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☛ Details: Documents related to the audit and potential sale of the Milwaukee Brewers Baseball Club

(FORM UPDATED: 08/11/2010)

## WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

### 2003-04

(session year)

### Joint

(Assembly, Senate or Joint)

### Committee on Audit...

### COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

### INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)  
(**ab** = Assembly Bill)                      (**ar** = Assembly Resolution)                      (**ajr** = Assembly Joint Resolution)  
(**sb** = Senate Bill)                              (**sr** = Senate Resolution)                              (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

September 13, 1995

TO: Members  
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: September 1995 Special Session Assembly Bill 1: Milwaukee Brewers Stadium Funding Proposal

This memorandum provides information relating to the proposed legislation to finance a new stadium for the Milwaukee Brewers. The first section of this memorandum provides a summary of September 1995 Special Session Assembly Bill 1 (AB 1). The bill would create a District in Milwaukee and Waukesha counties, give the District the authority to issue bonds and impose taxes, increase current WHEDA authority to make a loan to the Brewers, make a state moral obligation pledge for stadium-related bonds, provide funding for highway-related infrastructure, create tax exemptions and provide state assistance for the District.

The second section of this memorandum provides a summary of the memorandum of understanding (MOU) signed by the State of Wisconsin, Milwaukee County, City of Milwaukee and the Brewers. The MOU lays the groundwork for agreements between these parties and the design, construction, operation and maintenance responsibilities of the stadium. However, the provisions of the MOU represent a preliminary understanding between the parties and are not binding. The MOU itself specifies that it is only an expression of intent regarding the stadium project and that no liabilities or obligations are created.

The final section of this memorandum relates to the fiscal effect of the bill. This section includes a discussion of the state moral obligation pledge, estimated revenues from the proposed taxes, state expenditures for infrastructure costs, tax exemption provisions and administrative costs. In addition, information is presented on possible revenue options for the District that a number of legislators have asked about.

## SUMMARY OF BILL

### Creation of Local Professional Baseball Park Districts

The bill would create a special district that would have as part of its name the phrase "Professional Baseball Park District" (District). This District would be a local unit of government, a body corporate and politic, that would be separate, distinct and independent from the state.

**Public Purpose.** AB 1 would specify that the Legislature determines that having state agencies provide assistance to a District, any appropriation of funds to a District and the pledge of a state moral obligation for a Districts' bonds would serve a statewide public purpose. The statewide public purpose served would be assisting in the development of a professional baseball park that would provide recreation, encouraging economic development and tourism, reducing unemployment and bringing needed capital into the state for the benefit and welfare of the residents of the state. Under the bill, the Legislature would determine that taxes imposed by a District are special taxes generated apart from any direct annual tax on taxable property.

### Organization of a District

**Jurisdiction of District.** A District would be made up of a county with a population of more than 500,000 (Milwaukee County) and the most populous county that is contiguous to that county (Waukesha County), unless that county is already part of a baseball district. Once a county is included as part of a District, that county could not leave until it is dissolved. The bill is drafted in these general terms to conform with a constitutional prohibition on special or private laws relating to the assessment of taxes.

**Composition of Board of Directors.** A District would be governed by its board. The board could adopt bylaws to govern its activities, subject to law. The District board would consist of seven members, whose appointment would have to be certified to the Secretary of the Department of Administration (DOA). The board could exercise its powers and duties once the majority of the members have been appointed. The board would name the District at its first meeting. The members would be appointed as follows:

- a. Four persons appointed by the Governor, at least two of whom must reside within the District.
- b. One person appointed by the county executive of the most populous county in the District (Milwaukee County);
- c. One person appointed by the county executive of the less populous county (Waukesha County);
- d. One person appointed by the mayor of the most populous city within the District (City of Milwaukee);

If a county does not have a county executive, the county appointments would be made by the chairperson of the county board of supervisors. In Districts that are made up of a single county, the county executive would appoint two persons to the board.

**Terms of Office.** The board members would serve four-year terms, except that the initial appointees' terms would expire on July 1st of the fourth year beginning after creation of a District. Board members could be removed prior to the end of their term by the appointing authority only for cause, as determined by law. Vacancies would be filled by that position's appointing authority. Persons appointed to fill vacancies would serve the remainder of the term for which appointed.

**Applicability of State Code of Ethics.** Under current law, all positions to which the Governor regularly appoints the individual are considered a state public office for purposes of the state code of ethics, except trustees of a private higher educational institution receiving state monies. AB 1 would create a specific exemption from this provision for gubernatorial appointees to the board of a District. Since the District would be considered a unit of local government, these board members would be considered local public officials and would be subject to the current code of ethics for local government officials.

**Structure of Board and Expenses.** The board would elect from its membership a chairperson, a vice chairperson, a secretary and a treasurer. A majority of the current membership would constitute a quorum. The District could take action based on the affirmative vote of a majority of those present.

The members of the board would be reimbursed for their actual and necessary expenses incurred in the performance of their duties.

**Budgets; Rate and Charges; Audit.** The bill would require the board to prepare annual budgets for the District. The rates and other charges received by the District would be used for general expenses, capital expenditures, interest, amortization and retirement charges on bonds. The District would be required to: (a) adopt a calendar year as its fiscal year for accounting purposes; (b) maintain an accounting system in accordance with generally accepted accounting principles; and (c) have its financial statements and debt covenants audited annually by an independent certified public accountant.

Under current law, the Legislative Audit Bureau can audit any public body corporate and politic created by the Legislature. This provision would apply to the District.

**Assistance by State Agencies.** All state agencies could provide assistance to a District if it has entered into a lease agreement with DOA.

### **Powers of a District**

The bill would provide that a District would have all of the powers necessary or convenient to carry out the purposes and provisions of the law creating the District. In addition, the following specified powers would be granted to the District:

1. Issue revenue bonds and enter into agreements related to the issuance of bonds, including liquidity and credit facilities, remarketing agreements, insurance policies, guaranty agreements, letter of credit or reimbursement agreements, indexing agreements, interest exchange agreements and currency exchange agreements.
2. Impose a local sales tax and a local room tax by the adoption of a resolution. If a District adopts a resolution that imposes taxes, it would have to deliver a certified copy to the Secretary of the Department of Revenue at least 30 days before its effective date.
3. Do the following in connection with baseball park facilities:
  - a. Acquire, construct, equip, maintain, improve, operate and manage baseball park facilities as a revenue-generating enterprise or engage other persons to do these activities.
  - b. Acquire, lease, use or transfer property.
  - c. Improve real property.
  - d. Enter into contracts, subject to standards established by the board. The board may award contracts for any combination or division of work it designates and may consider any factors in awarding a contract, including price, time for completion of work and qualifications and past performance of a contractor.
  - e. Grant concessions.
  - f. Make a grant of land or other property especially dedicated for a professional baseball park to the state.
4. Adopt and alter an official seal.
5. Sue and be sued in its own name, plead and be impleaded.
6. Maintain an office.
7. Employ personnel, fix and regulate their compensation and provide any employee benefits, including an employee pension plan, either directly or subject to an agreement with another governmental entity.
8. Purchase insurance, establish and administer a plan of self-insurance or, subject to an agreement with another governmental entity, participate in a governmental plan of insurance or self-insurance.
9. Mortgage, pledge or otherwise encumber District property or funds.
10. Invest funds in any investment the board considers appropriate.
11. Promote, advertise and publicize its baseball park facility and related activities.
12. Set standards governing the use of, and conduct within, its facility in order to promote public safety and convenience and to maintain order.

13. Establish and collect fees, and establish shared revenue arrangements or other charges for the use of the facility or for services rendered by the District.

14. Enter into partnerships, joint ventures, common ownership or other arrangements with other persons to further the District's purposes.

15. Accept gifts, loans and other aid.

16. Administer the receipt of revenues and oversee the payment of bonds issued by the District.

### **Powers of a City or County in a District**

The bill would specifically grant the following powers to cities or counties within a District's jurisdiction in addition to existing powers (a technical correction would be needed to accomplish the intent of this provision):

1. Make grants or loans to a District upon terms considered appropriate by the city or county.

2. Expend public funds to subsidize a District.

3. Borrow money for baseball park facilities or to fund grants, loans or subsidies to a District.

4. Grant land or other property to the state, especially dedicated by the grant for a professional baseball park.

### **Dissolution of a District**

A District could be dissolved by action of the District's board, subject to providing for the payment of its bonds, including interest, and the performance of its other contractual obligations. The property of the District would be transferred to the counties in the jurisdiction based on the tax revenues derived from each county, as determined by the Secretary of Administration.

### **Taxation by a District**

**Room Tax.** The bill would allow a District to impose a room tax of up to 1% of total room charges that applies within the District's jurisdiction, upon adoption of a resolution. The resolution would be effective on the first day of the first month that begins at least 30 days after adoption. The room tax would be imposed on the privilege of furnishing, at retail (except sales for resale), rooms or lodging to transients by hotels, motels or other persons furnishing accommodations that are available to the public, regardless of whether membership is required.

Under the bill, the room tax would be discontinued after the calendar quarter during which the District's bonds issued during the first 60 months after the effective date of the bill and all debt issued to refund those bonds are retired. The tax would also be discontinued after two years if bonds have not been issued during that time. DOR would be allowed to collect room taxes that accrued before the final calendar quarter or before the end of the two-year period, including interest and penalties that relate to those taxes.

Persons subject to this room tax, or persons authorized to act on their behalf, would be required to register with DOR. Any person who fails to do so would be guilty of a misdemeanor. In order to enforce the collection of the tax, the District would be able to exchange audit and other information with DOR and would be able to take actions to collect the tax under current law provisions governing the room tax. The District would be held to the same confidentiality laws relating to room tax information as municipalities that impose a room tax.

**Sales Tax.** The bill would allow a District, upon adoption of a resolution, to impose a sales and use tax of up to 0.1% of gross receipts or sales price that applies within the District's jurisdiction. The resolution would be effective on the first day of the first month that begins at least 30 days after adoption. The sales tax imposition, jurisdiction, reporting, transition and motor vehicle registration provisions that currently apply to the county sales tax would also apply to the District's 0.1% tax.

Under current law, retailers are allowed to retain 0.5% of monthly sales tax collections as compensation for administrative costs. The retailer's discount for the District's purposes would be determined by multiplying the total retailer's discount by the fraction of the gross District's sales and use taxes payable (numerator) over the sum of the gross state and District sales and use taxes payable (denominator).

DOR would indicate the sales taxes reported by each taxpayer at the time of distribution. A District would be subject to the duties of confidentiality to which DOR is subject to under law.

**Tax Administration.** The Department of Revenue would administer the room and sales taxes on behalf of the District and would have the powers necessary to levy, enforce and collect the taxes as under current law for the county sales tax. Under these provisions, DOR could take any action, conduct proceedings and impose interest and penalties. Judicial and administrative review of DOR determinations would also be provided for. An appropriation would be created to receive monies generated from the District's taxes.

For the first two years, DOR would distribute 97% of the taxes to the District. The room tax distribution would be based on the taxes collected and would be distributed no later than the end of the month following the end of the calendar quarter. The sales tax would be based on taxes reported and would be distributed no later than the end of the third month following the end of the calendar quarter. The distribution rate would increase to 98.5% after two years. The distribution would be adjusted to reflect subsequent refunds, audits or other adjustments and for the retailer's sales tax discount. Interest paid on refunds would be made from the DOR appropriation at the 9% rate utilized for other sales tax refunds. After distributions are made, the remaining amount (3% in

the first two years and 1.5% thereafter) would be transferred to a DOR appropriation for administrative purposes.

**Special Fund for Tax Revenues.** The board would be required to maintain a special fund for the deposit of local sales tax revenues distributed by DOR. This revenue could only be used for purposes related to baseball park facilities.

### **Minority Contracting Goals**

Under AB 1, a District would be directed to attempt to ensure that 15% of the total amount expended for the initial construction of baseball park facilities is paid to minority businesses, as defined under law.

### **Bonding**

**Issuance of Bonds.** Under the bill, the bonds issued by the District would be negotiable for all purposes, even though they would be paid from a limited source. The District could retain the state Building Commission or other financial consultants to assist with and coordinate the issuance of bonds. The Commission would be authorized to serve as a financial consultant to assist and coordinate in the issuance of the District's bonds. Board members and others executing the bonds would not be personally liable or accountable for the bonds, unless the personal liability would be a result of wilful misconduct.

**Designation of Special Debt Service Reserve Funds.** A District could create special debt service reserve funds by designating one or more accounts that would be used for amounts set aside for the payment of principal and interest and for the creation and maintenance of any required reserves. This reserve could only be created if, prior to each bond issue, the Secretary of Administration would determine that all of the following conditions would be met with respect to the bonds:

*Purpose.* The bond proceeds, other than refunding bonds, would be used for baseball park facilities.

*Feasibility.* The bond proceeds, other than refunding bonds, would be used for feasible projects. There would have to be a reasonable likelihood that the bonds would be repaid without the necessity of drawing on funds in the reserve fund that secures the bonds. This likelihood would be determined by the Secretary of Administration after considering all of the following:

1. Whether a pledge of the District's tax revenues is made under the bond resolution.
2. How the District's tax revenues are pledged to the payment of the bonds.
3. Revenue projections for the project to be financed by the bonds, including tax revenues, and the reasonableness of the assumptions on which these revenue projections are based.



4. The proposed interest rates of the bonds and the resulting cash-flow requirements.
5. The projected ratio of annual tax revenues to annual debt service of the District, taking into account capitalized interest.
6. Whether an understanding exists providing for repayment by the District to the state of all amounts appropriated to the reserve fund and whether the District has agreed to provide DOA with all financial reports and regular monthly statements of any trustee of the bonds on a direct and ongoing basis.
7. Whether the District has agreed that DOA would have direct and immediate access, at any time and without notice, to all records of the District.

*Limit on bonds issued.* The amount of all bonds, other than refunding bonds, that would be secured by all special debt service reserve funds could not exceed \$160 million. In determining compliance with this limitation, the Secretary of Administration could exclude bonds that are secured by a special debt service reserve fund to the extent that proceeds of the bonds are for the following purposes:

1. To make deposits into a special debt service reserve fund.
2. To pay issuance costs of bonds secured by the fund.
3. To pay capitalized interest costs on bonds secured by a special debt service reserve fund.
4. To pay any original issue discount.

*Date of issuance.* The bonds, other than refunding bonds, would have to be issued no later than December 31, 2000.

*Refunding bonds.* All refunding bonds secured by a special debt service reserve fund would have to meet all of the following conditions:

1. The refunding bonds would be issued to fund, refund or advance refund bonds secured by the reserve.
2. The refunding of bonds would not adversely affect the risk that the state would be called on to make a payment under its moral obligation pledge.

*Approval of outstanding debt.* All outstanding debt of the District would have to be reviewed and approved by the Secretary of Administration. In making this determination, the Secretary could consider any factor that would have a bearing on whether the state moral obligation pledge should be granted.

Payment of Funds Into a Special Debt Service Reserve Fund. The District would pay into the reserve fund any monies provided by the state for the purpose of the fund, any proceeds of a sale of bonds as specified in the bond resolution and any other monies made available to the District for this purpose from any other source.

Use of Monies in the Special Debt Service Reserve Fund. The monies held in the reserve fund would be used solely for payment of the principal, interest or sinking fund payments on the bonds, or for the purchase, redemption or redemption premiums of the bonds, unless otherwise specifically provided. The District would be unable to use the fund for any optional purchase or redemption of bonds if the fund balance were to drop below the amount required in the bond resolution. The bill would permit interest earned in the reserve funds to be transferred to other funds or accounts of the District as long as the transfer would not reduce the fund balance below the reserve fund requirement.

Limitation on Bonds Secured by a Special Debt Service Reserve Fund. The bill would require the District to maintain a fund balance in the reserve fund that would equal an amount stated for that purpose in the bond resolution. Additional bonds secured by this reserve fund could not be issued if the amount of reserve funds would be less than the required reserve amount.

Special Debt Service Reserve Fund Requirement. The reserve fund requirement, as of any particular date, would equal the amount provided in the bond resolution, such that it may not exceed the maximum annual debt service on the bonds for that or any future fiscal year. Bonds deemed to have been paid would not be included in bonds outstanding when computing annual debt service. The annual debt service would equal all principal, interest and specified sinking fund payments (based on the assumption that the bonds would cease to be outstanding by reason of the payment of the bonds when due and all of the sinking fund payments payable at the date of computation).

Valuation of Securities in Special Debt Service Reserve Fund. The securities in which the reserve fund is invested would be valued periodically at their fair market value when determining the amount of a reserve fund.

**State Moral Obligation Pledge.** The bill would provide that if the value of the special debt service reserve fund were to drop below the bond resolution requirement, the District board would certify to the Secretary of Administration, the Governor, the Joint Committee on Finance and the governing body of each county in the District the amount necessary to restore the reserve fund to the required amount. The Secretary would be required to include the certified amount in the budget compilation if the certification was received in an even numbered year prior to the completion of the budget compilation. In any case, the Committee would be required to introduce a bill in either house appropriating the certified amount to the appropriate reserve fund of the District. AB 1 would specify that the Legislature recognizes a moral obligation to make this appropriation, and expresses its expectation and aspiration that if ever called upon to do so, it would make this appropriation.

**Bonds Not Public Debt.** The bill would provide that the state and the counties in the District would not be liable for the bonds issued by the District and that the debt would not be debt of the state or the counties. All bonds would have to state this on their face. A bond issue would not directly or indirectly obligate the state or political subdivision to levy a tax or make an appropriation for payment of the bonds. The District could not create a debt of the state or counties nor would the state or counties be liable for the payment of principal or interest or for the performance of any pledge, mortgage, obligation or agreement undertaken by a District. A breach

of any obligation by the District would not impose pecuniary liability on the state or counties or a charge upon their general credit or against their taxing power.

Bonds issued by a District would be secured only by the District's interest in any baseball park facilities, including interest in a lease with DOA; income of these facilities; proceeds of bonds issued by the District and other amounts placed in a special redemption fund and investment earnings on those amounts; and taxes imposed by the District. The District could not pledge its full faith and credit on the bonds; the bonds would not be a liability of the District.

**State Pledge.** The bill would require the state to pledge to the bondholders and persons that enter into contracts with the District that the state would not limit or alter the powers of the District before it had paid its bonds or had performed its contracts, unless adequate protection for those adversely affected was provided by law.

**Trust Funds.** The bill would specify that bond proceeds or other monies would be considered trust funds. Officers or bank and trust companies with which monies would be deposited would be required to act as trustees, holding and applying the funds to the purposes of the District and the bond resolution.

**District Bonds Would Be Legal Investments.** AB 1 would authorize the following persons or governmental units or funds to invest in bonds issued by a District: (a) the Board of Commissioners of Public Lands; (b) the State Investment Board; (c) any county, city, village, town, school district, drainage district, technical college district and governing boards of other governmental entities; and (d) a bank, trust company, savings bank or institution, savings and loan association, credit union or investment company or a personal representative, guardian, trustee or other fiduciary.

### Other Provisions

**Exemption from Landlord and Tenant Law.** The bill would specify that current statutory provisions governing legal remedies in case of a default in a long-term lease would not apply to a lease to which a District is a party.

**Local Government Investment Pool.** AB 1 would provide that the District could invest its monies in the local government investment pool that is managed by the Investment Board.

### Current Municipal Law that Would Apply to a District

The bill would make the following modifications to current municipal law to reflect the creation of the District as a local unit of government:

- 1.A District would be defined as a municipality as it relates to revenue obligations and intergovernmental cooperation.

2. Revenues would be defined, as they relate to a District, to include tax revenues deposited into a special fund and special debt service reserve fund created under this bill.
3. Revenue bonds issued by a District would be subject to issuance and negotiability of bonds and assistance by state agencies provisions.

**Public Works Projects.** For financing purposes, local professional baseball park facilities would be considered a public utility for municipal public work projects. This bill provision is included in part to address a constitutional requirement that debt of a municipal corporation be paid off with property taxes within 20 years; a borrowing for construction of a public utility is not considered debt for purposes of this constitutional provision.

### **Surplus Land Sale Approval**

Under current law, if the Building Commission proposes the transfer or sale of surplus land with a value exceeding \$20,000, it must notify the Joint Committee on Finance, which has 14 working days to decide whether to review the transfer or sale. AB 1 would specify that the Building Commission could sell or transfer surplus land to a District without notification or approval of the Joint Committee on Finance.

### **Powers and Duties of the State Department of Administration**

**Loan to a District.** AB 1 would provide that DOA would be required to make a loan to any District, upon request of the District, for initial operating costs. The Secretary of Administration would specify the terms and conditions of the loan, except that the loan would have to be repaid by June 30, 1997. AB 1 would provide \$300,000 GPR in 1995-96 in a biennial appropriation created for this purpose to fund a loan to any District. No monies could be encumbered from this appropriation after June 30, 1997. AB 1 would repeal the DOA loan requirement and the appropriation for that purpose on July 1, 1997.

**Grant of Land or Property.** AB 1 would provide that the Department of Administration could accept a grant of land or property to the state for a professional baseball park. The bill would specify that upon acceptance the grant would be valid and the Department would be required to enforce the terms of the grant.

**General Services.** The bill would authorize DOA to provide services to a District if the District has entered into an agreement with the state for the lease of land or other property that is granted to the state for use as a professional baseball park. DOA would be given authority to enter into such a lease agreement with a District. The District and DOA would be required to set the compensation to be provided to DOA for any services provided to the district.

**State Purchasing Provisions.** The bill would provide that no order or contract for the provision of any services provided under this statutory authorization would be subject to the state purchasing provisions relating to requirements for buying on low bid and exceptions to that requirement, purchases from minority businesses, small businesses and veteran-owned businesses,

purchases from state institutions and prison industries, the furnishing of sureties by contractors, the purchase of materials that include recycled or recovered materials, the recyclability of materials purchased and the purchase of fuels produced in this state. It would also exempt the provision of such services from requirements relating to procurements from work centers for severely handicapped individuals, preference for American-made materials and inclusion of nondiscrimination provisions in state contracts.

**Building Construction Services.** In addition to the general authorization that would be created for the provision of services to a District, the bill would also provide specific authorization for DOA to take charge of and supervise engineering or architectural services or construction for a District if there is a lease agreement for land or other property for use as a professional baseball park. The District and DOA would determine compensation for the services provided. DOA would be authorized to provide engineering, architectural, project management and other building construction services upon the presentation of requisitions for such services to DOA by the District. Further, DOA would be authorized to assist the District in letting contracts for engineering, architectural or construction work and in supervising the work done under such contracts.

The bill would further exempt any services provided or contracted by DOA for building construction services from the specific purchasing requirements provided under the statutes for engineering and architectural services and construction work relating to purchase on low bid, procedures for sole source procurement and use of recycled and recovered materials. However, in the awarding of any contracts under this authorization for the initial construction of baseball park facilities, DOA would be required to attempt to ensure that at least 15% of the total amounts expended in each fiscal year for such purposes is awarded to minority businesses.

**Appropriation Purpose Changes.** In connection with the changes provided above, the bill would expand the expenditure purposes for two existing program revenue appropriations. First, the purpose of a general PR appropriation that finances the provision of materials and services to other state agencies would be expanded to allow the appropriation to also be used for the provision of materials and services to professional baseball park districts. Second, the PR appropriation for the provision by DOA to other state agencies of capital planning and building construction services would be expanded to also allow the provision of such services to professional baseball districts.

**Funding.** The bill would increase the DOA appropriation for capital planning and building construction services by \$336,200 PR in 1995-96 and \$790,100 PR in 1996-97.

### **Stadium Related Highway Rehabilitation Funding**

**DOT Funding.** Because no budget has been established for the Department of Transportation in the 1995-97 biennium, AB 1 would appropriate \$211,103,700 SEG in 1995-96 and \$220,103,700 SEG in 1996-97 for state highway rehabilitation, which would represent an increase of \$3 million in 1995-96 and \$12 million in 1996-97 from the adjusted base level of funding. The bill would specify that these funding amounts would not apply if the Legislature establishes a 1995-97 budget for the Department of Transportation prior to the effective date of AB

1. The bill would provide that DOT could not expend more than \$3 million of these monies in 1995-96 and \$12 million in 1996-97 for state highway rehabilitation associated with a new stadium to be used by the Milwaukee Brewers.

### **State Tax Treatment of the District and its Bonds**

**Tax Status of a District.** A District would be exempt from the state corporate income and franchise tax.

**Bond Interest Paid by a District.** Interest received on bonds or notes issued by a District would be exempt from the state individual income tax. In addition, interest and income received from obligations issued by a District would be exempt from the state corporate income tax and the state tax on insurance companies.

### **WHEDA Economic Development Loan for Sports Stadium**

**Background of WHEDA Loan.** Under 1991 Wisconsin Act 37, the Wisconsin Housing and Economic Development Authority (WHEDA) was authorized to issue revenue bonds to finance an economic development project involving property to be used primarily as a sports and entertainment home stadium. Act 37 provided that WHEDA could issue up to \$35,000,000 in bonds and notes, plus any additional amounts needed to establish a capital reserve fund if WHEDA chooses to establish such a fund. Act 37 also provided that interest paid on these bonds is exempt from the state individual and corporate income taxes.

Under the current statutory authorization for establishment of a capital reserve fund, WHEDA would include provisions in the bond issuance for such monies as determined necessary by the underwriters to create a capital reserve fund if WHEDA elects to establish such a fund. The general statute governing WHEDA capital reserve funds provides that WHEDA is to accumulate in each capital reserve fund that is created an amount equal to the reserve requirement established for the specific fund. Further, the statute provides that if at any time the amount of monies in the fund are less than the capital reserve requirement established for the fund, the Chairperson of the WHEDA Board must certify to the Secretary of DOA, the Governor and the Joint Committee on Finance the amount of funds required to meet the capital reserve requirement established for the fund. The Joint Committee on Finance is then required to introduce a bill providing for the appropriation to WHEDA of the required funds. Finally, the current statute specifies the Legislature's expression of its moral obligation to provide such an appropriation if ever called upon to do so.

**WHEDA Loan Provisions Under AB 1.** Under the bill, WHEDA's authority to issue bonds and notes for such a project would be increased from an aggregate principal amount of \$35 million to \$50 million, plus any additional amounts that may be required if a capital reserve fund is established. In addition, the bill would make two changes to the existing statutes related to loans for this purpose. First, it would specify that any bonds or notes issued for this purpose would not be counted against the \$200 million bond authority that WHEDA is provided for its general economic

development loan program if the stadium bonds are secured by a capital reserve fund. Second, the bill would provide that bonds issued for this purpose, in addition to providing revenues for the loan and any capital reserve fund, could be used to provide funds for the costs of issuing the bonds and to pay capitalized interest on the bonds.

## **SUMMARY OF MEMORANDUM OF UNDERSTANDING**

This section provides a summary of the memorandum of understanding (MOU) signed by representatives of the State of Wisconsin, Milwaukee County, City of Milwaukee and the Brewers. The provisions of the MOU are a preliminary understanding between the parties and are not binding. The language of the MOU itself specifies that it is only an expression of intent regarding the stadium project and that no liabilities or obligations are created. No party may claim any legal rights against any other party by reason of the MOU or the taking or omission of any action in reliance on the MOU. The understandings presented in the MOU would have to be incorporated into a final series of binding agreements between these parties. Only the provisions of AB 1 are before the Legislature and subject to legislative approval.

### **Stadium Description**

If approved, the proposed Milwaukee Brewers stadium is expected to be completed by March 1, 1999. It would be designed to accommodate professional baseball games only (the stadium would not be designed to accommodate football). Features of the stadium include a natural grass playing field and a convertible roof. It would be approximately 1.3 million square feet in size with 42,500 seats, including 3,000 club seats and seating in approximately 75 suites.

### **Proposed Stadium Site**

The proposed stadium would be located at the site of the existing Milwaukee County Stadium. The land required for the project also includes a portion of US Highway 41 and an adjacent area of land east of the highway.

County Stadium is presently owned by the county. It would be transferred to the District by January 1, 1996, including all rights, titles and interests in the site. The conveyance would be a grant conditioned upon use consistent with the lease/management agreement between the District and the Brewers. The quit claim deed may provide for a reversion of the current site back to the county after retirement of the tax-exempt bonds, the expiration of the lease agreement or early termination of the lease agreement if the conditions are not satisfied.

The adjacent land is partially owned by the state and partially owned by CMC, which is a private company. In order to provide additional parking, the intent is that the state, local governments and the Brewers would work to persuade CMC to transfer all or a portion of their land to the state in exchange for all or a portion of the state's land, without payment or further consideration. However, the MOU specifically acknowledges that there is no assurance that CMC would be willing to engage in the transaction.

### **Stadium Construction Financing**



The MOU states that the stadium would cost a maximum of \$250 million (not including infrastructure costs). This consists of the following components: \$125 million for the structure; \$60 million for the convertible roof; \$15 million for concession buildouts; \$25 million for equipment and scoreboards; and \$25 million in additional soft costs, such as architectural and engineering fees. Although it is indicated that the component costs may vary, the maximum cost would be constrained to \$250 million. If the cost of the project is less than the maximum, the remaining funds would be distributed to the Brewers and the District based on the share of contribution.

**District Contribution – Public Funding.** The District's share of costs would be \$160 million, which would be deposited into a project construction fund. The District's contribution would be derived from the District's tax revenues, issuance of tax-exempt revenue bonds, interest earnings on the project construction fund and other unspecified revenues. The debt service on the bonds would be paid with local tax revenues. The state, District and Brewers may have to enter into various agreements in order for the bonds to qualify for tax-exempt status.

**Milwaukee Brewers Contribution.** The Brewers would contribute \$90 million for construction costs, which would be deposited into a project construction fund. Of that amount, \$50 million would be obtained from a loan from the Wisconsin Housing and Economic Development Authority (WHEDA). The remaining \$40 million would come from the Brewers' own revenues or approved creditworthy sources. The Brewers' contribution would be made in accordance with a financing schedule to be agreed upon by the District and the Brewers prior to employment of any design professionals and contractors for the project.

WHEDA Loan. The WHEDA loan would be funded with the proceeds of a federally taxable bond issue by WHEDA. The bond issue would include a 12-month debt service reserve fund, the interest earnings of which would first be applied to replenish any reserve fund deficiencies, before being used to diminish the Brewers loan repayment. In addition, the reserve fund would be covered by the existing statement that the Legislature recognizes its moral obligation to appropriate funds to make up any deficiency in the reserve fund.

The actual bond issue would be between \$56 and \$60 million in order to cover all related costs of issuance, funding a debt service reserve fund and construction period capitalized interest. The loan proceeds would be provided by WHEDA in a timely manner according to agreed upon financing schedules and prior to the employment of contractors. The Brewers payment of the loan would be sufficient to fully repay the entire amount of the bond issue.

The WHEDA loan would amortize over 30 years on a level debt service basis beginning no later than October 31, 1999, unless construction delays postpone occupancy until the spring of 2000. The effective interest rate applicable to the WHEDA loan would be determined by the market interest rates at the time of bond issuance. The bonds would include provisions for early retirement of the bonds.

**Administration of Funds.** A project construction fund would be established by the District to administer Brewer and District contributions for the project. A project financing schedule would be agreed upon by the District and the Brewers. It is anticipated that the District would deposit the

first \$140 million, the Brewers the next \$90 million and the District the remaining \$20 million. Payments to contractors from the fund would be made by DOA on behalf of the District at the approval of the project manager. If a required payment is not made to the fund, the other party has the option to make the payment with the understanding of being reimbursed by the defaulting party.

### **Stadium Infrastructure**

In order to prepare the site for the proposed stadium, infrastructure improvements would need to be made. The infrastructure costs would be limited to \$72 million, not including the cost of redesigning and reconstructing the east-west corridor and the Mitchell Street interchange. The infrastructure costs include highway improvements to the stadium interchange and US Highway 41, site and pad improvements, deep pile foundations, environmental remediation, methane gas venting, parking, landscaping and related work and facilities. The state, using monies from the Department of Transportation, would fund \$36 million of infrastructure costs as follows: \$17.5 million in highway construction; \$500,000 for utility relocation; \$7.5 million for utility siting; \$5.0 million for right-of-way and relocation costs; and \$5.5 million in hazardous material remediation. Milwaukee County and City would share equally in the remaining \$36.0 million in costs: \$4.0 million for pad improvements; \$27 million for parking; \$3.5 million for the removal of the existing stadium; and \$1.5 million for hazardous material remediation. Infrastructure costs would be funded by the state, county and city either through cash or in-kind services.

It is anticipated that the infrastructure improvements (excluding the east-west corridor and the Mitchell Street interchange) would be completed by March 1, 1999. The state, county and city agree to work cooperatively with the Brewers to bring about completion of the east-west corridor, Mitchell Street interchange and US Highway 41 interchange as soon as possible to facilitate efficient operation of the stadium while taking into account the timing of federal, state and other funds.

### **Stadium Ownership and Operations**

The stadium structure would be owned jointly between the District and the Brewers. This would include the stadium itself and all infrastructure other than public roads and other improvements. The District would own a 64% interest in the stadium and the Brewers would own 36% (equal to the share of each party's financial contribution). The District would lease its ownership to the Brewers, which would have the right to renew or extend the lease according to set terms. The Brewers would be responsible for costs associated with operating and managing the stadium complex and would retain all revenues derived from such operations.

The stadium site would be owned by the state, which would lease the site to the District pursuant a 99-year ground lease agreement. The District would then sublease the site to the Brewers.

**Terms and Conditions of Lease.** It is anticipated that the term of the lease between the District and the Brewers for the proposed stadium would be 30 years, starting with substantial

completion of the project, with right of renewal or extension. The Brewers would make annual lease payments to the District in an amount equal to 10% of the annual debt service payments (an estimated \$1.2 million) of the District. The Brewers may sell or grant licenses or similar interests to concessionaires, reserved seats and other users in the ordinary course of business.

Stadium Use. The Brewers and their guests, invitees, concessionaires and subtenants would be entitled to exclusive possession and use of the stadium for the following purposes: (a) playing baseball games and related activities; (b) operating club and restaurant facilities; (c) operating the Brewers' general offices; (d) selling food and beverages, souvenirs and concessions; (e) selling space for advertising of all kinds; (f) conducting activities that are related to the business of major league baseball; and (g) conducting other events with the District's prior written consent, which would not be able to be unreasonably withheld. No consent would be required if the stadium would be leased to a promoter under an agreement attached to the lease/management agreement with the District.

The following limitations would be placed on the Brewers' right to exclusive possession and use of the stadium: (a) the District would have use of office space; (b) the Brewers could not, without prior written consent, be able to make repairs, alterations, attachments or improvements to the stadium complex that would interfere with the use of the stadium, create safety hazards, adversely affect the value of the stadium complex or the team's ability to fulfill its obligations to the District, WHEDA or state; (c) the stadium complex must be operated in compliance with applicable laws; and (d) the Brewers could not commit any waste with respect to the stadium.

Transfer of Lease. In general, the Brewers would not be able to sell, assign or transfer the lease agreement or sublet the stadium without prior written consent of the District, nor could the team allow any liens to be created against the stadium complex without prior written consent by the District. However, the team could transfer the lease/management agreement without District consent if the new owner of the team would be bound by all of the agreements relating to the stadium complex.

Operations and Maintenance Responsibilities. The Brewers would be responsible for the management and operation of the stadium and would be responsible for all related costs. As part of these responsibilities, the Brewers would provide necessary personnel, insurance, execute all maintenance and repairs and arrange for all necessary utility service. Specifically, the Brewers must maintain insurance satisfactory to the District against damage or destruction of the stadium, general liability and worker's compensation, liquor liability, business interruption and any other coverage required by the District. The District and any entity designated by the District would be named as an additional insured.

The MOU specifies that 100% of the responsibility for maintenance would be borne by the Brewers, while maintenance and repair costs would be the responsibility of both the Brewers and the District. The District would make annual contributions to the Brewers equal to the lesser of 64% of the Brewers actual maintenance costs for the year or \$3.85 million. These payments would be subject to the District's receipt of bills, invoices and other documentation evidencing such costs.

The District would be 100% responsible for major capital repairs and necessary improvements. Responsibility for discretionary improvements would be allocated on a case-by-case basis subject to the lease/management agreement. Under the MOU, there would be a segregated reserve fund for major capital repairs and improvements, which would be funded by deposits of \$700,000 per year from the District and \$300,000 per year from the team. Necessary improvements would include improvements required to keep the stadium complex on a par with the upgraded facilities in use in at least 75% of all major league baseball stadiums.

Transfer of Franchise. Under the MOU, the team would acknowledge that the state and District would be irreparably harmed if the Brewers franchise was transferred to another location during the term of the lease. As a result, the Brewers would acknowledge and agree that the state and District would not have adequate remedy at law if the lease is breached, and that they would be entitled to seek and obtain a temporary restraining order along with preliminary and permanent injunctive relief. The Brewers waive any requirement that the state or District post a bond in connection with an injunction against the team.

The Brewers would need prior written consent of the state and District to: (a) transfer the franchise outside of the City of Milwaukee; or (b) make formal application to the American League for approval to transfer the team. The Brewers must give prior written notice of negotiations regarding relocation of the franchise or sale or transfer of team ownership interest in the stadium. (Note: "State" is not defined in the MOU. It is not clear if "state" means both the executive and legislative branches.)

Any breach of MOU provisions relating to the transfer of franchise would be an event of default. In this case, the state could terminate the site lease, the District could terminate the stadium lease and the Brewers' ownership interest in the stadium would be vested in the District. WHEDA would be able to accelerate its loan and recover the principal balance and other amounts specified in the loan documents.

Other Defaults Under the MOU. The MOU would establish a number of events that would constitute a default by either the team or the District. The Brewers would be considered in default for failure to pay rent to the District within 30 days of when due, if a lien is attached to their share of stadium ownership, for failure to make WHEDA loan payments or failure to perform other obligations. Either the Brewers or the District would be considered in default if any provision of the lease is not observed or performed after 30 days notice from the non-defaulting party, if there is an admitted inability to pay debts or bankruptcy or similar proceedings are instituted. In the case of default, the non-defaulting party would have the rights set forth in the lease/management agreement as well as any rights under law. In addition, if the Brewers are in default, the District could terminate the team's right to possession of the stadium.

### **Property Tax Exemption**

The proposed stadium complex would be exempt from property taxation. This would be consistent with a statutory provision that specifically exempts professional sports and entertainment home stadiums [70.11(36)] that was created in 1991 Wisconsin Act 37. The MOU states that if this

provision would be repealed in the future, the property taxes would be the responsibility of the District.

### **Stadium Revenues**

The Brewers would retain all revenues derived from operating the stadium. These revenues would include: naming rights for the stadium; concessions; and scoreboard and other advertising. The Brewers could not name the stadium without prior written approval of the District.

### **Design and Construction Management**

It is anticipated that the parties would develop program requirements and plans and finalize costs of the stadium and infrastructure. There would be a provision for the participation of disadvantaged business enterprises in construction comparable to that in 1991 Wisconsin Act 37. Construction contracts entered into by the Brewers and the District would provide for the payment of penalties to the Brewers by the contractors if the stadium is not substantially completed by March 1, 1999.

**Design Criteria and Construction Standards.** The Brewers would first develop a program statement that specifies the functions to be conducted at the stadium and the space requirements for those functions. This statement would be subject to written approval by the state, although the state could only object if the statement could reasonably be expected to adversely affect the construction schedule, costs or future capital repair costs. The Brewers would then, with input from the state, develop the minimum design criteria and construction standards for the stadium. These criteria and standards would be subject to written approval by the state, although the state could only object if they could reasonably be expected to be contrary to the program statement or to adversely affect the construction schedule, costs or future capital costs. Similarly, the Brewers would develop criteria for the site infrastructure with the District. The state, county and city would consult with the Brewers concerning the design, construction and timing of infrastructure improvements involving public highways, roads and streets.

**Design and Construction Concept.** The Brewers and the state would determine the appropriate design and construction concept within 45 days after adoption of all needed legislation, ordinances and resolutions to authorize the District, the issuance of bonds and the WHEDA loan. The Brewers and the state would decide whether the stadium would be built using a design/build concept, a traditional two-stage request for proposal process or some other approach.

*Design/Build Concept.* If a design/build concept would be used, the team and state would develop a request for proposal (RFP) for the design/build services. The RFP would include minimum design criteria and construction standards. The RFP would solicit proposals that would include: (a) design of the stadium; (b) construction of the stadium, including primary subcontractors; (c) furniture, fixtures and equipment; (d) design/build team fees; (e) a process to establish a guaranteed maximum price of \$250 million; and (f) incentives for cost reductions and timely completion.

If used, selection of a design/build team would be made by DOA, on behalf of the District, in conjunction with the Brewers, under current administrative rule provisions. A representative of the Brewers would be on the selection panel.

*Traditional Two-Step Concept.* If a traditional two-step RFP concept would be used the team and state would develop an RFP for architectural and engineering services. The RFP would include minimum design criteria and construction standards. The RFP would solicit proposals that would include: (a) design of the stadium; (b) architectural and engineering fees; (c) a process to establish a guaranteed maximum price of \$250 million; and (d) incentives for cost reductions and timely completion. In stage two of the process, the team and state would work with the project architects and engineers to develop an RFP for a construction management team to construct the stadium. The RFP would solicit proposals that would include: (a) construction of the stadium, including primary subcontractors; (b) construction and other fees; (c) a process to establish a guaranteed maximum price of \$250 million; and (d) incentives for cost reductions and timely completion.

If used, selection of a design team and construction and management team would be made by DOA, on behalf of the District, in conjunction with the Brewers, under current administrative rule provisions. A representative of the Brewers would be on each selection panel.

Design Team. The selection of a design/build team or a design team would have to be approved by the Brewers. If dissatisfied with a selection, the Brewers could propose alternatives from the final list of candidates. Contracts with the design/build or design team would be negotiated by DOA, subject to approval by the District and the Brewers. Fees of the design/build or design team would be included within the \$250 million maximum cost of the stadium.

Final Plan Development. Final plans would be developed by the Brewers with input by the state. These plans would be subject to approval by the state, although the state could only object if the plans could reasonably be expected to be contrary to programmatic requirements or to minimum design and construction standards, or to adversely affect the construction schedule, costs or future capital costs.

Project Manager. A project manager would be selected and hired by DOA, with final approval by the Brewers, to represent the team and District in managing the design and construction of the stadium. The project manager's duties would include developing and maintaining a master project schedule and budget, coordinating the design and construction of the stadium with the site improvements, negotiating change orders and enforcing terms and conditions of the contracts with the contractors. The project manager's fees would be within the \$250 million cost limitation. A project coordination team would also be appointed to represent the Brewers and the state. The team's duties would include reviewing reports, disputes and recommending change orders and substitutions to the project manager, with the limitation that changes not cause the cost of the project to exceed \$250 million or the cost of the infrastructure to exceed \$72 million. The project manager would have responsibility for final negotiations of all change orders, subject to approval of the District and the Brewers.

**Design and Construction of Site Infrastructure.** The design and construction activities related to the site infrastructure, such as hazardous material remediation, parking and the removal of the existing stadium, would be conducted independently of the stadium complex. The design, construction and timing of infrastructure improvements related to the public roads and highways would be conducted by the state, city and county in consultation with the Brewers. With regard to site infrastructure, an RFP would be prepared by DOA with input and approval from the Brewers and the District. The RFP would solicit proposals which include: (a) design of the site infrastructure; (b) construction of all site infrastructure that the state, City or County choose not to construct themselves; (c) design fees; (d) a process to establish a guaranteed maximum price of \$72 million for all site infrastructure as well as the cost of public highways; and (e) incentives for cost reductions and timely completion of site infrastructure.

Selection of a design team would be done by DOA, on behalf of the District, in conjunction with the Brewers. Representatives of the Brewers and the District would be on the selection panel. The selection of a design team would have to be approved by the Brewers and the District. If dissatisfied with a selection, the Brewers could propose alternatives from the final list of candidates. Contracts with the design team would be negotiated by DOA, subject to approval by the District and the Brewers. Fees of the design team would be included within the \$72 million maximum cost of infrastructure. A single design team could be used for both the stadium and site infrastructure. The MOU indicates that it is anticipated the Brewers, District, state, County and City of Milwaukee would enter into agreements relating to site infrastructure. The Brewers would develop final plans for the site infrastructure with the District.

### **Memorandum of Understanding Conditions**

The MOU specifies a number of conditions that would have to be satisfied before construction of the stadium could occur. The state, county and city would have to adopt all legislation, ordinances and resolutions required to authorize the creation and empowerment of the District, the issuance of the tax-exempt revenue bonds by the District, the WHEDA loan, the issuance by WHEDA of bonds to fund the loan and the performance of other MOU obligations by the state, county and city. Tax exemptions from the income, sales and property taxes provided in 1991 Wisconsin Act 37 would need to remain in effect. Required federal, state and local appropriations, licenses, orders and permits would have to be provided. The necessary tax-exempt revenue bonds and other bonds would need to be issued by WHEDA, the District, County and City of Milwaukee. Finally, all necessary agreements for lease/management, loans or other items would need to be executed.

## FISCAL EFFECT

### Overview

This bill could affect the state in several ways. Costs could involve: (a) the potential cost of meeting the state's moral obligation on bonds issued by the District if the District is unable to meet its debt service; (b) the potential cost of meeting the state's moral obligation on bonds issued by WHEDA if the Brewers are unable to make debt service payments on the WHEDA loan in a timely manner; (c) infrastructure costs that would be borne by the state; (d) lower state tax revenues than would otherwise accrue due to the exemption from state income taxes of interest received by taxpayers on District bonds; and (e) increased administrative costs for the Department of Revenue and the Department of Administration.

At the local level, the primary fiscal effect would be the taxes the District would levy in Milwaukee and Waukesha Counties. The City and County of Milwaukee would also incur infrastructure costs associated with the project.

Part or all of these state and local costs could be offset by increased economic activity in the state if the Brewers in the new stadium would be able to significantly increase attendance. Each of these effects is discussed in detail in the following sections.

### State Moral Obligation Pledge

The proposed moral obligation pledge in AB 1 is intended to reduce the interest cost of bonds issued by the District or by WHEDA that would be backed by the pledge, as well as improve market acceptance of the bonds.

**The District.** The District's share of construction costs would be \$160 million under the stadium financing proposal, which would primarily be funded with bonds issued by the District. If these bonds would be issued at an average interest rate of 6.4% with level payments over a 30-year term, estimated annual debt service payments would be \$12.1 million. However, actual payments would depend on the amount and structure of bonds issued as well as market interest rates at the time of issuance.

Other expenses for the District would include an annual payment to the Brewers for stadium maintenance. This payment would equal the lesser of 64% of actual maintenance expenses for the year or \$3.85 million. In addition, the District would contribute \$700,000 annually for major capital repairs and improvements.

Revenues for the District would be derived from the 0.1% local sales tax and 1% room tax. Net revenues from these sources are projected to be \$15.3 million on an annualized basis. Over time, the amount of revenues generated from these taxes would increase as the tax base grows. In addition, the Brewers would make an annual lease payment to the District equal to 10% of annual debt service (approximately \$1.2 million).



In total, when other minor revenue and expenditure amounts are included, the District's revenues and expenditures would balance, without consideration of likely growth in the District's tax revenues. If potential growth in the tax base is factored in, the District could accumulate a significant balance, which could be used to pay off bonds early or for other purposes of the District. Although it is speculative to project District cashflows into the future, depending on the assumed growth rate for the District's tax revenues, revenues over 30 years could total \$800 million. As a result, the District could be in a position to pay off its bonds in from 14 to 17 years.

However, there would be no requirement that the District use available balances to pay off its bonds early. The District board would have discretion in taking this type of action. In addition, while the 1.0% room tax would sunset once the bonds are paid off, there is no sunset provision relating to the 0.1% sales tax.

**WHEDA.** WHEDA's involvement in the financing would be to provide a \$50 million loan to the Brewers, which would be funded with bonds issued by WHEDA. Interest on these bonds would be taxable at the federal level, but exempt for state income tax purposes. If these bonds would be issued at an average interest rate of 9.0% with level payments over a 30-year term, estimated annual debt service payments would be \$4.9 million. However, actual payments would depend on the amount and structure of bonds issued as well as market interest rates at the time of issuance.

Debt service on these bonds would be paid by the Brewers. The terms and conditions of the revenue stream that would secure these bonds would be subject to negotiation between WHEDA and the Brewers. As a result, no information is available as to the specific revenues that would be pledged by the Brewers to repay these bonds.

In order for these bonds to be marketable, whatever repayment provisions are negotiated between WHEDA and the Brewers would have to provide a secure source of revenue to repay the debt service on the bonds. Both the state moral obligation pledge and the safety and strength of the revenue stream designated to pay the bonds would be considered by rating agencies and prospective investors in the bonds.

In assessing the likelihood that the state would be called upon to fund its moral obligation pledge at some future date, the District and WHEDA bond issues would have differing characteristics. The District bonds would primarily be secured by tax revenues, with most of the monies from the 0.1% sales tax, which should be a stable and growing revenue source. Even using conservative assumptions relating to the rate of growth in these taxes, the District should have sufficient funds available to meet its obligations.

The WHEDA bonds would be paid from revenues from the Brewers. Although no information is available as to how this bond issue would be structured, presumably team revenues from whatever source would be used to pay debt service on these bonds. While there is an expectation that a new stadium would significantly increase cashflow for the Brewers, team revenues could be subject to greater variation than the taxes levied by the District. Revenues available to the Brewers could vary depending on developments at the national level in major league baseball as well as local considerations such as the effects of a new stadium on attendance,

the success of the team on the playing field and the current financial condition of the Brewers. Although other security features may reduce the risk, if there would be a significant shortfall in team revenues, it is possible that the state moral obligation would come into play.

**Infrastructure Costs**

In addition to the costs associated with constructing the proposed stadium, the state, county and city of Milwaukee would be responsible for related infrastructure improvement costs. These improvements would be limited to \$72 million and would include site improvements, highway construction, parking, utility relocation, environmental remediation and removal of the old stadium. The following table shows the stadium infrastructure costs by funding source.

**Infrastructure Improvement Costs**

<u>Source and Purpose</u>	<u>Amount</u>
<u>State</u>	
Highway Construction	\$17,500,000
Utility Relocation	500,000
Utility Siting	7,500,000
Right-of-Way Costs	5,000,000
Hazardous Material Remediation	<u>5,500,000</u>
State Funding	\$36,000,000
<u>Milwaukee County</u>	
Pad Improvements	\$2,000,000
Parking Areas	13,500,000
County Stadium Removal	1,750,000
Hazardous Material Remediation	<u>750,000</u>
Milwaukee County Total	\$18,000,000
<u>City of Milwaukee</u>	
Pad Improvements	\$2,000,000
Parking Areas	13,500,000
County Stadium Removal	1,750,000
Hazardous Material Remediation	<u>750,000</u>
City of Milwaukee Total	\$18,000,000
Total Maximum Cost	\$72,000,000

**State Funding.** The state would fund half of total infrastructure costs (\$36 million) with state transportation funds and federal monies. The state's improvement activities relate to highway construction, utility siting and relocation, right-of-way acquisition and relocation and hazardous material remediation. Under AB 1, up to \$3 million in 1995-96 and \$12 million in 1996-97 in state funding from the highway rehabilitation program could be spent on highway activities related to the stadium. In addition, the state has \$9 million remaining in a federal demonstration grant that could

be used for highway work associated with the stadium. Although not specified in either the bill or the MOU, the remaining \$12 million would presumably be funded in the 1997-99 biennium with either state or federal transportation funds. This funding schedule is based on the MOU, which specifies that the highway-related work must be completed by March 1, 1999, except for east-west corridor-related improvements.

**Local Funding.** The City and County of Milwaukee would each be responsible for half of the remaining \$36 million in infrastructure costs (\$18 million each). These activities include pad improvements, parking areas, removal of the old stadium and hazardous material remediation. These costs would not be the responsibility of the District. The city and county would use their revenues to fund these costs (such as state aid, property tax, sales tax or other local revenues).

### **Income Tax Exemptions on Bond Interest**

**District's Bonds.** Under current law, the interest received by state taxpayers from most bonds issued by local governments is taxable at the state level, and federally tax exempt. Currently, the only bonds connected with municipalities that are state tax exempt are: (a) public housing authority or community development authority bonds; and (b) municipal redevelopment authority bonds

Under the bill, the interest paid on the District's bonds would be exempt from taxation. Although the District could issue bonds backed by the state's moral obligation of up to \$160 million, it is estimated that the Wisconsin investment market does not have the capacity to absorb the full amount of the bond issue. As a result, it is estimated that Wisconsin investors would purchase approximately \$50 million of the District's bonds if a single \$160 million bond issue were sold.

If it is assumed that most of these investors are in the top marginal individual income tax bracket (6.93%) and the bonds pay an interest rate of 6.4%, the estimated fiscal effect would be a \$200,000 decrease in general fund revenues annually. In later years as the annual interest payments decline and some of the debt is retired, the loss of general fund revenues would decline. Bonds purchased by out-of-state investors would have no effect on state income tax revenues.

**WHEDA Bonds.** As part of 1991 Wisconsin Act 37, WHEDA was permitted to issue \$35 million in revenue bonds and notes to finance and secure an economic development loan to the Brewers. Act 37 also provided that interest paid on these bonds is exempt under the state income tax. The bill retains the income tax exclusion for interest income from these bonds, but increases the bond issue amount by \$15 million (\$50 million total). Under the existing tax exemption for these bonds, the additional \$15 million of bonding authorized in the bill would reduce general fund revenues by approximately \$100,000 annually, assuming that these bonds would be issued at a 9% interest rate for a 30-year term. The entire \$50 million WHEDA issue would reduce general fund revenues by an estimated \$300,000 annually, assuming that the bonds would be purchased by Wisconsin investors. The interest rate assumption of 9% is higher than the 6.4% used for the District bonds, because the WHEDA bonds would be taxable for federal income tax purposes.

### **Increased State Administrative Costs**

**Department of Revenue.** The Department indicates in its fiscal note that costs to establish the collection system would be \$637,100 in 1995-96 and \$586,900 in 1996-97, which would decrease to \$307,100 beginning in 1997-98. These costs include computer programming, systems development, registration, audit and adjustment activities. Under the bill, DOR would retain 3% of sales and room tax revenues (approximately \$460,000) for the first two years of operation and 1.5% in subsequent years.

**Department of Transportation.** At the time of writing, no fiscal note has been received from the Department.

**Department of Administration.** The bill would increase the Department of Administration's appropriation for capital planning and building construction services by \$336,200 PR in 1995-96 and \$790,100 PR in 1996-97. These increases would be for estimated costs of such services to be provided to the District, and could be paid for out of District bond proceeds. The funds provided would be for the estimated costs of DOA providing through purchase from private contractors, two consultant staff for project management responsibilities (\$258,100 PR in 1995-96 and \$361,400 PR in 1996-97) and four construction oversight inspector staff (\$62,100 PR in 1995-96 and \$391,100 in 1996-97), plus supplies and service costs (\$16,000 PR in 1995-96 and \$37,600 PR in 1996-97). [Projected costs in 1997-99 would be approximately \$827,300 PR annually.] The bill would also appropriate \$300,000 GPR in 1995-96 to allow DOA to make a loan to the District for start-up costs.

### **District Tax Revenues**

**Sales Tax.** Under the bill, the District would impose a sales and use tax of 0.1% on all goods and services currently subject to the statewide sales and use tax. The sales tax is estimated to generate an estimated \$14.3 million (\$9.5 million from Milwaukee County and \$4.8 million from Waukesha County), if it would be in effect for calendar year 1996. Since DOR would be able to retain 3% of revenues in the first two years, \$13.9 million would be available to the District for debt service and other expenses. These estimates are based on data from Milwaukee County's 0.5% sales tax and an estimate of statewide sales tax revenues that are attributable to Waukesha County.

**Room Tax.** The room tax would be imposed on establishments providing rooms or short-term lodging to the public. In general, the tax would apply to hotels, motels and rooming houses for lodging furnished for less than one month. Annual revenues from the room tax are estimated to be \$1.4 million (\$1.0 million in Milwaukee County and \$400,000 in Waukesha County), if the room tax would apply for calendar year 1996. As a result of the 3% administrative draw on those revenues, \$1.36 million would be distributed to the District. These estimates are based on actual collections for 1993 in each municipality that currently impose a room tax and from statistics on the number of countywide hotels and motels to account for rooms in municipalities where a room tax is currently not imposed.

## **Economic Activity**

Arthur Andersen released a report in January, 1995, titled Economic Impact Report -- Proposed Milwaukee Brewers Stadium. It was indicated that the direct incremental economic impact of a new stadium would be a \$52.6 million increase in annual spending, 353 full-time jobs, a \$12.9 million increase in income and a \$3.4 million increase in state and local taxes.

The increase in spending would be generated from admissions, premium seating, concessions and parking as it relates to the stadium an increase expenditures for eating and drinking, lodging, tailgating, transportation and other retail spending. The increase in full-time jobs would be related to stadium-related activities and the hospitality industry. As a result of the increases in spending and jobs, state and local income and sales tax revenues would increase.

In addition to direct impacts related to the proposed stadium, the report indicates that there would be effects from the actual construction of the stadium as well as indirect economic impacts. The construction impact is indicated to have an economic effect of \$223.5 million, \$169.5 million of which would be in the state. This effect would be derived from stadium and infrastructure design, equipment, materials, supplies and related workers, income and tax revenue. The projected indirect economic effect of \$294.8 million from the construction of the stadium and \$52.6 million annually thereafter were derived from using multiplies applied against the direct estimated impacts. The indirect economic impacts would be the result of a "ripple" effect resulting from the proposed stadium.

Estimating the net economic benefits of the proposed stadium is a difficult matter. It is likely that a new stadium would result in increases in spending and jobs, resulting in increases in tax revenues. However, the exact degree of economic benefit that could be derived from the project is unknown. Such benefits would vary depending on many factors including the success of the Brewers baseball team, public sentiment regarding baseball as entertainment and the ability of the Brewers to secure special events (such as an all-star game). In addition, entertainment dollars that would be spent at the stadium by state residents would presumably be spent on other activities if the stadium is not built. Finally, the overall level of economic activity in the state could effect the amount of benefit gained from a new stadium.

## **Stadium Financing Summary**

The following table is a summary of the share of stadium-related costs by funding source.

### Stadium Construction Costs

<u>Funding Contributor</u>	<u>Amount</u>
District Revenue Bonds	\$160,000,000
Brewers	
WHEDA Loan	\$50,000,000
Other	<u>40,000,000</u>
Brewer Total	<u>90,000,000</u>
Total Maximum Cost	\$250,000,000

- The District's contribution to the stadium's construction cost would come from the issuance of revenues bonds, up to \$160 million. These debt service on these bonds would be repaid from a 0.1% sales tax and 1% room tax imposed in the District.

- The Brewers' contribution would come from the receipt of a \$50 million WHEDA loan, the bonds of which would have the state's moral obligation. The remaining \$40 million would come from the Brewers' own revenues or other sources.

- The total cost of the stadium would not exceed \$250 million according to the memorandum of understanding. The District's \$160 million contribution would make up its 64% ownership share and the Brewers' \$90 million contribution would make up its 36% ownership share.

If the cost of financing is included, the long-term costs of the stadium project would be significantly higher. Initial infrastructure costs would total \$36 million for the state and \$36 million for the County and City of Milwaukee. For the Brewers, payments associated with stadium construction would include \$40 million from the team during the construction period. In addition, debt service payments by the Brewers over 30 years on the \$50 million loan from WHEDA could total an estimated \$146 million. For the District, debt service payments on \$160 million of bonds over 30 years could total \$364 million. However, the amount of debt service actually paid would depend on market interest rates at the time of issuance, and could be reduced if the bonds were retired before final maturity. In addition, the effects of inflation on future debt service would reduce the cost of these payments in real terms.

### Other Revenue Options

A number of legislators have asked about other options for generating revenues for the proposed District. As an example, financing packages for stadiums in other states that have been constructed recently include the sales tax, ticket surcharges, liquor taxes, cigarette taxes, sports lotteries and room taxes. In addition, a number of inquiries have been made on the effects of

expanding the District's boundaries to include some or all of the following counties in addition to Milwaukee and Waukesha counties: Kenosha, Ozaukee, Racine, Walworth and Washington.

Tables 1 through 4 provide revenue options for a sales tax, room tax, cigarette tax and alcoholic beverage tax in the seven counties listed above. For the cigarette tax and alcohol beverage taxes, specific information by county is not readily available, so that the estimates were prepared by calculating the proposed tax increase as if it applied to the entire state, and then estimating collections for each county on the basis of its share of total state population. Statewide revenue estimates for each alternative are also provided.

In reviewing the options that are presented, two factors warrant consideration. First, when revenue bonds are sold, they are structured so that the pledged revenues exceed the debt service payments on an annual basis. This excess amount (called "coverage") is required in order to market the bonds with a favorable bond rating, which allows for a lower interest rate. Excess revenue is required so that bondholders have assurance that there will be sufficient revenues to pay the debt service.

A pledged revenue source that is viewed as less reliable or that is imposed on a narrower base would require that more revenues be raised by that tax on an annual basis to cover the same amount of annual debt service. For example, a revenue bond funded with general sales tax revenues may require \$120 in annual sales tax revenues in order to cover \$100 in annual debt service, while a cigarette tax that is viewed as less stable may require \$200 in annual revenues for the same annual debt service payment.

In considering these taxes, sales taxes are perceived to be more reliable since they are imposed on a wide base and have historically been a growing source of revenue for governments. On the other hand, cigarette tax revenues have historically decreased over time. In addition, bondholders may be concerned about revenues based on a tobacco product as a result of current issues related to the tobacco industry.

As a result of bond rating agency and bondholder concerns regarding cigarette taxes as a pledged source of revenue, it is likely that more cigarette tax revenues would need to be generated per year in order to cover the same amount of debt service. It is unlikely that both the sales tax and the room tax could be replaced with a cigarette tax in the seven county region without setting a tax rate that is so high that bootlegging would result in significant revenue losses. However, a regional cigarette tax could be combined with other taxes to create a balance between these revenue sources.

Similar concerns could arise with taxes on alcohol beverages, where the tax base would be relatively narrow.

Second, under the bill, the District board would include seven members: one representative for Milwaukee County, one for Waukesha County, one from the City of Milwaukee and four Gubernatorial appointees. If additional counties would be added to the District, the membership of the board could be expanded to include one from each additional county. If, as a matter of policy, it is determined that the state maintain its majority representation, an additional state appointment could also be added for each additional county. If the membership of the board is modified,

consideration could be given to adding representatives of the Legislature, since the Legislature would pledge its moral obligation, and the Joint Committee on Finance would be required to introduce a bill to fund a potential shortfall in the special debt service reserve fund.

**Sales Tax.** Under current law, the state imposes a statewide general sales and use tax of 5%. In addition, counties may impose a countywide sales tax of 0.5%, piggybacked on the state sales tax and applicable to the same goods and services. The county sales tax is administered, enforced and collected by the Department of Revenue, which retains 1.5% of county collections for administrative purposes. To date, 47 of the state's 72 counties impose the tax.

Table 1 provides an estimate of the amount of revenue that could be generated by imposing a 0.1% sales tax in each of the seven counties (a 0.1% sales tax is equal to a 1¢ tax on a purchase of \$10). In addition, the last column indicates whether the county presently imposes the 0.5% local sales tax.

The statewide sales tax rate would need to be increased by an estimated 0.025%, 5% to 5.025%, in order to generate approximately \$14.3 million on an annualized basis. The rate would need to be increased by 0.028% on a statewide basis, from 5% to 5.028%, in order generate approximately \$15.7 million.

**TABLE 1**

**Estimated Revenue from  
Local Sales Tax Options**

<u>County</u>	<u>0.1%</u>	<u>county tax?</u>
Kenosha	\$1,200,000	yes
Milwaukee	9,500,000	yes
Ozaukee	700,000	yes
Racine	2,000,000	no
Walworth	800,000	yes
Washington	900,000	no
Waukesha	4,800,000	no

- A 0.085% sales tax in the seven counties is estimated to generate \$15.7 million, which is equal to the amount raised from the proposed 1% room tax and 0.1% sales tax in the two-county District.

- A 0.078% sales tax in the seven counties is estimated to raise \$14.3 million, which is equal to the amount generated from the 0.1% sales tax only.



**Room Tax.** Under current law, municipalities may impose a room tax on establishments providing rooms or short-term lodging to the public. In general, the tax would apply to hotels, motels and rooming houses for lodging furnished for less than one month. In 1994, room tax rates in the seven counties varied from 3% to 7%. In addition, under the provisions of 1993 Wisconsin Act 263, the Wisconsin Center District imposed a 2% room tax in Milwaukee County, along with other local taxes, to fund construction of a new convention center in the city.

Table 2 provides estimates of the amount of revenue that could be generated by imposing a 0.5%, 1%, 2% and 3% room tax in each of the seven counties. These estimates are based on actual collections for 1993 in each of the municipalities that currently impose a room tax. In addition, the estimates are also derived from statistics on the number of countywide hotels and motels to account for rooms in municipalities where a room tax is currently not imposed.

If a statewide room tax was implemented, it would need to be in the range of 0.22% to 0.26% in order to provide revenues of \$1.4 million, which would be equal to the estimated revenue from the proposed 1% room tax in the District.

**TABLE 2**

**Estimated Revenue from  
Local Room Tax Options**

<u>County</u>	<u>0.5%</u>	<u>1%</u>	<u>2%</u>	<u>3%</u>
Kenosha	\$25,000	\$50,000	\$100,000	\$150,000
Milwaukee	500,000	1,000,000	2,000,000	3,000,000
Ozaukee	10,000	20,000	40,000	60,000
Racine	15,000	30,000	60,000	90,000
Walworth	135,000	270,000	540,000	810,000
Washington	15,000	30,000	60,000	90,000
Waukesha	200,000	400,000	800,000	1,200,000

**Cigarette Tax.** The state currently imposes a cigarette tax of 44¢ per pack, which was recently increased by 6¢ from 38¢ per pack on September 1, 1995. Table 3 provides estimates of the amount of revenue that could be raised from a 1¢, 2¢, 3¢, 4¢, 5¢ and 10¢ regional cigarette tax. These estimates reflect that due to price increases, people would either decrease their consumption of cigarettes or purchase them from areas where the tax (price) is lower. It is likely that the greater a price differential is between two areas the more that persons will seek to purchase cigarettes elsewhere, causing a decrease in the amount of revenue generated from increasing a tax. This could be compounded if the area with the higher price is relatively small, enabling residents to travel short distances to purchase lower-priced cigarettes.

**TABLE 3**

**Estimated Revenue from  
Local Cigarette Tax Options**

<u>County</u>	<u>Amount of Increase in Tax Rate Per Pack</u>					
	<u>1¢</u>	<u>2¢</u>	<u>3¢</u>	<u>4¢</u>	<u>5¢</u>	<u>10¢</u>
Kenosha	\$100,000	\$200,000	\$300,000	\$400,000	\$500,000	\$940,000
Milwaukee	700,000	1,400,000	2,000,000	2,700,000	3,400,000	6,600,000
Ozaukee	60,000	110,000	160,000	220,000	270,000	530,000
Racine	130,000	260,000	390,000	520,000	640,000	1,260,000
Walworth	60,000	120,000	170,000	230,000	280,000	550,000
Washington	80,000	150,000	230,000	300,000	380,000	740,000
Waukesha	240,000	470,000	700,000	930,000	1,150,000	2,300,000
State Total	\$3,700,000	\$7,300,000	\$10,800,000	\$14,400,000	\$17,900,000	\$35,100,000

**Alcohol Beverage Tax.** Currently, the state imposes the following taxes on alcoholic beverages: \$2 per barrel of beer (approximately 6.5¢ per gallon); \$3.25 per gallon of liquor; \$25¢ per gallon of wine with up to 14% alcohol and 45¢ per gallon of wine with between 14% and 21% alcohol. Table 4 shows the estimated revenue from a regional excise tax on alcohol ranging of 5¢, 10¢, 15¢, 20¢ and 25¢ per gallon, or on a per barrel basis for beer. For the tax rate options that would generate lesser amounts of revenue, the estimates shown for each county should be considered speculative in nature.

**TABLE 4**

**Estimated Revenue from  
Local Beer, Liquor and Wine Tax Options**

**BEER**

<u>County</u>	<u>Amount of Increase in Tax Rate Per 31-Gallon Barrel</u>				
	<u>5¢</u>	<u>10¢</u>	<u>15¢</u>	<u>20¢</u>	<u>25¢</u>
Kenosha	\$6,000	\$13,000	\$19,000	\$25,000	\$31,000
Milwaukee	43,000	89,000	133,000	177,000	221,000
Ozaukee	4,000	7,000	11,000	14,000	18,000
Racine	8,000	17,000	25,000	34,000	42,000
Walworth	4,000	7,000	11,000	15,000	18,000
Washington	5,000	10,000	15,000	20,000	25,000
Waukesha	15,000	30,000	45,000	60,000	75,000
State Total	\$234,000	\$468,000	\$702,000	\$936,000	\$1,170,000

**LIQUOR AND WINE**

<u>County</u>	<u>Amount of Increase in Tax Rate per Gallon</u>				
	<u>5¢</u>	<u>10¢</u>	<u>15¢</u>	<u>20¢</u>	<u>25¢</u>
Kenosha	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000
Milwaukee	140,000	280,000	420,000	560,000	700,000
Ozaukee	11,000	23,000	34,000	45,000	57,000
Racine	27,000	54,000	80,000	107,000	134,000
Walworth	12,000	24,000	35,000	47,000	59,000
Washington	16,000	31,000	47,000	62,000	78,000
Waukesha	50,000	100,000	140,000	190,000	240,000
State Total	\$748,000	\$1,491,000	\$2,236,000	\$2,977,000	\$3,716,000

**Statewide Tax.** A number of legislators have asked whether an approach using a statewide tax could be used to finance a new stadium. Examples of tax increases include a 7¢ increase in the state cigarette tax, from 44¢ to 51¢, which would generate an estimated \$24.9 million on an annualized basis, or a one-year 0.5% increase in the state sales tax rate, from 5% to 5.5%, which would yield an estimated \$280 million to cash finance the stadium. Other taxes could be considered.

Several issues would have to be addressed with regard to imposing a statewide tax to fund a stadium. The Wisconsin Constitution prohibits the state from being a party in carrying on works of internal improvement, which could apply to the proposed stadium. The proposal by the administration would avoid this potential legal impediment by creating a local unit of government (the District) with the authority to levy a tax in a two-county area of the state. As a result, the state itself arguably would not be directly involved in the stadium project.

However, if a statewide tax would be proposed to fund the stadium project, it is unclear whether a separate entity could be created to avoid direct involvement by the state. It may be difficult to argue that the state has created a local unit of government, when the proposed district would have statewide jurisdiction. In addition, an attempt to create such an entity could be viewed as an improper delegation of taxing authority by the state. As a result, if a statewide tax is used, it appears that the state itself would have to levy the special taxes, and the legal issues relating to the internal improvements clause of the Constitution would need to be resolved.

One provision of the internal improvement clause indicates that when grants of land or other property dedicated to a particular work of internal improvement are made to the state, the state may carry on such a work. However, it is unclear whether this provision would provide the legal basis for the state to levy a statewide tax and build the proposed stadium.

**Ticket Surcharge.** An alternative source of revenues that has been suggested would be to impose a surcharge on baseball tickets to pay debt service on the bonds. Depending on annual attendance, a surcharge rate ranging from \$6 to \$10 per ticket could generate sufficient revenue to cover the debt service.

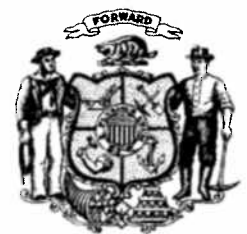
Two factors warrant review in considering this option. First, attendance could vary from year to year, so that a ticket surcharge may not be viewed as a stable source of revenue by the bond market. In order to achieve a satisfactory coverage ratio of revenues over debt service, the surcharge rate may have to be set at a prohibitive level.

Second, the District would have to comply with federal limits on the amount of revenue from the stadium site that could be used to pay debt service on the bonds, in order for the bonds to be tax-exempt for purposes of the federal income tax. For this type of project, at most 10% of the monies used to pay debt service could be from sources related to the stadium site. Whether those payments would derive from rent, or from a ticket surcharge, at most \$1.2 million annually could be used from stadium related sources.

Prepared by: Dave Loppnow and Kelsie Doty



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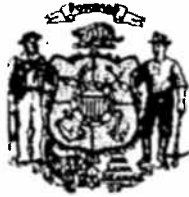


# STATE OF WISCONSIN

**Legislative Audit Bureau**  
Dale Cattanach, State Auditor

131 West Wilson Street  
Madison, WI 53703

September 14, 1995



**Legislative Fiscal Bureau**  
Robert Wm. Lang, Director

One East Main, Suite 301  
Madison, WI 53703

Representative David Prosser, Jr. and  
Representative Mary Hubler, Co-chairs  
Assembly Select Committee on a Milwaukee Baseball Stadium

Senator George Petak, Chair  
Senate Committee on Business, Economic Development and Urban Affairs  
State Capitol  
Madison, Wisconsin 53702

Dear Representative Prosser, Representative Hubler, and Senator Petak:

As requested in your letter of September 12, we have completed a review of the Milwaukee Brewers Baseball Club's financial position and of the basic premises underlying the proposal to finance a new baseball stadium in Milwaukee. The scope of our review was limited due to the abbreviated time frame in which it was completed.

Based on audited financial statements, it is apparent that the Club's current financial condition is poor. The Club has, for example, operated at a loss in every year but one since 1990. The largest loss—totaling \$15.7 million—occurred in 1994, a strike-shortened season. Without an increase in revenue, it is highly unlikely that the Club will be financially viable in the future.

Construction of a new stadium would provide the Club with the opportunity to improve its financial position and regain its financial viability. The largest anticipated effect of a new stadium is an increase in annual attendance of over 40 percent due not only to its general appeal but also to the fact that its convertible roof will allow games to be played regardless of the weather.

It is, however, difficult to determine the extent to which attendance as well as other sources of revenue will increase. The Club's optimism about its ability to generate additional revenues is, to a great extent, predicated on the success of other teams following the construction of a new stadium. While none of these situations is directly comparable, we believe it is reasonable to assume that attendance will increase, leading to increased revenues. However, we cannot predict whether the success of other teams will be duplicated in Milwaukee.

We received full cooperation from the Club in completing this review and appreciate the efforts made by its representatives to ensure our questions regarding the information provided were addressed. We also appreciate the cooperation of the Department of Administration and its consultants.

Sincerely,

Handwritten signature of Dale Cattanach in cursive script, written over a horizontal line.

Dale Cattanach  
State Auditor

Handwritten signature of Robert Wm. Lang in cursive script, written over a horizontal line.

Robert Wm. Lang  
Director

DC/RL/ll

## **ISSUES RELATED TO CREATION OF A LOCAL PROFESSIONAL BASEBALL PARK DISTRICT**

September 1995 Special Session Assembly Bill 1 would create a local professional baseball park district to assist in the development of a professional baseball park in Milwaukee. While information regarding the proposed legislation, the memorandum of understanding describing the preliminary agreements between the parties involved in the stadium project, and the fiscal effects of the bill were addressed in a September 13, 1995, paper issued by the Legislative Fiscal Bureau, questions remain regarding the Milwaukee Brewer Baseball Club's financial situation as well as some of the basic premises underlying the proposal. In anticipation of these questions, the Assembly Select Committee on a Milwaukee Baseball Stadium and the Senate Committee on Business, Economic Development and Urban Affairs requested the Legislative Audit Bureau, in consultation with the Club, the Department of Administration, and the Legislative Fiscal Bureau, complete a review of whether:

- the financial condition of the Club requires additional revenues;
- the assumptions of the Club and the Department of Administration concerning projected revenues from a new stadium as well as the current and future economic conditions of baseball are reasonable;
- the assumptions above, if reasonable, are likely to restore the financial viability of the baseball team; and
- a \$50 million loan from the Wisconsin Housing and Economic Development Authority (WHEDA) is a reasonable financial risk.

Our analysis is based primarily on the information included in the Club's audited financial statements for the five-year period from 1990 through 1994 (which was not reviewed by the Legislative Fiscal Bureau), estimated financial information for 1995, and projections regarding the financial position of the Club if a new stadium were to be constructed. Because of the limited time available for review and the Club's reluctance to share detailed information on its general and administrative expenses, a complete analysis of operating expenses was not possible. In addition, much of the information we reviewed was proprietary and involved trade secrets. Therefore, the detail included in this report is limited.

We did, however, participate in several conversations with Club representatives, including the consultant responsible for completing the projections of the Club's future financial viability. Information was also provided by Department of Administration staff as well as the Department's legal and financial consultants.

### **Current Financial Condition**

Based on our review of the Club's audited financial statements for the five-year period 1990 through 1994, as well as projections regarding 1995, it is apparent that the Club's current financial condition is poor. Overall, we believe there is little question that the Club requires additional sources of revenue in order to be financially viable in the future.

The Club's financial problems are reflected in losses accumulating to \$38.9 million for the six-year period ending with 1995. As shown in Table 1, the Club has had losses in excess of \$6 million in each year except 1993. In that year, its national broadcasting revenues were at their peak and the Club received the one-time benefit of expansion proceeds.

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Table 1

**Milwaukee Brewers Baseball Club  
Operating Results**  
(in millions)

<u>Year</u>	<u>Net Income/ (Loss)</u>
1990	\$(6.2)
1991	(7.0)
1992	(6.4)
1993	2.7
1994	(15.7)
1995	(6.3)*

\* Estimated.

Source: Milwaukee Brewers Baseball Club redacted financial statements

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The result of these losses has been an increase in the Club's partners' deficit. The partners' deficit has increased significantly over the past five years. This does not take into account the Club's estimate of the value of the baseball franchise. The partners' deficit would be reduced or eliminated if the value of the franchise was considered.

In order to finance its losses, the Club has relied on various lines of credit. Overall, its outstanding loans have increased substantially from 1990 to 1994. If annual losses of the size experienced over the past six years continue, we believe it would be difficult for the Club to find the means to finance current operations.

#### Financial Effect of Stadium

Some have questioned whether the construction of a new stadium will enable the Club to generate the revenue necessary to continue to operate in Milwaukee. The Club has asserted that it will be able to generate more than adequate revenue to ensure its future viability if the new stadium were to be constructed. We could not test most of the assumptions upon which this assertion is based. It is, however, evident that if the experience of other teams following construction of a new stadium is replicated in Milwaukee, the attendance necessary to ensure the Club's future financial viability will be



attained. Construction of a new stadium would provide the Club with the opportunity to generate sufficient revenue to continue operations, improve its financial position, and regain its financial viability. However, it would not guarantee its financial success.

### Revenue Variables

In determining the extent to which construction of a new stadium will result in increased revenue, the Club considered several different variables. Based on our review of supporting documentation, it appears that the Club did not overlook any variables that ought to be included in assessing future potential revenue. In addition, we believe the Club did not inappropriately include any variables that should have been excluded.

Admissions - The primary variable considered in determining revenues was baseball admissions. It is assumed that, with the construction of the new stadium, annual paid baseball admissions will increase at least 40 percent from the average annual attendance from 1990 through 1993. The Club's projections of average annual attendance of approximately 2.5 million would represent a significant increase over current annual admissions, which are reflected in Table 2.

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Table 2

**Milwaukee Brewers Baseball Club  
Paid Attendance**

<u>Year</u>	<u>Total</u>
1990	1,752,900
1991	1,478,814
1992	1,857,351
1993	1,688,080
1994*	1,268,399
1995	1,096,747**

\* Strike-shortened season

\*\* Estimated based on attendance for 72 games played through September 14, 1995.

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According to Club representatives, including a certified public accountant hired by the Club to analyze its financial position, this anticipated increase in admissions will be influenced by two factors. First, the fact that the stadium will be constructed with a convertible roof will allow games to be played regardless of the weather. As a result, fans will have confidence that all games will be played, thereby encouraging them to plan to attend a game without fear of potential cancellation. In addition, more fans will attend games knowing that they will be protected from the elements.

Second, the fact that the Club will be playing in a new stadium will in and of itself lead to an increase in attendance. This assumption is based on the experience of other teams that have moved into new stadiums in recent years, including the Chicago White Sox, the Baltimore Orioles, and the Cleveland Indians. It is assumed that the architecture of the new stadium, the intimate seating, the grass field, and superior sightlines will attract fans.

It should be noted that the Club already has a commitment from the Milwaukee business community regarding ticket sales for both before and after the stadium is constructed. The Milwaukee business community, represented by the Metropolitan Milwaukee Association of Commerce and the Greater Milwaukee Committee, have agreed to make cash payments to the Club if the number of season tickets sold during each of the 1995, 1996, and 1997 seasons falls below 10,000. Beginning in 1998, this guarantee will increase to 12,000. In addition, cash payments will be made if, in each of the first three seasons in the new stadium, the Club's paid attendance falls below 90 percent of the average total among all Major League Baseball teams. Total cash payments are limited to \$6 million over the life of the agreement.

The Club recognizes that the level of attendance generated in the first year of the new stadium's operations will not be sustained. However, to the extent that additional stadium revenue allows investments to be made in the Club, it is anticipated that the Club will be able to field more competitive teams, thereby retaining fan interest. The Club believes it is appropriate to assume attendance will drop slightly from the initial peak that will be experienced following the opening of the new stadium, but, as noted, assumes the average annual attendance will be significantly higher than current levels.

Other Admissions Related Revenue - Other variables included in the Club's analysis are tied to its assumptions about admissions. These variables include concessions and parking. The Club based its assumptions in this area on past experience as well as on the experience of other stadiums. For example, the effect of premium seating, particularly club seats, on the revenue to be generated through concessions was factored into the assumptions. Because fans seated in club seats can take advantage of wait service, it was assumed that more revenue would be generated than if the fans had to leave their seats to purchase concessions.

The Club has also assumed an increase in revenue resulting from the lease of all of the 75 suites, or sky boxes, and the lease of all 3,000 club seats. The current stadium does not have similar amenities.

Other Revenues - Revenue is also to be generated through other activities, some of which are not conducted in the current stadium. For example, the Club has assumed that some revenues will be generated through the establishment and operation of banquet facilities within the stadium. Other sources of revenue include:

- marketing and advertising, including stadium signage and game day promotions;
- stadium events, including two large concerts annually;
- away games ticket receipts, spring training, and two exhibition games;
- broadcast revenue, including major league contracts, local radio and television, cable, and major league cable licensing;

- national licensing;
- revenue sharing; and
- expansion proceeds.

To some extent, the assumptions made regarding these sources of revenue were based on the Club's past experience. However, other assumptions—particularly those assumptions made regarding broadcast revenues—are based on a prediction of the future status of baseball as an industry.

### Expense Variables

The Club also considered several different variables in determining future expenses. Similar to the variables it included in its analysis of potential revenues, it does not appear that the Club overlooked any variables that ought to be included in assessing future expenditures, nor did it exclude any variables that should have been included.

To a large extent, the Club's assumptions regarding future operating expenses are based on past experience, with two major exceptions. First, the Club factored in the rent to be paid to the local professional baseball park district for use of the stadium. The amount charged for rent is an amount equal to 10 percent of the total annual debt service payable by the district on the tax-exempt revenue bonds. The Club assumed that it would be obligated to pay the maximum amount possible under the current proposal, or \$1.175 million each year.

Second, the Club assumed some modifications in its major expense variable: player compensation. To the extent that increased revenues allow, the Club indicated it plans to make the investments necessary in order to field more competitive teams. Therefore, an increase in player compensation was anticipated in future expenditure projections.

In addition, the following other variables were considered in projecting future operating and other expenses:

- baseball operations other than salaries, including team development, scouting, and spring training;
- corporate affairs and sales, including media relations, communications and publications, and ticket operations;
- stadium operations, including equipment purchases;
- general and administrative expenses;
- loan repayments, including repayment of the \$50 million WHEDA loan; and
- interest expense.

## Reasonableness of Assumptions

Whether the Club will be able to meet its revenue and expense projections is difficult to determine. For example, while some projections were based on the Club's past experience, others were based on the experience of other teams and on general perceptions of the future of baseball as an industry.

Revenues - Because the largest variable in the Club's assumptions regarding future operations is admissions, which in turn affects revenues related to concessions and parking, a primary consideration is the reasonableness of the assumptions made in this area. In our opinion the issue is not whether admissions will increase. The question to be considered is whether admissions will increase to the extent predicted and whether this increase can be sustained over a period of time.

As previously noted, the assumptions related to admissions, suites, and club seats are largely based on the experience of other teams. Club representatives are firm in their belief that the experience of other teams can and will be transferred to Milwaukee. In addition, they believe that their estimates are conservative given the experiences of other teams. It is our opinion that none of these situations is directly comparable. Therefore, we cannot determine whether the success of other teams will be duplicated in Milwaukee.

In addition, it does appear reasonable to expect that the convertible roof will result in an increase in attendance, regardless of any other attractions a new stadium may offer.

Other assumptions included in the Club's revenue analysis are based on past experience. For example, estimates of revenues to be generated through events such as concerts reflect past activity levels. Therefore, although we did not review the information necessary to confirm the Club's estimates, we saw no reason to question them.

Finally, some assumptions, such as increased broadcasting revenue, are independent of the construction of a new stadium. These assumptions are based on the Club's best judgment about the future economics of baseball and we cannot test them. Therefore, while they do not appear to be unrealistic, it cannot be said with certainty whether assumptions made in this area are appropriate.

Expenses - We did not review information in support of current operating expenses to determine their reasonableness. Rather, we accepted the Club's assertion that existing spending patterns, with limited exceptions to allow for additional investment in the team itself, would continue into the future. In addition, those assumptions made regarding such expenses as player compensation appeared reasonable.

It should be noted that, in response to questions about the ramifications of inaccurate revenue assumptions, Club representatives indicated that the Club has several options to reduce expenses, particularly player compensation, to address revenue shortfalls. In other words, the model used by the Club to project its future operating income is flexible and can be modified if necessary to limit expenses in response to revenue shortfalls. This is the pattern that the Club has followed in recent years.

## Questions to be Weighed

As previously noted, there are several assumptions made by the Club in projecting its future financial status, given the construction of a new stadium, that cannot be tested at this time. Questions that cannot be definitively addressed prior to the construction of a new stadium include whether:

- the experience of other teams following the construction of a new stadium will actually be realized in Milwaukee;
- the Club will continue to operate successfully for the next three years, including managing any additional debt it will incur as a result of continued operating losses;
- the Club will be able to manage successfully its expenses if revenue projections following construction of a new stadium are less than anticipated in either the short- or long-terms; and
- significant changes in the industry of baseball, including a resolution of current labor issues, revenue sharing, or changes to existing broadcasting agreements, will actually occur.

## Risk of the WHEDA Loan

According to a memorandum of understanding signed by representatives of the State of Wisconsin, Milwaukee County, City of Milwaukee, and the Club, the Club is to contribute a total of \$90 million to the new stadium's construction costs. Of that amount, \$50 million would be obtained through a loan from WHEDA. The remaining \$40 million would come from the Club's own revenues or approved creditworthy sources. Additional details about the WHEDA loan are included in the September 13, 1995, paper issued by the Legislative Fiscal Bureau regarding the stadium proposal.

Although it is anticipated that the Club will be able to repay fully the entire amount of the bond issue, concerns have been raised about whether this is a reasonable assumption. In order to assess the State's financial risk in relation to the WHEDA loan, several factors must be considered. Overall, the risk associated with the WHEDA loan is directly tied to assumptions regarding the Club's future viability.

First, as previously noted, the Club's projections do include an amount designated for repayment of the WHEDA loan. According to Club representatives, the amount is based on a "worst case" scenario, using, for example, unfavorable rather than favorable interest rates. Therefore, although actual payments would depend on the amount and structure of the bonds issued as well as market interest rates at the time of issuance, it is unlikely that the Club has underestimated the amount to be repaid.

Second, whether it is likely the Club will generate enough revenue to fund fully these estimated payments must also be considered. As previously discussed, several different variables will affect the Club's future revenue stream. If there were a serious shortfall of projected revenues, it is possible that the Club would have difficulty meeting its obligation to repay the loan. The critical variable appears to be whether the attendance increase experienced by other teams following the construction of a new stadium will be duplicated in Milwaukee.

Third, consideration needs to be given to whether, even if the Club were to experience revenue shortfalls, it could adjust its variable expenses in order to fund fully its fixed expenses, such as WHEDA loan repayments. While the Club's primary variable expense is player compensation, other variable expenses include such things as general and administrative expenses and corporate affairs and sales. In addition, Club representatives have stated steps could be taken to restructure the Club's other debt in order to ensure the WHEDA loan payments are made. However, in order to ensure that WHEDA loan payments are made consideration may need to be given to requiring adequate debt reserves be established.

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