

Pacifica Foundation

Consolidated Budgets

Fiscal Year 2007-2008

MAY 2007 FORECAST

| Fiscal Year | Fy04 | Fy05 | Fy06 | Fy07 Projected | Fy07 (Projected) Compared to Fy06 Var \$ | Fy07 (Projected) Compared to Fy06 Var% |
|-----------------------------|--------|--------|--------|-------------------|--|--|
| Total Revenue | 16,028 | 16,943 | 18,015 | 17,435 | -580k | -3.22% |
| Total Expense | 15,387 | 15,894 | 16,345 | 16,495 | 150k | .92% |
| Surplus/ Deficit /b/ dep | 641 | 1,049 | 1,670 | 736.4 | -933k | -55.9% |

Comparison Fy07 v. Fy08 Budgets

| Fiscal Year | Fy05 | Fy06 | Projected Fy07 | Proposed Fy08 | Comparison Fy07-08 \$ | Comparison Fy07-08 Var% |
|-----------------------------|--------|--------|-------------------|------------------|-----------------------------|-------------------------------|
| Total Revenue | 16,943 | 18,015 | 17,435 | 17,786 | 351k | 2.01% |
| Total Expense | 15,894 | 16,345 | 16,495 | 16,633 | 138k | .82% |
| Surplus/ Deficit /b/ dep | 1,049 | 1,670 | 736.4 | 851,943 | 115.54k | 15.69% |

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Prepared for the Pacifica National Board of Directors
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Please see above comparisons between the proposed budgets for FY08 compared to the Forecast for FY07 and other prior fiscal years. Several points can be made:

a. Revenues are up for Fy08 only 351k which is only about 23% of the 1.5 mil the Network spends each month. We need to have approximately 1.5 million at the end of the fiscal year ('September) in order to have the dollars needed to pay the bills in the month of October—otherwise stations have to borrow from reserves--which are shrinking.

b. Expenses are up only 138k which is good if this figure holds. **There are enormous pressures to spend and to not worry about how new expenditures will be paid for. But of all years FY08 is not the year to take that attitude.** The Network will surely crash by December 2007 if we do not strictly control expenditures in the face of declining revenues. Moreover, all stations will be impacted in the new year if a single station has a large shortfall—that is to say we have few reserves left— so now what happens at one station will affect all stations and the national office and the Board budget as well—that is to say that other stations will have to support sister stations next year if budgets and drives fail. This is a year in which all stations will have fewer dollars to work with in the first instance. The trend here is clear: **There are fewer and fewer dollars in the Network piggy bank as is evident from the red ink below and at the edge there is little margin for error next fiscal.**

Unit Detail

| | SUMMARY: Comparing Fy08 Budget to Actual Monthly Budgeted Expenses | | | |
|--------------|--|-----------|----------------|---------------|
| | BUDGET FY08 | ACTUAL | VARIANCE \$ | VARIANCE % |
| PRA | 53,909 | 53,604 | 305 | 4.64% |
| NO* | 155,529 | 281,645 | (126,116) | 44.78% |
| KPFA | 153,355 | 359,952 | (206,598) | 57.4% |
| KPFK | 104,821 | 302,776 | (197,955) | 65.38% |
| KPFT* | 68,955 | 118,239 | (49,284) | 41.68% |
| WBAI* | 182,205 | 283,643 | (101,438) | 35.76% |
| <u>WPFW*</u> | 137,170 | 173,510 | (36,339) | 20.94% |
| TOTAL | 851,943 | 1,573,369 | (721,426) | 45.85% |

Note that there are several drivers in the FY08 budget. They are:

- a. A cash deficit of 764k from FY07 will be carried over to FY08 and mind you even the 736 surplus figure for FY07 requires stations to borrow over 250k to even reach that 736k surplus figure. Therefore, we enter FY08 764k in the hole.. Add to this gloomy scenario an additional 721k (the projected negative variance for FY08 and our total potential exposure is 1.48 million dollars.—a very large depression indeed. If we add potential ADA costs, legal cost overruns and any drive shortfalls, our picture is not inviting.

- b. There are, in these figures above, two stations which will need to utilize savings to balance their budgets for Fy08- thereby requiring that the Board grant a waiver for the budget requirement that each station present a budget with one month operating surplus to pay the bills in October. At this point **none of the units above can meet this Board requirement.** Units which can meet a **half month** are starred above and include the NO, KPFT, WBAI, and WPFW. The rest (“A”, “K”) are not yet able to do so. But we have until September to remedy this and most stations Local Station Boards have not yet reviewed or approved the draft preliminary budgets above.
- c. In two of the stations above there is the likelihood that **staff reductions** will be necessary.

But where to find 1.48 million dollars mentioned in item “a” above? Obviously all of this cannot be done quickly. It will require time and preplanning. **Here are a few ideas.**

- a. **Hold all spending in FY08 to FY07 levels**—this is my recommendation and that of the finance committee.
- b. **Take on no additional staff**—new staff are permanent costs- difficult to reverse if revenues dip. Again, this is my strong recommendation.
- c. **Seed and fund revenue-producing ventures** with the RFP monies the Board has provided.
- d. Of course pursue **other cost savings and identify potential grants and large donors.**
- e. **Create a contingency fund** at each station against bad drives in a fiscal year- at about 5% of projected revenue.

Above all adopt a pay as you go rule of thumb. No new expenditures which do not pay for themselves in the fiscal year.

But will these measures be enough? Almost but not quite. Below are some revenue producing ideas.

Ideas To Produce New Revenue—What May Be Possible.

- a. We need to identify revenue possibilities from our **on-air specials.** Asking listeners to directly support our special broadcasts. We have done this in the past (raising about 18k per broadcast) and listeners responded. In this way our programming is directly funded by listeners. Possible revenue 80k
- b. Create **yearly national fund-raising broadcasts** (we are doing this on Dec 15th with WPFW hosting a national broadcast with stations simul-casting major donor parties in their separate locations and participating locally with their local major donors. Possible revenue 250k
- c. Identify **RFP grants for concert events** (there is possibility here.) Possible revenue 20k
- d. Increase reach through **regional mail drops** and increase revenue by 100k
- e. New **grants to offset operating expenses.** Possible revenue 50k
- f. Ask listeners to help offset the **costs of the elections** (It was done at WBAI) Revenue=25k
- g. Identify **new revenue sources from affiliates working with FSRN**—50k?

- h. Build our web sites to **create e-commerce items** to sell our premiums and station ware on line. This was done at WBAI one year. Revenue raised :60k
- i. Combine our news outlets and **create a progressive news wire service** where stories can be sold to local stations and National vendors.
- J **Create a new National Program** with can find an audience and increase the listener base. Revenue?
- k. **Create a digital library** which may be used to expand our listener base
- l. **Stage celebrity concerts** calling upon our celebrity supporters to do fund-raising events for us.

Ok. There are some good things on the list above—and some others which will be difficult to implement. Othewise my bad idea section below then becomes relevant.

But, before we go to the bad ideas how much of the above is realizable in FY08? My view is as follows:

- a. I think items “a” through “f” are not only possible but likely. Revenue =525k
- b. In an election year our listenership grows. That will create new revenue= 100k
- c. Finally, there are some major donors whose gifts will likely come in next fiscal year. Projected –but unbudgeted revenue from this source=350k

We end the year with 975k of the 1.4 million we need with 425k outstanding for Fy09. Possible? With hard work sure. Meantime see the bad idea section below—if the above ideas do not come to fruition. These are “plan b.”

CONTROLLING EXPENSES

Increasing revenue is ok but expenses also must be controlled and held to budget. Here are, in my view, major expense areas we should look to hold the line on expenses, which in the final analysis is essential..

- a. **Staffing:** Currently we spend 8.6 million in salaries and benefits. This budget proposes to hold the line in this area and spend the same amount for FY08. We must not entertain new salaries which do not produce revenue to cover that cost.
- b. **Benefits:** are up but we have negotiated a contract which holds the increase to about 8%. That is good considering health cost increase are usually double digit.
- c. **Programming:** We spend 1.8 million dollars on programming each year. We pay Democracy Now 6.2 mil, FSRN 4.4 mil and national programming costs 166k. In fact, Network wide we are funding **8 news operations**, often covering the same or similar events. Of course we are reviewing this situation, but my view, is that we need to clearly look at this for the Fy08 budget with an eye to avoid expense duplication of effort.

These the major expense areas I will be looking at.

WE HAVE A PROBLEM –THE BAD IDEA SECTION

Note here that in the May Forecast *bottom line revenue* is up only 351k and compared to last year we see that expenses, on projection, are up by **156k**. Clearly all this is not sustainable... In plain language **we will have a looming cash deficit of 764k dollars**—which will grow worse if any additional station drives go bad and grows 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 bad options come to mind.

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

THE SECTION BELOW IS PRINTED FROM LAST MONTH'S REPORT

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 764k) 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 a revenue producing venture The revenue could be substantial (1-2 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 July.

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

THE FINANCIAL PROBLEM
Revenues Are Flat:
Expenses Keep Going up
Standing At The Cusp
Expense Creep-Saved By Gifts

| | Salaries mil. | | Listener Support/Do nations Revenue mil. | |
|---------------|---------------|--------------|---|--------------|
| 2004 | 7,381 | | 13,032 | |
| 2005 | 7,976 | 8.06% | 13,348 | 2.42% |
| 2006 | 8,165 | 2.37% | 13,774 | 3.19% |
| 2007 | 8,830 | 8.14% | 14,129 | 2.58% |
| Totals | 18.57% | | 8. | 19% |

Basic Cost Needs :

- Aging Infrastructure
- Technology Gap
- Investment Needs But We Lack Capital Or Savings
- Building and Moving Needs
- Archives- 12 million
- Governance Costs —Legal Costs -Health Benefit Costs

Need to Identify New Revenue Ideas And Broaden Base Of Collaborations —Self Generated Revenue Will Be Difficult

THE THREE LEVEL MODEL WILL IT WORK FOR PACIFICA? *STANDING AT THE CUSP*

PROBLEM:

FINANCIALLY OUR FREE STANDING STATIONS ARE
ENCOUNTERING FLAT REVENUE GROWTH

THREE LEVEL STRATEGY

SELF -SUSTAINING NATIONAL STRATEGY:

National Progressive Organizations Donations = 1 mi yr
National Programming Can And Has Produced Revenue
National Affiliate And Grass Roots Programming
National Impacts, National Event Broadcasts
Bottom Up Content From Local and Affiliates

SELF-SUSTAINING REGIONAL STRATEGY:

Regional Affiliates
Regional Progressive Organizational Support
Regional Programming - Regional Strategies

SELF-SUSTAINING LOCAL STRATEGIES:

Out-Reach to Local Progressive Organizations
Outreach to Local Community Leadership
Website Strategies -Trainings -Remote Broadcasts
Sliding Scale Funding

So What About Revenue?

On- Air Revenue:

- ⌘ **On Air Produces The Most Revenue At Least Cost —**
- ⌘ **But is only about 75% Of What We Need**
- ⌘ **How SCA, HD Radio and Web -Sites Can Be A Greater Source Of Revenue Than We Do Now**

Pacifica Leadership Broadcasts -Dialogue and Perspectives

Large Activists Organization Can Participate in Broadcasts and P ay

- ⌘ **Youth Cadres, Music, Broadcasts Build Community Contacts**
- ⌘ **50 Participants In Five Markets**
- ⌘ **Programming Formats**
 - ⌘ Political, Economic, Social Influences Leading to 2008
 - ⌘ Cross Cultural Discussions = good radio
 - ⌘ Cross Community Discussions = good radio
 - ⌘ Cross Racial Discussions = good radio
 - ⌘ Wholly Owned Pacifica Programming is good
 - ⌘ Training Component for Individual Organizations is good
 - ⌘ Member Contact Component and Web -site Contacts for Organ
 - ⌘ Sliding Scale Fees and Mailing List Contacts are invaluable

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 million dollars in three years.

The **Regional Strategy** has also already begun with WBAI, (a mailing is going out in a week or so and the plan is to work with KPFT to implement a similar plan.

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.

The idea of a new National Programming Initiative has merit. I have been talking about this with several folks to see if it is financially feasible.

The idea of a **yearly Network wide Annual Fundraiser** rotating among the stations each year is currently underway and promises to be a new off-air way of raising revenue-my best guess is that with all stations participating we could raise 400k in connection with the event.

The idea of an **RFP process** to encourage individuals and stations to make requests for funds to pursue seed monies for revenue producing projects has some interest.

All of this is designed to market Pacifica in new ways, to increase listener ship and to identify new revenue sources- revenue which is sustainable.

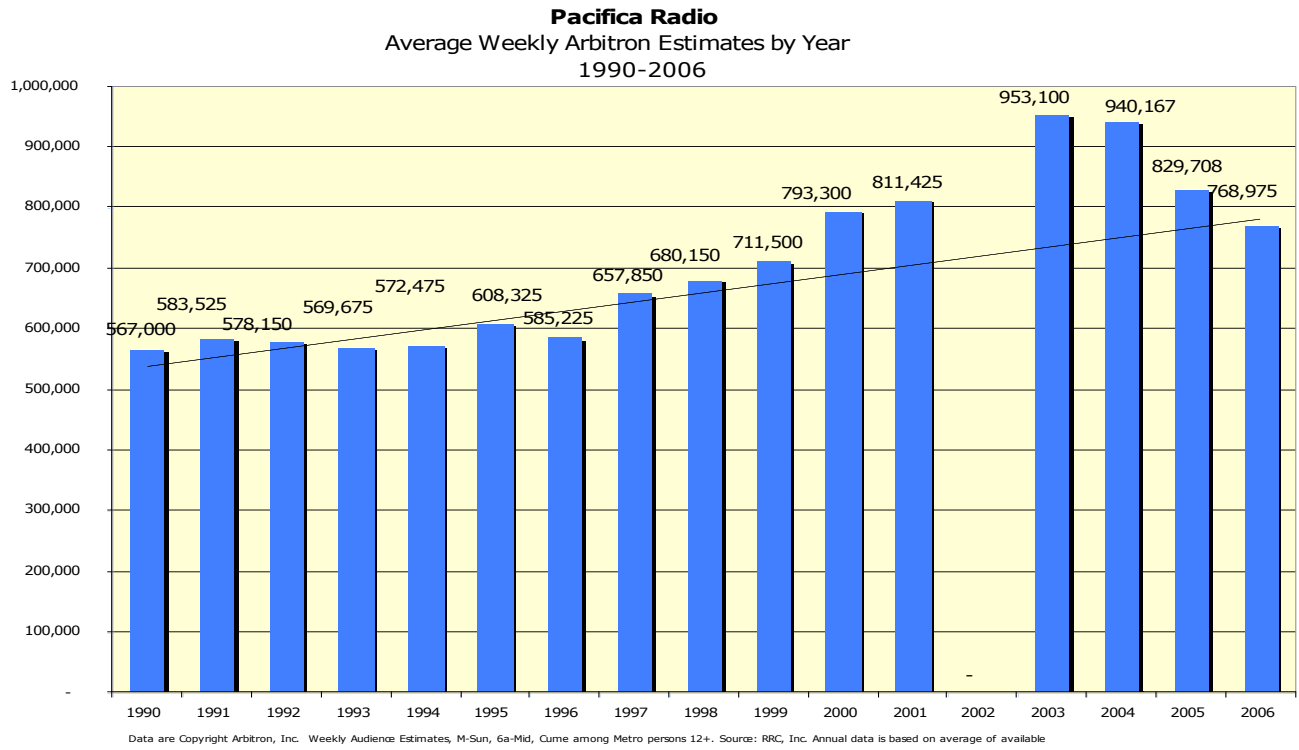
CFO ACTIVITIES

| ITEM | TIME TABLE | INVOLVEMENT |
|--|--|---|
| Begin the Budgeting Process for the Network | March 1, 2007 | GMS, LSB, UNITS |
| Working with Auditor to Complete the Financial Policies and Procedure Manual | To be completed by September 15 th , 2007 | CFO, Auditor, Finance, the Board of Directors |
| Working to review the Chart of Accounts | In process | The Finance Committee, Staff, General Managers, Business Managers |
| Working with ED on developing Guidelines for an RFP process | Completed | ED, CFO (Completed) |
| Working on Post Audit Review | By September Board | CFO Finance Staff |
| Working on Planning the July Board | By July Board | ED, CFO Finance, Board Members, LSB (Completed) |
| Working with Finance on Finance Goals for 2007 | By 2007-2008 (In Process) | CFO Finance Committee |
| Complete Draft 2008 Budgets | By July Board | CFO |

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- Operationalizing local voices to national platforms**
- 6- Expanding services to our Affiliate Stations and form closer partnerships**

end