



Snohomish County
Parks and Recreation

**SNOHOMISH COUNTY
DEPARTMENT OF PARKS AND RECREATION
EVERGREEN STATE FAIRGROUNDS**

**REDEVELOPMENT INITIATIVE
Operations Committee Presentation
August 2009**



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Year-round equestrian competition in the Arena

I. EXECUTIVE SUMMARY

The Department of Parks and Recreation is pleased to update the County Council regarding its ongoing initiative to redevelop the Evergreen State Fairgrounds as requested by Council in its note to the 2009 budget. The vision for the Fairgrounds reflects a business model focusing on fiscal and environmental sustainability, adaptive reuse of current buildings, strategic capital development and a strong commitment to return on investment. Key to this vision is protecting current lines of business such as the annual 12-Day Fair and the equestrian park while enhancing amenities and leveraging capital. The following document and attachments clarify past and current practices and will explore new opportunities for management, reinvestment, development and adaptive reuse of this significant regional park. This report includes:

1. financial analysis completed by Parks and Finance staff confirming that the County General Fund has not received operating surplus funds from the Fairgrounds (page 6);
2. an explanation that since 1997 over \$2.7 million of “operating surplus” has been transferred to the Reserve Fund for Evergreen State Fairgrounds (Fund 180), which, when combined with other revenue sources, allowed the County to invest over \$4 million in capital improvements, acquisitions and equipment (page 6);
3. a strategy to protect and enhance current lines of business and key individual profit centers. Those profit centers include, in order of priority: (1) the annual 12-Day Fair; (2) the equestrian center; and (3) the motor and multi-sports venue (pages 11 & 14);
4. a recommendation to launch a Request for Ideas and Proposals (RFI&P) creating opportunities for public/private, public/non-profit and community-based investment in the redevelopment of the Fairgrounds (page 14);
5. prioritization of capital projects, facility upgrades, and adaptive reuse of existing buildings providing operational flexibility and adaptability, financial and environmental sustainability and return on investment. A key component will be the construction of large, flexible, multiuse buildings and facilities (page 11, 12 & 13);

The Evergreen State Fair and Fairgrounds has been a treasured public resource and gathering place for several generations. Land acquisition and development at the site began in 1912. The Evergreen State Fair has been a cultural and heritage icon at the current site in Monroe for 61 years. The Fair and Fairgrounds have been honoring the legacy of strong ties to: farming and agriculture; logging and the timber industry; mining and mineral exploration; a wide variety of motor sports; business; and the pioneering spirit of Snohomish County. The Fair and Fairgrounds have a long history of being a catalyst and showplace for innovations in farming, home based business, agriculture, livestock management, industry, entertainment and amusement.

The Fairgrounds experienced several significant capital investment and redevelopment phases in the last 62 years including 1947 – 1948, 1967 – 1970 and again in 1984 – 1985. In each of these investment phases, capital projects and programming initiatives received strong political, community, non-profit and corporate support.

Threats to the long-term viability of the Fairgrounds include:

1. competition from other public and private venues;
2. buildings that have exceeded their life expectancy;
3. weather conditions, such as rain, extreme heat or extremely cold conditions, during the annual 12-Day Fair;
4. scarcity of public funds for capital investment; and
5. external economic conditions.

Charting the course to a vibrant and sustainable future for the Fairgrounds requires:

1. restoration, demolition, adaptive reuse and/or relocation of a number of existing buildings based on current lines of business and key profit centers;
2. the near-term creation of three opportunity centers. Opportunity centers are geographic areas of the Fairgrounds that represent a business line or themes. The initial three opportunity centers will be: (a) an Evergreen Agriculture/Equestrian Center; (b) a Motor and Multi-Sport Venue; and (c) a Commons. The Commons opportunity center will provide an area to host the 12-day Fair and other trade shows and events. In the longer term, these centers need adequate utilities and infrastructure to support later construction of flexible and adaptable multiuse buildings and facilities;
3. construction of amenities financed and potentially operated and maintained through public/private, public non-profit and community based partnerships; and
4. a focus on sustainable development, strong return on investment, maintaining stakeholder equity and the pursuit of new lines of business.



Quilt shows are held during both the 12-day fair and the off-season

II. FINANCIAL HISTORY AND ENTERPRISE FUND FEASIBILITY

A. No Contribution to General Fund (Section VI. A. – Exhibits A1 & A2)

The budget note introductory paragraph states, “the Evergreen State Fair has annually contributed between \$ 300,000 and \$ 600,000 to the General fund in recent years.” The Evergreen Fairgrounds never contributed any of its “operating surplus” funds to the General Fund. Each year since 1997, the Fairgrounds budget within the County General Fund realized an “operating surplus” as defined in SCC Chapter 4.87. In fact, “operating surplus” accumulated transfers of over \$2.7 million have been made to Special Revenue Fund 180- Reserve Fund for Evergreen State Fairgrounds. Parks combined these funds with other revenue sources (REET 1, 10% space rentals, bond proceeds, etc.) to invest over \$5 million in capital investments, maintenance that had been deferred, acquisitions and equipment.

Although the Fairgrounds recognized an “operating surplus” each year, the annual reconciliation (as required by SCC Chapter 4.87) did not account for expenses such as debt service, capital projects, full indirect costs, Parks inter-fund support, etc. which would be required in an enterprise model.

B. Enterprise Fund Model Not Feasible (Section VI. C. – Exhibits C1, C2, C3 & C4)

Converting the Fairground accounting model to an enterprise fund creates no advantages. To the contrary, significant disadvantages result from such a conversion. The County Department of Budget and Finance completed a five-year fiscal analysis combining historical data from the three funds administered by the Fairgrounds and incorporating future assumptions with enterprise-model requirements. In this scenario, the Fairgrounds needs a start-up inter-fund loan of \$2 million and annual additional yet-to-be-identified revenues of \$750,000 to be solvent, meet cash flow requirements and allowing a minimum of \$300,000 for annual capital investment. Assuming the additional annual revenue is found, the Finance Department concluded 2013 is the earliest point at which a Fairgrounds enterprise fund could be self-supporting.

C. Recommended Annual Reporting

As discussed elsewhere, the annual reconciliation required by SCC 4.87.050 does not accurately reflect whether the Fairgrounds has an operating surplus because it does not include all expenses incurred to support the Fairgrounds. To facilitate greater understanding of Fairgrounds finances and minimize future misunderstanding, Parks recommends an annual financial report to the Executive and Council that summarizes all revenues and expenses of the Fairgrounds.

III. REDEVELOPMENT INITIATIVE

A. Vision, History and Challenges

1. Vision

The ultimate vision for the Evergreen State Fairgrounds is to redevelop, operate and maintain the Fairgrounds in a fiscally and environmentally responsible and sustainable fashion; protect and enhance current lines of business and key individual profit centers; showcase and promote Snohomish County agriculture, commerce, technology and culture; focus on providing a first class venue for community, regional and national celebrations and events; develop and market the facility as a 186-acre destination recreation park; and partner with non-profit, corporate, government and community-based organizations for the creation of greater opportunities and long-term rewards. To that end, the Redevelopment Initiative proposes developing three opportunity centers dedicated to specific Fairgrounds activities and services. These opportunity centers are:

- a. The Evergreen Agricultural/Equestrian Center, featuring livestock barns and stalls, the Arena, outdoor covered arenas, and a proposed Agricultural/Equestrian Pavilion;
- b. The Motor and Multi-Sport Venue, featuring the racetrack, the grandstand and a paved infield supporting auto racing, demolition derby, cart racing, criterion, motocross, other sports and regional/national events; and
- c. The Commons, a large public gathering space supporting annual 12-day Fair booths and exhibits, a performance venue, private retail development, a large multipurpose exposition center, a flexible, multipurpose activity and display building, a picnic pavilion, a destination outdoor recreation pavilion, a hotel, the Western Heritage Museum and the adaptive reuse of several existing buildings.

Other areas of the Fairgrounds will provide space for the carnival, parking, maintenance facilities, office space, and open walkable public spaces. The longer-term vision includes the creation of two additional opportunity centers adjacent to and including both the east and west gates. Buildings that are beyond useful life expectancy will be replaced with flexible, multiuse buildings that can be developed alongside commercial ventures planned, built and operated through public/private partnerships. The end product will be an increase in the quality and quantity of non-fair events due to the availability of flexible, adaptable, multiuse buildings that can respond to the needs of event promoters, increased in-house event development, and selective access to private commercial development providing 12-month operations.

2. Current Uses

The Evergreen State Fairgrounds boasts more than 1.2 million annual visitors and generates \$23 Million in positive economic impact for Snohomish County and the Puget Sound Region. It is the most recognizable Snohomish County Park. The Fairgrounds, anchored by the annual 12-Day Evergreen State Fair, is a major regional asset and tourism destination offering first-class agricultural, educational, recreational, entertainment, commercial and social activities to the residents, institutions and businesses of Snohomish County and the Puget Sound Region. Park buildings, indoor and outdoor spaces, and facilities are leased the other 353 days to a wide variety of organizations for equestrian shows, spectator events, motor sports operations and racing, consumer and trade shows, flea markets, auto swaps, livestock and animal shows. The Fairgrounds also regularly hosts local community-based organizations such as 4H, FFA and law enforcement training.

3. Sustainability Challenges

Seventy-two percent (72%) of annual revenue generated by the Fairgrounds occurs during the annual 12-Day Fair. Of the remaining twenty-eight percent, which are non-Fair revenues, the key profit centers include the equestrian center (12%), the motor and multi-sport venue (5%) and grounds/equipment/vehicle rentals (3%) and general concession (3%). The more desired outcome would be to generate 50% of revenue during the annual 12-Day Fair and 50% during the rest of the year from non-fair events.

The Fairgrounds celebrates the history of Snohomish County: agriculture, logging and home crafts. Across the nation, county fairgrounds have seen a decline in attendance, escalated costs of operation and a lack of capital investment leading to reduced operations and/or closure. The Evergreen State Fairgrounds, however, is well positioned compared to other fairgrounds due to the success of the annual 12-Day Fair and the opportunities available to help attain fiscal and environmental sustainability.

4. Future Uses

The future use of the Fairgrounds must honor and respect the legacy of the Evergreen State Fair. In transitioning to a 12-month operation, driving 353 days of new lines of business, traditional components including a motor and multi-sports venue, trade shows, equestrian events, opportunities for local agricultural and educational programming by the 4H, FFA, conservation groups, and the Washington State Extension Service, flea markets, auto swaps, livestock and animal shows, and RV camping will be continually reevaluated. The creation of improved infrastructure to support new opportunities for commercial, recreational, educational, and regional events and investment in flexible, adaptable, multi-use buildings in which to produce events including trade shows, livestock competitions, 4H activities and more are critical to the fiscal and environmental sustainability and long-term success of the Fairgrounds.

5. Summary of Redevelopment Initiative

The Redevelopment Initiative for the Evergreen State Fairgrounds embraces the desire to enrich the quality of life of Snohomish County citizens by offering first-class agricultural, equestrian, educational, recreational, entertainment, commercial and social activities.

Redevelopment of the Fairgrounds will require: restoration, adaptive reuse, demolition, and/or relocation of a number of existing buildings; creation of opportunity centers, sites well served by utilities and infrastructure, that can support the construction of large, flexible, adaptable, multipurpose buildings some of which may be financed and later operated and maintained through public/private partnerships; destination recreation facilities and improvement of hospitality facilities such as Recreational Vehicle camping areas, food services and lodging. Flexible, multiuse buildings, improved infrastructure, focus on the use and demonstration of alternative energy systems and enhanced hospitality services will attract more event promoters and public/private commercial ventures.

B. Building and Facility Challenges

Building and facility challenges include:

1. the lack of usable space of several buildings;
2. the impacts of deferred maintenance on existing buildings; and
3. the lack of capital funding resources to upgrade, replace and/or develop buildings and facilities.

The following older facilities are difficult to use, do not meet the needs of event organizers and producers, and should be demolished: (1) the Commercial Building, (2) Buildings #607, #608 and #609 (the Sheep, Dairy and Goat Barns), and (3) Buildings #603, #604 and #605 (the Rabbit, Poultry, Dog and Cavy Barns) These outdated, difficult-to-use and high maintenance cost buildings should be replaced with more flexible, multipurpose buildings.

The annual 12-day Fair lacks adequate parking during peak periods. This problem can be ameliorated by acquiring property adjacent to the Fairgrounds.

C. Facility Changes to Match Intended Use

The proposed redesign of the Fairgrounds physical layout is centered on the establishment of opportunity centers. Development of flexible, multipurpose buildings can occur in appropriate opportunity centers to better serve the 12-month operation of the Fairgrounds. Placement of a new 100,000 sq. ft. Exposition Center, for example, will require adjacent parking and services. 12-month operation of private commercial ventures serving the Fairgrounds and the surrounding community will require a center of its own (the “Commons”). Hospitality development such as concessions require critical placement near venues that require unique services. Requirements for pedestrian circulation, delivery and service vehicle access, and barrier-free development will

require extensive repaving. Fortunately, the Fairgrounds is well served by utility infrastructure that will accommodate extensive redevelopment.

IV. CAPITAL FACILITIES INITIATIVE

A. Cost of Redevelopment

1. *Historical Capital Investment*

The County Parks Department has invested significant capital funding in upgrades, improvements and redevelopment projects at the Fairgrounds using proceeds identified in Fund 180. The following table identifies how those funds have been spent since 1997. Additional small capital improvements to Fairground facilities have been done in-house by Parks and Fairgrounds maintenance personnel. Recent projects include: a new roof and posts on the judging arena; paving, new stalls and mats in equestrian barns #102, #103 and #105; seal coating; water system improvements; landscaping and electrical upgrades.

EVERGREEN STATE FAIRGROUNDS CAPITAL INVESTMENT HISTORY – 1997 TO 2009

FACILITY	PROJECTS	CUMULATIVE INVESTMENT	PROJECT COMPLETION YEARS
MAJOR INVESTMENTS			
Arena (100)	Bleacher conversion, Roof sealant, Heating installation, PA and sound system, Ventilation, bulkhead, clubroom, Main Flooring change	\$ 1,031,577	1999, 2000, 2001, 2002, 2003, 2005, 2006, 2007
Equestrian Improvements	Interior and exterior lighting, add 2 outdoor arenas, stall refurbishing, barn flooring, pavement, RV expansion, Arena upgrades & all weather footing	\$ 672,953	1998, 1999, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009

FACILITY	PROJECTS	CUMULATIVE INVESTMENT	PROJECT COMPLETION YEARS
MAJOR INVESTMENTS			
Electrical Upgrades	Street lighting, panel replacements, complete loop system	\$ 359,095	1997 through current year
Parking, Road and Pathway Upgrades	Paving, West Lot Lighting plans and general Parking Lot Improvements	\$ 281,411	2002, 2003, 2004, 2006, 2007, 2008
Communications	Fiber optic upgrades, wi-fi, security connections, cameras	\$ 217,048	2000, 2001, 2002, 2003, 2004, 2006, 2007, 2008
SUB-TOTAL		\$ 2,562,084	
ADDITIONAL INVESTMENT			
Miscellaneous System-wide Improvements and upgrades	Electrical, Paving, Restrooms, Fencing, Lighting, Roofing, Earthquake Repairs, Plumbing, and etc.	\$ 1,577,434	1997 through current year
SUB-TOTAL		\$ 1,577,434	
TOTAL		\$ 4,139,518	

2. Projected Capital Investment

The following table represents proposed capital projects for the Evergreen State Fairgrounds. Completion of the top three prioritized projects will set the stage for raising private revenue for additional listed projects. The prioritization of projects follows the strategy to protect and enhance current lines of business and key individual profit centers. Those prioritized profit centers are: (1) the annual 12-Day Fair; (2) the agricultural/equestrian center; and (3) the motor and multi-sports venue. All construction project estimates include the costs of engineering, design and permits; sales tax; construction contingency; and 1% for the Arts. Parks proposes use of a \$10 million bond issue to start the redevelopment of the Fairgrounds. Return on investment from these developments will be dedicated to debt service and to encourage potential private partners to invest in the Fairgrounds.

**Evergreen State Fairgrounds
Capital Project List, Estimated Cost and Project Duration**

FACILITY	PROJECT	ESTIMATED COST (2009 Dollars)	PROJECT DURATION (When Funding Found)
PHASE 1 - PUBLIC FUNDING			
Equestrian Park (Priority)	Construction of Arena Roof and Completion of Barn Improvements	\$ 750,000 In Budget	12 Months
Motor and Multi-Sports Venue (Priority)	Upgrade and Reconfiguration of Speedway and Grandstand Repair and Upgrade	\$ 4,000,000 Proposed Bonding	18 Months
Multi-Use Ag/Expo Pavilion** (Priority)	Engineering & Construction (25,000 sq. ft. @ \$150/sq. ft.) & relocating west covered arena	\$ 6,000,000 Proposed Bonding	24 to 36 Months
Fairgrounds	Develop and Interpret Alternative Energy Program	\$ 400,000 (Funded)	1 Year
Hanson Property***	Acquire of 10-Acre Parcel using Conservation Futures Funds	\$ 4,400,000	6 Months
PHASE 1 PUBLIC/PRIVATE FUNDING			
Exposition Center	Multi-Purpose Exposition Center (100,000 Sq. ft. @ \$200/sq. ft.)	\$20,000,000	36 to 48 Months
Multi-Use Exhibition Bldg.*	Engineering and Construction (25,000 sq. ft. @ \$150/sq. ft.)	\$ 5,900,000	24 to 36 Months
Multi-Use Exhibition Bldg.*	Engineering and Construction (25,000 sq. ft. @ \$150/sq. ft.)	\$ 5,900,000	24 to 36 Months
Commercial Building	Demolish	\$ 222,750	4 Months
Buildings #607, #608 & #609 Sheep, Dairy & Goat Barns	Demolish	\$ 185,625	4 Months
Buildings #603, #604 & #605 Rabbit, Poultry, Dog & Cavy Barns	Demolish	\$ 185,625	4 Months

FACILITY	PROJECT	ESTIMATED COST (2009 Dollars)	PROJECT DURATION (When Funding Found)
PHASE 2	PUBLIC/PRIVATE	FUNDING	
Rec. Vehicle Camping Areas 1 & 2	Pave Sites, Add New Sites, Add or Upgrade Utilities (Sewer, Water, Power), WI-Fi, Restroom with Showers, Coin-Operated Laundry	\$ 2,227,500	1.5 Years
Building #502 Swine Barn	Ventilation, Sub-Meter Power, Siding	\$ 148,500	3 Months
Arena	Asbestos Abatement	\$ 148,500	4 Months
Fairgrounds	Add/Upgrade Parking Lot and Pathway Lighting	\$ 891,000	8 Months
Fairgrounds	Asphalt Paving Program (New and Upgraded)	\$ 4,500,000	Phased Over 3 Years
Airport	Acquire Airport Property	\$ 6,000,000	1 Year
	TOTAL	\$61,859,500	

*Replacements for the Commercial Building and other Exhibition Space

**Replacement for Buildings #607, #608 and #609

***Access to Conservation Futures funding will require redistribution of \$4.4 Million of current funding and approval of the Conservation Futures Program Advisory Board and the Snohomish County Council

B. Funding Issues and Strategies

Revenue currently generated by the operation of the Evergreen State Fairgrounds is not sufficient to support major capital facility development. Competing demands for diminishing general fund revenue make general fund support for capital redevelopment problematic. The current economic downturn and resultant diminished collection of sales tax and other taxes that support the County's general fund can impact support of the Fairgrounds. More than 70% of the County's general fund supports law and justice programming such as the police, the courts and the jail. Other mandated and non-mandated services compete for the remaining 30% of County general fund revenue. Cities' annexations over the next few years will also diminish general fund revenue.

Councilmanic bond issues could be used to fund a development program. Local funds such as Real Estate Excise Tax I and II (REET I and II), dedicated income streams, including the recently passed Admissions Tax, and revenues generated by the Fairgrounds could carry the cost of an annual debt service. Grants or loans supporting specific development projects could come from the County's Lodging Tax Capital Grant Program or the Community Development Block Grant Program (CDBG) including the Section 108 Loan Program. Grants funded by the Lodging Tax and the Community Development Block Grant are selected through a competitive process with final approvals from the Snohomish County Council. Projects funded with CDBG must benefit low and moderate income households..

The Fairgrounds can enter into agreements with private commercial and/or non-profit organizations for facilities that can be developed and operated through public/private partnerships, negotiated lease agreements or license agreements. Third-party operation of selected Fairgrounds facilities can also provide defined income to the County. There is precedent in Parks operations. The Kayak Point Golf Course is profitably operated by a private vendor through a County approved lease agreement which provides revenues to the County based on a percentage of the lessee's revenue.

C. Recommended Funding Initiative

The following actions will “kick start” the needed changes to put in place a business based, flexible, financially sustainable Evergreen State Fairgrounds:

1. launch a Request for Ideas and Proposals (RFI&P) leading to the selection of private, non-profit and community partners that will establish commercial development and programming examples of which may include: development or redevelopment and operation of equestrian facilities; motor and multi-sports improvements; a livestock pavilion; and destination recreation amenities;
2. dedicate current and future revenue streams (such as the newly established admissions tax) to debt servicing for a capital development bonding initiative; and
3. initiate an aggressive, multi-faceted, three-phased reinvestment campaign, to assist in the redevelopment of Fairgrounds infrastructure and identified capital components, phases of which include:
 - a. Phase 1 (1-24 months) – develop priority equestrian facilities including an Agriculture/Equestrian Pavilion and a covered equestrian arena; redevelop and upgrade the motor and multi-sports venue and the grandstand; advertise and select private partners through the Request for Ideas and Proposals (RFIP) process; commit to bond proposals using identified and dedicated revenue streams; and removal, adaptive reuse and/or redevelopment of selected buildings;
 - b. Phase 2 (1-72 months) – continue infrastructure redevelopment establishing opportunity centers, well served with utilities, establish year round destination recreation opportunities and realize partnerships through identified use of private funding and investments; and
 - c. Phase 3 (7-20 years) - continue examination of potential public/private partnerships with limited public investment.

V. CONCLUSION

Redevelopment of the Fairgrounds will require:

1. demolition, adaptive reuse and/or relocation of a number of existing buildings based on current lines of business and key profit centers;
2. creation of three opportunity centers: (a) an Agricultural/Equestrian Center; (b) a Motor and Multi-Sports Venue; and (c) a Commons.
3. construction of amenities financed and potentially operated and maintained through public/private, public non-profit and community based partnerships; and
4. a focus on fiscally and environmentally sustainable development, strong return on investment, existing stakeholder equity and the pursuit of new lines of business.

Flexible, adaptable, multiuse buildings, improved utilities and infrastructure focus on the use and demonstration of alternative energy systems and enhanced hospitality services will attract more event promoters and commercial ventures. Financing remains the critical challenge. Attracting revenue generating events and private revenue will ensure the successful, profitable, fiscally and environmentally sustainable 12-month operation of the Evergreen State Fairgrounds.



Sportsmen's Show

VI. FINANCIAL ANALYSIS

A. Existing Accounting Methodology

This first section summarizes the description and relative history of the three funds administered by the Evergreen Fairgrounds:

1. General Fund – 002-0966
2. Special Revenue Fund 180
3. Special Revenue Fund 197

Attached Exhibits A-1 and A-2 provide the revenue/expenditure history of these funds and the actual transfers of the operating surplus from the Evergreen Fairgrounds General Fund account to the Special Revenue 180 Fund.

1. General Fund: 002-0966 Evergreen Fairgrounds

- a. Comprised of three programs Administration (541), Maintenance (545) and Operations (548)
- b. Reflects all operating expenses and revenues
- c. Since 1997, in accordance with SCC 4.87.050, Fair Management and the Department of Budget and Finance Staff perform a yearly reconciliation to determine surplus revenue. Once the reconciliation process is complete a transfer of funds is made from the General Fund to Fund 180 – Reserve Fund.
- d. Each year the Fairgrounds General Fund has realized an operating surplus, a total of \$ 2,743,824 in transfers have been made to the 180 Fund over the past twelve years (See Exhibit A-1– Fairgrounds Surplus history)
- e. The reconciliation for the operating surplus did not include debt service, full indirect cost, Parks interfund support, capital, etc.

2. Special Revenue Fund 180- Evergreen State Fairgrounds Capital Improvements & Operating Reserve (Chapter 4.87)

- a. Fund 180 established in 1993 by Ordinance 93-046 to:
 - i. Accumulate funds derived from 10% of all monies received from off-season fairgrounds building, grounds and equipment licenses and rentals for the purpose of capital improvements or acquisitions for the Evergreen Fairgrounds
 - ii. The fund was established with expenditure line items for machinery/ equipment, capital repair/maintenance and indirect costs
- b. Updated September 1996 by Ordinance 96-062 to:
 - i. Expand the purpose of the fund to include an Operating Reserve
 - ii. Establish a process for the Department of Finance to determine a year-end operating surplus or deficit
 - iii. The direction to transfer funds from General Fund to Fund 180 should an operating surplus be determined or promptly notify the county executive and county council in the event of a deficit.
- c. The 2001 Budget for the 180-Fund established:

- i. A Rainy Day Expenditure Reserve in the amount of \$ 250,000 with the understanding that in the event the Fair needs to draw on this reserve that should be replenished as rapidly as possible- No draws have been made
- ii. An expenditure line item for Additional Reserve/Debt service was also established for the possibility of long term debt
- d. In 2005 by Emergency Ordinance 05-047 authorized the Supplemental Appropriation for the purchase of property adjacent to the Evergreen Fairgrounds (Hanson Property/Maintenance Annex) in a bonded amount of \$ 520,000 with an annual debt service of 34k
- e. Attached Exhibit A-2 summarizes the 180 Fund revenue (including Gen Fund Operating Transfers In) and the expenses over the past twelve years including highlights of the improvements completed and equipment purchased

3. *Special Revenue Fund 197- Cumulative Reserve Fund for Evergreen State Fair Sponsorships and Donations (Chapter 4.86)*

- a. Initially established in 1991 – Ordinance 91-103; to accumulate monies received by the county from sponsorships and donations relating to the annual Evergreen State Fair for expenditure on Evergreen State Fair purposes
- b. The budget averages 300k-400k annually; expenditures cannot exceed revenues

PARK DEPARTMENT FINDING: General Fund has not received operating surplus funds from the Fairgrounds.

Important to Note: General Fund covered the 1983 Fairgrounds Bond Debt payment (1983-2003) of 800k+/- through non-departmental, this was not considered an operating expense in calculating operating surplus.



Shanahan Cabin

B. Enterprise versus General Fund

Enterprise Definition: To account for operations that are financed and operated similar to private business, where the intent of the governing body is cost recovery or where the governing body has decided that periodic determination net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Department of Budget and Finance provided an outline of considerations relating to the different accounting methods

1. Enterprise Fund Considerations

- a. Provides comprehensive reporting of all Fair-specific activity costs.
- b. Requires clear, supportable basis for any allocated charges.
- c. Reported costs could increase or decrease over what is currently allocated to the fair program within the general fund.
- d. Enterprise funds by definition are required to be self-supporting. Full reporting *could* create an inadequate fund balance situation requiring fee increases. Fee increases *could* result in reduced attendance, which would compound the insufficiency of revenues adequate to support the fund.
- e. Can be subsidized by the General Fund.
- f. Start-up of an enterprise fund would *require* a General Fund subsidy. Going-concern (liquidity) issues may require additional, on-going general fund subsidies.
- g. Would eliminate cross-over of any Parks expenses to Fair and vice-versa.
- h. Capital purchases would not be expensed (as they are in the general fund). Instead they would be capitalized and expensed over the useful life of the asset via depreciation.
- i. Reserves/commitments of fund balance for replacement costs would be clearly identified within the fund as use being specific to replacement of Fair assets only.
- j. Profits, if any, cannot be used by the General Fund other than via an interest bearing loan.

2. General Fund Considerations:

- a. May be more difficult to obtain clear picture of true program costs.
- b. Program is not required to be self-supporting.
- c. Capital assets are fully expensed at time of purchase (*not* over the life of asset).
- d. Revenue/expense statements more closely reflect actual cash outlays.
- e. Increased financial flexibility, i.e., the general fund may receive benefit of Fair operating profits, if any, without the need to pay interest on a loan.

Of Note:

Due to new GASB requirements related to classification of fund balances, Fund 180 likely won't meet requirements to be a special revenue fund in the near future. This change will require accounts in Fund 180 be moved to (accounted for in) the general fund, or enterprise fund if one is established.

FINANCE DEPARTMENT FINDING: Either accounting protocol is acceptable.



Heritage Museum

C. Enterprise Fund Feasibility with Current Structure

The Department of Budget and Finance provided an analysis utilizing historical data and future assumptions to assess the feasibility of the Evergreen Fairgrounds transitioning to an Enterprise Fund model.

1. **Cash flow history- Exhibit C-1** from 2004-2008 on monthly basis showing revenue and expenditure stream from all related fairground activities and funds.
 - a. This includes elements from the General Fund, Fund 180 Fairgrounds Cumulative Reserve, and Fund 197 Fair Sponsorships and Donations.
 - b. This worksheet contains historical actual expenditures.
 - c. The adjusted monthly cash flow includes indirect costs and Fairgrounds costs shifted to Parks budget in prior years.
 - d. The minimum liquidity need to maintain current operations is approximately \$2 million based on the historical five year average. The operation is in a negative cash flow for 9 months of the year (November through August).

2. **Income statement (changes in net assets) - Exhibit C-2** for 2004-2008 that illustrates what the operation might have looked like if it had operated as an enterprise fund. This was prepared with advice from Cristy Schelm, Accounting and Fiscal Management Consultant.
 - a. This includes elements from the General Fund, Fund 180 Fairgrounds Cumulative Reserve, and Fund 197 Fair Sponsorships and Donations.
 - b. 2004 beginning net assets were calculated using the 2003 ending fund balance for Funds 180 and 197. The General Fund component was estimated using revenue – expenditures for year end 2003.
 - c. Capital expenditures were pulled out and are expensed over the life of the asset. 15 year straight-line methodology was used to calculate the depreciation expense.
 - d. The transfers in and out reflect both the General Fund transfer to Fund 180 of surplus revenues and the transfer in of REET I to Fund 180.
 - e. Interest expense is the current debt service payment from Fund 180. The principal payment is not reflected within this statement.

3. **5 Year Plan Scenario A - Exhibit C-3** pulls in all historical information to provide a basis for the 5 year projection that would be used from a budgeting perspective.
 - a. The data from 2004 – 2009 includes elements from the General Fund, Fund 180 Fairgrounds Cumulative Reserve, and Fund 197 Fair Sponsorships and Donations.
 - b. The data from 2004 – 2009 incorporates historical actual expenditures plus those costs that would have been paid if the operation had been an enterprise fund including full indirect costs and interfund labor.
 - c. The projections from 2010 – 2014 include the following assumptions:
 - i. Revenues include an estimate for the admission tax and interest earnings.
 - ii. Revenue growth rates are based on historical average for 2004-2008.

- iii. Interfund loan of \$2 million for liquidity at the beginning of 2010 and the associated debt payments. This was estimated using a 3 year payback and the March 2009 state pool rate of 1.03%.
 - iv. No large capital investments included, but capital repairs are included at the level of \$300,000 per year.
 - v. Expenditures assume indirect costs, interest expense and some amount of interfund labor from Parks maintenance staff based on historical use.
4. **5 Year Plan Scenario B - Exhibit C-4** shows the impact on fund balance if there are no new ongoing revenue sources. It assumes that revenue/expenditures are status quo and includes the \$2 million interfund loan.
5. ***If the Fairgrounds operations are moved to an enterprise fund the following sections of Snohomish County Code would need updates:***
- a. Chapter 4.87 Reserve Fund for Evergreen State Fairgrounds Capital Improvements
 - b. Chapter 4.86 Cumulative Reserve Fund for Evergreen State Fair Sponsorships and Donations
 - c. Chapter 2.32 Evergreen State Fair and Fairgrounds

FINANCE DEPARTMENT FINDING:

1. Without an interfund loan and new unidentified revenues, the Fairground operations would be insolvent in two years. Based on historical cash flows, a \$2 million interfund loan is necessary to establish a reserve to fund ongoing operations.
2. After a 3 year payback **with** new revenue (estimated at approximately \$750,000 annually) the enterprise fund could maintain liquidity and have small amount available for capital investment. However, no new major revenue sources have been identified without capital investment and this could prove to be a significant challenge.
3. Assuming that this revenue is found, 2013 is the earliest point at which the fund has the potential to be self-supporting. Small liquidity loans or support from the General Fund may be needed during this interim period.
4. 72% of the total fairground operations revenue is directly related to the 12 day fair. The revenues from this annual event can be severely impacted by bad weather as seen in 2008 and there are no other sources to mitigate this. Currently a contingency amount of \$250,000 is set aside in a “rainy day reserve” account in Fund 180. The cost to produce this event is continuing to increase and cannot be adjusted “on the fly” to reflect the unknown weather conditions or other outside influences that can impact fair attendance.
5. Capital improvements have been identified and prioritized by the Parks and Recreation staff. Funding sources for these improvements have not been identified. We are currently requesting an updated PA opinion on the use of REET II at the fairgrounds. If a decision is made to bond for these capital improvements an ongoing source of funding would be needed for the debt service.



West pass gate and ticket booth viewed through pedestrian tunnel

VII. EXHIBITS

- A-1. Fairgrounds General Fund Transfers to 180
- A-2. 180 Fund – Rev/Expense
- C-1. Cash Flow History
- C-2. Income Statement
- C-3. 5 Year Plan – Scenario A
- C-4. 5 Year Plan - Scenario B
- D. Aerial View





Society for Creative Anachronism court held each year in the Arena