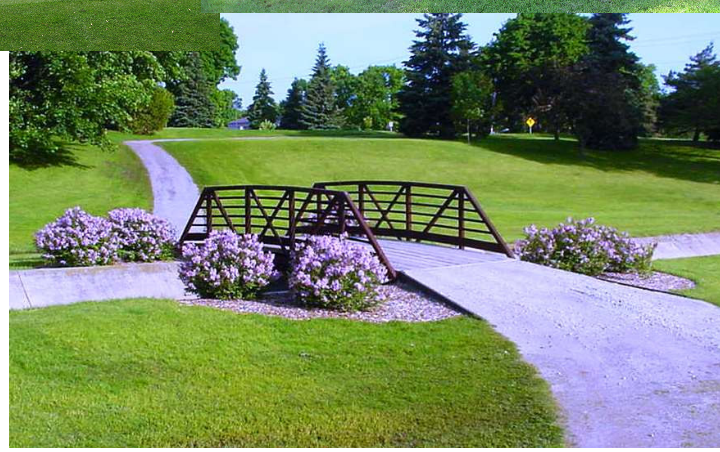
Reid Golf Course Planning



2013

BACKGROUND

In terms of rate structure, financial situation, type of management agreement and programming, the Reid Golf Course is typical of many municipal public courses. For the past 25 years across the country, there has been an evolution of circumstances which have had a negative impact on public and privately owned daily fee golf courses. Consequently, owners of these golf courses need to begin and pursue a critical assessment of how best to serve the customer and in the case of publicly owned courses, also serve the taxpayer.

Prior to the mid 1980's many public courses had 18-hole rates at the $3.50 to $5.00 level. In areas of Wisconsin it was not unusual to encounter courses that were producing between 60,000 to 70,000 rounds (all paid golf starts whether 9 or 18 holes) per year. As evidence of this, Reid Golf Course recorded 66,666 rounds for the year of 1990. In Wisconsin, with approximately 210 days of golf weather per year, this means that the Reid Golf Course produced an average of 317 rounds per day. [1] This meant an all day waiting line to reach the first tee. With operating costs substantially lower than today, the golf round of $5.00 was financially viable.

However, the above good times were not to last. In the late 1980's the National Golf Foundation made the statement …."that a new golf course should be opened every day of the year for the next ten years". The consequences of this statement filtered down to Reid Golf Course and many others like it with the following negative impact. In 1991, the geographical golf market for Reid contained 333 holes. By 2008, 216 additional holes were open for a total of 549 holes. This was a 64.5% increase in market supply and far beyond the capability of current market demand. This severe dilution of market share resulted in current rounds (2010, 2011 & 2012) at Reid dropping to an average of 30,000 rounds per year, a stark contrast to the 66,000 rounds of 1990.

Meanwhile, cost of operations increased dramatically and the green fee for 18-holes increased from less than $5.00 to $25.00. Although Reid now comes close to breaking even, there is minimal budget available for capital improvements and the basic maintenance budget does not allow for course conditioning to compete with the better courses in the market area. The recent lease of property to cellular companies for antennas and wireless communication equipment and the addition of rental income from the storm water pond land provides some relief, but cannot be relied on for a long-term solution. Additionally, in some ways, Reid is becoming obsolete as a result of limited improvements. For example, bunkers positioning needs to be evaluated do to players hitting the ball further. With competition high in the early 1990's it was necessary to upgrade the clubhouse and irrigation systems to match the quality of the competitors. Debt incurred by Reid includes depreciation and interest expense for projects such as land acquisition (1991-$120,000), maintenance shop, parking lot and driving range improvements (1992-$691,324); Clubhouse remodeling (1994-$594,000); parking lot reconstruction (1995-$70,000); and a new irrigation system (2007-$708,509). Competition and the economy have

[1] The Wisconsin Section of the PGA reports that in the late 1980's and in 1990, numerous courses around Milwaukee, Madison and Green Bay were producing rounds at this level.

slowed the ability to increase golf fees to match increased expenses of fertilizer, fuel, staffing, etc. Revenues have not grown at the rate of expenses.

The following material describes some of the more obvious problems with the Reid Golf Course and possible approaches to solving those problems. The areas to be discussed include: operating agreement, programming, rate structure and financial. It is important to note that not one of the above discussion areas stands alone but rather impacts, to some degree, all of the other areas.

OPERATING AGREEMENT

There are generally two types of basic golf course operating options available for a public agency golf course….. *i*.e., Management Agreement or Facility Lease. There is also a third type of agreement called a Hybrid Agreement which the City of Appleton currently uses. Each of these agreements has strengths and weaknesses. It is vital that the City understands the characteristics of what can and cannot be accomplished depending on the type of agreement chosen for Reid Golf Course.

1. Under the **Management Agreement**, the City assumes all operating and financial risk. The City collects all the money and then hires an employee to manage the course and course employees.
2. If a **Facility Lease** is used then an independent Operator collects all the money, pays all the bills and assumes all the risk. The Operator then pays the City a lease (rental) fee.
3. The third option is a **Hybrid Agreement** wherein the City maintains the golf course; a Contractor has the concession for the food and beverage, pro shop merchandise, golf lessons, club rentals, and sometimes the range and golf carts. The Contractor takes the tee time reservations, collects the green fees for the City and the City usually pays an incentive type stipend for that service.

Three factors strongly influence the direction that public agency golf courses take when selecting the type of operating option most suitable for their facilities. These factors are Income, Risk and Control.

1. **Income:** If the course has a substantial amount of excess net operating income, the City will probably be in the position of picking any one of the three types of Operating Agreements. The decision will be based on exposure to risk and amount of control that is maintained by the City. However, if the golf course produces a marginal net operating income, cannot afford capital improvements and wants to control the rate structure; then a lease facility will be out of the question with only a Management Agreement or Hybrid Agreement available.
2. **Risk:** The business adage that "the money follows the risk" is just as true in golf operating options as it is in the stock market. If the City wants to rid itself of the monetary risk of operations and the time and effort required to oversee the enormous amount of detail involved in daily golf course operations then entering into a facility lease agreement makes sense. However, before beginning a facility lease discussion,

the City must ask itself how much profit should the lessee make for investing in the equipment required to operate the facility, maintain the property and assume the financial responsibility for all the bills and employees and accept the liability of operating risk. Clearly, unless Reid is producing a reasonable net operating income, no responsible experienced lessee will want to operate (Lease) the course.

3. **Control:** Just like Risk, Control of the course will follow the money. When an owner enters into a facility lease agreement, the majority of the operating control will reside with the lessee and be determined by how well the lease agreement is written. In addition to having a well written lease, the owner must have oversight of the lessee to assure that not only the letter of the lease but the spirit of the lease is carried out in the daily operations. Lessees generally want control of how the greens are mowed, how tee times are reserved, what food is served, what items are carried in the pro shop and how green fees are structured. However, under a management agreement (where the City has hired and is paying staff to operate the course) the City has control and final say on all of the above items. Whereas, under a hybrid agreement, the City would have control of the rate structure and tee times but the contractor (Concessionaire) has control of the food and beverage, pro shop merchandise, carts, driving range, lessons, etc. In addition, the contractor has control over marketing, level of customer service, cleanliness of facility and programming such as junior programs and tournaments.

Operating Agreement	**Income**	**Risk**	**Control**
Management	High	High	High
Lease	Low	Low	Low
Hybrid	Moderate	Moderate	Moderate

Based on the fact that Reid Golf Course produces a marginal net operating income, cannot afford large capital improvements and wants to control the rate structure; then a lease facility is most likely out of the question with only a Management Agreement or Hybrid Agreement available. As noted, the City currently operates under a Hybrid Agreement, which in 2003 made sense. In 2003, the control was still in favor of the golf courses. Golfers came to golf courses with minimal marketing. People still seemed to have the time, money and desire to play the sport. In the last five years control has shifted to the golfers. The economy dipped and people have become more fiscally challenged with their money. In addition, competition for a person's time continues to grow with family and other recreational opportunities and commitments. With this shift, competition to retain and attract golfers is of the most importance.

Because of this shift Reid Golf Course needs to adapt. In 2003, a Request for Proposal for Leasing the Clubhouse Operations was issued with the intent to contract out operations under the Hybrid Agreement format. In this scenario the contract delegated the City's objectives to the contractor based on the golfing environment of that time. Because the golfing business has become so competitive, the current contractor's role and responsibilities and the City's goals and objectives no longer match. We no longer can sit back and have the customers come to us; we must go out and find the customers. The expectations and terms of the original contract were based on the business and conditions of 2003. With the changes noted above it is necessary to redevelop the expectations for Reid Golf Course to obtain enough revenue to pay for operational expenses in addition to saving for capital improvements.

PROGRAMMING

Each golf course must determine its purpose in the community. Golf courses generally fall into three categories; municipal, private or private daily fee courses. Each category serves a different purpose and their services, customers and purpose vary.

A municipal course should:

- Market toward beginners of all ages.
- Be fun, less challenging and non-threatening golfing opportunities. Ideas include forward tees to make the course less challenging and welcoming for those who want to play faster. Hold non-competitive tournaments and events.
- Offer programs such as SNAG (Starting New At Golf) or implement the First Tee program. Implement a strong junior program as it does for other sports.
- Be welcoming to people of all economic levels.
- Be assessable for persons with special needs.
- Support family orientated activities that provide mentoring and development for the passion for the game.

As an Enterprise Operation, Reid Golf Course has lost its identity and has been more focused on financial issues than it is in providing the services it was founded on. Municipal golf courses do not have the same revenue streams that private country club and privately owned public golf courses do as noted earlier. These courses rely heavily on alcohol and food income to cover expenses. Municipal golf courses are not taverns, nor are they restaurants in a position to compete with the private sector.

We recommend that the Recreation Division include golf programming in their mix of programs which are funded by fees and tax dollars. Tax payer's dollars would not be utilized to fund the golf course, but instead to fund golf programming at the golf course by the Recreation Department. Under this agreement Reid Golf Course can meet its intended purpose as noted above.

Finally, a new Golf Advisory Committee should be developed that consists of a variety of users. This will ensure the programming and usage of the course meets the needs and demands of our entire customer base.

RATE STRUCTURE

The establishment of competitive market rates is one of the most important marketing and financial tasks being faced by today's golf course owner and operator. For the best operators, the following is the unassailable truth.

If the Golfer Dictates the Time of Play…..the Owner Dictates the Price

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Reid Golf Course has a combination of competitive rates for Daily Fee play and an Annual Pass program which effectively does not make good business sense as it did just a decade ago. As people become more selective for the time of play, the industry had changed their approach to pricing both single rounds and passes. The National Golf Foundation has suggested that passes should no longer be offered in lieu of new programs such as discount cards, which will be discussed later in this letter.

The pass program has served Reid Golf Course well in the past, but in today's environment a change is required as explained in the example below:

Schedule 1A						
ADULT AND SENIOR ANNUAL PASS IMPACT ON AVG $ PER ROUND						
2012						
	Rounds Played	Pct of Total Rnds	Total Income	Avg Rev Per Round	# Passes Sold	Avg Rnds per Pass
Adult Passes (Includes Family, Corporate & Associate)	2,982	9.23%	$47,450	$15.92	59	51
Sr. Passes	2,834	8.77%	$28,050	$9.90	43	66
Sub Total						
Total	5,816	18.00%	$75,500	$12.98	102	57

The impact of the Annual Pass program, as it operates, is the major contributor to reducing the Average Annual Fee per Round to $14.69. In 2012, 18-hole rounds averaged $25.44 when paid for as a Daily Fee. However, when an Adult or Senior Annual Pass holder plays, the amortized rate per round paid drops dramatically with the Adult pass holder paying $15.92 and the Senior pass holder paying $9.90.[2] It is important to note that these 102 pass holders are allowed to play at any time of the day and any day of the week. This means that the Pass Holder not only dictates when they will play, they also dictate what they will pay. This practice, as shown, creates a situation where more than 18% of the rounds are played at 50% of the average cost of a daily fee 18-hole rate. The impact of these rates is not fiscally responsible. The City's cost of operating the course in 2012 was $473,516 and that the per round cost to the City was $14.66. The average revenue per round from pass holders was $12.98. Note that at the time this data was collected a breakdown of 9-hole and 18-hole rounds was not available. The revenues obtained by the daily fee golfers effectively supported each pass holder (Adult, Senior, Junior, etc.) an average of $1.68 each time a pass holder played during 2012.[3]

Since an Annual Pass Holder can play anytime, it appears that many of the pass holders play in prime times on weekends, holidays and peak weekday hours. This creates a situation that in addition to

[2] These numbers are based upon the Adult paying $900.00 and the Senior paying $650.00 for the respective Annual Pass. Note that the Adult Pass Holders play 2,982 rounds per year or an average 51 rounds per Pass holder and the Senior Pass Holders play 2,834 rounds per year or an average of 66 rounds per Pass holder.

[3] $1.68 equals a cost per round to operate of $14.66 less Average Fee paid for pass holders (Adult and Senior) of $12.98.

the pass holder $1.68 subsidy, the City loses another $12.46 per round when a pass holder plays at a time when a daily fee player could have played.[4]

The Short Term goal (1 – 2 years) would be, Year 1, modify the annual passes to be valid only on non-peak times. This might be during early morning or late afternoons when demand for play is slower. We can allow Annual Pass play on "Time Available" (i.e. if there or no reservations for that tee time and/or there is no full paying golfer waiting to play) during peak times. The Long Term goal would be to eliminate the Annual Pass with a program that requires a payment for every round played. A popular program is to sell annual Discount Cards which offers savings on golf, concession and pro-shop purchases. Example: an annual discount card is sold for $95.00 and a discount of 15% is applied[5] to the green fees of the round being sold and other things including food, golf merchandise, etc.

FINANCIAL

Clearly, the economic environment in which Reid Golf Course operates has changed dramatically in the past 25 years. The past operating purpose was clear; i.e. granting a publicly subsidized green fee as part of providing the best public facility for the most people was an operating dictum. In 1990, Reid Golf Course was changed from a General Fund, tax payer supported operation, to an Enterprise Fund fee supported operation. The golf course's revenue was exceeding its expenses in the years leading to 1990 and the decision makers at that time wanted to see that excess revenue be kept for the golf course operation versus being used for other City services. If this trend would have continued the golf course would have had a positive reserve, but business turned making it very difficult to survive as an enterprise operation whereas expenses are barely being met. Today, golf is seen more as a sport to be paid for by the golfer's discretionary income and not a subsidized activity like recreation sports such as tennis, soccer or baseball. With that being said, our department understands the pressure that Reid Golf Course remains an Enterprise Fund. Later in this document we recommend the addition of subsidized golf recreation programming from the Recreation Division to meet the purpose of a municipal golf course.

A golf course is expensive to maintain. With slightly more than 32,000 paid rounds, the City spent $14.66 per round to provide access to the golf course. This 2012 cost included maintenance of the turf grass, irrigation, etc. The average revenue per round for all rounds is $14.69, or an excess of $0.03 per round. This means that the golf course has no funds for capital improvements[6] or the slightest contingency. The City is constantly on the verge of losing money on the cost of golf course operations. Although the City may wish to treat the golf course as a public service facility, the risks are too great to operate under the traditional "Parks and Recreation" mission and must be operated as much as possible

[4] $12.46 equals $25.44 (average 18-hole daily fee) less $13.10 (average pass and coupon fee)

[5] The discount might range from 10% to 25% depending on financial and market studies used to determine the Rate Structure. The intent being to dramatically raise the average daily dollars/round.

[6] Capital improvements are necessary and cannot be deferred for a long-period of time. At some point, buildings, parking lots, irrigation systems, etc. will need to be updated. Greens will need to be rebuilt, bunkers will need reconstruction, drainage will need improvement, etc. The City must establish and control rates to provide a "set aside" for capital improvements.

as a viable business. We say as much as possible, but want to remind you that a municipal course is hampered by requirements to use internal services and policies. Reid Golf Course has to follow the City's procurement policies, wage and benefit rates, the usage of the Central Equipment Agency for equipment maintenance, the usage of the Facilities Management Department for facilities maintenance and other charges for legal and financial services. In addition, a municipal course generally will try to maintain a family environment where hard liquor is not sold, which is often a main revenue source for private county club and privately owned public golf courses. These requirements increase expenses and reduce revenue. Remember that less than 12% of the taxpayers are golfers. Consequently, at least 88% of the tax paying base pays for that 12% to incur budgetary risk. Though Reid Golf Course is not funded by taxpayers at this point, it still is owned by the City and is a liability if fees alone cannot pay the expenses. Therefore, a stance should be adopted which strongly implies that the management of the golf course will be financially viable and the golf course will be operated in a manner that is equitable and responsible to the taxpayer.

Below is a recommended Capital Improvement Plan (CIP) that sets budgets expenditures for the coming five years. To fund these expenses it will be necessary that the golf course obtain enough revenue to not only pay for operational expenses, as is currently happening, but also have enough money to fund capital needs past and current.

PARK	PROJECT	2014	2015	2016	2017	2018
	Paved Paths	$25,000	$40,000			
	Parking Lot Repair			$30,000		
	Boiler Replacement	$15,000				
	Bathroom Remodel		$35,000			
	Bunker Renovations		$5,000	$5,000	$5,000	
	Greens Drainage			$7,500	$7,500	
	Furniture, Outdoor	$5,000				
	Forward Tees		$4,500	$4,500		
	ADA Tee Access				$25,000	
	Master Planning	$15,000				$5,000
	Weather Detection			$25,000		
	Concession Equipment Replacements	$10,000	$10,000	$10,000		
	Maintenance Equip.	$15,000		$15,000		$15,000

TOTAL		$60,000	$84,500	$47,000	$37,500	$5,000

It is important to note that the City is paying for past debt. In 2013, Reid Golf Course incurred an interest payment of $16,038 and depreciation expense of $80,385. This debt was for past projects including improvements to the clubhouse, maintenance building, parking lot and irrigation system. The outstanding debt is $1,023,577 with a payoff due not until 2026. The golf course is not in a position to take on anymore large debt payments; therefore it is critical that revenues allow for funding of improvements.

CONCLUSION

Upon completing a comprehensive analysis of the golf course operations, we provide the following recommendations:

- Review the type of Operating Agreement that best fits the future of the golf course.

    1. Hybrid Agreement - If the City maintains a Hybrid Agreement, the contract would be rewritten to require the contractor to take a new approach to retaining and attracting a golf base. New expectations for marketing, youth programming, customer service, attire, concessions, number and type of tournaments and janitorial services would be required. The contract would include an expectation of the contractor to research, embrace, and implement trends happening in the golf industry.

    2. Self Operated - The City may consider operating the golf course in-house. The City currently provides all maintenance to the golf course, facilities and equipment. In addition, the City has a Parks & Recreation division currently with the resources to provide programming, marketing and operational resources. Last, the City currently provides the legal, financial and human resources in-house. Consideration for leasing out the concessions operation to a local restaurant could also be made.

- Transition from passes to discount cards. In 2014, offer (2) types of passes. The existing pass would include restrictions for time of play. A second pass would still be available for play at anytime, but would be competitively priced to ensure tee times are being maximized to ensure a healthy revenue stream.

- Establish a new Golf Advisory Committee to represent all ages, all skill levels and all types of players. (Currently in-progress)

- Incorporate golf programming, provided by the Parks and Recreation Division, which encourages and introduces youth and new golfers of all ages to the sport.

- Provide more opportunities for youth, family play, women, etc. May include non-competitive tournaments, discounts, 3 and 6 hole play, etc.

- Continue to implement Capital Improvements to maintain a quality course that can remain competitive within our Community. Over the past two years a new roof has been put on the clubhouse, the pro shop and concession areas have been renovated, furniture has been upgraded and a new computer system has been implemented.
- Utilize available technological golf resources in the industry.

\- End -