

Pratt Board Meeting Minutes

Of 24Jun'15

Presiding: Brian Flock

Attendees:

trustees: Jan Fisher, Richard Frank-Huff, Lee Campbell, Jonathan Himschoot, Ronda Miller, Bob Swain, Katherine Wax, Liz Lee, Adam Glant, Madeline Dow-Pennington, and Piper O'Neill (by phone.)

staff: Steve Galatro, Laura Hammarlund, Oakley Allred, Ryan Davis

Secretary: Fletch Waller

Distributed in advance of meeting: May Board minutes, May and June Finance Committee minutes, Brand Strategy presentation, May 31 Financial statements, Trustee survey of financial report literacy, Campus Development Budget update, Proposed Operating Budget for fy 2016.

Meeting convened at Perkins Coie at 6:14 (delayed by conference phone troubles.)

Board minutes: May 27th draft approved as submitted.

Racial Equity: Liz reported on the city's second training program was completed with 12 arts orgs represented and roughly 35 attendees. The program is worthwhile. Pratt staff will undergo this training, develop an action plan, and present a board briefing in August. The proposed '16 budget incorporates training expenses.

In conjunction, Steve announced that the Seattle Foundation has a program of funding for equitable arts engagement. Pratt applied for support of five scholarships for artists of color. The Seattle Foundation has indicated that Pratt will be awarded funds, though the amount will not be announced until end of July. Pratt will retain responsibility for candidate selection.

Branding Pratt: Jonathan reported on and took the board through the brand strategy presentation. This latest work extends the brand platform (reported earlier) into market strategies for five identified segments of prospects, and lists possible tactical steps to execute each of these targeted strategies. Visual identity -- brand design, logo, etc -- the next step in re-branding Pratt, will engage the Marketing Committee in the next fiscal year. (It was pointed out during subsequent discussions, below, of IT and social networking for development, these have ramifications for marketing as well.)

Finance: Ronda recapped the May 31st financial statements, the gist of which is that Pratt is in fine shape through 3/4ths of fiscal '15 in operations and balance sheet terms. A question was raised about sale of gift cards on-line: all sales to date are across the desk. On-line is an opportunity contingent on new software.

Capital Project Update: Steve reported that at 4 months into the 6 month LOI, schematics are done and no new design issues have arisen. Daniels is supportive and in no hurry to move on to the next phase called for at end of the LOA, i.e., the design engineering, budgeted at \$675k. This phase commits Pratt

to pay all or 35% of those costs depending on whether or not the project proceeds to completion. On the other hand, Pratt cannot extend the LOI and funding exploration phase beyond October because of King County grant application deadlines. A board commitment to next phase, design engineering and Purchase and Sale Agreement, will have to be made in the Fall via either regular board meeting in August or October or a special meeting in September.

Questions were raised about the flexibility of studio spaces in the new building, in view of the variations in demand from studio to studio, year to year. Some spaces will be more flexible than in the current building, but hard-installed equipment, HVAC needs and other impediments constrain full flexibility of use for studio spaces. Steve pointed out that maintenance issues in the Blue Building are reaching critical levels, another impetus to proceeding with the new building project.

Capital Funding: Steve updated Trustees on the funding explorations and mechanics of New Market Tax Credits. Govt. support appears more robust than anticipated. Perhaps as much as \$1.4mm additional support can be expected from State and King County bonding and arts support programs. This takes pressure off individual contributions; the prospective target for individual contributions has been reduced from \$4.5mm to \$2.2mm.

Conversations with large gift prospects are proceeding. While there is general support for Pratt expansion, no lead gift commitment has yet been made. A number of capital campaigns are competing for support from wealthy donors.

New Market Tax Credit mechanics are more complex than originally programmed. There is good news and bad. The Good: more money may be available than at first thought. The Bad: our capital contribution of \$11mm is required at closing. This includes the sale of land for \$5mm, leaving us to have raised \$6mm not over several years but up front. There are, however, sources of low interest bridge loans for just such projects as ours. At the August board meeting, Steve will provide a full briefing to trustees of the mechanics, feasibility and costs of such bridge loan support.

Board and Artist Appreciation: Piper reported that she would host a board appreciation event at her Ballard studio. Dates are being arranged. It was later reported by Steve that the instructor appreciation event may be merged with the Chihuly Glass Museum event in October.

President's Focus: Brian reported that he is exploring with the Governance Committee ways to make time in board meetings more effective perhaps by reducing routine committee reporting, focusing on strategic and policy matters, and so on.

Governance is also vetting nine potential candidates for Trusteeship. Trustees may be enlisted to help interview and brief candidates. Rich Wortley has agreed to return to the board.

2016 Budget: staff was released and Steve presented the proposed '16 budget for discussion and approval. Strong tuition growth is proposed, up 11% over projected '15 totals, based upon demand momentum, new classes and program changes, and newly developing markets, as seniors and teens. Access fees will be less vibrant because of capacity limits, especially in the hot shop.

Contributed income will be down, in recognition of donors being heavily tapped this year and last to reach matching gift thresholds, and as part of an intentional strategy of reducing heavy dependence on the auction and broadening of the donor base. The latter will be through aggressive use of artists', instructors' and trustees' networks; such crowd fundraising is being demonstrated to be quite powerful, if understood and mastered. Maddie and Liz each strongly endorsed the effectiveness and promise of such networked fundraising. These tools promise flattening our contributed funding throughout the year, helping dampen the swings in cash use and demand, and reaching new and perhaps younger donor prospects than heretofore.

Expenses are rising: inflation and deferred compensation increases. All TA's and monitors are being raised to \$15/hour in the new year. A Director of Operations and Business Management will be appointed July 1. Staff performance reviews will be held during July, and then a proposed salary increase pool of \$30k will be distributed among staff. Maintenance expenses are rising faster than inflation. No disruption for project construction is contemplated in the proposed budget. Marketing expense will increase to fund visual execution of the new brand strategies and tactics. Training expense for racial equity sensitivity and for customer data base use is proposed.

The budget is in balance, in producing a small operating surplus, by incorporating funds released from restricted gifts and reserves.

Ronda reported that the Finance Committee has endorsed the proposed budget to the Trustees.

Katherine moved budget approval; motion was seconded by Ronda, and passed.

Richard explained his abstention by issuing a challenge: why should we not, in this time of increasing class demand, raise tuitions? Should we not budget an operating breakeven from earned income alone, and not rely on draws of released portions of reserves? This stimulated a very lively and thoughtful discussion. What should be the target for tuition and access fees as a % of operating expenses? What is the right balance of earned to contributed income? What is the balance between mission -- accessibility -- and fiscal health?

Bob and Jonathan strongly supported drawing on released reserve funds in 2016 as an unusual year with overhang on contributed income because of stretching for the matching gift threshold. Katherine expressed concern about tuition increases while reaching out to younger students, their price sensitivity, and perhaps conflicting this next year with attempts to broaden the donor base.

Brian thanked Richard and the group for a very important and stimulating discussion. He asked for reflection, and help from staff, on stating a basic strategy for balancing mission and earned income. He also asked Steve to project what impact this budget approach will have in 2017, and what disruptions for construction might cost.

The meeting was adjourned at 8:29.

Fletcher Waller, Sect.

