



Date: February 21, 2020
To: 32nd District Agricultural Association Board of Directors
Subject: 2020 Operating Budget and Capital Expenditures/Major Projects List

On behalf of the entire staff of OC Fair & Event Center, it is with great pleasure that I present to you the 2020 operating budget and capital expenditures/major projects list for the 32nd District Agricultural Association.

Operational Highlights from 2019

As the second largest fair in California, the eighth largest fair in the U.S., and a premier event venue choice in Southern California, OC Fair & Event Center continues its upward trend of growth and expansion as we serve the residents of Orange County. Most notably, the year of 2019 brought us record revenues from the summer fair, expansion of Imaginology programming to include a second year of the Dia del Nino cultural festival and the new ESports Playground, the celebration of Heroes Hall's second anniversary and the installation of the new A4-M Skyhawk, a celebrated summer concert series which grossed \$11.7 million, and 70 completed capital/major projects.

The annual OC Fair continues to be the largest revenue generator for the organization with 71% of overall 2019 revenue attributed to this beloved community event. The 2019 OC Fair posted record revenues from admissions, concerts and attractions, parking, merchant space rentals and concessions of over \$36 million.

2020 Budget Overview

The approved budget for 2020 is a \$50.4 million package of programs and projects that benefits the organization and the surrounding community. The budget maintains all existing business and community programs. The budget also includes a Board approved \$1 increase in the year-round parking rate from \$9 to \$10.

The 2020 budget estimates revenues from the annual OC Fair, along with year-round event revenue to total \$52.2 million. This includes the following revenue categories:

- Admissions to Grounds – \$11.8 million
- Commercial Space Rentals – \$1.4 million
- Carnival & Concessions Revenue – \$13.2 million
- Exhibits Revenue – \$101,476
- Attractions Revenue - \$7.9 million
- Misc. OCFEC-Produced Event Revenue – \$4.9 million
- Year-Round Rental Revenue - \$11.5 million
- Non-Operating Revenue - \$1.3 million

Projected net proceeds of \$1.8 million from the 2020 budget represents a 35% decrease over the 2019 budget, due primarily to increased labor costs.



2020 Budget Assumptions and Considerations

Despite the fact that staff faced many challenges going into the 2020 budget preparation process, they did an excellent job of creating a sound proposal for driving revenue and controlling costs. A change in executive leadership right before the start of the budget cycle, increased operating expenses and increases in both minimum wage and civil service wages added to the challenges.

As such, a strategic decision was made to “start from scratch” with a zero-based budget approach. This allowed staff to create the budget from the ground up, resulting in more accurate projections for both revenue and expenses.

In addition, certain assumptions were built into the 2020 budget, including:

- **Economic Outlook** – We are in the midst of the longest economic expansion in our nation’s history, and while we hope it continues, we know the future can’t be predicted. Therefore we have taken a very conservative approach to revenue projections and a more realistic approach to planned expenditures.
- **Anticipated Labor Cost Increases** – We have built into our labor budgets across the board the \$1 per hour minimum wage increase, along with projected PERS contributions for our civil service staff. As such, we are not planning for staffing increases for most of our departments, with some departments even planning for slight decreases as staff finds new efficiencies.
- **GASB68** – The General Accounting Standards Board has projected our pension liability for 2020 to be \$600,000 so that number is included in the 2020 project.

Due to significant unknowns, certain anticipated expenses for 2020 were not included in the budget. The plan is to bring those costs back to the Board as specific cost information becomes available, and incorporate those costs into a mid-year budget review and amended projections for the year. We anticipate those expense categories to include:

- **Parking Initiatives** – As staff and the Storage, Parking & Traffic Committee work together to identify additional opportunities for off-site parking and storage, there may be associated costs for rental of facilities and parking space. Staff would review each opportunity and associated costs with the Storage, Parking & Traffic Committee and make recommendations for full Board approval above and beyond the approved 2020 budget.
- **SB84 Obligations** – The OC Fair & Event Center is obligated to contribute \$1,739,579 to cover the amount borrowed by the State from the State’s Surplus Money Investment Fund in order to fund employer contributions into PERS for the 2017-18 fiscal year. The total amount owed can be paid back over a 5-year period starting with our first yearly payment of \$316,798. Since the State operates on a fiscal year beginning on July 1, OC FEC is anticipating making the first payment in the 2021 budget and still meet the obligation of paying during the State’s 2020-2021 fiscal year. If, however, the State requests payment in the second half of 2020, we will bring approval for that expense back to the full Board.



2020 Capital/Major Projects Highlights

The 2020 Capital Expenditures/Major Projects plan is \$2,730,784. Highlights of the 2020 plan include:

- **“The Big Five”** – The Board has identified five capital/major projects in 2020 for which they would like regular oversight. Those projects and their associated budgets include:
 - Storm Water Infrastructure - \$251,736 (amount carried over from original 2019 budget of \$300,000)
 - Landscaping for Business Development Area - \$250,000
 - Landscaping for Pacific Amphitheatre Berm - \$15,000
 - All Grounds Infrastructure Audit - \$100,000
 - Storm Water Management Desilting Bin - \$75,000
- **Safety Related Capital Projects and Equipment Purchases** – Several capital projects and major expenditures in the plan address safety issues:
 - Fire Sprinkler Repair (Costa Mesa Building, Huntington Beach Building, OC Promenade and Santa Ana Pavilion) - \$35,000
 - Fire Alarm Panel (Costa Mesa Building) - \$6,000
 - Surveillance System - \$37,000
 - All Grounds PA Sound System - \$30,000
- **Other Notable Projects** – Several significant capital/major projects and major expenditures that exceed \$100,000 include:
 - Lot G Utilities - \$220,000
 - Parking Lot Maintenance - \$100,000
 - Exterior Parking Lot Repairs - \$150,000
 - Interior Parking Lot Repairs - \$100,000



2020 Budget Summary By Department

Function	Projected Revenue	Projected Labor Expenses	Projected Non-Labor Expenses
Administration	\$1,234,000	\$1,556,723	\$1,414,614
Sales	\$1,882,550	\$5,800	\$226,250
Community Engagement	\$0	\$0	\$207,450
Human Resources	\$0	\$848,790	\$209,600
Carnival Sales	\$4,109,750	\$410,581	\$252,400
Finance	\$20,000	\$747,697	\$278,050
Business Services	\$0	\$445,408	\$44,650
Admissions	\$10,632,000	\$953,295	\$193,351
OC Market Place	\$2,172,919	\$0	\$130,000
Maintenance Operations	\$185,950	\$5,083,000	\$4,486,000
Technology & Production	\$0	\$763,885	\$1,736,790
Entertainment	\$12,567,000	\$719,041	\$9,222,000
Security, Parking & Traffic	\$0	\$3,326,000	\$2,811,000
Communications	\$0	\$379,941	\$71,461
Guest Experience	\$0	\$326,315	\$60,150
Marketing	\$0	\$441,811	\$2,052,776
Exhibits & Education	\$758,489	\$2,476,649	\$2,066,000
Event Services	\$8,736,062	\$994,000	\$631,000
Commercial & Concessions	\$9,937,000	\$374,000	\$191,000
Creative Services	\$1,000	\$527,758	\$43,745
All Other	\$869	\$3,723,767	
Total:	\$52,237,589	\$50,432,748	



Summary

The result of the work to create the 2020 operating budget includes realistic revenue projections, responsible expense projections that will control costs but maintain the level of quality our guests have come to expect, necessary contributions to our pension obligations, and adequate staffing levels to ensure a safe and secure environment for our guests.

I would like to thank the Board of Directors for their guidance and support with the public budget study session and throughout the entire process. I sincerely appreciate the hard work that staff contributed to the new budget process and the oversight they will provide to manage their individual department budgets throughout 2020. I'm grateful for the excellent guidance and outstanding service Esther Dusi, Director of Finance, provided to the management team in preparing the budget. And, I would like to thank the public for their thoughtful feedback throughout the process.

Most sincerely,

Michele Richards
Chief Executive Officer