

November 15, 2018

From: Bob Ratto, Novato

To: Novato City Council

Re: Novato Theater funding

The theater group is planning on asking the city to either co-sign or guarantee a loan of up to \$3MM on November 27. This loan would be very high risk, given the fact that the theater is not built, no realistic estimates or detailed projections are available, cash flow capacity is not demonstrated, the completed building (being special purpose) would not likely be valued by a lender at anywhere near what the theater group is contending. Remember, the old Pini building (a much larger lot) sold for essentially half of what the theater group is contending this will be worth when/if completed. No bank would ever consider loaning money to this entity absent a deep pocketed guarantor/co-signor. There are four "C's" in banking-capacity, collateral, cash flow, and character. Assuming character is a viable attribute (it may not be given lack of fund raising, but assume it is), the theater group does not have sufficient capacity, cash flow and collateral to be granted a loan. I have been in banking for 33 years and have worked on hundreds of commercial loans totaling billions of dollars, so I do have an effective understanding of bank credit requirements.

In the event the theater defaults on its obligation, the bank will demand collection of the loan from the city. The city can ill afford yet another financial debacle, given the fact it is already functioning at a structural deficit-the budget was only balanced this year through major depletion of previously healthy reserve accounts. The city is also facing ever escalating pension costs, with no real end in sight.

I don't know anyone that doesn't want this to succeed, but one really must question the viability and commitment of an entity that has not been able to effectively fund raise for several years. The lack of effective fund raising should also lead to questioning the ability of the group to manage the operation in a successful manner. Put simply, if this were such a great idea, it would already have happened. It hasn't and perhaps there is a reason why.

I am certain there will be a vocal group of supporters attending, but I encourage you to focus on the fiscal aspects and potential ramifications of what may transpire. Critical questions that need answering: are revenue assumptions realistic? are expense assumptions realistic? how much cash flow will be generated from fundraising and operations? The only thing that can repay debt is cash, nothing else.

Finally, what is somewhat difficult to digest for me is this idea of picking "winners and losers". At what point does this end? Are we at a point where anyone can set up a nonprofit, gather some like-minded folks, and go hat in hand asking for money from the City?

In conclusion, I fully understand the desire to have a viable theater downtown, but given the history and funding already committed by the city, throwing more money at this does not appear to be the highest and best use of precious city funds.

Thank you all for taking the time to read this, I know you are all very busy, and I appreciate it.

Bob Ratto