



# Madison Parks Division

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DATE: May 6, 2019

TO: Golf Subcommittee Members

FROM: Eric Knepp, Parks Superintendent

CC: Mayor Rhodes-Conway; Alders Bidar, Evers, Foster, Henak, Martin, Skidmore, and Tierney;  
Board of Park Commissioners

## **RE: Summary of Financial Position and Condition of the Golf Enterprise as of December, 2018**

This memorandum provides a summary overview of the financial position and condition of the Golf Enterprise Fund ("GEF"). Information is based upon data recently compiled and used to complete the City of Madison Financial Statements for the GEF for 2018. Given the significant flooding issues in 2018, especially at Yahara and Odana (mostly revenue loss, but also damages incurred), staff anticipated a significant financial loss for the year. The final results for 2018 though not unanticipated are alarming, with a net loss of \$863,320. The size of this loss means that the Total Net Position at the end of the year in 2018 is negative for the first time in the known history of the GEF.

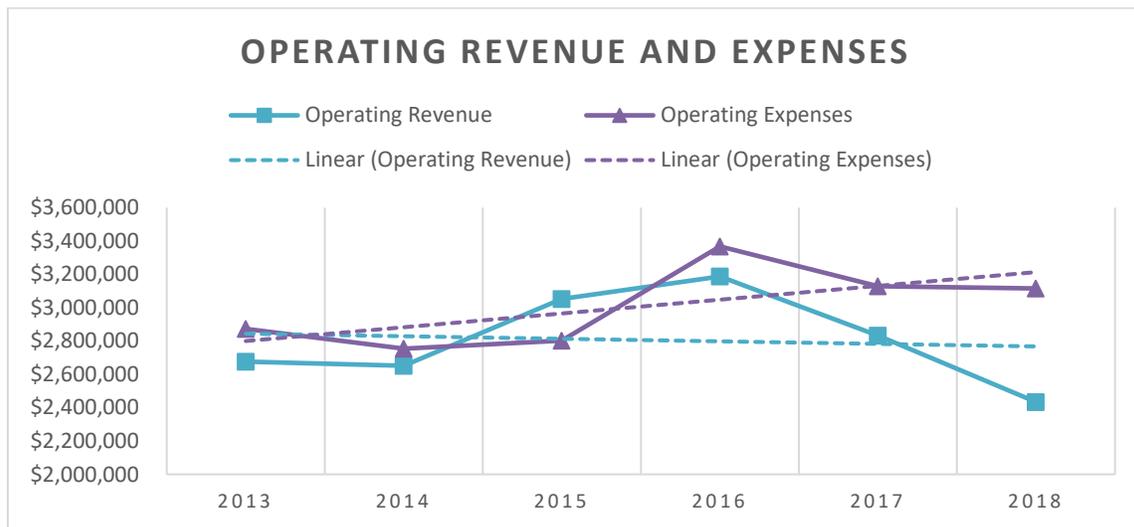
Despite the fact that 2018 was a historically bad year, the GEF has been struggling for more than a decade and despite some bright spots (e.g. a positive net position in 2015 and nearly \$3.2M in revenue in 2016) the current situation predates the poor 2018 financial performance. I have attached two documents as appendices to this memo that show the trends for the GEF's financial position and condition over the past 10 years. These documents show an unsustainable financial situation for the GEF. The two documents are:

- Appendix A – Combining Statement of Net Position
  - This document is essentially a balance sheet for the GEF. It shows Assets, Liabilities, and Net Position for the fund.
- Appendix B – Combining Statement of Revenues, Expenses and Changes in Net Position
  - This document is essentially the income statement for the GEF. It shows Revenues, Expenses, and Transfers for the fund.

These two documents both demonstrate chronic financial issues for the GEF over the past decade. The troubling financial data actually extends back to the 2001-2002 time period, which was the last time there were two successive years of profitability for the GEF. Since 2009, the GEF's Total Net Position has fallen from \$2.4M to the negative \$192K at the end of 2018. Appendix A also shows that in 2018 the City was no longer able to show the general fund supported "loan" as a Due to Other Funds, but had to move it to a Long Term Debt categorization of Advances from Other Funds given the lack of potential for realistic repayment. Additionally, Appendix B shows that the annual change in position has been negative in 9 of those 10 years, with only 2015 showing a positive return of approximately \$50,000. In seven of the 10 years, the loss has been greater than \$100,000 and in five of those years greater than \$337,000. Given the data and trend lines, the likelihood of the GEF recovering from the current deficit is effectively zero percent. Prior to 2018, though a low likelihood, four or five consecutive years like 2015 would have stabilized the fund. That is now closer to 18-20 such years occurring consecutively, which will not happen without systematic change.

There are a number of forces that have created the current financial situation with no single specific variable that ought to be considered causative from an expense perspective. Expenditure control programs have been in place for the entire decade and since 2013 (the year the Parks Division took over clubhouse operations of the courses), the annualized rate of growth for Total Operating Expenses is 1.4%. If depreciation is not

considered in this analysis, the rate is still at only 1.9%. Another item of interest has been the Payment in Lieu of Taxes (PILOT) paid by the GEF. Comparing 2013 to 2018, the annualized rate of growth is approximately 2.31%. The single most volatile, and causative, variable in the GEF’s financial results is operating revenue. Over the past six years, it has shown more variance than the expenditure side of the ledger with a total dispersion of approximately \$750K. However, even the revenue numbers are relatively stable with the peak and valley over this time period each being about 13.5% off the mean average. In the other four more “normal” years, the variance shrinks to a range of -5% to 8% off the mean average. Three years have been below average and three above during the six year period. Overall, the situation is fairly straightforward in the fact that expenditures are fairly fixed and growing at normal rates (though this has been done by cuts in numerous areas to hedge against inflationary pressures on select expenditure areas), while revenue is less stable and rarely able to keep up with expenses. Taken together, a basic linear trend analysis shows a sizable and growing gap between the two.



The financials are especially sobering when considered in the context of the significant sustained headwinds in the competitive golf marketplace in Dane County. The number of holes of golf available has doubled since 1990 and the number of golfers and the number of rounds they play annually has not kept up. This becomes more distressing when considering that the leading cost drivers (labor, fleet/equipment, and utilities) have been and seem likely to continue to outpace the average rate of inflation. Adding in the elasticity of demand on the price that can be charged and it is clear the current model is not sustainable, even in the near term.

**Future of Golf Course Operations**

The future of golf operations in Madison parks is uncertain and the current model is clearly unsustainable. Despite the financial issues facing the GEF, there is an opportunity for our community to have a sense of urgency to work together on long-term sustainable and practical solutions. Given the significant financial issues for the GEF and the fact that it is currently being supported by Madison taxpayers, it is imperative that the next steps actively engage our policymakers. In an effort to move forward on this issue, I will be recommending to the Mayor that we work with Alders to establish a public process with clear parameters, goals, and timelines to better inform next steps for the future of Madison’s golf courses. Given the significant financial issues facing the GEF, inaction is not an acceptable outcome for the City and I will be recommending that all options be contemplated as it relates financial and operational models of operation; hole reduction and/or course closure; and/or evaluating the best long term purpose of the 750+ acres of City park land (approximately 17.5% of parks owned land) currently in use as golf courses.