Kentucky State Fair Board

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Abstract

The Kentucky State Fair Board, an agency of the Tourism, Arts and Heritage Cabinet, operates two event facilities in Louisville: the Kentucky International Convention Center (KICC) and the Kentucky Exposition Center (KEC). KEC is the sixth largest event facility in the US. The fair board's revenue, which was nearly $46 million in FY 2013, comes primarily from hosting events at these facilities. Its expenditures in FY 2013 were nearly $55 million, for an $8.8 million deficit. From FY 2007 to FY 2013, KICC operated at a deficit all 7 years and KEC operated at a deficit for 4 years. The fair board received state appropriations in 4 of the 7 years. A sampling of US event facilities indicates that most have little or no net revenue. The Louisville Convention and Visitors Bureau calculated the economic impact for approximately half of the fair board's 2013 events to be $277 million. A review of US event facilities with at least 100,000 square feet of exhibit space shows that two-thirds, including the fair board's facilities, are publicly owned and operated, with in-house staff used to provide some services and contract labor used for others. The review indicates that privately owned and operated facilities are rare. The fair board is subject to a relatively high level of oversight. It has a governing board, is included in an annual audit, and produces an annual report voluntarily.

Foreword

Program Review staff wish to thank Kentucky State Fair Board members; president Clifford "Rip" Rippetoe and his staff; Mona Juett, former legislative liaison for the Tourism, Arts and Heritage Cabinet; Tom Bennett with the Auditor of Public Accounts; Jennifer Barnett and Betsy Burgin with the Louisville Convention and Visitors Bureau; and James Carr of Certec Inc. Several LRC staff provided assistance; in particular Kate Talley, John McKee, Josh Nacey, Katherine Halloran, Mike Clark, and Justin Perry. Finally, staff are grateful to officials of US event facilities who responded to a questionnaire.

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Summary

The Kentucky State Fair Board (KSFB), an agency of the Tourism, Arts and Heritage Cabinet, operates two event facilities in Louisville. The Kentucky International Convention Center (KICC) hosts events, including national and international conventions and trade shows. The Kentucky Exposition Center (KEC), which is the sixth largest convention center in the US, hosts major trade shows, conventions, concerts, sporting events, and agricultural shows. KEC is also home to three KSFB-produced events: the Kentucky State Fair, the National Farm Machinery Show, and the North American International Livestock Exposition. In fiscal year 2013, KEC hosted 217 events; KICC hosted 166 events.

By statute, KSFB is governed by a 15-member board that meets monthly. In October 2014, the governor reorganized KSFB by executive order, increasing the voting membership to 17, adding two nonvoting members, and revising some gubernatorial appointments.

KSFB is responsible for promoting the progress of the commonwealth and stimulating public interest in the advantages and development of the state by providing KICC and KEC for hosting events. The board has custody and control of property it owns, including the exclusive right of determining which events to host. The only event that statute requires it to host is the North American International Livestock Exposition. KSFB is subject to a relatively high level of oversight. It has a governing board, is included in an annual audit, and produces an annual report voluntarily.

The KSFB president, who serves at the pleasure of the board, is responsible for the administration of policies set by the board and is authorized to organize staff as needed. As of August 2014, KSFB employed 225 full-time staff and more than 700 temporary staff.

In FY 2013, KSFB’s revenue was nearly $46 million, which was similar to the annual revenue for most recent years. Expenditures in FY 2013 were nearly $55 million, for an $8.8 million deficit. KSFB experienced financial deficits in 6 years from FY 2007 to FY 2013. KICC operated at a deficit every year from FY 2007 to FY 2013; KEC operated at a deficit in 4 years over this period.

Typically, approximately 90 percent of KSFB’s annual revenue is from income earned from holding events at the two KSFB facilities. From FY 2007 to FY 2013, KSFB received appropriations from the state in 4 years. The largest appropriation was $5.5 million in FY 2012, provided to counter shortfalls from the loss of major events at KSFB facilities. Labor costs represented the largest portion of FY 2013 expenditures, nearly 40 percent. Depreciation of facilities and equipment was nearly 20 percent of FY 2013 expenditures.

The State Fairs and North American International Livestock Expositions in FY 2012 and FY 2013 resulted in losses for KSFB. The FY 2012 and FY 2013 World’s Championship Horse Shows and the FY 2013 and FY 2014 National Farm Machinery Shows were profitable.

The Louisville Convention and Visitors Bureau estimated the economic impact for approximately half of the events held at KSFB facilities in 2013. KEC provided more than $200 million of estimated economic impact, primarily through conventions. KICC provided more than $70 million of estimated economic impact, also primarily through conventions.

Based on their depreciated values, KSFB assets decreased from $277 million in FY 2009 to $250 million in FY 2013. Buildings and land improvements are nearly 90 percent of KSFB assets. As of FY 2013, KSFB's debt was nearly $63 million, a 4 percent decrease from FY 2009.

KSFB identified multiple financial challenges for its operations, with the largest being the loss of business from the opening of the KFC Yum! Center. Events moved from KSFB facilities to the KFC Yum! Center, and a process was created to compensate KSFB for losing the business. However, the funds were never available, and KSFB was not compensated. KSFB estimated that losing the events cost it $7.5 million in business from FY 2011 to FY 2013.

Program Review staff compared net income from the two KSFB facilities to other convention centers by reviewing financial documents from 53 convention centers. Convention centers generally generate no profit or a small profit. Convention centers that generated a large profit received governmental support, such as a transfer of tax revenue.

Based on a review of US event facilities with at least 100,000 square feet of exhibit space, most are relatively small, with less than 250,000 square feet. Only 7 percent (including KEC) had more than 1 million square feet of exhibit space. More than 90 percent of reviewed facilities were owned by a state, county, or local government agency.

Two-thirds of 77 facilities reviewed, including KSFB facilities, are publicly owned, are publicly operated, use public employees to provide some services, and use private contractors to provide others. A few publicly owned facilities use in-house staff exclusively. An even smaller number of facilities contract with private firms to provide all services. KSFB considers the possibility of using outside vendors for providing services by conducting an analysis of each show hosted at its facilities.

Nearly one-fourth of event facilities are publicly owned facilities that have hired a private firm to manage operations. Based on a review of a private manager and government entities that own event facilities, the five contracts were similar except for compensation. Each contract specified that the company was hired to be the sole manager of one or more facilities and was responsible for managing, operating, maintaining, promoting, and providing concessions for the facility. The contracts had a base management fee and an additional fee based on performance.

Of the 77 facilities reviewed, only one is privately owned and operated.

Chapter 1

Governance And Organization

The Kentucky State Fair Board (KSFB), an agency of the Tourism, Arts and Heritage Cabinet, owns and operates two event facilities in Louisville.

The Program Review and Investigations Committee voted to initiate a study of the Kentucky State Fair Board (KSFB) on December 11, 2013. KSFB, an agency of the Tourism, Arts and Heritage Cabinet, owns and operates two event facilities in Louisville. The committee directed staff to review the agency and options for privatization.

The Kentucky Exposition Center (KEC) is a multipurpose complex with 1.2 million square feet of exhibit space. It is the sixth largest convention center in the US. It hosted 217 events in FY 2013, including the Kentucky State Fair, the National Farm Machinery Show, and the North American International Livestock Exposition.

The Kentucky Exposition Center (KEC) opened in 1956 as a multipurpose complex that hosts major trade shows, conventions, concerts, sporting events, and agricultural shows. KEC is the sixth largest convention center in the country, with 1.2 million square feet of exhibit space, including Broadbent Arena, Freedom Hall, and four exhibition wings. Its facilities were booked year-round in fiscal year 2013 and hosted 217 events, including three KSFB-produced events: the Kentucky State Fair, the National Farm Machinery Show, and the North American International Livestock Exposition.

The Kentucky International Convention Center (KICC) has 200,000 square feet of exhibit space for hosting events including national and international conventions and trade shows. It hosted 166 events in FY 2013.

The Kentucky International Convention Center (KICC), built in 1977, hosts events including national and international conventions and trade shows. A 1999 renovation doubled the facility’s size to 200,000 square feet of contiguous exhibit space. KICC was booked year-round and hosted 166 events in FY 2013.

Table 1.1 shows the number and types of events held at each facility during FY 2013. One half of the events held at KICC were meetings and seminars. Trade shows and conventions represented an additional quarter of all KICC events. KEC hosted more diverse types of events, with sports events, meetings, public expositions, and catered affairs accounting for more than one-half of events.

Table 1.1
Kentucky International Convention Center And Kentucky Exposition Center Events By Type
Fiscal Year 2013

Event Type	KICC	% Of Total	KEC	% Of Total
Catered events	19	11.4%	21	9.7%
Concerts	0	0.0	17	7.8
Conventions	22	13.3	12	5.5
Family-oriented attractions	1	0.6	11	5.1
Horse shows	0	0.0	4	1.8
Livestock	0	0.0	12	5.5
Meetings and seminars	83	50.0	38	17.5
Public expo	6	3.6	22	10.1
Public sales	3	1.8	10	4.6
Sporting events	9	5.4	43	19.8
Trade shows	22	13.3	8	3.7
Miscellaneous events	1	0.6	15	6.9
KSFB-produced shows*	0	0.0	4	1.8
Total events	166	100.0%	217	100.0%

Note: Percentages may not add to 100.0 due to rounding.
*The Kentucky State Fair, the World's Championship Horse Show, the National Farm Machinery Show, and the North American International Livestock Exposition were not included in the source and were added by Program Review staff.
Source: Kentucky. State Fair Board. "Business Plan Biennial Budget 2014-2016."

Conclusions

This report has four conclusions.

- KSFB events affect local and state economies by attracting out-of-state visitors. The Louisville Convention and Visitors Bureau calculated the economic impact for approximately half of the events held at KSFB facilities in 2013 to be $277 million, not including tax revenue or secondary spending.
- From FY 2007 to FY 2013, KSFB's net income ranged from an $11.1 million deficit to a $1.1 million surplus. Low or negative net income is typical of US event facilities. More than 80 percent of sampled facilities had a net income of less than $1 million in FY 2013, including 64 percent that reported a loss. Facilities that generated large annual profits in FY 2013 received significant funding from grants, tax breaks, or governmental appropriations.
- KSFB has a comparatively high level of oversight. It is governed by a board, is included in the state's annual audit, and produces an annual report voluntarily.
- The ownership and management of KSFB facilities and the degree to which they privatize services are typical of US event

facilities. KICC and KEC are publicly owned and operated and use public employees to provide some services but contract with private companies for other services.

Kentucky State Fair Board

By statute, KSFB is governed by a 15-member board consisting of 3 voting ex officio members (the governor, the commissioner of the Department of Agriculture, and the dean of the University of Kentucky College of Agriculture) and 12 members appointed by the governor to 4-year renewable terms.

KSFB is governed by a 15-member board, composed of the governor, the commissioner of the Department of Agriculture, the dean of the University of Kentucky College of Agriculture, 10 members who are appointed by the governor from the state at large, one member who is appointed by the president pro tempore of the Senate from the state at large, and one member who is appointed by the speaker of the House of Representatives from the state at large (KRS 247.090).

The two KSFB members who statute says should be appointed by the Senate and House are in practice appointed by the governor. In *Legislative Research Commission ex rel. Prather v. Brown* (1984), the Kentucky Supreme Court declared invalid the General Assembly's authority to appoint executive branch board members because it infringes on the governor's right to make such appointments. The court ruled that the governor should fill such vacancies.[1]

The remaining 10 state-at-large gubernatorial appointments must include one eligible representative each from the American Saddle Horse Breeders Association, the Kentucky Association of Fairs and Horse Shows, the Kentucky Farm Bureau Federation, the Kentucky Livestock Improvement Association, and the Kentucky State National Farmers Organization.[a]

The governor, commissioner, and dean are ex officio KSFB members with full voting rights. The remaining 12 KSFB members are appointed to 4-year renewable terms with full voting rights. Board members receive $100 per day for attending KSFB meetings and are reimbursed for necessary travel expenses.

In October 2014, the Governor reorganized KSFB by executive order. The voting membership was increased to 17, and two nonvoting members were added. The three voting ex officio members are as before, but some gubernatorial appointments were revised.

On October 6, 2014, the governor issued Executive Order 2014-834 relating to the reorganization of KSFB. The number of voting members is increased from 15 to 17, and two nonvoting members are added. Remaining on the board are the governor, the commissioner of the Department of Agriculture, the dean of the University of Kentucky College of Agriculture and gubernatorial

[a] The American Saddle Horse Breeders Association has changed its name to the American Saddlebred Horse Association.

appointees representing the Kentucky Association of Fairs and Horse Shows, the American Saddlebred Horse Association, and the Kentucky Farm Bureau Federation. A gubernatorial appointee representing the Louisville Convention and Visitors Bureau is added. The governor also appoints 10 state-at-large members, including one who is experienced in animal agriculture and another who is experienced in agribusiness. The added nonvoting members are the state presidents of the Kentucky FFA Association and the Kentucky 4-H Organization. Removed from the board were representatives of the Kentucky Livestock Improvement Association and the Kentucky State National Farmers Organization because these organizations were not locally active or no longer existed.

Under KRS 247.110, KSFB elects a chairman and vice chairman from among the members appointed by the governor. Under Executive Order 2014-834, the governor appoints the chairman and vice chairman. Under KRS 247.100(2), a quorum of the board consists of five members, and a majority of those present at any meeting for the transaction of business. Under the executive order, a majority of voting members (nine) constitutes a quorum.

Statutory Responsibilities

By statute, KSFB is responsible for promoting the progress of the state and stimulating public interest in the advantages and development of the state by providing KEC and KICC for hosting events.

KRS 247.140(1)(c) states that KSFB

> [s]hall promote the progress of the state and stimulate public interest in the advantages and development of the state by providing the facilities of the state fairgrounds for agricultural and industrial exhibitions, public gatherings, cultural activities, and other functions calculated to advance the educational, physical, and cultural interests of the public and by providing the facilities of the exhibition center for conventions, trade shows, public gatherings, and other functions calculated to advance and enhance the visitor industry, economy, entertainment, cultural and educational interests of the public.

In fulfilling its mandate, KSFB can acquire and hold property. It has custody and control of any such property, including KEC and KICC.

In fulfilling this mandate, KRS 247.140(2) states that KSFB

> may take, acquire and hold property, and all interest therein, by deed, gift, devise, bequest, lease, or eminent domain, or by transfer from the State Property and Buildings Commission, and may dispose of any property so acquired in the manner provided by law.

KSFB has custody and control of any such property, including those of the Kentucky state fairgrounds and the Kentucky International Convention Center. It may erect or repair buildings on these properties and carry out a program of development to accomplish the above stated objectives.

The only event KSFB is required by statute to host is the North American International Livestock Exposition.

Although KSFB has exclusive control of concessions, exhibitions, shows, entertainment, and attractions on its properties, the only event that statute requires it to host is the North American International Livestock Exposition (KRS 247.140(1)(f)). The production of the annual Kentucky State Fair is not mandated. According to KRS 247.140(1)(d), the board

> [m]ay hold an annual fair on the state fairgrounds, for the exhibition of agricultural, mechanical, horticultural, dairy, forestry, poultry, livestock, mineral, and all other industrial interests of the state, and prepare premium lists and establish rules of exhibition for the fair.

The board is also responsible for hiring a president, from outside its membership, to serve as the chief executive officer.

The board is also responsible for hiring a president, from outside its membership, to serve as the chief executive officer under a contract not to exceed 4 years without renewal. The board alone determines the terms, conditions, and compensation of its president. KSFB may also employ or contract with other persons, firms, or corporations it deems necessary to accomplish its duties.

Operations

KSFB members meet monthly in Louisville to establish and revise agency policies, to evaluate the progress on short- and long-range planning, and to address other issues. Meetings are open to the public, and proceedings are a matter of public record. Newly appointed members are given an orientation packet and meet with the president to review the board's function and the duties of its members.

There is no documentation showing the items that require board approval. Board staff explained that they rely on the provisions of KRS 247.130 and KRS 247.140 to determine when board approval is required.

There is no documentation showing the items that require board approval. Board staff explained that they rely on the provisions of KRS 247.130 and KRS 247.140 to determine when board approval is required. They said that the board approves policies related to the operation and management of agency-owned facilities and noted that the board also approves items such as the biennial and monthly operating budgets, long-term leases, certain personal service contracts, fee and rate changes, capital improvements, and certain personnel matters.[2]

Committees

KSFB's workload is divided among five standing committees, to which the board's chairman is responsible for assigning members and topics. Table 1.2 provides summary information on the committees.

Table 1.2
Kentucky State Fair Board Standing Committees

Committee	Members	Assigned Duties
Executive	5	Policy changes, legislative issues, other matters as required
Finance and Budget	5	Annual operating budget, biennial budget, annual audit, contracts, leases, personnel and legal matters, rental rates, insurance
Facilities	4	Construction, major maintenance, landscaping, highway projects, long-range planning
Public and Business Relations	4	Trade shows, conventions, public shows, customer relations, ticketing, parking, signage
In-House Events	7	Kentucky State Fair, World's Championship Horse Show, North American International Livestock Exposition, National Farm Machinery Show

Source: Compiled by Program Review staff from Kentucky. State Fair Board. "Business Plan Biennial Budget 2014-2016."

Most topics assigned to the committees come from issues brought to the attention of the president or other staff. Committee members work directly with relevant staff on these topics and report their findings and recommendations at KSFB monthly meetings for discussion or final approval.

Staff Organization And Functions

The KSFB president is responsible for the administration of policies set by the board and is authorized to organize staff as needed to achieve the anticipated levels of production and services needed at KSFB facilities. As of August 2014, KSFB employed 225 full-time staff and more than 700 temporary staff.

The KSFB president is responsible for the administration of policies set by the board and is authorized to organize staff as needed to achieve the anticipated levels of production and services needed at KSFB facilities. As of August 2014, KSFB employed 225 full-time staff and more than 700 temporary staff, not including outsourced labor. These employees work in 11 departments:

- The access control department coordinates vehicular traffic on and around KSFB-owned properties.
- The administration department provides legal counsel and helps manage finances and intergovernmental relationships.
- The communications department develops and implements promotional strategies for KEC and KICC.

- The expositions department is responsible for producing the three in-house shows.
- The events coordination department serves as a liaison between KSFB and clients.
- The finance and budget department handles procurement, accounting, budget development, and internal audits.
- The information technology department manages KSFB hardware and software resources.
- The operations department oversees the maintenance and custodial operations of KSFB facilities, including set-up and tear-down for all events.
- The personnel department is responsible for recruitment, hiring, benefits administration, payroll, and maintaining employee records.
- The sales department is responsible for developing and implementing marketing strategies for KEC and KICC.
- The venue services department helps coordinate guest services, event ushering, and ticketing and provides staffing for events at KEC and KICC. [3]

Although not required by statute, KSFB staff produce an annual report and under the current president have published a 2-year business plan.

Although not required by statute, KSFB staff produce an annual report and under the current president have published a 2-year business plan. The annual report provides an overview of the agency and summarizes events held at KICC and KEC each year, including the impact these events had on local and state economies. The business plan provides a more detailed financial picture of the agency and presents KSFB's strategies for moving forward by providing goal-oriented benchmarks for improving revenue, the efficiency of operations, and infrastructure.

Annual Audit

KSFB is included in the Kentucky Comprehensive Annual Financial Report. The Auditor of Public Accounts had no major findings or recommendations for KSFB over the past 4 years.

KRS 247.190(3) requires that the auditor of public accounts conduct an annual audit of KSFB. KSFB is included in the Kentucky Comprehensive Annual Financial Report. Auditor of Public Accounts officials confirmed their office had no major findings or recommendations for KSFB over the past 4 years.[4]

Chapter 2

Kentucky State Fair Board Finances

KSFB's short-term operating, maintenance, and administrative costs are funded by event revenue and long-term land leases.

KSFB's short-term operating, maintenance, and administrative costs are funded by event revenue and long-term land leases.[5] When KSFB hosts its three annual in-house events, vendors pay to rent space, to participate in the events, and to use KSFB services. These services include freight handling, electricity service, Internet technology services, and catering. When KSFB is not hosting in-house productions, it rents facility space to other groups for events and provides the same set of services for the renters.

KSFB has sources of revenue beyond the use of its facility space. Visitors may pay to use one of its two downtown parking garages. KSFB sells advertising and sponsorship opportunities on gates, scoreboards, and displays. The venue services department contracts out its staff to provide ushering and event security services to third-party events, such as university basketball games and KFC Yum! Center events. Any KSFB-owned space not used for events is typically leased to businesses.

By statute, KSFB revenue must be used to support KSFB operations or to reduce the cost of facility use for the public.

Kentucky statute places restrictions on the use of KSFB revenue. Any revenue generated by KSFB properties and facilities must be used to pay for board expenses, management and operation of the facilities, interest and principal of KSFB debt, creation of repair and replacement reserves, or financing of improvements and additions to the facilities. If revenue remains after fulfilling these requirements, the funds must be used to reduce admission fees and charges for attending the state fair and for public use of KSFB facilities. KSFB revenue may not be appropriated to other agencies or functions (KRS 247.190).

Revenue And Expenditures

From FY 2007 to FY 2013, KSFB had a deficit in every year but one.

In FY 2013, KSFB generated $45.8 million in revenue and spent $54.6 million. As seen in Table 2.1, over a 7-year period, KSFB expended more funds than it generated except for FY 2012. KSFB's revenue exceeded expenditures by $1.1 million that year, mainly because it received a $5.5 million appropriation in FY 2012. Except in FY 2012, revenue was relatively consistent, averaging approximately $44 million. In FY 2012, revenue increased to $57.6 million because of greater government appropriations, event income, and restricted income.

Table 2.1
Kentucky State Fair Board Revenue And Expenditures (In Millions)
Fiscal Year 2007 To Fiscal Year 2013

	2007	2008	2009	2010	2011	2012	2013
Revenue	$42.4	$45.3	$43.3	$44.5	$45.1	$57.6	$45.8
Expenditures	47.2	50.7	49.8	52.1	56.2	56.5	54.6
Difference	-$4.8	-$5.4	-$6.5	-$7.6	-$11.1	$1.1	-$8.8

Source: Kentucky. State Fair Board. State Fair Board Consolidated Income Statement, Fiscal Years Ending 2008 to 2013.

Revenue

On average, income from events accounted for 87 percent of KSFB revenue from FY 2007 to FY 2013.

Table 2.2 shows KSFB's revenue sources for FY 2007 to FY 2013. The primary source of revenue was direct event income, on average accounting for 87.1 percent of annual income. This category included funds generated by hosting events at KEC and KICC.

Table 2.2
Kentucky State Fair Board Revenue Sources (In Millions)
Fiscal Year 2007 To Fiscal Year 2013

Source	2007	2008	2009	2010	2011	2012	2013
Direct event income	$37.1	$39.8	$38.8	$40.6	$40.6	$43.6	$40.3
Restricted income	0.5	1.2	0.9	0.3	2.6	6.6	2.4
Lease rental income	3.3	3.0	2.4	2.5	1.6	1.3	1.6
Appropriations	0.4	0.2	0.0	0.2	0.0	5.5	0.0
Other operating income	1.2	1.1	1.2	0.9	0.3	0.6	1.5
Total	$42.4	$45.3	$43.3	$44.5	$45.1	$57.6	$45.8

Note: Source incomes may not add to the totals shown due to rounding.
Source: Kentucky. State Fair Board. State Fair Board. Consolidated Income Statement, Fiscal Years Ending 2008 to 2013.

Direct Event Income. Direct event income was revenue earned from specific events held at the two KSFB facilities. This included rental fees for using space, use of parking lots, services such as freight handling, and concession commissions earned during events. Direct event income ranged from $37.1 million to $43.6 million, averaging $40.1 million from FY 2007 to FY 2013.

Restricted income is funds received from insurance benefits, sales of bonds, or nonexchange financial guarantees related to debt service payments.

Restricted Income. Restricted income represented funds received from insurance benefits, sales of bonds, or nonexchange financial guarantees related to debt service payments. For example, KSFB received restricted income when bonds were sold to finance a parking garage maintenance project at KICC. Restricted income must be spent on capital projects, and all expenditures are approved by the Kentucky Finance and Administration Cabinet's Division of Engineering and Contract Administration.[6]

Restricted income was lower in the initial years examined by Program Review staff, with revenue ranging from $300,000 to $1.2 million from FY 2007 to FY 2010. FY 2011-FY 2013 saw higher levels of restricted income, varying from $2.4 million to $6.6 million. The increase represents returns on interest, bond financing by the state, and transfers from state surplus and reserve funds.

Restricted income was highest in FY 2012 because the Hyatt Regency bought out its lease, generating $6.4 million in net earnings for KSFB.

In FY 2011, the state provided $1.9 million in bonds to finance the KEC upgrade of heating, ventilation, and air conditioning (HVAC) and $400,000 for parking garage repairs. Also in FY 2011, the Debt Service Reserve provided $241,268 for construction on the south wing at KEC. In FY 2012, the Hyatt Regency bought out its lease, generating $6.4 million in net earnings for KSFB. In FY 2013, the state provided $2.2 million for parking garage maintenance, and KSFB received $127,303 in interest income from the south wing construction project.[7]

Land owned by KSFB is typically leased to businesses. From FY 2007 to FY 2013, land lease income decreased by 50 percent as some lessees closed their businesses.

Lease Rental Income. KSFB owns land around KEC and KICC. Any land not used for KSFB functions is typically leased to businesses. Current lessees of KEC land include Thorntons Inc., Crowne Plaza, and Kentucky Kingdom. Current KICC land lessees include Z's Oysterbar and Steakhouse.

Lease rental income decreased over time. In FY 2007, rental income was approximately $3.3 million. Table 2.2 shows that lease revenue decreased 50 percent by FY 2013, with leases generating $1.6 million in revenue. In 2009, the Executive Inn East was demolished, which decreased lease rental revenue by $546,032. In 2010, KSFB lost $1.2 million in lease income when Six Flags ceased operations. In 2012, the Hyatt Regency bought out its lease, decreasing lease income by $271,555 per year. From April 2010 to December 2013, KSFB decreased Crowne Plaza's quarterly rent by $25,000 as reimbursement for demolition of the Executive Inn East. KSFB staff estimated lost or reduced lease payment resulted in a $2,068,974 decrease in yearly earnings.[8]

From FY 2007 to FY 2013, the largest state appropriation to KSFB was $5.5 million in FY 2012. The appropriation was given to cover shortfalls from losing major events and the University of Louisville basketball programs.

Appropriations. KSFB received state appropriations in fiscal years 2007, 2008, 2010, and 2012. In fiscal years 2007, 2008, and 2010, KSFB received amounts ranging from $181,000 to $396,800. In FY 2012, KSFB received $5.5 million in appropriations. The FY 2012 appropriation was to cover a cumulative shortfall due to the loss of major events and University of Louisville basketball programs to the KFC Yum! Center and the loss of Kentucky Kingdom.[9]

KSFB may request appropriations for multiple reasons. If it is unable to meet its budget, it may request funds. In the past, KSFB requested appropriations to help produce the North American International Livestock Exposition. If the board requires bonds to finance a project, it may also request an appropriation.[10] The General Assembly may appropriate funds to KSFB for insurance premiums (KRS 247.170).

Other Operating Income. This is any source of income that was not directly related to an event held at KSFB facilities. The category includes sources such as $135,000 payment for advertising on a billboard near Cardinal Stadium, rent paid by the University of Louisville for using an athletic building, and payments for recycling products.

"Other operating income" was approximately $968,000 per year. In FY 2007, the category provided $1.2 million, but the amount decreased to $348,000 by FY 2011. The trend then reversed, and other income reached $1.5 million in FY 2013.

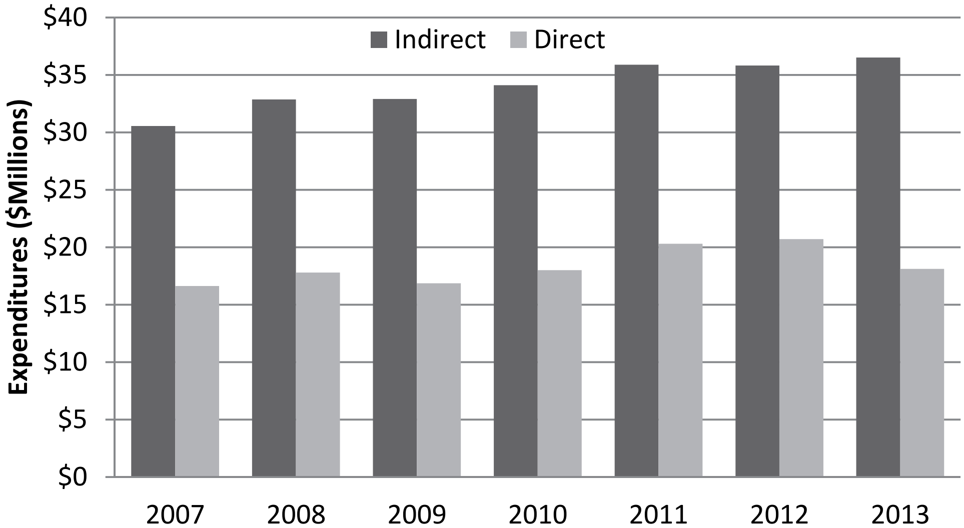
Expenditures

KSFB expenditures are divided into direct expenses, which are associated with specific events, and indirect expenses, which are not associated with specific events. Since FY 2007, 65 percent of KSFB costs have been indirect expenditures.

KSFB divides its expenditures into direct and indirect expenses. Direct expenses are costs associated with hosting events, such as hiring labor and renting equipment. Indirect expenses are costs not associated with a specific event, such as administrative labor, maintenance, and interest payments.

Figure 2.A shows annual KSFB direct and indirect expenditures from FY 2007 to FY 2013. The majority of costs, averaging approximately 65 percent each year, were indirect expenditures.

Figure 2.A
Kentucky State Fair Board Expenditures
Fiscal Year 2007 To Fiscal Year 2013



Source: Kentucky. State Fair Board. State Fair Board Consolidated Income Statement, Fiscal Years Ending 2008 to 2013.

KSFB divides its expenditures into categories, such as depreciation, utilities, and contract labor. Most expenditure categories increased from FY 2007 to FY 2013.

KSFB also divides its expenditures into multiple categories, such as depreciation, utilities, and contract labor. KSFB separated its expenses into 25 categories in FY 2013. For this review, the three interest categories and three amortization categories were combined into single interest and amortization categories. Table 2.3 shows KSFB expenditure categories for FY 2007 and FY 2013 and the change in cost. Most categories increased from FY 2007 to FY 2013.

Labor (38.5 percent) and depreciation (17.8 percent) accounted for 56.3 percent of costs in FY 2013.

Labor and depreciation accounted for 56.3 percent of costs in FY 2013. Total labor was the largest expenditure, representing 38.5 percent of KSFB costs.[b] Depreciation was the largest single category of expenditure, accounting for nearly a fifth of all KSFB costs.

[b] Total labor is the sum of administrative labor and benefits (14.1 percent), maintenance labor and benefits (10.3 percent), direct event labor (9.5 percent), and contract labor (4.6 percent).

Table 2.3
Kentucky State Fair Board Expense Sources By Category
Fiscal Year 2007 And Fiscal Year 2013

		FY 2007		FY 2013		% Change
Expenditure	**Type**	**Cost (Millions)**	**% Of Total**	**Cost (Millions)**	**% Of Total**	**FY 2007 To FY 2013**
Depreciation	Indirect	$7.7	16.4%	$9.7	17.8%	25.6%
Administrative labor and benefits	Indirect	5.5	11.7	7.7	14.1	39.8
Maintenance labor and benefits	Indirect	5.4	11.4	5.6	10.3	4.4
Direct event labor	Direct	4.2	9.0	5.2	9.5	22.8
Utilities	Indirect	3.2	6.9	4.3	7.9	34.0
Special materials and services	Direct	3.0	6.4	2.8	5.1	-8.1
Office and other expenses	Indirect	1.8	3.9	2.6	4.8	42.5
Contract labor	Direct	2.0	4.2	2.5	4.6	26.4
Building repair and supplies	Indirect	2.1	4.5	2.2	4.0	2.5
Entertainment expenses	Direct	2.0	4.2	2.1	3.9	5.3
Premiums, prizes, and awards	Direct	2.0	4.2	2.1	3.8	5.8
Amortization and insurance	Indirect	1.3	2.8	1.5	2.7	12.3
Interest	Indirect	2.3	4.9	1.5	2.7	-37.0
Grounds	Indirect	0.5	1.0	0.9	1.7	98.9
Promotions	Direct	0.9	1.9	0.9	1.7	2.5
Equipment rental	Direct	0.8	1.7	0.7	1.3	-8.3
External venue services staffing	Direct	0.0	0.0	0.6	1.2	N/A
Equipment repair and supplies	Indirect	0.5	1.1	0.5	0.9	-7.9
Programs, tickets, supplies	Direct	0.2	0.4	0.2	0.4	11.8
Proceeds to co-promoters	Direct	0.7	1.5	0.1	0.3	-80.5
Uncollectible	Indirect	0.1	0.2	0.0	0.0	-100.0
Other event expenses	Direct	0.8	1.7	0.8	1.5	-1.1
Total		$47.2	100.0%	$54.6	100.0%	15.8

Note: Costs may not add to the total shown due to rounding. Percentages do not add to 100.0 due to rounding
Source: Kentucky. State Fair Board. State Fair Board Consolidated Income Statement, Fiscal Years Ending 2008 to 2013.

Depreciation Expenses. Depreciation expenses are the costs of procuring assets with a long life span. These assets have already been obtained, but the cost is spread over the lifetime of the assets to better represent the benefits gained from ownership. KSFB calculated depreciation at a constant rate based on the useful life span of an asset.[11] These rates were based on a depreciation schedule provided by the Finance and Administration Cabinet's Finance Controller's Office.[12] On average, depreciation was approximately $9.1 million per year from FY 2007 to FY 2013.

Administrative Labor And Benefits. Administrative labor and benefits were compensation to office personnel managers and staff working at KEC and KICC. Salaries and benefits represented the majority of these costs. KSFB administrative benefits include insurance, retirement, and Federal Insurance Contributions Act contributions.

Compensation for administrative staff increased by nearly 40 percent from FY 2007 to FY 2013, primarily due to increasing retirement and health insurance costs.

As seen in Table 2.3, administrative compensation increased by almost 40 percent over the years analyzed. The primary reason was an increase in retirement costs. In FY 2007, retirement costs were $344,068. In FY 2013, retirement costs were $1,379,506. Over the same period, health insurance costs increased by $279,429. When KSFB was managing the KFC Yum! Center for the Louisville Arena Authority in FY 2011 and FY 2012, retirement and health insurance costs were higher because employees at the center were considered state employees. During this time, labor costs decreased while benefit costs increased because the Louisville Arena Authority was charged for the cost of staff labor.[13]

Maintenance Labor And Benefits. This expense category included compensation for support personnel who maintain KSFB buildings such as electricians, carpenters, and plumbers. Maintenance costs were not associated with specific events. Benefits included insurance, retirement, and FICA. Maintenance costs increased 4.4 percent from FY 2007 to $5.6 million in FY 2013.

Direct Event Labor. Direct event labor costs were for employees assigned to specific events held at KSFB facilities. As shown in Table 2.3, direct event labor costs increased by $1 million, more than 20 percent, from FY 2007 to $5.2 million in FY 2013.

Utilities. This was the costs of electricity and water necessary to operate both centers. In FY 2007, KSFB paid $3.2 million in utilities. By FY 2013, this cost had increased to $4.3 million.

Special Materials And Services. This category included any services or supplies needed to produce specific events. These services were typically products needed by the event managers, such as when KSFB helped provide electrical services. Types of costs varied by event and included animal feed and straw, dirt hauling, and event management. These costs decreased by 8.1 percent from FY 2007 to $2.8 million in FY 2013.

Office And Other Expenses. These expenses were the supplies and services needed to support administrative staff. The office charges included telephone services, computer rentals, and bank service charges. Other expenses included association dues, uniforms, data processing, and board expenses. From FY 2007 to FY 2013, office and other expenses increased to $2.6 million, a 42.5 percent increase.

The category "office and other expenses" increased by more than 40 percent from FY 2007 to FY 2013. The increase was due to higher taxes from a hotel buyout and uncollectable amounts from the Louisville Arena Authority.

An increase in FY 2012 was partially due to an additional $204,671 in ad valorem taxes for the Hyatt Regency buyout. In addition, advertising costs increased by $107,877 during FY 2012. Higher costs in FY 2013 were primarily driven by uncollectable amounts of $565,436 from the Louisville Arena Authority. The account was the difference between the amount owed to KSFB for payroll costs and the amount the Louisville Arena Authority agreed to pay.[14]

Contract Labor. These expenses were for temporary employees hired to work on specific events hosted at the centers. Common contracted labor groups included judges for contests, stagehands for concerts, and janitorial services for event days. KSFB based the number of temporary staff on the estimated need for events. KSFB staff estimated the number of hours allowed for each event task and the productivity of a person working on the task, and then hired a sufficient number of temporary employees to complete the task within the allotted time. Temporary workers were also hired to replace permanent workers who left KSFB.[15] From FY 2007 to FY 2013, contracted labor costs increased by 26.4 percent to $2.5 million.

Building Repair And Supplies. Costs to maintain buildings included supplies, repairs to infrastructure, maintenance of HVAC components, carpentry, plumbing and electrical supplies, and tables and chairs. For example, payments were made to the Alpha Mechanical company to maintain HVAC components, and payments were made to upgrade facilities to maintain Energy Performance Savings Standards. Repair costs increased by 2.5 percent from FY 2007 to $2.2 million in FY 2013. KSFB staff project that repairs will occur more frequently in the future due to the age of KICC.[16]

Entertainment Expenses. These were the costs of providing entertainment at KSFB facilities, such as paid and free concerts during the state fair. Costs increased by 5.3 percent from FY 2007 to $2.1 million in FY 2013. Starting in FY 2010, the guaranteed amount required for paid entertainers significantly increased and resulted in overall higher entertainment costs. The guaranteed amount is the minimum amount that an entertainer will receive for providing a show, regardless of the success of the show.

Premiums, Prizes, And Awards. These were cash payments to the winners of competitive events held at KSFB-produced events. For example, the winners of the 2013 World's Championship Horse Show received $637,584, and the 2013 National Farm Machinery Show Tractor Pull winners received $246,150. From FY 2007 to FY 2013, these expenses increased by 5.8 percent to $2.1 million.

Amortization And Insurance. KSFB had three categories of amortization which totaled to $1.5 million in FY 2013. Contract amortization and insurance included insurance payments, auditor fees, legal fees, feasibility studies, leadership development, and grants to tourism industry partners. The amortization for the South and East Wings represented payments to cover bonds issued for building improvements. Contract amortization varied between $1.3 million in FY 2007 and $1.4 million in FY 2013. The East Wing amortization was $5,905 per year; the South Wing amortization varied from $32,254 in FY 2007 to $38,228 in FY 2013.

Interest Expenses. The general interest expense category is primarily interest for capital leases for operating equipment, the gate system, computer equipment, and energy-saving projects. Like amortization, interest expenses for KSFB included expenses for the east and south wings. The interest categories for the two wings represented expenses to cover bonds issued for capital work on the wings. Interest costs for the south wing were 90 percent of interest costs in FY 2007 and 74.7 percent of interest in FY 2013. Interest expenses decreased by 37 percent from FY 2007 to $1.5 million in FY 2013.

Grounds Expenses. These were costs to maintain parking lots, fences, gates, horse barns, and green space. Trash disposal, which is contracted to the national company Waste Management, is included in this category. Central Salt is paid to clean parking lots after snowfalls. Dan Cristiani Inc. is paid to move snow after heavy snowfalls. Costs increased by 98.9 percent from FY 2007 to $934,017 in FY 2013. The increase was primarily due to a $481,715 roof repair project, which was covered by insurance. Generally accepted accounting procedures require a payment to be expensed. Repairs to equipment, improvements in parking lots, and increases in trash disposal costs increased costs.[17]

Promotional Expenses. These were spending by KSFB for advertising events. Promotional expenses increased by 2.5 percent from FY 2007 to $910,899 in FY 2013.

Equipment Rental. KSFB rented production items for specific events. For example, Brandywine Tent Rental was paid for the use of horse stalls during a World's Championship Horse Show. KSFB paid AG Exhibitions for the rental and set-up of exhibitor booths during the state fair. Equipment rental costs decreased by 8.3 percent from FY 2007 to $720,126 in FY 2013. Some of the decrease was due to the International Arabian Horse Association holding its last event at KEC in FY 2007.

External Venue Services Staffing. KSFB made a profit by contracting out staff to provide services at other facilities in FY 2013. [18] After the management contract with the KFC Yum! Center ended, KSFB was contracted to assist with concerts, family-oriented entertainment, and sporting events at that facility.[19] KSFB provided ushers, ticket-takers, and security for events. Venue Services staff also worked at other community events, such as Bellarmine University basketball games. In FY 2013, KSFB reported $644,555 in compensation and benefits for staff working at external events.[20]

Equipment Repair And Supplies. Costs in this category included maintenance costs for vehicles, scrubbers, forklifts, and other heavy equipment needed to set up shows. Fuel costs for vehicles, rental of tractors, and other equipment needed to maintain grounds were also included here. Examples include C&K Sales & Service being paid to repair forklifts and heavy equipment and Tennant being paid to maintain scrubbers. Equipment costs decreased by 7.9 percent from FY 2007 to $469,851 in FY 2013.

Programs, Tickets, And Supplies. These were the costs of payments for event admission tickets and the printing of exhibitor books and programs for the shows produced by KSFB. Printing and production costs of exhibitor passes for restricted area access are also included here. Costs increased by 11.8 percent from FY 2007 to $230,631 in FY 2013.

KSFB partners with co-promoters to manage events held at KEC. From FY 2007 to FY 2013, payments to co-promoters decreased by more than 80 percent because the University of Louisville's men's and women's basketball teams moved to the KFC Yum! Center.

Proceeds To Co-Promoters. KSFB partnered with independent event managers to provide support for events held at KEC. This category was for payments to the managers. For example, the American Saddlebred Association was paid $100,000 to qualify horses for the World's Championship Horse Show, and the Mid-American Equipment Association was paid $40,000 for assisting with the National Farm Machinery Show. This category also includes payments to Kentucky Kingdom based on the number of attendees. From FY 2007 to FY 2013, co-promoter costs decreased by 80.5 percent to $140,000. The proceed costs were higher from FY 2007 to FY 2010 due to the hosting of the University of Louisville's men's and women's basketball teams. The university received one-third of concession and catering revenue and one-half of parking revenue for each men's basketball game. CBS Sports Marketing also received funds for events. In March 2010, the two teams moved to the KFC Yum! Center and no longer received funds from this category.[21]

Other Event Expenses. These expenses were primarily payments for trash disposal and electricity. KSFB sometimes includes charge card fees for the three major in-house shows in this estimate, though charge card fees from any ticketed event could appear in this list. "Other event expenses" for FY 2013 included $236,730 in electricity charges associated with the Kentucky State Fair. "Other event expenses" decreased by 1.1 percent from FY 2007 to $800,921 in FY 2013.

Louisville Arena Authority Staffing And Labor. As part of KSFB's contract to manage the KFC Yum! Center, KSFB was required to provide staff and services to the center. KSFB spent $3,312,947 in FY 2011 and $4,627,985 in FY 2012 to fulfill these requirements. KSFB charged the Louisville Arena Authority for these costs.[22] As of August 5, 2014, the arena authority has not reimbursed KSFB for $1.2 million of these charges.[23]

Kentucky Exposition Center Operations

KEC had deficits in 4 years from FY 2007 to FY 2013.

KEC is the larger of the two KSFB facilities, with 1.2 million square feet of exhibit space. As seen in Table 2.4, KEC revenue exceeded expenditures in 3 of the 7 years studied. In two of those years, KEC received state appropriations: $396,800 in FY 2007 and $246,800 in FY 2008. The deficits were partially caused by a $4 million increase in expenditures that began in FY 2011.

Table 2.4
Kentucky Exposition Center Revenue And Expenditures (In Millions)
Fiscal Year 2007 To Fiscal Year 2013

	2007	2008	2009	2010	2011	2012	2013
Revenue	$32.9	$35.2	$34.4	$36.2	$35.9	$39.0	$36.3
Expenditures	32.4	34.8	34.5	36.0	40.2	40.5	39.3
Difference	$0.6	$0.4	-$0.2	$0.2	-$4.3	-$1.5	-$3.0

Note: Actual differences may not equal calculated differences due to rounding.
Source: Kentucky. State Fair Board. Kentucky Exposition Center Income Statement, Fiscal Years Ending 2008 to 2013.

Kentucky International Convention Center Operations

KICC had deficits every year from FY 2007 to FY 2014.

KICC is the smaller of the two KSFB facilities, with approximately 200,000 square feet of exhibit space. As seen in Table 2.5, KICC operated at a deficit that varied from $0.9 million to $2.5 million from FY 2007 to FY 2013. The deficit peaked in FY 2011, due to decreasing revenue and increasing expenditures.

Table 2.5
Kentucky International Convention Center Revenue And Expenditures (In Millions)
Fiscal Year 2007 To Fiscal Year 2013

	2007	2008	2009	2010	2011	2012	2013
Revenue	$5.8	$6.0	$5.7	$5.4	$5.1	$5.1	$5.7
Expenditures	6.7	7.5	7.3	7.6	7.6	6.9	7.3
Difference	-$0.9	-$1.5	-$1.6	-$2.2	-$2.5	-$1.7	-$1.6

Note: Actual differences may not equal the calculated differences due to rounding.
Source: Kentucky. State Fair Board. Kentucky International Convention Center Income Statement, Fiscal Years Ending 2008 to 2013.

In-House Shows

KSFB produces three major in-house shows: the Kentucky State Fair, the North American International Livestock Exposition (NAILE), and the National Farm Machinery Show. The World's Championship Horse Show is held in conjunction with the Kentucky State Fair, but the two events were separated in this analysis. Program Review staff analyzed the revenue and expenditures for the 2 most recent years of each event for which data were available. The information was used to calculate a ratio of profit to expenditures for an estimate of profit earned per dollar spent.

The 2012 and 2013 Kentucky State Fairs resulted in losses. The profit-to-expense ratios indicates that, on average, a dollar spent on the state fairs caused KSFB to lose 5 cents in 2012 and 7 cents in 2013.

As seen in Table 2.6, the 2012 and 2013 Kentucky State Fairs resulted in losses. The profit-to-expense ratios indicate that, on average, a dollar spent on the state fairs caused KSFB to lose 5 cents in 2012 and 7 cents in 2013. State fair revenue was driven by gate admissions and proceeds from promotions. Admissions accounted for, on average, 38.5 percent of revenue, and promotions accounted for approximately 21.4 percent of revenue. State fair expenditures were driven by KSFB labor, at an average of 26.0 percent of total expenditures, and entertainment costs, at an average of 25.4 percent.

Table 2.6
Profits And Losses For Most Recent 2 Years Of Events Produced By Kentucky State Fair Board

Event	Year	Profits/Losses ($ Millions)	Profit/Loss Per $1 Spent
Kentucky State Fair	2012	-$0.4	-$0.05
	2013	-0.5	-0.07
World's Championship Horse Show	2012	0.9	0.52
	2013	0.7	0.37
North American International Livestock Exposition	2012	-0.7	-0.22
	2013	-0.5	-0.17
National Farm Machinery Show	2013	7.2	4.73
	2014	7.6	5.13

Source: Kentucky. State Fair Board. 2013 Kentucky State Fair Income Statement; 2013 World's Championship Horse Show Income Statement; 2013 North America International Livestock Exposition Income Statement; 2014 National Farm Machinery Show Income Statement.

The 2012 and 2013 World's Championship Horse Show generated profits for KSFB. On average, a dollar spent on the horse shows caused KSFB to gain 52 cents in 2012 and 37 cents in 2013.

The 2012 and 2013 World's Championship Horse Show generated profits for KSFB. The profit-to-expense ratios indicate that, on average, a dollar spent on the horse shows caused KSFB to gain 52 cents in 2012 and 37 cents in 2013. The primary sources of horse show revenue were ticket sales, at an average of 28.0 percent of revenue, and entry fees, at an average of 23.4 percent. On average, 41.8 percent of expenditures was for prizes and 20.4 percent was for special materials and services.

The 2012 and 2013 North American International Livestock Exposition generated losses for KSFB. On average, each dollar spent on these shows caused KSFB to lose 22 cents in 2012 and 17 cents in 2013.

The 2012 and 2013 NAILE generated losses for KSFB. On average, each dollar spent on these shows caused KSFB to lose 22 cents in 2012 and 17 cents in 2013. NAILE revenue was typically generated by entry fees, at an average of 23.6 percent of total revenue, and gate admissions, at an average of 13.2 percent. NAILE expenses primarily came from awarding prizes and awards, at an average of 24.6 percent of costs, and provision of special materials and services, at an average of 21.4 percent.

The 2013 and 2014 National Farm Machinery Shows generated profits for KSFB. On average, each dollar spent on these shows caused KSFB to gain $4.73 in 2013 and $5.13 in 2014.

The 2013 and 2014 National Farm Machinery Shows generated profits for KSFB. On average, each dollar spent on these shows caused KSFB to gain $4.73 in 2013 and $5.13 in 2014. Machinery show revenue was primarily generated by rental of space, at an average of 52.5 percent of total revenue, and ticket sales, at an average of 25.4 percent. Expenditures were primarily driven by KSFB labor, at an average of 22.4 percent, and contract labor, at an average of 20.4 percent.

Economic Impact

Economic impact refers to the effect KEC and KICC events have on the local economy and the state and local tax base.

Economic impact refers to the effect that events held at KEC and KICC have on the local economy and on the state and local tax base. The effect is from out-of-state visitors spending money in the local economy that would have been spent elsewhere had the events not occurred. These dollars go through local businesses and are then circulated through the local economy and tax revenue.[24]

KSFB will sometimes host events that generate little or no revenue in order to stimulate economy activity.

KSFB will sometimes host an event that generates little or no revenue in order to stimulate economic activity. For example, KSFB hosted the National FFA Convention in 2013 and established a 3-year commitment for the event. KSFB waived the facility fees for the event because KSFB estimated the event would generate $120 million in economic impact over 3 years.[25] If an event would generate little to no revenue, a reason must be documented to justify the loss.[26]

KSFB uses calculations provided by the Louisville Convention and Visitors Bureau to estimate economic impact for some shows it hosts, but not for all shows.[27] KSFB has estimates of economic impact for approximately 53 percent of the events it hosted at KEC and KICC in FY 2013.

The convention bureau uses the estimated number of hotel room nights booked by event guests and the number of exhibitor booths at the show to calculate a conservative estimate of the economic impact for a particular event. This estimate does not consider the impact on the state and local tax base, which would increase the estimated amount.

Economic impact estimates were available for 112 events held at KEC in 2013. These events provided an estimated economic impact of more than $200 million.

Table 2.7 shows the degree to which different KEC events contributed to the facility's $204 million economic impact, and includes the 112 events for which estimates were available. Conventions provided the largest economic impact of KEC events, primarily due to the National FFA Convention, which provided an estimated $40 million of economic impact. KEC hosted 16 events with virtually no economic impact.

Table 2.7
Economic Impact Of Selected Kentucky Exposition Center Events
2013

Type	Events	Economic Impact
Convention	14	$65,974,820
Trade show	5	40,063,636
Sporting event	29	30,008,000
National Farm Machinery Show	1	17,082,060
Kentucky State Fair	1	16,200,000
Public exposition	10	15,309,683
North American International Livestock Exposition	1	11,316,440
Meeting	12	6,855,607
Livestock event	8	649,000
Horse show	2	250,500
Other	29	71,406
Total	112	$203,781,152

Note: Program Review staff combined public sale, family-oriented, miscellaneous, catering, and non-event categories into the "Other" category. Louisville Convention and Visitors Bureau provided impact estimates for 112 KEC events (54 percent of all KEC events for 2013).
Source: KEC Economic Impact 2013.

Economic impact estimates were available for 95 events held at KICC in 2013. These events provided an estimated economic impact of more than $70 million.

Table 2.8 shows the degree to which different KICC events contributed to the facility's $73 million economic impact, and includes the 95 events for which estimates were available. KICC conventions provided more economic impact than all other categories combined. The largest event held at KICC was a National Association for Healthcare Quality convention that had $16.3 million of estimated economic impact. KICC hosted 27 events with virtually no economic impact.

Table 2.8
Economic Impact Of Selected Kentucky International Convention Center Events
2013

Type	Events	Economic Impact
Convention	25	$54,140,061
Meeting	36	9,354,205
Catering	5	3,600,004
Trade show	10	2,535,284
Public exposition	5	2,411,021
Sporting event	11	1,381,350
Family-oriented and public sales	3	14,752
Total	95	$73,436,677

Note: Louisville Convention and Visitors Bureau provided impact estimates for 95 KICC events (52 percent of all KICC events for 2013).
Source: KICC Economic Impact 2013.

Kentucky State Fair Board Assets

The depreciated value of KFSB assets decreased by 10 percent from FY 2007 to FY 2013. Buildings and land improvements represent the largest asset category, accounting for nearly 90 percent of assets.

Table 2.9 shows the total assets for KSFB at the end of fiscal years 2009 to 2013 and the five largest categories of assets as of the end of FY 2013. The first total category represents the value of assets at their original value. The depreciated total considers the decreased value of assets over time and is the most accurate estimate of KSFB assets. KSFB's assets have decreased by approximately 10 percent from FY 2009 to FY 2013. Buildings and land improvements represent the largest asset category for every year, accounting for 88 to 89 percent of assets. The average depreciation for the years studied was $156.8 million.

Table 2.9
Kentucky State Fair Board End Of Year Assets (In Millions)
Fiscal Year 2009 To Fiscal Year 2013

Asset Type	2009	2010	2011	2012	2013
Buildings and land improvements	$367.6	$367.2	$367.2	$372.0	$372.7
Land	25.0	25.0	25.0	23.4	26.3
Fifth Third Bank escrow account	6.6	7.8	8.0	6.7	6.0
Theme park construction	0.0	0.0	0.0	3.9	4.5
Capital construction projects	0.7	-1.4	0.8	0.8	4.3
All other assets	16.8	14.9	20.5	18.1	10.9
Total	$416.8	$413.5	$421.6	$424.9	$424.7
Accumulated depreciation	-139.7	-147.7	-156.5	-165.3	-175.0
Depreciated total	$277.1	$265.8	$265.2	$259.6	$249.7

Note: Assets and depreciation do not sum to the totals due to rounding.
Source: Kentucky. State Fair Board. Summary of All Facilities for the Twelve Months Ending June 30, 2009; June 30, 2010; June 30, 2011; June 30, 2012, and June 30, 2013.

Kentucky State Fair Board Debt

KSFB debt decreased by 4 percent from FY 2007 to less than $63 million in FY 2013. Noncurrent liabilities, which do not have to be paid within the fiscal year, account for the majority of KSFB debt.

As part of its operations, KSFB holds debt in the form of current and noncurrent liabilities. Unlike current liabilities, current liabilities must be paid within the current fiscal year. Table 2.10 shows KSFB's debt from FY 2009 to FY 2013. Total debt decreased from $65.3 million in FY 2009 to less than $63 million in FY 2013. Debt in FY 2011 was higher due to an $11 million increase in current liabilities in that fiscal year.

Table 2.10
Kentucky State Fair Board Debt (In Millions)
Fiscal Year 2009 To Fiscal Year 2013

Total Liabilities	2009	2010	2011	2012	2013
Current	$10.9	$10.0	$21.1	$17.2	$20.2
Noncurrent	54.5	51.3	51.1	47.4	42.6
Total Debt	$65.3	$61.3	$72.3	$64.7	$62.8

Note: Total debt does not equal the sum of liabilities due to rounding.
Source: Kentucky. State Fair Board. Schedule of Total Debt FYE 2009 thru FYE June 2013.

Commitments to building repairs, deferred event income for upcoming events, and money held in escrow accounts for other promoters' shows are examples of current liabilities.[28] Current liabilities varied from $10 million in FY 2010 to $21.1 million in FY 2011, with current liabilities in FY 2011 to FY 2013 being approximately twice the amount of FY 2009 and FY 2010. The increase was primarily influenced by a higher amount of accounts payable, starting in FY 2011. In FY 2011, accounts payable increased by $7.9 million to reach a total of $8.4 million.

Obligations for capital leases, long-term portions of efficiency projects, long-term portions of gate system financing, and bond payables are noncurrent liabilities.[29] Noncurrent liabilities have decreased over this period. In FY 2009, KSFB had $54.5 million in noncurrent liabilities but decreased that amount to $42.6 million by FY 2013. The decrease was primarily caused by decreases in the amount of long-term bond payables, with the category decreasing, on average, by $3 million per year.

Financial Challenges

Financial challenges for KSFB include multiple lessees closing their businesses, increases in retirement and insurance costs, the loss of the University of Louisville basketball programs, and the closing of Cardinal Stadium. The stadium has been declared unsafe, and portions of it cannot be used for events. Renovating the stadium would cost millions of dollars.

In its 2014-2016 business plan, KSFB identified multiple challenges that have resulted in decreased revenue. Six Flags Kentucky Kingdom filed for bankruptcy after its 2009 operating year, causing a decrease of $1.2 million in annual revenue.[30] The Executive East Hotel was demolished, resulting in a loss of $500,000 in annual revenue. Declining attendance at paid concerts has caused a decrease in state fair profit margins. NAILE operates at a deficit due to overhead and labor costs. KSFB currently pays more than $400,000 per year for an automated gate system, which, according to the KSFB business plan, has been ineffective.[31]

KSFB estimated that through FY 2015 and FY 2016, retirement costs would increase by $2.1 million and health care costs would increase by $243,600. Fire and tornado insurance rates were expected to increase by $303,000 over the same period. Debt service for the construction of two additional wings was estimated to be $7,376,475 over FY 2015 and FY 2016.[32]

KSFB estimated that it lost $2.2 million in annual revenue because the University of Louisville basketball programs moved to the KFC Yum! Center.[33] The basketball programs were moved during the time that KSFB served as managers of the KFC Yum! Center.

The closing of Cardinal Stadium has placed additional financial strain on KSFB. The stadium has been declared unsafe.[34] Renovating the stadium would cost millions of dollars.[35] KSFB is unable to fund any plans for the stadium.[36] Portions of Cardinal Stadium typically used for storage could not be used for the 2013 Kentucky State Fair, and KSFB spent $336,199 on equipment rental and special services to compensate.[37]

Management Of The KFC Yum! Center

The 2006-2008 Kentucky budget bill specified that KSFB would be compensated for events moving from KSFB facilities to the KFC Yum! Center and that KSFB was required to serve as the managing agent for the KFC Yum! Center. KSFB operated the KFC Yum! Center from October 2010 to July 2012.

Kentucky's 2006-2008 budget bill provided $75 million in state-supported bond funds to the Louisville Arena Authority for the KFC Yum! Center's construction. As part of the requirements to receive these funds, KSFB was required to serve as the managing agent for the KFC Yum! Center. KSFB operated the center from October 2010 to July 2012. The bill specified KSFB would be compensated during the life of the bonds for any net-negative financial impact as a result of events moving from KSFB facilities to the KFC Yum! Center.

KFC Yum! Center operating funds could be set aside to compensate KSFB for lost business when the center had excess funds in its operating account and when the center had met all minimum debt payments. No funds were ever set aside, and no funds were available to compensate KSFB. In April 2014, KSFB estimated it lost a total of $7.5 million in business to the KFC Yum! Center. The arena authority stated it had no obligation to KSFB beyond $1.47 million owed for management fees.

The operating agreement stated that funds in the operating account of the KFC Yum! Center at the end of a fiscal year quarter were to be diverted to a reimbursement account. However, funds would be moved from the reimbursement account to bond debt accounts if the KFC Yum! Center was unable to meet bond debt payments. As a result, KSFB could be compensated for lost business only when the KFC Yum! Center had excess operating funds and the KFC Yum! Center was able to meet all of its debt requirements. When the operating agreement was terminated in 2012, no funds had been placed in the account and no funds were available to compensate KSFB for lost business. In January 2014, KSFB estimated the total net-negative impact of business lost to the KFC Yum! Center was $7.5 million. The arena authority stated it had no obligation to KSFB beyond $1.47 million owed for management fees.

Three documents established the required procedures of the agreement between the arena authority and KSFB: the operations agreement between KSFB and the Louisville Arena Authority, the loan agreement between the arena authority and the Kentucky Economic Development Finance Authority (KEDFA), and the bond trust indenture between the KEDFA and the US Bank National Association. These documents created the KFC Yum! Center's Excess Net Cash Flow Fund and the Freedom Hall Reimbursement Subaccount within it. The subaccount was designed to compensate KSFB for lost business. The Excess Net Cash Flow Fund was an account designed to collect unused money from the Operation and Maintenance Account, unused Louisville Metro government payments, and unused arena operation revenue. In fiscal years 2011, 2012, and 2013, up to $750,000 per year could be transferred from excess Operation and Maintenance Account funds to the Freedom Hall Reimbursement Subaccount. Funds could be diverted from the subaccount as shown in Figure 2.B.

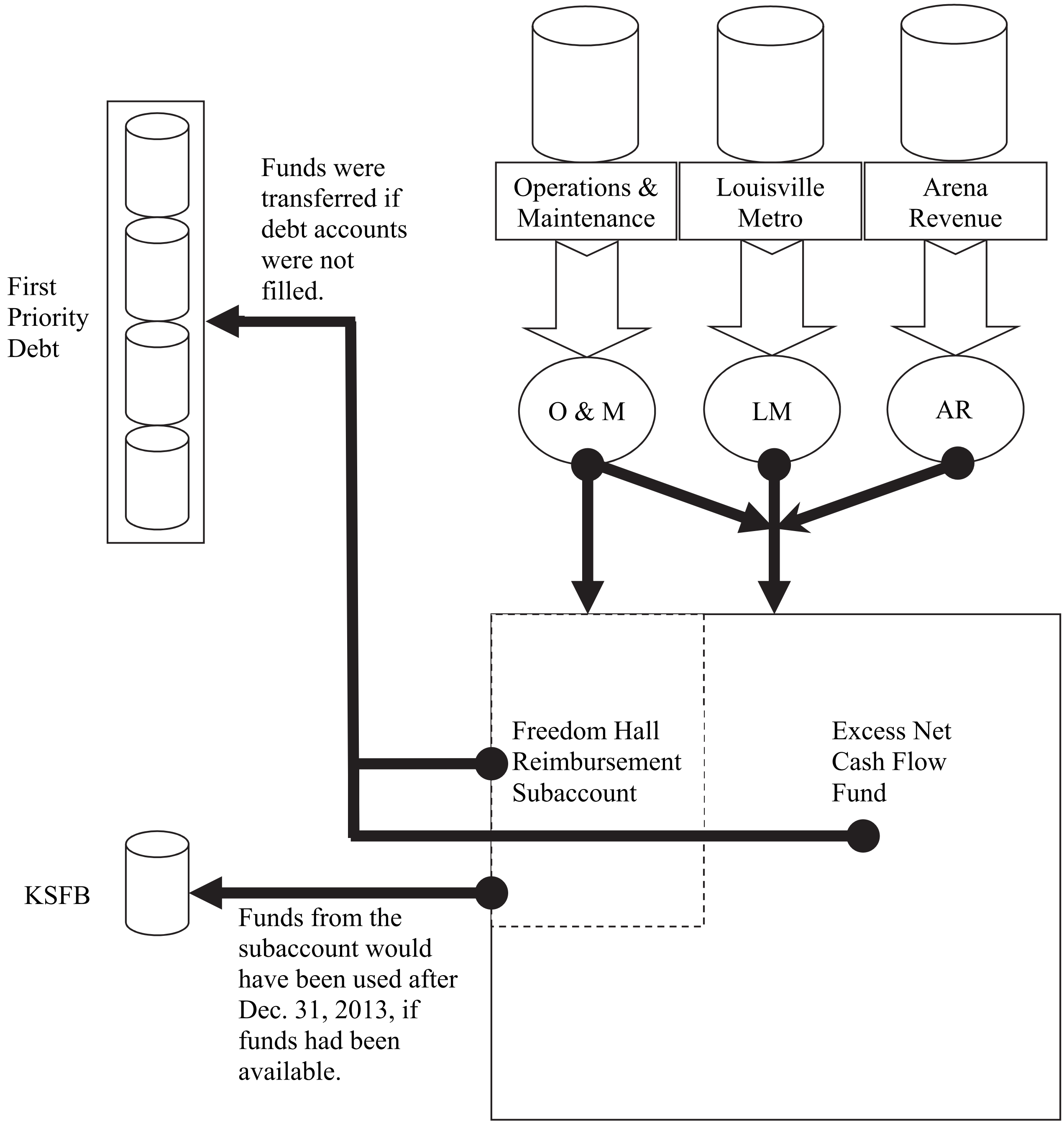
Several debt accounts, labeled First Priority Debt on the figure, took priority over the subaccount: the Senior Interest Fund, the Senior Bond Sinking Fund, the Subordinate Interest Fund, and the Subordinate Bond Sinking Fund. If one of these accounts lacked the funds necessary for debt payments, money from the Freedom Hall Reimbursement Subaccount and the Excess Net Cash Flow Fund was required to be transferred to the underfunded account.

After December 31, 2013, the subaccount could be used to compensate KSFB. The operating agreement stated that in January of each year of the agreement, the arena authority would pay KSFB an amount equal to the negative financial impact on KSFB's business. This amount was calculated by comparing the amount of Freedom Hall net income generated in the previous year against a benchmark. Calendar year 2009 was used as the benchmark for Freedom Hall net income. If the difference was negative, KSFB would receive a sum equal to the amount of the difference.

The Bond Trust Indenture stated that any funds remaining in the subaccount after January 2013 would become part of the Excess Net Cash Flow Fund and the subaccount would be closed. The operating agreement stated the subaccount was required to remain in place through June 30, 2014. On a yearly basis, the Excess Net Cash Flow Fund was required to support the Senior Reserve Fund, the Renovation and Replacement Fund, the Subordinate Reserve Fund, the Arena Surplus Account and payments to the Louisville Metro government.

The operations agreement also provided a compensation schedule. KSFB was paid a fixed management fee of $37,500 for the first partial operating year in 2010 and $150,000 for full operating years beyond 2010, provided in quarterly installments. The fee would have been adjusted annually for inflation. KSFB was also authorized to receive a supplemental fixed management fee based on criteria and standards mutually agreed upon by KSFB and the arena authority. This supplemental fee could not exceed $150,000.

Figure 2.B
Process Of Reimbursement By Louisville Arena Authority
To Kentucky State Fair Board



Source: Program Review staff's analysis of "Amended and Restated Operations Management Agreement"; "Bond Trust Indenture between Kentucky Economic Development Finance Authority and U.S. Bank National Association, as Bond Trustee"; and "Loan Agreement Dated as of August 1, 2008 between Louisville Arena Authority, Inc. and Kentucky Economic Development Finance Authority."

On July 1, 2012, the management agreement was dissolved and terminated. The termination agreement required the arena authority to provide KSFB with its remaining fixed management fee, supplemental fixed management fee, negative impact reimbursement, and other costs. The fees were to be calculated within 270 days of the termination and payment provided within 10 days of the calculation. The arena authority was to provide KSFB's negative impact reimbursement by January 31, 2014.[38]

At its April 25, 2013, meeting, KSFB approved a 2-month extension for the calculation of fees due.[39] A May 7, 2013, KSFB invoice to the arena authority provided a summary of charges totaling $1.47 million, which included costs for labor, management fees, parking, and office charges. The invoice did not include the negative impact reimbursement.[40] On May 13, 2013, the arena authority drafted and signed a resolution agreeing to pay $1.47 million "in full satisfaction and discharge of all obligations of LAA to KSFB."[41] As of August 5, 2014, the arena authority has paid $250,000 of the $1.47 million owed to KSFB under the agreement.[42]

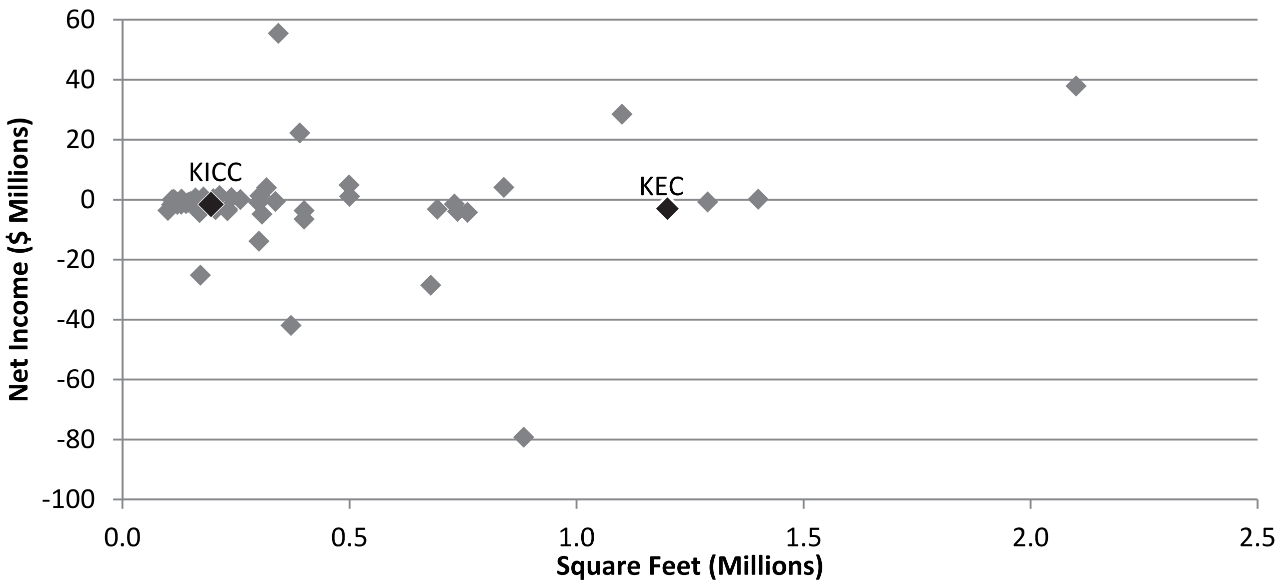
On July 25, 2013, KSFB issued a "Clarification on the Freedom Hall Reimbursement from LAA," which stated that the board's approval of the May invoice "did not relieve the LAA of their 'make whole' requirements in the bond documents or loan agreements yet to be calculated." The clarification document went on to say that the board's action "does not relieve the LAA on monies that might be due in the future. The bond indenture terms supersede any other agreement."[43] An April 2014 correspondence from the KSFB president to Capital Projects and Bond Oversight Committee staff provided an estimated total for 2011 through 2013 net-negative impact for KSFB of approximately $7.5 million.[44] A March 13, 2014, memorandum issued by the arena authority's counsel took the legal position that the arena authority had no financial obligation to KSFB beyond the $1.47 million.[45]

Net Income Of Other Event Facilities

Revenue information was collected from 53 event facilities in the US.

To determine how KSFB facilities compare to other US event facilities, Program Review staff collected revenue information on 53 event facilities. Information came from annual reports of event facilities, audits of facilities, and comprehensive annual financial reports of government entities that owned facilities. For data to be used in this analysis, information sources were required to include revenue and expenditures for the facility at least. Figure 2.C shows the net income and size of the facilities. More than 80 percent of sampled facilities had a net income of less than $1 million in FY 2013. This includes 34 facilities, 64.2 percent, that experienced net losses in FY 2013. There did not appear to be a connection between net income and amount of event space.

Figure 2.C
Net Income And Event Space For Selected US Event Facilities
Fiscal Year 2013

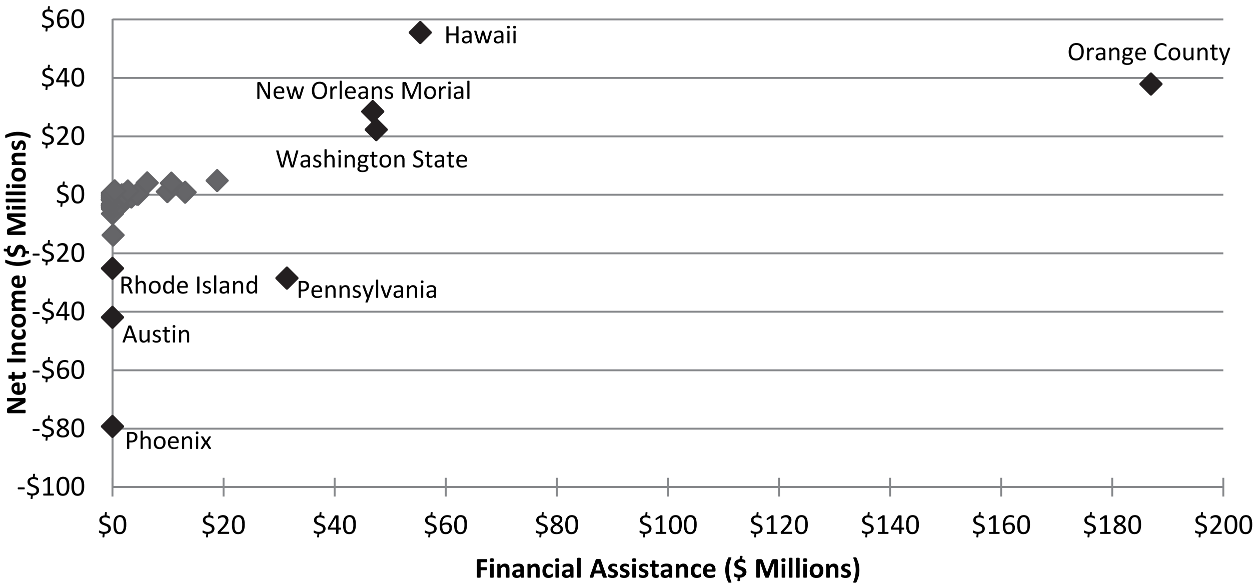


Source: Program Review staff's analysis of annual reports and comprehensive annual financial reports for 53 event facilities.

Most of the sampled event facilities had net incomes near or at 0 in FY 2013. All event facilities that generated a profit greater than $5 million received governmental support through tax revenue or state appropriations.

Figure 2.D shows the net income of event facilities and the financial assistance they received from government entities. Assistance refers to operating grants, capital grants, government contributions, tax revenue, city or state appropriations, assistance from a state government, and federal revenue. Facilities that generated significant profits received support from government entities. The Washington State Convention and Trade Center generated $22.3 million in profit in FY 2013 but received $47.5 million in tax revenue from the state.[46] The New Orleans Morial Exhibition Hall generated $28.5 million in profit but received $46.8 million in a category including dedicated tax support.[47] The Orange County Convention Center generated $37.9 million in profit but received $187 million in tax revenue.[48] The Hawaii Convention Center generated $55.5 million in profit but received $54 million in state appropriations.[49]

Figure 2.D
Event Facility Net Income And Financial Assistance For Selected US Event Facilities
Fiscal Year 2013



Source: Program Review staff's analysis of annual reports and comprehensive annual financial reports for 53 event facilities.

Some facilities ended FY 2013 with losses greater than $20 million. The Rhode Island Convention Center lost $25.1 million due to a combination of losing $14 million in interest and having operating costs that exceeded income by $11.6 million.[50] The Pennsylvania Convention Center lost $28.5 million due to operating costs exceeding revenue.[51] The Austin Convention Center lost $41.9 million due to operating costs exceeding revenue by $32 million and losing $8 million to interest payments.[52] The Phoenix Convention Center lost $79.2 million due to operating costs exceeding revenue by $46.6 million and losing $32.5 million to interest payments.[53]

One-half of the facilities reviewed received outside assistance. Operating and capital grants and tax support were the most common types of support.

Among the 53 facilities with financial reports, 26 indicated they received some assistance in FY 2013. Operating and capital grants or contributions from governments were mentioned in 12 reports, tax revenue was mentioned in 12 reports, city or state appropriations were mentioned in four reports, one report mentioned assistance from the state, and one report mentioned receiving federal revenue. Grants and contributions ranged from $2,062 to $31.4 million with a median of $1.9 million. Tax revenue varied from $843,957 to $187 million with a median of $7.2 million. Appropriations ranged from $30,559 to $54 million with a median of $2.3 million.

Chapter 3

The Convention And Exposition Industry And Options For Privatization

Program Review staff compiled a list of 165 event facilities with at least 100,000 square feet of indoor exhibit space. More than one-half of the facilities, including KICC, have less than 250,000 square feet of exhibit space. Slightly more than one-quarter have 250,001 to 500,000 square feet of exhibit space; 13.9 percent have up to 1 million square feet. Only 12 facilities, including KEC, have more than 1 million square feet of exhibit space.

Program Review staff compiled a list of 165 event facilities with at least 100,000 square feet of indoor exhibit space. These facilities, located in 45 states, included convention centers, exposition centers, and fairgrounds.[c]

Table 3.1 shows that more than one-half of the facilities, including KICC, are relatively small, with less than 250,000 square feet of exhibit space. Slightly more than one-quarter (27.3 percent) have 250,001 to 500,000 square feet of exhibit space available for potential clients; 13.9 percent could offer up to 1 million square feet. Only 12 facilities (7.3 percent), including KEC, have more than 1 million square feet of exhibit space.

Table 3.1
US Event Facilities By Size

Exhibit Space (Sq. Ft.)	Facilities	Percent
100,000 – 250,000	85	51.5%
250,001 – 500,000	45	27.3
500,001 – 1,000,000	23	13.9
More than 1,000,000	12	7.3
Total	165	100.0%

Source: Data compiled by Program Review staff.

Of the 156 facilities for which the owner and operations manager could be determined, more than 90 percent were owned by a state, county, or local government agency. Public employees manage operations for 64.5 percent of these facilities; 35.5 percent contract with private firms to manage operations. Only 9.6 percent of the 165 facilities were owned and operated by a private company.

The owner and operations manager could be determined for 156 of the 165 facilities. More than 90 percent were owned by a state, county, or local government agency. Public employees manage operations for 64.5 percent of these facilities. The remaining 35.5 percent contract with private firms to manage operations. Only 9.6 percent of the 165 facilities were owned and operated by a private company. Size does not appear to be a determining factor in whether operations are managed by a public or private entity.

Privatization Options

As used here, privatization means "the process of shifting some or all functions and responsibilities from government to private sector

[c] Five states (Montana, New Hampshire, Vermont, West Virginia, and Wyoming) have event facilities of less than 100,000 square feet.

providers."[54] In the convention and exposition industry, government agencies are primarily responsible for maintaining the facility, managing operations, and providing clients the services necessary to have a successful event. A literature review showed variability in the degree to which government-owned facilities contract out these tasks. Some event facilities use government employees to fulfill all duties, some use government employees for some tasks and contract out others, and a few use private contractors to provide management and services.

Representative of 77 facilities completed a questionnaire with questions about contracted services and governmental oversight.

Program Review staff sent a questionnaire to all 165 event facilities. In addition to questions about which commonly provided services they contract to an outside vendor, staff also asked about governmental oversight. The response rate was 46.7 percent, with 77 of the 165 facilities returning the questionnaire. Thirty-two states are represented in this sample. Appendix A summarizes the responses to each question.

The three basic models of facility ownership and operation among respondents are publicly owned and operated, publicly owned and privately operated, and privately owned and operated.

Table 3.2 shows the variability among respondents in terms of ownership, operations management, common services, and governmental oversight. The three basic models of facility ownership and operation are

- publicly owned and operated,
- publicly owned and privately operated, and
- privately owned and operated.

The following analysis examines variability within each model. Commonly provided services of building maintenance, groundskeeping, and custodial care are referred to collectively as maintenance services. Audio/visual, food, and security are referred to collectively as client services.

Table 3.2
Ownership, Operation, And Oversight Of Surveyed US Event Facilities

	Publicly Owned And Operated			Publicly Owned And Privately Operated		Privately Owned And Operated
Ownership	Public	Public	Public	Public	Public	Private
Operations	Public	Public	Public	Private	Private	Private
Services	Public	Mixed	Private	Private	Private	Private
Governmental Oversight	Yes	Yes	Yes	Yes	No	No
Facilities	5	51	2	16	2	1
% of Total	6.5	66.2	2.6	20.8	2.6	1.3

Source: Data compiled by Program Review staff from 77 questionnaire respondents.

Publicly Owned And Operated Facilities

More than three-quarters of surveyed facilities were publicly owned and operated.

More than three-quarters of the facilities that responded to the questionnaire were publicly owned and operated. These facilities were located in 26 states, representing all major geographical regions of the county. They ranged in size from 100,000 to 1.4 million square feet of exhibit space. There were three basic arrangements that capture the variability in levels of privatization among publicly owned and operated facilities.

Two-thirds of facilities, including KICC and KEC, used government employees to provide some services but contracted with private firms for others. All facilities with this arrangement had governmental oversight.

Publicly And Privately Provided Services With Governmental Oversight. This is the most common arrangement among publicly owned and operated facilities, and it includes KICC and KEC. Two-thirds of the 77 respondents operated under this arrangement. The available exhibit space ranged from 185,000 to 1.4 million square feet.

These facilities used government employees to provide some services but contracted with private firms for others. Among such facilities, 52.9 percent used their own employees to fulfill all maintenance service needs, with the remainder contracting out one or more of these services. KSFB facilities use in-house employees for building maintenance but contract out grounds keeping and custodial services. Among publicly owned and operated facilities that contracted out services, 72.5 percent contracted out one or more client services. The remaining 27.5 percent contracted out all such services. KSFB facilities contract for audio/visual and food services. Other contracted services mentioned by respondents included Internet services, telecommunications, and HVAC repair.

KSFB staff analyze in-house and contracted services. When the cost of providing a service outweighs the benefit, options include privatizing that service.

Under the current president, KSFB staff conduct post-event analyses that consider in-house and contracted services. When the cost of providing a service outweighs the benefit, staff look at potential options, including privatizing that service.

KSFB is overseen by a board, is included in the statewide annual audit, and creates an annual report, although it is not required to do the latter.

All publicly owned and operated facilities that contracted for some services had some governmental oversight. Nine were overseen by a governmental board, were included in a state or city annual audit, and were required to submit an annual report. The remaining 42 facilities had one or more of these three, with oversight by a board being the most common. KSFB is overseen by a board, is included in the statewide annual audit, and creates an annual report, although it is not required by statute to do the latter.

Five survey respondents were publicly owned and operated and used public employees to fulfill all service needs.

Publicly Provided Services With Governmental Oversight. The five respondents under this arrangement have facilities ranging in size from 160,633 to 760,000 square feet of exhibit space. All use public employees to fulfill maintenance and client service needs, although one facility did note that it typically contracts out specialty repairs for elevators and HVAC. All five facilities are governed by a board. In addition, one facility is included in the annual audit, and another facility is required to submit an annual report.

Two survey respondents were publicly owned and operated and hired outside contractors to provide services.

Privately Provided Services With Governmental Oversight. The two respondents that operated with this arrangement were facilities of 200,000 and 300,000 square feet. Although publicly owned and operated, they both contract out all maintenance and client services. One facility reports to the mayor of the city in which it is located, and the other facility is overseen by a government-appointed board.

Publicly Owned And Privately Operated Facilities

Nearly one-quarter of survey respondents were publicly owned and operated by a private company.

Nearly one-quarter of the facilities that responded to staff's questionnaire (23.4 percent) were publicly owned and operated by a private company. These facilities were in 15 states, nearly all of which were east of the Rocky Mountains and mostly focused in the Southeast. They range in size from 102,000 to 1.1 million square feet of exhibit space.

Sixteen survey respondents were publicly owned and privately operated with government oversight. Thirteen of the firms hired to manage operations contracted out at least one service. Only three firms used their own employees to meet all client services.

Privately Provided Services With Governmental Oversight. Sixteen facilities operated with this arrangement, with exhibit space ranging from 102,000 to 1.1 million square feet. Only three of the firms hired to manage operations at these facilities used their own employees to meet all client services. The remaining firms contracted out at least one client service, food services most commonly. Only two facilities used their own employees to fulfill maintenance services. The remaining facilities contracted out at least one maintenance service, grounds keeping most commonly.

All facilities with this arrangement had some governmental oversight. Only one facility was overseen by a government-appointed board, was included in the statewide audit, and was required to submit an annual report. All others were required to do at least one of these.

SMG is the most used private manager of public facilities in the sample. Five contracts with seven different convention centers were reviewed.

SMG is the most used private manager of public facilities in the sample, managing 31 of the 165 facilities. Five contracts with seven convention centers were reviewed:
- Cox Business Center and the Ford Center in 2008
- Tulsa Convention Center and the BOK Center in 2009
- Broward County Convention Center in 2010

- Ontario Convention Center in 2012
- Palm Springs Convention Center in 2013

The contracts were similar except for compensation. Each specified that SMG was hired to be the sole manager of one or more facilities and was responsible for managing, operating, maintaining, promoting, and providing concessions for the facility.

The contracts were similar except for compensation. Each contract specified that SMG was hired to be the sole manager of one or more facilities and was responsible for managing, operating, maintaining, promoting, and providing concessions for the facility. Once per year, SMG was required to provide an operating plan detailing expected revenue, expenditures, net profit or loss, needed capital improvements, and business plans for the next year. The contracting entity was allowed to adjust the budget and would then provide the funds to SMG. SMG was not required to use its own funds for the operation and maintenance of the facilities and was reimbursed for any emergency work. Capital improvements were performed through the contracting entity. In the Palm Springs Convention Center contract, SMG was required to provide $500,000 at the start of the contract to invest in capital improvements for the facility.

In each contract, SMG was authorized to receive a base management fee regardless of the facility's performance. This fee ranged from $150,000 to $350,000 annually.

In each contract, SMG was authorized to receive a base management fee regardless of the facility's performance. This fee ranged from $150,000 to $350,000 annually and was adjusted yearly for inflation. In each contract, SMG was also able to earn an incentive fee based on its actions. All contracts had some form of revenue requirements in which the contracting entity set a benchmark for losses and SMG was required to keep losses below the benchmark to earn the fee. In the Cox Business Center and Ford Center contract, the improvements over the benchmark were split between SMG and the contracting entity. Two contracts set a separate requirement to meet a specific level of revenue. Three contracts required local lodging nights to reach a specific benchmark for an incentive fee. Two contracts included estimates of customer satisfaction based on surveys or "secret shopper" reviews of services. The Broward County Convention Center contract provided a bonus if SMG followed all parts of the contract and an operations manual. The Cox Business Center and Ford Center contract provided a bonus based on the amount of increased spending in the local economy divided by the square footage of the facility and allowed SMG to receive a portion of revenue from the selling of advertising, sponsorship, product, and service rights; facility naming rights; and suite and premium seating rights. Fees could generally not exceed the base management fee, except in the case of the split revenue improvement and the percentage of service commissions.

Each facility was required to have a full-time manager controlling the day-to-day operations of the facility.

Each facility was required to have a full-time manager controlling the day-to-day operations. The choice for the manager had to be supported by SMG and the contracting entity. SMG was responsible for hiring all staff for the facilities. The staff were considered employees of SMG and received salaries and benefits determined by SMG. If SMG used subcontractors or consultants, it was required to provide the contracting entity with a list of possible candidates beforehand, but the contracting entity could not prevent SMG from using any subcontractor or consultant.

Oversight of SMG was conducted through yearly audits and monthly reports.

Oversight was conducted through yearly audits and monthly reports. Each year, SMG was required to produce an audit conducted by a certified public accountant. The accountant was required to review the facility's finances and provide a written report. SMG was also required to produce a monthly report detailing the finances and activities of the facility. Contracting entities could also request an audit at other times in the year. If expenses or revenues were miscalculated by more than 2 percent, SMG was required to compensate the contracting entity or refund parts of the incentive fee for that year.

Two survey respondents were publicly owned and privately operated but had no government oversight.

Privately Provided Services Without Governmental Oversight. The two facilities with this arrangement were relatively small, both with approximately 215,000 square feet of exhibit space. A nonprofit organization managed operations of one facility, and SMG managed operations for the other. The nonprofit organization contracted out all client services and most maintenance services, except grounds keeping. The SMG-managed facility used in-house staff to fulfill all maintenance and client services. There was no governmental oversight of facilities with this arrangement.

Privately Owned And Operated Facilities

Only one of the 15 identified privately owned and operated US event facilities responded to staff's questionnaire. The respondent used its own employees to provide all maintenance and client services, with the exception of audio/visual, which were contracted out.

Only one of the 15 identified privately owned and operated facilities responded to staff's questionnaire. Most privately owned and operated facilities were located in the eastern US, but those few in the west were associated with large casinos in Nevada.

The one respondent was a small facility with 166,000 square feet of exhibit space. The company responsible for managing operations used its own employees to provide all maintenance and client services, with the exception of audio/visual services, which were contracted out. There was no governmental oversight.

Appendix A

Responses To National Event Facilities Questionnaire

Program Review staff emailed a questionnaire to 165 US event facilities. Staff received 77 completed questionnaires, a 46.7 percent response rate. Responses to a question on net revenue were not used because facilities did not calculate net revenues consistently. For the question on contracted services, responses to "parking services" were not used because a blank response could mean that the facility used in-house staff to provide the service or did not have a parking facility.

Number of events hosted in 2013 (fiscal/calendar year)?

Events	Facilities	Percent
1-200	29	37.7%
201-400	24	31.2
401-600	15	19.5
More than 600	7	9.0
No data	2	2.6
Total	77	100.0%

In 2013, which of the following services were provided by an outside vendor on a regular basis or through a long-term contract?

	Provided By In-House Staff		Provided By Outside Vendor	
Service	Facilities	Percent	Facilities	Percent
Building maintenance	68	88.3%	9	11.7%
Grounds keeping	48	62.3	29	37.7
Custodial	54	70.1	23	29.9
Audio/visual	28	36.4	49	63.6
Food	16	20.8	61	79.2
Security	41	53.2	36	46.8

Note: The number of facilities does not total 77 and the percent columns do not total 100 because facilities may contract out more than one service.

Is your facility held accountable to local, city, or state government by any of the following?

Oversight	Facilities	Percent
Governed by board, annual report, annual audit*	10	13.0%
Governed by board, annual audit	12	15.6
Governed by board, annual report	3	3.9
Annual audit, annual report	2	2.6
Annual audit, other oversight	2	2.6
Governed by board only	18	23.4
Annual audit only	10	13.0
Annual report only	2	2.6
Other oversight only**	15	19.5
No oversight	3	3.9
Total	77	100.0%

*KICC and KEC are included in this category.
**Most "other oversight" is when a facility is owned and operated by a city and reports to the mayor.
Note: Percentages do not add to 100.0 due to rounding.

Appendix B

Reported Income And Financial Assistance For Selected Event Facilities (Fiscal Year 2013)

State	Facility	Event Space (Square Feet)	Total Operating Revenue	Total Operating Expenses	Net Nonoperating Revenue (Expenses)	Net Income (Loss)	Financial Assistance
AL	Mobile Civic Center	108,000	$1,960,052	$3,562,838	$0	($1,602,786)	$0
	Mobile Convention Center	317,000	1,969,680	8,525,655	10,616,571	4,060,596	10,616,571
	Von Braun Center	100,000	7,361,245	10,921,284	2,372	(3,557,667)	0
AZ	Arizona Exposition Center and Fair	259,631	11,777,000	11,702,000	10,000	85,000	0
	Phoenix Convention Center	883,490	24,218,000	70,829,000	(32,571,000)	(79,182,000)	0
	Tucson Convention Center	231,083	3,346,274	8,138,688	1,150,000	(3,642,414)	0
AR	Fort Smith Convention Center	145,000	663,669	1,511,665	951	(847,045)	0
CA	Moscone Center	738,092	25,949,382	29,787,024	0	(3,837,642)	0
	San Diego Convention Center	1,288,823	30,155,662	31,450,175	596,609	(697,904)	3,405,000
CT	Connecticut Convention Center	205,000	10,033,507	13,295,765	0	(3,262,258)	0
DE	Delaware State Fairgrounds	160,500	6,018,196	7,074,991	1,696,969	640,174	0
FL	Tampa Convention Center	300,000	8,363,740	9,233,302	0	(869,562)	0
	Ocean Center	200,000	1,512,612	4,668,802	3,532,862	376,672	0
	Orange County Convention Center	2,100,000	55,148,144	95,053,179	77,839,761	37,934,726	186,962,039
GA	Georgia International Convention Center	400,000	7,139,669	10,308,032	(3,239,833)	(6,408,196)	0

State	Facility	Event Space (Square Feet)	Total Operating Revenue	Total Operating Expenses	Net Nonoperating Revenue (Expenses)	Net Income (Loss)	Financial Assistance
GA	World Congress Center	1,400,000	33,956,868	32,135,086	(1,630,395)	191,387	4,621,530
HI	Hawaii Convention Center	343,118	98,275,000	16,313,000	(26,428,000)	55,534,000	55,409,000
ID	Idaho Center	111,000	2,739,875	4,543,511	2	(1,803,634)	0
IL	Donald E. Stephens Convention Center	840,000	16,385,006	13,933,882	1,691,012	4,142,136	6,254,241
IN	Indiana Convention Center and Lucas Oil Stadium	731,110	49,943,000	1,248,000	(50,107,000)	(1,412,000)	0
IA	Iowa Events Center	300,746	11,118,947	24,891,371	0	(13,772,424)	128,250
	Iowa State Fairgrounds	302,671	23,355,000	22,006,000	0	1,349,000	2,775,000
KY	Kentucky Exposition Center	1,200,000	36,281,295	39,267,522	(7,925)	(2,994,152)	0
	Kentucky International Convention Center	195,000	5,707,406	7,315,855	0	(1,608,449)	0
	Lexington Center	130,000	18,929,803	17,791,295	(870,869)	267,639	4,374,938
LA	Lamar Dixon Expo Center	115,860	1,669,187	2,261,537	437,915	(154,435)	0
	New Orleans Morial Exhibition Hall	1,100,000	29,964,000	55,444,000	54,012,000	28,532,000	46,844,000
MI	Cobo Conference and Exhibition Center	178,446	19,298,794	18,982,307	629,481	945,968	13,082,956
	DeVos Place Convention Center	240,000	12,415,076	11,877,451	245,200	782,825	0
MN	Duluth Entertainment Convention Center	231,006	8,422,007	12,971,364	1,453,350	(3,096,007)	1,258,541
MS	Jackson Convention Complex	140,000	2,872,373	898,750	(3,240,395)	(1,266,772)	0

State	Facility	Event Space (Square Feet)	Total Operating Revenue	Total Operating Expenses	Net Nonoperating Revenue (Expenses)	Net Income (Loss)	Financial Assistance
MS	Mississippi Coast Coliseum and Convention Center	400,000	4,078,645	9,032,514	1,365,160	(3,588,709)	2,062
NM	Expo New Mexico	129,201	11,899,495	13,082,182	(274,571)	(1,457,258)	843,957
NY	Buffalo Niagara Convention Center	112,707	5,438,250	5,296,918	(539)	140,793	2,116,804
	Jacob K. Javits Convention Center	760,000	125,185,554	129,477,112	98,075	(4,193,483)	0
NC	North Carolina State Fairgrounds	213,717	14,906,000	13,465,000	0	1,441,000	400,000
OH	Greater Columbus Convention Center	499,032	3,601,827	11,189,323	12,529,944	4,942,448	18,851,325
	Ohio Exposition Center	693,383	13,042,738	17,761,699	1,597,257	(3,121,704)	1,597,257
OR	Linn County Expo Center	159,600	888,906	1,112,447	0	(223,541)	0
	Oregon Convention Center	307,332	21,301,000	26,095,000	0	(4,794,000)	0
PA	Pennsylvania Convention Center	679,000	47,376,000	75,836,000	0	(28,460,000)	31,408,000
	York Expo Center	166,097	5,400,717	5,017,377	(613,617)	(230,277)	30,559
RI	Rhode Island Convention Center	171,544	22,485,000	34,087,000	(13,542,000)	(25,144,000)	0
SC	TD Convention Center	337,021	5,323,675	7,099,376	1,221,290	(554,411)	1,192,321
TN	Chattanooga Convention Center	185,000	6,061,935	6,526,847	200,000	(264,912)	300,000
	Knoxville Convention Center	500,000	5,374,254	9,323,055	5,109,353	1,160,552	9,874,965
	Nashville Expo Center	120,919	5,746,129	7,290,944	3,670	(1,541,145)	0

State	Facility	Event Space (Square Feet)	Total Operating Revenue	Total Operating Expenses	Net Nonoperating Revenue (Expenses)	Net Income (Loss)	Financial Assistance
TX	Austin Convention Center	370,967	22,783,000	54,798,000	(9,848,000)	(41,863,000)	0
	Bell County Expo Center	109,100	4,095,499	4,306,481	250,303	39,321	1,664,850
WA	Spokane Convention Center	164,307	3,517,710	4,444,483	(21,473)	(948,246)	1,746,279
	Washington State Convention and Trade Center	390,607	37,457,569	48,007,944	32,878,694	22,328,319	47,475,270
WI	Alliant Energy Center	150,000	8,377,758	7,321,928	(1,628,267)	(572,437)	0
	Monona Terrace Community and Convention Center	169,690	4,595,060	9,802,117	978,303	(4,228,754)	0

Source: Annual reports and comprehensive annual financial reports.

Endnotes

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