



## **Item 6-A-4, Executive Summary to the 2024 Operating Budget**

Following the Finance Committee review of the first draft of the budget, adjustments were made to present the attached financial operating plan, including payment of the annual portion of principal on long-term debt obligations. The attached budget forecasts nearly \$2.85M net proceeds from operations prior to those payments, and overall net of \$7,400 after payment of the bonds and loans.

The following information provides background for the assumptions made in the preparation of the 2024 Operating Budget along with insight into the methodologies taken. This is a slightly different format than previous years, but one that can more easily guide decision-making and provide greater transparency into the operations and ongoing viability of District.

Beginning in 2021, District prepares the operating budget using Zero-Based Budgeting techniques and presents the information in a Program-Based format. District Programs have been identified as SDCF (San Diego County Fair), Rentals & Sales (non-fair events and activities), Horse Racing (Del Mar Thoroughbred Club and Satellite Wagering), The Sound, Resiliency Center (community emergency), and Administration + Overhead (everything else). The process continues to bring new opportunities for all levels of the organization to engage in planning the future from a ground up approach.

Accomplishments in 2023:

- Opened and operated the new indoor entertainment venue, The Sound;
- Executed a full San Diego County Fair;
- Continued to implement the responsible regrowth plan for staff development;
- Resumed equestrian activities at Horsepark.

The 2024 Operating Budget reflects the ongoing commitment to responsibly regrow the organization in pursuit of the Board's strategic initiatives in the coming year.

### **Approach:**

As the name implies, zero-based budgeting starts with a zero balance on all revenue and expense accounts and then allocates resources based on Program necessity rather than budget history. District has realized a better understanding of financial decisions over recent years utilizing this technique. For 2024, every revenue and expense assumption was also carefully considered and reviewed in the context of the prior year's performance. The program-based format provides better understanding of, and insight into, revenues and expenses according to programs and functions instead of broad categories that cover multiple programs.

### **Assumptions:**

This budget assumes revenues that District is confident in obtaining throughout 2024 and all anticipated expenses, including adjustments for projected inflation.

### **San Diego County Fair**

This budget takes a comparative approach to 2023 revenues, assuming increased attendance and consumer spending as the 2024 Fair pushes further into the month of July. The focus remains on enhancing the guest experience, providing for more mixed-use areas, and integrating agriculture

throughout the Fair. Discounts are offered for advance purchase on Admission, Midway, and Parking to maintain accessibility of the Fair to all community members.

- 2024 Fair Theme – Let’s Go Retro
- Fair Dates – June 12<sup>th</sup> to July 7<sup>th</sup>, closed on Mondays and Tuesdays
- Fair attendance goals – 60,000 per day; 45,000 paid
- Fair Hours:
  - Sunday to Thursday 11 am to 10 pm (closed Mondays & Tuesdays)
  - Fridays and Saturdays 11 am to 11 pm
  - Focus more energy toward driving paid attendance to Wednesdays and Thursdays to alleviate stress points on the weekends and enhance the guest experience
- Admission & Parking Rates:

*Note: Advance Sale means purchased one day or more before redemption*

  - Advance Sale
    - Wednesdays & Thursdays: \$15 general, \$12 kids/seniors/military
    - Fridays to Sundays: \$20 general, \$17 kids/seniors/military
    - Parking: \$15 standard, \$50 preferred @ fairgrounds; \$10 at Horsepark
  - Day of Sale
    - Wednesdays & Thursdays: \$20 general, \$17 kids/seniors/military
    - Fridays to Sundays: \$25 general, \$22 kids/seniors/military
    - Parking: \$20 standard, \$50 preferred @ fairgrounds; \$10 Horsepark
  - Kids’ Day – Every Friday youth 12 and under admitted free

Revenues: Consists of program revenues including admission, midway, parking, concessions, food & beverage contract, etc. Variable revenues are forecasted based on the historic attendance pattern and per cap spending during the last week of the Fair and then applied to July 5-7. Fixed revenues, such as Commercial Space and Sponsorship, are consistent with the prior year as those rates do not increase in 2024.

**Anticipated Revenues from San Diego County Fair: \$54,647,709**

Expenses: In tandem with the fiscally responsible approach to revenues above, associated expenses for the San Diego County Fair will provide a safe, enhanced guest experience at this annual family friendly event. Highlights of specific expenses fall into these broad categories:

- Marketing: Inclusive of digital ads and social media, radio, print, and television, including upgrades to the sandiegocountyfair.com website and media monitoring services;
- Midway: Payments to operators of rides and games; 52% of ride gross, 70% of game gross;
- Entertainment and Shows: Featuring 20 days of ground shows, strolling acts, stage performances, demonstrations, contests, fireworks, and more including national touring acts on the Grandstand Stage and tribute bands and rising stars on the Paddock Stage;
- Prizes & Premiums: Fondly referred to as premiums, also includes ribbons and other awards and is a cornerstone of the competitive exhibits and displays;
- Professional Services: With the priority on safety and security of all patrons, contracted services includes event security and law enforcement, marketing agency, talent booking agency, portable handwashing stations, off-site parking shuttle services, Premier’s cost of goods sold, labor, and operations during the Fair, and other contracted services;
- Service Fees: Credit card fees calculated as a percentage of ticket sales for a contactless experience;
- Food & Beverage Contract: Reimbursement of expenses including labor and cost of goods sold to Premier Food Services for food and alcohol services.

**Anticipated Expenses for San Diego County Fair: \$38,050,601**

Net Operations: The most profitable of all District programs, successfully producing the San Diego County Fair is paramount to the continued return to self-sustaining operations.

**Anticipated NET OPERATIONS from San Diego County Fair, excluding Payroll: \$16,597,109**

**Rentals & Sales (third-party events and activities)**

Third-party promoter uses of the facilities for events and activities, including KAABOO and Horsepark, Surf & Turf Recreation campus operators such as tennis, swim, volleyball, and golf, as well as RV Park operations by District.

Revenues: Consists of facility and equipment rental fees for events throughout the year such as consumer shows, trade shows, personal celebrations, overnight RV parking fees, etc. A major addition to 2024 is the return of KAABOO and a full year of Horsepark operation.

**Anticipated Revenues from Rentals & Sales: \$8,062,984**

Expenses: Relatively minimum given that much of the program consists of managing the calendar outside of the Fair and horse racing seasons with activity provided by third-party promoters. The major expense category is Food & Beverage Contract which is reimbursement to Premier Food Services for labor and cost of goods sold for food and beverage services at third-party events.

**Anticipated Expenses for Rentals & Sales: \$3,456,423**

Net Operations: Due to business model changes for District, non-fair use of the properties has risen to a substantial positive net contributing program, contributing significantly to the return to self-sustaining operations.

**Anticipated NET OPERATIONS from Rentals & Sales, excluding Payroll: \$4,606,561**

**Horse Racing**

Revenues:

Live Race Meets: Per the terms of the Operating Agreement with the Del Mar Thoroughbred Club (DMTC), District will receive direct payments of \$1,225,000 in rent, plus an additional \$600,000 with the return of the Breeders' Cup in 2024, along with reimbursement of direct expenses such as utilities and landfill charges during race meets and portions of phone and internet access charges, including labor and material expenses incurred by District for the live meets. Per the terms of the Pledge Agreement for the 2015 RTA Bonds, DMTC contributes 100% of Net Horse Racing Revenues from the prior year to the State Race Track Leasing Commission (SRTLCL) toward the current year's debt service. Through the Food & Beverage Contract with District, Premier Food Services provides all food and beverage services to the live meets. In the event Net Horse Racing Revenues fall short of the debt service payment, District contributes Net Concessions Revenues up to \$4,000,000 from its Food & Beverage Contract operation. DMTC's contribution from the 2023 race season is \$2,508,000, current debt service for 2024 is \$3,281,800.

Satellite Wagering: District continues to operate off-track betting during the months in which there is no live racing at Del Mar. These revenues are reflected in 22<sup>nd</sup> DAA Sales and Wagering.

**Anticipated Revenues from Horse Racing (Live & Satellite): \$23,735,863**

Expenses: The major expense category is Food & Beverage Contract which is reimbursement to Premier Food Services for labor and cost of goods sold for food and beverage services during the live meets, followed by interest payments on the RTA Bonds.

**Anticipated Expenses for Horse Racing (Live & Satellite): \$16,454,872**

Net Operations: District is reimbursed by DMTC for all expenses incurred for the live meets as well as receives a rent payment of \$1,825,000 in 2024, and retains 87.5% of the net from the food and beverage contract with Premier Food Services.

**Anticipated NET OPERATIONS from Horse Racing (Live & Satellite), excluding Payroll: \$7,280,991**

**THE SOUND**

Revenues: In just the second year of operation, this budget forecast 80 shows at The Sound in 2024, a 25% increase over 2023. Solana Beach-based Belly Up manages the promotions of shows and other activities at The Sound on behalf of District. District will receive \$7800 or 10% of gross ticket sales, whichever is greater, per ticketed show and a sliding scale facility rent fee per private, non-ticketed event, based on contracted catering, and retains \$15 per parking ticket sold and all food and beverage receipts.

**Anticipated Revenues from The Sound: \$3,983.705**

Expenses: Primarily consisting of the Food & Beverage Contract which is reimbursement to Premier Food Services for labor and cost of goods sold for food and beverage services provided at ticketed shows and private events, and interest payments on the construction loans from California Infrastructure and Economic Development Bank, oftentimes referred to as IBank, and Premier Food Services. See loan details below for more information.

**Anticipated Expenses for The Sound: \$2,332,576**

Net Operations: Calculated after accounting for facility operational expenses such as janitorial supplies and landscaping.

**Anticipated NET OPERATIONS from The Sound, excluding Payroll: \$1,651,129**

**Resiliency Center**

Revenues: In the event District properties are activated in response to community need, revenues may be realized in the form of donations or reimbursements.

Expenses: Anticipates purchase of a nominal number of supplies to have on hand to operate for at least the first 24 hours of an activation as well as employee training. In the event District properties are activated, expenses may be realized, typically in the form of reimbursement and overtime costs.

**Resiliency Center operations are never anticipated to make a positive net contribution.**

**Administration + Overhead**

Comprised of overall organization operations and does not include direct revenues or expenses of other Programs.

Revenues: Includes leases for the Del Mar Fire Station and cell tower sites, sponsorship for printers and copiers, and interest earned for investments in the Local Agency Investment Fund (LAIF).

**Anticipated Revenues from Administration + Overhead: \$1,847,079**

Expenses: Costs that cannot otherwise be directly attributed to a specific Program, Administration + Overhead is inclusive of maintaining operations of the facility and organization, oftentimes in support of the various other Programs, such as Insurance, Professional Services, Repairs & Maintenance, and Utilities.

**Anticipated Expenses for Administration + Overhead: \$9,643,231**

Net Operations: Typically a cost center to be funded by Program operations.

**Anticipated NET OPERATIONS from Administration + Overhead, excluding Payroll: (\$7,796,153)**

## **Payroll Assumptions:**

Payroll includes wages for three employment categories at District – Civil Service, Seasonal, and Temporary – and all related taxes, benefits, retirement, and workers compensation insurance. This budget anticipates filling 21 full-time Civil Service and 17 Seasonal positions during the first half of the year. Four of the 21 full-time positions have already been filled since January 1, 2024. Payroll has not been fully allocated across each of the Programs, which, once completed, will have significant impact on the net operations of the SDCF, Rentals & Sales, and Administration + Overhead programs.

Under Food and Agricultural Code section 3953, District Agricultural Associations are state institutions. As a state institution, District is required to participate in and follow CalHR policies for all Civil Service and Seasonal employees of District, including participating in the state’s CalPERS pension program. Civil Service and Season employees of District are recipients of the same benefits as all other civil service employees of the State of California.

Civil Service employment is for full-time positions as defined in the Classification system through CalHR and consists of exempt and represented employees. Salaries, pensions, and benefit rates are determined by CalPERS and CalHR.

Seasonal employment is offered for a limited group of non-testing Classifications, including Maintenance Aide, Park Aide, and Senior Park Aide. Employees in this category can work up to 1,500 hours per year, participate in CalPERS retirement, and earn vacation and sick leave on a pro-rated basis for hours worked. Wages, pensions, and benefit rates are determined by CalPERS and CalHR.

Temporary employment is exclusive of the civil service system and is subject to California labor laws. Employees in this category are statutorily limited to 125 days of work per calendar year. Additionally, employees should be limited to less than 1,000 hours of work per fiscal year. Wages are determined by District, subject to minimum wage laws, and employees do not participate in benefit programs. Prior to AB 1499 (3/4 of 1% of gross sales on fairgrounds) and District’s adoption of employment policies to be eligible for funding during the pandemic, District was exempted from overtime requirements for Temporary employees. Since adoption of those policies, District has had to relinquish the exemption to receive a portion of AB 1499 funds.

**Anticipated Expenses for Payroll: \$14,172,168**

## **Long-Term Debt Obligations**

Debt Service: Principal and annual fees for capital improvement project loans, energy efficiency loan, SB84 CalPERS loan, and bond obligations. The Water Quality Improvement loan from IBank originated in 2020 and will come to maturity in 2037. The Sound Renovation loan from IBank originated in 2019 and will come to maturity in 2048. The zero-interest Premier loan from ASM Global originated in 2020 and will come to maturity in 2040. The Energy Efficiency Loan from the Department of General Services (DGS)

officially began on May 1, 2019, but DGS allowed a one-year deferral due to the COVID-19 pandemic and disruptions on District cash flows. Del Mar Racetrack Authority Revenue Bonds originated in 2015 and will mature in 2038.

On July 10, 2017, Governor Brown signed SB 84 into law, which had the effect of borrowing \$6 billion from the Pooled Money Investment Account to make a one-time supplemental payment to the California Public Employees' Retirement System as part of the 2017-18 fiscal year budget package. The intent of this one-time supplemental payment was to save the State money over the next few decades by slowing the pace of cost increases for the State's annual pension payments. Under SB 84, the Department of Finance developed a repayment schedule for principal and interest, and allocated the proportionate share to fairs for a total of \$9.9 Million. District's share of this obligation is \$3,403,924, to be paid over five years beginning in fiscal year 20/21 of \$619,895 per year for the first four years and one final payment in FY24/25 of \$924,344. To date, Department of Finance has not provided payment instructions, so District continues to carry the payable in Current Liabilities on the Balance Sheet.

### **Net Operations, including Payroll**

After calculating all operational revenues and expenses for 2024, including payroll, and before payment of the current year's portion of principal on long-term debt obligations, District anticipates realizing a positive net impact of \$2,849,276. After payment of the current year's principal, a positive net impact of \$7,400.