



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #736

### State Fair Park Bonding (State Fair Park Board)

#### *Base Agency*

[LFB 2007-09 Budget Summary: Page 625, #1 & Page 629,  
#2 (only the parts related to State Fair Park)]

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#### **CURRENT LAW**

State Fair Park is currently provided with program revenue-supported bonding authority of \$56,787,100.

#### **BUILDING COMMISSION**

Provide State Fair Park with an additional \$5.3 million in program revenue-supported bonding authority enumerated for the Pettit National Ice Center purchase.

#### **DISCUSSION POINTS**

1. Under the building program, State Fair Park would be provided \$5.3 million in program revenue-supported bonding authority should the Park need to repurchase the Pettit National Ice Center from Pettit National Ice Center, Inc.

##### **Pettit Center Bonding Revenue**

2. 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.

3. From the facility's opening in December, 1992, until January, 2007, the ice center

was owned by the state but leased to a nonprofit corporation, Pettit National Ice Center, Inc., that operated the facility.

4. In January, 2007, the ice center, along with 9.35 acres of land (adjacent land and parking areas), was sold to Pettit National Ice Center, Inc., for \$5.63 million. Proceeds of the sale and investment earnings are being used to pay remaining debt service payments on the Center, the construction of which was funded, in part, by \$9.3 million in program revenue-supported general obligation bonds. Debt service payments related to the ice center are expected to average \$900,000 through 2012-13, then decline to an average of \$43,000 for four years (through 2016-17), and finally drop to approximately \$1,500 for eight years (through 2024-25). Should sale proceeds be insufficient to pay all remaining debt service costs, State Fair Park would remain liable for remaining debt service payments. However, if average annual income of approximately 4.3% is earned, the proceeds from the sale of the ice center are expected to be sufficient to cover all remaining debt service payments.

5. The sales contract for the ice center specifies 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 includes a provision that does 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 sales agreement includes a provision that allows the State of Wisconsin 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). The sales agreement also specifies that the State Fair Park has 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 ice center. To address a potential foreclosure, the sales agreement includes a provision ensuring that State Fair Park is given sufficient notice and ability to make any necessary payments to creditors before a repurchase of the property by the state can be made.

6. Proponents of providing the bonding authority stress the importance of ensuring that the ice center remain an ice training facility. They argue that should Pettit National Ice Center, Inc., decide to cease operating the center as an ice training facility, it is essential the state have resources available to allow for the purchase of the center to continue its operation as an ice training facility.

7. Due to the repurchase provision of the sales agreement, Park officials indicate the bonding authority is necessary to facilitate the repurchase of the Pettit Center, should it need to be done quickly. Park officials state that in the case of possible foreclosure, there may only be a three to six month period to correct a default before the secured lender could move to take possession or ownership of the ice center and associated property. To make the first right of purchase specified in the Pettit sales agreement meaningful, they argue the Park must be able to complete a purchase within a very short time period.

8. However, the sales contract includes a provision providing State Fair Park with the time and ability to make any necessary payments to creditors before a repurchase of the ice center can be made. Rather than necessitating the state provide bonding authority for the immediate repurchase of the ice center, this provision could provide the state adequate time to pass legislation

addressing the repurchase of the ice center should Pettit, Inc., ever default, or decide to cease operating the ice center as an ice training facility. Given the condition of the ice center facility and the financial condition of the State Fair Park at the time of any future purchase, the Legislature may need to consider the appropriate source of revenue for a repurchase (such as program revenue- or GPR-supported bonds).

9. Given the current use restrictions of the ice center, along with debt service payments associated with the costs of repurchasing the center (which can be estimated at approximately \$425,000 annually for 20 years, given a 5% interest rate), it may be difficult for the state to operate the ice center without losing money. Further, given the age of the ice center, the operator of the center could face substantial additional costs should the center need new ice making/cooling equipment or need structural improvements.

10. On the other hand, even if the state is not interested in overseeing operations of the ice center, the facility and the property on which it is located would have value for other purposes. For instance, if the center and land were repurchased and sold by the state without restrictions, or with less restrictions, as to the use of the land, the property may be much more valuable than the mandated \$5.3 million repurchase price. Bonding revenue could be provided for repurchase of the center because if the state decides to no longer require the facility be used for ice training purposes, the facility and associated land could likely be resold for much more than the \$5.3 million repurchase price. If the ice center is sold to someone other than the state, the use restrictions specifying the property be used as an ice training facility may no longer apply.

11. The administration indicates the intent of the provision is to provide State Fair Park Board with \$5.3 million in bonding revenue to repurchase the ice center should Pettit National Ice Center, Inc., discontinue operation of the ice center. However, the current provision would increase State Fair general PR-supported bonding authorization. While the increase is enumerated for purchase of the ice center, this would not strictly limit the use of the bonding revenue to this purpose and it could be reallocated for other purposes with Building Commission approval. As a result, the Committee could consider modifying the Commission's recommendations by instead creating a separate bonding authorization for the State Fair Park for repurchase of the Pettit National Ice Center and enumerating \$5.3 million in program revenue-supported bonding authority for this purpose.

### **State Fair Park Outstanding Bonding Authority**

12. Under current law, State Fair Park has outstanding bonding authority of approximately \$5 million, \$4.9 million of which is designated for utility improvements. (However, Park officials indicate around \$700,000 of this bonding authority could be used in the 2007-09 biennium to purchase two parcels of property within the Park currently owned by a steel company and a propane company.) In addition, the Building Commission recommended providing an additional \$500,000 for facilities, repair and renovation. While Fair officials indicate the Park still needs utility and infrastructure improvements, given the Park's financial condition, there are no imminent plans to use outstanding bonding authority for additional projects as the issuance of additional PR-supported bonds would increase PR debt service and could increase the stress on Park finances.

13. However, others argue the Park's remaining bonding authority should not be eliminated. They argue the Park's infrastructure, which includes a sewer system and water lines, parts of which are in excess of 80 years old, still need improvements. Specifically, due to higher than normal water bills, Park officials have commissioned efforts to find potential water leaks within the Park's water system before any sink holes can develop (potentially causing costly damage to the Park's buildings or facilities). If any water leaks are found, Park officials indicate the cost could be high as they would be required to both dig up and replace the water pipes, and repave the roads above the replaced pipes. Further, Park officials indicate they plan on commissioning a professional site survey to review and study the Park's infrastructure in order to assess the amount and timeline of needed improvements. However, the \$500,000 from State Fair Park PR-supported bonding revenue under minor all-agency projects in the building program, adopted by the Committee under budget paper #180, would likely be adequate for the site survey and some emergency repairs.

14. Park officials indicate they would only use the existing bonding authority in the event emergency repairs were necessary and no general purpose revenue-supported bonding authority was provided to the Park. Given the financial status of the Park, officials indicate that were additional bonds issued, they would increase fees charged by the Park in order to offset the increased debt service costs. Further, Park officials note that even if they desired to issue some of the Park's remaining bonding authority, they would first need the approval of the State's Building Commission. Under section 13.488(7) the Building Commission is required to ensure that any State Fair facilities costing over \$250,000 are determined to be self-amortizing before authorizing the project.

15. Due to the current financial outlook of the Park, it could be argued the Park can not support the additional debt service payments and the Committee could consider eliminating \$4.3 million in un-issued program revenue-supported bonding authority provided to the Park. Debt service on \$4.3 million of bonds would be approximately \$345,000 annually for 20 years, given an interest rate of 5%. If additional improvements are identified in the future, the Park could request appropriate funding through the building program or separate legislation. The Legislature may need to consider whether PR-supported, GPR-supported or some combination of bond revenues are needed. On the other hand, Park officials argue the Park is anticipating a surplus of approximately \$1.3 million over the 2007-09 biennium under the bill. Further, they argue much of the Park's infrastructure is old and will need repair or replacement over the next five to ten years. Without such improvements, and the bonding authority necessary to fund such improvements, Park officials argue their efforts to increase Park use and revenues could be hampered.

#### **Other Pettit National Ice Center Issues**

16. Under section 42.11 of the state statutes, the State Fair Park Board has "sole responsibility" for the ice center and all related land and facilities. In addition, this section of the statutes also specifically authorizes the Board to enter into a lease (but not a sale) for the operation of the center. Since the ice center was sold last January, the Committee could consider revising Chapter 42 language to eliminate the provision providing the State Fair Park Board with sole responsibility for the ice center and all related land and facilities (Alternative C1a). In addition, the provision allowing the Board to enter into a lease for the operation of the ice center could be

modified to instead say the state may repurchase the ice center should Pettit National Ice Center, Inc., decide to discontinue its ice rink programming operations or decide to sell the ice center (Alternative C1b). Further, Chapter 42 of the statutes also allows State Fair Park to award an annual grant to the city of West Allis for crowd and traffic control services related to events held at the State Fair Park and the Pettit Ice Center. Therefore, the Committee could eliminate the reference to the ice center (Alternative C1c).

17. Moreover, under section 70.11(1) of the statutes, land "owned by the state and leased to a private, nonprofit corporation that operates an Olympic ice training center" is exempt from property taxation. Since taxability of property is established as of January 1, of each year, the ice center and associated property is exempt for the 2007 (payable in 2008) property tax year. However, a statutory change is necessary to maintain this property tax exempt status thereafter. The Pettit Center is located in the City of Milwaukee (and the city provides municipal services to the facility), which has agreed to support a statutory change to allow the Pettit National Ice Center to maintain its prior property tax exempt status. As a result, the Committee could specify that property owned by a nonprofit corporation that operates an Olympic ice training center on land purchased from the state, including property leased to a nonprofit entity and up to 6,000 square feet of property leased to a for-profit entity, provided the property is located and primarily used at the center, is exempt from taxation (Alternative C1d). Pettit officials indicate the ice center has historically leased approximately 6,000 square feet of center space to for-profit entities to help support the center. Currently, for-profit entities within the center include a training and fitness facility, a pro shop, and a concession area. This provision would be expected to exempt the Pettit Center and associated land as they currently exist, but not exempt expanded for-profit use or improvements to the property.

**ALTERNATIVES TO BASE**

**A. New Bonding Authority**

1. Approve the Building Commission's recommendation to provide \$5.3 million in general program revenue-supported bonding authority to the State Fair Park and to enumerate \$5.3 million for ice center purchase.

<b>ALT A1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR-BR	\$5,300,000	\$5,300,000

2. Modify the Building Commission's recommendation by creating a separate bonding authorization for the State Fair Park for repurchase of the Pettit National Ice Center and enumerating \$5.3 million in program revenue-supported bonding authority for this purpose.

<b>ALT A2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR-BR	\$5,300,000	\$5,300,000

3. Maintain current law. (No bonding authority would be authorized, in advance, for the ice center repurchase.)

**B. Existing Bonding Authority**

1. Eliminate \$4.3 million in existing, un-issued program revenue-supported bonding authority for the State Fair Park.

<b>ALT B1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
PR-BR	- \$4,300,000	- \$4,300,000

2. Maintain current law (\$5.0 million in prior un-issued bonds would remain).

**C. Pettit Center Statutory Changes**

1. Specify any or all of the following:

a. Delete statutory language that specifies the State Fair Park Board has "sole responsibility" for the Pettit National Ice Center and all related land and facilities.

b. Delete statutory language that allows the State Fair Park Board to enter into a lease for the operation of the ice center and, instead, specify the state may repurchase the Pettit National Ice Center should Pettit National Ice Center, Inc., discontinue its operation of the facility as an ice center.

c. Delete statutory language that allows the State Fair Park to make an annual grant to the city of West Allis for crowd and traffic control related to events held at the Pettit National Ice Center. (An annual grant for these purposes would still be allowed for events held at the State Fair Park.)

d. That property owned by a nonprofit corporation that operates an Olympic ice training center on land purchased from the state (including property leased to a nonprofit entity and up to 6,000 square feet of property leased to a for-profit entity), provided the property is located and primarily used at the center, is exempt from taxation.

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