



DATE: June 25, 2019

CATEGORY: Consent

DEPT.: Community Services

TITLE: **Shoreline Golf Links Fiscal Year
2018-19 Year-End Balance**

RECOMMENDATION

Appropriate and transfer up to \$200,000 from the Budget Contingency Reserve to the Shoreline Golf Links Fund. (Five votes required)

BACKGROUND

Shoreline Golf Links (SGL) opened to the public in 1983 and was leased to private operators between 1983 and 1995. In December 1995, the City of Mountain View assumed operations of SGL. At that time, revenues exceeded expenditures, and it was anticipated SGL would be able to provide a reasonable annual financial contribution to the General Operating Fund (GOF). By Fiscal Year 2006-07, due to the increased supply of and competition from other golf courses, SGL was operating at a deficit. It was no longer able to contribute to the GOF and was drawing down on reserves to meet its financial obligations. This situation was exacerbated with the Great Recession. Therefore, the City reviewed alternatives to operating SGL and in 2011 issued a Request for Proposals (RFP) to manage and operate SGL.

On September 27, 2011, Council authorized the City Manager to enter into a management services agreement with Touchstone Golf, LLC (Touchstone) for the management and operation of SGL for a term of five years with an option to renew for an additional term of five years. On November 1, 2016, City Council renewed the agreement with Touchstone for the additional five-year term, starting in January 2016. On October 23, 2018, City Council approved amending the operating agreement with Touchstone to include management of Michaels at Shoreline Restaurant (Michaels). The amended operating agreement began January 1, 2019, and Touchstone began restaurant operations on January 24, 2019.

Although SGL and Michaels are considered General Fund programs, they are tracked and reported separately for management information purposes and to provide a more

comprehensive overview of the operations. Prior to contracting with Touchstone, SGL had operating deficits over a five-year period totaling \$2.1 million, most of which was covered through fund balances. In Fiscal Year 2011-12, the year that management of SGL transitioned from the City to Touchstone, it was necessary to transfer \$234,771 from the Budget Contingency Reserve. Since Touchstone took over management and operations of SGL in 2012, they have operated SGL at a surplus that was returned to the General Fund at the end of each fiscal year. Over this period, SGL has contributed \$568,274 to the GOF.

ANALYSIS

For the first time since Touchstone took over management and operations, SGL is expected to incur a deficit of approximately \$190,000. Therefore, an appropriation up to \$200,000 from the Budget Contingency Fund to the SGL Fund is needed for Fiscal Year 2018-19.

In Fiscal Year 2018-19, SGL experienced an unusually low amount of revenue generation primarily due to a number of factors, including the reopening of Baylands Golf Links (formerly Palo Alto Municipal Course), increased public access to Moffett Field Golf Course affecting summer rounds, and the timing and amount of rain that occurred in the winter and spring of this fiscal year. Approximately 1,800 fewer rounds were played at SGL in July and August compared to the prior year. A large percentage of this loss was due to rounds and tournaments going to the new Baylands Golf Links, which reopened at the end of May 2018. SGL also experienced a reduction in memberships during this time, which is believed to be the result of players trying the newly reopened Baylands.

With Baylands Golf Links being opened for a number of months, staff expected rounds and membership to rebound. In October 2018, the number of rounds were consistent with the prior year, and staff believed the number of rounds would begin to meet or exceed the prior year. However, between November and May of this fiscal year, there were 67 days with precipitation compared to 30 precipitation days last fiscal year. Of the 30 precipitation days last fiscal year, only seven were weekend days, which generate more revenue compared to weekdays. In Fiscal Year 2018-19, 20 of the 67 precipitation days were weekend days. In March and May alone this fiscal year, there were as many weekend precipitation days as there were during all of the previous fiscal year.

Between the rain and Baylands Golf Links opening in May 2018, 9,600 fewer rounds were played at SGL through May of this fiscal year compared to the prior fiscal year. This has resulted in approximately \$197,000 less revenue being generated through May compared to Fiscal Year 2017-18.

Staff meets regularly with Touchstone to review operations, projects, and budget. With revenue heavily impacted in the first half of the fiscal year, the estimated surplus for the end of the fiscal year was reduced from \$110,000 to \$25,000 in the Narrative Budget Report. At that time, it was estimated that SGL would have a similar number of rounds in the spring compared to the prior year with the ability to market Michaels more effectively. However, due to the amount and timing of rain in March, April, and May, the number of rounds continued to decrease at a time when SGL typically starts seeing an increase.

In prior years when revenue was not expected to reach projections, Touchstone has been able to lower expenditures to keep the golf course operating at a surplus and ending the fiscal year with a positive balance to the SGL Fund. Expenditures are currently estimated to be \$199,000 lower than budget and Touchstone will continue to lower expenditures through the remainder of the fiscal year. However, increases to water rates and the minimum wage have escalated the costs of operating SGL, making it more difficult to lower expenditures further in a year with unusually lower revenues.

The Michaels restaurant operations began in January of this year and will end the fiscal year financially better than expected. It was anticipated with start-up costs that the restaurant could potentially run at a deficit for the first five or so months of operation through the end of the fiscal year. However, the restaurant is currently estimated to do slightly better than break even with an estimated surplus of \$6,000. The success of Michaels is anticipated to continue through Fiscal Year 2019-20 and help draw golfers as well as tournaments, which will help SGL revenue. Staff also anticipates the closing of Santa Clara Golf and Tennis Club in fall 2019 will have a positive impact to rounds and Shoreline revenue, although it is difficult to predict the level of benefit to Shoreline.

FISCAL IMPACT

The requested transfer from the Budget Contingency Reserve of up to \$200,000 is needed to keep the SGL Fund in a positive position.

ALTERNATIVES

1. Do not appropriate and transfer from the Budget Contingency Reserve and let the SGL Fund go negative.
2. Transfer the needed funds from the General Non-Operating Fund.
3. Provide other direction to staff.

PUBLIC NOTICING – Agenda posting.

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