

An Evaluation

# **State Fair Park**

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State Auditor - Janice Mueller

Audit Prepared by

Julie Gordon, Director and Contact Person  
Cindy Simon  
Erin Gillingham  
Rachel Heim  
Thomas Osmanski

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## **Response**

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From the Chief Executive Officer of State Fair Park



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER  
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500  
MADISON, WISCONSIN 53703  
(608) 266-2818  
FAX (608) 267-0410  
Leg.Audit.Info@legis.state.wi.us

September 11, 2003

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We are required by s. 13.94(1)(dm), Wis. Stats., to conduct an annual financial audit of State Fair Park. Because State Fair Park staff have been unable to compile complete and accurate financial information, financial statements for fiscal year (FY) 2001-02 are not yet available for us to audit. We believe complete financial statements for FY 2001-02 and FY 2002-03 will be available in 2004, at which time we expect to render an opinion.

Based on financial data we were able to gather, we found that State Fair Park's financial condition continues to deteriorate. In FY 2002-03, total expenses exceeded revenues by \$4.5 million. As a result, State Fair Park for the first time in recent history reported a cash deficit as of June 30, 2003.

Three private entities—the contractor that until recently promoted and sponsored events at the newly renovated Milwaukee Mile racetrack; the not-for-profit State Fair Park Exposition Center, Inc., which manages the new \$37.8 million Wisconsin Exposition Center; and the Pettit National Ice Center—have contributed to State Fair Park's deteriorating financial condition. In every case, overly optimistic financial projections that were used to support either new construction or renovation have not yet been achieved. Further, State Fair Park incurred a net loss of over \$341,700 in Milwaukee Mile racing revenue in 2002 and spent an additional \$250,000 to terminate its agreement with the racing contractor just two days before the start of the 2003 racing season. Negotiated agreements that favor the Exposition Center at the expense of State Fair Park have resulted in reduced revenue and significant maintenance and other costs, and the Pettit Center owed State Fair Park nearly \$1.3 million in delinquent rent payments as of June 2003.

State Fair Park's ability to meet its debt service obligations will be limited if program revenues do not increase. As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, they may wish to address our recommendations for improving its financial operations, its management structure, and its relationships with private entities.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park. A response from State Fair Park's chief executive officer follows the appendices.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller  
State Auditor

JM/JG/ss



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## Report Highlights ■

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***State Fair Park's financial condition continued to deteriorate in FY 2002-03.***

***New facilities, which were expected to be self-supporting, have contributed to this fiscal decline.***

***State Fair Park has not conducted adequate business planning related to its new facilities.***

***Additional financial pressure will be placed on State Fair Park as debt service costs increase significantly in the future.***

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to:

- the Wisconsin State Fair, an annual event held at the fairgrounds each August;
- the 56-acre Milwaukee Mile, which consists of the oldest operating major automobile speedway in the United States and a new grandstand that was completed in May 2003;
- the new \$37.8 million Wisconsin Exposition Center, which is used exclusively for the State Fair in August and rented for non-fair events during the rest of the year; and
- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation.

Under s. 13.94(1)(dm), Wis. Stats., we are required to perform an annual financial audit of State Fair Park. To date, State Fair Park has been unable to provide fiscal year (FY) 2001-02 financial statements that are materially correct and accurately reflect that year's financial activity. We have not, therefore, completed our financial audit for FY 2001-02. We have, however, continued to monitor concerns about State Fair Park's financial condition and debt associated with its

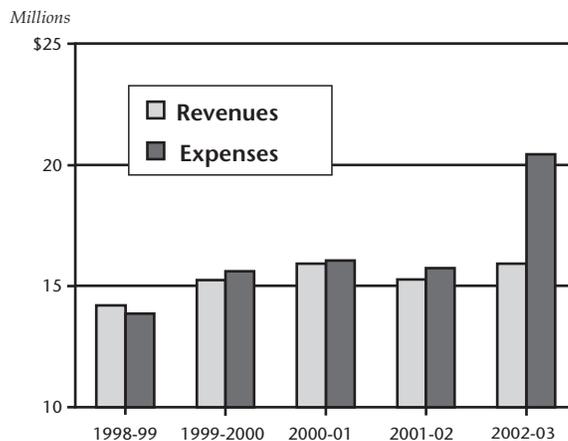
building program. As part of our continuing efforts to monitor these concerns, we have reviewed State Fair Park’s current financial position, its agreements with various entities that own or manage fairgrounds facilities, and debt service costs related to new construction.

### Revenues and Expenses

State Fair Park’s total expenses have exceeded revenues in four of the past five years, as shown in Figure 1. In FY 2002-03, expenses exceeded revenues by \$4.5 million.

Figure 1

#### State Fair Park Revenues and Expenses



In FY 2002-03, State Fair Park was required to lapse \$2.4 million in program revenue to the State’s General Fund, and the Pettit Center did not make \$371,600 in rent payments. However, even if State Fair Park had not been required to lapse program revenue funds and the Pettit Center had made its FY 2002-03 rent payments, expenses would have exceeded revenues by nearly \$1.8 million.

State Fair Park funds its capital expenses, such as routine building repair and renovation expenses, through a statutorily required capital reserve fund. Its non-capital expenses, including operating and debt service costs, are funded by program revenue appropriations. In FY 2002-03, State Fair Park was unable to fund all non-capital expenses with program revenues and reported a cash deficit of \$4.4 million as of June 30, 2003. Funds from other appropriations within the State's General Fund were used to pay these expenses, but as a result the General Fund will lose an opportunity to invest and earn interest on those funds in the future.

### **Reasons for Fiscal Decline**

The 11-day Wisconsin State Fair accounts for the largest portion of State Fair Park's revenues, and fair attendance has fluctuated in the past ten years. In August 2003, fair attendance was 809,484, which is 9.5 percent below 2002 levels.

State Fair Park recognizes the risk associated with its heavy reliance on fair revenue and has attempted to make the fairgrounds a year-round entertainment attraction. An aggressive \$160.0 million building program to revitalize the fairgrounds was initiated in August 2000. It included:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, completed in time for the 2003 racing season at a cost of \$19.1 million;
- the Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair;
- an agriculture village that includes a new barn and several remodeled facilities; and
- new entrance gates, fencing, and a recreational vehicle park.

However, new and renovated facilities that were intended to be self-supporting have not met the overly optimistic revenue projections that were used to support their construction. Instead, they have contributed to State Fair Park's declining financial condition.

For example, State Fair Park incurred a net loss of more than \$341,700 in the 2002 racing season. Although a renegotiated agreement with a private racing promoter was intended to increase revenues from the Milwaukee Mile, the 2002 agreement:

- included profit-sharing provisions that had limited value given that the racing promoter consistently reported net losses;
- did not require the promoter to significantly increase the number of future racing events;
- eliminated a minimum annual rent payment of \$300,000; and
- did not require the promoter to reimburse State Fair Park for its debt service costs if the promoter did not realize a profit.

In May 2003, just two days before the start of the racing season, State Fair Park spent an additional \$250,000 to terminate this contract and began managing the Milwaukee Mile internally. Under the termination agreement, State Fair Park assumed liability for \$3.2 million in debt incurred by the promoter in exchange for approximately \$1.6 million in net assets.

State Fair Park also funds \$67,000 in monthly salary and fringe benefits costs for eight Milwaukee Mile employees hired by the Exposition Center. This unusual payment process, which bypassed mechanisms for legislative and executive control, provided two employees with incentive pay totaling \$27,900.

Under other agreements it negotiated with the not-for-profit Wisconsin Exposition Center, we estimate that State Fair Park:

- incurs annual costs of at least \$39,100 on behalf of the Exposition Center, including parking lot maintenance and sewer costs;
- paid the Exposition Center \$73,540 more than its net parking revenue from non-fair events over an eight-month period; and
- lost 104 days' revenue from events that left the fairgrounds when the Exposition Center was built and several other buildings were demolished.

## Poor Business Planning

Although a private financial consultant hired by State Fair Park projected that a new Milwaukee Mile grandstand could support a significant amount of debt and report a net profit in the second year of operation, several incorrect assumptions were included in that projection.

For example, the projection assumed State Fair Park would receive \$10.0 million in naming rights for the grandstand and would attract six major events each year and collect concession revenue averaging \$25 per person at each event. However, naming rights have not yet been sold, and State Fair Park acknowledges that six events may be difficult to achieve and that the industry average for concession revenue is only \$6 to \$13 per person.

Projections for the Exposition Center were also overly optimistic. The Exposition Center was projected to attract 68 events each year, but has scheduled only 34 events in 2003 and currently has 25 events scheduled for 2004, including the Wisconsin State Fair.

Finally, it is critical that State Fair Park improve its financial management in general, and its financial reporting system in particular. Because State Fair Park officials have not yet provided FY 2001-02 financial statements that are materially correct and accurately reflect that year's financial activities, we have not been able to complete a statutorily required audit in a timely manner and make our opinion available to the Legislature and the Governor as they considered the State's 2003-05 biennial budget.

## Increased Debt Service Costs

To fund the costs of recent improvements to the fairgrounds, State Fair Park has relied on funding from program revenue-supported bonds, GPR-supported bonds, and \$2.0 million from the Stewardship Program. However, its ability to meet debt service obligations will be limited, at least in the short run, if program revenues from the Wisconsin State Fair and other sources do not increase, or if operating expenses do not decline.

State Fair Park's annual program revenue-supported debt service payments will be more than \$3.3 million through FY 2012-13. If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them, as well as at least \$2.0 million in annual debt service costs from GPR-supported bonds.

## Recommendations

We include recommendations for State Fair Park to:

- ☑ develop a detailed, comprehensive business plan for its racing activities (*p. 27*);
- ☑ immediately renegotiate its ground lease agreement with the Wisconsin Exposition Center and seek reimbursement of the costs it incurs for Exposition Center operations (*p. 32*);
- ☑ immediately renegotiate its licensing agreement with the Wisconsin Exposition Center to more reasonably account for parking revenues and expenses related to Exposition Center events (*p. 33*); and
- ☑ in conjunction with the Wisconsin Exposition Center Board and the Pettit National Ice Center, Inc., develop detailed, comprehensive plans to increase revenues, define operating and management relationships, and establish contingency plans if revenue targets are not met (*pp. 37 and 41*).

## Matters for Legislative Consideration

As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, a number of other areas will need to be addressed, including State Fair Park's management structure, the level of additional financial support the State may be requested to provide in the future, and the level of oversight it wishes to retain at the fairgrounds.

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## Introduction ■

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State Fair Park has been home to the Wisconsin State Fair since 1892 and has been governed by an independent state agency—the State Fair Park Board—since 1990. For administrative purposes, it is attached to the Department of Tourism. State Fair Park’s day-to-day operations are managed by a chief executive officer who is an independent contractor, and its financial condition is closely tied to two not-for-profit corporations: The Wisconsin Exposition Center, which is located on the fairgrounds, is owned and governed by a not-for-profit corporation whose governing body includes the chair of the State Fair Park Board, while the not-for-profit corporation that manages and leases the Pettit National Ice Center is not affiliated with State Fair Park. Until recently, the Milwaukee Mile racetrack owned by State Fair Park was operated by a private racing contractor.

***State Fair Park’s operations are funded primarily by program revenue.***

State Fair Park is funded primarily by program revenue from the 11-day Wisconsin State Fair and from non-fair enterprises and activities. Its program revenue-funded operating budget totaled \$16.2 million in FY 2001-02, and \$16.8 million in FY 2002-03. In each year, it was authorized 45.2 full-time equivalent employees and employed approximately 1,200 limited-term employees, the majority of whom work exclusively during the 11-day Wisconsin State Fair.

***State Fair Park has not provided materially correct FY 2001-02 financial statements to be audited.***

Because State Fair Park has been unable to provide FY 2001-02 financial statements that are materially correct and accurately reflect that year’s financial activity, we cannot complete our FY 2001-02 financial audit at this time. However, we are continuing to monitor concerns about State Fair Park’s financial condition that we first

described in 1996 and 2002 (reports 96-2 and 02-10). In those reports, we noted that expenses were increasing at a greater rate than revenues and suggested that State Fair Park's financial condition could deteriorate further if new facilities such as the Milwaukee Mile grandstand and the Wisconsin Exposition Center did not generate revenue as State Fair Park had projected. We also suggested that debt associated with an aggressive building program that was initiated in August 2000 could represent additional financial risk for both State Fair Park and the State.

In this report, we follow up on past audit findings and review:

- State Fair Park's current financial position and its recent efforts to increase revenues from the Wisconsin State Fair and other sources;
- how the Milwaukee Mile, the Exposition Center, and other components of a recent building program operate and are financed;
- State Fair Park's lease agreement with the Pettit National Ice Center;
- debt service costs related to State Fair Park's building program; and
- options the Legislature and others may wish to consider related to State Fair Park's current operations and its future mission.

To develop this information, we interviewed State Fair Park staff, as well as Department of Administration staff who oversee construction projects and Exposition Center staff. We also evaluated financial data provided by State Fair Park, the Department of Administration, and the Wisconsin Exposition Center.

## **State Fair Park Management**

Under s. 15.445(4)(a), Wis. Stats., the State Fair Park Board's members include:

- the Secretary of the Department of Tourism;
- the Secretary of the Department of Agriculture, Trade and Consumer Protection;

- five representatives of business, including three with general business experience, one with agricultural experience, and one with technology experience;
- one resident of the City of West Allis;
- one resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate.

Nine of the 13 members are appointed by the Governor and confirmed by the Senate for staggered five-year terms. Before October 2001, State Fair Park's chief executive officer was a state employee appointed by the State Fair Park Board. Since October 2001, the chief executive officer has been a private consultant working under contract with the State Fair Park Board.

## **The Building Program**

In the past, State Fair Park's facilities and infrastructure did not receive consistent, adequate attention for extended periods of time, and years passed without significant building or renovation projects. In the 1970s and early 1980s, several new facilities—including livestock pavilions, an administration building, restrooms, and concession stands—were constructed. In 1996, the need for fairground improvements was highlighted when:

- the Department of Administration identified \$12.9 million in deferred repair and maintenance projects, including nearly \$5.5 million in high-priority projects;
- the State Fair Park Board determined that the existing youth dormitory was no longer adequate to safely house youth during the State Fair and needed to be replaced; and
- we noted that preventive maintenance had been deferred on a number of fairgrounds facilities and recommended that the State Fair Park Board inventory and prioritize significant repair, renovation, and remodeling needs (report 96-2).

***In August 2000, a \$160.0 million building program to revitalize the fairgrounds was initiated.***

To address the youth dormitory needs, general purpose revenue (GPR)-financed funding of \$13.0 million was provided in 1996 to construct what became the Tommy G. Thompson Youth Center. In May 1999, a strategic development committee that had studied the condition of the fairgrounds recommended hiring an outside design team of entertainment industry experts and local architects to conduct further evaluations and propose a master plan for redevelopment. In August 2000, after it was determined that a number of State Fair Park buildings could not be used in their existing condition or easily adapted for current needs, an aggressive \$160.0 million building program was initiated. The program has affected almost all fairgrounds activities.

The comprehensive program, known as the master plan, is intended to enhance State Fair Park's opportunities to generate revenue and to increase total revenues from non-fair events. It emphasizes five major improvements:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, completed in time for the 2003 racing season;
- the new 271,000-square-foot Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair;
- an agriculture village that includes a newly constructed livestock barn completed in time for the 2003 State Fair and several remodeled livestock barns, and that in the future will include a play area and educational buildings built around an agricultural and environmental theme;
- a new building known as the Wisconsin Heritage Hall, which will serve as a showcase for Wisconsin products such as cheese, honey, cranberries, and wine and will include restaurants, a theater, and a bakery; and
- a large landscaped lawn area, to be the central gathering place on the fairgrounds for a variety of events.

***Building program expenses total \$76.7 million to date.***

In addition, the master plan includes a new gateway at the fairgrounds' north entrance and a park for recreational vehicles, all of which were built in 2000; decorative fencing; new lighting, signage, and graphics; and other landscaping. As shown in Table 1, spending for projects completed to date totals \$76.7 million. A map of State Fair Park is Appendix 1.

Table 1

**Building Program Expenses**  
FY 2000-01 through FY 2002-03

|   |                     |
|---|---------------------|
| Construction of Exposition Center                                       | \$37,771,655        |
| Milwaukee Mile Grandstand, Bleacher Seating, and Racetrack Improvements | 19,640,847          |
| Renovation and Construction of Agricultural Buildings                   | 9,447,920           |
| Infrastructure  | 5,594,511           |
| Construction of Entrance Gate and Fencing                               | 2,489,131           |
| Construction of Recreational Vehicle Park                               | 1,738,000           |
| <b>Total</b>  | <b>\$76,682,064</b> |

The master plan describes State Fair Park's long-term objectives and vision for the fairgrounds, as well as conceptual designs for its facilities. However, it is neither sufficiently detailed to provide a logical framework for business planning nor sufficiently accurate to serve as a basis for financial discussions with commercial lenders or the Legislature and the Governor. Further, State Fair Park is becoming increasingly reliant on revenues from the Wisconsin State Fair as fair attendance fluctuates, and revenues from the Milwaukee Mile and the Wisconsin Exposition Center are not meeting projections. The Pettit Center's financial difficulties, debt related to recent construction under the building program, and the State's current fiscal condition are further compromising State Fair Park's financial position.

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## State Fair Park Finances ■

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***State Fair Park's financial condition continues to deteriorate.***

In prior reports, we indicated that State Fair Park's ability to finance additional debt would be limited unless operating revenues increased. Because State Fair Park has significantly changed its operations in recent years, it is difficult to evaluate whether revenues will increase in the future as a result of recent improvements at the fairgrounds. However, past revenue and expenditure trends, a FY 2002-03 cash deficit, and increasing reliance on revenues from the 11-day Wisconsin State Fair indicate that State Fair Park's financial condition is continuing to deteriorate.

### **Revenues and Expenses**

***Expenses exceeded revenues by \$4.5 million in FY 2002-03.***

As shown in Table 2, State Fair Park's total expenses, which include operating, capital, and debt service costs, have exceeded total revenues in four of the past five years. Since FY 1999-2000, State Fair Park has reported a total deficit of \$5.5 million. In FY 2002-03, total expenses exceeded revenues by \$4.5 million.

***State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund in FY 2002-03.***

While the State Fair Park Board approved both the operating budget and the building projects that resulted in capital costs or subsequent debt service costs, some factors affecting FY 2002-03 revenues and expenses were beyond the control of either the Board or State Fair Park staff. For example, as a result of actions to improve the State's financial condition, State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund. That lapse is reflected in FY 2002-03 expenses. In addition, the Pettit National Ice Center did not make five monthly rental payments in FY 2002-03 for which it owes State Fair Park \$371,600 in late rent.

Table 2

**State Fair Park Revenues and Expenses<sup>1</sup>**

| Fiscal Year | Revenues     | Expenses     | Excess/(Deficit) |
|-------------|--------------|--------------|------------------|
| 1998-99     | \$14,189,961 | \$13,867,263 | \$ 322,698       |
| 1999-2000   | 15,242,451   | 15,610,735   | (368,284)        |
| 2000-01     | 15,920,033   | 16,044,593   | (124,560)        |
| 2001-02     | 15,271,172   | 15,746,449   | (475,277)        |
| 2002-03     | 15,918,264   | 20,446,226   | (4,527,962)      |

<sup>1</sup> Data are provided on a budgetary basis.

However, even if State Fair Park had not been required to lapse program revenue funds and the Pettit Center had made all rental payments, FY 2002-03 expenses would have exceeded revenues by nearly \$1.8 million.

**Cash Deficit**

***In FY 2002-03, State Fair Park reported a cash deficit of \$4.4 million in its program revenue appropriations.***

State Fair Park’s capital expenses are funded through its statutorily required capital reserve fund, while non-capital expenses, including operating and debt service costs, are funded by program revenue appropriations. As of June 30, 2003, the capital reserve fund had a balance of \$842,200. However, the program revenue appropriations had a cash deficit of \$4.4 million because expenses and transfers from these appropriations greatly exceeded revenues during FY 2002-03. As shown in Table 3, we estimate that current assets supported only half of the \$4.4 million deficit.

Table 3

**Unsupported Negative Cash Balance**  
As of June 30, 2003

|                             |                       |
|-----------------------------|-----------------------|
| Cash Balance                | \$ (4,390,864)        |
| Current Assets <sup>1</sup> | 2,220,631             |
| <b>Unsupported Balance</b>  | <b>\$ (2,170,233)</b> |

<sup>1</sup> Estimated value based on FY 2001-02 current assets, because State Fair Park has not yet reported the current assets value for FY 2002-03.

When a state agency reports a cash deficit, funds from other appropriations in the State's General Fund are used to pay that agency's expenses, and the General Fund loses an opportunity to invest and earn interest on those funds in the future. State Fair Park's cash deficit is an important indicator of its deteriorating financial condition.

## The State Fair and Other Revenue Sources

***The 11-day Wisconsin State Fair represents an increasing share of State Fair Park's revenues.***

State Fair Park's master plan was developed, in part, to increase revenues from sources other than the 11-day Wisconsin State Fair, such as auto racing and special events. Nevertheless, the fair continues to provide the largest share of State Fair Park's annual revenues, and as shown in Table 4, State Fair Park's reliance on it has increased each year since FY 1998-99. By FY 2002-03, the fair accounted for 63.2 percent of State Fair Park's total revenues.

Table 4

### State Fair Park Revenues

| Fiscal Year | Fair Revenues | Percentage of Total Revenues | Racing and Non-Fair Revenues | Percentage of Total Revenue |
|-------------|---------------|------------------------------|------------------------------|-----------------------------|
| 1998-99     | \$8,061,221   | 56.8%                        | \$6,128,740                  | 43.2%                       |
| 1999-2000   | 8,682,473     | 57.0                         | 6,559,978                    | 43.0                        |
| 2000-01     | 9,633,951     | 60.5                         | 6,286,082                    | 39.5                        |
| 2001-02     | 9,390,935     | 61.5                         | 5,880,237                    | 38.5                        |
| 2002-03     | 10,060,566    | 63.2                         | 5,857,698                    | 36.8                        |

***Wisconsin State Fair attendance declined 9.5 percent from 2002 to 2003.***

Annual revenues from the Wisconsin State Fair are driven largely by attendance, which State Fair Park can attempt to predict but cannot control. As shown in Table 5, attendance has fluctuated in the past ten years, reaching a high of 922,267 in 1996 and a low of 774,650 in 2001. It was 809,484 in 2003, which represents a 9.5 percent decline from 2002 levels. State Fair Park staff attribute changes in attendance to factors beyond their control, such as the weather and the national and local economies.

Table 5

**State Fair Attendance**

|      |         |
|------|---------|
| 1994 | 910,662 |
| 1995 | 843,778 |
| 1996 | 922,267 |
| 1997 | 911,384 |
| 1998 | 881,313 |
| 1999 | 903,846 |
| 2000 | 904,059 |
| 2001 | 774,650 |
| 2002 | 894,709 |
| 2003 | 809,484 |

***State Fair Park has recently increased admission and parking fees to generate additional revenues.***

To increase revenues, State Fair Park has increased some fees. For example:

- Adult admission to the Wisconsin State Fair increased to \$7 in 2001 and 2002, and \$8 in 2003. It had been \$6 from 1996 through 2000, and \$5 before 1996.
- A \$3 admission fee for children between the ages of 7 and 11 was instituted in 2001.
- State Fair parking fees increased from \$5 in 2002 to \$8 in 2003, and non-fair parking fees increased from \$3 to \$5 as of January 1, 2003.

Efforts to increase year-round use of the fairgrounds have not been as successful as would be expected based on projections in State Fair Park's master plan. Although accurate FY 2001-02 financial statements are not yet available, available data indicate that revenues from non-fair and racing events declined even further in FY 2002-03, as was shown in Table 4. Furthermore, required lapses to the State's General Fund, overly optimistic revenue projections, increased operating costs, and increased debt service associated with new facilities are further straining State Fair Park's financial position.

## The Milwaukee Mile ■

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The Milwaukee Mile racetrack, its management structure, and its financial relationship with State Fair Park have undergone significant changes in addition to the \$19.1 million grandstand renovation that was completed for the 2003 racing season. After nearly 75 years of contracting with racing promoters, and two days before the start of the 2003 racing season, the State Fair Park Board announced that it was terminating its racing contract so the Milwaukee Mile could be managed and promoted internally.

State Fair Park had lost significant racing revenue under the racing contract it terminated in May 2003, and officials believe that changes in management will help to eliminate financial losses and ultimately increase revenue from racing. Nevertheless, we remain concerned that long-range plans are not based on reasonable and sound financial projections and that State Fair Park will incur substantial expenses to operate the racetrack and make future debt service payments on the new grandstand.

### **Milwaukee Mile Construction**

***The Milwaukee Mile racetrack and grandstand encompass more than one-quarter of the fairgrounds.***

Land purchased in 1892 as a permanent site for the State Fair included an oval racetrack that was originally the site for horse races, which continued until 1959. Automobile races began in 1903, and a grandstand was built in 1938. Today, the 56-acre Milwaukee Mile racetrack and grandstand seating area encompass more than one-quarter of the fairgrounds.

In response to concerns that the original grandstand was unsafe and did not provide concession, meeting, and restroom space desirable for racing and other events, the State Fair Park Board in 2002 approved \$19.5 million in program revenue–supported bonds for rebuilding the grandstand. In addition, the State’s Building Commission authorized \$1.0 million in GPR-supported bonds for site development costs for the project.

***The Milwaukee Mile’s newly constructed grandstand and bleacher seating have capacity for 39,000 spectators.***

As reflected in its master plan, State Fair Park’s plans for the grandstand project initially included improved seating, corporate suites, an indoor concourse, and permanent concession and vendor stands. In addition, aging bleachers to the north and south of the grandstand were to be replaced. Ultimately, the corporate suites and permanent concession and vendor stands were removed from the project to reduce costs, and the new grandstand facility was completed in two phases. First, new bleacher seating for 16,000 spectators was installed outside the grandstand in time for the 2002 racing season. The old grandstand was razed in September 2002, and a new grandstand with seating for 23,000 spectators was completed in May 2003. Milwaukee Mile facilities currently have seating capacity for 39,000 spectators.

## **Milwaukee Mile Management**

***Private racing promoters began managing the Milwaukee Mile in 1929.***

State Fair Park began contracting with private racing promoters in 1929, and Carl A. Haas Racing Teams, Ltd., began promoting and sponsoring professional and amateur racing events at the Milwaukee Mile in 1992. A 28-year agreement signed in that year gave Haas Racing:

- exclusive racing rights;
- nearly all racing revenues, including revenues from racing ticket sales, concession stands, and track wall advertising;
- responsibility for most aspects of racing operations, including entering into agreements with professional racing organizations, promoting and sponsoring racing, paying sanction fees assessed by the racing organizations, obtaining insurance, paying employees, and making a portion of capital improvements to the racetrack facilities; and
- access to State Fair Park’s bonding authority.

Because the 1992 agreement allowed Haas Racing to use State Fair Park's bonding authority, capital improvement projects were funded through general obligation program revenue bonds, but Haas Racing was contractually obligated to reimburse State Fair Park for annual debt service costs.

Under its 1992 agreement with Haas Racing, State Fair Park received:

- a minimum annual track rental fee of \$300,000;
- payment for annual debt service costs for track improvements, which from FY 1998-99 through 2002-03 averaged \$362,435 each year; and
- a share of the promoter's profit, if any.

***Many terms of the 1992 racing agreement with a private promoter were not favorable to State Fair Park.***

However, many terms of the 28-year agreement were not favorable to State Fair Park. For example, the agreement gave Haas Racing a renewal option every seven years. In contrast, State Fair Park could terminate the agreement at the end of a seven-year term only if Haas Racing failed to pay the minimum rent required. Furthermore, State Fair Park's net racing revenues under the agreement consisted primarily of the minimum annual track rental fee; Haas Racing was required to hold only one major race each year; and State Fair Park had no financial oversight over racing activities.

In November 2001, as part of its effort to build and support the new grandstand facility, the State Fair Park Board formed a committee to negotiate a new agreement with Haas Racing. An agreement was signed in July 2002. It covered the 2002 racing season, although the season had been completed by the time the agreement was signed.

***The 2002 racing agreement included provisions that increased State Fair Park's financial risk.***

State Fair Park officials note that the 2002 agreement improved State Fair Park's termination options and allowed it to participate in establishing Haas Racing's annual operating budget. Nevertheless, as shown in Table 6, the 2002 agreement contained several provisions that continued to favor the promoter. Furthermore, the 2002 racing agreement increased State Fair Park's financial risk because it:

- eliminated the minimum annual rent payment;
- did not substantially increase the required number of racing events; and
- did not require Haas Racing to reimburse State Fair Park for its debt service costs if the promoter did not realize a profit.

Table 6

## Comparison of Racing Lease Agreements with Haas Racing, Inc.

| Provision                 | 1992 Lease Agreement  | 2002 Lease Agreement   |
|---------------------------|---|--|
| Minimum annual rent       | \$300,000   | \$0  |
| Minimum number of races   | One major race and commitment toward securing a second                | Two major races  |
| Debt service              | Reimbursed by promoter  | Reimbursed only to the extent that promoter's net income exceeds zero  |
| Termination option        | Seven years. Promoter's option only, unless minimum rent is not paid. | Three years, if racing revenue is less than \$900,000 and debt service payments are not made over that three-year period |
| Profit share              | Tiered 50-25-30% of net income with caps after debt service           | 50% of net income with no caps   |
| State Fair Park oversight | No provision  | Expanded to require State Fair Park approval of the promoter's annual operating budget                                   |

At the time the 2002 agreement was signed, State Fair Park officials could reasonably have been expected to have known that debt service reimbursement was unlikely in the near future, because Haas Racing's audited financial statements reported net losses totaling more than \$1.0 million in calendar years 2000 and 2001, and because the new grandstand facilities, which were anticipated to increase revenue, had not yet been built. In addition, although the 2002 agreement increased State Fair Park's potential share of racing profits, actual profits were unlikely because of the net losses consistently reported by the promoter.

***State Fair Park's racing revenues declined 95.5 percent from 2001 to 2002.***

In calendar year 2002, Haas Racing again reported a significant net loss. Consequently, as shown in Table 7, State Fair Park's racing revenues declined 95.5 percent under the first year of the new racing agreement, from \$772,984 in the 2001 season to \$34,900 in 2002. Furthermore, State Fair Park was not reimbursed for debt service costs in 2002.

Table 7

## State Fair Park's Racing Revenues Less Debt Service Costs

|  | 2001 Racing Season | 2002 Racing Season |
|--|--------------------|--------------------|
| Guaranteed Rent from Haas Racing                 | \$315,156          | \$ 0               |
| Debt Service Reimbursement                       | 377,867            | 0                  |
| Parking Revenue                                  | 36,406             | 34,900             |
| Miscellaneous Revenue                            | 43,555             | 0                  |
| Profit Sharing Revenue                           | 0                  | 0                  |
| <b>Total Revenues<sup>1</sup></b>                | <b>\$772,984</b>   | <b>\$ 34,900</b>   |
| Debt Service Payments for Racetrack Improvements | (377,867)          | (376,643)          |
| <b>Net Revenues Less Debt Service</b>            | <b>\$395,117</b>   | <b>\$(341,743)</b> |

<sup>1</sup> State Fair Park collected additional racing revenues from activities such as concessions. However, since that revenue was provided to Haas Racing under the terms of the contract, it is not included in these figures.

***State Fair Park assumed \$3.2 million in additional debt in exchange for approximately \$1.6 million in net assets.***

As noted, the 2002 racing agreement was terminated in May 2003, two days before the start of the 2003 racing season. Under the termination agreement, State Fair Park:

- is expected to pay Haas Racing \$250,000 in consideration for terminating the contract;
- will assume direct liability for Haas Racing's existing debt, which was valued at \$3.2 million on the promoter's 2002 audited financial statements; and
- will assume ownership of net assets that were valued at \$1.6 million on the promoter's 2002 audited financial statements.

State Fair Park officials have indicated that the fair market value of the acquired assets exceeded \$1.6 million, but they were unable to provide documentation to support a higher value or to estimate what that value would be.

State Fair Park officials indicated that they were approached by Haas Racing regarding the potential buyout. With that in mind, it is unclear why the Board agreed to pay \$250,000 as consideration for termination of the 2002 racing agreement. Haas Racing was paid half of that amount on the date the buyout agreement was announced; the

remaining \$125,000 was placed in an escrow account. The agreement requires Haas Racing to provide State Fair Park with an accounting of all its revenues and expenses related to the 2003 racing season by August 28, 2003. After that time, any revenue due to State Fair Park is to be deducted from the escrow account, and any remaining funds in the account are to be released to Haas Racing. State Fair Park staff have indicated they expect to review the promoter's records to ensure all financial activity is appropriately recorded before liquidating the escrow account.

Although State Fair Park officials have indicated they believe a change in racing management will help to eliminate financial losses and ultimately increase racing revenues, their reasons for reversing a contract that had just been renegotiated and for assuming more debt than was received in assets are also unclear. Furthermore, the abrupt cancellation of the racing contract resulted in staffing concerns.

Because the racing agreement was cancelled just days before the start of the 2003 racing season, State Fair Park officials wished to retain the promoter's general manager and eight other employees. Therefore, as part of the buyout agreement, State Fair Park assumed the promoter's responsibility for a contract for services with the general manager. Under that contract, which expires in January 2004, the general manager receives an annual salary of \$150,000.

***Milwaukee Mile employees have been paid by State Fair Park through the Wisconsin Exposition Center.***

Several employment options were considered for the other eight staff, including hiring them as state employees or seeking authorization from the Department of Administration to enter into individual consulting contracts. Because of the time required to implement these options, they were not pursued. Instead, the eight were hired by the Wisconsin Exposition Center, which is reimbursed by State Fair Park for salary and benefits costs plus a processing fee of approximately 2 percent.

***In FY 2002-03, State Fair Park provided incentive pay totaling \$27,900 to two Milwaukee Mile employees.***

In addition to funding eight employees' monthly salaries and fringe benefits of approximately \$67,000, we found this payment process was used to provide incentive pay totaling approximately \$27,900 to two Milwaukee Mile employees in FY 2002-03. State Fair Park staff indicated that these individuals were being compensated for their efforts related to sales and client services.

State Fair Park staff indicated that funding Milwaukee Mile employees through the Exposition Center is a temporary arrangement that will be used for the 2003 racing season only. Nevertheless, we have several concerns. First, this process bypasses mechanisms for executive and legislative control of State Fair Park's position authority. Second, incentive payments provided to Milwaukee Mile employees are at levels that typically are not available to state employees, who may receive discretionary

compensation adjustments as one-time lump-sum awards but whose pay adjustments may not exceed 12.0 percent of the pay range minimum for their position in any given fiscal year. One of the Milwaukee Mile employees received incentive pay of \$5,260, or 13.2 percent of her \$40,000 annual salary, while the other received incentive pay of \$22,657, or 80.9 percent of his \$28,000 annual salary.

### Future Financial Concerns

***Debt service costs for the new grandstand will total approximately \$1.8 million in FY 2003-04.***

To date, the Milwaukee Mile grandstand project has incurred total costs of \$19.1 million, with approximately \$18.2 million funded by program revenue-supported bonds and \$861,000 funded with GPR-supported bonds. Capital improvements to the racetrack that were made from FY 1994-95 through FY 1999-2000 were also supported with program revenue bonds. Debt service payments on the existing debt totaled \$376,643 for the 2002 racing season. With the new construction, it will increase to approximately \$1.8 million in FY 2003-04. Debt service payments related to the grandstand improvements will remain at approximately that level through FY 2016-17. The final payment is expected to be made in FY 2022-23.

In June 2000, a private financial consulting firm hired by State Fair Park projected that with the new grandstand, the Milwaukee Mile would generate a net loss of \$197,500 in the first year of operation but would report a net gain of \$363,000 in the second year, which would increase to \$722,400 by the ninth year. However, this projection included several incorrect assumptions, such as those related to naming rights, the number of events, and concession revenue, as shown in Table 8.

Table 8

#### Assumptions Used in Racing Financial Projections

|                    | Assumption  | Current Condition                                    |
|--------------------|---|--|
| Naming rights      | \$10.0 million in lump sum payment for grandstand naming rights | No naming rights revenue received to date            |
| Number of events   | Total of six major events each year                             | Total of four major events each year                 |
| Concession revenue | Average \$25 per person per event                               | Industry average of \$6 to \$13 per person per event |

***Initial financial projections for the Milwaukee Mile included overly optimistic assumptions.***

State Fair Park officials stated that they are currently pursuing potential naming rights sponsors; however, if a sponsor is secured, the revenue obtained by State Fair Park may be significantly less than the projected \$10.0 million. Officials also recently announced they are adding a fourth major racing event to the Milwaukee Mile’s schedule, although they indicated that a total of six events may be difficult to achieve. Finally, in January 2002, a memo from the financial consultant to the State Fair Park Board indicated that \$25 per person in concession revenue was “remarkably higher than data from previous years, as well as national and regional averages.” According to an industry guide, per capita revenue from concessions and merchandise ranges from \$6 to \$13.

In addition to debt service costs, State Fair Park must pay significant operating costs during the 2003 racing season. For example, sanction fees to the professional racing organizations will total nearly \$3.0 million, and as noted, the one-time termination payment to the previous racing promoter will be \$250,000. Administrative expenses, such as salaries, insurance, and advertising, will also be incurred. The previous promoter’s administrative expenses were nearly \$1.7 million for the year ended December 31, 2002.

***If racing revenues do not increase, State Fair Park’s net loss from 2003 racing activities may be more than \$800,000.***

Assuming administrative expenses are consistent with the prior year’s, State Fair Park’s 2003 racing expenses can be expected to total approximately \$5.6 million, as shown in Table 9. Haas Racing reported total revenues of only \$4.8 million for the 2002 racing season. Therefore, if revenues are not increased or administrative expenses are not reduced, we estimate State Fair Park’s 2003 racing expenses could exceed its revenues by more than \$800,000.

Table 9

**2003 Estimated Racing Expenses**

|                                       |                    |
|---------------------------------------|--------------------|
| Sanction Fees                         | \$2,970,568        |
| Debt Service                          | 706,855            |
| One-time Contract Termination Payment | 250,000            |
| Administrative Expenses <sup>1</sup>  | 1,684,566          |
| <b>Total Expenses</b>                 | <b>\$5,611,989</b> |

<sup>1</sup> Based on previous racing promoter’s administrative expenses for the year ended December 31, 2002.

State Fair Park officials indicate it is possible that revenues from the 2003 racing season will be sufficient to pay 2003 expenses. State Fair Park intends to increase future revenues from the Milwaukee Mile by:

- aggressively selling group hospitality packages and advance tickets;
- searching for additional sponsorship opportunities;
- adding several smaller events, such as team testing and other private track rentals, to the schedule; and
- developing the inside of the racetrack for other uses, such as motorbike and go-cart races.

Although these activities may generate revenue, they may also result in additional expenses, such as salaries and fringe benefits to staff more events, and capital costs to develop the inside of the racetrack. If State Fair Park's racing expenses continue to exceed its revenues, program revenue funds available for other fairgrounds operations will be reduced.

#### **Recommendation**

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*We recommend State Fair Park develop a detailed, comprehensive business plan for its racing activities. At a minimum, this plan should include:*

- *reasonable estimates of operating revenues and expenses;*
- *staffing plans that include whether the current nine positions responsible for racing will become state employees and, if so, how and when executive and legislative approval will be sought for their positions; and*
- *additional capital expenses that may be required for racetrack upgrades, and the source of funding to pay for them.*

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## Wisconsin Exposition Center ■

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In addition to construction of the new grandstand facility, State Fair Park's 2000 master plan included construction of a new exposition center at a cost of nearly \$37.8 million. The 271,000-square-foot Wisconsin Exposition Center, which opened in August 2002, was built to accommodate large events previously held in various State Fair Park exhibit buildings and to attract new events, including large consumer and trade shows.

While construction of the Wisconsin Exposition Center has created an attractive new venue at the fairgrounds, in the short term the Exposition Center has not operated at a profit. In planning for the new addition, State Fair Park did not adequately address how its management would operate within State Fair Park's structure, and financial projections for the Exposition Center—like those for the Milwaukee Mile—have proven to be overly optimistic. As a result, the Exposition Center has contributed to the continuing deterioration of State Fair Park's financial condition.

### **Exposition Center Management**

***In 2000, a not-for-profit corporation was created to build a new exposition center on the fairgrounds.***

1999 Wisconsin Act 197 authorized the organization of a nonstock, not-for-profit corporation for the purpose of raising funds and providing support for the operation, management, and development of the fairgrounds. In October 2000, the State Fair Park Board created the not-for-profit State Fair Park Exposition Center, Inc., to build and manage the Exposition Center on the fairgrounds. The

Exposition Center is owned and governed by a five-member board consisting of the chair of the State Fair Park Board, one other member of the State Fair Park Board, and three members appointed by the Exposition Center Board. The Exposition Center Board has broad general powers that include obtaining financing by means of loans or other methods and approving the sale, lease, or purchase of real estate. It employs nine staff.

According to State Fair Park officials, the decision to create a not-for-profit corporation was based on various factors:

- First, the corporation had the ability to use industrial revenue bonds for construction costs. The interest rate of these bonds is comparable to that of state general obligation bonds, but industrial revenue bonds have a 27-year repayment period, compared to a 20-year period for general obligation bonds.
- Second, the corporation allowed the building process to proceed on a faster schedule because review and approval by the State Building Commission was not required.
- Finally, the State Fair Park Board believed creating a private, not-for-profit organization would allow the Exposition Center to operate without any of the statutory constraints placed on state agencies, such as certain purchasing and personnel requirements.

Construction of the Exposition Center was funded with \$44.9 million in industrial revenue bonds that were issued by the City of West Allis to cover construction costs, as well as bond issuance costs and a reserve for debt service and interest costs. The City of West Allis loaned the bond proceeds to the Exposition Center Board, and the Exposition Center Board obtained a letter of credit from a commercial lending institution to secure the loan and the bonds.

***The Exposition Center's annual debt service payments will be approximately \$2.5 million in FY 2003-04.***

The industrial revenue bonds that funded construction of the Exposition Center were refinanced in October 2002. Under the refinanced bonds, annual debt service payments, which are detailed in Appendix 2, will be \$2.5 million in FY 2003-04, increasing to \$3.3 million by FY 2010-11 and remaining at approximately that amount through FY 2028-29, when the bonds are completely repaid.

## Exposition Center Operating Agreements

***Two agreements define the relationship between State Fair Park and the Wisconsin Exposition Center.***

To facilitate operation of the Exposition Center, the State Fair Park Board and the Exposition Center entered into two agreements in August 2001: a ground lease agreement and a licensing agreement. Both agreements contained provisions that favor the Exposition Center at the expense of State Fair Park.

### Ground Lease Agreement

Under the terms of a 28-year ground lease agreement, State Fair Park leases 7.52 acres of the fairgrounds to the Exposition Center Board for the Exposition Center. The lease agreement also outlines the expenses that each will pay.

According to the ground lease agreement, the Exposition Center is responsible for paying:

- its gas, electric, water, and sewer utility charges;
- insurance premiums to protect against losses or damages and general commercial liability; and
- maintenance costs to keep the building in good condition and repair.

***The Exposition Center makes rental payments only if its revenues exceed expenses.***

The Exposition Center is also responsible for making annual rent payments to State Fair Park. The payment amount is not fixed; rather, it is based on the Exposition Center's annual gross revenues and expenses. To determine the amount of rent owed each year, the Exposition Center calculates the difference between its annual gross revenues from all sources and its annual operating and debt service costs, together with its contribution to debt reserves and operating reserves. If the Exposition Center's expenses and reserve contributions are greater than its revenues, State Fair Park receives no rent.

The ground lease agreement currently stipulates that State Fair Park is responsible for all municipal services payments to the cities of West Allis and Milwaukee for police and fire protection, as well as for other non-user fee services to state facilities. However, State Fair Park staff have indicated that this payment requirement was not the intention of either the State Fair Park Board or the Exposition Center Board. Therefore, the Exposition Center currently pays the municipal services assessment related to the facility. State Fair Park officials indicate it is their understanding that the Exposition Center will continue to make these payments in future years, although the agreement has not been amended to reflect this understanding.

***State Fair Park incurs approximately \$39,100 in annual costs related to the Exposition Center.***

While the Exposition Center Board is responsible for the Wisconsin Exposition Center building and its contents, State Fair Park incurs costs related to operation of the facility. For example, State Fair Park pays all costs associated with the parking lots, such as snow and litter removal. State Fair Park also pays for other miscellaneous costs, including pest and weed control, sewer maintenance, fence repairs, flowers, and signs. We estimate that these costs as they relate to the Exposition Center totaled \$39,100 in FY 2002-03.

Other potentially significant costs that are incurred by State Fair Park but benefit the Exposition Center are difficult to separate from overall costs. For example, State Fair Park prints and mails monthly event schedules that include Exposition Center events, and it spent nearly \$211,600 on advertising and promotional items for the 2002 Wisconsin State Fair that highlighted the Exposition Center's grand opening.

#### **Recommendation**

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*We recommend State Fair Park:*

- *immediately renegotiate its ground lease agreement with the Wisconsin Exposition Center to clarify responsibility for municipal service payments; and*
- *seek reimbursement of the costs it incurs for Exposition Center operations.*

#### **Licensing Agreement**

In addition to the ground lease agreement, State Fair Park has also entered into a licensing agreement with the Wisconsin Exposition Center. The agreement provides State Fair Park the sole right to use the entire Exposition Center during the annual Wisconsin State Fair, for a fee that was \$200,000 in 2003. In addition, the licensing agreement addresses parking revenues, which are divided between State Fair Park and the Exposition Center.

A private vendor currently collects parking fees during all events held on the fairgrounds and remits them directly to State Fair Park. However, under the terms of the licensing agreement, State Fair Park is entitled to retain only parking revenue from the Wisconsin State Fair and other events held within State Fair Park-owned facilities. The Exposition Center is entitled to all parking revenue generated from its non-fair events.

The licensing agreement establishes a formula that calculates the Exposition Center’s parking revenue. However, the formula overstates this revenue because it assumes that everyone attending an Exposition Center event arrives in a car that pays to park. Under the formula, event attendance is divided by 2.5 and multiplied by 5, based on the assumption that, on average, there will be 2.5 people per car paying a \$5 parking fee. However, some event attendees do not park at the fairgrounds, and others arrive by public transportation or in chartered busses.

***In eight months, State Fair Park’s net loss from parking under its agreement with the Exposition Center was \$73,540.***

Because of the formula’s faulty assumptions, State Fair Park paid the Exposition Center more than its net parking revenue from non-fair events during the eight-month period from September 2002 through April 2003. As shown in Table 10, State Fair Park’s net loss from parking under its agreement with the Exposition Center was \$73,540. State Fair Park reported a net loss from parking on 22 of the 30 events held at the Exposition Center during the period shown.

Table 10

**State Fair Park Parking Costs in Excess of Revenues**  
September 2002 through April 2003

|  |                   |
|--|-------------------|
| Parking Revenues from Non-Fair Events <sup>1</sup> | \$650,718         |
| Parking Contractor Fees                            | (111,248)         |
| <b>Net Parking Revenue</b>                         | <b>539,470</b>    |
| Payments Made to the Exposition Center             | (613,010)         |
| <b>Net Loss from Parking</b>                       | <b>(\$73,540)</b> |

<sup>1</sup> Parking revenue is reported net of the 5.6 percent sales tax in Milwaukee County.

Although State Fair Park officials discovered that the formula would result in a net loss to State Fair Park shortly after the Exposition Center opened in August 2002, they have not yet negotiated changes to the licensing agreement, and State Fair Park continues to incur losses from parking at non-fair events.

**Recommendation**

*We recommend the State Fair Park Board immediately renegotiate its licensing agreement with the Wisconsin Exposition Center to more reasonably account for parking revenues and expenses related to Exposition Center events.*

## Exposition Center Events

***Major non-fair events that previously generated revenue for State Fair Park have moved to the Exposition Center.***

The construction and opening of the new Exposition Center in August 2002 not only transferred parking revenue from State Fair Park to the Exposition Center but also shifted event revenues. As noted, the Exposition Center was built, in part, to replace aging State Fair facilities. After the August 2002 State Fair, State Fair Park razed exhibit buildings that had been the primary non-fair revenue-generating facilities on the fairgrounds. As a result, State Fair Park experienced a substantial decrease in the number of events it held or plans to hold in calendar year 2003, as well as its revenues from non-fair events.

In calendar year 2001, the last full year before the Exposition Center was built, State Fair Park reported 496 “event days” on which the fairgrounds were rented or used for some activity or function, with 296 of those event days held in buildings that were subsequently demolished. We compared the 296 event days in 2001 with planned events for 2003 to assess the impact on State Fair Park’s non-fair events and revenues. We found a 35.1 percent decline, from 296 days in 2001 to 192 in 2003.

As shown in Table 11, we found that State Fair Park retained 84 of those event days by moving them to other facilities it owns. According to State Fair Park staff, a 31,560-square-foot exhibit hall is the primary building in which small events are now typically scheduled. In addition, 108 event days moved from State Fair Park facilities to the Exposition Center. These events are generally large events, such as car, boat, and home improvement shows. Revenues generated by these events are retained by the Exposition Center.

Table 11

**State Fair Park Event Days<sup>1</sup>  
2003**

|  | Event Days |
|--|------------|
| Held in Other State Fair Park Facilities | 84         |
| Held in Exposition Center                | 108        |
| <b>Total Event Days</b>                  | <b>192</b> |

<sup>1</sup> Includes actual and planned events for buildings that were demolished in 2002.

***After the Exposition Center was built, several events left the fairgrounds.***

Of more concern to State Fair Park's future profitability is that an additional 104 days represent events that left the fairgrounds entirely, for reasons that may include cost and facility choices that no longer met their needs.

Because of the limits of its financial reporting system, State Fair Park is unable to determine whether the events that remained in State Fair Park facilities, moved to the Exposition Center, or left the fairgrounds entirely generated a net profit or a net loss for State Fair Park. However, the financial impact of this shift appears to be significant. State Fair Park's non-fair revenue declined from nearly \$4.7 million in FY 2001-02 to \$3.1 million in FY 2002-03, a 33.3 percent decrease.

### **Exposition Center's Financial Condition**

In 2000, State Fair Park hired a private consultant to complete a financial analysis of the Exposition Center's feasibility. In developing the analysis, the consultant projected the number of events the Exposition Center would attract and its net revenues and losses over a ten-year period. The Exposition Center has not met all of these projections.

The consultant projected that 68 events would be held each year at the Exposition Center, consisting of 48 events previously held at State Fair Park facilities, 8 events from other Milwaukee-area facilities such as the Midwest Express Center, and 12 new events attracted to the Milwaukee area. The consultant's report did not stipulate the number of event days these events would represent.

***In 2003, the Exposition Center had only half the number of events projected for that year.***

According to its staff, the Exposition Center has held or is scheduled to hold only 34 events in calendar year 2003, or one-half of the 68 events projected. To encourage organizations and businesses to use the facility, the Exposition Center offered a 25 percent discount for all events in May, June, and July 2003, which State Fair Park officials indicate is a common industry practice. However, only two events were held during those months, and only two events were scheduled for August 2003, including the annual Wisconsin State Fair.

The consultant also projected that the Exposition Center would report collective net losses totaling nearly \$1.0 million in its first two full years of operation, would essentially break even in its third year, and would begin generating a profit in its fourth year. These projections are shown in Table 12.

Table 12

**Projected Exposition Center Revenues and Expenses<sup>1</sup>**  
As of October 2000

|        | Revenues     | Operating Expenses | Funds Retained for Reserve | Debt Service Expenses | Net Gain/(Loss) |
|--------|--------------|--------------------|----------------------------|-----------------------|-----------------|
| Year 1 | \$ 7,653,832 | \$4,804,372        | \$316,255                  | \$3,408,508           | \$(875,303)     |
| Year 2 | 8,694,829    | 5,064,466          | 325,742                    | 3,408,508             | (103,887)       |
| Year 3 | 8,955,674    | 5,216,400          | 335,514                    | 3,408,508             | (4,748)         |
| Year 4 | 9,224,344    | 5,372,892          | 345,580                    | 3,408,508             | 97,364          |
| Year 5 | 9,501,075    | 5,534,079          | 355,947                    | 3,408,508             | 202,541         |
| Year 6 | 9,786,107    | 5,700,101          | 366,626                    | 3,408,508             | 310,872         |
| Year 7 | 10,079,690   | 5,871,104          | 377,624                    | 3,408,508             | 422,454         |
| Year 8 | 10,382,081   | 6,047,238          | 388,953                    | 3,408,508             | 537,382         |
| Year 9 | 10,693,543   | 6,228,655          | 400,621                    | 3,408,508             | 655,759         |

<sup>1</sup> Projections prepared by private financial consultant contracted by State Fair Park.

***Because the Exposition Center reported a net operating loss in calendar year 2002, State Fair Park received no rent.***

According to its audited financial statements, the Exposition Center's net operating loss was approximately \$404,000 in calendar year 2002, when it operated for five months. This operating loss is somewhat consistent with the \$875,000 loss projected for a full year of operations. Because of the net loss, State Fair Park received no rent from the Exposition Center in calendar year 2002.

Since calendar year 2003 is the Exposition Center's first full year of operation, its officials and those of State Fair Park are optimistic that new clients will be obtained and the Exposition Center will begin to increase revenues. However, several factors will make it difficult to significantly improve profitability in the short-term. For example:

- The Exposition Center's president, who is important in marketing the entity, resigned in April 2003, and the position has not yet been filled.
- It is difficult to acquire new business during a time of economic downturn, and there is competition with other venues in the Milwaukee area.
- Because exposition venues are typically finalized more than a year in advance, many events have already reserved other facilities for calendar year 2004. Currently, only 25 events have reserved the Exposition Center in 2004.

Because of the reserve funds that were created with the original bond proceeds, the Exposition Center has been able to pay its operating and debt service expenses in calendar year 2002 and is expected to do so in 2003. However, if the Exposition Center continues to report net losses in calendar year 2004, it may not have the necessary resources to meet its obligations. As of December 31, 2002, the Exposition Center reported a cash balance of \$10.0 million. Since that time, the Exposition Center has paid debt service costs of \$6.1 million. It will pay debt service costs of \$2.9 million in calendar year 2004. If the reserve fund is used for these costs and is not replenished, the Exposition Center may begin to have a cash flow concern. At that point, it is not certain what steps it would take to secure its funding.

The initial letter of credit obtained to secure the industrial revenue bonds that funded construction of the Exposition Center was effective through August 15, 2003. The commercial lender that provided the letter of credit recently notified the Exposition Center Board that it would continue to provide the letter of credit through October 15, 2003, but would reevaluate the agreement after that date. According to its staff, the Exposition Center's audited financial statements for calendar year 2002 were recently completed, and further discussions will now be held with the commercial lender to reach a new agreement.

According to State Fair Park and Department of Administration staff, the State has no legal or other obligation to repay this debt. The State Fair Park Board and a former Department of Administration official have nonetheless indicated that the State may provide financial assistance if the Exposition Center Board is unable to make scheduled debt service payments.

#### Recommendation

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*We recommend the State Fair Park Board, working in conjunction with the Wisconsin Exposition Center Board, develop a detailed, comprehensive business plan for its non-fair activities. At a minimum, this plan should:*

- *include strategies to increase the number of non-fair events held within State Fair Park facilities and the Wisconsin Exposition Center;*
- *define the operating and management relationship of the two entities, including whether an executive director will be hired for the Wisconsin Exposition Center; and*
- *establish contingency plans if revenue targets are not met.*



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## Pettit National Ice Center ■

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The Pettit National Ice Center is owned by State Fair Park but operated and maintained by the Pettit National Ice Center, Inc. It was built in 1992 at a cost of \$13.3 million, financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported bonds. Funds to retire the debt are to be provided through rent payments from the not-for-profit Pettit National Ice Center, Inc., under a lease agreement that gives the Pettit Center responsibility for its own operating costs and for the debt service costs that State Fair Park incurs on its behalf.

***The Pettit National Ice Center owed State Fair Park \$1.3 million in delinquent rent payments as of June 2003.***

The Pettit Center is expected to pay State Fair Park rent of approximately \$74,400 per month to cover debt service costs. However, as of June 2003, the Pettit National Ice Center owed a total of nearly \$1.3 million, or 17 monthly payments, to State Fair Park. In FY 2002-03 alone, the Pettit Center did not provide rent payments to State Fair Park for five months. Because State Fair Park must continue to make debt service payments on the Pettit Center facility without offsetting rental revenue, the amount available for other fairgrounds operations is reduced.

Because the Pettit Center is a private, not-for-profit organization, its financial records are not available to us. However, according to financial information submitted to the State of Wisconsin Department of Regulation and Licensing, the private contributions on which the organization relies for much of its support declined significantly in recent years. As shown in Table 13, the Pettit Center has generated net losses in four of the last five years, and 2001 and 2002 losses totaled more than \$642,000.

Table 13

**Pettit National Ice Center Revenues and Expenses**  
For Years Ending August 31

|                          | 1998             | 1999             | 2000             | 2001             | 2002             |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenues:                |                  |                  |                  |                  |                  |
| Program                  | \$2,289,314      | \$2,178,517      | \$2,704,138      | \$2,098,388      | \$2,276,691      |
| Contributions            | 530,015          | 490,756          | 510,462          | 444,453          | 403,508          |
| <b>Total Revenues</b>    | <b>2,819,329</b> | <b>2,669,273</b> | <b>3,214,600</b> | <b>2,542,841</b> | <b>2,680,199</b> |
| Expenses                 | (3,061,777)      | (2,910,456)      | (3,180,706)      | (2,960,851)      | (2,904,630)      |
| <b>Net Profit/(Loss)</b> | <b>(242,448)</b> | <b>(241,183)</b> | <b>33,894</b>    | <b>(418,010)</b> | <b>(224,431)</b> |

***The Pettit Center and State Fair Park are reviewing alternatives to improve the Center's profitability.***

State Fair Park continues to work with the Pettit Center and its executive director, who was appointed in July 2003, to resolve the overdue payments. As reported in our 2002 audit report (report 02-10), Pettit Center officials have indicated that they are considering means to refinance their debt. More recent ideas to generate additional revenue include adding a third hockey rink and converting one room within the Pettit Center to a sports bar and restaurant. Both initiatives would require additional funding; to date, no action has been taken. State Fair Park officials also note that they are pursuing other options to increase their oversight of Pettit Center operations, such as having a member of the State Fair Park Board serve on the Pettit Center Board.

Uncertainty regarding the Pettit Center's financial condition makes it difficult to assess the future demands it may place on State Fair Park's financial resources. The Legislature may eventually need to assist in defining State Fair Park's future relationship with the Pettit Center, including the level and source of public financial support that may be necessary.

**Recommendation**

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*We recommend State Fair Park, in conjunction with the Pettit National Ice Center, Inc., develop a detailed, comprehensive business plan for the Pettit Center. At a minimum, this plan should:*

- *include strategies to increase Pettit Center revenues;*
- *define the operating and management relationship of the two entities, such as the composition of the Pettit Center’s managing board; and*
- *establish contingency plans if revenue targets are not met.*

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## State Fair Park Facilities Debt Service Costs ■

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***State Fair Park's ability to make debt service payments will be limited if revenues do not increase in the future.***

To fund the costs of recent improvements to the fairgrounds—including renovations that began in 2000, as well as construction of a new Milwaukee Mile grandstand in 2003, the Wisconsin Exposition Center in 2002, and the Pettit Center in 1992—State Fair Park has relied on funding from program revenue-supported bonds, GPR-supported bonds, and the State's Stewardship Program. However, its ability to meet debt service obligations may be limited, at least in the short run, if program revenues from the Wisconsin State Fair and other sources do not increase, or if expenses do not decline.

If program revenues are insufficient to cover these debt service costs, the State could ultimately be called on to fund them. As previously discussed, additional financial assistance from the State could be requested if the Exposition Center Board is unable to make scheduled debt service payments.

### **Construction Funding**

Since FY 1995-96, \$58.7 million in State Fair Park construction costs have been funded primarily with program revenue-supported bonds and GPR-supported bonds, as shown in Table 14.

Table 14

## Funding Sources of State Fair Park Construction Costs

| Fiscal Year  | Program Revenue–<br>Supported Bonds | GPR-<br>Supported<br>Bonds | Stewardship<br>Program | Total Construction<br>Costs | Annual<br>Percentage<br>Change |
|--------------|-------------------------------------|----------------------------|------------------------|-----------------------------|--------------------------------|
| 1995-96      | \$ 1,911,587                        | \$ 2,607,037               | \$ 0                   | \$ 4,518,624                | –                              |
| 1996-97      | 500,919                             | 7,358,449                  | 0                      | 7,859,368                   | 73.9%                          |
| 1997-98      | 1,291,451                           | 1,028,538                  | 0                      | 2,319,989                   | (70.5)                         |
| 1998-99      | 1,868,092                           | 506,728                    | 0                      | 2,374,820                   | 2.4                            |
| 1999-2000    | 1,198,244                           | 1,548,675                  | 0                      | 2,746,919                   | 15.7                           |
| 2000-01      | 5,951,070                           | 3,342,414                  | 0                      | 9,293,484                   | 238.3                          |
| 2001-02      | 3,967,278                           | 1,688,095                  | 2,000,000              | 7,655,373                   | (17.6)                         |
| 2002-03      | 14,321,708                          | 7,639,844                  | 0                      | 21,961,552                  | 186.9                          |
| <b>Total</b> | <b>\$31,010,349</b>                 | <b>\$25,719,780</b>        | <b>\$2,000,000</b>     | <b>\$58,730,129</b>         |                                |

### Program Revenue Bonds

In FY 2002-03, State Fair Park issued \$14.3 million in program revenue–supported bonds, primarily to fund construction of the new Milwaukee Mile grandstand. In the last three fiscal years, when total construction costs were \$38.9 million and program revenue–supported bonding costs increased to \$24.2 million, State Fair Park also refurbished its north gate entrance and equipped its recreational vehicle park with laundry facilities, shower facilities, and year-round hook-ups for sewer, water, and electricity.

***Annual debt service payments will be more than \$3.3 million through FY 2012-13.***

Appendix 3 lists the scheduled annual debt service payments that State Fair Park will be responsible for paying with program revenue from FY 2003-04 through FY 2022-23. During that time, total debt service payments—including those related to the Pettit Center—will be \$57.4 million, which consists of \$37.8 million in principal and \$19.6 million in interest. Annual payments will be more than \$3.3 million through FY 2012-13.

## General Purpose Revenue Bonds

***Since FY 1995-96, GPR funds have supported \$27.7 million in State Fair Park construction costs.***

As was shown in Table 14, GPR funds supported construction costs of approximately \$27.7 million from FY 1995-96 through FY 2002-03: \$25.7 million in direct GPR-supported bonds, and \$2.0 million from the Stewardship Program, which is funded primarily with GPR funds. GPR-supported projects include the youth dormitory and improvements to State Fair Park's agricultural buildings and infrastructure. Stewardship Program funds were used for site development costs related to construction of the Wisconsin Exposition Center.

The GPR-supported bonds used by State Fair Park are typically repaid over a 20-year period. From FY 1995-96 through FY 2002-03, GPR debt service payments made on behalf of State Fair Park totaled nearly \$5.4 million. Appendix 4 lists the scheduled debt service payments to be funded with GPR from FY 2003-04 through FY 2022-23. During this period, total GPR debt service payments will be \$38.0 million, which consists of \$24.3 million in principal and \$13.7 million in interest. Annual payments will be \$2.0 million through FY 2017-18.

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## Future Considerations ■

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Although both the Legislature and State Fair Park have taken steps designed to improve State Fair Park's financial status, changes in the fairgrounds' operations and improvements to major facilities and infrastructure have not yet allowed State Fair Park to become more financially secure. As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, challenges related to financial operations, the fairgrounds' management structure, State Fair Park's relationships with other entities, and a number of other areas will need to be addressed.

### **Financial Operations**

State Fair Park's financial condition will continue to deteriorate as long as operating expenses increase at a greater rate than revenues. However, not only must State Fair Park ensure program revenues are sufficient to cover future expenses, it must also recover from a \$4.4 million cash deficit it accumulated in FY 2002-03. In addition, State Fair Park's financial reporting system needs significant improvement.

Revenues from the August 2003 Wisconsin State Fair will be used to address the prior year's deficit. A budget that was approved by the State Fair Park Board in February 2003 projected 2003 fair revenues of \$10.6 million. However, this projection assumed attendance of 860,000, which was not met. Therefore, it is unclear whether Wisconsin State Fair revenues will be sufficient to address State Fair Park's FY 2002-03 deficit and still provide adequate operating funds for the remainder of FY 2003-04.

***It is critical for State Fair Park to improve its financial management and financial reporting.***

It is also critical that State Fair Park improve its financial management in general, and its financial reporting system in particular. Because State Fair Park officials have not yet provided FY 2001-02 financial statements that are materially correct and accurately reflect that year's financial activity, we have not been able to complete our statutorily required audit in a timely manner and make our opinion available to the Legislature and the Governor as they considered the State's 2003-05 biennial budget. State Fair Park has developed internal budgets for the annual fair and some of its largest events. However, these budgets do not include all expenses, such as an allocated portion of debt service. Therefore, it is difficult to evaluate overall profitability on a per event basis. In addition, State Fair Park's inability to account for expenses and revenues for the smaller events continues to be of concern.

## **Management Structure**

***State Fair Park's management underwent significant changes in 2003.***

State Fair Park's management structure is again in transition. A new chair of the State Fair Park Board was named in February 2003, and four new members were appointed in 2003. At the direction of the Governor, the new chair immediately created various task forces to analyze operations and to make recommendations related to revenue enhancement options, State Fair Park's management structure, and its relationship with other entities. These recommendations are expected later this year.

The existing management structure, which relies on contractors for a significant portion of day-to-day management activities, may need particular scrutiny. For example, because State Fair Park's current chief executive officer is an independent contractor, the Secretary of the Department of Tourism, to which State Fair Park is attached for administrative purposes, has had to take responsibility for certain personnel and financial decisions that contractors are not statutorily authorized to address.

It should be noted that the State does not incur fringe benefit costs for the independent contractors who fill several key positions at State Fair Park. For example, total salary costs for the chief executive officer are approximately \$150,000 annually. Similarly, the fair operations manager is paid \$69,000, and the Milwaukee Mile's general manager is paid \$150,000 annually with no fringe benefits. Cost data for other consultants and contractors on staff were difficult to obtain from the Department of Administration because many of these costs are contained within capital expense budgets.

State Fair Park is attempting to staff other key positions with state employees. In 2003, it hired an exhibitor services manager as a state employee who is responsible for managing all contracts involving exhibitor sales and services. State Fair Park is also recruiting for state positions that include an event services manager, which is a newly created position that will manage non-fair events, and an agricultural coordinator who will coordinate and manage the agricultural programs, including auctions and the World Beef Expo, and perform other duties.

***State Fair Park lost 15.0 positions under the 2003-05 Biennial Budget Act.***

Ultimately, the State Fair Park Board and the Legislature will have to decide the optimal division between contract and state employees. This decision will likely include consideration of both the staffing implications of State Fair Park's recent decision to manage racing activities internally and recent budget and staffing cuts authorized under the 2003-05 Biennial Budget Act, which reduced State Fair Park's authorized staff by 15.0 positions, from 45.2 to 30.2, and cut its program revenue-funded operating budget by \$1.2 million.

Because State Fair Park and the Milwaukee Mile both require ticketing, marketing, and general operations staff, State Fair Park staff believe there is an opportunity for consolidation and cost savings. However, State Fair Park has not yet conducted a comprehensive analysis of how functions could be consolidated and which positions could be eliminated, if any. Its future business plans will need to address how budgetary reductions can be absorbed while activities are increasing.

State Fair Park officials note they are considering whether internal management of additional activities would be beneficial to the fairgrounds. However, certain legal issues will need to be reviewed before such options can be pursued. For example, industrial revenue bonds that were used to fund the Wisconsin Exposition Center may limit future organizational changes for that entity. In addition, the Pettit Center was partially funded with private funds, and some promised donations may be jeopardized if there are organizational changes to the Pettit Center.

***The Legislature should consider the State's potential liability if State Fair Park is granted further independence.***

Some have also suggested that because of State Fair Park's unique status as an entertainment venue, it should be reorganized as a quasi-governmental authority, granted additional flexibility from state purchasing and employment requirements, or managed as a Special Park District with its own governance structure. However, proposals to increase the agency's independence from executive and legislative oversight and control are being made at the same time that the level of state support is increasing. Therefore, we suggest the Legislature carefully consider the level of oversight it wishes to retain over the State's investment in the fairgrounds.

## **Relationship with Other Entities**

It is difficult to assess the future demands that may be placed on State Fair Park, given uncertainty about the future financial performance of both the Exposition Center and the Pettit Center. As noted, these entities are each governed by separate not-for-profit boards. However, in the short-term, State Fair Park should immediately address the unfavorable contractual provisions it has negotiated with other entities.

## **Level of State Support**

In the future, the Legislature may be asked to define the level of state support for State Fair Park's operations and capital needs. Further, to help improve State Fair Park's financial condition, the Legislature may also be asked to exempt it from requirements to lapse program revenue to the State's General Fund, or to directly provide GPR support to State Fair Park. In deciding these issues, the Legislature and the Governor will have to weigh the level of public support for State Fair Park and the Wisconsin State Fair against competing demands for limited state resources.

## **Future of the Master Building Plan**

State Fair Park has largely completed several phases of its master plan, at a cost of nearly \$76.7 million. However, it has not yet completed phases involving the Wisconsin Heritage Hall, which is to serve as a showcase for Wisconsin products; remaining components of the agricultural village; and the landscaped lawn area. Future construction plans are uncertain.

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Appendix 1

**Wisconsin State Fair Park**



Source: State Fair Park

Appendix 2

**Scheduled Debt Service Payments  
for Industrial Revenue Bonds**

| Fiscal Year  | Principal Payments  | Interest Payments   | Total               |
|--------------|---------------------|---------------------|---------------------|
| 2003-04      | \$ 0                | \$ 2,527,525        | \$ 2,527,525        |
| 2004-05      | 290,000             | 2,518,541           | 2,808,541           |
| 2005-06      | 390,000             | 2,497,476           | 2,887,476           |
| 2006-07      | 495,000             | 2,470,060           | 2,965,060           |
| 2007-08      | 610,000             | 2,435,829           | 3,045,829           |
| 2008-09      | 715,000             | 2,394,783           | 3,109,783           |
| 2009-10      | 860,000             | 2,345,992           | 3,205,992           |
| 2010-11      | 1,005,000           | 2,288,217           | 3,293,217           |
| 2011-12      | 1,150,000           | 2,221,459           | 3,371,459           |
| 2012-13      | 1,230,000           | 2,147,730           | 3,377,730           |
| 2013-14      | 1,310,000           | 2,069,045           | 3,379,045           |
| 2014-15      | 1,385,000           | 1,985,559           | 3,370,559           |
| 2015-16      | 1,470,000           | 1,897,115           | 3,367,115           |
| 2016-17      | 1,565,000           | 1,803,096           | 3,368,096           |
| 2017-18      | 1,660,000           | 1,703,191           | 3,363,191           |
| 2018-19      | 1,765,000           | 1,597,090           | 3,362,090           |
| 2019-20      | 1,875,000           | 1,484,329           | 3,359,329           |
| 2020-21      | 1,990,000           | 1,364,599           | 3,354,599           |
| 2021-22      | 2,110,000           | 1,237,586           | 3,347,586           |
| 2022-23      | 2,245,000           | 1,102,675           | 3,347,675           |
| 2023-24      | 2,380,000           | 959,400             | 3,339,400           |
| 2024-25      | 2,525,000           | 807,451             | 3,332,451           |
| 2025-26      | 2,685,000           | 646,054             | 3,331,054           |
| 2026-27      | 2,850,000           | 474,589             | 3,324,589           |
| 2027-28      | 3,020,000           | 292,746             | 3,312,746           |
| 2028-29      | 3,215,000           | 33,199              | 3,248,199           |
| <b>Total</b> | <b>\$40,795,000</b> | <b>\$43,305,336</b> | <b>\$84,100,336</b> |

Appendix 3

**Scheduled Debt Service Payments  
for Program Revenue-Supported Bonds**

| Fiscal Year  | Principal Payments  | Interest Payments   | Total               |
|--------------|---------------------|---------------------|---------------------|
| 2003-04      | \$ 1,661,910        | \$ 1,879,269        | \$ 3,541,179        |
| 2004-05      | 1,734,677           | 1,792,881           | 3,527,558           |
| 2005-06      | 1,665,060           | 1,706,730           | 3,371,790           |
| 2006-07      | 1,742,229           | 1,623,786           | 3,366,015           |
| 2007-08      | 1,833,178           | 1,536,373           | 3,369,551           |
| 2008-09      | 1,919,001           | 1,449,485           | 3,368,486           |
| 2009-10      | 2,013,422           | 1,358,573           | 3,371,995           |
| 2010-11      | 2,113,677           | 1,259,756           | 3,373,433           |
| 2011-12      | 2,402,090           | 1,148,572           | 3,550,662           |
| 2012-13      | 2,525,240           | 1,023,258           | 3,548,498           |
| 2013-14      | 1,752,823           | 915,119             | 2,667,942           |
| 2014-15      | 1,840,754           | 825,584             | 2,666,338           |
| 2015-16      | 1,937,218           | 731,599             | 2,668,817           |
| 2016-17      | 1,938,786           | 634,957             | 2,573,743           |
| 2017-18      | 1,955,941           | 540,075             | 2,496,016           |
| 2018-19      | 1,999,176           | 438,965             | 2,438,141           |
| 2019-20      | 1,968,290           | 335,203             | 2,303,493           |
| 2020-21      | 1,957,355           | 232,148             | 2,189,503           |
| 2021-22      | 1,392,837           | 130,403             | 1,523,240           |
| 2022-23      | 1,462,565           | 67,278              | 1,529,843           |
| <b>Total</b> | <b>\$37,816,229</b> | <b>\$19,630,014</b> | <b>\$57,446,243</b> |

Appendix 4

**Scheduled Debt Service Payments  
for GPR-Supported Bonds**  
(Including Stewardship Funds)

| Fiscal Year  | Principal Payments  | Interest Payments   | Total               |
|--------------|---------------------|---------------------|---------------------|
| 2003-04      | \$ 790,997          | \$ 1,246,225        | \$ 2,037,222        |
| 2004-05      | 825,391             | 1,205,870           | 2,031,261           |
| 2005-06      | 866,236             | 1,160,782           | 2,027,018           |
| 2006-07      | 907,794             | 1,115,215           | 2,023,009           |
| 2007-08      | 948,279             | 1,067,851           | 2,016,130           |
| 2008-09      | 992,514             | 1,021,794           | 2,014,308           |
| 2009-10      | 1,016,557           | 975,301             | 1,991,858           |
| 2010-11      | 1,090,702           | 923,960             | 2,014,662           |
| 2011-12      | 1,338,069           | 860,612             | 2,198,681           |
| 2012-13      | 1,603,049           | 790,812             | 2,393,861           |
| 2013-14      | 1,651,346           | 705,493             | 2,356,839           |
| 2014-15      | 1,735,430           | 617,069             | 2,352,499           |
| 2015-16      | 1,824,184           | 524,545             | 2,348,729           |
| 2016-17      | 1,918,267           | 431,122             | 2,349,389           |
| 2017-18      | 1,633,585           | 343,103             | 1,976,688           |
| 2018-19      | 1,236,552           | 258,401             | 1,494,953           |
| 2019-20      | 1,297,442           | 193,732             | 1,491,174           |
| 2020-21      | 1,216,418           | 127,305             | 1,343,723           |
| 2021-22      | 874,646             | 68,885              | 943,531             |
| 2022-23      | 518,802             | 23,864              | 542,666             |
| <b>Total</b> | <b>\$24,286,260</b> | <b>\$13,661,941</b> | <b>\$37,948,201</b> |



## Wisconsin State Fair Park

September 5, 2003

Ms. Janice Mueller  
Wisconsin State Auditor  
Legislative Audit Bureau

### MANAGEMENT AUDIT RESPONSE LETTER

Dear Ms. Mueller,

First let me say that as always we appreciate the hard work and professionalism of your staff during the audit process and view your report as a tool for ongoing improvements at the State Fair Park. Please know that for the most part we agree with your recommendations for improvements italicized throughout the report however there are a number of items that we feel bear further clarification that consequently may lend more perspective on the challenges encountered as management strives to improve the overall fiscal and operational environment at State Fair Park. Lastly we noticed that many key operational improvements instituted over the last year have not been mentioned in this report and consequently could suggest to the readers that no progress is being made on operational improvements at the State Fair Park. We will take the opportunity to point these out for balance.

#### Revenues and Expenses:

The report factually notes that State Fair Park expenses exceeded revenues by \$4.5 million dollars. Furthermore it correctly explains most of the reason for this shortfall but neglects to mention the revenue shift from the State Fair Park operations into the Exposition Center business that has had a significant impact on State Fair Park cash flow.

**Total Shortfall:** (\$4,500,000)

|                               |                   |
|-------------------------------|-------------------|
| State Lapse:                  | \$2,400,000       |
| '03 Pettit Center Arrearages: | <u>\$ 371,600</u> |
|                               | \$2,771,600       |

#### State Fair Park Revenue Shift to Expo:

|                                      |                   |
|--------------------------------------|-------------------|
| Prior State Fair Park Event Business | \$1,700,000       |
| Associated Parking                   | <u>\$ 400,000</u> |
|                                      | \$2,100,000       |

**\$4,871,602**

*This illustrates the following:*

1. *62% of the shortfall (\$2,771,600) was created by outside impacts beyond Fair Park management control.*
2. *\$2.1 million dollars in revenue was not lost but rather assigned over to the Exposition Center business and therefore did not leave the State Fair Park.*
3. *If combined with the State Lapse and Pettit rent shortfall, total revenues would actually exceed expenses by \$371,602 dollars.*

**Note:** *Pettit Center rent shortfalls reflected in this table do not show the additional \$1million rent payments in arrears from prior years.*

### **State Fair Improvements Not Referenced:**

1. Event budgeting and conservative forecasting continues to be a top priority for Fair Park management in an effort to fully understand profit and loss impact for any given event. For the second year in a row, a State Fair event budget was constructed. In 2002 the State Fair event net profit exceeded \$1 million dollars (after \$2.8 million in non-event overheads were deducted). The 2003 State Fair budget projects a net profit of \$1.5 million. At present and despite a 9.5% decrease in attendance due predominantly to weather conditions, revenue amounts for the event have surpassed budgeted estimates. Final net profit outcome will be determined later in September after all expenses are accounted for. *This performance is a solid illustration of management's commitment to conservative budgeting and thorough contingency planning efforts.*
2. In 2002, management implemented a new "state of the art" ticket admission system that for the first time allowed for exact count attendance at any time during the event and significantly improved revenue control accounting practices. Although technical problems were experienced in 2002 due to airwave frequency interruptions, the system worked flawlessly in 2003 given the installation of fiber optic connections between gates. State Fair Park is now starting to be recognized as a fair industry leader in successful use of leading edge admissions technology.
3. In 2002, management hired an outside parking company to manage all parking operations at the Fair Park. This decision was made as a means of improving the parking operations without increasing manpower demands on the organization. Although 2002 presented some initial operational challenges for the company, their significantly improved performance and responsiveness to State Fair Park in 2003 is worth noting. Furthermore, as part of the negotiated parking contract, State Fair Park was entitled to receive new computerized entry gate car counting equipment, gating systems, new park wide gate signage and parking lot paving.

As a result and despite an attendance decrease, the 2003 State Fair event showed a 10.5% increase in cars parked over the '02 performance, customer satisfaction levels have increased dramatically and accurate car counts and revenue reports are generated daily.

4. Special emphasis was put on improving our Exhibitor Services department including hiring a new exhibitor services manager. As a result of this emphasis, all contracts within the department (over 900) have been reworked to a standard format including aesthetics, vendor performance and financial reporting requirements. Another major accomplishment of the department was relocation of fair exhibitors from the 2002 State Fair into the 2003 State Fair. This was a major undertaking given the removal of the old North / South Halls, Family Living Center and Youth Expo buildings. The results showed that 99% of all exhibitors had been successfully relocated for the 2003 State Fair.
  
5. After the 2002 State Fair, management proceeded to institute a new standardized commission rate structure for all food and beverage vendors including replacement of the percentage approach on beverages with a corkage fee policy. As a result, all vendors were moved to contracts with identical terms thereby eliminating preferential treatment among vendors and re-establishing a level playing field for all vendors. The new contracts also required use of cash registers and daily submission of register tapes to the Fair Park for improved accounting methods. Additionally, the corkage fee policy has provided State Fair Park with more predictability in budgeting for beverage revenues and tighter accounting controls on revenues deposited from vendors.

*In summary, management feels that great strides have been made for ongoing improvements to the operation of the State Fair event. It is our further opinion however that management must be provided the latitude through governance restructuring or contractual changes to extend these new systems, best practices and policies to other business operations at State Fair Park in order to achieve the same levels of successful performance.*

#### **Clarification of Specific Audit Points:**

*Concerns were raised about acquisition of the Milwaukee Mile Race Promotion Rights in several areas of the report. Although any major acquisition decision by an organization or company is subject to outside debate as to amounts paid, it should be noted that the State Fair Park worked closely in reviewing all available information in a very condensed timeframe and in formulating a best judgment estimate to consider in the ultimate decision to purchase these rights. In general, the core basis for the decision to proceed rested primarily on the following conclusions:*

1. The purchase was consistent with longer-term organizational direction of State Fair Park.

2. State Fair Park saw increased value potential and therefore greater long-term financial benefit for the enterprise.
3. Total control of the business unit would be reassumed as a result of the purchase, eliminating the middleman from the business equation.
4. The acquisition created no more risk to the Fair Park than the existing race lease agreement.
5. Operational control would provide greater revenue generation potential especially in areas such as sponsorship and naming rights opportunities.
6. Operational control would provide cost efficiencies through organizational consolidation.

*Comparison of Racing Debt to Asset Value* referenced in several areas of the report (\$3.2 million vs \$1.6 million) needs clarification. Haas Racing spent \$4.4 million on capital assets, such as repaving the Milwaukee Mile racetrack and other infrastructure improvements that will enable races to be run for 20 years or more. In terminating the lease, State Fair Park obtained these assets by assuming \$3.2 million in debt. The lower \$1.6 million figure cited by the Legislative Audit Bureau, is due to book adjustments for tax purposes, which results in a net asset value that does not reflect market value.

*Use of Forecasted Grandstand Naming Rights revenues, race event number and per cap spending for economic feasibility studies* on the project was factually referenced in the report as it relates to an earlier Grandstand design report. However the audit neglected to also mention that a second pro-forma for a scaled back Grandstand Project was also prepared that did not include naming rights revenue, reduced the per cap numbers to industry levels and was based on (4) event weekends, not (6) events. On a performance note for balance it should be recognized that under State Fair Park management, the Milwaukee Mile has secured (3) major races for the 2004 season (CART, NASCAR, IRL) and is confident that a fourth will be announced this fall.

*Bonus Payments to several Milwaukee Mile employees were referenced as an area of concern by the report.* While the audit correctly reports the amounts provided and the disparity with civil service guidelines, management would conversely highlight that this payment structure is something the State Fair Park enterprise would like to establish in the future for more employees in positions responsible for revenue generation. Performance bonus arrangements are the norm in the entertainment industry and allows the enterprise to establish lower base salaries coupled with incentives, especially in areas requiring significant revenue generation.

*The report notes that new or renovated facilities that were intended to be self supporting have not met with the overly optimistic revenue projects.* In the case of the Exposition Center building, it should be noted that projections did not forecast a break even until the third full year of operation. At the end of 2003, the Exposition Center will be finishing its first full year of operation and therefore we believe this statement to be conclusive before the operation has had an opportunity to perform within plan. Secondly, the capital investment in the RV Park has generated enough to cover operating costs and dept service. Third, it is purely speculative at this transitional juncture to conclude that the

Milwaukee Mile under new State Fair Park management will be not be able to meet debt service obligations and deliver a net profit to organization.

*Financial management and financial systems are referenced as needing improvement.* Management does not disagree with this recommendation however it should be recognized that structural changes must be made between business entities at the Fair Park, the State and State Fair Park before an efficient and timely central financial system can be implemented. It should also be noted that over the last year management had requested and was granted financial staff assistance from the Department of Administration to help restructure the financial systems at State Fair Park given the “transitional nature of the enterprise” as referenced by the audit report. At this time however, State Fair Park continues to have no control or direct connection to financial systems at the Pettit Center or the Exposition Center and only recently began taking actions to integrate the Milwaukee Mile operation given the May acquisition. Note that each entity including the State Fair Park and the State Department of Administration have their own individual systems. This frequently causes delays in retrieving timely individual financial information for purposes of constructing final consolidated reports. To reiterate however, management agrees with this recommendation and has made this item a top priority for future improvements for the enterprise.

*The report notes that 104 event days were lost to the State Fair Park as a result of the new Exposition Center being created.* While this number suggests that 30% of events were lost, in actuality these were low end events that represented less than 7% of total State Fair Park event revenues.

*State Fair Park Capital Reserve account is referenced to currently have a balance of \$842,000.* Although this may have been the amount reviewed by LAB at the time of this audit, the final actual balance at the end of fiscal '03 is in excess of \$1 million dollars.

*Unsupported Negative Cash Balance is presented in table format and represents a negative (\$2,170,233).* What is not reflected directly or in foot note fashion is an acknowledgement that \$2.4 million of the negative cash balance is due to State Lapse Assessment. Were it not for the \$2.4 assessment, WSFP would in fact be in a positive Cash to Asset position.

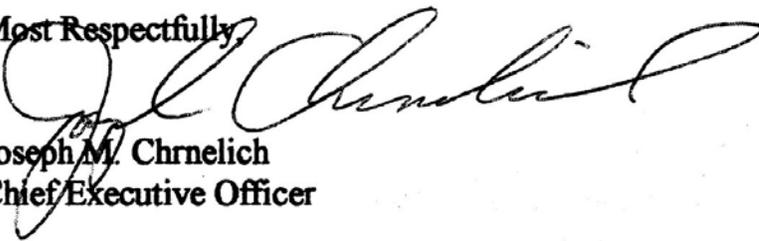
*The State Fair Park Master plan is criticized for not providing sufficiently detailed information to serve in financial discussions with lenders, the Legislature or the Governor.* Management disagrees with this point. As correctly pointed out, the purpose of a Master Plan is to establish a long-term vision (or blue print) for future building considerations on an integrated basis. Master plans are typically adjusted throughout the life of the process as new ideas are generated to enhance the plan. However, by nature any financial references within the report only provide “order of magnitude” projections. *As our State Building Commission would attest each component of the Master Plan must be accompanied by a detailed financial report and pass several levels of rigorous financial analysis by highly qualified Building Commission staff before being brought to the Commission members. Additionally, the State Building Commission requires State*

*Fair Park management to appear before Commission members to undergo thorough questioning before approval is granted. State Fair Park has enjoyed a strong working relationship with the State Building Commission and Division of State Facility staff and have relied on their guidance and assistance with the ongoing Master Plan improvements.*

In conclusion, management finds the recommendations and concerns expressed in this report very much in line with the ongoing Board Special Committee works as directed by the Governor earlier this year. The Business Plan of the Chairman and these Special Committees is tentatively scheduled for full State Fair Park Board review later September. As the LAB correctly points out in the audit summary, the State Fair Park is again in a period of transition. Consequently transition presents significant operational challenges for management relative to consistent performance. While discussions between the State Fair Park Board, the State Legislature and the Governors Administration continue as to the most beneficial structure for the Wisconsin State Fair Park organization, management will continue to strive for improvement under existing conditions. As was stated in the 1999 Strategic Development Committee Report however, State Fair Park will never achieve its true potential until a structure is designed to provide the enterprise with the business tools necessary to compete in today's entertainment industry.

Finally, it is management's opinion that the Legislative Audit Bureau report makes sound recommendations for improvement of the Wisconsin State Fair Park enterprise and we sincerely appreciate the LAB staff's efforts in compiling this audit. Management hopes that this response letter is received in the similar spirit of cooperation towards a common goal of improving the Wisconsin State Fair Park to the enjoyment of generations of Wisconsin citizens to come.

**Most Respectfully,**



**Joseph M. Chernelich  
Chief Executive Officer**