



County of Monterey

Item No.

Board Report

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

Legistar File Number: 22-1046

November 08, 2022

Introduced: 11/3/2022

Current Status: Agenda Ready

Version: 1

Matter Type: General Agenda Item

Receive Financial Performance Reports and a report on a Potential Concession Agreement for the Laguna Seca Recreational Area.

RECOMMENDATION:

It is recommended that the Board of Supervisors receive the following reports on Laguna Seca Recreation Area (LSRA):

- a. LSRA Financial Report for Fiscal Years (FY) 2007 through 2022, and Current-Year Estimate Report for FY 2023; and
- b. Potential Concession Agreement Report.

SUMMARY/DISCUSSION:

Background:

The Laguna Seca Recreational Area (LSRA) has been in existence since 1957, with the first event at Laguna Seca Raceway taking place on November 9, 1957. Owned by the County of Monterey (County) and 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. Please refer to Attachment A for a location map.

The methods of management 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 then from January 1, 2017 to December 31, 2019, under a management agreement. In December 2019, the County entered into a management agreement with A&D Narigi Consulting, LLC., (A&D) from January 1, 2020, to the present.

Financial Performance:

The Financial Reports present LSRA revenue, expenses, and net income/(loss) by fiscal year for the past seventeen years. Prior to FY 2021, LSRA accounting was reported under General Fund, Parks Unit. In FY 2021, a policy decision was made to transition LSRA accounting to an Enterprise Fund. The key differences between a General Fund and an Enterprise Fund, is that the latter is used to report business-type activities funded through user charges. User charges are typically designed to recover the activities costs, including capital costs. Enterprise Funds are better suited for business functions

that seek to promote and maintain long-term financial sustainability. There are several other key differences, for instance, the accounting treatment of capital assets that impact the annual net income/loss as well. These differences will be discussed below. (See Attachment B)

SCRAMP operated and managed LSRA from the County's acquisition of LSRA in 1974 until December 31, 2019. The Financial Report captures the period SCRAMP operated LSRA from FY 2007 through FY 2020, which was reported under the General Fund. During this time period, General Fund LSRA units were not charged costs through the County-wide Cost Allocation Plan (COWCAP), but instead costs were accrued in the General Fund Administration Unit, saving SCRAMP hundreds of thousands of dollars a year. However, due to the General Fund accounting treatment of capital assets (e.g., track resurfacing), SCRAMP experienced higher costs in years capital assets were purchased than it would have under an Enterprise Fund, which spread the cost over the asset's useful life. These are some of the most impactful ways the fund type (General Fund vs. Enterprise Fund) impacts the bottom line.

While operating under the concession agreement, from FY 2007 through January 1, 2017, SCRAMP generated profits of \$14.1 million. During these 11 years, net income ranged from a low of \$.09 million in FY 2011 to a high of \$3.4 million in FY 2017. After the concession agreement ended, County entered into a management agreement with SCRAMP through December 31, 2019. Losses were reported for all three years under the management agreement, totaling \$6.9 million. Over the 14-year period, presented herein, profitable years under the concession agreement yielded \$14.1 million of net income, while losses under the management agreement totaled \$6.9 million, for a cumulative net income of \$7.2 million.

A&D took over operations on January 1, 2020 (mid-FY 2020). Three months later, due to COVID-19 pandemic, the State and Monterey County began issuing public health and safety Orders that affected all businesses. The pandemic had a significant financial impact on County Parks, including LSRA. FY 2020, which was operated by SCRAMP the first half of the year and A&D the latter, ended in a loss of \$2.0 million. The following year, FY 2021, LSRA accounting was converted from the General Fund to an Enterprise Fund, bringing a cash balance of \$1.8 million and Capital Contribution from capital assets of \$10.3 million. The first two fiscal years under the Enterprise Fund, LSRA experienced operating losses of \$1.0 million, with \$0.6 million in FY 2021 and \$0.4 million in FY 2022. The losses include COWCAP and depreciation of \$1.1 million and \$1.5 million, respectively. These are costs that were not incurred previously under the General Fund when managed by SCRAMP.

FY 2020 was the beginning of the COVID-19 pandemic. FY 2021 was the year when vaccinations became available and Shelter in Place orders were being relaxed to allow for public events to resume. Accordingly, FY 2021 should be considered the first year of recovery for the tourist economy sector. Due to the forced reduction in travel, tourism, and events, those FY financial performances should be discounted as anomalous and not representative of the operator's conditions.

The FY 2023 current year estimate, forecasts a loss of \$.06 million. As of three-months ending September 30, 2022, LSRA has collected revenues totaling \$10.1 million, paid total expenses of \$5.0 million, for a net operating income of \$5.1 million. More expenses from pending payments of incurred

expenses are expected to lower this income as well as the anticipated reduced revenues due to scheduled closure for the rest of the year for the track rehabilitation and start-finish bridge project.

Proposed Concession Agreement:

Laguna Seca is a tremendous asset known worldwide as a premier road-course racetrack and entertainment venue. It brings visitors and tourists from near and far, while generating revenue for businesses throughout the County and our cities. While the benefits can be substantial, Laguna Seca also presents liabilities, such as operations and capital improvements. The County's Capital Improvement Plan includes both deferred maintenance items as well as improvements. Examples include a new Start-Finish bridge, repaving the entire racetrack, rehabilitating a restroom, water and drainage improvements, and upgrades to hospitality facilities.

A major principle of a concession agreement is that the concessionaire (i.e., the operator) manages the facility and brings in capital means to address the long-term liabilities, obviating the burden on the County General Fund. Friends of Laguna Seca (FLS) approached the County about the possibility of a concession agreement, and discussions for a proposed concession agreement have begun. The following provides a brief summary of the proposal to which FLS will provide additional information.

FLS is comprised of local business leaders, racing professionals and industry experts. They have a serious desire to rehabilitate, upgrade and invest in the long-term sustainability and success of LSRA. Many of the FLS Board Members have been involved in LSRA for many decades both as spectators, volunteers, and racing participants. Given that FLS has deep ties to the racing and hospitality industries as well as local businesses and corporations, they have a unique position to successfully raise large amounts of capital to invest into LSRA.

Like all major sporting events, racing is seeing a dramatic change in spectator expectations and desires. Today's average spectator is not only going to enjoy the main event, but are also attending to have an "experience," complete with VIP access, premier food and beverage, social media opportunities and hands-on interaction. FLS understands that changes are occurring in the professional sporting industries and are not only committed to rehabilitating LSRA but are also intent on upgrading and revitalizing the facility with the goal of attracting new visitors and reengaging with seasoned veterans. FLS also proposes to have a very aggressive sponsorship campaign as well as marketing the entire LSRA facility not only for events and racing but for biking, hiking and other recreational activities.

FLS has proposed an initial term of five (5) years with \$5 million in operating funds and investing \$10 million in necessary deferred maintenance and capital improvement projects. Following the initial term and capital investment, FLS has proposed two (2), 25-year extensions. The first term extension would take place after the initial \$10 million is secured with the second extension taking effect following an additional \$40 million investment in capital projects. FLS proposes that they will work cooperatively with A&D, with details to be discussed in the negotiations.

OTHER AGENCY INVOLVEMENT:

The County Administrative Office and the Office of County Counsel have been consulted with regarding this report. Due to late submission of this Board Report, the CAO Budget and Analysis

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Division was not provided adequate time to fully review this item for potential fiscal, organizational, policy, or other implications to the County of Monterey.

FINANCING:

Accepting these reports has no financial impact.

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:

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

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Attachments:

- Attachment A - Location Map
 - Attachment B - Financial Performance Matrix
- (Attachments are on file with Clerk of the Board)