

**MONTEREY COUNTY PARKS AND SCRAMP:
UNCERTAINTIES AND INSTABILITIES**



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SUMMARY

This report focuses on the past and present Laguna Seca concession agreement between Monterey County Parks Department (formed in 1966) and the Sports Car Racing Association of Monterey Peninsula (SCRAMP), a non-profit organization formed in 1957. Persistent community and media concerns about the contractual relationship between SCRAMP and the County Parks Department prompted this inquiry. SCRAMP is managing an iconic sports car racing venue in the Laguna Seca Recreational Area that is convenient to many other entertainment and recreational opportunities as well as to long established neighborhoods. Those adjacencies also mean that every Laguna Seca program change has to be considered in terms of potential traffic, noise and environmental impacts.

The Monterey County Civil Grand Jury (Jury) evaluated the County's past supervision of the Laguna Seca contract, i.e.; communications and responses to SCRAMP's performance within this complex concession agreement. SCRAMP launched an aggressive public relations campaign in 2015 to convince the community that SCRAMP should retain control of Laguna Seca Mazda Raceway. SCRAMP argued that it should stay because of its historic legacy, contributions to local charities over the years, and the desirability of local control rather than 'for profit' race management entities. These rationales are but one part of a predicament for the County that the County also unwittingly helped to create.

SCRAMP's management of Laguna Seca Mazda Raceway is unique in the racing world. Most other US raceways are owned and operated by private organizations. There is no public 'best practices' model for a County operating a sports car raceway.

These uncertainties gained greater proportions with the County's very uneven contract supervision between 2008 and 2014. When the Board of Supervisors declined to renew the Laguna Seca concession in 2014 and instead opted for a month-to-month agreement, the County finally offered a degree of clarity regarding SCRAMP's unsatisfactory performance.

The Jury's findings cast doubt on SCRAMP's ability, in its present form, to function as a reliable operator at Laguna Seca. These concerns arose as the Jury evaluated SCRAMP's organizational capabilities and its precarious financial position.

BACKGROUND

The San Francisco branch of the Sports Car Club of America sponsored Pebble Beach's first sports car race in 1950. When those races ended in 1956, the Sports Car Racing Association of Monterey Peninsula (SCRAMP) was formed to continue the tradition of Pebble Beach Road Races¹ but in a safer location. SCRAMP leased federal land from the US Army's Fort Ord base at the Laguna Seca dry lakebed to develop a raceway. At the time Fort Ord was home to the US Army's 7th Infantry Division. The Army Corps of Engineers helped with Laguna Seca's racetrack construction.

The federal government transferred Laguna Seca from Fort Ord holdings to the County of Monterey in 1974. The Laguna Seca Recreation Area was then developed, as part of Monterey County Parks, to expand on the existing racetrack with an archery range, pistol and rifle range, bicycle motocross trails and overnight campground facilities. Today the Laguna Seca Recreation Area has four revenue and expense categories for the racetrack, the park, special events and the rifle range. County Parks credits the concession revenue from SCRAMP into the racetrack cost center in the Laguna Seca Recreation Area. Direct park costs for the racetrack are also assigned to the racetrack cost center. At the end of the fiscal year when all of the County costs at Laguna Seca Recreation Area have been covered the remaining funds are primarily reserved to the

¹ History of the Pebble Beach Road Races. *Sports Car Digest*, August 9, 2013. <http://www.sportscardigest.com/history-of-the-pebble-beach-road-races/>

Laguna Seca Track Assignment Fund, which now stands at \$3.7 Million. This County fund has financed more than \$6 Million for multi-year capital improvements at Laguna Seca in the last five or six years. These capital improvement resources are separate from the County's administrative costs for overseeing the County parks which have been estimated to be \$1 Million per year just for the racetrack alone. The Laguna Seca racetrack is not a "cash cow" scenario as alleged by SCRAMP² supporters at a community hearing in January 2016.

There are many stakeholders connected to Laguna Seca Mazda Raceway just as there are in the County overall. Ultimately the stakeholders who matter the most are the citizens of Monterey County. When the County agrees to dedicated and exclusive uses of a park for a special interest group (like sports car racing), then there should be offsetting benefits to ordinary citizens who don't happen to follow sports car racing. These can be a combination of direct benefits (enhancements to other recreational uses in the parks) and indirect benefits (outside visitors bring in business increasing the tax revenue for the County). Gauging these differing benefits and striking a balance is the job of the Monterey County Parks Department in consultation with the Parks Commission. The raceway was not deeded in perpetuity to SCRAMP, rather the entire park was deeded to the citizens of Monterey County.

But managing this concession with a special interest group like SCRAMP has been a real challenge for the County. As a result, SCRAMP has been surprisingly free to operate the raceway without much intervention from the County until March 2014. Historically the Monterey County Parks Commission also has not significantly participated in matters regarding the SCRAMP concession agreement.

SCRAMP from the beginning has had the tradition of volunteer participation and fan loyalty. It has impressive event management and publicity capabilities to put on five major racing events each year with 25 full-time staff and hundreds of volunteers. Prior

² Wanted: Financially stable raceway manager able to maximize Laguna Seca's potential. *Monterey Herald*, January 7, 2016. <http://www.montereyherald.com/article/NF/20160107/NEWS/160109851>

to January 2016 SCRAMP also had a 25-member Board of Directors. Many of these Directors had begun with SCRAMP as volunteers, and then after several years were invited to the Board. A few Board members were invited to the Board earlier than that because of specific skill sets. Most of the pre-2016 Board Members had served for decades, with one recent retiree having served 45 years.

The primary duties of a non-profit Board of Directors are to look after short and long term³ organizational planning and financial stability. While SCRAMP does have dedicated professional staff to guide the organization, in the end the Board of Directors is responsible for the organization's success and the agility to succeed in changing environments. SCRAMP announced a re-organization of its Board in late 2015, dropping the 25 Board seats to nine. Six of those seats are now held by local industry and business leaders. This new "Board of Governors" convened in January 2016.

The current concession agreement between SCRAMP and the County Parks began in 2000 (see Table on the following page).

The County announced a February 2016 call for Expressions of Interest from qualified entities that could provide management services for the Laguna Seca Recreation Area (either just for the racetrack or for all of the recreation sites within Laguna Seca) by October 2016. After these Expressions of Interest are filed with the County in the spring of 2016 then the next stage will be for the County to ask for formal RFP's or Requests for Proposals. SCRAMP is expected to file an Expression of Interest and ultimately a Proposal to continue its management of the racetrack and possibly the entire recreation area.

³ What are the Basic Responsibilities of Nonprofit Boards? BoardSource.
<http://www.bridgespan.org/Publications-and-Tools/Nonprofit-Boards/Nonprofit-Boards-101/Basic-Responsibilities-Nonprofit-Boards>

| <i>Description</i> | <i>Signature Date</i> | <i>Effective until:</i> |
|--|---|--|
| <i>Original concession agreement</i> | <i>2/8/2000</i> | <i>12/31/2005</i> |
| <i>Amendment #1 to allow SCRAMP to accept first Mazda sponsorship</i> | <i>12/12/2000</i> | <i>12/12/2005</i> |
| <i>Amendment #2 Extends County & SCRAMP agreement</i> | <i>2/5/2002</i> | <i>2/8/2012</i> |
| <i>Amendment #3 to Accept 2nd Mazda sponsorship</i> | <i>12/13/2005</i> | <i>12/31/2011</i> |
| <i>Amendment #4 between County Parks and SCRAMP</i> | <i>1/30/2012</i> | <i>3/1/2013</i> |
| <i>Amendment #5 specifies funds for capital improvements</i> | <i>5/8/2012</i> | <i>3/31/2013</i> |
| <i>Amendment #6: One additional year</i> | <i>3/26/2013</i> | <i>3/31/2014</i> |
| <i>County Parks to SCRAMP: We will not renew but will consider the agreement on a month to month basis</i> | <i>3/19/2014</i> | <i>still month to month as of 4/10/16</i> |
| <i>Board of Supervisors: We are willing to revise from month to month to a one year agreement</i> | <i>12/8/2015 Supervisor Salinas to SCRAMP</i> | <i>SCRAMP declined one year agreement as of March 2016</i> |

SCRAMP has protested that the County should have disclosed previous negotiations with other potential raceway operators like the International Speedway Corporation (ISC), and that those discussions were essentially a “betrayal” of SCRAMP. The raceway and related facilities were financed and built over the years by SCRAMP. The current depreciated value of the racetrack is now worth approximately \$12 Million. SCRAMP has also contended that the County had limited SCRAMP’s ability to be successful by failing to approve proposals for new income generating activities.

But the County Board of Supervisors has remained firm that the concession for Laguna Seca has to go out to bid. SCRAMP still may compete with other bidders according to the requirements noted in the Request for Proposals. The Hospitality Association for Monterey County (HAMC) submitted a letter of support for the Laguna Seca bid process to the Board of Supervisors on November 30, 2015. Their memo concluded that a history of adequate financial resources and stability are key characteristics of a stable raceway operator.

INVESTIGATIVE METHODOLOGY

The Jury conducted thirteen interviews by meeting with nine County officials and four SCRAMP officials. The emphasis was on the financial aspects of the concession agreement, the checks and balances on SCRAMP's performance, SCRAMP's 2011 and 2014 draft program proposals, and the County's decision-making regarding Laguna Seca Mazda Raceway events and facilities. More than 400 pages of contracts, sponsorship agreements, financial reports, email and US Mail correspondence were reviewed. Several interviewees agreed to respond to follow-up questions to help the Jury understand the many uncertainties between the County and SCRAMP.

DISCUSSION

Just about every individual and organization in this county, state and country was affected by our economy's 2008 financial meltdown. After the initial shock of falling revenues, depressed real estate prices, and a stagnant job market, finances had to be reorganized no matter the size of the family or organization. And even in a recession individuals and businesses that delay payments to creditors earn reduced credit scores and have difficulty borrowing for capital improvement projects. It is no surprise that SCRAMP was adversely affected by the economy's crash because family and business discretionary spending declined significantly. What is difficult to understand, though, is SCRAMP's ability since 2008 to sidestep the financial realities that regular citizens and most public and private organizations face.

Historically SCRAMP had regularly experienced high revenue during the Spring to Fall racing season and then very little revenue during the Winter. Before 2008 there were sufficient revenues to cover the Winter cash flow shortfalls, but the recession changed that. SCRAMP's prior business planning had not adequately addressed the need for operating reserves which would cover fixed costs during the low revenue periods. SCRAMP would have demonstrated greater organizational insight if they had taken steps shortly after 2008 to refocus their short and long term program goals, to strengthen their cost controls, and to develop operating reserves and financial management strategies. SCRAMP would have had more credibility with the County today if there had been evidence of these basic sound business practices. Faced with revenue reductions, SCRAMP did have some layoffs. But their primary financial strategy after 2008 was to juggle creditors and delay debt payments. The County routinely received SCRAMP payments two or more quarters later than specified in the contract. Vendors and civic organizations were paid long after the customary 30-day invoice period. SCRAMP officials rationalized that their non-profit status allowed them to delay these payments, and that the delays could be excused as all of these debts were cleared within 12 months. (The County did have a period of time when SCRAMP payments were 18 months late.) These delays financially burdened the businesses and civic groups that provided goods and services to SCRAMP. These practices have damaged SCRAMP's goodwill in the business and non-profit communities. SCRAMP's business practices have also compromised its negotiating position with the County.

SCRAMP runs five major racing events each year, but they also oversee other uses of the racetrack by driving schools and racing clubs. The County books a few events each year like the cycling Sea Otter Classic, but the majority of events are coordinated by SCRAMP. SCRAMP's total annual revenue has ranged between \$10 and \$15 Million each of the last several years.

SCRAMP's major sports car racing events are governed by agreements with the racing promoters, and SCRAMP has suggested that the terms have not always been favorable to SCRAMP. The sound and traffic limitations at Laguna Seca have also precluded a

wider range of professional sports car event bookings. There is also acknowledgement, both within the County and SCRAMP, that the racetrack facilities have needed improvement for some time.

SCRAMP submitted two Draft program plans (in 2011 and 2014) for discussion with the County. The 2014 plan appears to be an update of the 2011 plan. These plans included proposals for various income generating activities, but lacked comprehensive business plans and appropriate environmental acknowledgements. SCRAMP and the County met on several occasions to discuss what additional considerations were needed before SCRAMP's plans could be brought to the Board of Supervisors. But SCRAMP left these proposals incomplete and as a result there was no plan approval or denial from the County. SCRAMP used their marketing and public relations expertise to develop their proposals without acknowledging to the County or Monterey citizens that good business practices are essential to the success of any organization, particularly in a changing environment.

Both of these Draft program plans included detailed facility improvement plans and attendance estimates. Earnings were projected using the basic marketing strategy of "...if you build it, they will come." While this optimism may appeal to racing enthusiasts, it was not accompanied by the financial stability essential for this degree of risk taking.

SCRAMP's plans did not address how media and internet accessibility has changed the racing fan base. Sports car racing and every other national and international sporting event with broadcasting rights has changed attendance patterns.⁴ SCRAMP's plans seem to primarily focus on existing racing enthusiasts who are aging out as younger attendees go elsewhere.⁵ These forces are also in play as SCRAMP struggles to establish a viable strategy.

⁴ After Renovation, a Track That Opened In 1959 No Longer Feels Like an Antique. *New York Times*, February 21, 2016.

⁵ Why Running Laguna Seca is a Job No One Would Want. Mitchell Pruett, Black Flag blog in *Racer Magazine* August 14, 2015.

But SCRAMP's organizational and financial difficulties are not the only reasons that the concession relationship with the County has faltered. The County Parks Department has had four Directors (including one Acting Director) in four years. This limited the consistent institutional knowledge and experience needed to properly supervise the concession agreement. This was also accompanied by three finance officers in the Parks Department in the last three years. Retirements and resignations are part of every organization's turnover, but these concentrated vacancies in the Parks Department adversely affected the County's understanding of SCRAMP's financial position.

Several consultants have been engaged to advise the County regarding the Parks Department and the Laguna Seca raceway specifically. The Barrett Sports Group, LLC was hired to evaluate alternative management options for the Laguna Seca Raceway and Barrett still advises the County as of April 2016.

There was general awareness among County decision makers since 2008 that SCRAMP was not making County payments on time. But the County didn't confront SCRAMP regarding these delays until March 2014 when the Board of Supervisors would only agree to a concession contract on a month to month basis.

There were other reasons for the County's delayed attention to SCRAMP. Between 2008-2014 the County had other problems in Parks because the drought severely limited concession operations at Lake San Antonio. There also was a racing school on site at the racetrack that had not paid its usage fees to the County for years. These concerns were addressed by the County before tackling the problems with SCRAMP. The County solved the racing school problem at Laguna Seca by insisting that access to the track would not be given until advance payment was made and that those payments had to go directly to SCRAMP. The County did not anticipate that these racing school funds would then become part of SCRAMP's delayed payments owed to Monterey County.

Based on discussions with SCRAMP representatives, the Jury estimates that there is at least a \$250,000 operating shortfall each year and that a short term operating reserve would need to be in the \$1-\$2 Million range. Furthermore, there are County estimates that the raceway will need approximately \$10 Million in capital improvements in the next five years. SCRAMP received \$2.4 Million in Mazda sponsorship funds specifically intended for capital improvements between 2012-2017, but most of those funds were diverted by SCRAMP to subsidize operating costs. SCRAMP believes it is still in compliance with the third Mazda sponsorship agreement since the improvements will be completed by the 2017 deadline noted in the agreement. But SCRAMP expects to take out loans to complete these capital improvements. The County plans to engage an outside Compliance Audit to determine if the Mazda funds have been properly used by SCRAMP.

While SCRAMP has financed millions of dollars of racetrack improvements since 1957, when those improvements are complete the buildings are turned over to the County. SCRAMP failed to produce the contractually required certified audit report for the year 2014 as of March 2016; this is nine months after the May 2015 due date. The first 2014 audit had to be withdrawn because the racetrack assets were reported as SCRAMP property when in fact the County owns the facilities.

Although SCRAMP's late payments began soon after 2008, the Jury's review of correspondence from the County did not reveal a clear and direct message to SCRAMP that the late payments were unacceptable and would compromise future renewals. Late fees were assessed and paid but SCRAMP did not change its accounts payable practices to avoid such penalties. SCRAMP officials insist that their Board of Directors reviewed financial reports and the age analysis of unpaid bills in every Board meeting.

The County also determined in 2015 that SCRAMP underreported income producing event activities that the concession agreement described as subject to income sharing with the County. SCRAMP's revenue reports back to 2004 were used by the County to

calculate owed back payments and late penalties. (This assessment has been contested by SCRAMP.)

SCRAMP's event attendance drives an economic benefit for Monterey County because fans come to the area for auto racing, but then they may also eat out, visit the Monterey Bay Aquarium, play golf, fill their cars with gas and stay in local motels. But sports car racing is not the only economic multiplier that can come from Laguna Seca events. Visitors coming to the Monterey Peninsula for other events at Laguna Seca will still spend money here for goods and services. SCRAMP's economic multipliers derive from five major events with large attendance, but smaller and more frequent events also have the potential of generating similar economic multipliers benefitting the local economy.

FINDINGS

- F1. SCRAMP has not been a financially fit concessionaire to the County since 2008.
- F2. The County did not confront SCRAMP with a direct communication that SCRAMP's late payments and business practices jeopardized its contractual agreement with the County until March 2014.
- F3. SCRAMP's 2011 and 2014 draft proposals have not adequately addressed the realities of a "boutique" racing venue with significant traffic and sound restrictions in an environmentally sensitive location.
- F4. The County has delayed acting on SCRAMP's proposals without clearly communicating in writing how and why these proposals were inadequate i.e.; because 1) SCRAMP did not explain how environmental impacts, such as noise and traffic, would be mitigated and 2) SCRAMP failed to demonstrate that it possessed the necessary financial capabilities to operate the racetrack.
- F5. SCRAMP's 'philanthropic' contribution to local civic groups might be better described as "assisting civic fund raising on County land." Civic groups and their volunteers are paid for providing services during a racing event, like parking cars or serving ice cream.

- F6. It is essential that SCRAMP or its successor at Laguna Seca demonstrate organizational adaptability.

RECOMMENDATIONS

- R1. The County of Monterey should assign sufficient staff with both managerial and financial expertise to oversee the agreement and fiscal operations of the Laguna Seca Recreational Area. This position should have enough standing to directly advise County decision makers.
- R2. The County's next concession agreement for the racetrack should be explicit that program proposals are the responsibility of the SCRAMP Board of Governors (or its successors).
- R3. The County should immediately assure that all environmental surveys of the park are clearly communicated to bidders participating in the RFP process.
- R4. The new concession agreement should clearly define the operator's philanthropic responsibilities to local civic groups.
- R5. SCRAMP or its successor should be required to notify the County of loans or transfers between operating and capital and any loans that restructure financing for approved capital projects.
- R6. The County's next concession agreement for the racetrack should oblige a full cost and rate review of all income and non-income producing uses of the facility. This rate review should be undertaken regularly but at least every other year as part of the operator's best practices and should be available for inspection by the County.
- R7. Monterey County Parks and the Parks Commission should be advised and have input into any plan to expand recreational uses of the Laguna Seca Recreation Area. There may be alternative uses of the Laguna Seca property and these discussions should always be part of concession agreement negotiations. But, if the noise, traffic and environmental constraints truly preclude a successful sports car racing program then Monterey County should initiate some long range planning to reconfigure the recreational uses of the Laguna Seca Recreational Area.

RESPONSES REQUIRED

Pursuant to Penal Code Section 933.05, the Grand Jury requests a response as indicated below from the following officials or governing bodies:

Monterey County Board of Supervisors:

All Findings and Recommendations

