

DATE: October 21, 2015

TO: Jeffrey Cesca, Director of Marketing Services, CDFA

Kathy Diaz, Assistant Director of Marketing Services, CDFA

John Quiroz, Branch Chief, Division of Fairs and Expositions, CDFA

FROM: Brian May

SUBJ: Report on the Financial and Operational Assessment of the 34th DAA, Modoc County Fair

INTRODUCTION

I was asked by the Department of Food and Agriculture to perform a financial and operational assessment of the Modoc County Fair after CDFA was notified by the Fair in mid-September that it would soon be out of money and unable to pay its bills. The purpose of the assessment was to determine if the financial condition of the Fair could be stabilized, and would a new financially sustainable business model be needed for the successful operation of the Fair in the future.

I visited the Fair on Tuesday, October 13 and met with Fair Manager Dannette DePaul and an Ad Hoc Committee of the Board comprised of Michelle Anderson and Diana Milton. Prior to my visit I reviewed the Statement of Operations for 2013 and 2014, Board Meeting minutes, and financial reports and information dating back to 2010. During my visit, we conducted a conference call with CDFA staff to learn more about the Board's options in reducing the time bases of the two current permanent employees (Manager and Sr. Maintenance Worker) including layoff and termination, if necessary, due to financial considerations. We also reviewed the expenses and revenues for the last two years looking for new revenue opportunities and cost savings. Dannette and I put together a cash flow analysis for the remainder of 2015. Various cash flow options were discussed for 2016 isolating revenues and expenses for both interim events and the Fair.

The County of Modoc has a population of 9000 people. The Fair is located in Cedarville, population 700. The fairgrounds sit on 68 acres and attract approximately 5000 people to its 3 day Fair, 3000-3200 of which are paid admissions. Eight to ten interim events are held annually and income is also received from the monthly rental of a house on the Fairgrounds. There is one Little League Field and one youth soccer field which are maintained by the Fair. The largest city or town in the County is the City of Alturas located 30 minutes away over a mountain pass which rises to 6000 feet in elevation. The Modoc County Fair is the only Fair in Modoc County. The next closest Fairs are the Inter-Mountain Fair in McArthur, 92 miles southwest of Cedarville, and the Tulelake-Butte Valley Fair in Tulelake, 92 miles to the northwest.

FINDINGS

1. The Fair will be insolvent by December 31, 2015 and unable to pay its bills.
2. Projected revenues for 2016 will be insufficient to cover liabilities. The Fair has 3 main sources of annual revenue: Interim event or non-fair revenue \$17,000-19,000; State allocation \$51,000; and Fair revenue of \$115,000-\$125,000 per year. Operating expenses in the last five years have been reduced from \$398,000 to \$356,000 in 2014. The operations will not cash flow. By the way of example, payroll and benefits alone for the two permanent employees (Manager is currently $\frac{3}{4}$ time and the Sr. Maintenance Worker is FT) is more than \$11,000 monthly against an average monthly income of \$5933 from interim events and State allocation. The annual Fair is break even at best, but requires a considerable cash outlay for the 4-6 weeks leading up to the event.
3. The Fair has relied on revenue sources which have been reduced or are uncertain. The Fair's State Allocation has been reduced from a high of \$198,000 in 2010 to \$40,000 in 2014. Additionally, the Fair relied on revenue from the use of the Fairgrounds as a Fire Camp, receiving in some years in excess of \$150,000. There have been no fires in 2015 to date that required the use of the Fairgrounds. In 2013, the Milano Foundation contributed \$50,000 which was matched by the San Diego County Fair. The Milano Foundation contributed another \$50,000 in 2014, which was matched with \$25,000 each from the San Diego County Fair and CDFFA. No contributions were received in 2015. Knowing that these revenue changes were occurring and knowing that the fire camp revenue isn't guaranteed, the actions by the board and staff to these changes were not significant enough to prevent insolvency from occurring.
4. Modoc County with its population of 9000 people makes it very difficult to increase revenues either through an increase in interim events or Fair attendance.
5. The Fair loses money on interim events which are mostly community based, and believes that the community will be unable to host the event if it increases rental rates. There are no other comparable facilities in the County to rent.
6. The Fair has a relatively large Compensated Absences Liability. The Fair has reserved \$46,812 against a projected year end liability of \$57,464.
7. Like many California Fairs, there's a large backlog of deferred maintenance.
8. The County of Modoc owns 61 of the 68 acres. The State owns the remaining 7 acres. The Fair has a Lease Agreement with the County for \$1 per year. According to the Manager, the agreement expired in March of this year and as of this date has not been renewed, despite efforts by the Manager and Board to do so. The County has been notified by the Manager about the Fair's financial situation.
9. The Fair has good working relationships with organizations such as the Rotary Club and Chamber of Commerce in Cedarville and both assist the Fair with raising money. Volunteers pay a big role in the operations at Fairtime.

10. The Fair held meetings in 2013 with the various communities that comprise Modoc County to solicit ideas on improving the financial operations of the Fair. The Fair attempted to start a Friends of the Fair Foundation, but it was unsuccessful. According to the Ad Hoc Committee, maintaining the Fairgrounds as an emergency evacuation center and for fire camp is the community's highest priorities for the facilities.
11. Two other financial and operational assessments were conducted by CDFA staff and consultant in the last three years. Both Reports provided to the Fair included recommendations for increasing revenue and reducing expense to avoid putting the Fair into a negative financial situation.

RECOMMENDATIONS

1. Suspend operations effective December 31, 2015 and form a working group to identify short and long term options for the use of the Fairgrounds. The working group at a minimum should have representation from the community, CDFA, the Ad Hoc Committee of the Board, and the County of Modoc. The community representation should be comprised of all communities in the County.
2. Terminate the Manager for financial reasons effective December 31, 2015 and direct the Manager to immediately initiate the layoff of the Sr. Maintenance Worker. The State's layoff process for a represented employee takes up to six months and is conducted by the State's Personnel Department.
3. Begin discussions with the County of Modoc on the maintenance and operations, and security of the Fairgrounds.
4. Notify Little League and the youth soccer organization that they will assume operations of the sports facilities. Develop a plan for their access and make certain that the appropriate insurance is in place.
5. Notify interim event renters who are under contract and determine if the event can be relocated to another facility. If not, work with the renter, and if possible, collect any additional revenue that will be necessary for full cost recovery.
6. Develop a Transition Plan until long term options are put in place. The Plan would include the oversight of the Sr. Maintenance Worker for the period of January 1-March 31, 2016 (March 31 being the anticipated date that the layoff process is complete) including processing payroll and the payment of his benefits. The Plan would also address bill payment, rent collection and bank deposits, bank reconciliations, Board assistance, checking the facility for damage or vandalism, and keeping the facility ready should it be needed for an evacuation center or fire camp.

7. Continue utilizing the Board's Ad Hoc Committee to work through a Transition Plan.
8. Only hold events at the Fairgrounds if the Board can be assured that the event will cover all costs, including overhead, and net the Fair a profit. It is recommended that the Fair seek CDFA's opinion before entering into any contract for the use of the facilities.
9. Encourage staff to use some of their accrued vacation leave over the slow holiday periods, and when feasible, between now and the end of the year to reduce the \$57,464 leave liability.
10. Any contemplated purchases or contracts for service other than normal day to day expenses should be reviewed first with CDFA.