New Jersey State Legislature  
Office of Legislative Services  
Office of the State Auditor

New Jersey Sports and Exposition Authority

January 1, 2008 to May 15, 2010

Stephen M. Eells  
State Auditor
The Honorable Chris Christie  
Governor of New Jersey

The Honorable Stephen M. Sweeney  
President of the Senate

The Honorable Sheila Y. Oliver  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the review of the New Jersey Sports and Exposition Authority for the period of January 1, 2008 to May 15, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
State Auditor  
June 2, 2010
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Background</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Racing Operations</td>
<td>2</td>
</tr>
<tr>
<td>Stadium Operations</td>
<td>3</td>
</tr>
<tr>
<td>Arena Operations</td>
<td>3</td>
</tr>
<tr>
<td>Entertainment and Retail Facility</td>
<td>3</td>
</tr>
<tr>
<td>Maintenance Reserve Fund</td>
<td>4</td>
</tr>
<tr>
<td>General and Administrative Expenses</td>
<td>4</td>
</tr>
<tr>
<td>Authority Response</td>
<td>5</td>
</tr>
</tbody>
</table>
New Jersey Sports and Exposition Authority

Scope

We have completed a review of the New Jersey Sports and Exposition Authority (Authority) for the period January 1, 2008 to May 15, 2010. Our review included an analysis of the Authority’s financial statements, budgets, and selected transactions. This report is based on this limited review and does not constitute an audit.

Objectives

The objectives of our review were to provide the legislature with information about the future financial needs of the Authority and its ability to operate without funding from the State of New Jersey.

This review was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

We reviewed and analyzed the Authority’s financial statements, budgets, and selected transactions. We interviewed Authority personnel to obtain an understanding of the Authority, as well as to gain an understanding of its financial statements, budgets, and selected transactions. In addition, we reviewed various economic impact reports relating to the Authority.

Background

The Authority is segregated into six operating segments: two racetracks, a stadium, an arena, an off-track wagering facility, and an account wagering segment. The two racetracks are the Meadowlands located at the Sports Complex in East Rutherford and Monmouth Park located in Oceanport. Giants Stadium, located at the Sports Complex, was operated by the Authority until 2009. This stadium has been replaced by the New Meadowlands Stadium. The IZOD Arena, also located at the Sports Complex, is managed by the Authority. In 2007, the Authority opened an off-track wagering facility in Woodbridge to serve as a location where patrons could place simulcast
wagers on horse races. The account wagering segment represents an online portal and telephone system where people can make simulcast wagers on horse races.

**Conclusions**

Based on operating results from the racing industry, and changes in circumstances and arrangements involving the Sports Complex stadium, arena, and entertainment facility, continued state appropriations are necessary for the Authority to operate. In fact, increased appropriations are likely. We recognize the activities of the Authority impact the state in other ways including increased business and personal taxes and providing entertainment opportunities to its citizens. Our review did not focus on these issues. In addition, the Maintenance Reserve Fund with a balance of $18.3 million at December 31, 2009 could be used in part to offset needed appropriations for calendar year 2010.

Comments on the Authority operations follow.

**Racing Operations**

Meadowlands and Monmouth Park racetracks had combined operating losses of $15.5 million and $19.3 million for calendar years 2008 and 2009, respectively. The calendar year 2010 proposed budget anticipates combined losses of $20 million. This amount takes into account reduced racing days at both tracks and monies contributed by the New Jersey casino industry as part of a Purse Enhancement Agreement that is set to expire in November 2011. To benefit the horse racing industry, the Authority has or will receive $15 million in 2008, $30 million in 2009, $30 million in 2010, and $7.5 million in November 2011 as part of the Purse Enhancement Agreement.

In addition, the account wagering and off-track wagering segments have been profitable resulting in annual combined income from operations of $9.5 million in calendar years 2008 and 2009. Income from operations per the proposed calendar year 2010 budget equals $8.3 million.
Stadium Operations

Giants Stadium operations had resulted in operating profits of $19.3 million and $20.1 million for calendar years 2008 and 2009, respectively. The New Meadowlands Stadium is privately owned and does not operate under the Authority's control. The Authority assesses the change in stadium operations to be a financial loss of approximately $22 million annually, net of the $6.3 million lease payment per the New Meadowlands Stadium Agreement.

Arena Operations

Arena income from operations was $1.1 million and $600,000 in calendar years 2008 and 2009, respectively. The proposed budgeted amounts for 2010 anticipate income from operations for the arena of $2.4 million. This amount includes seven months of prorated rental income totaling $2.9 million allocated from the lease payment per the New Meadowlands Stadium Agreement. This revenue is not related to arena operations. Income from operations also includes $1.6 million as part of a relocation agreement with the New Jersey Nets. An additional $1.6 million relocation payment will be received in 2011.

Entertainment and Retail Facility

An entertainment and retail facility was constructed at the Sports Complex. In connection with the construction of the Xanadu entertainment facility, the Authority received a total of $160 million in calendar years 2005 and 2006 as prepayment for the first 15 years of rent for the land. The financial statements of the Authority are properly amortizing $8.9 million in revenue over the life of the agreement. Between 2007 and 2009, the Authority used these funds for various financial obligations, including $60 million to offset racetrack losses and to pay for general and administrative expenses. Remaining funds are obligated and not available to offset future losses.
**Maintenance Reserve Fund**

The Authority maintains a Maintenance Reserve Fund for projects of the various operating segments. The fund is also used throughout the year to address cash flow issues caused by seasonal revenue fluctuations. The balance of this fund for calendar years ending 2007, 2008, and 2009 was $25.2 million, $21.9 million, and $18.3 million, respectively.

**General and Administrative Expenses**

General and administrative expenses are approximately $12 million per year and include executive, finance, legal, and marketing functions of the Authority. These costs are not allocated to the aforementioned six operating segments. Included in the general and administrative expenses are retention bonuses paid in three installments in 2008, 2009, and 2010 which averaged approximately $390,000 annually. The 2010 installment is scheduled to be paid in December 2010. The total installments were equal to the participating ten individuals’ annual salary as of the end of calendar year 2006. Security, box office, admissions, parking, and traffic expenses are charged directly to the operating segments.
June 1, 2010

Mr. Stephen Eells
State Auditor
Office of the State Auditor
125 South Warren Street
P.O. Box 067
Trenton, NJ 08625

Dear Mr. Eells:

This letter is in response to yours of May 27, 2010, soliciting comment from the New Jersey Sports and Exposition Authority ("NJSEA") with regard to your draft audit report dated May 26, 2010.

There are only two minor comments -- the first with regard to arena operations pertaining to the $2.9 million of prorated ground lease revenue. Under the New Meadowlands Stadium ground lease, the NJSEA is required to provide specific services including: 24/7 site security, emergency medical response, fire, site infrastructure maintenance, environmental remediation, and certain site related services. Since these services, their management and their cost structure are now subsumed under the arena operations, from an accounting perspective, it was necessary to match the revenue against those expenses; to do otherwise would overstate arena expenses with no offsetting revenues.

Also note that the NJSEA is budgeted to receive an additional $650,000 in 2010, under the ground lease with New Meadowlands Stadium that will be recorded as other income, which will be applied toward stadium payment in lieu of taxes paid to the Borough of East Rutherford.

Lastly, under General and Administrative Expenses ("G&A"), in addition to the executive, legal, finance and marketing functions, G&A also covers Public Relations, Human Resources, Information Technology, Engineering and Procurement functions.

We appreciated the opportunity to work with your staff, and we continue to be available to answer any further questions.

Sincerely yours,

Dennis R. Robinson

Dennis R. Robinson