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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/23/14

SPONSOR Madalena LAST UPDATED \_\_\_\_\_ HB 5

SHORT TITLE State Fair Commission Appropriation Act SB \_\_\_\_\_

ANALYST Clark

### APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY14	FY15		
	\$75.0	Recurring	General Fund
	\$11,793.5	Recurring	Other State Funds
	\$381.2	Recurring	Internal Service Funds

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to and Conflicts with appropriation in the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

Response Received From  
New Mexico State Fair

### SUMMARY

#### Synopsis of Bill

House Bill 5 appropriates and authorizes expenditures for the State Fair Commission Act and appropriates \$12,249,700 from the general fund, 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 mostly reflects the Legislative Finance Committee (LFC) budget recommendation and includes a performance measure and target and language for the expenditure of certain appropriations. The bill also contains language making the other state funds appropriation contingent on the State Fair Commission meeting monthly.

HB 5 differs from the LFC recommendation by including 24.8 temporary authorized positions in addition to the 35 permanent authorized positions.

## **FISCAL IMPLICATIONS**

The appropriation of \$75,000 contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY15 shall revert to the general fund.

The appropriation of \$11,793,500 contained in this bill is a recurring expense funded with other state funds. Any unexpended or unencumbered balance remaining at the end of FY15 shall revert to the state fair fund.

The internal service funds/interagency transfers appropriation includes \$381,200 from parimutuel revenues for debt service and debt service interest on negotiable bonds issued for capital improvements. Fiscal year 2015 will be the last year the State Fair will receive this appropriation from parimutuel revenues.

The total appropriation contained in HB 5 represents a decrease of 1 percent compared with the FY14 operating budget.

## **SIGNIFICANT ISSUES**

House Bill 5 reflects the LFC recommendation for the agency as well as performance measures and targets and appropriation language, with one exception -- HB 5 differs from the LFC recommendation by including 24.8 temporary authorized positions in addition to the 35 permanent authorized positions. For FY15, the State Fair requested elimination of authorized temporary positions because of difficulty in properly accounting for a specific number of temporary, seasonal employees. The LFC recommendation concurs with the request to reduce the number of authorized positions to 35, as this accurately reflects the number of permanent positions.

The New Mexico State Fair Commission met just twice in the last two years, fulfilling its legal obligation to meet at least annually but providing little oversight for the agency. However, in January, the commission agreed to meet quarterly in 2014. The State Fair improved its financial condition during the last two years, emerging from years of operating losses to generate net operating income of \$659 thousand in FY12, excluding depreciation. Additionally, the agency transitioned most of its financial accounting to SHARE in FY13 and will complete the process in FY14, increasing financial oversight. The State Fair is now current with most vendors. The agency relies on remaining cash balances to support operations until the next annual fair event, the agency's primary source of revenue.

Except for \$1.8 million owed to the Risk Management Division of the General Services Department (GSD) for insurance coverage, the State Fair has paid back the debt amassed during the years of insolvency. The State Fair is making payments to GSD for current insurance obligations but currently has no schedule for paying off this accumulated debt using internal revenues.

The long-time racetrack operator, the Downs at Albuquerque, completed a new \$25 million casino in July 2013 as part of the agreement under its 25-year lease with the State Fair signed in 2011. The State Fair is dependent on cash flow from monthly rent payments made by the Downs. Base rent payments are \$2 million per year for 2012 and 2013, increasing to \$2.8

million annually 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 events at the fairgrounds. Any amount not spent by the end of the contract year must be paid to the State Fair.

In 2011, the governor vetoed a \$349 thousand general fund appropriation that supported the African American Performing Arts Center (AAPAC) located on the fairgrounds. The veto essentially crippled AAPAC operations and placed an additional burden on the enterprise revenue that typically supports the State Fair; funding has not resumed since 2011. HB 5 includes a \$75 thousand general fund appropriation to support AAPAC operations.

### **PERFORMANCE IMPLICATIONS**

The performance measure outlined in HB 5 is consistent with prior years. The bill will not negatively impact performance measures.

### **ADMINISTRATIVE IMPLICATIONS**

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 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>

### **CONFLICT, RELATIONSHIP**

The General Appropriation Act contains an appropriation, a performance measure and target, and language for the State Fair that mirror HB 5 with the exception of authorized positions. The General Appropriation Act does not list authorized positions for the State Fair, whereas HB 5 includes 35 permanent and 24.8 temporary authorized positions.

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

The State Fair would receive an identical level of funding through the appropriation contained in the General Appropriation Act.

**JC/jl**