

## 97-17 A Review of Milwaukee Brewers Stadium Costs, Southeast Wisconsin Professional Baseball Park District

### Summary

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Miller Park, which is a new stadium for the Milwaukee Brewers Baseball Club, is currently under construction in Milwaukee County. The Legislature enabled construction of the stadium in 1995 Wisconsin Act 56, which created the Southeast Wisconsin Professional Baseball Park District and gave it the authority to issue revenue bonds and impose a local sales and use tax of up to 0.1 percent in order to provide public funding for construction of a new stadium. The District is a local unit government made up of five counties: Milwaukee, Ozaukee, Racine, Washington, and Waukesha.

The public commitment to a new stadium was outlined in a memorandum of understanding (MOU) signed in August 1995 by representatives of the State of Wisconsin, Milwaukee County, the City of Milwaukee, and the Brewers. The MOU outlines agreements among the parties related to the stadium's description; its ownership; and the terms and conditions of the stadium lease, design, construction, and management. It includes a \$250 million preliminary budget for design, construction, and development of the stadium, of which \$160 million is to be publicly funded, as well as a \$72 million preliminary budget for infrastructure improvements that are to be funded by the State of Wisconsin, the City of Milwaukee, and Milwaukee County.

Questions about whether stadium construction costs will exceed the MOU's preliminary budget of \$250 million have been raised since construction began in October 1996. Of particular concern is the financial effect of the District's decision to lease, rather than purchase, certain equipment and fixtures, including a scoreboard and the roof-drive mechanism for the stadium's convertible roof. While a full accounting of construction costs will not be possible until after the stadium is completed in the year 2000, the Joint Legislative Audit Committee has directed the Legislative Audit Bureau to monitor the construction project and provide interim reports. This interim report, which is our first, focuses on financial issues, including the relationship of the District's current stadium project budget to the preliminary budget included in the MOU, agreements and contracts into which the District has entered, and project expenditures and funding through June 1997.

The total budget for the stadium project as enumerated in the MOU is \$322 million. As noted, \$250 million of this amount is for the stadium, and \$72 million is for infrastructure improvements, including highway and site improvements. The District's current stadium construction and infrastructure improvements budgets are within the amounts delineated in the MOU; therefore, district staff assert that the project is within its established budget. However, the District has also budgeted additional amounts for leased equipment and operational, administrative, and management costs. These costs were not identified in the MOU. As a result, the District's current total stadium project budget exceeds the \$322 million enumerated in the MOU.

Many of the proposed expenditures the District has included in its two additional budget categories are directly associated with stadium construction and infrastructure improvements. First, the type of equipment to be leased, which includes a scoreboard, the roof-drive mechanism, concession equipment, and furniture, is essential to the project's completion. Second, many of the expenditures delineated in the operational, administrative, and management budget are one-time costs for such items as testing, permits, and owner's completion insurance, which are also directly related to the project's completion. These costs need to be allocated to either the stadium construction or the infrastructure improvements budget in order to provide a more accurate reflection of estimated project completion costs. Finally, it should be noted that the District's budget excludes expenditures associated with the issuance of debt to fund stadium construction; such costs ought to be included in considering the overall stadium project budget if a complete estimate is to be determined.

Using the budget figures developed by the District, as well as the actual costs associated with issuing revenue bonds, we

estimate that the stadium project's total cost is currently \$397.6 million. Of this amount:

- \$303.3 million is associated with stadium construction;
- \$82.5 million is associated with infrastructure improvements; and
- \$11.8 million is associated with the District's day-to-day operations, including costs related to Milwaukee County Stadium, for which the District has assumed management responsibility.

In considering differences between the current stadium project budget and the budget enumerated in the MOU, at least two questions can be raised. The first is why the current budget exceeds the \$322 million enumerated in the MOU. The primary reason, according to district staff, is that the MOU was not comprehensive. In particular, they indicate that it did not take into account necessary operational, management, and administrative costs that the District believes should be considered separately from stadium construction and infrastructure improvements costs. However, while it is reasonable to assume that the MOU budget was not intended to include costs associated with the District's day-to-day operations or management of Milwaukee County Stadium, there was a general belief the MOU budget was intended to reflect all other costs associated with the stadium project.

Furthermore, even if the District's argument related to operational, management, and administrative costs were accepted, a similar argument cannot be made regarding the costs of equipment to be acquired through leases. Although the MOU provided limited detail regarding expenditures, the proposed stadium construction budget does include amounts for such items as equipment and a scoreboard. The District may have legitimate reasons for leasing rather than purchasing equipment with a short technological life, such as a scoreboard, and equipment that is inherently risky, such as the roof-drive mechanism. Nevertheless, the MOU did not make an additional allowance for such leasing costs, which are therefore properly considered with other stadium construction and infrastructure improvements costs.

District staff also provide two additional reasons for why the stadium project's costs are higher than expected. The first is that the MOU budget anticipated project completion in 1999 rather than 2000, as currently anticipated. The one-year delay resulted in an estimated \$11.3 million cost increase due to inflation. The second is that the MOU did not anticipate the costs associated with ensuring full compliance with the minority and woman business participation goals that were established in Act 56 subsequent to the MOU's completion. Although it is not possible to make an accurate determination of the costs associated with complying with these goals, district staff estimate that the costs may equal as much as \$10 million.

The second question is whether the percentage ownership reflected in the MOU continues to be appropriate. Under the MOU, and subsequent agreements signed by the District and the Brewers, the Brewers are to have a 36 percent ownership in Miller Park when it is completed. This percentage was determined based on the proportion of the total cost of the stadium the Brewers are expected to finance. However, when all expenditures are taken into account, based on current estimates, the Brewers' \$90 million in funding reflects only 29.7 percent of the \$303.3 million to be expended on stadium construction. If actual stadium construction expenditures reflect budgeted costs when the project is completed, then an adjustment to the Brewers' percentage of ownership will need to be made. District staff state that all relevant costs will be taken into account in making this final determination.

The District has also entered into several contractual relationships to fulfill its responsibilities related to the design and construction of Miller Park. The primary contract under which the stadium is to be constructed—the construction management services agreement—was approved by the District's board in September 1997. This contract has a target cost of \$258 million, including \$220 million for stadium construction and \$38 million for leased equipment. While the contract is with three construction firms that constitute the HCH Miller Park Joint Venture, the Joint Venture will subcontract with others to complete construction. For example, the HCH Miller Park Joint Venture will subcontract with Mitsubishi Heavy Industries of North America to design and build the retractable roof.

In addition, the District has entered into a \$16 million contract for architectural and engineering services and a \$1.75 million contract for program manager services, as well as several contracts for services associated with infrastructure improvements. The District's relationship with the Wisconsin Department of Transportation is not contractual, but it represents the second-largest commitment to the project in terms of dollar value to date. The

Department of Transportation is investing \$24 million for highway improvements to the Stadium Interchange on Interstate 94 and U.S. Highway 41.

Actual expenditures for the stadium project total \$32.7 million through June 1997. Of this amount:

- \$17.9 million is associated with stadium construction;
- \$11.3 million is associated with infrastructure improvements, including \$3.8 million expended directly by the Department of Transportation; and
- \$3.5 million is for the District's day-to-day operating costs, including costs associated with Milwaukee County Stadium.

To fund these expenditures, the District had revenue from three sources through June 1997:

- proceeds from the sale of revenue bonds contributed \$160 million;
- local sales and use tax revenues contributed \$21.4 million; and
- gross interest earnings contributed \$4.8 million.

Since June 1997, the District has also generated revenue through the issuance of \$45.5 million in Lease Certificates of Participation, which were offered in August 1997 by the Baseball Park Leasing Corporation. The Baseball Park Leasing Corporation is a nonstock, nonprofit corporation with a Board of Directors consisting of five members of the District's board. The Baseball Park Leasing Corporation was incorporated to acquire stadium-related equipment and install it in Miller Park using the proceeds from the Lease Certificates of Participation. The equipment will be leased to the District, which will make rental payments for its use. Although the District has signed a lease agreement with the Baseball Park Leasing Corporation, the equipment has not yet been purchased.

In recognition of concerns about its proposed leases, expenditures, and other financial information, the District has passed a resolution to provide a full quarterly disclosure statement regarding its financial status. This information should help the public better understand the purposes for which public funding is being used. However, in order for the information to reflect the District's financial status fully, particularly as it relates to expenditures, the District will need to:

- disclose the expenditures made on its behalf for leased equipment, and delineate clearly whether the leased equipment is part of the stadium or considered an infrastructure improvement;
- disclose the costs associated with one-time operational, management, and administrative costs, and delineate clearly whether they are related to the stadium's construction or infrastructure improvements; and
- disclose expenditures associated with the issuance of any debt incurred in order to fund the stadium project.

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