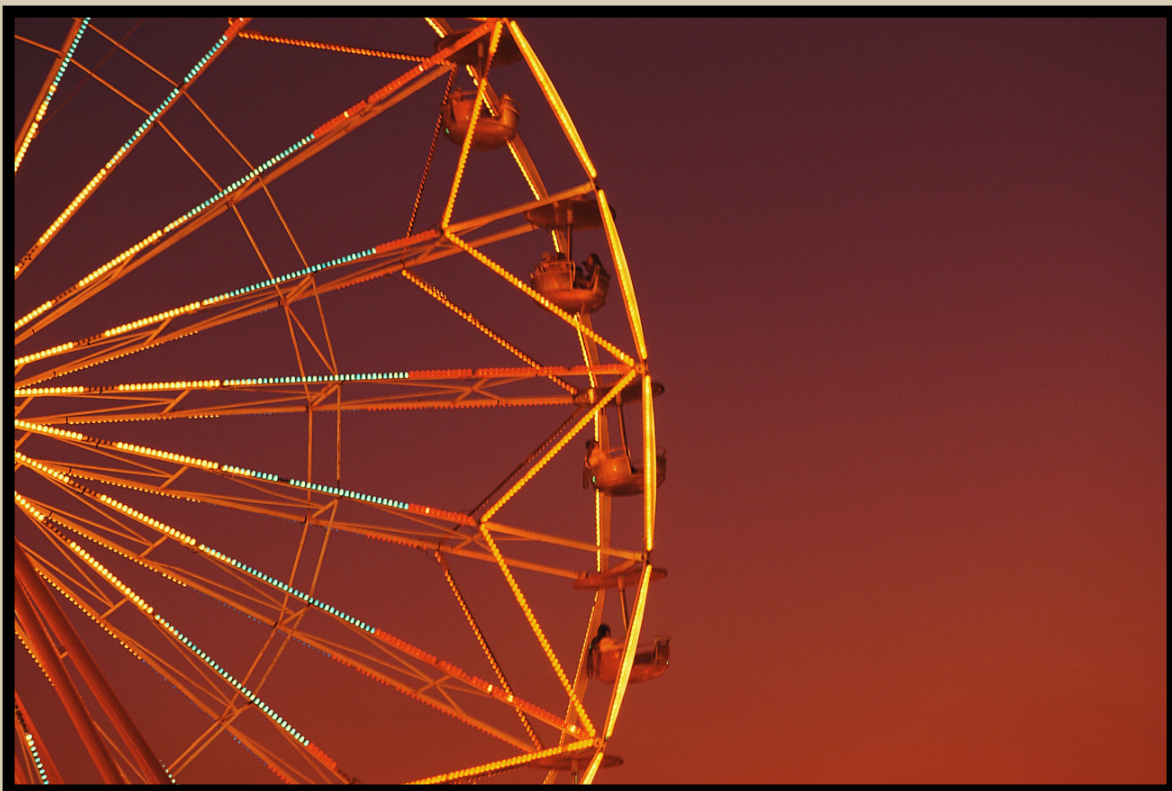


Joint Committee on Fairs Allocation and Classification

Network of California Fairs 2008/2009 Expenditure Plan



A. G. Kawamura, Secretary
California Department of Food and Agriculture
Division of Fairs and Expositions



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kowamura, Secretary

July 2008

To: Members, Joint Committee on Fairs Allocation and Classification

Subject: 2008/2009 Expenditure Plan for the Network of California Fairs

Pursuant to Business and Professions Code 19621(c), I respectfully submit the 2008/2009 Expenditure Plan for the Fair and Exposition (F&E) Fund and Satellite Wagering Account for your approval. This expenditure plan will serve the interests of the State of California and your constituents, as well as deliver the maximum benefit to California fairs at the local level. Fairs are assets to communities, and I believe this plan supports their local efforts.

As always, the formulation of this plan received significant input from the California fair industry and was reviewed and approved by the California Fair Alliance Board within the Western Fairs Association. The plan is the product of the unique and very long-term partnership between agricultural fairs and our State's horse racing industry, dating to the 1860s. Quoting from the January 1993 report *California Fairs Facing Change – Opportunities for Success*:

“Fairs have been an integral part of the horse racing industry in California since the 1860s, when organized racing was first conducted at district fairs. Following the Great Depression, fairs' need for state revenues made pari-mutuel betting palatable, politically and socially, and set the stage for creating a tie between fairs and racing activities. The California Horse Racing Act of 1933 – ratified two to one by a referendum of the electorate – legalized pari-mutuel betting on horse racing and established a special account in state government funded by a portion of betting receipts to support the fairs.”¹

The Department of Food & Agriculture (CDFA) serves as the steward of these funds, ensuring their appropriate use and monitoring the fairs' adherence to sound fiscal policies.

Four important features exist in relation to this partnership:

First, as a result of the funding from racing, *fairs do not place any burden on the State's General Fund*. In fact, even CDFA's oversight and fund management roles are funded entirely from racing income.

¹ *California Fairs Facing Change – Opportunities for Success*. Committee to Study the Fair Industry in California. January 1993.



Second, the State experiences a *huge economic return* from fair activity statewide. With the approximate \$24 to \$28 million generated for fairs by racing as a foundation, fair budgets total more than \$350 million annually, all supported by local user fees including admission charges, event rental fees, sponsorship income, etc. This translates into more than \$136 million in direct state and local income from sales, income and other tax sources; the creation of more than 28,000 jobs; and total economic impact to the State of more than \$2.5 billion.² It is a truly remarkable accomplishment, one that also provides significant educational and social benefits as well. Fairs are an important part of California's economy and a very important investment in our communities.

Third, California fairs provide a significant social impact by *connecting communities with their nonprofit and charity-based community organizations*, providing a venue to raise awareness of their programs and services – and to raise funds to support causes for the benefit of local citizens. For many local nonprofit groups, a significant percentage of their annual budgets are derived from fundraising activities at fairs.

Fourth, fairs in California play a major role each year in natural disasters and in the State's Homeland Security preparedness by *servicing as staging sites and rescue locations* for humans and animals during forest fires, floods, earthquakes, and other emergencies. Last year, the Governor's Office and Office of Emergency Services tasked the Department to open cooling centers at fairgrounds throughout the state during the height of a grueling July heat-wave. Subsequently, raging wildfires swept Southern California in late October where local fairgrounds responded admirably by serving as emergency command posts and mass evacuation centers for thousands of humans and animals.

While the benefits of California fairs are clear and quantifiable, horse racing-generated funding for fairs continues to deteriorate annually. This significant challenge was highlighted in 2004/2005 when the F&E Fund experienced an unprecedented first-time revenue shortfall of approximately \$3 million from on-track live racing and off-track satellite wagering, which directly impacted valuable fair programs and resources. The end of fiscal year 2006/2007 marked the third straight year of an approximate \$3 million shortfall in fair funding further highlighting the severity of the issue and need for a resolution. Unfortunately, 2007/2008 looks to be no better with a forecasted shortfall at June 30, 2008 of \$4.5 million based on revenue trends through March 2008.

The shortfall, in part, is attributable to the advent of advanced deposit wagering (ADW) as detailed on page 22 of this plan. The negative impact of ADW on fair funding is now evident based on the ADW handle trends since 2001/2002. Since state license fee revenue, which benefits the F&E Fund and fairs, is not generated from ADW, the inverse correlation between increased ADW handle and decreased state license fee revenue will continue. Should state income from racing continue to decline as bettors move toward ADW and other forms of gaming, the solvency of the F&E Fund and the future of California fairs will continue to be at risk.

² *Fairs – Exploring a California Gold Mine*. California Department of Food and Agriculture. 2003.

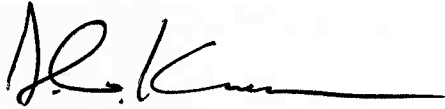
Joint Committee on Fairs Allocation and Classification

July 2008

Page 3

My staff and I look forward to the opportunity to discuss this plan with you. If you would like additional information, please contact Michael Treacy, Director of the Division of Fairs and Expositions, at (916) 263-2952.

Sincerely,

A handwritten signature in black ink, appearing to read 'A.G. Kawamura', with a long horizontal flourish extending to the right.

A.G. Kawamura

Secretary

Enclosure

Table of Contents

Executive Summary.....	i
Report on 2008/2009 Expenditure Plan.....	1
Program Descriptions.....	24
Revenue and Expenditure Plan.....	28
<i>Combined Revenue & Expenditure Plan (191 & 192)</i>	
<i>Fair and Exposition Fund (191)</i>	
<i>Satellite Wagering Account (192)</i>	
Funding Strategy and Methodology.....	31
California Fair Listing.....	34



Fairtime pageants showcase young talent within the local community. Glenn County Fair, Orland.

Executive Summary

The following report presents the 2008/2009 Network of California Fairs Expenditure Plan to the Joint Committee on Fairs Allocation and Classification.



Enjoying a Kodak moment at the Monterey County Fair.

2008/2009 Expenditure Plan Highlights

In 2007/2008, the Department of Food and Agriculture's Division of Fairs and Expositions (F&E) introduced the most significant change in fair funding allocation strategy in more than 15 years. The new strategy which revolves around fund growth and sustainability was inevitable due to the increasing competition from neighboring venues, an ever-decreasing fund source from horse racing, and deteriorating fair facilities. The 2008/2009 Expenditure Plan continues to emphasize these renewed areas of focus in year two of F&E's multi-year funding strategy for fairs.

The revised funding program is designed to generate significant working capital during the next ten years and beyond to address deferred maintenance and urgently needed capital infrastructure projects at California's aging fairgrounds. At the heart of the funding strategy are an infrastructure

sinking fund and a replenishment model, which leverages the sinking fund resources to create a perpetual fund source for fairs.

The proposed plan continues to include baseline allocations to fairs, but is revamped in virtually all other areas. This long-range funding strategy utilizes an investment approach to spending that is more focused and includes the leveraging of existing resources to create perpetual funding sources. The fairs' efforts to secure matching funds and local contributions will be highly encouraged and rewarded. Resources will be consolidated within fewer programs to allow F&E to fund larger projects that traditionally have not been feasible due to the dilution of dollars over a larger number of programs and fairs.

Economic Impact

Fairs have a significant impact on California's economy. A 2002 economic impact study revealed the following:

- ✚ Spending by all participants at fair time and interim events results in a positive economic impact on California in excess of \$2.55 billion annually.



The Lodi Grape Festival pays tributes America's armed forces.

- ✚ Jobs created by fairs through direct employment and multiplier impacts reach nearly 28,000 annually.
- ✚ State and local governments collect in excess of \$136 million in tax revenues from fair-related activities annually.

Social Impact

Emergency Preparedness & Response

California fairs are regularly called upon by federal, state and local public health and safety agencies to assist with emergency preparedness and response. Fairgrounds are an invaluable resource during emergencies such as earthquakes, floods, fires, and other natural or unnatural disasters. The roles fairs play during these exercises and emergencies vary significantly and occur frequently.



Service men and women arrive at the San Diego County Fair in Del Mar to provide assistance during the 2007 Southern California wildfires.

Examples of current and past fairground usage include mobilization and emergency staging sites, evacuation centers for animals and humans, fire camps, emergency preparedness training locations, and temporary homeless shelters.

In late October 2007, tragic wildfires swept Southern California from San Diego to Malibu forcing homeowners across the region to flee their homes for safety. California fairs responded admirably by

serving as command centers for emergency response personnel and providing food, shelter and support services to thousands of displaced residents and their animals.



Patrons enjoy livestock exhibits and auction activities annually at California fairgrounds. Del Norte County Fair, Crescent City.

Community Groups – California fairs are major venues for community groups and nonprofit organizations to raise money and public awareness.

- ✚ Nonprofit groups raise in excess of \$8 million at California fairs for their community programs. Add in the approximate \$21 million raised at junior livestock auctions, and a total of \$29 million is raised annually for community benefits.
- ✚ One nonprofit organization, the Turlock Lions Club, raises approximately 85 percent of its annual budget from fundraising events held at the Stanislaus County Fairgrounds. Proceeds from these events go to fund scholarships for local high school students, eye exams and glasses for needy children, youth sport teams, youth attendance at camps for the hearing impaired, and school playground equipment.



Music and the arts is a staple at California's fairgrounds. Redwood Empire Fair, Ukiah.

Funding

Revenue Source

Fair funding that is not self-generated is derived entirely from California's pari-mutuel wagering system, which was made possible by a constitutional amendment in 1933 to encourage agriculture, and to generate income for California's fair system. In the beginning, horse racing revenues were generated solely from live racing at California tracks, where state horse racing license fees were designated to support the network of California fairs. Today, off-track wagering at satellite wagering facilities and via advance deposit wagering (ADW) combined have surpassed live racing as the preferred means of wagering. While live racing and wagering at satellite wagering facilities continue to generate license fee revenue, which directly benefits the fair network, ADW does not.

Expenditures

(See pages 28 through 33 for details)

Administrative Oversight

36% of the expenditure budget is earmarked for the operational budgets of the Horse Racing Board (\$10.1 million) and the Department of Food and Agriculture (\$4.4 million).

Fair Local Assistance

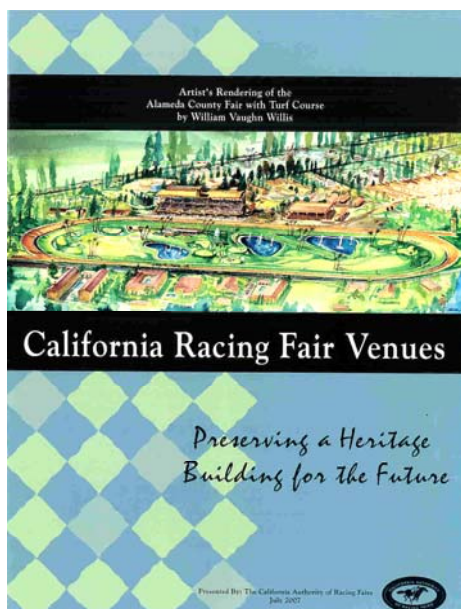
64% of the expenditure budget (\$25.8 million) is earmarked for the direct support of California's fair network.

- ✚ *Baseline Funding and General Fair Programs* – 49% of the local assistance budget is earmarked for baseline operational support for fairs and incentive programs.
- ✚ *Operational Support* - 18% of the local assistance budget is earmarked for bond debt service, construction services and property insurance.
- ✚ *Horse Racing Support* - In addition to the support of the Horse Racing Board, 16% of the local assistance budget is earmarked for improvements to live horse racing and satellite wagering programming and facilities, supplemental horse racing purses at California racing fairs and race track preparation costs.
- ✚ *Infrastructure / Health & Safety* – 15% of the local assistance budget is earmarked for the Division's newly created infrastructure programs funding by the infrastructure sinking fund, which is intended to generate significant capital to address aging infrastructure at California fairgrounds. Other programs and expenditures include the health department program, a cooperative effort between the Division and the Department of Health Services to conduct health and safety inspections at fair facilities and project planning costs related to the Division's new funding model. Planning costs includes, but is not limited to, project scoping and budgeting, preliminary plans, construction documents and bidding.

- ✚ *Training & Education* – Two percent of the local assistance budget is earmarked for the development and delivery of training seminars and workshops on emerging fair issues, and professional development for fair personnel and boards of directors.

The Future of Fairs and Horse Racing

“The racing industry is approaching a crossroads as increasing real estate values strain the economic model that governs operator-owned, private commercial race tracks. As land values increase, private race track owners are compelled to consider developing their property for purposes other than racing.”¹



California Racing Fair Venues, CARF, July 2007.

“Fairs are proposing a concept for the future that envisions a larger role for publicly-owned venues at Fairs, perhaps along the lines already in place at Del Mar. In that example, a private racing association operates in a lease agreement with a public facility owned by a Fair. Fairs are diversified entertainment and commercial

enterprises, less susceptible to the impact of changing real estate values than are operator-owned, private commercial tracks.”¹

“Millions of Californians already visit Fairs each year. Fairs have and can finance expansion and improvement of their existing racing facilities through public bonds secured by revenue from pari-mutuel wagering. The model that Fairs envision keeps California racing revenues in California for the benefit of California participants. We believe that such a model provides a solid foundation on which to build a strong and stable future for the California racing industry.”¹



“Del Mar. The words evoke a standard of excellence and the finest that racing has to offer.”¹

(The above photo is copyrighted by Donald W. Larson www.timeoutofmind.com and used with his written permission.)

Because of the fair industry’s inherent ties to horse racing and the sentiments reflected by the California Authority of Racing Fairs regarding the future of racing in California, the 2008/2009 Expenditure Plan once again reflects a strong commitment to fair horse racing. This commitment includes funding to preserve the existing fair horse racing infrastructure as well as funding to support the fair industry’s effort to seize future racing opportunities for the betterment of fairs and California horse racing as a whole.

¹ *“Some Observations on the Future of California Racing”*, by Christopher Korby, Executive Director, California Authority of Racing Fairs; *California Fair Racing Venues: Preserving a Heritage / Building for the Future*, July 2007.

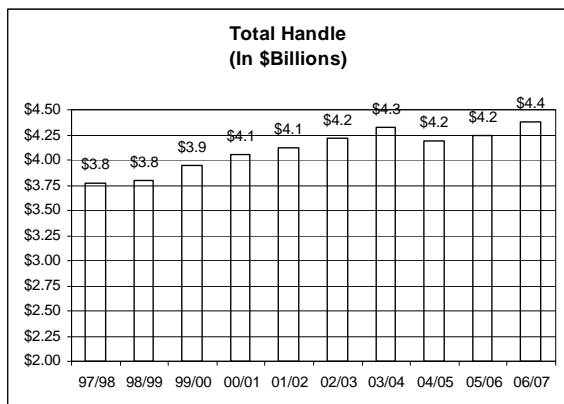


The Del Mar grandstand at the San Diego County Fairgrounds.

Fiscal Trends & Challenges

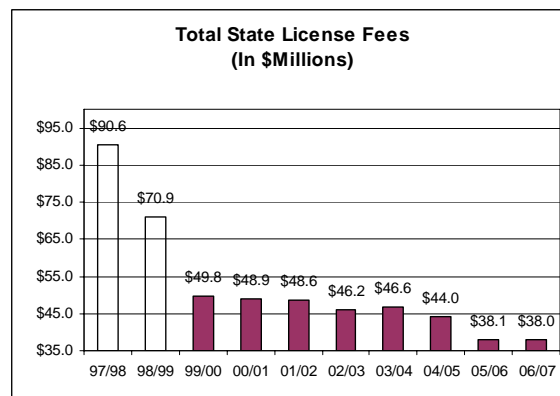
Since 2004/2005, the F&E Fund has experienced unprecedented revenue shortfalls of approximately \$3 million each year from horse racing wagering activities, which directly impacted valuable programs and resources that benefit California's network of fairs.

While the total amount wagered on horse racing continues to increase steadily, state license fees available to fund the fairs and other designated beneficiaries, such as the state's General Fund, continue to decline. The charts on the following page show the inverse correlation between the total horse racing handle generated to the total state license fees available over the past decade.



Source: CHR B Annual Reports

The shortfalls in fair funding during the years 2004/2005 through 2006/2007 occurred because annual total state license fees were inadequate to fully fund all designated beneficiaries to the extent allowed by law (see chart on following page). Fairs have absorbed the full impact of the annual shortfalls totaling approximately \$9 million in the aggregate since 2004/2005. Should future license fee revenue continue to decline, or be consumed by increased operational budgets for existing fund beneficiaries, the inadequacies of this fund source will only be further highlighted.



Source: CHR B Annual Reports

Other primary beneficiaries of state license fee revenue include the Kenneth L. Maddy Equine Research Center at U.C. Davis and the General Fund.

While the vast majority of fair funding is generated by the fairs themselves, fairs still rely heavily on monies received from horse racing. Approximately \$27 to \$28 million from state license fees annually has historically been available to support the network of California's 78 active fairs. This fund source continues to deteriorate. The 2008/2009 proposed local assistance budget totals \$24.5 million.



Local men in uniform help celebrate the opening day of the fair. Los Angeles County Fair, Pomona.

These local entities receive no General Fund support; instead they rely on horse racing to supplement their budgets. While nearly 63% of Californians take part in some form of gaming, revenues from horse racing have eroded as a result of a highly competitive marketplace, which includes the evolution of Indian gaming facilities, lotteries and other wagering outlets.

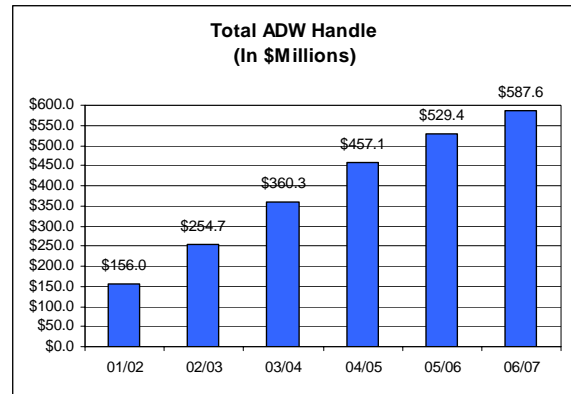


Harnessing strength and speed at the Del Mar Race Track .

In addition, with the advent of ADW, as discussed on page 22, the correlation between the increased popularity of ADW and the reduction in horse racing license fees, which support local California fairs, is evident.

The negative impact of ADW on fair funding is now evident based on the ADW handle trends since 2001/2002. Since state license fee revenue, which benefits the F&E

Fund and fairs, is not generated from ADW, the inverse correlation between increased ADW handle and decreased state license fee revenue will continue. Should state income from racing continue to decline as bettors move toward ADW and other forms of gaming, the solvency of the F&E Fund and the future of California fairs will continue to be at risk.



Source: CHR B Annual Reports

Introduction

This report presents the 2008/2009 Expenditure Plan to the Joint Committee on Fairs Allocation and Classification within the California State Legislature. This publication includes an overview of the network of California fairs, the roles and responsibilities of various state, county and private organizations, an explanation of the new funding strategy for fairs, and a comprehensive program list explaining the full range of programs supported by the Expenditure Plan.

Authority

The California Department of Food and Agriculture (CDFA) provides fund administration and broad policy oversight to the network of California fairs through the application of law; development of policies, procedures and regulations; and broad

supervision over fair fiscal and administrative matters.

Business and Professions (B&P) Code Sections 19620 and 19606.1 authorize CDFA oversight of the Fair and Exposition Fund and Satellite Wagering Account, respectively. B&P Code Sections 19621(c) and 19606.1(c) require CDFA to prepare an annual expenditure plan for review and approval by the Joint Committee on Fairs Allocation and Classification. The annual plan also incorporates input from the California fair industry and fair business partners to ensure its relevancy and support by key stakeholders.

Table 1 shows a sample of the various types of expenditures authorized and approved for each account in past years.

Table 1

Fair and Exposition Fund (Acct. 191) (B&P Code § 19620.1, 19630)	Satellite Wagering Account (Acct. 192) (B&P Code § 19605.9(b), 19606.1, 19606.3)
Local (Base) Allocations to Fairs – operational support	Bond Debt Service
Unemployment Insurance	Health and Safety Projects
Capital Outlay and Deferred Maintenance Projects	Pari-mutuel Improvement
Professional Development and Training	Live Fair Racing Improvements and Track Preparation
Agricultural Education	Supplemental Purses
California Horse Racing Board (CHRB) Support	Revenue Generating Program
CDFA (F&E) Support	Accessibility Upgrade Projects
CDFA Support – Fair Audit Program	California Construction Authority (CCA) Baseline Budget

The Division of Fairs and Expositions

CDFA’s Division of Fairs & Expositions (F&E) provides fiscal and policy oversight of the network of California fairs and ensures the best use of available funding and other services.

Fair Network Oversight

This oversight responsibility includes the following (B&P Code Section 19620):

- ✚ Manage and monitor the solvency of the Fair and Exposition Fund and the Satellite Wagering Account.
- ✚ Distribute available state resources to the network of California fairs for local (base) allocations, health and safety repair projects, revenue generating projects, pari-mutuel facility improvement, and other fair programs.

- ✚ Create a framework for administration of the network of California fairs, allowing for maximum autonomy and local decision making authority.
- ✚ Provide incentives to fairs to seek matching funds and generate new revenue from a variety of sources.
- ✚ Support continuous improvement of fair programs to ensure California fairs remain highly relevant community institutions.
- ✚ Ensure that annual fiscal audits and biennial compliance audits are performed.

F&E provides varying levels of oversight depending on the fair type. Table 2 provides examples of the type of oversight provided to District Agricultural Associations (DAA) and non-DAA fair organizations.

Table 2

Oversight of DAAs	Oversight of Non-DAAs
Approve annual operating budgets	Approve annual operating budgets
Conduct fiscal and compliance audits	Conduct or review fiscal and compliance audits
Review annual end-of-year statements of operations	Review annual end-of-year statements of operations
Define the criteria and reporting requirements for funding programs	Define the criteria and reporting requirements for funding programs
Provide consultation to boards of directors and staff on state policies and procedures	Provide consultation to boards of directors and staff on applicable state policies and procedures
Analyze fair-related legislation	Approve carnival bid packages
Facilitate personnel transactions	Review contractual agreements between the fair organization and host county
Approve contracts and carnival bid packages	
Intervention Authority – provide oversight to fairs experiencing managerial, fiscal, or operational challenges	

Network of California Fairs

Overview

B&P Code Section 19622.1 defines a state-supported fair organization as any fair that conducts an annual fair and adheres to the CDFA's reporting requirements, which include but are not limited to the submittal of an annual operating budget and statement of operations. The generic term of "fairs" refers to DAAs, county fairs, citrus fruit fairs, and the California Exposition and State Fair.

The network of California fairs includes 80 fairs divided into four categories (the latter three are non-DAA organizations):

- ✚ 54 DAAs – state government entities
 - 52 active DAAs
 - 2 DAAs were deactivated during fiscal year 1997/98
- ✚ 23 county fairs – county government or not-for-profit organizations
- ✚ 2 citrus fruit fairs – not-for-profit organizations
- ✚ The California Exposition and State Fair (Cal Expo) – a state department



Surf City was transformed into Cow Town in July 2007 during the Orange County Fair's cattle drive on Huntington Beach to promote the 2007 Fair and U.S. Open of Surfing.

Department of Food and Agriculture participants included (shown from left to right): AG Kawamura, Secretary; Eric Stein, Deputy Secretary; Michael F. Treacy, Director, Division of Fairs and Expositions

Fair Organization Classifications

California's fairs are expected to operate within their annual budgets. In order to receive state funding, their budgets must first be approved by F&E.

To ensure equitable distribution of local (base) allocations, F&E established an allocation policy providing support to fairs within seven budget-related classifications. The result is that the *smallest* fairs, those in classes I-IV, receive the largest annual (base) allocation of horse racing license fee revenues (\$105,000 - \$180,000). Classes I through IV fairs have annual operating budgets of less than \$3 million. Many of these fairs are located in small communities with minimal opportunities

for sponsorships or increased attendance. The fairs are truly the heart of the community and maintaining state support is critical to their success. For some class I fairs, the annual allocation represents up to 70 percent of their annual budget.

Class V (base) allocations remain at \$20,000, while the *largest* fair organizations, those in classes VI and VII, receive zero (base) allocations. Class level V through VII fairs will continue to benefit from other funding programs and opportunities.

Local (Base) Allocations for 2008/2009 are shown in Table 3 below.

Table 3

Profile of Fair Class Levels and 2008/2009 Local (Base) Allocations						
Allocation Criteria						
Class Level	Operating Revenue (\$1,000's)	Fair Attendance (1,000's)	Perm/Temp Staff	# of Fairs Per Class	Local (Base) Allocation	Total Allocation Per Class Level
I	Up to 200	Up to 20	Up to 7	14	\$180,000	\$2,520,000
II	200 - 450	20 - 40	7 - 10	21	150,000	3,150,000
III	450 - 1,000	40 - 80	10 - 20	19	124,000	2,356,000
IV	1,000 - 3,000	80 - 175	20 - 40	10	105,000	1,050,000
V	3,000 - 6,000	175 - 250	40 - 80	5	20,000	100,000
VI	6,000 - 10,000	250 - 400	80 - 120	6	0	0
VII	Over 10,000	Over 400	Over 120	3	0	0
Special Events (Supplemental Allocation):						
Grand National Rodeo (1-A DAA)					140,000	140,000
Great Western Livestock Show (24th DAA)					50,000	50,000
San Benito County Saddle Horse Show					50,000	50,000
					Total	\$9,086,000

Benefits of California Fairs

Fairs entertain, but they also educate people about each other and the contributions that all segments of our society make to California. Through this vital education comes the understanding, appreciation and social harmony so necessary for a healthy and productive society.

Fairs provide a location for cultural and social interaction as well as a focal point for community members to:

- ✚ Celebrate their heritage
- ✚ Compete in a variety of events
- ✚ Hold family reunions
- ✚ Display and view artwork
- ✚ Learn about other cultures
- ✚ Demonstrate new technology
- ✚ Showcase the best of California



Local FFA gets creative with informational posters at the Yuba-Sutter Fair in Yuba City.

In addition to providing facilities and activities for educational purposes and broad community services; fairs also provide valuable community activities such as the following:

- ✚ Field trips
- ✚ Agriculture in the Classroom
- ✚ Cultural events

- ✚ Concerts
- ✚ Head Start programs
- ✚ Pre-school programs



Kids of all ages are free to clown around at the Redwood Empire Fair in Ukiah.

- ✚ Before/after school programs
- ✚ Charitable activities
- ✚ Weddings
- ✚ Auto Shows
- ✚ Livestock events
- ✚ Farmers markets

State and local government agencies use fairs to disseminate vital information regarding the protection of California's natural, industrial, and agricultural resources. These public outreach efforts offer communities a first-hand look at California agriculture and the essential role of this \$30 billion-a-year industry.

As an added benefit, California fairs promote awareness of the Golden State's cultural diversity. Approximately 33 million people attend fairground events held in rural, suburban, and urban settings annually. These events attract people from various ethnic and age groups, creating a diverse cultural representation.

Emergency Preparedness & Response

California fairs are regularly called upon by federal, state and local public health and safety agencies to assist with emergency preparedness and response. The roles fairs play during these exercises and emergencies vary significantly and occur frequently. Examples of current and past fairground use for emergency preparedness and response include:

- ✚ Command center, mobilization and emergency staging sites (e.g., Office of Emergency Services, U.S. Dept. of Defense, Dept. of Homeland Security, local police and fire)
- ✚ Evacuation centers for animals and humans



Governor Schwarzenegger visits the San Diego County Fair in Del Mar to lend his support during the tragic 2007 wildfires in Southern California.

- ✚ Fire camps
- ✚ Emergency preparedness training (e.g., police, fire, SWAT, county health, post-9/11 drills)
- ✚ Temporary homeless shelters
- ✚ Strategic National Stockpile
- ✚ Cooling and warming centers
- ✚ Military staging site for hurricane Katrina response
- ✚ Life-flight staging site

- ✚ Mass vaccination training and county inoculation sites



Thousands of volunteers descended upon the San Diego County Fair in Del Mar to assist those in need.

2007 Southern California Wildfires

In late October 2007, tragic wildfires swept Southern California from San Diego to Malibu forcing homeowners across the region to flee their homes for safety. California fairs responded admirably by serving as command centers for emergency response personnel and providing food, shelter and support services to thousands of displaced residents and their animals.

The 400-acre grounds of the San Diego County Fair and racetrack in Del Mar quickly became a hub of the equestrian evacuation, taking in nearly 2,400 horses trucked in from around the county, while human evacuees housed topped 2,500 people at its peak.

Directly north of San Diego, the National Orange Show (NOS) in San Bernardino housed and fed approximately 4,800 to 5,000 registered evacuees and 375 small animals. Over 1,000 beds were made available in their buildings nightly with 45% of the fairgrounds occupied with evacuees.



Southern California residents come together as a community with Del Mar fairgrounds as its base.

At the Orange County Fair in Costa Mesa, the Fair became a temporary shelter and home to two burros, two llamas and 84 horses. "It all happened very quickly," said Doug Lofstrom, vice president of events and facilities at the fairgrounds. "They started coming early in the morning, and before you knew it, we had 80 large animals. People have been very appreciative of what we're doing here," Lofstrom said during the response efforts.



Southern California residents find refuge at the National Orange Show in San Bernardino.

Housing thousands of humans and their large and companion animals in a single location was no small feat. News agencies throughout the region reported on the incredible coordination and cooperation between the fairs and emergency response officials and the effectiveness of the effort as compared to challenges of the Katrina relief efforts just two years earlier in Louisiana.

"It appears that ...government in affected areas was able to meet the needs of these communities, and that's to be commended," said Matthew Herlocker of United Animal Nations.



Uncertain about the safety of their homes, residents find solace in the companionship of four-legged friends at the Del Mar stables.

The fairs' response to the tragic fires in Southern California is just another example of the fairs stepping up to the plate when it really counts. The value fairs provide to their local communities is immeasurable during times like this.



The National Orange Show's Damus building was one of two facilities used to house more than 1,000 evacuees.

Environmental Leadership

Because of its network of fairs, California once again leads the nation in renewable energy sources through solar power generation.

By converting the Golden State's plentiful sunlight into solar power, 28 California fairs generate 8.1 megawatts of electricity statewide, enough to power 6,400 homes or 22,000 people. The photovoltaic systems, which convert light into electricity, are mounted on the expansive roofs of the fairs' exhibit buildings and barns.

By the end of 2009, another 17 fairs will join the network's massive solar installation for a total of 45 participating fairs. This incredible achievement will generate 11.8 total megawatts of electricity, enough to power 10,000 homes or a city of 35,000 people. More importantly, the participating fairs' reliance on the renewable power of the sun will cover 40 percent of their energy requirements and produce an overall cost savings of \$40 million.

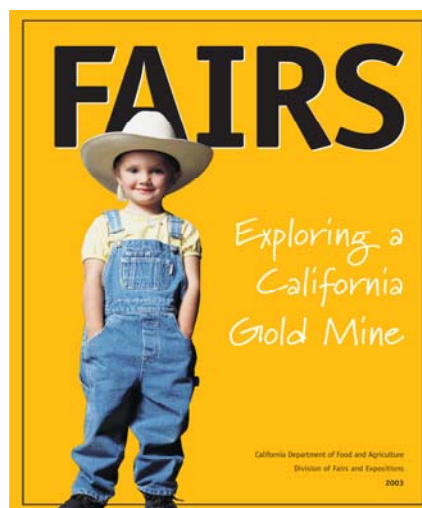
The photovoltaic project, which was initiated in 2001, is a joint effort of the State of California and its network of California fairs, with grants from the California Energy Commission, local electrical utilities, and the Fair & Exposition Fund.



Solar panels line the rooftops at the Lake County Fair in Lakeport.

California Fairs Statewide Social Economic Impact Report

In 2002, the California Department of Food and Agriculture's Division of Fairs and Expositions engaged the international firm of KPMG LLP to measure the social and economic impacts of the statewide fair system, and to produce a report detailing their findings. The resulting report *Fairs – Exploring a California Gold Mine* demonstrates that the economic and job impacts of California fairs are significant.



Further, cultural aspects of the fair industry add an intangible human element to the impressive quantitative findings. The report discusses these various impacts and concludes that, for its investment, the return for Californians is invaluable. The fair network receives approximately \$27 million annually from a license fee assessed against wagers on horse racing. The following highlights from the economic impact study provide quantifiable answers to the question, "What is California's return on this \$27 million investment into the fair network?"

Economic Impact Highlights

Fairs have a significant impact on California's economy. A 2002 economic impact study revealed the following:

- ✚ Spending by all participants at fair time and interim events results in a positive

economic impact on California in excess of \$2.55 billion annually.

- Attendee direct spending at fair time and interim events exceeds \$963 million annually.
- Annual income impact from attendee, fair organization and fair-related business spending exceeds \$791 million.
- Jobs created by fairs through direct employment and multiplier impacts reach nearly 28,000 annually.
- State and local governments collect in excess of \$136 million in tax revenues from fair-related activities annually.
- For each worker the fair organization and related business employ, an estimated 2.62 jobs are created. For each dollar that economic participants pay their employees, an estimated \$2.10 in income is produced.



Fast or slow paced fun, the Gold Country Fair's Midway in Auburn has something for everyone.

- Each dollar spent by fairs and interim event participants generates an estimated 39 cents of additional spending in the state, for a total impact of \$1.39 per dollar spent.

Agriculture – A central feature of fairs is to educate the public about the importance of agriculture in California.

- Sixty-nine percent of fairgoers surveyed felt that they knew more about agriculture after going to a fair.



4-H boys and girls are a vital part of the agricultural program at the Butte County Fair in Gridley.

- Fairs are a critical part of the junior livestock program, which educates young people about the breeding, raising and grooming of farm animals. Junior livestock auctions at fairs gross more than \$21 million annually. In 2002, 42,000 animals were purchased by nearly 19,000 buyers. Students receive 95 percent of auction proceeds.

Community Groups – California's fairs are major venues for community groups and nonprofit organizations to raise money and awareness of their programs.

- Nonprofit groups raise in excess of \$8 million at California fairs for their community programs. Add in the approximate \$21 million raised at junior livestock auctions, and a total of \$29 million is raised annually for community benefits.
- One nonprofit organization, the Turlock Lions Club, raises approximately 85 percent of its annual budget from fundraising events held at the Stanislaus County Fairgrounds. Proceeds from these events go to fund scholarships for local high school students, eye exams and glasses for needy children, youth sport teams, youth attendance at camps for the hearing

impaired, and school playground equipment.

Attendees – Californians love their fairs and fairground events.

- Annual paid fair time attendance exceeds 11 million, and interim events attract another 21 million people. Total annual attendance on fairgrounds is almost 33 million people—roughly the same as California’s population of nearly 35 million.



Smokey the Bear teaches young and old alike about the importance of fire safety at the Nevada County Fair in Grass Valley.

- Paso Robles—with a population of 25,200—hosts the California Mid-State Fair, which draws more than 475,000 attendees throughout the year. Ventura—with a population of 110,000—hosts the Ventura County Fair, which draws more than 721,000 attendees.
- The average visitor attends the fair 2.1 times per year and lives within 100 miles of the fair.

Fair-Related Businesses – provide many goods and services that are essential to the fair experience.

- Carnival companies generate more than \$41 million in total annual spending, \$18 million in personal income and \$2 million in state and local taxes.



Kids love those carnival games on the midway. Redwood Acres Fair, Eureka.

- Fair time and master concessionaires create \$131 million in total annual spending, \$66 million in personal income, and \$10 million in state and local taxes. Attendee direct spending on food and beverages exceeds \$120 million annually, which generates more than \$5 million in state and local taxes.
- Commercial exhibitors generate in excess of \$491 million in total spending, \$219 million in personal income and nearly \$17 million in state and local taxes. Attendee spending on commercial exhibitor merchandise totals more than \$406 million, which generates \$32 million in state and local taxes.



Eager shoppers enjoy the variety of unique products at the Sonoma County Fair in Santa Rosa.

- Entertainers at fairs create in excess of \$28 million in total annual spending, \$17 million in personal income, and \$1.6 million in state and local taxes.



Wynonna performs at the Dixon May Fair.

Social and Cultural Impacts

Giving Back

While the economic impact of fairs is noteworthy, it is the social and cultural impacts of fairs that may leave the most lasting impression on Californians.

- Fairs provide a focal point for community members to celebrate their heritage, compete in a variety of events, hold family reunions, display and view artwork, learn about other cultures, introduce new inventions and showcase the best of California.



California grown produce on display at the El Dorado County Fair in Placerville.

- Ninety-five percent of attendees surveyed agreed that the fair they attended provided worthwhile community benefits.
- More than 1.2 million people, 11 percent of total fair time attendance, participates in fair events and organized activities such as shows, exhibit programs, stage performances and contests.
- Many fairs offer free tours to schools, free youth admission on certain days, and valuable educational experiences throughout the year.

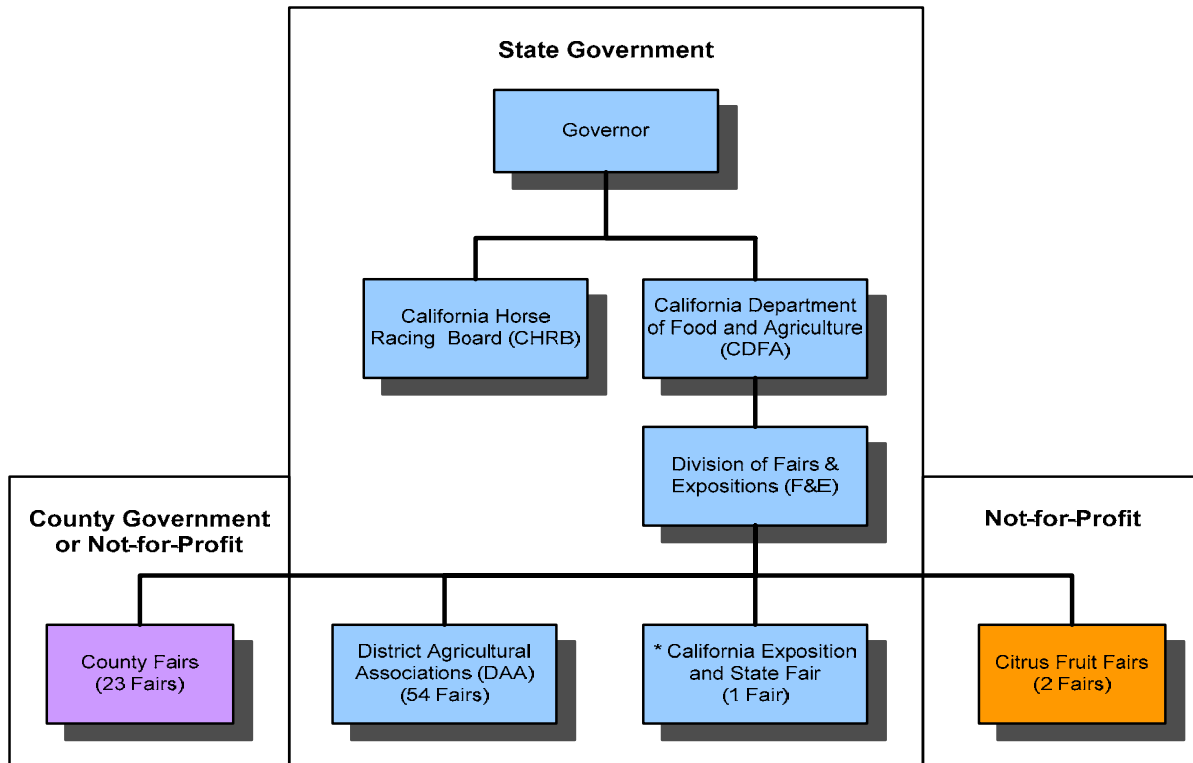


The indulgences of fair food in the summertime. A feast for the senses! Marin County Fair, San Rafael.

Guaranteed Return on Investment

California fairs have immense economic, educational, social and cultural impacts. In sum, fairs embody the entrepreneurial excellence, the knowledge seeking, the innovative drive, and the community spirit that is the Golden State.

Organizational Relationships



* California Exposition and State Fair is a state agency.

State Government

California Department of Food & Agriculture (CDFA) – A state department responsible for the oversight of California’s agricultural industry, including the network of California fairs.

Division of Fairs and Expositions (F&E) –

Division of CDFA that provides fiscal and policy oversight of the network of California fairs and ensures the best use of available funding and services.

California Horse Racing Board (CHRB) –

Regulates pari-mutuel wagering, promotes the horse racing and breeding industries and maximizes State of California tax revenues from horse racing. CHRB provides regulatory oversight to six privately owned racetracks, nine racing fairs, and 33 simulcast facilities.

District Agricultural Association (DAA) – Holds fairs, expositions, and exhibitions to showcase various industries, enterprises, resources, and products, and highlight California agriculture. Each DAA is governed by a nine-member gubernatorial appointed board of directors.

California Exposition and State Fair (Cal Expo) – A state department in Sacramento responsible for holding the annual California State Fair and exhibitions to highlight various industries, enterprises, resources, and products of the State.

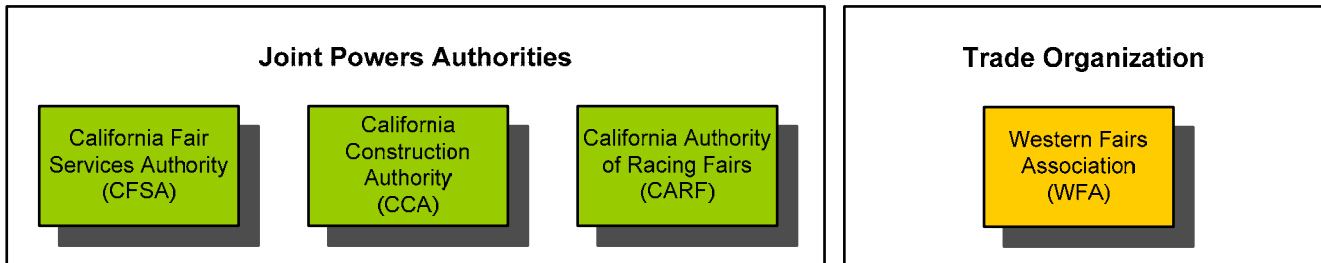
County Government or Not-for-Profit

County Fairs – Holds fairs to highlight a county’s agricultural and natural resources.

Citrus Fruit Fairs – Holds annual fairs to celebrate the citrus fruit harvest.

Other Organizations

In addition to state government, there are other organizations involved with fair operations and industry direction. Abbreviated descriptions of each organization's major roles are described below:



Joint Powers Authorities (JPA) – Three JPAs have been formed in California to provide specified services to the fair industry. CDFA is a party to the joint powers agreement that authorized the formation of each of the following JPAs:

California Authority of Racing Fairs (CARF) – Provides legislative and operational support and professional development services for its members, all of which are horse racing fairs; assists CDFA with site selection and development for satellite wagering facilities; manages the track preparation agreement; and recommends an annual Satellite Wagering Account and racing track improvement plan.

California Construction Authority (CCA) – Provides financing, design, and construction services for health and safety improvements, satellite wagering facilities, and other projects on fairgrounds. The proceeds from revenue bonds issued by CCA may be allocated by the Secretary of CDFA to provide partial funding for such projects. With the Secretary's approval of proposed scopes of work and budgets, additional projects may be funded by CDFA, or the fairs, and implemented by CCA.

California Fair Services Authority (CFSA) – Administers risk-sharing pools (general liability, workers' compensation, revenue protection and all-risk property) designed to

protect the Fair & Exposition Fund and local fair organizations; provides safety programs, facility and carnival ride inspections; and provides purchasing, computer, employee benefits, and management services.

Trade Organizations – The following not-for-profit association provides services to the fair industry:

Western Fairs Association (WFA)/ California Fairs Alliance (CFA) – Sacramento-based trade association representing 75 of California's 78 active fairs. Services include legislative advocacy, regional meetings, training, and an annual convention. Publications include a membership directory, mini date list, quarterly *Fair Dealer* magazine and *Update* newsletter.



Where else could you see an ugliest dog contest, but at your local fair! Sonoma-Marin Fair, Petaluma.

Funding & Programs

Fund Administration

F&E applies the following accounting principles to administer local assistance funding from the Fair and Exposition Fund (F&E Fund) and Satellite Wagering Account (SWA) on behalf of California's network of fairs.



An aerial view of the Frank Lloyd Wright inspired grounds of the Marin County Fair in San Rafael.

- Since the F&E Fund and SWA are continuously appropriated, unencumbered reserves at fiscal year end will be included in the total available resources in the following year's expenditure plan. Therefore, total expenditures may exceed current year revenue projections. Expenditures may also be adjusted during the year to accommodate funding fluctuations among local assistance programs, upon approval by the Secretary of Food and Agriculture.
- Routine Expenditure Plan program costs, such as program specific materials and supplies, that are typically funded by F&E's state operations budget (i.e., the Division's operational budget for office and staff expenses) may be funded by local assistance funding in the event state

operations funding is inadequate to fully cover such costs.

Funding Strategy for 2008/2009

In 2007/2008, F&E introduced the most significant change in fair funding allocation strategy in more than 15 years. The new strategy which revolves around fund growth and sustainability was inevitable due to the increasing competition from neighboring venues, an ever-decreasing fund source from horse racing, and deteriorating fair facilities. The 2008/2009 Expenditure Plan continues to emphasize its renewed areas of focus in year two of F&E's multi-year funding strategy for fairs.

The revised funding program is specifically designed to generate significant working capital during the next ten years and beyond to address deferred maintenance and much needed capital infrastructure projects at California's aging fairgrounds. At the heart of the funding strategy is the establishment of an infrastructure sinking fund coupled with a replenishment model that leverages the sinking fund resources to create a perpetual fund source for fairs.

The proposed plan will continue to include baseline allocations to fairs, but will be revamped in virtually all other areas. This long-range funding strategy will utilize an investment approach to spending that is more focused and includes the leveraging of existing resources to create perpetual funding sources. The fairs' efforts to secure matching funds and local contributions will be highly encouraged and rewarded. Resources will be consolidated among fewer programs to allow F&E to fund larger projects that traditionally have not been feasible due to the spreading of dollars over a larger number of programs and fairs at one time.

The plan includes financing, investment capital and grant opportunities that will be applicable to fairs of all sizes.



Horse racing and fairs have had a long-standing relationship that dates back to the 1860s.

The genesis of the revised funding strategy in 2007/2008 resulted from extensive discussions with California fairs and fair business partners during the latter part of 2006 and early 2007, which focused on the “future vision” of the industry and F&E. The following goals and objectives were a direct product of these discussions:

- ✚ Address the fair industry’s aging infrastructure by generating significant capital via enhanced programs and fund sources.
- ✚ Incorporate a replenishment strategy in all fair funding programs to ensure future sustainability and self sufficiency.
- ✚ Encourage and support environmental leadership at California fairgrounds.
- ✚ Create an endowment presence in each fair’s community to gain assistance in enhancing the fairs’ role as a community asset.

Funding Methodology

The establishment of an infrastructure sinking fund with replenishment features was

determined to be the best strategy for raising much needed capital for infrastructure development at California fairgrounds.

- ✚ Key funding programs (e.g., local base allocations and flex capital) that primarily benefit small to medium-sized fairgrounds will remain intact in 2008/2009.
- ✚ Total projected license fee revenue receipts less funds allocated to fixed costs (e.g., state operations, bond debt service, and contractual obligations) will continue to be allocated to the infrastructure sinking fund in 2008/2009 and annually thereafter.
- ✚ Replenishment strategy includes principal and interest repayment by fairs on infrastructure loans, payback of “equity” capital related to strategic capital investments made by F&E at California fairgrounds, and required matching funds from fairs on capital project proposals.
- ✚ F&E is encouraging all fairs to seek matching funds from local sources (e.g. local government, local non-profits and interest groups, corporate sponsorships) through enhanced community relations. The fairs’ ability to secure local funding support will enhance their eligibility for competitive funding allocations and serve as a key performance measure.



Agricultural education is a hallmark and unique benefit of California’s network of fairs. Nevada County Fair, Grass Valley.

New Program Modifications for 2008/2009

Property Insurance Program

Historically, the annual Expenditure Plan contained provisions to fully underwrite the costs of property insurance for all California fairgrounds. Insurance coverage is provided through the Pooled Property Protection Program administered by the California Fair Services Authority. The program consists of a self-insured Property Pool that is complemented by excess property, boiler and machinery insurance coverage purchased from the commercial insurance market.



It's all about the kids at the Contra Costa Fair in Antioch.

Due to the increasing costs of excess insurance coverage from the commercial market and unusually high losses in the past several years, F&E is modifying its funding methodology for the program in 2008/2009.

While a fixed contribution to the property pool will continue to be allocated annually, participating fairs will now be required to cover its fair share of the costs beginning in 2008/2009. This fair share will include premium payments based on the fairs' individual property values and the fair's chosen deductible level. F&E's annual fixed contribution to the pool will be allocated towards the purchase of an excess insurance policy and fairs will share the cost of the difference between F&E's contribution and the actual cost of the policy. Fairs will not be

required to participate in F&E's Property Protection Program. However, if a fair chooses this route, it will be required to show proof of insurance equal to the Property Protection Program coverage. The revised program policy was discussed in detail with California Fairs who provided their input and support for the change in program direction.

All programs within the Expenditure Plan will be reevaluated annually to determine highest and best use of existing resources that is consistent with the spirit of F&E's new funding strategy and goal of administering its programs with a business-like approach.

Environmental Investment Program

This new funding source will be used to create additional successful environmental programs at fairs. Fairs in California are currently the top producer of solar energy of any organization in the United States. Twenty-six fairs in our state now produce solar energy at their fairgrounds. This fund will assist additional fairs to install photovoltaic systems and expand the existing network.



A young fairgoer gets acquainted with Barnaby the Bee at the Sonoma County Fair in Santa Rosa.

In addition, this fund will help fairs implement replacement HVAC and lighting systems at their facilities to reduce their consumption of energy and hence their operating costs. Finally, the fund will be used to research grants and

additional funding sources to continue to make California fairs "green"

Emergency Response Program

Over the past two years, every fair in California has been used as an emergency center for floods, fires, heat waves, mudslides, and as locations for community residents to escape freezing temperatures. In local or regional emergencies, there is often no source of reimbursement funding to help the fairs defray the expenses incurred by opening and operating their buildings and grounds to assist during these extreme conditions. This fund would reimburse actual expenses for energy consumption, personnel costs, etc. for those facilities utilized during those occasions when no actual statewide or federal emergency was declared and, therefore, the fairs would otherwise have no ability to collect monies for funds expended during those times.

Funding programs for 2008/2009

Annual infrastructure sinking fund resources will be allocated among the following primary infrastructure programs:

- ✚ *Investment Reserve Fund (Loan)* – provides loans for major capital improvements at all fairs.
- ✚ *Replenishment Fund (Investment Capital)* – F&E will serve as a “venture capitalist” by providing working capital for strategically identified projects at fairs with a demonstrated history of success. Program replenishment features are based partly on the success of the project.
- ✚ *Infrastructure Matching Fund (Grant)* – focuses on repairs and maintenance needs at all fairs and requires match funds from fair.

See pages 31 through 33 for further program details and related financial projection

Revenue Source

Fair funding that is not self-generated is derived entirely from California’s pari-mutuel

wagering system, which was made possible by a constitutional amendment in 1933 to promote agriculture and as a means to generate income for California’s fair system. During this time period, horse racing revenues were generated solely from live racing at California tracks, where state license fees generated from this activity were designated to support the network of California fairs.



“Del Mar. The words evoke a standard of excellence and the finest that racing has to offer.”¹ The Del Mar grandstand at the San Diego County Fairgrounds.

(The above photo is copyrighted by Donald W. Larson www.timeoutofmind.com and used with his written permission.)

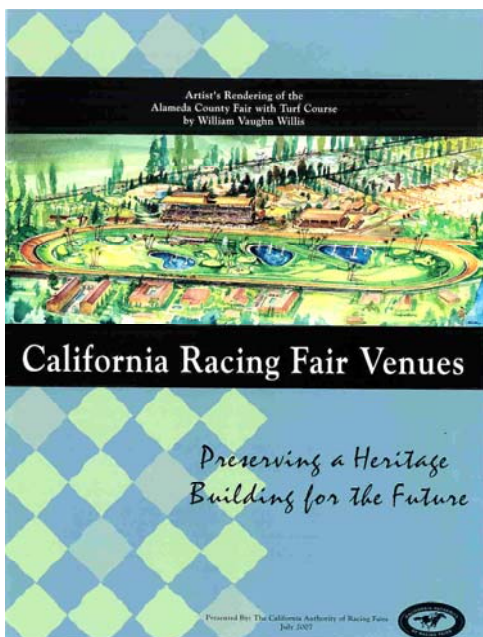
Over the last six decades, technological advances have created alternative means of horse racing wagering, such as satellite wagering and advance deposit wagering (ADW). Satellite wagering facilities appealed to the network of California fairs due to the potential increase in horse racing revenue and subsequent increase in state license fees. As a result, funding received from live track racing was used to construct numerous satellite wagering facilities throughout California. The introduction of satellite wagering in California created a second source of revenue (including out-of-state license fees) available to the horse racing industry, the network of California fairs, and the General Fund by broadcasting California races to other facilities throughout the satellite wagering system.

Today, off-track wagering at satellite wagering facilities and via ADW combined have

surpassed live racing as the preferred means of wagering. While live racing and wagering at satellite wagering facilities continue to generate license fee revenue that directly benefits the fair network, ADW does not.

Fairs and Horse Racing – Looking to the Past and Future

The California Authority of Racing Fairs (CARF) produced a publication in July 2007 titled *California Racing Fair Venues – Preserving a Heritage Building for the Future*, which precisely addresses the current state of fair horse racing and the opportunities that lie ahead for both the fair and horse racing industries.



Source: CARF, *California Racing Fair Venues*, July 2007.

Excerpts from CARF's publications include the following:

"Fairs have a grand old tradition of horse racing in California going back over 150 years to the days of the Gold Rush. So when pari-mutuel wagering came along in the early '30s, the Fairs embraced it like an old friend."¹

"Fairs and horse racing share a long political heritage, reflecting a balance of interests that

has served the racing industry well since 1933, when support from Fairs helped assure passage



The paddock and walking ring at the Del Mar Race Track in San Diego.

(The above photo is copyrighted by Donald W. Larson www.timeoutofmind.com and used with his written permission.)

of the referendum approving pari-mutuel wagering. That referendum laid the foundation for modern racing in California."¹

"The racing industry is approaching a crossroads as increasing real estate values strain the economic model that governs operator-owned, private commercial race tracks. As land values increase, private race track owners are compelled to consider developing their property for purposes other than racing."¹

"Fairs are proposing a concept for the future that envisions a larger role for publicly-owned venues at Fairs, perhaps along the lines already in place at Del Mar. In that example, a private racing association operates in a lease agreement with a public facility owned by a Fair. Fairs are diversified entertainment and commercial enterprises, less susceptible to the impact of changing real estate values than are operator-owned, private commercial tracks. Millions of Californians already visit Fairs each year. Fairs have and can finance expansion and improvement of their existing racing facilities

¹ "Some Observations on the Future of California Racing", by Christopher Korby, Executive Director, California Authority of Racing Fairs; *California Fair Racing Venues: Preserving a Heritage / Building for the Future*, July 2007.

through public bonds secured by revenue from pari-mutuel wagering. The model that Fairs envision keeps California racing revenues in California for the benefit of California participants. We believe that such a model provides a solid foundation on which to build a strong and stable future for the California racing industry.”¹

Because of the fair industry’s inherent ties to horse racing and the sentiments reflected by the CARF regarding the future of racing in California, the 2008/2009 Expenditure Plan once again reflects a strong commitment to fair horse racing. This commitment includes funding to preserve the existing fair horse racing infrastructure as well as funding to support the fair industry’s effort to seize future racing opportunities for the betterment of fairs and California horse racing as a whole.



Thoroughbred horse racing excites the crowds at the California State Fair in Sacramento.

Northern California Racing

“With a collective history of competitive racing that dates back to the 1850’s, Northern California Racing Fairs can call on a proud heritage. That heritage is only a prelude, however, as Fairs assert their commitment to horse racing for the long run.”¹

“Fairs embody a unique partnership of public and private interests. Fairs are publicly owned

entities with a mission of public service to their communities, support of the agricultural economy and active participation in the horse



Speed and grace at the Sonoma County Fair horse races in Santa Rosa.

racing industry. Revenue from horse racing at California Fairs stays in California for the benefit of Californians.”¹

“Fairs represent a major public investment in the California horse racing industry. There are seven Fair racetrack venues in Northern California: San Joaquin Fair (Stockton); Alameda County Fair (Pleasanton); Solano County Fair (Vallejo); Sonoma County Fair (Santa Rosa); San Mateo County Fair (San Mateo); Humboldt County Fair (Ferndale); California State Fair (Sacramento); and Fresno District Fair (Fresno). These Fairs occupy more than 1,400 acres located in major metropolitan areas.”¹

“In addition, Fairs own and operate 14 satellite wagering facilities in Northern California. Statewide, Fairs own and operate 23 satellite facilities, which in FY 2005-06 drew 2.65 million racing fans. The fans wagered over \$652 million through the Fairs satellite network.”¹

Southern California Racing

“Racing at Fair venues in Southern California represents some of the finest racing in the country. Los Angeles County Fair (Fairplex

¹ “Some Observations on the Future of California Racing”, by Christopher Korby, Executive Director, California Authority of Racing Fairs; *California Fair Racing Venues: Preserving a Heritage / Building for the Future*, July 2007.

Park) is one of the largest and most successful Fairs in North America. The horse racing meeting at Fairplex is an important stop on the Southern California circuit. Satellite wagering at the L.A. County Fair keeps the racing spirit alive in the L.A. Basin year-round.”¹



A day at the races. Del Mar Race Tack at the San Diego County Fairgrounds.

(The above photo is copyrighted by Donald W. Larson www.timeoutofmind.com and used with his written permission.)

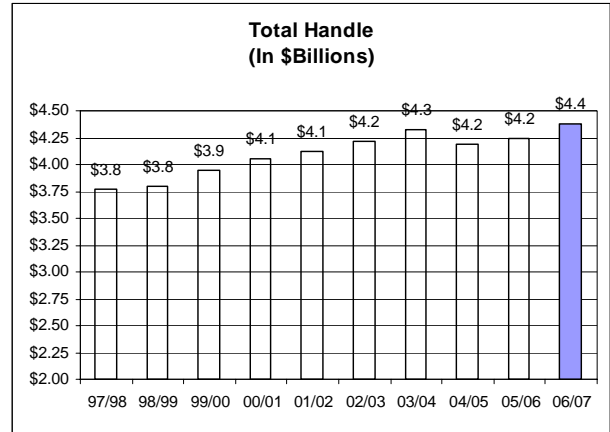
“Del Mar. The words evoke a standard of excellence and the finest that racing has to offer. Del Mar’s summer meeting, conducted by the Del Mar Thoroughbred Club at facilities owned by and leased from the San Diego County Fair, offers some of the best racing in North America. Californians can be proud of the high standards and tradition of excellence that continue to flourish at this venue. This partnership is a model for the successful future of racing in California.”¹

Fiscal Trends

In 2004/2005 the F&E Fund experienced an unprecedented first-time revenue shortfall of approximately \$3 million from on-track live racing, which directly impacted valuable programs and resources that benefit California’s network of fairs.

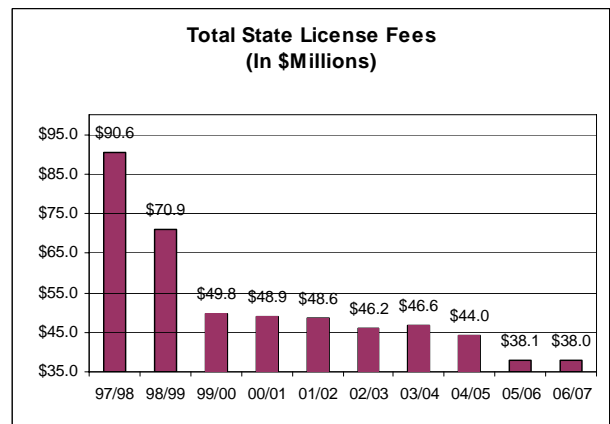
The California Horse Racing Board (CHRB) records indicate that the total amount wagered on horse racing increased steadily since fiscal

year 1996/1997, while state license fees available to fund the fairs have declined. The following charts show the inverse correlation between the total horse racing handle generated to the total state license fees available over the past decade.



Source: CHRB Annual Reports

The shortfalls in fair funding during the years 2004/2005 through 2006/2007 occurred because annual total state license fees were inadequate to fully fund all designated beneficiaries to the extent allowed by law (see chart on following page). Fairs have absorbed the full impact of the annual shortfalls totaling approximately \$9 million in the aggregate since 2004/2005.



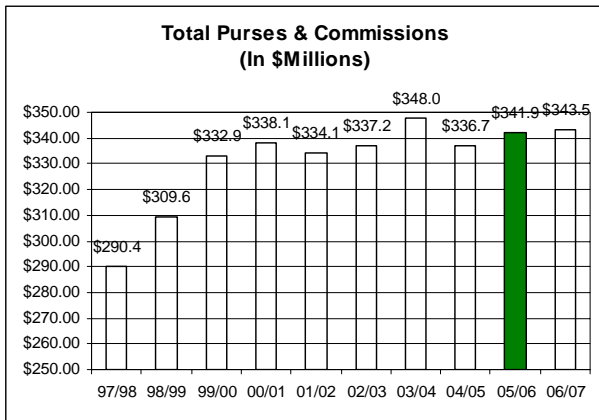
Source: CHRB Annual Reports

Should future license fee revenue continue to decline, or be consumed by increased operational budgets for existing fund

¹ "Some Observations on the Future of California Racing", by Christopher Korby, Executive Director, California Authority of Racing Fairs; *California Fair Racing Venues: Preserving a Heritage / Building for the Future*, July 2007.

beneficiaries, the inadequacies of this fund source will only be further highlighted. Other primary beneficiaries of state license fee revenue include the Kenneth L. Maddy Equine Research Center at U.C. Davis and the General Fund.

In 1998, Senate Bill 27 (Maddy, Chapter 335, Statutes of 1998) provided a tax relief to the horse racing industry by significantly reducing state license fees by approximately \$40 million. The intent of the legislation was to help the horse racing industry remain viable and competitive in California, while ensuring sufficient revenues remained to support California fairs. The license fee reduction was redistributed to the racing industry in the form of owner purses and track commissions. The following chart depicts another inverse correlation, this time between total combined purses and commissions to the total state license fees available over the past decade.



Source: CHRB Annual Reports

Approximately \$27 to \$28 million from state license fees has historically been available to support the network of California’s 78 active fairs. This fund source continues to deteriorate. The 2008/2009 proposed local assistance budget totals \$25 million.

This eroding fund source is due to a number of factors that include a decline in horse racing revenue deposited to the F&E Fund, legislation that has reduced state license fees significantly,

and trends in bettors’ preferred means of wagering.

These local entities receive no General Fund support; instead they rely on horse racing to supplement their budgets. While nearly 63% of Californians take part in some form of gaming, revenues from horse racing have eroded as a result of a highly competitive marketplace, which includes the evolution of Indian gaming facilities, lotteries and other wagering outlets.



The Yuba Sutter Fair in Yuba City offers the Office of Education a chance to promote Career Technical Programs.

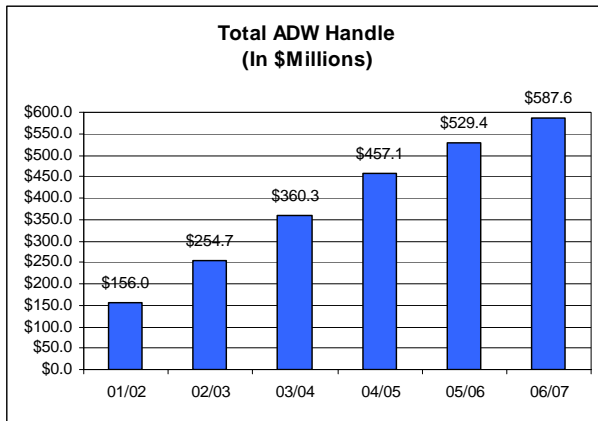
In addition, with the advent of ADW, as discussed below, the reduction in horse racing license fees that support local California fairs is evident.

Advance Deposit Wagering

In an effort to keep California’s horse racing industry competitive, Assembly Bill 471 (Hertzberg) authorized ADW in 2001, which allows customers to deposit funds into accounts in order to wager online and over the telephone.

During ADW’s first 10 months of operation in 2002, \$156 million in total handle was generated, which represents approximately 4% of the \$3.6 billion in total handle generated during the same 10 months. In 2006, total ADW handle increased to \$530 million, which

represented a 240% increase since 2002 and 12% of the \$4.2 billion in total handle for 2006.



Source: CHRB Annual Reports

The negative impact of ADW on fair funding is now evident based on the ADW handle trends since 2001/2002. Since state license fee revenue, which benefits the F&E Fund and fairs, is not generated from ADW, the inverse correlation between increased ADW handle and decreased state license fee revenue will continue. Should state income from racing continue to decline as bettors move toward ADW and other forms of gaming, the solvency of the F&E Fund and the future of California fairs will continue to be at risk.

Program Descriptions

The following briefly describes programs recommended for funding in the 2008/2009 Network of California Fairs Expenditure Plan:

Administrative Oversight Total: \$14,540,000

California Horse Racing Board Support (CHRB)	Budget Act appropriation for operational support of the California Horse Racing Board (B&P Code Section 19620.1(b)).
CDFA Support – Fairs and Expositions (F&E)	Budget Act appropriation for operational support of F&E (B&P Code Sections 19620.1(b)). Operational support budget includes the assessment pro rata (share of State's overhead costs) imposed by the Department of Finance.
CDFA Support – Audit Program	Budget Act appropriation for annual fiscal and biennial compliance audits of all DAAs and selected county fairs. Assures individuals entrusted with public resources are accountable to the public and other levels and branches of government.

Local Assistance Total: \$25,761,000*

Operational Support - \$4,715,000

Bond Debt Service	Pays debt service on revenue bonds issued for the construction and maintenance of fair facilities (B&P Code Section 19606.1 (a)(1))
California Construction Authority (CCA)	Funds the operational support of CCA, a Joint Powers Authority, which provides design, engineering, construction, and master planning services to fairs.
Property Insurance	Provides funding for the purchase of property insurance to protect fair facilities.

General Fair Programs & Funding - \$12,536,000

Local (Base) Allocation	Provides funds for discretionary use by local fair organizations with classification criteria that assign greater support to smaller fairs.
Cal Expo Pro Rata Reimbursement	Reimburses Cal Expo pro rata costs (overhead), not to exceed \$265,000 annually.
Contingencies and Special Projects	Includes funding for legal billings (Department of Justice & CDFA); Administrative and Fiscal Assistance (Intervention) Program; Employee Assistance program cost for DAAs; policy development; transition costs associated with fair governance reform; and funding for economic uncertainties and liabilities.

* Total local assistance expenditure budget of \$25,761,000 excludes the \$485,000 in expected abatements.

General Fair Programs & Funding (Cont'd)

Rural Healthcare Equity	F&E pays for additional health benefit costs incurred by DAAs for state employees living in rural areas with no available HMOs.
Flex Capital	An incentive program by which fairs are eligible to receive funding based on their annual performance rating. Funding is available for all fairs with an acceptable performance rating as established by F&E. Funds may be spent on a variety of items including, but not limited to: <ul style="list-style-type: none">• Training for staff and board members• Information technology upgrades• Real estate analysis, development, and planning• Equipment purchases• Address audit concerns• Modernization of operations• Capital improvements / Health and safety projects
Unemployment Insurance	Budget Act appropriation to offset fairs' unemployment costs (B&P Code section 19620.1(b)).
Health & Safety - \$250,000	
Emergency Response Program	Provides funding to fairs to cover non-reimbursable costs associated with their emergency response efforts during fires, floods, mandatory evacuations, and other similar emergency situations within their local communities. See page 18 for details.
Health Department Program	Provides funding for inspection of fair facilities by the California Department of Health Services to ensure they meet recognized standards for health and safety including storm water runoff, backflow devices, and safe drinking water.
Livestock Quality Assurance	Provides training for fair livestock staff/volunteers in the proper care of livestock prior to and during shipping to processing plants and animal welfare issues.
Infrastructure - \$3,775,000	
Infrastructure Matching Grants Fund	Provides funding for repairs and maintenance, accessibility upgrades, revenue generating projects, emergency projects. See page 31 through 33 for details.
Investment Reserve Fund (Loans)	Provides loans for major capital improvements at all fairs. Competitive financing terms and rates will be available. See page 31 through 33 for details.
Replenishment Fund (Investment Capital)	F&E will serve as a "venture capitalist" by providing working capital for strategically identified projects at fairs with a demonstrated history of success. See page 31 through 33 for details.
Environmental Investment Program	Provides incentive funding to fairs that encourages environmentally friendly and conscious programs and projects at California fairgrounds. See page 17 for details.

Infrastructure (Cont'd)

Project Planning – New Funding Model

Provides planning funds to the Division for implementation of its new funding model for California fairs. Costs include, but are not limited to, project scoping and budgeting, preliminary plans, construction documents and bidding, and project construction.

Training & Education - \$485,000

Professional Development & Compliance

Provides training funds for the development and delivery of seminars and workshops on emerging fair issues. The following is a listing of all training opportunities provided to the fair industry annually in which F&E provides training funds:

- Annual Western Fairs Association Convention and Trade Show: Industry trends and issues and mandatory compliance training
 - Executive Development Program - fair management training program
 - California Fairs Alliance Fall Managers Conference: Industry trends and issues and mandatory compliance training
 - Nuts & Bolts: Hands-on accounting, contracts, personnel, insurance, and human resources training
 - Exhibit Supers' School: Exhibit program ideas, techniques, and design
 - Livestock Training (alternates years with Exhibit Supers' School): Industry trends and issues
 - Satellite Wagering Facility Symposium: Update on industry trends and issues and planning for the year ahead
 - Maintenance Mania: Technical updates and proficiency training (CPR, Cal OSHA, forklift, networking, etc.)
 - Fair Provided Training
 - Fair internship program –provides training and employment opportunities for students interested in the fair industry
-

Racing & Satellite Wagering Support - \$4,000,000

Race Track Preparation

Provides funds to supplement the purchase and installation of track preparation materials. Program ensures consistency in track preparation, reducing the risk of injury to horse and jockey.

Racing & Satellite Wagering Support (Cont'd)

Supplemental Purses

Provides appropriation to supplement purses at Northern California fairs and Los Angeles County area (B&P Code Sections 19605.9 and 19606.3).

Wagering Facility Improvements

Supports improvements to live horse racing and satellite wagering programming and facilities based upon the priorities identified in industry-wide facility surveys (backstretch, paddock, grandstand, etc.). Funding will focus on ensuring the nine racing fairs meet the California Horse Racing Board backstretch housing regulations.

Division of Fairs & Expositions
Fair & Exposition Fund (191) and Satellite Wagering Account (192)
2008/2009 Revenue and Expenditure Plan

	Actual 2006/2007	(a) Budgeted 2007/2008	Projected 2007/2008	(b) Proposed 2008/2009	(b - a) Variance
Beginning Balance					
Fairs and Expositions (F&E)	\$1,309,691	\$484,066	\$2,303,898	\$904,335	\$420,269
Revenues					
License Fees					
On Track - Live Racing (B&P 19620.1(a)) ¹	9,218,947	9,200,000	6,000,000	9,200,000	0
1.0% Live Racing Fair Handle (B&P 19614(a))	1,216,552	1,250,000	1,004,728	1,150,000	(100,000)
Off-Track - Satellite Wagering (B&P 19606.1 & 19620.1(a))	26,161,162	26,068,000	26,178,169	27,414,000	1,346,000
SMIF Interest Revenue	319,301	300,000	250,000	290,000	(10,000)
Total Revenues	36,915,962	36,818,000	33,432,897	38,054,000	1,236,000
Fund Transfers & Other Receipts					
Transfers in					
Project Cost Savings	1,166,000	2,500,000	3,000,000	1,125,000	(1,375,000)
Transfers to Other Funds					
Retired DAA Employee Benefits	(246,000)	(246,000)	(246,000)	(246,000)	0
Total Available Resources	\$39,145,653	\$39,556,066	\$38,490,795	\$39,837,335	\$281,269
Expenditures					
Administrative Oversight					
California Horse Racing Board Support (CHRB)	9,118,004	9,287,000	9,287,000	10,131,000	844,000
CDFA Support - Fairs & Expositions (F&E) ²	3,107,163	3,188,140	3,188,140	3,263,000	74,860
Pro Rata Assessment	578,032	0	0	0	0
CDFA Support - Audit Program ²	1,017,000	1,125,000	1,125,000	1,146,000	21,000
Total Administrative Oversight	13,820,199	13,600,140	13,600,140	14,540,000	939,860
Local Assistance					
Operational Support					
Bond Debt Service	2,451,369	2,600,000	2,660,352	2,650,000	50,000
California Construction Authority (CCA)	1,453,400	1,455,000	1,455,000	1,615,000	160,000
Property Insurance	450,000	750,000	750,000	450,000	(300,000)
	4,354,769	4,805,000	4,865,352	4,715,000	(90,000)
General Fair Programs & Funding					
Local (Base) Allocations	9,356,000	9,001,000	9,001,000	9,086,000	85,000
Cal-Expo Pro Rata Reimbursement	265,000	265,000	265,000	265,000	0
Contingencies and Special Projects	229,231	395,000	300,000	350,000	(45,000)
Flex Capital	2,800,000	2,095,000	2,095,000	1,820,000	(275,000)
Rural Healthcare Equity Program	79,031	65,000	65,000	65,000	0
Unemployment Insurance	950,000	950,000	950,000	950,000	0
	13,679,262	12,771,000	12,676,000	12,536,000	(235,000)
Health & Safety					
Accessibility Upgrades Fund	1,085,000	0	0	0	0
Emergency Response Program	0	0	0	50,000	50,000
Health Department Program	165,000	100,000	100,000	100,000	0
Livestock Quality Assurance	0	0	0	15,000	15,000
Urgent Needs Fund	150,000	0	0	85,000	85,000
	1,400,000	100,000	100,000	250,000	150,000
Infrastructure					
Infrastructure Matching Grants Fund	0	1,230,000	1,230,000	2,550,000	1,320,000
Investment Reserve Fund (Loans)	0	1,640,000	710,000	510,000	(1,130,000)
Replenishment Fund (Investment Capital)	0	1,230,000	710,000	340,000	(890,000)
Asset Management	100,000	0	0	0	0
Environmental Investment Program	0	0	0	75,000	75,000
Project Planning - New Funding Model	0	300,000	300,000	300,000	0
Revenue Generating	400,000	0	0	0	0
	500,000	4,400,000	2,950,000	3,775,000	(625,000)
Training & Education					
Professional Development & Compliance	310,000	485,000	485,000	485,000	0
	310,000	485,000	485,000	485,000	0
Racing & Satellite Wagering Support					
Race Track Preparation	600,000	600,000	600,000	600,000	0
Supplemental Purses	1,338,502	1,400,000	1,344,968	1,400,000	0
Wagering Facility Improvements	1,500,000	1,400,000	1,400,000	2,000,000	600,000
	3,438,502	3,400,000	3,344,968	4,000,000	600,000
Abatements & Accrual Adjustments ³	(148,249)	(30,000)	(435,000)	(485,000)	(455,000)
Total Local Assistance	23,534,284	25,931,000	23,986,320	25,276,000	(655,000)
Total Current Year Expenditures	37,354,484	39,531,140	37,586,460	39,816,000	284,860
Total Prior Year Adjustments	(512,728)	0	0	0	0
Total Expenditures	\$36,841,755	\$39,531,140	\$37,586,460	\$39,816,000	\$284,860 ⁴
Ending Balance	\$2,303,898	\$24,926	\$904,335	\$21,335	(\$3,591)

¹ Proposed 2008/2009 revenues exceed 2007/2008 projected revenues because appropriation authority is needed in the event revenue is restored to levels allowed by law.

² 2008/2009 increases due to negotiated labor contracts for personnel salaries and benefits.

³ Reflects expense reimbursements received, including fair loan payments, and prior year accrual adjustments.

⁴ Represents Total Expenditures variance only.

**Division of Fairs & Expositions
Fair & Exposition Fund (191)
2008/2009 Revenue and Expenditure Plan**

	<u>Actual 2006/2007</u>	<u>Budgeted 2007/2008</u>	<u>Projected 2007/2008</u>	<u>Proposed 2008/2009</u>
Beginning Balance				
Fairs and Expositions (F&E)	\$839,121	\$7,681	\$1,692,513	\$199,101
Prior Year Adjustments	0	0	0	0
	<u>839,121</u>	<u>7,681</u>	<u>1,692,513</u>	<u>199,101</u>
Revenues				
License Fees				
On Track - Live Racing (B&P 19620.1(a)) ¹	9,218,947	9,200,000	6,000,000	9,200,000
1.0% Live Racing Fair Handle (B&P 19614(a))	1,216,552	1,250,000	1,004,728	1,150,000
Off-Track - Satellite Wagering (B&P 19620.1(b))	13,668,000	13,668,000	13,668,000	15,014,000
SMIF Interest Revenue	111,469	100,000	50,000	100,000
Total Revenues	<u>24,214,968</u>	<u>24,218,000</u>	<u>20,722,728</u>	<u>25,464,000</u>
Fund Transfers & Other Receipts				
Transfers in				
Project Cost Savings	1,166,000	2,500,000	3,000,000	1,125,000
Transfers to Other Funds				
Retired DAA Employee Benefits	(246,000)	(246,000)	(246,000)	(246,000)
Total Available Resources	<u>\$25,974,089</u>	<u>\$26,479,681</u>	<u>\$25,169,241</u>	<u>\$26,542,101</u>
Expenditures				
Administrative Oversight				
California Horse Racing Board Support (CHRB)	9,118,004	9,287,000	9,287,000	10,131,000
CDFA Support - Fairs and Expositions (F&E) ²	2,633,008	2,712,140	2,712,140	2,787,000
Pro Rata Assessment	323,691	0	0	0
CDFA Support - Audit Program ²	1,017,000	1,125,000	1,125,000	1,146,000
Total Administrative Oversight	<u>13,091,703</u>	<u>13,124,140</u>	<u>13,124,140</u>	<u>14,064,000</u>
Local Assistance				
General Fair Programs & Funding				
Local (Base) Allocations	9,356,000	9,001,000	9,001,000	9,086,000
Cal-Expo Pro Rata Reimbursement	265,000	265,000	265,000	265,000
Contingencies and Special Projects	229,231	395,000	300,000	350,000
Flex Capital	800,000	965,000	965,000	250,000
Rural Healthcare Equity Program	79,031	65,000	65,000	65,000
Unemployment Insurance	950,000	950,000	950,000	950,000
	<u>11,679,262</u>	<u>11,641,000</u>	<u>11,546,000</u>	<u>10,966,000</u>
Infrastructure				
Infrastructure Matching Grants Fund	0	0	0	550,000
Investment Reserve Fund (Loans)	0	1,250,000	250,000	510,000
Replenishment Fund (Investment Capital)	0	0	0	340,000
	<u>0</u>	<u>1,250,000</u>	<u>250,000</u>	<u>1,400,000</u>
Training & Education				
Professional Development & Compliance	310,000	485,000	485,000	485,000
	<u>310,000</u>	<u>485,000</u>	<u>485,000</u>	<u>485,000</u>
Abatements & Accrual Adjustments ³	(149,550)	(30,000)	(435,000)	(385,000)
Total Local Assistance	<u>11,839,712</u>	<u>13,346,000</u>	<u>11,846,000</u>	<u>12,466,000</u>
Total Current Year Expenditures	<u>24,931,415</u>	<u>26,470,140</u>	<u>24,970,140</u>	<u>26,530,000</u>
Total Prior Year Adjustments	<u>(649,839)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$24,281,576</u>	<u>\$26,470,140</u>	<u>\$24,970,140</u>	<u>\$26,530,000</u>
Ending Balance	<u>\$1,692,513</u>	<u>\$9,541</u>	<u>\$199,101</u>	<u>\$12,101</u>

¹ Proposed 2008/2009 revenues exceed 2007/2008 projected revenues because appropriation authority is needed in the event revenue is restored to the levels allowed by law.

² 2008/2009 increases due to negotiated labor contracts for personnel salaries and benefits.

³ Reflects expense reimbursements received, including fair loan payments, and prior year accrual adjustments.

**Division of Fairs & Expositions
Satellite Wagering Account (192)
2008/2009 Revenue and Expenditure Plan**

	<u>Actual 2006/2007</u>	<u>Budgeted 2007/2008</u>	<u>Projected 2007/2008</u>	<u>Proposed 2008/2009</u>
Beginning Balance				
Fairs and Expositions (F&E)	\$470,570	\$476,385	\$611,385	\$705,234
Revenues				
License Fees				
Off-Track - Satellite Wagering (B&P 19606.1, 19606.3 & 19605.9)	12,493,162	12,400,000	12,510,169	12,400,000
SMIF Interest Revenue	207,832	200,000	200,000	190,000
Total Revenues	<u>12,700,994</u>	<u>12,600,000</u>	<u>12,710,169</u>	<u>12,590,000</u>
Total Available Resources	<u>\$13,171,564</u>	<u>\$13,076,385</u>	<u>\$13,321,554</u>	<u>\$13,295,234</u>
Expenditures				
Administrative Oversight				
CDFA Support - Fairs & Expositions (F&E)	474,155	476,000	476,000	476,000
Pro Rata Assessment	254,341	0	0	0
Total Administrative Oversight	<u>728,496</u>	<u>476,000</u>	<u>476,000</u>	<u>476,000</u>
Local Assistance				
Operational Support				
Bond Debt Service	2,451,369	2,600,000	2,660,352	2,650,000
California Construction Authority (CCA)	1,453,400	1,455,000	1,455,000	1,615,000
Property Insurance	450,000	750,000	750,000	450,000
	<u>4,354,769</u>	<u>4,805,000</u>	<u>4,865,352</u>	<u>4,715,000</u>
General Fair Programs & Funding				
Flex Capital	2,000,000	1,130,000	1,130,000	1,570,000
	<u>2,000,000</u>	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,570,000</u>
Health & Safety				
Accessibility Upgrades Fund	1,085,000	0	0	0
Emergency Response Program	0	0	0	50,000
Health Department Program	165,000	100,000	100,000	100,000
Livestock Quality Assurance	0	0	0	15,000
Urgent Needs Fund	150,000	0	0	85,000
	<u>1,400,000</u>	<u>100,000</u>	<u>100,000</u>	<u>250,000</u>
Infrastructure				
Infrastructure Matching Grants Fund	0	1,230,000	1,230,000	2,000,000
Investment Reserve Fund (Loans)	0	390,000	460,000	0
Replenishment Fund (Investment Capital)	0	1,230,000	710,000	0
Asset Management	100,000	0	0	0
Environmental Investment Program	0	0	0	75,000
Project Planning - New Funding Model	0	300,000	300,000	300,000
Revenue Generating	400,000	0	0	0
	<u>500,000</u>	<u>3,150,000</u>	<u>2,700,000</u>	<u>2,375,000</u>
Racing & Satellite Wagering Support				
Race Track Preparation	600,000	600,000	600,000	600,000
Supplemental Purses	1,338,502	1,400,000	1,344,968	1,400,000
Wagering Facility Improvements	1,500,000	1,400,000	1,400,000	2,000,000
	<u>3,438,502</u>	<u>3,400,000</u>	<u>3,344,968</u>	<u>4,000,000</u>
Abatements & Accrual Adjustments ¹	1,301	0	0	(100,000)
Total Local Assistance	<u>11,694,572</u>	<u>12,585,000</u>	<u>12,140,320</u>	<u>12,810,000</u>
Total Current Year Expenditures	<u>12,423,068</u>	<u>13,061,000</u>	<u>12,616,320</u>	<u>13,286,000</u>
Total Prior Year Adjustments	<u>137,111</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$12,560,179</u>	<u>\$13,061,000</u>	<u>\$12,616,320</u>	<u>\$13,286,000</u>
Ending Balance	<u>\$611,385</u>	<u>\$15,385</u>	<u>\$705,234</u>	<u>\$9,234</u>

¹ Reflects expense reimbursements received, including prior year accrual adjustments.

Division of Fairs & Expositions
Fair and Exposition Fund (191) and Satellite Wagering Account (192)
2008/2009 Revenue and Expenditure Plan
Funding Strategy and Methodology


The Division of Fairs and Expositions' (F&E) current funding strategy is designed to generate ample working capital during the next ten years and beyond to address deferred maintenance and urgently needed capital infrastructure projects at California's aging fairgrounds. At the heart of the funding strategy are an infrastructure sinking fund and a replenishment model, which leverages the sinking fund resources to create a perpetual fund source for fairs.

Wikipedia.org defines a sinking fund as a method by which an organization sets aside money over time to retire its indebtedness. In this case, F&E is implementing a variation of the sinking fund method by setting aside future money over time to address fair infrastructure needs rather than indebtedness.

Annual funding resources from racing will be consolidated and strategically allocated between fixed costs (e.g., bond debt service, local base allocations, state operations support, and existing contractual obligations) and the new infrastructure sinking fund. In an effort to continually grow the existing resources within the Fair and Exposition Fund, replenishment through repayment on loans and matching funds from the fairs and local business partners will be a key element of the new funding strategy. Leveraging existing funds through external financing and grant opportunities will also be an objective.

Sinking fund resources from the 2007/2008 prior year were withheld and will be combined with 2008/2009 fund sources for distribution until 2008/2009. Withholding the funds from the prior year was needed to achieve two objectives. First, the delay in funding allocations in the prior year gave F&E the opportunity to focus on program and policy development during the first year of its new funding strategy. This planning phase will continue through 2008/2009 and includes project scoping and budgeting, preliminary plans, construction documents and bidding. Withholding the prior year funds also gives F&E the ability to build a respectable reserve by combining resources from two full funding cycles, which will have a beneficial impact on fair infrastructure in its first year of implementation.

Annual contributions will be made to the infrastructure sinking fund from license fee revenue receipts. Those monies will be available for distribution at the end of each fiscal year to the following new programs:

-  ***Investment Reserve Fund (Loan Program)*** – provides loans for major capital improvements at all fairs. Competitive financing terms and rates will be available. The Division will also explore external financing opportunities for fairs from state resources as well as from private lending institutions that will complement the Investment Reserve Fund. This effort will be aimed at assisting the largest fairs with their extensive infrastructure needs.

✚ **Replenishment Fund (Investment Capital)** – F&E will serve as a “venture capitalist” by providing working capital for special projects at fairs with a demonstrated history of success. The program contains a replenishment feature. Timing of repayment, however, will be based on project performance.

✚ **Infrastructure Matching Fund (Grant Program)** – focuses on repairs and maintenance needs at all fairs and requires matching funds from the fair. The program contains no repayment feature. Each fair will receive one allocation over a three-year funding cycle, and then the funding cycle repeats itself indefinitely provided adequate funds are available. By spreading distribution over a three-year funding cycle, each fair will have the opportunity to receive a relatively large allocation to make improvements and address deferred maintenance projects.

Past years’ infrastructure programs, which individually addressed accessibility upgrades, revenue generating projects, emergency projects, deferred maintenance, etc. have been consolidated and will now be addressed via one, or a combination, of the above programs.

Fairs will be required to submit project proposals through a competitive application process to access program resources. Funding and financing opportunities will be awarded based on the merit of the proposals and the applicant’s capacity to incur debt, when applicable.

Understanding that annual cash receipts from horse racing fluctuate each year, this funding model was designed to withstand the unpredictable nature of this fund source. In short, the funding model ensures that baseline funding is adequate to cover fixed and priority costs each year, while the three newly created programs that benefit from the infrastructure sinking fund allocations are flexible enough to grow or contract each year based on available funding. For example, loans, capital investments and matching grants will always be available annually. However, the extent of these benefits may be fewer one year, but significantly more in the following year. With this flexibility comes a funding strategy and methodology that will withstand unpredictable business climates and be sustainable for years to come!

The following chart summarizes the projected sinking fund totals for 2008 through 2018 and the respective allocations among the three new infrastructure programs each year.

	Annual Sinking Fund Total*	Investment Reserve Fund	Replenishment Fund	Infrastructure Matching Fund
2008	\$2,650,000	\$710,000	\$710,000	\$1,230,000
2009	3,400,000	510,000	340,000	2,550,000
2010-2011	4,140,000	954,000	636,000	2,550,000
2012-2018	6,790,000	1,869,000	1,246,000	3,675,000

* The annual sinking fund total is projected to be available each year for the time periods indicated. However, the amounts are subject to change pending actual cash receipts.

The increase in sinking resources in 2009 and beyond are based on a number of anticipated events and assumptions that are subject to change given future revenue trends, the outcome of legislative measures impacting fair funding, and future input from the fair industry regarding program priorities. These anticipated events and assumptions are noted below:

2009-2011

- + The Fair and Exposition Fund is made whole via current legislative efforts.
- + Property insurance premiums beyond the Division of Fairs and Expositions’ annual \$450,000 contribution are fully funded by individual fairs.
- + Program cuts are made in a variety of areas where alternative revenue sources may be available (e.g. local contributions, grants, greater shift to user-fee based business model, etc.).

2012-2018

- + Bond debt service of \$2.6 million is retired in 2011.

Below is a summary of projected working capital accumulated for California fairs during the years 2008 through 2018.

2008	\$ 2.7 million
2009	3.4 million
2010 through 2011	8.3 million
2012 through 2018	<u>47.5 million</u>
Total Capital Accumulated in Sinking Fund in 11 Years	<u>\$61.9 million</u>
Replenishment in 11 Years	\$12.1 million
Total Capital Available to Fairs From Sinking Fund Plus Replenishment in 11 Years	<u>\$74.0 million</u>

Note that due to significant license fee revenue shortfalls in 2007/2008 and increased allocations to local assistance funding programs in this proposal for 2008/2009 (in response to needs addressed by fairs), the outlook for future capital generation is significantly less than projected in the prior year. While decreased working capital limits the financial scope of program objectives, the philosophy and focus of the newly created funding strategy and methodology remains intact.

Please refer to the previous page for the detailed financial projections for each of the three new programs for 2008 through 2018.

CALIFORNIA FAIR LISTING

(Sorted by District Agricultural Association No. or County Abbreviation)

DAA No. or County	Fair Start Date	Fair End Date				
Class	Abbr.	Organization Name	City	County	Date	Date
II	01*	Oakland Fair	Oakland	Alameda	N/A	N/A
VI	01A	Grand National Rodeo, Horse & Stock Show	Daly City	San Francisco	4/4/08	4/12/08
IV	02	San Joaquin County Fair	Stockton	San Joaquin	6/18/08	6/22/08
III	03	Silver Dollar Fair	Chico	Butte	5/21/08	5/26/08
III	04	Sonoma-Marin Fair	Petaluma	Sonoma	6/18/08	6/22/08
I	05*	San Francisco Fair	San Francisco	San Francisco	N/A	N/A
IV	07	Monterey County Fair	Monterey	Monterey	8/12/08	8/17/08
III	09	Redwood Acres Fair	Eureka	Humboldt	6/25/08	6/29/08
II	10	Siskiyou Golden Fair	Yreka	Siskiyou	8/6/08	8/10/08
I	10A	Tulelake-Butte Valley Fair	Tulelake	Siskiyou	9/3/08	9/7/08
II	12	Redwood Empire Fair	Ukiah	Mendocino	8/7/08	8/10/08
III	13	Yuba-Sutter Fair	Yuba City	Sutter	7/30/08	8/3/08
III	14	Santa Cruz County Fair	Watsonville	Santa Cruz	9/9/08	9/14/08
V	15	Kern County Fair	Bakersfield	Kern	9/17/08	9/28/08
V	16	California Mid-State Fair	Paso Robles	San Luis Obispo	7/23/08	8/3/08
III	17	Nevada County Fair	Grass Valley	Nevada	8/6/08	8/10/08
II	18	Eastern Sierra Tri-County Fair	Bishop	Inyo	8/28/08	9/1/08
IV	19	Santa Barbara Fair and Expo	Santa Barbara	Santa Barbara	4/23/08	4/27/08
II	20	Gold Country Fair	Auburn	Placer	9/4/08	9/7/08
VI	21	Big Fresno Fair	Fresno	Fresno	10/1/08	10/12/08
III	21A	Madera District Fair	Madera	Madera	9/4/08	9/7/08
VII	22	San Diego County Fair	Del Mar	San Diego	6/14/08	7/6/08
III	23	Contra Costa County Fair	Antioch	Contra Costa	5/29/08	6/1/08
IV	24	Tulare County Fair	Tulare	Tulare	9/10/08	9/14/08
II	24A	Kings Fair	Hanford	Kings	7/10/08	7/13/08
III	25	Napa Town and Country Fair	Napa	Napa	8/6/08	8/10/08
II	26	Amador County Fair	Plymouth	Amador	7/24/08	7/27/08
III	27	Shasta District Fair	Anderson	Shasta	6/11/08	6/15/08
IV	28	San Bernardino County Fair	Victorville	San Bernardino	5/10/08	5/18/08
II	29	Mother Lode Fair	Sonora	Tuolumne	6/26/08	6/29/08
II	30	Tehama District Fair	Red Bluff	Tehama	9/25/08	9/28/08
V	31	Ventura County Fair	Ventura	Ventura	7/30/08	8/10/08
VII	32	Orange County Fair	Costa Mesa	Orange	7/11/08	8/3/08
I	33	San Benito County Fair	Tres Pinos	San Benito	10/3/08	10/5/08
I	34	Modoc District Fair	Cedarville	Modoc	8/21/08	8/24/08
III	35	Merced County Fair	Merced	Merced	7/15/08	7/20/08
II	35A	Mariposa County Fair & Homecoming	Mariposa	Mariposa	8/29/08	9/1/08
II	36	Dixon May Fair	Dixon	Solano	5/8/08	5/11/08
IV	37	Santa Barbara County Fair (at the Santa Maria Fairpark)	Santa Maria	Santa Barbara	7/9/08	7/13/08
IV	38	Stanislaus County Fair	Turlock	Stanislaus	7/25/08	8/3/08
II	39	Calaveras Co. Fair & Jumping Frog Jubilee	Angels Camp	Calaveras	5/14/08	5/18/08
II	40	Yolo County Fair	Woodland	Yolo	8/13/08	8/17/08
I	41	Del Norte County Fair	Crescent City	Del Norte	7/31/08	8/3/08
II	42	Glenn County Fair	Orland	Glenn	5/14/08	5/18/08
I	44	Colusa County Fair	Colusa	Colusa	6/5/08	6/8/08
III	45	California Mid-Winter Fair & Fiesta	Imperial	Imperial	2/29/08	3/9/08
IV	46	Southern California Fair	Perris	Riverside	10/4/08	10/12/08
II	48	Schools Involvement Fair	Walnut	Los Angeles	5/14/08	5/18/08
II	49	Lake County Fair	Lakeport	Lake	8/28/08	8/31/08
V	50	Antelope Valley Fair	Lancaster	Los Angeles	8/22/08	9/1/08
I	51	The Valley Fair	Burbank	Los Angeles	6/26/08	6/29/08
I	52	Sacramento County Fair	Sacramento	Sacramento	5/22/08	5/26/08
II	53	Desert Empire Fair	Ridgecrest	Kern	10/16/08	10/19/08
I	54	Colorado River Fair	Blythe	Riverside	3/27/08	3/30/08

* Fair not in operation. Deactivated during fiscal year 1997/1998.

CALIFORNIA FAIR LISTING

(Sorted by District Agricultural Association No. or County Abbreviation)

DAA No. or County	Class	Abbr.	Organization Name	City	County	Fair Start Date	Fair End Date
VI	ALA		Alameda County Fair	Pleasanton	Alameda	6/20/08	7/6/08
II	BUT		Butte County Fair	Gridley	Butte	8/20/08	8/24/08
I	CLO		Cloverdale Citrus Fair	Cloverdale	Sonoma	2/15/08	2/18/08
III	EDO		El Dorado County Fair	Placerville	El Dorado	6/12/08	6/15/08
III	HUM		Humboldt County Fair	Ferndale	Humboldt	8/7/08	8/17/08
VII	LAN		Los Angeles County Fair	Pomona	Los Angeles	9/5/08	9/28/08
II	LAS		Lassen County Fair	Susanville	Lassen	7/16/08	7/20/08
I	MAD		Chowchilla-Madera County Fair	Chowchilla	Madera	5/15/08	5/18/08
III	MAR		Marin County Fair & Exposition	San Rafael	Marin	7/2/08	7/6/08
I	MEN		Mendocino County Fair & Apple Show	Boonville	Mendocino	9/12/08	9/14/08
II	MER		Merced County Spring Fair	Los Banos	Merced	4/30/08	5/4/08
III	MON		Salinas Valley Fair	King City	Monterey	5/15/08	5/18/08
III	NAP		Napa County Fair	Calistoga	Napa	7/3/08	7/6/08
VI	NOS		National Orange Show	San Bernardino	San Bernardino	5/22/08	5/26/08
III	PLA		Placer County Fair	Roseville	Placer	6/19/08	6/22/08
II	PLU		Plumas-Sierra County Fair	Quincy	Plumas	8/14/08	8/17/08
IV	RIV		Riverside County Fair & National Date Festival	Indio	Riverside	2/15/08	2/24/08
	SBE		San Benito County Saddle Horse Show & Rodeo	Tres Pinos	San Benito	6/27/08	6/29/08
VI	SCL		Santa Clara County Fair	San Jose	Santa Clara	7/30/08	8/3/08
I	SHA		Inter-Mountain Fair of Shasta County	McArthur	Shasta	8/28/08	9/1/08
III	SJO		Lodi Grape Festival & Harvest Fair	Lodi	San Joaquin	9/11/08	9/14/08
IV	SMA		San Mateo County Fair	San Mateo	San Mateo	8/8/08	8/17/08
V	SOL		Solano County Fair	Vallejo	Solano	7/9/08	7/13/08
VI	SON		Sonoma County Fair	Santa Rosa	Sonoma	7/22/08	8/4/08
I	TRI		Trinity County Fair	Hayfork	Trinity	8/22/08	8/24/08
VII	XPO		California Exposition & State Fair	Sacramento	Sacramento	8/15/08	9/1/08