



Board Report

File #: A 23-311, **Version:** 1

Receive a preliminary report on a proposed Concessionaire Agreement for the operation and management of the Laguna Seca Recreational Area (LSRA) with Friends of Laguna Seca (FLS).

RECOMMENDATION:

It is recommended that the Board of Supervisors receive a preliminary report on a proposed Concessionaire Agreement (Agreement) for the operation and management of the Laguna Seca Recreation Area (LSRA) with Friends of Laguna Seca (FLS) and:

- a. Direct that a final Agreement be calendared for consideration on July 11, 2023 with any additions and changes as required by the Board; or
- b. Direct that negotiations cease and County not enter into a Concession Agreement; or,
- c. Provide alternative directions as may be appropriate.

SUMMARY/DISCUSSION:

Background:

The Laguna Seca Recreational Area has existed since 1957, with the first event at Laguna Seca Raceway taking place on November 9, 1957. Owned by the County of Monterey (County) and currently operated under the Parks Division of the Public Works, Facilities and Parks Department (PWFP) since November 1, 2021. LSRA is open year-round and includes the WeatherTech Raceway[®] at Laguna Seca, campgrounds, hospitality venue and a public rifle and pistol shooting range (Attachment A - Location Map).

The types of agreement entered into for the operation of LSRA have changed over time. From 1957 to 1974, the Sports Car Racing Association of Monterey Peninsula (SCRAMP) leased the property from the Army and managed the track independently. In 1974, LSRA was deeded to the County of Monterey and SCRAMP operated the facility under a long-term concession agreement. SCRAMP moved to a month-to-month concession agreement from March 2014 to January 1, 2017, and from January 1, 2017 to December 31, 2019, under a management agreement. In December of 2019, the County entered into a management agreement with A&D Narigi Consulting, LLC., (A&D) from January 1, 2020, to the present. A&D's current agreement is due to expire on December 31, 2023.

In mid-2022, Friends of Laguna Seca (FLS) and A&D approached the County with a proposal for a private-public partnership for operation and management of LSRA. PWFP and Counsel consulted with the Board in Closed Session meetings regarding real property negotiations since June 2022. On November 8, 2022, PWFP staff presented an LSRA financial performance report and an update on the Concession Proposal to the Board and public (Attachment B). The Board directed County Counsel and PWFP staff to continue negotiations with FLS. Following months of good faith negotiations with FLS, an Agreement has been drafted for the Board's consideration.

Proposed Concession Agreement:

LSRA is one of the financial engines of the local economy and is a valued tourist-attraction and revenue-generating property to not only the County but also to the global racing community. The history of Laguna Seca runs deep and is a beloved facility by motorsports fans, outdoor enthusiasts, racing drivers, campers, and cyclists. Visitors come from all over the world to visit the famous track. While LSRA brings substantial

revenue to local businesses and transient occupancy taxes to the County, it is costly to operate and maintain the property, such as planned and unplanned capital improvements, direct and overhead cost of daily operations, and other unplanned costs including legal costs for any potential litigation. With the proper oversight, a concessionaire taking over the full operations of LSRA could relieve the County from many of its financial and operational responsibilities and still be able to keep the business running to ensure county-wide tourism revenue. At the same time, the much-needed capital improvements and maintenance of the property will provide a safe recreation environment for the residents and visitors alike.

The Proposed Agreement with FLS is effective upon execution (the Effective Date) and will become operational on a date when the following five conditions are satisfied (the Operational Date):

1. FLS establishes a Capital Expense Fund and provides proof that it has deposited \$1 million into the Fund;
2. FLS establishes an Operating Expense Fund and provides proof that it has deposited \$5 million into the Fund;
3. FLS and County have agreed upon a financial statement detailing the current financial condition of LSRA;
4. County assigns all existing contracts specific to the operation of LSRA to FLS effective as of the Operational Date; and,
5. The Secretary of the Interior or designee has approved the Agreement, as required by the Army Deed.

The Agreement will cease to proceed if the above conditions have not been satisfied by a date to be negotiated.

Following are the main aspects of the Agreement:

- a. LSRA will continue to be managed by A&D Narigi until the Operational Date.
- b. The Agreement would have an initial term set to expire on December 31, 2028, with a provision for two extensions:
 - i. Upon the expenditure or irrevocable obligation to spend \$10 million in Capital Improvements during the term, as set forth in the Facility Master Plan and as reasonably verified by County, the Agreement term would be extended for an additional 25 years to expire on December 31, 2053; and,
 - ii. Upon the further expenditure or irrevocable obligation to spend an additional \$40 million during the extended term in Capital Improvements during the term, as set forth in the Facility Master Plan and as reasonably verified by County, the Agreement term would be extended for an additional 25 years to expire on December 31, 2078.
- c. Beginning in Calendar Year 2028, FLS will pay the County a Concession Fee equal to 10% of Net Operating Income (NOI) for the previous year, to be deposited into the Laguna Seca Enterprise Fund, currently Fund 453, or its transition fund equivalent, in the case this Fund is converted back to a Governmental fund, if the need is later decided.
- d. Effective the Operational Date, FLS will be solely responsible for all expenses for the management and maintenance of LSRA, with very limited exceptions. The expense exceptions are generally for electricity for County facilities such as the radio/cell tower. Furthermore, the shooting ranges (LSRA Rifle Range) will not yet become part of the concession area and will continue to be managed by the County, until further considerations.
- e. LSRA shall be managed consistent with the terms of the Army Deed, Use Permit and historical practice, including attendance limitations.
- f. FLS may acquire personal property at LSRA for its use (vehicles equipment, etc) at fair market value to

- be determined by negotiation or a third-party appraiser.
- g. FLS will pay the County any Countywide Cost Allocation Plan (COWCAP) charges attributable to LSRA each fiscal year and will pay the County any direct charges for services rendered to LSRA by any County department.
 - h. Each year in January, beginning January 2025, FLS will update the Board with any implementations or changes to their business/operations plan.
 - i. FLS will have delegated contracting authority for LSRA, but all laws applicable to County in contracting, whether goods or services, or capital improvements, will apply to FLS.
 - j. FLS will endeavor in good faith to engage local civic organizations to provide services and provide a preference to local vendors.
 - k. FLS will have the exclusive right to obtain advertising, sponsorships and naming rights agreements provided generally that they are not distasteful or a cause for embarrassment to County.
 - l. County will be entitled to use the facilities at no charge for business purposes such as meetings and retreats.
 - m. FLS will use a minimum of fifty percent of net operating income on capital improvements and will develop a Facility Master Plan within one year of the Operational Date. The Facility Master Plan will include a list of immediate repairs and a short-term Capital Improvement Plan designed to address repairs and maintenance that need attention in the near term.
 - n. One County Supervisor may be appointed to the Board of FLS, initially in a non-voting status. County may unilaterally change that status to voting, if appropriate.
 - o. County will have access to the financial records of FLS as they pertain to the management of LSRA and shall retain all audit rights.
 - p. FLS will acquire and maintain appropriate insurance that will be primary to County insurance.
 - q. Approval of the Agreement is exempt from CEQA as it is a continuation of current practice and not an intensification of use; however, implementation of the business plan and Facility Master Plan may be subject to CEQA or NEPA, and FLS will be required to comply with those provisions.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office, the Office of County Counsel and the Auditor- Controller's Office have been consulted with regarding this report.

FINANCING:

Approval of the proposed Agreement will require a modification to the fiscal year FY 2023-24 recommended budget, as the budget was prepared with the assumption there would be no changes to operations. The modifications will be based on the various financial details as mentioned in the Summary/Discussion section in this report. LSRA Fund 453 anticipated revenues and appropriations will be reduced, totally or partially, depending on the official Operational date. The concession fees, at 10% of the NOI, will only begin for the calendar year ending December 31, 2028. This means no revenues until the first concession fee is received in FY 2028-29. COWCAP and any direct charges will be reimbursed by FLS, per the proposed Agreement. Annual depreciation expense will have no revenues to offset it against and will therefore be absorbed against the Net Position balance, every year beginning FY 2023-24. The FY 2023-24 depreciation expense is budgeted at \$872,000 and will increase in future years with the additional depreciation for the Start-Finish Bridge and Track. Furthermore, the LSRA FY 2023-24 budget includes seven positions with \$1.0 million in salary and benefits. Of the seven positions, six are filled and one is vacant. PWFP is working on a plan to transfer the filled positions to other funds and units within the department, with the goal of minimizing the overall cost to the General Fund.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

Laguna Seca Recreational Area provides direct and indirect financial impacts to the County and cities. Entering into a long-term concession agreement supports the Board of Supervisors Economic Development, Administration, Infrastructure, and Public Safety Strategic Initiatives by substantially reducing General Fund contributions for maintenance and operation of the facility, and enhancing the safety of the County staff, facility occupants, and the public. Recreational activities and events support economic development and promote an experience that would encourage repeat customers. The recommended action supports the following Board of Supervisors' Strategic Initiatives:

Mark a check to the related Board of Supervisors Strategic Initiatives

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

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Attachment A: Location Map

Attachment B: November 8, 2022, Board Report

Attachment C: Draft Concessionaire Agreement