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☞ Details: Legislative Audit Bureau Report 06-7: An Audit: State Fair Park

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

Joint

(Assembly, Senate or Joint)

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STATE OF WISCONSIN

Legislative Audit Bureau

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Janice Mueller
State Auditor

DATE: June 22, 2006

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

FROM: Julie Gordon *Julie Gordon*
Financial Audit Director

SUBJECT: Report 06-7: An Audit of State Fair Park

As required by s. 13.94(1)(dm), Wis. Stats., we have completed a financial audit of the Wisconsin State Fair Park. We have issued an unqualified opinion on State Fair Park's fiscal year (FY) 2004-05 financial statements, which are provided in report 06-7.

As part of our audit, we also followed up on concerns raised in previous audit reports regarding State Fair Park's financial condition. In FY 2004-05, State Fair Park reported its largest loss in recent years, with expenditures exceeding revenues by \$3.6 million. A priority for State Fair Park has been changing its relationship with the Milwaukee Mile and the Pettit National Ice Center, both of which have placed significant demands on the agency's financial resources.

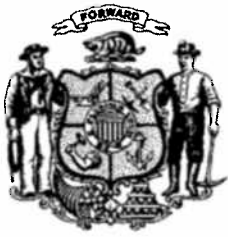
To limit future losses, agency officials have entered into an agreement that licenses a private promoter to operate the Milwaukee Mile racetrack. The promoter is responsible for all future racetrack improvements and will provide annual license fees to fund State Fair Park's debt service costs on past racetrack improvements. However, State Fair Park will continue to incur racing-related costs of nearly \$1.8 million in 2006.

Legislation to sell the Pettit Center to its not-for-profit corporation was introduced but not enacted during the most recent legislative session. However, State Fair Park continues to pursue the option of selling the Pettit Center. To ensure continued oversight, we recommend that State Fair Park report to the Joint Legislative Audit Committee by January 1, 2007, on its short- and long-term plans to stabilize its financial condition.

The audit will be released on Friday, June 23, at 9:00 a.m. Please contact us if you have any questions regarding the report.

JG/km

Enclosures

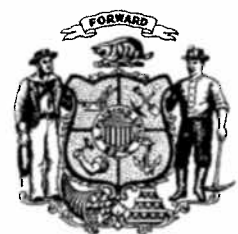


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An Audit

State Fair Park

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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.

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State Auditor - Janice Mueller

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Janice Mueller
State Auditor

June 23, 2006

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:

As required by s. 13.94(1)(dm), Wis. Stats., we have completed our annual financial audit of State Fair Park. We have issued an unqualified opinion on State Fair Park's fiscal year (FY) 2004-05 financial statements and have continued to monitor its financial condition and efforts to improve its financial performance.

State Fair Park's expenditures have exceeded revenues in each year since FY 1999-2000. In FY 2004-05, it reported a loss of \$3.6 million, and its accumulated cash deficit increased to \$9.7 million.

In an attempt to limit future losses, State Fair Park has entered into an agreement that licenses a private promoter to operate the Milwaukee Mile racetrack. The promoter is responsible for all future racetrack improvements and will provide annual license fees to fund State Fair Park's debt service costs related to prior racetrack improvements. However, State Fair Park will continue to incur racing-related costs of nearly \$1.8 million in 2006.

The Pettit Center, which is owned by State Fair Park but operated by a not-for-profit corporation, has reported net losses in each of the past five years. By June 30, it is expected to owe State Fair Park \$1.3 million in past-due rent, which was intended to cover debt service costs that State Fair Park pays on the Center's behalf. Legislation to sell the Pettit Center to its not-for-profit corporation was introduced but not enacted during the most recent legislative session. As proposed, the sale would have required \$2.6 million in general purpose revenue to fund future debt service costs related to the Pettit Center.

State Fair Park continues to pursue the option of selling the Pettit Center. Decisions regarding future state support may be needed if the Wisconsin Exposition Center continues to experience cash flow difficulties and if further capital improvements are proposed for the fairgrounds.

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

Respectfully submitted,

Janice Mueller
State Auditor

JM/JG/ss

An Audit:

State Fair Park

June 2006

Report Highlights ■

State Fair Park's financial condition continues to deteriorate.

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

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

- racing activities at the Milwaukee Mile racetrack and grandstand, which were managed by a private promoter until May 2003 and by State Fair Park from that date through December 2005;

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

- the Pettit National Ice Center, a United States Olympic training facility that is owned by State Fair Park but operated by a private not-for-profit corporation; and

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

- the Wisconsin Exposition Center, which is owned by a not-for-profit organization, used exclusively for the Wisconsin State Fair each August, and available for other events throughout the year.

The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for State Fair Park's management. We are required by statutes to perform an annual financial audit of State Fair Park.

We have issued an unqualified audit opinion on State Fair Park's fiscal year (FY) 2004-05 financial statements, which are included in our report. We also followed up on concerns raised in previous audit reports regarding State Fair Park's financial condition.

Key Facts and Findings

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

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

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

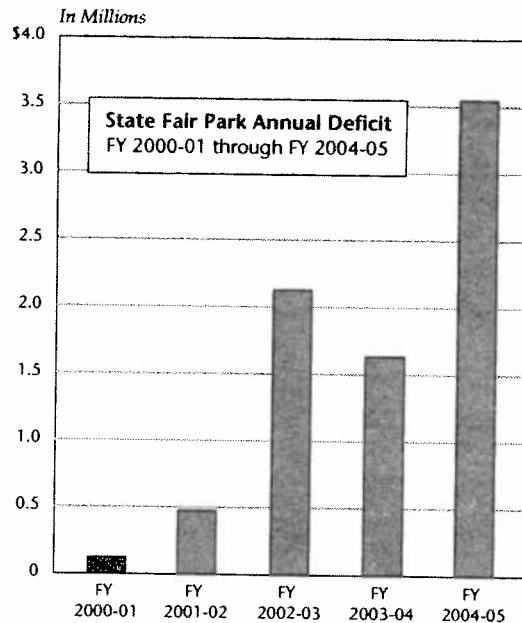
The Milwaukee Mile reported losses totaling \$7.3 million for its three years under State Fair Park's management.

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

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

Fiscal Decline

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



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

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

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

The Milwaukee Mile

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

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

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

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

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

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

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

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

The Pettit Center

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

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

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

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

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

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

Proposed Future Changes

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

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

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

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

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

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

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

Recommendation

We include a recommendation for State Fair Park to:

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

Additional Information

For a copy of report 06-7, which includes a response from State Fair Park's executive director, 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

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.

Legislative Audit Bureau

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Janice Mueller
State Auditor





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

Handwritten number: 255 3679

For Immediate Release

June 23, 2006

For More Information Contact:

Representative Suzanne Jeskewitz
Senator Carol Roessler

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Audit Renews Co-Chairs' Concerns about State Fair Park's Financial Condition

(Madison) Today, the nonpartisan Legislative Audit Bureau (LAB) released a financial audit of the Wisconsin State Fair Park. Although LAB issued an unqualified audit opinion on State Fair Park's financial statements for fiscal year (FY) 2004-05, the audit notes continuing concerns with the overall financial condition of the Park.

LAB reports that State Fair Park's annual expenditures have exceeded total revenues in every year since FY 1999-2000. The \$3.6 million loss reported in FY 2004-05 was the largest in recent years. State Fair Park officials currently project a loss of \$2.0 million in FY 2005-06, which would bring the accumulated cash deficit to \$11.7 million.

"State Fair Park is an important resource for the State of Wisconsin," stated Joint Audit Committee Co-Chair Senator Carol Roessler (R-Oshkosh). "However, their financial losses are covered by the State's General Fund and, therefore, by the taxpayers. The Park must design and manage its financial structure with the Milwaukee Mile, the Pettit Center, and the Exposition Center in ways that do not continue to generate losses. We will examine these losses in detail and pursue necessary improvements to State Fair Park's financial condition."

The audit indicates that increases in program revenue funded debt service payments and State Fair Park's relationships with the Milwaukee Mile and the Pettit National Ice Center have placed significant demands on State Fair Park's financial resources. Under management by State Fair Park, losses for the Milwaukee Mile totaled nearly \$7.3 million over a three-year period. While this agreement recoups the majority of future debt service payments related to the Milwaukee Mile, State Fair Park will continue to incur \$1.8 million in racing costs in 2006. In December 2005, State Fair Park entered into a license agreement with a private promoter to manage the fairgrounds racing activities.

LAB reports that expenses for the Pettit Center have exceeded revenues in each of the past five years. By June 30, 2006, the Pettit Center is expected to owe State Fair Park \$1.3 million in past-due rent, which was intended to cover debt service costs that State Fair Park pays on the facility's behalf. State Fair Park officials intend to continue recent efforts to sell the Pettit Center. LAB notes that future sales proposals should consider the amount of public support that may be needed if a sale proceeds, the State's ability to repurchase the Pettit Center if it is unable to remain financially viable without State Fair Park support, and the price at which the facility could be reacquired.

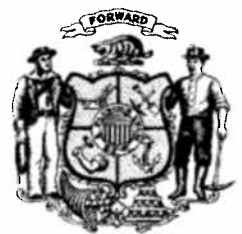
"I am disappointed that we were unable to pass legislation that would have approved the sale of the Pettit National Ice Center" remarked Joint Legislative Audit Committee Co-chair Suzanne Jeskewitz (R-Menomonee Falls). "We cannot go on year after year incurring these deficits. Taxpayers are not willing to pay for a State Fair Park with all of these silos that keep putting us in debt. One solution is to sell the Pettit and I am hopeful that the Building Commission will get the job done if they receive a proposal from State Fair Park."

The co-chairs intend to hold a public hearing on the audit report and its findings later this year. Copies of the audit may be obtained from the Legislative Audit Bureau's Web site at (608) 266-2818 to request a copy of report 06-7. or by calling

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WISCONSIN STATE LEGISLATURE





Legislative Fiscal Bureau

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August 24, 2006

TO: Senator Scott Fitzgerald
Representative Dean Kaufert
State Capitol

FROM: Chris Pollek, Fiscal Analyst

SUBJECT: Pettit Center Sale -- Building Commission Action

The following is provided in response to your request for information on the Pettit National Ice Center. You asked that we provide an overview of the Ice Center and describe the action taken by the State Building Commission on August 9, 2006, related to the sale of the Center. Specifically, you asked this office to review aspects of the proposed sale that may require legislative involvement.

History and Current Law

The Pettit National Ice Center is a 3,000 seat official Olympic training facility that features a 400-meter indoor speed skating ice oval, along with two international size ice rinks used for hockey, figure skating and short track speed skating. The facility opened in December 1992, and is owned by the state but leased to a nonprofit corporation, Pettit National Ice Center, Inc., that operates the facility. The Corporation is governed by an eleven-member board that includes five members appointed by the Jane Bradley Pettit Foundation's (a non-profit foundation that attempts to support initiatives that enhance the quality of life in the Milwaukee area) Board of Directors, a designee appointed by the Governor, the Secretary of Commerce, and four members selected by the rest of the Pettit Center Board.

The 1991-93 biennial budget (1991 Act 39) authorized \$12.1 million for construction of the Pettit National Ice Center (\$8.1 million in state self-amortizing general obligation bonds and \$4 million in donations), however, actual construction costs were \$13.2 million and the state issued \$9.2 million in program revenue supported general obligation bonds. The State Fair Park Board lease with the Pettit National Ice Center, Inc., calls for monthly payments sufficient to pay the annual debt service costs of the facility. Any deficiency in monthly lease payments becomes a draw on general State Fair Park operations. As of June 30, 2006, the Pettit Ice Center was approximately \$1.3 million behind on lease payments to the State Fair Park. Starting with fiscal year 2006-07,

remaining debt service payments total \$6.5 million. Annual debt service is expected to average \$900,000 for the next seven fiscal years (through 2012-2013), then decline to an average of \$43,000 for four years (through 2016-2017) and finally drop to approximately \$1,500 for the final eight years (through 2024-2025). Pettit National Ice Center, Inc., officials estimate the Corporation may be able to generate \$300,000 annually to pay rent, meaning the Park could be required to support about \$600,000 annually in debt service costs related to the Center for the next seven years.

Under current law, the Building Commission may sell or lease any state owned building or land unless another state agency is specifically authorized to sell or lease such buildings or lands. Typically, buildings or lands offered for sale have been declared surplus property of the state. The Building Commission must notify the Joint Committee on Finance in writing of the proposed sale or transfer of a parcel of surplus land having a fair market value of at least \$20,000. If the Co-chairpersons of the Committee do not notify the Building Commission of a scheduled meeting to review the sale within 14 working days, the Commission may sell the property. If a meeting is scheduled to review the sale, the parcels may be sold only upon approval of the Committee. Net proceeds for any sale are deposited to the budget stabilization fund.

Also, 2005 Act 25 provides the Department of Administration (DOA) specific authority to sell any state-owned real property, if the Department determines that the sale is in the best interest of the state, subject to Building Commission approval. The sale of such properties can be made either on the basis of public bids or negotiated prices. DOA has the authority to reject any bid in the interest of the state. Certain types of properties held by specified agencies are exempt from this provision. Also, the existing statutory procedures related to the sale of surplus land by the Building Commission, which include approval by the Joint Committee on Finance if the fair market value exceeds \$20,000, do not apply to property sales under this provision.

Under the Act 25 provision, the DOA Secretary is required to review all holdings of state-owned real property for potential sale, except any property, facility, or institution the closure or sale of which is not authorized under the act. The DOA Secretary is required to submit a report to the Secretary of the Building Commission containing an inventory of his or her recommendations and reasons to offer specified state properties for sale. DOA is allowed to include property in the inventory with or without approval of the state agency having jurisdiction of the property. DOA has the authority to offer the property for sale, if, on or before June 30, 2007, the Building Commission votes to approve the sale of any property included in the inventory. These reporting and property sale requirements would not apply after June 30, 2007, although DOA could complete transactions after that date, if approved by June 30, 2007. After any outstanding debt associated with properties is paid and any other restrictions governing the use of sale proceeds are met, DOA is required to deposit the remaining net proceeds in the state's general fund.

Although DOA staff to the Building Commission indicate the Act 25 authority was being utilized for the sale of the Pettit Center, the act "does not authorize the closure or sale of any facility or institution the operation of which is provided for by law" (section 16.848 of the statutes).

Section 42.11 of the Wisconsin statutes specifies that the State Fair Park Board has "sole responsibility" for the Olympic Ice Training Center at the Park, including the land and facilities related to its operation. The statutes further specify that no person may use the facility without board approval and authorizes the board to enter into a lease (but not a sale) with a nonprofit corporation to operate and maintain the Center. 2005 Assembly Bill 1191 and Senate Bill 690 would have specifically allowed a sale of the Pettit Center and would have provided that the sections described above would not apply in the event of a sale. Neither of these bills passed the Legislature in the last session.

Summary of Building Commission Action

Under the Building Commission action, the State Fair Park Board would be authorized to sell the Pettit National Ice Center and approximately 9.35 acres of land (adjacent land and parking areas), to Pettit National Ice Center, Inc., for up to \$5,650,000, plus all closing costs. The actual price would be determined on the closing date of January 5, 2007, after the State's Capital Finance Director ensured that the price would be sufficient to fund all remaining debt service costs, and included direct reimbursement to State Fair Park for debt service costs paid between July 1, 2006, and the closing date.

Under the action, sale proceeds would be invested in the State's Bond Security and Redemption Fund or another permissible mutually agreeable fund. Sale proceeds and interest earnings would be used to pay remaining debt service payments (estimated at \$6.5 million as of June 30, 2006). If sale proceeds prove to be insufficient to fund remaining debt service payments, the State Fair Park would remain liable for these payments. No sale proceeds would be provided to the Park for payment of the Ice Center's past-due lease balance, which is estimated to be \$1 million on January 5, 2007.

As a condition for this sale, the Building Commission action would also require that as long as the center is owned by the Pettit National Ice Center, Inc., the center be primarily used as an ice skating rink and training facility for recreational and competitive skating purposes. In addition, the sales agreement or transfer deed would include a provision that would not permit the Pettit National Ice Center, Inc., to subdivide the property, sell it in part, or transfer partial fee title interest of the Ice Center. Further, the Commission indicates the sales agreement or transfer of deed would include a provision that would allow the Building Commission and State Fair Park Board the right to approve leases that extend beyond two years (excluding those leases that would terminate if the property were repurchased by the Park). This procedure would consist of a 14 working-day passive review process, whereby any objection by a member of the Building Commission or Park Board would require formal review and approval by the respective entity at its following meeting.

Moreover, the sales agreement or transfer deed would be required to include a provision that provides the State Fair Park Board with a parking easement for 225 vehicles each year during the 11-day State Fair, and at other times when the Pettit Center has extra capacity. In return, the Ice

Center would receive a similar easement for 225 vehicles for 11 days during the year when it needs additional parking and when the Park has extra capacity.

Also, any sales agreement or transfer of deed would be required to provide the State Fair Park with access to, and an easement for, land and a service road that contain State Fair Park signs and equipment.

Further, the Building Commission action requires the sales agreement to specify that State Fair Park would have the first right to purchase the Ice Center, at a price of \$5.3 million, should Pettit National Ice Center, Inc., decide to discontinue its ice rink programming operations or decide to sell the Center. In anticipation of a potential foreclosure, any sales agreement or transfer of deed would be required to include a provision to ensure the State Fair Park is given ample notice, along with the ability, to make any necessary payments to creditors before a repurchase of the property can be made.

It should also be noted that the Pettit Center is located in the City of Milwaukee, which would continue to provide municipal services to the facility. Further, under the proposed sale the City has agreed to support a statutory change to allow the Pettit National Ice Center, Inc. to maintain its tax-exempt status. Section 70.11(1) of the statutes specifies that land "owned by the state and leased to a private, nonprofit corporation that operates an Olympic ice training center" is exempt from property taxation. Taxability of property is established as of January 1 of each year. Therefore, any transfer in 2007 that occurs after January 1, 2007, would maintain the property exempt for the 2007(08) property tax year

Should the sale of the Pettit National Ice Center not be completed by January 5, 2007, State Fair Park officials indicate the Park may seek another purchaser for the Pettit Center and associated property.

Fiscal Effect

The Building Commission action would permit the sale of the Pettit National Ice Center and related property (approximately 9.35 acres including the adjacent parking lot) to the Pettit National Ice Center, Inc., for up to \$5.65 million. Sale proceeds would be invested in the State's Bond Security and Redemption Fund or another permissible mutually agreeable fund, and with associated earnings, would be expected to pay the remaining (as of July 1, 2006) \$6.5 million in debt service payments related to the Ice Center. Should these funds be insufficient to make all remaining debt service payments, the State Fair Park would remain liable for these payments. In addition, State Fair Park would receive no revenues for approximately \$1 million in past-due lease payments owed it by the Ice Center.

As of July 1, 2006, Pettit National Ice Center, Inc., was approximately \$1.3 million behind on lease payments to the State Fair Park. However, between August of 2006 and January of 2007, State Fair Park officials expect the Ice Center to make payments of \$311,000 for past-due lease

payments from 2005-06. Further, according to the terms in the Building Commission action, State Fair Park would be reimbursed for all debt service payments made between July 1, 2006, and the expected January 5, 2007, closing date of the Pettit Center sale (estimated at \$750,000).

Although section 42.11(3) of the statutes requires the Board to enter into a lease that requires the lessee to pay all maintenance costs, the current lease for operation of the Ice Center does not require Pettit National Ice Center, Inc., to reimburse State Fair Park for municipal fees, building and equipment repairs, and grounds maintenance. With the sale of the Pettit Center, the Park would no longer be responsible for these costs. Park officials estimate expenditures related to these items could exceed \$90,000 annually in the foreseeable future. However, Park officials indicate these costs could be much higher should the Ice Center need new ice making/cooling equipment or need structural improvements.

In addition, as a part of the Building Commission action, State Fair Park officials indicate an intention to seek legislation authorizing program revenue bonding authority for the Park, should the Park need these funds quickly in order to purchase the Ice Center prior to foreclosure by lenders (at a price of \$5.3 million, as specified in the Building Commission action). However, it should be noted that State Fair Park currently has outstanding program revenue-supported bond authority of approximately \$5.6 million that was approved related to the Park's master plan. The master plan is a comprehensive program intended to increase the Park's revenue generation opportunities from non-fair events through major improvements to the Park's buildings and facilities (such as construction of the Milwaukee Mile's new grandstand, the Exposition Hall, and a group of agricultural buildings). Given the Park's financial difficulties of the past few years, work on the master plan has largely been halted, and there are no imminent plans to use outstanding bonding authority for additional master plan projects. However, Park officials have indicated they may use at least a portion of this funding for infrastructure repairs (utilities, electrical, sewage, etc.). Given the age of many of the buildings and infrastructure on the grounds, Park officials have expressed a desire to commission a professional review and study of the Park's infrastructure (to assess the amount and totality of the needed improvements) before requesting Building Commission permission to use the outstanding bonding authority for infrastructure improvements.

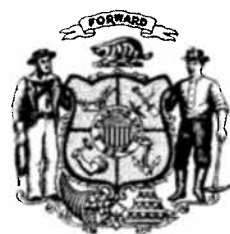
Legislative Involvement

In summary, it appears there are at least three areas where legislative involvement with the proposed sale of the Pettit National Ice Center may be needed. The sale of the state property would require legislative action either through an act to amend the statutes or through review of the Building Commission's proposed sale by the Joint Committee on Finance. Second, maintaining the property tax-exempt status of the Pettit National Ice Center, Inc. would require a statutory change. Third, authorizing state bonds to be available for a potential buy-back of the property could require statutory enumeration and bonding authority (either as part of the state building program in the biennial budget or through separate legislation).

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Turnaround eludes State Fair Park

Audit cites Milwaukee Mile, sees deficit soon building to \$11.7 million

By ANNYSJA JOHNSON

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Despite repeated assertions that it is turning itself around, State Fair Park lost \$3.6 million in its last fiscal year, the largest deficit since starting its skid six years ago, according to a Legislative Audit Bureau report released Friday.

Advertisement The annual audit paints a dire picture of the park's financial condition, suggesting it could take 20 years for it to get out from under its cumulative deficit, projected to hit \$11.7 million by June 30.

That includes a projected \$2 million loss for this, the 2005-'06, fiscal year, despite nearly \$500,000 in cost-saving measures that included eliminating some staff and consulting contracts.

As in past audits, the bureau blames the growing deficit on debt incurred in a massive, \$82 million building campaign in recent years, and the continuing poor performance of the park's three marquee venues: the Milwaukee Mile, Pettit National Ice Center and Wisconsin Exposition Center.

Most of the blame this time around went to the Mile, which auditors said lost \$7.3 million in the three years it spent under Fair Park management.

Park Board Chairman Martin Greenberg acknowledged the losses Friday but insisted the Fair Park is on the cusp of a turnaround.

"The Fair Park has turned around. We are projecting profitability for next year," said Greenberg, who was appointed by Gov. Jim Doyle to right the troubled park.

"The Pettit will be resolved by the end of the year, and we'll come back with a plan shortly to pay back the deficit."

State Rep. Suzanne Jeskewitz (R-Menomonee Falls), who co-chairs the Legislature's Audit Committee, voiced disappointment that the Legislature failed to sign off on a proposed sale of the Pettit to the non-profit board that runs it this year, and that her colleagues will "have to make some big decisions" soon about the future of the park.

"The State Fair is profitable. But it's being drained by all these other entities," Jeskewitz said. "And it does seem to be getting worse."

Other findings from the 2004-'05 audit released Friday:

- State Fair Park officials are projecting a profit of \$537,000 for the 2006-'07 fiscal year. That is based, however, on the Pettit making all of its lease payments, and with its track record, the bureau noted, that may be questionable.
- The park's annual debt service obligations rose from \$2 million in 2000-'01 to \$3.2 million last year, and debt service is expected to total \$54 million over the next 19 years. As a result, the bureau said, any new construction requiring program-supported debt should be "closely scrutinized."
- The bureau attributed the \$7.3 million Milwaukee Mile deficit between 2003 and 2005 to debt service payments related to the \$20.5 million grandstand built in 2003 and a limited fan base for some races. Milwaukee Mile-related debt service increased from nearly \$707,000 in 2003 to more than \$1.9 million in 2005, it said.

According to the audit, the park will incur \$1.8 million in Milwaukee Mile-related costs this year under an agreement with a new company that will operate the track in return for an option to build what's been envisioned as a hotel-restaurant-entertainment complex on adjacent land. The audit could not project financial results for the Mile this year, because it does not have access to the private company's books under the contract.

- The Pettit Center, which lost money in each of the last five years, is expected to be \$1.3 million in arrears on its lease payments to the park by June 30.

Greenberg said the park board is continuing to negotiate a sale of the Olympic oval to its operators, and a decision could be made Monday when the park board meets.

The latest proposal calls for no state contribution, unlike the measure that failed to gain traction in the Legislature. Any sale would have to be approved by the state Building Commission.

According to the audit, the Pettit has lost \$1.3 million since 2001. Its 2005 loss of \$51,600 was the lowest in five years and well below the \$477,800 deficit in 2003.

Pettit officials are projecting a profit of \$4,600 this year, if a sale could be completed by Aug. 31. About \$5.3 million in principal remains on the debt. By extending its financing over 15 years, the audit bureau said, it could cut its annual payments from \$900,000 now due to State Fair Park to \$231,000.

- According to the audit bureau, the financial stability of the \$44.9 million exposition center, built by a non-profit spinoff of the park board in 2002, remains uncertain.

The expo center, which has struggled since its beginning, is now making interest-only payments on its debt, with its principal balance due in 2028.

Because the Expo Center has tapped reserve funds to pay operating costs, its cash balance has dropped from \$10 million in 2002 to \$4.6 million in 2004, the last year for which audited financial statements were available, the bureau said.

Greenberg, also chairman of the Exposition Center Board, has been working for two years to refinance the bonds and said Friday that an agreement is imminent.

Expo staff told auditors that "resources may not be available to meet future financial obligations unless refinancing takes place," the report says.

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