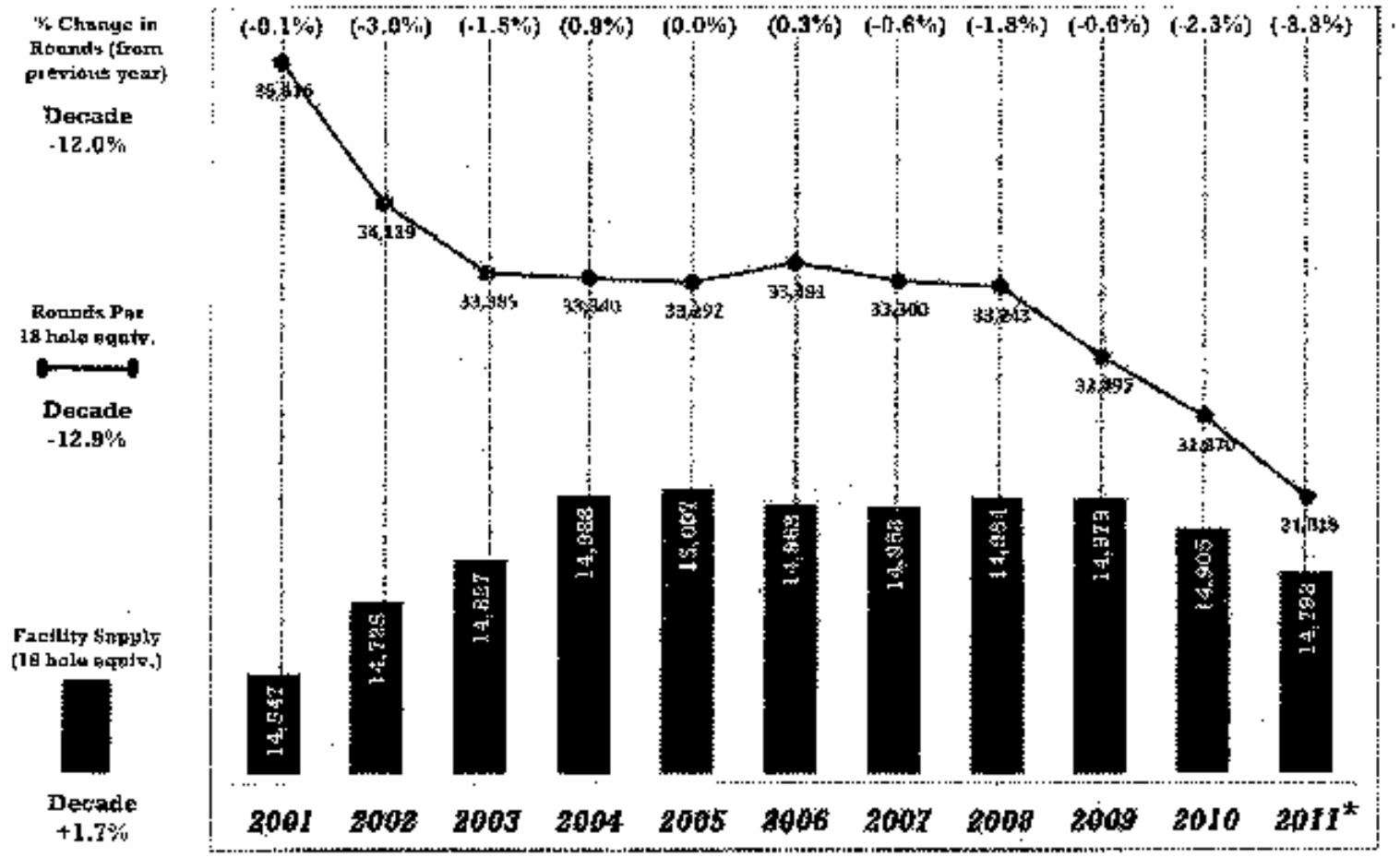
Golf Enterprise Fund Study

City of Phoenix Budget and Research Department

Purpose of Study

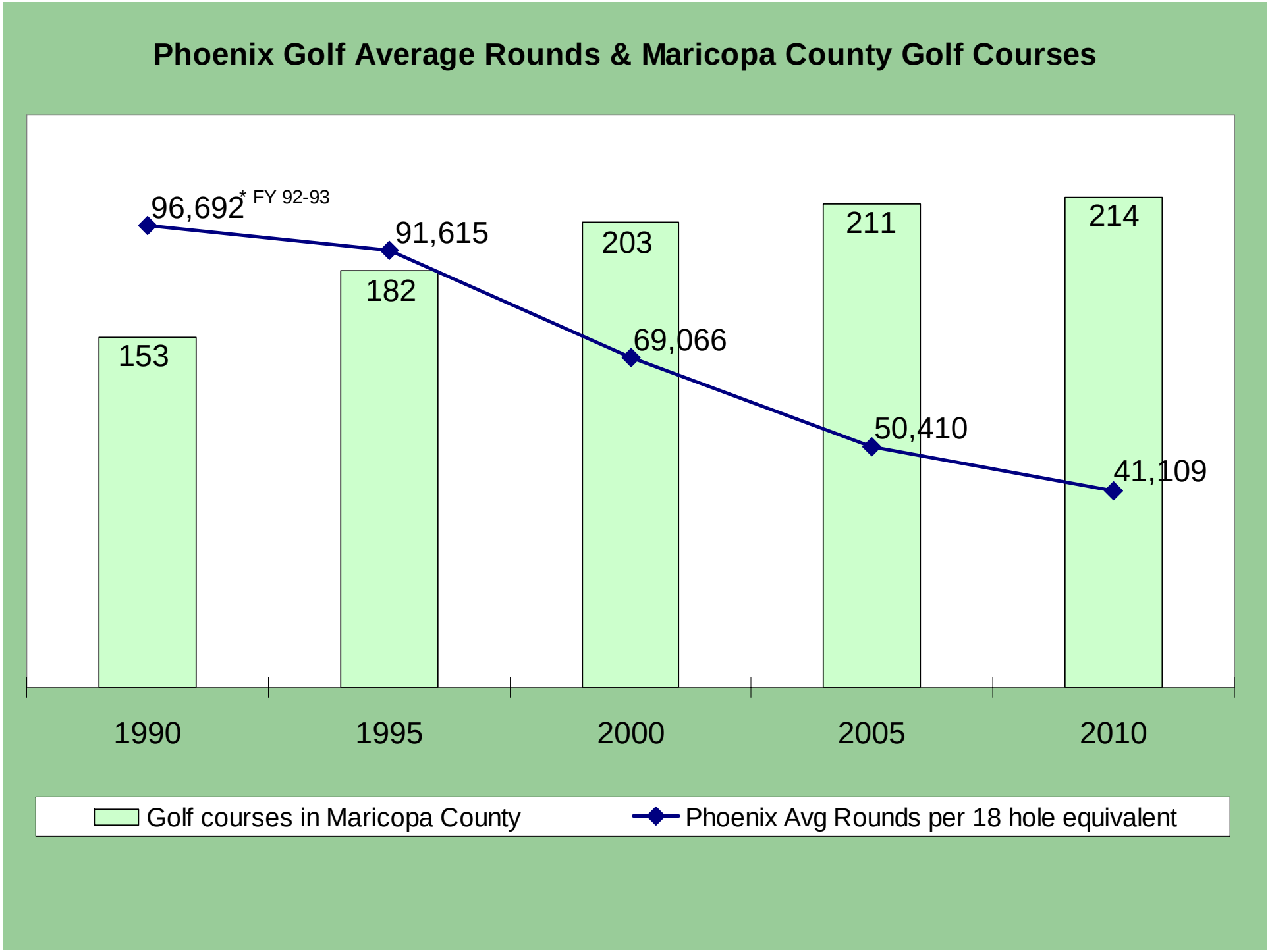
- Financial impact of various options to address the ongoing Golf Enterprise Fund deficit
- Does not include an analysis of any social or quality of life issues
- Papago golf course

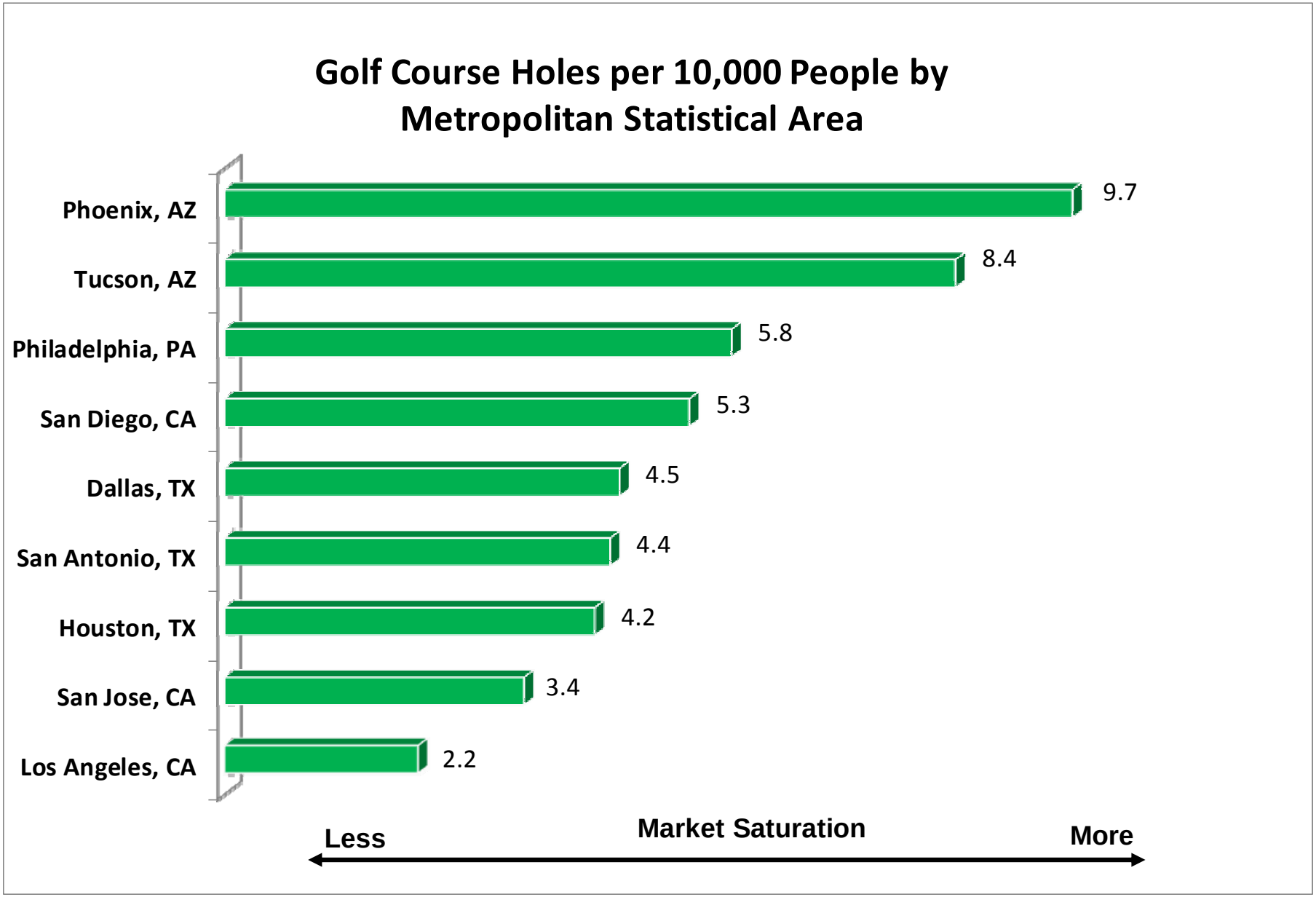
Rounds & Golf Course Supply (The Decade)



Source: NGF/Golf Datatech

*2011 based on YTD data & projections

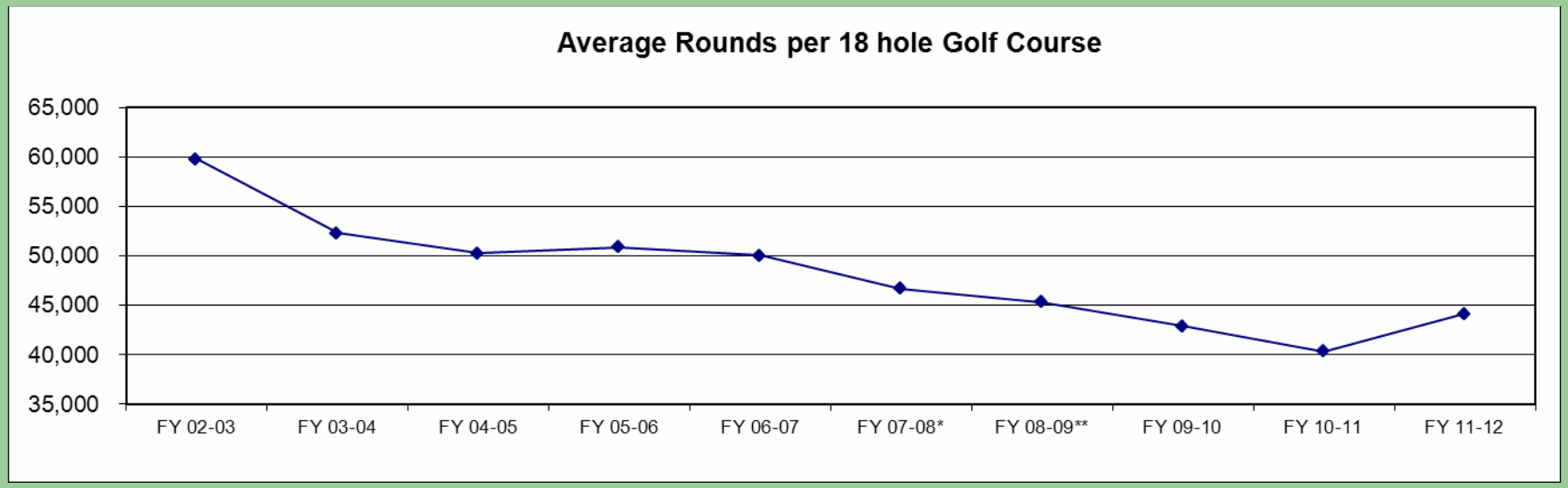

Phoenix Golf Average Rounds & Maricopa County Golf Courses
96,692* FY 92-93
91,615
69,066
50,410
41,109
153
182
203
211
214
1990
1995
2000
2005
2010
Golf courses in Maricopa County
Phoenix Avg Rounds per 18 hole equivalent

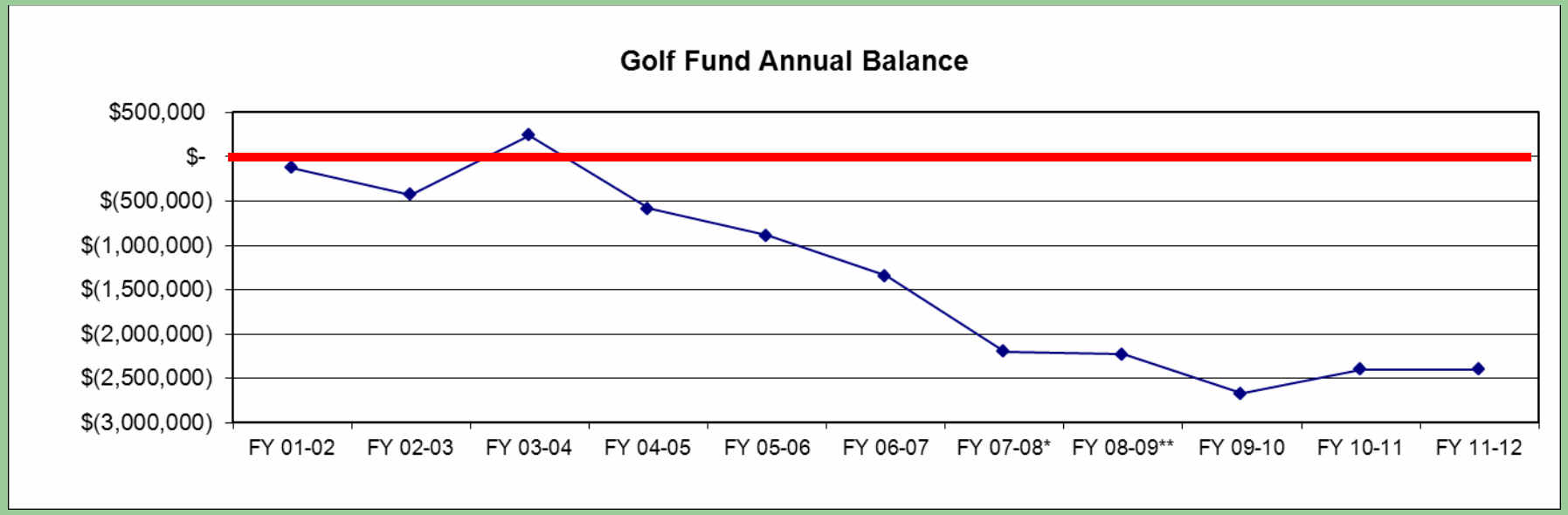

Golf Course Holes per 10,000 People by Metropolitan Statistical Area
Phoenix, AZ
9.7
Tucson, AZ
8.4
Philadelphia, PA
5.8
San Diego, CA
5.3
Dallas, TX
4.5
San Antonio, TX
4.4
Houston, TX
4.2
San Jose, CA
3.4
Los Angeles, CA
2.2
Less
Market Saturation
More

Financial History

- Rounds began declining in early to mid ’90s
- Phoenix Golf began running annual deficits in Fiscal Year 1998-99
- Fiscal Year 2011-12 ended with an annual deficit of $2.4 million and a cumulative deficit of $14.8 million

Phoenix Golf





Operational History

- Many efforts over the years to improve revenue, quality of play, and operational efficiency
- Representative examples:
  - Online booking of tee times
  - Volunteer assistants to improve pace of play
  - Driving range improvements at Encanto
  - Staff reductions that brought positions per hole 12% below national average

Operational History

- Many improvements made as a result of comprehensive National Golf Foundation study in 2007

- Efforts offset by larger market forces:
  - Number of courses in Maricopa County increased 33% between 1990 and 2000
  - National decline in golf participation since 2000
  - National recession starting in 2008

Market Forecast

Revenue growth expected over next 10 years due to economic recovery and population growth, partially offset by inflationary increases in costs: 10%

Revenue growth needed in 2011-12 for Phoenix Golf to be break-even: 40%

Revenue growth needed by course in 2011-12 to be break-even:

Cave Creek	Encanto	Maryvale	Aguila	Palo Verde
17%	20%	51%	46%	63%

Other City Survey

- 11 cities with muni golf courses responded
  - 100% cost recovery: 2
  - Subsidized: 5
  - Unknown: 4
- Arizona cities with similar market conditions
  - 100% cost recovery: Glendale
  - Subsidized: Mesa, Tempe, and Tucson
  - No municipal courses: Scottsdale and Chandler

Other City Survey
Operational Model at Municipal Golf Courses

Discussion

- In-sourcing of pro shops resulted in more revenue.
- Seasonal closure, reduction in operating hours, results in minimal savings.
- Outsourcing of grounds maintenance could result in significant savings of over $600k.

Discussion

- Complete privatization
  - Papago model
    - Contractor carries financial risk
    - Assumes fund would be self-sustaining
    - Financial history of golf program, market conditions, and need for improvements makes option unlikely to succeed
  - Cost reimbursement model
    - City carries financial risk
    - Does not assume fund would be self-sustaining
    - Lack of financial incentive for contractor and less control over operations

Discussion

- Conversion and Closure
  - Restrictions
    - Legal: Aguila
    - Practical: Cave Creek
    - City Historic Designation: Encanto
  - Impact to 3PI and/or General Fund
    - Conversion of all courses: $2.4 million annually
    - Closure of all courses: $790,000 annually
  - Potential impact to neighborhoods

Combination of Options for Best Fiscal Outcome

	FY 11-12 Annual Deficit				
Aguila	$ (629,945)				
Palo Verde	$ (258,930)				
Encanto	$ (340,984)				
Maryvale	$ (469,573)				
Cave Creek	$ (301,991)				
Total Impact to Golf Fund (Deficit) / Profit	**$ (2,001,423)**				
Impact to 3PI or General Fund (Cost)	**$ -**				
Total Impact to 3PI or General Fund (Cost)	**$ (2,001,423)**				

1 These figures assume that golf course maintenance has been outsourced to a private contractor.

Combination of Options for Best Fiscal Outcome

	FY 11-12 Annual Deficit	Close Palo Verde[1]			
Aguila	$ (629,945)	$ (654,686)			
Palo Verde	$ (258,930)	(55,927)			
Encanto	$ (340,984)	(143,862)			
Maryvale	$ (469,573)	(404,587)			
Cave Creek	$ (301,991)	119,556			
Total Impact to Golf Fund (Deficit) / Profit	**$ (2,001,423)**	**$ (1,083,579)**			
Impact to 3PI or General Fund (Cost)	**$ -**	**$ (55,927)**			
Total Impact to 3PI or General Fund (Cost)	**$ (2,001,423)**	**$ (1,139,506)**			

1 These figures assume that golf course maintenance has been outsourced to a private contractor.

Combination of Options for Best Fiscal Outcome

	FY 11-12 Annual Deficit	Close Palo Verde[1]	Close Maryvale & Palo Verde[1]		
Aguila	$ (629,945)	$ (654,686)	$ (696,251)		
Palo Verde	$ (258,930)	(55,927)	(55,927)		
Encanto	$ (340,984)	(143,862)	48,028		
Maryvale	$ (469,573)	(404,587)	(158,355)		
Cave Creek	$ (301,991)	119,556	324,807		
Total Impact to Golf Fund (Deficit) / Profit	**$ (2,001,423)**	**$ (1,083,579)**	**$ (323,416)**		
Impact to 3PI or General Fund (Cost)	**$ -**	**$ (55,927)**	**$ (214,282)**		
Total Impact to 3PI or General Fund (Cost)	**$ (2,001,423)**	**$ (1,139,506)**	**$ (537,698)**		

1 These figures assume that golf course maintenance has been outsourced to a private contractor.

Combination of Options for Best Fiscal Outcome

	FY 11-12 Annual Deficit	Close Palo Verde[1]	Close Maryvale & Palo Verde[1]	Close Maryvale & Palo Verde; Convert Aguila[1]
Aguila	$ (629,945)	$ (654,686)	$ (696,251)	$ (585,307)
Palo Verde	$ (258,930)	(55,927)	(55,927)	(55,927)
Encanto	$ (340,984)	(143,862)	48,028	(31,187)
Maryvale	$ (469,573)	(404,587)	(158,355)	(158,355)
Cave Creek	$ (301,991)	119,556	324,807	271,997
Total Impact to Golf Fund (Deficit) / Profit	**$ (2,001,423)**	**$ (1,083,579)**	**$ (323,416)**	**$ 240,810**
Impact to 3PI or General Fund (Cost)	**$ -**	**$ (55,927)**	**$ (214,282)**	**$ (799,589)**
Total Impact to 3PI or General Fund (Cost)	**$ (2,001,423)**	**$ (1,139,506)**	**$ (537,698)**	**$ (799,589)**

1 These figures assume that golf course maintenance has been outsourced to a private contractor.

Combination of Options for Best Fiscal Outcome

	FY 11-12 Annual Deficit	Close Palo Verde[1]	Close Maryvale & Palo Verde[1]	Close Maryvale & Palo Verde; Convert Aguila[1]	Close Maryvale, Palo Verde & Aguila[1]
Aguila	$ (629,945)	$ (654,686)	$ (696,251)	$ (585,307)	$ (197,484)
Palo Verde	$ (258,930)	(55,927)	(55,927)	(55,927)	(55,927)
Encanto	$ (340,984)	(143,862)	48,028	(31,187)	(31,187)
Maryvale	$ (469,573)	(404,587)	(158,355)	(158,355)	(158,355)
Cave Creek	$ (301,991)	119,556	324,807	271,997	$ 271,997
Total Impact to Golf Fund (Deficit) / Profit	**$ (2,001,423)**	**$ (1,083,579)**	**$ (323,416)**	**$ 240,810**	**$ 240,810**
Impact to 3PI or General Fund (Cost)	**$ -**	**$ (55,927)**	**$ (214,282)**	**$ (799,589)**	**$ (411,766)**
Total Impact to 3PI or General Fund (Cost)	**$ (2,001,423)**	**$ (1,139,506)**	**$ (537,698)**	**$ (799,589)**	**$ (411,766)**

1 These figures assume that golf course maintenance has been outsourced to a private contractor.

Cumulative Deficit

- $14.8 million at end of FY 2011-12
- Possible fund sources to pay off the deficit are 3PI and/or General Fund

Study Conclusions

- Phoenix Golf has been operating more like other General Fund recreation activities such as softball or swimming pools.
- Larger market forces have prevented Phoenix Golf from being self sustaining
- Even with aggressive efficiency and revenue enhancement efforts, Phoenix Golf will not be 100% cost recovery over the next 5 years

Policy Question

- If the city desires to continue operating Phoenix Golf similar to how we provide other recreation activities, how do we provide a public recreational golf program for the community?

Options

- Alternatives for closing down studied courses include:
  - Convert courses to a limited-use park
  - Close courses and maintain for a future use
  - Sell courses where feasible, and close or convert remaining

Options

- If Phoenix Golf should continue operating like our other public recreation programs :

	Cost to 3PI or GF*
No change	$2.0 – 2.4 million
Outsource grounds maintenance	$1.4 million
Close Palo Verde	$1.2 million
Close Maryvale and Palo Verde, convert Aguila to limited-use park	$800 thousand
Close Maryvale and Palo Verde	$600 thousand
Close Maryvale, Palo Verde, & Aguila	$412 thousand

* Does not include future major repair or infrastructure replacement costs.