AGENDA

GOLF COURSE BOARD OF DIRECTORS

CITY OF PORT ORANGE

Meeting Date: Wednesday, September 9, 2015
Type of Meeting: Regular

Time: 5:00 PM
Location: 2nd Floor Conference Room
City Hall, 1000 City Center Circle

A. CALL TO ORDER

1. Roll Call

B. DISCUSSION/ACTION

2. Consideration of Minutes - August 18, 2015
3. Presentation by Alan Rosen
    A. $2 Surcharge
    B. Annual Passes
    C. 20 Year Forecast

C. PUBLIC COMMENTS

D. ADJOURNMENT

GOLF COURSE BOARD OF DIRECTORS REGULAR MEETING MINUTES
CITY MANAGER'S CONFERENCE ROOM
1000 CITY CENTER CIRCLE
PORT ORANGE, FL
AUGUST 18, 2015

The Regular Meeting of the Golf Course Board of Directors was called to order by Chairman Ford at 4:00 p.m.

Present:	Bob Ford, Councilman/Board Member David Harden, Interim City Manager/Board Member
Also Present:	Jake Johansson, City Manager Tracey Riehm, Finance Director Matthew Jones, Assistant City Attorney Susan Lovallo, Parks & Rec Director Reggie Hunter, KemperSports Jody Graham, KemperSports Bob Duquette, KemperSports Theresa Gutierrez, Deputy City Clerk

2. APPROVAL OF MINUTES

   a. Regular Meeting – July 21, 2015

      Motion made by Chairman Ford seconded by Mr. Harden, to approve the minutes from the July 21, 2015 meeting. Motion carried unanimously by voice vote.

3. $2 Surcharge Discussion

Discussion was held regarding the $2 surcharge. Chairman Ford explained that $1 of the surcharge goes back to the golf course (revenue fund) and the other $1 goes into a special fund where it is held for replacement purposes along with new purchases. He would also like to see some clarification regarding taxes on the surcharge.

Matthew Jones, Assistant City Attorney, said they have continued to do that from 2006. The tax needs to be continued to be collected. Jody Graham, KemperSports, acted about the surcharge.

Chairman Ford believes the only positive thing he can see on the surcharge is the non-paid rounds. This means it's an additional source of income for the golf course. Mr. Graham said they will lose some money. He would like to see an ordinance framed for the surcharge.

Ted Noftall, citizen, showed concern on the revenue and the refurbishment of the golf course.

Alan Rosen, Assistant City Manager, said they have done best practice of the surcharge and will be prepared to give a presentation at the next golf board meeting. Mr. Rosen will be looking at the annual passes as well.

4. Annual Pass Discussion

Chairman Ford gave an overview of the annual passes at the golf course. He believes there is an issue with prepaid passes. Chairman Ford showed concern on the availability of tee times.

Mr. Rosen would like to see additional recommendations from the Board.

5. FY 16 Golf Course Budget

Mr. Duquette reviewed the FY 16 Golf Course Budget.

Chairman Ford asked if there was a budget cut for taking care of the greens. Bob Duquette, KemperSports, said Mr. Dasher, Architect, does not want to see the greens over seeded. Mr. Duquette does not believe there will be any issues for the greens with the budget cut. Essentially, Mr. Dasher feels that the fairways are so healthy, they can go through the winter with no problems.

Ms. Lovallo would like to see backup from the USGA to allow the greens to grow in properly.

Mr. Noftall asked about the new payments for the fleet. Ms. Riehm said the items need to be re-evaluated.

Chairman Ford said they will start paying debt payments next year. If the golf course picks up they will restart debt payments.

6. Proposed Cypress Head Logo

Discussion was held regarding a new proposed cypress head logo. Mr. Duquette would like to improve the look of the logo. They have been looking at different companies and would like to get an approval with the grand opening of the course. The outside of the entrance will not be changed. No recommendation was given at this time regarding the proposed Cypress Head logo.

A motion was made by Chairman Ford, seconded by Mr. Harden to hold a special board meeting of the shareholders so that Jake Johansson, City Manager, can be placed on the Board with the removal of Mr. Harden, former Interim City Manager. Motion carried unanimously by voice vote.

C. PUBLIC COMMENTS: There were none.

D. ADJOURNMENT: 4:57 p.m.

____

Bob Ford, Chairman

Municipal Golf Course Surcharges and Annual Pass Analysis

DRAFT September 9, 2015

Table of Contents

Tables

Executive Summary

The purpose of this study is twofold. The first is to research the history of the surcharge at the Cypress Head Golf Course and recommended changes if necessary. The second is to analyze the impact of selling annual passes to the general public. In addition to these items, staff has included a 20-year forecast of golf operations so that City administration and elected officials can better anticipate long-term trends.

This report is separated into the following subject areas

1. Executive Summary,
2. Methodology,
3. Surcharge Discussion,
4. Annual Pass Discussion,
5. 20-Year Forecast, and
6. Conclusion

We have provided a summary of recommendations for each of these sections in Attachment A at the end of this document.

Methodology

Staff employed a number of tools in obtaining information and producing recommendations. Data gathering and analytical tools included:

- Document Review
  - Staff reviewed budgets, Consolidated Annual Financial Reports (CAFR), golf economic reports and other related documents.
- Interviews
  - Staff interviewed city managers, golf contract managers, finance staff and golf management companies in order to obtain a deeper understanding of the industry especially as it relates to municipal courses.
- Financial Analysis
  - Staff reviewed the most recent financial information to help inform future forecasts.
- Peer Comparison
  - Staff compared peer cities for comparative purposes. These cities include:
    - Belle Glade (SugarCane Golf Club)
    - Delray Beach (Lakeview and Municipal Golf Clubs)
    - New Smyrna Beach (Municipal Golf Course), and
    - Ormond Beach (River Bend Golf Course)
    - Pompano Beach, and
    - West Palm Beach

Surcharge Discussion

The City of Port Orange currently charges a, “$1.00 surcharge for each 9 hole round of golf played.” This is stated in the City’s Resolution 12-44 establishing the most recent fees related to the municipal course adopted on August 28, 2012. In addition, the resolution adds that, “Fifty percent of the surcharge shall be earmarked for capital, renewal and replacement.”

While there is no more detail in the resolution on how the money is to be spent, Council had a discussion on August 28, 2001 and indicated they would support the $2 fee, “if part of that goes to upkeep.” “Upkeep” was mentioned in that discussion as relating to the clubhouse. Neither of these descriptions is very detailed and each could be interpreted differently.

Lately there has been some confusion on the original intent of the surcharge and the two paragraphs above may be the cause of this problem.

The $1.00 surcharge for each 9 holes played is charged to every round of golf. This is supported both by a Council discussion on July 28, 2001 and in the most recent resolution establishing fees for the golf course. However, “GolfNow” gets four rounds per day for a discounted rate in addition to not having to pay a surcharge. This is in exchange for using their system to book tee times. The maximum potential revenue loss based on this is $2,912 annually.

Staff compared Port Orange to six other municipal golf course operations and Port Orange was the only operation to charge a surcharge on top of regular fees. Table 1 below illustrates this analysis.

Table 1. Peer Comparison of Golf Course Surcharges

City	Surcharge
Belle Glade (Sugar Cane Golf Club)	No
Delray Beach (Lakeview Golf Club and Municipal golf Club)	No
New Smyrna (Municipal Golf Course)	No
Ormond Beach (River Bend)	No
Pompano Beach	No
Port Orange	Yes, $1 Surcharge for each 9 hole round (50% of which goes to capital, renewal and replacement).
West Palm Beach	No

During interviews with other cities, Pompano Beach indicated they were thinking about either raising rates or imposing a surcharge in the coming year in order to keep up with expenses. However, they are inclined to raise rates instead of implementing a surcharge, which may be confusing to some customers and stakeholders.

While discussing the possible recommendation of eliminating the surcharge and rolling it into greens fees, stakeholders identified a number of issues that would need to be addressed in order to ensure revenue was not reduced further. Because of this, and despite Port Orange being the only course in the analysis to implement a surcharge, staff's recommendation is to keep the surcharge, but make other changes that will clarify how the City can use the money.

Recommendation 1. Adopt a resolution indicating that 50% of the surcharge must be used for capital or debt service related to the golf course.

In addition to this, the most recent audit of Port Orange financials indicated that the definition of capital in the golf course enterprise fund was different than that of the City's. In order to further reduce confusion, the City should change the definition of capital expenditures for the golf course fund.

Recommendation 2. Change the definition of capital expenditures in the golf course fund to match the description of capital for the rest of the City.

Some members of the community are concerned that the surcharge earmarked for upkeep could help refurbish the golf course every 25 years and that the use of this money for smaller items does not allow for this to occur. It is accurate that the City could earmark these revenues for the sole purpose of refurbishing the course every 25 years, however at the current number of rounds played and revenue received it would take approximately 66 years to accrue enough revenue to refurbish the golf course (see Table 2).

Table 2. Golf Course Refurbishment Schedule Using Only Surcharge Revenue

	2014 Revenue	25 year schedule
Surcharge Revenue	$38,076	$100,000
Half of the Surcharge Revenue	$19,038	$50,000
Cost of refurbishment (today)[1]	$1,250,000	$1,250,000
Years needed to obtain revenue	66	25

[1] The cost of refurbishment is in today's dollars. In 25 years, the cost of refurbishing the golf course is likely to be much higher.

The forecast of revenue collected in Table 2 assumes no increase in the surcharge. If the City wanted to collect enough money in surcharge revenues to pay for golf course refurbishment within 25 years, it would need to either increase the number of rounds played annually or the surcharge fee by 163%

Annual Pass Discussion

Both Kemper Sports Management and interested residents at Cypress Head have completed analyses of annual passes at Cypress Head Golf Course. City staff had completed its own analysis as well.

The City conducted an input session with Kemper and the residents who put together their own analysis to go over the impact of selling annual passes. This meeting was integral in obtaining a good forecast of the possibilities. During this meeting, the stakeholders involved agreed with the basic assumptions and results of the analysis.

In order to forecast the net revenue effect of selling annual passes it is helpful to understand the behavior of people who have an annual pass versus purchasing individual rounds of golf. Fortunately, there are currently 53 active Founders pass-holders at Cypress Head. This population gives staff an insight into annual pass behavior.

It is important to mention that while we are using the Founders pass-holders as a baseline for golfing behavior, the intent of this analysis is not to in any way change the Founders Passes. Rather it is to analyze the impact of offering annual passes to the general public.

The goal of this analysis therefore is to determine the revenue the City would have received had the Founders pass-holders played as "non-members" versus how much revenue the city might receive if we sold the same number of annual passes.

In order to determine the amount of revenue the City would receive if the pass-holders play as "non-members" we looked at the average rounds played over the last three years and the proposed fees (i.e., greens, golf carts, trail fee, surcharge, etc.). We have included this detail in Tables 3-5 below.

Table 3. 3-Year Average of Rounds Played by Founders Pass Holders

Time	Off Season	Shoulder	In Season	Total
7 - 10 am	2,233	879	1,918	**5,029**
10 - 12 pm	159	71	213	**443**
12 - close	246	178	379	**803**
Total	**2,638**	**1,127**	**2,509**	**6,275**

Note: There are currently 53 active founder's passes. The average number of rounds played per golfer is 118 rounds per year.

Table 4. Preliminary Estimates of 2016 Greens Fees (Including Surcharge)

Time	Off Season	Shoulder	In Season
7 - 10 am	$16.00	$23.00	$30.00
10 - 12 pm	$13.00	$19.00	$25.00
12 - close	$10.00	$13.00	$17.00

Table 5. Preliminary Estimate of 2016 Greens Fees Plus Cart/Trail Fee (Including Surcharge)

Time	Off Season	Shoulder	In Season
7 - 10 am	$31.00	$38.00	$45.00
10 - 12 pm	$28.00	$34.00	$40.00
12 - close	$25.00	$28.00	$32.00

Note: Includes $15 cart/trail fee

Using the information in Tables 3-5, staff calculated the revenue the City would have received if the Founders pass-holders had played at market rates during the same time they played as "members" (using proposed 2016 prices). Table 6 details the results of this calculation.

Table 6. Revenue if Founders Pass Holders Played as Non-Members

Time	Off Season	Shoulder	In Season	Total
7 - 10 am	$67,548	$32,730	$84,857	**$185,135**
10 - 12 pm	$4,333	$2,350	$8,360	**$15,043**
12 - close	$5,974	$4,851	$11,833	**$22,657**
Total	**$77,855**	**$39,931**	**$105,050**	**$222,835**

Note: This calculation assumes 53 golfers playing 6,275 rounds of golf (see Table 2). It also assumes that 95% of rounds played will include golf cart or trail fees of $15.

As Table 6 indicates, if Founders pass-holders played at city resident rates under the same economic behavior conditions, the City might expect to see annual revenue from those golfers of almost $223,000. This amount could be considered a generous forecast because staff has assumed golfers would play 118 rounds regardless of whether or not they were members.

In reality, non-members would probably play less rounds and therefore the course would see less revenue in Table 6.

The next step in our analysis is to compare how much revenue the City might expect if the same number of people purchased annual passes.

When City staff, interested residents and Kemper met to discuss these issues, Kemper proposed annual pass rates as follows in Table 7.

Table 7. 2016 Proposed Annual Pass Rates

Annual Pass Type	Annual Cost
Family Memberships With Trail Fee	$3,995
Family Memberships Without Trail Fee	$2,795
Single Memberships With Trail Fee	$2,995
Single Memberships Without Trail Fee	$1,795

These rates are competitive when compared to other golf course annual pricing. The information from other courses in Tables 8-11 was produced by Kemper Sports in their report dated January 11, 2015.

Table 8. Comparison of Proposed Single Annual Pass Without Trail Fee

Single Annual Pass Without Trail Fees	
Course	**Annual Pass**
LPGA	3,048
Spruce Creek	2,820
Crane Lakes	2,300
Pelican Bay	2,100
Turnbull Bay	1,900
Halifax Plantation	1,875
Cypress Head	**1,795**
Indigo Lakes	1,670
Riverbend	1,600
Tomoka Oaks	1,392
New Smyrna Beach	1,278
Hidden Lakes	1,275
Daytona Beach	1,200
Daytona Beach	780

Table 9. Comparison of Proposed Single Annual Pass With Trail Fee

Single Annual Pass With Trail Fees	
Course	**Annual Pass**
Spruce Creek	4,320
LPGA	4,218
Turnbull Bay	3,400
Indigo Lakes	3,320
Halifax Plantation	3,279
Pelican Bay	3,200
Riverbend	3,200
Cypress Head	**2,995**
Crane Lakes	2,800
Hidden Lakes	2,725
New Smyrna Beach	2,715
Tomoka Oaks	2,592
Daytona Beach	2,136
Daytona Beach	1,580

Table 10. Comparison of Proposed Family Annual Pass Without Trail Fee

Family Annual Pass Without Trail Fees	
Course	**Annual Pass**
Spruce Creek	3,840
LPGA	3,648
Pelican Bay	3,200
Crane Lakes	3,100
Indigo Lakes	2,800
Cypress Head	**2,795**
Halifax Plantation	2,700
Riverbend	2,640
Turnbull Bay	2,300
New Smyrna Beach	1,917
Hidden Lakes	1,890
Tomoka Oaks	1,800
Daytona Beach	1,800
Daytona Beach	1,110

Table 11. Comparison of Proposed Family Annual Pass With Trail Fee

Family Annual Pass With Trail Fees	
Course	**Annual Pass**
Spruce Creek	5,844
LPGA	5,319
Indigo Lakes	5,000
Pelican Bay	5,000
Halifax Plantation	4,705
Turnbull Bay	4,300
Riverbend	4,240
Hidden Lakes	4,040
Cypress Head	**3,995**
New Smyrna Beach	3,940
Crane Lakes	3,600
Daytona Beach	3,137
Tomoka Oaks	3,000
Daytona Beach	2,310

Using the proposed annual pass rates, staff calculated potential revenue for 53 members (the same number of players used to calculate revenue for people playing at normal rates). The result of this analysis is illustrated in Table 12 and the underlying assumptions are included in the caption below the table.

Table 12. Membership Revenue Forecast for 53 Members

Membership Type	Members[1]	Annual Cost	Membership Revenue	Rounds Played[2]	Surcharge Revenue	Golf Cart Fees[3]	Revenue
Family With Trail Fee	9	$3,995	$35,955	1,062	$2,124	$0	$38,079
Family Without Trail Fee	25	$2,795	$69,875	2,950	$5,900	$42,038	$117,813
Single With Trail Fee	5	$2,995	$14,975	590	$1,180	$0	$16,155
Single Without Trail Fee	14	$1,795	$25,130	1,652	$3,304	$23,541	$51,975
Total	**53**		**$145,935**	**6,254**	**$12,508**	**$65,579**	**$224,022**

[1] Assumes 65% of members will purchase family memberships and 35% will purchase single memberships based on current split in Founders Passes. Also assumes that 25% of members will purchase a trail fee and 75% will not.
[2] Rounds played is based on the average number of rounds played annually by current founders pass members.
[3] Based on the assumption that members who did not purchase a trail fee will rent a golf cart 95% of the time.

Using the assumptions included in this analysis, the City might expect to see an additional $1,187 in revenue for every 53 annual memberships purchased. This amount is the revenue in Table 12 less the revenue in Table 6. This result assumes that all new memberships are purchased by current regular Cypress Head golfers. Should the City be able to attract new golfers via a membership program, expected revenue would increase.

Also, as described above, there is a strong possibility that revenue realized by "non-pass-holders" would be lower due to the fact that they may play fewer rounds. If revenue under that scenario is lower, the net revenue if these same people had become annual pass-holders would be higher.

An additional benefit to having annual pass-holders is that the revenue is pre-paid. Regardless of how rainy the season is, the revenue is still realized in a membership program. Conversely, those paying per round may play less if there is less opportunity due to weather and thus a decline in revenue.

Recommendation 3. Offer annual passes at the proposed amounts included in this study.

If the City offers annual passes as recommended, it will need to adopt a new resolution raising the maximum amounts that the City can charge for passes. The proposed annual pass prices exceed maximums allowed by current resolution. In addition, according to the current City ordinances, annual passes can only be sold in the month of October. This significantly limits the ability of the City to offer this option. The current course renovation will not be completed until November 2015 and the opportunity to offer annual memberships will have passed by the time the course reopens.

Recommendation 4. Adopt a new ordinance increasing maximum prices for annual passes and allow them to be sold at any time.

In addition to the recommendations above, the City may wish to adopt a fee resolution that indicates that fees can increase by a set percentage each year (with some limitations). In this manner the City can make changes to fee amounts more easily if necessary. This does not preclude City Council from being the final decision-makers on changing revenue annually.

In some of our interviews with stakeholders, Founders pass-holders were worried that creating an annual pass option would devalue their passes. Founders passes are attached to deeds in homes within the Cypress Head Community. These pass-holders currently pay $1,147.37 per year for a single pass and $1,608.49 per year for a double pass. Note that while this is the annual amount, the fiscal year 2015-16 amount will be slightly cheaper due to the golf course renovation keeping the course closed for the first month of the fiscal year ($1,051.82 for a single and $1,474.44 for a double).

The creation of annual passes at the amounts suggested in this report would cost more than the Founders passes and therefore not significantly devalue them. In order to further protect the remaining Founders passes, the City could agree to increase Founders passes at a slower rate than annual passes.

20-Year Forecast

As part of this analysis staff completed a 20-year forecast for different golf course scenarios. Long term forecasts are an important tool in aiding long term planning. However, as with any financial forecast, the longer the period in the forecast, the less accurate it may turn out to be in the future.

Forecasts are dependent on historical actuals and current knowledge of possible future events. In our baseline forecast we included the following assumptions:

1. 2016 includes 11 months of revenues and expenses due to the golf course reopening one month after the beginning of the fiscal year.
2. In 2016, $57,390 will be needed as a loan from the loan pool for operating deficit.
3. The City will start repaying its operating loan of $57,390 in 2017 at a rate of 11,478 per year and finish repaying this amount in 2021.
4. The Golf Fund will restart repaying its loan to the water/sewer fund at the rate it was formerly paying this debt ($178,000 annually). At this rate the golf fund would finish repaying the loan in 2024.
5. The Golf Fund will start paying off its loan to the revolving loan fund of $1,250,000 at a rate of $50,000 per year. At this rate it will finish repaying the loan in 25 years when the course may need refurbishment again.
6. The City will see an additional 1% in revenue in 2017 due to relatively new course and slight improvement in the economy.
7. The City will see no change in revenue between 2017 and 2021 due to a combination a slightly improving economy and a continuing decline in the golf industry.
8. An annual 2% increase in revenue starting in 2022 due to the closure of other golf courses in the geographic area and more golfers playing at Cypress Head.
9. An average increase in costs of 3% annually.

This forecast is somewhat optimistic because the golf course revenue has declined on average of 2% over the last six years. However, given these assumptions the City can expect to lose almost $8 million over the next 20 years. The average annual budget based on these assumptions is illustrated below in Table 13.

Table 13. Average Annual Budget In Baseline 20-Year Forecast

	20-Year Average
Revenues	1,375,957
Expenses	1,643,750
Loan Repayment to Water/Sewer	77,953
Loan Repayment to Loan Fund	52,870
Total Expenses	1,774,573
Revenues Over/Under Expenses	(398,615)

Staff forecasted different scenarios to determine what fee increases would help the golf fund break even. The second scenario included an annual 2% increase in fees starting in 2017. In this forecast, the City would expect to lose approximately $1.75 million over the 20-year period. The average annual budget in this forecast is included below in Table 14.

Table 14. Average Annual Budget in Baseline Plus 2% Increase in Fees Annually

	20-Year Average
Revenues	1,686,977
Expenses	1,643,750
Loan Repayment to Water/Sewer	77,953
Loan Repayment to Loan Fund	52,870
Total Expenses	1,774,573
Revenues Over/Under Expenses	(87,596)

In the next forecast scenario staff identified a stable annual increase in revenues that would produce a break-even amount during the entire 20-year forecast. In order to break even during the forecast period the City could increase fees by 2.5% annually every year. While the City would lose about $230,000 per year at the beginning of the forecast period, it would net about $395,000 in 2035. The overall net balance after 20 years would be a gain of $57,663. The average annual budget in this forecast is included in Table 15 below.

Table 15. Average Annual Budget in Baseline Plus 2.5% Increase in Fees Annually

	20-Year Average
Revenues	1,777,456
Expenses	1,643,750
Loan Repayment to Water/Sewer	77,953
Loan Repayment to Loan Fund	52,870
Total Expenses	1,774,573
Revenues Over/Under Expenses	2,883

As stated previously, all forecasts assume the Golf Course will repay all loans to other city funds. If the City forgave all loans to the golf fund, revenues would not have to be increased as much as indicated to break even.

If the City wanted to implement a 2.5% increase in fees each year for 20 years, it would have to subscribe to this option and repay operating loans when a surplus begins around 2025.

Recommendation 5. Adopt a long-term revenue strategy that leads to a break-even scenario for the golf course.

If the City does not want to implement Recommendation number 5, there are other options the City can consider including:

1. Identify the golf course as a community benefit and consciously subsidize operations without raising rates to the amount needed to break even.
2. Eliminate the golf course in 2022 and repurpose the land as an open space that will not significantly devalue surrounding property.

Conclusion

Based on the analysis included in this study, the City has the opportunity to simplify the guidance on the use of the current surcharge to avoid future confusion. In addition, the City can create an annual pass program without giving up needed revenue. This option could be attractive to other golfers not currently playing at Cypress Head and might have the ability to slightly increase revenue.

The 20-year forecast provided indicates that moderate increases in fees annually could help the course break even. Without increases in fees the City would need to decide whether to stay in the golf business or if it wants to subsidize this activity.

While this 20-year forecast seems hopeful, the golf industry in the United States has seen continued decline over at least the last 6 years. In 2010 the National Golf Foundation published a study forecasting rounds played between 2010 and 2020 would increase by 15%. However, Cypress Head has seen a decline in rounds played during this time-frame.

In December 2014 the “Economist” published an article on the state of the golf industry. It indicated that even with the advent of Frisbee golf and foot golf, the industry is still in decline and there is no data on the horizon indicating that golf will see a resurgence in the near future.

Attachment A – List of Recommendations

Recommendation 1. Adopt a resolution indicating that 50% of the surcharge must be used for capital or debt service related to the golf course.

Recommendation 2. Change the definition of capital expenditures in the golf course fund to match the description of capital for the rest of the City.

Recommendation 3. Offer annual passes at the proposed amounts included in this study.

Recommendation 4. Adopt a new ordinance increasing maximum prices for annual passes and allow them to be sold at any time.

Recommendation 5. Adopt a long-term revenue strategy that leads to a break-even scenario for the golf course.