



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** November 26, 2013

**TO:** Mayor and Councilmembers

**FROM:** Administration Division, Parks and Recreation Department

**SUBJECT:** Golf Professional Concession Agreement

### **RECOMMENDATION:**

That Council authorize the Parks and Recreation Director to execute a two-year and seven-month Golf Professional Concession Agreement between the City of Santa Barbara and Channel Islands Golf Enterprises, Inc., at the Santa Barbara Golf Club.

### **EXECUTIVE SUMMARY:**

On December 1, 2008, the City of Santa Barbara entered into a five-year concession agreement (No. 22,939) with Chris Talerico of Channel Islands Golf Enterprises, Inc. to provide Director of Golf and ProShop operations at the Santa Barbara Golf Club (SBGC) municipal golf course. The agreement which expires November 30, 2013, included a five-year renewal option, providing performance was satisfactory and a market study showed that fees, base rent, and percentage rent were not below current market values.

The Parks and Recreation Department prepared a Performance Assessment, which concluded that Mr. Talerico's overall contract performance has been satisfactory. An evaluation of current market conditions by ProForma Advisors, the golf consultant hired by the City to assist in evaluating golf course operations and the golf professional concession, indicated that changes in the concession terms were warranted given the changes in the economy, regional and national golf trends, and the reduced level of play at SBGC. The new contract reflects reductions in rents paid to the City by Channel Islands Golf Enterprises. The City negotiated a shorter contract term in order to align end dates of the golf concession and the food and beverage concession, allowing greater flexibility should the City consider any changes to golf course operations in the future.

### **DISCUSSION:**

#### **Background**

The City of Santa Barbara municipal golf course, the Santa Barbara Golf Club (or "Muni"), has served the community of Santa Barbara since 1958 under the leadership of the Parks and Recreation Department. SBGC provides the Santa Barbara community,

residents and visitors alike, with affordable golf in a well-designed and maintained golf course facility. The 108 acre, 18-hole regulation, par 70 golf course is located in the north side of town and features sweeping views of the Santa Ynez foothills and the Pacific Ocean. The course has a reputation for being an exceptionally good value given its design and condition, and particularly as it compares to other municipal courses.

SBGC is managed by the Parks and Recreation Department which also oversees the golf course maintenance operation, staffed with City employees. The Department manages two concession contracts associated with the operation of the course, the Director of Golf/ProShop concession and the Food and Beverage Concession (Mulligan's). Although concession rents provide revenue to the golf course, 80% of City golf revenue derives from greens fees paid by golfers. Operated as an enterprise fund within the City, SBGC receives no tax revenue support through the City's General Fund and is solely funded by revenues generated at the course.

Relating to contract performance and proposed changes to the new contract, the golf course and the ProShop concession have been experiencing reduced revenues and fiscal challenges. Over the contract period, Mr. Talerico advised the Parks and Recreation Director that his operation was financially challenged, including the ability to meet some contract terms due to the decline in play and resulting revenue loss. In response, the Parks and Recreation Director agreed to certain changes in terms as described in the Performance Assessment section below.

The golf course, which had seen some decline in play over the last 10 plus years, experienced a greater loss of play over the contract period than in previous years. Primary reasons for the decline include reduced interest in the sport nationally, increased regional competition from new and remodeled golf courses, and impacts from two major construction projects that were much greater than anticipated. Additionally, as people changed their leisure and spending habits in response to the national recession, the City's golf operation and both golf concessionaires experienced reduced business and declines in revenue. During this challenging fiscal time, Mr. Talerico has been an engaged partner working with Parks and Recreation to find and implement solutions which would ultimately benefit the City's golf course.

Gene Krekorian of ProForma Advisors, the golf consultant hired by the City to assist with evaluating golf course operations, the performance appraisal, and the market level study, found that with the economic downturn and reduced play, the contract terms negotiated in 2008 overly benefit the City compared to comparable courses in Southern California. The new contract reflects reduced percentage rents and a two-year and seven-month term versus the five-year option. The reduced percentage rents are intended to assist Channel Golf Enterprises in becoming more sustainable with the goal of increasing rounds and revenue at the course. The two-year and seven-month term will expire in June 2016, which aligns with the end date of the Mulligan's Café concession agreement. This puts the City in the best position should any changes be considered for how the City operates the golf course in the future. This report includes

information provided by Mr. Kerkorian, particularly related to market conditions and golf trends.

### **National and Regional Golf Trends**

The Tri-County regional golf market, mirroring the broader Southern California and national markets, experienced strong growth between the late 1980s and early 2000-period. This market strength stemmed from an increase in the number of golfers, expansion of the golf tourism industry and one of the longest economic expansions in the nation's history. Beginning in 2003, however, the regional golf market deteriorated steadily through 2010 due to a decline in golfer participation, an unprecedented expansion of the golf course inventory and, in more recent years, severely depressed economic conditions.

On average, public access courses have seen declines of 15% to 30% in golf course utilization. Comparatively, annual play at SBGC has seen play decline from 100,000 rounds in the late 1990s to 63,600 rounds in 2012, a drop of approximately 35%. Reasons include:

- Glen Annie Golf Club has been repositioning more toward the mid-market, and has become more competitive with SBGC in terms of price point.
- Higher end daily fee course such as Sandpiper Golf Club and Rancho San Marcos Golf Club have targeted Tri-County residents through greens fee discounts and loyalty club programs.
- The City of Ventura recently fully renovated both of its municipal golf courses – Buenaventura and Olivias Links – resulting in less “leakage” of golf rounds to Santa Barbara courses.
- Competitive courses in the region have intensified promotional programs and greens fee discounting placing their fees more in line with SBGC.
- Construction at SBGC in 2009 resulted in many golfers playing elsewhere, and recapturing lost play generally requires substantial time.

Recognized golf authorities are projecting that the regional market is likely to remain sluggish in the near-term and that 1-2% average annual growth over the next 10- to 20-year term is anticipated, primarily from the aging population trends since seniors tend to play more golf.

### **SBGC Rounds Performance over the Contract Period**

In Fiscal Year 2008, one year before the City went out to bid for a new pro shop concessionaire, the golf course had 74,484 rounds of play. Mr. Talerico's 2008 bid proposal to the City was based on the golf course achieving 77,000 rounds in year one and 87,000 rounds in year five of the contract. In the first year of Mr. Talerico's agreement the golf course only achieved 70,546 rounds, 8% below Talerico's projection. Rounds have not improved in subsequent years, and hit an all time low of

59,091 in Fiscal Year 2010 due to construction on the course. Although rounds grew to 61,558 in Fiscal Year 2013 and appear to have stabilized somewhat, the level of play is still well below the 70,546 rounds achieved in Fiscal Year 2009.

### **Performance Assessment - Summary of Findings and Recommendations**

The Parks and Recreation Department prepared a Performance Assessment on Channel Islands Golf Enterprise, Inc., and Mr. Talerico's operation. The assessment found that overall contract performance has been satisfactory and that ProShop and related services are well run and provide good service to golfers. The market level study by ProForma Advisors found that ProShop services, including golf cart rentals, driving range, and merchandise sales largely performed at or above comparable courses.

During this fiscally challenging time for the golf course, the Parks and Recreation Department has appreciated that Mr. Talerico has been an engaged partner working collaboratively to find and implement solutions which ultimately benefit the City's golf course as well as its concessionaires.

### **Changes to Concession Terms**

In recognition of the changed economic conditions and reduced play at SBGC, changes are proposed with the new concession agreement. Reduced percentage rents, including Merchandise, Club Rental and Repair, and Lessons reduced from 6% to 4%; Driving Range is reduced from 36% to 25%; Golf Cart Rental Operation is reduced from 36% to 30%. The greater reduction in Driving Range fees is partially due to the current condition of the driving range with minimal improvements expected over the contract period. Minimum Concession Rent is reduced from \$150,000 to \$125,000. Instead of the major ProShop renovation originally planned in 2008, the concessionaire will make minor interior improvements following City replacement of the ProShop roof to address interior leaks.

### **Golf Fund Outlook**

Over the last several years, with reduced play, the Golf Fund has seen revenues fall 2 – 7% below budget. Greens fee revenue is the major revenue stream supporting the golf course. Greens fee revenue has been relatively flat for the last three years, though revenue to date is 9.5% greater than this time last year. However, it also continues to come in below budget (5.4%). With course conditions key to attracting and retaining golfers, reducing maintenance and related expenses is a difficult balance. The Golf Fund has relied on reserves to balance the budget two out of the last three years, and currently reserves are below policy levels. Parks and Recreation staff continues to work closely with the Finance Department and City Administration to carefully monitor the Golf Fund, analyze options and weigh decisions which will best preserve the City's only municipal golf course for the Santa Barbara community.

### **Conclusion and Recommendation**

Channel Islands Golf Enterprises, Inc., has performed satisfactorily over the previous contract period, providing good service to the golfers and the golf course overall. Given the changes in the economy, the national and regional golf outlook, and the expectation that the reduced level of play at SBGC will likely continue or improve only slightly, the Parks and Recreation Department recommends that City Council move forward with approving the concession agreement as proposed.

### **BUDGET/FINANCIAL INFORMATION:**

In Fiscal Year 2013 revenue from the ProShop concession was \$197,777. Proposed changes in the concession terms are estimated to reduce Golf Fund revenues by approximately \$40,000 per year. With seven months remaining under the reduced concession terms, Fiscal Year 2014 pro shop concession revenues are projected to be \$22,500 under budget. Changes to the adopted Fiscal Year 2014 Golf Fund budget will be considered at mid-year as needed.

**SUBMITTED BY:** Nancy L. Rapp, Parks and Recreation Director

**APPROVED BY:** City Administrator's Office