



Monterey County

Parks Commission

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Receive Lake Nacimiento Resort and Operations Enterprise Fund Year-End Financial Report for Fiscal Year 2021-22.

RECOMMENDATION:

It is recommended that the Monterey County Parks Committee receive Lake Nacimiento Resort and Operations Enterprise Fund Year-End Financial Report for Fiscal Year 2021-22.

SUMMARY:

Public Works, Facilities and Parks (PWFP) is presenting the Year-End Financial Report for Lake Nacimiento Resort and Operations Enterprise Fund for Fiscal Year (FY) 2021-22. Attachment A provides a comparison of the modified budget to actual revenues and expenses for the year (note depreciation expense is an estimate, as the actual was not available). Lake Nacimiento began the year with a positive net position of \$1,903,567 and is estimated to end the year with \$2,323,912, a net increase of \$420,345. The net position includes restricted funds of \$947,012 (\$683,379 for Zebra/Quagga Mussel Program and \$263,633 for 2018 trailer fire insurance proceeds), net investment in capital assets of \$1,011,747, leaving an unrestricted net position of \$365,152. The unrestricted net position is intended to provide for unforeseen emergencies and changes in financial conditions.

DISCUSSION:

The Resort at Lake Nacimiento is operated under an agreement with a third-party management company, Vista Recreation (formerly Basecamp). The agreement allows for reimbursement of the operator's expenses that exceed revenues, in addition to a monthly management fee and annual incentive fee. The Management fee for FY 2021-22 is \$314,556 and increases annually by the June Consumer Price Index for the San Francisco Area. The annual incentive fee is ten percent (10%) of adjusted net income. The adjusted net income excludes specific costs, such as administrative staff costs, ranger surface patrol, County insurance, depreciation, and capital expenses. The County is responsible for capital expenses such as repairs to infrastructure. The estimated annual incentive fee for FY 2021-22 is \$4,044 and will be paid out in FY 2022-23.

On May 26, 2021, PWFP informed the Budget Committee that Vista Recreation had its first annual independent audit of financial statements for the period ending June 30, 2020, completed per the new terms of the agreement (Agreement No. A-15648 dated August 1, 2019, on file with the Clerk of the Board). Prior to that, Vista Recreation was only required to submit an annual expenditure audit. Although the auditors provided a clean opinion of the financial statements (which means the financial statements are free from material misstatements, there are no material findings on the annual

performance report, and there are no material findings on non-compliance with key legislation), Vista Recreation disclosed that adjustments were made to the financial statements previously provided to the County. PWFP has included the adjustments in Fiscal Year 2021-22 revenues/expenses. Attachment A provides the details of the adjustments, which are also discussed further in the report.

Annual operating revenues, derived largely from daily admissions, camping, room rentals, marina, and moorage totaled \$2,713,382. A prior period adjustment added an additional \$693,544 to revenues, bringing total revenues to \$3,406,926. The one-time increase is related to an annual independent audit, that identified additional profit from June 2020, utility reimbursements, and an equity adjustment. Overall, revenues fell short of the budget by \$417,526. With inflation and fuel prices rising, demand for luxury goods/services, such as boating and vacations, have decreased. This decrease in demand, specifically from boaters, is evident in the admissions revenue, which decreased by 36% from the prior year. The lack of boating demand is also evident in the 51% decrease in moorage (overnight in water boat parking), and fuel sales relative to 2021. Marina revenues were also significantly lower than anticipated, due to dwindling fleet of rental vessels and fuel prices. On average, due to increased mechanical issues, only two rental boats were regularly available. Considering Nacimiento utilized more than ten (10) rental vessels in previous years, this significant decrease in Marina revenues is expected. Lodging was the only revenue center that increased relative to 2020 and 2021, showing the need to invest in overnight accommodations. The lodging units, have and continue to have significant investment and deferred maintenance needs. Parks is looking into funding opportunities to invest in the overnight accommodations to increase price per unit and overall demand.

Operating expenses totaled \$3,138,090, and largely include Vista Recreation salary/benefits, insurance, property taxes, credit card fees and supplies, as well as County costs for Countywide Cost Allocation Plan (COWCAP), utilities, and oversight. An additional one-time reimbursement to Vista Recreation of \$339,416 for prior years' authorized expenses from the Reserve Fund Account (RFA) increases total costs to \$3,477,506. The County worked with Vista Recreation to minimize losses by scaling back operations and workforce in response to changes in visitorship. Overall, realized expenses were \$353,351 less than budget. This helped offset the loss of revenues, resulting in a net operating loss of \$70,580.

Non-operating revenues and expenses include interest income (\$20,930), sale of capital assets (\$1,135), insurance proceeds for damage to the General Store (\$28,070), and interest on long-term debt from the Water World Resort, Inc. settlement (\$61,794). The long-term debt interest payment is offset by an operating transfer-in from the General Fund (\$61,794), which negates the expense. The principal portion of the long-term debt is reflected in the balance sheet as a payable. An additional operating transfer-in from the General Fund of \$457,411 provides the cash needed to pay the principal portion of the long-term debt. Zebra/Quagga Mussel Restricted Net Position funds were used to transfer \$16,621 to the General Fund to contribute towards a patrol vessel and trailer purchased primarily with grant funds. The non-operating revenues exceeded expenses by \$490,925.

Overall, the operating loss of \$70,580 is offset by the non-operating gain of \$490,925, for an ending change to net position of positive \$420,345. Although the ending Net Position grew to \$2,323,912 (restricted \$947,012 + net investment in capital assets \$1,011,747 + unrestricted \$365,152), this would only be \$1,969,784 without the one-time adjustment of \$354,128 from prior

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years' accounting corrections by Vista Recreation. These one-time adjustments record revenues and expenses that should have been paid or billed to the County by the property management company in the prior years, but only reported in FY 2021-22. This adjustment is included as part of FY 2021-22 actual amounts in Attachment A, pending further instruction from Auditor-Controller Office if restatement of prior year financial statements for this prior-period adjustment is necessary.

PWFP-Parks continues to look for additional revenue generating activities and cost saving measures to help Lake Nacimiento thrive. Fortunately, with the approval of a recent amendment to the management agreement with Vista Recreation, the management company purchased ten (10) new rental boats to be delivered before peak season of 2023. The County will receive fifteen percent (15%) of the gross boat rental revenues, as well as ancillary revenues from marina services, and drastically increase admissions, fuel, camping, and lodging revenues. Parks is also interested in acquiring several of the RV trailers used at the San Lorenzo Park COVID site to replace rental trailers that are no longer safe to rent, which would help boost trailer rental revenues.

OTHER AGENCY INVOLVEMENT:

This report was presented to the Budget Committee on September 30, 2022.

FINANCING:

Accepting the Year-End Report has no financial impact.

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Approved by: Randell Ishii, MS, PE, TE, PTOE, Director of Public Works, Facilities, & Parks

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Attachment:

Attachment A - Lake Nacimiento Financial Report for Fiscal Year 2021-22