Attachment A - New Jersey Sports and Exposition Authority

3. Recommended FY 2013 appropriations (Interdepartmental Accounts, p. D-415) for support of the New Jersey Sports and Exposition Authority (NJSEA) debt service are $89.753 million, an increase of $66.3 million from the FY 2012 adjusted appropriation of $23.5 million, while recommended funding for NJSEA operations decrease from $15 million to zero (p. D-416). Under budget language applicable to this funding (p. D-417), State appropriations are authorized without limitation to "...satisfy debt service obligations and to maintain core functions of the authority." The appropriations for debt service are consistent with the schedule for such costs that resulted from the issuance in August 2011 of 2011 Series A and 2011 Series B refunding bonds totaling $86.9 million.

According to the NJSEA’s latest annual financial statement, for the year ending December 31, 2010, total operating revenue fell short of total operating expenses by $20.5 million (these data are reported on a basis consistent with Generally Accepted Accounting Principles, not on a budgetary basis). The NJSEA is migrating out of the horse racing business, and its assumptions for racing-related revenues and operating costs, which comprised 59% of its operating revenue and 61% of its operating expenses in 2010, are unreported for 2012 and beyond. Press reports indicate that the NJSEA has committed to the chosen operator of Meadowlands Racetrack an advance of $5.5 million through 2012, with repayment over five years beginning in 2013, and to the chosen operator of Monmouth Racetrack an advance of $5 million to be repaid over five years beginning in 2015, a $4 million grant for the 2012 racing season, and up to $2 million annually to cover operating losses in 2013 and 2014, to be repaid in 2016 and 2017.

• Question: What percentage of NJSEA total operating resources on a budgetary basis, and for which fiscal years of the NJSEA, were met with State funds from FY 2011 and will be met with State funds from FY 2012? Is it expected that the NJSEA will maintain its core functions in its 2012 and 2013 fiscal years without any State FY 2013 funding for those functions? If so, please provide copies of any financial projections for the NJSEA that support such a conclusion. If not, why are no funds recommended for this purpose in the FY 2013 budget?

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• In CY 2011, the NJSEA required State funding of approximately $19 million. That sum represented approximately 6% of our total operating resources. It is anticipated that a similar amount may be required in FY 2012. However, since the Meadowlands Racetrack was privatized in December of 2011 and we expect Monmouth Park to be privatized in May of 2012, the percentage of State funding to our total operating resources will differ each year. For CY 2012, estimated State funding in this amount would be approximately 14% of our total operating resources. In CY 2012, NJSEA’s projected deficit is approximately $20 million. That amount includes the results of our Racetrack leases, our PILOT obligations, and administrative costs.

Is it expected that the NJSEA will maintain its core functions in its 2012 and 2013 fiscal years without any State FY 2013 funding for those functions? If so, please provide
copies of any financial projections for the NJSEA that support such a conclusion. If not, why are no funds recommended for this purpose in the FY 2013 budget?

- At this time, it is not known at what level the NJSEA will require State funding in FY 2013. A number of factors are relevant but make a precise projection very challenging. For example, while it is expected that the NJSEA will require State funding in 2013 in order to comply with obligations relating to the Racetrack leases, PILOT obligations, Capital Projects, and Administrative Overhead, these amounts were not quantifiable at the time of the Governor’s budget recommendations. Going forward, the required funding is expected to decline; however, the amount could change significantly depending on organizational changes which can include Tourism and privatization of the Izod Arena. Finally, part of the overall operating costs represents on-going obligations for PILOT, Pension Withdrawal Liability, and Retiree Medical.

4. The FY 2013 budget reflects the Governor’s intent to realign the NJSEA from being “in but not of” the Department of Community Affairs to being “in but not of” the Department of State, and to further expand the mission of the NJSEA to encompass the present duties and functions of both the Division of Travel and Tourism and the NJ Motion Picture and Television Commission.

- **Question:** What conclusions about the current performance of the Division of Travel and Tourism justify the transfer of its duties and functions to the NJSEA? Does the proposed transfer include the present staff of the division, such that they will become employees of the NJSEA and no longer be directly employed by the State? Since the NJSEA has a vested financial interest in the economic success of specific facilities and certain sports, is there not an inherent conflict between those interests and fair and effective statewide promotion of travel and tourism? How can the Legislature be confident that the conflict will not compromise the current statutorily prescribed mission of the Division of Travel and Tourism?

- **Question:** What conclusions about the current performance of the NJ Motion Picture and Television Commission justify the transfer of its duties and functions to the NJSEA? Does the proposed transfer include the present staff of the commission, such that they will become employees of the NJSEA and no longer be directly employed by the State? Please provide specific examples of how placing the commission and its mission under the control of NJSEA will improve the success of the commission and benefit the State.

- **Question:** As noted above, budget language authorized State appropriations without limitation to “...maintain core functions...” of the NJSEA. Does the Governor intend this authorization to encompass funding for travel and tourism and promotion of the motion picture and television industry, respectively, as facts of the core mission of the NJSEA? If so, what justifies the delegation by the Legislature of open-ended funding for either/both of these activities, when neither one currently has been accorded that policy?

- The Governor’s FY 13 budget proposes to relocate the Division of Travel and Tourism and the NJ Motion Picture and Television Commission to the NJSEA. This proposal is endorsed through the recommendations of the New Jersey Gaming, Sports & Entertainment Advisory Commission (the “Hanson Commission), which identified the
NJSEA as being best able to coordinate and strengthen New Jersey’s positions in marketing itself as a destination, attracting sports, entertainment, and other events throughout the State. These recommendations are not strictly based on the “performance” of the two existing state agencies. Rather, the recommendations call for the increased coordination associated with having one state agency responsible for coordinating and providing enhanced administrative oversight over functions necessary to promote New Jersey as a premier destination for tourism, entertainment, business conferences, sporting and other special events. The NJSEA would create the synergy and alliance among existing functions, i.e. Division of Travel and Tourism and the NJ Motion Picture and Television Commission, to coordinate efforts for event attraction and execution. It is anticipated that the NJSEA would maintain a comprehensive asset inventory of venues and outdoor spaces throughout the state to attract events that is accessible to leaders in business, event, sports, and film and television industries. It is apparent that such events, both large scale such as the Super Bowl, Wrestlemania, and the Formula One Grand Prix as well as festivals and conferences have a significant economic impact to the state and the region of the state holding such an event. The NJSEA does not perceive any inherent conflicts that would interfere with its statewide promotion of events, travel, and tourism. The NJSEA’s current statutory authority already extends to developing and promoting certain projects including events throughout the State, not limited to any particular facility or facilities within or without the meadowlands complex, and the NJSEA is confident that its expanded authority will enhance, rather than compromise, all of the affected functions and missions. Focusing the state’s promotional and sports and entertainment marketing efforts can be better coordinated through the NJSEA.

The details of the relocation of the agencies have yet to be finalized. The FY13 budget continues to provide stable funding through separate appropriations for the Division of Travel and Tourism and the NJ Motion Picture and Television. This budget support being provided would not be altered in any way by the proposed realignment. The intention is not to achieve cost savings or to detract from the current agency missions but rather to improve the execution of those missions through an improved organizational structure and enhanced coordination.

The budget language authorizing State appropriations subject to the approval of the Director of Budget and Accounting in order to satisfy debt service obligations and to maintain the core functions of the NJSEA has been included in the State budget for the past few years. That language would encompass travel, tourism, and the promotion of the motion picture and television industry insofar as those important responsibilities are allocated to the NJSEA and constitute core operating functions. As noted above, appropriations for those purposes already are included in the FY 2013 budget recommendations. However, if a spending need arises and additional funding is available and is determined by the Director of the Division of Budget and Accounting to be necessary to maintain such core operating functions, the referenced language could be used to accomplish these important goals.