

# Fiscal Note

**BILL #** HB 2571

**TITLE:** Arizona highway magazine; privatization

**SPONSOR:** Biasiucci

**STATUS:** House Engrossed

**PREPARED BY:** Jordan Johnston

## Description

The bill would allow the Arizona Department of Administration (ADOA) to sell the Arizona Highways Magazine (AHM) to a private entity. In the instance of a sale, the private entity must pay an annual fee to ADOA in an amount determined by the department. The bill further establishes an advisory committee, which sunsets on December 31, 2035, to advise a private entity that buys AHM.

## Estimated Impact

We estimate that the bill would have no General Fund impact as the magazine is operated without General Fund participation and statute prevents the Arizona Highways Magazine Fund from being transferred to the General Fund or State Highway Fund.

Based on recent small business valuation data, we estimate, in the instance ADOA elects to sell the magazine, the department would generate additional revenue (both from the sale and any annual fees) of approximately \$7 million. This revenue would be generated over a number of years depending on the final sales price and annual fee agreement. The revenue generated from a sale will vary depending on the actual valuation of AHM and the current publication market. As a result, we view our estimate as being very speculative.

The Arizona Department of Transportation (ADOT) did not provide us an estimate on the potential sale price or annual fee assessment on a private entity that purchases the AHM. ADOT states that, if AHM were sold to a private entity, they would shift 3 non-magazine personnel that are partially funded by the AHM Fund to the State Highway Fund, resulting in \$313,100 in annual costs to the fund.

## Analysis

The Arizona Highway Magazine (AHM) was first published in April 1925 by the Arizona Highway Department (which is now called ADOT). Today, AHM has a monthly circulation of about 160,000 worldwide. AHM is owned by ADOT and currently employs a staff of 16 to produce not only the magazine but also the retail and online sale of Arizona-related books, calendars, art, food, and other products.

The bill would permit ADOA, if the department elects to do so, to sell AHM to a private entity. The bill further requires the private entity to pay an annual fee to ADOA, in an amount determined by the department, in the instance of a sale. Given the language of the bill, we are unable to predict whether ADOA would elect to sell AHM.

Determining the current market value of AHM involves substantial speculation. Recent sales of magazine ownership ranges from Time Magazine's sale for \$190 million in 2018 to W Magazine's sale for \$10 million in 2019. With the onset of the COVID-19 pandemic, the publication industry has continued to experience changes in demand and consumer behavior. As such, the market for a sale of magazine ownership post-COVID-19 pandemic is unclear and further convolutes the potential sales price of AHM. In addition, the requirements in the bill regarding the sale, such as requiring a monthly publication schedule, may further limit interest and therefore the potential sales price.

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However, based on recent data on small business valuation, we assume that private entities will pay, on average, 2 dollars for every dollar of annual revenue when acquiring a small business like AHM. The precise valuation of AHM will also vary depending on other factors (e.g. current publication market), but we believe this to be the primary value indicator for any potential sale.

All AHM revenues and expenditures are deposited or withdrawn from the Arizona Highways Magazine Fund. Based on FY 2023 data from the fund provided by ADOT, AHM generated \$2.2 million in subscriptions, \$1.4 million in publications, \$1.2 million in miscellaneous receipts, and \$0.3 million in commissions and other fees and services.

These revenues were entirely offset by the expenditures made by the department in FY 2023. Based on FY 2023 ADOT fund data, AHM expended \$1.8 million on staffing costs, \$0.4 million on professional and outside services, and \$3.1 million on other operating expenses.

Based on the annual subscription revenue of \$2.2 million and publication revenue of \$1.4 million, we estimate that the sale may generate \$7 million in revenue (or two times the current annual revenue of \$3.6 million). The bill appears to require that this amount be paid in the form of annual fees over an unspecified period of time rather than be paid upfront. While the bill does not specify a fund source for the monies received from a sale, based on current statutes regarding revenues and expenditures from the AHM Fund, we assume the monies would be deposited into the AHM Fund.

Furthermore, according to information available on ADOT's website, the AHM staff is not only responsible for the publication of AHM, but also the administration of the urban and rural sign logo program. The urban and rural sign logo program provides notification, for eligible business who pay a fee, along Arizona highways on nearby exit signs to signal drivers of upcoming services and goods. ADOT states that, of the 16 AHM employees, 3 have regular responsibilities with this program and are funded under both the AHM Fund and the State Highway Fund. In the instance of a sale, these employees would need to be shifted from the AHM Fund entirely over to the State Highway Fund, resulting in \$313,100 in annual costs to the Highway Fund.

The remaining 13 positions would have the option under the bill to either be hired by the private entity that purchases AHM or be employed in other positions in the state. We are unable to determine whether these positions would remain with the state, what funding sources would be used for compensation, or any associated costs/savings to the state.

#### **Local Government Impact**

None

3/8/24