

**Council Meeting: June 11, 2013****SUBJECT: Discussion and Possible Action to Address Golf and Tennis Operations Fund Deficit in FY 2012/13 and Approval of Budget Modification No. 42.****BACKGROUND**

On April 26, 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 true enterprise fund, with all activities self-supporting. Golf operations finished FY 2011/12 nearly even, with expenditures just slightly exceeding revenues. Factoring in the remaining reserve balance after the dissolution of the Community Recreation Fund, the new Golf and Tennis Operations Fund began FY 2012/13 with \$287,367 in available reserves.

In August 2012, the long-time restaurant operator closed its doors unexpectedly at both golf courses. This resulted in both a revenue loss from rental income and reduced rounds of play at both courses. Due to the revenue losses, the Golf and Tennis Operations Fund is projected to finish FY 2012/13 with a deficit of approximately \$326,000. A \$300,000 transfer from the General Fund is needed to stabilize the Golf and Tennis Operations Fund through FY 2013/14, at which point the Fund is expected to be fully self-supporting. Without the transfer, the Golf and Tennis Operations Fund would exhaust its reserves and still end FY 2012/13 with a negative fund balance of approximately \$39,000.

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.

DISCUSSION**Current Conditions**

The Golf and Tennis Operations Fund faced a significant challenge in FY 2012/13 when the long-time operator closed both golf course restaurants

without notification. The license agreement with the operator had provided between \$80,000 and \$90,000 in annual revenues. A new operator was selected and began operation in April 2013 with the first-year term of the license producing \$12,000 in revenue for FY 2012/13. The change in operators directly reduced revenue to the Fund by \$68,000 - \$78,000 this fiscal year. Of equal importance, the loss of food and beverage services for nine months played a significant role in the reduction in rounds of play and associated revenue at both courses. In total, revenues declined approximately 10% from \$3,792,445 in FY 2011/12 to year-end projections for FY 2012/13 of \$3,420,347.

In an effort to balance the fund, staff reduced operating expenses by not filling vacant positions and was judicious in its use of goods, services and utilities. It should be noted that although this strategy may work in the short term, over time it could lead to declining service levels that will negatively affect revenues due to poor course conditions. Operating expenses in FY 2012/13 are projected to be reduced by approximately \$168,000 when compared to FY 2011/12.

Future of Golf

The national golf industry showed signs of a modest recovery in 2012, demonstrated by a 6% increase in year-over-year rounds played. This was the largest single-year improvement since 1999. Courses in the U.S. continue to be under pricing pressure due to an oversupply created during the late 1990s and early 2000s. The development of new courses is at an all-time low, and 2012 was the seventh consecutive year with a net reduction in courses. The number of golfers has stabilized at approximately 26 million nationwide, however, the major factors affecting golf's future outlook are uncertain. Looking forward, variables with significant impact on industry success are the national debt, the U.S. economy, housing values, employment rates, the stock market, and consumer confidence. Given recent improvement in these and other indicators, slow but measured growth (1-2% annually) is expected in the coming years. Golf in the Bay Area is similarly impacted, and recent results show a reversal in the downward trend of the last several years. Available data suggests that rounds played per course were modestly improved for 2012. Overall revenue was slightly reduced, as discounted daily fees and monthly/yearly package pricing became more prevalent. As golf play grows in the coming years, discounting will decrease, and pricing will return to a more standard level.

Moving forward, there are a number of reasons for cautious optimism regarding the financial future of the Golf and Tennis Operations Fund. New 15-year license agreements with Lifetime Tennis Inc. for the Tennis Center and Synergy Golf Management Inc. for the golf course restaurants will generate license fees of \$3,648,675 over the course of both agreements. That total is \$550,000 more in revenue to the City when compared to the previous license agreements. City staff will be working with Synergy on marketing promotions that link golf play with food/beverage services in an effort to increase revenue for both parties.

Sunnyvale anticipates an increase in play as a result of an upcoming construction project at the Palo Alto Golf Course (full closure for approximately 1-year for renovations in 2014), and from the potential closure and redevelopment of the Santa Clara Golf & Tennis Club. The Santa Clara City Council recently approved an exclusive negotiating rights agreement with a developer to evaluate redevelopment of 230 acres of city-owned land in the North of Bayshore area, which includes Santa Clara's golf course. Staff projects that fiscal results from FY 2011/12 are reasonable to expect for the future and that the fund will be self-sustaining starting in FY 2014/15.

FISCAL IMPACT

Due to revenue losses associated with rental income and reduced rounds of play, the Golf and Tennis Operations Fund is projected to finish FY 2012/13 with a deficit of approximately \$326,000. This deficit would result in a negative fund balance, and therefore a \$300,000 transfer from the General Fund is needed to stabilize the Golf and Tennis Operations Fund until the fund is able to be fully self-supporting. This transfer from the General Fund was incorporated in the FY 2013/14 Recommended Budget that was presented to Council, and there is no additional fiscal impact to the General Fund for taking this action.

Budget Modification No. 42 has been prepared to appropriate \$300,000 from the General Fund into the Golf and Tennis Operations Fund to cover projected deficits in FY 2012/13 and FY 2013/14.

Budget Modification No. 42

FY 2012/13

	Current	Increase/ (Decrease)	Revised
General Fund			
<u>Expenditures:</u>			
Transfer to Golf and Tennis Operations Fund	\$0	\$300,000	\$300,000
<u>Reserves:</u>			
Budget Stabilization Fund	\$49,431,356	(\$300,000)	\$49,131,356
Golf and Tennis Operations Fund			
<u>Revenues:</u>			
Transfer from General Fund	\$0	\$300,000	\$300,000

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 Web site.

ALTERNATIVES

1. Approve Budget Modification No. 42 in the amount of \$300,000 to cover projected deficits in the Golf and Tennis Operations Fund.
2. Do not approve Budget Modification No. 42.

RECOMMENDATION

Staff Recommends Alternative No. 1: Approve Budget Modification No. 42 in the amount of \$300,000 to cover projected deficits in the Golf and Tennis Operations Fund.

Reviewed by:

Grace Leung, Director of Finance

Reviewed by:

Kent Steffens Director, Department of Public Works
Prepared by: Scott Morton, Superintendent of Parks & Golf

Approved by:

Gary M. Luebbers
City Manager