COMMITMENT
INTEGRITY
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FACT SHEET

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Los Angeles County

Weak Oversight of Its Lease With the Los Angeles County Fair Association Has Likely Cost Millions of Dollars in Revenue

Background

The Los Angeles County Fair Association (association) has operated the Los Angeles County Fair for decades on land the Los Angeles County (county) largely owns, commonly known as the Fairplex. For years, the association did not pay annual rent for using the property, but in 1988 the county and the association entered into a new 56-year lease. The lease allows the association to operate the fair and develop and increase the use of the Fairplex, and requires it to pay the county rent based on the amount of revenue the association receives from its use of the Fairplex. In addition to the LA County Fair and other for-profit subsidiaries and nonprofit organizations, the Fairplex has a hotel and conference center, which the association opened in 1992 and 2012, respectively.

Our Key Recommendations

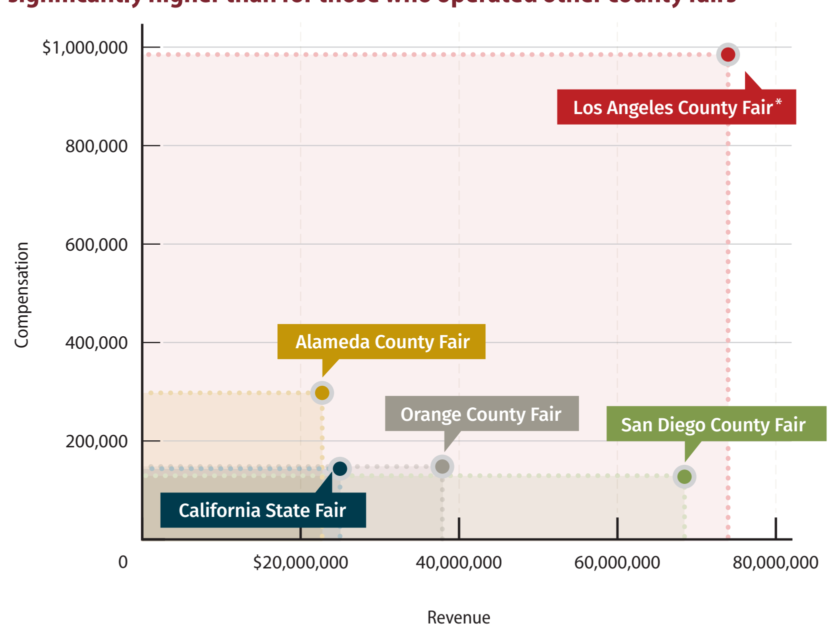
The county should do the following:

- Reach agreement with the association on the total rent owed from the hotel's operations and the date by which it must pay.
- Collect on all amounts owed as a result of revenue generated by the conference center.
- Review the association's rent calculations at least every three years to ensure the accuracy of the calculations.
- Protect its interests and maximize its future rent revenue by amending the lease to include appropriate revisions to rent calculations, future dates or circumstances for renegotiating the rent calculation formula, and terms related to the approval process for subleases and notifications of refinancing of the association's debt.

Key Findings

- The county has failed to actively monitor the lease and has lost millions in revenue.
  - » It likely relinquished more than $6 million in rent revenue over ten years because it allowed the association to exclude any gross revenue generated by its hotel in its rent calculation.
  - » To help the association refinance its bond debt on the hotel, the county agreed in 1997 to delay collecting rent related to the hotel until the association repaid the debt. However, without always notifying the county, the association subsequently refinanced its bond debt multiple times, and now the county will not receive any rent from the hotel's operations until 2039, which is only four years before the lease expires.
  - » The county has not received additional rent from the conference center's operations, despite providing the association with $12 million in rent credits to help finance constructing the conference center.
  - » The county does not collect rent based on the gross revenues of the association's subsidiaries.
- The association's executives receive much higher compensation than executives that run other large fairs in California—the levels of compensation varied due to a bonus-based compensation structure. For example, the association's former president's compensation ranged from a high of $1.2 million in 2007 to a low $549,000 in 2009.
- Although it received millions of dollars related to an RV park it owns and operates at the Fairplex, the association failed to maintain it and was cited for numerous health and safety violations.

The compensation in 2014 for the CEO who operated the LA County Fair is significantly higher than for those who operated other county fairs



* The Los Angeles County Fair Association operates the LA County Fair.

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