



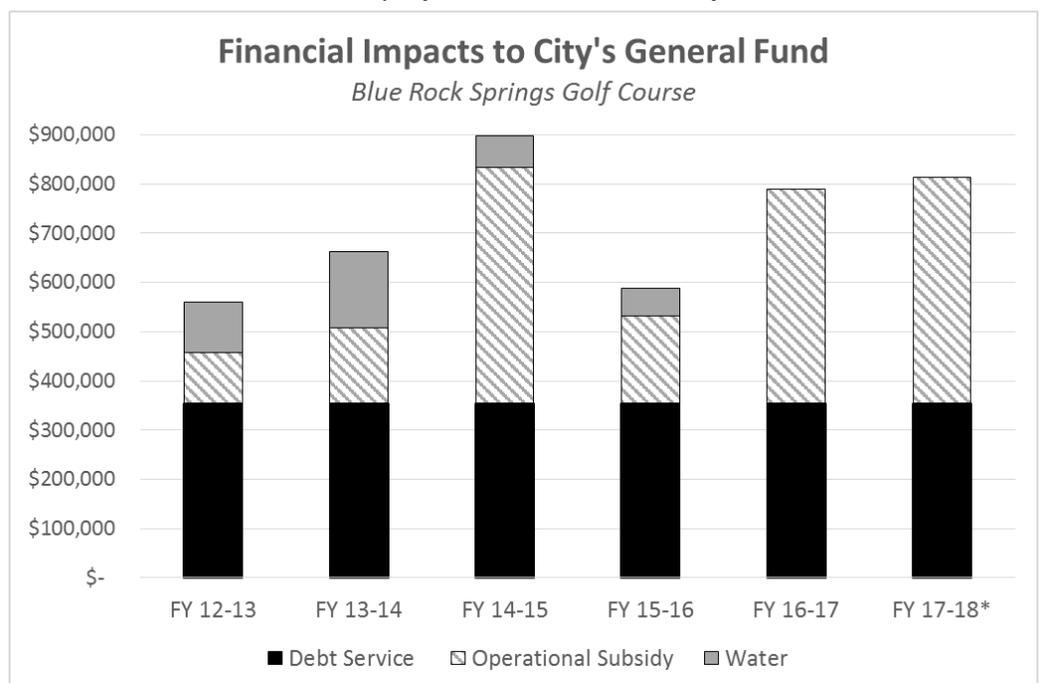
**DATE:** May 23, 2017  
**TO:** Mayor and Members of the City Council  
**FROM:** Daniel E. Keen, City Manager  
 Will Morat, Administrative Analyst II  
**SUBJECT:** ANALYSIS OF BLUE ROCK SPRINGS GOLF COURSE

In response to a Fiscal Year 2017-18 projected increase to the General Fund subsidy for the City-owned Blue Rock Springs Golf Course(s), staff has provided an analysis for City Council’s consideration. The assessment considers past performance, financial history, debt service, City-funded operating subsidies, and regional/national trends in the golf industry. Recent revenues strongly suggest that the current path is unsustainable.

The 225-acre property is currently split between two 18-hole courses of roughly similar size – West and East (with Columbus Parkway separating the two), and is managed by the Vallejo Golf Club. The current management agreement expires on December 31, 2017, but requires that the City provide notice no later than July 1, 2017 of its intention to modify or terminate the agreement at the end of the calendar year.

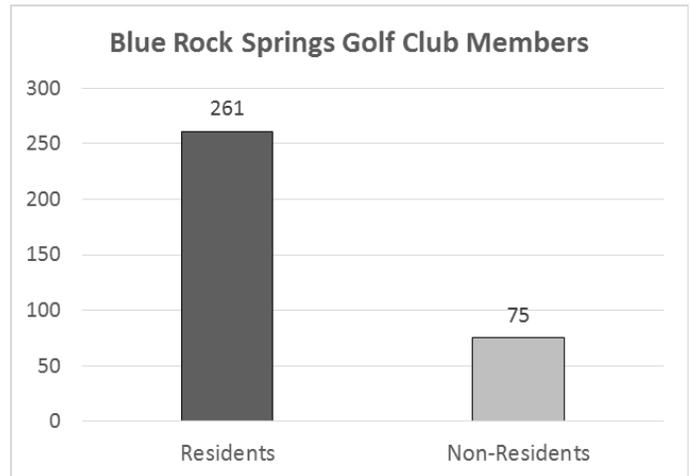
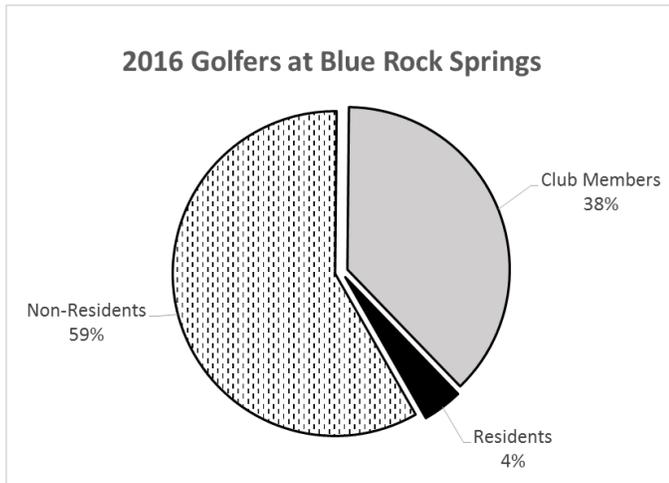
**Financial History & City Subsidies**

The City is obligated to pay the debt service on the land approximating \$355,000 per year. Until FY 2011-12, course revenues were high enough to cover debt payments and did not impact the General Fund. By FY 2014-15, facing decreasing revenues, the Vallejo Golf Club required an infusion of funding to cover operational losses and to maintain a capital reserve; over the past three years, the City has continued to subsidize operations and reserves for a total of \$1,033,000. Financial projections from the Vallejo Golf Club for FY 2017-18 estimate they will require an operational subsidy of \$459,000 – in addition to the City continuing to cover the debt service of \$355,000 – drawing approximately \$812,000 from the General Fund in FY 2017-18. Over the past six years, the City has allocated nearly \$2.95 million (including debt service, water, operations and reserve subsidies) to sustain the golf course – costs that had not impacted the General Fund prior to 2011.

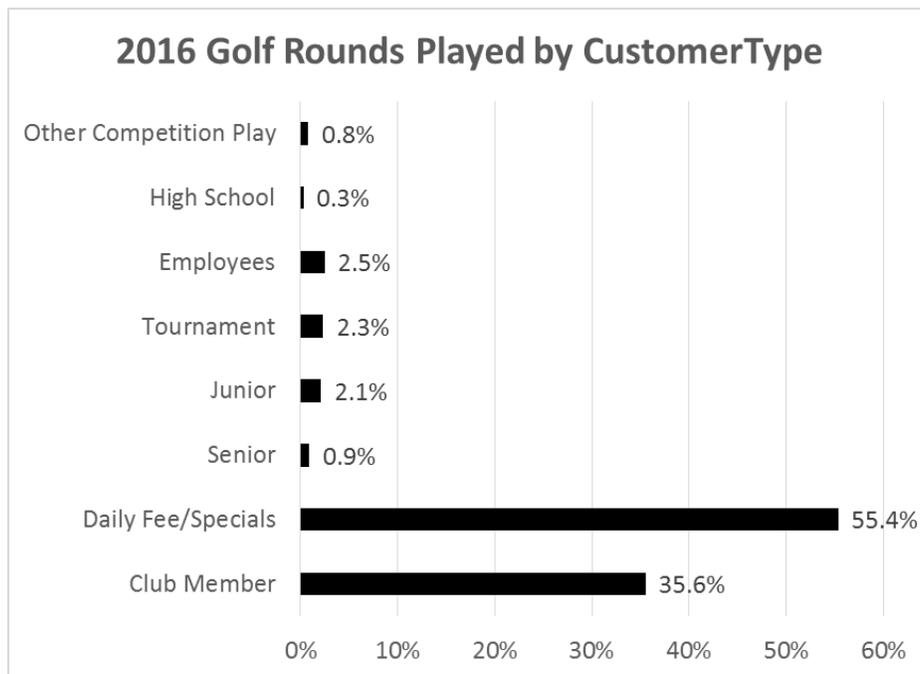


**Users of Blue Rock Springs Golf Course**

A 2016 survey of all rounds of golf purchased at the Blue Rock Golf Course<sup>1</sup> indicates non-residents are the most common customer of the course – and thus the primary beneficiaries of City subsidies. Fifty-nine percent of all rounds at Blue Rock were golfed by non-Vallejo residents.



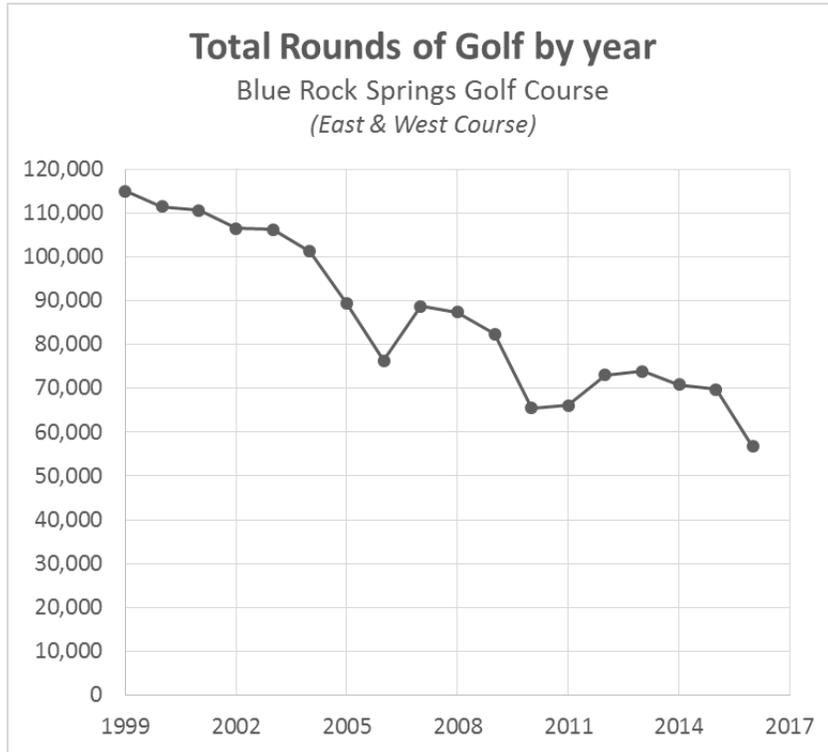
Of the remaining 23,000 rounds, more than 20,000 were golfed by 336 Club Members (both resident & non-resident); Vallejo residents from the general public account for just 2,000 rounds per year, or 4% of the total.



<sup>1</sup> Survey data from 2016 provided by Vallejo Golf Club.

### Declining Demand for Golf

The reasons for operational losses are rooted in declining demand for golf, not only locally at Blue Rock Springs but also across the nation. In 2016, Blue Rock Golf Course had more than 56,000 total rounds of golf played – down 51% from a high of 115,000 in 1999. Moreover, the Blue Rock Golf Course’s share of all rounds



dropped disproportionately relative to 9 neighboring courses in the North Bay region.

National trends are similar – golf peaked between 2000 and 2005 with more than 30 million golfers. In 2015 there were an estimated 24.7 million golfers, a 20% decline (during the same 10 year period, the US population increased by 8%). The number of courses across the country demonstrated a similar peak and decline: 399 new courses opened in 2001; by 2011 the number of new courses was 19. Data over the past 5 years indicate that the number of courses closing exceeds new construction.

### Vallejo Golf Club

City staff met with several members of the Vallejo Golf Club Board on April 13, 2017, in order to learn more about the key issues and challenges. The Board generally identified three causes for revenue shortfalls:

- 1) Increased operational costs**, primarily water and flood control
- 2) Competition** from new regional courses over the past 10-15 years
- 3) A dated and inadequate clubhouse** that does not maximize revenue

Prior to 2012, the City was covering full water costs for the West Course; the current 5-year management agreement between the City and Vallejo Golf Club incrementally reduced the City water subsidy at 20% per year, with Vallejo Golf Club responsible for 100% of water costs in FY 2016/17. The Board approximated the full cost of water at nearly \$500,000 per year. Additionally, the Board reported that \$10,000/year costs for flood control rose to nearly \$70,000 in FY 2016/17 due to rate increases.

The Board also noted at least six new (or recently renovated) golf courses within the local region that have added competition over the past 10-15 years:

- Hiddenbrooke
- Eagle Vines (American Canyon/Napa)
- Lone Tree (Antioch)
- Cache Creek Casino/Golf Course
- Stone Tree (Novato)
- Marin Country Club

The Board noted that Lone Tree and Eagle Vines represented a successful model for public courses that had effectively integrated multiple revenue streams by utilizing new/renovated clubhouses, practice facilities, etc.

The clubhouse building at Blue Rock Springs Golf Course, constructed in the 1950s, constrains the ability to create multiple revenue streams. The banquet room is too small and dated to successfully compete for weddings and other events, and the overall facility does not provide the amenities typically offered for golfers/events at competing courses (restaurant/bar, locker room, large banquet room, etc.). The Board noted that 10-12 years ago the club incurred approximately \$1 million in design costs for a proposed \$14 million multi-use clubhouse facility. It was generally agreed among the Board members that current construction costs for that same facility could now easily be \$25-30 million.

While a new clubhouse is certainly needed, the Board reported the two courses themselves are in excellent condition, and rate favorably with any regional courses in terms of course design, conditions, routing, landscaping and course play.

The Vallejo Golf Club has been operating since June 2016 without a General Manager, delegating duties to various Board members as necessary. They anticipate hiring a new General Manager as early as Summer 2017, and the personnel cost is included in the FY 17-18 \$459,000 subsidy request submitted to the City. They currently use dynamic pricing and have begun using additional marketing e-mail techniques in order to reach more regional golfers and increase revenues.

The Board was amenable to developing a business plan, including Pro Forma financial projections (revenue & expense, cash flow projections) and details on the sources and use of funds/investment, as part of any new management agreement negotiation/extension.

### **UPDATE:**

On May 12, 2017, the Vallejo Golf Club submitted a revised FY 2017-18 budget projection, resulting in a projected \$111,000 profit (instead of a \$409,000 loss – a net +\$520,000 change). Key revisions to the budget included:

- Increased revenues of at least \$92,000 from Annual Pass Holders
- Café converted to a leased operation in January 2018
- 10% reduction of wage expenses for maintenance operations
- Limited capital investment
- Reduction in Driving Range payroll expense

### **Next Steps**

Staff is preparing a staff report and recommendation ahead of an anticipated study session for City Council at the June 13, 2017 Regular Meeting to discuss options, alternatives and a strategy for FY 2017-18 and beyond.

### **CONTACT**

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cc: Vallejo Golf Club