotiable will remain unchanged over generations; and 2) Instrumental Values – important, even essential values, for successful business operations and community / societal relationships. Examples of these values are stewardship; fiscal responsibility; collaboration; good governance – all necessary for successful operations. However, instrumental values will change and evolve over time.

While a clear expression of core values was not a part of the materials provided to us and are therefore likely not specifically articulated, we did hear several consistent statements of values in our interviews. It is our perception that these are likely core values of HCA:

- Commitment to the community
- Support of performing arts teaching units on Folsom Lake campus
- Support of local arts institutions

MCA recommends that you take some time to articulate "the why" proposition in your mission and more clearly articulate core values. While the support of performing arts teaching units aligns with Folsom Lake College's educational mission, why is a commitment to the community and providing support to local artists important to you? Mission is your higher calling – the way in which you endeavor to make the world better and why your work matters. As to values, an organization is generally only able to adhere to a few of these – sometimes only one or two, and never more than five[2]. These are the bedrock, nonnegotiable beliefs to which you adhere. Here are good questions to explore regarding a "core" value:

- Has it guided the organization since its inception?
- Will it still be guiding you 25, 50, 75 years from now?
- Are there examples of the organization's adherence to the value even if the outside world disagreed or even punished you for it?

Understanding your essential, nonnegotiable ***core*** values is particularly important in times of duress.

Equally important to an articulation of core values will be an expression of a future vision for the Harris Center. Vision is the "where" – where we are taking this organization, the long-term point on the horizon we are moving toward. It is always different from today and it has enough power to draw us toward it. Whatever operating model you adopt will need to be in alignment with this future vision.

Also, it is worth noting that we consistently heard during our interviews about the importance of minimization of risk at HCA, and while we would not consider this an instrumental value as defined above, it is clearly a driver in how you operate.

Mission SWOT

Strength:

- Broad understanding of the three main areas of mission focus – professional artists, support of local arts organizations, and student impact

Weakness:

- Lack of codification of core values and future vision

Opportunity:

- Spending reflective time on mission bonds your thinking, particularly in a time of duress
- Developing a more aspirational vision statement will set a mark that will energize you to achieve it

Threat:

- None noted

[2] ***Integrating Mission and Strategy for Nonprofit Organizations***, James A. Phills, Jr.

PROGRAMMING and SERVICES

Programming

HCA Presents programming is solidly populist and accessible, primarily offering known artists and/or programming titles. Of the genres that HCA offers, music and musical theater are in the super majority. Combined with three musical resident companies and two commercial renters (who both book concerts), more than 75% of events at HCA are music and musical theater. One interviewee described it thus: "*We program for older white people with disposable income*."

There is little "curating" by HCA around programming by resident companies and commercial rentals. In fact, there appears to be some ongoing competition between HCA and its renters. On a few occasions, two similar acts were offered in close calendar proximity, one by HCA and the other by an outside renter. On rare occasions, HCA and a commercial renter will go after the same performer. Among some PACs and their constituent renters, there are informal agreements around programming; e.g., "Our organization will stay in the classical music lane and your organization will program jazz, folk, and world music." We are not aware of any such agreements within the HCA partners.

Education / Community Engagement / Training

The programming portfolio should be viewed holistically. Although main stage programming is at the core of any PAC's offerings, a host of other programming options are available through education and training and community engagement. HCA's education efforts are modest and consist primarily of daytime matinees for student audiences. Resident companies have similarly modest efforts; there are some daytime matinees offered but little else. Of course, two of the resident companies have training of young people at the core of their mission, but both are tuition-based models; participation is out of reach for many in your community.

Additional programming with a focus on education and community engagement can be considered. These efforts are not simple nor are they a panacea. They also seldom "pay for themselves" with earned revenue. However, meaningful programming can be, and generally is, supported through philanthropic sources. It is the type of programming that enables a PAC to make a case that it is serving the entirety of the community and removing barriers of access such as money, geography, etc.

Resident Company Dynamics

As noted earlier, the HCA resident companies are either run by volunteers (FCA, FLS) or cater to student performers (Ballet, EDMT). These latter groups also use a significant amount of volunteer production / technical labor. Except for EDMT, each of these organizations operate with annual budgets well under $1 million; EDMT is just over $1 million. It is commendable that all of these organizations have had the success that they have with either lay leadership or amateur student performers. Interviewees shared that the quality of resident companies' productions or presentations is high. Since most are producing or presenting concerts or musical acts, production needs are modest. For fully produced shows such as EDMT, a longer time is needed for load-in, tech, and rehearsal than a professional company requires.

All the nonprofit resident groups operate with modest contributed revenue; i.e., these groups raise little of their annual income through fundraising. Their most recent 990s indicate that contributed revenue represents 22% of total annual income at the high end to as little as 0%. The student performer resident companies (Ballet, EDMT) are tuition-driven revenue models structured like a for-profit entity. Nonetheless, these organizations are viewed as important to the community. Their nonprofit status, however, allows their preferential booking status and half-price daily rental fee. The question for HCA is how to balance its own revenue needs vis-à-vis calendar and programming choices with those of the resident companies that are, in large measure, operating as for-profit entities.

HCA Presents offers almost no holiday programming in the critical Thanksgiving to New Year's Day timeframe. Some of these holiday dates are needed by academic units for end-of-semester performances; the remainder have long been ceded to the resident companies. The result is that HCA has lost "prime time" calendar slots to local rentals rather than use those dates for its own presentations. Financially, this has significant - and negative - implications for HCA's operations.

Just a one or two-week run of a professional company's presentation of *The Nutcracker* or *A Christmas Carol* or *Holiday Inn* can have a significant positive financial impact. By way of comparable example, in 2019, a one week, seven-performance run of *Spamalot* netted nearly $65K playing to just 80% of capacity. Using that benchmark, a two-week holiday run of a professional show could generate, conservatively, $130K in net revenue.

Another untapped opportunity is co-presenting; i.e., offering a top-tier touring performer or show as a joint presentation of HCA and one of the resident companies or commercial renters. An example might be a presentation of the Boston Pops jointly shared between HCA and Folsom Lake Symphony. This formula allows for joint risk / shared upside and can have other major benefits, such as being an inducement for subscription sales. No such shared presentations currently exist. In such an arrangement with resident companies, HCA would need to provide the administrative support in most instances.

Presenting / Production Model

The HCA presenting model is largely based on short-run shows – often only single performances – with quick load in/out. The audience capacity of Stage One is well suited to musical acts which require less production support than theater and dance. Of the 81 HCA Presents offerings in 2018-19, only 14 (17%) had more than three performances. The preponderance of HCA Presents shows are single performance events. And of the 129 offerings through rental partners, just five (4%) had more than three performances. In 2018-19, all but four HCA Presents shows had an artist fee of $20,000 or less – about what would be expected in an 850-seat venue.

This is an extraordinary amount of activity requiring a *LOT* of load in / load out. The first performance is always the most expensive to present; subsequent performances drop significantly in cost. Given the populist fare offered, you may want to consider doing fewer titles while retaining a similar number of performances. Of course, the market determines the number of performances that are economically viable or whether a show should be offered at all. In 2018-19, more than one-third of the Stage One presentations played to less than 50% capacity with a combined net loss of nearly <$304K> in one year. Many of these were, in fact, wonderful artists and most PACs have lines of programming that seldom pay for themselves at the box office. Thus, the need for philanthropic support alongside effective efforts in building a subscriber base across programming genres. Both efforts are in short supply at HCA, but that shortage offers a window of opportunity for new and expanded revenue.

Collective Bargaining Agreements

Most PACs have union representation; often there are multiple unions with CBAs. HCA is subject to two CBAs; neither is structured around a performing arts institution. This lack of alignment results in oddities such as a box office with many part-time employees, more fully discussed below in Leadership and Staff.

Front of House

The patron experience was described consistently as "good news / bad news."

The good news:

- HCA is easily accessible with clear directional signs.
- There are several restaurant options nearby (although none within walking distance).
- The building is beautiful.
- The pool of 1,600 (!!) volunteers who usher are warm, welcoming, and well-trained.
- Parking is easily accessible for evening and weekend performances.

The bad news:

- HCA has no restaurant facility onsite.
- Concessions have minimal choices.
- No alcohol is served – a consistently lamented issue.
- Parking for daytime performances during the week can be a challenge.
- There is no VIP lounge.

Programming and Production SWOT

Strength:

- Highly accessible programming; overall box office success
- Very strong on music events
- Strong FOH and volunteer corps

Weakness:

- CBAs do not work well in a PAC environment
- Lack of audience building strategies
- Too many one-nighters (most of which are a financial drain)
- Resident companies with too much time in venue relative to attendance
- Minimal concession choices; no alcohol

Opportunity:

- Holiday programming for HCA presents
- Streamline number of events and focus on building audience

Threat:

- Competitive programming between HCA, resident companies, and commercial renters
- Lack of backup for key positions

LEADERSHIP and STAFF

Leadership

A caveat, to begin. Nothing in this assessment should be construed to be a performance review of anyone. Under the current structure, the Executive Director shoulders an enormous responsibility for the success or failure of the Harris Center. Not only is the Executive Director the de facto programmer for HCA but is also responsible for managing the calendar, liaising with College and LRCCD administration, and providing leadership of marketing and development activities.

Staff

We had the opportunity to interview a number of staff members, and although they are currently working in alternative roles, they are clearly passionate about their association with HCA. That said, existing collective bargaining agreements were not created with a PAC structure in mind. This is particularly apparent with FOH operations (box office and house management) and backstage. Part-time, temporary employees are extensively used in these operations resulting in increased burden on full-time staff in training and scheduling.

More significantly, there has been great inconsistency in HCA's approach to two of the most important staff functions, namely marketing and development. Although HCA has seen success in building an audience over time, there has not been a unified approach to building relationships with patrons. As a result, programming, as described above, has generally been populist in its approach, relying heavily on touring Broadway shows.

Leadership and Staff SWOT

Strength:
- Pride in association with HCA

Weakness:
- Number of productions in relation to workload for staff team
- Lack of revenue-generating staff members – marketing and development

Opportunity:
- Expanding staff skills, deepening "the bench"
- Developing a holistic view of patron relationships

Threat:
- Executive Director's overly large portfolio
- Staff burnout

HCA, the COLLEGE, and LRCCD

In its decade of operations, HCA has had only one Executive Director while the College has had three Presidents and LRCCD has had two Chancellors. These five administrators have had varying degrees of commitment to HCA. A major deficit at HCA in the 2015-16 time period, nearly $1 million, has become a key dynamic in how HCA is viewed. Although now nearly five years ago, the deficit is referred to with a pain that feels as if it might have occurred last year. The longer-term result is that the leadership has little tolerance for risk around HCA's operations. The additional economic pressures caused by COVID have only exacerbated this risk aversion.

HCA leadership appears to have done a commendable job in keeping faculty and outside rental clients reasonably happy – or at least has kept their unhappiness to a manageable level. Timing on making space commitments is also quite different for faculty, although it does not need to be. Some date commitments from faculty come perilously late in an already too tight planning cycle.

From an operational and administrative perspective, the College and LRCCD provide essential support in multiple areas, including finance, payroll, HR, risk mitigation, building operations, maintenance, security, and parking. While we are unable to identify a specific dollar amount that represents this support – and in fact, such a figure may be impossible to ascertain – a conservative annual amount could be $1 million and certainly more in years when major repairs and system replacement occur. It is important to remember, at least some of this baseline expense will remain, regardless of the model chosen to operate the venue.

College & LRCCD Relationship SWOT

Strength:

- Administrative and financial support from College and LRCCD
- Teaching units' needs are largely met

Weakness:

- Changing priorities of College/LRCCD top leadership

Opportunity:

- Expanding / strengthening philanthropy

Threat:

- Loss of critical underpinning support from College

OPERATIONS

Budgeting

Budgeting responsibility resides primarily with the Executive Director and LRCCD financial administrators. We were surprised at the amount of financial data made available to us, including season-to-season income/expense year-end actuals since the opening of HCA. However, key to budgeting acumen is accurately projecting income; i.e., how well do we project a particular source of income, whether a concert, a Broadway tour, aggregate rental income, or special event? Improving income projection skills allows for building expense budgets that are achievable. No organization can build a viable financial model by starting with the expenses and then trying to match income to balance. Inevitable, a "plug" number will be used to balance. Further, in reviewing approved budgets juxtaposed with actual finance performance, we look for contingency planning. Contingency budgeting may occur at HCA; if so, we were not able to make a determination.
<u>MCA Recommendation: No leader is able to project finances with 100% accuracy, so we encourage expense budgeting at 97% of income projection.</u>

Other: Information Technology, Human Resources

The relationship with the College and LRCCD offers HCA a much better operational support structure than a similarly budgeted stand-alone PAC. While we heard some complaints about bureaucratic processes – unsurprising for any large institution – these were minimal when balanced with the level of support offered.

Operations SWOT

Strength:

- Accounts payable/receivable, HR, IT provided at high level by LRCCD

Weakness:

- Budgeting and projecting financial performance
- Lack of historical data on projecting event income

Opportunity:

- Building a cash reserve through contingency budgeting

Threat:

- Subject to the whims of state funding
- Negative financial surprises

REVENUE

Portfolio

HCA operates on a 90% earned revenue model, with 75% from box office and 15% from rental income. Fundraising hovers at about 5% of total income and LRCCD support provides another 5%. These percentages have varied by only a few points over the past six years. This percentage of earned income is not outside the norm, but it is on the very high side of earned income ratio for PACs. A more diversified ratio of earned and contributed revenue is desirable. For producing companies (dance, opera, some theater), a 50/50 ratio is common. For PACs, 60-75% earned revenue tends to provide a balanced enough ratio, presuming that there is sufficient diversification in all areas of income.

For the foreseeable future – and quite likely the long-term future – nonprofit arts organizations that survive the pandemic will be reliant on philanthropy. Among our firm's clients across the country, those that have the healthiest financial picture also have strong development programs. While some organizations have begun to monetize online performance content, the success of these efforts has been modest. Classes and education / community engagement efforts have been more successful. Indeed, while some theaters are experimenting with socially distanced audiences[3], the jury remains out. And a simple calculation shows that the

[3] https://www.broadwayworld.com/boston/article/BWW-Feature-Barrington-Stage-to-Move-Forward-with-LIVE-Performances-20200625

economics of reducing gross seating capacity by 75-85% is not a long-term solution. Which leaves philanthropy.

It is clear from your income numbers that one of the primary conduits for growth – or even survival in this time of pandemic – is contributed income. More on that in the "Development" section below.

There is no perfect overall revenue model, but a few principles should be considered when evaluating each category:

- Is it diversified?
- Are revenue streams relationship-centric (vs. transactional)? [4]
- Are income sources repeatable and sustainable year-to-year?
- Is each category of income a source that can be grown?

HCA has fundamentally two sources of earned income:
1) ticket sales from HCA presents; and
2) rentals to other producing and presenting entities.

HCA Presents events carry financial risk if the box office does not meet incremental expenses, but also carry the opportunity for upside. In 2018-19, HCA Presents events had an incremental net positive income of $326K. However, one-night events had a net loss of <$158K>, including about $20K in offsetting contributed revenue for some of those programs. ***But in total, a $326K upside for this size venue is commendable.***

Rentals offer HCA guaranteed income but also pose the dilemma of significant opportunity cost. Doing a very rough calculation with the data available, we calculate the building's annual run rate at $2.4 million (i.e., unscalable operating expenses plus core staff). If that figure is correct, the daily run rate is approximately $6,600. Even the for-profit rental rate covers only a fraction of that amount. Even with other miscellaneous charges, current rates do not come near the actual cost of running the building and providing the services HCA provides. Charging a "less-than-daily-run-rate" rental fee is common, but not ubiquitous. *All to say, HCA offers **bargain basement** rates to resident companies and extremely attractive rates to commercial presenters.*

The following are common practices with PAC rental rate structures:

- Charge a significantly higher rate for non-performance days (an inducement to minimize load-in/tech and offset the overall lower revenue when compared to performance days).
- Limit the number of load-in days provided to rental clients.
- Charge significantly higher per-day rental fees for Saturday and Sunday (and sometimes Friday) and / or "prime weekends."
- As part of a client's rental fee, add a per-sold ticket fee as part of the settlement. For instance, if a client sold 800 tickets, a $2.00 per-ticket rental fee would generate an additional $1,600 in rental. (This is not to be confused with the per-ticket fee charged to a patron at the box office, currently $3.00 per ticket. This is a standard practice, even if one that patrons hate.)
- For two-performance days, charge a higher rate for the day, although one that is still less than a two-day rental.

[4] More on the "transactional" nature of your revenue streams can be found below in the "Development" section.

- Offer lower rates on Mondays and Tuesdays, incentivizing rental clients to schedule student matinee performances on those days, following a weekend of public performances.

MCA Recommendation: Consider using a "phased-in" approach with plenty of advance notification to help ameliorate at least some of the financial impact for resident companies and rental clients. But absent a spend-down fund or endowment that is created to subsidize the weeks when local groups occupy HCA, we believe that any future sustainability plan must include a greater financial share carried by resident companies and rental clients.

Education, Training, Summer Programs

Education and training programs are a modest portion of the HCA programming portfolio. There is significant potential growth in this area, including tuition, ticketing, and philanthropic support. The branches of your work in this area include the following:

- Daytime student matinees;
- Summer Academy (run primarily by the College);
- Student performances produced by the College teaching units;
- Resident company educational activities (HCA has little to no involvement in creating or administering these programs).

Each of these branches offers opportunity for growth, presuming the right infrastructure and staffing is in support. There is additional capacity in every area, with the possible exception of student matinee programming, constrained by calendar.

Alongside additional fundraising efforts – addressed in the following section –and community engagement and education efforts provide one of your strongest areas for growth.

Development

Contributed revenue represents about a modest 5% of total HCA revenue in FY19 as well as an average of 5% over the past six years. This percentage is on the extreme low end for nonprofit PACs, whether stand-alone or embedded in a higher education environment. A conservative level of contributed revenue (as a percentage of total annual income) is 20% and contributed revenue of 30% is a reasonable and achievable level. Had HCA raised 20% of total budget through contributed sources over the past six years, it would have achieved better than breakeven operations over that time period – about $200K net positive surplus[5] – *even when including the expense of the two salaries currently paid from General Fund (COA 8981) AND adding an additional $150K (salary and benefits) for a fulltime development officer.* This is without any other changes in HCA operations and scheduling.

Most of HCA fundraising appeal is through membership, a highly transactional approach requiring that multiple benefits be provided. This is a staff-intensive approach in a structure where staffing is at a premium. Further, another transactional benefit is the 15% discount offered to members and ticket purchasers of four or more events. At the lower levels of membership, this type of discounting tactic is financially unproductive, as the discount can potentially be the majority of the membership amount. At upper levels, it essentially cannibalizes income, as those patrons respond more effectively to other types of benefits (e.g., VIP lounge; access to pre-show dinners; exclusive events with artists; reserved / valet parking; etc.).

[5] This projection DOES include the $1 million transfer made in 2015.

MCA Recommendation: There are seven membership levels. Consider streamlining to three, with tiers at $250, $1,250 and $2,500. This approach will enable you to more clearly delineate benefits and lessen the load on staff charged with administering those benefits.

While membership is a standard and logical methodology to use, building a culture of philanthropy is, overall, a more effective long-term strategy for sustainability. Of course, building a case for philanthropy will focus on HCA's impact in the community. Generally, that case is made through examples such as impact on young people, community engagement, access for audiences across socio-economic strata, and training programs.

Renaming Strategies

The existence of HCA speaks to the vision of former LRCCD Chancellor Brice Harris. He established a rich legacy during his tenure through the construction of HCA, achieving an enormous impact on the College and in the community more broadly. Nonetheless, throughout our conversations, the question of renaming HCA as part of a significant, one-time major gift continued to arise. It is unusual for a venue like HCA not to have secured a significant gift attached to a naming opportunity as part of the initial capital campaign effort. While we understand that there are always political and community relationships that must be navigated in a name change, the opportunity remains that an eight-figure gift (likely $10-20 million) should be sought for HCA for a 15-to-20 year horizon for that name to remain. Further, there are multiple internal spaces currently with naming gifts attached: Stage One, Stage Two, Stage Three, lobby and meeting spaces. Each of these can represent a significant gift attached to a multi-year moniker.

Ticketing Strategies

HCA operates primarily a single event focus in its sales strategies. Twice yearly, a massive catalog of events is published, including HCA Presents, College performances, resident company performances, and commercial renters' presentations.

There is little focus building a subscriber base, although a 15% discount is available *any time* a patron purchases four or more events. Discounts, when offered consistently, tend to become less and less effective over time. The primary inducement of a discount should be to ***act now***; therefore, there must be a deadline for the discount to be in effect. There is great value in building a subscription program built around a patron-centric loyalty formula: priority purchasing; guaranteed seats, flexibility on exchanges, etc. Concierge service is offered to mid-level membership and above.

With the adoption of a subscription strategy, opportunities arise to build audiences around specific genres or themes, such as spoken word, music, dance, multi-generational/family, and theater. All of these appear on previous seasons; the data that HCA has gathered provides a solid foundation on creating a loyal set of subscribers. Many nonprofit arts leaders have given up on subscriptions in a reaction to changing purchasing behavior by patrons. And to be sure, the halcyon days of the late 20th century, when halls could be filled largely on subscription, are behind us. But the savviest organizations continue to invest in their subscriber strategies.

Dynamic pricing – i.e., variable pricing depending on demand – is not used as a revenue enhancement tool. However, nearly a third of HCA Presents performances in 2018-19 sold at

85% of capacity or better (19 separate presentations and 48 performances). There is no better problem than an in-demand ticket. Dynamic pricing rewards early buyers with better prices; late and last-minute buyers will pay a premium. Airlines taught their customers this buying behavior long ago; now most arts organizations employ it as well. HCA has used high-end premium pricing on occasion, such as an $800 premium price point for Stephen Stills & Judy Collins.

MCA Recommendations

Here are multiple recommendations regarding your revenue portfolio:

- More will need to be invested in fundraising staff and infrastructure to grow contributed revenue. Particularly important is data capture, hygiene, and evaluation.
- Membership can and should be evolved from a transactional relationship into one of philanthropy, while retaining the events that patrons clearly enjoy. Specially, the objective is to build a culture of supporting the institution and the impact it makes vs. "this amount of money gets you these specific benefits."
- Where benefit-driven membership remains, streamline the number of membership tiers to three.
- If you choose to build and expand education, access, and community engagement efforts, focus can be given to building contributed revenue support for those programs.
- You will note that there is no mention in these recommendations regarding building an endowment. While an endowment can be an important tool for long-term organizational stability, you should first focus on building your annual fundraising and cash reserve.

Revenue SWOT

Strength:
- Strong attendance
- Overall net positive revenue on HCA Presents events
- Strong organizational awareness in the community
- Relationship with rental clients

Weakness:
- Membership is highly transactional with many levels / benefits for the dollar amount
- Perpetual discounting without real subscription strategies
- Rental rate structure

Opportunity:
- Building a philanthropic culture in membership
- Growing mid-level gifts ($1,000-5,000)
- Expanding education and community engagement and access, providing a case for philanthropic support
- Major gifts for renaming HCA and multiple spaces

Threat:
- Over-reliance on ticketing income, causing a lack of focus on fundraising
- Resident company and commercial clients taking too many prime dates at very low rates

SUMMARY

Living in the Time of the Pandemic

As we type these words (in January), we are in the eleventh month of pandemic "stay-at-home" orders. The entire performing arts industry is largely locked out of their venues and there is no sure date in sight for returning to production. Many of the largest arts organizations do not plan to return until late fall / early winter of 2021, at the earliest. Certainly, some organizations have turned to digital content, with some successes but overall, mixed results.

Organizations with reasonable cash reserves on hand, along with PPP and SBA emergency loans, continue to function through the pandemic. Nearly all have done significant layoffs, furloughs, and/or salary reductions – often all three. With few options to generate meaningful amounts of earned revenue, the entire arts field is in semi-paralysis.

It is an extraordinary time.

What will bridge the gap? Philanthropy. Organizations with the strongest and deepest donor relationships are more likely to make it through these rough seas. No doubt you are already staying close to your most important donors. Keep it up. But the philanthropic well is not bottomless. Major institutional donors will have to choose winners and losers. Organizations like HCA with built-in support from higher education (or city/county relationships) are in a better position to survive, since their operations are often subsidized – although those support institutions will soon be in a position of making difficult choices as well…thus the need for this report.

We know that many in your community have sought the reopening of HCA, although programming is currently unavailable. Certainly, a skeletal staff will need to be in place six months prior to reopening to begin preparing for a phased reopening. To be sure, you will need a team in place for:

- Programming
- Scheduling
- Marketing and communications
- Ticketing / subscriptions

Our supposition is that, once it is safe to begin reconvening, it will likely take up to a year for the touring artists and productions to get back up, running, and on the road. So any presentations in 2021 will likely be primarily local groups and academic performances. Any tours with significant production and/or rehearsal needs may not get on the road until late 2021 or possibly early to mid-2022.

Long-term Sustainability

A follow-up report with various models will be offered after submitting this report. However, for purposes of this assessment, some final thoughts on your current operations.

To properly assess any change in the model – whether simply modifying what exists now or moving to an entirely new structure – there are baseline expenses for the College/LRCCD that will remain. To state the obvious, the facility has been built and the significant investment of public funds must be maintained and protected. Even if there were a separate entity operating the facility, some of these expenses would remain with LRCCD, such as some insurance policies, major building/system maintenance needs, security, and space usage by teaching units will continue. While some of these amounts are easily definable, others are part of a larger piece that cannot be extracted.

There are some variable expenses that may or may not remain. LRCCD provides services for fundraising, accounts payable/receivable (a blend with HCA personnel), salary support for executive director and custodian, preferential booking dates and rates to local arts organizations, human resources, IT support, and payroll, among others. In some instances, continuation of these services will have little or no impact for LRCCD vis-à-vis its current capacity; reducing or eliminating others will have a definite positive impact for LRCCD but may make HCA a less attractive venue to an outside entity.

Once we review this report with College and LRCCD leadership, we look forward to discussing potential models and variations you may choose to consider. As we consider alternatives for HCA, the following elements will inform our recommendations :

- Academics – understandably, least flexible with scheduling and most expansive in footprint
- Resident companies – current rental rates include a significant LRCCD subsidy
- Harris Center Presents – the Broadway series as an anchor, plus one-night engagements of primarily musical acts filling out the remaining programming

Additionally, the key operational elements to consider will be these:

- Earned Revenue
- Contributed Revenue, including annual operations and a significant renaming gift
- Programming: main stage, academic units, education, community engagement
- Resident Company Relationships
- Community Impact
- Risk Factors

We look forward to developing these recommendations for HCA.

David Mallette
President
Management Consultants for the Arts, Inc.
dmallette@mcaonline.com
Direct: 203-930-2066

Jason Palmquist
Consultant
Management Consultants for the Arts, Inc.
jpalmquist@mcaonline.com
Direct: 312-608-1649