CITY OF LOS ANGELES GOLF ADVISORY COMMITTEE

DATE: January 24, 2021

ITEM: Ad Hoc Capital Projects Funding Subcommittee Report

SUBJECT: Recommendation to direct additional dollars to the Golf Capital Improvements Fund

Submitted by: ______________________
Kevin Fitzgerald, Chair

SUBCOMMITTEE RECOMMENDATIONS

1) That the LA City Golf System Capital Contribution Surcharge be adjusted per the language of RAP Board Report 16-079 (April 6, 2016) to incorporate the inflationary escalator for the purpose of maintaining purchasing power in the years subsequent to 2016.

2) That the LA City Golf System adopt a policy that acknowledges that no less than 10% of annual gross revenues to Golf Capital Improvement Fund Account 89G402, Fund 52H, Department 89 is necessary to achieve full cost recovery – i.e., all operational/maintenance costs and capital project costs – and commence depositing no less than 10% of annual gross revenues to Golf Capital Improvement Fund Account 89G402, Fund 52H, Department 89.

BACKGROUND

The Recreation and Park Commissioners (RAP) Board Report 16-079, approved on April 6, 2016, states that, *"RAP should implement a Capital Contribution Surcharge on every round, to be earmarked and protected for City of Los Angeles golf course capital related expenses only".* The Capital Contribution Surcharge on greens fees was implemented with the following flat rate structure:

Encino $2.00
Balboa $2.00
Woodley Lakes $2.00
Hansen Dam $2.00
Rancho Park $2.50
Wilson $2.00
Harding $2.00
Rancho Park 9 $1.00
Harbor Park $1.00
Penmar $1.00
Roosevelt $1.00
Los Feliz $1.00

RAP Board Report 16-079 also states that the Capital Contribution Surcharge per round is, *"to be increased annually at the pace of inflation."* The Board Report estimates the annual rate of inflation to be approximately 1.8%. The Department has not increased the flat rate surcharge on greens fees since its 2016 inception, although the Consumer Price Index CPI has continued to increase at an annual rate of 2.5% since April 2016 according to the Bureau of Labor Statistics. While the golf system's greens fees have remained at or below the ceiling price approved by the 2016 RAP Board Report, greens fees have continued to increase and approach the ceiling. The percentage of total system revenue being set aside for capital improvement projects has remained constant with the same flat rate surcharge on greens fees. Consequently, the dollars being reinvested into capital improvements have actually declined when compared with 2016 figures as a percentage of overall system revenue.

The Capital Contribution Surcharge per greens fee collects approximately $1.5 million/year for the Golf Capital Improvement Fund, and the money collected via the surcharge accounts for the extent of all dollars used for capital improvement projects with few exceptions. The dollar sum for the golf system is approximately 4-5% of total golf revenue - a figure that lags well behind the total percentage of revenue reinvested by other major municipal golf systems in Southern California.

EVALUATION OF SOUTHERN CALIFORNIA MUNICIPAL GOLF SYSTEMS' CAPITAL INVESTMENT MODELS

Southern California's major municipal golf systems operate using a variety of models. Regardless of the operational structure (i.e., publicly run, leasehold/contract, management agreement), municipal golf systems tend to be held to a standard of **full cost recovery** in Southern California. In other words, the revenue generated through greens and other user fees are meant to recover the municipality's cost for providing the recreational offering and to secure adequate funding for capital reinvestment. The model (cost recovery plus capital reinvestment) is a standard unique to public golf systems within the context of all other recreational offerings which primarily operate on varying degrees of subsidy.

Prior to 2010, golf was its own Division within the **City of Los Angeles' Recreation and Parks Department**, but it was not a Revolving/Enterprise/Special Fund. Golf was an appropriated activity through the city's budget process, and for many years there was a set aside of approximately 18% of greens fees into a fund for capital projects. In 2010, the golf system became an enterprise/special fund. At the time, the shift to an enterprise fund was directly related to the survival of the golf system, as there were those who believed that the Department's golf program was being subsidized. The creation of the revolving fund demonstrated otherwise; that is, the program proved operationally self-sustaining with net revenues available for deposit into capital reserve accounts.

One of the great strengths of the LA City system is that facilities like Penmar GC and Roosevelt GC get the attention and funds they need; without that equity built into the model, the developmental and 9-hole facilities would have ended up with far fewer dollars for capital improvements. The weakness of the LA City Golf System is that the total dollar amount which gets reinvested for capital improvements on an annual basis falls well short of need. The LA City system does not have access to public dollars as some of the other systems do, except in rare instances, e.g., Roosevelt GC irrigation project, which was largely funded by the LA Department of Water & Power.

LA County has a capital improvement trust fund which is used for reinvestment into its golf system's infrastructure. The majority of LA County's golf facilities are managed by private multi-course operators through leasehold agreements. Within each lease agreement, 10% of greens and tournament fees go into the trust fund. The County acts as the trustee, and the primary beneficiaries of the trust are the public. This provides certain legal protections to the trust fund which are almost unbreakable. The County discovered that a mere 10% of the gross fees falls short of the figure necessary to sustain the golf system's infrastructure, so an additional golf course improvement fund was created for which $1.50 is collected from each greens fee. The second fund is accounted for separately, but the dollars are deposited into the capital improvement trust fund. Each capital improvement trust fund runs with the individual golf property which has been a problem for the LA County system. It's easy for the courses that generate large revenues to build sufficient funds, while the developmental facilities struggle to generate enough dollars to meet basic needs.

As several golf facility leaseholds expire in the coming year, the County is trying to solve the trust fund imbalance by bundling several lease agreements together in the form of one lease for several golf facilities. As a result of the bundle, the capital improvement funds will be pooled to fund projects. LA County facilities have additional access to public funds on occasion to help meet golf facility needs. This allocation is not recurring as it varies based on the supervisorial district and supervisorial support for the system, but in some instances millions of dollars have been provided for projects.

The **City of Long Beach** is a contract operational system, but it does not have a trust fund for capital improvements. Instead, it sets 10% of revenue aside for capital improvements, and while that money is not secured in the form of a trust fund, it is integral to the lease agreements between the long-term lessee and the municipal owner of the property. The lessee assumes the risk at each facility for the term of the lease and has brought millions of dollars to the table for initial improvements at the start of the term. Both parties, the landlord and the tenant, have a vested interest in seeing to it that 10% of every dollar of the greens fees continues to be reinvested in the golf properties. The tenant essentially has a cause of action if the City of Long Beach were to use the capital improvement dollars for other uses. There is also an additional 1% set aside for the city's successful junior golf program, and the city has used bonds and other mechanisms to help fund major projects in addition to the 10% set aside.

The **City of Buenaventura** Golf System is an enterprise fund, but it follows a management agreement model with a private management company, which lowers operating costs to the city. All revenues stay within the golf system. There is no contribution to the city from golf that feeds into the general fund. As is the case in the City of Los Angeles, Ventura at one time tied in other city expenses with the golf expenditures. At one time, the Ventura County Star newspaper noticed that courses were losing money, but city hall knew that the courses were not actually operating at a loss. Money was simply being used to pay for non-golf expenditures. Subsequently, Ventura hired consultants to identify golf's real expenses, and the final report found that if the city were to close the golf courses it would actually lose money. Properly accounted, Ventura's golf courses provide revenues over and above operational cost recovery plus bonded indebtedness obligations.

The **City of San Diego** system is an enterprise fund and publicly run. San Diego uses a unique model for funding capital projects throughout the golf system. The non-resident greens fee rate, which accounts for 30% of the play at Torrey Pines, is multiple times the resident rate. The revenue generated from the players paying the non-resident rate gets used to fund the needed capital projects at all of the city's golf properties.

CONCLUSION

The Ad Hoc Capital Projects Funding Subcommittee finds that the dollar sum collected solely from the Capital Contribution Surcharge on greens fees is **insufficient to meet the LA City Golf System's long-term**

infrastructure reinvestment needs. The subcommittee came to this conclusion after having explored the mechanisms by which other major municipal golf systems in Southern California raise funds for capital reinvestment. The region's municipal golf systems subscribe to various operational models and while each system collects and earmarks dollars for Capital Improvement Program CIP projects, every other major golf system reinvests a much greater percentage of the total revenue for capital improvement programs.