

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)**

**STAFF REPORT**

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

<b>Applicant:</b> 22 <sup>nd</sup> District Agricultural Association (District and 22 <sup>nd</sup> DAA)	<b>ISRF Project Type:</b> Infrastructure Project	<b>ISRF Project Category:</b> Educational, Cultural, and Social
<b>Financing Amount:</b> \$18,500,000 (Financing)	<b>Financing Term:</b> 20 years	<b>Interest Rate:</b> <sup>1</sup> 3.00%
<b>Source of Repayment:</b> All "IBank Pledged Revenues," consisting of "Pledged Fair Revenues" (as defined in the <a href="#">IBank Pledged Revenues Section</a> ) minus "Fair Operating Expenses" ( as defined in the IBank Pledged Revenues Section)		<b>Fund Rating/Date:</b> None
<b>Security:</b> Senior lien on IBank Pledged Revenues		
<b>Project Name:</b> Concert Venue and Environmental Remediation Project (collectively, the Project)		<b>Project Location:</b> 2260 Jimmy Durante Blvd. Surfside Race Place Del Mar, CA 92014

**Project Description / Sources and Uses of Proceeds:**

The Project consists of two components, the "Concert Venue Project" and the "Environmental Remediation Project." The Concert Venue 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 and beverage service facility (the Concert Venue). The Environmental Remediation Project consists of improvements to the District's storm water quality management program within the Del Mar fairgrounds.

**Use of Financing Proceeds:**

The Financing would fund all components necessary to initiate and complete the Project, including, but not limited to, design, architecture, engineering, geologic testing, hydrologic testing, construction, remediation, equipping, machinery installation, construction contingency (4.04%), permitting, entitlement, constructing management, project administration, and general project development activities. IBank's Origination Fee is being financed.

Project Uses	Project Sources		
	IBank	22nd DAA	Total
Concert Venue Construction and Contingency	\$11,815,018	\$5,261,809	\$17,076,827
Environmental Remediation	\$6,500,000	\$4,075,808	\$10,575,808
Origination Fee	\$184,982		\$184,982
<b>Total</b>	<b>\$18,500,000</b>	<b>\$9,337,617</b>	<b>\$27,837,617</b>

Source: Financing Application & Revised Request from 22<sup>nd</sup> DAA

<sup>1</sup> Interest Rate provided 1/25/2018

**Credit Considerations:**

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

<b>CASH FLOW - Historical</b>					
<b>For Fiscal Year Ending (FYE) December 31</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Income (Loss Before Operating Transfers)	\$4,692,322	\$3,162,153	\$4,218,738	\$5,159,296	\$3,445,481
<b>Transaction Specific Adjustments</b>					
+ Depreciation	1,412,793	1,379,066	1,377,845	1,383,778	1,465,043
+ Interest Earnings	49,436	36,444	28,290	44,747	89,129
+ Design Cost for the Concert Venue					1,286,000
- 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)
<b>Total of all Adjustments</b>	<b>(2,537,771)</b>	<b>(2,584,490)</b>	<b>(2,593,865)</b>	<b>(2,571,475)</b>	<b>(1,159,828)</b>
<b>Debt Service Calculation</b>					
<b>Cash Available for Debt Service</b>	<b>2,154,551</b>	<b>577,663</b>	<b>1,624,873</b>	<b>2,587,821</b>	<b>2,285,653</b>
<b>Total Existing Debt Service MADS</b>	0	0	0	0	0
<b>Proposed IBank MADS<sup>(1)</sup></b>	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663
<b>Total Obligations MADS</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>
<b>Debt Service Coverage Ratio</b>	<b>1.67</b>	<b>0.45</b>	<b>1.26</b>	<b>2.01</b>	<b>1.77</b>

<sup>(1)</sup> Calculated as \$18,500,000 at 3.0% for 20 years.

Analysis of historical cash flow demonstrates that the IBank Pledged Revenues have the ability to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.26 or greater in four out of the five years reviewed. Projected cash flows (both with and without taking future Project revenues into account) indicate a DSCR of 1.57 or greater in each year projected, except for 2017, where DSCR was 1.24. 2017 DSCR was lower because the District was self-funding the Project. The District's 2017 DSCR would have been approximately 2.02 if it had not been self-funding the Project. Refer to section on [Projected Cash Flows](#) below for detailed explanations.

**Support for Staff Recommendations:**

1. Historical cash flow analysis demonstrates that the IBank Pledged Revenues have the ability to service the proposed Financing in four out of the five years reviewed.
2. Projected cash flows (both with and without the future concert revenues) will service the proposed Financing in each of the years analyzed, with DSCR exceeding 1.57 in all but one of the years analyzed. In 2017 the DSCR is 1.24, however this is due to the District self-funding the Project during that period. DSCR would have been approximately 2.02 if the District had financed the Project in 2017.
3. The estimated useful life of the Project is 30 years, which exceeds the 20 year term of the Financing.
4. The District will receive revenues from the Concert Venue that 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. Hard cost disbursement will be conditioned on the District obtaining all necessary permits and approvals to commence construction.

**Criteria Waiver:**

1. The District requests a waiver of the Criteria requirement that construction be completed within 2 years of Financing approval. The District requests 51 months from closing the Financing Agreement to complete construction.

**IBank Staff:**

Robin Root

**Date of Staff Report:**

March 14, 2018

**Date of IBank Board Meeting:**

March 27, 2018

**Resolution Number:**

18-02

**Staff Recommendation:**

Staff recommends approval of Resolution No. 18-02 authorizing Financing not to exceed \$18,500,000 to the 22nd District Agricultural Association for the Project, subject to the above conditions.

## PROJECT DESCRIPTION

The project consists of two components, the “Concert Venue Project” and the “Environmental Remediation Project” (collectively, the Project). The Concert Venue 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 and beverage service facility (the Concert Venue). The Environmental Remediation Project consists of improvements to the District’s storm water quality management program within the Del Mar Fairgrounds (the Fairgrounds).

### Project Background

The 22nd District Agricultural Association (District) is a State agency, which owns and operates the Del Mar Fairgrounds. The District 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 a first come first serve use opportunity, therefore any person or entity is able to lease available space at any time.

The public’s use (attendance) of the SSRP has declined significantly over the years. At one time the SSRP attracted 2,700 customers per day, however, current attendance has declined to only 300-400 customers per day. The diminishing attendance at live thoroughbred horse racing events, and commensurate waning use of the SSRP, is likely due to generational shifts in entertainment preferences coupled with the 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 will not eliminate satellite wagering at the SSRP; however a large portion of the Facility will be repurposed to a Concert Venue and a beer tasting venue/exhibit. The wagering area of the Facility will be reduced to a size appropriate for its current (and projected future) customer use.

In addition to hosting concerts, the District will have the ability to use the Concert Venue for other purposes, such as receptions, educational presentations, seminars, fundraising events, and other types of gatherings. For visuals diagrams and photos of the above project components, refer to Exhibits 1-3. The private activity components of the Project will be financed from IBank’s equity.

### Project Components

The Project includes the following four 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 capacity
  - b. Balcony approximately 1/3 of capacity
  - c. VIP Sections
  - d. New stage
  - e. Option to close off balcony 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 during concerts

- h. Remodel Sports, Saddle Club, Arena Rooms and existing kitchen to support food services
2. Create an indoor/outdoor beer tasting and exhibit area
  - a. Remodel of north outdoor area for exclusive beer tasting and outdoor dining
  - b. New interior construction of existing building shell
  - c. Build working distillery in garden for use and sale of microbrew on property
3. Downsize the satellite wagering footprint
  - a. Removal of existing fencing and box office building
  - b. Redesign of entry way for theatre and beer tasting
  - c. Satellite Wagering Facility - downsized
4. Environmental Remediation for storm water improvements within the Fairgrounds

## **Environmental Review and Permitting Status**

On June 23, 2017, the City of Solana Beach (Plaintiff) filed its Petition for Writ of Mandate and Complaint for Injunctive Relief against the District with the San Diego Superior Court, Central Division (the Petition). The Petition contended that the District did not comply with the California Environmental Quality Act (CEQA) in connection with the Project and sought to compel the District to perform certain environmental review before approving the Project. On January 13, 2018 the matter was settled, allowing the District to proceed with the Project.

The California Coastal Commission (Commission) approved the District's application for a coastal development permit (the Permit) on October 12, 2017. As is standard with the Commission's coastal development permits, the Permit will remain in effect for a five year period. Also, as is typical with the Commission's coastal development permits, the District intends to renew the five-year Permit term prior to expiration.

## **Project 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:

- Potential annual profits of \$1.4 - \$2 million from concerts; and merchandise revenues
- Cross over business with the San Diego County (County) Fair, horse races, beer festivals, and concerts
- Event sales and marketing opportunity for alternative corporate and personal events

The Environmental Remediation Project will benefit the District by improving the quality of its storm water discharged into the environment.

## **Public Benefits**

The Project includes the following public benefits:

- Provides a cultural outlet for residents and visitors
- Highlights music and artists, while showcasing Del Mar vistas
- Highlights local breweries in the County for unique styles of beers available

- Fills current market void for live music venues that seat 1,500 – 2,500
- Reduces risk to human health and the environment by performing the environmental remediation

### **Economic Benefits**

The District anticipates 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 financial benefit to the local economy is estimated at \$51,925 per show. The District is projecting to host a minimum of 60 events per year, resulting in an annual economic benefit of \$3,115,500 to the local economy. For a breakdown of details regarding the economic benefits, refer to Exhibit 4.

### **California State University San Marcos Background and Qualifications**

The research for the Project was completed by the California State University San Marcos (CSUSM) Fully Employed Masters of Business Administration (FEMBA) team. The CSUSM FEMBA program has been in place for 25 years and has conducted over 250 projects similar to the structure of the 22<sup>nd</sup> DAA *Marketing Analysis and Senior Report* (collectively, the DAA Project), with five-person teams working as consultants for external organizations. Examples of projects similar to the 22<sup>nd</sup> DAA Project 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 has over 20 years of experience at universities and working with industry. He 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 22<sup>nd</sup> DAA Project, also led a team of finance students to take first place in the national Chartered Financial Analyst (CFA) Finance contest. Additionally, this year, 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; the report was published in Q3 of 2017 and the 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. The CSUSM FEMBA team is routinely recognized for its accomplishments. CSUSM's work has been compared favorably to international consultant Deloitte. Mr. Ashley recently received a letter stating the work of the CSUSM FEMBA student team on another project was easily "worth 100 times what it cost." CSUSM has conducted over 250 projects similar in structure to its analysis of the 22<sup>nd</sup> DAA Project. Refer to [Exhibit 5](#) for a sample of projects and Exhibit 6 for a sample report.

## 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 can be traced to 1880, 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 still owns and operates the Fairgrounds, without the use of any tax dollars. The Fairgrounds are entirely self-supporting. This self-supporting revenue includes, but is not limited to, the Facility, the annual County Fair, live horse races, and facilities rentals for 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. Each Board member serves a four-year term. The Board appoints a General Manager/CEO, who is charged with the day-to-day operation of the facilities.

### **22<sup>nd</sup> DAA Experience With Entertainment Management Services**

The 22<sup>nd</sup> DAA has a Facility Sales staff of four, each with 25 to 30 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, he served as an Event Manager for the Long Beach Convention Center and Anaheim's Arrowhead Pond. Last year alone, the District's team steered a total of 142 unique events to the Fairgrounds, producing 343 event days with a total of 649 usage days. Revenue generated from the room rental of these events was over a million dollars and revenue from catering brought in an additional million.

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.

The District's interest from parties seeking to book events at the Fairgrounds often exceeds space availability. During the summer and fall live horse racing seasons, the District is routinely unable to book events due to space limitations. 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 3.7 million residents who are in the pool of people that may attend a concert. In addition, of those who reside in this market, approximately 1.3 million of these residents are, according to the *Marketing Analysis*, the major market (concertgoers) segments (ages 25-54). By the year 2021, the anticipated area population would increase to 4 million. The area provides a large population of likely concertgoers to fill this new venue.

The District's consumers have income averaging \$75,000 per year, which is 104% of the State's median income. Excess income allows residents to spend on entertainment activities, such as concerts. Higher levels of income provide consumers with greater discretionary spending. Individuals with higher discretionary spending power are more likely to attend concerts and similar events. The District's *Marketing*

*Analysis* indicates that consumers spend an average of \$66.92 per ticket to attend a theatre, opera, or concert. The District expects to charge an average ticket price of \$45.00 for each event.

## **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 having to purchase the entire album, which results 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 are projected to grow at an annual 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 has begun to focus on filling smaller venues (1,000 to 6,500 capacity). These smaller venues are more affordable to concertgoers than events held at arenas and amphitheatres. In the past, marketing costs were much higher, as print advertising was a major portion of the advertisement budget. Current technology allows for more cost effective marketing with the use of web technology, resulting in anticipated higher profit margins that could not be conceived of a few years earlier. The *Marketing Analysis* revealed concertgoers now learn about various events through social media. This market segment purchases their tickets 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*, it is important for a region to have different sized venues in order to allow bands to gain success, grow their audience, and move to larger locations. Performance sites range from bars and restaurants, to mid-sized halls, and finally to large theatres and amphitheatres. The SSRP venue will have attendance capacity of approximately 1,900, and per staff's research, the primary competitors are venues with attendance capacity between 1,100 – 2,000. A competitive advantage of SSRP's venue is its 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, most jazz and classical events are seated, while rock events are generally standing only audiences.

Before and after shows, and other fairground activities provide another competitive advantage. The majority of concertgoers plan their live music event to include a meal or other activities. Since SSRP is located at the Fairgrounds, the concertgoers would experience additional conveniences, such as ample parking, food, 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 Concert Venue. Per staff's research, these competitors hold concerts as an ancillary activity to fill breaks in the theatrical performances. 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
<b>Concert Venue</b>								
	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) minus “Fair Operating Expenses” (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.

<b>Source of Revenue to Repay Proposed ISRF Financing:</b>	IBank Pledged Revenues
<b>Outstanding Obligations:</b>	Series 2015 Revenue Bonds secured by the first \$4 million 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
<b>Type of Audited Financial Documents Reviewed:</b>	<input type="checkbox"/> Comprehensive Annual Financial Reports (CAFR) <input type="checkbox"/> Basic Financial Statements (F/S) <input checked="" type="checkbox"/> Other: Financial Report (Independent Auditor’s Report)
<b>Fiscal Year Ends:</b>	December 31
<b>Audit Fiscal Years Reviewed:</b>	2012-2016
<b>The auditor’s 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.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No [If no, explain]
<b>Adopted Budget(s) Reviewed:</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No [If no, explain]
<b>Budget Year(s) Reviewed:</b>	2018 (Draft)

## IBank Pledged Revenues

As described above, IBank Pledged Revenues consist of Pledged Fair Revenues minus Fair Operating Expenses. Fair Operating Expenses are the expenses of operating the Fairgrounds, determined under generally accepted accounting principles. Pledged Fair Revenues are all revenues generated by the operation of the Fairgrounds, except for “Bond Pledged Revenues.” Bond Pledged Revenues consist primarily of the first \$4 Million of “Food and Beverage Net Revenues” (identified in the below table) generated in connection with the District’s operation of the Fairgrounds.<sup>2</sup> Fairgrounds operations currently generate revenue through ten revenue sources<sup>3</sup> (identified in the below table).

22ND DISTRICT AGRICULTURAL ASSOCIATION IBank PLEDGED REVENUES & REVENUE SOURCES				
Count	Operating Revenues	2016	Current Obligation	Pledged
1	Food and Beverage	\$23,211,411	Yes	<i>Bond Pledged Revenues (first \$4 Million of net revenues) IBank Pledge Revenues (remaining net revenues)</i>
2	Concessions/Carnivals	19,505,714	Proposed	IBank Pledged Revenues
3	Admissions	10,899,313	Proposed	IBank Pledged Revenues
4	Facility Rentals	7,390,969	Proposed	IBank Pledged Revenues
5	Satellite Wagering	1,592,044	Proposed	IBank Pledged Revenues
6	Parking	4,417,741	Proposed	IBank Pledged Revenues
7	Leases/Operating Agreement	1,776,758	Proposed	IBank Pledged Revenues
8	Surf and Turf	1,468,812	Proposed	IBank Pledged Revenues
9	Sponsorships	2,792,070	Proposed	IBank Pledged Revenues
10	Other	4,279,782	Proposed	IBank Pledged Revenues
<b>Total Operating Revenue</b>		<b>\$77,334,614</b>		

- **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.
- **Concessions/Carnivals** revenues are generated from carnival rides, food concessions, games, and commercial space rentals that are generated primarily during the County Fair.
- **Admissions** revenues are from ticket sales for various events held at the Fairgrounds such as the County Fair, the Professional Bull Riding event, Concert events, and the National Horse Show.
- **Facility Rentals** revenues are being generated by renting Facility space for various events held at the Fairgrounds such as the three-day music festival known as “KAABOO”, stall rentals for horse shows, as well as 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
- **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.

<sup>2</sup> 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 discussed in detail in this Staff Report.

<sup>3</sup> Upon Concert Venue Project completion, the District expects the Concert Venue to generate revenues, as discussed in the Project Benefits Section above. Future revenues generated from the Concert Venue will be included within the IBank Pledged Revenues.

## **Outstanding Obligations - 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 \$4,000,000 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 \$4 Million 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 2012 – 2016 on the chart below.

22ND DISTRICT AGRICULTURAL ASSOCIATION STATEMENT OF NET POSITION										
For Fiscal Year Ending (FYE) December 31	2012		2013		2014		2015		2016	
Source:	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%
<b>ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>										
<b>Current Assets</b>										
Cash and Cash Equivalents	\$15,575,646	38.6%	\$12,306,194	34.0%	\$13,146,794	35.8%	\$15,308,135	39.8%	\$15,240,056	40.6%
Accounts Receivable	548,201	1.4%	571,303	1.6%	1,079,287	2.9%	1,245,038	3.2%	1,161,655	3.1%
Due From Other Funds					237,895	0.6%			20,092	0.1%
Prepaid Expenses and Other	347,749	0.9%	388,623	1.1%	447,068	1.2%	417,912	1.1%	463,592	1.2%
<b>Total Current Assets</b>	<b>16,471,596</b>	<b>40.8%</b>	<b>13,266,120</b>	<b>36.6%</b>	<b>14,911,044</b>	<b>40.6%</b>	<b>16,971,085</b>	<b>44.1%</b>	<b>16,885,395</b>	<b>45.0%</b>
<b>Noncurrent Assets</b>										
Capital Assets					21,810,845	59.4%	21,480,075	55.9%	20,635,856	55.0%
Due From (To) Other Funds	257,389	0.6%	257,519	0.7%						
Property and Equipment - Net	23,624,321	58.5%	22,676,796	62.6%						
<b>Total Other Non Current Assets</b>	<b>23,881,710</b>	<b>59.2%</b>	<b>22,934,315</b>	<b>63.4%</b>	<b>21,810,845</b>	<b>59.4%</b>	<b>21,480,075</b>	<b>55.9%</b>	<b>20,635,856</b>	<b>55.0%</b>
<b>SubTotal Assets</b>	<b>40,353,306</b>	<b>100.0%</b>	<b>36,200,435</b>	<b>100.0%</b>	<b>36,721,889</b>	<b>100.0%</b>	<b>38,451,160</b>	<b>100.0%</b>	<b>37,521,251</b>	<b>100.0%</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>										
Deferred Outflow of Pension Liability							1,928,732	5.0%	5,082,739	13.5%
<b>Total Deferred Outflow of Resources</b>	<b>0</b>		<b>0</b>		<b>0</b>		<b>1,928,732</b>	<b>5.0%</b>	<b>5,082,739</b>	<b>13.5%</b>
<b>Total of All Assets</b>	<b>40,353,306</b>	<b>100.0%</b>	<b>36,200,435</b>	<b>100.0%</b>	<b>36,721,889</b>	<b>100.0%</b>	<b>40,379,892</b>	<b>105.0%</b>	<b>42,603,990</b>	<b>113.5%</b>
<b>LIABILITIES</b>										
Accounts Payable	771,134	1.9%	802,968	2.2%	975,154	2.7%	941,060	2.4%	877,797	2.3%
Accrued Liabilities and Other	1,664,976	4.1%	2,108,840	5.8%	1,500,700	4.1%	2,063,277	5.4%	3,067,380	8.2%
Accrued Compensated Absences	1,974,567	4.9%	2,177,120	6.0%	2,273,086	6.2%	2,404,056	6.3%	2,488,852	6.6%
Current Portion of Other Long-Term Liabilities							20,725	0.1%	20,725	0.1%
Current Portion of Debt	180,000	0.4%	105,000	0.3%	56,041	0.2%				
Due From Other Funds							10,698			
<b>Total Current Liabilities</b>	<b>4,590,677</b>	<b>11.4%</b>	<b>5,193,928</b>	<b>14.3%</b>	<b>4,804,981</b>	<b>13.1%</b>	<b>5,439,816</b>	<b>14.1%</b>	<b>6,454,754</b>	<b>17.2%</b>
<b>Noncurrent Liabilities</b>										
Net Pension Liability							23,470,069	61.0%	31,413,325	83.7%
Debt, Long-Term Portion	191,250	0.5%	77,750	0.2%	64,200	0.2%	20,725	0.1%		
<b>Total Long Term Liabilities</b>	<b>191,250</b>	<b>0.5%</b>	<b>77,750</b>	<b>0.2%</b>	<b>64,200</b>	<b>0.2%</b>	<b>23,490,794</b>	<b>61.1%</b>	<b>31,413,325</b>	<b>83.7%</b>
<b>Total Liabilities</b>	<b>4,781,927</b>	<b>11.9%</b>	<b>5,271,678</b>	<b>14.6%</b>	<b>4,869,181</b>	<b>13.3%</b>	<b>28,930,610</b>	<b>75.2%</b>	<b>37,868,079</b>	<b>100.9%</b>
Deferred Inflow of Pension Liability							4,634,892	12.1%		
<b>Total Deferred Inflows of Resources</b>	<b>0</b>		<b>0</b>		<b>0</b>		<b>4,634,892</b>	<b>12.1%</b>	<b>0</b>	
<b>Net Position:</b>										
Net Investment in Capital Assets	23,253,070	57.6%	22,494,323	62.1%	21,752,779	59.2%	21,480,075	55.9%	20,635,856	55.0%
<b>Unrestricted</b>	<b>12,318,309</b>	<b>30.5%</b>	<b>8,434,434</b>	<b>23.3%</b>	<b>10,099,929</b>	<b>27.5%</b>	<b>(14,665,685)</b>	<b>-38.1%</b>	<b>(15,899,945)</b>	<b>-42.4%</b>
<b>Total Net Assets</b>	<b>35,571,379</b>	<b>88.1%</b>	<b>30,928,757</b>	<b>85.4%</b>	<b>31,852,708</b>	<b>86.7%</b>	<b>6,814,390</b>	<b>17.7%</b>	<b>4,735,911</b>	<b>12.6%</b>
<b>Total Liabilities and Fund Balance</b>	<b>40,353,306</b>	<b>100.0%</b>	<b>36,200,435</b>	<b>100.0%</b>	<b>36,721,889</b>	<b>100.0%</b>	<b>40,379,892</b>	<b>105.0%</b>	<b>42,603,990</b>	<b>113.5%</b>

The Total Current Assets remained steady in this five-year period, ending with a 2.5% increase. The Accounts Receivable increased by 112%, 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 expenditures in 2016 by more than \$5 million.

Total Current Liabilities increased 40.6% over the five year period, primarily due to an 84.2% increase of the line item Accrued Liabilities and Other and a 30.7% increase in Accrued Compensated Absences.

Total Long Term Liabilities increased by over \$31 million in this five year period. This is attributed to the \$31,413,325 increase in Net Pension Liability. This new liability is due to the District mandatory compliance with GASB Statement No. 68 and No. 71.

Deferred Inflow of Pension Liability became a new line item in FY 2015 with an amount of \$4,634,892 (staff noted no additional adjustment was made to this line item in 2016). This expenditure also is to comply with GASB 68.

Total Net Assets decreased by 86.7% over the five year period starting at \$35,571,379 in FY 2012 and dropping to \$4,735,911 in FY 2016. This decrease is primarily attributed to the before mentioned Net Pension Liability in the amount of \$31,413,325. Unrestricted (Assets) decreased in this period reviewed by 229.1%, resulting in a negative balance of (15,899,945) in FY 2016; this is also attributed to the addition of the Net Pension Liability, introduced in 2015, for \$31.4 million.

Total Liabilities and Fund Balance increased by 5.6% over the five year period from \$40,353,306 in FY 2012 to \$42,603,990 in FY 2016.

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	2012		2013		2014		2015		2016	
	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%	Audit Fin Stmt	%
Source:										
% Change		2%		6%		7%		3%		N/A
<b>Charges for Sales and Services</b>										
Food and Beverage	\$19,293,523	29.3%	\$19,970,919	29.8%	\$22,302,706	31.6%	\$23,147,428	30.7%	\$23,211,411	30.0%
Concessions/Carnivals	\$16,404,469	24.9%	\$16,415,349	24.5%	\$17,294,983	24.5%	\$18,494,593	24.6%	\$19,505,714	25.2%
Admissions	\$9,364,390	14.2%	\$9,951,335	14.9%	\$9,798,251	13.9%	\$10,360,591	13.8%	\$10,899,313	14.1%
Facility Rentals	\$6,489,026	9.9%	\$6,452,937	9.6%	\$6,592,613	9.3%	\$7,751,446	10.3%	\$7,390,969	9.6%
Satellite Wagering	\$1,998,700	3.0%	\$1,968,459	2.9%	\$1,874,132	2.7%	\$1,670,999	2.2%	\$1,592,044	2.1%
Parking	\$4,641,661	7.1%	\$4,457,720	6.7%	\$4,325,464	6.1%	\$4,366,233	5.8%	\$4,417,741	5.7%
Leases/Operating Agreement	\$1,109,115	1.7%	\$1,126,142	1.7%	\$1,571,011	2.2%	\$1,682,114	2.2%	\$1,776,758	2.3%
Surf and Turf	\$1,496,345	2.3%	\$1,579,801	2.4%	\$1,521,708	2.2%	\$1,538,296	2.0%	\$1,468,812	1.9%
Sponsorships	\$2,375,605	3.6%	\$2,511,991	3.8%	\$2,535,450	3.6%	\$2,930,654	3.9%	\$2,792,070	3.6%
Other	\$2,665,550	4.0%	\$2,492,820	3.7%	\$2,872,268	4.1%	\$3,355,161	4.5%	\$4,279,782	5.5%
<b>Total Operating Revenues</b>	<b>\$65,838,384</b>	<b>100.0%</b>	<b>\$66,927,473</b>	<b>100.0%</b>	<b>\$70,688,586</b>	<b>100.0%</b>	<b>\$75,297,515</b>	<b>100.0%</b>	<b>\$77,334,614</b>	<b>100.0%</b>
<b>Operating Expenses</b>										
Payroll Related and Benefits	\$19,884,846	30.2%	\$20,629,604	30.8%	\$21,787,922	30.8%	\$22,783,094	30.3%	\$24,605,260	31.8%
Food and Beverage	\$13,640,417	20.7%	\$14,290,926	21.4%	\$15,759,203	22.3%	\$16,493,460	21.9%	\$16,967,680	21.9%
Entertainment	\$8,670,421	13.2%	\$9,108,559	13.6%	\$8,695,556	12.3%	\$9,133,859	12.1%	\$9,986,158	12.9%
Maintenance	\$6,222,677	9.5%	\$6,402,582	9.6%	\$6,530,758	9.2%	\$7,095,274	9.4%	\$7,189,660	9.3%
Facilities and Related Supplies					\$2,484,603	3.5%	\$2,572,945	3.4%	\$2,776,582	3.6%
Insurance					\$1,019,161	1.4%	\$1,154,181	1.5%	\$1,276,467	1.7%
Administrative	\$4,625,959	7.0%	\$4,976,939	7.4%						
Depreciation	\$1,412,793	2.1%	\$1,379,066	2.1%	\$1,377,845	1.9%	\$1,383,778	1.8%	\$1,465,043	1.9%
Professional Services	\$4,261,199	6.5%	\$4,481,979	6.7%	\$4,700,757	6.6%	\$5,216,424	6.9%	\$5,425,644	7.0%
Marketing	\$2,041,766	3.1%	\$2,048,155	3.1%	\$2,065,851	2.9%	\$2,117,228	2.8%	\$1,840,700	2.4%
Other	\$426,555	0.6%	\$480,666	0.7%	\$2,080,540	2.9%	\$2,232,536	3.0%	\$2,444,475	3.2%
<b>Total Operating Expenses</b>	<b>\$61,186,633</b>	<b>92.9%</b>	<b>\$63,798,476</b>	<b>95.3%</b>	<b>\$66,502,196</b>	<b>94.1%</b>	<b>\$70,182,779</b>	<b>93.2%</b>	<b>\$73,977,669</b>	<b>95.7%</b>
<b>Operating Income (Loss)</b>	<b>\$4,651,751</b>	<b>7.1%</b>	<b>\$3,128,997</b>	<b>4.7%</b>	<b>\$4,186,390</b>	<b>5.9%</b>	<b>\$5,114,736</b>	<b>6.8%</b>	<b>\$3,356,945</b>	<b>4.3%</b>
<b>Nonoperating Revenues (Expenses)</b>										
Interest Earnings	\$49,436	0.1%	\$36,444	0.1%	\$28,290	0.0%	\$44,747	0.1%	\$89,129	0.1%
Interest Expenses	(\$8,865)	0.0%	(\$3,288)	0.0%	(\$2,678)	0.0%	(\$987)	0.0%		
Other					\$6,736	0.0%	\$800	0.0%	(\$593)	0.0%
<b>Net Non-operating Revenues (Expenses)</b>	<b>\$40,571</b>	<b>0.1%</b>	<b>\$33,156</b>	<b>0.0%</b>	<b>\$32,348</b>	<b>0.0%</b>	<b>\$44,560</b>	<b>0.1%</b>	<b>\$88,536</b>	<b>0.1%</b>
<b>Income (Loss Before Operating Transfers)</b>	<b>\$4,692,322</b>	<b>7.1%</b>	<b>\$3,162,153</b>	<b>4.7%</b>	<b>\$4,218,738</b>	<b>6.0%</b>	<b>\$5,159,296</b>	<b>6.9%</b>	<b>\$3,445,481</b>	<b>4.5%</b>
<b>Capital Contributions and Transfers</b>										
Transfer Out	(\$3,306,819)		(\$7,438,265)		(\$3,294,787)		(\$3,866,247)		(\$5,523,960)	
Other	(\$75,830)		(\$1,723)							
<b>Total Contributions and Transfers</b>	<b>(\$3,382,649)</b>		<b>(\$7,439,988)</b>		<b>(\$3,294,787)</b>		<b>(\$3,866,247)</b>		<b>(\$5,523,960)</b>	
<b>Increase (decrease) in Net Position</b>	<b>\$1,309,673</b>		<b>(\$4,277,835)</b>		<b>\$923,951</b>		<b>\$1,293,049</b>		<b>(\$2,078,479)</b>	
Beginning Net Assets	34,261,706		35,206,592		30,928,757		5,521,341		6,814,390	
Prior Period Adjustment (=/-)	(364,787)				(26,331,367)					
<b>Ending Net Assets</b>	<b>\$35,206,592</b>		<b>\$30,928,757</b>		<b>\$31,852,708</b>		<b>\$6,814,390</b>		<b>\$4,735,911</b>	

The Total Operating Revenues increased by 17.5% over the five years reviewed from \$65,838,384 in FY 2012 to \$77,334,614 in FY 2016. Seven of the ten revenue sources report consistent increases over the last five years. The three revenues streams reflecting a decrease between FY 2012 and FY 2016 are: 1) Satellite Wagering with a decrease of 20.3%, 2) Parking with a decrease of less than 4.8% (Parking experienced an annual increased in FY 2016 by 1.2%), and 3) Surf and Turf with a small decrease of 1.8%. As mentioned earlier the Satellite Wagering diminishing revenues are the motivation for this transaction, see [Project Background](#).

Total Operating Expenses increased by 20.9% in the five years reviewed, from \$61,186,633 in FY 2012 to \$73,977,669 in FY 2016, as every expenditure line item increased annually. The line item, Other, grew at a faster pace than other expenditures, it increased from \$426,555 in FY 2012, to \$2,444,475 in FY 2016. 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 for 2015 and 2016 exceeded \$2 million for each year. The project is anticipated to be completed in 2021. IBank will finance a portion of this environmental remediation work, as discussed in the Project Components Section of this Staff Report.

Another change to the revenue statement beginning in FY 2014, the District began 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 small increases year over year.

Transfer Out fluctuated over the five years reviewed with an overall increase of 59.9% from \$3,306,819 in FY 2012 to \$5,523,960 in FY 2016. The largest Transfer Out occurred in FY 2013 for \$7,438,265. The Transfer Out went to the RTA to contribute capital for approved capital projects. *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 86.5% over the five years reviewed from \$35,206,592 in FY 2012 to \$4,735,911 in FY 2016. 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.

#### **Compensating factors not accounted for in the Revenue Sources:**

The District anticipates it will receive additional Operating Income from the Concert Venue. The projections estimate \$1.4 to 2 million per year in additional net revenue. The *Marketing Analysis* research indicates the average ticket price for a concert at this Venue size is \$74.25. The District has selected a lower price point of \$45.00 per ticket to drive up admission.

The District would consider additional strategies (listed below) to increase revenues beyond the stated estimates:

- Renting space for events other than the core functionality, such as corporate events, weddings, conferences
- Offer pre-show and post-show events, such as opening acts or exhibitions
- Use of multi-purpose design to host multiple types of events simultaneously, such as trade-shows, workshops, private parties; for example having a corporate event on the balcony and a trade show in the outdoor beer garden at the same time.



**Analysis of District Projections Without the Concert Revenues and Expenses for FY 2017 – 2023 are as follows:**

<b>22ND DISTRICT AGRICULTURAL ASSOCIATION</b>																
<b>STATEMENT OF REVENUES &amp; EXPENSES</b>																
<b>PROJECTIONS - Without the Concert Revenue and Expenses</b>																
<b>COMPARATIVE PROJECTIONS</b>																
<b>ACTUAL</b>	<b>2016</b>		<b>2017</b>		<b>2018</b>		<b>2019</b>		<b>2020</b>		<b>2021</b>		<b>2022</b>		<b>2023</b>	
<b>For Fiscal Year Ending (FYE) December 31</b>	<b>Audit Fin Stmt</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>	<b>Projection</b>	<b>%</b>
<b>Source:</b>																
<b>% Change</b>		<b>4%</b>		<b>3%</b>		<b>3%</b>		<b>3%</b>		<b>4%</b>		<b>4%</b>		<b>4%</b>		<b>-100%</b>
<b>Charges for Sales and Services</b>																
Food and Beverage	\$23,211,411	30.0%	\$24,139,867	30.2%	\$25,105,462	30.4%	\$26,109,681	30.8%	\$27,154,068	30.0%	\$28,240,231	30.2%	\$29,369,840	30.4%	\$30,544,633	30.5%
Concessions/Carnivals	\$19,505,714	25.2%	\$20,285,943	25.3%	\$21,097,380	25.5%	\$21,941,275	24.5%	\$22,818,926	25.2%	\$23,731,684	25.3%	\$24,680,951	25.5%	\$25,668,189	25.7%
Admissions	\$10,899,313	14.1%	\$11,335,286	14.2%	\$11,788,697	14.3%	\$12,260,245	13.7%	\$12,750,655	14.1%	\$13,260,681	14.2%	\$13,791,108	14.3%	\$14,342,752	14.3%
Facility Rentals	\$7,390,969	9.6%	\$7,612,698	9.5%	\$7,841,079	9.5%	\$8,076,311	10.3%	\$8,318,601	9.6%	\$8,568,159	9.5%	\$8,825,204	9.5%	\$9,089,960	9.4%
Satellite Wagering	\$1,592,044	2.1%	\$1,432,840	1.8%	\$1,289,556	1.6%	\$1,160,600	2.2%	\$1,044,540	2.1%	\$940,086	1.8%	\$846,077	12.2%	\$761,470	10.6%
Parking	\$4,417,741	5.7%	\$4,506,096	5.6%	\$4,596,218	5.6%	\$4,688,142	5.8%	\$4,781,905	5.7%	\$4,877,543	5.6%	\$4,975,094	5.6%	\$5,074,596	5.5%
Leases/Operating Agreement	\$1,776,758	2.3%	\$1,954,434	2.4%	\$1,884,963	2.3%	\$1,941,511	2.2%	\$1,999,757	2.3%	\$2,059,749	2.4%	\$2,121,542	2.3%	\$2,185,188	2.3%
Surf and Turf	\$1,468,812	1.9%	\$1,439,436	1.8%	\$1,410,647	1.7%	\$1,382,434	2.0%	\$1,354,785	1.9%	\$1,327,690	1.8%	\$1,301,136	1.7%	\$1,275,113	1.6%
Sponsorships	\$2,792,070	3.6%	\$2,847,911	3.6%	\$2,904,870	3.5%	\$2,962,967	3.9%	\$3,022,226	3.6%	\$3,082,671	3.6%	\$3,144,324	3.5%	\$3,207,211	3.5%
Other	\$4,279,782	5.5%	\$4,493,771	5.6%	\$4,718,460	5.7%	\$4,954,383	4.5%	\$5,202,102	5.5%	\$5,462,207	5.6%	\$5,735,317	5.7%	\$6,022,083	5.8%
<b>Total Operating Revenues</b>	<b>\$77,334,614</b>	<b>100.0%</b>	<b>\$80,048,281</b>	<b>100.0%</b>	<b>\$82,637,331</b>	<b>100.0%</b>	<b>\$85,477,550</b>	<b>100.0%</b>	<b>\$88,447,565</b>	<b>100.0%</b>	<b>\$91,550,700</b>	<b>100.0%</b>	<b>\$94,790,593</b>	<b>100.0%</b>	<b>\$98,171,195</b>	<b>100.0%</b>
<b>Operating Expenses</b>																
Payroll Related and Benefits	\$24,605,260	31.8%	\$25,343,418	31.7%	\$26,103,720	31.6%	\$26,886,832	30.2%	\$27,693,437	31.8%	\$28,524,240	31.7%	\$29,379,967	31.6%	\$30,261,366	31.5%
Food and Beverage	\$16,967,680	21.9%	\$17,476,710	21.8%	\$18,001,012	21.8%	\$18,541,042	22.5%	\$19,097,273	21.9%	\$19,670,192	21.8%	\$20,260,297	21.8%	\$20,868,106	21.7%
Entertainment	\$9,986,158	12.9%	\$10,285,743	12.8%	\$10,594,315	12.8%	\$10,912,144	12.1%	\$11,239,509	12.9%	\$11,576,694	12.8%	\$11,923,995	12.8%	\$12,281,715	12.8%
Maintenance	\$7,189,660	9.3%	\$7,405,350	9.3%	\$7,627,510	9.2%	\$7,856,336	9.4%	\$8,092,026	9.3%	\$8,334,786	9.3%	\$8,584,830	9.2%	\$8,842,375	9.2%
Facilities and Related Supplies	\$2,776,582	3.6%	\$2,859,879	3.6%	\$2,945,676	3.6%	\$3,034,046	3.4%	\$3,125,068	3.6%	\$3,218,820	3.6%	\$3,315,384	3.6%	\$3,414,846	3.5%
Insurance	\$1,276,467	1.7%	\$1,327,526	1.7%	\$1,380,627	1.7%	\$1,435,852	1.5%	\$1,493,286	1.7%	\$1,553,017	1.7%	\$1,615,138	1.7%	\$1,679,743	1.7%
Depreciation	\$1,465,043	1.9%	\$1,479,693	1.8%	\$1,509,287	1.8%	\$2,295,306	1.8%	\$2,249,400	1.9%	\$2,204,412	1.8%	\$2,160,324	1.8%	\$2,117,117	2.7%
Professional Services	\$5,425,644	7.0%	\$5,534,157	6.9%	\$5,644,840	6.8%	\$5,757,737	6.9%	\$5,872,892	7.0%	\$5,990,349	6.9%	\$6,110,156	6.8%	\$6,232,360	6.7%
Marketing	\$1,840,700	2.4%	\$1,895,921	2.4%	\$1,952,799	2.4%	\$2,011,383	2.4%	\$2,071,724	2.3%	\$2,133,876	2.3%	\$2,197,892	2.3%	\$2,263,829	2.3%
Other	\$2,444,475	3.2%	\$2,493,365	3.1%	\$2,543,232	3.1%	\$2,594,096	3.0%	\$2,645,978	3.0%	\$2,698,898	2.9%	\$2,752,876	2.9%	\$2,807,933	2.9%
<b>Total Operating Expenses</b>	<b>\$73,977,669</b>	<b>95.7%</b>	<b>\$76,101,762</b>	<b>95.1%</b>	<b>\$78,303,018</b>	<b>94.8%</b>	<b>\$81,324,774</b>	<b>93.8%</b>	<b>\$83,580,592</b>	<b>95.7%</b>	<b>\$85,905,284</b>	<b>95.1%</b>	<b>\$88,300,859</b>	<b>94.8%</b>	<b>\$90,769,390</b>	<b>95.1%</b>
<b>Operating Income (Loss)</b>	<b>\$3,356,945</b>	<b>4.3%</b>	<b>\$3,946,519</b>	<b>4.9%</b>	<b>\$4,334,313</b>	<b>5.2%</b>	<b>\$4,152,776</b>	<b>6.2%</b>	<b>\$4,866,973</b>	<b>4.3%</b>	<b>\$5,645,416</b>	<b>4.9%</b>	<b>\$6,489,733</b>	<b>5.2%</b>	<b>\$7,401,805</b>	<b>4.9%</b>
<b>Nonoperating Revenues (Expenses)</b>																
Interest Earnings	\$89,129	0.1%	\$88,238	0.1%	\$87,355	0.1%	\$86,482	0.1%	\$85,617	0.1%	\$84,761	0.1%	\$83,913	0.1%	\$83,074	0.1%
<b>Net Non-operating Revenues (Expenses)</b>	<b>\$88,536</b>	<b>0.1%</b>	<b>\$88,238</b>	<b>0.1%</b>	<b>\$87,355</b>	<b>0.1%</b>	<b>\$86,482</b>	<b>0.1%</b>	<b>\$85,617</b>	<b>0.1%</b>	<b>\$84,761</b>	<b>0.1%</b>	<b>\$83,913</b>	<b>0.1%</b>	<b>\$83,074</b>	<b>0.1%</b>
<b>Income (Loss Before Operating Transfers)</b>	<b>\$3,445,481</b>	<b>4.5%</b>	<b>\$4,034,757</b>	<b>5.0%</b>	<b>\$4,421,668</b>	<b>5.4%</b>	<b>\$4,239,258</b>	<b>6.4%</b>	<b>\$4,952,590</b>	<b>4.5%</b>	<b>\$5,730,177</b>	<b>5.0%</b>	<b>\$6,573,647</b>	<b>5.4%</b>	<b>\$7,484,879</b>	<b>5.0%</b>

**District Projections Without the Concert Revenues and Expenses**

The projections are based upon historical analysis of the 22<sup>nd</sup> DAA Enterprise Fund. Staff observed the Total Operating Revenues and Total Operating Expenses have consistently increased year over year from FY 2012. The District completed projections for FYs 2017 – 2023, which are consistent with historical revenues and expenses annual changes.

Charges for Sales and Services revenue source line items are projected to increase between 2% to 5% per each revenue source, per year.

Two revenue line items, Satellite Wagering and Surf and Turf, are projected to decrease. The District has projected Satellite Wagering revenues to decrease by 10% per year, although over the past five year’s analysis this revenue has only decreased 5% per year. The District has also projected a 2% decrease of for Surf and Turf.

Although Parking revenues have decreased recently, the revenues are being projected to increase by 2%, due to the additional events planned to be held at the District.

All other revenue sources are projected conservatively, based upon historical revenues, as indicated in the below table:

<b>Projections Increase (Decrease) Per Year</b>		
<b>Charges for Sales and Services</b>	<b>Historical</b>	<b>Projected</b>
Food and Beverage	5%	4%
Concessions/Carnivals	5%	4%
Admissions	4%	4%
Facility Rentals	3%	3%
Satellite Wagering	(-5%)	(-10%)
Parking	(-1%)	2%
Leases/Operating Agreement	15%	3%
Surf and Turf	0%	(-2%)
Sponsorships revenues	4%	2%
Other revenues	15%	5%

Operating Expenses are projected to increase between 2% to 4% per each Operating Expense line item, per year.

The District is projecting the Payroll Related and Benefits, Food and Beverage, Entertainment, Maintenance and Facilities and Related Supplies to increase 3% per year. Depreciation is projected to decrease by 2% per year.

Historically, Marketing has decreased 2% annually, however, this line item is being projected to increase by 3% per year, as the District plans to increase marketing directly associated with the new Concert Venue.

All other Operating Expenses line items have been projected conservatively, based upon District analysis, as indicated in the below table:

## Projections Increase (Decrease) Per Year

Operating Expenses	Historical	Projected
Payroll Related and Benefits	6%	3%
Food and Beverage	6%	3%
Entertainment	4%	3%
Maintenance	4%	3%
Facilities and Related Supplies	5%	3%
Insurance	13%	4%
Depreciation	1%	(-2%)
Professional Services	7%	2%
Marketing	(-2%)	3%
Other	8%	2%

**Analysis of District Projections With the Concert Revenues and Expenses for FY 2017 – 2023 are as follows:**

22ND DISTRICT AGRICULTURAL ASSOCIATION STATEMENT OF REVENUES & EXPENSES PROJECTIONS - With the Concert Revenue and Expenses																
ACTUAL	COMPARATIVE PROJECTIONS															
For Fiscal Year Ending (FYE) December 31	2016		2017		2018		2019		2020		2021		2022		2023	
Source:	Audit Fin Stmt	%	Projection	%	Projection	%	Projection	%	Projection	%	Projection	%	Projection	%	Projection	%
% Change		4%		3%		10%		3%		3%		3%		3%		NA
<b>Charges for Sales and Services</b>																
Food and Beverage	\$23,211,411	30.0%	\$24,139,867	30.2%	\$25,105,462	30.4%	\$26,109,681	30.8%	\$27,154,068	30.0%	\$28,240,231	30.2%	\$29,369,840	30.4%	\$30,544,633	28.6%
Concessions/Carnivals	\$19,505,714	25.2%	\$20,285,943	25.3%	\$21,097,380	25.5%	\$21,941,275	24.5%	\$22,818,926	25.2%	\$23,731,684	25.3%	\$24,680,951	25.5%	\$25,668,189	24.1%
Admissions	\$10,899,313	14.1%	\$11,335,286	14.2%	\$11,788,697	14.3%	\$12,260,245	13.7%	\$12,750,655	14.1%	\$13,260,681	14.2%	\$13,791,108	14.3%	\$14,342,752	13.4%
Facility Rentals	\$7,390,969	9.6%	\$7,612,698	9.5%	\$7,841,079	9.5%	\$8,076,311	10.3%	\$8,318,601	9.6%	\$8,568,159	9.5%	\$8,825,204	9.5%	\$9,089,960	8.9%
Satellite Wagering	\$1,592,044	2.1%	\$1,432,840	1.8%	\$1,289,556	1.6%	\$1,160,600	2.2%	\$1,044,540	2.1%	\$940,086	1.8%	\$846,077	1.6%	\$761,470	1.3%
Parking	\$4,417,741	5.7%	\$4,506,096	5.6%	\$4,596,218	5.6%	\$4,688,142	5.8%	\$4,781,905	5.7%	\$4,877,543	5.6%	\$4,975,094	5.6%	\$5,074,596	5.1%
Leases/Operating Agreement	\$1,776,758	2.3%	\$1,954,434	2.4%	\$1,884,963	2.3%	\$1,941,511	2.2%	\$1,999,757	2.3%	\$2,059,749	2.4%	\$2,121,542	2.3%	\$2,185,188	2.1%
Surf and Turf	\$1,468,812	1.9%	\$1,439,436	1.8%	\$1,410,647	1.7%	\$1,382,434	2.0%	\$1,354,785	1.9%	\$1,327,690	1.8%	\$1,301,136	1.7%	\$1,275,113	1.5%
Sponsorships	\$2,792,070	3.6%	\$2,847,911	3.6%	\$2,904,870	3.5%	\$2,962,967	3.9%	\$3,022,226	3.6%	\$3,082,671	3.6%	\$3,144,324	3.5%	\$3,207,211	3.2%
Other	\$4,279,782	5.5%	\$4,493,771	5.6%	\$4,718,460	5.7%	\$4,954,383	4.5%	\$5,202,102	5.5%	\$5,462,207	5.6%	\$5,735,317	5.7%	\$6,022,083	5.4%
Concert Venue Revenue - (60 Shows per Year) <sup>1</sup>							\$5,253,722	5.8%	\$5,253,722	5.6%	\$5,253,722	5.4%	\$5,253,722	5.2%	\$5,253,722	5.1%
Year Round Food & Beverage Net - (60 Shows per Year) <sup>1</sup>							\$471,000	0.5%	\$471,000	0.5%	\$471,000	0.5%	\$471,000	0.5%	\$471,000	0.5%
<b>Total Operating Revenues</b>	<b>\$77,334,614</b>	<b>100.0%</b>	<b>\$80,048,281</b>	<b>100.0%</b>	<b>\$82,637,331</b>	<b>100.0%</b>	<b>\$91,202,272</b>	<b>100.0%</b>	<b>\$94,172,287</b>	<b>100.0%</b>	<b>\$97,275,422</b>	<b>100.0%</b>	<b>\$100,515,315</b>	<b>100.0%</b>	<b>\$103,895,917</b>	<b>100.0%</b>
<b>Operating Expenses</b>																
Payroll Related and Benefits	\$24,605,260	31.8%	\$25,343,418	31.7%	\$26,103,720	31.6%	\$26,886,832	30.2%	\$27,693,437	31.8%	\$28,524,240	31.7%	\$29,379,967	31.6%	\$30,261,366	29.5%
Food and Beverage	\$16,967,680	21.9%	\$17,476,710	21.8%	\$18,001,012	21.8%	\$18,541,042	22.5%	\$19,097,273	21.9%	\$19,670,192	21.8%	\$20,260,297	21.8%	\$20,868,106	20.3%
Entertainment	\$9,986,158	12.9%	\$10,285,743	12.8%	\$10,594,315	12.8%	\$10,912,144	12.1%	\$11,239,509	12.9%	\$11,576,694	12.8%	\$11,923,995	12.8%	\$12,281,715	12.0%
Maintenance	\$7,189,660	9.3%	\$7,405,350	9.3%	\$7,627,510	9.2%	\$7,856,336	9.4%	\$8,092,026	9.3%	\$8,334,786	9.3%	\$8,584,830	9.2%	\$8,842,375	8.6%
Facilities and Related Supplies	\$2,776,582	3.6%	\$2,859,879	3.6%	\$2,945,676	3.6%	\$3,034,046	3.4%	\$3,125,068	3.6%	\$3,218,820	3.6%	\$3,315,384	3.6%	\$3,414,846	3.3%
Insurance	\$1,276,467	1.7%	\$1,327,526	1.7%	\$1,380,627	1.7%	\$1,435,852	1.5%	\$1,493,286	1.7%	\$1,553,017	1.7%	\$1,615,138	1.7%	\$1,679,743	1.6%
Depreciation	\$1,465,043	1.9%	\$1,479,693	1.8%	\$1,509,287	1.8%	\$2,295,306	1.8%	\$2,249,400	1.9%	\$2,204,412	1.8%	\$2,160,324	1.8%	\$2,117,117	2.5%
Professional Services	\$5,425,644	7.0%	\$5,534,157	6.9%	\$5,644,840	6.8%	\$5,757,737	6.9%	\$5,872,892	7.0%	\$5,990,349	6.9%	\$6,110,156	6.8%	\$6,232,360	6.3%
Marketing	\$1,840,700	2.4%	\$1,895,921	2.4%	\$1,952,799	2.4%	\$2,011,383	2.2%	\$2,071,724	2.2%	\$2,133,876	2.2%	\$2,197,892	2.2%	\$2,263,829	2.2%
Other	\$2,444,475	3.2%	\$2,493,365	3.1%	\$2,543,232	3.1%	\$2,594,096	2.8%	\$2,645,978	2.8%	\$2,698,898	2.8%	\$2,752,876	2.7%	\$2,807,933	2.7%
Concert Venue Expenses - (60 Shows per Year) <sup>1</sup>							\$3,320,640	3.6%	\$3,320,640	3.5%	\$3,320,640	3.4%	\$3,320,640	3.3%	\$3,320,640	3.2%
Concert Venue Depreciation (Added Back 5% per year) <sup>1</sup>							(\$755,833)	-0.8%	(\$755,833)	-0.8%	(\$755,833)	-0.8%	(\$755,833)	-0.8%	(\$755,833)	-0.7%
<b>Total Operating Expenses</b>	<b>\$73,977,669</b>	<b>95.7%</b>	<b>\$76,101,762</b>	<b>95.1%</b>	<b>\$78,303,018</b>	<b>94.8%</b>	<b>\$83,889,581</b>	<b>93.8%</b>	<b>\$86,145,399</b>	<b>95.7%</b>	<b>\$88,470,091</b>	<b>95.1%</b>	<b>\$90,865,666</b>	<b>94.8%</b>	<b>\$93,334,197</b>	<b>92.0%</b>
<b>Operating Income (Loss)</b>	<b>\$3,356,945</b>	<b>4.3%</b>	<b>\$3,946,519</b>	<b>4.9%</b>	<b>\$4,334,313</b>	<b>5.2%</b>	<b>\$7,312,691</b>	<b>6.2%</b>	<b>\$8,026,888</b>	<b>4.3%</b>	<b>\$8,805,331</b>	<b>4.9%</b>	<b>\$9,649,648</b>	<b>5.2%</b>	<b>\$10,561,720</b>	<b>8.0%</b>
<b>Nonoperating Revenues (Expenses)</b>																
Interest Earnings	\$89,129	0.1%	\$88,238	0.1%	\$87,355	0.1%	\$86,482	0.1%	\$85,617	0.1%	\$84,761	0.1%	\$83,913	0.1%	\$83,074	0.1%
<b>Net Non-operating Revenues (Expenses)</b>	<b>\$88,536</b>	<b>0.1%</b>	<b>\$88,238</b>	<b>0.1%</b>	<b>\$87,355</b>	<b>0.1%</b>	<b>\$86,482</b>	<b>0.1%</b>	<b>\$85,617</b>	<b>0.1%</b>	<b>\$84,761</b>	<b>0.1%</b>	<b>\$83,913</b>	<b>0.1%</b>	<b>\$83,074</b>	<b>0.1%</b>
<b>Income (Loss Before Operating Transfers)</b>	<b>\$3,445,481</b>	<b>4.5%</b>	<b>\$4,034,757</b>	<b>5.0%</b>	<b>\$4,421,668</b>	<b>5.4%</b>	<b>\$7,399,173</b>	<b>6.4%</b>	<b>\$8,112,505</b>	<b>4.5%</b>	<b>\$8,890,092</b>	<b>5.0%</b>	<b>\$9,733,562</b>	<b>5.4%</b>	<b>\$10,644,794</b>	<b>8.1%</b>

<sup>1</sup> Projections based upon 22nd DAA - SSSRP Repurposing Project

## District Projections With the Concert Revenues

The District Projections With the Concert Revenues & Expenses are identical to the previous Projections Without the Concert Revenues & Expenses with these following exceptions.

The District added two new revenue sources, the Concert Venue Revenue and Year Round Food and Beverage Net. The projections are based upon the assumption of 60 shows per year beginning in FY 2019. The District has projected a price point of \$45.00 per ticket with a 75% attendance at sixty shows per year, for \$5,253,722 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 Year Round Food & Beverage Net per show is projected at \$471,000 per year starting in FY 2019.

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 sixty shows per year, Concert Venue Expenses would be \$3,320,640 starting in FY 2019. Concert Venue Depreciation would also begin in FY 2019, of which (\$755,833) has been added back.

Both sets of projections have been deemed appropriate and reasonable by IBank.

## 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, 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.

## IBank Pledged Revenues Cash Flow and Debt Service Analysis

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

<b>CASH FLOW - Historical</b>					
<b>For Fiscal Year Ending (FYE) December 31</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Income (Loss Before Operating Transfers)	\$4,692,322	\$3,162,153	\$4,218,738	\$5,159,296	\$3,445,481
<b>Transaction Specific Adjustments</b>					
+ Depreciation	1,412,793	1,379,066	1,377,845	1,383,778	1,465,043
+ Interest Earnings	49,436	36,444	28,290	44,747	89,129
+ Design Cost for the Concert Venue					1,286,000
- 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)
<b>Total of all Adjustments</b>	<b>(2,537,771)</b>	<b>(2,584,490)</b>	<b>(2,593,865)</b>	<b>(2,571,475)</b>	<b>(1,159,828)</b>
<b>Debt Service Calculation</b>					
<b>Cash Available for Debt Service</b>	<b>2,154,551</b>	<b>577,663</b>	<b>1,624,873</b>	<b>2,587,821</b>	<b>2,285,653</b>
<b>Total Existing Debt Service MADS</b>	0	0	0	0	0
<b>Proposed IBank MADS<sup>(1)</sup></b>	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663
<b>Total Obligations MADS</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>	<b>\$1,288,663</b>
<b>Debt Service Coverage Ratio</b>	<b>1.67</b>	<b>0.45</b>	<b>1.26</b>	<b>2.01</b>	<b>1.77</b>

<sup>(1)</sup> Calculated as \$18,500,000 at 3.0% for 20 years.

Analysis of historical cash flow demonstrates the IBank Pledged Revenues have the ability to service the proposed Financing with a debt service coverage ratio (DSCR) of 1.26 or greater in four out of the five years reviewed. The following adjustments have been made to the Cash Flow<sup>4</sup>:

- Depreciation and Interest Earnings have been added back
- The first \$4,000,000 of Food and Beverage Net Revenues have been adjusted to account for the pledge to the 2015 Bonds
- \$1.2 million was added back in 2016 only. The District expensed funds for the design work of the new concert venue. This is an appropriate adjustment since this is a one-time expenses and it supports the subject transaction.

<sup>4</sup> The line item of Transfer Out, as seen in the Analysis of Comparative Statement of Revenues and Expenses of the District Table, was not considered within the cash flow and therefore, not deducted annually from Cash Available for Debt Service. These annual transfers, with a range of \$3.3 M to \$7.4 M, appears to be transferred for an accounting convenience and not out of necessity. All funds transferred are available to the District.

## Projected Cash Flows

Projected Cash Flows (with and without concert revenue and expenses) tables and debt service analysis for the 22<sup>nd</sup> District for the Financing are as follows:

PROJECTED CASH FLOW - Without the Concert Revenue & Expenses								
For Fiscal Year Ending December 31	2016	2017	2018	2019	2020	2021	2022	2023
Source:	Audit Fin Stmt	Projections	Projections	Projections	Projections	Projections	Projections	Projections
<b>Income (Loss Before Operating Transfers)</b>	\$3,445,481	\$ 4,034,757	\$4,421,668	\$4,239,258	\$4,952,590	\$5,730,177	\$6,573,647	\$7,484,879
<b>Transaction Specific Adjustments</b>								
+ Depreciation	1,465,043	1,479,693	1,509,287	\$2,295,306	\$2,249,400	\$2,204,412	\$2,160,324	\$2,117,117
+ Interest Earnings	\$89,129	\$88,238	\$87,355	\$86,482	\$85,617	\$84,761	\$83,913	\$83,074
+ Design Cost for the Concert Venue	\$1,286,000							
- 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)	(4,000,000)	(4,000,000)	(4,000,000)
<b>Total of all Adjustment</b>	<b>(1,159,828)</b>	<b>(2,432,069)</b>	<b>(2,403,357)</b>	<b>(1,618,212)</b>	<b>(1,664,983)</b>	<b>(1,710,827)</b>	<b>(1,755,763)</b>	<b>(1,799,809)</b>
<b>Debt Service Calculation</b>								
Cash Flow Available for Debt Service	\$2,285,653	\$1,602,688	\$2,018,311	\$2,621,045	\$3,287,607	\$4,019,349	\$4,817,884	\$5,685,070
Total Existing Debt Service MADS	0	0	0	0	0	0	0	0
Proposed IBank MADS <sup>1</sup>	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663
Total Obligations MADS	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663
Cash Flow Available after Annual Debt Service	\$996,990	\$314,025	\$729,648	\$1,332,382	\$1,998,944	\$2,730,686	\$3,529,220	\$4,396,407
Debt Service Coverage Ratio	1.77	1.24	1.57	2.03	2.55	3.12	3.74	4.41

<sup>1</sup> Calculated as \$18,500,000 at 3.0% for 20 years.

Analysis of projected cash flow Without the Concert Revenues and Expenses demonstrates the IBank Pledged Revenues have the ability to service the proposed Financing sufficient to meet the 1.30 debt service coverage ratio (DSCR) target six out of the seven years reviewed. Projected DSCR for 2017 is slightly below 1.30, however, this is due to the District self-funding Project costs. Had the District entered into the Financing in 2017 (instead of self-funding Project costs), the 2017 DSCR would have been approximately 2.02.

PROJECTED CASH FLOW - With the Concert Revenues and Expenses								
For Fiscal Year Ending December 31	2016	2017	2018	2019	2020	2021	2022	2023
Source:	Audit Fin Stmt	Projections	Projections	Projections	Projections	Projections	Projections	Projections
<b>Income (Loss Before Operating Transfers)</b>	\$3,445,481	\$ 4,034,757	\$4,421,668	\$7,399,173	\$8,112,505	\$8,890,092	\$9,733,562	\$10,644,794
<b>Transaction Specific Adjustments</b>								
+ Depreciation	1,465,043	1,479,693	1,509,287	\$2,295,306	\$2,249,400	\$2,204,412	\$2,160,324	\$2,117,117
+ Interest Earnings	\$89,129	\$88,238	\$87,355	\$86,482	\$85,617	\$84,761	\$83,913	\$83,074
+ Design Cost for the Concert Venue	\$1,286,000							
- 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)	(4,000,000)	(4,000,000)	(4,000,000)
<b>Total of all Adjustment</b>	<b>(1,159,828)</b>	<b>(2,432,069)</b>	<b>(2,403,357)</b>	<b>(1,618,212)</b>	<b>(1,664,983)</b>	<b>(1,710,827)</b>	<b>(1,755,763)</b>	<b>(1,799,809)</b>
<b>Debt Service Calculation</b>								
Cash Flow Available for Debt Service	\$2,285,653	\$1,602,688	\$2,018,311	\$5,780,960	\$6,447,522	\$7,179,264	\$7,977,799	\$8,844,985
Total Existing Debt Service MADS	0	0	0	0	0	0	0	0
Proposed IBank MADS <sup>1</sup>	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663	1,288,663
Total Obligations MADS	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663	\$1,288,663
Cash Flow Available after Annual Debt Service	\$996,990	\$314,025	\$729,648	\$4,492,297	\$5,158,859	\$5,890,601	\$6,689,135	\$7,556,322
Debt Service Coverage Ratio	1.77	1.24	1.57	4.49	5.00	5.57	6.19	6.86

<sup>1</sup> Calculated as \$18,500,000 at 3.0% for 20 years.

Analysis of projected cash flow With the Concert Revenues and Expenses demonstrates the IBank Pledged Revenues have the ability to service the proposed Financing with a debt service coverage ratio (DSCR) target of 1.30 six out of the seven years reviewed. The above table FYs 2017 and 2018 do not have Concert Venue Revenues and Expenses, as construction is not completed. As discussed above, 2017 DSCR is below 1.30 because the District was self-funding Project costs. Had the District entered into the Financing in 2017 its DSCR would have been approximately 2.02.

## Risk Factors

1. The Satellite Wagering revenues have been decreasing over the past 10 years.

2. Parking revenues (based on existing District events) have 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.
3. Competing events and venues can affect booking talent and artists.
4. Competition from other forms of entertainment could 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 in four out of five years reviewed (without the need for the new Concert Venue projected revenue).
2. Concert Venue Project allows the District to engage in existing core competencies, such as operating the Fair parking facilities and selling tickets.
3. Concert Venue Project enables the District to keep the Satellite Wagering facility on a reduced scale, to serve its existing customer base of 300 – 400 customers per day. Based purely on location, concertgoers may become new customers of the Satellite Wagering.
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. Parking revenues are likely to increase as new and additional activities, such as 60 annual concerts, add to the Fairgrounds events.
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**

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 exceeds the 20 year term of the Financing.

### **Criteria Waiver:**

Readiness and Feasibility: Due to the amount of time needed to complete the Environmental Remediation Project, the District requests a waiver of the Criteria requirement that construction be completed within two years after IBank's financing approval. The District is requesting 51 months from Financing Agreement closing to complete the environmental remediation parts of the projects. The District requests this extension since the testing and remediation protocols necessary to complete the Environmental Remediation Project will require up to 51 months to finish. IBank staff supports the District's requested Criteria waiver.



**Interest Rate Setting Demographics**

The interest rate for the proposed Financing was set, in part, based upon the following statistics obtained from the most recent data available in the 2011-2015 American Community Survey (5-year estimates).

<b>Unemployment Rate</b>	The City of Del Mar’s unemployment rate was 5%, which is 68% of the State’s rate of 7.3%.
<b>Median Household Income</b>	The City of Del Mar’s median household income was \$70,824, which is 104.55% of the State’s median household income of \$67,739.

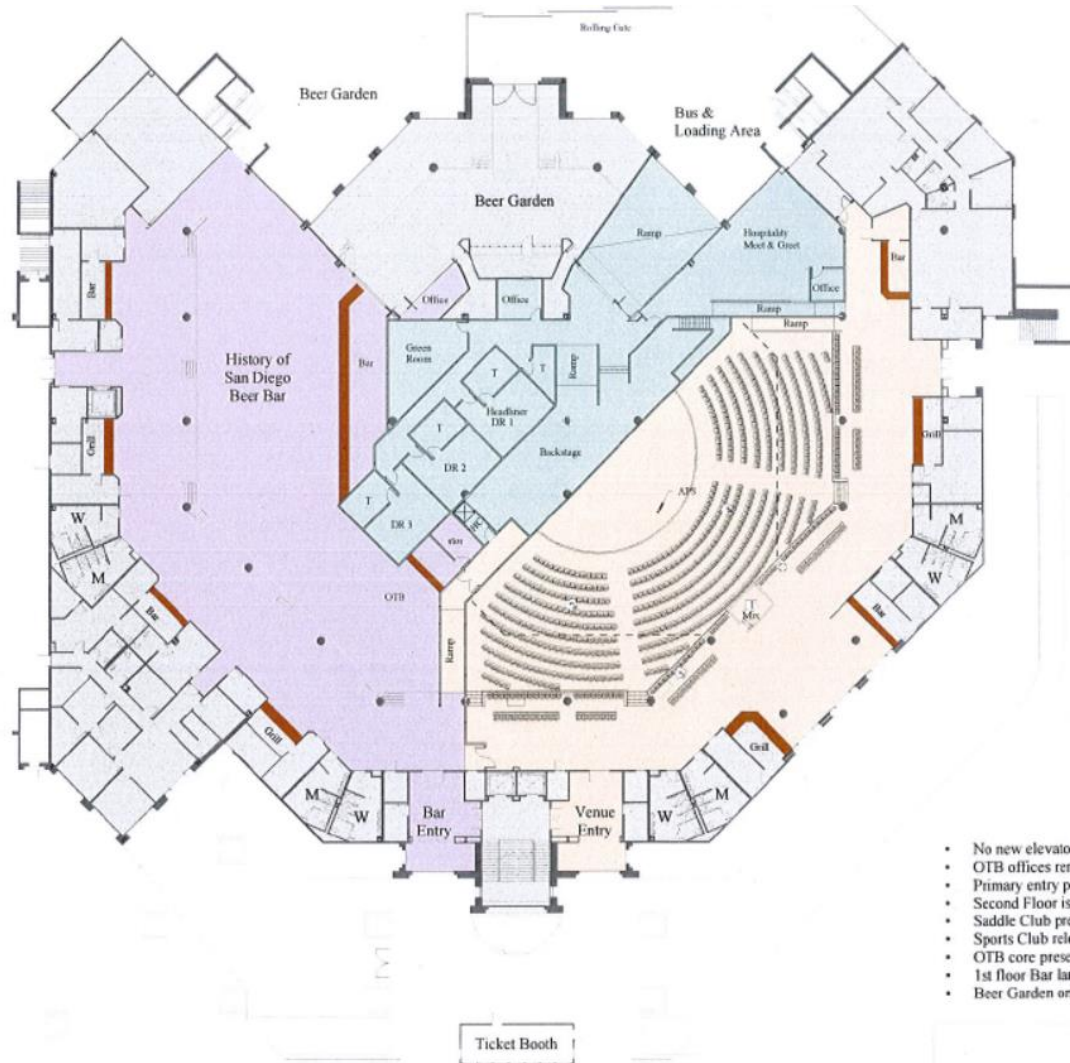
## STAFF RECOMMENDATION

Staff recommends approval of Resolution No. 18-02 authorizing a financing not to exceed \$18,500,000 to the 22nd District Agricultural Association for the Project, consisting of the Concert Venue Project and the Environmental Remediation Project, subject to the conditions contained herein:

1. **Applicant/Borrower:** 22nd District Agricultural Association (District)
2. **Project:** Concert Venue Project and Environmental Remediation Project (collectively, the Project)
3. **Amount of ISRF Program Financing:** \$18,500,000
4. **Maturity:** Twenty (20) years
5. **Repayment/Security:** All "IBank Pledged Revenues," consisting of "Pledged Fair Revenues" minus "Fair Operating Expenses". Pledged Fair Revenues are all revenues generated by District operations, except for the first \$4 Million 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:** 3.00%
7. **Fees:** District will finance an origination fee of 1.00%, \$184,982, included in the loan amount, and shall 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.
9. **Limited Time:** The Board's approval expires 60 days from the date of its adoption. Thus, the District and IBank must enter into the Financing Agreement no later than 60 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:** The Financing Agreement shall include, among other things, the following covenants:
  - 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 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.

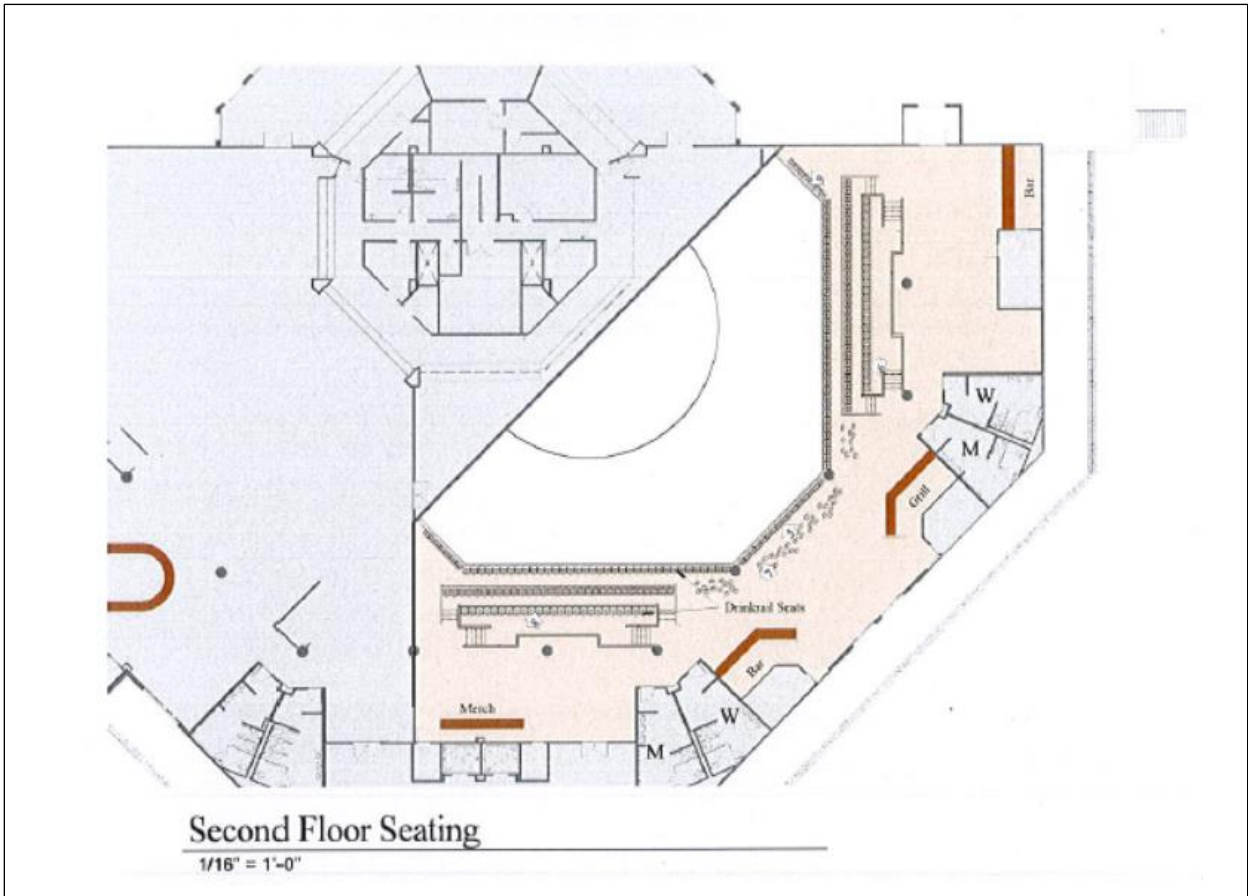
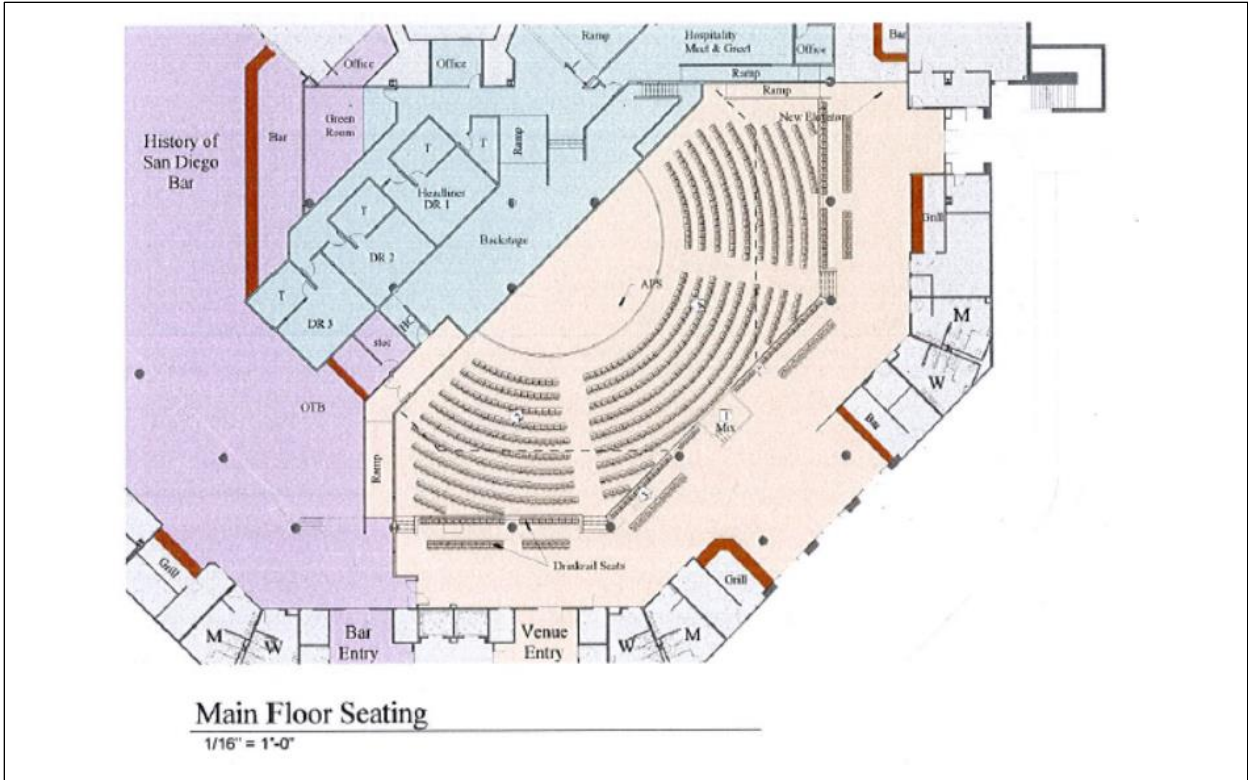
- g. Closing will be conditioned on the Department of General Services' (DGS) approval of the District's pledge of revenues.
  - h. District shall notify the Departments of Finance and the Department of Food & Agriculture when seeking final Project approval from DGS.
  - i. Hard cost disbursement will be conditioned on the District obtaining all necessary permits and approvals to commence construction.
11. **Criteria Waiver:** IBank's Criteria provides that ISRF Program Financing applicants must demonstrate project readiness and feasibility to complete construction within 2 years after IBank's financing approval. The District is not able to complete the environmental remediation component of the Project within a two-year time frame. Accordingly, the District seeks a waiver of this aspect of the Criteria and instead requests that it be allowed 51 months from entering into the Financing Agreement, to complete the Project.

**PROJECT PROPOSED AREA MAP – Exhibit 1**



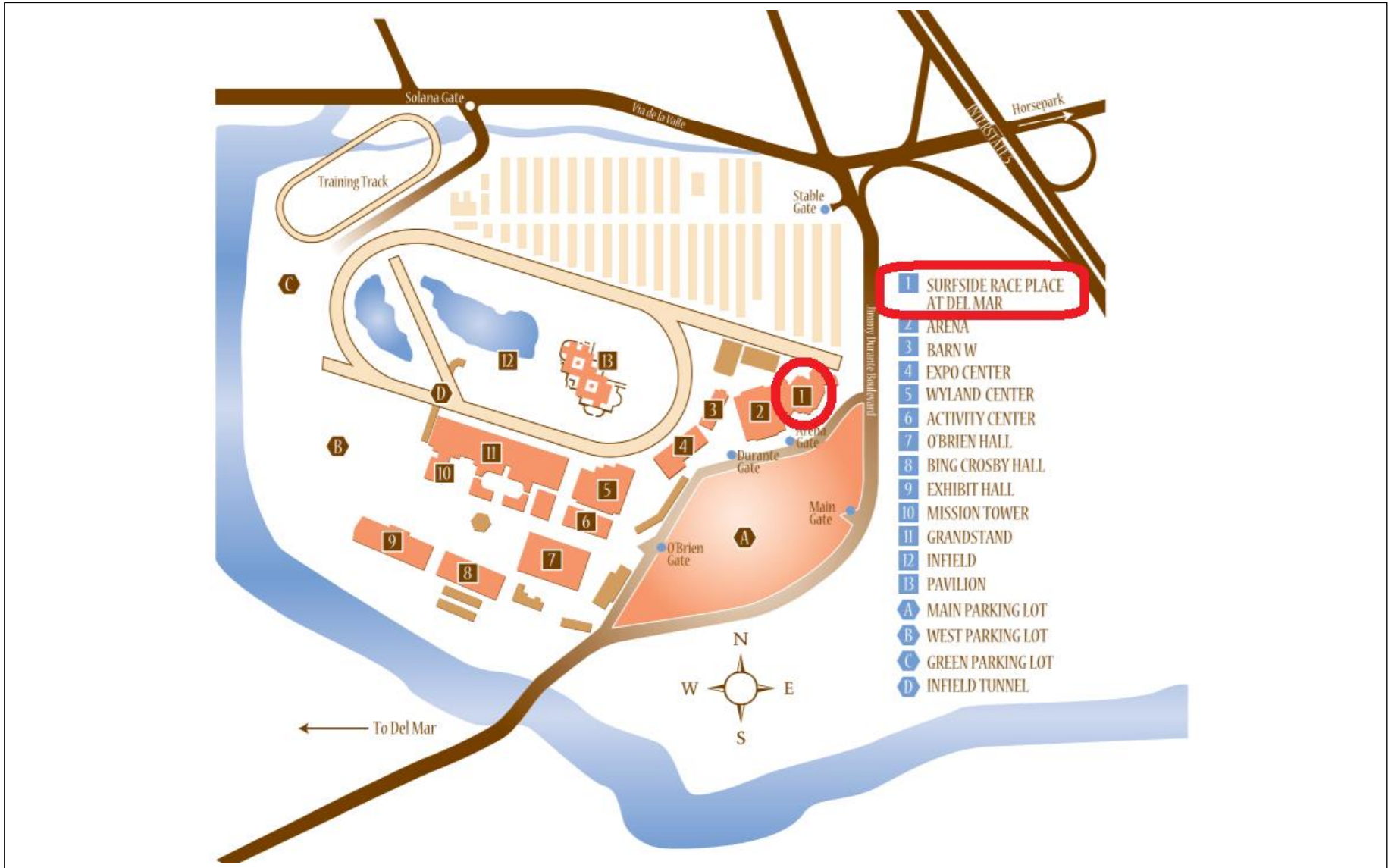
- No new elevator/stairs
- OTB offices remain in place
- Primary entry point serves all areas
- Second Floor is cohesive space
- Saddle Club preserved
- Sports Club relocated to 1st floor
- OTB core preserved
- 1st floor Bar larger
- Beer Garden on rear patio area

**Source: 22<sup>nd</sup> District Agricultural Association**



Source: 22<sup>nd</sup> District Agricultural Association

PROJECT LOCAION – Exhibit 2



Source: Del Mar Fairgrounds Website



Source: Google Maps



**Source: Surfside Race Place – Google**



**ECONOMIC BENEFITS – TABLES – Exhibit 4**

<b>Category</b>	<b>Income Per Show</b>	<b>60 Shows Per Year</b>
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
<b>Total</b>	<b>\$51,925</b>	<b>\$3,115,500</b>

<b>Job Position</b>	<b>Hourly Rate</b>	<b>Positions Per Show</b>
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: 22<sup>nd</sup> 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 emails from IBank and the IBank Board Meetings  
March 27, 2018 - Staff Reports link to view Exhibit 6***

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

***Refer to emails from IBank and the IBank Board Meetings  
March 27, 2018 - Staff Reports link to view Exhibit 7***

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