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FISCAL IMPACT REPORT

SPONSOR Stewart DATE TYPED 1/21/2004 HB 6

SHORT TITLE State Fair Commission Appropriation Act SB _____

ANALYST Valenzuela

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
	\$13,207.6			Recurring	State Fair Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates appropriation in the General Appropriation Act, Section 4 for the State Fair

SOURCES OF INFORMATION

- *Report of the Legislative Finance Committee to the Forty-sixth Legislature, Second Session, January 2004 for Fiscal Year 2004 – 2005, pp. 326 – 330.*

SUMMARY

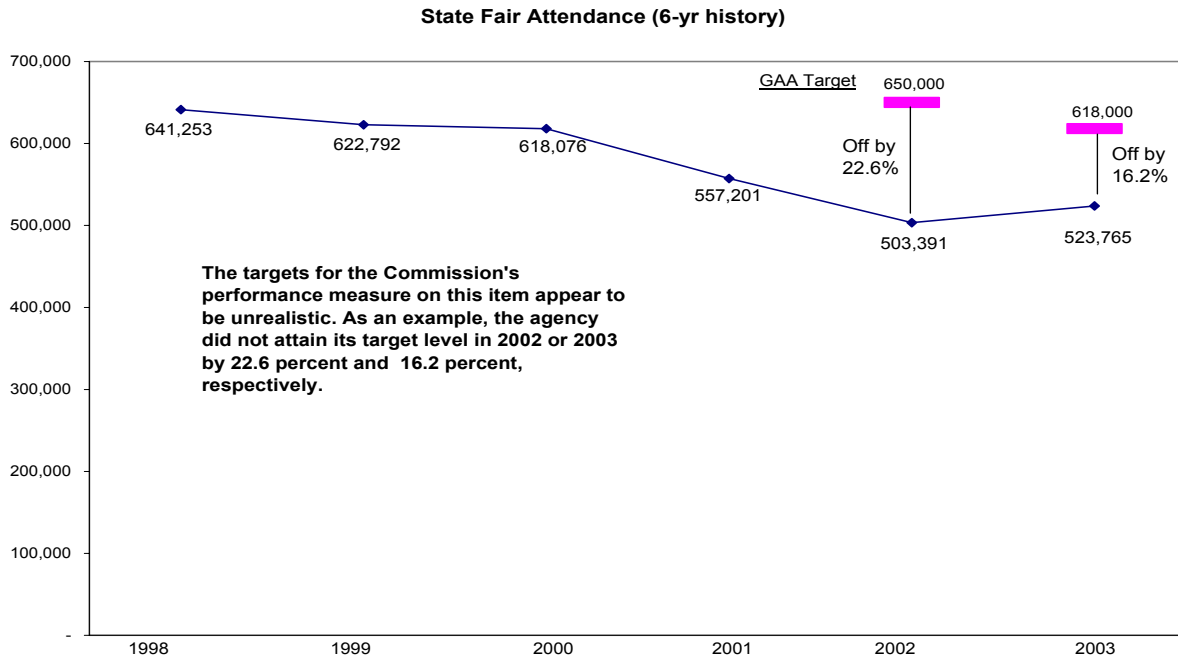
Synopsis of Bill

House Bill 6 appropriates \$13,207.6 from the state fair operating fund to Expo New Mexico (i.e., state fair) for its FY05 operating budget. The bill reflects the Legislative Finance Committee (LFC) budget recommendation for the department. HB6 includes performance measures and targets.

Significant Issues

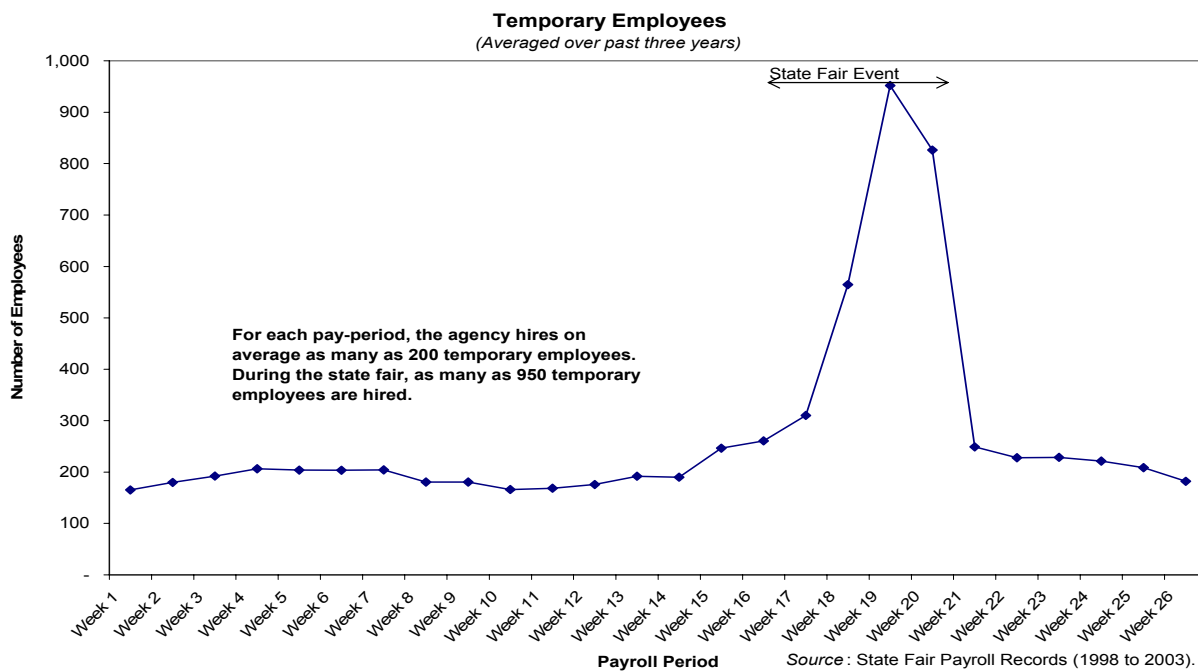
Strategic Plan and Performance Measures. In 2003, the agency revised its name to Expo New Mexico in recognition that the fair is just one of more than 200 events taking place on the grounds every year. This shift in strategic focus is an expansion from the statutory mission of the commission, which is focused entirely on a single state fair event. The commission seeks to re-define its strategic focus as a leading, profitable entertainment and events venue in the Albuquerque area at a time when competition from the Native American casinos and from the Journal Pavilion has eroded attendance at the Expo events. The commission submitted a strategic plan that does not align its activities with that of its expanded mission. The performance measures still show only the activity of the State Fair itself, with items such as numbers of attendees, their sat-

isfaction level, and counties represented though participation. As shown below, attendance to the State Fair has dropped by 18.3 percent, while revenue has declined 6.1 percent since 1998. Conversely, revenue per State Fair visitor has increased by 15 percent strictly as a result of parking and admission price increases.



Source: State Fair Commission certified attendance reports.

Use of Temporary Employees. Pursuant to its enabling act, the commission is exempt from the state's Personnel Act. The agency has entered into an agreement with the State Personnel Office for its permanent (43 FTE) and term (20 FTE) employees to be covered by the act. However, the exemption provides the agency with considerable flexibility in using temporary employees for its evening and weekend events. The chart below profiles the agency hiring patterns by each pay period (averaged from three years of data).



Source: State Fair Payroll Records (1998 to 2003).

In FY03, the State Fair expended \$2.8 million on temporary employees, almost 20 percent of the operating budget expenditures. Naturally, with this many temporary employees and these expenditures, legislators have expressed concern with this practice. In one such practice, the agency hires a temporary employee for nine months, then terminates the employee for one month, then rehires the same employee for nine months, and repeats the cycle. The nine-month maximum is in place because the Public Employees Retirement Association (PERA) requires that agencies pay PERA retirement for all employees who work more than nine months. Other concerns include lack of healthcare benefits or overtime, possibility for discriminatory hiring practices, and timecard fraud.

FISCAL IMPLICATIONS

The appropriation of \$13,207.6 contained in this bill is a recurring expense to the state fair operating fund. Any unexpended or unencumbered balance remaining at the end of FY05 shall revert to the state fair operating fund.

Revenue Estimates. Fair operations are self-supporting, with the exception of infrastructure improvements, with 35 percent of revenues generated from admissions fees, 27 percent from facilities rentals and the remainder from merchandise sales, horse racing, gaming, carnival operations, and the flea market and other events. The 17-day fair event generates one-third of the annual revenue. However, the Legislature has appropriated \$9.6 million from the general fund for capital improvements over the past five years.

Over the past five years, the commission reports revenue growth of 7.8 percent. These revenue figures include sponsorship in-kind contributions. Meanwhile, expenditures over this same five year period have grown by 26.2 percent. Net income in FY98 was \$998.0, but fair operations lost \$1.2 million in FY03.

Budget Issues. For FY05, the State Fair Commission requested growth in its budget of \$838.1, 6.3 percent over its current operating budget. In the salaries category, the commission seeks to fill its 15 vacancies at or above mid-point, accounting for some growth in this category. However, the majority of the growth stems from a 39 percent increase in budget (\$3 million total) for temporary positions. The agency requested reductions in contracts and other costs of 7.9 percent from FY04. For contracts, the agency requested continued funding of \$1.32 million for security contracts (\$900.0 to AKAL security, \$300.0 for the State Police, and \$120.0 for the Albuquerque Police Department) and more than \$1.2 million for entertainment contracts. The remaining budget request increase is attributed to several large items: \$1.2 million for utilities, \$900.0 for the commission's final debt service payment, \$800.0 for miscellaneous entertainment costs, \$500.0 for grounds and maintenance, and \$275.0 for advertising expenses. The budget recommendation reflects a minor reduction, but continues to support the commission in funding its primary activities. The recommendation funds the vacant positions at entry level and makes minor reductions for contracts.

TECHNICAL ISSUES

Given the possible liabilities as discussed with the temporary employees, the Legislature may want to consider adding language to the appropriation that requires the agency to develop defensible human resource policies for temporary employees.

OTHER SUBSTANTIVE ISSUES

Infrastructure Needs and Plan of Finance. Currently, the agency holds debt on a bank note of \$684.0 and on outstanding bonds of \$775.0. These debts will be paid off by October 2005 and increase cash flow by almost \$1 million annually. In anticipation, the commission has met with the New Mexico Finance Authority (NMFA) about a new bond program to finance development based on a master site plan. The State Fair, by commission resolution and state Board of Finance approval, is authorized to issue bonds.

Planning is preliminary. In fact, at this time, the site plan, completed in 1984, has not been updated to reflect the administration's priorities or the interests of fair consumers and the general public. The commission requested that an architecture firm review the 1984 plan and requested its primary private-sector partners (Downs at Albuquerque and flea market vendors) to provide comments. According to the agency, priorities for facility improvements will be tied to revenue-generating potential. For instance, the commission has seriously discussed building a new casino and a six-acre state agency building complex and developing a new master plan for the flea market.

However, those places where revenue opportunities are favorable may not be similar to the places with the most severe infrastructure needs. The State Fair facility has been plagued with several dangerous facility failures, such as leaks in gas lines, poor electrical design, and unstable buildings. Maintenance is a constant struggle. Preparation for the 2003 fair annual event involved considerable effort and expense, with emphasis placed on the condition and availability of electrical power in critical areas of the grounds. Also, the waste water line collapsed in the Indian Village and required rental of portable toilets, and a number of gasoline leaks at the African American pavilion ultimately required complete replacement.

The scope of the bond program may be defined by the addition of new revenues to support long-term debt. However, without a master plan and with only one debt service payment remaining, the LFC urged the commission to use the next year to better define its infrastructure needs.

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