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City of Milwaukee

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January 28, 2004

Mr. Ronald D. Leonhardt, City Clerk
City of Milwaukee
200 E. Wells Street, Room 205
Milwaukee, WI 53202

Pursuant to your November 5, 2003 letter, we have reviewed the 2004 Business Plan submitted by MATA Community Media under its contract with the City to provide cable television Public and Educational Access services, and participated in related meetings. This Plan requests a temporary increase in City funding, which MATA believes will solve its financial problems. Based on currently available information, we recommend that this request be denied.

MATA has provided Public Access services since the beginning of the City's first cable television franchise in 1984. Upon execution of the new franchise agreement effective in 2000, the franchisee Time Warner made a one time grant payment to the City of $5.2 million, satisfying all of its Public, Educational and Government Access (PEG) financial obligations under this 17 year franchise ending in 2016. Time Warner subscribers are charged for the amortized cost of this PEG grant through their cable service rates. MATA has a contract with the City to provide Public and Educational Access services, for which MATA received a one time $794,000 capital grant from the City and continues to receive quarterly operating payments of $125,000. The Time Warner PEG grant is invested by the City Treasurer to fund these operating payments for the entire franchise term. MATA is required under Section 5 of its contract to submit annual capital and operating business plans for City approval, related to performance of the service objectives in Section 4 of its contract. The City can terminate the MATA contract if an annual MATA Plan does not reasonably provide for one or more of the Section 4 service objectives.

Early in 2000, significant MATA financial and operational problems began to surface. After considerable public discussion during cable franchise renegotiations, the Common Council accepted a Time Warner proposal to significantly reduce the cable franchise subsidy for PEG under the new franchise. The City's annual PEG operating grants to MATA were reduced from about $700,000 under the previous franchise to $500,000 under the current franchise. Also, for the first time MATA was

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required to obtain and pay for office and studio space. Under the previous franchise, MATA shared space with Time Warner at no cost. This ended in 2000 when Time Warner moved to new headquarters and MATA had to find its own facilities.

On its own initiative, MATA undertook an ambitious $2.5 million capital project to purchase and renovate an office and studio facility at its current 24th and Clybourn Street location. This project was funded with $1.5 million in loans from U.S. Bank, the $0.8 million capital grant from City PEG funds, and MATA cash reserves. Both the City and MATA recognized the significance of these new financial challenges. Section 4.6 of the MATA contract requires MATA to *"Obtain supplemental funds from other sources, including but not limited to fundraising and revenue-generating activities."* However, MATA has not been able to obtain sufficient revenue from other sources and is now in serious financial difficulty.

In our November 30, 2001 letter to you on the MATA 2002 Business Plan we wrote, *"Despite past assurance from MATA that it will not incur budget deficits, the 2002 budget as submitted by MATA will result in a deficit that reduces cash reserves. This 2002 budget also includes new revenues for which MATA does not yet have pledges or commitments. If MATA cannot generate these new revenues it may deplete all of its cash reserves before year-end 2002."* Since that time, MATA's revenue from other sources has continued to be insufficient, resulting in continuing deficits. On May 15, 2003 U.S. Bank wrote to you stating, *"This is to inform you that as of this date the loans to MATA Community Media have been transferred to U.S. Bank's Special Assets Group...the company has had 2 consecutive years of significant losses; an inability to provide enough cash flow to cover the debt payments on an ongoing basis; a 2003 budget, though balanced on paper, which appears to be about $50,000-$100,000 short of revenue attainment with little ability to cut sufficient costs to breakeven; and the onset of late loan payments."* The 2004 MATA Business Plan states that *"MCM [MATA] has operated on a bare bones budget for two years. Still the financial situation continues to worsen...MCM has reduced its staff from 22 employees to 11 employees...2003 is expected to reflect a deficit that cannot be satisfied without assistance."*

MATA in its 2004 Business Plan requests a temporary increase in City funding, which MATA believes will solve its financial problems. MATA's preferred approach calls for the City to use PEG grant funds to fully pay the $1.3 million in outstanding delinquent U.S. Bank loans. The City would have secured interest in the MATA real estate. However, this property includes a special purpose television studio that may have limited utility and marketability. An appraisal provided by U.S. Bank states that as of January 5, 2004 the MATA real estate would have a market value of about $0.7 million if the property were vacant. Therefore, MATA's request requires the City to invest a total of $2.1 million (an additional $1.3 million now to pay off the bank loans plus the earlier $0.8 million PEG capital grant) in real estate which may have a market value as low as $0.7 million if MATA should cease operations and vacate the property. Alternatively, MATA requests an increase in annual City contract payments from $500,000 to $620,000 for the next three years. MATA states that this second option would not provide sufficient funding for a full time marketing position and would require refinancing the bank loans in 2007. A representative from U.S. Bank informed us that at this point the bank is not willing to refinance the loan on a long-term basis, due to MATA's poor financial condition. In exchange for full payment of the bank loans now, the MATA Plan calls for annual reductions in future City contract payments. The current annual payment of $500,000 a year would decrease starting in 2006, down to $300,000 a year in 2011. This MATA Plan would provide about $166,000 a year in mortgage debt service relief now in exchange for up to a $200,000 annual reduction in future years. The MATA Plan includes marketing and fundraising goals to offset these future City funding reductions. However, MATA has not generated sufficient supplemental revenues in the past, despite the City contract requirement to do so, and there is no assurance that MATA will be able to generate such revenues in the future. Providing the additional financial support now would reduce City PEG funding in future years and may only postpone MATA's financial demise.

For whatever value MATA services may or may not provide, MATA has been unable to raise funds adequate to supplement the substantial and continuing City grants it has received to date. On the contrary, in our judgment, MATA is now headed toward financial collapse. For these reasons, we recommend that the MATA request for a temporary increase in City PEG grant funding be denied. If MATA cannot continue to operate without increased City funding, the City should consider terminating the MATA contract under Sections 5 and 9 after the required notice and hearing. The City should seek to use the PEG grant funds in a cost-effective manner, so that PEG services can be provided throughout the term of the cable television franchise. Other Public and Educational Access providers may be available, or the City may be able to use the PEG grant to fund the City Government channel, which is currently funded by City tax levy. Such alternative uses for the PEG grant appear to be allowable under Section 7.d.i. of the franchise agreement between the City and Time Warner, which states that *"Such PEG Grant shall be used by the City, in its sole discretion, for PEG-related purposes in accordance with this Franchise Agreement and 47USC § 531 [federal law]."*

Very truly yours,

W. MARTIN MORICS
Comptroller

cc: Utilities & Licenses Committee
Patrick B. McDonnell, Deputy City Attorney
Vel Wiley-Hooper, MATA CEO

WMM: jtm
Ref: Mata2004Plan