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Lynnwood Municipal Golf Course

Policy Options Including:

Creating a New Sustainable Business Model for Operations, Cost Savings & Debt Options

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Lynnwood Municipal Golf Course Financial Analysis

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Part 1: Introduction & Overview

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1988 City Council Policy Decision:

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Acquire Property, Construct & Operate Golf Course for 30 years

72

Create an Enterprise Fund #460

73

During 1987-88, the Lynnwood City Council considered and made a series of policy decisions to acquire land, sell bonds for the construction of a golf course, and to thereafter operate a municipal golf course as an enterprise fund within city government for 30 years. In view of the recent substantial change in the national, state, and local economies together with the need to review and consider what the trend is regarding golf course management and business models, the original council policy decision(s) must be reviewed by the City Council.

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To that end, and in support of the Council's comprehensive review of the Lynnwood Municipal Golf Course (LMGC) operations, this report discusses the key components of the city golf business and then two broad categories of policy options:

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- The various key components of golf course operations; and

85

- A range of policy options:

86

- From closing the Golf Course Business and:

87

- Selling the city owned acreage, and transferring possession of state property back to Edmonds Community College;

88

89

- Retaining city acreage & and doing a "green" close re-programming and/or expanding it use(s) and with general costs;

90

91

- Retaining city acreage & doing a "brown" close or land banking with some general costs.

92

93

- To continuing operations:

94

- Under the current business plan; or,

95

- Substantially changing the business model into a hybrid private management/government parks maintenance operation.

96

97

The overall approach is to identify and discuss various key components of Golf Course business operations which, if changed, could reduce expenses and increase revenues in any future revised business plan model, whether "as-is," or through a hybrid option, or via some other policy direction as the City Council may choose. This discussion also addresses debt control and cost-saving options for consideration. In the end, if the Golf Course business is to continue it should do so with all reasonable efforts directed at refashioning an operational model that, hopefully, will last for the next 20 years.

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105 In order to strengthen our knowledge of this important topic and matter, and to see
106 what the state of the art of golf operations exists in the Puget Sound area, we have
107 during the past two months met with 8 municipal golf course operators and 3 private
108 sector companies that manage 11 other municipal golf courses in the Puget Sound golf
109 market. These meetings and discussions have provided us with a much greater “feel”
110 and understanding of the common operation challenges of the whole local municipal
111 golf market. But, far more important, we have been able to develop ideas which we
112 believe will, if adopted, likely create a new revised operational model to move our Golf
113 Course to a level of sustainability over the next 20 years.

114

Background: Original Business Model & Operations

115

Current Business Model Review

116 Since 1991, the City Golf Course has been operated exclusively by City employees who
117 are trained in golf course management. Currently the professional staff for 2013
118 consists of 3 FTE: 1 PGA certified golf professional and two maintenance workers who
119 care for the total 75+ acres. The staff is supplemented by part-time and seasonal
120 workers which, since the “growing” season is upon us in March, are now having to
121 recruited and hired pending a determination by the City Council for the golf course.
122 Under the current model, the City is 100% responsible for marketing, managing, and
123 operating, all golf operations. The City has a contractual relationship with a
124 concessionaire who is responsible for providing limited food and beverage services to
125 our clientele. That concession contract expires in 2013. Accordingly, under the current
126 model the City receives 100% of the green and cart fees and a percentage of the
127 concession sales. The City sets pricing and all policies of the Golf Course.

128 A series of Business Plans have been developed since about 1998 and have provided
129 organizational guidance and direction for the Golf Course operations. In 2007, the City
130 Council approved the bulk of the latest plan. That 2007-2012 Business Plan was used
131 primarily to develop the guidelines related to golf principles, to outline a five-year
132 capital investment program and a re-investment strategy to guide the any potential
133 expansion of our current operations. In 2012, the City Council approved a revised 5-Year
134 Business Plan (see Appendix 6), which emphasized certain capital initiatives designed to
135 increase revenues and enhance our golf customer’s experience. It also adopted a city
136 budget containing a series of “decision packages” in the FY 2013-14 Parks and
137 Recreation Department budget to be funded from the retained proceeds of \$543,000
138 out of the sale of the warehouse property to Edmonds Community College in 2011.

139

Vision, Mission and Principles of Operation

140

The golf course mission and vision of the 2012 Business Plan is:

141 **Mission**

142 The Lynnwood Municipal Golf Course, as a business, is dedicated to serving our
143 community by providing high quality golfing experiences to players of all ages
144 and abilities and is committed to enhance the enjoyment of the game. The Golf
145 Course is also a self-supporting enterprise operation for the City.

146 **Vision**

147 The Lynnwood Municipal Golf Course as a business will:

- 148 • Be recognized as a premier municipal golf operation by all golfers
- 149 • Provide the highest quality customer service and playing conditions
- 150 • Deliver competitively priced golf to all users
- 151 • Promote the game of golf to all ages

152 **LMGC Mission, Vision and Business Plan**

153 It is important for any business plan to create a clear Mission and Vision. The
154 golf management team has consistently created mission and vision statements
155 followed by a list of guiding principles to address the core values of the golf
156 operations. The golf staff clearly has recognized the importance of a valued
157 relationship with the golfing community because there are many golf choices
158 available in our area. This plan strives to balance the interests of each of the
159 stakeholders with the interest of the public golfer having the highest importance.

160 **Original Intent: The Golf Course Operates as an Enterprise/Business**

161 Since its development in 1991, the Golf Course was intended to operate like a business
162 in what is known in government accounting as an “Enterprise Fund.” This requires the
163 Golf Course to generate sufficient revenues to cover the operational and maintenance
164 expenses, capital improvement costs and any debt service incurred by the program to
165 avoid using general fund monies. It was important to maintain and manage the
166 Enterprise Fund in a manner so the customers of the Golf Course (golfers) not only
167 supported the daily operational and maintenance costs, but also the long term paid for
168 the capital improvement bonds (“golf course mortgage”) projects to keep the course
169 competitive with the local market and up to today’s industry standards.

170 Municipal golf courses are often viewed as the entry door to the sport of golf. Their
171 stereotype is based upon the premise that the operation should provide inexpensive
172 and affordable golf with average course conditions, small if any clubhouses with limited
173 food and beverage service that caters primarily to seniors, juniors and new golfers. In
174 our research, we found some courses have survived, while many are now struggling.
175 Unfortunately, many municipalities (Lynnwood included) didn’t fully comprehend the
176 complexity of creating an affordable golf experience while generating sufficient cash
177 flow to offset bond payments embedded within their often insufficient operational and
178 organizational structures.

179 **2007 Golf Course Business Plan**

180 The 2007 Lynnwood Business Plan identified a series of actions which if allowed to occur
181 were intended to increase the revenues of the course that would help ensure that the
182 course could continue to operate on a self-sustaining basis. In spite of these efforts the
183 Golf Course has continued to operate at a loss. Beginning in late 2007, a combination of
184 factors started to negatively impact the golf business:

- 185 • The economic “Great Recession” of 2008 clearly impacted consumer
186 discretionary spending habits up through 2011, and we believe into 2012,
- 187 • 2007-2011 weather patterns produced above-average precipitation totals which
188 reduced playable time periods.

189 In the course of our discussions with the many public and private sector golf operators,
190 there is unanimous agreement about the following:

- 191 • Conditions in our region generally have mirrored the national trends.
- 192 • Manifestations of the weak golf market are declining rounds (see Appendix 1)
193 and revenue, capital investment cutbacks, excessive discounting and financial
194 failures, including some in the local market, i.e. Lake Ballinger’s, 9-hole course.
- 195 • Most, if not all, local publically operated golf courses are facing major challenges
196 in dealing with declining revenues and increasing expenditures. In addition,
197 many municipally operated courses still have significant debt service obligations
198 that must be re-paid.
- 199 • Also, having publically financed bonds creates substantial Internal Revenue
200 Service restrictions that limit flexibility in the negotiation of management
201 agreements with private sector operators (See Appendix 4).

202 **Revenue History & Factors**

203 Our research has also found those courses which have tried to maintain higher play
204 levels have attempted one of two management strategies without success, especially in
205 the past three years (2009-2011):

- 206 1. To discount green fees sharply. Courses where green fees were excessively
207 discounted has proven to directly undermine the bottom line.
- 208 2. While those courses that have resisted this idea and have raised fees, i.e.
209 Lynnwood have generally seen pronounced declines in play levels. As an
210 example, when certain courses decided to raise their green fees, these increases
211 were difficult to explain to customers who had become accustomed to a “never
212 pay retail attitude.”

213 As part of this analysis, it is very important to review LMGC’s golf rounds numbers and
214 history. As mentioned, the Lynnwood Golf Course has not followed the practice of deep
215 price gouging and reductions, but has raised fees in the last several years. The following
216 chart details the rounds history at LMGC since its opening in 1991.

217

218 **Golf Rounds History: 1991-Present**

219

Year	18H	18WD	9H	18 Sr	9 Sr	18 Jr	9 Jr	Tourn	Twilight	FGH-A	FGH-J	School	TOTAL
1991	12,862		5,642	3,146	995			671					23,316
1992	33,946		17,251	10,477	3,086			1,709					66,469
1993	32,348		16,813	10,568	4,128			1,981					65,838
1994	33,298		15,391	11,975	4,097			1,380					66,141
1995	32,428		15,871	12,087	4,662			1,514					66,562
1996	28,732		13,096	12,301	4,694			1,259					60,082
1997	30,680		15,528	13,005	5,075			940					65,228
1998	30,950		13,353	13,302	4,524			801					62,930
1999	19,589	8,488	13,209	12,437	5,194			1,100					60,017
2000	13,027	14,967	11,657	12,580	4,823			2,434				600	60,088
2001	11,446	13,910	10,055	12,463	4,551			1,444	1,639	2,797	387		58,692
2002	11,884	14,135	9,120	13,393	4,479			627	2,395	3,327	428		59,788
2003	11,837	12,418	8,225	12,722	3,565	206	328	1,186	2,420	3,294	451		56,652
2004	9,730	12,871	7,603	11,963	3,563	315	669	384	2,475	2,461	440		52,474
2005	11,276	8,649	7,992	11,281	3,731	225	669	762	2,486	2,835	891		50,797
2006	9,539	9,071	7,168	10,887	3,580	228	860	619	2,579	2,888	628		48,047
2007	7,856	10,390	6,504	10,403	3,436	551	881	368	2,724	2,632	518		46,263
2008	6,433	12,603	6,970	9,881	2,993	365	927	3	2,303	2,285	352		45,115
2009	5,558	10,937	6,296	9,800	3,131	438	748	408	2,232	2,396	327		42,271
2010	4,997	10,323	6,689	9,109	3,600	566	788	364	2,971	3,247	423		43,077
2011	3,936	9,559	5,971	8,686	3,204	1,121	1,216	457	2,360	3,335	457		40,302
TOTAL	362,352	148,321	220,404	232,466	81,111	4,015	7,086	20,411	26,584	31,497	5,302	600	1,140,149

220

221 **Column Definitions:**

- 222 18H: 18-hole rounds
- 223 18WD: 18-hole rounds, weekdays
- 224 9H: 9-hole rounds
- 225 18 Sr: 18-hole rounds, seniors
- 226 9 Sr: 9-hole rounds, seniors
- 227 18 Jr: 18-hole rounds, juniors
- 228 9 Jr: 9-hole rounds, juniors
- 229 Tourn: tournament rounds
- 230 Twi: twilight rounds
- 231 FGH-A: family golf hour, adults
- 232 FGH-J: family golf hour, juniors
- 233 School: school rounds

234 Total rounds for 2012 were up slightly to 40,805.

235 Through discussions and research, we've also learned most, public courses in the area
 236 that are not operated by a private sector operator have typically taken one of two
 237 alternative paths:

- 238 1. Either course maintenance and golf operations expenses have been slashed in an
 239 effort to stem losses, or

240 2. Operators have elected to absorb short term operating losses by limiting
241 expense reductions so that course conditions and service levels are not
242 materially affected.

243 The latter strategy appears to have been more productive and Lynnwood's operational
244 model could be placed into this category. While we have attempted to reduce/slash
245 operating expenses as much as possible, we have not been able to generate enough
246 revenue through rounds/green fees to sustain the operations. Over the past three
247 years, this challenge has been well documented and distributed to City Council during
248 our Business Plan discussions in 2012.

249 **Revenue per Round Data**

250 Revenue per round is golf's version of miles per gallon for a car. It is a universal industry
251 measure against which other courses in the area or across the country are compared.
252 By definition, revenue per round is the amount of revenue generated in retail sales as
253 compared with the amount of rounds played. The last line of the following chart shows
254 a 10-year history of LMGC's revenues per round. The data in this chart clearly shows the
255 Golf Course has not increased the important revenue/round number. Yet, since 2005
256 the revenue/round has remained relatively stable while rounds declined, clearly
257 indicating that revenue enhancements have help stabilize that to a degree. Over the
258 last ten (10) year it has only varied \$2.00-\$3.00. This is in spite of a number of green
259 fees and cart rental increases during that period. This information further emphasizes
260 the fact that the current business model (predominantly focused on greens fees and
261 cart rental fees to sustain the product) does not perform well in the current economic
262 conditions and a different business model needs to be created.

Lynnwood Municipal Golf Course Financial Analysis

263 **Golf Course Comparative Statement of Revenues, Expenditures and** 264 **Changes in Net Assets**

CITY OF LYNNWOOD, WA GOLF COURSE FUND COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS											
December 31, 2011 Thru 2001											
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
OPERATING REVENUES											
Rounds	40,300	43,077	42,271	45,118	46,263	48,047	50,797	52,474	56,652	59,788	58,692
Charges for Sales & Services	\$ 936,099	\$ 984,579	\$ 971,575	\$ 1,074,788	\$ 1,076,768	\$ 1,087,237	\$ 1,145,713	\$ 1,271,275	\$ 1,310,081	\$ 1,334,671	\$ 1,219,616
Rentals	95,925	92,931	96,002	98,224	121,951	117,398	120,687	-	-	-	-
Other	2,489	2,541	-	-	-	-	-	-	-	-	108,964
Total Operating Revenues	1,034,513	1,080,051	1,067,577	1,173,012	1,198,719	1,204,635	1,266,400	1,271,275	1,310,081	1,334,671	1,328,580
Operating Expenses											
Administrative and General	351,833	369,352	393,861	308,695	290,704	482,517	209,805	188,762	186,020	187,551	242,694
Maintenance and Operations	640,689	612,825	670,475	646,557	651,082	293,403	669,855	678,284	681,447	680,568	591,678
Miscellaneous Taxes	-	-	-	38,090	37,226	35,346	38,314	39,121	39,638	46,888	44,894
Depreciation	41,620	42,826	34,276	19,758	20,170	20,465	22,361	28,487	28,031	30,901	52,705
Total Operating Expenses	1,034,142	1,025,003	1,098,612	1,013,100	999,182	831,731	940,335	934,654	935,136	945,908	931,971
Operating Income (Loss)	371	55,048	(31,035)	159,912	199,537	372,904	326,065	336,621	374,945	388,763	396,609
Non Operating Revenues (Expenses)											
Miscellaneous Interest Revenue	-	-	-	1,674	7,913	9,203	9,597	7,229	8,998	13,106	19,704
Interest expense	(10,369)	(151)	(2,372)	(6,169)	-	(147)	(1,027)	(1,226)	(16,410)	(142)	(400)
Gain (Loss) on Property Dispositions	-	(725)	2,554	-	-	-	10	10	(380)	469	(45,238)
Other	32,500	-	-	-	-	-	2,138	8,994	13,063	6,124	8,425
Net non-operating revenues (expenses)	22,131	(876)	182	(4,495)	7,913	9,056	10,708	15,007	5,271	19,557	(17,509)
Income (loss) before contributions & tsfs	22,502	54,172	(30,853)	155,417	207,450	381,960	336,773	351,628	380,216	408,320	379,100
Capital Contributions and Transfers											
Transfers in	-	-	80,000	-	-	-	-	-	-	-	-
Transfers out	(381,440)	(405,773)	(400,469)	(376,452)	(412,587)	(408,637)	(421,739)	(425,466)	(422,944)	(419,618)	(431,024)
Change in Net Assets	(358,938)	(351,601)	(351,322)	(221,035)	(205,137)	(26,677)	(84,966)	(73,838)	(42,728)	(11,298)	(51,924)
Total Net Assets-Beginning	3,038,994	3,827,867	4,179,189	4,400,224	4,605,361	4,632,038	4,717,004	4,790,842	4,833,570	4,844,868	4,896,792
Prior Period adjustments	-	(437,272)	-	-	-	-	-	-	-	-	-
Total Net Assets-Ending	\$ 2,680,056	\$ 3,038,994	\$ 3,827,867	\$ 4,179,189	\$ 4,400,224	\$ 4,605,361	\$ 4,632,038	\$ 4,717,004	\$ 4,790,842	\$ 4,833,570	\$ 4,844,868
Source: City of Lynnwood CAFR and/or Annual Financial Statements											
Revenue per Round	\$ 25.67	\$ 25.07	\$ 25.26	\$ 26.00	\$ 25.91	\$ 25.07	\$ 24.93	\$ 24.23	\$ 23.13	\$ 22.32	\$ 22.64

265

266 **The Underlying Strength of the Golf Course**

267 However, it is important to note the underlying strength of Golf Course operations. The
 268 underlying business is strong. In fact, in 10 out of the 11 years from 2001 to 2011 it had
 269 a net income totaling \$383,833. In fact, to reinforce this hypothesis, here is an
 270 interesting example. From 2007-2011 the Golf Course averaged a “profit” of nearly
 271 \$77,000 (including 2011) in spite of the recession, weather factors, increased
 272 competition and lack of re-investment for capital improvements.

273 A review of the course’s operations reveals that it is the annual bond (“mortgage”)
 274 payment which has each year causes the overall operating loss. Since this bond
 275 payment ended in late 2011, what’s left is the existing revenues which may continue to

276 sustain core business net income with the assistance from added cost reductions, cost
 277 controls, an adequate marketing program and with at least two (2) capital
 278 improvements (hitting area and an eating/sitting area). The table below shows the
 279 effect of the annual bond/mortgage payment factor by comparing recent year net
 280 income to the annual bond payment.

281

Financial Category	2007	2008	2009	2010	2011
Income (Loss) <i>(net revenue)</i>	207,450	155,417	(30,853)	54,172	22,502
Transfers In			80,000		
Bond Payment	(412,587)	(376,452)	(400,469)	(405,773)	(381,440)
Change in Net Assets	(205,137)	(221,035)	(351,322)	(351,601)	(358,938)

282

283 Since the Golf Course has been operating at a loss recently, it has accumulated a debt
 284 that, at the end of 2011, reached just over \$1,265,000. This does not include the 1996
 285 accrued rent overhead debt at \$137,485.

286 **Financial Measures in Business Plan**

287 The 2007 Business Plan made a series of assumptions and measures regarding the
 288 operation of the Golf Course. These assumptions and measures were expected to
 289 significantly increase revenues faster than expenses, building the capacity of the fund to
 290 maintain its self-sufficiency.

291 **Revenue/Key Drivers**

- 292 • **Green Fees** – the Business Plan called for increasing fees an average of \$1 per
 293 round per year, beginning in 2008.
- 294 • **Power Carts** – rentals were anticipated to continue to increase with aging
 295 clientele and youth’s desire to ride. This segment of our revenue alternatives
 296 ranks #2 behind green fees. The cart fleet was expanded to 20 carts in 2012,
 297 but has reached its capacity due to the availability of storage space in the
 298 offsite warehouse.
- 299 • **Adult Beverages** – were planned to be served beginning 2007, but were not
 300 approved until 2008.
- 301 • **Rounds** – were anticipated to increase 2% per year as the result of Adult
 302 Beverage approval in 2008.

303 **Operations: Staffing and Overhead**

304 When the Business Plan was prepared in 2007, there were a total of 6 full time
 305 equivalents (FTEs) staff budgeted for the Golf Course. This number was reduced
 306 from the previous plan of 9 FTEs. In 2013-2014, the Golf Course staff has been
 307 reduced to 3 FTEs. The Golf Course staff is supplemented annually with part-
 308 time and seasonal staff.

309 The current Golf Course budget is impacted by two critical factors:

- 310 1. Paying rent (\$68,000 annually) for the storage of maintenance equipment
311 and golf carts.
- 312 2. Paying administrative/Interfund charges assessed by the City (\$158,000
313 annually) beginning in 2013 to the business for various internal
314 services/support (mainly IS, Finance, Human Resources and insurance).
315 For 2013-14, these costs total \$226,000 annually and are paid to the
316 General Fund. The very real impact of this one financial component is it
317 costs the Golf Course a minimum of 8,000 rounds, or 20% of its annual
318 total rounds, just to pay for these administrative costs charged by the
319 City.

320 **Scope of Services/Products**

321 The Lynnwood Municipal Golf Course is a high quality 18-hole golf course. The pro shop
322 is located on the ground floor of the Edmonds Community College (EdCC) Woodway
323 Building. Unfortunately, there is no space on site for events or meetings related to golf
324 tournaments. The facility has no kitchen facilities and offers very limited food and
325 beverage operation consisting only of vending machines and wrapped goods. As our
326 customers keep reminding us (firmly, but politely) this is the only golf course at which
327 there's no adequate place to eat and sit before or after a round of golf. Also, it's the
328 only golf course that does not have some form of hitting area to practice and/or warm-
329 up before taking the course. Both of these customer service facility deficiencies must be
330 allowed to be resolved. These are key components of any future sustainable golf course
331 operation and must be solved by city investment in appropriate capital improvements –
332 which have been previously identified in the business plan and in 2013-14 budget
333 decision packages.

334 The pro shop has a limited amount of merchandise and goods available to our clientele.
335 Primary users include local community golfers, local high school golf teams, a men's
336 club, a ladies club, the Silvers Club (senior men's club) and some additional play from
337 golf classes taught at EdCC. The Golf Course staff has also expanded the First Tee
338 program, which opens the door for young children to the game of golf. Over 200
339 children are now involved in this program, which is active in the summer months. The
340 golf staff also provides a limited teaching program, but is restricted by the lack of an on-
341 site driving range or hitting area.

342 The Golf Course relies heavily upon the local golf market for a majority of its revenues,
343 which are derived from greens fees.

344 **Competitive Advantages & Our Course's Brand/Niche**

345 The Lynnwood Municipal Golf Course's competitive advantage is rooted in its
346 community-based focus, strong customer service, central location, and relatively short
347 playtime. Through 2012 over 1,180,000 rounds of golf have been played at the
348 Lynnwood Municipal Golf Course since its opening in the late summer of 1991. The Golf

349 Course is aesthetically pleasing, beautifully landscaped and challenging to golfers of all
350 skill levels. The fact that the course is not a par 72 championship course provides an
351 advantage when compared to other courses given the fact it only takes 3-4 hours to play
352 18 holes contrasted to the 5-6 hour rounds typically found at championship layouts.
353 There is also a strong loyalty to the course and the fact it caters to the local golf
354 community is important. The course is known for its excellent playing condition and
355 "economic value" from a price standpoint. The centrally located facility is generally a
356 short commute for most users, but the lack of a "retail" location does hurt the course's
357 visibility, especially for first time users. The City's new 204th Street project will
358 hopefully enhance the course's accessibility allowing the City to create new directional
359 signage off Highway 99.

360 It is also important to note that the Golf Course was impacted by City Council's
361 reluctance to support key operational policies and to provide funds for key elements of
362 the Business Plans that were designed to advance the business. These included the
363 approval of beer sales, protracted discussions on the sale of the warehouse to EdCC,
364 expansion of the food and beverage services, and the construction of a building
365 designed to provide expansion of the golf course cart fleet and maintenance equipment.

366 However, the fact the course has been around for 21 full years has created a strong
367 tradition and history for a lot of players who began their golfing at the course and have
368 many favorable memories playing there. The course also possesses active men's and
369 ladies clubs who enjoy the ability to play at a reasonable pace and rate.

370

371 **Key Competitors - Public Golf Courses**

372 There are a number of competing golf courses in the Golf Course's primary market
373 area. A number of golf courses have been re-developed over the last 5-10 years that
374 directly compete with our ability to serve the community. Most have extensive food
375 and beverage operations and larger clubhouse buildings that attract tournaments
376 and events. All serve adult beverages on site as well.

377 Direct Competitors for Lynnwood Municipal Golf Course:

- 378 • Walter Hall Golf Course – Everett
- 379 • Legion Memorial Golf Course – Everett
- 380 • Ballinger Golf Course – Mountlake Terrace (closed in early 2013)
- 381 • Nile Golf Course – Mountlake Terrace
- 382 • Jackson Park Golf Course – City of Seattle

383 **Key Competitors-Reinvestment**

384 Our research has also provided us with information concerning reinvestment
385 ideas/examples and how these have improved performance. In the past four years,
386 the City of Everett spent nearly \$4 million in course improvements. The City of
387 Seattle is poised to spend nearly \$14 million in improvements throughout their four
388 courses.

389 Unfortunately, LMGCC has not experienced any significant reinvestment during its 21
390 year history. There has been no renovation or expansion to the Pro Shop building or
391 to other amenities mentioned in Business Plans. This is an important factor in the
392 ability of the course to be competitive and produce additional revenue per round.

393 **Marketing & Sales: Golf as a Commodity**

394 The Golf Course competes in a highly competitive market and occupies a prominent
395 green space in the community. The Golf Course is first and foremost a community
396 facility and asset. The Golf Course's primary product, tee times, is a perishable
397 commodity. The City has ongoing expenses related to maintaining the facility whether
398 the tee times are sold or not. There are many choices for golf in the area and it is
399 important to develop marketing strategies to attract new golfers to the facility. Our Golf
400 Course staff places a tremendous emphasis on customer service and goes to great
401 lengths to meet the needs of our golfers and create a sense of membership and
402 camaraderie.

403 **Reinvestment**

404 As previously mentioned, in order to compete in the highly competitive
405 marketplace, it will be important to reinvest in the asset. Another example is the
406 fact that the Golf Course does not attract tournaments or community events
407 because it does not have certain important amenities needed to compete for this
408 business (a clubhouse with full service food and beverage capabilities). It is also
409 important to have a comprehensive equipment replacement program in place to
410 ensure the Golf Course receives the best maintenance possible. This will allow our
411 team to preserve the quality of the golf experience, an absolutely essential
412 component in maintaining green fee revenues and return play.

413 **Time Constraints - How LMGCC Benefits**

414 The National Golf Foundation has also conducted many surveys, and most reveal the
415 number one barrier to people playing golf is the time it takes to complete a round.
416 The Golf Course is fortunate to have a layout that is conducive to faster play, and
417 staff will continue to make the playing conditions the very best. Our very limited
418 marketing and sales efforts have focused on youth, young adults and seniors who
419 can physically play. If we are able to expand our amenities in the coming years, the
420 marketing efforts will shift and focus on businesses, group tournaments and outings.
421 These are additional revenues the Golf Course could produce.

422 **Technology**

423 Another important factor is the fact the City has not invested in technology that
424 facilitates reservations and bookings. All of our major competitors now offer on-line
425 tee time reservations, which make this important step simple and less cumbersome.
426 All of Lynnwood's tee times are reserved over the telephone. This is a very
427 cumbersome and outdated process that takes a great deal of time to manage. From the
428 public's standpoint, it is also a very inefficient method as many golf courses now
429 offer on-line tee times. Also, social media is not available yet to the course to

430 promote specials or tee time availability. Improving technology is critical to the Golf
431 Course's future success, but a strong market/promotional program will also be
432 needed to attract the consumer.

433 The City will need to balance the goal of operating the Golf Course as a business with
434 the need to make golf fees competitive. The existing green fee structure is analyzed
435 on a regular basis; tee times, concessions and merchandise are priced competitively
436 with comparable operations in our market.

437 **Customer Service**

438 The City is fortunate to have a very well respected staff with years of accumulated
439 experience and knowledge in the operation of the facility. The value of staff's ability
440 to make people welcome cannot be overestimated. Customer service has always
441 been the number one goal of the operation. The staff's understanding of the
442 operational intricacies of the Golf Course provides efficiencies in both maintenance
443 operations and administrative functions.

444 **Our Relationship with Edmonds Community College (EdCC)**

445 This relationship was consummated in 1989 with the creation of a 30-year Golf Course
446 Lease Agreement (see Appendix 7, pages 1-11). The agreement authorized EdCC to
447 lease 45.17 acres of the college campus (basically the entire back nine holes) to the City
448 in exchange for the following:

- 449
- 450 • **Page 1:** \$500,000 to EdCC within 60 days of Council's issuance of bonds to
451 finance the City's use of the premises and \$1,000 per year thereafter for 20
452 years.
- 453 • **Page 2:** During the final 10 years of the agreement, EdCC was to receive, as
454 rent, a sum equal to 50% of the revenues received by the City through the
455 operation of the facilities then located wholly or partially upon the leased
456 premises, after deduction of all costs incurred by the City operation of the
457 premises at the facilities.
- 458 • **Page 5:** To provide for coordination, scheduling, and planning of facilities, the
459 1989 land lease provided for creation of a 6 member "coordinating"
460 committee (3 each party). NOTE: To the best of our knowledge, this
461 committee was never created. In fact, the college has not from the
462 beginning, nor recently, had any interest in being part of a discussion that
463 provided oversight of the golf operations. They simply don't want to be in
464 the golf business any way, shape, or form.
- 465 • **Page 8:** At the end of the 30-year period (2021), the City and EdCC shall enter
466 into negotiations to renew the lease for an additional 30 years; neither party
467 shall have an obligation to renew the lease. Pending determination of the
468 renewal, the City had the right to continue in its possession from year to
469 year, by written notice of its intent, pending determination by EdCC as to its

470 plans for the leased premises. The City has the first right to lease the
471 property at the end of the lease.
472 • **Page 9:** If the lease is not renewed for any reason, then the City is to be
473 reimbursed for the improvements placed upon the property during the term
474 of the lease agreement.

475 In a recent meeting with EdCC Finance and Operations Vice President, Kevin McKay, it
476 became clear EdCC values the existing arrangement with the City. Mr. McKay stated
477 that EdCC has no clear plans for the property currently being used as a golf course.
478 EdCC would like to “clean up” the existing lease agreement and not get in, but rather
479 “get out of the golf business.” The most important issue to EdCC is the fact that the Golf
480 Course is not operating at a profit, thus EdCC is not receiving any revenues for the use of
481 the land. Mr. McKay further stated he would prefer the City and EdCC convene to “fix”
482 the revenue matter and eliminate the 6-person “committee” referenced in the
483 agreement, but which never got started.
484

485

Part 2: Policy Options & Implications

486 This analysis has intended to examine three points.

- 487 • The primary purpose is to look at the underlying strength of the golf business
488 operations.
- 489 • The secondary purpose of this analysis is to consider how various accrued
490 financial obligations could be handled.
- 491 • Finally, since the future financial viability of the Golf Course will also depend on
492 developing a new business model that addresses the changed fiscal environment
493 described above, this plan will review the past fiscal performance of the course
494 under the existing Business Plan.

495

Time to Decide – Two Critical Questions:

496

Is Golf a Business or a Recreational Activity in Lynnwood?

497

Should the Golf Business or Golf Course Activity Be Closed?

498 In 1987-1988 the City Council worked on and decided to acquire property, construct and
499 operate a golf course as a government business/enterprise for 30 years. As previously,
500 noted that decision must be reviewed, reevaluated, and a new set of decisions need to
501 be made.

502 First, it appears that the distinction of whether golf activity in Lynnwood is an
503 “enterprise” business or a “recreational” activity/program leads ultimately to two
504 distinctly different sets of factors, considerations, and outcome decisions about the
505 future.

506 Second, although there appears to be two distinctly different set of decisions depending
507 on whether golf activity is deemed an “enterprise” business or a “recreational”
508 activity/program, each path has an off-ramp to closing out any golf activity and choosing
509 a very significant change in use(s) for the current golf property.

510 The 2012 Business Plan suggests the previous general discussion poses a difficult
511 dilemma for the City. As a business, the ability of the Golf Course to attract users, and
512 therefore income, depends on the Golf Course offering a quality experience in a highly
513 competitive marketplace. Offering and continuing that quality costs money, and that
514 quality must be provided first, requiring up-front investment. The 2007 Business Plan
515 reflected that reality by increasing costs (along with other measures) anticipating that
516 this would attract more business and revenues to sustain those costs. In the meantime
517 the gap between revenues and costs narrowed, leaving little left over to pay the debt
518 service obligation, thereby building up debt. It is now apparent the past debt service
519 became a burden on Golf Fund #460 and is the primary reason the course is now in a
520 negative cash situation. For this reason, without some significant changes to the
521 business operations plan, the course will continue to struggle in its efforts to maintain

522 the quality of services necessary to build revenues and make important capital
523 investments/improvements to stay competitive and/or survive.

524 This challenge and the inability of the Golf Course to afford costs (and the lack of
525 alternative resources) require the City to consider potentially drastic changes to how it
526 views the Golf Course in its array of services. Through its deliberation, the City Council
527 needs to first decide:

528 **Is Golf a Business or a Recreational Activity in Lynnwood?**

529 An outline of several scenarios of closing the Golf Course business or the Golf Course
530 recreational activity is set forth below. The second question is, again:

531 **Should the Golf Course Business or Golf Course Activity Be Closed?**

532 **Scenarios for Closing Options: Selling, Reprogramming its Use(s), Land**
533 **Banking, etc.**

- 534 • **Close the Back Nine Holes – Transfer that State Property Back to Edmonds**
535 **Community College.**

536 This would essentially create a nine-hole golf course. In our opinion, this option
537 would not be a practical or successful model. Nine-hole golf courses still have
538 significant operating expenses, overhead and other costs. Revenues from a nine-
539 hole operation will not offset these costs, nor will they provide enough monies
540 for any debt reduction or capital investment. The recent closure of the Lake
541 Ballinger golf course is the best example of a local 9-hole golf course that could
542 not meet its financial responsibilities. This option would likely increase the use
543 of the popular walking/jogging trail which goes around the perimeter of the
544 property.

545 This option would likely require a renegotiation of the original land lease with
546 the Edmonds Community College/State. There are other inherent lease/contract
547 relationship issues that would need to be discussed with EdCC.

- 548 • **Close the Golf Course Business/Activity – Sell the Acreage.**

549 This is the most drastic option but may be the one that recognizes the difficult
550 fiscal reality. The land contains various water and topography issues throughout.
551 The market for property with such limitations is likely to be problematic,
552 especially in the current improving but still anemic market. The market is likely
553 to be very small if it exists at all, and the likely selling strategy would be to hold
554 the property for a better market in a while. But, this option could be explored.
555 However, this option, like any other closing option would also have to be
556 approved by the EdCC since they have some interests via the lease agreement.
557 There are other inherent lease/contract relationship issues that would need to
558 be discussed with EdCC. Also, unless the property was left to “go brown,” the
559 ongoing maintenance of nearly 75 acres would require additional staff and

560 operational costs (estimated to be at least \$17,375 per year). Without a revenue
561 stream, that would add more pressure to the General Fund.

562 In all likelihood, there would be an outpouring of negativity from the
563 surrounding citizens that border the Golf Course. Those residents have
564 historically enjoyed a perception of higher property values and would want to
565 know the plans for the property and the potential impacts to their property.
566 Also, this option precludes Golf Course customers from repaying the Golf Course
567 debt. Again, the status of the popular walking/jogging trail would be an issue to
568 deal with.

569 • **Close the Golf Course Business/Activity – Convert/Reprogram its Use(s) Either**
570 **Immediately or Land Bank for the Future.** These too are options, but unlike the
571 outright sale of the property it does retain an important public asset for public
572 purposes and uses. However, this option does not decrease costs as there would
573 be significant operational costs to maintain and patrol the land. These are
574 estimated to be about \$62,460 per year. Before these costs could be finalized, a
575 design/master plan for this site would need to be created. The City and EdCC
576 would also have significant liabilities issues to contend with. In addition, under
577 this scenario, any repayment to the General Fund is not completed, nor possible.

578 **Particular Fiscal Challenges & Strategies for Both Future Golf Business or**
579 **Golf Recreation Activity Operations**

580 The overall fiscal challenges can be divided into interrelated components that will be
581 discussed below:

582 **Debt Strategies**

583 The options for dealing with the existing golf debt which at the end of 2011 was
584 estimated to be about \$1,265,000 are:

585 • **Borrow.** As an enterprise fund, the Golf Course is totally responsible for its
586 debts. The most direct way for the Golf Course business to address this debt is
587 to have the General Fund participate in a funding and “freezing” of the debt.
588 Final numbers through 2012 will be known in late February to early March.
589 There is no current City capacity to incur third party debt. That is not an option.
590 Continuation of the business operation through 2019 would be the time frame
591 to establish a timeframe for some level of repayment, noting that 2019 and
592 continuation of the lease triggers another review and evaluation of the Golf
593 Course regardless of the manner of operation because this is a long-term
594 extension of the ground lease. This option does add an additional expense to an
595 already tight operating business plan budget.

596 • **Use the \$543,000 remaining from the 2011 Warehouse sale to EdCC.** In 2011,
597 the City and EdCC negotiated a land exchange and sale that provided total sale
598 proceeds of \$2,543,000 to the City. \$2 million was authorized by the Council
599 through the 2011-12 budget to **help** pay off the water/sewer Interfund loan

600 which left the balance for potential use by the Golf Course. That \$543,000 is
601 currently retained the City's General Fund. It was appropriated for various
602 budget decision packages. However, at least \$500,000 should be used to resolve
603 and "freeze" the existing debt. About \$43,000 should be used for a critical and
604 long-delayed capital improvement of a "hitting area."

605 • **Simply Write-Off the Current Debt to the General Fund.** While the Golf Course
606 fund is set up as an enterprise fund, it is possible for the City Council to decide to
607 subsidize it using General Fund proceeds. This was specifically noted as an
608 option by the State Auditor's Office team in December 2012. While we have not
609 been able to find a specific example of this practice in the Puget Sound area,
610 there are examples of this idea found in the Midwest. In Lynnwood that is not
611 the historical or current approach. However, it is an option if the Council chose
612 to change the nature of the golf course operation to a "recreational" activity as a
613 division of the Parks & Recreation Department in the city General Fund.

614 Cost Reduction Measures

615 The fiscal challenges confronting the golf course are substantial, and rather creative
616 options may be required. The following are policy options that could reduce the
617 existing debt accumulated in 2009, 2010 and 2011.

618 • **Provide relief from the City's self-imposed Interfund/administrative and**
619 **overhead costs paid to the General Fund.** As mentioned, these costs, absorbed
620 as overhead for the business, are nearly \$226,000 for 2013 (administrative costs:
621 \$158,000, rent costs \$68,000). If these costs were-adjusted and some relief
622 granted, the Golf Course could likely be in a stronger financial position to
623 administer a deficit repayment plan. At a recent meeting in Tukwila, it was
624 highlighted that the City of Tukwila City Council waived its golf course's overhead
625 and administrative costs (\$150K annually).

626 The 2011 Golf Course audit addressed the accrued overhead rent payments
627 totaling \$137,485 established in 1996. This amount has not yet been re-paid to
628 the General Fund. It was designed back in 1997 by the then Finance Director
629 Mentor to not accrue interest, and therefore, no interest was ever charged. This
630 is item should be "waived" by the City Council. The stopping of further accrual of
631 owed rent was done as a matter of policy by the City Council.

632 • **Decide the Golf Course is a Recreation Activity of the Parks, Recreation &**
633 **Cultural Arts Department and Move It into the General Fund.** Golf courses are
634 commonly and customarily an enterprise fund because most local governments
635 try to operate them on as self-sustaining model. However, such classification is
636 unique among recreational programs. Most other recreational activities
637 (aquatics, athletics, arts, youth programs, senior centers etc.) are generally
638 supported by the General Fund. It is now clear the previous business models and
639 lease agreements between the City and EdCC, which hypothesized the golf
640 courses as continuing significant profit centers, is simply no longer probable, and

641 not plausible. Under this approach, the Golf Course should now be viewed as an
642 amenity and should not be considered a business. Golf as a recreational program
643 could be managed on the same basis and could still be managed in a way to be
644 as self-supporting as possible. However if it fails to be self-supporting, it would
645 be treated as any other governmental program, and be subsidized by general
646 revenues.

647 Golf has civic value as it promotes a healthy lifestyle and is unique in the fact it
648 can be played throughout one's lifetime. We have also discovered other cities
649 are attempting to utilize their golf courses for other civic purposes (cross country
650 meets, winter festivals, etc.). Furthermore, there are significant economic
651 advantages to having open green space and buffers that the Golf Course
652 provides. Lynnwood could do the same and such activities would justifiably
653 receive a subsidy for recreation programs at the Golf Course. However, this is a
654 major policy shift and means creating essentially a new general fund division of
655 "Golf Course" under the direction of the Parks, Recreation & Cultural Arts
656 department, fully supported by general fund revenues.

657 • **Privatize Golf Course Management & Marketing Operations.** The Golf Course is
658 managed by City staff. An alternative option is to contract out the Golf Course
659 management to a third party operator. Contracting out through a competitive
660 RFP process would likely result in decreasing direct operational costs and
661 overhead costs. From our research and interviews with other cities that have
662 made this change, it is clear that the private sector can produce significant cost
663 savings and efficiencies coupled with a strong marketing approach to produce
664 higher revenues. This option would provide the City would continue proper
665 professional operational oversight by an experienced private sector specialist
666 with significant marketing expertise. Services would include marketing and
667 promotional support, rounds and revenue optimization, and overall revenue
668 management. Under this model, a Management Agreement would be
669 negotiated on a fee for service arrangement. Under that agreement, the City
670 would receive all Golf Course revenues and bears all, or most, of the operating
671 expenses, paying a monthly fee to the contractor for their services. Generally,
672 the agreement calls for a lower base fee than the full City management model.
673 In this model, the City would retain full control of key terms and conditions
674 including important policy matters, green fees, marketing and other operational
675 issues.

676 The cities of Seattle, Bellevue, Maple Valley and Everett have adopted this
677 approach (see Appendices 2 and 3). The operator would hire the golf staff and
678 the total cost of these employees is reimbursed, dollar for dollar, with no
679 markup. All revenues are typically deposited directly into the City's account on a
680 daily basis. The operator procures and maintains all business licenses, liquor
681 licenses, health permits, etc. necessary for the operation. The end result is that
682 all revenues and expenses go to the City and thus all the resultant profit. Under

683 this approach, Golf Course maintenance responsibility would remain with the
684 City. Unfortunately, the negative side of this option is the fact that the valued
685 and dedicated Golf Course staff would lose their City employment and benefits.
686 The private sector operator would most likely offer to re-hire them, but at a
687 reduced salary and benefit package.

688 **The Inherent Challenges of Municipal Golf Course Management**

689 Municipal golf course operators continue to face many challenges to survive under their
690 current operating model. During recent conversations with other municipal golf course
691 operators, the following list of issues was brought to the discussion and considered to
692 be the major challenges facing each golf course and their ability to continue to be run as
693 a business:

- 694 1. Many facilities are “showing their age.” The cost to repair or expand has become
695 difficult, if not impossible.
- 696 2. Payroll and benefits continue to rise and, as a result, courses have been forced to
697 reduce their marketing and capital investments.
- 698 3. Politics, especially when local elected officials have created policies that do not
699 allow the business to be run like a business.
- 700 4. Recent audits have also forced operators to compromise certain long established
701 standard business practices and re-examine their operations and policies.

702 **Challenges for LMGC**

703 As previously mentioned, the administrative costs assigned to the Golf Course have
704 risen from \$80,000 in 2006 to over \$158,000 annually for FY 2013-14. Staff wages,
705 salaries and benefits are also a factor because they continue to escalate faster than the
706 private sector. These costs have often forced the management team to reduce
707 marketing and important capital investments. In its current condition and operating
708 structure, and given the overhead burden imposed on the business by the City, the Golf
709 Course cannot generate sufficient revenues to implement a capital improvement
710 program. The repayment of the debt will also be another issue as the repayment of the
711 debt could conceivably use up most, if not all, of the projected profits. The marketing
712 budget has been reduced to less than \$6,000 for the business, and the Golf Course has
713 to be very cautious in its use of these dollars to retain existing customers and attract
714 new business. In addition, the unique rental arrangement the Golf Course has with
715 EdCC is another impediment. This is another fixed cost that must be offset by revenues.

716 Under the current model, the City sets policies and pricing and administers the overall
717 program. The City receives 100% of the revenues collected from green and golf cart
718 fees along with a percentage of the small concession sales generated by a contracted
719 concessionaire. The primary advantages of the City/Full Service operation include
720 retaining full control over its policies, procedures, product quality and golfer experience,
721 along with the availability of City support services.

722 Finally, the municipal model is even more challenged in today's environment as there
723 are numerous bureaucratic policies and procedures that impact hiring, purchasing,
724 promotions and other day-to-day operations. The best example to date is the fact the
725 City has stymied all efforts to combine/bundle golf rounds with food and beverages.
726 This issue was recently restated at a City Council meeting by the Golf Course's
727 concessionaire. This is an excellent example of how the City's bureaucratic policies and
728 procedures have inhibited management's ability to adapt and respond quickly to
729 changing marketing practices and conditions.

730 **Why Municipal Golf Courses are Shifting to Private Management**

731 In a 2010 article, Golf Magazine reported a total of 69 Requests for Proposals (RFPs)
732 were issued by municipalities representing 175 golf courses seeking third-party
733 management. Today, there are 11 municipal golf courses in our region that are run by
734 third-party operators. In discussions with most, the municipalities are very satisfied
735 with their operators. It is also interesting to note, while golf rounds are generally in
736 decline, the courses that are operated by third-party management and marketing have
737 shown increases of 8-12%.

738 There are very clear reasons why this option is gaining momentum and support across
739 the country. The private sector specializes in retail operations, while municipalities do
740 not. The owner (City) pays the operator a fee for management of the facility. In effect,
741 the operator serves as the City's agent in managing and operating the facility. The
742 marketing, promotional and technological systems and strategies in place by the private
743 sector are unmatched. Databases are in place to offer "deals" through email and/or
744 social media. It is commonplace for operators to bundle their products and cross
745 market their venues and services which entice golfers to play. Labor costs are generally
746 much lower, usually 30-40% less than municipal operations. The operators are well
747 equipped to generate financial reports and other data. This ultimately lowers
748 administrative costs, a crucial issue for the Golf Course.

749 While expenses are generally lower in most areas, third-party operators focus their
750 expertise on generating revenues. As mentioned, they have an advantage in growing
751 the business. Finally, now that the Golf Course has fully amortized its 20-year
752 construction bond, the City has greater flexibility in the creation of a management
753 agreement with the operator (see Appendix 4 – Summary of IRS Revenue Procedure 97-
754 13).

755

756 **Part 3: Private Sector Management & Marketing**

757 From this analysis, it is clear there are many inherent challenges to municipal golf course
758 management. In today's golf management setting, there are two forms of operating
759 alternatives that realistically can be applied to our situation: continue with solely using
760 City employees or outsourcing to a management company and creating a Modified
761 Management Agreement which would outline the terms and conditions.

762 The purpose of this analysis is to present a range of options that will accomplish the
763 following objectives:

- 764 1. Produce revenues that will allow the Golf Course to repay the deficit (estimated
765 to be approximately \$1,265,000).
- 766 2. Produce revenues that will allow the Golf Course to implement its 5 year
767 Business Plan. This is a very critical objective as it has been reinforced
768 throughout this analysis that the Golf Course has had very little re-investment in
769 its 22-year history. This fact has severely impacted the course's ability to stay
770 competitive and grow the business model. A reinvestment in the Business Plan
771 will also add badly needed revenues, but possibly even more important, will
772 send a message to the golfing community the City of Lynnwood desires to
773 compete with other local golf operations. In some respects, this matter is
774 parallel to what occurred with the City's Recreation Center. A re-investment in
775 that facility has made a huge difference in the City's ability to provide a
776 comprehensive recreation program and created a huge surge of community
777 pride and accomplishment. The re-investment in the Golf Course will cost much
778 less.
- 779 3. Produce revenues that will place the Golf Course in a profit mode. By
780 accomplishing this, the course management can reinstate monies to a reserve
781 account for emergencies and other smaller scale reinvestments such as cart path
782 and irrigation system upgrades.
- 783 4. If all three of the above are accomplished, this will also go a long way to alleviate
784 the concerns of our EdCC partners, and re-instill confidence from our elected
785 officials who have questioned the practicality of the City running a golf course.

786 This analysis has provided a comprehensive review of the Golf Course's history and the
787 current state of the golf operations. It is now clear, the creation and implementation of
788 a sustainable operational model is absolutely essential if the Golf Course is to continue
789 to operate. The Golf Course is a very important asset to the community. The golfing
790 community has supported its operations for 22 years and paid the construction bond
791 which totaled \$5.2 million plus interest. The amortization of the bond was a huge
792 accomplishment and, in spite of the deficit, a sustainable model to keep the Golf Course
793 fully operational does exist. It is also important for the golfing community to be able to

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794 support the operations and generate revenues to repay the deficit as they have done for
795 the past 22 years.

796 Our professional recommendation is the model that will put the Golf Course on a path
797 to sustainability is to contract the golf operations with a private sector operator. This
798 approach is identical to what Seattle, Bellevue, Everett and Maple Valley have done to
799 operate their golf courses. Under this approach, a management agreement would be
800 negotiated. The primary advantages of private sector management of golf courses
801 include:

- 802 1. The private sector approach to marketing and promotions focuses on optimizing
803 rounds and revenues, and
- 804 2. The efficiencies of the private sector in reducing payroll and other expenses,
805 have been clearly identified and verified, and.
- 806 3. The ability of the private sector to use current technology including email
807 databases, social media and internet tee time reservations has proven to be
808 extremely successful in this market.

809 Our opinion is this model will mitigate all of the deficiencies associated with the current
810 model, producing sufficient net revenues from operations to repay the deficit and
811 provide revenues for future capital obligations which are critical to its success (See
812 Appendix 5).

813 In a golf market which is expected to be reasonably stable in the coming years, the
814 financial risk related to a negotiated management agreement is relatively low. As well,
815 given the current market softness, the City would capture all of the potential upside in
816 performance. A management agreement is typically structured for a relatively short
817 term commitment (four years is average).

818 Under this model, the City would still maintain substantial control over the policies,
819 fees, quality of golf experience and other operating decisions. Also, under this model, it
820 is recommended the City continue to maintain the Golf Course using the existing golf
821 maintenance staff (2 FTE) supplemented by the current Parks Operations team under
822 the leadership of Superintendent Colinas. There are clear advantages to this important
823 operational model; the separation of the golf operator and maintenance provides a
824 good balance. The golf operator will want to generate rounds, while the maintenance
825 team is concerned about course quality and less about rounds. The Golf Course
826 maintenance and resultant playing conditions are one of the positive aspects of the
827 current operations and should be continued. The existing Parks maintenance crew
828 could provide assistance as needed. As mentioned earlier, this model has also been
829 adopted by Seattle, Bellevue, Maple Valley and Everett.

830 If this model is adopted, the existing concessionaire would be released from
831 responsibility. The new private sector operator would oversee all of the concessions for
832 the Golf Course. Again, the private sector has experience in this important area and can
833 negotiate better prices with other private sector vendors. The operator will also be

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834 responsible for obtaining all licenses and permits to operate this service. The timing of
835 this situation is ideal as the existing concession agreement expires in March 2013.

836 As previously mentioned, this model will reduce operating expenses and produce higher
837 revenues which will then be used to retire the deficit and provide badly needed capital
838 monies to improve the facility.

839 If this operational model is approved, it will be important to re-examine the Business
840 Plan and create a fiscal strategy to provide sufficient funds from the golf operations to
841 fund capital improvements. A commitment to an annual capital improvement program
842 is absolutely essential to sustain the condition and competitiveness of the Golf Course
843 once the deficit repayment plan is created.

844 A true sense of urgency does exist; if the model is approved, the City would initiate an
845 RFP as soon as possible. The RFP process generally takes about 90 days to complete.
846 Under this circumstance, it is hoped a third party operator could be approved by the
847 end of May. This will guarantee a smooth transition and put the Golf Course in a
848 position to capitalize on the upcoming golf season.

849 **Part 4: A Summary of Recommendation Elements**

850 **Adopt a New Revised Business Model**

851 **A Hybrid Model with Private Management & Marketing**
852 **With City Golf Course Maintenance**

853 Part 4 sets forth in outline bullet format the sequential elements of the
854 recommendation that the City Council adopt as the golf course business plan a new
855 private/public hybrid model.

856 The overall approach of this analysis has been to identify and discuss various key
857 components of Golf Course business operations which, if changed, could reduce
858 expenses and increase revenues in any future revised business plan model, whether “as-
859 is,” or through a hybrid option, or via some other policy direction as the City Council
860 may choose. This discussion also addresses debt control and cost-saving options for
861 consideration. In the end, if the Golf Course business is to continue, it should do so with
862 all reasonable efforts directed at refashioning an operational model that, hopefully, will
863 last for the next 20 years.

864 It is our request that the City Council resolve, at their earliest convenience, the two
865 questions:

- 866 1. Is Golf a Business or a Recreational Activity in Lynnwood?
867 2. Should the Golf Business or Golf Course Activity Be Closed?

868 Answers to those critical path questions by the City Council may render further
869 recommendations and final decisions by the Council substantially changed from what is
870 set forth immediately below. If the policy approach for the golf course is **NOT** closure
871 regardless of decision path then the following recommendations are respectfully made
872 and do need to be determined before March 31, 2013, or sooner if possible:

873 **Recommended Steps to Initiate the Hybrid Model - Private Sector Management and**
874 **Marketing Combined with City Performed Golf Course Maintenance:**

875 **1. Debt Strategy**

- 876 • Use the remaining \$543,000 from the warehouse sale
877 • \$500,000 used to pay off and “freeze” (no interest) the debt
878 • Use the General Fund to pay off the remaining balance of the debt
879 (estimated to be \$765,000)
880 • \$137,485 accrued rental debt should be waived (just like the City of Tukwila
881 did when they waived their administrative costs)
882 • Use the remaining \$43,000 to construct a hitting area

883 **2. Reduction Measures**

- 884 • Contract out and privatize the Golf Course Management and Marketing
- 885 Operations
- 886 • The contract should run through 2016
- 887 • Provide revenues to repay the \$1,265,000 debt (see Appendix 8)
- 888 • Provide revenues to upgrade the irrigation system, equipment and design of
- 889 parking lot and maintenance building5-year Business Plan (see Appendix 6)

890 **3. Capital Investments for 2013-2014**

- 891 • As mentioned previously, construct a Hitting Area-\$43,000
- 892 • Create an Eating and Sitting Area; estimated costs - \$153,000, funding from
- 893 2012 budget savings
- 894 • Public works to finalize cost estimates

895 **4. Cost Comparison between City and Private Management and**
 896 **Marketing**

Expenses	Private Sector	LMGC Budget	Difference
Pro Shop Wages & Benefits	\$134,215	\$239,502	(\$105,287)
Administrative Costs	\$75,000	\$158,553	(\$83,553)
Management Fee for Service	\$100,000	\$0	\$100,000
Total Expenses	\$309,215	\$398,055	(\$88,840)

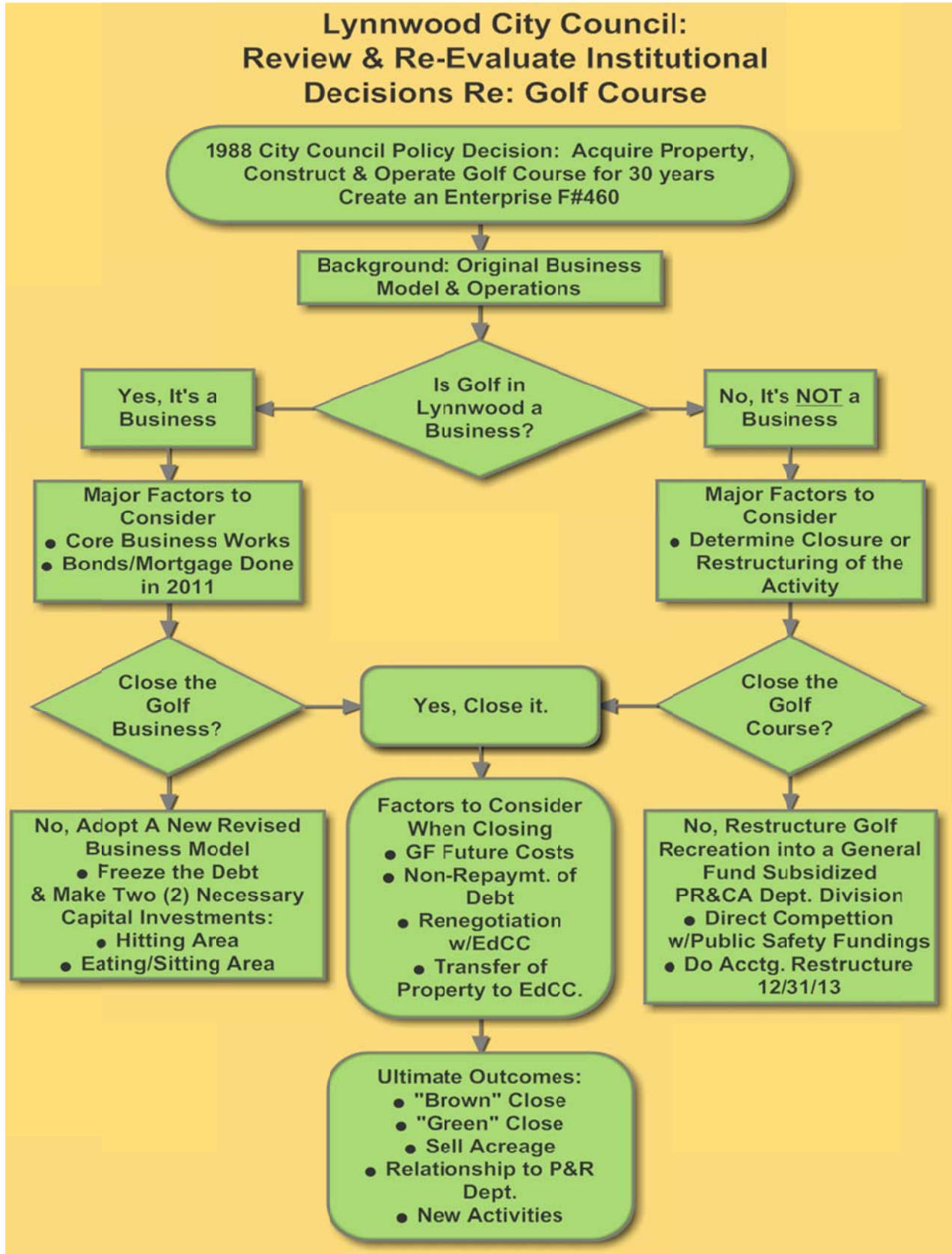
897 Based upon our research, and talking with private sector golf operators, we believe
 898 the following is a good comparison for cost reductions:

- 899 • These cost reductions are within our control.
- 900 • We will know the exact amounts after we complete the RFP process.
- 901 • We have intentionally not included the potential increased rounds derived
- 902 from private sector marketing and promotions. These could reasonably be
- 903 projected to increase by 9% (\$100,000).
- 904 • Please note the 2012 rounds increased by 500 rounds.

905 **5. Reporting and Accountability**

- 906 • Quarterly reports from the operator will be submitted.
- 907 • Due to the fact the operator will likely not be in place until July 2013, the first
- 908 report will be available in November 2013.

909



911 6. *Audit Findings for 2011 are Covered in Appendix 9*

912

913 **Appendices:**

914 1. Municipal Golf Course Golf Round Comparables

915 2. City of Seattle Golf Course Management RFP

916 3. City of Seattle Golf Course Management Agreement

917 4. Summary of IRS Revenue Procedure 97-13

918 5. Cost Comparison – City vs Private Sector Operator

919 6. Lynnwood Municipal Golf Course Business Plan – 2012-2016

920 7. Golf Course Lease Agreement with Edmonds Community College

921 8. Lynnwood Municipal Golf Course Pro Forma

922 9. Response to 2012 SOA Audit Findings