The Metropolitan Opera

The Metropolitan Opera is facing one of the biggest financial challenges in its 131 year history. As the global audience for opera continues to decline, the last year has seen the demise of New York City Opera and the collapse of other opera companies in the US and abroad. In spite of the Met's success in making opera more accessible through its movie theater transmissions and other initiatives, earned revenues at the Met have not increased in several seasons. Meanwhile, with its costs continuing to rise, the Met has been forced each season to rely on an alarmingly higher amount of annual donations from a relatively small group of key donors. The Met's endowment -- hit hard by the 2008 recession -- remains at a level smaller than the Met's annual operating budget of over $300 million.

With more than $200 million, or two-thirds of the Met's annual operating costs, being spent on pay and benefits to the Met's unions and its principal singers, the Met is looking to control its expenses by reducing some of those costs. Because of excessive work rules that trigger overtime pay on a daily basis throughout the company's nine month season and high end benefits programs, regular members of its chorus and orchestra cost the Met up to $300,000 per person per year through wages and benefits in FY13. With 15 of its 16 union contracts set to expire at the end of July, the Met has decided that the time has come to take action by modifying work rules and bringing benefits into line as one cornerstone of a revised business plan that will help to ensure the future sustainability of the Met.

Aligned with the reduction of costs, the Board of the Met has agreed to launch an aggressive fundraising campaign to more than double its endowment over the next five years to $600 million. The combined impact of cost reductions and more revenues from a larger, healthier endowment will provide a positive financial swing in the tens of millions of dollars. This revised business model will secure the Met and the livelihoods of its employees for the coming years.

The Met has made initial offers of new five year deals to its three largest union groups: its musicians, its chorus, and its stagehands, in each case asking for changes in work rules and a reduction in benefits programs that will result in savings to the Met of 16% to 17% per year.

In turn, the Met has committed to the unions that it will reduce administrative payroll cost by an amount equal to what is agreed to by the unions.

<u>Summary of the Economic Presentation from the Met to the Unions</u>

The Critical Challenges

The Met, like other nonprofit performing arts institutions, relies on three sources of revenue: box office and other earned revenues, endowment income and contributions.

- In keeping with the national trend, the Met's box office revenues are declining; in FY2008 the Box Office achieved 92% attendance, falling to 79% in FY13. (See **P5**)
- The Box Office for *The Met: Live in HD* grew significantly in its first years, rising from

$2.4 million in 2006-07 to $27.9 million in 2010-11. The program, which reaches more than 2,000 screens in 66 countries, has now reached its distribution capacity and sales have plateaued at approximately $28 million in 2013.

- The Met's endowment, $253.2 million in FY13, is far too small in comparison to its operating budget of more than $300 million. (Comparable peer institutions in the US have endowments of several times their annual operating expenses.) The Met's endowment has shrunk by more than 20% since 2007 because of the recession and the size of the continuing annual draws that have been necessary to help cover annual costs. (See **P11**)
- Contributions have increased considerably over the last decade from $68.6 million in FY04 to $157.9 million in FY13, but donors are not willing or able to continue to finance the growing gap between flat revenues and growing expenditure. The Board of the Met recognizes that the organization is over-reliant on a small number of major gifts from a group of individuals, with the top ten donors contributing almost 20% of the annual operating budget, and have mandated cuts in expenditure as a condition of their building-up of the endowment.
- Borrowing to finance the difference between revenues and expenses is not a solution. In 2012 the Met took advantage of unprecedented favorable bond market rates to raise $100 million in bond sales. This was used to cover $65 million of historical debt dating from pre-2006, and to provide $35 million in cash flow for operating expenses. Further bond sales are not possible. The $100 million must be repaid with interest in the coming years.

Revenue Enhancement Efforts

Peter Gelb took over as General Manager of the Met in 2006 and immediately introduced a series of initiatives to reinvigorate the artistic output, make opera more accessible to global audiences and generate important new income streams.

- While expenses between 2006–2013 have grown by $105.2 million, $60.6 million of that amount represents additional compensation for the unions in wages and benefits, some of it attributable to revenue sharing from the *The Met: Live in HD*. The Met's investments in new productions and *The Met: Live in HD* have resulted in record levels of media earnings and donations. (See **P2**)
- In FY13 *The Met: Live in HD* generated approximately $17 million of net revenues to the Met bottom line while also contributing additional income to unionized employees through media guarantees and revenue sharing payments.
- While the Met continues to explore new revenue generation opportunities for HD, the expansion of the series has currently plateaued, with approximately 2.5 million tickets being sold over each of the last three years.
- The number of new productions increased from four in 2005-06 to its current level of six. New productions ensure that we can attract the world's top artists to our stage, generate increased attention from the public, and average significantly more ticket sales than revivals.
- While contributions have more than doubled over the last 10 years, much of the income has been used to cover the rising costs of the annual operating budget, while the box

office income has gradually declined. The percent of contributions needed to supplement earned revenues to cover operating costs has gone from 36% in FY04 to 48% in FY13. (See **P10**)

Expense Control Measures

- In an effort to lower costs of new productions, the Met has successfully partnered with other major opera houses to mount co-productions, which reduces the overall production costs. Of the new productions staged between FY07 and FY13, more than one third have been co-productions.
- Over the last 15 years the average annual growth rate of new productions was just 3.6%. The cost of some new productions has been significantly reduced from earlier productions of the same operas:
  - *Il Trovatore:* $2.8million in 1987-88
    $3 million in 2000-01
    $1.4 million in 2008-9
  - *La Traviata:* $2.6 million in 1989-90
    $5.1 million in 1998-99
    $1.6 million in 2010-11

  NB: Figures adjusted for inflation
- From 2008 – 2013 the annual expense growth rate has been maintained at just 3.5%, with more than 2.2% of this amount covering the Union rate increases over this period.
- In 2008 and 2009 the administrative staff took a 10% pay cut (restored two years later.) Reductions to administrative pension and health benefits took place in 2009 and 2010.

Union Proposals

To safeguard the future sustainability of the Met, the company is committed to a program of cost control through changes to its union work rules.

The Met has started good-faith bargaining with its 16 unions by proposing the following:

- A review of working practices to ensure that they focus on rewarding compensation for work actually performed, removing the requirement to pay extraordinary multiples of contractual pay rates for work that is part of the Met's standard operation or paying for work that isn't taking place. These changes would result in cost reductions of approximately 16% – 17%.
  Examples of work rules that the Met proposes to change include:
  i) Fulfillment of minimum weekly performance guarantees before earning overtime for rehearsals in the same week;
  ii) Removal of penalty payments for costume changes;
  iii) Reduction of payments for extensive vacation periods. (Currently the orchestra receives 16 weeks paid vacation, and the chorus receives 9 weeks paid vacation.)
- The Met proposals will not require any reduction in base pay rates for its full-time employees.
- In almost all cases, the Met is not proposing reductions in union staffing levels to which it has already committed.

- The Met wants to work with the unions to achieve the cost controls necessary and welcomes their proposals to achieve this.
- The percentage of cost reductions agreed for union contracts will be matched in administrative cost reductions.

Key Supporting Statistics:

- Two-thirds of the Met's annual operating costs in excess of $300 million go toward pay and benefits for the Met's union employees and performing artists.
- The average annual cost of a regular 'full-time' chorus member was $300k in FY13 ($200k in pay and $100k in benefits).
- The average annual cost of a regular 'full-time' orchestra member was $285k in FY13 ($200k in pay and $85k in benefits).
- Total costs for the 2012-13 season were $326 million, with earned revenues of $166.2 million and contributions of $157.9 million, leaving a deficit of $2.8 million.
- Earned revenues have grown annually by an average of 4.9% since 1980. (See **P3**)
- Box office income from 2006 – 2013 has on average grown by 1.1%, and since 2008 the box office income has actually declined. (See **P5**)
- Expenses have grown annually by an average of 6.1% since 1980. (See **P4**)
- With greater expense controls in place for the last 5 years (2008 – 2013), expenses have grown by only 3.5% per year, 2.2% of that amount covering union rate increases over this period. (See **P6**)