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☛ Details: Legislative Audit Bureau Report 08-8: An Audit: State Fair Park

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2007-08

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STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

DATE: July 10, 2008
TO: Nicole Hudzinski and Pamela Matthews
Committee Clerks to the Joint Legislative Audit Committee
FROM: Carolyn Stittleburg *CS*
Financial Audit Director
SUBJECT: Report 08-8: 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) 2006-07 financial statements, which are included in report 08-8. As part of our audit, we continued to monitor State Fair Park's financial condition. In FY 2006-07, State Fair Park revenue exceeded expenditures by \$1.3 million, the first time since FY 1998-99. State Fair Park's positive operating results allowed it to reduce its accumulated cash deficit to \$9.9 million as of June 30, 2007.

However, we express concern that recent changes in the license agreement with the private promoter managing the Milwaukee Mile will have financial consequences for State Fair Park. In prior audits, we reported on State Fair Park's licensing of the Milwaukee Mile racetrack to a private promoter in December 2005. The private racetrack promoter has reported financial difficulty and, as a result, the original license agreement has been changed twice. In April 2007, several amendments were made to the agreement, including a six-month deferral of \$722,000 in license fees that had been due in June 2007. In February 2008, State Fair Park and the private promoter renegotiated the license agreement, including lowering the annual license fee the promoter pays to State Fair Park from \$1.8 million annually to \$1.0 million. Since the original license fee was designed to cover debt service costs related to construction of the grandstand and other recent racetrack improvements, State Fair Park will need to find additional revenue sources to pay these costs.

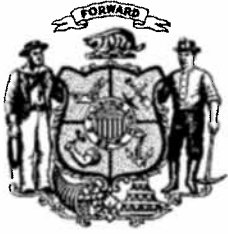
We also reviewed concerns raised by some members of the agriculture community regarding recent changes in policies related to livestock competitions at the Wisconsin State Fair, as well as allegations of conflicts of interest related to the Agriculture Director's participation in an outside business that buys and sells show cattle. As a result of these concerns, the State Fair Park Board and management are in the process of implementing a new ethics and conflict of interest policy. We believe it will be important that steps are taken to address this apparent conflict of interest and the perception it creates, including seeking clarification from the Government Accountability Board.

The audit will be released on Friday, July 11, at 9:00 a.m. Please contact us if you have any questions.

CS/kc

Enclosures



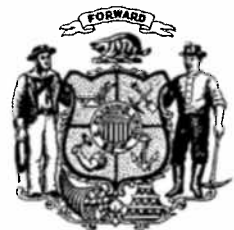


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**Report 08-8
July 2008**

An Audit

State Fair Park

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Janice Mueller
State Auditor

July 11, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan 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) 2006-07 financial statements. In addition, we have continued to monitor State Fair Park's financial condition and its efforts to improve its financial performance.

In FY 2006-07, State Fair Park's revenue exceeded expenditures by \$1.3 million, the first time since FY 1998-99. As a result, State Fair Park was able to reduce the accumulated cash deficit to \$9.9 million. The positive operating results are primarily attributable to reduced operating costs as a result of the licensing of the Milwaukee Mile racetrack to a private promoter. However, the promoter has reported financial difficulty, and in February 2008 the license agreement was renegotiated and the annual license fee paid by the promoter was lowered from approximately \$1.8 million to \$1.0 million. Further, a portion of the amount due has been deferred. As a result, State Fair Park will receive only \$725,000 in license fees in 2008.

As part of our audit, we also reviewed conflict of interest allegations related to the management of State Fair Park's Agriculture Department. State Fair Park has begun to take steps to address concerns raised by members of the agriculture community. We include several recommendations for further improvement, including increased communication among the Board, management staff, various advisory committees, and the agriculture community in Wisconsin. In addition, we recommend State Fair Park seek an opinion from the Government Accountability Board on the perceived conflicts of interest between the Agriculture Director's outside business interests and his responsibilities to State Fair Park.

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 appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/CS/ss

Report Highlights ■

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

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

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

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

State Fair Park, the 190-acre fairgrounds located in West Allis and Milwaukee, is home to the Wisconsin State Fair. The State Fair Park Board, which is attached to the Department of Tourism for administrative purposes, is responsible for its management. In fiscal year (FY) 2006-07, State Fair Park's operating budget was \$16.9 million.

As part of an annual financial audit required under 1999 Wisconsin Act 197, we have issued an unqualified opinion on State Fair Park's financial statements for FY 2006-07. They are included in our report. We have also continued to monitor State Fair Park's financial condition, including efforts to improve its financial performance. As part of that effort, we reviewed:

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

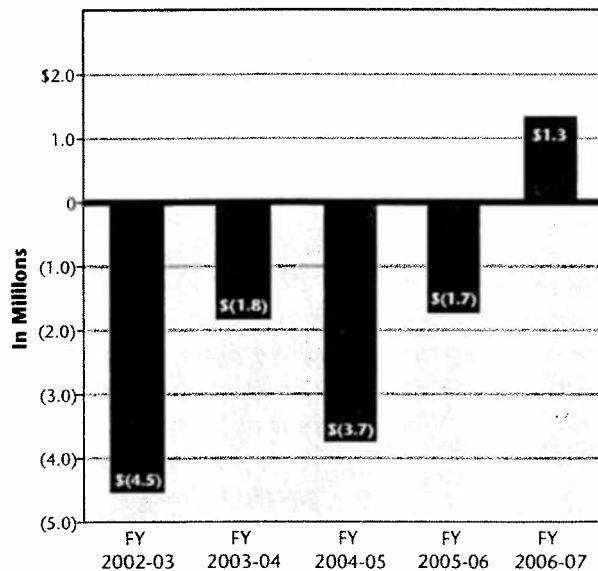
In addition, we reviewed conflict of interest allegations related to the management of State Fair Park’s Agriculture Department. As part of that review, we interviewed State Fair Park officials, state fair agriculture directors in other midwestern states, and interested parties in the Wisconsin agriculture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

Fiscal Condition

In previous audits, we expressed concern because State Fair Park’s expenditures—including operating, capital, and debt service costs—were outpacing revenue. In FY 2006-07, annual revenue exceeded expenditures for the first time since FY 1998-99, as shown in Figure 1.

Figure 1

Annual Operating Results (Cash Basis)



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

State Fair Park was able to reduce the accumulated cash deficit in its program revenue appropriation to \$9.9 million on June 30, 2007. Because this deficit reduces funding available for other state

programs and limits the State's ability to generate income from investment earnings, State Fair Park should continue to take steps to address it.

The Milwaukee Mile

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

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

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

In addition, Milwaukee Mile Holdings assigned its rights to acquire the AmeriGas property to the State Fair Park Board, because State Fair Park sought to purchase the property in order to address safety concerns related to propane tanks. In May 2007, the State Building Commission approved \$1.7 million in general purpose revenue (GPR)-supported borrowing for State Fair Park to purchase the land.

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

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

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

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

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

We estimate that in total, State Fair Park's financial responsibility for the Milwaukee Mile will increase to nearly \$1.2 million in 2008, as shown in Table 1. State Fair Park will need to identify additional revenue sources to cover these expenses.

Table 1

**State Fair Park's
2008 Milwaukee Mile Costs**

	Amount
Total Debt Service Costs	\$1,813,000
Less License Fee Cash Received	(725,000)
Net Debt Service Costs	1,088,000
Letter of Credit Fee	57,700
Other	14,600
Total Costs	\$1,160,300

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

Agriculture Department

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

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

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

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

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

Recommendations

Our report includes recommendations for State Fair Park to:

- obtain additional financial information from Milwaukee Mile Holdings, LLC (*p. 21*);
- report to the Joint Legislative Audit Committee by March 31, 2009, both on the status of its efforts to address the revenue shortfall in the renegotiated license agreement and on its ongoing cash deficit (*p. 24*);
- continue to formalize the roles and responsibilities of various advisory committees and the Auction Committee, and require the State Fair Park Board's Agriculture Committee to annually approve the competition rules for livestock shows at the Wisconsin State Fair (*pp. 29 and 31*);
- reevaluate the judge selection process, particularly for the junior division, to address the role of the various advisory committees (*p. 32*); and
- seek an opinion from the Government Accountability Board on whether the Agriculture Director's outside business interests represent a conflict of interest with his responsibilities to State Fair Park (*p. 37*).

■ ■ ■ ■