JOINT PUBLIC HEARING ON
BILL 15-1028, "BALLPARK OMNIBUS FINANCING AND REVENUE ACT OF 2004"

Before the

Committee on Finance and Revenue and
Committee on Economic Development
Council of the District of Columbia

The Honorable Jack Evans and
The Honorable Harold Brazil, Chairmen

October 28, 2004, 10:00 a.m.
Council Chamber, John A. Wilson Building

Testimony of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairmen Evans and Brazil and members of the Committees on Finance and Revenue and Economic Development. I am Natwar M. Gandhi, Chief Financial Officer of the District of Columbia. I am pleased to be here today to testify on the "Ballpark Omnibus Financing and Revenue Act of 2004," Bill 15-1028.

Funds are sufficient in the FY 2005 budget to implement the Ballpark Act, as proposed by the Mayor. There will be risks, however. The character of those risks will be discussed, but it is difficult to quantify them at this time because 4 of the 6 necessary agreements among the parties are not yet final and some of the costs are not as yet determined. This bill provides the basis for a major new construction project in the District. Bringing that project to completion on time and within budget will require a strong, experienced management team.

My testimony is based on the information we have as of this time. It examines two central questions: (1) will the financial structure proposed in this legislation raise sufficient funds to pay the estimated costs of the project contained in the agreement between Major League Baseball (MLB) and the District and (2) can the project be completed within the proposed costs?

The findings are:

- We estimate that the fees and taxes proposed in this legislation will raise more than enough money to pay the debt service on $395.2 million, the estimated costs of the project contained in the District's agreement with MLB.

- We estimate that bringing baseball to Washington could cost about $486.2 million, or about $91 million more than the budget in the agreement suggests, primarily because of the unknowns associated with infrastructure costs outside the stadium and other unforeseen contingencies. As a result of the increase in estimated project costs, more money will have to be borrowed and debt service will increase. Since the ballpark fees must cover about 80% of the debt service, the funds collected from fees will have to increase from about $24 million to about $26 million. Under current market conditions, the District would have to issue bonds in the amount of about $500 million to raise this amount of money.

- The $500 million bond issuance cap should be removed. Rather than specifying the bond amount, the legislation should fix the amount that can be spent on the project and adjust the structure of the new ballpark fee to raise that amount plus all associated financing costs and reserves as determined by the CFO. The legislation would then authorize the District to issue an amount of bonds sufficient to fund all of these items, as determined by the CFO. Such a change would allow the CFO the flexibility to issue bonds in the most efficient way possible.

- The Office of Tax and Revenue will have to spend additional money to administer the new fees and taxes. The costs are estimated to be about $800,000 in the first year and $500,000 each year thereafter.

Thank you for the opportunity to testify today. My staff and I are available to answer any questions you may have.

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER

Natwar M. Gandhi
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Linda W. Cropp**
Chairman, Council of the District of Columbia

FROM: **Natwar M. Gandhi**
Chief Financial Officer

DATE: OCT 27 2004

SUBJECT: **Fiscal Impact Statement: "Ballpark Omnibus Financing and Revenue Act of 2004"**

REFERENCE: **Bill 15-1028 as Introduced**

Conclusion

Funds are sufficient in the FY 2005 budget to implement the Ballpark Omnibus Financing and Revenue Act of 2004 as proposed by the Mayor. There will be risks, however. The character of those risks will be discussed, but it is difficult to quantify them at this time because 4 of the 6 necessary agreements among the parties are not yet final and some of the costs are not as yet determined. This bill provides the basis for a major new construction project in the District. Bringing that project to completion on time and within budget will require a strong, experienced management team.

This Fiscal Impact Statement (FIS) is based on the information we have as of this time. It examines two central questions: (1) will the financial structure proposed in this legislation raise sufficient funds to pay the estimated costs of the project contained in the agreement between Major League Baseball (MLB) and the District and (2) can the project be completed within the proposed costs?

The findings are:

- The CFO estimates that the fees and taxes proposed in this legislation will raise more than enough money to pay the debt service on $395.2 million, the project costs estimate contained in the District's agreement with MLB.

- The CFO estimates that bringing baseball to Washington will cost about \$486.2 million, or about \$91 million more than the budget in the agreement suggests, primarily because of the unknowns associated with infrastructure costs outside the stadium and other unforeseen contingencies. As a result of the increase in project costs, more money will have to be borrowed and debt service will increase. Since the ballpark fees must cover about 80% of the debt service, the funds collected from fees will have to increase from about \$24 million to about \$26 million. Under current market conditions, the District would have to issue bonds in the amount of about \$500 million to raise this amount of money.

- The \$500 million bond issuance cap should be removed to complete the proposed project. Rather than specifying the bond amount, the legislation should fix the amount that can be spent on the project and adjust the structure of the new ballpark fee to raise that amount plus all associated financing costs and reserves as determined by the CFO. The legislation would then authorize the District to issue an amount of bonds sufficient to fund all of these items, as determined by the CFO. Such a change would allow the CFO the flexibility to issue bonds in the most efficient way possible.

- The Office of Tax and Revenue will have to spend additional money to administer the new fees and taxes. The costs are estimated to be about \$800,000 in the first year and \$500,000 each year thereafter.

Background

Major League Baseball has agreed in principle to move a baseball team to Washington provided the District builds a new ballpark for the team's use. The purpose of the Ballpark Omnibus Financing and Revenue Act of 2004 is to provide the money to refurbish Robert F. Kennedy Memorial Stadium (RFK) and to build a new ballpark for baseball. To achieve this purpose, the proposed bill authorizes the issuance of bonds in a total amount not to exceed \$500 million.

The proposed legislation creates a Ballpark Revenue Fund within the General Fund as a special non-lapsing account into which certain fees (called the Ballpark Fee and measured by business gross receipts), sales taxes collected from activities taking place at the ballpark and rental receipts for the use of the ballpark paid by the owners of the baseball team are to be deposited. The Ballpark Revenue Fund is to be used to support the costs of the development, construction, or renovation of a stadium that has as its primary purpose the hosting of professional athletic team events in the District of Columbia. Deposits in this Fund can be used for no other purposes.

Tax and fee receipts for the Ballpark Revenue Fund will come from a proposed sales tax of 10 percent on the purchase of tickets to certain events at the ballpark, a 10 percent tax on sales of tangible personal property and services at the ballpark and the current 12 percent tax on parking at the ballpark. In addition, rents from the new ballpark estimated at between \$3.5 and \$5 million per year will be placed in the Fund. Finally, a new Ballpark Fee paid by businesses with gross receipts of more than \$3 million will be deposited in the Fund. The Mayor is granted authority by the proposed legislation to increase the fee rates for future fiscal years if the amount estimated to be collected in the current fiscal year is less than \$24 million.

Financial Plan Impact

This proposed legislation begins the formal process of bringing baseball back to Washington. It provides the funding for a major new construction project that has numerous associated financial risks as well as benefits. The Office of the Chief Financial Officer can evaluate some of those risks; others can only be identified and discussed.

1. Revenue Sufficiency -- Will the proposed revenue sources be sufficient to pay for a new ballpark and to renovate RFK? The total estimated project construction costs are \$395.2 million. This estimate includes renovating RFK (\$13 million), buying about 21 acres of land (\$65 million), building a 1,100 space car park (\$16.5 million), constructing a new ballpark (\$279.4 million) and contingencies of \$21.3 million. To make the bonds financing this project attractive to investors, about 80 percent of the debt service payment must come from a stable revenue source. The new ballpark fee will, in normal economic conditions, meet that need.

   The fees and taxes proposed in this legislation will allow the District to finance more than \$395.2 million or to accelerate the redemption of the bonds. The estimated debt service on bonds sufficient to yield net proceeds of \$395.2 million is about \$27 million per year. The proposed ballpark fee will yield an estimated \$24 million per year. The remaining \$3 million necessary to pay debt service will come from the sales taxes revenue generated at the ballpark and the stadium rent.

   In the early years if the team does well and fans come to the games, the sales taxes at the ballpark could yield between \$8 and \$11.5 million. The rent on the stadium will be between \$3 and \$5.5 million. Optimistic estimates of these revenues during the early years are about \$17 million or about \$14 million more than is needed for debt service. Less optimistic estimates still suggest collections of more than \$8 million above required debt service. Current estimates suggest that revenues will be adequate to cover debt service on bonds generating \$395.2 million for the project even if attendance at the games is 30% lower than projected.

   Although the new ballpark fee will generate funds sufficient to borrow a net amount of \$395.2 million for the project, it will not raise enough money to pay the debt service on \$500 million in bonds, the amount authorized in section 4(b). Rather than specifying the bond amount in the legislation, the legislation should fix the amount that can be spent on the project and adjust the structure of the new ballpark fee to raise that amount plus all associated financing costs and reserves as determined by the CFO. The legislation would then authorize the District to issue an amount of bonds sufficient to fund all of these items, as determined by the CFO.

   The OCFO has no direct experience from which to estimate the amount of sales tax collections from baseball games. Thus, the new sales tax revenue estimates lack some confidence. The amount collected depends on the number of fans that come to the games, and that in turn depends on the success of the team. The more games the team wins, the more fans will attend and the more sales tax revenue will flow into the fund. The District has not had a baseball team in more than three decades and has never had sales taxes of this magnitude from such a source. The possible error associated with these estimates is greater than it would be if we had more experience with these taxes.

Once money goes into the Ballpark Revenue Fund, it can only be used for baseball and baseball related activities. Under the proposed legislation, money deposited in the Ballpark Revenue Fund could not be used for other recreational activities, for example. Thus the current plan is to use any excess funds to redeem the bonds early.

2. Budget Sufficiency -- Can RFK be renovated, land purchased and a new ball park constructed for $395.2 million? It is not possible to confidently answer this question at this time; however, reasonable cost estimates of the various project components suggest that an additional $91 million will be necessary to bring baseball to Washington. (See Attached Table).

    - While the $395.2 million figure includes $13 million for RFK's renovation, recent estimates from the Sports and Entertainment Commission (SEC) put the cost of the renovation closer to $18.5 million. The original estimate assumed a start date of July. The actual start date will be closer to November. The end date has not changed. It remains April 2005. As a consequence, money is needed for overtime and other problems that may result from compression of the project requiring an additional $5.5 million contingency.
    - No money is included in the current budget for infrastructure around RFK and the new ballpark. We have had discussions with a number of government agencies regarding the possible cost of infrastructure improvements that will be required as the result of the construction of the stadium. These agencies include the D.C. Water and Sewer Authority, the District Department of Transportation, the Department of Public Works, and the Washington Metropolitan Area Transportation Authority (WMATA). We asked these agencies to provide us with information about infrastructure-related improvements (for example, road improvements around RFK and the new stadium, movement of water and sewer lines, and expansion of the Navy Yard Metro Station). We received an estimate of $15 million from the Department of Transportation for road improvements. If it is decided that the Navy Yard Metro Station should be expanded, the costs according to WMATA will be up to $45 million. Since baseball is not the only reason for increasing the size of the stadium, the District should not have to pay the full expansion cost. These costs should be shared with the federal government and regional partners. There may be additional water and sewer costs in connection with the new stadium. We also reviewed infrastructure costs of other recently constructed stadiums around the country (see attached table). Typical infrastructure costs at other stadiums built in the past 15 years are about $50 million, although costs vary a great deal. We believe that it would be prudent to add about $50 million to the budget for infrastructure improvements.
    - The $395.2 million figure includes land acquisition costs of $65 million. We will not really know if this is a good estimate until we try to buy the land.
    - The District will be responsible for any construction cost over-runs that are not the result of changes required by major league baseball. Such over-runs cannot be

estimated at this time. Cost over-runs are not unusual on large stadium constructions. We reviewed a number of the stadium construction projects completed in the last 15 years. In some cases cost over-runs have exceeded $100 million. We believe that based on the experience of other cities, there should be at least $30 million added to the total budget to ensure that there are sufficient funds available in the event that costs are higher than expected.

- The $395.2 million does include $21.3 million for contingencies.

In view of these uncertainties, the OCFO recommends a budget of about $486.2 million for the project. Such a budget would require ballpark fees of about $26 million per year.

3. Are there problems with the proposed legislation? The proposed legislation includes provisions that need to be clarified to properly represent the District's obligations and liabilities. The following paragraph is an example:

   Section 3(G) authorizes funds from the Ballpark Revenue Fund to be used to cover costs of "any future renovations, improvements, maintenance or upgrades to Robert F. Kennedy Stadium…". This section addresses costs beyond the current renovations needed at RFK Stadium for the temporary home for baseball and projected costs associated with such future renovations is not known at this time. Is this the intent of the legislation?

4. Will there be additional costs to the Office of Tax and Revenue (OTR)? Any time a new tax is enacted additional administrative burdens are placed on OTR. This proposed legislation introduces a new business fee, increases an old tax in selected areas and requires special accounting for recording the new revenue. OTR will face additional administrative costs. The new costs are estimated to be about $800,000 in the first year and $500,000 each year thereafter. In the first year OTR will need to develop new tax forms, re-program their tax administration systems, re-train their returns processing and customer service staff, develop new audit and collections procedures, modify accounting procedures to ensure the new tax funds are properly credited and issue new guidance to the public. For all future years, OTR will need to answer taxpayer questions, perform audits, collect the taxes account for all of the taxes collected and maintain the forms and IT systems.

5. What obligations will the other agreements with Major League Baseball place on the District? The proposed legislation will be the basis for implementing six agreements that are to be signed between the District, Major League Baseball, and the Sports and Entertainment Commission (SEC). These include the:
   (a) Baseball Stadium Agreement (overall agreement for new stadium and team):
   (b) Major League Baseball Guaranty Agreement;
   (c) RFK License (terms of interim play and RFK improvements);
   (d) Construction Administration Agreement (responsibilities relating to development and construction of new ballpark);
   (e) New Ballpark Lease (30-year lease with five two-year renewal options); and
   (f) District Government Guaranty Agreement.

This fiscal impact statement does not address the potential fiscal impact of all these agreements on the District. The RFK License is scheduled to be completed by January 15, 2005 and the Construction Administration Agreement and Ballpark Lease by December 31, 2005.

Only the Baseball Stadium Agreement has been drafted and signed. Among other things, this agreement requires the District to guarantee timely payment and performance of all financial obligations of the SEC, and the RFK License, the Lease and the Construction Administration Agreement. It also requires the SEC and therefore the District to bear all cost over-runs of the Baseball Stadium (except changes requested by the Team after execution of the Project Program Statement) and it exempts construction materials purchased by SEC for the Stadium Complex and RFK from any DC sales, use or excise tax. (As a government organization, purchases by the SEC are already tax-exempt.)

It is not feasible at this time to estimate potential additional costs to the District that may result from these agreements. Any such costs are not included in this statement.

Proposed Baseball Stadium Budget	**Baseball Stadium Agreement**	**Office of the CFO Estimate**
New Ballpark	$279.4	$279.4
Land	$65.0	$65.0 [(1)]
RFK Renovation	$13.0	$18.5 [(2)]
RFK Additional Contingency		$5.5
Parking	$16.5	$16.5
Infrastructure	$0.0	$50.0 [(3)]
Contingency	$21.3	$51.3 [(4)]
Unestimated risk	$0.0	n/a
Conditions contained in agreements not yet drafted	$0.0	n/a
Penalties for not completing stadium by 2008	$0.0	n/a
Total	**$395.2**	**$486.2**

Additional factors not reflected in OCFO cost estimate include:

[(1)] Estimate of land cost does not include relocation and site remediation costs.

[(2)] The original RFK estimates assumed a summer start date. Renovations will not begin until November 2004. Much of the increase in cost is a result of the delayed start coupled with a fixed completion date of April 2005.

[(3)] A variety of infrastructure needs warrant the $50 million estimate. For example, the District Department of Transportation estimates that basic road improvements will cost $15 million. If the Navy Yard metro station needs to be expanded, WMATA estimates the cost to be up to $45 million. Since baseball is not the only reason for increasing the size of the station, the District should not have to pay the full expansion cost. These costs should be shared with the federal government and regional partners. Water and sewer costs cannot be estimated at this time. According to WASA the cost of relocation will likely be in the millions. In addition, relocation work will need to be coordinated with the stadium construction, which could add delays and result in unforseen cost increases.

[(4)] The District is responsible for all cost overruns which are not the result of changes requested by Major League Baseball.

Overruns and Infrastructure Costs of Proposed or Recently Built Sports Facilities

Project Name	Location	Opening Date	Reported Project Cost Overrun ($M)	Cost of Surrounding Infrastructure Improvements ($M)	Total Project Cost ($M)
New Fenway Park	Boston	Future	-	100.0	-
Twins Ballpark	St. Paul	Future	-	50.0	-
Proposed Football	San Diego	Future	-	21.0	-
Petco Park	San Diego	2004	-	61.6	449.4
G.A. Ballpark	Cincinnati	2003	12.0	50.0	320.0
Gillette Stadium	Foxboro	2002	-	70.0	395.0
Miller Park	Milwaukee	2001	46.0	34.2	400.0
PNC Park	Pittsburgh	2001	0.0	65.5	216.0
Comerica Park	Detroit	2000	43.0	-	-
SBC Park	San Francisco	2000	-	2.0	255.0
Bengals Stadium	Cincinnati	2000	45.0 - 55.3	-	-
Safeco Field	Seattle	1999	100.0	-	-
Browns Stadium	Cleveland	1999	31.4 - 41.8	-	-
Philips Arena	Atlanta	1999	-	82.0	214.0
Bank One Ballpark	Phoenix	1998	110.0	-	-
Ravens Stadium	Baltimore	1998	20.0	-	-
MCI Center	Washington, DC	1997	-	20.0	260.0
Ameriquest Field	Arlington, TX	1994	40.0	-	-
Savvis Center	St. Louis	1994	-	35.0	160.0
Camden Yards	Baltimore	1992	23.0	2.5	110.0

1 "Infrastructure Costs of Proposed or Recently Built Sports Facilities", OCFO/ORA internal document
2 Memorandum of Understanding, Attachment A-1: Ballpark Project Area, Infrastructure Expense Summary
3 Phone conversation with Eric Stuckey, Asst. Count Administrator for Administrative Services, Hamilton County, October 22, 2004
4 Review of Milwaukee Brewers Stadium Costs; 2001-2002 Joint Legislative Audit Committee, May 2002
5 Phone conversation with Erin Andrew, Development Coordinator, Sports and Exhibition Authority, October 21, 2004; North Shore Infrastructure Budget
6 HOK Memorandum dated October 25, 2004
7 Phone conversation with Amy Neches, Project Manager, San Francisco Redevelopment Agency, October 21, 2004
8 Wisniewski, Mary. "Suspicious in Cincinnati Stadium Cost Overruns Raise Public Doubts." The Bond Buyer, September 6, 2000.
Radel, Cliff. "Forward, march." The Cincinnati Enquirer, November 14, 2001.
9 Thiel, Art. "Success should be measured on field, not bank statement." The Seattle Post Intelligencer, September 20, 2003
10 "More football: stadium cost overruns alleged." Akron Beacon Journal, January 23, 2000
11 "Diamondbacks making moves to win now." St. Louis Post-Dispatch, November 22, 1998
12 Morgan, Jon. "Stadium authority to take on more debt; $4.6 million in bonds puts agency back at limit." The Baltimore Sun, November 26, 1997
13 Nolan, Martin F. "Life will go on for Boston fans." The Boston Globe, November 21, 1998
14 HKS, Inc Email to John Ross dated October 26, 2004
15 Apperson, Jay. "Orioles claim disparity is $50M: O's witness details Ravens' advantage in stadium deals; Stadiums." The Baltimore Sun, December 6, 2000