September 30, 2024 F2024-06

TO: All Fair CEOs

SUBJECT: AB1499 Funds Allocation: Distribution Policy Framework

The purpose of this letter is to provide clarification and information on the policy framework utilized in the most recent disbursement of the funds, commonly referred to as "AB1499 funds," to eligible fairgrounds within the network of California fairs. As you are most likely aware, Assembly Bill 1499 (AB1499) (Chapter 798, Statute year 2017) codified Business and Professions Code 19620.15, which allowed three-quarters of one percent of the total amount of gross receipts for sales and use tax purposes generated on state-designated fairgrounds to be transferred to the California Department of Food and Agriculture (CDFA). With the AB1499 funds accumulating over several years, CDFA's Fairs & Expositions Branch (F&E) was directed to create a policy framework for allocations moving forward. As a result, in May of 2023, various concepts for the distribution framework were presented to the fairground CEOs for their consideration. Since then and throughout 2023, CDFA engaged in additional conversations with the industry for input and feedback, which were taken into consideration for the development and finalization of the policy framework. Subsequently, F&E made a determination on the amounts to be distributed from the AB1499 funds in late 2023.

Distribution Policy Framework

Being mindful of distribution balances to the industry without being overly complex, the framework consists of three pools of funds with distinct characteristics: Base Minimum, Operating Revenues, and Bonus/Profitability. Each pool is allotted a percentage of the total planned distribution. The policy framework was developed by incorporating ideas from varying philosophies as conveyed in the three different pools, where each pool can be thought of as having an allocation method independent of the other. For more information on requirements to be eligible, in general, to receive the AB1499 funds from this framework, please refer to the section labeled "Eligibility" later in this letter.

The **Base Minimum** pool will equally distribute the funds to all eligible fairgrounds. This method seeks to provide stability within the industry, which is especially meaningful for smaller fairgrounds given that smaller fairgrounds on average tend to have more difficulties increasing revenues and being profitable.

Example: If there are 73 eligible fairgrounds in the base minimum pool, then each fairground will receive approximately 1.4 percent of the total amount allocated to this pool.

The **Operating Revenue** pool allocates funds based on the fairground's operating revenue relative to the total pool's operating revenue. This method provides an allocation that would be considered meaningful relative to the scale of the fairground's operation, i.e., larger fairgrounds will generally receive more. An emphasis on the operating revenues will encourage additional economic activity to potentially increase the fairground's share of the allocation while increasing the tax revenues generated on the fairground.

Example: If the fairground's operating revenue is $1,000,000 and the total operating revenue in the pool is $400,000,000, then the fairground will receive 0.25 percent of the total amount allocated to this pool.

The **Bonus/Profitability** pool provides fairgrounds with additional funds based on achieving profitability, i.e., fairgrounds will receive a bonus for being profitable. Fairgrounds will qualify for this pool if they make at least one dollar in operating profit. The bonus amount will be based on the methodologies described for base minimum and operating revenue. The bonus amount is not based on the level of profitability but whether the fairground is profitable or not. This method will provide incentives for managers to be fiscally disciplined in their operations.

Clarification on Distribution

With the finalization of the policy, F&E determined the amounts for each fairground and initiated the allocation process in late 2023. The total amount allocated for distribution was approximately $12 million. Most eligible fairgrounds received these funds in the first quarter of 2024. For this distribution, the weighting allocated to each pool are shown below:

Pool Characteristic	Percentage of Total Allocation	$12 Million Allocation*
Base Minimum	40%	4,800,000
Operating Revenue	45%	5,400,000
Bonus/Profitability	15%	1,800,000
Base Minimum (Bonus)	*20% of Bonus pool*	*360,000*
Operating Revenue (Bonus)	*80% of Bonus pool*	*1,440,000*

**The actual total allocation was slightly higher than $12 million due to rounding in each individual allocation. The figures shown above were calculated based on exactly $12 million for ease of displaying amounts per pool.*

73 fairgrounds were determined to be eligible for this distribution. Within the distribution, 34 fairgrounds were eligible for the bonus pool.

To calculate the operating revenue and determine eligibility for the bonus pool, F&E used financial information from 2017, 2018, and 2019. The three-year average and three-year median were averaged for these calculations. A graphic representing the methodology described in this letter is attached for your convenience.

Future Distributions and STOP Submission Impact

F&E plans to utilize information from 2019, 2022, and 2023 for the next distribution expected in the fourth quarter of 2024. Furthermore, future distributions are expected to be released in the fourth quarter on an annual basis. However, it is important to mention that while the framework was developed to create a methodology on how future distribution policies may look like, material changes to the amount transferred to CDFA, significant imbalances in the distribution, new legislations affecting the industry, or other various factors may bring about changes to the framework or percentages allocated to each pool.

With the distribution policy utilizing financial information from the fairgrounds, timely submission of financial information is critical for this process. Furthermore, Business and Professions Code 19622 subdivision (a) requires an annual submission of the Statement of Operations (STOP) to maintain eligibility to receive funds or to utilize state assets. Consequently, we urge you to make the necessary arrangements to submit the annual STOP in a timely manner, thus avoiding having the allocation for your fairground from being negatively impacted.

Annual STOPs are typically due within the first three months of the year. Failure to submit the STOP by the end of June each year will result in the Operating Revenue pool using $0 for calculation purposes and disqualification from the Bonus pool. Failure to submit the STOP by the end of September each year will disqualify your fairground from receiving the AB1499 funds for that year's distribution cycle[1]. By setting these timelines, F&E will be in a better position to aggregate the information that is necessary to finalize the calculations and distribute the AB1499 funds to the industry in a timely manner.

Eligibility

As a reminder, in addition to submitting the annual STOP, to maintain eligibility for the AB1499 funds, fairgrounds are expected to abide by working conditions prescribed in Business and Professions Code 19620.15. Currently, F&E considers fairgrounds to be opted in unless they have previously explicitly opted out of receiving AB1499 funds. Furthermore, a disqualification from the year's AB1499 distribution cycle does not exempt your fairground from the application of required working conditions.

To opt out from receiving the AB1499 funds, board action must be taken to opt out of AB1499 funds and must be communicated to F&E. Additionally, if the intention to opt

[1] For the next distribution, expected in the fourth quarter of 2024, the penalties described in this letter regarding delinquent submissions will take effect if the STOP is not received by F&E by **October 31, 2024**.

out from AB1499 funds is to remove the fairground's working condition requirements as prescribed in Business and Profession Code 19620.15, the board should also take action to remove the working condition policy.

If you have any questions, please contact me at 916-900-5365 or via email at mike.francesconi@cdfa.ca.gov.

Sincerely,

Michael W Francesconi

Michael Francesconi
Branch Chief

Enclosure

AB1499 Allocations
Distribution Policy - Weighting