

**COUNTY OF SACRAMENTO
CALIFORNIA**

For the Agenda of:
September 15, 2005
9:30 a.m.

TO: Board of Supervisors

FROM: Department of Regional Parks, Recreation and Open Space

SUBJECT: Report Back - County Golf Fund

Contact: Jill K. Ritzman, Deputy Director, 876-5134

Overview

The 2005 County Golf Fund Report provides: 1) Financial Review of the Golf Fund Fiscal Years 2000/01 to 2004/05; 2) Financial projections to Fiscal Year 2009/10; 3) Evaluation of alternative methods of golf course funding; 4) Recommendations from Course Affairs Committees and the Recreation and Park Commission.

Recommendation

1. Receive and File the 2005 County Golf Fund Report.
2. Approve the Alternative Funding Method #1 - Fee Management Agreement to fund the County Golf Program.
3. Direct staff to implement the Alternative over the next 3 year period.

Measures/Evaluations

One of the measures of the Golf Fund is to be self-sufficient. Under the present method of operation, it is becoming more difficult to maintain good course conditions on the County's aging golf courses without investments in necessary deferred major maintenance projects and fixed assets. Parks has performed an evaluation of alternatives to achieve a balanced budget, to maintain good course conditions, to maintain good customer service levels, and to provide sound investments into golf course facilities and equipment.

Fiscal Impact

If the County golf courses continue to be funded in the same manner, the Golf Fund for the first time will be operating with a \$20,470 deficit by Fiscal Year 2008/09 and will have a deficit of \$342,059 the following year, Fiscal Year 2009/10. Revenues have not met annual costs for maintenance and operations. Approval of an alternative funding method is necessary.

BACKGROUND

The following actions have taken place in the past ten years regarding the County's Golf Program:

- § In 1996, staff recommended "Contracting for Management Services at Cherry Island Golf Course;" the Board did not approve staff's recommendation on a 3-2 vote.
- § In 1997, the Board of Supervisors directed that the Golf Program become self-sufficient. A "special revenue fund" was created to ensure that all golf related expenditures and revenues remain in the Golf Fund and that golf programs not impact the General Fund.
- § In 1998, a new Golf Division was established in the Parks Department to manage this Fund. The purpose of the new Golf Division was to ensure that the Golf Fund remain self-sufficient through improved customer service and course conditioning.
- § In February 2002, a Golf Fund Workshop was held at the Board of Supervisors to address a fiscal year projected \$339,417 budget shortfall; Board members made suggestions on how to raise revenues. The actual year-end shortfall was lessened to \$215,775 because fees were increased, expenditures were reduced, and less revenue was set aside in the reserve. An update on the workshop suggestions is presented later in this report.

DISCUSSION

Revenues generated by the County golf courses have not kept pace with the rising cost of maintenance and operations. Several factors contribute to this imbalance. The National Golf Foundation has noted a downturn in the number of adult golfers and core golfers (those that play more than eight rounds each year; Attachment A). In 2005, a wetter than average spring and a hot July negatively impacted revenue. To summarize, the following factors have contributed to the Golf Fund being insolvent:

- From 2003 to 2004, total number of adult golfers declined 3.9% nation-wide.
- Number of core golfers has declined 4.7% nation-wide.
- Competition has kept fees low with courses competing for their share of the market capacity.
- Continued significant competition in the Sacramento area for golfers; 40 new courses were constructed since 1990.
- Poor golfing weather conditions in 2005.

Between February and May 2005, the Golf Fund operated with a deficit on several occasions, and Fee Managers couldn't pay their vendors because of a lack of cash. On one occasion, the deficit was over \$220,000.

If the funding method and operations for the Golf Fund remains the same, the fund for the first time will be operating with a \$20,470 deficit by Fiscal Year 2008/09 and will have a deficit of \$342,059 the following year, Fiscal Year 2009/10, and there will be no investment towards the \$4 million of necessary capital improvement projects to keep the courses operational and viable. *A minimum of \$200,000 per year is needed in the Golf Fund to make essential investments into the facilities to keep revenue generation at the budgeted level, and to make the debt service payments for Cherry Island and Mather. As the golf courses age and with the effect of inflation, this minimum will increase to \$300,000 in Fiscal Year 2009/10.*

If investments cannot be made into major maintenance/capital improvement projects and equipment to maintain the facilities, then the golf courses will continue a downward spiral economically. Golf courses will deteriorate, fewer and fewer golfers will play, causing revenue to decline further. The more time passes with no investments made into painting facilities, irrigation and equipment, the condition of the asset deteriorates further, making it more costly in the future to repair, if repairs can be economically feasible at all. The three County golf courses represent over \$30 million in public assets.

Alternatives for increasing funding for County golf courses include reducing expenditures, increasing fees, or finding additional funding sources. The Golf Fund will not be self-sufficient if an alternative funding source is not secured.

FINANCIAL ANALYSIS

Attachment B describes the history of the Golf Fund and projects the financial future if the funding remains the same. The results of the financial analysis states that the Golf Fund will no longer be self sufficient by FY 2008/09, and the financial situation continues to worsen in future years.

Attendance

As shown in Table 1, attendance at the County golf courses is declining. Since Fiscal Year 2001/02, attendance has dropped by 9% due to the following factors:

- From 2003 to 2004, total number of adult golfers declined 3.9%.
- Number of core golfers has declined 4.7%.
- Continued significant competition in the Sacramento area for golfers; 40 new courses were constructed since 1990.
- Poor golfing weather conditions in 2005.

Golf Course	Actuals 01-02	Actuals 02-03	Actuals 03-04	Projected 04-05	% Change
Ancil Hoffman	79,620	76,814	75,198	72,430	-9%
Cherry Island	56,491	58,827	55,523	52,870	-6%
Mather	78,484	76,572	74,415	70,487	-10%
Total	214,595	212,213	205,136	195,787	-9%

Table 2 illustrates the severe shortage in rounds due to weather during the last six months of FY 04-05 compared to FY 03-04.

	January	February	March	April	May	June	Total
FY 03/04	10,181	10,978	16,721	19,650	21,611	22,332	101,473
FY 04/05	8,290	10,810	14,410	17,751	18,697	21,145	91,103
Difference	(1,891)	(168)	(2,311)	(1,899)	(2,914)	(1,187)	(10,370)

Deferred Maintenance/Capital Improvement Projects

When Cherry Island Golf Course was re-financed, an additional \$495,000 was financed for capital improvement projects at the golf courses. The funds have been fully expended on projects such as repairs to bunkers and netting, new tee signs and ball washers, and improvements to tees.

Additionally, there are a number of deferred major maintenance projects needed at the County golf courses. The categories of the projects are listed below, with a complete list is included as Attachment C.

Facility Improvements	\$ 536,520
Equipment Needs	348,079
Water Supply Systems	3,164,426
Operational Upgrades	78,000
Total All Courses	4,127,025

Debt Service

The following outlines the current debt associated with the Golf Fund.

TABLE 3				
County Golf Fund Debt Service				
Course	Project	Balance	Annual Payment	Year ending
Ancil	Cart Path	\$499,068	\$92,603	2012
Hoffman	Equipment	48,245	51,622	2006
Mather	Acquisition	2,552,204	198,842	2034
	Cart Path	151,131	43,428	2009
	Capital Improvement Projects	42,218	15,643	2008
Cherry Island	Acquisition and construction	7,045,000	761,057	2019
	Equipment	42,757	42,757	2006
Totals		\$10,380,623	\$1,205,952	

UPDATE ON 2002 BOARD WORKSHOP

At the 2002 Board Workshop, Board members made the recommendations summarized in Table 4 to raise revenues in the Golf Program to help offset a projected \$339,417 budget shortfall in FY 01-02. Those recommendations were implemented, but the increased revenues have not offset fully the decrease in the number of rounds and the increase in operating expenditures.

TABLE 4		
Report Back on Recommendations made at 2002 Golf Fund Workshop		
<i>No</i>	<i>Recommendations</i>	<i>Actions Taken</i>
1	Obtain Mather Golf Course at no cost from the Air Force.	The Air Force reduced the original purchase price from \$6,000,000 to \$4,400,000 by giving the County credit for improvements made at the course. \$2.987 million was borrowed over 30 years, with an annual debt service of \$185,000.
2	Allocate funds from TOT and other sources.	\$25,000 TOT funds were allocated to Golf for Golf Sacramento and \$150,000 Ancil Hoffman Water Feasibility Study; Proposition 12 funding \$200,000 was granted for ADA upgrades at Mather; \$146,000 for irrigation improvements at Ancil Hoffman from Prop. 40; and Dept. of Economic Development contributed \$600,000 toward the purchase of Mather.
3	Seek opportunities to increase total revenue and revenue per customer.	Green Fees are evaluated and changed annually to compete with other courses and address under-utilized times in the schedule. Revenue per golfer has increased \$5.62 (16%) since 2001/02 to the current level of \$39.15, generating an additional \$1.15 million total since 2001/02.
4	Create a long-term capital improvement plan; no funding source for plan indicated.	Long-term improvement plans, golf course master plans and irrigation renovation plans are completed; no funding has been identified for implementation.
5	Reduce credit card fees.	The Department of Finance secured a new banking agreement that was more favorable for the Golf Fund.
6	Use goal setting as a way to compete successfully.	The Golf Division established a Goals and Objectives program that has improved the operations of the golf courses, as discussed in the next section <i>Additional Significant Changes</i>.
7	Obtain a detailed market analysis; sell "service" to our customers and utilize outside marketing support.	Staff determined that it is more profitable to target core golfers in the County, rather than pursue outside customers. As a result, Customer Loyalty Programs, e-mail specials, and target marketing efforts were increased, and positive results have been achieved.
8	Seek alternatives for procuring equipment.	Procuring equipment by leasing versus purchasing was considered, but the payment on equipment is reduced by only a small margin; therefore, replacing equipment remains difficult.

Green Fees Evaluated Annually

Green Fees are evaluated by Course Affairs Committees, Fee Managers and Parks staff each year. Fees are compared against fees at other golf courses in the Sacramento region. The goal of this evaluation is to look at every opportunity to increase revenues through green fee adjustments. During the past five years, the average fee at County golf courses has increased \$3.12.

The adjustments to green fees have kept the County golf courses competitive with other area municipal golf courses and considerably less than most of the private golf courses. An example for comparison of green fees is the City of Sacramento's Alister Mackenzie Golf Course at Haggin Oaks, which charges a standard weekend rate of \$49.50. Ancil Hoffman Golf Course standard weekend rate is \$33.00. Wildhawk Golf Course (near Mather) standard weekend rate is \$41.00, versus Mather's standard weekend rate of \$33.00.

ADDITIONAL SIGNIFICANT CHANGES

Listed below are additional significant changes that have occurred as a result of the Goals and Objectives program implemented in the Golf Division.

- § Contracted with the Department of Finance Audits Division to conduct compliance audits at fee managed operations, with only minor recommendations for improvements.
- § The Golf Division Policy and Procedures Manual, including Maintenance Standards, was updated and distributed to over thirty managers, concessionaires, Course Affairs Members, members of the Recreation and Park Commission, and Board of Supervisors.
- § In 2004, Ancil Hoffman and Mather Golf Courses were ranked number 1 and 2 respectively as the most popular public golf courses in the Sacramento area based on the total number of rounds played.¹
- § All three County golf courses have registered with the Audubon Sanctuary Program. Mather Golf Course became the first public golf course in the State to be "certified" by the Audubon Society under their strict set of guidelines.
- § Funding for capital improvement projects, secured at the time of re-financing for Cherry Island, has been fully expended on projects as of this year.
- § In February 2005, the Parks Department reorganized its management structure to reduce costs to the Golf Fund. The Golf Division was moved into the Special Services Division and the Golf Division Deputy Director position was deleted after the incumbent retired. The deleted position was replaced with a lower-cost Park Maintenance Superintendent position which oversees the day-to-day operations of the Golf Program.

¹ According to the Sacramento Business Journal, 2004 Golf Edition.

ALTERNATIVE METHODS FOR FUNDING THE GOLF PROGRAM

Staff has evaluated alternative methods for funding Cherry Island and Ancil Hoffman Golf Courses. Our goal is to operate the Golf Fund in a fiscally responsible manner, to meet the golfers' needs, to prevent further erosion of the County's assets, and to properly invest in the County-owned golf courses. Continuing to operate the County golf course facilities in the current manner jeopardizes golf course conditions and customer service levels, which results in a negative impact to revenues. The following eight alternatives, in three categories; reducing expenditures, increasing fees, and obtaining additional funding sources, were evaluated. A more detailed discussion of each follows.

Alternative	Costs to General Fund/TOT
Reducing Expenditures	
1. Fee Management Agreement	Self-sufficient
2. Leasing	Self-sufficient
3. Transfer County Golf Course Operation	Self-sufficient
4. Closure of County Golf Courses	(\$1,279,887)
Increasing Fees	
5. Increasing Fees	No impact to General Fund
Additional Funding Sources	
6. General Fund Support	\$200,000 - \$300,000
7. Transient Occupancy Tax (TOT) Support	\$200,000 - \$300,000
8. Re-allocate Parks General Fund Allocation to Golf	No impact to General Fund

Reducing Expenditures

1. Fee Management Agreement

Self-sufficient

Annual Savings to Golf Fund: Phase 1 \$200,000 and Phase 2 \$200,000; Total Savings \$400,000

County would pay a fee to a golf management company, under a Fee Management Agreement, for operations of Cherry Island and Ancil Hoffman golf courses. Golf management companies have expressed an interest in assuming responsibility for course maintenance. With a Fee Management Agreement, County would retain control of the revenues and expenditures for the golf course. An agreement similar to Mather Golf Course, one course manager for the pro shop, restaurant and course maintenance, would be the ultimate objective. A Fee Management Agreement is subject to the provisions of section 71-J of the County of Sacramento Charter.

Under this alternative, Parks for each golf course proposes to implement contracted services incrementally over a three year period to allow for placement of staff at other regional park facilities. NO PERMANENT STAFF WOULD BE LAID-OFF; Parks has enough vacancies in other regional parks to accommodate staff presently assigned to the golf courses. Attachment D outlines the number of staff at the golf course and the number of vacancies in the Parks Department.

Below is a chart that compares the Mather and Cherry Island maintenance budgets; these courses are approximately the same size. Financial projections regarding the benefits of Fee Management are contained in Attachment E; a detailed account of the proposed savings is in Attachment F.

Table 7			
Cost Comparison of Cherry Island and Mather Golf Course Maintenance			
	Cherry Island	Mather	<i>Difference</i>
Personnel	\$ 661,793	\$ 553,137	
Services & Supplies	\$ 378,252	\$ 200,415	
Total	\$ 1,040,045	\$ 753,552	\$ 286,493

Cherry Island Golf Course Maintenance currently has nine full-time permanent (salaried) positions and eight temporary positions; whereas Mather Golf Course Maintenance employs eleven full-time (hourly) positions and two temporary positions. Mather's full-time employees receive a full benefit package. The flexibility in wage structure and benefit package costs allows Mather the ability to hire more full-time skilled employees receiving a benefit package than Cherry Island, diminishing the need for temporary unskilled employees.

Some services and supply accounts, such as utility costs will remain the same whether or not the golf course maintenance is contracted. There will be savings in other areas though. Services and supplies for vehicles, pumps, alarms and building maintenance (such as electrical or plumbing) will be provided by either golf course personnel already on site, or independent contractors, instead of County personnel. Golf course concessionaires, because of the number of golf courses they manage and specialization in the golf industry, allow for greater competitive pricing than the County can receive as a result of its general bidding process.

2. Leasing

Self-sufficient

Ancil Hoffman Golf Course

Under this method of operation, Ancil Hoffman would be leased for up to thirty years to a golf management company, and the lessee would have full control of the course's operations and budget. The lessee would pay the County a prearranged fee that is not necessarily based on revenues. Leasing Ancil Hoffman would be feasible for a golf management company, because there is no debt on Ancil Hoffman. A Lease is subject to the provisions of section 71-J of the County of Sacramento Charter.

Cherry Island and Mather

A Federal Restriction contained in the Tax Exempt Bond Covenants used to purchase Cherry Island and Mather prohibits the leasing of the facilities. The debt service payment for Cherry Island is \$777,212 per year, and the Mather payment is \$185,000 per year. Presently, the debt payments for Cherry Island are made with revenues generated at Ancil Hoffman.

3. Transfer County Golf Course Operation

Self-sufficient, if feasible

The County could seek a non-profit organization or other governmental agency to operate the golf courses. The operations would need to be self-sufficient, including the payment of the debt service. Parks would retain minimal control over the quality of operations. Parks staff is unaware of any open-to-the-public golf course that is operated by a non-profit in the Sacramento Region. Transferring the operation of a golf course is subject to the provisions of section 71-J of the County of Sacramento Charter.

4. Closure of County Golf Courses

Cost to County \$1,279,887

The County would close the golf courses and maintain a minimum level of open space, mowing firebreaks and responding to vandalism. Parks would be required to continue to pay annual debt service of \$1,204,887 and fund the maintenance of open space at the three courses from the General Fund (\$75,000). This is not a positive alternative, as it would be more costly to maintain the facilities in a closed state than it would be to continue operating them.

Selling the golf courses is not a viable option because of the overabundance of golf courses in the region, the County debt on the courses is too high, and golf courses currently under construction are tied to surrounding real estate values. The County golf courses are also a contributing asset to the public park and recreation system in Sacramento County.

5. Increasing Fees

No impact to General Fund; may reduce total revenues of Golf Fund

Overall attendance is down 9% at County Golf Courses, more than 9% at both Mather and Ancil Hoffman, which usually perform the best. Cherry Island has routine vacancies in their daily schedule of golfers, and the number of rounds has never reached expectations. Mather and Ancil Hoffman, while busy on most days, have experienced an overall decline in golfers. Since 2000/2001, staff has increased fees an average of 28% (Table 5). An increase in fees to generate \$71,000 of new revenues is already budgeted for FY 2005/06, and it is anticipated that any additional increase would have a negative impact on the number of golfers and the amount of revenue. Table 4 in the Financial Analysis Section outlines fee increases since 2000/01.

6. General Fund Support

Cost to the General Fund \$200,000/year (minimum)

Parks would receive General Fund allocation for the Golf Program to bridge the gap in the Golf Fund; \$200,000/year beginning in FY 2005/06, and \$300,000/year beginning in FY 2009/10. Parks could not re-allocate existing General Fund monies for Parks without compromising park programs and facilities. The additional General Fund allocation for Golf would fund maintenance of good course conditions and customer service levels, investment in capital improvement projects and fixed assets, and the debt service payment for Mather. Management of the golf courses with a mix of Parks staff and Fee Managers would remain the same. (Attachment G)

Historically, the General Fund has not been a stable source of funding for Parks or the County at large. If the General Fund allocation to Golf were to experience the same fluctuations in allocation, County could not make the capital improvements necessary to maintain good golf course conditions and customer service levels. To fund the County Golf Program with the General Fund, other Health, Safety, and Welfare programs would be reduced or eliminated. The Board would also have less discretion with allocating General Fund resources if a minimum level of funding was obligated to support the Golf Program.

7. Transient Occupancy Tax (TOT) Support

Cost to the Transient Occupancy Tax Fund \$200,000 (minimum)

Parks would receive a \$200,000/year allocation from the Transient Occupancy Tax fund beginning in FY 2005/06 and \$300,000/year in FY 2009/10, to balance the budget in the Golf Fund. County Golf Courses support Sacramento as a destination for conferences, retreats and vacations. Mather and Ancil Hoffman golf courses are noted nation-wide as two of the best courses in California. The additional Transient Occupancy Tax allocation for Golf would fund maintenance of good course conditions and customer service levels, investment in capital improvement projects and fixed assets, and the debt service payment for Mather, without impacting the General Fund. (Attachment G)

This alternative would have a negative impact on the Community Based Organizations (CBO) currently funded by TOT Funds. Many CBOs rely heavily on TOT funding for their basic services and programs. By reallocating and committing ongoing funding to Golf, CBO programs would be reduced, and the Board's discretion in allocating TOT funds on an annual basis eliminated. TOT funds, like the General Fund, fluctuates in the amount collected annually and is not a reliable source of funding.

8. Re-allocate Parks General Fund Allocation to Golf

Cost to Parks Department (no impact to General Fund) \$200,000/year (minimum)

Parks would re-allocate existing General Fund monies from Regional Park programs. A reduction of \$200,000 to Regional Parks may force the elimination or reduction of programs. For example, Park Ranger patrols may have to be reduced, Parks staff may have to be cut, and Effie Yeaw Nature Center programs and Therapeutic Recreation Service programs may have to be cancelled. Regional Parks could not re-allocate any funds to Golf without some reductions in Park programs. Impacts would worsen with the required \$300,000 funding in Golf in FY 2009/10. (Attachments G and H)

SECTION 71-J ISSUES

The following criteria must be met if Cherry Island and Ancil Hoffman are to be operated under a Fee Management or Lease Agreement, or transfer operations to a non-profit

- § Contract must be for purposes of economy and efficiency,
- § The Contract must not cause the displacement of civil service employees,
- § County must meet and confer with labor organization,
- § Contract must be awarded through a publicized competitive selection process.

The purpose of implementing fee management contracts at Cherry Island and Ancil Hoffman is to follow the successful operation, in terms of both economics and efficiency, of Mather. All Parks' employees presently assigned to Cherry Island and Ancil Hoffman would be re-assigned to other regional park facilities. A phased approach to fee management or leasing would allow for a transitional period with staff. A lease or fee management agreement would be awarded through a publicized, competitive bid process.

Outcomes of Meet and Confer

We have formally met with Local 39, but not the Teamsters. Both unions, however, have indicated that while they understand our position, they cannot support a continual erosion of their bargaining units.

COMMUNITY OUTREACH

Recreation and Park Commission

On May 26, 2005, the Recreation and Park Commission voted unanimously to recommend staff pursue Alternative No. 1, Fee Management, to fund the golf courses in the future. Commissioner McCormick was absent.

Course Affairs Committees

Course Affairs Committees met on June 2, 2005, and recommended pursuit of Alternative 1, Fee Management.

CONCLUSION

If the County golf courses continue to be funded in the same manner, the Golf Fund for the first time will be operating with a \$20,470 deficit by Fiscal Year 2008/09 and will have a deficit of \$342,059 the following year, Fiscal Year 2009/10. The problem of not funding deferred major maintenance and capital improvements at all three County golf courses will become more evident as each year passes. County golf course staff is dedicated to providing golfers well groomed courses, but because of the County's limited ability to invest in the assets; this is becoming increasingly difficult.

For the past four years, revenues have not met expenditures in the Golf Program. Parks has taken several steps to address the unbalanced Golf Fund; establishing stronger and more detailed Goals and Objectives to address the decline in the number of golfers, increasing the revenues collected per golfer, consulting with golf marketing experts, securing a reduced purchase price for Mather, and securing additional funding sources for improvements. The County needs to determine the funding future for the Golf Program, before the conditions of the courses are compromised further and the Golf Fund deficit becomes greater.

Respectfully Submitted,

Ron Suter, Director
Department of Regional Parks, Recreation and
Open Space

APPROVED:

TERRY SCHUTTEN,
County Executive

By:

Cheryl Creson, Administrator
Municipal Services Agency

Attachments

Attachment A:	National Golf Foundation Article from Inside the Ropes
Attachment B:	Financial Analysis Yearly Operations Remain the Same
Attachment C:	Deferred Major Maintenance Projects
Attachment D:	Employees at Cherry Island and Number of Vacancies
Attachment E:	Financial Analysis Yearly Operations Fee Management Alternative 1
Attachment F:	Projected Savings for Fee Management Alternative 1
Attachment G:	Financial Analysis Yearly Operations Alternatives 6-8
Attachment H:	Parks Department Budget Summary (history)