



Monterey County

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Budget Committee Report

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Receive the biannual financial reports for Parks General Fund and Parks Lake and Resort Fund for the period beginning January 1, 2017 and ending June 30, 2017.

RECOMMENDATION:

It is recommended that the Budget Committee receive the biannual financial reports for Parks General Fund and Parks Lake and Resort Fund for the period beginning January 1, 2017 and ending June 30, 2017.

SUMMARY:

General Fund

The Parks General Fund revenues were \$7.4 million during the second half of FY 2016-17. Revenues for the year were \$10.3 million, exceeding the \$8.4 million budget by \$1.9 million; resulting in actuals exceeding the budget by 22.5%. This is a result of a new two-year management agreement between the County and the Sports Car Racing Association of the Monterey Peninsula (SCRAMP), which was effective January 1, 2017. The agreement now requires SCRAMP to deposit all funds earned at the Laguna Seca Recreational Area (LSRA) with the County, which resulted in the revenue spike.

Overall expenditures during the second half of FY 2016-17 totaled \$8.5 million. Expenditures for the year were \$11.4 million, coming in under the budget of \$12.1 million by \$693,437. Salary and benefit expenditures were \$3 million, coming in under budget by \$2.3 million, because of staff turnover and vacant positions, such as the Director of Parks and Recreation (RMA Director assumed duties in July 2016), Management Analyst II, Finance Manager, Range Master, and Range Aide. Services and Supplies totaled \$8.2 million, exceeding the budget of \$6.8 million by \$1.4 million. This was a direct result of the new SCRAMP agreement, which stipulates the County will provide SCRAMP with operating funds to be replenished as necessary to insure adequate cash flow for LSRA operations. Other expenses came in \$207,959 over budget because the estimated budget anticipated additional staff charges being reimbursed from the Parks Lakes Resort Fund, which were not realized.

If there are no additional changes to FY 2016-17 revenue and expenditures, the net General Fund Contribution (GFC) need will be \$1.1 million, which is \$2.6 million less than the \$3.7 million budgeted. The reduced GFC need is attributable to revenues exceeding budget by \$1.9 million and expenditures coming in \$693,437 under budget.

Parks Lake and Resort Fund

The Parks Lake and Resort Enterprise Fund brought in \$3 million in operating revenue and an additional \$1.5 million in operating transfers during the second half of FY 2016-17. Total

annual operating revenue collections were \$4.4 million, exceeding the \$2.4 million budget by \$2 million. Lake Nacimiento experienced a gross profit of \$3.1 million, offset with operating and overhead costs of \$2.3 million, for a net income of \$828,123.

Lake operations are most active between Memorial Day (May) and Labor Day (September), which splits the County's fiscal year. In August 2016 (FY 2016-17), RMA partially re-opened Lake San Antonio South Shore after being closed for two years. This was done without funding being allocated. Use of the Lakes was hampered by the Chimney Fire. Lake San Antonio (LSA) South Shore partially opened on weekends beginning in mid-April 2017 and was fully open (South Shore and North Shore) and operational by mid-June. As a result, LSA reported a gross profit of \$372,246, expenses of \$365,201, for a modest net income of \$7,045.

This is the first time that both Lakes reported net income since FY 2012-13. The percentage of budget collected is reflective of a conservative revenue budget, and increased visitor traffic. The operating revenue budget for FY 2016-17 reflects management's assumption that low water levels, due to the drought, would continue to discourage visitors and thus drive revenue down. Instead, the Lake's experienced a 29.4% rise in operating revenue over prior FY 2015-16. The non-operating revenue budget is \$2.4 million and transfers in to date total \$1.5 million; which include \$200,000 for Quagga-Zebra Mussel Prevention Program Prevention, \$711,000 for the Lake Settlement, \$550,000 for the Adopted Budget Augmentation, and \$32,000 for Fire and Storm event reimbursement.

As the water at the lakes returned to levels that accommodate recreational use, the Lakes experienced a rise in park visitors, which in turn increased operating cost. The Parks Lake and Resort expenses for the second half of the fiscal year were \$4.8 million, or 95.3% of the total budget of \$5.1 million. For the year, the Lake Resort expenses totaled \$6.1 million, exceeding the budget of \$5.1 million by \$1 million. The overage is attributed to estimated depreciation expense of \$800,000 that was omitted from the FY 2016-17 budget that RMA assumed and the estimated concessionaire management incentive fee of \$200,000, which is 25% of CalParks Annual Net Profit. Historically, the Parks Department has not budgeted for depreciation expense; future budgets, beginning with the FY 2017-18 budget, include depreciation expense. The concessionaire management incentive fee is only incurred when CalParks turns a profit, which had not occurred since FY 2012-13.

Overall, expenses exceeded revenues, resulting in a net loss of \$184,454. The Parks Lake Resort Fund began the year with a negative Fund Balance of \$5.4 million and with the loss, the negative Fund Balance is estimated to increase to \$5.6 million.

DISCUSSION:

The Resource Management Agency (RMA) assumed temporary management of the Parks Department and the operating budget for both Parks and the Lakes in July 2016 and by December 2016, the Board of Supervisors officially acted to add Parks into the RMA. Reorganizing the Parks Department under RMA created an opportunity to provide additional support for administration and management.

The first half of the fiscal year had its challenges with the Soberanes Fire, occurring between July 22nd and October 12, 2016, shutting down Toro Park to allow for use as the primary fire

camp and then the Chimney Fire, between August 13th and September 6, 2016, which slowed RMA's efforts to reopen Lake San Antonio. The fires caused significant damage and impacted Park facilities and deterred visitors. RMA continues to work with both Federal and State fire agencies to recover cost from these events.

Soon after the fires, California experienced heavy rain storm events that brought much needed water to California, which officially ended the drought state of emergency in Monterey County. However, these storms caused additional damage to Park facilities and RMA continues work to recover from the storms. Increased water levels allowed for the Parks Lake Resort to fully open both South and North shores in Lake San Antonio by the end of the fiscal year, which for all intents and purposes had been closed since July 2015.

As mentioned previously, CalParks experienced its first profitable year since FY 2012-13 and that is due, in large part, to water levels returning to recreational use levels towards the latter half of the fiscal year. With both lakes full of water and visitor use rising, RMA anticipates a much improved, and hopefully profitable, upcoming year at the Lakes. This will depend partly on if/how much County is reimbursed for winter storm damage.

OTHER AGENCY INVOLVEMENT:

This report has been reviewed by the Budget Office.

FINANCING:

The County's financial records for FY 2016-17 will not officially be closed until October-November of 2017. If no unexpected transactions occur between now and the firm close, the General Fund Parks appropriation units will all come in within the adopted expenditure budget and revenue will have exceeded the budget by \$1.9 million or 22.5%.

The Lakes operating revenue also exceeded the budget by \$2 million or 82.7%, which far surpassed the County's expectations. However, expenses exceeded the budget by \$1 million, due to two expenses which were not budget for in FY 2016-17; approximately \$800,000 in depreciation and \$200,000 for the concessionaire management incentive fee. As a caveat, the Parks Lake Resort Fund is an enterprise fund, meaning it is operating similar to a business and is considered self-supporting and is not restricted by budget appropriations.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Providing clear financial reporting on a regular basis to the Budget Committee promotes the County's commitment to accountability and transparency.

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

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Attachments:

Attachment A - Parks General Fund Financial Summary Bi-Annual Report (January-June)

Attachment B - Parks Lake Resort & Operations Financial Summary Bi-Annual Report
(January-June)