THE STATE OF THE ARTS

Struggling for an Encore

Money troubles nearly closed the Charleston, S.C., symphony orchestra's doors for good in 2006. The orchestra has been a fixture on the city's performing arts scene for more than 70 years.

Finances have been touch and go for several years, says Leo Fishman, president of the Charleston Symphony Orchestra's board of directors. Each crisis brought short-term solutions and unusual donations. In 2003, for instance, the symphony's full-time musicians agreed to an 18 percent pay cut for three years just to keep the orchestra playing, a typical move for arts nonprofits when finances fizzle.

This is not a new problem: Symphony orchestras nationwide struggle to balance budgets, and some have folded. The problem is particularly acute in mid-sized cities like Charleston.

Savannah, Ga., 100 miles south of Charleston, lost its symphony in 2003, for instance. Charlotte's symphony music director has decided to step down in 2009, reportedly over the group's precarious finances.

"The forces that are driving their financial squeeze haven't changed," says Kevin McCarthy, an arts and cultural affairs expert at RAND Corporation. Symphonies fight growing competition from other entertainment as well as aging audiences.

The dependence on public and private contributions has been predicted since at least 1965 when economists W.J. Baumol and W.G. Bowen, formerly at Princeton University, dissected arts groups' economic structure.

Technology brings little in the way of increased efficiency for performing arts groups, yet they still face increasing costs, just like any business. "The output per man-hour of the violinist playing a Schubert quartet in a standard concert hall is relatively fixed, and it is fairly difficult to reduce the number of actors necessary for a performance of Henry IV, Part II," the authors wrote in "On the Performing Arts: The Anatomy of Their Economic Problems."

And since a symphony is a "supplier of virtue," it makes sense that it "distribute its bounty as widely and as equitably as possible," Baumol and Bowen wrote. And so it isn't possible to raise ticket prices enough to pay the bills. For such groups to flourish, a wide variety of funding sources must be tapped.

But support for midsized orchestras in cities like Charleston can pose a problem. Nationally, less than half of a symphony's revenues comes from earned income, according to the American Symphony Orchestra League. Private contributions, endowments, and government grants make up the rest. Public money represents about 4 percent of revenues. The Charleston Symphony Orchestra, with an

Music director David Stahl has been faithful to the Charleston Symphony Orchestra since 1984.

annual budget of more than $2.3 million, receives no state or federal funds, but does receive funds from the city, Charleston County, and the nearby town of Kiawah Island. The orchestra also raises money from individuals and corporations. In fact, a successful fund-raising effort allowed the orchestra to finish the most recent fiscal year with a surplus.

To draw crowds, particularly occasional concert-goers, symphony orchestras must stage blockbuster performances and invite superstar musicians. But big productions require big budgets, and that means only big groups can invest in those expensive performances. — VANESSA SUMO

STABILITY, CREDIBILITY

D.C. Makes Fiscal Progress

When the new mayor of Washington, D.C., Adrian Fenty, took office in 2007, he inherited a government in better shape than it was when Anthony Williams took the job in 1999. In Williams' eight years as mayor and his previous tenure as the city's chief financial officer, he was widely credited for bringing stability and credibility to a government plagued by scandal and insolvency.

"His reputation as a comptroller and accountant was a big factor in building confidence for investment in the city," recalls Tim Priest, an economist by training who leads the marketing efforts at the Greater Washington Board of Trade.

For example, with its investment-grade bond rating, the city has been able to raise capital for infrastructure and social projects. Those included mixed-income developments that have replaced public housing complexes and a new stadium for the Washington Nationals baseball team.

The District's experience illustrates the relationship between economics and stable, responsive, and fiscally sound government.

Economists avoid passing judgment on what forms of

PHOTOGRAPHY: CHARLESTON SYMPHONY ORCHESTRA

governance are good or bad for economic development, according to Beth Honadle, director of the Institute for Policy Research at the University of Cincinnati. Rather, they "empirically study what the likely effects of various approaches will be relative to a number of generally accepted criteria or measures." These criteria may include equity, efficiency, and the influence of government actions on private business decisions.

Economists do have some idea of what works and what doesn't when it comes to governance. "Government discourages the attraction of industry, new business formation, and the retention and expansion of existing industry when it under invests in education, fails to control crime rates and protect people and property through public safety, and allows public infrastructure to deteriorate so that it impedes transportation and the sustenance of health, peace, and quality of life," Honadle says.

For example, a local government facing a fiscal crisis may drastically cut "nonessential services" that undermine quality of life. In the long run, this may deter new residents and businesses, which can inject new tax revenue and spending into a community. Also, borrowing may become prohibitively expensive, since the government's risk of default – real or perceived – is greater. Thus, fewer funds are available for municipal projects.

The District's fiscal progress has contributed to the city's economic progress. "The District's record over these last eight fiscal years of consistently balanced budgets … has taken the city's bond rating from 'junk' status up to grade A, a first for this city," noted Alice Rivlin during her Senate testimony in July 2006. (The former Federal Reserve governor chaired the Control Board that took over management of Washington's local government from 1995 to 2001.)

Private investors have been confident enough in Washington's government to make long-term commitments. More than $12 billion of projects were completed in Washington, D.C., between 2001 and 2005. "When Mayor Williams took office nine years ago, there was a huge surge in real estate investment in the city," says Priest of the Board of Trade. "The migration of residents out of the city stabilized and job growth strengthened." — Charles Gerena

RELOCATION STATION

N.C. Workers Bound for Richmond

Bobby Hines has worked for Philip Morris USA for 28 years, the last eight of them at a plant in Cabarrus County, N.C. He transferred from Louisville, Ky., when PM USA closed down that shop. Now, he may again pull up stakes, this time for Richmond, when the company shuts down its North Carolina facility by decade's end. But that would be his last stop, if he's even offered a position, because Richmond will be the last remaining domestic plant for the makers of Marlboro.

After the closing announcement, the company set up a "Richmond room" at the Concord plant, and has said it will issue bonuses of $50,000 to relocate workers.

"They give you updates on house sales" as well as data on schools, recreation and other information about the area, says Hines. He is president of Local 229-T, the Bakery, Confectioners, Tobacco Workers and Grain Millers International Union. Union rules, he says, require the company to offer jobs to members if they have openings. Most of the 1,900 hourly employees are members of one of two unions. "I guess it all depends on how many openings and how many people retire up there [in Richmond]," he says. "I hope I get the opportunity."

Falling U.S. cigarette consumption and exports have driven the Richmond-based company to close the plant.

In 2006, PM USA expanded the North Carolina plant, adding 12 high-speed cigarette machines and an 11-story automated storage facility. But even that, and the $1 million that state and local officials contributed to keep them, didn't sufficiently make up for the stateside consumption slide. The firm announced in June it will produce cigarettes closer to where the customers are — overseas — under its sister company Philip Morris International based in Switzerland. It will return the $1 million.

Domestic demand for cigarettes has continued to fall – Philip Morris USA cigarette sales declined by 1.1 percent in 2006 compared to 2005 – and the company now sells four times as many cigarettes overseas as it does here. The firm will shift its export production, about 20 percent of cigarettes made at the Cabarrus plant, to Europe.

The consolidation to the Richmond plant won't be complete until 2010, and by then those who choose or are chosen to relocate should know Richmond pretty well.

While it may be common for firms to cultivate and place their salaried employees in various locations, it is an unusual move to do so for hourly workers. It could be designed to lighten the blow of the surprise announcement, says North Carolina State University economist Mike Walden, or simply to draw on their high skill levels. Union negotiations are likely to contribute too.

"We try to demonstrate that we value our employees," communications manager Paige Magness says, confirming that their training will benefit the firm. "I think our effort to attract them to Richmond to keep them in those jobs [makes that] evident." She does not yet know, however, how many hourly or the more than 500 salaried workers will be offered jobs at the Richmond plant, or, of course, how many will choose to leave North Carolina.

The shutdown marks the end of the cigarette giant's hefty contribution to the municipal tax base, $5 million in 2006, as well as the ancillary community spending that the plant's high wages generate. Tobacco manufacturing largely has faded from North Carolina's economic landscape, with the last big operation consisting of 6,800 employees who remain in Winston-Salem at the R.J. Reynolds Tobacco facilities. — Betty Joyce Nash