



# CITY OF PETALUMA

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April 25, 2023

Michael Parks, Board President  
State of California 4<sup>th</sup> District Agricultural Association  
175 Fairgrounds Drive  
Petaluma, CA 94952

Dear President Parks:

I am writing in response to your correspondence of March 20, 2023, to summarize our meeting on April 12, 2023, and propose next steps to move forward as we prepare for the various transitions that must occur on the fairgrounds property in advance of the lease's expiration at the end of the year.

Background: The State of California 4th District Agricultural Association (DAA) has leased the City's fairgrounds property for the last 50 years for \$1 annually. That lease expires at the end of this year, and we have been discussing options for continuing the Petaluma annual fair while addressing the community's desire for better access to the property, more uses on the property, improved maintenance of the grounds and buildings, and correcting decades of deferred maintenance and resulting failed or soon to fail capital facilities on the property.

Your March 20 financials suggest two scenarios for carrying out the DAA's mission through local events and property management, but neither presents a financially sustainable option for the City or the DAA. The first "fair only" scenario proposes that the DAA offer an annual fair in Petaluma at a loss of \$1 million annually. The second "status quo," scenario is what exists now--where the State controls and manages the City-owned property, using the revenues from onsite events and leases to fund a portion of your year-round operations, at a \$425,000 annual deficit. Neither option demonstrates a viable financial model or how the State would fund the necessary investments to make the property a safe, accessible, thriving resource for our community.

At our April 12, 2023 meeting, CEO Tesconi stated that the DAA board was solely interested in continuing to manage the entire property but knows that it can't be 'status quo.' We asked what that means financially and operationally, and CEO Tesconi responded that she would provide that information.

Based upon our conversation, we see two possible scenarios for the future:

**OPTION ONE** – "Fair Only Option" – Under this option, the City would manage all property and events management duties. The DAA would continue operating the annual fair event with the following terms and space considerations:

- **Term:** A three-year agreement, with up to two 1-year extension options – with the goal of working together during this transition period while we masterplan the property with our residents, the 4<sup>th</sup> DAA, and the current tenants.
- **Footprint during Fair time:** DAA would have access to entire property (while minimizing impacts to current tenants) for up to one month prior to the fair, during the fair, and up to 3 weeks following the fair event for cleanup.
- **Footprint during non-fair time:** Year-round use of the administration building and shared use of the maintenance shop and related environs. At our April meeting, the City offered the DAA use of the property for events during non-fair times to assist the DAA with fundraising and revenue generation. DAA did not have a definitive response of what those needs could be.
- **Cost:** No rent charged for the use of the property and buildings; potentially some shared maintenance costs and potential DAA and/or state capital investments for the buildings utilized by the DAA.
- **Free transit:** City to provide free transit for the duration of the 5-day annual fair to encourage fair-goers to take public transportation and alleviate some parking demand onsite.

To solve for the DAA's \$1M deficit in this scenario, a sustainable path forward would require one or more of the following: a reduction in annual expenses, an increase in revenues from both the events that the DAA manages during fair and non-fair times, and/or additional funding from the state or elsewhere.

At the meeting, we also discussed a scenario (see Option Two below) where the City and the DAA could partner on a shared solution--where each Agency would bring its expertise to the project, share property revenues and investments, and work together to accomplish the community's goals for the property.

**OPTION TWO** – “DAA Manages Events Option” – Under this option, the City would manage the property and the DAA could continue managing the events and receiving the revenues associated with those events needed to make the fair financially sustainable. The DAA would continue operating the annual fair event, as with Option One. This second option would require the DAA to commit to a shared partnership, coordinated public outreach, and a united approach to achieving our community's goals for the property.

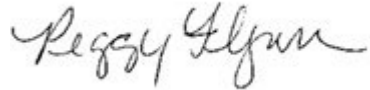
We are including the questions and comments we shared with you during our recent meeting. Attached you will find an outline of questions / comments for each section of your initial proposal: Financials, Fair Site Needs, and Property Diagram / Site Plan. Your responses will allow for a robust and informed conversation on May 2.

For guidance and reference, we have attached the Council-adopted guiding principles developed from our community's input over the last year.

Michael Parks  
April 24, 2023  
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We look forward to meeting with you on May 2, 2023 and believe that a prompt, earnest, good-faith effort to solidify an agreement that works for everyone—and most importantly, our Petaluma residents, should be our common goal moving forward.

Sincerely,

A handwritten signature in cursive script that reads "Peggy Flynn".

Peggy Flynn  
City Manager

C: City Council  
Eric Danly

Attachments:

1. Questions & Comments to DAA proposals
2. City Council Guiding Principles

**FINANCIALS**

To gain a clearer understanding, some observations, and questions:

Revenues: The "Fair-Only" scenario omits all non-fair revenue, except for a \$25,000 base allocation from the State, while recent years have seen a base allocation of \$38,000 plus Training/F&E Admin Assistance of between \$188,000-\$747,000. Please clarify.

As mentioned above, **with both scenarios indicating deficits between \$425,000 and \$1,000,000, does that mean that the DAA will not be producing or retaining any additional revenue-generating events and or any fundraising efforts?**

In the STOP 2022 financials, the DAA received over \$1,000,000 in revenue from the State: \$300,000 for capital reimbursement and \$700,000 in the F&E/Training & Admin Assistance line item. Please detail what capital expenses were reimbursed and what is the intended use of the \$700,000. Also, why is the DAA assuming \$0 in these categories under the 'fair-only' scenario?

In your cover letter you state that "it will be challenging to produce a break-even event without drastically increasing the price-per-person for the fair experience," **and in our meeting on April 12, you stated that for the 2023 fair the DAA has increased the ticket price by \$4 per person.** Please explain the accounting of that revenue in the 'fair-only' scenario given that the admissions in the 'fair-only' scenario has only increased by \$16,000, which would assume only 4,000 attendees during fair time.

Administration: The 'fair-only' scenario assumes \$346,000 in administration costs, compared to the reported 2022 amount of \$457,000. We believe single-event administrative costs should be significantly lower than year-round property management. Please detail staffing needs for the 'fair-only' scenario in both the 'administration salaries' and 'fair time wages' sections and what roles and duties each staff person has and how that will/will not change from the 'status quo' to 'fair-only' scenario.

Maintenance: The 'fair-only' scenario assumes \$131,000 in annual maintenance costs. Without having the property management function in the 'fair-only' scenario, **please detail ongoing vs one-time costs.**

Fair Time Wages, Contractors, Supplies, etc.: The "Status Quo" scenario estimates costs at \$1,170,000, while the **'fair-only' scenario estimates an increase to \$1,340,000.** Please clarify the reasons for this increase. Has the fair recently bid any of these services to ensure competitive rates? Has the fair looked at alternative models of providing certain services?

GASB Adjustment/Depreciation/Pension Expense: The "GASB annual actuarial adjustment" of \$190,000 and "PERS Retirement" of \$58,000 are included, yet the GASB annual actuarial adjustment is not a cash expense, therefore should not be included. Additionally, while **the State unfunded pension liability is a DAA cost, Petaluma taxpayers should not support a State unfunded pension liability for an annual fair.** Finally, it is unclear why the DAA would need to carry depreciation on buildings/equipment under the 'fair-only' scenario. Please provide clarification of depreciation expense.

Reserves: **The 4th DAA has an operating reserve of over \$2.2 million per the 2022 STOP financials, but there is no mention of its utilization.** Could these funds be allocated to reduce fair costs, pay off unfunded pension liabilities, or purchase equipment to minimize rental expenses, fund revenue/expense operating gaps? **What is the plan moving forward to spend**

**these funds assuming that the DAA no longer has primary maintenance or capital investment responsibilities for the grounds?**

Status Quo Scenario: The projections show the fair operating at a deficit of \$424,200 under the ‘status quo’ scenario, which the City has not offered and the community does not support. **How can the fair be made financially viable while addressing the capital needs that have resulted from 50 years of deferred maintenance?**

**FAIR SITE NEEDS**

We've been reviewing the footprint needed for the fair event, and have a few questions and observations:

Parking: We understand that significant parking is essential during large events. However, the City and DAA can explore various options to address parking needs. It is worth noting that the new DAA admin/resiliency building that the DAA has proposed for the site takes up the valuable parking you desire. In our April 12 meeting, the City offered to waive transit costs for the duration of the five-day fair.

Speedway: We realize that the Speedway occupies a large portion of the fairgrounds and serves as an important community activity. The Speedway is currently exploring additional year-round uses. Is the Fair working with the Speedway to explore ways to utilize this area outside of race season or during the fair?

Livestock Area: We appreciate that livestock showing is a crucial part of the fair event, and having safe, clean, and adequate space for the animals is essential. However, two of the current barns have been red tagged by the State and do not meet safety standards. Given the reduction in barn space, how will the fair have adequate barn space this summer?

Shop Area: The City has offered the DAA year-round shared access of the maintenance shop and environs.

Exhibit Buildings: We fully support providing access to the exhibit buildings during, and leading up to, the fair event.

Beverly C. Wilson Hall: We understand that you use this hall as a hospitality area for sponsors and board members and that you may be moving the wine garden area to this location. We support that use and change.

Main Exhibit Hall: We support the DAA using this facility during and leading up to the fair event.

Petaluma Stage: We support the DAA using this facility during and leading up to the fair event. However, we need to ensure that outdoor music events comply with local noise standards and other applicable City regulations and respect our neighboring community.

Wine Garden Area: We understand you are moving this function to the Beverly C. Wilson Hall. We support the DAA moving this use which will minimize impact on the preschool.

The Concourse: We support the DAA using the concourse during and leading up to the fair event.

Administration Office: We support the DAA using the administrative offices year-round during the agreement period.

Portable Buildings (Live Oak): To minimize the impacts to the students and families who rely on these buildings leased by Live Oak, the City offers to work with the DAA to find alternative ways to house these ancillary fair administration services, on other parts of the property.

Electronic Sign on Washington Street: The City will manage the sign and will provide the DAA flexibility to promote its on-site events and other important community messages in accordance with the City’s existing sign regulations.

DAA Events: We're delighted to support the use of the property for the four events mentioned in your letter.

Response to assumptions outlined by the DAA:

- DAA Assumption: “The facility will be provided in working order with all plumbing, electrical service, walkways, concourse, buildings, barns, locks, gates, and landscaping in pristine working order.”

City Response: We agree to provide DAA access to the fairgrounds for the stated events and will maintain the property, walkways, buildings, and landscaping in working order. While we plan to invest in the property and upgrade buildings and landscaping over time, the fact that the DAA has deferred maintenance on these buildings and property for decades while amassing a \$2.2M operating reserve, we are expecting some investment by the DAA to assist with bringing these buildings owned by the State up to code.

- DAA Assumption: “It is assumed that any onsite City-owned tables, chairs, stages, sound system, and ancillary equipment will be available for the DAA’s use at no cost to the DAA.

City Response: As the DAA owns tables, chairs, stages, sound systems, and ancillary equipment already onsite, the City will not provide additional equipment. If and when additional equipment is brought onto the property by the City, both parties can discuss use at that time.

**PROPERTY DIAGRAM / SITE PLAN**

We appreciate your diagram with your recommendations for the fairgrounds property. However, we believe that Petalumans should take the lead in determining how their property is used in the future and will do so during the master-planning effort.

Questions and observations:

- Your diagram features a building titled Resiliency Center/New Fair Admin. As a City that provides emergency services to our community and serves as the evacuation center for the County, we agree that the fairgrounds is essential for that purpose. **However, we don't think this type of building and associated services should be owned and operated by the State of California.** Instead, given that we manage our own public safety response for 60,000 residents and serve the entire region in declared emergencies, we envision a City-owned and managed emergency response facility, to be able to immediately respond to our community’s needs during a crisis—and to be publicly accessible year-round for programs, events, emergencies, and many other types of community uses.

- Your diagram doesn't account for all the needed facilities in your letter. Please help us understand how these recommendations could meet fair needs. For example, there are no new exhibit buildings that could add to fair revenue and be used for community events. Additionally, the heart of the annual fair is the area for the animals and livestock shows. **With the two existing barns currently red-tagged, how will the 2023 fair accommodate animals and livestock and what size barn are you envisioning in the area marked 'open space'? Please provide a list of exhibitors, by division, and premiums paid out to help determine facility needs (e.g., livestock, arts, crafts, foods, etc.).**
- Elaborate on 'playing fields' that also serve as overflow parking. How does that work?
- **Your diagram doesn't appear to provide space for Live Oak School, Play Dog Play, Airport Express, Java Hut, Happy Hearts Preschool, and other current tenants of the property. Are you assuming these tenants would be relocated? What revenues will the DAA use to build these improvements?**

We worked diligently over the last year to fully understand our community's vision for the future of our fairgrounds. From that work, at its October 24, 2022 meeting, the City Council adopted eight guiding principles that serve as the foundation for all negotiations, uses considered, and master-planning efforts which are as follows:

1. Acknowledge and build upon community input regarding the fairgrounds property while continuing to engage with the community going forward.
2. Create, maintain, and enhance authentic partnerships across stakeholders and community groups with an interest in the fairgrounds property.
3. Provide civic and institutional stability during the transition period and beyond so that the fair event and other key uses continue.
4. Affirm a renewed, generational commitment of the City to the Petaluma community's agricultural past and present for which the fairgrounds property continues to be a focal point, to the people who have utilized and want to utilize the fairgrounds property, and to the fairgrounds property itself and its unique challenges and potential as an asset for the whole community through near-, medium-, and long-term actions and milestones for the property and related programs.
5. Preserve and enhance key elements, resources, and activities at the fairgrounds property that the community is connected to and that make the place unique.
6. Honor the legacy of history, place, and community while fostering safety, health, inclusivity, cultural connectedness, accessibility, and useability of the fairgrounds property for the benefit of all.
7. Preserve and enhance the capacity of the fairgrounds property to provide critical emergency response resources for Petaluma and the region.
8. While preserving the essential and unique feel and presence of the fairgrounds property and its core features, ensure that future fairgrounds property uses, including fair event uses, are maximized to effectively and compatibly accomplish as many of the community's needs and wants for the fairgrounds property as possible.