

An Audit:

State Fair Park

June 2009

Report Highlights ■

Revenue exceeded expenditures by \$1.1 million in FY 2007-08.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the Wisconsin State Fair. The State Fair Park Board is responsible for its management. In fiscal year (FY) 2007-08, State Fair Park's operating budget was \$17.8 million.

State Fair Park is involved in a legal dispute related to the Milwaukee Mile racetrack.

We are required by statutes to perform an annual financial audit of State Fair Park and have issued an unqualified opinion on its financial statements for FY 2007-08. They are included in our report. We have also continued to monitor State Fair Park's financial condition, including efforts to improve its financial performance. As part of our audit, we reviewed:

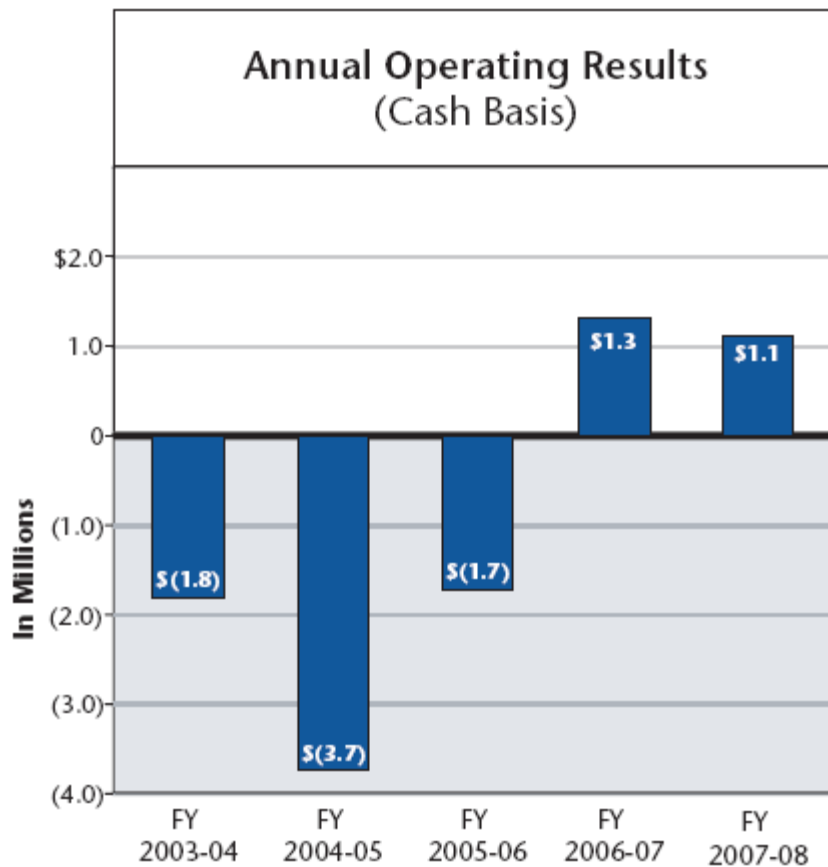
- revenue and expenditure data for FY 2007-08, as well as the status of the accumulated cash deficit in the program revenue appropriation that funds State Fair Park's operating expenses and debt service costs;
- the current status of the Milwaukee Mile racetrack license agreement;
- the status of conflict-of-interest concerns related to management of the State Fair Park Agriculture Department that were raised during our prior audit; and
- other areas that may affect State Fair Park operations in the future, including the financial status of the Wisconsin Exposition Center.

To address conflict-of-interest concerns, State Fair Park is implementing new policies for oversight of its Agriculture Department.

The Exposition Center's financial condition continues to deteriorate.

Fiscal Condition

In FY 2007-08, revenue exceeded expenditures by \$1.1 million. Sale of the Pettit Center in 2007 and licensing of the Milwaukee Mile racetrack to a private promoter in 2006 helped State Fair Park achieve positive operating results for the second year in a row.



Key Facts and Findings

As of June 30, 2008, State Fair Park's accumulated cash deficit was \$8.6 million.

State Fair Park reduced the accumulated cash deficit in its program revenue appropriation to \$8.6 million on June 30, 2008. Because this deficit reduces funding available for other state programs and limits the State's ability to generate income from investment earnings, State Fair Park should continue to take steps to address it.

Milwaukee Mile Racetrack

We issued an unqualified opinion on State Fair Park's financial statements for FY 2007-08.

State Fair Park first entered into a license agreement with Milwaukee Mile Holdings LLC in January 2006. A revised agreement was signed in February 2008.

In February 2009, State Fair Park terminated the license agreement with Milwaukee Mile Holdings and entered into a new agreement with Wisconsin Motorsports.

Both agreements included a letter of credit provision to secure license fees in the event Milwaukee Mile Holdings defaulted on the agreement. The February 2008 agreement required a letter of credit to be in place within 30 days of signing.

State Fair Park received assurances from Milwaukee Mile Holdings that the existing letter of credit would be updated in August 2008 to reflect the terms of the February 2008 agreement. However, no changes were made through fall 2008. Instead, the private promoter requested that State Fair Park eliminate all guaranteed license fees and the requirement for a letter of credit and indicated the future of racing at the Milwaukee Mile would otherwise be in jeopardy.

On behalf of State Fair Park, the Department of Justice

The two parties could not come to an agreement, and in December 2008 Milwaukee Mile Holdings provided two years' notice of termination to the license agreement. In addition, the promoter raised concern with its ability to secure major racing events for 2009.

anticipates filing a lawsuit seeking \$2.7 million from Milwaukee Mile Holdings.

The license fee for operation of the Milwaukee Mile racetrack has been reduced from \$1.0 million to \$180,000 each year.

State Fair Park will incur \$1.8 million in costs related to the Milwaukee Mile in 2009.

The Wisconsin Exposition Center has accumulated a cash deficit of \$3.0 million through calendar year 2007.

In February 2009, the Department of Justice (DOJ) officially terminated the license agreement because of the failure of Milwaukee Mile Holdings to provide the letter of credit under the terms of the February 2008 agreement. DOJ anticipates filing a lawsuit on behalf of State Fair Park seeking at least \$2.7 million in license fees, as required by the terms of the license agreement.

To ensure the continuation of racing for the 2009 season, State Fair Park entered into a license agreement with a new promoter, Wisconsin Motorsports LLC, in February 2009. The new agreement includes a fixed license fee of \$15,000 per month, or \$180,000 per year, which is significantly less than the annual license fee of \$1.0 million required under the most recent agreement with Milwaukee Mile Holdings.

While Wisconsin Motorsports is responsible for operating the racetrack, State Fair Park will continue to incur significant costs. We estimate State Fair Park will be responsible for \$1.8 million in Milwaukee Mile costs in 2009, less license fees it collects from the new promoter.

Past promoters have had difficulty in operating the racetrack profitably. State Fair Park anticipates the new promoter will incur an operating loss in 2009, raising questions about the viability of racing at the Milwaukee Mile racetrack.

State Fair Park's Estimated Milwaukee Mile Costs 2009	
<u>Cost Type</u>	<u>Amount</u>
Debt Service	\$1,814,000
State Fair Park Personnel	12,000
360 State Fair Tickets to Wisconsin Motorsports	2,000
Water and Sewer Costs	2,000
Total Costs	\$1,830,000

Agriculture Department

To address conflict-of-interest concerns described in our previous audit (report 08-8), the State Fair Park Board and its Agriculture Committee established new procedures for the development and implementation of competition rules and for the selection of competition judges. In addition, the Agriculture Committee will play a more active role in overseeing operations of State Fair Park's Agriculture Department.

To continue implementation of the ethics and conflict-of-interest policy approved by the State Fair Park Board in September 2007, the Agriculture Committee limited the activities of the Agriculture Director, who participates in several outside businesses that relate to his role at State Fair Park. The Agriculture Director may not:

- have an ownership interest in any animal showing at the Wisconsin State Fair;
- reference the Wisconsin State Fair in any advertisements when he is selling cattle or the embryos and progeny of cattle; nor
- conduct outside consulting related to the Wisconsin State Fair.

In addition, individuals purchasing show cattle presentation and preparation services from the Agriculture Director's business are prohibited from showing at the Wisconsin State Fair.

Future Considerations

While State Fair Park continues to reduce its accumulated cash deficit, it may face additional costs in the future.

First, interest earnings on proceeds from the sale of the Pettit Center have been less than the amounts expected, which may create an additional liability for State Fair Park starting in FY 2012-13.

Second, additional funding may be needed to update fire safety equipment, including a fire suppression sprinkler system and dormitory doors, in the Youth Center dormitory building.

Finally, the future financial stability of the Wisconsin Exposition Center warrants close attention. The Exposition Center has accumulated a deficit of \$3.0 million through calendar year 2007. Based on unaudited data, the deficit increased to \$4.3 million as of December 31, 2008.

Recommendations

Our report includes recommendations for State Fair Park to:

- continue careful monitoring to ensure the new policies and procedures for making changes to competition rules, selecting competition judges, and evaluating potential conflicts of interest are being implemented as intended (*p. 22*);
- establish a formal process for reviewing Wisconsin Motorsports' financial information, and report to the Joint Legislative Audit Committee by March 1, 2010, on its plans to address the revenue shortfall caused by changing the promoter for the Milwaukee Mile racetrack (*pp. 29 and 30*);
- assess the need for installation of a fire suppression sprinkler system in the Youth Center, and report to the Joint Legislative Audit Committee by March 1, 2010, on the status of this project (*pp. 35 and 37*); and
- report to the Joint Legislative Audit Committee by March 1, 2010, on its financial relationship with the Pettit Center and the Wisconsin Exposition Center, remediation of the former AmeriGas property, and reconstruction of I-94 and its effect on State Fair Park operations (*p. 37*).

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