



WISCONSIN STATE FAIR PARK

640 S. 84th Street - West Allis, WI 53214

February 23, 2011

Senator Robert Cowles, Co-chair
Joint Legislative Audit Committee
State Capitol, Room 118 South
P. O. Box 7882
Madison, WI 53707-7882

Representative Samantha Kerkman, Co-chair
Joint Legislative Audit Committee
State Capitol, Room 315 North
P. O. Box 8952
Madison, WI 53708

Dear Senator Cowles and Representative Kerkman:

In June 2010, the Legislative Audit Bureau released Report 10-10, an audit of State Fair Park. The audit included a review of the Fair Park's Fiscal Year (FY) 2008-09 financial statements, cash basis financial condition and efforts to improve its financial performance. Report 10-10 included a recommendation for the Fair Park to report to the Joint Legislative Audit Committee on a number of topics:

- controlling and monitoring the distribution of tickets;
- controlling and monitoring the use of in-kind support;
- long-term plans for managing the Milwaukee Mile racetrack; and
- operations of the Wisconsin Exposition Center.

Cash Basis Financial Condition and Performance

Report 10-10 noted that revenues exceeded expenditures by \$828,000 in FY 2008-09, which reduced the cumulative deficit to \$7.8 million at June 30, 2009. Auditors also noted that the deficit reduces funding available for other state programs or limits the State's ability to generate interest income from investment earnings and that the Fair Park needs to continue to address the deficit. Fair Park officials believe that its financial condition no longer creates any problems for the State.

State Fair Park has continued to reduce the deficit and improve its financial stability. In the year following the period covered by Report 10-10, the Fair Park generated a surplus of

\$3.2 million, which reduced the cumulative deficit to \$4.6 million at June 30, 2010. This deficit figure excludes \$1.9 million deposited in another Fair Park account because it was received as part of ongoing litigation and \$700,000 in a capital reserve account. Combining these balances, the Fair Park's total cumulative cash deficit at June 30, 2010 was \$2.0 million.

State Fair Park is financially stable and its businesses are sustainable without drawing on state resources for operations. Through June 30, 2010, the State has required the Fair Park to transfer approximately \$3.1 million of its program revenue to the General Fund. As a result, the \$2.0 million cumulative deficit represents payments to the State and should not be considered a cause of the State earning less interest income or having less funding available for other state programs. Without the mandatory state lapses, the Fair Park would have had a positive cash balance of \$1.1 million at June 30, 2010. The Fair Park expects a surplus of \$1.0 million or more in the current fiscal year, FY 2010-11.

Distribution of State Fair Tickets

Report 10-10 identifies concerns with State Fair Park's distribution of state fair tickets. The process used for the distribution of tickets has generally changed from year-to-year and documentation supporting the distribution of tickets has been inconsistent.

State Fair Park has reorganized its staff and departments. One of the improvements coming out of this process is the creation of a Ticket Manager position. This position reports to the Deputy Executive Director/CFO. The Ticket Manager and his LTE admissions department staff have developed written policies and procedures for the proper request, support and distribution of tickets. There are 10 different request forms that provide for the proper accounting of tickets, including separate forms and supporting information justifying tickets provided to cash sponsors; advertising trade partners; equipment/services trade partners; promotional trade partners; consignment tickets; media access; retail promotion; participant access; complimentary access; and replacement tickets.

An accountability trail has been developed. Forms submitted to the Ticket Office are approved by department managers as well as the Executive Director or his designee. Submittals are reviewed for appropriateness and then approved by the Ticket Manager or an admissions department supervisor. After approval, the ticket order is printed by one of the ticketing staff. The printed ticket numbers are added to the request form and the staff person who printed the order signs that the order is complete. The person picking up the order also signs off so there is no doubt that the tickets were picked up. For tickets that are consigned in bulk for sales by another entity or distribution by a Fair Park manager, a reconciliation process is required before or right after the state fair identifying the number of tickets distributed to each party and the number of tickets returned.

With annual training of managers and increased oversight provided by the admissions department, accountability over tickets has increased and is expected to continue to improve.

Use of In-Kind Support

Report 10-10 identifies concerns with State Fair Park's oversight of the use of in-kind support. The Fair Park has benefited from in-kind trade for many years and over time a number of practices have become institutionalized. Fair Park officials agree that that formal policies and

increased monitoring is needed to avoid abuse of the use of in-kind trade. Because policies have not been developed, in-kind trade for the 2011 state fair will be approved by the Executive Director or his designee on a case by case basis.

Controlling the distribution of tickets has been the Fair Park's first priority. Tickets are a major source of the Fair Park's value that is traded for benefits from other entities. Getting a handle on ticketing also improves our control over the use of in-kind trade. The Fair Park is implementing other changes that will address other auditors' concerns, including:

- written agreements are being required for in-kind trade transactions;
- in-kind trade considerations will not be included in competitive purchasing practices unless the Fair Park can demonstrate a positive benefit to the State and that the trade component will not significantly restrict the number of bidders or proposers;
- Fair Park officials will present comprehensive information on the use and value of in-kind trade to the Board's executive committee after each state fair. The executive committee will brief the Board; and
- the Ticket Manager is tasked with accounting for all in-kind trade and in a consistent manner. This has resulted in the same valuation technique being used for 2009, 2010 and future years.

Developing categories and special requirements for each type of in-kind trade transaction is taking some time. Policies on the minimum ratio of benefit such as at least \$2.00 of benefit for every dollar value given in return will be developed in the fall. Formal policies are expected to be completed by January 31, 2012.

Milwaukee Mile Racetrack

Report 10-10 noted that no promoter has made a profit operating the Milwaukee Mile racetrack since 2000. Further, that State Fair Park could not secure a promoter for the 2010 race season and as a result, no major national race ran at the Milwaukee Mile. Based on the economics of the racing industry, Fair Park officials do not expect to find a promoter interested in running the track for an entire race season. Fair Park event services professionals will market and lease the racetrack for individual events in the same manner they lease the Exposition Center, Tommy G. Thompson Youth Center, Wisconsin Products Pavilion, Coliseum, Ag Village barns and the lots.

Most Milwaukee Mile racetrack programming is expected to be racing team tire testing, regional or local race events, sport car club races and various non-Motorsports uses such as run/walk events. The racetrack will host a national race in June 2011; an IndyCar Series weekend that will include seven races. Under this business model, State Fair Park expects to generate up to \$100,000 of revenues in excess of expenditures.

These plans for the operations of the Milwaukee Mile should be considered short to intermediate term. More time is needed to see if additional national races can be secured and to better understand the relative health and trends of the industry.

When evaluating future performance, State Fair Park will compare operating revenues and expenses to budgeted operating revenues and expenses. Debt service, which is not controllable by the Fair Park, will be considered in total for the entire Fair Park after determining the total of each business component's operating results.

Wisconsin Exposition Center

Audit reports prior to Report 10-10 noted that the Wisconsin Exposition Center was at risk because operations could not generate sufficient revenue to fund debt service. Auditors correctly reported that the private entity owning and operating the business on State Fair Park property would likely default after its cash reserves were gone. State Fair Park officials agreed with this assessment and explored many strategies for helping the entity remain solvent. An opportunity presented itself in 2009 as financial companies and markets declined.

State Fair Park purchased the facility and its business on December 1, 2009. While the facility carried a book value of \$31.0 million, the Fair Park purchased it for less than \$14.0 million. The Fair Park also recorded a \$1.4 million gain on the purchase of the business and earned \$1.3 million from its business during the seven months it was operated by the Fair Park in FY 2009-10. The Exposition Center is on track to achieve its FY 2010-11 financial goal of generating at least a \$400,000 surplus. Because the Fair Park now owns the Exposition Center, it retains all food and beverage revenue and need not pay rent for its use during the state fair; thereby, also increasing the profitability of the state fair.

As of December 1, 2010, after State Fair Park filled 9.5 positions authorized by the Joint Committee on Finance to operate the Exposition Center, its operations became totally integrated with and under the Fair Park's control. With debt service lowered as a consequence of the highly discounted purchase price and under state management, the Exposition Center is expected to host more events and generate annual surpluses for the foreseeable future.

Please contact me at (414) 266-7011 or Craig.Barkelar@wisconsin.gov if you have a question.

Respectfully submitted,



Craig Barkelar, CPA
Deputy Executive Director/CFO

cc: Senator Mary Lazich, Joint Legislative Audit Committee
Senator Alberta Darling, Joint Legislative Audit Committee
Senator Kathleen Vinehout, Joint Legislative Audit Committee
Senator Julie Lassa, Joint Legislative Audit Committee
Representative Kevin Petersen, Joint Legislative Audit Committee
Representative Robin Vos, Joint Legislative Audit Committee
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