



# Monterey County

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## Budget Committee Report

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**Matter Type:** Budget Committee

Receive a report on the Lakes Resort and Operations Enterprise Fund providing an update on current year estimated financial condition.

### RECOMMENDATION:

It is recommended that the Budget Committee receive a report on the Lakes Resort and Operations Enterprise Fund providing an update on current year estimated financial condition.

### SUMMARY:

As the fiscal year is ending, the Resource Management Agency (RMA) is projecting the Lakes Resort and Operations Fund will end the Fiscal Year (FY) 2018-19 with an operating deficit of \$2,272,355. Since the formation of the Lakes Enterprise Fund, the Lake operations have yet to break-even, and between FYs 2013-14 to 2017-18, the Fund experienced annual losses ranging from \$1.5 to \$3 million, requiring general fund subsidies. The major contributing factors include the reliance on the reservoir levels for recreational purposes, the unpredictability of the annual weather cycle, and unprofitable scale of operations at Lake San Antonio (LSA).

Monterey County Water Resources Agency (Agency) owns and operates two dams, which formed the two bodies of water known as Lake Nacimiento and Lake San Antonio (collectively referred to as "the Lakes". The Agency operates these reservoirs to provide flood control services and maintain a sustainable water resource for Monterey County residents (current and future), including the Agricultural sector. The Agency provides an estimated annual reservoir release schedule, but actual releases are impacted by annual rainfall and can change without notice. The County's lease of the land for recreational activities provides no guarantee of yearly water levels.

Droughts are a recurring feature of California's climate, and between Fall 2011 and 2015, California experienced the driest period since record-keeping began in 1895. The latest drought elicited a formal emergency declaration by then governor, Jerry Brown beginning in January 2014 and ending in April 2017. Droughts hit agricultural-intensive areas like Monterey County particularly hard and increase the demand on reservoir water for irrigation. Consequently, the Lakes operations cannot depend solely on reservoir water levels to attract visitors.

To address the unprofitable scale of operations at Lake San Antonio (LSA), RMA developed a draft Lakes Recreational Reservoir Business Plan (Plan), which provides a business analysis and plan of operations for the Lakes based on the Board of Supervisors (Board) direction. The Plan primarily addresses the County managing LSA North Shore and South Shore as a regional park and moving it from the Lakes enterprise fund to the general fund. This allows the park to operate as a day-use/regional park providing low impact activities such as camping, fishing, biking, hiking, and

horseback riding. The Plan also includes references to Lake Nacimiento operations, as County staff will provide strict oversight of the management agreement and perform all capital improvements. Additional information on Lake Nacimiento will be presented when the Management Agreement, currently under negotiations, is finalized and brought to the Board on June 25, 2019. The Plan has been presented in draft form to Community meeting(s), Parks Commission, Budget Committee, and Capital Improvement Committee for consideration. Input obtained from the committees/commissions and community outreach is incorporated within the draft Plan and is expected to go to the Board in the Fall of 2019.

#### 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. Over the past 2.5 years RMA has gained experience and knowledge from hands-on training and research and analysis dating back to 1954. However, managing the enterprise fund to be cost neutral has and continues to present a challenge.

Under the new Management Agreement, the County will require the selected Lake Management Company to provide an annual budget and schedule monthly operations meetings to review transactions identified on the monthly profit and loss statements, purchases (invoices), and revenue generating activity. The Chief of Parks will be on-site weekly to oversee operations and drive business decisions. This will allow the County an opportunity to respond quickly to changes at the Lakes, like water levels, to ensure that correct measures are taken to reduce overhead costs and capitalize on other business opportunities.

On October 16, 2018, the County Administrative Office (COA) presented to the Board a report on the financial conditions of the lake resort operations enterprise (Fund 452) as a result of the fund having a negative cash balance of \$2,101,300 at the end of FY 2017-18 (Attachment A). The CAO's report highlighted the history of general fund subsidies needed at the Lakes since the County assumed full operational responsibility in FY 2006-07. The report also estimated the lakes enterprise fund would continue to require at least \$1 to \$2 million in general fund subsidies every fiscal year, under the current operational management. Upon recommendation from the CAO, the Board approved a subsidy of \$1,993,149 to offset the 2017-18 prior year's operating deficit and \$250,000 to provide operating capital for the current fiscal year. Of the \$250,000 for current year operating capital, \$108,151 was needed to completely offset the prior year's deficit, which left \$141,849 for current year operating capital.

At the April 10, 2019 Budget Committee meeting, RMA presented the Lakes biannual financial report for the period July 1, 2018 through February 28, 2019. At that time, RMA reported a current year estimated net loss of \$980,736. The reporting period included actual revenues from Basecamp through December, and the rest of the year (January through June) were estimated based on prior year's activity. Since that time, Basecamp has reported actual revenues for January, February, and March. Considering the actual revenues through March and Basecamp's estimated revenues for April through June, RMA is estimating revenues will fall short of budget by \$1.0 million. Lake Nacimiento revenues are down due to lower attendance associate with lower water levels. 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%. Additionally, two (2) special events at Lake San Antonio, Lightning in a Bottle and Wildflower, were cancelled resulting in a loss in revenue of \$434,405. Also contributing to the net loss are increased expenditures due to staff costs associated with the drafting of the Plan, as well as reimbursement to the Sheriff's Department for patrol services at LSA during Memorial Day weekend.

At this time, the FY 2018-19 revenues are estimated to be \$4,837,696, which excludes the prior year subsidy from the general fund of \$1,993,149 but includes \$711,240 for long-term debt to acquire recreational properties and \$141,849 subsidy available for operating capital. Expenditures are estimated to be \$7,110,051, which includes the principal payment on long term debt of \$539,480. Expenditures are expected to exceed revenues by \$2,272,355. After the fiscal year ends, and the actual deficit is known, RMA will return to the Budget Committee to request a General Fund subsidy for the Lakes Fund.

OTHER AGENCY INVOLVEMENT:

This report has been reviewed by the Budget Office.

FINANCING:

Past and current Lake operations are not sustainable without a general fund subsidy. RMA has developed a Lakes Recreational Reservoir Operations Plan, removing LSA from the enterprise fund and continuing with a Management Agreement for Lake Nacimiento. The intent is for Nacimiento to become self-sustaining as a resort operation with its own enterprise fund. This requires the facility to operate under a business philosophy. The County is seeking a third-party agreement for the operation of Lake Nacimiento, while the County retains responsibility of land and facilities. Deferred maintenance has impacted the ability to generate revenues in certain venues. Initial capital investment needs to be considered to generate revenue that can be used to reinvest in park facilities. RMA will return to the Board via the Capital Improvement Committee and Budget Committee with a capital investment plan for future consideration.

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 - CAO Board Report and Analysis on Fiscal Status of the Lakes Resorts FY2017-18