



Madison Parks Division

210 Martin Luther King, Jr. Blvd., Room 104
Madison, WI 53703
608-266-4711
www.cityofmadison.com/parks

play
**MADISON
PARKS**

DATE: May 6, 2019

TO: Golf Subcommittee Members

FROM: Eric Knepp, Parks Superintendent

CC: Mayor Rhodes-Conway; Alders Bidar, Evers, Foster, Henak, Martin, Skidmore, and Tierney;
Board of Park Commissioners

RE: Summary of Financial Position and Condition of the Golf Enterprise as of December, 2018

This memorandum provides a summary overview of the financial position and condition of the Golf Enterprise Fund ("GEF"). Information is based upon data recently compiled and used to complete the City of Madison Financial Statements for the GEF for 2018. Given the significant flooding issues in 2018, especially at Yahara and Odana (mostly revenue loss, but also damages incurred), staff anticipated a significant financial loss for the year. The final results for 2018 though not unanticipated are alarming, with a net loss of \$863,320. The size of this loss means that the Total Net Position at the end of the year in 2018 is negative for the first time in the known history of the GEF.

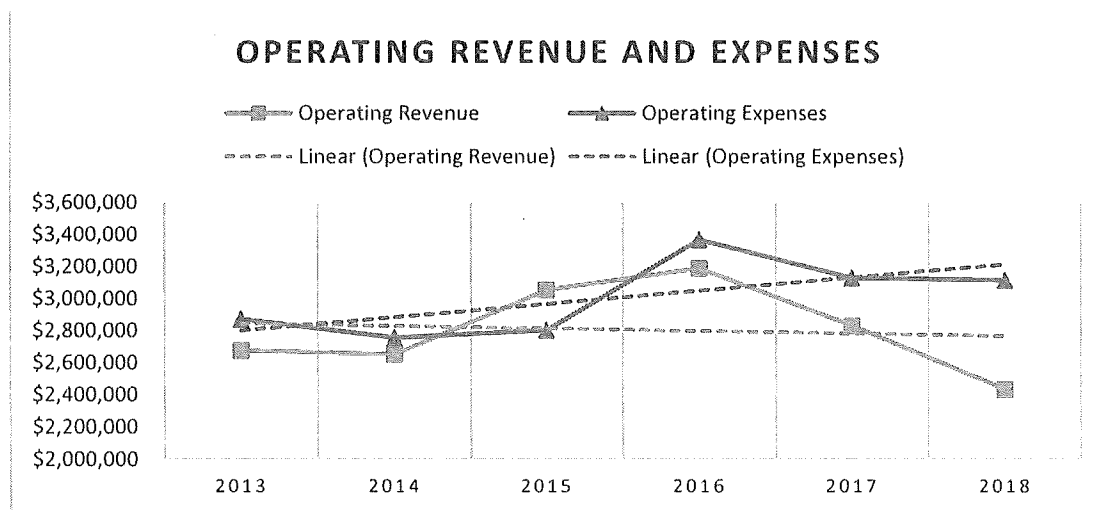
Despite the fact that 2018 was a historically bad year, the GEF has been struggling for more than a decade and despite some bright spots (e.g. a positive net position in 2015 and nearly \$3.2M in revenue in 2016) the current situation predates the poor 2018 financial performance. I have attached two documents as appendices to this memo that show the trends for the GEF's financial position and condition over the past 10 years. These documents show an unsustainable financial situation for the GEF. The two documents are:

- Appendix A – Combining Statement of Net Position
 - This document is essentially a balance sheet for the GEF. It shows Assets, Liabilities, and Net Position for the fund.
- Appendix B – Combining Statement of Revenues, Expenses and Changes in Net Position
 - This document is essentially the income statement for the GEF. It shows Revenues, Expenses, and Transfers for the fund.

These two documents both demonstrate chronic financial issues for the GEF over the past decade. The troubling financial data actually extends back to the 2001-2002 time period, which was the last time there were two successive years of profitability for the GEF. Since 2009, the GEF's Total Net Position has fallen from \$2.4M to the negative \$192K at the end of 2018. Appendix A also shows that in 2018 the City was no longer able to show the general fund supported "loan" as a Due to Other Funds, but had to move it to a Long Term Debt categorization of Advances from Other Funds given the lack of potential for realistic repayment. Additionally, Appendix B shows that the annual change in position has been negative in 9 of those 10 years, with only 2015 showing a positive return of approximately \$50,000. In seven of the 10 years, the loss has been greater than \$100,000 and in five of those years greater than \$337,000. Given the data and trend lines, the likelihood of the GEF recovering from the current deficit is effectively zero percent. Prior to 2018, though a low likelihood, four or five consecutive years like 2015 would have stabilized the fund. That is now closer to 18-20 such years occurring consecutively, which will not happen without systematic change.

There are a number of forces that have created the current financial situation with no single specific variable that ought to be considered causative from an expense perspective. Expenditure control programs have been in place for the entire decade and since 2013 (the year the Parks Division took over clubhouse operations of the courses), the annualized rate of growth for Total Operating Expenses is 1.4%. If depreciation is not

considered in this analysis, the rate is still at only 1.9%. Another item of interest has been the Payment in Lieu of Taxes (PILOT) paid by the GEF. Comparing 2013 to 2018, the annualized rate of growth is approximately 2.31%. The single most volatile, and causative, variable in the GEF's financial results is operating revenue. Over the past six years, it has shown more variance than the expenditure side of the ledger with a total dispersion of approximately \$750K. However, even the revenue numbers are relatively stable with the peak and valley over this time period each being about 13.5% off the mean average. In the other four more "normal" years, the variance shrinks to a range of -5% to 8% off the mean average. Three years have been below average and three above during the six year period. Overall, the situation is fairly straightforward in the fact that expenditures are fairly fixed and growing at normal rates (though this has been done by cuts in numerous areas to hedge against inflationary pressures on select expenditure areas), while revenue is less stable and rarely able to keep up with expenses. Taken together, a basic linear trend analysis shows a sizable and growing gap between the two.



The financials are especially sobering when considered in the context of the significant sustained headwinds in the competitive golf marketplace in Dane County. The number of holes of golf available has doubled since 1990 and the number of golfers and the number of rounds they play annually has not kept up. This becomes more distressing when considering that the leading cost drivers (labor, fleet/equipment, and utilities) have been and seem likely to continue to outpace the average rate of inflation. Adding in the elasticity of demand on the price that can be charged and it is clear the current model is not sustainable, even in the near term.

Future of Golf Course Operations

The future of golf operations in Madison parks is uncertain and the current model is clearly unsustainable. Despite the financial issues facing the GEF, there is an opportunity for our community to have a sense of urgency to work together on long-term sustainable and practical solutions. Given the significant financial issues for the GEF and the fact that it is currently being supported by Madison taxpayers, it is imperative that the next steps actively engage our policymakers. In an effort to move forward on this issue, I will be recommending to the Mayor that we work with Alders to establish a public process with clear parameters, goals, and timelines to better inform next steps for the future of Madison's golf courses. Given the significant financial issues facing the GEF, inaction is not an acceptable outcome for the City and I will be recommending that all options be contemplated as it relates financial and operational models of operation; hole reduction and/or course closure; and/or evaluating the best long term purpose of the 750+ acres of City park land (approximately 17.5% of parks owned land) currently in use as golf courses.

Appendix A

CITY OF MADISON COMBINING STATEMENT OF NET POSITION GOLF

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
ASSETS										
Current Assets										
Cash and investments	6,340	5,340	\$ -	\$ -	\$ -	\$ -	7,947	\$ -	\$ -	872
Accounts receivable	4,823	3,278	-	-	-	-	488	-	-	-
Accrued revenue	-	-	-	-	-	-	-	-	-	-
Inventories	7,190	7,664	7,594	6,578	6,320	6,604	7,034	-	-	-
Prepaid items	18,353	16,282	7,594	6,578	6,320	6,604	15,469	-	-	872
Total Current Assets	803,833	803,833	803,833	803,832	803,832	803,832	803,832	804,164	804,164	804,164
Capital Assets										
Land	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155	4,644,155
Construction work in progress	709,689	709,689	709,689	709,689	709,689	709,689	709,689	709,689	709,689	709,689
Buildings	1,464,548	1,802,426	1,656,214	1,617,627	6,916,951	7,630,121	7,522,466	7,442,021	7,392,581	7,307,552
Machinery and equipment	-	-	-	-	-	-	-	-	-	-
Plant in service (at cost)	-	-	-	-	-	-	-	-	-	-
Intangibles	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	(6,179,473)	(6,414,782)	(6,211,275)	(6,010,989)	(5,798,930)	(6,308,688)	(6,049,153)	(5,764,387)	(5,462,324)	(5,148,061)
Net Capital Assets	1,442,752	1,645,321	1,602,616	1,764,305	1,939,339	2,125,265	2,277,147	2,481,801	2,734,421	2,963,655
Restricted net pension asset	135,438	-	-	115,461	-	-	-	-	-	-
Total Assets	1,696,543	1,661,603	1,610,210	1,885,344	1,945,659	2,131,869	2,292,616	2,481,801	2,734,421	2,964,527
DEFERRED OUTFLOWS OF RESOURCES										
Pension related amounts	84,077	298,039	429,799	118,617	-	-	-	-	-	-
Total Deferred Outflows of Resources	84,077	298,039	429,799	118,617	-	-	-	-	-	-
LIABILITIES										
Current Liabilities										
Accounts payable	144,766	45,599	44,236	14,627	9,037	7,688	48,737	13,124	75,480	2,931
Accrued liabilities	23,861	28,534	29,610	13,962	3,313	36,375	26,869	23,507	19,010	18,473
Unearned revenues	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	259,484	170,443	41,048	303,340	117,024	-	197,691	70,493	214,596
Deposits	53,280	47,274	45,111	42,391	36,630	-	-	-	-	-
Current portion of general obligation long-term debt	24,621	24,621	-	-	-	-	-	-	-	-
Current portion of capital lease	-	-	-	-	-	-	-	-	-	-
Current portion of advances from other funds	11,297	10,287	9,400	8,603	7,868	7,195	6,562	6,093	3,787	3,787
Current portion of accrued compensated absences	34,429	32,802	26,781	22,193	16,268	23,419	21,277	31,753	3,787	3,787
Total Current Liabilities	292,254	448,701	325,581	142,824	375,426	191,701	103,465	272,166	168,770	239,767
Long-Term Debt Net of Current Maturities										
General obligation long-term debt	196,970	221,591	-	-	-	-	-	-	-	-
Capital lease	888,442	86,399	96,685	106,065	114,688	122,526	129,721	136,303	148,213	144,565
Advances from other funds	-	41,363	76,644	66,074	65,074	93,676	85,111	100,660	84,561	120,265
Accrued compensated absences	152,555	131,609	107,124	88,771	85,074	93,676	85,111	100,660	84,561	120,265
Other post-employment benefits	229,968	42,570	37,555	39,723	42,184	39,273	36,204	30,041	24,284	15,992
Total Long-Term Obligations	1,467,932	523,532	315,009	234,579	221,946	255,475	251,036	267,004	267,068	280,762
Total Liabilities	1,760,189	972,233	643,590	377,403	598,372	447,176	354,501	539,172	425,828	520,549
DEFERRED INFLOWS OF RESOURCES										
Pension related amounts	93,143	126,034	162,261	25	-	-	-	-	-	-
OPEBS	20,107	-	-	-	-	-	-	-	-	-
Total Deferred Inflows of Resources	113,250	126,034	162,261	25	-	-	-	-	-	-
NET POSITION										
Net investment in capital assets	1,221,161	1,399,109	1,602,616	1,764,305	1,939,339	2,125,265	2,277,147	2,481,801	2,734,421	2,963,655
Restricted for pension	135,438	-	-	115,461	-	-	-	-	-	-
Unrestricted (deficit)	(1,549,418)	(537,734)	(366,456)	(252,233)	(592,092)	(440,572)	(339,032)	(539,172)	(425,828)	(519,677)
Total Net Position	(192,819)	861,375	1,234,158	1,627,533	1,347,247	1,684,693	1,938,115	1,942,629	2,308,593	2,443,978

Appendix B

CITY OF MADISON

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION GOLF

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
OPERATING REVENUES										
Charges for services	\$ 2,434,016	\$ 2,832,151	\$ 3,187,116	\$ 3,052,335	\$ 2,652,013	\$ 2,676,118	\$ 2,136,428	\$ 2,007,156	\$ 2,077,855	\$ 2,216,566
Total Operating Revenues	<u>2,434,016</u>	<u>2,832,151</u>	<u>3,187,116</u>	<u>3,052,335</u>	<u>2,652,013</u>	<u>2,676,118</u>	<u>2,136,428</u>	<u>2,007,156</u>	<u>2,077,855</u>	<u>2,216,566</u>
OPERATING EXPENSES										
Operation and maintenance	2,911,994	2,924,935	3,167,262	2,590,429	2,521,362	2,613,866	1,991,637	1,929,542	1,744,330	1,745,087
Depreciation	202,588	203,507	200,276	211,069	232,692	259,534	284,770	302,059	314,262	321,465
Total Operating Expenses	<u>3,114,582</u>	<u>3,128,442</u>	<u>3,367,538</u>	<u>2,801,498</u>	<u>2,754,054</u>	<u>2,873,400</u>	<u>2,276,407</u>	<u>2,231,601</u>	<u>2,058,592</u>	<u>2,066,552</u>
Operating Income (Loss)	<u>(680,546)</u>	<u>(296,291)</u>	<u>(180,422)</u>	<u>250,837</u>	<u>(102,041)</u>	<u>(197,282)</u>	<u>(139,979)</u>	<u>(224,445)</u>	<u>19,263</u>	<u>150,014</u>
NONOPERATING REVENUES (EXPENSES)										
Investment income	-	83	1,771	293	-	828	605	-	-	-
Interest expense	(11,064)	(3,775)	(3,969)	(4,214)	(4,200)	(4,265)	(4,317)	(4,132)	(14,233)	(7,823)
Gain on sale of assets	-	-	-	-	(60,103)	1,000	276,068	3,500	-	-
Miscellaneous revenues	26,325	27,019	28,409	13,077	13,694	118,816	29,060	21,541	15,287	12,737
Total Nonoperating Revenues (Expenses)	<u>15,241</u>	<u>23,327</u>	<u>26,211</u>	<u>9,155</u>	<u>(50,609)</u>	<u>116,379</u>	<u>301,416</u>	<u>20,909</u>	<u>1,054</u>	<u>4,914</u>
Income (Loss) Before Transfers and Capital Contributions	<u>(665,305)</u>	<u>(272,964)</u>	<u>(154,211)</u>	<u>259,993</u>	<u>(152,650)</u>	<u>(80,903)</u>	<u>161,437</u>	<u>(203,536)</u>	<u>20,317</u>	<u>154,928</u>
TRANSFERS										
Transfers in	-	-	-	-	1,247	1,382	5,419	-	-	1,464
Transfers out	(198,015)	(99,819)	(239,164)	(210,868)	(186,003)	(173,901)	(171,370)	(162,428)	(155,702)	(157,260)
Net Transfers	<u>(198,015)</u>	<u>(99,819)</u>	<u>(239,164)</u>	<u>(210,868)</u>	<u>(184,756)</u>	<u>(172,519)</u>	<u>(165,951)</u>	<u>(162,428)</u>	<u>(155,702)</u>	<u>(155,796)</u>
Income (Loss) Before Contributions	<u>(863,320)</u>	<u>(372,783)</u>	<u>(393,375)</u>	<u>49,125</u>	<u>(337,406)</u>	<u>(253,422)</u>	<u>(4,514)</u>	<u>(365,964)</u>	<u>(135,385)</u>	<u>(668)</u>
Capital Contributions	-	-	-	-	-	-	-	-	-	-
Change in Net Position	<u>(863,320)</u>	<u>(372,783)</u>	<u>(393,375)</u>	<u>49,125</u>	<u>(337,406)</u>	<u>(253,422)</u>	<u>(4,514)</u>	<u>(365,964)</u>	<u>(135,385)</u>	<u>(668)</u>
NET POSITION - Beginning of Year (restated)	<u>670,501</u>	<u>1,234,158</u>	<u>1,627,533</u>	<u>1,578,408</u>	<u>1,684,693</u>	<u>1,938,115</u>	<u>1,942,629</u>	<u>2,308,593</u>	<u>2,443,978</u>	<u>2,444,846</u>
NET POSITION - END OF YEAR	<u>\$(192,819)</u>	<u>\$ 861,375</u>	<u>\$ 1,234,158</u>	<u>\$ 1,627,533</u>	<u>\$ 1,347,287</u>	<u>\$ 1,684,693</u>	<u>\$ 1,938,115</u>	<u>\$ 1,942,629</u>	<u>\$ 2,308,593</u>	<u>\$ 2,443,978</u>