December 23, 2017

SAN JOAQUIN COUNTY FAIR—2ND DISTRICT AGRICULTURAL ASSOCIATION FINDINGS AND RECOMMENDATIONS

INTRODUCTION

In July, 2017, the California Department of Food and Agriculture (CDFA) received a request from the President and Vice President of the San Joaquin County Fair Board of Directors to assist the Association in developing a plan that would enable the Association to improve its operations which would result in paying down the Association's accrued debt and put the Association on a path to financial sustainability.

As a result of this request, I was asked by CDFA to assess and evaluate the operations of the Association and identify a series of recommendations and strategies based on the following Scope of Work:

a. Conduct a financial assessment of the Fair and Fairgrounds including analyzing current revenues and expenses and make recommendations that will ensure the Association's operational success into the future.

b. Complete a cash flow analysis for the remainder of 2017 and develop a "work-out" plan to reduce Accounts Payable to a monthly amount that can be paid for from operating cash beginning in January 2021.

c. Conduct an operational assessment of the Fair and Fairgrounds that addresses best practices and identifies the levels of staffing and qualifications that are necessary to execute best practices.

d. Provide input into the draft 2018 budget.

The work leading up to my Findings and Recommendations included:

e. A series of in person meetings and telephone calls with current and former Board Members.

f. In-person meetings with the Association's CEO, Kelly Olds, and its Accounting Manager, Amy Casias.

g. Attendance at Board Meetings and Finance Committee Meetings.

h. A review of Statement of Operations, Association budgets, monthly financial reports, Policies and Procedures Manual, By Laws, Interim Event Agreements and Fees and Charges.

BACKGROUND

The San Joaquin County Fairgrounds is located in the City of Stockton. The population of the city and county in 2016 was 307,000 and 733,000 respectively. The Fairgrounds sits on 252 acres with 6 major buildings, 3800 seat Grandstand, Satellite Wagering facility and parking for 5000 cars. In 2016, 32,000 people attended the San Joaquin County Fair. The Association employs 5 full time people consisting of the CEO, Office Assistant, two (2) maintenance employees and a Satellite Wagering Supervisor. A handful of part time employees augment the full time staff on a year round basis.

The Fairgrounds plays an important role in San Joaquin County, not just at fair time, but on a year round basis as an event center for a myriad of community events. The number of events held at the Fairgrounds in the last 3 years has doubled, however, an aging and broken infrastructure and the elimination of state funding for California Fairs in 2011 has left the Association and many fairs throughout California in peril as Fairs attempt to find new ways of operating.

EXECUTIVE SUMMARY

As stewards of public property, the Board and CEO are charged with the care and responsibility for the Fairgrounds operations. Over the course of the last four (4) years, the interim event business has doubled due to the efforts of the CEO, and in doing, the CEO made the Fairgrounds relevant and returned it to a valuable community asset. However, during this time of growth, the CEO did not pay enough attention to the financial operations or take sufficient action to prevent the Association from accruing a sizable debt. While Staff did reduce expenses in some categories and increase revenues in others, it wasn't nearly enough to keep the Association current on its Accounts Payable and Pension Liabilities, thus resulting in unpaid liabilities on November 30, 2017 of $700,000. There has been no plan put forward by the CEO that would move the Association into a position of financial sustainability. The business model for operating the Fair and Fairgrounds for the most part remained unchanged.

The Findings and Recommendations are designed to assist the Board and the CEO to regain financial sustainability. Other areas of improvement are outlined which will help the Association become more efficient and effective in its daily operations. The Association will only succeed if it recognizes its problems and the Board and CEO are committed to working together. This starts with an understanding of what got the Association to a place of negative cash flow and a commitment to meeting its financial goals and getting back to financial sustainability by January 2021. However, the Association should not solely rely on its internal efforts. A "call to action" seeking the community's support and participation is needed to find new and creative ways to operate the Fair and Fairgrounds. A similar outreach effort in 2013 attracted more than 125 people which proved that the community valued the importance of the Fair and Fairgrounds.

The Financial Plan which is outlined in a series of recommended actions is predicated on establishing and meeting an annual profit goal on December 31 of each year beginning in 2018. The profit goal for calendar year-end 2018 is $200,000. Meeting profit goals requires constant monitoring and analysis of the Association's operating revenues and expenses reconciling back to the budget and cash flow projections while making budget adjustments to meet the goal.

The 2018 budget provides for additional part time staff to relieve the CEO of some of the daily operations so the CEO can spend more time on returning the Association to financial sustainability.

FINDINGS

1. The working relationship between the Board and CEO needs improvement if the Association is going to succeed. There's no evidence of a partnership between the two and communication from the CEO to the Board is lacking at a time when it's needed most. Some Board Members until recently were not

made aware of the Association's financial condition. Some Board Members expressed concerns that the CEO lacks transparency with the Board and is defensive in his responses to their questions.

2. The CEO brings issues to the Board without adequate background information and without presenting recommendations or courses of action. Too much time is spent month over month discussing the same issues without resolution.

3. Cash flow is not sufficient to stay current on the Association's monthly operating costs. There is an aged backlog of Accounts Payable not including the Association's unpaid pension costs totaling $357,000 as of November 30, 2017. While the Board and Staff have increased revenues and reduced expenses, the Association's operating capital month over month is mostly negative. No plan has been put forward on how the Association will pay down its Accounts Payable and pension liabilities. The Association will likely fail if it doesn't make changes to the current business model to achieve financial sustainability.

4. Monthly Financial Statements are not being provided to the Finance Committee on a regular and timely basis and copies are not provided to the full Board. The CEO is not reviewing the Financial Statements with the Committee or the Board leaving many on the Board without a full understanding of the Association's financial position. Cash flow projections are not being updated monthly which could result in the Association not having enough cash to meet payroll and its ongoing liabilities that are critical to its day to day operations.

5. The Board and CEO are not using the annual Budget for its intended purpose, which is to keep the Association on track to meet its financial goals at year end, which should include a profit before depreciation. Budgets are not well thought out and better research is needed to make accurate projections. Staff is not reviewing Budget reports with the Board and explanations for variances are not provided and adjustments to the Budget are not being made in order to achieve budget goals and financial sustainability.

6. There is fear that word will get out about the Associations' financial condition. There has been no outreach to the community for help or assistance in identifying ways the Association can achieve financial sustainability.

7. There is not an adequate tracking system for reconciling on a profit and loss basis the cost of producing the annual Fair or for events held on the Fairgrounds on a year round basis. This could result in undercharging to recover the full cost of providing the program and services.

8. Money given to the Association by AgFest for improvements on the Fairgrounds was not deposited in a "restricted account"; instead the money was used for cash flow purposes for the Association's daily operations.

9. The Association reports that it has considerable deferred maintenance that is estimated to be in the millions of dollars, including an electrical system that is not fully operational. There is a preliminary estimate of $825,000 from an electrical contractor to repair and bring the electrical system up to date. Generators are being used where the system is inoperable. The Association is working with CDFA and

the California Fairs Financing Authority to determine a funding source. A failure of the electrical system could render the Fairgrounds inoperable. The Association has no published listing of the deferred maintenance projects and no plan for addressing them.

10. The Association has done very little to upgrade and modernize its lighting and HVAC systems to reduce its electric and natural gas consumption. Utilities represent approximately 12% of the 2016 operating budget, or $283,000.

11. The CEO is not complying with the Transaction of Business outlined in Section 3.5 of the Board of Directors Policy and Procedures Manual.

a. Section 3.5.1.1, Accounts Payable—check signing requirements are not being followed and the required transactional document produced by the payroll system is not being submitted to the Finance Committee Chair on a monthly basis.

b. Section 3.5.1.2, Accounts Receivable—an Accounts Receivable Report is not being provided to the Finance Committee on a monthly basis.

c. Section 3.5.5.1, Delegation of Authority—Board approval is required for all contracted expenditures over $15,000. (Please note that the delegation was recently increased from $5,000 to $15,000. The change has not been made in the Manual).

12. The Association was unable to fully reconcile its pension liability owed to CalPERS, but we now know from CalPERS that the liability dating back to fiscal year 2011/2012 is $342,000, of which $44,000 is for unpaid health insurance premiums. This amount does not include what is owed for a part time employee who became eligible for pension benefits in June 2016, and to date has not enrolled. The CEO could not provide any details of CalPERS' accounting or a reconciliation of the Association's account with CalPERS. We've since learned that the Association receives a monthly report from CalPERS along with a monthly payroll report from CFSA which was not being reviewed by the CEO.

Employees enrolled in CalPERS pay into their individual retirement account approximately 8% of their gross wages. The employer contribution to the employees retirement account is approximately 28% of gross wages. Both these amounts are to be remitted to CalPERS on a monthly basis. The pension liability owed by the Association includes both the employer and employee contributions. In lieu of remitting, the Association is using this money for cash flow to keep the Association operational.

The CEO was not enrolled in CalPERS as required by law when he became eligible in 2014. While the CEO says he was not informed by CDFA as to his eligibility, he had a responsibility to inquire knowing full well that CalPERS was a benefit provided to other eligible Association employees. When it was discovered in June of 2017 that the employee's eligibility was not being reported to CalPERS, CFSA the Association's payroll service, started withdrawing from the CEO's paycheck the required employee contribution. CFSA also began reporting to CalPERS the CEO's wages back to his eligibility date for purposes of calculating the employer's contribution to CalPERS. It's still unclear as of this writing if the CEO is officially a member in good standing with CalPERS.

13. Part time seasonal employees are not allowed to work more than 1000 hours in a Fiscal Year. CFSA provides the Association with a monthly hours report for purposes of scheduling part time employees so they don't exceed 1000 hours. The Association has four employees who have exceeded 1000 hours in one or more years which has made them eligible for CalPERS and Social Security benefits. This eligibility requires an employer contribution of more than 34% of the person's salary for both benefits. These benefits must be paid to the eligible employees for every hour worked even if in any given year the total hours worked doesn't exceed 1000.

14. The Association is woefully understaffed when compared with Fairgrounds of its size and for the number of events held on an annual basis. The CEO is performing duties that should otherwise be performed by lower level staff. This has resulted in the CEO working in some cases 7 days a week which in part has taken away from the time the CEO needs to properly govern the Association.

15. The Interim Event Agreement is outdated and the terms of use incorporated into the agreement by Staff are poorly written and lack a clear understanding of what the parties are agreeing to. Rental rates seem low and inconsistent, and in some cases the rates are being set without fully analyzing the cost the Association will incur to support the event. There's no payment schedule when rental fees are due or deposit amount written into the Agreement. The deposit amount is the same for every event and does not take into account the event size, number of attendees and the amount of reimbursable expenses which are to be billed back to the Renter.

16. The Association adopted a Strategic Plan in 2014. The Plan has not been referred to since its adoption.

17. Using the non-profit status of the Friends of the Fair, the Association obtains a liquor license for the purposes of buying, selling and serving alcohol (beer, wine and sometimes hard liquor) to people at various events. Bartenders are comprised of volunteers including the CEO, Board Members, Staff, and their families. While this has proven to be a good source of revenue for the Association, the people serving alcohol do so without the training that's needed to ensure safe and responsible service and strict compliance with state laws. Tips at the end of the event are divided up between the bartenders. Association employees and their families, and Board Members financially benefitting from the tips, may be in violation of the Association's Incompatible Activities Statement (Section 11.4 of the Policy and Procedures Manual) and Government Code 19990. Additionally, there are no approved cash handling procedures and no balancing cash against the inventory. The same holds true during the annual Fair where local nonprofit organizations sell alcohol and other beverages provided by the Association.

18. The Association spent $155,000 on entertainment for the five day Fair in 2016 which attracted a total attendance of 32,000 people. This expenditure which includes talent costs, booking fees, stage, sound and lighting, is at least twice what a similar size five day Fair will spend on entertainment. The Association has no research to determine what brings people to the Fair or why people choose not to attend.

RECOMMENDATIONS

19. Training should be provided to all Board Members using the Fairs and Expositions Training Manual, with a specific focus on the different roles and responsibilities of the CEO and the Board of Directors. All Board Members should review the Fairs and Exposition publication, "Boards That Lead and Succeed—A Guide to Effective Fair Board Leadership". A copy can be found at, www.cdfa.ca.gov/Fairs and Expositions.

20. The Board should be kept informed on matters affecting the Association beyond the normal day to day operations. The CEO should communicate regularly with the Board President and the two must work together to set a unifying tone if the Association is going to be successful. The CEO must conduct the Association's operations in accordance with the Board adopted Policies and Procedures Manual and By Laws.

21. When presenting agenda items to the Board, the CEO should present thorough background information that provides the Board with a clear understanding of the issue and allows for meaningful discussion and action. One such example is the recent discussions at multiple Board and Committee meetings regarding the CalPERS payroll liability. It was unclear each time the issue was brought up as to the real extent of the problem and what Staff was asking the Board to act on.

22. The Board and CEO need to work closely together to formulate and execute a Financial Plan that leads to financial sustainability. An annual budget must be adopted each year that forecasts a profit in an amount that is sufficient to make payment on all Accounts Payable and pension liabilities within 30 days of incurring the expense starting in January 2021. The annual budget should also take into account a Contingency Fund of not less than $50,000 to address any unanticipated maintenance and repairs during the calendar year that can't be funded from the operating Budget.

23. Cash flow projections should be approved each year with the annual Budget and updated on a monthly basis. Updating on a monthly basis means recalculating revenues and expenses for each month for the remaining months of the year. If at any time the cash flow projection for December 31 drops below the projection adopted by Board, an explanation should be provided and expenses should to be reduced or additional revenue needs to be secured to keep the year end cash projection at the approved amount. Monthly Financial Statements should be thoroughly reviewed with the Board and the reasons for budget variances should be provided in writing.

24. The 2018 Budget should include an allocation for a part time accounting person or accounting firm for 6-8 hours a week to prepare the monthly financial reports and provide the Staff and the Board with the financial analysis that's necessary to keep the Association on track in meeting its financial goals.

25. A Financial Plan starting with the adoption of the 2018 Budget must address bringing the Accounts Payable and pension liabilities current by January 2021. The Financial Plan must be the Board and Staff's highest priority and the Plan should be altered or amended if the Association cannot not meet its year-end profit goal in any given year. The profit goal for 2018 is $ 200,000 and subsequent budgets for 2019 and 2020 should be adopted to meet the January 2021 goal of financial sustainability.

26. Bringing the Association to financial sustainability cannot be successfully accomplished without strong support from the community. This will require a broad outreach effort to engage the community, including the city of Stockton and the county of San Joaquin, to participate in a series of meetings and discussions that helps find additional sources of revenue for operations and deferred maintenance and identifies additional expenditure cuts for both the Fair and Fairgrounds. In doing so, the Association has to be open and transparent, and in particular, share the Association's Financial Statements and provide a copy of these Findings and Recommendations. Other Associations who have conducted similar outreach efforts have found that its problems are much easier to overcome when the community is working side by side with the Association. A similar effort by the Association was successfully conducted in 2013 and should serve as a model.

27. The CEO should work with the new accounting person to develop a tracking system that captures all revenues and expenses from the events held on the Fairgrounds. Expenses should include the current salaries and benefits of all staff assigned to the event, utilities, janitorial and janitorial supplies, security and waste removal. Rental rates and reimbursable expenses should be based on the results of what each event costs. Agreements need to be written with greater clarity particularly when describing the rent, the term or length of contract. Agreements for more than two years should have rent increases built into the agreements. Most Agreements shouldn't be for more than 3 years, unless financial incentives are provided that is deemed to be a good deal for the Association. Reimbursable rates should be developed and adjusted each time salary and wages increase or there's an increases in utilities or other contracted services. Rental rates shouldn't rely solely on a Rate Card. Rental rates should take into account the potential revenue that the event can derive, including whether there are other ancillary revenues from parking and food and beverage sales, and the Association's cost of supporting the event. The deposit should take into account the event size, number of attendees and the amount of reimbursable expenses the Renter will owe the Association.

28. Funds given to the Association by AgFest and Friends of the Fair for projects on the Fairgrounds should be deposited into a restricted account and not used for cash flow purposes.

29. A list of deferred maintenance projects should be maintained by the Association at all times and updated annually as part of the budget process, regardless of the Association's ability to fund. The Association needs to complete a thorough review of its electrical system to determine the full cost of making the system operational and a Plan for funding the repairs is needed.

30. An energy audit conducted by PG&E needs to be done to identify efficiencies and find funding sources to retrofit or replace outdated lighting and HVAC systems.

31. Check signing requirements in accordance with the Policy and Procedures Manual must be followed, including providing the Finance Committee with a monthly payroll and Accounts Receivable reports. Until the Association achieves financial sustainability, the Board should consider returning the CEO's Delegation of Authority to $5000.

32. The monthly reports provided by CalPERS and CFSA need to be reviewed monthly by the CEO and no new part time employee should work more than 1000 hours from July 1 to June 30 in any given year. A

reconciliation of what the Association actually owes CalPERS needs to occur and all eligible employees should be enrolled and the employer and employee contributions reported and paid to CalPERS. The Association will need to request at a minimum a 3 year payment plan from CalPERS for back due contributions.

33. The Association should hire part time staff to provide the support needed for interim events. This will free up the CEO's time to better govern the organization and to more carefully analyze and execute the Association's Financial Plan.

34. The Association should identify a Fair or Fairs who have a well written Interim Event Agreement and use the Agreement(s) to draft a new Agreement that satisfies the needs of the Association. CDFA Legal may be able to help identify which Fairs to contact for assistance. Additional training is needed for the Staff who prepare the Agreements for the renter's signature. The use of Exhibits and Addendums should be reduced or eliminated and the information should be incorporated into the Agreement.

35. A new Strategic Plan should be developed that incorporates the discussions from the community engagement process outlined in #26 above. The Strategic Plan, the Association's Financial Plan and these Findings and Recommendations should be reviewed and discussed at every Board Meeting and included in the minutes of the meeting.

36. The Board should require annual goals of the CEO and the CEO should report on the progress of each goal on a quarterly basis.

37. A policy regarding the sale of alcohol by the Association should be approved by the Board. Prior to drafting the policy, CFSA, the Association's insurer, should be consulted. The policy should address training and server education prior to each work shift. This training should include I.D. checking, required measurements for pouring, the number of alcoholic beverages that can be purchased, and how to identify when someone shouldn't be served. Cash handling procedures balancing the inventory against the cash should also be developed and be part of the policy. Legal counsel should be consulted to determine if employees, their families and Board Members can legally retain the tips.

38. The Association needs to determine a means for researching the reasons why people come to the annual Fair, and probably more importantly, the reasons they don't. In 2016, the Association spent $155,000 on producing entertainment for a total reported attendance of 32,000, which when broken down represented spending $5 for each attendee. Assuming that some portion of the total attendance were free (employees, exhibitors, concessionaires, etc.) the cost per attendee exceeds $5. The cost of entertainment needs to be reduced by at least 20% in 2018 and reduced again in 2019 or until the Association has better research to support the expenditure.

39. The 5 day annual Fair should be reduced to 4 days and operating hours on Thursday and Friday should be reduced so gates open no earlier than 2pm. Saturday and Sunday hours should remain the same. Revenue protection insurance should be purchased.

40. As Fair attendance grows, food concessionaires should pay the Association based on a percentage of gross sales and not the current flat fee.

41. Successful Fairs generally have good community support usually in the form of a non-profit association whose mission is to support the Fair and Fairgrounds. The Association needs to invest time in growing the membership of its Friends of the Fair. Should the Association conduct community outreach as suggested in Number 26 of this report, this would be a good time to begin recruiting new members.

42. The Board and CEO should agree on a process that requires the CEO to provide the Board with regular updates on the progress of achieving these recommendations.

43. Consider reissuing the June 2014 RFQ/RFP to select a development team to develop under a ground lease approximately 10 acres at the SE corner of Charter Way/Dr. Martin Luther King Blvd. and Airport Way for purposes of generating new revenue. The 2014 solicitation generated one response from a reputable developer whose proposal did not meet our criteria.

Respectfully Submitted,

Brian May