

Report Highlights ■

State Fair Park's financial condition continues to deteriorate.

Under a new agreement with a private promoter, State Fair Park no longer manages racing activities at the Milwaukee Mile.

State Fair Park has proposed selling the Pettit Center to limit future demands on the fairgrounds' financial resources.

Eliminating State Fair Park's current cash deficit may require at least 20 years.

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, has been home to the Wisconsin State Fair since 1892. That annual event remains its primary source of funding, but its financial condition is also affected by:

- racing activities at the Milwaukee Mile racetrack and grandstand, which were managed by a private promoter until May 2003 and by State Fair Park from that date through December 2005;
- 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 organization, used exclusively for the Wisconsin State Fair each August, and available for other events throughout the year.

The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for State Fair Park's management. We are required by statutes 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) 2004-05 financial statements, which are included in our report. We also followed up on concerns raised in previous audit reports regarding State Fair Park's financial condition.

Key Facts and Findings

We have issued an unqualified audit opinion on State Fair Park's financial statements for FY 2004-05.

State Fair Park's expenditures exceeded revenues by \$3.6 million in FY 2004-05.

State Fair Park accumulated a cash deficit of \$9.7 million as of June 30, 2005.

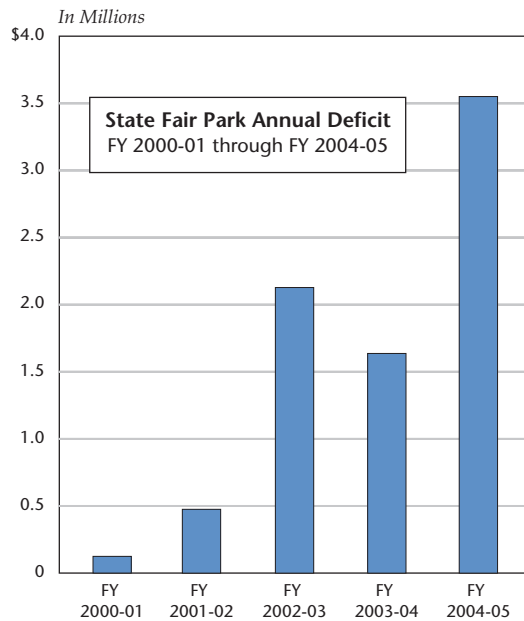
The Milwaukee Mile reported losses totaling \$7.3 million for its three years under State Fair Park's management.

License fees from the Milwaukee Mile promoter will not cover nearly \$1.8 million in racing-related costs in 2006.

The Pettit Center is projected to owe State Fair Park more than \$1.3 million in past-due rent by June 30, 2006.

Fiscal Decline

Since FY 1999-2000, State Fair Park's annual expenditures, including operating, capital, and debt service costs, have exceeded total revenues. The \$3.6 million loss reported in FY 2004-05 was the largest in recent years.



Final financial data are not yet available for FY 2005-06, but State Fair Park officials project a loss of \$2.0 million. State Fair Park's program revenue appropriation accumulated a cash deficit of \$9.7 million as of June 30, 2005.

State Fair Park is projected to save \$493,000 in FY 2005-06 because of cost-saving measures that include eliminating some staff positions and consulting contracts. Furthermore, agency officials have made a priority of changing State Fair Park's

relationships with the Milwaukee Mile and the Pettit Center, which in recent years have placed significant demands on State Fair Park's financial resources.

The Milwaukee Mile

Under State Fair Park's management, Milwaukee Mile losses totaled nearly \$7.3 million over a three-year period.

State Fair Park staff attribute these losses to increases in debt service costs and a limited fan base for some races. Debt service payments related to construction of the grandstand and other projects increased from nearly \$706,900 in 2003 to more than \$1.9 million in 2005. One major racing event draws near sell-out crowds, but others do not generate the same fan support.

We also found examples of poor business planning. For example, the State Fair Park Board did not adopt a 2005 draft plan prepared by the Milwaukee Mile's general manager because it contained overly optimistic financial projections. The plan projected a 40.7 percent increase in revenues from admissions, concessions and parking, and sponsorships and naming rights, from \$6.7 million in the 2004 racing season to nearly \$9.5 million in 2005. Actual 2005 racing revenues totaled \$7.1 million. Milwaukee Mile staff were not directed to develop revised projections or to identify new operational or management strategies to achieve those projections.

In December 2005, State Fair Park entered into a license agreement with a private promoter, Milwaukee Mile Holdings, LLC, to manage the fairgrounds' racing activities. The agreement:

- guarantees that State Fair Park will be able to use the Milwaukee Mile premises for the Wisconsin State Fair;
- requires Milwaukee Mile Holdings to assume responsibility for all future capital improvements and maintenance to the premises;
- provides for a land exchange involving State Fair Park property and other property that is surrounded by the fairgrounds and currently owned by a third party; and
- requires the promoter to provide annual license fees to State Fair Park and to guarantee their payment through a letter of credit.

State Fair Park's debt service costs for past Milwaukee Mile capital improvements were the starting point for negotiating the license fee amounts. In consideration of losses expected to be incurred by Milwaukee Mile Holdings during the first year, State Fair Park will provide a one-time license fee reduction of \$1.5 million in 2006.

We estimate that State Fair Park will also incur almost \$300,000 in other costs related to the Milwaukee Mile.

State Fair Park's 2006 Milwaukee Mile Costs	
	<u>Amount</u>
One-time Fee Reduction	\$1,500,000
Debt Service Costs	179,000
Letter of Credit Fee	73,000
Municipal Fees	25,800
Other	14,900
Total Costs	\$1,792,700

The Pettit Center

The Pettit Center's expenses have exceeded revenues in each of the past five years. By June 30, 2006, the Pettit Center is also expected to owe State Fair Park \$1.3 million in past-due rent, which was intended to cover debt service costs that State Fair Park pays on the Pettit Center's behalf.

To limit future demands the Pettit Center may place on the fairgrounds' financial resources, the State Fair Park Board resolved in June 2005 to sell the facility to its managing not-for-profit corporation. Legislation to authorize that sale for not less than \$5.0 million was introduced but not enacted during the most recent legislative session.

Under the proposed legislation, State Fair Park would have received all past-due rent. The remaining proceeds from the sale would have been used to fund future debt service payments related to the Pettit Center. State Fair Park staff estimated that with interest earnings, that amount would increase to \$3.9 million.

However, future debt service costs are expected to be nearly \$6.5 million. Under the proposed legislation, \$2.6 million in general purpose revenue (GPR) would have funded those remaining debt service costs.

State Fair Park officials intend to continue their efforts to sell the Pettit Center. Doing so would eliminate debt service, municipal service, and other costs that State Fair Park incurs on its behalf, as well as future liability for major capital improvements to a facility that is now 14 years old.

Pettit Center officials believe that owning the facility will improve their fund-raising abilities and reduce expenses. However, we believe future sales proposals should consider the amount of public support that may be needed, the State's ability to repurchase the Pettit Center if it is unable to remain financially viable without State Fair Park support, and the price at which the facility could be reacquired.

Proposed Future Changes

As options are explored to improve State Fair Park's financial condition, we believe careful consideration will also need to be given to State Fair Park's cash deficit, the future financial viability of the Wisconsin Exposition Center, and any future construction projects that are proposed for the fairgrounds.

State Fair Park currently projects a profit of \$537,000 in FY 2006-07. This projection assumes that all

Pettit Center rent will be received, which may be difficult to achieve. However, even if this profit level is achieved and maintained, it will take State Fair Park more than 20 years to eliminate its cash deficit, which is projected to be \$11.7 million as of June 30, 2006.

In addition, the Exposition Center—which was funded with \$44.9 million in industrial revenue bonds issued by the City of West Allis—has experienced net losses in each year of its operation and has paid some expenses with reserves set aside from the original bond proceeds.

Exposition Center officials are working with a commercial lender to refinance the industrial revenue bonds. While this may alleviate cash flow concerns in the short term, exposition centers generally require financial support from state or local governments. Decisions regarding the need to provide some level of

state or local support may be needed in the long term.

Finally, with significant capital projects in recent years that have not met initial financial projections, State Fair Park's annual debt service payments have contributed to its annual losses. Debt service payments funded with program revenues have increased 60.0 percent from FY 2000-01, to \$3.2 million in FY 2004-05. Future projects to further increase program revenue-funded debt service costs will need to be closely scrutinized.

Recommendation

We include a recommendation for State Fair Park to:

- report to the Joint Legislative Audit Committee by January 1, 2007, on its short- and long-term plans for stabilizing its financial condition (*p. 34*).

Additional Information

Report 06-7 includes a response from State Fair Park's executive director.



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