

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Fiscal Note

BILL NUMBER: House Bill 958 (First Edition)

SHORT TITLE: NC Zoo Public-Private Partnership

SPONSOR(S): Representatives Brawley, Moffitt, R. Moore, and Murry

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>	<u>FY 2016-17</u>
REVENUES (in millions)					
NC Zoo, DENR*	(\$3.3)	(\$6.6)	(\$6.6)	(\$6.6)	(\$6.6)
EXPENDITURES (in millions)					
NC Zoo, DENR*	(\$8.7)	(\$17.4)	(\$17.4)	(\$17.4)	(\$17.4)
Transfers, DENR	\$5.0	\$10.0	\$10.0	\$10.0	\$10.0
Repair & Renovation	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Severance/DSR**	\$3.2				
Hospital/medical Premiums*	\$1.2				
NET GENERAL FUND (in millions)					
NC Zoo, DENR	(\$5.4)	(\$10.8)	(\$10.8)	(\$10.8)	(\$10.8)
Transfers, DENR	\$5.0	\$10.0	\$10.0	\$10.0	\$10.0
Repair & Renovation	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Severance/DSR*	\$3.2				
Hospital/medical Premiums*	\$1.2				
Total	\$9.0	\$4.2	\$4.2	\$4.2	\$4.2
POSITIONS (FTE, cumulative):					
NC Zoo, DENR (budgeted)	(261.75)	(261.75)	(261.75)	(261.75)	(261.75)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
Dept. of Environment & Natural Resources, NC Zoological Park					
EFFECTIVE DATE: January 1, 2013					
* Assumes expenditures and receipts remain constant for the NC Zoo over the next five years					
** See Assumptions & Methodology					

BILL SUMMARY:

H.B. 958 creates a public-private partnership for the North Carolina Zoological Park. This bill is the result of a recommendation by the House Select Committee on Public-Private Partnerships. H.B. 958 directs the Department of Environment and Natural Resources (DENR) to enter into a management agreement with the NC Zoological Society (the Society) to maintain and operate the zoo for a term not to exceed 25 years, with options to renew. H.B. 958 requires that the agreement include provisions for free admission for North Carolina school students who visit the Zoo as part of an in-school tour and require the Society to carry out certain minimum duties. In addition, the Society is to amend the composition of its Board of Directors to include the Secretaries of DENR and the Department of Administration, or their designees.

H.B. 958 specifies that all State-owned property remains under State title, and grants the Society naming rights on state-owned land or fixtures. Moreover, the State retains design and construction oversight for capital improvement projects on State lands or when State funds are used, as follows: (1) requires State approval for projects costing over \$2 million and (2) permits the Society to supervise certain aspects of projects costing \$2 million or less.

H.B. 958 allows the Zoo to be eligible for funds from the Reserve for Repairs and Renovations. Per G.S. 143C-4-3, only agencies that are supported by the General Fund are permitted to receive allocations from the Reserve. This Bill would specify that the Zoo is allowed to continue to receive allocations after it enters into the management agreement.

DENR and the Society are to enter into the management agreement on or before January 1, 2013, the effective date of the bill. At that time, the Society, under the general direction of its Board of Directors, is to assume management of the Zoo. H.B. 958 makes additional conforming changes to the General Statutes to reflect the public-private partnership.

Adapted from Bill Digest H.B. 958 (05/16/0201)

ASSUMPTIONS AND METHODOLOGY:

Expected Savings

The Zoo is expected to be appropriated \$10,835,662 million in FY 2012-13 to cover the portion of its annual operating expenses not paid for by receipts. Table 1 provides the Zoo’s authorized budget for FY 2011-12 and FY 2012-13.

Table 1: Zoo Budget: FY 2011-13

	2011-12	2012-13
Requirements	\$ 17,535,698	\$ 17,403,282
Receipts	6,737,836	6,567,620
<i>Budgeted</i>	6,737,836	6,567,620
<i>Special Fund*</i>	0	0
Appropriation	10,797,862	10,835,662

Per Section 2(g), the State is expected to appropriate \$10 million per year to the Society to assist with Zoo operations. This section makes an exception for FY 2012-13 to reflect the fact that the management agreement will be in place for half of the fiscal year, pro-rating the appropriation to \$5 million for FY 2012-13. Therefore, assuming no adjustments to the Zoo’s appropriation, the State stands to save \$417,831 in FY

2012-13. In future fiscal years, the savings are expected to be \$835,662. Table 2 provides the calculation of this savings. The out-year savings are based on the assumption that there would be no increases or decreases to the Zoo’s General Fund appropriation were it to remain a State program.

Table 2: Zoo Budget: FY 2011-13

	2012-13	Out-years
Current Appropriation	\$ 10,835,662	\$ 10,835,662
<i>less</i> DENR Expenses	5,417,831	0
<i>less</i> Society Transfer	5,000,000	10,000,000
Expected Savings	417,831	835,662

While expenditures, receipts, and General Fund appropriation are expected to change over the next five years, accurately determining those changes is not possible. Factors ranging from increasing health insurance and retirement costs to the opening – or closing – of an exhibit to increasing visitation impact the Zoo’s budget. By assuming no increases in General Fund appropriation, this fiscal note provides a conservative estimate of future savings.

Table 3 provides a five year history of zoo expenditures, receipts, and General Fund appropriation. This table demonstrates the variability in the Zoo’s budget over the last five years.

Table 3: Zoo Budget History: Actual Expenditures, Receipts, and Appropriation

	2006-07	2007-08	Actual 2008-09	2009-10	2010-11
Requirements	\$ 17,098,190	\$ 18,337,709	\$ 18,121,871	\$ 18,276,454	\$ 19,059,596
Receipts	7,415,268	7,173,343	6,627,188	7,306,191	7,352,250
<i>Budgeted</i>	6,435,957	6,375,650	6,259,075	6,567,832	6,638,092
<i>Special Fund*</i>	979,312	797,693	368,113	738,359	714,158
Appropriation	10,576,732	11,472,868	11,483,834	11,131,782	11,451,024

**Per G.S. 143B-336.1, the NC Zoo shall retain unbudgeted receipts at the end of each fiscal year. These receipts can be used for a variety of purposes including marketing, maintenance, repairs, tram replacement and other purposes as outlined in the General Statutes. See Technical Consideration 1.*

Expected Costs

Section 2(g): Annual Appropriation

Section 2(g) appropriates \$10 million per year to the Society to assist with operations of the Zoo. Because the agreement is expected to begin January 1, 2013, only \$5 million is appropriated in the first year of the agreement. Based on Section 2(g), the on-going cost to the State is expected to be \$10 million annually.

Section 2(h): Reserve for Repair and Renovation

This section appropriates funds from the Reserve for Repair and Renovations for FY 2012-13 in the amount of \$5,000,000. The Section states that it is the intent of the General Assembly to allocate \$5,000,000 each fiscal year until FY 2017-18 for a total of \$30 million. According to the North Carolina Zoo, there is a total of \$30 million in deferred maintenance for the Zoo. This assumes that the current and any future General Assembly would appropriate funds to the Reserve for Repair and Renovations sufficient to meet allocations to the Zoo for deferred maintenance.

Section 2(i): Severance wages, discontinued service retirement allowances and medical premiums

The transfer of the operation of the NC Zoo to the Society will result in the reduction-in-force of all NC Zoo employees and the elimination of those State-funded positions. G.S. 126-8.5 provides severance wages or a discontinued service retirement allowance to certain employees reduced in force. There are 228 NC Zoo employees that will be eligible for severance wages at a cost of \$2.9 million. Of those 228 employees, 21 are eligible for a discontinued service retirement allowance from the Teachers' and State Employees' Retirement System. A discontinued service retirement allowance is in lieu of severance wages and requires payment to the Retirement System to cover the additional liabilities imposed upon the System as a result of the discontinued service retirement. The severance wages cost, including the cost for the discontinued service retirements, is estimated at \$3.2 million. The State Personnel Commission has defined the severance wage calculation, based in part upon the service of the employee to the State and upon the employee's age. The severance wage cost estimated above was calculated in accordance with the State Personnel Commission Policy. The Department of State Treasurer, Retirement Systems Division, calculated the discontinued service retirement costs for the 21 employees identified as eligible for that benefit.

In addition, G.S. 135-48.40(b)(8) provides an employee; who has been employed for 12 or more months, who is covered by the State Health Plan for Teachers and State Employees, and whose job is eliminated because of a reduction in force; State-paid health benefit coverage for a period of up to 12-months following a reduction-in-force. Eligibility for health benefit coverage during this 12-month period ends if the employee is provided health benefit coverage on a non-contributory basis by a subsequent employer. The annual State contribution for employee coverage under the State Health Plan for Fiscal Year 2012-2013 is \$5,192. Thus, the maximum additional reduction-in-force related cost associated with this benefit is estimated to be \$1.2 million (228 times \$5,192) and assumes none of the 228 employees will retire or be provided non-contributory health benefit coverage from a subsequent employer during the 12-month period following the reduction-in-force.

SOURCES OF DATA: The Office of State Controller, BEACON HR/payroll system, the Department of State Treasurer,

TECHNICAL CONSIDERATIONS:

1. The bill does not address the issue of cash on hand when the transfer occurs. Per G.S. 143B-336.1, the NC Zoo is authorized to retain over-realized receipts in a special fund. As of April 30th, 2012, the unencumbered cash balance of this fund exceeded \$1.2
2. Section 2(h), line 44. Funds are appropriated to the Reserve for Repair and Renovation and then allocated to the various agencies. The language should be altered to reflect this.

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