

WBAI Treasurer's Report
June 10, 2020

The National Finance Committee (NFC) met on May 26, and June 9, 2020. The local Finance Committee has not met yet because of social isolation issues.

At the May 26, 2020, NFC meeting I had asked for the NFC to be apprised of the status of the FY18 and FY19 audits. In March we had been led to believe that there was reason for optimism that the FY19 audit would be done by the June 30, deadline (see WBAI Treasurer's Report dated March 11, 2020, p. 2). Audit Committee Chair Eileen Rosin attended this NFC meeting and was surprised that the auditor who'd spoken to the NFC in March had been optimistic about meeting the June 30, deadline for the FY19 audit. She said that the Audit Committee would be hoping to review a draft of the FY18 audit some days after this meeting. She said that the PNB would have to approve it and then she thought that the FY18 audit could be posted on June 12. She said that **there had also been disputes over how to show some expenses, including WBAI's Tower Rent and the interest on the loan which was being carried on WBAI's books. She said those items have now been moved to the National Office's books.** There was also a dispute about how to carry the sale of the Nakopon building in Berkeley, California. She also said that she'd looked at old audits and saw that things had been handled differently on different audits. She said that the last two open items needed for the FY18 audit were really hard to get from some stations and had delayed the FY18 audit. She said that she'd needed to enlist the interim Executive Director to get stations to cooperate, but she said she didn't want to name names.

The National Educational Television Association (NETA) which is handling Pacifica's accounting chores has also reported non-cooperation and delays from some stations.

The Audit Committee Chair also told the NFC that there was no engagement letter yet for the FY19 audit. This means that the auditor has not agreed to do the FY19 audit. She hoped they would do it.

The FY19 audit is needed if Pacifica is to qualify for Community Service Grants (CSG) from the Corporation for Public Broadcasting (CPB), and if the FY19 audit isn't done by the extended deadline of June 30, 2020, Pacifica can forget about qualifying for the CPB grants. (This concern seems to be moot now, as outlined below.) Pacifica has already lost millions of dollars in Community Service Grants revenue over the past several years because Pacifica hasn't been able to produce audits on time.

The NFC was discussing a motion at this meeting when the interim Executive Director joined the meeting late and dropped a bombshell. **The interim Executive Director told the committee that she had gotten a notice from the Corporation for Public Broadcasting (CPB) dated Friday May 22, 2020, saying that the CPB was removing the Pacifica Foundation and all of its stations from the CSG program.** That letter also said that Pacifica would lose the CPB music licensing service on May 31, 2020. The interim Executive Director said that this had been brewing since 2013. She said that she'd previously understood that Pacifica didn't have to pay the \$137,506 owed to the CPB for overpayment of the Community Service Grants until Pacifica got new CSG grants from the CPB. The letter the interim Executive

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Director got from the CPB said that the \$137,506 payment was due by June 22, 2020.

Some years ago Pacifica stations, including WBAI, had claimed Non-Federal Financial Support, which includes Listener Support, at an inflated level because the stations had not subtracted the cost of the premiums from the amount of Listener Support that was received. Thus the CSG for 2009, and 2010, resulted in Pacifica getting a CSG overpayment. After years of Pacifica not bothering to reimburse the CPB for the overpayment this figure is now \$137,506. The CPB wants to be paid by June 22, 2020. As if the sudden six figure bill wasn't bad enough the CPB has terminated Pacifica's participation in the CPB music licensing service. The letter said:

“Music Licensing Agreements As of the Termination Date, Licensee and Stations are no longer covered by the music licensing agreements that CPB negotiates and pays for on behalf of public media. Licensee and Stations will need to make other arrangements for the reporting of music use and payment of statutory license fees under the rules established by the U.S. Copyright Office.”

Every time any music is played over the air a radio station has to pay for it. *EVERY TIME*. CPB had been handling the payments for Pacifica, that's over as of May 31, 2020. At this NFC meeting I voiced the opinion that Pacifica wouldn't be able to handle the clerical duties needed to keep track of what got played and when, not to mention the money that Pacifica would have to pay out to the various licensing companies like ASCAP and BMI. Failure to pay the fees for playing music can result in copyright infringement lawsuits and very big fines for each violation.

We were told at an NFC meeting years ago that the loss of CSG eligibility would not affect Pacifica's participation in the CPB music licensing program. At this NFC meeting we found out something different.

See Appendix A for the E-mail I'd sent out about the CPB problem after this meeting.

At the June 9, 2020, NFC meeting we heard from the interim CFO, Anita Sims who is also the Executive Vice President of NETA, on the latest financial statement through April 30, 2020. She said that the net loss for all of Pacifica till the end of April was about \$493,000. This was about \$518,000 worse than last year. The reason for the big drop in revenue was that Pacifica, and some stations, got large bequests last year which were not repeated this year. She said that Total revenue through April 2020, was about \$6.4 million vs about \$7.3 million through April 2019, a decrease of about \$900,000, and Total expenses through April 2020, were about \$6.9 million vs. about \$7.3 million through April 2019, a decrease of about \$400,000.

The NETA report says that WBAI showed a Total Revenue decrease of about \$63,000 as compared with the period through April 2019, and WBAI showed a decrease in total expenses of about \$86,000 as compared with the period through April 2019. WBAI's deficit through April 2020, is \$294,000 vs \$369,000 in 2019, which means the deficit this year is about \$102,000 worse than it was last year at the end of April.

Chris Cory, a Director from KPFA and the former Chair of the NFC also put out a

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narrative regarding the latest financial statement from NETA. For WBAI he says, “WBAI’s operational losses continue to narrow, and are now at approximately \$25k/month, or 23% of revenue. Revenue will need to increase 23%, or expenses decline 23%, or some combination of both to put the budget of this station in balance.” See Appendix B for his entire analysis of the latest financial statement.

The interim CFO told the NFC that stations are behind on Central Services payments. Here are her figures for how far behind in Central Services payments each station is: KPFA \$17,333, KPFK \$184,145, KPFT \$41,536, WBAI \$294,927, WPFW \$178,684. It is possible that KPFA is actually up to date because they pay their Central Services fees in two payments every month while every other station is scheduled to pay once a month.

At this meeting the interim CFO said that NETA had been paid about \$20,000 since the last NFC meeting. NETA is now owed about \$206,000 for their accounting services. This issue was addressed by the following motion.

Motion as amended: “The NFC recommends that the PNB pass the following motion: ‘Whereas Pacifica is entering a crucial period of its financial history and

Whereas accurate, timely, and independent accounting is necessary to weather this upcoming year and

Whereas our loan approval will likely hinge on the above,

Be it hereby resolved that Pacifica, its officers and its directors, should prioritize payments to NETA second only to payments to its staff for the remainder of NETA’s contract and until all liabilities are paid. That any General Manager who does not give NETA view only privileges to their bank statements be suspended until they do.’”

That last sentence is intended to address the issue of NETA, and the auditors, not getting the cooperation they need from some stations. If NETA can see what’s going on with a station’s bank accounts they can assess the cash situation at a station very quickly, and this is becoming a necessity.

The issue of KPFK being in very serious financial shape came up. The following motion was passed.

Motion as amended: “The NFC recommends that the PNB adopt the following motion: ‘Whereas: Currently the National Office has over \$500,000 in outstanding payables. We owe NETA \$206,000 currently as of June.

KPFK was unable to make its payroll in mid April. About \$45,000 had to be taken from an Affiliate Program bank account to make that payroll.

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KPFK is at least 5 months in arrears on its Central Service payments. It currently owes \$184,000 in Central Service payments. The KPFK Business Manager stated on May 14th that up to the end of April 2020, KPFK listener support had declined by 11%, its total income had gone down by 22%, although its payroll had increased by 5%.

The KPFK Business Manager stated that this decline had very little to do with the Coronavirus epidemic as these numbers are mostly from before the lockdown.

In the last 2 months KPFK's income has declined precipitously. KPFK is currently bringing in only half the income necessary to meet its expenses. This means that KPFK is not able to make Central Service payments currently, is backlogging bills and is having trouble meeting its own payroll. KPFK's monthly expenses are about \$300,000. KPFK's income has only been \$150,000 per month for the last 2 months.

It is unclear as to whether Pacifica will receive any emergency stimulus loans or if there will be any other significant influx of revenue sufficient to make up for the heavy loss of KPFK Central Service payments.

Compounding this is the fact that every station, with the exception of KPFA, is seriously in arrears in its Central Service payments, with the possible exception of KPFT.

We have no reserves. If our financial situation deteriorates any further we may be forced to sell one of our buildings.

Therefore, be it resolved that significant expense cuts be made at KPFK as soon as possible. These cuts should be at least 30%. Expenses must be less than income as there are no resources to cover any shortfalls.

Further, all units (including the National Office) that have expenses that exceed income on a regular basis should provide a plan to the NFC, the PNB, the Management Team and the iED to decrease expenses within 1 week. If a station's expenses are exceeding its income by 10% the plan should show a decrease of 10%.

As KPFK is currently running a \$150,000 per month deficit, it is absolutely urgent that expense cuts be made immediately at that station. Other fundraising plans should be encouraged, but they would not be able to cover shortfalls of that magnitude. Thus substantial expense cuts are unavoidable.”

The interim Executive Director was unable to attend this NFC meeting but she sent along a brief report. She said that the Economic Injury Disaster Loan and the Paycheck Protection Program loan that Pacifica had applied for look like they're going through. She said that Pacifica has sufficient funds in the escrow account to cover the June interest payment with a modest

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amount left in reserve. This means that the stations will need to start coming up with the interest payments for the loan starting with the September 30, 2020, payment and going forward. The interim Executive Director reported that Jon Almeleh is working on determining the costs per station for the music licensing coverage that the CPB is no longer covering. Apparently the interim Executive Director is of the opinion that Pacifica can handle this, both financially and in terms of the clerical work needed. Given what I've seen of stations' compliance with various rules and laws over the years I am pessimistic about this. All it will take is one Producer failing to note a song played over the air to cost Pacifica a great deal of money.

The WBAI Spring 'thon is ongoing. The General Manager has said that he will prefer to do a "soft pitch" for 60 days and make \$4,500 a day rather than pitch in the regular way for 30 days and raise \$7,500 a day. WBAI has not done an on-air fund raiser that only went for 30 days in a long while. The current on-air fund raiser is not making \$7,500 a day. And that \$7,500 a day rate was calculated to produce a serious six figure deficit. Can the station keep on going with this "soft pitch" strategy?

The overall financial picture for Pacifica is grim. KPFK needed an emergency motion to try and save it. There is now open talk about selling a Pacifica building in order to make ends meet. At least four of the five Pacifica stations can't pay their Central Services fees. The stations will have the added burden of making quarterly interest payments on the loan starting on September 30. Those payments will be about \$70,000 per quarter. And on March 31, 2021, the approximately \$3.2 million principal on the loan will come due. It looks like the hoped for reinstatement of the CPB Community Service Grants will not happen now both because it looks like Pacifica will not get its FY19 audit in by the June 30, deadline and because the CPB has removed Pacifica and its stations from eligibility for the Community Service Grant program. The other result of being dumped by the CPB, the loss of the CPB music licensing service, has the potential to propel Pacifica into a situation where a clerical chore too big for Pacifica, and other failings regarding paying for the right to play music on the air, could propel Pacifica into a quagmire of copyright infringement fines and other legal actions. The stations have not been doing well with their on-air fund raisers. And the uncertainty of everything in a world beset by the Covid-19 pandemic makes me feel very pessimistic about Pacifica's future. I have been pessimistic about Pacifica's future for some time, and while Pacifica and its stations are still here I don't see how an organization can keep skirting doom over and over again, and with added problems every few months for an extended period of time. Yes, I am definitely still pessimistic.

The next NFC meeting will be on June 23, 2020. The next local Finance Committee meeting is scheduled for Wednesday, June 17, 2020, as a teleconference meeting.

R. Paul Martin
WBAI LSB Treasurer

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Appendix A

Subject: [WBAI-LSB-PUBLIC] Serious problem for Pacifica

Date: Tue, 26 May 2020 23:43:38 -0400

From: 'R. Paul Martin' rpm@glib.com [WBAI-LSB-PUBLIC]

<WBAI-LSB-PUBLIC-noreply@yahoogroups.com>

To: WBAI -LSB-PUBLIC <Wbai-lsb-public@yahoogroups.com>

At tonight's NFC meeting interim Executive Director (iED) Lydia Brazon brought a letter from the CPB with the subject, "Pacifica Foundation's Removal from the Radio Community Service Grant (CSG) Program."

The really bad part is this:

"Music Licensing Agreements As of the Termination Date, Licensee and Stations are no longer covered by the music licensing agreements that CPB negotiates and pays for on behalf of public media. Licensee and Stations will need to make other arrangements for the reporting of music use and payment of statutory license fees under the rules established by the U.S. Copyright Office."

If we lose the CPB music coverage this would be a major disaster. Commercial radio stations have to pay places like ASCAP and EMI a fee for every play of any music. Stations that are covered by the CPB agreements don't have to worry about that.

If Pacifica ends up not being covered by CPB music licensing then all Pacifica stations will have to pay those fees. Not only are those fees expensive, but each station would need to keep very accurate track of every single piece of music played on the air 24/7/365, so that the various artists can be paid. No station in Pacifica is capable of keeping track of anything like that. And if some music copyright owner finds a piece of music they own being played without that payment they can bring legal action. The fine can be \$250,000 per violation.

The iED is going to go to Pacifica's CPB attorneys tomorrow morning and she's going to see if there's some way out of this. If there isn't then I don't know what we'll all do.

In addition CPB wants the overpayments from 2013, paid back. They come to \$137,506. At last night's NFC meeting we were not sure if repaying that money would get Pacifica back under the CPB music licensing coverage. I remember that I raised the issue of the CPB music coverage at a NFC meeting years ago when we first stopped getting the CPB Community Service Grants. We were told then that the lack of qualifying for the grants did not affect the CPB music licensing coverage. Well, now I have to wonder.

So Pacifica has a new crisis to deal with.

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Appendix B

Director's Report on Pacifica Financials 4-30-20

Prepared by Chris Cory, 6-9-20

NOTE: Glossary is at bottom of report.

Consolidated Report

The consolidated financial statement reflects a loss for Pacifica. Further, YTD listener revenues have declined 4% which is a disturbing trend. Prior to this time, we had seen a YOY listener revenue increase, so this report reflects a predicted deterioration in listener revenue due no doubt to Covid19.

The operating loss is actually narrower than last year. The improvement in operating results is due to a 5% decrease in expenses which fell roughly evenly across all expense categories, excluding personnel.

Revenues for the network will need to increase 8%, or costs decrease 8% to bring the budget for the network back in line.

KPFA

KPFA fell into a small loss in the review period due to a decline in fund drive revenue of 2% coupled with increased costs of 7% during the review period. In order to bring station books back into balance, revenue must increase 4% or costs decline by the same amount, or some combination of the two.

KPFK

During the first half of 2018, KPFK received a bequest which masked their operating losses. In 2019, when coupled with a decline of 11% in listener revenue, KPFK's operating losses nearly doubled from the comparable period in 2018. Revenues will need to increase 17% or expenses will need to be cut 17% (or some combination thereof) to get the station's budget back in balance.

KPFT

This station also saw double digit declines in listener revenue. However, it also saw an 18% decline in expenses, driven primarily by declines in administration and development costs. The result was a narrow operating loss of less than \$5,000 for 2019 YTD. Revenues will need to increase 1%, or expenses decline 1%, or some combination thereof to put this station's budget back in balance.

WBAI

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WBAI's operational losses continue to narrow, and are now at approximately \$25k/month, or 23% of revenue. Revenue will need to increase 23%, or expenses decline 23%, or some combination of both to put the budget of this station in balance.

WPFW

Like WBAI and KPFT, WPFW's losses also narrowed during the review period. Uniquely, this station reported a revenue increase of 5% YOY. This was offset by an increase in expenses of 1%, with a resulting loss of \$25k. In order to bring operations into balance, WPFW will need to raise revenues 3%, cut costs 3%, or some combination thereof.

Summary:

All divisions of Pacifica are currently reporting operating losses. However, those operating losses are smaller than they were in 2018. The major difference between this year and last is the loss of bequest funding, which masked the poor operational results a year ago.

Budgets for stations should be designed around revenues which exclude bequests for the very simple reason that bequests cannot and should not be relied upon to induce institutional gains. As a network, Pacifica needs to reduce costs by 8% or find another 8% in revenue in order to break even. Given the challenging economic environment in which we find ourselves, and the looming loan due in less than a year, it is advisable that we get busy with this immediately. Some stations have a much greater challenge than others, as this report reflects.

NOTE1: interest payments are not included in the above analysis, with the exception of WBAI and the consolidated statement. However, this adjustment will not impact the year over year analysis of individual stations, as the accrual adjustment would have been part of the 2018 reports, as well.

NOTE2: this summary report reflects adjusted totals from the _ccrev_ version of the 4/30 report.

NOTE3: this report ALSO does not reflect the pending property tax settlement and the CPB settlement request. These will ALSO have an adverse impact on the organization.

Glossary:

YOY= year over year

YTD = year to date