



Economics Research Associates

Palo Alto Muni Operational Analysis Executive Summary

- The City of Palo Alto provides golf services through its municipal golf course – Palo Alto Muni. Presently, the golf course operation and food and beverage functions are the responsibility of private sector providers, while the City maintains the golf course.
- The Bay Area golf market, like nearly every major metropolitan market in the country, has experienced very soft market conditions over the past six to seven years. The Bay Area public golf market has been more severely affected and recovered more slowly than most markets.
- Play at Palo Alto Muni has declined from about 90,000 rounds in 2000 to 76,240 rounds in 2007, a decline of 16 percent over the 2000-2007 period. By comparison, the average play per public access course in the Bay Area has declined about 12 percent since 2000, with play at the more relevant competitive set of public access courses down about 17 percent.
- Conditions at most Bay Area public courses have stabilized and there has been modest improvement in play levels over the past two years. Over the next five- to ten-year period, the regional golf market is expected to continue to gradually improve as the “baby boom” population ages in-place and limited expansion of the inventory of public golf courses occurs.
- Annual play at competitive Bay Area courses ranges from 57,000 to 87,000 rounds, averaging 70,700 rounds. Palo Alto Muni, at 76,000 rounds, ranks third among the 15 competitive courses surveyed.
- Greens fees at Palo Alto Muni of \$36 weekdays and \$47 weekends, excluding cart, are near the top of the range among competitive Bay Area courses, and are deemed at, or approaching, market levels.
- Palo Alto Muni revenue performance generally is favorable:
 - The average greens fee is \$30.40 which compares with an average of \$28.89 for competitive courses over a range of \$19.31 to \$37.92 per round.
 - Cart revenue per round is \$4.08, lowest among competitive courses due to very low cart utilization which stems primarily from the limited course topography and short distance between greens and tees.

- Range revenue averages \$13,600 per tee per year for the 26-tee facility, ranking the facility among the top of the competitive set of courses.
 - Merchandise sales at Brad Lozares Golf Shop are at a very high level, ranking Palo Alto Muni as one of the top golf retail operations at municipal courses in the country.
 - Given the limited capacity of the clubhouse to accommodate special events, food and beverage revenue is consistent with the performance at competitive facilities.
- Approximately 20 percent of Palo Alto Muni golfers reside within the City, with the majority of others residing in other South Bay communities.
 - A survey of golfers at Palo Alto Muni revealed a high satisfaction level in terms of the tee time reservation system, tee time reliability, marshalling, and pace of play. Nearly 90 percent of golfers deemed weekday and 73 percent weekend greens fees acceptable.
 - A very high percentage of golfers rate golf operations (instruction, customer service, merchandise) “excellent” or “good,” while only about one-half rated food and beverage facilities/services at this level.
 - The majority of golfers rated golf course conditions as “fair” or “poor.”
 - Of those respondents who stated that Palo Alto was *not* their primary course, primary reasons were:
 - Course quality/play experience: 41.1%
 - Location: 23.4%
 - Fees: 12.5%
 - Tee time availability: 6.8%

Clearly, course quality and play experience, and *not* fee levels or tee time availability, are the primary reasons why most people choose another facility over Palo Alto Muni as their primary course.

- About 40 percent of the golf course master plan improvements were completed in the 1998-1999 course renovation. In light of the cost of completing the master plan improvements, and the threat of major disruption/impacts related to the San Francisco

Creek Flood Control project, it is prudent to consider limited targeted improvements to the course.

- The highest priority capital improvements needed for the golf course to remain competitive in the marketplace are summarized below:

Component	Amount (\$000)
Golf Course	\$ 870
Driving Range	600
Maintenance Yard	100
Clubhouse	—
Soft Costs/Contingency	314
Total	\$1,884

- The \$870,000 allowance for the golf course improvements addresses primarily problems with original greens and bunkers which require rebuilding. Completion of the full master plan improvements would likely cost \$4 to \$5 million, or more, and is not considered to be cost-effective at this time. At least in the near- to mid-term, it would appear to be more appropriate to intensify golf course maintenance – including resumption of the fairway sanding program – than investing in extraordinary golf course improvements.
- Maintenance staffing levels at Palo Alto Muni compared with Bay Area competitive facilities is summarized as follows:

	Course Maintenance Employees		
	Full Time	Part Time (FTE)	Total (FTE)
Palo Alto Muni	9	1	10
Comparative Courses			
Range	10-15	0-3	12-17
Average	12	2	14

- Excluding irrigation, annual maintenance costs at Palo Alto Muni are compared with benchmark facilities, as follows:

	Annual Maintenance Expenses (\$000)
Palo Alto Muni	\$1,195
Public Provider	
Range (5 courses)	\$1,033-1,336
Average	\$1,171
Private Provider	
Range (10 courses)	\$ 474-1,105
Average	\$ 778

- As with most public agencies, the City of Palo Alto assesses a charge to the golf course for Citywide overhead services such as human resources, legal, accounting, budget, management, purchasing, insurance (the City is self-insured), and similar functions. Referenced as the Cost Plan, currently the assessment totals about \$380,000 per year.
- Clearly, there is a value of the overhead services provided by the City. While it is difficult to precisely determine the value of these overhead services, an estimate based on assessing the cost of these services if provided by a typical owner/operator can be offered:

Overhead Service	Annual Amount
On-Site Accounting	\$ 50,000
Audit	25,000
Insurance (liability, general)	40,000
Contract Management	35,000
Other Services*	<u>75,000</u>
Total	\$225,000

*Represents portion of typical professional management fee related to providing human resources, budget, cash management, accounting and reporting systems, and other required overhead services.

- Net income accruing to the City from golf operations for FY 2007 is shown after deducting an allowance for the Cost Plan:

	FY 2007 Net Income (\$000)	
	As Reported	Adjusted
City Net Operating Income	\$992	\$992
Less: Debt Service	(558)	(558)
Cost Plan	(380)	(225)
Adjusted Net Income	\$ 54	\$209

- Under the current operating structure, and assuming completion of the limited capital improvement program, the golf course is expected to generate \$950,000 per year in net operating income at a stabilized play level, prior to debt service (\$559,000 existing plus \$145,000 related to financing proposed capital improvements) and the City's Cost Plan (overhead) allocation. This compares with about \$900,000 reported for 2007 (after deducting an allowance for capital improvement replacement reserves).

	Thousands of 2008 Constant Dollars		
	Actual 2007	Projected at Stabilized Play	
		Cost Plan	Adjusted Cost Plan
Revenue	\$2,851	\$3,148	\$3,148
Less: Operating Expenses ¹	<u>1,859</u>	<u>2,098</u>	<u>2,098</u>
Net Operating Income	\$ 992	\$1,050	\$1,050
Less: Existing Debt Service	\$ 558	\$ 558	\$ 558
New Debt Service	—	145	145
Cost Plan	380	380	225
Replacement Reserve	<u>95</u>	<u>101</u>	<u>101</u>
Subtotal	<u>\$1,033</u>	<u>\$1,184</u>	<u>\$1,029</u>
Net Cash Flow	(\$ 41)	(\$ 134)	\$ 21

While net cash flow is projected to decline slightly following the completion of capital improvements, a more precipitous decline would be expected in the absence of such a program as the course becomes less competitive.

- The current golf operations agreement is a hybrid structure which is slightly favorable to the concessionaire. Hypothetically, the golf operations function could be converted to a more traditional facility lease (concession agreement) or fee-for-service management agreement. If the City continues to maintain the golf course, nominal improvement in net cash flow would result from a change in the operating structure.
- The differential between City and private providers maintenance function of the golf course is estimated at \$250,000 to \$300,000 per year. Thus, any form of

management, with private maintenance, would likely increase City net income by this amount of cost savings.

- The City funded the \$7 million 1998-1999 capital improvements with a tax-exempt bond issue. To maintain the tax-exempt status of the bonds, the IRS requires compliance with several provisions including the form and structure of management. These provisions, in large part, have influenced the current structure. Altering the operating structure to a traditional concessionaire agreement or leasing the facility likely would require modification of the current debt structure.