



Legislative Budget and Finance Committee

A JOINT COMMITTEE OF THE PENNSYLVANIA GENERAL ASSEMBLY

Offices: Room 400 • Finance Building • Harrisburg • Tel: (717) 783-1600

Mailing Address: P.O. Box 8737 • Harrisburg, PA 17105-8737

Facsimile (717) 787-5487 • Email: PALBFC@aol.com

SENATORS

CLARENCE D. BELL

Chairman

PATRICK J. STAPLETON

Vice Chairman

ROY C. AFFLERBACH

GERALD J. LAVALLE

CHARLES D. LEMMOND, JR.

JEFFREY E. PICCOLA

REPRESENTATIVES

RONALD C. RAYMOND

Secretary

WILLIAM R. LLOYD, JR.

Treasurer

ROBERT W. GODSHALL

TIMOTHY L. PESCI

FRANK J. PISTELLA

SAMUEL H. SMITH

EXECUTIVE DIRECTOR

PHILIP R. DURGIN

CHIEF ANALYST

JOHN H. ROWE, JR.

Performance Audit of the State Farm Show Complex

Pursuant to Senate Resolution 1996-134

June 1997

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Summary and Recommendations | iii |
| I. Introduction | 1 |
| II. Report Findings | 3 |
| A. Although Significant Improvements Have Been Made, the Farm Show Complex Still Requires Major Capital Investments and Is Facing Increasing Competition From Other Convention Centers and Arenas | 3 |
| B. As a State Agency, the Bureau of Farm Show Must Operate Under Constraints and With Added Costs That Make It Difficult to Manage the Complex Efficiently | 10 |
| C. Operating Revenues and Expenses Have Been Increasing at Average Annual Rates of 5.5 and 8.8 Percent, Respectively, During the Past Five Years | 21 |
| D. Losses Due to the Annual Farm Show and Other Factors Contribute to the Complex's Inability to Break Even | 29 |
| E. The Complex Is Not Aggressively Marketed, in Part Because Its Design Makes It Difficult to Hold Multiple Shows Simultaneously ... | 35 |
| F. Contracting With Private Firms for Security Guards, Laborers, and Equipment Operators Could Save \$346,000 Per Year | 37 |
| G. Other Opportunities for Increasing Revenues at the Farm Show Complex | 43 |
| H. Capital Equipment Inventory Controls Should Be Improved..... | 48 |
| I. Controls Over Ticket Sales Should Be Improved | 50 |

Table of Contents
(Continued)

| | <u>Page</u> |
|--|-------------|
| III. Appendices | 51 |
| A. Senate Resolution No. 134 | 52 |
| B. Summary of Questionnaire Survey | 55 |
| C. Farm Show Complex Floor Plan | 56 |
| D. Bureau of Farm Show Organization Chart | 57 |
| E. Characteristics of Exposition Centers in Pennsylvania | 58 |
| F. Characteristics of Exposition Centers in Other States | 61 |
| G. Farm Show Complex Rental and Fee Rates | 65 |
| H. Response to This Report | 69 |

Summary and Recommendations

The Farm Show Complex, located on the outskirts of Harrisburg, is a 16-acre facility consisting of eight connected buildings and a 3,500 vehicle parking lot. Five buildings--the East Building, the West Building, the Main Building, and the Large and Small Arenas--were built in the 1930s. The most recent building, the Northeast Building, was built in 1993. In total, the Complex contains over 500,000 square feet of indoor space.

The Administrative Code of 1929 gives the State Farm Products Show Commission statutory authority over the Farm Show Complex. By statute, the Secretary of Agriculture chairs the Commission.

The Complex Needs Significant Capital Improvements

(pp. 3-7)

Since 1990, several significant capital improvements have been made to the Farm Show Complex. These include replacing the roof and heating and lighting system for the Large Arena, construction of the Northeast Building, major repairs to the Main Exhibition Hall floor, and resurfacing and other improvements to the parking area.

Despite these improvements, the Farm Show Complex has a minimum of \$16 million in additional capital needs. The highest priority projects are a new roof for most of the Complex (\$9 million), brick repairs and maintenance (\$1.8 million), asbestos removal (\$785,000) and boiler plant modifications (\$420,000). Other needs include additional parking, an air purification system, a new security system, and making modifications to the Large and Small Arena to comply with the Americans With Disabilities Act.

Unfortunately, most of these improvements, though costly, will do little to generate additional revenue: event sponsors expect that roofs do not leak and that the buildings have adequate heat and ventilation. Air conditioning would generate additional revenue by allowing events to be held during summer months, but would be costly to install and does not appear feasible given the age and design of the facility.

Most Event Sponsors Appear Satisfied With the Complex, But It Is Vulnerable to Competition From Newer Facilities

(pp. 8-9)

We surveyed all the show sponsors who held an event at the Farm Show Complex in 1996 to assess their satisfaction with the facility and its staff. The Complex received high marks in several areas (location, size, quality of staff, park-

ing, and cleanliness). However, several sponsors, including sponsors of some of the Complex's most profitable events, noted that rental fees are high, especially when the 10 percent amusement tax charged by the City of Harrisburg and the Harrisburg School District are added in, and that the general appearance and design of the facility do not meet the standards of modern exposition centers.

Even if all the capital improvements noted above were made, the Farm Show Complex would remain vulnerable to competition from newer facilities, such as the recently constructed Bryce Jordan Center at University Park and the soon-to-be-expanded Hershey Lodge and Convention Center. In addition, new convention centers/arenas have been proposed or are under discussion for Altoona, Reading, and Harrisburg. If such a facility were constructed in Harrisburg, in particular, it is likely that the Farm Show Complex would become even more dependent on the General Fund for its continued survival.

Alternatives to a State-Owned and Operated Facility (pp. 10-20)

As a state agency, the Bureau of Farm Show must operate under the laws, regulations, management directives, and policies that pertain to all executive branch agencies. This severely limits the Bureau's ability to respond in a flexible manner to an increasingly competitive environment. The Bureau cannot offer financial incentives to its employees to solicit new events; must abide by cumbersome purchasing, contracting, and personnel policies and requirements; incurs added costs due to its unionized workforce; and, as a matter of policy, does not sell alcoholic beverages, which could be another source of revenue.

Taken together, we believe such constraints and added costs make it unrealistic to expect that the Bureau of Farm Show will ever be able to "break even," meaning to generate enough revenue from commercial and other events to support the five state-sponsored agricultural shows, under the current organizational structure. This is especially true if capital expenses are taken into consideration. We therefore sought information on the ownership and management structures of other facilities in Pennsylvania and facilities in other states to identify possible recommendations for the Farm Show Complex. The three options that appear to be most feasible for the Farm Show Complex are: (1) leasing the Complex to a private facilities management company, (2) transferring ownership to a state authority, and (3) transferring ownership to a municipal authority.

Leasing the facility to a private company would give the Department of Agriculture the greatest control over the facility as it could control the terms of the lease agreement. Under such an arrangement, the lessee would not have to operate under the constraints of the policies and directives that apply to agencies under the Governor's jurisdiction. We found that the Department of Conservation and Natural Resources has had success in leasing ski facilities and golf courses to private management companies.

Transferring the Complex to a state authority would also allow the Complex to operate under more streamlined procedures. However, creating a state authority requires legislation and would result in yet another entity in state government. Transferring the Complex to a municipal authority would allow it to receive revenues from any hotel taxes that may be imposed by the county. This option would also divest the Commonwealth of a responsibility that does not appear to be a core function of state government. The Commonwealth, however, would have little control over the Complex once ownership was transferred to a municipal authority.

Operating Revenues, Expenses, and Fund Balance

(pp. 21-28)

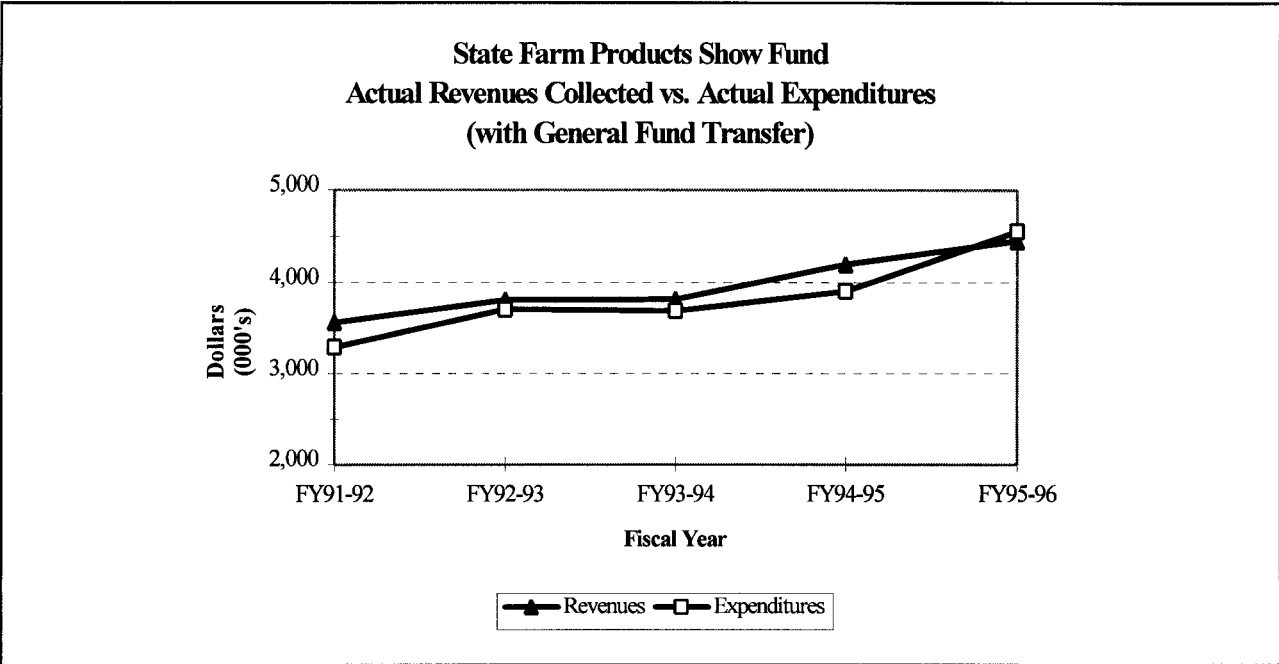
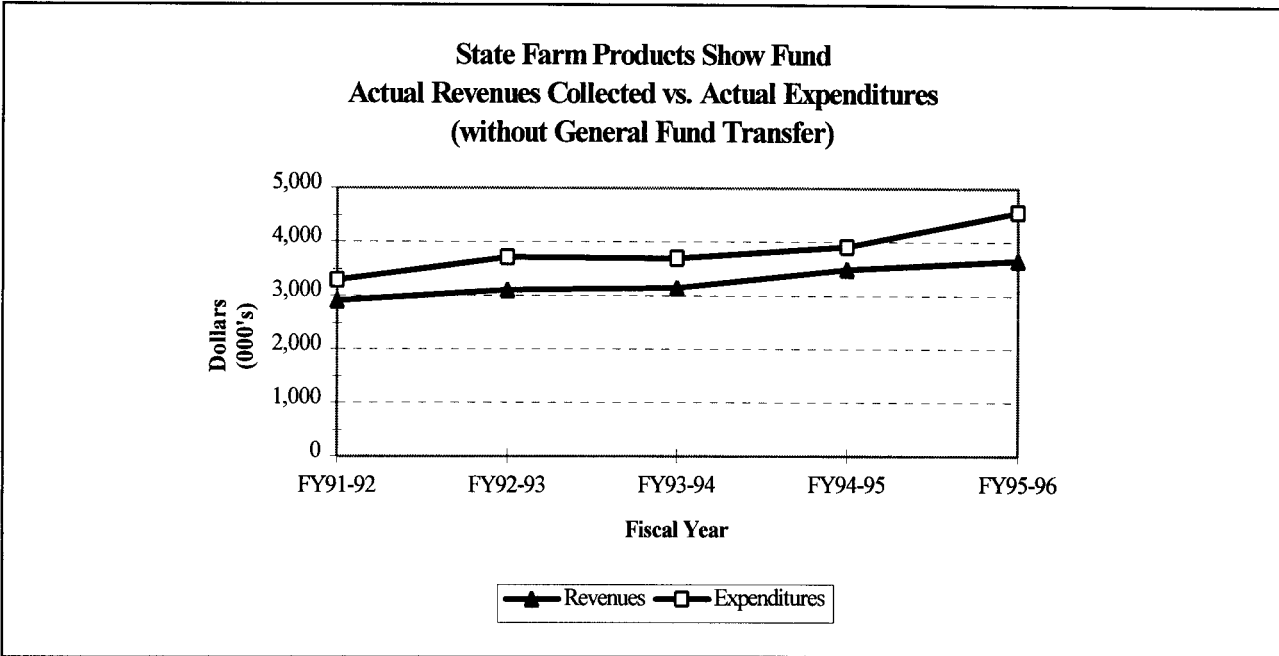
Over the past five years, Farm Show Complex operating revenues have been increasing at an average annual rate of 5.5 percent, while operating expenses have been increasing at an average annual rate of 8.8 percent. Rental fees, which comprise just over 40 percent of the Complex's operating revenues, have increased by 40 percent over the past five years, representing an average annual increase of 9 percent. Concession revenue, the second largest source of operating revenue, has been flat, but parking and service charges have been increasing at annual rates of 5.3 percent and 7.6 percent, respectively.

Much of the increase in expenses has been for personnel, which accounts for 60 to 63 percent of total operating expenditures. Personnel costs jumped in FY 1995-96 due in part to overtime and additional wage costs resulting from the blizzard which occurred during Farm Show week. This blizzard caused a total of \$276,000 in unexpected expenses, including \$146,000 for emergency roof repairs.

If the \$276,000 in unexpected expenses the Department reported incurring due to bad weather during the annual Farm Show were excluded, the five-year average annual increase for expenses would be a more modest 6.8 percent. The Bureau of Farm Show director estimated the revenues lost during the 1996 Farm Show at \$224,000, which, if added to the actual revenues, would boost the Complex's average annual operating revenue growth to 7.0 percent, slightly more than the adjusted rate of growth for expenses.

As shown below, the Farm Products Show Fund receives \$650,000 to \$800,000 annually in General Fund monies to supplement its operating revenues. For much of the 1980s, the General Fund appropriation was \$1 million annually.

| <u>Year</u> | <u>Receipts</u> | <u>General Fund</u> | <u>Expense</u> | <u>Year-End Fund Balance</u> |
|--------------------|-----------------|---------------------|----------------|----------------------------------|
| 91-92..... | \$3,012 | \$650 | \$3,412 | \$ 431 |
| 92-93..... | 3,226 | 700 | 3,915 | 442 |
| 93-94..... | 3,361 | 674 | 3,751 | 726 |
| 94-95..... | 3,555 | 700 | 3,921 | 1,060 |
| 95-96..... | 3,667 | 800 | 4,782 | 745 |
| 96-97 (est.) | 3,632 | 800 | 5,199 | 58 |



Note: FY1995-96 expenditures in both charts do not include \$82,975 still encumbered for FY1995-96 as of 3/31/97.

Source: Developed by LB&FC staff from information obtained in the Comptroller's Office, Public Protection and Recreation, "Comparison of Expenditures Incurred in Fiscal Year to Actual Revenues Collected for the Fiscal Year" and the 3/31/97 Special Funds Status of Appropriation Report.

Our review of the Bureau's revenues and expenditures for the first three quarters of FY 1996-97 indicate that revenues are coming in as estimated, and expenditures are significantly below estimates (\$3,104, or 61 percent of estimated expenditures). Thus, the year-end balance should be significantly higher than the \$58,000 projected on the above table.

Show Profitability and Utilization Rates

(pp. 29-34)

The Farm Show Complex has had operating losses averaging \$603,000 a year over the past five fiscal years. These losses are due to several factors. Most notably, the annual Farm Show and three other large agricultural shows lose a significant amount of money. We also found that certain areas of the Complex have very low utilization rates by commercial event sponsors and that state government agencies often use the facility but are not charged for this use.

Show Profitability. According to a recent Comptroller's Office report, of the 142 indoor events held at the Farm Show Complex in FY 1995-96, 50 were profitable (i.e., total revenues exceeded total costs), 8 broke even, and 84 resulted in a loss. The two most profitable shows generated total profits of \$359,000; most of the profitable shows had profits of less than \$5,000. The three events showing the largest losses were the Farm Show (-\$396,316)¹, the 1995 Keystone International Livestock Exposition (-\$208,464), and the PA All-American Dairy Show (-\$190,115).

All but two of the shows with losses--the All-American Dairy Show and the 1995 Keystone International Livestock Show--generated more in revenue than the direct costs incurred to hold the show. This means that all the remaining 82 events that showed a loss were able, at least to some degree, to contribute toward offsetting the fixed costs of operating the Complex.

Utilization Rates. We found that, overall, the Complex operates at only about 42 percent of capacity. However, several of the Complex's major buildings had utilization rates of over 50 percent. These figures compare favorably to what we found in our 1984 sunset performance audit of the State Farm Products Show Commission. At that time, the major buildings of the Farm Show Complex had a utilization rate of 48 percent.

Usage rates for the less desirable space in the Farm Show Complex are notably lower, ranging from 43 percent for the East Building to only 8 percent for the upstairs cafeteria and the exhibition rooms. Several of these areas, however, lack the amenities (separate entrances and rest rooms) necessary to allow them to be rented independently.

¹ The blizzard experienced in the Harrisburg area during Farm Show week in 1996 contributed to the losses this year.

The Complex Is Not Aggressively Marketed, But Is Limited in Its Potential to Hold Additional Shows

(pp. 35-36)

The Bureau of Farm Show does not aggressively market the Farm Show Complex as a venue for events. Unlike several facilities we contacted, the Complex has no one on staff exclusively assigned to market the facility, no funds are specifically budgeted for marketing or advertising, and no formal marketing plan has been developed for the Complex. The Bureau has, however, recently developed a brochure that it plans to provide to the Harrisburg-Hershey-Carlisle Tourism and Convention Bureau and has ongoing contacts with this organization and others to promote the facility.

While parking and other facility design problems limit the number of additional events that can be held at the Complex, some areas of the Complex, particularly the Large Arena, appear to be underutilized. Because the Complex has high fixed costs, virtually any new show that can be attracted to the facility will have a positive contribution margin (i.e., will be able to contribute toward recouping the Complex's fixed costs).

Contracting for Security Guards, Laborers, and Equipment Operators Could Save \$346,000 or More Per Year

(pp. 37-42)

We estimated that the Bureau of Farm Show could save \$346,000 or more per year if it contracted with private firms for security guards, laborers, and equipment operators rather than using Commonwealth employees.

As of February 28, 1997, the Bureau had 1 Administrative Officer and 7 unionized, full-time security officers in its Safety and Security Division. These full-time positions are supplemented by up to 165 temporary security guards who are hired on an as-needed basis for large shows. The union contract agreement requires that temporary personnel be hired according to the Commonwealth's pay plan. We compared the average amount the Bureau pays in wage and benefits to its full-time (\$17.60 per hour) and temporary (\$11.24 per hour) security guards to what it would likely have to pay for contracted guards (\$10.88 per hour), and identified a potential savings of \$103,000 annually.

The amount the Bureau pays in wages and benefits for its 15 unionized, full-time laborers, laborer foremen, and equipment operators also appears to be significantly higher than what it would cost if this work was contracted out. We estimated the Bureau could save about \$243,000 annually if it contracted with a private firm for the full-time and temporary persons needed to operate and maintain the Farm Show Complex.

Contracting such work to private firms has drawbacks beyond the obvious loss of jobs. In particular, the director of the Bureau of Farm Show was not satisfied with the temporary security guards used by a previous contractor, and many of the Complex's operations and maintenance staff have been with the Complex for five or more years and therefore have experience with the many shows that use the Complex year after year. The potential savings to be realized would, however, significantly reduce the Complex's reliance on the General Fund.

Opportunities for Increasing Revenues

(pp. 43-47)

Although the age and design of the Farm Show Complex place limitations on its revenue-generating ability, we believe several opportunities exist for the Farm Show Complex to improve its "bottom line." These include:

- a more aggressive marketing effort (discussed above);
- soliciting a private sponsor for facility improvements, possibly by including the sponsor's name as part of the Complex;
- soliciting private sponsors for state-sponsored agricultural shows, possibly including the sponsor's name in the name of the show;
- selling advertising space and "pouring" rights within the Complex;
- erecting a modern electronic event sign and selling advertising space on it;
- charging rent to state agencies that hold major events at the Complex;
- establishing an Internet "homepage" to attract visitors and event sponsors;
- charging parking fees for all major agricultural shows; and
- selling alcoholic beverages at certain events

Some of these initiatives may require amendatory language to the Administrative Code of 1929.

Capital Equipment Inventory Controls Should Be Improved

(pp. 48-49)

Department of Agriculture policies call for its bureaus to conduct capital equipment inventories twice a year. Historically, the Bureau of Farm Show has done an annual inventory, although no inventory was done at all in 1996. We reviewed the records of the inventory that was done in 1995 and found that 191 of the approximately 1,000 items on the inventory list could not be located. Another 646 items were at the Complex but not on the inventory list. During the audit we conducted an inventory review of a small sample of items and found similar discrepancies. At least part of the problem appears due to the cumbersome procedures the Bureau uses to update its inventory list and conduct the annual inventory.

Controls Over Ticket Sales Should Be Improved

(pp. 50)

Most commercial shows and events held at the Farm Show Complex charge an admission fee wherein the Department is to receive 10 percent of the daily paid admissions, exclusive of the first 2,000 paid admissions. The Department, therefore, has a financial interest in assuring that the event sponsor's ticket count is correct.

We found that many of the Complex's event sponsors use numbered, but undated, tickets. As a result, it would be quite easy for a event sponsor to avoid paying the full amount due by substituting a roll of the same colored tickets---perhaps part of a roll of tickets left over from a show at a different facility--that begin with a lower-numbered ticket.

Recommendations

- 1. The State Farm Products Show Commission should develop a long-range capital improvement plan for the Complex as called for by Act 1984-242.** The General Assembly mandated that the Commission develop a long-range capital improvement plan in the Commission's 1984 sunset reauthorizing legislation, but such a plan was never developed. Without a plan, it is difficult to prioritize the Complex's capital needs or make a convincing argument to show how several capital improvement projects could work together to improve the long-term financial viability of the Complex.
- 2. The State Farm Products Show Commission should consider leasing the Farm Show Complex to a private facilities management company.** A lease arrangement would allow the Commonwealth to retain ownership of the property and exercise a degree of control over the lessee through conditions in the lease agreement while allowing the lessee to operate the facility without the constraints and added costs placed on agencies under the Governor's jurisdiction. Ideally, such an agreement would provide sufficient revenue to offset the costs to hold the five state-sponsored agricultural shows.
- 3. If Recommendation 2 is not adopted, the State Farm Products Show Commission should consider contracting for security, and operations and maintenance personnel.** The current union agreements with the Complex's security guards, laborers, and equipment operators allow this work to be contracted out if reasonable savings can be demonstrated. We estimate the Bureau could achieve annual savings of \$346,000 or more by using contracted security, laborers and equipment operators.
- 4. The Bureau of Farm Show should more aggressively market the Large Arena.** The Complex's design places limits on its ability to handle a large in-

flux of new shows. However, some areas of the Complex, particularly the Large Arena, could be better utilized. Consideration should be given to entering into a commission-based marketing contract to take advantage of this opportunity.

5. **The Bureau of Farm Show staff should explore the feasibility and revenue-generating potential of the suggestions made in Finding G.** The staff should provide a written report of its findings and conclusions to the State Farm Products Show Commission. The report should include recommended amendatory language if any legislative changes are necessary.
6. **The Bureau of Farm Show should use bar-coded labels to facilitate the annual inventory.** A bar-coded inventory system, which could be purchased for a few thousand dollars, would greatly simplify the Complex's inventory procedures. We also recommend:
 - *The Department clarify whether the Bureau should take an inventory count twice a year as stated in the Department's general policies or annually as has been the practice at the Complex.* Given the difficulty the Bureau's staff has had in conducting an annual inventory, it might be prudent to retain the annual schedule until inventory procedures are made more efficient.
 - *Bureau of Farm Show staff accompany contracted food service personnel when inventory is taken of capital equipment owned by the Complex but used by the contracted food vendor.* We found that Bureau staff rely on the inventory reports submitted by the contracted vendor.
7. **The Bureau of Farm Show should require that event tickets be numbered and dated.** Requiring tickets to be both numbered and dated is a prudent management control and would impose only marginal additional costs on event sponsors.

Introduction

The Pennsylvania Senate passed Senate Resolution 134 on June 18, 1996, directing the Legislative Budget and Finance Committee to conduct an audit of the operation and management of the buildings and grounds of the State Farm Show Complex. Senate Resolution 134 is included as Appendix A.

The objectives of this study are to:

1. Determine the nature and extent of utilization of the Complex;
2. Review and evaluate day-to-day operations of the Complex and the respective roles of the State Farm Products Show Commission and the Bureau of Farm Show (BFS), including staffing, administration, financial affairs, scheduling, purchasing, and contracting;
3. Examine fiscal affairs, including operating revenues by source and expenditures by purpose, overall and individual event annual profit/loss status, use of and need for annual General Fund transfer to the State Farm Products Show Fund and the financial condition of the Fund;
4. Obtain information on the maintenance, physical condition and capital improvement needs of the Complex; and
5. Recommend any statutory, regulatory or administrative changes that may be needed to improve the operation and management of the Complex.

Scope and Methodology

To determine the nature and extent of utilization of the Complex we interviewed BFS personnel, reviewed show contract files, and obtained utilization information from a November 1996 Comptroller's Office report entitled *Methodology for Assigning Costs to Individual Shows*.

To review and evaluate day-to-day operations of the Complex we interviewed officials from the Department of Agriculture, including the Bureau of Farm Show, and the Comptroller's Office. We conducted telephone interviews with officials of state-owned, public and nonprofit facilities in Pennsylvania and other states to obtain comparative information. We also sent questionnaires to all (61) 1996 event sponsors to obtain their perspectives and experiences in working with the staff of the Farm Show Complex. Questionnaire results are reported in Appendix B.

We examined state agency contracts for security guards, laborers, and equipment operators and obtained relevant labor market data and compared such data to salaries and benefits of similar BFS personnel. We reviewed the inventory taken by BFS staff and sampled inventory ourselves. We also sampled event sponsor contract files to verify the calculation of admission ticket revenue. We reviewed the *1990 Pennsylvania Farm Show Study Economic Impact Analysis* by the Pennsylvania State University Center for Travel and Tourism to assess the impact of the annual Farm Show on the local economy.

To examine the fiscal affairs, we interviewed BFS staff and Department of Agriculture Fiscal Management Division staff. We reviewed numerous Commonwealth fiscal documents, including the Governor's Executive Budget Requests and Department budget requests, Status of Appropriations, Report on Revenues and Receipts, and Comptroller expenditure data. We then determined percent contributions from sources of revenue, distribution of expenditures by BFS division and by object code, annual average growth rate, total operating revenues, annual profitability, fund balance, and the transfer from the General Fund as a percent of Fund disbursements.

To obtain information on the maintenance, physical condition and capital improvement needs of the Complex we interviewed BFS staff and officials from the Office of the Budget. We reviewed BFS Director's reports and the results of our questionnaires. We also examined capital budget requests and related files and compared the Complex facilities to selected other Pennsylvania facilities and those in other states.

Acknowledgments

The LB&FC staff expresses its appreciation to the Honorable Charles C. Brosius, the Secretary of Agriculture during most of the period this audit was conducted; Dennis L. Grumbine, Director of the Bureau of Farm Show; and to the Bureau of Farm Show staff for the excellent cooperation provided throughout the audit.

This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as indicating that the Committee's members endorse all the report's findings and recommendations. Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

Findings and Recommendations

FINDING A

Although Significant Improvements Have Been Made, the Farm Show Complex Still Requires Major Capital Investments and Is Facing Increasing Competition From Other Convention Centers and Arenas

The Pennsylvania Farm Show Complex, located on the outskirts of the City of Harrisburg, includes a 7,600 seat large arena (with floor space for an additional 4,400 chairs), a 1,500 seat small arena, six exhibit halls, six separate meeting rooms which can also function as one large room seating 750 people, and a cafeteria and catering facility. The building contains over 500,000 square feet of usable floor space under one roof and occupies 16 acres. Adjacent to the building is 60 acres of parking for 3,500 vehicles. (The floor plan of the Farm Show Complex is presented in Appendix C.)

The 235,000 square foot Main Building, including the now separate East and West Buildings and Small Arena, opened for its first Farm Show in January 1931 at a cost of \$1.4 million. The 28,800 square foot Large Arena opened in 1939 and was funded through General State Authority bonds of \$1.2 million. While using the Complex during World War II, the Army Air Corps built a 56,000 square foot, one-story storage shed on the north side of the Main Building, now known as the North Building. Construction of the 66,000 square foot Northwest Building began in 1976. Major improvements to the facility occurred in 1976 and 1985. The two-story, 77,200 square foot Northeast Building was completed in 1993 at a cost of \$3.2 million.

Capital Improvement Needs Are Significant

Several major capital improvements have been made to the Farm Show Complex over the past ten years, including the Large Arena roof replacement, new lighting and heating systems in the Large Arena, construction of the Livestock Exhibition Hall (Northeast Building), replacement of the Main Building floor, and parking lot improvements.

Other improvements include increased lighting in the Main Building hallway, new overhead signs to all buildings to make them more user friendly, newly painted agricultural wall murals, ongoing painting and color coding of building interiors, color coded parking areas in front of the Complex, painted and refurbished

administrative offices, more attractive landscaping at the entrances using antique farm machinery, repair to collapsed roof over the Main Building and replacement of roof joists throughout the Complex that were damaged by the 1996 snow load, renovated former storage area in the East building to allow for a more adequate service shop to maintain vehicles, upgraded handicapped parking area at the east entrance to Large Arena, refurbished dormitories that were completed in time for the 1997 Farm Show to house over 190 youth, a new 3/4 acre parking area south of the red storage building, new signage at doorways in Large Arena, 1,100 feet of new cattle tie outs on the west end of the property, and new outside security booths.

Despite these improvements, numerous other needs remain. These capital improvement needs, which total at least \$16.1 million, include:

Roof replacement for much of the facility. Event sponsors seek concessions because of the many leaks in the roof. During a recent business fair held in the Northwest Building, the promoter had to give partial refunds to vendors because of roof leaks. During the Auto Show, 25 trash containers were placed to catch leaks. Another event sponsor told us that many of his patrons were using their umbrellas indoors while watching his show. The estimated cost to make the roof improvements are \$9 million, which has been included in the Governor's FY 1997-98 capital budget request.

Boiler plant replacement. The Department of Agriculture originally requested \$780,000 to replace the Complex's boiler plant. It has since modified this request to \$420,000, which is included in the Governor's FY 1997-98 capital budget request, to convert the one existing boiler to a gas/oil fired unit to allow flexible operations at lower pressures, thereby providing heat to smaller areas.

Exterior cleaning and repairs. The Governor's FY 1997-98 capital budget request includes \$1.8 million for exterior cleaning, sealing, and reconstruction of the main building's masonry walls and decorative friezes.

Brick repairs and upgraded entrance doors. The Governor's FY 1997-98 capital budget request contains \$518,000 for resetting degraded masonry, to install an upgraded waterproof membrane and to install upgraded entrance doors.

Seating renovation in the Large Arena. The Governor's FY 1997-98 General Fund budget request proposes \$600,000 to bring seating in the Large and Small Arenas in compliance with Americans With Disabilities Act requirements by adding 80 and 20 removable handicapped accessible seats, respectively. This project, which also includes two permanent ramps, a portable ramp, and retrofitting of a passenger elevator, is part of a state governmentwide effort to bring various state government facilities in compliance with ADA requirements.

Security system. The Department of Agriculture, in FY 1996-97, received an Executive Authorization to use up to \$650,000 from the State Farm Products Show Fund for a security system. The Department of General Services, however, has not authorized the purchase of the system because other executive branch agencies also need security systems, and it would like to purchase several systems at the same time to obtain optimal pricing. The planned system, which is described in Finding F, could result in lower expenditures for security personnel.

Asbestos removal. In FY 1996-97, \$785,000 was budgeted from the Capital Facilities Bond Fund for the removal of asbestos from the Large Arena. These funds, however, were never appropriated.

Other capital improvement projects. Other capital needs at the Farm Show Complex include construction of a \$100,000 storage shed to be used as horse stalls; enlargement of the parking area on the north end at a cost of \$800,000; \$50,000 to install restrooms in the West and Northeast Buildings; \$300,000 for an air purification system; and \$150,000 to construct a coal silo. The status of these and other capital improvements are shown in Table 1.

Even though several of the above-mentioned projects have been included in the Governor's FY 1997-98 capital budget request, this does not assure that the funding will be forthcoming. First, even if the General Assembly approves the Complex's capital budget request items, the Governor is not required to release the project funds. The Governor exercises this option at each of two stages--the design phase and the construction phase. There are queues at each phase because of the backlog of projects, according to an official in the Governor's Budget Office. Moreover, release of funds for the design phase does not then obligate the Governor to later release funds for the construction phase.

Farm Show Complex capital improvements can also be funded through the State Farm Products Show Fund (SFPSF), a special revenue fund. Projects funded through the SFPSF need approval from the Governor's Office of the Budget (Executive Authorization) but do not need legislative approval. Because funding for capital projects through the Capital Facilities Bond Fund is limited, Budget Office officials prefer that the Department use the SFPSF for most Farm Show Complex capital project needs rather than bond financing. These officials recognize, however, that SFPSF funds are also limited.

We also found that no long-term capital improvement plan exists for the Farm Show Complex beyond the items cited in Table 1. We cited the need for a long-term capital improvement plan in our 1984 sunset performance audit of the

Table 1

FSC Capital Budget Requests
FY 1988-89* through FY 1997-98

| <u>Description</u> | <u>Year of Request</u> | <u>Amount Requested</u> | <u>Status</u> | <u>Source of Funding</u> |
|---|------------------------|--------------------------|----------------|---|
| Roof replacement on Large Arena | 1988-89 | \$1,029,000 | Completed 1991 | SFPSF (proceeds from sale of Woodville Farm property) |
| | 1989-90 | \$1,500,000 | | |
| Livestock Exhibition Hall | 1988-89 | \$3,850,000 | Completed 1993 | Capital Facilities Bond Fund |
| | 1989-90 | \$3,850,000 | | |
| | 1990-91 | \$3,227,000 ^a | | |
| | 1991-92 | \$3,227,000 | | |
| | 1992-93 | \$3,227,000 | | |
| Parking lot improvements on 22 acres | 1988-89 | \$700,000 | | Not funded |
| Sealing paved parking lots at north end | 1988-89 | \$125,000 | | Not funded |
| Improve/replace Main Exhibition Hall floor | 1989-90 | \$1,430,000 | Completed 1995 | Capital Facilities Bond Fund |
| | 1990-91 | \$1,300,000 | | |
| | 1991-92 | \$1,300,000 | | |
| | 1992-93 | \$1,300,000 | | |
| | 1993-94 | \$1,430,000 ^b | | |
| | 1994-95 | \$1,430,000 | | |
| New lighting system in Large Arena | 1989-90 | \$352,000 | Completed 1991 | Capital Facilities Bond Fund |
| | 1990-91 | \$352,000 | | |
| | 1991-92 | \$499,000 ^b | | |
| Heating system in Large Arena | 1989-90 | \$715,000 | Completed 1991 | Capital Facilities Bond Fund |
| | 1990-91 | \$715,000 | | |
| | 1991-92 | \$1,656,000 ^b | | |
| Parking area resurfaced and hard stand improvements | 1989-90 | \$556,000 | Completed 1994 | Capital Facilities Bond Fund |
| | 1990-91 | \$556,000 | | |
| | 1991-92 | \$556,000 | | |
| | 1992-93 | \$556,000 | | |
| | 1993-94 | \$556,000 | | |
| | 1994-95 | \$556,000 | | |
| Storage shed (for horse stalls) | 1991-92 | \$100,000 | | Not funded |
| Parking area enlargement, north end | 1991-92 | \$300,000 | | Not funded |
| Roof replacement on East, West, and Northwest Buildings | 1993-94 | \$740,000 | | Not funded |
| | 1994-95 | \$740,000 | | |
| | 1995-96 | \$740,000 | | |

Table 1 (Continued)

| <u>Description</u> | <u>Year of Request</u> | <u>Amount Requested</u> | <u>Status</u> | <u>Source of Funding</u> |
|--|------------------------|-------------------------|--|--|
| Restroom facilities (Northeast and West Buildings) | 1994-95 | \$50,000 | | Not funded |
| | 1995-96 | \$50,000 | | |
| | 1996-97 | \$50,000 | | |
| | 1997-98 | \$50,000 | | |
| Boiler plant modifications | 1995-96 | \$350,000 | 97-98 capital budget, \$420,000 ^c | Capital Facilities Bond Fund |
| | 1996-97 | \$350,000 | | |
| | 1997-98 | \$780,000 | | |
| Air purification system | 1995-96 | \$375,000 | | Not funded |
| | 1996-97 | \$250,000 | | |
| | 1997-98 | \$300,000 | | |
| Remove asbestos from Large Arena | 1995-96 | \$600,000 | 96-97 capital budget, \$785,000 ^b | Capital Facilities Bond Fund |
| | 1996-97 | \$1,500,000 | | |
| Coal silo | 1996-97 | \$100,000 | | Not funded |
| | 1997-98 | \$150,000 | | |
| Maintain/repair brick on bldg. | 1996-97 | \$150,000 | 97-98 capital budget, \$1,800,000 ^b | Capital Facilities Bond Fund |
| | 1997-98 | \$1,500,000 | | |
| Security system | 1996-97 | \$650,000 | | Approval for SFPSF funding but not in this fiscal year |
| Brick repairs/upgraded entrance doors | 1997-98 | \$518,000 ^d | 97-98 capital budget, \$518,000 | Capital Facilities Bond Fund |
| Roof replacement (entire complex except Large Arena and Northeast Bldg.) | 1997-98 | \$7,500,000 | 97-98 capital budget, \$9,000,000 ^b | Capital Facilities Bond Fund |
| Large and Small Arena ADA seat compliance | 1997-98 | \$600,000 | | General Fund |
| Pave new parking area | 1997-98 | \$800,000 | | Not funded |
| Remove/replace seats in Large Arena | 1997-98 | \$400,000 | | Not funded |
| Seal coat/line, north parking lot | 1997-98 | \$550,000 | | Not funded |

*Items requested in FY 1988-89 also may have been requested in earlier fiscal years.

^aDeletion of some items.

^bIncludes design and contingency costs.

^cConversion rather than replacement; includes design and contingency costs.

^dDepartment of General Services request.

Source: Developed by LB&FC staff from Department of Agriculture budget requests, Governor's Executive Budgets, and meetings with Budget Office and FSC personnel.

State Farm Products Show Commission, and the legislation reauthorizing the Commission specifically required the Commission to develop such a plan.¹

Results of Questionnaires to Event Sponsors

We sent a questionnaire to all the organizations that held an event in the Farm Show Complex during 1996 to assess their satisfaction with the Complex and its staff. Appendix B shows the results of this survey. As the appendix shows, over half the respondents rated the Farm Show Complex as good with regard to its location (85 percent), quality of staff (73 percent), parking (64 percent), and cleanliness (52 percent). Several sponsors also noted that it was the only facility in the area large enough to handle their event. The Complex received relatively low marks for its rental fees and the attractiveness of the facility, with 24 percent and 21 percent of respondents, respectively, rating these areas as “poor.”

Many event sponsors supplemented their ratings with comments. The sponsor of one large, profitable show stated that the “facility needs work, updating and investment by the state.” Another noted that “the building is an agricultural building and not of the quality normally used for expos.” Several sponsors made very favorable comments about the Farm Show Complex staff. Also cited was the need for roof repairs, lack of adequate ventilation and air conditioning, the need for a larger door to allow larger trucks and machinery to gain access to the Large Arena from other than the Northeast Building, and having to spend more to decorate the buildings and rooms they use for their shows than they do to rent space.

In addition to rental and other fees, the City of Harrisburg and the Harrisburg School District levy a combined 10 percent amusement tax. Event sponsors and BFS management have both cited this as an impediment to bookings, noting that the tax puts the Complex at a competitive disadvantage to facilities in locations where no such tax or a lesser tax is charged.

Competition From Other Facilities

The ability of the Farm Show Complex to attract new and repeat events depends, to a large degree, on the cost, location, size, and availability of other local and regional facilities. The Farm Show Complex competes to varying degrees with facilities such as: *fairgrounds* (York); *exposition centers* (Fort Washington, Lebanon); *convention centers* (Hershey, Philadelphia, Valley Forge, Baltimore, Pittsburgh); and *arenas* (Hershey, State College).

¹ Section 449 of the Administrative Code gives the Commission the power and duty “to develop, update, and make recommendations regarding a long-range plan for needed capital improvements at the Farm Show Complex.”

The Farm Show Complex also faces competition from new or expanded facilities in the future. For example, the Hershey Lodge & Convention Center plans a \$25 million expansion and renovation which will allow Hershey Entertainment and Resort Company to compete more aggressively for moderate-sized state and regional conventions and shows. The five-year plan calls for construction of a five-story guest room tower, an additional 33,000 square feet of exhibition space added to the existing 45,000 square feet, 18,000 square feet of registration/cocktail party space, and parking for an additional 600 cars.

The Mayor of Harrisburg envisions a \$40 million multi-purpose convention center/arena at the corner of Market and Cameron Streets (and only one mile from the Farm Show) as a way to bring tourism dollars to the city and increase entertainment opportunities in the Capital region. It would appear unlikely that enough business exists to enable two separate facilities in such close proximity to avoid adverse competition that would negatively impact both facilities.

New convention centers are also possible in the Altoona and Reading areas. The Governor's FY 1997-98 capital budget request includes state funding for a convention/exposition facility in Altoona, and the Berks County commissioners have voted for a 5 percent county hotel tax to help fund construction of a civic center in Reading. The Berks County hoteliers, however, have filed suit to block the tax, and it appears unlikely that the project will proceed further until the suit is settled.

The City of Allentown and Lehigh County, along with economic development organizations, have completed a feasibility study of a public/private partnership between the city and private industry to build a high-tech conference center in Allentown. Though clearly targeted to a different market than the Farm Show Complex, the Allentown center is of interest for its creative partnering between the public and private sectors. The conference and training center will be developed as part of the conversion of the abandoned, 260,000 square-foot Hess Department Store building with the center on the ground floor and Class A office space above. This project will cost \$10 million to \$12 million and is to be constructed from 1998-2003 with city, state, and private funds. Primary funding is expected to be from a Commonwealth capital grant. Part of the cost of outfitting and upgrading technology components of the center will be private sector responsibility under the planned public/private funding and management approach. The center hopes to attract a wide range of corporate, government, association, continuing education, and university users from the Philadelphia and New York metropolitan areas.

FINDING B

As a State Agency, the Bureau of Farm Show Must Operate Under Constraints and With Added Costs That Make It Difficult to Manage the Complex Efficiently

As a bureau within the Department of Agriculture, the Bureau of Farm Show must follow the laws, policies, and management directives applicable to executive branch agencies. As a result, the bureau has little flexibility to aggressively meet the marketing and management challenges facing the Complex. We reviewed the ownership and operational arrangements of several facilities in Pennsylvania and other states to assess the feasibility of an alternative structure for the Farm Show Complex that would allow for such flexibility.

Current Legal and Management Structure

The Pennsylvania State Farm Show Complex is owned by the Commonwealth, and the Complex has no outstanding bond or debt service obligations. The Bureau of Farm Show is responsible for managing, maintaining, and operating the Complex and serves as staff to the State Farm Products Show Commission.

Department of Agriculture/Bureau of Farm Show

The Bureau of Farm Show consists of 52 positions, 46 of which were filled as of February 28, 1997. The full-time filled positions include 21 operations and maintenance personnel, 8 safety and security personnel, 6 utility plant operators, an artist illustrator, an exhibitor technician, and 9 clerical and administrative staff. The Bureau's organization chart is presented at Appendix D. These staff are supplemented on an as-needed basis by temporary personnel. The bureau director reports to the Department's Executive Deputy Secretary. Legal services are provided by the Department's Legal Office.

The Bureau of Farm Show's responsibilities include:

- providing external security on the Complex's parking lot and grounds
- setting up and tearing down of all shows and exhibits held at the Complex
- cleaning and routine interior and exterior maintenance tasks
- operating the Complex's heating and ventilation systems
- soliciting and contracting for commercial shows and exhibits
- serving as staff to the State Farm Products Show Commission in arranging and managing the annual Farm Show and the four other state-sponsored agricultural shows

As shown in Table 5 of Finding C, Bureau expenses were \$4,782,000 in FY 1995-96.

State Farm Products Show Commission

The State Farm Products Show Commission was originally established in 1927. The Administrative Code of 1929 reestablished the Commission (71 P.S. §140) and enumerated its powers and duties (71 P.S. §449). The Commission underwent sunset review in 1984 and was reauthorized in late 1984. As part of the sunset review, the General Assembly amended the sections of the Administrative Code pertaining to the Commission to increase the number of members appointed by the Governor and to expand the powers and duties of the Commission to include oversight of a long-range plan for the Complex and of the annual capital inventory. These amendments addressed concerns raised in the LB&FC's 1984 sunset performance audit of the Commission.

The 10-member Commission is now comprised of the Governor, the Secretary of Agriculture (who by statute serves as Chairman), another officer of the Department of Agriculture designated by the Secretary of Agriculture, an officer of the Department of Education designated by the Secretary of Education, the Dean of the College of Agriculture of the Pennsylvania State University, the Director of Agricultural Extension of the Pennsylvania State University, and four additional members appointed by the Governor for four-year terms. Gubernatorial-appointed members must be confirmed by a majority of the members elected to the Senate. Commission members serve without compensation, but are entitled to reimbursement for expenses actually incurred during their official duties.

The Commission has the following statutory powers and duties:

- to formulate plans for, and conduct and manage, exhibitions, to embrace exhibits of all agricultural, industrial, and artistic products, including exhibits of all classes of farm products, embracing livestock, dairying, horticulture, all classes of manufacture, industries, and domestic arts, and such other exhibits as will best advance the interests of agriculture and the other industries of the Commonwealth;
- to lease space to exhibitors, including the departments, boards, and commissions of the State Government, and to lease the Farm Show Complex, at any time, to individuals, associations, or corporations for exhibitions, conventions, or other proper purposes;
- to develop, update, and make recommendations regarding a long-range plan for needed capital improvements (see Finding A);

- to oversee the annual capital inventory of the Farm Show Complex conducted by the Bureau of Farm Show to assure policies and procedures of the Department of Agriculture are employed in the conducting of the inventory and update (see Finding H); and
- to arrange for the holding of meetings for the promotion of agriculture.

The Commission generally meets two to four times a year, primarily to discuss the annual Farm Show and the four other state-sponsored agricultural shows. Although statutorily empowered to lease the Complex to commercial and other exhibitors, on a day-to-day basis this function has been exercised by the director of the Bureau of Farm Show and other officials within the Department of Agriculture.

Difficulties With the Current Structure

As a unit within the Department of Agriculture, the Bureau of Farm Show is subject to the full range of bureaucratic controls and directives under which all executive branch agencies must operate. These include laws such as the Sunshine Act, the Commonwealth Documents Law, the Regulatory Review Act, and the State Adverse Interest Act. Various rules and procedures must also be followed in a wide variety of areas, such as personnel practices, contracting, acquisition of telecommunications and computer equipment, purchasing of equipment and supplies, and repairs and capital improvements to physical facilities.

The policies and procedures prescribed in these documents may be necessary to ensure a degree of uniformity in agency practices and to prevent certain abuses. However, they also greatly limit the ability of Commonwealth program managers to be flexible and innovative in addressing problems. For example, because it is a state agency, the Bureau would need the specific approval of the Commonwealth Executive Board, and perhaps specific legislative authority, before a financial incentive could be offered to encourage employees to solicit new events or shows to the Complex.¹ While such an arrangement is theoretically possible, the official we contacted at the Executive Board was not aware of any Commonwealth employee ever having been granted such an exception.

The Bureau of Farm Show is at a competitive disadvantage when negotiating contracts with event sponsors and vendors because Commonwealth contracts are a matter of public record. This makes it difficult, for example, to give favorable terms to one sponsor or vendor without allowing similar treatment for all other sponsors or vendors. While such open public disclosure may be necessary and desirable in the public sector, it limits the Bureau's ability to negotiate contract terms that may

¹ The Administrative Code states that no Commonwealth employee in any administrative department, board, or commission is to receive any extra compensation above their fixed pay without first receiving the approval of the Executive Board.

be mutually beneficial to both parties (e.g., offering particularly favorable terms to initially attract shows that have the prospect of becoming long-term sponsors).

Commonwealth contracts are also subject to many layers of review, including the Department's Legal Office, the Comptroller's Office in the Office of the Budget, and the Attorney General's Office. Commonwealth purchasing procedures can require similar levels of review from multiple agencies. While not insurmountable, the added time and uncertainty introduced by these procedures further limit the Bureau's ability to respond quickly in a competitive environment.

The Bureau's ability to make improvements to the Farm Show Complex and its grounds is subject to a lengthy and uncertain capital budget process. The Bureau of Farm Show must submit its capital improvement requests to the Secretary of Agriculture. Once approved by the Secretary, the request is submitted to the Office of the Budget. If approved by the Secretary for Budget, it is incorporated into the Governor's Executive Budget Request. If approved by the Legislature, the request then joins the queue of other requests pending before the Capital Facilities Bond Fund (see Finding A).

The Bureau is also hampered by outdated technology, a problem shared by many state agencies. The Bureau has dumb terminals connected to the Department's mainframe system. Because it is a mainframe system, it is limited in its ability to generate management information without extensive and costly programming. The Complex has no voice mail capability and only limited electronic mail capabilities, both of which are near necessities in today's business environment.

The Bureau's security staff are members of the United Plant Guard Workers of America and its maintenance staff are members of AFSCME. As such, they have certain rights and benefits that also constrain management's flexibility. For example, the union agreements give senior staff the right to choose either the Monday to Friday or Wednesday to Sunday shift. When given this choice, workers overwhelmingly select the Monday to Friday shift, even though the large majority of shows are held over the weekends. This results in the least experienced workers being the one's most directly involved during the actual show times. The union agreement also requires that any temporary help the Bureau hires must be paid according to Commonwealth pay schedules, which are more generous than that of the private sector (see Finding F).

Commonwealth employee benefits also make it difficult for the Bureau to reduce its personnel costs. All permanent Bureau employees are entitled to Commonwealth benefits, which Commonwealth-wide in 1996 averaged 41.1 percent of salary. Benefit costs for private sector employees average about 29 percent.

Taken together, we believe the constraints and added costs placed on the Bureau of Farm Show as a Commonwealth agency make it unrealistic to expect that the Complex will ever be able to operate as a break-even or profitable operation under its current organizational structure. We therefore sought information on the legal and management structure of other facilities in Pennsylvania and other states to identify possible recommendations for the Farm Show Complex.

The Legal and Management Structure of Other Facilities in Pennsylvania and Other States

Below we compare the administration and financing of the Farm Show Complex with selected state, municipal, and privately owned facilities in Pennsylvania and other states.

State-Owned Properties and Facilities

The *David L. Lawrence Convention Center* in Pittsburgh is owned by the Commonwealth, but the Public Auditorium Authority, a city-county agency, is responsible for overall management. The authority has its own employees who are responsible for day-to-day management. Construction of the Lawrence Center was financed through bonds issued by the Commonwealth. The Center receives the majority (77 percent) of its operating revenue from a five percent hotel tax, but still reports operating at a loss.

Commonwealth employees operated the *Denton Hill ski facility* until 1983. At that point the Department of Environmental Resources was spending \$350,000 to operate the facility and was losing money. The Department decided to bid out the operations through a straight competitive bid process which resulted in a 35-year lease with the Denton Hill Family and Ski Resort. The agreement requires the resort to pay the Commonwealth \$300 annually plus five percent of all gross receipts exceeding \$300,000, less taxes, plus \$2,000 annually for capital improvements. The resort reported net income of \$7,500 in 1996. The Blue Knob ski area is also leased out. The lessee at Blue Knob demolished the existing ski lodge and built a new one.

The Department of Conservation and Natural Resources also has a 35-year lease with American Golf Corporation to manage the golf course at *Evansburg State Park* in Montgomery County. The company was selected through an RFP process. The state received \$5,000 per year on a previous contract to manage the golf course. Under the new lease arrangement the Commonwealth receives nothing during the first three years, but in 1994 they were to receive the greater of \$75,000 or eight percent of greens fees, carts, driving range and five percent of pro shop and food and beverage sales. From 1995 through 2004 the Commonwealth is to receive annually the greater of \$100,000 or ten percent and six percent of the fees and sales. From

2005 through 2024 the Commonwealth is to receive annually the greater of \$150,000 or 12 percent and six percent of the above fees and sales. No rents were required in the first three years because the company was required to make capital improvements of between \$690,000 and \$745,000. The company actually made improvements totaling \$870,000. In addition, beginning in 1994, the company deposits annually five percent of greens fees into an escrow account to fund future capital improvements. DCNR has a similar lease contract for the golf course at Caledonia State Park.

Other Public and Nonprofit Facilities

The *Pennsylvania Convention Center* in Philadelphia, which opened in 1993, is owned by a state-created public authority that is responsible for overall management. The authority has its own employees who are responsible for day-to-day management and a contracted facility management company. Construction of the Convention Center was funded through a combination of city, state and private issue bonds. A hotel tax supports four percent of the Center's financing.

The *Penn State Bryce Jordan Center*, owned and managed by The Pennsylvania State University, was financed with state bonds (\$33 million) and private donations (\$22 million). The facility includes a 360,000 square foot arena with 16,000 seats, a 17,325 square foot auxiliary gymnasium, six conference rooms, a press room, locker rooms, 22 televisions throughout the concourse, and advanced lighting.

The *Penn State Scanticon Conference Center and Hotel* contains a 10,000 square foot ballroom and exhibit space large enough to accommodate 80 booths. The Scanticon is owned and now managed by the university (it had previously been managed by a private firm).

The *Allentown Fairgrounds* and the *York Fairgrounds* are owned and managed by their respective private, nonprofit county agricultural societies. Their employees are responsible for day-to-day operations. The York Fairgrounds contracts for security. The annual fair and other agricultural shows account for about 20 percent of the event days at each of these fairgrounds. Other events include meetings, trade shows, public shows and sales, concerts, and sporting events. The Allentown Fairgrounds reported earning profits; the York Fairgrounds reported that it breaks even. The largest revenue component at each facility is fair admissions. Other revenue sources include concessions (including the sale of alcoholic beverages) and rentals. The York Fairgrounds also receives revenues from sponsorships and from advertising fees.

Additional information on these facilities can be found in Appendix E.

Facilities in Other States

We also obtained information on the following seven facilities in other states to determine their ownership and management structures:

The *New York State Fairgrounds and Empire Exposition Center* in Syracuse is owned by the State of New York. Officially, the facility is managed by a public authority, but the state official we spoke to indicated the authority is inactive and that real management responsibility rests with the state's Department of Agriculture and Markets. As with the Farm Show Complex, state employees are responsible for day-to-day security and maintenance of the facility.

The State of North Carolina owns the *North Carolina State Fairgrounds* in Raleigh. This facility is managed and operated by the state's Department of Agriculture using state employees.

The *Kentucky Fair and Exposition Center* in Louisville is owned by the State of Kentucky. This facility, with over one million square feet of exhibition space, 1,100 hotel rooms, a 19,800 seat coliseum, and a 47,000 seat stadium, is managed by a 14-member board. State employees are responsible for day-to-day management with the exception of contracted security. The facility, with 4,300 event days and only three days at Christmas with no use, reports being profitable.

The *Arizona Coliseum and Exposition Center* in Phoenix is owned by the State of Arizona and has a 5-member board appointed by the Governor. Arizona Coliseum and Exposition Center officials report that their Coliseum has been losing business to new facilities with more amenities. In an effort to turn a profit, the state has leased the Coliseum to a private operator. The state has also issued bonds to fund improvements at the Coliseum and Exposition Center.

The City of Baltimore owns and manages the *Baltimore Convention Center* which includes 300,000 square feet of exhibition space, 50 meeting rooms, and a 36,672 square foot ballroom.

The *Houston Livestock Show and Rodeo* facility is owned by Harris County. The private nonprofit corporation built the facility (the Astrohalla and Astroarena) and then donated them to the county. The county leases the complex to the owners of the Houston Astros, a major league baseball team. The private nonprofit corporation has, however, retained management responsibility for the Houston Livestock Show and Rodeo.

The *National Western Stock Show and Rodeo*, a private nonprofit corporation, donated its facility to the City of Denver for tax purposes. The City of Denver leases the property back to NWSSR under a 99-year lease.

Additional information on these facilities can be found in Appendix F.

Alternative Ownership and Management Structures for the Farm Show Complex

The three ownership and management options we considered to be most feasible for the Farm Show Complex are: leasing the Complex to a private facilities management company to operate; transferring ownership of the Complex to a state authority; and transferring ownership to a municipal authority. These options assume that the Department's goal is (1) to operate the Complex as a break-even operation, or as close to break even as possible, and (2) to continue the annual Farm Show and the four other state-sponsored agricultural shows without imposing significant additional costs on the shows' exhibitors, participants, and visitors.

We did not consider the unconditional sale of the Farm Show Complex as an option because a private owner might decide to demolish the Complex and use the property for another commercial venture. This would defeat the original purpose of the Complex as a venue for showcasing the Commonwealth's agricultural products and communities. The option of the Department of Agriculture retaining overall management responsibility for the Complex but using contractors for security, operations, and maintenance is addressed in Finding F.

Leasing the Complex to a Private Facilities Management Company

The Administrative Code authorizes the Commission to lease the Farm Show Complex to individuals, associations, or corporations "for exhibitions, conventions, or other proper purposes" (71 P.S. §449). Arguably, this language gives the Commission the authority to enter into a long-term lease agreement with a private management company to operate and maintain the Complex and to enter into contracts to books shows and events.

Department of Conservation and Natural Resources officials identified the following features of such long-term capital leases:

- The private company does not need financing to purchase the property, and the Commonwealth can receive a portion of the lessee's earnings (or dedicate these earnings for additional capital improvements).
- The Commonwealth retains ownership of the property, but the lessee is not bound by the management directives and policies of executive branch agencies.

- Less payroll and other operating expenditures (e.g., the lessee plows the state park roads at Denton Hill and Blue Knob) for the Commonwealth.
- The lessee does not pay property tax since the property is still owned by the Commonwealth; lessee does pay amusement taxes where applicable.
- The lessee obtains the liability insurance, and the lease agreement can be written with a hold harmless provision for the Commonwealth.
- The Department can, through its contract with the lessee, set parameters on the lessee's operations. For example, if as a matter of policy the Department does not want alcohol to be sold at the Complex, it could be written into the lease agreement.

The primary disadvantage of a long-term lease arrangement is that it could be difficult or expensive to revoke if the lessee turns out to be a poor or marginal performer. Also, the Commonwealth must be careful in setting the terms of the contract so as to not undervalue the revenue-generating potential of the facility being leased.

Transferring the Complex to a State Authority

An authority is a governmental entity created by statute. The original reason for establishing authorities was to avoid the restrictive provisions for incurring debt imposed by the Commonwealth prior to the 1968 constitutional amendments. State authorities have continued to prove useful as a mechanism for incurring debt without having to pledge the full faith and credit of the Commonwealth. The Philadelphia Regional Port Authority, for example, was established as a state authority in 1989 and authorized to issue bonds to finance port improvements and pledge its revenues to pay off such bonds.

Since authorities are independent public instrumentalities, they are not subject to regulations, executive orders, and management directives applicable to agencies under the Governor's jurisdiction. The Office of General Counsel and the Office of Attorney General do, however, have the power under the Commonwealth Attorneys Act to review the contracts, leases, rules and regulations of state authorities.

Depending on its enabling statute, an authority may or may not be subject to laws applicable to executive branch agencies, such as the State Adverse Interest Act. (The Adverse Interest Act applies to a state authority if it is "created by a statute which declares in substance that such authority performs or has for its purpose the performance of an essential governmental function and that its bonds shall not pledge the faith or credit or be obligations of the Commonwealth.")

The enabling statute creating an authority may give the authority the power to hire staff and counsel as necessary at compensation set by the board. If the enabling statute does not address the hiring of counsel, then the Office of General Counsel will appoint counsel for a state authority. An authority can also be given by statute other standard corporate powers, such as the powers to sue and be sued, to lease and sell property, to make contracts, and to borrow money. An enabling statute may also give an authority governmental powers, such as the power of eminent domain.

The key advantages of transferring ownership to a state authority include:

- The potential exists for streamlined contracting and personnel procedures while retaining state government ownership of the Complex.
- A state authority is generally a state party for purposes of immunity from tort liability and may be immune from suit in federal court.
- State authorities are generally authorized to issue bonds. This could be an advantage if it were determined feasible to construct a new facility or substantially renovate the existing facility.

Disadvantages of a state authority include:

- The authority would need to be established in legislation.
- It would create yet another governmental body.
- The legislation creating the authority would presumably be written more broadly than a Department lease agreement which could specify various conditions of importance to the Department.

Transferring the Complex to a Municipal Authority

Under the Public Auditorium Authorities Law, 53 P.S. Sec. 23841 et seq., the City of Harrisburg and/or Dauphin County could incorporate a municipal authority to own, operate and maintain a “public auditorium” such as the Farm Show Complex.

The key advantages of transferring ownership to a municipal authority include:

- The state would divest itself of a responsibility that does not appear to be a “core function” of state government.

- If the Complex were operated by a municipal authority, hotel taxes could be imposed and the revenue raised earmarked exclusively for operating and improving the facility. The Third Class County Convention Center Act authorizes counties such as Dauphin to impose such a tax.² A state-owned facility does not qualify, but Section 13114 of the act provides for the transfer of existing state-owned facilities to county-owned authorities.
- A municipal authority might be more willing to allow the sale of alcoholic beverages, which would make the Complex more financially viable.

A disadvantage of a municipal authority is that the Commonwealth would lose control over the use and future of the Farm Show Complex unless specific terms covering these issues were included in the documents transferring ownership from the Commonwealth to the municipal authority.

² This Act "shall not apply to a county which has an existing convention center which covers an area of more than 40,000 square feet." However, the Act defines 'convention center' as a facility 'owned or leased by . . . an authority.' Thus Dauphin County would appear able to impose the hotel room tax for the benefit of the Complex if it were owned by a municipal authority.

FINDING C

Operating Revenues and Expenses Have Been Increasing at Average Annual Rates of 5.5 and 8.8 Percent, Respectively, During the Past Five Years

The Farm Products Show Fund¹ is a special revenue fund used to pay for maintaining and improving the Farm Show Complex and its grounds, including the expenses of the State Farm Products Show Commission and the salaries of the Department of Agriculture employees assigned to the Complex. The Fund may also be used to rent buildings and grounds for exhibits designed to advance the interests of agriculture in the Commonwealth and for prizes or premiums in connection with these exhibits.

Operating Revenues Have Been Increasing at an Average Annual Rate of 5.5 Percent

Rental and concession fees, the two largest sources of operating revenues, have contributed 67 percent of the Complex's operating revenues over the past five years. Parking fees, service charges, exhibit fees, and miscellaneous other revenues comprised the remaining 33 percent of operating revenues. Combined, these operating revenues account for 81 percent of total revenues. Transfers from the General Fund account for another 18 percent and interest income accounts for the remaining 1 percent of total revenues.

Rental fees for the use of space at the Farm Show Complex have been the largest source of revenues for the Fund over the past five fiscal years, accounting for 40.5 percent of the Complex's annual operating revenues. Revenues from rental fees have been increasing at an average annual rate of 9 percent. Rental fees were last increased by five percent for FY 1996-97. (See Appendix G for information on the Complex's rental and fee rates.)

Concessions are generally the second largest source of operating revenues. Concession revenue increased from \$839,000 in FY 1991-92 to \$871,000 in FY 1995-96, a 0.9 percent average annual increase, but is below the high of \$885,000 that was reached in FY 1994-95.

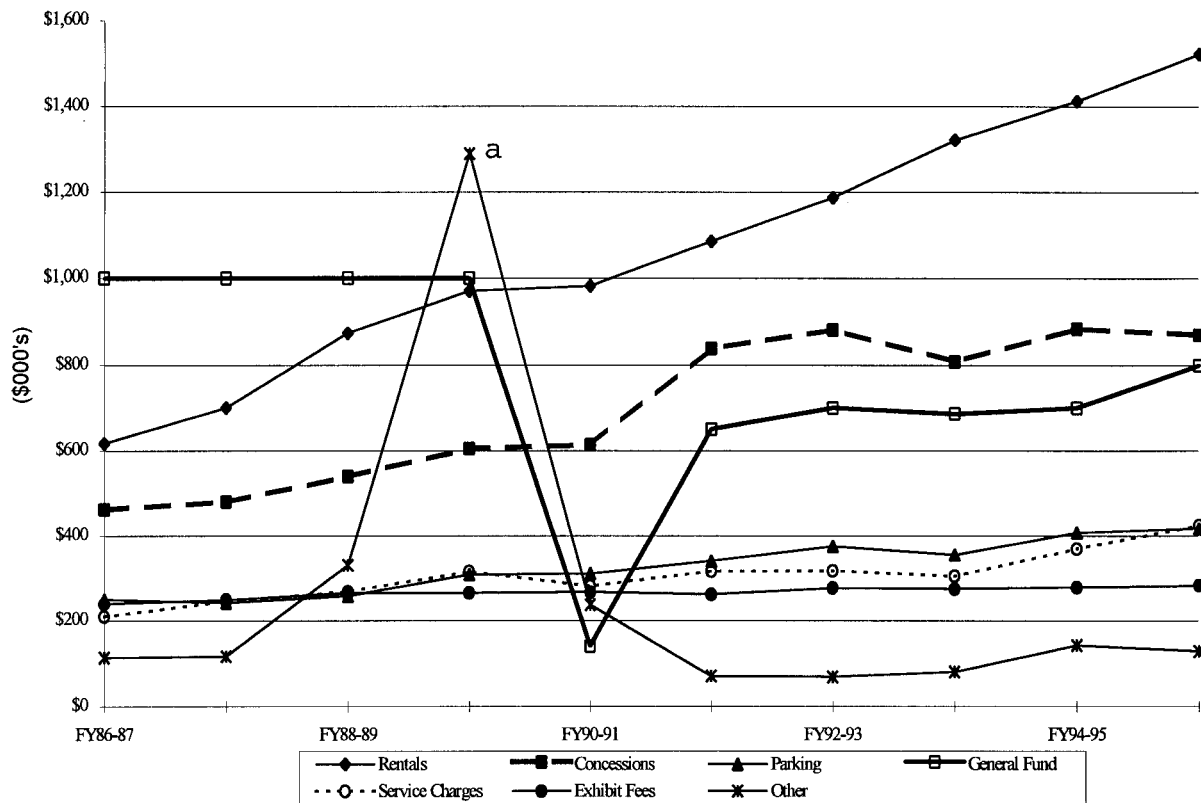
Parking revenues have been increasing at a 5.3 percent average annual rate over the past five fiscal years. *Service charges*, the fees charged to exhibitors for leasing items owned by the Complex and for using utility services (water, electric,

¹The Fund is established by the State Farm Products Show Fund Law, Act 1929-355, 72 P.S. §3581; the Fiscal Code, 72 P.S. §302(16); and the Administrative Code of 1929, as amended by Act 1984-242, 71 P.S. §449.

etc.) provided at the Complex, have increased at an average annual rate of about 7.6 percent over the past five fiscal years. *Exhibit fees* at the annual Farm Show, which in FY 1991-92 accounted for 9.1 percent of operating revenue, have been flat and in FY 1995-96 accounted for only about 7.9 percent of operating revenue.² *Other operating and nonoperating revenues* (interest income, sign shop revenues, exhibit sales, sales of unserviceable property, miscellaneous receipts) have also been relatively flat over the past five years. Specific information on the Complex's revenues can be found in Exhibit 1 and Table 2.

Exhibit 1

Farm Products Show Fund Receipts and Revenues



^aIncludes sale of the former DPW Woodville State Hospital that had reverted to Department of Agriculture ownership.

Source: Governor's Budget Requests, FY 1988-89 through FY 1997-98.

² Exhibit fees consist of competitive exhibit fees, which are the fees charged individuals entering agricultural competitions during the annual Farm Show, and commercial exhibit fees, which are the fees charged as a space rental fees to companies or corporations displaying agriculturally related products at the Annual Farm Show.

Table 2

Farm Products Show Fund Revenue Detail
(\$000)

| <u>Revenues</u> | <u>Actual</u> | | | | | <u>Est.</u> | <u>Budget</u> |
|-----------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | <u>FY91-92</u> | <u>FY92-93</u> | <u>FY93-94</u> | <u>FY94-95</u> | <u>FY95-96</u> | <u>FY96-97</u> | <u>FY97-98</u> |
| Fees: | | | | | | | |
| Exhibit-Competitive- | | | | | | | |
| Farm Show | \$ 19 | \$ 22 | \$ 17 | \$ 20 | \$ 20 | \$ 20 | \$ 20 |
| Exhibit-Commercial | 243 | 254 | 257 | 258 | 262 | 265 | 265 |
| Misc. Revenues: | | | | | | | |
| Concession Revenue | 839 | 882 | 808 | 885 | 871 | 869 | 914 |
| Service Charges | 316 | 317 | 304 | 369 | 425 | 413 | 423 |
| Rentals..... | 1,085 | 1,187 | 1,322 | 1,413 | 1,524 | 1,453 | 1,400 |
| Sale of Exhibits-Net | 10 | 4 | 6 | 0 | 0 | 0 | 0 |
| Misc. Revenues..... | 9 | 7 | 10 | 50 | 23 | 35 | 430 |
| Interest | 16 | 18 | 23 | 49 | 74 | 0 | 0 |
| Parking Fees | 340 | 375 | 355 | 408 | 418 | 530 | 520 |
| Salary Reimbursmt. | 35 | 37 | 37 | 39 | 29 | 41 | 44 |
| Sign Shop Revenues | 1 | 3 | 5 | 5 | 3 | 6 | 0 |
| Total Revenues | 2,913 | 3,106 | 3,144 | 3,496 | 3,649 | 3,632 | 4,016 |
| Augmentations..... | <u>650</u> | <u>700</u> | <u>686</u> | <u>700</u> | <u>800</u> | <u>800</u> | <u>800</u> |
| Total Receipts..... | \$3,563 | \$3,806 | \$3,830 | \$4,196 | \$4,449 | \$4,432 | \$4,816 |

Source: Governor's Budget Document, FY 1992-93 through FY 1997-98.

The State Farm Products Show Fund also receives a *transfer from the General Fund*. This transfer, which was \$1 million a year during the late 1980s, dropped to only \$141,000 during the fiscal difficulties of FY 1990-91. Since that time the transfers have ranged between \$650,000 and \$800,000 a year, or between 17 and 18 percent of total revenues. Table 3 shows that General Fund transfers are about 18 percent of SFPSF disbursements.

Table 3

**General Fund Appropriations to the
State Farm Products Show Fund**
(\$000)

| <u>Fiscal Year</u> | <u>General Fund Appropriation</u> | <u>State Farm Products Show Fund Disbursements^a</u> | <u>Percent</u> |
|--------------------|---------------------------------------|--|----------------|
| 1986-87..... | \$1,000 | \$2,964 | 33.74% |
| 1987-88..... | 1,000 | 2,803 | 35.67 |
| 1988-89..... | 1,000 | 2,905 | 34.42 |
| 1989-90..... | 1,000 | 3,319 | 30.13 |
| 1990-91..... | 141 | 5,614 | 2.51 |
| 1991-92..... | 650 | 3,301 | 19.69 |
| 1992-93..... | 700 | 3,506 | 19.97 |
| 1993-94..... | 674 | 3,768 | 17.89 |
| 1994-95..... | 700 | 3,901 | 17.95 |
| 1995-96..... | 800 | 4,428 | 18.07 |

^aDisbursement figures are on a cash basis.

Source: Developed by LB&FC staff from June 30th Special Funds Status of Appropriations Reports.

**Operating Expenditures Have Been Increasing at
an Average Annual Rate of 8.8 Percent**

During the past five fiscal years, 37 percent of Farm Products Show Fund expenditures have been for maintenance and operations, 19 percent for show management, 16 percent for administration, 13 percent for security, and 7 percent for the utility plant (see Table 4 and Exhibit 2). No major capital improvements have been made using Farm Products Show Fund monies in the past five fiscal years, so all these expenditures represent operating expenditures.

The data in Table 4 shows that, overall, expenditures and encumbrances from the Farm Products Show Fund have increased 40 percent over the past five fiscal years, which represents an average annual rate of 8.8 percent. Much of this increase is attributable to personnel costs, which account for 60 to 63 percent of total Fund expenditures and which have risen 35 percent over the past five fiscal years. For all Executive Branch agencies, personnel costs rose only 17 percent over this same period. The difference is attributable largely to a 17 percent increase in personnel costs between FY 1994-95 and FY 1995-96. According to the Department, much of this increase was due to overtime and additional wage costs incurred during the severe winter of 1995-96, especially the blizzard that occurred during Farm Show week.

Table 4

Expenditures and Encumbrances by Major Object Code

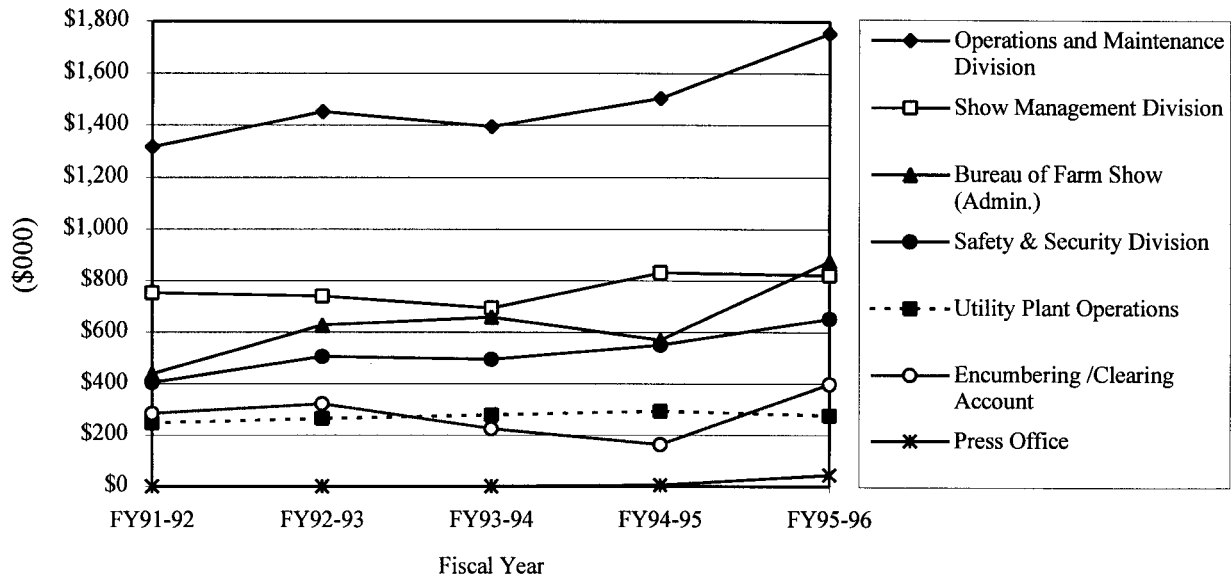
As of June 30 of Fiscal Year (\$000)

| <u>Bureau of Farm Show (Admin.)</u> | <u>Object Code</u> | <u>FY91-92</u> | <u>FY92-93</u> | <u>FY93-94</u> | <u>FY94-95</u> | <u>FY95-96</u> |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|
| Personnel Services | 100 | \$ 281 | \$ 332 | \$ 309 | \$ 336 | \$ 328 |
| Operational Expenditures | 300 | 125 | 240 | 293 | 193 | 491 |
| Fixed Assets | 400 | 33 | 3 | 2 | 5 | 23 |
| Grants & Subsidies | 600 | 0 | 0 | 0 | 0 | 0 |
| Non-Expense Item | 800 | <u>0</u> | <u>54</u> | <u>55</u> | <u>36</u> | <u>34</u> |
| Total | | \$ 439 | \$ 628 | \$ 660 | \$ 571 | \$ 876 |
| <u>Operations & Maintenance Division</u> | | | | | | |
| Personnel Services | 100 | \$ 820 | 898 | 842 | 902 | 990 |
| Operational Expenditures | 300 | 481 | 553 | 552 | 558 | 693 |
| Fixed Assets | 400 | 13 | 1 | 1 | 45 | 71 |
| Grants & Subsidies | 600 | 0 | 0 | 0 | 0 | 0 |
| Non-Expense Item | 800 | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | | \$1,315 | \$1,452 | \$1,395 | \$1,506 | \$1,754 |
| <u>Show Management Division</u> | | | | | | |
| Personnel Services | 100 | \$ 358 | \$ 355 | \$ 385 | \$ 485 | \$ 483 |
| Operational Expenditures | 300 | 257 | 193 | 170 | 207 | 200 |
| Fixed Assets | 400 | 0 | 53 | 0 | 0 | 0 |
| Grants & Subsidies | 600 | 139 | 138 | 138 | 141 | 138 |
| Non-Expense Item | 800 | <u>0</u> | <u>1</u> | <u>0</u> | <u>0</u> | <u>(0)</u> |
| Total | | \$ 754 | \$ 740 | \$ 694 | \$ 833 | \$ 821 |
| <u>Safety & Security Division</u> | | | | | | |
| Personnel Services | 100 | \$ 391 | 405 | 383 | 432 | 610 |
| Operational Expenditures | 300 | 10 | 100 | 113 | 118 | 43 |
| Fixed Assets | 400 | 3 | 2 | 0 | 1 | 0 |
| Grants & Subsidies | 600 | 1 | (0) | 0 | 0 | 0 |
| Non-Expense Item | 800 | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | | \$ 406 | \$ 507 | \$ 496 | \$ 552 | \$ 652 |
| <u>Utility Plant Operations</u> | | | | | | |
| Personnel Services | 100 | \$ 185 | \$ 194 | \$ 195 | \$ 209 | \$ 223 |
| Operational Expenditures | 300 | 61 | 71 | 83 | 84 | 46 |
| Fixed Assets | 400 | 0 | 0 | 0 | 0 | 6 |
| Grants & Subsidies | 600 | 0 | 0 | 0 | 0 | 0 |
| Non-Expense Item | 800 | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | | \$ 246 | \$ 265 | \$ 278 | \$ 293 | \$ 275 |
| <u>Press Office</u> | | | | | | |
| Personnel Services | 100 | \$ 0 | \$ 0 | \$ 0 | \$ 5 | \$ 43 |
| Operational Expenditures | 300 | 0 | 0 | 0 | 0 | 0 |
| Fixed Assets | 400 | 0 | 0 | 0 | 0 | 0 |
| Grants & Subsidies | 600 | 0 | 0 | 0 | 0 | 0 |
| Non-Expense Item | 800 | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | | \$ 0 | \$ 0 | \$ 0 | \$ 5 | \$ 43 |
| <u>Encumbering /Clearing Account</u> | | | | | | |
| Personnel Services | 100 | \$ 114 | \$ 159 | \$ 122 | \$ 104 | \$ 224 |
| Operational Expenditures | 300 | 170 | 163 | 102 | 59 | 152 |
| Fixed Assets | 400 | 0 | 0 | 0 | 0 | 17 |
| Grants & Subsidies | 600 | 0 | 0 | 0 | 0 | 4 |
| Non-Expense Item | 800 | 0 | 0 | 0 | 0 | 0 |
| Revenue Lapse | | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total | | \$ 284 | \$ 322 | \$ 224 | \$ 163 | \$ 398 |
| <u>Organization Totals</u> | | | | | | |
| Personnel Services | 100 | \$2,149 | \$2,343 | \$2,236 | \$2,474 | \$2,902 |
| Operational Expenditures | 300 | 1,104 | 1,320 | 1,313 | 1,219 | 1,624 |
| Fixed Assets | 400 | 50 | 59 | 3 | 52 | 117 |
| Grants & Subsidies | 600 | 140 | 138 | 138 | 141 | 142 |
| Non-Expense Item | 800 | <u>0</u> | <u>55</u> | <u>55</u> | <u>36</u> | <u>34</u> |
| Total | | \$3,443 | \$3,915 | \$3,746 | \$3,922 | \$4,820 |

Source: Information obtained from Department of Agriculture.

Exhibit 2

Bureau of Farm Show Expenditures
As of June 30 of Fiscal Year



Source: Developed from information obtained from the PA Department of Agriculture.

Operating costs, which include such items as telephone, printing, postage, office and computer supplies and various contracted services, account for 31 to 35 percent of total expenses and have increased by 47 percent over the past five years. Much of the increase in operating costs are also attributable to the snow, floods, and cold weather during the winter of 1995-96. During that winter the Complex reported incurring \$146,000 in emergency roof repairs and \$78,000 in unanticipated contracted snow removal costs.

Fixed asset costs and expenses for grants and subsidies, which are used primarily to pay premiums for competitive exhibitors, have remained relatively stable at between \$150,000 to \$250,000 a year.

If the \$276,000 in unexpected expenses the Department reported incurring due to bad weather during the annual Farm Show were deducted from FY 1995-96 total expenses, the average annual increase from FY 1991-92 through FY 1995-96 would be a more modest 6.8 percent. The Director of the Farm Show also estimated the revenues lost during the 1996 Farm Show at \$224,000, which, if added to the actual revenues, would boost the Complex's average annual operating revenue growth to 7.0 percent, slightly more than the rate of growth of expenses.

FY1996-97 Revenues Appear to Be Meeting Estimates and FY 1996-97 Expenditures May Be Less Than Estimated

Table 5 shows the receipts, expenditures and year-end balance of the State Farm Products Show Fund for the past five fiscal years as well as estimates for FY 1996-97 and budget figures for FY 1997-98. The FY 1996-97 estimates show a small decrease in revenues as compared to FY 1995-96 and a seven percent increase in expenditures. If the estimates are correct, it would reduce the year-end balance in the Fund to only \$58,000, down from \$745,000 at the end of FY 1995-96.

Table 5

| | Actual | | | | | Est. FY96-97 | Budget FY97-98 |
|-------------------------|---------|---------|---------|---------|----------|-----------------|-------------------|
| | FY91-92 | FY92-93 | FY93-94 | FY94-95 | FY95-96 | | |
| Beginning Balance | \$ 181 | \$ 431 | \$ 442 | \$ 726 | \$ 1,060 | \$ 745 | \$ 58 |
| Receipts: | | | | | | | |
| Revenue | 2,913 | 3,106 | 3,144 | 3,496 | 3,649 | 3,632 | 4,016 |
| Transfer From | | | | | | | |
| General Fund | 650 | 700 | 674 | 700 | 800 | 800 | 800 |
| Prior Yr. Lapses | 99 | 120 | 205 | 59 | 18 | 0 | 0 |
| Total Receipts..... | 3,662 | 3,926 | 4,035 | 4,255 | 4,467 | 4,432 | 4,816 |
| Funds Available: | 3,843 | 4,357 | 4,477 | 4,981 | 5,527 | 5,177 | 4,874 |
| Expenditures: | | | | | | | |
| Appropriated | 3,412 | 3,915 | 3,751 | 3,949 | 4,782 | 5,119 | 4,636 |
| Less Anticipated | | | | | | | |
| Lapses..... | 0 | 0 | 0 | 28 | 0 | 0 | 0 |
| Expenditures..... | 3,412 | 3,915 | 3,751 | 3,921 | 4,782 | 5,119 | 4,636 |
| Ending Cash Balance: | \$ 431 | \$ 442 | \$ 726 | \$1,060 | \$ 745 | \$ 58 | \$ 238 |

Source: Governor's Budget Document, FY 1992-93 through FY 1997-98.

Because a year-end balance of \$58,000 would be precariously low, we reviewed the Bureau's actual revenues and expenditures for the first three quarters of FY 1996-97 to determine how they compared to the estimates. As shown in Table 6, as of March 31, 1997, the Bureau had collected 75 percent of its estimated revenues. Given that this includes only \$400,000 of the \$800,000 transfer from the General Fund, it would appear that the Bureau is on track to meeting its revenue estimate.

Table 6

Comparison of Actual Revenue and Expenditures
Through March 31 of Fiscal Year
(\$000)

| | Revenue Collected 1st 9 mos. of FY95-96 | Actual Revenue Collected FY95-96 | Percent Collected as of 3/31/96 | Revenue Collected 1st 9 mos. of FY96-97 | Estimated Revenue FY96-97 | % of FY96-97 Estimate |
|---------------------------------------|--|---|---------------------------------------|--|---------------------------------|-----------------------------|
| Fees: | | | | | | |
| Exhibit-Competitive- | | | | | | |
| Farm Show | \$ 19 | \$ 20 | 97% | \$ 19 | \$ 20 | 96% |
| Exhibit-Commercial | 265 | 262 | 101 | 260 | 265 | 98 |
| Miscellaneous Revenues: | | | | | | |
| Concession Revenue | 611 | 870 | 70 | 668 | 869 | 77 |
| Service Charges | 211 | 424 | 50 | 205 | 413 | 50 |
| Rentals ^a | 1,127 | 1,523 | 74 | 1,189 | 1,453 | 82 |
| Sale of Exhibits-Net ^b ... | 2 | 3 | 0 | 3 | 0 | 0 |
| Misc. Revenues ^c | 21 | 23 | 90 | 38 | 35 | 109 |
| Interest | 52 | 74 | 0 | 44 | 0 | 0 |
| Parking Fees | 376 | 418 | 90 | 447 | 530 | 84 |
| Salary Reimbursement | 42 | 29 | 145 | 42 | 41 | 102 |
| Sale of Woodville Farm ^d | (13) | 0 | 0 | 0 | 0 | 0 |
| Sign Shop Revenues | 3 | 3 | 88 | 1 | 6 | 25 |
| Total | \$2,715 | \$3,649 | 74% | \$2,917 | \$3,632 | 80% |
| Augmentations | 800 | 800 | 100 | 400 | 800 | 50 |
| Total Revenue | \$3,515 | \$4,449 | 79% | \$3,317 | \$4,432 | 75% |
| Expenditures | \$3,079 | \$4,555 | 68% | \$3,104 | \$5,119 | 61% |

^a FY96-97 includes revenues collected in advance, \$12,442.45.

^b Includes both net exhibit sales and miscellaneous sales during the Farm Show.

^c FY96-97 includes Security Reimbursement/Lessee, \$20,539.09.

^d Adjustment memo processed for sale of Woodville Farm.

Source: Comptroller Operations, Revenue Comparison from July 1 to March 31 for State Farm Products Show Fund. Special funds (cash basis) and expenditures from *Status of Appropriations*, March 31, 1995, and March 31, 1996 (modified accrual basis).

The table also shows that as of March 31, 1997, the Bureau had expended only 61 percent of its estimated expenditures. Bureau officials do not anticipate any particularly large expenditures during the last quarter of the fiscal year. If this is the case, Bureau expenditures should be at least several hundred thousand dollars less than originally estimated. Any excess of revenue over expenditures at the year end would then be reflected in the year-end Fund balance.

FINDING D

Losses Due to the Annual Farm Show and Other Factors Contribute to the Complex's Inability to Break Even

The Farm Show Complex has had operating losses averaging \$603,000 a year over the past five fiscal years. These losses are due to several factors:

- The annual Farm Show and three other large agricultural shows lose a significant amount of money.
- Utilization rates are low for certain areas of the Complex.
- Almost half of the 142 events held at the Complex in FY 1995-96 were agricultural or state government meetings or events that generated no revenue.

In addition to highlighting and promoting the Commonwealth's agricultural community and products, the Complex also make a significant positive contribution to the regional and local economy. The annual Farm Show alone generated an estimated \$7.6 million in economic benefits throughout Pennsylvania in 1990.

Profitability of Shows

We reviewed the revenue generated by each show held during FY 1995-96 and compared it to the direct and indirect cost to the Bureau of Farm Show to host the show. Revenue from each event held at the Farm Show Complex is recorded and tracked by individual show. Such revenue generally consists of contracted rental and parking fees, service charges, and a contracted percentage from food sales. However, the accounting system used by the Bureau of Farm Show does not track the costs of each specific show. Rather, costs are recorded by calendar month, which makes it difficult to calculate the profitability of any particular show.

To obtain better cost information, in 1996 the Secretary of Agriculture asked the Comptroller's Office to devise a system that would allow the Bureau to assign costs to individual shows so that they could calculate the profitability of each event at the Complex. The methodology that was developed had two components: direct costs (direct salaries, direct benefits, direct overtime and other miscellaneous direct

costs associated with each indoor event¹) and indirect costs (overhead). Indirect costs, such as utilities, maintenance, and administrative costs, were allocated to each indoor event based on the amount of square footage utilized. Total costs for each event were then calculated by adding together direct and indirect costs.

Using this methodology, the Comptroller's Office calculated that of the 142 events held at the Farm Show Complex in FY 1995-96, 50 were profitable (i.e., total revenues exceeded total costs), 8 broke even, and 84 resulted in a loss. The two most profitable shows generated total profits of \$359,000. Most (30) of the 50 profitable shows had profits of less than \$5,000. The five events showing the largest losses were the annual Farm Show (-\$396,316)², the 1995 Keystone International Livestock Show (-\$208,464), the PA All-American Dairy Show (-\$190,115), the Standardbred Horse Sale (-\$126,076), and the DGS Surplus Sale (-\$103,332).

Using the Comptroller's Office methodology, we found that only two shows, the All-American Dairy Show and the 1995 Keystone International Livestock Show, generated less revenue than the direct costs incurred to put on the show. This means that all of the remaining 82 events that showed an overall loss were able, at least to some degree, to contribute toward offsetting the indirect, or fixed, costs of operating the Complex. Thus, even though overall these 82 events showed losses, it is a sound decision to host any event that can contribute toward offsetting the Complex's fixed costs, so long as that decision does not significantly undercut the rates the Complex can charge to other sponsors.³

Utilization Rates

The Pennsylvania State Farm Show Complex is available for events 365 days a year. In FY 1995-96, overall, the Complex functioned at only 42 percent of its capacity (see Table 7).⁴ However, at least some portion of the Complex was in use for all but 25 calendar days, and several buildings were used for more than 50 percent of possible event days. Also, because the Farm Show Complex is not air-conditioned, its ability to host indoor events during the summer months is limited.

¹ The Comptroller's analysis did not attempt to determine costs for events held on the Farm Show Complex parking lot because of lack of comparability to indoor events. Events held on the parking lot were counted as "break-even" events.

² The blizzard experienced in the Harrisburg area during Farm Show week in 1996 contributed to losses that year.

³ Airline ticket pricing is somewhat analogous. Most of the costs to fly a plane are fixed costs, so it is better to fill a seat with a steeply discounted ticket that can contribute at least somewhat toward offsetting the fixed costs than it is to leave the seat empty.

⁴ The maximum possible capacity of the Complex was calculated by LB&FC staff at 365 days times the square footage in the 11 rental locations available. The 11 locations are comprised of the 6 buildings, the 2 arenas, the cafeteria, the combined meeting rooms (counted as one location), and the combined exhibit rooms (counted as one location). A rental fee is not charged for the lobby and it is, therefore, not counted. The parking lots are not counted. Not all of the locations have the amenities (restrooms, outside access, etc.) desirable for independent rental.

Table 7

Square Footage Used for Events in FY 1995-96

| Sq. Footage ^b .. | Main Floor | | Large Arena | | Small Arena | | North Bldg. | | Northwest Bldg. ^a | | Northeast Bldg. | | West Bldg. | | East Bldg. | | Exh. Rooms | | Meeting Rooms | | Cafeteria | | Total | |
|-----------------------------|------------|------------|-------------|------------|-------------|-----------|-------------|-----------|------------------------------|---------|-----------------|------------|------------|---------|------------|--|------------|--|---------------|--|-----------|--|-------|--|
| | 146,527 | 0 | 108,135 | 0 | 17,000 | 55,140 | 54,714 | 77,200 | 37,607 | 26,542 | 10,400 | 9,855 | 5,600 | 548,720 | | | | | | | | | | |
| Jul-95 | 0 | 648,810 | 136,000 | 716,820 | 0 | 109,428 | 0 | 270,200 | 150,428 | 26,542 | 0 | 167,670 | 800 | 372,440 | | | | | | | | | | |
| Aug-95 | 3,077,067 | 648,810 | 170,000 | 1,323,360 | 1,367,850 | 810,600 | 752,140 | 530,840 | 0 | 42,255 | 800 | 1,950,940 | | | | | | | | | | | | |
| Sep-95 | 2,930,540 | 2,703,375 | 102,000 | 1,599,060 | 1,531,992 | 1,042,200 | 1,052,996 | 690,092 | 54,600 | 65,475 | 17,600 | 11,789,930 | | | | | | | | | | | | |
| Oct-95 | 3,377,026 | 865,080 | 204,000 | 1,301,280 | 1,039,566 | 617,600 | 488,891 | 424,672 | 0 | 4,185 | 800 | 8,323,100 | | | | | | | | | | | | |
| Nov-95 | 1,904,851 | 756,945 | 187,000 | 606,540 | 328,284 | 463,200 | 225,642 | 238,878 | 62,400 | 88,020 | 34,400 | 4,896,160 | | | | | | | | | | | | |
| Dec-95 | 4,249,283 | 1,752,660 | 289,000 | 1,599,060 | 1,586,706 | 1,775,600 | 639,319 | 504,298 | 166,400 | 169,830 | 89,600 | 12,821,756 | | | | | | | | | | | | |
| Jan-96 | 2,930,540 | 1,135,080 | 323,000 | 1,213,080 | 1,094,280 | 1,273,800 | 789,747 | 557,382 | 0 | 20,430 | 0 | 9,337,339 | | | | | | | | | | | | |
| Feb-96 | 2,784,013 | 1,513,890 | 289,000 | 1,268,220 | 1,750,848 | 424,600 | 620,516 | 345,046 | 0 | 33,840 | 5,600 | 9,035,573 | | | | | | | | | | | | |
| Mar-96 | 2,351,337 | 756,945 | 102,000 | 220,560 | 218,856 | 115,800 | 263,249 | 212,336 | 0 | 69,255 | 5,600 | 4,315,938 | | | | | | | | | | | | |
| Apr-96 | 2,218,620 | 1,189,485 | 187,000 | 884,240 | 875,424 | 540,400 | 601,712 | 424,672 | 36,400 | 63,180 | 5,600 | 7,026,733 | | | | | | | | | | | | |
| May-96 | 2,636,076 | 648,810 | 17,000 | 385,980 | 382,998 | 463,200 | 112,821 | 132,710 | 0 | 1,620 | 5,600 | 4,786,815 | | | | | | | | | | | | |
| Jun-96 | 28,459,353 | 12,619,890 | 2,074,000 | 11,118,200 | 10,286,232 | 7,797,200 | 5,697,461 | 4,114,010 | 319,800 | 726,300 | 168,000 | 83,380,446 | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | | | | | | | |

^a Northeast Building is two floors @ 38,600 square feet each.

^b Square footage derived from those figures used for a day of the annual Farm Show.

Percent of Maximum Capacity Used by Events in FY 1995-96*

| Days in Month | Main Floor | | Large Arena | | Small Arena | | North Bldg. | | Northwest Bldg. | | Northeast Bldg. | | West Bldg. | | East Bldg. | | Exh. Rooms | | Meeting Rooms | | Cafeteria | | Total | |
|---------------|------------|--------|-------------|--------|-------------|--------|-------------|--------|-----------------|--------|-----------------|-------|------------|-------|------------|-------|------------|-------|---------------|-------|-----------|-------|-------|--|
| | 31 | 0.00% | 0.00% | 12.90% | 25.81 | 33.33 | 80.00 | 41.94 | 0.00% | 6.45% | 0.00% | 11.29 | 35.00 | 12.90 | 3.23% | 3.23 | 0.00% | 0.00% | 54.88% | 0.46% | 0.92 | 11.47 | | |
| Jul-95 | 31 | 0.00% | 0.00% | 12.90% | 25.81 | 33.33 | 80.00 | 41.94 | 0.00% | 6.45% | 0.00% | 11.29 | 35.00 | 12.90 | 3.23% | 3.23 | 0.00% | 0.00% | 54.88% | 0.46% | 0.92 | 11.47 | | |
| Aug-95 | 31 | 0.00% | 0.00% | 12.90% | 25.81 | 33.33 | 80.00 | 41.94 | 0.00% | 6.45% | 0.00% | 11.29 | 35.00 | 12.90 | 3.23% | 3.23 | 0.00% | 0.00% | 54.88% | 0.46% | 0.92 | 11.47 | | |
| Sep-95 | 30 | 70.00 | 20.00 | 33.33 | 19.35 | 90.32 | 93.55 | 90.32 | 83.33 | 90.32 | 43.55 | 26.67 | 66.67 | 66.67 | 66.67 | 66.67 | 0.00 | 0.00 | 14.29 | 0.48 | 10.14 | 52.99 | | |
| Oct-95 | 31 | 64.52 | 80.65 | 19.35 | 40.00 | 78.67 | 35.48 | 35.48 | 90.32 | 93.55 | 26.67 | 43.33 | 90.32 | 83.87 | 83.87 | 16.94 | 0.00 | 0.00 | 21.43 | 0.48 | 10.14 | 69.31 | | |
| Nov-95 | 30 | 76.82 | 26.67 | 40.00 | 78.67 | 35.48 | 35.48 | 35.48 | 90.32 | 93.55 | 26.67 | 43.33 | 90.32 | 83.87 | 83.87 | 16.94 | 0.00 | 0.00 | 21.43 | 0.48 | 10.14 | 69.31 | | |
| Dec-95 | 31 | 41.94 | 22.58 | 54.84 | 75.86 | 75.86 | 75.86 | 75.86 | 93.55 | 93.55 | 74.19 | 19.35 | 19.35 | 29.03 | 29.03 | 19.35 | 19.35 | 28.81 | 55.59 | 19.82 | 28.78 | 50.56 | | |
| Jan-96 | 31 | 93.55 | 52.28 | 54.84 | 75.86 | 75.86 | 75.86 | 75.86 | 93.55 | 93.55 | 74.19 | 19.35 | 19.35 | 29.03 | 29.03 | 19.35 | 19.35 | 28.81 | 55.59 | 19.82 | 28.78 | 50.56 | | |
| Feb-96 | 29 | 68.97 | 36.20 | 65.52 | 75.86 | 75.86 | 75.86 | 75.86 | 93.55 | 93.55 | 74.19 | 19.35 | 19.35 | 29.03 | 29.03 | 19.35 | 19.35 | 28.81 | 55.59 | 19.82 | 28.78 | 50.56 | | |
| Mar-96 | 31 | 61.29 | 45.16 | 54.84 | 74.19 | 74.19 | 74.19 | 74.19 | 103.23 | 103.23 | 56.90 | 72.41 | 72.41 | 72.41 | 72.41 | 72.41 | 0.00 | 7.15 | 7.15 | 0.00 | 58.68 | | | |
| Apr-96 | 30 | 53.49 | 23.33 | 20.00 | 13.33 | 13.33 | 13.33 | 13.33 | 13.33 | 13.33 | 5.00 | 53.23 | 53.23 | 26.67 | 26.67 | 0.00 | 0.00 | 11.08 | 11.08 | 3.23 | 3.23 | 53.12 | | |
| May-96 | 31 | 48.84 | 35.48 | 35.48 | 51.73 | 51.73 | 51.73 | 51.73 | 51.61 | 51.61 | 22.58 | 51.61 | 51.61 | 51.61 | 51.61 | 11.29 | 11.29 | 20.68 | 3.23 | 3.23 | 41.31 | | | |
| Jun-96 | 30 | 59.97 | 20.00 | 3.33 | 23.33 | 23.33 | 23.33 | 23.33 | 23.33 | 23.33 | 20.00 | 10.00 | 10.00 | 16.67 | 16.67 | 0.00 | 0.00 | 0.55 | 0.55 | 3.33 | 3.33 | 29.08 | | |
| Annual % .. | | 53.21% | 31.97% | 33.42% | 55.24% | 51.51% | 27.67% | 41.51% | 42.47 | 8.42% | 20.19% | 8.22 | 41.63% | | | | | | | | | | | |

Note: Calculation of annual percentages made using 365 days in one year rather than the 366 days in FY 1995-96.

Source: Developed from information from "Methodology for Assigning Costs to Individual Shows," Office of the Budget's Comptroller's Office, November 12, 1996.

The Farm Show Complex hosted 142 events in FY 1995-96, for a total of 645 event-days.⁵ These events covered a wide range of activities, such as the annual Farm Show; the auto, boat and sportsman shows; Harrisburg Heat professional indoor soccer games; auto tent sales and the Farmers' Market in the parking lot; training classes for state agencies; and agricultural association meetings.

The 645 event-days included agriculture and related shows (30 percent), other shows open to the public (44 percent), business meetings and trade shows (13 percent), sporting and related events (7 percent), unique functions of limited interest (7 percent), and concerts (less than 1 percent). The five shows sponsored by the Department of Agriculture (the Keystone International Livestock Exposition, the All-American Dairy Show, the annual Farm Show, the Pennsylvania Junior Dairy Show, and the 4-H Horse Show) comprised 8 percent of the total event-days during FY 1995-96.

The North Building was in use 55 percent of the time during FY 1995-96. The Main Building (53 percent) and the Northwest Building (52 percent) were the next most frequently used. These figures compare favorably to what we found in our 1984 sunset performance audit of the State Farm Products Show Commission. At that time, the Complex's major buildings had a utilization rate of 48 percent.

However, usage rates for the less desirable space in the Farm Show Complex are notably lower: 43 percent for the East Building, 33 percent for the Small Arena, 28 percent for the Northeast Building, 8 percent for the upstairs cafeteria, and 8 percent for the exhibition rooms. The five shows sponsored by the Department of Agriculture were the main users of the exhibition rooms and the upstairs cafeteria (70 percent and 61 percent of each area's event-days, respectively).

The Farm Show Complex is not well designed for the rental of each building individually because some of the buildings lack the amenities (e.g., restrooms and separate entranceways) needed to operate independently. As such, the Complex is better suited for large shows that rent most or all of the Complex. In FY 1995-96, only the annual Farm Show used the entire facility, but did so for 22 days. For ten days, the Keystone International Livestock Exposition used all areas but the upstairs cafeteria, or all but 1 percent of the Complex. The largest show, the Eastern Sports, Boat, Camping, Travel and Outdoors Show, used all but about 5 percent of the Complex for 13 days.

We found that almost half of the 142 events that occurred at the Farm Show Complex in FY 1995-96 were agricultural or state government events that are not charged a rental fee. Most of these events only used meeting rooms and would not

⁵An event-day is a day during which any portion of the Complex is used for an event itself, the event setup, or the event teardown. For example, the Pennsylvania Home Builders' Show used five days to set up, the show ran for nine days, and two days were used for tear down--a total of 16 event-days. Event-days are used because it is possible for more than one event to be using facilities at the Farm Show Complex simultaneously.

have generated significant revenue even if a fee had been charged.⁶ Some of the events, however, such as the DGS surplus sale and PennDOT equipment operator training, would have generated significant revenues had they been charged commercial rates. We estimated that if all the agriculture and state government events (other than the five state-sponsored agricultural shows⁷) were charged the Farm Show Complex's standard rates, it would have generated an additional \$130,000 in rental income.

Impact of the Complex on the Local Economy

Although the Complex as a whole operates at a loss, the many shows held at the Complex have a significant positive impact on the local economy. These shows include automobile and boat shows, home builder shows, sporting and camping shows, motorcycle and bicycle shows, computer shows, antique shows, arts and crafts shows, hobby shows (e.g., guns, sports cards, woodworking, and model trains), and various agricultural and agricultural-related shows. The Complex is also the home arena for the Harrisburg Heat, a member of the indoor National Professional Soccer League, which plays about 20 home games a year during the winter and spring months.

Visitors and exhibitors at these shows and events spend money in the local economy for activities such as lodging, dining, and transportation, which generate sales taxes and gasoline taxes. The businesses supplying the services in turn pay property taxes and their employees pay income taxes.

Although it would be complicated and difficult to quantify the impact of all Farm Show Complex events on the local and state economy, an effort has been made to estimate the impact of the annual Farm Show. A 1990 study by The Center for Travel and Tourism at Penn State University suggested that the annual Farm Show alone contributed a direct and indirect economic impact on Pennsylvania's economy of \$7.6 million, with approximately half of this impact occurring within the seven county region surrounding the Farm Show Complex (i.e., Adams, Cumberland, Dauphin, Lancaster, Lebanon, Perry, and York counties). Over half a million dollars was estimated as having been spent in restaurants within 40 miles of the Complex by members of the general public attending the show, with another estimated \$50,000 dollars spent by livestock exhibitors and \$41,000 by commercial exhibitors. The combined lodging expenditures of these visitors and exhibitors contributed yet another \$558,035 for an estimated total of \$1.2 million spent in restaurants and lodging in the seven county area during the six-day 1990 Farm Show.

⁶It is the policy of the State Farm Products Show Commission not to charge rental fees to state agencies. This applies to the PA Department of Agriculture for the annual State Farm Show and the four other annual agricultural shows, to the PA Department of General Services for surplus sales, and to all state agencies using meeting and other facilities at the Complex.

⁷ Although rental fees are not levied at the five Department of Agriculture sponsored shows, commercial and competitive exhibitors at these shows do pay a fee.

Officials with the Bureau of Farm Show estimate that the annual Farm Show now attracts over 500,000 visitors, or more than twice the attendance estimated during the 1990 study. With around-the-clock television coverage of Farm Show events provided by the Pennsylvania Cable Network (PCN) to over 1.75 million subscribers across the Commonwealth, interest in the show by the general public may grow even more.

FINDING E

The Complex Is Not Aggressively Marketed, in Part Because Its Design Makes It Difficult to Hold Multiple Shows Simultaneously

The Bureau of Farm Show (BFS) does not aggressively market the Farm Show Complex as a venue for events. In particular, the Bureau does not have a marketing position on its staff, no funds are specifically budgeted for marketing or advertising, and no formal marketing plan has been developed for the Complex.

The Bureau has, however, recently developed a brochure to be used by the Harrisburg-Hershey-Carlisle Tourism and Convention Bureau to promote the Farm Show Complex. Also, BFS staff attend conventions, association meetings, and other functions at other facilities both within and outside the Commonwealth to promote the Complex. BFS staff also maintain contacts with the H-H-C Tourism and Convention Bureau as well as local area chambers of commerce, Harrisburg city government, and various associations to promote the Complex.

Several of the facilities we contacted have either a formal written marketing plan or full-time marketing positions on staff, or both. This allows for a more proactive approach to marketing their facility. The New York State Fairgrounds/Empire Exposition Center, a state-owned facility in Syracuse which reports being profitable, has 10 marketing employees who are paid on a straight commission basis. Although state employees, the commissioned staff do not receive state government employee benefits. The official we spoke to indicated the State Fairgrounds is the first state agency in New York to have such an arrangement. The Fort Washington Exposition Center, a privately-owned facility in Montgomery County, also pays some of its marketing employees a percentage of sales.

The Kentucky Fair and Exposition Center, a state-owned facility in Louisville, has a detailed marketing plan addressing business solicitation, facility management, public relations/advertising, promotions, post-convention evaluation reports, and a sales and marketing budget. The Kentucky Center reports spending \$1 million to \$2 million annually to promote the Center nationwide, including print advertising and attending state and national trade shows.

No amount of marketing will improve the basic design and attractiveness of the Farm Show Complex. As noted in Finding A, the lack of separate entranceways and rest room facilities make it difficult to independently rent certain sections of the Complex. Also, the location of the Complex on the property, south of the parking areas, makes it difficult for show attendees to access the Northeast Building,

the East Building, the Small Arena, the West Building, and the Main Building without having to walk through one or more other buildings that may also be hosting an event. For example, Farm Show officials described a situation in which they had to construct a 20-foot wide corridor through a livestock show to provide access to an antique show held in the Main Building. Such factors place practical limits on both the number and types of shows that can be held at the Complex.

The Large Arena, however, which has rest rooms and is easily accessed from the parking areas, is one of the least used areas in the Complex. Promoting the Large Arena as a venue for events such as music concerts, which it hosts only infrequently, would appear to be a significant marketing opportunity.

FINDING F

Contracting With Private Firms for Security Guards, Laborers, and Equipment Operators Could Save \$346,000 Per Year

We estimated that the Bureau of Farm Show could save \$346,000 or more per year if it used contracted security guards, laborers, and equipment operators rather than Commonwealth employees.

Contracting for Security Services Could Save \$103,000 Annually

The Bureau of Farm Show (BFS) could save \$103,000 or more per year if it contracted for the security guard services it presently performs in-house. This includes the \$98,000 by which the combined salaries and benefits of seven permanent security guards exceeds probable contract costs, and the \$5,000 by which the combined wages and benefits of up to 165 temporary and standby security guards exceeds probable contract costs.

As of February 28, 1997, the Bureau of Farm Show had 11 authorized (8 filled) full-time positions in the Safety and Security Division. This includes an Administrative Officer who supervises the division, a clerical position (vacant), and nine security officers (with two vacancies). Security staff patrol the exterior area of the Complex 24 hours a day. This does not include internal security for the shows because internal security is the responsibility of event sponsors. Full-time security employees work an eight-hour day (40-hour week). Staff with seniority work Monday through Friday.

Up to 150 temporary security officers are hired as needed during large shows to patrol the parking lots and grounds. They may work on any of three shifts and either Monday through Friday or Wednesday through Sunday. The temporary security officers are often off-duty or retired city police officers and fire fighters. Fifteen security officers are also hired on a standby basis for three weeks during the Farm Show period.

Prior to FY 1995-96, the Complex had a contract with a private firm for temporary security guards. However, the director of the Bureau of Farm Show was not satisfied with the performance of the contracted personnel, and when he became the director in 1995 the contract was not renewed. That FY 1994-95 contract paid \$10.39 per hour for unarmed guards and \$11 per hour for armed guards.

Full-time security guards at the Complex earn from \$9.63 per hour to \$16.19 per hour, plus benefits at 37.9 percent of salaries. Temporary and standby security

guards are paid \$9.63 per hour with benefits amounting to 16.7 percent of gross wages. (The collective bargaining agreement with the United Plant Guard Workers, the Farm Show Complex security staff union, requires the Commonwealth to pay temporary security guards based on Commonwealth pay schedules.) Permanent and temporary employees working second or third shifts or weekends receive an additional \$.75 per hour shift differential.

As shown in Table 8, the cost of Farm Show security personnel is high when compared to local labor market data and the hourly cost at which some Commonwealth agencies contract for such services. Based on the data in this table, we calculated that contracting for security guard services could save the BFS about \$103,000 annually.¹ This estimate is probably conservative in that it does not include any savings from the \$50,757 in overtime and shift differential costs incurred during FY 1995-96.

Table 8

FY 1996-97 Hourly Costs for Security Guards*

| Local Labor Market Data ^a | Contracted Services | | BFS Employees | |
|---|-------------------------------------|-------------------------------------|---|--|
| | Contract A ^b | Contract B ^c | Temporary | Permanent |
| \$8.56 per experienced worker | \$10.96 | \$10.80 | \$9.63 wages plus \$1.61 benefits = \$11.24 | <i>Lowest:</i> \$9.63 salary plus \$3.65 benefits = \$13.28 |
| \$5.59 per new hire | Agency pays for radio communication | Agency pays for radio communication | | <i>Highest:</i> \$16.19 salary plus \$6.13 benefits = \$22.32 |
| | | | | <i>Avg:</i> \$12.76 salary plus \$4.84 benefits ^d = \$17.60 |

*Unarmed guards.

^aObtained from the PA Department of Labor and Industry 1996 occupational wage survey of south central Pennsylvania business and nonprofit agencies.

^bFormer BFS contract (FY 1994-95) with Wells Fargo adjusted by LB&FC staff for FY 1996-97 using consumer price index.

^cPA Department of Transportation contract with Burns Security Service.

^dAverage for all current security guards.

Source: Developed by LB&FC staff from BFS, PA Department of Labor and Industry, and PA Treasury Department data.

We reviewed the recently agreed upon contract between the Commonwealth of Pennsylvania and the International Union, United Plant Guard Workers of

¹ Calculated from the above table at an average of \$17.60 per hour in-house minus \$10.88 per hour (average of the two contracts), yielding a net savings of \$6.72 per hour. We then multiplied the \$6.72 in hourly savings times 7 employees times 40 hours times 52 weeks, which comes to \$97,843. To this, we added the probable savings of \$.36 per hour on each temporary employee (calculated from the above table at \$11.24 per hour in-house minus \$10.88 per hour average contract), which yields additional annual savings of \$5,537 (\$.36 per hour times the 15,380 temporary security hours worked in FY 1995-96).

America and found that the contract specifically provides for the Commonwealth to contract bargaining unit work for legitimate operational reasons resulting in reasonable cost savings or improved delivery of service. The Commonwealth must provide to the union all information it has to support its claims of reasonable cost savings or improved service. The union then has the opportunity to provide alternative methods to attain the Commonwealth's desired result.

Security costs could also be reduced by installing a modern security system. The approved FY 1996-97 capital budget includes \$650,000 for such a system and other security enhancements.² It would establish the North Entrance as the check-point for clients, subcontractors, and vendors and would move the existing security office to an exterior wall at this entrance to control access to the facility. An information center would also be established at this location. An intrusion detection system and a camera surveillance system, to include 11 exterior cameras, 21 fixed interior cameras, controlled interior cameras, and a command and control center, would also be installed.

BFS management believes these improvements could allow the Bureau to cut existing permanent full-time security staff by 50 percent. These employees could then be reassigned to the Operations and Maintenance Division, which the Bureau believes to be understaffed. The Bureau is also considering recommending eliminating the third security shift during the off-season.

Contracting for Maintenance and Operations Personnel Could Save \$243,000 Annually

We estimated the BFS could save an additional \$243,100 or more per year if it contracted for the maintenance and operations functions presently performed in-house. This includes the \$213,700 by which the combined salaries and benefits of the Bureau's laborers and equipment operators exceed probable contract costs and the \$29,400 by which the combined wages and benefits of up to 165 temporary (nine-months, standby, and three week) laborers and 10 temporary equipment operators exceed probable contract costs.

As of February 28, 1997, the Bureau of Farm Show had five laborers, six equipment operators, and four laborer foremen. Laborers set up before and tear-down after the shows and do other maintenance and repair tasks at the Complex. Equipment operators move supplies, clean floors, drive trucks, plow the parking lots, and perform other miscellaneous duties. Laborers and equipment operators work an eight-hour day (40 hour week). Staff with seniority work Monday through Friday. The laborers are represented by the AFSCME union. As in the agreement with the United Plant Guard Workers, the AFSCME Master Agreement provides

² As noted in Finding A, however, it appears unlikely that such a system will be purchased in FY 1996-97.

that work done by current Commonwealth union workers can be contracted out if reasonable savings can be demonstrated.

The permanent laborers and laborer foremen at the Complex are paid from \$8.55 per hour to \$16.19 per hour, plus benefits at 37.9 percent of salary. Equipment operators receive from \$9.63 per hour to \$16.19 per hour, plus benefits at 37.9 percent of salary. Employees working afternoon or night shifts or weekends receive a \$.75 per hour shift differential in addition to their base wage.

The Bureau also hires temporary laborers and equipment operators. Temporary laborers are hired as nine-month, standby, or three-week employees. Nine-month personnel (15) work an eight-hour day, mostly from August through April. They may work on any of three shifts and either Monday through Friday or Wednesday through Sunday. The 20 temporary standby laborers work only when needed. One hundred thirty laborers are hired for three weeks to supply the needed labor for the annual Farm Show.

The AFSCME contract requires that temporary laborers be paid according to Commonwealth pay schedules. Temporary laborers are paid \$8.55 per hour, plus 16.7 percent of gross wages as benefits. Ten temporary equipment operators, who are hired for the annual Farm Show, are paid \$9.63 per hour, plus 16.7 percent of gross wages as benefits. Temporary workers working second or third shifts or weekends also receive a \$.75 per hour shift differential.

Table 9 compares permanent and temporary BFS laborer personnel costs with local labor market data and the hourly cost at which two Commonwealth agencies contract for such services.

By contracting for laborer services, the BFS could save \$6.85 per hour on each permanent employee³. This would yield an annual savings of \$128,232 (calculated at \$6.85 per hour times 9 employees times 40 hours times 52 weeks). By using a contractor to obtain temporary laborer services, the BFS could also potentially save \$.71 per hour on each temporary employee for an annual savings of \$28,916⁴. This estimate is probably conservative in that it does not include any savings from the \$49,478 in overtime (including equipment operator OT) and shift differential costs incurred during FY 1995-96.

³Calculated from the above table at an average of \$16.12 per hour in-house minus \$9.27 per hour (average of the two contracts).

⁴ Calculated at \$.71 per hour times the 40,727 temporary laborer hours worked in FY 1995-96.

Table 9

FY 1996-97 Hourly Costs for Laborers and Laborer Foremen

| Local Labor Market Data ^a | Contracted Services | | BFS Employees | |
|--|---------------------------------|---------------------------------|--|--|
| | Contract A ^b | Contract B ^c | Temporary | Permanent |
| \$12.63 per experienced worker with two maintenance skills; \$11.48 per materials handler | \$9.48 per semi-skilled laborer | \$9.06 per semi-skilled laborer | \$8.55 wages plus \$1.43 benefits = \$9.98 | <i>Lowest:</i> \$8.55 salary plus \$3.24 benefits = \$11.79 <i>Highest:</i> \$16.19 salary plus \$6.14 benefits = \$22.33 <i>Average:</i> \$11.69 salary ^d plus \$4.43 benefits = \$16.12 |
| \$8.19 per new hire with two maintenance skills; \$8.00 per materials handler | | | | |

^aObtained from the PA Department of Labor and Industry 1996 occupational wage survey of south central Pennsylvania business and nonprofit agencies.

^bPA Department of Environmental Protection contract with Manpower Temporary Services.

^cPA Department of Conservation and Natural Resources contract with JFC Pro Temps, Inc., of Camp Hill, PA.

^dAverage for all current laborers and laborer foremen.

Source: Developed by LB&FC staff from BFS, PA Department of Labor and Industry, and PA Treasury Department data.

By contracting for equipment operators, we estimated the BFS could save \$6.85 per hour on each permanent employee.⁵ This would yield annual savings of \$85,488 (calculated at \$6.85 per hour times 6 employees times 40 hours per week times 52 weeks). The BFS could also potentially save \$491 on the ten temporary operators (based on 691.4 hours worked in FY 1995-96 times the \$.71 per hour savings calculated above for the laborers).

Disadvantages of Contracting Out

Although it appears likely the Department could save significant costs by using contracted security guards, laborers, and equipment operators, such changes involve certain trade-offs. First, 22 permanent employees and up to 340 temporary employees would lose their jobs with the BFS.⁶ Second, as shown in Appendix B, event sponsors generally gave good grades to Farm Show Complex employees, with

⁵ LB&FC staff examined numerous Commonwealth agency service purchase contracts for equipment operators. Most contracts are for the rental of an operator and equipment together; thus, we could not compare BFS employee salaries with contracted services. Since Commonwealth equipment operator salaries are similar to laborer salaries (average of \$12.25 and \$11.69, respectively), we used the \$6.85 calculation of permanent laborer savings for an equipment operator as well.

⁶ According to the Master Agreement between AFSCME and the Commonwealth, furloughed employees have bumping rights laterally and down in a manner prescribed by Article 29, Section 7. If an employee is unable to execute a bump as provided by this section, the Commonwealth will attempt to place the employee (with any agency under the Governor's jurisdiction provided the employee possesses the required skill and ability) in a budgeted, available, uncommitted vacancy in a classification covered by the Master Agreement to which there are no seniority claims.

73 percent (24 of 33) rating their performance as good (the highest category on the questionnaire). The cleanliness of the facility and security was rated less favorably, with 52 percent and 45 percent, respectively, of the respondents rating these areas as good.

Thirdly, 77 percent of the permanent security, laborers, and equipment operators have been working at the Farm Show Complex for five or more years; several have been at the Complex for more than 10 years. The BFS director noted that the agricultural shows, in particular, benefit from the experience and expertise of the current workforce. While hard to place a specific dollar value on this experience, it is a factor to be considered in any contracting out decision.

Control over the quality of personnel and work performed may, or may not, be more problematic using contracted services. One of the reasons the Director of the Bureau of Farm Show decided to discontinue their contract for security was because the contractor hired temporary security personnel from a nearby shelter for the homeless. Unless well screened, such personnel would appear to be a legitimate source of concern. On the other hand, contracts can be written and managed in such a way that damages can be imposed and/or a new contractor hired if contracted performance standards are not met.

FINDING G

Other Opportunities for Increasing Revenues at the Farm Show Complex

In addition to a more aggressive marketing effort (Finding E), several other opportunities have been suggested by BFS staff and others to increase Farm Show Complex revenues. These ideas include soliciting Complex and event sponsors, selling advertising space on an electronic outdoor event board, collecting parking fees at all major state-sponsored agricultural shows, charging state agencies for using the Complex for major events, establishing an Internet presence, and selling alcoholic beverages at certain events.

Solicit a Sponsor for Major Facility Improvements

The managers of many public facilities solicit funding from corporate sponsors for construction and/or needed renovation in exchange for renaming the facility after the sponsor. Boston's new hockey arena is named after Fleet Bank, the Philadelphia Flyers now play in the recently constructed CoreStates [Bank] Arena, Candlestick Park in San Francisco is now 3Com Park, and the Sacramento Kings play in the Arco Arena. When Cincinnati Gas and Electric Company merged with PSI Resources, Inc., to become Cinergy Corporation, the new company paid \$6 million to have Cincinnati's Riverfront Stadium renamed Cinergy Field through September 2001.

Unlike the examples cited above, the Farm Show Complex has much smaller attendance and does not offer the opportunity for regional or national television exposure. Any sponsorship of the reconstruction or renovation of the State Farm Show Complex would need to have more modest goals. However, potential sponsors, such as Pennsylvania-based farm or food product companies, major regional businesses and financial institutions, or national beverage companies, might take an interest in paying to have their name associated with the Complex. Because the State Farm Products Show Commission does not have explicit authority to enter into such sponsorship arrangements, the Administrative Code of 1929 would probably need to be amended before the Department could pursue this idea.

Solicit Sponsors for State-Sponsored Agricultural Shows

The Department of Agriculture hosts five state-sponsored shows at the Farm Show Complex each year--the Farm Show, the Keystone International Livestock Exposition, the All-American Dairy Show, the Pennsylvania State 4-H Horse Show, and the Pennsylvania Junior Dairy Show. Together, the Comptroller's Office esti-

mated that these shows lost about \$818,000 in FY 1995-96. To help offset some of these losses, the Department might be able to enter into an agreement with a private entity to provide some financial assistance to one or more of these shows in exchange for including the sponsor's name in the name of the show. National or Pennsylvania-based agribusiness concerns or other major regional business or financial institutions may be potential sponsors for such shows.

We found that the Arizona Coliseum and Exposition Center, a state-owned facility, generated \$160,200 in sponsorship revenue for its 1995 State Fair. The ACEC reported that two employees devote 25 to 30 percent of their time to soliciting sponsors. A 1996 report on the ACEC recommended that it consider hiring a full-time employee to solicit additional sponsorship revenue. In responding to this report, the ACEC board stated that success may be optimized if the employee was paid on a commission basis.

As above, explicit legislative authorization would probably be required before the Bureau could solicit such sponsors.

Sell "Pouring Rights" and Advertising Space

The Bureau of Farm Show could potentially generate additional revenue by selling advertising space both within the Complex and on the Complex grounds. One such approach currently being pursued by the Department is an exclusive endorsement contract. An exclusive endorsement contract involves selling only one company's products (within their product group) at the Complex in exchange for advertising space and financial considerations. Penn State, for example, has such an arrangement with PepsiCo for all soft drinks sold on campus wherein PepsiCo pays the university for this exclusivity. As part of this arrangement, the PepsiCo advertising logo is affixed to both the Beaver Stadium and Bryce Jordan Center scoreboards.

Such exclusive "pouring" rights also are a source of revenue at major league sports stadiums. PepsiCo has the rights for the new Denver Rockets/Colorado Avalanche facility in Denver. The New York Yankees have such a contract with Coca-Cola for an estimated \$1 million a year. The National Football League has also contracted its pouring rights to Coca-Cola. The Bureau of Farm Show may be able to solicit an interested party for the pouring rights for the Farm Show Complex when the food service contract is rebid. (The Bureau has already received an exclusive endorsement proposal from PepsiCo.)

Advertising space within the Complex could also be sold to interested parties. There is considerable wall space within the facility that could be used for such purposes. Advertising contracts could be negotiated on a year-round or show-specific basis. The Harrisburg Heat does currently sell advertising space around the indoor

playing field in the Complex's Large Arena. The Kentucky Fair and Exposition Center in Louisville estimates that 1 percent of its revenues come from such advertising. The Arizona Coliseum and Exposition Center in Phoenix estimates that 2 percent of its revenues are from advertising.

External advertising space is another source of potential revenue. The Bureau could purchase an modern electronic sign, presumably facing the highly traveled Cameron Street, to promote current and future events at the Complex and as a source of advertising revenue. Conceivably this could be done at little or no cost if the Bureau could find a private sector partner to purchase and install it in exchange for advertising space on the sign. Such a sign could also be a selling point in attracting and promoting events, as the existing event sign on Cameron Street is relatively small and unobtrusive.

Charge Parking Fees at Three Other Agricultural Shows

Visitors to the annual Farm Show are charged \$5 per vehicle to park in the Complex's parking lot, which is the only one of the five state-sponsored agricultural shows that charges for parking. The BFS Director indicated that the parking fee, which was increased from \$2 to \$5 in 1996, has been reasonably well accepted by the approximately 500,000 attendees to the annual Farm Show.

One of the remaining four state-sponsored agricultural shows--the Pennsylvania State 4-H Horse Show--is a youth event and may not have sufficient attendance (about 3,000) to make a parking fee cost effective. The Keystone International Livestock Exposition and the All-American Dairy Show, which is held in conjunction with the PA Junior Dairy Show, have greater attendance (about 25,000 and 10,000, respectively) and attract livestock buyers who may be less concerned about paying a parking fee to an otherwise free event. (It would be difficult to charge an admission fee for agricultural events that involve many large animals because of the many doors that are frequently opened to bring in food and bedding, to clean stalls, and to move animals in and out during the shows.)

Charge State Agencies for Major Events

As noted in Finding D, the Department of Agriculture does not charge state agencies that use the Complex. For the most part, state agencies use meeting rooms that, even if they could be rented to outside parties, would generate only marginal revenues. Other events, however, such as the DGS surplus sale and PennDOT's equipment operator training, could generate significant revenue even if they were charged a discounted rate.

Establish a Homepage on the Internet

We found that several facilities, such as the North Carolina State Fairgrounds and the Pennsylvania Convention Center in Philadelphia, have created Internet homepages that allow the public and potential event sponsors to view upcoming events, floorplans, and other key information about their facilities. A calendar of events scheduled for the Farm Show Complex is currently listed on the Harrisburg-Hershey-Carlisle Tourism and Convention Bureau World Wide Web homepage along with an address and the telephone number for the Complex. A hypertext link from the H-H-C's homepage to a Farm Show Complex homepage would allow event sponsors, in particular, to receive additional information on the facility, such as its rental rates, availability, and floorplans, and to make specific inquiries via e-mail that could lead to new business for the Complex.

Sell Alcoholic Beverages

No alcoholic beverages are sold at any of the events held at the Farm Show Complex, even though some of the national touring shows using the Farm Show Complex are sponsored by beer companies (such as motorcycle and rodeo events underwritten by Coors).

Other area facilities, such as the Allentown Fairgrounds, the York Fairgrounds, and the NY State Fairgrounds in Syracuse, do allow alcohol sales. The Pennsylvania Convention Center in Philadelphia and the David L. Lawrence Convention Center in Pittsburgh sell alcoholic beverages through concessionaires. Alcoholic beverages are also sold at other venues, such as the Houston Livestock Show and Rodeo, the National Western Stock Show and Rodeo in Denver, and the Arizona Coliseum and Exposition Center.

Based on our review of Commonwealth laws, the sale of alcoholic beverages at the Farm Show Complex appears allowable under current law, so long as done through a properly permitted concessionaire and not the Commonwealth directly. For example, alcoholic beverages are sold at some, but not most, Department of Conservation and Natural Resources facilities. They are sold at the Blue Knob and Laurel Mountain ski areas, the golf course at Evansburg State Park, and at the Point State Park in Pittsburgh during the annual Three Rivers Regatta. The decision to sell alcohol at the Complex would therefore appear to be one of policy rather than legality.

Create Fax/Modem Communication Sites

Presently, no data or telecommunications facilities (i.e., modems or fax machines) are available for exhibitors in the Complex's exhibition areas. If such sites were conveniently available in selected buildings within the Complex, it would al-

low exhibitors to use telephones, facsimile machines, and computers linked to home offices or warehouses. It would also allow real time credit card approval to take place for on-the-spot sales at the exhibit booths.

Given the likely cost to install and maintain such sites, it is probably more realistic to view these as amenities to attract and retain exhibitors rather than as a significant source of revenue. To help offset the initial cost to establish these sites, the Bureau might be able to name an exclusive telecommunications firm for the Complex in exchange for monetary compensation.

Establish Recreational Vehicle Hookups

The Bureau might benefit from service charges paid by attendees and exhibitors for the use of recreational vehicle hookups at the edge of some of the parking lots around the Complex. The Allentown and York Fairgrounds and the Arizona Coliseum each offer recreational vehicles hook-ups in their parking lots.

Presently, exhibitors parking campers in the small west lot are charged a hookup fee for electricity, but no refuse removal, water, or sewer services are available. Bureau of Farm Show staff have had inquiries regarding the feasibility of establishing such amenities.

Establishing these sites in the parking lots would involve certain expenses and would decrease the number of parking spaces available for other vehicles. The fees charged for these sites, therefore, would have to be sufficient to offset the costs of installation, maintenance, and the loss of parking slots.

FINDING H

Capital Equipment Inventory Controls Should Be Improved

The administrative policies of the Department of Agriculture require a semi-annual (January and July) physical inventory of the capital equipment¹ of its various bureaus, including the Bureau of Farm Show. The Bureau of Administrative Services is to provide a capital inventory listing to the Bureau of Farm Show, and the Farm Show Complex staff are to then check off items found on the printout and note any that cannot be located. Additions, deletions or corrections are noted and returned to Administrative Services along with a copy of the checked listing. A Department manual establishes procedures to tag and update inventory files on newly purchased items, inter-unit transfers, surplused equipment, and trade-ins.

The inventories of selected bureaus are periodically checked by personnel from Administrative Services, but this has not occurred at the BFS. The State Farm Products Show Commission also has a specific responsibility (Section 449 of the Administrative Code) to oversee the annual capital inventory of the Complex to assure that the Department's policies and procedures are being followed.

Although the Department's policy calls for physical inventories to be taken every six months, the Farm Show Complex has only done annual inventories. In the spring the BFS is to receive a list of their assets from Administrative Services, with the inventory to be taken by September. The BFS building maintenance supervisor and a BFS clerk verify this list with the help of the contracted food service staff. Inventory was last taken in summer 1995 using an April 1995 inventory list. An inventory was not taken in 1996.

The printout of the Complex's nontechnology inventory lists about 1,000 items by tag number and type of item. The inventory includes, but is not limited to, food service items, furniture, file cabinets, typewriters, tools, ladders, tractors, and other equipment. We reviewed the results of the 1995 inventory and found wide discrepancies between the inventory list and the Complex's actual inventory. Most notably, 191 of the nontechnology items on the capital inventory list could not be located, and 646 other items were at the Complex but were not included on the list.

When doing the inventory, Farm Show Complex staff verify from the item to the list, not from the list to the item. In essence, the staff finds a piece of furniture or equipment and then tries to locate that item on the computer printout. The in-

¹Capital equipment is defined as any equipment with a useful life longer than one year and a purchase price of over \$50 for office equipment, lab equipment, tools, and related items and over \$200 for other items.

ventory list is not arranged numerically nor does not contain a room locator. The employee conducting the inventory starts in a room and searches the list for the tagged item. The contracted food service staff performs the food service inventory without assistance or oversight by Bureau staff.

An inventory of the list of assets at May 20, 1996, has not yet been taken. As part of this audit, however, we traced 25 items to this inventory listing and then traced five listed items to actual inventory. As with the 1995 inventory, we found many items that were at the facility but not on the inventory list because they had been purchased or received as surplus since the inventory list was last printed. However, completed forms for these items were sent to the Department during the year and the items should appear on the May 1997 listing. One of the 30 items we checked did not have a tag. (Tags are stick-ons which sometimes fall off.) Two items had two different tags on them, and we could not locate three items on the listing, even after enlisting the help of Bureau staff.

The Bureau plans to undertake an inventory in the summer of 1997. The Bureau's director, while acknowledging the official policy to take inventory twice a year, noted that many of the items in the Complex have been heavily used, often having been surplused by other agencies, and have relatively little value.

FINDING I

Controls Over Ticket Sales Should Be Improved

Most commercial shows and events held at the Farm Show Complex charge an admission fee. The Department's standard contract with such event sponsors provides that the Department receive 10 percent of the daily paid admissions, exclusive of the first 2,000 paid admissions. Thus, the Department has a financial interest in assuring that the event sponsor's ticket count is correct.

The standard contract with event sponsors requires a ticket manifest from the printer certifying the total number of tickets received by the event sponsor before the event starts. BFS staff report, however, that typically such manifests are only received for the larger shows, and that most event sponsors use numbered, but undated, tickets. Thus, it would be relatively easy for an event sponsor to substitute a different roll of tickets of the same color--perhaps using tickets that remained from a previous show--that begin with a lower-numbered ticket.

We reviewed the files for four commercial shows and found evidence of a ticket manifest for only the largest of these shows. All four files did, however, indicate that Bureau staff had verified the number of tickets on hand before the show began and that the staff had done a manual ticket count of the sold tickets at the end of each day of the show. We reviewed the Bureau's ticket and revenue calculations for one large and two smaller shows and found them to be correct.

We also found that prior to July 1996 the Department was not collecting all it was due from event sponsors. This happened because the contract with event sponsors included an exhibit that incorrectly subtracted the 10 percent local amusement tax from the base figure used to calculate the 10 percent owed to the Department by the event sponsor. As a result, the Department was receiving only 90 percent of the ticket revenues to which it was entitled. The contract was clarified effective July 1996 to correct this problem and now includes a two-page exhibit which provides an example showing both the old and the corrected methodology.

III. Appendices

APPENDIX A

PRINTER'S NO. 2048

THE GENERAL ASSEMBLY OF PENNSYLVANIA

SENATE RESOLUTION

No. 134 Session of
1996

INTRODUCED BY MADIGAN, STAPLETON, HELFRICK, O'PAKE, PUNT, STOUT,
RHOADES, KASUNIC, PETERSON, MELLOW, SALVATORE, LAVALLE,
GERLACH, AFFLERBACH AND HART, MAY 22, 1996

REFERRED TO AGRICULTURE AND RURAL AFFAIRS, MAY 22, 1996

A RESOLUTION

1 Directing the Legislative Budget and Finance Committee to
2 conduct an audit of the operation and management of the
3 buildings and grounds of the State Farm Show Complex.

4 WHEREAS, More than 160 events are held annually at the State
5 Farm Show Complex; and

6 WHEREAS, These events serve to promote agricultural,
7 commercial, charitable and scholastic programs and activities
8 among many thousands of Pennsylvanians and out-of-State
9 visitors; and

10 WHEREAS, Events held at the State Farm Show Complex generate
11 substantial revenues and economic activity; and

12 WHEREAS, A comprehensive legislative review of the operation
13 and management of the State Farm Show Complex has not recently
14 been conducted; and

15 WHEREAS, Such a review would be beneficial for legislative
16 oversight, operational and administrative purposes; therefore be
17 it

18 RESOLVED, That the Senate direct the Legislative Budget and

Appendix A (Continued)

1 Finance Committee to conduct an audit of the performance of the
2 State Farm Products Show Commission and the Bureau of Farm Show
3 in the Department of Agriculture in operating and managing the
4 State Farm Show Complex; and be it further

5 RESOLVED, That the committee shall report to the Senate
6 information which includes, but is not limited to:

7 (1) The nature and extent of utilization of the State
8 Farm Show Complex.

9 (2) A review and evaluation of the day-to-day operations
10 of the State Farm Show Complex and the respective roles of
11 the State Farm Products Show Commission and the Bureau of
12 Farm Show, including staffing, administration, financial
13 affairs, scheduling, purchasing, contracting and other
14 pertinent matters.

15 (3) An examination of fiscal affairs related to the
16 State Farm Show Complex, including:

17 (i) operating revenues, by source, and expenditures,
18 by purpose;

19 (ii) the complex's annual profit/loss status, both
20 overall and by individual event;

21 (iii) a review of the use of and need for the annual
22 General Fund transfer to the State Farm Show Products
23 Fund; and

24 (iv) the financial condition of the State Farm
25 Products Show Fund.

26 (4) Information on the maintenance, physical condition
27 and capital improvement needs of the State Farm Show Complex.

28 (5) Recommendations for any statutory, regulatory or
29 administrative changes that may be needed to improve the
30 operation and management of the State Farm Show Complex;

19960S0134R2048

- 2 -

Appendix A (Continued)

1 and be it further

2 RESOLVED, That a copy of this resolution be immediately
3 transmitted to the Legislative Budget and Finance Committee; and
4 be it further

5 RESOLVED, That the Legislative Budget and Finance Committee
6 make a report of its findings to the Senate within one year of
7 the passage of this resolution.

APPENDIX B

Summary of Questionnaire Survey

Questionnaires were sent to 61 event sponsors, and 33 were returned. Responses to open-ended questions asking for written comments are not included.

1. Which area(s) of the Pennsylvania State Farm Show Complex do you use for your show(s)?

| | | | | | |
|--------------------------|----|----------------------|----|--------------------------|----|
| Meeting Rooms | 6 | Parking Lots | 22 | Large Arena | 10 |
| Northwest Building | 10 | North Building | 11 | Northeast Building | 10 |
| West Building | 12 | Small Arena..... | 15 | East Building | 10 |
| MAIN BUILDING..... 11 | | | | | |

3. How frequently do you use the Complex? Annually - 26 Other - 7

6. Are there other facilities, either within Pennsylvania or in other states, that you have used or have considered using instead of the Pennsylvania State Farm Show Complex?
 Yes - 19 No - 12

7. How would you rate the Pennsylvania State Farm Show Complex, compared to other facilities that you have rented in the past or may consider renting in the future, in the following areas (Percentages represent the proportion of those responding to the question.):

| | <u>Good</u> | <u>Adequate</u> | <u>Poor</u> | <u>No Opinion/ Not Applicable</u> |
|--|-------------|-----------------|-------------|---------------------------------------|
| Facility rental fees | 10 (30%) | 13 (39%) | 8 (24%) | 2 (6%) |
| (Good = relatively low fees.) | | | | |
| Poor = relatively high fees.) | | | | |
| Attractiveness and design of facility..... | 13 (39%) | 10 (30%) | 7 (21%) | 3 (9%) |
| Location | 28 (85%) | 2 (6%) | -- | 3 (9%) |
| Parking | 21 (64%) | 8 (24%) | 3 (9%) | 1 (3%) |
| Security..... | 15 (45%) | 12 (36%) | 2 (6%) | 4 (12%) |
| Cleanliness of facility..... | 17 (52%) | 9 (27%) | 5 (15%) | 2 (6%) |
| Farm Show staff..... | 24 (73%) | 5 (15%) | 1 (3%) | 3 (9%) |

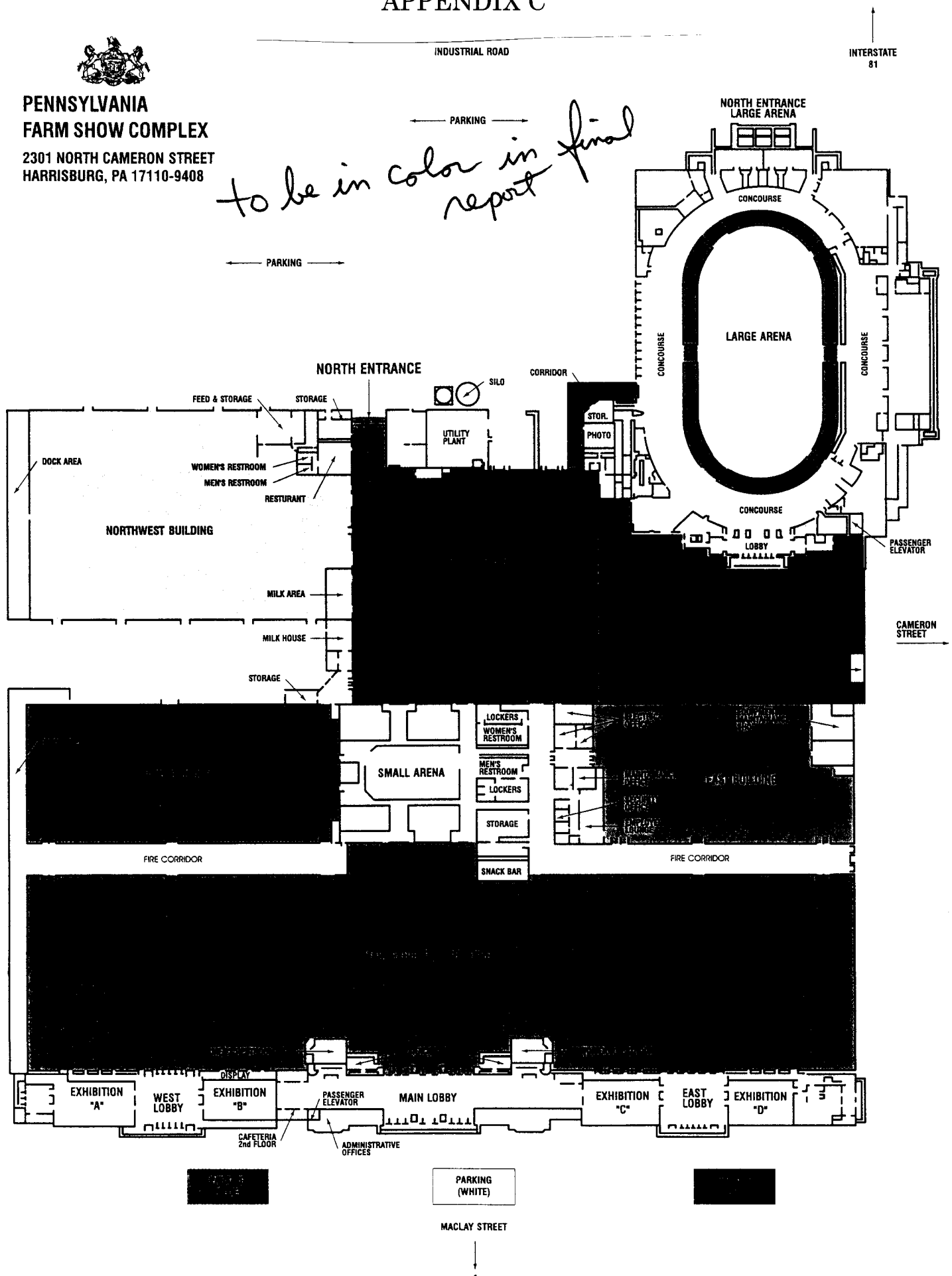
8. As an event sponsor, would you or any of the vendors at your show be interested in purchasing advertising space in or around the complex during the length of the show?
 Yes - 6 No - 24

APPENDIX C



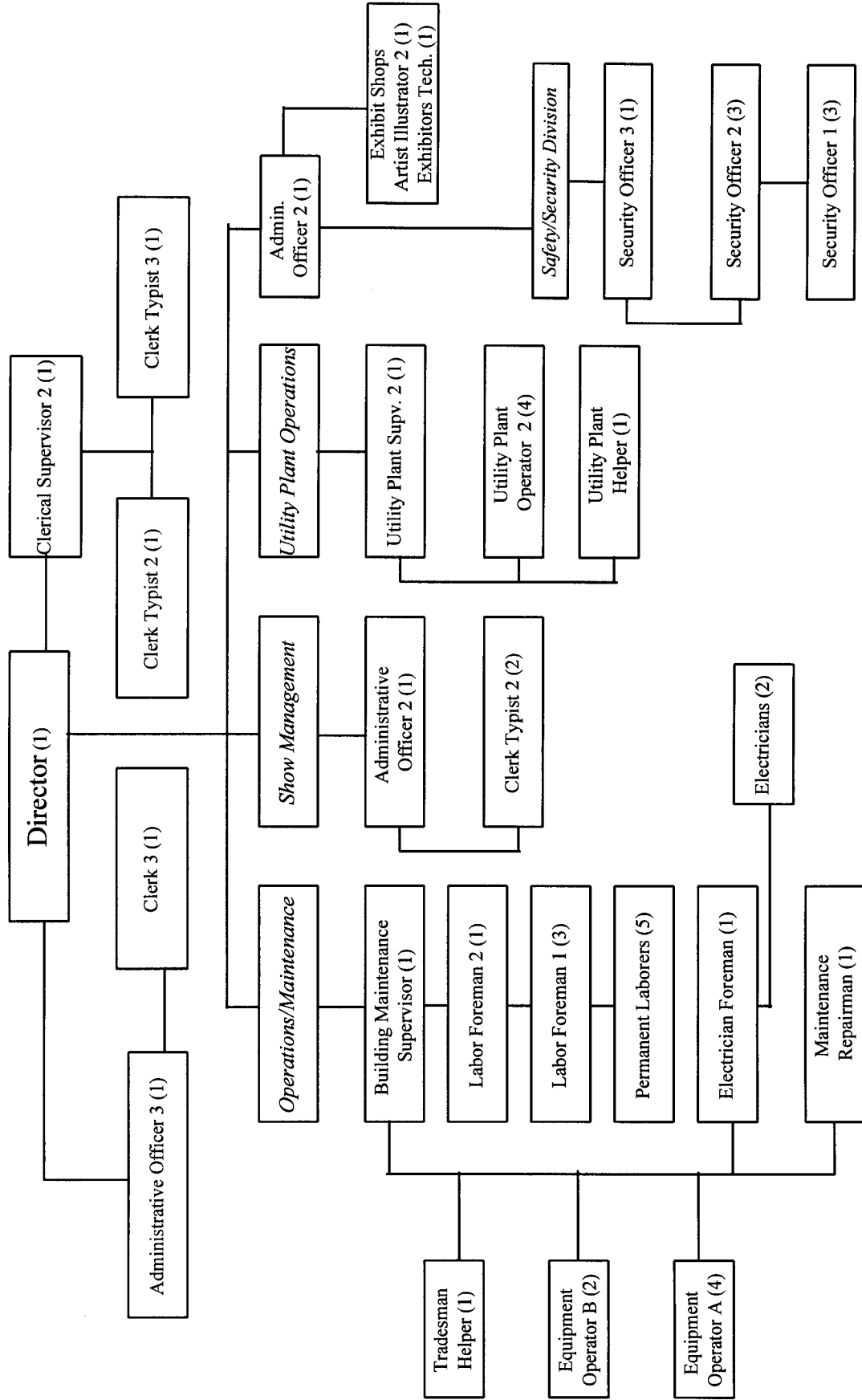
PENNSYLVANIA
FARM SHOW COMPLEX
2301 NORTH CAMERON STREET
HARRISBURG, PA 17110-9408

to be in color in final report



APPENDIX D

Bureau of Farm Show Organization Chart*



*Filled positions.

Source: Developed by LB&FC staff from Bureau of Farm Show data.

APPENDIX E

Characteristics of Exposition Centers in Pennsylvania

| <u>Characteristics</u> | <u>Allentown Fairgrounds</u> | <u>Fort Washington Expo Center</u> | <u>PA State Farm Show Complex</u> | <u>Pennsylvania Convention Center</u> | <u>David L. Lawrence Convention Center</u> | <u>PSU The Bryce Jordan Center</u> | <u>PSU Scanticon Conference Center and Hotel</u> | <u>York Fairgrounds</u> |
|------------------------|--|--|---|--|---|---|--|---|
| Location | Allentown | Fort Washington | Harrisburg | Philadelphia | Pittsburgh | State College | State College | York |
| Ownership | Private nonprofit corp. of 1,525 shareholders | Privately owned | State | State created public authority | State | Penn State University | Penn State University | Private, non-profit |
| Recent financing | N/A | Privately financed | 1992 expansion --government bonds | City bonds (8%), state bonds (35%), \$185 million, hotel tax (4%), 53% private issue bonds | Government bonds | State bonds (\$33 million); private donations (\$22 million) | 50% PSU bonds; 50% commercial paper | N/A |
| Majority of event days | 80% meetings, trade and public shows; 20% agricultural | 70% public shows; 30% conventions, meetings, trade shows | 55% public shows; 21% meetings, trade shows; also agriculture, sports, concerts | 81% conventions, meetings, trade shows; 19% public shows | 50% conventions, meetings, trade shows; 30% public shows; 20% other miscellaneous | 60% PSU events; 37% entertainment; 3% public and trade shows; | Food and beverage receptions, dinners, meetings, and small trade shows | 50% meetings and trade shows; 25% public shows; the rest are agriculture, concerts, sports, other |
| Reported profitability | Profit | Profit | Loss | Loss | Loss | Break-even | Loss | Break-even |
| Majority of revenue | Fair admissions | 60% rentals; 40% concessions | 44% rentals; 19% food concessions | 54% rentals; 27% concessions; revenue from utilities, telephones, and A/V equipment | 77% hotel tax; 11% rentals; rest from concessions and parking | 46% rentals; 21% concessions; 7% advertising | 85% rentals and food and beverage sales | 49% admissions including 25% from fair; 22% concessions; 22% rentals |

APPENDIX E (Continued)

| <u>Characteristics</u> | <u>Allentown Fairgrounds</u> | <u>Fort Washington Expo Center</u> | <u>PA State Farm Show Complex</u> | <u>Pennsylvania Convention Center</u> | <u>David L. Lawrence Convention Center</u> | <u>PSU The Bryce Jordan Center</u> | <u>PSU Scanticon Center and Hotel</u> | <u>York Fairgrounds</u> |
|--|--|------------------------------------|--|---|---|------------------------------------|--|--|
| Admissions fee revenue | Yes, \$4 | No | No, Farm Show and other ag shows; Yes, commercial shows as part of rental | Receive percent of ticket price on some shows | No | No | No | Yes, \$4 |
| Parking fees (number of spaces) | No fees (1,000) | No fees (2,700) | Yes, \$5 Farm Show and a portion of ticket price for commercial shows; No, other ag shows: (3,500) | No parking | Yes (500) | Yes, \$3-\$4 (4,000) | No fees (800) | Yes (5,000) |
| Sponsorship/ advertising revenue | No | No | No | No | No | Yes | No | Yes |
| Alcoholic beverage sales | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Responsibility for overall operations | Private, Lehigh Co. Agricultural Society | Private Expo Center employees | Dept. of Agriculture and SFPSC | Public authority | Public Auditorium Authority, a 5 member, city-county agency | PSU | In May 1997, PSU--previously a private management co. | Private, York Co. Agricultural Society 12 member Board |
| Responsibility for day-to-day management | Society employees | Private Expo Center employees | State employees | Some authority employees and a contracted facility mgt. co. | Authority employees | PSU employees | In May 1997, PSU--previously employees of a private management co. | Board employees |
| Responsibility for security | Society employees | Private Expo Center employees | State employees | Contracted | Authority employees | PSU employees | In May 1997, PSU--previously employees of a private management co. | Contracted; some Board employees handle security during fair |

APPENDIX E (Continued)

| <u>Characteristics</u> | <u>Allentown Fairgrounds</u> | <u>Fort Washington Expo Center</u> | <u>PA State Farm Show Complex</u> | <u>Pennsylvania Convention Center</u> | <u>David L. Lawrence Convention Center</u> | <u>PSU The Bryce Jordan Center</u> | <u>PSU Scanticon Center and Hotel</u> | <u>York Fairgrounds</u> |
|---|---|--|---|--|--|---|--|---|
| Responsibility for maintenance/operations | Society employees | Private Expo Center employees | State employees | Some employees, some contracted | Authority employees | PSU employees | In May 1997, PSU--previously employees of a private management co. | Board employees |
| Responsibility for marketing | Society employees | Private Expo Center employees | State employees | Authority employees and staff of Philadelphia Convention and Visitors Bureau | Authority employees and staff of Greater Pgh. Convention and Visitors Bureau | PSU employees | In May 1997, PSU--previously employees of a private management co. | Board employees |
| Compensation of marketing personnel | Fixed | Some fixed, some percent of sales | Fixed | Fixed | Fixed | Fixed | Fixed | Fixed |
| # FT employees; temporary employees | 10; temps hired as needed for fair | 15; 20 part-time | 52; approximately 130 temps during Farm Show | 71; 7 part-time | 55; temps hired for set-ups and breakdowns | 15; up to 400 temps, depending on event | 100; approximately 100 part-time PSU student employees | 6-7; temps for large events |
| Total acreage | 43 acres | 66 acres | 76 acres | Urban setting | Urban setting | N/A | N/A | 125 acres |
| Total square feet of buildings; arena seating | Exhibition space, 40,000 sq.; property includes 2 banks, restaurant, hotel, and farmers market which are leased | Exhibition space, 238,000 sq.; meeting and banquet rooms, 70,000 sq. | Exhibition space, 460,000 sq.; 7,600 seat Large Arena; 1,500 seat Small Arena | Exhibition space, Main Hall, 440,000 sq.; 46,000 sq.' Grand Hall with 10 adjoining meeting rooms; 32,000 sq. ballroom; 600 seat lecture hall; enclosed walkway to Marriott Hotel | Exhibition space, 131,000 sq.' 40,000 sq.' meeting space | 360,000 sq.' arena with 16,000 seats; 17,325 sq.' auxiliary gym; 6 conference rooms; press room; locker rooms; 22 TVs throughout concourse; advanced lighting | Exhibition space, 38 meeting rooms and a 150 room hotel; ballroom with 10,000 sq.' space for 80 exhibit booths | Exhibition space, 4 bldgs. with 102,500 sq.; outdoor, covered grandstand seats 11,000 |
| RV hookups | Yes | 20 | 160 electrical hookups for exhibitors | No | No | No | No | Yes |

Source: Developed by LB&FC staff from telephone conversations and faxed responses.

APPENDIX F

Characteristics of Exposition Centers in Other States

| <u>Characteristics</u> | <u>Arizona Coliseum & Expo Center</u> | <u>Nat'l. Western Stock Show & Rodeo</u> | <u>Kentucky Fair & Expo Center</u> | <u>Baltimore Convention Ctr.</u> | <u>NY State Fairgrounds/ Empire Expo Ctr.</u> | <u>NC State Fairgrounds</u> | <u>PA State Farm Show Complex</u> | <u>Houston Livestock Show & Rodeo</u> |
|------------------------|---|---|--|--|--|---|---|---|
| Location | Phoenix, AZ | Denver, CO | Louisville, KY | Baltimore, MD | Syracuse, NY | Raleigh, NC | Harrisburg, PA | Houston, TX |
| Ownership | State; Coliseum leased to private operator | NWSSR donated the property to Denver who leases it back to NWSSR --no state funds | State | City | State | State | State | Private, nonprofit corporation built Astrohall and Astroarena and donated them to Harris Co. which leases the complex to the Houston Astro owners who manage all shows but the Livestock Show |
| Recent financing | 1994 improvements--government bonds | 1989 expansion--municipal bonds | 1990 expansion -government bonds | N/A | N/A | N/A | 1992 expansion--government bonds | N/A |
| Majority of event days | 60% meetings, trade and public shows; also State Fair, concerts, sports | 50% agricultural with some trade and public shows and sports | 43% public shows and 27% agricultural ; also conven-tions, trade shows, concerts, sports | 90% conven-tions, meetings, trade and public shows | 40% agricultural ; also concerts, trade and public shows, meetings, ice hockey | 60% public shows and other; also meetings, trade shows and sports | 55% public shows; 21% meetings, trade shows; also agriculture, sports, concerts | Livestock Show is the only show the Houston Livestock Show and Rodeo manages (30 day event) |
| Profitability | Loss | Profit | Profit | Loss | Profit | Profit | Loss | N/A |
| Majority of revenue | 61% admissions, carnival/midway sales (1 million fair goers) | Ticket sales | 73% ticket sales and rental fees | Rental fees | 75% State Fair (850,000 event goers) | 75% State Fair | 44% rentals; 19% food concessions | Majority from ticket sales and commercial exhibit space |

APPENDIX F (Continued)

| <u>Characteristics</u> | <u>Arizona Coliseum & Expo Center</u> | <u>Nat'l. Western Stock Show & Rodeo</u> | <u>Kentucky Fair & Expo Center</u> | <u>Baltimore Convention Ctr.</u> | <u>NY State Fairgrounds/ Empire Expo Ctr.</u> | <u>NC State Fairgrounds</u> | <u>PA State Farm Show Complex</u> | <u>Houston Livestock Show & Rodeo</u> |
|--|--|--|--|----------------------------------|--|-----------------------------|---|---|
| Admissions fee revenue | Yes | Yes, \$5-\$7 | Yes | No | Yes, \$7 - State Fair | Yes | No, Farm Show and other ag shows; Yes, commercial shows as part of rental | Yes |
| Parking fees (Number of spaces) | Yes, (6,600) | Yes, \$5 | Yes (19,400) | No parking | No fees except State Fair (23,000) | No fees (6,000) | Yes, \$5 Farm Show and a portion of ticket price for commercial shows; No, other ag shows; 3,500 cars | No--revenue to lessee |
| Sponsorship/ advertising revenue | Yes | Yes, over \$1 million | Yes | No | Yes - State Fair | No | No | Yes |
| Alcoholic beverage sales | Yes | Yes | Yes | Yes | Yes--25% to state from State Fair | Only at ice hockey games | No | Yes |
| Governance | State--5 member board, appointed by Governor | The NWSSR private, nonprofit 9 member board | State--14 member Kentucky State Fair Board | City government employees | Inactive public authority; real responsibility with Dept. of Agriculture and Markets | Dept. of Agriculture | Dept. of Agriculture and SFPSC | Houston Live-stock Show and Rodeo board, a private, nonprofit corp. |
| Responsibility for day-to-day management | State employees | Board employees | State employees | City government employees | State employees | State employees | State employees | Board employees |

APPENDIX G

Rental Rates and Fees

Rates Increased 5 Percent in Fiscal Year 1996-97

Farm Show Complex Rental Rates 1996-97 Exhibition Areas

| | <u>Base Rate</u> | <u>Square Foot- age</u> |
|--------------------------|------------------|-----------------------------|
| Main Floor | \$5,390 | 146,527 |
| East Building..... | 895 | 26,542 |
| North Building..... | 1,735 | 55,140 |
| Northeast Building | 1,735 | 38,600 |
| Northwest Building | 3,260 | 54,714 |
| West Building..... | 1,210 | 37,607 |

The base rental shall be determined as the first day rental charge. However, when a Saturday, Sunday, or holiday falls on the first day of the show, the base rental will be increased by 25% for that day. When a Saturday, Sunday, or holiday falls on a show day (2nd, 3rd, or 4th day, etc.) the rate shall be computed at 75% of the base rental. The rates for Monday through Friday events shall be 50% of the base rental.

The rental fee for setup and teardown days shall be 50% of the base rental.

For events charging admission, the above fee will be in effect, plus 10% over 2,000 gross daily admissions, to be computed using a manifest of tickets printed.

Holidays are as follows, in accordance with the Commonwealth calendar:

| | |
|------------------------|------------------|
| New Years Day | Labor Day |
| Martin Luther King Day | Columbus Day |
| Presidents' Day | Veterans' Day |
| Memorial Day | Thanksgiving Day |
| Independence Day | Christmas Day |

Parking Fees

\$.46 Per Adult Attendee
\$2.22 Per Show Day for Commercial Exhibitors
\$1.12 Per Show Exhibitors

APPENDIX G (Continued)

The preceding rate structure will apply to all shows for the use of the Main Exhibition Area, the East, West, Northeast, Northwest, and North Buildings.

Rentals will include the entire buildings and portions of buildings will not be leased.

Change in rates for first floor lobby areas and second floor meeting rooms:

- a. No charge for lobby or meeting rooms if a show has rented floor space--i.e., Main Floor, East, or West Buildings, etc.
- b. If the lobby or meeting rooms are rented for an event, with no other rental in the building, the fee will be \$175 per day per meeting room.
- c. The meeting rooms will continue to be offered to state agencies at no rental fee, however, setup is the responsibility of the using agencies.

The Small Arena

- I. **Use other than livestock sales: 1996-97**
 1. **No admission: \$400**
 2. **Use with an admission fee: \$400
or 10% of admissions whichever is greater.***

The base rental shall be determined as the first day rental charge. In all cases, the rates for each succeeding day for the same event will be 50% of the base rental or 1/2 of the first day rental. However, when a Saturday, Sunday, or holiday falls on the first day of the show, the base rental will be increased by 25% for that day. When a Saturday, Sunday, or holiday falls on a show day (2nd, 3rd, or 4th day, etc.) it shall be computed at 75% of the base rental or shall be increased 25% of the designated days.

The rental fee for setup and teardown days shall be 50% of the base rental.

(See Page 1 for Commonwealth holidays)

*Applicable for events using the Small Arena as a separate event.

APPENDIX G (Continued)

II. Livestock Sales or Shows

1. \$125

No Change in Per Head Fees

- a. **\$5 per head** for animals (cattle or horses) sold and/or exhibited. Additionally, if 1/10 of 1% (.001) of the gross sales amount is greater than the per animals fee, the greater amount will be charged.
- b. **\$3 per head** for sheep or swine sold and/or exhibited. Additionally, if 1/10 of 1% (.001) of the gross sales amount is greater than the per animals fee, the greater amount will be charged.

III. Livestock Housing Area

.01134 per square foot base rate for show or sale day plus 50% of the base rate for setup and teardown days.

IV. Standardbred Horse Sale

\$4,950.02 per day or .0020727 of the total gross sale of animals, whichever is greater.

The Large Arena

I. Commercial Events: Admission Fee

1. **One Event Per Day: \$3,250 or 14.5%** of the gross, whichever is greater.
2. **For a Combination of Two Events in One Day**, the base rental will be increased by 50% (base plus 50% = \$4,875 or 14.5% of the gross, whichever is greater).
3. **For a Combination of Three Periods of One Day**, the base rate shall be increased by 75% (base plus 75% = \$5,687.50) or 14.5% of the gross, whichever is greater.

II. Commercial Events: No Admission

\$3,250 per day

APPENDIX G (Continued)

III. Pre-Established Shows—i.e., Pennsylvania National Horse Show, Shrine Circus, Archery, and Dog Show

Same rate as the preceding year as adjusted by the consumer price index. This amount shall be adjusted upward or downward based on that index unless the Farm Show Commission advises otherwise.

IV. Scholastic Events

1. **One Event:** \$600 base rate or 10% of total admissions, whichever is greater.
2. **For a Combination of Two Periods in One Day,** the daily rate will be increased to \$1,000 or 10% of total admissions, whichever, is greater.
3. **For a Combination of Three Periods in One Day,** the daily rate will be increased to \$1,500 or 10% of admissions, whichever is greater.

V. No Admission Fee - Direct Charity or Similar Activity

1. **\$1,500** base rate per event.
2. **\$2,000** base rate for a combination of two periods in one day.
3. **\$2,500** base rate for a combination of three periods in one day.

VI. Admission Fee - Direct Charity or Similar Activity

1. **\$1,500** base rate or 10% of the gross, whichever is greater.
2. **\$2,250** base rate for a combination of two periods in one day or 10% of the gross, whichever is greater.
3. **\$3,000** base rate for a combination of three periods in one day or 10% of the gross, whichever is greater.

Parking Fees

\$.46 Per Adult Attendee
\$2.22 Per Show Day for Commercial Exhibitors
\$1.12 Per Show Day for Competitive Exhibitors

APPENDIX H
Response to This Report

Commonwealth of Pennsylvania



DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

June 24, 1997

Mr. Philip R. Durgin, Executive Director
Legislative Budget & Finance Committee
PO Box 8737
Harrisburg, PA 17105-8737

Dear Mr. Durgin:

We appreciate the opportunity to have participated in this review of the Farm Show operation. I want to compliment your staff for their positive and courteous approach while interacting with our departmental staff to conclude this project.

The audit was objective and provides the necessary information to enhance our decision-making process with regard to future operations at the Farm Show Complex.

As you no doubt recognized during the audit, the State Farm Show Complex is a unique entity in state government. Since its grand opening on January 19, 1931, it has served as the site for the Pennsylvania Farm Show. This event has become a statewide institution and the buildings are an historical landmark. Each year the show presents what is sometimes the only opportunity for city youth to come into contact with farm animals and Pennsylvania agriculture. Members of 4-H Clubs and FFA attend and compete for the prestige of a Farm Show ribbon. Parents of these members attend to observe the latest in farm technology and management.

As we move forward with meaningful discussions pertaining to future opportunities, let us not lose sight of what this Complex means to agriculture and to rural Pennsylvania. It is the cornerstone and the showcase of our industry. It contributes greatly to the economic vitality and social well-being of our agricultural community. The annual Farm Show has a direct economic impact of over \$8.5 million to the Capital region, and the seven surrounding counties.

During our annual Farm Show, the Keystone International Livestock Exposition, and the Pennsylvania All American Dairy Show, we provide a forum for our agriculture industry to exhibit, therefore creating an opportunity to provide our livestock,

June 24, 1997

dairy and equine genetics to the entire industry worldwide. Our export opportunities have been enhanced by the global attraction of an international clientele, to not only visit, but to ultimately purchase goods and services from those in Pennsylvania's agricultural community. The most recent exports of livestock and dairy cattle are examples of the economic benefit to rural Pennsylvania and the entire Commonwealth.

It is also our best estimate that Complex events throughout the year contribute in excess of \$70 million to the economic vitality of this region. In particular, the hotel/motel, restaurant, and service industries, receive tremendous benefit from our activities.

In the administration of the Complex, we are mindful of its history and the public function it serves. We believe our policy of not charging rental fees for use of the Complex by other state agencies to be in the public interest. While such use means a financial loss to the Complex, it results in an overall financial gain to the taxpayers of the Commonwealth. In the past, the Department of General Services has used the Complex for its surplus property sale; the Department of Transportation has used it for equipment operator training and apportioned registration renewals; and the State Police regularly uses the North parking lot for driver training for its cadets.

The Department of Agriculture and the State Farm Products Show Commission will give serious consideration to all recommendations in the performance audit, particularly those relating to marketing the Complex and other opportunities for increasing revenues at the Complex.

The report's reference to privatization will be viewed from the public's overall interest as well as the theoretical principle.

It should also be noted that, if the present Farm Show management could exercise all the findings in Part G, the Complex's financial position would be enhanced in a positive manner.

Many of the areas you addressed in your report have been concerns to those who are involved in the operation of the Farm Show Complex. There is a tremendous desire by the Department of Agriculture, the Farm Show Commission and those who manage the Complex to cooperate with the Governor and the General Assembly to formulate a strategic plan as we move into the twenty-first century. We should not fail to completely appreciate the great public value of the Farm Show Complex and the great potential it offers the agricultural industry and Pennsylvania society.

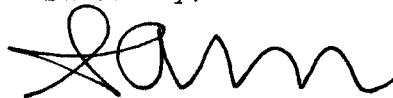
Philip Durgin, Executive Director -3-

June 24, 1997

Again, I want to thank the LBFC very much for its study of the Farm Show Complex and its operations. As a former lawmaker and legislative leader, I am proud of your professional efforts.

With warmest personal regards, I remain

Sincerely,

A handwritten signature in black ink, appearing to read "Sam", with a stylized flourish at the end.

Samuel E. Hayes, Jr.