



Monterey County

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Board Report

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Receive the Lakes Resort and Operations Enterprise Fund Biannual Financial Report for the period July 1, 2018 through February 28, 2019.

RECOMMENDATION:

It is recommended that the Budget Committee receive the Lakes Resort and Operations Biannual Financial Report for the period July 1, 2018 through February 28, 2019.

SUMMARY:

The Resource Management Agency (RMA) is providing an 8-month summary of the Lakes Resort and Operations Revenues and Expenses (Attachment A "Lakes Income Statement"), Budget to Current Year Estimate Comparison, with Period 8 Actuals (Attachment B), an Income Statement 5-Year Comparison (Attachment C), and Basecamp (formerly CalParks) Profit and Loss & Summary of County Payments (Attachment D). The reports, in conjunction with the written report, provide an overview of the financial health, as well as challenges and successes the Lakes Resort is experiencing.

The Income Statement (IS) separates the Lakes operating activities from its non-operating activities to allow the reader to better understand the profitability of the Lakes. Operating activities directly relate to the Lakes core business functions; which include, camping, lodging, marina, moorage, restaurant, grocery/merchandise store and park admission. The non-operating activities, which are also referred to as investing or financing activities, are functions of the Lakes that do not directly relate to providing goods and/or services.

As of February 28, 2019, the Lakes has an operating net loss of \$845,543, before interest income, transfers in, and interest on long-term debt. Simply put, under the current Management Agreement with Basecamp (formerly CalParks) managing both Lake Nacimiento and Lake San Antonio, operating costs exceed revenue. In comparison, the two (2) years prior to Parks being managed by RMA (refer to Attachment C), Lakes operations incurred losses of \$3,083,389 and \$1,476,883. The reoccurring operating losses demonstrates that Lakes current operations are not currently sustainable without a General Fund subsidy, of on a 5-year average, \$1.9 million. After including the non-operating revenue and expenses, such as, interest income of \$1, transfers in from the General Fund of \$711,240 for the Lakes settlement annual debt service payment, and \$2,243,149 to fund the prior year's deficit, the total change in Net Position becomes a positive \$1,280,101. The positive balance is deceiving, in that the \$2,243,149 transfer in covers expenses from the prior fiscal year. When removing this one-time transfer in, the change in Net Position is a negative \$963,048 (Refer to Attachment A), which truly reflects the current year's activity. It should be noted that this current year is considered a good year due to the amount of water available during the main operating period.

The Lakes continue to require annual General Fund subsidies to operate under the current business model. To develop an informed Lakes Operational Business Plan, RMA staff has researched and analyzed Lakes history dating back to 1954. RMA is presenting the Lakes Operational Business Plan to the Budget Committee on March 27, 2019 for consideration. This Plan provides a business analysis and plan of operations for the Lakes based on Board direction. The Plan addresses operations for the County managing Lake San Antonio North Shore and South Shore to serve as a regional park that includes overnight camping, boating and events. It also includes references to Lake Nacimiento operations, as County staff will have responsibility for strict oversight of the management agreement and all capital improvements.

Staff is currently negotiating a new management agreement for Lake Nacimiento only. The existing agreement with Basecamp was scheduled to terminate in October 2018, but has been extended several times, and expires on April 30, 2019, to allow staff time to work towards reaching an agreement for a new contract. Staff plans to present a draft agreement and the draft Operations Plan together on April 23rd for Board consideration. Concurrently, the Auditor Controller is performing an internal audit of the current agreement.

DISCUSSION:

Oversight of the Lakes Resort and Operations was delegated to RMA on July 20, 2016 and later officially integrated with RMA by Board action on December 13, 2016.

The FY 2018-19 budget included \$5,989,559 in expenses, derived from \$1,479,500 in salary and benefits, \$3,971,200 in services and supplies, \$220,403 in depreciation, and another \$318,456 in long-term debt interest and taxes and assessments. The expenses were budgeted to be offset with \$6,027,418 in revenue with \$5,316,178 coming from operations and \$711,240 from a General Fund subsidy to cover the annual debt service payment related to the 2007 Settlement (Refer to Attachment B).

Actual revenues through Period 8 are \$4,774,486, which include \$2,531,337 in operating revenue and \$2,243,149 from a transfer in from the General Fund to cover the prior year's deficit. The current year estimate for operating revenues (excluding the one-time transfer in of \$2,243,149) is 4,486,230 which will fall short of the budget by \$827,992. Contributing factors include, canceling three (3) special events (Wildflower, Dirty Bird, and Lightning in a Bottle) and a reduction in visitors of approximately 58,600 over the first 7 months as water levels have been low. The miscellaneous revenue of \$151,957 includes \$150,000 insurance reimbursement for property damage from a fire and \$1,956 in court fines from parking violations. The Lakes also realized a small amount (\$3,361) from the sale of a surplus capital assets. (Refer to Attachments A and B)

Period 8 expenses totaled \$3,494,386, thus far including \$663,591 in salary and benefits, \$2,564,833 in services and supplies (\$611,460 to Basecamp for losses, management incentive fees and Ranger boat fuel), and \$265,962 for property tax and the Cost Allocation Plan. The current year expense estimate is \$6,333,523, which would exceed the budget by \$343,964. The estimated overage is primarily attributed to an increase in Basecamp reimbursements for losses (monthly expenses exceeding revenue), as the low water levels resulted in a decline in visitors, which drives down revenues. Nacimiento experienced a 40.02% drop in water capacity from July 2017 (69.0%) to July

2018 (28.98%), and the number of visitors declined by 21,632 or 22.86%. Relying on water levels alone to draw visitors is not sustainable. RMA is working with Basecamp to encourage a diversified business plan that includes other recreational activities that do not rely on water levels. (Refer to Attachment B)

The Management Company that oversees the Lakes Operations, Basecamp, has reported a net operating profit of \$418,488 through January 31, 2019. The summer months of July and August saw a total net operating profit of \$929,526, whereas the Fall/Winter months of September through January realized a loss of \$511,038. Under the current Management Agreement with Basecamp, the County is required to reimburse Basecamp for the monthly operating losses (expenses exceed revenues), currently totaling \$511,038. In addition, the County pays Basecamp a monthly management fee, calculated at 1.5% of gross sales, which through January 31st totaled \$35,967 and an annual incentive fee, which is 25% of net profit. The annual incentive fee for the period July 1, 2018 through October 30, 2018 totaled \$192,072. When including the County's operating costs expended supporting the Lakes, that includes staff salaries and benefits, building/equipment maintenance repairs, sewer and water system repairs, property insurance, fleet and vehicle replacement, interest on long-term debt, taxes and assessments, and depreciation, the overall result is a loss for the entire Lake operation. (Refer to Attachment D)

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 implications to the County of Monterey.

FINANCING:

Past and current Lake operations are not sustainable without a General Fund subsidy. RMA has developed a Lakes Business Plan, which will be presented to the Budget Committee on March 27, 2019, which will provide an alternative approach to managing the Lakes, by transferring Lake San Antonio to the Parks General Fund and entering into a new Management Agreement requiring strict County staff management and oversight.

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:

- A - Lakes Resort & Operations, Income Statement
- B - Lakes Resort & Operations, Budget to Current Year Estimate Comparison & Actuals for Period
July 1, 2018 - February 28, 2019
- C - Income Statement 5-Year Comparison
- D - CalParks Profit and Loss & Summary of County Payments