

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: Thursday, June 22, 2006

IBA Report Number: 06-28

City Council Agenda Date: June 26, 2006

Item Number: 150

Item: San Diego Municipal Golfer's Alliance Golf Plan

OVERVIEW

On April 15, 2006, the San Diego Municipal Golfer's Alliance (SDMGA) submitted an alternative golf business plan in response to the Mayor's talking points regarding the proposed Golf Operations Business Plan. The SDMGA plan outlines an approach that is believed to be more preferential to resident golfers in the City of San Diego, and recommends several specific changes to the City's existing proposal (Business Plan).

This analysis focuses on the most prominent recommendations made by the SDMGA plan, and uses the most current version of the Business Plan as a reference. There are some proposals made by the SDMGA plan that are not addressed in this analysis because they are in concert with the most current version of the Business Plan. For example, the SDMGA plan recommends reinstating the senior rate, which has been incorporated in the most current version of the Business Plan.

FISCAL/POLICY DISCUSSION

The SDMGA plan contends that the Mayor's talking points, and the Golf Operations Business Plan, places greater priority on special interests than on the concerns of resident golfers. SDMGA claims that the Business Plan proposes projects and green fees that price resident golfers off the golf courses and intrude on parkland for the benefit of special interests. In response to the Mayor's talking points, the SDMGA plan makes several recommendations that the SDMGA believes will place a greater emphasis on the resident golfer. The most prominent of these recommendations are discussed below.

Focus of Capital Improvements should be on golf courses, not on building.

The SDMGA plan states that golfers care more about the condition of the golf courses than "opulent buildings," and that the City's golf courses are not currently highly ranked by the leading golf magazines, including Golfweek Magazine and Greenskeeper.org. The

plan states that these rankings are based on the condition of greens, fairways, sand traps, the rough, and overall course conditions and playability – not on peripherals such as club houses, office buildings and restaurants. The SDMGA plan claims that City officials continue to focus on the peripherals instead of the courses.

The IBA agrees with the SDMGA plan in that the quality and condition of the golf courses should be the top priority, and should not be sacrificed for the sake of golf course facilities such as clubhouses. However, that does not mean that the condition of the golf courses should be the *only* priority. Golf course facilities such as clubhouses are City assets, and should be adequately maintained and rehabilitated. Over the past few years many City facilities have lacked adequate maintenance as a result of scarce General Fund resources. It would be imprudent to deny golf course facilities the maintenance and refurbishment they need when the means of funding are readily available.

In addition, the IBA believes that it is appropriate to examine each golf complex to determine whether existing facilities should be refurbished or new facilities should be constructed. Golf course facilities should be constructed, refurbished and maintained according to and commensurate with the desired quality and style of the course that they serve. There would be no cause to construct a lavish and overly expensive clubhouse at Balboa Park; likewise a sparse, cut-rate clubhouse at Torrey Pines may not properly match the desired aesthetic and quality of that course. There does not appear to be any reason why construction and maintenance of new facilities would impact the quality of the golf courses. With sufficient revenue streams, it should be feasible to provide both high-quality golf courses and appropriate golf course facilities.

Renounce the Torrey Pines Clubhouse Project

The SDMGA plan stands firmly against the Torrey Pines Clubhouse Project, and points out that the Project has been unanimously opposed by every member of the public who has spoken at four public meetings. While the substantive reasons for this opposition are not articulated in the SDMGA plan, testimony from those public meeting has indicated that the Clubhouse Project is opposed primarily because it would take the focus away from golf course improvements, that it is not required in order to host the U.S. Open, that it is a move toward making Torrey Pines a destination resort, and that there is concern about the influence of special interests.

As mentioned in the previous section, the quality of the golf courses is of utmost concern, and should not be sacrificed for the sake of the clubhouse. However, that does not mean that the City cannot do both. And while it is accurate to say that the 2008 U.S. Open does not require the construction of a new clubhouse, it is unclear whether future USGA or PGA events will view Torrey Pines as an attractive venue without a new clubhouse. The concern that the Clubhouse Project constitutes a move toward making Torrey Pines a destination resort is understandable. Many residents feel that they would benefit from a new clubhouse only marginally, while the intent would be to attract non-resident golfers.

While the 70%-30% split in resident/non-resident rounds would seem to counteract or limit this perceived shift to a destination resort, before any final decisions are made there probably needs to be a more open discussion about what the intent of the clubhouse is, what the needs really are, and who would most greatly benefit.

Looked at from another perspective, the controversy over the Clubhouse Project actually seems to be a symptom of a larger issue. Torrey Pines currently appears to be experiencing an identity crisis of sorts. On the one hand we would like to see the complex reach its full potential as a world-class facility that continues to attract USGA and PGA Championship events, tourists and golf enthusiasts. On the other hand, we would simply like to have an affordable, high-quality golf course without all the frills and the fanfare. The question is, can we have it both ways? The future identity of Torrey Pines should be determined before any decisions are made regarding the Clubhouse Project. However, one thing seems clear: Torrey Pines has incredible potential, and it seems unlikely that its full potential will ever be reached without some sort of a new clubhouse facility.

Set Non-Resident Rates at Market

In IBA report 06-11, we stated that non-resident rates should always be set at the market rate. The SDMGA plan concurs with this proposition, but argues that the non-resident rates in the current proposal fall short of the market rate. Anecdotal evidence, according to SDMGA, suggests that market rates for both the north and south courses at Torrey Pines fall within the range of \$169 to \$225 per round. The IBA agrees that it is unclear whether the non-resident rates currently proposed truly reflect the market rate. However, the true market rate is currently unknown. In fact, there may be more than one suitable definition of the market rate. The rates mentioned above may simply reflect what a few people are willing to pay, not necessarily what the market will bear. There may be someone who is willing to pay \$1,000 per round but that would certainly not be considered the market rate.

The IBA recommends that non-resident demand be monitored throughout the upcoming fiscal year to determine whether there is the capacity to increase the non-resident rates. Furthermore, the IBA strongly recommends un-linking the resident and non-resident rates in order to allow maximum flexibility in adjusting either one in the future.

Overall Fee-Setting Strategy (Resident Rates)

The SDMGA plan proposes the following fee-setting strategy:

1. Set an annual budget that reflects all legitimate costs
2. Charge market rates to all non-residents
3. Subtract the projected revenue from non-residents from the annual budget
4. Set resident rates as needed to cover the balance.

The SDMGA plan correctly states that so far no one has done the calculations to determine the resident rates that this approach would yield. The plan recommends that resident rates be frozen at current levels, or increased by no more than 5 percent until after the U.S. Open, at which point proper auditing techniques would reveal a clearer picture of revenues and full costs.

The fee-setting strategy proposed by the SDMGA would essentially result in setting resident rates as low as possible, while still keeping the Enterprise Fund solvent. The SDMGA plan provides a spreadsheet showing how marginal fee increases for residents and more aggressive fee increases for non-resident rates could result in greater revenue for the Golf Enterprise Fund than under the rate proposals in the Business Plan. However, these calculations depend on the viability of further increases in non-resident rates, a proposition that the IBA does not currently endorse, as explained in the previous section. Furthermore, the IBA notes that setting resident rates as low as possible constitutes a philosophical position that, while potentially viable from a financial perspective, may not be the optimal solution.

Attempting to set resident rates as low as possible has several practical and philosophical problems. As a matter of practicality, the viability of SDMGA's recommended approach is contingent upon the accuracy of budget estimates. Should actual expenditures come in over-budget or anticipated revenues not be realized, the Golf Enterprise Fund could find itself in deficit. Furthermore, it does not provide any contingency for market shocks, such as severe weather or geopolitical events that could curtail tourism and dramatically reduce the number of non-resident rounds played. In addition, it is extremely difficult to predict operating expenses and capital improvement costs with any accuracy over a five-year period.

From a philosophical perspective, the IBA questions whether the City should be in the business of providing subsidies for non-core services. As important as golf is to many residents, it is a leisure activity that confers benefits only to the person who is playing. By contrast, swimming pools and other park and recreation activities are often priced at a discount and supported by tax dollars because the City recognizes the public benefits of having such activities. However, in the case of golf, every dollar that resident rates are set below the true cost per round must be taken out of someone else's pocket. The mere fact that non-residents may be willing to pay a higher rate does not constitute sufficient justification for allowing resident to pay less than what it costs to provide golf services. If it were, then the City should increase the number of rounds available to non-residents in order to cover all costs and then let residents play for free. Obviously, not many would consider this an acceptable solution.

As a matter of principal, resident rates should be set on the basis of cost, not on the basis of how many non-residents are allowed to play. Setting resident rates equivalent to the cost per round provides the greatest stability for the Golf Enterprise Fund, does not rely

on any other contingent factors, and ensures that everyone pays for the services they receive. However, in order to take this approach, there must be solid and reliable estimates of the costs per round. The Appendix to this report discusses in greater detail the cost per round calculations provided in the Business Plan.

While the goal of municipal golf operations should not be to make a profit, there is nothing intrinsically wrong with accumulating a reasonable fund balance; indeed, such a practice may even be desirable. An accumulated fund balance may have several potential benefits, such as creating a greater cushion against unanticipated cost increases or market shocks; providing enhanced service levels; offering special promotions such as a countywide resident day or free rounds for low-income residents; or offsetting future rate increases by accelerating capital improvement schedules. For this reason, and the reasons described above, the IBA does not recommend adopting the SDMGA's approach to setting resident rates.

Create separate tee-time reservation systems for residents and non-residents

The SDMGA plan suggests that the best way to ensure that the 70%-30% split between residents and non-residents would be to separate the non-resident tee times from the resident phone lottery. The plan recommends allocating 8% of all tee times to the starter, down from the current 16%, and then set aside 30% of the remaining tee times for non-residents through the advance reservation system. The remaining tee times would then be available only for residents through the phone lottery system. This type of a system, according to the SDMGA plan, would allow the City to ensure that the proper ratios are maintained instead of relying on the lottery system to generate the proper ratio by chance.

While the Business Plan does not expressly state how the 70%-30% resident/non-resident split will be monitored, discussions with Golf Operations staff indicate that it will not be left to chance. The 70%-30% split essentially designates a certain number of tee times to both residents and non-residents. These tee times will be allocated first to tournaments, which are booked further in advance, then to the advanced reservation system and finally to the seven-day phone lottery system. A specific allotment of tee times for residents and non-residents will be designated for both the advanced purchase and phone lottery systems. Identification numbers will allow residents to gain access to resident tee times; non-residents will get the pick of all the rest. Golf Operations staff also indicated that they will hold themselves accountable to the 70%-30% split on an annual basis, but will monitor it and make adjustments on a monthly basis. Overall, this system appears sufficiently capable of monitoring the 70%-30% resident/non-resident split, and ensuring that residents are granted equal access to tee times throughout the day. However, the effectiveness of this system should be closely monitored over the next fiscal year, and recommendations for improvement should be made if the 70%-30% ratio is not sufficiently maintained.

One of the concerns expressed by a member of the SDMGA is that allocating such a large number of resident rounds (currently 12%) for advanced purchase essentially amounts to preferential access, since wealthier residents who don't mind paying the \$25 booking fee would purchase all of the advance times, while all other residents would be forced to book times through the phone system. Whether or not this would actually occur, the possibility could be alleviated by simply eliminating the \$25 fee for residents. Golf Operations staff has indicated that they will be able to operate the system with existing resources, and that the booking fee would be charged in order to cover the cost of marketing in local and nationwide publications. However, it would seem that the bulk of the marketing costs would be non-local in nature, and focused more on attracting non-resident golfers. Given that there should not be significant additional costs associated with implementing the advanced reservation system, the IBA recommends that the resident booking fee for advanced purchases be eliminated, and marketing costs be funded solely with non-resident booking fees.

Other Recommendations

The SDMGA plan makes several other recommendations that the IBA feels are less prominent in the scope of the whole Business Plan, but with which the IBA agrees. First, to whatever extent possible, preferential tee times granted to the Lodge at Torrey Pines and the Hilton La Jolla Torrey Pines should be eliminated. While there may be benefits to allocating a certain number of tee times to the hotels in order to attract tourism, these tee times should not be allocated at the expense of residents. Tee time allocations to all groups should be equally and proportionally spread throughout the day so that no single group is burdened with an excessive number of less desirable times.

Secondly, the IBA agrees with SDMGA's recommendation to post tee sheets on the internet. From a long-term perspective, the City should consider moving toward a web-based booking system; in the meantime, it would be a great benefit to residents and non-residents alike to be able to log on to the internet on any given morning and view the tee times that are available for that day.

CONCLUSION

The SDMGA plan offers several recommended changes to the Golf Operations Business Plan that they feel will offer greater benefits to resident golfers. While the IBA agrees with several of these recommendations, we do not concur with the SDMGA's philosophy that resident rates should be set as low as possible. The current Business Plan proposes many changes to the way golf operations are run in the City, and in doing so, is exposed to many different opinions and points of contention. While the Business Plan may not be perfect, and will certainly not make everyone happy, we believe that it takes great strides in enhancing the overall golfing experience for City residents.

[SIGNED]

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Attachment: San Diego Municipal Golfer's Alliance (SDGMA) Plan