



BOARD OF DIRECTORS AGENDA REPORT

MEETING DATE: **DECEMBER 14, 2023** ITEM: **8D**

SUBJECT: **Presentation of 2024 Budget Submittal Letter**

DATE: December 8, 2023

FROM: Michele Richards, CEO

PRESENTATION BY: Melissa Au-Yeung, Chief Administrative Officer

Information Item

BACKGROUND

At its November 2023 meeting, the Board of Directors approved the 2024 budget which included the following recommendations by the Financial Monitoring & Audit Committee:

1. Increase fairtime parking from \$12 to \$15
2. Where feasible, increase the daily fair admission ticket sales cap to 50,000
3. Include a \$100,000 contingency

Staff will present 2024 Budget Summary Letter to complete the budget process. A copy of the letter is attached.



Date: December 14, 2023

To: 32nd District Agricultural Association Board of Directors

Subject: 2024 Operating Budget and Capital Expenditures/Major Projects Highlights

It is my great pleasure to present the 32nd District Agricultural Association 2024 operating budget and capital expenditures/major projects highlights. The 2024 adopted budget provides for \$54.7 million of funding in support of existing services and programs consistent with the priorities of the District and the District's stated mission of "[c]reating equitable community access to agriculture, entertainment, cultural and educational experiences."

The adopted 2024 budget is the result of a comprehensive effort by staff and management spanning over 51 departments to create a guiding document for the upcoming year. This document represents the culmination of numerous Finance and Audit Committee meetings, countless meetings with individual departments, a public budget study session, and a public board meeting for review and adoption. Budget preparation truly requires a team of dedicated and knowledgeable staff in order to develop a document that not only serves as a blueprint for the next year, but also confirms and advances the priorities of the organization. We believe this budget document successfully achieves these ideals.

Strategic Priorities

The development of the 2024 adopted budget was guided by a continued focus on the District's organizational values and strategic priorities, as outlined in the 3-Year Strategic Plan. Organizational values such as *Safety, People, Integrity, Stewardship, Compliance, Diversity & Inclusion, Excellence, Community & Neighborliness* serve as a foundation to implementing the 18 strategic directives highlighted in the strategic plan over the following five broad functions:

- Annual OC Fair
- Year-Round Events Program
- Educational Assets/Foundations
- Equestrian Center
- Community Support

This 2024 budget document serves to further the priorities and facilitate progress towards the goals and directives identified within the strategic plan.



Economic Outlooks

In recent years, much of the budget development process has been dedicated to understanding, forecasting, and mitigating the impact of the global Covid-19 pandemic. As the uncertainty of and restrictions resulting from the pandemic have diminished, economic activity has increased at the national, state and local level. With the economic recovery and the abundance of government-fueled relief funds, however, increased growth and supply chain issues soon led to higher inflationary pressures that affected the cost of all supplies and services. As reported in the Woods Center for Economic Analysis and Forecasting's *2024 Economic Forecast*, the economy continues to provide mixed signals, as real GDP growth posted solid gains in the first two quarters of 2023. And, yet, Gross Domestic Income lagged and even fell behind in some cases throughout parts of the year. Consumer sentiment remains below average, even as real consumer growth continues to post healthy gains. The economy has without question remained firmly in the grip of inflation throughout much of 2023, even as interest rates for federal funds ended the year at a 22-year high of 5.5%. While it is anticipated that inflationary growth will be brought under control in 2024, the general consensus among economists remains a slowdown in the economy with a "garden variety" recession towards the latter part of 2024.

Through its fiscally conservative financial policies, the District is well-positioned to weather the slowdown in economic activity when it arrives in 2024. We are confident this 2024 budget document balances the various strategic priorities with the current economic pressures.

2024 Budget Overview

This 2024 budget was developed with careful consideration of the economic indicators and forecasting data available. Consequently, the 2024 adopted budget represents a concerted effort to present a fiscally conservative budget that adequately supports the District for another successful year of programming and activities, while simultaneously limiting the growth of budgetary expenditures. As we once again find ourselves approaching the upcoming year with "cautious optimism," we remain certain that the annual OC Fair and our educational assets, including Centennial Farm and Heroes Hall, are beloved by the community and will remain in strong demand.

At the onset of the budget development process, the following assumptions were provided to staff as a guideline for the upcoming budget year:

- Use the 2023 fair model for 2024
- Control ticket sales at 45,000 per day (advanced online ticket sales)*
- No increase in fair admission pricing
- No increase in parking fees**



- 30 shows in the Pacific Amphitheatre
- Budget for overtime for part-time, seasonal employees
- Two additional civil service headcounts – Parking Coordinator & Security Guard
- Inclusion of feature exhibit
- Plan for a 2-day in-person Imaginology event
- Continue EQC revenue/expenses through June 2024
- \$3.25M capital expenditures program

**The Board of Directors voted to increase the number of tickets sold by 5,000, from 45,000 to 50,000.*

***The Board of Directors approved a price increase in fairtime parking rates from \$12 to \$15. Year-round parking rates remain unchanged.*

The controlled attendance model, utilizing advance online sales, once again produced a great experience, not only for fair guests but for the surrounding neighborhoods as well. As such, the 2024 budget includes the same controlled attendance model for the annual OC Fair, albeit with an adjustment of the number of tickets sold. Drawing from actual ticket sales in 2022 and 2023, budget projections for 2024 include an increase of 5,000 in the number of tickets sold, up from 45,000 to 50,000, allowing additional guests to experience the fair while still limiting the operational impact.

Revenue Highlights

The adopted 2024 operating budget projects total revenues of \$59.58 million, compared to total budgeted revenues of \$60.37 million in 2023, representing a slight decrease in 2024 of \$786,560, or 1.3%. Below are some highlights of significant revenue changes compared to 2023:

- **Department 06 (Administration)** - Interest income revenues are projected to total \$1,359,000, representing an increase of \$479,000 from the previous year.
- **Department 25 (Equestrian Center)** – As part of its strategic plan, the District has spent a considerable effort in 2023 developing a P & L for the equestrian center that captures all the District's costs to operate the center. As a result of the ongoing financial assessment, the Board of Directors directed staff to go out to bid for an independent operator, and if not successful to cease operations. Staff conservatively estimated revenue and expenditures through June 30, 2024, resulting in a budgeted increase in Net Proceeds of \$739,270.
- **Department 30 (Event Services) and 64 (Commercial & Concessions)** – Continue scheduled increases for year-round building rental fees and fair merchant spaces fees, resulting in an increase in revenues of \$29,292 and \$28,375, respectively.
- **Department 50 (Admissions Fair)** – The following three changes have resulted in significant changes to projected departmental revenues:



- Maintain the District's usage of a controlled attendance model, however increase the number of tickets sold by 5,000, from 45,000 to 50,000, resulting in an estimated \$828,000 in additional revenues compared to 2023 budget.
- It was determined the 2023 budget included duplicated admission revenues in two departments. Once corrected, this resulted in a decrease of \$716,700 in estimated revenues for 2024.
- This is the second year the District will be offering its Every Day Passport product, allowing staff to budget based on 2023 actual revenues. Revenue from the product is projected to total \$438,180, a decrease of \$161,820 from last year's budgeted amount of \$600,000.
- **Department 51 (Parking Fair)** – This year's budget includes a \$3 increase in fairtime parking rates, from \$12 to \$15, resulting in additional projected revenues of \$648,600.
- **Department 70 (Attractions & Grounds) & 72 (Pacific Amphitheatre) -**
 - As part of the District's transition to eTix in November 2023, Year 1 and Year 2 signing bonus allocations resulted in increased revenues of \$843,474.
 - Additionally, staff is budgeting for an increase in projected eTix ticket share revenues of \$67,000.

Expenditure Highlights

Operating expenditures are comprised of two distinct categories – department expenditures and labor expenses. Overall, total operating expenditures for 2024 are projected at \$54,709,574, a slight decrease of \$130,767 from the previous 2023 adopted budget. Pertaining to department expenditures, the 2024 budget represents a concerted effort by staff to limit the budgetary impact of inflation. As the cost of supplies, contracts, and utilities have risen over the past year, staff has continued to effectively manage their individual departmental budgets and contracts to minimize the budgetary impact for the upcoming 2024 year. In spite of a number of contracts increasing significantly, budgeted department expenditures are projected to decrease overall by \$1,842,520, or 5.7%, from \$32,528,511 in 2023 to \$30,685,992 in 2024. A summary of the operating expenditures across all departments is listed in the table below:



Function/Department No.	Projected Revenues	Projected Labor	Projected Non-Labor Expenses
Administration - Dept 06	\$ 1,374,560	\$ 1,679,374	\$ 1,109,965
Human Resources - Dept 07	\$ -	\$ 1,157,402	\$ 282,620
Technology & Production - Depts 08, 09, 19	\$ -	\$ 781,421	\$ 1,293,083
Finance/Accounting - Dept 10, 49, 59	\$ 18,000	\$ 820,218	\$ 578,606
Business Services - Dept 12	\$ -	\$ 433,430	\$ 30,000
Exhibits & Education - Depts 11, 14, 27, 29, 41, 42, 43, 44, 46, 53, 62, 82, 84	\$ 561,480	\$ 2,447,942	\$ 1,512,953
Marketing - Dept 15	\$ -	\$ 486,118	\$ 2,068,800
Communications - Dept 18	\$ -	\$ 549,604	\$ 88,015
Maintenance Operations - Depts 20, 22, 28, 63	\$ -	\$ 5,297,306	\$ 4,786,913
Creative Services - Dept 21	\$ -	\$ 537,091	\$ 59,350
Security, Parking & Traffic - Depts 23, 32, 51, 52	\$ -	\$ 3,760,628	\$ 2,298,788
Equestrian Center - Dept 25	\$ 574,350	\$ 226,443	\$ 941,556
Event Services - Depts 30, 33	\$ 8,500,000	\$ 2,390,782	\$ 1,089,200
Admissions - Depts 31, 38, 50, 66, 67	\$ 14,105,740	\$ 1,108,864	\$ 124,680
Guest Services - Dept 47	\$ -	\$ 397,224	\$ 95,830
Entertainment - Depts 48, 69, 70, 72, 78	\$ 14,285,536	\$ 1,223,347	\$ 9,802,923
Carnival Sales - Dept 58	\$ 7,080,000	\$ 300,645	\$ 76,000
Concessions & Commercial - Dept 64	\$ 11,132,600	\$ 425,741	\$ 90,600
Sales - Dept 87	\$ 1,949,950	\$ -	\$ 303,610
Major Projects - Dept 97	\$ -	\$ -	\$ 452,500
Depreciation - Dept 99	\$ -	\$ -	\$ 3,600,000
TOTAL	59,582,216	(24,023,582)	(30,685,992)

As seen in the above table, labor expenses for 2024 are anticipated to total \$24,023,582, an increase of \$1,711,752, or 7.7% over the previous year. Much of the increases in labor expenses are due to additional salary and benefits costs for civil service employees—including a 3% cost of living adjustment and increased benefits costs amongst all bargaining units – and an across-the-board wage increase for part-time, temporary employees of \$0.50 above the mandated minimum wage so as to remain competitive in the labor market. Labor expenses include the addition of two new full-time, civil service personnel – one Parking Coordinator and one Security Guard – for a total budgetary impact of \$261,873 in 2024.

Net Proceeds

In light of the budgetary pressures anticipated in 2024, Net Proceeds are projected to total \$4,872,642, representing a decline of \$655,793, or 11.9%, when compared to the 2023 adopted budget. It should be noted, however, that the District's proclivity for conservative financial budgeting and policies has directly resulted in a current cash and cash equivalent balance of \$55.07 million as of November 30, 2023. While this represents a decrease in the cash and cash equivalent balance from the \$69.5 million in January 2023, this amount



is inclusive of significant expenditures, most notably funding of \$24 million year-to-date for the Administration Building Expansion.

Capital Expenditures/Major Projects

The 2024 Capital Expenditures/Major Projects program is comprised of 59 projects totaling expenditures of \$3.25 million broken out in the following categories: Carry-Forward Projects from 2023, Capital Expenditures, Major Expenditures, Equipment Purchases, and Contingency.

- **Carry-Forward Projects from 2022:** \$70,000
 - Completion of the Pacific Amphitheater Kitchen Roof Replacement project
- **Capital Projects:** \$1,496,500
 - 20 projects ranging from \$8,500 to \$300,000
- **Major Expenditures:** \$452,500
 - 18 projects ranging from \$6,500 to \$65,000
- **Equipment Purchases:** \$1,135,500
 - 21 equipment purchases ranging from \$7,000 to \$180,500
 - Includes the replacement of a forklift and water truck to ensure compliance with AQMD requirements
- **Contingency:** \$100,000

Notable Work Efforts for 2024

Development of 5-Year Strategic Plan

The upcoming year marks the third year of the adopted 3-Year Strategic Plan. Initially adopted by the Board of Directors in March 2022 over a five-month planning process, the strategic plan has served as the District's guiding document, outlining organizational mission, vision and values, as well as establishing strategic directives. While some initial groundwork has already begun in preparation for the process, the planning process is anticipated to kick off in Spring 2024. This public process will seek to engage the various stakeholders and users of the property, including, but not limited to, the Board of Directors, staff, community partners, and guests. The planning process will take place over much of 2024, with implementation of the plan beginning in 2025.

Master Site Plan – Administration Building Expansion

The Board of Directors approved a multi-year Master Site Plan (MSP) at its November 2022 Board meeting. Phase I, as identified in the MSP and subsequently approved at the January 2023 Board meeting, is the expansion of the existing Administration Building, adding an additional 16,600 square feet to the existing building. Construction documents for this \$29.8 million project are currently underway, with construction slated to begin in the Spring 2024. Once construction begins, staff currently housed within the Administration Building will be relocated for the entirety of construction by either doubling up in existing offices throughout the property or by moving into temporary rental trailers. A



comprehensive planning process continues to ensure the impacts are minimized for both year-round and fairtime operations.

Equestrian Center Operations

Upon expiration of the agreement with the operator of the equestrian center on December 31, 2022, the District assumed management and operation of the center. In light of the losses anticipated from the equestrian center in 2023 - originally budgeted to come in at \$1.33 million and, based on careful monitoring of actual expenses, will most likely come in closer to a net operating loss of \$960,000 for the year - there have been concerns expressed regarding the long-term viability of the equestrian center. A Request for Proposals (RFP) was issued December 4, 2023 to identify a potential independent operator. Should an operator be identified through the RFP process, staff will undertake the work effort to transition the management and operations of the equestrian center to the new operator. Conversely, should the RFP prove unsuccessful in identifying a new operator, staff will undertake the significant work effort of researching and implementing the next steps for the equestrian center.

Conclusion

It is our professional opinion that this 2024 budget represents a conversative and responsible spending plan, allowing staff to continue implementing the District's strategic priorities while concurrently supporting the events and programming the community has come to love. Furthermore, the 2024 adopted budget includes ongoing investments in capital expenditures, as well as the continued maintenance of the property.

We remain committed to careful monitoring of the 2024 budget through monthly variance reports, regular meetings with the Finance Monitoring and Audit Committee, and consistent reporting to the Board and the public.

In closing, we would like to express our gratitude to the many staff members across all departments for the time and effort spent in developing this 2024 budget document. We would also like to thank the OC FEC Board of Directors for its effective policy leadership and continued support. We look forward to next year's inevitable challenges and many opportunities and remain committed to ensuring the OC Fair & Event Center remains the special and beloved place it is.

Sincerely,

Michele A. Richards
Chief Executive Officer

Melissa Au-Yeung
Chief Administrative Officer