

Emergency Support Working Group Report to the CDFA Fairs Consortium October 18, 2011

Purpose

With the elimination of 100% of State funding in the 2011/2012 state budget (\$32 million in General Fund support), the Network of California fairs must now depend solely upon self-generated revenues for operations, regular maintenance, deferred maintenance and new construction. For many of the 78 fairs, the challenge of finding alternative sources for up to \$200,000 in annual state funding during trying economic times and in extremely rural and depressed markets is overwhelming and, in some cases, perhaps impossible. This working group of the California Department of Food & Agriculture (CDFA) Fairs Consortium is charged with exploring the need for and sources of one-time emergency support to assist the California fairs as they transition to 100% self-sufficiency in the fiscal year of 2012/2013.

When looking at the fairs with the most immediate need, poor financial condition can be traced back in most cases to poor management and/or lack of board oversight within the last five years. Some of these fairs are working hard now to overcome their challenges while others are continuing to avoid making the changes necessary for financial success. In some cases, boards and management have developed and implemented multi-year recovery plans that have brought them a long way from an original financial crisis unrelated to the 2011/2012 state budget, however without state funding, their efforts have been drastically slowed or even stalled.

The group recognizes that some fairs were financially challenged before elimination of state funding and that all fairs received full funding plus a supplemental allocation in 2011. At the same time some fairs have been operating prudently but are very dependent upon state support to operate. Emergency support would provide the necessary bridge to transition to 100% self sufficiency without a community losing its valued fairgrounds.

Tasks

This working group took into consideration all of the above factors and established the following tasks:

- Develop a financial analysis of all of the fairs in the state to determine how much emergency support is needed and when it is needed
- Establish criteria upon which to recommend policy guidelines to the consortium regarding which fairs would qualify to receive emergency support
- Identify potential sources of emergency support

Financial Analysis

In order to conduct a proper analysis of the financial status of fairs, the Division of Fairs & Expositions (F&E) requested all 78 fairs to submit trial balance reports for July of 2011. Those reports were used to produce a detailed analysis of average revenues, average expenses, long term debt, current assets and liabilities, estimated costs to close a fair, and estimated monthly costs to maintain a DAA facility that has been closed. The analysis includes a projection of total cash available at three different time periods in the future: December 31, 2011; June 30, 2012; June 30, 2013.

Please note that this financial analysis is based on current operating policies, staff levels and 2011 funding which included supplemental allocations to all fairs. It is hoped that through aggressive management many of these fairs can decrease their financial obligations to buy them some time. At the same time, the consortium recognizes that fairs have increased costs that used to be covered by the General Fund support of the Network of California Fairs that was not included in their annual base allocations.

In summary, this working group has determined that it is inevitable that some fairs may close within the next 15 months without emergency support and/or operational changes. It is estimated that at least \$7.1 million may be needed in emergency support. This figure does not include costs to actually close and maintain closed DAA fairgrounds, a responsibility that may fall to CDFA.

About 50% of the \$7.1 million will support key programs that protect the state's General Fund from certain exposures including vehicle, property and unemployment liability for one year.

Recommended Criteria to Qualify for Emergency Support

The working group recommends criteria upon which to base a policy guideline regarding which fairs may qualify for emergency support should it be obtained. The recommended criteria include the following:

- Review of financial analysis including trend reports, financial strength of fair
- 2010 F&E Performance Ratings
- Location/region of fairgrounds
- Fair's business plan to become self-sufficient
- Fair's action plan to implement F&E intervention efforts, past and present

Any member of the Network of California Fairs may apply for emergency support. Their application, 2012 budget, and other required documents will be reviewed for qualification for emergency support. No fair would receive more than its 2010/2011 base allocation in emergency support.

Emergency Support Sources

The working group believes that should emergency support be necessary in the 2012/2013 fiscal year, it will have to be obtained through the budget trailer bill process. The group estimates that \$7.1 million would be needed to provide one-time bridge funding allowing fairs time to realize 100% self-sufficiency, and \$1.85 million in administrative support for the Division of Fairs & Expositions will be needed.

In the event that one or more DAAs will have to be closed, the working group recommends CDFA submit a budget deficiency request to the Department of Finance prior to June 30, 2012, to cover the costs of closing the fairgrounds. Closing costs would include minimal maintenance to lessen the state's liability that comes with abandoned state-owned property. A partnership with the California Emergency Management Agency (Cal EMA) may be necessary should that agency determine the fairground is critical to the state's emergency response plan.

Recommendation

In summary, the CDFA Fairs Consortium Emergency Support Working Group estimates inevitable closure of some fairs if those fairs make no operational changes in the next 15 months. Therefore, the working group respectfully recommends to Agriculture Secretary Karen Ross and the CDFA Fairs Consortium the following:

- A legislative solution in 2012/2013 to obtain \$8.95 million in emergency support.

- Adoption of detailed criteria including the areas mentioned above to be used to qualify fairs for emergency support.
- Beginning with the 2011 California Fair Alliance Budget Workshop in November, F&E work closely with the most at-risk fairs on a plan to bring down expenses and increase revenues to avert closure.
- F&E work with each fair to determine the amount of assistance needed. No fair would receive more than its 2010/2011 base allocation in emergency support.
- CDFA submit a budget deficiency request to the Department of Finance should DAA closures become necessary to cover costs of closing fairgrounds.
- CDFA partner with Cal EMA to maintain those closed fairgrounds that are deemed critical to the state's emergency response plan.
- In the meantime, CDFA encourage the Network of California Fairs to work together to develop partnerships, programs and other opportunities to work together for cost savings and revenue generation.