

MEMORANDUM

November 1, 2017

TO: Laurie Montes, Deputy City Manager

FROM: John Alita, Community Services Director

SUBJECT: GOLF PROGRAM WHITE PAPER

This white paper provides background and information on the City of Stockton Golf Program to aid in decision-making about the prospects of municipal golf. Market conditions and City financial considerations provide significant evidence for the City to consider an exit of its involvement in the golf industry and investigate alternative uses of the properties.

Municipal Golf Course History

The City of Stockton owns two municipal golf courses: Swenson Park and Van Buskirk. Swenson opened in 1952 and is situated in the center of Stockton on 214 acres of City property north of Ben Holt Drive and west of Alexandria Place. Two separate courses have been built at Swenson, offering both an 18-hole and a 9-hole option for different levels of play.

Van Buskirk Golf Course, constructed in two phases in 1961 and 1969, is an 18-hole course that constitutes a significant portion of a 192-acre parcel in south Stockton deeded to the City in 1957 by Charles and Bertha Van Buskirk. The course lies between Houston Avenue and the San Joaquin River levee, bordered on the southern end by the Van Buskirk Community Center, park, and ball field. There are deed restrictions on the property that limit its use to “public recreation or public park purposes”. Property would revert to the donors’ heirs if the City was non-compliant with respect to the intended use. Charles and Bertha passed away in 1979 and 1983, respectively, with no children listed in the public records of the time. A search for heirs would include several generations of subsequent relations.

Both golf course properties are within the City of Stockton city limits and are zoned Public Facilities, similar to parklands. Both properties were included with others as security for the 2009 Public Facility Fee Lease Revenue Bonds held by Franklin Fund Investments. The City defaulted on the bonds, which were then included in the bankruptcy proceedings filed in 2012. With the conclusion of bankruptcy proceedings in 2015, the courses ceased serving as debt collateral. In 2011, the City released an RFP to find a buyer or lessor for the properties. There were no respondents. In 2012, the City released an RFP for a golf operator. Kemper Sports was the successful applicant and the City entered into an operations agreement with them that is still in place.

Golf Market History

The local golf market closely mirrors national trends. From 1986 to 2005 a national

boom in golf course construction occurred, growing the U.S. market by 44%, the most dramatic growth in the industry's history. The slow and steady reduction in courses since that time is an expected economic response to a period of such historic growth. Likewise, the number of golfers nationally has declined over the past 20 years. From 2011 to 2016 for example, the total number of golfers in the United States declined 6.3%, from 25.3 million to 23.8 million.

Locally, no public golf courses were in existence until 1952 when Swenson was constructed. Both Swenson and Van Buskirk were built in an era when few public golf options existed. Since the 1960s, thirteen additional courses were constructed within 20 miles of Stockton (with one closing in 2012). Virtually no public courses were opened in the Stockton area in the 1970s and 1980s, the exception being Forest Lake Golf Course in Acampo, opening in 1979. As the 1980s ended, interest in golf, favorable land cost, water availability, and more palatable financing options, allowed public golf courses and associated facilities to become attractive business opportunities.

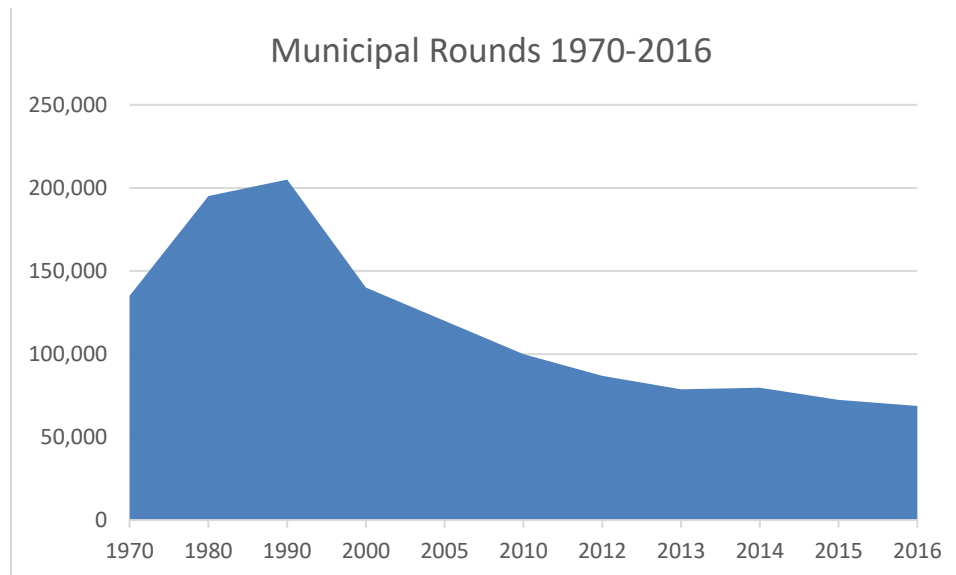
In the 1990's, five courses (four public and one private) were constructed locally, increasing the number of courses available in the Stockton area by 45%, correlating with the national trend. Today there are ten public golf courses within a 20-mile radius of Stockton.

Exhibit 1 - Golf Courses within 20 miles of Stockton Golf Courses

Course	Year Built	Public/Private
Stockton Golf & Country Club	1914	Private
Woodbridge Golf & Country Club	1924	Private
Swenson	1952	Public
Oakmore	1958	Private
Van Buskirk	1961	Public
Dry Creek	1963	Public
Elkhorn	1963	Public in 2011
Manteca Park	1966	Public
Lyons	1968	Public
Venetian Gardens	1977	Private
Forest Lake (closed 2012)	1979	Public
Micke Grove	1990	Public
Brookside	1991	Private
French Camp	1995	Public
Lockeford Springs	1995	Public
The Reserve	1999	Public

The effect of market saturation can be seen in the changes in the annual volume of play

at Stockton and other local public courses. The exhibit below reflects the total number of golf rounds played at the City's courses over the last 47 years. Total municipal rounds played have dropped 66% from the all-time high volume of the 1990s. Economic downturn aside, rounds at City courses dropped 48% between 1990 and 2005 due to the increase in number of courses built and opened to the public.



Between 1998 and 2016 golf rounds at all neighboring public courses also declined by 25% or more.

As total rounds declined, the City took several actions to shore up operations. In December 2000, two annual passes were created to attract non-peak hour players. Later, an additional incentive for Senior players over 80 was added, and a fee for non-residents was removed.

Kemper has also marketed to youth age groups, notably by offering a Foot Golf Course at Swenson Park at no charge in an effort to woo soccer organizations and develop their interest in golf. In addition, there is a partnership with First Tee of San Joaquin which offers a youth development program through the introduction to golf.

Current Market Environment

Public courses built in the last 20 years have amenities that were unconventional at the time the City courses were installed. During that time course design included more sumptuous banquet facilities, on-course beverage stations, bars, catering, and restaurants, which are attractive not only to golfers but guests and tournament organizers.

These amenities and design features have become significant in overall revenue

generation of these contemporary facilities, resulting in longer hours of operation and facility rentals, which are independent of weather conditions. These contemporary courses are used for tournaments, corporate retreats, weddings, and other special events. The Stockton municipal courses, therefore are at a significant disadvantage in comparison to newer courses because they lack these amenities, which result in additional, and significant revenue streams.

As a recommended solution to lagging sales, suggestions for both courses, made by an independent golf industry consultant in 2010 included: building mid-course restrooms, renovating club house restrooms, renovating pro shop, expanding and renovating the club house eateries, synthetic turf on driving ranges, constructing cart paths, fence and parking lot renovation and improvements. Additional monies have been spent throughout the past five years on maintaining the safety and general integrity of the facilities, but the limited features and design will continue to restrain the market for new forms of revenues at the Stockton municipal courses.

In 2001, with proceeds from the sale of a landfill property, the City of Stockton, funded a \$1.2 million irrigation system capital improvement project for Swenson Park Golf Course. Being the older of the two courses, its repair preceded Van Buskirk, but no similar windfall funding source has since occurred and course conditions at Van Buskirk are a product of an irrigation system and turf bed that is well past its prime and requires significant capital improvement.

\$5.6 million in capital projects for golf were defined and presented in the 2017-22 City of Stockton Capital Improvement Program Budget, all of which are unfunded. These include \$5.4 million for irrigation system replacement at Van Buskirk and \$242,000 for Swenson. The potential unfunded capital need could be as high as \$11 million dollars. Additional capital needs identified by the operator include cart paths (which have become customary in the industry) to decrease ruts and damage to the fairways and allow cart use in wet weather (\$4.79 million), and perimeter fencing replacement at both courses to discourage vandalism (\$700,000). None of the most significant projects has begun, although \$374,000 of safety related pro-shop and club house repair projects, listed in the 2010-15 CIP Budget, were funded and have been completed to mitigate roof leaks, torn carpets, and septic backups. Additional repairs were done to replace a pump at Van Buskirk, remove debris from Swenson, and repair damage from multiple break-ins at facilities.

By 2005, it was clear the local market had become saturated with golf options. Long-time Stockton courses experienced decreases in total round counts, but few developed a contingency business plan for worst case strategic forecasts. Adverse pricing trends followed. Most public courses remained profitable or drew from reserves for a few years. The unrelenting nature of the recession, however, brought significant limitations to disposable income and golf round pricing has continued to drop due to the long-term effects of increased competition. Because of these pressures, one local golf course, Forest Lake, was forced to close in 2012.

Marketing theory suggests that low cost pricing strategy must be balanced by an increase in market share, and an environment in which all entrants struggle to become low-price-leaders is unsustainable. While Stockton municipal course fees are slightly lower than the surrounding competition, many courses are vying to become the low-price leader. Kemper Sports has employed several promotions in the past few years to attract more rounds of play. While promotions proved successful in and of themselves, they have not increased loyalty from the customer base, which is evidence that local commitment is price focused, not course loyal. Golfers have a tremendous menu of options to choose from, and the number of competitors in the market is likely, not sustainable.

As an example, in a comparison between February 2012 and 2013, which were subject to similar weather conditions, weekday rates at Van Buskirk were reduced 41% from \$34 to \$20 yet resulted in only a 2% increase in paid rounds.

Golf pricing strategies continue to favor deep discounts. Stockton municipal base rates were historically lower than the surrounding market competitors. However other public courses, in the struggle to acquire a greater market share, implemented their own deep discount options. The City's golf management company, Kemper Sports, has continued to employ promotions to keep up with the discount competition as well as reductions in all but the most essential operating expenses. This has enabled City courses to resume their position as the low-cost leader temporarily, but at the cost of lowering quality standards and increased General Fund subsidy. The chart below illustrates the aggressive pricing strategy the management company has employed to remain competitive. Despite these lengths, players continue to choose other courses that have contemporary amenities and superior turf maintenance.

Per Round Pricing Comparison

	Micke Grove	The Reserve	Elkhorn	Manteca	Swenson	Van Buskirk
Weekday Riding AM	\$39	\$49	\$47	\$37	\$40	\$35
Weekday Walking AM	\$29	\$42	\$31	\$22	\$25	\$20
Weekend Riding AM	\$49	\$59	\$54	\$44	\$45	\$40
Weekend Walking AM	\$39	\$54	\$38	\$29	\$30	\$25
Weekday Twilight Riding	\$25	\$27	\$27	\$28	\$20	\$20
Weekday Twilight Walking	\$15	\$22	\$15	\$16	\$10	\$10
Weekend Twilight Riding	\$30	\$27	\$34	\$29	\$20	\$20
Weekday Senior	\$30	\$40	\$36	\$27	\$32	\$30

Riding						
Weekday Senior Walking	\$20	\$34	\$21	\$12	\$18	\$18

CONTRACT RELATIONSHIP

The golf program was self-sustaining through 2006 based on reading the City Annual Financial Reports. It is likely the completion of new courses during the boom years and the effects of a economic downturn resulted in the program losing the ability to break even. Operating losses since 2006 have grown from a low of \$40,000 in 2008 to a required General Fund contribution of \$450,000, \$550,000, and \$850,000 each of the last three years. The Community Services Department has tried several remedies to improve the golf program; an industry professional was hired in 2006 to manage the program; course grounds maintenance was put under contract with a private landscape maintenance corporation in conjunction with City park and streetscape maintenance outsourcing in 2006; a Golf Course Analysis was prepared by an independent consultant in 2010; a Request for Proposals was advertised in 2010 for interest in a sale/lease/operating arrangement for the golf program (for which no lease or purchase offer was received); and in 2011, Kemper Sports Inc., was selected for their industry experience and expertise to manage and operate the program and facilities. Kemper's RFP response forecasted incrementally reduced funding needs and for the operation to break even by 2013-14, which has not occurred.

The Kemper contract relates to course operations and management only, is not a lease arrangement, and does not put Kemper at risk for results of operations. The City remains ultimately responsible for the financial performance of the golf courses under the current management contract. In the first 18 months of the contract, Kemper made several operational improvements, including:

1. Creating logos and branding,
2. Preparing a marketing study comparing Stockton with nearby courses for price and quality,
3. Developing and launching a functional, professional website which not only has a list of features and pricing but offers on-line reservation, gift card purchase and lesson sign up capabilities,
4. Making significant improvements to the turf and grounds, increasing the play aesthetic
5. Developing promotions improved customer service, and increased gross revenue by 7% between 2010-11 and 2011-12
6. Overseeing repairs to well pumps.
7. Receiving an award for *Best Golf Course in 2012* by The Record newspaper.
8. Increasing number of tournament bookings
9. Developing a social media presence and E-notification system of promotions and specials

Kemper provides a monthly financial and operating report that summarizes 2-year comparative month-to-date and year-to-date information on the: aggregate program, each individual golf course, major cost centers, round counts, and per-round revenue averages. The contract allows for a management fee that increases based on annual gross revenue, which is \$100,300 for the 2015-16 fiscal year, plus a \$36,000 per year accounting fee, for an annual total of \$136,300.

In its first year, Kemper focused on generating revenues and made considerable headway in enhancing the image and presence of the municipal golf courses. In the current year, Kemper has been charged with cost reduction to remain within target subsidy levels and meet their original projections. Given the current environment and year to date performance, Kemper is pessimistic about a favorable outcome for 2017-18 and out years.

Financial Forecast

As part of its original 2011 proposal, Kemper projected the golf program would break even by 2013-14, with revenues sufficient to cover all operating expenses. Not only were Kemper's revenue forecasts likely too aggressive, but it has not met its cost estimates for the budgeted or actual volume levels. These overly aggressive budgeting strategies coupled with the delay in an economic rebound, adversely affect the forecasted break-even timeline, to the extent that under status quo conditions, a subsidy should now be expected on an annual basis

Forecasts beyond five years are heavily contingent upon not only competitor pricing but survivability, as more courses may not be able to withstand the current conditions. Elimination of a competitor could have a significant impact on the profitability of any remaining courses in the vicinity.

Staff has made an initial review of the advantages and disadvantages of maintaining a commitment to the golf program given the availability and value of options in the local area. A long term financial commitment between \$550,000 and \$750,000 each year for the next three to five years is the expected outcome of a status quo position from information at hand with future subsidy at the same or higher level.

Strategic Direction

Significant facts and circumstances lend support to the argument that the City of Stockton should incrementally wind down its involvement with a commercial golf enterprise and develop an exit strategy for both Van Buskirk and Swenson golf courses. Demand is more than adequately served by many nearby public courses with newer amenities and very low pricing. With significant repairs and capital improvements imminent at City courses, it is highly unlikely they will return to a no subsidy state. As part of the considerations in making the decision, a thoughtful deliberation on the long-term implementation process, alternatives for land use, and the impact on the community (both golfers and non-golfers) are items to be examined carefully.

Considerations in exiting the golf business include understanding the requirements if each of the golf course sites is designated for alternative commercial or residential development, proper adherence to existing deed restrictions on Van Buskirk, and the multi-stage process that would likely entail zoning modifications, public hearings, environmental studies, and other required work. This would be a multi-year process but would likely yield a dramatic increase in the value of the property.

In keeping with the evidence pointing to an exit of the golf enterprise, staff identified alternatives to examine varying levels of short-term costs on the path to exiting the golf business. Alternatives are offered below that can be considered individually or in some combination. Each will require further analysis and planning to reliably estimate any actual savings, implementation strategies, community preference, and notification requirements.

Three options are offered below as a starting point for feedback and direction from City Management and City Council and are based on the following conditions. This information is meant to illuminate the financial commitment involved in operating and changing a sizeable municipal golf program. The City is subject to several long-term agreements in conjunction with the golf program. Decisions to change or alter the current status quo have multi-year implications with some decisions having additional cost. Staff is available for further discussion or research as may be requested.

Community Services Department
Golf Courses - 481
FY 2017-18 Estimated Budget

Scenario 1: *Current Proposed budget (Swenson & VB continue to operate as golf courses)

Scenario 2: *Swenson remains golf course & VB converted to park only maintenance
 *Swenson increase in revenue projections by 25%

Scenario 3: *Swenson & VB converted to park only maintenance
 *Increase expense by 50k for vandalism

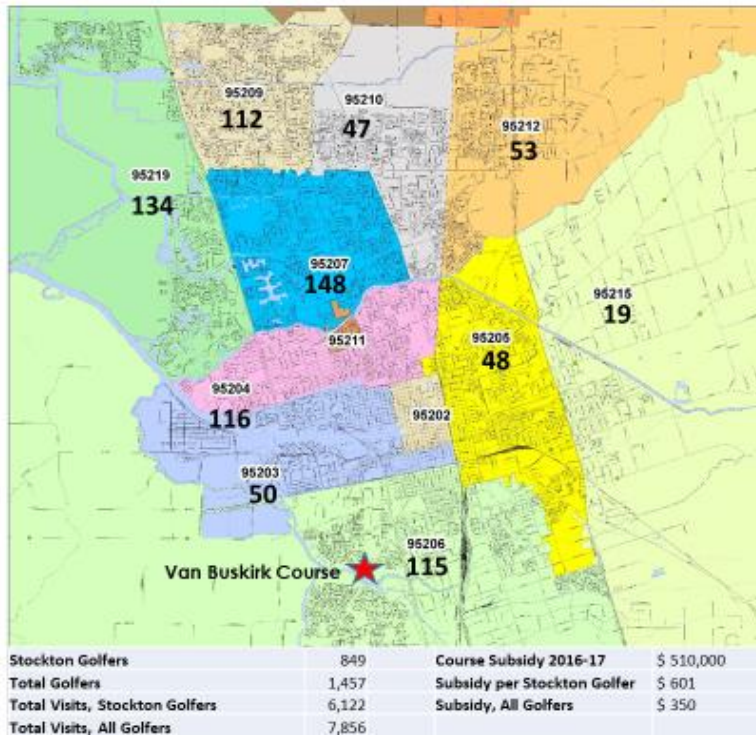
	FY 2014-15 Actual	FY 2015-16 Actual	FY 2016-17 Year End Projection	Scenario 1	Scenario 2	Scenario 3	CIP
				FY 2017-18 Est. Budget	FY 2017-18		
					Swenson Golf & VB Park	Swenson & VB Park	VB Irrigation
Beginning Balance	\$ 216,729	\$ 143,203	\$ 18,822	\$ 12,856	\$ 12,856	\$ 12,856	
Revenue							
Swenson	1,042,133	1,069,628	815,986	1,070,693	1,240,927		
Van Buskirk	466,897	423,746	346,000	434,692	-		
Other Revenues	12,447	16,035	22,618	22,700	16,035		
Total Revenue	1,521,477	1,509,409	1,184,604	1,528,085	1,256,962	-	
Expenditures							
Swenson	1,298,490	1,355,341	1,237,278	1,340,384	1,340,384	348,000	
Van Buskirk	703,909	744,295	725,572	776,794	144,000	72,800	
City costs	42,603	38,030	77,720	110,907	110,907	160,907	
Maintenance & Repair		46,124	-	-		193,500	5,430,800
Total Expenditures	2,045,002	2,183,790	2,040,570	2,228,085	1,595,291	775,207	
Transfers							
Transfer In - General Fund	450,000	550,000	850,000	700,000	325,474	762,351	
Total Transfers	450,000	550,000	850,000	700,000	325,474	762,351	
Net Annual Activity	(73,525)	(124,382)	(5,966)	46,242	(12,856)	(12,856)	0
Ending Balance	\$ 143,203	\$ 18,822	\$ 12,856	\$ 59,098	\$ 0	\$ -	\$ 5,430,800

Assumptions:

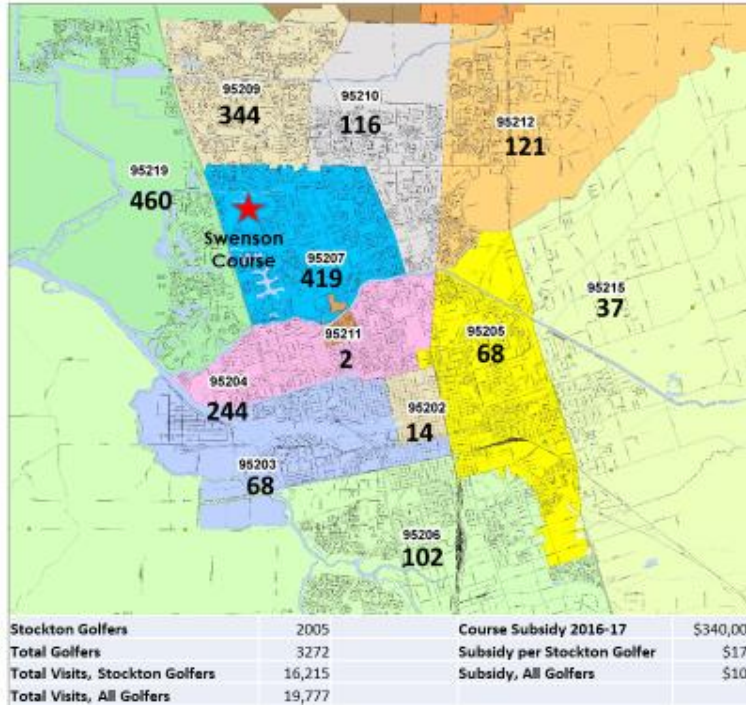
- * Kemper Management fees are not included in Scenario 3
- * VB CIP is inescapable long-term cost
- * One time expense of \$113,500 in landscape maintenance equipment not factored in any scenario
- * Park only maintenance consists of July 1st to Dec 1st every other week, rest of the year every 3 weeks
- * Park only maintenance is based on Level 4 & Level 5 NRPA park standards

Estimated Per Player Data 2016-17

Van Buskirk Golf Course



Swenson Golf Course



Document created March 26, 2013 by Susan Wren, Program Manager III.
 Updated in June 2017 by David Tolliver, Program Manager III.
 Updated November 2017 by John Alita, Community Services Director.