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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)

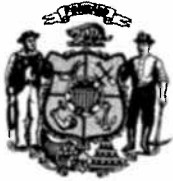
Committee on Audit...

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 20, 1995

TO: Representative David Prosser
Room 211 West, State Capitol

FROM: Kelsie Doty, Fiscal Analyst

SUBJECT: Milwaukee Brewers: Economic Impact

At your request, I am providing information regarding studies that have been prepared concerning the economic impact of the Milwaukee Brewers and the proposed construction of a new stadium. This memorandum is divided into two parts. The first section provides information on a study relating to the economic impact of the Brewers with the current stadium and the second section summarizes a study that estimates the economic impact of a new stadium.

Milwaukee Brewers Economic Impact Study

In May, 1994, a Milwaukee Brewers Economic Impact Study that was prepared by the Greater Milwaukee Committee was presented to the Governor's Stadium Commission. This report updated a 1987 impact study that estimated the effect of the stadium on employment and economic activity. Specifically, two forms of spending were measured: direct and indirect spending. Funds actually spent on salaries and goods and services in the course of business is considered direct spending. Indirect spending is the subsequent economic activity that results from direct spending, often called the "ripple" effect. Money spent on Brewer-related salaries is an example of direct spending. An example of indirect spending would be if those salaries are spent in restaurants, which in turn spend that money on purchases of food and beverages.

The report (expressed in 1993 dollars) estimates the direct annual economic impact of the Milwaukee Brewers to be \$80 million. The indirect impact is estimated to be between \$139 million and \$186 million for a total estimated economic impact of between \$219 million and \$266 million annually. In addition, the Brewers are estimated to impact directly on 900 jobs and indirectly on 1,380 jobs.

The report also estimates the amount of tax revenues attributable to the Brewers in 1993. The City of Milwaukee was estimated to receive \$2 million in tax revenues (\$800,000 from hotel taxes and \$1.2 million in property taxes). Milwaukee County was estimated to generate \$1 million

in property taxes that are attributable to the Brewers. State tax revenues from the stadium were estimated to be \$13 million (\$9 million from the sales tax, \$3 million from individual income taxes and \$1 million in corporate income taxes). Total tax revenue for all levels of government and for all tax sources was estimated to equal \$16 million in 1993.

As it relates to one component of these tax revenues, our office has estimated the amount of individual income tax revenues derived from baseball player salaries to be \$1.4 million. This estimate is based on American League baseball team wages and state tax laws. The \$1.4 million figure is included in the state tax revenue estimates shown in the study.

Economic Impact Report -- Proposed Milwaukee Brewers Stadium

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 as well as 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. (These amounts are based on previous estimates of stadium construction costs and would be higher under the current \$250 million proposal.) 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 multipliers applied against the direct estimated impacts. The indirect economic impacts would be the result of a "ripple" effect resulting from the proposed stadium.

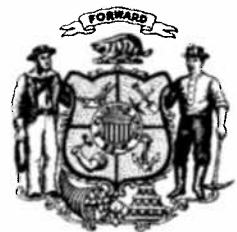
Estimating the net economic benefits of the Milwaukee Brewers and the proposed stadium is a difficult matter. It is likely that a new stadium would result in increases in spending and jobs resulting in increases in tax revenues. However, the exact degree of economic benefit that could be derived from 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, which could result in the same economic impact. Finally, the overall level of economic activity in the state could effect the amount of benefit gained from a new stadium.

I hope this information is helpful. If I can be of further assistance, please contact me.

KD/lah/sas



WISCONSIN STATE LEGISLATURE





Legislative Fiscal Bureau

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

September 20, 1995

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Milwaukee Brewers Stadium: Recommendations of the Assembly Select Committee

On September 18, 1995, the Assembly Select Committee on the Milwaukee Baseball Stadium recommended 14 changes to September 1995 Special Session Assembly Bill 1 by consensus. The Committee discussed a number of other modifications, but did not reach consensus on those items.

Staff from the Legislative Council issued instructions to the Legislative Reference Bureau for these recommended changes to be drafted in amendment form to AB 1. This memorandum summarizes the recommendations of the Select Committee, based on their discussions on September 18.

1. Expand Jurisdiction of a District and Modify Size of Board

Modify the jurisdiction of a District to include a county with a population of more than 500,000 and the counties that are contiguous to that county that have the first, third and fourth largest populations. This provision would add Ozaukee and Washington Counties, so that the District would be made up of Milwaukee, Waukesha, Ozaukee and Washington Counties.

Although the Select Committee agreed to include Ozaukee and Washington Counties in the District, all issues related to the governance of the District were not resolved. The concept of the governance of the District follows:

Increase the number of board members from seven to eleven:

a. Six persons appointed by the Governor, at least four 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 second most populous county in the District (Waukesha County).

d. One person appointed by the county executive of the fourth most populous county in the District (Washington County).

e. One person appointed by the county executive of the fifth most populous county in the District (Ozaukee County).

f. 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.

The attachment to this memorandum shows the estimated, annual tax collections of the District under AB 1 and the recommendations of the Select Committee.

2. Confirmation and Removal of Board Members

Specify that all board members appointed by a county executive, county board chairperson and mayor must be confirmed by the corresponding county board and common council. In addition, all District board members would be subject to removal by the appointing authority.

Under the provisions of AB 1, these appointments would not be subject to confirmation and appointees could only be removed for cause.

3. Super Majority Vote of Board for Certain Actions

Specify that a vote of at least seven members of the board would be required in order to pass resolutions related to imposing a tax, issuing bonds or approving a lease with the Brewers. Under AB 1, a simple majority would be required to approve actions taken by the board.

4. Minority Contracting

Establish a requirement that all development, professional services and construction contracts related to the construction of the stadium would have to include a minimum of 25% ethnic minority businesses and 5% women-owned businesses. In addition, provide that at least 25% of all professional service and construction work would be done by ethnic minority individuals and 5% women workers.

Under AB 1, the District would be directed to attempt to ensure that a goal of 15% of the total amount expended for initial construction is paid to minority businesses.

5. Prevailing Wage Requirements

Specify that all construction jobs related to construction of the stadium would be subject to prevailing wage laws.

6. General Obligation of WHEDA

Specify that bonds and notes issued by WHEDA to finance the loan for the stadium could not be a general obligation of WHEDA. Under current law, the board of the Authority has discretion in whether to extend its general obligation pledge to a bond issue. In descriptions of the Brewers' financing package, the WHEDA bonds have not been characterized as general obligations of the Authority. This amendment would specify that these bonds could not be a general obligation of WHEDA, which would be consistent with the stated intent of the administration.

7. WHEDA Loan Limit

Increase WHEDA's authority to issue bonds and notes for an economic development project involving property to be used primarily as a sports and entertainment home stadium from \$50 million to \$53 million. Specify that not more than \$50 million of this bonding amount could be used for any one project.

8. Surplus Land Sale Approval

Delete the provision that would allow the Building Commission to sell or transfer surplus land to a District without notification or approval of the Joint Committee on Finance. 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.

9. Special Seating Sections for District Residents

Require that, prior to entering into a lease, the District explore and consider ways to encourage the Brewers to accord special or permanent recognition to residents of the District, including the designation of certain seating sections in the stadium.

10. County Recognition Days

Require that, prior to entering into a lease, the District explore and consider ways to encourage the Brewers to have county recognition days, where on a specific day residents from a District county would receive a reduction in the ticket price.

11. Sunset for the Local Sales Tax

Provide that the 0.1% local sales tax imposed by the District would sunset after the District determines that its bonds are retired or defeased, and that it has accumulated sufficient monies to meet its financial obligations for District operations, stadium maintenance and capital improvements.

12. Limit Room Tax to Backup Role

Limit the authority of the District to impose a room tax by specifying that the District could only impose a room tax of up to 1%, after finding that the proposed 0.1% local sales tax would be insufficient to meet its debt service payments. Provide that a room tax could only be imposed on a unanimous vote, with at least seven board members voting.

13. Receipt of Gifts and Donations

Provide that the District board should explore and consider ways to solicit and encourage gifts and donations for the construction of the stadium. To the extent possible, the District board would implement means to solicit such gifts and donations.

14. Use of Gifts or Other Revenue Sources

Provide that monies received as gifts or from other revenue sources would be used exclusively for early debt retirement, District operating costs, stadium maintenance or for stadium capital improvements, unless otherwise designated.

Prepared by: Kelsie Doty and Dave Loppnow

ATTACHMENT

**Projected Gross Local Sales Tax and Room Tax Revenues
Under AB 1 and Select Committee Modification**

AB 1 REVENUES

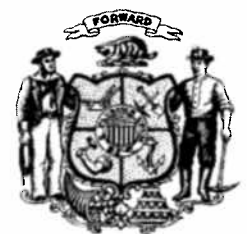
0.1% Sales Tax	
Milwaukee	\$9,500,000
Waukesha	<u>4,800,000</u>
	\$14,300,000
1% Room Tax	
Milwaukee	\$1,000,000
Waukesha	<u>400,000</u>
	\$1,400,000
AB 1 Total	\$15,700,000

SELECT COMMITTEE REVENUES

0.1% Sales Tax	
Milwaukee	\$9,500,000
Waukesha	4,800,000
Ozaukee	700,000
Washington	<u>900,000</u>
Select Committee Total	\$15,900,000



WISCONSIN STATE LEGISLATURE





Legislative Fiscal Bureau

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November 20, 1995

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Milwaukee Brewers Stadium: Provisions of 1995 Wisconsin Act 56

Legislation regarding a financing plan for the construction of a new stadium for the Milwaukee Brewers was signed into law on October 12, 1995, and enacted as 1995 Wisconsin Act 56. In addition, a memorandum of understanding (MOU) was signed by representatives of the State of Wisconsin, Milwaukee County, City of Milwaukee and the Brewers. This memorandum provides information relating to the major provisions of Act 56 and the MOU, as well as to the fiscal effect of the plan.

Stadium Financing Summary

The new stadium will be built at the location of the existing Milwaukee County Stadium. Construction is scheduled to begin in early 1996 and to be completed by March 1, 1999.

Under the Act, a District is created that is a local unit of government made up of five counties: Milwaukee, Ozaukee, Racine, Washington and Waukesha. The District will be governed by 13 board members, six appointed by the Governor and seven appointed by local governments within the District. The local government appointments are as follows: two by Milwaukee County, one each by Ozaukee, Racine, Washington and Waukesha Counties and one by the City of Milwaukee.

The total cost of the stadium is projected at \$250 million:

- The District's contribution to the stadium's construction cost will come from the issuance of \$160 million in revenue bonds, making up its 64% ownership share in the stadium. The debt service on these bonds will be repaid from a 0.1% sales tax imposed in the five-county District.

- The Brewers' contribution of \$90 million will represent its 36% ownership share in the stadium. The Brewers' payment will come from the receipt of a \$50 million WHEDA loan with the remaining \$40 million from the Brewers' own revenues or other sources.

In addition, \$72 million in funding is planned for related infrastructure costs. Under the MOU, representatives of the state have agreed to pay \$36 million toward these activities and representatives of the county and city have agreed to each pay \$18 million.

SUMMARY OF MAJOR PROVISIONS OF ACT 56

Creation of a Local Professional Baseball Park District

Act 56 creates a special district (District) that is a local unit of government, a body corporate and politic that is separate, distinct and independent from the state. The District is comprised of a county with a population of more than 500,000 (Milwaukee County) and all counties that are contiguous to that county (Ozaukee, Racine, Washington and Waukesha Counties). Throughout Act 56, the District and the planned stadium are referred to only in general terms. However, this memorandum discusses the major provisions of Act 56 as they apply to the Milwaukee Brewers stadium plan.

Composition of Board of Directors. The District is governed by its board and can exercise its powers and duties once the majority of the members have been appointed. The board's 13 members will be appointed as follows:

a. Six persons appointed by the Governor, subject to Senate confirmation. Three of the Governor's appointees serve two-year terms and three serve four-year terms, with exceptions for the initial appointments. At least one of the persons appointed by the Governor must reside within each county in the District. These appointees can be removed by the Governor only for cause. A person appointed to fill a vacancy of the Governor's appointments would serve the remainder of the term for which appointed. Finally, the Governor selects the chairperson of the board.

b. One person appointed by the Mayor of the City of Milwaukee, subject to confirmation by the Common Council, who serves at the pleasure of the Mayor.

c. One person appointed by the county executive in Racine and Waukesha Counties and by the chairperson of the county board of supervisors in Ozaukee and Washington Counties, for a total of four members, subject to confirmation by the County Board. These appointees serve at the pleasure of the appointing authority.

d. Two persons appointed by the Milwaukee County executive, subject to confirmation by the County Board. These appointees serve at the pleasure of the County Executive.

Of the 13 board members, seven are appointed by local governments within the District and six are appointed by the Governor. The Act requires that all appointing authorities ensure, as much as possible, that the board's membership is diverse with respect to race. All appointees will take their seats immediately after appointment.

Supermajority Vote of Board for Certain Actions. Approval with a supermajority of at least eight of the board members, regardless of the number of members present, is required for the issuance of bonds, approval of a lease and imposing a local sales tax. All other actions can be taken based on the affirmative vote of a majority of those present.

Structure of Board and Expenses. The board will elect a vice chairperson, a secretary and a treasurer; the Governor selects the chairperson. A majority of the current membership constitutes a quorum. The members of the board are reimbursed for their actual and necessary expenses incurred in the performance of their duties.

Assistance and Audit by State Agencies. All state agencies can provide assistance to the District if it has entered into a lease agreement with DOA. Under current law, the Legislative Audit Bureau can audit any public body created by the Legislature. Act 56 provides that this applies specifically to the District.

Dissolution of a District. A District can 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 will be transferred to the counties in the jurisdiction based on the tax revenues derived from each county, as determined by the Secretary of Administration.

Powers of a District

The Act provides that the District has 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 are granted to the District:

Issue Revenue Bonds. The District has the authority to issue revenue bonds that will be used to fund the District's \$160 million of the stadium's \$250 million projected cost. Before the District can issue bonds, all of the following conditions must be met: (a) a supermajority of the board votes in favor of issuing bonds; (b) a determination is made by a majority of the board that total stadium construction costs would not exceed \$250 million; and (c) a determination is made by a majority of the board that its lease arrangement with the Brewers incorporates at least a 30-year term.

Impose Local Sales Tax. The District has the authority to impose a local sales tax of up to 0.1% by the adoption of a resolution by a supermajority vote of the board.

Enter into Lease Agreements. The District may acquire, lease, use or transfer property. However, the District may not enter into any lease that does not have a supermajority vote of the board. This provision allows the District to lease its ownership interest in the stadium to the Brewers.

Gifts and Donations. The District board must explore and consider ways to solicit and encourage gifts and donations for the construction of the stadium. Gifts can only be used as follows: (a) retiring bonds used to construct the stadium; (b) maintaining and operating the stadium; and (c) making capital improvements to the stadium.

Other Activities. The District has the authority necessary for the construction, maintenance and operations of the stadium, to improve real property, to enter into contracts and to grant

concessions. The District is granted powers to perform other activities related to the operations of the District and the stadium facility.

Powers of a City or County in a District

The Act specifically grants certain powers to the cities and counties within the District's jurisdiction to make grants or loans to the District, to subsidize the District with public or borrowed funds or to grant land or other property to the state.

Taxation by the District

The Act allows a District, upon adoption of a resolution by a supermajority vote of the board, 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 tax is effective on the first day of the first month that begins at least 30 days after adoption. Sales tax provisions that currently apply to the county sales tax also apply to the District. The 0.5% retailer's discount that applies under current law will be extended for purposes of the District's sales tax.

Tax Administration. The Department of Revenue will administer the sales tax on behalf of the District and an appropriation is created under DOR to receive monies generated from the tax. On a quarterly basis, DOR will distribute 97% of the taxes collected to the District, retaining 3% of collections for administrative expenses (the distribution percentage will increase to 98.5% after two years).

Sunset of Sales Tax. The Act specifies that if, at any time, the District's tax revenues exceed current operating expenses, the excess amount will be placed in a fund for future maintenance and capital improvement costs or to retire the bonds early. Once sufficient funds are available to meet the obligations of the District, the 0.1% sales tax will end.

Issuance of Bonds

Special Debt Service Reserve Funds. The District can create special debt service reserve funds that will be used for the payment of principal and interest on the bonds and for the creation and maintenance of any required reserves. This reserve fund can only be created if the Secretary of Administration determines that certain conditions are met. As part of these conditions, it must be determined that the bond proceeds are used for the stadium facility, that the project is feasible and that the bonds will be repaid from sales tax revenues without drawing on funds in the reserve fund.

As an additional condition to creating the special debt service reserve fund, the bonds issued by the District and secured by the reserve fund cannot exceed \$160 million (not including refunding bonds and bonds used to make deposits into the reserve fund, to pay the cost of issuance, capitalized interest and original issue discounts). These bonds cannot be issued later than

December 31, 2000. For refunding bonds to be secured by the reserve fund, they must be issued to fund or refund bonds secured by the reserve fund and cannot adversely affect risk.

Finally, the conditions specify that all outstanding debt of the District will be reviewed and approved by the Secretary of Administration and that DOA will have direct and immediate access to all District records. In addition, the District must provide the Legislative Fiscal Bureau and the Legislative Audit Bureau all financial reports and regular monthly statements of any trustee of the bonds on a direct and ongoing basis.

State Moral Obligation Pledge. The Act provides 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. The Act specifies 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 will make this appropriation.

Information to the Joint Committee on Finance. The District is required to provide information concerning the District's projected cash flows and security features underlying each issuance of bonds to the Cochairpersons of the Joint Committee on Finance. In addition, the Legislative Audit Bureau will have access to the District's financial and other records and is required to provide a biennial report to the Cochairpersons of the Joint Committee on Finance about the District's financial status if the bonds backed by the state's moral obligation have been issued.

Bonds Not Public Debt. The Act provides that the state and the counties in the District are not liable for the bonds issued by the District and that the debt is not debt of the state or the counties.

Powers and Duties of the State Department of Administration

General and Building Construction Services. The Act authorizes DOA to provide services to a District if the District has entered into a land lease agreement for land that is granted to the state for use as a professional baseball park. DOA is authorized to provide engineering, architectural, project management and other building construction services to the District. Further, DOA is authorized to assist the District in letting contracts for engineering, architectural or construction work and in supervising the work done under such contracts. However, DOA cannot act as a general contractor for any construction work undertaken by the District. The District must compensate DOA for any such services.

No order or contract for the provision of any services from DOA is subject to 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.

Appropriations. The purpose of a program revenue (PR) appropriation that finances the provision of materials and services to other state agencies and a PR appropriation for the provision by DOA to other state agencies of capital planning and building construction services are expanded to allow the appropriations to also apply to the District. The Act increases the DOA appropriation for capital planning and building construction services by \$336,200 PR in 1995-96 and \$790,100 PR in 1996-97.

WHEDA Economic Development Loan for Sports Stadium

The Wisconsin Housing and Economic Development Authority (WHEDA) is authorized to issue revenue bonds to finance an economic development project involving property to be used primarily as a sports and entertainment home stadium. WHEDA can issue up to \$50 million in bonds and notes, plus any additional amounts needed to establish a capital reserve fund as well as for the costs of issuing the bonds and to pay capitalized interest on the bonds. The Act specifies that bonds or notes issued for this purpose will not count against WHEDA's \$200 million authority for the general economic development loan program and that the loan for a single baseball park is limited to \$50 million.

WHEDA cannot make a loan to the Brewers for the stadium unless WHEDA determines that collateral adequate to cover the amount of the loan has been pledged as security for the loan. This collateral cannot include any ownership interest of the team in the stadium. WHEDA is required to provide to the Cochairpersons of the Joint Committee on Finance, information regarding WHEDA's projected cashflows and security features underlying each bond issuance for financing the stadium.

Bonds and notes issued by WHEDA to finance the loan to the Brewers cannot be a general obligation of WHEDA.

State Moral Obligation Pledge. WHEDA will include provisions in the bond issuance for the establishment of a capital reserve fund in an amount equal to the reserve requirement established for the specific fund, as determined necessary by the underwriters. If at any time the amount of monies in the fund are less than the capital reserve requirement, 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. The Joint Committee on Finance is then required to introduce a bill providing for the appropriation to WHEDA of the required funds. Current law specifies the Legislature's expression of its moral obligation to provide such an appropriation if ever called upon to do so.

Minority Contracting Goals

Under the Act, the following requirements are established relating to minority contracting. The District must ensure that any person who is awarded a contract agrees, as a condition to

receiving the contract, that his or her goal is that at least 25% of employees hired because of the contract are minority group members and at least 5% of employees hired are women. In addition, the District has as its goal to ensure that at least 25% of the aggregate dollar value of certain contracts be awarded to minority businesses and at least 5% of the value be awarded to women's businesses. These include: (a) contracts for construction of baseball park facilities; (b) contracts for professional services related to this construction; and (c) contracts for the development of baseball park facilities. These same goals apply to DOA in providing services to the District.

If the District is unable to meet its contracting goals, it is required to make a good faith effort to contract with the technical college district board of the technical college district in which the services are to be performed. This contract would be for the purpose of developing appropriate training programs designed to increase the pool of minority group members and women who are qualified to perform the contracts for the District. In addition, the Act requires, that a person awarded a contract has to agree that if the hiring goals are not met, the contractor will make a good faith effort to contract with the appropriate technical college board for similar purposes.

The District board is required to hire an independent person, with previous experience working with minority group members, to monitor the District's and DOA's compliance with these provisions. The District is required to develop a mechanism to receive regular reports on the results of the person's studies of compliance with minority contracting goals. If the District or a contractor is unable to meet its goals, the monitor is required to assess whether good faith efforts were made to reach the stated goals. In making this assessment, the monitor must consider the following: (a) the supply of eligible minority and women's businesses that have financial capacity, technical capability and previous experience, including consideration of competing demands in the industry for such firms; and (b) the extent to which the District and contractors advertised for and aggressively solicited bids and the extent to which minority and women's businesses submitted bids.

The Act directs the District to solicit the Brewer's minority hiring goals in vending contractors and employment in connection with the operation of the stadium.

State Tax Treatment of the District and Stadium-Related Bonds

Interest received on bonds or notes issued by the District and by WHEDA for purposes of making the loan to the Brewers is exempt from the state individual income tax, the state corporate income tax and the state tax on insurance companies. The interest received from the District's bonds will also be exempt from federal income taxes; however, interest from the WHEDA bonds will be taxable.

The District is exempt from the state corporate income and franchise tax.

Other Provisions

Milwaukee County Stadium—Outstanding Debt. The Act requires the District to pay, over three years, any outstanding debt used to finance improvements to Milwaukee County Stadium

up to a maximum amount of \$1,500,000. Milwaukee County currently has approximately \$1.1 million of bonds outstanding related to major capital improvements made to County Stadium.

Prevailing Wage Requirements. The Act specifies that the construction of the stadium is subject to prevailing wage laws.

Use of the Stadium. The Act requires the District to consider utilization of the stadium for events in addition to baseball, which are consistent with the program statement and design for the stadium and do not adversely affect the design, construction schedule or budget.

County Recognition Days. The Act requires that the Brewers annually designate at least one of the team's home games as a discount ticket day for each county in the District.

Contribution to Youth Sports by the Brewers. The Act requires the Brewers to make an annual contribution of at least \$20,000 to youth sports organizations in the state for the purchase of equipment or the rental or maintenance of athletic facilities used by those organizations. The contributions can be in the form of cash or equipment.

Special Rental Payments. The Act specifies that the lease between the District and the Brewers must require that the lessees of sky boxes in the stadium pay to the team an amount equivalent to the combined sales tax rates in the jurisdictions in which the stadium is located applied to the total payment for the sky box rental, and that the team include these amounts as part of its rental payment to the District.

SUMMARY OF MAJOR PROVISIONS OF THE 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 and dated August 19, 1995. The MOU outlines agreements between the parties related to the description of the stadium, stadium ownership, terms and conditions of the stadium lease and design and construction management.

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 have to be incorporated into a final series of binding agreements between these parties. Only the provisions of the Act were subject to legislative approval.

Stadium Description

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

The stadium itself will be owned jointly by the District and the Brewers, based on their contribution to construction costs: \$160 million from the District (64%) and \$90 million from the Brewers (36%). The MOU states that the stadium will cost a maximum of \$250 million, which 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 is constrained to \$250 million.

The stadium will be located at the site of the existing Milwaukee County Stadium. The majority of this land is currently owned by Milwaukee County as part of the existing stadium site. Ownership of this land will be transferred by the County to the state, which will lease the land to the District pursuant to a 99-year ground lease agreement. The District will, in turn, lease it to the Brewers. Two adjacent tracts of land that are presently owned by the state and a private company are also part of the planned stadium site. A land swap is proposed for the privately owned land, although no agreement has been made at this time.

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

the first \$140 million, the Brewers the next \$90 million and the District the remaining \$20 million. Payments to contractors from the fund will 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 stadium, infrastructure improvements need to be made. The infrastructure costs are limited to \$72 million and the improvements are anticipated to be completed by March 1, 1999. The state will fund \$36 million of infrastructure costs related to the stadium interchange and US Highway 41 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 will 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.

Terms and Conditions of the Lease

Stadium Use and Operations. It is anticipated that the term of the lease between the District and the Brewers for the stadium will be for 30 years, starting with substantial completion of the project, with right of renewal or extension. The Brewers will make estimated annual lease payments of \$1.2 million to the District, equal to 10% of the annual debt service payments.

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

The Brewers will be entitled to exclusive possession and use of the stadium for purposes related to major league baseball, such as playing baseball games, selling concessions, operating restaurant facilities, selling advertising, operating offices, conducting business and conducting other events with the District's consent. However, the Brewers cannot make certain changes to the stadium without the consent of the District. The District will have the use of office space in the stadium.

The MOU specifies that the costs of maintenance and repair are the responsibility of both the Brewers and the District. The District will 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 will be subject to the District's receipt of bills, invoices and other documentation evidencing such costs.

The District will be 100% responsible for major capital repairs and necessary improvements. Responsibility for discretionary improvements will be allocated on a case-by-case basis subject to the lease/management agreement. Under the MOU, there will be a segregated reserve fund for

major capital repairs and improvements, which will be funded by deposits of \$700,000 per year from the District and \$300,000 per year from the team. Necessary improvements will 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.

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

The Brewers will need prior written consent of the state and the District to transfer the franchise outside of the City of Milwaukee or to make formal application to the American League for approval to transfer the team. Written notice of negotiations regarding relocation of the franchise or sale or transfer of team ownership interest in the stadium must be provided. Any breach of MOU provisions relating to the transfer of franchise is an event of default. In this case, the state can terminate the site lease, the District can terminate the stadium lease and the Brewers' ownership interest in the stadium will be vested in the District. WHEDA will be able to accelerate its loan and recover the principal balance and other amounts specified in the loan documents.

Under the MOU, the team acknowledges that the state and District are irreparably harmed if the Brewers franchise is transferred to another location during the term of the lease. As a result, the Brewers acknowledge and agree that the state and District do not have adequate remedy at law if the lease is breached, and that they are 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 will 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. In addition, if the Brewers are in default, the District can terminate the team's right to possession of the stadium.

Design and Construction Management

Design Criteria and Construction Standards. The Brewers will first develop a program statement that specifies the functions to be conducted at the stadium and the space requirements for those functions as well as minimum design criteria and construction standards. These activities will be subject to approval by the state, with limitations. Final plans will be developed by the Brewers with input by the state. These plans are subject to approval by the state, although the state can 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.

A project manager will 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 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 design and construction activities related to the site infrastructure, such as hazardous material remediation, parking and the removal of the existing stadium, will be conducted independently of the stadium complex. The Brewers will develop criteria for the site infrastructure with limited approval by the District. The design, construction and timing of infrastructure improvements related to public roads and highways will be conducted by the state, city and county in consultation with the Brewers.

Memorandum of Understanding Conditions

The MOU specifies a number of conditions that have to be satisfied before construction of the stadium could occur. The state, county and city 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. Required federal, state and local appropriations, licenses, orders and permits must be provided. The necessary tax-exempt revenue bonds and other bonds need to be issued by WHEDA, the District, County and City of Milwaukee. Finally, all necessary agreements for lease/management, loans or other items need to be executed.

FISCAL EFFECT

State Moral Obligation Pledge

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

The District. The District's share of construction costs is \$160 million under the stadium financing plan, which will 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. Other expenses for the District include an annual payment to the Brewers for stadium maintenance (the lesser of 64% of actual maintenance expenses for the year or \$3.85 million) and a \$700,000 contribution annually for major capital repairs and improvements.

Revenues for the District will be derived from the 0.1% local sales tax. Net revenues are projected to be \$17.9 million on an annualized basis. Over time, the amount of revenues generated from these taxes will increase as the tax base grows. In addition, the Brewers will make an annual lease payment of an estimated \$1.2 million to the District, equal to 10% of annual debt service.

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 12 to 14 years.

WHEDA. WHEDA's involvement in the financing will be to provide a \$50 million loan to the Brewers, which will be funded with bonds issued by WHEDA. Interest on these bonds will be taxable at the federal level, but exempt for state income tax purposes. If these bonds are 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.

Debt service on these bonds will be paid by the Brewers. Currently, no information is available as to the specific revenues that will be pledged by the Brewers to repay these bonds. However, in order for these bonds to be marketable, whatever repayment provisions are negotiated between WHEDA and the Brewers will have to provide a secure source of revenue to pay the debt service on the bonds. In addition, the Act specifies that WHEDA cannot make the loan until adequate collateral has been pledged as security for the loan, except that the Brewers ownership interest in the stadium cannot be pledged as collateral.

In assessing the likelihood that the state will be called upon to fund its moral obligation pledge at some future date, the District and WHEDA bond issues have differing characteristics.

The District bonds will primarily be secured by tax revenues, 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 will be paid from revenues from the Brewers. Although no specific information is available, presumably team revenues from whatever source will be used to pay debt service on these bonds. While there is an expectation that a new stadium will significantly increase cashflow for the Brewers, team revenues are subject to greater variation than the taxes levied by the District. Revenues available to the Brewers can 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 is a significant shortfall in team revenues, it is possible that the state moral obligation could come into play.

Infrastructure Costs

In addition to the costs associated with constructing the proposed stadium, the state, county and city of Milwaukee are responsible for related infrastructure improvement costs as outlined in the MOU. These improvements are limited to \$72 million and include site improvements, highway construction, parking, utility relocation, environmental remediation and removal of the old stadium.

State Funding. The state will 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 the provisions of AB 557 (the 1995-97 DOT budget bill), as adopted by the Legislature, \$15 million in state funding would be placed in reserve in the transportation fund until June 30, 1999. These funds could be used for either the state's share of infrastructure work associated with the stadium or highway resurfacing and bridge repair activity on the east-west freeway. The Joint Committee on Finance could transfer these funds to the highway rehabilitation appropriation for either of these purposes. DOT would be prohibited from encumbering funds for either project unless funds are transferred by the Committee.

In addition, the state has \$9 million remaining in a federal demonstration grant that can be used for highway work associated with the stadium. The AB 557 prohibition on the encumbrance of state funds would not apply to the federal grant. Although not specified in either the Act or the MOU, the remaining \$12 million will presumably be funded in the 1997-99 biennium with either state or federal transportation funds.

Local Funding. The City and County of Milwaukee will each be responsible for half of the remaining \$36 million in infrastructure costs (\$18 million each) under the MOU. These activities include pad improvements, parking areas, removal of the old stadium and hazardous material remediation. These costs will not be the responsibility of the District. The City and County will

use their revenues to fund these costs (such as state aid, property tax, sales tax or other local revenues), unless the MOU is modified. These costs can be funded either through cash or in-kind services.

Income Tax Exemptions on Bond Interest

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. The interest paid on the District's and WHEDA's bonds is exempt from taxation by the state. The interest paid on the District's bonds will also be exempt from the federal income tax, while WHEDA's bonds will be federally taxable.

District's Bonds. It is estimated that Wisconsin investors have to capacity to 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 is 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 will decline. Bonds purchased by out-of-state investors will have no effect on state income tax revenues.

WHEDA Bonds. The \$50 million WHEDA issue will reduce general fund revenues by an estimated \$300,000 annually, assuming that the bonds pay an interest rate of 9% and are 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 will 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 Act, DOR retains 3% of sales tax revenues (approximately \$540,000) for the first two years of operation and 1.5% in subsequent years.

Department of Administration. The Act increases 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 are 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 are 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 PR 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.

District Tax Revenues

Sales Tax. Under the Act, the District will 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 \$17.9 million, if it is in effect for calendar year 1996. Since DOR is able to retain 3% of revenues in the first two years, \$17.4 million will be available to the District for debt service and other expenses.

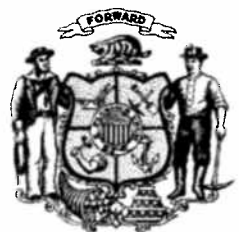
The following table provides an estimate of the amount of revenue that could be generated by imposing a 0.1% sales tax in each of the five counties included in the District (a 0.1% sales tax is equal to a 1¢ tax on a purchase of \$10). In addition, the last column indicates whether the county presently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

Estimated Revenue from 0.1% Local Sales Tax		
<u>County</u>	<u>0.1%</u>	<u>county tax?</u>
Milwaukee	\$9,500,000	yes
Ozaukee	700,000	yes
Racine	2,000,000	no
Washington	900,000	no
Waukesha	<u>4,800,000</u>	no
TOTAL	\$17,900,000	

Prepared by: Kelsie Doty and Dave Loppnow



WISCONSIN STATE LEGISLATURE





Legislative Fiscal Bureau

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

October 6, 1995

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: September 1995 Special Session Assembly Bill 1: Modifications by the Senate

On October 5, 1995, the Senate adopted six amendments to September 1995 Special Session Engrossed Assembly Bill 1, which is the Assembly version of the Milwaukee Brewers stadium bill. The Senate passed the bill, as amended, by a vote of 16 to 15.

This memorandum provides a summary of each amendment adopted by the Senate as a change to the Assembly version of the bill. The attachment shows projected gross tax revenues of the proposed District under the provisions of AB 1 as introduced, as well as under the Assembly and Senate versions of the bill.

Contribution to Youth Sports by the Brewers (SA 12)

SA 12 would require a major league baseball team that uses a stadium built by the District as its home field to make an annual contribution of at least \$20,000 to youth sports organizations in the state for the purchase of equipment or the rental or maintenance of athletic facilities used by those organizations. The contributions could be in the form of cash or equipment.

Minority Contracting (SA 19 and SA 23)

Under the Assembly version of the bill, goals would be established that all development, professional services and construction contracts related to the construction of the stadium would include a minimum of 25% ethnic minority businesses and 5% women-owned businesses. In addition, a goal would be established that at least 25% of all professional service and construction work would be done by ethnic minority workers and 5% women workers.

SA 19 specifies that if the District is unable to meet its contracting goals it would be required make a good faith effort to contract with the technical college district board of the technical college district in which the services are to be performed. The contract with the board would be for the

purpose of developing appropriate training programs designed to increase the pool of minority group members and women who are qualified to perform the contracts for the District. In addition, SA 19 would require, as a condition to receiving a contract from the District, that a person awarded a contract would have to agree that if the hiring goals are not met, the contractor would make a good faith effort to contract with the appropriate technical college board for similar purposes.

SA 23 would include contracts for construction management services under the minority contracting goals of the District.

Technical Amendment (SA 30)

SA 30 would clarify the wording of the provision requiring District payment of up to \$1.5 million on outstanding debt on the existing stadium. As drafted, the Assembly version of the bill could be interpreted to require payments on any existing major league baseball stadium. This amendment specifies that the provision would only apply to a stadium in the District.

SA 30 would also correct a reference to a two-county District as it relates to a bill provision specifying that District bonds would not be a debt of the state or of the counties in the District.

Governance of a District and Legislative Declaration (SA 31)

The amendment would make a number of technical changes to the governance provisions of the Assembly version of the bill. SA 1 would modify the bill so that it would apply more generally, rather than being drafted so that it could only apply to the stadium District that is currently proposed. The modifications include:

- Provide that the Governor would appoint one member for each county in the District, plus one person, rather than specifying that the Governor would appoint six board members.
- Create one general provision governing board appointments by each county, other than the most populous county, rather than identifying each county individually by its population ranking.
- Restate the supermajority voting requirements in the bill to be not less than 60% of the board members, rather than eight board members.
- Specify that 50% of the Governor's appointees would serve two-year terms and 50% would serve four-year terms, unless the Governor has an odd number of appointees, in which case one more person would serve a four-year term, rather than stating that three of the Governor's appointees would serve two-year terms and three would serve four-year terms.

None of these changes would have a substantive effect on the bill. The Governor would still appoint six board members in the proposed District and local units of government would still appoint seven members. The supermajority voting requirement would still be for eight votes, and three of the Governor's appointees would still serve two-year terms and three would still serve four-year terms.

Other modifications in SA 31 include:

- Expand the legislative declaration that is currently in the bill to also specify that the Legislature determines that a district including a county with a population of more than 500,000 serves a public purpose in that county and all counties that are contiguous to that county by providing recreation, encouraging economic development and tourism, reducing unemployment and bringing needed capital into the multicounty area for the benefit of the people in the multicounty area.

- Provide that all appointments to the District board would take their seats immediately after appointment and qualification, rather than upon appointment.

- Delete the requirement that one of the Governor's appointees must be from outside of the District.

Special Rental Payments (SA 32)

SA 32 specifies that if the District enters into a lease agreement with a professional baseball team, then the lease would have to include the following provisions:

- (a) a requirement that lessees of sky boxes in the stadium pay to the team an amount equivalent to the combined sales tax rates in the jurisdictions in which the stadium is located applied to the total payment for the sky box rental.

- (b) a requirement that the team include these amounts as part of its rental payment to the District.

Prepared by: Kelsie Doty and Dave Loppnow

ATTACHMENT

**Projected Gross Local Sales Tax and Room Tax Revenues
Under AB 1 and the Assembly and Senate Versions of the Bill**

REVENUES UNDER AB 1 AS INTRODUCED

0.1% Sales Tax		
Milwaukee		\$9,500,000
Waukesha		<u>4,800,000</u>
		\$14,300,000
1% Room Tax		
Milwaukee		\$1,000,000
Waukesha		<u>400,000</u>
		\$1,400,000
AB 1 Total		\$15,700,000

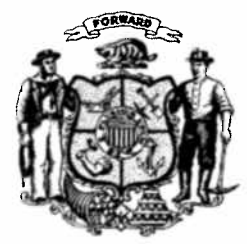
REVENUES UNDER THE ASSEMBLY AND SENATE VERSIONS OF AB 1

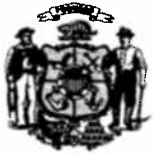
0.1% Sales Tax		
Milwaukee		\$9,500,000
Waukesha		4,800,000
Ozaukee		700,000
Washington		900,000
Racine		<u>2,000,000</u>
Senate Total		\$17,900,000

- Although it is speculative to project District cashflows into the future, depending on the assumed growth rate for the District's tax revenues, the District might be in a position to pay off its bonds in 14 to 17 years under the provisions of AB 1 as introduced.
- As a result of higher projected revenues under the Assembly and Senate versions of AB 1, the District might be able to retire its bonds in 12 to 14 years, rather than 14 to 17 years under AB 1 as introduced.



WISCONSIN STATE LEGISLATURE





March 3, 2000

Senator Gary R. George and
Representative Carol Kelso, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, WI 53702

Dear Senator George and Representative Kelso:

We have completed a review of the financial condition of the Green Bay Packers, Inc., at the request of several legislators including Senator Robert Cowles, who first requested it. The review was conducted in the context of analyzing the Packers' \$295.0 million proposal to renovate Lambeau Field using a combination of public and private funds.

We chose two methods to analyze the Packers' financial condition. First, we reviewed retained earnings reported in the Packers' financial statements, which are a measure of past profitability. The Packers' retained earnings increased from \$40.5 million at the end of fiscal year (FY) 1994-95, to an estimated \$83.9 million at the end of their current fiscal year, which is March 31, 2000. The Packers have benefited from a number of years of record earnings, and our analysis confirms a healthy financial condition through the current fiscal year.


We also reviewed the Packers' cash and investments, which represent resources available to pay current and future salaries and other operating costs. Except in one year, available cash and investments have increased at a considerably slower pace than retained earnings. In response to the increased use of player signing bonuses throughout the National Football League, the Packers have used their available cash largely for this purpose, rather to increase their cash and investment balances. As a result, the Packers estimate they will not have sufficient cash in the current year, and they will need to liquidate more than \$3.7 million in investments to pay expenses. To the extent the current year's decline is the beginning of a trend, it will be necessary for the Packers to secure additional revenues or limit their future cost increases.

Packers officials believe that their proposal to renovate Lambeau Field will improve the financial condition of the franchise and position it competitively within the National Football League. We cannot determine whether the amount of additional net income that is estimated to be generated by the Packers' proposal—at least \$20.2 million in FY 2004-05—will be more or less than what is needed to accomplish these goals. We note, however, that if the stadium is renovated, the Packers project that by FY 2004-05, they will rank near the top third of all League franchises in total revenues.

Senator Gary R. George and
Representative Carol Kelso, Co-chairpersons
Page 2
March 3, 2000

We appreciate the courtesy and cooperation extended to us by the Packers during the course of this review.

Sincerely,



Janice Mueller
State Auditor

JM/bm

cc: Members, Joint Legislative Audit Committee
Members, Senate Committee on Lambeau Field
Members, Assembly Special Committee on the Renovation of Lambeau Field

GREEN BAY PACKERS

We have completed a review of the financial condition of the Green Bay Packers as requested by several legislators, including Senator Robert Cowles, who first requested the review. Under the provisions of s. 13.94, Wis. Stats., the Legislative Audit Bureau does not have the authority to review the Packers' financial records: our authority is limited to reviewing records and other documents maintained by state agencies and certain authorities and districts created by the State relating to their expenditures, revenues, operations, and structure, as well as to reviewing state or federal funds provided to local and private entities. However, in the context of their proposal to renovate Lambeau Field using both public and private funds, the Packers agreed to let us examine:

- their audited financial statements and notes;
- information on the Lambeau Field redevelopment proposal prepared by the Hammes Company, a consultant under contract with the Packers;
- their investment policy; and
- projected income statements, balance sheets, and cash flows through March 31, 2005, which ends the Packers' fiscal year (FY) 2004-05.

We also reviewed published annual reports and other public documents. However, in part because of contractual and National Football League (NFL) restrictions, the Packers did not permit us to review other types of information we specifically requested, including their general and subsidiary ledgers, which summarize accounting transactions and provide detail supporting amounts included in their financial statements, and contracts for goods and services such as concessions, parking, and the use of outside consultants. In addition, in order to obtain access to the Packers' financial statements, we were required to enter into a confidentiality agreement that prohibits us from disclosing some of the information we were permitted to review. Consequently, our analysis of revenues, expenses, and future financial needs is limited by the information that has been made available to us and that we are permitted to share with the Legislature and the public.

To avoid duplication of work by the Legislative Fiscal Bureau, we focused our analysis on the Packers' current and projected revenues and expenses. The Legislative Fiscal Bureau is analyzing the total cost of the renovation proposal, including debt service costs and bonding issues.

The Packers Organization

Green Bay Packers, Inc., is a nonprofit corporation and the only publicly owned team among the 32 franchises (including the new Houston franchise) in the NFL. Approximately 109,700 individuals own shares of Packers common stock but do not receive dividends or profits as a result of stock ownership. The shareholders elect the Packers' 45-member board of directors, whose members serve staggered three-year terms. The board appoints seven of its members to an executive committee that is responsible for monitoring operations, which includes hiring and evaluating the performance of the president and chief executive officer. The Packers project revenues of \$116.5 million and expenses of \$108.8 million in their current fiscal year.

Since it was established in 1919, the Packers organization has periodically relied on community support for its operations. For example, the Packers' name is derived from an early corporate sponsor of the team, the Indian Packing Company, which provided funding for equipment and a field for practices. In 1925, the City of Green Bay built a stadium near East High School in which the Packers played. In 1957, when it was no longer possible to expand the seating capacity at the old City Stadium, Lambeau Field, a new \$1.0 million stadium funded by the city and the Packers, was built. Since then, Lambeau Field has been expanded seven times. Most recently, in 1995, 90 suites that include a total of 1,347 seats were added to the facility.

In the past, expansion projects have been funded entirely by the Packers. In anticipation of future stadium renovation or construction, the Packers recently initiated their first stock sale since 1950. On November 14, 1997, the Packers offered 400,000 shares of common stock at a price of \$200 per share. By the end of the offering, on March 16, 1998, approximately 111,000 shares had been sold, which generated \$22.2 million. Proceeds from the sale of stock are restricted by the NFL to funding future stadium improvements.

Lease with the City of Green Bay

The City of Green Bay owns Lambeau Field. Responsibility for the stadium's operating, maintenance, and repair costs is addressed in a lease agreement between the city and the Packers, which was entered into in 1957 and most recently revised in January 1996. On days that games are played, the agreement requires the city to provide:

- a minimum of 80 police personnel;
- a minimum of 16 fire department/paramedic personnel;
- one staffed ambulance; and
- one fire truck.

In addition, the city is required to provide adequate insurance for the facility, excluding the field, and to make all necessary repairs to or replace, as necessary, the foundation, columns, walls, roofs, ramps, steps, and other portions of the stadium that are constructed of concrete, brick, or steel.

The lease allows the Packers to retain all revenue generated from use of the facility, including revenue generated through concessions, parking, advertising, and signs. The Packers are responsible for paying utility costs, such as electricity and water, and for making necessary repairs to the facility that are not the responsibility of the city, such as maintaining parking lots, fences, and gates. The Packers are also required to make payments to the city for stadium rent and maintenance. In 1999, these combined payments totaled \$1.15 million.

Table 1 shows payments the Packers have made to the City of Green Bay since 1994.

Table 1

Rent and Maintenance Payments to the City of Green Bay

<u>Year</u>	<u>Payment</u>
1994	\$ 703,500
1995	703,800
1996	1,198,000
1997	1,150,000
1998	1,150,000
1999	1,150,000

Proposed Lambeau Field Renovation

In 1998, the Packers hired a consultant to develop plans to renovate Lambeau Field. The proposed \$75.0 million project was expected to widen the concourse, increase the number of restrooms and concession stands, and establish two retail stores. In addition, a new press box, additional seating, and a stadium club were expected to be built. However, in March 1999, the Packers chose not to proceed with these planned renovations. Packers officials indicated that their plans were no longer viable because changing economics within the NFL would not allow the Packers to generate sufficient new revenue to remain competitive in the league.

Packers officials also assert that the acceleration of annual spending on player salaries and other operating costs throughout the NFL has placed increasing demands on the Packers' available resources, thereby limiting the amount of funds the Packers have available for stadium renovation. Lambeau Field is one of the oldest stadiums in the NFL. At 43 years, the Packers have used it longer than any other NFL franchise has used its stadium. Most franchises have recently built new stadiums or are planning to build or to renovate. For example, in the division in which the Packers compete, the Tampa Bay Buccaneers moved to a new stadium in 1998; the Detroit Lions are expected to move to a new stadium in 2002; the Chicago Bears are in the process of developing plans for the renovation of Soldier Field; and the Minnesota Vikings have expressed a need for a new stadium.

In 1999, the Packers began pursuing options for a more substantial Lambeau Field renovation that is intended to generate a greater amount of revenue for the franchise. Typically, new and recently renovated stadiums have a greater capacity to generate revenue through sources such as naming rights, advertising, suites, concessions, and parking. Under NFL bylaws, revenue from these sources is not shared with other teams. In contrast, revenue generated through

sources such as ticket sales and national broadcasting rights is shared among the teams. Teams with stadiums that generate substantially more unshared revenue are likely to be in a better financial position to pay escalating player salaries and other operating costs.

On January 22, 2000, the Packers released details of their new plan for renovating Lambeau Field. Planned improvements include making repairs to the stadium bowl, widening the ground-level concourse and adding an upper-level concourse to provide adequate space for the safe passage of individuals, significantly increasing the number of restrooms, enhancing handicapped accessibility, improving the visiting team locker room, and reconstructing stadium parking lots.

In addition, as shown in Table 2, the proposed renovation would include:

- increasing the stadium's capacity to a total of 71,000 seats, including 5,888 additional general admission seats, 4,340 club seats, and 108 fewer seats in suites;
- increasing the number of concession stand locations by 147, or more than double the current number of concession sites;
- increasing the space devoted to selling Packers merchandise by expanding an existing pro shop and establishing a new pro shop;
- building an addition on the east side of the stadium that would include an atrium concourse, which would be open and expected to generate revenue for the Packers throughout the year. The atrium concourse would house a stadium club; the Packer Hall of Fame, which is a nonprofit corporation currently operating in a facility owned by Brown County and managed by Promotion Management, Inc.; administrative offices; additional space for lease; and football locker rooms and other facilities; and
- decreasing the number of parking stalls. As a result of stadium expansion, 625 parking stalls are expected to be eliminated, leaving a total of 4,900. Although an agreement has not been finalized, an official of the Village of Ashwaubenon has indicated that community's willingness to develop additional parking for the Packers.

Table 2

Selected Components of Lambeau Field Renovation

	<u>Existing Stadium</u>	<u>Renovated Stadium</u>
Total seating capacity	60,890	71,000
Concession locations*	135	282
Main pro shop	1,710 square feet	8,200 square feet
New pro shop	not applicable	4,000 square feet
Stadium club	not applicable	74,600 square feet
Administrative offices	not available	50,800 square feet
Hall of Fame	off-site	25,000 square feet
Parking stalls	5,525	4,900
Other**	not applicable	26,800 square feet

* Excludes portable concessions.

** Space available for lease by other businesses.

The Packers estimate the cost to redevelop Lambeau Field under their current proposal at \$295.0 million and propose that public sources fund 57.3 percent of project costs. The Packers propose that \$9.1 million be provided by the State Transportation Fund and, through a sales tax of 0.5 percent, that Brown County fund:

- the principal and interest costs associated with issuing \$160.0 million in bonds;
- at least \$4.0 million annually of stadium maintenance costs; and
- at least \$500,000 annually of the football stadium district's operating costs.

The Packers would provide the remaining \$125.9 million, or 42.7 percent of construction funding. Proposed Packers funding includes:

- \$92.5 million of an estimated \$116.0 million raised by assessing a one-time user fee of \$2,000 for most general admission seats. The remaining \$23.5 million would fund potential stadium construction cost overruns;
- \$20.4 million raised primarily through the sale of Packers common stock in 1997 and 1998, which may be used only for stadium improvements; and
- a \$13.0 million "loan" provided by the NFL, which will be repaid entirely from the NFL's share of club seat premiums.

Proposed Legislation

On February 8, 2000, the Joint Committee on Finance introduced legislation related to stadium renovation for the Packers in the Assembly (1999 Assembly Bill 730) and in a companion bill in the Senate (1999 SB 384). These bills would create a professional football stadium district in Brown County with the authority to:

- construct, maintain, and manage a professional football stadium and facilities;
- issue bonds and impose up to a 0.5 percent sales tax in Brown County to finance a football stadium;
- enter into partnerships and other arrangements in order to further its purposes; and
- assess fees for the use of a stadium or the right to purchase admission to stadium events.

Before a county sales tax can be implemented, the tax must be approved by Brown County voters in a referendum. The bills also permit Brown County and municipalities within the football stadium district to make grants or loans to the district, lease or transfer property to the district, expend public funds to subsidize the district, and borrow money to fund grants to the district. In addition, the bills provide for the State's "moral obligation" to appropriate state funds to the football stadium district in order to maintain the level of funding that bondholders require in a special debt service reserve account.

Furthermore, the bills:

- authorize the Department of Transportation to make aid payments to the football stadium district for parking lot and road improvements, although the bills do not specify the \$9.1 million in funding the Packers included in their proposal;
- require sales tax revenue to be used only for purposes related to football stadium facilities, although facilities are not defined;
- require Brown County to determine when a referendum will be held, although it cannot be scheduled earlier than 45 days or later than one year after the football district passes a resolution to implement a sales tax;
- permit the Joint Legislative Audit Committee to review the football stadium district's performance; the Legislative Audit Bureau to audit district records; and the Department of Administration, the Legislative Audit Bureau, and the Legislative Fiscal Bureau to review all of the district's financial reports and all regular monthly statements of any trustee of the bonds; and
- exempt the income and interest on the football stadium district's bonds from state income tax.

The Packers will manage the construction process. The district will issue revenue bonds to fund construction, and it will be responsible for maintaining the stadium in the future. It is unclear how the lease between the Packers and the City of Green Bay will be affected if the proposed legislation is enacted.

The Packers' Current Financial Condition

There are several ways to measure a private organization's financial condition. We chose two of the most commonly used methods to analyze the financial condition of the Packers. First, we reviewed the retained earnings reported in financial statements, which measure past profitability. Second, we reviewed the amount of cash and investments available to pay current and future operating costs.

Retained Earnings

As shown in Table 3, the Packers' retained earnings increased from \$40.5 million at the end of FY 1994-95 to an estimated \$83.9 million at the end of their current fiscal year. The Packers have benefited from a number of years of record earnings, and our analysis confirms a healthy financial condition through the current fiscal year.

Table 3

Packers Income and Retained Earnings (in millions)

	FY <u>1994-95</u>	FY <u>1995-96</u>	FY <u>1996-97</u>	FY <u>1997-98</u>	FY <u>1998-99</u>	Estimated FY <u>1999-2000</u>
Beginning retained earnings	\$38.5	\$40.5	\$45.9	\$51.8	\$58.5	\$76.2
Net income*	<u>2.0</u>	<u>5.4</u>	<u>5.9</u>	<u>6.7</u>	<u>17.7</u>	<u>7.7</u>
Ending retained earnings	\$40.5	\$45.9	\$51.8	\$58.5	\$76.2	\$83.9

* Includes net income from expansion fees. For example, in FY 1998-99, more than \$10.6 million of the Packers' net income was generated by fees received from the new Cleveland Browns franchise.

To better understand the underlying reasons for the Packers' profitability during their past six fiscal years, we analyzed revenues and expenses and discussed trends with Packers officials.

Revenues - As shown in Table 4, the Packers estimate their revenues will be \$116.5 million in the current fiscal year, representing an increase of 83.7 percent since FY 1994-95. National television and radio broadcasting rights represent the Packers' largest source of revenue and account for the largest increases over time. Since FY 1994-95, revenue from the sale of broadcasting rights increased by \$23.7 million, or 63.5 percent. Television and radio revenues consist largely of revenue shared by all NFL teams based on negotiated NFL contracts, but they also include revenues from broadcast agreements between the Packers and local television and radio stations for games that are not broadcast nationally. National broadcasting revenue accounts for almost all of the Packers' television and radio revenues. Total national television broadcast revenue is known through 2005, when new contracts will be negotiated.

Table 4

Packers Revenues

	<u>FY 1994-95</u>	<u>Estimated FY 1999-2000</u>	<u>Increase</u>	<u>Percentage Increase</u>
Broadcasting rights	\$37,258,000	\$ 60,928,000	\$23,670,000	63.5%
Home game ticket income	8,536,000	14,290,000	5,754,000	67.4
Road game ticket income	6,362,000	9,150,000	2,788,000	43.8
Marketing and pro shop sales	1,722,000	8,482,000	6,760,000	392.6
Suite and club seat premiums	1,650,000	5,794,000	4,144,000	251.2
NFL Properties income	2,586,000	3,936,000	1,350,000	52.2
Other operating revenues	2,285,000	4,710,000	2,425,000	106.1
Expansion fee income	1,800,000	5,000,000	3,200,000	177.8
Investments and other non-operating income	<u>1,243,000</u>	<u>4,225,000</u>	<u>2,982,000</u>	240.0
Total	\$63,442,000	\$116,515,000	\$53,073,000	83.7%

Ticket revenue is also shared: the home team receives approximately 66.0 percent of ticket sales, and the visiting team receives 34.0 percent. The other significant source of shared revenue is NFL Properties, which raises revenue by issuing licenses to retailers for the sale of NFL merchandise and through commissions on these sales.

Revenue from local sources also increased significantly, including:

- \$6.8 million in marketing and pro shop revenues, largely as a result of selling advertising space on two JumboTron scoreboards, corporate sponsorships, and selling Packers merchandise through catalogs and the Internet;
- \$4.1 million in the premiums paid for suites and club seats, which is in addition to suite and club seat ticket revenue. On average, annual premiums are approximately \$22,700 for suites and \$550 for club seats;
- \$3.0 million in investment income, primarily a result of investing the proceeds from the 1997 and 1998 stock sale; and
- \$2.4 million in other revenues, which include revenue from concessions, parking, souvenir programs, and other sources. Concession revenue constitutes the largest source of revenue in this category. We attempted to report concession revenue separately but were prohibited from doing so by the Packers, based on restrictions in their contract with Promotion Management, Inc.

As shown in Table 5, other NFL franchises also receive a percentage of their revenues from local sources. However, while the proportion of revenue the Packers derived from local sources more than doubled between 1994 and 1999, it is still less than the NFL average. Furthermore, the difference between the NFL average and the Packers' revenue from local sources has increased from 4.7 percentage points in 1994 to 5.1 percentage points in 1999. As noted, because local revenue is not subject to NFL revenue sharing rules, franchises that generate relatively more income from local sources are likely to be at a competitive advantage compared to franchises that rely more heavily on shared income sources.

Table 5

Revenue Composition Comparison
(percentages of total revenue)

	<u>National Revenue</u>	<u>Ticket Revenue</u>	<u>Local Revenue</u>
1994:			
NFL average	60.0%	28.0%	12.0%
Green Bay Packers	70.0	22.7	7.3
1999:			
NFL average	58.0	22.0	20.0
Green Bay Packers	64.9	20.2	14.9

Expenses - As shown in Table 6, the Packers expect their expenses to increase \$47.4 million, or 77.2 percent, from FY 1994-95 through FY 1999-2000. The largest category of expenses is player costs, which include player salaries and fringe benefits, as well as other costs related to players, such as preseason travel. Player costs increased by \$29.8 million, or 71.1 percent, to a total of \$71.8 million in the Packers' current fiscal year. This increase is partly a result of NFL salary cap requirements, which include both a minimum and a maximum amount that franchises may spend on team salaries. Since FY 1994-95, the maximum allowed for salaries under the cap has increased by 79.6 percent. For competitive reasons, many franchises spend near the maximum, which is based primarily on 63.5 percent of national revenues of the franchises. Consequently, most teams incur similar cost increases over time. The NFL Management Council and the NFL Players Association negotiate salary limits; the current contract runs through 2002.

Table 6

Packers Expenses

	<u>FY 1994-95</u>	<u>Estimated FY 1999-2000</u>	<u>Increase</u>	<u>Percentage Increase</u>
Player costs	\$41,999,000	\$ 71,842,000	\$29,843,000	71.1%
Administrative expenses	16,048,000	29,784,000	13,736,000	85.6
Game expenses	1,579,000	2,347,000	768,000	48.6
Income taxes*	1,375,000	4,117,000	2,742,000	199.4
Interest expense	<u>410,000</u>	<u>740,000</u>	<u>330,000</u>	80.5
Total	\$61,411,000	\$108,830,000	\$47,419,000	77.2%

* The Packers are subject to federal and other state income taxes, but not Wisconsin income taxes.

The second-largest increase is in the administrative expense category. The Packers estimate administrative expenses to have increased \$13.7 million, or 85.6 percent, since FY 1994-95, to a total of \$29.8 million in their current fiscal year. As shown in Table 7, administrative expenses include non-player salaries, facility costs, and other operating expenses.

Table 7

Packers Administrative Expenses

	<u>FY 1994-95</u>	<u>Estimated FY 1999-2000</u>	<u>Increase</u>	<u>Percentage Increase</u>
Non-player salaries	\$ 5,439,000	\$11,150,000	\$ 5,711,000	105.0%
Facility costs	3,224,000	6,248,000	3,024,000	93.8
Other operating expenses	<u>7,385,000</u>	<u>12,386,000</u>	<u>5,001,000</u>	67.7
Total	\$16,048,000	\$29,784,000	\$13,736,000	85.6%

Non-player salaries, which include the salaries of the coaching staff and administrative personnel, have more than doubled since FY 1994-95. As shown in Table 8, a portion of this increase is a result of the addition of 21 positions, from 72 in FY 1994-95 to 93 in the current fiscal year. The Packers have added a significant number of non-player staff since FY 1994-95, including five staff for expansion of their retail operations. Packers officials indicate their non-player staffing level is below the average among NFL franchises.

Table 8

Packers Staffing Increases*
FY 1994-95 through FY 1999-2000

<u>Type of Staff</u>	<u>New Positions</u>
Pro shop	5
Football operations	5
Facilities and maintenance	3
Player relations	3
Administration	2
Scouting	1
Public relations	1
Coaching staff	<u>1</u>
Total	21

* Excludes changes in the number of football players.

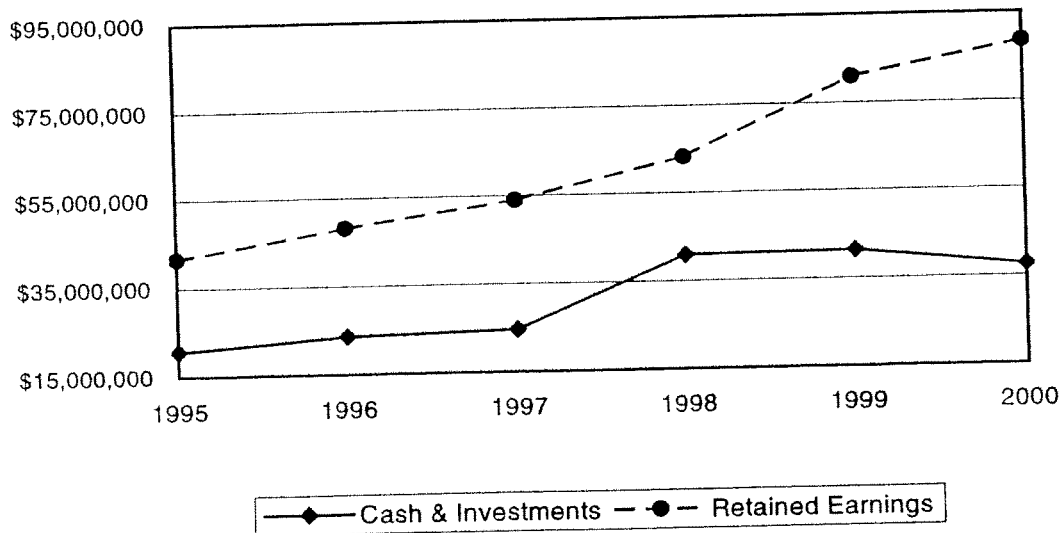
As was shown in Table 7, the Packers estimate their facility costs at \$6.2 million for the current fiscal year. Over two-thirds of this expense is for depreciation of past capital improvements. Since FY 1994-95, other administrative operating expenses have increased \$5.0 million, or 67.7 percent. Packers officials indicate that NFL assessments for league operations, which cannot be controlled by the Packers, account for the largest increase in this category. Other costs in this category include fringe benefits for staff; stockholder communications; computer hardware and software; and professional fees, such as payments to lawyers, auditors, and consultants.

Cash and Investment Balances

A second measure of the Packers' financial condition is cash and investments, which represent resources available to pay current and future salaries and other operating costs. An analysis of changing cash and investment balances may identify potential financial challenges in the future that may not be captured by a review of prior years' net income.

As shown in Figure 1, the Packers' cash and investment balances increased at a considerably slower pace than retained earnings, except in FY 1997-98. As noted, retained earnings increased from \$40.5 million at the start of FY 1995-96 to an estimated \$83.9 million at the end of the Packers' current fiscal year. Cash and investments increased from \$22.1 million to \$37.5 million during this same period.

Figure 1
Cash and Investment Balances Compared to Retained Earnings*
(as of March 31)



* Cash and investment balances exclude \$20.6 million, including \$20.2 million received from the stock sale, that is restricted for stadium improvements.

The relationship between increases in retained earnings, which are measured by net income, and changes in cash and investments is complex and may appear contradictory. For example, as shown in Table 9, while the Packers' net income was \$6.7 million in FY 1997-98, their cash and investments increased by over \$14.7 million. This increase resulted primarily from short-term borrowing of \$10.8 million to pay for operating costs, including player compensation, and from the deferral of approximately \$9.1 million in player and other personnel compensation to future years, as provided under contracts.

Table 9

Change in Cash and Investments

	<u>FY 1997-98</u>	<u>FY 1998-99</u>	<u>Estimated FY 1999-2000</u>
Increases in cash and investments:			
Net income	\$ 6,718,000	\$17,686,000	\$ 7,685,000
Proceeds from short-term borrowing	10,760,000	0	0
Other adjustments*	<u>13,963,000</u>	<u>4,667,000</u>	<u>3,238,000</u>
Total increases in cash and investments	\$31,441,000	\$22,353,000	\$10,923,000
Decreases in cash and investments:			
Signing bonuses	\$13,682,000	\$14,388,000	\$ 6,676,000
Repayment of short-term borrowing	0	5,719,000	5,726,000
Capital expenditures	<u>3,047,000</u>	<u>1,808,000</u>	<u>2,200,000</u>
Total decreases in cash and investments	\$16,729,000	\$21,915,000	\$14,602,000
Net change in cash and investments	\$14,712,000	\$ 438,000	\$(3,679,000)

* Includes net changes in other accounts, including the amount of player and other personnel compensation deferred to future years, which for FY 1997-98 totaled \$9.1 million.

On the other hand, while the Packers earned \$17.7 million during FY 1998-99, primarily from increased NFL expansion revenues, their available cash and investments increased by just \$438,000. For their current fiscal year, the Packers estimate net income of \$7.7 million but project they will have insufficient cash to meet their obligations. This negative cash flow will require approximately \$3.7 million in investments to be liquidated or spent.

One reason cash and investments increased less than net income during the last two fiscal years is that the Packers repaid prior-year short-term borrowing with \$5.7 million in funds generated in

FY 1998-99, and \$5.7 million generated in FY 1999-2000. The Packers use this temporary borrowing instead of liquidating longer-term investments to manage their cash during the off-season.

However, a more significant reason why cash and investments increased less than net income is the Packers' increased use of signing bonuses as part of player compensation. Since 1994, when limits were placed on team salaries, franchises have increased the portion of player salaries they pay in cash at the time contracts are signed, in order to attract and retain marquee players. In contrast to most other professional sports, which guarantee the entire amount of a player's contract, the signing bonus is the only portion of a professional football player's contract that is guaranteed. Accounting rules require signing bonuses, which represent pre-paid salary costs, to be charged against net income over the lengths of the players' contracts.

Because the Packers have increased their use of signing bonuses, they have used their available cash for this purpose rather than to increase investment balances. The amount of pre-paid salary costs represented by signing bonuses has increased each year since FY 1994-95, with the largest increase (\$14.4 million) occurring between FY 1997-98 and FY 1998-99. The Packers pre-paid salary costs are projected to increase an additional \$6.7 million in FY 1999-2000 and to total \$50.2 million as of March 31, 2000. We were unable to obtain information on the extent to which the Packers' use of signing bonuses differs from other franchises.

Future Financial Condition

The Packers indicated that the severity of potential future cash deficiencies became apparent in FY 1998-99, when cash and investments increased by only \$438,000 despite record net income of \$17.7 million. The record income resulted largely from expansion revenues. The Packers expect cash flow problems to worsen in the current year. Our analysis confirms a significant decline in the Packers' projected cash and investment balance for FY 1999-2000, which results primarily from payment of escalating signing bonuses. To the extent this decline is the beginning of a trend, it will be necessary for the Packers to secure additional revenues or limit their future cost increases.

Several indicators point to potential financial challenges for the Packers in the future. For example:

- Future revenue from expansion fees is expected to decline because the current number of NFL franchises is considered optimum for the league's conference structure and scheduling purposes. Only a new Houston franchise, which is expected to begin play in 2002, will provide expansion revenue in the foreseeable future. The Packers received \$5.0 million from the Houston franchise in their current fiscal year and expect to receive a total of \$18.3 million over the next four years.
- In the absence of additional local revenue, the Packers project that their revenue ranking among all NFL franchises will decline from 15th in their current fiscal year to nearly last by FY 2003-04, in part because other teams are making increasing use of local revenues generated by new or renovated stadiums. As noted, local revenue is not shared with other NFL teams.
- Without stadium renovation, the Packers believe they will have to spend \$48.1 million of their available cash and investments over the next five years in order to fund operations and

maintain Lambeau Field. Packers officials assert that as available cash declines, the team will become less competitive because fewer funds will be available to pay signing bonuses and other player obligations.

Packers officials believe that expenses cannot be significantly limited in the future because player costs are market-driven and subject to collective bargaining agreements. Therefore, they believe that their stadium renovation proposal is needed to provide a consistent source of additional revenue for the franchise. Table 10 shows the Packers' estimates of revenues in FY 2004-05, both with and without stadium renovation.

Table 10

Packers' Projected Revenues
FY 2004-05

	<u>Without Stadium Renovation</u>	<u>With Stadium Renovation</u>	<u>Difference as a Result of Renovation</u>
Operating revenues	\$143,947,000	\$165,168,100	\$21,221,100
Investment income	<u>1,345,000</u>	<u>3,540,000</u>	<u>2,195,000</u>
Total	\$145,292,000	\$168,708,100	\$23,416,100

Overall, the Packers expect additional revenue of \$23.4 million if the stadium is renovated. With renovation, the Packers project \$21.2 million in additional operating revenues from a number of sources:

- \$8.8 million in additional suite and club seat revenue;
- \$4.0 million from the sale of additional merchandise and advertising, which does not include revenue from naming rights;
- \$3.7 million from the atrium concourse, including the net income of the stadium club and lease income from other tenants;
- \$3.5 million in additional ticket sales revenue as a result of increasing seating capacity; and
- \$1.2 million from additional concession sales and various other sources.

In addition, the Packers expect almost \$2.2 million in additional investment income as a result of avoiding the need to liquidate investments to fund ongoing operations.

While the Packers expect FY 2004-05 revenues to increase an additional \$23.4 million if stadium renovation occurs, they expect expenses in a renovated stadium to increase by only an additional \$3.2 million, as shown in Table 11. Income taxes are projected to increase by \$10.9 million with renovation; and facility costs are projected to decrease by \$7.7 million, primarily as a result of transferring maintenance and other expenses to the football stadium district.

Table 11

**Packers' Projected Expenses
FY 2004-05**

	<u>Without Stadium Renovation</u>	<u>With Stadium Renovation</u>	<u>Difference as a Result of Renovation</u>
Operating expense	\$150,715,000	\$143,003,000	\$(7,712,000)
Interest expense	1,280,000	1,280,000	0
Income tax expense	<u>(2,346,000)</u>	<u>8,548,700</u>	<u>10,894,700</u>
Total	\$149,649,000	\$152,831,700	\$ 3,182,700

If the renovation proposal is adopted, the Packers' financial condition will improve. Operating revenues are expected to increase by an additional \$21.2 million, and operating expenses are expected to decrease by \$7.7 million, resulting in a FY 2004-05 increase in income from operations of \$28.9 million. However, after considering investment income, interest expense, and income tax expense, the Packers net income will improve by \$20.2 million.

Packers officials believe this increase will position the franchise favorably within the NFL. In fact, if the stadium is renovated, the Packers project their total revenues will rank near the top third of all NFL franchises by FY 2004-05. However, we cannot determine whether the amount of additional net income that will be generated by the Packers' proposal—approximately \$20.2 million in FY 2004-05—is more or less than is needed to remain competitive. In addition, the Packers' projections contain a number of assumptions that cannot be tested, and actual revenues and expenses may differ substantially from current estimates. For example, expense levels could change depending on future management decisions. In addition, revenue from the stadium club and rental space cannot be analyzed until plans for use of the atrium concourse are further developed.

Questions to Be Considered

Broad questions related to the total cost of the proposal and associated funding issues will need to be addressed by the Legislature. A number of additional questions concerning the Packers' renovation proposal have also been raised by legislators, local officials, and the media, including whether the

Packers could pay a larger share of renovation costs, the implications and effects of financing mechanisms, and the effects of the renovation proposal on the City of Green Bay and the surrounding communities. Many of these questions cannot be answered definitively based on the amount and type of information available. However, during the course of our analysis, we reviewed several issues the Legislature may wish to consider as it continues deliberations on the proposal.

Can the Packers generate additional revenue from existing sources to help fund stadium renovation and maintenance?

Some have questioned whether the Packers could generate additional revenue to reduce the level of public financial support needed for the proposal. As noted, the majority of the revenue the Packers receive comes through the NFL's sale of national television broadcast rights and is shared among NFL franchises. However, the Packers can influence the amount of revenue they receive from other sources, primarily those who attend games.

The Packers propose keeping their average ticket prices at or slightly above the NFL average through increases of \$6 per ticket per game in FY 2001-02, and \$3 in 2002-03. Because season ticket holders will benefit most directly from an improved facility, some have proposed raising prices somewhat above the league average. If ticket prices were increased by an additional \$5, or 10 percent above their current average price of \$49, the Packers' revenues would increase by approximately \$2.0 million annually with existing stadium capacity, and by approximately \$2.3 million under the proposed expansion. Such an option would likely be opposed by season ticket holders, who are also being asked to pay a one-time user fee of \$2,000 for each seat.

Increased revenue could also be generated from parking fees. Raising the price of stadium parking could generate additional revenue immediately. If parking were increased from the current price of \$15 per stall to \$25 per stall as some have suggested, approximately \$350,000 in additional revenue would be raised annually. In the longer-term, local officials have suggested that an additional 5,000 to 7,000 parking stalls may be made available at no cost to the Packers from the Village of Ashwaubenon. At the current \$15 parking price, if 5,000 more stalls were eventually made available, an additional \$750,000 would be generated annually.

Should new revenue sources be found to help fund stadium renovation and maintenance?

A number of new sources of revenue have been suggested by legislators and others, including selling naming rights to the stadium, selling Packers license plates, creating a "walk of fame," and selling bricks for construction that would display names of the individual or corporate donors. It is difficult to make precise estimates of the amount of revenue that could be generated from most of these activities. Nevertheless, some have estimated that revenue from naming rights for the atrium concourse and entrance gates could be as much as \$2.0 million annually and, if naming rights for the stadium are granted, as much as \$100.0 million in total could be generated. The Monona Terrace Convention Center in Madison generated approximately \$1.0 million on a one-time basis through the sale of inscribed tiles. Because revenues generated through these and other sources have not been included in the Packers' contribution toward construction, it has been argued that some or all of these sources could be used to help reduce public financial support for the renovation proposal.

How should any excess funds in the cost overrun reserve be used?

As noted, the Packers expect to receive \$116.0 million from assessing one-time seat user fees. Approximately \$39.4 million, or 34.0 percent, of this revenue would normally be shared by the other NFL franchises. However, because this revenue will be used for stadium construction, NFL rules allow the Packers to retain the full amount, of which the Packers have designated \$92.5 million to help fund construction, and \$23.5 million to create a reserve for construction overruns. The Packers have agreed to fund cost overruns in exchange for control of the construction process. If the proposal is approved, the Packers may not need to use the entire \$23.5 million reserve for construction purposes, in part because the \$295.0 million renovation proposal already includes \$20.0 million that is held as a reserve for contingencies. Because the Packers cannot use any of the unused funds from the reserve for construction bond debt service without NFL approval, the Legislature could consider whether any reserves that are not needed for cost overruns be returned to those who paid the user fees.

How should maintenance and operating costs be paid in the future?

As proposed by the Packers, the franchise's expenses for the renovated stadium would be reduced by \$7.7 million in FY 2004-05 because maintenance and other costs would be transferred to the stadium district. The Packers have explained that \$4.0 million of this amount represents routine maintenance and operating costs, including:

- \$1.7 million in facility maintenance, which includes janitorial services, supplies, and equipment rental;
- \$977,000 for general administrative costs, including insurance and professional services such as accounting and legal services;
- \$741,000 for security, including traffic control, law enforcement, and fire and emergency management services; and
- \$564,000 for grounds maintenance, including snow removal, field maintenance, and heating for the field.

It is unclear how the remaining funds will be spent, although it is expected that a significant portion will be designated for future capital improvements.

The Packers have proposed that at least \$4.0 million of these costs be funded by sales tax revenue and that the football stadium district apply a surcharge on tickets to provide additional funding to build reserves for future capital improvements. Considering the level of public support and the substantial benefit the Packers will receive from operating the renovated stadium, including the atrium concourse, some have questioned whether the proposed cost-sharing arrangement for maintenance should be restructured.

What are the financial implications of renovation to the City of Green Bay?

As noted, the Packers currently make annual rent and maintenance payments totaling \$1.15 million to the City of Green Bay, which owns Lambeau Field. Of these payments, approximately \$300,000 annually is paid for maintenance. The city has established a fund for those maintenance costs for which it is responsible under the lease agreement, and city officials indicate the current balance in the Lambeau Field maintenance fund is \$1.1 million. It is unclear how these funds will be used should the current proposal be approved.

The City of Green Bay currently spends approximately \$450,000 each year to provide police and fire protection on game days, while receiving about \$900,000 from the Packers in rental payments that cover these and other costs. As noted, it is unclear how the lease between the Packers and the city will be affected if the proposed legislation is enacted. If the lease payments are discontinued, the amount of revenue in excess of the city's costs would decrease by approximately \$450,000 annually unless the stadium district were required to pay property taxes or payments in lieu of taxes.
