Carson City Audit Committee
Agenda Report

Date Submitted: October 2, 2012 **Agenda Date Requested:** October 10, 2012

To: Chair and Members

From: Michael Bertrand, Chairman

Subject Title: For Possible Action: Presentation, discussion and acceptance of the Eagle Valley Golf Cost Recovery Study prepared by Moss Adams.

Summary: Moss Adams has been contracted by the Carson City Audit Committee and the Board of Supervisors to provide Internal Audit Services to Carson City. Representatives from Moss Adams will be presenting the Eagle Valley Golf Cost Recovery Study.

Type of Action Requested: (check one)

( ) Resolution ( ) Ordinance
(X) Formal Action/Motion ( ) Other (Specify)

Does This Action Require A Business Impact Statement: ( ) Yes (X) No

Recommended Committee Action: I move to accept the Eagle Valley Golf Cost Recovery Study and forward it to the Carson City Board of Supervisors.

Explanation for Recommended Committee Action: See Staff Summary

Applicable Statute, Code, Policy, Rule or Regulation: N/A

Fiscal Impact: N/A

Explanation of Impact: N/A

Funding Source: N/A

Alternatives: None

Supporting Material: Eagle Valley Golf Cost Recovery Study prepared by Moss Adams

Prepared By: Nick Providenti, Finance Director

Reviewed By: _____ Date: 10/3/12
(Finance Director)

Board Action Taken:

Motion: _____

	Member	Aye/Nay
1)	_____	_____
2)	_____	_____
3)	_____	_____
4)	_____	_____
5)	_____	_____

_____
(Vote Recorded By)

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MOSS ADAMS LLP

FINAL REPORT

Carson City

Community Facility Cost Recovery Study
Eagle Valley Golf Course

October 3, 2012

Moss Adams LLP

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MOSS-ADAMS LLP

I. EXECUTIVE SUMMARY

The objective of this study is to determine opportunities for cost recovery and operational improvements at the Eagle Valley golf courses. The study considers Carson City Municipal Golf Corporation's (CCMGC) revenues and expenditures over the past three years, land and water use requirements, and external factors that impact CCMGC's operations.

One of the primary benefits of the Eagle Valley golf courses is its function as a resource for the disposition of treated wastewater effluent. The City constructed the Eagle Valley East Course in 1974 in response to an EPA mandate restricting effluent discharge into the Carson River. Over time, the West Course was constructed, and other areas in Carson City were developed to irrigate with the effluent.

Since 1997, the courses at Eagle Valley have been managed by CCMGC, which was established expressly for this purpose. Golf course operations have generally been profitable since 1997, and CCMGC has regularly invested in course improvements. From FY 08-09 through FY 11-12, CCMGC has had difficulty making its required lease payment and only made $70,000 of the total $480,000 in required payments. However, the Carson City Board of Supervisors deferred $210,000 of the $480,000 in payments between FY 08-09 and FY 11-12. The CCMGC has not paid $200,000 of the non-deferred payments.

CCMGC should be able to increase its ability to meet its lease obligations through enhanced oversight by the City, marketing and operations collaboration between the City and CCMGC, and added CCMGC focus on increasing revenues and decreasing operating costs. For instance, through fee adjustments and expenditure prioritization, the CCMGC could improve bottom line performance by $50,000 to $100,000 per year.

The tables below provide a summary of recommendations resulting from this study.

City Oversight Recommendations
The City should hold a voting seat on CCMGC's Board.
CCMGC should develop an operating budget against which the City can evaluate operations.
The City should integrate Eagle Valley into Parks and Recreation marketing, maintenance, and operations, where beneficial.
The City should enforce lease terms, renegotiate the terms of the lease, or re-bid the Eagle Valley lease.

Golf Operations Recommendations
CCMGC should continue to set rates at a competitive level and pursue opportunities to generate additional revenue.
CCMGC should recover some costs from complimentary rounds.
CCMGC should continue to pursue efficiencies in operations.
CCMGC should fully develop and implement the Eagle Valley marketing plan.

City Policy Consideration Recommendations
The City should develop alternative areas as contingency for additional wastewater effluent.
The City should evaluate alternative land use scenarios for the Eagle Valley East Course.

This review is not a financial audit. It is not intended to be an assessment of internal controls, compliance, compensation, or policies and procedures.

II. BACKGROUND, OBJECTIVE AND SCOPE, AND METHODOLOGY

A. BACKGROUND

Carson City Municipal Golf Corporation (CCMGC) has managed and operated the two City-owned golf courses in Carson City—Eagle Valley East and West—since 1997. As part of the agreement between CCMGC and the City, CCMGC is required to pay golf course-related debt service, incurred for capital projects in the 1980s and 1990s, to the City semiannually.

CCMGC's ability to make the debt service payments has been impacted by the recession beginning in 2008 and, additionally, by adverse weather conditions in 2011. From FY 08-09 through FY 11-12, CCMGC has had difficulty making its required lease payment and only made $70,000 of the total $480,000 in required payments. However, the Carson City Board of Supervisors deferred $210,000 of the $480,000 in payments between FY 08-09 and FY 11-12. The CCMGC has not paid $200,000 of the non-deferred payments.

Based on the debt service, as well as the inability to maintain a $300,000 minimum cash balance, CCMGC is in breach of the lease agreement with the City. However, both parties understand that external economic factors have impacted CCMGC's ability to meet the requirements, and they wish to work toward a solution that is satisfactory to both sides.

B. OBJECTIVE AND SCOPE

The objective of this study is to determine opportunities for cost recovery and operational improvements at the Eagle Valley golf courses. The study considers CCMGC's revenues and expenditures over the past three years, land- and water-use requirements, and external factors that impact CCMGC's operations.

This review is not a financial audit. It is not intended to be an assessment of internal controls, compliance, compensation, or policies and procedures.

C. METHODOLOGY

Interviews

Moss Adams conducted a series of interviews with City and CCMGC staff and management in June and July 2012.

Analysis

Moss Adams reviewed more than 25 documents during the course of the study. These included historical and current budgets and fiscal documents, CCMGC marketing plans, and relevant City

policies and procedures. In addition, industry sources were researched to determine relevant standards for municipal golf course operations.

Deliverables

Moss Adams provided preliminary findings to Carson City and CCMGC to validate facts and verify the practicality of recommendations.

We based our work upon, and used the practice guidance promulgated by, The Institute of Internal Auditors, Inc. Accordingly, in so doing, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based.

III. HISTORY OF EAGLE VALLEY GOLF COURSE

A. 1970s: CONSTRUCTION OF GOLF COURSE

In 1974, Carson City acquired land and began construction on what is now Eagle Valley's East Course. The course was developed in response to an Environmental Protection Agency (EPA) mandate prohibiting the City from discharging treated wastewater effluent to the Carson River. The City chose to establish a municipal golf course and irrigate the course with the effluent. Construction of Eagle Valley East was funded by EPA grants.

The land on which Eagle Valley East is located was deeded to the City with the condition that it be used for open space and public use.

B. 1976-1997: CITY OPERATIONS AND CAPITAL FINANCING

For 20 years, Eagle Valley operated as a division of Carson City Parks and Recreation. Operations were structured as an enterprise fund. In 1985, Carson City took out $4 million in bonds to fund the construction of another 18 holes, known as Eagle Valley West. Construction of the West course was driven both by the growing popularity of recreational and tournament golf in Carson City and the need to find more uses for the increasing amount of City-generated treated wastewater effluent. The land used for Eagle Valley West was deeded to the City with golf as its express purpose.

Eagle Valley undertook several capital improvement projects in the late 1980s and early 1990s. In 1989, Carson City took out $3.8 million in bonds to fund golf-related capital projects and to retire the 1985 bond debt for West course construction. Also in 1989, the City took out a $1.15 million loan for Eagle Valley, followed by a $300,000 loan in 1992. The 1989 bonds were retired through a new bond taken out in 1997 for $2.9 million. While a portion of these bonds and loans were almost certainly spent on infrastructure to irrigate the courses with wastewater, no monies were pledged from the sewer fund to pay down the debt. The current balance of CCMGC's debt-based lease payments is $2.06 million, and lease payments are scheduled through 2030.

C. 1997-PRESENT: OUTSOURCED OPERATIONS TO CCMGC

In 1997, Carson City outsourced operations of Eagle Valley to a non-profit, the Carson City Municipal Golf Corporation (CCMGC). CCMGC was formed to manage the two courses and to promote youth golf education. CCMGC is governed by a seven-member Board of Directors, and the City Finance Director serves on the board as an ex-officio, non-voting member.

The current lease structure is a typical facility lease. In CCMGC's case, the lease payment level is determined by the existing golf-related annual debt service. Typical facility lease agreements base payments on a minimum rental payment plus some percentage of gross revenues. The lessee generates revenues to fund operating expenses, capital improvements, and a reserve. Because CCMGC is a non-profit, its mandate is to cover costs and reinvest profits in the business.

In 1999, additional bonds were purchased by the City to lower CCMGC's lease payment. The cash received from these bonds contributed to the Debt Service Fund, which sets aside money to retire the City's debts. The FY 11-12 ending balance of the Debt Service Fund was $707,000.

CCMGC leases Eagle Valley's land, infrastructure, and equipment from the City in five-year rolling increments, renewed annually since 2002. Through the terms of its lease with the City, CCMGC is required to pay the annual debt service on the capital bonds and loans discussed above. The terms of the 2002 lease require CCMGC to develop and maintain:

- Policies and procedures for charitable events, club house rules and regulations, and a written marketing plan;
- Programs for the physical improvement and maintenance of the property; and
- A program to teach, introduce, promote, and make the game of golf available to Carson City residents, with an emphasis on youth outreach and education.

The lease also requires that CCMGC make reasonable efforts to keep no less than a $300,000 cash reserve on hand at all times. CCMGC is required to provide to the City:

- Annual lease payments of $240,000;
- Monthly financial statements and number of rounds played by rate category; and
- Quarterly financial statements and annually-audited financial statements.

The lease has been amended several times since the 2002 renewal. These amendments changed the lease payment structure as follows:

- Amendment 1, January 2008: Payment reduced to $200,000 to reflect the reduced debt service amount after 1997 bonds were retired.
- Amendment 2, December 2008: FY 08-09 lease payment deferred to the end of the lease, extending the repayment period to 2021.
- Amendment 3, May 2009: Payment reduced to $120,000 based on poor economy and CCMGC's inability to make full payment. The sinking fund established by the 1999 bond purchase made up the difference in debt service. The debt repayment period was extended to 2028.
- Amendment 4, June 2011: FY 10-11 payment reduced to $30,000, extending the repayment period to 2030.

Both Eagle Valley courses continue to be irrigated by wastewater effluent under a permit with the Nevada Department of Environmental Protection. City parks and athletic fields are also irrigated with the effluent. In addition to Eagle Valley, the City irrigates at no charge the other two privately-owned golf courses in Carson City (Empire Ranch built in 1997 and Silver Oak built in 1999), as well as the prison farm, with wastewater effluent. Currently, the City is nearing capacity at existing sites for the amount of effluent generated, and alternative sites would be expensive to develop.

IV. CURRENT PERFORMANCE

A. GOLF COURSE OPERATIONS

CCMGC operates two 18-hole courses, a pro shop, and a bar and grill. In 2011, total expenses exceeded total revenues by $82,021. Supporting services include management, fundraising, and general expenses. The table below shows CCMGC's cost recovery in 2011.

Category	Revenues	Expenditures	Net Revenues
Golf	$1,225,824	$1,255,048	($29,224)
Golf Maint. and Ops.	$1,225,824	$800,279	
Supporting Services	$0	$454,769	
Pro Shop	$110,767	$26,463	$84,304
Bar & Grill	$271,470	$221,173	$50,297
Other	$4,203	$0	$4,203
Depreciation		$53,911	($53,911)
Outside Service		$10,464	($10,464)
Admin. Staff and Expenses		$127,226	($127,226)
Total	**$1,612,264**	**$1,694,285**	**($82,021)**

CCMGC's revenues have declined 12% in recent years, from $1.86 million in 2009 to $1.64 million in 2011. Over that time, rates have not been increased, although membership fees were raised. These changes are detailed below.

Rate	2009	2012	% Change
East Course, Walking, Summer Weekday	$22	$22	0%
West Course, Riding, Summer Weekend	$50	$50	0%
Gold Membership	$1,400	$1,600	14%
Silver Membership (seniors only)	$700	$750	7%
Bronze Membership	$700	$750	7%
Cart Fees, 18 Holes	$14	$15	7%

Despite decreases in revenues since 2009, CCMGC generated more revenue compared to the national average of municipal golf courses. According to a 2010 publication of the National Golf Foundation (NGF), in 2009, the average municipal golf course generated revenues of $1.27 million; CCMGC reported $1.86 million in revenues that year.

CCMGC appears to be performing better than other municipal courses with respect to cost recovery. A recent survey of 11 municipal golf courses conducted by the City of Phoenix reported that only

two courses achieved 100% cost recovery. Even during its worst year, Eagle Valley's golf operations were always sufficient to invest in course improvements.

During peak season, CCMGC employs 19 maintenance staff. This is in line with the national average; according to the NGF, the average course employs 9.5 maintenance staff per course. CCMGC also employs 12 non-maintenance staff, for which the national average is 18.

A total of 58,530 rounds of golf were played at the Eagle Valley courses in 2011. There were 7,615 customers at Eagle Valley's two courses in 2011, a 23% increase over the 6,177 customers who played rounds in 2010. Thirty-four percent (34%) of the customers live in Carson City, and 70% live within 50 miles of Eagle Valley. The geographic breakdown is shown below:

Place of Residence	Number	Percentage
Carson City	2,560	34%
*Carson City 80+ free customers	78	1%
Within 50 mile radius, excluding Carson City	2,740	36%
Total within 50 miles	***5,300***	***70%***
Outside 50 mile radius	2,315	30%
Total	**7,615**	

B. FACILITY ENHANCEMENTS

Since 2007, CCMGC has made significant efforts to improve the quality of play at the Eagle Valley courses. Examples include irrigation improvements, installation of new tee boxes and landscaping, clubhouse restroom and kitchen upgrades, bar remodel, conversion of the cart barn for electric golf carts, pavilion improvements, and a new point of sale system. However, these improvements have come at the expense of the debt service payments. According to CCMGC's General Manager, the debt service could have been paid, but CCMGC instead chose to invest in course improvements.

CCMGC's most recent presentation to the Board of Supervisors includes a list of potential short- and long-term capital improvements to the courses. These improvements would require City investment to implement; however, cost estimates have not been developed. Proposed improvements include:

Five-year capital improvement plan:

- West course: Construct permanent starter shack, snack shack, and restrooms
- Driving range renovation
- Complete sprinkler system repair and replacement on both courses
- Construct teaching center (to lease to instructors)
- Construct chipping and putting practice areas
- Install solar panels in club house and cart barn

Fifteen-year capital improvement plan:

- Replace irrigation systems
- Remodel or replace club house
- Reconstruct asphalt cart paths

C. MARKETING AND PROMOTIONS

CCMGC is required to maintain a marketing plan for the Eagle Valley courses. The current marketing plan is focused on increasing tournament play and events, daily play through leagues and promotions, and Eagle Valley's profile in the community. Some of these activities and events are promoted through the Carson City Visitors and Convention Bureau. CCMGC maintains a website for Eagle Valley, but is not listed on the Carson City Parks & Recreation website, and has not historically been included in City Parks & Recreation programming or marketing materials.

In accordance with several Carson City Board of Supervisors resolutions, CCMGC offers discounts to senior citizens. Seniors pay approximately 15% less for cart fees. Senior walking rates for both 10- and 30-play punch cards are less than half the full-price riding punch cards. The Silver Membership offers unlimited weekday walking play for senior citizens. Carson City citizens aged 80 and older play for free on the East Course. In 2011, 78 eligible individuals played 1,079 free rounds, at an approximate value of $24,000.

CCMGC offers golfing at Eagle Valley through several types of memberships and a discount club. Membership and discount card sales increased from 1,280 in 2008 to 1,715 in 2011. About 20% of golf revenues were generated by memberships and club cards in 2011. There are three membership types, including:

- Gold Membership, offers unlimited play, including the use of a golf cart, for $1,600 for individuals or $2,350 for couples. Only 100 of these memberships are available, and 61 single and nine couple memberships were sold in 2011. Gold members also receive a 20% discount on pro shop purchases and a range token discount.

- Silver Membership, available only to senior citizens, is $750 for individuals or $1,350 for couples. Silver members receive unlimited weekday walking play and a 20% discount on pro shop purchases. Seven individual Silver memberships were sold in 2011.

- Bronze Membership, at a cost of $750 for individuals or $1,350 for couples, provides unlimited play on either course after 12:30 PM. Two couple and 31 individual Bronze memberships were sold in 2011.

In addition to memberships, CCMGC offers 10- and 30-round passes and a discount club. The 50 Mile Club, for a cost of $65 per person, offers a range of discounts to individuals who live within 50 miles of Eagle Valley. These discounts include pro shop merchandise, driving range tokens, and lessons. In addition, members receive a free round of golf for every ten rounds played, two free

rounds on enrollment, four drink tokens, and two free lunches. Members of the 50 Mile Club also receive free lunch with every paid round. In 2011, 1,605 50 Mile Club cards were sold to 5,300 eligible customers.

CCMGC also pursues low-cost marketing and promotions opportunities. CCMGC is a member of the Divine Nine, a consortium of nine Northern Nevada golf courses that promote golf tourism in the Carson City area. An annual press tour is organized of the Divine Nine, and a limited number of passes are sold annually for one round of golf at each course. Eagle Valley also hosts youth golf events in conjunction with The First Tee Northern Nevada.

The facilities at Eagle Valley can be rented for meetings and events. Community groups are the most frequent Eagle Valley event customers. The facilities would require upgrades to be competitive with the privately-owned courses or other venues for weddings or special events.

D. DEBT SERVICE PAYMENTS

Between FY 96-97 and FY 07-08, CCMGC consistently made semi-annual debt service payments to the City. From FY 08-09 through FY 11-12, CCMGC has had difficulty making its required lease payment and only made $70,000 of the total $480,000 in required payments. However, the Carson City Board of Supervisors deferred $210,000 of the $480,000 in payments between FY 08-09 and FY 11-12. The CCMGC has not paid $200,000 of the non-deferred payments. There have been no consequences to CCMGC for being in default of the lease by not making the debt service payments.

Fiscal Year	Debt Service Paid by City	Lease Payment Amount	Board-Approved Payment Amount	Payment Made
2008-2009	$200,000	$120,000	*$0	$0
2009-2010	$200,000	$120,000	$120,000	$40,000
2010-2011	$200,000	$120,000	*$30,000	$30,000
2011-2012	$200,000	$120,000	$0	$0

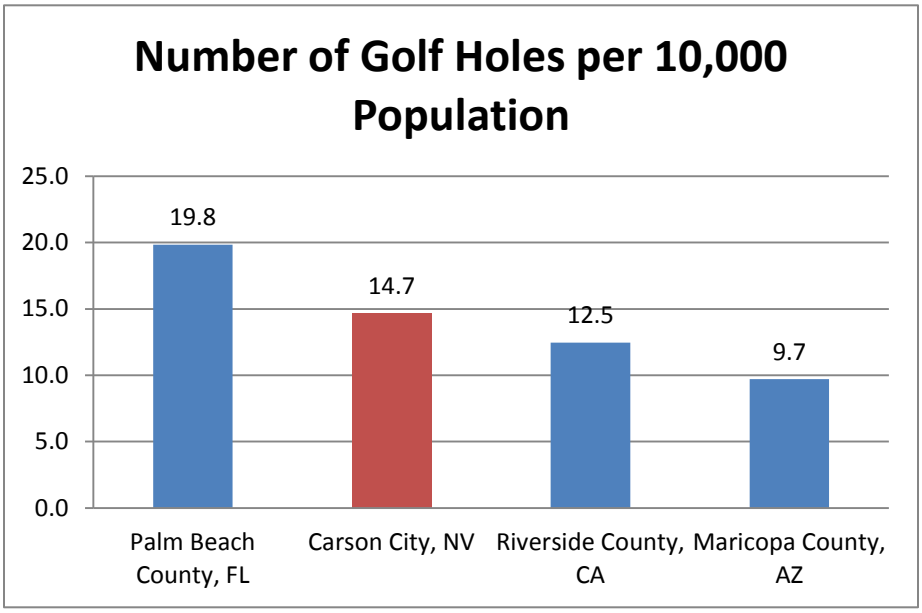
** The Board of Supervisors approved lease addenda in 2009 and 2011 to defer payments.*

In June 2012, the Carson City Board of Supervisors approved deferral of payments for FY 12-13 until this study is complete. In a letter to the City dated August 24, 2012, CCMGC stated that it plans to pay $5,000 per month over the next fiscal year, excluding the months of December and January. CCMGC provided a $10,000 payment with this letter. This would equate to total payments for FY 12-13 of $50,000.

Since FY 08-09, when the annual debt service payment was lowered to $120,000, the difference between the debt service paid by the City and the payment made by CCMGC was covered by money from the Debt Service Fund established with funds from the 1999 bonds. The current balance of this fund is $707,000. Eventually, this fund will be spent and the City will have to find other means of paying the debt service, thereby representing a risk to the City.

E. EXTERNAL FACTORS IMPACTING REVENUES

Three golf courses in Carson City provide 81 holes of golf to the City's 55,000 residents, or 14.7 holes per 10,000 residents. This is higher than most other areas, including those counties that are national golf tourism destinations. The chart below shows the number of golf holes per 10,000 residents in Carson City compared to the three counties in the United States with the highest number of golf courses:



Sources: National Golf Foundation, US Census Bureau

In addition to the over-abundance of golf available in Carson City, interest in golf has declined in recent years. According to the NGF, there has been a national decline in golf participation in recent years. Since 2000, the number of rounds played in the United States has fallen by six percent. Additionally, the NGF reports that more than 350 golf courses across the nation have closed since 2006. The closures were disproportionately represented by public-fee courses (privately-owned courses open to the public) with greens fees of less than $40.

The global recession that began in 2008 has also impacted golf revenues nationwide. According to the NGF, disposable income is a major driver of golf rounds played. Carson City has been particularly hard-hit by the recession, with unemployment nearly doubling from 7.8% in January 2008 to 14.5% in January 2011. The decline in disposable income among Carson City residents has almost certainly impacted revenues for CCMGC and the other courses in Carson City.

Revenues have declined at all three courses in Carson City, and there is concern that one or more of the courses, including Eagle Valley, may go out of business in the near future. Economic studies of the golf industry conducted in recent years indicate that the current golf market does not appear to be cyclical, but rather a long-term trend of declining demand for golf. No current evidence suggests that the golf market will rebound significantly when economic conditions improve.

V. FINDINGS AND RECOMMENDATIONS

A. CITY OVERSIGHT

1. Finding: The City does not have voting representation on CCMGC's Board.

The City has outsourced operations and management of Eagle Valley Golf to CCMGC since 1997. The lease is structured as a typical operating lease, with a rental payment made to the City, while the lessee receives 100 percent of the revenue. Under a typical operating lease, the financial risk is largely borne by the lessee. However, the lease payment for Eagle Valley Golf is in the amount of existing debt service, and CCMGC has not been making full lease payments. As a result, the City bears more risk than in a typical operating lease agreement.

CCMGC's Board does not have a formal reporting relationship with the City. As in a typical non-profit, the CCMGC General Manager reports to a Board of Directors. The General Manager makes an annual presentation to the Carson City Board of Supervisors, and appears before the Board of Supervisors when requested. The City's Finance Director serves as an ex-officio member of the CCMGC Board of Directors. No City staff member has been formally assigned to oversee budget decisions as they apply to golf operations, and the CCMGC Board does not report operations or budget decisions to the City.

Recommendation: The City should hold a voting seat on CCMGC's Board.

Because of the additional risk associated with CCMGC's debt service payment, it is in the City's best interest to require a formal reporting relationship between the CCMGC Board and the City. First, a Director-level City staff member should sit as a voting member on CCMGC's Board of Directors. This would give the City a formal voice in CCMGC's budget and operational decision-making.

Second, CCMGC's Board members have a fiduciary responsibility to ensure the financial accountability of the organization. Because the City is responsible for CCMGC's debt service payment, a representative from CCMGC's Board, either the Treasurer or President, should report to the City any operational applications of funds that would affect the City. Any proposed expenditures that would impact CCMGC's ability to make its lease payment should be communicated to the City. Other examples of operational applications of funds include major capital improvements and short- and long-term capital investment plans.

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2. Finding: The City does not provide input to CCGMC's budget.

Management and operations of the Eagle Valley golf courses were outsourced to CCMGC in 1997. As noted above, the structure of the lease with CCMGC is such that the City assumes none of the financial or operational risk associated with running the two golf courses. In exchange, CCGMC has sole authority over operational and financial decision-making. Monthly cash flow statements that

compare year-to-date performance to the prior year are provided to the City via Board of Directors meetings, as well as annual audited financial statements.

CCMGC does not currently develop annual operating budgets; rather, cash flow is compared to the prior year. A letter to the City sent in August 2012 stated CCMGC's intent to develop a line item operating budget for presentation to the Board of Supervisors in October.

The aforementioned increased level of risk associated with golf course debt has caused concern among City Supervisors and management. For example, if CCMGC is investing in capital improvements to the courses rather than making lease payments, the City should be part of that decision-making process. There are some cost controls built into the lease. The terms of the lease stipulate that the City must approve any capital improvements over $25,000, in compliance with Nevada State Law. None of the improvements made between 2009 and 2012 were over this threshold. Historically, the City has paid for major improvements or repairs.

Recommendation: CCMGC should develop an operating budget against which the City can evaluate operations.

While the City does not have formal oversight of CCMGC's budget, it is advantageous for both parties to develop CCMGC's annual budget in coordination with the City's annual operating budget process. The City should amend the lease to require annual operating budget development. This would strengthen the working relationship between CCMGC and the City. Budget familiarity will also give CCMGC and the City the opportunity to develop a long-term capital budget for golf facilities.

In addition, it is sound business practice for CCMGC to develop and manage to an operating budget. At its most basic level, an operating budget gives management authority to allocate resources and expenditures among activities. The budget will allow CCMGC's Board and the City to analyze performance over time against what was planned, rather than the current model, which compares against the prior year. Non-profit budgets also frequently include mission statements, goals, and objectives that convey to stakeholders the vision for the upcoming year and give management the opportunity to communicate the reasons behind the allocation of resources.

If the City wishes to have additional input in CCMGC's expenditures, it should also amend the lease to include controls and approvals of expenses over an accepted threshold.

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3. Finding: CCMGC and the City marketing and operations are not highly coordinated.

While CCMGC was previously part of the City Parks and Recreation Department, the golf courses are not currently highly coordinated with Parks and Recreation marketing or operations. For example, Eagle Valley is not listed on the Parks and Recreation website, and it has not historically been included in Parks & Recreation programming or marketing materials. CCMGC and the City sometimes share use of equipment, such as lawnmowers, on an as-needed basis.

As noted above, CCMGC's most recent presentation to the Board of Supervisors includes a list of potential short- and long-term capital improvements to the courses that would require City investment. Cost estimates have not been developed for these improvements, and they are not integrated in the City's budgeting process or Parks Master Plan.

Recommendation: Where beneficial, City Parks and Recreation and Eagle Valley should collaborate on marketing, maintenance, and operations.

The City should be marketing and promoting the Eagle Valley courses and events as it does other City assets and programs. CCMGC's marketing personnel should work closely with Parks and Recreation's marketing and promotions personnel to develop a plan to market golf as part of Parks and Recreation's comprehensive community recreation services. The Eagle Valley website should be linked to the Parks and Recreation website and included in promotional materials developed by Parks and Recreation. For example, Eagle Valley's courses should be listed and the website linked on the "sports facilities" page of the Parks and Recreation website, and the clubhouse should be listed and the website linked on the "facility rentals" page. In addition, Parks and Recreation's online activity registration tool could be used for golf course lessons, clinics, and other events.

Both CCGMC and the City could benefit from the economies of scale gained by sharing maintenance and operations resources. CCMGC and the Parks and Recreation Department should undertake an equipment and maintenance task analysis to determine where resources could be shared for cost savings. Any plans for capital improvements to the golf courses that require City investment should also be integrated in the Parks Master Plan. Likewise, the improvements should be considered part of the City's budgeting process.

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4. Finding: CCMGC is unable to meet the terms of the facility lease.

The current lease structure was established to minimize the financial risk to the City, while also minimizing the City's oversight of day-to-day operations of the courses. However, the lease also minimizes the City's ability to exercise operational or quality control. It can also create conflicts over who has responsibility for capital improvements.

Since the lease payment was lowered to $120,000 per year in FY 08-09, CCGMC has only paid $70,000 of $480,000 in total required payments, although the Carson City Board of Supervisors has approved deferral of $210,000 in payments from FY 08-09 to FY 11-12. Over that period of time, the City has made $800,000 in debt service payments. As noted above, CCMGC could have made payments, but it chose to make course improvements. Based on this payment history, CCMGC is in default of the lease. In addition, the lease specifies that CCMGC must have $300,000 cash in reserve at all times. CCMGC has been unable to meet the reserve requirement since at least 2009, which also places CCMGC in default.

The inability of CCMGC to make lease payments has been a recurring issue at Board of Supervisors meetings and with the public. In a letter to the City dated August 24, 2012, CCMGC stated plans to pay $5,000 per month over the next fiscal year, excluding the months of December and January.

CCMGC attached a $10,000 payment to this letter. This would result in total payments for FY 12-13 of $50,000.

Recommendation: The City should enforce lease terms, renegotiate the terms of the lease, or re-bid the Eagle Valley lease.

The City should enforce the terms of the lease with CCMGC. The Board of Supervisors should declare an event of default based on lack of payment and determine whether to terminate the lease. If the lease is terminated, the City should renegotiate or re-bid the Eagle Valley lease. If the lease is re-bid, even if CCMGC is the only potential vendor, it would be advantageous to the City and CCMGC to enter into a new lease based on new terms that reflect the current operating environment, including a revised lease payment and additional City controls.

If the lease is not terminated and renegotiated, then, at a minimum, it should be amended to prioritize use of funds. For example, it appears unrealistic for CCMGC to have $300,000 cash in reserve in the current economic climate. However, it appears that CCMGC can meet annual debt service payments. A clause could be added to the lease establishing the priority of lease payments over the reserve requirement and other uses of funds. The City may also consider lowering the reserve requirement. The lease could also be structured to include a percentage of revenues payment to the City, additionally benefiting the City if economic conditions improve.

If the City wishes to have more control over CCMGC operations, then it could restructure the outsourcing agreement to a fee-for-service management agreement with CCGMC or another operator. Under a management agreement, the City would receive all revenues and be responsible for funding operations, capital improvements, and reserves. The City would pay the operator a fee for course management, and may include incentive payments for performance. Generally, incentive payments are based on gross revenue growth or cost reductions beyond established targets.

Public agencies are increasingly moving to this model for operations and maintenance, which would provide a high level of City control, quality assurance, and potential financial return. This model is also more compatible with multiple operators; for example, one vendor could manage the restaurant while another manages golf operations. Under this scenario, the City could still take advantage of a private sector compensation structure. However, this approach requires more City involvement than the current lease structure, minimizes the opportunity for private investment in the courses, and increases the City's level of financial risk.

Another option would be to shift CCMGC operations to the City. In this scenario, the golf courses could again be a division of the Parks and Recreation Department. The City would have complete control over finances and operations at the courses, but it would also assume the maximum amount of financial risk. This option also would require additional City employees and could result in loss of some of the current course operations expertise. Furthermore, this option constrains the ability of golf operations to respond to market conditions as quickly as a private sector operator.

B. GOLF OPERATIONS

1. Finding: Eagle Valley's rates are generally consistent with local competition, but opportunities exist to generate additional revenue.

Compared to the two privately-owned golf courses in town, Empire Ranch and Silver Oak, the two Eagle Valley courses are competitively priced. Greens fees for 18 holes of golf at all times of the year are consistent across the four courses. Empire Ranch and Eagle Valley East, which offer the easiest play in Carson City, are less expensive than Silver Oak and Eagle Valley West, which are more difficult. Silver Oak and Eagle Valley West also require players to use a cart, due to the terrain. The table below compares the least expensive (winter, weekday) and most expensive rates (summer, weekend) for an 18-hole round, including cart, at the two Eagle Valley courses versus those at the other golf courses in Carson City.

Course	Cost of 18 Holes + Cart	
	Off-Season Weekday	Peak Season Weekend
Eagle Valley East	$30	$45
Eagle Valley West	$35	$50
Silver Oak	$30	$50
Empire Ranch	$30	$40

According to the NGF, the national median cost to play 18 holes at municipal courses, including cart, is $36. Eagle Valley East and Empire Ranch also allow players to walk the course at a discounted rate. On peak-season weekdays, this cost is $22 at Eagle Valley East and $23 at Empire Ranch.

CCMGC must offer senior citizen discounts, per Board of Supervisors resolutions. For example, Carson City citizens aged 80 and up play for free. In 2011, 78 customers played 1,071 free rounds, which is approximately a $24,000 value. These players paid $5,241 in cart fees in 2011. The Senior discount offered with the Silver Club membership provides unlimited play on the East Course, plus additional discounts at a cost of $750 a year for individuals. Senior cart fees generated a total of approximately $19,000 in 2011. Senior citizens do not get a per-round discount at Eagle Valley. Empire Ranch and Silver Oak offer seniors 15% and 20% discounts per round, respectively.

Empire Ranch offers memberships similar to those offered at Eagle Valley. Empire Ranch offers several other membership types that are not comparable to any of Eagle Valley's current memberships. The cost of comparable memberships is detailed below; Silver Oak does not sell memberships at this time.

Course	Membership	Individual Cost
Eagle Valley	Gold Membership	$1,600
	Bronze Membership	$750
Empire Ranch	Premium Ranch Pass	$1,650
	Afternoon Ranch Pass	$900

Each course also offers a discount loyalty club similar to the 50 Mile Club at Eagle Valley. Each club offers about 30% off peak season green fees for members. Eagle Valley's loyalty club card appears to be the most generous of the three clubs, with more free amenities upon purchase and free lunch with every paid round. The 50 Mile Club is also the least expensive of the three clubs. Members of the 50 Mile Club represented 21% of total customers in 2011, and 30% of customers who lived within 50 miles of Eagle Valley. The costs and amenities associated with each discount card are detailed below.

Discount Card	Benefits
Eagle Valley 50 Mile Club $65 (1.3 rounds)	Free upon purchase: • 2 rounds of golf • 4 drink coupons • 2 lunches Ongoing discounts: • Every 11th round of golf is free • 30% discounted peak season green fees • Free lunch with every paid round • 10% discount on all non-sale merchandise • 20% discount at driving range • Discount on lessons • Twilight rates begin at 12:30 rather than 2 PM
Empire Ranch Card $150 (3.25 rounds)	Free upon purchase: • 4 rounds of golf Ongoing discounts: • Every 11th round of golf is free • 30% discounted peak season green fees • Free carts
Silver Oak Acorn Club $75 (1.5 rounds)	Free upon purchase: • 1 round of golf • 2 lunches • 3 buckets of balls Ongoing discounts: • 30% discounted peak season green fees • $1 off buckets of balls • 15% discounted range card • 20% discount on apparel • 20% discount on lessons

Eagle Valley sold 1,605 50 Mile Club cards in 2011, representing earnings of approximately $104,000. However, the free benefits offered with each card are valued at a range of $70 to $150, depending on the course played (assuming a meal cost of $5, drink cost of $5, and green fees of $20

to $55) for a minimum loss of $5 on the sale of each club card. It appears that there is an opportunity to recover additional revenues on 50 Mile Club cards.

Recommendation: CCMGC should continue to set rates at a competitive level and pursue opportunities to generate additional revenue.

CCMGC should continue to set course rates and membership costs at Eagle Valley consistent with local competition. Each year, green fees, membership rates, and discount clubs should be set based on recovering golf course costs, with the consideration of competitor rates in order to remain competitive in the local marketplace. Rates and memberships are currently competitive, while there are may be increased revenue generation opportunities with the 50 Mile Club and senior citizen discounts.

CCMGC should re-evaluate the cost of the 50 Mile Club to remain competitive. As noted above, 1,605 50 Mile Club cards were sold in 2011 and it is questionable whether the card recovers its value given all the benefits it offers. Compared to competitors, the 50 Mile Club is both more generous and less costly. Neither Silver Oak nor Empire Ranch, for example, offers free lunch with paid rounds to their club members. The club benefits that most impact revenues, free and discounted rounds, offered with the 50 Mile Club are similar to those offered by the Empire Ranch Card, which is more than twice as expensive as the 50 Mile Club card.

At a minimum the 50 Mile Club card should recover the cost of the free benefits it offers. As shown above, the value of the free benefits upon purchase is $70 to $150. Increasing the cost of joining the 50 Mile Club to $80 would generate an additional $25,000 in revenues for CCMGC. Increasing the cost to $150, which would be consistent with the Empire Ranch loyalty club, would generate $145,000 in additional revenues.

Given the current economic climate and CCMGC's inability to make its lease payments, the City should consider lifting the requirement for free golf to citizens aged 80+. As noted above, these customers received approximately $24,000 in free golf in 2011. Senior citizens could receive per-round discounts instead, which would allow CCMGC to align rates with competitors and generate additional revenues.

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2. **Finding: Nine percent (9%) of total rounds played at Eagle Valley in 2011 were complimentary.**

Complimentary rounds in 2011 played by employees, volunteers, Board members, Carson City residents aged 80 and up, and winners of donated rounds totaled 5,162, or 9% of total rounds played. CCMGC's Board members and employees are eligible to play golf for free with no limitations. In 2011, CCMGC Board members played 534 and employees played 223 complimentary rounds. Neither group pays cart fees. Carson City residents aged 80 and above played 1,079 free rounds of golf in 2011, but must pay cart fees. An additional 526 rounds of golf were donated to other local organizations for their fundraising efforts in 2011. These rounds included cart rental fees.

Volunteers played 2,800 complimentary rounds in 2011. In the summer, Volunteers who work two or more five-hour shifts per week are eligible for unlimited golf with no cart fee. Volunteers who work one shift per week can play unlimited rounds Monday-Thursday all day and Friday-Sunday after 12:30 PM. Once-a-week volunteers who play before 12:30 PM Friday-Sunday must pay a $15 cart fee. During the winter season, volunteers earn two rounds of golf for every shift worked. These rounds expire at the end of the season. CCMGC's General Manager reports the volunteer agreement will be changed for 2013. The practice of providing employees and volunteers with free rounds of golf is typical at golf courses. Because CCMGC is a non-profit, it is permissible for volunteers to be compensated with in-kind services. Volunteer rangers and starters are particularly important to smooth operations at both Eagle Valley courses. All paying customers take priority over complimentary rounds.

Recommendation: CCMGC should recover some costs from complimentary rounds.

As noted above, it is typical industry practice for golf courses to provide free rounds of golf to employees and volunteers. CCMGC should continue this practice. However, CCMGC should attempt to recover some costs from these rounds by charging a discounted cart fee to volunteers, including Board members, as well as on donated rounds. For example, seniors aged 80 and up are eligible for free golf on the East Course, but must pay cart fees. These individuals paid $5,241 in cart fees in 2011, recovering about 22% of the cost of free rounds played. Current adult cart fees are $9 for nine holes and $15 for 18 holes. A CCMGC cost recovery analysis showed that the actual cost of operating a cart is $8-10 per round. By charging discounted cart fees to volunteers and Board members, CCMGC could generate up to $33,000 in additional revenues. Donated rounds should be charged full cart fees, which could generate revenues up to $8,000. Employees should remain eligible for free carts as available, which is consistent with typical industry practices.

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3. Finding: Operating expenses decreased 12% between 2009 and 2011.

CCMGC evaluates expenses regularly to identify efficiency opportunities. CCMGC's operating expenses declined 12%, from $1.82 million in 2009 to $1.61 million in 2011. Over that time, CCMGC has pursued cost-cutting measures in areas including insurance, utilities, and fuel. In CCMGC's six largest expense categories, costs decreased 11% between 2009 and 2011. These changes are detailed in the table below.

Largest Expense Categories	2009	2011	Percent Change
Payroll (incl. bonus)	$754,008	$676,858	-10%
Utilities	$176,892	$120,300	-32%
Equipment Lease	$156,371	$160,967	3%
Bar & Grill	$135,102	$121,140	-10%
Pro Shop	$109,497	$87,700	-20%
Maintenance	$99,203	$102,596	3%
Total	**$1,431,073**	**$1,269,001**	**-11%**

Recommendation: CCMGC should continue to pursue efficiencies in operations.

CCMGC should continue to pursue cutting overhead costs in order to meet its lease payment to the City. Payroll is the single largest expense category, representing 40% of 2011 expenditures, and staffing can continue to be analyzed for efficiencies. Other smaller expense areas beyond those listed above that could be reviewed for efficiencies, such as fuel, bonuses, and administrative and promotional expenditures. However, it is important to recognize that some cuts, as in the maintenance budget and in revenue-generating areas such as the bar and grill, may deteriorate the customer experience.

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4. Finding: The Eagle Valley marketing plan is not fully developed.

CCMGC relies primarily on memberships and the 50 Mile Club to promote the Eagle Valley courses. The 110 memberships sold in 2011 generated $150,000. The 50 Mile Club is popular; with 30% of eligible customers purchasing a 50 Mile Club card in 2011, generating $104,000. While these loyalty programs are popular, they focus on existing customers rather than expanding the customer base.

The lease requires CCMGC to develop and maintain a marketing plan for the Eagle Valley courses. This plan is presented to the Board of Supervisors annually. The marketing plan is limited, since it focuses on improving the customer experience and does not include implementation steps or cost estimates for marketing and promotional initiatives. For example, the marketing plan states that "specific programs and events can be implemented to improve play and increase the bottom line once new customer service attitudes and awareness have been established."

Recommendation: CCMGC should fully develop and implement the Eagle Valley marketing plan.

CCMGC should develop a comprehensive marketing plan for Eagle Valley Golf. At a minimum, the plan should identify marketing initiatives; detail the steps necessary for implementation of the programs; and state estimated costs, timelines, and revenue generation potential for each program. The marketing plan should be updated as part of the annual budget development process.

As a non-profit organization, CCMGC can take advantage of external resources that may not be available to the City or the private sector. Low-cost options for marketing expertise are available to CCMGC. For example, professional associations may offer marketing assistance to members; consultants or non-profit organizations may provide services at discounted or pro-bono rates; a marketing class at a local college could take on the plan as a class project; or an internship could be developed.

A robust marketing plan should have the following key elements:

- Mission or purpose statement
- Description of services and products

- Advertising and promotions strategy and budget
- Overview of the marketplace in which CCMGC operates
    a. Competitor analysis
    b. Customer analysis
- Identification of target market segments
- Pricing strategy and analysis
- Marketing and sales objectives
- Goals and key performance metrics

Revenue generating low-cost operational and capital improvements could be pursued where feasible. However, the City may have to assist CCMGC with capital improvements. Capital improvements, particularly clubhouse upgrades to facilitate banquet rentals and constructing restrooms and a snack bar at the driving range, are estimated to annually generate $30,000 and $25,000, respectively.

C. CITY POLICY CONSIDERATIONS

1. Finding: It is in the City's best interest for the Eagle Valley courses to remain operational to absorb wastewater effluent.

Carson City is nearing the current capacity of sites available to be irrigated with wastewater effluent. The system's capacity is 6.8 million gallons per day, and the flow is currently 5 million gallons per day. It is likely that the need for additional capacity will rise in future years, especially if the City's population grows.

There are concerns that at least one golf course in Carson City will close. If that were to occur, then the City could have to determine how to dispose of wastewater quickly, at a high cost. Upgrading the wastewater treatment plant to tertiary treatment capabilities would give the City additional disbursement options; however, the current estimated cost for the upgrade is $20 million.

Recommendation: The City should develop alternative areas as contingency for additional wastewater effluent.

Regardless of whether the all courses in the City remain open, Carson City should begin to develop alternative areas for wastewater effluent irrigation. The most feasible current option is reported to be increasing the amount of land irrigated at the prison farm. It would cost the City approximately $1 million to upgrade the infrastructure at the prison farm to retain and distribute additional water.

2. Finding: There are alternative uses for the Eagle Valley East Course land.

As shown in section IV, there is an oversupply of golf in Carson City. Given the current economic climate and the declining national interest in golf, the City could decide to close the Eagle Valley East Course.

The land on which Eagle Valley West was constructed was deeded to the City for the specific purpose of public golf, so it cannot be converted to other uses. Eagle Valley East must be used for recreation and open space. It is adjacent to Centennial Park and could be transitioned to other uses, such as soccer, softball, and/or baseball fields.

Recommendation: The City should evaluate alternative land use scenarios for the Eagle Valley East Course.

In the event that the City determines that it is not feasible to operate two municipal golf courses in Carson City, the City should develop a comprehensive list of alternative scenarios for the Eagle Valley East land. A detailed cost-benefit analysis should be conducted for each scenario. In each case, the City should consider the cost of closing Eagle Valley East, including the impacts to CCMGC's total revenues and whether CCMGC could meet lease payments. In addition, if the land is no longer a golf course, the City would assume operations, maintenance, and management responsibility of the land, as well as the cost to convert it to alternate uses.

A number of alternative scenarios have been suggested during the course of this study. Examples include converting to baseball fields, soccer fields, and a park.