

MEMORANDUM

TO: WISCONSIN STATE FAIR PARK BOARD MEMBERS

FROM: CHAIRMAN MARTIN J. GREENBERG

DATE: October 22, 2003

RE: BUSINESS PLAN - RECOMMENDATIONS FOR THE FUTURE

Dear Board Members:

Soon after my appointment as Chairman of the Wisconsin State Fair Park Board, Governor James E. Doyle instructed me to assemble special task forces to better understand the legal and financial intricacies of Wisconsin State Fair Park (WSFP) and how WSFP may be improved for the future. Attached to this memorandum is a draft of Recommendations For The Future (Report) as submitted by the Chairman and the Special Committees.

The Report examines some of the reasons why WSFP has experienced fiscal and operational problems over the last five years, including:

- expenses continuing to exceed revenues
- expenses continuing to exceed revenues
- questionable business decisions
- an aggressive building campaign based upon feasibility studies and optimistic revenue projections that have failed to meet expectations
- failure to improve financial reporting system and financial accountability
- increased debt service
- transfer of income normally received by the WSFP to Wisconsin Exposition Center (WEC)
- the State lapse action
- the failure of Pettit National Ice Center (PNIC) to meet its contractual obligations
- a decrease in non-fair and racing revenues
- a structure, with the current inventory of assets, that doesn't work in the entertainment industry.

The Report attempts to state fairly the reason for the fiscal and operational problems. The Report does not direct fault to any one person or Board, any one political party, or Administration. With the recent announcement by the LAB of another deficit in excess of \$4.5 million, the time for change and the need for change is now. It is hoped that this Report will be an impetus for change and will subject the legal and financial structure of WSFP to public debate by its stakeholders.

The primary purpose of WSFP is to celebrate Wisconsin by having an annual event -- The State Fair (Event) -- where urban Wisconsin citizens meet rural Wisconsin citizens, where our agricultural industries can be showcased, and where people can congregate to be socially and culturally enriched. This core mission remains intact today. Although WSFP has secondary purposes, its core mission is to preserve and stabilize the Event. It is not the Event that is the financial drag on WSFP -- it is the linkages that surround the Event that have put WSFP in a financially deficit position. We cannot in good conscience permit, in the future, these linkages to become a financial liability for the Event. The Event must not support the linkages -- conversely, the linkages must enhance and continue to grow the Event.

With the announcement that the Event profits were beyond budget projection, even though 2003 Event attendance had decreased, the isolation, insulation and protection of the Event becomes even more important.

The most in-depth work undertaken was by the Committee on Governance and Structure and its analysis of our current legal and financial structure. The Committee believes that a new structure and a change in legislation utilizing the best combination of quasi-government models that exist today (including models for Summerfest, Bradley Center, Entertainment Corporation, Miller Park, Lambeau Field, Midwest Express Center, WHEDA and UW Hospitals) is in the best interest of WSFP. However, a new structure is only a long-term solution.

In order to cure some of the problems that exist at WSFP, short-term steps and changes must be immediately undertaken utilizing the current statutory model to financially protect WSFP's future. Those short-term steps and changes include:

1. Retain the Event under its current statutory model and segregate the Event from all other WSFP operations and assets.
2. Hire or promote from within a State Fair Manager pursuant to statute, with limited staff, to serve as the appointing authority and operational manager of the Event.
3. Obtain comprehensive Business Plans before December 31, 2003 from Milwaukee Mile, and request the same from the Boards of Wisconsin Exposition Center (WEC), and the Pettit National Ice Center (PNIC).
4. Immediately hire a CFO to improve current business operations and financial accountability and reporting.
5. Under the direction and control of a Marketing Vice President, immediately inventory, price and ultimately sell proprietary rights and contractually obligated income to increase top line revenues and to further capitalize operations.
6. Implement a new and invigorated fund-raising plan that incorporates new and creative revenue source ideas, making the Coliseum renovation, other AG Village improvements and agricultural and education programs a top priority for fund raising.
7. Undergo employee consolidation and reductions as a result of State budget mandates to create cost efficiencies and increase global management control.

8. Undertake a comprehensive WSFP bonding analysis directed by the Secretary of the Department of Administration to determine if a full or partial roll-up and refinance strategy would benefit WSFP's financial position overall.

9. Create performance standards and performance benchmark criteria for each executive hire and staff.

10. On a monthly basis, the WSFP Board should receive from the WSFP CFO a consolidated operating statement for all WSFP entities that indicates monthly and year-to-date financial results with comparisons to actual financial results in the previous year.

11. Adopt other recommendations as made by the LAB and WSFP Committee on Budget and Finance.

12. Obtain a waiver from the State of Wisconsin so that funds from public-private partnerships or the sale of proprietary rights and contractually obligated income can remain with WSFP to avoid future State lapse actions.

13. Settle accounts with the State relative to current operating shortfalls and lapse actions.

14. Consider forming and capitalizing a non-stock corporation under Wisconsin Statute § 42.01(4)(a) for management of selected WSFP assets ("new company").

The primary purpose of a new company would be to insulate the Event from negative financial impacts, manage selected assets, capitalize operations and settle accounts with the State and address the short-term operation requirements necessary to financially improve overall WSFP performance. During a sunset period, i.e. two (2) years, stakeholders would closely scrutinize the financial performance of selected assets in order to make an ultimate conclusion as to whether or not these assets should be retained, sold, liquidated, or leased after the sunset period. If necessary, after the sunset period a new structure could be incorporated pursuant to the Committee's recommendations. Because of its historical significance to racing and the City of Milwaukee, the Milwaukee Mile should be given every chance to succeed and perhaps ultimately be folded in as part of the entity that includes the Event.

The Report also analyzes WSFP linkages, including the Milwaukee Mile, the WEC, and the PNIC. Not only does the Report analyze the current financial and operational problems of each linkage, but makes recommendations for its immediate improvement. The most important recommendation is the immediate creation of a realistic and conservative Business Plan for each entity with accurate prognostications of revenue and expenses so that the Board can understand the potential deficits of the operation of these assets and how to make these assets revenue neutral or profitable moving forward.

The Committee as well as the Chairman believe that WSFP is a fertile ground for increased revenue enhancement and programming and a place that could be a future showcase for public-private partnerships so long as the money invested by the private sector remains in WSFP and cannot be swept by legislative action or used for other State purposes. There is financial power in the ability to market not only the Event but its linkages. It is imperative that under the leadership of the WSFP Marketing Director, the proprietary and contractual income

rights of WSFP are inventoried, priced, and ultimately marketed to improve top-line revenues and ultimately the bottom line. It is the belief of the Chairman that the WSFP today, even with its perceived financial problems and adverse publicity, is a fertile ground for revenue enhancement. The Report in depth lists ways in which WSFP can increase its revenues.

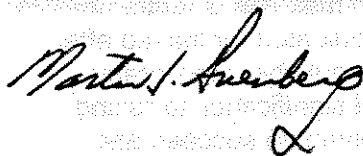
The Special Committee on Budget and Finance met to analyze the current financial and operational needs of WSFP. Budgeting on a calendar year basis, financial accountability and reporting on a current basis, undertaking the suggestions as made by the LAB, continuing to make investments in technology, analyzing and refitting debt service, the hiring of a Chief Financial Officer, a recognition that WSFP contains venues that are in the entertainment industry, a need for, in some instances, performance-based compensation, a reinvigoration of the employment team with directed leadership, and a new can-do attitude are primary goals.

The Report also contains specific recommendations by the Committee on Constituents. The Committee on Constituents represents the voice of the people and the needs and wants of those who are our patrons and vendors of WSFP are contained in the Report.

Finally, an analysis is done on the Event. It is the Chairman's goal to reach one million in attendance and continue to reinvigorate and change our programming, and to further market our product to make certain that we continually increase out-state (outside of Milwaukee) patronage.

These are some of the most important times for the future of the WSFP. We as Board Members are in the best position, through cooperation with the State Legislature and Administration, to direct the future of the WSFP. It is hoped that these recommendations and your input will produce final recommendations to the Legislature and the Administration so that action can be taken to forever structure and financially stabilize our WSFP.

Sincerely,



Martin J. Greenberg  
Chairman

MJG:mjs

## I. INTRODUCTION

Wisconsin State Fair Park (WSFP), the approximately 200-acre fairgrounds located in the City of West Allis and Milwaukee, is home to:

- The Wisconsin State Fair (Event), an annual event that has been held at the West Allis fairgrounds since 1892;
- The 56-acre Milwaukee Mile, which consists of the oldest operating major automobile speedway in the world;
- The Wisconsin Exposition Center (WEC), which is used exclusively for the State Fair each August and rented for non-fair events during the remainder of the year; and
- The Pettit National Ice Center (PNIC), a United States Olympic training and hockey facility that is owned by the State but operated by a private not-for-profit corporation.

WSFP is governed by an independent state agency (Wisconsin Statute §15.445(4) -- the thirteen (13) member State Fair Park Board) that is attached to the Wisconsin Department of Tourism for administrative purposes. Its day-to-day operations are supervised by a Chief Executive Officer (CEO) who is currently an independent contractor. Nine (9) members of the WSFP Board are appointed by the Governor and confirmed by the Senate for staggered five-year terms, and four legislators, two from each house, are appointed by leadership. Under Wisconsin Statute §15.445(4)(a), the WSFP Board 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 of Wisconsin; and
- four legislators: two from the Assembly and two from the Senate.

WEC is owned and governed by a separate not-for-profit corporation whose governing body includes the Chairman and one (1) member of the WSFP Board, while the non-for-profit corporation that manages and leases the PNIC is not affiliated with WSFP, except to the extent that WSFP is liable for debt service. WSFP is funded primarily by program revenue from the 11-day Wisconsin State Fair and from non-fair events. Its program revenue-funded operating budget totaled \$16.2 million in fiscal year (FY) 2001-02 and \$16.8 million in FY 2002-03. The Legislative Audit Bureau (LAB) report of 9/2003 indicates that WSFP's total expenses, which include operating capital and debt service costs, have exceeded total revenues in four of the past five years. In FY 2002-03, total expenses exceeded revenues by nearly \$4.5 million.

#### **State Fair Park Revenues and Expenses**

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Excess/(Deficit)</u>
1998-99	14,189,961	13,867,263	322,698
1999-2000	15,242,561	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)

While the WSFP Board approved both the operating budget and the building projects that resulted in capital costs and subsequent debt service costs, some factors affecting FY 2002-03 revenues and expenses were beyond the control of either the WSFP Board

or WSFP staff. For example, as a result of actions to improve the State's financial condition, WSFP 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, PNIC did not make five monthly rental payments in FY 2002-03 for which it owes WSFP \$371,600 in late rent. Currently, PNIC is in arrears \$1.3 million to the WSFP. Lastly, in FY 2002-03, \$1.7 million in annual event business revenue, \$400,000 in associated parking revenue and \$200,000 in annual rent was shifted to the WEC for purposes of supporting WEC.

Management's response to the September 2003 LAB Audit Report, however, further analyzes the shortfall in revenues as follows:

**Total Shortfall:** **(\$4,500,000)**

State Lapse:	\$2,400,000
'03 PNIC Arrearages:	<u>\$ 371,600</u>
	\$2,771,600

**State Fair Park Revenue Shift to WEC:**

Prior WSFP Event Business	\$1,700,000
Associated Parking	<u>\$ 400,000</u>
	\$2,100,000
	<b>\$4,871,602</b>

This analysis illustrates the following:

1. 62% of the shortfall (\$2,771,600) was created by outside impacts beyond WSFP management control.
2. \$2.1 million dollars in revenue was not lost but rather assigned over to the WEC business and therefore did not leave the WSFP.
3. If combined with the State Lapse and PNIC rent shortfall, total revenues would actually exceed expenses by \$371,602.

**NOTE:** PNIC rent shortfalls reflected in this analysis do not show the additional \$1.3 million rent payments in arrears from prior years.



LAB, in its last several audit reports, has consistently concluded that WSFP's financial condition has not improved in that total expenditures continue to increase at a greater rate than revenues. The LAB has concluded that "State Fair Park's financial condition is continuing to deteriorate" in FY 2002-03.

WSFP's fiscal problems can be attributed to (1) expenses continuing to exceed revenues, (2) questionable business decisions, (3) an aggressive building campaign based upon feasibility studies and optimistic revenue projections that were expected to be self-supporting and that have failed to meet revenue expectations, (4) a failure to improve financial reporting systems and financial accountability, (5) increased debt service, (6) transfer of income normally received by WSFP to WEC, (7) the State lapse action, (8) the failure of PNIC to meet its contractual obligations, (9) a decrease in non-fair and racing revenues, and (10) an untenable legal structure.

## **II TASK FORCE - COMMITTEE APPOINTMENTS**

In March of 2003, Governor James E. Doyle directed WSFP Board Chairman Martin J. Greenberg to assemble task forces to analyze and assess WSFP's governance and structure; revenue capabilities; relationships to other events, ventures and Vendors on WSFP property; financial status and budgeting process; and relationship to its constituents. As a result, the following Special Committees were appointed on March 28, 2003:

### **SPECIAL COMMITTEE ON GOVERNANCE AND STRUCTURE**

The Committee was formed to analyze the current WSFP legal structure and determine whether a more conducive legal and business model should be created to make WSFP more competitive in the entertainment marketplace. The Committee shall make recommendations for necessary betterments including administrative and/or

legislative changes required.

Appointments: Tim Sheehy, Chairman; Senator Ted Kanavas; Representative Tony Staskunas; Laura Engan, Deputy Secretary Dept. of Administration.

Citizen Appointment: Norman J. Matar - Partner in Davis & Kuelthau, S.C. and General Counsel for the Southeast Wisconsin Professional Baseball Park District.

### **SPECIAL COMMITTEE ON BUDGET AND FINANCE**

The Committee was formed to analyze the WSFP 2004-2005 proposed budget, future budget process, financial impact of major contractual relationships, financial reporting, and strategies to eliminate budgetary operating shortfalls and deficits.

Appointments: DATCP Special Assistant, Tom Lyon, Chairman; Senator Gary George; Senator Ted Kanavas.

Citizen Appointment: James R. Blinka, CPA - Partner - BDO Seidman, LLP

### **SPECIAL COMMITTEE ON LINKAGES**

The Committee was formed to analyze the legal and financial relationships between WSFP and PNIC, Milwaukee Mile, Permanent Stand Vendors, and WEC and to make recommendations for restructuring or change.

Appointments: Tim Sheehy, Chairman; Jim Mejchar; Representative Tony Staskunas.

Citizen Appointment: John W. Daniels, Jr. - Partner, Quarles and Brady

### **REVENUE ENHANCEMENT COMMITTEE**

This Committee was formed to analyze WSFP's current building inventory and proprietary rights and to make recommendations on how the bottom line can be increased through enhanced revenue generation and fund raising.

Appointments: Tourism Secretary Jim Holperin, Chairman; Patti McKeithan

Citizen Appointments: Ann Zizzo – Chairman, CEO The Zizzo Group; Bill Otto – President, COO Marcus Resorts and Hotels; Ed Hanrahan – Event Consultant.

### **SPECIAL COMMITTEE ON CONSTITUENTS**

The Committee was formed as a broad-based citizen's committee with divergent views and interests to provide suggestions as to how WSFP can be improved. The Committee represents the voice of the people and is composed of twenty (20) citizens.

Committee meetings convene no more than three (3) times a year with appropriate WSFP Board and staff members in attendance.

Appointments: Jim Mejchar, Chairman; Representative Scott Gunderson, Vice-Chairman. Note: Additional citizen appointments were made by the Chairman and Vice-Chairman.

Initial Citizen Appointments: Robert Byrd – Bridging the Gap Learning Center; Maria Monreal-Cameron – Hispanic Chamber of Commerce

The findings and conclusions of these Committees shall result in a Business Plan prepared by the Chairman and presented to the WSFP Board and the Governor for approval. The Business Plan shall seek to (1) build a company from the inside rather than the outside, (2) operate within a legal structure that permits financial growth and stability, (3) eliminate shortfalls through creative revenue enhancement and financially strengthening WSFP linkages, and (4) re-create a public trust in the entity and its leadership. What follows are the Chairman's recommendations, which are based upon such Committee reports and his own observations.

### III DISTINCTION BETWEEN STATE FAIR AS AN EVENT AND THE LEGAL ENTITY WISCONSIN STATE FAIR PARK

The Event, which is orchestrated by WSFP, is a consistently successful Wisconsin Event that has over 152 years of history. The financial results of the Event are normally positive and essentially deliver a profit to the bottom line. The Event needs constant attention and analysis to make certain that it is meeting the needs, desires, and demands of its constituents. It is not the Event that is a financial drag on the entity; it is the linkages that surround the Event that have put WSFP in a financially deficit position. Much of the deficit for the past several years can be attributed to defaulted rents not paid by PNIC and the transference of income from consumer and trade show events to the new WEC without WEC being able to at this time to make an equivalent contribution back to WSFP. Additionally, in the last year, the State has assessed a \$2.4 million lapse in program revenue to WSFP to help with the larger State Budget deficit.

WSFP's primary purpose is to celebrate Wisconsin by having an annual Event (the State Fair) where urban Wisconsin citizens meet rural Wisconsin citizens, where Wisconsin's agricultural industries can be showcased, and where people can congregate to be socially and culturally enriched. This core mission remains intact today.

Statutorily, WSFP has secondary purposes that include social, recreational, and entertainment activities. We cannot permit, however, in the future, these linkages to become a financial drag on the Event. *"The Event must not support the linkages – conversely, the linkages must enhance and continue to grow the Event"*.

#### **IV SPECIAL COMMITTEE ON GOVERNANCE AND STRUCTURE**

The Special Committee on Governance and Structure was formed to analyze the WSFP legal structure and determine whether a more conducive legal and business model could be created in the future to make WSFP more competitive in the entertainment marketplace.

##### **Short-Term Considerations**

- While both the Committee and Chairman agree that a new structure may be in WSFP's best interest, a new structure constitutes a long-term solution for WSFP and certain operational, financial, and asset retention issues must be resolved.
- First, to incorporate a new structure, legislative action would be required. The legislative process could take anywhere from one (1) to two (2) years to achieve the ultimate solution. Second, there is an issue as to what assets would comprise the new structure. There is no question that the Event must be protected and is the crown jewel of WSFP. There is also no question that the PNIC, Milwaukee Mile, non-fair operations, and the WEC have contributed to the WSFP deficit and could negatively affect and financially hamper the future of the Event (see Attachment IV, State Fair Park Financial Performance Fiscal Year 2003). Therefore, before a new structure can be implemented, a decision must be made as to what assets become part of the new structure. The basic premise must be that any assets that become part of a new structure must support and not detract from WSFP's core mission; that is, the Event. Segregation of the Event as a single asset entity by maintaining it under its current statutory provisions should continue.

While a new structure was the focus of the Committee, other organizational options currently exist for WSFP and should be considered, with the underlying goal once again being the protection, stabilization, and non-detraction of the Event. Other organizational options might include:

1. Retain the current State statute model with continued State agency attachment. The Department of Administration may be able to provide more flexibility under State rules that have not been fully utilized. While waivers may be able to be obtained in some crucial areas, i.e. procurement, Civil Service, and lapse actions, maintaining the current model may also need further statutory changes. While continued State involvement is anticipated in any new structure, continued State involvement must permit private partnerships and contributions from the private sector without concern of further lapse actions in order to financially stabilize WSFP.

2. Maintain the current model with waivers, potentially some statutory changes, continued State agency involvement, but limit WSFP operations to only the Event and sell, liquidate, lease, or otherwise contract for other WSFP assets so as not to constitute a potential financial drain on the Event.

The Committee had discussed at length the feasibility of selling or leasing all or some of the business entities at WSFP, and retaining only the Event. The Committee concluded that to do so now would significantly hamper the ability to generate maximized revenue streams through combined packaging, significantly reduce the true value of the enterprise, create frequent operational confrontations, and consequently diminish the true financial output potential and value of the total enterprise. It is believed that these entities can, in time, be financially enhanced and their capitalized values increased. Because of its historical significance to racing and to the City of

Milwaukee, the Milwaukee Mile should be given every chance to succeed and perhaps ultimately be folded in as part of the entity that includes the Event. However, if those business entities at WSFP are not revenue neutral or in a profit position in a relatively short period of time, perhaps a two (2) year period, consideration should be given to selling or liquidating those entities or leasing them for guaranteed income streams from their operations through third parties. However, the Committee also felt strongly that the Event needed to be protected and insulated.

The ultimate structure, on a long-term basis, should be the subject of discussion and debate by all stakeholders, and the ultimate format should be a result of the best judgment of stakeholders of WSFP, including its Board, the State Legislature, and the Administration. However, regardless of any new structure, the Event, which is WSFP's core mission, must be protected, preserved and isolated, if necessary, from other non-producing or revenue detracting assets. An ultimate decision as to a new structure long-term ought to be the result of short-term steps taken and changes made within the current structure. Short-term steps and changes for WSFP that should be accomplished immediately include:

1. Retain the Event under its current statutory model and segregate the Event from all other WSFP operations and assets.
2. Hire or promote from within a State Fair Manager pursuant to statute, with limited staff, to serve as the appointing authority and operational manager of the Event.
3. Obtain comprehensive Business Plans before December 31, 2003 from Milwaukee Mile, and request the same from the Boards of WEC and the PNIC.
4. Immediately hire a CFO to improve current business operations and financial accountability and reporting.

5. Under the direction and control of a Marketing Vice President, immediately inventory, price and ultimately sell proprietary rights and contractually obligated income to increase top line revenues and to further capitalize operations.

6. Implement a new and invigorated fund-raising plan that incorporates new and creative revenue source ideas, making the Coliseum renovation, other AG Village improvements and agricultural and education programs a top priority for fund raising.

7. Undergo employee consolidation and reductions as a result of State budget mandates to create cost efficiencies and increase global management control.

8. Undertake a comprehensive WSFP bonding analysis directed by the Secretary of the Department of Administration to determine if a full or partial roll-up and refinance strategy would benefit WSFP's financial position overall.

9. Create performance standards and performance benchmark criteria for each executive hire and staff.

10. On a monthly basis, the WSFP Board should receive a consolidated operating statement for all WSFP entities that indicates monthly and year-to-date financial results with comparisons to actual financial results in the previous year.

11. Adopt other recommendations as made by the LAB and WSFP Committee on Budget and Finance.

12. Obtain a waiver from the State of Wisconsin so that funds from public-private partnerships or the sale of proprietary rights and contractually obligated income can remain with WSFP to avoid future State lapse actions.

13. Settle accounts with the State relative to current operating shortfalls and lapse actions.

14. Consider forming and capitalizing a non-stock corporation under



Wisconsin Statute § 42.01(4)(a) for management of selected WSFP assets ("new company").

These short-term steps and changes need to be immediately undertaken whether under the current structure, or in the alternative, under a "new company" created pursuant to Wisconsin Statute § 42.02(4)(a).

Wisconsin Statute § 42.02(4)(a) states "The State Fair Board may organize a non-stock corporation under ch. 181 for the purposes of raising funds and providing support for the operation, management and development of State Fair Park. The Board shall organize any corporation under this paragraph so that the corporation is exempt from taxation under the section 501 of the Internal Revenue Code. Wisconsin Statute § 42.02(4)(b) states, "The State Fair Board may enter into a contract with any corporation that the board organizes under par. (a) under which the corporation raises funds or provides support for the operation, management and development of State Fair Park.

The primary purposes of the "new company" are to:

1. Insulate the Event from negative financial impacts
2. Manage selected assets
3. Capitalize operations
4. Address the short-term operational requirements necessary to financially improve overall WSFP performance.

It is contemplated that the new company would manage selected assets for a two-year period ("sunset period").

The Event would be retained pursuant to its current statutory model. A Fair Manager would be promoted from within or hired pursuant to statutes to operate the Fair and to serve as appointing authority of the Event. The Fair Manager would have

some State employee staff, however could, pursuant to agreement, contract for any other services from the new company to assist in production of the Event. A working relation agreement would be created between the State and the new company relative to a sharing of expenses, taking responsibility for debt service, (Estimated Debt Service of Entities Operating at WSFP is attached as Attachment V), splitting of income from the sale of proprietary rights and contractually obligated income, and addressing other operational issues of mutual interest to the State and new company. A payment would be immediately made to the existing agency from the profits of the 2003 Event to capitalize and insulate the Event.

To effectuate the short-term requirements and changes, the following would occur:

- A new non-profit company ("new company") and an agreement between the new company and the State would be created as permitted by State statute.
- Agreed-upon revenue streams would be redirected into the new company via agreement between the entities. The Board of the new company would be comprised of current board members of WSFP appointed by the Governor.
- The new company would pay the State a fair rental for undertaking, on a lease basis and pursuant to an agreement, the operation of the WSFP.
- Some of the WSFP debt service obligation would be paid by the new company to be created and determined through agreement with the State.
- The new company would be capitalized so as to settle accounts with the State and to provide for potential agreed-upon deficit reserves for a two (2) year sunset period.
- Payroll for some or all of the remaining Civil Servants based on latest reduced

employment staff would be paid by the new company pursuant to an agreement with the State.

- The State would continue to pay all WSFP related GO bonding costs and municipal service fees directly to the City of West Allis for the sunset period.
- The State would allow the new company to enter into public-private partnerships with companies for purposes of naming rights, sponsorships, signage, and other proprietary rights and contractually obligated income and retain the revenues without the potential of State lapse actions. The sharing of the revenues with the State for the benefit of the Event would be determined by an agreement between the new company and the State.
- A management team for the new company would be created and would include a CEO who would have the following direct management reports: Vice President/GM, Milwaukee Mile; Chief Financial Officer; Vice President Marketing; and Vice President of Operations.
- Other employees would be consolidated into the new company.
- The new company would be capitalized for purposes of settling its accounts with the State and for covering projected deficits during the sunset period.
- The new company may be formed without the need for new state legislation by using Wisconsin Statutes § 42.01(4)(a) and § 42.01(4)(b).
- During the sunset period, and based upon approved Business Plans, the selected assets would be closely watched and financially scrutinized by the Board as to whether to retain those assets as part of a "new structure moving forward" or to otherwise sell, liquidate, or lease those assets. In any event, it is hoped that the new company, through good business judgment and

practices, can increase top-line revenues for its assets and increase the capitalized value of those assets in making the ultimate decision as to whether to retain, sell or lease them.

- If this arrangement successfully works and if the properties that remain in the new company are profitable at the end of the sunset period, a decision should then be made as to whether or not a new structure should be adopted pursuant to legislation.
- Before December 31, 2003, WSFP staff in conjunction with the Committee on Budget and Finance and the Department of Administration and the Boards of the WEC and PNIC shall prepare a financial model prognosticating on a reasonable and conservative basis, the revenue and expenses for each of the business entities operating on WSFP property, including the Event, the RV Park, the Youth Center, Milwaukee Mile, the WEC, and PNIC. Such financial model should also reasonably prognosticate the amount of operating reserves necessary for the sunset period in order to make the new company revenue neutral. Such financial model should also reasonably and conservatively prognosticate additional revenues that can be generated through public-private partnerships and fundraising as a result of the creation of the new company.
- Many issues and questions remain as to the formation of a new company as to its structure, its relationship to the State, agreements between the State and the new company relative to providing services, sharing profits from operations and the sale of proprietary rights and contractually obligated income, debt service obligations, maintenance and improvement of WSFP

property, capitalization, and a settling of accounts with the State.

- For a new company to be successful, these and other issues would have to be “worked out” through agreement between the State and the new company.
- Whether the short-term changes are undertaken under the current structure, the current structure as modified, a new company, or a combination of the current structure and a new company, the short-term changes recommended must be immediately implemented to “change the course” of WSFP and to stabilize and insure the future of the Event.

### **Long-Term Considerations**

While the Special Committee on Governance and Structure identified many of the short-term changes needed to improve WSFP, the Committee directed its attention to a new structure if and when the current financial and operational problems of WSFP are resolved. The Committee concluded:

- As previously noted, WSFP is governed by an independent State agency and a thirteen (13) member WSFP Board created pursuant to Wisconsin Statute § 15.445(4) that is attached to the Department of Tourism for administrative purposes. The thirteen (13) member WSFP Board includes two secretaries (Tourism, Agriculture), five representatives of businesses, four legislators, one resident of the City of West Allis, and one resident from anywhere in the State of Wisconsin.
- The agency is subject to State open record and State open meeting laws and is audited by the LAB. The agency is further subject to State procurement rules, and its human resources are largely subject to the Wisconsin Civil Service system, although the current CEO is a contracted employee.

- Foremost, WSFP is an entertainment venue that is in the entertainment business. Its major asset, the Event, is an eleven (11) day entertainment event. Milwaukee Mile constitutes the venue's fastest growing and most popular spectator sport today – auto racing.
- WSFP must be able to compete with other entertainment venues in and outside the greater Milwaukee region. It is not dissimilar in its functions to some of the entertainment and sports programming provided by Summerfest, the Midwest Express Center and the Bradley Center. As such, the Special Committee on Governance and Structure looked at WSFP in the contemporary context of whether its current structure permits it to be profitable and conduct business in a competitive entertainment environment.
- In the Committee debate and ultimate conclusions, one premise has remained consistent: the State's continued affiliation and involvement. The Committee favored continuance of state representation on its Board through the Administration and State Legislator appointment process, the requirement that meetings, as well as records, be open, and the continuance of an audit by LAB as required by current law.
- What most of the debate centered upon, however, was WSFP's future ability to retain its own revenues without future legislative or state budgetary lapse actions. Rather, WSFP requires the ability to enter into public/private partnerships wherein the private sector is guaranteed that its money so invested would stay at WSFP.
- Furthermore, WSFP requires the ability to hire employees especially in key management positions to tailor its own procurement procedures to fit its

business needs and to establish a calendar financial year to match the annual calendar of events.

- In addition to this discussion, the Committee undertook a comparative analysis of the structure of other State Fairs. Other than Wisconsin, California and Colorado, most of the current state fairs reviewed are structured in some form of government authority or a private non-profit charitable corporation.

(See Attachment I.)

- As a result of the debate and research undertaken by staff, the Committee members agreed on the following general principles:

#### **Principles**

- WSFP needs to control its own destiny relative to revenue generation and expenses.
- WSFP's reporting year must be changed from a State fiscal year to a calendar year basis to allow for better budget planning and clearer financial reporting.
- WSFP Board and WSFP management should govern procurement while still maintaining the option to take advantage of the State procurement opportunities.
- The management of human resources should be handled by the CEO of WSFP with appropriate oversight from the WSFP Board. This measure will allow WSFP and its related entities to manage itself and the industry's specific talent it needs to stay current and competitive.
- WSFP should operate under the best examples of government for a public/private partnership.

- A governance structure should be created that would allow for a separate endowment to be created as a means for raising philanthropic contributions for WSFP's long-term financial security.
- The new structure should clearly articulate what financial role the State and the private sector are to play.
- A change in structure will be a good public relations message for purposes of strengthening the relationships between WSFP and its business partners and creating more public confidence that the business enterprise has a chance of succeeding if it has the opportunity to operate as a normal business.

**Structure**

- The Committee recommends that a new WSFP structure be created to provide the organization with a business environment and the tools necessary to succeed. The Committee identified the following key elements:
  - Open record and open meeting laws should be incorporated into the new structure.
  - The new structure should allow for Legislative and Administrative representation on the governing board. Having representatives from both branches of government provides balance and reassurance that sound decisions are being made on behalf of the State of Wisconsin.
  - Management should have one direct report to the new structure Board.
- Currently the CEO has to coordinate with numerous State Department heads for clearance on organization decisions, i.e. Tourism, Agriculture, Administration, LAB and LFB. Additionally, WSFP staff work on a daily basis with requests from lower level State department staff throughout State



- government. To maximize performance, clear lines of reporting authority must be established between the CEO, the management team and the Board to eliminate additional outside reporting obligations.
- The new structure should be governed by a Board appointed by the Governor and operated on a day-to-day basis by a CEO with direct reports representing specific industry talents. A proposed enterprise organization and function chart is attached. (See Attachment II.)
  - The new structure should establish a calendar reporting year to better match the enterprise's annual event schedule. The current State fiscal year makes budget planning and financial reporting much more difficult as both the State Fair and the racing season fall across two separate fiscal years. Until this procedure is changed, management will be burdened with having to create multiple reporting formats (one for the State and one for the WSFP Board) as well as track two separate budgets formats. This method creates an inefficient use of human resources and creates a confusing public message.
  - The State Civil Service system plays an important role in conducting day-to-day government operations. Civil Service, however, was never designed nor intended to provide the flexibility required to accommodate the needs of an entertainment enterprise such as WSFP. Currently, hiring or implementing changes must be done through the Civil Service process, within Civil Service guidelines and requires the approval of the Department of Tourism Appointing Authority. The new structure should provide WSFP with the ability to attract, hire and change personnel without delay or restrictions, especially in key management positions. The Committee, however, would recommend

accomplishing changes in phases utilizing attrition, mandated state budget position reduction requirements and phase out strategies in order to provide current Civil Service personnel ample opportunity to make sound and beneficial career decisions. The new structure could in fact provide for remaining Civil Servants to contract with the new entity for specific duties currently performed for WSFP.

- The Committee recommends after the sunset period continued employee consolidation between operating entities at WSFP, by possibly folding Milwaukee Mile, WEC, and the PNIC under one new organizational umbrella. This measure will provide financial savings and efficiencies of scale for the entire enterprise and create more coordinated Park-wide programmatic and marketing efforts for increased revenue generation.
- The new structure should allow for the WSFP Board to develop its own set of procurement guidelines as an alternative to using the State procurement system. WSFP's business is very unique within State government, and therefore, should be provided procurement rules that fit its needs. The new structure should, however, provide the option to use the State system where beneficial i.e. the ability to buy off of the State contract list. The WSFP Board should adopt key State procurement policies to ensure fairness among providers of goods and services.
- WSFP should be provided the authority to oversee the operations of PNIC under one umbrella enterprise if WSFP continues to be held accountable and financially responsible for its debt service. The non-profit corporation,

however, should be maintained to receive the benefits of the philanthropic contributions.

- The Committee recommends creating an entity that permits the separate or subsidiary creation of a vehicle for fundraising and perpetual endowment.
- The new structure should allow for WSFP to retain all revenues and contributions generated by the entity.
- The new structure should retain continued use of the LAB.
- Legislation for the new structure should define by statute, the legal and financial relationship between WSFP and the State as it relates to Park property. For the new structure to be successful, it must be properly capitalized through private resources, have sufficient operating reserves to meet projected deficits, if any, and it must commence business without being in a deficit position.
- WSFP should utilize the best combination of quasi-government models for the new structure, including the models for Summerfest, Bradley Center Entertainment Corporation, Miller Park, Lambeau Field, Midwest Express Center, Wisconsin State Investment Board, WHEDA and UW Hospital.

Copies of agency models and a comparative matrix are attached to this report as Attachment III.

## **V SPECIAL COMMITTEE ON LINKAGES**

What follows are the commentary and recommendations with respect to the legal and financial relationship between WSFP and Milwaukee Mile, PNIC, WEC, and Permanent Stand Vendors, and recommendations for restructuring or change.

## **A. MILWAUKEE MILE**

- Land purchased in 1892 as a permanent site for the WSFP included an oval racetrack that was originally the site for horse races, which continued until 1954. 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 25% of the fairgrounds. The Milwaukee Mile is the oldest operating automobile speedway in the world.
- The Milwaukee Mile racetrack, its management structure, and its financial relationship with WSFP 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 WSFP Board announced that it was ending its racing promoter contract through a rights purchase so that Milwaukee Mile could be managed and promoted internally by WSFP, to give WSFP full control of Milwaukee Mile's future potential.
- Milwaukee Mile's real estate is a valuable asset. The reacquisition of the promoter rights is the equivalent of the reacquisition of control of WSFP real estate. Whether racing is successful on a short or long term basis, the termination of the promoter's contract makes Milwaukee Mile real estate free and clear of a long-term encumbrance and returns to the State options as to the future use of the land that encompasses Milwaukee Mile.
- In July 2002, a new agreement (2002 Agreement) was negotiated with Carl A. Haas Racing Teams, Ltd. (Haas), and replaced the original 1992

Agreement (1992 Agreement) to facilitate building of a new grandstand structure. The 2002 Agreement restructured the business formula and eliminated the mandatory annual minimum rent of \$300,000 paid by Haas as contained in the 1992 Agreement. The 2002 Agreement required that annual debt service be paid from race related revenues and be reimbursed to Haas only in the event that the promoter did not generate sufficient net income for that given year. Under this scenario, the 2002 Agreement provided that the WSFP would then be reimbursed for that debt service from net income generated in the next year. If, in a three (3) year period, Haas did not pay WSFP at least \$900,000 in net profit and cover debt service payments, WSFP would have the unilateral right to terminate the 2002 Agreement. Under the 1992 Agreement, Haas paid most outstanding debt service from infield improvements, track resurfacing and fencing. Debt service payments averaged \$362,000 from FY 1998-1999 through FY 2002-03. However, the 1992 Agreement provided few termination provisions other than for non-payment of minimum rent or criminal actions and provided no oversight opportunities relative to race budgets or expenses. In comparison, the 2002 Agreement added better termination options under a short time frame, increased profit sharing to a 50-50 level and expanded oversight as to annual operating budgets and marketing activity. The 2002 Agreement allowed for the new Grandstand to be built and preserved racing for the future benefit of WSFP.

- Haas audited financial statements reported net losses in calendar years 2000 and 2001. Declining revenues were attributed to the split between

CART and IRL in the open wheel racing industry. In calendar year 2002, Haas again reported a significant net loss. Consequently, WSFP racing revenues declined under the first year of the 2002 Agreement from \$772,984 in 2001 to \$34,900 in 2002.

- Despite a posted loss by Haas in 2002, WSFP now had the right to terminate the 2002 Agreement if net profit to WSFP was less than \$900,000 over a three-year period and debt service had not been met. Therefore, WSFP's long-term exposure of keeping an under-performing promoter was reduced from twenty (20) years in the 1992 Agreement to three (3) years in the 2002 Agreement.
- In retrospect, the 2002 Agreement today certainly can be criticized for including (1) profit-sharing provisions that had limited or no value (given Haas's consistent losses and failure to more vigorously promote or expand its racing program); (2) the elimination of the minimum annual rent payments of \$300,000; and (3) the elimination of the requirement for Haas to reimburse WSFP for debt service costs if Haas did not realize a profit. However, WSFP saw increased revenue generation potential by eliminating the middleman that could ultimately lead to an increased capitalized value of the asset. The acquisition created no more risk to WSFP than the existing 2002 Agreement. Operational control of Milwaukee Mile would provide further cost efficiency through organizational consolidation. While WSFP was always responsible for the \$3.2 million in debt, in re-acquiring the promoter's rights it also acquired over \$4.4 million in capital improvements made to the racetrack by Haas

- during the term of the Agreements and other assets that had a much higher fair market value than its stated value on Haas's books.
- The buyout or termination of the Haas contract should be looked at from a cost standpoint as a reacquisition of WSFP real estate and a termination of an under-performing contract, given the capital investment that the Milwaukee Mile represents. Under the 2002 Agreement, WSFP would have been responsible for outstanding debt service. Most importantly, if WSFP had not renegotiated the Agreement which permitted the building of the new Grandstand, sanctioning bodies would likely have moved their races to newer facilities across the country and eliminated racing from the WSFP in total.
  - It is believed that greater profitability can be achieved through the elimination of a promoter/middleman. Wisconsin has a strong and vibrant racing community including twenty-six (26) flat tracks throughout the State. Additionally, Milwaukee Mile has a rich and revered racing history throughout the racing industry. What has lacked over the last several decades is a sense of connection or affinity by the grass roots fan base to the once popular Milwaukee Mile.
  - WSFP, at the recommendation of the 1999 Strategic Development Committee Report, has invested significant capital into the renovation of the Milwaukee Mile with the goal of creating a "state-of-the-art" facility of its kind in the racing industry.

- Racing must be given a chance to grow under new WSFP ownership and leadership in order to reach its true potential. To realize its true potential, the following actions must be taken by WSFP management:
  1. Establish actual revenue/expenses numbers for calendar year 2003 for purposes of constructing a 2004 budget.
  2. Before December 31, 2003, the WSFP Board should be presented with a reasonable and sound financial budget forecast for the 2004 racing season for purposes of understanding the potential profitability and/or financial risk of Milwaukee Mile.
  3. Consider extending the employment contract of the General Manager ("GM") after a performance review and after setting performance standards, and provide him the tools and opportunity to build his team on an integrated basis with the WSFP enterprise and an overall successful operation.
  4. Exploit all possible signage inventory sales for purposes of maximizing revenues.
  5. Explore and pursue all product exclusive category opportunities related to the Milwaukee Mile and where appropriate, coordinate and incorporate the opportunities with key WSFP-wide packaging efforts.
  6. Continue to develop and implement new leading edge hospitality entertainment events leading up to the races. The goal is to market each race as an entertainment event, not just a race.
  7. Pursue naming rights for the Grandstand, infield road course, and



track gates.

8. Develop a "Friends of Racing" program to grow a greater race enthusiast base and help to foster new corporate sponsorship affiliations for Milwaukee Mile. "Friends of Racing" should represent a cross section of Wisconsin racing enthusiasts to ensure proper representation.
9. Increase the local visibility of Milwaukee Mile program by consistently participating in community events such as the "Drive The Mile" event scheduled for October 11, 2003 to benefit America's Second Harvest of Wisconsin.
10. Secure 2004 major race dates this year to help expedite market penetration for the 2004 season.
11. Increase race program schedule from two (2) race weekends to four (4) race weekends and space the race weekends across three (3) to four (4) months to grow revenue streams. The four (4) race weekends should include races sanctioned by CART, NASCAR, IRL, USAC and ASA.
12. Create a full race season ticket package to help foster admissions and sales growth.
13. Ensure that the average fan has the opportunity to participate in hospitality offerings, ticket packages and privileges formerly available only to the corporate community.
14. Focus on supplementary non-race event programs such as Harley rallies, auto car fairs, etc.

15. Focus on utilizing Milwaukee Mile during the winter months, especially for recreational snowmobiling and snowmobiling races.
16. Develop outreach programs in the Hispanic community to help the fan base grow.
17. Continue developing the night race concept with CART and explore use of the concept for the NASCAR Truck race or weeknight mini-oval/race course series.
18. Invest capital in upgrading the infield road course to allow for increased program potential such as the legends series, sports car club races, motorcycle races, go-cart series, and driving schools. Before such capital is invested in upgrading the infield road course, WSFP management needs to present to the WSFP Board reasonable and sound financial projections as to revenues and expenses that can reasonably be expected to be generated based upon the capital cost infusion for the infield road course.
19. Pursue road course race entitlement sponsorship opportunities.
20. Purchase an upgraded leader board (scoreboard) to increase advertising opportunities and to provide better customer appeal.
21. Explore retooling the existing scoreboard into two sections for north/south end placement to provide increased sponsorship inventory and fan amenity.
22. Incorporate digital messaging boards on top of scoreboards to send messages to crowd as well as to sell rotating advertising.
23. Build a new media and infield care center (both required by

sanctioning bodies) and pursue sponsorship for both.

24. Consolidate Milwaukee Mile staff and WSFP staff to reduce costs and take advantage of respective organizational strengths.

25. Act immediately to fill skilled staffing gaps where required.

26. Increase ticket sales by implementing enhanced telemarketing and group sale efforts.

27. Work closer with the respective sanctioning body marketing teams to develop joint programs to grow awareness and ticket base sales in local markets.

28. Maintain affordable or value-added ticket packages that do not out-price the ordinary fan.

29. Hire an outside marketing firm, if necessary, to assist the Milwaukee Mile staff in the inventorizing, pricing and sale of the proprietary rights of Milwaukee Mile in conjunction with and under the supervision of WSFP Marketing Director in an attempt to capture new contractual income for the 2003-2004 racing season.

30. Before December 31, 2003, WSFP/Milwaukee Mile management should develop a detailed and comprehensive Business Plan for its racing programs, and present the plan to the WSFP Board. The Business Plan should include a reasonable and sound prognostication of revenues, including revenues generated by contractually obligated income, and operating expenses based upon contracted events for 2004, current and future staffing needs for 2004, and any additional capital expenses that may be

necessary to increase use and event days.

- In conclusion, racing is the most popular spectator sport in America.

Milwaukee Mile can be reborn and become profitable with strong management and marketing. Management should be given an opportunity to build the brand for purposes of not only increasing revenues but the capitalized value of the asset. The Milwaukee Mile Business Plan ought to set reasonable goals for profitability, and if those goals are not met after several years of operation, other options need to be explored with respect to either selling the promotional rights or converting the asset to other developmental or WSFP uses.

#### **B. PETTIT NATIONAL ICE CENTER**

- PNIC's building is State owned, but operated and maintained by the Pettit National Ice Center, Inc., a 501C(3) corporation, pursuant to a Lease Agreement. PNIC was built in 1992 at a cost of \$13.3 million that was financed from approximately \$4.0 million in private contributions and 9.3 million in program revenue-supported bonds. Funds to retire the outstanding debt are to be provided through rent payments from the PNIC to WSFP under a Lease Agreement for which PNIC is responsible for its own operating costs and for the debt service costs that WSFP incurs on its behalf.

- PNIC is expected to pay WSFP rent of approximately \$74,400 per month to cover debt service costs. However, as of June 2003, the PNIC owed a total of nearly \$1.3 million, or seventeen (17) monthly payments, to WSFP. In FY 2002-2003 alone, PNIC did not provide rent payments to WSFP for

five months, totaling approximately \$371,600. Because WSFP must continue to make debt service payments on PNIC without offsetting rental revenue, the amount available for other fairgrounds operations is reduced.

- WSFP is designated as Landlord pursuant to the Lease Agreement affecting PNIC dated December 18, 1992, and the lease has a twenty (20) year term that commenced about December 19, 1992 and terminates about March 31, 2013.
- The Lease Agreement is essentially a pass-through vehicle wherein the rental payments to be paid by PNIC are the equivalent of the debt service payments to be made on the underlying debt by WSFP to the bond holders.
- WSFP is financially exposed pursuant to said Lease Agreement in that if PNIC does not pay its rent, WSFP is still responsible for paying the underlying indebtedness, i.e. WSFP is responsible to continue making debt service payments on the facility without the offsetting revenue if not received.
- WSFP receives no economic benefit from PNIC other than the facility being physically located on the WSFP property. WSFP does not share in any revenues or in any economic upside and also is responsible for the payment of municipal services.
- PNIC's financial future is uncertain due to program inventory, capital reserves, the configuration of the building as an Olympic oval, the restrictions placed on the building and operations by the Olympic rings,

the advent of new competition in the marketplace, and the inability to consistently perform under the Lease Agreement.

- A September 4, 2003 Milwaukee Journal-Sentinel article entitled "Ice Rink Operators Feeling a Chill" indicates that "some believe the growing number of arenas will outpace demand. The poor economy and a surge in arena construction have indoor skating rinks in southeastern Wisconsin on thin ice. With a prospective new complex of five rinks being built in Cudahy, some facility operators fear there soon will not be enough hockey players, figure skaters, and other winter sports participants to go around."
- PNIC has struggled financially since its opening and has been able to continue operations only through continued private contributions intended to compensate for its operational costs. It should be noted, however, that the original business documents stated that PNIC, even at full capacity would not be capable of covering both operating expenses and debt service.
- Because PNIC is a private, not-for-profit corporation, its financial records are not available to public scrutiny. 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 below, PNIC has generated net losses in four of the last five years, and in 2001 and 2002, the losses totaled more than \$642,000.

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

- The Lease Agreement contains a provision that during the months of June, July and August, rent shall be abated unless otherwise agreed to by the parties. To the best of our knowledge, there has never been a rent abatement notice nor use of the facility by WSFP during the stated months that would cause a rent abatement.
- The original business model for PNIC has achieved part of its mission, which was to provide a facility to develop world class skaters. The long list of U.S. gold medal winners underscores this point. This model, however, was deficient in not providing enough program alternatives to generate sufficient revenues to underwrite the ongoing costs of the facility and its programs.
- Since its creation, PNIC has operated and functioned as an independent entity at the WSFP, with little or no programming or marketing interaction with the WSFP. This arrangement has not helped PNIC in terms of business growth or market visibility and needs to change for PNIC to be successful in the long-term.

- If PNIC is to be financially successful in the future, the underlying indebtedness must be refinanced, refit, or totally repaid to lessen the debt service burden on PNIC.
- A seat on the PNIC Board designated for a WSFP representative should be created and filled immediately.
- Due to the pass-through structure of the Lease Agreement, PNIC has fallen into default on its lease obligations. Current payments due total in excess of \$1.3 million, which have subsequently been paid by WSFP to the detriment of WSFP's financial condition. The payments have added to deficits or shortfalls for WSFP. PNIC has never been given a written legal notice of default.
- Given the age of the building, significant maintenance, cosmetic, and capital improvements can be expected; however, no reserve fund currently exists. This issue must be addressed and incorporated into any future plans for PNIC. An engineer, building expert, or Division of Facility Development representative should be retained to prepare a report on the current status of the building's maintenance, repair and capital improvement needs.
- Recently, PNIC has hired a new Executive Director and Program and Marketing Director, entered into a contract with a local hockey group to strengthen its training program, and announced that Olympic speed skating is returning to Milwaukee.



- On August 29, 2003, PNIC representatives presented to the Chairman a preliminary performance plan and budget. This plan calls for increased programming and revenue generation and includes:
  - The need for a third sheet of ice outside the facility and increased recreational and public skating;
  - Utilization of the running/walking track and potentially leasing some of the PNIC space to a health/fitness facility;
  - Reconfiguration of the Hall of Fame second floor of the facility into a viewing/restaurant/shop and center of commerce;
  - An increase in sponsorships and charitable contributions to the 501C(3) organization;
  - Dan Jansen serving as a spokesperson for the Friends of Pettit program;
  - Further development of a revenue and brand-building relationship with the U.S. Olympic Committee, U.S. Speed Skating, U.S. Hockey, and U.S. Figure Skating;
  - Embrace of the rings and marks to actively promote PNIC's designation as a U.S. Olympic training facility and potentially changing the name of the facility to the Pettit Olympic Training Facility;
  - Establishment of PNIC as the official home of the development office of U. S. Speed skating;
  - Leverage of the availability, proximity, and affordability of WSFP Youth Center to create a virtual Pettit campus that could be

incorporated into a myriad of skating and Olympic training programs;

- Development of a programming strategy for PNIC's facility during the full run of the Wisconsin State Fair;

- PNIC, for purposes of cost efficiencies, should consider shared services with WSFP in the area of marketing services, printing, advertising, facility operations, Youth Center and administrative services;

- As a Landlord and to legally protect WSFP and the State, an appropriate notice of default should be given to PNIC so that the defenses of estoppel, waiver and laches cannot be asserted. This notice should be accompanied by a letter from WSFP providing scenarios under which operation by PNIC could continue. The scenarios or a combination of scenarios would be as follows:

1. Before December 31, 2003, PNIC shall present a final Business Plan to the WSFP Board which contemplates the repayment of rental arrearages to WSFP, provides for retirement of the underlying indebtedness through refinancing or satisfaction, provides for an appropriate Purchase Agreement of the improvements on the Property, and create a satisfactory ground lease relationship between the State and the PNIC.

2. Before December 31, 2003, PNIC shall present a final Business Plan to the WSFP Board that contemplates

repayment to WSFP of amounts in arrears, an increase in revenue streams and programs, and a renewed effort to obtain private contributions which will assist PNIC in securing its ability to make rental payments and other operational expenses and capital improvements. If WSFP is convinced that such Business Plan could work, WSFP would make a good faith effort to have the underlying indebtedness refit so as to reduce the monthly rental payments, providing, however, that WSFP and PNIC renegotiate their Lease Agreement more akin to a triple net lease that makes PNIC responsible for all operating expenses, municipal services, maintenance, improvement and capital reserves for the Property.

3. WSFP takes over control of facility operations under the new company for continued ice and other programming, while retaining the 501C(3) entity for purposes of receiving the annual Pettit Foundation payment and additional philanthropic contributions. This scenario would envision the charter of the 501C(3) to be narrowed to focus strictly on serving as the fundraising vehicle and contributory conduit for the PNIC's future financial well being.
4. WSFP takes control of the facility under the new company for alternative uses and programming or leases the building to a third party..

5. The State Legislature takes action in further defining WSFP's future relationship with PNIC, including the level and source of public financial support that may be necessary to continue the PNIC and alleviate the responsibility of WSFP for PNIC financial losses.

In conclusion, the current pattern of business operation cannot continue unless there is an immediate action taken on the part of PNIC, WSFP and the State to rectify the current situation.

### **C. WISCONSIN EXPOSITION CENTER**

- Exposition halls for consumer and trade shows have a long history at WSFP. In 1910, the Machinery Hall (South Exhibit Hall) opened for such purposes. In 1924, a new building (North Exhibit Hall) was built to accentuate such activities. In 1925, appearing at the fairgrounds for the first time, the Wisconsin Manufacturers Association held its third Wisconsin Products Exposition. Extensive made-in-Wisconsin displays helped to develop a better understanding between agriculture and industry. Therefore, WSFP has a long history of buildings that are dedicated to expositions.
- In October 2000, the WSFP Board created a separate legal entity, the not-for-profit State Fair Park Exposition Center, Inc., to build and manage the WEC on the fairgrounds. WEC is owned and governed by a five (5) member board consisting of the Chair of the WSFP Board, one (1) other member of the WSFP Board, and three (3) members appointed by the WEC Board. The WEC 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.

- The decision to create a not-for-profit corporation was based on various factors, including:
  1. the not-for-profit corporation was able to use industrial revenue bonds for construction costs;
  2. industrial revenue bonds allowed the building process to proceed on a faster schedule because review and approval by the State Building Commission was not required; and
  3. the creation of a private not-for-profit corporation would allow WEC to operate without any of the statutory constraints placed on state agencies, such as numerous procurement and personnel requirements.
- The 271,000 square-foot WEC, which opened in August 2002, was built to accommodate large events previously held in various WSFP exhibit buildings and to attract new events, including large consumer and trade shows.
- WEC's construction was funded with \$44.9 million in industrial revenue bonds that the City of West Allis issued to cover planned construction costs of \$35.8 million, as well as an \$8.5 million reserve for debt service and interest costs. The City of West Allis loaned the bond proceeds to the WEC Board, and the WEC Board obtained a letter of credit from a commercial lending institution (U.S. Bank) to secure the loan and the bonds. The industrial revenue bonds that funded WEC's construction

were refinanced in October 2002. Under the refinanced bonds, annual debt service payments will be \$2.5 million in FY 2003-04, and will increase to \$3.3 million by FY 2010-11 and remaining at approximately that amount through FY 2028-29, when the bonds are completely repaid. WSFP is not liable for the underlying indebtedness, and unless WEC immediately takes steps to increase top-line revenues, the underlying indebtedness may be in jeopardy of default in that capitalized interest and reserves have been utilized for payment subsidization.

- WEC's construction has created a most attractive new venue at the fairgrounds, profits generated by WEC for the benefit of WSFP were not projected for WSFP until the third year of operation. However, revenue loss to WSFP was disclosed in the approval process. The WEC business model has contributed to the continuing financial pressures on WSFP's operating budget.
- The construction and opening of the new WEC in August 2002 transferred approximately \$400,000 in parking revenue from WSFP to WEC, shifted event revenues of approximately \$1.7 million and required WSFP to pay annual rent of \$200,000 for use of the venue during the State Fair. WEC was built, in part, to replace aging State Fair facilities. After the August 2002 State Fair, WSFP razed exhibit buildings that had been the primary non-fair revenue-generating facilities on the fairgrounds to eliminate potential cross competition between entities. As a result, WSFP experienced a substantial decrease in available cash flow from these events.

- WSFP'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% decrease.
- According to its staff, the WEC has held or is scheduled to hold only thirty-four (34) events in calendar year 2003, or one-half of the sixty-eight (68) events originally projected.
- WSFP will receive no rent from WEC in calendar year 2003. Several factors will make it difficult to significantly improve profitability in the short term (2003, 2004 and 2005). For example:
  1. The pro forma as originally constructed and upon which the debt service was based was overly optimistic and aggressive.
  2. WEC's president, who is important in marketing the entity, resigned in April 2003 after a short tenure in his position, and the position has not yet been filled, although interviews for the position are being held in September and October 2003.
  3. Pre-opening marketing was undertaken too late because exposition dates are typically finalized more than a year or two in advance and consequently, many events were already reserved at other facilities for calendar year 2004. As of 10/15/03 only twenty-three (23) events have reserved the WEC in 2004.
  4. To facilitate operating of WEC, the WSFP Board and the WEC entered into two agreements in August 2001: a Ground Lease Agreement and a Licensing Agreement. Both agreements contained provisions that favor the WEC at the expense of WSFP.

5. WEC was built as a single-purpose building to support and grow the traditional consumer and trade show lines of business at the WSFP for the good of the enterprise. However, by shifting annual revenues generated from this line of business to WEC, WSFP put itself in a more tentative financial position and subsequently has contributed to the deficit for WSFP.
- The building was designed both operationally and esthetically as one of the best stand-alone exposition centers in the country and therefore is believed to be capable of performing successfully in this industry in the future provided that top line revenues are increased and provided that the following occurs:
    1. A new, experienced President should be immediately hired who possesses significant sales, promotional, marketing, and entrepreneurial skills.
    2. Event dates are substantially increased.
    3. Non-traditional events and meetings are procured to fill in non-event day openings in slower months.
    4. Non-event revenues must be significantly increased in the following areas:
      - Naming Rights must be aggressively pursued and secured for the building.
      - Signage is currently non-existent throughout the interior of the building and must be pursued with sponsors.
      - Opportunities must be pursued for corporate sponsorship.



- WEC lobby should be utilized as a Wisconsin Business Showcase wherein Wisconsin companies can showcase their stories and products in a kiosk or exhibit format and enter into license and signage agreements with WEC.
- 5. Current operating overhead levels must be significantly and immediately reduced and better integrated with WSFP.
- 6. The Chairman of the WSFP Board shall automatically serve as Chairman of the WEC Board subject to a legal opinion that the dual roles of Chairman of WSFP and WEC Boards is not a conflict of interest..
- 7. Three (3) new WEC Board members must be immediately appointed to fill vacancies created by resignation.
- 8. WEC and WSFP must work closely to achieve better labor efficiencies through cross-staff utilization arrangements.
- 9. A new budget and pro forma should be created before December 31, 2003 to more realistically reflect expected revenues and reduced expenses.
- 10. WEC leadership needs to drive business by creating unique business packages, not being so rigid on license fees and scaling up licensing fees on longer term contracts
- 11. The relationship with the concessionaire should be reviewed to determine if the concessionaire would capitalize the cost of a kitchen which would create alternative uses for WEC and Milwaukee Mile.