



# City of Sunnyvale

## Agenda Item-No Attachments (PDF)

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### REPORT TO COUNCIL

#### **SUBJECT**

Approve Budget Modification No. 44 in the Amount of \$140,000 to Cover Projected Deficits in the Golf and Tennis Operations Fund for FY 2014/15

#### **BACKGROUND**

In 2011, Council approved the dissolution of the Community Recreation Fund and the creation of the Golf and Tennis Operations Fund. The newly configured Fund was first presented in the FY 2012/13 Budget. The intent was for golf and tennis operations to operate as a self-supporting enterprise fund. In FY 2012/13 Council approved a budget modification of \$300,000 to stabilize the Golf and Tennis Fund after the previous restaurant operator terminated its operations at both golf courses.

In December 2014, the new restaurant operator was required to cease services at both golf courses due to failure to pay rent. This resulted in both a revenue loss from rental income and reduced rounds of play at both courses. Due to the revenue loss, the Golf and Tennis Operations Fund is projected to finish FY 2014/15 with a deficit of approximately \$140,000. Therefore, a \$140,000 transfer from the General Fund is needed to balance the Fund through FY 2014/15. Proposals to operate the two restaurants have been reviewed. Negotiations with the selected operators have started and it is anticipated that new license agreements will be brought to Council for approval by summer of this year. The difficulty in attracting and retaining qualified restaurant operators can be attributed to the design and condition of the existing facilities. The buildings are over 40 years old and apart from the addition of a banquet room over 20 years ago at the Sunnyvale Golf Course, very few capital improvements have been made to modernize the facility. In the early 90's and 2000's the golf program generated between one to three million in profit, however those funds were not reinvested back into the facility and were used for other recreational programs. While the City is fortunate to have operators interested in the restaurants, the conditions of the facilities impacts overall feasibility of attracting the types of events that generate revenues and stabilize services.

#### **EXISTING POLICY**

##### **Council Policy, Chapter 7, *Planning and Management - Fiscal Long Range Goals and Financial Policies***

7.1A.4.3 - The City's budget appropriation control shall be by program within the same fund for operating programs in the General Fund and Special Revenue Funds. For the Proprietary and Internal Service Funds, expenditures cannot exceed actual revenues plus the planned use of reserves.

#### **ENVIRONMENTAL REVIEW**

N/A

## **DISCUSSION**

Staff continues to make good progress in reducing the cost of golf operations through restructuring. Most recently a Golf Operations Manager position was eliminated through attrition and the program restructured under the remaining manager, and operating expenses in FY 2014/15 are projected to end the year approximately \$150,000 under budget. It should be noted that costs have been reduced as much as possible, and any continued reductions may lead to declining service levels over time that will negatively affect revenues due to poor course conditions.

Revenues were projected to increase 5.4% in FY 2014/15 to a total of \$3,852,000; however, they are currently projected to end the year below what was received last fiscal year. As a result, revenues are anticipated to be \$378,000 under original projections. The most significant challenge in FY 2014/15 occurred as a result of the restaurant operator's inability to pay rent reaching back to May 2014. The parties were unable to resolve the issue and both of the restaurants were closed in December 2014, resulting in loss of anticipated rental revenue. Of equal importance is the negative affect the loss of food and beverage services has on the number of tournaments and rounds played. Past experience has shown that revenue from green fees is reduced by up to 10% when the restaurants are closed. Proposals to operate the two restaurants are currently being reviewed and new license agreements will be brought to Council for approval in the next few months.

Over the long term, revenues are projected to grow at a rate of approximately 2% per year, impacted by the general decline in golf play nationally and locally. Although staff continues to make positive strides in reducing operating costs, expenses are projected to grow faster than 2% per year due to the rising costs of personnel and other expenses such as water costs. Currently, the fund is projected to be structurally imbalanced at least until next year when a new restaurant is fully operational. In order to address this, a \$450,000 appropriation from the General Fund will be proposed in the FY 2015/16 Recommended Budget. This will provide enough funding to keep the Golf and Tennis Fund in a positive cash position and allows time for further discussion with Council. After a new restaurant operator is in place staff will continue to look at how to strategically address the long term viability of the golf course operations and the current funding model. A study might be needed to review the options for both courses. If a study is needed, it will require additional resources to conduct a full analysis, and staff will come back to Council to request an appropriation as needed.

The fund also contributes approximately \$390,000 (11% of total operating costs) to the General Fund for its share of administrative and overhead costs such as departmental management, property and liability insurance, attorney services, finance, payroll, and human resources. If the golf courses did not exist, the General Fund would still have to absorb most of these costs as these administrative service costs would not be fully eliminated. So although the enterprise fund is requiring a \$140,000 General Fund contribution this year, it will still provide approximately \$250,000 to the General Fund that would otherwise have to be funded from other sources. This is largely a result of operating savings in the current fiscal year due to vacancies. As such, these operating savings are one time. For FY 2015/16, the \$450,000 proposed subsidy will cover the full administrative overhead budget of \$400,000 as well as the difference between the fund's revenues and direct expenditures.

It is also important to note that the golf course also provides a significant recreational opportunity, and last year approximately 120,000 rounds of golf were played. If we estimate that each round of golf takes approximately three hours, the golf courses provided approximately 360,000 hours of recreation over a one year period.

### **FISCAL IMPACT**

The Golf and Tennis Operations Fund was originally budgeted to end FY 2014/15 with \$89,000 in reserves. With the use of these reserves and operating savings of \$150,000 (for a total of \$239,000), the net impact of the expected revenue loss of \$378,000 is that the fund is projected to finish FY 2014/15 with a deficit of nearly \$140,000. This deficit would result in a negative fund balance, and therefore a \$140,000 transfer from the General Fund is needed to stabilize the Golf and Tennis Operations Fund for the current fiscal year. Budget Modification No. 44 has been prepared to transfer funds from the General Fund to the Golf and Tennis Operations Fund.

### **Budget Modification No. 44**

#### **FY 2014/15**

	<b>Current</b>	<b>Increase/ (Decrease)</b>	<b>Revised</b>
<b>Golf and Tennis Operations Fund</b>			
Transfer In from General Fund	\$0	\$140,000	\$140,000
<b>General Fund</b>			
<u>Transfers</u>			
Transfer Out to Golf and Tennis Operations Fund	\$0	\$140,000	\$140,000
<u>Reserves</u>			
Budget Stabilization Fund	\$38,022,772	(\$140,000)	\$37,882,772

### **PUBLIC CONTACT**

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

### **ALTERNATIVES**

1. Approve Budget Modification No. 44 in the amount of \$140,000 to cover projected deficits in the Golf and Tennis Operations Fund for FY 2014/15.
2. Do not approve Budget Modification No. 44 and provide other direction to staff as Council deems appropriate.

### **STAFF RECOMMENDATION**

Alternative 1: Approve Budget Modification No. 44 in the amount of \$140,000 to cover projected deficits in the Golf and Tennis Operations Fund for FY 2014/15.

Prepared by: Scott Morton, Superintendent of Parks  
Reviewed by: Manuel Pineda, Director of Public Works  
Reviewed by: Grace K. Leung, Director of Finance  
Reviewed by: Robert A. Walker, Assistant City Manager  
Approved by: Deanna J. Santana, City Manager