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FISCAL IMPACT REPORT

ORIGINAL DATE 01/20/12

SPONSOR Stewart LAST UPDATED _____ HB 6

SHORT TITLE State Fair Commission Act SB _____

ANALYST Lucero

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY12	FY13		
	\$11,370.3	Recurring	Other State Funds
	\$695.0	Recurring	Internal State Funds

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY12	FY13	FY14		
	\$11,370.3		Recurring	Other State Funds
	\$695.0		Recurring	Internal State Funds

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
State Fair Commission

SUMMARY

Synopsis of Bill

House Bill 6 appropriates and authorizes expenditures for the State Fair Commission Act and appropriates \$12,065,300 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 \$12,065,300 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.

As an enterprise agency, revenues must be generated to cover expenses. However, as a recent Legislative Finance Committee (LFC) report indicates, the New Mexico State Fair is operationally insolvent. The LFC evaluation reviewed the adequacy and sustainability of operational and capital financing, the effectiveness and efficiency of operations, and overall performance in meeting the needs of selected constituencies. The evaluation reports operational losses including depreciation totaled \$17 million from FY06 through FY10 and department has exhausted unrestricted cash reserves. To stay afloat, the State Fair put off paying other state agencies such as approximately \$1.6 million owed to the General Services Department for several years' worth of insurance premiums and the Department of Public Safety for state police presence during the annual fair event.

According to the LFC evaluation, total attendance at the annual state fair event dropped from more than 740 thousand in 2006 to 400 thousand in 2011, a decline of 46 percent. Over this time, paid admission dropped from 512 thousand to 370 thousand and unpaid attendance declined from 227 thousand to 30 thousand (in 2011 only attendees holding unpaid admission passes were counted). The cost of admission increased from \$5 in 2006 to \$7 in 2007 and has remained constant at \$7 except for a 2008 admission price increase to \$9 with free parking.

Parking revenues hit a high of \$564 thousand in 2007 but decreased to \$451 thousand in 2010. The parking price has remained at \$7 except for 2008 when parking was free. Other revenues including carnival revenue remained fairly stable from 2006 through 2009, dropping just \$33 thousand from \$875 thousand to \$842 thousand but fell off to \$618 thousand in 2010 when ride tickets were weighed, rather than counted. Cash sponsorship revenue, in-kind sponsorship revenue, Tingley admissions, and concessions also declined, particularly in 2010 when the annual Fair was closed four of the 17 days.

The State Fair has taken steps to reduce its annual operating deficit including reducing the number of staff and in 2012 a reduction in force (RIF) laid off 17 employees. The annual state fair event closed on four of the slowest days. Following the LFC evaluation, the State Fair improved internal cash controls. The evaluation identified weaknesses regarding how cash was handled. Most of the revenue received by the State Fair is in the form of cash – admission tickets, parking fees, vendor sales, etc.

The State Fair also negotiated a new lease for the horse racing, casino, and related facilities with the Downs of Albuquerque that potentially will increase revenues in a year or two. The new 25-year lease with the Downs at Albuquerque will generate a base rent of \$2 million and will increase to \$2.75 million in the third year of the lease. In addition to the base rent, the new lease calls for \$300,000 a year in advertising, \$1.3 million in “participation rent” – a share of the net win -, and a requirement for the Downs to sponsor 12 events a year at Tingley Coliseum plus four events a year at the State Fair Horse Arena. The Down at Albuquerque will also pay \$20 million cost of constructing a new casino facility.

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Revenues from operations have not been sufficient to keep up with infrastructure needs on the fairgrounds and are dependent on capital outlay funding from the Legislature each year for facilities upgrades and maintenance. The FY12 Capital Outlay request for the State Fair totals \$4 million for both critical and deferred projects. The critical projects request is required to bring existing facilities in compliance with codes. In FY11, the State Fair received nearly \$3 million in capital outlay funding.

The New Mexico State Fair submitted a request for a \$1 million deficiency appropriation to help address the amounts owed to the General Services Department.

The internal service funds/interagency transfers appropriation includes \$695,000 from parimutual 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 governor vetoed a \$349.3 thousand general fund appropriation and FTE from the FY12 operating budget for the New Mexico State Fair that supported the African American Performing Arts Center (AAPAC). The veto eliminated the operating funds for the AAPAC and placed an additional burden on the enterprise revenue of the State Fair. Annual operating costs of AAPAC have been reduced to \$100 thousand by reducing the number of staff positions dedicated to AAPAC operations and reducing operations costs.

PERFORMANCE IMPLICATIONS

Performance measures outlined in HB 6 are consistent with prior years. The bill will not negatively impact these 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).

This bill relates to House Bill 68 – African American Cultural Center Act – An Act that transfers the assets and operations of the African American Performing Arts Center (AAPAC) to the Department of Cultural Affairs.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Unless a duplicate appropriations act provides funding for an FY13 operating budget, the New Mexico State Fair will not receive appropriations and will not be able to meet its obligations or fulfill its mission.

POSSIBLE QUESTIONS

1. Has management developed a five year strategic plan for New Mexico State Fair agency?
2. How many years will it take before the New Mexico State Fair is operationally solvent and supported by its enterprise revenues and/or cover capital outlay costs?
3. Is there a plan to further decrease costs associated with the annual state fair event?
4. What is the current situation on the renewal of the lease with the Downs of Albuquerque – is there a State Racing Commission and Gaming Control Board review pending?
5. What amount of capital outlay funding is required to bring the infrastructure of Expo New Mexico to standard?
6. How many days will the State Fair be open in 2012, and what are your reasons for this decision?

DL/amm