



Madison

September 14, 2005

## Office of the Mayor

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Jim Ruhly, Chair  
Madison Cultural Arts District  
201 State Street  
Madison, WI 53703

Re: Preparation for September 19, 2005 Meeting

Dear Jim:

In preparation for the special Board of Estimates meeting on September 19, 2005, we have identified a number of areas regarding which some additional information or explanation is necessary. The balance of this letter describes those areas. My hope is that these questions could be answered in writing prior to Monday's meeting. In any event, have individuals on hand to address these questions.

### 1. Status of Proposal

According to a letter dated September 2, 2005 from Overture Development Corporation, the \$7.5 million backstop participation related to a refinancing of the Overture bonds referenced in that letter expired on August 31. That letter further states that Overture Development Corporation would entertain a request to pursue further discussions regarding such refinancing. In light of MCAD's presentation to the Board of Estimates on August 29, we would like to know whether MCAD has made such a request to ODC. Without such a request, and consequently an offer to discuss, the Board of Estimates meeting cannot be fruitful.

### 2. Assumptions

What are the assumptions upon which the September 9, 2005 pro-forma provided by the Overture Center are based with regard to wage and benefits increases? Also, the September 9 pro-forma has revised revenues in the Artist Fees and Grants and Gifts lines. What is the rationale and basis for such adjustments as compared to an earlier pro-forma provided on August 11?

### 3. Operating Subsidy

MCAD's August 29 presentation to the Board of Estimates included the statement that Overture Center does not require any additional operating subsidy in the foreseeable future beyond the current sources of revenue, and in particular, that no additional city subsidy is needed for the operation of the facility. However, the August 11 pro-forma received from the Overture Center reflected negative balances offset by the application of cash reserves as follows:

Year	Balance
2006	(\$137,000)
2007	(\$328,572)
2008	(\$370,960)

Then, starting in 2009, there would be insufficient cash reserves to offset the following negative balances:

Year	Balance
2009	(\$347,350)
2010	(\$266,217)
2011	(\$217,729)
2012	(\$176,088)

However, the revised pro-forma received September 9th has a variety of revenue and expenditure revisions that appear to resolve these deficits. What has changed between August 11 and September 9 that provides a basis for such re-estimates?

### 4. Rents

Looking at various line items of rent increase projections in Overture's pro-forma, we notice that rents are projected to increase at a rather modest rate. What is the rationale for such increases, and is there room for a more aggressive rate of growth?

### 5. Outside Rentals

Rentals of Overture facilities to non-tenant entities show a rather modest rate of increase? What is the plan for marketing these facilities, and might greater growth be generated through aggressive marketing?

### 6. Fundraising

What assumptions have been made with regard to fundraising projections between now and 2012? What is the detailed fundraising plan that will be utilized?

## **7. Capital Replacements**

MCAD's August 29th presentation at BOE indicated that the proceeds of the proposed refinancing would be used to provide for needed future capital replacements.

What assumptions have been made with regard to capital replacements? Is there a schedule or estimates of when certain capital assets will need to be replaced or will require major repairs?

## **8. Refinancing Model**

Earlier discussions of this proposal have been supported by a financing proforma prepared for ODC. Past versions of that model involved MCF and others. What is the latest version of this model as proposed today?

## **9. Terms (Loan) and Structure**

The City is being asked to backstop a \$27,000,000 loan. What are the terms involved? What corpus preservation requirements are there? Including, what are the terms of the proposed firewalls? In what form would the Frautschi guarantee be memorialized? How will investments be managed? By whom? Will this be the same structure as that in place since 2000? What are the costs associated with the investment structure?

## **10. Growth Assumptions and Projections**

What fund growth assumptions are being made as they relate to: (a) generating a sufficient return to pay debt service on bonds; (b) generating a capital subsidy; (c) generating an operating reserve and/or maintenance reserve? What happens if the investment return or fund balance are insufficient to support the Series A (\$85-90M?) debt?

## **11. End of Term**

What happens at the conclusion of the term of the proposed refinancing structure? What is the projected balance owed? What are the fund growth needs to pay the bonds off at the end of that term?

## 12. Endowment's Performance

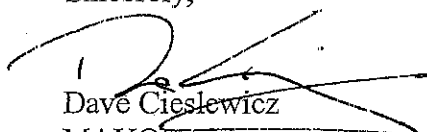
What is the historic performance of the Overture endowment fund since inception? What is the endowment's current balance?

## 13. Interest Rates

What would be the impact on the refinancing of the market returning to historic interest rates?

Please feel free to contact Comptroller Dean Brasser at 266-8710 ([dbrasser@cityofmadison.com](mailto:dbrasser@cityofmadison.com)) or my assistant Mario Mendoza at 266-4611 ([mmendoza@cityofmadison.com](mailto:mmendoza@cityofmadison.com)) if you have any questions. Thank you.

Sincerely,



Dave Cieslewicz  
MAYOR

cc: Bob D'Angelo  
Michael May  
Dean Brasser  
Ann Zellhoefer