

TO: PARKS AND RECREATION COMMISSION

FROM: LAM DO
SUPERINTENDENT OPEN SPACE, PARKS, AND GOLF

DEPARTMENT: COMMUNITY SERVICES

DATE: JANUARY 25, 2022

SUBJECT: GOLF COURSE PERFORMANCE FISCAL YEAR 2021

RECOMMENDATION

This is an informational report. No action is recommended.

BACKGROUND

In July 2016, the City closed the Palo Alto Municipal Golf Course for a full course renovation and reconfiguration based on a selected design by Golf Group, Ltd. (Forrest Richardson & Associates). The design was for an 18-hole course layout to conform to a Baylands setting. The reconfigured golf course incorporated or modified existing low-lying areas, raised other areas to provide contours and course views, reduced the area of managed irrigated turf, and introduced areas for native vegetation and wetland habitat. The renovation also included modification to the practice facilities.

The project design was developed to achieve the following objectives:

- Creation of a golf course providing a more interesting layout for golfers of all levels, with enhanced wildlife habitat, improved wetland areas, and reduced usage of potable water, pesticides, and maintenance labor for turf and landscaping;
- Integration of a Baylands theme into the golf course with a links style course;
- Improvement of golf course playing conditions – turf, drainage, and irrigation;
- Mitigation for impacts on the golf course resulting from the adjacent San Francisquito Creek Joint Powers Authority’s flood control expansion project; and
- Expansion of adjacent areas for future recreation needs.

During construction, the driving range, practice facilities, golf shop, and restaurant remained open for business under three different operators while the City solicited proposals from golf management companies and restaurant operators. After a review and interview process, OB Sports was selected to operate the course entirely, inclusive of golf course play, course maintenance, practice facilities, merchandise sales, and food and beverage services. Prior to reopening, OB Sports renovated clubhouse facilities including the golf shop, restaurant, and patio. With course construction and facility renovations complete, the golf course re-opened on May 26, 2018 as the Baylands Golf Links.

DISCUSSION

The selection of OB Sports to manage the golf course on the City’s behalf included assessment of their management operations as well as financial performance projections. The City reviewed OB Sports’ projections, compared them to pro-formas prepared by the National Golf Foundation, and asked for an assessment by an established industry consultant.

When the golf course re-opened, green fees were established with a range to accommodate dynamic pricing, where green fees fluctuate based on time of day, day of week, and demand. Green fees are also tiered with Palo Alto residency, Bay Area residency, and visitor rates. The combination of dynamic pricing and tiered residency pricing has resulted in strong green fee revenue to support operating costs.

In Fiscal Year 2019, green fee revenue from course play and tournaments overachieved its financial pro-forma projection and budget. However, revenue from merchandise sales underachieved sales targets. Numerous retail and online vendors competing for golf related merchandise sales remains an alternative for players. Overall revenue from golf operations ended Fiscal Year 2019 at 6% under target.

For Fiscal Year 2020, the overall revenue target was increased in alignment with prior pro-formas. As the prior fiscal year resulted in strong green fee revenue, this revenue category was increased while the revenue target for merchandise sales was decreased.

However, in Fiscal Year 2020 the golf course underperformed financially by 26% less than target. Revenue was \$2.8M with a target revenue budget of \$3.8M. During part of the first eight months of the fiscal year, the course was impacted by poor air quality from the 2019 fire season and was performing on par in comparison to the prior Fiscal Year 2019. But the course closed in March 2020 due to the COVID-19 pandemic's shelter in place Health Order initially implemented by County and remained closed during most of the key Spring season. Upon re-opening at the end of Spring, the course operated at drastically less than capacity in accordance with the State and County Health Orders. Initial re-opening was singles play only and as the Health Orders further changed, the course allowed doubles play with members of the same household.

The fire season and COVID-19 pandemic impacts to financial performance can also be viewed from the perspective of golf rounds played at 42,429 rounds where the target was 58,449 rounds. This reflects 27% fewer rounds of golf played than targeted rounds. Similarly, overall revenue was 26% less than targeted budget.

With an uncertain pandemic outlook, the revenue target for last Fiscal Year 2021 was not increased and remained at \$3.8M. However, upon State and County Health Orders changing to allow for group foursome play, the impact on golf operations was an increase in daily capacity for golf rounds which accommodated a high demand for golf play. With few social distanced activities and options, the general public continued to choose golf throughout the fiscal year resulting in revenues of \$4.9M. This represents 29% higher than target and the first year since course renovation that the golf course exceeded revenues above target. A comparison of rounds of golf played in Fiscal Year 2020 vs. 2021 reflects a 49% increase of 42,429 vs. 63,352 rounds. The increase in revenue and rounds of golf played are also reflected in golf courses in the region and throughout the country, each with varying degrees.

In the current Fiscal Year 2022, the strong revenue performance of the golf course has continued based on revenue figures of the first five months. Much of the outlook for the remainder of the Fiscal Year is dependent upon the COVID-19 pandemic and winter weather. Omicron or a different COVID variant may bring back State and County restrictions negatively impacting course play. The multiple atmospheric river rainstorms in December has brought heavy rain

periods surpassing the Year to Date rainfall of prior drought winters. If the full winter season results in overall rainfall higher than prior years, there will be fewer days available for ideal golf play.

The following table reflects golf rounds played and player residency for the current FY 2022. The course continues to draw players from Palo Alto and Santa Clara County during the COVID-19 pandemic. This is reflected in 70% of players thus far residing in Santa Clara County, including 33% from Palo Alto.

Golf Rounds Played and Customer Residency		
Baylands Golf Links: July - November 2021		
Golf Rounds		28,325
Residency		
	Palo Alto	33%
	Santa Clara County, excluding Palo Alto	37%
	San Mateo County	12%
	San Francisco County	9%
	Other Areas	9%

Leading up to the start of current Fiscal Year 2022, the City and OB Sports elected to mutually extend the course management agreement for three years through Fiscal Year 2024 based upon OB Sports establishing the golf course as a premiere municipal golf course with a regional draw. To achieve this OB Sports has focused on the overall player experience consisting of course maintenance, playing conditions, customer service, and food and beverage service. As OB Sports operates the Baylands Café under a lease, food and beverage revenue and expenses are not factored in the golf course’s operating budget.

RESOURCE IMPACT

Funding for golf operations is budgeted in the Community Services Department’s General Fund budget.

PREPARED BY: _____

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