Operations and Financial Review

Prepared by: Financial Review and Operations Working Group

EXECUTIVE SUMMARY

Objective

The Wellfleet Selectboard created a working group to examine the proposed purchase of Maurice's Campground with the focus on using the property to create affordable and community housing. The Selectboard has signed a purchase and sale agreement for this 21.25 acre property. In the contract, the town has agreed to keep the seasonal trailer rental section of the campground open for 6 years.

An operations group was formed to investigate the nuts and bolts of operating the campground and possibly the store. This includes considering the possibility of leasing operations to a professional firm for management and how this may factor into finances. Though the town only needs to keep the seasonal trailer rental section open, The Operations Group determined that if the campground were leased to an operator or a management company were hired that we needed to evaluate the campground operations as a whole.

The working group objective is to review the financial information provided by the current owners, to determine the profitability of the campground, and to rank the options for the town to keep the campground open in compliance with the terms in the Purchase and Sale Agreement.

Goals

- Detail the expenses and revenues of the each facet of the campground.
- Determine to what extent the campground is profitable.
- Determine viable options for the Campground to continue to operate in accordance with the P&S agreement.
- Make an Operations recommendation to the Town through the Selectboard.

Process

- Developed value propositions list
- Developed an "Operating Model Comparison" spreadsheet to compare pros and cons of 3 alternatives for operating the campground
- Created a weighted ranking criteria to score for each option
- Developed list of assumptions for both operating models
- Developed a "Profit & Loss (P&L)" spreadsheet with projected income and expenses for the years 2022-2025

Results

Maurice's Campground is currently open from May 20 till October 10th, with limited store hours. The majority of its income is derived from the seasonal trailer site rentals. They offer below market rents for these sites and for the cabin rentals. We see potential for increased revenue and profit for operators with the potential to increase store hours, marketing and promotion and increased fees on cabins and sites. The Gauthiers have been operating the Campground and the store for over 40 Years and have reduced hours in the store and scaled back operations over the last 5 years. There is room to extend the hours of the store, offer more goods and services and solicit more non-campground customers to increase its overall profitability.

The Financial Review revealed that the campground has had an average net profit of $484,951 after expenses. This number includes the management salaries paid in passthrough income to the owners.

Annual P&L Actuals	2019	2020	2021	Average
Total Income	$1,019,275.00	$1,024,898.00	$1,026,002.00	
Total Expense	$598,668.00	$535,304.00	$481,350.00	
Net Income	**$420,607**	**$489,594**	**$544,652**	**$484,951**

Projected Capital Expenses	6 year total
Capital Utility Improvements & Maintenance	$112,858.50
Structures	$131,000.00
Grand Total	**$243,858.50**

**grounds and maintenance is built into expenses*

The working group identified three viable options to operate the campground.

- **Option 1:** Leasing the Campground and Store to an operator
- **Option 2:** Hiring a Management Company to run the Campground and Store on Behalf of the Town
- ~~**Option 3:** Running the Campground and Store as a town controlled entity.~~

** Option 3 was eliminated after deliberation with the Town Administrator and Head of The Department of Public it deemed unadvisable due to staffing, and logistical issues.*

We then created a model criteria and ranking system to score each option with the identified criteria

Criteria to Compare Campground Management Options.	Value/ Weight	**OPTION 1 LEASE TO OPERATOR**	Weighted Score option 1	**OPTION 2 HIRE MGMT COMPANY**	Weighted Score option 2
Least Exposure to Financial Liability	5	5	25	2	10
Least General Liability to Town	4	4	16	1	4
Meets Value Propositions: See value propositions addendum	4	2	8	5	20
Potential for Profitability for Town	3	3	9	4	12
Ease of operations for the town	5	5	25	3	15
Ease of contracting	2	4	8	3	6
Control over operations	3	2	6	5	15
Total Weighted Score			**97**		**82**

***Value Proposition Addendum for 6-year operation of the Campground:**

- **Products and services:**
  - Nightly, weekly and seasonal lodging
  - Convenient camp store (retail goods)
- **Problems solved:**
  - Workforce housing
  - Retaining affordable vacation opportunities
  - Offsetting the debt service payments
- **Value of problems solved:**
  - More opportunities for businesses to house their workforce
  - Maintains a diverse character of town
  - Benefit taxpayers by reducing their tax bill
  - Retain and potentially expand general store in South Wellfleet

Financial Projections

Leasing the campground

OPTION-1 Projected Net Income							
Year	2023	2023	2025	2026	2027	2028	**6 year total**
Lease Payments Made to the Town	$180,000	$180,000	$180,000	$196,000	$196,000	$196,000	**$954000**
Capital Costs Structures	$40,500	$38,000	$52,500				**$131,000**
Capital Costs Utilities	$69,500	$72,280	$75,171	$78,178	$81,305	$84,558	**$460,992**
Total Projected income for town	$70,000	$69,720	$52,329	$117,822	$114,695	$111,442	**$535,008**

Hiring a Management Company

OPTION-2 Projected Net Income							
Year	2023	2024	2025	2026	2027	2028	**6 year total**
Income after operations expenses	$487,000	$507,000	$527,000	$548,080	$570,003	$592,803	**$3,231,886**
Contract Costs including MGMT pay	$250,000	$260,000	$270,400	$281,216	$292,464	$304,162	**$1,658,242**
Profit sharing Incentive	$47,400	$49,400	$51,320	$53,372	$55,508	$57,729	**$314,729**
Capital Costs Structures	$40,500	$38,000	$52,500				**$131,000**
Capital Costs Utilities	$69,500	$72,280	$75,171	$78,178	$81,305	$84,558	**$460,992**
Total Projected income for town	$79,600	$57,609	$77,609	$135,314	$140,720	$146,534	**$637,386**

**unknown additional for costs may be associated with staff time, financial oversight, and administrative time.*

SYNOPSIS

OPTION-1: <u>Lease the entire campground to an operator</u>

The option that scored the highest in our criteria was lease the entire campground to an operator. This is the least complicated scenario and if a contract is awarded, will generate a guaranteed income for the the town while reducing financial risk, liability and workload for departments, staff and administration. Based on our assumptions listed below. Option-1 is not the most profitable option and there is some lack of control over the operation such as rents, prices, and enforcing rules. However the town would be listed as insured, indemnified from liability from the operator.

OPTION-2: <u>Hiring a Management Company to run the campground on behalf of the town</u>

Option-2 Hiring a Management Company to run the campground on behalf of the town, is also a viable option though it scored slightly lower than option-1 in our weighted score. Option-2 has the potential to be more profitable for the town over time. It also has a higher financial liability and the town could stand to lose money as well. In Option-2 the town would be liable for all activity on the campground and would be responsible for oversight of the finances, all the expenses, repairs and maintenance, start-up and closedown costs as well as financing the day to day operations. This would put a burden on the accounting team as well as the DPW, and administration. At this point there is not a dollar figure as to the costs it would incur on the administrative side but there is a potential that the costs that may need to be incurred could diminish the return to a level that is comparable to Option-1.

OPTION-3: <u>The Town operating the campground as a town controlled entity</u>

Though this option was ruled out as a recommended option due to concerns about staffing and logistical issues. It is feasible that the town could solely operate the seasonal trailer rental sites to satisfy the P&S agreement. In this scenario the town could choose to lease out the store and close the transient camping sites as well as the nightly and weekly cabins. The working group advises the town to further investigate the costs associated with operating at a lowered capacity. We believe that this is a viable option should the town fail to secure a contract to lease or secure a management company. The seasonal trailer rental sites represent the majority of income generated by the business and provide a healthy profit margin. Further analysis is needed to determine the extent that this may be profitable for the town.

ASSUMPTIONS AND CONSIDERATIONS

Assumptions for leasing the property including the store
That Capital Costs over 6 years amount to $704,805.29 as estimated by the 6yr capital plan.
The lease holder would be responsible for all repairs and maintenance not considered a capital
expense and are under $3000 in cost per event.
The total income of the property is maintained at or above the previous 3 year average.
The Minimum bid is set at 150% of expected operating costs including capital expenses.
That the lessee indemnifies the town, carries its own insurance policy and lists the town as insured
Assumptions for hiring an operator to manage and run the campground on behalf of the town
That Capital Costs over 6 years amount to $704,805.29 as estimated by the 6yr capital plan.
The total income of the property is maintained at or above the previous 3 year average.
The Salary for the management company is responsible for staffing and paying salaries and wages.
The Town would be responsible for all maintenance, repairs and capital costs and expenses.
The compensation of the management company would include a 20% profit sharing incentive
Contract with the management company would include management salaries and begins at $250,000/yr

- Compensation and financial breakdowns based on data provided by John Gauthier
- All spreadsheet formulas based on a set of assumption listed at bottom of P&L sheet
- Assumptions and spreadsheet reviewed by John Gauthier at a meeting held July 25, 2022 and attended by Ryan Curley, Mike DeVasto, Nancy Najmi and Farrukh Najmi of Operations sub-committee and Fred Magee of The Finance Committee
- 2022 numbers based on max or average depending on the line item
- 2023, 2024, 2025 numbers based on 4% increase each year
- **Projected Net Income: 2022: $450,000, 2023: $487,000, 2024: $507,000, 2025: $527,000**
- **Capital Expenses were removed from profit and loss as they are not yearly business expenses**

- **All of above work in various sheets of the following spreadsheet:**
    - https://docs.google.com/spreadsheets/d/1N_7UA2zm2WOgUF7EOUP1DJISXXmrs_Op/edit?usp=sharing&ouid=101306967620922738120&rtpof=true&sd=true