A REVIEW

Milwaukee Brewers Stadium Costs

Southeast Wisconsin Professional Baseball Park District

99-10

June 1999

LEGISLATIVE AUDIT BUREAU

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June 18, 1999

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 been monitoring the construction costs of Miller Park, the new stadium for the Milwaukee Brewers Baseball Club, at the request of the Joint Legislative Audit Committee. The Southeast Wisconsin Professional Baseball Park District, a local unit of government created by 1995 Wisconsin Act 56, oversees the design and construction of the stadium. Statutes authorize the District to issue revenue bonds for stadium construction and impose a 0.1 percent sales and use tax in a five-county area of southeastern Wisconsin to pay for debt service and other expenses. Through December 1998, almost $50 million in sales and use tax revenue had been collected.

Total costs for the stadium—including the District's budgets for stadium construction, infrastructure, leased equipment, and project administration—are currently estimated at $399.4 million. District officials do not expect costs to change significantly because more than 75 percent of the stadium construction and infrastructure work was completed by the end of December 1998, or contracts for this work had been signed.

At the time of legislative deliberations on the proposal to construct a new stadium for the Brewers, many legislators and others believed that sales and use tax revenue would be used to pay only for the stadium's construction. However, under the terms of agreements signed by the District and the Brewers, the District will also be responsible for either $3.85 million or 64.0 percent of actual annual maintenance and repair costs incurred by the Brewers, whichever amount is less. If the District pays $3.85 million in each year, the sales and use tax will provide the Brewers with $115.5 million to help fund maintenance and repair costs over the course of the 30-year lease.

Statutes require the District to adopt hiring and contracting goals for minorities and women working on the stadium project and to hire an independent monitor to evaluate efforts to attain these goals. According to available information, the District is making progress in achieving these goals. For example, through December 1998, minorities accounted for 26.3 percent of construction and professional services work performed by new employes hired for the project, while women accounted for 8.8 percent. However, the independent monitor has not yet provided detailed reports confirming these participation levels.

The District's response is Appendix III.

Respectfully submitted,

Janice Mueller
State Auditor

JM/PS/bh

SUMMARY

1995 Wisconsin Act 56 created the Southeast Wisconsin Professional Baseball Park District, a local unit of government responsible for construction of Miller Park, a new stadium for the Milwaukee Brewers Baseball Club. Act 56 provides the District with the authority to issue revenue bonds and to impose a 0.1 percent local sales and use tax in Milwaukee, Oosaka, Racine, Washington, and Waukesha counties.

An August 1995 Memorandum of Understanding (MOU) signed by representatives of the State, Milwaukee County, the City of Milwaukee, and the Milwaukee Brewers outlined the stadium's ownership, design, construction, and management. The MOU included a $322.0 million budget for the project, including $250.0 million for the stadium and $72.0 million for infrastructure improvements. The official groundbreaking for the 43,000 seat, retractable-roof stadium took place in November 1996, and construction is scheduled for completion in April 2000.

Questions about whether project costs will exceed the expected amount have been raised since the project began. In response to these concerns, in March 1997, the Joint Legislative Audit Committee directed the Audit Bureau to monitor the project's progress and to provide periodic reports. This report, which is our second, presents project expenditures and revenues through December 1998, reviews major contracts and agreements signed by the District, and examines the District's efforts to meet statutory goals for the participation of minorities and women in the project.

In December 1998, the District's governing board approved an updated comprehensive project budget. Taking all costs into account, a total of $399.4 million is currently anticipated to be spent on the stadium project. This represents 24.0 percent more than the $322.0 million anticipated by the MOU and is an increase of $1.8 million since our 1997 review.

Anticipated project costs can be divided into three types:

- $305.4 million for stadium construction, including costs associated with leased equipment, project administration, and the issuance of revenue bonds and Lease Certificates of Participation that will be used to acquire leased equipment for the project;

- $82.2 million for infrastructure improvements; and

- $11.8 million for operations, including costs associated with the District's day-to-day office operations and Milwaukee County Stadium debt service and interim operations.

Through December 1998, the District spent $192.6 million, or 48.2 percent of the comprehensive project budget.

In March 1999, the District's governing board invoked optional provisions in its contract with HCH Miller Park Joint Venture, the project's construction manager, which provide assurances that the work for which HCH Joint Venture is responsible—including work related to stadium construction, infrastructure improvements, and the acquisition and installation of leased equipment—will not cost more than $312.1 million. As a result, HCH Joint Venture assumes the risk of covering any additional costs that could result if, for example, the price of construction materials were to rise unexpectedly or cost overruns related to construction were to occur.

The advantage of this approach is that it encourages HCH Joint Venture to implement cost savings that may lower total project expenditures, because the firm will be awarded 25 percent of the "savings" if actual costs are less than the guaranteed maximum price. On the other hand, enacting these provisions after 75 percent of the costs were already known, rather than earlier in the construction process, limits the potential benefits. In addition, expenditures could potentially increase because HCH Joint Venture may earn additional profit if total costs are less than $312.1 million.

Project funding originates from a number of sources, including the issuance of revenue bonds and Lease Certificates of Participation, the sales and use tax, interest income, local transportation aids, and contributions from the Milwaukee Brewers, Milwaukee County, and the City of Milwaukee. All funding sources provided $327.0 million through December 1998.

Through December 1998, the District received approximately $50.0 million in revenue from the 0.1 percent sales and use tax. The District has used the revenue to cover its debt service obligations. District officials indicate that one year after the stadium is completed, the District's governing board plans to provide an estimate of the date the tax will end. Assuming a 5.0 percent annual growth in tax collections and 5.0 percent annual earnings for funds the District has on hand, we estimate it will be necessary to collect the tax through at least 2014.

In August 1997, the District issued $45.0 million in Lease Certificates of Participation, which are a source of revenue used to acquire leased equipment necessary for the project. Lease Certificates of Participation are not bonds, nor are they considered debt, because the District is not legally required to appropriate funds to make rental payments. However, the District plans to use sales and use tax revenue to finance the $82.5 million in principal and interest payments associated with the Certificates.

To meet their $90.0 million obligation to the project, the Brewers secured $50.0 million in loans and refundable grants, and $40.0 million in additional funding. Through early January 1999, the District had received $22.0 million, and officials expect to receive the remaining amount during the first nine months of 1999.

At the time of legislative deliberations on the proposal to construct a new stadium for the Brewers, many legislators and others believed that sales and use tax revenue would be used to pay only for the stadium's construction. However, under the terms of agreements signed by the District and the Brewers, the District will also be responsible for either $3.85 million or 64.0 percent of actual annual maintenance and repair costs incurred by the Brewers, whichever amount is less.

In addition to typical maintenance and repair expenses, the terms of the 30-year lease between the Brewers and the District permit the Brewers to claim reimbursement for costs that include:

- their stadium rental payments;
- $300,000 annually for major capital repairs;
- uniforms, including cleaning;
- utilities;
- insurance; and
- salaries and fringe benefits for seasonal employes.

If the District pays the maximum amount of $3.85 million in each year, the sales and use tax will provide the Brewers with $115.5 million to help fund these and other maintenance and repair costs over the course of the 30-year lease.

The District will not reimburse the Brewers directly for maintenance and repair costs. Instead, under the terms of the agreements, the District's payments will be directed to repay the $50.0 million in loans and refundable grants that the Brewers secured to meet their agreed-upon contribution for stadium construction. Because the District's payments will be used to repay the Brewers' loans, the Brewers must use other funds to meet their maintenance and repair costs.

Before construction began, the MOU provided that the Brewers would own 36.0 percent of the $250.0 million stadium and the District would own the remaining 64.0 percent, based on the proportion of the stadium's costs each would finance. The December 1996 construction funding agreement between the District and the Brewers confirmed this division of ownership. However, this agreement also indicated that ownership percentages will be recalculated if either party funds additional project costs, and that the proportion of maintenance costs paid by the District to the Brewers will also be adjusted.

District officials indicate that they plan to include all relevant costs when determining each party's share of stadium ownership. Which costs will be included, however, is not entirely clear in the various agreements between the Brewers and the District. If all costs reflected in the comprehensive budget as of December 1998 are used to determine ownership, the Brewers' required $90.0 million contribution, which has not changed since the project began, would represent a 29.5 percent—rather than a 36.0 percent—share of total costs, and the District's share would be 70.5 percent. Alternatively, if leased equipment costs were excluded from the calculation, the Brewers' share of the stadium would be 33.7 percent, and the District's share would be 66.3 percent.

We questioned whether the sales and use tax could eventually be used to fund additional maintenance and repair costs, should the District own more than 64.0 percent of the stadium. District officials assert this is not possible, even if stadium ownership shares are recalculated, because agreements limit the District's annual maintenance and repair contributions to $3.85 million annually. Nevertheless, it may be prudent for the District to take steps to clearly delineate the $3.85 million as a maximum level of reimbursement that will not be subject to future contract amendments, so that if the Brewers' financial condition deteriorates in the future, Wisconsin taxpayers are not required to support any additional costs.

To fund transportation-related infrastructure work, the State is providing $36.0 million, including $12.0 million in local transportation aids that were provided in 1998 and $24.0 million of highway and bridge work that the Department of Transportation planned to complete in May 1999. Through December 1998, Milwaukee County provided $10.0 million of its $16.0 million contribution, and the District expects to receive the remaining $6.0 million in 1999.

The MOU anticipated that the City of Milwaukee would contribute $18.0 million toward the project's infrastructure. When the city disagreed with the District over how the funds would be provided, the District's governing board approved a funding arrangement in November 1998 to resolve the dispute. Under the arrangement, the Brewers, which had previously been loaned $15.0 million by the Milwaukee Economic Development Corporation, a nonprofit entity created to further economic development in the City of Milwaukee, will repay the loan over a 20-year period to the District rather than to the Milwaukee Economic Development Corporation. The city also provided the District with $5.9 million in January 1999 to fulfill its funding obligation.

The District's financial risk may have increased when the city did not provide $18.0 million in cash in 1998 and 1999, as originally anticipated. In fact, the District's governing board passed a resolution in November 1998 that acknowledged additional, unspecified risks associated with the arrangement. Although officials of the District believe they structured the arrangement in a way that protects the District's interests, it is difficult to know with certainty whether the November 1998 funding arrangement and the revision of other related contracts will adversely affect the District in the future.

Statutes require the District to adopt hiring and contracting goals for minorities and women working on the project and to contract for an independent monitor to ensure the District is complying with the goals. The District has established a project participation program to facilitate the involvement of minorities and women in project construction.

Preliminary data indicate that the District met many statutory participation goals through December 1998. Minority business enterprises received $29.7 million, or 25.4 percent of the $117.0 million of expenditures that the District determined were subject to participation goals, exceeding the statutory goal of 25 percent. Women's business enterprises received 5.4 percent of the contract expenditures, exceeding the 5.0 percent statutory goal. Minorities hired for the project accounted for 26.3 percent of new employes' construction and professional services work hours, and women hired for the project accounted for 8.8 percent of new employes' work hours.

The District's project participation program allows contractors to receive waivers from the statutory goals in certain circumstances. When Mitsubishi Heavy Industries of America, Inc., requested a waiver for $25.7 million of overseas work related to construction of the stadium's roof, officials of the District did not initially involve the independent monitor and informed the company that the statutory goals would not apply. However, on the recommendation of the independent monitor, the District later granted a waiver.

In February 1997, the District retained Milwaukee County's Disadvantaged Business Development Program as its independent monitor under the terms of a $750,000 contract. District officials are satisfied with some aspects of the independent monitor's work but are not entirely satisfied with timeliness or the extent to which it confirms the project participation coordinators' information. The independent monitor submitted only two reports between February 1997 and March 1999; neither contained sufficient information to ascertain whether the statutory goals were being achieved. Independent monitor staff indicate they have been unable to provide detailed reports because of difficulty reconciling the District's accounting records, uncertainty about which information the District expects them to confirm, and the District's failure to provide requested information in a timely manner. Although members of the District's governing board have questioned whether the independent monitor has met its contractual obligations, the governing board has not taken action necessary to obtain more useful reports, such as executing enforcement options contained within its contract with the independent monitor.

Relatively few additional opportunities to complete project work may remain for minorities and women, because more than 75 percent of the work in the District's stadium and infrastructure budgets was completed, or contracts had been signed for the work through December 1998. If the District or project contractors are unable to meet participation goals, statutes require that good-faith efforts be made to develop training programs to increase the number of qualified minorities and women. In December 1997, the District created a community program to provide:

- technical assistance to firms involved with the stadium project;
- grants to community agencies and educational institutions;
- scholarships for enrollment at technical colleges; and
- internships.

Through December 1998, the community program received approximately $134,000 in revenue, including contributions from companies working on the project and a $100,000 loan from the District. The community program focused entirely on providing technical assistance, such as hiring companies to provide minority and women's business enterprises with help in determining accurate cost estimates, negotiating contracts, and completing bookkeeping tasks.

In May 1999, officials of the District reported that Mitsubishi Heavy Industries of America, Inc., may provide a $200,000 contribution to the community program, which they indicate will be used to repay the $100,000 loan with interest and to assist in funding all four program components. Additional contributions will be needed if the program is to meet all of its original objectives.

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INTRODUCTION

1995 Wisconsin Act 56 created the District to oversee design and construction of a new stadium.

1995 Wisconsin Act 56 created the Southeast Wisconsin Professional Baseball Park District, a local unit of government that oversees the design and construction of a new stadium for the Milwaukee Brewers Baseball Club. The stadium will have a natural grass playing field, a seating capacity of 43,000, and a fan-shaped retractable roof that can be opened or closed in ten minutes. To finance project costs, the District is authorized to issue revenue bonds and to impose a 0.1 percent local sales and use tax in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties. The District employs six full-time staff. It is governed by a 13-member board: 6 members are appointed by the Governor, and 7 members are appointed by local governments within the District.

Provisions of Act 56 were based on a memorandum of understanding (MOU) signed by representatives of the State, Milwaukee County, the City of Milwaukee, and the Brewers, which each have funding responsibility for the stadium project. The MOU, which was signed on August 19, 1995:

- outlined agreements among the parties related to the stadium's description and ownership;
- outlined the terms and conditions of the stadium's design, construction, and management; and
- included a $322.0 million preliminary budget for the stadium project, consisting of $250.0 million for stadium design, construction, and development, and $72.0 million for infrastructure improvements.

The MOU indicated that the Brewers would fund $90.0 million in stadium design, construction, and development costs; public funds would support the remaining $160.0 million. The $72.0 million in infrastructure improvements were to be funded by the State, Milwaukee County, and the City of Milwaukee.

District officials have previously acknowledged that the project budget will exceed the $322.0 million anticipated in the MOU. They have justified an increased budget in several ways. First, they point out that the MOU was not binding on any of the parties, and it specifically stated that it would create no liabilities or obligations. Second, they believe the MOU's budget was for preliminary construction work only, and that additional costs—such as those associated with the acquisition of leased equipment and the District's day-to-day operations—were not anticipated in the MOU. Finally, they indicate that the MOU anticipated the project would be completed in 1999 and not 2000, as is currently projected, and that the one-year delay has resulted in additional inflationary costs.

Nevertheless, there had been a general expectation that the District would adhere to the MOU's budget amounts. The Legislature used the MOU as a basis for enacting Act 56, which required a majority of the District's governing board to determine that total initial stadium construction costs would not exceed $250.0 million before the governing board issued bonds to fund construction. The governing board made such a determination in November 1996, before it issued $160.0 million in revenue bonds to help pay for the stadium's construction.

The stadium is expected to be ready for use by 2000.

The official groundbreaking for the new stadium, which was named Miller Park after the Miller Brewing Company bought the naming rights, took place on November 9, 1996. Construction of the stadium is scheduled to be completed by April 2000, in time for opening day of the baseball season.

Based on concerns about whether the stadium's anticipated costs were exceeding legislative and public expectations, the Joint Legislative Audit Committee directed the Audit Bureau in March 1997 to monitor the project's progress and to provide periodic reports on the status of construction and other management issues. In November 1997, we released our initial review of project costs (report 97-17), which summarized expenditures incurred through June 1997.

This second review updates the District's progress in constructing the stadium. As part of this review, we analyzed:

- revenue received and expenditures recorded through December 1998;
- major agreements and contracts signed by the District's governing board; and
- the District's efforts to meet statutory goals for the participation of minorities and women in project construction.

It should be noted that our review focused on program expenditures and major contracts into which the District has entered. We did not attempt to review subcontracts or emerging issues, such as concerns that have recently been raised about the potential for delays in the stadium's construction.

In conducting our review, we examined financial records, construction and financial agreements and contracts, and the minutes of the District's governing board and its Construction, Finance, and Project Participation committees. In addition, we interviewed staff and reviewed documents prepared by individuals who were hired to collect and review information on the participation of minorities and women in the stadium's construction.

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PROJECT FINANCIAL STATUS

The project's total cost is estimated to be $399.4 million.

We currently estimate total project costs at $399.4 million, or 24.0 percent more than the $322.0 million anticipated in the MOU. In an effort to limit project cost increases, the District recently invoked optional contract provisions that guarantee it will not be liable for costs that exceed a guaranteed maximum price. However, if actual costs are less than the guaranteed maximum price, the project's construction manager will be awarded additional profits.

Project Budget and Expenditures

In December 1998, the District's governing board approved a $394.0 million project budget that included the District's budgets for stadium construction, infrastructure, and operations, as well as leased equipment and project administration costs that the District considers separately. The comprehensive budget that the board approved did not, however, include $5.4 million associated with issuing revenue bonds that will be used to fund stadium construction and Lease Certificates of Participation that will be used to fund the acquisition of leased equipment for the project. Those costs, which are included in our analysis of construction costs, increase the comprehensive project budget to $399.4 million, representing an increase of $1.8 million, or 0.5 percent, since our last review.

As shown in Table 1, construction costs—including the District's construction budget and related costs of leased equipment, project administration, and the issuance of revenue bonds and Lease Certificates of Participation—account for $305.4 million, or more than three-quarters of the comprehensive project budget of $399.4 million. Infrastructure and operations costs, including expenses associated with the District's day-to-day operations and with debt service and interim operations for Milwaukee County Stadium, account for smaller proportions of the comprehensive budget as of December 1998.

Table 1

Comprehensive Project Budget
As of December 1998

	Stadium Construction	Infrastructure	Operations	Total
District Budgets	$249,889,003	$72,000,008	$11,800,000*	$333,689,011
Leased Equipment	38,259,012	6,840,988	0	45,100,000
Project Administration	11,785,752	3,394,248	0	15,180,000
Issuance Costs**	5,438,689	0	0	5,438,689
Total	$305,372,456	$82,235,244	$11,800,000	$399,407,700

* Includes $8.5 million associated with the District's day-to-day office operations, and $3.3 million for Milwaukee County Stadium debt service and interim operations.

** Consists of costs associated with the original issuance of revenue bonds and Lease Certificates of Participation, which were not included in the budget approved by the District's governing board. Does not include $2.1 million in refinancing costs.

District officials do not expect the comprehensive project budget to change significantly, because more than 75 percent of the work the District included in its stadium construction and infrastructure budgets was completed by the end of December 1998, or contracts for it had been signed. District officials believe relatively accurate cost estimates are available for much of the remaining work.

Through December 1998, project expenditures totaled $192.6 million.

Expenditures in all project categories totaled $192.6 million through December 1998, or 48.2 percent of the comprehensive project budget. However, as noted, certain elements of that budget—such as leased equipment, project administration, and operations—were not included in all discussions of stadium costs. For example, the MOU did not include operations in its preliminary estimate of stadium costs, and the District excluded the costs of leased equipment—which includes the drive mechanism for the retractable stadium roof, the scoreboard and audio-visual equipment, seats, food service equipment, and elevators—from its budget for construction costs. To allow comparisons between earlier cost projections and current budgets and expenditures, we reviewed various 1998 budget documents prepared by the District, using the following categories: stadium construction; infrastructure improvements; leased equipment; project administration; and operations.

The District's Stadium Construction Budget

The District's stadium construction budget increased by $346,000 since our prior review, which represents an increase of 0.1 percent, reaching $249.9 million in December 1998. As shown in Table 2, the District reports having spent $109.5 million, or 43.8 percent of budgeted funds, on general construction, architectural and engineering fees, and construction management. No expenditures have been reported for contingencies or pending contract change orders, because when the District incurs costs in these areas it transfers funds from its contingencies or change order budgets to its general construction budget, from which the costs are funded.

The District originally budgeted $25.9 million for contingencies in February 1997. The difference between that amount and the $11.3 million budgeted in December 1998 reflects amounts transferred to the other budget categories.

Table 2

Stadium Construction Budget and Expenditures
Through December 1998

	District Budget	Expenditures
General Construction	$206,387,751	$ 89,693,114
Architectural and Engineering Fees	18,500,000	16,068,481
Contingencies	11,253,084	—
Pending Contract Change Orders	7,320,918	—
Construction Manager Fee	6,427,250	3,724,965
Total	$249,889,003	$109,486,560

The District's Infrastructure Budget

As shown in Table 3, the District's December 1998 budget for infrastructure improvements is $72.0 million, which represents an increase of $145,000, or 0.2 percent, since August 1997. Improvements that will be completed by the District and highway and bridge work that is the responsibility of the Department of Transportation are included in the table.

Table 3

Infrastructure Budget and Expenditures
Through December 1998

	District Budget	Expenditures
Completed by District		
Site Development	$22,620,449	$11,326,573*
Deep Pilings	7,181,440	7,181,441
Stadium Foundations	4,927,155	5,422,579
Pad Construction	3,500,000	3,423,483
Utility Relocation	2,000,000	1,093,894
Existing Stadium Demolition	1,900,000	0
Construction Manager General Conditions**	1,663,215	395,145
Methane Control	1,500,000	1,368,242
Architectural and Engineering Fees	1,200,000	1,236,638
Construction Manager Fee	968,551	596,376
Construction Manager Contingency	539,198	—
Subtotal	48,000,008	32,044,371
Completed by Department of Transportation		
Highway and Bridge Work	24,000,000	22,832,972
Total	$72,000,008	$54,877,343

* Includes $2.2 million for metals and $352,296 for highway and bridge work in the District's accounting records that do not directly correspond to the infrastructure budget categories.

** Includes costs associated with the purchase of heat and electricity for the construction site, crane and forklift rental, and temporary offices located at the project site.

Through December 1998, infrastructure expenditures were $54.9 million, or 76.2 percent of the amount included in the District's most recent budget. The Department of Transportation estimates that its infrastructure and bridge work, for which the District budgeted $24.0 million, will be completed in May 1999. Expenditures for this work are not expected to exceed the District's budget. As with the stadium work, as the construction manager spends contingency funds because of higher-than-anticipated costs in other budgets, the funds are transferred to the budget lines that reflect their use, such as methane control and utility relocation.

The District's Leased Equipment Budget

Acting as an agent for the leasing corporation it created—the Baseball Leasing Corporation—the District is acquiring capital equipment that will be a part of either the stadium or its infrastructure. Infrastructure-related equipment will include directional signs, parking lot lights, and a security system. The equipment is owned by the leasing corporation, although the District has total control over its construction and purchase.

The District has budgeted $45.1 million for leased equipment.

As shown in Table 4, the District's December 1998 budget for leased capital equipment is $45.1 million, which represents a decrease of $409,000, or 0.9 percent, since August 1997. Through December 1998, the District spent $5.0 million, or 11.2 percent of this budget, on expenditures for the construction or purchase of leased equipment.

Table 4

Leased Capital Equipment Budget and Expenditures
Through December 1998

	District Budget	Expenditures
Stadium-related		
Roof Drive Mechanism	$ 7,400,000	$1,834,498*
Scoreboard and Audio-visual Equipment	6,596,845	0
Furniture and Accessories	6,580,000	9,964
Food Service Equipment	5,640,000	321,246
Mechanical Equipment	5,195,000	596,142
Electrical Equipment	4,163,036	982,711
Conveying Systems	2,684,131	1,124,577
Subtotal	38,259,012	4,869,138
Infrastructure-related		
Site Development Equipment	6,840,988	171,862**
Total	$45,100,000	$5,041,000

* Includes $1,530 for investment management fees in the District's accounting records that do not directly correspond to the leased equipment budget categories.

** Includes $168,112 for stadium foundation expenditures in the District's accounting records that do not directly correspond to the leased equipment budget categories.

Project Administration

Project administration costs are eventually expected to total $15.2 million.

As shown in Table 5, the District has also budgeted $15.2 million for project administration. These services are generally provided under contract. The amount of this budget has not changed since August 1997. Through December 1998, the District spent $10.5 million, or 69.0 percent of its budget, for project administration.

Table 5

Project Administration Budget and Expenditures
Through December 1998

	District Budget	Expenditures
Insurance	$ 7,000,000	$ 4,798,941
Testing and Permits	3,100,000	2,264,679
Program Manager	1,830,000	1,118,678
Project Manager	1,400,000	666,231
Project Participation Independent Monitor	750,000	398,770
Project Participation Coordinators	550,000	336,552
Wisconsin Department of Administration Fees	400,000	742,593
Architectural and Engineering Design Competition	150,000	150,000
Total	$15,180,000	$10,476,444

Project administration is shared among several entities:

- International Facilities Group, a private company that has experience operating stadiums in other areas of the country, is the program manager and provides the District with technical and administrative assistance.

- The Hammes Company functioned as the initial project manager, providing design and construction oversight until the District hired staff to assume these responsibilities.

- Milwaukee County's Disadvantaged Business Development Program is the project participation independent monitor, which is responsible for ensuring that the District complies with statutory guidelines for the participation of minorities and women in project construction.

- Four project participation coordinators also have responsibilities related to minority and female participation in project construction. Two were hired by the program manager on the District's behalf, and two were hired by the principal design and construction companies.

Operations Costs

The District's $11.8 million budget for operating costs, which has not changed since August 1997, includes project administration services provided by the District's own staff. These costs include $8.5 million for day-to-day office operations and outside services, and $3.3 million for interim operations and debt service for Milwaukee County Stadium.

As shown in Table 6, the District spent $7.3 million on these activities through December 1998, including almost $1.6 million related to Milwaukee County Stadium. However, we were unable to compare expenditures to budgeted amounts because of difficulties in reconciling the amounts included in various budget documents provided by the District.

Table 6

Operations Budget and Expenditures
Through December 1998

	Budget*	Expenditures
Outside Services		
Legal	—	$2,576,469
Consulting	—	552,176
Accounting Services	—	305,732
Public Affairs	—	269,277
Financial Advisor	—	103,928
Audit Services	—	67,278
Recruitment	—	43,773
Other	—	166,500
Subtotal	—	4,085,133
District Office Expenditures		
Salaries and Fringe Benefits	—	1,088,762
Office Equipment and Leases	—	293,465
Office Operations	—	216,690
Travel	—	56,639
Meetings	—	7,838
Subtotal	—	1,663,394
Total	$ 8,500,000	5,748,527
Milwaukee County Stadium		
Debt Service	—	1,192,630**
Interim Operations	—	375,904
Subtotal	3,300,000	1,568,534
Total	$11,800,000	$7,317,061

* Budget documents providing detail on the various categories of expenditures could not be reconciled using available information.

** 1995 Wisconsin Act 56 requires the District to pay up to $1.5 million of Milwaukee County Stadium's outstanding debt.

Guaranteed Maximum Price

To manage construction of the stadium, the District contracted with the HCH Miller Park Joint Venture, which is made up of Huber, Hunt & Nichols, Inc.; The Clark Construction Group, Inc.; and Hunzinger Construction Company. HCH Joint Venture is responsible for hiring companies to help complete project work and for ensuring that work is completed within budget and in a timely manner.

The District's board has invoked optional guaranteed maximum price provisions.

The District's construction contract contains optional price provisions that can guarantee the work for which HCH Joint Venture is responsible will cost the District no more than a predetermined price; however, if actual costs are less than the guaranteed maximum price, HCH Joint Venture may be awarded 25 percent of the "savings" as additional profit. The District's governing board invoked the guaranteed maximum price provisions in its construction management contract in March 1999, to limit its financial exposure. Under the contract provisions, HCH Joint Venture proposed a guaranteed maximum price of $312.1 million for the work for which it is responsible, including:

- $227.2 million of stadium work, which represents 90.9 percent of the $249.9 million of work in the District's stadium construction budget;

- $45.1 million of leased equipment-related work, which represents all of the work in the District's leased equipment budget; and

- $39.8 million of infrastructure work, which represents 55.3 percent of the work in the District's infrastructure budget.

Additional profit will be earned by the construction manager if total costs are less than $312.1 million.

The District's governing board accepted this proposal in March 1999. Therefore, it will assume no responsibility for costs in excess of $312.1 million, which could result, for example, if the cost of construction materials were to rise unexpectedly or if other cost overruns associated with construction were to occur. However, if the governing board decided to expand the project's scope, the costs of additional work would not be considered part of the $312.1 million guaranteed maximum price.

As noted, HCH Joint Venture will be awarded 25 percent of the "savings" if the final cost of the work for which it is responsible is less than $312.1 million. Therefore, HCH Joint Venture has an incentive to implement costs savings that may lower total project expenditures.

Invoking the provisions may also prove beneficial as the project nears completion if remaining work must be completed quickly, and at a higher cost, to meet the April 2000 deadline for project completion.

Nevertheless, some argue that invoking the guaranteed maximum price provisions at this stage of the project provided the District with few benefits. District officials indicate that expenditures have been incurred or contracts have been signed for at least 75 percent of the work in the District's construction and infrastructure budgets through December 1998. Consequently, construction companies with which the District has contracted, and not the District, will be responsible for any additional costs of contracted work in most cases. Furthermore, if costs do not rise unexpectedly, invoking the contractual provisions could result in additional costs. For example, if HCH Joint Venture completed its work for 1.3 percent less than the guaranteed maximum price, it could earn an additional $1.0 million in additional profit for which the District would not have otherwise incurred costs.

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PROJECT FUNDING

A variety of public and private entities are responsible for funding construction of the stadium project. However, the ultimate source of some contributions, including funding associated with the Brewers' and the City of Milwaukee's contributions, is governed by complex financial arrangements.

The stadium project is funded by:

- proceeds from revenue bonds, some of which were refinanced in 1998;
- sales and use tax collections;
- proceeds from the sale of Lease Certificates of Participation, which are being repaid with revenue from sales and use tax collections;
- the Milwaukee Brewers Baseball Club, which secured $90.0 million in cash and loans to fund its share of project costs;
- state, county, and local funds, including local transportation aids and a revised financial arrangement with the City of Milwaukee, under which most of the city's contribution will be paid over a 20-year period rather than in two installments originally due by July 1999;
- interest income from funds the District has received but not yet spent; and
- miscellaneous revenue.

The District received $327.0 million in revenue through December 1998.

As shown in Table 7, these funding sources provided $327.0 million to support project expenditures through December 1998. Although the MOU stipulated that the State will provide $36.0 million for infrastructure improvements, only $12.0 million, which represents local transportation aids to the District, is shown in the table. The remaining $24.0 million is not reflected in the table because it funds work associated with U.S. Highway 41 that is being completed by the Department of Transportation, not the District.

Table 7

Project Funding Received
December 1998*

Source	Amount
Revenue Bond Proceeds	$161,004,820
Sales and Use Tax	49,988,518
Lease Certificates of Participation Proceeds	47,688,478
Milwaukee Brewers	22,000,000
Interest Income	18,403,305
Local Transportation Aids	12,000,000
Milwaukee County	10,000,000
City of Milwaukee	5,869,160
Miscellaneous Revenue	81,710
Total	$327,035,991

* Includes $18.0 million received from the Brewers and $5.9 million received from the City of Milwaukee on January 4, 1999.

Revenue Bonds

After 1995 Wisconsin Act 56 authorized the District to fund stadium construction with revenue bonds, the District's governing board authorized $160.0 million in state and federal tax-exempt revenue bonds in November 1996. Subsequently, it issued $146.7 million and $13.3 million revenue bonds. Debt service payments began in March 1997 and are scheduled to end in December 2029. The debt service schedule for all revenue bonds issued by the District is shown in Appendix I.

In September 1998, its governing board authorized the District to refinance $126.0 million in previously issued revenue bonds having an average interest rate of 5.75 percent. Refinancing lowered the average interest rate to 5.01 percent. Revenue bond proceeds after refinancing total $161.0 million.

The District saved $4.4 million by refinancing $126.0 million in revenue bonds in 1998.

Some individuals have questioned the District's decision to refinance its debt last year, given that its financial advisor indicated federal law allows the bonds to be refinanced only once. However, the Department of Administration has noted that bond interest rates were near historical lows, making refinancing conditions favorable. Despite $2.1 million in issuance costs, the District will realize a net savings of $4.4 million in debt service payments from refinancing through 2026, when repayment of the refunding bonds will be complete. The manner in which the District structured this refinancing will allow it to realize approximately 90 percent, or $4.0 million, of the savings before the end of 1999.

Sales and Use Tax

Section 229.685, Wis. Stats., allows the District to use revenue from the 0.1 percent sales and use tax imposed on the five counties under its jurisdiction only for purposes related to baseball park facilities. Statutes require the District to place revenue in excess of the amount needed to fund debt service and stadium operating expenses into a fund for future maintenance costs and capital improvements, or to use the excess revenue to retire the revenue bonds early. The sales and use tax is to end when sufficient funds are available to meet the District's obligations.

The Department of Revenue administers the tax on behalf of the District. Statutes allow the Department to fund its administrative expenses by retaining 3.0 percent of the collected tax in the first two years it is in effect, which ended in March 1998, and 1.5 percent thereafter. Through December 1998, the Department of Revenue had retained $1.3 million.

The sales and use tax will likely be collected through at least 2014.

In November 1995, the District's governing board passed a resolution to impose the tax. Collections began in January 1996, and the Department of Revenue began distributing the revenue to the District in March 1996. Through December 1998, the District received $50.0 million from the sales and use tax or, on average, approximately $1.5 million per month. The board does not plan to estimate the sunset date for the sales and use tax until one year after stadium construction is completed. However, assuming the District's financial obligations remain at current levels, a 5.0 percent annual growth in tax collections, and 5.0 percent annual earnings in funds the District has on hand, we estimate it will be necessary to collect the tax through at least 2014.

Funding agreements indicate that sales and use tax revenue will be used to fulfill several of the District's financial obligations, including:

- repaying the District's revenue bonds, as well as the corresponding interest;

- repaying Lease Certificates of Participation, as well as the corresponding interest; and

- funding annual stadium maintenance and repair contributions to the Brewers, which the District is obligated to make under its December 1996 lease with the Brewers.

Lease Certificates of Participation

In June 1997, the District's governing board created the Baseball Leasing Corporation, a nonstock, nonprofit entity, to obtain and lease capital equipment—such as the scoreboard, the drive mechanism for the retractable roof, seating, and food service equipment—for the District. The Corporation's board of directors consists of five members of the District's governing board. However, the District decides which items will be purchased and when they will be installed.

Acquisition and installation of the leased equipment is being funded with proceeds from the issuance of Lease Certificates of Participation. To facilitate the issuance of the Lease Certificates of Participation, the Corporation assigned its interest in the equipment lease and the right to receive rental payments due under the lease to Bank One Trust Company, N.A. The Lease Certificates of Participation are not bonds, nor are they considered debt, because the District is not legally required to appropriate funds to make rental payments. The District is to make annual lease payments to the trustee, Bank One Trust Company, that are sufficient to make payments due to the holders of the Lease Certificates of Participation.

To acquire equipment, $45.0 million of Lease Certificates of Participation were issued.

In August 1997, Bank One Trust Company issued Lease Certificates of Participation with a face value of $45.0 million through a sale to underwriters. The District received $47.7 million in proceeds from the issuance, including an issuance premium of $2.7 million. Appendix II shows payments to be made for the Lease Certificates of Participation, including $45.0 million in principal and $37.5 million in interest payments.

Sales and use tax collections are used to pay for the Lease Certificates of Participation.

As noted, the District's tax revenues have been pledged as security for the revenue bonds. Therefore, sales and use tax revenue must be applied to debt service and other requirements associated with the revenue bonds before it may be used for other purposes. However, the District did not restrict the use of sales and use tax revenue to funding bond debt. Because these funds will also be used to finance the $82.5 million in principal and interest associated with the Lease Certificates of Participation, it will be necessary to collect the tax for longer than originally expected.

Milwaukee Brewers' Contribution

The Brewers agreed to contribute $90.0 million for stadium construction, as described in the MOU. To meet this obligation, the Brewers secured:

- $40.0 million from the sale of stadium naming rights to the Miller Brewing Company and additional sources;
- $20.0 million in refundable grants, a type of loan, from the Lynde and Harry Bradley Foundation;
- $15.0 million in loans from the Milwaukee Economic Development Corporation, a nonprofit entity created to further economic development in the City of Milwaukee;
- $14.0 million in loans from the Metropolitan Milwaukee Association of Commerce, Inc.; and
- $1.0 million in refundable grants from the Evan and Marion Helfaer Foundation.

The Brewers provided $22.0 million to the project through early January 1999.

Under a plan approved by the District's governing board, the Brewers are to provide the District with $50.0 million during the first five months of 1999. As of early January 1999, the District had received $22.0 million of this funding, including $15.0 million from the Milwaukee Economic Development Corporation, $4.0 million from the Bradley Foundation, $2.8 million from the Metropolitan Milwaukee Association of Commerce, and $200,000 from the Helfaer Foundation.

District officials expect to have received $7.0 million each month from February through May 1999, for a total Brewers contribution of $28.0 million. Combined with the $22.0 million the District received in January 1999, this will fulfill the first $50.0 million of the Brewers' contribution. Beginning in June 1999, officials expect to receive four monthly payments of $10.0 million from the sale of the stadium's naming rights and other sources.

At the time of legislative deliberations on the proposal to construct a new stadium for the Brewers, many legislators and others believed that sales and use tax revenue would be used to pay only for the stadium's construction. However, under the terms of agreements signed by the District and the Brewers, the District will also be responsible for either $3.85 million or 64.0 percent of annual maintenance and repair costs incurred by the Brewers, whichever amount is less.

In addition to typical maintenance and repair expenses, the terms of the 30-year lease between the Brewers and the District permit the Brewers to claim reimbursement for costs that include:

- their stadium rental payments;
- $300,000 annually for major capital repairs;
- uniforms, including cleaning;
- utilities;
- insurance; and
- salaries and fringe benefits for seasonal employes.

$115.5 million in sales and use tax revenue will be used to help fund the Brewers' stadium maintenance, repair, and other costs.

If the District pays the maximum amount of $3.85 million in each year, the sales and use tax will provide the Brewers with $115.5 million to help fund these and other maintenance and repair costs over the course of the 30-year lease. The District will not reimburse the Brewers directly for maintenance and repair costs. Instead, under the terms of the agreements, the District's payments will be directed to repay the $50.0 million in loans and refundable grants that the Brewers secured to meet their agreed-upon contribution for stadium construction. Because the District's payments will be used to repay the Brewers' loans, the Brewers must use other funds to meet their maintenance and repair costs.

Stadium Ownership Issues

Before construction began, the MOU provided that the Brewers would own 36.0 percent of the $250.0 million stadium and the District would own the remaining 64.0 percent, based on the proportion of the stadium's costs each would finance. The December 1996 construction funding agreement between the District and the Brewers confirmed this division of ownership. However, this agreement also indicated that ownership percentages will be recalculated if either party funds additional project costs, and that the proportion of maintenance costs paid by the District to the Brewers will also be adjusted.

The District could potentially own as much as 70.5 percent of the stadium, rather than the 64.0 percent originally expected.

District officials indicate that they plan to include all relevant costs when determining each party's share of stadium ownership. Which costs will be included, however, is not entirely clear in the various agreements between the Brewers and the District. If all costs reflected in the comprehensive budget as of December 1998 are used to determine ownership, the Brewers' required $90.0 million contribution, which has not changed since the project began, would represent a 29.5 percent—rather than a 36.0 percent—share of total costs, and the District's share would be

70.5 percent. Alternatively, if leased equipment costs were excluded from the calculation, the Brewers' share of the stadium would be 33.7 percent, and the District's share would be 66.3 percent.

We questioned whether the sales and use tax could eventually be used to fund the additional maintenance and repair costs, should the District own more than 64.0 percent of the stadium. District officials assert this is not possible, even if stadium ownership shares are recalculated, because agreements limit the District's annual maintenance and repair contributions to $3.85 million annually. Nevertheless, it may be prudent for the District to take steps to clearly delineate the $3.85 million as a maximum level of reimbursement that will not be subject to future contract amendments, so that if the Brewers' financial condition deteriorates in the future, Wisconsin taxpayers are not required to support any additional costs.

State Contribution

1997 Wisconsin Act 27, the 1997-99 Biennial Budget Act, provided the District with $12.0 million in local transportation aids to fund a portion of the State's share of the infrastructure work. The State provided $3.0 million in February 1998 and the remaining $9.0 million in July 1998. District officials indicate that the funds were used, in part, for construction of parking lots and storm sewers.

As noted, the Department of Transportation is responsible for completing $24.0 million of infrastructure work, which includes bridge and highway work associated with U.S. Highway 41, as well as the relocation of utilities, utility siting, right-of-way and relocation costs, and hazardous materials remediation. 1995 Wisconsin Act 113 appropriated $15.0 million in general purpose revenue and $9.0 million in federal funds for this work. The District does not have access to these funds, which are controlled by the Department of Transportation. Through December 1998, the Department spent $22.8 million. All remaining work is expected to have been completed by May 1999.

Milwaukee County and City of Milwaukee Contributions

Milwaukee County provided $10.0 million through December 1998.

In the MOU, Milwaukee County pledged to contribute $18.0 million for the infrastructure portion of the project. District documents indicate that this funding is to be used for planning, design, and construction activities related to highway development; stadium foundation preparation and installation; utility relocation; hazardous materials remediation; and real estate acquisition. In June 1998, the District's governing board agreed to credit Milwaukee County with $2.0 million toward its $18.0 million commitment in exchange for the rights to demolish and salvage Milwaukee County Stadium after construction of the new stadium is completed. Through December 1998, Milwaukee County had provided $10.0 million to the District, and officials expect to receive the remaining $6.0 million from Milwaukee County in 1999.

The MOU also indicated that the City of Milwaukee would provide $18.0 million toward infrastructure. However, in 1998, disagreements arose between the city and the District over how the city would provide its contribution. Although the District expected the city to contribute $9.0 million in both July 1998 and July 1999, city officials did not make the July 1998 contribution, because they claimed that the State had agreed orally to provide a portion of the city's contribution when the MOU was signed in 1995. State officials denied having made such an agreement and refused to provide funding either directly or indirectly.

The District will receive the City of Milwaukee's financial contribution over a 20-year period.

In November 1998, the District's governing board and the city agreed upon a complex financial arrangement that allows the city to fulfill its obligation over a 20-year period. In September 1996, the city granted $15.0 million to the Milwaukee Economic Development Corporation to loan to the Brewers. To meet its financial obligation to the stadium project, the city will allow the Brewers to repay the District rather than the Milwaukee Economic Development Corporation. Repayment will include the original $15.0 million loaned by the Corporation, plus 5.75 percent interest. Assuming that construction of the stadium is completed in 2000, the Brewers will repay the loan from January 2001 through January 2019. To fulfill the city's remaining obligation to the project, city officials paid $5.9 million in January 1999.

The District's governing board requested that the entire $15.0 million provided by the Milwaukee Economic Development Corporation to the Brewers be paid in January 1999, rather than over a number of months as originally anticipated. District officials indicate that the city agreed, provided that payment would be reduced by $100,000 to reflect the interest on the $15.0 million that the Milwaukee Economic Development Corporation would forego by paying the entire amount in January 1999. The November 1998 financial arrangement is summarized in Table 8.

District officials believe their interests are protected in the financial arrangement with the City of Milwaukee because they control the funds—the annual maintenance and repair contributions—that will be used to repay the loan. According to a November 1998 resolution of the District's governing board, pursuing litigation to compel the city to provide its entire contribution by 1999 would have involved risks and uncertainty. In addition, without the city's contribution, board members were concerned that the project could be delayed, thereby increasing overall costs.

Table 8

November 1998 Financial Arrangement
Between the City of Milwaukee and the District

September 1996	City of Milwaukee grants $15.0 million to the Milwaukee Economic Development Corporation to loan to the Milwaukee Brewers
January 1999	Milwaukee Economic Development Corporation pays the District $15.0 million, representing the amount loaned to the Milwaukee Brewers Baseball Club
January 1999	City of Milwaukee pays $5.9 million to the District
January 2001 through January 2019	Milwaukee Brewers repay the $15.0 million Milwaukee Economic Development Corporation loan, plus interest, to the District

The funding arrangement with the City of Milwaukee may increase the District's financial risk.

Nevertheless, some individuals are concerned that the District's financial risk increased when its governing board agreed to accept the repayment rights associated with the $15.0 million loan. In fact, the November 1998 resolution acknowledged additional, unspecified risks associated with the funding arrangement. Although the District may receive payments if the Brewers default on certain obligations, this protection is subject to specified limitations. Therefore, it is difficult to know with certainty whether the November 1998 funding arrangement will adversely affect the District in the future.

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Statutes require the District to adopt hiring and contracting goals for minorities and women working on the stadium project, and to hire an independent monitor to evaluate efforts to attain these goals. The District has established a program to facilitate minority and female participation in the project, and it contracted with Milwaukee County's Disadvantaged Business Development Program to monitor project participation independently. To date, the District appears to be making progress in achieving statutory goals; however, the independent monitor's difficulties in obtaining adequate data, combined with the District's reluctance to enforce contractual provisions that require regular confirmation of minority and female participation levels, have hampered efforts to independently verify the accuracy of the information reported.

Statutory Goals

Statutes contain hiring and contracting goals for minorities and women.

Section 229.70, Wis. Stats., includes several goals for project participation by minorities and women. First, the District must require contractors providing construction and professional services to adopt goals that ensure at least 25 percent of employes hired specifically for the construction project are minorities, and at least 5 percent are women. In addition, statutes require the District to establish goals for contracting with businesses that are at least 51 percent owned, controlled, and actively managed by minorities or women. The District's contracting goals are to include ensuring that minority business enterprises receive at least 25 percent, and women's business enterprises receive at least 5 percent, of the combined dollar value for three contract categories:

- construction;
- professional services related to construction, which the District has defined as including design and environmental work; and
- development, which the District has defined as including work associated with legal, accounting, auditing, and public affairs services.

Statutes state that the participation goals shall apply to contracts in each of these three categories, but it is unclear whether the contracting goals apply to each contract in every category or to each contracting category. The District attempts to meet its contracting goals in both ways.

Although the participation levels specified in statutes are goals, not requirements, the District's program for targeted individuals and firms requires contractors to comply with the participation goals where possible and to provide justification when goals are not achieved.

In addition to the basic statutory requirements, the District exceeds requirements by:

- attempting to provide 15 percent of the aggregate dollar value of project contracts to small business enterprises, defined as having less than $2.5 million in gross annual receipts or fewer than 25 employes in the most recent year in which the business was in operation;

- establishing procedures for quickly certifying businesses as minority- or woman-owned in order to facilitate their timely participation on the project;

- encouraging mentoring relationships between local firms and targeted firms; and

- requiring prime contractors to pay targeted firms within 30 days after receipt of their invoices.

HCH Joint Venture's contract with the District includes incentives and penalties tied to the achievement of statutory participation goals, which will be determined at the end of the project. HCH Joint Venture can earn a bonus of $5,000 for each tenth of a percentage point it exceeds the overall 25 percent and 5 percent goals pertaining to contracts awarded to targeted firms, up to a maximum of $250,000 for each of the two goals. In addition, HCH Joint Venture can earn $5,000 for each tenth of a percentage point it exceeds a combined 30 percent participation rate for targeted individuals, up to a maximum of $250,000. Conversely, if the statutory goals are not met and if the District determines that HCH Joint Venture did not make a good-faith effort to achieve the goals, HCH Joint Venture can lose $5,000 for each tenth of a percentage point by which each of the three goals is not met, up to a maximum of $250,000 for each goal. According to the contract HCH Joint Venture signed with the District, if the firm does not agree with the District's determination of its good-faith efforts, it may appeal the decision to the District and, if the issue remains unresolved, to United States District Court for the Eastern District of Wisconsin.

Four coordinators collect information on the participation of minorities and women from project contractors.

Each month, four project participation coordinators collect the contract data used to determine whether the District is reaching project participation goals. As noted, two of these coordinators were hired by the program manager at the direction of the District. In addition, because of the large size of the project and the number of subcontractors involved, HCH Joint Venture and HKS, Inc., the project's primary architectural company, have each hired coordinators. The project participation coordinators' responsibilities include:

- compiling hiring and contracting information from contractors;
- preparing monthly reports summarizing the participation of targeted individuals and firms;
- reviewing contractors' bid proposal packages to evaluate proposed participation by targeted individuals and firms; and
- making public presentations regarding the District's participation efforts.

Project participation coordinators do not track the number of targeted individuals hired for the project, as statutes require, but they do track the proportion of total project work hours performed by targeted individuals, which may be a more accurate way to measure participation. However, our review of data showing the proportion of work hours performed by targeted individuals found that information from all companies performing construction and professional services work, including HKS and HNTB, an architectural company that worked on the project, did not appear to be included.

Through December 1998, the District met its project participation goals.

As shown in Table 9, data on project participation for those firms for which information is collected indicate the District was, through December 1998, meeting its goals related to hiring targeted individuals. Through December 1998, minorities accounted for 26.3 percent of the construction and professional service hours worked by individuals hired specifically for the stadium project, while women accounted for 8.8 percent of these hours.

Table 9

Project Participation in Construction and Professional Services by Newly Hired Minorities and Women
Through December 1998

	Goal	Hours Worked by Newly Hired Minorities and Women	Hours Worked by All New Hires	Percentage
Minorities	25.0%	67,931	258,112	26.3%
Women	5.0	22,626	258,112	8.8

The District also tracks the proportion of contract dollars awarded to minority and women's business enterprises. As shown in Table 10, the District appears to have achieved many of its statutory contracting goals through December 1998, including the goals for the three contract categories combined. For example, through December 1998, minority business enterprises were responsible for $29.7 million, or 25.4 percent of $117.0 million in expenditures the District determined were subject to participation goals. The District did not meet the minority business enterprise goals associated with professional services and development contracts, and it did not meet the goal associated with development contracts for woman's business enterprises. However, the proportion of contract dollars awarded to targeted firms may change as the project progresses. Combined, targeted firms received $36.1 million in contracted work through December 1998.

Table 10

Minority and Women's Business Enterprise Contract Expenditures
Through December 1998

	Minority Business Enterprises		Women's Business Enterprises	
Contract Categories	Amount	Percentage	Amount	Percentage
Construction	$25,264,689	27.1%	$5,235,240	5.6%
Professional Services	3,728,949	18.6	1,048,961	5.2
Development	730,534	19.5	81,712	2.2
Total	$29,724,172	25.4%	$6,365,913	5.4%

Participation Program Waivers

The independent monitor evaluates efforts to meet participation goals.

Statutes do not specifically include a waiver process, but if the District or a contractor is unable to meet hiring or contracting project participation goals, statutes require an independent monitor to determine whether good-faith efforts were made to reach those goals. Specifically, statutes require the independent monitor to consider:

- the supply of qualified targeted firms having the financial and technical capacity and the experience to perform the work;
- the competing demands for the services of qualified targeted firms; and
- the extent to which the District or the contractor advertised for and aggressively solicited bids from qualified targeted firms, and the extent to which those firms submitted bids.

In February 1997, the District contracted with Milwaukee County's Disadvantaged Business Development Program, which monitors Milwaukee County construction projects for sufficient minority and female participation, to serve as its independent monitor. Under the terms of the contract, which is not to exceed $750,000, the independent monitor is required to:

- review the participation information collected by project participation coordinators and provide monthly and annual reports that confirm the hiring of targeted individuals and firms and the extent to which the District has achieved statutory participation goals;
- review the recommendations for waivers from the statutory participation goals;
- review the project participation coordinators' decisions regarding whether good-faith efforts were made to attain statutory participation goals; and
- work to address concerns and issues related to program participation.

Through December 1998, the District paid the independent monitor $398,770, representing 53.2 percent of its $750,000 contract. The two project participation coordinators hired by the project manager have been paid $336,552 from their separate contracts with a combined value of $550,000.

If qualified targeted individuals or firms are unavailable, or if hiring a targeted firm would result in excessive costs, the District's participation program includes procedures for granting a waiver to a contractor. First, a waiver request must demonstrate that the contractor tried to hire targeted individuals or firms. This request must also include documentation of unavailability or excessive costs. Second, the project participation coordinators make a recommendation, which the independent monitor reviews. Finally, a subcommittee of the District's governing board decides whether to grant the waiver request.

District officials exempted $25.7 million in overseas work from program participation requirements.

As of December 1998, only one waiver had been granted. The waiver was granted to Mitsubishi Heavy Industries of America, Inc., a subcontractor on the stadium project that is fabricating and assembling the project's retractable roof. In late 1997, Mitsubishi requested a waiver for the overseas portion of its work, which represents $25.7 million of its $46.0 million contract, because of the unique nature of the work. Documents indicate the District did not believe that hiring or contracting goals could apply to work performed in other countries. Therefore, in May 1998, prior to consulting with the independent monitor, officials of the District informed Mitsubishi that statutory participation goals and the waiver process would not apply to the company's overseas work.

A project participation coordinator later examined the issues related to the overseas work and recommended that a waiver be granted. The independent monitor reviewed this recommendation and found that it was in compliance with participation program requirements. In October 1998, the District formally granted the waiver.

In addition to the Mitsubishi case, documents also show that the District excluded a number of project expenditures from the statutory participation goals. As noted, we found that only $117.0 million of the $192.6 million in expenditures the District incurred through December 1998 was subject to the participation goals. For example, office expenses, revenue bond issuance costs, and certain costs incurred by HCH Joint Venture were excluded from the goals because officials of the District believed these costs did not fall within the statutory participation requirements. The independent monitor eventually approved these exclusions.

District Oversight of the Participation Program

District officials state they are satisfied with the independent monitor's involvement in some parts of the participation program. Targeted firms have been certified promptly, and complaints raised by targeted individuals and firms have been investigated and resolved in a timely manner. In addition, during the process of confirming that funds were awarded to targeted firms as reported by the project participation coordinators, the independent monitor discovered that one company that was not owned by minorities or women had improperly retained a minority business enterprise to purchase materials on its behalf for the purpose of inflating the apparent participation levels of minorities. As a result, in October 1998, the independent monitor determined that $2.0 million in construction expenditures should not be counted toward achievement of participation goals. The company subsequently appealed the District's decision not to count the funds toward the achievement of the participation goals. An arbitration panel had not ruled on the issue during our review period.

District officials are not entirely satisfied with the independent monitor's reports.

Officials of the District are not entirely satisfied with the timeliness, comprehensiveness, or content of the reports submitted by the independent monitor. Since May 1997, the independent monitor has submitted one-page monthly status reports that summarize its activities, but these reports do not confirm progress toward meeting statutory participation goals, as required by the contract signed in February 1997. Furthermore, from February 1997 through March 1999, the independent monitor submitted only two reports that addressed the District's compliance with statutory participation goals, and neither report contained sufficient information to allow the District to fully determine whether statutory goals were being achieved.

The independent monitor issued its first quantitative report addressing the achievement of participation goals in May 1998, more than one year after being hired. The first report provided considerable information related to the participation program and confirmed the proportion of targeted individuals hired for the project from January 1997 through September 1997. However, the District's status in achieving contracting goals for minorities and woman's businesses could not be confirmed from the first report.

In July 1998, the District's legal counsel provided both the independent monitor and the project participation coordinators with comprehensive reporting procedures that are intended to assist the independent monitor in providing the District with more current reports that contain conclusive information. Although the procedures do not list specific dates by which reports must be submitted, they require the independent monitor to:

- examine a statistically significant sample of information reported by the coordinators and use it to determine the District's compliance with statutory goals;
- provide statistical analyses of the District's compliance with the participation goals over four-month periods and for the project to date; and
- prepare written reports that summarize its activities.

In December 1998, the independent monitor submitted a second quantitative report that examined participation data from the beginning of the project through August 1998. The District has acknowledged an improvement in the report's format. However, neither the proportion of targeted individuals hired nor the District's status in achieving contracting goals for minority and women's businesses could be confirmed from this report.

The independent monitor has had difficulty obtaining information from the District.

Representatives of the independent monitor indicate that they have been unable to provide detailed reports confirming participation levels for a number of reasons, including:

- difficulty in reconciling accounting records maintained by the District and by targeted firms, which indicate the amounts paid to the firms;
- uncertainty about which information the independent monitor should attempt to confirm, because through January 1999—more than two years after the stadium project began—the District had not determined whether some portions of the project, such as costs associated with the construction manager's temporary offices located at the project site, heat and electricity for the site during construction, and the rental of cranes and forklifts, are subject to the statutory participation goals; and
- a failure by the District to provide a complete record of its expenditures and, as it is contractually required to do, information related to District-approved contract change orders, as well as other information requested by the independent monitor, such as explanations of how the project participation coordinators calculated the numbers in their reports.

Some members of its governing board and staff have questioned the independent monitor's compliance with its contractual obligation to provide timely reports confirming participation levels. They believe that the independent monitor should be able to resolve many of the difficulties it has experienced and should submit regular reports as its contract requires. However, despite their dissatisfaction with the independent monitor's reports, officials of the District maintain that statutes intend the monitor to be completely independent of the District. Therefore, they believe it would be inappropriate for the District to instruct the independent monitor in how to conduct its work. Moreover, officials believe that the project participation coordinators' monthly reports provide adequate information on whether the District is achieving statutory participation goals and complying with statutory reporting requirements.

The District could invoke enforcement options in the independent monitor's contract.

In contrast, some believe the District could take additional action to ensure it receives more timely and useful reports. For example, the District's contract with the independent monitor includes a variety of enforcement options, including: 1) providing written notice to the independent monitor of defects in the reports and requesting that the reports be rewritten at the independent monitor's expense; 2) withholding a portion of the independent monitor's fees as damages; or 3) terminating the contract. The District has not invoked any of these provisions.

In January 1999, representatives of the independent monitor stated that they intend to provide the District with detailed reports confirming progress toward achieving participation goals every four months. However, if those reports show that participation levels are considerably lower than those reported by the coordinators, it may be too late for the District to take action in order to achieve statutory participation goals. Because more than 75 percent of the work in the District's stadium and infrastructure budgets had either been completed or contracted for by the end of December 1998, relatively few additional opportunities may be left for targeted individuals and firms to work on the project in accordance with legislative intent.

Community Program

The District's community program is intended to provide assistance to minorities and women.

If the District or project contractors are unable to meet the participation goals, statutes require that good-faith efforts be made to contract with Milwaukee Area Technical College to develop training programs that will increase the number of qualified targeted individuals. In December 1997, the District created both a community program, which is intended to provide immediate assistance to targeted firms involved with the project, and the Miller Park Stadium District Community Program, Inc., a nonprofit corporation whose board of directors consists of five members of the District's governing board. The corporation oversees and implements the community program, which has four components:

- technical assistance to targeted firms involved with the stadium project and future construction projects in southeast Wisconsin;
- grants to help community agencies and post-secondary institutions provide internships, job training, and assistance to targeted firms seeking to increase the size of projects they can undertake, and to increase the pool of targeted individuals;

- scholarships for enrollment in pre-apprenticeship construction trade programs at area technical colleges; and

- internships in various fields, such as construction trades and management, architecture, engineering, finance, and law.

Through 1998, the program focused exclusively on providing technical assistance to firms participating in the project by hiring companies to provide various services to minority and women's business enterprises that indicate a need for assistance. Assistance may be provided in, for example, determining accurate cost estimates and bids, completing loan documents, providing safety training, negotiating contracts, and completing financial accounting and bookkeeping tasks. District officials plan to establish the remaining components of the community program in 1999.

Documents related to the corporation's status as a nonprofit entity, which were filed with the Internal Revenue Service, indicate that the corporation anticipated each of the four components of the community program would be funded equally. Funding is expected to be made available through voluntary contributions from contractors that do not meet the statutory participation goals for the work they performed on the stadium project.

In March 1998, the District loaned $100,000 to the community program.

In March 1998, the District provided a $100,000 loan to the community program to serve as its initial funding. In addition, officials of the District have indicated they will use funds from a $200,000 contribution to the community program made by Mitsubishi Heavy Industries of America, Inc., in May 1999 to repay the loan with interest beginning in March 2000. Interest will be based upon the average rate earned by the State's local government investment pool.

As shown in Table 11, the community program received a total of $134,400 through December 1998, including the District's $100,000 loan and $34,400 in contributions, primarily from contractors that did not achieve the participation goals. Its $98,972 in expenditures through December 1998 include technical assistance services purchased for targeted firms from qualified companies.

Table 11

Community Program Revenue and Expenditures
Through December 1998*

	Amount
Revenues	
District loan	$100,000
Contributions	34,400
Expenditures	98,972
Ending balance	$ 35,428

* Does not include $200,000 provided by Mitsubishi Heavy Industries of America in May 1999.

Three components of the community program have yet to be funded.

As of December 1998, sufficient funds did not exist to provide equal funding for the other three components of the community program. Furthermore, the community program will incur additional technical assistance expenses as the stadium project progresses. Therefore, funding all four program components equally may require more than an additional $300,000. The contribution to be provided by Mitsubishi Heavy Industries should assist the District in accomplishing its goals, but additional funds will be needed.

District officials state that HCH Joint Venture would consider making a contribution at the end of the project. Officials are also asking contractors that did not meet participation goals early in the project, before the participation program was created, to contribute funds. However, with the exception of Mitsubishi, officials of the District have indicated that no other firms have made commitments.

If sufficient funding is not obtained for the community program, qualified minorities and women may be denied opportunities to learn construction trade skills and to increase their ability to work on future construction projects. Therefore, it will be important for the District to identify, obtain, and allocate adequate funding to meet the community program's objectives.

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APPENDIX I

Debt Service on Revenue Bonds

Year	Debt Service on Bonds Not Refunded[1]	Debt Service on Refunding Bonds[2]	Total Debt Service[3]
1997	$ 7,831,741[4]	----	$ 7,831,741
1998	7,469,848	$1,710,974	9,180,822
1999	926,025	6,920,793	7,846,818
2000	926,025	6,920,793	7,846,818
2001	926,025	7,215,793	8,141,818
2002	1,656,025	7,018,993	8,675,018
2003	1,849,635	7,019,593	8,869,228
2004	2,052,615	7,014,993	9,067,608
2005	798,615	7,015,278	7,813,893
2006	798,615	7,015,238	7,813,853
2007	798,615	7,014,925	7,813,540
2008	798,615	7,019,335	7,817,950
2009	798,615	7,018,315	7,816,930
2010	5,488,615	7,016,935	12,505,550
2011	5,534,735	7,015,185	12,549,920
2012	5,578,305	7,018,055	12,596,360
2013	0	12,640,300	12,640,300
2014	0	12,686,575	12,686,575
2015	0	12,742,775	12,742,775
2016	0	12,792,250	12,792,250
2017	720,000	12,849,175	13,569,175
2018	3,295,000	12,916,900	16,211,900
2019	3,235,000	12,973,500	16,208,500
2020	3,170,000	13,038,150	16,208,150
2021	3,100,000	13,108,925	16,208,925
2022	3,025,000	13,183,900	16,208,900
2023	2,950,000	13,261,150	16,211,150
2024	2,860,000	13,348,750	16,208,750
2025	2,775,000	13,434,225	16,209,225
2026	2,675,000	13,535,650	16,210,650
2027	16,210,000	0	16,210,000
2028	16,210,000	0	16,210,000
2029	16,210,000	0	16,210,000
Total	$120,667,669	$282,467,423	$403,135,092

[1] Original principal amount of $33,969,465.
[2] Original principal amount of $126,225,000.
[3] Includes $160,194,465 in principal and $242,940,627 in interest costs.
[4] Includes $1,637,670 in interest for 1996 bonds remarketed in March 1997.

APPENDIX II

Principal and Interest Payments for
Lease Certificates of Participation

Year	Principal	Interest	Total
1997	$ 0	$ 31,267	$ 31,267
1998	0	84,000	84,000
1999	0	84,000	84,000
2000	0	84,000	84,000
2001	4,480,062	703,938	5,184,000
2002	3,916,184	1,263,816	5,180,000
2003	3,696,291	1,473,709	5,170,000
2004	3,481,893	1,673,107	5,155,000
2005	4,190,604	2,409,396	6,600,000
2006	4,063,136	2,726,864	6,790,000
2007	3,932,672	3,047,328	6,980,000
2008	3,781,655	3,393,345	7,175,000
2009	3,629,238	3,745,762	7,375,000
2010	1,458,221	1,721,779	3,180,000
2011	1,432,249	1,902,751	3,335,000
2012	1,404,326	2,090,674	3,495,000
2013	1,338,943	2,226,057	3,565,000
2014	1,234,534	2,285,466	3,520,000
2015	1,145,482	2,324,518	3,470,000
2016	1,051,171	2,363,829	3,415,000
2017	763,043	1,871,957	2,635,000
Total	$44,999,704	$37,507,563	$82,507,267

June 16, 1999

Ms. Janice Mueller
State Auditor
Legislative Audit Bureau
131 W. Wilson St., Suite 402
Madison, WI 53703-3233

Dear Ms. Mueller:

Thank you for the opportunity to comment on the Legislative Audit Bureau's (LAB) report on the Southeast Wisconsin Professional Baseball Park District. We appreciate the opportunity to have our comments included as part of the final report. There are a few areas that require clarification or more information. These include:

- <u>Cost of bond issuance</u> -- Your report on our budget includes the $5.4 million in bond and certificate financing costs as a project expenditure, just as the first report did. Like the state Department of Administration, the state Department of Transportation and dozens of Wisconsin municipalities, the District correctly records this cost in accordance with generally accepted accounting principles. This is confirmed as proper by both the District's accountant, Virchow, Krause and Company, LLP, and verified by the District's independent auditors, BDO Seidman, LLP. Please be advised we have copies of these opinions on file and available for review. While the LAB staff acknowledged during the exit conference that this was, indeed, an appropriate manner in which to record this cost, the report did not include this information.

- <u>Annual Maintenance and Repair Cost (AMRC)</u> -- There still appears to be some confusion about the Memorandum of Understanding (MOU), Act 56, the AMRC and how these all fit together. The Legislature, the media and the general public clearly knew that some District funds would be used for operations, maintenance, debt service and other non-construction-related activities. In fact, Act 56 specifically states the District will be responsible for the remaining debt service payments on Milwaukee County Stadium.

  Let there be no doubt that the District's AMRC has a fixed cap of $3.85 million annually. Both the Milwaukee Brewers Baseball Club and the District, the only two involved in this transaction, agree with this analysis. In fact, in a recent letter available for review and on file at the District on this subject, Wendy Selig-Prieb, president and chief executive officer of the Milwaukee Brewers Baseball Club, states, "Once the relative ownership interests are finally determined, the District and the Team will amend the Lease and Shared Ownership Agreement to reflect these new final percentages of ownership. The Construction Funding Agreement, however, does not require or contemplate that the Team and the District will also modify the 'cap' on the AMRC payment. That 'cap' will remain at $3.85 million per year regardless of the ultimate ownership percentages."

  Therefore, the existing agreements between the District, the Brewers and other funding partners provide strong protections for Wisconsin taxpayers against future obligations. While existing provisions in the funding agreement may mean that the District will own a greater share of Miller Park, taxpayers are still protected. The

District always contemplated a recalculation of ownership percentages. Nevertheless, we concur with the LAB's recommendation in this regard, and we will undertake the necessary steps in the near future.

- Tax date -- We would like to obtain an exact replica of the crystal ball used in projecting a date for the sunset of the sales and use tax. The Board has consistently stated that it will project a sunset date one year after the project is finished. We believe that it is more responsible for the District to have completed the project prior to making this estimate. Estimating a sunset date prematurely results in an unrealistic expectation which can be unintentionally misleading and may well be inaccurate. Because the report provides so little background on how this estimate was made, it is suspect at best.

- Project participation and the Independent Monitor (IM) -- Overall, the IM is one of the many reasons that Miller Park is being built with significant and real community participation from many and various disadvantaged, minority, and women-owned businesses. However, the District faces a contradictory situation. First and foremost, the monitor is independent, and the Board respects that. Secondly, we have had some questions about the IM's reports, and have tried to encourage that our suggestions be considered without compromising the independence of the IM. This has been a difficult task, but we believe helping ensure community participation and ensuring that minorities, women and disadvantaged business enterprises are significantly involved in the building of Miller Park are the key goals.

  We are, however, sensitive to the LAB's comments attributed to the IM about timely access to information and accounting procedures. We will attempt to better coordinate information sharing and efforts with the IM on these matters, while still respecting its independence.

  Partly because of the efforts of the IM, Miller Park is meeting or exceeding its objective of meaningful local community participation. As of the end of May 1999, more than 80 percent of the key contracts have been awarded to state firms. Nearly three-quarters of these are within the five-county District. About 27 percent of our expenditures have gone to minority-owned businesses, and 5 percent have gone to women-owned businesses. Almost one-third of all worker hours on the project are attributed to people who got a job specifically to work on Miller Park. More than one-quarter of the new hires are minority workers, and more than 8 percent of the new hires are women. More than 140 minority, women, disadvantaged or small businesses have been involved in the project. With more than 700 workers on the project daily, almost 90 percent are state residents, and nearly three-quarters are residents of the five-county District. Miller Park clearly has been an economic, job-creating home run for the community.

We understand that the LAB will prepare a third and final report of the project after Miller Park is open, and we look forward to hearing from you after Opening Day 2000.

Sincerely,

Robert N. Trunzo
Board Chairman