Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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State Fair Park Expenditures (State Fair Park)

Base Agency

[LFB 2007-09 Budget Summary: Page 518, #2 & #3]

CURRENT LAW

In 2006-07, the Wisconsin State Fair Park Board is appropriated $2,463,800 GPR and $16,921,000 PR and 28.4 PR positions.

GOVERNOR

Provide $252,000 PR in 2007-08 and $359,900 PR in 2008-09 for limited-term employees (LTE) costs mostly during the annual State Fair.

In addition, provide $184,100 PR in 2007-08 and $324,700 PR in 2008-09 for supplies and services primarily related to the Park's agricultural programs.

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), 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 an overview of the estimated revenues and expenditures of the State Fair Park over the past two biennia and under the bill for the 2007-09 biennium. As shown in the table, the Park is expected to have a June 30, 2009, deficit of approximately $9.2 million (though Park officials expect to generate operating revenues more than $500,000 in excess of expenditures in each year). The 2007-08 and 2008-09 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 $10.5 million at the end of 2006-07, 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.

State Fair Park Operations

	Actual 2003-04	Actual 2004-05	Actual 2005-06	Estimated 2006-07	SB 40 2007-08	SB 40 2008-09
Opening Balance	-$3,780,900	-$5,597,500	-$9,334,300	-$11,051,000	-$10,514,000	-$9,843,300
Revenue	19,890,300	20,995,000	18,541,600	18,059,200	18,450,000	18,810,000
Expenditures	21,527,200	24,545,800	20,258,300	17,522,200	17,779,300	18,185,500
Lapse to General Fund	179,700	186,000				
Closing Balance	-$5,597,500	-$9,334,300	-$11,051,000	-$10,514,000	-$9,843,300	-$9,218,800

5. The Park generates program revenues from the proceeds of hosting the annual Sate Fair and from lease arrangements and services provided 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 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

(DOA) 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. 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. However, Park officials indicate they are submitting annual "overdraft plans" to address how the Park will reduce the existing deficit in the Park's PR appropriation accounts. These plans have not been acted on by DOA, nor submitted to the Joint Committee on Finance.

8. The majority of the Park's revenues come from the annual State Fair, and Fair related profits have tended to average approximately $400,000 to $500,000 over the past few years. However, the Park's financial performance has been hampered by other facilities hosted on the Fair grounds, such as the Milwaukee Mile and the Pettit National Ice Center, and by some non-fair events at the Park. While the Park has had an annual deficit over the last several years, State Fair Park officials believe Park revenues in 2006-07 will exceed expenditures, which they foresee continuing through the 2007-09 biennium. The improved financial outlook is largely related to changes made regarding the management of the Milwaukee Mile and ownership of the Pettit National Ice Center.

9. The Milwaukee Mile is an oval racetrack with a 39,000-seat grandstand that hosts racing events at the State Fair Park. From 1992, a private promoter was responsible for operation and promotion of the Mile, until the Park bought back the rights for operating the Mile in May 2003. As a result of the buyout, the Park assumed responsibility for the operation and promotion of the Mile. In 2004-05 (the last full fiscal year for which the Park was responsible for promotion of the Mile), the Park lost $3.6 million on Mile operations, with revenues of $6.2 million, but costs of $9.8 million. In December, 2005, State Fair Park officials leased the promotional rights to the Milwaukee Mile to a private group of individuals. After the leasing of the promotional rights of the Mile, the Park is no longer responsible for operational and maintenance costs of the Mile, such as staff salaries and fringe benefits, sanction fees, advertising and professional services, but the Park remains responsible for debt service payments related to the construction of the racetrack's grandstand. Under the new agreement, lease payments for promotional responsibilities of the Mile are set to largely correspond with outstanding debt service payments on the Mile's grandstand in the 2007-09 biennium ($1.7 million in lease revenue versus $1.9 million in debt service payments each year). While the terms of the lease will result in a $200,000 loss for the Park annually in the 2007-09 biennium, Park officials note this annual loss is substantially less than the $3.6 million the Park lost in 2004-05 and the $2.5 million the Park lost in 2003-04 related to the Mile, and argue this

could improve the Park's financial outlook substantially in the upcoming biennium.

10. 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. 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.

11. 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 were placed in a bond redemption fund and 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. If annual investment income of approximately 4.3% is realized from the sale proceeds, the fund would be expected to be sufficient to pay all outstanding debt service costs associated with the Pettit National Ice Center. However, as a part of the sale, the Park also agreed to forgive $1 million in past-due lease payments owed it by Pettit National Ice Center, Inc.

12. Prior to the sale of the Pettit, the ice center's lease called for monthly payments sufficient to pay the annual debt service costs of the facility. Any deficiency in monthly lease payments became a draw on general State Fair Park operations. For 2003-04 through 2005-06, annual debt service costs averaged between $700,000 and $900,000. However, the ice center was only able to make payments of between $400,000 and $600,000 annually. Further, debt service payments associated with the ice center are expected to average approximately $900,000 from 2006-07 through 2012-13, while Park officials estimated the ice center would only be able to make payments of approximately $300,000 annually. As a result, while the sale of the ice center required the Park to forgo past-due lease payments of approximately $1 million, Park officials believe the sale of the Pettit could improve the financial outlook of the Park by up to $600,000 annually for the next several years (due to the availability of revenues from the bond redemption fund for debt service payments).

13. Under the bill, State Fair Park would be provided an additional $252,200 PR in 2007-08 and $359,900 PR in 2008-09 for limited-term employees (LTE), and $184,100 PR in 2007-08 and $324,700 PR in 2008-09 for supplies and services.

14. Along with a permanent staff of 28.4 positions, the State Fair Park utilizes approximately 1,500 LTEs, primarily during the annual State Fair. LTEs are also used for maintenance and operational duties throughout the Park, and during events hosted by the Park. State Fair Park officials indicate a portion of this funding was requested to convert independent contractors to LTEs. Park officials note this change is necessary to avoid potential liability issues for having independent contractors classified as employees, which could result in the Park having to pay all past employee and employer taxes, retirement and health benefits, and possible substantial penalties. The duties performed by several independent contractors were previously performed by State Fair Park employees. However, since 2003-04 authorized Park positions have been reduced

from 45.2 to 28.4 positions (a reduction of 16.8 positions, or 37% of permanent staff). As a result, the Park contracts out for a number of duties that were previously performed by State Fair Park employees. These duties include: management of food and beverage vendors; fair parking and midway contracts; admissions; web site development and maintenance; marketing and design; and RV park management. Instead of providing funding for LTEs to perform these duties, the Committee could provide the Park with 3.0 PR positions and associated salary and fringe benefits of $206,400 PR for these purposes. Remaining LTE costs are related to Park operations and services that Park officials indicate would be recovered through fees charged to groups that use the Park.

15. State Fair Park officials indicate the supplies and services funding is partly related to the Park's agricultural program during the annual State Fair, including textiles, culinary and craft programs (approximately $135,000 in 2007-08 and $240,000 in 2008-09). Park officials indicate they have had difficulty containing the costs of the agriculture program, which have increased approximately 10 percent annually. Costs include awards and prizes, program superintendents, judges, offsite parking for trailers, repairs and maintenance for buildings, barns, and equipment. In addition to agricultural exhibitors at the state fair, the Park hosts a number of animal shows, ethnic festivals, car and boat sales, and other groups, for a total of 86 events for a combined 441 event days in 2006.

16. Remaining supplies and services costs (approximately $49,000 in 2007-08 and $85,000 in 2008-09) include: (a) expenditure authority related to sponsorship contracts (Park officials estimate additional sponsorships of $200,000 over the biennium and indicate up to sixty percent of sponsorship revenue is returned as benefits such as signage and advertising); (b) equipment rental for entertainment, guest service, and grounds maintenance purposes; and (c) automation and information technology purposes.

17. Given State Fair Park's projected July 1, 2007, deficit of $10.5 million, the Committee could consider reducing the amount of new supplies and services funding provided to the Park in the bill. For example, while the LTE funding provided in the bill is provided to reduce the potential liability of the Park or may be able to be passed on (through fees) to groups that utilize the Park, funding provided for the Park's agricultural program offers limited revenue opportunity. As a result, the Committee could eliminate $135,000 PR in 2007-08 and $240,000 PR in 2008-09 related to the Park's agricultural program (Alternative 2).

18. On the other hand, Park officials indicate agriculture is an important part of the Park's mission. They argue the State Fair is predominantly a family event and the agriculture program is an important part of making the annual fair family friendly. Further, they argue reducing agricultural program funding would be contrary to current Park efforts to increase participation and entries in the various agricultural events and exhibits. Were additional funding not provided for the agricultural program, State Fair Park officials indicate they would likely decrease the amount of the awards paid to winning exhibitors. While Park officials indicate these awards are not the only motivation for people to attend the annual fair, they have some concern this could have detrimental effects on fair attendance and participation. Furthermore, Park officials indicate that they are sensitive to concerns about funding the fairs annual operations based on profits made over the 11-

day fair. As a result, were fair-related expenditures reduced Park officials indicate they may face pressure to lower fair-related fees so as not to make too large a profit on the annual fair. Moreover, Park officials argue the financial outlook of the Park is improving, with operating revenues expected to generate nearly $1.3 million beyond expenditures for the 2007-09 biennium under the bill.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to provide $252,000 in 2007-08 and $359,900 in 2008-09 for limited-term employees (LTE) costs and $184,100 in 2007-08 and $324,700 in 2008-09 for supplies and services.

ALT 1	Change to Bill Funding	Change to Base Funding
PR	$0	$1,120,700

2. Modify the bill by adopting one, or both, of the following:

a. transferring $154,800 in 2007-08 and $206,400 in 2008-09 from LTEs to permanent salaries and fringe benefits for 3.0 positions.

ALT 2a	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
PR	$0	3.00	$1,120,700	3.00

b. deleting $135,000 PR in 2007-08 and $240,000 PR in 2008-09 for supplies and services primarily related to the Park's agricultural program.

ALT 2b	Change to Bill Funding	Change to Base Funding
PR	- $375,000	$745,700

3. Maintain current law.

ALT 3	Change to Bill Funding	Change to Base Funding
GPR	- $1,120,700	$0

Prepared by: Chris Pollek