

An Evaluation:

State Fair Park

June 2005

Report Highlights ■

State Fair Park's overall financial condition deteriorated through FY 2003-04.

Expenditures have exceeded revenues by \$7.3 million since FY 1999-2000.

Business plans for 2004 were proven to be overly optimistic when actual revenues fell short of projections.

We recommend State Fair Park report to the Joint Legislative Audit Committee by October 31, 2005, on its plans for improving financial operations.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the annual Wisconsin State Fair. The 11-day fair, which is one of the state's oldest and largest annual events, features midway rides and games, livestock shows, livestock auctions, craft exhibits, musical entertainment, and food and merchandise vendors. More than 879,000 people attended the August 2004 Wisconsin State Fair.

Statutes require us to perform an annual financial audit of State Fair Park. We have issued an unqualified audit opinion on State Fair Park's fiscal year (FY) 2003-04 financial statements, which are included in our report. In addition, we have followed up on concerns we expressed in 2004 regarding State Fair Park's financial condition, as well as business planning related to three fairgrounds activities or entities:

- the Milwaukee Mile racetrack and its grandstand, which State Fair Park began to manage internally in May 2003;
- 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; and
- the Wisconsin Exposition Center, which is owned by a not-for-profit corporation, used exclusively for the Wisconsin State Fair each August, and available for other events during the rest of the year.

Fiscal Decline through 2004

Since FY 1999-2000, State Fair Park has reported a total deficit of \$7.3 million. Expenditures have exceeded total revenues in each of the past five years. The largest deficits were reported in FY 2002-03 and FY 2003-04.

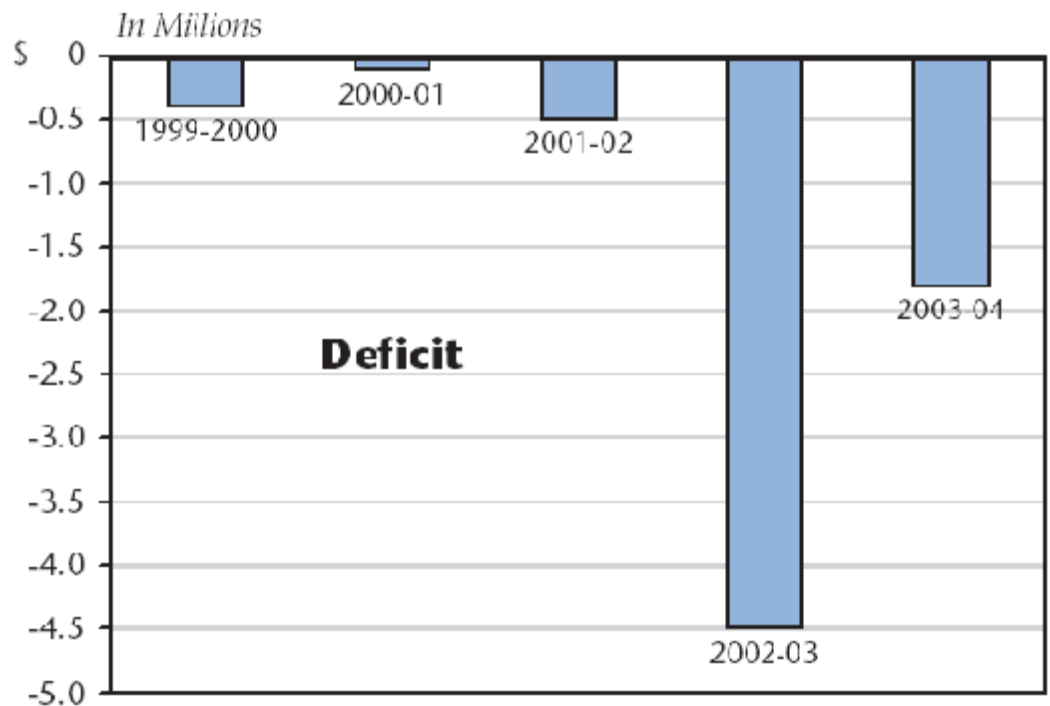
Key Facts and Findings

We have issued an unqualified audit opinion on State Fair Park's financial statements for FY 2003-04.

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

State Fair Park currently projects that total expenditures for FY 2004-05 will exceed revenues by \$3.9 million.

To limit future fiscal demands, State Fair Park is pursuing options for leasing the Milwaukee Mile and selling the Pettit National Ice Center.



Some expenditures in those years—including required lapses to the State's General Fund totaling \$2.6 million—were beyond the control of agency staff or the State Fair Park Board. However, even without such external factors, annual expenditures would have exceeded revenues by \$1.8 million in FY 2002-03 and by \$1.3 million in FY 2003-04. State Fair Park officials project the overall FY 2004-05 deficit could be as much as \$3.9 million.

In recent years, State Fair Park has undertaken a building program to make the fairgrounds more of a year-round entertainment attraction. This program has included new and renovated facilities, 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.

To fund fairgrounds improvements, State Fair Park has relied on funding from bonds. Through FY 2012-13, debt repayment from State Fair Park revenues is expected to be more than \$3.4 million annually. If State Fair Park revenues are insufficient to cover these costs, the State could ultimately be called on to fund them. In addition, \$2.3 million in annual debt service costs from general purpose revenue (GPR)- supported debt has been issued for State Fair Park improvements.

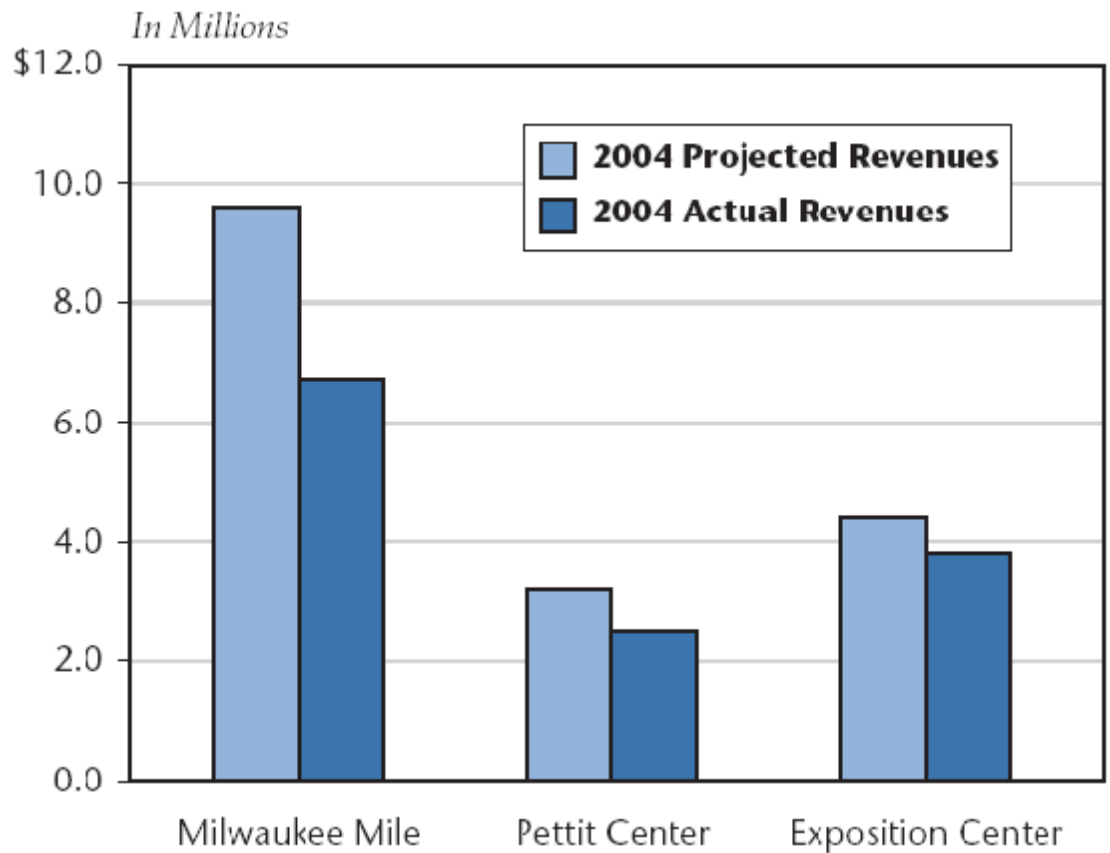
2004 Operating Results

In prior reports, we recommended that State Fair Park develop and then continue to refine and modify business plans, considering internal operations—including the Milwaukee Mile's racing activities— and external operations such as the Pettit

National Ice Center and the Wisconsin Exposition Center.

However, the business plans and operating budgets developed by State Fair Park for its racing activities and by the Pettit Center and the Exposition Center have proven to be overly optimistic, resulting in revenues that fall short of projections. For example:

- State Fair Park estimated that Milwaukee Mile revenues would increase 77.7 percent, from \$5.4 million during the 2003 racing season to \$9.6 million in the 2004 racing season. However, actual revenues increased by only \$1.3 million, or 24.1 percent.
- The Pettit Center projected that revenues from program activities would increase 35.8 percent, from nearly \$2.1 million in 2003 to \$2.8 million in 2004. However, actual revenues from program activities increased by less than 1.0 percent in 2004.
- The Exposition Center projected that total revenue would increase 10.0 percent, from nearly \$4.0 million in 2003 to \$4.4 million in 2004. However, actual revenues declined to \$3.8 million.



2005 Business Planning

The 2005 business plans include initiatives that are similar to those in prior plans. Like the 2004 projections, they again include revenue increases:

- In December 2004, the State Fair Park Board projected that racing revenues would increase 40.7 percent, from \$6.7 million in 2004 to \$9.5 million in the 2005 season.
- The Pettit Center's 2005 business plan projects an 11.1 percent increase in total revenue, from nearly \$2.5 million in 2004 to \$2.7 million in 2005.

- The Exposition Center projects its revenues will increase 12.2 percent, from nearly \$3.8 million in 2004 to \$4.2 million in 2005.

However, in April 2005, State Fair Park revised its projections to reflect an anticipated net loss of \$1.8 million from Milwaukee Mile racing activities for the 2005 racing season. In addition, the Exposition Center has not yet increased the number of consumer and trade shows anticipated for 2005, which may make its projected increase in revenue difficult to meet.

Proposed Future Changes

The State Fair Park Board, the Pettit Center, and the Exposition Center Board are exploring options to improve their financial outlooks. For example, after incurring total losses of more than \$4.3 million since assuming operational control of the Milwaukee Mile in 2003, State Fair Park officials hope to again transfer operating responsibility to a private promoter in January 2006. However, the Milwaukee Mile will continue to be managed internally for the 2005 racing season.

The State Fair Park Board is also exploring options to sell the Pettit Center, which owed State Fair Park \$1.1 million in past-due rent as of May 2005. To ensure the Pettit Center continues as an Olympic training facility, State Fair Park and Pettit Center staff are negotiating the sale of the building and a portion of the surrounding land to the not-for-profit corporation that operates it.

Any future demands the Exposition Center may place on State Fair Park are unknown, but the Exposition Center is projecting a net loss of \$1.3 million for calendar year 2005. Exposition Center staff have indicated that if sufficient resources are not available to meet financial obligations in 2007, 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.

Recommendation

We include a recommendation for State Fair Park to:

- report to the Joint Legislative Audit Committee by October 31, 2005, on its financial condition and plans for improving the overall financial operations of the fairgrounds (*p. 43*);

At a minimum, we believe the plans should address the long-term organizational structure of racing activities at the fairgrounds, as well as State Fair Park's operating and management relationships with the Pettit Center and the Exposition Center.

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