

APPROVED

Aug 18 2022

BOARD OF RECREATION AND PARK COMMISSIONERS

BOARD REPORT

NO. 22-215

DATE August 18, 2022

C.D. Various

BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: GOLF DIVISION – CHANGES TO CONTRIBUTIONS INTO THE GOLF CAPITAL IMPROVEMENT ACCOUNT - TRANSFER OF FUNDS FROM GOLF OPERATION ACCOUNT TO GOLF CAPITAL IMPROVEMENT ACCOUNT

AP Diaz	_____	* M. Rudnick	<u>MR</u>
H. Fujita	_____	C. Santo Domingo	_____
B. Jackson	_____	N. Williams	_____



 General Manager

Approved X Disapproved _____ Withdrawn _____

RECOMMENDATIONS

1. Eliminate the current Capital Contribution Surcharge per round of golf as more fully described in this Report;
2. Authorize the implementation of an annual contribution of funds from the Department of Recreation and Parks (RAP) Golf Operation account to RAP's Golf Capital Improvement account in the amount of 10% of annual gross revenues of RAP's Golf Division, to be allocated solely for City of Los Angeles golf course capital improvement related expenses; and
3. Approve the transfer of \$12,966,144.26 from the Golf Operation account (Fund 52H, Department 89, Account 89G401) to the Golf Capital Improvement account (Fund 52H, Department 89, Account 89G402).

SUMMARY

RAP's Golf Division maintains and operates seven (7) 18-hole golf courses, three (3) 9-hole golf courses, two (2) 9-hole pitch and putt golf courses, and a golf training academy. The training academy provides golf instruction to youth under the age of eighteen (18) and performs significant outreach to inner city underprivileged children. City employees perform all maintenance, starter, and electric cart fleet management on each golf facility. The Golf Division also self-operates all five (5) of its driving ranges. All salary expenses, including indirect costs of employees, utilities, supplies and contract services, are funded through revenue generated by the golf facilities. In addition to covering operational expenses, it is essential that the Golf Division generate additional revenue to maintain and improve the City's golf assets.

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GOLF COURSE CAPITAL IMPROVEMENT NEEDS

The Golf Division estimates ten-year capital improvement needs of approximately \$30 million for the entire golf system. In particular, irrigation system improvements at multiple golf courses will significantly modernize and improve water-use efficiency, especially important as extreme drought conditions persist in the region. Examples of urgent and necessary capital improvement needs include new irrigation system installations at Rancho Park, Wilson, Harding and Woodley Lakes golf courses (estimated cost \$3 million per course); ADA restroom upgrades at various golf courses (estimated cost \$500,000 per course); clubhouse repairs and ADA upgrades at various courses, security lighting and cameras at various courses; driving range and fencing improvements.

CHANGES TO CONTRIBUTIONS INTO THE GOLF CAPITAL IMPROVEMENT ACCOUNT

Under Board Report 16-079, dated April 6, 2016, the Board of Recreation and Park Commissioners (Board) approved the implementation of a Capital Contribution Surcharge on every golf round, such fees to be deposited into the Golf Capital Improvement account. The Capital Contribution Surcharge per round is \$2.00/round for 18-hole courses, \$2.50/round for Rancho Park Golf Course, and \$1.00/round for 9-hole courses. From FY 2017 through FY 2021, this contribution has averaged \$1.4 million annually into the Golf Capital Improvement account. Staff believes this average annual contribution of \$1.4 million is insufficient to meet the City golf system's long-term infrastructure reinvestment needs as described above.

In evaluating other local municipal golf systems, it is worth noting that the Los Angeles County golf system sets aside \$1.50 per green fee plus an additional 10% of greens and tournament fees into a capital improvement trust fund, which is used for reinvestment into its golf system's infrastructure. The City of Long Beach also sets aside 10% of its revenues for capital improvements.

In order to meet the long-term infrastructure reinvestment needs of the City's golf assets, RAP recommends to the Board the following:

1. Eliminate the Capital Contribution per round of \$2.00/round for 18-hole courses, \$2.50/round for Rancho Park Golf Course, and \$1.00/round for 9-hole courses;
2. Implement an annual contribution from the Golf Operation account into the Golf Capital Improvement account in the amount of 10% of annual gross revenues of the Golf Division, to be allocated solely for City of Los Angeles golf course capital improvement related expenses.

From FY 2017 through FY 2021, the Golf Division has averaged \$25.8 million in gross revenue. Under the proposed contribution plan, 10% of gross revenues would amount to \$2.6 million in capital improvement contributions, an 86% increase to the current average contributions of \$1.4 million. Golf has seen a significant increase in participation beginning in the summer of 2020.

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This has led to sustained significant increases in LA City golf revenue (See Attachment A). Given the significant increase in the demand for golf and the resulting increase in golf revenue, the Golf Division will have the ability set aside the required additional capital improvement contribution.

TRANSFER OF FUNDS FROM GOLF OPERATION ACCOUNT TO GOLF CAPITAL IMPROVEMENT ACCOUNT

In July 2010, the Golf Division was set up as a Special Fund, responsible for all maintenance, operations and capital improvements of the City's 13 golf facilities. At the same time, four new accounts were established as follows:

Fund	Department	Account	Account Name	Beginning Balance
52H	89	89G401	Golf Operation	\$6,381,227
52H	89	89G402	Capital Improvement	\$7,000,000
52H	89	89G403	Emergency Contingency	\$1,500,000
52H	89	89G404	Donations	\$34,437

By the end of FY 2021, the account balances were as follows:

Fund	Department	Account	Account Name	Balance
52H	89	89G401	Golf Operation	\$19,347,372
52H	89	89G402	Capital Improvement	\$2,963,806
52H	89	89G403	Emergency Contingency	\$3,160,399
52H	89	89G404	Donations	\$58,316

RAP is proposing transferring \$12,966,144.26 from Fund 52H, Department 89, Account 89G401 (Golf Operation account) to Fund 52H, Department 89, Account 89G402 (Capital Improvement account) to replenish the Golf Capital Improvement account to enable the continued funding of needed infrastructure improvements. The Golf Operation Account 89G401 will still have a remaining balance of \$6,381,227 to help fund operational needs should there be an unforeseen downturn in the golf market.

Staff is still reconciling encumbrances for FY 2022. Once FY 2022 expenses are finalized, an additional recommendation for transfer of funds for FY 2022 will be brought to the Board for consideration.

This Board Report has been reviewed and recommended by the Golf Advisory Committee.

FISCAL IMPACT

There is no negative impact on the RAP General Fund, as all revenue is deposited to and expenses are paid from the Golf Operations Special Fund 52H.

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STRATEGIC PLAN INITIATIVES AND GOALS

Approval of this Board Report advances RAP's Strategic Plan by supporting:

Goal No. 3: Create & Maintain World Class Parks and Facilities

This Report was prepared by Rick Reinschmidt, Acting Golf Manager, Golf Division.

LIST OF ATTACHMENTS/EXHIBITS

- 1) Attachment A – Summary of Golf Revenue and Expenses

CITY OF LOS ANGELES
DEPARTMENT OF RECREATION AND PARKS
Golf Division
Revenue and Expenses

	Actual FY 2019	Actual FY 2020	Actual FY 2021	Estimated FY 2022 ¹	Estimated FY 2023	Estimated FY 2024
REVENUE:						
Green Fees	\$ 15,563,719	\$ 15,206,448	\$ 19,835,950	\$ 20,850,000	\$ 20,850,000	\$ 20,850,000
Electric Golf Carts	4,126,554	3,864,508	4,972,423	5,670,000	5,670,000	5,670,000
Driving Ranges/Lessons Services	2,702,619	2,793,486	5,236,089	5,630,000	5,630,000	5,630,000
Player Cards	330,942	377,329	632,592	650,000	650,000	650,000
Tregnan Junior Golf Academy	198,091	169,373	(24,910)	150,000	150,000	150,000
Food & Beverage Concessions	319,155	214,462	307,718	350,000	350,000	350,000
Interest Income	286,136	286,136	284,781	300,000	300,000	300,000
Merchandise Sales	399,421	437,664	499,190	700,000	700,000	700,000
Other	236,057	706,433	1,076,221	1,250,000	1,250,000	1,250,000
Revenue Reduction Due to Capital Projects	-	-	-	-	(500,000)	(500,000)
Total Gross Revenue	\$ 24,162,694	\$ 24,055,839	\$ 32,820,055	\$ 35,550,000	\$ 35,050,000	\$ 35,050,000
EXPENSES:						
<u>Labor</u>						
Full-Time Salaries	\$ 6,490,827	\$ 6,470,417	\$ 5,972,235	\$ 5,950,000	\$ 6,825,000	\$ 7,029,750
Part-Time Salaries	3,746,466	4,324,590	4,525,540	3,900,000	4,725,000	4,866,750
Employee Payouts	125,541	44,090	423,400	100,000	500,000	500,000
Subtotal: Labor	\$ 10,362,833	\$ 10,839,097	\$ 10,921,175	\$ 9,950,000	\$ 12,050,000	\$ 12,396,500
Supplies & Contract Services	2,689,135	3,157,422	3,972,817	3,740,000	4,000,000	4,200,000
Utilities	2,714,214	2,993,839	3,556,540	3,750,000	3,800,000	3,850,000
Total Expenses	\$ 15,766,182	\$ 16,990,358	\$ 18,450,532	\$ 17,440,000	\$ 19,850,000	\$ 20,446,500
NET OPERATING INCOME (LOSS)	\$ 8,396,513	\$ 7,065,482	\$ 14,369,522	\$ 18,110,000	\$ 15,200,000	\$ 14,603,500
LESS: GOLF CONTRIBUTION TO SUPPORT RAP OPERATIONS	(8,585,093)	(5,007,856)	(8,091,674)	(8,230,000)	(9,000,000)	(9,000,000)
LESS: TRANSFER TO CAPITAL IMPROVEMENT ACCOUNT	(1,316,537)	(1,272,366)	(1,754,529)	(1,786,743)	(3,505,000)	(3,505,000)
NET OPERATING INCOME (LOSS) AFTER CONTRIBUTION TO SUPPORT RAP OPERATIONS AND TRANSFER TO CAPITAL IMPROVEMENT ACCOUNT	\$ (1,505,117)	\$ 785,260	\$ 4,523,320	\$ 8,093,258	\$ 2,695,000	\$ 2,098,500

Notes:

¹ At the time of this analysis, FY 2022 numbers have not yet been finalized and are therefore considered estimated.

Assumptions:

1. To be conservative, the analysis assumes that revenue will stay stable, despite the fee increases estimated to increase revenue by \$2 million being proposed to the Board.
2. Revenue impact of \$500,000 annually for capital projects.
3. Salary increases of 5% for FY 2023 and 3% for FY 2024.
4. Increased Labor costs due to necessary hiring.