



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Accept Report on Sunnyvale Golf and Tennis Operations and Approve Budget Modification No. 42 in the Amount of \$300,000 for a Total FY 2016/17 General Fund Subsidy of \$850,000

REPORT IN BRIEF

Accept report on Sunnyvale Golf and Tennis Operations and Approve Budget Modification No. 42 in the amount of \$300,000 for a total FY 2016/17 General Fund subsidy of \$850,000.

BACKGROUND

The City of Sunnyvale operates two golf courses, Sunnyvale Golf Course and Sunken Gardens Golf Course, and one tennis center, Sunnyvale Municipal Tennis Center. As they are business-like activities, financial management of golf and tennis operations are currently accounted for in the Golf and Tennis Operations Enterprise Fund.

Golf and tennis operations have been operating as a stand-alone enterprise since FY 2012/13, following the dissolution of the Community Recreation Fund, with all activities intended to be self-supporting. However, the golf operations of the Golf and Tennis Enterprise Fund has struggled to operate as a true enterprise fund due to a number of reasons including the overall decline in popularity in golf, the closure of the golf course restaurant operators, and the quality of the golf buildings. This has affected the number of rounds played at the golf courses, which have continued to decline, and additional General Fund transfers were made or approved during the last two and current fiscal years in the amount of \$1.14 million to account for the loss in revenue (FY 2014/15: \$140,000; FY 2015/16: \$450,000; FY 2016/17: approved \$550,000).

The City held a Council Study Session on September 29, 2015 to discuss the Golf program in depth. The presentation (Attachment 1) provided an overview on the golf industry decline, the program revenues and expenditures, how golf compares favorably from a cost recovery perspective to other City recreational services, and three policy options for Council Consideration: 1) Maintain current operations, 2) Pursue a private operator, 3) Explore other uses for the golf course. Staff prepared Study Issue DPW 16-07 Golf Course Land Use Options and Opportunities (Attachment 2) for Council consideration, however the Study Issue did not move forward.

The FY 2016/17 Adopted Budget included a 20-Year Financial Plan with annual fiscal subsidies and/or expenditure reductions of approximately \$600,000 to \$1.3 million that would be required to keep the fund in a positive cash position. Through budget discussion, the City Council provided direction to continue to fund the golf and tennis operations and continue to explore cost reductions through operational efficiencies and evaluate the impact of new restaurant operations. This report is provided to update the progress of golf and tennis operations and recommend additional funding to keep a positive cash position in the Golf and Tennis Operations Fund for FY 2016/17.

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.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

Based on a review of operations, several factors necessitate additional contributions from the General Fund in order to fund Golf and Tennis Operations in FY 2016/17.

Golf Operations

Retail water rates increased 25% in FY 2016/17. Due to the timing of these rate increases, additional funding was not included in the FY 2016/17 Adopted Budget. Water costs are anticipated to exceed budgeted levels by \$100,000 offset by salary and benefit savings due to vacancies (\$200,000).

Restaurant Concessions

Delays in the repair and rehabilitation of restaurant facilities at Sunnyvale Golf Course has negatively impacted revenue performance. Originally anticipated to open in late 2016, the restaurant vendor has had significant delays due to building infrastructure problems directly related to deferred maintenance. The lack of a restaurant has resulted in loss of tournaments, rounds and revenue. All inspections have now been completed and it is anticipated that a soft opening will occur in April 2017 with a grand opening in May. Separately, Sunken Gardens Golf Course has also experienced concession revenue impact as the opening of the restaurant was delayed a year and the lack of a restaurant for over four years has resulted in challenges in bringing customers back. The City is receiving rent from the current vendor, Golf Rush Eatery and is exploring ideas to increase revenues for both parties.

Golf Fee Revenue

Total projected golf rounds are anticipated to total approximately 104,000, down 6% from actual FY 2015/16 rounds played (111,011 rounds). Over the last ten years, total rounds dropped over 26% reflecting a national trend in the golf industry. The National Golf Foundation cites a high number of 30.6 million golfers in 2004 to 24.7 million in 2014. In addition, inclement winter weather impacted more than 50% of weekends from October through March. Overall Golf and Tennis Revenues are

anticipated to end the year close to \$3 million, down \$180,000 from last year actual and down \$300,000 compared to the original projection for this fiscal year developed in Spring 2016 during the production of the FY 2016/17 Budget.

Overhead Costs

The fund also contributes approximately \$442,000 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. As an Enterprise Fund, this fund is required to pay for its portion of overhead costs calculated annually.

Deferred Infrastructure Maintenance

In recent years, capital improvements have been necessary, including costly repairs at both restaurants. Sunken Gardens Golf Course and Sunnyvale Golf Course were built in 1957 and 1968, respectively. While the buildings were remodeled many years ago, the electrical wiring and plumbing are original. Anytime a new vendor operates at the restaurants, new building and health codes require upgrades from the City and deferred maintenance issues are identified. As examples, as part of the two new restaurants, repairs were needed to kitchen exhaust fans and hoods, roofs, bathrooms, and a sanitary sewer lateral. It is important to note that when the golf course was profitable (revenues exceeded expenditures up to \$2.0 million a year), the revenues were used to subsidize other City recreational services and not reinvested back into the golf course (although the golf course did receive some Park Dedication Fund funding). In addition, when Golf and Tennis was converted to an enterprise fund, the Council action determined that no future additional Park Dedication Fund funding would be used for the golf courses and tennis center beyond those items that were already in the budget (RTC 11-082). Per this direction, only modest funding is allocated for capital improvements at both golf courses through Park Dedication Fee revenue. Since it is not projected that golf will rebound and become profitable as it had in the past, the previous Council direction to not use Park Dedication fees for infrastructure improvements will further destabilize the golf program. At this time, Park Dedication Fund support is scheduled to decrease substantially after FY 2023/24, with only minor improvements thereafter, until funding is completely discontinued in FY 2034/35 giving rise to a new golf funding problem.

Golf and tennis operations continue to face challenges that necessitate an additional General Fund subsidy in the current year, and these challenges are expected to continue over the recommended 20-Year Financial Plan to be released as part of the budget in May 2017. These challenges include rising costs including water and retirement costs, continued deferred capital maintenance, and the continued decline in the interest in golf nationally. Staff will bring forward a recommendation as part of the FY 2017/18 Budget to infuse the Enterprise with General Fund contributions until FY 2023/24 when substantial capital contributions are planned to end in order to maintain the fund in a positive position. At that time, fiscal strategies would be required beyond that point to fund operations and deferred capital infrastructure maintenance. Staff plans to evaluate options regarding golf course operations during the next fiscal year and will bring forward recommendations for Council consideration.

Even with the overall decline in golf, staff continues to be as aggressive as possible to attract new patrons to the golf courses and maximize revenue opportunities. These include:

- New promotions to attract golfers on slower time periods
- New year long player development programs for youth and adults are being offered at Sunken Gardens
- Partnering with the tennis center to offer summer youth camps with tennis on the am and golf in the pm
- Opening (late April) of the new restaurant operator at Sunnyvale Golf Course. The restaurant operator already has a number of banquets/events scheduled for the facility and has contacted and met with adjacent business owners to plan for after work events
- A new farmers market at Sunnyvale Golf Course that will bring awareness to the course and hopefully attract team building activities at both courses
- The start of "foot-golf" this May at Sunken Gardens Golf Course
- New dedicated golf website to help promote the golf courses
- Promoting the golf courses through emails utilizing GolfNow's 150K + database as well as our own 6K+ database.
- Data collection through our new Point of Sale system for future communication of customers
- New range machine doors at Sunken Gardens that accept credit cards and cash. This will help upscale sales as well as cut back in labor cost

FISCAL IMPACT

As previously discussed, an additional transfer from the General Fund (\$300,000) is recommended to offset lower than anticipated Golf Fee revenue, and provide additional funding for Golf Operations increasing the FY 2016/17 General Fund subsidy from \$550,000 to \$850,000.

Budget Modification No. 42 has been prepared to appropriate General Fund funds in the amount of \$300,000 to support the Golf and Tennis Operations Fund.

Budget Modification No. 42 FY 2016/17

	Current	Increase/ (Decrease)	Revised
General Fund			
<u>Reserves</u>			
Budget Stabilization Fund	\$48,609,463	(\$300,000)	\$48,309,463
<u>Transfer Out</u>			
Transfer to the Golf and Tennis Operations Fund	\$550,000	\$300,000	\$850,000
Golf and Tennis Operations Fund			
<u>Revenues</u>			
Golf Fees	\$2,949,498	(\$300,000)	\$2,849,498
<u>Transfers In</u>			
Transfer from the General Fund	\$550,000	\$300,000	\$850,000

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. Accept report on Sunnyvale Golf Operations and Approve Budget Modification No. 42 in the amount of \$300,000 for a total FY 2016/17 subsidy of \$850,000
2. Accept report on Sunnyvale Golf Operations and do not Approve Budget Modification No. 42
3. Do not accept this report and do not approve Budget Modification No. 42

STAFF RECOMMENDATION

Alternative 1: Accept report on Sunnyvale Golf Operations and Approve Budget Modification No. 42 in the amount of \$300,000 for a total FY 2016/17 subsidy of \$850,000

Prepared by: Kenn Lee, Assistant Director of Finance

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Manuel Pineda, Public Works Director

Reviewed by: Walter C. Rossmann, Assistant City Manager

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. September 29, 2015 Golf Study Session to Council Presentation
2. 2016 Council Study Issue DPW 16-07 (15-0944)