

City of Hesperia

STAFF REPORT



DATE: August 20, 2019
TO: Mayor and City Council Members
FROM: Nils Bentsen, City Manager
BY: Casey Brooksher, Director of Finance
SUBJECT: Hesperia Golf Course Operations

RECOMMENDED ACTION

It is requested that the City Council provide staff guidance pertaining to the operations of the Hesperia Golf Course & Country Club (Golf Course) by considering and providing direction on the following options, as the current Golf Course operations contract is set to expire during September 2019:

1. Enter into a professional service agreement (PSA) with Donovan Bros. Golf, LLC (Donovan Bros.) for the Golf Course operations and conduct a Community Facilities District (CFD) feasibility study for homes that benefit from the Golf Course;
2. Repurpose the Golf Course;
3. Provide alternative direction.

BACKGROUND

The Golf Course is a 211 acre, 18-hole, course that was designed by William F. Bell Jr. When the course first opened in 1957, it was a tour stop for the PGA (Professional Golfers' Association). Until April 2010, the Golf Course was privately owned and operated.

Recent History & Operating Arrangement:

In April 2010, the former Hesperia Community Redevelopment Agency (RDA) purchased the Golf Course, while the City, through the General Fund, purchased the associated 678 acre feet of water rights. This allowed the City to gain water rights, as well as prevent the property from becoming blighted and run-down. Upon dissolution of the RDA on February 1, 2012, the Golf Course's ownership was then transferred to the City of Hesperia. It is important to note that 15.5 acres that is used for the driving range was not included in the purchase of the Golf Course. The City entered into a ten year, zero dollar lease on May 20, 2010.

At the time of purchase, the City conducted an extensive public outreach program in order for the community to submit input regarding the long-term use of the property. The outreach program consisted of public meetings, a community survey, and a feasibility study conducted by an outside consultant. The results of the outreach program indicated overwhelming support to continue to operate the regulated 18-hole golf course, and on August 16, 2011, the City Council voted to maintain the property as a golf course and negotiate with the Hesperia Recreation and Park District (Park District) for an agreement to operate and maintain the golf course.

The Park District began operating the golf course under an Interim Agreement on May 21, 2010. On February 6, 2011, an Extension of Term was approved by the City and Park District, extending the term of the agreement to January 1, 2015. The most recent Operating and License Agreement was executed on March 19, 2014 and is mutually agreed to expire during September 2019. With this agreement, the City agreed to credit specified management and operational deficits experienced by the Park District in their operation of the Golf Course, which have ranged from \$100,000 to \$121,603. These credits are to be applied toward the Park District's obligation outlined in the Reimbursement Agreement for Hesperia Civic Plaza Park dated June 21, 2011, which identified a 10-year repayment period wherein the Park District is to reimburse the former RDA, now the Successor Agency, for their portion of the construction costs. As such, the City's General Fund has annually made payments to the Successor Agency on behalf of the Park District for these credits, representing management and operational deficits incurred by the Park District in the operation of the Golf Course, as outlined in the Operating and License Agreement.

Table 1 details the City's historical annual cost (cash outlay) pertaining to the Golf Course.

Table 1	FY 2012-13*	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Park District Credit	\$ 213,053	\$ 100,000	\$ 121,603	\$ 114,751	\$ 89,730	\$ 100,000
Golf Course Well Repairs	0	61,198	27,268	37,756	6,032	4,420
Water Rights Related Costs	1,381	22,514	0	36,249	29,124	30,318
Total Historical Golf Course Costs	\$ 214,434	\$ 183,712	\$ 148,871	\$ 188,756	\$ 124,886	\$ 134,738

*Note - The \$213,053 credit shown in FY 2012-13 was a credit for operating losses that occurred in FY 2010-11 through FY 2012-13.

Current State of the Facility and Course:

At the time of purchase, the City was aware of deferred maintenance of the course and clubhouse from the previous owners. Much of the infrastructure is the same as it was when it was originally constructed in 1957. It was identified that the aesthetic lakes on the course needed to be repaired. The following is a listing of the major issues at the time of the City purchasing the course: the irrigation system needed to be overhauled and modernized; the clubhouse needed renovation, including a complete replacement of the roof; and repairs to the parking lot.

As mentioned, shortly after the purchase of the Golf Course, the State mandated the dissolution of all redevelopment agencies. This event, along with the lingering effect of the Great Recession limited the City's ability to address any of the deferred maintenance. In addition, since the time of purchase, new issues have arisen, such as the air conditioning units nearing end of life, as well as the failure of the beverage coolers in the bar.

Recent Infrastructure Improvements:

The Hesperia Water District is in the process of completing the Reclaimed Water Distribution System, which is 10 miles of pipeline that connects the Golf Course to the Hesperia Sub-regional Water Reclamation Plant. The District expects to receive recycled water during the current month (August 2019). It should be noted that while the Golf Course is the first intended recipient of recycled water, a number of lateral connections were installed to benefit the Hesperia Unified School District, Park District, Hesperia Christian School, and other city facilities. Additionally, the City installed new water features at the golf course to hold the recycled water.

Current Course Operations:

Knowing that the contract with the Park District was set to expire, a Request for Proposal (RFP) for the operation and maintenance of the golf course was issued March 14, 2019. Five respondents expressed interest in the RFP; however, of the five interested parties, three

respondents participated in the mandatory walk-through of the golf course facility. After the walk-through, the City ultimately received one proposal, from Donovan Bros. to operate the golf course. Additionally, the Park District was invited to submit a response. During June 2019, the Park District indicated that they were no longer interested in operating the Golf Course.

RFP Response:

Being the sole respondent to the RFP, the City entered into negotiations with Donovan Bros. The Company was formed in 1975 and has over 35 years of experience in the management and ownership of golf courses in the Southern California area. The group has experience working with varied types of golf property owners, providing them with insight into proper business practices and operational efficiencies in the management of golf courses. Donovan Bros. has familiarity with the Golf Course, as they provided management of the course in the early 2000s. The following is a list of golf courses that Donovan Bros. currently operates:

- Western Hills Country Club, Chino Hills CA
- Sierra Lakes Golf Club, Fontana CA
- General Old Golf Course, Riverside CA
- Arroyo Trabuco Golf Club, Mission Viejo CA
- Santa Anita Golf Course, Arcadia CA
- Costa Mesa Country Club, Costa Mesa CA
- Arroyo Seco Golf Course, South Pasadena CA
- The Links @ Riverlakes Ranch, Bakersfield CA
- Willowick Golf Course, Santa Ana CA
- Whispering Lakes Golf Course, Ontario CA

The proposal submitted by Donovan Bros. outlines immediate steps they recommend be taken in order to attract more players to the course, on a more frequent basis. Among the top recommendations is improving the course maintenance, with an objective of golfers seeing a dramatic improvement in the quality of the greens and the general upkeep within the first 45 days. This includes fertilizing, top-dress, and aerifying the greens to get them into better condition. They would also repair the mowers and turf equipment to enable a quality cut of the turf. Additionally, Donovan Bros. would focus on the food and beverage, development and rehab of the driving range, as well as increase the marketing efforts of the course.

ISSUES/ANALYSIS

In order for the Golf Course to continue operating, significant capital improvements to the course are needed. Additionally, the City will experience increased operating expenses. The following is a detailed breakdown of the new costs associated with operating the Golf Course.

Capital Improvements (\$250,000):

The two major areas that need to be addressed in the near future are the irrigation system and roof repair. It is estimated that the improvements to the irrigation system of the Golf Course will cost approximately \$168,000. Donovan Bros. indicated in their proposal that the irrigation system is currently not in good working order, antiquated, and requires manual watering.

The roof repair and HVAC replacements is estimated to cost \$82,000. Currently, the roof has a number of leaks and is in poor condition, as the roof is over 60-years old. This repair would remove all of the existing roofing material, and repair and replace any damage to the sub roof. The roofing repair would protect the inside of the clubhouse from sustaining any further damage to the walls.

Reclaimed Water & Leasing of Water Rights:

FY 2019-20 will be the first year that recycled water will be used at the Golf Course, which is expected to cost \$390,000 and increase to \$409,500 in FY 2020-21. Prior to the availability of reclaimed water, the golf course used 678 acre-feet of base annual production (BAP), which currently equates to 407 acre-feet of BAP after the current ramp-down provisions. By using the water rights, the City effectively did not pay to water the golf course.

With the new costs of recycled water, a portion of the 407 acre-feet of BAP can be leased to generate General Fund revenue. In FY 2021-22, it is estimated that the City could lease the BAP at \$631 an acre-foot. Assuming 350 acre-foot of the 407 acre-feet of BAP is available to be leased, the City could expect to receive approximately \$220,000 in revenue.

Donovan Bros. Operating Costs:

The Donovan Bros. proposal identifies a management fee of \$72,000 for years 1 through 5. Additionally, the City would be required to cover any and all operating losses during the length of the contract. Based upon Donovan Bros. projections, Year 1 losses would be \$397,242 and decrease to \$182,026 by year five.

Outside of the operational losses and management fees, Donovan Bros. identified startup costs of \$320,300. These costs will go toward course equipment replacements, such as mowers, aerifier, and utility vehicles. In addition, this will allow Donovan Bros. capital for purchasing inventory for the pro shop and bar, as well as refurbishments to the landscaping and driving range. Inclusive of the management fee, estimated operating loss, as well as capital and startup costs, the City could expect to subsidize the golf course by \$1.2 million in Year 1, \$1.0 million in Year 2, and an average of \$750,000 for Years 3 through 5.

The following table (Table 2) details the estimated cost of Donovan Bros. agreement for operating the Golf Course, as well as paying for necessary capital costs and recycled water.

	2019-20	2020-21	2021-22	2022-23	2023-24
Table 2	Total	Total	Total	Total	Total
Revenue	\$ 671,769	\$ 725,800	\$ 760,500	\$ 794,800	\$ 854,500
Expenses	1,069,011	1,036,526	1,036,526	1,036,526	1,036,526
Net Income (Loss)	(397,242)	(310,726)	(276,026)	(241,726)	(182,026)
Cost of Operations to City					
Replenish Loss	397,242	310,726	276,026	241,726	182,026
Management Fee	72,000	72,000	72,000	72,000	72,000
Recycled Water	390,000	409,500	429,975	451,474	474,047
Total Annual City Operations Cost	859,242	792,226	778,001	765,200	728,073
Other Costs Cost					
Irrigation - Startup	168,000	0	0	0	0
Roof Repair & HVAC Replacement	82,000				
Startup Costs	59,000	261,300	0	0	0
Total Capital Cost	309,000	261,300	0	0	0
Total City Cost	\$ 1,168,242	\$ 1,053,526	\$ 778,001	\$ 765,200	\$ 728,073

Comparison to Other Locally Owned Golf Courses:

Both the City of Victorville and Town of Apple Valley own golf courses that are operated by a separate third party vendor. It is important to note that each of the three golf courses are unique to the community in which they are located and offer different amenities. For example, Apple Valley Golf Course contains tennis courts, while Green Tree Golf Course (Victorville) is located near the Interstate 15 in a more urbanized setting.

Additionally, the cost for water is handled separately by each course. With the Apple Valley Golf Course, the Town of Apple Valley utilizes the water rights originally purchased with the golf course. This means that water costs are minimal, as all water is pumped from the aquifer. With the Green Tree Golf Course, all water usage is charged to the golf course by the Victorville Water District and is reflected in the costs of golf course operations. For a comparison of the annual losses experienced by each golf course, Table 3 shows the General Fund cost to each City.

Table 3

				FY 2018-19	FY 2019-20
Apple Valley	FY 2015-16	FY 2016-17	FY 2017-18	Revised	Budget
General Fund Subsidy	\$ 349,968	\$ 333,748	\$ 436,601	\$ 450,000	\$ 443,936

				FY 2018-19	FY 2019-20
Victorville	FY 2015-16	FY 2016-17	FY 2017-18	Budget	Budget
Subsidy	\$ 564,709	\$ 553,905	\$ 521,427	\$ 578,246	\$ 481,557
Capital Transfer	214,115	0	0	0	0
Total General Fund Subsidy	\$ 778,824	\$ 553,905	\$ 521,427	\$ 578,246	\$ 481,557

Request for City Council Recommendation:

With the Golf Course operations contract with the Park District nearing expiration in September 2019, there are three options for the City Council's consideration. Option 1 is to continue operating the Golf Course and award Donovan Bros. the PSA, while conducting a feasibility study for a CFD to assist with funding the course. Option 2 is to repurpose the Golf Course to save City funds. Option 3 is to provide staff with alternative direction.

Option 1:

As outlined, it is anticipated that the FY 2019-20 Golf Course costs will be approximately \$1.2 million. Currently, the FY 2019-20 Budget contains approximately \$400,000 for Golf Course costs: \$300,000 for recycled water (the budget assumed that VVWRA would flow recycled water during October 2019) and \$100,000 for capital retention. To proceed with Donovan Bros., it is anticipated that General Fund reserves of \$800,000 would need to be allocated to the Golf Course. Furthermore, over the next five years, the Golf Course is expected to cost the General Fund over \$725,000 per year. This amount could be partially offset by the leasing of water rights. Table 4 shows the total potential cost to the General Fund over the next five years.

	2019-20	2020-21	2021-22	2022-23	2023-24
Table 4	Total	Total	Total	Total	Total
Cost of Operations to City	\$ 1,168,242	\$ 1,053,526	\$ 778,001	\$ 765,200	\$ 728,073
Leasing Water Rights					
Assumed Base Annual Production	N/A	203 AF	350 AF	350 AF	350 AF
Lease Rate per Acre Foot	N/A	\$ 601	\$ 631	\$ 663	\$ 696
Total Potential Revenue	N/A	\$ 122,003	\$ 220,850	\$ 232,050	\$ 243,600
Total City Cost with Lease Revenue Offset	\$ 1,168,242	\$ 931,523	\$ 557,151	\$ 533,150	\$ 484,473

It should be noted that costs identified in both Table 2 and Table 3 only identify the immediate need to replace the Golf Course roof and irrigation system. The tables do not identify a funding mechanism for the other deferred maintenance items (parking lot, updating the club house, air conditioning units, or replacement of the beverage coolers). Currently, there are no cost estimates for the other deferred items.

Should the City Council select Option 1, it is recommended that a CFD feasibility study be conducted to explore the potential of providing a funding mechanism for Golf Course operation and enhancements by the citizens who receive a direct benefit of living near the Golf Course. While the feasibility study will look into this issue in greater detail, an informal view of available data shows that houses near the Golf Course tend to have higher property values than those houses within the same area, but are without similar proximity. For example, a 2,400 square foot home with a view of the Golf Course has an estimated property value of \$365,000, while a similar home near E Avenue has a value of \$337,000. Without such a study and the formation of the potential CFD, it will prove difficult to maintain the Golf Course in future years, without depleting all General Fund reserves.

Additionally, the City will need to address the feasibility of continuing to use the driving range, as the zero-dollar lease is set to expire May 20, 2020. If the lessor does not continue their current terms, the City would have to pay additional costs to provide a driving range or decide to forego that amenity.

Option 2:

With this option, the Golf Course would be repurposed and cease operation solely as a golf course. This option would require capital investment in FY 2019-20 to repurpose the Golf Course. Additionally, there could be other costs associated with this option, such as lease buyouts for current golf course equipment, including 72 golf carts. After FY 2019-20, the costs will decrease as the City will no longer be required to fund Golf Course operations. To determine the costs of repurposing, a design study would need to be conducted.

FISCAL IMPACT

The following is a brief recap of the fiscal impact to Option 1. This recap shows the estimated operating cost, as well as the potential offset of leased water rights.

	2019-20	2020-21	2021-22	2022-23	2023-24
Option 1 Recap	Total	Total	Total	Total	Total
Cost of Operations to City	\$ 1,168,242	\$ 1,053,526	\$ 778,001	\$ 765,200	\$ 728,073
Leasing Water Rights					
Assumed Base Annual Production	N/A	203 AF	350 AF	350 AF	350 AF
Lease Rate per Acre Foot	N/A	\$ 601	\$ 631	\$ 663	\$ 696
Total Potential Revenue	N/A	\$ 122,003	\$ 220,850	\$ 232,050	\$ 243,600
Total City Cost with Lease Revenue Offset	\$ 1,168,242	\$ 931,523	\$ 557,151	\$ 533,150	\$ 484,473

Should Option 1 be selected, it is anticipated that a FY 2019-20 Year-End Budget Amendment of approximately \$800,000 will be needed from the General Fund. Furthermore, without additional golf course related revenue, it is expected General Fund reserves will be needed beginning in FY 2020-21 to cover the operational deficits.

With Option 2, the City will be required to spend funds on repurposing the Golf Course in FY 2019-20; however, the related costs in each fiscal year thereafter would decrease. A design study would need to be conducted to determine the FY 2019-20 cost of repurposing the golf course.

ALTERNATIVE(S)

1. Provide alternative direction to staff.

ATTACHMENT(S)

None.