6. The Golf Fund

- **At a final cost of $23,611,457, the renovation of Harding and Fleming Golf Courses was $7,583,847 or 47.3 percent over the original estimate of $16,027,610. After the City failed to obtain private monies to upgrade the golf courses, the City borrowed $16,627,627 in State Proposition 12 monies to complete the project. State Proposition 12 monies are intended primarily to fund neighborhood recreation and park projects in historically under-served or economically disadvantaged communities. Thus, by delaying the availability of State Proposition 12 funds for neighborhood projects, the Harding and Fleming Golf Courses' refurbishment was achieved at a significant opportunity cost to the rest of the City's recreation and park system.**

- **The Golf Fund is obligated to repay the $16,627,627 in State Proposition 12 monies and $2,238,218 in matching Open Space Funds, plus interest, to the Open Space Fund within 25 years. To date, the Department has only repaid $490,000 in interest payments. The Department will need to increase the FY 2005-2006 budgeted payment of $544,467 to $935,420 in order to meet the correct debt service schedule. The Department should repay the Open Space Fund as early as possible so that repayment will not take the full 25 years, thereby increasing the amount of funding available in the short to medium term for the Capital Program which is currently significantly under-funded.**

- **The Golf Fund is currently unable to fully recover the operating and debt repayment costs of the City's golf courses, let alone create reserves for future capital improvements at the substandard Lincoln and Sharp Golf Courses, or generate funding for other recreation and park facilities. In FY 2004-2005, the Golf Fund required a $536,372 allocation from the General Fund in order to balance. The Golf Fund receives insufficient revenues from (a) the fee structure and restrictions on non-resident play at Harding and Fleming Golf Courses, and (b) the decreasing play at Lincoln, Sharp, and Golden Gate Park Golf Courses.**

- **The October of 2005 World Golf Championships - American Express Championship tournament held at Harding and Fleming Golf Courses resulted in direct costs exceeding revenues by $141,619. This represents a significant opportunity cost for the Department because it is equivalent to the annual salary and mandatory fringe benefit costs of between 2.18 and 2.65 full time gardeners. While ensuring that such tournaments continue in order to benefit the City's tourism revenues, the Department should renegotiate the Master Tournament Agreement with PGA Tour, Inc. to ensure that the City makes a profit in the future.**

Over the last decade, the City has been grappling with the question of how to finance much needed capital improvements to the five golf courses operated by the Recreation and Park Department: the Golden Gate,[1] Harding and Fleming,[2] Lincoln,[3] and Sharp[4] Golf Courses. (A sixth City-owned golf course, the nine-hole Gleneagles Golf Course in McLaren Park, has been operated by leaseholders since 1980.[5]) To date, the City has achieved only partial success. While the Department has overseen a comprehensive refurbishment of the Harding and Fleming Golf Courses, and maintained the Golden Gate Golf Course adequately, the Lincoln and Sharp Golf Courses remain in a poor state of repair. Further, the refurbishment of the Harding and Fleming Golf Courses was achieved at a significant opportunity cost to the rest of the City's recreation and park system.

History

The City's ongoing practice has been to contract out all golf course operations except golf course maintenance which it has staffed by City employees. Historically, under this model, the City has funded neither the Department nor its leaseholders and contractors sufficiently to ensure the necessary level of ongoing investment in capital improvements and facility maintenance services. In the years that the golf courses generated surplus golf revenues, the surplus golf revenues were routinely absorbed by the General Fund.

Attempts to Privately Finance Golf Course Renovations

In FY 1996-97, the Mayor created a Mayor's Task Force on Golf to determine how to upgrade the five golf courses operated by the City. On October 16, 1997, the Department approved an assignment of the lease for the Harding, Fleming, and Lincoln Golf Courses to Arnold Palmer Golf Management Company, LLC for the six month duration of the lease term, pending the planned issuance of long-term leases in May of 1998. CCA Silband/GolfCorp, which had held the 15 year lease to operate Harding, Fleming, and Lincoln Golf Courses since April 22, 1983, wanted to assign the six month remainder of its lease to Arnold Palmer Golf Management Company LLC after CCA Silband/GolfCorp had decided that it would not rebid once its lease expired on April 30, 1998 due to dissatisfaction with the profit margin and the City's failure to invest in major course improvements. Further, a Controller's audit of CCA Silband/GolfCorp's compliance with the reporting and payment provisions of its lease, issued on October 16, 1997, was critical of CCA Silband/GolfCorp's reporting and payment procedures.

[1] The nine-hole Golden Gate Golf Course is located in Golden Gate Park.
[2] The 18-hole Harding Golf Course opened on July 18, 1925. The nine-hole Fleming Golf Course was opened in the center of the Harding Golf Course in 1961. Both the Harding and Fleming Golf Courses are located on land owned by the Public Utilities Commission which, in the 1950s, agreed that the Recreation and Park Department should manage and gain all revenues from the site.
[3] The 18-hole Lincoln Park Golf Course opened in 1910.
[4] The 18-hole Sharp Park Golf Course is located on land in Pacifica bequeathed to the City for recreational purposes.
[5] A new tenant took over the Gleneagles Golf Course lease in December of 2004 and, since that time, has made significant improvements to the golf course.

Previously, in 1995, Arnold Palmer Golf Management Company LLC had leased the Presidio Golf Course from the National Park Service and, through increases in green fees, had financed capital upgrades. The Recreation and Park Department was interested to see if a private golf management company, such as Arnold Palmer Golf Management Company LLC, would similarly finance capital improvements at the Harding, Fleming, and Lincoln Golf Courses. One of the assignment agreement's provisions was for Arnold Palmer Golf Management Company LLC to expend $100,000 on refurbishment of the Harding and Fleming Golf Courses' driving range and clubhouse and the Lincoln Golf Course clubhouse in fulfillment of a punch list of required improvements attached to the leases. Arnold Palmer Golf Management Company LLC swiftly complied with this contractual requirement.

In 1998, key members of the San Francisco golfing community convinced the Professional Golfers' Association (PGA) Tour, Inc. and the City that the Harding and Fleming Golf Courses could be renovated to PGA Tour, Inc.'s tournament standards. Discussion commenced between PGA Tour, Inc. and the City about the Harding and Fleming Golf Courses hosting PGA Tour Championship tournaments,[6] and housing a First Tee Program there, if the golf courses were renovated. The First Tee Program was launched in 1997 by the World Golf Federation and PGA Tour, Inc. to promote golf among youth. Staging PGA Tour tournaments on municipal courses was seen by PGA Tour, Inc. as a way of encouraging access to golf, and teaching certain core values through golf, to a broader range of the population. No major tournament had been held at the Harding and Fleming Golf Courses since 1981.[7] Although the Harding and Fleming Golf Courses continued to operate at near effective capacity, by June of 1998 their condition had deteriorated to the point that their fairways served as a parking lot for attendees at the United States Open Championship held at the adjacent private Olympic Club.[8] Arnold Palmer Golf Management Company LLC and other private golf management companies expressed their interest in making the necessary capital investments to improve Harding and Fleming Golf Courses so that PGA Tour Championship tournament could be held there early in the next decade.

The City began investigating how to privately fund capital improvements for its golf courses which would require major capital investment, the retention of the Department's maintenance crews, major tournaments at the Harding and Fleming Golf Courses, and ongoing maintenance at a high level. During this time, amid considerable public and union concern about any future contractor's impact on green fees and City employees, Arnold Palmer Golf Management Company LLC continued on a month-to-month basis. Due to the lack of a long-term contract, Arnold Palmer Golf Management Company LLC was reluctant to make any major capital investments.

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[6] The PGA Tour Championship is one of golf's highest profile international tournaments, featuring the PGA Tour's top 30 money winners.

[7] A PGA Senior Tournament, the Eureka Federal Savings Pro-Am, was held at the Harding and Fleming Golf Courses in 1981.

[8] For a week, regular golf course operations ceased at both Harding and Fleming Golf Courses in return from the United States Golf Association of (a) $50,000 in rent, (b) $150,000 in golf course improvements, (c) the services of a United States Golf Association agronomist, (d) 75 United States Open Championship tickets for use by San Francisco juniors, and (e) repair of any damage to the courses within 48 hours.

In June of 1999, Economics Research Associates, which had been retained by the City to evaluate the market and economic viability of the proposed golf course redevelopment, and to assist in developing an implementation strategy, issued a report on the *Reconstruction Potential of the Harding Park/Fleming Golf Complex*. The consultants determined that "Harding Park has extraordinary potential to be a very valuable asset for the City and its residents," and that the PGA Tour, Inc.'s interest in using the Harding and Fleming Golf Courses for the PGA Tour Championship "has offered the City the means to capitalize on this opportunity and realize the full potential of the asset." The consultants recommended the long-term retention of a professional golf course management firm to manage, operate, and renovate the courses, while retaining the Department's maintenance staff.

On July 1, 1999, the Mayor and PGA Tour, Inc. announced a private-financing plan which would privately fund the course improvements while ensuring an ongoing role for the Department's maintenance staff. The mayoral announcement was followed by a Request for Qualifications (July 16, 1999) and a Request for Proposals (September 20, 1999) for the lease, management, operation, and renovation of Harding and Fleming Golf Courses whereby:

- A leaseholder, to be selected through competitive bid for a 35 year ground lease, and corporate sponsors would invest an estimated $9 million, plus construction financing costs, into refurbishing Harding and Fleming Golf Courses' greens, clubhouse, and maintenance equipment. There would be no taxpayer contribution. The leaseholder would guarantee the City (a) a "holding rent" of $1 million during construction,[9] (b) a base annual rent of $1.7 million,[10] and (c) City participation in surplus revenues. The leaseholder would fulfil these revenue guarantees while minimizing the impact on residents' green fees and current levels of play. Instead, a limited number of non-resident and tourist[11] rounds would bear a greatly disproportionate share of the capital costs.

- PGA Tour, Inc. committed to bring the PGA Tour Championship to the Harding and Fleming Golf Courses every three years, beginning in November of 2002.

- The designs for the course renovations would be provided by the PGA Tour's Design Services, Inc. Both the Department and PGA Tour, Inc. would both have review and approval rights over the golf course designs and construction. Construction oversight services would be donated by Mr. Sandy Tatum.

- A First Tee Program would be housed at the Fleming Golf Course with its own practice area and teaching facility (a renovation of the restaurant which existed at that time).

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[9] The $1 million "holding rent" was intended as a capitalization and recovery of the City's net income stream during the 12 month construction period.

[10] The $1.7 million base annual rent included the costs of all City maintenance employees.

[11] "Tourists" are defined as players from outside the nine-county Bay Area.

- Recreation and Park Department staff would be retained to maintain the Harding and Fleming Golf Courses. The number of City staff maintaining the courses would increase. The leaseholder would be required to provide specialized training.

It has been estimated that the PGA Tour Championship tournament could generate up to $40 million in revenues for the City per event.[12] It is not possible to validate this estimate because the City's Convention and Visitors Bureau does not collect statistics on tourism generated by mass events.

Four management firms submitted final bids: American Golf Corporation, Arnold Palmer Golf Management Company LLC, Kemper Sports Management, and BSL Golf Corporation.

On January 20, 2000, the Recreation and Park Commission selected Arnold Palmer Golf Management Company LLC which undertook to:

- Make annual lease payments of $1.8 million (Consumer Price Index adjusted over the lease term) to the City over 35 years, plus participation rent, for a projected average total rent of $3.8 million per year, and the mandatory $1 million in "holding rent" during the 12 month construction period.

- Invest $11.3 million into the Harding and Fleming Golf Courses and their clubhouse.

- Reserve $250,000 annually for a capital improvement program (Consumer Price Index adjusted).

- Invest $10 million in capital improvements in the 21st year of the contract.

- Donate 10 percent of its after-tax net profits to San Francisco-based companies, groups, or non-profit organizations, selected by the City.

- Retain City staff as the Harding and Fleming Golf Courses' maintenance crews, and fund a $100,000 training program for them.

- Fund $800,000 in equipment purchases.

- Ensure that a PGA Tour, Inc. tournament could be held at the Harding and Fleming Golf Courses every three years beginning in 2002.

- Provide a site for the First Tee Program with the goal of serving 1,500 disadvantaged youth yearly after the first three years.

- Minimize green fee increases for residents and guarantee 65 percent of total tee times for residents, with much higher fees for non-residents and tourists.

[12] A Recreation and Park Department memorandum to the Budget Analyst's Office prepared by Ms. Jaci Fong (March 20, 2002) stated "… the PGA TOUR estimates the economic impact to the community at $30 to $40 million each time the Tournament is hosted" (page 3).

However, a year later on January 16, 2001, Arnold Palmer Golf Management Company LLC withdrew from the project citing concerns about the economy and likely project profitability given the City's strict requirements regarding low resident greens fees, high percentage of resident play, and retention of City staffing and control. At that time, there was a downturn in the golf financing business, with the Bank of America closing its golf course development lending division, and rising interest rates. Arnold Palmer Golf Management Company LLC was facing loan interest rates approximating 12 percent which were considerably higher than originally anticipated. Construction costs were also rising. In addition to withdrawing from the Harding and Fleming Golf Course Project, Arnold Palmer Golf Management Company LLC ceased operating the pro shops at the Harding and Fleming, Lincoln, and Golden Gate Golf Courses. Subsequent discussions about private financing with Kemper Sports Management, the second choice during the 2000 bidding process, and American Golf Corporation also ended unproductively. In the meantime, after a competitive bid process, the Harding and Fleming Golf Courses' operations were contracted out to a former employee of Arnold Palmer Golf Management Company, LLC on a month-to-month basis.

Previously, using the public-private partnership model, the City had successfully used private investment to pay for capital improvement projects in exchange for long-term leasehold interests in City-owned facilities. Key examples included the renovations of the Beach Chalet in Golden Gate Park, and Pier One and the Ferry Building at the Port. However, this approach did not work for the Harding and Fleming Golf Course renovation projects given the state of the economy at that time and the City's restrictive policy parameters with regard to lower resident fees, the required amount of resident play, the mandatory use of the Department's maintenance workers, and overall City control.

Public Financing of Golf Course Renovations

During 2001, the City considered the public financing options available for refurbishing Harding and Fleming Golf Courses without issuing new general obligation bonds which require two-thirds voter approval or new lease revenue bonds which require majority voter approval. The available public financing options considered included:

- Creation of a non-profit corporation closely controlled by the City to lease the golf courses from the City and pay for the improvements by issuing debt on behalf of the City. This model was used for the construction, improvement, and/or renovation of some of the City's parking garages, including Fifth and Mission, Sutter and Stockton, and Union Square Park. The debt would be secured by golf course revenues.

- City-issued bonds backed by the Open Space Fund, to be repaid by golf course revenues.

- Financing by the 2000 Neighborhood Park Bonds, backed by the Open Space Fund, and repaid by golf course revenues. Subsequently, the Recreation and Park

Department identified unspent State Proposition 12[13] money which could be used for the Harding and Fleming Golf Courses' renovation projects instead of the 2000 Neighborhood Park Bonds. Revenues from the renovated golf courses could be paid back to the Open Space Fund and, in effect, the State Proposition 12 money would be used twice. This approach, which lowered the borrowing costs and removed concerns about privatization, is discussed in more detail below.

In April of 2002, the Board of Supervisors approved a variety of key initiatives:

1. The renovation of Harding and Fleming Golf Courses would be funded by borrowing $13,127,627 in State Proposition 12 funding to be reimbursed by greens fees through a new "San Francisco Recreation and Park Golf Fund." The total estimated renovation projects cost was $16,027,610, including a new clubhouse. At that time, the Department estimated that only $26,400 (for championship golf tees) of the total $12,791,110 in estimated construction costs for the Harding and Fleming Golf Courses' renovation projects were attributable to PGA Tour Championship requirements. The Department contended that all other renovation costs would have been incurred anyway. By the time the Harding and Fleming Golf Course renovations were complete, the total cost had increased from $16,027,610 to the $23,611,457 shown in Table 6.1 below. This represents a total increase of $7,583,847 million or 47.3 percent. According to a March 4, 2004 memorandum from the Department to the Budget Analyst, the additional expenditures were required due to "unforeseen project costs" related to (a) mandatory destruction of old wells discovered on the site, (b) demolition of buildings previously intended for re-use, (c) golf course drainage and erosion problems, (d) additional maintenance building and clubhouse facilities, and (e) new utilities.

2. The creation of the Golf Fund. By adding Section 10.100-256 to the San Francisco Administrative Code, the Board of Supervisors created the San Francisco Recreation and Park Golf Fund, effective July 1, 2002, into which all revenues derived from the City's golf courses, including greens fees and concession revenues, would be restricted to the following uses (listed in priority order):

   - Operations and maintenance of the City's golf courses.

   - Annual set aside of $250,000 (Consumer Price Index adjusted) for capital improvements and facilities maintenance at the Harding and Fleming Golf Courses.

   - Reimbursement to the Open Space Fund for the full cost of the Harding and Fleming Golf Courses' renovation projects paid from the proceeds of State Proposition 12 grant funding and matching Open Space Fund monies, plus interest.[14] In any year that the actual annual net cash flow received from the

[13] State Proposition 12 was approved by voters in November of 2002.
[14] Each year the Recreation and Park Commission is charged with determining an interest rate, provided that the chosen interest rate would at least equal the greater of (a) the City's cost of borrowing funds under the Open Space Fund if and to the extent the City has outstanding bonded indebtedness under the Open

Harding and Fleming Golf Courses exceeds the projected net cash flow, 25 percent of that amount is to be applied to the above reimbursement to the Open Space Fund, increasing to 50 percent if the net cash flow exceeds $1 million. Reimbursement commences upon completion of the project and is required to be completed within 25 years.

- Capital improvements at any of the golf courses.

- Debt service related to capital improvements at any of the golf courses.

- Capital improvements to Recreation and Park Department properties contiguous to all of the Department's golf courses.

3. New greens fees for the Harding and Fleming Golf Courses.

4. A Master Tournament Agreement with PGA Tour, Inc. through December 31, 2015 with three nine-year extension options. Under that Master Tournament Agreement, PGA Tour, Inc. would bring a PGA Tour Championship tournament to the Harding and Fleming Golf Courses three times between 2006 and 2015, with PGA Tour, Inc. paying the City:

   - An up-front use fee of $250,000 (Consumer Price Index adjusted).

   - Up to an additional $130,000 to defray the City's costs related to each tournament in excess of the $250,000 use fee.

   - Up to $500,000 to the First Tee Program per tournament (Consumer Price Index adjusted), estimated to serve 400 youth annually. Of that amount, $250,000 was automatically payable for each PGA Tour Championship tournament. Up to a further $250,000 was payable if PGA Tour, Inc. realized net income from a tournament.

   - A one-time contribution of up to $250,000 for improvements to Harding and Fleming Golf Courses and their surrounding areas.

   - 50 percent of all remaining net revenues.

   In return, the City would maintain the Harding and Fleming Golf Courses up to PGA Tour, Inc.'s tournament standards. The Department estimated that maintaining the Harding and Fleming Golf Courses to that standard would cost $315,000 in overtime and $50,000 in materials and supplies, for a total cost of $365,000 per tournament, and that the courses would lose an estimated $148,500 - $168,500 in revenues per tournament. The Department projected that these costs and lost revenues would be

Space Fund at the time the Commission makes such determination, or (b) 1 percent less than the prime domestic commercial lending rate in effect at such time by a major financial institution (to be selected by the City), compounded annually. The payments would be amortized over 25 years, subject to acceleration if the City earns bonus profits.

more than offset by the PGA Tour, Inc.'s payments to the City and by increased use of Harding and Fleming Golf Courses by higher paying non-resident and tourist golfers. Once the Harding and Fleming Golf Courses' renovation projects were complete, the Department anticipated an ongoing materials and supplies cost increase of $100,000 annually, plus the labor costs of an additional 9.31 full time equivalent staff. These additional costs were to be paid for by the Golf Fund.

Subsequently, the PGA Tour Championship was relocated to Atlanta, Georgia, the home of the PGA Tour Championship's new sponsor, Coca Cola. In March of 2004, the Master Tournament Agreement was amended to provide for the use of the Harding and Fleming Golf Courses by either the PGA Tour Championship tournament, the American Express Championship tournament, or the NEC Invitational tournament. Under the amended Master Tournament Agreement, there would be five tournaments held over a 15 year period between 2005 and 2020, with three nine-year extension options. The Master Tournament Agreement's financial terms were altered to:

- An up-front use fee of $500,000 per tournament (Consumer Price Index adjusted). This would result in $2,500,000 (plus any Consumer Price Index adjustments) of direct payments to the City over 15 years.

- A set payment of $500,000 per tournament (Consumer Price Index adjusted) to the First Tee Program. This would result in $2,500,000 (plus any Consumer Price Index adjustments) of direct payments to the First Tee Program over 15 years.

- A one-time contribution of $100,000 to defray the design costs for a new clubhouse.

- Pro bono design services for the Lincoln and Sharp Golf Courses valued at $1 million. The Department advises that this investment has not yet been made because it would not be prudent to have the PGA Tour, Inc. embark on design services for the golf courses until the Department has developed overall plans for each golf course. For example, in the case of Lincoln Golf Course, the Department might opt to relocate the clubhouse, the cart barn, and/or the maintenance facility. Relocation of any of these buildings might change the golf course's design and routing. In addition, a sizable portion of the services included in the $1 million estimate would occur during the actual construction phase. Construction funding has yet to be identified. The Department has no estimate as to when the PGA Tour, Inc.'s design services will be requested.

- Periodic agronomic reviews and training for City golf course maintenance staff, approximately three times per year.

- 6.66 percent of any gross operating revenues in excess of $10 million for each tournament, to be paid to the City and the First Tee Program.

Therefore, under the revised Master Tournament Agreement, the City would receive between $120,000 and $250,000 more per tournament (Consumer Price Index adjusted), the First Tee Program would be guaranteed to receive a full $500,000 per tournament (Consumer Price Index adjusted), there would be two more tournaments, and the first tournament would be held in 2005 rather than 2006. PGA Tour, Inc. maintained its right to pull out of the agreement if the Harding and Fleming Golf Courses' conditions are not maintained to PGA Tour, Inc.'s standards.

The Harding and Fleming Golf Course reopening date was delayed from July 4, 2003 to August 22, 2003 for a variety of reasons:

- Construction of the Harding and Fleming Golf Courses' renovation projects began in May of 2002. Erosion and drainage problems caused by storms in December of 2002 required landscape reconstruction and retrofitting of the drainage sumps at a cost of $2,435,390 to the City. The drainage system had been designed by the pro bono PGA Tour Design Services, Inc. Therefore, there was no contract against which the City could seek damages. While PGA Tour, Inc. donated additional design services to rectify the erosion and flooding problems, it provided no extra funding.

- The City's Purchaser objected to the Recreation and Park Department's sole source purchasing of $1.2 million worth of new maintenance equipment and required a competitive bid process which also delayed the reopening date.

- It took longer than scheduled for the Department's maintenance crews to achieve the required golf course maintenance standards, in part due to the delay in obtaining the required new maintenance equipment.

In April of 2003, after a competitive bid process, the City contracted with Kemper Sports Management to manage the Harding and Fleming Golf Courses at a cost of $192,000 per year, plus 5 percent of any gross revenues above $6 million annually. Kemper Sports Management was selected in part for its experience in running major golf tournaments and youth golf programs, and working with municipalities. The maintenance crews continue to be City employees managed by Recreation and Park Department supervisors. A Kemper Sports Management agronomist[15] serves as liaison between Kemper Sports Management and the Department's maintenance crews.

The Harding and Fleming Golf Courses reopened on August 22, 2003 without a new clubhouse due to cost overruns. However, PGA Tour, Inc. was not prepared to use the temporary clubhouse made out of trailers at any future tournaments. Therefore, a new clubhouse was completed in August of 2005 at a cost of $8.3 million from a variety of public and private funding sources (see Table 6.1 below). The First Tee Program did not commence until April of 2004 due to the need for ongoing fundraising, volunteer training, and the beginning of spring weather.

[15] An agronomist is an individual trained and experienced in the application of various soil and plant sciences.

In March of 2004, the City entered into a contract with PGA Tour, Inc. for five tournaments at the Harding and Fleming Golf Courses during a 15 year period between January 1, 2005 and December 31, 2020. On June 22, 2004, the Mayor and PGA Tour, Inc. officially announced that the World Golf Championships - American Express Championship would be held at the Harding and Fleming Golf Courses in October of 2005, as the first of five PGA Tour tournaments to be played at the Harding and Fleming Golf Courses over 15 years, so long as the golf course conditions continued to meet PGA Tour, Inc.'s standards. The World Golf Championships - American Express Championship proceeded smoothly between October 4 - 9, 2005. Discussions are being held with the United States Golf Association about using the Harding and Fleming Golf Courses for future United States Golf Association tournaments. An analysis of the costs and revenues associated with the World Golf Championships - American Express Championship is outlined below.

Funding Sources

Table 6.1 below summarizes the variety of funding sources for the Harding and Fleming Golf Courses' renovation projects:

Table 6.1

Total Appropriations for the Harding and Fleming Golf Courses' Renovation Projects, By Funding Source

Project	Project Status	State Proposition 12 Grant Funds	Matching Open Space Fund	Gifts	Other Departments' Funds	Total
Golf Course Renovation	Closed Out	$9,529,339	$1,369,498	-	-	$10,898,837
Maintenance Facility	Completed	2,071,088	402,412	-	-	2,473,500
Parking Lot	Closed Out	1,527,200	426,308	-	-	1,953,508
Clubhouse	Construction	3,500,000	40,000	3,395,612	1,350,000	8,285,612
Totals:		**$16,627,627**	**$2,238,218**	**$3,395,612**	**$1,350,000**	**$23,611,457**

Source: Recreation and Park Department, *RPD Capital Improvement Monthly Expenditure Report as of August 31, 2005*

The Department's *Assessment Study: 1998 - 1999* (September of 1999) estimated the costs of renovating the Harding and Fleming Golf Courses at $5.5 million.[16] The final expenditure was $10,703,593, or $195,244 less than the total appropriation of $10,898,837 shown in Table 6.1 above. In addition, the Recreation and Park Department

[16] The maintenance facility, parking lot, and clubhouse capital improvement projects were not identified in the *Assessment Study: 1998 - 1999*.

received $750,000 worth of golf course design and engineering services provided by PGA Tour, Inc. under a private contract with the First Tee Program which, in turn, gifted those services to the City.

The final expenditure of $2,421,258 on the maintenance facility was $52,242 less than the total appropriation of $2,473,500.

In terms of the above $195,244 and $52,242 under-expenditures, the Department advises that the maintenance facility project is not yet completely closed out, and therefore the Department must (a) include the final labor cost and encumbrance information from the Department of Public Works, and (b) make final accounting adjustments to the split between State grant funds and local funds. Although maintenance facility construction was substantially complete by September of 2004, when Department staff moved in and began maintaining the Harding and Fleming Golf Courses from the new facility, the contractor had multiple stop notices totaling over $200,000 filed against the project which have only recently been settled legally. The Department can now proceed with final acceptance, final payment, and project close out, which is expected to take two to three months. Once the project has been completely closed out, any surplus local funds will be redistributed to other capital projects which are short of funds.

State Grants

As shown in Table 6.1 above, the funding sources for the Harding and Fleming Golf Courses' renovation projects included $16,627,627 from State Proposition 12 (Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond Act of 2000) grant funds which represented approximately 70.4 percent of the total appropriations of $23,611,457 for the renovation projects. For the completed golf course, maintenance facility, and parking lot projects, the City received $13,127,627 in State Proposition 12 grant funds from two local assistance grant programs designed to support high-priority parks and recreation projects:

- $8,111,000 under the Per Capita Grant Program. This is a block grant program determined by the City's population.

- $5,016,627 under the Roberti-Z'berg-Harris Urban Open Space and Recreational Program (RZH Program). This block grant is intended for "heavily urban" areas such as San Francisco. The grant funds were intended for projects which meet the needs of those living in the "most heavily populated and most economically disadvantaged areas within each jurisdiction."

The Department used a further $3,500,000 in State Proposition 12 Per Capita Program grant funds on the clubhouse project.

On March 4, 2003, the Park, Recreation and Open Space Advisory Committee supported the Department's recommendation that the State Proposition 12 grant funds be borrowed for the Harding and Fleming Golf Courses' renovation projects and repaid:

> … at a rate equal to the annual fiscal year interest rate earned by the City and County of San Francisco's 'Pooled Interest Account' invested and managed by the Treasurer. The rate will vary annually, based on the prior year's interest rate. The loan will be repaid in 25 installments paid at one installment per year with revenue from the Golf Fund.

The Park, Recreation and Open Space Advisory Committee supported the proposal that State Proposition 12 grant funds be borrowed for the Harding and Fleming Golf Courses' renovation projects because (a) projected surplus Golf Fund monies would be available to fund improvements to parks adjacent to the Harding and Fleming Golf Courses, (b) the interest payable on the borrowed funds would increase the total funding available for parks, (c) a First Tee Program would be established, and (d) the Department advised that it was already working to capacity on its Capital Program Phase I and, therefore, a delay in starting new projects funded by State Proposition 12 grant funds would have minimal impact. The Park, Recreation and Open Space Advisory Committee unanimously recommended that a stipulation be added that "the repaid funds to the Open Space Fund be used specifically for capital projects in neighborhood parks."

In his report on the establishment of the Golf Fund to the March 27, 2002 meeting of the Board of Supervisors Finance Committee (File 02-0197), the Budget Analyst reported the Department's advice that:

> The proposed Golf Fund would reimburse the Open Space Fund because the original plan to renovate Harding Park would have required the issuance of lease revenue bonds according to Ms. Elizabeth Goldstein, General Manager of [the Recreation and Park Department]. However, the use of available State grant funds for this purpose is a more efficient use of available funds. The use of lease revenue bond proceeds to fund the renovation project would have required the issuance of such bonds in a par amount that included bond issuance costs and capitalized interest in addition to total renovation project cost of $16,027,610. According to Ms. Monique Moyer, Director of the Mayor's Office of Public Finance, a total lease revenue bond issuance of approximately $21.0 million would have been required to fund the renovation project costs, required issuance costs and capitalized interest for the Harding Park renovation project.

The Department advises that the State approved all reimbursements requested by the City under the State Proposition 12 grant program. As the Department points out, the State would not have done so had the State believed that the Harding and Fleming Golf Courses' renovation projects did not meet the State's bond guidelines. Nevertheless, in its 2005 report, *California Park Bond Analysis*, the Planning and Conservation League Foundation[17] reviewed how the various recipients of State Proposition 12 grant funds

[17] The Sacramento-based Planning and Conservation League Foundation is a non-profit organization established in 1972 to provide environmental public policy research and education campaigns in California. It was founded under the auspices of the Sacramento-based Planning and Conservation League, a non-profit lobbying organization founded in 1965. The Planning and Conservation League is a statewide coalition of individuals and conservation organizations which reviews environmental bills under consideration by the California legislature and which sponsors environmental initiatives.

expended those funds and raised concerns about the choice made by San Francisco, as the only city to expend all of its funds on a single initiative. The Planning and Conservation League Foundation's report noted that:

- The Harding and Fleming Golf Courses are not located in a highly populated or economically disadvantaged area, the focus of the RZH Program. The area within a one mile radius of the Harding and Fleming Golf Courses has a population density that is only 36 percent of the City's overall density, and there are 48.07 park acres per 1,000 people, compared to 9.52 park acres per 1,000 people for the City as a whole, a fivefold difference. The area has significantly fewer people in poverty (6.1 percent versus 11.3 percent) or unemployment (3.8 percent versus 4.6 percent), and a higher medium household income ($62,561 versus $59,141, an approximately 5.8 percent difference). "It can be concluded, then, that aside from the funds allocated to the First Tee Program, the City of San Francisco chose not to use either local assistance grant program to address the parks and recreation needs of historically underserved or economically disadvantaged communities," according to the report. This is in spite of the State Proposition 12 legislation's direction that RZH Program funds, of which San Francisco received $5,016,627, be "expended for high-priority projects that satisfy the most urgent park and recreation needs, with emphasis on unmet needs in the most heavily populated and most economically disadvantaged areas within each jurisdiction."

- The Department's own *Recreation Assessment Report* (August of 2004) ranked golf courses as the sixteenth most important recreational facilities out of 19 categories of recreational facilities.[18] Therefore, the report concluded, it is "highly questionable that the majority of San Francisco residents would agree that the Harding Park renovation satisfied one of the city's most pressing recreation needs."

- The length of time it takes the Golf Fund to repay the $5,016,627 in RZH Program funds (up to 25 years) is the length of time in which other recreation and park projects cannot be funded in underserved and economically disadvantaged communities, as intended by the RZH Program legislation. The report expressed concern that "there is nothing to ensure that any of the recovered funds will be used in densely populated and economically disadvantaged areas."

Since its initial support for the borrowing of the State Proposition 12 funds, the Park, Recreation and Open Space Advisory Committee has expressed its concerns about the slow repayment from the Golf Fund to the Open Space Fund. This concern has been echoed by community organizations.

Matching Open Space Funds

As shown in Table 6.1 above, the funding sources for the Harding and Fleming Golf Courses' renovation projects included $2,238,218 from the Open Space Fund which

[18] This result was based on a random sample of 1,035 households. The results of that survey have a 95 percent level of confidence with a precision of at least +/- 3 percent.

represents approximately 9.5 percent of the renovation projects' total appropriations of $23,611,457. In order to provide State bond funds, the State required local matching funds from the City. In order to comply, the Board of Supervisors appropriated Open Space Funds in the FY 2002-2003 budget for the local match. These local matching funds are being repaid to the Open Space Fund by the Golf Fund.

Repayments to the Open Space Fund

Upon completion of the Harding and Fleming Golf Course projects in FY 2005-2006, the Golf Fund is required to begin paying back the full $16,627,627 in State Proposition 12 grant funds borrowed in 2002 to fund the Harding and Fleming Golf Courses' renovation projects, plus interest. In FY 2003-2004 and FY 2004-2005, as shown in Table 6.2 below, the Golf Fund has made interest payments totaling $479,080. In FY 2005-2006 and FY 2006-2007, the Golf Fund is budgeted to make further principal and interest payments totaling $1,961,542.

Table 6.2

Repayments to the Open Space Fund

Year	Principal Amount	Percentage of $16,627,627 Borrowed	Interest Amount	Annual Total
FY 2003-2004	$0	Interest only	$150,000	$150,000
FY 2004-2005	0	Interest only	329,080	329,080
FY 2005-2006 (budgeted)	544,467	3.3%	0	544,467
FY 2006-2007 (projected)	370,000	2.2%	1,047,075	1,417,075
TOTAL:	**$914,467**	**5.5%**	**$1,562,155**	**$2,440,622**

Source: Recreation and Park Department

As noted above, the Administrative Code establishes a hierarchy for Golf Fund revenues that ranks golf course operations and maintenance as the first priority, a $250,000 annual set aside for Harding and Fleming Golf Course capital projects as second priority, and repayment of the Open Space Fund as third priority.

The Department advises that it has only recently realized that the debt service schedule for Golf Fund payments to the Open Space Fund, as approved by the Recreation and Park Commission in 2002, was incorrect because it did not assume the interest rate at 1 percent less than the prime rate. The Department has worked with the Mayor's Office of Public Finance to generate a revised debt service schedule based on the current prime lending rate. The Department advises that the proposed FY 2005-2006 payment of $544,467 does not comply with the revised debt service schedule and, therefore, will require an additional $390,953 to complete the first revised debt service payment of $935,420.

The Department advises that more expeditious repayment of the State Proposition 12 funds will depend on the financial health of the Golf Fund which in turn is significantly affected by the Harding and Fleming Golf Courses' fee structure and permitted non-resident usage. Currently, far from being self-sufficient or generating surplus revenues, in FY 2004-2005 the Golf Fund required a $536,372 transfer from the General Fund in order to balance that year's budget, as shown in Table 6.3 below.

Table 6.3

Golf Revenues and Expenditures, FY 2002-2003 Through FY 2005-2006

	FY 2002-2003 Budget	FY 2002-2003 Actual	FY 2002-2003 Variance	FY 2003-2004 Budget	FY 2003-2004 Actual	FY 2003-2004 Variance	FY 2004-2005 Budget	FY 2004-2005 Actual	FY 2004-2005 Variance	FY 2005-2006 Budget
Revenues										
Golf Green Fees	$3,701,000	$3,255,710	(445,290)	$7,332,800	6,356,368	(976,432)	$7,687,000	$6,324,574	($1,362,426)	$7,732,000
Concessions	285,000	258,207	(26,793)	1,832,600	795,259	(1,037,341)	1,590,000	1,676,318	86,318	3,015,000
Operating Transfer from General Fund	0	0	0	0	0	0	536,372	536,372	0	0
Beginning Fund Balance	0	0	0	0	468	468	155,347	155,347	0	197,233
Interest Earned	0	5,257	5,257	20,000	(1,296)	(21,296)	10,000	5,433	(4,567)	10,000
Total Revenues:	**3,986,000**	**3,519,174**	**(466,826)**	**9,185,400**	**7,150,799**	**(2,034,601)**	**9,978,719**	**8,698,044**	**(1,280,675)**	**10,954,233**
Expenditures										
Total Expenditures:	**3,986,000**	**3,518,706**	**(467,294)**	**9,158,433**	**6,995,452**	**(2,162,981)**	**9,936,861**	**8,500,811**	**(1,436,050)**	**10,877,316**
Surplus / (Deficit)	**$0**	**$468**	**$468**	**$26,967**	**$155,347**	**$128,380**	**$41,858**	**$197,233**	**$155,375**	**$76,917**

Notes:

1. In FY 2005-2006 structural maintenance staff are budgeted in the Golf Fund for the first time. Therefore the Golf Fund budgets and actual expenditures prior to FY 2005-2006 were underestimates.
2. City and Department overhead was first budgeted in FY 2003-2004. Therefore, the FY 2002-2003 budget and actual expenditures were a significant underestimate.

Source: Recreation and Park Department

In contrast to the need for a $536,372 transfer from the General Fund in order to balance the FY 2004-2005 budget, a September 19, 2001 pro forma financial analysis prepared by Economics Research Associates for the Department projected a net operating income of $6,471,000 over the first six years of the renovated Harding and Fleming Golf Courses' operation. This net operating income was intended to fund the Administrative Code's hierarchy for Golf Fund revenues that ranks golf course operations and maintenance as the first priority, a $250,000 annual set aside for Harding and Fleming Golf Course capital projects as second priority, and repayment of the Open Space Fund as third priority.

Revenues

PGA Tour, Inc.'s Payments to the City

To date, PGA Tour, Inc. has paid the City $500,000 per the Department's Master Tournament Agreement with PGA Tour, Inc., plus a one-time $100,000 capital contribution to the Harding and Fleming Golf Course Clubhouse construction project. Table 6.4 below summarizes the expenses and revenues of the World Golf Championships - American Express Championship tournament held at Harding and Fleming Golf Courses on October 4 - 9, 2005. Table 6.4 does not include PGA Tour, Inc.'s one-time $100,000 capital contribution because that will not be replicated for future PGA Tour, Inc. tournaments.

The City is eligible to receive 6.66 percent of any gross operating revenues in excess of $10 million for each PGA Tour, Inc. tournament held at the Harding and Fleming Golf Courses, in the unlikely event that any tournament generates such high revenues. Under the Master Tournament Agreement, PGA Tour, Inc. has 120 days from the end of the World Golf Championships - American Express Championship tournament to provide an accounting of the revenues generated by the tournament. Therefore, the Department advises that it will not know until January of 2006 whether or not it will receive a percentage payment from surplus tournament revenues.

Table 6.4

World Golf Championships - American Express Championship, October 4 - 9, 2005: Costs and Revenues

Recreation and Park Department's Direct Costs:		
Salary + mandatory fringe benefits for additional staff at Harding and Fleming Golf Courses		$37,000
Overtime		157,000
Premium Pay		3,500
Practice Tee Construction		25,400
Non-salary expenditures		107,000
	Subtotal of Direct Costs:	329,900
Decreased Revenues		
Decreased revenues in September of 2005 compared to September of 2004		220,096
Decreased revenues in October of 2005 compared to October of 2004		91,623
	Subtotal of Decreased Revenues:	311,719
Total Direct Costs and Decreased Revenues		641,619
Total PGA Contribution		(500,000)
	Uncompensated Direct Costs to Recreation and Park Department	**$141,619**

Source: Recreation and Park Department

Based on the information contained in Table 6.4 above, it appears unlikely that the PGA Tour, Inc.'s direct payments to the City for future tournaments will fully recompense the City for its direct costs. The Department needs to renegotiate its Master Tournament Agreement with PGA Tour, Inc. to either (a) negotiate more advantageous terms for the City, so that it fully recovers the Department's direct costs and makes a profit, or (b) terminate the agreement. If holding tournaments on municipal golf courses is an important business objective of PGA Tour, Inc., there is no reason why the City cannot make a profit from hosting such tournaments. Termination of the Master Tournament Agreement would have an unquantifiable impact on the City tourism revenues generated by PGA Tour, Inc. tournaments, none of which directly accrue to the Golf Fund or the Recreation and Park Department, and would cease PGA Tour, Inc. payments to the Harding and Fleming Golf Courses' First Tee Program. However, termination of the Master Tournament Agreement would also prevent the Department from incurring unrecompensed direct expenses of at least $141,619 per tournament. This is equivalent to the annual salary and mandatory fringe benefit costs of between 2.18 and 2.65 full time equivalent Classification 3417 Gardeners ($53,486 - $64,928 per year) and therefore represents a significant opportunity cost for the Department.

Golf Course Rounds and Revenues

All Golf Courses

Since 2000, the number of rounds played at the Lincoln Park Golf Course has fallen by 50 percent and the number of rounds played at the Sharp Park Golf Course has fallen by 38 percent. The Department advises that the decline in rounds in FY 2004-2005 was exacerbated, to some degree, by the extraordinary amount of rain experienced by the City that winter. Nevertheless, the general downward trend experienced by the Lincoln and Sharp Golf Courses was also reflected at the better maintained Golden Gate Park Golf Course which saw an approximately 27.3 percent reduction in the number of rounds played in the three years between FY 2002-2003 and FY 2004-2005. Since the golf fees chargeable at Lincoln, Sharp, and Golden Gate Park Golf Courses have not changed in some time, the declining number of rounds has resulted in declining golf fee revenues from those three City-operated golf courses.

Table 6.5 and Exhibit 6.1 below show the relationship between the declining number of rounds played at Golden Gate Park, Lincoln, and Sharp Golf Courses in relation to the number of rounds being played at the renovated Harding and Fleming Golf Courses after they were returned into service in FY 2003-2004. Although FY 2003-2004 saw 92,664 rounds played at Harding and Fleming Golf Courses, the net impact across all golf courses was only 52,480 because 40,184 less rounds were played at Golden Gate Park, Lincoln, and Sharp Golf Courses. This situation was exacerbated in FY 2004-2005. Although 116,603 rounds were played at Harding and Fleming Golf Courses, the net impact across all golf courses was only 51,849 because 64,754 less rounds were played at Golden Gate Park, Lincoln, and Sharp Golf Courses.

Table 6.5

Golf Course Rounds, FY 2002-2003 Through FY 2004-2005

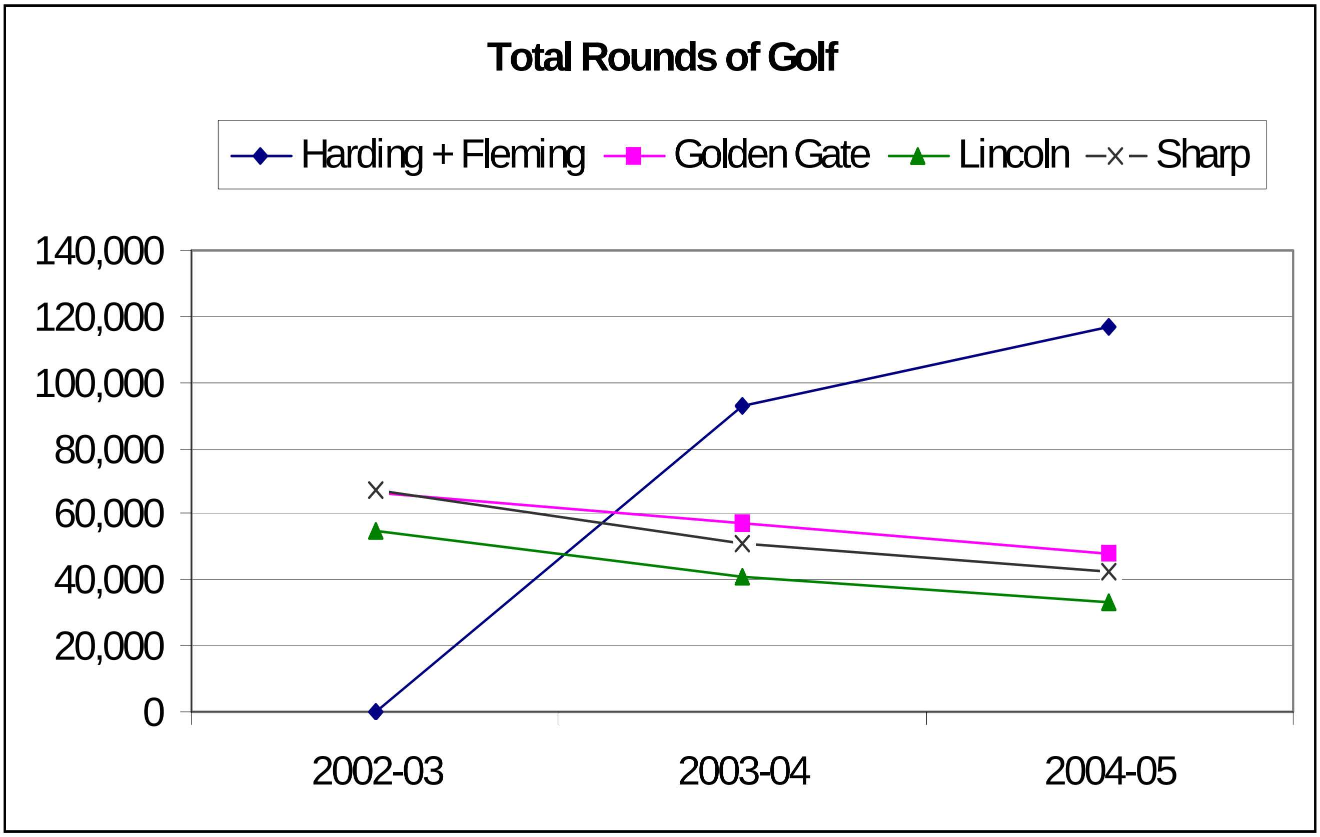
Course	Resident	Change from FY 2002-2003	Non-Resident	Change from FY 2002-2003	Total	Change from FY 2002-2003
Harding and Fleming Golf Courses						
FY 2002-2003	0		0		0	
FY 2003-2004	64,611	64,611	28,053	28,053	92,664	92,664
FY 2004-2005	75,515	75,515	41,088	41,088	116,603	116,603
Golden Gate Park Golf Course						
FY 2002-2003	41,554		24,874		66,428	
FY 2003-2004	38,387	(3,167)	18,722	(6,152)	57,109	(9,319)
FY 2004-2005	33,659	(7,895)	14,634	(10,240)	48,293	(18,135)
Lincoln Golf Course						
FY 2002-2003	25,220		29,682		54,902	
FY 2003-2004	19,427	(5,793)	21,408	(8,274)	40,835	(14,067)
FY 2004-2005	15,520	(9,700)	17,680	(12,002)	33,200	(21,702)
Sharp Golf Course						
FY 2002-2003	44,398		23,067		67,465	
FY 2003-2004	35,644	(8,754)	15,023	(8,044)	50,667	(16,798)
FY 2004-2005	30,818	(13,580)	11,730	(11,337)	42,548	(24,917)
TOTAL ROUNDS						
FY 2002-2003	111,172		77,623		188,795	
FY 2003-2004	158,069	46,897	83,206	5,583	241,275	52,480
FY 2004-2005	155,512	44,340	85,132	7,509	240,644	51,849

Source: Recreation and Park Department

The increasing number of Harding and Fleming Golf Courses' rounds relative to the decreasing number of rounds played at Golden Gate Park, Lincoln, and Sharp Golf Courses is shown diagrammatically in Exhibit 6.1 below.

Exhibit 6.1

Total Golf Rounds, FY 2002-2003 Through FY 2004-2005



Source: Recreation and Park Department

<u>Harding and Fleming Golf Courses, Before and After Renovation</u>

Table 6.6 below shows Harding and Fleming Golf Course rounds and revenues before renovation in FY 2000-2001 (the last full year before construction began in May of 2002), and after renovation in FY 2004-2005 (the first full year after the golf courses reopened in August of 2003). It should be noted that the Department still limited the number of rounds played at Harding and Fleming Golf Courses in FY 2004-2005 due to the immaturity of the course turf and greens.

Based on the information shown in Table 6.6, renovation of the Harding and Fleming Golf Courses has had the following effects:

- <u>Resident Rounds:</u> While the total number of resident rounds dropped by approximately 12.2 percent, from 86,040 to 75,515, the revenues earned increased by approximately 119.7 percent, from $912,472 to $2,004,541.

- Non-resident Rounds: While the total number of non-resident rounds dropped by approximately 29.4 percent, from 58,954 to 41,618, the revenues earned increased by approximately 149.6 percent, from $932,879 to $2,328,407.

- Tourist Rounds: The post-renovation introduction of tourist rounds added 278 rounds in FY 2004-2005, with a positive revenue impact of $27,800.

Overall, the number of rounds played at Harding and Fleming Golf Courses dropped by approximately 19.0 percent, from 144,944 to $117,411. However, revenues increased by approximately 136.3 percent, from $1,845,351 to $4,360,748.

The Department is unable to quantify the impact on concession revenues of the Harding and Fleming Golf Course's renovation. Prior to the renovation, the Department had a lease agreement with a course operator which permitted the course operator to keep the majority of the concession revenues, while the Department received only a percentage. In FY 2000-2001, the Department received $145,577 in concession revenues. Under the Department's current management agreement with Kemper Sports Management, the Department receives all net concession revenues. Further, the Harding Clubhouse and its full-service restaurant were not open in FY 2004-2005, so the FY 2004-2005 gross concession revenues of $961,900 (cost of goods not deducted) are lower than they would have been if the Harding Clubhouse was open.

Table 6.6

Harding and Fleming Golf Course Rounds and Revenues, FY 2000-2001 and FY 2004-2005

Category	FY 2000-2001			FY 2004-2005			% Increase / (Decrease) in Rounds	% Increase / (Decrease) in Revenues
	Harding / Fleming Fee[19]	Rounds	Revenues	Harding / Fleming Fees[20]	Rounds	Revenues		
Resident Weekday	$17 / $7	26,212	$313,194	$33 / $16	19,863	$539,182		
Resident Junior Weekday	$8 / $4	1,844	8,224	$10 / $7	1,045	8,389		
Resident Senior Weekday	$10 / $5	34,993	268,980	$20 / $10	17,761	273,490		
Resident Twilight Weekday	--			$24 / --	3,968	95,232		
Harding Park Golf Club	--			$66 / --	1,162	76,692		
Resident Weekend	$20 / $9	18,006	268,105	$46 / $18	24,965	849,182		
Resident Junior Weekend	$8 / $6	1,719	11,300	$15 / $10	1,128	13,045		
Resident Senior Weekend	$15 / $8	3,266	42,669	$46 / $15	1,366	33,169		
Resident Twilight Weekend	--			$32 / --	3,421	109,472		
Resident Replay	--			-- / $8	836	6,688		
Total Resident Rounds		**86,040**	**$912,472**		**75,515**	**2,004,541**	**(12.2%)**	**119.7%**

[19] The blank fee categories were not in place in FY 2000-2001. No non-resident junior or senior golf fees existed, and there was no difference between resident and non-resident twilight fees, so all rounds have been represented as non-resident. There were three distinct twilight times, each with a specific fee, although the number of rounds and fees have been grouped.

[20] The fee structure has since been changed and updated in the FY 2005-2006 budget.

Category	FY 2000-2001			FY 2004-2005			% Increase / (Decrease) in Rounds	% Increase / (Decrease) in Revenues
	Harding / Fleming Fee	Rounds	Revenues	Harding / Fleming Fees	Rounds	Revenues		
Non-resident Weekday	$26 / $13	13,789	249,886	$78 / $18	14,206	695,388		
Non-resident Junior Weekday	--			$10 / $7	778	6,760		
Non-resident Senior Weekday	--			-- / $18	7	126		
Non-resident Twilight Weekday	$20 / $15 / $10	16,053	238,650	$57 / --	1,741	99,237		
Non-resident Weekend	$31 / $13	12,414	239,962	$90 / $23	16,367	889,862		
Non-resident Junior Weekend	--			$15 / $10	976	12,105		
Non-resident Senior Weekend	--			-- / $22	11	242		
Non-resident Twilight Weekend	$24 / $18 / $12	5,837	98,292	$68 / --	1,242	84,456		
S.F. City Green Fee	--			$46 / --	513	23,598		
Non-resident Replay	--			-- / $8	536	4,288		
Tournament Weekday	--			$92 / $26	2,210	203,320		
Tournament Weekend	--			$103 / $37	3,031	309,025		
Additional Rounds		10,861	106,089	--				
Total Non-resident Rounds		**58,954**	**932,879**		**41,618**	**2,328,407**	**(29.4%)**	**149.6%**
Tourist / Hotel Weekday	--			$92 / --	0	0		
Tourist / Hotel Weekend	--			$100 / --	278	27,800		
Total Tourist Rounds					**278**	**27,800**	**100.0%**	**100.0%**
Total Resident, Non-resident, and Tourist Rounds		**144,944**	**$1,845,351**		**117,411**	**$4,360,748**	**(19.0%)**	**136.3%**

Source: Recreation and Park Department

Current status

In light of the above nine year history of the Department's golf courses, the current status of the Department's Golf Program can summarized as follows:

- At a final cost of $23,611,457, Harding and Fleming Golf Courses' renovation was $7,583,847 or 47.3 percent over the original estimate of $16,027,610.

- The Harding and Fleming Golf Courses' renovation was significantly funded by the borrowing in 2002 of $16,627,627 in State Proposition 12 funds. State Proposition 12 funds are intended to address the recreation and parks needs of historically underserved or economically disadvantaged communities. While the Harding and Fleming Golf Courses serve the City as a whole, as golf courses they do little to address the needs of neighborhoods with few recreation and park facilities in their immediate localities. To date, only $490,000 in interest payments, pending completion of the project, have been made to the Open Space Fund. The first repayment of principal is due in FY 2005-2006, but is currently under-budgeted by $390,953.

- In effect, after the City failed to find private monies to upgrade the Harding and Fleming Golf Courses to international golf tournament standards, the City proceeded with the refurbishment project to achieve those standards anyway, borrowing State Proposition 12 monies intended for other purposes to do so. The borrowing of State Proposition 12 monies, and the slow incremental repayment of those borrowings plus interest over 25 years, incur a significant opportunity cost for other parts of the recreation and park system.

- Under the City's Master Tournament Agreement with PGA Tour, Inc., the City will receive direct payments in the amount of. $2,500,000, plus an additional $2,500,000 for its First Tee Program, over the next 15 years if four more PGA Tour, Inc. tournaments are held at the Harding and Fleming Golf Courses, as currently planned. In addition, the City will receive 6.66 percent of any gross operating revenues in excess of $10 million for each PGA Tour, Inc. tournament held at the Harding and Fleming Golf Courses, in the unlikely event that any tournament generates such high revenues. Based on the information contained in Table 6.4 above, it appears unlikely that the PGA Tour, Inc.'s direct payments to the City will fully recompense the City for its direct costs.

- The Harding and Fleming Golf Courses will only remain eligible to host such tournaments if they continue to be maintained at PGA Tour, Inc. standards. While setting the performance standards and maintaining intensive oversight, PGA Tour, Inc. will not be funding the resources required to maintain the Harding and Fleming Golf Courses to PGA Tour, Inc. standards. Therefore, in order to achieve a worthwhile rate of return on its $23,611,457 investment, the City is relying on significantly increased greens fee revenues from non-residents and tourists attracted by the highly visible new amenities (while maintaining lower greens fees for residents), plus the unquantifiable revenues generated by increased tourism during international tournaments which do not accrue to either the Golf Fund or to the Recreation and Park Department.

- The courses at Lincoln and Sharp Parks remain substandard. There are no completed, closed out, or active Capital Program Phase I projects related to these two golf courses. Without infrastructure investments, these golf courses cannot increase their contributions to the Golf Fund.

- To date, PGA Tour, Inc. has not yet invested the estimated $1 million worth of design services to renovate Lincoln Park and Sharp Park it is required to provide under its contract with the City. This is because the Department has neither an overall plan for each golf course, nor identified construction funding, nor an estimated project schedule.

- In FY 2004-2005, 238,440 rounds of golf were played on the City's six golf courses. Therefore, demand remains high in the system as a whole. However, Lincoln and Sharp Parks have declining numbers of rounds played, thereby depressing greens fee revenues. Further, both Lincoln and Sharp Parks are currently operating on month-to-month operating agreements which discourages long-term capital investments. Meanwhile, other Bay Area municipal golf courses have been renovated over the last decade which means that golf courses such as Poplar Creek (San Mateo), the Presidio (San Francisco), and Monarch Bay (San Leandro) are in much better condition than Lincoln and Sharp Golf Courses and, consequently, more attractive to potential clients.

- There is considerable political resistance to increasing golf course fees. Nevertheless, the declining revenues from Lincoln, Sharp, and Golden Gate Park Golf Courses, the existing fee structure, and the requirement that 65 percent of Harding and Fleming Golf Courses' tee times be set aside for residents, generates insufficient revenue for the Golf Fund to sustain the City's golf course operating costs and debt repayment, let alone create reserves for future capital improvements at Lincoln, Sharp, and Golden Gate Park Golf Courses. The Department states that its focus is on making the Golf Fund viable. Nevertheless, in the future, if the Department is not going to be allowed to develop sufficient ongoing funding for the Golf Fund due to constraints on golf fees and non-resident usage of Harding and Fleming Golf Courses, then the Department may need to consider using some of the land currently devoted to golf to other, equally valid recreational uses which are cheaper to provide and maintain.

Conclusions

The Golf Fund faces significant financial challenges. Although demand to play at Harding and Fleming Golf Courses is high and their greens fee revenues have grown, since Harding and Fleming Golf Courses reopened in 2003, there has been decreased play at Lincoln, Sharp, and Golden Gate Park Golf Courses, thus partially offsetting the revenue growth at the renovated Harding and Fleming Golf Courses. In FY 2004-2005, Lincoln, Sharp, and Golden Gate Golf Courses reported a reduction of 64,754 rounds compared to FY 2002-2003. This downward impact on revenues, coupled with the existing fee structure and the requirement that 65 percent of Harding and Fleming Golf Courses' tee times be set aside for residents, generates insufficient revenue for the Golf Fund to repay the Open Space Fund for the borrowing of State Proposition 12 monies plus Open Space Fund matching funds, to construct and maintain capital improvements for all five Department-operated golf courses, and to generate funding for other recreation and park facilities, as intended by Proposition C. For example, in FY 2004-2005 the Golf Fund revenues were $8,698,044, including $536,372 transferred from the General Fund, and total expenditures were $8,500,811, resulting in a year-end fund balance of only $197,233.

Recommendations

The Recreation and Park Department General Manager should:

6.1 Ensure, in relation to the borrowed State Proposition 12 funds for the Harding and Fleming Golf Courses' renovation projects, that the full FY 2005-2006 repayment of $935,420 is made to the Open Space Fund.

6.2 Review available strategies to speed up repayment of the borrowed State Proposition 12 funds plus interest so that repayment will not take the full 25 years currently scheduled. The strategies reviewed should include modification of Harding and Fleming Golf Courses' fee structure and percentage of rounds reserved for residents' use.

6.3 Renegotiate the Master Tournament Agreement with PGA Tour, Inc. to either (a) negotiate more advantageous terms for the City, so that it fully recovers the Department's direct costs and makes a profit, or (b) terminate the agreement.

6.4 Develop overall plans for Lincoln and Sharp Golf Courses in relation to the best use of those properties, required capital improvement program costs and schedules, and possible funding sources.

Costs and Benefits

Ensuring that the borrowed State Proposition 12 funds are repaid as quickly as possible will reduce the negative opportunity cost to the rest of the City's recreation and park system of having devoted those funds to the Harding and Fleming Golf Courses' renovation projects.

Under the City's Master Tournament Agreement with PGA Tour, Inc., the City will receive $2,500,000 plus Consumer Price Index adjustments in direct payments (a Consumer Price Index adjusted $500,000 per tournament times five tournaments), plus an additional $2,500,000 plus Consumer Price Index adjustments for its First Tee Program (a Consumer Price Index adjusted $500,000 per tournament times five tournaments), over the next 15 years if four more PGA Tour, Inc. tournaments are held at the Harding and Fleming Golf Courses, as currently planned. In addition, the City will receive 6.66 percent of any gross operating revenues in excess of $10 million for each PGA Tour, Inc. tournament held at the Harding and Fleming Golf Courses, in the unlikely event that any tournament generates such high revenues. Based on the information contained in Table 6.4 above, it appears unlikely that the PGA Tour, Inc.'s direct payments to the City for future tournaments will fully recompense the City for its direct costs.

The Department's renegotiation of its Master Tournament Agreement with PGA Tour, Inc. should result in either (a) more advantageous terms for the City, so that it fully recovers the Department's direct costs and makes a profit, or (b) termination of the agreement. Termination of the Master Tournament Agreement would have an unquantifiable impact on the City tourism revenues generated by PGA Tour, Inc. tournaments, none of which directly accrue to the Golf Fund or the Recreation and Park Department, and would result in the cessation of PGA Tour, Inc. payments of $500,000 per tournament to the Harding and Fleming Golf Courses' First Tee Program. However, termination of the Master Tournament Agreement would also prevent the Department from incurring unrecompensed direct expenses of at least $141,619 per tournament. This is equivalent to the annual salary and mandatory fringe benefit costs of between 2.18 and 2.65 full time equivalent Classification 3417 Gardeners ($53,486 - $64,928 per year) and therefore represents a significant opportunity cost for the Department.