

An Evaluation:

State Fair Park

September 2003

Report Highlights ■

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. In FY 2002-03, expenses exceeded revenues by \$4.5 million.

Key Facts and Findings

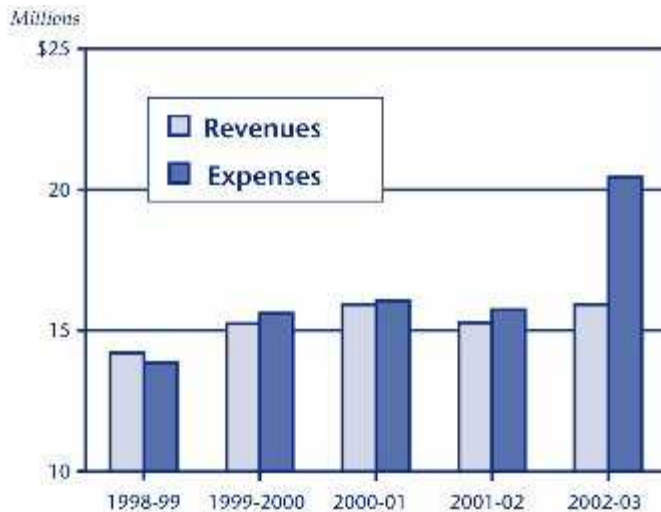
State Fair Park has been unable to provide us with accurate financial statements for FY 2001-02.

A \$160.0 million building program to revitalize the fairgrounds was approved in August 2000.

The Wisconsin Exposition Center was constructed in 2002 at a total cost of nearly \$37.8 million.

From FY 2000-01 through FY 2002-03, approximately \$76.7 million was spent to upgrade fairgrounds facilities.

State Fair Park's total expenses exceeded revenues by \$4.5 million



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 yearround 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

in FY 2002-03.

The annual Wisconsin State Fair accounts for nearly two-thirds of State Fair Park's total revenues.

- 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 it 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 ([p. 37](#) and [p. 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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