Open Wide, AIDS Ride

Dan Pallota's fabled rides raise millions for AIDS. Is it time to look a gift horse in the mouth?

October 1, 1998 By Stuart Timmons

Mothers, brothers, lovers and friends of AIDS casualties line Century City's Avenue of the Stars. The massive crowd is expectant, primed to welcome exhausted participants in the California AIDS Ride as they finish their 500-mile trek. But before the explosion of cheers, something quiet happens. A riderless bicycle is escorted to a stage crammed with cameras as a speaker reverently invokes those who have died in the epidemic. Tears stream down a thousand faces in remarkable synchronicity.

The AIDS Ride experience, only five years old, has already become an institution. During the last few months, riders have traveled from San Francisco to Los Angeles, from Philadelphia to Washington, DC, from the Twin Cities of Minnesota to Chicago, and across the Texas highways. The Boston to New York ride closed out the season with another inspiring public ceremony on September 19. The rides involve more than 10,000 volunteers each year and have become the biggest AIDS fundraisers in history, so far raising $40 million for more than 50 AIDS service organizations (ASOs). Staff at several of these agencies say the rides fund programs that would not otherwise exist. "Without the ride money," says Kevin Winge, director of Open Arms, an agency that delivers meals to PWAs in the Twin Cities area, "I'd have to open a line of credit."

The AIDS Rides are produced by Pallotta Teamworks, a private, for-profit company based in Los Angeles. Its mediagenic owner, Harvard economics grad Daniel Pallotta -- whom dazzled journalists have called "dashingly handsome" -- has changed the face of AIDS fundraising. He promises "mega-events that raise millions" to nonprofit clients who pay him generously. He challenges volunteers to push themselves physically, egged on by high-profile marketing and emotionally charged finales. Many find it just what they need. "It's my grieving process," says HIV positive activist Richard Eshoo, who was inspired by an AIDS Ride to leave his sickbed; he's completed the California ride three times. Hundreds like him regard the rides as an annual source of healing and fellowship, as well as a healthy contrast to drug-drenched dance benefits. The swarms of AIDS Ride cyclists generate extensive coverage as they trek through dozens of small American towns.

But if the rides are a golden goose, they have acquired some stubborn tarnish. Alongside breathless reports of his successes, some in the national media have scrutinized Pallotta's franchised event, especially the high cut its costs take of dollars donated for HIV services.

Criticism of Pallotta is common but often off the record, in part because of Pallotta's growing power in the increasingly competitive AIDS fundraising industry. A member of ACT UP/Washington, DC denounced him as "the biggest AIDS profiteer since Burroughs Wellcome." *POZ*, once a significant sponsor to the tune of $125,000 in donated ads for the 1996 rides, declined to renew its support because of contractual issues -- and concerns over the growing controversy. Both Pallotta and his company refused to speak to *POZ* for this story.

Some critics say Pallotta's mix of for-profit methods and nonprofit cachet pushes the boundaries of fundraising ethics. When hired by charitable organizations, Pallotta's company is able to raise money in their name, but unlike them, Teamworks is not required to make its financial records public. "It's a slick little gray area that Pallotta exploits brilliantly," says Miki Jackson, director of Aunt Bee's, a small ASO in Los Angeles that does not benefit from the rides. Michael Weinstein, director of Los Angeles' AIDS Healthcare Foundation, says that while no one can question Pallotta's effectiveness, "I may question his ethics." Weinstein is particularly troubled that "any criticism or call for accountability is perceived as an attack on the riders and on people with HIV." "The opposite is true," he says. "People have a right to know where their money is going."

And issues of accountability around AIDS dollars in general, including salaries for staff and private vendors, are being questioned from San Francisco City Hall to the halls of Congress. Julian Barnes of *U.S. News & World Report* wrote last year, "The question is not whether many people with AIDS have benefited, but whether they could have benefited more." As criticisms mount over the AIDS Rides' high costs, Teamworks' closed books and Pallotta's level of accountability, *POZ* compiled this review of the issues.

1. Payday

"I'm not Gandhi or Mother Teresa," Pallotta told *The Los Angeles Times* as he refused to disclose his salary, estimated at $325,000 in 1995 by the Pennsylvania attorney general. Teamworks' production fee -- on top of all production and staffing costs -- ranges from $120,000 to $180,000 per city, up to $360,000 per ride. Those fees accumulate as Pallotta rounds up contracts with new clients like the American Lung Association (ALA) and the National Alliance of Breast Cancer Organizations; the ALA alone is paying Teamworks $385,000 for a two-year contract. Pallotta maintains that these fees are offset by business expenses, but he won't reveal his company's finances or say how much goes into his own pocket. Many fundraisers believe that a disclosure from Pallotta that he's making a huge salary might scare off donors. Jim Maurer, who represents a consortium of ASOs benefiting from the Twin Cities ride, insists that Pallotta is worth every penny: "So he's an entrepreneur. There's nothing unethical, period." Not according to ACT UP/LA's Peter Cashman: "The volunteers pour their hearts out, and the professional side isn't just making a living -- it's making a killing."

There appears to be no question that Pallotta has violated accepted fundraising ethics in the past. During the first two years of the California ride, Pallotta built commissions into his compensation package, a practice strictly against the ethics codes of professional organizations like the National Society of Fund Raising Executives (NSFRE). Once that was made public, Pallotta changed over to flat-fee compensation only.

2. The Cost of Fundraising

Greeting the throngs at his rides' closing ceremonies, Pallotta thrusts a bike over his head and chants about the millions of dollars that riders have freshly raised. But he's talking about the gross figure; what's left over -- the net -- is what goes to PWAs. The National Charities Information Bureau (NCIB) disapproves if more than 30 percent of the fundraising gross pays for raising those dollars; Norton Kiritz, of the Grantsmanship Center in Los Angeles, cites 25 percent as a reasonable "cost of fundraising" (COF). However, Pallotta generally cites a figure nearly twice that -- 40 percent to 46 percent, an unimpressive standard he budgets for but never guarantees. A *U.S. News & World Report* comparison of figures reported by the beneficiaries to state authorities found Pallotta's true COF closer to 50 percent. In 1994, when Pallotta approached Gay Men's Health Crisis of New York City as a client for the AIDS Ride, "we turned him down because of the COF," says GMHC director of special events Steven Asher, whose annual Walk-A-Thon COF is never more than 20 percent. Pro Events International in Minneapolis has produced cycling events such as the Habitat 500 that achieve a COF of 10 percent to 25 percent. "With the AIDS Rides, less than half of the money raised goes to charities," says Pro Events president Tom Sullivan. "That's just not right."

3. Creative Accounting

Presentation is important to Pallotta. He splits the COF into "administration costs" and "rider support costs." While the two figures sound reasonable individually, they add up to a figure well over the NCIB's recommended max of 30 percent. And Pallotta misrepresented the COF of the 1996 Philadelphia-DC ride, according to Kevin Conare, director of ActionAIDS, which ran Philly's pledge office. Pallotta reported the COF as 72 percent, but audited figures pegged it at 78 percent. "I don't know where [Teamworks] is getting its figures," Conare told *Philadelphia Gay News* at the time.

Some agencies may play a similar game. A memo leaked to *POZ,* breaking down the first California AIDS Ride costs for the Los Angeles Gay and Lesbian Center, shows one line item -- $155,000 in underwriting from gin-maker Tanqueray, the rides' major sponsor -- switched from income to a negative "expense," to create the appearance of a lower COF. The center's director, Lorri Jean, calls such changes "totally legitimate by NSFRE standards." But Patricia Lewis, president of the NSFRE, says she has never heard of listing a corporate donation as an expense. A former development executive for a California AIDS Ride beneficiary explains: "The agencies are afraid that if the public knew the real cost of these events, they wouldn't support them as much as they do now."

4. The Philadelphia Story

Philadelphia is a city known for its divisive racial politics. But when arranging the ride there for 1996, Teamworks neglected to approach AIDS organizations run by people of color, though three quarters of the city's PWAs are nonwhite. According to James Roberts, then director of the Minority AIDS Project of Philadelphia (MAPP), Pallotta responded to criticism by saying that he didn't care about local politics. Charging that the ride excluded minorities, Roberts started a pressure campaign, threatening a boycott, to get groups like MAPP added to the list of beneficiaries.

Ultimately, MAPP's parent organization was added and the boycott was canceled, but public support had been badly damaged. Pallotta's videotaped promises of a 40 percent COF crashed against the reality of an audited 78 percent. The Pennsylvania attorney general investigated and ultimately fined Pallotta's company $110,000 -- most of which was paid to AIDS agencies -- for promising a higher net than was delivered, as well as for failing to register as a paid solicitor, as required by law. (Pallotta admitted no wrongdoing and called the violations unintentional.)

5. The Florida Fiasco

In 1996, five Florida ASOs ended Pallotta's ride with a COF of 82 percent. Only 18 percent of the $1,520,000 donated was available to split between them, leaving the five beneficiaries with little more than $50,000 each. The next year, six ASOs gave him another chance, producing an even worse COF -- 92 percent. They fired him, unable to justify the overhead to their donors or clients.

Pallotta offered little explanation for such a dismal return, telling one reporter that the experience taught him "no more than Kevin Costner learned doing *Waterworld.*" Writing in the South Florida online 'zine *CyberConch,* which had promoted the ride in 1996, editor Brooks White fumed, "Respectable fundraisers cringe at these kinds of scams."

6. Wasting Syndrome

The high production quality of the rides is costly: Closing ceremonies alone can easily exceed $30,000, paid for entirely by the ASOs. Yet Teamworks has shown resistance to economizing. Jerome Szymczak, who worked in the San Francisco AIDS Ride office in 1995, scrambled to secure in-kind donations such as office equipment to bring down the COF. But his efforts met with little support from higher-ups in Pallotta's company. Greg Mailloux, logistics director for the 1995 Boston ride, says that banners in which Tanqueray's logo dwarfs that of the ASOs were paid for by the agencies. He says the company changed its logo several times one year, causing all printed materials to be trashed and redone -- an expense ASOs had to swallow. "There are a lot of ways they could have made it more cost-efficient," says Mailloux.

7. Spin Doctor

Pallotta's often-glowing press may reflect his habit of muscling investigative journalists and their publishers. Responding to coverage of the ride's troubles in Philadelphia, Pallotta's lawyers wrote letters threatening *Philadelphia Gay News* and *Au Courant* with ruinous out-of-state libel litigation. (Facing a counteraction, Pallotta backed off.) Mike Salinas says that when he attempted to question Pallotta further after writing editorials criticizing the rides in *The Bay Area Reporter,* the entrepreneur tried to intimidate him with legal threats. Moreover, Pallotta wrote a memo to an executive at the Los Angeles Gay and Lesbian Center suggesting a "letter-writing campaign" targeting *Spin* magazine prior to its publishing an AIDS Ride piece by this writer. Pallotta does make himself available to reporters -- and surely to cameras -- but on his terms only. In nearly a dozen articles *POZ* reviewed in the gay and AIDS press investigating the rides, one phrase was identical: "Dan Pallotta was unavailable for comment."

8. Don't Ask, Don't Tell

A nonprofit's board of directors is responsible for the work of its hired contractors, but this principle rarely seems to apply when it comes to the AIDS Rides. The stance of Maurer, who sits on the board of Clare House, a Twin Cities beneficiary, is fairly typical. He said local agencies "knew we were gambling" and conducted only minor contract negotiations with Pallotta. "We all basically wanted the ride," he said.

When asked whether the Los Angeles Gay and Lesbian Center's board reviewed its terms with Pallotta, Director Jean answered, "They're not really informed about that stuff"; David Nosnik, chair of Project Esperanza, a Texas beneficiary, said, "We have no problems at all [with the COF]."

Only ActionAIDS' Conare expressed serious concern, saying, "In retrospect, we should have been more tough about the contract." Mauer says Pallotta finally introduced a "cost-cutting measure" to help stabilize Minnesota's perilously high COF: Teamworks cut $40,000 from its 1999 production fee -- down to $120,000. Following the Twin Cities' lead, AIDS agencies may be able to drive a harder bargain and retain more money for their HIV positive clients.

9. Sidelining PWAs

Some activists say the AIDS Rides have been slow to take care of the needs of participating PWAs. During closing ceremonies for the first California ride, ACT UP's Cashman found no reserved seating for PWAs; Teamworks refused to comment on whether they have remedied the problem. And Eshoo, of Positive Pedalers in Los Angeles, says that his group had to educate Pallotta's outfit about taking care of PWAs during the ride. "That meant making sure there's distilled water where there wasn't, that backup meds were available when meds got lost, that HIV positive riders had priority for medical treatment and massage." These practices are now standard. But when Eshoo asked that Positive Pedalers be put at the front of the California ride, Teamworks discouraged the idea until the San Francisco AIDS Foundation insisted.

10. Labor of Love?

Pallotta often recruits employees from the ranks of inspired riders. But after one or two years, many leave feeling burned. "We called ourselves Lotties, sort of like a Moonie," says Mailloux, the former AIDS Ride Boston logistics director. "The atmosphere was very workaholic." Lucie Bellanger of the Twin Cities ride told a reporter she was required to drive a truck despite 72 hours of job-induced sleep deprivation, which she called "dangerous" and "insane." Former San Francisco ride staffer Szymczak concurs: "We were expected to be on call 24 hours a day." A colleague of his from the San Francisco office, who spoke on condition of anonymity, took Pallotta before the California Labor Commission in 1995 and won overtime compensation.

11. Activism Lite

Is riding your bike the "best thing you'll ever do to fight AIDS"? That's what Dan Pallotta tells thousands of people each year. He calls AIDS Riders heroes and the "Martin Luther Kings of the '90s." "That's telling people the way to fight AIDS is to take a prepackaged transformative vacation," says Steve Le Blanc of ACT UP/ Golden Gate. Certainly, Pallotta has gone further than Reebok or Benetton in merging consumer marketing with social justice. Potential sponsors are told

they'll appear "hip, involved, courageous and concerned" by hooking up with the rides. In a speech last spring at Harvard, Pallotta told students to take a tip from companies like Nike: "You have to make it as easy for people to give to others as Starbucks makes it for me to get coffee....We market making a difference in the world."

And Pallotta protects that market assiduously; he went so far as to threaten AIDS Healthcare Foundation's Weinstein with legal action for service-mark infringement when he began to plan "Ride for Life: A Motorcycle AIDS Ride" last year. "We're becoming synonymous with AIDS," said ride spokesperson Chris Robichaud in *The New York Times.* "We have brand equity now." Such talk grates on ACT UP/LA's Cashman: "The corporatization of the AIDS community has disempowered activism. When we started these organizations, we said the needs of patients would be paramount. Those high ideals have gone out the door."

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