



# Monterey County

## Budget Committee Report

Legistar File Number: BC 19-120

Monterey Room  
Monterey County Government Center  
Administration Building  
168 West Alisal Street 2<sup>nd</sup> Floor  
Salinas, CA 93901-2438

October 24, 2019

**Introduced:** 10/17/2019

**Version:** 1

**Current Status:** Agenda Ready

**Matter Type:** Budget Committee

- a. Receive a report on the Lakes Resort and Operations Enterprise Fund, Fund 452, FY 2018-19 financial condition;
- b. Support a General Fund Contribution of \$2,131,440 for the FY 2018-19 Lakes Resort and Operations Enterprise Fund, Fund 452, to offset the deficit; and
- c. Provide direction on preferred funding source.

### RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive a report on the Lakes Resort and Operations Enterprise Fund, Fund 452, FY 2018-19 financial condition;
- b. Support a General Fund Contribution of \$2,131,440 for the FY 2018-19 Lakes Resort and Operations Enterprise Fund, Fund 452, to offset the deficit; and
- c. Provide direction on preferred funding source.

### SUMMARY:

Overall, the Lakes Resort and Operations Enterprise Fund (Fund 452) ended FY 2018-19 with a \$2,131,440 deficit as detailed in this report and its attachments. Staff recommends that the Budget Committee accept this report and support a General Fund Contribution to balance this Fund for Fiscal Year (FY) 2018-19 from either General Fund Contingency (balance of \$4,512,868) and Cannabis Assigned Fund Balance (balance of \$15.6 million as of June 30, 2018).

The Lakes Enterprise Fund began FY 2018-19 with a negative net position of \$3,384,569 and ended with a negative net position of \$2,733,381. This reflects a positive change in net position of \$651,188 due to a one-time General Fund subsidy of \$2,243,149 for the FY 2017-18 deficit. The Board also allocated \$250,000 for current year operating capital; however, \$108,151 was needed to completely offset the prior year's deficit leaving \$141,849 for FY 2018-19 operating capital.

### DISCUSSION:

Oversight of the Lakes Resort and Operations was delegated to RMA in July 2016, and the County Parks Department was integrated into the RMA by Board action in December 2016. When the Board of Supervisors approved the RMA to move forward with a limited reopening of Lake San Antonio (LSA) on July 26, 2016, it was done without an augmentation of funds. LSA has remained opened since that date under the Enterprise fund, and at the end of each fiscal year, a General Fund subsidy has been necessary to cover the operating deficit. In the meantime, RMA continues to gain direct experience and knowledge about the Lakes Resort and Operations from hands-on training and research and analysis of facility operations dating back to 1954. In October 2018, the County

Administrative Office (COA) an overview of the Lakes fiscal year budget deficiencies since FY 2007-08 presented to the Board and forecasted that under the existing business model, annual budget deficits would continue. Staff has provided as Attachment A, the CAO Analysis on Fiscal Status of the Lakes Resorts for reference.

Since the formation of the Lakes Enterprise Fund, the Lakes operations have yet to break-even. Between FYs 2014-15 to 2018-19, the Fund experienced annual operating losses ranging from \$1,207,328 to \$2,759,453, all requiring General Fund subsidies. Financial detail is included in Attachment B: Lakes Resort & Operations Income Statement for FY 2018-19, Attachment C: Lakes Resort & Operations Budget to Actual FY 2018-19, and Attachment D: Lakes Resort & Operations Income Statement Five-Year Comparison. Major factors contributing to annual operating losses at the Lakes include: 1) the reliance on reservoir levels for recreational purposes; 2) the unpredictability of the annual weather cycle; and 3) the unprofitable scale-of-operations at Lake San Antonio (LSA).

RMA staff recently completed a draft Lake San Antonio (LSA) Operations Plan (Plan) based on the Board of Supervisors decision to transition LSA into the County Parks system and continue Lake Nacimiento operations as a resort under a third-party management agreement. The intent is for Lake Nacimiento to become self-sustaining as a resort operation with its own enterprise fund. This requires the facility to operate under a business philosophy. The County entered into a new Management Agreement for the operation of Lake Nacimiento with Basecamp on August 1, 2019. Under the new agreement, the County requires Basecamp to provide an annual budget and schedule monthly operations meetings to review transactions identified on the monthly profit and loss statements, purchases (invoices), and revenue generating activity. The draft Plan is being updated and this business strategy for operating LSA North and South Shores will be presented to the Board in November 2019

Overall, FY 2018-19 revenues, excluding operating transfers in, were below budget by \$894,754. Lake Nacimiento revenues were down due to lower attendance associated with low water levels. Nacimiento experienced a 40.02% drop in water capacity from July 2017 (69.0%) to July 2018 (28.98%). As a result, the number of visitors declined by 21,632 or 22.86% for that period. Additionally, two (2) special events at Lake San Antonio, Lightning in a Bottle (\$199,500) and Wildflower (\$194,905), were cancelled and an additional \$40,000 was budgeted for events that did not materialize, resulting in a decline in revenue of \$434,405.

Expenditures exceeded the approved budget by \$735,065. Staff costs were higher than anticipated due to emergency repair projects and drafting the LSA Plan, as well as, reimbursement to the Sheriff's Office for patrol services at LSA over the Memorial Day weekend. Several notable emergency projects required immediate remediation and resulted in increased costs: repair of the Lake's sewer lift station; preventative fire hazard vegetation clearing; replacement of a failed pump during peak season; and repair of electrical lines damaged by a falling tree.

Additionally, expenditures for the Lake's Management Company (Basecamp) outpaced the budget. Budgeting for lake operations continues to present a challenge as reservoir water levels, directly correlate to Park attendance, making it difficult to forecast. Without considering County expenditures incurred supporting the Lakes, Basecamp reported a net profit of \$771,846. As stipulated in the prior

agreement, the County paid Basecamp an annual incentive fee of \$192,961 (25% of net profit), a monthly management fee of \$62,152 (1.5% of monthly gross sales), an Administrative fee of \$80,000, a Marketing Fee of \$40,000, and monthly settlements when expenses exceeded revenues of \$737,473. In total, the County paid Basecamp \$1,112,586.

Of note, the FY 2018-19 ending negative net position of \$2,733,381 includes both unrestricted (negative \$3,587,705) and restricted (positive \$854,324) balances. Restricted net position includes funds that have been set aside for a specific use. The Lakes have restricted balances of \$700,000 for the Zebra/Quagga Mussel Program and \$154,324 for the Reserve Fund Account-Improvements and Acquisitions, a combined total of \$854,324. These restricted funds have supported operations throughout the years and must be replenished. This subsidy requested does not include replenishing \$854,324 in restricted net position. Unless the Fund can restore the restricted funds through operational changes, RMA will need to request an additional subsidy.

For financial statement reporting purposes only, the Lakes also required a temporary loan of \$2,181,831 from the General Fund to close the year with a positive cash balance as required by the Governmental Accounting Standards Board. This temporary loan was repaid immediately to the General Fund at the start of FY 2019-20.

OTHER AGENCY INVOLVEMENT:

Due to late submission of this Budget Committee Report, the CAO Budget and Analysis Division was not provided adequate time to fully review for potential fiscal, organizational, policy or other implication to the County of Monterey.

FINANCING:

RMA requests a General Fund Contribution of \$2,131,440 to offset a deficit of \$2,131,440 for the FY 2018-19 Lakes Resort and Operations Enterprise Fund, Fund 452. Potential funding sources for the Committee's consideration include: General Fund Contingency (balance of \$4,512,868) and Cannabis Assigned Fund Balance (balance of \$15.6 million as of June 30, 2018).

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The recommended action supports the Board of Supervisors Strategic Initiative for Administration through the consistent practice of efficient, effective resource management and fiscal accountability and transparency.

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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- Attachment A-CAO Analysis on Fiscal Status of the Lakes Resorts FY 2017-18
- Attachment B-Lakes Resort & Operations Income Statement for FY 2018-19
- Attachment C- Lakes Resort & Operations Budget to Actual FY 2018-19
- Attachment D- Lakes Resort & Operations Income Statement Five-Year Comparison