



Board of Directors Agenda Report

MEETING DATE: DECEMBER 16, 2021 **ITEM NUMBER:** 8C

SUBJECT: Presentation of CEO's 2022 Budget Summary Letter

DATE: December 10, 2021

FROM: Michele Richards, CEO

PRESENTATION BY: Michele Richards, CEO

RECOMMENDATION

Information item only.

BACKGROUND

The Board of Directors approved the budget and capital/major projects list for 2022 at the November, 2021 Board meeting. Staff will present the CEO's 2022 Budget Summary Letter to complete the budget presentation process.

A copy of the letter is attached.



Date: December 16, 2021
To: 32nd District Agricultural Association Board of Directors
Subject: 2022 Operating Budget and Capital Expenditures/Major Projects Highlights

I am pleased to present to you the 2022 operating budget and capital expenditures/major projects highlights for the 32nd District Agricultural Association. This budget represents many hours of preparation and planning, and is the result of much research and thoughtful forecasting by staff.

Operational Highlights from 2021

The opening of the new year of 2021 held much promise for continued recovery from the devastating effects of event shut-downs and the cancelation of the 2020 OC Fair as a result of the COVID-19 pandemic. The organization began the year having experienced a \$17M net deficit to the 2020 budget and a 24.5% year-over-year loss in cash. However, there was strong optimism for the new year.

The staff worked hard with existing and new promoters to introduce events that met the ever-changing requirements from the California Department of Public Health and the OC Health Care Agency. Drive-through, drive-up and drive-in events dominated the schedule throughout the first quarter of 2021. The public enjoyed such offerings as the drive-through Jurassic Quest experience, Flying Miz Daisy vintage market, Crossroads of the West Gun Shows, Night of Lights and 626 Night Market - all held outdoors. The year also saw the return of many of the OC Market Place vendors with the launch of the new Original O.C. Swap Meet.

As staff continued to work closely with the OC Health Care Agency in Q1 and Q2 on procedures for a potential 2021 OC Fair, the Communications, Marketing and Exhibits & Education teams produced a highly creative and interactive virtual Imaginology in the Spring. This led to increased engagements on the ocfair.com web site and on all social media platforms.

Additional support to the organization's financial recovery came in the form of two substantial funding actions by the State. The Governor's May revise of the 2020-21 budget included a one-time allocation of \$40.3M for fairs and OC Fair & Event Center (OCFEC) received \$1.562M as its share. In addition AB 1499 funds were distributed by the CA Department of Food & Agriculture (CDFA) with OCFEC receiving \$830K. Staff researched and applied for the Shuttered Venue Operators Grant through the Small Business Administration. OCFEC was awarded \$4.89M from this grant to address revenue losses from 2020 canceled performances in the Pacific Amphitheatre and the Hangar.

Centennial Farm and Heroes Hall both experienced intermittent closures throughout the year in response to ever changing health and safety guidelines. Staff continued to communicate with the public through social media and provided virtual programming on the ocfair.com web site.

As a result of Governor Newsom's Executive Order N-25-20, the organization remained ready to respond to requests for emergency support. Emergency food distribution events continued through the Spring, along with COVID testing and serving as one Orange County's vaccination super sites.



By April, 2021 COVID vaccinations were readily available in the community and the number of new cases, hospitalizations and deaths in Orange County had dropped significantly. The OC Health Care Agency cleared the way for the Board of Directors to approve moving forward with the 2021 OC Fair.

Staff introduced a “modified” fair plan which included capacity limits, a more spaced-out layout, and a reduction in some programming. The 2021 OC Fair plan resulted in the most profitable fair in the OC Fair’s history and a new blueprint for future years that responsibly manages resources, decreases the negative impact on surrounding neighborhoods and creates an excellent guest experience.

The budget for 2021 projected an \$11.8M net deficit. The forecast for the end of 2021 is now a \$15M net gain. This is a testament to the careful planning by the Board and staff, the responsible management by staff of organizational resources, and in turn contributed to the profitability of the annual OC Fair.

2022 Budget Overview

The approved budget for 2022 represents a continued plan for business recovery and is built around the best economic indicators available at this time. We know that COVID will continue to be a challenge, and the organization is ready to adjust plans as necessary depending on the health and safety guidelines in place at the time. We have learned to weather the storm and face challenges with creativity and flexibility.

The 2022 budget includes a conservative projection for year-round event bookings and a second year of the modified fair plan. We will expand our important community and educational programs with an in-person Imaginology, new exhibits in Heroes Hall, and the return of school tours at Centennial Farm.

The budget includes fair admission revenue of \$10.87 per person with a capacity of 45,000 tickets sold per day – the same successful model from 2021. The per ticket revenue represents the actual average ticket price across all ticket types from the 2021 OC Fair. The year-round and fairtime parking rate remains steady at \$10, with motorcycle parking now included. The budget also reflects a \$1 per hour increase in the minimum wage.

Budgeted revenue in 2022 is \$53.8M compared to a budgeted \$23.5 million in 2021. Careful consideration was given to continuing expense controls and the 2022 budget includes operating expenses of \$47.8M compared to a budgeted \$30.5 million in 2021.

The 2022 budget includes the following revenue categories:

- Admissions to Grounds - \$14,201,348
- Commercial Space Rentals – \$1,191,900
- Carnival & Concessions Revenue – \$14,977,600
- Exhibits Revenue – \$63,548
- Attractions Revenue - \$10,913,660
- Misc. OCFEC-Produced Event Revenue – \$4,556,836
- Year-Round Rental Revenue - \$7,668,108



- Non-Operating Revenue - \$225,600

Projected net proceeds of \$5.9M from the 2022 budget represents a substantial recovery from the 2021 budgeted \$11.8M net loss, due primarily to the organization's ability to operate on a year-round basis and to present the 2022 OC Fair. Many of the cost containment measures implemented in 2020 and 2021 will be carried over to 2022, further adding to a healthy bottom line.

2022 Budget Assumptions and Considerations

The following assumptions were provided to staff as a guideline for developing their individual department budgets:

- Use the 2021 fair model for 2022 – “bigger is not always better”
- Cap ticket sales at 45,000 per day (advanced online)
- Increase utility expenses to adjust for increased use of the property
- No increase in fair admission pricing
- No increase in parking fees
- Increase budget for credit card fees to reflect advance online ticket sales
- Eliminate the earlier fair opening hour
- Continue the use of Evolv gate screening equipment
- Re-introduce programming in the Action Sports Arena
- Plan for Q1/Q2 events activity to be 75% of 2019
- Plan for Q3/Q4 events activity to be 100% of 2019
- Plan for a 2-day in-person Imaginology event
- Maintain a conservative capital projects budget

We have a much better picture of the landscape going into 2022 and were able to budget with much more certainty than one year ago. However, we fully understand that the climate can change very quickly as new COVID variants appear and have an uncertain effect on business. As such we will continue to reforecast each month and provide the Board and public monthly updates, just as we have done throughout 2020 and 2021. The reforecast will be based on actual numbers to-date and adjusted projections for revenues and expenses for the remainder of the year.

2022 Capital/Major Projects Highlights

The Capital Expenditures/Major Projects plan includes a carry-over project from 2021 to complete the Lot G utilities project, and moves forward several mission critical major projects that were tabled in 2021. The Capital Expenditures/Major Projects budget for 2022 is \$2,065,000, a 150% increase from 2021. The plan includes the following:

- **Carry-Forward Project from 2021:**
 - Complete the Lot G utilities project - \$225,000
- **2022 Capital Projects:** \$700,000
- **2022 Equipment Purchases:** \$631,000
- **2022 Major Expenditures:** \$409,000
- **2022 Contingency:** \$100,000



2022 Budget Summary By Department

Function/Department No.	Projected Revenue	Projected Labor Expenses	Projected Non-Labor Expenses
Administration - 06	\$135,000	\$1,256,281	\$1,599,009
Sales - 87	\$1,860,937	\$7,171	\$194,099
Human Resources - 07	\$0	\$957,209	\$199,987
Carnival - 58	\$4,600,000	\$318,901	\$39,200
Finance/Accounting - 10	\$6,500	\$607,657	\$819,700
Business Services - 12	\$0	\$423,119	49,160
Admissions -31, 38, 50, 66, 67	\$13,853,148	\$780,651	\$81,520
Maintenance Operations - 20, 22, 28, 63	\$0	\$4,234,687	\$3,059,521
Technology & Production - 08 09, 19	\$0	\$822,084	\$1,167,539
Entertainment - 48, 69, 70, 72	\$15,280,660	\$733,991	\$10,786,950
Security, Parking & Traffic - 23, 32, 51, 52	\$0	\$2,559,402	\$2,336,525
Communications - 18	\$0	\$457,996	\$71,539
Guest Experience – 47	\$0	\$341,983	\$62,750
Marketing - 15	\$0	\$443,021	\$1,335,300
Exhibits & Education - 11, 14, 27, 29, 41, 42, 43, 44, 46, 53, 62, 84	\$196,254	\$2,177,400	\$669,584
Event Services - 30, 33	\$7,000,000	\$2,157,477	\$1,000,200
Commercial & Concessions - 64	\$10,403,300	\$362,285	\$148,400
Creative Services - 21	\$0	\$570,539	\$65,850
Community Outreach - 88	\$0	\$0	\$50,000
All Other 25, 49, 59, 74, 78, 82	\$482,799	\$240,985	\$392,639
Major Projects - 97			\$409,000
Depreciation - 99			\$3,840,000
Total:	\$53,818,598	\$47,831,310	



Summary

The staff of the OC Fair & Event Center completed a very thorough and thoughtful budget planning process for 2022. We used the best economic forecast information available at the time of planning and took into consideration some of the uncertainty and inflationary headwinds forecasted for 2022. The staff is committed to careful monitoring of the budget throughout the year in order to meet our goal for full business recovery by the end of 2022. We will continue to engage our contacts through the State and County on COVID-related health and safety issues in order to ensure safe, secure and healthy activities for the community.

The OCFEC Board of Directors, and in particular the Financial Monitoring and Audit Committee, has played a key role in guiding the organization through the process of our recovery. The support and guidance of each Board member is greatly appreciated. The staff, too, should be commended for working through the tough challenges this past year and facing the future with renewed energy and enthusiasm. The public will continue to play an important role in 2022 as we roll out the Board of Director's three-year strategic plan, and we thank them for their participation in this year's budget study session.

Most sincerely,

Michele A. Richards
Chief Executive Officer