

Attachment A

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Attachment A – Lakes Management Agreement History

Monterey County Parks Department (Parks) first entered into an agreement for management services at Lake Nacimiento and Lake San Antonio with Basecamp (previously, “CalParks”) on May 3, 2011.

Attachment B provides the Lakes management agreement history through 2019. On July 1, 2016, the Board of Supervisors (Board) appointed the Resource Management Agency (RMA) Director as Interim Parks Director. With the lake management agreement set to terminate on July 26, 2016, during peak season at the Lakes, RMA requested a one- (1-) year extension for a revised term ending October 2017, beyond the busy season.

On December 13, 2016, the Board approved integration of the Parks Department into the RMA. With this assimilation, RMA assumed responsibility for most Parks’ agreements in place. After analyzing the lake operations, RMA determined that a new RFP for long-term lake resort management services was needed. To provide time to issue an RFP and negotiate a new management agreement, RMA requested a two-year extension to the existing Agreement (A-11983). The Auditor-Controller’s office would only support a one-year extension to the agreement, and the Board authorized extension of the agreement through October 2018.

RMA released RFP #10674 in February 2018. The solicitation was divided into two sections: the “base” bid was for management of Lake Nacimiento only and an optional “secondary” bid for management of Lake San Antonio (LSA), including both North and South Shore operations. The solicitation was designed to seek an exclusive service agreement for all Lake operations; the type or model of Agreement was left to the proposers. On April 12, 2018, the County received only one response to the solicitation from Urban Park Concessionaires dba Monterey Lakes Recreation Company (Basecamp), the present management company.

Staff mulled over cancelling the solicitation and issuing a new RFP in hopes of attracting additional responders. Based on conversations with vendors that had shown prior interest in Lake operations, it did not appear that a new solicitation would yield a different result.

RMA staff attempted, but was unable, to identify a non-profit organization to manage the Lake facilities, as well as looked at operating the facility with County staff. After comparing the pros and cons relating to seasonal staffing, flexibility in staffing levels, and salaries and benefits between County management and Contractor management, RMA issued a tentative award in September 2018 to begin contract negotiations for Lake Nacimiento only. Negotiations to reach an agreement for the management services were extensive, and RMA had to return to the Board four times to incrementally extend the term of A-11983 until the negotiations were finalized. **Attachment B** reflects the evolution of Board-approved changes associated with Agreement A-11983 (as amended and extended) pertaining to compensation, term extensions, and staff recommendations regarding the new Management Agreement for comparison.

This proposed management agreement specifically addresses several concerns of the parties, including: optimizing the agreement term to enhance retention of contract personnel; reducing the annual operating deficit to reduce the need for County General Fund subsidy; stabilizing vendor compensation-partnering in profit sharing, and defining operations responsibilities clearly for both parties.

First, contractual stability was a major concern for Basecamp in negotiating the new Management Agreement. As depicted in **Attachment B**, while Basecamp has been under contract for several years, the contract terms never exceeded 18 months in duration, and on two occasions, in 2013 and in 2015, the contract term lapsed requiring a renewal or new agreement restating and extending the terms of the prior agreement. This short contract term impacted Basecamp’s ability to retain personnel. Accordingly, the proposed agreement term is for seven (7) years, effective upon the date of execution through December 31, 2026. Additionally, the County has added language into the Management Agreement for the County to renegotiate the terms with Basecamp if there are any changes to the current lease agreement between the County and Monterey County Water

Resources Agency (MCWRA) or after two consecutive fiscal years of recognizing a negative Adjusted Net Income.

Second, per the terms of A-11983, the County was reimbursed by Basecamp for utilities, County Information Technology Department charges, and Fleet charges, excluding vehicle lease payments under the Vehicle Asset Management Program (VAMP), which were reflected in Basecamp's monthly Profit and Loss (P&L) Statement. However, the County incurred other costs such as maintenance and infrastructure repairs, refuse and recycling, security, surface patrol, and administration, in addition to the above reimbursed expenditures not included in Basecamp's P&L and therefore excluded from the incentive fee calculation for Basecamp. Over the last few years, Basecamp's financials reflected a positive net income, after factoring in the County-reimbursed costs; however, the overall Enterprise Fund ended the Fiscal Year in a deficit due to the other County costs, requiring the need for a subsidy from the General Fund. On October 16, 2018, the County Administrative Office reported on the Financial Condition of the lake resort operations that reflected required subsidies since Fiscal Year 2011-12.

Third, the proposed agreement promotes the concept of "partnering" with Basecamp in managing the resort and recreational areas at Lake Nacimiento to optimize profits, including sharing both profits and deficits. A-11983 included an incentive fee intended to motivate the vendor to maintain facilities to generate more revenue. Instead, it disincentivized the vendor to incur expenditures toward the care and upkeep of the Lake facilities to maximize their incentive fee potentials. As a result, combined with minimal County oversight, the Lake facilities have deteriorated from the deferred maintenance. To reach agreeable terms on profit sharing, the proposed agreement commits significant County capital investment to improve present facility conditions.

Fourth, the proposed Management Agreement provides stable compensation, regardless of water levels, for Basecamp and the County, by offering a fixed management fee of \$300,000, escalated yearly corresponding to the annual average consumer price index for the San Francisco-Oakland-Hayward, CA area. The Management Agreement also includes a small 10 percent (10%) incentive fee based on an adjusted net income formula that includes specific County costs as identified in the Agreement. It also requires Basecamp to pass through to the County any monthly surplus; the County will pay Basecamp for any monthly deficit. Staff anticipates that Basecamp's monthly gross revenues will increase with the inclusion of alcohol in Basecamp's monthly P&L, and monthly expenditures will be lower without County expenditures reflected on Basecamp's P&L. Other significant changes include: removing other monthly payments to Basecamp for Administrative Fee or Marketing Fees, the inclusion of requiring Basecamp to provide full financial audits based on Generally Accepted Auditing Standards (GAAS), requiring annual operation plans for staffing, marketing, operation, and maintenance, to be approved by the County, financial reporting by profit generating activity.

Last, clearly defined operation responsibilities, for the County and Basecamp, are included in the proposed Management Agreement. Agreement A-11983 lacked definitions as to which party held responsibility for various park operations. This Agreement details the roles of each party in several tables and exhibits. Authority and responsibility regarding setting rates and fees, special event reservations, procurement of goods and services, reporting schedules, and maintenance standards are all specified. Maintenance responsibilities for the County and Basecamp are detailed in Exhibit A to the Management Agreement. Established mandatory regular facility inspections will allow the County and Basecamp to review unexpected needs and incorporate a response into the annual operations plan. This enables the County to provide enhanced oversight to ensure full compliance with the terms of the agreement.

On January 15, 2019, the Board approved the removal of LSA from the Enterprise fund, since after taking over from the prior Concessionaire, LSA has not demonstrated it can operate as a business-type activity versus that of a regional County park. Enterprise funds are used to account for government business-type activities and as such, follow similar measurement focus and basis of account as those used for a private business that use accrual basis of accounting, capitalization and depreciation of capital assets, reporting of long-term liabilities, optional use of budgetary accounts, and take into consideration the "near term" availability of financial resources.

Currently, County expenditures are incurred at Lake Nacimiento that are not directly related to the management of the resort and recreational areas assigned to Basecamp, such as surface patrols by County Park Rangers on the lake surface itself. The County, under its current leases with MCWRA, is responsible to provide lake surface patrol at both Lake Nacimiento and LSA. This cost is one factor contributing to the Enterprise Fund deficit. RMA recommends that only costs directly associated with the management agreement for the resort and recreational areas be reflected in the Enterprise Fund. All other costs are recommended to be budgeted and funded under the Parks Operations General Fund, as they had been allocated prior to the creation of the Enterprise Fund.

Attachment C provides a comparison of the terms of Agreement A-11983, RFP scope requirements, Basecamp's RFP response, and final negotiated terms of the proposed Management Agreement.

Attachment D provides a summary of various payments to Basecamp, by fiscal year, under Agreement A-11983. A-11983 contains multiple annual fees that the County paid to Basecamp, including an *Administration Fee for Centralized Services* of \$80,000, a *Marketing Fee* of \$30,000; a *1.5 percent (1.5%) Management Fee* based on monthly Gross Revenues; and a *25 percent (25%) Incentive Fee* based on Gross Revenues less Cost of Goods Sold and Operating expenses. In addition, to the County reimbursing Basecamp for any monthly operating deficit.

With the conclusion of negotiations, RMA recommends that the Board approve the proposed Management Agreement with Basecamp for facilities management of resort and recreational areas at Lake Nacimiento.

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