Agenda Item No. 2

File Code No. 120.03

CITY OF SANTA BARBARA

FINANCE COMMITTEE AGENDA REPORT

AGENDA DATE: January 27, 2015

TO: Finance Committee

FROM: Administration Division, Parks and Recreation Department

SUBJECT: Golf Course Discussion

RECOMMENDATION:

That the Finance Committee provide a recommendation to City Council on options to improve the long-term financial sustainability of the municipal golf course.

DISCUSSION:

Santa Barbara Golf Club, the City's only municipal golf course, has seen play decline since 1990 and has been further challenged by competitive pricing trends in the local golf market. Operating as an enterprise fund, the Golf Course has been below policy reserves since Fiscal Year 2008, and could deplete all of its reserves within the next 12 to 18 months. On December 9, 2014, City Council received a report on the status of the Golf Course and options the City might consider to address the structural deficit. Council expressed a desire to retain the current operating model and directed staff to return to the Finance Committee with additional information on options to refinance the Golf Fund debt, Golf Course marketing, and opportunities to further reduce maintenance costs, which could improve the longer term financial outlook for the golf course.

Updated Financial Projections

The Golf Course typically derives 50% of its revenue in the first six months of the year. As of mid-year Fiscal Year 2015, the golf course has realized a decline in both revenues and rounds played compared to this same time last year. Greens fee revenue is $83,188 (9%) below budget at mid-year and 5% below Fiscal Year 2014 at mid-year. Fiscal Year 2014 benefitted from exceptionally good weather and a $2 fee increase. Taking into consideration the $1 fee increase implemented January 1, 2015; and assuming no significant reductions in course conditions due to the drought, staff projects Golf revenue will be $93,065 below budget by year-end. Staff does not expect expenditure savings will be able to fully offset the revenue shortfall, thus reserves are projected to decrease by $60,915. This would leave a balance of $216,699 (which is approximately 30% of required reserves) as of June 30, 2015.

Comparative Performance for the Golf Course

JUL-DEC	FY 2013	FY 2014	FY 2015	FY 2015 vs. FY 2013	FY 2015 vs. FY 2014
Revenue	$ 906,047	$1,076,098	$ 968,866	6.9%	-10.0%
Rounds	30,683	31,990	29,860	-2.7%	-6.7%

JAN-JUN	FY 2013	FY 2014	FY 2015 Projected	FY 2015 vs. FY 2013	FY 2015 vs. FY 2014
Revenue	$ 930,013	$ 964,796	$1,029,117	10.7%	6.7%
Rounds	30,347	30,522	31,593	4.1%	3.5%

These tables detail the total revenue and rounds at the course split into two halves of the Fiscal Year. Fiscal Year 2015 second half is projected to be stronger than Fiscal Year 2014, due to the impact the drought had on Fiscal Year 2014 play in May and June.

Golf Course Debt

Existing Golf Course outstanding debt totals $1,377,702 and includes the following:

1. Municipal Improvement Certificates of Participation (COP) used to finance the Clubhouse renovation, with an outstanding balance of $654,500 and an annual payment of approximately $180,000 through Fiscal Year 2018.
2. General Fund loan for Golf Course capital improvements, with an outstanding balance of $500,000 borrowed at 6% interest. Interest payments only ($22,000) through Fiscal Year 2018 to coincide with retirement of COPs. Repayment of principal plus interest ($185,000) starts in Fiscal Year 2019 through Fiscal Year 2022.
3. Vehicle Replacement Fund loan for turf equipment replacement, with an outstanding balance of $223,202 and annual payments of $60,000 through Fiscal Year 2018.

The Golf Fund annual debt obligation is approximately $262,000 through Fiscal Year 2018, and $185,000 through Fiscal Year 2022.

The following two tables show annual cash flow projections if play decreases 3%, stays flat, or grows 1% over the next seven years. Table One shows status quo annual cash flow including existing debt payments. Table Two shows how those numbers change with refinancing the debt over 20 years at 3%. Refinancing reduces the annual payment to $78,619, reducing the Golf obligation by $183,381 through Fiscal Year 2018, and $106,381 through Fiscal Year 2022. The 20-year obligation of $78,619 extends until Fiscal Year 2036. The numbers in both tables reflect the lower revenue performance projected for Fiscal Year 2015 versus budget. Other assumptions include a $1 fee increase per year, no changes to the current operating model, no drought impacts, and fully funded capital. Table Three shows the projected Reserve Balance with Refinancing. All tables assume that refinancing would be implemented to take effect in Fiscal Year 2016 so the amounts in Fiscal Year 2015 do not change.

Table One - Annual Cash Flow at Status Quo

Fiscal Year	**-3%**	**flat**	**1% growth**
2015	$ (60,915)	$ (60,915)	$ (60,915)
2016	(263,794)	(203,011)	(182,750)
2017	(296,248)	(174,782)	(133,471)
2018	(368,908)	(186,880)	(123,720)
2019	(437,036)	(194,591)	(108,770)
2020	(503,239)	(200,539)	(91,237)
2021	(552,998)	(190,225)	(56,607)

Table Two – Annual Cash Flow with Refinancing Debt 3% over 20 years

Fiscal Year	**-3%**	**flat**	**1% growth**
2015	$ (60,915)	$ (60,915)	$ (60,915)
2016	(80,291)	(19,508)	753
2017	(110,977)	10,489	51,800
2018	(182,290)	(263)	62,898
2019	(330,004)	(87,559)	(1,738)
2020	(396,208)	(93,508)	15,795
2021	(445,967)	(83,193)	50,425

Table Three – Projected Reserve Balance with Refinancing of Debt

Fiscal Year	-3%	flat	1% growth
2015	$ 216,699	$ 216,699	$ 216,699
2016	136,408	197,191	217,452
2017	25,431	207,680	269,252
2018	(156,859)	207,418	332,150
2019	(486,863)	119,859	330,411
2020	(883,070)	26,351	346,206
2021	(1,329,037)	(56,842)	396,631

Although refinancing improves the fiscal picture, even with 1% growth year over year the Golf Fund would remain below policy reserves by approximately 50% each year. Alternatively, if rounds were to decline 3% or more per year, the General Fund subsidy could likely exceed $180,000 in Fiscal Year 2018, and potentially increase upwards of $1 million by Fiscal Year 2021.

It is important to note that with refinancing, the General Fund would be obligated to pay the remaining COP payments of $180,000 per year Fiscal Year 2016 through Fiscal Year 2018.

Golf Course Marketing

Over the last 10 years golf course marketing has averaged approximately 1% of annual revenue from greens fees, which is lower than the industry average of 3%. For Santa Barbara Golf Club, 3% of projected revenue would be approximately $50,000. The Fiscal Year 2015 marketing budget is $21,606 and projected expense is $26,780. Staff proposes to increase that by another $23,220 in Fiscal Year 2016, for a total of $50,000.

Highlights of current golf marketing include a social media presence on Facebook and Twitter, local print media, monthly email blasts to registered golfers, and targeted promotions. A Rewards Card provides frequent golfers with discounts on play and services. To draw more non-resident play, relationships with local hotels provide opportunities for guests to play at discounted rates. Efforts to expand junior, student, and women's golf continue to yield strong growth.

There are two substantial marketing efforts underway which are expected to benefit the golf course as early as this spring. A Strategic Marking Plan is being developed by a national golf marketing firm. Completion of the comprehensive plan is expected by the end of January 2015, and will drive marketing investment and direction going forward.

A new Point of Sale and booking software system should be implemented by March. The current system is outdated, lacks customer appeal, and does not provide adequate data to support effective marketing. The new system will provide a user friendly, modern, and effective website with booking and marketing applications to attract new golfers. Improvements to the customer database will allow better segmented analysis of customer behavior and targeted promotions.

Golf Course Maintenance

The majority of the Golf Fund budget is directed to maintenance. Major cost areas include staffing, supplies and services, debt service, water, equipment, allocated costs (insurance, City overhead, fleet services, etc.) and capital. The largest single expense area is staffing, followed by water and capital.

Over the last several years, staff has reduced expenses where possible to help offset unrealized revenue. Reductions have included eliminating and reducing permanent positions, backfilling with hourly, water use, supplies, equipment replacement and capital. Staff believes that the maintenance budget has been trimmed to a level where further reductions would have a corresponding impact on course conditions, which would negatively affect play and revenue. Additionally, the course must address long-delayed maintenance of the course and related infrastructure.

Staff also sees limited opportunities to convert additional full-time positions to hourly. Hourly staff is limited to 1,000 hours per year, meaning people can work 20 hours a week over 12 months or full-time for six months. This typically causes high staff turnover and increased workload associated with recruiting, hiring, and training staff. With a small workforce, the skilled nature of the work, and a seven day a week operation, these challenges are exacerbated at the golf course.

Currently a number of maintenance services are contracted at the course, including tree maintenance, plumbing, electrical and general construction. There are minimal opportunities to transition general turf and greens maintenance from staff to contract.

Conclusion

At mid-year Fiscal Year 2015, performance is tracking below the previous year, and the Golf Fund is expected to draw nearly $61,000 from reserves by end of Fiscal Year 2015, leaving Golf reserves at $217,000 - nearly 70% below policy.

Refinancing the debt improves short-term cash flow by $183,381 for three years and by $106,381 through Fiscal Year 2022; but this extends the debt payment of $78,619 for another 14 years. Even with 1% growth year over year, refinancing leaves the Golf Fund below policy reserves by approximately 50%. Alternatively, if rounds were to decline 3% or more per year, the General Fund subsidy could exceed $180,000 in Fiscal Year 2018, and could increase upwards of $1 million by Fiscal Year 2021.

Increased funding for marketing is expected to have at least a correlating increase in golf revenues in the short-term and provide the platform for stronger rounds and revenue in Fiscal Year 2017. Increased rounds and revenue will brighten the financial outlook.

Given the lean Golf maintenance budget at this time, it is unlikely that any significant additional savings are achievable. Staff will continue to review expenses and conserve where appropriate, while still protecting the quality of the golf course and supporting assets.

At the December 9, 2014 meeting, Council stated a preference for retaining the current operating model with in-house maintenance. With one retirement vacancy and another maintenance employee out on a long-term medical leave, staff requests a final determination on whether or not any changes will be made to the in-house maintenance model as soon as possible. This would allow the Golf Superintendent to move forward with recruiting and hiring appropriately skilled staff on a full-time basis as the golf course heads into its busiest season.

BUDGET/FINANCIAL INFORMATION:

The Golf Fund is an enterprise fund. Staff projects Fiscal Year 2015 Golf revenue may be below budget by $93,065 by year-end, which may not be fully offset by expenditure savings. Drawing $61,000 from reserves will leave the Golf Fund at 30% of required policy reserves.

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

APPROVED BY: City Administrator's Office