

Analyzing the Impacts of the 2010 World Equestrian Games on the Kentucky Horse Park

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Executive Summary

There has been a growing trend in the United States for governments to invest in infrastructure specifically for sporting events. Proponents believe that arenas and large scale events will lead to economic development in an area. Contrary to this expectation, there is a large body of literature that contends that the economic impact expected from these projects does not generally come to fruition.

Lexington, Kentucky hosted the World Equestrian Games (WEG) in 2010. WEG is an international competition that features equestrian events and is held every four years in between the Summer Olympic Games. In order to prepare for the games, public expenditures were made to improve infrastructure both inside and outside the Kentucky Horse Park (KHP), where many of the events were held. The arena was necessary for the KHP to have the facilities to accommodate the games. The arena was also justified via the claim that the arena would allow the KHP to attract new sources of revenues via new events.

While there is a large body of research focused on the effects of arenas built for the Olympics and for professional sports teams, there is little with regard to infrastructure created in similar situations as those that surrounded the Kentucky Horse Park. The purpose of this analysis is to study these factors to put together a full picture of where the park was before the games, how it stands currently, and recommendations for the park to improve and remain financially viable in the future. In order to do this, I study the financial data of the Kentucky Horse Park in order to gain an understanding of the changes brought about by the infrastructure improvements. Fiscal ratios will be used to get a better understanding of strengths and weaknesses and whether these have changed over time.

The Kentucky Horse Park saw large growth in net assets from 2005-2012 primarily due to the capital improvements that were paid for by bonding authority granted by the state of Kentucky. Despite a limited marketing and personnel budget, the park is having success at utilizing its new facilities. There has been an increase in Fiscal Year 2012 in revenues as a ratio to assets and improvements in liquidity, leading to a better ability to handle accounts payable. For the park to continue increasing revenues, the park would be best served by an increase in the marketing budget comparable to similar facilities and an increase in administrative staffing positions.

Because of the marketing of Lexington as the Horse Capital of the World, keeping the park operating at the highest levels is necessary. While the park is aiming to find private and local funding for the park, the General Assembly may want to consider funding the park at slightly increased levels in order to assist the park in adjusting to the changes it has seen in the past several years. This would allow for increased marketing and staffing. Further research should be conducted at regular intervals to monitor the progress of the park to study where and how the organization can make improvements.

Literature Review

Public Funding of Sporting Arenas

There has been a growing trend in the United States for governments to invest in infrastructure specifically for sporting events. Prior to 1953, there was essentially no public funding of sporting arenas (Siegfried & Zimbalist, 2000). Since then, public investment has grown, with approximately 78% of arenas funded with public investment in the 1990s. Public investment in sporting arenas often occurs so that an area can host a professional sports team or when cities have either been awarded or are hoping to bid for a large scale international event. Proponents for public spending on sports arenas believe that arenas and large scale events will lead to economic development in an area, and therefore the benefits will outweigh the costs.

Contrary to the expectation that arenas will increase economic development in an area, there is a large body of literature that contends that the economic impact expected from these projects does not generally come to fruition. The key to the controversy lies in whether building new infrastructure purposed for holding sporting events realizes enough benefits to offset the costs. Calculating net benefits is never as simple as determining the direct amount spent at an arena and in the surrounding region by visitors to that arena. It is common for commissioned economic impact studies to overestimate these benefits by ignoring various necessary considerations (Zimbalist and Noll, 1997, Siegfried and Zimbalist 2000). For example, many who advocate in favor of public expenditures for arenas ignore opportunity costs in terms of where the consumer and where the government funding the project would have otherwise spent the money.

Promotional studies for arenas often cite direct expenditures at the arena and surrounding areas as the sum of benefits. This method tends to overestimate expenditures by those who come into town just for a certain event. Perhaps they would have been willing to come and spend

elsewhere in the region. Therefore, this is not really an increase in tax revenue due to the arena. Another issue that may lead direct benefits to being less than estimated is federal tax incentives for projects paid for by state bonding (Zimmerman, 1997). If an arena is paid for by state bonding authority, the debt payments are not subject to federal tax. Thereby, indirectly, federal taxpayers assist in covering the cost of the arena.

A third, and sometimes even more difficult, concept to measure when calculating the net benefits of a project are the benefits that are not monetized easily. These benefits are often studied specifically when pertaining to environmental issues via contingent valuation. Contingent valuation involves surveying those that may be impacted by an action and questioning them about their willingness to pay a specific amount to receive certain benefits. It is designed to further elicit information beyond what can be studied by looking at what people actually have paid for something, for example, ticket sales. Atkinson et. al. (2008) used this methodology to study the benefits of the 2012 London Olympic Games. By surveying residents of three cities in the United Kingdom, they found an aggregate willingness to pay for the 2012 games of two billion pounds for the entire United Kingdom. This represents intangible benefits that cannot be entirely shown by direct economic benefits. It is important to remember standing when considering benefits measured by stated preference. In this case, the standing is from the perspective of all those in the United Kingdom. The reason the authors focus on this is due to the increasing evidence that sporting events do not have the large economic benefit that many once assumed. This may lead us to considering more than just direct and indirect expenditures as benefits.

Baade (1994) looked to incorporate the above issues and analyze the actual impact a sports team or arena locating in the area. They used regression analysis and looked at 30

different regions with a stadium built within the last ten years relative to similar areas with no stadium. They found that 27 of the regions did not see any relationship between the presence of a stadium and per capita personal income growth. The other three regions saw a statistically significant negative relationship between the stadium and per capita personal income growth. Baade concludes that because of the lack of positive economic impact, building such infrastructure may actually be a negative investment instead of positive or neutral. He states that the money could be spent differently in order to have a positive economic development outcome in another way.

The Kentucky Horse Park and the 2010 World Equestrian Games

Lexington, Kentucky hosted the World Equestrian Games (WEG) in 2010. WEG is an international competition that features equestrian events held every four years in between the Summer Olympic Games. The competition includes events from eight categories such as dressage, endurance and vaulting. The games are governed by the Fédération Equestre Internationale (FEI). The events in 2010 were the first time this competition had been held outside of Europe and represented a large opportunity for the area and the Kentucky Horse Park (KHP), where many of the events were held (Alltech, 2013).

In order to prepare for the games, public expenditures were made to improve infrastructure both inside and outside the park. Government expenditures for the event totaled \$107 million, with an additional \$151 million for previously scheduled projects that were completed ahead of schedule in preparation for the games (Herald Leader, 2011). A large part of this included \$85 million in publicly funded projects through bonding authority approved by the state of Kentucky (Kentucky Horse Park Business Plan, 2012). In terms of costs, one of the

largest state funded projects was the construction of the indoor arena built on the grounds of the Kentucky Horse Park. The arena was necessary for the KHP to have the facilities to accommodate the games. Initially, the Kentucky Horse Park also sought to build a hotel and conference center near the park, but the project was postponed due to problems with private funding.

The controversy with this type of arena expenditure is the difficulty in examining whether the economic benefits outweigh the costs in the long run. WEG was undoubtedly able to increase revenues with a total of 419,853 tickets to events either purchased or donated (Certec Inc., 2011). These are tickets that would not have been sold in the absence of the games. The arena was also justified via the claim that the arena would allow the KHP to attract new sources of revenues via new events in the future. The improved facilities would allow the KHP to attract events that they hadn't been able to prior to the construction. Governor Steve Beshear expected "additional business and increased awareness around the world" due to the arena (Alltech, 2009).

A study of the economic impacts of WEG was commissioned by the Kentucky State Tourism, Arts, & Heritage Cabinet (Certec Inc., 2011). This study showed direct and indirect expenditures within the state due to the games to total approximately \$202 million. State and local taxes were approximated at \$23 million as a direct result of the expenditures for WEG. Wages earned were estimated at \$45 million. These totals include spending on tickets, other purchases at the Kentucky Horse Park, and spending elsewhere in Lexington such as on hotels, food, and shopping. The analysis takes into account what spending on travel and hotels would have occurred without the presence of the event.

The organization of the games was centered on several different organizations in both the private and public sectors. The entities involved were FEI, the Commonwealth of Kentucky,

including the Kentucky Horse Park, Alltech, the Kentucky Horse Park Foundation, and the World Games 2010 Foundation, Inc. The World Games Foundation was created specifically in order to sign the contract for the games, according to KHP Executive Director John Nicholson (2013). Due to legal reasons, the Commonwealth of Kentucky is required to sign all contracts in Kentucky, and FEI is required to sign all contracts in Switzerland. In order to get around this, the foundation was created. This allowed the contract to be signed in Switzerland. In turn, the Foundation ended up receiving all revenues and expenditures for the games, as opposed to the state or the park where most of the events were held. Because of this, the state and the park did not directly receive the revenues from the games. The park was paid \$500,000 from the Foundation for the utilization of the park's facilities for WEG (2011 Kentucky Horse Park Audited Financial Report).

The park is unique notwithstanding the circumstances created by the decision to host the 2010 WEG. It is one of the largest horse parks in the United States and one of several that are organized as quasi-state agencies (Convention, Sports & Leisure International, 2011). The park is a component of the Kentucky Tourism, Arts, and Heritage Cabinet and is accountable to the state but has its own separate governing board. It receives appropriations annually from the general fund in order to maintain a balanced budget. In addition to this governing structure, the Kentucky Horse Park Foundation is a non-profit that works separately to help secure donations to go towards park operations and improvements, including funding for stables to go along with the indoor arena (Scales, 2013). The combination of factors surrounding the KHP before, during, and after the games left the park in an unusual financial situation during and after the games.

The Kentucky Horse Park since the World Equestrian Games

There have been several reports completed since the games looking at various aspects of the park. A study was commissioned by the Lexington Convention and Visitors Bureau to analyze strategic planning issues affecting the Kentucky Horse Park (Convention, Sports & Leisure International, 2011). The study compared the park with multiple venues that were similar in terms of services offered, facilities, and size. Because of the unusual blend of resources the park holds, the study compared it to facilities in two categories. The two categories were major multipurpose complexes, such as the State Fair Park in Oklahoma City, OK, and specialized equine venues, such as the Georgia International Horse Park that was built for the 1996 Olympics. It took into account the increase in event facilities that has led the park to make considerable changes in terms of operations. One of the primary findings was the \$11.5 million operating budget was lower than many of the complexes used as comparisons. This is a difficult measure to compare as the park is unique in the variety of services offered including event facilities, museums, and a horse farm, for example.

The report by Convention, Sports & Leisure International made suggestions for adjusting the operating budget to resemble similar facilities. Particular functions that were suggested were the marketing budget and the staffing levels. At the time of the report in 2011 time, the park employed 93 full time equivalent employees and had a marketing budget of \$26,900. While the amount of staff throughout the park was in range of other facilities, the event and marketing staffing was not comparable. The marketing budget was the lowest of the facilities studied, more than \$200,000 lower than the next highest facility. The average marketing budget for similar locations was \$789,800. The study recommended adding staff in sales, event services, maintenance, and food service and increasing the marketing budget, including budgeting for the

creation of a marketing plan. In addition, they recommend reviewing the Alltech Arena to find areas where improvements could lead to increased bookings.

The Kentucky Horse Park was required to create a business plan in the summer of 2012 to show how it would be able to operate without any money from the Kentucky General Assembly (Nicholson, 2013). It was required because of the park's increase in requests for funding. To become self-sustaining, the park cites a need for an expansion to the campground, the construction of a nearby hotel, and increased local contributions (Kentucky Horse Park Business Plan, 2012). The plan also lays out specific areas to curb cost increases in the future. One key area described is curbing costs in the area of utilities. Utilities for the new facilities were unexpectedly high during and after the construction. The park has learned how to better manage the utilities in order to bring these costs back down.

Research Question

The economic impact of event facilities and major events can be very difficult to measure, especially when trying to calculate the impact of the construction of a specific arena with public funds. While there is a large body of research focused on the effects of arenas built for the Olympics and for professional sports teams, there is little with regard to infrastructure created in similar situations as those that surrounded the Kentucky Horse Park. The economic impact of the two weeks surrounding the games has been studied (Certec, 2011). However, there is a lack of information concerning the park and its focus on continuing to increase revenues by utilizing the new facilities. The purpose of this analysis is to study these factors to put together a fuller picture of where the park was before the games, how it stands currently, and recommendations for the park to improve and remain financially viable in the future.

Methodology

For this analysis, I study the financial data of the Kentucky Horse Park in order to gain understanding of the changes brought about by the infrastructure improvements. The starting point will be a description of the park's financial status. An overview of the changes in the annual values of assets and liabilities will be included in order to give a sense of how much the infrastructure at the park changed the fiscal picture. From there, fiscal ratios will be used to get a better understanding of strengths and weaknesses and whether these have changed over time. The park's fiscal situation will be compared prior to the games and at the beginning of the construction, during the games and construction, and after the games and construction. The analysis consists of the calculation of fiscal ratios from data from the Kentucky Horse Park's Comprehensive Annual Financial Reports (CAFRs) from the fiscal years 2005-2012.

Ratios will be calculated from four categories as described by Finkler (2010). Ratios are commonly used to analyze financial statements in order to make better judgments about where an organization could improve. This analysis is relevant to the KHP at the current time because they are working to adapt to their rapidly changing fiscal situation and working to increase revenues as quickly as possible. A thorough analysis will allow the park and the Kentucky General Assembly to best make decisions to increase the earnings of the park. The table below shows the categories of ratios I calculate along with their name and their equations.

Table 1: Ratios Utilized for Analysis

Type	Ratio	Equation
Common Size	Revenue Categories	$\frac{\text{Revenue Category}}{\text{Total Revenues}}$
Common Size	Expenditure Categories	$\frac{\text{Expenditure Category}}{\text{Total Expenditures}}$
Liquidity	Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Liquidity	Days of Cash on Hand	$\frac{\text{Cash}}{(\text{Operating Expenses} - \text{Depreciation})/365}$
Asset Turnover	Inventory Turnover	$\frac{\text{Cost of Inventory}}{\text{Inventory}}$
Asset Turnover	Days of inventory on hand	$\frac{365}{\text{Inventory Turnover}}$
Profitability	Operating Revenues/Net Assets	$\frac{\text{Operating Revenues}}{\text{Net Assets}}$
Profitability	Operating Revenues/Total Assets	$\frac{\text{Operating Revenues}}{\text{Total Assets}}$

The first category of ratios will be common size ratios. Common size ratios compare several different numbers on a financial statement to the same key number. They are generally expressed in percentages. These are used as a starting point of a fiscal analysis in order to begin to understand the financial standing of an organization. For my analysis, I have chosen to compute common size ratios for each category of revenue as a percentage of total revenue. The same is done for expenditures as a percentage of total expenditures. The purpose of this is to have a picture of how categories of revenues and expenditures have changed with the infrastructure expansions. The calculations allow for comparisons in growth between categories of revenues and expenditures.

The next category, liquidity ratios, calculates the organization's ability to meet its financial obligations in the short term. Two types of liquidity ratios are calculated. The first is the current ratio, which is the ratio of current assets to current liabilities. This gives an idea of how well the park can pay its short term obligations. Second, days of cash on hand will be calculated. Days of cash on hand goes a step further than the current ratio and looks at how long an organization would be able to pay its debts with the current cash if a financial emergency were to occur. The rationale for including the liquidity ratios is that the notes of several of the CAFRs stated that the organization had incurred fees due to late payments on multiple occasions. Looking at these ratios over time will allow me to understand if the changes at the park have caused the financial situation to become more or less liquid.

Asset turnover ratios measure whether resources are being used efficiently. The focus here is on the inventory of the park. The park has a gift shop that has sales of well over \$1 million annually. It is important that an organization seeking to increase revenues utilize resources, such as the inventory of the park, efficiently in order to maximize potential. Because this is an important part of the park's revenue, I will calculate the inventory turnover and the days of inventory on hand. Inventory turnover is calculated as cost of inventory over inventory. Days of inventory on hand is calculated as 365 over inventory turnover. These have the potential to show if the park could improve their current handling of inventory to increase their profitability in the area of merchandise sales.

Profitability ratios evaluate an organization's ability to generate income relative to their net asset base. This is important to the park because of the large increase in net assets that was seen through the period of construction. Two ratios will be calculated to show how well the park is able to utilize its assets relative to revenues. The first is operating revenues over net assets and

the second is operating revenues over total assets. They will be displayed in dollars and show how much money the park is making per dollar of net assets and total assets, respectively. It is expected that due to the increase in capital improvements, there will be a drop off in this number.

Finally, the ratios and background information collected from interviews and various reports are examined as a whole to interpret strengths and weaknesses of the Kentucky Horse Park. This will lead to suggestions for improvements the park and the state could follow in order to best maximize the potential of the park’s resources.

Results

Description of Changes the Kentucky Horse Park Experienced

The Kentucky Horse Park saw large growth in net assets from 2005-2012 primarily due to the capital improvements that were paid for by bonding authority granted by the state of Kentucky.

Table 2: Changes in Net Assets and Amounts Received from Capital Improvement Fund

Fiscal Year	Net Assets	Capital Improvement Fund
2005	\$19,859,610	\$575,000
2006	\$21,542,993	\$2,370,728
2007	\$27,763,553	\$7,399,036
2008	\$56,464,400	\$29,692,515
2009	\$85,622,469	\$31,628,281
2010	\$108,188,497	\$26,300,149
2011	\$110,005,013	\$1,854,559
2012	\$114,215,395	\$1,095,385

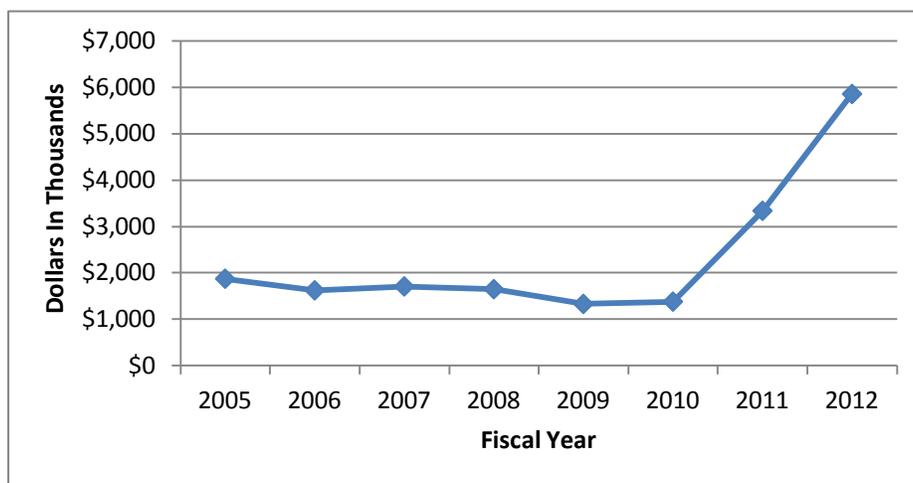
The table above shows that the park received an influx of funds for capital improvements leading up to WEG in FY 2011. This increase in net assets changed the shape of the KHP’s financial status. While infrastructure increased, staffing to manage the park simultaneously decreased

(Kentucky Horse Park Business Plan, 2012). There were 85 full time employees in 2008 and 72 employees in 2012. The reductions were due to the economic recession beginning in 2008 but fell at a difficult time for the park because of the infrastructure gains and expectations for increases in revenue.

Despite the lack in staff increase, the park has still managed to steadily increase revenues. Total revenues in 2012 were \$10,082,842 as compared to \$6,692,657 in 2005 before the Kentucky Legislature authorized the funding of the infrastructure improvements in 2007. This is a 50.66 percent change. As would be expected, expenditures also increased along the same timeline from \$9,078,281 in 2005 to \$13,746,508 in 2012. This is a 51.42 percent change. Therefore, revenue increases are expanding at a similar rate as expenditure increases. The common size ratio analysis will delve further into the specific reasons for this.

Another important factor to consider is the amount of money the park receives from the Kentucky General Fund each year. After the games, the park had to request increased funding from the state in order to meet revenue shortfalls.

Graph A: General Fund Appropriations to the Kentucky Horse Park over Time



This graph shows that the appropriations received from the state were fairly steady the five years leading into the games. At the conclusion of the games, appropriations increased in FY 2011 and 2012 to meet budget shortfalls. Part of the increase was due to the demands of operating the new infrastructure, particularly because of increases to cover utility costs.

Ratio Analysis

The common size ratios were calculated by dividing all revenue categories by total revenue and all expenditure categories by total expenditures. Below are all common size ratios that were calculated.

Table 3: Common Size Ratio Calculations

Category	2005	2006	2007	2008	2009	2010	2011	2012
Revenues								
Gift Shop	20.6%	18.6%	17.9%	15.7%	14.7%	14.3%	15.7%	11.5%
Food Service	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.7%	12.1%
Campground	2.9%	2.9%	2.5%	2.7%	3.5%	2.8%	2.3%	2.3%
Visitor Admissions	20.3%	19.4%	20.0%	17.4%	16.8%	16.8%	14.0%	13.6%
Equine Events	20.9%	23.2%	22.3%	22.5%	23.2%	23.9%	26.6%	26.8%
Non-Equine Events	2.4%	2.9%	3.0%	2.8%	3.2%	2.9%	2.0%	2.2%
Campground-permits and miscellaneous	14.4%	14.5%	14.8%	13.7%	14.3%	13.7%	10.6%	12.0%
Naming Rights	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.3%
Food Service Concessions	2.9%	3.1%	2.8%	2.5%	3.0%	2.3%	2.0%	1.9%
National Horse Center	2.6%	2.6%	2.8%	2.3%	2.6%	2.4%	2.3%	2.1%
Equine Operations and Education	0.6%	0.4%	0.5%	0.3%	0.7%	0.3%	0.5%	0.4%
Riding Concession	1.6%	1.6%	3.8%	3.5%	3.5%	3.2%	2.4%	2.6%
In-kind Contributions from the Foundation	8.7%	8.6%	7.8%	13.5%	12.2%	15.1%	11.1%	7.9%
Other	2.1%	2.3%	1.7%	2.9%	2.3%	2.3%	5.9%	1.3%
Expenses								
Personnel Services	49.0%	47.5%	43.8%	41.9%	43.5%	39.7%	40.8%	43.8%
Cost of Merchandise Sold	9.8%	9.0%	9.2%	7.3%	7.8%	6.4%	8.5%	9.9%
Depreciation and Amortization	3.7%	6.4%	5.9%	5.4%	5.2%	5.6%	7.7%	8.8%
Utilities	7.0%	6.7%	7.0%	8.1%	8.8%	10.9%	11.7%	10.7%
Supplies	4.4%	4.6%	5.3%	4.8%	4.4%	9.2%	6.3%	4.4%
National Horse Center Building Rent	1.7%	1.7%	1.6%	1.4%	0.5%	0.0%	0.0%	0.0%
Advertising and Promotions	1.0%	1.0%	0.6%	0.7%	0.3%	0.2%	0.3%	0.1%
Equipment Rental	2.0%	1.9%	1.8%	1.6%	1.6%	1.7%	1.3%	1.5%
Maintenance	6.8%	4.2%	4.2%	4.8%	7.4%	4.7%	5.3%	3.6%
Insurance	0.8%	0.7%	0.9%	0.9%	1.0%	1.2%	1.0%	1.1%
Feed	0.7%	0.7%	0.6%	0.8%	1.2%	0.9%	0.8%	0.6%
Other	13.2%	15.3%	19.2%	22.4%	18.3%	19.6%	16.2%	15.3%

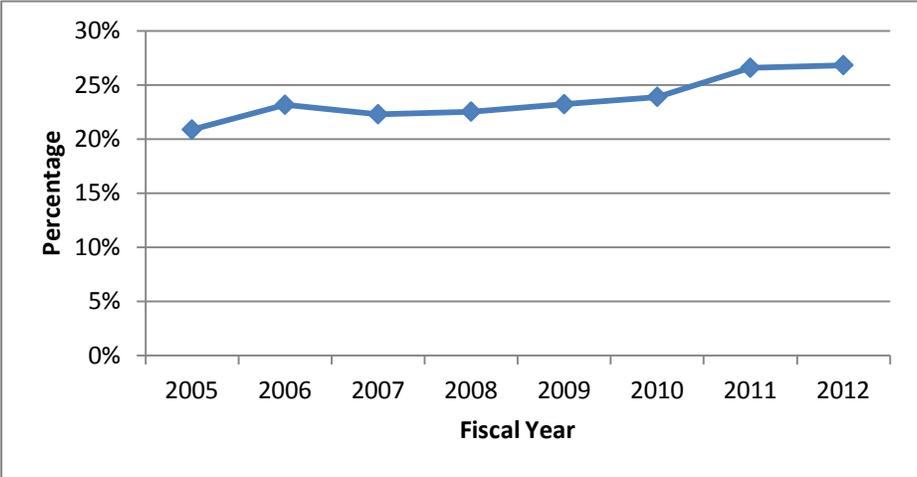
For the revenue categories, there were three key areas that saw increase in the percentage of the total revenues. Two of these were items that did not exist in the financial statements until the construction of the new infrastructure. The indoor arena is called the Alltech Indoor Arena.

Alltech pays \$335,000 annually for the arena naming rights. This first payment for this occurred in FY 2012 and accounts for 3.32% of the revenues. According to the Kentucky state budget for 2012-2014, this is projected to continue at the same rate through FY 2014.

The next big change is the capabilities of the park to offer food service. The new infrastructure included the space and equipment that allowed the park to provide food service in house for events as opposed to hiring an outside company to do so (Nicholson, 2013). This opens up a second revenue category called Food Service, which is separate from Food Service Concessions. This led Food Service to make up 4.7% of revenues in FY 2011 and 12.06% in FY 2012. To give an idea of the magnitude of this change, food service is expected to make up 39.13% of revenues earned through events at the indoor arena in 2013 (Kentucky Horse Park, 2013). Food service is important to the KHP's ability to increase revenues annually.

Finally, the new arenas have led to an increase in equine event revenue and equine event revenue as a ratio to total revenue. The graph below shows the jump as the park was able to use the arenas after the equestrian games.

Graph B: Ratio of Equine Event Revenue to Total Revenue

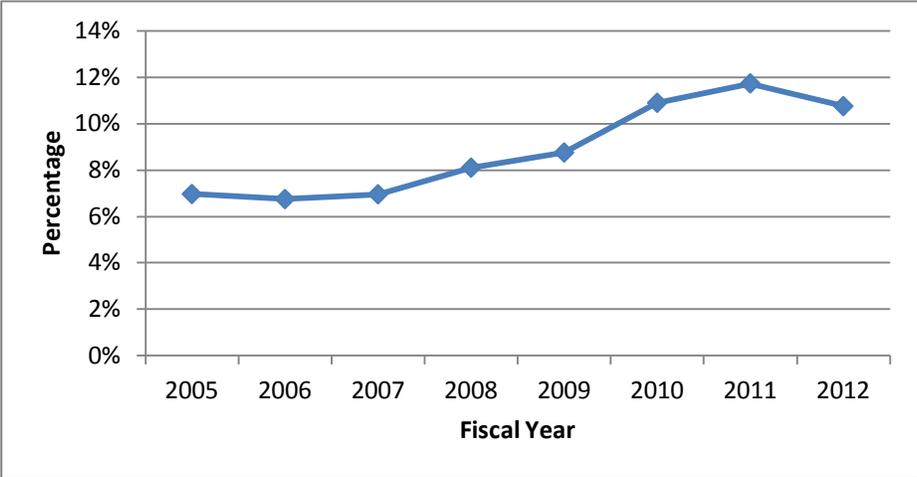


The park has increased the number of equine events it is scheduled to hold including attracting large-scale events such as the Alltech National Horse Show. The park held 63 equine events in 2008 prior to the opening of the indoor arena and 87 in 2012. The park administrators expect for these amounts to continue to increase.

Revenues decreased in several categories as a ratio to total revenues. These include the gift shop sales, campground permits and miscellaneous, and visitor admissions. However, reviewing the raw numbers reveals that these numbers have stayed at a fairly stable rate through the last seven fiscal years. The decreases in these ratios are an indication of a reduced relative share of ratios due to the revenue increases in other areas.

As I mentioned before, overall expenditures increased at a similar rate as revenues. The only category to outpace the growth of total expenditures was that of utilities. As the park stated in its business plan, this is due to the large growth in infrastructure, specifically a large increase in utility payments at the indoor arena. The graph below shows the growth of utilities expenditures relative to total expenditures.

Graph C: Ratio of Utilities Expenditures to Total Expenditures



Utilities expenditures remained steady until construction began in FY 2008, peaking when the arena became operational in FY 2011. Utility costs seem to be decreasing in FY 2012. This downward trend is expected to continue according to the state budget for the FY 2012-2014 cycle.

Other than utilities, all other expenditures increased at the same rate as total expenditures or saw a decrease. Maintenance saw a notable decrease, possibly because of the new facilities that are less likely to require maintenance. Personnel costs and marketing and advertising also saw a decrease. This is an interesting finding as it is logical to assume that in order to run a facility that saw such large growth, one would need growth in the ability to run it and market your services.

The next category of ratios is liquidity ratios. This category is important to consider because, as I mentioned before, the notes of the 2012 CAFR stated that the park had regularly occurring late payments resulting in fees. The horse park states that this issue is due to departments turning their invoices into the business office late and also due to a cash flow problem that began in the last quarter of 2008. The current ratio and days of cash on hand will assist in getting a better picture of how the park’s liquidity has varied throughout the time period being analyzed. Finkler (2010) recommends that an ideal number, in general, for the current ratio is two. Less than two can represent the possibility of difficulties reconciling current liabilities. A larger ratio can indicate that the organization may not be efficiently using its resources.

Table 4: Liquidity Ratios

	2005	2006	2007	2008	2009	2010	2011	2012
Current Ratio	3.07	2.19	2.79	2.61	0.85	0.75	0.44	1.77
Days of Cash on Hand	27.36	27.28	27.37	14.28	21.66	25.79	10.43	26.72

The table above shows the liquidity ratios for the timeframe being analyzed. In line with what was stated in the CAFRs, the current ratio shows a decrease beginning in FY 2009. This indicates that as construction began to occur, the park was faced with a cash flow issue. This may have occurred because of the high amount of accounts payable due to all of the ongoing development. In spite of these issues through the time the games were held, the ratio has begun to return to an acceptable level in FY 2012. This could be attributable to increasing accounts receivables or fewer payments being required for infrastructure projects.

The days of cash on hand shows how much cash the organization has on hand, on average, in a given year. It looks at cash as a ratio to operating expenses per day. In this case, it does not follow the same trend as the current ratio, but does show a relationship. Cash on hand decreased by about 50% in FY 2008. This ratio could also have been affected by several things caused by the construction. Mr. Nicholson (2013) stated that normal activities such as their typical events were interrupted during the construction. This could have led to a decrease in accounts receivable leading to the cash flow problem. It is difficult to be certain of the specific combination of factors that led to a change in the park's liquidity. It is clear that changes in liquidity began in 2008 after fairly stable measures leading up to that in 2005-2007.

The third ratio category is asset turnover. This will give an idea about potential areas to improve efficiency in order to increase revenues or cash on hand. Below are the asset turnover ratios for inventory:

Table 5: Asset Turnover Ratios for Inventory

	2005	2006	2007	2008	2009	2010	2011	2012
Inventory Turnover	1.63	1.41	1.71	1.37	1.34	1.33	2.20	2.20
Days of Inventory on Hand	224.37	258.62	213.55	266.66	271.76	274.81	166.08	165.81

Inventory Turnover and the Days of Inventory on Hand stayed relatively stable until FY 2011. The raw data on inventory show that the amount of inventory in stock at the end of the year stayed fairly consistent. The change in the ratios here comes from the change in the amount of inventory sold. In other words, they were keeping a similar amount on hand but selling a larger dollar amount of items. In FY 2011 and 2012 the park was turning over inventory stocks 2.2 times per year and had 166.08 and 165.81 days of inventory on hand respectively. This indicates improvement, but there may be room for the park to improve further on more efficiently handling their merchandise. It might be a more efficient use of their cash flows to keep fewer inventories on hand at a given time. This could help in lessening their fees due to late payments because of increased amounts of cash on hand.

The final measure to consider is the profitability of the park. This is important because of the intention of increasing revenue as a result of the construction of the new infrastructure. It is important to remember that the park is a state agency and not seeking to make a profit as it is thought of in the private sector. However, it is still one of the goals to increase revenues relative to expenditures, which is why these ratios are included. Because of the huge increases in assets due to the capital inflow, I chose to look at profitability as a ratio of revenues to net assets and total assets. These ratios will show how much money the park is earning per dollar of net assets and total assets. The chart below shows how these ratios have changed over time:

Table 6: Profitability Ratios

	2005	2006	2007	2008	2009	2010	2011	2012
Operating Revenues/Net Assets	\$0.34	\$0.32	\$0.27	\$0.15	\$0.09	\$0.08	\$0.09	\$0.09
Operating Revenues/Total Assets	\$0.32	\$0.31	\$0.26	\$0.14	\$0.09	\$0.07	\$0.08	\$0.08

In table 2, I illustrated the changes over time in net assets. Because of those changes, it is expected that revenues would not be able to keep pace with the increase in capital. As you can

see, once construction began the decrease in the amount of revenue earned for every dollar of net assets began. The low point was in the fiscal year before the equestrian games with \$0.08 earned for every dollar of assets. This is most likely due to the park's inability to hold other events that they typically would because of construction. There is a positive takeaway from these ratios. The park is beginning to show a slight increase in these amounts. This is indicative that the park is beginning to book their infrastructure and utilize it to maximize revenues.

Recommendations and Conclusions

The analysis and study of the structure of the park's finances before and after the games leads to several recommendations and conclusions. The first is that despite a limited marketing and personnel budget, the park is having success at utilizing its new facilities. There has been an increase in Fiscal Year 2012 in revenues as a ratio to assets and improvements in liquidity, leading to a better ability to handle accounts payable. The park is also learning to better manage its facilities in order to reduce expenditures in utilities. It is reasonable to expect that a facility like this one would need time to adjust to the changes that have been seen in the last several years.

For the park to continue increasing revenues, it seems that the park would be best served by an increase in the marketing budget to a level comparable to similar facilities and an increase in administrative staffing positions. Because of the lack of strategic planning put together by the park, they are not able to best target potential for growth. While there have been studies completed irregularly by outside agencies, it will be crucial to enhance the ability of park managers to complete these studies internally on a regular schedule. Without increased staffing, it will be difficult for the park to put more focus in strategic planning or in planning with respect

to marketing. With \$85 million in improvements, increased staffing will be necessary to run the wide array of services to its fullest potential.

From conversations with those at the park, it is easily concluded that there is no shortage of creative opportunities to use the indoor arena in a variety of ways, such as high school sporting events, trade shows, and events held by various associations. However, during my interviews with staff, I was told that the new arena was only booked through word of mouth. There is no budget for getting information out about the capabilities of the Alltech Indoor Arena. According to staff, most new events on the schedule were attracted strictly through hearing of the good reputation the park has for successful events. An increase in the marketing budget would be helpful in increasing the current \$0.09 cents in revenue that the park is earning per dollar of net assets.

One potential opportunity for maximizing revenues would be to consider contracting out the operations of the gift shop. Based on the asset turnover ratios, there may be potential for better decision making about merchandise ordering and storage. Someone with expert knowledge would be able to identify the possible changes to improve gift shop management. Additionally, this would allow the park to free up cash in order to ensure that late payments continue to be reduced.

Because of the marketing of Lexington as the Horse Capital of the World, keeping the park operating at the highest levels is necessary. While the park is aiming to find private and local funding for the park, the General Assembly may want to consider funding the park at slightly increased levels in order to assist the park in adjusting to the changes it has seen in the past several years. This would allow for increased marketing and staffing. As the park is able to

learn and plan for increased revenues, revenues will likely begin to compensate for money from the general fund.

Further research should be conducted at regular intervals to monitor the progress of the park and to study where and how an organization can make improvements. At the current staffing levels, the park is not able to maximize their potential. However, with continued focus on maximizing revenues and best utilizing current resources, the Kentucky Horse Park will be able to continue to grow. The investment made by the Commonwealth of Kentucky will be able to be put to best use and help Lexington to remain the Horse Capital of the World.

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