

September 25, 2019

John Vernile - Interim Executive Director - Report

In my first 7 weeks as Pacifica's Interim Executive Director I have visited each of our station's studios, meeting with staff, volunteers, independent producers, board members and the listeners that depend on Pacifica's stations. I got a tsunami of history, ideas, complaints, and mostly very spirited opinions from people that care deeply about their stations.

Each of our stations in NY, LA, SF Bay, DC and Houston all have their distinct strengths, histories and challenges.. It was heartening to see the staff and volunteers of each station giving their all to serve their local communities with compelling programming at a particularly difficult time for our nation. Our mission of providing a space for peaceful, informed dialogue has never been more needed - from our impending climate catastrophe, the immigration tragedy unfolding, the rise of fascism and racism, to our very democracy itself, there has never been a greater need for an effective progressive radio network.

It's no secret that Pacifica has had serious financial, operational and particularly governance issues. Like our nation, we are torn by fractious, often debilitating internal disagreement. It is difficult having the necessary fact-based, composed conversations required to thoughtfully conduct our business. It is sadly more than ironic given our core mission of peace through informed dialogue. Most important, this paralysis has impeded the ability to effectively manage our network so we can provide our listeners the great radio they deserve, need and will support. It's at the core of why we are losing listeners and donors... A way must be found to set aside the rigid factional positions and honestly address our current reality. This is the only way the Pacifica family can remain whole with all 5 stations, PRA and our affiliate network. And that is the main thrust of this first report, our present state, and how it impacts our future, on whether we have a future at all. We are at a serious financial and management crossroads. Our future depends on what we do now.

Context:

The Pacifica Foundation is in a spiraling cash flow crisis that must be immediately addressed. The Foundation, and the vital community service we provide, will not survive without decisive leadership, coupled with a clear-eyed approach to sound financial management, revenue generation and operational improvement.

The network faced an existential threat around the 2017 ESB judgment. The ensuing 2018 loan was a temporary lifeline that allowed us to avoid bankruptcy and address a range of administrative, operational, and technical issues. Given the state of our books at that time, the loan was a leap of faith for any lender. Over a year has passed and significant work has been done to rectify some of the financial control and HR deficiencies. Unfortunately, there has been little meaningful progress in the areas of fundraising and addressing the core ongoing sustainability issues.

Despite receiving several sizeable legacy gifts from the SF Bay & NY regions, ongoing unsustainable operations at our NY location have made it impossible to pay down much of the \$3.2M lifeline loan. The July 2019 \$100K principal payment, made against the advisement of

the CFO, has strained the current cash flow. Pacifica has set aside protected reserves to make interest-only payments until June 2020. When the reserve allocation runs out in June 2020, the Pacifica Foundation will be facing added operational expenses of approximately \$73K in advance quarterly payments. As of June '20, Pacifica will be facing nearly \$240K in additional loan interest payments before having to pay the full \$3.1M principal in April 2021. Just 18 months away.

This debt servicing, combined with the ongoing operational expenses, outstanding vendor payables, and several serious shortfalls traceable to WBAI including non-support of central services, numerous payroll deficiencies and underfunding of the Pacifica Radio Archives, has resulted in a very tight cash flow situation. At a great cost to their stability and development, as well as their audience service, the other four stations in the radio network have been able to cover much of the approximately \$4 million shortfall. This is no longer an option. Our combined entities can no longer generate sufficient revenue to cover these expenses....

We have cut everything we could from the national office, including our office. Only vital essential services are left in place. There is nothing left to cut.

Many ideas have been put forward in the last several years to address the financial challenges. Some of the proposed solutions will present little in the way of practical, timely results. Many of the proposed solutions are destructive, short-sighted and are in contradiction to the Foundation's mission. We must stop wasting time and energy on these and focus on what can practically be done.

The ideas to review and retire are as follows:

Sub-prime loan

This is a delaying tactic, not a real solution. Even if the Foundation could find a financial institution to write the loan, the conditions and terms would be onerous. We can't kick the can further down the road with a higher cost loan, it will only limit our survival options further.

There is a better and more realistic solution. Last month I spoke with the individual mainly responsible for finding and negotiating our current loan. He thinks it is possible to renegotiate our loan, provided that we can actually demonstrate that we have: 1) made substantial progress with our audits, 2) better financials controls, 3) operations improvement, 4) exhibited stable governance and 5) present a realistic repayment plan.

Liquidate real estate

The current real estate portfolio, paid for by the donors in LA, SF Bay and Houston communities, provide a home for our existing operations, several of which are providing the lion's share of cash flow needed to support the Foundation's operations. Radio stations require a very specialized facility. The cost to modify a new structure to domicile our broadcast operations would likely exceed the amount we would get for any sale. Liquidating these already-leveraged properties, would hurt the ongoing operations and our on-air fundraising, further weakening, or destroying our already strained national network. Extending On-Air Fundraising Days – Pacifica is already overextended in this area. Further

extending on-air fundraising days would contribute to the vicious negative downward spiral of declining listenership and impaired listener service, which in turn depresses listener support. This is not a theory; it is a proven fact in non-commercial radio.

Expanded off-mission fundraising programming

Self-help shows provide a short-term cash infusion but are transactional and do not provide the mission-centric service that drives healthy, ongoing listener support. Most important, the Foundation's increasing reliance on programming that raises listener questions about potential product endorsements as well as other serious questions do not strengthen the institution or listenership.

CPB CSG requalification

It is entirely possible to regain our federal financial support, but there are real hurdles that must be overcome. First, we must repay the \$137K that we were overpaid with the station's overstatement of non-federal financial support dollars in 2009 that was uncovered by the CPB Inspector General. We must demonstrate that we are able, over time, to fully adhere to all aspects of the CPB guidelines as well as all other federal, state and local laws governing non-profits, particularly in the areas of effective, conflict-free governance and financial stewardship. The soonest possible window for restored CPB funding is FY2021 – well beyond the two looming insolvency event horizons.

Staff reduction

Pacifica's local professional paid staff is the most important asset in the institutions' drive to restore listener and funder trust. The local staff are the primary articulation of Pacifica's public service mission as it is felt in the local communities. The local staff holds the community ties, institutional knowledge and are the front line of meaningful revenue generation - they raise the majority of the Foundation's funding. That said, the local staff salaries are below the industry average. The staff has endured a debilitating revolving door of senior management (15 or more Exec Directors in the last decade), inconsistent direction and evaluation, unclear chain of responsibility, conflicting directions from governance -- all while seeing their pensions go unfunded for years, with a lack of any real development and advancement opportunities. Nevertheless, the local professional staff are the engine of any potential Pacifica turnaround. Though some on the board have pushed for local staff layoffs as an option, they are not in the short-term best interests of the listeners, the stations or in the Foundation's financial interest. It will do significant long-term harm. The last time such action was taken at WBAI, it caused significant long-term damage to the station and the network. Recent strategic board imperatives are both impractical and are probably in violation of National Labor Relations Board law and policy. Based on advice from our legal counsel, demands that we begin negotiations for a single national contract or completely congruent local contracts would be considered bad faith bargaining under the NLRB Act... Regardless of these crucial details, the reality and optics of this are horrible, especially considering our history, our mission, and the needs of our working staff.

Foundation grants

The Pacifica Foundation must complete the audit process, demonstrate an

ability to operate in an effective and orderly manner and document significant, and growing service impact before we can be considered a worthwhile foundation funding investment. In recent, initial fund-seeking conversations with several donors who have been predisposed to support our work are reluctant to join us for fear that their reputations would be tarnished by association with our poor public governance behavior. You need look no further than our loan benefactor that wished to remain private and to whom we should be eternally grateful. In addition, if we are to succeed in improving our philanthropic foundation efforts and results, we will have to substantially improve our credit rating as well as work to improve our 3rd party foundation service index ratings.

Selling the Archive

It was proposed that we should sell the Pacifica Radio Archive (PRA) to the University of Santa Barbara or another entity. The PRA is not only our entire history and legacy, it is a priceless strategic asset that we currently use for both programming and fundraising. The financial value and opportunities of the Archive will only increase in a digital on-demand audio world, especially with the expanded services at Apple and Spotify, and in the growing podcast universe.

Signal Swaps/ Station Sales

Our broadcast signals are our greatest strengths and our reasons for being. It's how we reach and impact our local communities. Most important, the time it would take to launch and close a sale or signal swap would take years and would most certainly be challenged during the FCC sale or swap process. In my opinion, no one who loves and supports Pacifica should even consider selling, swapping, or leasing our frequencies. There are other options, that will better address our current challenges and better manage of our current resources.

PSOAs (non-commercial LMAs)

Public Service Operating Agreements or PSOAs, is another concept that has been repeatedly raised. A PSOA would transfer local control to another media group, which will do little to help our current cash flow crisis. It also abdicates our responsibility to solve our internal issues, shifting it to another entity. We won't be able to recover a dime of our donor's investment in Pacifica with any PSOA arrangement. Most importantly, it gives away a critical asset that the Foundation has poured millions of dollars into and is a critical part of our service to local communities and our future.

Absurd, Far-Fetched, Toxic Notions

It was proposed that we consider leasing out our broadcast time to a for-profit sports entity as a means to raise money. This runs contrary to our mission, runs the risk of threatening our nonprofit status and alienating our donor base. Most importantly, if successful in getting an FCC waiver for this for-profit entity use, something that in the current federal administration is entirely possible, it could potentially unravel the near 7-decade ban on airing commercials on non-commercial stations operating below 92 MHz. It would set an abhorrent precedent that could hasten the demise of U.S. non-commercial broadcasting.

These are things we can't do. Below are some initiatives we are working on now to immediately address our funding and development needs in the months ahead.

Realistic Fundraising Solutions:

Pacifica Fall/Winter 2019 Fundraising Agenda

1) Legacy Campaign Giving

Expand the existing bequest-oriented campaign from KPFA/ KPFK to the other stations.

Preproduced

spots need to be on air ASAP, no later than 10/7/2019. KPFA has offered to provide the spots they have created to any sister station. A national hotline for potential donors will be established. All funds should be targeted to go to debt payment.

2) Archives Day, (Tuesday, November 19, 2019)

Special one-day fundraiser from the PRA produced by Mark Torres. PRA to create a special premium for use.. Our goal is to find a non-physical/ locked stream version of the best of PRA USB jump drive that was used in the past.

3) 70 Years on the Air Anniversary Week (12/26/19 to 1/1/20).

Special programming with strong year end fundraising appeals. A week of the best of the Pacifica archives, both spoken word and music produced by Mark Torres with help from all of our stations. We will also hope to feature live music and other possible live fundraising events during the evening and the weekend. Democracy Now and daily news will mostly remain in schedule with the goal of focusing on year's top features with a possible story update, and of course a fundraising appeal.

4) Local Station Drive Improvement focused

Prepping the local drives in three phases for best results: pre-drive, drive and post-drive for both the October drive, December drive Key Focus Areas:

- Individual/ small group pre-drive prep meetings
- Drive theme
- Goals: by hour/ days/ week
- Premiums: branded, media, special
- Staff assignments
- Use RRC listener data to better target potential donors
- Promo spots (pre-drive, drive, post-drive to thank, improve collection and target donors missed)
- Dynamic real-time drive management
- Focusing on web donation (greater net-revenue)
- Explore alternative phone answering services (i.e. A Better Answering Service)
- Introduce lower basic non-premium gift support levels (i.e. "Give what you can" pitches, utilizing text-to-donate)
- Sustaining Member Pitching

5) Video on the Radio, (Documentary Films as Programs and streamed Premiums).

Examples:

- The Best Democracy Money Can Buy
- Heist
- The Long Shadow

- The Brainwashing of My Dad
- Gasland
- New released Environmental Films

6) *Live events from stations*

Event ticket sales and merchandise. All stations can share the recorded events as programs and premiums (with books, video of the event and cd's). KPFA has produced excellent returns over the years with this strategy.

7) *Social media fundraising*

Utilize high visibility supporters with large twitter followings: authors, artists, commentators, actors, etc. to solicit funding.

8) *Text-To-Donate*

Expand the use of this service. Focus on affordable pledge amounts.

9) *Major Donor Giving*

Target previous high dollar donors and potential supporters. Meet personally to solicit general funding or targeted initiatives such as debt reduction, development, programming or facilities.

10) *End of Year Giving Mailing*

Local mailings from our individual stations GM's focusing on end of year giving. Supplementary bullet point update on other recent activity and initiatives:

(verbally detailed at 9/19/19 PNB board session):

New Programming:

-Pacifica Across America: Creation of a national stream for the web and Pacifica app, potentially a satellite feed as well for as affiliate station backup use. Our most impactful programming will be taken from all Pacifica stations and affiliate and independent producers...

-Spanish Language Podcast/ Stream (one-hour, Monday through Friday)

-Pacifica Evening News Expansion, including more local news across the network

NES Election Issues-

Member eligibility complaints

On-air debates

Major discrepancies with NY eligible members submitted for the LSB election

IT Plant & Engineering Improvements

Cost Savings efforts

Phone VoiP

STL replacement

Internet bandwidth fees

Web hostings

Satellite fees reduction