

State of California

California Exposition & State Fair  
1600 Exposition Boulevard  
Sacramento, CA 95815

**MEMORANDUM**

**Date:** March 20, 2018

**To:** Board of Directors  
California Exposition & State Fair

**From:** Rick K. Pickering, Chief Executive Officer  
California Exposition & State Fair

**Subject:** BOARD WORKSHOP – REVIEW OF FINANCIAL MATTERS

**OVERVIEW OF RECENT SUCCESSES**

For more than 164 years, the California State Fair has provided an opportunity to showcase the best that California has to offer. Fifty-years ago, in 1968 the State of California opened the California Exposition as the new home of the California State Fair. Cal Expo has maintained and enhanced the nearly 800-acre facility since that time with no funding from the State of California. Cal Expo has relied upon the revenues it generates from events to cover its annual operations and the general maintenance of the facilities. However, time is taking its toll on Cal Expo's facilities, and much needed capital expenditures are outpacing revenues available to maintain the buildings and infrastructure in a manner becoming the State of California.

Faced with an aging infrastructure and increased mandated operational costs (i.e. insurances, State medical benefits, State pension costs, wages associated with State collective bargaining agreements, State retiree and retiree medical benefits and more), Cal Expo has strategically embarked on a wide variety of "renewal efforts" over the past few years. Cal Expo & State Fair has achieved a great deal of success in creative solutions to improve the physical site and the experience for the people of California. Renewal efforts in the past four years have contributed to Cal Expo increasing its annual Operating Revenues by 21%, or \$4,828,425 (\$27,786,494 in 2017, compared to \$22,958,069 in 2013.)

A sampling of a few of the key components of these comprehensive renewal efforts includes:

1. Partnered with a private company and a professional soccer franchise to create Papa Murphy's Park at Cal Expo (previously known as Bonney Field);

2. Partnered with a private company to bring a Rock & Brews restaurant to Cal Expo (agreement signed in 2017 with an estimated opening in June 2018);
3. Issued a comprehensive Request for Qualifications (RFQ) to explore the possibility of additional third parties investing in Cal Expo;
4. Partnered with a private company to operate harness racing at Cal Expo;
5. Expanded thoroughbred racing from two weeks to three weeks;
6. Brought new large events to Cal Expo, such as the Global Winter Wonderland Chinese lantern festival, Country in the Park music festival Susan G. Komen Race for the Cure;
7. Invested more than \$7 million into capital improvements at Cal Expo in the past four years;
8. Enhanced relations with State agencies, the County of Sacramento and the City of Sacramento;
9. Increased sponsorship revenues for the annual State Fair;
10. Preserved the iconic CALIFORNIA letters from the Disney Corporation;
11. Garnered national and international awards and recognition for the State;
12. Expanded the Cal Expo & State Fair brand image, through web and social media presence, including providing the only Fair website to be offered in nine languages;
13. Created a successful grants program;
14. Created more award-winning exhibits and programs at the annual State Fair;
15. Created the first "Celebration of Farm Workers" exhibit at the 2017 State Fair;
16. Created the first United States National Drone Racing Championship at the 2015 State Fair;
17. Created "School Farm Tours" program;
18. Assisted Raging Waters water park in achieving its most successful years in its history;
19. Worked as a key player in helping to find a home for the Sacramento Kings;
20. Assisted the Sacramento community in keeping major events in town during the 18 month remodel of the Convention Center;
21. Obtained agreement with an event Promoter to conduct a major Cannabis Show at Cal Expo; and
22. Meeting or exceeding the Governor's goals for Green House Gas Emissions, Water Conservation, and Energy Conservation.

In addition to fulfilling its statutorily required programmatic functions, Cal Expo is also charged with maintaining, protecting and enhancing the nearly 800-acre facility. This includes more than 100 structures, and infrastructure from water wells to roadways, bridges, tunnels, and parking lots. Cal Expo's acreage includes 400 acres of the American River Parkway, which also requires upkeep.

## **OVERVIEW OF RECENT CHALLENGES**

While Cal Expo has recently grown its Operating Revenue, it will not be able to keep pace with ever-increasing Operational Expenses combined with the upkeep of key infrastructure. For example, Cal Expo's Operating Expenses have increased by \$5,941,578 or 27% over the past four years (\$28,043,930 in 2017 compared to \$22,102,352 in 2013.)

Of particular concern are recent increases in Operational Expenses that have been passed along to Cal Expo. Consequently, in an effort to preserve the State's valuable assets and programs at Cal Expo, the Board is prudently evaluating and reviewing Cal Expo's financial position; costs being annually assessed Cal Expo by the State; the condition of Cal Expo's infrastructure; an overview of workforce reduction policies of the State; and possible impacts of AB1499 and the proposed Parks/Environment and Water Bond.

### **I. Cal Expo's Unique Operating and Financial Position**

The following is a brief primer in understanding Cal Expo's operating and financial position.

1. Cal Expo functions as an Enterprise Fund of the State, and does not receive any operational or capital funding from the State of California, the County of Sacramento, or the City of Sacramento.
2. Receives no portion of the taxes that it generates, including sales tax, transient occupancy tax, possessory interest tax, etc.
3. Purchases all insurances (property, casualty, Police, Workman Comp, fiduciary, etc.) required to protect roughly 800 acres of State land and more than 100 structures.
4. Further protects the State's assets by employing, training, and equipping a standing Police Department and security staff, without a dedicated sales or use tax base.
5. Is required to adhere to the State's policies and practices for personnel, contracting, competitive bidding, etc.
6. Pays annual assessments to the State for Pro Rata, and Vehicle Fees.
7. Pays directly for the services it uses from the Office of the State Fire Marshal, Attorney General's Office, CalHR, etc.
8. Endeavors to remain nearly debt free, as its only source of debt repayment would be from its Operating Revenues.

## **II. Ever Growing Expenses Being Passed on to Cal Expo**

### **A. Annual Vehicle Assessment Fee: Increase of 1,438% for 2018**

The State's Office of Risk and Insurance Management (ORIMS) annually assesses Cal Expo and all District Agricultural Associations (DAA's) a Vehicle Assessment Fee. Should a major vehicle accident occur at a DAA or Cal Expo, ORIMS increases its assessment of all DAA's and Cal Expo. Due to a major accident involved a DAA vehicle in Southern California, Cal Expo's 2018 assessment from ORIMS is estimated at \$211,000, compared to 2017 assessment of \$14,685. Barring any additional major vehicle accidents, this new assessment will be in place for the next 5 years. Over 5 years this will cost Cal Expo an unanticipated \$1 million.

Cal Expo and key DAA's are committed to working with ORIMS to help identify methods aimed at stabilizing these annual assessments. Current suggestions have included:

- a) The possibility of ORIMS purchasing "umbrella coverage" that would handle extraordinary claims.
- b) Through advanced planning and forecasting, increase annual rates to a prudent level, so that catastrophic claims would not have costly impacts on the finances of Cal Expo and DAA's.
- c) Evaluate allowing Cal Expo and DAA's to purchase vehicle insurance on the open market.

Cal Expo is also working to reduce the number of vehicles it owns, as the annual assessment by ORIMS is tied to the number of vehicles.

### **B. Pro Rata Assessment to Cal Expo: Increase of 30% for 2018**

Cal Expo is annually assessed Pro Rata by the State. The Department of Finance provides helpful details on its website regarding Pro Rata. According to this website, Pro Rata represents General Fund recoveries of statewide general administrative costs from all State departments that benefit from the services. For 2018/19, Cal Expo's Pro Rata assessment is \$754,852, compared to 2017/18 Pro Rata assessment was \$596,612. Over the past 19 years Cal Expo has paid more than \$9.6 million in Pro Rata to the State. The annual Pro Rata payment has fluctuated annually from a low of \$150,374 to this year's high of \$754,852.

### **C. Increases in PERS Retirement Expenses**

As an Enterprise Fund, Cal Expo pays the employer's portion of retirement benefits in PERS. Due to projected decreases in fund projections for our retirement investments, along with new Bargaining Agreements, PERS has provided the below planning chart to State agencies. Based upon the below chart, it is estimated that Cal Expo's contributions to PERS will increase by \$1,920,000 over the next seven years.

**Projected Future Employer Contribution Rates with Discount Rate Changes  
(as a percentage of payroll)**

Fiscal Year	State Miscellaneous	State Industrial	State Safety	Peace Officers and Firefighters	California Highway Patrol
2016-17	26.646%	18.365%	18.753%	40.276%	48.719%
2017-18	28.8%	20.2%	20.2%	43.5%	52.2%
2018-19	31.3%	22.2%	21.9%	47.1%	56.1%
2019-20	34.7%	25.1%	24.4%	52.3%	61.7%
2020-21	36.9%	26.9%	25.9%	55.7%	65.4%
2022-23	38.7%	28.3%	27.1%	58.6%	68.4%
2023-24	39.7%	29.1%	27.7%	60.1%	70.1%
2024-25	40.3%	29.6%	27.6%	61.2%	71.2%

**D. New Requirement to Pre-Fund OPEB**

Other Post-Employment Benefits (OPEB) is provided to State employees through the collective bargaining process. As an Enterprise Fund, Cal Expo is currently requested to show its OPEB liability on its Balance Sheet. Consequently, the Cal Expo Balance Sheet notes roughly a \$9 million long-term liability for OPEB expenses. This amount will increase annually.

Additionally, Cal Expo was notified that “pre-funding” of OPEB is now a part of certain Collective Bargaining Agreements. Consequently, Cal Expo will be responsible for sending annual cash deposits to PERS to pre-fund a portion of OPEB. Based on current payroll statistics, Cal Expo estimates that it will be required to pre-fund OPEB at the following levels.

2018/19	\$ 62,488
2019/20	\$119,769
2020/21	\$182,258

**III. Cash Flow Analysis**

Attachment “A” is a 3-year illustration of Cal Expo’s Cash Flow. Naturally, revenues and expenses are much higher during the summer as Cal Expo prepares for and conducts the annual State Fair. While Cal Expo had been able to build its cash reserves from 2013 to 2015, its cash reserves have decreased in 2016 and 2017. Attachment “B” is a Cash Flow Projection into the future, which shows Cal Expo to be out of cash in late 2019.

**IV. Ever Growing Costs of 50-Year Old Infrastructure**

**A. Undertaking Maintenance, Repairs and Capital Projects**

Cal Expo has expended millions of dollars annually in the maintenance and upkeep of the property and structures. Cal Expo has recently invested more than

\$17 million in needed capital projects to help revitalize and extend the life of its aging infrastructure.

**B. Cost to Replace Storm Damaged Roof and Office Air Conditioning**

Cal Expo has historically undertaken repair of any major damages to the facilities. Such major repairs place an additional burden on Cal Expo’s cash flow. By example, in late 2016, a severe winter storm caused extensive damage to the roof of the Grandstand at the Race Track. Given the large amount of uses of the Grandstand, Cal Expo moved forward with taking on emergency and permanent repairs to the roof. {Note that uses of the Grandstand including: Satellite Wagering (Off-Track Betting,) Harness Racing, Thoroughbred Racing, Sacramento Mile Motorcycle Races, Country in the Park music festival, catering rentals, Spectra’s two main food kitchens, Spectra’s offices, Spectra’s Main Warehouse, etc.} The majority of this \$1.7 million roof repair has been completed, and the following is a financial snapshot as of Year-end 2017.

<u>Roof Repairs &amp; Electrical Repairs</u>	<u>Covered by Insurance</u>	<u>CalOES Funding (pending)</u>	<u>Cal Expo Out of Pocket</u>
\$1,713,371	\$945,189	\$7,500	*\$760,682

\*Out of Pocket includes paying the \$50,000 insurance deductible.

In August of 2017 the air conditioning for Cal Expo’s Administrative Office Building experienced a catastrophic failure. Due to its type, it cannot be repaired under new Building Codes. Also pursuant to new Building Codes, a new room will need to be added on to the Administration Building in order to house a new air conditioner unit separate from the existing heating unit. This project represents another \$124,000 impact to cash flow.

**C. Infrastructure Assessment by Sierra West**

Cal Expo, recently contracted with Sierra West, as 3<sup>rd</sup> party experts, to assess the conditions of the infrastructure at Cal Expo and assist in establishing strategic projects. Sierra West completed a similar review of Cal Expo in 2002. The following is a very brief summary of the some 80 pages contained in the 2018 Sierra West study.

1. Sierra West notes that between 2002 & 2017, Cal Expo has self-funded more than \$17M in infrastructure related Capital Improvements. Over this same period, Cal Expo has invested multi-millions in annual facility maintenance and repairs.
2. Sierra West notes that Cal Expo’s facilities have generally been well-maintained within the resources available for maintenance and repairs.
3. Sierra West stated that no facilities were found to be unsuitable for use by the public, yet many facilities were found to be reaching their serviceable life span – having been put in place 50 years ago.

4. Sierra West notes that many of the now needed facility improvements are the results of new legislation, new building standards, new energy requirements, new codes, etc.
5. Sierra West identified some \$136,525,000 in recommended facility improvements, if Cal Expo is to remain in service for the next 50 years.
6. Sierra West placed facility needs into 5 categories, and recommends that Category 1 and 2 be considered the most important. The combined total cost of Category 1 and 2 is \$78,834,000.

The 2018 Sierra West report represents a prudent step in addressing the sustainability of Cal Expo into the future. Strategizing to address these infrastructure challenges will impact the legacy of Cal Expo and the State Fair for future generations. Based upon this study, Cal Expo Staff is developing a priority listing of the most urgent infrastructure projects.

#### **V. Brief overview of Workforce Reduction**

Cal Expo conducted a significant workforce reduction, which began in September of 2010 with an effective date of February 2012. Consequently Cal Expo is familiar with CalHR's policies and practices in such matters. The State's identified process requires at least 6 months to effect a reduction in workforce. Based upon Cal Expo's previous experience, it is anticipated that it could take up to 18 months to achieve a reduction in workforce with the assistance of CalHR.

While a reduction in workforce would reduce some annual operating expenses, it would not result in enough savings to fund Cal Expo's infrastructure needs. A workforce reduction would also severely reduce Cal Expo's ability to protect the property and structures at Cal Expo. It would also reduce the programs available to the public at the annual State Fair. Cal Expo staff is evaluating the implementation of a possible hiring freeze, whereby vacant positions would not be filled.

#### **VI. Brief discussion of possible impacts of AB1499 and the proposed Parks, Environment and Water Bond.**

AB1499, as signed into law in 2017, would set aside 3/4 of 1% of the State's portion of sales tax generated at California's network of Fairs. This 3/4 of 1% would be provided to the Department of Food & Agriculture (CDFA) for distribution to Fairs. At this point in time the new Department of Tax and Fee Administration is trying to estimate what 3/4 of 1% might generate annually. Additionally, CDFA is working to identify how it might distribute these new funds to the Fairs. Since AB1499 does not specify a "return to source" approach, Cal Expo is not guaranteed that it will receive back a significant portion of what it generates under the new 3/4 of 1% formula.

Cal Expo Staff has prepared a preliminary estimate of \$58 million in annual taxable sales occurring at Cal Expo. Under the 3/4 of 1% formula, this would generate roughly \$435,000 annually into the fund to be distributed by CDFA.

Proposition 68, the proposed Parks, Environment and Water Bond would authorize \$4 billion in general obligation bonds for state and local parks, environmental protection and restoration projects, water infrastructure projects, and flood protection projects. Proposition 68 is on the ballot for June of 2018. While Proposition 68 identifies \$18 million for use at California's Fairs, the Proposition does not specify how individual Fairs will be selected to receive a portion of these funds if the ballot measure is successful.

## **VII. Additional Reductions in Operating Expenses**

Although Cal Expo reduced certain budget areas in the 2018 Budget, Staff is continuing to look for and evaluate additional reductions in operating expenses, as well as potential revenue sources. While Cal Expo may be able to further reduce operating expenses by a few hundred thousand dollars, certain cuts could result in less programming and services to the public.

## **CONCLUSION**

In addition to its many programs and functions Cal Expo serves as a significant emergency response and support facility for the State and Federal government, and has been designated as:

- The Emergency Seat of State Government;
- The National Pharmaceutical Stockpile for Northern California;
- A Tsunami Recovery Facility for the San Francisco Bay Area.
- In 2017, Cal Expo was officially activated by the Office of Emergency Services as a Regional Evacuation Center and Distribution Hub during the Oroville Dam incident. During this incident, some 10,000 meals were distributed from Cal Expo in a single day, in support of evacuees across the region.
- During the recent Napa Fires Cal Expo was again activated and served as the Red Cross "staff and volunteers shelter facility" and administrative distribution center for Northern California.

Fulfilling such important roles for the State will keep Cal Expo and the State Fair firmly woven into the fabric of California life. The organization's creativity has resulted in significant successes in recent years as documented in this report.

It is increasingly apparent that self-generated revenues will not be able to keep pace with future operational expenses and a 50-year-old aging infrastructure. Prudently strategizing to address growing operational expenses and infrastructure challenges will impact the legacy of Cal Expo and the State Fair for future generations.



**CALIFORNIA EXPOSITION AND STATE FAIR  
CASH FLOW  
THREE YEAR COMPARISON**

LEDGER A

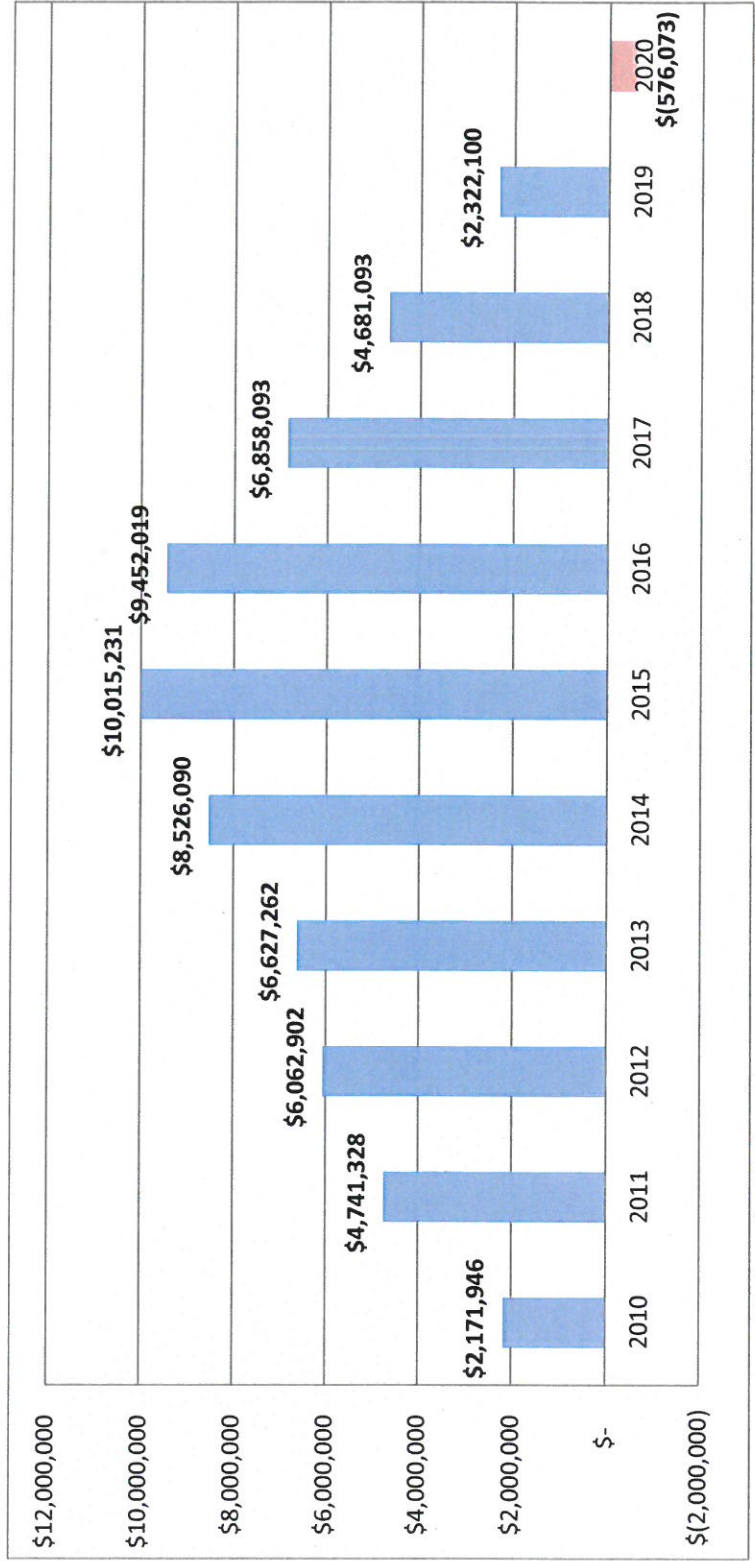
		MONTH	YEAR	CASH BALANCE	MONTHLY CHANGE	ANNUAL CHANGE
BAL	CASH			\$ 7,257,328		
BAL	CASH	March	2015	\$ 7,161,787	\$ (95,541)	
BAL	CASH	April	2015	\$ 6,945,561	\$ (216,226)	
BAL	CASH	May	2015	\$ 7,852,758	\$ 907,197	
BAL	CASH	June	2015	\$ 8,178,959	\$ 326,201	
BAL	CASH	July	2015	\$ 15,944,674	\$ 7,765,715	
BAL	CASH	August	2015	\$ 13,333,957	\$ (2,610,717)	
BAL	CASH	September	2015	\$ 12,759,863	\$ (574,094)	
BAL	CASH	October	2015	\$ 10,899,573	\$ (1,860,290)	
BAL	CASH	November	2015	\$ 10,838,876	\$ (60,697)	
BAL	CASH	December	2015	\$ 10,015,231	\$ (823,645)	
BAL	CASH	January	2016	\$ 10,079,853	\$ 64,622	
BAL	CASH	February	2016	\$ 9,275,851	\$ (804,002)	\$ 2,018,523
BAL	CASH	March	2016	\$ 8,417,103	\$ (858,748)	
BAL	CASH	April	2016	\$ 8,223,018	\$ (194,085)	
BAL	CASH	May	2016	\$ 8,923,780	\$ 700,762	
BAL	CASH	June	2016	\$ 9,067,497	\$ 143,717	
BAL	CASH	July	2016	\$ 16,489,418	\$ 7,421,921	
BAL	CASH	August	2016	\$ 12,335,880	\$ (4,153,538)	
BAL	CASH	September	2016	\$ 11,505,068	\$ (830,812)	
BAL	CASH	October	2016	\$ 10,900,548	\$ (604,520)	
BAL	CASH	November	2016	\$ 10,252,997	\$ (647,551)	
BAL	CASH	December	2016	\$ 9,452,018	\$ (800,979)	
BAL	CASH	January	2017	\$ 8,649,671	\$ (802,347)	
BAL	CASH	February	2017	\$ 8,505,423	\$ (144,248)	\$ (770,428)
BAL	CASH	March	2017	\$ 7,327,889	\$ (1,177,534)	
BAL	CASH	April	2017	\$ 7,481,863	\$ 153,974	
BAL	CASH	May	2017	\$ 7,823,153	\$ 341,290	
BAL	CASH	June	2017	\$ 7,483,622	\$ (339,531)	
BAL	CASH	July	2017	\$ 13,332,239	\$ 5,848,617	
BAL	CASH	August	2017	\$ 11,154,949	\$ (2,177,290)	
BAL	CASH	September	2017	\$ 10,094,012	\$ (1,060,937)	
BAL	CASH	October	2017	\$ 7,672,702	\$ (2,421,310)	
BAL	CASH	November	2017	\$ 7,364,110	\$ (308,592)	
BAL	CASH	December	2017	\$ 6,858,093	\$ (506,017)	
BAL	CASH	January	2018	\$ 6,334,012	\$ (524,081)	
BAL	CASH	February	2018	\$ 5,495,169	\$ (838,843)	\$ (3,010,254)

\*17/18 Comparison January \$ (2,315,659)

\*17/18 Comparison February \$ (3,010,254)

# California Exposition & State Fair Cash Flow 2010 - 2020

Year	Cash Balance at		Increase / (Decrease)	Cash Balance at	
	January 1			December 31	
2010	\$ 3,099,097	\$	(927,151)	\$	2,171,946
2011	\$ 2,171,946	\$	2,569,382	\$	4,741,328
2012	\$ 4,741,328	\$	1,321,573	\$	6,062,902
2013	\$ 6,062,902	\$	564,361	\$	6,627,262
2014	\$ 6,627,262	\$	1,898,827	\$	8,526,090
2015	\$ 8,526,090	\$	1,489,141	\$	10,015,231
2016	\$ 10,015,231	\$	(563,212)	\$	9,452,019
2017	\$ 9,452,019	\$	(2,593,926)	\$	6,858,093
2018	\$ 6,858,093	\$	(2,177,000)	\$	4,681,093
2019	\$ 4,681,093	\$	(2,358,993)	\$	2,322,100
2020	\$ 2,322,100	\$	(2,898,173)	\$	(576,073)
					<b>(year end cash estimate at 10/25/17 \$6,761,142)</b>
					<b>** ESTIMATE **</b>
					<b>** ESTIMATE **</b>
					<b>** ESTIMATE **</b>



2019 and 2020 based on 2% operating and personnel cost increase and \$26 Million revenue  
Attachment "B"