Who Killed City Opera?

New York City Opera had a storied history, a reputation for scrappy, innovative productions, its own orchestra and chorus, and a prominent home at Lincoln Center. A perfect storm of economic circumstances and cultural shifts raised red flags about its survival. But the board of directors failed to understand and embrace their fiduciary and oversight responsibilities, and the 70-year-old company filed for bankruptcy. The company regrouped, but now operates in greatly diminished form.

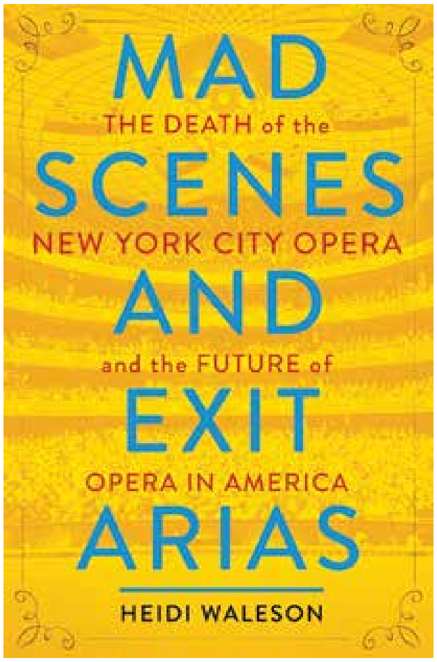
An excerpt from Heidi Waleson's *Mad Scenes and Exit Arias: The Death of the New York City Opera and the Future of Opera in America* chronicles the story from behind the scenes—and examines the important role that boards play in the success of performing arts groups.

By Heidi Waleson

When the New York City Opera filed for bankruptcy in October 2013, the arts world was shocked. The 70-year-old company had teetered on the edge of the abyss before, but it had always survived. What was different this time?

Blame could be, and was, liberally assigned. Should the honors go to George Steel, its final general director? Or, working backwards, was the last straw the decision to leave Lincoln Center in 2011? Many pointed to the dark season of 2008–09, when the company abandoned its loyal subscribers, who, in turn, abandoned it. Was the culprit the former board chair, Susan Baker, whose single-handed, quixotic choice of Gerard Mortier as general director and whose failure to raise the funds to support his vision set the final desperate years in motion? Or was it the board, which did not come up with a plan to fix the company's struggling business model in the 2000s, when the annual operating deficits began to grow, and instead followed Baker's lead in all things, including the steady pillaging of the endowment, and also allowed for a leadership vacuum after the departure of general director Paul Kellogg?

City Opera's demise can be attributed to a complex web of factors and behaviors. But there is no doubt that one central strand of the story was the role of City Opera's board.



City Opera's demise can be attributed to a complex web of factors and behaviors. But there is no doubt that one central strand of the story was the role of City Opera's board, which failed to recognize and deal with the company's worsening condition in a dramatically changed environment, enabled destructive decisions, and failed to come up with the money to secure its future.

When City Opera had found itself on the brink before, a savior always seemed to turn up. In the early 2000s, the board, like the company, continued to expect one, even as audiences dwindled, fundraising stayed flat, and expenses grew exponentially, resulting in growing operating deficits. This time, the hope was that a new theater would solve all its problems. A more artistically and acoustically suitable theater had been Paul Kellogg's dream from the early years of his tenure, and the board, first under the leadership of Irwin Schneiderman and, as of 2004, that of Susan Baker, was happy to go along with the idea.

Kara Unterberg, a young City Opera fan and Harvard Business School graduate, joined the board in 2004. From the outset, she was aware of the company's difficulties and felt that little was being done, at least on the board level, to address them. "So much of the board's time was wasted," she said, on the new building project: "where to build, how to raise money to build—and all this stuff was fanciful." In her view, the board found the tangible building project easier to talk about than enduring problems like ticket sales, deficits, and the company's artistic future. As the youngest member by far, Unterberg recalls being intimidated by the City Opera board, which, she says, was very formal and not conducive to discussion. "People on non-

Since Gerard Mortier could not start as general director for two years, Board Chair Susan Baker decided that she would run City Opera herself, with support from the company's executive director.

profit boards often don't disagree because they are afraid to insult people," she says. Under Baker's leadership, Unterberg felt that dissent was unwelcome. "Things were just presented, and if there was any kind of dissent or question, Susan had this amazing way of just getting off that topic." Unterberg began to feel that she had no power, that no one wanted her opinion, just her money, and that momentous decisions about the company's future were made in committee, where there was little that she could do to influence them.

In 1966, New York City Opera moved from its first home on West 55th Street to the New York State Theater at Lincoln Center (at left in photo), where it remained until 2011. The 2,500-seat theater was designed according to the specifications of choreographer George Balanchine as the home of New York City Ballet, and opened in 1964 (it was renamed for donor David H. Koch in 2008). Balanchine sought to muffle the sound of the dancers' footsteps, and over time the theater underwent several acoustic modifications to make it more suitable for opera and musical theater. As part of Lincoln Center for the Performing Arts, New York City Opera shared a campus with the Metropolitan Opera (which was right next door), the New York Philharmonic, the Juilliard School, and other major arts organizations.

New York City Opera was founded in 1943 by Mayor Fiorello La Guardia as "the people's opera," aiming to make the art form accessible to wide audiences with reasonable ticket prices as well as an artistic focus on American performers and composers and new or innovative productions. In addition to presenting many world premieres, the company launched the careers of singers including Beverly Sills, Plácido Domingo, Shirley Verrett, José Carreras, Sherrill Milnes, and Samuel Ramey. For many years, New York City Opera produced lengthy autumn and spring seasons of opera, operetta, and musicals in repertory, ran extensive education and outreach programs, and maintained its own orchestra and chorus.

In 2008, facing monetary woes as well as temporary displacement during the renovation of the Koch Theater, the board and management of City Opera decided not present a season while still contractually obligated to pay musicians and chorus, hastening the company's financial decline.

Aspirational Budgets

Unterberg was particularly dismayed by the board's practice of approving budgets that included operating deficits. The budgets were also wildly optimistic, substantially overestimating both ticket and fundraising income, so that the actual year-end results showed even greater deficits than those that were projected. Nomi Ghez, the board treasurer, would disapprovingly refer to this practice as "aspirational," but still it persisted.

The board went on approving the budgets because there were no immediate repercussions: the $55 million endowment—encompassing $51.5 million from the Wallace Funds, a 2001 windfall, as well as some smaller, previously granted funds—had become NYCO's unofficial piggy bank. Starting in 2004, the company had been using it as collateral to borrow money to fund operations, paying significant interest fees. Then, late in 2005, two new sources of cash were identified. One was serendipitous: Ruth Klotz, a longtime, relatively low-level donor, who died in 2002, had left the company half her estate. The Klotz gift would eventually total $10.4 million and would be disbursed over three years, helping to bridge the ever-widening gulf between expenses and revenue.

In addition, the board had identified a provision in the Wallace endowment agreement that enabled them to take money directly out of the $51.5 million Wallace principal and use it for operations, without being required to pay it back—circumventing the rules that usually govern endowments. For three years, these so-called Special Projects withdrawals were used to pay off the company's

Adapted with permission from Heidi Waleson's *Mad Scenes and Exit Arias: The Death of the New York City Opera and the Future of Opera in America* (Metropolitan Books, 2018). For more on the book, visit https://us.macmillan.com/books/9781627794978.

Conductor Julius Rudel and soprano Beverly Sills built stellar careers on international stages, but New York City Opera was their launching pad and home for many years. A 1967 record cover says much about New York City Opera's cultural role at one time: Sills and bass-baritone Norman Treigle (another City Opera stalwart) were so influential in the revival of Handel's operas that major label RCA Victor put its resources behind a lavish recording with forces including contralto Maureen Forrester and the New York City Opera Orchestra and Chorus. Rudel and Sills were long associated with City Opera: Rudel led the company from 1957 to 1979, and Sills sang with City Opera from 1955 to 1979, and then led it from 1979 to 1988.

loans (for which the endowment funds had previously been used as collateral). In all, the company withdrew a total of \$9.6 million from the endowment in this way, the maximum permitted under the original grant. Susan Baker was particularly concerned about the loans since the company would have to demonstrate fiscal responsibility if it was to have any chance of receiving support from New York City for the proposed new building. So, for the 2005–06 season, the company used some creative accounting, offsetting the actual operating deficit of \$5.9 million with the Klotz bequest and a Special Projects withdrawal from the Wallace endowment. On paper, the company had a surplus for the year. The following year, with the second multi-million-dollar installment from the Klotz bequest and another \$4.24 million from Wallace, they did the same and again showed a surplus. The finance committee also decided to raise the percentage of the endowment draw from 5.5 percent to 6.6 percent, which is higher than customary, allowing the company to apply more investment income to its operations.

In the 2006–07 season, the company's investment committee had responded to the buccaneering Wall Street spirit and diversified the endowment portfolio into additional asset classes, including moving 25 percent of it into risky hedge funds. Financial speculation was the board's latest attempt to find a new strategy for survival. For a while it seemed to be working: the first year's returns were strong, with investment results up nearly 18 percent, and despite the Special Projects withdrawals, the endowment's value actually grew that year. Ghez warned the other board members that the Wallace withdrawals were not "new money" and thus did not represent an increase in fundraising, but the success of the new investment strategy did not help her case. If the company could replace the money by playing the stock market, what was the problem?

Artistic Leadership

The board's approach to the search for a new general director was no more coherent. Kellogg had announced his retirement in 2005, though he was staying on through the end of the 2006–07 season, and the search process for his successor dragged on for months, with the nine-member board search committee interviewing numerous candidates. Search committee member Emilie Corey felt that the board's criteria were vague. "They wanted a star," she says, who also had experience in dealing with unions. Then, in the spring of 2006, Susan Baker attended a dinner at the French consulate in New York. She was seated next to Gerard Mortier, the legendary Belgian "enfant terrible" impresario, then general director of the Paris Opera. "Susan met Mortier and fell in love," says Corey.

Even as the search committee continued interviewing candidates, Baker began wooing Mortier, despite the obvious mismatch between him and the company. (As one staffer put it later: "It was like Joe Torre coming to manage Little League.") She was ready to promise her big fish whatever he wanted, and he wanted a lot: Mortier insisted that he would need a budget of \$60 million per season. Such a figure was way out of line with NYCO's finances. Its most recent operating budgets were in the neighborhood of \$40 million, and income was not keeping pace with even that number: the company's actual income added up to just over \$30 million. Reaching a \$60 million budget would require at least another \$20 million in annual fundraising, but despite all indications to the contrary, Baker assured Mortier that this could be done, and Mortier agreed to the deal in early 2007. Baker also decreed an unorthodox management strategy: Since Mortier would not be starting full-time in New York until the beginning of the 2009–10 season, Baker decided that she would run the company herself (aided by Executive Director Jane Gullong) rather than bringing in an interim manager to take over the general director's functions, for the intervening two years.

City Opera's board viewed the endowment as expendable rather than as an asset to be preserved, which is the fiduciary responsibility statutorily required of a nonprofit board.

With these unilateral decisions, and the board's unquestioning acquiescence to them, the company embarked on a perilous 18-month Baker-Mortier *folie à deux*. It would end in November 2008, when Mortier withdrew from the agreement because Baker and the board failed to come up with the \$60 million budget they had promised. The board, never a group of big spenders, followed Baker's lead in her expectation that the money would come from unspecified billionaires in Dubai or Abu Dhabi, and did not commit their own funds.

Tapping the Endowment

In the meantime, they had made one catastrophic decision after another. Two in particular had a devastating impact on City Opera's future. In order to renovate the New York State Theater (Mortier thought the theater was fine, but he wanted a bigger orchestra pit), the company agreed to move out for an entire year, 2008-09, and made no plans to perform elsewhere. The company had no box-office income for the dark season, while it continued to pay its unionized employees their required minimums, and the audience would never return.

Also, in order to pay off the accumulated deficit and cover the company's still-considerable fixed costs for the dark season, the board made an application to the New York State Attorney General for permission to draw from the principal of the Wallace Endowment. Kara Unterberg was aghast at the idea that the company would invade its nest egg: "I didn't go to the endowment vote. I said, I'm not voting on that." Unterberg says that she had tried to raise objections to the plan in small meetings but got nowhere. "The answer I always got was, 'what's the alternative?' And I didn't have an alternative." The petition said that the funds would be "borrowed," and thus required a plan for eventually paying the money back into the endowment, which the staffers recognized was probably impossible. The request was granted, and the endowment, already reduced in value because of the 2008 financial crisis, with the hedge fund investments especially hard hit, would ultimately be almost entirely gutted to pay for operating expenses.

All along, City Opera's board had viewed the endowment as expendable rather than as an asset to be preserved, which is the fiduciary responsibility statutorily required of a nonprofit board. The pattern of borrowing today to pay for tomorrow had begun even before Baker's Hail Mary hiring of Gerard Mortier—just the latest "savior." And it was the prospect of using the endowment as a piggy bank that had set the whole debacle in motion, first emboldening Baker to promise Mortier a vastly expanded budget, and then encouraging the complacency that led to her failure to raise sufficient funds for the fantasy. It was with this same attitude of nonchalance that she agreed to wait two years for Mortier to arrive, and to squeak by with a dark, no-income season in the meantime. The invasion of the endowment was originally intended to provide the cash to keep the company running until Mortier came; supposedly, his enormous success would then open the floodgates of donations and enable the company to pay it back. Worst of all, the invasion was done at the most inopportune moment, when the financial markets were in free fall.

> Tapping the endowment happened just as the financial markets were in free fall.

Board Responsibilities and Oversight

Even if the first $60 million had been found, and Mortier had come, the chances of success were slim. Marc Scorca, president and CEO of Opera America, says,

> I've seen many companies make an Arts Management 101 error, which is, "If we do the work, and it's good enough, people will flock to us and support us." That's what City Opera was saying: "Somehow, if we can just pay for Gerard Mortier's first season, it will be so great that we will be supported through box office sales and philanthropy." That doesn't work. You have to have the base. You have to have the investment capital. You have to be prepared for sustained investment in a new concept, a new direction, and it doesn't happen overnight. Betting on the good reviews, betting on the word of mouth as an institutional strategy is not a good idea.

The City Opera board, like those of many non-profits, failed to understand and embrace their fiduciary and oversight responsibilities, and made choices, or rubber-stamped the choices of others, without the regard or care that they would have had for a for-profit business. As Mark Moorman, a onetime member of the City Opera development staff, put it, "There are many reasons for the downfall of NYCO, but I think one of the most compelling stories of NYCO is, 'who oversees the overseers?'"

Baker and the board had dug the company into a hole that seemed impossible to climb out of. It would have taken a leader of considerable skills and stature to change the trajectory. Instead, pushed by longtime board member Mary Sharp Cronson, the board hired George Steel as general manager and artistic director. Miller had previously served as executive director of Columbia University's Miller Theatre. Steel had minimal experience raising money, and scant practical knowledge of opera or opera houses. His turbulent tenure would end, not quite five years later, in the company's bankruptcy. S

HEIDI WALESON is the opera critic of the *Wall Street Journal.*