**Key Facts About San Francisco Opera's Economic Situation & Orchestra Negotiations**

# Overview

This is an incredibly complex time for the arts. Even with strong sales and donations, inflationary expense growth has outpaced revenue growth for decades, resulting in a structural deficit of $15M that must be resolved. San Francisco Opera is increasing revenues as much as possible, but expense reduction is also critical. The Opera Orchestra's compensation structure has become increasingly out of alignment with the volume of work available and we must make gradual adjustments to the structure so that it better reflects the needs of this time.

San Francisco Opera is very sensitive to the impact of salary reductions on our Musicians, and so has proposed a five-year contract that phases in structural change at the same time as increasing wage rates, such that the Musicians' seasonal compensation does not reduce during the five years.

We look forward to reaching a resolution with our Musicians for a new contract that recognizes the tremendous value of our employees while aligning their contract with the current needs of the Company.

We hope that this information will help give some helpful context for the current economic situation of the Opera and the negotiations currently underway between San Francisco Opera and its Orchestra.

## The Economics of San Francisco Opera

# How Would You Characterize the Economics of the Opera?

San Francisco Opera and the arts in general are in a very complex economic time. We call this "The Tale of Two Realities."

### Reality #1: Strong Audience and Donor Trends

The first reality is marked by the exciting and positive revenue trends we are seeing at San Francisco Opera, with well-sold houses, a 13% increase in full subscriptions this season, annual fundraising of almost $50M, and a $300M+ endowment.

### Reality #2: A Long-term Unsustainable Model

The second reality is marked by an unsustainable structural imbalance (the difference between our sustainable revenue and our expenses). For decades, costs have increased at a faster rate than revenues, a reality faced by arts companies all over the world, and explained by an economic theory called the Baumol Effect. Baumol predicted this growing gap between expenses and revenues in industries where productivity cannot easily increase like the arts, healthcare, and education.

While we are seeing strong revenue trends, this growing divide between revenue and inflation-driven expenses needs to be structurally reset.

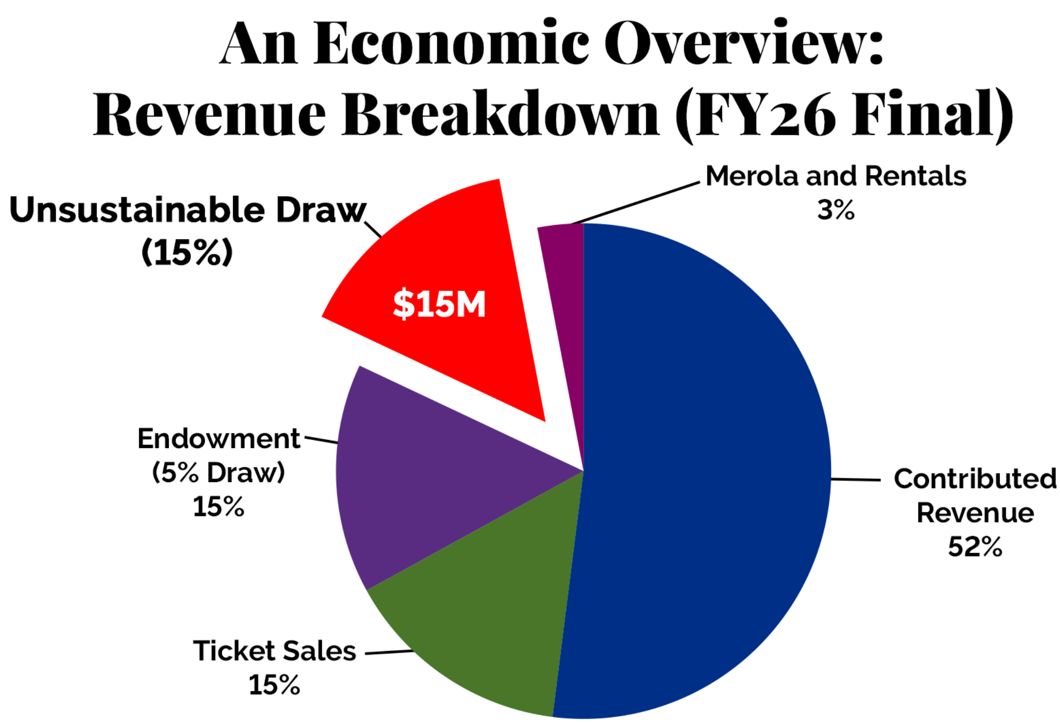
# If San Francisco Opera is Bringing in So Much Revenue, What Is the Problem?

**Despite strong revenue, San Francisco Opera had to take $15M of unsustainable endowment funds last year on top of a 5% draw.**

San Francisco Opera sells tickets at a very high level, raises money at a level not seen in other arts companies outside New York, and has an excellent endowment, but this is not enough to prevent the inexorably rising gap between expenses and revenues. Even with very strong revenues, San Francisco Opera has a structural deficit of some $15M each year. This is the difference in annual budgets between revenue (donations, ticket sales, and sustainable draws from the endowment) and our expenses.

We are currently covering this deficit by an extra, unsustainable draw on our endowment. Last year we drew $30M out of the endowment (10% of the endowment value) comprised of:

- A prudent 5% draw of $15M – the generally accepted standard for all nonprofits.
- An additional $15M special draw including a draw on unrestricted endowment funds (these are a limited portion of our endowment, and not sustainable).




We must keep adjusting the financial structure of the Company such that we can bring the endowment closer to a prudent 5% draw each year. We are working to reduce that $15M structural imbalance through sustainable revenue growth, managing expenses, and looking to new strategic opportunities for the Company.

# What Has San Francisco Opera Been Doing to Manage Costs?

As with so many arts companies, San Francisco Opera is constantly working to adjust costs to reflect changing economic realities.

Administrative headcount is 15% less than it was a decade ago, despite increased revenue pressures. In just the last two years, reductions in administrative headcount have realized annual savings of $1.5M.

We have also reduced annual expenses by reducing the cost of health insurance for orchestra and staff, without a diminution of benefits. This has resulted in annual savings of $1.5M, realized with the partnership of the Orchestra.

Most of the artists, artisans, and technicians who work at San Francisco Opera are paid for the time that they work, and do not have compensation guarantees, like the Orchestra. These groups have seen very difficult reductions in compensation over the decades as the volume of available work has diminished. This includes the most recent reduction from eight operas to six operas in 2024.

We appreciate the challenges inherent in these reductions and are deeply grateful to all those in the Company who have made changes over the decades to respond to the changing economic realities of the arts.

# Why Not Just Raise More Money?

**San Francisco Opera raises money at a level not seen outside New York, raising $49.5M last year.**

82% of San Francisco Opera's revenue is donor supported, between annual donations of $49.5M last year and draws from the Company's endowment, which is almost all donor-funded. San Francisco Opera's 6,500 donors already provide an extraordinary level of support at a level not seen in other arts organizations outside New York. San Francisco Opera anticipates continuing to raise at this extraordinary level, but it is neither realistic nor prudent to expect added contributed revenue to close the gap. We still require significant expense reductions to resolve this structural gap. Not only is this critical for the health of the Company, but our donors are requiring that we address this issue.

### Changes in the Number of Operas

# Why Has the Number of Operas Been Going Down?

**For 45 years San Francisco Opera has had to adjust programming levels in response to economic realities. Tickets now only cover 15% of revenue.**

The economic challenges being faced by San Francisco Opera and other arts organizations are not new and are happening across the performing arts industry. The problem has been growing for decades, and San Francisco Opera has long been modifying its programming accordingly. This is not a short-term situation, or a repercussion of the Covid pandemic. It's a decades' long economic reality that has been becoming increasingly acute.

Ticket sales (even with well-sold houses) represent only 15% of revenues. Were tickets to fully cover the costs of producing opera, a $100 ticket would need to be $700. Tickets would be 700% of current prices which would severely limit attendance. Opera has always required a level of subsidy, and now requires even more significant donations to make up the difference between ticket revenue and expenses.

As our economics have increasingly strained over decades, San Francisco Opera, like most performing arts organizations, has had no choice but to reduce programming. We lose significant money every time we open the curtain. The Company has had to reduce the season from 16 operas in 1981 to 6 operas today. The change has been gradual and linear, and speaks volumes to the decades-long strain faced by the arts.

## This Is a Long-Term Issue: Changes in Programming Over 45 Years

| | 1981–82 | 1991–92 | 2001–02 | 2011–12 | 2025–26 |
|---|---|---|---|---|---|
| **Fall** | Semiramide<br>Manon<br>Lady Macbeth of Mtsensk<br>The Merry Widow<br>Carmen<br>Le Cid<br>Wozzeck<br>Lucia di Lammermoor<br>Aida<br>Die Walküre<br>Il Trovatore | La Traviata<br>War and Peace<br>I Capuleti e i Montecchi<br>Don Giovanni<br>Carmen<br>Tristan and Isolde<br>Das verratene Meer<br>Elektra<br>Attila | Rigoletto<br>Arshak II<br>Samson et Dalila<br>Die Meistersinger von Nürnberg<br>Tosca<br>Falstaff<br>Jenůfa<br>The Merry Widow | Turandot<br>Heart of a Soldier<br>Lucrezia Borgia<br>Don Giovanni<br>Xerxes<br>Carmen | Rigoletto<br>Dead Man Walking<br>Parsifal<br>The Monkey King |
| **Summer** | Giulio Cesare<br>Turandot<br>The Barber of Seville<br>Nabucco<br>The Rake's Progress | William Tell<br>The Barber of Seville<br>L'Italiana in Algeri<br>Ermione | Carmen<br>Madame Butterfly<br>Giulio Cesare | Nixon in China<br>Attila<br>The Magic Flute | The Barber of Seville<br>Elektra |
| **Number of Operas** | **16 (11+5)** | **13 (9+4)** | **11 (8+3)** | **9 (6+3)** | **6 (4+2)** |

**Companies all over the world are reducing seasons to balance budgets.**

Many opera companies around the world have seen contractions in programming; this is not unique to San Francisco Opera.

However, we are not willing to solve the current structural gap by reducing programming further. We need to maintain our current level of programming—a level which is resonating with patrons and donors. We need to reduce expenses without a further loss of programming.

# Why Not Just Perform More?

**Performing more would only increase the gap between expenses and revenue.**

In the face of reductions in the number of titles over 45 years, it is a natural response to suggest that we should just perform more. Surely more performances equals more ticket revenue?

When ticket revenues cover only 15% of our expenses, adding more performances results in net loss to the organization. For example:

- To add an extra performance of last summer's *Elektra* would have netted a projected $191k in additional incremental loss including anticipated ticket revenue.
- The *Beethoven 9* concert that we performed in 2024 netted $193k in additional incremental loss, even after selling all the seats.
- Orchestra-only events in smaller venues that we have done have added incremental expenses of $60–90k per event.

Everything we do creates net loss, and requires additional donor subsidy. This is true from the grandest of grand operas on the mainstage to small musical experiences with the orchestra out of the house. We cannot solve a structural deficit of $15M by *adding* programming. Adding programming increases the net loss to the organization.

### The Current Orchestra Negotiation

## How the Orchestra is Paid

Since 1981 when the San Francisco Opera and Symphony orchestras split, the tenured Musicians of the San Francisco Opera Orchestra have been employed on a seasonal basis, guaranteed around half a year of work and vacation by the Opera. For the last 20 years, they have been guaranteed 24 weeks of work, full-year family health benefits, 4 weeks of vacation and a number of additional fees.

For those 24 weeks, a base section Musician receives $118k of compensation. Additional seniority pay takes effect in the third year of service. Musicians in titled chairs receive higher wages, up to double the minimum compensation rate.

The 24-week guarantee significantly exceeds the volume of work we can economically provide. It has done so for many years now.

Many Musicians perform elsewhere and/or teach during the rest of the year.

The Orchestra is employed on a weekly basis, and their weekly base salary of $3,888 is one of the highest in the industry. The San Francisco Opera Orchestra's weekly salary is higher than, for example, the New York Philharmonic, the San Francisco Symphony, the Metropolitan Opera, and the Lyric Opera of Chicago, not to mention most others in the country.

We are very proud of our Orchestra and believe they should be very well compensated for the work that they do. Our suggested framework aims to keep their wage rate high. What we cannot continue, however, is the amount of pay for hours and weeks neither worked nor required.

# What is the Impact of Unworked Hours?

**This season, we anticipate not being able to utilize 33% of the Orchestra's guaranteed hours.**

San Francisco Opera cannot utilize all the hours obligated to the Orchestra. This gap has been increasing as the amount of programming has changed.

Last season, we did not need and could not economically use 25% of the hours obligated to the Orchestra. For next season, the figure will be 33%. That equates to about $1.9M–$2.5M of unutilized wages per season.

With a $15M structural deficit, we simply cannot continue that level of expenditure. We cannot keep guaranteeing a level of work based on the needs of decades ago, a level of work that is not coming back.

Our proposed framework to the Orchestra seeks to reduce, not eliminate the unutilized hours.

# What is the Opera Offering?

**San Francisco Opera is offering a five-year contract with increases in wage rates, and a gradual diminution of weekly obligation, such that season wages don't go down.**

San Francisco Opera's latest framework presented to the Orchestra realizes long-term structural change over the course of a five-year contract, better aligning the Orchestra's time with realistic needs, while alleviating the impact on Musicians by phasing in change. This is in addition to full-year family health benefits, 4 weeks of vacation and a number of additional fees. We have crafted a framework to ensure that wage rates *increase* over the contract, ensuring that a Musician's total seasonal pay does not decline over the course of the contract, even though their work obligations will be reduced.

This suggested framework still leaves the Opera paying for hours beyond the needs of the season, and we look forward to continued conversations about the creative utilization of those hours with our Musicians, recognizing that added programming adds net cost to the Company.

We believe that this is a fair and reasonable contract at a time when change is absolutely necessary.