



February 03, 2011 1:00AM

**Daniel Howes**

## **Banks want DSO's \$54M loan repaid**



The Detroit Symphony Orchestra has a bigger problem than the 18-week-old strike that has marred the classical music season, alienated donors and disappointed subscribers.

The orchestra's lenders, in an ominous turn, repaid the orchestra's bondholders on Dec. 1 and called a \$54 million loan the symphony cannot pay. The move essentially sets up a high-stakes game of chicken between the orchestra's directors, the musicians and the lenders, who aren't likely to renegotiate the loans without a realistic labor agreement and an aggressive turnaround plan.

"This thing is at a tipping point and if we don't get it back quick, it's gone," a ranking banker close to the situation said Wednesday. "It's a sad situation. But somebody miscalculated badly. The labor situation is part of an overall restructuring that the banks want to see put in place."

The transaction, completed by a five-bank consortium that includes JPMorgan Chase, Comerica and Bank of America, exchanges bonds set to mature in 2030 for debt controlled directly by the banks. The change moves the DSO one large step closer to a bankruptcy filing with existential implications for the organization, the musicians, the management and the future of world-class music in Metro Detroit.

"We're close to the edge here — we're not over the edge — as a result of these actions," DSO President Anne Parsons said in an interview. "We're not going to give the banks a deal we can't afford, and we're not going to give the players a deal we can't afford."

Said Hayden McKay, a DSO cellist and spokesman for the Detroit Federation of Musicians: "Ever since the DSO went into violation of the two (bond) covenants, we've been at the mercy of the banks. That's been the situation for at least a year. I'm not minimizing the problems; the problems are there."

And not just for the DSO and its musicians. How would it play, he suggested, for banks that benefited from taxpayer bailouts and reaped record bonuses to move to shut down a venerable Detroit institution? Fair point, PR-wise, even if the banks may be sitting on solid business ground.

Still, both sides — management and union — are running out of time in a sickening replay of the good ol' Detroit denial-and-delay game that pushed two of its three automakers into bankruptcy, forced their unions to make historic concessions to put the companies back on a sustainable path and administered a big dose of humility.

The symphony saga isn't much different, in form at least. Wednesday, the DSO's directors said in a statement that management was preparing another contract offer to the striking musicians — perhaps a final one before a self-imposed deadline of next Friday to decide whether to cancel the remaining season.

That could change, of course. But what's becoming increasingly clear is that neither side is willing to reckon with the fundamental changes occurring beneath their collective feet. They're operating in a market that is demonstrably poorer, as official government numbers and studies confirm, repeatedly.

Sound familiar, kinda like Detroit's automakers circa 2004 or so? Too much debt and too few paying customers mixed with an out-of-touch union that didn't believe the numbers and management-board cliques still operating as if their companies ruled the world — except they didn't get the joke being told at their expense.

We know what happened to them because we lived it and so did the DSO's management, board and musicians, all of whom saw corporate donors slowly swallowed by the unraveling now spinning inexorably toward Orchestra Hall. The only question is how much damage it will do when it finally arrives.

Major corporate donors are either out of the philanthropy game or getting back in with a bias toward education, children and the hungry. The strike is alienating well-heeled donors who spent time and money to fund a renovation of Orchestra Hall and subscribers are canceling. Will they come back?

Depends, and anyone who says with certainty that they will — DSO management or its musicians — hasn't experienced the devastating effect a long, ugly and public labor dispute can have on the attitudes and habits of paying customers. Give them long enough to go elsewhere and they may never return.

That's why the latest promise of yet another offer to the musicians walks by a far more important point: None of these offers from either side puts the DSO as it exists today in the retrenched Michigan economy on a solid path to sustainability.

In the interview, Parsons acknowledged that the orchestra's last offer to the musicians would leave the DSO a few million dollars in the hole. And that's assuming the bank debt could be renegotiated and the DSO staff could raise an average of \$12 million to \$13 million a year from donors over the next several years.

The DSO's annual fund has raised \$12 million or more in just three of the past 10 years, according to orchestra records — '06, '07 and '09. Average the decade out, and the annualized haul comes to \$11.4 million, probably not the best predictor of success for a tarnished DSO's fund-raising efforts around here.

And then there's the bank debt, a big bankruptcy trigger. Because the DSO's assets are comparatively limited aside from the value of musicians who actually are playing, the banks' interests are focused on the ability of management, the musicians and the DSO's board to craft a workout plan that has a credible shot at paying the musicians so the organization can repay the renegotiated debt.

Without a credible plan, they could move aggressively to demand repayment outside bankruptcy, which likely would push the DSO into federal court, where a judge

would oversee renegotiation of debts, labor agreements and possible rejection of pension liabilities.

In other words, a bad situation becomes even worse because the losses could grow even larger than they already are. That, too, should sound familiar to anyone who paid attention to the Detroit auto implosion.

**"What you have now is everyone has kind of failed and the longer it stays shut down ... you increase the probability of it never reopening," said Van Conway, CEO of Conway Mackenzie, a Birmingham-based corporate restructuring firm retained by the banks to study the DSO predicament. "The union, management, the banks and the donors have to come to a global resolution."**

Otherwise, they're all in big trouble.

*dchowes@detnews.com*