



CITY OF SANTA BARBARA
PARKS AND RECREATION COMMISSION REPORT

AGENDA DATE: November 19, 2014
TO: Parks and Recreation Commission
FROM: Administration Division, Department
SUBJECT: Status Report on the Municipal Golf Course

RECOMMENDATION: That the Commission receive a report from staff 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.

EXECUTIVE SUMMARY:

The City's municipal golf course, Santa Barbara Golf Club (SBGC) 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. 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. With play declining since 1990, SBGC has experienced increasing fiscal challenges and the Golf Fund could deplete all of its reserves as early as Fiscal Year 2016.

There are a number of options the City might consider to address the potential structural deficit: shift the golf course to the General Fund; provide some level of subsidy to the Golf Course while still maintaining it as a separate enterprise fund; or change how the golf course is operated, i.e., facility lease, management agreement, and/or contract maintenance. Preliminary information on various options is presented to initiate the discussion. City Council direction will be needed prior to June 2015, to insure adequate time for new contractual relationships to be in place by June 2016, when the two existing concessionaire agreements expire.

Staff initiated a discussion on the golf course with the City Council Finance Committee on October 7, 2014, and is scheduled to return with the information in this report on November 18. The Golf Advisory Committee has been regularly informed on golf course fiscal matters, and received a copy of this report at their November 12 meeting. Staff is tentatively scheduled to take this item to City Council on December 9, 2014.

DISCUSSION:

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 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 decrease expenses, restructure debt, and increase play. The golf course has limited ability to further reduce expenses without negatively affecting course conditions, which would have a reciprocal effect on play. Similarly, fee increases intended to generate additional revenue will have the opposite effect, as the local golf market offers golfers many choices today with competitive pricing. 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. If current trends continue, the Golf Fund could deplete all of its reserves as early as Fiscal Year 2016.

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. 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.

Potential Deficit Projections

The following table shows how the projected deficit may change over ten years based on whether rounds decline, stay flat, or experience moderate growth.

Year	Projected Golf Fund Deficit Compared to Fiscal Year 14 Actual Play				
	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

Assumptions:

- 59,197 paid rounds in Fiscal Year 14
- Costs are the same for all round volumes due to fixed nature (incl. Finance Dept. assumptions for salary/benefit increases).
- \$1 fee increase applied every year
- Capital Projects fully funded
- No change to current operational structure or concession terms
- Golf course debt obligations conclude 2023

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.

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 while still maintaining it as a separate enterprise fund; or change how the golf course is operated, i.e., facility lease, management agreement, and/or contract maintenance. The discussion can be initiated with the first of two questions:

1. Should a portion of annual golf course operation be subsidized by the General Fund to solve the structural deficit; or,
2. Should an alternate golf course operating model be implemented to resolve the structural deficit? If so, which one?

General Fund Support of Parks and Recreation Programs and Services

At the October 7, 2014, Finance Committee meeting, staff was asked to provide information on the Department's General Fund programs. 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 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., the 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

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, including the current model used by the City of Santa Barbara. They are described below and include:

- A. Golf Facility Lease
- B. Management Agreement
- C. Hybrid – current model in Santa Barbara
- D. Modified Hybrid – alternate model with contract maintenance

E. Full Self-Operation

- A. 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, food and beverage, and overall facility management. 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 per cent 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.
- B. The **Management Agreement** model 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 (pro shop, maintenance, food and beverage). Management compensation typically consists of a base fee, plus performance incentives.
- C. 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.
- D. 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.
- E. 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.

Preliminary information shows that Options A, B, and D could provide a net income to the City from the golf course if implemented. 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 derives from whether golf course maintenance is provided by a City employee workforce or a private entity. (Currently, there are 11 permanent City employees performing golf course maintenance assisted by four hourly employees for a total of 12.75 FTE.)

Conclusion

Staff initiated a discussion on the golf course with the City Council Finance Committee on October 7, 2014, and is scheduled to return with the information in this report on November 18. The Golf Advisory Committee has been regularly informed on golf course fiscal matters, and received a copy of this report at their November 12 meeting. Staff is tentatively scheduled to take this item to City Council on December 9, 2014.

The existing golf course concession agreements will terminate in June 2016. 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. The RFQ/RFP process combined with contract negotiation and transition between operators is estimated to take 12 months.

Any significant change to how the golf course operates will likely involve a number of public meetings with the City Council, Finance Committee, Parks and Recreation Commission, and Golf Advisory Committee.

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.

- ATTACHMENT:**
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