County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 18-1008, **Version:** 1

Receive the Lake Resort and Operations Annual Financial Report for FY 2017-18.
RECOMMENDATION:
It is recommended that the Parks Commission receive the Lake Resort and Operations Annual Financial Report for FY 2017-18.

SUMMARY:
The Resource Management Agency (RMA) is providing a year-end summary of revenues and expenses (Attachment A "Income Statement"), Budget to Actual (Attachment B), Statement of Cash Flows (Attachment C), and 5-year Income Statement Comparison (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 Lake's 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 Lake's 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.

The FY 2017-18 Operating Net Loss for the Lakes, before interest income, transfers in, and interest on long-term debt, is $1,198,824. This means the costs to operate the Lakes under the current business plan, which includes the Management Agreement with CalParks, exceeded the revenues. In comparison, the prior four (4) years prior to Parks being in RMA (refer to Attachment D), Lakes operations incurred losses ranging from $3,083,389 to $1,476,883. After including the non-operating revenue and expenses, such as, interest income of $4,674, transfers in of $711,240 for the Lake's settlement annual debt service payment, and $198,018 for the interest portion of the long-term debt, the total change in Net Position becomes a negative $680,928. This year's loss is the lowest net loss compared to the prior five years, but it demonstrates that Lakes operations are not currently sustainable without a General Fund subsidy. Transfers in from the General Fund have ranged from a high of $4,051,240 in FY 2013-2014 to this year's low of $711,240. (Refer to Attachment A and D)

The Lakes deferred maintenance proved challenging this year and several major repairs were required to resolve health and safety issues. The major and most costly repairs were to the sewer lift stations and the entry gate roof structure at Lake San Antonio (LSA). Other projects included, repairs to Nacimiento lodge deck railings and deck protective staining, siding repairs from wood pecker damage at both the Nacimiento lodge and LSA South Shore store, fire riser leak and landscaping at the Administrative building, LSA North Shore bathroom lattice, LSA South Shore lynch area playground fencing, and significant yard and sewer pond cleanup throughout the Park. Reserve funds in the amount of $68,248 were used to fund several other projects, including, removing 15 pine trees, exterior painting, roof rubber coating, installing campground marker posts, and a point-of-sale system. The longer maintenance is deferred, the more costly and urgent matters become. RMA is compiling a list of Lake's deferred maintenance projects and will present this information, along with business plan options that are more sustainable in the near future.

RMA is working with the Budget Office to determine viable solutions to bring the Lakes into a positive net position. Staff is researching and analyzing alternative business plans to present to the Board of Supervisors Parks Ad Hoc Committee in the coming months. RMA is considering a variety of options with an intent to be sustainable while continuing to provide the community affordable recreational services.

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 first budget developed under RMA purview was for FY 2017-18. At the time the budget was being developed, RMA had limited experience with the Lakes and the Lakes was experiencing a major influx of water due to the February and March 2017 Winter Storms. Prior to that time, the Lakes were plagued with low water levels due to California's drought, so historical financial information was not necessarily a reliable source to base the budget. To be conservative, the FY 2017 -18 budget was developed based primarily using the FY 2016-17 forecasted budget, as it was showing signs of improvement from the higher water levels at the Lakes.

The FY 2017-18 budget included $4,598,787 in expenses, derived from $1,517,807 in salary and benefits, $2,394,553 in services and supplies, $392,526 in depreciation, and another $293,901 in long-term debt interest and taxes and assessments. This was budgeted to be offset with $4,599,294 in revenue with $3,888,054 coming from operations and $711,240 from a General Fund subsidy to cover the annual debt service payment related to the 2007 Settlement. Actual revenues came in at $6,825,428, surpassing the $4,599,294 budget by $2,226,134. This is largely attributable to increased visitors at the Lakes during the summer months, as the water levels were sufficient to support recreational use. Budgeted expenses were $4,598,787, but actual costs were $7,506,356 or $2,907,569 over budget. With the revenue increase, an expense increase was expected; however, the revenues could not sustain the facility and grounds repair and maintenance costs, as well as, meeting the terms of the Management Agreement costs. The overage in revenue of $2,226,134 and $2,907,569 in expenses resulted in an overall budget overage of $681,435 (refer to Attachment B).

The Management Company that oversees the Lakes Operations, CalParks, ended the year with a net operating profit of $1,307,273. This net operating profit does not include the monthly settlement that the County is obligated to pay CalParks, per the Management Agreement, for those months where CalParks financials reflected a deficit. In addition to the $1,307,273 net operating profit above, the County paid CalParks a total of $1,071,592 which includes, monthly operating deficits experienced from October through April of $669,891, monthly management fees totaling $74,883 and an annual incentive fee, which is 25% of net profit, or $326,818. 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.

The Lakes required a year-end cash flow loan from the General Fund in the amount of $2,089,005 to address a negative cash balance on June 30, 2018. The Auditor-Controller's office brought to RMA's attention that a one-time, general fund short-term cash flow loan performed in FY 2014-15 of $1,271,143 was inadvertently left on the Lakes Balance Sheet. In June of 2018 the $1,271,143 was transferred out of the Lakes fund to reverse the one-time, short-term loan from FY 2014-15. In addition, there are some timing difference of earned revenue and incurred expenses, that will not be received or paid until after June 30th totaling $579,732, and $238,130 in costs exceeding revenues. Per the General Financial Policies adopted by the Board on May 22, 2018, the County Administrative Office is authorized to issue temporary inter-fund loans for year-end financial statement purposes. This temporary loan was made effective June 30, 2018 and reversed on July 1, 2018. Although inter-fund loans at year-end are intended to offset timing differences in cash flow, the Lakes has more than a timing difference of when earned revenues are received and incurred expenses are paid. The negative cash balance is reflective of a structural deficit that this loan does not address. RMA is working with the Budget Office to determine viable solutions to bring the Lakes into a positive net position.

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 is researching and analyzing alternative business plans to present to the Board of Supervisors and Parks Ad Hoc Committee in the coming months. The intent is to determine viable solutions to bring the Lakes into a positive net position.

Prepared by: Jessica Cordiero-Martinez, Finance Manager II (831) 755-4824
Approved by: Shawne Ellerbee, Deputy Director of Administrative Services of RMA
Approved by: Carl P. Holm, AICP, RMA Director

Attachments:
A - Lake Resort & Operations Year-End Income Statement
B - Lakes Resort & Operations Budget to Actual
C - Lakes Resort & Operations Statement of Cash Flows
D - Lakes Resort & Operations 5-Year Income Statement Comparison
E - CalParks Profit and Loss & Summary of County Payments