Agenda Item No. 9

File Code No. 570.02

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: March 10, 2015

TO: Mayor and Councilmembers

FROM: Golf Division, Parks and Recreation Department

SUBJECT: Golf Course Financial Sustainability Proposal

RECOMMENDATION: That Council:

A. Approve a proposal for the General Fund to refinance $1,169,651 of Golf Fund debt at three percent interest over a 20-year term;
B. Confirm prior Council direction to continue with the same golf course operating model using City employee maintenance; and
C. Direct staff to enhance golf marketing efforts and proceed with securing pro shop and restaurant concession agreements which would be in effect July 1, 2016.

EXECUTIVE SUMMARY:

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

On January 27, 2015, staff presented a report to the Finance Committee on the Golf Course Fund's Fiscal Year 2015 performance at mid-year, plans to increase spending to improve golf course marketing, and limited opportunities for additional reductions in maintenance expenses in the current operating model without negatively impacting course conditions and play. Staff also presented a proposal for the General Fund to refinance $1,169,651 of Golf Fund debt at three percent interest over a 20-year term. In a 2/1 vote, the Finance Committee recommended that City Council approve the proposed debt refinancing plan, support the increased funding for marketing, continue to monitor how the Golf Fund is doing and, as needed in the future, reconsider the issue of contract maintenance.

DISCUSSION:

Updated Financial Projections

By the end of February 2015, eight months into Fiscal Year 2015, Greens Fee revenue was 4.4% down from Fiscal Year 2014. Staff projects total revenues will end the year 2.4% lower than Fiscal Year 2014 and $96,005 below budget. Staff does not anticipate expenditure savings will be able to offset the full amount of the revenue shortfall, thus reserves are projected to decrease by $63,855.

Golf Fund Reserves Improvement of $98,387 due to Prior Year Re-statement

As part of closing the Fiscal Year 2014 books, Finance staff created a new fund to account for outstanding liabilities for “other post employment benefits (OPEBs), such as retiree medical payments and sick leave. Previously, the liabilities were accounted for in the individual funds, including the Golf Fund. With the shift of the liability from individual funds to a new OPEB internal service fund, the Golf Fund’s reserves were increased by a corresponding amount. The Golf Fund’s share of the OPEB liability transferred as of June 30, 2014 is $98,387, meaning a closing reserve balance at June 30, 2014 of $376,001.

The projected use of reserves of $63,855 by year-end will leave a balance of $312,146, approximately 50% of required reserves.

Golf Course Debt

As of June 2014, outstanding Golf Course debt totaled $1,377,702 and included the following:

1. Municipal Improvement Certificates of Participation (COP) used to finance the Clubhouse renovation, with an outstanding balance of $654,500 and an annual payment of $180,000 through Fiscal Year 2018.

2. General Fund loan for Golf Course capital improvements, with an outstanding balance of $500,000, borrowed at a 6% interest rate. Interest payments only ($22,000) through Fiscal Year 2018, to coincide with retirement of COPs. Repayment of principal and interest ($185,000) starts in Fiscal Year 2019 and runs through Fiscal Year 2022.

3. Fleet Fund vehicle loan for turf equipment replacement, with an outstanding balance of $223,202 and annual principal and interest payments of $60,000 through Fiscal Year 2018.

In Fiscal Year 2015, debt service payments totaling $266,135 ($208,051 principal) on this debt will occur according to the current repayment schedule. This will leave a balance of $1,169,651.49 to refinance with the Fiscal Year 2016 budget. The Golf Fund annual debt service obligation is $262,000 through Fiscal Year 2018, and $185,000 from Fiscal Year 2019 through Fiscal Year 2022.

Refinancing Proposal

Staff worked with Finance Department staff on a proposal to consolidate the three existing loans into one General Fund loan of $1,169,651.49 with an interest rate of 3% over a 20-year term. This proposal would reduce the Golf Fund's annual debt service payment to $78,619 from $183,381 through Fiscal Year 2018, and from $106,381 through Fiscal Year 2022. The 20-year obligation of $78,619 extends until Fiscal Year 2036.

The following table reflects how the refinanced debt changes the projected reserve balance based on a range of round volume scenarios. Three potential outcomes have been modeled through Fiscal Year 2021: (1) play decreases 3%, (2) play stays flat, and (3) play grows by 1%. Assumptions include a $1 fee increase per year, no changes to the current operating model, no further drought impacts, and a fully funded capital program.

Note that the projections in this table have been updated from earlier versions to include: updated financial projections, proposed Fiscal Year 2016 budget, and restatement of reserves. Note that the proposed Fiscal Year 2016 budget reflects a 3% increase in rounds resulting from increased marketing spending – See Golf Course Marketing discussion below.

Projected Reserve Balance with Refinancing of Debt

	-3% decline	**Flat**	**1% growth**
FY15 (projected)	$ 312,146	$ 312,146	$ 312,146
FY16 (proposed)	225,245	277,831	295,367
FY17	69,690	237,420	294,051
FY18	(156,203)	189,097	307,210
FY19	(529,213)	55,932	258,747
FY20	(974,183)	(87,087)	224,493
FY21	(1,474,944)	(223,981)	221,287

While refinancing provides some budgetary relief by reducing the debt payments in the first seven years, it does not provide sufficient relief to restore Golf Fund reserves to policy levels unless growth in play exceeds 1% a year from Fiscal Year 2016. If rounds were to decline 3% or more per year, the General Fund subsidy would likely exceed $150,000 in Fiscal Year 2018, and could increase upwards of $1.5 million by Fiscal Year 2021.

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

Golf Course Marketing

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

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

There are two substantial marketing efforts underway which are expected to benefit the golf course as early as this spring. A Strategic Marking Plan has been developed by a national golf marketing firm and will drive marketing investment and provide direction going forward.

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

The Fiscal Year 2016 budget has been prepared on the expectation that the increase in marketing spending will be recovered by a 3.1% increase in rounds played at the course. This equates to 1,784 more rounds at average revenue setting the target of 60,048 paid rounds. This is by no means guaranteed, but staff anticipates that many of the marketing tactics will yield results in the first year.

Golf Course Maintenance

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

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

Currently the golf course maintenance staffing includes 11 full-time or permanent part-time employees (10.3 FTE), four hourly employees (1.7 FTE) and occasional youth apprentices who are paid through the City's youth employment program.

One planned maintenance staff reduction is being proposed with the Fiscal Year 2016 budget, which would reduce the number of permanent staff from 11 to ten people and reduce FTE from 10.3 to 9.8. Several years ago in response to declining revenues, the Golf Division proposed the layoff of a Grounds Maintenance Worker (GMW) I. The layoff was avoided by splitting the position 50 percent time between the Parks and Golf divisions. To improve supervision and management, the position is proposed to move to the Parks Division full-time with additional expense covered by a reduction in Parks hourly salaries. The Golf Division will have increased hourly staffing to compensate for the loss of the position with net salary and benefit expense savings.

Beyond this change, staff sees limited opportunities to convert additional full-time positions to hourly. Hourly staff is limited to 1,000 hours per year, meaning employees can work 20 hours a week over 12 months or full-time for six months. This typically leads to high staff turnover and increased workload associated with recruiting, hiring, and training staff. With a small workforce, the skilled nature of the work, and a seven day a week operation, these challenges are exacerbated at the golf course. However, replacing staff vacancies with hourly staffing will continue to be evaluated on a case by case basis.

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

SUMMARY

After eight months of Fiscal Year 2015, Greens Fee revenue is tracking 4.4% below the previous year, and the Golf Fund is expected to draw $63,855 from reserves by the end of Fiscal Year 2015, leaving Golf reserves at approximately $312,146. This would reduce reserves to just 50% of policy. By year-end, rounds are projected to be 1.7% lower than last year.

Refinancing the debt improves short-term cash flow by $183,381- $106,381 through Fiscal Year 2022, but extends the debt payment of $78,619 for another 14 years. Even with 1% growth year over year, refinancing leaves the Golf Fund below policy reserves by approximately 65%. Alternatively, if rounds were to decline 3% or more per year, the General Fund subsidy would likely exceed $150,000 in Fiscal Year 2018, and could increase upwards of $1.5 million dollars by Fiscal Year 2021.

Increased funding for marketing is expected to have at least a correlating increase in golf revenues in the short-term and provide the platform for stronger rounds and revenue in Fiscal Year 2016 and 2017. Increased rounds and revenue of 3% will brighten the financial outlook, but the growth required to reach policy reserves is not to be underestimated. In Fiscal Year 2014, the Golf Fund increased revenues from greens fees over 10% but still needed to use almost $70,000 in reserves given cost pressures.

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

Golf Maintenance Opportunities Related to Concession Agreements

The existing pro shop and restaurant concession agreements will terminate in June 2016. A decision on any changes to the golf course operating model is needed by June 2015 to allow sufficient time for the Request for Proposal (RFP) process, contract negotiations, and any operator transitions. Council has expressed a preference for retaining the current operating model with in-house maintenance. Keeping the current City employee maintenance operation comes with the following implications:

- By June 2016, eight of the 11 permanent staff will have either retired or be eligible for retirement. This provides a unique window of opportunity to reduce the impact of absorbing golf employees into other City operations if needed. That opportunity diminishes as critical vacancies are replaced with new permanent staff.
- The opportunity to consolidate maintenance, pro shop, and restaurant functions under one operator with a management agreement is most likely delayed for at least five years. New concession agreements will commit the City to a minimum of five years (Fiscal Year 2021) without incurring costly compensation for early termination.

Finance Committee Recommendation

At their January 27, 2015 meeting, the Finance Committee recommended by a 2/1 vote that City Council support the new marketing efforts and the proposal to refinance the debt; and, further recommended that, depending on golf course performance over the next year, Council revisit the issue of contracting out maintenance as needed. Committee member Hart voted against the motion saying he could not support reconsideration of contract maintenance.

PREPARED BY: Mark D. Sewell, Parks and Recreation Business Analyst

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

APPROVED BY: City Administrator's Office

Parks & Recreation

Enriching People's Lives

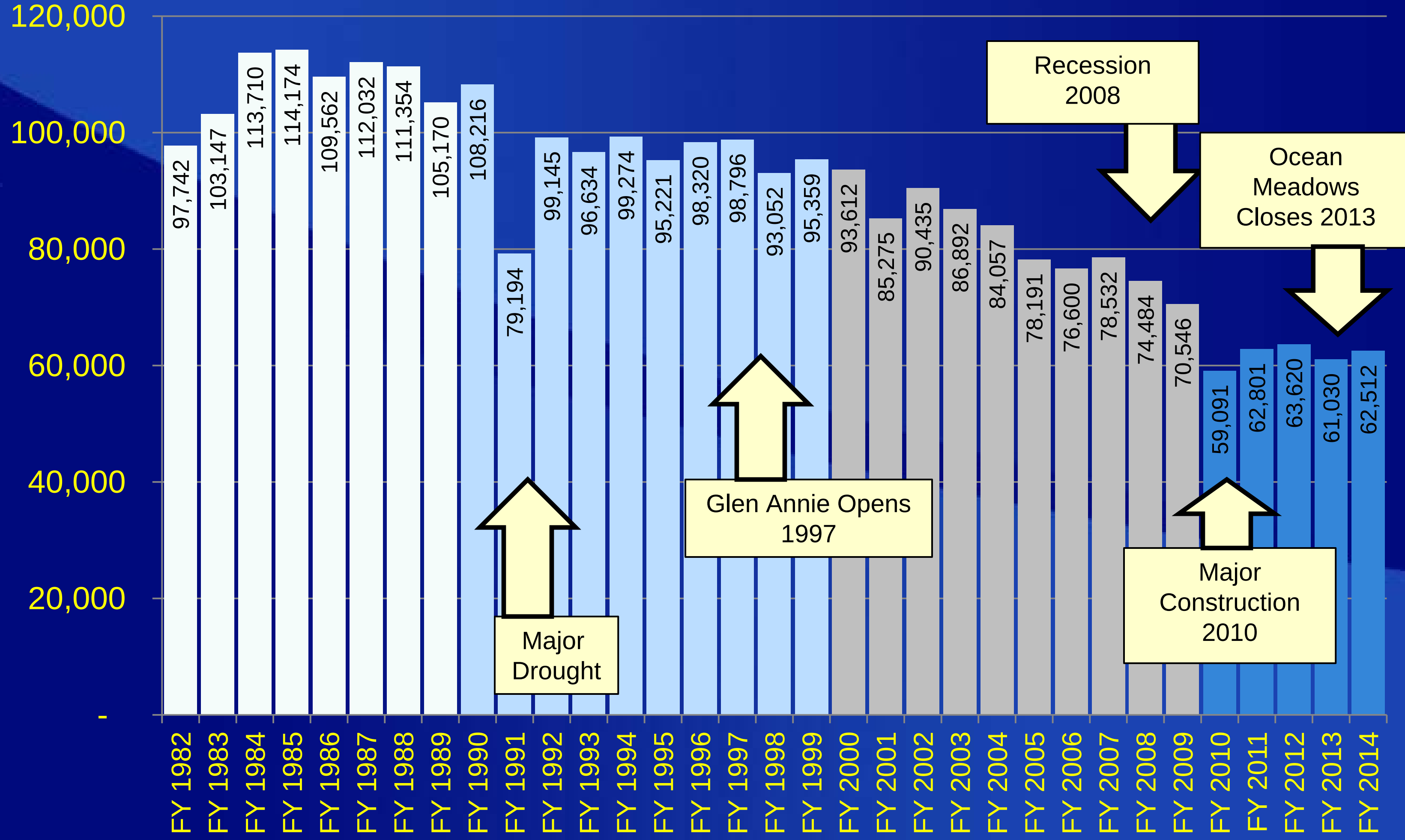
Golf Course
Financial Sustainability Proposal

City Council, March 10, 2015

Golf Course Financial Challenges

- Gradual decline in play since 1990
  - National trend - less interest, overexpansion
  - Still one of the busiest local courses with 60K+ rounds
- Enterprise operation, increasing fiscal challenges
  - Expenses outpacing revenues
  - Fee levels restricted by competitive local market
  - Reserves below policy since 2008, could be depleted within 1-2 years

SBGC Golf Rounds
FY 1982 - 2014



Discussion to Date

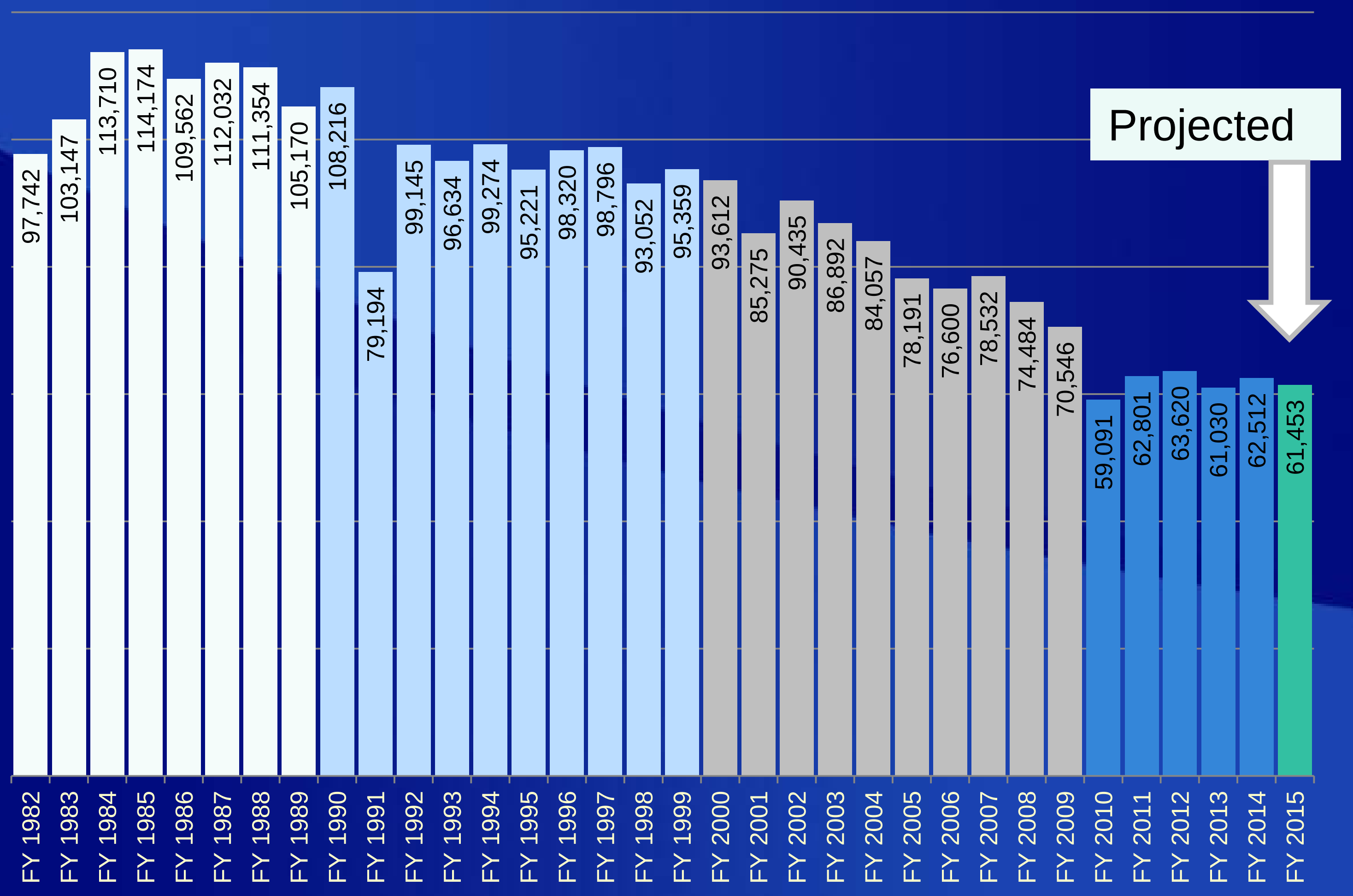
- Annual Budget presentations
- Monthly GAC meetings
- October 7, 2014 – Finance Committee
- November 18, 2014 – Finance Committee
- November 19, 2014 – P & R Commission
- December 9, 2014 - City Council
- January 27, 2015 - Finance Committee
- March 10, 2015 – City Council

Follow Up from Dec 9 City Council Meeting

- Staff to return to Finance Committee with:
  - Options to refinance Golf Course debt
  - Opportunities to improve Golf marketing
  - Opportunities for further savings in Golf maintenance with current model
- Finance Committee – January 27, 2015
  - Updated financial projections, information
  - 2/1 Recommendation that City Council support debt refinancing, enhanced marketing, continue to monitor performance, and revisit contract maintenance as needed

FY 2015 Performance and Long Term Projections

SBGC Golf Rounds
FY 1982 - 2014



Rounds and Revenue
8 months and YE Projection

- **YTD 8 Months — v FY14**
  - Greens Fees — - 4.4%
  - Total Revenue — - 7.8%
  - Total Rounds — - 6.1%

- **Year End Projection — v FY14**
  - Greens Fees — + 0.5%
  - Total Revenue — - 2.4%
  - Total Rounds — - 1.7%

Projected Reserve Balance
Status Quo

Round Growth	-3%	Flat	1% growth
FY15	$ 312,146	$ 312,146	$ 312,146
FY16	41,742	94,326	111,863
FY17	(299,085)	(131,356)	(74,724)
FY18	(711,595)	(366,296)	(248,182)
FY19	(1,191,637)	(606,493)	(403,678)
FY20	(1,743,639)	(856,544)	(544,963)
FY21	(2,351,431)	(1,100,470)	(655,200)

Opportunities to Enhance Golf Course Marketing

SBGC Marketing

- Print, radio, TV, internet, email blasts, social media, local offers
  - Input from staff, concessionaires, GAC
  - More dynamic in recent years
- Industry standard is 3% of Greens Fee revenue
  - SBGC 10-year avg ~1%
  - SBGC 3% = $50,000 / year
- Plan to enhance marketing
  - FY 2015 increased to $26,780
  - Propose $50K with FY2016 budget
- Expect revenue to recover cost <u>at minimum</u>
  - FY 2016 budget will reflect 3% increase in rounds

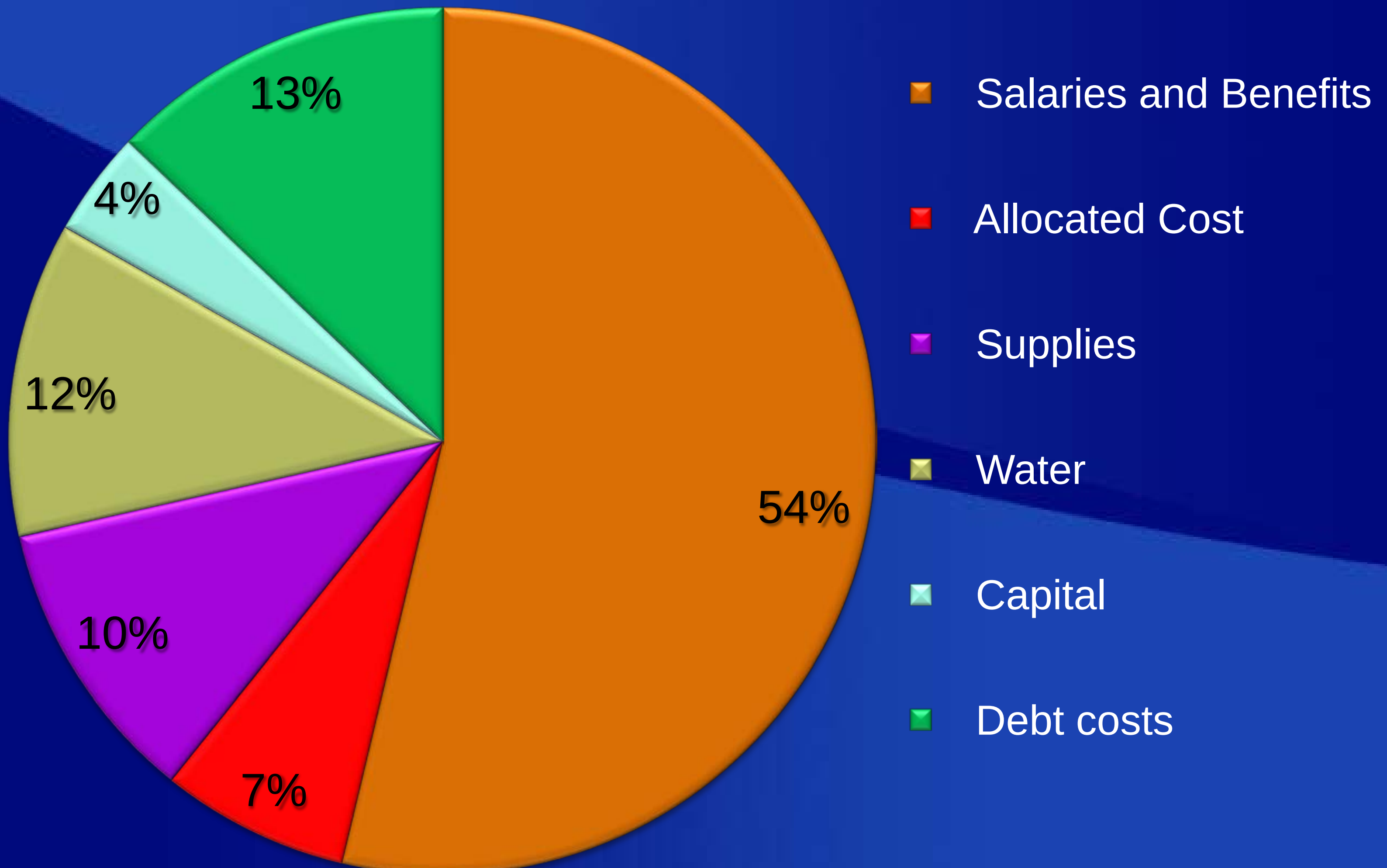
Enhanced Marketing Efforts

- Strategic Marketing Plan being developed by golf marketing firm
  - Will drive marketing investment/direction
  - Expanded marketing program FY 2016
- New POS and booking software system
  - Implementation March 2015
  - Customer friendly, easy to use, marketing capabilities, improved website and booking services, enhanced customer database
  - Dedicated overflow and out of hours call center
  - Will provide analytical data to drive marketing

Opportunities for Additional Savings in Current Maintenance Model

Golf Course Expenses

FY2015 Amended Budget



Maintenance Staffing

- Small workforce - 7 day a week operation
- Reductions over last 6 years (perm/hourly)
- 11 full-time or permanent part-time positions (10.3 FTE)
- 4 + Hourly staff (1.7 FTE)
- Youth apprentice staff
- One reduction planned for FY 2016
  - GMW I split 50/50 Parks and Golf moving 100% to Parks; Golf to backfill with hourly, net savings
  - 9.8 FTE Permanent, 2.2 FTE Hourly

Limited Oppty for Savings

- Limited opportunity to convert additional permanent positions to hourly
  - 1000 hour limit, high staff turnover
  - Increased workload re: recruitment and training
  - Will evaluate case by case
- Contracted services include some trades, tree work. Limited opportunity for more.
- Limited opportunity for additional reductions without negative impact to course conditions.

Debt Refinancing Proposal

Golf Course Debt - $1,169,651

- Municipal Improvement Certificates of Participation (COP) - $499,800 balance
  - Clubhouse Renovation
  - $180,000 Annual payments through FY 2018
- General Fund Loan - $500,000 balance
  - Golf Course Master Plan Safety Improvements @ 6% interest
  - $22,000 Interest only payments through FY 2018; $185,000 Principal plus interest payments FY 2019 – 22
- Fleet Fund Vehicle Loan - $169,851 balance
  - Maintenance equipment replacement
  - $60,000 Annual payments through FY 2018

Debt Refinancing Proposal

General Fund Consolidating Loan

$1,169,651 @ 3% interest over 20 year term

GOLF COURSE DEBT SERVICE			
	FY 2016-2018	FY 2019-2022	FY 2020-2036
Current	$262,000	$185,000	0
Refinance Proposal	$78,619	$78,619	$78,619

- General Fund assumes COP payment of $180,000, FY 2016, FY 2017 and FY 2018

Projected Reserve Balance with Refinancing

Round Growth	-3%	Flat	1% growth
FY15	$ 312,146	$ 312,146	$ 312,146
FY16 Proposed	225,245	277,830	295,366
FY17 Proposed	69,689	237,419	294,050
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Projected Reserve Balance Status Quo

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SUMMARY

Recap

- Rounds and revenue down v FY14 at 8 mo.
  - -6.1% rounds, -4.4% Greens Fee Rev
  - Ant. $63,855 use of reserves
- Enhanced marketing should improve rounds and revenue
- Limited opportunities for additional maintenance savings in current model
- Golf Reserves benefit from one-time re-statement of $98K, but projected at 50% of policy by year end

Recap (cont.)

- Refinancing debt improves but may not resolve long term outlook
  - 1% growth: Essentially balanced, but still leaves reserves 50% below policy
  - GF COP payment $180K FY 2016-2018
- Golf trend unknown (interest, competition, drought)
- If financial picture doesn't improve, GF exposure is $40k - $.5m per year

Golf Maintenance Related to Concession Agreements

- Concession agreements end June 2016
- New contracts commit City through 2021
  - Opportunity to consolidate 3 functions under 1 operator delayed 5 years
- Maintenance contracting could be revisited in 1-3 years, but reduced opportunity to capitalize on pending retirements
  - 8 of 11 permanent staff will have either retired or be eligible for retirement by June 2016
  - Potential cost impact w/ moving Golf staff into other City departments

Finance Committee

- In a 2/1 vote at their January 27, 2015 meeting, the Finance Committee recommended that Council:
  - Support the new marketing efforts
  - Support the Debt Refinance proposal
  - Monitor golf course performance and revisit contracting out maintenance as needed

Recommendations

That Council:

1. Approve a proposal for the General Fund to refinance $1,169,651 of Golf Fund debt at 3% interest over 20 years;
2. Confirm prior Council direction to continue with the same golf course operating model using City employee maintenance; and
3. Direct staff to enhance marketing efforts and proceed with securing pro shop and restaurant concession agreements which would be in effect July 1, 2016.

QUESTIONS?