



THE THEATER BUDGET

“I am experiencing the first crisis of my presidency,” she mused, “and my term of office does not begin for another month.” Janet Dobbs was Vice President for Administration and President-elect of the Greater Euclid Little Theater (GELT), a tax exempt organization under section 501 [c] [3] of the Internal Revenue Code. Despite stable and increasing income, GELT had, in Dobbs’s view, a substantial budget problem. It was standard practice to ignore bills until they were at least 60 days past due. For the last year, Dobbs had met several times each month with the outgoing GELT President and Treasurer to decide which bills would be paid. She had decided the first priority of her presidency would be to put GELT’s financial affairs in order. To her dismay, the Board of Directors had rejected the budget proposal she had presented the previous week by a vote of 8 to 7. (An additional three members had been absent.) Instead of unifying the Board, her “reform” budget proposal had polarized it.

In its sixteen years of existence since 1986, GELT had evolved and grown. For the first six years it was a small group of adults staging performances for young children. The mission changed in the seventh year, when Cathy Cole became the first Artistic Director. Under Cole, the cast of performers started to include children. Some plays had only children as actors. After three years as Artistic Director, Cole moved out of state.

Rather than seek a new volunteer, the Board of Directors made the Artistic Director job a half-time, paid position and hired Andy Spaulding in 1995. Spaulding was in his mid-40s and had recently returned home to Euclid after a professional acting career of more than 20 years, in Broadway plays and national touring companies. With Spaulding’s leadership, the current GELT mission was adopted: to provide professional quality theater at an affordable price for the families of the greater Euclid area. Within a year, the little theater was no longer little. Everything was big: casts, production quality, audiences, income, and costs.

Spaulding’s third season, 1997, had been a spectacular success. The six-show season included “The Sound of Music,” “Camelot,” “Fiddler on the Roof,” and “Annie.” Many performances were sold out, and actual revenue – \$75,500 – exceeded budgeted revenue by more than \$7,000. The Board voted Spaulding a large salary increase and a bonus. To meet growing public demand, they leased a larger space that would nearly double audience capacity.

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Dobbs had joined the GELT Board in 2000. As did the other Board members, she supported Spaulding's vision for the organization. He was an artistic genius and a tireless worker. He had little interest or skill, however, in money matters. As President David Price put it, "His approach to budgeting employs addition but not subtraction. If his budget for production expenses for a show is \$1,000 and he hears about a \$500 donation to GELT, he thinks that \$1,500 is available." Dobbs agreed with Price that Spaulding was partly responsible for the GELT debt. She knew she would have to curb his tendency to authorize expenditures in the absence of revenues.

Treasurer Nicky Counts warned Dobbs that Spaulding seemed to care very little about helping to raise revenues. Counts had been asking Spaulding since 1998 to choose plays that would draw large audiences. He had resisted, saying, "It's our mission to raise the artistic awareness of the community, not to concentrate on plays they are familiar with." According to Counts, Spaulding had chosen to reduce the amount of money he received from GELT. "Prior to 2001, his Artistic Director salary had been supplemented with tuition paid by students taking classes from him at the theater," she explained, "Almost all tuition income went directly to Spaulding – a supplement to his Artistic Director salary of more than 20 percent. Spaulding discontinued the classes for 2001 and says he does not want to teach them in the future."

Dobbs, Price, and Counts agreed that Spaulding didn't seem to understand that GELT could not meet his request for a larger salary if he resisted efforts to increase revenues. Dobbs doubted that she could convince Spaulding that realistic budgeting was necessary for GELT. She thought she could convince the Board of Directors. She persuaded the Budget Committee, which she chaired, to make four important changes in the proposed budget for 2002 that would highlight the budget problems and offer solutions.

- First, the proposed budget included realistic revenue and expenditure estimates (Table 1). Since 1998, estimates had been consistently too high – approximately \$15,000 too high in 2001.
- Second, the proposed budget included information about budgeted and actual revenues and expenditures for the previous six years (Table 2). Dobbs wanted to document how unrealistic projections had become.
- Third, the proposed budget included a statement of end of year balances for the previous six years (Table 3). Dobbs wanted the Board to recognize that GELT had debt that would not be eliminated by balancing the 2002 budget.
- Fourth, the proposed budget included an "expenditure" to reduce debt (Table 1). Dobbs wanted to replace GELT debt with a surplus during her two-year term as president.

Dobbs was surprised that a majority of Board members voted against her proposals. She was shocked at the criticisms raised prior to the vote.

- Spaulding complained that the proposed budget reduced expenditures. Dobbs explained that, while the 2002 budget had lower estimated revenue than the 2001 budget, proposed expenditures for 2002 were higher than actual expenditures in 2001. Spaulding and the negative Board members insisted on comparing 2001 and 2002 proposed expenditures.
- Almost all Board members, including those who voted in favor of the proposed budget, wanted to increase Spaulding's salary. Spaulding had lobbied individual Board members, arguing his payment for services to GELT had declined in 2001. Board members thought Spaulding would view no salary increase as lack of support.
- Stan Biletnikof, chair of the Box Office Committee, thought optimistic expectations for revenue growth might be more realistic in the future than in the past. "In my opinion, GELT is due for another large increase in box office revenues," he said. By Dobbs's analysis, selling every ticket for every performance would increase revenues by approximately \$12,000. The previous year, GELT had sold 55 percent of available seats. Dobbs had read in a book on theater management that professional theaters consider 70 percent of capacity sold a sellout. There was another limitation on additional revenue available through ticket sales: the Board had passed a resolution that ticket prices would not be increased in 2002.
- Roberta Mackie, chair of the Costume Committee and leading speaker for the negative Board members, argued that for GELT, the budget was more than an accounting or planning document. It was "an expression of our hopes and dreams." By limiting revenue projections, the Budget Committee was "constraining our ability to dream." For an artistic organization such as GELT, "dreaming and creativity are more important than matching totals at the bottoms of columns of numbers." She also argued that high revenue estimates would give the organization incentive to work to make them come true.
- Jacob Grimm, a Professor of English Literature at Euclid College and a longtime Board member, had the last word before the vote. "We are an arts organization," he said. "We enrich the lives of our audiences, actors, technical crew, and other volunteers by staging plays – not by counting beans. We are not a profit-seeking business and should not be run like one." Grimm concluded, "GELT should never let business or financial concerns take precedence over our artistic values and goals."

Dobbs was dumbfounded. Previous GELT budget proposals had passed unanimously without discussion. What had gone wrong?

After rejecting the proposed budget, the Board charged the Budget Committee to present a new proposal that they could agree to unanimously at the next month's meeting. Dobbs knew she could not spend two years deciding which overdue bills to pay while leading GELT deeper into debt. Yet, all GELT Board members were unpaid volunteers who gave freely of their time and energy in support of the organization. GELT could not survive with the Board split into factions of "artists" and "accountants." Could it survive even two more years continuing its budgeting practices?

Dobbs pondered her options.

Table 1
Current and Proposed Budgets

Item	Budgeted 2001	Actual 2001	Proposed 2002
REVENUES			
Ticket sales	\$36,000	\$32,400	\$33,100
Concessions	\$8,500	\$6,480	\$7,000
Tuition fees	\$6,750	\$0	\$0
Donations	\$22,000	\$29,000	\$30,500
Corporate underwriters	\$12,000	\$6,000	\$8,000
Gala ticket, silent auction revenue	\$6,000	\$2,900	\$3,000
Interest	\$50	\$20	\$0
Participation fees	\$1,700	\$1,500	\$1,500
TOTAL REVENUES	\$93,000	\$78,300	\$83,100
EXPENDITURES			
Artistic Director	\$26,000	\$26,000	\$26,000
Rent	\$14,000	\$14,000	\$14,000
Utilities	\$6,500	\$7,400	\$8,000
Advertising	\$3,000	\$3,800	\$4,000
Facilities/maintenance	\$1,200	\$3,500	\$4,000
Supplies	\$1,200	\$1,400	\$1,600
Royalty fees	\$10,200	\$8,600	\$9,000
Production expenses	\$12,000	\$7,000	\$8,000
Box Office	\$850	\$300	\$300
Concessions	\$4,000	\$3,500	\$3,500
Fundraising	\$3,000	\$2,000	\$2,100
Capital purchases	\$4,000	\$1,600	\$0
Bank/charge expenses	\$300	\$100	\$100
Class instruction payment to Artistic Director	\$5,500	\$0	\$0
Class expenses	\$1,250	\$0	\$0
Reduce debt	\$0	\$0	\$2,500
TOTAL EXPENDITURES	\$93,000	\$79,200	\$83,100

Table 2
Past Budgets

Year	Budgeted Revenue	Actual Revenue	Budgeted Expenditure	Actual Expenditure
1996	65,200	\$64,100	\$55,600	\$60,100
1997	\$68,100	\$75,500	\$68,100	\$76,300
1998	\$80,000	\$72,200	\$80,000	\$75,500
1999	\$84,000	\$70,300	\$84,000	\$71,300
2000	\$90,000	\$75,800	\$90,000	\$75,200
2001	\$93,000	\$78,300	\$93,000	\$79,200
2002	*\$83,100*		*\$83,100*	

*The budget proposal for 2002 has been rejected by the Board of Directors.

Table 3
Treasury Balance at End of Year

Year	Balance
1996	\$3,200
1997	\$2,400
1998	(\$900)
1999	(\$1900)
2000	(\$1300)
2001	(\$2,200)