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## FISCAL IMPACT REPORT

ORIGINAL DATE 1/16/08  
 SPONSOR Stewart LAST UPDATED 1/16/08 HB 6  
 SHORT TITLE State Fair Commission Appropriation Act SB \_\_\_\_\_  
 ANALYST Leger

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Non-Rec	Fund Affected
FY08	FY09		
	\$14,971.8	Recurring	Other State Funds
	\$348.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	\$14,276.8		Recurring	State Fair Fund
	\$695.0		Recurring	Internal Services
	\$348.0		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

Responses Received From

New Mexico State Fair Commission (Expo New Mexico)

### SUMMARY

Synopsis of Bill

House Bill 6 appropriates \$14,971.8 in other state funds and \$348.0 in general fund to the New Mexico State Fair Commission. HB 6 reflects the Legislative Finance Committee (LFC) recommendation for the agency as well as performance measures and targets.

## **FISCAL IMPLICATIONS**

The appropriation of \$14,971.8 contained in this bill is a recurring expense to other state funds and \$348.0 is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY09 shall revert to the state fair fund.

## **SIGNIFICANT ISSUES**

The state fair is an enterprise agency that uses revenues derived from admission, concession, building rental, and other services to cover fair operations. The 2007 New Mexico State Fair saw a decrease of 3 percent in attendance but a 28 percent increase in admission revenue, and an 11 percent increase in parking revenue. Revenue from art sales and Tingley Coliseum concession and ticket sales decreased. Tingley Coliseum, the only major entertainment venue in the metro area from 1938 to 1996, has seen increasing competition and now must vie for attendance with more than nine other major venues.

Over the past three fiscal years, enterprise revenues have increased on average 5 percent, with expenses increasing an average of 1 percent. In 2004, the agency closed the fiscal year with a \$971 thousand deficit. Surplus revenues in 2005 and 2006 were not enough to eliminate the deficit. However, reserve levels grew from FY06 to FY07 from a negative \$260 thousand to a positive reserve level of \$272 thousand.

According to the agency the aging buildings and infrastructure have a tremendous effect on the operation of Expo New Mexico as an entertainment venue. Currently the enterprise revenue generated is not sufficient to support the on-going maintenance, renovations and improvements needed to bring the aging buildings and infrastructure to a level that can meet the needs of the fair. The New Mexico State Fair is almost 70 years old. Most of the buildings and facilities are over 20 years old, and the flagship Tingley Coliseum is 50 years old. For years, the state fair deferred maintenance and upgrades to facilities and infrastructure due to a lack of capital. With the dedication of a fraction of the tax on pari-mutuel betting in 2003, the state fair has been able to fund some critical capital projects, especially related to life-safety and accessibility concerns. However, this revenue stream is not adequate to address the longer-range needs of Expo New Mexico. Though the state fair is an enterprise agency and fully funds its operations from internal revenues, they depend on capital appropriations from the State for its facilities and infrastructure. The local and regional markets for entertainment, exposition and equestrian facilities are becoming more competitive. The fair also needs to update and expand its venues and services to fulfill its historic mission to educate the citizens of New Mexico about advancing science and technology, and better align the programs of the fair with the economic development initiatives of the State. In an attempt to increase enterprise revenue, the main source of agency funding, the Commission has also submitted a 5-year Capital request of \$58.7 million to continue on-going renovations to the facility and infrastructure improvements. This in turn will cut labor costs, allow for increased efficiency and generate increased revenue through facility rentals. Since 2005, the agency has received annual parimutuel tax revenues in the amount of \$1.2 million; \$965 thousand of the tax revenue pays debt service on a \$5.5 million negotiable bond issued by New Mexico Finance Authority. Funds derived from the bond are used for capital and infrastructure improvements on the fairgrounds. During FY07, more than \$8.6 million was spent on capital projects. Infrastructure projects were lighting, drainage, paving, a telephone system, a water plan, and sidewalk improvements. Other capital improvements were arena improvements and fire sprinkler system upgrades, kitchen exhaust hood fire suppression systems, evaporative cooler replacements, Indian village renovation, and new roofs for various buildings.

## PERFORMANCE IMPLICATIONS

Expo New Mexico has had to compete with other venues for entertainment during the September state fair and year-round. The agency is now competing with casinos throughout the state that are booking quality artists and with the addition of new facilities including the Sandia Resort & Casino, the Santa Ana Star Arena and the Journal Pavilion in addition to the new \$60 million equestrian facility in Tulsa, Oklahoma. The agency will have to differentiate themselves from the competition and only way to do this is to be promoted as a place for inexpensive family entertainment with more than you can do in one day at the fair and continue to remain competitive for year-round events. With increasing competition the potential loss of revenue continues to be a concern requiring new and innovative marketing strategies.

The operation of the Expo New Mexico 236-acre grounds requires a significant labor force from executives, professionals, skilled trades to grounds labor year-round with personnel levels increasing 400% during the “annual state fair”. Many factors contribute to the increase in personnel services and benefits. In September 2006, the agency increased the hourly rate by \$0.50 for all temporary/seasonal workers to better compete with the local private sector service-industry. A permanently assigned New Mexico Department of Labor workforce specialist advised the agency in past July that the ready labor pool was down by over 50% from past years and the agency was looking at a severe shortage of workers for the fair in September. One of the largest contributing factors to the labor pool shortage was the persistently low unemployment rate in this area leading to an increase in the average hourly rates in the local services industry. The city of Albuquerque will have a new minimum hourly wage of \$6.75 effective in January 2007. Though legally the fair is not compelled to pay this wage, economically they must and this means another across-the-board increase for temporary/seasonal workers. A review of our organizational structure surfaced many misclassifications that lead management to do a much-needed reorganization of this agency’s permanent staff. This includes properly classifying positions so that their incumbents can be properly compensated for the work that they do. The agency has analyzed the costs associated with the reorganization and they had a significant impact on the FY2008 budget. Potential FY2009 cost of living salary increases will also have a significant impact on the FY2009 budget.

Through current revenue generating means, FY08 revenue was projected to increase approximately \$2 million from rate increases in flea market rental, parking, and annual event admissions. However, with lower attendance at the annual event, increase in flea market competition, and inclement weather the FY2008 increase revenue is down 50% from anticipated.

## ADMINISTRATIVE IMPLICATIONS

The “state fair” annual event generates 53% of the annual revenue as well as 53% of the expenses. Expo New Mexico staff has worked diligently to increase the year-round operating profit margin to 29% by lowering expenses and continuing to operate more efficiently. The above percentage reflects operating at the most efficient level possible.

To hold a successful event, an additional 800 seasonal employees are hired at a cost of approximately \$1,000,000. These positions are not budgeted; therefore operating costs must be curtailed to have sufficient budget and cash for these essential personnel.

Along with the seasonal “fair” personnel; an additional 120 temporary employees are hired for year round events. Budget for these personnel must also be absorbed from the operating budget.

**WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL**

The state fair will not be authorized to utilize generated revenues for operations and will not be able to meet its statutory obligations.

**POSSIBLE QUESTIONS**

1. What steps is the fair taking to ensure its continued success?
2. How will the fair diversify its self in the entertainment field?
3. How will the fair ensure it remains competitive?

JL/bb