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ALDERMAN, 4TH DISTRICT

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- HOUSING TRUST FUND ADVISORY COMMITTEE
- FRANK P. ZEIDLER PUBLIC SERVICE AWARD SELECTION COMMITTEE

Arena Funding Plan on Life Support; Time for Plan B

Statement of Alderman Robert J. Bauman June 2, 2015

It appears that the state's arena funding plan has hit opposition in the Republican caucus (and no doubt in the Democratic caucus as well). Legislators are beginning to realize exactly how costly this particular plan will be and how fundamentally dishonest it is.

The Governor and legislative leaders have tied themselves in knots trying to craft a funding plan that looks like free money that appears to tax no one, and does not look like a huge subsidy to a private business while the Republicans are proposing massive cuts to priorities such as the University of Wisconsin system. In doing so they have come up with gimmicks that will carry huge interest costs for the Wisconsin Center District—a creature of state government—that will have to be absorbed by local taxes primarily in Milwaukee County and that will virtually foreclose the expansion of the convention center for years (and perhaps decades) with no public discussion or debate. Even more extreme, the Governor and state legislative leaders have come up with a scheme to pay 100% on the dollar for \$55 million of Milwaukee County's bad debt.

This is "bad debt" for a reason, namely it is largely uncollectible or we can certainly assume that County Executive Abele and his predecessor, County Executive Scott Walker, would have been collecting this debt over the last 12 years if it was collectible in the first place. This "bad debt" scheme is nothing but a poorly disguised direct payment to the new arena from the state and/or county for all or most of this \$55 million.

There is a Plan B. Specifically the plan I presented on April 16, 2015, "The One Percent Solution" (**attached**), that involves a dedicated 1% Milwaukee County sales tax to fund the construction and maintenance of the new arena, fund the capital and operating costs of Milwaukee County parks and cultural institutions and fund the Milwaukee County share of capital and operating costs for the Milwaukee County Transit System.

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This plan would reduce the Milwaukee County property tax levy by approximately \$54 million, and would create a stable and predictable revenue stream for parks, cultural institutions and transit. This plan would eliminate the need for any state subsidy for the new arena and eliminate the extremely expensive borrowing by the Wisconsin Center District permitting a continued discussion of the merits of convention center expansion. Finally, this plan would eliminate the ridiculous gimmick of the state buying the county's bad debt.

This sales tax plan is honest and straight forward. The Legislature could require a binding Milwaukee County referendum before this tax is implemented thereby preserving democracy in what has heretofore been a secretive and byzantine process. While there will certainly be opposition to higher sales taxes, at least this plan addresses the need for new revenue directly. There is no free lunch. If Milwaukee County citizens want a first class park system and cultural institutions, want improved and expanded public transit and want to retain an NBA franchise, we have to be willing to pay for it.

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A new funding approach is needed if we are going to retain the Bucks: The One Percent Solution

Statement of Alderman Robert Bauman April 16, 2015

Having closely watched the debate over how to fund a new arena for the Milwaukee Bucks, it appears there is a real risk that this franchise will leave Milwaukee. It appears that the state legislature has balked at Governor Walker's original \$220 million funding proposal. It appears they are focused on approving a funding package of \$150 million. This leaves a funding gap of at least \$100 million (\$500 million in projected cost, less \$250 million in private capital and \$150 million in state financing). State legislative leaders have suggested that the city and county come up with this \$100 million or what could be an even bigger share if the actual costs of construction run over \$500 million.

As far as the city is concerned, coming up with \$50 million or more is simply not possible given existing financing tools at the city's disposal. We cannot use our most effective tool—tax incremental financing—because the arena will be exempt from property taxes. The city has pledged approximately \$25 million in assistance, mostly in the form of improved and unimproved real estate. However, contributing real estate does not help meet actual arena construction costs.

I suspect that state legislative leaders know all of this, so their proposal of \$150 million in funding is intended to create a funding gap they know the city and county cannot fill. They have set up the city and county as the “fall guys” if the Bucks choose to leave.

There is another approach, an approach extensively discussed by the Cultural and Entertainment Capital Needs Task Force created by the Metropolitan Milwaukee Association of Commerce to review funding options for a new arena, as well as other public needs such as parks, cultural institutions and transit. That approach is a one-cent dedicated sales tax in Milwaukee County to fund the arena, parks, cultural institutions and the Milwaukee County share of transit operating and capital costs. This approach is laid out in the attached sheet.

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One Percent Solution/ADD ONE

A one-cent dedicated sales tax in Milwaukee County would completely cover the public share of arena construction costs, as well as ongoing maintenance (which no one has discussed in connection with current funding proposals), would completely fund all parks and cultural institution deferred capital projects, proposed capital projects and the Milwaukee County share of operating costs, and completely fund the Milwaukee County share of transit operating costs and proposed capital projects such as Bus Rapid Transit lines and expanded service to job centers in suburban areas.

This one-cent dedicated sales tax would represent new revenue, although there would be a significant Milwaukee County property tax offset since the Milwaukee County property tax levy is covering the local share of parks, cultural institutions and transit at present. This new revenue would enable Milwaukee County to retain one public good (the Bucks), and place three other public goods (parks, cultural institutions and transit) on a stable and sustainable financial footing for years to come. The constant debate about deteriorating parks, struggling cultural institutions and declining transit service would end.

State legislative action is required to implement this approach. This will represent a new tax. However, the legislature could require a Milwaukee County referendum. The legislature can put the question to the voters and let them decide whether the Bucks are worth keeping and whether stable and sustainable funding for parks, cultural institutions and transit are worth an extra cent in sales taxes.

This approach is not new. Most major metropolitan areas have dedicated sales taxes for transit, and at least one city, Oklahoma City, has used a dedicated sales tax to pay the public share of an NBA arena. Such dedicated taxes have usually been implemented after successful public referenda.

Yes, the Milwaukee County sales tax would increase to 6.6%, but this would still represent one of the lowest sales tax rates among major urban counties. In addition, the Milwaukee County property tax levy would be reduced by nearly \$54 million dollars. The local cost to operate and maintain parks, cultural institutions and transit would shift from property tax payers to consumers of goods and services in Milwaukee County, of whom approximately 25 percent are non-residents.

I hope common sense and reason prevail, and that this proposal gets serious consideration in the legislature.

Attachment—Arena Proposal

Legislation enabling a 1 cent Milwaukee County sales tax (with or without referendum requirement) dedicated to construction and operation of a new arena, and capital and O&M costs for parks, cultural institutions and transit.

Legislation creating a Milwaukee County Transit Authority, a Milwaukee County Parks and Cultural Board, and a new arena authority to administer their respective portions of the dedicated sales tax.

Legislation directing the State to assume existing Bradley Center bonds and disposition/demo of Bradley Center (it is already a state facility).

Use of funds:

Parks and cultural assets capital:

Deferred maintenance:	\$105M	\$7.9M annual debt service
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Capital improvements:	\$140M	\$11M annual debt service
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Arena:	\$250M	\$18.75M annual debt service
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Cultural assets O&M:		\$11M annual
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Parks O&M:		\$25M annual
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Parks expansion and improvement O&M:		\$5.6M annual
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Transit O&M (Milwaukee county share):		\$18M annual
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Transit expansion and improvement (O&M and capital):		\$27.75M annual
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Total use of funds:		\$125M annual expenses
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1 cent Milwaukee County sales tax:		\$125M annual revenue
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N.B. proposal generates about a \$54M in Milwaukee County property tax offset out of a total levy of \$127M.

N.B. the fiscal numbers used herein are based on reports prepared by the Public Policy Forum and others in connection with Cultural and Entertainment Capital Needs Task Force initiated by the Metropolitan Milwaukee Association of Commerce.