

JOURNAL OF COMMISSION WORK SESSION
October 20, 2015

City Commission Work Session
Civic Center, Gibson Room

Mayor Winters presiding

CALL TO ORDER: 5:30 p.m.

CITY COMMISSION MEMBERS PRESENT: Michael J. Winters, Bill Bronson, Bob Jones and Bob Kelly. Commissioner Fred Burow was excused.

STAFF PRESENT: City Manager; City Attorney; Directors of Fiscal Services and Park and Recreation; Staff Accountant; Park and Recreation Deputy Director; the City Clerk and Deputy City Clerk.

**** Action Minutes of the Great Falls City Commission. Please refer to the audio/video recording of this meeting for additional detail. ****

1. PUBLIC COMMENT

There were no comments from the public.

2. INVESTMENT REPORTING

Fiscal Services Director Melissa Kinzler reported that the Commission adopted an investment policy in July of this year. She provided and discussed a Memorandum regarding City of Great Falls Pooled Investments as of September 30, 2015. Director Kinzler reported that, as of September 30, 2015, the City's investments had a book value of \$33,867,457.29 and a market value of \$33,922,359.93. Governmental Accounting Standards Board (GASB) Statement 31 requires the market value of investments be recorded at Fiscal Year end.

Director Kinzler also commented that the maturity dates of the City's investments were within the 5-year statutory limitations and the average length to maturity for the investments is 2.44 years. She introduced Staff Accountant Cheryl Lucas who prepared this report.

The investments in Montana Board of Investments and US Bank Insured Cash Sweep are liquid and may be called at any time.

The City's investment policy specifies the percentage that the City may have of the different types of instruments allowed by state statute. Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank are the agencies of the United States that the City is statutorily allowed to invest in. The Total Cash, General Fund and Golf Fund are all monitored on a monthly basis as an internal control practice.

Director Kinzler discussed trends and fund balances. City Manager Doyon commented that staff would change the way it develops the report to accommodate the Commission, or will continue

with the information presented.

3. GOLF COURSE RATE REVIEW

Park and Recreation Director Joe Petrella provided and discussed a PowerPoint presentation to update the Commission on the Municipal Golf Courses.

  <h2>City of Great Falls Municipal Golf Courses Update</h2> <p>Presented by: Joseph Petrella, CPRE Park and Recreation Director</p> 	<h3>Presentation Purpose</h3> <ul style="list-style-type: none">› To update City Commissioners on the state of the municipal golf courses.› To introduce industry standards and best practices for operations, maintenance and establishment of fee structures.› To provide a clear vision for the future sustainability of municipal golf in Great Falls. 														
<h3>The Image Problem</h3> <p>“Golf has a systemic image problem to the most important segment of the population – those who don’t play the game. It’s unwelcoming to beginners, intimidating to non-golfers and not women-friendly. The industry needs to view re-packaging golf as if it were a new product; one with no history.”</p> <p><small>Peter Hill, CEO of Billy Casper Golf Management</small></p> 	<h3>Barriers to Golf Participation</h3>  <ul style="list-style-type: none">› Expensive› Time to Play› Frustrating› Health› Exclusionary› Tradition														
<h3>Fiscal Year 15</h3> <table><tbody><tr><td>› Revenue – \$1,343,853</td><td>› As compared to expectations of one (1) championship course</td></tr><tr><td>› Expenses –\$1,287,703</td><td>› 40,000 Rounds</td></tr><tr><td>› Includes \$234,000 bond payment</td><td>› Average Revenue – \$1,133,333</td></tr><tr><td>› Cost Recovery – 104%</td><td>› EBITDA – \$206,000</td></tr><tr><td>› EBITDA = \$56,150 (Earning Before Interest, Taxes, Depreciation and Amortization)</td><td>› Historical average per golf course is benchmarked at \$200,000</td></tr><tr><td>Without bond payment = \$290,150</td><td></td></tr></tbody></table> <table><tbody><tr><td>Golf Courses Combined</td><td>Industry Standards</td></tr></tbody></table>	› Revenue – \$1,343,853	› As compared to expectations of one (1) championship course	› Expenses –\$1,287,703	› 40,000 Rounds	› Includes \$234,000 bond payment	› Average Revenue – \$1,133,333	› Cost Recovery – 104%	› EBITDA – \$206,000	› EBITDA = \$56,150 (Earning Before Interest, Taxes, Depreciation and Amortization)	› Historical average per golf course is benchmarked at \$200,000	Without bond payment = \$290,150		Golf Courses Combined	Industry Standards	<h3>2009 NGF Study “The Future of Public Golf in America”</h3> <ul style="list-style-type: none">› Surveyed 1,100 golf courses› 15% rated their financial health extremely poor› 56% of daily fee golf courses were considering closing or selling› 26% of municipal golf courses were evaluating the same alternatives› Uniformly, with rounds and revenue off, losses increased, maintenance standards deteriorated, capital investments were deferred and discounting practices were employed to help boost rounds 
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Golf Courses Combined	Industry Standards														

2009 NGF Study "The Future of Public Golf in America" cont.

- ▶ Those courses at risk
 - 9-hole facilities
 - Lower Price Points
 - Alternative Facilities
 - Those in less populated areas
- ▶ **Formula for Success**
 - Maintaining Customer Database
 - Email Marketing
 - Publication of Newsletter
 - Have a strategic plan
 - Customer Service Emphasis
- ▶ **Wrong things to do**
 - Discounting
 - Lowering Maintenance Standards
 - Delaying capital expenditures

We have consistently done all three



Prospering during difficult times

- ▶ According to J.J. Keegan, an internationally recognized golf consultant
 - Golf course managers need to increase participation of current customers and attract new participants through player development.
- ▶ **Quick Fixes to address the games primary barriers**
 - **Time** – create more opportunities for alternative forms of play (Stableford scoring, reward pace of play, range programs)
 - **Money** – find creative ways to make frequency more affordable (don't discount, but pay for volume)
 - **Skill** – focus on playable options with multiple tees, easier pin placements... emphasize **Fun over Difficulty**

Goals and Function of Municipal Golf Courses?

- ▶ Generate largest possible return on investment to support other non-revenue park activities?
- ▶ Provide an appropriate return on investment with a value-based recreational activity for the citizens?
- ▶ Enhance the lifestyle of constituents by catering to the perceived needs of niche groups?

Reed Myers – "The Alamo City Golf Trail"

- ▶ Non-profit organization operating City of San Antonio's golf courses
- ▶ Stated
 - *"It is our responsibility to set prices fairly in order to earn not only a satisfactory return on investment for our municipal golf courses, but to also provide our friends in the industry who operate the other golf courses an opportunity to profit. **We cannot subsidize golf for the benefit of a few citizens at the expense of our fiduciary responsibilities to the City and to the industry.**"*

Advantages and Disadvantages of a Municipal Golf Course

- ▶ **Advantages**
 - Profit motivation not as intense
 - Insulated from downturn
 - Located near populated city centers
 - Capital is usually easier to access
 - No property tax, income tax etc.
- ▶ **Disadvantages**
 - Usually are intentionally underpriced
 - Most courses do not recognize the cost of depreciation
 - Immune from the invisible hand of capitalism that rewards those who manage well, and punishes those who underperform.
 - Payroll cost structure higher
 - Labor issues stricter
 - Rate adjustments difficult
 - Politics
 - Golfers are taxpayers who frequently demand low-priced season passes, improved conditions and better services

****Despite the advantages, many municipal golf courses are losing or lost money due to these key disadvantages

Current Challenges for Great Falls Municipal Golf Courses

- ▶ General Fund Debt at approximately \$1,012,000
- ▶ Deferred Capital Expenditures
 - Maintenance equipment and under-staffed maintenance crews (12 to 14 staff needed; we operate with 8 at EF)
 - Golf Carts
- ▶ Aging/Outdated Irrigation Systems
- ▶ Cart Paths in poor condition
- ▶ Aging golf population
 - Nationally – 68% of all rounds are played by those over the age of 43 and soon it will be over age 50.
- ▶ Time constraints
 - Sports that are time-consuming are losing market share
- ▶ Annual Passes
 - Low in cost = low return on investment for the golf courses
- ▶ **Revenue Contribution** versus **Rounds Consumed** results in an unfavorable variance for the golf course thus subsidizing golf

Setting Greens Fees – 2 possible ways? (NGF and JJ Keegan)

- ▶ Median Household Income
- ▶ Maintenance Budget Income
 - Maintenance Budget x .0001
- ▶ Median Household Income within a 10 miles radius x .00084 = Green Fee
- ▶ \$42,500 x .00084 = \$36
- ▶ Anaconda Hills
 - \$395,387 x .0001 = \$40 (rounded)
- ▶ Eagle Falls
 - \$398,893 x .0001 = \$40 (rounded)

The golf experience versus value at each course is not the same so greens fees should not be the same at each course.

Proposed Anaconda Hills Average Green Fee 2016 = \$28

Proposed Eagle Falls Average Green Fee 2016 = \$31.50

Greens Fees

- ▶ Proposed 2016 Fee
 - Anaconda Hills
 - No changes in rate.
 - At what the market can bear.
 - Eagle Falls
 - Increase 6%
 - Junior Rates will remain the same

	Anaconda Hills	Eagle Falls	Bill Roberts (Helena)
18 Holes Weekday	\$26	\$32	\$34
9 Holes Weekday	\$16	\$19	\$20
18 Holes Weekend	\$30	\$35	\$34
9 Holes Weekend	\$18	\$20	\$20
Swingtime Weekday	\$18	\$21	N/A
Swingtime Weekend	\$21	\$25	N/A

Setting Annual Pass Rates

- Should be based on Revenue Contribution versus Rounds Consumed to limit the variance factor
- Should not be more than -10% variance
- Great Falls Annual Passes are at -30% variance (with a + or - 5% variance) based on how we calculate rounds. **Unfavorable for the golf courses**
- Greens Fees are substantially supporting the play of annual pass holders who consume 2/3 of the play on the courses, limiting revenue potential by using tee times that are not available for greens fees
- Rates are too low if we want to change the financial standings of the golf courses
- A round is when someone make a tee time. Not all golfers play a full 18 holes

FY2015	Revenue Contribution	Rounds Consumed*	Variance
Annual Passes	32%	62%	-30%
Green Fees	68%	38%	+30

Annual Pass Fees

- Proposed 2016
 - Anaconda Hills
 - No changes in rate.
 - At what the market can bear.
 - Eagle Falls
 - Increase 6%
 - Increase Joint Pass 6%
 - Junior Rates will remain the same
 - Eliminating Couples Passes
 - only 31 sold in 2015
 - Definition of couple?

	Joint Courses	Anaconda Hills	Eagle Falls	Bill Roberts (Helena)
Adult Full	\$700	\$510	\$600	\$700
Adult Restricted	\$540	\$395	\$480	\$575

If we were to meet industry standards and get the variance factor below -10% (Rounds consumed versus revenue contribution) the Annual Passes would need to be raised at least 20% to 25% more to limit subsidizing golf.

- This does not address the negative variance, but we will be looking into this in the 5-year strategic plan

Trail Fee, Carts, Cart Storage Fees

- Proposed 2016
- Applies to both courses, except storage, which only applies to Eagle Falls.
- Personal carts on the course decreases revenue potential

	Both Courses	Bill Roberts (Helena)
9 Hole Rental (per person)	\$10	\$8
18 Hole Rental (per person)	\$15	\$16
Swing time Cart Rental	\$12	N/A
Annual Cart Pass	\$715	\$325
Daily Trail Fee *	\$15	\$16
Season Trail Fee*	\$300	\$165
Storage (Gas)	\$265	\$485
Storage (Electric)	\$300	\$515

Cyber Card Discount Program

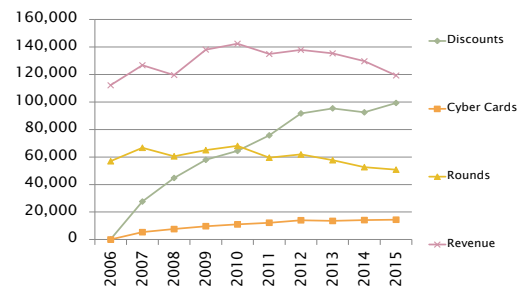
- Cost - \$60
 - 25% off golf, merchandise, carts, etc.
 - Upon purchase
 - 18 holes of golf
 - 18 hole cart
 - Range tokens
 - Giveaways (tees or balls)
 - Value given away = approximately \$85,000
- 1440 sold for \$85,000 in revenue
- Options
 - Keep the status quo
 - Eliminate giveaways upon purchase
 - Decrease the discount percentage
 - Only allow discounts on golf
 - Eliminate the Cyber Card program






Discounts Per Season (March to October)

Year	Discounts Provided	Cyber Cards Sold	Rounds Played	Revenue	Fee Increases
2006	\$155	0	56,976	\$1,122,095	XXX
2007*	\$27,626	535	66,746	\$1,267,585	
2008	\$44,782	759	60,557	\$1,196,288	
2009	\$57,987	970	65,006	\$1,381,366	XXX
2010	\$64,446	1099	68,091	\$1,424,266	
2011	\$75,754	1221	59,552	\$1,349,661	XXX
2012	\$91,728	1401	61,884	\$1,378,757	
2013	\$95,417	1353	57,714	\$1,354,086	
2014	\$92,529	1414	52,649	\$1,297,015	XXX
2015	\$99,342	1440	50,863**	\$1,193,277**	
Total	\$649,766				

*= year Cyber Card was introduced
 **= through 9/30/15

Graph View per season



<h2>Reflecting Back on NGF Study</h2> <ul style="list-style-type: none"> › Wrong things to do <ul style="list-style-type: none"> ◦ Discounting ◦ Lowering Maintenance Standards ◦ Delaying capital expenditures › The numbers have consistently shown that discounting has only offset any fee increases and not changed amount of rounds played nor the financial sustainability of the courses › Recommendation is to eliminate the Cyber Card. 	<h2>Things we need to know for success according to JJ Keegan</h2> <p>Uncontrollable Factors</p> <p><u>Geographic Local Market Analysis</u> – age, income, ethnicity, and population within 10 miles of a golf course are predictors for 90% of all golf courses</p> <p><u>Weather Impact</u>– estimate is that 90% of rounds are played between 55° and 90°. Analyze the last 10 years and it should show the impact on the number of rounds played (positive or negative effect)</p> 
<h2>Things we need to know for success according to JJ Keegan</h2> <p>Controllable Factors</p> <p><u>Technology</u> – must have a fully integrated solution</p> <p><u>Financial Modeling and Course Valuation</u> – use research available through NGF, Golf Datatech, PGA PerformanceTrak</p> <p><u>Facilities and Maintenance Review</u> –Two primary constraints are the equipment needed to maintain a course and the replacement life cycle. Benchmark to industry standards and identify deferred capital benchmarks</p> 	<h2>Things we need to know for success according to JJ Keegan</h2> <p>Controllable Factors Continued</p> <p><u>Management, Marketing, and Operational Review</u> – clubhouse entrance, staffing, organizational structure, merchandising, food and beverage, accounting, budgeting procedures, information systems, advertising, marketing, public relations need to be compared to industry's best management practices</p> <p><u>Customers: Learning Their Preferences and Loyalty</u></p> <p>– databases, email of local golfers, surveying</p> 
<h2>Overcoming Barriers – Where do we go from here?</h2> <p>Develop a 5-year strategic plan</p> <ul style="list-style-type: none"> ▪ Get community and golfer input ▪ Develop a mission and vision for the golf courses to know why we are in the business of golf so we can answer the what and how ▪ Establish level of maintenance standards ▪ Establish level of pro-shop staffing standards and customer service standards, ranger program ▪ Establish 5-year fee structure to adjust fees in small increments annually to keep pace with increasing operational expenses and get in-line with the industry <p>Focus on industry standards and data driven decision making to ensure we remain relevant – be proactive, not reactive</p> <p>Focus on developing new customers</p> 	<h2>Where do we go from here? Cont.</h2> <ul style="list-style-type: none"> › Keeping the status quo is not a viable option for the future sustainability of the golf courses. <ul style="list-style-type: none"> ◦ Aging equipment, cart paths, golf carts and irrigation systems decrease the overall golfer experience and value ◦ Maintenance program needs help to bring value back to the course and to tackle major problems (weeds, gophers, staffing levels, cart paths, etc.) › Remember Reed Myer's Quote: <p><u>"We cannot subsidize golf for the benefit of a few citizens at the expense of our fiduciary responsibilities to the City and to the industry."</u></p> 

Director Petrella concluded that the changes may be tough. It will take the golf community to get on board and really understand where we are if they want the courses to remain at the status quo and get better as we move forward.

4. DISCUSSION OF POTENTIAL UPCOMING WORK SESSION TOPICS

City Manager Greg Doyon commented that the November 3rd work session will consist of an emergency services update held at the 911Center and a discussion on a cooperative purchasing opportunity for fire trucks. A joint meeting with the Library Board is scheduled for November 17th.

Mayor Winters requested an Animal Shelter update be added to the list of topics to clearly define its euthanasia policy.

ADJOURN

There being no further discussion, Mayor Winters adjourned the informal work session of October 20, 2015, at 6:27 pm.