



ADMINISTRATIVE REPORT

AGENDA ITEM # 1

MTG. DATE 1/4/12

TO: Parks and Recreation Commission

APPROVED BY: *Sheila Canzian*

DATE: December 12, 2011

Sheila Canzian, Director of
Parks and Recreation

SUBMITTED BY: *Tim Heck*

Tim Heck, Golf Services Manager

SUBJECT: Poplar Creek Golf Course Operating Model Options

RECOMMENDATION

Review and comment on proposed future operating strategies, organizational models and/or alternative uses for the Poplar Creek Golf Course.

BACKGROUND

Brief History of the Golf Course

The San Mateo Municipal Golf Course was built during the Depression as a joint venture between the City and County of San Mateo to create construction jobs for the unemployed and provide an affordable and accessible recreation opportunity for the local residents. It opened in 1933, with front page headlines boasting of “all green fairways”, weekday and weekend rates of fifty cents and seventy-five cents for a round of golf, and a monthly pass for three dollars. The course fulfilled the traditional role of municipal golf at the time by offering a no-frills, basic entry-level golf experience.



San Mateo Municipal Golf Course in 1939

In 1945 the City purchased the County's interest in the golf course and became the sole owner and operator. In the 1950's the City adopted an operating model that provided maintenance for the course using City Park and Recreation employees and leased the proshop to a Head Golf Professional who hired his own staff to manage the golf operations. This same operating model is used today to manage and maintain the golf course.

Over the next twenty years the golf course continued to provide an affordable recreation experience. By 1973, forty years after it opened, the golf course green fees were still a modest \$3.50 for weekdays and \$5.00 for weekends. At this point the Golf Enterprise Fund was created with the expectation that the operations would be self sufficient, separate from the General Fund and managed like a business, covering its operating expenses from the fees it collected and placing excess revenue into a reserve fund dedicated to the golf course.

Consistent with the expectation of operating as a self sufficient business, following the passage of Proposition 13 in 1978, the City began to charge the golf fund an Indirect Cost Fee as compensation for the use of various City department support services (eg. Payroll, Finance, Human Resources, City Attorney, etc.). In the early 1990's, faced with budget cuts due to the recession, the City began to charge a second fee on the golf course, an In-lieu of Taxes Fee of \$200,000. The fee was also charged to the Sewer Enterprise Fund under the premise that both operations were utilizing land that otherwise could be used to generate property tax, sales tax, etc. The practice has been to increase both the Indirect Cost Fees and In Lieu Fees annually by the Consumer Price Index and they now amount to \$243,646 and \$429,335, respectively.

By the late 1990's the rising popularity of golf nationally had created an explosion of new high-end, daily fee golf courses. The National Golf Foundation actually adopted a campaign to "Build a Golf Course a Day". Additionally, home builders discovered that the inclusion of a golf course in their developments not only boosted the purchase price of their homes, but also accelerated their sales. As Jim Koppenhaver of the Pellucid Corporation described the situation, "the quality gap between the 'new and shiny' Daily Fee facilities and the 'worn but serviceable' munis caused them to seriously consider and implement upgrades."

San Mateo was one of the cities in this position. Faced with a dilapidated clubhouse, an obsolete and failing irrigation system, and the prospect of declining rounds and revenue, San Mateo embarked on a complete renovation of its golf course. Using \$2 million from the golf reserve fund to build a new clubhouse and issuing \$10 million in tax exempt bonds to renovate the golf course, the City re-opened the new course in July 2000 as Poplar Creek.



San Mateo Golf Course prior to remodel in 1999



Poplar Creek following re-opening in 2000

The State of Golf Since 2000

What has changed since Poplar Creek re-opened in 2000?

Demand has decreased. Golf participation has declined nationally by over forty million rounds annually and the golfer base has leveled off. The poor economy, competing entertainment interests and a lack of time to devote five plus hours to golf are often quoted by industry sources as the reasons for this decline.

Supply has increased. At the same time that the pie of available rounds has been shrinking, the supply of public golf courses has been increasing. The National Golf Foundation actually reached its goal of building “a golf course a day”, adding over 400 courses nationwide in the year 2000 alone. What this has meant locally is that since Poplar Creek was built, within a one hour radius, **four courses have undergone complete renovations** (*Coyote Creek, Monarch Bay, Harding Park, Metropolitan*), **ten new courses have been built** (*Mission Hills, Fremont Park, The Bridges, Dublin Ranch, Callippe Preserve, Wentle Vineyards, Los Lagos, The Ranch, Cinnabar Hills, Eagle Ridge*), and **one course has converted from private to public** (*Moffett Field*). While many of these courses were initially priced in the higher-end markets with rates well above those at Poplar Creek, most have since aggressively discounted their rounds or lowered their prices across the board to reposition themselves within the Poplar Creek market segment.

Average Incomes declined while the price of golf rose. The multiple recessions of the past ten years combined to create the first decade with real declines in median and average incomes since the Great Depression. Concurrently, after fifty years of flat inflation-adjusted pricing, the cost of municipal golf began to steadily rise in real dollars. These two trends have created a perfect storm that has been devastating to municipal golf finances.

Time became a barrier to play. Nearly every survey conducted by the National Golf Foundation over the last decade listed lack of time as one of the primary barriers keeping golfers from playing more frequently.

THE CURRENT STATE OF MUNICIPAL GOLF

The decline in municipal golf revenue is not limited to just San Mateo or Northern California. For a number of years, cities nationwide have experienced an erosion of the financial stability of their golf operations and have been forced to re-evaluate their operating models and revenue objectives.

- The City of Sacramento has long been pointed to as one of the benchmarks for successful municipal golf operations. In a June 2011 Memorandum to the Mayor and City Council on the topic of Municipal Golf Revenue and Expenditure Analysis, the City Auditor projected that “the City’s golf operations would post a \$529,918 loss in FY 2010-11 that the City’s general fund would need to absorb.” It further detailed that “In 2006 the City Council approved changing the Golf Fund from an enterprise fund to a special revenue fund ... since the revenue golf was generating was no longer enough to cover its expenditures.” Finally, the report outlined that in FY 2001-02 the City’s Risk Management Fund made a loan of \$4

million for golf operations, however, the golf fund had yet to make any debt service payments towards this loan.

- **The City of San Diego's 2006 Five Year Business Plan for Golf Operations** stated "The Balboa Park Complex is losing between \$800K and \$1M annually."

Locally, the picture is very much the same.

- A September, 2011 report to the City Council of Mountain View on the Shoreline Golf Links operations showed that revenues had decreased by nearly 27 percent since FY 2005-06, resulting in FY 2010-11 ending with a loss of \$753,000. The adopted budget for FY2011-12 projects a net operating loss of \$1.2 million, prompting the Community Services Department to recommend changes in the operating model.
- The City of Pleasanton continues to cover the debt service incurred to construct the Callippe Preserve golf course through its General Fund.
- The Palo Alto City Council recently stepped back from considering reconfiguration of the City's golf course due to a levee project in order to address the "broader conversation" of other potential uses for the land and whether the course could be scaled down to carve out space for new fields.
- The San Francisco Board of Supervisors voted in early December to close the Sharp Park golf course in Pacifica and negotiate with the National Park Service to manage the land as open space. San Francisco Mayor Ed Lee subsequently vetoed the proposal and is currently in discussions with San Mateo County regarding other operating models.
- Perhaps the severest decline at a local municipal facility has occurred at the Chuck Corica Golf Complex in Alameda and should serve as a cautionary tale. According to a Request for Proposal (RFP) issued in December 2011 by the City of Alameda, despite offering some of the lowest rates in the Bay Area, revenue at the 45-hole complex has dropped by 33 percent over the last decade and rounds have declined by over 45 percent. The RFP states that "The Golf Complex consistently has generated an operating profit... These profits, however, have not been used to make capital improvements. Instead, they have been transferred to the City's General Fund. Since 2005, the annual operating profit has been insufficient to pay the amount of the required transfers, and the City has made up the shortfall from the Golf Enterprise Fund, which was intended to provide funds for capital improvements and reserves."

This practice has depleted the Golf Enterprise Fund from nearly \$3.9 million at the end of FY 2003-04 to just over \$800k at the end of 2009-10. As a result, "The City will be ceasing all transfers as of January 1, 2012."

Alameda was unable to reach an agreement with its current interim operator and is now offering a 30 year lease to an operator willing to finance the necessary capital improvements to restore the courses to competitive status (estimated at \$6.25 million as of 2007). Additionally, the RFP requests a plan for a Golf Reserve Fund with an associated funding mechanism (e.g. funded annually based on a percentage of green fees) and a proposed amount for a minimum annual payment to the City with a formula

for splitting revenues that exceed the minimum between reserves, the operator and the City.

THE CURRENT STATE OF POPLAR CREEK

Golf rounds have declined by 26%. Since Poplar Creek re-opened in 2000 as one of the busiest golf courses in California, annual paid rounds have decreased from 89,046 to a current level of 66,163 for FY 2010-11. Sixty percent of this decline has occurred over the past two years. During that first year of operation after the remodel, the Utilization Rate of available tee times at Poplar Creek was 98%. The Utilization Rate for Jan.-Nov. of 2011 was 80%, still well above the national average of 51% and the California average of 60%, continuing to make Poplar Creek one of the busier golf courses in California.

There are no industry forecasts that give any indication of a return to former levels of play in the foreseeable future and golf courses, as well as municipalities, are re-setting their expectations and viewing the current levels of play as the “new normal”.

Total Revenue has declined by 11%. Over the past ten years, increases in the green fee rates and the sale of loyalty club memberships have helped slow the decline in revenues despite the enormous drop in the number of annual rounds. Total revenue fell by \$274,202, from \$2,674,268 in FY 2000-01 to \$2,400,066 in FY 2010-11, with 87% of the decline occurring over the past two years.

Expenses have remained relatively flat over the last decade. Poplar Creek expenses are divided into six categories; Maintenance Operating Costs, Management/Admin Operating Costs, Capital Outlay, Indirect Costs Fee, Debt Service, and In-lieu of Taxes fee. Over the past decade, efforts to control the Maintenance & Administration Operating Expenses and Capital Outlay have resulted in a decrease of \$250, 000 while the Indirect Cost Fee, Debt Service, and the In-lieu of Taxes fee have increased by \$302,000, leading to an overall rise of 2.0% in expenses. The Indirect Cost Fee, Debt Service, and the In-lieu of Taxes Fee amount to \$1.35 million or 50% of the overall expenses for the golf course.

	FY 00-01	FY 10-11	Variance	
Operating Exp. & Capital Outlay	\$ 1,527,897	\$ 1,278,084	\$ (249,813)	
Indirect Costs	\$ 166,620	\$ 243,516	\$ 76,896	
Debt Service	\$ 553,062	\$ 674,442	\$ 121,380	
Rent in-lieu	\$ 325,005	\$ 429,335	\$ 104,330	
				\$ 302,606
TOTAL EXPENSES	\$ 2,572,584	\$ 2,625,377	\$ 52,793	

The Golf Enterprise Fund has no reserves for future capital improvements. The existing reserves in the Golf Enterprise Fund were exhausted in 2000 in order to complete the renovation of the golf course. Every year since, the golf course has generated sufficient revenue to cover its operating expenses, capital outlay, indirect costs fee, and debt service. What it has not been able to consistently do is cover the entire amount of the contribution to the General Fund represented by the in-lieu of taxes payment.

In 2007, the bonds used for the re-construction of the golf course were re-financed to take advantage of a better interest rate and provide the golf course with approximately \$900k of debt service relief over the next three years. During this period, the golf course was able to make the entire in-lieu payment each year and eliminated the deficit balance in the Golf Enterprise Fund. However, in FY year 2010-11, the debt service payment returned to its full amount of \$675K, and although the golf course covered its operating expenses, capital outlay, indirect costs fee, and debt service, it was once again unable to meet the full obligation of the in-lieu payment and the Golf Enterprise Fund reverted to a deficit balance of approximately (\$170,000). After ten years, the recurring shortfall in the in-lieu payment has prevented the golf course from setting aside the annual \$125,000 contribution to its reserve fund that was identified as the amount needed to cover future capital improvements and the maintenance and repair of its aging infrastructure. (See Exhibit A – Revenue/Expense Comparison)

Operational Strategies that have already been implemented. The golf course has taken numerous steps in recent years to reduce expenses and bolster revenue, including the following;

- Reducing the merit maintenance staff from seven to five maintenance workers.
- Changing an Administrative Assistant from a full-time, merit employee to a part-time, per diem.
- Replacing the paid golf course marshal staff with a predominantly volunteer force.
- Recruiting volunteers to perform routine maintenance tasks in exchange for playing privileges.
- Restructuring the concession agreement with a new Head Golf Professional.
- Restructuring the concession agreement with a new Food and Beverage Operator.
- Improving golf course conditions to attract additional play.
- Implementing a VIP loyalty membership program that generates \$80k in annual revenue.
- Creating a pay-for-use short game practice area.
- Expanding marketing efforts targeted at families, tournaments and 9-hole players.

In addition, the golf course issued an RFP in 2009 to explore the possibility of using a private company to manage and maintain the golf course. Due to the tax-exempt nature of the bonds used to finance the renovations, the City is precluded from entering into a lease arrangement with a private operator and is limited to a management fee contract with no guaranteed return. The analysis completed by Management Partners concluded that based on the proposals received there was no discernible performance advantage over the current management model and that the maintenance savings proposed were not substantial enough to warrant a change from the existing operations.

FUTURE OPTIONS

Additional operational strategies. The golf course has identified and is exploring the merits of the following additional strategies to continue to increase revenue and reduce expenses;

- Investigate whether conditions are favorable enough to justify another re-financing of the golf bonds.

- Restructure the fee schedule to open up the resident rate to include all of San Mateo County. Resident rounds have decreased to a level where they now account for only 17% of the total rounds played and the number of city resident golf card holders has fallen to six hundred from a high water mark of nearly 2000. Expanding the resident rate to all of San Mateo County could potentially generate \$20-\$40k in additional annual resident card fees and develop a larger base of loyal players that view Poplar Creek as their home course and play with increased frequency.
- Evaluate tee time policies to maximize yield. Issues to consider include a sliding scale for advance reservations and premium tee times, permitting reservations further in advance, and allowing golfers to play as fivesomes.
- Develop a full practice range at the 7th hole in accordance with the revised golf course masterplan. The new driving range would be a pay for use facility, contributing additional income to the golf course. Recent figures from nearby golf courses with similar facilities indicate annual gross revenue of about \$300,000. Since the new driving range would occupy a space that is already maintained as part of the golf course, there would be minimal increase in maintenance costs. The ongoing operating costs of the range primarily consist of picking up the balls hit into the range and the replacement of worn out balls and hitting mats and would be paid for from the income received. The estimated net annual revenue would be in the \$225-\$250k range. The estimated cost of construction is \$500k. Since the golf course does not have the reserves to fund this construction, either the City would need to provide a loan to the golf fund to be repaid from range revenues or the golf course would need to seek private funding in partnership with the head golf professional.
- Pursue an agreement with a local soil management company to import soil for golf course improvements included in the revised masterplan. Similar agreements at other local golf courses using this arrangement provide that for each yard of imported soil accepted by the golf course, the soil management company will deliver, place and grade the soil to the golf course's specifications, amend the soil with organic material to promote turf growth, and pay the golf course a fee of one dollar per yard. Based on the scope of improvements in the masterplan, this contract has the potential to provide \$100-\$200k in revenue over a two year period.

While the operational strategies outlined above have the potential to improve the financial position of the golf course, none of them possesses sufficient impact to solve the structural deficit of the Golf Enterprise Fund.

POLICY DISCUSSION

Recently in southern California, a gathering of interested stakeholders met to discuss the role of municipal golf and what can be done to define and sustain it. As reported in *The Pellucid Perspective*, the attendees included golf administrators from local city and county governments, members of the California Golf Course Owners Association, the Southern California PGA, the Southern California Golf Association, several private sector course operators, and various consultants to the golf industry. The consensus reached by this group was that “first and foremost, municipalities need to determine the role of municipally owned golf and then act accordingly. A city has to decide what the objective is for its golf course”. Is it a public

amenity, a revenue source, or both? Should it provide a reasonably subsidized recreational benefit to the community similar to other recreation programs or should it play a larger role?

Despite the operating changes that have taken place, and given the current state of golf operations and an acceptance that total played rounds will not return to the levels seen in the late 1990's and early 2000's, it is apparent that the current operating structure is not a sustainable model in either the short or long term. The options for consideration by the Park and Recreation Commission and ultimately the City Council for the future of golf operations are less about "tweaking" the existing model and more about policy considerations moving forward. There appear to be a limited number of options for consideration and they are as follows:

- 1) Consider maximizing revenue capacity through the development of the approved driving range plan. Once the original capital costs are paid, the range would provide additional on-going revenue of approximately \$225,000-\$250,000 per year.
- 2) Concurrently, explore with San Mateo County and other individual cities within the County their interest in regionalizing the golf operation through cost-sharing opportunities. Poplar Creek is no different than most other municipal courses in that it draws users from a wide geographical area. Currently, resident play accounts for only 17% of the total rounds played. The previous discussion regarding a potential change in the rate structure to open "resident" rates to all of San Mateo County could be leveraged to only allow that rate for players from cities who are participants in the cost sharing program.
- 3) Consider modifications to the Golf Enterprise Fund to either a special revenue fund (similar to the City of Sacramento) or include it as a component under the broader envelope of the Parks and Recreation budget. The Commission will need to consider where golf ranks in comparison to other programs and services both from overall community value as well as priority for general fund subsidy.
- 4) Consider re-use of the land for uses other than a golf course that could potentially maximize its revenue generating capacity. The Commission should be aware that all park and open space lands greater than 4 acres (including the golf course) may not be sold, otherwise disposed of or converted to different purposes without a majority vote of the electorate.

COMMUNITY STAKEHOLDERS

A Focus Group of interested parties consisting of golfers, local business people, San Mateo residents, neighboring city residents, and persons with municipal government experience was asked to provide feedback on the strategies and options outlined in this report.

The group expressed enthusiastic support for the development of a driving range and an expansion of the resident status to include other parts of San Mateo County and felt there would be widespread support for both. They also felt there was merit in exploring the concept of operating agreements with other cities in the county.

Conversely, there was little support for considering alternative uses for the land, including a reduction to a nine hole course. With the future of Sharp Park uncertain, Poplar Creek remains

the only 18-hole municipal course in San Mateo County. The general consensus among the group was that the elimination of the golf course would deal a severe blow to the local golfing community.

The input and feedback from the Commission is especially important as the item moves to a study session discussion with the City Council later in January.

Exhibits:

A. Revenue and Expenditure History

Distribution

City Manager

Division Managers

Golf Focus Group

San Mateo Men's Golf Club

San Mateo Women's Golf Club

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Revenue/Expense Comparison

Exhibit A

