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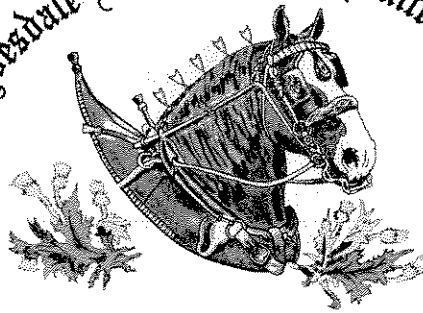
2003 Joint Committee on Audit

State Fair Park

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FYI.. AUG 18 2003

Clydesdale Breeders of the United States



August 10, 2003

Senator Carol Roessler
Wisconsin State Capitol
P.O. Box 7882
Madison, WI 53707-7882

Dear Senator Roessler,

On behalf of the Clydesdale Breeders Association of the U.S.A. and the 2003 National Clydesdale Show exhibitors, I would like to compliment the State of Wisconsin and the Wisconsin State Fair Board on an outstanding 2003 Wisconsin State Fair, and whole heartedly, thank all involved for allowing us to be the first to make use of the superb new livestock building. It has proven to be the best facility for a draft horse exhibition that any of us can recall. In addition to the gratitude of the exhibitors, you should know that the positive comments by the visiting public have been remarkable.

This year's National Clydesdale show was the largest on record in Wisconsin and exceeded any Clydesdale exhibition in the world. There were 255 horses in the barn and the public's demand to see them exceeded the seating capacity of the Coliseum. We hope that fair officials will allow our continued use of this wonderful facility, as it will allow our National Show to continue to grow and improve.

Next year will mark the 125th Anniversary of the founding of our breed registry, the Clydesdale Breeders Association of the U.S.A., and coincidentally, it will be the 30th consecutive year that the National Clydesdale Show has been held in conjunction with the Wisconsin State Fair. We will be celebrating in a number of ways throughout the year, including some special events at the 2004 Wisconsin State Fair. We invite you to take part in the celebration by personally visiting the 2004 Fair. I can tell you that the crowd favorite is the six-horse hitch exhibition which will be held on Saturday evening, August 7, 2004.

Once again, thank you for your State's hospitality and I hope you will be able to join us and our Clydesdale horses in some way next year.

Sincerely,

Martin E. English, D.V.M.
President, Clydesdale Breeders Association of the U.S.A.
1470 W. Main Street
Tipp City, OH 45371
(937) 667-3217
(937) 669-9507 fax

FYI...

AUG 15 2003

8/12/03

CR ✓
Dear Senator Carol Roessler

AUG 15 2003

VA ✓
As an elected official serving our great state, I am sure you welcome feedback from its citizens.

JM
I am writing to voice my opinion on the 2003 Wisconsin State Fair, and Wisconsin State Fair Park. In a word, I would describe both as "FABULOUS".

The financial support the park receives from the state has resulted in many new additions and changes. I appreciate my taxes being used in such a worthwhile way.

As I tour the fairgrounds and see the wonderful new buildings and grandstand, I am proud to exhibit our Clydesdales at the fair. Having our horses stabled in the new 2 story multipurpose agriculture building was an honor. As you may know, the Wisconsin State Fair has hosted the National Clydesdale Show for 27 years. Many exhibitors and spectators come to West Allis annually from throughout the United States and Canada specifically for this show. The new barn provided a safe setting for everyone, and the health of our horses was not compromised (as it would be in some of the other fairground buildings). I would anticipate that many more equine related events would want to come to the Wisconsin State Fair Park, as the new barn is being hailed as "the best horse barn in North America".

I am also very pleased the CEO Joe Chnelich is in charge. He has been a responsive leader, and has worked very hard in a difficult position. The Clydesdale exhibitors have been impressed with his honesty, his listening skills, and his ability to implement his plans. I hope he continues in his position for a very long time!

One of the newest employees at the Wisconsin State Fair Park, is Agriculture Director Brian Bolan. Again, he is a tremendous asset to the park. Everyone is impressed with his enthusiasm and common sense. He is a key part of the fair park team.

Again, I am very happy with the direction the park and the Wisconsin State Fair are heading.

Thank You

Joseph R. Schwartz MD

Joseph R. Schwartz MD
5273 South Church Road
West Bend, WI 53095
262-675-0110

jschwartz @ infinityhealthcare.com

SM CR ✓
KA ✓

4898 Church Road
Denmark, WI 54208
August 22, 2003

**Carol Roessler, Senator
State Senate
P.O. Box 7882
Madison, WI 53707-7882**

AUG 25 2003

Ms. Roessler,

On behalf of our draft horse farm, I would like to thank you for continuing the fair park's improvements with the new double-decker livestock barn.

We were fortunate enough to be stalled in this barn during the fair and really enjoyed this new facility. The air circulation and lighting are outstanding. From an exhibitor's perspective, the ability to get a hot shower after a long day showing is an added benefit that we really appreciate.

Please continue the improvements to the fair park. Wisconsin is on its way to having one of the premier facilities in the nation. We travel to several other fairs during the year and none can compare to this new barn.

Thank you for your continued support of improvements to our fair park.

Sincerely,

Heier Bros. Percherons



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

SEP 10 2003

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
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FAX (608) 267-0410
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DATE: September 10, 2003

TO: Karen Asbjornson and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee

FROM: Julie Gordon *Julie Gordon*
Audit Director

SUBJECT: Report 03-11: An Evaluation of State Fair Park

We are required by s. 13.94(1)(dm), Wis. Stats., to complete an annual financial audit of State Fair Park, which is an independent state agency attached to the Department of Tourism for administrative purposes. Because State Fair Park has not provided us with complete and accurate financial information, we are unable to complete our fiscal year (FY) 2001-02 financial audit at this time. We have, however, continued to monitor concerns about State Fair Park's financial condition and debt associated with its recent building program, which includes a new grandstand for the Milwaukee Mile racetrack and a new exposition center.

Based on information that we gathered, we found State Fair Park's financial condition has continued to deteriorate since our last report (report 02-10). In FY 2002-03, expenses exceeded revenues by \$4.5 million, and State Fair Park reported a cash deficit as of June 30, 2003.

New and renovated facilities that were intended to be self-supporting have not met original revenue projections that were used to support their construction. Further, State Fair Park has demonstrated inadequate business planning. For example, because of a renegotiated agreement with a private racing promoter, State Fair Park incurred a net loss from racing activities of more than \$341,700 in the 2002 racing season. Less than a year later, and two days before the start of the 2003 racing season, State Fair Park spent an additional \$250,000 to terminate this contract and began managing the Milwaukee Mile internally. The Wisconsin Exposition Center also incurred a net loss in 2002. It was projected to hold 68 events annually, but currently has only 25 events scheduled for 2004. State Fair Park's ability to meet its debt service obligations will be limited if program revenues do not increase in the future.

We recommend that the Joint Audit Committee hold a public hearing on this audit. Should a hearing be scheduled, we will provide you with a list of individuals to be notified. The audit will be released on Thursday, September 11, at 9:00 a.m. Please contact me if you have any questions regarding the report.

JG/bm

Enclosures

Dear State Fair Park Board Member:

I understand that the State Fair Park Board is meeting on Friday, October 31, 2003. Since I learned in the audit that Joe Chrnlich's contract will expire at the end of the month, I can only assume that items five and nine on the agenda are noticed in order to discuss renewal his contract.

As Co-Chair of the Joint Legislative Audit Committee I felt compelled to make you aware, if were not already, that we have a scheduled public hearing on Friday, November 7, 2003 to discuss the evaluation of State Fair Park that the Legislative Audit Bureau released on September 11, 2003. In my opinion it would be wise to put off voting on his contract and any potential raise until after the public hearing.

I am certain you would not appreciate it, as a board member, if the board was perceived to have rushed to renew his contract prior to the public hearing of this evaluation, an evaluation that reports on some very troubling findings. Let us not go into dark rooms like the Department of Natural Resources has done to discuss decisions that could potentially have a long-term impact before having all the necessary information to make that decision.

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.

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.

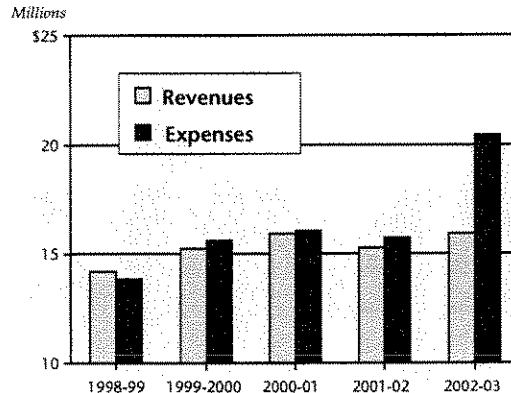
From FY 2000-01 through FY 2002-03, approximately \$76.7 million was spent to upgrade fairgrounds facilities.

State Fair Park's total expenses exceeded revenues by \$4.5 million in FY 2002-03.

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

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.



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 year-round 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
- 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:

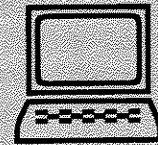
- develop a detailed, comprehensive business plan for its racing activities (p. 27);
- immediately renegotiate its ground lease agreement with the Wisconsin Exposition Center and seek reimbursement of the costs it incurs for Exposition Center operations (p. 32);
- immediately renegotiate its licensing 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 (pp. 37 and 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.

Additional Information

For a copy of report 03-11, which includes a response from State Fair Park's chief executive officer, call (608) 266-2818 or visit our Web site:



www.legis.state.wi.us/lab

Address questions regarding this report to:

Julie Gordon
(608) 266-2818

Legislative Audit Bureau

22 East Mifflin Street
Suite 500
Madison, WI 53703
(608) 266-2818

Janice Mueller
State Auditor

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

An Evaluation

State Fair Park

2003-2004 Joint Legislative Audit Committee Members

Senate Members:

Carol A. Roessler, Co-chairperson
Robert Cowles
Alberta Darling
Gary George
Jeffrey Plale

Assembly Members:

Suzanne Jeskewitz, Co-chairperson
Samantha Kerkman
Dean Kaufert
David Cullen
Mark Pocan

LEGISLATIVE AUDIT BUREAU

The Bureau is a nonpartisan legislative service agency responsible for conducting financial and program evaluation audits of state agencies. The Bureau's purpose is to provide assurance to the Legislature that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law and that state agencies carry out the policies of the Legislature and the Governor. Audit Bureau reports typically contain reviews of financial transactions, analyses of agency performance or public policy issues, conclusions regarding the causes of problems found, and recommendations for improvement.

Reports are submitted to the Joint Legislative Audit Committee and made available to other committees of the Legislature and to the public. The Audit Committee may arrange public hearings on the issues identified in a report and may introduce legislation in response to the audit recommendations. However, the findings, conclusions, and recommendations in the report are those of the Legislative Audit Bureau. For more information, write the Bureau at 22 E. Mifflin Street, Suite 500, Madison, WI 53703, call (608) 266-2818, or send e-mail to Leg.Audit.Info@legis.state.wi.us. Electronic copies of current reports are available on line at www.legis.state.wi.us/lab/windex.htm.

State Auditor - Janice Mueller

Audit Prepared by

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Cindy Simon
Erin Gillingham
Rachel Heim
Thomas Osmanski

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Response

From the Chief Executive Officer of State Fair Park



State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

JANICE MUELLER
STATE AUDITOR

22 E. MIFFLIN ST., STE. 500
MADISON, WISCONSIN 53703
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Leg.Audit.Info@legis.state.wi.us

September 11, 2003

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We are required by s. 13.94(1)(dm), Wis. Stats., to conduct an annual financial audit of State Fair Park. Because State Fair Park staff have been unable to compile complete and accurate financial information, financial statements for fiscal year (FY) 2001-02 are not yet available for us to audit. We believe complete financial statements for FY 2001-02 and FY 2002-03 will be available in 2004, at which time we expect to render an opinion.

Based on financial data we were able to gather, we found that State Fair Park's financial condition continues to deteriorate. In FY 2002-03, total expenses exceeded revenues by \$4.5 million. As a result, State Fair Park for the first time in recent history reported a cash deficit as of June 30, 2003.

Three private entities—the contractor that until recently promoted and sponsored events at the newly renovated Milwaukee Mile racetrack; the not-for-profit State Fair Park Exposition Center, Inc., which manages the new \$37.8 million Wisconsin Exposition Center; and the Pettit National Ice Center—have contributed to State Fair Park's deteriorating financial condition. In every case, overly optimistic financial projections that were used to support either new construction or renovation have not yet been achieved. Further, State Fair Park incurred a net loss of over \$341,700 in Milwaukee Mile racing revenue in 2002 and spent an additional \$250,000 to terminate its agreement with the racing contractor just two days before the start of the 2003 racing season. Negotiated agreements that favor the Exposition Center at the expense of State Fair Park have resulted in reduced revenue and significant maintenance and other costs, and the Pettit Center owed State Fair Park nearly \$1.3 million in delinquent rent payments as of June 2003.

State Fair Park's ability to meet its debt service obligations will be limited if program revenues do not increase. As the State Fair Park Board, the Legislature, and the Governor consider the future of State Fair Park, they may wish to address our recommendations for improving its financial operations, its management structure, and its relationships with private entities.

We appreciate the courtesy and cooperation extended to us by the staff of State Fair Park. A response from State Fair Park's chief executive officer follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/JG/ss

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;
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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

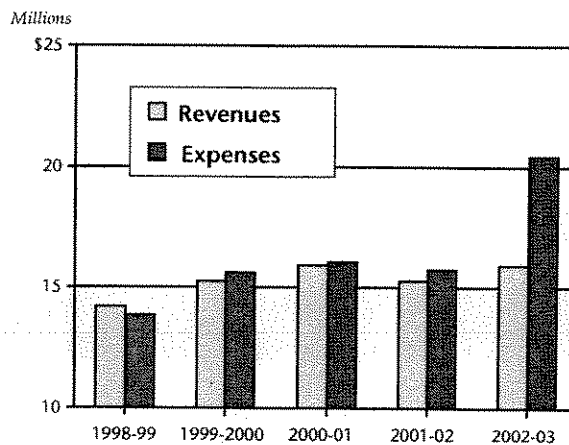
building program. As part of our continuing efforts to monitor these concerns, we have reviewed State Fair Park's current financial position, its agreements with various entities that own or manage fairgrounds facilities, and debt service costs related to new construction.

Revenues and Expenses

State Fair Park's total expenses have exceeded revenues in four of the past five years, as shown in Figure 1. In FY 2002-03, expenses exceeded revenues by \$4.5 million.

Figure 1

State Fair Park Revenues and Expenses



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 year-round entertainment attraction. An aggressive \$160.0 million building program to revitalize the fairgrounds was initiated in August 2000. It included:

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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.

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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 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 (*pp. 37 and 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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Introduction ■

State Fair Park has been home to the Wisconsin State Fair since 1892 and has been governed by an independent state agency—the State Fair Park Board—since 1990. For administrative purposes, it is attached to the Department of Tourism. State Fair Park’s day-to-day operations are managed by a chief executive officer who is an independent contractor, and its financial condition is closely tied to two not-for-profit corporations: The Wisconsin Exposition Center, which is located on the fairgrounds, is owned and governed by a not-for-profit corporation whose governing body includes the chair of the State Fair Park Board, while the not-for-profit corporation that manages and leases the Pettit National Ice Center is not affiliated with State Fair Park. Until recently, the Milwaukee Mile racetrack owned by State Fair Park was operated by a private racing contractor.

State Fair Park’s operations are funded primarily by program revenue.

State Fair Park is funded primarily by program revenue from the 11-day Wisconsin State Fair and from non-fair enterprises and activities. Its program revenue-funded operating budget totaled \$16.2 million in FY 2001-02, and \$16.8 million in FY 2002-03. In each year, it was authorized 45.2 full-time equivalent employees and employed approximately 1,200 limited-term employees, the majority of whom work exclusively during the 11-day Wisconsin State Fair.

State Fair Park has not provided materially correct FY 2001-02 financial statements to be audited.

Because State Fair Park has been unable to provide FY 2001-02 financial statements that are materially correct and accurately reflect that year’s financial activity, we cannot complete our FY 2001-02 financial audit at this time. However, we are continuing to monitor concerns about State Fair Park’s financial condition that we first

described in 1996 and 2002 (reports 96-2 and 02-10). In those reports, we noted that expenses were increasing at a greater rate than revenues and suggested that State Fair Park's financial condition could deteriorate further if new facilities such as the Milwaukee Mile grandstand and the Wisconsin Exposition Center did not generate revenue as State Fair Park had projected. We also suggested that debt associated with an aggressive building program that was initiated in August 2000 could represent additional financial risk for both State Fair Park and the State.

In this report, we follow up on past audit findings and review:

- State Fair Park's current financial position and its recent efforts to increase revenues from the Wisconsin State Fair and other sources;
- how the Milwaukee Mile, the Exposition Center, and other components of a recent building program operate and are financed;
- State Fair Park's lease agreement with the Pettit National Ice Center;
- debt service costs related to State Fair Park's building program; and
- options the Legislature and others may wish to consider related to State Fair Park's current operations and its future mission.

To develop this information, we interviewed State Fair Park staff, as well as Department of Administration staff who oversee construction projects and Exposition Center staff. We also evaluated financial data provided by State Fair Park, the Department of Administration, and the Wisconsin Exposition Center.

State Fair Park Management

Under s. 15.445(4)(a), Wis. Stats., the State Fair Park Board's members include:

- the Secretary of the Department of Tourism;
- the Secretary of the Department of Agriculture, Trade and Consumer Protection;

- five representatives of business, including three with general business experience, one with agricultural experience, and one with technology experience;
- one resident of the City of West Allis;
- one resident from anywhere in the state; and
- four legislators: two from the Assembly and two from the Senate.

Nine of the 13 members are appointed by the Governor and confirmed by the Senate for staggered five-year terms. Before October 2001, State Fair Park's chief executive officer was a state employee appointed by the State Fair Park Board. Since October 2001, the chief executive officer has been a private consultant working under contract with the State Fair Park Board.

The Building Program

In the past, State Fair Park's facilities and infrastructure did not receive consistent, adequate attention for extended periods of time, and years passed without significant building or renovation projects. In the 1970s and early 1980s, several new facilities—including livestock pavilions, an administration building, restrooms, and concession stands—were constructed. In 1996, the need for fairground improvements was highlighted when:

- the Department of Administration identified \$12.9 million in deferred repair and maintenance projects, including nearly \$5.5 million in high-priority projects;
- the State Fair Park Board determined that the existing youth dormitory was no longer adequate to safely house youth during the State Fair and needed to be replaced; and
- we noted that preventive maintenance had been deferred on a number of fairgrounds facilities and recommended that the State Fair Park Board inventory and prioritize significant repair, renovation, and remodeling needs (report 96-2).

In August 2000, a \$160.0 million building program to revitalize the fairgrounds was initiated.

To address the youth dormitory needs, general purpose revenue (GPR)-financed funding of \$13.0 million was provided in 1996 to construct what became the Tommy G. Thompson Youth Center. In May 1999, a strategic development committee that had studied the condition of the fairgrounds recommended hiring an outside design team of entertainment industry experts and local architects to conduct further evaluations and propose a master plan for redevelopment. In August 2000, after it was determined that a number of State Fair Park buildings could not be used in their existing condition or easily adapted for current needs, an aggressive \$160.0 million building program was initiated. The program has affected almost all fairgrounds activities.

The comprehensive program, known as the master plan, is intended to enhance State Fair Park's opportunities to generate revenue and to increase total revenues from non-fair events. It emphasizes five major improvements:

- a new grandstand and expanded bleacher seating for the Milwaukee Mile racetrack, completed in time for the 2003 racing season;
- the new 271,000-square-foot 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 newly constructed livestock barn completed in time for the 2003 State Fair and several remodeled livestock barns, and that in the future will include a play area and educational buildings built around an agricultural and environmental theme;
- a new building known as the Wisconsin Heritage Hall, which will serve as a showcase for Wisconsin products such as cheese, honey, cranberries, and wine and will include restaurants, a theater, and a bakery; and
- a large landscaped lawn area, to be the central gathering place on the fairgrounds for a variety of events.

Building program expenses total \$76.7 million to date.

In addition, the master plan includes a new gateway at the fairgrounds' north entrance and a park for recreational vehicles, all of which were built in 2000; decorative fencing; new lighting, signage, and graphics; and other landscaping. As shown in Table 1, spending for projects completed to date totals \$76.7 million. A map of State Fair Park is Appendix 1.

Table 1

Building Program Expenses
FY 2000-01 through FY 2002-03

Construction of Exposition Center	\$37,771,655
Milwaukee Mile Grandstand, Bleacher Seating, and Racetrack Improvements	19,640,847
Renovation and Construction of Agricultural Buildings	9,447,920
Infrastructure	5,594,511
Construction of Entrance Gate and Fencing	2,489,131
Construction of Recreational Vehicle Park	1,738,000
Total	\$76,682,064

The master plan describes State Fair Park's long-term objectives and vision for the fairgrounds, as well as conceptual designs for its facilities. However, it is neither sufficiently detailed to provide a logical framework for business planning nor sufficiently accurate to serve as a basis for financial discussions with commercial lenders or the Legislature and the Governor. Further, State Fair Park is becoming increasingly reliant on revenues from the Wisconsin State Fair as fair attendance fluctuates, and revenues from the Milwaukee Mile and the Wisconsin Exposition Center are not meeting projections. The Pettit Center's financial difficulties, debt related to recent construction under the building program, and the State's current fiscal condition are further compromising State Fair Park's financial position.

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State Fair Park Finances ■

State Fair Park's financial condition continues to deteriorate.

In prior reports, we indicated that State Fair Park's ability to finance additional debt would be limited unless operating revenues increased. Because State Fair Park has significantly changed its operations in recent years, it is difficult to evaluate whether revenues will increase in the future as a result of recent improvements at the fairgrounds. However, past revenue and expenditure trends, a FY 2002-03 cash deficit, and increasing reliance on revenues from the 11-day Wisconsin State Fair indicate that State Fair Park's financial condition is continuing to deteriorate.

Revenues and Expenses

Expenses exceeded revenues by \$4.5 million in FY 2002-03.

As shown in Table 2, State Fair Park's total expenses, which include operating, capital, and debt service costs, have exceeded total revenues in four of the past five years. Since FY 1999-2000, State Fair Park has reported a total deficit of \$5.5 million. In FY 2002-03, total expenses exceeded revenues by \$4.5 million.

State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund in FY 2002-03.

While the State Fair Park Board approved both the operating budget and the building projects that resulted in capital costs or subsequent debt service costs, some factors affecting FY 2002-03 revenues and expenses were beyond the control of either the Board or State Fair Park staff. For example, as a result of actions to improve the State's financial condition, State Fair Park was required to lapse \$2.4 million in program revenue to the State's General Fund. That lapse is reflected in FY 2002-03 expenses. In addition, the Pettit National Ice Center did not make five monthly rental payments in FY 2002-03 for which it owes State Fair Park \$371,600 in late rent.

Table 2

State Fair Park Revenues and Expenses¹

Fiscal Year	Revenues	Expenses	Excess/(Deficit)
1998-99	\$14,189,961	\$13,867,263	\$ 322,698
1999-2000	15,242,451	15,610,735	(368,284)
2000-01	15,920,033	16,044,593	(124,560)
2001-02	15,271,172	15,746,449	(475,277)
2002-03	15,918,264	20,446,226	(4,527,962)

¹ Data are provided on a budgetary basis.

However, even if State Fair Park had not been required to lapse program revenue funds and the Pettit Center had made all rental payments, FY 2002-03 expenses would have exceeded revenues by nearly \$1.8 million.

Cash Deficit

In FY 2002-03, State Fair Park reported a cash deficit of \$4.4 million in its program revenue appropriations.

State Fair Park's capital expenses are funded through its statutorily required capital reserve fund, while non-capital expenses, including operating and debt service costs, are funded by program revenue appropriations. As of June 30, 2003, the capital reserve fund had a balance of \$842,200. However, the program revenue appropriations had a cash deficit of \$4.4 million because expenses and transfers from these appropriations greatly exceeded revenues during FY 2002-03. As shown in Table 3, we estimate that current assets supported only half of the \$4.4 million deficit.

Table 3

Unsupported Negative Cash Balance
As of June 30, 2003

Cash Balance	\$(4,390,864)
Current Assets ¹	2,220,631
Unsupported Balance	\$(2,170,233)

¹ Estimated value based on FY 2001-02 current assets, because State Fair Park has not yet reported the current assets value for FY 2002-03.

When a state agency reports a cash deficit, funds from other appropriations in the State's General Fund are used to pay that agency's expenses, and the General Fund loses an opportunity to invest and earn interest on those funds in the future. State Fair Park's cash deficit is an important indicator of its deteriorating financial condition.

The State Fair and Other Revenue Sources

The 11-day Wisconsin State Fair represents an increasing share of State Fair Park's revenues.

State Fair Park's master plan was developed, in part, to increase revenues from sources other than the 11-day Wisconsin State Fair, such as auto racing and special events. Nevertheless, the fair continues to provide the largest share of State Fair Park's annual revenues, and as shown in Table 4, State Fair Park's reliance on it has increased each year since FY 1998-99. By FY 2002-03, the fair accounted for 63.2 percent of State Fair Park's total revenues.

Table 4

State Fair Park Revenues

Fiscal Year	Fair Revenues	Percentage of Total Revenues	Racing and Non-Fair Revenues	Percentage of Total Revenue
1998-99	\$8,061,221	56.8%	\$6,128,740	43.2%
1999-2000	8,682,473	57.0	6,559,978	43.0
2000-01	9,633,951	60.5	6,286,082	39.5
2001-02	9,390,935	61.5	5,880,237	38.5
2002-03	10,060,566	63.2	5,857,698	36.8

Wisconsin State Fair attendance declined 9.5 percent from 2002 to 2003.

Annual revenues from the Wisconsin State Fair are driven largely by attendance, which State Fair Park can attempt to predict but cannot control. As shown in Table 5, attendance has fluctuated in the past ten years, reaching a high of 922,267 in 1996 and a low of 774,650 in 2001. It was 809,484 in 2003, which represents a 9.5 percent decline from 2002 levels. State Fair Park staff attribute changes in attendance to factors beyond their control, such as the weather and the national and local economies.

Table 5

State Fair Attendance

1994	910,662
1995	843,778
1996	922,267
1997	911,384
1998	881,313
1999	903,846
2000	904,059
2001	774,650
2002	894,709
2003	809,484

State Fair Park has recently increased admission and parking fees to generate additional revenues.

To increase revenues, State Fair Park has increased some fees. For example:

- Adult admission to the Wisconsin State Fair increased to \$7 in 2001 and 2002, and \$8 in 2003. It had been \$6 from 1996 through 2000, and \$5 before 1996.
- A \$3 admission fee for children between the ages of 7 and 11 was instituted in 2001.
- State Fair parking fees increased from \$5 in 2002 to \$8 in 2003, and non-fair parking fees increased from \$3 to \$5 as of January 1, 2003.

Efforts to increase year-round use of the fairgrounds have not been as successful as would be expected based on projections in State Fair Park's master plan. Although accurate FY 2001-02 financial statements are not yet available, available data indicate that revenues from non-fair and racing events declined even further in FY 2002-03, as was shown in Table 4. Furthermore, required lapses to the State's General Fund, overly optimistic revenue projections, increased operating costs, and increased debt service associated with new facilities are further straining State Fair Park's financial position.

The Milwaukee Mile ■

The Milwaukee Mile racetrack, its management structure, and its financial relationship with State Fair Park have undergone significant changes in addition to the \$19.1 million grandstand renovation that was completed for the 2003 racing season. After nearly 75 years of contracting with racing promoters, and two days before the start of the 2003 racing season, the State Fair Park Board announced that it was terminating its racing contract so the Milwaukee Mile could be managed and promoted internally.

State Fair Park had lost significant racing revenue under the racing contract it terminated in May 2003, and officials believe that changes in management will help to eliminate financial losses and ultimately increase revenue from racing. Nevertheless, we remain concerned that long-range plans are not based on reasonable and sound financial projections and that State Fair Park will incur substantial expenses to operate the racetrack and make future debt service payments on the new grandstand.

Milwaukee Mile Construction

The Milwaukee Mile racetrack and grandstand encompass more than one-quarter of the fairgrounds.

Land purchased in 1892 as a permanent site for the State Fair included an oval racetrack that was originally the site for horse races, which continued until 1959. Automobile races began in 1903, and a grandstand was built in 1938. Today, the 56-acre Milwaukee Mile racetrack and grandstand seating area encompass more than one-quarter of the fairgrounds.

In response to concerns that the original grandstand was unsafe and did not provide concession, meeting, and restroom space desirable for racing and other events, the State Fair Park Board in 2002 approved \$19.5 million in program revenue-supported bonds for rebuilding the grandstand. In addition, the State's Building Commission authorized \$1.0 million in GPR-supported bonds for site development costs for the project.

The Milwaukee Mile's newly constructed grandstand and bleacher seating have capacity for 39,000 spectators.

As reflected in its master plan, State Fair Park's plans for the grandstand project initially included improved seating, corporate suites, an indoor concourse, and permanent concession and vendor stands. In addition, aging bleachers to the north and south of the grandstand were to be replaced. Ultimately, the corporate suites and permanent concession and vendor stands were removed from the project to reduce costs, and the new grandstand facility was completed in two phases. First, new bleacher seating for 16,000 spectators was installed outside the grandstand in time for the 2002 racing season. The old grandstand was razed in September 2002, and a new grandstand with seating for 23,000 spectators was completed in May 2003. Milwaukee Mile facilities currently have seating capacity for 39,000 spectators.

Milwaukee Mile Management

Private racing promoters began managing the Milwaukee Mile in 1929.

State Fair Park began contracting with private racing promoters in 1929, and Carl A. Haas Racing Teams, Ltd., began promoting and sponsoring professional and amateur racing events at the Milwaukee Mile in 1992. A 28-year agreement signed in that year gave Haas Racing:

- exclusive racing rights;
- nearly all racing revenues, including revenues from racing ticket sales, concession stands, and track wall advertising;
- responsibility for most aspects of racing operations, including entering into agreements with professional racing organizations, promoting and sponsoring racing, paying sanction fees assessed by the racing organizations, obtaining insurance, paying employees, and making a portion of capital improvements to the racetrack facilities; and
- access to State Fair Park's bonding authority.

Because the 1992 agreement allowed Haas Racing to use State Fair Park's bonding authority, capital improvement projects were funded through general obligation program revenue bonds, but Haas Racing was contractually obligated to reimburse State Fair Park for annual debt service costs.

Under its 1992 agreement with Haas Racing, State Fair Park received:

- a minimum annual track rental fee of \$300,000;
- payment for annual debt service costs for track improvements, which from FY 1998-99 through 2002-03 averaged \$362,435 each year; and
- a share of the promoter's profit, if any.

Many terms of the 1992 racing agreement with a private promoter were not favorable to State Fair Park.

However, many terms of the 28-year agreement were not favorable to State Fair Park. For example, the agreement gave Haas Racing a renewal option every seven years. In contrast, State Fair Park could terminate the agreement at the end of a seven-year term only if Haas Racing failed to pay the minimum rent required. Furthermore, State Fair Park's net racing revenues under the agreement consisted primarily of the minimum annual track rental fee; Haas Racing was required to hold only one major race each year; and State Fair Park had no financial oversight over racing activities.

In November 2001, as part of its effort to build and support the new grandstand facility, the State Fair Park Board formed a committee to negotiate a new agreement with Haas Racing. An agreement was signed in July 2002. It covered the 2002 racing season, although the season had been completed by the time the agreement was signed.

The 2002 racing agreement included provisions that increased State Fair Park's financial risk.

State Fair Park officials note that the 2002 agreement improved State Fair Park's termination options and allowed it to participate in establishing Haas Racing's annual operating budget. Nevertheless, as shown in Table 6, the 2002 agreement contained several provisions that continued to favor the promoter. Furthermore, the 2002 racing agreement increased State Fair Park's financial risk because it:

- eliminated the minimum annual rent payment;
- did not substantially increase the required number of racing events; and
- did not require Haas Racing to reimburse State Fair Park for its debt service costs if the promoter did not realize a profit.

Table 6

Comparison of Racing Lease Agreements with Haas Racing, Inc.

Provision	1992 Lease Agreement	2002 Lease Agreement
Minimum annual rent	\$300,000	\$0
Minimum number of races	One major race and commitment toward securing a second	Two major races
Debt service	Reimbursed by promoter	Reimbursed only to the extent that promoter's net income exceeds zero
Termination option	Seven years. Promoter's option only, unless minimum rent is not paid.	Three years, if racing revenue is less than \$900,000 and debt service payments are not made over that three-year period
Profit share	Tiered 50-25-30% of net income with caps after debt service	50% of net income with no caps
State Fair Park oversight	No provision	Expanded to require State Fair Park approval of the promoter's annual operating budget

At the time the 2002 agreement was signed, State Fair Park officials could reasonably have been expected to have known that debt service reimbursement was unlikely in the near future, because Haas Racing's audited financial statements reported net losses totaling more than \$1.0 million in calendar years 2000 and 2001, and because the new grandstand facilities, which were anticipated to increase revenue, had not yet been built. In addition, although the 2002 agreement increased State Fair Park's potential share of racing profits, actual profits were unlikely because of the net losses consistently reported by the promoter.

State Fair Park's racing revenues declined 95.5 percent from 2001 to 2002.

In calendar year 2002, Haas Racing again reported a significant net loss. Consequently, as shown in Table 7, State Fair Park's racing revenues declined 95.5 percent under the first year of the new racing agreement, from \$772,984 in the 2001 season to \$34,900 in 2002. Furthermore, State Fair Park was not reimbursed for debt service costs in 2002.

Table 7

State Fair Park's Racing Revenues Less Debt Service Costs

	2001 Racing Season	2002 Racing Season
Guaranteed Rent from Haas Racing	\$315,156	\$ 0
Debt Service Reimbursement	377,867	0
Parking Revenue	36,406	34,900
Miscellaneous Revenue	43,555	0
Profit Sharing Revenue	0	0
Total Revenues¹	\$772,984	\$ 34,900
Debt Service Payments for Racetrack Improvements	(377,867)	(376,643)
Net Revenues Less Debt Service	\$395,117	\$(341,743)

¹ State Fair Park collected additional racing revenues from activities such as concessions. However, since that revenue was provided to Haas Racing under the terms of the contract, it is not included in these figures.

State Fair Park assumed \$3.2 million in additional debt in exchange for approximately \$1.6 million in net assets.

As noted, the 2002 racing agreement was terminated in May 2003, two days before the start of the 2003 racing season. Under the termination agreement, State Fair Park:

- is expected to pay Haas Racing \$250,000 in consideration for terminating the contract;
- will assume direct liability for Haas Racing's existing debt, which was valued at \$3.2 million on the promoter's 2002 audited financial statements; and
- will assume ownership of net assets that were valued at \$1.6 million on the promoter's 2002 audited financial statements.

State Fair Park officials have indicated that the fair market value of the acquired assets exceeded \$1.6 million, but they were unable to provide documentation to support a higher value or to estimate what that value would be.

State Fair Park officials indicated that they were approached by Haas Racing regarding the potential buyout. With that in mind, it is unclear why the Board agreed to pay \$250,000 as consideration for termination of the 2002 racing agreement. Haas Racing was paid half of that amount on the date the buyout agreement was announced; the

remaining \$125,000 was placed in an escrow account. The agreement requires Haas Racing to provide State Fair Park with an accounting of all its revenues and expenses related to the 2003 racing season by August 28, 2003. After that time, any revenue due to State Fair Park is to be deducted from the escrow account, and any remaining funds in the account are to be released to Haas Racing. State Fair Park staff have indicated they expect to review the promoter's records to ensure all financial activity is appropriately recorded before liquidating the escrow account.

Although State Fair Park officials have indicated they believe a change in racing management will help to eliminate financial losses and ultimately increase racing revenues, their reasons for reversing a contract that had just been renegotiated and for assuming more debt than was received in assets are also unclear. Furthermore, the abrupt cancellation of the racing contract resulted in staffing concerns.

Because the racing agreement was cancelled just days before the start of the 2003 racing season, State Fair Park officials wished to retain the promoter's general manager and eight other employees. Therefore, as part of the buyout agreement, State Fair Park assumed the promoter's responsibility for a contract for services with the general manager. Under that contract, which expires in January 2004, the general manager receives an annual salary of \$150,000.

Milwaukee Mile employees have been paid by State Fair Park through the Wisconsin Exposition Center.

Several employment options were considered for the other eight staff, including hiring them as state employees or seeking authorization from the Department of Administration to enter into individual consulting contracts. Because of the time required to implement these options, they were not pursued. Instead, the eight were hired by the Wisconsin Exposition Center, which is reimbursed by State Fair Park for salary and benefits costs plus a processing fee of approximately 2 percent.

In FY 2002-03, State Fair Park provided incentive pay totaling \$27,900 to two Milwaukee Mile employees.

In addition to funding eight employees' monthly salaries and fringe benefits of approximately \$67,000, we found this payment process was used to provide incentive pay totaling approximately \$27,900 to two Milwaukee Mile employees in FY 2002-03. State Fair Park staff indicated that these individuals were being compensated for their efforts related to sales and client services.

State Fair Park staff indicated that funding Milwaukee Mile employees through the Exposition Center is a temporary arrangement that will be used for the 2003 racing season only. Nevertheless, we have several concerns. First, this process bypasses mechanisms for executive and legislative control of State Fair Park's position authority. Second, incentive payments provided to Milwaukee Mile employees are at levels that typically are not available to state employees, who may receive discretionary

compensation adjustments as one-time lump-sum awards but whose pay adjustments may not exceed 12.0 percent of the pay range minimum for their position in any given fiscal year. One of the Milwaukee Mile employees received incentive pay of \$5,260, or 13.2 percent of her \$40,000 annual salary, while the other received incentive pay of \$22,657, or 80.9 percent of his \$28,000 annual salary.

Future Financial Concerns

Debt service costs for the new grandstand will total approximately \$1.8 million in FY 2003-04.

To date, the Milwaukee Mile grandstand project has incurred total costs of \$19.1 million, with approximately \$18.2 million funded by program revenue-supported bonds and \$861,000 funded with GPR-supported bonds. Capital improvements to the racetrack that were made from FY 1994-95 through FY 1999-2000 were also supported with program revenue bonds. Debt service payments on the existing debt totaled \$376,643 for the 2002 racing season. With the new construction, it will increase to approximately \$1.8 million in FY 2003-04. Debt service payments related to the grandstand improvements will remain at approximately that level through FY 2016-17. The final payment is expected to be made in FY 2022-23.

In June 2000, a private financial consulting firm hired by State Fair Park projected that with the new grandstand, the Milwaukee Mile would generate a net loss of \$197,500 in the first year of operation but would report a net gain of \$363,000 in the second year, which would increase to \$722,400 by the ninth year. However, this projection included several incorrect assumptions, such as those related to naming rights, the number of events, and concession revenue, as shown in Table 8.

Table 8

Assumptions Used in Racing Financial Projections

	Assumption	Current Condition
Naming rights	\$10.0 million in lump sum payment for grandstand naming rights	No naming rights revenue received to date
Number of events	Total of six major events each year	Total of four major events each year
Concession revenue	Average \$25 per person per event	Industry average of \$6 to \$13 per person per event

Initial financial projections for the Milwaukee Mile included overly optimistic assumptions.

State Fair Park officials stated that they are currently pursuing potential naming rights sponsors; however, if a sponsor is secured, the revenue obtained by State Fair Park may be significantly less than the projected \$10.0 million. Officials also recently announced they are adding a fourth major racing event to the Milwaukee Mile's schedule, although they indicated that a total of six events may be difficult to achieve. Finally, in January 2002, a memo from the financial consultant to the State Fair Park Board indicated that \$25 per person in concession revenue was "remarkably higher than data from previous years, as well as national and regional averages." According to an industry guide, per capita revenue from concessions and merchandise ranges from \$6 to \$13.

In addition to debt service costs, State Fair Park must pay significant operating costs during the 2003 racing season. For example, sanction fees to the professional racing organizations will total nearly \$3.0 million, and as noted, the one-time termination payment to the previous racing promoter will be \$250,000. Administrative expenses, such as salaries, insurance, and advertising, will also be incurred. The previous promoter's administrative expenses were nearly \$1.7 million for the year ended December 31, 2002.

If racing revenues do not increase, State Fair Park's net loss from 2003 racing activities may be more than \$800,000.

Assuming administrative expenses are consistent with the prior year's, State Fair Park's 2003 racing expenses can be expected to total approximately \$5.6 million, as shown in Table 9. Haas Racing reported total revenues of only \$4.8 million for the 2002 racing season. Therefore, if revenues are not increased or administrative expenses are not reduced, we estimate State Fair Park's 2003 racing expenses could exceed its revenues by more than \$800,000.

Table 9

2003 Estimated Racing Expenses

Sanction Fees	\$2,970,568
Debt Service	706,855
One-time Contract Termination Payment	250,000
Administrative Expenses ¹	1,684,566
Total Expenses	\$5,611,989

¹ Based on previous racing promoter's administrative expenses for the year ended December 31, 2002.

State Fair Park officials indicate it is possible that revenues from the 2003 racing season will be sufficient to pay 2003 expenses. State Fair Park intends to increase future revenues from the Milwaukee Mile by:

- aggressively selling group hospitality packages and advance tickets;
- searching for additional sponsorship opportunities;
- adding several smaller events, such as team testing and other private track rentals, to the schedule; and
- developing the inside of the racetrack for other uses, such as motorbike and go-cart races.

Although these activities may generate revenue, they may also result in additional expenses, such as salaries and fringe benefits to staff more events, and capital costs to develop the inside of the racetrack. If State Fair Park's racing expenses continue to exceed its revenues, program revenue funds available for other fairgrounds operations will be reduced.

Recommendation

We recommend State Fair Park develop a detailed, comprehensive business plan for its racing activities. At a minimum, this plan should include:

- *reasonable estimates of operating revenues and expenses;*
- *staffing plans that include whether the current nine positions responsible for racing will become state employees and, if so, how and when executive and legislative approval will be sought for their positions; and*
- *additional capital expenses that may be required for racetrack upgrades, and the source of funding to pay for them.*

Wisconsin Exposition Center ■

In addition to construction of the new grandstand facility, State Fair Park's 2000 master plan included construction of a new exposition center at a cost of nearly \$37.8 million. The 271,000-square-foot Wisconsin Exposition Center, which opened in August 2002, was built to accommodate large events previously held in various State Fair Park exhibit buildings and to attract new events, including large consumer and trade shows.

While construction of the Wisconsin Exposition Center has created an attractive new venue at the fairgrounds, in the short term the Exposition Center has not operated at a profit. In planning for the new addition, State Fair Park did not adequately address how its management would operate within State Fair Park's structure, and financial projections for the Exposition Center—like those for the Milwaukee Mile—have proven to be overly optimistic. As a result, the Exposition Center has contributed to the continuing deterioration of State Fair Park's financial condition.

Exposition Center Management

In 2000, a not-for-profit corporation was created to build a new exposition center on the fairgrounds.

1999 Wisconsin Act 197 authorized the organization of a nonstock, not-for-profit corporation for the purpose of raising funds and providing support for the operation, management, and development of the fairgrounds. In October 2000, the State Fair Park Board created the not-for-profit State Fair Park Exposition Center, Inc., to build and manage the Exposition Center on the fairgrounds. The

Exposition Center is owned and governed by a five-member board consisting of the chair of the State Fair Park Board, one other member of the State Fair Park Board, and three members appointed by the Exposition Center Board. The Exposition Center Board has broad general powers that include obtaining financing by means of loans or other methods and approving the sale, lease, or purchase of real estate. It employs nine staff.

According to State Fair Park officials, the decision to create a not-for-profit corporation was based on various factors:

- First, the corporation had the ability to use industrial revenue bonds for construction costs. The interest rate of these bonds is comparable to that of state general obligation bonds, but industrial revenue bonds have a 27-year repayment period, compared to a 20-year period for general obligation bonds.
- Second, the corporation allowed the building process to proceed on a faster schedule because review and approval by the State Building Commission was not required.
- Finally, the State Fair Park Board believed creating a private, not-for-profit organization would allow the Exposition Center to operate without any of the statutory constraints placed on state agencies, such as certain purchasing and personnel requirements.

Construction of the Exposition Center was funded with \$44.9 million in industrial revenue bonds that were issued by the City of West Allis to cover construction costs, as well as bond issuance costs and a reserve for debt service and interest costs. The City of West Allis loaned the bond proceeds to the Exposition Center Board, and the Exposition Center Board obtained a letter of credit from a commercial lending institution to secure the loan and the bonds.

***The Exposition Center's
annual debt service
payments will be
approximately
\$2.5 million in
FY 2003-04.***

The industrial revenue bonds that funded construction of the Exposition Center were refinanced in October 2002. Under the refinanced bonds, annual debt service payments, which are detailed in Appendix 2, will be \$2.5 million in FY 2003-04, increasing to \$3.3 million by FY 2010-11 and remaining at approximately that amount through FY 2028-29, when the bonds are completely repaid.

Exposition Center Operating Agreements

Two agreements define the relationship between State Fair Park and the Wisconsin Exposition Center.

To facilitate operation of the Exposition Center, the State Fair Park Board and the Exposition Center entered into two agreements in August 2001: a ground lease agreement and a licensing agreement. Both agreements contained provisions that favor the Exposition Center at the expense of State Fair Park.

Ground Lease Agreement

Under the terms of a 28-year ground lease agreement, State Fair Park leases 7.52 acres of the fairgrounds to the Exposition Center Board for the Exposition Center. The lease agreement also outlines the expenses that each will pay.

According to the ground lease agreement, the Exposition Center is responsible for paying:

- its gas, electric, water, and sewer utility charges;
- insurance premiums to protect against losses or damages and general commercial liability; and
- maintenance costs to keep the building in good condition and repair.

The Exposition Center makes rental payments only if its revenues exceed expenses.

The Exposition Center is also responsible for making annual rent payments to State Fair Park. The payment amount is not fixed; rather, it is based on the Exposition Center's annual gross revenues and expenses. To determine the amount of rent owed each year, the Exposition Center calculates the difference between its annual gross revenues from all sources and its annual operating and debt service costs, together with its contribution to debt reserves and operating reserves. If the Exposition Center's expenses and reserve contributions are greater than its revenues, State Fair Park receives no rent.

The ground lease agreement currently stipulates that State Fair Park is responsible for all municipal services payments to the cities of West Allis and Milwaukee for police and fire protection, as well as for other non-user fee services to state facilities. However, State Fair Park staff have indicated that this payment requirement was not the intention of either the State Fair Park Board or the Exposition Center Board. Therefore, the Exposition Center currently pays the municipal services assessment related to the facility. State Fair Park officials indicate it is their understanding that the Exposition Center will continue to make these payments in future years, although the agreement has not been amended to reflect this understanding.

State Fair Park incurs approximately \$39,100 in annual costs related to the Exposition Center.

While the Exposition Center Board is responsible for the Wisconsin Exposition Center building and its contents, State Fair Park incurs costs related to operation of the facility. For example, State Fair Park pays all costs associated with the parking lots, such as snow and litter removal. State Fair Park also pays for other miscellaneous costs, including pest and weed control, sewer maintenance, fence repairs, flowers, and signs. We estimate that these costs as they relate to the Exposition Center totaled \$39,100 in FY 2002-03.

Other potentially significant costs that are incurred by State Fair Park but benefit the Exposition Center are difficult to separate from overall costs. For example, State Fair Park prints and mails monthly event schedules that include Exposition Center events, and it spent nearly \$211,600 on advertising and promotional items for the 2002 Wisconsin State Fair that highlighted the Exposition Center's grand opening.

Recommendation

We recommend State Fair Park:

- *immediately renegotiate its ground lease agreement with the Wisconsin Exposition Center to clarify responsibility for municipal service payments; and*
- *seek reimbursement of the costs it incurs for Exposition Center operations.*

Licensing Agreement

In addition to the ground lease agreement, State Fair Park has also entered into a licensing agreement with the Wisconsin Exposition Center. The agreement provides State Fair Park the sole right to use the entire Exposition Center during the annual Wisconsin State Fair, for a fee that was \$200,000 in 2003. In addition, the licensing agreement addresses parking revenues, which are divided between State Fair Park and the Exposition Center.

A private vendor currently collects parking fees during all events held on the fairgrounds and remits them directly to State Fair Park. However, under the terms of the licensing agreement, State Fair Park is entitled to retain only parking revenue from the Wisconsin State Fair and other events held within State Fair Park-owned facilities. The Exposition Center is entitled to all parking revenue generated from its non-fair events.

The licensing agreement establishes a formula that calculates the Exposition Center's parking revenue. However, the formula overstates this revenue because it assumes that everyone attending an Exposition Center event arrives in a car that pays to park. Under the formula, event attendance is divided by 2.5 and multiplied by 5, based on the assumption that, on average, there will be 2.5 people per car paying a \$5 parking fee. However, some event attendees do not park at the fairgrounds, and others arrive by public transportation or in chartered busses.

In eight months, State Fair Park's net loss from parking under its agreement with the Exposition Center was \$73,540.

Because of the formula's faulty assumptions, State Fair Park paid the Exposition Center more than its net parking revenue from non-fair events during the eight-month period from September 2002 through April 2003. As shown in Table 10, State Fair Park's net loss from parking under its agreement with the Exposition Center was \$73,540. State Fair Park reported a net loss from parking on 22 of the 30 events held at the Exposition Center during the period shown.

Table 10

State Fair Park Parking Costs in Excess of Revenues
September 2002 through April 2003

Parking Revenues from Non-Fair Events ¹	\$650,718
Parking Contractor Fees	(111,248)
Net Parking Revenue	539,470
Payments Made to the Exposition Center	(613,010)
Net Loss from Parking	(\$73,540)

¹ Parking revenue is reported net of the 5.6 percent sales tax in Milwaukee County.

Although State Fair Park officials discovered that the formula would result in a net loss to State Fair Park shortly after the Exposition Center opened in August 2002, they have not yet negotiated changes to the licensing agreement, and State Fair Park continues to incur losses from parking at non-fair events.

☑ Recommendation

We recommend the State Fair Park Board immediately renegotiate its licensing agreement with the Wisconsin Exposition Center to more reasonably account for parking revenues and expenses related to Exposition Center events.

Exposition Center Events

Major non-fair events that previously generated revenue for State Fair Park have moved to the Exposition Center.

The construction and opening of the new Exposition Center in August 2002 not only transferred parking revenue from State Fair Park to the Exposition Center but also shifted event revenues. As noted, the Exposition Center was built, in part, to replace aging State Fair facilities. After the August 2002 State Fair, State Fair Park razed exhibit buildings that had been the primary non-fair revenue-generating facilities on the fairgrounds. As a result, State Fair Park experienced a substantial decrease in the number of events it held or plans to hold in calendar year 2003, as well as its revenues from non-fair events.

In calendar year 2001, the last full year before the Exposition Center was built, State Fair Park reported 496 "event days" on which the fairgrounds were rented or used for some activity or function, with 296 of those event days held in buildings that were subsequently demolished. We compared the 296 event days in 2001 with planned events for 2003 to assess the impact on State Fair Park's non-fair events and revenues. We found a 35.1 percent decline, from 296 days in 2001 to 192 in 2003.

As shown in Table 11, we found that State Fair Park retained 84 of those event days by moving them to other facilities it owns. According to State Fair Park staff, a 31,560-square-foot exhibit hall is the primary building in which small events are now typically scheduled. In addition, 108 event days moved from State Fair Park facilities to the Exposition Center. These events are generally large events, such as car, boat, and home improvement shows. Revenues generated by these events are retained by the Exposition Center.

Table 11

State Fair Park Event Days¹ 2003

	Event Days
Held in Other State Fair Park Facilities	84
Held in Exposition Center	108
Total Event Days	192

¹ Includes actual and planned events for buildings that were demolished in 2002.

After the Exposition Center was built, several events left the fairgrounds.

Of more concern to State Fair Park's future profitability is that an additional 104 days represent events that left the fairgrounds entirely, for reasons that may include cost and facility choices that no longer met their needs.

Because of the limits of its financial reporting system, State Fair Park is unable to determine whether the events that remained in State Fair Park facilities, moved to the Exposition Center, or left the fairgrounds entirely generated a net profit or a net loss for State Fair Park. However, the financial impact of this shift appears to be significant. State Fair Park's non-fair revenue declined from nearly \$4.7 million in FY 2001-02 to \$3.1 million in FY 2002-03, a 33.3 percent decrease.

Exposition Center's Financial Condition

In 2000, State Fair Park hired a private consultant to complete a financial analysis of the Exposition Center's feasibility. In developing the analysis, the consultant projected the number of events the Exposition Center would attract and its net revenues and losses over a ten-year period. The Exposition Center has not met all of these projections.

The consultant projected that 68 events would be held each year at the Exposition Center, consisting of 48 events previously held at State Fair Park facilities, 8 events from other Milwaukee-area facilities such as the Midwest Express Center, and 12 new events attracted to the Milwaukee area. The consultant's report did not stipulate the number of event days these events would represent.

In 2003, the Exposition Center had only half the number of events projected for that year.

According to its staff, the Exposition Center has held or is scheduled to hold only 34 events in calendar year 2003, or one-half of the 68 events projected. To encourage organizations and businesses to use the facility, the Exposition Center offered a 25 percent discount for all events in May, June, and July 2003, which State Fair Park officials indicate is a common industry practice. However, only two events were held during those months, and only two events were scheduled for August 2003, including the annual Wisconsin State Fair.

The consultant also projected that the Exposition Center would report collective net losses totaling nearly \$1.0 million in its first two full years of operation, would essentially break even in its third year, and would begin generating a profit in its fourth year. These projections are shown in Table 12.

Table 12

Projected Exposition Center Revenues and Expenses¹
As of October 2000

	Revenues	Operating Expenses	Funds Retained for Reserve	Debt Service Expenses	Net Gain/(Loss)
Year 1	\$ 7,653,832	\$4,804,372	\$316,255	\$3,408,508	\$(875,303)
Year 2	8,694,829	5,064,466	325,742	3,408,508	(103,887)
Year 3	8,955,674	5,216,400	335,514	3,408,508	(4,748)
Year 4	9,224,344	5,372,892	345,580	3,408,508	97,364
Year 5	9,501,075	5,534,079	355,947	3,408,508	202,541
Year 6	9,786,107	5,700,101	366,626	3,408,508	310,872
Year 7	10,079,690	5,871,104	377,624	3,408,508	422,454
Year 8	10,382,081	6,047,238	388,953	3,408,508	537,382
Year 9	10,693,543	6,228,655	400,621	3,408,508	655,759

¹ Projections prepared by private financial consultant contracted by State Fair Park.

Because the Exposition Center reported a net operating loss in calendar year 2002, State Fair Park received no rent.

According to its audited financial statements, the Exposition Center's net operating loss was approximately \$404,000 in calendar year 2002, when it operated for five months. This operating loss is somewhat consistent with the \$875,000 loss projected for a full year of operations. Because of the net loss, State Fair Park received no rent from the Exposition Center in calendar year 2002.

Since calendar year 2003 is the Exposition Center's first full year of operation, its officials and those of State Fair Park are optimistic that new clients will be obtained and the Exposition Center will begin to increase revenues. However, several factors will make it difficult to significantly improve profitability in the short-term. For example:

- The Exposition Center's president, who is important in marketing the entity, resigned in April 2003, and the position has not yet been filled.
- It is difficult to acquire new business during a time of economic downturn, and there is competition with other venues in the Milwaukee area.
- Because exposition venues are typically finalized more than a year in advance, many events have already reserved other facilities for calendar year 2004. Currently, only 25 events have reserved the Exposition Center in 2004.

Because of the reserve funds that were created with the original bond proceeds, the Exposition Center has been able to pay its operating and debt service expenses in calendar year 2002 and is expected to do so in 2003. However, if the Exposition Center continues to report net losses in calendar year 2004, it may not have the necessary resources to meet its obligations. As of December 31, 2002, the Exposition Center reported a cash balance of \$10.0 million. Since that time, the Exposition Center has paid debt service costs of \$6.1 million. It will pay debt service costs of \$2.9 million in calendar year 2004. If the reserve fund is used for these costs and is not replenished, the Exposition Center may begin to have a cash flow concern. At that point, it is not certain what steps it would take to secure its funding.

The initial letter of credit obtained to secure the industrial revenue bonds that funded construction of the Exposition Center was effective through August 15, 2003. The commercial lender that provided the letter of credit recently notified the Exposition Center Board that it would continue to provide the letter of credit through October 15, 2003, but would reevaluate the agreement after that date. According to its staff, the Exposition Center's audited financial statements for calendar year 2002 were recently completed, and further discussions will now be held with the commercial lender to reach a new agreement.

According to State Fair Park and Department of Administration staff, the State has no legal or other obligation to repay this debt. The State Fair Park Board and a former Department of Administration official have nonetheless indicated that the State may provide financial assistance if the Exposition Center Board is unable to make scheduled debt service payments.

Recommendation

We recommend the State Fair Park Board, working in conjunction with the Wisconsin Exposition Center Board, develop a detailed, comprehensive business plan for its non-fair activities. At a minimum, this plan should:

- *include strategies to increase the number of non-fair events held within State Fair Park facilities and the Wisconsin Exposition Center;*
- *define the operating and management relationship of the two entities, including whether an executive director will be hired for the Wisconsin Exposition Center; and*
- *establish contingency plans if revenue targets are not met.*

Pettit National Ice Center ■

The Pettit National Ice Center is owned by State Fair Park but operated and maintained by the Pettit National Ice Center, Inc. It was built in 1992 at a cost of \$13.3 million, financed with \$4.0 million in private contributions and \$9.3 million in program revenue-supported bonds. Funds to retire the debt are to be provided through rent payments from the not-for-profit Pettit National Ice Center, Inc., under a lease agreement that gives the Pettit Center responsibility for its own operating costs and for the debt service costs that State Fair Park incurs on its behalf.

The Pettit National Ice Center owed State Fair Park \$1.3 million in delinquent rent payments as of June 2003.

The Pettit Center is expected to pay State Fair Park rent of approximately \$74,400 per month to cover debt service costs. However, as of June 2003, the Pettit National Ice Center owed a total of nearly \$1.3 million, or 17 monthly payments, to State Fair Park. In FY 2002-03 alone, the Pettit Center did not provide rent payments to State Fair Park for five months. Because State Fair Park must continue to make debt service payments on the Pettit Center facility without offsetting rental revenue, the amount available for other fairgrounds operations is reduced.

Because the Pettit Center is a private, not-for-profit organization, its financial records are not available to us. However, according to financial information submitted to the State of Wisconsin Department of Regulation and Licensing, the private contributions on which the organization relies for much of its support declined significantly in recent years. As shown in Table 13, the Pettit Center has generated net losses in four of the last five years, and 2001 and 2002 losses totaled more than \$642,000.

Table 13

Pettit National Ice Center Revenues and Expenses
For Years Ending August 31

	1998	1999	2000	2001	2002
Revenues:					
Program	\$2,289,314	\$2,178,517	\$2,704,138	\$2,098,388	\$2,276,691
Contributions	530,015	490,756	510,462	444,453	403,508
Total Revenues	2,819,329	2,669,273	3,214,600	2,542,841	2,680,199
Expenses	(3,061,777)	(2,910,456)	(3,180,706)	(2,960,851)	(2,904,630)
Net Profit/(Loss)	(242,448)	(241,183)	33,894	(418,010)	(224,431)

The Pettit Center and State Fair Park are reviewing alternatives to improve the Center's profitability.

State Fair Park continues to work with the Pettit Center and its executive director, who was appointed in July 2003, to resolve the overdue payments. As reported in our 2002 audit report (report 02-10), Pettit Center officials have indicated that they are considering means to refinance their debt. More recent ideas to generate additional revenue include adding a third hockey rink and converting one room within the Pettit Center to a sports bar and restaurant. Both initiatives would require additional funding; to date, no action has been taken. State Fair Park officials also note that they are pursuing other options to increase their oversight of Pettit Center operations, such as having a member of the State Fair Park Board serve on the Pettit Center Board.

Uncertainty regarding the Pettit Center's financial condition makes it difficult to assess the future demands it may place on State Fair Park's financial resources. The Legislature may eventually need to assist in defining State Fair Park's future relationship with the Pettit Center, including the level and source of public financial support that may be necessary.

Recommendation

We recommend State Fair Park, in conjunction with the Pettit National Ice Center, Inc., develop a detailed, comprehensive business plan for the Pettit Center. At a minimum, this plan should:

- *include strategies to increase Pettit Center revenues;*
- *define the operating and management relationship of the two entities, such as the composition of the Pettit Center's managing board; and*
- *establish contingency plans if revenue targets are not met.*

■ ■ ■ ■