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LAKE NACIMIENTO FINANCIAL CONDITION REPORT FOR FISCAL YEARS 2019-20 & 2020-21

LAKE OPERATIONS OVERVIEW

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. On September 15, 2020, the Board of Supervisors adopted a resolution that will dissolve the RMA and split its present functions into two departments on November 30, 2020. The new Community Services Department (CS) will assume responsibility for the Lakes Resort and Operations.

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 turn a profit. 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. Contributing factors include the reliance on reservoir levels for recreational purposes; the unpredictability of the annual weather cycle; and the unprofitable scale-of-operations at LSA. Now, the hospitality industry is grappling with the impacts of the Coronavirus outbreak and Shelter-in-Place Orders throughout California, along with impacts from the 2020 Wildfires throughout California.

In January 2019, RMA presented three (3) options to the Board for consideration to stabilize operations and mitigate losses at the Lakes. The Board approved the option to remove LSA from the Enterprise Fund as it was deemed unprofitable for business-type activity. LSA was moved to the General Fund to operate under the regional County park model, effective July 1, 2019. With LSA removed from the Lakes Enterprise Fund, negotiations between Basecamp, a third-party contract management company, and the County focused on developing a facilities management agreement for resort and recreational areas solely at Lake Nacimiento.

On August 1, 2019, the County entered into a new Management Agreement for the operation of Lake Nacimiento with Basecamp, with the intent for Lake Nacimiento to become a self-sustaining resort operation with its own Enterprise Fund. The approved Agreement includes an annual fixed management fee of \$300,000, paid in monthly installments of \$25,000. At the beginning of each fiscal year, the Fixed Management Fee is adjusted in accordance with the prior 12-month average (July through June) Consumer Price Index (CPI) adjustment for the San Francisco-Oakland-Hayward, CA area. The July 2019 through June 2020 CPI average was 1.6%, resulting in a fee for FY 2020-21 of \$304,800. In addition, the Agreement includes an Annual Incentive Fee of ten percent (10%) applied against Adjusted Net Income.

The Lake Nacimiento Enterprise Fund includes revenues and expenses under the new Agreement, as well as County-incurred expenditures directly associated with the resort and recreational areas. 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.

FINANCIAL CONDITION - FISCAL YEAR 2019-2020

Fiscal Year 2019-20 was the first year the Enterprise Fund operated separately under the new model, with Lake San Antonio (LSA) moved to the General Fund. This allows RMA to focus on Lake Nacimiento and manage it as a self-sustaining operation. 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 as operating revenue projections were \$3,694,512 and estimated operating expenditures were \$3,800,254, for an estimated projected net operating loss of \$105,742. The onset of the COVID-19 outbreak in March 2020, changed that outlook and presented unique challenges altering both Basecamp's and the County's approach to operations. RMA has worked closely with Basecamp to mitigate potential losses before year-end, by exploring new revenue streams through increasing visitorship and implementing cost-reduction measures. .

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 required residents to stay home except to engage in essential activities, as defined in the Orders. Traveling for leisure was not identified as essential, yet the government still encouraged residents to go outside to exercise and get fresh air. To provide opportunities for area residents to continue enjoying Lake Nacimiento, Basecamp continued offering camping, 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.

However, on April 1, 2020, when 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 and only essential personnel remained to monitor the grounds.

The Monterey County Shelter-in-Place Order, originally issued on March 17, 2020, was reissued three (3) times, on April 3, May 3, and May 26, 2020). On April 3, 2020, the Monterey County Shelter-in-Place Order was reissued with new restrictions and extended through May 3, 2020. This Order was reissued on May 4, 2020, and again on May 26, 2020.

These shelter-in-place restrictions significantly impacted the Resort's peak season and revenue. Peak season begins at Easter and ramps up dramatically over Memorial Day Weekend. On May 8, 2020, RMA allowed Basecamp to reopen to the public with limited operations and park entry to ensure the safety of both visitors and staff. The limited operations greatly impacted Basecamp's ability to operate the Resort in a profitable manner. Basecamp revenues for May, which included the Memorial Day Weekend, were \$166,523, a 59.5% reduction compared to the prior year's revenues when Basecamp earned \$416,112 for the same period.

RMA worked with Basecamp to determine both the operational and financial impacts of the COVID-19 closure. 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. Three budget scenarios were prepared and analyzed, including assuming the Resort reopened May 3, June 1, or not reopening through June 30th. These scenarios were provided to the Budget Committee on April 29, 2020, and included annual deficits ranging between \$403,588 and \$884,827.

Originally, Basecamp reduced the workforce from 18 to seven (7), eliminating positions in housekeeping, campground maintenance, grounds maintenance, reservations, and entry gate. The seven 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 were scaled back with savings from reduced repairs and maintenance, credit card charges, marketing, and outside services. Staffing increased with the soft opening on May 8, 2020.

Lake Nacimiento's annual operating revenues and expenses were \$2,992,562 and \$3,276,236, respectively, for an operating loss of \$283,674. When including a negative beginning net position of \$2,733,381, non-operating (County) revenues/expenses of \$103,869, and operating transfers in for the prior year deficit and the principal/interest on long term debt of \$2,650,645, the overall ending net position is a negative \$470,279 [FY 19-20 loss (\$283,674)+ negative beginning position (\$2,733,381)+ non-operating costs (\$103,869)+ operating transfer in \$2,650,645]. RMA is requesting a subsidy of \$470,279 to make the Enterprise Fund whole for FY 2019-20.

Of note, the FY 2019-20 beginning negative net position of \$2,733,381 includes both unrestricted (negative \$3,587,705) and restricted (positive \$263,633) balances. Restricted net position includes funds set aside for a specific use. The Lakes have restricted balances of \$700,000 for the Zebra/Quagga Mussel Program and \$263,633 in Insurance Proceeds to replace trailers damaged in the 2018 fire, a combined restricted fund total of \$963,633. These restricted funds have inadvertently subsidized operating losses throughout the years. RMA's plan was to work toward replenishing the \$963,633 in restricted net position through operational changes that were expected to increase annual net profits. However, with the closure of Lake Nacimiento resulting from the COVID-19 outbreak, it is unlikely the restricted funds can be replenished through normal operations anytime soon. RMA will continue to work toward replenishing the \$963,633 in restricted funds. Should the Board of Supervisors prefer to replenish the restricted fund balance now, a subsidy of \$1,433,912 would be required (\$963,633 for restricted funds replacement plus \$470,279 for FY 2019-20 operating loss).

LAKE NACIMIENTO RESORT AND OPERATIONS
INCOME STATEMENT
FISCAL YEAR 2019-20

	Pre-COVID Actuals July-Feb	Post COVID Actuals March-June	Total
OPERATING REVENUES:			
Rents, Concessions, and Leases	2,242,742	635,947	2,878,689
Park and Recreation Services	-	(110)	(110)
Miscellaneous Revenues	322	27	349
Other Reimbursements	113,633	-	113,633
Total Operating Revenue	2,356,698	635,864	2,992,562
OPERATING EXPENSES:			
Salary & Benefits	53,452	25,516	78,967
Services & Supplies	2,159,746	818,504	2,978,250
Depreciation	-	199,945	199,945
Other	-	19,073	19,073
Total Operating Expenses	2,213,198	1,063,038	3,276,236
Net Operating Income (Loss)	143,500	(427,174)	(283,674)
NON-OPERATING REVENUES (EXPENSES):			
Insurance Proceeds	260	-	260
Interest Income/(Expense)	(295)	-	(295)
Gain/Loss on Sales of Capital Assets	1,402	-	1,402
Interest on Long Term Debt	(25,981)	(79,256)	(105,236)
Total Non-Operating Revenue/(Expense)	(24,613)	(79,256)	(103,869)
Net Income (Loss) before Transfers	118,887	(506,430)	(387,543)
Operating Transfers In (Interest on LT Debt)	-	105,236	105,236
Operating Transfers In (Principal on LT Debt)	-	413,969	413,969
Operating Transfers In (for prior year deficit)	2,131,440	-	2,131,440
Change in Net Position	2,250,327	12,775	2,263,102
Beginning Net Position, July 1, 2019			(2,733,381)
Operating Revenues			2,992,562
Operating Expenses			(3,276,236)
Non-Operating Revenues(Expenses)			(103,869)
Operating Transfers In (Interest on LT Debt)			105,236
Operating Transfers In (Principal on LT Debt)			413,969
Operating Transfers In (for prior year deficit)			2,131,440
Ending Net Position			(470,279)
NET POSITION			
Restricted for Insurance Proceeds (Trailers Damaged in 2018 Fire)			263,633
Restricted for Quagga Mussels			700,000
Unrestricted			(1,433,912)
Total Net Position			(470,279)

FINANCIAL CONDITION FORECAST - FISCAL YEAR 2020-2021

RMA worked closely with Basecamp in January/February 2020 to develop the FY 2020-21 Lake Nacimiento budget. At that time, Basecamp was in its first six months of operating Lake Nacimiento solely (separate from Lake San Antonio) and had limited financial data under the new business model. The adopted budget includes operating revenues of \$3,749,470, an operating transfer in of \$519,206 for principal/interest on long term debt, and operating expenses of \$3,674,584, for an increase to Net Position of \$594,092. This budget was developed prior to the COVID-19 outbreak, which began impacting the County in March 2020.

As COVID-19 continues to impact Lake Nacimiento operations, RMA requested Basecamp to provide revised budget scenarios for FY 2020-21 to forecast potential impacts on the bottom line. Three scenarios were provided based on potential restrictions to operations: 1) Limited Operations, No Camping or Lodging; 2) Current Operating Level as of July 2020; and 3) No Restrictions, Complete Reopening. The assumptions for each scenario are outlined below, in addition to a side-by-side comparison of the three (3) scenarios depicted in the Income Statement. Noteworthy, the scenarios do not take into consideration any potential ongoing impacts from the recent wildfires. The River Road Fire began on August 16, 2020, and was 100% contained on September 5, 2020; the Carmel Fire began on August 18, 2020, and was 100% contained on September 5, 2020; and the Dolan fire began on August 18, 2020, and is approximately 71% contained as of the writing of this report.

Currently, the only Fire impact experienced at Lake Nacimiento was severe smoke from the River Fire which affected visitation for approximately two weeks in August, which is reflected in Basecamp's August financials. Basecamp provided financials for both July and August 2020. The Net Operating Income has come in under budget for July by \$218,747, or by 63 percent (63%), and for August by \$15,025, or by 95 percent (95%), which equates to a total reduction of \$233,722.

After the FY 2020-21 budget was adopted, RMA became aware of four additional unanticipated costs totaling \$258,932: 1) Water System Improvement Project to clear a violation notification from the California Regional Water Quality Control Board that was scheduled to be completed by June 30, 2020, was postponed due to vendor delays (\$159,360); 2) fuel line replacement (\$67,292); 3) new radio repeaters (\$5,917); and 4) increased depreciation expense (\$26,363). Based on the scenarios provided by Basecamp, along with additional County costs of \$258,932, the Change in Net Position income/loss ranges from a loss of \$361,870 to a gain of \$46,435.

At this time, RMA estimates the maximum subsidy needed for FY 2020-21 is \$361,870. Should the Board of Supervisors prefer to provide a subsidy now for the estimated loss, a subsidy of \$1,795,782 would be required (\$361,870, plus the \$470,279 FY 2019-20 operating loss, plus the \$963,633 for Zebra/Quagga Mussel and Insurance Proceeds for trailers). It is early in the fiscal year to make reliable predictions when the ongoing impact of the COVID-19 outbreak is unknown. RMA will continue to work with Basecamp to minimize loss and return with an updated report mid-year.

SCENARIO NO. 1 - LIMITED OPERATIONS, NO CAMPING OR LODGING

Assumptions include:

- a) Current July and August actuals, then revert to the limited operations experienced in May 2020;
- b) Operations limited to restricted numbers of day use and boat launch, marina retail and fuel sales, moorage, and dry storage;
- c) Exclude all lodging, land-based retail, RV camping, dry camping and boat/equipment rentals;
- d) No off-season project improvements proposed, budgeted, or staffed.

SCENARIO NO. 2 - CURRENT OPERATING LEVEL AS OF JULY 2020

Assumptions include:

- a) Current July and August actuals, and remainder of year operates under continued limited/ reduced services;
- b) Add in additional day-use numbers, additional boat launch numbers, land-based retail with reduced hours of operation, boat rentals (only 4 boats), equipment rentals, lodging and approximately 60 percent (60%) of the camping facilities;
- c) Limited projects, as well as limited improvement projects, to maintain park (repainting tables, minor maintenance projects).

SCENARIO NO. 3 - NO RESTRICTIONS, COMPLETE REOPENING

Assumptions include:

- a) Current July and August actuals, with a fully opened facility August 2020 thru June 2021. This demonstrates the Park fully staffed, with approved County maintenance projects funded in the budget;
- b) Business levels return to original 2020 forecasts and assume the availability of a full workforce.

LAKE NACIMIENTO RESORT AND OPERATIONS
INCOME STATEMENT FORECAST
FISCAL YEAR 2020-21

	SCENARIO NO. 1	SCENARIO NO. 2	SCENARIO NO. 3
OPERATING REVENUES:			
Rents, Concessions, and Leases	1,868,399	2,508,828	3,223,659
Total Operating Revenue	1,868,399	2,508,828	3,223,659
OPERATING EXPENSES:			
Services & Supplies	2,550,888	2,785,013	3,524,997
Depreciation	219,717	219,717	219,717
Total Operating Expenses	2,770,606	3,004,731	3,744,714
Net Operating Income (Loss)	(902,207)	(495,902)	(521,055)
NON-OPERATING REVENUES (EXPENSES):			
Interest Income/(Expense)	(500)	1,500	1,500
Cost Allocation Plan	105,688	105,688	105,688
Interest on Long Term Debt	(84,057)	(84,057)	(84,057)
Total Non-Operating Revenue/(Expense)	21,131	23,131	23,131
Net Income (Loss) before Transfers	(881,076)	(472,771)	(497,924)
Operating Transfers In (Interest on LT Debt)	84,057	84,057	84,057
Operating Transfers In (Principal on LT Debt)	435,148	435,148	435,148
Change in Net Position	(361,870)	46,434	21,281