



**Comments before the Senate Committee on Rural Development and Economic Development
Senate Bill 7 – Oregon State Fair and Exposition Center
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April 2, 2013**

Chair Roblan and members of the Committee, I am Lisa Van Laanen, the Assistant Director of the Oregon Parks and Recreation Department (OPRD). Since 2011, I have overseen the Oregon State Fair and Exposition Center. I am here today to offer our support for Senate Bill 7 and the -2 amendments.

Background

OPRD inherited the Oregon State Fair and Exposition Center (OSFEC) in 2005. In large part, this decision was made based on the expectation that the State Fair would be subsidized with dedicated lottery funds. Along with the state fair event, the department received deteriorating facilities and the responsibility to run a year-round Exposition Center.

Parks took on this challenge to fix it with any means at our disposal. For nearly 150 years, the fair has served to educate and entertain Oregonians as the place to celebrate Oregon's rich agricultural and artistic history. OPRD has a passion to preserve and protect heritage, and since 2005, we have worked extensively to partner with stakeholders—agriculture and creative living participants, local elected and business leaders, vendors, sponsors and business interests—to fix the fair and exposition center and fulfill the expectation of the legislature that they become financially self-sustaining. In that time, OPRD has:

- Introduced business management tools and processes to ensure accountability in financial and personnel management.
- Significantly reduced overtime labor costs by utilizing more seasonal employees.
- Enhanced the Pavilion and paved the parking lot to attract events to the venue.
- Removed dilapidated and unsafe facilities including dormitories, food booths and maintenance buildings.
- Improved the aesthetics and management of the grounds.
- Conducted a facility assessment to evaluate the backlog of needed maintenance and repair.

Since 2005, 40% of the budget for the fair and exposition center has been subsidized by the Parks Department with over \$30 million in lottery funds. Year-round, full time staff has been dramatically reduced. This is in part due to the intermittent nature of events booked at the exposition center, combined with more efficiently meeting the needs of the 11 day state fair event with seasonal employees.

Through these reductions, the funding gap has been narrowed; in 2011 and 2012 the State Fair event broke even and made a small profit. However, running the exposition center the other 354 days a year presents a greater challenge. In 2003, when building the Pavilion—the newest facility on the fairgrounds—the state ran out of money. It was originally estimated that the Pavilion alone would bring in \$9-11 million in annual revenue.

Today, the facilities combined bring in roughly \$670,000 annually, not even enough to pay the outstanding debt service on the Pavilion.

The Pavilion, originally designed to hold sporting events such as basketball and volleyball, cannot hold these events because of the design changes introduced when the construction budget was cut. Extensive efforts have been made to recruit and retain an anchor tenant for the Pavilion—including semi-professional ice hockey and soccer—but none have penciled out due to the additional needed investment in the facility to make it viable. As a whole, the facilities that comprise the Exposition Center are used for around 100 events a year, many of them at no cost because they are sponsored by struggling local governments. Current statute requires that the exposition center be run 365 days a year. With competition from the Salem Conference Center, Portland and Eugene markets, nearby casinos and deteriorating facilities, there is a disconnect between the statutory requirement and market demand. Working with the community to discover a niche for the Salem market is critical. A 1998 Joint Legislative Audit Committee report indicated that the fair and exposition center bring \$137 million annually to the local economy.

While there is benefit to the local economy, the biennial state subsidy continues to be roughly \$7.9 million a biennium—\$4.1 million in outstanding debt service on the facilities and \$3.8 million in operating costs—just to keep the exposition center open. This does not take into account a conservatively estimated \$20 million backlog in needed facility repairs. Even with all of the progress Parks has made in gaining efficiencies, it currently costs 10 times as much to serve an expo center visitor as it does a state park patron.

OPRD, fulfilling its obligation to implement changes to resolve the Exposition Center's problems, began looking at the current business model and evaluating options. As we looked into the history of the fair and exposition center, we discovered that Oregon has been grappling with these issues since the 1887 fair, an event that operated \$3,000 in the hole. Institutional reports, Blue Ribbon Committees and legislative recommendations going back decades included proposals to change the business model for the fair and exposition center. Attempts were made to improve the increasingly declining financial situation over the years—the horseracing track was torn down and the Pavilion was built—simply changing the physical infrastructure has not been successful. We need to fundamentally change the way the business is run by changing who runs the business.

In looking at fairs and exposition centers in other states, it is clear that Oregon is not alone in contending with the financial decline of its fairgrounds. The industry is struggling nationwide. The most successful models were 501-(c)-3 non-profit organizations. Parks reached out to our stakeholders, experts in the fair industry and legislators to evaluate what changes need to be made to the current business model for the fair and exposition center to have a chance at being self-sustaining. Overwhelmingly, the response was that the fair and exposition center are being weighed down by state rules and regulations; bureaucracy and hoops are good for reducing risk, but not conducive to meeting the dynamic, fast-paced needs of the fair and exposition center market. Requirements such as needing a 30 day competitive solicitation for food vendors where the food isn't even sampled, combined with executing an often lengthy contract for the winning vendor, or the inability to utilize Groupon because of Treasury restrictions call for a new business model.

After a long history of advocating for the state fair, Senator Courtney introduced Senate Bill 7 to create a new business model for the fair and exposition center.

Overview of Senate Bill 7, -2 Amendments (the -2 amendments replace the original language in SB 7)

SB 7 transitions the Oregon State Fair and Exposition Center from a state agency to a public corporation. Other examples of public corporations in Oregon include OHSU and SAIF. The public corporation will be governed by a Council of nine to 13 members appointed by the Governor. In addition to a Legislator and Salem City

Manager who are non-voting members of the Council, members will include people who have experience in industries and interests traditionally represented in state fair activities including:

- Private sector business
- Nonprofit sector
- Economic development interests
- Finance industry
- Events and facility management
- The local public interest, through an elected city official
- The regional public interest, through an elected county official

Members will serve four year terms and not receive compensation. The Council will employ a director to oversee the day-to-day operations of the fair and exposition center and the director can hire employees. The Parks Department has worked very closely with SEIU and the Department of Administrative Services to enter into a joint agreement to ensure that the current 10 represented employees will transition back into the Parks Department or another state agency. That agreement has been approved by the fair and exposition center employees. Employees may also elect to seek employment with the new Council. The Council will establish a benefits package for new employees—not part of PERS, state health insurance, or a Collective Bargaining Agreement.

There will be a high level of oversight and accountability for the public corporation both during the transition from Parks to the State Fair Council and after the Council assumes responsibility for operating the state fair and exposition center. Some of these accountability measures include:

- Oversight in the process of setting up the State Fair Council; the Governor appoints the members and can remove them.
- Legislative member will serve as an advisor to the Council.
- Legislature will oversee the transition and then receive annual updates on the financial status of the Council.
- If the Council does not make net revenue in 3 out of 5 consecutive years, the legislature will reexamine the new business model.
- Ability for the Secretary of State (SOS) to audit the Council.
- Council will need the approval of the Department of Administrative Services to sell, acquire or dispose of public property or facilities.
- Council will be required to meet Federal Deposit Insurance Corporation (FDIC) and Generally Accepted Accounting Principles (GAAP). It will also be subject to SOS and Department of Administrative Services (DAS) requirements for the Comprehensive Annual Financial Report (CAFR) for state agencies, semi-independent agencies and public corporations.
- Council is a public entity, subject to public records and open meetings laws.
- Council is subject to Chapter 244, government ethics requirements.
- Financial report will be required at each meeting of the Council.
- Before the Council approves or modifies their budget they must provide public notice, post on website for review and hold a public meeting for comment.

A public corporation business model will benefit the state fair and exposition center by allowing it to use business practices common to the industry, providing the ability to be nimble in responding to market needs. A public corporation will allow the Council to have the tools to enter into public-private partnerships, sell naming rights, obtain sponsorships and more fully utilize the partnership with the existing State Fair Foundation. The fair and exposition center will remain on the current fairgrounds located in Salem. If the Council determines that another location would be more suitable, they can come back to the legislature to have that discussion.

Under Senate Bill 7, there will be a lengthy transition that begins with a target date for the Governor to appoint the State Fair Council by January 1, 2014. With assistance from OPRD, the Council will then work with DAS to develop an agreement for the Council to assume control for the operations of the state fair and exposition center. No later than October 1, 2014, DAS will report back to the legislature on the progress of the agreement. If the agreement is ready, the transition will take place by December 31, 2015. If the agreement is not ready, the legislature can push out the transition date. Throughout this process, OPRD will provide the Council with necessary resources such as staffing, accounting and human resources support to assist with establishing the public corporation. SB 7 has an emergency clause to allow the Council to be put in place and negotiate the agreement with DAS. The bill will not become fully effective until the agreement between the State Fair Council and DAS is executed.

In the 2013-2015 budget, the Governor proposed moving the \$3.8 million for the operation of the state fair and exposition center from dedicated lottery funds to non-dedicated lottery funds. It is critical that the legislature retains these operating funds in the budget discussions. After the agreement between DAS and the Council is executed, if additional funding is needed, DAS can seek it in the budgeting process or through the Emergency Board. The Parks Department will continue to be responsible for the approximately \$4 million biennially in debt service until the bonds are retired in 2018.

After the Council has assumed responsibility for operating the fair and exposition center, DAS will continue to own the facilities and grounds through a minimum 10 year lease with the Council. The Council will be subject to tort cap limits in ORS 30.272. In addition to property insurance, the agreement between DAS and the Council will address liability insurance either through DAS Risk Management under the insurance fund or through an agreement to indemnify the state from liabilities due to the Council's exclusive care, custody, control and operations of fairground property and facilities.

Parks is committed to working alongside the Council and DAS to establish the public corporation and stand it up to succeed.

The Parks Department wants to thank Senator Courtney for his leadership on Senate Bill 7 and great passion for the fair. I appreciate the opportunity to testify today and am happy to answer any questions.