



Friends and Neighbors of the Orange County Fairgrounds

Working for a Fairgrounds that is Focused on the Community

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June 15, 2020

VIA E-MAIL

Douglas La Belle and Nick Kovacevich, Directors
32nd District Agricultural Association
88 Fair Drive
Costa Mesa, CA 92626
E-Mail: dlabelle@ocfairboard.com and nkovacevich@ocfairboard.com

RE: *Information Regarding Financial Condition of the 22nd DAA*

Dear Directors La Belle and Kovacevich:

The 22nd District Agricultural Association (“22nd DAA”) has requested a \$5 million dollar loan from the 32nd District Agricultural Association (“32nd DAA”), with the 22nd DAA requesting that repayment of the loan be deferred for several years while the accumulated interest is added to the loan amount. At the May 28, 2020, 32nd DAA Board Meeting you were appointed as a two person committee to review this proposal and report back to the Board as a whole at the regular June 32nd DAA Board meeting. Friends and Neighbors of the Orange County Fairgrounds has, since the May 28th meeting, been attempting to locate public documents and has filed public record requests to gather more information about the financial state of the 22nd DAA. Our organization believes this is especially critical in that no detailed documentation of the 22nd DAA's financial condition was provided with their request at the May 28th meeting. We are sharing the material that we were able to gather with you along with our observations.

The materials that we have collected are described in a table attached to this letter and can be accessed at the following link: [Dropbox 22nd DAA Loan Files](#)

Additionally, we have listed documents that we believe would be relevant and helpful as you do your due diligence, but which we were unable to get in a timely fashion through public records requests. You may have better luck requesting them directly.

It is apparent that there has been some financial turmoil at the 22nd DAA. In April 2020, 22nd DAA Director David Watson resigned, stating in his resignation letter that the 22nd DAA is in “treacherous times” which have been caused a long term trend of rising costs and declining revenues for horse racing at Del Mar.

Shocks to the system by COVID-19 shutdown exposed the financial weaknesses at the 22nd and is not a root cause of the long term financial problems. (Refer to Documents 2, 3, and 12 attached hereto.) A recent downgrade, in April 2020, of bonds issued in 2015 to fund horse racing is a result of the long term decline of horse racing. (Refer to Document 4 attached hereto.)

Financial decisions at the 22nd DAA are complicated by membership in two public entities which were established for horse racing, Del Mar Race Track Authority and State Racetrack Leasing Commission , and agreements with the privately operated Del Mar Thoroughbred Club to conduct horse racing using 22nd DAA facilities. (Refer to Document 1 attached hereto.)

Bond underwriters consider the 22nd DAA, Del Mar Racing Authority and State Race Track Leasing Authority to be one financial unit for underwriting purposes. (Refer to Document 13A-13D attached hereto.) These financial ties created a complications in financial decision making which are unlike anything found at the 32nd DAA.

Bonds and multiple loans complicate financial decision making at the 22nd DAA due to the heavy debt load and covenants pledging revenues to repayment of the bonds and loans. It is not clear if there are sufficient revenues which have not been pledged to another lender to repay the 32nd DAA if a loan is made. Bond and state infrastructure bank debt covenants place limits on taking on additional debt and pledging of assets and revenues towards additional debt.

- Bonds issued in 2015 to fund horse racing improvements (Refer to Document 5 attached hereto) also paid off bonds issued in 2005 to fund improvements for horse racing. (Refer to Documents 6 and 7 attached hereto.) The bonds have debt covenants requiring pledging of certain revenues towards bond payments, among other terms.
- Loans obtained from the state infrastructure bank in 2018 and 2019 to fund converting a portion of a satellite wagering facility to a concert venue required revenues not pledged towards the bonds be pledged towards state infrastructure bank loans, among other terms. (Refer to Documents 8 and 9 attached hereto.)
- A loan has been obtained from the Department of General Services for energy improvements. These documents have been requested pursuant to Public Record Requests, but will not be available for 45 days.
- A loan has been obtained for repayment of CalPERS expenses required by SB84 and possibly other post employment benefits. These documents have also been requested, but will not be available for 45 days.

We hope that our research assists the 32nd DAA in the required due diligence process for the proposed loan to the 22nd DAA. If you have any questions about the provenance of the documents, please feel free to reach out with questions.

Sincerely,



Reggie Mundekis
CEO/Secretary, Friends and
Neighbors of the Orange County
Fairgrounds

Distribution:
Board of Directors - 32nd District Agricultural Ass'n

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Description of Relevant Documents

| Documents Collected by Friends and Neighbors of the Orange County Fairgrounds | |
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| Document Number | Description |
| 1 | <p>List of 22nd DAA Board and Staff, Del Mar Race Track Authority Members, State Race Track Leasing Authority Members, and Del Mar Turf Club Members</p> <p>List shows the large number of persons involved in financial decisions of the 22nd DAA because the 22nd DAA is a member of the Joint Power Authorities the Del Mar Race Track Authority and State Race Track Leasing Commission. Del Mar Turf Club is a private entity with a contract with the Del Mar Race Track Authority.</p> |
| 2 | 22 nd DAA Board Director David Watson resigned in April 2020 citing a lack of leadership in “treacherous times.” |
| 3 | Former 22 nd DAA Board Director David Watson is quoted in a 2017 article discussing the rising costs and declining revenues of horse racing at Del Mar. |
| 4 | In April 2020 Fitch downgraded the rating of nearly \$40 million of Del Mar Racetrack Authority bonds issued in 2015 due to increased default risk. |
| 5 | Del Mar Race Track Authority issued \$44,435,000 in revenue bonds in 2015 to finance improvements to horse racing facilities and some fairground related infrastructure improvements. A portion of the bond proceeds were used to pay off the outstanding portion of the \$49,380,000 revenue bonds issued in 2005. Debt covenants include pledges of certain revenues. |
| 6 | About \$23 million of bonds issued in 2005 were called in 2015 and paid off using a portion of the 2015 bond issue. |
| 7 | Del Mar Race Track Authority issued \$49,380,000 in bonds in 2005 to fund construction of facilities to be used for horse racing and during the annual fair. |
| 8 | A loan to the 22 nd DAA from IBank, the state infrastructure bank, in 2018 for \$18.5 million to remodel Surf Side Race Palace into a concert venue and to make storm water infrastructure improvements includes debt covenants requiring almost all revenues to be pledged towards the loan. Subordinate debt is limited. |
| 9 | A second loan to the 22 nd DAA from IBank in 2019 in the amount of \$15 million was taken out to complete the Surf Side Race Palace project. |
| 10 | Financial statements for the 22 nd DAA the period ending March 31, 2020. |
| 11 | Financial statements for the 22 nd DAA the period ending December 31, 2019. |
| 12 | Statement regarding the financial impacts of COVID-19 on the 22 nd DAA glosses over the poor financial condition of the 22 nd DAA prior to the pandemic shutdown. |
| 13A, B, C, D | Audits done as part of the due diligence process for issuance of bonds for the Del Mar Racetrack Authority combine the 22 nd DAA, Del Mar Racetrack Authority and State Racetrack Leasing Commission. Audits for year ending December 31 for 2016, 2017 and 2018 are available. |

| Documents Collected by Friends and Neighbors of the Orange County Fairgrounds | |
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| Document Number | Description |
| 14A, B, C | Supplementary financial reports for the Del Mar Racetrack Authority prepared as part of the due diligence process for issuance of bonds are available. |
| 15A, B, C, D | Del Mar Thoroughbred Club is a private organization which contracts to hold races at the 22 nd DAA facilities. Audits done as part of the due diligence process for issuance of bonds for the Del Mar Racetrack Authority for year ending December 31 for 2009, 2010, 2016, 2017 and 2018 are available. |
| 16 | Discussion by Del Mar Thoroughbred Club management of actions being taken to maintain and improve revenues from horse racing. |

| Documents Relevant to the Proposed Loan to the 22nd DAA Which Have Been Requested from the 22nd DAA but Which Cannot be Produced for 45 Days |
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| Regarding Racing Operating Agreement |
| Fully executed copy of the Del Mar Race Track Operation Agreement. |
| Fully executed copy of the joint powers agreement for the Del Mar Racetrack Authority. |
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| Regarding Outstanding Loans |
| Fully executed copy of loan documents for loans with the state infrastructure bank IBank. |
| Fully executed copy of loan documents for loans for the SB84 obligation CalPERS emergency loan repayment. |
| Fully executed loan documents for loans regarding Other Post-Employment Benefits. |
| Fully executed loan documents for energy efficiency loan with Department of General Services (DGS.) |
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| Regarding Food and Beverage Services Contract |
| Fully executed copy of agreement with Premier. |
| Fully executed copy of agreement with ASM Global. |