



CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: October 7, 2014

TO: Finance Committee

FROM: Administration Division, Parks and Recreation Department

SUBJECT: Financial Status Of The Golf Fund

RECOMMENDATION:

That the Finance Committee hear a report on the status of the Golf Fund, including a review of both short-term and long-term trends in the number of rounds played, financial projections, and options the City might consider for the continued operation of the municipal golf course.

DISCUSSION:

The Santa Barbara Golf Club (known as SBGC or "Muni") has served as the City's municipal golf course since 1958. Over the last several years, the golf course has experienced increasing fiscal challenges due to a continuing decline in the number of rounds played at the course. Since the late 1980s, rounds have declined an average of 5% per year. The greatest decline (17%) came in Fiscal Year 2010, a result of the national recession and loss of play due to two major construction projects.

The Golf Fund reserves have been below policy level since Fiscal Year 2008. If current trends continue, the Golf Fund could deplete all of its reserves as early as Fiscal Year 2016.

A number of measures have been taken over recent years to decrease expenses, restructure debt, and increase play. The golf course has limited ability to further reduce expenses without negatively affecting course conditions, which would have a reciprocal effect on play. Similarly, fee increases intended to generate additional revenue will have the opposite effect, as the local golf market offers golfers many choices today with competitive pricing.

With the growing concerns for the fiscal sustainability of the golf course, in 2012 staff contracted with Gene Krekorian and Pro Forma Advisors LLC to provide the Parks and Recreation Department with information on trends within the golf industry, the comparative performance of SBGC to comparable regional facilities, various operating models used for municipal golf courses, strengths and weaknesses of the various models, and how the various models compared to the current operating model in place for the City of Santa

Barbara. While much of the information remains relevant today, staff has contracted with Pro Forma to update the information and expects to have an updated report by the end of October.

Options for Consideration

Staff has preliminarily identified a number of options that the City might consider in order to address the downward financial trend and, thus, enable continued operation of the municipal golf course. Options 3 – 5 are discussed in depth in the Pro Forma report, including comparative analysis.

1. Restructure current debt obligations – short-term solution only.
2. Provide General Fund subsidy to cover revenue shortfall – projections show the subsidy will increase over coming years.

The following options involve changing how the golf course is operated:

3. Outsource Golf Course maintenance – potentially reduces golf course operating expenses by \$350,000-\$500,000 per year; existing staff would be placed elsewhere in the City so no employees would lose their jobs.
4. Facility Lease – A less common model found in public agencies, the golf course would be leased to a private golf course operator who provides course maintenance, golf operations, and overall facility management services.
5. Management Agreement – The owner (City) pays the operator a fee for management of the facility, including maintenance, pro shop, and food and beverage operations. Compensation typically consists of a base fee plus performance incentives. Increasingly, public agencies are moving to a management contract approach to operations and maintenance.

Should the City consider Options 3 – 5, it is important to note that the two existing concession agreements will terminate in June 2016. The RFQ/RFP process combined with contract negotiation and transition between operators is estimated at one year. This would require a decision to go to RFP no later than June 2015 for a smooth transition of golf course operations.

Any significant change to how the golf course operates will likely involve a number of public meetings including the City Council, Finance Committee, Parks and Recreation Commission, and Golf Advisory Committee. Staff has drafted a tentative timeline for that process, which would begin with City Council on November 11, 2014, then move through the Golf Advisory Committee and Parks and Recreation Commission, back to the Finance Committee, and then to City Council for a decision in May-June 2015.

BUDGET/FINANCIAL INFORMATION:

The Santa Barbara Golf Course is operated as an Enterprise Fund, with all operating and capital expenses covered by revenue generated by golf course operations.

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

APPROVED BY: City Administrator's Office