

CASE STUDY

In the Heart of the Beast Puppet and Mask Theatre

| Minneapolis |

CREDIT: MAX HAYNES

Fueling the impact and effectiveness of nonprofits with guidance, expertise, and capital.

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LESSON

Capitalization
is critical—
and working
capital is
almost always
the most
critical
capital tool
for stability
and growth.

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In the Heart of the Beast Puppet and Mask Theatre (HOTB) occupies a unique intersection in Twin Cities culture. With roots going back to the 1970s, the theater has been crucial to Minneapolis' celebratory, ritualistic MayDay Parade (with life-size puppets, drum bands, tall bikes, and attendance in the tens of thousands). It has staged innovative productions including the holiday community pageant *La Natividad*; and through works in schools and spiritual investment in its multicultural Lake Street milieu, HOTB has carried a spirit of inclusion and the common good throughout its history.

While HOTB's artistic direction has been consistent, with Sandy Spieler in the leadership role since 1976, its finances had been less consistent. In 2014, the theater reached a financial crisis point. The theater had been operating at a loss for four consecutive years, its net assets were negative, and it was unable to make payroll. The theater had seen the loss of a major funder, and a revaluing of its Art Deco cinema home (containing a 300-seat theater and the company's administrative

offices) led to a sinking line of credit. The theater had no reserves with which to weather this storm, and there was suddenly a perception in the general community that the company stood on a knife's edge.

"Staff were laid off, and there was a loss of benefits," says executive director Corrie Zoll, who was hired the following year. "There was even a short period of time in 2014 when all the staff were laid off, and only a small number of people remained working hourly."

Propel Nonprofits loaned HOTB \$40,000 in August of 2014 in order for the theater to remain in operation and have space in which to begin restructuring. Propel



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It was reaffirmed that HOTB's history and importance to the community merited a strong effort to right its operations.

Nonprofits, as well as the company's board, were engaged in the process, through which it was reaffirmed that HOTB's history and importance to the community merited a strong effort to right its operations.

ACCESSIBILITY AT EVERY LEVEL

“Propel Nonprofits was part of the transformation committee to get things back on track,” Zoll said. “It was very indicative of the way Propel Nonprofits looks beyond a specific need to the larger context of why this specific need has come up. They’re generally interested in working with organizations to make entire systems work and not just specific pieces.”

Following the revaluation of the Avalon, HOTB saw the credit attached to its mortgage veer into dangerous territory. A crucial element of the reorganization, then, was a \$237,000 loan that enabled the theater to refinance its mortgage and shift the obligation to Propel Nonprofits at a lower interest rate—a sum that also included money allocated to needed building improvements. Additionally, Propel Nonprofits used a forgivable loan product that will enable HOTB to convert part of it to a grant if it is able to contribute to a bank account dedicated to creating a cash reserve—thus using financial instruments to aid the organization in building capital for both its own present stability and future growth.

Simultaneously, Propel Nonprofits worked with a transformation committee including staffers and board members to redo HOTB’s financial systems, budgeting, reporting—what Zoll calls “rebuilding the entire financial infrastructure.”

“Another program I’m involved with is Propel Nonprofits’ Financial Leadership Cohort,” says Zoll. “All of these pieces fit together very well. Our loan officer is also my mentor on the cohort. We’re talking about, for example, making a financial dashboard of indicators for our organization, as well as working on budgeting processes in the same way.”

BIG CHANGES AHEAD

Zoll himself is part of the changes that occurred in the wake of the crisis. He was brought into HOTB, his first executive



CREDIT: BRUCE SILCOX

director position, with a strong background in development and fundraising, efforts he led at Minneapolis’ Pillsbury House Theatre. He talks about seeing numerous changes in the nonprofit sector, shifts in the tides of funding, and a need across the board in arts nonprofits to evaluate the model for delivering programming.

“There are big challenges ahead that we share with other great theater companies,” Zoll says. “And for us, we are also reminding ourselves that we will either need to make a significant additional investment in this building, or leave this building. The status quo of doing just enough to get by isn’t something we will be able to do for much longer.”

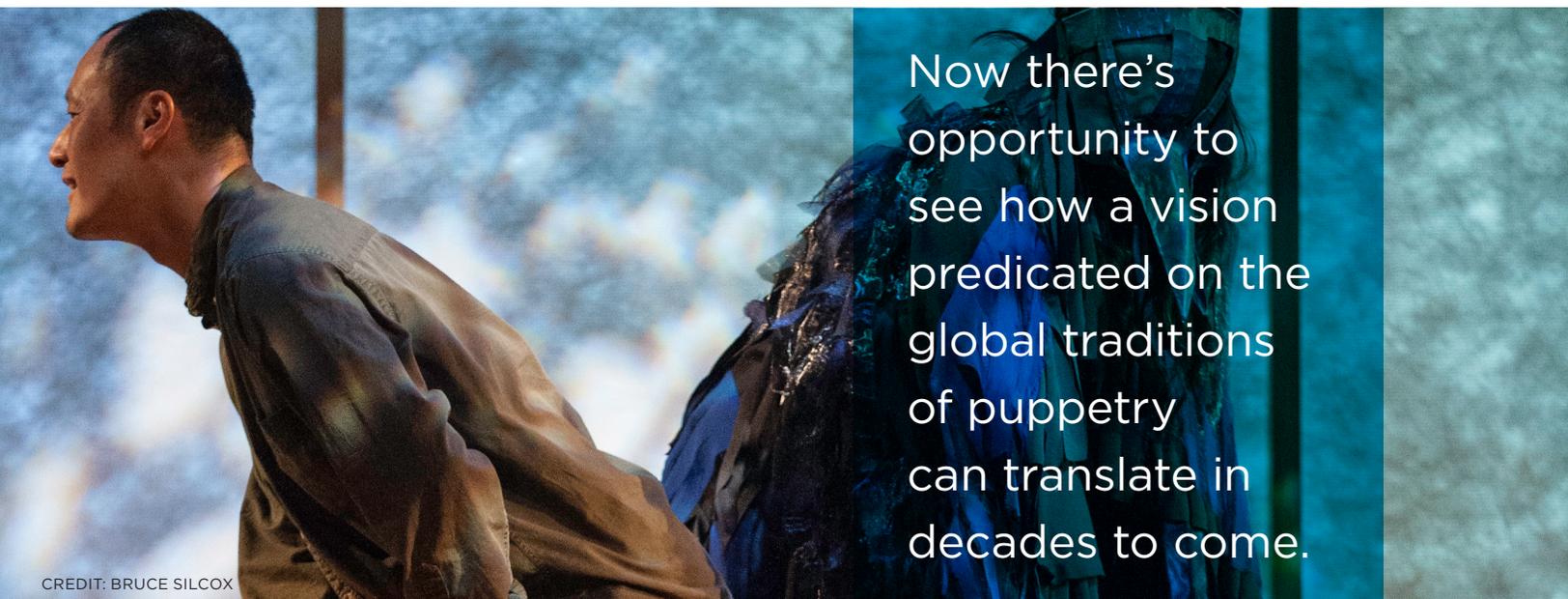
Indeed, even at a lower mortgage rate, the Avalon needs attention. Once a home for Hollywood films, then a pornography house, it’s since become a place filled with fond memories for Twin Cities live theatergoers. But it needs an overhaul of its HVAC system, and its administrative spaces and backstage areas are in need of updates.

“In December 2016, HOTB’s board of directors passed a resolution declaring that the organization is committed to staying in the Avalon Theater and serving their core neighborhoods. Next steps include long range planning, evaluating how investing in the Avalon Theater will best serve the community and HOTB as an organization, developing a business plan to support the building decision, and assessing the feasibility of a capital campaign to raise the necessary funds.”

ECOLOGY OF AN ORGANIZATION

Crucially, In the Heart of the Beast is in a position to examine its mission, and how it should best pursue it, with the kind of clarity and strategy that is impossible to find when lurching through crisis. Securing reasonable terms on its mortgage, a line of credit, and an incentive to build cash reserves are all in place. The financial structure of the nonprofit organization, which has held for some time but proved vulnerable to sudden collapse, has been shored up with purpose and intent.

HOTB is very much still in a rebuilding phase—its total staff has been pared down to 14, with only about half of those working full time. But it has announced a full season of stage productions after dramatic cutbacks



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in the past couple of years, and now there's opportunity to see how a vision predicated on the global traditions of puppetry can translate in decades to come.

"There are organizations that have been around for a while and were established when the nonprofit model worked differently," Zoll says of HOTB as well as some of its contemporaries. "It seems to me that it's a key moment when these

organizations realize that the way we've always done things—even if it came from a really good place—simply isn't working anymore. Propel Nonprofits is able to talk to you with the knowledge of a banker, but with the empathy of someone who is familiar with the organizational ecology you're working in."

LOAN INFORMATION

| | |
|------------------------------------|---|
| Relationship Since | 2014 |
| Loan Purpose | Refinance mortgage on their property and additional capital to complete upgrades to the building |
| Structure | \$233,821 term loan |
| Collateral | First position real estate mortgage for property valued at \$800,000 |
| Underwriting Considerations | Organization in a turnaround period, recent losses and need for cheaper capital |
| Risk Mitigation | Organization to make monthly savings, real estate mortgage, Propel involvement during the turnaround period |
| Technical Assistance | Financial planning including capitalization, budget, and cash flow management |

ORGANIZATION INFORMATION

| | |
|----------------------------|---|
| Budget | \$680,000 |
| Number of employees | 14 |
| Impact | Embodies their community by connecting directly with the neighborhood in which they reside. Original productions including the MayDay Parade and Festival |

Propel Nonprofits' mission is to fuel the impact and effectiveness of nonprofits with guidance, expertise, and capital. Propel Nonprofits was created from the merger of Nonprofits Assistance Fund and MAP for Nonprofits. It serves nonprofit organizations in Minnesota and the adjacent states of Wisconsin, Iowa, North Dakota, and South Dakota.



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