



It's Not the Same Old County Fair

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Issue

Is the agreement between San Mateo County and the San Mateo County Exposition and Fair Association in the best interests of the County?

Summary

The San Mateo County Event Center property is owned by San Mateo County but operated and maintained by the non-profit San Mateo County Exposition and Fair Association (the Expo Association or “Association”) under contractual arrangements dating back to 1939. The Association was created to run the annual County Fair, manage the Event Center buildings and grounds, and now, under terms of a 2008 agreement, also manage the Jockey Club satellite wagering facility. The Association retains all revenues generated from the County Fair and Event Center building rentals and activities, receiving no operating subsidies from the County. The Association relies on the income it generates for all of its operational needs, except for major capital improvement projects, the cost of which are shared with the County. The County's direct financial benefits are currently limited to its portion of sales tax revenues derived from the spending of residents and visitors attending Event Center activities.

The original concept of the County Fair in usage of the property has evolved over time. The Grand Jury believes that the success of the Jockey Club and future opportunities for the site warrant the County reevaluating the terms of its agreement and exploring amendments that would enable it to share financially in the success of this facility and Event Center activities.

Additionally, the Grand Jury recommends the use of an external public accounting firm to perform the annual audit of the Expo Association, instead of the County Controller’s office.

Background

The property was acquired in stages, beginning in the 1930's, to create a permanent site for the San Mateo County Fair. The State of California made the initial purchase of property, and San Mateo County continued to add adjacent parcels over several decades for an accumulated 47.777 acres. All deeds were ultimately transferred to San Mateo County, the legal owner of the property now known as the Event Center for the purpose of holding an annual County Fair or Exposition. Pursuant to government code, section 25908, the County may use, lease, or license the property so long as it does not interfere with the use of the property for fair purposes.

The County’s arrangement with the non-profit Expo Association goes back to 1939 when the San Mateo County Fair became an annual community event and the Association was incorporated to manage and maintain the property.

The Event Center is located within the city of San Mateo.¹ Accessible from freeway and public transportation links, its central location makes it available to residents from all parts of the county. The seven buildings onsite total 195,000 square feet, surrounded by ample parking. The site is not only home to the County Fair, but used year-round as an "event facility" hosting hundreds of meetings, concerts, sporting events, trade shows and social gatherings.

Horseracing and county fairs in California have a history going back many decades to the Gold Rush Days. Horseracing was one of the major funding mechanisms for many county fairs. During the San Mateo County Fair, nearby Bay Meadows Racetrack hosted "Fair Races," with a portion of the wagering proceeds helping fund the Fair. The County Fair generated revenues not only from food and beverage sales, and parking, but also wagering.

With the announced 2008 closing of the privately owned Bay Meadows Racetrack, the County secured a license from the State to operate a satellite wagering facility on Event Center property. In 2007, the County loaned the Expo Association \$900,000 to construct the satellite wagering facility. The Board of Supervisors reasoned that the establishment of a satellite wagering facility would continue to provide funding for the County Fair and maintenance of the County's Event Center grounds and buildings. The Expo Association also secured low-cost loans and grants from other sources in the amount of \$2,000,000. This money was used to transform two existing structures on the grounds of the Event Center into a state-of-the-art satellite wagering facility named The Jockey Club.² Debt service payments to the County on the \$900,000 loan are current with a balance of \$456,852.30 as of March 31, 2011. According to the contract, the debt will be retired in 2014.

In 2008, the Board of Supervisors entered into the most current contract with the Expo Association, including a clause necessary to permit the Association to manage the newly created satellite wagering facility. This agreement was signed July 1, 2008 and terminates on June 30, 2020. Any amendment to the original agreement requires approval by the Board of Supervisors and the Association's Board of Directors.

The Jockey Club, opened in 2008, is an on-site satellite wagering facility that offers patrons the opportunity to place bets on live horseracing broadcasts from around the world. Open Wednesday through Sunday, the club has filled the void left by the closure and demolition of the nearby historic Bay Meadows Racetrack. Based on the 2007 prospectus, it appears that the Jockey Club has generated revenues that have exceeded initial financial expectations.³

The operating agreement between the County and the Association stipulates that the Association shall manage the property and retain all income generated from activities in its use. By contract, revenues are to be used to maintain all buildings on the property. While the Association receives no subsidy from the County to run the Fair or other activities, it retains all of the earned revenue.

¹ The property used to be called the "Expo Center" but was changed to the "Event Center" in order to attract other events such as corporate events and trade shows.

² The Jockey Club at the Event Center is distinct from the now defunct Jockey and Turf Club at Bay Meadows Racetrack.

³ Prospectus prepared for the San Mateo County event Center by Christopher Korby, Executive Director, California Authority of Racing Fairs 2007.

However, the agreement provides that the County and the Association will share the cost of any capital improvements over \$100,000 and all major maintenance on the Event Center property.

The Event Center has a significant impact in the local community due to the County Fair and other major events. It generates an estimated \$40 million in annual revenues for the local economy as event participants spend money at area hotels, restaurants, stores, and shopping centers.⁴

The 2011 San Mateo County Civil Grand Jury (Grand Jury), in the course of its review of financial records⁵, examined the fiscal year 2009 audit report issued by the San Mateo County Controller's internal audit staff. It was noted that the Jockey Club opening in 2008 generated significant revenues that augmented the financial viability of the Event Center. In 2009, the addition of this single year round activity exceeded all other Event Center sources of revenue.

Revenues generated by the Jockey Club in 2008 (opening of the facility in August to year end December 2008) were \$900,000; in 2009, \$3,300,000; and 2010 (estimated and unaudited), roughly \$3,300,000. These revenues exceeded forecasts and enabled the Association to perform long-deferred maintenance and refurbishing of Event Center buildings. The Expo Association Board continues to explore potential long-term alternative sources of revenue for the property including, but not limited to, adding a Sports Book for wagering, and possible real estate projects.

Investigation

This report has been compiled from numerous sources. The methodology included the following:

- A review of the 2009 audit of the San Mateo County Exposition and Fair Association by the San Mateo County Controller's Office, including audit staff's recommendations.
- Identification through the San Mateo County Assessor's Office of the parcel number, size and deed of ownership to the property known as the Event Center.⁶
- Research of historic documents pertinent to the Event Center property, including original and subsequent agreements between the County and the Association.
- Interviews with County and Event Center senior managers with direct knowledge of the Event Center operation.
- A review of the agreement between The Jockey Club and Northern California Off-Track Wagering Inc., a state-licensed firm responsible for the pari-mutuel employees and collection of the wagers in the Jockey Club.
- Revenue sources for the Event Center were identified. The Grand Jury reviewed documents pertaining to the creation of the Jockey Club, including a 2007 prospectus

⁴ "Economic Impact of California Fairs", November 2010 and "Fairs: Exploring a California Gold Mine", a report prepared by KPMG at the request of The California Department of Food and Agriculture, Division of Fairs and Expositions, 2003.

⁵ Penal Code §925

⁶ San Mateo County Assessor's Office, parcel number: 040-030-220.

prepared by the California Authority of Racing Fairs on potential revenues for the Event Center satellite wagering facility.

- An anonymous visit was made to the Jockey Club to observe and better understand how wagering activities, particularly cash management, are handled at the facility.

Findings

The 2011 San Mateo County Civil Grand Jury finds that:

1. The Expo Association retains all revenues generated from all operations of the Event Center, as well as those from pari-mutuel wagering. Revenues generated by the Jockey Club are projected to increase if wagering is expanded with the passage of legislation legalizing wagering on sporting events.
2. San Mateo County shares responsibility with the Expo Association for building maintenance or capital improvements over \$100,000; yet it does not share in any revenues generated.
3. Commercial and residential development projects slated for land adjacent to the Event Center could provide further opportunities for increased revenue generation.
4. The Board of Supervisors has significant control over the Association since the Board appoints the Association's Board of Directors who serves at the pleasure of the Board of Supervisors. The Board of Supervisors is required to approve the Association's budget.
5. An "internal audit" of the Association has historically been performed by the County Controller's Office.

Conclusions

The 2011 San Mateo County Civil Grand Jury concludes that:

1. The County should directly share in the financial success of the Jockey Club or Event Center activities.
2. Using the County Controller to audit the Association, given its growing operations and the complexities of satellite wagering, is not advisable. Good business practice dictates a periodic change of auditors.

Recommendations

The 2011 San Mateo County Civil Grand Jury recommends the Board of Supervisors:

1. Direct the County Manager and County Counsel to work with the San Mateo County Exposition and Fair Association on an amendment to the operating agreement that would provide for new revenue opportunities for the County.

The 2011 San Mateo County Civil Grand Jury recommends the Board of Directors of the San Mateo County Fair and Exposition Association:

2. Use an external public accounting firm for the Association's annual audit.



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager's Office



DATE: August 12, 2011
BOARD MEETING DATE: September 13, 2011
SPECIAL NOTICE/HEARING: None
VOTE REQUIRED: Majority

TO: Honorable Board of Supervisors
FROM: David S. Boesch, County Manager
SUBJECT: 2010-11 Grand Jury Response

RECOMMENDATION:

Accept this report containing the County's response to the 2010-11 Grand Jury report: It's Not the Same Old County Fair.

BACKGROUND / DISCUSSION:

The County is mandated to respond to the Grand Jury within 90 days from the date that reports are filed with the County Clerk and Elected Officials are mandated to respond within 60 days. To that end, included is the County's response to the "It's Not the Same Old County Fair" report issued on June 30, 2011.

Acceptance of this report contributes to the Shared Vision 2025 outcome of a Collaborative Community by ensuring that all Grand Jury findings and recommendations are thoroughly reviewed by the appropriate County departments and that, when appropriate, process improvements are made to improve the quality and efficiency of services provided to the public and other agencies.

FISCAL IMPACT:

There is no Net County Cost associated with accepting this report.

It's Not the Same Old County Fair

Findings:

Grand Jury Finding Number 1. The Expo Association retains all revenues generated from all operations of the Event Center, as well as those from pari-mutuel wagering. Revenues generated by the Jockey Club are projected to increase if wagering is expanded with the passage of legislation legalizing wagering on sporting events.

Response: Partially agree. The Event Center does retain all revenues from the Event Center and the Jockey Club. However, we are not aware of any proposed legislation that would allow wagering on sporting events at the Jockey Club, so we disagree that revenues are projected to increase due to the addition of this new source.

Grand Jury Finding Number 2. San Mateo County shares responsibility with the Expo Association for building maintenance and capital improvements over \$100,000; yet it does not share in any revenues generated,

Response: Agree. While the finding accurately states the agreement between the County and the Expo Center, it does not reflect the reality that over the past ten or more years the County has not contributed direct funding to building maintenance or capital projects at the Center. The most recent Expo Center capital project, the Jockey Club, included a County loan of \$900,000, which the Expo Center is repaying on time and with interest.

Grand Jury Finding Number 3. Commercial and residential development projects slated for land adjacent to the Event Center could provide further opportunities for increased revenue generation.

Response: Partially agree. Since the areas to be developed adjacent to the Event Center are in the City of San Mateo, property and sales tax would go the City, not the County. However, there may be opportunities for the Event Center to market their meeting space and other services to their new neighbors. We are confident that the Expo Center Board will explore all marketing options.

Grand Jury Finding Number 4. The Board of Supervisors has significant control over the Association since the Board appoints the Association's Board of Directors who serves at the pleasure of the Board of Supervisors. The Board of Supervisors is required to approve the Association's budget.

Response: Agree.

Grand Jury Finding Number 5. An “internal audit” of the Association has historically been performed by the County Controller’s Office.

Response: Agree.

Recommendations:

The 2011 San Mateo Civil Grand Jury recommends the Board of Supervisors:

- 1. Direct the County Manager and County Counsel to work with San Mateo County Exposition and Fair Association on an amendment to the operating agreement that would provide for new revenue opportunities for the County.**

Response: Disagree. The current agreement requires the Expo Center to be a self-supporting non-profit. Any revenues realized by the Expo Center are reinvested into the facility or set aside for future projects. Most event centers across the country require operating subsidies. Therefore, the County reaps the economic benefits of the activities at the Event Center without any direct investment. We see no need to change the agreement at this time.



July 14, 2011

Mr. Raymond W. Basso, Foreperson
And Members of the Committee
Grand Jury – County of San Mateo
Hall of Justice
400 County Center
Redwood City, CA 94063-1655

Dear Mr. Basso:

The San Mateo County Exposition and Fair Association (SMCEFA) and its Board of Directors are in receipt of the Grand Jury Report dated June 27, 2011 (the "Report").

Our response follows below:

- San Mateo County (the "County") *does* share in the financial success of both the Jockey Club and the SMCEC to the extent that all excess funds are reinvested in the property or held in reserves to be reinvested at a later date. Additionally, excess funds have been used in the past to cover occasional financial shortfalls from operating the San Mateo County Fair.
- Any projects of "Major Maintenance" or "Capital Improvements" over \$100,000 are discussed and approved by the County as provided in our operating agreement with the County (the "Agreement").
- The staff and board believe the existing Agreement between San Mateo County and the San Mateo County Exposition and Fair Association is appropriate and workable for a number of reasons including the following:
 - There is no requirement for a subsidy from the County to operate the San Mateo County Event Center, which is required of most public assembly facilities across the country.
 - As a non-profit corporation, any gain in revenues that we realize at the end of the year is reinvested into the maintenance of facilities and the campus or is saved for future projects or development.
 - The San Mateo County Event Center continues to be an important financial engine to the County and is the driving force behind an estimated \$40 million in economic impact to San Mateo County.

- We would also like to point out that two members of the San Mateo County Board of Supervisors serve as liaisons to the San Mateo County Exposition and Fair Association, creating an important partnership with the County.
- As noted in Item #1 of the Report and relative to the expansion of gambling through the legalization of wagering on sporting events at the Jockey Club, we are unaware of any legislation that would allow for this in California. We also understand through various horse racing industry officials and our lobbyist team (Warner and Pank) that this is a highly unlikely scenario due to the proliferation of California Indian gaming casinos. Further, it is not a use we have advocated at any time.

When the Jockey Club was originally underwritten, the long term outlook for horse racing wagering revenue (this is called the “handle” in horse racing parlance) was such that the board and staff believed the 10 – 20 year outlook for horse racing could result in a declining handle and attendance. Notwithstanding the long term risk associated with maintaining or growing the handle, the board and staff have and will continue to explore ways to maintain or increase both patron enthusiasm and revenue from the Jockey Club. For example, we have and continue to market and promote the Jockey Club to outside groups for meetings, banquets, corporate training events, etc. Additionally, we have and will continue to explore ways to maintain and develop our existing base of patrons.

- As noted in Item #2 of the Report and relative to the County sharing in major capital improvements, this is indeed covered in our Agreement with the County for “Major Maintenance” and “Capital Improvements” over \$100,000. However, the SMCEFA has completed many major maintenance projects, all below \$100,000 and we have not received any funding for major maintenance or capital improvements from the County in at least the past 10 years. Our last “Major Capital Improvement” was the renovation of Oak Hall into the Jockey Club that occurred in 2008, for which the County loaned us \$900,000 on a five year interest bearing loan. We are current with the repayment schedule to the County on this loan.
- As noted in Item #3 of the Report, there is a commercial and residential development underway with the land adjacent to the San Mateo County Event Center and this could potentially provide further opportunities for increased revenue generation when the project is complete. Even though we cannot be certain of this increased revenue generation, both the staff and board will continue to be vigilant in identifying future revenue generating opportunities on behalf of this County property.
- On page 3, paragraph 3 and 4 of the Report we would like to offer the following comment. The statements make reference to the Jockey Club revenues exceeding all other Event Center sources of revenue. While this is true, our interim revenue from year-round event bookings was only \$250,000.00 less than the gross revenues of the Jockey Club in 2009. In 2010, the interim revenue from year-round bookings was only \$62,000 less than the gross revenues of the Jockey Club. At present, we view both revenue sources as equally important and will continue our efforts to grow revenue from all sources.
- Under Item #2 of the Report’s conclusions and item #2 of the recommendations, a change in auditors was mentioned. Although the staff and board are open to a change of auditors, we don’t necessarily

agree that a periodic change in auditors in and of itself is representative of good business practices as stated in the Report. In addition to our annual audit by the County auditors, it is important to note that we issue a Statement of Operations (STOP), which includes our complete financials, to the Department of Food and Agriculture – Division of Fairs & Expositions at the close of each year. This STOP report is audited by this state agency, signed and returned to the SMCEC.

In conclusion, we appreciate this opportunity to provide our response to the Grand Jury report and we wish to thank the committee for their valuable input on the San Mateo County Exposition and Fair Association.

Sincerely,



Peter Chartz

President, San Mateo County Exposition
& Fair Association Board of Directors



Chris A. Carpenter

General Manager, San Mateo County Event Center