



Legislative Fiscal Bureau

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May 25, 2005

Joint Committee on Finance

Paper #695

State Fair Park Expenditures (State Fair Park & Building Program)

[LFB 2005-07 Budget Summary: Page 96-1, Item #1; Page 96-6, Item #4;
Page 454, #1 and #2; & Page 455, #3]

CURRENT LAW

In 2004-05, the Wisconsin State Fair Park Board is appropriated \$2,259,400 GPR and \$16,437,200 PR and 30.2 PR positions. However, through April, 2005, DOA had authorized program revenue expenditures of \$22.3 million for the Park in 2004-05.

GOVERNOR

Provide \$4,972,600 PR in 2005-06 and \$5,003,000 PR in 2006-07 for supplies and services costs primarily to reflect anticipated expenditures related to operations and maintenance of the Milwaukee Mile racetrack.

Further, provide an additional \$448,600 PR annually for costs related to limited-term employees (LTEs).

In addition, transfer 2.0 PR classified positions to unclassified status.

Moreover, the Building Commission recommends providing \$1,852,000 in program revenue supported general obligation bonding to State Fair Park for several projects.

DISCUSSION POINTS

1. Oversight of the Wisconsin State Fair Park is managed by a 13-member board (seven members appointed by the Governor, four state legislators, and the Secretaries of the Departments of Tourism and Agriculture, Trade & Consumer Protection).

2. The State Fair Park Board: oversees the Park; sets policy; appoints a director to manage, supervise and conduct fairs, exhibits or promotional events for agricultural, industrial, educational and recreational purposes; leases or licenses the use of the Park for other purposes; and charges reasonable rents and fees for use of the park, or attendance of events on its premises.

3. Aside from housing the annual State Fair, the Park hosts many other events. Annually, the fair grounds host consumer and trade shows, various auto racing events (NASCAR, CART and monster trucks), 12 non-fair animal events, and youth center programming. Other revenue sources for the State Fair Park include parking and concession fees and an RV park (with slot capacity of about 75).

4. The following table provides a breakdown of the estimated operating revenues and expenditures of the State Fair Park over the past several years and under the bill for the 2005-07 biennium. As shown in Table 1, the Park is expected to have a June 30, 2005, deficit of approximately \$9.5 million. The 2005-06 and 2006-07 revenue and expenditure figures shown in the table are based on administration estimates and the program revenue expenditure authority provided to the Park under the bill. The table excludes general purpose revenue (GPR) received by the Park, which is used for debt service payments related to youth housing and certain Park acquisition, development and construction projects. The statutes require the Park's unencumbered balance from operations to be placed in an appropriation for capital improvements (which includes repair, maintenance, and renovation of Park facilities) at the end of each fiscal year. However, since the Park is currently running a deficit (projected to be \$9.5 million at the end of 2004-05, as shown in the table), surplus revenues would be used to pay down the Park's deficit, rather than be deposited to the Park's capital improvements appropriation.

TABLE 1

State Fair Park Operations

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Opening Balance	\$1,221,700	\$747,000	-\$3,780,900	-\$5,597,500	-\$9,509,300	-\$9,883,300
Revenue	15,271,300	15,918,300	19,890,300	20,443,100	21,350,000	21,700,000
Expenditures	15,746,000	18,083,400	21,527,200	24,168,900	21,724,000	21,924,000
Lapse to General Fund		2,362,800	179,700	186,000		
Closing Balance	\$747,000	-\$3,780,900	-\$5,597,500	-\$9,509,300	-\$9,883,300	-\$10,107,300

5. The Park generates program revenues from the proceeds of hosting the annual State Fair and from lease arrangements for use of the fair grounds or from businesses and other entities located on the grounds. All of the Park's appropriations are either sum sufficient or continuing. A sum sufficient appropriation provides that all funds necessary for the appropriation's purpose shall be expended for that purpose (in the Park's case, its debt service appropriations are sum sufficient). The Park's other appropriations are continuing appropriations, which means that all monies received

may be expended with the approval of the Department of Administration. For both types of appropriations the amount budgeted in the statutes is the best estimate of the amount that will be expended.

6. In the event an agency projects insufficient revenue from a program revenue or segregated appropriation in order to fund all anticipated expenditures from the account, section 16.513 of the statutes requires the agency to submit a plan to the Department of Administration detailing modifications the agency intends to make in order to bring expenditures in-line with projected revenues. Upon receipt of the plan, DOA may approve, disapprove, or approve the plan with modifications. If the plan is approved or modified, DOA is required to submit the plan to the Joint Committee on Finance under 14-day passive review procedures. State Fair Park submitted a plan relating to fiscal year 2002-03 to DOA in September, 2004. This is the most recent plan submitted and the administration has not taken action on the plan to date.

7. Section 16.513 of the statutes further allows DOA to require an agency with program revenue or segregated accounts to make quarterly reports to DOA projecting the revenues and expenditures for the ensuing quarterly period for each program revenue or segregated appropriation in the agency. Any projected deficit in program revenues or segregated revenues revealed in these reports must then be reported to the Joint Committee on Finance. Currently, DOA is not requiring the State Fair Park to submit such reports.

8. Due to the Park's estimated July 1, 2005, deficit, and the Park's projected ongoing structural imbalance (annual expenditures exceeding revenues), the Committee could consider reducing the amount of PR expenditure authority provided for the Park in an attempt to bring expenditures in line with revenues. This would require reductions of at least \$375,000 in 2005-06 and \$225,000 in 2006-07. This could be accomplished by reducing the Governor's recommended increase in LTE costs, by reducing the Park's increased expenditure authority pertaining to the Milwaukee Mile, or a combination of the two. However, even under this alternative the Park would likely continue to carry a deficit of over \$9.5 million through 2005-07. Further, in an effort to keep future costs down, the Committee could consider revising the amount, or source, of bond revenue recommended by the Building Commission for the Park (costs associated with this bonding would be realized as principal and interest payments after the bonds have been issued).

9. However, State Fair Park officials argue they are starting to improve the financial outlook of the Park. They note the narrowing gap between expenditures and revenues projected for 2005-07 in Table 1 and argue they are beginning to realize savings from staffing reductions (from 45.2 employees to 30.2) made in 2004-05 as a part of 2003 Act 33, along with other cost saving measures that are being implemented. Further, they expect to see a continued increase in revenue realized by the Park, and indicate that they are aggressively pursuing naming rights options for Park buildings and streets, which is a largely untapped potential revenue source.

LTE Costs

10. Along with a permanent staff of approximately 30 employees, State Fair Park uses

approximately 1,500 LTEs during the annual State Fair. LTEs are also used for maintenance and operational duties throughout the Park, and during events hosted by the Park. The bill would provide an additional \$448,600 PR annually for costs related to limited-term employees (LTEs). In the past, the Park has needed to reduce its supplies and services expenditures in order to fund LTE costs. For example, in 2004-05, the Park has base level funding of \$1,248,700 for LTE costs, with expenditures projected to be about \$2.4 million. Under the bill, base level funding for limited-term employee (LTE) costs is once again \$1,248,700. However, the Governor recommended increasing LTE funding in the 2005-07 biennium to \$2,226,700, which is approximately the level of Park LTE costs in 2003-04. To accomplish this, the bill would transfer \$561,300 from the Park's unallotted reserve line to its LTE line, and provide additional expenditure authority of \$416,700 for LTE costs. Further, the bill would provide an additional \$31,900 for fringe benefits, related to the additional LTE expenditures. These changes yield a total increase in funding of \$448,600 annually (\$897,200 PR over the biennium) from base level funding.

11. In light of the Park's structural imbalance, the Committee could consider reducing funding provided for LTE costs. For instance, LTE expenditure authority could be reduced by the \$375,000 in 2005-06 and \$225,000 in 2006-07 to bring expenditure authority in line with projected revenue. Another option the Committee could consider would be to delete a portion of the increased new LTE funding, perhaps \$75,000 in 2005-06 and \$50,000 in 2006-07, with remaining reductions taken from the increase in Milwaukee Mile expenditure authority. While these options would reduce the amount of expenditure authority specified for LTE costs, since Park LTE costs are funded from a continuing appropriation, which means the Park may expend any amount with DOA approval, the Park could exceed the statutory Chapter 20 funding levels. Further, if the Park needs additional LTE expenditure authority, it could continue to transfer some level of funding from supplies to fund LTEs.

12. However, under an annual appropriation, the State Fair could only expend the amount appropriated in a given year. Additional expenditures would require the approval of the Legislature (either by bill, or by the Joint Committee on Finance under a 14-day passive review request from State Fair and DOA). Given the current status of Park finances, if the Legislature wanted greater oversight over Park expenditure levels, the Park's general operations appropriation could be converted from continuing to annual.

Non-Fair Entities

13. In addition to hosting the Wisconsin State Fair each August, the fair grounds also house: (a) the Wisconsin Exposition Center, which is owned by a private nonprofit corporation but used by the State Fair in August and rented for other events the rest of the year; (b) the Pettit National Ice Center, an Olympic training facility owned by the state but operated by a private corporation; and (c) the 56-acre Milwaukee Mile, which is a major automobile speedway with a new grandstand completed in May, 2003.

14. The Exposition Center opened in August, 2002, with 200,000 square feet of exhibit space. The facility replaced five other structures that were owned and operated by the State Fair

Park: the South, North, and East exhibit Halls, the Family Living Center and the Youth Expo Building, which offered a combined total of 160,000 square feet of exhibit space. Since the Exposition Center is owned and operated by a private entity, this building's construction has had the effect of transferring revenue that the State Fair Park would have received (from the five buildings mentioned above) to State Fair Park Exposition Center, Inc. Under its agreement with the State Fair Park, the Exposition Center does not make any payment to the Park unless it generates a profit. The Center has yet to realize a profit.

15. 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 is owned by the state but leased to a nonprofit corporation, Pettit National Ice Center, Inc., that operates and provides routine maintenance at the facility. Aside from being used as a training facility, the Center also hosts skating clubs, recreational skaters, junior and adult hockey teams, has open ice time, and provides a variety of skating and hockey instructional classes. In addition, the Center houses a pro shop and has a 4,000 square foot banquet facility, which seats 200 people, that overlooks the ice. The Center's lease payment to the state is calculated to cover the costs of debt service for the Center, but, through 2003-04, the Center was \$1,040,000 behind on lease payments to the Park. Further, the State Fair Park is responsible for grounds maintenance costs, capital improvement costs, and municipal service costs related to the Center due to the Center's location on State Fair grounds. In 2004-05, municipal service costs related to the Center are expected to cost the Park about \$80,000. Further, the Pettit National Ice Center, Inc., is expected to miss at least two monthly lease payments (approximately \$110,000), putting the Center at least \$1.15 million behind on its lease payments to the State Fair Park.

The Milwaukee Mile

16. The Milwaukee Mile is an oval racetrack with a 39,000-seat grandstand that hosts racing events at the State Fair Park. In June, 2003, the Park bought back the rights for operating the Milwaukee Mile from a private promoter. As a result of the buyout, the Park is responsible for operation and promotion of the Mile, but retains racing event profits, if any, after expenses. Under the bill, additional expenditure authority of \$4,972,600 PR would be provided to the Park in 2005-06 and \$5,003,000 in 2006-07 for costs associated with operations and maintenance of the Mile. These costs include contracts for staff salaries and fringe benefits, sanction fees, advertising and professional services, along with other event expenses, which were previously incurred by the lessee of the Mile. Under the bill, 12 racing staff would continue to be funded under contract (11 with the Wisconsin Exposition Center Board, and the Mile's general manager with the State Fair Park Board).

17. In 2004-05, Park revenues related to the Mile are estimated at \$6.3 million, while expenditures are estimated at \$10 million (which includes \$1.9 million for debt service payments related to the grandstand). This would result in a loss of \$3.7 million to the state, and would be in addition to a \$2.5 million loss in 2003-04. As a result, it could be argued that reductions made to bring Park expenditure authority in line with revenues should be made from the Milwaukee Mile.

For example, the Committee could consider providing the Park with increased expenditure authority of \$4,597,600 in 2005-06 and \$4,778,000 (a reduction in supplies and services of \$375,000 in 2005-06 and \$225,000 in 2006-07) to bring estimated PR expenditures for the Park in line with estimated program revenues in 2005-06 and 2006-07. Funding for Milwaukee Mile maintenance and operations costs is provided out of the same continuing appropriation as LTE costs for the State Fair Park. As a result, should revenues related to the Mile be sufficient, the Park could exceed the Chapter 20 funding levels with DOA approval.

18. State Fair Park officials are again attempting to lease the promotional rights to the racetrack, but have been unsuccessful in this endeavor for the 2005 racing season. However, Park officials indicate they are in negotiations with a number of prospective promoters for assuming promotional responsibilities of the Milwaukee Mile starting in the 2006 racing season. Therefore, the Park may not need the level of funding provided by the bill for operation of the Milwaukee Mile in 2006-07. As a result, the Committee could consider providing additional funding only for 2005-06 operations of the Mile, and require the Park to submit a request under section 16.515 of the statutes (14-day passive review procedures) for any additional funding needed for 2006-07 operational costs of the Mile if the Park is unable to reach an agreement with a private agent to assume responsibility of racing at the Mile prior to June, 2006.

Bond Revenue

19. The State Building Commission recommended providing the Park with \$1,852,000 in program revenue supported general obligation bonding for improvements to the Park. This includes \$1,352,000 for racetrack improvements and \$500,000 for other paving improvements throughout the Park. The \$1,352,000 for racetrack improvements would be used for the construction of a new energy reduction barrier wall system in the turns of the Milwaukee Mile, which is intended to reduce the energy during impact with the outside wall thereby reducing stresses and potential injuries faced by drivers. This improvement is required by NASCAR. Further, the funds would be used for repaving areas in the interior of the track, including the pit road and racetrack paddock area, and improvement of the drainage pockets. The additional \$500,000 in bond revenue would be used for resurfacing and paving streets and pedestrian areas of the Park.

20. The State Fair has three debt service appropriations, two GPR appropriations that pay debt service costs related to the construction of a youth housing facility and costs related to certain land acquisition and Park construction, development and improvement, and one PR appropriation that funds principal and interest costs for all other Park facilities. In 2004-05 PR debt service costs of the Park are estimated to be \$3.2 million. Under Assembly Bill 100, program revenue expenditures for Park debt service costs are estimated at \$3.6 million in 2005-06 and \$3.7 million in 2006-07. While these bonds are program revenue supported (that is, program revenues collected by the Park are first used to pay debt service obligations), they are ultimately a general obligation of the state. As such, if State Fair Park revenues continue to be insufficient to meet operational costs and debt repayment obligations, the state's general fund would be responsible for paying off the bonds.

21. Given the current financial condition of the Park, it is unlikely to be able to support any additional PR debt service payments. Therefore, any additional bond authorizations from program revenues for State Fair could be reduced or eliminated. One option would be to reduce the level of new PR bonding authority to, perhaps, \$1,000,000, which would be sufficient to construct the NASCAR-required energy reduction barrier at the Milwaukee Mile. Another option would be to provide the Park with no additional bonding revenue. However, Park officials indicate that if the energy barrier is not constructed, NASCAR would refuse to schedule additional events at the Mile beyond the event scheduled in the summer of 2005, and believe other racing sanctioning bodies may also require this barrier for the scheduling of future events. A third option would be to provide the Park the \$1,852,000 in bonding authority recommended by the Building Commission, but, in light of the Park's financial outlook, specify that this bond revenue would be GPR supported. This option would not affect the Park's expenditures as shown in Table 1, but would instead increase GPR expenditures, as principal and interest payments for these bonds would be paid from a GPR sum sufficient appropriation.

22. Were the Park provided with the \$1,852,000 in general obligation bond revenue, debt service costs could be estimated at \$101,500 in 2006-07. If the Park were provided with \$1 million of bond revenue for construction of an energy reduction barrier at the Mile, debt service costs can be estimated at \$80,200 in 2006-07. In order to ensure completion of the energy reduction barrier prior to the 2006 racing season, it is assumed that these bonds would be issued sooner than those associated with other projects at the Park. As a result, debt service payments associated with the \$1 million of bond revenue recommended for the barrier make up the majority of debt service costs in 2006-07. Once all bond authorizations were issued, annual debt service associated with \$1,852,000 can be estimated at \$155,000 annually, and debt service associated with \$1,000,000 can be estimated at \$84,000 annually over the 20 year life of the bonds.

Position Classifications

23. 2003 Act 33 deleted 15.0 PR positions from State Fair Park, 9.0 classified and 6.0 unclassified. The Park sought to alter the mix of the 15.0 eliminated positions to 11.0 classified and 4.0 unclassified, and the bill would reflect this by eliminating two additional classified positions and restoring two unclassified positions. However, the administration now indicates that they would like to alter the mix of the 15.0 eliminated positions to 11.4 classified and 3.6 unclassified positions. Under this scenario, the bill would eliminate 2.4 classified positions and restore 2.4 unclassified positions. This would provide the Park with a total of 12.15 classified and 16.25 unclassified positions in 2006-07 (28.4 total permanent staff).

ALTERNATIVES

A. Expenditure Authority

1. Approve the Governor's recommendations to provide: (a) \$4,972,600 PR in 2005-06 and \$5,003,000 PR in 2006-07 for supplies and services costs primarily to reflect anticipated

expenditures related to operations and maintenance of the Milwaukee Mile racetrack; and (b) \$448,600 PR annually for costs related to limited-term employees (LTEs).

2. Modify the Governor's recommendation to provide: (a) \$4,597,600 in 2005-06 and \$4,778,000 in 2006-07 for operations and maintenance of the Milwaukee Mile (a reduction of \$375,000 in 2005-06 and \$225,000 in 2006-07); and (b) \$448,600 PR annually for costs related to LTEs.

Alternative A2	PR
2005-07 FUNDING (Change to Bill)	- \$600,000

3. Modify the Governor's recommendation to provide: (a) \$4,672,600 PR in 2005-06 and \$4,828,000 PR in 2006-07 for operations and maintenance supplies of the Milwaukee Mile racetrack; (b) \$373,600 PR in 2005-06 and \$398,600 in 2006-07 for costs related to LTEs. [This alternative would reduce Milwaukee Mile expenditure authority by \$300,000 in 2005-06 and \$175,000 in 2006-07 and LTE expenditure authority by \$75,000 in 2005-06 and \$50,000 in 2006-07, for total reductions of \$375,000 in 2005-06 and \$225,000 in 2006-07.]

Alternative A3	PR
2005-07 FUNDING (Change to Bill)	- \$600,000

4. Delete \$375,000 in 2005-06 and \$5,003,000 in 2006-07 (no additional expenditure authority would be provided for the Milwaukee Mile in 2006-07). Further, require DOA and the Park Board to submit a plan to the Joint Committee on Finance (under 14-day passive review procedures) by the date set by the Co-chairs for submission of requests for its second quarterly meeting of 2006, for any expenditures that would exceed \$12,950,600 in 2006-07 (the amount appropriated under the bill for Park operations, minus the \$5,003,000 related to the Mile).

Alternative A4	PR
2005-07 FUNDING (Change to Bill)	- \$5,378,000

5. Maintain current law.

Alternative A5	PR
2005-07 FUNDING (Change to Bill)	- \$10,872,800

B. Appropriation Structure

1. Convert the Park's general program operations appropriation from continuing to annual.

2. Take no action (the appropriation would remain continuing).

C. Bond Revenue

1. Include the Building Commission's recommendation to authorize \$1,852,000 in program revenue-supported general obligation bonding revenue for State Fair Park.

<u>Alternative C1</u>	<u>PR</u>	<u>PR-BR</u>
2005-07 BONDING (Change to Bill)		\$1,852,000
2006-07 FUNDING (Change to Bill)	\$101,500	

2. Modify the Building Commission's recommendation to authorize \$1,000,000 in bond revenue for construction of an energy reduction barrier at the Milwaukee Mile racetrack. Specify that the bonds be:

- a. PR-supported.

<u>Alternative C2a</u>	<u>PR</u>	<u>PR-BR</u>
2005-07 BONDING (Change to Bill)		\$1,000,000
2006-07 FUNDING (Change to Bill)	\$80,200	

- b. GPR-supported.

<u>Alternative C2b</u>	<u>GPR</u>	<u>GPR-BR</u>
2005-07 BONDING (Change to Bill)		\$1,000,000
2006-07 FUNDING (Change to Bill)	\$80,200	

3. Adopt the Building Commission's recommendation to authorize \$1,852,000 in bonding revenue for the State Fair Park, but specify that this bond revenue be GPR-supported.

<u>Alternative C3</u>	<u>GPR</u>	<u>GPR-BR</u>
2005-07 BONDING (Change to Bill)		\$1,852,000
2006-07 FUNDING (Change to Bill)	\$101,500	

4. Take no action.

D. Position Classifications

1. Adopt the Governor's original recommendation to transfer 2.0 PR classified positions to unclassified.
2. Adopt the administration's revised recommendation to transfer 2.4 PR classified positions to unclassified.
3. Maintain current law.

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