Performance Audit No. 14-02

A Limited Performance Audit of The Utah State Fair Corporation

OFFICE OF THE

UTAH STATE AUDITOR

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March 24, 2014

The Office of the Utah State Auditor has conducted *A Limited Performance Audit of the Utah State Fair Corporation (USFC)* and presents its findings herewith. Due to concerns regarding the ability of the USFC to operate self-sufficiently, we conducted this limited performance audit in an effort to provide stakeholders with potential solutions to increase the overall viability of the Utah State Fair. Implementation of the recommendations made in this performance audit will further define the policymakers' vision of the Utah State Fair and help the USFC to maximize the use of its resources.

Audit work, which was performed during February 2014, included the following:

- Review of USFC financial statements, annual attendance, and two master plans
- Comparison of USFC operations with state fairs in six surrounding states and six county fairs in Utah
- Review of state and county fair models in various states and counties

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We recognize and appreciate the cooperation of the USFC during the audit.

Sincerely,

David Pulsipher

David S. Pulsipher, CIA, CFE
Performance Audit Director

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Executive Summary

The Utah State Fair Corporation (USFC) could eliminate its need for state appropriations by relying on proven methods to increase state fair attendance and maximize the use of the state fairpark. Additional alternatives to the state fair operations could further increase the USFC's viability.

Finding 1: Comparable State Fairs Have Higher Attendance And a Lower Government Subsidy than the Utah State Fair

Comparable state fairs in three intermountain states—Arizona, Idaho, and New Mexico—average almost twice the number of visitors per capita than the Utah State Fair. Additionally, a USFC consultant estimates that the USFC's market penetration is almost 30 percent less than the average market penetration of 35 state fairs. The USFC could increase revenue by $1.3 million by achieving the average market penetration of the 35 state fairs cited by the USFC consultant. The USFC should research and implement proven methods used by similar state fairs to increase state fair attendance.

Furthermore, the USFC is the only state fair among comparable intermountain states that receives an ongoing state subsidy. The USFC receives approximately $757,000 per year in state contributions to remain solvent. Therefore, we recommend that the USFC implement practices to bring costs in line with revenues to reduce or eliminate the need for government subsidies.

Finding 2: Options Exist for Maximizing State Fairpark Use

Though statute requires the USFC to be self-sufficient, it continues to receive an annual state appropriation. The USFC could increase revenue by more actively seeking out uses of the fairpark during non-fair days, though doing so would require the USFC to increase its competition with private businesses that do not benefit from state subsidies provided to the USFC.

The USFC could consider other options to increase state fair revenue and decrease the risk of poorly-attended state fairs. Among these opportunities, the USFC board could consider fully privatizing the USFC and the state fairpark, contracting with a private management company to manage the state fairpark, co-locating the state fair with a county fair, or relinquishing the state fairpark in favor of renting appropriate space to hold the 11-day state fair.

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Table of Contents

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Background

Salt Lake City has hosted the annual state/territory fair most years since 1856. Prior to acquiring the 65-acre lot on which the state fair currently resides, the state fair was held at various locations in what is now known as Downtown Salt Lake City. The State Legislature purchased the land for the current state fairpark in 1902. Some of the original buildings are still used to host various functions of the annual state fair.

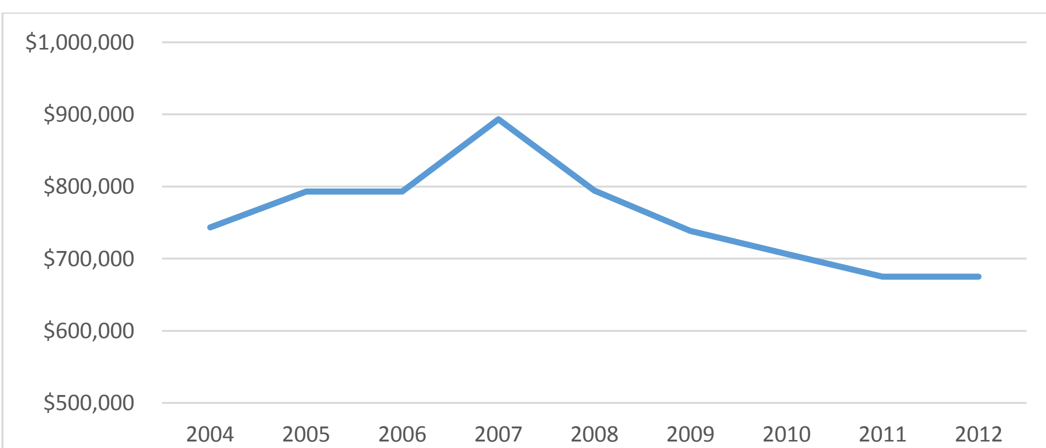
The Legislature created the Utah State Fair Corporation (USFC) in 1995, with the intent of privatizing state fair operations. However, a gubernatorial appointed board oversees operations and the USFC still receives a direct annual legislative appropriation in addition to operating on land owned by the state's Division of Facilities Construction and Management (DFCM). Therefore, the USFC does not operate as a truly privatized entity.

The roles of the 11-person board and executive director were codified in the *Utah State Fair Corporation Act* (*Utah Code* 63H-6) in a statutory title governing independent state entities. The annual state fair begins the Thursday before Labor Day and runs for 11 consecutive days.

Though the state fair originally began as an arena for displaying agricultural successes, it has evolved into a gathering for both agricultural and carnival enthusiasts. In addition to agricultural demonstrations, the state fair now includes exhibitions, markets, shows, rodeos, food, and other entertainment catering to various interests.

According to statute, the USFC is expected to have a plan to operate self-sufficiently. However, the Legislature appropriated a total of more than $6.8 million to the USFC since 2004, as shown by year in the following chart.

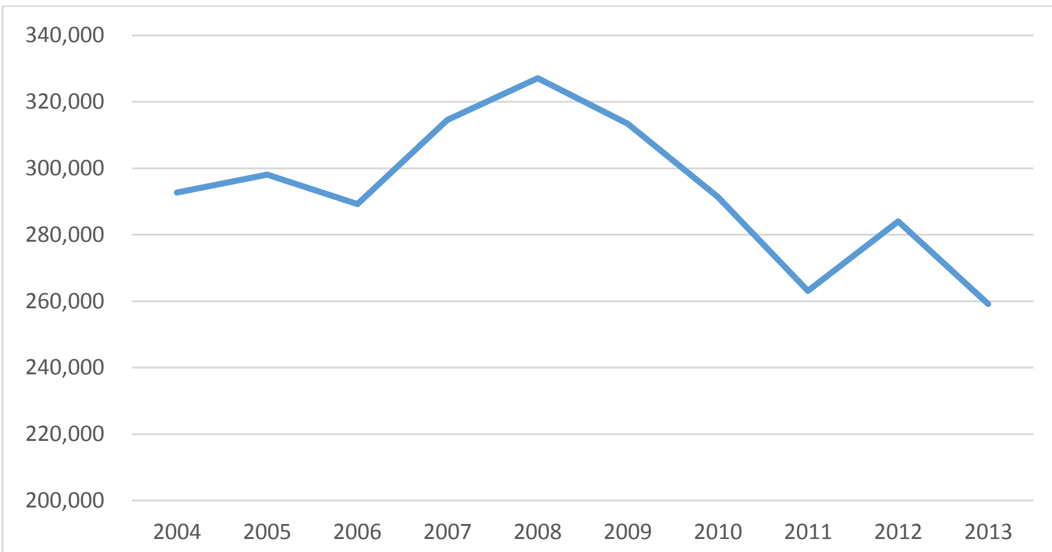
Figure 1 Direct Annual Legislative Appropriation to the USFC Since 2004



On average, the Legislature annually appropriated approximately $757,000 to the USFC from 2004 to 2012. In addition to subsidizing operating costs, DFCM also leases the land to the USFC for only $10 per year and provides maintenance for the buildings on the 65-acre campus. Inclusion of the indirect subsidies of the land and buildings increases the overall state subsidy to the USFC.

Despite recent efforts to increase attendance at the state fair, the number of visitors has decreased since reaching a high of 327,100 in 2008. The following figure shows the annual state fair attendance since 2004.

Figure 2 State Fair Attendance Since 2004



Weather appears to be a factor in state fair patronage. In 2013, for example, the state fair had the fewest number of visitors in the last 10 years; however, it also rained nine of the 11 days.

Finding 1 Comparable State Fairs Have Higher Attendance and a Lower Government Subsidy than the Utah State Fair

Comparable state fairs in three intermountain states—Arizona, Idaho, and New Mexico—average almost twice the number of visitors per capita than the Utah State Fair. Additionally, a USFC consultant estimates that the USFC's market penetration is almost 30 percent less than the average market penetration of 35 state fairs. The USFC could increase revenue by $1.3 million by achieving the average market penetration of the 35 state fairs cited by the USFC consultant. The USFC should research and implement proven methods used by similar state fairs to increase state fair attendance.

Furthermore, the USFC is the only state fair among comparable intermountain states that receives an ongoing state subsidy. The USFC receives approximately $757,000 per year in state contributions to remain solvent. Therefore, we recommend that the USFC implement practices to bring costs in line with revenues to reduce or eliminate the need for government subsidies.

Utah Hosts the Lowest Attended State Fair Among Comparable[1] Surrounding States

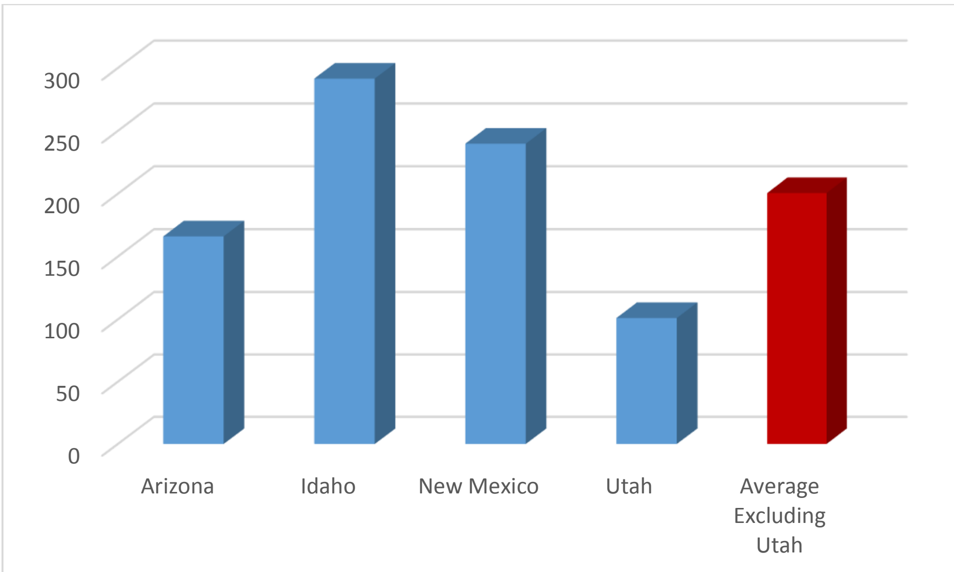
The three other intermountain states whose state fairs, like the Utah State Fair, reside in their state's most populated cities have significantly higher attendance per capita than the Utah State Fair. Similar to Salt Lake City, the population centers for Arizona (Phoenix), Idaho (Boise), and New Mexico (Albuquerque) host their state fairs. Idaho has an additional state fair in Blackfoot, in order to accommodate the state's needs.

Though each state fair differs in what is offered to its patrons, these three state fairs are the most comparable state fairs to the Utah State Fair in the intermountain region. The USFC consultant cited in its 2013 master plan that the Utah State Fairpark's proximity to mass transit, major freeways, and Downtown Salt Lake City make it a convenient location for patrons. The consultant states that realizing the market penetration rate attained by the average of 35 other state fairs would increase Utah State Fair attendance by 42 percent.

[1] Of the seven state fairs reviewed in-depth, four states, including Utah, hold their state fairs in the state's most populated city. The three other intermountain states reviewed—Colorado, Nevada, and Wyoming—hold their state fairs more than 100 miles from their most populated city, and each has significantly lower attendance. In order to compare the Utah State Fair to similar events, the audit compares it to the three states that, like Utah, hold their state fairs in their most populated cities. Similar to Utah, the host cities in each of these three states are also centers for the state's population and business. See **Appendix A** for a visual comparison of state fair attendance and host city locations relative to the states' most populous cities for these seven state fairs.

On average, one visitor attends their state fair for every five residents in the three comparable intermountain states,[2] which, like Utah, host their state fairs in the state's most populated city. Comparatively, one visitor attends the Utah State Fair for every 10 state residents. Figure 3 compares state fair attendance per 1,000 citizens from these four states.

Figure 3 **State Fair Visitors per 1,000 State Residents.** Comparable surrounding states have higher state fair attendance than the Utah State Fair.



Source: OSA analysis

The Utah State Fair would attract approximately 582,000 visits to its annual state fair if it had the same attendance per capita as the average of these three other intermountain states. However, on average, only 293,000 people attended the annual Utah State Fair per year from 2004 to 2013. Furthermore, the USFC consultant stated in its 2013 master plan that the Utah State Fair would increase attendance to 415,000 if it attained a similar market penetration to that of the average of 35 other state fairs. Bringing state fair attendance in line with the average of these 35 states would increase USFC annual revenue by more than $1.3 million, excluding additions to sponsorship revenue.

Imitating practices proven successful in maintaining similar attendance as the three comparable intermountain state fairs could increase the Utah State Fair's annual admission and parking revenue by approximately $3.2 million, assuming similar attendance per capita as the average of these three comparable state fairs. In addition to increasing admission, fees, and parking revenue, increased attendance would likely have a positive impact on sponsorship revenue. Therefore, we recommend that the USFC research proven methods used by similar state fairs to

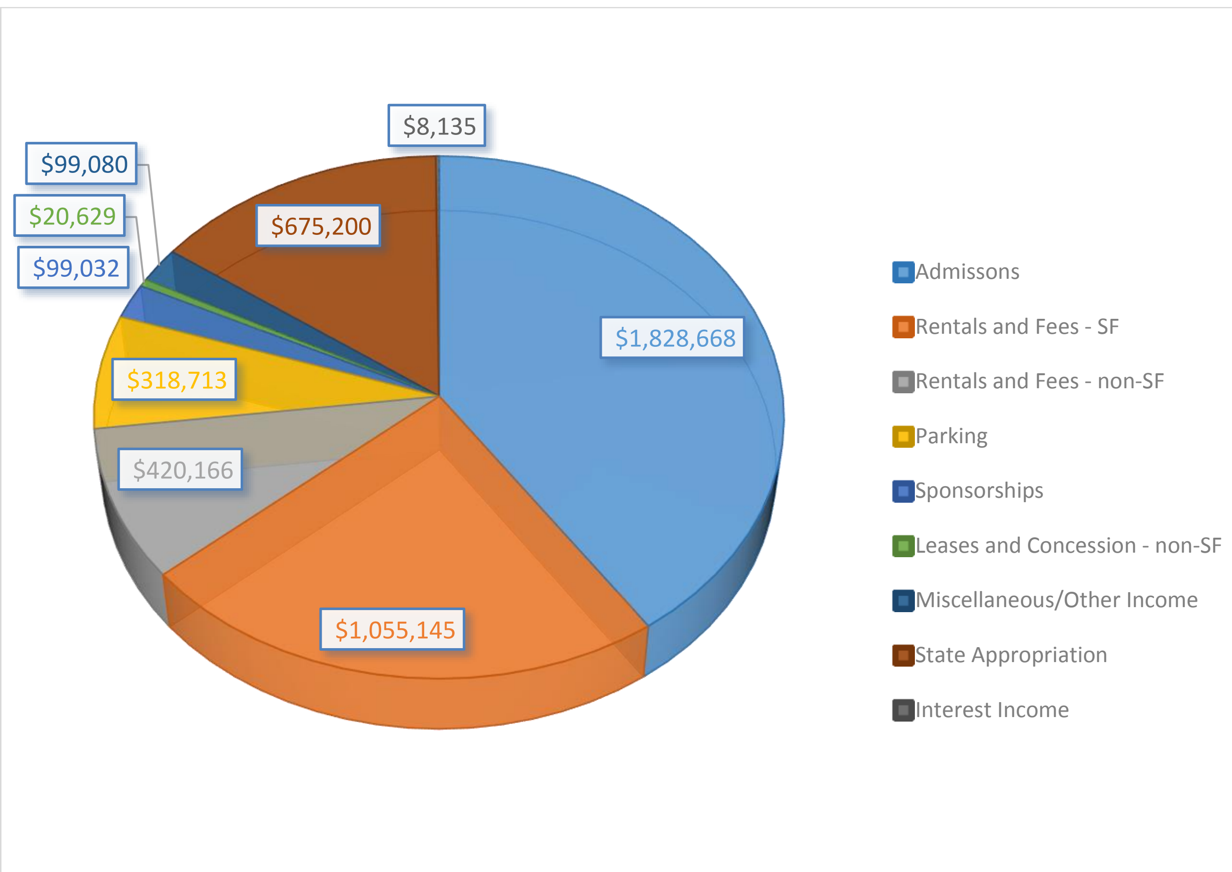
[2] Attendance figures from each state account for daily visitors rather than unique visitors. Therefore, a person who attends two days of the fair would count as two visitors.

increase state fair attendance. Some of these methods and practices are cited in more detail in Finding 2 of this report.

Comparable State Fairs Claim to be Self-Sufficient

State fairs in Arizona, Idaho, and New Mexico claim to be self-sufficient and do not receive ongoing appropriations from the state. The Utah Legislature appropriates approximately $757,000 annually in order for the USFC to remain solvent. In total, the state has appropriated more than $6.8 million to the USFC since 2004. The most recent appropriation represents more than 15 percent of the USFC's total revenue in 2012, as shown in Figure 4.

Figure 4 **Taxpayers Contributed 15 Percent of the USFC's Revenue in Fiscal Year 2012.** The USFC is the only fair among comparable peers that receives ongoing state subsidies.



Source: OSA analysis based on calendar year 2012 Annual Financial Report

The USFC receives most of its operating revenue from state fair admissions, rentals, fees, and parking. Other revenue sources include non-fair rentals, sponsorships, leases, and concessions.

Based on an annual average appropriation of $757,000, the average state fair patron receives a subsidy of $2.58. The actual subsidy per patron increases when the indirect subsidy of the 65-acre lot and accompanying buildings, which are owned by the state's Division of Facilities Construction and Management (DFCM), are included. DFCM has not previously valued these assets.

To offset the state subsidy, the USFC would need to increase annual attendance by 59,000, based on the average amount that a visitor spends on admission, rentals, fees, and parking, and assuming increased attendance would not add additional costs. Raising attendance by 59,000 would still rank the Utah State Fair as the lowest attended state fair per capita among comparable intermountain states and well below the average market penetration of the 35 state fairs cited in USFC's consultant.

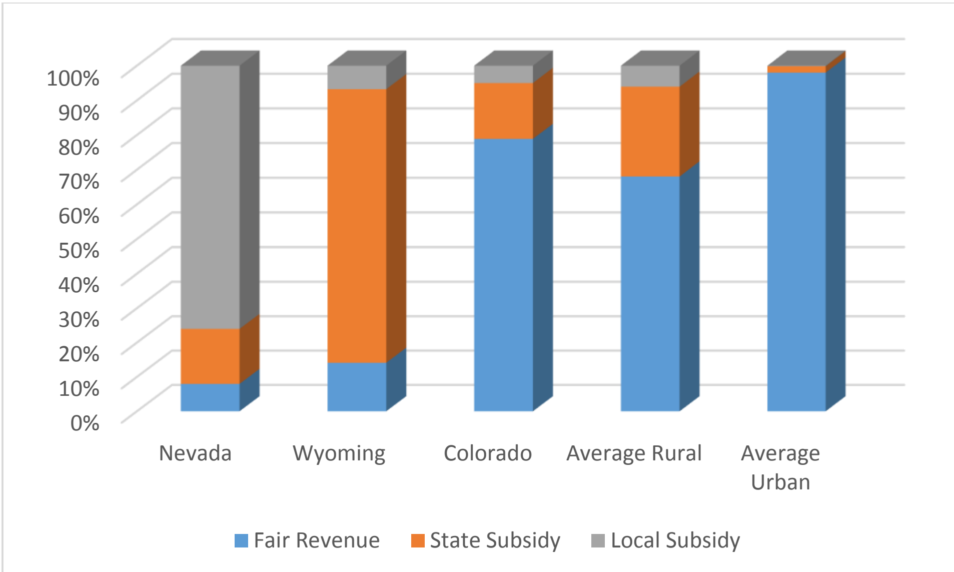
It is unlikely that the USFC will realize complete self-sufficiency as long as it continues to receive a state subsidy. Therefore, we recommend that the USFC implement practices to bring costs in line with revenues to reduce or eliminate the need for government subsidies.

The New Mexico State Fair Received a One-Time, Indirect State Subsidy in 2014. While the USFC is the only state fair among comparative intermountain states to receive an ongoing state appropriation, it appears that the New Mexico State Fair may indirectly require a one-time state contribution to recover from multiple years of operating at a loss. This state fair has maintained operations by foregoing payments to state agencies who continue to provide necessary services despite not receiving payment. The New Mexico Legislature recently appropriated funds to compensate state agencies to whom the state fair owes money to clear the state fair of past obligations.

Though state fair officials maintain that the New Mexico State Fair remains self-sufficient, it appears to be temporarily insolvent and would not likely remain in operation without this one-time financial support from the state.

States Whose Fairs Are Held in Rural Locations Contribute a Higher Percentage of their Fairs' Budgets. Colorado, Nevada, and Wyoming each hold state fairs in rural cities that are more than 100 miles from each state's most populated city. Consequently, these three states contribute an average of almost 26 percent of their state fairs' budgets. Moreover, local governments contribute an average of an additional six percent of these state fair budgets, for a total government subsidy of approximately 32 percent government of each fair's budget to support each state fair.

Figure 5 **Intermountain State Fairs Held in Rural Communities Receive More Government Assistance Than Those Held Near Population Centers.**



Source: OSA analysis

Nevada, whose state fairpark is located in Carson City, recently abandoned its state fair for three years due to poor attendance and insufficient funding. Local government subsidies, illustrated in Figure 5, will help to renew the state fair in 2014. The Colorado state fair is located in Pueblo, which is approximately 110 miles south of downtown Denver, and receives more than $2 million in state and local government subsidies. The Wyoming state fair host city of Douglas—with a population of approximately 6,000—is 125 miles north of Cheyenne. While each of these three state fairs seems to benefit the local communities, it appears that their location relative to the states' population bases impacts overall attendance and levels of government funding.

Recommendations

1. We recommend that the Utah State Fair Corporation research and implement proven methods used by similar state fairs to increase state fair attendance.

2. We recommend that the Utah State Fair Corporation implement practices to bring costs in line with revenues to reduce or eliminate the need for government subsidies.

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Finding 2 Options[3] Exist for Maximizing State Fairpark Use

Though statute requires the USFC to be self-sufficient, it continues to receive an annual state appropriation. The USFC could increase revenue by more actively seeking out uses of the fairpark during non-fair days, though doing so would require the USFC to increase its competition with private businesses that do not benefit from state subsidies provided to the USFC.

The USFC could consider other options to increase state fair revenue and decrease the risk of poorly-attended state fairs. Among these opportunities, the USFC board could consider fully privatizing the USFC and the state fairpark, contracting with a private management company to manage the state fairpark, co-locating the state fair with a county fair, or relinquishing the state fairpark in favor of renting appropriate space to hold the 11-day state fair.

Statute Requires a Plan for Self-Sufficiency

The *State Fair Corporation Act* requires that the executive director of the USFC,

> *"[I]n cooperation with the [USFC] board, create: a financial plan for the corporation that projects self-sufficiency for the corporation within two years"*[4]

Despite this directive, which was passed in 1995, the USFC received an average annual state appropriation of $757,000 since 2004 in order to remain solvent. Additionally, the USFC requested an additional $750,000 during the 2014 Legislative General Session to cover operational losses from the 2013 state fair, which was negatively impacted by optimistic revenue projections and bad weather.

In addition to formulating plans to increase state fair attendance, mentioned in Finding 1, the USFC could increase revenue by adopting practices used by other state and county fairs. While not all practices may be considered viable or desirable for Utah's patronage and may require modifying traditional state fair activities, the USFC should consider additional ways to become self-sufficient.

Use of the State Fairpark During Non-Fair Days Could Increase Revenue

The comparable state fairs mentioned for the three intermountain states in Finding 1 (Arizona, Idaho, and New Mexico) are able to draw more visitors and remain self-sufficient by maximizing

[3] See **Appendix B** for a summary of potential options to become self-sufficient.
[4] *Utah Code* § 63H-6-105(2)(i)(ii).

the use of their fairgrounds during non-fair seasons. Like the USFC, these state fairs only occupy the state fairgrounds for less than 10 percent of the year. Each of these state fairgrounds also hosts more regular revenue-generating events throughout the year than the USFC.

Arizona's Non-Fair Revenue Allows its State Fair to Fund Other State Initiatives. Approximately 20 percent of the annual revenue from the Arizona State Fair is generated during non-fair days, enabling the Arizona State Fair to be self-sustaining. Due to the revenue generated by this state fair, it is common for the state legislature to use state fair reserves for other state purposes, drawing approximately $20 million in state fair income over the last 20 years. Examples of events hosted on the Arizona state fairgrounds include the Maricopa County Fair, the Arizona National Livestock Show, gun shows, dog shows, and other appropriate conventions, concerts, and events.

Idaho's two Fairparks Host Numerous Non-Fair Events Each Year. Idaho has two large county/district fairs that serve as its state fairs: the Eastern Idaho State Fair ("EISF") in Blackfoot and the Western Idaho State Fair ("WISF") in Boise. The EISF hosts approximately 100 days of other events aside from the state fair, including horse shows, rodeos, dog shows, private events, and other similar events. In addition, the EISF generates revenue from winter storage for boats and RVs. In total, approximately six percent of the EISF's annual revenue comes from non-fair events.

The WISF generates revenue year-round from leasing its horse race track and baseball fields. In addition, the fairpark contracts with an RV company that pays a fee for use of its land and it rents out an 88,000 square foot structure from January to May. The WISF fairpark hosts numerous non-fair events—including sporting events, shows, and conventions. Approximately 30 to 35 percent of the annual revenue is generated during non-fair days through these non-fair events.

New Mexico's State Fairpark Hosts Frequent Revenue-Generating Events During Non-Fair Days. The New Mexico Expo fairgrounds are used year-round. Among the events hosted at the fairgrounds are:

- Gun shows
- Health and wellness fairs
- Equine and other animal shows
- Trade shows
- Concerts
- Weddings
- Festivals
- Hunting, fishing and other outdoor shows
- Gem and mineral shows
- Art shows

Though the USFC facility types and conditions may differ from the fairparks in these other three intermountain states, it is likely that the USFC could attract similar business.

Additionally, in its 2013 master plan, a consultant hired by the USFC identifies a niche that the USFC could fill by constructing an exhibition building and an equestrian facility on the Utah

State Fairpark. The consultant claims the Utah State Fairpark is the "largest outdoor area for festival-type events in the Salt Lake City proper area" and could fill a need for mid-sized exhibition (30,000 square feet to 50,000 square feet) and multi-use facilities. While there appears to be revenue-generating potential for non-fair events, some such endeavors would likely require the USFC to increase competition with private businesses.

Emphasis on Self-Sufficiency Requires Competition with Private Business

Despite the statutory charge to become self-sufficient, doing so requires the USFC to compete directly or indirectly with private businesses. The master plan commissioned by the USFC in 2013 concludes that the fairpark could increase annual revenues by $282,000 to $427,000 by constructing an exhibition building and an equestrian building to attract non-fair business. Combined, these two new buildings would cost an estimated $16 million to construct.

The master plan suggests the USFC could attract the following "market niches" with its new buildings:

- Mid-sized consumer and public shows
- Agriculture-focused trade and industry shows
- Festivals (music, ethnic, community, etc.)
- Small animal shows, such as dog, cat, bird and rabbit
- Banquets, receptions, fundraisers and similar events
- Single and multi-day horse shows
- State and regional RV rallies
- Community events and users

Though hosting these events during non-fair days would likely increase its revenue, doing so would also put the USFC in a negotiating position against private businesses that may also bid to host similar events. The master plan cites several local privately-owned arenas, stadiums, convention halls, entertainment venues, and other spectator facilities that would serve as "competition" for hosting such events.

Should the state elect to pursue such an option—as other intermountain states currently seek out—the USFC, which receives an ongoing state appropriation and resides on tax-free, state-owned land, could potentially profit from business that was gained through direct competition with private business that do not have such advantages. Therefore, we recommend that the Legislature determine the level at which the USFC should compete with private business in order to realize self-sufficiency or consider fully privatizing the USFC, thereby, leveling the playing field with private businesses.

The State Fair of Texas Experiences Success Through Privatization

On January 30, 1886, a group of Dallas businessmen chartered the Dallas State Fair and Exposition as a private corporation. In 1887, it merged with a rival state fair association to become the Texas State Fair and Dallas Exposition. After a series of financial setbacks, the Texas State Fair sold its property in 1904 to the city of Dallas under an agreement whereby the city agreed to hold the exposition once a year. Since 1905, the reorganized State Fair of Texas has experienced success in attendance, corporate sponsorship, and infrastructure development.

The Texas fairpark hosts regular events at the state fairpark throughout the year. Because the fairpark is privately-owned, competition with private business is not a concern.

Salt Lake County Decreased Fairpark Costs by Contracting with a Private Management Group

Salt Lake County claims to have increased its fairpark's profitability by contracting operations with a private management group. This group manages several similar facilities and convention centers in Utah and throughout the country, and appears to provide improved services through efficiencies realized among its many nationwide clients. It also appears that statute allows the USFC to enter into a similar arrangement.

The Salt Lake County Equestrian Park and Events Center Is Operated by a Private Management Group. On January 1, 2014 a private corporation that manages public facilities and events throughout the country took over management of the Salt Lake County Equestrian Park and Events Center, the venue that hosts the annual Salt Lake County Fair. This private corporation acts as an agent for Salt Lake County and charges a fee to operate the venue, which is owned by the county and resides on county-owned land. The private corporation has its own payroll and maintenance and does not pay rent for the facilities or grounds. The land is used year-round for other equine events, snowmobile shows, circuses, and other private events.

County officials claim that county employees did not necessarily have an incentive to maximize the use of the park. Therefore, the county selected a private company that agreed to preserve the history and feel of the fair, in addition to promising $73,000 in savings the first year. The venue is now booking groups that the county did not previously consider. In addition, county officials claim that purchasing is now faster and employees are more incentivized.

Statute permits the USFC to Enter Into an Agreement With a Private Management Company to Manage the State Fair and Other Activities Held at the Fairpark. Subject to approval of the USFC board of directors,[5] the USFC may both employ an agent[6] and enter into "management

[5] *Utah Code* § 63H-6-102(1), -103(4)(a), -104(1).
[6] *Utah Code* § 63H-6-103(6)(a).

agreements with any person or entity for the performance of its functions or powers."[7] Such an arrangement may help streamline and improve the efficiency of the myriad responsibilities of the USFC, including:

- Proper accounting of assets, liabilities, and operations;
- Seeking corporate sponsorships;
- Working with county and municipal governments;
- Developing and maintaining a marketing program;
- Cooperating with the Division of Facilities Construction and Management to maintain "the physical appearance and structural integrity" of the fairpark and fairpark buildings; and
- Publishing a list of premiums awarded at the state fair.[8]

Pros and Cons Exist with the Private Management Model. Among the advantages, it appears the following benefits exist to adopting this model:

- More revenue/greater event attendance
- Controlled costs
- Trained employees
- Corporate support
- Greater risk tolerance
- Standardized contracts
- Better rental deals
- Better asset protection
- More access to leading industry professionals
- Booking efficiency and leverage
- Expanded advertising, sales, and marketing power
- Market knowledge
- Brand name and reputation
- Design and operations support
- Industry knowledge (e.g. equestrian expertise)
- Partnership with local entities
- Greater customer service

Conversely, adoption of the private management model may result in the following disadvantages:

- Less local control (perceived or actual)
- Resistance from current employees
- Payment of fees
- Increased government-subsidized competition with private enterprise
- Perceived "outsider" management

[7] *Id.* at § 63H-6-103(6)(e).
[8] *Id.* at § 63H-6-103(5)(a)(i) - (viii).

Privatizing the state fairpark or contracting with a private management group may benefit the USFC, like it has for other similar venues. We recommend that the USFC consider these privatization options; however, we recognize that other options also exist.

Co-Locating State and County Fairs Would Increase State Fairpark Use

Five of the six state fairs in other intermountain state share their fairparks with county fairs. Nevada is the only intermountain state other than Utah where the state fairpark is not shared with the local county fair. Nevada's state fair host city of Carson City is the only other intermountain state other than Utah that does not share its fairpark with a county fair. However, Carson City is an independent city that does not reside in a county. Therefore, Utah is the only intermountain state in which the state fairpark is not shared with the host city's county fair.

Co-locating county and state fairs enables state fairs to increase the use, and therefore revenues, of their fairparks. Figure 6 shows which state fairparks co-locate state and county fairs.

Figure 6 **Intermountain State Fairs Held in Rural Communities Receive More Government Assistance Than Those Held Near Population Centers.**

State	Fairpark Shared by County	County
Arizona	Yes	Maricopa County
Colorado	Yes	Pueblo County
Idaho	Yes	Ada County* and Bingham County
Nevada**	No	N/A
New Mexico	Yes	Bernalillo County
Utah	**No**	**N/A**
Wyoming	Yes	Converse County

**The Ada County Fair also serves as the Western Idaho State Fair*
***The Nevada State Fair host of Carson City is independent and does not reside in a county*
Source: OSA analysis of intermountain state fairs

Increased use of the state fairpark could enable the USFC to generate additional revenue that could be used to offset direct state appropriations and invest in improving current infrastructure. Ownership options could include the state continuing to own and operate the fairpark, joint ownership with a county, or private fairpark ownership.

Renting Space from Private Businesses for the Annual State Fair May Be a Cost Effective Alternative

As previously mentioned, maximizing the use the state fairpark would likely require the USFC to increase competition with private businesses. Alternatively, rather than operating the state fairpark for the 354 days of the year when a fair is not ongoing, the USFC could consider relinquishing the state fairpark and renting a facility capable of hosting the annual 11-day state fair. While this concept would make the Utah State Fair unique among its counterparts in other states, it would allow the USFC to operate the annual state fair without managing a park for the rest of the year.

Utah County rented facilities to host its annual fair for nine years before moving it back to the county fairgrounds in Spanish Fork. While the county does not maintain accurate attendance figures for the fair, it appears that attendance decreased from 1998 to 2000 when it was held at what was then called Utah Valley State College (UVSC). It appears that the inability to hold animal displays on the UVSC campus contributed to the decline in attendance during this time.

The county reports that attendance for the fair remained low during from 2002 to 2007, when it was held at rented space from a private company. It appears that admission fees, which are not charged when the county hosts the fair on its own property, contributed to the decreased attendance. Therefore, should the USFC choose this option in the future, it should ensure that the private business selected to host the fair possesses the necessary infrastructure to host the event prior to selecting a vendor.

Recommendations

1. We recommend that the Legislature determine the level at which the Utah State Fair Corporation should compete with private business in order to realize self-sufficiency.

2. We recommend that the Utah State Fair Corporation Board consider the following options to maximize the value of the state fairpark:
    a. Contracting with an event manager to manage non-fair events
    b. Privatizing the state fairpark
    c. Co-locating the state fair with local fairs
    d. Relinquishing the fairpark and renting a private location to host the annual 11-day state fair

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Appendix A

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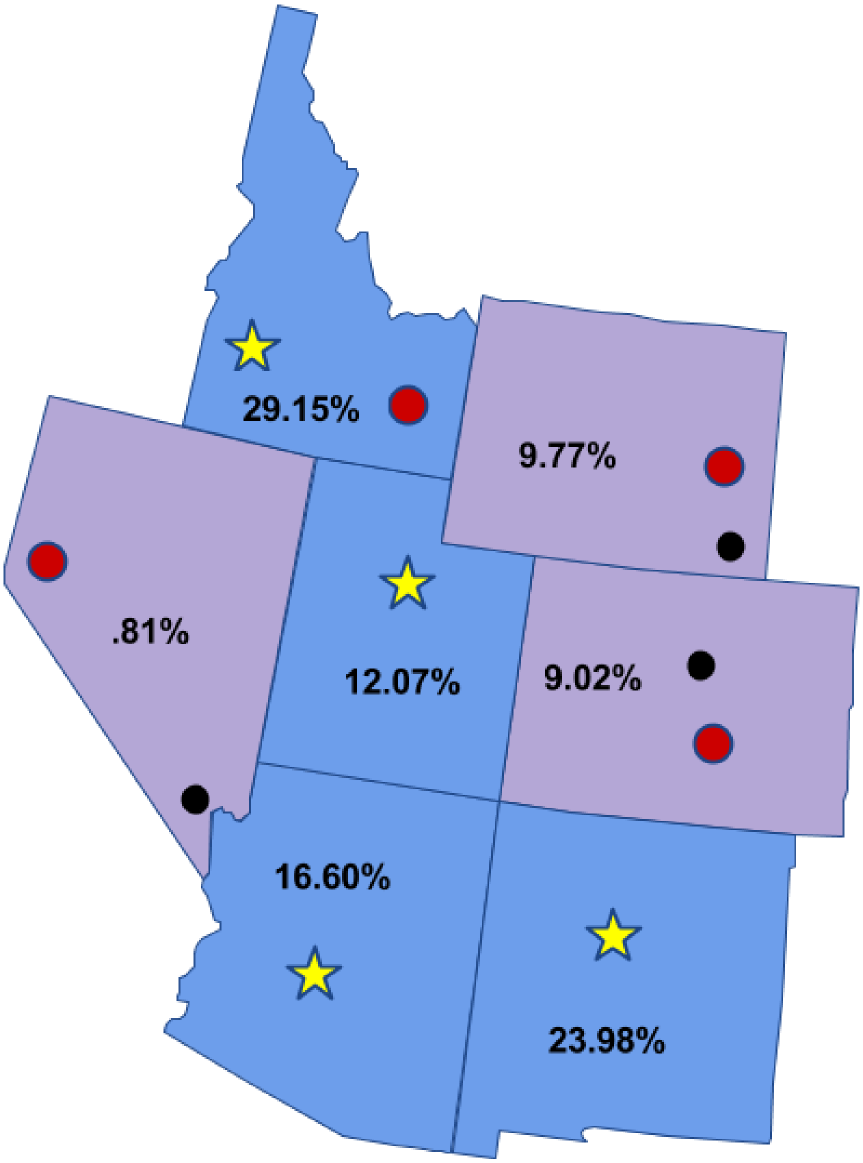
Appendix A Intermountain State Fair Comparison



State Fair Host City Located in Most Populous City

State Fair Host City over 100 miles from Most Populous City

Most Populous City (State Fair Located Elsewhere)

% Fair Visitors as Percentage of State Population

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Appendix B

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Appendix B Potential Options for the Utah State Fairpark

Fairpark Model	Examples of Fairs That Use Model	Potential Advantages	Potential Disadvantages
State Owned and Operated	• Utah • Arizona • Idaho • New Mexico • (Most fairs in other states)	• Tradition • Ability to generate revenue during non-fair days • More state control (perceived or otherwise)	• High operating costs • Does not maximize resources • Forced competition with private business •
Privately Owned and Operated	• Texas • Virginia	• Low state maintenance • Limited state risks • No government competition with private business	• Revenue focus may limit traditional aspects
State Owned, Privately Operated	• Salt Lake County • Idaho Horse Park • Salt Palace Convention Center • South Towne Exhibition Center	• More revenue/greater event attendance • Controlled costs • Trained employees • Corporate support • Greater risk tolerance • Standardized contracts • Better rental deals • Better asset protection • More access to leading industry professionals • Booking efficiency and leverage • Expanded advertising, sales, and marketing power • Market knowledge • Brand name and reputation • Design and operations support • Industry knowledge (e.g. equestrian expertise) • Partnership with local entities • Greater customer service	• Less local control (perceived or otherwise) • Resistance from current employees • Payment of fees • Increased government-subsidized competition with private enterprise • Perceived "outsider" management
State Contracted, Privately-Owned Facilities , No State-Owned Fairpark	• Utah County	• No need for non-fair event management • No non-fair competition with private business • Reduced non-fair costs • Decreased government involvement in non-fair activities • Increased one-time development revenue • Potential for more rural involvement	• Loss of traditional activities • Elimination of historic state assets • Reduced consistency • Control limited to contractual arrangement • Lack of adequate facilities
Co-Locate with County Fair	• Arizona • Colorado • Idaho • New Mexico • Wyoming	• Shared use of land/facilities • Increased revenue • Increased fair attendance • Improved facilities for county fair	• Loss of tradition for county fair

Source: OSA analysis based on review of practices from other states and counties.

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Utah State Fair Corporation Response

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Memo

To: Office of the State Auditor

From: Utah State Fair Corporation

Date: Tuesday March 18, 2014

Re: Response to Performance Audit No. 14-02

Response to report

Finding 1: *"Comparable State Fairs have higher attendance and lower government subsidy than the Utah State Fair."*

The Utah State Fair is unique and does not have a comparable venue in the inter-mountain area. Several of the fairs the Audit team reviewed contain all or some of the following:

- On premise casino gambling
- Horse racetrack facilities with single admission for fair and track attendance.
- Pari-mutuel wagering[1]

Gambling activities benefit the bottom lines of those fairs presented as comparable. Thus the subsidy is naturally less dollars for those Fairs. Higher attendance can be related to patrons attending fairgrounds related gambling. The Arizona State Fair does not have gambling, but has an annual budget of over fourteen million, with a property and quality of buildings on the grounds that supports over 1.1 million plus visitors to the Arizona State Fair annually. Again, the comparison is not valid to the Utah State Fair, as this is over three times our annual budget and four times our average annual attendance. The Audit team also compared the Utah State Fair to the New Mexico State Fair. This appears to have been a major mistake given the far reaching problems that have recently come to light with that state's audit report. The New Mexico State Fair appears to be fraught with mismanagement, possible bid rigging, and fair management running deficits since 2008[2]. The Utah State Fair in honoring its obligations with integrity should not be compared to such an organization.

The Audit team put forth a comparable situation using tickets. The real comparison should be based on ticket sales (revenue). The board has pushed a "for profit management mentality" to the Utah State Fair's CEO position. The Utah State Fair has been striving to increase tickets sold and making limited investments in the Fairpark to drive paid attendance. Attendance to the Fair

[1] Western Idaho State Fair, New Mexico State Fair, Eastern Idaho State Fair,

[2] www.newmexico.watchdog.org/9711/the-nm-state-fair-enron-with-a-carnival-midway/
www.nmsenate.com/2014/01/27bill-aims-to-address-state-fair-fiasco/

cannot be a free ride, but rather an affordable family event. The Utah State Fair needs great events, attractions and agriculture exhibits on the grounds. This results in guests staying longer, thus creating value, and enhancing the guest experience. In meeting with the State Auditor review team, it was pointed out that attendance numbers seem to be flawed (as an industry comparative). Fairs operate under their own mission, obligations and opportunities very differently. Fair organizations have the ability to issue more complimentary tickets, sponsorship tickets as part of its benefits, and free/reduced tickets for those attending the casino or horse racing facilities located on the respective State Fair. Legitimate ticket sales is an issue, and one the Fair Corporation is striving to maximize. Tickets sold contribute to the bottom line and demonstrates demand.

Finding 2: *"Options Exist for maximizing State Fairpark Use."*

The Audit Team is correct that the Utah State Fairpark can be used more. The Audit team points out that the Utah State Fairpark should become self-sufficient as established in statute.
The Board of Directors commissioned a master plan in 2012 with a key part of the work dedicated to leading the business to self-sufficiency in the future. Of note; the Utah State Fairpark Master-plan completed by Populas/Markin, one of the most respected teams in the Fair industry, states:

"Generally, the facilities at the Fairpark have limited use due to age, condition and size, as well as competition from larger event facilities in the Salt Lake City Area."[3]

The Utah State Fairpark has a niche of small rentable buildings that are old and do not serve the rental market well. This point is only demonstrated more clearly when one considers that the local Wasatch front governments, cities and counties have added $322 million in new (six venues) rentable buildings since 1990.[4]

Our competitors are much more government subsidized with their new venues as demonstrated in the table below:
Public Subsidies of Venues for Comparison:

Venue	Revenue	Public Funding	%
Utah State Fair Park	$3,150,000	$675,000	16.1%
Salt Palace	$6,574,000	$7,340,000	52.8%
South Towne Expo	$2,960,000	$733,000	19.8%
South Jordan Equestrian	$865,000	$554,000	36.5%

[3] Markin Consulting, Utah State Fairpark Master Plan and Market and Financial Feasibility April 12, 2013 page 33.
[4] Salt Palace Convention Center (added mid 1990's $93 million 515,000 square feet owned and operated by SLCo), the South Towne Expo (built 2000's 431,000 square feet, cost $48 million, operated by SLCo), Maverik Center (built 1997 seats 10,100 built by WVC cost $54 million), USANA Amphitheater (seats 20,000 built 2003 partnership United Concerts/WVC cost $12 million), Rio Tinto Stadium (built 2007 cost $110 million partnership with Sandy/RSL), Gallivan Center Amphitheater (built 2011 Salt Lake City cost $5 million 5k capacity concerts).
Total monies spent: $322 MILLION SIX VENUES

Ogden Golden Spike	$430,000	$1,075,000	71.4%[5]

Since its inception (1902) the State Fairpark has been in the business of renting out space for meetings, concerts, festivals, spectaculars and agriculture expositions. Our competitors for outside rentals have more modern facilities better meeting the needs of potential renters and users. Our competitors for the most part are government groups or private groups that have partnered with local government agencies. In the last twelve months, the Utah State Fairpark has had over one hundred and seventy thousand (170,000) people come to the grounds (excluding attendance at the annual State Fair). Our guests were here to attend events, weddings, parties, shows, movies, indoor soccer, getting their driver's license, equine events and attending auctions.

For more than 150 years the Utah State Fair has been the showplace for Utah's agriculture and food industry. It has provided Utah citizens the opportunity to maintain an understanding of where their food comes from. Utah agriculture and food contributes more than $17 billion to the Utah economy, or about 14 percent of the GDP. Approximately 80,000 Utah citizens are employed in the food and agriculture industry with a contribution of $2.7 billion in wages.

Young people in agriculture associated with 4-H and FFA (combined have student membership over 42,000 in the State of Utah) are provided a number of State Fair opportunities that prepare them for careers and service. They exhibit livestock, fruits, vegetables and other commodities, and learn important business principles. Utah today is the nation's ninth most urban state with 89 percent of our citizens residing in urban communities. It is important that the Utah State Fair continue to provide a showcase for this industry in the appropriate location.

The Board of Directors has charged the Fairpark management team with the mission of increasing usage of the grounds and attracting revenue generating one-time and ongoing annual events. They have also charged management to push the master plan into the next phase of planning, action, investment and construction. The current condition of the Fairpark requires immediate attention to ensure the citizens of Utah are afforded the highest the best Fairpark facilities the organization can present to the public.

The facilities and grounds, as they stand today are in tremendous need of investment and upgrades. Examples being a new meeting space constructed and completion of projects only partially finished (i.e... rodeo grounds[6] and Jordan River area[7]).

The Utah State Fair Corporation's lease with the State is ending in the very near future. The Utah State Fair Corporation looks forward to working with the Governor and the State Legislators on the next agreement. The Utah State Fair Corporation Board of Directors (volunteers) has operated the Fairpark as a lean operation, one that has been striving to deliver a

[5] Markin Consulting, Utah State Fairpark Master Plan update June 12, 2012.

[6] Rodeo grounds construction 1/3 completed in 1982. Remaining funding to complete the grounds was diverted to other State infrastructure projects.

[7] Jordan River upgrades fifty percent finished 1980. Remaining projects funding used by the State for other infrastructure projects.

quality product to the citizens of the State. This next lease agreement must be designed to allow the Utah State Fair and Fairpark property to be properly maintained so it can prosper and grow. It will take all stakeholders, public and private exhibitors working together to make the Utah State Fair all it can be.

3, 19, 14.

Michael Steele
Executive Director - CEO
UTAH STATE Fair Corporation