Agenda Item No. 26

File Code No. 570.02

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: December 9, 2014

TO: Mayor and Councilmembers

FROM: Administration Division, Parks and Recreation Department

SUBJECT: Options For Municipal Golf Course

RECOMMENDATION: That Council:

A. Receive a report on the status of the municipal golf course, including trends, financial projections, and options the City might consider to improve the financial outlook for the continued operation of the course; and

B. Provide direction to staff on whether to pursue continuing to operate the golf course in a model which would include outsourcing maintenance, or whether the policy issue and consideration of General Fund support should be addressed through the budget process with a decision reached by June 2015.

EXECUTIVE SUMMARY:

The City's municipal golf course, Santa Barbara Golf Club (SBGC), is managed by the Parks and Recreation Department. Golf course maintenance is provided by City employees, while pro shop and restaurant services are provided by private concessionaires through agreements with the City. SBGC operates as a City Enterprise Fund, whereby revenue generated at the club is intended to be sufficient to cover maintenance and operations of the golf course; and the golf course receives no tax support.

The sport of golf has seen declines nationally due to fewer people playing golf or golfers playing less frequently, an overexpansion of the golf course inventory, and the national recession. With play declining since 1990 and changes to competitive pricing in the local golf market, SBGC has experienced increasing fiscal challenges. The Golf Fund has been below policy reserves since Fiscal Year 2008, and could deplete all of its reserves within the next 12 to 18 months.

There are a number of options the City might consider to address the structural deficit. However, the two primary options are whether to maintain the golf course as a self-sustaining operation, which would include outsourcing of golf course maintenance; or whether to provide a subsidy from the General Fund to offset projected Golf Fund deficits in coming years. With municipal golf courses across the country challenged with

declining play and operational deficits, trends include deferring capital improvements, reducing staffing, moving away from the higher cost City employee maintenance, changing to an operating model which involves a fee-for-service management agreement, and providing a general fund subsidy to offset operating deficits in the enterprise fund.

The two existing concessionaire agreements will expire in June 2016. If a change to the operating model is recommended, City Council direction is needed prior to June 2015 to ensure adequate time for new contractual relationships to be in place by June 2016. Staff initiated this discussion with the Finance Committee on October 7, 2014, and returned on November 18, 2014, with additional information, including the Pro Forma Advisors golf consultant report on the SBGC and alternate operating models the City might consider. Finance Committee members spoke to the importance of maintaining the municipal golf course which provides affordable golf for the Santa Barbara community and the need for broader public input on this discussion. The Finance Committee voted 2-1 to recommend to City Council that the golf course should continue to operate in a self-sustaining manner; and that the most likely place to look for savings is through contracting the maintenance operations.

The Golf Advisory Committee and Parks and Recreation Commission have been regularly informed on golf course fiscal matters. Staff provided a detailed status report, including the Pro Forma Advisors report, to both at their regularly scheduled November meetings. While not asked to take any official action at this time, there were mixed perspectives on outsourcing of maintenance, but consensus on the importance of maintaining a good quality, affordable municipal golf course, City control over fees, and the need to have broader public input to the discussion. A joint meeting with the Golf Advisory Committee and Parks and Recreation Committee was discussed should City Council determine the need.

DISCUSSION:

<u>Background</u>

The Santa Barbara Golf Club (known as SBGC or “Muni”) has served as the City’s municipal golf course since 1958. The course is operated as an enterprise fund, whereby revenue generated at the club sustains maintenance and operations of the golf course. The golf course receives no General Fund or tax support.

The sport of golf has seen declines nationally and regionally primarily due to fewer people playing golf or playing less frequently, an overexpansion of the golf course inventory, and the national recession. Santa Barbara’s municipal golf course has experienced increasing fiscal challenges due to a continuing decline in the number of rounds played at the course. Play has generally declined 3-5% per year, down from over 100,000 rounds in 1990 to 62,500 in Fiscal Year 2014. Play has somewhat stabilized over the last four years.

Nearly 80% of golf course revenue is generated by user fees charged to the golfers (greens fees). Fewer rounds mean less revenue. A number of measures have been taken over recent years to reduce expenses, restructure debt, and increase play. The golf course has limited ability to further reduce expenses without negatively affecting course conditions, which would likely have a corresponding effect on rounds played. Similarly, fee increases intended to generate additional revenue will likely have the opposite effect, as the local golf market offers golfers many choices today with competitive pricing. Expenses to maintain and operate the course have been exceeding revenue, and as a result, the Golf Fund reserves have been below policy level since Fiscal Year 2008. As of June 30, 2014, total reserves were $277,614, which were $290,386 below amounts required per City reserve policies. In contrast, reserves ten years earlier (Fiscal Year 2004) totaled $965,556 and were above policy requirements by $348,476. If current trends continue, the Golf Fund could deplete all of its remaining reserves as early as Fiscal Year 2016.

The current operating model for SBGC with City employee maintenance is less common in today's municipal golf industry due to higher public employee salary and benefit costs. The Pro Forma Advisors report prepared for Santa Barbara indicates that labor costs for the City's golf course are $400,000-500,000 higher than similar courses.

Santa Barbara is not alone in facing fiscal challenges with its municipal golf course. The National Golf Foundation conducted a survey of 260 municipal golf courses in 2013. A sample of key findings and trends includes:

- 53% are set up as Enterprise Fund; 30% General Fund
- 1/3 of Enterprise Funds have negative fund balances
- 70% have deferred capital improvements due to financial considerations
- 50% have reduced full-time staffing in recent years
- Increased outsourcing of golf operations and/or maintenance
- Forgiveness of debt and/or subsidy provided by the respective General Fund

The Pro Forma Advisors report also speaks to similar trends in California and Southern California.

Municipal Golf Course – An Important Community Asset

Since it was built, the Santa Barbara municipal golf course has been a popular and greatly valued recreational resource for the Santa Barbara community. It is known as a well-maintained and operated facility, and golfers regularly compliment staff on the course conditions. It is estimated that approximately 6,000 golfers play at SBGC, including those who play on a regular basis, occasional players, and visitors to the area. Roughly 1,000 golfers participate in 25 organized home clubs and golfing groups. The course offers extensive junior golf programs, and discount play for juniors and students, and seniors. Over 35% of all rounds played at SBGC are from seniors 65 years and older. Over the last four years, participation in junior programs has increased over 50%, with over 700 youth involved per year. SBGC is also home to the Santa Barbara City College men's and women's golf teams, and other local high school teams.

Although there has been declining interest in the sport of golf, Santa Barbara's golf course remains busy providing affordable golf for many community residents and visitors. Staff is exploring alternative activities which could coexist with traditional golf and provide new revenue streams to offset course operational costs.

Options to Address Possible Structural Deficit

The City could shift the golf course over to the General Fund; provide some level of subsidy to the Golf Course from the General Fund while still maintaining it as a separate enterprise fund; or change the golf course operating model to one which includes outsourcing golf course maintenance (i.e., contract maintenance services, golf course management agreement, facility lease). The discussion can be initiated with the first of two questions:

1. Should an alternate golf course operating model be implemented which would include outsourcing maintenance, or

2. Should a portion of annual golf course operation be subsidized by the General Fund to solve the structural deficit?

Annual Cash Flow Projections

The following table shows the projected annual cash flow over the next ten years based on whether rounds decline, stay flat, or experience moderate growth.

	Projected Golf Fund Cash Flow Compared to FY 2014 Rounds Played				
Year	4% decline	2% decline	Flat	1% growth	2% growth
2016	(430,189)	(353,136)	(274,506)	(234,601)	(194,301)
2017	(446,281)	(330,343)	(209,599)	(147,394)	(83,952)
2018	(519,285)	(364,569)	(200,122)	(114,124)	(25,544)
2019	(579,076)	(385,782)	(176,096)	(64,789)	+51,003
2020	(644,822)	(413,231)	(156,823)	(18,666)	+126,486
2021	(701,222)	(431,692)	(127,129)	+39,440	+216,183
2022	(774,514)	(467,471)	(113,369)	+83,198	+293,847
2023	(682,501)	(338,436)	+66,543	+294,717	+541,671
2024	(759,040)	(378,497)	+78,649	+340,064	+625,811
2025	(858,455)	(442,032)	+68,527	+364,841	+691,959
2026	(960,730)	(509,070)	+56,103	+389,000	+760,159

<u>Assumptions</u>:

- Based on 59,197 paid rounds in Fiscal Year 2014
- Costs are the same for all round volumes due to fixed nature (includes projected salary and benefit costs)
- $1 fee increase applied every year
- Capital fully funded
- No change to current operational structure or concession terms
- Golf course debt obligations conclude in Fiscal Year 2022

It is important to note that, in even the most favorable scenario (2% growth), the Golf Fund will fully exhaust its reserves balances and run out of cash. In addition, all scenarios assume annual increases to greens fees of $1 per round. As discussed above, such increases to fees could adversely affect rounds depending what on other competing golf courses do with green fees.

<u>General Fund Support of Parks and Recreation Programs and Services</u>

The majority of programs and services provided by Parks and Recreation are funded through the General Fund. Exceptions are the golf course and the Measure B funded Creek Restoration/Water Quality Improvement Program. The cost to maintain and operate various parks, beaches, community buildings, and recreational facilities is included in associated program budgets, with the exception of capital expenses and department or City overhead costs. User fees and contractual agreements comprise Department revenues, which supplement the General Fund subsidy to fully cover program expenses. The Recreation Division has the lowest subsidy percentage (45%) due to fees charged for programs and facility use. The numbers and percentages below are based on Fiscal Year 2014 final revenue and expenses.

	Expense	Revenue	% GF Subsidy
Parks and Recreation Department General Fund Budget	$14,168,362	$ 5,217,263	63%
Administration Division	$ 992,500	$ 59,145	94%
Parks Division	$ 6,867,738	$ 1,716,734	75%
Recreation Division	$ 6,308,125	$ 3,441,384	45%

Philosophically, the Department provides higher subsidy levels for those programs and services which serve the general community (e.g., park visitors do not pay fees to visit a park unless they want exclusive use of a particular park area), and programs directed to the underserved/low income (i.e., free Summer Fun Drop-In Program or free afterschool sports program). Activities for youth are generally subsidized at a higher level than for adults. Fees are generally set to recover direct activity costs and contribute towards park/facility maintenance and operational costs.

In looking to make a comparison between the golf course and other recreation programs, the Department selected Los Baños Pool and the Tennis Program. All three programs operate and maintain a facility, generate revenue from activities related to that facility, and provide similar activities. The following table overviews the three programs with facilities, programs, target audience, revenue/expense, and annual participation. The golf course is notably more expensive to operate compared to Los Baños Pool and the Tennis Program.

	Los Baños Pool	Tennis Program	Golf Course
Facility	Pool, shower/lockers, restrooms, weight room, offices	Municipal Tennis Facility (12 courts), offices, shower/ lockers; Oak Park (2 courts), lights for Pershing Park tennis (8 courts)	18-hole golf course, driving range, lesson area, pro shop, cart barn, maintenance building, restaurant, restrooms
Programs	Lessons, camps, clinics, group swim, competitive swimming, casual/drop in swim, facility rentals, supervised facility	Lessons, camps, clinics, organized group play, tournaments, casual/drop in play, facility rentals, partially supervised facility	Lessons, camps, clinics, organized group play, tournaments, casual/drop in play, group golfing activities, supervised facility
Target Audience	Youth, Adults, Seniors	Youth, Adults, Seniors	Youth, Adults, Seniors
Operating Expense*	$521,266	$297,302	$2,111,329
Program Revenue*	$228,120	$96,559	$2,043,085
GF Subsidy*	56%	68%	N/A
Annual Participation (duplicative)*	105,000 (swim sessions)	37,500 (tennis sessions)	62,500 (rounds played)

*Fiscal Year 2014

Golf Course Staffing

The Golf Fund includes 12.75 FTE administrative and maintenance staffing. Of that, 12 FTE are maintenance staff, which include 11 permanent staff and 4 hourly staff. Should the City pursue an alternate operating model which includes outsourcing of maintenance, employees wishing to remain with the City will be absorbed to other City departments so that no one loses their job. Maintenance staff would also have the option to continue working at the golf course for the private operator.

Golf maintenance staff has been briefed on the discussions taking place. Also, staff has informed SEIU of the current Golf Fund discussion and possible outsourcing of maintenance to a private entity.

Alternate Operating Options for the Santa Barbara Golf Club

With the growing concerns for the fiscal sustainability of the golf course, staff contracted with Pro Forma Advisors LLC to provide information on golf industry trends, the comparative performance of Santa Barbara's municipal golf course to regional facilities, and alternative operating models, and the economics of how each might work if implemented for Santa Barbara. A copy of the ProForma report is included as an attachment to this staff report.

Five basic golf course operating options employed by municipalities are presented in depth. They include Golf Facility Lease, Management Agreement, Hybrid – current model in Santa Barbara, Modified Hybrid – alternate model with contract maintenance, and Full Self-Operation. Three models do not utilize a public employee workforce, including the Management Agreement, Hybrid with contract maintenance and Facility Lease.

Of those three, more municipalities are choosing the Management Agreement fee for service model which entails contracting with a professional golf management company to manage the golf course (maintenance, pro shop and restaurant); typical is a five-year agreement with compensation that includes a negotiated management fee with performance incentives. Once preferred but not in today's golf market is the Facility Lease, whereby a private entity would secure a long term lease to operate the golf course in exchange for a significant investment of capital; compensation is a fixed lease payment with performance incentives. The current Hybrid but with contract maintenance is less common and not preferred as the City would need to negotiate with three contractors on golf course operations, versus the current two.

Finance Committee Recommendation

Staff initiated this discussion on with the Finance Committee on October 7, 2014, and returned on November 18, 2014, with additional information, including the golf consultant report on the SBGC and alternate operating models the City might consider. Finance Committee members spoke to the importance of maintaining the municipal golf course which provides affordable golf for the Santa Barbara community and the need for more information and broad public input on this discussion. The Finance Committee voted 2-1 to recommend to City Council that the golf course should continue to operate in a self-sustaining manner, with the most likely means to achieve this was through contracting for the maintenance operations.

Golf Advisory Committee and Parks and Recreation Commission

The Golf Advisory Committee and Parks and Recreation Commission have been regularly informed on golf course fiscal matters. Staff provided a status report, including the Pro Forma Advisors report, to both at their regularly scheduled November meetings. While not asked to take any official action at this time, there were mixed perspectives on outsourcing of maintenance but consensus on the importance of maintaining a good quality, affordable municipal golf course, City control over fees, and the need to have broader public input to the discussion. A joint meeting with the Golf Advisory Committee and Parks and Recreation Committee was discussed should City Council determine the need.

Decision Timeline

Staff will soon be developing the two year fiscal plan for Fiscal Year 2016-2017 which will be presented to City Council in April 2015. If Golf Fund reserves are depleted as early as Fiscal Year 2016, this would mean the golf course would not have sufficient operating funds for Fiscal Year 2017. The existing golf course concession agreements will terminate in June 2016. The Request for Qualifications/Request for Proposals (RFQ/RFP) process combined with contract negotiation and transition between operators is estimated to take 12 months. Whether the City chooses to continue the current model or modify it in some way, a decision will need to be made no later than 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. The Golf Fund has been below policy reserves since Fiscal Year 2008, and reserves may be depleted as early as Fiscal Year 2016.

ATTACHMENTS:

1. Evaluation of Operating Options Santa Barbara Golf Club, ProForma Advisors LLC, dated November 2014
2. SBGC Golf Trends Fiscal Year 1982-2014, Golf Revenue and Expense Fiscal Year 2013-2020, Golf Fund Reserves Fiscal Year 2012-2014, Golf Fund Reserve Balance Fiscal Year 2013-2020

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

APPROVED BY: City Administrator's Office

Evaluation of Operating Options

Santa Barbara Golf Club

Santa Barbara, California

Prepared for: **City of Santa Barbara**
Prepared by: **Pro Forma Advisors, LLC**

November 2014
PFAID: 10-644

Version: 1.0

Table of Contents

Pro Forma Advisors LLC

General Limiting Conditions

Certain information included in this report contains forward-looking estimates, projections and/or statements. Pro Forma Advisors LLC has based these projections, estimates and/or statements on expected future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," “project,” or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

No warranty or representation is made by Pro Forma Advisors that any of the projected values or results contained in this study will actually be achieved.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, Pro Forma Advisors accepts no liability in relation to the estimates provided herein.

In the production of this report, Pro Forma Advisors has served solely in the capacity of consultant and Pro Forma Advisors has not rendered any “expert” opinions and does not hold itself out as an “expert” (as the term “expert” is defined in Section 11 of the Securities Act of 1933).

This report is not to be used in conjunction with any public or private offering of securities, and may not be relied upon without the express written consent of Pro Forma Advisors.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions, and considerations.

I. Introduction and Background

Background

The City of Santa Barbara municipal golf course, the Santa Barbara Golf Club (SBGC 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.

SBGC is managed by the Parks and Recreation Department. The Department also provides 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/Pro Shop concession and the Food and Beverage concession. Although concession rents provide revenue to the golf course, over 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 funded solely by revenues generated at the course. Since 1987, the course has seen a gradual decline in the number of rounds being played, affecting revenue. Discussed in the report, the decline in play is largely attributed to a national decline in golf participation and an unprecedented increase in the number of golf courses serving golfers, including in the Santa Barbara area. This industry decline has been compounded in recent years as people changed their leisure and spending habits in response to the deep national recession. Concurrently, SBGC experienced a significant decline in play resulting from two major construction projects at the facility. Although the level of play has recovered and stabilized to some degree, it has not returned to pre-2009 levels and the outlook is that play will likely remain relatively flat in the near-term, with slow growth over the longer time frame.

With sluggish growth in play/revenues and increasing expenses, the longer term fiscal health of SBGC became a focus for the Parks and Recreation Department and the City. This study was undertaken to provide the City 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 compare to the current operating model in place for the City of Santa Barbara.

Basic Assignment Objectives

Key objectives of the assignment included:

- Prepare a description of SBGC facilities and historical operating review.
- Provide an overview of the golf market, including national and regional demographics and trends.
- Complete a comparative performance review of regional golf courses, including rounds of play, average revenue per round, revenues, and operational costs including maintenance.

- Describe and compare various operating models employed by municipal golf courses in California, including Santa Barbara.
- Review the economics of alternative operating models related to SBGC.

Overall Work Process

The overall work process for this assignment has occurred over about a two-year time frame. A significant portion of the analysis was conducted in 2013 and updated in mid-2014. The work tasks completed during this study process included the following:

- Discussions and interviews with selected stakeholders, including the concessionaires and Parks and Recreation staff, and industry representatives, including a series of private golf management companies.
- A review of historical operating and financial statements for SBGC.
- Inspection of the golf course and support facilities.
- Analysis of current and anticipated future golf course market conditions.
- A review of future capital improvement requirements at the golf facility.
- Identification and analysis of the various operating models employed by municipal golf courses.
- Projections of near- and mid-term operating performance of SBGC.
- Comparative evaluation of prospective operating models with the current SBGC operating structure.

The Parks and Recreation Department contracted with Gene Krekorian, a Principal with Pro Forma Advisors LLC, to provide the majority of the information provided in this report. Mr. Krekorian was well qualified for this effort having prepared various operational analysis reports on the City's golf course over the years. Additionally, Mr. Krekorian has undertaken similar studies for other golf courses in the Tri-County area so he is familiar with golf operations in the region. Staff worked with Mr. Krekorian to provide assistance and information to complete the report.

The final report, drafted by Pro Forma Advisors, is the product of a collaborative effort of Pro Forma Advisors and Parks and Recreation staff.

II. Summary

The following section presents a summary of principal findings related to future operations at Santa Barbara Golf Club (SBGC). Substantiation and documentation of these summary findings are contained in the subsequent sections of the report.

Background

The Santa Barbara Golf Club (known as SBGC or "Muni") has served as the City's municipal golf course since 1958. The course is operated as an enterprise fund, whereby revenue generated at the club sustains maintenance and operations of the golf course. The golf course receives no tax support.

Santa Barbara Golf Club is managed by the City Department of Parks and Recreation, which also maintains the golf course. Golf operations is the responsibility of a golf concessionaire who pays rent to the City based on a percentage of gross revenue. Similarly, the food and beverage operations at SBGC are provided under a concession agreement.

Santa Barbara's municipal golf course has experienced increasing fiscal challenges due to a continuing decline in the number of rounds played at the course. The sport of golf has seen declines nationally and regionally primarily due to fewer people playing golf or playing less frequently, an over-expansion of the golf course inventory, and more recently the effects of a struggling economy. Additionally, SBGC has yet to see play fully rebound from 2010 losses due to the lingering effects from two major construction projects on the golf course and the national economic recession. The course has seen play decline an average of nearly 3% per year, down from over 100,000 rounds in 1990 to 62,500 in Fiscal Year (FY) 2014.

Presently, over 80 percent of golf course revenue is generated by user fees charged to the golfers (greens fees). Fewer rounds mean less revenue. 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, extraordinary 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.

Despite the actions which have been taken, and given some stability in the golf market, SBGC sustained negative cash flow in FY2014, and the outlook suggests financial performance may deteriorate further. Actual financial results for FY2014 are summarized as follows:

SBGC Net Cash Flow-2014 ($000)	
City Revenue/Rent	
Greens Fees Revenue	$1,664.7
Concession/Other Revenues	378.4
Total	$2,043.1
Operating Expenses	
Course Maintenance	1,369.1
Other Operating Expenses	263.0
Total	$1,632.1
Net Operating Income (EBITDA)[1/]	$411.0
Less: Debt Costs	264.8
Capital Improvement Allowance	214.5
Net Cash Flow	(68.2)
[1/] Earnings before interest, taxes, debt and amortization, and capital improvements.	

Golf Market Overview

Nationwide, golf play increased steadily between the mid-1980s and 2000. Over the period 1990-2010, the national inventory of golf courses increased by 34% while golf demand only increased 12%. Since 2000, first signs of industry problems surfaced and have persisted for the last 10 years. Since 2007, the golf market has been further impacted by the national and regional recession. In response, promotions, discounts and special rate loyalty programs which offer reduced fees have become the norm and increased local competition.

Regionally, similar patterns were seen over the same period. The Tri-County region has 38 public access golf courses, expressed as 18-hole equivalent courses, of which 7.5 are located in Santa Barbara County. Inventory has increased 58 per cent since 1995. While only two new courses were added to the golf inventory in Santa Barbara County since 1995, and none since 1998, the significant expansion in Ventura County has provided many more options for residents of the region. The Tri-County public golf market is highly competitive. In addition to numerous municipal facilities, there are a number of higher quality public access courses available at relatively affordable greens fees.

Since 2011, the regional golf market has been generally flat, benefitting from favorable weather. Golf industry leaders project limited growth over the next 10- to 20-year term. Most of this growth will result from the aging population trend (60 to 74 age cohort) where the propensity to, and frequency of, play increase compared to younger age cohorts. While the regional market appears to have stabilized, there are no indications that portend much, if any, growth in the near- to mid-term.

Regional Comparative Metrics

With the inventory of golf courses increasing by one, the aggregate annual play at 10 selected Ventura and Santa Barbara public courses declined by only 5.3 percent over the 2004-2013 period. However, the survey shows that the average play per course declined 15 per cent over the nine-year period. (By comparison, play at all regulation length public access courses in Los Angeles County declined 14 per cent.) Play at SBGC declined from 86,400 rounds in 2004 to 61,000 in 2013, or nearly 30 per cent. Factors contributing to decline in SBGC rounds included:

- Glen Annie Golf Club has repositioned toward the mid-market, thus becoming more competitive with SBGC.
- Higher end daily fee courses (i.e., Sandpiper Golf Club and Rancho San Marcos) have been targeting Tri-County residents with discounts.
- City of Ventura recently renovated both of their municipal courses (Buenaventura and Olivas Links) resulting in fewer Ventura area players traveling to Santa Barbara, and more Santa Barbara players traveling to the newly renovated courses.
- Promotional programs and greens fees discounting by competitive courses in the region has reduced their effective fee structures relative to SBGC.
- Lost play following 2010 SBGC construction.

When compared to the performance of seven municipal courses and three daily fee courses, revenue per round ranged from $19 to $35.30. SBGC FY 2014 performance was $26.57 per round. For comparison, Buenaventura was $24.80 and Olivas Links was $28.89. SBGC merchandise revenue performs slightly superior to most other courses in the region. Average cart fee is consistent with similar courses in the region. Practice range revenue is relatively low at SBGC compared to others due to facility limitations. Food and beverage (Mulligans Bar & Cafe) performance is strong.

When compared to five municipal courses and four mid-market daily fee courses, the greatest expense variance was the cost of maintenance labor. With staffing levels ranging from 9 to 15 FTE at 18-hole golf courses in the region, the majority of payroll and benefit cost was in the range of $311,000 to $555,000 while SBGC direct labor cost was $929,000 with 12 FTE. Santa Barbara operates SBGC with a City employee workforce which is the primary reason for the higher labor cost.

Golf Course Operating Options

Golf courses have four primary operational areas, including Administration/Management, Course Maintenance, Golf Operations (daily golfer services), and Food and Beverage service. Five basic golf course operating options employed by municipalities are presented, including the current model used by the City of Santa Barbara.

- Hybrid – current model in Santa Barbara (City maintenance)
- Modified Hybrid – alternate model with contract maintenance
- Management Agreement
- Golf Facility Lease
- Full Self-Operation

A brief description of each model is below. The following table provides an overview of the responsibilities for each function in the various models.

Responsibility for Function				
Model	**Course Maintenance**	**Golf Operations**	**Food & Beverage**	**Administration/ Management**
SBGC Hybrid*	**City**	**Concession**	**Concession**	**City**
Modified Hybrid**	City/Private	Private/ Concession	Concession	City/Private
Management Agreement	Private	Private	Private	Private
Golf Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	City	City	City/Concession	City

* Represents current SBGC Hybrid model.
** Hybrid model with City course maintenance and golf operations concession represents the current city model, with some modifications of terms/expenses.

In addition to these basic options, there are numerous permutations which would create alternative hybrid models. These alternative hybrid models combine some form of self-operation, concession agreements, and/or management/contract agreement.

The **Hybrid** model consists of any combination of concession agreements and service contracts. The City of Santa Barbara currently employs a Hybrid model with City employees providing Administration/Management and golf course maintenance; golf operations and food and beverage services are provided by two concessionaires: Director of Golf - Chris Talerico/Channel Islands Golf Enterprises, Inc., and Mulligans Café LLP – Mario and Lani Medina. The "hybrid model" (golf operations concession, with City maintenance), currently accounts for 6 percent of the 83 municipal golf courses in Southern California.

A **Modified Hybrid** model respective to the City of Santa Barbara could entail the City retaining the current golf operations and food and beverage concessions, with golf course maintenance shifted to a private landscape maintenance entity on a contract basis. The City would still be responsible for overall golf course management, and overseeing the three contracts. The "modified hybrid model" (golf operations concession, with contract/private maintenance), also currently accounts for 6 percent of the 83 municipal golf courses in Southern California.

The **Management Agreement** model, although observed at only about one-quarter of the Southern California municipal golf courses, is the most common model employed in the municipal golf market today. The City would enter into a fee-for-service agreement with a Director of Golf, General Manager, or an outside management company. Under a typical management agreement, the facility owner (City) receives all revenues and is responsible for funding all capital improvements, operating expenses and capital reserves . In addition, the City pays the operator a fee for management of the facility. In effect, the professional operator serves as the City's agent in managing, operating and maintaining the golf facility. Management compensation typically consists of a base fee, plus performance incentives. The "management agreement model" currently accounts for 23 percent of the 83 municipal golf courses in Southern California, although in recent years the model has been employed in the majority of the municipal transactions.

Under the **Golf Facility Lease** model, the City would enter into a long-term facility lease with a private golf course operator who provides course maintenance, golf operations, and overall facility management. The food and beverage operation may be included or provided through a separate lease. Typically, the lease model has been utilized when a private entity will be investing significant capital into the facility. The operator's lease payments typically are based on a minimum rental payment versus a percentage of gross revenues derived from golf, merchandise, food and beverage, etc. Under a typical facility lease, the lessee receives 100 percent of the revenue and is obligated to fund required front-end capital improvements, operating expenses, and a capital reserve fund. This model is not as common in today's municipal golf market, although it is the model employed in over one-half of the municipal golf courses in Southern California. The "golf facility lease model" currently accounts for 57 percent of the 83 municipal golf courses in Southern California, although in recent years the model has been employed in a much smaller percentage of the municipal transactions.

The **Full Self-Operation** model, whereby the facility is operated fully by the City with a City workforce, is very uncommon and movement away from this model continues given higher public employee compensation labor costs. This model is not seen as a viable option for Santa Barbara at this time. Currently, the "full self-operation model" accounts for 6 percent of the 83 municipal golf courses in Southern California. In addition, there are two recreation districts (two percent) in Southern California which operate municipal golf courses.

There are economic and non-economic advantages and disadvantages of the various types of operating structures, and the most appropriate structure generally is strongly influenced by the the objectives of the owner (City). Most of the advantages and disadvantage of each approach are summarized in the following table.

Strengths and Weaknesses of Golf Course Operating Options			
Hybrid (Current Model)	**Facility Lease**	**Management Agreement**	**Modified Hybrid**
STRENGTHS			
• Provides high level of City control over rates, policies, practices, and overall golf experience • Availability of City overhead support functions • Strong participation in upside financial performance • Provides opportunity to retain specialists in golf operations and food and beverage • Preserves option to convert to alternative operating option	• Provides reasonably strong financial return to City • Produces guarantee minimum rent payment to City • Minimizes financial risk • Minimizes political influence with less direct involvement of City with setting fees, policies, and practices • Offers potential benefits in golf management expertise and specialized maintenance support services • May provide private capital investment in facilities	• Provides strong financial return to City. • Provides high level of City control • Greater potential quality assurance • Opportunity to provide shorter term contracts • Potentially more compatible with multiple operator options • Provides opportunity to retain specialists in professional golf management • Captures benefits of private sector wage and benefit structure	• Provides high level of City control over rates, policies, practices, and overall golf experience • Availability of City overhead support functions • Strong participation in upside financial performance • Potential benefits from lower private sector maintenance payroll/ benefits • Provides opportunity to retain specialists in golf operations and food and beverage • Preserves option to convert to alternative operating option
WEAKNESSES			
• Constrains ability of management to adapt and respond to dynamic market conditions • Entails high level of financial risk • Involves higher public sector wage and benefit structure for maintenance • Reduces opportunity to attract private capital due to reduced lessee control • Potential conflicts of multiple concessionaires • Relatively high City monitoring requirements	• Minimum operational and quality control • May involve long-term contractual commitment • Minimizes financial upside, particular in current market • Current weak market for facility leases • Potential conflicts over capital reinvestment responsibilities of contracting parties	• Requires more City involvement than facility lease option • Minimizes private capital investment in facilities. • Entails greatest level of City financial risk	• May constrain ability of management to adapt and respond to dynamic market conditions • Entails high level of financial risk • May involve higher public sector wage and benefit structure • Reduces opportunity to attract private capital due to reduced lessee control • Potential conflicts of multiple concessionaires • Relatively high City monitoring requirements

In general, there are three factors which influence the preferred structure:

- Level of control desired by public entity in terms of fee structure, operating policies, and other procedures.
- Ability or willingness to fund significant capital improvements required.
- Degree of financial risk tolerance related to market and other events.

Options Economics

The report provides detailed economics of how each model might compare if implemented in Santa Barbara. In general, the primary difference in net operating income and cash flow derives from whether golf course maintenance is provided by a City employee workforce or a private entity.

A comparative summary of the economics associated with the various operating models is presented in the following table. The comparative analysis is predicated on the assumption that revenue is constant among the various models. General experience suggests that revenue (play levels) are likely to be greater under the management agreement model and the facility lease model. To the extent that revenues are higher, the differential between the management agreement (and facility lease) model and the hybrid model would likely be substantially greater.

Pro Forma Advisors LLC

Comparative Baseline Operating Options Economics
(thousands of constant 2014 dollars)

Department	City Hybrid Actual FY2014	Hybrid		Management Agreement		Facility Lease[1/]
		City Maint*	Contract Maint with Living Wage	No Living Wage	With Living Wage	
City Revenue/Rent						
Greens Fees Revenue	$1,664.7	$1664.7	$1664.7	$1,664.7	$1,664.7	---
Golf Operations Revenue	---	---	---	793.4	793.4	---
Facility/Golf Ops Concession Rent	189.6	161.5	161.5	---	---	$449.9
Food & Beverage Rent	139.1	137.8	137.8	206.7	206.7	137.8
Other Revenue	49.7	49.7	49.7	49.7	49.7	10.0
Total	$2,043.1	$2,013.7	$2,013.7	$2,714.5	$2,714.5	$597.7
Less: Cost of Sales	---	---	---	142.7	142.7	---
Gross Profit	$2,043.1	$2,013.7	$2,013.7	$2,571.8	$2,571.8	$597.7
Operating Expenses						
Course Maintenance	$1,369.1	$1,370.0	$1,140.7[2/]	$880.0	$1,037.0	---
Golf Operations	---	---	---	313.0	378.0	---
G & A/Clubhouse	71.4	71.4	71.4	420.0	420.0	---
City Contract Administration	118.1	118.1	150.0	80.0	80.0	80.0
Citywide Overhead Allocation	73.5	73.5	73.5	73.5	73.5	73.5
Total	$1,632.1	$1,633.0	$1,435.6	$1,766.5	$1,988.5	$153.5
Net Operating Income (EBITDA)[3/]	$411.0	$380.7	$578.1	$805.3	$583.3	$445.2
Less: CIP Replacement Reserve	214.5	225.0	225.0	225.0	225.0	108.1
Debt Service	264.8	264.8	264.8	264.8	264.8	264.8
Net Cash Flow	($68.3)	($109.1)	$88.3	$315.5	$93.5	$71.3
Variance From Current Hybrid Model, With City Maintenance	$40.8	---	$197.4	$424.6	$202.6	$180.4

* Represents current City Hybrid model with current terms. [1/] Assumes no Living Wage ordinance; [2/] Assumes Living Wage ordinance; [3/] Earnings before interest, taxes, depreciation, debt service and amortization.

III. Description of Facilities and Historical Operating Review

The following section contains a brief description of Santa Barbara Golf Course (SBGC) and a review of historical operating performance.

Facilities

The Golf Course was designed and built in 1957 by Lawrence Hughes, and opened for play on January 12, 1958. The 18-hole golf course envelope is approximately 108 acres, of which 85 acres is irrigated turf. The regulation, par-70 golf course features sweeping views of the Santa Ynez foothills and the Pacific Ocean. Located in the north side of town, the course is surrounded by homes, Earl Warren Showgrounds, Las Positas Road, McCaw Road, Club House parking lot, and Adams Elementary School.

The amenities of the course include a practice putting green, electric golf cart storage facility, pro shop/office, restrooms, an unlighted driving range with fence which has 12 stalls for irons and woods, 6 stalls for irons only, and for the exclusive use of providing lessons only, an 1,800 square foot teaching area with easy access for 4-5 simultaneous lessons, a putting/chipping green, and a small sand bunker. The Santa Barbara Golf Club has a 210-space paved parking area.

The clubhouse, originally built with the golf course as a small food and beverage operation, was significantly expanded and remodeled in 1989 into the current configuration. The clubhouse includes a full-service restaurant, bar and banquet room as well as exterior patio dining areas on two sides of the facility overlooking the golf course, and a takeout counter serving golfers.

Existing Concessionaire Agreements

The pro shop concession, which provides the daily operation of the course and golfer services, is with Chris Talerico, Channel Islands Golf Enterprises, Inc. Golfer services include the tee reservations and starter function, carts, driving range operation, retail sales of golf supplies and equipment, lessons, tournaments, leagues, and the marshaling operation which oversees the pace of play on the course. The three-year agreement term ends June 30, 2016. The current pro shop concession terms include a base rent minimum of $125,000, plus percentage rents as follows: 30% on carts, 25% on the driving range, 4% on merchandise, and 4% on lessons and equipment rental sales. In FY 2014 annual income to the City from the pro shop concession was $189,600.

The food and beverage concession is with Mario and Lani Medina, Mulligan's Café LLP. Mulligans Café has served the SBGC since 1993. The restaurant serves breakfast, lunch and dinner seven days a week and draws a substantial business from the general community in addition to serving golfers. The current concession agreement term will conclude June 30, 2016. The Mulligans food and beverage concession terms include a base rent minimum of $116,774 plus 10% percentage rent on gross receipts above the base rent amount. In FY 2014 annual income to the City from the Food and Beverage concession was $139,060.

Municipal Water Quality Elements

The Santa Barbara Golf Club, located at the top of the Las Positas Creek watershed, receives storm water and urban runoff from surrounding streets and properties. The Creek Restoration and Water Quality Program constructed the Upper Las Positas Creek Restoration and Storm Water Management Project on the course in 2010. The project was designed to detain and treat storm water and incidental runoff and improve water quality downstream in Las Positas Creek, the Arroyo Burro Estuary, and Arroyo Burro Beach. This project added several new aesthetic elements to the course, including several large retention basins, as well as natural area creek and native landscape elements.

Staffing Levels

SBGC is supported with City employee resources in management, marketing and maintenance. After many years of consistent staffing levels, reductions were made in 2010 (-.20 FTE) and again in 2012 (-2.50 FTE) to reduce expense in response to decreased revenues, both at a management level and golf maintenance staffing.

Current Golf Fund staffing totals 12.75 full time equivalent employees. Management and marketing total .75 FTE (.20 FTE Parks and Recreation Director, .5 Business Analyst, .05 FTE Marketing Coordinator). Golf Maintenance is 12.0 FTE, comprised of the following:

- 1.0 FTE – Golf Superintendent
- 1.0 FTE – Maintenance Coordinator
- 1.0 FTE – Irrigation Tech
- 1.0 FTE - Automotive/Equipment Tech
- 1.0 FTE – Sr. Grounds Maintenance Worker
- 4.0 FTE – Grounds Maintenance Worker II
- 1.3 FTE – Grounds Maintenance Worker I
- 1.7 FTE – Grounds Maintenance Worker I (hourly)

Golf Fund Revenues and Expenses

Greens fees are the largest component of Golf Fund revenue, comprising over 80% of annual revenue. Any change in the number of rounds played has a corresponding effect on Golf Fund revenue. Since 1987, the number of rounds at SBGC has continued on a gradual decline. A number of factors for this are related to national trends and regional golf operations and discussed in more detail in the Golf Market Overview. In 2010, SBGC rounds hit their lowest point of 59,091, reflecting the impacts of two major golf course construction projects compounded by changes golfers made in their leisure and spending habits in response to the national recession. Although the level of play has partially recovered and stabilized to some degree, it has not returned to pre-2009 levels (see Table III-1).

As shown, in FY2014 SBGC accommodated approximately 62,500 total rounds of play. The majority of these rounds were played by about 6,000 individual golfers.

The distribution of 2014 play, by type of round, is presented in Table III-2. The following observations are offered:

- Residents of Santa Barbara County account for 93 percent of total play, with non-residents about 7 percent. The percentage of resident play on weekdays is slightly lower at 92.5 percent of total play, and slightly higher at 93.4 percent on weekends.
- Weekday play represents approximately 65 percent of total play, and weekend play about 35 percent. This pattern of play, which is slightly disproportional on weekends, is consistent with most municipal golf courses in Southern California.
- Seniors account for approximately 60 percent of total weekday 18-hole play. Senior play at most Southern California municipal golf courses, where discount rates are offered, typically accounts for 50 to 60 percent of total 18-hole weekday play.
- Tournament play at SBGC represents 3.1 percent of total play, slightly below the percentage observed at most Southern California municipal golf courses. Generally, tournament play accounts for about 5 percent of total play.
- Complimentary play represented 4.0 percent of total play in FY2014, consistent with the percentage seen at comparable municipal golf courses.

Golf fees have increased by an average of $1 per year, with occasionally larger increases ($2-3), to keep up with increasing operational expenses and decreases in play. Greens fee increases can affect play since the municipal course attracts many low to average income players and seniors who live on fixed incomes. The current greens fees structure at SBGC is as follows (residents are defined as golfers residing in Santa Barbara County):

SBGC Greens Fees		
	Resident/Non-Resident	
	Weekday	Weekend
Regular	$35/$50	$39/$60
Senior	28/50	37/60
Twilight	25/37	27/40
Super-Twilight	17/17	17/17
Junior	13/13	13/13

The cart fee is $15.00 per rider.

In response to the national recession, most golf operators, including SBGC, reduced rates and instituted discounts and special promotions to retain and attract golfers. As the economy has improved, SBGC has gradually and strategically been reducing the quantity and value of discounts put into place over the past several years which will help to improve revenue. However, as the local golf market is particularly competitive, many golfers continue to be resistant to any increased fees or reduced discounts.

Gross revenue for 2014 at SBGC is presented in Table III-3. The City receives 100 percent of greens fees revenue and a share of the golf concession (carts, range, merchandise, and instruction) and food and beverage concession revenue.

Maintenance is the primary expense of the Golf Fund, and historically that budget has been relatively consistent from one year to the next except for the staffing changes discussed above, water costs based on varying weather patterns, and mandated increases to employee salary and benefits and costs allocated by the City for overhead, insurance, IS services, and other indirect support services.

Net operating income at SBGC for 2014, before capital expenditures, interest on debt, and other non-operating expenses, is shown in Table III-4. As indicated, net operating income totaled approximately $400,000 in 2014. Most of this net income was used for debt service obligations and capital expenditures (see Capital Improvements Section).

Table III-1: SBGC Historical Annual Play				
Fiscal Year	Annual Rounds		Fiscal Year	Annual Rounds
1982	97,742		1999	95,359
1983	103,147		2000	93,612
1984	113,710		2001	85,275
1985	114,174		2002	90,435
1986	109,562		2003	86,892
1987	112,032		2004	86,404
1988	111,354		2005	78,191[4/]
1989	105,170[1/]		2006	76,600[4/]
1990	108,216		2007	78,532[4/]
1991	79,194[2/]		2008	74,484
1992	99,145		2009	70,546
1993	96,634		2010	59,091[5/]
1994	99,274		2011	62,800
1995	95,221		2012	63,620
1996	98,320		2013	61,030
1997	98,796		2014	62,512
1998	93,052[3/]			

[1/] Clubhouse remodeled.
[2/] Drought conditions.
[3/] Glen Annie and Rancho San Marcos opened.
[4/] Construction.
[5/] Major construction/national recession.

Table III-2: SBGC Distribution of Rounds Played--2014			
	Resident	**Non-Resident**	**Total**
Weekday			
18-Hole Standard	7,537	1,786	9,323
18-Hole Senior	14,224	2	14,226
Twilight/9-Hole	11,818	989	12,807
Super-Twilight	770	---	770
Subtotal	34,349	2,777	37,126
Weekend			
18-Hole Standard	8,069	899	8,968
18-Hole Senior	2,737	---	2,737
Twilight/9-Hole	5,314	445	5,759
Super Twilight	2,879		2,879
Subtotal	18,999	1,344	20,343
Juniors	420	---	420
Tournament	1,853	---	1,853
Total Paid	55,621	4,121	59,742
Complimentary	---	---	2,489
Total	---	---	62,231

Table III-3: SBGC Gross Revenue--2014		
	Amount ($000)	
Department	Total	City Share
Greens Fees	$1,664.7	$1,664.7
Cart Rental Fees	422.4	138.4
Range	95.5	28.7
Merchandise	190.3	9.2
Instruction/Other Pro Shop	85.2	13.3
Food & Beverage	1,377.9	139.1
Other Revenue	49.7	49.7
Total	$3,882.2	$2,043.1

Table III-4: SBGC Net Operating Income-2014	
Department	**Amount ($000)**
City Revenue/Rent	
Greens Fees Revenue	$1,664.7
Golf Operations Revenue	---
Facility/Golf Ops Concession Rent	189.6
Food & Beverage Rent	139.1
Other Revenue	49.7
Total	$2,043.1
Less: Cost of Sales	---
Gross Profit	$2,043.1
Operating Expenses	
Course Maintenance	1,369.1
Golf Operations	---
G & A/Clubhouse	118.1
City Admin/Overhead	144.9[2/]
Total	$1,632.1
Net Operating Income (EBITDA)[1/]	$411.0
Less: Debt Costs	264.8
CIP Allowance	214.5
Net Cash Flow	(68.2)

[1/] Earnings before interest, taxes, debt and amortization, and capital improvements.
[2/] Includes vehicle replacement and maintenance, insurance, Citywide overhead allocation ($73,500) and other miscellaneous expenses.

IV. Capital Improvements

The following section presents a summary of the capital improvements program for Santa Barbara Golf Club. Capital improvements are separated into golf course maintenance equipment and golf course/support facility improvements.

Completed Capital Improvements

The current condition of the SBGC facility is very good. The course itself is maintained well, and routinely receives frequent compliments from golfers on the above average condition of the greens and course, especially for a municipal course. A number of improvements to the course have been completed since 2004, including a continuous concrete cart path around the course, updated irrigation system, two new greens, and several modifications to hole designs to improve play and safety. Within the past year, the clubhouse roof has been replaced and the clubhouse has been repainted. There are several components to the complex--primarily support facilities--where there is some deferred maintenance.

The golf course completed an analysis and developed the Golf Course Safety Improvement Master Plan in 2004. This plan addressed safety concerns at the course due to its design, constraint limitations due to size and the fact that it is surrounded by immediately adjacent streets, residences, an elementary school and businesses. The number of errant golf balls leaving the course exposed the City to increased liabilities. The plan included a number of projects to relocate holes, tee boxes, bunker and greens in order to redirect balls into the course, away from golfers and improve play. Since 2004 the course has seen a substantial number of the recommended improvements constructed, and a decrease in incidents and claims related to errant golf balls. Several of the recommended improvements have yet to be completed.

Golf Fund Debt Service

The Golf Fund debt service includes repayment of three loans for the clubhouse renovation (2022), 2008 Golf Course Safety Improvement Project (2018), and turf equipment replacement (2018). To help ease Golf Fund fiscal challenges, the City Council approved debt restructures in FY 2012 and again in FY 2013, reducing the annual payments and increasing the repayment period.

Debt service payments scheduled over the remaining amortization period are projected as follows:

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Principal	$213,052	$213,201	$233,399	$158,826	$165,182	$171,790	$174,732
Interest	49,070	40,689	31,838	26,821	20,469	13,861	10,919
Total	$262,122	$253,890	$265,237	$185,647	$185,651	$185,651	$185,651

Maintenance Equipment

The golf course maintains a full complement of golf course maintenance equipment, most of which was acquired through a City of Santa Barbara fleet fund loan purchase in April 2013. The equipment is in good condition. Going forward, a maintenance equipment replacement schedule is in place which provides for routine replacement of equipment. Commencing in FY2019, maintenance equipment replacement expenditures averaging about $80,000 annually are scheduled.

Golf Course/Support Facility Capital Improvements

SBGC has benefited from periodic improvements to the golf course infrastructure and support facilities such that most of the facilities generally are in relatively good condition. However, golf courses require continual capital reinvestment to maintain the quality of the golf experience and preserve asset value. In particular, there has been some recent deferred maintenance to support facilities, and some facilities such as golf course maintenance structures will have to be addressed at some point.

A 7-year capital improvement plan is presented in Table IV-1. Over the 2015-2021 period, capital improvement requirements at SBGC are projected at $1,794,900, or just over $250,000 per year. While there are no major capital needs required during this period, there are numerous capital items related to smaller projects which total nearly $1.18 million over the 7-year term. To the extent that the Players' Improvement Fund (PIF) contributions are used for slated capital improvements, the total amount of capital expenditures would be reduced accordingly.

Table IV-1: SBGC Projected Capital Improvement Plan								
Component	2015	2016	2017	2018	2019	2020	2021	Total
Maintenance Shop Addition	$5,000		$65,000					$70,000
Parking Lot & Other Asphalt	32,000	45,000						77,000
Club House Painting					$30,000			30,000
Irrigation Controller Upgrades					100,000			100,000
Driving Range Improvements		45,000				100,000		145,000
irrigation Mapping and Software			33,000					33,000
Club House Upgrades			15,000	30,000				45,000
Irrigation System Replacements	50,000	25,000					100,000	175,000
Rebuild Greens		75,000	75,000	150,000	30,000			330,000
Rebuild Tee Boxes		35,000				40,000		75,000
Other Course Improvements		32,000	7,500			3,000	14,500	57,000
Maintenance Equipment					80,000	80,000	80,000	240,000
Player Improvement Fund Imps	59,700	59,700	59,700	59,700	59,700	59,700	59,700	417,900
ANNUAL TOTAL	$146,700	$316,700	$255,200	$239,700	$299,700	$282,700	$254,200	$1,794,900

V: Golf Market Overview

The following section presents an overview of the demographic makeup of the Santa Barbara market area and an analysis of national, regional and local golf market conditions.

Market Area Demographics

The primary market area for a golf course is influenced by a number of factors including course quality, rate structure, transportation network and access, location and characteristics of competitive facilities, resident demographic attributes, and other such factors. The primary market area for SBGC, from which 80 to 90 percent of total play is expected to derive, is defined as the Tri-County region (Santa Barbara, San Luis Obispo and Ventura Counties), recognizing that the vast majority of support derives from Santa Barbara County. Most residents of Santa Barbara County are within about a 20- to 30- minute drive time (10-15 miles) of the golf complex, while residents of Ventura and San Luis Obispo Counties have a drive time of 30-60 minutes, or longer. Additional support derives primarily from overnight visitors to the area.

Comparative demographics of the Santa Barbara market area are presented in Table V-1. As noted, Santa Barbara County population has increased at a very modest rate over the past 20 years, and is projected to continue to increase marginally over the next 10 years, reaching just under 450,000 by 2020 (note that the projected population is based on applying projected California Department of Finance growth rates to actual 2010 population). The Tri-County area population has increased at a faster rate than Santa Barbara County, and is expected to continue to grow at a slightly faster rate, with the majority of the growth occurring in Ventura County. Residents of Santa Barbara County are somewhat older than the statewide benchmark, and of comparable overall affluence.

While Santa Barbara County population growth is projected to be very modest, the aging of the population will be a significant factor which is expected to positively impact golf demand as the propensity to play and frequency of play increase with age, particularly in the 60-74 age cohort.

Santa Barbara County Population Growth					
	Population			Average Annual Growth	
Year	60-74 Age Cohort	Total	Percent of Total	60-74 Age Cohort	Total Population
2000	39,500	399,300	9.9%	---	---
2010	48,900	423,900	11.5%	2.16%	0.60%
2020 (projected)	71,600	448,200	16.0%	3.88%	0.56%
2030 (projected)	82,300	472,700	17.4%	1.40%	0.53%

Note: Population projections are adjusted based on actual 2010 Census count.

Source: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance, Demographic Unit;

As shown in Table V-2, Santa Barbara County's 60-74 age cohort, as a percentage of the total population, is slightly larger than the statewide average (11.5% versus 11.1%), but somewhat less than that of neighboring counties. Over the next 10 years, this age cohort in Santa Barbara County is forecast to increase at a significantly faster rate (3.88%) compared with the general County population (.56%). This rate of increase parallels that of the State as a whole and neighboring counties.

The south portion of Santa Barbara County, which accounts for approximately one-half of the total population, is demographically different from the north portion. In general, the South County population tends to be older and more affluent than North County, positive factors favoring golf demand in South County. However, North County population is expected to increase at a faster pace than South County over the next 10-20 years.

Santa Barbara (City) has extremely mild Mediterranean climate, as indicated in Table V-3, which compares favorably with many other areas of Southern California. Moderate year-round temperatures, and rainfall of about 16 inches annually, provide for year-round golf.

National Trends

Nationwide, golf play increased steadily between the mid-1980s and 2000. As shown in Table V-4, during this period, the total number of annual rounds played nationally increased at an average rate of 2.4 percent per year. Golf balls sold, perhaps the best indicator of play, increased at a similar rate (2.5 percent per year). This unprecedented growth in golf play was due to a number of factors including:

- An increase in the number of golfers,
- The increasing importance of golf-oriented real estate,

- Expansion of the golf tourism industry, and
- One of the longest economic expansions in the nation's history.

The increase in golf demand and the popularity of golf-related housing development during the 1990s stimulated extraordinary expansion of the national golf course inventory, primarily between 1995 and 2002, as summarized in Table V-5. Over the full 1990-2010 period, the inventory of golf courses in the United States increased by 34 percent, while the U.S. population registered only a 24 percent gain, and golf demand (play) increased only 12 percent over this same period.

Right after the new century started, the first signs of industry problems surfaced, and have persisted for the past 10 years. While total golfers and rounds played are down industrywide, individual golf courses have experienced steeper declines in utilization, along with revenue contraction and falling net operating income, as the market totals are spread over an increased supply of facilities. Further, golf course transaction prices have declined precipitously, bankruptcies and foreclosures have become routine, and new golf course construction has virtually ceased while the number of courses closing now well exceeds new openings. The impact of market softness has been widespread and affected all segments of the market and all geographic areas.

The National Golf Foundation (NGF) reports that over the 2001-2011 period, annual golf play in the United States declined from 518 million to 463 million rounds, or over 11 percent, rebounding somewhat in 2012 to 490 million rounds before declining again in 2013 to 465 million rounds. Golf ball sales, perhaps a better indicator of demand, declined by about 20-25 percent over this time period. The golf participation rate, after rising steadily through 2003, has fallen precipitously from 12.4 percent in 2004 to a current level estimated at just under 9.0 percent. (It should be noted that the golfer participation rate is based on the number of golfers relative to the population over the age of 6 years old). Since 2007, the golf market has been significantly impacted by the national economic recession. Annual rounds in the U.S., according to industry reports, have declined by nearly 5 percent since 2007. Other independent sources indicate a much more severe contraction, which is borne out by golf ball sales and other market indicators.

Since 2002, the construction of new courses has declined sharply, and the rate at which courses have closed has accelerated. Between 2006 and 2013, for example, the number of courses closed exceeded new course openings. New courses have been added to the inventory since 2006 at an annual rate of 50-60 courses per year, while course closings have averaged about 120 per year over this period. Despite the slowing expansion of new supply over the past eight years, golf market conditions in most markets continued to deteriorate, although most markets experienced some stability over the past three years.

Regional Market Trends

Golf demand in Southern California also increased steadily through the early-2000 period, with strong growth occurring since the mid- to late-1980s time period. Through the mid-1990s, there was relatively limited expansion of the inventory of public golf facilities. Note that the public golf course inventory is comprised of municipal golf courses and daily fee golf courses, defined as public access golf courses owned by a private sector entity. In the early 1990s, the municipal golf courses and limited number of daily fee golf courses in Southern California were performing exceptionally well, with municipal golf course play exceeding 100,000 rounds at many Southern California courses and play on daily fee courses in the range of 60,000-80,000 annual rounds.

In response to increasing demand and a static supply situation, a number of golf courses were developed. The total number of public regulation length golf courses that have opened in Southern California since 1995 is summarized in Table V-6. As shown, these 56 course additions represent a 33 percent increase in the Southern California public golf course inventory. At the same time, ten regulation length public golf courses have been closed in Southern California over the past 6-7 years, reducing the net increase to 46 courses (27%).

The Tri-County area, with a current inventory of 38 regulation length public courses, represents 18% of the total Southern California inventory, while the Tri-County area has accounted for 25% of the additions to the inventory since 1995. Although there have been only two new courses added to the golf course inventory in Santa Barbara County since 1995, and none since 1998, the significant expansion in Ventura County has provided many more options for residents of the region. No new golf courses have entered the Southern California golf market in the past five years, and none are expected to be added in the foreseeable term.

While the regional golf market largely mirrors the national golf market, there are year-to-year variations influenced by weather. The regional market, in terms of rounds played, improved somewhat in 2011, showing about a 3.0 percent increase over 2010. Much of this increase was related to favorable weather. Since 2011, regional golf market demand has been generally flat, benefitting from favorable weather. While the regional golf market appears to have stabilized over the 2011-2013 period, there are no indications that portend much, if any, growth in the near- to mid-term. Prospects for SBGC appear to be consistent with these expectations such that growth in play levels will likely be nominal over the foreseeable term.

Tri-County Golf Market

The Tri-County region (Ventura, Santa Barbara, San Luis Obispo) has a current inventory of 38 public access golf courses, expressed as 18-hole equivalent courses, of which 7.5 are located in Santa Barbara County. Table V-7 summarizes the number of new public golf courses that have opened in the Tri-County area since 1995, and Table V-8 presents a list of the new courses opened in the region.

As shown, these additions since 1995 represent a 58 percent increase in the Tri-County public regulation length golf course inventory, led by San Luis Obispo County with a near doubling of their golf course inventory. As noted above, since 1995, 14 regulation length daily fee golf courses have entered the market, with half of these opening in Ventura County.

Based on historical golf data for the Tri-County region, the following illustrates the approximate aggregate and average per golf course play levels for regulation length golf courses:

Year	Number of Golf Courses (18-Hole Equivalent)	Total Annual Play	Average Play Per Golf Course
1996	24.0	1,560,000	65,000
2004	36.0	1,950,000	54,200
2010	38.0	1,860,000	48,950
2013	38.0	1,840,000	48,420

The Santa Barbara County public regulation length golf course inventory consists of the following facilities:

- Santa Barbara Golf Club (Muni), Santa Barbara
- Glen Annie Golf Club, Goleta
- Rancho San Marcos, Lake Cachuma
- Sandpiper Golf Course, Goleta
- La Purisima, Lompoc
- River Course, Solvang
- Alisal, Solvang
- Twin Lakes (9 holes), Goleta

It also should be noted that the 9-hole regulation length (par-36) Ocean Meadows Golf Course in Goleta closed in March 2013 due in large part to poor operating performance. Reportedly, Ocean Meadows was generating approximately 30,000 rounds (starts) annually, although less than one-half of the rounds were paid. Most of the unpaid rounds were in exchange for goods/services provided by the golfers. The closure of Ocean Meadows has not significantly benefitted regional golf courses.

Golf Course Survey

A survey of selected public golf courses in the primary market area is presented in Table V-9. Play and greens fees at courses in the region for 2013 are summarized in Table V-10. Based on a review of area golf courses, the following observations regarding the overall local golf market are offered:

- The Tri-County public golf market is highly competitive. In addition to numerous municipal facilities, there are a number of higher quality public access golf courses available at relatively affordable greens fees.
- The Tri-County golf market, like virtually all other areas of Southern and Central California, has softened considerably over the past 5-10 years, and remains relatively soft at this time. Performance over the past three years, however, suggests that the golf market has stabilized. This recent improvement stems

from an improving economy, no expansion of the golf course inventory, and the aging population, where propensity to, and frequency of, play are positively correlated with age.

- The typical pattern of play at the higher quality public golf courses in Ventura and Santa Barbara Counties historically has been primarily local play on weekdays with more non-local play – primarily north Los Angeles County golfers – on weekends.
- Tri-County residents generally play at lower greens fees levels on municipal and daily fee golf courses while non-locals support higher fees. The greens fees discount offered Tri-County residents and loyalty club members varies widely from no discount to 45%, averaging approximately 20% on weekdays and slightly more on weekends.
- Over the past five years, posted greens fees have generally increased modestly, at or slightly below the Consumer Price Index (CPI) rate.
- Numerous specials and other discounts have increased in importance in recent years, primarily related to weekday play. Increasingly, player clubs and other loyalty programs have been offered which feature discounted greens fees.
- As a result, the average greens/cart fee has remained about the same, or declined slightly, at most courses between 2005 and 2013.
- There is strong competition for golf play during weekdays, while weekend play is slightly less competitive.
- Use of golf carts at most courses is optional, with utilization ranging from about 50% to 90% depending on the terrain, course distance, and profile of golfer. Cart fees per player for 18 holes generally are in the $14-$16 range.
- Senior rates are offered at many, but not all, courses. In particular, courses which offer loyalty programs or resident discounts often do not have senior rates.
- Annual play at courses in the Tri-County also ranges widely depending on the quality of the golf experience, rate structure, strength of market, and other such factors. Rounds at surveyed courses range from 30,000 to about 70,000 rounds per year, with most mid-market courses generating in the range of 60,000 rounds per year.

Table V-11 shows annual play at selected Ventura and Santa Barbara public golf courses over the 2004 through 2013 period. In 2004, the 9.0 golf courses (18-hole equivalents) open accommodated about 598,600 rounds, or an average of 66,500 rounds per course. In 2013, the 10 courses combined generated 566,900 rounds, or an average of 56,690 rounds per 18-hole course. Thus, the average play per course declined 15% over this 9-year period.

As noted, the total play at the selected market area courses declined from 598,600 in 2004 to 566,900 in 2013, or nearly 6%. By comparison, play at all of the regulation length public access courses in Los Angeles County declined from approximately 4.2 million to 3.6 million rounds, or about 14% over this same 9-year period. Play at SBGC declined from 86,400 rounds in 2004 to 61,000 in 2013, or nearly 30 percent. Over the more recent 2008-2013 period, play at SBGC has declined 18.1 percent.

Golf Market Outlook

The public golf market appears to have stabilized over the past three years, and some courses have experienced a slight improvement in rounds and revenues over this period, although part of this improvement is weather related. Nonetheless, the regional public golf market is likely to remain sluggish in the near-term as the market works to absorb the new supply. However, as development opportunities become limited due to lack of available land suitable for golf course development and as the population continues to grow and mature, it is anticipated that market area demand will eventually catch up with supply, such that the long-term outlook remains reasonably favorable. The consensus among recognized golf authorities is that golf demand, in real terms, will increase very modestly at about a 1.0 percent average annual growth rate over the next 10- to 20-year term. Most of this growth will result from the aging population trends shown above (60-74 age cohort), where the propensity to, and frequency of, play increase compared to younger age cohorts.

The same factors which influence future golf demand for the national and regional golf markets also apply to the local golf market and SBGC specifically. Very modest growth of perhaps 1.0 percent annually is expected, although virtually no growth may be realized over the near-term, and the long-term forecasts remain highly uncertain given the current state of the industry.

Table V-1: Regional Demographic Characteristics			
	Santa Barbara County	Tri-County Area	California
Population (000)			
1990	369.6	1,255.8	29,760.0
2000	399.3	1,399.2	33,871.7
2010	423.9	1,515.3	37,223.9
2020 (projected)	448.2	1,662.3	42,015.2
Average Annual Growth Rate			
1990-2000	0.78%	1.09%	1.30%
2000-2010	0.60%	0.81%	0.96%
2010-2020	0.56%	0.92%	1.21%
Median Age (2010)	33.8	36.0	34.9
Population 65+	12.8%	12.2%	11.4%
Median HH Income	$59,350	$67,100	$60,390
Note: Population projections are adjusted based on actual 2010 Census count. Source: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance, Demographic Unit;			

Table V-2: Santa Barbara County 60-74 Age Cohort			
	2010	2020	2030
Population (60-74)			
Santa Barbara	48,900	71,600	82,300
San Luis Obispo	39,100	52,600	56,700
Ventura	100,300	144,400	150,000
Tri-County	188,300	268,600	289,000
State of California	4,131,800	6,078,200	7,123,100
Percent of Total Population			
Santa Barbara	11.5%	16.0%	17.4%
San Luis Obispo	14.55%	18.3%	18.2%
Ventura	12.2%	15.7%	14.5%
Tri-County	12.4%	16.1%	16.0%
State of California	11.1%	14.5%	15.2%
Average Annual Increase			
Santa Barbara	2.16%	3.88%	1.40%
San Luis Obispo	3.36%	3.01%	0.75%
Ventura	4.13%	3.71%	0.38%
Tri-County	3.42%	3.62%	0.73%
State of California	3.06%	3.94%	1.60%
Source: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance, Demographic Unit; and Pro Forma Advisors, LLC.			

Table V-3: Santa Barbara Historical Climate Summary			
	Average Historical Monthly		
Month	High Temperature	Low Temperature	Precipitation (inches)
January	63	40	3.5
February	65	43	3.4
March	65	45	2.8
April	68	47	1.2
May	69	50	0.2
June	71	53	--
July	74	57	--
August	75	58	0.1
September	75	56	0.3
October	73	51	0.4
November	69	44	1.8
December	65	40	2.4
Total	---	---	16.1
Source: Station #723925, KSBA, Santa Barbara, CA			

Table V-4: Indicators of U.S. Golf Demand (1985-2013)				
Year	Rounds (millions)	Number of Golfers[1] (millions)	Participation Rate[2]	Golf Ball Sales[3] (millions of dozens)
1985	365	17.5	10.2	36.0
1990	400	27.8	13.5	42.0
1995	420	25.0	11.6	46.0
2000	518	28.8	11.7	52.2
2001	518	29.5	11.9	50.0
2002	502	29.5	12.0	46.7
2003	495	30.4	12.4	43.4
2004	499	29.5	11.5	43.4
2005	489	29.3	11.2	43.6
2006	493	29.4	11.2	44.0
2007	490	29.5	11.1	43.5
2008	481	28.6	10.7	42.2
2009	477	27.1	10.0	40.1
2010	475	26.1	9.6	--[5/]
2011	463	25.7	9.2	--[5/]
2012	490	25.3	9.0	--[5/]
2013	465	24.7	8.9	--[5/]
Average Annual Growth				
1985-1990	1.8%	9.7%	---	3.1%
1990-1995	1.0%	(2.1)%	---	1.8%
1995-2000	4.3%	2.9%	---	2.6%
Subtotal	2.4%	3.4%	---	2.5%
2000-2005	(1.1%)	0.3%	---	(3.5%)
2005-2010	(1.0%)	(2.3%)	---	(2.1%)[4/]
2010-2013	(0.7%)	(1.8%)	---	--[5/]

1/ Represents golfers over 12 years of age. 2/ Estimated by PFA. 3/ Estimated by PFA based on “soft goods” sales recorded by Data Tech and golf ball manufacture sales. 4/ For period 2005-2009. [5/] Data for 2010-2013 not available in comparable format.
Source: National Golf Foundation and Pro Forma Advisors LLC.

	Table V-5: Number of Golf Courses[1] - U.S.			
Year	Average Annual Courses Added	Average Annual Courses Closed	Total Golf Courses[2]	Average Annual Percent Change
1990	---	---	11,105	---
2002	315	15	14,725	2.96%
2006	120	60	14,968	0.80%
2007	115	95	14,988	0.13%
2008	70	105	14,953	(0.23%)
2009	50	100	14,903	(0.33%)
2010	45	110	14,838	(0.44%)
2011	35	140	14,733	(0.71%)
2012	14	155	14,592	(0.96%)
2013	14	157	14,449	(0.98%)

1/ 18-hole equivalents.
2/ Includes courses added, less courses closed., 2006-2013
Source: National Golf Foundation; and Pro Forma Advisors.

Table V-6: Number of Regulation Length Public Golf Courses Opened by Year									
Year	Santa Barbara	Ventura	San Luis Obispo	Los Angeles	Orange	Inland Empire[1]	Kern	San Diego	Total
Up to 1995	6.5	12.5	5.0	40.5	21.0	44.5	7.0	33.0	170.0
1996	0.0	0.0	1.5	0.0	2.0	1.0	0.0	0.0	4.5
1997	0.0	0.0	1.0	0.0	1.0	1.0	0.0	0.0	3.0
1998	2.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	4.0
1999	0.0	2.0	1.0	1.0	2.5	2.0	1.0	2.0	13.5
2000	0.0	1.0	0.0	4.0	0.0	5.0	0.0	1.0	12.0
2001	0.0	1.0	0.0	0.0	3.0	1.0	0.0	1.0	7.0
2002	0.0	2.0	0.0	0.0	0.0	1.0	0.0	0.0	5.0
2003	0.0	0.0	0.0	1.0	0.0	1.0	0.0	0.5	2.5
2004	0.0	0.5	0.0	1.0	1.0	0.0	0.0	0.0	3.0
2005	0.0	0.5	1.0	0.0	0.0	0.0	0.0	1.0	3.0
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.0	0.0	1.0	0.0	1.0	2.0
2008	0.0	0.5	0.0	0.0	0.0	2.0	0.0	0.0	3.0
2009	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2010	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2013	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	8.5	20.0	9.5	47.5	30.5	60.5	8.0	40.5	225.0
Change 1996-2013)									
Number	2.0	7.5	4.5	7.0	9.5	16.0	1.0	7.5	56.0
Percent	31%	60%	90%	17%	45%	36%	14%	23%	33%

[1]Excludes Coachella Valley.

Source: Pro Forma Advisors, LLC

Table V-7 Tri-County Public Access Golf Courses				
	Number of Public Access Golf Courses Opened by Year			
	Ventura	Santa Barbara	San Luis Obispo	Total Central
Up to 1995	12.5	6.5	5.0	24.0
1996	0.0	0.0	1.5	1.5
1997	0.0	0.0	1.0	1.0
1998	0.0	2.0	0.0	2.0
1999	2.0	0.0	1.0	3.0
2000	1.0	0.0	0.0	1.0
2001	1.0	0.0	0.0	1.0
2002	2.0	0.0	0.0	2.0
2003	0.0	0.0	0.0	0.0
2004	1.0	0.0	0.0	0.5
2005	0.0	0.0	1.0	1.0
2006	0.0	0.0	0.0	0.0
2007	0.0	0.0	0.0	0.0
2008	0.5	0.0	0.0	0.5
2009	0.0	0.0	0.0	0.0
2010	0.0	0.0	0.0	0.0
2011	0.0	0.0	0.0	0.0
2012	0.0	0.0	0.0	0.0
2013	0.0	0.0	0.0	0.0
Total	20.0	8.5	9.5	38.0
Change in Inventory (1995-2013)				
Number	7.5	2.0	4.5	14.0
Percent	60%	31%	90%	58%
Source: Pro Forma Advisors, LLC.				

Table V-8: New Public Regulation Length Golf Courses Added to Tri-County Market--1996-2013			
Course	Location/County	Year Opened	Course Designer
Vista del Ombre	Paso Robles/SLO	1996	Duran
Blacklake (9)	Nipomo/SLO	1996	Robinson
Dairy Creek	San Luis Obispo/SLO	1997	Harbottle
Glen Annie	Santa Barbara/SB	1998	Pascuzzo-Graves
Rancho San Marcos	Lake Cachuma/SB	1998	R.T. Jones, Jr.
Cypress Ridge	Arroyo Grande/SLO	1999	Jacobsen-Hardy
Sterling Hills	Camarillo/VTA	1999	Pascuzzo-Graves
Tierra Rejada	Moorpark/VTA	1999	Cupp
Lost Canyons-Sky	Simi Valley/VTA	2000	Pete Dye
Lost Canyons-Shadow	Simi Valley/VTA	2001	Pete Dye
Moorpark CC (18)	Moorpark/VTA	2002	Jacobsen/Hardy
Rustic Canyon	Moorpark/VTA	2002	Hanse
Moorpark (9)	Moorpark/VTA	2004	Jacobsen/Hardy
Victoria Lakes (9)	Oxnard/VTA	2004	Millhouse
Monarch Dunes	Nipomo/SLO	2005	Pascuzzo-Graves
Victoria Lakes (9)	Oxnard VTA	2008	Millhouse
Source: Pro Forma Advisors, LLC.			

Table V-9: Selected Characteristics of Tri-County Public Golf Courses					
Course	**SBGC**	**Glen Annie**	**Sandpiper**	**Rancho SM**	**La Purisima**
Location	**Santa Barbara**	**Goleta**	**Goleta**	**Lake Cachuma**	**Lompoc**
Course Type	Municipal	Daily Fee	Resort/Daily Fee	Daily Fee	Daily Fee
Architect	L. Hughes	Graves/Pascuzzo	William Bell	R.T. Jones II	R. M. Graves
Owner	City	Capital Crossings	Ty Warner Prop	Ty Warner Prop	Pro Tec Investment
Operator	City	Touchstone Golf	Ty Warner Prop	Ty Warner Prop	In-House
Year Opened	1958	1997	1972	1998	1986
Number of Holes/Par	18/70	18/71	18/72	18/71	18/72
Course Length (back/middle)	6037/5785	6417/5945	7068/6597	6817/6243	7105/6670
Rating (back/middle)	69.3/68.1	71.3/68.9	74.5/72.2	72.9/70.8	75.6/73.1
Slope (back/middle)	126/123	130/125	134/131	137/131	143/136
Greens Fees					
Standard (18 holes)					
Weekday	$30/35/50[1/]	$42/62[2/]	$70/140[2/]	$50/80[2/]	$29/55[3/]
Weekend	34/39/60[1/]	52/76[2/]	90/160[2/]	60/110[2/]	42/69[3/]
Twilight (9 holes)					
Weekday	$22/25/37[1/]	$26/36[2/]	75/75[2/]	$50/802/	$24/30[3/]
Weekend	$24/27/40[1/]	32/42[2/]	90/90[2/]	70	35/40[3/]
Super Twilight					
Weekday	$17	---	---	---	$15/19[3/]
Weekend	$17	---	---	---	15/19[3/]
Senior (18 holes)					
Weekday	$23/28/50[1/]	$46	---	---	---/55[3/]
Weekend	$32/37/60[1/]	---	---	---	---
Cart Fees (18/9 holes)	$15/9	$13/8	$20/12	$20/12	$14/15[3/]
Mandatory	No	no	no	no	no
Percent Using Carts	51%	85%	70%	70%	65%
Inventory	60	80	80	80	80
Facilities					
Clubhouse Size (sq.ft.)*	3,500	6,000	4,000	2,500	8,000
Banquet Seating Capacity	110	125	---	---	150
Snack Bar	Yes	yes	yes	yes	yes
Driving Range	Yes	yes	yes	yes	yes
Number of Tees	15	16	40	25	30
Annual Number of Rounds	62,500	50,000	38,000	32,000	30,000
Percent Twilight/9-Hole	35%	20%	15%	10%	10%

Table V-9 (continued): Selected Characteristics of Tri-County Public Golf Courses					
Course	**Buenaventura**	**Olivas Links**	**River Ridge**	**River Course**	**Rustic Canyon**
Location	**Ventura**	**Ventura**	**Oxnard**	**Solvang**	**Moorpark**
Course Type	Municipal	Municipal	Municipal	Daily Fee	Daily Fee
Architect	Bill Bell, Jr.	Forrest-Richardson	Bill Bell, Jr.	Hallsey/Daray	Gil Hanse
Owner	Ventura	Ventura	Oxnard	Alisal Ranch	Ventura Co.
Operator	Kemper Golf	Kemper Golf	High Tide & GG	Alisal Ranch	Highlands Golf
Year Opened	1932	1960s/2007[7/]	1986/2008[5/]	1992	April 2002
Number of Holes/Par	18/70	18/72	36/72	18/72	18/72
Course Length (back/middle)	6054/5737	6818/6530	6543/6111	6830/6451	6906/6585
Rating (back/middle)	69.2/67.7	73.7/72.4	70.7/68.7	72.7/70.9	73.1/71.3
Slope (back/middle)	118/115	135/132	114/109	125/121	130/125
Greens Fees					
Standard (18 holes)					
Weekday	$29/33/40[4/]	$33/41/50[4/]	$32/38[3/]	$60	$43/46[6/]
Weekend	$37/43/50[4/]	$42/50/60[4/]	45/50[3/]	72	$66
Twilight (9 holes)					
Weekday	$25	$29/33/404/	$24/26[3/]	$45	$28/30[6/]
Weekend	28	34	26/31[3/]	45	44
Super Twilight					
Weekday	$17	$21	$16/18[3/]	---	$18/20[6/]
Weekend	$17	$21	$15/17[3/]	---	25
Senior (18 holes)					
Weekday	$26	$29/33/404/	$23/28[3/]	$45	$28/306/
Weekend	---	No discount	No discount	No discount	No discount
Cart Fees (18/9 holes)	$15/10	$15/10	$15	$16/8	$15/10
Mandatory	No	No	No	no	No
Percent Using Carts	50%	60%	55%	60%	55%
Inventory	75	80	80	80	80
Facilities					
Clubhouse Size (sq.ft.)*	2,000	2,000 (mod)	13,000	10,000	5,000
Banquet Seating Capacity	200	---	200	200	50
Snack Bar	Yes	Yes	Yes	yes	Yes
Driving Range	No	Yes	Yes	yes	Yes
Number of Tees	---	25	25	12	25
Annual Number of Rounds	65,900	59,800	82,000	35,000	55,000

Table V-9 (concluded): Selected Characteristics of Tri-County Public Golf Courses					
Course	**Soule Park**	**Camarillo Sprgs**	**Los Robles**	**Simi Hills**	**Sterling Hills**
Location	**Ojai**	**Camarillo**	**Thousand Oaks**	**Simi Valley**	**Camarillo**
Course Type	Municipal	Daily Fee	Municipal	Municipal	Daily Fee
Architect	Bill Bell, Jr.	Ted Robinson	Baldock	Ted Robinson	Graves, Pascuzzo
Owner	Ventura County	Oak Creek Ranch	Thousand Oaks	RSH Rec. District	Oak Creek Ranch
Operator	Highlands Golf	Oak Creek Ranch	Eagle Golf	American Golf	Oak Creek Ranch
Year Opened	1962	1971	1964	1981	1999
Number of Holes/Par	18/72	18/72	18/70	18/71	18/71
Course Length (back/middle)	6730/6465	6375/5931	6274/5693	6411/6062	6813/6395
Rating (back/middle)	72.3/71.1	70.8/68.9	70.1/68.7	70.6/69.1	72.7/71.1
Slope (back/middle)	126/124	128/121	125/119	125/121	131/125
Greens Fees					
Standard (18 holes)					
Weekday	$28	$30	$32/41 [9/]	$32	$41
Weekend	40	$55 [8/]	$40/50 [9/]	$42	$59
Twilight (9 holes)					
Weekday	$19	$24	$23/28 [9/]	$23	$27
Weekend	27	$34	$28/33 [9/]	$28	$39
Super Twilight					
Weekday	$12	$15	$15/18 [9/]	$17	$17
Weekend	12	$22	$18/22 [9/]	20	$24
Senior (18 holes)					
Weekday	$25	$20	$22/28 [9/]	$20	$27
Weekend	45 [8/]	No discount	No discount	No discount	$39
Cart Fees (18/9 holes)	$15/10	$13/10	$15/11	$13/10	$15/10
Mandatory	No	Weekend mornings	No	No	Weekends
Percent Using Carts	75%	80%	65%	65%	70%
Inventory	75	80	84	80	85
Facilities					
Clubhouse Size (sq.ft.)*	10,000	7,000	22,000	2,000	---
Banquet Seating Capacity	250	150	250	40	---
Snack Bar	Yes	Yes	Yes	Yes	Yes
Driving Range	Yes	Yes	Yes	Yes	Yes
Number of Tees	12	26	20	20	20
Annual Number of Rounds	42,000	55,000	78,200	73,000	45,000
Percent Twilight/9-Hole	15%	25%	30%	30%	20%

[1/] Resident loyalty program/standard resident/standard non-resident. [2/] Tri-County resident/non-resident. [3/] Loyalty club member/standard. [4/] City/county/non-resident. [5/] Vineyard Course/Victoria Lakes Course. [6]Monday-Thursday/Friday. [7]Originally opened/full redesign. [8/] Includes required cart. [9]City resident/non-resident.

Table V-10 Summary of Rounds and Rates at Selected Tri-County Public Golf Courses

	Annual	18-hole Greens Fees (excluding cart)			
	Rounds	Standard/Non-Resident		Resident/Player Club	
Golf Course	2013	Weekdays	Weekends	Weekdays	Weekends
SBGC	61,000[2/]	$50	$60	$35/30[1/]	$39/34[1/]
Glen Annie	50,000	62	76	42	52
Sandpiper GC	37,000	140	160	70	90
Rancho San Marcos	30,000	80	110	50	60
Olivas Links	59,800	50	60	33/41[2/]	42/50[2/]
Buenaventura	65,900	40	50	29/33[2/]	37/43[2/]
River Ridge-Vineyard	37,000	38	50	32	45
River Ridge-Victoria Lakes	45,000	38	50	32	45
Rustic Canyon	55,000	43/46[3/]	66	43/46[3/]	66
Soule Park	42,000	28	40	28	40
Sterling Hills	45,000	41	59	41	59
Tierra Rejada	42,000	65[4/]	95[4/]	49[4/]	85[4/]
Alisal (River Course)	35,000	60	72	45	45
Camarillo Springs	55,000	30	55[4/]	25	30
Los Robles	78,200	41	50	32	40
Simi Hills	73,000	32	42	32	42
La Purisima	30,000	55	69	29	42
Blacklake (27 holes)	70,000	42	52	42	52
Monarch Dunes	39,000	67	87	50	60
Cypress Ridge	35,000	65	100[4/]	38	48

1/ Tri-County Residents/Loyalty Club Members. 2/ Represents play for FY2013. Note that FY2014 play totaled 62,500 rounds 3 Monday-Thursday/Friday. 4/ Includes Cart. 5/ City Residents/County Residents.

Table V-11: Annual Rounds By Course (000)[1/]											
	Fiscal Year										2008-2013 Growth
Course	04	05	06	07	08	09	10	11	12	13	
SBGC	86.4	78.2	76.6	78.5	74.5	70.5	59.1	62.8	63.6	61.0	(18.1%)
Glen Annie	49.2	41.9	43.8	46.4	46.1	43.1	48.3	51.5	52.0	50.0	8.5%
Olivas Links	88.9	57.7	---	11.7	54.1	61.4	65.4	60.7	59.1	59.8	10.5%
Buenaventura	23.1	65.9	77.7	77.5	67.9	65.3	68.5	66.6	64.7	65.9	(2.8%)
River Ridge-Vineyard	71.4	68.7	68.6	67.3	61.6	42.0	42.0	37.0	38.0	37.0	(6.6%)
River Ridge-Victoria Lakes	---	12.7	23.2	25.6	26.2	37.0	37.0	37.0	39.0	45.0	(6.6%)
Rustic Canyon	50.0	39.0	50.3	54.1	50.8	55.2	54.1	56.6	56.0	55.0	8.3%
Soule Park	61.7	45.1	31.2	44.7	42.2	38.0	35.0	43.2	43.0	42.0	(0.5%)
Simi Hills	84.8	74.8	74.9	76.9	78.7	79.4	75.1	74.1	75.0	73.0	(7.2%)
Los Robles	83.1	80.1	79.8	79.0	85.4	83.0	82.5	78.9	77.8	78.2	(8.4%)
Total	598.6	564.1	526.1	561.7	587.5	574.9	567.0	568.4	568.2	566.9	(3.5%)

[1/] Includes complimentary rounds.

VI: Comparative Operating Revenues and Expenses

Current operating revenues and expenses at Santa Barbara Golf Club (SBGC) are compared with the performance at other courses in the region. The performance at any course is influenced by a number of factors including golf course characteristics, market positioning, operating structure, management objectives, and the like.

Annual Play

Annual play at selected Tri-County regional regulation length public golf courses over the 2004-2013 period is presented in Table VI-1. Note that annual play for SBGC in Fiscal Year 2010 was affected by the extensive construction during the year.

Aggregate annual play at the 10 courses shown has declined from 598,600 rounds in 2004 to 566,900 rounds in 2013, or approximately 5.3 percent over the 9-year period. One golf course was added (Victoria Lakes at River Ridge) in 2005, and the play trend was affected by the major re-construction of Olivas Links in 2006/2007. By contrast, play at SBGC has declined from 86,400 rounds in 2004 to 61,000 in 2013, or nearly 30 percent over the period. Since 2008, play at SBGC has declined approximately 18.1 percent. Play in FY2014 rebounded somewhat to 62,500 rounds.

SBGC's market share relative to the courses shown has declined sharply over the 2004-2013 period. Between 2004 and 2008, the golf course consistently captured 13%-14% of the regional play, with this market share declining to 10%-11% over the 2010-2013 period, as shown in Table VI-2. There appear to be several reasons which have contributed to this decline:

- In recent years, Glen Annie Golf Club in Goleta has been repositioned more toward the mid-market, and has thus become more competitive with Santa Barbara in terms of price point.
- The other higher end daily fee courses in the market--Sandpiper Golf Club and Rancho San Marcos Golf Club--have targeted Tri-County residents through greens fees discount and loyalty club programs.
- The City of Ventura recently fully renovated both of their golf courses--Buenaventura and Olivas Links--resulting in less "leakage" of golf rounds generated in Ventura County captured by Santa Barbara County courses.
- Competitive courses in the region have intensified promotional programs and greens fees discounting which has reduced their effective fee structure relative to Santa Barbara Muni.
- Construction at SBGC in 2010 resulted in many golfers electing to play at competitive courses. Recapturing lost play generally requires substantial time.
- As a result of historically high play levels, there remain perceptions in the golfing community that tee times are difficult to secure at SBGC.

Operating Revenues

The average revenue per round by department for selected public golf courses in Ventura and Santa Barbara Counties is shown in Table VI-3. The municipal golf courses are identified by name, while a sample of daily fee courses operating in the region are designated as “Daily Fee-A”, Daily Fee-B”, and “Daily Fee-C” so as not to disclose proprietary information.

In terms of play levels, SBGC is affected by the design and market positioning of the golf course. In particular, the design of SBGC offers a playable golf course which caters to a broad range of golfer abilities, and is attractive to senior golfers, a group which generates substantial levels of play on weekdays.

Given the moderate topography and level of senior play at SBGC, the average cart fee is consistent with similar courses in the region.

Practice range revenue is relatively low at SBGC as the range serves primarily same day golfers. There is limited commercial practice range revenue due to the location, design and condition of the range (limited range depth). As well, the range is not lighted for night use.

Merchandise revenues at Santa Barbara have declined by about 50% over the past 5-6 years, and are currently about $3.04 per round. The decline in merchandise sales is consistent with all other courses where the competition from off-course discount golf merchandisers is intense. Even with the decline, SBGC’s current performance is slightly superior to most other courses in the region.

Food and beverage activities (Mulligan’s Cafe) at SBGC are very strong. The strong performance is due to the outstanding location and ambiance of the clubhouse site. Mulligan’s has successfully marketed the restaurant to non-golfers, and generated substantial special event business, despite having limited capacity for accommodating indoor non-golf special events/banquet business.

Operating Expenses

Annual operating expenses by department are shown in Table VI-4 for SBGC and a series of other mid-market oriented golf courses in the region. As noted, some of the courses are municipal, while four are upper-mid-market daily fee courses (designated as mid-market Daily Fee Courses “A”, “B”, “C” and “D”) which are considered reasonably comparable to SBGC. It should be noted that Santa Barbara Golf Club’s maintenance is provided by City Parks and Recreation employees, while maintenance at Olivas Links, Buenaventura, Los Robles, and all of the daily fee courses is provided by a private sector contractor. Thus, SBGC is the only golf course in the region where course maintenance is provided by City staff.

The table includes only “on-site” operating expenses. Contract administration and overhead support services provided off-site are not included. As well, for SBGC, since golf operations are provided by an independent concessionaire, there are no expenses shown in the table.

Comparative maintenance expenses, staffing and general golf course characteristics for SBGC and a series of other course is presented in Table VI-5.

Table VI-1: Annual Rounds By Course (000)[1/]										
	Fiscal Year									
Course	04	05	06	07	08	09	10	11	12	13
SBGC	86.4	78.2	76.6	78.5	74.5	70.5	59.1	62.8	63.6	61.0
Glen Annie	49.2	41.9	43.8	46.4	46.1	43.1	48.3	51.5	52.0	50.0
Olivas Links	88.9	57.7	---	11.7	54.1	61.4	65.4	60.7	59.1	59.8
Buenaventura	23.1	65.9	77.7	77.5	67.9	65.3	68.5	66.6	64.7	65.9
River Ridge-Vineyard	71.4	68.7	68.6	67.3	61.6	42.0	42.0	37.0	38.0	37.0
River Ridge-Victoria Lakes	---	12.7	23.2	25.6	26.2	37.0	37.0	37.0	39.0	45.0
Rustic Canyon	50.0	39.0	50.3	54.1	50.8	55.2	54.1	56.6	56.0	55.0
Soule Park	61.7	45.1	31.2	44.7	42.2	38.0	35.0	43.2	43.0	42.0
Simi Hills	84.8	74.8	74.9	76.9	78.7	79.4	75.1	74.1	75.0	73.0
Los Robles	83.1	80.1	79.8	79.0	85.4	83.0	82.5	78.9	77.8	78.2
Total	598.6	564.1	526.1	561.7	587.5	574.9	567.0	568.4	568.2	566.9

[1/] Includes complimentary rounds.

Table VI-2: Santa Barbara Golf Club Market Share				
	Number of Courses in Market	Annual Rounds		Market Share
Year		SBGC	Market	
2004	9.0	86,400	598,600	14.4%
2005	8.5[1/]	78,200	564,100	13.9%
2006	8.5[1/]	76,600	526,100	14.6%
2007	8.5[1/]	78,500	561,700	14.0%
2008	9.5	74,500	587,500	12.7%
2009	10.0	70,500	574,900	12.3%
2010	10.0	59,100	567,000	10.4%
2011	10.0	62,800	568,400	11.0%
2012	10.0	63,600	568,200	11.2%
2013	10.0	61,000	566,900	10.8%

[1/] Ventura courses (Olivas Links and Buenaventura) under construction.

Table VI-3: Average Revenue per Round at Selected Public Access Golf Courses (FY2013-14)							
		Average Revenue Per Round					Annual
Course	Annual Total Rounds	Greens Fees[1/]	Cart Fees	Range	Merch	F&B golfers	F& B Banquet
SBGC	62,500	$26.57	$6.76	$1.53	$3.04	$5.00	$1,065,000
Olivas Links	59,800	28.89	5.65	4.32	1.38	2.40	---
Buenaventura	65,900	24.80	5.29	---	1.13	4.00	---
River Ridge[2/]	82,000	26.85	10.01	2.21	2.81	5.16	235,000
Los Robles	78,200	24.44	8.47	2.60	1.75	3.75	1,200,000
Soule Park	42,000	21.55	7.15	2.20	2.90	5.60	250,000
Simi Valley	73,000	26.10	7.76	2.74	2.27	4.37	---
Daily Fee-A	---	19.00	7.10	2.20	1.45	5.20	300,000
Daily Fee-B	---	35.30	7.60	2.20	2.90	4.55	175,000
Daily Fee-C	---	33.30	3.00	1.40	2.25	5.00	850,000

[1/] Includes passholders and/or annual membership play. [2/] 36 holes (revenues are expressed per paid round).

Table VI-4: Comparative On-Site Operating Expenses--FY 2013/FY2014 ($000)								
	Municipal Golf Courses				Mid-Mkt Daily Fee			
	SBGC	Olivas Links	Buena	Los Robles	Simi Hills	A	C	D
Course Maintenance								
Payroll and Benefits	$945	$412	$311	$415	$450	$555	$376	$477
Services and Supplies	198	265	237	175	225	142	182	165
Utilities	226	106	93	60	490	392	341	354
Maintenance Equipment	---	---	---	---	---	---	---	---
Subtotal	$1,369	$783	$641	$650	$1,165	1,089	$899	$996
Golf Operations								
Payroll and Benefits	---	$206	$196	$300	$175	183	$130	$105
Cart Leasing	---	---	---	70	70	21	74	79
Cart Operation	---	207	72	140	75	70	119	65
Range	---	19	---	25	---	---	10	6
Services and Supplies	---	14	10	100	15	39	5	13
Subtotal	---	$446	$277	$635	$335	$312	$338	$268
Undistributed/Clubhouse	---	$19	$49	$500	$60	100	$14	$86
General and Admin								
Payroll and Benefits	---	$64	$141	$150	$120	$209	$48	$167
Insurance	---	---	---	40	---	36	33	49
Property Taxes	---	---	---	5	---	4	93	106
Marketing/Promotion	---	90	12	60	5	9	5	72
Services and Supplies	---	174	115	145	145	130	183	60
Management Fee	---	109	64	200	---	115	120[3]	96
Subtotal	---	$437	$331	$600	$270	503	$478	$550
Total	**$1,369**	**$1,742**	**$1,298**	**$2,385**	**$1,830**	**$2,004**	**$1,733**	**$1,900**

1 Excludes food and beverage.
Source: PFA.

Table VI-5: Comparative Maintenance Expenses ($000)										
	Municipal Golf Courses						Mid-Mkt Daily Fee			
	SBGC	Buena ventura	River Ridge	Los Ro-bles	Simi Hills	Olivas Links	A	B	C	D
Number of Holes	18	18	36	18	18	18	18	18	18	18
Characteristics										
Age (orig/rennov)	54	80 (6)	26/8	48	33	43 (5)	35	50 (5)	10	15
Turf Area (acres)	100	90	220	120	100	90	90	110	80	90
Turf Type										
Greens	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa	bent/poa
Tees	berm hyb	rye/kiku	berm hyb	berm	berm	pas pal	berm hyb	berm hyb	berm hyb	berm
Fairways	berm hyb	rye/kiku	berm hyb	berm	berm	pas pal	berm hyb	berm hyb	berm hyb	berm
Over-seed	no	no	no	no	no	no	no	no	no	no
# Bunkers	30	35	100	32	53	40	30	50	50	55
Water Source	reclaim/ potable	reclaim	ground	potable	potable	reclaim	potable	ground	potable	reclaim
Annual Cost ($000)										
Water	$223	$93	$110	---	$460	$106	$392	$16	$341	$330
Power	3	---	105	60	30	---	---	58	---	25
Total	$226	$93	$215	$60	$490	$106	$392	$74	$341	$355
Staffing (FTE)										
Superintendent	1.0	1.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Mechanic	1.0	1.0	2.0	1.0	2.0	1.0	1.0	1.0	1.0	1.0
Irrigation Tech	1.0	0.0	1.0	0.0	1.0	0.0	1.0	1.0	1.0	1.0
Landscape	9.0	7.0	23.0	11.0	11.0	11.0	11.0	8.0	9.0	11.0
Total	12.0	9.0	28.0	13.0	15.0	13.0	14.0	11.0	12.0	14.0
Course Maint-000										
Payroll and Benefits	$945	$311	$910	$415	$500	$399	$555	$377	$376	$477
Services & Supplies	198	237	556	175	225	245	142	187	182	165
Utilities	226	93	215	60	510	73	392	74	341	354
Maintenance Equip	---	---	---	---	---	---	---	---	---	---
Total	$1,369	$641	$1,681	$650	$1,235	$716	$1,089	$638	$899	$996
Average Cost/Acre										
Payroll and Benefits	$9,450	$3,455	$4,130	$3,460	$5,000	$4,430	$6,170	$3,425	$4,700	$5,300
Services & Supplies	1,980	2,630	2,530	1,460	2,250	2,720	1,580	1,700	2,275	1,830

VII: Golf Course Operating Options

The following section presents a description and information regarding various forms of golf course operation and management available to the City of Santa Barbara. Presently, SBGC is operated under a hybrid structure whereby the City is responsible for golf course maintenance and overall management, with the golf course operations and the food and beverage functions provided under concessionaire agreements with two independent entities.

There are five basic golf course operating options that are available to the City of Santa Barbara:

- Full Self-Operation/Recreation District
- Current Hybrid Model (golf operations concession with City maintenance)
- Modified Hybrid Model (golf operations concession with contract/private maintenance)
- Management Agreement
- Golf Facility Lease

The distribution of the 83 municipal golf courses located in Southern California by type of operating model is indicated as follows (based on golf facilities, regardless of number of holes):

	Number of Southern California Municipal Facilities						
Region	Self-Operation	Recreation District	Concession w/City Maint	Concession w/Cont Maint	Management Agreement	Facility Lease	Total
San Diego County	---	---	3	---	3	5	11
Orange County	---	---	1	2	2	8	13
Ventura/Santa Barbara	---	1	1	---	4	3	9
Los Angeles County	5	---	---	3	3	25	36
Kern County	---	---	---	---	---	3	3
Western Inland Empire	---	1	---	---	2	3	6
Coachella Valley	---	---	---	---	5	---	5
Total	5	2	5	5	19	47	83
Percentage Distribution	6%	2%	6%	6%	23%	57%	100%

SBGC is shown under the model labeled "concession with City maintenance" which is the current hybrid model (golf operations concessionaire with City maintenance).

The above distribution presents a snap shot of the current situation. The "leased facility" numbers are skewed somewhat by Los Angeles County where 13 golf facilities are the County of Los Angeles' municipal golf courses and four are the City of Long Beach golf courses, all of which are leased. In terms of City self-operation, all of the five facilities shown are Los Angeles City Department of Recreation and Parks properties.

There are two facilities--the Simi Hills Golf Course in Simi Valley and Hesperia Country Club in Hesperia--which are operated by public recreation districts.

In addition to the City of Los Angeles five golf facilities which are self-operated, there are five other facilities, including the City of Santa Barbara, which feature concessionaires for golf operations and City Parks and Recreation staff for golf course maintenance. In addition to Santa Barbara, these include two golf facilities owned by the City of San Diego (Torrey Pines and Balboa Park), Coronado Golf Course on Coronado Island, and the San Clemente municipal golf course in San Clemente.

The distribution does not present a clear picture of the trends established over the past 10-20 years. Nearly all of the management agreements at golf courses have been put in place within the past 20 years. Over this time span, there have been several golf courses which have converted from City maintenance to either facility leases or management agreements.

Responsibility for the basic maintenance, operation and management functions for each of these operating models is summarized as follows:

Responsibility for Function				
Model	**Course Maintenance**	**Golf Operations**	**Food & Beverage**	**Administration/ Management**
Full Self-Operation	City	City	City/Concession	City
Current Hybrid	City	Concession	Concession	City
Modified Hybrid	City/Private	Private/Concession	Concession	City/Private
Management Agreement	Private	Private	Private	Private
Golf Facility Lease	Private	Private	Private/Concession	Private

City determined that the full self-operation model is not a viable option at this time. There are very few municipal golf courses in California which are self-operated, and movement away from this form of operation continues. Sunnyvale Golf Course in Sunnyvale is one of the few remaining full self-operations in the State. In mid-2014, Pacific Grove Golf LInks in Pacific Grove converted from full self-operation to a fully privatized form of maintenance and golf operation (golf facility lease).

In addition to the basic options outlined above, there are numerous other permutations which would create alternative hybrid models. These alternative hybrid models, discussed later in this section, combine some form of self-operation, concession agreements, and/or management/contract private party agreements. All of the operating options require City oversight responsibilities including contract monitoring, budget preparation and review, management oversight, and the like. The degree of City participation varies by operating model.

Current Hybrid Model

Presently, SBGC's operating structure is described as a hybrid between full self-operation and a facility lease, combining elements of self operation (course maintenance and overall facility management) with elements of a facility lease (golf operations and food and beverage concession agreements). Under the current model, the City is responsible for maintaining the course and overall golf facility management, relying on concessionaires for the golf operations and food and beverage functions. The City sets pricing and policies, and administers the overall program. Under the current model, the City receives 100 percent of the greens fees, and a percentage of the concession (golf carts, driving range, pro shop merchandise, lessons, and food and beverage) gross revenue.

The current SBGC hybrid model, where a golf operations concessionaire is retained and the City provides golf course maintenance, is the most common type of hybrid structure. Historically, there have been many public agencies which have elected to maintain the golf course through their parks and recreation department, while retaining concessionaires for golf and food and beverage operations. In most of these instances, the reservations, starting, marshaling, and greens fees collection function is the responsibility of the concessionaire, although in some instances (e.g. City of Los Angeles and City of San Diego) the municipality fills this role, creating some level of redundancy in staffing. In addition to Santa Barbara Golf Club, the other examples of this hybrid model in California include Torrey Pines and Balboa Park in San Diego, Manteca Park in Manteca, Harding Park and Lincoln Park in San Francisco, San Clemente Golf Course in San Clemente, Poplar Creek Golf Course in San Mateo, DeLaveaga in Santa Cruz, Sharp Park Golf Course in Pacifca, and a few other municipal operations. Under all of these agreements, all of the maintenance is provided by City Parks and Recreation staff, and golf operations – pro shop merchandise, cart rentals, driving range, instruction – are provided by a concessionaire. Food and beverage operations may be provided by the golf operations concessionaire, but more often are the responsibility of a separate concessionaire.

Concessionaires normally pay rent to the City based on a percentage of gross revenue (percentage varies by revenue category). Sometimes the percentage rental rates are adjusted downward to reflect the concessionaire responsibility for reservation, greens fees collections, and starting, but in other cases a separate fee is paid to the concessionaire by the City for these services. In these cases, the City receives rent from the concessionaire, and also pays the concessionaire a fee for services. A summary of representative golf operations concession agreements is provided in Table VII-1).

The primary advantage of the current model is the level of control retained by the City in terms of setting policies, prices and standards. A case can also be made that under the current structure, the City has substantial overhead support functions at its disposal from other City departments. It also is often argued that a portion of the entrepreneurial compensation (profit for services rendered) is retained by the public agency under this model, and most of the financial upside related to better than anticipated performance accrues to the City. The validity and value of these advantages is subjective.

The principal potential disadvantages of the current model include higher wage and benefit packages related to public sector employment for the golf course maintenance function, more restrictive labor policies, the potential absence of "best practices" in revenue generation, and bureaucratic constraints which inhibit management's ability to adapt and respond quickly to changing market practices and conditions. In addition, the current model involves multiple providers of service other than the City which potentially may create conflicts and inconsistent service levels. Most golf analysts strongly believe that there are significant advantages to controlling the entire golfer experience through providing all of the functions at the golf course under one management entity. Under the current operation, most of the financial risk is borne by the City.

The number of California municipal golf courses where golf course maintenance is provided by municipal employees continues to dwindle, particularly during periods when Cities and Counties are fiscally challenged. Over recent years, the maintenance function has been privatized at Pacific Grove Golf Links in Pacific Grove, Palo Alto Muni in Palo Alto, Shoreline in Mountain View, Chuck Corica in Alameda, Indio municipal golf course in Indio, and Anaheim Hills and Dad Miller in Anaheim. Other than the larger Cities of San Diego, Los Angeles, and San Francisco, there are only a few municipalities which utilize municipal employees in maintaining their golf course.

Golf Facility Lease

Under this option, the golf course is leased to a private golf course operator who provides course maintenance, golf operations, and overall facility management services. The food and beverage operation may be included under the golf course facility lease or provided under a separate lease to a dedicated food and beverage operator. The operator's lease payments typically are based on a minimum rental payment versus a percentage of golf, merchandise, lessons, and food and beverage departmental gross revenue. Under a typical facility lease, the lessee receives 100 percent of the revenue and is obligated to fund required front-end capital improvements (if any), operating expenses, and a reserve for ongoing capital improvements. As such, the financial risk is largely borne by the lessee. The term of the lease is negotiable, although the length generally is related to operator capital improvement levels and rental payment terms.

There are many examples of the facility lease model, although most of these leases were negotiated 15-30 years ago. All of the Los Angeles County courses, the City of Long Beach courses, and the City of Pasadena's Brookside Golf Course are operated under a facility lease, as are numerous other courses in Southern California. The Simi Valley Recreation District, by contrast, recently elected to self-operate (through the District) the Simi Hills Golf Course after years of operation under a lease agreement with American Golf Corporation.

Tables VII-2 and VII-3 contain a summary of golf course “turnkey” lease terms — facilities where all operations are leased to a contract operator – for selected Southern and Northern California public properties, respectively. There has been limited activity in recent years, with Pacific Grove Golf Links in Pacific Grove, Oceanside Golf Course in Oceanside, Los Amigos Golf Course in Downey, the City of Pasadena Brookside Golf Course in Pasadena, and Chuck Corica Golf Course in Alameda among the few agreements negotiated since 2005. Soule Park in Ojai was leased in 2007 following significant improvements funded by Ventura County to repair flood damage. In general, the facilities are leased to a management company with a minimum lease payment versus percentage rents. The contract specifies performance standards, required capital improvements and a range of contractual terms. It is important to note the agreement date, as the improving economics of the golf market and competitiveness in the golf management industry during the 1990-2000 period are reflected in more favorable lease terms to the lessor, with the most recent agreements somewhat adversely influenced by soft golf market conditions since 2001.

The various terms of the leases are interrelated and the lease payments must be considered in the context of all the terms of the lease.

- Lease Term. The term of the facility leases shown generally ranges from 15-30 years. When front-end lessee capital improvements are required, which generally is the case, the term of the lease must be long enough to amortize these capital expenditures. The length of the term normally is a function of the level of capital improvements. Occasionally a short-term agreement (less than five years) is negotiated, but these are generally related to the continuation of an agreement with an operator where minimum capital improvements are required or where an option is exercised to extend the lease term.
- Minimum Rent. The minimum rent typically is established at about 75 to 80 percent of the expected “percentage rent” amount. The minimum often is adjusted annually to reflect about 80 percent of the average of percentage rents paid during the prior three to four years operation, but never less than the preceding minimum rent level.
- Percentage Rents. Percentage rents vary by golf department, although often a composite rate is applied to greens fees, cart revenue, and driving range revenue. Merchandise, food and beverage, and other minor departments generally have lower individual percentage rents primarily due to the relatively small operating profit margins on these goods and services. The percentage rents are a function of the length of term, required capital improvements, utility sharing agreements, and the replacement reserve requirements. The rent percentage may increase over the term of the lease. The higher the capital expenditure requirement, replacement reserve, and costs associated with utilities and other course operations, the lower the percentage rent structure. Also, the market strength and potential profitability of the course strongly influence percentage rents. For Los Angeles County, the rent payments shown include contributions from the golf course revenues to the capital improvements reserve fund, consisting of 10% of gross greens fees plus $1.50 per 18-hole and $.75 per 9-hole round of golf. These capital improvement contributions represent between 20 and 25 percent of the total gross rent paid. For El Dorado Park in Long Beach, the rent does not include food and beverage which is operated under a

separate concession agreement until AGC assumed responsibility for this function as well as golf operations.

- Fees and Operating Policies. Under most municipal facility leases, the lessor (City) retains substantial control over setting fees and establishing operating policies. As well, specific guidelines such as maintenance standards are in-place or negotiated as an integral part of the lease terms. While changes in fees and policies normally require City approval, in practice, the lessee has greater influence in modifying fees and terms which financially benefit the lessee. Moreover, regardless of the rigor of the lease agreement, a number of “gray” areas, such as level of course conditioning, generally remain which may be exploited by the lessee.
- Capital Improvements. Most facility leases call for capital improvements to be funded by the lessee. A list of improvements is specified and a time frame for their implementation is established. The capital improvements requirement varies widely for the facilities shown, from less than $1 million to over $8 million.
- Capital Improvement Replacement Reserve. Generally, some provision for establishing a reserve for ongoing future capital improvements is stipulated. The replacement reserve is normally a percentage of greens fee revenue, with the percentage depending on anticipated future capital requirements, the age of the course, and the front-end capital expenditure requirement. Usually, the replacement reserve is in addition to percentage rents, but sometimes the reserve funds are credited against rent payments.
- Utilities. Typically, the lessee is responsible for utility costs. However, due to the high cost of water in California, there may be some cost sharing of utilities, or some protection provided the lessee in terms of ceilings or caps on utility rate increases.

For facility lease agreements, the market potentials, specific course maintenance requirements, areas of lessor/lessee responsibility, and other contract terms must all be considered in establishing an equitable lease structure. Thus, while the experience of other courses can serve as a general guideline, specific consideration should be given to the unique characteristics of a city’s golf course, such as the location and market strength. Further, the overall objectives of the City will influence the structure of contract terms.

The market for golf leases with municipalities has been substantially affected by the soft golf market conditions experienced over recent years. The number of qualified investor/operator groups which have an interest in such agreements has declined sharply, and the rent structure has generally been modified downward. In many instances, municipalities desiring leases are faced with the option of having to select groups with limited experience in exchange for the lessee’s willingness to invest private capital and commit to reasonable rent payments.

It also should be noted that with the softening of golf markets in California, there have been a number of initiatives on the part of lessees to renegotiate lease terms, particularly relating to courses which negotiated new leases in the 1995-2000 period. Specifically, since 2001 a number of lessees have requested rent adjustments to compensate for declining golf play levels and associated revenues, and to assume continued lessee funding for capital improvement obligations. Eaton Canyon and Altadena Golf Course in Los Angeles County, Crystal Springs in Burlingame, Metropolitan Golf Links in Oakland, and Foxtail in Rohnert Park are examples where leases have been renegotiated. In the cases where rent concessions have been granted by the lessor, rent terms have been modified by reducing base and percentage rent levels, often with significant increases in potential participation by the lessor in revenue above the current threshold.

The primary advantages of the facility lease option include a guaranteed minimum rent payment to the City, potential benefits of professional golf management, limited required participation by the lessor (City), minimum financial risk to the City, and private capital improvement funding availability. The primary disadvantages of the facility lease option include waiving some control over operating policies and procedures, commitment to longer term agreements, and limited participation in upside financial performance.

Management Agreement

This option relates to a fee-for-service agreement with a Director of Golf, General Manager or an outside management company. Golf and food and beverage functions may be combined or separated, but the structure is the same. All functions would be under the authority of the contract golf director, General Manager or management firm. Under a typical management agreement, the facility owner (City) receives all revenues and is responsible for funding all capital improvements, operating expenses, and reserves for ongoing capital reinvestment. In addition, the owner (City) pays the operator a fee for management of the facility. In effect, the professional operator serves as the City's agent in managing, operating, and maintaining the golf facility. Management compensation typically consists of a base fee, plus performance incentives.

Increasingly, public agencies are moving to a management contract approach to operations and maintenance. The City of Ventura retained Kemper Sports Management under a management agreement for operation of their two golf courses. Other examples of this structure include Los Robles in Thousand Oaks which is managed by EAGLE Golf Management, Green River Golf Club near Corona managed by CourseCo, Encinitas Ranch in Encinitas by JC Resorts, and Carlsbad Crossings in Carlsbad and Black Gold in Yorba Linda, both by Kemper Sports. In 2012, a municipal golf course management agreement was negotiated between the City of Mountain View and Touchstone Golf for the Shoreline Golf Course operation. A summary of selected management agreement terms and conditions relating to moderate and high quality municipal golf course operations in California is contained in Table VII-4.

As previously indicated, under this structure, the City receives all revenue and is obligated to fund all maintenance, operating and administrative expenses, including a management fee. The management fee is in addition to all on-site salaries and expenses. The basic terms and conditions of the agreements are discussed below.

Term

Generally, management terms are five years in length, long enough to allow a firm to amortize its initial efforts to establish policies, procedures, and systems, and to ensure sufficient job security for key employees. Longer terms offer little advantage to the owner. The renewal of an agreement typically is for a period of three to five years. The terms may be influenced by conditions dictated by the financing instrument used such as tax-exempt bond IRS regulations. For example, the IRS has a number of stipulations imposed to ensure a management contract does not result in private business use of a bond-financed facility. Among other things, the IRS restricts contracts which give the service provider an ownership or leasehold interest or provide compensation for services rendered based in whole, or in part, on a share of net profits from operations of the facility. Specifically, the IRS will allow agreement terms up to 15 years, but the structure of compensation is specific to the term. With 15-year agreements, at least 95 percent of the total compensation must be fixed/guaranteed. At 10 years, at least 80 percent; and at 5 years, at least 50 percent must be fixed/guaranteed. As well, in accordance with IRS regulations, incentive compensation cannot be based, in whole or in part, on a share of net profits, and thus must be based on gross revenue or expense thresholds.

The IRS also requires the management agreement to have an agreement cancellation option for the owner, typically at the end of three years. In cases where a cancellation provision is required by the financing authority, management companies have not objected.

Compensation Structure

For moderate volume courses ($2.0-$2.5 million in annual golf/greens, carts, range) revenue, the base fee generally ranges from $100,000 to $140,000 per year. Compensation typically consists of a base, or guaranteed fee, plus an incentive fee. Incentive fees are structured such that expected performance would result in additional compensation of $20,000 to $30,000. Total compensation, assuming budgets are met or slightly exceeded, for moderate volume 18-hole public courses, generally ranges from $130,000 to $160,000 per year.

For high volume courses ($3+ million in golf revenue), the base fee generally ranges from $150,000 to $180,000 per year for 18-hole courses. Incentive fees are structured such that expected performance would result in additional compensation of $30,000 to $50,000. Total compensation, assuming budgets are met or slightly exceeded, for high volume 18-hole public courses, generally ranges from $150,000 to $200,000 per year.

While there are many ways of structuring incentive agreements, it is generally more effective to key them off of net operating income, or gross revenue above established threshold levels, with incentive payments equaling anywhere from 25 to 100 percent of the base fee.

The compensation noted above relates to agreements where all management staff, including day-to-day accounting, are onsite, and there are no reimbursements for corporate support functions, marketing, or other normal offsite management services, including routine travel. The cost of some extraordinary services (e.g., legal, specialty agronomical consulting, etc.) may be borne by the golf course owner.

Incentive compensation normally is triggered by performance which exceeds predetermined levels of net operating income (defined as “earnings before interest, taxes, depreciation, and amortization,” or EBITDA) or gross revenue. Since expenses are reasonably predictable, incentive payments based on gross revenue exceeding specified threshold levels often are workable.

It should be noted that golf revenue (greens, carts, and range) has little associated variable cost, whereas merchandise and food and beverage have very high variable costs. Given this, each revenue category should be treated independently, and incentive clauses should more greatly reward extraordinary golf revenue compared with merchandise, food and beverage, lessons, and other miscellaneous sources.

Overall, total compensation should represent about 4 percent of total gross revenue. The 4 percent allowance is an industry standard which most professional golf management firms utilize when allocating home office services for courses they own and operate.

It is generally desirable for at least one-quarter to one-third of total compensation to be incentive-based. Again, the type of financing may influence the structure of the compensation and limit the portion which is incentive-based.

Base Fee Adjustments

In many agreements, the base fee is inflation-adjusted. This is a negotiable point, and typically relates to the structure of incentive compensation, which often serves as an inflation hedge.

Management Services

Offsite management services covered under the management fee include, although are not necessarily limited to, the following functions:

- Personnel/Human Resources
- Training
- Payroll and Benefit Administration
- Management Reporting and Accounting Systems
- Internal Audits
- Budgeting Support
- Marketing Support
- Agronomical Support

Typically, all of these services are included under the management fee. If not, an accordingly lower management fee would be expected.

While the management company provides these services, they do so, in effect, as the agent for the City. The City determines the fee structure, establishes policies, and has the right to approve compensation, employment practices, and other similar items. Clearly, the management firms provide input and recommendations, but ultimately the City retains near-full control over all operating decisions.

Other Provisions

Daily accounting and management system reports are an integral part of the golf course operation. This daily function can be provided on-site by golf course administrative staff, or at the home office of the management company. When provided by on-site staff, the expense is borne by the course like any other operating expense. When provided off-site by the management company, there often is a separate charge to the City, in addition to the basic management fee.

There may be other services provided by the management company which are reimbursed by the City separately from the management fee. Examples include travel expenses by home-office management staff, outside agronomical evaluations, and the like. All of these elements of the management agreement are negotiable, and clearly, the overall compensation consists of the sum of the base fee, incentive fee, and reimbursements.

The primary advantages of the management agreement structure include the benefits related to professional golf course management, lower wage and benefit structure related to private sector employment, shorter term contractual commitments, full control over the overall golfer experience and operations, and full participation in upside financial performance. The major disadvantages of this form of operation include greater participation required on the part of the contractor (City), financial risk, and inability to attract private capital.

Modified Hybrid Model

There are numerous alternative hybrids which consist of some combination of concession agreements and service contracts, and often such hybrids involve City-provided golf course maintenance. A "Modified Hybrid Model" would involve one or more changes in the responsibilities for the various functions. One alternative hybrid would retain the current golf operations and food and beverage concessionaires, with golf course maintenance responsibility shifted to a private landscape maintenance entity on a contract basis. The City would still be responsible for overall golf course management.

An alternative model would involve retaining a golf operations professional (individual or firm) on a fee-for-service basis, who would also be responsible for overall golf facility management as well as the golf operations functions (reservations, starting, pro shop, range, carts). Under this alternative, golf course maintenance could continue to be provided by the City, or contracted to a private landscape maintenance provider. The City would receive all of the golf course revenues (greens, carts, range, merchandise) and bear most or all of the operating expenses, paying a fee to the contractor for their service. Examples of this form include Modesto's golf courses and the Anaheim courses. Generally, the agreement with the golf operations contractor has performance incentives structured in the compensation. Most of the benefits and constraints discussed under the full management agreement would transfer to this option, with a lower base fee.

There are several firms which provide contract golf course maintenance on a fee-for-service basis. The contractors employ private sector employees, paying private sector prevailing wages and benefits, which generally are well below the corresponding public sector wage/benefit scale. Maintenance is provided by a private landscape provider, such as Valley Crest or International Golf Management (IGM), on a fixed fee basis subject to standards and practices established by the public agency. Examples include DeBell in Burbank, Anaheim Hills and Dad Miller in Anaheim, and Alhambra Municipal in Alhambra. The responsibilities of the concessionaire and the structure of the golf operations concession agreement vary considerably. Under private contract maintenance, the annual cost of maintaining a mid-market 18-hole regulation length golf course is in the range of $650,000 ($35,000 per hole), including an allowance for maintenance equipment replacement/lease, but excluding utilities (water and power).

Concessionaires normally pay rent to the City based on a percentage of gross revenue (percentage varies by revenue category). Sometimes, the rent categories are adjusted downward to reflect the concessionaire responsibility for reservation, greens fees collections, and starting, but in other cases a separate fee is paid to the concessionaire by the City for these services. In these cases, the City receives rent from the concessionaire, and also pays the concessionaire a fee for services (refer to Table VII-1 for a summary of representative golf operations concession agreements).

Summary of Operating Options Strengths and Weaknesses

The strengths and weaknesses of the four basic options are outlined in Table VII-5. Each option offers advantages and disadvantages relative to economic performance, the cost of payroll and employee benefits, city control, maintenance, influence on policy-making, operator responsiveness, efficiencies relating to one operating entity, required city involvement, and other factors. As stated above the Modified Hybrid model would have the same strengths and weaknesses as the full management services.

The current hybrid model, while having some benefits in terms of quality control, support from other City departments, and upside financial participation, has many deficiencies. There are higher costs associated with public sector employment, financial risk, and absence of professional golf management "best practices." The most significant disadvantage, at least in the current structure, is the City's inability to operate in a business-oriented, entrepreneurial manner which allows management to adapt and respond to dynamic market conditions. As well, the absence of an on-site manager with the authority to manage and coordinate the various functions provided by multiple providers is problematic, potentially resulting in lower revenues, less efficient operations and a diminished golfer experience.

The strengths and weaknesses of a modified hybrid model would depend on the specific model. Contracting the maintenance function offers clear cost savings, but must be considered in the context of the City's policies with respect to outsourcing jobs. Retaining a fee-for-service golf operations management entity/individual offers similar advantages and disadvantage associated with the "management model"--principally offering greater City control and participation in upside revenues, while increasing operating and financial risk to the City.

The turnkey facility lease often yields a reasonable financial return to the City and requires the least City involvement, but maintenance and golf operations service levels may be below those desired by the City. As well, the City typically relinquishes at least some control over golf practices and policies, much of which may be due to contract "gray" areas. A major advantage of the turnkey operation is that normally substantial capital funds can be attracted from the private sector for course improvements, with the amount directly related to the length of the lease term.

A fee-for-service management agreement offers many advantages such as maintaining greater authority managing the facility. Since the City would receive all revenues and expenses under this option, the financial return to the City may exceed that of a turnkey facility lease, but carries with it additional financial exposure. At present, service contracts are more prevalent in the private sector (management of daily fee golf courses). However, there is an emerging trend toward this option primarily as a result of cities seeking to maintain greater control without giving up the benefits of private sector management and operation.

A full self-operation model, which is an extension of the current City hybrid model to include additional golf operations functions (merchandise, carts, and driving range), offers some advantages over the current model. The principal advantage is the ability to coordinate the various functions to a greater degree and potentially to achieve some operating expense efficiencies in golf operations. There are potentially additional disadvantages of moving from the existing hybrid to a full self-contained model, primarily higher payroll and benefits related to public employees in the golf operations department. As stated earlier, cities who self- operate are beginning to make certain that they are staffed appropriately with experienced “golf operators” in order to react to changing market conditions, driving both rounds and revenue to the facilities while maintaining the required golfer experience.

Table VII-1: Golf Operations Concession Agreements, Selected California Courses			
Course	**Santa Barbara GC**	**San Clemente**	**Alhambra**
Location	**Santa Barbara**	**San Clemente**	**Alhambra**
Lessor	City of Santa Barbara	City of San Clemente	City of Alhambra
Lessee	Chris Talerico Golf	Dave Cook	Jerry Wisz
Agreement Date	2013	2005	1995
Lease Term (years)			
Initial	3	10	5
Options	None	None	3 / 5-year
Discretion	---	---	Lessee
Concession Services			
Reservation	X	X	X
Starter	X	X	X
Green Fee Collect	X	X	X
Marshals	X	X	X
Range	X	X	X
Carts	X	X	X
Pro Shop	X	X	X
Lessons	X	X	X
Food and Beverage	O	X	O
Minimum Rent	$125,000	n.a.	n.a.
CPI Adjusted	Yes	---	---
Percentage Rent			
Carts	30%	20-30%[1/]	10/30/40%[2/]
Range	25%	25%	20/25/35/45%[3/]
Merchandise	4%	5%	4%
Lessons	4%	10%	---
Food and Beverage	---	13%	---
Liquor	---	13%	---
Other	4%	---	---
Investment Requirements	None	None	$500,000
Utilities	Lessor	Lessee	City
Incentive / Lessor Pymts	---	None	$50,000/yr. for marshal serv-ices
Reinvestment/Reserve	None	None	None

Table VII-1 (continued): Golf Operations Concession Agreements, Selected California Courses			
	Palo Alto Muni	Diablo Creek	Griffith Park (36 holes)
Location	Palo Alto	Concord	Los Feliz
Lessor	City of Palo Alto	City of Concord	City of L. A.
Lessee	Brad Lozares	J. Fernandez	Tom Barber
Agreement Date	2003	1998	5/1993
Lease Term (years)			
Initial	5	5	10
Options	1-year	2 / 5-year	None
Discretion	City	Lessee	Mo.-Mo.
Concession Services			
Reservation	X	X	O
Starter	X	X	O
Green Fee Collect	X	X	O
Marshals	X	X	O
Range	X	X	X
Carts	X	X	X
Pro Shop	X	X	X
Lessons	X	X	X
Food and Beverage	O	O	O
Minimum Rent	None	None	$250,000
CPI Adjusted	---		No
Percentage Rent			
Carts	60%	35% (0-450K)	---
Range	60%	25% (450K+)	30%
Merchandise	4%	30% (0-400K)	5%
Lessons	0%	25% (6-500K)	10%
Food and Beverage	---	5% (0-500K)	---
Liquor	---	---	---
Other	---	---	---
Investment Requirements	$100,000	None	---
Utilities	Lessor	Lessor	Lessee
Incentive / Lessor Pymts	$322,000 Base Fee[4]	Per Round[5]	None
Reinvestment/Reserve	None	$10,000/year	None

[1] Years 1-5 at 20%; increases 2% points annually beginning in year 6. [2/] 0-$100K; $100-200K; $200K+; [3/] 0-$100K; $100-200K; $200-300K; $300K+ [4]City pays operator base fee, CPI adjusted. Incentives include $3/rounds above 87,000 rounds, 20% cart revenue above $250,000, and range revenue above $440,000. [5]$1/round 93,000-98,000; $2/round 98,000-103,000; $3/round 103,000-108,000; $4/round (108,000+).

Source: Pro Forma Advisors

Table VII-2: Regulation Length Public Golf Course Facility Lease Terms--Southern California						
Course	Soule Park	Brookside	Oceanside	Los Lagos	Mountain Meadows	Mission Trails
Location	Ojai	Pasadena	Oceanside	Costa Mesa	Pomona	San Diego
Number of Holes	18	36	18	36	18	18
Lessor	Ventura County	Pasadena	Oceanside	Costa Mesa	L.A. County	San Diego
Lessee	Highlands Golf	American Golf	Jim Bellows/ Landscapes	Mesa Verde Partners	American Golf	American Golf
Agreement Date	2007	2011	2007	1992	1991	1986
Lease Term (years)						
Initial	10	5	30	18	10	35
Option Extension	1-5	---	10	2-5	---	---
Minimum Rent	$180,000	$1,825,000	None	$630K/720K	$890,000	$125,000
CPI Adjusted	No	No	---	No	No	No
Percentage Rents						
Greens	11.5%/50%[1/]	28.5%	20%	30 / 35% [2/]	35%	11.5%
Carts	11.5%/50%[1/]	28.5%	20%	30 / 35%	35%	10.5%
Range	11.5%/50%[1/]	28.5%	20%	30 / 35%	33%	10.5%
Merchandise	5%	---	20%	6%	5%	6.0%
Lessons	---	---	---	5%	10%	10.0%
Food and Beverage	5%	13.0%	20%	11%	10%	10.5%
Liquor	5%	13.0%	20%	11%	12%	10.5%
Banquet Room Rental	5%	20.0%	20%	25%	25%	---
Required Capital Imps	None	$100K/year	---	$1.938M	$500,000	$104,000
Repl Reserve Require	$1/round	9.5% of total gross	---	5% of greens	--- [3/]	---
Cost of Water	Lessee	Lessee	Lessee	Lessee	County	Lessee

Table VII-2 (continued): Regulation Length Public Golf Course Facility Lease Terms--Southern California						
Course	La Mirada	DeBell	Los Verdes	Meadowlark	Los Amigos	Chula Vista
Location	La Mirada	Burbank	Palos Verdes	Huntington Beach	Downey	Chula Vista
Number of Holes	18	18	18	18	18	18
Lessor	L.A. County	City of Burbank	L.A. County	Huntington Bch	L.A. County	Chula Vista
Lessee	American Golf	S. Scozzola	American Golf	Fore Golf	Los Amigos GP	American Golf
Agreement Date	1995 4/	2014	1994 4	1993	2012	1986
Lease Term (years)						
Initial	15	5.5	15	25	20	20
Option Extension	---	3 5-year	---	15 (city)	5 (county)	10
Minimum Rent	$805,000	$300,000	$970,000	$175K/300K/ 500K 6/	---5/	$124,000
CPI Adjusted	No	No	No	No	No	No
Percentage Rents						
Greens	40%	5.0/7.5%9/	40%		5%-43%8/	15%
Carts	40%	---	40%	8/10/18/25% 7/	5%-43%8/	15%
Range	30%	---	30%	-	5%-43%18	15%
Merchandise	5%	---	5%	8%	6%	6%
Lessons	---	---	---	---	---	6%
Food and Beverage	10%	---	10%	10%	8%	6%
Liquor	12%	---	12%	10%	12%	6%
Banquet Room Rental	10%	---	10%	---	25%	6%
Required Capital Imps	$700,000 4/	None	$800,000 4/	$3.5M	$500,000	$1.4M
Repl Reserve Require	---3/	25% of NOI	---3/	---	---3/	---
Cost of Water	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee

1/ Percentage rent increases to 50% for gross greens fees exceeding $1,650,000, cart revenue of $425,000 and range revenue of $125,000.
2/ Higher percentage applied to monthly gross revenue exceeding $150,000 for greens fees, $40,000 for carts, and $20,000 for practice range.
3/ 10% of greens fees, credited against lessee rental payments.
4/ Term extended for an additional 15 years with commitment of additional capital improvements.
5/ None in first 5 years; then 80% of year 5 percentage rent.
6/ Rent percentages apply to the 5-year option period, exercised in 2005. Years 1-2/3-10/11+.
7/ Percentages relate to years 1-2, 3-10, 11-18, and 19-25, respectively.
8/ Year 1;5%; year 2-10%; year 3-15%; year 4-20%; year 5-27%; year 6-33%; year 7-36%; year 8-39%; year 9- 41%; years 10 through 20-43%.
9/ In addition to minimum rent, 5.0% of total gross revenue between $2.5-$3.5 million; 7.5% of total gross revenue exceeding $3.5 million.

Table VII-3: Regulation Length Public Golf Course Facility Lease Terms--Northern California						
Course	Spring Valley	Chuck Corica	Crystal Springs	Monarch Bay	Metropolitan	Pacific Grove
Location	Milpitas	Alameda	Burlingame	San Leandro	Oakland	Pacific Grove
Number of Holes	18	45	18	27	18	18
Lessor	County of Santa Clara	City of Alameda	City/County of San Francisco	City of San Lean-dro	City of Oakland	City of Pacific Grove
Lessee	Jetters Golf	Greenway Golf	Crystal Springs Golf Partners	American Golf	Oakland Golf, LLC	CourseCo
Agreement Date	1993	2012	1997	1997	2001	2014
Lease Term (years)			(revised 2004)			
Initial	30	20	20	25	25	9.5
Option Extension	None	One 5-year	None	Two 5-year	Three 5-year	Two 5-year
Minimum Rent	$250,000	$300,000	$1.25 million [11]	$750,000	$400,000 [5]	$300,000
CPI Adjusted	No	No	Yes	No	Yes	No
Percentage Rents						
Greens	10.5% [2]	8/10-8/12[1]	25/35/32% [12]	25/27/28/30 [3]	0/15/17.5/20/22.5/ 25/27.5 [7]	
Carts	10.5%	8/10-8/12[1]	25/35/32%	25/27/28/30 [3]		Min + 65% of total golf revenue exceeding $2.35M
Range	10.5%	8/10-8/12[1]	25/35/32%	25/27/28/30 [3]		
Merchandise	10.5%	8/10-8/12[1]	8%	5/6% [4]	0/4% [8]	
Lessons	10.5%	8/10-8/12[1]	25/35/32% [12]	5/6% [4]	0/4%	
Food and Beverage	10.5%	NA	8%	5/6% [4]	0/4%	---
Liquor	10.5%	NA	8%	5/6% [4]	0/4%	---
Banquet Room Rental	10.5%	NA	25/35/32% [12]	5/6% [4]	0/4%	---
Required Capital Imps	$2.5 million	$5.7 million	$1.98 million	$8.2 million	$8.0 million	$100,000
Repl Reserve Require	None	3.0% of total gross revenue	6% (yrs.1-5); 2%(yr.6+) of total gross revenue	2% of gross	0% (1-2), 2% (3-4); 4% (5+) of total gross	1.5% of total gross revenue
Cost of Water	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee

1/ Rate applies to gross revenue from all sources.
2/ Percentages apply to first 15 years of agreement term. Beginning in year 16, rent equal to 10.5% of total gross revenue up to $3.0 million plus 15.0% of revenue between $3.0 and $4.0 million, plus 20.0% of gross revenue exceeding $4.0 million.
3/ Years 1-2 / 3-5 / 6-10 / 11+.
4/ Years 1-2 / 3+.
5/ Increases to $500,000 by Year 4.
6/ Escalates to $200,000 by Year 16.
7/ Years 1-2 / 3-5 / 6-10 / 11-15 / 16-20 / 21-25 / 26+.
8/ Years 1-2 / 3+.
9/ Years 1-5 / 6-10 / 11-15 / 16+.
10/ In addition to percentages, a supplemental contribution equal to 7% of total gross revenue is applied effective 10/1/2004. Further, the percentage rents are increased by CPI beginning in 2010
11/ Escalates steadily to $1,600,000 by Year 16.
12/ As revised – years 1-2 / 3-5 / 6-20.

Table VII-4: Management Agreement Terms at Selected California Public Golf Courses					
Golf Course	**Buenaventura/ Olivas Links**	**Los Robles**	**Carlsbad Cross-ings**	**Green River**	**Black Gold**
Location	**Ventura**	**Thousand Oaks**	**Carlsbad**	**Corona**	**Yorba Linda**
Course Type	Mid-market Muni	Municipal	Upscale Municipal	Mid-mkt Daily Fee	Upscale Municipal
Number of Holes	36	18	18	36	18
Owner	City of Ventura	City of Thousand Oaks	City of Carlsbad	County of Orange	City of Yorba Linda
Manager	Kemper Sports	EAGLE Golf	Kemper Sports	CourseCo	Kemper Sports Mgmt.
Agreement Date	2009	2006	2012	2014	2011
Term (years)	5	10	5	5	5
Options	One 5-year	Four 5-year	None	None	None
Options Holder	City	City	---	---	---
Annual Gross Revenue	$4,500,000	$5,000,000	$4,000,000	$2,500,000(18 hole)	$5,600,000
Base Annual Fee	$150,000	$100,000	$125,000	$160,000	$195,000
CPI Adjusted	Yes	2%/year	No	Yes	Yes
Incentive Structure	5% of gross "golf "revenue exceeding $4,800,000	12% of NOI ex de-preciation	5.0% of gross reve-nue in excess of budget	None	5.0% of gross reve-nue in excess of $5,800,000, subject to maximum of 25% of fixed fee
Management Functions					
Course Maintenance	X	X	X	X	X
Golf Operation	X	X	X	X	X
Food and Beverage	X	X	X	X	X
Annual Compensation					
Base	$150,000	$100,000	$125,000	$160,000	$250,000
Incentive	---	75,000	25,000	---	---
Total	$150,000	$175,000	$150,000	$160,000	$250,000
% of Total Gross Rev	3.3%	3.5%	3.8%	6.4%	4.5%
Reimbursements	None	Accounting	None	None	None
Performance/Other De-posit	None	None	None	None	$50,000
Non-Compete Restrictions	None	None	None	None	No

Table VII-4 (continued): Management Agreement Terms at Selected California Public Golf Courses					
Golf Course	**Shoreline**	**SilverRock**	**Boundary Oak**	**Desert Willow**	**Encinitas Ranch**
Location	**Mountain View**	**La Quinta**	**Walnut Creek**	**Palm Desert**	**Encinitas**
Course Type	Municipal	Upscale Municipal	Municipal	Upscale Municipal	Municipal
Number of Holes	18	18	18	36	18
Owner	City of Mountain View	City of La Quinta	City of Walnut Creek	City of Palm Desert	Encinitas Ranch Golf Auth.
Manager	Touchstone Golf	Landmark Golf Mgmt.	CourseCo Inc	Kemper Sports	J.C. Resorts
Agreement Date	2012	2013	2009	2006	2012
Term (years)	5	5	5	2	10
Options	One 5-year	None	None	Two 1-year	None
Options Holder	City	---	---	City	---
Annual Gross Revenue	$3,000,000[3/]	$4,000,000	$4,000,000	$7,500,000	$4,500,000
Base Annual Fee	$102,000	$96,000	$156,000	$300,000	$180,000 [2/]
CPI Adjusted	No	No	Yes	No	Yes
Incentive Structure	10% of golf gross revenue in excess of $2,500,000	None	10% of golf gross revenue exceeding budget; 7.5% of F & B gross exceeding budget	5% of gross revenue in excess of $6,000,000	.75% of gross golf revenue Accounting reimbursement direct
Management Functions					
Course Maintenance	X	X	X	X	X
Golf Operation	X	X	X	X	X
Food and Beverage		X	X	X	X
Annual Compensation					
Base	$108,000	$96,000	$156,000	$300,000	$180,000
Incentive	25,000	---	$6,000	75,000	35,000
Total	$133,000	$96,000	$162,000	$375,000	$215,000
% of Total Gross Rev	4.2%	2.4%	4.1%	5.0%	4.8%
Reimbursements	None	None	None	None	Accounting - $24K/year
Performance/Other Deposit	None	$25,000	None	None	None
Non-Compete Restrictions	None	None	None	2 years	None

Table VII-5: Strengths and Weaknesses of Golf Course Operating Options

Hybrid (Current Model)	Facility Lease	Management Agreement	Modified Hybrid
STRENGTHS			
• Provides high level of City control over rates, policies, practices, and overall golf experience • Availability of City overhead support functions • Strong participation in upside financial performance • Provides opportunity to retain specialists in golf operations and food and beverage • Preserves option to convert to alternative operating option	• Provides reasonably strong financial return to City • Produces guarantee minimum rent payment to City • Minimizes financial risk • Minimizes political influence with less direct involvement of City with setting fees, policies, and practices • Offers potential benefits in golf management expertise and specialized maintenance support services • May provide private capital investment in facilities	• Provides strong financial return to City. • Provides high level of City control • Greater potential quality assurance • Opportunity to provide shorter term contracts • Potentially more compatible with multiple operator options • Provides opportunity to retain specialists in professional golf management • Captures benefits of private sector wage and benefit structure	• Provides high level of City control over rates, policies, practices, and overall golf experience • Availability of City overhead support functions • Strong participation in upside financial performance • Potential benefits from lower private sector maintenance payroll/ benefits • Provides opportunity to retain specialists in golf operations and food and beverage • Preserves option to convert to alternative operating option
WEAKNESSES			
• Constrains ability of management to adapt and respond to dynamic market conditions • Entails high level of financial risk • Involves higher public sector wage and benefit structure for maintenance • Reduces opportunity to attract private capital due to reduced lessee control • Potential conflicts of multiple concessionaires • Relatively high City monitoring requirements	• Minimum operational and quality control • May involve long-term contractual commitment • Minimizes financial upside, particular in current market • Current weak market for facility leases • Potential conflicts over capital reinvestment responsibilities of contracting parties	• Requires more City involvement than facility lease option • Minimizes private capital investment in facilities. • Entails greatest level of City financial risk	• May constrain ability of management to adapt and respond to dynamic market conditions • Entails high level of financial risk • May involve higher public sector wage and benefit structure • Reduces opportunity to attract private capital due to reduced lessee control • Potential conflicts of multiple concessionaires • Relatively high City monitoring requirements

VIII. Economics of Golf Course Operating Options

The following section illustrates the comparative economics of the various golf course operating options available to the City of Santa Barbara. The options evaluated include the following:

- Management Agreement, with and without application of the City's Living Wage Ordinance
- Facility Lease
- Hybrid Model (current), assuming golf operations concessionaire, food and beverage concessionaire, and City maintenance
- Hybrid Model (modified), assuming golf operations concessionaire, food and beverage concessionaire, and contract maintenance

Summary Economics

A comparative summary of the economics related to each of the operating options outlined above is presented below. The economics illustrate the net cash flow accruing to the City under each option. An allowance for capital improvements/equipment costs and debt service (actual 2014 debt service) are deducted from net operating income, yielding net cash flow to the City for each option.

SBGC Comparative Baseline Operating Options Economics (thousands of constant 2014 dollars)						
	City Hybrid Actual FY2014	Hybrid		Management Agreement		Facility Lease
		City Maintenance*	Contract Maintenance	No Living Wage	With Living Wage	
Net Operating Income	$411.0	$380.7	$578.1	$805.3	$583.3	$445.2
Less: CIP Allowance	214.5	225.0	225.0	225.0	225.0	108.1
Less: Debt Service	264.8	264.8	264.8	264.8	264.8	264.8
Net Cash Flow	($68.3)	($109.1)	$88.3	$315.5	$93.5	$71.3
Variance From Hybrid Model w/ City Maint.	$40.8	---	$197.4	$424.6	$202.6	$180.4
* Represents current City hybrid model.						

Baseline Revenues

A baseline revenue estimate is first established in evaluating each of the golf course operating options. The revenue estimate is employed uniformly for the various options. The baseline revenue employed in the analysis is effectively actual FY2014 revenues, excluding any one-time revenue components. As shown in Table VIII-1, annual baseline revenue is indicated at just under $3.9 million, including nearly $1.4 million in food and beverage gross revenue.

Living Wage Ordinance

The City of Santa Barbara has adopted a “living wage” ordinance which stipulates a minimum hourly wage for businesses which are supplying services to the City on a contract basis, with some exemptions provided depending on the type of business and service provided. The current “living wage” is $16.70 per hour, with no additional benefits provided.

The living wage ordinance would apply to some of the operating options, while not affecting others. The following assumptions are employed in the analysis:

- The current hybrid model (golf operations concessionaire; food and beverage concessionaire; City course maintenance) is not subject to the Living Wage ordinance.
- A management agreement model may or may not be subject to the Living Wage ordinance, depending on the interpretation of the ordinance by City staff. This scenario is analyzed with and without the Living Wage.
- The Living Wage ordinance would not apply to the facility lease model.
- Contract golf course maintenance, in conjunction with any form of golf operations, would be subject to the Living Wage ordinance.
- The food and beverage operation would be structured such that it would be exempt from the Living Wage ordinance.

The effect of the Living Wage ordinance is reflected in higher operating expenses (payroll and benefits) for both golf course maintenance and golf operations relative to those operating options subject to the ordinance.

Operating Expenses

Annual operating expenses by major expense classification are shown in Table VIII-2. The expenses are shown both with and without application of the Living Wage ordinance, and are consistent with current staffing levels. The expenses relate to a single entity bearing responsibility for all of the golf course functions and departments. Note that food and beverage expenses are not included since the analysis is based on the premise that only the net contribution from food and beverage operations are included under revenue.

There is a $225,000 annual allowance or reserve for capital improvements replacement, which consists of approximately $150,000 for golf course and support facilities and $75,000 for maintenance equipment.

The expenses, which total $1.84 million per year assuming no Living Wage and $2.06 million with the Living Wage, are used in analyzing several of the operating options, including the management agreement model. The impact of the Living Wage is reflected in the golf course maintenance payroll and benefits line, golf operations (pro shop) payroll and benefits, and cart operation/outside services. In total, the differential in payroll and benefits between the scenario with the Living Wage versus the one without the Living Wage is approximately $220,000 per year, of which $150,000 is attributed to golf course maintenance.

Management Agreement

The economics of the management agreement operating option, whereby the City retains an outside management company or director of golf to administer all golf course functions (including food and beverage), is presented in Table VIII-3. As noted above, the management agreement model may or may not be subject to the Living Wage ordinance, and thus this option is evaluated with and without application of the ordinance.

Annual gross revenue totals $2,714,500, which includes the "net contribution" from the food and beverage operation, estimated at 15 percent of food and beverage gross revenue. That is, the net contribution of the food and beverage operation is included rather than total gross revenue, which reflects deductions for cost of sales and operating expenses. Cost of sales related to merchandise are deducted, resulting in gross profit of $2,571,800.

Assuming no Living Wage, deducting operating expenses from gross profit yields annual net operating income of $733,800. Allowances for City contract administration of $80,000 and the Citywide Overhead allocation of $73,500 are deducted, resulting in adjusted annual net operating income of $580,300. The current annual debt service obligation (264,800) is not deducted.

With the Living Wage applied, net operating income is projected at $511,800 after deducting cost of sales and operating expenses. Then, deducting an allowance for City contract administration and the Citywide Overhead allocation yields adjusted net operating income of $269,300 under the management agreement model. The current annual debt service ($264,800) is not deducted.

The management agreement model, assuming no Living Wage, produces the highest net operating income among the various models. The model also provides for a relatively high level of City control as the policies and fee structure is entirely set by the City, with input from the retained management individual/firm. The principal weakness of this model is that the City continues to bear most, if not all, of the financial risk.

Facility Lease

Based on the limited recent experience with municipal facility leases, the characteristics and performance of SBGC, and typical lessee operating economics, the economics related to a facility lease for all functions, excluding food and beverage operations, are based on the following representative lease terms. The terms are based on the assumption that the Living Wage ordinance does not apply. If the ordinance is applicable, the rental lease terms (minimum rent and percentage rental rates) would be adjusted downward to reflect the mandated higher wages.

Summary of Facility Lease Terms	
Term (years)	15
Renewal Options	none
Initial Lessee Capital Improvements	$500,000
Annual Base Rent	$300,000
Percentage Rent (% of departmental gross revenue	
Greens, Carts and Range	15.0%
Merchandise	5.0%
Instruction	5.0%
Food & Beverage	10.0%
Capital Improvement Replacement Reserve	5.0% of golf revenues (greens, carts, range)

Note that, given the current conditions of the golf course, a moderate level of initial lessee-funded capital improvements are required. To the extent that such improvements are not required, the minimum and percentage rent would be accordingly adjusted upward.

The rent paid by the lessee is equal to the greater of the minimum rent ($300,000 per year) or the percentage rents based on applying the rental rate factors to gross revenue. Typically, the minimum rent is set a about 75 percent of the expected percentage rent, and thus generally the minimum rent is exceeded by percentage rent.

Applying the percentage rent factors to the baseline annual gross revenue yields rent to the City, as shown in Table VIII-4 (note that rent due is the greater of "base rent" or "percentage rent" produced). Also included is the lessee's required CIP replacement reserve contribution at 5.0% of "golf" gross revenue (greens fees, cart fees, and practice range revenue). A corresponding outflow for the City's contribution to the capital improvement reserve fund and an allowance for City contract administration/overhead are deducted. Note that the capital improvement replacement reserve contribution is less than the scheduled allowance of $225,000 per year. The lower amount is attributed to the lessee providing maintenance equipment at their cost, and the initial lessee-funded capital improvements, estimated at $500,000, which reduces the ongoing capital needs.

As shown in the table, gross revenue (including the full food and beverage gross revenue) totals $3.85 million. Applying the percentage rental factors produces $597,700 to the City, including $108,100 in the capital improvement replacement reserve contribution. Deducting the reserve for capital improvements (assumed to be equal to the contribution), a $80,000 allowance for City contract administration, and a $73,500 allowance for the Citywide Overhead allocation results in net cash flow to the City of $336,100. The current annual debt service ($264,800) is not deducted.

The facility lease option produces somewhat less net cash flow to the City than under the management model, but is accompanied by less financial risk. The level of City control and influence on the golf course operations and maintenance is clearly less than under the management model, although the City still retains control of greens fees and can set standards for maintenance. It should be noted that over the past 10-15 years, many municipalities have moved away from facility leases and towards management agreements. At the same time, the weakness in the golf market has curbed interest from the private sector for lease agreements.

Hybrid Agreement

There are numerous forms of operating agreements which combine aspects of the management and facility lease options. The current operating structure at SBGC--a golf operations concessionaire with City maintenance and overall administration--represents one such hybrid. An alternative hybrid operating agreement would involve a golf operations concessionaire and contract golf course maintenance. There are a number of private contractors which provide golf course maintenance on a fee-for-service basis. The analysis of this hybrid is predicated on application of the Living Wage ordinance under contract golf course maintenance.

Table VIII-5 illustrates the economics of these hybrid options. The projected revenue accruing to the City is shown with both continued City maintenance and with private contract maintenance, and compared with the current (FY 2014) actual results.

As with the current situation at SBGC, City revenue consists of 100 percent of greens fees, plus concession revenues from the golf operations and food and beverage functions, along with some miscellaneous income. In total, based on the assumed golf operations and food and beverage concession terms, total City revenue under this hybrid operating model is shown at $2,013,700. Note that the assumed concession terms are identical to the current terms recently negotiated between the City and the golf operations concessionaire. However, since the average percentage rent terms for FY2013 were slightly higher than the current term (the agreement was renegotiated during FY2014), the City revenue for the Hybrid model is slightly less than realized in FY2014.

Under the Hybrid model with City maintenance, golf course maintenance, clubhouse related expenses, general and administrative expenses, an allowance for capital improvements/equipment, and contract administration/ Citywide overhead are deducted, yielding $155,700 per year in net operating income. The current debt service is not deducted.

Under the Hybrid model with contract maintenance, the golf course maintenance expenses relate to private contract maintenance, based on application of the Living Wage ordinance. In addition, a 10 percent contractor fee is added to the projected cost, yielding a total maintenance budget of $1,140,700. The golf course maintenance expenses under contract maintenance are approximately $230,000 per year below current City maintenance expenses. Deducting operating expenses, CIP reserves, and an allowance for contract administration/Citywide overhead results in net income of $353,100. Again, the current debt service is not deducted.

While there are some strengths of the hybrid model such as specialization in the various operating functions (maintenance, golf operations, food and beverage) and the City retains substantial control over operating policies, fees and maintenance quality, the hybrid model has a number of key weaknesses. Most notably is the absence of benefits related to a single coordinated operating entity where efficiencies of operation can be achieved and a more seamless and consistent product can be offered.

Summary of Options Economics

A comparative summary of the various operating models is presented in Table VIII-6. In comparing the economics of the various options, it is important to recognize that revenues are uniformly the same for each of the options--that is, all of the operating alternatives are assumed to be equally efficient, which may not be the case. Moreover, there clearly are varying degrees of risk, as well as upside participation, among the various alternatives.

Table VIII-1: SBGC Baseline Annual Gross Revenue (thousands of dollars)	
Department	**Baseline Projection (2014 dollars)**
Annual Total Rounds	62,500
Gross Revenue	
Greens Fees/Cards	$1,664.7
Cart Rentals	422.4
Practice Range	95.5
Merchandise	190.3
Food & Beverage	1,377.9
Other Pro Shop[1/]	85.2
Other Revenue	49.7
Total	$3,885.6
[1/] Includes pro shop rentals, lessons income, and other miscellaneous sources.	

Table VIII-2: Santa Barbara Golf Club Projected Annual Operating Expenses Management Agreement Model* (thousands of constant 2014 dollars)		
	No Living Wage	**With Living Wage**
Course Maintenance		
Payroll and Benefits	$480	$637
Services and Supplies	175	175
Utilities	225	225
Maintenance Equipment	---1/	---1/
Subtotal	$880	$1,037
Golf Operations		
Payroll and Benefits	$145	$180
Cart Leasing	58	58
Cart Operation/Outside Services	65	95
Range	20	20
Services and Supplies	25	25
Subtotal	$313	$378
Food & Beverage	---	
Undistributed Clubhouse	$30	$30
General & Administrative		
Payroll and Benefits	$120	$120
Insurance	40	40
Property Taxes	---	---
Marketing/Promotion	25	25
Credit Card	30	30
Services and Supplies	50	50
Management Fee	125	125
Subtotal	$390	$390
Total	$1,613	$1,835
Capital Improvement Replacement Reserve	$225	$225
Total	$1,838	$2,060

* Operating expenses relate to "management agreement" model, and thus assume non-City employment costs. The maintenance expenses also are employed in "hybrid model with living wage."

1/ An annual allowance of $75,000 is included in CIP Reserve.

Table VIII-3: SBGC Projected Annual Net Operating Income--Management Agreement (thousands of constant 2014 dollars)		
Department	**No Living Wage**	**With Living Wage**
Gross Revenue		
Greens Fees/Cards	$1,664.7	$1,664.7
Cart Rentals	422.4	422.4
Practice Range	95.5	95.5
Merchandise	190.3	190.3
Food & Beverage--Net Contribution (@15%)	206.7	206.7
Other Pro Shop	85.2	85.2
Other Revenue	49.7	49.7
Total Gross Revenue	$2,714.5	$2,714.5
Less: Cost of Sales (merchandise)	142.7	142.7
Gross Profit	$2,571.8	$2,571.8
Operating Expenses		
Course Maintenance	$880.0	$1,037.0
Golf Operations	313.0	378.0
Food & Beverage	---	---
Clubhouse Undistributed	30.0	30.0
General & Administrative	390.0	390.0
Capital Improvement Replacement Reserve	225.0	225.0
Total Expenses	$1,838.0	$2,060.0
Net Operating Income (EBITDA)[1/]	$733.8	$511.8
Less: City Contract Administration	80.0	80.0
Citywide Overhead Allocation	73.5	73.5
Adjusted Net Operating Income (EBITDA)1/	$580.3	$269.3
[1/] Earnings before interest, taxes, debt and amortization, and before Citywide contract administration expenses.		

Table VIII-4: SBGC Projected Annual Net Lease Income Facility Lease (thousands of constant 2014 dollars)	
Department	**Annual Amount**
Gross Revenue	
Greens Fees/Cards	$1,664.7
Cart Rentals	422.4
Practice Range	95.5
Subtotal-Golf	$2,182.6
Merchandise	190.3
Food & Beverage--Net Contribution	1,377.9
Instruction/Other	97.5
Total Gross Revenue	$3,848.3
Percentage Rent to City	
Golf (greens fees, carts, range) @15%	$327.4
Merchandise @5%	9.5
Food & Beverage Rent (@10%)	137.8
Instruction/Other Pro Shop(@5%)	4.9
Other Revenue	10.0
CIP Reserve @5% of golf	108.1
Total Rent/CIP Contribution	$597.7
Less: CIP Expenditures/Reserve	108.1
City Contract Administration	80.0
Citywide Overhead Allocation	73.5
Net Income to City	$336.1

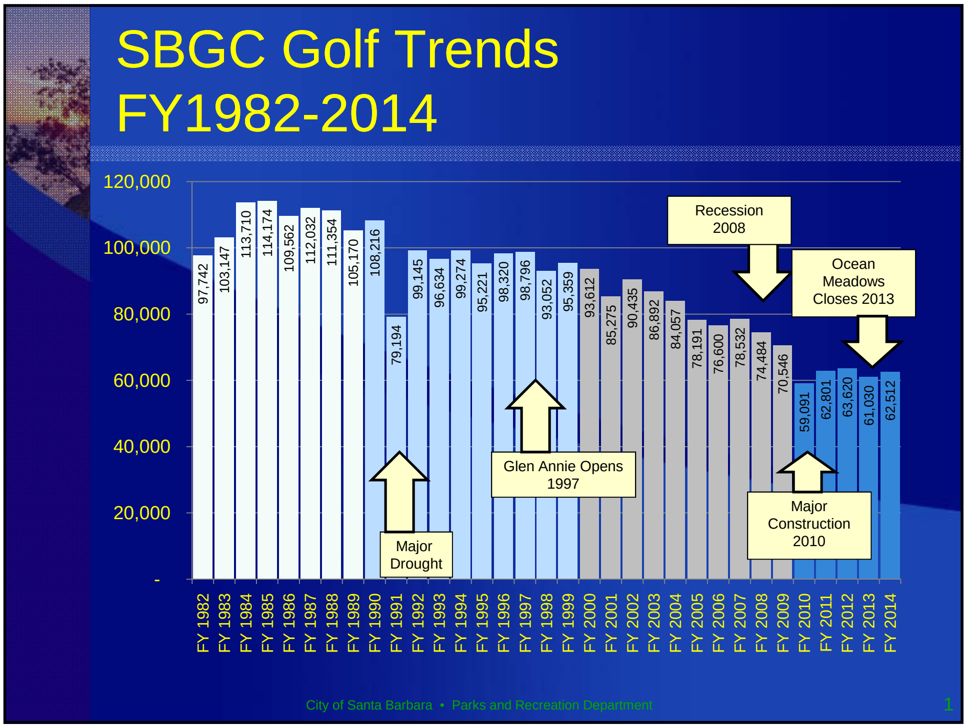
[1/] Earnings before interest, taxes, depreciation and amortization, and before Citywide contract administration expenses.

Table VIII-5: SBGC Projected Annual Net Operating Income--Hybrid Agreement With Golf Concessionaire (thousands of constant 2014 dollars)			
Department	Current Hybrid Actual FY2014	City Maintenance*	Contract Maintenance[2/]
Gross Revenue			
Greens Fees/Cards	$1,664.7	$1,664.7	$1,664.7
Cart Rentals	422.4	422.4	422.4
Practice Range	95.5	95.5	95.5
Merchandise	190.3	190.3	190.3
Food & Beverage	1,377.9	1,377.9	1,377.9
Other Pro Shop	85.2	85.2	85.2
Other Revenue	12.3	12.3	12.3
Interest/Creeks Income	37.4	37.4	37.4
Total Gross Revenue	$3,885.6	$3,885.6	$3,885.6
City Revenue/Rent			
Greens Fees @100%	$1,664.7	$1,664.7	$1,664.7
Cart Rentals @ 30%	138.4	126.7	126.7
Practice Range @25%	28.7	23.8	23.8
Merchandise @4%	9.2	7.6	7.6
Food & Beverage @10%	139.1	137.8	137.8
Lessons/Other Pro Shop (@4%)	13.3	3.4	3.4
Other Revenue/Interest/Creeks	49.7	49.7	49.7
Total Revenue/Rent	$2,043.1	$2,013.7	$2,013.7
Less: Golf Course Maintenance	1,369.1	1,370.0	1,140.7[3/]
General & Admin/Clubhouse Expenses	71.4	71.4	71.4
City Contract Administration	118.1	118.1	150.0
CIP Reserve	214.5	225.0	225.0
Citywide Overhead Allocation	73.5	73.5	73.5
Subtotal	$1,846.6	$1,858.0	$1,660.6
Net Operating Income (EBITDA)[1/]	$196.5	$155.7	$353.1

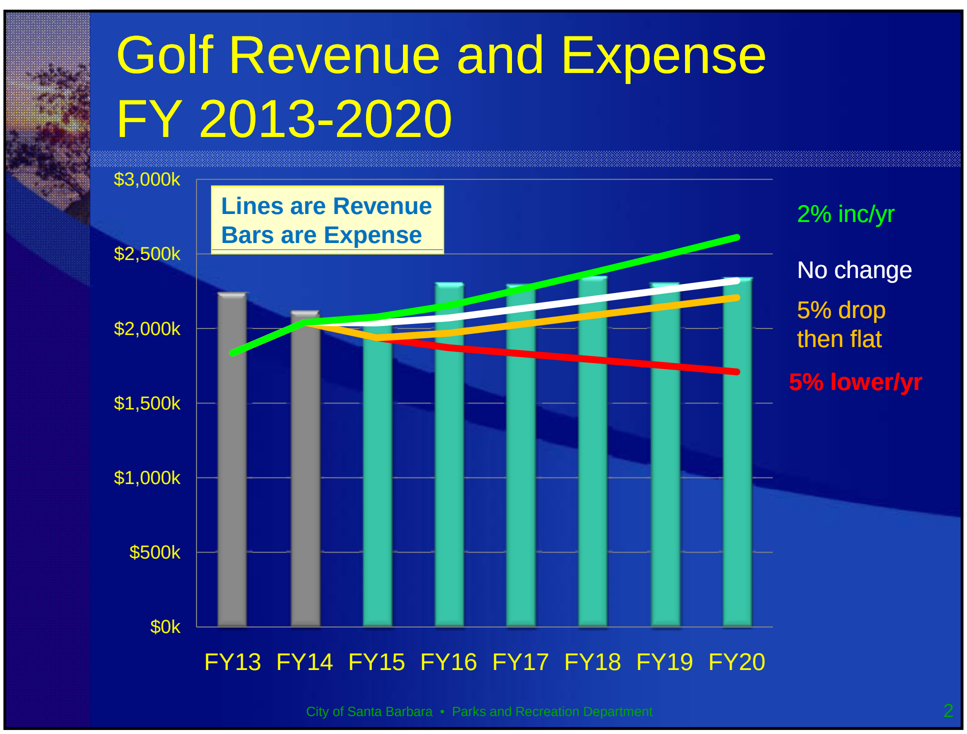
* * Represents current City Hybrid model with current terms. [1/] Earnings before interest, taxes, debt and amortization; [2/] Assumes Living Wage ordinance; [3/] Represents maintenance expense with Living Wage, plus 10 percent contractor fee.

Table VIII-6: Comparative Baseline Operating Options Economics (thousands of constant 2014 dollars)						
	City Hybrid Actual FY2014	Hybrid		Management Agreement		Facility Lease[1/]
Department		City Maint*	Contract Maint with Living Wage	No Living Wage	With Living Wage	
City Revenue/Rent						
Greens Fees Revenue	$1,664.7	$1664.7	$1664.7	$1,664.7	$1,664.7	---
Golf Operations Revenue	---	---	---	793.4	793.4	---
Facility/Golf Ops Concession Rent	189.6	161.5	161.5	---	---	$449.9
Food & Beverage Rent	139.1	137.8	137.8	206.7	206.7	137.8
Other Revenue	49.7	49.7	49.7	49.7	49.7	10.0
Total	$2,043.1	$2,013.7	$2,013.7	$2,714.5	$2,714.5	$597.7
Less: Cost of Sales	---	---	---	142.7	142.7	---
Gross Profit	$2,043.1	$2,013.7	$2,013.7	$2,571.8	$2,571.8	$597.7
Operating Expenses						
Course Maintenance	$1,369.1	$1,370.0	$1,140.7[2/]	$880.0	$1,037.0	---
Golf Operations	---	---	---	313.0	378.0	---
G & A/Clubhouse	71.4	71.4	71.4	420.0	420.0	---
City Contract Administration	118.1	118.1	150.0	80.0	80.0	80.0
Citywide Overhead Allocation	73.5	73.5	73.5	73.5	73.5	73.5
Total	$1,632.1	$1,633.0	$1,435.6	$1,766.5	$1,988.5	$153.5
Net Operating Income (EBITDA)[3/]	$411.0	$380.7	$578.1	$805.3	$583.3	$445.2
Less: CIP Replacement Reserve	214.5	225.0	225.0	225.0	225.0	108.1
Debt Service	264.8	264.8	264.8	264.8	264.8	264.8
Net Cash Flow	($68.3)	($109.1)	$88.3	$315.5	$93.5	$71.3
Variance From Current Hybrid Model, With City Maintenance	$40.8	---	$197.4	$424.6	$202.6	$180.4

* Represents current City Hybrid model with current terms. [1/] Assumes no Living Wage ordinance; [2/] Assumes Living Wage ordinance; [3/] Earnings before interest, taxes, depreciation, debt service and amortization.



SBGC Golf Trends
FY1982-2014
120,000
100,000
80,000
60,000
40,000
20,000
-
97,742
103,147
113,710
114,174
109,562
112,032
111,354
105,170
108,216
79,194
99,145
96,634
99,274
95,221
98,320
98,796
93,052
95,359
93,612
85,275
90,435
86,892
84,057
78,191
76,600
78,532
74,484
70,546
59,091
62,801
63,620
61,030
62,512
Recession 2008
Ocean Meadows Closes 2013
Glen Annie Opens 1997
Major Drought
Major Construction 2010
FY 1982
FY 1983
FY 1984
FY 1985
FY 1986
FY 1987
FY 1988
FY 1989
FY 1990
FY 1991
FY 1992
FY 1993
FY 1994
FY 1995
FY 1996
FY 1997
FY 1998
FY 1999
FY 2000
FY 2001
FY 2002
FY 2003
FY 2004
FY 2005
FY 2006
FY 2007
FY 2008
FY 2009
FY 2010
FY 2011
FY 2012
FY 2013
FY 2014
City of Santa Barbara • Parks and Recreation Department
1



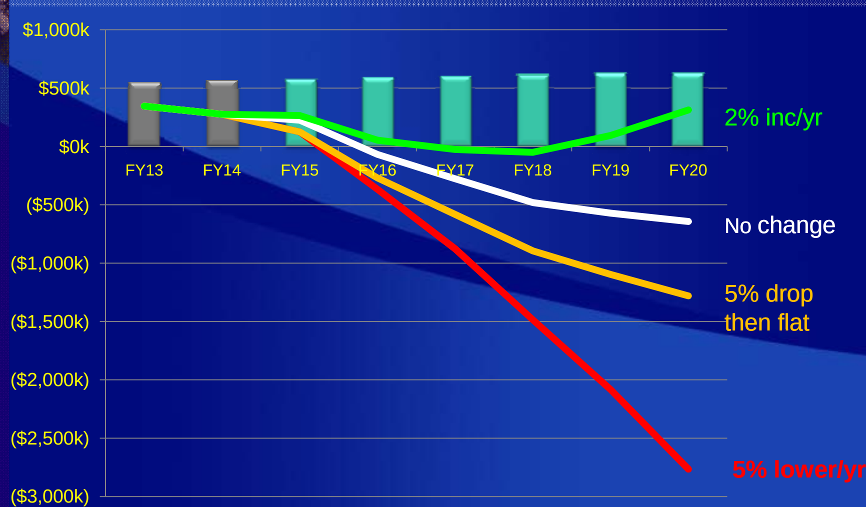
Golf Revenue and Expense
FY 2013-2020
Lines are Revenue
Bars are Expense
$3,000k
$2,500k
$2,000k
$1,500k
$1,000k
$500k
$0k
2% inc/yr
No change
5% drop then flat
5% lower/yr
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20
City of Santa Barbara • Parks and Recreation Department
2

Golf Fund Reserves

	Required	Actual
6/30/2012	$591,275	$435,408
6/30/2013	$599,353	$345,860
6/30/2014 est	$568,000	$276,000

- Below policy reserves since FY 2008

Golf Fund Reserve Balance FY2013 - 2020



Options for Municipal Golf Course

City Council

December 9, 2014

Overview

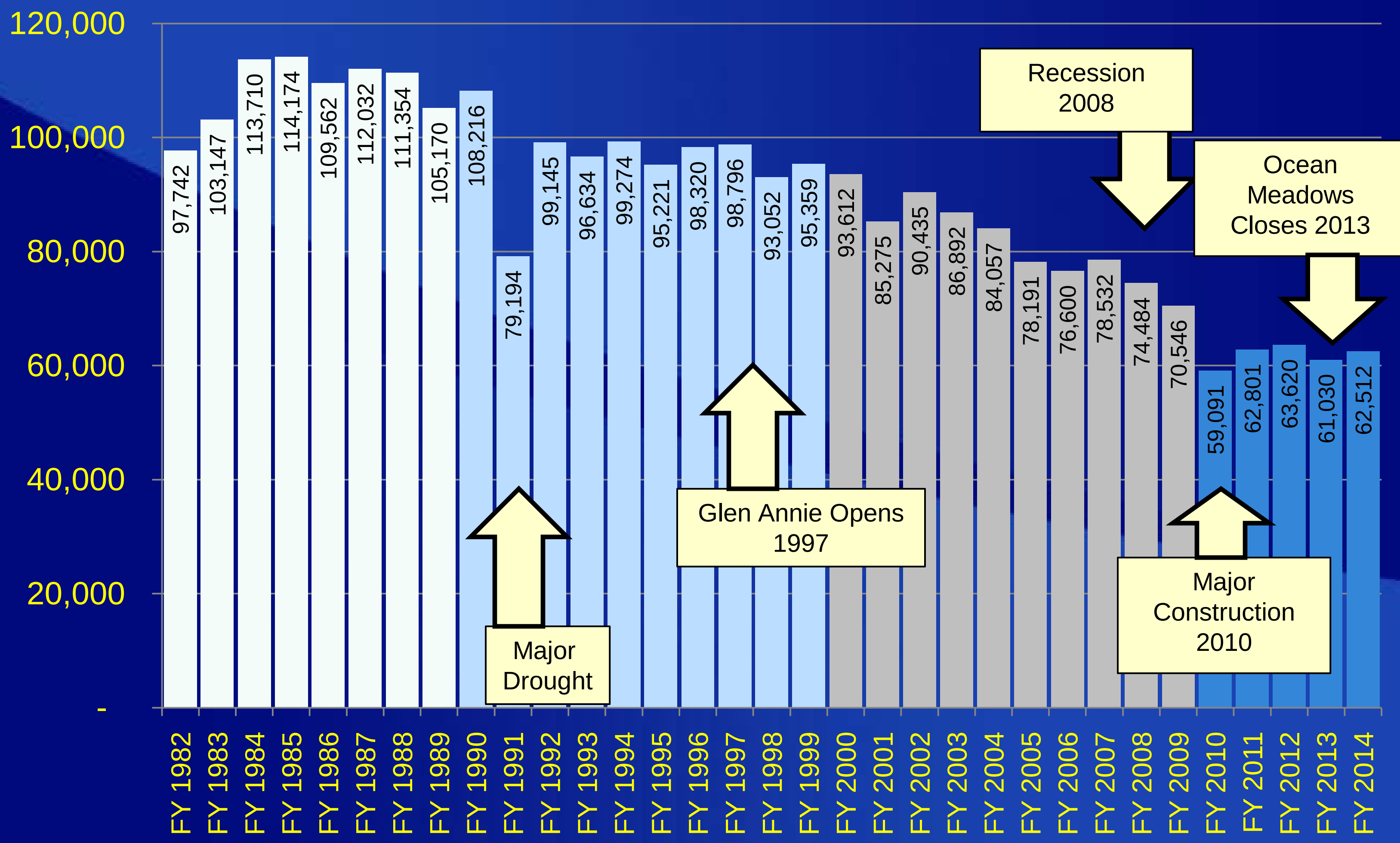
- History and Facts of SBGC
- Trends in Golf
- Understanding the Finances of SBGC
- How have Other Municipal Courses Responded?
- Options for Addressing Structural Imbalance and Projected Deficits
- Timeline and Next Steps

Santa Barbara Golf Club
HISTORY AND FACTS

Santa Barbara Golf Club

- Serving Santa Barbara since 1958
- Popular and valued recreation resource
- Known for being well-maintained and operated
- 62,500 rounds/year
  - ~ 6,000 golfers
  - ~ 1,000 golfers in organized clubs and groups
  - ~ 700 youth golf participants
  - 35% of play is seniors 65 and older
- Home to SBCC and other school teams
- Current operating model - Enterprise Fund, no General Fund or tax support

SBGC Golf Rounds FY1982-2014



How Does SBGC Compare?
2013 Annual Rounds

SBGC	**61,000**
Glen Annie	50,000
Sandpiper	38,000
Olivas Links	59,800
Buenaventura	65,900
River Ridge - Vineyard	37,000
River Ridge – Victoria Lakes	45,000
Soule Park	42,000
Los Robles	78,200

Golf Course Staffing

- 12.75 FTE Total
- Administration - .75 FTE
  - .20 Parks and Recreation Director
  - .50 P & R Business Analyst
  - .05 P & R Marketing Coordinator
- Golf Maintenance – 12.0 FTE
  - 11 permanent positions, 10.3 FTE
  - 4 hourly positions, 1.7 FTE

TRENDS IN GOLF

National & Regional Trends

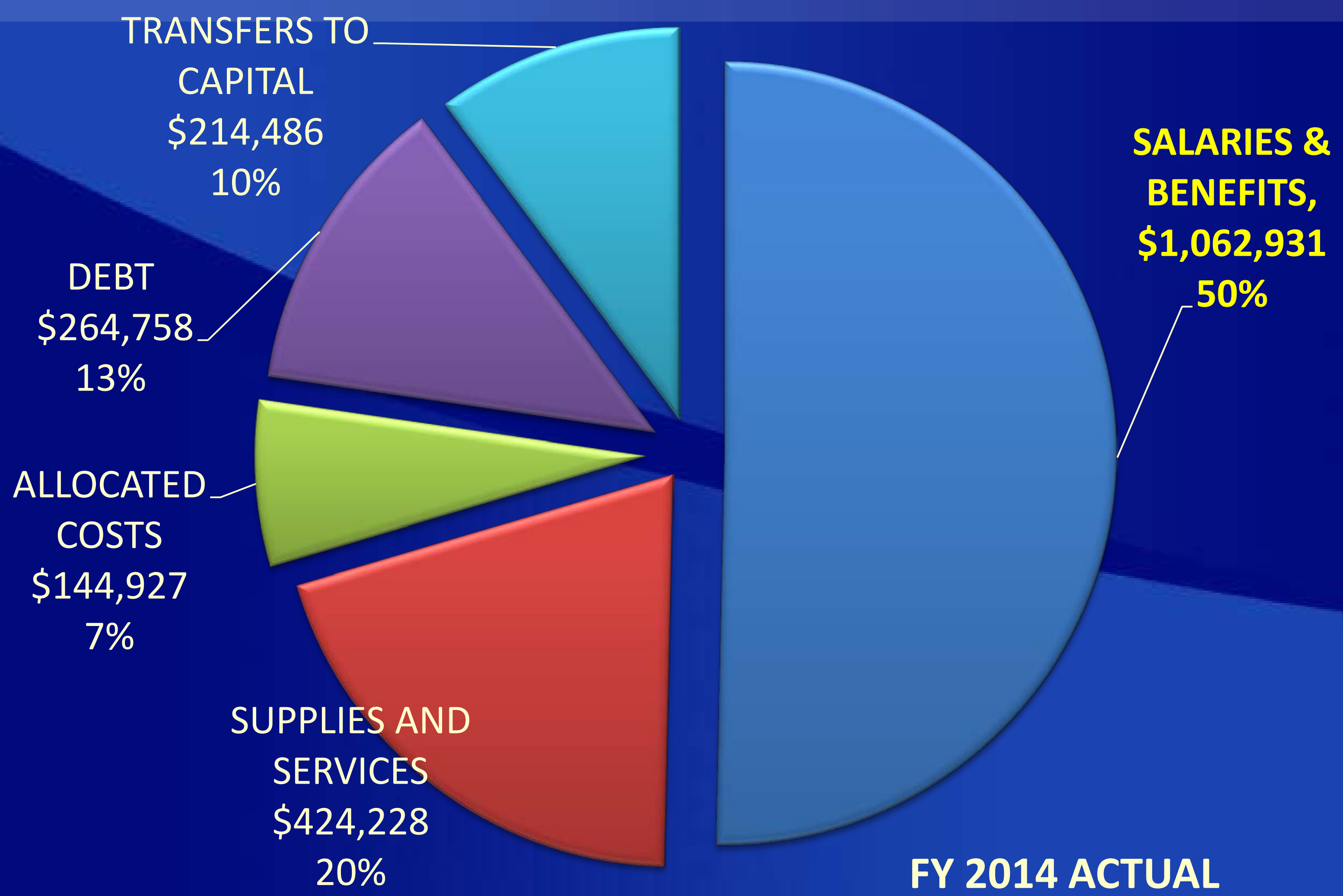
- Less interest in sport of golf, fewer new golfers
- Existing golfers playing less frequently
- Over expansion of golf course inventory
- Recession impacts, promotions, fee discounting, golfer resistance to increases
- Projections – flat to 1 - 2% growth

Trends Affecting Santa Barbara Golf Club

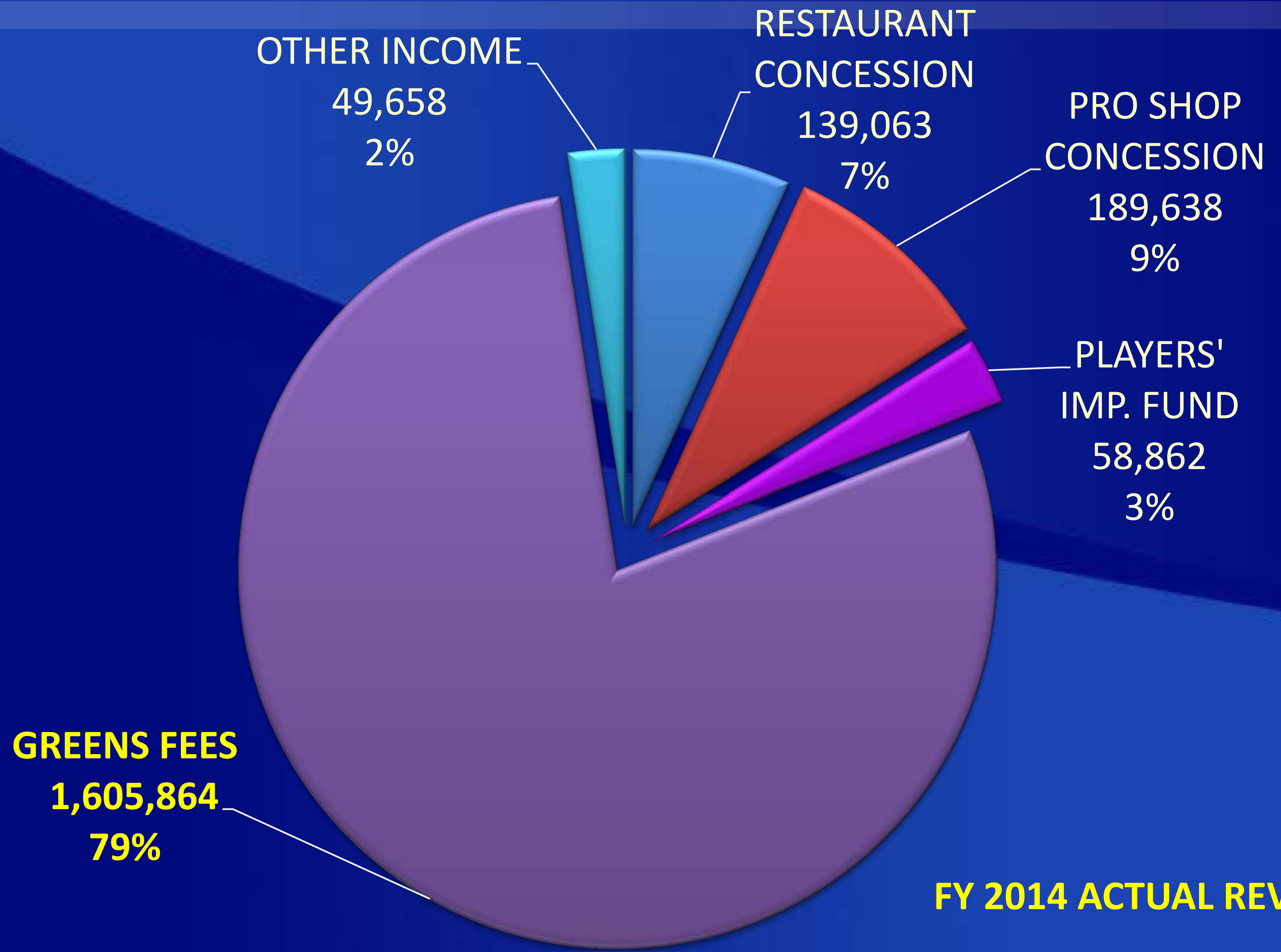
- Local market increasingly more competitive
- Higher end courses reducing their price point
- Renovated Ventura courses drawing SB golfers, fewer Ventura golfers traveling to SB
- 2010 - 2 major construction projects

UNDERSTANDING THE FINANCES OF SBGC

Golf Fund Expenses



Golf Fund Revenues



FY 2014 ACTUAL REVENUE

SBGC Response to Financial Challenges

- Strategic pricing, $1 to $3 fee increases most years
- Increased marketing and promotions
- Debt refinanced twice over last 5 years
- Staffing reduced 15%
- Deferred capital, equipment replacement and major maintenance
- Little elasticity in operating expenses w/o impacting course conditions

Golf Fund Reserves

	Required	Actual
6/30/2012	$591,275	$435,408
6/30/2013	$599,353	$345,860
6/30/2014	$568,000	$277,614

- Below policy reserves since FY 2008

10 YEAR OUTLOOK
Annual Cash Flow Projections

	4% decline	2% decline	Flat	1% growth	2% growth
2015	(185,002)	(146,252)	(107,501)	(88,126)	(68,751)
2016	(430,189)	(353,136)	(274,506)	(234,601)	(194,301)
2017	(446,281)	(330,343)	(209,599)	(147,394)	(83,952)
2018	(519,285)	(364,569)	(200,122)	(114,124)	(25,544)
2019	(579,076)	(385,782)	(176,096)	(64,789)	+51,003
2020	(644,822)	(413,231)	(156,823)	(18,666)	+126,486
2021	(701,222)	(431,692)	(127,129)	+39,440	+216,183
2022	(774,514)	(467,471)	(113,369)	+83,198	+293,847
2023	(682,501)	(338,436)	+66,543	+294,717	+541,671
2024	(759,040)	(378,497)	+78,649	+340,064	+625,811
2025	(858,455)	(442,032)	+68,527	+364,841	+691,959
2026	(960,730)	(509,070)	+56,103	+389,000	+760,159

Reserves Projection FY2014 - 2020

HOW HAVE OTHER MUNICIPALITIES RESPONDED?

2013 NGF Survey
Emerging Trends in Municipal Golf

- 260 municipal courses
  - 30% General Fund (GF)
  - 53% Enterprise Fund (EF), 1/3 have negative fund balance
  - 70% have deferred maintenance/capital
  - 50% have reduced staff
- Trends:
  1. Increased outsourcing of golf operations and/or maintenance to private sector
  2. “Forgiveness” of golf debt by GF
  3. Folding of golf operations into GF

Local Municipal Trends

- Ventura, Oxnard municipal courses
  - Operated by golf management companies with private maintenance
  - Well run, competitively priced
  - Heavy debt due to capital investment
  - GF support provided in recent years, FY 2013 example:
    - Ventura $.5M (11% of op. budget)
    - Oxnard $1.3M (27% of op. budget)

OPTIONS FOR ADDRESSING STRUCTURAL IMBALANCE AND PROJECTED DEFICIT

#1 Adjust Operating Budget

1. Increase revenue
   - Limited potential as higher fees likely to drive golfers to other courses
2. Reduce costs
   - Reduced maintenance affects quality and playability of course
   - Unfavorable course conditions likely to drive golfers to other courses
   - Deferred capital/eq. replacement not a long term solution

#2 Restructure Golf Debt

- Municipal Improvement COPs
  - Used to finance improvements to Golf Course facilities
  - Outstanding balance of $654,500
  - Annual payments of $180,000 through FY 2018
- General Fund Loan
  - Used to fund golf course capital improvements
  - Interest rate of 6%
  - Total loan of $500,000 (no repayments)
  - Interest payments ($22,000) only through FY 2018 - to coincide with retirement of COPs
  - Repayment of principal, plus interest, starting in FY 2019 totaling $185,000 through FY 2022

#2 Restructure Golf Debt

- **Fleet Fund Vehicle Loan**
  - Used to finance maintenance equipment replacement
  - Outstanding balance of $223,202
  - Annual payments of $60,000 through FY 2018

Total Golf Course Debt - $1,377,702

COPs	$654,500
GF	$500,000
Fleet Fund	$223,202

$262,000 thru FY 2018

$185,000 FY 2019 thru FY 2022

10 YEAR OUTLOOK

Annual Cash Flow Projections

Status Quo

	4% decline	2% decline	Flat	1% growth	2% growth
2015	(185,002)	(146,252)	(107,501)	(88,126)	(68,751)
2016	(430,189)	(353,136)	(274,506)	(234,601)	(194,301)
2017	(446,281)	(330,343)	(209,599)	(147,394)	(83,952)
2018	(519,285)	(364,569)	(200,122)	(114,124)	(25,544)
2019	(579,076)	(385,782)	(176,096)	(64,789)	+51,003
2020	(644,822)	(413,231)	(156,823)	(18,666)	+126,486
2021	(701,222)	(431,692)	(127,129)	+39,440	+216,183
2022	(774,514)	(467,471)	(113,369)	+83,198	+293,847
2023	(682,501)	(338,436)	+66,543	+294,717	+541,671
2024	(759,040)	(378,497)	+78,649	+340,064	+625,811
2025	(858,455)	(442,032)	+68,527	+364,841	+691,959
2026	(960,730)	(509,070)	+56,103	+389,000	+760,159

10 YEAR OUTLOOK
Annual Cash Flow Projections
(Refinanced Debt 20yrs @ 3%)

	Compared to FY14 Actual Play				
	4% decline	2% decline	Flat	1% growth	2% growth
2015	(12,710)	+26,040	+64,791	+84,166	+103,541
2016	(260,670)	(183,617)	(104,988)	(65,082)	(24,782)
2017	(284,994)	(169,056)	(48,312)	+13,892	+77,335
2018	(346,651)	(191,935)	(27,488)	+58,509	+147,090
2019	(486,032)	(292,738)	(83,052)	+28,255	+144,046
2020	(551,774)	(320,183)	(63,775)	+74,381	+219,533
2021	(608,174)	(338,644)	(34,081)	+132,487	+309,231
2022	(681,466)	(374,424)	(20,321)	+176,245	+386,895
2023	(775,105)	(431,039)	(26,060)	+202,114	+449,068
2024	(851,643)	(471,100)	(13,954)	+247,460	+533,207
2025	(951,058)	(534,635)	(24,076)	+272,238	+599,355
2026	(1,053,334)	(601,673)	(36,500)	+296,396	+667,556

10 YEAR OUTLOOK
Annual Cash Flow Projections
(Forgive All Debt)

	Compared to FY14 Actual Play				
	4% decline	2% decline	Flat	1% growth	2% growth
2015	+79,893	+118,644	+157,394	+176,769	+196,144
2016	(168,067)	(91,014)	(12,384)	+27,521	+67,821
2017	(192,391)	(76,453)	+44,291	+106,496	+169,938
2018	(254,048)	(99,332)	+65,115	+151,113	+239,693
2019	(473,429)	(280,135)	(70,449)	+40,858	+156,650
2020	(539,171)	(307,580)	(51,172)	+86,985	+232,137
2021	(595,571)	(326,041)	(21,478)	+145,091	+321,834
2022	(588,863)	(281,820)	+72,282	+268,849	+479,498
2023	(682,501)	(338,436)	+66,543	+294,717	+541,671
2024	(759,040)	(378,497)	+78,649	+340,064	+625,811
2025	(858,455)	(442,032)	+68,527	+364,841	+691,959
2026	(960,730)	(509,070)	+56,103	+389,000	+760,159

#3 Provide General Fund Support

- Move Golf program into General Fund, similar to other parks and recreation services, or

- Leave as Enterprise Fund, provide General Fund subsidy to offset annual budget shortfall.

Parks and Recreation General Fund Subsidy

	% Subsidy
Department GF Budget	63%
Admin Division	94%
Parks Division	75%
Recreation Division	45%

Higher subsidy for programs/services serving general community, target audiences (low income/youth/seniors)

Fees set to recover direct costs plus contribute to facility maintenance / operation

3 Program Comparison

	LOS BANOS	TENNIS	GOLF
Facilities	Pool, shower/ lockers, weight room	Courts (14 + 8), shower/lockers	18-hole course, driving range,
Programs	Org. programs, drop-in, supervised	Org. programs, drop in, partly supervised	Org. programs, drop-in, supervised
Audience	Youth to Seniors	Youth to Seniors	Youth to Seniors
Expense	$521,266	$297,302	$2.1 M
Revenue	$288,120	$96,559	$2.0 M
GF Subsidy	56%	68%	-
Participations	105,000	37,500	62,500

#4 Implement Alternate Operating Model

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	City	Concession	Concession	City 6%
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City 6%
Management Agreement	Private	Private	Private	Private 23%
Facility Lease	Private	Private	Private/ Concession	Private 57%
Full Self-Operation	City	City	City / Concession	City 2%

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	**City**	**Concession**	**Concession**	**City**
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City
Management Agreement	**Private**	**Private**	**Private**	**Private**
Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	City	City	City / Concession	City

Strengths / Weaknesses

SBGC HYBRID	
High level of City control City overhead support functions Strong participation in upside financial performance Opportunity to retain specialists in golf operations and food and beverage	Limits ability to adapt and respond to dynamic market High level of financial risk Higher public sector S & B Potential conflicts of multiple concessionaires Relatively high City monitoring requirements

Strengths / Weaknesses

MANAGEMENT AGREEMENT	
Strong financial return to City	Requires more City involvement than facility lease option
High level of City control	Minimizes private capital investment in facilities
Greater quality assurance	Entails greatest level of City financial risk
Professional golf mgmt	
Private sector wage and benefit structure	

Forecast Cash Flows
Assumes 1% Growth

Operating Model	FY2017	FY2018	FY2019
Status Quo	($147,394)	($114,124)	($64,789)
Mgmt Agmt	$428,294	$489,229	$566,556

Forecast Cash Flows
Assumes 2% Decline

Operating Model	FY2017	FY2018	FY2019
Status Quo	($330,343)	($364,569)	($385,782)
Mgmt Agmt	$275,524	$253,382	$244,695

TIMELINE AND NEXT STEPS

Decision-making Timeline

- Existing concession contracts end June 2016
- 12 month process for RFP, contract negotiation, and transition
- Need final Council direction by May/June 2015

Discussions to Date

- Golf Advisory Committee
  - Regularly updated on financials
  - Report on Options, for information only – Nov 12
- Parks and Recreation Commission
  - Report on Options, for information only – Nov 19
- Finance Committee
  - October 7, November 18

Finance Committee 11/18/14 Recommendation

- Golf course important community recreation resource
- Need for more information, public outreach and broad input before any decision is made
- City must retain substantial control (fees, service)
- Concern for additional demand on General Fund

- Recommendation: That the path that is taken for the Golf Course be a self-sustaining one over the long-term; and that the most likely place to look for savings is in a maintenance contract. (2/1)

Council Direction to Staff

1. Continue operating the golf course in a model which includes outsourcing maintenance, or

2. Address the policy issue and consideration of General Fund support through the budget process with a decision reached by June 2015.

QUESTIONS?

EXTRA SLIDES

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	**City**	**Concession**	**Concession**	**City**
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City
Management Agreement	Private	Private	Private	Private
Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	City	City	City / Concession	City

Strengths / Weaknesses

SBGC HYBRID	
High level of City control	**Limits ability to adapt and respond to dynamic market**
City overhead support functions	**High level of financial risk**
Strong participation in upside financial performance	**Higher public sector S & B**
Opportunity to retain specialists in golf operations and food and beverage	**Potential conflicts of multiple concessionaires**
6% of Municipal Courses	Relatively high City monitoring requirements

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	City	Concession	Concession	City
Hybrid w/contract maintenance	**Private**	**Private / Concession**	**Concession**	**City**
Management Agreement	Private	Private	Private	Private
Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	City	City	City / Concession	City

Strengths / Weaknesses

MODIFIED HYBRID (w/contract maint.)	
High level of City control	**Limited ability to adapt and respond to dynamic market**
Strong participation in upside financial performance	Entails high level of financial risk
Lower private sector maintenance payroll/benefits	**Potential conflicts of multiple Concessionaires**
Specialists in golf operations and food and beverage	Relatively high City monitoring requirements

6% of Municipal Courses

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	City	Concession	Concession	City
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City
Management Agreement	**Private**	**Private**	**Private**	**Private**
Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	City	City	City / Concession	City

Strengths / Weaknesses

MANAGEMENT AGREEMENT	
Strong financial return to City	Requires more City involvement than facility lease option
High level of City control	Minimizes private capital investment in facilities
Greater quality assurance	Entails greatest level of City financial risk
Professional golf mgmt	
Private sector wage and benefit structure	**23% of Municipal Courses**

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	City	Concession	Concession	City
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City
Management Agreement	Private	Private	Private	Private
Facility Lease	**Private**	**Private**	**Private/ Concession**	**Private**
Full Self-Operation	City	City	City / Concession	City

Strengths / Weaknesses

FACILITY LEASE	
Guaranteed min. rent payment	**Minimum operational and quality control**
Less City involvement with setting fees, policies, etc.	Potential conflicts over capital reinvestment responsibilities
Golf mgmt expertise and specialized maintenance services	Minimizes financial upside, particular in current market
Private capital investment in facilities	Long-term contract

57% of Municipal Courses

Operating Models

Model	Course Maintenance	Golf Operations	Food & Beverage	Management
SBGC Hybrid	City	Concession	Concession	City
Hybrid w/contract maintenance	Private	Private / Concession	Concession	City
Management Agreement	Private	Private	Private	Private
Facility Lease	Private	Private	Private/ Concession	Private
Full Self-Operation	**City**	**City**	**City / Concession**	**City**

Economics Summary

(2014 Dollars)	**Annual Cash Flow**	**Vs. Current Model**
SBGC Hybrid (Current Model)	($109,100)	0
Mgmt. Agreement	+ $315,500	+ $424,600
Hybrid with Contract Maintenance (with Living Wage)	+ $88,300	+ $197,400
Facility Lease	+ $71,300	+ $180,400