

Pratt Board of Trustees
Minutes
Meeting of 22Oct'14

Presiding: Brian Flock

Attendance:

Trustees: Lee Campbell, Jan Fisher (phone), Richard Frank-Huff, Adam Glant, David Hensel, Ronda Miller Lagerberg, Liz Lee, Ryan Matthew, , Piper O'Neill (phone), Madeline Dow Pennington, Mimi Pierce, Jenny Pohlman (phone), Bob Swain, Sarah Traver (phone), Fletch Waller

Staff: Steve Galatro, Laura Hammarlund

Counsel: Shasta Smith of Perkins Coie

Distributed in advance of meeting: Agenda, Financial Reports, Draft Endowment Policy, Draft Letter of Intent, Minutes of August Board Meeting

Meeting convened at 6pm at Perkins Coie board room

Executive Committee: Brian announced that a replacement for Jan Fisher as Secretary was found, and thanked Jan for her service. Fletch Waller was nominated by the Governance Committee and elected Secretary.

Minutes of August meeting were approved without revision.

Campus Development: Steve backgrounded the LOI and thanked Shasta Smith for her work and guidance on the draft. Bob explained that there were only two steps forward at this point in the project -- a Letter of Intent (LOI) or a Purchase and Sale Agreement (PSA). The LOI is preferable for it gives Pratt time to assess the feasibility of raising the \$6million capital needed without risking premature sale of the property or undertaking the expense of further value engineering; at the same time, it gives Daniels a tangible signal of Pratt's serious interest in pursuing this project. Daniels is pleased and supportive of entering into an LOI.

This draft of the LOI is the most recent iteration resulting from continuing discussions with Daniels. In general form and structure, it is close to final; although there are some details that still need to be resolved. The LOI will facilitate final negotiations of a PSA by identifying and "bracketing" the remaining issues, and is a way of postponing some costs to Pratt until capital funding is assured.

Questions were raised about the design and development fees, cited as \$672,500; the \$5million land price flexibility; and the confidentiality limits on Pratt's communications. Steve explained the design and development deal: if Pratt proceeds as intended, it would be responsible for 35% of those expenses; if Pratt withdraws, we are responsible for all of the expenses to date. The price for the land Daniels is willing to pay is fixed, determined by Daniels on the basis of cost per apartment unit. Bob pointed out that Pratt's desire to be the dominant tenant in the new project and have a visible "campus" limits the number of apartments and,

therefore, the price Daniels is willing to pay for the land. The confidentiality clause will not preclude Pratt from talking about the project with potential donors nor with city officials.

Steve, Bob and Brian posed the problem of board authorization to enter into this LOI: that the next board meeting is January 28th and that we need to move sooner than that. They proposed that the Trustees delegate to the Executive Committee approval of the eventual final draft and authorize Pratt's commitment to it. Some trustees expressed a desire to review the final version before authorization and expressed concern about their fiduciary responsibility. **An amended motion was proposed:**

- **that the final version of the LOI be distributed to Trustees in advance of any Executive Committee meeting where it is anticipated that the final LOI will be discussed and approved,**
- **that the Executive Committee address and discuss any concerns or questions raised by the Trustees at that meeting,**
- **and that the Trustees delegate to the Executive Committee final decision on approving and signing the LOI.**

The Amended motion was moved by Brian, Seconded by Madeine and Unanimously Passed. The consensus of the group is that no delegation of the final PSA will be made to a committee or task-force of Trustees. Brian noted that under current bylaws, no such delegation would be possible, and expressed that in his view the PSA is something that will require a full and transparent discussion with the Board.

Finance Committee: Ronda highlighted the snapshot, budget to actual report, and the balance sheet. September tuition revenues are behind budget, though essentially equal to last year; expenses are also below budget, resulting in a net surplus rather than the budgeted net deficit, a swing of \$79,500. The restricted funds shown on the snapshot and balance sheet are Klorfine funds plus a generous donation from a patron toward the hire of a business manager. Borrowing is internal at this point; no Klorfine funds have been tapped.

Endowment Policy: Ronda introduced the final version of the proposed endowment policy and explained the distribution ceiling embodied in the draft. With amendment to clarify the annual limit of distributions to 4% or less, **ratification of the policy was proposed: Moved by Richard, Seconded by Fletch, and Unanimously Passed.** The next step will be for the Finance Committee to work with prospective fund manager to refine the Statement of Investment Guidelines and Procedures for submission to the Board for approval. It is expected that this will be ready for board review in January.

Ronda reported that the Finance Committee has revised the check-signing policy to facilitate approvals. The limit for one signature has been raised to \$6,000 from \$5,000, a limit set several years ago and one that has proved an impediment to timely handling of payables

Executive Director's Report: Steve announced that Lindsay Walter, Dir. of Marketing, has delivered a healthy girl and the family is doing well, and that her assistant, Heather Olson, is stepping in ably during Lindsay's maternity leave. Steve commented on the soft tuition, observing that the extended Indian Summer dampened sign-ups, but that with the return of rains, already an increased pace of enrollments is being felt. He also reported on receipt of Seattle Magazine's Light a Fire Award.

Steve congratulated the Finance Committee for providing Pratt an endowment vehicle, a step he characterized as "a huge leap for Pratt" in strengthening Development's approach to planned giving and major gifts.

Steve briefly reported on continuing progress in securing a major grant for a multi-year senior/retirement market program which would deliver Pratt classes in fifteen local retirement and senior centers, provide classes at Pratt geared to the senior market, and provide scholarship and transportation aid to low income enrollees. This would promises to be a major new initiative for Pratt, increasing brand reach, utilization of facilities in off-peak hours, instructor income, and total tuition and grant revenues.

At this point, the Secretary had to leave the meeting. Subsequent minutes were taken by Ronda.

Legal action is being taken against a Virginia company on behalf of Pratt by Perkins Coie (pro bono) that is using Pratt's brand and a Pratt artist's image on their website to sell their merchandise. A cease and desist letter will be sent out.

Legislative matter – the new Seattle Parks representative met with Steve and toured the facilities. He noticed the "studio rental sign" which led to a discussion of the definition of "rental". Pratt is now asking for an annual exemption for renting out park space. Steve is working with his team to better define this program offered to artists that fits Pratt's mission statement.

Fundraising Feasibility – Steve is drafting a prospectus including financial forecasting, team member lists, etc. to be presented to capital project prospective donors. The cover is being hand made in the typesetting studio. Steve discussed two handouts in the BOT packet including the Campus Development Project Budget and the Operating Impact. The budget shows that the project cost is \$14M and that the sale of the land NMTC total \$7.6M leaving \$6.6M to be raised from donors. The operating impact document shows the financial impact the project going out 7 years at which time the NMTC will expire. The document shows that Pratt would be debt free at the end of 7 years. If any BOT members know of potential 6-7 figure donors please forward names to Laura and Steve. Bob asked what cash flow looked like over the same 7 years and Steve said he would ask Heartland to help put this together.

Committee Reports

Auction – Madeline, Adam and Laura – 8 tables have been pledged to date. The committee would like to see full board participation. The auction website will be up by November 1st. There is a ticket increase this year of \$25/ticket.

Development – Laura – The Annual Fund shows not quite a 100% BOT participation. Letters to donors and students will be sent next week with the goal for students being \$100,000. Current BOT members were asked to sign up to assist with calling former BOT members. Laura passed around a signup sheet.

Education – Ryan – Tuition assistance applications were down with only 3 received. The committee's goal is to receive 10 applications per cycle. Ryan is working with studio managers to identify scholarship ideas specific to each studio. The newly endowed scholarship for \$800 is accepting applications with a deadline of October 31st.

Marketing – David – the committee has been working to create social media messaging for annual giving, holiday sale, etc.

Governance – David – the committee is looking at extending board terms, vetting potential BOT members, board size, etc.

Audit – Brian – the audit starts onsite November 1st. Three BOT members are needed for this committee. Brian, Ronda and Bob volunteered. The Governance committee will work on changing the language surrounding the audit committee requirements and will propose rolling the audit committee into the finance committee.

Brian – Final Thoughts

Brian has three themes for his term – confidence, focus, and participation. **Confidence** in Steve as ED, the Pratt staff and the BOT is high and he wants to build on this. The Chihuly event was a good example of how confident donors, students and staff are about Pratt. **Focus** was highlighted at last year's retreat and Brian feels that with the capital project on the horizon this is even more important than in the past. **Participation:** Brian emphasized that full BOT participation at meetings, events, etc. is very important especially in light of the capital project. He thanked everyone for their time and recessed the meeting.

Adjourned 7:50

Respectfully, Ronda Miller Lagerberg, Secretary pro tem and Fletch Waller, Secretary