

**An Audit:**

State Fair Park

**July 2008**

# Report Highlights ■

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***In FY 2006-07, revenue exceeded expenditures by \$1.3 million.***

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, which is attached to the Department of Tourism for administrative purposes, is responsible for its management. In fiscal year (FY) 2006-07, State Fair Park's operating budget was \$16.9 million.

***As of June 30, 2007, State Fair Park's accumulated cash deficit was \$9.9 million.***

As part of an annual financial audit required under 1999 Wisconsin Act 197, we have issued an unqualified opinion on State Fair Park's financial statements for FY 2006-07. 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 that effort, we reviewed:

- revenue and expenditure data for FY 2006-07, as well as the current status of an accumulated cash deficit in the program revenue appropriation that funds State Fair Park's non-capital expenses, which include operating and debt service costs; and
- the effects of a renegotiated license agreement between State Fair Park and Milwaukee Mile Holdings, LLC, a private, for-profit racing promoter that manages and operates the Milwaukee Mile racetrack located on the fairgrounds.

***A renegotiated agreement with a private racing promoter significantly reduced the license fee State Fair Park receives for the Milwaukee Mile racetrack.***

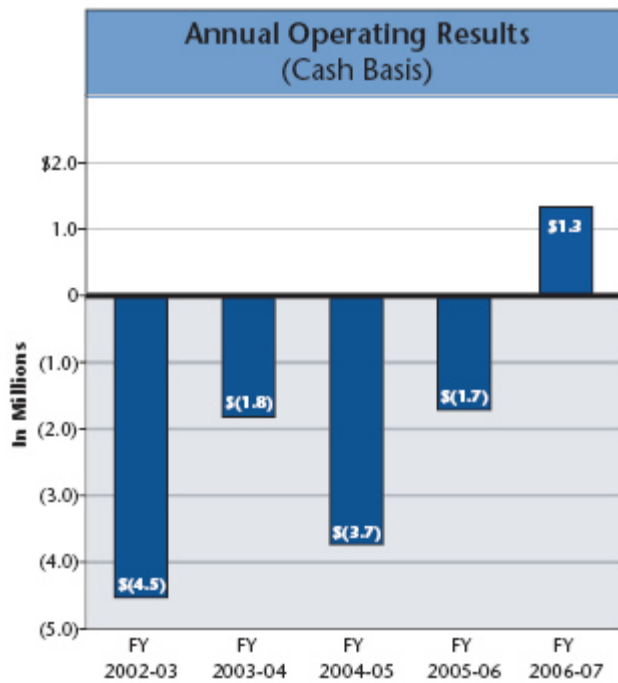
In addition, we reviewed conflict of interest allegations related to the management of State Fair Park's Agriculture Department. As part of that review, we interviewed State Fair Park officials, state fair agriculture directors in other midwestern states, and interested parties in the Wisconsin agriculture community.

***Recent policy changes by State Fair Park's Agriculture Department and allegations of conflicts of interest require further review.***

## **Fiscal Condition**

In previous audits, we expressed concern because State Fair Park's expenditures—including operating, capital, and debt service costs—were outpacing revenue. In FY 2006-07, annual revenue exceeded expenditures

for the first time since FY 1998-99.



## Key Facts and Findings

*We issued an unqualified opinion on State Fair Park's financial statements for FY 2006-07.*

*The annual license fee paid by the private racing promoter has been reduced from \$1.8 million to \$1.0 million.*

*\$1.7 million in GPRsupported borrowing that was authorized in 2007 will not be reimbursed.*

*State Fair Park's financial responsibility for the Milwaukee Mile will increase*

Contracting with a private promoter to operate the Milwaukee Mile racetrack was an important factor in State Fair Park's improved operating results. For example, its racetrackrelated expenditures declined by \$3.8 million from FY 2005-06 to FY 2006-07.

State Fair Park was able to reduce the accumulated cash deficit in its program revenue appropriation to \$9.9 million on June 30, 2007. 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.

## The Milwaukee Mile

In December 2005, State Fair Park entered into a license agreement with Milwaukee Mile Holdings for management of racing activities at the fairgrounds. The agreement was for a term of 18 years, with a renewal option.

The 2005 agreement included a license fee of \$246,000 for the first year, which was to increase to approximately \$1.8 million annually thereafter. It also included a landexchange provision that gave Milwaukee Mile Holdings a fouryear option to acquire 9.35 acres of State Fair Park property for development. To exercise this option, Milwaukee Mile Holdings was required to purchase and remediate a separate piece of property located on the fairgrounds but owned by AmeriGas, L.P., and to make other capital improvements to the fairgrounds.

The original license agreement has been changed twice. First, in April 2007, it was amended to defer \$722,000 of Milwaukee Mile Holdings' license fees for 2007 until December of that year.

In addition, Milwaukee Mile Holdings assigned its rights to acquire the AmeriGas property to the State Fair Park Board, because State Fair Park sought to purchase the property in order to address safety concerns related

to nearly \$1.2 million in 2008.

*A resolution defining ethical conduct of employees and conflicts of interest was passed by the State Fair Park Board in September 2007.*

to propane tanks. In May 2007, the State Building Commission approved \$1.7 million in general purpose revenue (GPR)-supported borrowing for State Fair Park to purchase the land.

The April 2007 amendments also included an agreement that Milwaukee Mile Holdings would reimburse the State's costs to purchase the AmeriGas property if Milwaukee Mile Holdings exercised its option to purchase the 9.35 acres of State Fair Park land for development. However, Milwaukee Mile Holdings did not exercise its purchase option before again renegotiating the license agreement with State Fair Park. Consequently, the State will not be reimbursed for the \$1.7 million in GPR-supported borrowing.

After the 2007 racing season, Milwaukee Mile Holdings reported financial difficulty and sought additional changes to the license agreement. State Fair Park began to explore contracting with other private promoters or again managing the track internally, but ultimately decided to renegotiate.

In February 2008, a renegotiated agreement that significantly lowered the annual license fee was approved by the State Fair Park Board and by the State Building Commission. Under this agreement:

- State Fair Park waived \$322,000 of the 2007 license fee payment it had previously agreed to defer, and Milwaukee Mile Holdings will pay the remaining \$400,000 in annual installments of \$25,000;
- State Fair Park reduced the annual license fee to \$1.0 million beginning in 2008, although a portion will be deferred so that Milwaukee Mile Holdings will pay \$700,000 as well as the \$25,000 installment in 2008; and
- under an option for a 30-year ground lease, Milwaukee Mile Holdings may develop 6.35 acres—rather than 9.35 acres— of State Fair Park land.

The original agreement of December 2005 was designed so that the license fee was sufficient to cover State Fair Park's annual debt service costs related to construction of the Milwaukee Mile grandstand and other recent racetrack improvements. Under the renegotiated agreement, nearly \$1.1 million in annual debt service costs must now be funded by State Fair Park.

We estimate that in total, State Fair Park's financial responsibility for the Milwaukee Mile will increase to nearly \$1.2 million in 2008. State Fair Park will need to identify additional revenue sources to cover these expenses.

<b>State Fair Park's Milwaukee Mile Costs 2008</b>	
	<u>Amount</u>
Total Debt Service Costs	\$1,813,000
Less License Fee Cash Received	(725,000)
Net Debt Service Costs	1,088,000
Letter of Credit Fee	57,700
Other	14,600
<b>Total Costs</b>	<b>\$1,160,300</b>

Two proposals to generate additional revenue have been considered: developing 5.75 acres of the fairgrounds bordering I-94, and constructing a billboard on the fairgrounds. Both projects have been postponed because of proposed I-94 construction projects.

## **Agriculture Department**

Some members of the agriculture community have raised concerns regarding recent changes in policies and procedures related to livestock competitions at the Wisconsin State Fair, including:

- changes in the extent to which the Agriculture Director, who manages these events, consults with various advisory committees in setting competition rules for junior division livestock shows;
- the concentration of responsibility for junior division judge selection with the Agriculture Director, especially given his outside business interests; and
- recent changes in the payout structure for the Governor's Blue Ribbon Livestock Auction, which is the premier livestock event of the annual fair and provides junior exhibitors an opportunity to earn money by selling their prize-winning animals.

Several conflict of interest allegations have also been raised related to the Agriculture Director's responsibilities to State Fair Park and his participation in an outside business that buys and sells show cattle. For example, the Agriculture Director maintained a financial interest in animals that were exhibited and won championships at the 2005 and 2006 state fairs.

State Fair Park officials were aware of this potential conflict but did not reassign the Agriculture Director's responsibilities because he was not a direct participant in the competitions and was not the sole person responsible for selecting judges. The Agriculture Director has indicated he is transitioning away from his outside business, but we found that he continued to participate as recently as March 2008.

In September 2007, the State Fair Park Board established an ethics and conflict of interest policy, which State Fair Park is in the process of implementing. We believe consultation with the Government Accountability Board is warranted to determine whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park.

## **Recommendations**

Our report includes recommendations for State Fair Park to:

- obtain additional financial information from Milwaukee Mile Holdings, LLC ([p. 21](#));
- report to the Joint Legislative Audit Committee by March 31, 2009, both on the status of its efforts to address the revenue shortfall in the renegotiated license agreement and on its ongoing cash deficit ([p. 24](#));

- continue to formalize the roles and responsibilities of various advisory committees and the Auction Committee, and require the State Fair Park Board's Agriculture Committee to annually approve the competition rules for livestock shows at the Wisconsin State Fair (*p. 29 and 31*);
- reevaluate the judge selection process, particularly for the junior division, to address the role of the various advisory committees (*p. 32*); and
- seek an opinion from the Government Accountability Board on whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park (*p. 37*).

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