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Office of the Comptroller

February 4, 2005

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

Subject: File #031356 - 2nd Amendment to
MATA Contract with the City

Mr. Leonhardt:

As you know, Common Council Resolution 031356 would amend the City's agreement with MATA Community Media, Inc. The intent is to provide MATA with an additional \$500,000 from the balance of City Public, Education and Government Access (PEG) grant funds. MATA would use this \$500,000 to pay down its \$1,400,000 loan from US Bank now in delinquent status. The amendment is also premised on restructuring MATA's current bank loan. The details of this restructuring are contained in the enclosed bank commitment letter. See Enclosure A.

In considering this proposal, our Office focused on three major objectives which we believe should form the basis for the City's continuing assistance to cable access services in Milwaukee:

1. Sustaining MATA as the City's public access service provider well into the future.
2. Providing a strong incentive for US Bank as MATA's primary lending bank ("the Bank") to maintain its active partnership with MATA while MATA strives to establish its financial viability.
3. Preserving the cable access service funds provided through the PEG grant.¹

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1. These funds were provided by cable television ratepayers through Time Warner under its cable television franchise with the City and are being held by the City in trust to assure continued PEG services through the year 2016. The existing investment of these PEG funds allow for an annual \$500,000 City grant to MATA for PEG services through 2016.

Our Office analyzed the proposal in detail, projecting MATA expenses and revenues through the year 2016. Based on this analysis, **we do not believe that the proposed refinancing supports MATA's long term viability.** In fact, this proposal removes the primary financial incentive the Bank now has to remain involved in MATA finances, leaving the City to assume the major financial risks associated with the continuation of MATA operations. Finally, the withdrawal of \$500,000 in PEG funds now materially reduces the City assistance available to MATA in future years. **Therefore, we cannot support the proposal. We recommend that MATA, the Bank and the City immediately enter into negotiations to reach a sustainable financial future for MATA and an equitable sharing of the financial risks.**

The proposed amendment does yield certain benefits. It would remove the current bank loan from delinquent status. In addition, the City's payment of \$500,000 would provide MATA with three years to revamp its operation and increase its revenue. However, the proposal does little to address the underlying, fundamental financial problems of MATA.

As Enclosure B shows, even with the City's \$500,000 loan pay down, MATA would have to increase its revenues 60 percent by 2008 to bring revenues in line with MATA expenses. By 2010 when its restructured loan comes due, MATA must have increased revenues by nearly 80 percent. In our judgment, such increases are unrealistic and for all practical purposes unachievable. When the proposed restructured loan comes due in 2010, the City will likely be the only source of repayment, as no bank will be willing to issue another loan given these large, continuing MATA financial shortfalls.

Furthermore, **City pay down of the loan by \$500,000 would substantially reduce or eliminate the major financial incentive the Bank now has for not calling in the loan, namely, the loss it would incur upon foreclosure.** The current MATA buildings are appraised at roughly \$0.7 million in value versus the \$1.4 million MATA current Bank loan balance. With the City's \$500,000 payment, the Bank loan balance is reduced to about \$0.9 million, only \$0.2 million more than the "as vacant" resale value of the MATA facilities. Hence, should MATA miss a loan payment for any reason, the bank could foreclose and expect little if any loss from resale of the foreclosed assets. **Thus the current proposal largely removes the Bank's financial risks now shared by MATA, the Bank and the City.**

The City PEG grant funds are currently invested to generate a fixed \$0.5 million a year for cable access activities through 2016. To generate the \$0.5 million now for MATA the City would need to sell PEG fund bonds and forego \$0.7 million in future fund earnings. The long term operating deficits possible under this current proposal make it more likely that MATA will request additional assistance from the City. Making large withdrawals would jeopardize the PEG fund and future public access television in Milwaukee.

Further analysis shows that **additional risk sharing by the Bank could provide a more promising future for MATA while preserving more of the City PEG**

funds to meet future years' needs. For example, should the City provide \$300,000 in assistance through its PEG grant funds now and the Bank match that amount with an additional \$300,000 loan write down along with its proposed restructuring, the loan balance would be reduced from \$1.4 million to \$0.8 million. Enclosure C shows that under this arrangement MATA would need to increase revenues by only 34 percent over the next three years (2008) compared to 60 percent under the proposed restructuring. MATA revenues would need to increase by only 45 percent by 2010 instead of 80 percent under the proposed restructuring. These revenue increases remain aggressive targets for MATA, but are more likely achievable. While only an example, this alternate suggestion highlights the need for further negotiations among the City, the lending Bank and MATA.

Should you have any questions regarding this letter, please contact me immediately.

Sincerely,


W. MARTIN MORICS
Comptroller

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

WMM: mjd/jtm
Ref: Mata2004Plan



February 1, 2005

Ms. Vel Wiley - Executive Director and CEO
MATA Community Media, Inc.
2404 West Clybourn Street
Milwaukee, WI 53233-2516

RE: MATA Community Media, Inc. - loan #1000109258-18/26

Dear Vel:

Per your request, please find the following terms and conditions that will govern the proposed extension and restructuring of the MATA Community Media, Inc. loans. Although the following are the salient points that would likely be included in the final agreement, additional terms and conditions will appear in the final document(s).

1. The maturity date of the agreement shall be March 2, 2010 (5 year maturity).
2. \$500,000 to be provided by the City will be applied to the principal balance outstanding under the facilities 18 and 26 by no later than March 31, 2005.
3. The accrued interest will be converted to principal and combined with the existing principal balance.
4. The loans will be amortized over a 20-year period (with a 5 year maturity).
5. Pricing will be Prime + 0.75% floating adjusted as Prime changes.
6. Cash Flow Coverage covenant will be waived through 12/31/04 and eliminated going forward.
7. US Bank will subordinate its position on equipment to the City.
8. There will be no prepayment penalty.
9. All costs incurred for preparation of document(s) in conjunction with this proposal and the Agreement shall be reimbursed to U.S. Bank at closing of the Agreement.
10. The Agreement shall be closed on or before March 31, 2005. If the Agreement does not close on or before March 31, 2005, this proposal will be null and void and will be withdrawn without further notice by Bank to you.

The above proposal is further subject to the approval of other Bank officers and the concurrence and/or revisions by Bank counsel.

By submitting this proposal, U.S. Bank does not waive or limit any of its rights and specifically reserves all its rights under the loan documents, including the right to proceed with legal action on the notes and mortgage.

Very truly yours,

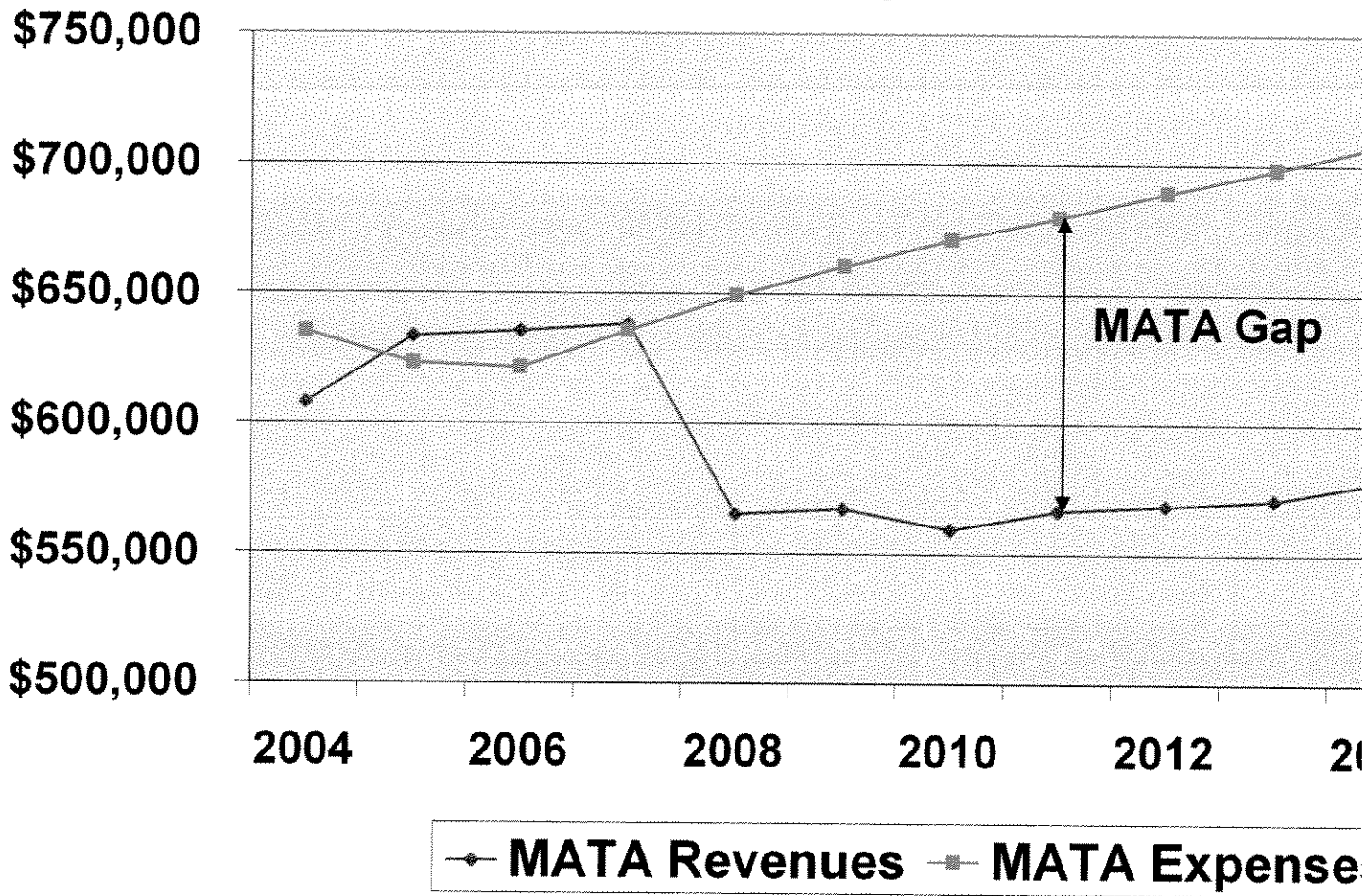
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Enclosure B

Proposed Amendment - Projected MATA Revenues-Expenses 2004-2016



Enclosure C

Alternate: \$600,000 Bank & City Split-Proj

MATA Revenues-Expenses 2004-2011

