

## INDIE HOTBED

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# Argus Leader

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Sunday • June 2, 2002

SIoux FALLS, SOUTH DAKOTA

\$1.50

## 2nd opt-out could bypass voters

BY BRENDA WADE SCHMIDT  
Argus Leader

### July 1 change in state law may hurry Sioux Falls board's decision

If the Sioux Falls School Board decides to opt out of the state tax limits again, district voters may not get a say in the matter.

Three of the five board members say they believe it would be unnecessary to put a second opt-out to a vote, in part because it probably

would be for a smaller amount than the \$10 million attempt rejected at the polls last month.

"If it is only for maintaining current programming, I think we can just go ahead and make that decision and let the process play itself

out," said Joy Smolnisky, board member. "People can certainly refer it if they want."

Earlier this year, board members voted to opt out in order to raise up to \$10 million a year in additional property tax revenue. They also

referred their decision to the voters.

But that step is not required by law. Voters have the option of gathering petition signatures to refer opt-out decisions. In Sioux Falls, 3,415 names would have to be gathered within 20 days to

force another public vote.

There is no limit on the number of times a school district can opt out, but state law requires that an opt-out be approved by July 15 for the coming year.

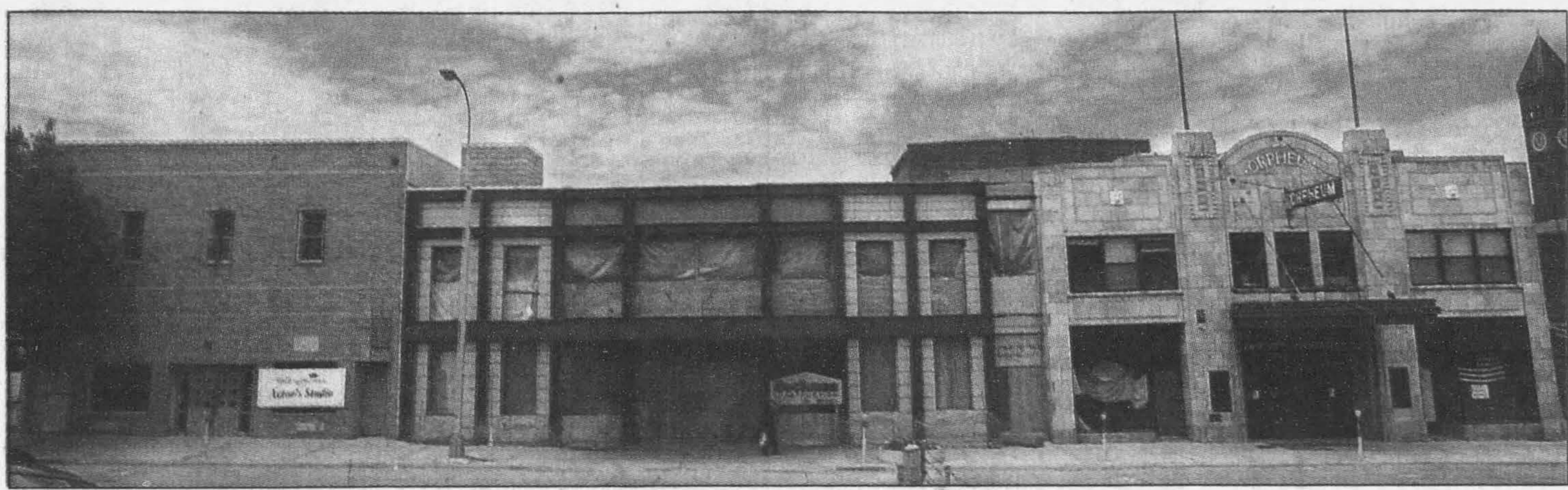
It may be advantageous for the board to approve a sec-

ond opt-out quickly for another reason, however. Beginning July 1, state law imposes additional rules on opt-outs. Under those new rules, the board would have to set a time limit and include



Joy Smolnisky  
Roger Risty

See **OPT-OUT**, page 12A



LLOYD B. CUNNINGHAM / ARGUS LEADER

The Orpheum Theater (right), Actor's Studio (left) and unfinished Link to the Future which will join them have cost Sioux Falls more than \$1 million.

## DECISION 2002

### Hot primary raises runoff possibility

Democratic contest for House most likely to require 2nd vote

BY TERRY WOSTER  
Argus Leader

Before the late George S. Mickelson won a four-way Republican primary for governor in 1986, his campaign had prepared ads and fliers to use in what they believed would be a runoff election, Dwight Adams of Brookings says.

"It looked like it was so close going into the final weeks of the campaign that we had already started making preparations for the runoff," Adams, Mickelson's campaign manager, said Friday. "We thought we had a chance of winning straight out, but when you only have two weeks between the primary and the runoff, you can't wait to get the official canvass before you start getting ready."

The material for that mini-campaign proved unnecessary, although for a few days after the primary election that year, the issue was in doubt. Clint Roberts, a former congressman and state senator

#### Inside

► **WHO THEY ARE:** Two full pages of candidate profiles and their positions on the issues.

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#### Online

For in-depth profiles of all statewide candidates in Tuesday's primary, go to [argusleader.com/election](http://argusleader.com/election)

#### Monday

Maps, polling places for all of Lincoln and Minnehaha counties.

from Presho, finished second to Mickelson in the voting, 35.3 percent to 32.1 percent.

State law provides that if no candidate receives at least 35 percent of the vote in a

See **RUNOFFS**, page 10A

### Ex-resident among mountain's victims

BY LEE WILLIAMS  
Argus Leader

A former Sioux Falls man who loved nature down to the smallest details was one of the climbers killed Thursday in an icy crevasse on Mount Hood in northern Oregon.

Richard "Rick" Read, 48, died with two other men when they fell into a steep gorge.

Read, who had lived in Forest Grove, Ore., worked as an assistant director of the Siouxland Heritage Museums for several years during the 1980s.

He was described as an avid outdoorsman. "He was bright, articulate

and very professional," said Nora Buckman, human resources director for Minnehaha County. "He was well liked and was in charge of operations for the museum."

Read's death was part of a spectacular chain of events that included climbers tangling in one another's gear and a helicopter crashing into the mountain during a rescue effort.

Read was climbing with William Ward, 49, also of Forest Grove. They tumbled into John Biggs and Thomas Hillman, both of Windsor, Calif., and their fall subsequently

See **READ**, page 10A



K.M. CHAU / AP  
Pakistani (right) and Indian border guards face each other at the daily closing ceremony of a border post near Lahore, Pakistan.

## What went wrong at the Playhouse?

### Group struggled with vision, debt

BY JENNIFER SANDERSON  
Argus Leader

Most days, the only person inside the Orpheum Theater is a man who's never acted on its stage.

Steve Pate, a local businessman and board member of the former Sioux Falls Community Playhouse, opens the office daily to collect mail. Invoices and past-due notices make up the bulk of the pile. Along with other board members, he's closing the community theater, which ceased operations April 30.

Pate makes phone calls and talks with creditors, but he acknowledges that it's just talk. He can't deliver results until a city task force studying the defunct theater makes recom-

#### Coming Monday

► **PHILLIPS TO THE FALLS:** A look at what's ahead for the city project.

mendations and the city buys the half-finished "Link to the Future." Other creditors, owed \$80,000, likely will wait longer for their portion of the Playhouse's limited assets. The city already owns the Orpheum Theater and Actor's Studio, which the Link will join.

The idea of losing the community theater after seven decades is hard for many to accept.

That idea solidified for Pate earlier this year, when the

struggling nonprofit group was denied loans by every bank it turned to. The only second-guessing he's done, he said, is whether the Playhouse should've closed two years ago, when the group sold its largest asset, the Orpheum, in a city bailout worth \$475,000.

"Maybe the handwriting was on the wall then, but people didn't want to see it go," Pate said. "Maybe they got the impression that since it was still going, it was OK. It wasn't."

That's become clearer in the past few months as the Playhouse board pitched, then abandoned a request for a long-term loan of \$150,000 in city

See **PLAYHOUSE**, page 4A

### CITY SPENDING ON BAILOUTS

Current and former Sioux Falls commissioners and council members have collectively approved more than \$1 million in spending on the now-defunct Sioux Falls Community Playhouse.

The history:

#### ACTOR'S STUDIO

The city bought the Lime Lite Bar in 1994 and then gave the Playhouse a contract for deed for \$375,600 for the building, which became the Actor's Studio. In 2000, the council forgave unmade back payments on the contract for deed.

**COST: \$363,000**

#### ORPHEUM THEATER

The city agreed to buy the Orpheum in 2000 to help the struggling nonprofit theater group.

**COST: \$475,000**

#### LINK TO THE FUTURE

The Playhouse agreed to build the Link between the Actor's Studio and Orpheum, connecting the backstage work areas and providing a new lobby and additional stage. The city was to buy the completed Link for \$275,000 but last week agreed to buy the half-finished Link for \$50,000 more than that.

**COST: \$325,663**

**TOTAL: \$1,163,663**

### City failed to see trouble ahead

BY LEE WILLIAMS  
Argus Leader

When the city of Sioux Falls bought the Lime Lite Bar in 1994, it was partly to wrest the downtown building away from Charlie Johnston, owner of several notorious nightclubs.

The building's proximity to the Sioux Falls Community Playhouse's Orpheum Theater also made it attractive as an adjoining actor's studio. And a few months later, the city and the Playhouse signed a \$376,500 contract for deed for the building.

But the Playhouse fell behind on the contract payments for the building. In 2000, the theater group came back to the city for financial help.

Former Mayor Gary Hanson



Gary Hanson

and the City Council agreed to forgive the organization's debt on the Actor's Studio and to spend

\$475,000 to buy the old Orpheum Theater building. The council also agreed to spend additional money in the future to acquire a passageway under construction between the two buildings.

At the time, city officials said the investment was important because the Playhouse complex was destined to become a major cultural attraction along the planned Phillips-to-the-Falls route. The extension of Phillips

Avenue to Falls Park has been on the drawing board for years.

But the Playhouse continued its downward financial spiral, and this spring, the 72-year-old community theater organization folded.

For the city, that meant another bailout, and last week, the council voted to spend \$325,663 to buy the theater's half-finished passageway, known as the Link to the Future. That money will be routed through the Playhouse to pay off liens filed by contractors who haven't been paid.

When that transfer occurs, the city will have invested more than \$1.1 million in the Community Playhouse operation

See **CITY'S ROLE**, page 5A

## United Nations pulling staff from India, Pakistan

### Musharraf: Countries not 'irresponsible' enough to use nukes

BY MICHAEL DORGAN  
Knight Ridder

NEW DELHI, India - With border skirmishes flaring and the threat of war looming, the United Nations on Saturday ordered hundreds of its staff in India and Pakistan to send their families home.

The U.N. announcement came one day after the U.S. State Department urged the estimated 60,000 Americans living in India to leave and authorized the voluntary departure of nonemergency personnel



Pervez Musharraf

and all dependents at the U.S. Embassy and consulate.

The threat of war between the two nuclear-armed neighbors has escalated sharply in the past week, although hostilities are thought unlikely to begin before a visit to the region this week by U.S. Secretary of Defense Donald Rumsfeld and Deputy Secretary of State Richard Armitage. The two plan to meet with political leaders in Pakistan and India in an effort to diffuse tension and prevent an outbreak of war.

► **U.S. in tough spot** 14A

Pakistani President Pervez Musharraf on Saturday downplayed the threat of nuclear war between India and Pakistan, saying that it was unthinkable.

"I don't think either side is that irresponsible to go to that limit," Musharraf told CNN in an interview. "I would even go to the extent of saying one shouldn't even be discussing these things, because any sane individual cannot even think of going into the unconventional war, whatever the pressures."

Musharraf nonetheless declined to rule out the first use of nuclear weapons in any conflict, as India

has done. Musharraf also insisted he was committed to stamping out militancy in his country and had closed down radical organizations and imprisoned extremists.

India has demanded Pakistan block Islamic militants from crossing the border into the Indian-controlled part of Kashmir and has made this a condition for resuming negotiations over Kashmir and for pulling back the 700,000 troops it has amassed along the border.

U.S. Secretary of State Colin Powell, in an interview with the BBC, said Pakistan may be moving to block the movement of militants into Kashmir, although he said it was too early to know for certain.

Mostly cloudy  
79° 60°  
Full report, 2A

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# Playhouse: Behind the scenes

Continued from 1A

money. Playhouse executive director Larae Blankers resigned, and the board later fired all other staff members. Shows were canceled, and finally, the Playhouse folded.

Volunteers panicked: Who was in charge? What had happened? How could it get so bad, so fast?

Like most complex problems, the Playhouse's demise was a slow if irreversible descent.

Turnover on the board and in the office gave little stability to the organization. Season planners struggled to find a combination of shows and schedules that would draw crowds, and artistic vision sometimes couldn't be carried through.

Some volunteers and employees fear the Playhouse hurt itself by reaching too far too fast, spending money on new projects when old debts loomed.

It's the cycle that board members referred to two years ago, when then-past president Shelley Wieck made an impassioned speech to the City Council. Help us or we will close, she said.

The city's money — eventually more than \$1 million — didn't end the trouble. In fact, the money made it difficult at times to see the depth of the financial woes.

"By my figuring, if you take away the Link money and the city money, comparing revenue versus regular operating expenses, the Playhouse lost about \$900,000 in the past 5½ years," Pate said.

Along the way, Pate, Wieck and others realized it was no way to run a theater. Romy Klessen, who worked in the Playhouse from 1991 to 1994, called the debt "chronic."

Her one-word description, often paired with "fatal" in medical circles, is telling: It was debt that ultimately killed the Sioux Falls Community Playhouse.

## Early trouble

Jan Swank and Terry Ross came to the Playhouse in 1980, with Swank as managing and artistic director and Ross as technical director. Then, the men said, the volunteer base was well over 500, and memberships ranged from 1,000 to 1,500.

During Swank's time at the Playhouse, the staff grew from two to seven, though not all were full-time workers. An educational director, Ron Ziegler, came on board to plan and lead the Young People's Theater, and Ross got a helper in the shop. A business manager and maintenance worker also joined the Playhouse.

The theater produced fewer than 20 shows a year, Swank said, and while the Playhouse was finishing in the black, there wasn't much left over for improvements to the Orpheum building.

In spring 1981, the Playhouse launched its first capital campaign. If the theater could raise \$220,000, it would be able to replace the fire curtain and fix the roof, as well as paint the auditorium and restore some of the original murals.

The Playhouse surpassed its target, raising \$238,000. Board members decided to renovate the lobby and restrooms, smooth out the house's floor, replace the seats and buy a computer control panel to run the lighting system. The Playhouse took out a \$100,000 loan to cover the improvements. Swank said Northwest, now Wells Fargo, was the lead bank.

"There was the understanding that the board would raise the funds through separate campaigns to pay off the loan," said Swank, who's in his 17th year at the Black Hills Playhouse. "But when I left, operations were carrying the loan and having to run the place."

Ross, now technical director of the Washington Pavilion of Arts and Science, said the growth could have been better planned.

"It's a personal belief of mine that there was a little bit of cancerous growth rather than a really well-thought-out growth," he said.

Worse, Ross said, board members didn't always agree with the direction management chose. Protest choices often were debated, with protest from the Sioux Falls Catholic Diocese over "Sister Mary Ignatius Explains It All For You" leading to Swank's resignation in October 1984.

The artistic struggles added to money pressures, Ross said. "At some point, and I couldn't tell you precisely when, we lost our sense of history and lost our identity."

## Entertainment league

Education director Ziegler followed Swank as managing and artistic director. Adult and children's classes met in area churches and halls, which sometimes housed rehearsals. Built in 1913 as a vaudeville house, the Orpheum no longer fit all the Playhouse's needs.

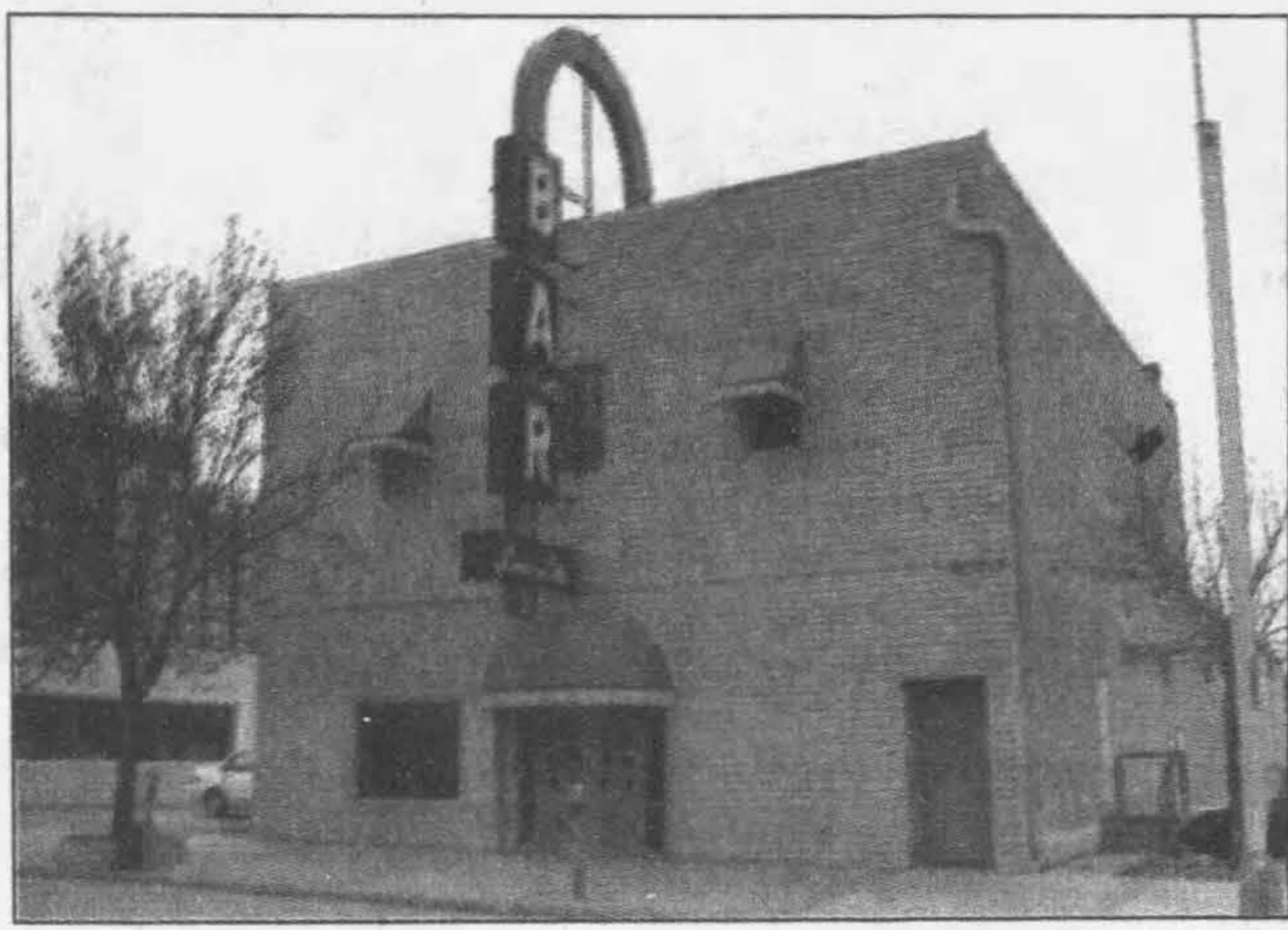
Adding to the workload was the 1993 merger with the Sioux Empire Entertainment League. Formed in 1988, the league brought four large-scale touring productions to the Coliseum each year.

Rod Schmidt, the league's executive director, was working full-time hours in a part-time position to book shows and raise money for the \$110,000 annual budget. He said the league made money, but the work was more than he'd bargained for. The league and Playhouse boards decided that staff at the community theater would be well-suited to book professional acts.

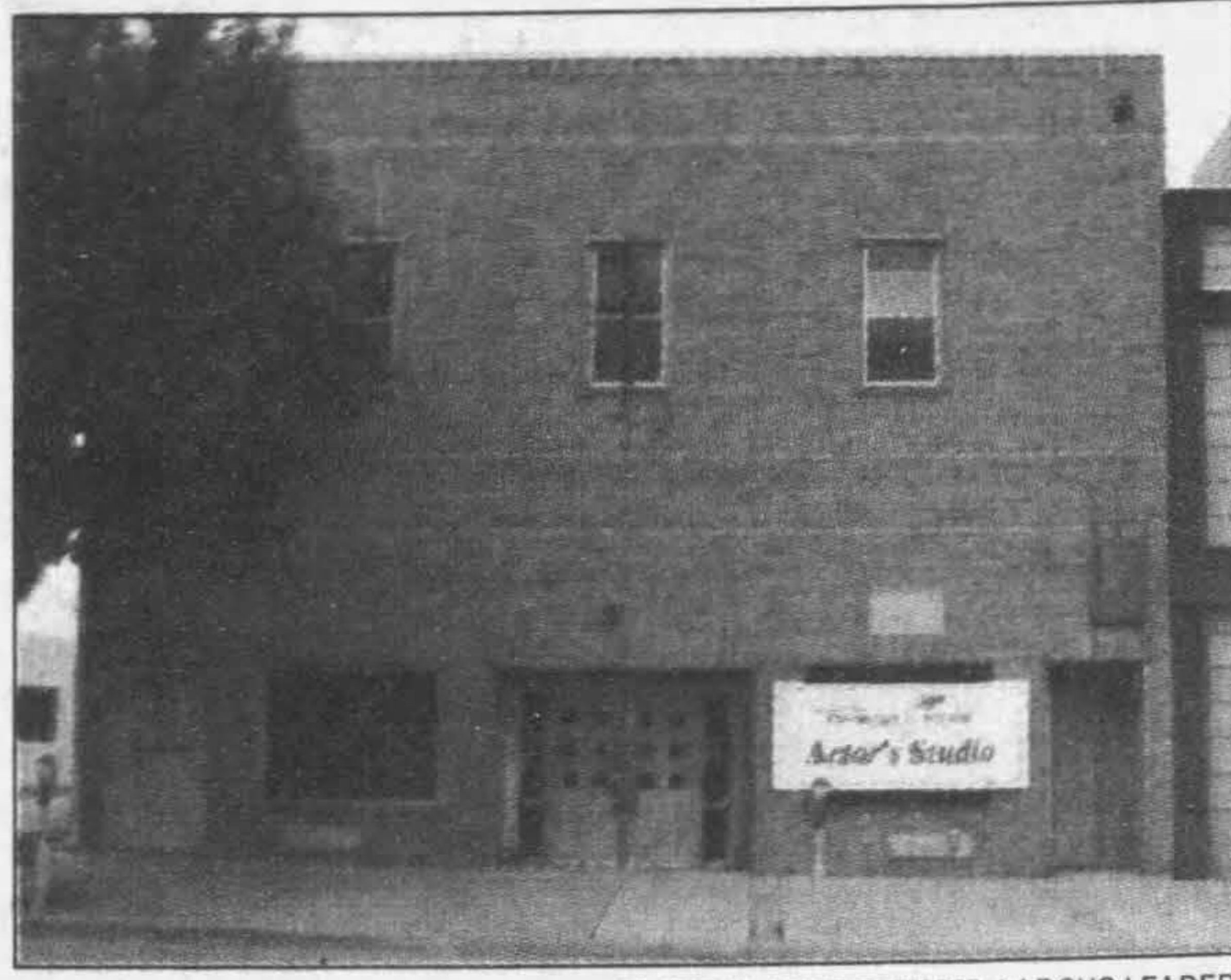
Playhouse workers, who'd get no extra help, disagreed. Former Playhouse business manager Bob Wyant said the league entered the union with its own money troubles, and each show cost between \$12,000 and \$25,000 to sponsor. The partnership lasted only one season, 1993-94. Portions of the Coliseum's roof collapsed, and league shows had to move.

"It was a mess," Wyant said. "I'd walk out

## Changes to the Playhouse in the 1990s

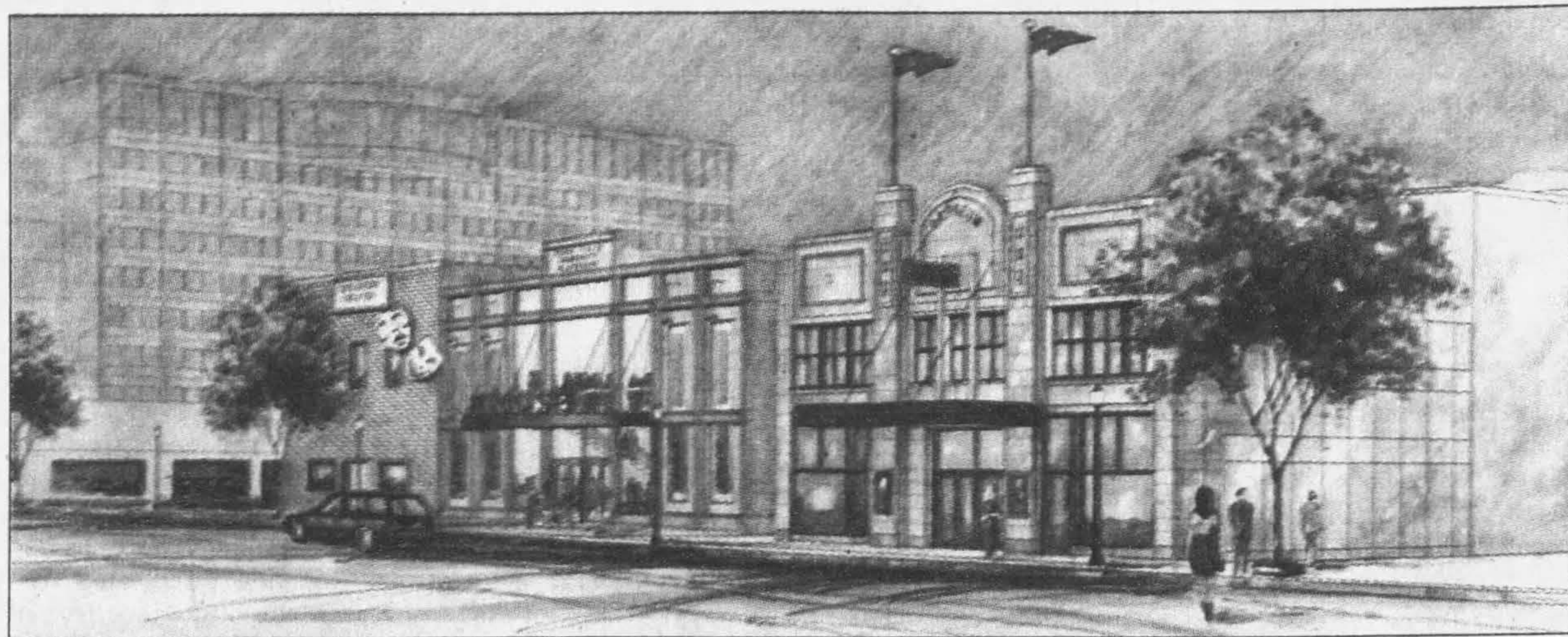


ARGUS LEADER FILE PHOTO



LOYD B. CUNNINGHAM / ARGUS LEADER

The city of Sioux Falls bought the Lime Lite Bar (left) in 1994 and gave the Playhouse a contract for deed for the building, which became the Actor's Studio (right). In the late 1990s, the Playhouse began raising funds for the Link to the Future, intended to join the Orpheum Theater and the Actor's Studio. Last week, the city bought the half-finished Link for \$325,663.



ARCHITECT'S RENDERING BY KOCH HAZARD BALTZER LTD.

on stage to make the opening announcements, and I thought it was odd that most of the patrons looked like seats. And I knew the cost. I was the one writing the checks."

Without the Coliseum, the professional shows couldn't hope to break even based on ticket sales. The Playhouse dissolved the league, not bothering to schedule a 1994-95 season.

## A pattern set

Meanwhile, the city had purchased the Lime Lite bar just to the Orpheum's south. A small parking lot separated the buildings. Though the Playhouse now had even more long-term debt to deal with, acquiring the Lime Lite would mean rehearsals could go on in that space while Orpheum rentals brought in much-needed revenue.

The same week the city of Sioux Falls purchased the Lime Lite for \$375,600, the Playhouse sent out an urgent letter, telling members it needed about \$36,000 to meet payroll, pay bills and close a revolving line of credit. Members responded, Ziegler said, and the crisis was handled. Former Mayor Gary Hanson, who was a city commissioner at the time, questioned the Playhouse's ability to take on another building when it struggled with its own.

But in signing the contract for deed in October 1994 for what would become the Actor's Studio, the city and Playhouse set the pattern for future agreements: The city would offer a deal, mull over the Playhouse's situation, then sign the paperwork.

The Playhouse was to take a mortgage against the Orpheum, which it owned free and clear, to make a down payment of \$75,300 to the city. Klessen's Playhouse records show that the group renegotiated its 1982 bank loan, which Wyant said had been paid down to about \$62,000 at the time.

The new loan would be for nearly \$140,000, enough to cover the amount due from the original loan and the down payment on the Actor's Studio.

Wyant remembers the situation slightly differently. Still stinging from the entertainment league's cost, he said, the Playhouse took out an \$80,000 loan through a consortium of five or so local banks to cover losses.

Whatever the money was earmarked for, the city didn't receive its down payment. Six years later, when the Playhouse board asked the city to forgive the group's debt on the Actor's Studio, the theater had paid a total of \$13,350 toward the purchase and owed \$363,000.

Dick Koch, who was president of the Playhouse board when the theater bargained for the building, said he "didn't think we ever despaired. I didn't get that feeling then."

Joe Niechwiadowicz preceded and succeeded Koch as president. Niechwiadowicz said he remembers that the Playhouse's major debt at the time was a mortgage on the building. It's unclear whether the mortgage he recollects was taken out to generate the down-payment money for the Actor's Studio or to secure a separate loan to cover entertainment league shortfall.

The next year, 1995, the board fired Ziegler, who said he was never given a reason for his dismissal. Wyant's job was eliminated. Ross left on his own. Andy Henriksen, who'd been leading the educational program, was promoted to artistic director.

When the new business manager died a few months later, Henriksen took on both roles. Before he left in 1996, he'd again guide only the Playhouse's artistic vision.

"I had every title there, I think," said Henriksen, an assistant professor of speech and theater at Mount Marty College in Yankton. "I was aware of long-term debt, that we had it," he said. "It would certainly make sense that some of those loans from the renovation or the league still would've been around when the city bought the Orpheum. That wouldn't surprise me at all.

But in my time, I didn't hear specifics of what was from a renovation and what was from a year we needed help."

## The Link costs

The Playhouse was about to take on its biggest and costliest project ever, the Link to the Future. The capital campaign would strive to raise \$1.25 million, paying for construction, a fund-raising consultant, architect fees and all other costs.

By then, Henriksen had joined the growing list of fired top employees at the Playhouse, and John Lefler took over as executive director in fall 1997.

"The Playhouse was in a transitional phase," Lefler said. "The board wanted it to become one of the premiere theaters in the area. That meant trying to adopt a professional model while recognizing that community involvement was the core of it all. The volunteer group, though, was very thin."



John Lefler

Lefler said some board members thought the Link had grown too sophisticated. The original plan was to connect the back of both buildings for production purposes and leave an open-air courtyard facing Phillips Avenue. The vision changed with plans to join the fronts of the buildings as well and add a new lobby.

It became clear, he said, that the pledges wouldn't be enough.

Volunteer Cheryl Wyant also thought the Link had been overinflated. She believes it should be finished, but she doesn't think the more elaborate Link was necessary to produce live theater. Her husband, Bob Wyant, who'd heard talk of the Link while still working for the Playhouse, agrees.

Cheryl Wyant thinks the city and the public in general bought into the more expensive version because of hopes it would be a showpiece along the Phillips-to-Falls corridor, which still hasn't materialized. "The infighting really started then," she said. "The Playhouse forgot what it was there for. The Link got more important than the plays, and I think the Link lost them the theater."

## Growing friction

Lefler keenly felt friction with the board. He didn't see the group maturing, passing the baton from the theater die-hards who wanted to do everything themselves to civic leaders capable of a more long-range approach.

Lefler also said he petitioned board members to stop using the next year's revenue for the current year's productions. He wanted to restrict it all but one-fifth of the ticket money from entering the general-operations account. "I wanted to make sure the members' money paid for the shows they subscribed to," he said. "I was told that theater was cyclical and that we couldn't not spend that money."

At the same time, he said, the Playhouse ran into a \$50,000 budget shortfall. Board members looked to the pledges gathered for the Link to make up the difference. Lefler said he was asked to keep track of the time he spent on Link work, and a portion of his salary would come from pledge money.

"At the time, I can't tell you that I thought it was wrong, but it's a disconcerting trend," he said. "I don't believe I would've let it go any further."

In the years that followed, the Playhouse board would dip into the Link pledges to cover operations repeatedly, eventually using \$105,000 of the \$912,000 in construction commitments.

Though few would admit it, volunteers seemed to know vaguely of the Playhouse's trouble. Sue Colan joined the office staff in 1997, and she said the people she called on seemed surprised to hear from her.

"I just started running the numbers, going down the list," she said. "Most of them seemed puzzled. Some would say,

'Nobody's called me in two years.'"

In 1998, more changes. The board, led by president Frank Pope, fired Lefler that summer. Larae Blankers, who'd taught classes at the Playhouse for about two years, took his job. The board had hired its final executive director.

Blankers, who did not return calls at home or work this week, was to see the Link through to completion. She faced the daunting task of chipping away at debts that had begun more than 15 years earlier.

Her first challenge, dealing with an employee suspected of embezzling Playhouse money, would shake public faith in the group and make her job that much more difficult.

Dennis Poppenga was the theater's business manager for one year, beginning in November 1997. He was fired after Playhouse officials told investigators they suspected him of taking more than \$20,000. Poppenga pleaded no contest to taking \$2,200 and was sentenced to 180 days in the county jail.

"I was careless with some rummage-sale money," he said. "I never admitted any guilt or wrongdoing."

Poppenga said Playhouse officials overplayed the amount taken and blamed him for a host of troubles. "I certainly feel scapegoated. Especially in light of everything else that was going on."

Having worked at theaters across the nation before taking the Sioux Falls job, Poppenga knew what he was worth as a business manager. He said Blankers asked him what his salary requirements were, and he asked for \$16,000 a year.

She paid him \$1,000 more, and by the following November, Poppenga's last month at the Playhouse, his salary had increased to \$27,000.

"They gave me a \$10,000 raise in one year," he said. "They didn't want so much discrepancy between what I was making and what they paid everyone else. A huge portion of the yearly budget went to staff salaries and benefits."

Those and other bills added to the Playhouse's debt, and by April 2000, the board could see no way around its crushing debt.

Past president Wieck spoke before the City Council on behalf of president Jack Hanson and the rest of the board. The city bought the Orpheum for \$475,000, forgave the \$363,000 in debt on the Actor's Studio and pledged \$275,000 toward the finished Link. Neither Wieck nor Hanson, who preceded the current president, returned calls this week.

Five months after the bailout, the Playhouse again pushed forward, breaking ground for the Link's construction Oct. 3.

The 2000 city vote signaled the undeniable beginning of the end for some Playhouse volunteers. The group used the city money to pay off \$412,000 in mortgages and bank notes against the Orpheum.

That amount includes money forgiven by the city for the purchase of the Actor's Studio. It also includes \$130,000, representing four separate bank notes, some of which used the Orpheum building as collateral.

Though the numbers for 2001 are unaudited, they show that the group spent \$230,000 more than it took in.

During one pay period last summer, an employee who asked not to be named independently covered roughly \$5,000 in salaries. The employee said it was a risk worth taking, one that bought a chance to do a few more shows with friends and family.

Financial statements from Jan. 1 through March 31 reflect that 2002 likely would've outpaced even last year's losses, with the Playhouse showing a three-month deficit of more than \$50,000.

"We're trying to close up shop now," board member Pate said. "The impression I get from board members is that this group will not try to reorganize how it was. When this is done, we're off into the sunset."

Lee Williams contributed to this report. Reach reporter Jennifer Sanderson at jsanders@argusleader.com or 575-3629

## FINANCIAL HISTORY

As a private, nonprofit group, the Sioux Falls Community Playhouse is not required to make its books public. It is required to file an annual Form 990 with the Internal Revenue Service, listing financial highlights, board members and key paid staff. Those forms have been filed through 2000, but the 2001 form will not be filed until later this year. Data here comes from 1990s, some financial details released by the Playhouse and *Argus Leader* research.

### 2002

**President:** Mike Costanzo  
**Members:** Steve Pate, Jack Hanson, Joe Henkin, Frances Tebben, Laura Mullen, Robert Raszowski and John Koch  
**Executive director:** Larae Blankers resigned in March.  
**Ceased operation:** April 30

**Highlight:** Losses estimated at more than \$53,000 from January to March.

### 2001

**President:** Jack Hanson  
**Executive director:** Larae Blankers

**Highlight:** Losses estimated at \$230,000.  
**Fund raising:** Continued to collect money for the Link to the Future and tell donors it would open in the summer, eventually spending \$105,000 in donor money to pay other bills.

### 2000

**President:** Jack Hanson  
**Executive director:** Larae Blankers

**Highlight:** After the city forgave debt on the Actor's Studio and purchased the Orpheum for \$475,000, the Playhouse finished the year \$461,407 in the black. Once debts were paid off using the city money, the balance was actually closer to \$69,000.  
**Fund raising:** Raised \$148,000 for the Link through Chamber of Commerce Community Appeals and private sources.

### 1999

**President:** Shelley Wieck  
**Executive director:** Larae Blankers

**Highlight:** Showed a loss of \$90,526 from July 1-Dec. 31 on its IRS Form 990. (This was a six-month transition period as it switched fiscal years.)

### 1998

**President:** Frank Pope  
**Executive director:** Larae Blankers

**Highlight:** Loss of \$49,123 reported to IRS for fiscal year July 1, 1997, to June 30, 1998.  
**Fund raising:** Collected \$754,000 for the Link through Chamber of Commerce Community Appeals capital campaign and private sources.

### 1997

**President:** Frank Pope  
**Executive director:** John Lefler

**Highlight:** Ended \$52,531 in the black for the fiscal year that ran July 1, 1996-June 30, 1997.

### 1996

**President:** Jeff Hazard  
**Executive director:** Andy Hendrickson

**Highlight:** Lost \$50,461 for fiscal year July 1, 1995-June 30, 1996.

### 1995

**President:** Joe Niechwiadowicz  
**Artistic and managing director:** Ron Ziegler  
**Highlight:** Ended \$49,301 in the black for the fiscal year July 1, 1994, to June 30, 1995.

### 1994

**President:** Dick Koch  
**Artistic and managing director:** Ron Ziegler  
**Highlight:** Finished \$16,208 in the red for fiscal year July 1, 1993-June 30, 1994. The Playhouse signed a contract for deed to purchase the former Lime Lite Bar from the city for \$376,500 in October.  
**Fund raising:** In March, solicited donations with a letter saying it needed \$36,000 to repay a line of credit and pay that month's bills.

# City's role: Bailouts funded with 2nd-penny tax

Continued from 1A

during the past eight years. For that money, taxpayers will own two vacant buildings and a half-finished connecting walkway. Additional tax dollars — perhaps as much as \$350,000 — probably will be needed to finish the Link.

The city's mounting investment in the troubled nonprofit theater organization has drawn criticism from some residents. And in hindsight, some City Council members say the city erred in paying out public dollars without requiring substantial financial oversight of the theater's operations.

And as city officials now look for a future use for the downtown properties, those concerns are sure to grow.

"This is just the beginning," said newly elected City Council member Kermit Staggers. "It's very, very, very likely that we'll be having votes coming up to spend more money on it."

## 'A real estate deal'

Hanson defends the city's buy-out of the theater group property. He said financial oversight of the Playhouse was not necessary because the city didn't operate the theater. It simply bought the building.

"A lot of people are confusing it, as if the city runs the Playhouse. We don't. It was a real estate deal," Hanson said. "We weren't investing in a business. We were receiving a value, and if the business folded, we own the real estate. We can always sell the real estate."

Hanson said a citizen's group asked the city to buy the Lime Lite building so the Playhouse could turn it into an actor's studio for educational programs.

"So it wasn't something we thought up," he said.

"Although it was our money at one point, it is now theirs," Hanson said.

"If we turn around and lease the building to an individual, we still don't have the right to tell them how to run their business."

But council members who voted on the purchase say the city should have required better information on the financial stability of the organization.

In 2000, when the Playhouse officials came to the city for help, the organization already was behind on its payments to the city for the Actor's Studio. It had paid only \$13,350 on the contract from 1994 to 2000 and still owed \$363,000.

Yet, according to former City Council member Dick Kelly, the

*This is just the beginning. It's very, very, very likely that we'll be having votes coming up to spend more money on it.'*



**Kermit Staggers**  
new City Council member

*The question I have is, why did we get into this thing even deeper? Why wasn't there more financial accountability?'*



**Dick Kelly**  
former City Council member

*I would never do a personal business dealing as quickly. ... I mean it was, 'Oops, I wish we could have that one back.'*



**Matt Staab**  
city commissioner in 1994

*Maybe it was just ... an expectation that there'd be no reason to have to track an organization's accountability.'*



**Tam Baker**  
former City Council member

## WHAT THEY'RE SAYING

council didn't discuss the Playhouse's payment delinquency when the purchase of the Orpheum was approved.

"Other than the fact that they were having financial problems — what they disclosed — there wasn't any in-depth discussion," Kelly said.

"The question I have is, why did we get into this thing even deeper? Why wasn't there more financial accountability? — that's the question I ask. I don't know the answer. It gets back to the whole idea of who's watching the chicken house, the mayor or the council. Maybe we're both at fault."

Former council member Tam Baker can't remember any in-depth discussion about the Playhouse's money problems.

"Maybe it was just an error in judgment, and an expectation that there'd be no reason to have to track an organization's accountability," Baker said. "I don't believe there were any financial reports that were given on a regular basis."

Former council member Bob Jamison said Hanson should have demanded tougher scrutiny of the Playhouse's operations.

"It's one of those things with this form of government," Jamison said. "The council is not involved in the administration. I would have thought the administration would have required pretty close scrutiny on how they were doing."

He said the city should have required monthly progress reports and greater oversight.

"It would appear to me we should have had a better handle on their cash flow," Jamison said. "After all the problems they demonstrated in the past, they should have been required to file monthly cash-flow reports. If we had done that, in hindsight, things

would have been different."

But Hanson said council members knew what was being proposed and had access to the information they should have needed to decide.

"The leadership of the council as well as the membership were part of those discussions, briefed by the city staff and also part of the discussions with Playhouse people and members of their board of directors," Hanson said. "There were public hearings and briefings before the hearings."

## The city's money

The money for the Lime Lite Bar and Orpheum Theater purchases came from the city's second-penny sales tax.

The extra tax was added in 1984, earmarked originally for street improvements. The city later expanded the uses for the tax proceeds and last year the second-penny tax brought in more than \$28 million, according to Mayor Dave Munson.

In addition to the Playhouse, the tax has been used to pay for other private or entertainment venues, including:

- \$4 million in bonds for the cleanup and restoration of Falls Park.

- \$2 million in cash to build the Center for Active Generations.

- \$1.1 million in bonds to buy and expand Great Bear Recreation Park.

Hanson was one of five city commissioners serving in 1994 when the Playhouse group came to the city with its request for the Lime Lite building. He began his first term as mayor under the new strong-mayor council form of government in 1995.

He acknowledges that concern about Johnston buying the bar entered into the city's approach.

"Some of the establishments owned by him (Johnston) were a little more exciting than we wanted in downtown Sioux Falls," Hanson said. "We thought that was certainly a benefit of the purchase, but not the primary reason."

Two of Hanson's colleagues on the former City Commission say the Lime Lite purchase was hurriedly approved.

"Looking back, I remember there was a time constraint on us," said Matt Staab, a former commissioner. "I would never do a personal business dealing as quickly as we did that one. I mean it was, 'Oops, I wish we could have that one back.'"

Bar-owner Johnston is convinced the city moved quickly in order to stop him from acquiring the property. He said he had a cashier's check for \$100,000 in one hand and an unsigned contract in the other — ready to deal — but was beaten to the contract by the city.

"They just bulldozed me," he says now. "We were gonna operate it the same way they were before, a blues club. I was really disappointed when I didn't get it. They just stole it away from me."

Former City Commissioner Craig Steensland voted against the purchase.

"I saw it as taking another private business off of the local property tax roles," he said. "The Playhouse doesn't pay property taxes. It's another example of taking a profitable private business, with a payroll. ... Another establishment could have made it. I didn't see any need."

## Task force work

The city is now awaiting the report of a task force studying future uses for the Playhouse complex. The group expects to

have a recommendation this month. Hanson said there are "numerous options available to the city."

Munson said the city hasn't sought any tenants and is waiting for the report before moving forward. In the meantime, the city is responsible for upkeep on the buildings.

"We're not going to let it deteriorate," Munson said. "We'll secure it and make sure it's safe from the elements."

Michael Bender of Bender Commercial Real Estate Services has sold commercial properties for more than 20 years. He thinks the Playhouse and Actor's Studio are marketable, to a degree, should the city decide to sell.

"There's certainly value, and the value is because it's sitting on Phillips Avenue," Bender said. "But I don't know if anyone would be interested in buying a playhouse. It has such a specific use."

## What's ahead

The city also likely will wait for the report before officially terminating the lease and management agreement with the Playhouse group.

When the city pays the \$325,663 it approved earlier this week, most will be signed over immediately to Beckman Construction. The company has filed a lien for nearly that amount for its work and that of three subcontractors on the project.

The total cost of the Link was to have been \$1.14 million, raised through capital campaigns, but contractors now say delays and increased material costs will push the total closer to \$1.2 million.

In the meantime, the Playhouse must work to resolve issues with its other creditors. Board member Steve Pate said aside from the

money owed contractors for work on the Link, the Playhouse also owes about \$80,000 for other services. Some past employees still are owed for expense-account items such as mileage and credit-card purchases. Fees for accounting, utilities and contracted work for specific shows at the theater also remain unpaid.

"Some people have told me I can kiss my \$800 goodbye," said Kim Garry, who's owed money for her role as musical director in March's "Forever Plaid." "Others suggest I file a claim."

She has a printed program that lists her name, but she said she never received a written contract she had asked for to outline her duties, pay and when she could expect the money.

Pate said each of the contracted workers is included in the list of Playhouse creditors.

But donors who contributed money to the Link campaign aren't counted as creditors, and some are concerned about what happened to their donations to the Link project.

Brothers Bill and Sheldon Zabel have given \$106,000 toward a \$150,000 gift to name the Link's lobby and new studio theater in their mother's memory. The late Anne Zabel, former co-owner of Zabel Steel, spent 27 years on stage at the Playhouse and 14 years on the group's board.

The Zabels, both lawyers, have a written contract specifying when their gift will be paid and how their mother is to be recognized. Pate said the city's task force is aware of the commitments to naming-gift donors in particular which range from hundreds to thousands of dollars.

"I'll just have to stay with it," said Bill Zabel. "I don't want to get aggressive, but an interesting point is at what point I want to retain a local lawyer."

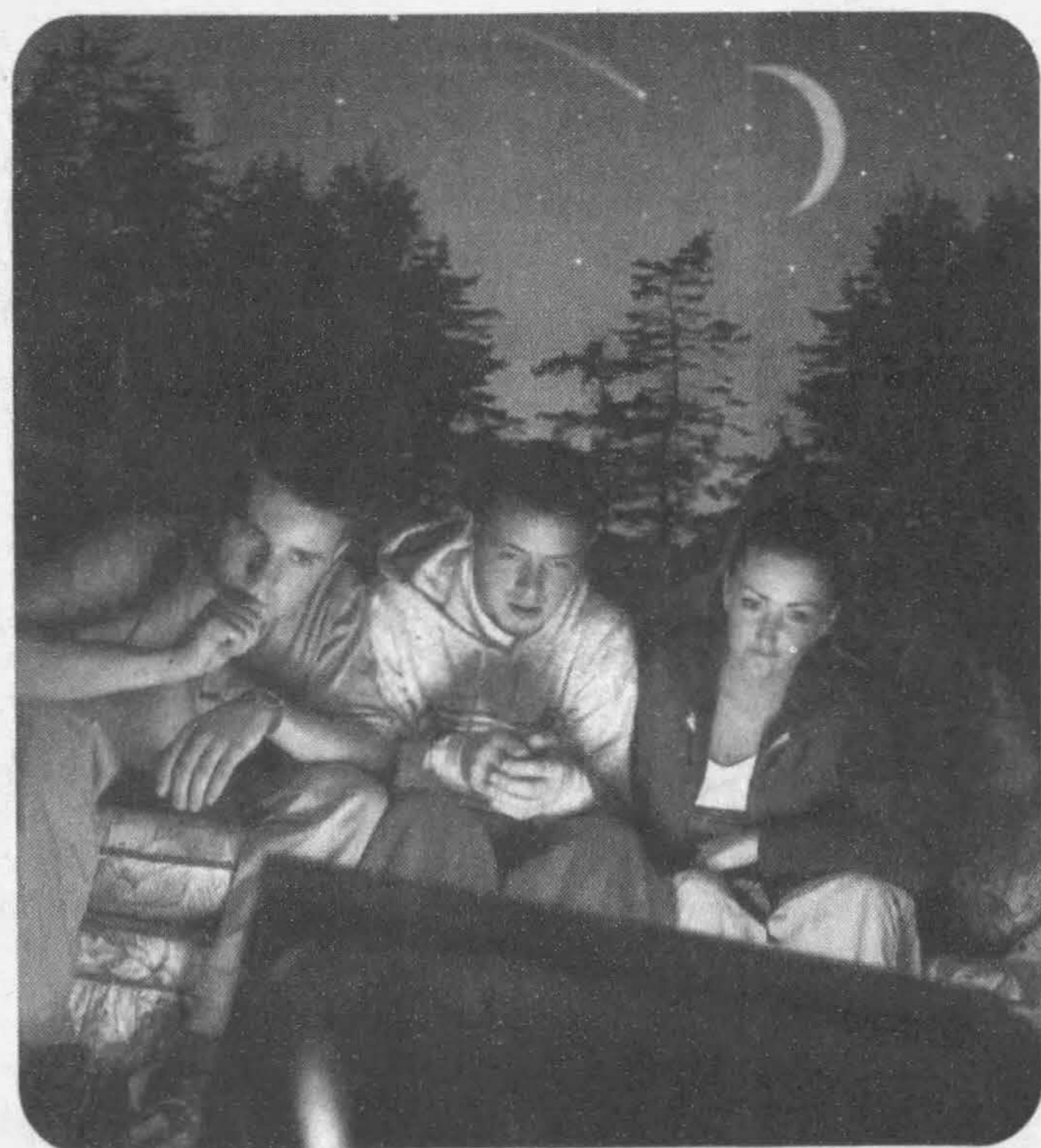
After the city purchases the Link, it then must decide whether to finish the project or sell the property.

City Attorney Janet Brekke said if the city moves forward with the work, it's possible bids will have to be let for the final construction phase. Beckman's original deal with the Playhouse had included that finishing work.

"It could be a real interesting thing," said Beckman vice president Cary Shaw. "... If it's reopened for bids, we'll have to deal with it then."

*Jennifer Sanderson contributed to this report. Reach reporter Lee Williams at lwilliam@argusleader.com or 331-2318*

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