



## **Board of Directors Agenda Report**

**MEETING DATE:** DECEMBER 17, 2020 **ITEM NUMBER:** 10D

**SUBJECT:** Presentation of CEO's 2021 Budget Summary Letter

**DATE:** December 11, 2020

**FROM:** Michele Richards, CEO

**PRESENTATION BY:** Michele Richards, CEO

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### **RECOMMENDATION**

Information item only.

### **BACKGROUND**

The Board of Directors approved the budget and capital/major projects list for 2021 at the November, 2020 Board meeting. Staff will present the CEO's 2021 Budget Summary Letter to complete the budget planning process.

A copy of the letter is attached.



Date: December 11, 2020  
To: 32<sup>nd</sup> District Agricultural Association Board of Directors  
Subject: 2021 Operating Budget and Capital Expenditures/Major Projects List

On behalf of the dedicated staff of the OC Fair & Event Center, I am proud to present to you the 2021 operating budget and capital expenditures/major projects list for the 32<sup>nd</sup> District Agricultural Association.

### **Operational Highlights from 2020**

To say 2020 was a challenging and noteworthy year would be an understatement. What started out as a year of promise and continued growth, ended up being the greatest loss of income in the OC Fair's 130 year history due to business disruption caused by the COVID-19 pandemic.

In the first quarter of 2020, the OC Fair & Event Center was in a position to post record revenues from year-round event rentals and the annual OC Fair. In January and February alone, we posted net proceeds which were favorable to budget by over \$1.4 million. We saw an 8% year-over-year increase in our cash and cash equivalents.

Then came news of a new virus spreading quickly throughout Asia and Europe. By February, the new COVID-19 virus had reached the U.S. In mid-March, there were just six known cases of the virus in Orange County and many of our year-round event promoters were still holding dates for Q2 and Q4 events. We were forced to cancel Imaginology 2020, but plans were still moving forward for the 2020 OC Fair. By early April, we sent all but essential staff to work from home and laid off our part-time, seasonal event employees as we began to see a cascade of event cancelations. At a special meeting held on April 27, 2020, the Board of Directors made the difficult but necessary decision to cancel the 2020 OC Fair.

We immediately sprang into action with the development of a three-phase recovery plan to address the crisis:

#### Phase I: Transition

- Review all fair related contracts/agreements and cancel where necessary
- Process all ticket refunds/cancelations
- Close-out all competitive entries
- Communicate with all stakeholders
- Reforecast 2020 budget

#### Phase II: Research Development & Planning

- Develop virtual fair concept
- Develop workplace and event health and safety procedures
- Assess civil service staff and develop redeployment plans
- Continue to support community/emergency efforts
- Create plan for generating new revenue
- Develop plan for maintaining essential functions



### Phase III: Moving Forward

- Fully implement the recovery plan and re-open on a rolling basis

Due to the constantly changing landscape, we have flexed this plan many times throughout the last nine months according to ever-evolving restrictions and guidelines from state and county health care agencies. We planned and executed a virtual fair which included live events on social media, digital contests and competitions on the ocfair.com web site, and a very successful fair food drive-thru event. We worked with existing promoters to transition their traditional events into vehicle-based events, hosting drive-in concerts, a drive-thru Halloween Haunt and a drive-thru holiday light spectacular. Partnering with the OC Health Care Agency, we've been able to bring back some outdoor activities like the vintage market, a Subaru drivers' vehicle-based event, farmers market and Christmas tree lot. Centennial Farm and Heroes Hall were able to reopen serving our educational and heritage mission.

A team was formed to research and develop property-wide COVID-19 health and safety procedures for the workplace, our year-round events and the annual OC Fair. We assisted other fairs in doing the same and shared resources with our industry partners through California Fairs Alliance and the International Association of Fairs & Expositions.

We have continued to serve the community throughout the pandemic, providing space for emergency food distribution events, donations of Centennial Farm produce to the OC Food Bank, and free COVID-19 testing through the county. Our equestrian center was activated twice this year during wildfires in October and December, providing shelter for evacuated horses. Our exhibit buildings continue to be an option for the County to use as an emergency overflow medical facility during the pandemic if needed.

Our challenges are not over. Legal action was initiated against Spectra for breach of contract after the company chose to no longer operate the OC Market Place, resulting in a \$2 million per year loss of revenue to OC FEC.

Data, guidelines and direction have changed frequently making it even more challenging to move forward. The 2020 budget indicated a \$1.8 million net profit. That profit is now projected to be a \$16 million net deficit to budget. The \$55 million cash reserves we had at the beginning of 2020 is now projected to decline to \$40 million by the end of the year. However, we have a strong team that is absolutely committed to moving the business forward through aggressive cost containment and creative ideas for generating revenue. We have a growing optimism for the start of business recovery in 2021 especially in light of a newly introduced COVID-19 vaccine.

### **2021 Budget Overview**

The approved budget for 2021 represents a carefully calculated plan for business recovery and is built around the best economic indicators available at this time. We know that things are likely to change as a COVID-19 vaccine is introduced and the area begins to return to some sense of normalcy. As such, the organization remains ready to shift priorities as the health and safety landscape changes and new ways of doing business emerge.



The budget includes a conservative projection for year-round event bookings and a modified 2021 OC Fair, while also maintaining many important community and educational programs like Imaginology in a virtual presentation, Centennial Farm and Heroes Hall.

The budget was built around a general fair admission ticket price of \$9.33 (a blended average of current ticket prices). Staff will present recommendations on ticket pricing for Board approval once we complete our fair planning. The year-round and fairtime parking rate remains steady at \$10. The budget reflects a \$1 per hour increase in minimum wage, although there are significant staffing cuts in each department.

Budgeted revenue in 2021 is \$23.5 million compared to \$52.2 million in 2020. Careful consideration was given to expense controls and the 2021 budget includes operating expenses of \$30.5 million compared to \$46 million in 2020.

The 2021 budget includes the following revenue categories:

- Admissions to Grounds – \$10,289,311
- Commercial Space Rentals – \$705,800
- Carnival & Concessions Revenue – \$6,455,156
- Exhibits Revenue – \$55,525
- Attractions Revenue - \$471,663
- Misc. OC FEC-Produced Event Revenue – \$3,468,424
- Year-Round Rental Revenue - \$1,896,695
- Non-Operating Revenue - \$182,446

A projected net deficit of \$11.8 million from the 2021 budget represents a significant decrease over the 2020 budget, due primarily to loss of revenue from a full fair, inability to hold mass gatherings until at least the fourth quarter, and the \$1 increase in minimum wage and mandated benefits for civil service employees.

### **2021 Budget Assumptions and Considerations**

The executive management team developed two simple goals for the 2021 budget:

1. Improve the year-over-year bottom line by 35-40%, or achieve a net deficit to budget of \$10-\$12 million.
2. Produce a modified fair with net proceeds between \$0-\$2 million.



The following assumptions were provided to staff as a guideline for developing their individual department budgets:

- \$825,000 capital budget
- Minimal event activity in Q1 and Q2; Q4 event activity reduced to 25% of Q4 2019
- 2021 civil service labor headcount same as 2020 (includes pay cuts)
- Utilities and other operational expenses cut from 2020
- 2021 OC Fair at 50% fixed daily attendance (30,000)
- 2021 OC Fair expenses adjusted per reduction in programming, including staffing reductions for seasonal employees
- Pacific Amphitheatre concerts sold at 50% capacity
- 2021 OC Fair programming adjusted to achieve budget goals
- Additional staff/supplies increased for health and safety initiatives

We fully understand that the budget we presented for 2021 will likely need to be reforecast just as soon as the new year begins due to the ever-changing environment in which we are currently operating. As such, we will continue the procedure we've followed since the pandemic hit of providing the Board and public a monthly reforecast of the budget based on actual numbers to-date and adjusted projections for revenues and expenses for the remainder of the year.

### **2021 Capital/Major Projects Highlights**

The Capital Expenditures/Major Projects plan is simple – focus on completing only one large carry-over project from 2020, adding no new capital projects or equipment purchases in 2021, and initiating only mission critical major projects in 2021 that are related to health/safety and property security. The Capital Expenditures/Major Projects budget for 2021 is \$825,000, a 70% reduction from 2020. The plan includes the following:

- **Carry-Forward Project from 2020:**
  - Complete the Lot G utilities project - \$350,000
- **2021 Capital Projects:**
  - none - \$0
- **2021 Equipment Purchases:**
  - None - \$0
- **2021 Major Expenditures:**
  - All grounds WiFi - \$45,000
  - All grounds public address system - \$30,000
  - Main entry drive alterations - \$90,000
  - Surveillance system upgrade - \$20,000
  - Parking lot maintenance - \$100,000
  - Replace in-ground electrical boxes - \$20,000
  - Picnic tables - \$20,000
- **2021 Contingency:**
  - \$150,000



**2021 Budget Summary By Department**

Function	Projected Revenue	Projected Labor Expenses	Projected Non-Labor Expenses
Administration - 06	\$78,846	\$997,930	\$1,354,068
Sales - 87	\$965,000	\$9,419	\$157,850
Human Resources - 07	\$0	\$1,258,328	\$133,990
Carnival - 58	\$1,917,883	\$121,981	\$26,700
Finance/Accounting - 10	\$20,000	\$518,612	\$224,481
Business Services - 12	\$0	\$354,269	\$12,943
Admissions -31, 38, 50, 66, 67	\$7,818,000	\$503,861	\$79,324
Maintenance Operations - 20, 22, 28, 63	\$0	\$2,832,098	\$2,901,540
Technology & Production - 08 09, 19	\$0	\$747,431	\$1,053,020
Entertainment - 34, 48, 69, 70, 72	\$6,041,953	\$628,325	\$6,516,396
Security, Parking & Traffic - 23, 32, 51, 52	\$0	\$2,007,988	\$990,450
Communications - 18	\$0	\$313,942	\$47,545
Guest Experience - 47	\$0	\$233,239	\$19,000
Marketing - 15	\$0	\$415,570	\$927,516
Exhibits & Education - 11, 14, 27, 29, 41, 42, 43, 44, 46, 53, 62, 84	\$163,575	\$1,756,510	\$504,831
Event Services - 30, 33	\$875,800	\$1,811,769	\$224,700
Commercial & Concessions - 64	\$5,165,500	\$344,090	\$103,300
Creative Services - 21	\$0	\$438,024	\$19,428
All Other 25, 49, 59, 74, 78, 82	\$478,463	\$192,806	\$435,246
Capital/Major Projects			\$825,000
Depreciation			\$3,300,000
<b>Total:</b>	<b>\$23,525,020</b>	<b>\$35,343,520</b>	



## Summary

Much planning and work went into the development of the 2021 operating budget. It is based on the best economic forecast information available at the time and will need to be managed throughout the year with careful monitoring and reforecasting based on updated information. The budget includes conservative revenue projections, and expense projections that include significant cuts to labor and non-labor expenses. Our goal is to begin the process of business recovery through responsible management of this budget, while making necessary contributions to our pension obligations, and ensuring a safe, and secure and healthy environment for our guests.

The OCFEC Board of Directors, and in particular the Financial Monitoring and Audit Committee, has been exceptionally supportive during a very difficult year. I would like to thank each Board Member for your guidance and support as we continue to navigate uncharted waters. I sincerely appreciate the hard work that staff contributed to an often changing budget process and for the responsible leadership they will provide moving forward in order to manage their individual department budgets throughout 2021. And, once again, I would like to thank the public for their thoughtful feedback and positive comments during the budget study session.

Most sincerely,

A handwritten signature in black ink that reads "Michele Richards". The signature is written in a cursive style with a horizontal line underneath the name.

Michele Richards  
Chief Executive Officer