

To: Finance Committee

From: Finance Department

Date: November 30, 2020

Re: Financial Implications of the Report from the Task Force on Municipal Golf

Background

For the past twenty years, the City's Golf Enterprise has operated at a loss. As shown in following table, losses have accelerated in recent years. With the impact of the pandemic on activity options, golf managed a relatively solid profit in 2020..

Table 1: Golf Enterprise Revenue and Expenses, Average 2016-2020

	2016	2017	2018	2019	2020*
Glenway Golf Course					
Total Revenue	(366,137)	(354,430)	(351,603)	(381,101)	(461,024)
Salaries	220,389	178,202	205,578	202,408	139,954
Benefits	35,939	60,038	55,971	52,784	46,016
Supplies	50,660	39,739	79,571	40,748	37,330
Purchased Services	45,194	50,377	56,556	51,538	66,207
Debt	-	25,910	25,989	22,263	18,592
InterD Charges	10,964	16,437	23,354	14,341	20,266
Transfer Out	29,895	12,477	24,751	24,530	20,442
Total Expenses	393,040	383,180	471,769	408,614	348,808
<i>Net (Gain)/Loss</i>	<i>26,903</i>	<i>28,749</i>	<i>120,167</i>	<i>27,513</i>	<i>(112,217)</i>
Monona Golf Course					
Total Revenue	(442,895)	(433,521)	(398,251)	(380,698)	(504,100)
Salaries	245,983	222,124	231,619	222,450	166,609
Benefits	45,297	65,366	62,402	57,721	49,593
Supplies	64,790	62,870	59,618	54,717	50,915
Purchased Services	78,525	74,089	82,368	59,098	92,781
Debt	-	25,910	25,989	22,263	18,592
InterD Charges	25,103	27,561	36,593	18,195	21,164
Transfer Out	29,895	12,477	24,751	24,530	20,442
Total Expenses	489,592	490,397	523,340	458,975	420,096
<i>Net (Gain)/Loss</i>	<i>46,697</i>	<i>56,876</i>	<i>125,089</i>	<i>78,277</i>	<i>(84,005)</i>
Odana Hills					
Total Revenue**	(231,558)	(224,000)	(49,884)	(321,690)	(351,148)
Total Revenue**	(1,214,051)	(1,168,024)	(1,034,195)	(1,256,219)	(1,180,132)
Salaries	428,874	393,627	403,698	400,149	318,176
Benefits	68,393	108,752	97,299	95,905	81,637
Supplies	201,777	143,721	154,565	146,554	100,556
Purchased Services	151,702	155,997	142,348	148,817	184,214
Debt	-	51,821	51,978	44,526	37,184
InterD Charges	48,039	55,170	65,118	29,891	27,010
Transfer Out	83,708	34,936	69,305	68,687	57,239
Total Expenses	982,494	944,024	984,311	934,529	806,016
<i>Net (Gain)/Loss</i>	<i>(231,558)</i>	<i>(224,000)</i>	<i>(49,884)</i>	<i>(321,690)</i>	<i>(374,116)</i>

Yahara Hills					
Total Revenue	(1,191,957)	(903,130)	(676,293)	(751,128)	(1,349,475)
Salaries	553,074	559,687	484,460	511,880	478,306
Benefits	86,720	152,700	121,896	125,981	105,771
Supplies	305,188	247,972	255,273	234,347	174,348
Purchased Services	187,244	184,480	174,963	165,476	192,430
Debt	-	103,641	103,956	89,053	74,369
InterD Charges	76,432	124,869	114,473	94,394	66,654
Transfer Out	95,666	39,929	79,208	78,502	65,419
Total Expenses	1,304,325	1,413,278	1,334,230	1,299,633	1,157,297
Net (Gain)/Loss	112,368	510,149	657,937	548,505	(192,179)
Total Revenues	(3,215,040)	(2,859,105)	(2,460,341)	(2,769,146)	(3,494,732)
Total Expenditures	3,169,450	3,230,879	3,313,650	3,101,751	2,887,054
Net (Gain)/Loss	(45,590)	371,773	853,309	332,605	(762,516)

*Amounts shown were pulled on November 13, 2020; may be missing some actuals from the end of the season.

**Most golf membership revenue is captured in this line.

As shown by the table above, the only course that averaged a net gain from 2016 to 2020 is Odana Hills. This gain is likely not a true single course gain because most Golf memberships are recognized in Odana's revenues.

When one examines historical Golf revenue and expenditure data in real dollars, it appears that declining revenues are driving these losses. From 2000 to 2019, revenues in real (2019) dollars declined by 22 percent, compared with only 2 percent in real expenditure growth, as shown in Table 2.

Table 2: Real Revenue and Expenses over Time (2019 Dollars)

	2000	2016	2017	2018	2019	% Δ, 2000- 2019
Revenue	(3,549,392)	(3,485,148)	(2,982,667)	(2,505,413)	(2,769,146)	-22%
Expense	3,233,364	3,846,709	3,371,540	3,384,548	3,305,901	2%
Operating Loss (Gain)	(316,028)	361,561	388,873	879,135	536,755	

These ongoing losses have resulted in the Golf Enterprise borrowing from the City's General Fund to fill revenue gaps. In 2018, the Golf Enterprise borrowed just over \$813,000 to the Golf Enterprise, and in 2019, it borrowed another \$503,000. At the beginning of 2020, the golf enterprise's borrowing totaled nearly \$1.4 million in principal and interest.

Resolution 19-00456, adopted on June 18, 2019, called for the creation of a Task Force on Municipal Golf in Madison Parks to develop recommendations for the long-term financial stability of the courses.

The Final Report of the Task Force on Municipal Golf in Madison Parks proposes ten changes to the operations of the City's Municipal Golf Program. Many of these changes, if adopted, will result in a fiscal effect. Changes with the greatest financial implications are outlined below with a fiscal analysis based on historical Golf Enterprise data and information provided in the Report.

Analysis of Recommendations

Establish a plan and timeline to eliminate 18 holes at Yahara Hills (TFMG Final Report, p. 23). Yahara Hills is the only municipal golf course with 36-holes. The Task Force proposed a plan to eliminate 18 holes at Yahara. Annual expenditures at Yahara averaged \$1,300,000 from 2016 to 2019, with course deficits ranging from \$112,000 to \$658,000 each year.

Table 3: Net Cost of Operations at Yahara Hills

	2016	2017	2018	2019	2020*
Expense	1,304,325	1,413,278	1,334,230	1,299,633	1,157,297
Revenue	(1,191,957)	(903,130)	(676,293)	(751,128)	(1,349,475)
Net Cost	112,368	510,149	657,937	548,505	(192,179)

*Amounts shown represent actuals as of November 13, 2020.

The average cost and revenue per hole of each of the City's courses, shown below, was used to estimate projected savings of closing 18 holes at Yahara. Revenue and expenditure data from 2020 was excluded because it is incomplete and 2020 utilization is an anomaly due to the global pandemic.

Table 4: Expense and Revenue per Hole

Course	# of Holes	Ave. # Golfers (2016-2019)	Ave. Revenue (2016-2019)	Ave. Expense (2016-2019)	Net Cost Per Hole (2016-2019)
Glenway	9	15,772	(40,369)	46,017	5,648
Monona	9	16,035	(45,982)	54,508	8,526
Odana	18	32,351	(64,896)	53,408	(11,488)
Yahara Hills	36	34,788	(24,462)	37,163	12,701

As shown by the table above, Yahara Hills has the lowest cost per hole of operating, likely due to economies of scale associated with being the largest course. Based on the analysis above, the estimated cost of operating only 18-holes at Yahara Hills is \$46,000 to \$54,500 per hole and the estimated revenue would range from \$40,400 to \$64,900 per hole. Based on these projected revenues and costs, Yahara Hills would lower its annual deficit from an average of \$354,800 over the past five years to \$101,700 to \$153,500 by reducing to 18-holes, as shown in the table below.

Table 5: Projected Yahara Hills Deficit with 18-Holes

	Low Estimate	High Estimate
Projected Revenue	\$726,600	\$827,700
Projected Costs	\$828,300	\$981,200
Net Cost	\$101,700	\$153,500

There are several major caveats to this analysis. First, the golf enterprise uses a cost allocation model, rather than direct cost accounting for certain categories of costs. Costs that are allocated using a cost allocation method include insurance and Workers' Compensation, advertising, memberships, oil, and printing. In other words, Golf's financial records do not record actual costs at the course level, but allocate costs out to each course based on the course's share of holes in the Enterprise. This means that

items that may be more or less costly from course-to-course, such as Workers' Compensation or Fleet charges, are not reflected in the actuals shown above.

Additionally, revenue from memberships is generally shown in Odana's revenue line, which likely results in an underestimation of actual Yahara Hills-generated revenue from members who primarily use that course.

Finally, the Golf Enterprise's finances in 2020 have looked much different than 2016 to 2019 due to the COVID-19 pandemic. For instance, as of November 13, 2020, the Golf Enterprise has a surplus of nearly \$763,000. If the change in 2020 is not an anomaly and instead a long-term behavioral change related to golfing, additional analysis would be required to determine if this recommendation continues to make financial sense.

Therefore, while closing holes at Yahara appears likely to decrease deficits based on historical data, additional course-level data and analysis of the potential ongoing impacts of COVID-19 would facilitate improved understanding of the financial implications of this recommendation.

Issue an RFP to evaluate a private or non-profit operator for Monona (*TFMG Final Report, p. 23*).

Annual operating expenses at Monona range from \$460,000 to \$523,000, with revenues ranging from \$380,000 to \$443,000. From 2016 to 2019, revenues were not sufficient to cover expenses. The City could issue a request for proposals (RFP) for a private operator for Monona, which could eliminate the loss from the City's Golf Enterprise. There are several means through which a private operator could reduce costs or increase revenues:

1. Staff costs may decrease under a private operator, subject to the terms of the operator's agreement with the City. Personnel costs represented 56% to 61% of the costs of Monona's operations from 2016 to 2019, so could be a significant area to realize savings.
2. The private operator may sell liquor, a practice that the City-run courses do not engage in under advisement from the City Attorney's Office. While liquor sales may offset some existing beer sales, the higher cost of liquor is likely to result in additional revenue.
3. City charges to the Golf Enterprise, such as for Fleet Maintenance and cost allocation, would become the responsibility of the private operator. Under this model, a private operator may have the organizational infrastructure in place to provide these services at a lower and more consistent rate.
4. Potential capital costs associated with Monona could become the responsibility of the private operator, and could potentially be supported through donations or another unit of government.

The Task Force report provides little detail regarding the terms and structure of this potential arrangement, which would be key factors in determining the course's profitability and, relatedly, the likelihood of obtaining a private operator. The assumption among Parks staff is that any contract would be structured as a long-term lease agreement with limited City intervention, which would allow the private entity leeway with respect to changing practices to generate additional revenue or reduce expenses.

It is possible that transitioning Monona to a private operator could result in overall reductions in Golf Enterprise revenue among memberships that primarily use the Monona Golf Course. The likelihood and potential magnitude of these reductions is unknown at this time.

It should also be noted that, under an analysis of the Madison Golf Courses conducted in November 2017 by Edgehill Golf Advisors, it was recommended that the City sell the Monona Golf Course due to the low usage and value of the land. Although this runs counter to the Golf Task Force recommendation not to sell Park lands, the sale of Monona was recommended as an alternative to mitigate some of the losses at the City’s courses and lessen the level of capital investment needed by one course.

Ensure that if City resources are used to invest in capital projects at golf courses, it is done in an equitable and fiscally responsible manner to reduce negative impact on park services (TFMG Final Report, p. 24). The Task Force report outlines the capital needs of the courses, which include increased capital costs of \$28-57 million over the next 20 years. The following table shows the estimate of capital needs of each of the courses, as well as additional capital equipment needs.

Table 6: Capital Investment Ranges by Course

Course	Projected Capital Needs	
	Low-end	High-end
Glenway	\$1,525,000	\$2,500,000
Monona	\$2,000,000	\$3,800,000
Odana	\$7,500,000	\$18,400,000
Yahara	\$13,000,000	\$32,000,000
Equipment	\$1,200,000	\$2,000,000
Total	\$25,225,000	\$58,700,000

The following table outline the estimated capital expenditures by course and type.

Table 7: Capital Investments Needed by Course and Type

	Glenway	Odana Hills	Monona	Yahara Hills	Total
Stormwater and Drainage Updates	-	12,800	-	17,021,300	17,034,100
Pumphouse and Irrigation Updates	345,600	1,725,300	1,028,000	-	3,098,900
Clubhouse Replacement and Parking Lot Renovation	1,870,000	4,060,500	1,885,300	3,005,300	10,821,100
Overall Course Updates	123,200	11,740,300	664,600	10,362,900	22,891,000
Total by Course	2,338,800	17,538,900	3,577,900	20,026,600	53,845,100

*Overall Course Updates includes replacing trees, adding cart paths, reseeding or adding tee boxes, restoring fairways, renovating bunkers

Operating costs associated with this level of capital expenditures are estimated at \$4.9 million to \$7.4 million annually. At this time, it is not clear that there is a golf-supported funding source available to support these costs, so they would likely be covered by the General Fund.

The Task Force Report also recommends that the City not sell park land to fund capital improvements of the golf courses. While this recommendation does not result in a direct expenditure, it does limit the potential revenue sources available to fund the capital improvements noted above. Given that the Golf Enterprise has historically operated at a loss, it is questionable whether the Enterprise would be able to fund such capital investments, or they would instead fall to the General Fund.

Further, while there may be some opportunity for delaying investments at Glenway, the Task Force Report indicates that significant investments at Yahara and Odana are needed to correct drainage problems and improve stormwater management immediately.

Remove the enterprise fund designation from the City’s golf courses (TFMG Final Report, p. 22).

Designating golf as an enterprise fund allows for closer tracking of assets, liabilities, cash flow and other measures of this program activity. This designation does not prohibit providing a property tax subsidy to golf operations, if that is a priority of the Mayor and Common Council. It does reflect that golf is primarily a business activity of the city and is primarily funded by user fees.

The Common Council would have the authority to determine the terms under which the Golf Enterprise would become an agency within the general fund. This could include removing the PILOT (payment in lieu of taxes) and potentially cost allocation charges. The following table shows the estimated annual loss to the general fund based on the amounts paid from 2016 to 2019 in each of these areas:

Table 8: Average Golf PILOT and Interdepartmental Charges, 2016 to 2020

	Average, 2016 to 2020
PILOT	179,360
InterD Charges	258,930
TOTAL	438,290

Additionally, it should be noted that if the Golf Enterprise becomes a service within the Parks Division operating within the General Fund it may have implications for the Expenditure Restraint Program (ERP). Specifically, if the revenue is considered General Fund revenue, all of the golf enterprise’s approximately \$3 million in expenditures would count towards the ERP.