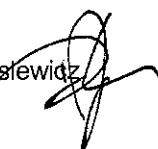


City-County Building Room 403  
210 Martin Luther King, Jr. Boulevard  
Madison, Wisconsin 53703-3345  
608 266-4611  
608 266-4443 TTY  
608 267-8671 Fax  
mayor@cityofmadison.com

**Office of the Mayor**  
**David J. Cieslewicz, Mayor**

# Memo

**To:** Board of Estimates  
**From:** Mayor David J. Cieslewicz   
**Date:** October 10, 2005  
**Re:** Overture Refinancing

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The question of how to respond to the request from the Overture Development Corporation and the Madison Cultural Arts District Board (MCAD) asking City of Madison taxpayers to back up refinancing of the Overture debt has been both interesting and difficult. I have been carefully studying these proposals since I was first approached with the first debt restructuring scenario almost two years ago.

While this is an immensely complex proposal, the fundamental question behind it is a simple one: ***Do you expect the market to perform at an average annual rate of return of 8% over the next six years and are you confident that the market will not experience any dramatic downward swings in the first few years after refinancing?***

If you believe the market will perform at that level without a strong downturn at the start, then City participation in the refinancing makes sense. If you are unsure, then it is best to decline to participate in the refinancing.

**I have concluded that the best course for Madison taxpayers is to decline participation in the refinancing and to take ownership of the building.**

I have reached that conclusion after careful study, consultation with senior City staff and others, and after much thought. My reasons are as follows:

1. I am not confident that the market will perform at the rate needed to sustain both repayment of the Overture debt and contributions to a maintenance fund.
2. Any dramatic downturn in the market in the initial years of the refinancing plan would be disastrous. Of course, the market does not perform at an even 7% or 8% year after year. Attached find the scenario under real market conditions of the last six years. What you see is that the refinancing scenario would be in trouble already in the second year. A reduction in the principal below \$97 million would trigger the banks to demand a much more conservative investment strategy resulting in the loss of any hope that the investments would produce sufficient proceeds.
3. The latest proposal from the Overture Development Corporation is more risky than the one that BOE began consideration of in August.

4. The issue of responsible governance can only realistically be addressed by accepting ownership of the building, dissolving the MCAD, and appointing a board of City of Madison citizens to oversee the building. With half of Overture's patrons coming from outside the City, Dane County and the State of Wisconsin have refused requests to participate in Overture's support. It simply makes no sense for Dane County and the State to have representatives on the board that governs a facility for which those entities accept no financial responsibility.
5. If the market performs poorly over the next six years, it is likely that the City would be placed in a position where it would be forced to buy the building anyway, but at a price of millions of dollars. In that case, taxpayers would be reasonable to ask why we had not taken the building for free when it had been offered.
6. While reasonable people might have seen it as workable in its first iteration at the height of a bull market, this new refinancing plan in the context of much more sober market environment is a fundamentally risky endeavor in a community that prides itself on fiscal stability. I believe it is far better to avoid the risk of spending millions of dollars needlessly and to accept this generous gift from Jerry Frautschi along with its long-term stewardship.

In the final analysis, it is important to keep one indisputable fact in mind. Jerry Frautschi has given this community a tremendous gift. Overture was built not just for today, but for many decades to come. It is our responsibility to be good stewards of that gift. The question is not if we will be good stewards, but exactly how we will practice that stewardship. I believe the course of action I have laid out is the best and most solid way to honor this incredibly generous gift for the long run.

I request that you vote to place the refinancing resolution on file.

DJC/III

Attachment

**Overture Refinancing -- Impact of endowment fund's annual rate of return  
Repeating MCAST's most recent five-year actual returns**  
In \$1,000s

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Notes</u>
Opening balance	107,140	105,473	93,876	69,006	80,073	80,507	79,770	
Debt service subsidy -- 2001 series loan	100	3,300	5,100	5,100	5,100	5,100	5,100	
Debt service subsidy -- Series B loan	602	1,824	0	0	0	0	0	1
Operating subsidy	1,400	1,400	0	0	0	0	0	
Annual rate of return	6.07%	-4.16%	-20.41%	24.08%	7.56%	6.07%	3.17%	2

**Notes and assumptions**

1. "Series B" debt service subsidy is not awarded if fund balance less than \$100 million. Firewalls and City would be called on if subsidy not awarded.
2. Actual annual returns of MCAST's investments of the endowment fund. Five-year weighted average used for 2011.