

## Report Highlights ■

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***As reported in 2003, State Fair Park's overall financial condition deteriorated through FY 2002-03.***

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. Statutes require us to perform an annual financial audit of State Fair Park. However, in 2003, State Fair Park was unable to provide us with accurate and complete financial statements for fiscal year (FY) 2001-02.

***State Fair Park has taken some steps to solidify its operations and increase its revenues.***

State Fair Park subsequently hired a private accounting firm to prepare its financial statements for FY 2001-02 and FY 2002-03, and we have issued an unqualified audit opinion for each year. In addition, we followed up on concerns we expressed in 2003 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

***Business plans for 2004 are optimistic and rely on revenues that have not been fully secured, such as sponsorships.***

- the Milwaukee Mile racetrack and its new grandstand, which State Fair Park began to manage internally in May 2003;

***State Fair Park's 2004 business plans should be refined and modified to ensure financial estimates are reasonable and staffing concerns are addressed.***

- the new Wisconsin Exposition Center, which is owned by a not-for-profit corporation, used exclusively for the Wisconsin State Fair each 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.

## Key Facts and Findings

*We have issued unqualified audit opinions on State Fair Park's financial statements for FY 2001-02 and FY 2002-03.*

*Program revenue-supported debt service payments will be more than \$3.4 million annually through FY 2012-13.*

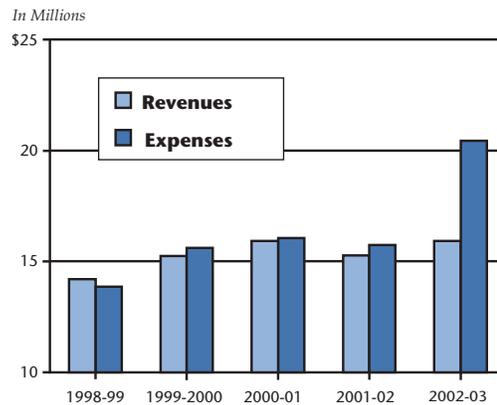
*Through May 2004, State Fair Park's expenses exceeded revenues by \$2.1 million.*

*State Fair Park currently projects that total revenues for FY 2003-04 will exceed expenses by nearly \$195,000.*

*State Fair Park must eliminate 6.0 positions to meet its current authorized staffing level.*

## Fiscal Decline through 2003

As we noted in 2003, State Fair Park's expenses have exceeded revenues since FY 1999-2000. In FY 2002-03, they exceeded revenues by \$4.5 million. While FY 2002-03 expenses—including a required lapse of \$2.4 million to the State's General Fund—were beyond the control of agency staff or the State Fair Park Board, FY 2002-03 expenses would have exceeded revenues by \$1.8 million even without such outside factors.



In recent years, State Fair Park has undertaken a \$160.0 million building program to make the fairgrounds a year-round entertainment attraction. This program included new and renovated facilities that were intended to be self-supporting, such as:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, which were completed in time for the 2003 racing season at a cost of \$19.1 million; and

- the new Wisconsin Exposition Center, which replaced several existing exhibit buildings and was completed in time for the 2002 State Fair at a cost of \$37.8 million.

However, overly optimistic revenue projections that were used to support these and other construction projects have not been met. Instead, the projects have contributed to State Fair Park's declining financial condition. For example, we estimated in 2003 that State Fair Park:

- incurred 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.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, program revenue-supported debt service payments are expected to be more than \$3.4 million annually. 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 general purpose revenue-supported bonds.

## Recent Operational Changes

In the nine months since our 2003 report, the State Fair Park Board and entities operating within the fairgrounds have taken steps to improve State Fair Park's overall financial condition and to solidify operations. For example, in accordance with our recommendations, all fairgrounds entities have developed business plans for 2004. In addition:

- The Exposition Center Board hired a president in 2003, and the State Fair Park Board hired a chief financial officer in 2004.
- The Milwaukee Mile has expanded its 2004 racing program and will host four major events, compared to two in prior years.
- State Fair Park has implemented procedures to recoup some of the costs it incurs on the Exposition Center's behalf.
- State Fair Park has received nearly \$38,600 from the Exposition Center, which represents one-half of the amount by which State Fair Park's parking expenses exceeded revenues. Furthermore, the agreement related to parking revenues has been changed to ensure that State Fair Park does not incur such losses in the future.

- The Exposition Center is attempting to attract additional events by contacting those events that previously left the fairgrounds.

However, as debt service costs increase, the importance of overall profitability is heightened. At least in the short run, State Fair Park's ability to meet its program revenue-supported debt obligations will be limited if program revenues do not increase or if expenses do not decrease.

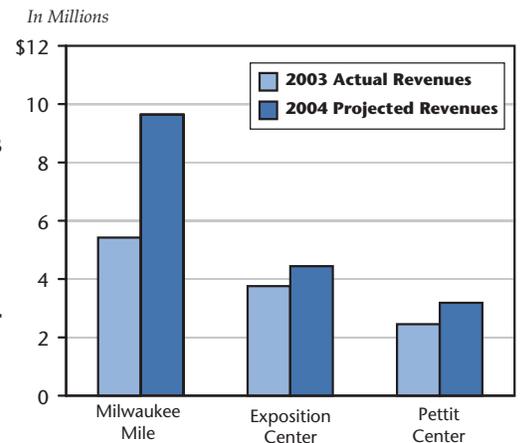
## 2004 Business Planning

Although State Fair Park's expenses exceeded revenues by \$2.1 million through May 2004, its staff anticipate that additional revenues from a June 2004 race at the Milwaukee Mile and the August 2004 State Fair will be received before the end of FY 2003-04. With the receipt of that revenue, they project that FY 2003-04 total revenues will exceed expenses by nearly \$195,000.

Nevertheless, this projection relies on an optimistic financial performance by the Milwaukee Mile, as well as reduced losses from other non-fair operations. For example:

- State Fair Park staff estimate that revenues from the Milwaukee Mile will increase from \$5.4 million during the 2003 racing season to \$9.6 million for the 2004 season, an increase of 77.7 percent.

- The Pettit Center projects that program revenues will increase from \$2.1 million in 2003 to \$2.8 million in 2004, an increase of 35.8 percent.
- Milwaukee Mile revenues are projected to include nearly \$1.1 million from sponsorship and naming rights in 2004, while the Exposition Center projects \$500,000 in sponsorship revenues. However, these revenues have not yet been fully secured.



Any future demands the Exposition Center may place on State Fair Park are also unknown, but the Exposition Center is projecting a net loss of \$206,500 for calendar year 2004. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2005, reserve funds may be used to cover debt service costs. Doing so could jeopardize a letter of credit issued by a commercial lender to support Exposition Center construction bonds.

Finally, staffing levels within the various entities have not been resolved. For example:

- State Fair Park currently funds ten employees through the Exposition Center. This funding mechanism bypasses both legislative and executive control. Furthermore, State Fair Park has not fully addressed the potential duplication of effort between its own staff and Milwaukee Mile staff.
- As of May 2004, State Fair Park still needed to eliminate 6.0 positions to reach its current authorized staffing level, which was reduced by 15.0 positions under 2003 Wisconsin Act 33.

At a minimum, we believe revised business plans should include reassessments of operating revenues and expenses, to ensure estimates are reasonable; staffing plans, to incorporate budgetary position reductions and Milwaukee Mile employees; and strategies to continue to improve the entities' profitability.

### Matters for Legislative Consideration

Both State Fair Park and the Legislature have taken steps to improve State Fair Park's financial status, but changes in the fairgrounds' operations and improvements to major facilities have not yet allowed State Fair Park to become 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, the level of state support, and future building plans continue to need attention.

### Recommendations

We include a recommendation for State Fair Park to:

- continue to refine and modify current business plans as necessary for future years, considering internal operations—including the Milwaukee Mile's racing activities—and external operations such as the Wisconsin Exposition Center and the Pettit National Ice Center; and
- report to the Joint Legislative Audit Committee by October 31, 2004, on its final FY 2003-04 revenues and expenses and its revised business plans for 2005 (*pp. 35-36*).

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## Additional Information

[Report 04-5](#) includes a response from State Fair Parks's chief executive officer, call (608) 266-2818 or visit our Web site:



[www.legis.state.wi.us/lab](http://www.legis.state.wi.us/lab)

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