

**Baseball in  
the  
District of  
Columbia**

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# Baseball in the District of Columbia

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## Background

Major League Baseball agreed to move a baseball team to Washington, provided the District builds a new ballpark for the team. In October 2004, the Mayor, representatives of the District of Columbia Sports and Entertainment Commission, and Major League Baseball signed the Baseball Stadium Agreement (BSA). The Mayor and the Sports and Entertainment Commission (SEC) agreed to renovate Robert F. Kennedy Memorial Stadium (RFK) for the new team for the 2005 to 2007 seasons and to build a new ballpark for the 2008 season. The Chief Financial Officer (CFO) estimates that bringing baseball to Washington will cost approximately \$534.8 million.

In December, 2004, the Council passed the Ballpark Omnibus Financing and Revenue Act of 2004. Its purpose was to provide the necessary funds to refurbish RFK and to build a new ballpark. The bill authorized the issuance of bonds in a total amount not to exceed \$534.8 million. The legislation created 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), utility taxes on non-residential users, sales taxes collected from activities taking place at the ballpark, and rental receipts for the use of the ballpark are to be deposited. The Ballpark Revenue Fund will cover the costs of development, construction, or renovation of a stadium that has as its primary purpose the hosting of professional athletic 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 million and \$5.8 million per year will be placed in the fund. A new ballpark fee paid by businesses with gross receipts of more than \$5 million will be deposited in the fund. A utility tax, equaling approximately \$12 million annually, will be collected from non-residential users. The CFO estimates that the fees and taxes proposed in this legislation will raise enough money to pay the debt service on \$534.8 million.

The Ballpark Omnibus Financing and Revenue Act of 2004 also required the CFO to re-estimate the costs to the District for land acquisition and infrastructure related to the stadium site. If the total of the re-estimated costs to the District exceeds \$165 million, the Southeast site will be deemed unavailable. The OCFO has engaged a consultant to perform this study. Results will be available no later than May 15, 2005.

The Council also passed the Private or Alternative Stadium Financing and Cost Trigger Emergency Act of 2004, which required the CFO to request and review supplemental or alternative stadium financing plans and proposals that would substantially reduce the annual amount of the Ballpark Fee required to repay bonds issued to construct the baseball stadium. The request for supplemental plans was issued on December 23, 2004. Eight

plans were received by January 18, 2005, the closing date for providing submissions. On March 15, 2005, the CFO delivered a report to the Mayor and the Council describing and evaluating all alternative financing plans that were submitted. The CFO certified that two plans met the financing criteria established in the Act.

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 overruns 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 D.C. sales, use or excise taxes.

### Issues that Remain

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 \$486.2 million. This estimate includes renovating RFK (\$24 million), buying about 21 acres of land (\$65 million), infrastructure of \$50 million, building a 1,100-space car park (\$16.5 million), constructing a new ballpark (\$279.4 million) and contingencies of \$51.3 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 and utility tax will, in normal economic conditions, meet that need.

The fees and taxes proposed in this legislation will allow the District to finance \$534.8 million. The estimated debt service on bonds is about \$32 million per year. The ballpark fee will yield an estimated \$14 million per year, and the utility tax will yield \$12 million annually. The remaining \$6 million to pay debt service will come from the sales taxes revenue generated at the ballpark and the stadium rent. The rent on the stadium will be between \$3.5 million and \$5.8 million.

2. **Budget Sufficiency** – Can RFK be renovated, land purchased and a new ballpark constructed for \$486.2 million? Reasonable costs estimates of the various project components suggest the funds will be sufficient (Table 1-1).

No money was included in the original budget for infrastructure around RFK and the new ballpark. The OCFO has 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). In addition, the OCFO reviewed infrastructure costs of other recently constructed stadiums around the country. Typical infrastructure costs at other stadiums built in the past 15 years are about \$50 million, although costs vary a great deal. As a result, the OCFO added \$50 million to the budget for infrastructure improvements.

3. 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.

Table 1-1

## Costs of the Baseball Stadium: Two Estimates

(dollars in millions)

Proposed Baseball Stadium Budget	Baseball Stadium Agreement	Office of the CFO Estimate
New Ballpark	\$279.4	\$279.4
Land	\$65.0	\$65.0 <sup>(1)</sup>
RFK Renovation	\$13.0	\$18.5 <sup>(2)</sup>
RFK Additional Contingency		\$5.5
Parking	\$16.5	\$16.5
Infrastructure	\$0.0	\$50.0
Contingency	\$21.3	\$51.3 <sup>(3)</sup>
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
<b>Total</b>	<b>\$395.2</b>	<b>\$486.2</b>

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

4. What is the impact of a new Tax Increment Financing (TIF) area on the General Fund? The creation of a new TIF area creates a digression of revenues to the General Fund. To the extent that there are additional funds generated by new development, these funds will no longer be available to the General Fund.

### Potential Cost Items in Baseball Agreement

**Section 2.01(f)** Exempts construction materials purchased by SEC for the Stadium complex and RFK from any District's sales, use or excise tax.

**Section 3.02(f)** SEC to be responsible for all RFK game day operations which include parking management, food and beverage concessions, ticket vending, merchandise concession, crowd management, security, medical and first aid services, cleaning and custodial services, and scoreboard and video management.

**Section 3.02(i)** SEC to be responsible for wiring and equipping RFK to accept TV and radio broadcast facilities consistent with MLB customary standards.

**Section 3.02(j)** SEC to provide Team with 10,000 square feet of office space at RFK.

**Section 4.06** SEC to bear all cost overruns of Baseball Stadium (except changes requested by Team after execution of the Project Program Statement).

**Section 6.05** All Stadium revenues to belong to the Team except for the 12 days the SEC is permitted to use the Stadium.

**Section 6.09** Lease to provide that the cost of necessary capital improvements to be paid or reimbursed to Team from the Capital Reserve Fund; SEC to be responsible for the difference if funds are not sufficient in the Reserve Fund.

**Section 6.11** Requires SEC to carry replacement value property and casualty insurance naming the Team as an additional insured. Also requires liability insurance and business interruption insurance.

**Section 6.14** Requires District to guarantee timely payment and performance of all financial obligations of the SEC under the Contract, the RFK License, the Lease and the Construction Administration Agreement.

### Key Deadline Dates

- December 6, 2004 Franchise Relocation
- December 31, 2004 Completion of Legislative Action
- January 15, 2005 Execution of RFK License
- December 31, 2005 Control of Buildable Site
- December 31, 2005 Execution of the Lease
- December 31, 2005 Execution of the Construction Administration Agreement
- December 31, 2005 Deposit of Bond Proceeds into fund held by Trustee
- March 1, 2008 Completion of Baseball Stadium

### Budgeting for Baseball Costs

The District of Columbia will own the new stadium, and the stadium is a capital project for the District. Three implementing agencies will manage most of the baseball project for the District.

- The **D.C. Sports and Entertainment Commission (SEC)**, a component unit of the District,<sup>1</sup> will manage the stadium construction. The SEC operates RFK Stadium and will also manage the renovations to that stadium.
- The **Office of Property Management (OPM)** will acquire the land for the new stadium.
- The **District Department of Transportation (DDOT)** will make or manage necessary infrastructure improvements in the area of the new stadium, such as street repairs and movement of utility lines.

Based on the OCFO estimates from table 1-1, District agencies and related entities that will receive budget authority to complete the stadium project are shown in table 1-2.

<sup>1</sup> A component unit is not an agency within the District government. It is a legally separate organization for which elected officials of the District are financially accountable.

Table 1-2

## Projected Costs for Components of Baseball Stadium Construction, by District Agency

(dollars in millions)

Agency	Component	Projected Budget
D.C. Sports and Entertainment Commission	New Stadium Construction	\$279.4
	Contingency for Construction	\$21.3
	Renovation of RFK Stadium	\$18.5
	Contingency for Renovation	\$5.5
	Parking	\$16.5
Office of Property Management	Land Acquisition	\$65.0
District Department of Transportation and Others	Infrastructure	\$50.0
N/A	Contingency for Project	\$30.0
	<b>Subtotal, Baseball Project</b>	<b>\$486.2</b>
	Bond Issuance and Reserves	\$48.6
	<b>Total Borrowing Required</b>	<b>\$534.8</b>

If one or more private financing proposals are accepted and implemented, District costs will decrease accordingly and other terms of the financing described herein will likely change.

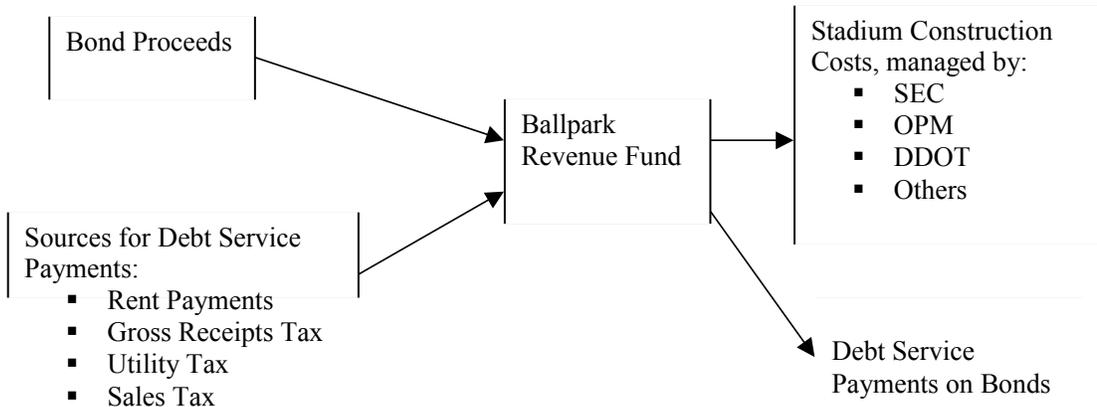
Other agencies will have a role in managing the overall project, although these are not construction-related roles and may not be paid from bond proceeds:

- The **Deputy Mayor for Planning and Economic Development (DMPED)** will help coordinate the District government's role in the development.
- The **Anacostia Waterfront Corporation (AWC)**, a component unit, will handle the master planning for the site.
- The **Office of the Attorney General (OAG)** will assist with the land acquisition process.
- The **Office of Property Management (OPM)** will acquire the land necessary for development of the stadium.
- The **Office of the Chief Financial Officer (OCFO)** will issue the bonds, make debt service payments, collect taxes and distribute them to appropriate accounts. In addition, the OCFO will conduct the cost re-estimation study and the evaluation of the alternative financing plans, establish and monitor budget authority, account for all flows of funds, and estimate potential revenue streams from development of the stadium and any additional development surrounding the stadium.

A financing agency, the Ballpark Revenue Fund (BRF), has been created to account for the flows of funds related to the baseball project. Figure 1-1 shows the flows of funds.

Figure 1-1

## Flows of Funds Related to Baseball Project



The entire expenditure budget will be as a capital project in the BRF. Implementing agencies will be able to access these funds in two ways:

- **Component unit (SEC):** The SEC will have budget authority for the entirety of their portion of the project. They will obligate funds and pay bills. The District will review all contracts and invoices related to the project. The District will advance cash from the BRF to the SEC periodically to allow it to make approved payments.
- **District agencies (OPM, DDOT, others):** Agencies within the District government will charge the BRF directly for their obligations and expenditures. The individual agencies will not have their own budget authority.

### Timing of the Costs

The Washington Nationals will play in RFK Stadium for three years, 2005 through 2007, and begin play in the new stadium in 2008. RFK renovations are being made so that the stadium is ready for the home opener on April 14, 2005.

The District needed to begin paying a portion of the overall costs for RFK stadium renovations and preliminary work on the new stadium before the issuance of the bonds (expected in the fall of 2005). During FY 2005, the District allocated funds from the Contingency Reserve Fund to several agencies as shown in Table-3. These represent limits on amounts spent for the associated purposes, although actual spending may be less. Any amounts that are actually spent on project-related activities will be repaid to the Contingency Reserve Fund during FY 2006 from bond proceeds and revenues from some of the taxes that are currently being collected but are not yet needed for debt service.

Table 1-3

**Use of the Contingency Reserve Fund for Initial Costs**

(dollars in millions)

<b>Agency</b>	<b>Purpose</b>	<b>Amount Allocated</b>
D.C. Sports and Entertainment Commission	RFK Renovations	\$18.5
D.C. Sports and Entertainment Commission	RFK Renovations - Co contingency	\$5.5
D.C. Sports and Entertainment Commission	Predevelopment Activities for New Stadium (e.g. Architecture, Engineering)	\$5.0
Office of the Chief Financial Officer	Cost Estimates, Evaluation of Proposals, Implementing New Taxes	\$1.2
Anacostia Waterfront Corporation	Land Use Planning, Ballpark siting, Development Plan for Ballpark area	\$0.8
Office of Property Management	Preliminary Land Acquisition Activities	\$0.7
Office of the Deputy Mayor of Planning and Economic Development		\$0.6
Office of the Attorney General		\$0.3
<b>Total</b>		<b>\$32.6</b>