



DEPARTMENT OF ADMINISTRATIVE SERVICES

# Milwaukee County

Teig Whaley-Smith

• Director, Department of Administrative Services

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MEMORANDUM

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TO: Milwaukee County Board of Supervisors

FROM: Teig Whaley-Smith, Director DAS

RE: Financing of NBA Arena

DATE: June 9, 2015

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This memo outlines what information is available regarding the financing of an NBA Arena in Milwaukee County. As of the date of this memo, State legislation has not been introduced. Consequently, elements of this overview are subject to change.

## **I. Arena Financing Proposal**

### *a. Background*

In April 2014, new owners bought the Milwaukee Bucks from Herb Kohl in a deal approved by the NBA and contingent upon the construction of a new arena by 2017. If a new arena is not constructed by 2017, the NBA will buy the Bucks back from the current owners and move the team to another state. The proposed arena will cost approximately \$500 million and is a part of a nearly \$1 billion economic development project in downtown Milwaukee, which is estimated to create or preserve roughly 15,000 permanent and temporary construction jobs.<sup>1</sup> The current and former ownership have committed to fund \$250 million toward funding the arena and are looking to partner with state and local governments for the remaining 50 percent of the total funding.

Through this deal, the public investment is 50% of the costs, compared to an average public investment of 65% for arenas built across the country since 1999.<sup>2</sup> Cost overruns would be covered by

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<sup>1</sup> Pennington-Cross, Dr. Anthony. "Cities, Sport Arenas, and Redevelopment: The Case of Milwaukee and the Arena District Redevelopment Plan" (May 14, 2015) available at <http://mmaction.org/agenda/arena-impacts-study-by-dr--anthony-pennington-cross> (estimating 2,100 permanent jobs). Construction jobs of 14,000 estimated using total construction value and data available in Clark, David, PhD, "The Impact of Construction on the Wisconsin Economy" (January 5, 2015).

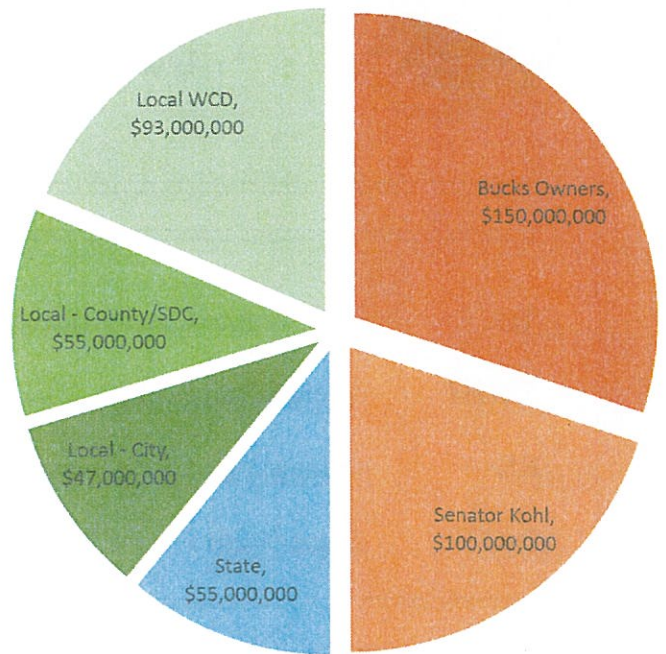
<sup>2</sup> Jensen, Scott A, *Financing Professional Sports Facilities with Federal Tax Subsidies: Is it Sound Tax Policy?*, 10 Marq. Sports L. J. 425 (2000) available at <http://scholarship.law.marquette.edu/soprtslaw/vol10/iss2/15>.

the Bucks, and would not require an additional contribution from public entities. Maintenance and operations will be paid for by the team, not by state or local public entities.

*b. State and Local Bucks Arena Funding Plan*

It is clear that it is in the financial best interest of the public to keep the Bucks in Milwaukee. The State, County and City working together developed a plan that will cap the public investment. The total state investment in the project is capped at \$80 million over 20 years. These debt service payments will cover approximately \$55 million in principal to contribute to the arena. The county contributes \$4 million per year for 20 years through a state debt collection agreement. These debt service payments will cover an additional approximately \$55 million in principal to contribute to the arena. The city will contribute \$47 million through the creation of a TID and paying for a parking structure in upfront cash. The Wisconsin Center District (WCD) uses existing revenue streams to finance roughly \$93 million in bonding for the plan. The City would borrow its own funds and the remaining \$203 Million would be borrowed by the WCD and repaid through existing revenue streams, the \$4 million per year state commitment, and the \$4 million per year county commitment.

Figure 1 - Public/Private Partnership Total Arena Share (\$500 Million)



The team and its partners will contribute 50% of the cost of the project with local funding committing 39% and the state contribution estimated at 11% of the arena project costs.



c. What is at Stake if the Bucks Leave

If there is no deal and an arena is not built, the NBA will buy back the Bucks and move the team to another state. Consequently there would be a loss to the public sector of at least \$453 million over the next 20 years. The public would lose a minimum of \$130 million in income tax revenue over 20 years. The public would lose approximately \$34 million of sales tax revenue over 20 years<sup>3</sup>. The public would be on the hook for \$120 million for the Bradley Center over the next 10 years.

NO DEAL	DEAL
Loss of Income Tax \$269 Million	Maintain Income and Sales Tax
Loss of Sales Tax \$34 Million	\$1 Billion in Economic Activity
Maintenance Obligations \$120 Million	15,000 Jobs
Total Loss \$453 Million	New Arena

Figure 2

d. What if a New Arena is Built

If there is a deal, the public will avoid the \$453 million loss mentioned above. Furthermore, the public will benefit from a nearly \$1 billion economic development project, which is estimated to create or preserve 15,000 permanent and temporary construction jobs.<sup>4</sup> This plan also protects taxpayers from the loss of current and future tax revenue generated by the Milwaukee Bucks and from visiting teams. This plan also preserves the growth of an estimated \$169 million in income tax revenue due to future contracts and estimated NBA pay increases.<sup>5</sup> The public also avoids \$120 million in costs for the Bradley Center over the next ten years.<sup>6</sup>

**II. Milwaukee County Contribution**

a. Background: Need for Centralized Receivables Collection Tools

Both the National Association of Counties (NACo) and Milwaukee County auditors have found that “[m]erging all outstanding receivables into one department is probably the single most important change counties and other local governmental entities can make to improve their collection rates.”<sup>7</sup> Milwaukee County auditors also found that “Milwaukee County departments are not routinely using effective collection tools.”<sup>8</sup> A 2006 study of best practices<sup>9</sup> suggests that two of these primary tools include bank levies and wage levies; tools that are presently only marginally used in Milwaukee County, and will be added tools in this proposal.

<sup>3</sup> 2014 Sales Tax paid by Milwaukee Bucks, approximately \$1,700,000 multiplied by 20 years, equals \$34,000,000.

<sup>4</sup> Supra note 1.

<sup>5</sup> Wisconsin Department of Revenue “Attachment 1: Illustration of a Potential Repayment Structure That Mirrors Projected Additional Tax Revenues.”

<sup>6</sup> Wisconsin Department of Administration Memo regarding “State’s Potential Financial Liability for the Bradley Center” (June 4, 2015).

<sup>7</sup> Milwaukee County Department of Audit, “An Audit of Milwaukee County Billing and Collection Practices” (February 2007) available at <http://county.milwaukee.gov/ImageLibrary/Groups/cntyAudit/report0702.pdf>

<sup>8</sup> Id.

<sup>9</sup> Minnesota Department of Revenue, “Improving Minnesota State Debt Collection” (February 15, 2006) available at [http://www.revenue.state.mn.us/research\\_stats/research\\_reports/2006/other\\_supporting\\_content\\_state\\_debt\\_021506.pdf](http://www.revenue.state.mn.us/research_stats/research_reports/2006/other_supporting_content_state_debt_021506.pdf)

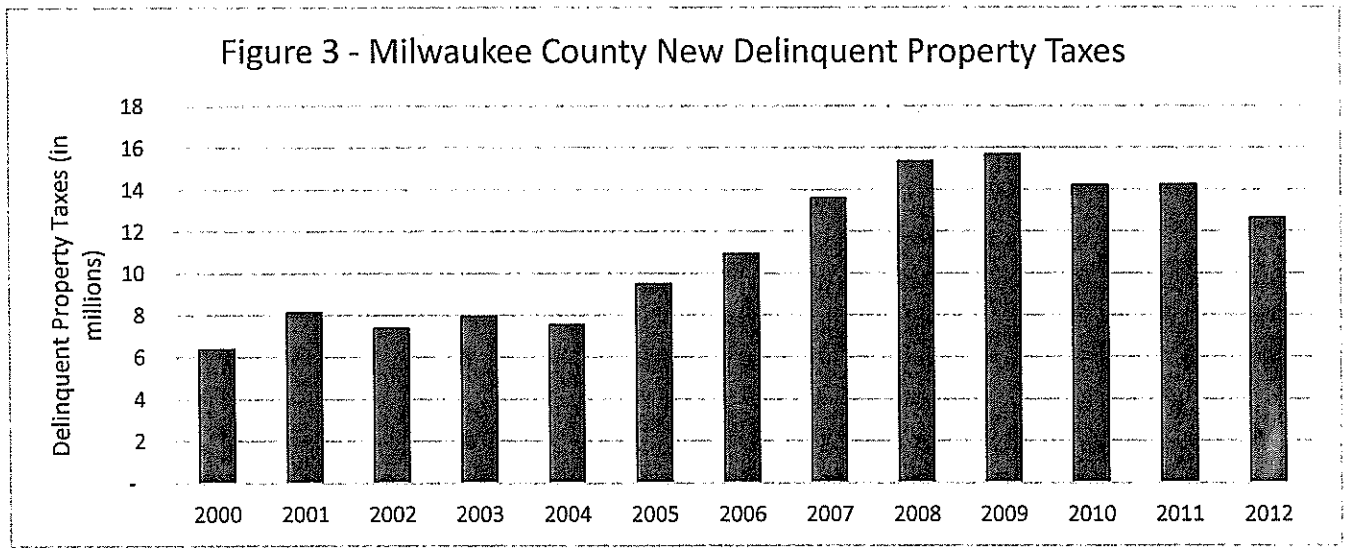
b. SDC Collection Plan

Improved collection of delinquent debts owed to Milwaukee County will provide a portion of the local funding for the Arena by generating \$4 million per year over a 20-year period for the Arena. There is no question that these efforts will yield at least \$4 million per year.

The proposal would require Milwaukee County to send debts that are older than 90 days and more than \$50 to the State Debt Collection (SDC) program of the Wisconsin Department of Revenue (DOR). For the next 20 years, DOR would collect the first \$4 million of collections and appropriate it for arena purposes. The collections after \$4 million would be paid back to the County.

Milwaukee County has essentially three types of debt it collects: (1) Property Taxes, (2) Court Obligations, and (3) Miscellaneous. If you look just at property taxes the County has had newly generated delinquent property taxes of more than \$10,000,000 per year each year since 2006 (see figure 3). This \$10,000,000 per year will now be sent to DOR through the SDC program each year. Historically, this debt is collected at a rate of 99%, but it takes the County several years to collect (sometimes as long as 10 years). The SDC program will immediately accelerate these collections because of the tools it has related to income garnishment and financial account access. Also, in addition to the \$10,000,000 per year, Milwaukee County will be sending its backlog of \$22,000,000 of back taxes. Together, over a 20 year period it is expected that \$222,000,000 of delinquent property tax debt will be collected, which is far in excess of the \$80,000,000 needed to fulfil the county's commitment on the arena. The Court Obligations and Miscellaneous Debt would add millions more to the equation further securing the finances of the agreement.

This of course begs the question, if Milwaukee County was going to collect this debt anyway, doesn't this leave a hole in the county's budget going forward? The short answer is, we don't expect it to. The SDC program has been operating in 108 municipalities and in the examples we have seen they have dramatically increased the collections with the centralized tools listed above. With the partnership with SDC we are confident that Milwaukee County will increase debt collections that allow for the arena contribution without reducing the resources available to Milwaukee County.



c. SDC Background

DOR operates the SDC program for many government bodies across the state, including local government bodies in 108 municipalities, 15 state agencies, 14 University of Wisconsin Campuses, and other government entities. The State Debt Collection program is an efficient method of collecting delinquent debts owed to government bodies. The SDC program was created by legislation in 2009. Local governments that participate in the program certify their delinquent debts to DOR which then collects on their behalf. SDC charges collection fees to the debtor, which means that the government unit receives full payment, rather than payment minus a percentage fee for collection.

The SDC program has a proven track record. SDC payments have increased from \$300,000 in the first full year of operation (Fiscal Year 2011) to \$12 million in most recent year (Fiscal Year 2014). Debts include motor vehicle violations, government utility debts and overdue property taxes. The SDC program has more comprehensive collection tools than other debt collection programs, including wage garnishments, levies on bank accounts; and interceptions of tax refunds and payments from other government agencies. DOR enters into payment plans with debtors based on ability to pay when appropriate.

**FIGURE 4: Proposed Outstanding Debt Collections Process**

