

HHS COMMITTEE #1
September 17, 2018

MEMORANDUM

September 13, 2018

TO: Health and Human Services Committee

FROM: Linda Price, ^{LP} Legislative Analyst

SUBJECT: Quarterly Update - National Philharmonic

PURPOSE: Update from the National Philharmonic on their recovery efforts

Today, the Committee will receive a quarterly update from the National Philharmonic. Those expected to attend this worksession include:

Leanne Ferfolia, President, National Philharmonic
Todd Eskelsen, Chair, National Philharmonic Board of Directors
Suzan Jenkins, Chief Executive Officer, Arts and Humanities Council of Montgomery County
Deborah Lambert, Management and Budget Analyst, Office of Management and Budget

I. Background

A Joint Health and Human Services and Government Operations and Fiscal Policy Committee met in May 2016 to discuss an FY16 \$250,000 Supplemental Appropriation and an additional \$150,000 in FY17 for the National Philharmonic. The Council approved an earmark of \$150,000 for the National Philharmonic in FY18.¹ The Committees agreed the National Philharmonic needed to take the following steps: improve relationships with the Strathmore, hire a consultant to develop a strategic plan, coordinate with the Arts and Humanities Council of Montgomery County (AHCMC), restructure their artistic, administrative, and development, governance and marketing functions to grow new and diverse audiences, raise artistic quality, and balance their budget. The Joint Committee requested that National Philharmonic provide quarterly updates in FY17, which have continued into FY18 and FY19 with the HHS Committee.

¹ Language was included in Resolution 18-823 noting the Council's intent to not approve future earmarks for the National Philharmonic.

II. Quarterly Report

A memo dated September 10, 2018, from Leanne Ferfolia, President of the National Philharmonic is attached providing an update on activities and financials from the previous quarter (see © 1). The following are highlights from the quarterly report.

- *The focus for FY19 and year three of recovery will consist of the following:*
 - *Recruit new board members.*
 - *Maintain audience return and contributed revenue pools.*
 - *Monitor the risk of the new concerts (three pops programs).*
 - *Manage cash and budget with less revenue sources from County funding and Arts & Humanities Council.*
 - *Plan FY20 strategies with priority on staffing in development to meet the demands of NP contributed revenue goals.*
- *National Philharmonic is continuing to struggle largely due to two issues:*
 - *Annual rate increases for Strathmore facility usage, box office usage, and production/labor usage; and*
 - *Continued decreases in funding support from the Arts & Humanities Council.*
- *National Philharmonic has been fully transitioned out of the AHCMC Grandfather Clause Transition Policy. Their FY19 grant was \$107,145, a \$13,483 decrease from their FY18 award.*
- *A single concert failure can swing the organization into cash destabilization. The National Philharmonic is without a safety net such as a significant endowment.*
- *National Philharmonic continues to explore various options for the long-term outlook including increasing the size of its business operations staff dedicated to contributed revenue as well as investment in patron growth tools.*

III. FY19 County Executive Grant

In FY19, the National Philharmonic was awarded \$49,700 through the County Executive community grants process. The purpose of the grant is to provide accessibility and culture to kids through the ALL Kids, All Free, All the Time program. In resolution 18-823, the Council reinforced their intent to not award future earmarks to the National Philharmonic. However, review of this grant was missed during review of the operating budget and funds were awarded.

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MEMORANDUM

DATE: September 10, 2018
TO: County Council Members of the Health and Human Services Committee
FROM: Leanne Ferfolia, President of National Philharmonic
RE: National Philharmonic Report

Summary Narrative

The National Philharmonic concluded its second year of recovery period and with the FY18 County budget special funding allocation in the amount of \$150,000 from the County Council. The National Philharmonic did *NOT* request another special funding allocation from the County Council and County Executive FY19 budget period given the extreme need for County funding support to be directed elsewhere.

The National Philharmonic received a FY19 grant from the Arts & Humanities Council as part of the Large Arts organization constituents. (see below) The National Philharmonic received annual decreases in its AHCMC grant funding as part of a Grandfather Clause Transition Policy. (see shaded schedule below) These decreases concluded at the end of the FY18 year. This dramatic decrease of funds greatly impacted the financial stability of the organization and was ultimately, a contributor to National Philharmonic's financial failings leading to the organization's funding support request to the County Council in FY16.

Arts and Humanities Council Grants to the National Philharmonic

Fiscal Year Amount

FY19	\$107,145
FY18	\$120,628
FY17	\$152,295
FY16	\$166,457
FY15	\$185,288
FY14	\$201,068
FY13	\$227,338
FY12	\$252,534
FY11	\$267,970

The National Philharmonic, with the County funding support set course for a five-year recovery. Numerous and significant Board and staff changes, financial protocols and oversight, an outside

professional consultant team, support from community vendors and Strathmore, a new strategic plan, and all in year one recovery resulted in a correction from financial failing to stable financial management and reduction of debt.

Year two recovery maintained all year one gains in both financial position and audience increases, while continuing to make small strides toward relief of long-term organizational debt. It would also include establishing community partners, increasing its private support network, raising more contributed revenues than previous years, and varying its artistic offerings.

However, the five-year recovery plan was cut short from the County funding requested plan. This has impacted the organization's recovery goals and finances. The focus for FY19 and year three of recovery will consist of the following:

- Recruit new board members.
- Maintain audience return and contributed revenue pools.
- Monitor the risk of the new concerts (three pops programs).
- Manage cash and budget with less revenue sources from County funding and Arts & Humanities Council.
- Plan FY20 strategies with priority on staffing in development to meet the demands of NP contributed revenue goals.

National Philharmonic listened and acted upon the suggestions of the County Council. The County Council said:

- "do more concerts that are mainstream, like pops and movies"
- "do more programs outside the Strathmore hall and engage the community"
- "fix your board"
- "pay your vendors"
- "bring in an approved consultant and get a new strategic plan"
- "just do better"

National Philharmonic responded not only with the affirmative, but with swift action. It executed all of the County Council's recommendations. Yet the National Philharmonic is continuing to struggle largely due to two major forces – annual rate increases for Strathmore facility usage, box office usage, and production/labor usage, and continued decreases in funding support from the Arts & Humanities Council.

National Philharmonic has fine-tuned the business operations and its structure, methodically implemented right-sizing its programs, and has a clear picture of the road ahead. Year three of

recovery is not without challenges. The model is operating within the margins, but the margins are too thin. Due to the current circumstances affording no room for error, a recovery during any one season is at risk. A single concert failure can swing the organization into cash destabilization. The National Philharmonic is without a safety net such as a significant endowment. A safety net is a key factor in long-term sustainability and without it, any operations short of optimal profitability creates cash stressors and the following occurs to the organization:

- Ability to take risks is limited
- Growth is constrained
- Both limits on risk taking and growth result in loss of earned revenues (loss of audience) and long-term suffocation of contributed revenues (loss of donor support).

The National Philharmonic assumed the position of resident partnership at the Music Center at Strathmore, grew exponentially and without time or resources to establish sound infrastructure. The organization enthusiastically operated with the goal to assist making the Music Center at Strathmore a successful hall and the nationally acclaimed performance venue it could be. This music hall would become the key feature in the Montgomery County landscape, attracting national attention, thousands of patrons annually, providing work, performance opportunities, and education for hundreds of local residents, including more than 250 National Philharmonic personnel.

In the past two years, National Philharmonic has right-sized and further cost reductions cannot bring about a balanced and workable business model considering the two major forces that continue to challenge the organization. National Philharmonic is at a tipping point – fewer programs in a season means less earned revenues and eventually will mean less contributed revenues resulting in gradual erosion of the organization.

National Philharmonic continues to explore various options for the long-term outlook including increasing the size of its business operations staff dedicated to contributed revenue as well as investment in patron growth tools. The organization has met all of the County Council's recommendations and has proven to be a good investment – a vibrant and large arts organization that provides All Kids free access to classical music, provides work for hundreds of Montgomery County residents, and is an economic driver towards the success of the Music Center at Strathmore.

National Philharmonic
Balance Sheet
 Last 3 years - FY18, FY17, FY16

	Jun 30, 18	Jun 30, 17	Jun 30, 16
ASSETS			
Current Assets			
Checking/Savings			
1005 · Capital Bank Checking	83,178.68	55,601.68	68,859.43
1006 · Capital Bank Savings	30,043.85	12,677.12	49,339.85
1008 · United/Cardinal Checking	0.00	19,291.78	
1045 · Petty Cash	20.00	20.00	
1060 · UBS Business Services	180,710.94	116,679.97	105,352.62
Total 1090 · NP Endowment Fund	145,497.95	130,105.84	113,050.96
1110 · Certificate of Deposit	50,000.00	113,793.45	113,040.37
Total Checking/Savings	489,451.42	448,169.84	449,643.23
Total Accounts Receivable	16,450.00	49,267.25	72,561.07
Other Current Assets			
1240 · Undeposited Funds	11,575.00	20,420.00	
Total 1300 · Prepaid Expense	28,460.13	33,823.53	49,897.37
Total Other Current Assets	40,035.13	54,243.53	49,897.37
Total Current Assets	545,936.55	551,680.62	572,101.67
Fixed Assets			
Total Fixed Assets	3,475.14	5,075.47	6,915.90
Other Assets			
1500 · Donated Life Insurance	58,736.93	53,245.89	43,804.57
1700 · Security Deposit	5,500.00	5,500.00	5,500.00
Total Other Assets	64,236.93	58,745.89	49,304.57
TOTAL ASSETS	613,648.62	615,501.98	628,322.14
LIABILITIES & EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable	46,589.11	41,091.89	156,004.78
Total Credit Cards	2,457.08	5,154.16	3,079.54
Other Current Liabilities			
2030 · Accrued Expenses	9,251.20	9,927.50	31,002.79
2100 · Payroll Liabilities	1,004.55	1,239.50	6,780.17
2300 · Lines of Credit			
2301 · Bank Line of Credit	240,854.62	187,854.62	185,641.27
Total 2300 · Lines of Credit	240,854.62	187,854.62	185,641.27
2305 · Life Insurance Loan			40,713.11
2400 · Deferred Income			
Total 2400 · Deferred Income	112,034.00	144,365.00	175,250.29
Total 2420 · Prepaid Revenues	41,945.00	45,475.00	33,897.00
Total Other Current Liabilities	405,089.37	388,861.62	473,284.63
Total Current Liabilities	454,135.56	435,107.67	632,368.95
Total Liabilities	454,135.56	435,107.67	632,368.95
Equity			
Total 3040 · Temp. Restricted Net Assets	0.00	19,575.00	10,269.00



National Philharmonic
Balance Sheet
 Last 3 years - FY18, FY17, FY16

	Jun 30, 18	Jun 30, 17	Jun 30, 16
3400 - Board-designated Endowment	120,948.00	120,948.00	117,948.00
3500 - Unrestricted Net Assets	39,871.31	(124,494.81)	(98,795.55)
Net Income	(1,306.25)	164,366.12	(33,468.26)
Total Equity	159,513.06	180,394.31	(4,046.81)
TOTAL LIABILITIES & EQUITY	613,648.62	615,501.98	628,322.14

National Philharmonic
FY18 Budget Performance
 July 2017 - June 2018

	Jul '17 - Jun 18	Annual Budget	\$ Var	% Var
Ordinary Income/Expense				
Income				
4000 · Earned Revenue				
Total 4001 · Ticket Revenue	822,814.15	855,000.00	(32,185.85)	-4%
Total 4020 · Engagements	144,264.21	145,000.00	(735.79)	-1%
Total 4000 · Earned Revenue	967,078.36	1,000,000.00	(32,921.64)	-3%
Total 4060 · Education	73,095.00	85,250.00	(12,155.00)	-14%
Total 4100 · Other Earned Income	39,069.13	22,400.00	16,669.13	74%
4300 · Contributed Income				
Total 4310 · Corporate Contributions	66,050.00	69,000.00	(2,950.00)	-4%
4330 · Foundation	67,583.78	80,000.00	(12,416.22)	-16%
Total 4350 · Individual	371,855.55	411,500.00	(39,644.45)	-10%
4367 · Special Projects	133.00	0.00	133.00	
4380 · Government Support				
4381 · MSAC	144,914.00	155,000.00	(10,086.00)	-7%
4390 · AHCMC	270,628.14	280,000.00	(9,371.86)	-3%
Total 4380 · Government Support	415,542.14	435,000.00	(19,457.86)	-4%
4500 · Misc. Unearned Revenue	23.40	0.00	23.40	
Total 4300 · Contributed Income	921,187.87	995,500.00	(74,312.13)	-7%
Total Income	2,000,430.36	2,103,150.00	(102,719.64)	-5%
Gross Profit	2,000,430.36	2,103,150.00	(102,719.64)	-5%
Expense				
5000 · Artistic				
Total 5010 · Artistic Personnel	877,013.67	900,928.25	(23,914.58)	-3%
Total 5000 · Artistic	877,013.67	900,928.25	(23,914.58)	-3%
5300 · Production				
Total 5300 · Production	452,894.69	459,161.00	(6,266.31)	-1%
Total 5410 · Marketing	179,784.69	217,226.00	(37,441.31)	-17%
Total 5500 · Development	27,860.10	27,800.00	60.10	0%
5600 · Operations				
Total 5610 · Staff	332,817.50	339,369.00	(6,551.50)	-2%
Total 5650 · Operating Expenses	172,787.96	157,724.00	15,063.96	10%
Total 5600 · Operations	505,605.46	497,093.00	8,512.46	2%
6999 · Uncategorized Expenses	493.60		493.60	
Total Expense	2,043,652.21	2,102,208.25	(58,556.04)	-3%
Net Ordinary Income	(43,221.85)	941.75	(44,163.60)	
Other Income				
7000 · Temp. Restricted Contributions	36,915.60	0.00	36,915.60	
7005 · Release of Prior Year Funds	5,000.00	0.00	5,000.00	
Total Other Income	41,915.60	0.00	41,915.60	
Net Other Income	41,915.60	0.00	41,915.60	
	(1,306.25)	941.75		



National Philharmonic
Statement of Activities
 Past 3 years - FY18, FY17, FY16

	Jul '17 - Jun 18	Jul '16 - Jun 17	Jul '15 - Jun 16
Ordinary Income/Expense			
Income			
4000 · Earned Revenue			
4001 · Ticket Revenue			
4005 · Subscriptions	238,376.50	269,086.44	223,196.76
4010 · Single Tickets	584,437.65	692,384.26	453,079.86
Total 4001 · Ticket Revenue	822,814.15	961,470.70	676,276.62
Total 4020 · Engagements	144,264.21	239,983.00	175,838.65
Total 4000 · Earned Revenue	967,078.36	1,201,453.70	852,115.27
4060 · Education			
Total 4060 · Education	73,095.00	50,080.00	50,334.99
4100 · Other Earned Income			
Total 4100 · Other Earned Income	39,069.13	56,397.41	10,953.68
4300 · Contributed Income			
Total 4310 · Corporate Contributions	66,050.00	37,150.00	55,483.00
4330 · Foundation	67,583.78	83,872.69	68,993.42
4350 · Individual			
Total 4350 · Individual	371,855.55	345,416.79	314,312.86
4367 · Special Projects	133.00	23,250.00	
4380 · Government Support			
4381 · MSAC	144,914.00	163,707.00	159,887.00
4390 · AHC/MC	270,628.14	306,119.00	416,457.90
Total 4380 · Government Support	415,542.14	469,826.00	576,344.90
4450 · Contributions to Endowment	0.00	500.00	
4500 · Misc. Unearned Revenue	23.40	796.94	
Total 4300 · Contributed Income	921,187.87	960,812.42	1,015,134.18
Total Income	2,000,430.36	2,268,743.53	1,928,538.12
Gross Profit	2,000,430.36	2,268,743.53	1,928,538.12
Expense			
5000 · Artistic			
Total 5010 · Artistic Personnel	877,013.67	874,055.60	792,380.22
5200 · Education	0.00	250.00	
Total 5000 · Artistic	877,013.67	874,305.60	792,380.22
Total 5300 · Production	452,894.69	503,621.87	441,990.36
Total 5410 · Marketing	179,784.69	229,252.34	200,518.42
Total 5500 · Development	27,860.10	22,861.06	32,058.36
5600 · Operations			
Total 5610 · Staff	332,817.50	278,790.47	338,853.02
Total 5650 · Operating Expenses	172,787.96	195,546.07	160,706.00
Total 5600 · Operations	505,605.46	474,336.54	499,559.02
6999 · Uncategorized Expenses	493.60	0.00	
Total Expense	2,043,652.21	2,104,377.41	1,966,506.38
Net Ordinary Income	(43,221.85)	164,366.12	(37,968.26)
Other Income			

National Philharmonic
Statement of Activities
 Past 3 years - FY18, FY17, FY16

	<u>Jul '17 - Jun 18</u>	<u>Jul '16 - Jun 17</u>	<u>Jul '15 - Jun 16</u>
7000 · Temp. Restricted Contributions	36,915.60	0.00	4,500.00
7005 · Release of Prior Year Funds	5,000.00	0.00	
Total Other Income	41,915.60	0.00	4,500.00
Net Other Income	41,915.60	0.00	4,500.00
	(1,306.25)	164,366.12	(33,468.26)



