

GOLF ENTERPRISE PROGRAM

Restructuring Analysis Framework

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Introduction

- * The Golf Program operates as an Enterprise Fund within the City's Accounting Structure
- * An Enterprise Fund provides goods or services to the public for a fee that makes the entity self supporting.
- * Follows Generally Accepted Accounting Principles (GAAP) as would a commercial business.
- * No property tax or impact fee support.

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Business Concerns

- * The GEP has a liquidity problem.
 - Negative Cash at month end in 60% of months since 2006.
 - The City effectively provides an extraordinary low interest rate line of credit to cover expenses.
- * The GEP has sustained losses in all but one year (i.e. 2015) since 2003.
 - Gross Profit % has ranged from a low of -18.0% in 2011 to 1.6% in 2015.
 - Extraordinary cost pressures from utilities, chemicals, and fleet costs.
- * The GEP has not reinvested in capital assets over the past 16 years.
 - The outstanding capital investment needs are between \$7.5M and \$9M.

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Restructuring Options

* Cost Cutting Austerity Measures

- Good strategy for short term restructuring to weather a recession or reduce excessive waste.

* Increase Prices

- Highly elastic demand in an oversaturated golf marketplace limits the potential for increasing total revenue.

* Grow Market Share & Revenue

- In a hypercompetitive marketplace, establishing a strong market position and focusing on growth in market share is critical.

* Right Size and Reinvest on a long-term horizon.

- Prioritize investments that focus on long-term growth in market share and revenue. Ideally these allow increased prices and cut operational costs.

* Bend the Supply or Demand Curves

- The GEP has the ability to substantially alter the supply of public golf in the market, but limited ability to change demand over the medium term.

* Bankruptcy

- Eventually a failing business will be restructured by creditors. In this case, that would likely be the City.

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GEP Restructuring Analysis

- * The Staff Recommended Option for Restructuring is to Right Size the GEP and Reinvest for the Long-term.
- * The Restructuring Analysis:
 - Evaluates multiple scenarios over a 20-year timeframe.
 - Incorporates multiple methods of financing capital improvements.
 - Focuses on investments that can grow market share and revenue.
 - Evaluates impacts on core stakeholders from restructuring.
 - Staff will recommend a preferred option to be used for complete Business Plan Development.

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Next Steps

- * Present the GEP Restructuring Analysis to the Golf Subcommittee and receive feedback.
- * Finalize the GEP Restructuring Analysis and present to the Board of Park Commissioners.
- * Take input from the GEP Restructuring Analysis process and develop a draft GEP Business Plan.
- * Goal timeline of having a GEP Business Plan approved by the BPC before October 2018.
 - Staff would recommend that any changes in course operations not occur prior to 2020.