



## Legislative Fiscal Bureau

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December 14, 2006

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Building Commission: Section 13.48 Request for Approval of the Sale of the Pettit National Ice Center -- Agenda Item IX

### **REQUEST**

The State Building Commission requests the approval of the Joint Committee on Finance under section 13.48(14) of the statutes to sell the Pettit National Ice Center, subject to certain restrictions, to the nonprofit corporation Pettit National Ice Center, Inc.

### **BACKGROUND**

The Pettit National Ice Center is a 3,000 seat official Olympic training facility that features a 400-meter indoor speed skating ice oval, along with two international size ice rinks used for hockey, figure skating and short track speed skating. The facility opened in December, 1992, and is owned by the state but leased to a nonprofit corporation, Pettit National Ice Center, Inc., that operates the facility. The Corporation is governed by an eleven-member board that includes five members appointed by the Jane Bradley Pettit Foundation's (a non-profit foundation that attempts to support initiatives that enhance the quality of life in the Milwaukee area) Board of Directors, a designee appointed by the Governor, the Secretary of Commerce, and four members selected by the rest of the Pettit Center Board.

Section 42.11 of the Wisconsin statutes specifies that the State Fair Park Board has "sole responsibility" for the Olympic Ice Training Center at the Park, including the land and facilities related to its operation. The statutes further specify that no person may use the facility without board approval and authorizes the board to enter into a lease with a nonprofit corporation to operate and maintain the Center.

Under section 13.48 of the statutes, the Building Commission may sell or lease any state owned building or land unless another state agency is specifically authorized to sell or lease such

buildings or lands. Typically, buildings or lands offered for sale have been declared surplus property of the state. The Building Commission must notify the Joint Committee on Finance in writing of the proposed sale or transfer of a parcel of surplus land having a fair market value of at least \$20,000. If the Co-chairpersons of the Committee do not notify the Building Commission of a scheduled meeting to review the sale within 14 working days, the Commission may sell the property. If a meeting is scheduled to review the sale, the parcels may be sold only upon approval of the Committee. Net proceeds for any sale are deposited to the budget stabilization fund.

On December 1, 2006, the Building Commission submitted the proposed sale of the Pettit National Ice Center to the Joint Committee on Finance (JFC) under 14-day passive review. The Co-chairs of the Committee notified the Building Commission Secretary that the proposed sale would be reviewed at the December 14, 2006, meeting of the Committee.

## **ANALYSIS**

The 1991-93 biennial budget authorized \$12.1 million for construction of the Pettit National Ice Center (\$8.1 million in state self-amortizing general obligation bonds and \$4 million in donations), however, actual construction costs were \$13.3 million and the state issued \$9.3 million in program revenue supported general obligation bonds. The State Fair Park Board lease with the Pettit National Ice Center, Inc., calls for monthly payments sufficient to pay the annual debt service costs of the facility. Any deficiency in monthly lease payments becomes a draw on general State Fair Park operations. Annual debt service is expected to average \$900,000 for the next seven fiscal years (through 2012-2013), then decline to an average of \$43,000 for four years (through 2016-2017) and finally drop to approximately \$1,500 for the final eight years (through 2024-2025). Pettit National Ice Center, Inc., officials estimate the Corporation may be able to generate \$300,000 annually to pay rent, meaning the Park could be required to support about \$600,000 annually in debt service costs related to the Center for the next seven years. Additional Pettit Center subsidies required of the Park would lessen the Park's ability to reduce its cumulative cash deficit, which is estimated to be in excess of \$11 million.

Summary of Building Commission Action. Under the Building Commission action, the State Fair Park Board would be authorized to sell the Pettit National Ice Center and approximately 9.35 acres of land (adjacent land and parking areas), to Pettit National Ice Center, Inc., for up to \$5,650,000, plus all closing costs. The actual price would be determined on the closing date (expected to be January 5, 2007), after the State's Capital Finance Director ensured that the price would be sufficient to fund all remaining debt service costs.

Under the proposal, sale proceeds would be invested in the State's Bond Security and Redemption Fund or another permissible mutually agreeable fund. Sale proceeds and investment earnings would be used to pay remaining debt service payments. If sale proceeds prove to be insufficient to fund remaining debt service payments, the State Fair Park would remain liable for

these payments. No sale proceeds would be provided to the Park for payment of the ice center's past-due lease balance.

As a condition for this sale, the Building Commission approval requires that as long as the center is owned by the Pettit National Ice Center, Inc., the ice center be primarily used as an ice skating rink and training facility for recreational and competitive skating purposes. In addition, the sales agreement and transfer deed would include a provision that would not permit the Pettit National Ice Center, Inc., to subdivide the property, sell it in part, or transfer partial fee title interest of the ice center. Further, the Commission action indicates the sales agreement and transfer of deed would include a provision that would allow the Building Commission and State Fair Park Board the right to approve leases that extend beyond two years (excluding those leases that would terminate if the property were repurchased by the Park). This procedure would consist of a 14 working-day passive review process, whereby any objection by a member of the Building Commission or Park Board would require formal review and approval by the respective entity at its following meeting.

Moreover, the sales agreement and transfer deed would be required to include a provision that provides the State Fair Park Board with a parking easement for 225 vehicles each year during the 11-day State Fair, and at other times when the Pettit Center has extra capacity. In return, the Ice Center would receive a similar easement for 225 vehicles for 11 days during the year when it needs additional parking and when the Park has extra capacity.

Also, any sales agreement or transfer of deed would be required to provide the State Fair Park with access to, and an easement for, land and a service road that contain State Fair Park signs and equipment.

Further, the Building Commission action requires the sales agreement to specify that State Fair Park would have the first right to purchase the ice center, at a price of \$5.3 million, should Pettit National Ice Center, Inc., decide to discontinue its ice rink programming operations or decide to sell the ice center. In anticipation of a potential foreclosure, any sales agreement or transfer of deed would be required to include a provision to ensure the State Fair Park is given ample notice, along with the ability, to make any necessary payments to creditors before a repurchase of the property can be made.

It should also be noted that the Pettit Center is located in the City of Milwaukee, which would continue to provide municipal services to the facility. Under the proposed sale, the City has agreed to support a statutory change to allow the Pettit National Ice Center, Inc. to maintain its tax-exempt status. Section 70.11(1) of the statutes specifies that land "owned by the state and leased to a private, nonprofit corporation that operates an Olympic ice training center" is exempt from property taxation. Taxability of property is established as of January 1, of each year. Therefore, any transfer in 2007 that occurs after January 1, 2007, would maintain the property exempt for the 2007 (payable in 2008) property tax year.

Should the sale of the Pettit National Ice Center not be completed on January 5, 2007, State Fair Park officials indicate the Park may seek another purchaser for the Pettit Center and associated property.

Fiscal Effect. The Building Commission action would permit the sale of the Pettit National Ice Center and related property (approximately 9.35 acres including the adjacent parking lot) to the Pettit National Ice Center, Inc., for up to \$5.65 million subject to the State Capital Finance Director's determination that these funds would be sufficient to fund all remaining debt service costs. Sale proceeds would be invested in the State's Bond Security and Redemption Fund or another permissible mutually agreeable fund, and with associated earnings, would be expected to pay the remaining debt service payments related to the Ice Center. Prior to the proceeds of the sale being deposited to the bond redemption fund, State Fair Park would be reimbursed for debt service costs paid between July 1, 2006, and the date of the sale. These costs are estimated to be \$748,000. As a result, up to \$4.9 million could be deposited to the bond redemption fund. Should these funds and associated investment income be insufficient to make all remaining debt service payments, which are estimated to be \$5.7 million as of January 5, 2007, State Fair Park would remain liable for these payments.

The sale of Pettit Ice Center would also specify that State Fair Park would receive no revenues for past-due lease payments owed it by the Ice Center. As of December 11, 2006, Pettit National Ice Center, Inc., was approximately \$1 million behind on lease payments to the State Fair Park.

The following table provides an overview of the estimated sales price of the Pettit National Ice Center and a breakdown of the distribution of the sale's proceeds, subject to the determination of the State's Capital Finance Director. Based on the figures in the table, annual investment income of approximately 4.3% from the bond redemption fund would be expected to be sufficient to pay all outstanding debt service costs associated with the Pettit National Ice Center.

**Pettit National Ice Center Sale Revenue Distribution (Estimated)**

	<u>Amount</u>
Maximum Sales Price	\$5,650,000
Debt service payments made between 7/1/06 and 1/5/07 (reimbursed to State Fair Park)	<u>748,000</u>
Revenue deposited to bond redemption fund*	\$4,902,000
Remaining Pettit Center debt service payments	\$5,728,000

\* Subject to the determination of the State's Capital Finance Director that this amount is sufficient to pay outstanding debt service costs in compliance with federal law.

Pettit National Ice Center, Inc., officials have indicated they will have sufficient funds available to purchase the Ice Center on January 5, 2007. Funding includes: (a) \$1.9 million from a Jane Bradley Pettit Foundation endowment (proceeds from which are currently used to provide \$350,000 in annual support to the Ice Center); (b) \$2.25 million tax-exempt bond financing from the city of Milwaukee; (c) privately raised funds of \$350,000 to \$450,000; and (d) bridge financing (short-term financing that is usually expected to be paid back quickly, often by a longer-term loan) for the remaining balance (up to \$1.15 million).

Although section 42.11(3) of the statutes requires the Board to enter into a lease that requires the lessee to pay all maintenance costs, the current lease for operation of the Ice Center does not require Pettit National Ice Center, Inc., to reimburse State Fair Park for municipal fees, building and equipment repairs, and grounds maintenance. With the sale of the Pettit Center, the Park would no longer be responsible for these costs. Park officials estimate expenditures related to these items could exceed \$90,000 annually in the foreseeable future. However, Park officials indicate these costs could be much higher should the Ice Center need new ice making/cooling equipment or need structural improvements.

In addition, as a part of the Building Commission action, State Fair Park officials indicate an intention to seek legislation authorizing program revenue bonding authority for the Park, should the Park need these funds quickly in order to purchase the Ice Center prior to foreclosure by lenders (at a price of \$5.3 million, as specified in the Building Commission approval). However, it should be noted that State Fair Park currently has outstanding program revenue-supported bond authority of approximately \$5.6 million that was approved related to the Park's master plan. The master plan is a comprehensive program intended to increase the Park's revenue generation opportunities from non-fair events through major improvements to the Park's buildings and facilities (such as construction of the Milwaukee Mile's new grandstand, the Exposition Hall, and a group of agricultural buildings). Given the Park's financial difficulties of the past several years, work on the master plan has largely been halted, and there are no imminent plans to use outstanding bonding authority for additional master plan projects. However, Park officials have indicated they may use at least a portion of this funding for infrastructure repairs (utilities, electrical, sewage, etc.). Given the age of many of the buildings and infrastructure on the grounds, Park officials have expressed a desire to commission a professional review and study of the Park's infrastructure (to assess the amount and totality of the needed improvements) before requesting Building Commission permission to use the outstanding bonding authority for infrastructure improvements.

Appraisal. In anticipation of a potential sale of the Pettit National Ice Center, State Fair Park commissioned two appraisals of the property in the summer of 2006. Both appraisals were conducted with similar use and sale specifications to those included in the authorization of the sale of the Pettit Center by the Building Commission. Both appraisals stressed the difficulty of appraising such a unique facility (the only two other such ovals in North America are in Salt Lake City and Calgary), with no sales data of these properties available. The first of these appraisals initially valued the Pettit National Ice Center and the associated land at \$7,250,000, however, a calculation error was subsequently discovered in this appraisal, and the appraisal was revised to

\$4,790,000. The appraiser also indicates that were the land vacant and on the open market without restrictions, it would probably be worth considerably more. Taking into account the use restrictions placed on the facility, the second report appraised the Ice Center at \$5,000,000 (\$210,000 higher than the first appraisal). As a result, the two appraisals yield an average value of the land and property of \$4.9 million under the conditional sale approved by the Building Commission.

Both appraisals include operating revenues of between \$420,000 and \$450,000 from private annual support in their valuations (to reflect the budgeted amount for 2005-06 at the time the appraisals were performed). This budgeted amount of private support includes receipt of an annual \$350,000 grant from a Jane Bradley Pettit Foundation endowment. However, Pettit National Ice Center, Inc., officials state that all funds remaining in the endowment would go toward purchase of the Ice Center, should a sale occur. As a result, the private annual support funding could be less than projected under the appraisal if a sale were to occur. On the other hand, Pettit National Ice Center, Inc., officials have long argued that state ownership of the Ice Center has hampered their ability to raise funds from businesses and individuals, arguing any donations made to the Center were perceived to be donations to the State. Thus, they believe sale of the Ice Center would result in an increase in the amount of private support for the Center.

Other Considerations. While Joint Committee on Finance approval of the sale could be provided under s. 13.48 of the statutes, it is possible that even this procedure may not be adequate to allow the state to complete the transaction. Since s. 42.11 specifies the State Fair Park Board has "sole responsibility" for the ice center and all related land and facilities, and also specifically authorizes the Board to enter into a lease (but not a sale) for the operation of the center, it could be argued that a statutory change must be made before the state could proceed with a sale of the Pettit Center. (2005 Assembly Bill 1191 and Senate Bill 690 would have specifically allowed a sale of the Pettit Center and would have provided that the sections described above would not apply in the event of a sale. Neither of these bills passed the Legislature in the last session.) Also, in order for the nonprofit corporation to maintain its property tax exempt status a statutory change would be required. Finally, statutory enumeration would be required if bonding authority is to be pre-authorized to allow for a potential repurchase of the ice center.

## **ALTERNATIVES**

1. Approve the Building Commission's request to authorize the sale of the Pettit National Ice Center subject to the specifications included in the Building Commission's action.
2. Deny the request.

Prepared by: Chris Pollek