



24-4190

**DATE:** February 6, 2024 (Item No. {{item.number}})

**TO:** Board of Supervisors

**FROM:** James R. Williams, County Executive

**SUBJECT:** Report on Fairgrounds Management Corporation Business Plan and Capital Projects Budget

### **RECOMMENDED ACTION**

Under advisement from December 12, 2023 (Item No. 13): Consider recommendations relating to option for allocation in the capital project budget of the Fairgrounds Management Corporation. (Office of the County Executive)

Possible action:

- a. Receive report from the Office of the County Executive relating to Fairgrounds Management Corporation business plan and capital project budget.
- b. Approve Request for Appropriation Modification No. 156 - \$500,000 transferring funds from the General Fund Contingency Reserve to the Facility and Fleet Department budget relating to establishing a Fairgrounds Capital Improvements reserve for near-term improvements to be made at the site. (4/5 Vote)

### **FISCAL IMPLICATIONS**

Approval of the recommended action would increase expenditures in the Facilities and Fleet Department (FAF) by a \$500,000 transfer from the General Fund Contingency Reserve to establish a Fairgrounds Capital Improvements reserve for near-term improvements to be made at the site. Subsequent Board action would be necessary to access the reserve for Board-specified use.

The Adopted Budget for the Fiscal Year (FY) 2023-2024 General Fund Contingency Reserve is \$218,587,995. The balance of this reserve as of January 23, 2024, is \$209,201,262 indicating that a net of \$9,386,733 has been allocated for other purposes. There may be additional pending actions that will impact this balance once they are approved and processed. Board policy 4.3 states that the contingency reserve should be 5% of general revenues net of pass-through revenue. Since the use of contingency reserve impacts compliance with this policy, the midyear budget analysis may include a recommended action to replenish this reserve.

## **REASONS FOR RECOMMENDATION AND BACKGROUND**

At the request of Supervisor Chavez on December 12, 2023 (Item No. 13), the Board approved a referral to Administration to report to the Board during the FY 2023-2024 Mid-Year Budget Review with options for allocating funds in the capital projects budget of Fairgrounds Management Corporation, Inc. (FMC).

At the request of Supervisor Arenas on December 12, 2023 (Item No. 13), the Board directed Administration to report to the Board during the FY 2023-2024 Mid-Year Budget Review relating to financial projections for FMC capital improvement and maintenance projects, and a list of planned revenue-generating events for Calendar Year 2024.

At the request of Supervisor Simitian on December 12, 2023 (Item No. 13), the Board directed Administration to report to the Board during the FY 2023-2024 Mid-Year Budget Review relating to consideration of artificial turf for FMC capital improvement projects.

At the request of President Ellenberg on December 12, 2023 (Item No. 13), the Board directed Administration to provide an off-agenda report prior to the FY 2023-2024 Mid-Year Budget Review relating to reasons for the operational shortfall and data to support that it will not be an ongoing challenge; and, responses to recommendations in the 2018-2019 Civil Grand Jury of Santa Clara County Report dated June 19, 2019 regarding the Santa Clara County Fairgrounds. Additionally, the Board directed Administration to report to the Board during the FY 2023-2024 Mid-Year Budget Review relating to options for potential repayment to the County by FMC.

On January 17, 2024 (Item No. 4), the Finance and Government Operation Committee (FGOC) received the report from the Office of the County Executive relating to the Santa Clara County Fairgrounds Management Corporation, Inc. Calendar Year 2024 Budget and Business Plan and financial Statement audit for period ending December 31, 2021 and December 31, 2022.

On January 17, 2024 (Item No. 4), FGOC requested that Administration report back during the Mid-Year Budget Review regarding the net County investment to the Fairgrounds, inclusive of one-time payments, maintenance, reimbursement for County use of Fairgrounds, deferred maintenance, and capital improvements; and detail whether it is budgeted in FAF or FMC, and any other forms of financial support.

On January 17, 2024 (Item No. 4), at the request of Supervisor Ellenberg, FGOC asked FMC and Administration to report back during the Mid-Year Budget Review with additional details on Fairgrounds capital planning and maintenance, and with a maintenance plan for the next 10 years, which includes information on the expected return on capital investments and how the efforts fit into the larger long-term redevelopment plans.

On January 17, 2024 (Item No. 4), at the request of Supervisor Lee, FGOC requested that the report include a table that details the Fairgrounds events over the last two years and the events that are coming up over the next year.

## Future Expansion and Maintenance Projects Budget and Capital Improvements

Since 2019 and up to this point, FMC and the County have been working with interested parties to obtain specific project proposals that would ultimately be used to prepare a Master Development Strategy for the County Fairgrounds Property. Below is the list of development proposals:

- San Jose Earthquakes – Soccer Complex Project
- American Cricket Enterprises – Cricket Stadium
- San José State University Speed City/Olympic Track and Field Facility

FMC is continuing to support the Office of the County Executive with information and coordination on upcoming uses of the Fairgrounds property during the County's continued negotiations with interested parties.

For calendar year 2024, FMC has a capital expenditure plan totaling \$2,028,900, covering an array of both brick-and-mortar improvements, as well as equipment purchases. Of the \$2,028,900 budget, \$600,000 is allocated for Arena improvements, an additional \$600,000 for the Off -Track Betting Sports Bar and Kitchen improvements, \$100,000 for Billboard improvements, and \$30,000 towards electrical panels. These projects are subject to availability of funds from FMC and are currently not budgeted in its 2024 Operating Plan.

In addition to the key projects listed above, reopening the Arena is of high importance to FMC in its effort to generate additional revenue. Although FMC included \$600,000 in the capital expenditure plan, an assessment would be required to understand the full extent of the required improvement costs.

FAF allocates approximately \$2 million annually in the Deferred Maintenance Program for Fairgrounds safety and Americans with Disabilities Act (ADA) improvements. FAF coordinates with County permitting departments to ensure that the highest priority safety and ADA needs are addressed.

The following is the current list of projects currently under consideration for future years:

Repair Fairgrounds Expo Hall Lighting	\$533,000
Repair Fairgrounds Storm Water (Design Phase)	\$534,000
Repair Fairgrounds Site Lighting	\$262,000
Demolish Fairgrounds Pavilion Hall Patio	\$464,000
Repair Fairgrounds Backflow Preventer	\$74,000
Repair Fairgrounds Fiesta Hall Electrical Panel	\$132,000

In addition, FMC shared the following information regarding a request of \$1.4 million for Arena Concert improvements and the potential for future revenue related to it:

The requested funding of \$1.4 million, will be used to rebuild the Arena Concert venue, to correct outstanding code violations related to structural integrity, that have resulted in the Arena being red-tagged and unavailable for use in 2023. A complete

bottoms-up assessment is being completed by the California Construction Authority, to determine the integrity of the structure or other issues present and provide a formal construction estimate with escalation to repair. The amount listed above is an estimate based on the current visual inspection. Any plan for improvements, utilizing these funds would be presented to the FMC Board, FGOC, and Board of Supervisors for approval before moving forward with the project.

When the Arena improvements are completed, FMC will be able to host concerts as well as rent out the facility for promoters to present concerts as well. On average, FMC anticipates that each concert held in the arena would generate approximately \$50,000, and over \$600,000 annually.

In conversations with FMC seeking support for the budget action to assist with its operating at the Fairgrounds facilities and ongoing capital improvements, County Administration has recommended for FMC to use its fund balance to support the Arena Concert venue project.

In the previous calendar year, 2023, FMC invested approximately \$837,000 in commercial kitchen upgrades, communication equipment, restrooms, staging, lighting, tables and chairs, landscaping, signage on the Fairgrounds, and two trucks for operations.

FMC continues to work on a multi-year Capital Improvement Program (CIP) along with staff from the Office of the County Executive to identify and prioritize the critical needs of the Fairgrounds. Refer to attachment *FMC – Proposed 2024 Operating Budget, Development Plan and Capital Improvement Program Update* for details.

In response to the Board's questions on what types of capital and maintenance work will take place, FMC provided the following update:

Capital projects/improvements that are necessary for code compliance and public safety enhancements include restroom upgrades to comply with ADA requirements, continued resurfacing of walking areas and concrete sidewalk areas posing current tripping risk, and bleacher/structure replacement in the Arena to host concerts and other entertainment. Lighting enhancements and solar technology installation to reduce utility costs are also proposed for funding.

In response to the Board's questions on seeing a plan that includes capital projects versus maintenance ones, FMC provided the following update:

FMC continues to work with FAF to prepare a schedule listing of capital projects to be funded by FMC and those maintenance projects to be funded by the County. As the plan is updated, it will be presented to the Board. Included herein is Attachment A-9, from FMC's Adopted Calendar Year 2024 Budget, summarizing current year Capital Investments.

## List of planned revenue-generating events for Calendar Year 2024 and FMC 2022, 2023 and 2024 Events

FMC is anticipated to generate a total of \$11,648,050 revenue for calendar year 2024. Below is the breakdown revenue from each category:

<b>Santa Clara County Fairgrounds Management Corporation</b>	
<b>2024 Proposed Operating Budget</b>	
<b>Project</b>	<b>2024 Proposed Budget</b>
County Fair	\$ 3,151,000
Property Management	\$ 2,385,000
Bingo	\$ 1,960,000
Venue Sales & Event Services	\$ 1,505,000
Off Track Betting (OTB)	\$ 1,253,550
Food & Beverages	\$ 880,000
Hosted events	\$ 480,000
Other Income*	\$ 3,500
Total Revenues	\$ 11,648,050

\*Proposed Other Income revenue includes grant funding from the California Department of Food and Agriculture (CDFA)

From what FMC shared, the events below are anticipated to help to put FMC into the black. These events include: Cirque du Soleil Kooza Touring Show, Jurassic Quest, Robo Games, Foodieland, Train Show, San Jose Toy Show, Gem & Mineral Show, Cinco de Mayo Festival, San Jose Reptile Show, Juneteenth Festival, Columbian Festival, Bubble Run, Muddy Dash, Brickfest, Car Show (2), Dia de Los Muertos, and Christmas Winter Fest. In addition, SCCFMC will host a Hop 'N Vine event, 4th of July Fest, and Puptoberfest.

Additionally, FMC will produce the annual County Fair, which is not expected to generate a profit and eight music concerts, which would require the renovation of the Arena to be profitable.

None of the money-generating programs listed above for 2024 were held in 2021, 2022, or 2023 because of the pre-emption of the Fairgrounds by the County for Covid-related uses, and the long lead time needed by promoters to market their programs.

### Consideration of artificial turf

A report back to a prior report on the health and environmental effects of artificial turf from the Public Health Department is being prepared for the Health and Hospital Committee in April. Negotiations with the San José Earthquakes are ongoing. Staff has and will continue to include discussions about the use of natural turfs for the public fields in the negotiations.

### Off-Agenda report - FMC operational Shortfall and data to support

Due to the amount of information requested from the Board referral and FGOC requests, Administration determined it would be most efficient to focus the effort on this report-back, rather than providing a separate off-agenda report.

In letters from FMC supporters dated December 11, 2023, the Board of Supervisors was informed of a shortfall of revenue over \$1.5 million in the first half of the 2023 calendar year due to the utilization of Santa Clara County Fairgrounds' facilities by the Santa Clara County for support of COVID services through June 30, 2023. This led to many event cancellations or delays in booking for the full calendar year.

In response to the Board's request to submit a financial projection that clearly identifies revenue and additional funds to stay viable, FMC provided the following update:

Staff has prepared a preliminary 12-month cash flow forecast that identifies projected revenues and expenses based on current operations. Staff continues to explore other funding opportunities such as sponsorships, grants, and AB 1499 State funding.

Expenses are continually monitored to ensure cost savings wherever possible.

In response to the Board's request to provide more information on the shortfall, FMC indicated that they traditionally operate exclusively on the funding raised from events and Off-Track Betting operations on the Fairgrounds. Typically, the County does not supplement or fund FMC's operations. The pandemic was an exception. As a result of the County's Fairgrounds occupancy through June 30, 2023, FMC was precluded from booking any major events during the above period. FMC indicated they had budgeted funds in 2023 to make modifications to the outdoor arena and other facilities to satisfy code violations issued by the County. As a result of having to defer or cancel most events in the first six months of calendar year 2023 (as well as the loss of additional events later in the year due to event promoters needing to book events typically many months in advance), FMC stated they came up short in their ability to generate the required funds in 2023 both for the Arena improvements and general operations. Information is provided in this report to describe some of the County contributions and improvements provided to assist FMC during the COVID pandemic when the County was using many of the facilities for testing and vaccination needs for the region.

According to FMC, as they work to comply with ADA requirements, life/safety issues and maintenance and repairs on the Fairgrounds, they are reliant on revenues generated from facility rentals, parking, food and beverage sales, and off-track betting operations. With limited ability to make FMC facilities available to outside promoters or event producers for concerts, expos, festivals, and other events, FMC has shared they had insufficient cash flow to fund their operations in 2023, requiring utilization of cash reserves. Moving forward, now that the pandemic is no longer impacting the Fairgrounds facilities, FMC feels confident with the balanced budget plan they presented for adoption in 2024.

### **2018-2019 Civil Grand Jury response**

FMC provided a response to the Grand Jury in September 2019, which was approved by the FMC Board in August 2019. That document is attached to this legislative file.

### **Option for potential repayment to the County from FMC**

The FMC made it clear to County Administration that they are not requesting a loan or other form of payment that would require a liability to be booked on the balance sheet. If there is a requirement for repayment of any type, FMC will withdraw its request for funding.

## County investment to FMC

Resulting from the County's use of the Santa Clara County Fairgrounds' facilities for support of COVID services, the County made significant contributions to FMC in an effort to compensate FMC for any loss in revenue during that period. In total, the County made contributions in the amount of approximately \$4.2 million to reimburse FMC from 2020 through 2023. This amount includes items such as rent payments, janitorial service expenses, and utility expenses. In addition to this contribution, the County also provided funding to repair any damages that were related to the vaccination and testing operations, such as improving pavement and other upgrades to return the facilities back to their previous conditions before the pandemic (or better).

The County has invested in various capital improvements over the past years to address several deferred maintenance needs at the Fairgrounds. FAF has also engaged in two Utility Assessments for the Fairgrounds in order to evaluate all the outstanding infrastructure needs. Shown in the table below is a list of all projects currently underway or completed by FAF, which were budgeted within the department and paid for by the County.

Project Number	Project Name	Budget		Actual
263-BL22006	FY22 Fairground Improvements	387,956		387,956
263-BL22016	Fairground Hall Electrical Room Repairs	43,114		43,114
263-BL22024	Replace Fairground Rooftop Package Units	553,498		553,498
263-BL22025	Replace Fairground OTB VCT Flooring	193,397		193,397
263-BL23025	Fairgrounds Expo Hall Improve Electrical	39,673		39,673
263-BL23026	Fairgrounds Paint Exterior Floricultural	110,926		110,926
263-BL23027	Fairgrounds Paint Front Gate B	6,232		6,232
263-BL23028	Fairgrounds Improve Pavilion Lighting	25,184		25,184
263-BL23029	Fairgrounds Reroof Concession Circle C	154,322		154,322
263-BL23030	Fairgrounds Reroof & Repair Siding	106,254		106,254
263-BL23032	Fairgrounds Reroof Wood Cedar Shake 2	153,476		153,476
263-BL23033	Fairgrounds Improve Lot Restrooms	107,105		107,105
263-BL23034	Fairgrounds Improve Service Transformer	56,022		56,022
263-BL23060	Fairgrounds Asphalt Repairs	462,571		462,571
263-BL23061	Fairground Repaint Various Buildings	445,035		445,035
263-BL24014	Fairgrounds Arch Ticket Booth Reroof	71,000		60,242
263-BL24019	Fairgrounds 8 Ticket Booths Repaint	85,000		20,178
263-BL24053	Fairground Restroom Transformer Replacement	902,000		-
263-CP13017	Fairgrounds Development Plan	2,050,000		1,101,627
263-PL21007	Fairgrounds Utilities Assessment	456,806		456,806
263-PL23001	FY23 Fairgrounds Utilities Assessment	3,553		3,553
	<b>TOTAL</b>	<b>\$6,413,124</b>		<b>\$4,487,171</b>

The \$500,000 transfer to establish a Fairgrounds Capital Improvements reserve will be planned for near-term site improvements related to paving and ADA improvements. There will be continued investment through the Capital Deferred Maintenance program to ensure the facilities are safe and operational.

Furthermore, following the Utilities assessment, FAF has identified several areas requiring maintenance on the Fairgrounds site. These projects include updates to the electrical system, fire alarm system, telecom infrastructure, gas system, HVAC, and stormwater systems. FAF plans to address these needs in phases over the next 10 years, coordinating with other capital improvements in progress.

### **CHILD IMPACT**

The recommended action will have no/neutral impact on children and youth.

### **SENIOR IMPACT**

The recommended action will have no/neutral impact on seniors.

### **SUSTAINABILITY IMPLICATIONS**

The recommended action will have no/neutral sustainability implications.

### **ATTACHMENTS:**

- FMC – Proposed 2024 Operating Budget, Development Plan and Capital Improvement Program Update
- FMC – 2024 Capital Improvement Budget
- F-85 #156 – Transfer funds (\$500K) from Contingency Reserve to Fairgrounds Reserve
- Santa Clara County Fairgrounds Management Corporation Grand Jury Response Filed 09.16.19