



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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May 6, 2004

Senate Majority Leader Mary Panzer and  
Assembly Speaker John Gard  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Panzer and Representative Gard:

At your request, we have completed a limited-scope review of the finances of the Milwaukee Brewers Baseball Club from 1994 through 2003. Our review was initiated following reports that the Brewers intended to reduce player payroll for the 2004 season. Under a January 2004 agreement with the Brewers, we were permitted to independently review financial statements and related documentation. This is the second time we have assessed the Brewers' finances. The first was in 1995, during legislative deliberations on the proposal to use a combination of public and private funding to build the new stadium that opened in 2001 as Miller Park.

Our review of the Brewers' financial statements and information provided by Major League Baseball indicates that the club has faced significant financial challenges. For example, although the Brewers' operating revenues increased from \$67.7 million in 2000 to \$115.9 million in 2003, or by 71.2 percent, they were lower in these years than operating revenues of many other major league clubs. In 2002—the latest year for which comparison information is available—the Brewers ranked 20<sup>th</sup> among 30 clubs in operating revenues. When Miller Park opened in 2001, the Brewers ranked 16<sup>th</sup>.

The Brewers' operating expenses increased from \$80.0 million in 2000 to \$103.8 million in 2003, or by 29.7 percent. However, a 2.1 percent reduction in spending between 2002 and 2003 raises concerns about the club's ability to compete in the future if additional reductions are made, particularly to major league player compensation. Further, the Brewers have borrowed heavily: the financial statements indicate \$133.2 million in outstanding debt at the end of 2003.

We reviewed concerns expressed by the public and many legislators about the club's ownership group. We found no evidence to indicate that club resources had been used during our review period to purchase ownership shares with the intention of benefiting continuing club owners. In addition, although owner Allan (Bud) Selig, his daughter, and her husband were employed in executive positions with the Brewers for all or part of the past ten years, these three individuals' combined annual compensation was never more than \$735,500. This is less than amounts previously reported by some in the media.

As the Legislature continues to evaluate the effect of the Brewers' financial condition on the public's investment in Miller Park, we suggest close monitoring of the Brewers' ongoing relationship with the Southeast Wisconsin Professional Baseball Park District, including the effect that a proposed sale of the franchise could have on this relationship. The District issued

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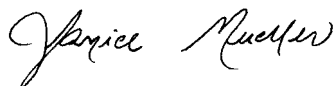
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revenue bonds and imposes the 0.1 percent local sales and use tax that was the primary source of funding for stadium construction and continues to fund District operations. Through March 31, 2004, \$175.9 million in sales and use tax revenue has been collected in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties. The tax is expected to continue until 2014.

The Brewers indicate that no other professional sports team has granted the level of access to financial records that we were provided during this review. We greatly appreciate the courtesy and cooperation extended to us in conducting our work, as well as the responsiveness of Milwaukee Brewers Baseball Club staff in responding to our questions.

Sincerely,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller  
State Auditor

JM/ss

cc: Members, Wisconsin Legislature

## **MILWAUKEE BREWERS BASEBALL CLUB FINANCES**

In late 2003, media reports indicated that the Milwaukee Brewers Baseball Club intended to reduce its major league player payroll by approximately \$10.0 million for the 2004 season, raising concerns about the club's operations and finances. Subsequently, many legislators requested that the Brewers allow the Legislative Audit Bureau to review financial records and thereby provide the public insight into the club's underlying finances.

Under the provisions of s. 13.94, Wis. Stats., we may audit state agencies and other entities that receive state or federal funds, but we do not generally have authority to review a private organization's financial records. Therefore, a review could not be undertaken without the Brewers' permission. After negotiations involving the club, legislative leadership, and the Audit Bureau, the Brewers agreed to allow a limited-scope review of their finances by the Audit Bureau. An agreement setting forth both the scope of the review and the limitations placed on us was entered into on January 30, 2004.

The agreement provided that the review would focus on the Brewers' revenues, expenses, cash, debt, related-party transactions, and ownership activity for the period from 1994 through 2003. The agreement prohibits us from disclosing certain proprietary information or information that could harm the club's ability to conduct business in a competitive environment. As part of our review, we examined the Brewers' audited financial statements and supporting documentation, interviewed the Chief Financial Officer and Controller, confirmed certain information, reviewed debt filings, and verified how the Brewers ranked in various categories compared to other Major League Baseball clubs.

We were granted access to all information we requested during the course of our review. However, the January 2004 agreement limits our ability to disclose detailed information and permits us to present only aggregated information. For example, we cannot disclose revenues for ticket sales, local broadcasting, concessions, or parking. Instead, these revenue sources are consolidated into a single category labeled "local baseball revenue." Nevertheless, we requested and the Brewers agreed to allow the disclosure of several items not originally permitted under the January 2004 agreement. For example, we have been permitted to provide more detailed information on the salaries paid to related parties and on major league player compensation.

### **Performance and Attendance**

After playing their home games at Milwaukee County Stadium from 1970 through 2000, the Brewers moved to the newly completed Miller Park at the start of the 2001 season. Miller Park was originally scheduled to open for the 2000 season, but a serious accident during construction delayed the opening by one year.

Miller Park is jointly owned by the Southeast Wisconsin Professional Baseball Park District—a local unit of government responsible for overseeing the stadium's design and construction—and by the Brewers. To finance construction, debt service, and other project costs, the District issued revenue bonds and imposes a 0.1 percent local sales and use tax in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties. Under a 30-year lease with the District, the

Brewers currently use the stadium and related facilities in exchange for annual payments of \$300,000 to a fund that is held in reserve for repairs and improvements to stadium facilities, and annual rental payments of:

- \$900,000 from 2001 to 2010;
- \$1,200,000 from 2011 to 2020; and
- \$1,208,201 from 2021 to 2030.

The Brewers have not had a winning season since 1992 and have not made the playoffs since 1982. The opening of a new stadium was expected to help them generate revenues that would allow them to increase major league player payroll and improve the team’s performance. However, as shown in Table 1, and contrary to expectations, the team’s on-field performance has not improved since the stadium’s completion. In fact, in their first three years at Miller Park, the Brewers’ winning percentages have reached their lowest levels in the past ten years, including a franchise low of .346 percent in 2002.

Table 1

**Brewers’ Winning Percentages**

Season	Wins	Losses	Winning Percentage
1994 <sup>1</sup>	53	62	.461
1995 <sup>1</sup>	65	79	.451
1996	80	82	.494
1997	78	83	.484
1998	74	88	.457
1999	74	87	.460
2000	73	89	.451
2001	68	94	.420
2002	56	106	.346
2003	68	94	.420

<sup>1</sup> Season shortened by Major League Baseball work stoppage.

With the move to Miller Park, attendance at Brewers games increased from 1.6 million in 2000 to 2.8 million in 2001, or by 78.7 percent. Attendance declined to 1.7 million for the 2003 season, or by 39.5 percent from 2001 levels, in part because of the team's on-field performance. The Brewers' attendance ranking among 30 Major League Baseball clubs increased from 26th in 2000 to 12th in 2001, following the move to the new stadium. However, as shown in Table 2, attendance declined to 25<sup>th</sup> in the 2003 season.

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Table 2

**Attendance at Brewers Games**

Season	Attendance	Major League Baseball Ranking <sup>1</sup>
1994 <sup>2</sup>	1,268,399	22
1995 <sup>2</sup>	1,087,560	25
1996	1,327,155	26
1997	1,444,027	25
1998	1,811,548	20
1999	1,701,790	22
2000	1,573,621	26
2001	2,811,362	12
2002	1,969,153	19
2003	1,700,354	25

<sup>1</sup> There were 28 clubs prior to 1998.

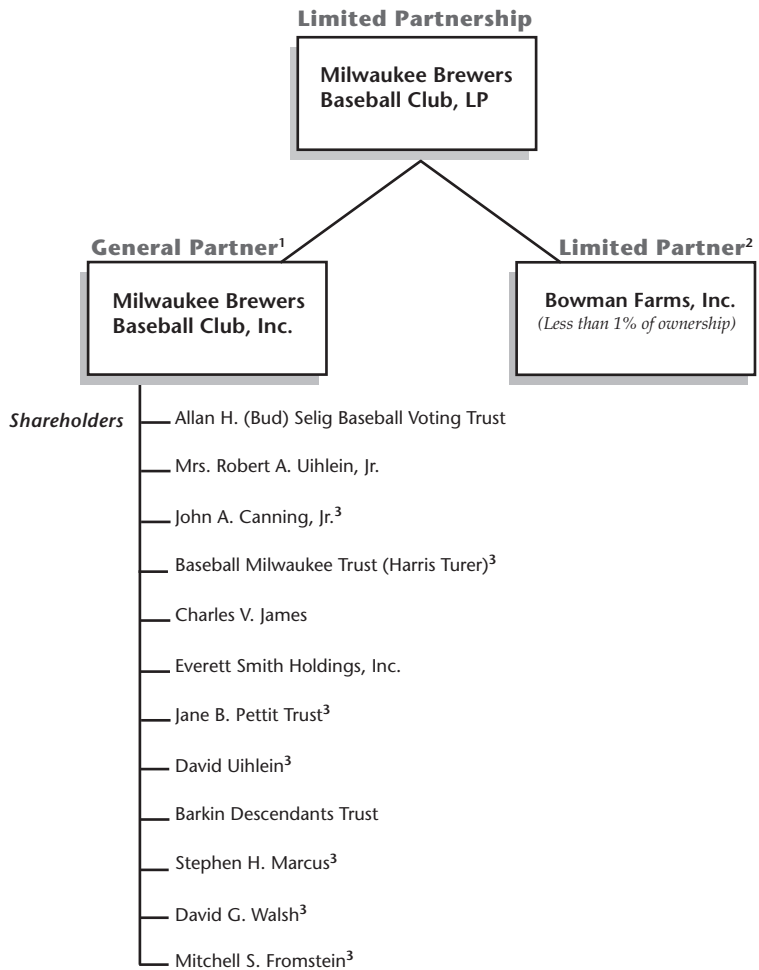
<sup>2</sup> Season shortened by Major League Baseball work stoppage.

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**Ownership**

The Brewers' franchise was known as the Seattle Pilots until it was purchased by a group of Milwaukee-area investors and moved to Milwaukee in April 1970. As shown in Figure 1, ownership is currently organized as a limited partnership. The general partner is a corporation organized under Chapter 180, Wis. Stats., which currently has 12 shareholders. The largest shareholder is Allan (Bud) Selig, the current Commissioner of Major League Baseball. As of October 31, 2003, Mr. Selig owned 27.8 percent of the outstanding common stock of the general partner. However, when he became the league's full-time Commissioner in 1998, he placed his entire ownership in a blind trust that is overseen by three other owners: John Canning, Mitchell Fromstein, and Stephen Marcus.

Figure 1  
Ownership Structure



<sup>1</sup> A general partner participates in partnership management and is liable for partnership losses.

<sup>2</sup> A limited partner does not participate in partnership management and is not liable for partnership losses.

<sup>3</sup> Became an owner after 1994.

Since 1994, there have been several changes in the Brewers' ownership group. Seven new owners were added, and four owners sold their ownership interests to new or existing shareholders. While some have questioned whether the Brewers have used club resources to repurchase owners' shares, we found that no resources were used for this purpose during our review period.

The corporation that is the general partner is governed by an eight-member board of directors that currently consists of Wendy Selig-Prieb (Chairperson), John Canning, Francis Croak, Mitchell Fromstein, Michael Grebe, Michael Jones, Richard Strup, and Harris Turer. The board establishes policy and provides direction for the club's senior management. According to Brewers officials, the Chairperson's responsibilities include:

- ensuring proper governance by the board;
- serving as the Brewers' representative for Major League Baseball issues, including ensuring compliance with league rules, attending league meetings, and serving on the league's relocation committee;
- functioning as the primary liaison with the ownership group;
- serving as the Director of Brewers Charities; and
- working on matters such as raising equity.

## **Revenues and Expenses**

The Brewers operate on a fiscal year that ends on October 31. The appendix to this letter includes a ten-year summary of the Brewers' finances, developed from audited financial statements. We focused our review of revenues and expenses on the six-year period from 1998 through 2003 in order to provide an analysis of the club's finances for comparable three-year periods before and after Miller Park opened in 2001.

As shown in Table 3, the Brewers' net income fluctuated significantly over the six-year period, ranging from a \$22.3 million loss in 1999 to \$30.4 million in net income in 2002. Net income has been positive each year since the opening of Miller Park. In an effort to understand the reasons for changes in net income, we reviewed the Brewers' operating revenues, operating expenses, and other items affecting income.

Table 3

**Net Income**  
(In Millions)

	County Stadium			Miller Park		
	1998	1999	2000	2001	2002	2003
Operating Revenues	\$73.4	\$65.4	\$67.7	\$110.0	\$104.4	\$115.9
Operating Expenses	(69.5)	(81.1)	(80.0)	(98.2)	(106.0)	(103.8)
Other Items Affecting Income	(6.1)	(6.6)	14.3	(5.1)	32.0 <sup>1</sup>	(9.9)
<b>Net Income<sup>2</sup></b>	<b>\$(2.2)</b>	<b>\$(22.3)</b>	<b>\$2.0</b>	<b>\$ 6.7</b>	<b>\$ 30.4</b>	<b>\$ 2.2</b>

<sup>1</sup> See discussion of debt cancellation on page 16.

<sup>2</sup> Positive net income represents profit, while negative net income represents loss.

## Operating Revenues

Operating revenues include three principal categories:

- local baseball revenue;
- Major League Baseball revenue; and
- revenue sharing among Major League Baseball clubs.

Total operating revenues increased 62.5 percent during the Brewers' first year in Miller Park. Based on audited financial statements, and as shown in Table 4, total operating revenues increased from \$67.7 million in 2000 to \$110.0 million in 2001, then declined to \$104.4 million in 2002. However, they increased to \$115.9 million in 2003, despite declining local baseball revenue that is tied to declining attendance. The 2003 increase in total operating revenues resulted primarily from sources that are not directly associated with attendance, such as league revenue sharing.



Table 4

**Operating Revenues**  
(In Millions)

	County Stadium			Miller Park		
	1998	1999	2000	2001	2002	2003
Local Baseball Revenue	\$36.6	\$35.2	\$39.6	\$ 83.3	\$ 68.6	\$ 59.4
Major League Baseball Revenue	18.4	20.0	20.2	21.6	25.0	29.4
Revenue Sharing	8.1	9.2	6.4 <sup>1</sup>	1.5	9.1	24.7 <sup>1</sup>
Other Revenue	10.3 <sup>2</sup>	1.0	1.5	3.6	1.7	2.4
<b>Total</b>	<b>\$73.4</b>	<b>\$65.4</b>	<b>\$67.7</b>	<b>\$110.0</b>	<b>\$104.4</b>	<b>\$115.9</b>

<sup>1</sup> Additional revenue sharing of \$8.4 million was earned and received in 2000 but for technical reasons was not recognized until 2003.

<sup>2</sup> Includes \$9.3 million in expansion proceeds from the Tampa Bay Devil Rays and the Arizona Diamondbacks.

Our agreement with the Brewers permits us to disclose information collected by Major League Baseball to compare the 30 Major League Baseball clubs in various revenue and expense categories. These comparisons are available through 2002; comparisons for 2003 are not yet available. Based on this information, the Brewers' total operating revenues ranked 18<sup>th</sup> in 2000, improved to 16<sup>th</sup> with the opening of Miller Park in 2001, and dropped to 20<sup>th</sup> in 2002.

### Local Baseball Revenue

The Brewers' largest source of operating revenues is local baseball revenue, which includes revenue from ticket sales and concessions, as well as parking revenue. These revenue sources are closely tied to attendance. Local baseball revenue also includes luxury suite rental, local broadcasting revenue, and revenue from special promotions, publications, and advertising, which are less-closely tied to attendance.

A 110.4 percent increase in local baseball revenue—from \$39.6 million in 2000 to \$83.3 million in 2001—is largely the result of record attendance during the Brewers' first year at Miller Park. Within the next two years, however, local baseball revenue declined 28.7 percent, reaching \$59.4 million in 2003. This decline resulted primarily from a decline in attendance that reduced ticket revenue by 38.7 percent.

When compared to other Major League Baseball clubs, the Brewers' local baseball revenues varied substantially by revenue source. For example, the Brewers were:

- 25<sup>th</sup> in ticket revenue in 2000, improved to 16<sup>th</sup> with the opening of Miller Park in 2001, and dropped to 17<sup>th</sup> in 2002.

- 19<sup>th</sup> in concessions revenue in 2000, improved to 8<sup>th</sup> in 2001, and dropped to 16<sup>th</sup> in 2002.
- 5<sup>th</sup> in parking revenue in 2000, improved to 2<sup>nd</sup> in 2001, and dropped to 3<sup>rd</sup> in 2002. However, Brewers officials caution that this ranking may be misleading because some clubs share parking revenue with other entities, do not have parking facilities, or rely on public transportation to bring fans to the ballpark. In contrast, under the terms of the Brewers' lease with the Southeast Wisconsin Professional Baseball Park District, the Brewers receive all parking revenue at Miller Park.
- 19<sup>th</sup> in advertising and publication revenue in 2000, improved to 15<sup>th</sup> in 2001, and further improved to 14<sup>th</sup> in 2002. Advertising is a major source of local revenue for the Brewers and includes \$2.0 million received annually from Miller Brewing Company for the naming rights to Miller Park.
- 29<sup>th</sup> in local broadcasting revenue in 2000 and 2001, and improved to 28<sup>th</sup> in 2002.

## **Major League Baseball Revenue**

The Brewers' second-largest source of operating revenues is Major League Baseball revenue, which is generally shared equally among the league's clubs and includes both national broadcasting rights and shared licensing and sponsorship fees. As was shown in Table 4, the Brewers' revenue from Major League Baseball increased from \$18.4 million in 1998 to \$29.4 million in 2003, or by 59.8 percent. Brewers officials told us this increase resulted primarily from increased revenue related to the sale of television, radio, and Internet rights by Major League Baseball.

## **Revenue Sharing**

The final significant source of the Brewers' operating revenues is revenue sharing, which is defined in the labor agreement between Major League Baseball and the Major League Baseball Players Association. Recent agreements, including the current agreement entered into in August 2002, require clubs having higher levels of local revenue to share with those having lower levels.

The Brewers received a low of \$1.5 million in revenue sharing in 2001, the year Miller Park opened, and a high of \$16.3 million in 2003. Table 4 indicates that \$24.7 million was recognized in the Brewers' audited financial statements for 2003. However, this total includes revenue sharing of \$8.4 million that was earned and received in 2000, but that for technical reasons was not recognized until 2003. Compared to other clubs, the Brewers ranked 4<sup>th</sup> in shared revenue receipts in 2000, 12<sup>th</sup> in 2001, and 11<sup>th</sup> in 2002.

The current collective bargaining agreement provides that each Major League Baseball club "shall use its revenue sharing receipts... in an effort to improve its performance on the field." In addition, each club must annually provide the Commissioner of Major League Baseball with a report on the use of revenue-sharing receipts to improve team performance. The Brewers

reported spending 2003 shared revenues in several areas, including scouting and player development, signing and retaining selected players, and funding some losses from baseball operations.

## Operating Expenses

The Brewers' operating expenses include their costs to field a major league team, operate a minor league farm system, maintain the baseball stadium, provide for administrative expenses, and make payments to fund the central operations of Major League Baseball. With the opening of Miller Park in 2001, the Brewers' operating expenses increased from \$80.0 million to \$98.2 million, or by 22.8 percent, as shown in Table 5. Operating expenses further increased to \$106.0 million in 2002, before declining 2.1 percent to reach \$103.8 million in 2003. Compared to other clubs, the Brewers' total operating expenses ranked 25<sup>th</sup> in 2000, 23<sup>rd</sup> in 2001, and 22<sup>nd</sup> in 2002.

Table 5

### Operating Expenses (In Millions)

	County Stadium			Miller Park		
	1998	1999	2000	2001	2002	2003
Major League Player Compensation	\$39.7	\$47.9	\$41.4	\$52.4	\$ 55.2	\$ 48.3
Other Baseball Operating Expenses	15.2	17.2	22.3	22.3	23.3	26.9
Other Team Operating Expenses	12.9	13.7	12.7	16.9	19.4	20.3
Major League Baseball Expenses <sup>1</sup>	1.7	2.3	3.1	4.0	3.4	3.6
Depreciation	-	-	0.5	2.6	4.7	4.7
<b>Total</b>	<b>\$69.5</b>	<b>\$81.1</b>	<b>\$80.0</b>	<b>\$98.2</b>	<b>\$106.0</b>	<b>\$103.8</b>

<sup>1</sup> Includes expenses that are shared by all Major League Baseball clubs, such as the expenses of the Commissioner's office.

## Major League Player Compensation

The Brewers' largest operating expense is major league player compensation. This expense category includes players' base salaries; deferred compensation; performance incentives; pension fund contributions; and signing bonuses, which are pro-rated over the life of a player's contract. The totals shown in Table 5 represent a 40-man roster. At any point in time, only 25 players are on the active team roster; the other 15 are either placed on the disabled list or assigned to the minor leagues.

The Brewers' major league player compensation costs increased from \$41.4 million in 2000 to \$52.4 million in 2001, or by 26.6 percent with the opening of Miller Park. Major league player compensation increased an additional 5.3 percent to \$55.2 million in 2002.

Despite the increase from 2000 to 2001, the Brewers' major league player compensation ranking among Major League Baseball clubs rose only slightly, from 23<sup>rd</sup> in 2000 to 22<sup>nd</sup> in 2001. The ranking remained at 22<sup>nd</sup> in 2002. However, major league player compensation declined 12.5 percent to \$48.3 million in 2003. Brewers officials have indicated the decline in 2003 reflects their decision to emphasize minor league player development, as noted below.

### **Other Baseball Operating Expenses**

Other baseball operating expenses consist primarily of costs for scouting and player development, but also the costs of coaches and spring training. Other baseball operating expenses increased from \$23.3 million in 2002 to \$26.9 million in 2003, or by 15.5 percent. This increase was largely due to the accounting for acquisition costs of former players and certain insurance recoveries for players on the disabled list.

Scouting and player development costs, which include the Brewers' minor league operations, increased each year from 1997 to 2002. However, the costs of scouting and player development declined 4.4 percent from 2002 to 2003. Brewers officials attribute this decline to the accounting treatment for the contract of one rookie player. Typically, rookies are signed to minor league contracts, and bonuses are recorded as an expense in the year the contract is signed. However, Rickie Weeks—the Brewers' first-round draft pick in 2003—was signed to a major league contract, and the bonus is being allocated over the five-year term of the contract. Accordingly, only a small portion of the bonus was accounted for in 2003. Compared to other major league clubs, the Brewers ranked 21<sup>st</sup> in scouting and player development in 2000, 17<sup>th</sup> in 2001, and 9<sup>th</sup> in 2002.

### **Other Team Operating Expenses**

As was shown in Table 5, other team operating expenses are the Brewers' third-largest category of operating expenses. These expenses increased from \$12.7 million in 2000 to \$16.9 million in 2001, or by 33.1 percent with the opening of Miller Park. By 2003, they had increased another 20.1 percent to reach \$20.3 million. Other team operating expenses include both general and administrative costs, as well as the costs of operating and maintaining Miller Park.

General and administrative costs—which include the salaries and fringe benefits of administrative personnel, as well as general liability insurance, staff travel and entertainment, professional fees, supplies, and telephone services—have been the largest category of other team operating expenses in the past two years. These costs increased 63.7 percent from 2001 to 2003 for a number of reasons. First, salary expenses increased during the transition to a new management team, in part because of severance pay for former management employees. Second, pension costs nearly doubled since 2001, largely because of declining market returns and interest rates. As a result, additional pension contributions were required. Third, the Brewers' cost of general liability insurance has nearly doubled since the September 11, 2001 terrorist attacks. Finally, the cost of group medical insurance increased substantially. Compared to other major league clubs, the Brewers' general and administrative expenses were 26<sup>th</sup> in 2000, 24<sup>th</sup> in 2001, and 23<sup>rd</sup> in 2002.

The costs to operate and maintain a stadium more than doubled after the opening of Miller Park, and these costs accounted for much of the increase in other team operating expenses in 2001. However, stadium operation costs declined nearly 10.5 percent from 2001 to 2003. Brewers officials noted that the club outsourced parking to a private contractor in 2003, allowing associated expenses to be reduced. They also noted that reduced attendance resulted in savings on the costs of ushers, cleaning services, and sheriff's services.

## Depreciation

The Brewers' final operating expense is depreciation. The club's 30-year lease with the Southeast Wisconsin Professional Baseball Park District was amended for the fourth time in October 2002. That amendment established that the District currently owns 70.9 percent of Miller Park, and the Brewers own 29.1 percent. The depreciation that was shown in Table 5 reflects primarily the Brewers' ownership in Miller Park, along with related equipment and furniture.

## Other Items Affecting Income

The Brewers' net income is also affected by interest income, interest expense, and extraordinary items such as insurance settlements. As shown in Table 6, interest expense increased from \$6.8 million in 2000 to \$7.8 million with the opening of Miller Park in 2001. Interest expense further increased to \$9.5 million in 2002 but declined to \$7.6 million in 2003.

Table 6

### Other Items Affecting Income (In Millions)

	County Stadium			Miller Park		
	1998	1999	2000	2001	2002	2003
Interest Income	\$0.2	\$0.2	\$0.6	\$1.5	\$0.3	\$0.0
Interest Expense	(6.3)	(6.5)	(6.8)	(7.8)	(9.5)	(7.6)
Extraordinary Items	0.0	(0.3)	20.5	1.2	41.2	(2.3)
<b>Total</b>	<b>\$(6.1)</b>	<b>\$(6.6)</b>	<b>\$14.3</b>	<b>\$(5.1)</b>	<b>\$32.0</b>	<b>\$(9.9)</b>

Notes to the audited financial statements indicate that in 2000, the Brewers received a \$20.5 million insurance settlement related to the one-year delay in the opening of Miller Park. This settlement was to recover additional costs the Brewers incurred in anticipation of the stadium's opening in 2000. In 2002, the extraordinary item is primarily for the Southeast

Wisconsin Professional Baseball Park District’s cancellation of \$41.2 million in debt and related accumulated interest, in exchange for a reduction in the District’s stadium maintenance payment to the Brewers. This is further discussed on page 16.

## **Owner Contributions and Brewers’ Debt**

We examined the Brewers’ ability to raise sufficient cash to pay for operations and make debt service payments by reviewing the cash flows shown in the audited financial statements. The notes to the financial statements indicate that Major League Baseball requires clubs to maintain an assets-to-liabilities ratio—as defined by Major League Baseball—of at least 60/40 to ensure the financial stability of each franchise. The Brewers did not meet this ratio in seven of the ten years we reviewed, but they met the league’s assets-to-liabilities ratio in the past two years. Brewers officials have indicated that Major League Baseball’s enforcement of the 60/40 rule was suspended in 1994 because of economic damage caused by the 1994 players’ strike. In 1999, Major League Baseball notified the clubs that enforcement efforts would resume.

Table 7 shows cash disbursed by the Brewers in excess of receipts from ticket sales, revenue sharing, and revenue sources other than owner contributions and borrowing. For each of the past ten years, the Brewers’ cash receipts have been less than the amount of cash required to pay player salaries and other operating expenses; fund the club’s share of Miller Park; and make debt service payments, including interest. In total, the Brewers disbursed \$170.6 million more in cash than was brought in through ongoing operations.

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Table 7

### **Cash Disbursed in Excess of Cash Receipts<sup>1</sup>** (In Millions)

Year	Amount
1994	\$ 8.5
1995	15.9
1996	13.3
1997	7.4
1998	4.6
1999	88.9
2000	12.9
2001	7.7
2002	11.1
2003	0.3
<b>Total</b>	<b>\$170.6</b>

<sup>1</sup> Excluding cash receipts from owner contributions and debt borrowing.

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The cash shortfalls from 1994 through 1998 are largely attributable to net losses incurred during those years, including losses that arose during the strike-shortened seasons of 1994 and 1995. The largest cash needs occurred in 1999 and 2000, when the Brewers disbursed \$96.4 million for Miller Park, including the club's \$90.0 million share of construction costs and additional amounts for architectural fees, legal fees, furniture, and other items.

However, even from 2001 through 2003, when the Brewers generated profits, the club disbursed more cash than it received. One reason additional cash was needed is that the Brewers, like all major league clubs, may pay signing bonuses at the start of players' contracts, even though these costs are prorated over the life of the contracts for accounting purposes. In addition, as previously noted, the 2003 profit included \$8.4 million in revenue sharing that was actually received in 2000.

To provide needed cash during the past ten years, the Brewers have relied on additional contributions from owners and on the issuance of debt, as shown in Table 8. We reviewed owner contributions and debt in more detail to better understand how the Brewers addressed their cash requirements.

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Table 8

**Debt and Owner Contributions  
1994 through 2003  
(In Millions)**

Cash Source	Amount
Net Owner Contributions	\$ 31.7
Debt	139.6
<b>Total</b>	<b>\$171.3</b>

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**Owner Contributions and Distributions**

Owner contributions and distributions over the past ten years are shown in Table 9. From 1997 through 2003, the owners contributed a net amount of \$31.7 million in equity for the Brewers to fund operations and make debt service payments. In both 1997 and 1999, the owners collectively contributed \$10.0 million in accordance with their ownership percentages. The total of \$11.8 million in owner contributions shown in 2002 and 2003 resulted from the sale of additional stock to current owners. Although not shown in the table, the owners also contributed an additional \$15.0 million in April 2004 through the sale of additional stock, including \$12.0 million that was committed during 2003 as required by the club's lenders. These additional stock sales were not necessarily made in accordance with the owners' ownership percentages.

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Table 9

**Owner Contributions and Withdrawals**

Year	Amount
1994	-
1995	-
1996	-
1997	\$10,000,000
1998	-
1999	10,000,000
2000	-
2001	(94,026) <sup>1</sup>
2002	11,720,491
2003	80,600
<b>Total</b>	<b>\$31,707,065</b>

<sup>1</sup> The \$94,026 distribution in 2001 was for the general partner to pay income taxes.

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**Debt**

The Brewers also raised cash through the issuance of debt. As shown in Table 10, outstanding debt during our review period has ranged from a low of \$32.4 million at the end of 1993 to a high of \$171.3 million at the end of 2001. Debt declined to \$133.2 million at the end of 2003.



Table 10

**Debt Outstanding as of October 31 of Each Year**  
(In Millions)

Year	General Debt	Notes Issued For Miller Park <sup>1</sup>	Total Debt Outstanding	Percentage Change In Total Debt
1993	\$ 32.4	–	\$ 32.4	–
1994	38.1	–	38.1	17.6%
1995	53.2	–	53.2	39.6
1996	66.3	–	66.3	24.6
1997	65.1	–	65.1	(1.8)
1998	68.3	–	68.3	4.9
1999	97.0	\$51.7	148.7	117.7
2000	109.9	54.3	164.2	10.4
2001	117.6	53.7	171.3	4.3
2002	118.9	12.1	131.0	(23.5)
2003	122.0	11.2	133.2	1.7

<sup>1</sup> Including accrued interest that was added to principal.

Like most business enterprises, the Brewers have arrangements with lending institutions that allow ready access to cash as needed throughout the year. Over the past ten years, the Brewers have had a variety of borrowing arrangements with different groups of lenders. As of October 31, 2003, two such arrangements were in place.

First, Major League Baseball has established a borrowing arrangement with a group of lenders that is available to all clubs in the league. Under this arrangement, the Brewers had outstanding loans totaling \$75.0 million on October 31, 2003. As collateral, the Brewers pledged virtually all their rights and resources related to membership in Major League Baseball, including rights from national broadcasting contracts, licensing and sponsorship contracts, and any other major league agreements.

The Brewers have a second borrowing arrangement that is independent of Major League Baseball, and under which virtually all other assets are pledged as collateral. Under this arrangement, the Brewers are currently authorized to borrow up to \$57.0 million from a private banking group. As of October 31, 2003, the Brewers had an outstanding loan balance of \$47.0 million under this arrangement.

A portion of the Brewers' debt is related to the construction of Miller Park. A memorandum of understanding between the State, Milwaukee County, the City of Milwaukee, and the Brewers required the Brewers to contribute \$90.0 million toward the cost of Miller Park. The Brewers' audited financial statements indicate the full amount has been paid. As shown in Table 11, the Brewers funded their entire \$90.0 million contribution by borrowing \$50.0 million through notes specifically issued to fund Miller Park construction, and \$40.0 million through the general debt arrangements just discussed.

Table 11

**Brewers' Contributions for Miller Park**  
(In Millions)

Source	Amount
<b>Miller Park Notes:</b>	
Metropolitan Milwaukee Association of Commerce	\$14.0
Milwaukee Economic Development Corporation	15.0
Lynde and Harry Bradley Foundation	20.0
Evan and Marion Helfaer Foundation	1.0
Subtotal	50.0
<b>General Debt</b>	40.0
<b>Total</b>	<b>\$90.0</b>

Until 2002, the Brewers' debt service payments on the \$50 million in notes, and additional payments to an associated debt service reserve fund, were funded entirely from the \$3.85 million the club received annually from the Southeast Wisconsin Professional Baseball Park District for stadium maintenance.

As discussed in our 2002 report on Milwaukee Brewers Stadium Costs (report 02-8), the District was assigned the Milwaukee Economic Development Corporation's note in 1998 and purchased the Bradley Foundation and Helfaer Foundation notes in 2001. In fall 2002, the Brewers initiated discussions with the District to cancel the three acquired notes, along with accrued interest. In exchange, the District's stadium maintenance payment to the Brewers was changed: the annual payment amount, which had been \$3.85 million annually through 2029, was reduced to \$2.16 million beginning in 2003 and will be due annually only through 2008. The \$2.16 million payment is the exact amount necessary to fund the Brewers' debt service payments on the remaining note with the Metropolitan Milwaukee Association of Commerce.

The 2002 debt cancellation transaction includes \$39.3 million directly related to the notes, as well as \$1.9 million related to other technical items. Together, these amounts represent the \$41.2 million extraordinary gain in 2002 that was shown in Table 6. However, while the Brewers reported an accounting gain, there was no increase in their cash balances because no cash was received by the Brewers.

As was shown in Table 10, the Brewers' outstanding debt totaled \$133.2 million as of October 31, 2003. According to information provided by Major League Baseball, the Brewers' debt level is higher than the average of \$120.5 million for all baseball clubs, although it is lower than the average debt of \$140.1 million for the 12 clubs that moved into new stadiums since 1994.

The Brewers' debt is 11<sup>th</sup> highest among all 30 clubs and is 6<sup>th</sup> compared to the 12 clubs with new stadiums. However, it is difficult to compare debt levels for clubs with new stadiums because the mix of public and private funding varies by facility.

## Related-Party Transactions

A concern expressed by both the public and many legislators has been what the Brewers' owners and their close relatives have paid themselves, through either salaries or other types of payments or financial arrangements. The Brewers' financial statements do not contain notes regarding related-party transactions. However, we were able to identify related-party transactions through a review of other documents and through discussions with Brewers officials.

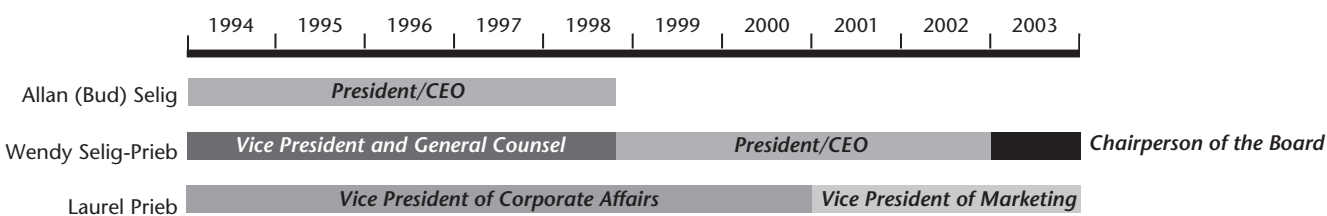
We found several related parties who had received payments through mechanisms that include wages, fringe benefits, directors' fees, interest earnings, loan guarantee fees, and payments to business entities for goods and services. Three of these related parties were employed by the Brewers over the ten-year period we reviewed: Allan (Bud) Selig; his daughter, Wendy Selig-Prieb; and her husband, Laurel Prieb.

### Direct Payments to Owners

As shown in Figure 2, Mr. Selig was President and Chief Executive Officer until August 1998, when Ms. Selig-Prieb assumed that position. She remained President and CEO until October 2002, when a new President was hired. Ms. Selig-Prieb was then appointed to the newly created position of Chairperson of the Board. Mr. Prieb has been employed by the Brewers throughout the ten-year period and has been the Vice President of Marketing for several years.

Figure 2

### Related-Party Employees



To determine the level of compensation paid to these related parties, we reviewed compensation reported to the Internal Revenue Service on form W-2 for all three related parties. As shown in Table 12, the annual total compensation for all three related parties ranged from a high of \$735,500 in 1997 to a low of \$397,599 in 2003. These amounts are lower than some totals reported in the media.

Table 12

**Compensation of Related Parties**  
(Based on W-2 Statements Filed with the IRS)

Year	Allan (Bud) Selig	Wendy Selig-Prieb	Laurel Prieb	Total
1994	\$542,622	\$102,878	\$87,561	\$733,061
1995	452,693	114,061	95,365	622,119
1996	457,683	152,493	105,261	715,437
1997	450,705	165,084	119,711	735,500
1998	316,926	223,332	133,306	673,564
1999	–	299,186	142,419	441,605
2000	–	345,669	146,390	492,059
2001	–	442,491	145,863	588,354
2002	–	437,237	172,961	610,198
2003	–	241,562	156,037	397,599

To compare the compensation received by these three individuals to compensation paid by other clubs, we requested and the Brewers provided a report commissioned by Major League Baseball beginning in 1996, and completed in each subsequent even-numbered year. The report provides the average compensation among reporting major league clubs for each executive position. As shown in Table 13, compensation for the three related parties has been both higher and lower than the league average. Brewers officials offered several reasons why salaries were above the league average in 1996, including:

- Mr. Selig had 26 years of service as President, while the survey average was less than 6 years.
- Mr. Selig was both President and CEO. When compared to the compensation of other executives who had both roles, his was \$27,000 less than the average.

- Ms. Selig-Prieb, in addition to being Vice President and General Counsel, was also responsible for business operations and assisting with the design and development of a new stadium.

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Table 13

**Brewers' Related-Party Compensation Compared to League Averages<sup>1</sup>**

Year	Allan (Bud) Selig	Wendy Selig-Prieb	Laurel Prieb
1996	\$74,000	\$ 10,500	\$(18,083)
1998	(29,000)	(60,333)	(12,333)
2000	–	(173,000)	(14,667)
2002	–	(161,583)	7,000

<sup>1</sup> Amounts represent the difference from the averages for those clubs responding to the survey. Positive amounts are higher than the league average; negative amounts are lower than the league average.

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Like all Brewers employees, related parties are eligible for fringe benefits such as health insurance, a pension, and a 401(k) deferred compensation plan. However, unlike other employees, Ms. Selig-Prieb and two other executives are eligible for a supplemental pension plan that would increase pension benefits upon retirement. According to Brewers officials, the expense for this supplemental pension plan relating to Ms. Selig-Prieb has been approximately \$3,500 annually since the plan took effect in 2000.

The Brewers also make payments directly to owners in several other ways, including loan guarantee fees, interest payments on loans from owners to the club, and fees paid to corporate directors. As shown in Table 14, related-party payments have ranged from a high of \$467,000 in 1996 to a low of \$10,000 in 2003. Although fees were paid to owners for guaranteeing the club's loans under several credit arrangements, loan guarantee fees have not been paid since 1998 because of requirements of the club's lenders. As of October 31, 2003, the owners were collectively owed nearly \$1.6 million in unpaid fees.

Table 14

**Other Direct Related-Party Payments**

Year	Loan Guarantee Fees and Interest Payments	Directors' Fees	Total
1994	\$ 38,000	\$12,000	\$ 50,000
1995	311,000	12,000	323,000
1996	455,000	12,000	467,000
1997	4,000	29,000	33,000
1998	398,000	26,000	424,000
1999	1,000	25,000	26,000
2000	–	24,000	24,000
2001	–	24,000	24,000
2002	–	24,000	24,000
2003	–	10,000	10,000

**Indirect Payments to Owners**

Finally, we reviewed payments to Selig Leasing Company, Inc. Mr. Selig is a part owner of this company. Selig Leasing has been providing approximately 40 vehicles to the Brewers each year, primarily for use by club executives and scouting staff. As shown in Table 15, payments to Selig Leasing have ranged from a low of \$358,000 in 1996 to a high of \$521,000 in 2003. According to Brewers officials, the 13.0 percent increase from 2002 to 2003 was primarily the result of the transition to a new management team, when new vehicles were leased for the incoming executives at the same time the club remained responsible for the leases of outgoing executives' vehicles.

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Table 15

**Payments to Selig Leasing Company, Inc.**

Year	Amount
1994	\$405,000
1995	367,000
1996	358,000
1997	379,000
1998	398,000
1999	361,000
2000	387,000
2001	438,000
2002	461,000
2003	521,000

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**Future Considerations**

Many legislators and Wisconsin residents are concerned about the Brewers' long-term financial viability. This topic is of particular concern to residents of the five-county taxing district who have made a significant investment in the construction of Miller Park. Through March 31, 2004, \$175.9 million in sales tax revenue has been collected in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties to help fund stadium construction and related costs. Current estimates indicate that the 0.1 percent sales tax will continue until at least 2014.

Our review of the Brewers' financial statements and related documentation indicates that the financial challenges the Brewers have faced in the past will continue in the future, particularly if the team's on-field performance does not improve. As noted, although revenues have increased, they generally do not compare favorably with those of other major league baseball clubs. Furthermore, the Brewers have continued to rely on significant borrowing and on owner contributions to provide the cash needed to finance ongoing operations. Operating expenses are increasing, including amounts spent on scouting and player development, but the amount spent on major league player compensation remains relatively low compared to other major league clubs.

In September 1995, this office, along with staff from the Legislative Fiscal Bureau, completed our first review of the Brewers' financial statements. At that time, the Brewers agreed to our review because of debate surrounding the financing of a proposed new stadium that eventually became Miller Park. In September 1995, we wrote: "Based on audited financial statements, it is apparent that the club's current financial condition is poor.... Without an increase in revenue, it is highly unlikely that the club will be financially viable in the future."

Table 16 shows the Brewers' net income and loss for the period from 1990 to 1994, as presented in our 1995 letter, as well as net income and loss for the most recent five-year period that is included in this review. As shown in the table, construction of the new stadium enabled the Brewers to increase revenues and helped the club generate profits. However, the club has continuing cash needs. If the Brewers are not able to increase operating revenues in the future, they will have to reduce spending on operations unless the owners make additional contributions or the club incurs additional debt.

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Table 16

**Net Income/Loss**  
(In Millions)

Year	Net Income or (Loss)
1990	\$ (6.2)
1991	(7.0)
1992	(6.4)
1993	2.7
1994	(15.7)
1999	(22.3)
2000	2.0
2001	6.7
2002	30.4
2003	2.2

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In 1995, the Brewers projected that with a new stadium, annual attendance would be over 40.0 percent higher than the average of 1.7 million from 1990 through 1993. Although 2001 attendance exceeded that estimate, by 2003 attendance had returned to the 1.7 million level. In 1995, we also wrote: "...to the extent that additional stadium revenue allows investments to be made in the club, it is anticipated that the club will be able to field more competitive teams, thereby retaining fan interest." While the Brewers did make increased investments in major league players in the years just before and after the opening of Miller Park, investment in major league players has most recently declined with declining local revenues.

In discussions with us, Brewers officials have pointed to several factors that could lead to improved finances, including the club's investment in its minor league system; the new stadium, which allows games to be played regardless of weather conditions; and their belief that the 2004 team is improved and will be competitive. Since our 1995 analysis was completed,



the Brewers have also benefited from the provisions of the 2002 Major League Baseball collective bargaining agreement, which increased funding for revenue sharing that is provided by high-revenue clubs.

Brewers officials declined to share with us their revenue and expense projections for 2004, and we do not know what financial changes are expected or what other changes may occur. However, as the Legislature reviews the Brewers' current financial condition, we suggest close monitoring of the Brewers' ongoing relationship with the Southeast Wisconsin Professional Baseball Park District, including the effect a sale of the franchise could have on this relationship.

## **Relationship to the District**

The Legislature enabled the construction of Miller Park when it created the Southeast Wisconsin Professional Baseball Park District and allowed it to impose a local sales and use tax of 0.1 percent to provide public funding for stadium construction and operations. The enabling legislation allows the Legislative Audit Bureau to audit the District at any time. Since 1997, the Joint Legislative Audit Committee has directed us to monitor the District's activities and financial status, and we have released three reports to date. We expect to release at least one more report in the future.

Among the many issues involved in this relationship, the following are likely to be of particular interest:

- ☑ Determination of the final shared ownership percentages will be important for calculation of the District's costs for maintenance, insurance, and other expenses. As the District's ownership increases, its costs for some items may increase. As noted, the District currently owns 70.9 percent of Miller Park, which is more than the 64.0 percent share included in a 1995 memorandum of understanding signed by representatives of the State, Milwaukee County, the City of Milwaukee, and the Brewers.
- ☑ To protect the taxpayers' investment in Miller Park, it is important to ensure that sufficient funds are provided for proper maintenance and repair. Payments from the District to the Brewers for maintenance have instead been directed to pay debt service on the loans that the Brewers secured to meet part of their agreed-upon contribution for stadium construction.
- ☑ Because the District's lease with the Brewers requires that major capital repairs "must be made in a manner consistent with the standards within the top 25 percent of such facilities," and because improvements necessary "to keep the facility's quality the same as at least 75 percent of stadium complexes" are also required to be made under the lease agreement, it is important to ensure adequate contributions are made to reserve accounts.
- ☑ Finally, the possibility of future commercial development on the 265 acres that surround Miller Park should be considered. Although nothing has been formally proposed at this time, some legislators have expressed concern about how future development decisions will be made, who would benefit financially, and whether any of the property developed would be exempt from local property taxes.

## **Sale of the Brewers**

On January 16, 2004, Chairperson Wendy Selig-Prieb, on behalf of the Brewers' board of directors, announced that the current ownership group was putting the franchise up for sale. The Brewers have since hired an outside firm for assistance with the sale. The club's value has been widely reported to be from \$180.0 to \$220.0 million. Most recently, *Forbes* magazine valued the Brewers at \$174.0 million, down from a high of \$238.0 million in 2002. Because many legislators and others believe that Miller Park has increased the value of the franchise to potential buyers, the Legislature earlier this year attempted to impose a fee on any transfer of the franchise that may occur. The proposal was considered but not enacted by the Legislature.

The announcement of a potential sale has raised concerns that a new owner could move the franchise. This seems unlikely. The lease agreement signed by the Brewers and the Southeast Wisconsin Professional Baseball Park District in 1998 includes language that allows the District to pursue various legal and financial remedies if the Brewers—or a buyer of the franchise—were to default on agreements to play all home games at Miller Park. Furthermore, in 1996 the Brewers, the District, and the State were parties to a non-relocation agreement that restricts transfer of the franchise to another location without the State's or the District's consent. However, only the Brewers and the District signed the agreement; the Governor at that time did not. Subsequently, in January 2004, the Brewers and the District entered into a new non-relocation agreement to which the State was not a party. Another new non-relocation agreement that includes the State was signed by the Governor this week. We note, however, that the club's secured lenders are not bound by the terms of the non-relocation agreements.

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Appendix

**Schedule of Revenues and Expenses**

(In Millions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>Operating Revenues</b>										
Local Baseball Revenue	\$23.8	\$22.7	\$27.5	\$28.9	\$36.6	\$35.2	\$39.6	\$83.3	\$68.6	\$59.4
Major League Baseball Revenue	5.8	7.3	13.8	16.3	18.4	20.0	20.2	21.6	25.0	29.4
Revenue Sharing	2.3	2.9	4.0	5.8	8.1	9.2	6.4	1.5	9.1	24.7
Other Revenue	1.0	0.9	1.4	1.8	10.3	1.0	1.5	3.6	1.7	2.4
<b>Subtotal</b>	<b>32.9</b>	<b>33.8</b>	<b>46.7</b>	<b>52.8</b>	<b>73.4</b>	<b>65.4</b>	<b>67.7</b>	<b>110.0</b>	<b>104.4</b>	<b>115.9</b>
<b>Operating Expenses</b>										
Major League Player Compensation	22.3	17.8	23.1	27.2	39.7	47.9	41.4	52.4	55.2	48.3
Other Baseball Operating Expenses	10.9	12.5	12.7	13.9	15.2	17.2	22.3	22.3	23.3	26.9
Other Team Operating Expenses	11.6	10.1	11.5	12.1	12.9	13.7	12.7	16.9	19.4	20.3
Major League Baseball Expenses	2.1	1.2	1.7	2.5	1.7	2.3	3.1	4.0	3.4	3.6
Depreciation	–	–	–	–	–	–	0.5	2.6	4.7	4.7
<b>Subtotal</b>	<b>46.9</b>	<b>41.6</b>	<b>49.0</b>	<b>55.7</b>	<b>69.5</b>	<b>81.1</b>	<b>80.0</b>	<b>98.2</b>	<b>106.0</b>	<b>103.8</b>
<b>Net Operating Income (Loss)</b>	<b>(14.0)</b>	<b>(7.8)</b>	<b>(2.3)</b>	<b>(2.9)</b>	<b>3.9</b>	<b>(15.7)</b>	<b>(12.3)</b>	<b>11.8</b>	<b>(1.6)</b>	<b>12.1</b>
Interest Income	0.1	0.3	0.1	0.2	0.2	0.2	0.6	1.5	0.3	–
Interest Expense	(1.9)	(4.5)	(6.1)	(6.0)	(6.3)	(6.5)	(6.8)	(7.8)	(9.5)	(7.6)
Extraordinary Items	–	–	–	–	–	(0.3)	20.5	1.2	41.2	(2.3)
<b>Net Income (Loss)</b>	<b>\$(15.8)</b>	<b>\$(12.0)</b>	<b>\$(8.3)</b>	<b>\$(8.7)</b>	<b>\$(2.2)</b>	<b>\$(22.3)</b>	<b>\$2.0</b>	<b>\$6.7</b>	<b>\$30.4</b>	<b>\$2.2</b>