



## **Board of Directors Agenda Report**

MEETING DATE: JULY 23, 2020 ITEM NUMBER: 10B

**SUBJECT:** Consideration of and Vote on Whether or Not to Approve Loan Agreement with the 22nd District Agricultural Association (San Diego County Fairgrounds)

**DATE:** July 17, 2020

**FROM:** Michele Richards, CEO

**PRESENTATION BY:** San Diego County Fair Loan Proposal Ad Hoc Committee: Directors La Belle and Kovacevich

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### **RECOMMENDATION**

Based on the findings outlined below, it is the recommendation of the Ad Hoc Committee that the Board not approve the \$5 million loan to the 22<sup>nd</sup> DAA.

### **BACKGROUND**

On May 22, 2020 the 22<sup>nd</sup> DAA (San Diego County Fair) sent a letter to the District requesting a \$5 million loan. Following that letter, the District invited members of the 22<sup>nd</sup> DAA executive team and Board of Directors to make a presentation at the May 28th Board meeting, laying out the reason for the loan request and the plan to repay the loan. Following the presentation, Chair Cervantes appointed Directors La Belle and Kovacevich to serve on an ad hoc committee to communicate further with the 22<sup>nd</sup> DAA and provide more detailed information to the Board regarding the 22<sup>nd</sup> DAA's financial status and plans for repayment.

Throughout June and July, the ad hoc committee gathered and studied several financial documents related to the loan including Statement of Operations reports, audit reports, loan documents and a 5-year pro forma. Throughout this same period, additional documents were provided to the ad hoc committee by the Friends and Neighbors of the Orange County Fairgrounds. The committee met by teleconference on June 1, June 16, and July 9 to review documents together and prepare for a July 9<sup>th</sup> meeting with the 22<sup>nd</sup> DAA Board committee and executive staff.

The July 9<sup>th</sup> meeting was an opportunity for the ad hoc committee to ask questions of the 22<sup>nd</sup> DAA executive staff and Board members and to consider the impact a loan might have on the 32<sup>nd</sup> DAA's operations and staff. The discussion centered around two aspects:

1. Quantitative – There was further clarification on the 22<sup>nd</sup> DAA's financial obligations on the expense side and projections for income on the revenue side. In summary, the 22<sup>nd</sup> DAA is heavily leveraged with \$74 million in outstanding loans and a bond, and current operating expenses of \$36.5 million for 2020. They have received PPP money and other funds from CDFA to meet their leave balance obligations to the 58% of employees identified for layoff. The 22<sup>nd</sup> DAA has identified some small revenue streams from on-site rentals and potential horse racing income. They have no reserves at this point and don't expect significant revenue to return until the San Diego County Fair can be held again and mass gatherings are allowed. However, they laid out a repayment plan which would begin in July, 2021 with full payback of the loan by the end of 2025. This repayment is based on the assumption that the annual San Diego County Fair and mass gathering events would resume in 2021.
2. Qualitative – The ad hoc committee expressed their appreciation for the long-standing relationship the District has had with the 22<sup>nd</sup> DAA as members of the same network of fairs as well as the mutual respect for each other's staffs and Boards. The committee also indicated the need to help each other and that the District could be in a similar situation at some point and need to rely on others. There was also a brief discussion about other ways the District could help, including sharing of staff and other resources.

In the end, the Board must consider the impact a loan of \$5 million would have on the District's finances and ongoing operations. While it's true that the District currently has substantial reserves, there is no significant revenue and the District's future remains uncertain. The ad hoc committee feels a strong obligation to protect assets and plan for that uncertain future, particularly because the District is projecting an \$18 million shortfall against the 2020 budget and a further decline in reserves to \$37 million by the end of 2020.

In addition, our District employees have taken a pay cut as directed by the state effective July 1, 2020 and lasting for two years. The ad hoc committee is concerned about loaning an amount to another agency that could keep District staff employed for several months.

In summary, the risk of loaning \$5 million to the 22<sup>nd</sup> DAA at the expense of the District's own financial health, coupled with the impact to District employees has resulted in the ad hoc committee's recommendation to the full Board to respectfully decline the 22<sup>nd</sup> DAA's proposal. However, the District remains willing to explore any and all approved sharing of resources to help the 22<sup>nd</sup> DAA during this time.