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The San Diego Union-Tribune.

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Around the region: Performing arts centers face business and artistic risks

By Edgar Stemen March 3, 2005

A lot has been said and written about the amount of money that East County Performing Arts Center owes the city of El Cajon, and much of it is true. A lot has also been said and written about how this came to be. Unfortunately, the picture here isn't so clear.

There are two financial risks associated with nonprofit performing arts centers.

First is the normal business risk. In terms of the theater, this risk rests with the staff's ability to produce a season consistent with the operating budget. ECPAC has had some significant individual show losses, and some unexpected winners. For example, we lost money on "Torme Sings Torme." Who could have known when we booked that show last spring that the San Diego Chargers would wind up in the league playoffs, at home, on the same night? Then we made it back with add-on Clay Aiken, who sold out in a heartbeat.

The second risk is that fund-raising campaigns may or may not generate the projected amounts needed for the operating budget. Nationally, nonprofit performing arts centers require approximately 40 percent of their operating budgets to come from non-operating sources, or "unearned revenue." (This includes philanthropy, government subsidies and corporate/foundation grants). The requirement for the East County Performing Arts Center is approximately 40 percent annually.

Economic decline, national and local disaster, unemployment and declining interest rates affect the amount of funds available from individuals and institutions. When our fund-raising efforts do not meet their goals, we are underfunded.

Overall, the ECPAC staff has done an excellent job of managing the business risk. The Arts Center Foundation's present financial dilemma arises from an accumulation of fund-raising shortfalls during its seven years of existence.

The foundation's fiscal year is July 1 through June 30. The typical show season runs from August through May. The shows for a given season must be booked mostly in February and March of the preceding fiscal year. Without a cash reserve (forward fund) of approximately the





amount of the coming season's fund-raising budget, the theater is exposed to funding risk. This is not an uncommon situation in nonprofit theater.

ECPAC was not adequately capitalized at its inception, and never has had a forward fund.

Recognizing the need for support, the city of El Cajon provided an annual subsidy of \$350,000 in fiscal years 2000, 2001 and 2002. Because of the state budget crisis and significant investment losses in the public retirement system, the city was unable to grant the subsidy for 2003 and subsequent years. Though the city does continue to pay the center's utility bills, around \$125,000 annually, the loss of the cash subsidy has been sorely felt.

ECPAC has been unable to reach annual fund-raising goals. When the foundation defaulted on its obligations to the city, the management contract was breached. Although the city is still reviewing the situation, an inevitable consequence has been that donations have dried up, worsening the problem.

The mission statement for the Arts Center Foundation includes:

- Professionally showcasing the finest local, national and international talent.
- Serving as a creative arts education resource.
- Being a performance showplace of civic pride.

The Arts Center Foundation presents an eclectic season of top shows to approximately 22,000 patrons annually. Our community rental program serves 65 organizations on 96 days of the year and brings 70,000 people to downtown El Cajon. Our nationally recognized arts education program has reached over 10,000 students since the program's inception, at a time when arts education has been virtually removed from most school budgets.

Our six full-time employees are seasoned, well-trained professionals. We have a pool of part-time personnel with various skills, whom we use only as needed. Together, they operate a theater that is rated by performers as one of the best in the country.

Recent activities to demonstrate community support for the theater were intended solely to persuade the City Council to reconsider priorities in evaluating reinstatement of the \$350,000 subsidy. Unfortunately, because of a few careless remarks, these efforts have been viewed as criticisms of the city's actions, and an atmosphere of negativity has emerged. It is in everyone's best interest for all parties to get back to the real issue: what is best for the community. With a positive approach the problem becomes a challenge, and the challenge an opportunity.

When real estate professionals talk about the value of property, they talk in terms of its highest and best use. We believe the heightened cultural awareness that our shows bring to the community, the exposure of the downtown area to the patrons of our rental clients and the alternatives offered our young people through the arts education program provide the very highest and best use of the East County Performing Arts Center. We believe that ECPAC, as it is presently configured, provides the best management for the quality performing arts center El Cajon deserves.

■ Stemen, a certified public accountant, has served as a financial consultant to the Arts Center Foundation for the past several years.

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