

Finance Committee Meeting – October 25, 2007

MINUTES

A regular meeting of the PNB Finance Committee was convened in the absence of a quorum at 5:20 pm PDT by Secretary Terry Goodman on September October 25, 2007 with Sandra Rawline serving as Chair Pro-Tem. Quorum was obtained at 5:55 pm. No minutes were approved.

Attendance

Present: Dave Adelson (arrived at 6:30 pm), Baruti Bediako (arrived at 5:55 pm), Brian Edwards-Tiekert, Terry Goodman, Lonnie Hicks, and Sandra Rawline.

Absent: Mike Martin, Jane Gatewood, Berthold Reimers, LaVarn Williams.

Agenda

- 1) Roll Call and Approval of Agenda (8 minutes)
- 2) Approval of Minutes 9/26/07 (5 minutes)
- 3) Next Regular Meeting
- 4) CFO Report (60 minutes)
 - a. WBAI Recovery Plan
 - b. October 1 Status
 - c. PNB Motions
 - d. National Office Mail Drops
 - e. Affiliates Budget
- 5) Financial Policies & Procedures Manual (5 minutes)
- 6) New Business (5 minutes)
- 7) Adjournment

** Times are for guidance only **

1. Roll Call and Approval of Agenda

The meeting was convened without quorum by Terry Goodman. Sandra Rawline was appointed Chair Pro-Tem without objection. An adjourned meeting was scheduled by the members present, which motion was mooted by the scheduling of a regular meeting after quorum was achieved. The members present decided to waive agenda approval and hear the CFO report in public session while awaiting quorum. The proposed agenda was eventually approved without objection on the motion of Brian Edwards-Tiekert at 6:20 pm.

2. Approval of Minutes

Absent a quorum, approval of minutes was postponed.

3. Next Meeting

Motion from Sandra Rawline that the Finance Committee schedule a regular meeting for Monday,

November 19, 2007 at 8:00 pm EST.

Motion passed without objection at 6:25 pm.

The Secretary will schedule the meeting on both the kpftx and PacificaFoundation calendars. The CFO will invite Pacifica's new ED to attend.

4. CFO Report

The CFO's report, which began at 5:23 pm, concentrated on the first draft of the WBAI Recovery Plan, distributed to the PNB and committee members via email in advance of the meeting.

4a. WBAI Recovery Plan (See Appendix A)

The primary drivers in WBAI's high overhead and consequent budget shortfalls are its occupancy costs in comparison to other units, especially studio and transmitter rent and utilities. The CFO outlined strategies being explored to finance permanent studio relocation and identified short-term measures being taken to reduce costs and improve cash flow. *Goodman requested a chart comparing salary and related costs to income at each unit. Edwards-Tiekert and Rawline requested a timeline with target dates, including details on the administration of cash flow to avoid temporary insolvency.*

4b. October 1 Status

The CFO and Treasurers reported on current fund drives beginning at 6:02 pm, but the intended meaning of this agenda item was not known to the members in attendance. *Discussion of this item was postponed to the next meeting.*

4c. PNB Motions

There was no formal report of PNB motions. Committee members were assumed to know the status of budget approvals and continuing motions.

4d. National Office Mail Drops (See Appendix B)

A written report on National Office mail drops was included in the CFO's email distribution. *Discussion of this item was postponed to the next meeting.*

4e. Affiliates Budget (See Appendix B)

A progress report on separation of the Pacifica Affiliates Program budget from the National Office budget pursuant to a PNB resolution was included in the CFO's email distribution. Sandra Rawline reported on a related motion from the PNB Affiliates Committee. There was discussion about whether or not the salary portion of the budget proposals would require consideration in closed session. *The CFO will consult with the independent auditor on the allocation of income and expense items to the Affiliates Program. Further discussion of this item was postponed to the next meeting.*

5. Financial Policies and Procedures Manual

The Audit Committee review of the draft manual is complete and it will be presented to the PNB approval at the January PNB meeting.

6. New Business

Two items of New Business were proposed for consideration at the next meeting: a Development Director for WBAI and a review of fund drive results as compared to budget forecasts, including an examination of drive lengths. The proposed agenda may be amended to allow time for discussion with the new Executive Director, if she attends.

9. Adjournment

The meeting was adjourned without objection at 6:37 pm PDT.

Terry Goodman, Secretary

(These minutes were approved on 11/29/07.)

Appendix A – WBAI Recovery Plan

PACIFICA FOUNDATION
WBAI RECOVERY PLAN:
ANALYSIS AND ACTION ITEMS
AND OTHER FINANCE ITEMS
OCTOBER 2007

By **Lonnie Hicks**
Chief Financial Officer
Pacifica Foundation

Prepared for the Pacifica National Board of Directors

This is a report the Pacifica National Board on the finances of WBAI, my financial analysis of that station, its recovery plans to date and my recommendations at this point as to the options available to the station and the Network as well.

The strictly financial **problem is straight forward: WBAI has an operating deficit of 250-300k.** Additionally, there back debt of approximately the same amount. What to do?

The Operating Deficit

The **first question is what the cause of the station's operating deficit situation** where this fiscal year the station will likely show a 44k deficit. The next question is **what are the drivers in the deficit** scenario the station faces?

Below I take the reader through **several possibilities.**

First, when we look at **salaries**, comparing WBAI salaries to the salaries of our other units we see that salaries as a proportion of expenses are not out of line as compared to total expenses.

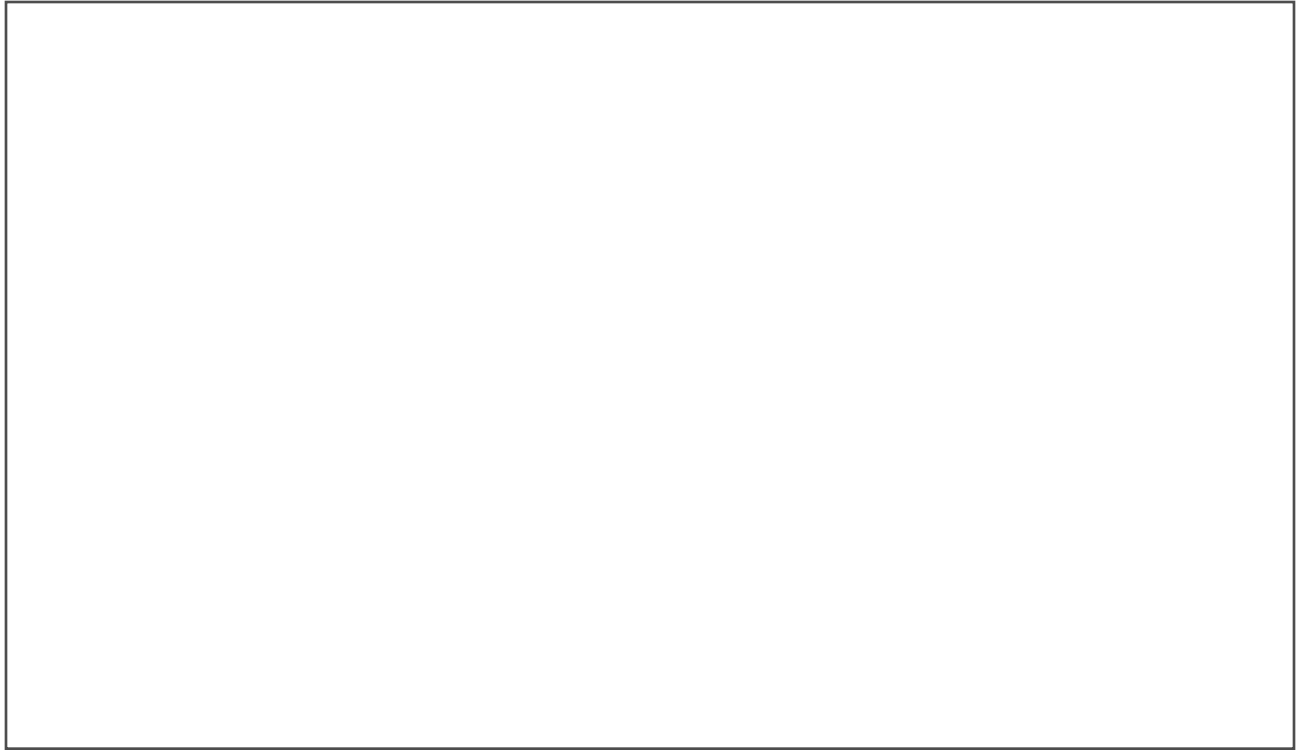
Below WBAI spends only 35% of total expenses on salaries, the **second lowest percentage** in the Network (compared to the low figure at the National Office- a percentage of 26.9 percent.)

Therefore, salaries are not the driver in the station's finances.



Below I chart premium costs as a factor driving the WBAI deficit. As seen below WBAI has the second lowest total of all of the units tracked totaling only 168k in premium costs as compared to the highest premium costs-- those of KPFK at 256k.

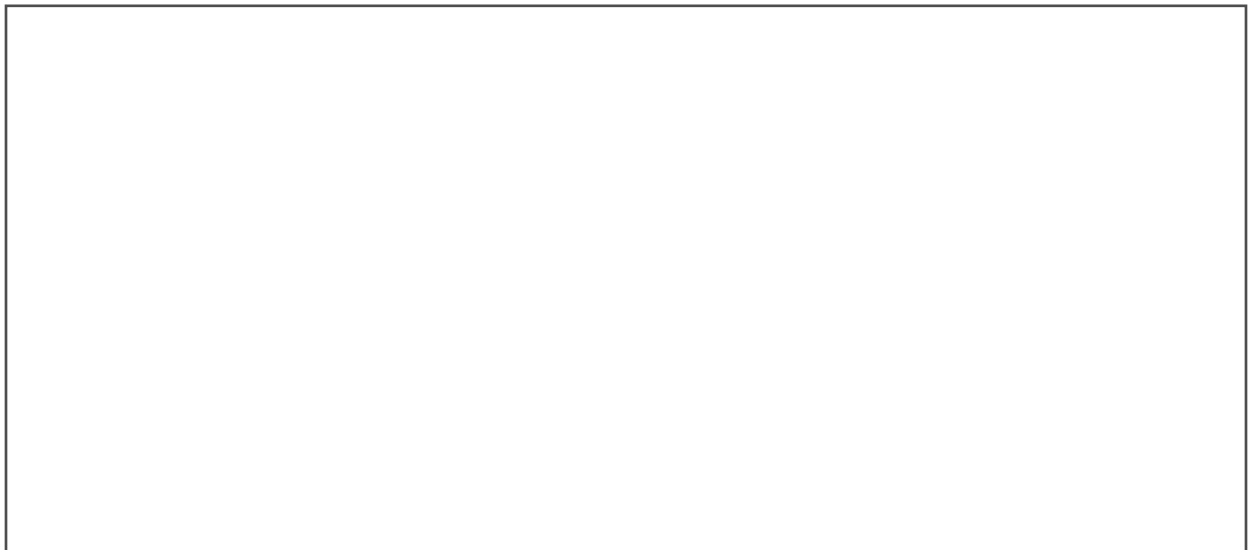
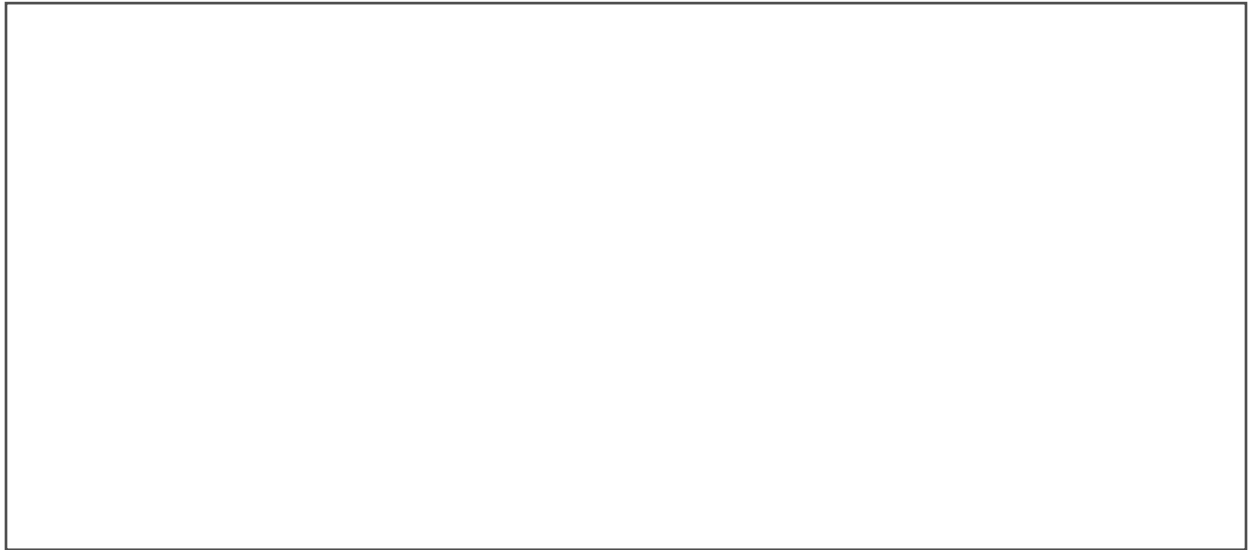
Therefore, premium costs do not appear to be the decisive factor in the deficit scenario.



Is it perhaps that the station spends too much for each dollar it raises? It costs WBAI 77 cents for each dollar it raises which gives it the third most favorable score of the stations.

Looking at the revenue side we see below **trends for the Network as a whole and also for WBAI on the revenue side.** From **FY04 to FY07 WBAI lost 1.58% in total revenue** along with PRA at --9.98% KPFA had a small 2/10 of one percent increase. The National Office total revenue percentage increase was the largest at 47% the result of its mail drops primarily.

Looking at Listener Support the Network show 88% and 86% increases for PRA and the National Office respectively with KPFA and WBAI showing decreases of 6 and 11% respectively in Listener Support/Donations.



While Listener support is definitely a factor in the WBAI deficit, as seen from above it is not a significant a factor as the one examined below.

The driving factor is clear from the chart below. WBAI has the highest rental, utility and tower costs of any unit in the Network—more than 7 times the costs of any other unit at 736k.



It is clear that the station must move to less expense quarters.

What Are the Options for WBAI

And the Current Recovery Plan?

WBAI has several good options in the area of locating, moving and buying a building of its own or relocating to less expensive quarters. While in New York I met with management discussed and implemented the following:

1. Arranged for the auditors to come to the station for an in person audit on Wednesday October 16th 2007 to review the current fiscal year books.
2. Changed the signature cards at the bank so that the General Manager can sign checks
3. Altered the station bank accounts to eliminate bank fees –saving the station 20k per year

4. Met with the Chase credit card manager to save the station money on credit card fees
5. Met with representatives of the bank's merchant's services department to explore the creation of an affinity card for WBAI, where use of this affinity card would result in automatic small donations for WBAI in perpetuity.
6. Met with a tax-exempt bond broker to identify low cost loan options for the station to move from its current expensive quarters and to purchase a building of its own.
7. Met with the Chase bank Loan Officer to explore a loan for the station to buy a building with a loan from Chase Bank and to create a line of credit for the station.
8. Identified another lease property which would be less costly to lease.
9. Met with station management to implement a recovery plan which will cover:
 - a. Speeding up the pledge process immediately by calling all unredeemed pledges starting October 18th 2007—estimated recovered revenue 30k-100k.
 - b. Produce cash flow statements and Memsys reports as promised.
 - c. Implementing the current budget with frozen planned salary increases and a 5% salary reduction for all staff.

RELOCATION OPTIONS FOR WBAI

The details of relocation involve the following possible options

- a. Where the station with 200k already in the bank toward a building
- b. Where the station currently pays 30k per month in lease costs with a 10% escalator would be working toward:

A. Securing a Loan from WBAI's Current Bank Chase Manhattan.

Management and I have met with the Bank Loan officer and the likely terms are 8% interest, over 30 years with a loan being processed in 60 days after locating a property. The new building would be the collateral. A loan 1.5 million is possible. Monthly savings equal 19k. or 228k per year. The loan would pay for a 800k building in perhaps Brooklyn and 700k would cover build out and moving costs.

B. Securing a Tax-Exempt Bond Loan

I have met with Roosevelt and Cross a tax-exempt bond broker who offer 6.25% terms, over 30 years with a loan amount up to 7.4 million dollars. (This would include the build-out costs (700k and property costs of 6.3 million) It also assumes that WBAI would occupy 8,000 square feet of a 15,000 square foot building and would lease the remaining square footage as space for other non profits or for city programs. This is commonly done and in fact this is the type space the station currently occupies. Monthly cost= \$45,563. WBAI payment=\$22,781. Tenet payments=\$22,781 or 3 dollars a square foot. At \$15 a square foot income could reach \$112,500 per month. At 23k per month the monthly savings from current costs would be 7.2k per month or 86k per year.

C. Securing a Special Grant from Congress

A special grant could be pursued from New York Representative Charles Rangle who could include funds for the station as a rider to an appropriations bill.

D. Securing a Special City Rehabilitation Building

Cities have often derelict buildings which they will sell at little cost to nonprofits who promise to rehabilitate those buildings as non profit space. Rehabilitated buildings could cost as much as 1mil to renovate.

The above options have the potential to save the station lease costs, (currently about 30k per month or 360k per year. The repayment of a 3.2 million dollar loan for 8,000 square feet would be 19,700 dollars per month a savings of 10,297 per month or 123k per year. At the end the station would also have a new asset.

Relocation is, therefore one component of a recovery plan. The other components I list below and then I go through each.

Other WBAI Recovery Plan Components

- 1-**Implement the current budget plan** which calls for a salary freeze and a 5% cut back on all salaries.
- 2-**Implement a holiday mail drop** for 10k
- 3-**Implement a major donor dinner** simultaneous to the Dec 15th event honoring Amy Goodman
- 4-Increase the fulfillment rate working with the National Office
- 5-**Speed up the current drive pledges** by calling over 500 pledges and requesting support and seeking feedback on their drive and pledge experience
- 6- **Put in place new financial controls** (already signatories on WBAI bank accounts have been changed and new procedures for signing checks and controlling expenses are in place.
- 7-**Explore reducing Credit Card fees**—(being explored with Chase Bank)
- 8-Explore setting up an affinity card with Chase bank for WBAI listeners
- 9-**Hire the Fund Development person the Board motion refers to** who would help coordinate the above components
- 10- **Implement a line of credit** to tide the station over cash shortage period. I suggest 150k to be used only with LSB and CFO approvals with notification to the PNB.
11. In one year WBAI will have a fund –raising event similar to that which has been done by WPFW to retire the 300k debt. The new fund Development Person would lead that effort.
12. The 360k the station pays for the location of antenna on the Empire State Building might have to be looked at in terms alternative locations for the antenna. We have begun discussions with Don Mussel our engineer consultant as to what would be involved in moving the antenna from its present expensive location.

Action Items:

Resolved:

1. That the CFO commence discussions of each of the relocation options identified above and make recommendations to the Board of Directors by December 30,2007
2. That the CFO is empowered to implement changes necessary to achieve the outcomes described above.

Appendix B – Other Financial Reports

National Office Mail Drops

Below find a summary of National Office mail drops over the last three years. They have produced a **97% return rate** from members of progressive organizations around the United States who want to support National Programming and the Pacifica Mission These mail drops meet several goals:

1. They publicize Pacifica to progressives who live inside and outside our local station listening areas.
2. They bring in revenue to support the network infrastructure
3. They are part of a larger strategy where regional mailing lists are built up for use by local stations.

They have been a very successful strategy for the Network.

PACIFICA FOUNDATION						
MAIL DRIVE SUMMARY						
SPRING 2004-SUMMER 2007						
EVENT	MAILED	# OF PCS	GROSS	MAILING	NET	
	OUT	MAILED	REVENUE	COST	SURPLUS	
	DATE					

Affiliate Budgeting and Affiliate Costs

Below find a preliminary look at potential component of an Affiliates budget. I am talking to our Auditors about what kinds of expenses ought to be allocated to the affiliates budget. This a new kind of budgeting and has not been done before and expenses which have been bundled in with other expenses are now having to be broken out.

The questions are:

1. Should affiliate representatives and their travel expenses be charged?
2. What part of Web and autoport expenses should be charged?
3. What part of personnel expenses for National Staff should be charged to the Affiliate Program?
4. Should the program be charged central services?
5. What part of satellite fees should be charged?

The auditors are here now doing an audit of last years expenses and I have asked them to come up with their suggestions and they will do so in three weeks—in time for us to include those suggestions in the first expense statement of the new fiscal year.

ARBITRON DATA

BELOW I REPRINT OTHER SOLUTION SETS TO PROBLEMS IDENTIFIED

WE HAVE A PROBLEM –THE BAD IDEA SECTION

Note here that bottom *line revenue* is down 900k compared to last year and we see that expenses, on projection, are up **only slightly**. Comparisons are to FY06. Clearly this is not sustainable especially given that these expenses in the salary area will annualize in next years budgets. The combination of new annualized salary expenses of 168K and a month's reserve deficit of 500k will effectively enervate the Network's financial status. In plain language **we will have a looming cash deficit of 668k dollars**—which will grow worse if any station drive goes bad and grow worse if there are no major gifts to rescue finances. *Gifts are not reliable revenue*. **In plainer English we will be utilizing our savings to pay bills- and that is not good. Not good at all.**

What are our options?

A few options come to mind.

I have divided them into 3 groups—short term, middle term and long term.

OPTIONS FOR A SUSTAINABLE FINANCIAL FUTURE

Short Term Problems Short Term Solutions

Problem: Cash Flow This is where we will, in October, have to take October drive funds and pay September bills. These monies (about 600k) will have to be recouped by stations by:

- a. Stations dipping into savings to bridge the gap
- b. Stations planning now to increase revenue goals to bridge the gap
- c. Stations planning now to reduce expenses by that amount—just to break even
- d. The Network adopting a financing solution—i.e., setting up a line of credit to bridge the gap
- e. A short term loan to bridge the gap until planning is able to figure things out

Under all that is, of course, reducing expenses in next year's budgets to bridge the gap over the next year. Here the presentation of an 18 month cash flow statement will highlight the problems.

Mid Term Problems and Mid Term Solutions

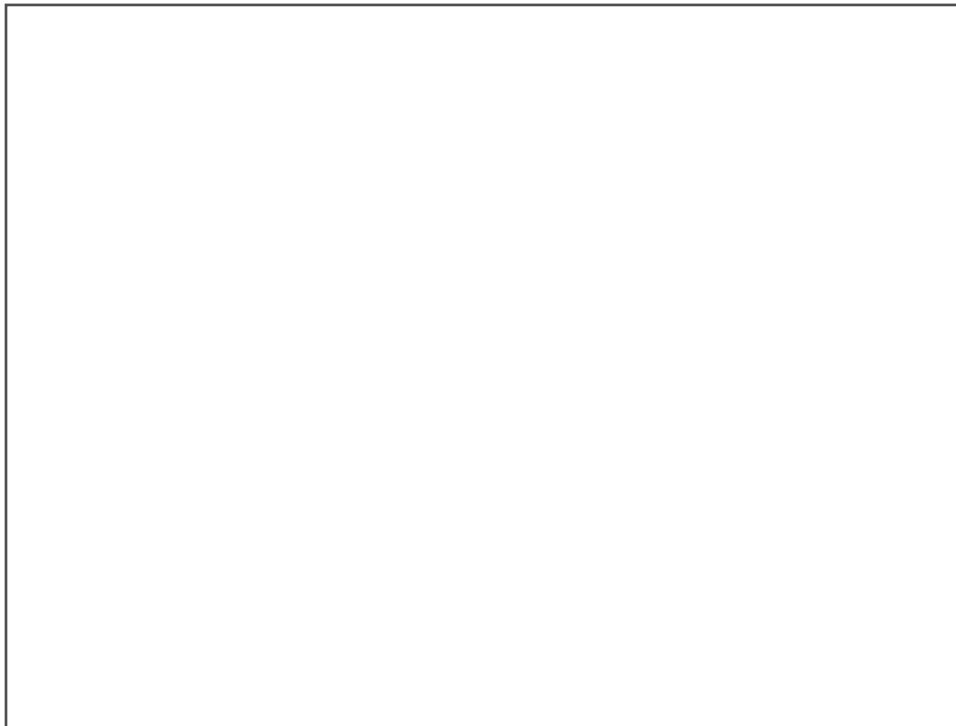
- a. Work with our Union folks to reduce expenses where possible
- b. Arrange for a loan against our properties while trying to figure it out and to avoid layoffs
- c. Identify revenue producing strategies to offset the expected expenses

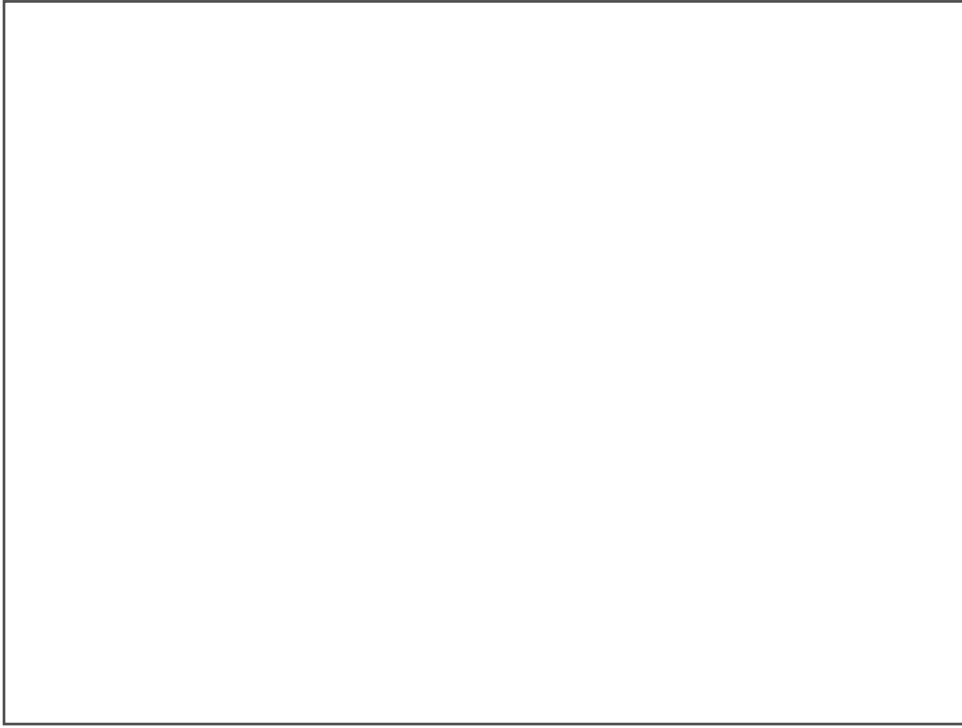
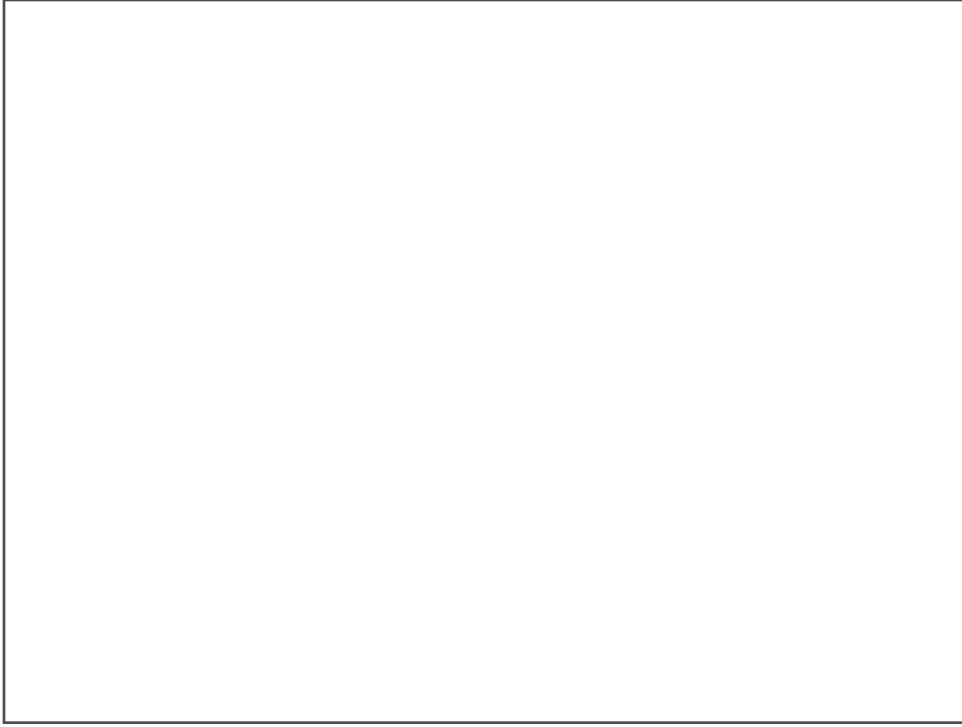
Long term Problems and Long Term Solutions

- a, Underwriting. There I have said it.
- b. Lease sub carrier bands and/or HD bands- to third parties as revenue producing venture The revenue could be substantial (2-3 million) and would give Pacifica sustainability over the next five years. I will go into this idea in more detail at the Board meeting in April.

There are, of course, other ideas out there. We could choose the best combination for us. What we cannot do is fail to act.

WE HAVE A PROBLEM –THE GOOD IDEA SECTION



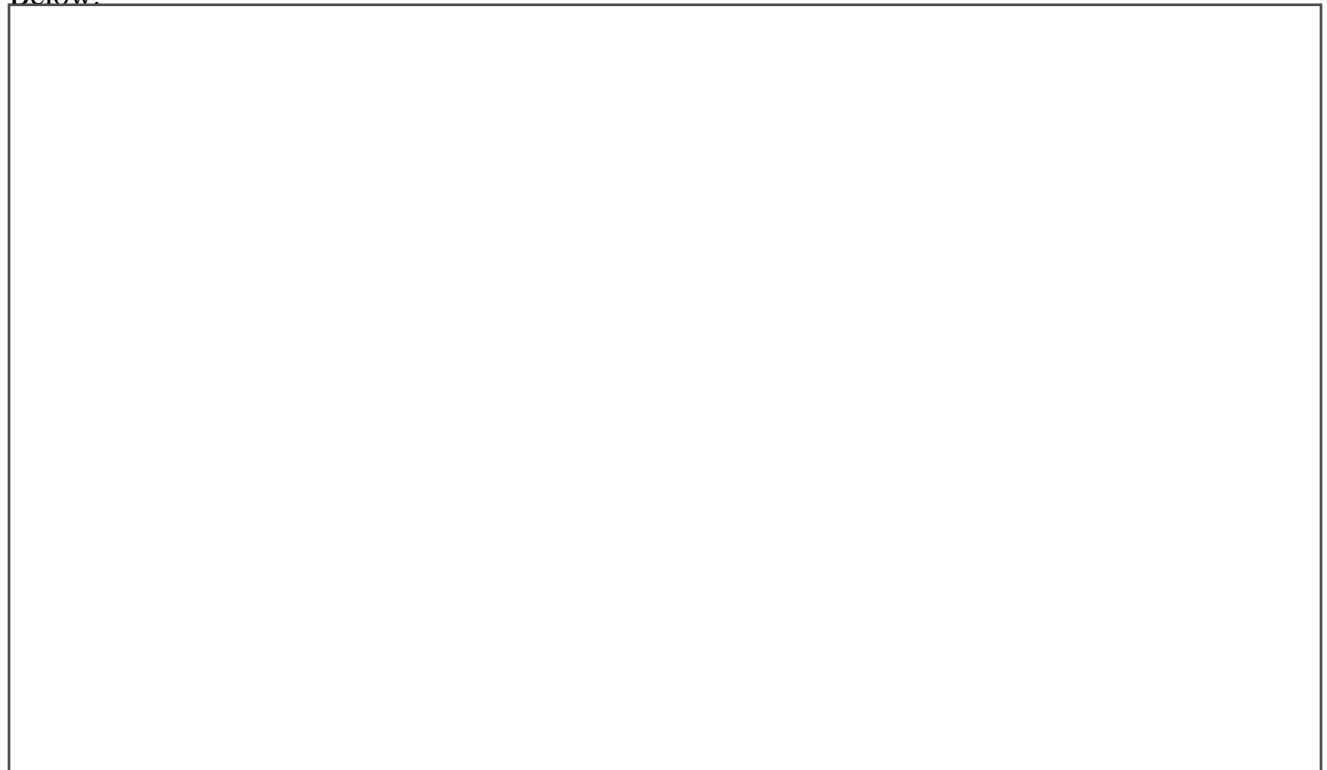


This is a vision of how investment in the digital future can produce revenue. Parts of the plan are already in place and have been for several years. For example, we have been cultivating national support for the Network with National mailings to other progressive organizations with good results. We have raised over two millions dollars in three years. The Regional Strategy has also already begun with WBAI, (a mailing is going out in a week or so. The Local Strategy has been proposed by the Board itself and a motion has been passed with will allow stations to move forward if they desire. All of this is designed to market Pacifica to progressive organization members, affiliates, the public and local supporters at the same time creating a self-sustaining base.

THE SECTION BELOW IS REPEATED FROM MY LAST REPORT

Meantime how do the Arbitron data look?

Below:



We see trends since 1990 to 2006. We are just below the trend line but clearly our number of listeners is down since last year and the year before—falling to levels dating back to the year 2000. We have of course, several ideas about what can be done. Here are a few now under consideration:

1- Re-conceptualize each Pacifica station as a regional Broadcaster—and market each station to the five or six adjoining states positioning themselves as the “voice of progressive radio in that

given region. In each major region in the United States thousands of progressive organizations and their members will and have supported progressive causes and Pacifica with their dollars. I believe that such support in these times of war and a critical 2008 election will see that support increase. Millions of pieces of mail have been sent to members of progressive organizations around the country in the last 4 years and the response has been very encouraging. We have over 100 regional affiliates who can also participate in this effort, contribute programming and join our stations in regional broadcasts and regional fund-raising efforts.

2- Expand the platforms upon which listeners can access Pacifica's broadcasts. More and more listeners want to download, podcast, access on line, listen at more convenient times and have radio on their own terms. We should accommodate those desires and work with those listeners.

3- We need to determine to survey our listeners and find out what programming they want.

5- We need to modernize our physical plant and our broadcast capabilities—not to is not wise.

6- We need to offer our staffs training and new ways to allow others to access our services—satellite

radio, virtual programmers, common licensing, blogging hosts, new internet Pacifica channels,

increased interactive radio—we need to re-invent street level radio lifted to a national and international plane.

Therefore:

Pacifica's Future, in my view depends upon the following:

- 1- Increasing our membership and listener ship**
- 2- Expanding our footprint in local communities and expand local community ties**
- 3- Re-conceptualizing our selves as regional, national, if not international broadcasters**
- 4- Expanding the platforms and the delivery choices we offer listeners**
- 5- Operational zing local voices to national platforms**
- 6- Expanding services to our Affiliate Stations and form closer partnerships**

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