



MEMORANDUM

DATE: August 4, 2017

TO: Honorable Mayor and Council Members

FROM: Michael J. Ortega, P.E.
City Manager

SUBJECT: Tucson City Golf

During the November 22, 2016 Mayor and Council study session on the preliminary fiscal year end (15/16) and Tucson Golf, there was conversation about golf and the need for more discussion with regard to the direction we are headed. Specifically, some of you mentioned your interest in dissecting revenues vs. expenditures on a course by course basis. However, the sense I received was that a larger conversation regarding golf was your interest. In addition, you discussed Silverbell and its future. I had mentioned returning to you with more information particularly on Silverbell sooner than now, but was not able to accomplish it until this point. I now have the FY 16/17 unaudited numbers and can use them to help guide the discussion.

My intent is to encourage a conversation about golf that is comprehensive and would include the financial aspects, the value outside of direct financial benefit and specifically how we see these assets evolving into the future. We know the face of golf is changing and rather than reacting to what appears to be part of the national trend of a reduction of rounds of golf played, I would like to look at this as an opportunity to chart a path forward that will enhance these assets for the entirety of the community.

As I mentioned to you in my email dated June 23, 2017, staff and I, in preparation for a future study session, have been working to prepare information to present to you regarding options you may want to consider for golf. This effort includes a thorough review of the costs and revenues associated with operations and particularly the recapitalization of our golf assets. At the request of Vice Mayor Romero and Council Member Uhlich, based on feedback from the Greens Committee, a community workshop has been scheduled with northwest neighborhood associations near Silverbell Golf Course. Although my review and proposed presentation to you will include thoughts on Silverbell, it will also include thoughts on all courses. As you reiterated at the November 22 study session, community input is an important aspect of this conversation. As a result, I have directed staff to hold additional community workshops on the east side and central city. In addition, staff and I will also reach out to the Greens Committee and review these thoughts with them. My thought is to solicit comments from residents that can then be presented to you during the study session.

TO: Honorable Mayor and Council Members

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DATE: August, 4, 2017

Page 2 of 10

You may recall I mentioned during the study session that my initial approach was to hold the study session first and then go out for a more public discussion, but after hearing from you and members of the Greens Committee, holding the public discussion first will give you the benefit of hearing the comments staff received ahead of time. The community workshops will provide a high level overview of Tucson City Golf's financial position and recapitalization needs as well as options for the best use of golf assets to benefit the community going forward. The information in this memorandum will be made available to the public at the workshops and serve as the basis for the community conversation regarding Tucson City Golf.

Tucson City Golf, like golf nationally, has experienced a rollercoaster history over the past ten years. Revenue and rounds played have gone up and down, likely impacted by competition, demand, weather, and the economy. The golf course building boom of the late 1980s and early 1990s has resulted in what appears to be an oversaturation of the golf market.

This memorandum will provide the financial history of Tucson City Golf since OB Sports took over management; provide a snapshot of the recapitalization needs; provide some options to consider for repositioning and repurposing golf to best use the assets for a community benefit; and detail any restrictions that may need to be mitigated before implementing any options for maximizing golf assets and open space. In addition, I will provide some thoughts on the approach of the Golf Fund as an enterprise function.

Many communities have gone through a public process for repositioning or repurposing golf assets. Some of the options outlined below are examples implemented in other locations and is not meant to be exhaustive. Other ideas will likely be generated through a public input process with the community and stakeholders.

Financial History for FY 14 to FY 17 and Recapitalization

Staff's focus over the years has been on how to best sustain golf as an enterprise fund. That approach has proven to be challenging and this memorandum will highlight the long-term challenges of that approach.

OB Sports took over management in February 2014 and golf revenues have steadily increased until FY 17. FY 17 revenues dropped 1% compared to FY 16. Expenses initially increased after OB Sports took over in an effort to provide a better quality customer experience and has leveled off the past couple years. FY 17 resulted in a 4% reduction in expenses compared to FY 16. Rounds were increasing through FY 16 and dropped off 6.8% in FY 17. Comparing revenue per round between FY 17 and FY 16, golf is now generating more revenue per round, up \$2.04 per round in FY 17. Even with fewer rounds, preliminary results show golf operating revenues exceeding operating expenses by \$195,500 in FY 17.

The chart below illustrates revenues, expenses, net operating income, General Fund loan balance, rounds of golf, and revenue per round for the past four fiscal years.

	FY 14	FY 15	FY 16	FY 17*
Operating Revenues	\$ 6,125,375	\$ 7,139,282	\$ 7,508,666	\$ 7,431,758
Operating Expenses	\$ 6,150,106	\$ 7,544,570	\$ 7,546,879	\$ 7,236,282
Net Operating Income	(\$ 24,731)	(\$ 405,288)	(\$ 38,213)	\$ 195,476
Year-end General Fund loan	\$7,906,447	\$8,554,615	\$1,626,413	Preliminary results in Aug.
Rounds of golf played	215,945	218,907	226,534	211,212
Revenue per round	\$ 28.37	\$ 32.61	\$ 33.15	\$ 35.19

*FY 17 is unaudited.

The long-term challenge for Tucson City Golf as an enterprise fund is the inability to generate enough revenue to cover needed capital reinvestment. Golf was able to make several essential improvements in FY 17 at Silverbell Golf Course, renovating the sand traps and bridge. In order to provide capital reinvestment, Golf would need to consistently generate an additional \$300,000 per year to cover the estimated \$1,500,000 needed for critical capital repairs over the next five years. This would include repairs to keep the courses safe, protect infrastructure from further degradation, keep the courses in a playable condition, and includes the following:

Roof replacements	\$82,000	Kitchen hoods and equipment	\$182,000
Parking lot renovations	\$275,000	Course improvements	\$172,000
On-course restroom renovations	\$55,000	Practice lights and ball dispensers	\$120,000
Air conditioning replacements	\$41,000	Maintenance equipment	\$172,000
Netting, fences, and signage	\$125,000	Bunker renovations	\$275,000

The chart above is the critical needs OB Sports has identified for the next five years. It does not include all of the life cycle and deferred maintenance items for safety and asset protection, improvements to maintain a quality customer experience and to maintain revenue streams over the next 15 years. This includes replacing irrigation systems, renovating greens, renovating and installing cart paths, renovating parking lots, replacing roofs, air conditioners, bunkers, maintenance equipment, and other assets. The cost to repair and replace these items is estimated to exceed \$25 million over the next 15 years. Golf would need to average \$1,700,000 annually in operating revenues above operating expenses to fund recapitalization. It is likely that golf in the current format will continue to operate with a thin financial margin and make minimum repairs to keep the courses open. Funding will not be available to make significant repairs and improvements to keep the courses a quality experience.

One option the Greens Committee has discussed is a golf surcharge to help fund future recapitalization. A dedicated surcharge on each round of golf could be placed in a capital reserve account to pay for future improvements. We estimate the revenue per \$1 surcharge to be approximately \$200k. The challenge is any additional fees could result in fewer rounds in a competitively-priced market.

Golf Market and Course Analysis

Tucson is known as a winter golf destination but it is a very competitive market. There are 40 golf courses in the Tucson metro area (nine private, six semi-private, fifteen public, nine resorts, and one military) which equates to an 18-hole golf course for every 24,500 residents. Every community must determine the appropriate ratio of golf courses needed per the population. On the high side, the National Golf Foundation suggests 18 holes for every 20,000 people equating to 55 courses in metro Tucson. On the low side, the National Recreation and Park Association suggest 18 holes for every 50,000 people, which would equate to 22 courses in metro Tucson. Tucson is currently more in line with the higher number of courses and a reduction in course inventory should still leave plenty of golf options in the market/region. Incidentally, Oro Valley bought the Hilton El Conquistador golf courses in March 2015 and is currently going through a public process to evaluate the future of their golf course assets.

The City's five courses are competing against each other for market share. Closing a course would likely result in the remaining City courses capturing a portion of those 35,000 to 40,000 rounds each year. Closing a course would also eliminate the deferred maintenance and recapitalization expenses associated with that course and improve the enterprise fund's ability to potentially fund other recapitalization needs through increased revenues. In addition, if a closure of a course resulted in revenue, those proceeds could be used to enhance other courses including addressing capital needs.

The following charts illustrate revenues, expenses, net operating income, and rounds of golf played at each course over the past three fiscal years.

El Rio Golf Course

El Rio has consistently been in the 40,000 rounds per year range the past couple years with revenues increasing. Expenses have been relatively flat the past three years. The biggest challenge at El Rio is aging infrastructure. The five-year capital needs is estimated to be \$1,100,000 with the biggest items relating to the replacement of netting and fencing, replacing maintenance equipment, replacing the fuel tank, renovating bunkers, and cart paths. El Rio pays full price for irrigation water.

	FY 15	FY 16	FY 17
Operating Revenues	\$ 991,160	\$ 1,108,500	\$ 1,162,184
Operating Expenses	\$ 1,498,021	\$ 1,577,034	\$ 1,467,659
Net Operating Income	(\$ 506,861)	(\$ 468,534)	(\$ 305,475)
Rounds of golf played	39,707	40,390	39,834

Fred Enke Golf Course

Rounds at Fred Enke have fluctuated up and down the past couple years. Revenues have been increasing and expenses have been flat. The five-year capital needs is estimated to be \$1,400,000 with the biggest items relating to resurfacing the parking lot, replacing maintenance equipment, renovating cart paths, repairing and installing bridges and forward tees. Fred Enke pays full price for irrigation water.

	FY 15	FY 16	FY 17
Operating Revenues	\$ 1,094,923	\$ 1,115,218	\$ 1,178,193
Operating Expenses	\$ 1,523,678	\$ 1,584,674	\$ 1,494,617
Net Operating Income	(\$ 428,755)	(\$ 469,456)	(\$ 316,424)
Rounds of golf played	36,767	38,739	35,098

Randolph Golf Complex

The Randolph Golf Complex consistently has the most rounds every year. These courses always generate a net operating income to help offset losses at other courses. There are opportunities to make these courses more profitable by reconfiguring course footprints and installing more efficient irrigation systems. The five-year capital needs is estimated to be \$2,700,000 with the biggest items relating to replacing fencing and netting, resurfacing the parking lot, replacing maintenance equipment, and replacing the pond liners. Please note the cost of irrigation water is just less than half of the full rate.

	FY 15	FY 16	FY 17
Operating Revenues	\$ 3,770,577	\$ 4,007,466	\$ 3,816,108
Operating Expenses	\$ 3,161,328	\$ 2,996,278	\$ 2,891,999
Net Operating Income	\$ 609,249	\$ 1,011,188	\$ 924,109
Rounds of golf played	99,161	105,457	97,576

Silverbell Golf Course

Silverbell rounds have been declining the past couple years and revenues have been flat. The declining rounds are likely attributed to the extremely poor condition of sand traps and construction on Silverbell Road the past couple year. Expenses have been relatively flat even though we spent \$150,000 in FY 17 to make sand trap repairs and refurbish a bridge. The five-year capital needs is estimated to be \$1,100,000 with the biggest items relating to renovations of the cart barn, maintenance equipment replacement, maintenance facility upgrades, refurbishing cart paths, and replacing the fuel tank. Silverbell does not pay for irrigation water.

	FY 15	FY 16	FY 17
Operating Revenues	\$ 1,282,621	\$ 1,277,482	\$ 1,275,273
Operating Expenses	\$ 1,361,542	\$ 1,388,893	\$ 1,382,006
Net Operating Income	(\$ 78,921)	(\$ 111,411)	(\$ 106,733)
Rounds of golf played	43,272	41,948	38,704

Options for Repurposing and Repositioning Golf Courses

Following are a few thoughts for each course on possible repurposing or repositioning golf. If you would like to consider repurposing or repositioning of Tucson City Golf assets, I would recommend a public input process with community and stakeholders. In addition, land or title restrictions for each course will also need to be considered.

All of the golf course assets have restrictions related to the sale of 2009 Certificates of Participation (COPs). In order to release the golf courses from the trust and various leases in connection with the COPs, the City would need to get consent of the bond insurer (Assured Guaranty), consent of the Trustee (Wells Fargo), consent of the City (assumed), enter into amendments of the ground lease and lease purchase agreement, and record a release of the properties.

El Rio Golf Course

The City has a facility-use agreement with the Tucson Youth Golf Fund (First Tee) for contributing \$1,600,000 in improvements to develop a youth golf training facility. The course development and facility-use agreements were approved by Mayor and Council on May 5, 2003. The facility-use agreement term is for 15 years and with mutual consent, can be renewed for two additional five-year renewals. The parties are currently discussing a five-year extension. If the agreement is terminated after 15 years, the City has no obligation to reimburse the Tucson Youth Golf Fund.

Options to consider for El Rio Golf Course:

- A. Keep operating as an 18-hole golf course
 - Consider development opportunities around the perimeter to reduce the acreage allocated for golf. Use development proceeds for course improvements.
 - Implement other facility uses such as foot golf (soccer ball) and disc golf (Frisbee).
 - Open up the course to walking in the early morning and evenings. This helps establish the open space as a recreational amenity used by the non-golfing community. Please note opening the course for non-golfing uses would more than likely reduce revenue.
- B. Convert the course to a nine-hole family learning center with the First Tee and consider alternate use options with remaining acreage
 - Redevelop the other nine holes as a park.
 - Sell the other nine holes for private development. Use proceeds for course improvements.

C. Completely eliminate the golf course and redevelop the entire property as private development, a park, or a combination of both.

- Use proceeds to make improvements to parks and other golf courses.

Fred Enke Golf Course

In 1981, the City used \$564,191 of Land Water Conservation Funds (LWCF) to help develop the 18-hole golf course and support facilities and placed 87.4 acres under protection by section 6(f)(3) of the LWCF Act. This provision is meant to protect original federal investment in outdoor recreation.

According to the 1980 LWCF guidelines, the City has two options with the LWCF restrictions:

1. Convert the existing property to another recreational use; or
2. Seek approval from the National Park Service to replace the existing LWCF restricted property with other property for outdoor recreation use. The replacement parcel(s) must be of equal or greater appraised value than the parcel(s) with the restrictions and cannot currently be used for recreation purposes.

There are multiple options that could be considered for Fred Enke Golf Course. They include:

A. Keep operating as an 18-hole golf course

- Consider development opportunities around the perimeter to reduce the acreage allocated for golf. Use development proceeds for course improvements.
- Implement other facility uses such as foot golf (soccer ball) and disc golf (Frisbee).
- Open up the course to walking in the early morning and evenings. This helps establish the open space as a recreational amenity used by the non-golfing community. Please note opening the course for non-golfing uses would more than likely reduce revenue.

B. Convert the course to a nine-hole family learning center and consider alternate use options with remaining acreage

- Redevelop the other nine holes as a park. This would require National Park Service approval.
- Sell the other nine holes for private development and use the proceeds for course improvements. This would require identifying or acquiring property of equal value for recreation uses.

C. Completely eliminate the golf course and redevelop the entire property as private development, a park, or a combination of both.

- This would require National Park Service approval because of the LWCF restrictions.
- Converting to park space would not require identifying other replacement property.
- Converting to private development would require identifying or acquiring property of equal value for recreation uses.
- Redevelopment proceeds could be used for new recreational amenities and to make improvements to other golf courses.

Randolph Golf Complex

Randolph Golf Courses has a self-imposed restriction from Mayor and Council Resolution #904 adopted in 1925 that the land be “forever dedicated as and for a municipal golf course and public park.” Another consideration is that in 1995, Parks and Recreation, Transportation, and Pima County Flood Control District collaborated on a multi-use flood control plan on the Dell Ulrich course to reduce FEMA-regulated floodplain for residents downstream of the Arroyo Chico Wash.

There is excess open space at the Randolph Golf Complex that is not used effectively. The excess space adds costs to the golf operations by requiring more staff time for maintenance, more fertilizer, and more water to maintain the turf. Reconfiguring the courses could result in a more profitable golf operation and allow additional uses for the property. Reconfiguring and updating the courses could also position them for hosting professional level tournaments again.

Some of the options to consider for Randolph Golf Complex are:

- A. Keep operating as a 36-hole golf course but reduce the golf foot print.
 - Consider development opportunities around the perimeter to reduce the acreage allocated for golf. Use development proceeds for course improvements.
 - Additional acreage could be utilized for open space and other recreational amenities, commercial opportunities, or a combination of both.
- B. Convert to a 27-hole golf course (three nine-hole courses)
 - Consider development opportunities around the perimeter to reduce the acreage allocated for golf. Use development proceeds for course improvements.
 - Additional acreage could be utilized for open space and other recreational amenities, commercial opportunities or a combination of both.
- C. Consider leasing the course to a private operator or pursue other partnership opportunities.
 - There is an interest in bringing a professional golf tournament back to the Randolph Golf Complex. This might create an opportunity to partner with the Tucson Conquistadors to make improvements to Randolph.
 - The City has expressed an interest in the University of Arizona locating its golf and tennis programs at Randolph. This too could be an opportunity to partner and make improvements.

Silverbell Golf Course

In 1977, the City used \$301,600 from LWCF to develop the golf course and support facilities placing the course under protection by section 6(f) (3) of the LWCF Act. This provision is meant to protect original federal investment in outdoor recreation.

According to the 1980 LWCF guidelines, the City has two options with the LWCF restrictions:

1. Convert the existing property to another recreational use; or
2. Seek approval from the National Park Service to replace the existing LWCF restricted property with other property for outdoor recreation use. The replacement parcel(s) must be of equal or greater appraised value than the parcel(s) with the restrictions and cannot currently be used for recreation purposes.

The options to consider at Silverbell Golf Course are basically the same as Fred Enke:

- A. Keep operating as an 18-hole golf course
 - Consider development opportunities around the perimeter to reduce the acreage allocated for golf. Use development proceeds for course improvements.
 - Implement other facility uses such as foot golf (soccer ball) and disc golf (Frisbee).
 - Open up the course to walking in the early morning and evenings. This helps establish the open space as a recreational amenity used by the non-golfing community. Please note opening the course for non-golfing uses would more than likely reduce revenue.
- B. Convert the course to a nine-hole family learning center and consider alternate use options with remaining acreage
 - Redevelop the other nine holes as a park. This would require National Park Service approval but no additional property.
 - Sell the other nine holes for private development and use the proceeds for course improvements. This would require identifying or acquiring property of equal value for recreation uses.
- C. Completely eliminate the golf course and redevelop the entire property as private development, a park, or a combination of both.
 - This would require National Park Service approval because of the LWCF restrictions.
 - Converting to park space would not require identifying other replacement property.
 - Converting to private development would require identifying or acquiring property of equal value for recreation uses.
 - Redevelopment proceeds could be used for new recreational amenities and to make improvements to other golf courses.

Enterprise Fund – Policy

As I mentioned in my introductory comments, in 2012 Mayor and Council gave policy direction for the golf function to be treated as an enterprise fund. This basically means golf must pay for itself as a stand-alone service/function. That would include paying for the cost of operations, maintenance, and capital investment. As an enterprise function, intrinsic values are generally not considered. Specifically, advocates suggest, golf provides an inexpensive recreational activity supports a healthy lifestyle. In addition, it has been suggested golf attracts visitors that spend money in hotels and restaurants that would not otherwise be in Tucson. As an enterprise function, those values are not considered as they do not add to the specific revenue directly

TO: Honorable Mayor and Council Members

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DATE: August, 4, 2017

Page 10 of 10

generated by golf. On the other hand, with regard to the economic value the tourism piece of golf brings, there is value to the general fund that without golf would see a reduction. If that is the case, one could suggest some funding from the GF could be justified in going towards golf to ensure its success at least to ensure the level of economic benefit going to the GF is retained. Additional study would be required by a group like Visit Tucson to quantify that economic benefit.

Please note I am not suggesting the GF totally make up the difference of the shortfalls in funding I have outlined above, particularly for the capital investment, but I am suggesting some level of investment from the GF could be justified and should be discussed as you determine the long term direction for golf. Unfortunately, given our current financial situation, I cannot recommend a GF allocation at least for the next couple of fiscal years, but we can re-evaluate annually. Should you want me to pursue this type of investment, I will engage in analyzing the economic benefit to the GF and come back with a recommendation.

Summary

Tucson City Golf will be challenged to be financially sustainable as an enterprise fund with its five existing courses in a highly competitive and overbuilt market. Golf can probably continue to cover operational expenses with operational revenues; however operational revenues will not be able to fully fund recapitalization.

Staff will be conducting community workshops over the next month and the Greens Committee, providing a high level overview of Tucson City Golf's financial position and recapitalization needs and to begin to discuss the full range of options for golf assets and how they can best be used to benefit the community. This initial feedback will be provided to Mayor and Council for consideration.

Upon direction from Mayor and Council, staff can begin the process of converting the restrictions on Silverbell Golf Course. We can do so as we have completed the research on both the process and identified City owned open space parcels in the vicinity of Silverbell Road that could be considered for recreational purposes. The process to convert the restrictions includes hosting public meetings to gather input on what the recreational needs are in the surrounding community, getting appraisals, developing plans for the proposed properties, and submitting a formal request to the National Park Service.

As always, please feel free to contact me if you would like to discuss this in more detail.

MO:GJ:mp

Cc: Tucson City Golf Greens Committee