

Symphony Orchestra Travails Come to Pittsburgh

Summary: The attendance and financial difficulties that have plagued orchestras across the country have not exempted Pittsburgh. This *Policy Brief* points out the deep seated gap between costs and performance revenue faced by the Pittsburgh Symphony Orchestra (PSO). The current musician strike has brought the long term fiscal problems at the PSO into sharp focus. Willingness of donors to provide significant additional support in the future will be key to the PSO's financial stability.

For quite some time symphony orchestras across the country have been dealing with problems of falling attendance and financial difficulties. Several have filed for bankruptcy; some have suffered musician strikes; some have been somewhat successful at increasing endowment funding; others have sought and received significant salary and benefit reductions from musicians and a few have cut the size of their orchestras. The overarching reality facing many orchestras, including the Pittsburgh Symphony Orchestra, is that the percentage of the population attending concerts has dropped and the really bad news is that the number of younger audience attendees has declined and the evidence is that they are unlikely to grow into classical music later in life.

Professional symphony orchestras depend, in varying degrees, on three main sources of revenue: ticket sales, contributions /grants from individuals, businesses, and foundations and revenue from investments. Larger orchestras with significant endowments will of course generate proportionally more investment income depending on the size of the portfolio of invested funds.

Obviously, as attendance falls ticket sales will also drop resulting in a situation in which a larger and larger share of the cost of operating and maintaining the orchestra depends on donations or use of endowment funds. In turn, the ability to raise funds through donations at ever greater levels will hinge on: (1) the patience of donors to support an orchestra playing half or less filled halls and (2) how much importance the public and major donors place on having a viable, high quality orchestra to maintain the reputation of the home city. In a city with many large corporations and large philanthropic organizations, the likelihood of the orchestra being able to depend on adequate donations will be generally higher than in mid-sized or small cities. Still, there is likely to be a limit to the

willingness to keep funding an orchestra when public support in the form of attendance and ticket sales continue to decline unabated.

All of this background is presented in order provide context for discussion of the current problematic financial circumstances, including a musician strike, being experienced by the Pittsburgh Symphony Orchestra (PSO). Briefly stated, over the last five fiscal years, 2011 through 2015 inclusive, the underlying problem of operating revenue falling well short of covering operating expenses has seen little or no improvement.

Indeed, the operating deficit for the PSO has been near or slightly above \$20 million for each of the last five years. This large gap between operating expenses and operating revenue was the result of annual operating revenues (in millions of dollars) of \$11.9, \$12.1, \$14.3, \$13.8, and \$13.6 for the years 2011 through 2015 while annual operating expenses (in millions of dollars) were \$32.2, \$32.6, \$35.3, \$33.3 and \$33.0 for the years 2011 to 2015. Note too that well over \$2 million a year (20 percent in 2015) of operating revenue is derived from government grants. *All data are taken from PSO audit reports.*

Some of the numbers in the audit reports regarding revenues are surprising if not shocking. For instance, revenue from orchestra performances is an unexpectedly small share of total operating revenue and is nowhere near enough to cover the cost of the orchestra. In 2012, orchestra performance revenue (\$8.9 million) covered 56 percent of the orchestra's cost. But even worse, after moving lower in 2013 and 2014, the share fell to 43 percent in 2015 when performance revenue dipped to just \$7.6 million. Finally, note too that orchestra performance revenue has covered only a quarter, or thereabouts, of the symphony's operating costs during the five years 2011 through 2015.

Clearly, the remaining \$20 million or so of the operating costs not covered by operating revenue must be met somehow. Most of the shortfall has been made up through annual contributions, use of some endowment funds and income from investments. Annual fund contributions have ranged from \$7.1 million in 2012 to \$13.1 million in 2015 and averaged \$10.5 million over the five fiscal years. Net investment income has been volatile ranging from a high of \$20.2 million in 2014 to a negative \$3.3 million in 2015. Endowment funds use—these are considered a contribution for accounting purposes—ranged from \$775,000 in 2013 to \$7 million in 2015. Another \$2.9 million in “gifts and projects”—not defined—were enough to hold the PSO's loss to only \$1.6 million in 2015.

However, on the heels of another net loss in 2016 (audited report not yet available) and with costs projected to rise faster than revenue, the PSO is forecasting a cash deficit of \$20.4 million over the next five years. Compounding the problem is the fact that the musicians' pensions are only 65 percent funded (staff pensions are 70 percent funded) requiring substantially higher PSO contributions to insure the funds are financially sound. Further, the funding ratios currently in place are based on the assumption that pension investments will return eight percent per year. A rate of return that several experts argue is too high, potentially making the outlook for increased PSO funding requirements even greater than are currently calculated.

And now to make matters worse, PSO musicians have gone on strike—the second in their history (there was one in 1975). Canceled concerts will not be helpful in trying to sell tickets to future scheduled events. Moreover, other non-musician costs are continuing and reimbursements for canceled concerts will have to be made. None of which is good for the PSO financial situation.

Orchestra members argue that management's assessment of the financial picture is unduly pessimistic and inaccurate. Members have been quoted as saying that ticket sales are up. Perhaps the data will show they are. But, even if sales revenue rose by a million dollars over 2015, with the cost structure currently and prospectively in place, the financial situation going forward would still be untenable. And it will remain untenable unless annual contributions to cover operating costs increase substantially from the average of recent years.

It remains to be seen whether the PSO can raise the kind of additional funds necessary to avoid significant cost cuts. And will the strike if prolonged, permanently further weaken an already declining attendance level? Moreover, will potential donors be put off by the unwillingness of the union to provide any help in resolving the cost problem?

To be sure, financial difficulties and work stoppages are not unique to the PSO. Over the last decade or so, many symphonies such as St. Louis, Minnesota, Detroit, Fort Worth, Philadelphia, and the Metropolitan Opera Orchestra, have had major labor issues including strikes.

As noted earlier symphony orchestra fiscal problems are closely linked to declining attendance at classical music concerts. In 2015 it was reported that the PSO had fewer people attending concerts. For the 2014-15 season, Heinz Hall was, on average, 50 percent filled for the Mellon Classics series while for the Pops season the hall was only 56 percent filled. Two years earlier they were 61 and 62 percent filled respectively. Ticket sales for the Mellon Classics had fallen 17 percent from the 2012 to 2014 season. Furthermore it was reported that the PSO found that 20 to 23 percent of subscriber tickets go unredeemed.

Again this is more of a widespread problem than the one plaguing the PSO. In 2015 the National Endowment for the Arts (NEA) released a report looking at participation in the arts from 2002-2012. One major finding is that the number of adults indicating that they had attended a classical music event was 8.8 percent in 2012, down from 11.6 percent one decade earlier—a 24 percent drop. The average number of performances each year per attendee also fell, dipping from 3.1 in 2002 to 2.6 in 2012—a 16 percent drop. In terms of total attendance, 72.8 million people attended classical music concerts in 2002 but that number had fallen by 27 percent in 2012 to just 53.1 million. These numbers point to the need for dramatic rethinking of how to boost attendance and how to deal with the reality that something drastic will have to be done to curb costs.

In sum, the PSO is caught up in a long term trend of fewer people attending symphony concerts. Making the problem doubly difficult is that the PSO's primary market—the City—has been losing population and the accompanying age group changes are working against symphony attendance. The PSO has been fortunate so far in having a corporate and wealthy individual donor base that has been very generous over the years.

The big question now is: Will donors dig deeper to sustain current and projected cost levels in the face of ongoing attendance declines? Absent that additional support, the financial picture will get bleaker.

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