



City of Rockville  
Mayor and Council  
Agenda Item

<b>For the meeting on:</b>	June 21, 2010
<b>Agenda Item Type:</b>	Discussion & Instructions
<b>Department:</b>	Finance
<b>Responsible staff:</b>	Gavin Cohen, Director of Finance phone: (240) 314 - 8402 email: gcohen@rockvillemd.gov

## Subject

RedGate Business Plan (Plan) Financial Update

## Recommendation

Staff recommends that the Mayor and Council receive an updated financial report on the RedGate Business Plan.

## Discussion

### Background

Since opening in 1974, the RedGate Golf Course for many years operated like a business in line with Mayor and Council policies without the need for taxpayer support. Through FY 1999 RedGate met its financial goals of covering all operating, capital, overhead, debt service and depreciation costs with revenues generated from fees paid for by users of the course. Beginning in FY 2000, RedGate started losing money, and it began receiving taxpayer support through the Mayor and Council approved Plan in FY 2007.

At its height in the mid to late 1990s, RedGate hosted more than 60,000 golf rounds annually. Currently total rounds are averaging in the mid to high 30,000's. The reduction in rounds is due to a couple of key factors: the "flattening" or decline in the number of active golfers regionally and nationally, substantially increased competition in the local/regional golf market, greatly improved playing conditions at the other public golf courses operated by the Montgomery County Revenue Authority (MCRA), and the addition, over the last fifteen years and within an hours drive from Rockville, of more than twenty private daily fee golf courses in the local market.

The factors mention above have resulted in a **structural deficit** problem for RedGate. This manifests itself as revenues are consistently lower than operating expenses, average cost per round of golf exceeds average revenue per round of golf, rate of increase in expenses exceeds the rate of projected growth in revenues, and ultimately the inability to cover operating expenses from fees and other revenue sources in accordance with Mayor and Council policy.

Based on the negative financial trend that staff observed, a comprehensive financial review (Review) of RedGate was presented by staff at the March 27, 2006 Mayor and Council meeting.

The proposed Five-Year Business Plan for RedGate, which was an outcome from the Review, was presented to and adopted by Mayor and Council on May 22, 2006.

A status report on the RedGate Plan was presented to the Mayor and Council on March 30, 2009.

Councilmember Pierzchala requested that a further update on the performance of the Plan be presented.

### **RedGate Business Plan Update**

An update of the RedGate Plan can be found as **Attachment A** to this report. FY 2009 is the third completed year of the Plan. The audited financial statements for the three years FY 2007, FY 2008, and FY 2009 can be found as **Attachment B**.

In summary, the Plan has not succeeded in meeting any of the measures of success established despite being provided with significant financial resources by the Mayor and Council, which will total \$960,350 of taxpayer money over the five years of the Plan. The Plan, though well intended, did not address the **structural deficit** nature of the problem.

The Plan defined four measures of success:

- 1) Increasing rounds played** - Rounds played in 2009 of 36,571 were 503 or 1.4 percent above the 36,068 played in the year prior to the Plan starting; however, rounds were significantly down from 2008 by 4,545 or 11.1 percent. Total rounds are below levels projected in the Business Plan.
- 2) Increasing dollars per round** - Dollars-per-round is falling significantly below the goals stated in the plan. FY 2009 dollars per round was \$28.93; the FY 2009 Five-Year Plan goal was \$37.86 per round.
- 3) Turning annual deficits into annual surpluses** - The Fund Deficit, at the end of FY 2009 was \$1,108,828.
- 4) A negative cash balance of \$323,923 in FY 2011** - The Cash Balance at the end of FY 2009 was negative \$890,291.

After three and 3/4 years of the Five-Year Business Plan the data suggests the Plan will not succeed, and a different direction should be considered.

### **Enterprise Fund**

As part of the Business Plan adoption, the Mayor and Council approved the staff recommendation that, "*RedGate should remain in an enterprise fund with the long-term goal of covering all direct and indirect operating costs, all capital costs and generating cash reserves.*" RedGate has operated as an enterprise fund since it opened in 1974. This has been the policy of the Mayor and Council that has been reinforced several times recently. The advantages to accounting for RedGate within an enterprise fund are as follows:

- Better management of the enterprise as similar to private industry
- Better control over costs
- True cost of operations is visible
- Protection of the fees and revenues generated by the defined user group
- Improved decision making in regards to running the enterprise
- More accountability
- Significantly more transparency
- Separate set of financial statements for full disclosure

Though an operation that is accounted for in an enterprise fund is intended to cover 100 percent of its

costs through user charges, some do not, which does not undermine the advantages of operations being totally segregated. To the contrary, if an enterprise fund requires taxpayer subsidy, the transparency of the extent of the subsidy is clearly evident. Whereas if the same operation was part of the General Fund, the true costs utilizing taxpayers' dollars paying for the program is difficult to determine.

The FY 2011 proposed budget book, and the attached updated five-year forecast for the RedGate Fund, shows that through FY 2015 the deficit for RedGate without a taxpayer subsidy or change in operations is estimated to accumulate to approximately \$5.9 million (**Attachment C**). This does not include any capital infrastructure improvements that may be required in the future. The ongoing negative balances in the enterprise fund, if viewed together with the City's General Fund, clearly have a negative impact unless a deficit reduction plan is implemented. There are options on how best to implement this with the least impact to the General Fund, should Mayor and Council decide to continue the accounting for RedGate in an enterprise fund.

### **General Fund**

Councilmember Newton requested information on the financial impacts of the RedGate Golf Fund not operating as an Enterprise Fund, but rather operating within the City's General Fund.

In order for this to happen the Mayor and Council would need to change their current policy. That policy can be found on page 2-4, Fund Structure #4 of the City's Financial Management Policies in the FY 2011 proposed budget book. *"The enterprise funds are the Water Fund, the Sewer Fund, the Refuse Fund, the Parking Fund the Stormwater Fund, and the RedGate Golf Course Fund."*

The immediate financial impact of absorbing the RedGate Fund into the General Fund would be to reduce the City's General Fund reserve level from the current estimated 17.5 percent to 13.6 percent at the end of FY 2011. The RedGate estimated accumulated working capital deficit at the end of FY 2010 of approximately \$1.7 million would be subtracted from the General Fund reserves. The attached five-year forecast shows the estimated reserve levels of the General Fund without RedGate (**Attachment D**) and with RedGate starting in FY 2011 (**Attachment E**).

The ongoing financial impact of moving RedGate to the General Fund would be that the City's Debt Service Fund (taxpayer funded) would have to absorb RedGate's debt, which is currently \$402,379 (page 3-24 of the Proposed Operating Budget book). This debt was issued in June 2003 for sand trap and cart path renovations. The total debt issued was \$400,000. The General Fund would also have to absorb the net difference of inflows (revenues) and outflows (expenditures) which would vary from year to year based on the financial performance of the golf course. An estimate of what this would be can be found on the table below which shows deficits for the next five years due to the **structural imbalance** that exists between revenues and expenditures.

### **REDGATE REVENUES**

<b>Revenue Source</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Golf Course Fees	\$779,580	\$818,559	\$843,116	\$868,409	\$894,462
Cart Rentals	219,830	230,822	237,746	244,879	252,225
Driving range Fee	1,600	1,680	1,730	1,782	1,836
Other	13,910	14,606	15,044	15,495	15,960
Pro Shop	2,790	2,790	2,790	2,790	2,790
<b>Total Revenues</b>	<b>\$1,017,710</b>	<b>\$1,068,456</b>	<b>\$1,100,426</b>	<b>\$1,133,355</b>	<b>\$1,167,272</b>

### **REDGATE EXPENDITURES**

<b>Exp. Category *</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
Personnel	\$873,200	\$909,577	\$950,505	\$998,307	\$1,052,146
Contract Services	157,690	159,267	160,860	162,468	164,093

Commodities	288,360	297,011	305,921	315,099	324,552
Capital Outlay	95,700	95,700	95,700	95,700	95,700
<b>Total Expenditures</b>	<b>\$1,414,950</b>	<b>\$1,461,555</b>	<b>\$1,512,986</b>	<b>\$1,571,574</b>	<b>\$1,636,490</b>

\* Expenditures do not include administrative charges, debt service, depreciation or amortization.

<b>REDGATE DEFICIT</b>	<b>(\$397,240)</b>	<b>(\$393,099)</b>	<b>(\$412,560)</b>	<b>(\$438,219)</b>	<b>(\$469,218)</b>
<b>Total Deficit (\$2,110,336)</b>					

The total of these deficits is \$2,110,336 over the five-year period. It should be noted that these are operating deficits and do not take into account any future capital spending that would be needed for future improvements at RedGate. Capital spending would be moved into the City's Capital Projects Fund.

Other impacts to the General Fund would be a loss of revenue from not charging an administrative fee to RedGate, and from lower interest earnings due to lower estimated fund balances in the General Fund. The total General Fund loss of revenue from not charging an administrative fee totals \$1,527,788, and the total General Fund loss from lower interest earnings on decreased fund balances equals \$419,900. The total loss of General Fund revenue from these two sources equals \$1,947,688 over the five-year period.

#### LOST GENERAL FUND REVENUES

Revenue Source	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Administrative Charge	(\$165,750)	(\$334,815)	(\$338,163)	(\$342,390)	(\$346,670)
Interest Income	-	(26,700)	(104,000)	(130,400)	(158,800)
<b>Total Revenues</b>	<b>(\$165,750)</b>	<b>(\$361,515)</b>	<b>(\$442,163)</b>	<b>(\$472,790)</b>	<b>(\$505,470)</b>

**Total Lost Revenue (\$1,947,688)**

In summary the taxpayers would have an immediate impact of the General Fund absorbing the accumulated working capital deficit of approximately \$1.7 million, the outstanding principal and interest of the RedGate debt of \$402,379, forecasted operating deficits of \$2,110,336, and revenue losses of \$1,947,688. These factors would decrease the General Fund reserve balances below the Mayor and Council policy level of 15 percent starting in FY 2011 (**Attachment E**).

Mayor and Council should also be cognizant that a decision to move RedGate into the General Fund is an all or nothing decision as there is no way for staff to control the results of operations. A revised cost recovery guideline would have no impact on the cost to taxpayers. These deficits would need to be addressed through either reducing other General Fund programs and services or by raising taxes.

#### Other Information Requested

##### **Cost of City Facilities**

Mayor Marcuccio requested additional revenue and expenditure information for the City's facilities budgeted in the Recreation and Parks Facilities Division. This was provided, based on the proposed budget, to the Mayor and Council at the Recreation and Parks budget worksession held on April 19, 2010. An updated copy, based on the FY 2011 adopted budget is provided as **Attachment F** (note: the cost of operating the F. Scott Fitzgerald Theatre is incorporated within the Civic Center because there is no separate cost center due to the shared staffing across the civic center complex).

Councilmember Newton requested an "apple-to-apple" comparison of the operations of RedGate with other similar City programs. This comparison was provided to the Mayor and Council in the attached memorandum dated March 26, 2010, and at the Mayor and Council meeting held on April 19, 2010 as an attachment to the Cost Allocation Plan. A copy is provided as **Attachment G**. The cost recovery percentages of all Recreation and Parks programs is provided as **Attachment H**.

##### **Irrigation System FY 2000**

Councilmember Pierzchala requested information regarding the source of funds that paid for RedGate's irrigation system in FY 2000. **Attachment I** shows the irrigation system appropriation from the FY 2000 Capital Improvements Program budget. Approximately \$400,000 was spent, which came out of the RedGate Fund's cash reserves. The decision in FY 2000 on whether to borrow money or to utilize cash has little impact on the current operating results of the Fund. Current costs would actually be slightly higher due to the debt service. If the City utilized debt in FY 2000, the cash and reserve balances would have been higher for a longer period of time.

If debt was utilized for the irrigation system, the asset swap is the same, i.e. cash for an irrigation system, and RedGate would have another 10 years of increased debt service costs. A full analysis would analyze all aspects of RedGate back in FY 2000, as well as interest rates at the time and the City's ability to borrow money and service the debt. Staff's conclusion, without a full analysis, is this decision at the time was not harmful because RedGate had the cash reserves, so there was no need to incur additional borrowing costs.

### **Monopole Revenue**

This revenue source went to RedGate for the first two years (\$15,000 in 1997 and \$26,250 in 1998), it was then moved to the City's telecommunication fund in 1999 through 2002, and since 2003 it moved into the City's General Fund where it currently resides. If the Mayor and Council decide to keep RedGate as an enterprise fund, the Mayor and Council could change the current policy to allow RedGate to keep this source of revenue, since a strong argument can be made that revenue derived from RedGate assets should be credited to RedGate.

If the Mayor and Council wish to revisit this policy, staff recommends that it apply Citywide so that the Water Fund would get the revenue from the monopolies that are on the water towers. The total financial impact of this change in policy would be a loss of General Fund revenue in FY 2011 of \$247,000, an increase in RedGate revenue of \$91,000, and an increase in Water Fund revenue of \$156,000.

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### **Mayor and Council History**

The Mayor and Council receive regular quarterly reports on the status of Golf Fund finances, from the Finance Department presented at Mayor and Council meetings as part of the overall quarterly financial report.

A comprehensive Financial Review of RedGate was presented by staff at the March 27, 2006 Mayor and Council meeting.

The proposed Five-Year Business Plan for RedGate was presented to and adopted by Mayor and Council on May 22, 2006.

A report on the RedGate Plan was presented to the Mayor and Council on March 30, 2009.

In addition, the Mayor and Council review and approve the RedGate expenditure budget and projected revenues annually as part of the overall City budget process.

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### **Fiscal Impact**

There are significant financial implications to the City based on the direction to be provided by the Mayor and Council.

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### **Next Steps**

The Mayor and Council should provide direction on the future of the RedGate Golf Course.

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### **Attachments**

**Attachment A** - Update on the RedGate Business Plan Memo dated June 11, 2010



AttachA\_RedGate\_Update\_memo 06.11.10.pdf

**Attachment B - Updated 3 Year Audited Financial Statements for RedGate**



ATTACHMENT B-3rd year business plan.pdf

**Attachment C - RedGate Golf Fund Five-Year Forecast**



ATTACHMENT C\_RedGate\_Forecast.pdf

**Attachment D - General Fund Five-Year Forecast**



ATTACHMENT D-General\_Forecast.pdf

**Attachment E - General Fund Five-Year Forecast with RedGate starting in FY 2011**



ATTACHMENTE\_General\_RedGate\_Forecast.pdf

**Attachment F - Cost of Facilities, FY 2011 Adopted Budget**



AttachF\_FY11\_Adopted\_R&P\_Facilities\_detail.pdf

**Attachment G - Comparison of the Operations of RedGate with Other City Programs**



ATTACHMENT G-#11-10 RedGate revenues and costs compared to other rec facilities.pdf

**Attachment H - Cost Recovery for all Recreation and Parks Programs, FY 2011 Adopted Budget**



AttachH\_FY11Adopted\_CostCenterSummary\_R&P.pdf

**Attachment I - Irrigation System CIP from FY 2000**



ATTACHMENT I -irrigation system CIP.pdf

Department Head: Gavin Cohen, Director of Finance

A handwritten signature in black ink, appearing to read "Scott Ullery". The signature is fluid and cursive, with the first name "Scott" and last name "Ullery" clearly distinguishable.

City Manager: Scott Ullery, City Manager  
Approval Date: 06/16/2010