



Monterey County

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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Receive a financial condition report on Lake Nacimiento Resort and Operations Enterprise Fund, Fund 452, for the period July 2019 through February 2020.

RECOMMENDATION:

It is recommended that the Board of Supervisors receive a financial condition report on Lake Nacimiento Resort and Operations Enterprise Fund, Fund 452, for the period July 2019 through February 2020.

SUMMARY:

Staff is presenting a financial condition report of the Lake Enterprise Fund. This is the first report under the new model excluding Lake San Antonio (LSA). Lake Nacimiento is budgeted under Fiscal Year (FY) 2019-20 Adopted Budget, Enterprise Fund 452, Appropriation Unit RMA102. As of February 2020, operating revenue projections were \$3,694,512 and estimated operating expenditures were \$3,800,254, for an estimated net operating loss for FY 2019/20 of \$105,742. RMA worked with Basecamp, a third-party contract management company, to mitigate potential losses before year-end, by exploring new revenue streams by increasing visitors and implementing cost-reduction measures. As of February 2020, RMA was optimistic that efforts made to increase business during March through June would result in the Enterprise Fund not needing a General Fund subsidy this fiscal year for annual operations (Attachment A).

However, on April 1, 2020, as a COVID-19 case was reported in one of the Lake Nacimiento neighborhoods and boaters were coming from distances away to recreate, RMA directed Basecamp to close all operations at the resort. A barricade was placed at the entrance limiting access to essential personnel that remained to monitor the grounds only. The Monterey County Shelter in Place Order, originally issued on March 17, 2020, has been reissued three (3) times (April 3, May 3, and May 26, 2020) with restrictions that have severely impacted the Resort's peak season and revenue. On May 8, 2020, the Lakes were allowed to reopen to the public with limited operations and park entry. The Covid-19 outbreak has negated Basecamp's ability to operate the Resort in a profitable status this fiscal year, and it will continue to impact profitability in FY 2020-21.

The Enterprise Fund began FY 2019-20 with a negative net position of \$2,733,381, which includes a negative unrestricted balance of \$3,587,705 and positive restricted balance of \$854,324. Depending on when the Resort can fully reopen without limitation on the number of park visitors, vehicles, vessels, and operating hours, the net operating loss for the year could be as high as \$819,440, resulting in an

overall Fund net position of \$884,827. In that case, financial assistance to cover the annual loss and to replenish the restricted fund balance would approximate \$1,739,151.

RMA continues to work closely with Basecamp to project the overall financial impact of COVID-19 for both the current and next fiscal year, as well as, to monitor both operations and finances to manage the extent of loss by reducing expenditures where possible. RMA will return to the Board of Supervisors via the Budget Committee to present the financial position of Lake Nacimiento for FY 2019-20 and estimate for FY 2020-21 before January 2021. Staff recommends that the Board of Supervisors accept this report.

DISCUSSION:

Oversight of the Lakes Resort and Operations was delegated to the Resource Management Agency (RMA) in July 2016, and the County Parks Department was integrated into the RMA in December 2016. Historically, the Lakes, comprised of Lake Nacimiento and Lake San Antonio (LSA), were reported in an Enterprise Fund and operated like a private business. Since the formation of the Lake Enterprise Fund, the Lakes operations have yet to operate without a General Fund subsidy. Between fiscal year's (FYs) 2014-15 through 2018-19, the Fund experienced annual operating losses ranging from \$1,207,328 to \$2,759,453, all requiring General Fund subsidies. Some factors that appear to impact operations include: reservoir water levels for recreational purposes; weather; and scale-of-operations (specifically LSA). Now, there are unknown impacts of the Coronavirus outbreak and Shelter in Place Orders throughout California.

In January 2019, RMA presented three (3) options to the Board for consideration to stabilize operations and mitigate losses at the Lakes. Staff recommended the Board approve removing LSA from the Enterprise Fund as it was not conducive to being operated like a business-type activity. LSA was moved to the General Fund to operate under the regional County park model. With LSA removed from the Lakes Enterprise Fund, negotiations between Basecamp and the County focused on developing a facilities management agreement for resort and recreational areas solely at Lake Nacimiento.

The intent of this change was to facilitate Lake Nacimiento becoming self-sustaining as a resort operation with its own Enterprise Fund. The County entered into a new Management Agreement for the operation of Lake Nacimiento with Basecamp on August 1, 2019. The approved Agreement between Basecamp and the County includes a fixed management fee of \$300,000 annually, paid in monthly installments of \$25,000. The Fixed Management Fee is adjusted annually at the beginning of each fiscal year in accordance with the prior 12-month average (July through June) Consumer Price Index (CPI) adjustment for the San Francisco-Oakland-Hayward, CA area. In addition, the agreement includes an Annual Incentive Fee of ten percent (10%) applied against Adjusted Net Income.

The Enterprise Fund includes revenues and expenses as defined under the new Agreement, as well as County-incurred expenditures directly associated with the resort and recreational areas at Lake Nacimiento. County-incurred expenditures include management of capital repairs and/or construction, utilities, fleet, Vehicle Acquisition Management Program (VAMP), insurance(s), loan repayment, depreciation, Ranger emergency response, and management oversight of Basecamp.

On March 17, 2020, the Monterey County Public Health Officer issued a Shelter in Place Order, effective through April 7, 2020, to slow the spread of novel coronavirus (COVID-19) and preserve critical healthcare capacity. Two days later, San Luis Obispo County, where Lake Nacimiento resides, issued a Shelter at Home Order. These Orders require residents to stay home except to engage in essential activities, as defined in the Orders. Traveling for leisure is not identified as essential, yet the government still encourages residents to go outside to exercise and get fresh air. To provide opportunities for area residents to continue enjoying Lake Nacimiento, Basecamp continued offering hiking, fishing, and Quagga Inspection, but closed the lodges and marina. The store was reduced to limited access and opened upon visitor request for necessities only.

On April 3, 2020, the Monterey County Shelter in Place Order was reissued with new restrictions and extended through May 3, 2020. The Order was reissued on May 4, 2020, and again on May 26, 2020. The peak season begins at Easter and ramps up dramatically over Memorial Day Weekend. This event will significantly impact Basecamp's ability to operate the Resort in a profitable manner this fiscal year.

RMA has worked with Basecamp to determine both the operational and financial impacts of the COVID-19 closure. As the state of Lake Nacimiento's peak season revenues are unknown for the remainder of this fiscal year, no precise forecasting is possible. To lessen the financial impact to the operation, Basecamp instituted aggressive cuts to all discretionary expenditures as well as effected a significant reduction in labor. Multiple budget scenarios were prepared and analyzed; including, assuming the Resort reopens May 3, June 1, or does not reopen through June 30. The longer the resort is closed, loss increases exponentially. Each of the three (3) described scenarios are presented in this report.

Basecamp reduced the workforce from 18 to seven (7), eliminating positions in housekeeping, campground maintenance, grounds maintenance, reservations, and entry gate. The remaining positions are primarily management and include the Interim General Manager, Facility Maintenance Manager, Marina Manager, Office Manager, Operations Manager, and two (2) staff to maintain the Marina and Grounds. Operating costs have been scaled back with savings from reduced repairs and maintenance, credit card charges, marketing, and outside services.

Scenario 1, Lake Nacimiento Reopens on May 3, 2020. This assumption includes a reduced workforce down to seven (7), a reduction in operating expenses, and after opening, a 40 percent (40%) reduction in May revenues and 20 percent (20%) in June revenues, as visitors are expected to be hesitant to return to normal activities. The Resort is closed for the entire month of April, including the busy Easter Holiday weekend, resulting in estimated revenues and expenses declining by \$512,232 or 13.87% and \$279,773 or 7.36%, respectively, for a net change of \$232,459. This would increase the net operating loss to \$338,201 (Attachment B).

Scenario 2, Lake Nacimiento Reopens on June 1, 2020. Basecamp would continue with the same reduced workforce as mentioned in Scenario 1 for the month of May, operating costs would continue to be reduced, and June revenues would be lowered by 40 percent (40%). May is typically the fourth highest revenue-generating month of the year. The cumulative revenue loss for April and May, and

reduced June revenue, is estimated at \$779,215 or 21.09%. Expenses would also decline by \$392,629 or 10.33%, which would result in a net change of \$386,586. As a result, Nacimiento's net operating loss would increase to \$492,328 (Attachment C).

Scenario 3, Lake Nacimiento does not reopen before the fiscal year end. Staff reductions and operating costs will continue to be reduced as in both Scenarios 1 and 2. This is the most financially damaging scenario as it assumes the Resort would be closed from April through June, some of the top revenue-generating months. Typically, as temperatures rise and schools are out for summer break, there is a huge influx of visitors in June. If the Resort remains closed, estimated revenues will plummet by \$1,334,762 or 36.13%, with expenses declining \$621,064 or 16.34%, for a net change of \$713,698. In this worse-case scenario, the net operating loss is estimated at \$819,440 (Attachment D).

Of note, the FY 2019-20 beginning 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. RMA planned to work toward replenishing the \$854,324 in restricted net position through operational changes that were expected to increase annual net profits. However, with the COVID-19-caused closure of Lake Nacimiento and uncertainty of the resulting financial impact, it is unlikely the restricted funds can be replenished through normal operations. It is likely that RMA will need to request a subsidy to replenish the restricted funds in the amount of \$854,324.

OTHER AGENCY INVOLVEMENT:

This report was reviewed by the County Administrative Office Budget & Analysis Division and presented to the Budget Committee on April 29, 2020.

FINANCING:

Lake Nacimiento Resort and Operations Enterprise Fund, Fund 452, began Fiscal Year (FY) 2019-20 with a negative net position of \$2,733,381. Due to the unexpected outbreak of COVID-19 and its impact on the hospitality industry, all assumptions are now in a state of flux. The true impact on the bottom line is unknown. However, RMA is providing three (3) scenarios to plan for significant losses while the Park facility is closed. Depending on when the Resort reopens, May 3, June 1, or not before the end of the fiscal year, the net fiscal operating loss could range between \$338,201 and \$819,440 and the overall Fund's net position could fluctuate between negative \$403,588 and \$884,827. Should the decision be made to make Lake Nacimiento Resort and Operations Enterprise Fund whole by providing financial assistance for the fiscal year loss and to replenish the restricted fund balance, the estimated need would be between \$1,257,912 and \$1,739,151. RMA will return to the Board of Supervisors via the Budget Committee with updates and a formal request as soon as the final fiscal year end status is ascertained, and more information is available to estimate the impact of COVID-19 on FY 2020-21.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The recommendation of this report supports the Board of Supervisors' Administration Strategic Initiative by ensuring accurate, timely, and transparent fiscal accounting and effective resource management which enables the RMA to complete its essential public services.

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

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Attachments:

Attachment A- Lake Nacimiento Resort & Operations Income Statement (IS) through Feb 2020

Attachment B- Lake Nacimiento IS Forecast with Assumption Resort Reopens May 3, 2020

Attachment C- Lake Nacimiento IS with Assumption Resort Reopens June 1, 2020

Attachment D- Lake Nacimiento IS Forecast with Assumption Resort Closed through June 30

(Attachments are on file with the Clerk of the Board)

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