



City of Palo Alto

City Council Staff Report

(ID # 6335)

Report Type: Consent Calendar

Meeting Date: 12/14/2015

Summary Title: Golf Course Budget Amendment Ordinance

Title: Authorization to Operate the Golf Course From January 1, 2016 to June 30, 2016 and Adoption of a Budget Amendment Ordinance to Increase Golf Course Revenues Estimate in the Amount of \$600,956 and Provide Additional Expense Appropriation in the Amount of \$600,956

From: City Manager

Lead Department: Community Services

Recommendation

Staff recommends that Council authorize staff to keep the Golf Course open from January 1, 2016 to June 30, 2016, and adopt the attached Budget Amendment Ordinance (BAO) (Attachment A) to fund Golf Course operation by increasing Golf Course revenues by \$600,956 and Golf Course expenditures by \$600,956 in the Community Services Department.

Background

The Golf Course design, environmental impact report (EIR), and construction bid documents are all complete and ready for bidding of the Palo Alto Municipal Golf Course Reconfiguration Project (Project) as soon as regulatory permits are approved. Implementation of the Project requires the acquisition of regulatory permits from state and federal resource agencies. Specifically, the Project requires a Section 404 Permit from the U.S. Army Corps of Engineers (Corps) which also involves consultation with the U.S. Fish and Wildlife Service with respect to potential impacts to federally-listed endangered species, and a Section 401 Water Quality Certification from the California Regional Water Quality Control Board (Water Board). Permit applications for the Project were submitted to the agencies on December 23, 2013. It has proven to be extremely challenging to secure the required permits for the Project. Staff has continued to make concerted efforts to work cooperatively with resource agency staff over the past year, responding promptly to their comments and requests for information and making frequent overtures offering assistance to expedite the permitting process. Staff, including the City Manager and City Attorney, have also worked directly with resource agency executive managers, local state legislators, JPA staff, and outside counsel in an effort to speed up the issuance of permits. While progress is being made, it has been slow, and a realistic credible date of permit issuance remains uncertain.

Discussion

Regulatory Permits

The regulatory permit process remains the critical path and milestone controlling our ability to commence construction of the Project. The Golf Course design, Environmental Impact Report and construction bid documents are all completed and ready for rebidding of the Project pending acquisition of regulatory permits. Consequently, pursuing permit approval remains staff's highest priority. The City must secure two regulatory permits (Section 401 Water Quality Certification from the Water Board and a Section 404 Permit from the Corps) prior to re-advertising the Project for construction bids. Below is a summary and status of the remaining steps in the permitting process:

1. Water Board issues Section 401 Water Quality Certification: The Water Board failed to take action on the City's permit application within the legally-mandated timeframe. As a result, the City Attorney believes that the Water Board has waived its right to require a Water Quality Certification, although we have not yet received confirmation of this interpretation from Water Board staff. The City Attorney is pursuing a formal response from the Water Board's legal counsel as to their interpretation of the status of our permit application and our ability to proceed with Project construction.

2. Corps consults with US Fish & Wildlife Service regarding potential Project impacts to endangered species: On November 3, 2015, Corps staff requested that the US Fish & Wildlife Service (USFWS) initiate informal consultation on the Project and provide concurrence with the Corps' preliminary finding that the Project may affect, but is not likely to adversely affect listed endangered animal and plant species, including the Ridgway's rail, salt marsh harvest mouse, and showy Indian Clover. On November 24, 2015, we received an e-mail from USFWS staff requesting additional clarifying information to assist with their review of our Section 404 permit application. It is unclear at this point how much time the USFWS will need to complete its consultation with the Corps.

3. Corps issues Section 404 permit: The Corps will be in a position to issue the Section 404 permit for the Project shortly after the USFWS provides its input on potential impacts to listed endangered species.

Project Schedule

At this time it is infeasible to identify a definitive schedule for the bidding of the Project given that the ability to proceed with the Project is tied directly to the permitting process, which is beyond the City's direct control.

Based on the difficulties caused by initially bidding the Project prematurely, staff recommends that the Project not be advertised for construction bids until the required regulatory permits have been secured. Staff provides two potential schedule scenarios below. The first scenario assumes permit approval by March, 2016. This is the latest date that would allow Project

construction to start in summer 2016. Any further delays in permit acquisition would cause the Project to be postponed until the end of the calendar year (as outlined in Scenario B below) due to seasonal constraints on grading and turf installation. At this time, staff believes that it is uncertain whether permits will be secured in time to achieve the Scenario A schedule. It is presented here, as the ideal schedule to be compared with the more realistic Scenario B schedule.

Scenario A

Timeline	Duration	Milestones
2/1/16	0	Issue a Request for Qualifications (RFQ)
3/1/16	4 weeks	Due date for contractor pre-qualification submittals
3/7/16	1 week	Advertise project for construction bids
4/19/16	6 weeks	Bid opening date
5/9/16	3 weeks	City Council award of construction contract
5/30/16	3 weeks	Issue Notice to Proceed to contractor
6/27/16	4 weeks	Close Golf Course, begin construction activity
Fall /Winter 2017	18 months	Open new Golf Course to the public

Scenario B

Timeline	Duration	Milestones
7/5/16	0 weeks	Issue a Request for Qualifications (RFQ)
8/2/16	4 weeks	Due date for contractor pre-qualification submittals
8/8/16	1 week	Advertise project for construction bids
9/20/16	6 weeks	Bid opening date
10/17/16	4 weeks	City Council award of construction contract
11/7/16	3 weeks	Issue Notice to Proceed to contractor
12/5/16	4 weeks	Close Golf Course, begin construction activity
Fall 2018	21 months	Open new Golf Course to the public

The cost of construction is subject to many economic factors. Staff has observed price increases for irrigation equipment over the past year, and the improved economy has increased the number of golf course projects in construction, which has in turn driven up bid prices. It is difficult to predict the prices that contractors will bid when the Project is ultimately advertised for competitive bids. However, Staff will endeavor to keep bid prices as low as possible by conducting a new round of bidder pre-qualification when the permits are approved to attract a variety of qualified golf course builders.

Current Golf Course Operations

The Golf Course was modified and shortened in August 2013 to accommodate the stockpiling of imported soil for the Project and the JPA's flood protection project. To accommodate the soil stockpile area, several holes on the Golf Course were shortened, reducing the par score of the course from 72 to 67. The course remains open for public play. While the pre-construction Golf Course is a shorter course, it remains playable and allows golfers to complete a round of golf in less time than in the past. The golf course is still an 18-hole golf course with two par 5, nine par 4, and seven par 3 holes. All 365,000 cubic yards of imported soil needed for the Project have been delivered to the Golf Course, generating revenue of \$1.1 million to be applied towards the cost of the Project.

The FY 2016 approved budget assumed the Golf Course would be open for business through December 2015, and closed thereafter for approximately 2 years for construction. Because regulatory permits are not likely to be received in time to begin construction in FY 2016, staff is recommending Council approve a Budget Amendment Ordinance that allows the Golf Course to remain open for business through the remainder of FY 2016. The estimated increase in revenues by remaining open January through June 2016 is \$600,956, with an equal increase of in expenses of \$600,956.

In an effort to promote the Golf Course during this pre-construction period and help create excitement and enthusiasm for the future Baylands-themed course, the Golf Course Management Team continues to creatively market the Golf Course. The Golf Course

Management Team is made up of City staff, contracted Golf Professional Brad Lozares, Valley Crest golf course maintenance staff, Bay Café staff, Golf Course Architect Forrest Richardson, and members of the Golf Course Advisory Committee. Marketing of the Golf Course uses social media, print advertising and other promotional strategies to tell a compelling story about the rich history of Palo Alto's Golf Course and the innovative plans for the future. The marketing efforts have included the following discounts and special offers among others:

- Loyalty Cards – Play 5 rounds and get 1 free
- Two-for-one green fee offers
- Saturday and Sunday – Kids play free with one paid adult
- Good Deed Gift Certificates
- Distribution of Bridge to the Future bookmarks for special pricing on par 67 layout
- Golf Now third party booking engine utilization
- Weekly email blasts to club members
- Nine and Dine offers for 9 hole only players
- Driving Range loyalty card - Buy 10 buckets and get 1 free
- Banners installed on range netting to promote that we are fully open for business
- Special sales for senior discount cards
- Special sales for junior monthly play card to be used on weekends
- New simplified fee signage
- Contact all local golf clubs and former tournament directors to notify that course remains open

In spite of efforts to encourage and promote golf play at the Golf Course, the temporary conditions leave the Golf Course less competitive in the market. There are numerous golfing options on the Peninsula to choose from, and the shorter temporary conditions of the Palo Alto Municipal Golf Course make it difficult to attract customers and to price golf rounds in a way that will result in full cost recovery of the Golf Course's operational expenses. In FY 2016, assuming Council approves the attached BAO, the Golf Course will be subsidized by \$959,381.

Resource Impact

The resource impact to FY 2016 is estimated to be an increase of revenue by \$600,956 and an increase in expected expenses by \$600,956. The revised FY 2016 Golf Course budget can be seen in Attachment B.

Environmental Review

An Environmental Impact Report (EIR) was prepared to evaluate the potential impacts of the Palo Alto Municipal Golf Course Reconfiguration Project and to identify the appropriate mitigation measures in accordance with the provisions of the California Environmental Quality Act (CEQA). Council, acting on behalf of the City of Palo Alto in its role as lead agency for purposes of CEQA, adopted a resolution on February 3, 2014, certifying the final EIR for the project.

Attachments:

- ATT B - golf course Pro Forma FY16 (PDF)
- Budget Amendment Ordinance - Golf Course (DOCX)

PALO ALTO GOLF COURSE
PRO FORMA

ATTACHMENT B

	FY13 Actuals	FY14 Actuals	FY15 Actuals	FY16 Adopted Budget	FY16 Open Jan-June Recommended BAO	Total FY 16 Adopted + Jan-June
REVENUES						
Tournament Fees	1,670	4,037	37,517	0		0
Gree Fees (+Cards)	1,781,405	1,103,410	922,800	396,000	447,997	843,997
Driving Range	343,883	313,633	296,933	210,000	79,511	289,511
Cart Fee	279,795	225,310	216,541	95,000	94,037	189,037
Proshop lease	27,248	25,051	24,818	21,000	3,000	24,000
Restaurant lease	48,880	53,487	39,191	26,400	0	26,400
restaurant Utilities	21,600	16,260	16,980	18,000	0	18,000
Other Fee	24,319	20,075	22,239	12,000	12,000	24,000
TOTAL REVENUE	2,528,800	1,761,263	1,577,019	778,400	636,545	1,414,945
EXPENDITURES						
Operating Expenses						
Salaries & Benefits	134,948	122,634	85,683	149,542	0	149,542
Advertising & Publishing	11,307	7,916	5,599	15,000	0	15,000
Supplies and Materials	3,292	6,986	1,106	20,000	0	20,000
General Expense	1,014	1,038	74		0	0
Facilities Repairs & Maintenance	7,259		9,706	10,000		10,000
Water Expense	381,966	319,204	253,314	150,000	94,500	244,500
Other Direct Charges	48,448	46,126	44,173	45,479	0	45,479
Indirect Charges	93,702	36,099	31,017	40,672	0	40,672
Subtotal	681,936	540,003	430,673	430,693	94,500	525,193
Contract Services						
Golf Maintenance	808,801	780,755	831,130	524,750	266,052	790,802
Miscellaneous						
Range fees	130,676	119,181	112,835	117,400	30,214	147,614
Cart rentals	112,083	86,034	81,767	19,000	37,615	56,615
Club rentals	5,951	4,666	4,880	4,000	2,490	6,490
Fixed Management Fees	339,045	338,292	319,057	187,917	157,415	345,332
Green Fees to Golf Professional (5%)	0	0				0
Credit Card Fees	38,000	30,000			12,671	12,671
Subtotal	1,453,121	1,367,390	1,349,668	853,067	506,456	1,359,523
Total Operating Expenses	2,135,057	1,907,393	1,780,341	1,283,760	600,956	1,884,716
Net Income From Operations	419,443	(146,130)	(203,322)	(505,360)	35,588	(469,772)
Debt and Other Charges						
1998 Debt Service	428,180	429,020	428,194	429,020	0	429,020
New 2014 Debt Service	0	0	0	0	0	0
Cost Plan Charges	23,871	26,224	20,459	25,000	0	25,000
Capital Reserve	0	0	0	0	0	0
Subtotal - Debt and Other Charges	452,051	455,244	448,653	454,020	0	454,020
Net Income (Loss)	(32,608)	(601,374)	(651,975)	(959,380)	35,588	(923,792)
Golf Rounds	58,000	46,527	42,048	15,000	20,354	35,354

Proforma Assumptions for FY16 January-June

- Average round \$22.01 based off of FY15 and FY16 Q1 data

-Rounds data determined by 90% (January-March during the rainy season) and 95% (April-June) of the average number of rounds in FY14/15 for the same period

- Rounds/revenue accounts for high rain period January-March

- Cart fee is projected at \$4.62 per round based on the average price FY13-15

- Water cost anticipated lower in rainier season (January-March)

- Credit card fee is 2% of revenue

Ordinance No. XXXX

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO AMENDING
THE GENERAL FUND BUDGET FOR FISCAL YEAR 2015 TO INCREASE GOLF
COURSE REVENUE ESTIMATES BY \$600,956 AND PROVIDE AN
ADDITIONAL APPROPRIATION OF \$600,956 IN THE COMMUNITY
SERVICES DEPARTMENT BUDGET FOR GOLF COURSE OPERATIONS

The Council of the City of Palo Alto does ordain as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Council on June 15, 2015 did adopt a budget for Fiscal Year 2016; and

B. The Fiscal Year 2016 Adopted Operating Budget assumed the closure of the Golf Course effective January 1, 2016; and

C. As part of the approval of the Fiscal Year 2014 Adopted Capital Budget, the City Council approved the Golf Course Reconfiguration Project; and

D. In anticipation of the Golf Course Reconfiguration Project, the City applied for permits from the State Water Board; and

E. Due to delays in permit review and issuance, the City continued to fund golf course operations offset with additional revenues through budget amendments in Fiscal Year 2015; and

F. Delays in permit issuance from the State Water Board are anticipated to continue through the remainder of FY 2016;

G. Therefore, staff is requesting an additional appropriation to keep the Golf Course open through June 2016 offset by an increase in Revenues to fund Golf Course operations through the end of Fiscal Year 2016.

SECTION 2. The revenue estimate for Charges for Services in the Community Services Department for Golf Course operations is hereby increased by Six Hundred Thousand and Nine Hundred Fifty-Six Dollars (\$600,956).

SECTION 3. The Community Services Department expenditure budget for Golf Course operations is hereby increased by Six Hundred Thousand and Nine Hundred Fifty-Six Dollars (\$600,956).

SECTION 5. As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance.

SECTION 6. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

SECTION 7. The actions taken in this ordinance do not constitute a project requiring environmental review under the California Environmental Quality Act (CEQA).

INTRODUCED AND PASSED: Enter Date Here

AYES:

NOES:

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

City Clerk

APPROVED AS TO FORM:

Senior Assistant City Attorney

Mayor

APPROVED:

City Manager

Director of Administrative Services

Director of Community Services