

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

**INFRASTRUCTURE STATE REVOLVING FUND PROGRAM (ISRF) DIRECT FINANCING
EXECUTIVE SUMMARY**

Applicant: 22 nd District Agricultural Association (District)	ISRF Project Type: Economic Expansion Project	ISRF Project Category: Educational, Cultural, and Social	
Financing Amount: \$15,000,000 (Financing)	Financing Term: 30 years	Interest Rate: ¹ 3.58%	
Source of Repayment: All "IBank Pledged Revenues," consisting of "Pledged Fair Revenues" (as defined in the IBank Pledged Revenues Section) less "Fair Operating Expenses" (as defined in the IBank Pledged Revenues Section)		Fund Rating/Date: None	
Security: Senior lien on IBank Pledged Revenues; the senior lien would be on parity with the lien of the 2018 IBank Installment Sale Agreement No. CIEDB 18-121, outstanding principal balance of \$8,900,000, with a maturity date of 2037.			
Project Name: Concert Venue Project (Project)		Project Location: 2260 Jimmy Durante Blvd. Surfside Race Place Del Mar, CA 92014	
Project Description / Sources and Uses of Proceeds: The Project consists of improving and converting approximately 65% of the Surfside Race Place (SSRP) Satellite Wagering Facility (Facility) into an approximately 1,900-person capacity concert venue (Concert Venue) and a food and beverage service facility.			
Use of Financing Proceeds: The Financing would fund the completion of all components necessary to complete the Concert Venue portion of the Project including, but not limited to, design, architecture, engineering, construction, equipping, machinery installation, construction contingency (10%), permitting, entitlement, constructing management, project administration, and general project development activities. The District will self-fund IBank's Origination Fee and the food and beverage service portions of the Project.			
Project Uses		Project Sources	
	IBank	22nd DAA	Total
Concert Venue Construction	\$15,000,000		\$15,000,000
Food and Beverage Service Areas Construction and Contingency	\$0	\$2,000,000	\$2,000,000
Origination Fee	\$0	\$150,000	\$150,000
Total	\$15,000,000	\$2,150,000	\$17,150,000

¹ Interest Rate provided January 14, 2019

Credit Considerations:

Cash flow and debt service analysis for the Financing is as follows:

CASH FLOW					
For Fiscal Year Ending (FYE) December 31	2013	2014	2015	2016	2017
Income (Loss Before Operating Transfers)	\$3,162,153	\$4,218,738	\$5,159,296	\$3,445,481	\$3,782,486
Transaction Specific Adjustments					
+ Depreciation	1,379,066	1,377,845	1,383,778	1,465,043	1,481,596
+ Interest Earnings	36,444	28,290	44,747	89,129	151,431
+ Onetime Cost for the Environmental & Entertainment Venue				1,286,000	1,100,000
- Food and Beverage Revenues subtracted out (\$4 million of Bond Pledged Revenues)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Total of all Adjustments	(2,584,490)	(2,593,865)	(2,571,475)	(1,159,828)	(1,266,973)
Debt Service Calculation					
Cash Available for Debt Service	577,663	1,624,873	2,587,821	2,285,653	2,515,513
Total Existing Debt Service MADS ⁽¹⁾	646,980	646,980	646,980	646,980	646,980
Proposed IBank MADS ⁽²⁾	863,632	863,632	863,632	863,632	863,632
Total Obligations MADS	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612
Debt Service Coverage Ratio	0.38	1.08	1.71	1.51	1.67

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$15,000,000 at 3.58% for 30 years.

Analysis of historical cash flow demonstrates that IBank Pledged Revenues have the ability to service the proposed Financing in each year and has a debt service coverage ratio (DSCR) of 1.51 or greater in three out of the five years reviewed. Projected cash flows indicate a DSCR of 1.31 or greater in each year projected and it is described in greater detail later in the report.

Support for Staff Recommendations:

1. Historical cash flow analysis demonstrates that IBank Pledged Revenues have the ability to service the proposed Financing in four out of the five years reviewed and achieve a DSCR of 1.51 or greater in three out of the five years reviewed.
2. Projected cash flows will service the proposed Financing in each of the years analyzed.
3. The estimated useful life of the Project is at least 30 years, which matches or exceeds the 30-year term of the Financing.
4. The District will likely receive revenues from the Concert Venue, which are not included in the historical cash flow analysis.

Extra Conditions:

1. Closing will be conditioned on the Department of General Services' (DGS) approval of the District's pledge of revenues.
2. District shall notify the Departments of Finance and the Department of Food & Agriculture when seeking final Project approval from DGS.
3. IBank Criteria, Priorities and Guidelines (ISRF Criteria), the ISRF Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the ISRF Criteria. The District intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the District seeks a waiver of the Criteria.
4. Hard cost disbursement will be conditioned on the District obtaining all necessary permits and approvals to commence construction.

IBank Staff:

Tom Dear

Date of Staff Report:

February 15, 2019

Date of IBank Board Meeting:

February 27, 2019

Resolution Number:

19-06

Staff Recommendation:

Staff recommends approval of Resolution No. 19-06 authorizing a Financing not to exceed \$15,000,000 to the District for the Project, subject to the conditions contained herein.

PROJECT DESCRIPTION

The 22nd District Agricultural Association (District) submitted a request to fund a similar transaction to IBank's Board on March 27, 2018. The March 2018 funding request was for two separate projects 1) A concert venue and food service facility and 2) environmental remediation work. After obtaining full approval, the District received updated construction estimates that exceeded the funding request resulting in the District deciding to delay great majority of the concert venue and food and beverage service facility and proceed with the environmental remediation work. After several months of work, the District was able to redesign the concert venue and food service facility to stay within its internal budget and the District has returned to IBank to finance this facility.

The District's concert venue with food and beverage service facility project consists of improving and converting approximately 65% of the Surfside Race Place (SSRP) Satellite Wagering Facility (Facility) into an approximately 1,900-person capacity concert venue (the Concert Venue) and related food and beverage service facility (the F&B Facility). IBank would finance the Concert Venue portion of the project and the District would self-fund the F&B Facility.

Project Background

The District is a State agency, which owns and operates the Del Mar Fairgrounds. It manages the Fairgrounds as a multi-use facility used to promote agriculture, education, entertainment, and recreation. The District conducts many popular events including the San Diego County Fair, the Del Mar Racetrack, the Del Mar National Horse Show, as well as many other events. Within the Fairgrounds, the District also operates a satellite horse racing wagering facility known as the Surfside Race Place (SSRP). The Fairgrounds itself is open to public, therefore any person or entity is able to lease available space at any time.

The public's use (attendance) of the SSRP has seen a significant decline over the years. At one time, the SSRP attracted 2,700 customers per day; however, current attendance has declined to 300-400 customers per day. The diminishing attendance at live thoroughbred horse racing events, coupled with waning use of the SSRP, is likely due to generational shifts in entertainment preferences and increased availability of other forms of entertainment. The public's lack of use of the SSRP caused the District to explore alternate uses of the SSRP building.

After careful review and consideration of the options provided in the 2015 *Del Mar Fairgrounds Surfside Race Place Concert Venue Marketing Analysis (Marketing Analysis)*, prepared by the California State University San Marcos (CSUSM) Fully Employed Masters of Business Administrators (FEMBA) team, the District elected to proceed with the Concert Venue Project. (See California State University San Marcos Background and Qualifications below for more details on CSUSM.)

The Concert Venue Project would not eliminate satellite wagering at the SSRP; however, a large portion of the Facility would be repurposed to a Concert Venue and a beer tasting venue/exhibit. The wagering area of the Facility would be reduced to a size appropriate for its current (and projected) customer use.

In addition to hosting concerts, the District would have the ability to use the Concert Venue for a variety of purposes, including but not limited to, receptions, educational presentations, seminars, and fundraising events. For visuals, diagrams, and photos of the above project components, refer to Exhibits 1-3.

The F&B Facility is not eligible for tax-exempt financing. The District will self-fund the F&B Facility. IBank's financing would fund only the concert venue, which is eligible for tax-exempt financing.

Project Components

The project includes the following three components:

1. Conversion of existing SSRP building to accommodate a two-level, approximately 1,900-person capacity Concert Venue
 - a. First floor approximately 2/3 of use capacity
 - b. Balcony approximately 1/3 of use capacity
 - c. VIP Sections
 - d. New stage
 - e. Balcony cordon off for more intimate experience
 - f. Easy load-in and load-out for touring bands
 - g. Remodel west side of first floor to create exhibit space, bar, reception space, and concessions area during concerts
 - h. Remodel first floor wagering theater, second floor Sports Club and existing food service bars within these areas.
2. Create an indoor beer tasting and exhibit area
 - a. Modify existing entry fencing
 - b. Modify entry way to theater and beer tasting
3. Downsize the satellite wagering footprint
 - a. Removal of existing fencing and box office building
 - b. Redesign entry way for theatre and beer tasting
 - c. Downsized Satellite Wagering Facility

As discussed above, IBank will finance only the Concert Venue portion of the project, which consists of elements, 1.a through f, and 3.a through c. The District will self-fund the F&B Facility, which consists of the following elements, 1.g and h, and 2.a and b as wells as the following:

1. Fabricate a custom Bar on the Western side of the first floor that also includes belly bars, various seating amenities, and table areas.
2. Portable food service equipment to be used for concerts, in the bar, and for banquet catering events.

Project District Benefits

According to a 2015 report completed by California State University San Marcos entitled *Senior Experience Final Report, (Senior Report)* repurposing the SSRP into the Concert Venue will be a financially beneficial undertaking for the District. In the *Senior Report*, the Concert Venue Project was determined to be SSRP's best use in comparison to the other projects considered specifically for Net Cash Flow estimates.

According to the *Marketing Analysis*, the Concert Venue Project will offer the following benefits to the District:

- Projected annual profits of \$1.4 - \$2 million (M) from concerts and merchandise revenues.
- Crossover business with the San Diego County (County) Fair, (new) beer festivals, and concerts.
- Event sales and marketing opportunity for alternative corporate and personal events.

Public Benefits

The public benefits for the Project includes providing a cultural outlet for residents and visitors, creating an additional venue to display Del Mar's vistas while highlighting music and artist, providing an area to highlight local County breweries, and fills the current market void for live music venues that offer between 1,500 and 1,900 seats.

Economic Benefits

The District projects approximately 200 temporary jobs will be created during the construction, with an average prevailing wage of \$58.77 per hour.

Upon the completion of the Project, the District estimates 104 part-time jobs will be created per concert event. The estimated financial benefit to the local economy is \$51,925 per show. The District is projecting to host a minimum of 60 events per year, resulting in an estimated annual economic benefit of more than \$3M to the local economy. For a breakdown of details regarding the economic benefits, refer to Exhibit 4.

Project Research and Analysis

The California State University San Marcos (CSUSM) Fully Employed Masters of Business Administration (FEMBA) team completed research for the Project. The CSUSM FEMBA program has been in place for 25 years and has conducted over 250 research projects similar to the structure of the 22nd DAA *Marketing Analysis* and *Senior Report* (collectively, the DAA Research). Examples of projects similar to the DAA Research include, full analysis (economic, financial, operational, political, etc.) for selecting the location of the next southern California international airport, trend analysis for a high-end hotel in the Temecula region, and financial and consumer analysis of visitors to a tourist location.

The CSUSM faculty, overseeing the work of FEMBA teams, has extensive industry and university experience; for instance, the Department Chair of Finance, Dr. Andreas Rauterkus, has over 20 years of experience at various universities and working with domestic and international industries. Rauterkus has helped establish credit unions, investment organizations, and has helped cities restructure their financings. Last year, the previous Finance Department Chair, who was the lead faculty advisor for the DAA Research, also led a team of finance students to take first place in the national Chartered Financial Analyst (CFA) Finance contest². Additionally, another CSUSM FEMBA adjunct professor, who runs his own \$100M hedge fund and teaches international finance in Asia, North America, and Europe, also led a team of finance students to win the national CFA Finance contest. A wide variety of San Diego area entities have commissioned CSUSM FEMBA to produce economic impact analyses and associated reports. The commissions include:

- The San Diego North Economic Development Council, in conjunction with the San Diego Brewers Guild, commissioned the CSUSM to conduct an analysis of the economic impact of Craft Beer on San Diego County and published a report date Q3 of 2017 - CSUSM is now working on the 2018 report.
- San Diego Sport Innovators commissioned the CSUSM to conduct an analysis and produce a report of the economic impact of the Sports Action Leisure industry on San Diego County.
- CSUSM was commissioned to conduct an analysis and produce an economic impact report of the Temecula – Menifee – Murrieta region.

The Department Chair of Economics and the Director, Business Community Relations, jointly oversee each CSUSM FEMBA economic impact analysis. Routinely, the CSUSM FEMBA team accomplishments are recognized and its work is compared favorably to international consultant Deloitte. The Director of Business Community Relations recently received a letter stating the work of the CSUSM FEMBA student team on another project was easily “worth 100 times what it cost.” Refer to Exhibit 5 for a sample of projects and Exhibit 6 for a sample report.

² The CFA Institute Research Challenge is an annual, global competition. Students work in teams to research and analyze a publicly traded company and then write a research report on their assigned company with a buy, sell, or hold recommendation.

DISTRICT INFORMATION

The District is located in San Diego County and manages the operations of the Fairgrounds on behalf of the State. The history of the District begins in the 1880's when a group of residents organized an agricultural fair, bringing farmers and residents together to share ideas, hold horse races, and agricultural competition events. In 1936, the District bought land along the San Dieguito River for the Fairgrounds. About the same time, the Del Mar Thoroughbred Club leased the racetrack from the District to operate an annual live horse-racing meet.

Today, the District continues to own and operate the Fairgrounds without the use of any tax dollars. The Fairgrounds are entirely self-supporting and the revenue includes, but is not limited to, the Facility, the annual County Fair, live horse-races, and facilities rentals for special events such as home and garden shows, dog shows, antique fairs, sports shows, and music festivals.

The District is governed by a nine-member board (Board), appointed by the Governor. The Board meets monthly and each Board member serves a four-year term. The Board appoints a General Manager/CEO, to oversee with the day-to-day operation of the facilities.

22nd DAA Experience with Entertainment Management Services

The 22nd DAA has a Facility Sales staff of four, each with a minimum of 25 years of sales and event experience. The Interim Events Manager, Paul Blaney, has been managing events at the Fairgrounds since 1998. Prior to his work with the District, Blaney served as an Event Manager for the Long Beach Convention Center and Anaheim's Arrowhead Pond (now known as the Honda Center). Recently, the District's team guided 142 unique and special events to the Fairgrounds, producing 343 event days and 649 usage days (many events run concurrently). Revenues generated from the room rental for these events were over a million dollars and revenue from catering brought in an additional million dollars.

The District offers a wide variety of indoor and outdoor spaces, including exhibit halls, banquet rooms, skyboxes, bars and restaurants, and the outdoor Paddock Green. Events held at the Fairgrounds range from large-scale consumer and trade shows and concerts, to more intimate non-profit fundraising galas, corporate events and awards ceremonies, weddings, holiday parties, class reunions, and bar/bat mitzvahs.

Interest in renting the District's various facilities often exceeds availability. The live horse-racing seasons, which runs during the summer and fall months, routinely occupies the majority of the rentable facility. The District's Facility Sales team is eager to repurpose the off-track wagering facility into a new multi-purpose venue to supplement room availability year-round. For a more detailed overview of the District's experience in Entertainment Management Services, refer to Exhibit 7 of this report.

COMPETITIVE VENUE ANALYSIS

Demographics

The *Marketing Analysis* specifies a typical music fan will travel approximately 45 miles to attend a concert. Within 45 miles of SSRP, there are nearly 3.7M residents in this pool who may attend a concert. Additionally, of those 3.7M, approximately 1.3M, according to the *Marketing Analysis*, are the major market (concertgoers) segments with the age range of 25-54. By the year 2021, the anticipated area population would increase to 4M. This 45 mile pool area provides a large population of likely concertgoers to fill this new venue.

The consumer's average annual income, within the District, is approximately \$122,500, a 182% of the State's median income. Higher levels of income provide consumers with increased discretionary spending power and are more likely to attend concerts and similar events. The District's *Marketing Analysis* indicates

consumers spend an average of \$66.92 per ticket to attend a theatre, opera, or concert. The District plans to charge an average ticket price of \$45.00 for each event (projected revenue is based on this price-point).

Music Industry

According to the *Marketing Analysis*, music preferences are fluid, as consumers embrace new fashion, philosophy, and lifestyle choices. In the current music environment, consumers may now purchase a single song online, instead of purchasing the entire album, resulting in a significant loss of income for the artists. This change in music user habits has nudged music artists towards live performances as a necessity to thrive financially. Revenues from live performances grow annually at a rate of 5.1%.

In addition to artists needing and wanting live performances, the District is able to take advantage of the shift in the music industry that began to focus on filling smaller venues (1,000 to 6,500 capacity). These smaller venues are typically more affordable to concertgoers than events held at arenas and amphitheaters. Current web technology allows for more cost effective marketing, resulting in anticipated higher profit margins than a few years earlier. The *Marketing Analysis* revealed concertgoers now learn about various events through social media venue not by the costly print ad medium. This market segment purchases their tickets on their phones while simultaneously sharing their experience on-line. As of 2016, 53% of fans learned about shows via online sites, social media, or through e-mail blasts.






COMPETITORS

According to the *Marketing Analysis*, there is value for a region to have multiple venue sizes in order to allow bands to gain success, grow their audience, and perform in larger locations. Performance sites range from bars and restaurants, to mid-sized halls, and finally to large theatres and amphitheaters. The SSRP's venue has the ability to convert from a seated venue to a standing room only configuration. This flexibility would allow SSRP to market to a multitude of genres, for example, assigned seats for jazz and classical events, while rock events may be booked as standing only audiences.

Other fairground activities provide an additional competitive advantage for the concertgoers before and after shows as SSRP is located within the Fairgrounds. The concertgoers would experience the conveniences of ample parking, food vendors, merchandise, and at times, additional live entertainment.

Secondary competitors (not shown in table below) with a similar venue size are unlikely to compete with the SSRP's Concert Venue. Per staff's research, these competitors hold concerts as an ancillary activity to fill breaks in the theatrical schedule. The majority of the competitor theatres do not have the necessary equipment for those bands who perform complex live-shows. It is unlikely these competitors would attract the same quality of artists the District seeks to book for the Concert Venue.

Based on the previously mentioned factors there are four venues in the region the District considers as primary competitors to the Concert Venue. The table below identifies each competitor's characteristics, along with those of the Concert Venue:

Primary Competitor Music Venues in San Diego Region								
Venue	General Location	Capacity	Modifiable Floor	I = Inside O = Outside	Season Duration	Estimated Monthly Music Events	Average Ticket Price (Range)	Distance from SSRP
	Gaslamp	1339	No Seated only	I	All Year	2 - 3	\$62.50 (\$25-100)	21.7 miles
	Gaslamp	1500	Yes Seating and Standing	I	All Year	16 - 32	\$30.00	21.2 miles
	Shelter Island	1400	No Seated only	O	April to October	4 - 17	\$66.63	21 miles
	North Park	1200	Yes Seating and Standing	I	All Year	10 - 24	\$27.94	19.7 miles
Concert Venue								
	North of San Diego	1900	Yes Seating and Standing	I	All Year	5 - 9	\$45.00	NA

CREDIT ANALYSIS

Source of Repayment and Security

The District will repay the proposed Financing from “IBank Pledged Revenues,” which consist of “Pledged Fair Revenues” (defined below) less Fair Operating Expenses (FOE) (defined below). The Financing will be secured by all IBank Pledged Revenues, including any legally available IBank Pledged Revenues traceable to, and accumulated in, any fund or account held by the District.

Source of Revenue to Repay Proposed ISRF Financing:	IBank Pledged Revenues
Outstanding Obligations:	<ol style="list-style-type: none"> 1. IBank Installment Sale Agreement No. CIEDB 18-121 for \$8,900,000 dated May 1, 2018 maturing in 2037 2. Series 2015 Revenue Bonds secured by the first \$4M of net Food & Beverage revenues. The proposed financing will not place a lien on, and will not be payable from, the revenues pledged to the Series 2015 Revenue Bonds
Type of Financial Documents Reviewed:	<input type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input checked="" type="checkbox"/> Basic Financial Statements (F/S) <input checked="" type="checkbox"/> Unaudited Financial Report For 2017
Fiscal Year Ends:	December 31
Audit Fiscal Years Reviewed:	2013-2017 ³
The financial reports for all years indicate that the financial statements present fairly, in all material respects, the financial position of the District, and that the results of its operations and the cash flows are in conformity with generally accepted accounting principles.	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No [If no, explain]
Adopted Budget(s) Reviewed:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No [If no, explain]
Budget Year(s) Reviewed:	2018

³ Fiscal Year 2017 Financial Reports were unaudited.

IBank Pledged Revenues

As described above, IBank Pledged Revenues consist of Pledged Fair Revenues (less FOE). Pledged Fair Revenues are all revenues generated by the operation of the Fairgrounds with the exception of the first \$4M of “Food and Beverage Net Revenues” (identified in the below table) as this specific revenue is pledged to the existing Series 2015 Revenue Bond.

Fairgrounds operations currently generate revenue through ten revenue sources (identified in the table below). Once the Project is completed, the District expects the Project to generate revenues; therefore, Concert Venue revenue will be included within and identified as part of the IBank Pledged Revenues. IBank will be on parity, as a senior lien, for all revenue sources listed below with two exceptions. 1) Food and Beverage –the first \$4M is pledged to a separate obligation, and 2) Concert revenue has not been previously pledged, as this revenue source will only exist with the funding of this proposed project.

22ND DISTRICT AGRICULTURAL ASSOCIATION IBank PLEDGED REVENUES & REVENUE SOURCES				
Count	Operating Revenues	2017	Current Obligation	Proposed Pledged
1	Food and Beverage	\$23,992,044	2015 Revenue Bond and IBank Loan 18-121	Bond Pledged Revenues (first \$4 Million of net revenues) IBank Pledge Revenues (remaining net revenues)
2	Concessions/Carnivals	\$19,027,899	IBank Loan 18-121	IBank Pledged Revenues
3	Admissions	\$12,090,108	IBank Loan 18-121	IBank Pledged Revenues
4	Facility Rentals	\$6,573,563	IBank Loan 18-121	IBank Pledged Revenues
5	Satellite Wagering	\$1,461,127	IBank Loan 18-121	IBank Pledged Revenues
6	Parking	\$5,285,727	IBank Loan 18-121	IBank Pledged Revenues
7	Leases/Operating Agreement	\$2,206,336	IBank Loan 18-121	IBank Pledged Revenues
8	Surf and Turf	\$1,468,608	IBank Loan 18-121	IBank Pledged Revenues
9	Sponsorships	\$3,025,561	IBank Loan 18-121	IBank Pledged Revenues
10	Other	\$4,246,625	IBank Loan 18-121	IBank Pledged Revenues
11	Concert	Future		IBank Pledged Revenues
Total Operating Revenue		\$79,377,598		

- **Food and Beverage** revenues are based upon sales from food and beverage at the various events, such as the summer race meets, the San Diego County Fair event and as well as many others; first \$4M is pledged to the Series 2015 Revenue Bonds.
 - Bond Pledged Revenues also include certain revenues generated in connection with an operating agreement between the State Racetrack Leasing Commission and the Del Mar Thoroughbred Club (the Racetrack Net Revenues). The Racetrack Net Revenues are not generated by, or payable to, the District, and are not relevant to, or discussed in detail in this Staff Report.
- **Concessions/Carnivals** revenues are primarily generated during the County Fair that included carnival rides, food concessions, games, and commercial space rentals.
- **Admissions** revenues are from ticket sales for various events held at the Fairgrounds such as the County Fair, Scream Zone Haunted House, Concert events, and the National Horse Show.
- **Facility Rentals** revenues are generated by renting Facility space for various events held at the Fairgrounds such as the three-day music festival, stall rentals for horse shows, and many other annual and one-time events.
- **Satellite Wagering** revenues are from the sales for admissions, memberships, net wagering revenues, as well as any other items associated with satellite wagering.
- **Parking** revenues are generated from visitors parking at any of the three lots located on the property.
- **Leases/Operating Agreement** generated from leases of Fairground facilities and from the Del Mar Thoroughbred Club.
- **Surf and Turf** revenues are from the Surf and Turf driving range, miniature golf course, and the Recreational Vehicle Park.
- **Sponsorships** revenues are derived from various corporate and small businesses that purchase advertising rights from the District to be displayed during various events or at various times during the year.
- **Other** revenues are generated from non-categorized items such as entry fees and ATM fees.

Outstanding Obligations Secured by and Payable from Bond Pledged Revenues

In 2015, the Del Mar Race Track Authority (RTA) issued the \$44,435,000 Del Mar Racetrack Authority Revenue Bonds Series 2015 (2015 Bonds). The 2015 Bonds were issued to refinance certain prior bonds, finance certain improvements to the Del Mar Fairgrounds that are unrelated to the Project, fund a debt service reserve account, and pay costs of issuance.

To secure and repay the 2015 Bonds, the District and the State Race Track Leasing Commission (RTL) pledged the Bond Pledged Revenues to the RTA under a "Pledge Agreement." In turn, the RTA pledged these revenues to a trustee under an Indenture. The District's contribution of the Bond Pledged Revenues was not considered for the subject transaction's cash flow.

The Pledge Agreement also includes a make-whole clause. In essence, the make-whole clause provides that if Bond Pledged Revenues (and other moneys available under the Indenture) are not sufficient to satisfy debt service on the 2015 Bonds, then the District will make-up any shortfall from its other revenues: (1) derived from operating the Fairgrounds, and (2) legally available to make payment on the 2015 Bonds. As discussed above, the District has multiple other sources of revenue; however, the Pledge Agreement does not purport to create a lien on, or otherwise encumber, District revenues other than up to \$4M of Food and Beverage Net Revenues.

In other words, the Pledge Agreement does not purport to encumber the IBank Pledged Revenues that would secure and repay the proposed Financing. The Official Statement for the 2015 Bonds makes this clear. It states, "While [District revenues other than the first \$4M of Food and Beverage Net Revenues] may be available to pay [debt service on the 2015 Bonds], they are not pledged under the Pledge Agreement or the Indenture for such purpose. Such revenues may be utilized at any time for lawful expenditures by the District, and no assurance can be made that such amounts will be available to pay [debt service on the 2015 Bonds]."

Comparative Statement of Net Position

Analysis of Comparative Statement of Net Position comprises FY 2013 – 2017 on the chart below.

22ND DISTRICT AGRICULTURAL ASSOCIATION STATEMENT OF NET POSITION											
For Fiscal Year Ending (FYE) December 31		2013		2014		2015		2016		2017	
Source:		Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Un-Audit Fin. Stmtnt.	%
ASSETS AND DEFERRED OUTFLOW OF RESOURCES											
Current Assets											
Cash and Cash Equivalents		\$12,306,194	34.0%	\$13,146,794	35.8%	\$15,308,135	39.8%	\$15,240,056	40.6%	\$15,164,361	40.2%
Accounts Receivable		571,303	1.6%	1,079,287	2.9%	1,245,038	3.2%	1,161,655	3.1%	1,152,521	3.1%
Due From Other Funds				237,895	0.6%			20,092	0.1%		
Prepaid Expenses and Other		388,623	1.1%	447,068	1.2%	417,912	1.1%	463,592	1.2%	475,044	1.3%
Total Current Assets		13,266,120	36.6%	14,911,044	40.6%	16,971,085	44.1%	16,885,395	45.0%	16,791,926	44.5%
Noncurrent Assets											
Capital Assets				21,810,845	59.4%	21,480,075	55.9%	20,635,856	55.0%	20,937,501	55.5%
Due From (To) Other Funds		257,519	0.7%								
Property and Equipment - Net		22,676,796	62.6%								
Total Other Non Current Assets		22,934,315	63.4%	21,810,845	59.4%	21,480,075	55.9%	20,635,856	55.0%	20,937,501	55.5%
Subtotal Assets		36,200,435	100.0%	36,721,889	100.0%	38,451,160	100.0%	37,521,251	100.0%	37,729,427	100.0%
DEFERRED OUTFLOWS OF RESOURCES											
Deferred Outflow of Pension Liability						1,928,732	5.0%	5,082,739	13.5%	5,082,739	13.5%
Total Deferred Outflow of Resources		0		0		1,928,732	5.0%	5,082,739	13.5%	5,082,739	13.5%
Total of All Assets		36,200,435	100.0%	36,721,889	100.0%	40,379,892	105.0%	42,603,990	113.5%	42,812,166	113.5%
LIABILITIES											
Accounts Payable		802,968	2.2%	975,154	2.7%	941,060	2.4%	877,797	2.3%	1,976,720	5.2%
Accrued Liabilities and Other		2,108,840	5.8%	1,500,700	4.1%	2,063,277	5.4%	3,067,380	8.2%	2,613,351	6.9%
Accrued Compensated Absences		2,177,120	6.0%	2,273,086	6.2%	2,404,056	6.3%	2,488,852	6.6%	2,695,537	7.1%
Current Portion of Other Long-Term Liabilities						20,725	0.1%	20,725	0.1%		
Current Portion of Debt		105,000	0.3%	56,041	0.2%						
Due From Other Funds						10,698					
Total Current Liabilities		5,193,928	14.3%	4,804,981	13.1%	5,439,816	14.1%	6,454,754	17.2%	7,285,608	19.3%
Noncurrent Liabilities											
Net Pension Liability						23,470,069	61.0%	31,413,325	83.7%	31,413,325	83.3%
Debt, Long-Term Portion		77,750	0.2%	64,200	0.2%	20,725	0.1%				
Total Long Term Liabilities		77,750	0.2%	64,200	0.2%	23,490,794	61.1%	31,413,325	83.7%	31,413,325	83.3%
Total Liabilities		5,271,678	14.6%	4,869,181	13.3%	28,930,610	75.2%	37,868,079	100.9%	38,698,933	102.6%
Deferred Inflow of Pension Liability						4,634,892	12.1%				
Total Deferred Inflows of Resources		0		0		4,634,892	12.1%	0		0	
Net Position:											
Net Investment in Capital Assets		22,494,323	62.1%	21,752,779	59.2%	21,480,075	55.9%	20,635,856	55.0%		
Unrestricted		8,434,434	23.3%	10,099,929	27.5%	(14,665,685)	-38.1%	(15,899,945)	-42.4%		
Total Net Assets		30,928,757	85.4%	31,852,708	86.7%	6,814,390	17.7%	4,735,911	12.6%	4,113,233	10.9%
Total Deferred Inflow of Resources		36,200,435	100.0%	36,721,889	100.0%	40,379,892	105.0%	42,603,990	113.5%	42,812,166	113.5%

The Total Current Assets remained steady in this five-year period, ending with a 26.6% increase. The Accounts Receivable increased by 101.7%, which was primarily attributed to successful operating results from four of the District's revenue sources, 1) Food and Beverage, 2) Concessions/Carnivals, 3) Admissions, and 4) Facility Rentals.

Total of All Assets had minimal fluctuations in the five-years reviewed with an overall increase of 5.6%. There is a new category in FY 2015, part of the compliance to Governmental Accounting Standards Board (GASB) 68, title Deferred Outflow of Pension Liability that had expenses in 2016 and 2017 by more than \$5M.

Total Current Liabilities increased 40.3% over the five-year period, primarily due to an 23.9% increase of the line item Accrued Liabilities and Other and a 23.8% increase in Accrued Compensated Absences.

Total Long Term Liabilities increased by over \$31M in this five-year period. The primary reason for this increase is the \$31,413,325 rise in Net Pension Liability. This new liability is due to the District complying with the new mandatory GASB Statements No. 68 and No. 71. The Deferred Inflow of Pension Liability became a new line item in FY 2015 with an amount of \$4,634,892. This expense also is to comply with GASB 68.

Total Net Assets decreased by 86.7% over the five-year period starting at \$30,928,757 in FY 2013 and dropping to \$4,113,233 in FY 2017. This decrease is primarily attributed to the before mentioned Net Pension Liability for \$31,413,325. Unrestricted (Assets) also decreased in this period reviewed by 288.5%, resulting in a negative balance of \$15,899,945 in FY 2016. No Unrestricted Balance was listed for FY 2017; this is attributed to the addition of the Net Pension Liability, introduced in 2015.

Analysis of Comparative Statement of Revenues and Expenses of the District for the last five years is as follows:

22ND DISTRICT AGRICULTURAL ASSOCIATION STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION										
For Fiscal Year Ending (FYE) December 31	2013		2014		2015		2016		2017	
	Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Audit Fin Stmtnt	%	Un-Audit Fin. Stmtnt.	%
Source:		6%		7%		3%		3%		NA
% Change										
Charges for Sales and Services										
Food and Beverage	\$19,970,919	29.8%	\$22,302,706	(-5.%)	\$23,147,428	30.7%	\$23,211,411	30.0%	\$23,992,044	30.2%
Concessions/Carnivals	\$16,415,349	24.5%	\$17,294,983	24.5%	\$18,494,593	24.6%	\$19,505,714	25.2%	\$19,027,899	24.0%
Admissions	\$9,951,335	14.9%	\$9,798,251	13.9%	\$10,360,591	13.8%	\$10,899,313	14.1%	\$12,090,108	15.2%
Facility Rentals	\$6,452,937	9.6%	\$6,592,613	9.3%	\$7,751,446	10.3%	\$7,390,969	9.6%	\$6,573,563	8.3%
Satellite Wagering	\$1,968,459	2.9%	\$1,874,132	2.7%	\$1,670,999	2.2%	\$1,592,044	2.1%	\$1,461,127	1.8%
Parking	\$4,457,720	6.7%	\$4,325,464	6.1%	\$4,366,233	5.8%	\$4,417,741	5.7%	\$5,285,727	6.7%
Leases/Operating Agreement	\$1,126,142	1.7%	\$1,571,011	2.2%	\$1,682,114	2.2%	\$1,776,758	2.3%	\$2,206,336	2.8%
Surf and Turf	\$1,579,801	2.4%	\$1,521,708	2.2%	\$1,538,296	2.0%	\$1,468,812	1.9%	\$1,468,608	1.9%
Sponsorships	\$2,511,991	3.8%	\$2,535,450	3.6%	\$2,930,654	3.9%	\$2,792,070	3.6%	\$3,025,561	3.8%
Other	\$2,492,820	3.7%	\$2,872,268	4.1%	\$3,355,161	4.5%	\$4,279,782	5.5%	\$4,246,625	5.3%
Total Operating Revenues	\$66,927,473	100.0%	\$70,688,586	100.0%	\$75,297,515	100.0%	\$77,334,614	100.0%	\$79,377,598	100.0%
Operating Expenses										
Payroll Related and Benefits	\$20,629,604	30.8%	\$21,787,922	30.8%	\$22,783,094	30.3%	\$24,605,260	31.8%	\$25,298,131	31.9%
Food and Beverage	\$14,290,926	21.4%	\$15,759,203	22.3%	\$16,493,460	21.9%	\$16,967,680	21.9%	\$18,186,392	22.9%
Entertainment	\$9,108,559	13.6%	\$8,695,556	12.3%	\$9,133,859	12.1%	\$9,986,158	12.9%	\$10,060,009	12.7%
Maintenance	\$6,402,582	9.6%	\$6,530,758	9.2%	\$7,095,274	9.4%	\$7,189,660	9.3%	\$7,314,462	9.2%
Facilities and Related Supplies			\$2,484,603	3.5%	\$2,572,945	3.4%	\$2,776,582	3.6%	\$2,028,388	2.6%
Insurance			\$1,019,161	1.4%	\$1,154,181	1.5%	\$1,276,467	1.7%	\$1,193,181	1.5%
Administrative	\$4,976,939	7.4%								
Depreciation	\$1,379,066	2.1%	\$1,377,845	1.9%	\$1,383,778	1.8%	\$1,465,043	1.9%	\$1,481,596	1.9%
Professional Services	\$4,481,979	6.7%	\$4,700,757	6.6%	\$5,216,424	6.9%	\$5,425,644	7.0%	\$5,547,105	7.0%
Marketing	\$2,048,155	3.1%	\$2,065,851	2.9%	\$2,117,228	2.8%	\$1,840,700	2.4%	\$2,082,134	2.6%
Other	\$480,666	0.7%	\$2,080,540	2.9%	\$2,232,536	3.0%	\$2,444,475	3.2%	\$2,555,145	3.2%
Total Operating Expenses	\$63,798,476	95.3%	\$66,502,196	94.1%	\$70,182,779	93.2%	\$73,977,669	95.7%	\$75,746,543	95.4%
Operating Income (Loss)	\$3,128,997	4.7%	\$4,186,390	5.9%	\$5,114,736	6.8%	\$3,356,945	4.3%	\$3,631,055	4.6%
Nonoperating Revenues (Expenses)										
Interest Earnings	\$36,444	0.1%	\$28,290	0.0%	\$44,747	0.1%	\$89,129	0.1%	\$151,431	0.2%
Interest Expenses	(\$3,288)	0.0%	(\$2,678)	0.0%	(\$987)	0.0%				
Other			\$6,736	0.0%	\$800	0.0%	(\$593)	0.0%		
Net Non-operating Revenues (Expenses)	\$33,156	0.0%	\$32,348	0.0%	\$44,560	0.1%	\$88,536	0.1%	\$151,431	0.2%
Income (Loss Before Operating Transfers)	\$3,162,153	4.7%	\$4,218,738	6.0%	\$5,159,296	6.9%	\$3,445,481	4.5%	\$3,782,486	4.8%
Capital Contributions and Transfers										
Transfer Out	(\$7,438,265)		(\$3,294,787)		(\$3,866,247)		(\$5,523,960)		(\$4,405,162)	
Other	(\$1,723)									
Total Contributions and Transfers	(\$7,439,988)		(\$3,294,787)		(\$3,866,247)		(\$5,523,960)		(\$4,405,162)	
Increase (decrease) in Net Position	(\$4,277,835)		\$923,951		\$1,293,049		(\$2,078,479)		(\$622,676)	
Beginning Net Assets	35,206,592		30,928,757		5,521,341		6,814,390		4,735,909	
Prior Period Adjustment (=/-)			(26,331,367)							
Ending Net Assets	\$30,928,757		\$31,852,708		\$6,814,390		\$4,735,911		\$4,113,233	

The Total Operating Revenues increased by 18.6% over the five years reviewed. Eight of the ten revenue sources report consistent increases over the last five years. The two revenues streams reflecting a decrease between FY 2013 and FY 2017 are: 1) Satellite Wagering with a decrease of 25.8%, 2) Surf and Turf with a small decrease of 7.0% in the five years reviewed. As mentioned earlier the Satellite Wagering diminishing revenues are the motivation for this transaction.

The line item of Concessions/Carnivals experienced a small decline in revenues in FY 2017 by 2.5% as compared to FY 2016 due to "Pay One Price "Midway Ride Days in 2017. Fair attendance also decreased by about 43,500 (3%) in 2017.

Facility Rentals revenue decreased by 11.1% in FY 2017 as compared to FY 2016 as the District actively decreased the number of horse boarders long-term at the Horsepark equestrian facility. The District took this action as the revenues were not keeping up with the rising cost of feed, bedding, and maintenance.

Total Operating Expenses increased by 18.7% in the five years reviewed as every expenditure line item increased annually. The line item "Other" grew at a faster pace than other expenditures; it is also the smallest expenditure line item. The primary reason for this increase is costs associated with environmental services. The District began completing environmental remediation on several areas of the Fairgrounds. The areas affected are the lakes and wetlands, Backstretch and Stable areas, the treatment plant, and the Arena. The District cost in the FYs of 2015 and 2016 exceeded \$2M each year. This anticipated project completion date is in 2021. Previously, IBank financed a portion of this work with entry into Installment Sale Agreement CIEDB 18-121, as discussed above.

Another change by the District to the revenue statement, beginning in FY 2014, was to itemize the two line items of 1) Facilities and Related Supplies and 2) Insurance. Both of these line items were previously expensed in the now discontinued line item "Administrative". Staff notes that the overall expenses for these line items have been consistent with gradual annual increases.

Transfer Out fluctuated over the five years reviewed with an overall decrease of 41%. Transfer Out includes transfers of capital to the RTA for approved capital projects as well as payments to the Trustee of Pledged Revenues for payment of the bonds. In 2013, the District pledged \$2,198,685. The largest Transfer Out occurred in FY 2013 for \$7,438,265. *Please note:* The line item of Transfer Out was not considered within the cash flow, as it appears this is used for accounting convenience and not out of necessity based on total availability of funds.

Ending Net Assets decreased by \$26.8M over the five years reviewed. The primary reason for the decrease is attributed to increases in Net Pension Liability in 2015 where the District adjusted the Ending Net Assets downward by \$26,331,367, due to the introduction of the Net Pension Liability that supports GASB Statement No. 68 and No. 71.

Analysis of District Projections for FY 2018 – 2022 are as follows:

22ND DISTRICT AGRICULTURAL ASSOCIATION STATEMENT OF REVENUES & EXPENSES PROJECTIONS												
For Fiscal Year Ending (FYE) December 31 Source: % Change	Actual				Projections							
	2017 Un-Audit Fin. Stmnt	%	2018 Actual	%	2019 Projection	%	2020 Projection	%	2021 Projection	%	2022 Projection	%
		N/A		0%		6%		7%		5%		4%
Charges for Sales and Services												
Food and Beverage	\$23,992,044	30.2%	\$24,236,102	30.4%	\$24,886,102	30.8%	\$25,881,546	30.0%	\$26,916,808	30.2%	\$27,993,480	30.4%
Concessions/Carnivals	19,027,899	24.0%	19,579,708	23.8%	20,167,099	24.5%	20,772,112	25.2%	21,395,276	24.0%	22,037,134	23.8%
Admissions	12,090,108	15.2%	11,168,581	15.4%	12,221,581	13.7%	12,710,444	14.1%	13,218,862	15.2%	13,747,616	15.4%
Facility Rentals	6,573,563	8.3%	6,602,241	8.4%	7,219,744	10.3%	7,537,413	9.6%	7,884,134	8.3%	8,246,804	8.4%
Satellite Wagering	1,461,127	1.8%	1,315,014	1.6%	1,183,513	2.2%	1,065,162	2.1%	958,645	1.8%	862,781	12.8%
Parking	5,285,727	6.7%	5,433,727	6.6%	6,702,727	5.8%	6,836,782	5.7%	6,973,517	6.7%	7,112,988	6.6%
Leases/Operating Agreement	2,206,336	2.8%	2,290,177	2.8%	2,377,203	2.2%	2,462,783	2.3%	2,553,906	2.8%	2,648,400	2.8%
Surf and Turf	1,468,608	1.9%	1,439,236	1.7%	1,410,451	2.0%	1,382,242	1.9%	1,354,597	1.9%	1,327,505	1.7%
Sponsorships	3,025,561	3.8%	3,101,200	3.8%	3,172,528	3.9%	3,245,496	3.6%	3,326,633	3.8%	3,419,779	3.8%
Other	4,246,625	5.3%	4,180,189	5.4%	4,731,080	4.5%	5,005,483	5.5%	5,315,823	5.3%	5,661,351	5.4%
Concert Parking ¹						5.8%	104,906	5.8%	262,264	5.8%	314,717	5.8%
Concert Venue Revenue - (60 Shows per Year) ¹						0.0%	2,903,689	3.2%	4,033,842	4.3%	4,770,611	4.9%
Year Round Food & Beverage Net - (60 Shows per Year) ¹						0.0%	151,801	0.2%	202,401	0.2%	202,401	0.2%
Total Operating Revenues	\$79,377,598	100.0%	\$79,346,175	100.0%	\$84,072,029	100.0%	\$90,059,858	100.0%	\$94,396,708	100.0%	\$98,345,568	100.0%
Operating Expenses												
Payroll Related and Benefits	25,298,131	31.9%	26,817,421	31.5%	26,786,066	30.2%	27,777,150	31.8%	28,860,459	31.9%	29,986,017	31.5%
Food and Beverage	18,186,392	22.9%	18,362,718	22.7%	19,097,227	22.5%	20,075,326	21.9%	20,838,189	22.9%	21,661,297	22.7%
Entertainment	10,060,009	12.7%	10,311,509	12.5%	10,620,855	12.1%	10,939,480	12.9%	11,267,665	12.7%	11,605,694	12.5%
Maintenance	7,314,462	9.2%	7,619,267	9.1%	7,782,441	9.4%	8,054,827	9.3%	8,336,746	9.2%	8,586,848	9.1%
Facilities and Related Supplies	2,028,388	2.6%	2,079,098	2.5%	2,141,471	3.4%	2,205,715	3.6%	2,271,886	2.6%	2,340,043	2.5%
Insurance	1,193,181	1.5%	1,223,011	1.5%	1,271,931	1.5%	1,322,808	1.7%	1,375,721	1.5%	1,430,749	1.5%
Depreciation	1,481,596	1.9%	1,450,000	1.8%	1,481,596	1.8%	2,249,400	1.9%	2,204,412	1.9%	2,160,324	1.8%
Professional Services	5,547,105	7.0%	5,630,312	6.9%	5,742,918	6.9%	5,857,776	7.0%	5,974,932	7.0%	6,094,430	6.9%
Marketing	2,082,134	2.6%	2,134,187	2.6%	2,198,213	2.6%	2,264,159	2.6%	2,332,084	2.6%	2,402,047	2.5%
Other	2,555,145	3.2%	2,657,351	3.2%	2,763,645	3.2%	2,874,191	3.3%	3,017,900	3.3%	3,183,885	3.4%
Concert Venue Expenses - (60 Shows per Year) ¹							2,036,340	2.3%	3,031,200	3.2%	3,592,440	3.7%
Depreciation for Concert Venue							253,376		506,751		506,751	
Total Operating Expenses	\$75,746,543	95.4%	\$78,284,874	98.7%	\$79,886,362	93.8%	\$85,910,548	95.7%	\$90,017,944	95.4%	\$93,550,525	98.7%
Operating Income (Loss)	\$3,631,055	4.6%	\$1,061,301	1.3%	\$4,185,667	6.2%	\$4,149,310	4.3%	\$4,378,764	4.6%	\$4,795,043	1.3%
Nonoperating Revenues (Expenses)												
Interest Earnings	151,431	0.2%	389,589	0.5%	311,671	0.1%	308,554	0.1%	305,469	0.2%	302,414	0.5%
Net Non-operating Revenues (Expenses)	\$151,431	0.2%	\$389,589	0.5%	\$311,671	0.4%	\$308,554	0.1%	\$305,469	0.2%	\$302,414	0.5%
Income (Loss Before Operating Transfers)	\$3,782,486	4.8%	\$1,450,890	1.8%	\$4,497,338	6.7%	\$4,457,864	4.5%	\$4,684,233	4.8%	\$5,097,457	1.8%

¹ Projections based upon 22nd DAA - SSRP Repurposing Project

District Projections Comparison of Actual to Projected

Historical Annual Average of Revenues was calculated and compared to the Projected Annual Average Increase/Decrease in Revenues to gauge the realistic value of the projections. Staff observed the Total Operating Revenues (and Total Operating Expenses) have consistently increased annually from FY 2013 for most line items. The District submitted projections for FYs 2019 – 2022 and staff found these projections consistent with historical annual revenues and expenditure fluctuations.

Comparison of Actual Revenue Change vs. Projections		
Revenue Source	Historical Annual Average Increase/(Decrease)	Projected Annual Average Increase/(Decrease)
Food and Beverage	4.4%	4.0%
Concessions/Carnivals	3.6%	2.9%
Admissions	4.7%	4.4%
Facility Rentals	14.9%	4.4%
Satellite Wagering	-7.8%	-11.1%
Parking	3.9%	2.4%
Leases/Operating Agreement	14.9%	3.6%
Surf and Turf	-1.9%	-2.0%
Sponsorships	4.3%	2.4%
Other	12.1%	5.7%

In the table above, projections for the various revenue line items estimate adjustments between 2.4% to 5.7% annually with a single exception, line item for Satellite Wagering. To be conservative the District projected Satellite Wagering revenues to decrease by an average of 11% annually, although, over the past five-years analysis this revenue has decreased 7.8% per year. The District also projected a 2% decrease for Surf and Turf, which is consistent to the 1.9% historical average annual decrease.

In all eight line items with revenue increases, the amount of projected revenue increase is less than the Historical Annual Average. In the two line items where the revenue was decreasing, the projections indicate a larger annual average decrease; therefore, these revenue projections appear conservative.

The Projected Average Annual Increase for each Operating Expense line item indicates an expenditure increase between 2% to 4.4% annually, with the lone exception of the Depreciation line item, which averages a 7% annual increase. In all cases, the Projected Annual Increase of the various expenditures are equal to, or higher than, each line item's Historical Annual Increase; hence these projections are consistent and conservative.

Comparison of Actual Expenditures Change vs. Projections		
Expenditure	Historical Average Annual Increase/(Decrease)	Projected Average Annual Increase/(Decrease)
Payroll Related and Benefits	3.6%	3.6%
Food and Beverage	3.6%	3.6%
Entertainment	2.3%	2.9%
Maintenance	3.2%	3.3%
Facilities and Related Supplies	-8.7%	2.9%
Insurance	1.3%	3.8%
Depreciation	1.8%	7.0%
Professional Services	5.1%	2.0%
Marketing	0.0%	2.9%
Other	4.3%	4.4%

IBank Pledged Historical Revenues Cash Flow and Debt Service Analysis

Historical Cash Flow table and debt service analysis for the 22nd District for the Financing is as follows:

CASH FLOW						
For Fiscal Year Ending (FYE) December 31	2013	2014	2015	2016	2017	
Income (Loss Before Operating Transfers)	\$3,162,153	\$4,218,738	\$5,159,296	\$3,445,481	\$3,782,486	
Transaction Specific Adjustments						
+ Depreciation	1,379,066	1,377,845	1,383,778	1,465,043	1,481,596	
+ Interest Earnings	36,444	28,290	44,747	89,129	151,431	
+ Onetime Cost for the Environmental & Entertainment Venue				1,286,000	1,100,000	
- Food and Beverage Revenues subtracted out (\$4 million of Bond Pledged Revenues)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	
Total of all Adjustments	(2,584,490)	(2,593,865)	(2,571,475)	(1,159,828)	(1,266,973)	
Debt Service Calculation						
Cash Available for Debt Service	577,663	1,624,873	2,587,821	2,285,653	2,515,513	
Total Existing Debt Service MADS ⁽¹⁾	646,980	646,980	646,980	646,980	646,980	
Proposed IBank MADS ⁽²⁾	863,632	863,632	863,632	863,632	863,632	
Total Obligations MADS	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612	
Debt Service Coverage Ratio	0.38	1.08	1.71	1.51	1.67	

⁽¹⁾ Maximum Annual Debt Service

⁽²⁾ Calculated as \$15,000,000 at 3.58% for 30 years.

Analysis of historical cash flow demonstrates the IBank Pledged Revenues have the ability to service the proposed Financing in every year and has a debt service coverage ratio (DSCR) of 1.51 or greater in three out of the five years reviewed. The District underperformed in FYs 2013 and 2014 because of two expenditure items increasing in FY 2013 beyond what is the normal annual change; Food and Beverage, and Entertainment. While Food and Beverage expenses continued to climb in the following years, Entertainment adjusted downward in FY 2014 then increase again in FYs 2014-2017. In FY 2014, the District realized the increase in Food and Beverage cost and adjusted its vending prices for its various items. This increase in Food and Beverage revenue did not completely restore the District's internal cash flow target and in FY 2015, the District adjusted the remaining revenue items upward.

One other note: the District did not have debt in FYs 2013 and 2014 therefore the low ratios are stressed to included debt that did not exist and not the actual performance of the District.

The Cash Flow had the following adjustments:

1. Depreciation expense was added back as this non-cash line item artificially inflates expenditures.
2. Interest Earnings was added back as it is a widely accepted eligible passive income source.
3. Environmental & Entertainment Venue adjustments in the FYs of 2016 and 2017 were added back as these expenditures were deemed one-time extraordinary expenditures and were specific to IBank's previous financing and the subject financing.
4. The full debt of the Series 2015 Revenue Bonds is not being considered in this cash flow, however, removing the first \$4M of the Food and Beverage Revenue sets aside the revenue needed to satisfy the 2015 Revenue Bonds obligation.

The line item of Transfer Out, as seen in the Analysis of Comparative Statement of Revenues and Expenses of the District Table, were not considered within the cash flow and therefore, not adjusted. These annual transfers, with a range of \$3.3M to \$7.4M, appear to be an accounting convenience and not out of necessity. All funds transferred are available to the District.

District Projections

The District Projections adds three new revenue sources, Concert Parking, Concert Venue Revenue, and Year Round Food and Beverage Net. The projections assume the goal of an average of 60 shows per year with shows beginning in FY 2019 and building up to 60 shows by FY 2021. The District projects a price point of \$45.00 per ticket with a 75% attendance at an average of 60 shows per year, three people per vehicle parked, for \$ 2,903,689 in Concert Revenue per year starting in FY 2019. (The *Marketing Analysis* research indicates the average ticket price for a concert at this venue size is \$74.25.) The projected Year Round Food & Beverage per show is \$151,801 annually starting in FY 2020.

The District added two new Operating Expense category line items, Concert Venue Expenses and Concert Venue Depreciation. Using the same research from the *Marketing Analysis* at 60 shows per year, Concert Venue Expenses would be \$2,903,689 starting in FY 2020. Concert Venue Depreciation would also begin in FY 2019, which \$253,376 has been added back to the cash flow. Projected Cash Flows tables and debt service analysis for the 22nd District for the Financing are as follows:

PROJECTED CASH FLOW						
For Fiscal Year Ending December 31	2017	2018	2019	2020	2021	2022
Source:	Un-Audit Fin. Stmtnt	Actual	Projections	Projections	Projections	Projections
Operating Income (Loss)	\$ 3,782,486	\$1,061,301	\$4,185,667	\$4,149,310	\$4,378,764	\$4,795,043
Transaction Specific Adjustments						
+ Depreciation	1,481,596	1,450,000	\$1,481,596	\$2,249,400	\$2,204,412	\$2,160,324
+ Interest Earnings	\$151,431	\$389,589	\$311,671	\$308,554	\$305,469	\$302,414
+ Cost for the Environmental & Entertainment Venue	\$1,100,000					
- Depreciation for Concert Venue				\$253,376	\$506,751	\$506,751
- Food and Beverage Revenues subtracted out (\$4 million of Bond Pledged Revenues)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)	(4,000,000)
Total of all Adjustment	(1,266,973)	(2,160,411)	(2,206,733)	(1,188,670)	(983,368)	(1,030,511)
Debt Service Calculation						
Cash Flow Available for Debt Service	\$2,515,513	(\$1,099,110)	\$1,978,934	\$2,960,640	\$3,395,396	\$3,764,531
Total Existing Debt Service MADS	646,980	646,980	646,980	646,980	646,980	646,980
Proposed IBank MADS ¹	863,632	863,632	863,632	863,632	863,632	863,632
Total Obligations MADS	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612	\$1,510,612
Cash Flow Available after Annual Debt Service	\$1,004,901	(\$2,609,722)	\$468,322	\$1,450,028	\$1,884,784	\$2,253,919
Debt Service Coverage Ratio	1.67	(0.73)	1.31	1.96	2.25	2.49

¹ Calculated as \$15,000,000 at 3.58% for 30 years.

Analysis of Projected Cash Flow demonstrates IBank's Pledged Revenues have the ability to service the proposed Financing each year going forward, with a DSCR target of 1.30 in four of the five years. The above table indicates Concert Venue Revenues and Expenses beginning in FY 2020 due to timing of the construction. IBank also stressed the cash flow without any Concert Venue Revenue, Concert Parking, or Year Round Food and Beverage Net, and the cash flow is still able to service the existing and proposed debt.

The District states the largest increase in expenses in the 2018 Actual Revenue and Expenses was within Payroll. The minimum wage increased \$1.00 and permanent staff received a 4% general salary increase on July 1, 2018. The District also hired more seasonal employees to reduce the rising cost of contracted labor services, which increased Payroll by an additional \$400,000.

The \$1.4M increase in Payroll, coupled with the decline in Total Operating Revenues, (as compared to FY 2017) caused the FY 2018 cash flow shortfall. The District has already addressed the revenue shortfall to positively affect FY 2019 and beyond and submitted the following items regarding the 2019 operating budget. The District has a high success rate and a talented staff fully capable of making the necessary adjustments to secure a positive cash flow. In fact, the District's Board of Directors approved these adjustments (see below) in December 2018.

The District plans to increase Fair Admissions \$1.00 across all ticket types for the San Diego County Fair – this pricing change in the tickets will increase Admissions revenues by an estimated \$710,000. The District is also planning more paid outdoor concerts, in association with the Fair, increasing concert revenue an estimated \$300,000. The District also plans to increase Parking for the Fair by \$2.00 a vehicle and increase parking for the Horsepark by \$5.00 a vehicle. These Parking rate changes are estimated to increase revenue by \$730,000. The District will also adjust pricing for concessions and commercial space (Concessions/Carnivals) increasing revenue by an estimated \$215,000. The District plans to update its pricing model for Midway and Games by going cashless. Previously, the District charged space rental. This pricing change is anticipated to increase Concessions/Carnivals revenue by an additional \$390,000.

For Non-Fair revenue, the District Horse Show entry fees (Admission) are planned to increase \$160,000 annually. In addition, the District will hold international ranked classes at the Del Mar National Horse Show, which require a higher entry fee. Food and Beverage revenues are expected to increase by more than \$650,000; this increase will be done by modest price increases on all items. The District has already booked 18 new interim events at the Fairgrounds in 2019. This will increase facility revenues a minimum of \$100,000 above FY 2018, and with the return of Cirque du Soleil, the facility rental revenues

will increase an additional \$700,000. Parking revenues for non-fair events are anticipated to increase \$680,000 with a combination of higher parking fees and an increase in the number of cars parked due to an increase in fairground activities.

Pension Plan

The District participates in the State of California – Miscellaneous Plan, an agent multiple-employer defined benefit pension plan (Plan) administered by CalPERS, in accordance with GASB 68. All employees who work half-time or more are eligible to participate in the Plan. The actuary establishes the District's contribution rates on an annual basis. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The District's contribution rate, as of December 31, 2016, (2017 has not been made public as of yet) is 26.7% for tier one and tier two employees. The employee contribution rate as of December 31, 2016 is 10% for skilled craftsmen and 8% for all other employees. The District's covered-employee payroll contribution as a percentage of covered-employee payroll is 24.4%.

The District contributed 100% of its annual required contribution of \$154,357, for FY 2016. As of December 31, 2016, the District reported a net pension liability of \$31,413,325. At the current District contribution rate, the net pension liability would be retired in approximately 10 years.

Risk Factors

1. The Satellite Wagering revenues have been declining over the past 10 years.
2. Parking numbers (based on existing District events) has been declining over the past five years, which might continue downward as alternative transportation modes, such as mass transit and ride share companies, increase in popularity. Revenues have increased in the last two FY as the parking fee has increased.
3. Competing events and venues may affect booking talent and artists.
4. Competition from other forms of entertainment may result in lower attendance than forecasted.
5. Economic downturn may affect consumer discretionary spending for concerts.
6. The Concert Venue is a new endeavor for the District and its revenues may not meet projections.

Mitigating Factors

1. Historical cash flow demonstrates the IBank Pledged Revenue's ability to service the proposed Financing (even without the need for the new Concert Venue projected revenue).
2. Parking revenues are likely to increase as new and additional activities, such as 60 annual concerts, add to the Fairgrounds events.
3. Concert Venue Project allows the District to engage in existing core competencies, such as operating the Fair parking facilities and selling tickets.
4. The District would be able to manage multiple events on the same site. The Concert Venue Project would allow the District to market to a wider group of demographics.
5. Concert Venue Project enables the District to keep the Satellite Wagering facility in a reduced capacity, to continue serving its existing customer base of 300 – 400 customers daily. Based purely on location convenience, concertgoers may become new customers of the Satellite Wagering.
6. The District has experience booking talent and artists due to booking events at the County Fair and so the addition of the Concert Venue is within the District's existing skill set.

Compliance with IBank Underwriting Criteria

The application and the proposed financing are in accordance with the IBank Criteria, Priorities and Guidelines (ISRF Criteria). The District has made one requested for an exception to the ISRF Criteria.

IBank Criteria, Priorities and Guidelines (ISRF Criteria), the ISRF Criteria provides that contractors should be pre-qualified using the Model Questionnaire detailed in the ISRF Criteria. The District intends to use its internally-required contractor pre-qualification questionnaire, which substantially meets the intent of the Model Questionnaire. Therefore, the District seeks a waiver of the Criteria.

1. The Project is in accordance with Government Code (63000-63010), offering availability of loans and capital for local infrastructure development.
2. The Borrower is a California State Agency, an eligible borrower per IBank Criteria, Priorities and Guidelines for the Selection of Projects for Financing under the Infrastructure State Revolving Fund (ISRF) Program (the Criteria) and the Bergeson-Peace Infrastructure and Economic Development Bank Act, Government Code Section 63000, et seq.
3. The Project meets the ISRF Program financing limits set forth in the Criteria.
4. The estimated useful life of the Project is 30 years, which meets or exceeds the 30-year term of the Financing.

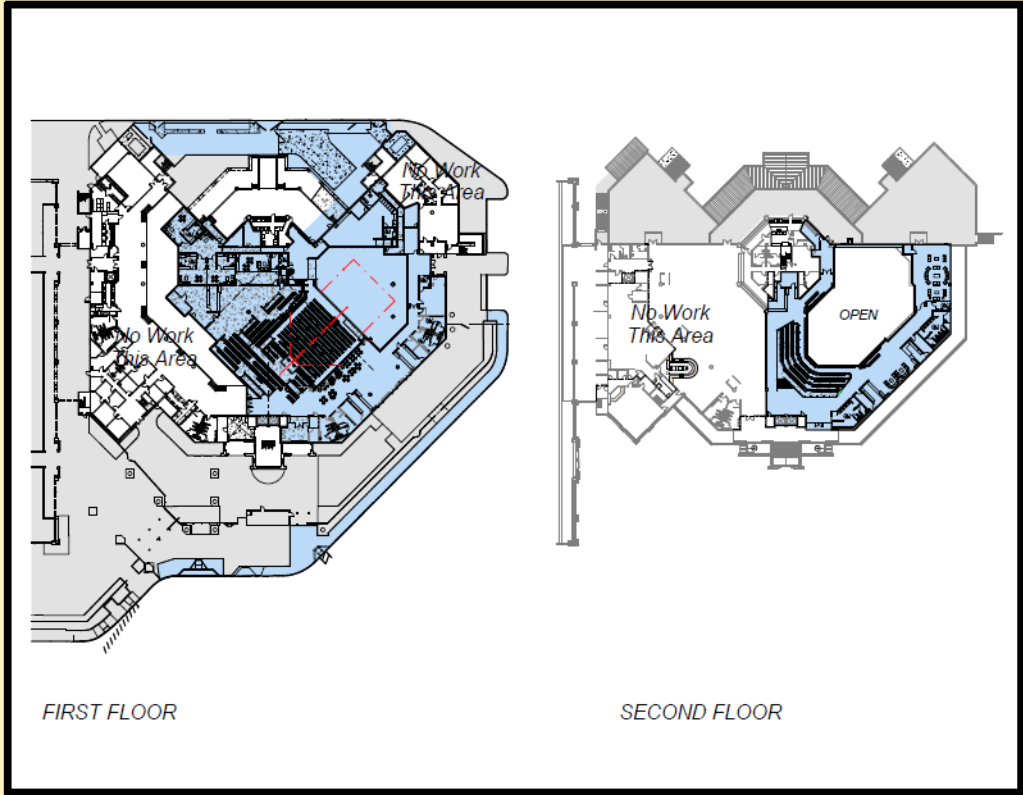
STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 19-06 authorizing a financing not to exceed \$15,000,000 to the 22nd District Agricultural Association for the Concert Venue Project, subject to the conditions contained herein:

1. **Applicant/Borrower:** 22nd District Agricultural Association (District)
2. **Project:** Concert Venue Project
3. **Amount of ISRF Program Financing:** \$15,000,000
4. **Maturity:** Thirty (30) years
5. **Repayment/Security:** All "IBank Pledged Revenues," consisting of "Pledged Fair Revenues" less "Fair Operating Expenses". Pledged Fair Revenues are all revenues generated by District operations, except for the first \$4M of "Food and Beverage Net Revenues." Fair Operating Expenses are the District's operating expenses, as determined by generally acceptable accounting principles.
6. **Interest Rate:** 3.58%
7. **Fees:** District will pay an origination fee of 1.00%, \$150,000, and pay annually a fee of 0.30% of the outstanding principal balance.
8. **Not an Unconditional Commitment:** IBank's resolution shall not be construed as unconditional commitment to finance the Project, but rather IBank's approval pursuant to the Resolution is conditioned upon entry by IBank and the District into a Financing Agreement, in form and substance satisfactory to IBank and its counsel.
9. **Limited Time:** The Board's approval expires 90 days from the date of its adoption. Thus, the District and IBank must enter into the Financing Agreement no later than 90 days from such date. Once the approval has expired, there can be no assurances that IBank would be able to provide the ISRF Program financing to the District or consider extending the approval period.
10. **ISRF Program Financing Agreement Covenants and Conditions:** Aside from usual and customary terms and conditions for this type of ISRF Program financing, Staff recommends IBank's ISRF Program financing agreement(s) includes without limitation, the following additional conditions and covenants of the District:
 - a. District shall adjust as necessary its rates, charges, and expenses in an amount sufficient to ensure that the sum of IBank Pledged Revenues produce a minimum 1.30 times aggregate annual debt service coverage ratio for the sum of actual annual debt service on the Financing and any obligations on parity with the Financing.
 - b. The District will be prohibited from issuing future debt payable from IBank Pledged Revenues senior to the Financing.
 - c. Parity debt will be allowed if IBank Pledged Revenues amount to at least 1.30 times the Maximum Annual Debt Service (MADS) taking into consideration the MADS payable in any Fiscal Year on all existing debt payable from IBank Pledged Revenues and the proposed parity debt.
 - d. Subordinate debt will be allowed if IBank Pledged Revenues are at least 1.15 times the sum of the MADS on all outstanding debt, payable from the IBank Pledged Revenues, including the proposed Subordinate Debt.
 - e. District to comply with the requirements of the Criteria and all applicable laws, regulations, and permitting requirements associated with public works projects.

- f. District to provide to IBank annually, within 180 days of the end of each of District's fiscal year, or 30 days after the State has provided to the District sufficient pension obligation information, whichever occurs later, a copy of its audited financial statements that report each enterprise fund separately, together with an annual certificate demonstrating compliance with the foregoing covenants, as well as other information as IBank may request from time to time.
- g. Closing will be conditioned on the Department of General Services' (DGS) approval of the District's pledge of revenues.
- h. District shall notify the Departments of Finance and the Department of Food & Agriculture when seeking final Project approval from DGS.
- i. Hard cost disbursement will be conditioned on the District obtaining all necessary permits and approvals to commence construction.

PROJECT PROPOSED AREA MAP – Exhibit 1



CONCERT VENUE TI

Venue 1ST Floor = 27,200 sf.
 Venue 2ND Floor = 10,584 sf.
 TOTAL SF. = 37,784 sf.

Improvements for Concert Venue Only:

- Refurbish HVAC (No Replacement)
- No Improvements to Cupla
- Minimum Code-required Sitework
- Include Beer Cooler in Venue Scope
- Code Required Elevator Upgrades (2)
- Sprinkler/Fire Alarm Upgrade

NO WORK THIS AREA

- NO LANDSCAPE OR EXTERIOR ARCHITECTURAL WORK
- MINIMUM CODE REQUIRED WORK TO EXIT PATHS ONLY

Source: 22nd District Agricultural Association (Main Floor Seating)
 CONCERT VENUE SCOPE OF TI WORK

SURFSIDE RACE PALACE RENOVATION
 DEL MAR FAIR / 22nd DAA

BASTIEN AND ASSOCIATES, INC.
 ARCHITECTURE AND PLANNING
 10800 HILL AVENUE, SUITE 100
 TUSTIN, CALIFORNIA 92780-2208
 Phone: (714) 837-8888 Fax: (714) 837-8878
 Web Address: www.bastienarchitects.com

PROJECT LOCAION – Exhibit 2



Source: Del Mar Fairgrounds Website



Source: Google Maps



Source: Surfside Race Place – Google

ECONOMIC BENEFITS – TABLES – Exhibit 4

Category	Income Per Show	60 Shows Per Year
Headliner	\$40,000	\$2,400,000
Talent Buyer Flat Fee or %	\$4,000	\$240,000
Box Office Labor	\$650	\$39,000
Security	\$870	\$52,200
Medical	\$75	\$4,500
Stagehands	\$1,000	\$60,000
Marketing	\$1,000	\$60,000
Event Staff	\$480	\$28,800
Food & Beverage Staff	\$3,850	\$231,000
Total	\$51,925	\$3,115,500

Job Position	Hourly Rate	Positions Per Show
Headliner	Flat Fee	1
Talent Buyer	(10%) of Headliner	1
Box Office Labor	\$11	8
Security Supervisor	\$15	1
Security Staff	\$12	8
Emergency Medical Technician (EMT)	\$15	2
Stagehands	\$20	10
Marketing	Flat Fee (3%-5% of show)	1
Event / Production Manager	\$30	2
Food & Beverage Servers	\$11	70

Source: 22nd District Agricultural Association

CSUSM PROJECTS – TABLE – Exhibit 5

California State University San Marcos - Sample of Projects		
Project Name	Project Details	Year
Harrah's Resort Southern CA	Strategic marketing plan for target population in Escondido, San Marcos, Valley Center, and Temecula	2017
San Diego Brewers Guild	Research on industry of craft beer impact on San Diego economy	2017
San Diego Business Journal	Developed a Confidence Diffusion Index for San Diego County	2017
San Diego North Economic Development Council	Evaluation and Recommendation Report on attracting and growing business within North County	2017
Sheraton Carlsbad Resort & Spa	Marketing plan for opening the resorts 7 Mile Kitchen restaurant	2017
City of Murrieta	Research and recommendations for running The Murrieta Innovation Center	2016
City of San Marcos	Research and recommendations for two-way communication platform for interactive communications	2016
San Diego North County Arts Network	Recommendations for defining identity and branding in the North County Region	2016
San Marcos Mega GamePlex	Created promotional strategy to raise funds to construct a large indoor sports facility	2016
BNY Mellon	Research on exit planning for business owners in San Diego	2016
City of Carlsbad	Research and demographics for neighborhood services for planning improvements projects	2016
Intuit	Research and recommendations to improve onboarding process	2016
Oceanside Chamber of Commerce	Research and recommendations on qualitative data to improve outreach and relations	2016
Stone Brewing Co.	Proposals for space organization to facilitate growing needs of Company	2015
Welk Resorts	Research and recommendations regarding identifying, marketing, and increasing return on investment	2015

***Refer to the IBank Board Meetings
February 27, 2019 - Staff Reports link to view Exhibit 6***

<http://www.ibank.ca.gov/board-meetings/>

*Refer to the IBank Board Meetings
February 27, 2019 - Staff Reports link to view Exhibit 7*

<http://www.ibank.ca.gov/board-meetings/>