F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 01/23/13
SPONSOR Stewart **LAST UPDATED** **HB** 6

SHORT TITLE State Fair Commission Appropriation Act **SB**

ANALYST Clark

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY13	FY14		
	$11,686.3	Recurring	Other State Funds
	$690.2	Recurring	Internal State Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files

Responses Received From
New Mexico State Fair (SFC)

SUMMARY

Synopsis of Bill

House Bill 6 appropriates and authorizes expenditures for the State Fair Commission Act and appropriates $12,376,500 from other state funds and internal service funds to the New Mexico State Fair for the purpose of professionally operating year-round events and entertainment and to maintain event venues for public use and benefit that help build the infrastructure for the annual New Mexico State Fair. The bill reflects the LFC budget recommendation and includes performance measures and targets and language for the expenditure of certain appropriations.

FISCAL IMPLICATIONS

The appropriation of $12,376,500 contained in this bill is a recurring expense funded with other state and internal service enterprise revenue. Any unexpended or unencumbered balance remaining at the end of FY13 shall revert to the state fair fund.

The majority of the 2.6 percent increase from the FY13 operating budget reflected in this HB6 appropriation is due to an increase of more than $300 thousand in unemployment compensation fees related to the prior reduction in force (RIF) from 73 FTE in FY11.

The internal service funds/interagency transfers appropriation includes $690,200 from parimutuel revenues for debt service and debt service interest on negotiable bonds issued for capital improvements.

SIGNIFICANT ISSUES

House Bill 6 reflects the Legislative Finance Committee (LFC) recommendation for the agency as well as performance measures and targets and appropriation language.

The State Fair significantly improved its financial condition in the last year and generated net operating income of $1.1 million, excluding depreciation. The significant increase in income is due in part to payment of past-due amounts by the Downs at Albuquerque, which operates the racetrack under a contract, prior to signing the new lease. A review of the State Fair by the LFC, published in October 2011, noted a lack of proper oversight and weak contract management at the State Fair and indicated the State Fair had no evidence the Downs had paid the 10 percent annual increases for two years as required in its prior lease through in-kind consideration or any other method. State Fair officials later reported the Downs fully paid its past obligations. The LFC evaluation also noted the State Fair was operationally insolvent and had exhausted operational cash reserves. However, cash reserves increased from $100 thousand at the end of FY11 to $1.2 million by the end of FY12. The State Fair had previously delayed payments to vendors due to cash flow problems, but the organization is now current with most vendors.

The State Fair has begun paying back its creditors, although accounts payable remains high. The State Fair owes more than $1.8 million to the Risk Management Division of the General Services Department (GSD) for insurance coverage. The State Fair currently has no schedule for paying off this debt, State Fair officials have not met with GSD to discuss a repayment plan, and the majority of the accumulated debt remains on the books despite significant cash reserves. Considering the cash balance of more than $1.2 million at the end of FY12, the LFC suggests the State Fair work with the GSD to develop a repayment schedule.

PERFORMANCEIMPLICATIONS

The performance measure outlined in HB 6 is consistent with prior years. The bill will not negatively impact performance measures.

ADMINISTRATIVE IMPLICATIONS

The LFC evaluation report identified several recommendations to improve administrative effectiveness, efficiencies, and oversight. The LFC report can be found on the New Mexico Legislature’s website or at the following web address:
http://www.nmlegis.gov/lcs/lfc/lfcdocs/perfaudit/State%20Fair%20Report%20Final.pdf

RELATIONSHIP

The bill will be incorporated into the General Appropriation Act (HB 2)

OTHER SUBSTANTIVE ISSUES

The State Fair has taken significant steps to address its financial difficulties including those with payroll, its largest expense. Since 2009, the State Fair has trimmed the number of authorized positions from 78 FTE to 35 FTE, including reducing exempt positions from 12 to four. Beginning in FY12, the budget shifted a portion of the funds for temporary or seasonal employees from the personal services and employee benefits category to the contractual services category; the State Fair hoped to reduce costs by using a temporary employment agency. The fees charged by the employment agency were higher than expected, so the budget shift was reversed for the FY14 budget request, and the temporary employees will be hired directly by the State Fair. This bill adds 24.8 authorized temporary positions to the current 35 FTE, for a total of 59.8 FTE.

Attendance for the State Fair event increased in 2012 for the first time in seven years, albeit by a modest 1.9 percent. With fair revenue and profitability still at low levels, the State Fair is dependent for cash flow on monthly rent payments from the Downs at Albuquerque. Base rent payments are $2 million per year for the first two years of the contract, increasing to $2.75 million annually each year thereafter. In addition to base rent, the Downs must pay participation rent on a sliding scale based on net revenue from the casino's slot machines and net revenue from horse racing operations. The total participation rent can vary each year from nothing to $1.3 million. The Downs is also required to spend at least $300 thousand per year for marketing and advertising for the annual fair, the annual horse event, and other events conducted or sponsored by the Downs and held at the fairgrounds. Any amount not spent by the end of the contract year must be paid to the State Fair.

New Mexico State Fair analysis noted the following:

> This bill is approximately $500,000 less than the budget request submitted by the management of the New Mexico State Fair. The State Fair Commission is an enterprise fund and must generate its own revenue to cover its operational costs.
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> Revenues from operations have not been sufficient to keep up with the infrastructure needs on the fairgrounds and are dependent on capital outlay funding from the Legislature for facilities upgrades and deferred maintenance. The last year the State Fair received capital outlay funding was FY10.
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> With no funds being appropriated in FY12 and FY13 for the African American Performing Arts Center (AAPAC), the New Mexico State Fair is required to pick up the major portion of the operating funds for this building; this has put an additional burden on the enterprise revenue of the State Fair.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Unless a duplicate appropriations act provides funding for an FY14 operating budget, the New Mexico State Fair will not receive appropriations and will not be able to meet its obligations or fulfill its mission.

JC/bm