

DATE: November 28, 2011
TO: Board of Recreation and Park Commissioners
FROM: Recreation and Park Golf Advisory Committee
SUBJECT: Response to Provide Formal Written Comments on Golf Consulting Report – “Evaluation of Operating Options / Los Angeles Municipal Golf Course System”

ON BEHALF OF THE RECREATION AND PARK GOLF ADVISORY COMMITTEE:

Gene Vano, Chairperson

Larry Cloud, Vice-Chairperson

Dear President Sanders and Members of the Board:

Created by Board action in June 1996, the Golf Advisory Committee provides advice and recommendations to the General Manager and the Board of Recreation and Park Commissioners regarding various specifically enumerated functions, e.g., policies, capital projects and fees, and various generically enumerated functions, e.g., operating philosophies, strategic planning, and marketing practices. The one subject categorically excluded from the Golf Advisory Committee’s subject matter jurisdiction is personnel matters, or more specifically, “any supervisory powers over the actions and duties of city employees.” (ARTICLE V, Section 4 of the Los Angeles Recreation and Parks Golf Advisory Committee Bylaws as revised November 2004)

Hewing to the letter of these prescribed duties, the Golf Advisory Committee appreciates your honorable body’s invitation to submit formal written comments upon ***“Evaluation of Operating Options – Los Angeles Municipal Golf Course System.”***

On the following pages please find those “comments.”

They were drafted carefully and exhaustively by a process involving both general meetings of the full Advisory Committee and focused meetings of an ad hoc subgroup tasked with drafting them on behalf of the full Committee – “carefully” to ensure that they indeed represent the consensus of the disparate Committee and “exhaustively” to ensure that they represent the Committee’s fealty not just to the best interests of the Department’s golf program, but to the best interests of the Department, the City of Los Angeles, and the City’s workforce as well.

They are structured as follows:

- Summary, giving the best “operating option” for the Board to pursue;
- Evaluation of the subject report – summary of key findings;
- Review of the five (5) basic models of operation outlined in the subject report;
- Statement of certain overriding philosophical considerations;
- Rationale for concluding that the subject report militates in strong favor of the “best operating option” concluded and thus implicitly recommended herein; and
- Conclusion as to the best “operating option” for the Board to pursue.

* * * * *

Summary

The only model described in the report capable of achieving full sustainability per the need to set aside a minimum of 10% of greens fees into dedicated capital reserve funds and the need to accommodate the city's internal charge-offs (e.g., CAP allocations and overhead) while remaining faithful to the city's overriding commitment to the maintenance of the integrity of the workforce that delivers public services, is the **"Modified Management Model."**

The status quo, no matter how buttressed by outside consulting assistance, cannot achieve the management/marketing savvy needed to close the report's identified \$1.3 million gap in annual revenue generation. "Full self-operation" performs marginally better, and for that reason ought to be strongly considered for incorporation into the "Modified Management Model" scheme; however, it too fails for financial reasons. Even if we were to stipulate that the long-term leasing model does not violate the city's commitment to its existing workforce, a stipulation which we reject, the long-term leasing model, employed most noticeably on a local level by Los Angeles County, Pasadena and Long Beach, would not be in order, as it would provide too little financial advantage in exchange for giving up too much flexibility and control. The "Full Management" option delivers the financial goods without jettisoning fundamental control; however, because it relies upon the outsourcing of all current labor, it fails the second prong of our test – the city's overriding commitment to the maintenance of the integrity of the labor force that delivers constituent services.

The Modified Management Model involves nothing more than the incorporation of the thin veneer of experienced, professional business management necessary to wring that extra \$1.3 million from the current program, restore teamwork among the stakeholders, effectuate long delayed strategic planning processes, initiate modern marketing practices, and provide a spark of energy and renewal to a system in desperate need of it. It does not involve substitution of public employee labor for private sector labor, and it does not convulse or otherwise encumber the system with changes guaranteed to spark a political backlash; it merely brings aboard a thin veneer of professional management that would then be held accountable for delivering the full sustainability that is the subject of this exercise.

Failure to deliver that "full sustainability" can only lead to a system literally dead in the water, i.e., incapable of producing the revenue stream necessary to fund a capital improvement program, or a system that will have to look to a form of labor outsourcing as the only way to avoid that fate – a choice we believe can be obviated by the "Modified Management Model" as implied in the report and described more fully herein.

Evaluation of Report – Summary of Key Findings

The report may not be all-inclusive; however, its breadth and depth are more than enough to give the city a solid road map to a better and more fully sustainable municipal golf future.

Among its more important findings:

- The City’s customers find the quality of course maintenance good, an important subjective conclusion made all that much more compelling by the report’s acknowledgment of the City’s small maintenance staffs in comparison with the industry norm;
- The system’s customers find the public relations/customer service acumen of the on-site operations personnel pleasurable to deal with;
- The system generates \$1.3 million less annually than is needed for full sustainability, i.e., with sufficient capital improvement dollars to begin making a dent in the system’s large inventory of unmet project needs;
- The system would be well served by setting aside 10% of greens fees in dedicated capital improvement trust funds / capital projects reserve funds;
- The July 2010 greens fee schedule under which the system still operates, particularly the nonresident component thereof, has hemorrhaged market share and resulted in lower gross revenues, making it impossible to close the \$1.3 million sustainability gap by raising fees;
- The system’s concessionaires describe their relationship with the Department as dysfunctional;
- Oversight of golf concessions should be administered from within the confines of the Golf Division;
- The relationship between the program’s constituent organizations, clubs, and associations and the Department has fallen into a state of disrepair, a situation that needs to be rectified if the city is to rekindle the cooperation and teamwork necessary to meet the challenges posed by changed market, political, and demographic circumstances;
- The long-term leasing model employed by Los Angeles County, Pasadena, and Long Beach does not make sense under prevailing market conditions, as it would give up too much control in exchange for too little financial return – a “return” no more than the accomplishment of a mere sustainability easily achieved by other available means;
- The Full Management model would achieve \$3 million annual proceeds over and above “full sustainability,” otherwise known as net profits;
- Local 721 SEIU is open to exploring creative and counterintuitive solutions to securing the business acumen they too see as so desperately needed in the current system; and
- The comments of the “Stakeholders” in their “Interviews” section in conjunction with the systemic shortcomings interspersed throughout the remainder of the report provides a compelling case for change – and “change” of a magnitude significant enough to restore public faith and credibility in the system.
 - Note: The Golf Advisory Committee entertained at length the notion that many of the “comments” contained within the lengthy “Stakeholder Interviews” section may have been inaccurate, exaggerated, even unfair; however, the fact that so many of these persons, all interviewed separately and apart from each other, shared so many of the same negative and distrustful views struck the Advisory Committee as powerful evidence of the need for change – not change of those things that the same stakeholders found admirable in the current system, e.g., the workforce maintaining the golf courses and managing them on-site, but change in those things both the stakeholders and the consulting report itself found so lacking – current management practices and by implication their practitioners.

Five (5) Models of Operation

As described in the subject report, the five (5) basic models are:

1. Current Model: A hybrid between full self-operation and a facility lease, this model combines elements of self-operation (reservations, starting, greens fees collection, cart operations and course maintenance) with elements of a facility lease (golf shop/lessons and food/beverage concessions agreements). Advantages: 1) The city retains control over prices, policies, and standards; 2) the city takes advantage of overhead support functions provided by other city departments, albeit at an inflated price through the CAP process; and 3) the City retains full financial benefit of upside return. Disadvantages: 1) High wage/benefit packages; 2) restrictive labor policies; 3) absence of “best practices” in revenue generation; 4) bureaucratic constraints that inhibit management’s ability to adapt to changed market conditions/circumstances; 5) multiple focal points for customer service, i.e., multiple providers that don’t have incentives to cooperate; and 6) the city assumes 100% financial risk.
2. Modified Management Agreement: Entails the City contracting out the management of the system to a private entity on a fee-for-service agreement, while 100% of golf course maintenance and the vast majority of on-site operations remain the responsibility of the city. Advantages: The option provides the City with professional operational oversight by an experienced private sector specialist. Services would include marketing and promotional support, rounds and revenue optimization, and overall revenue management at each facility. The city receives 100% of golf course revenues. Disadvantages: Really only one – the City assumes 100% of the financial risk as a function of receiving 100% of the revenues.
3. Golf Facility Lease: Under this option the golf course is leased to a private operator that provides course maintenance, golf operations, and overall facility management services. More often than not, food and beverage is also included in the scope of leased services to the same operator. The operator’s lease payments typically are based on a minimum rental payment versus a percentage of golf fees, cart rental fees, driving range, merchandise, lessons, and food/beverage gross revenues. In the standard arrangement the operator collects all revenues, remits monthly a percentage thereof, and is obligated to fund some required front-end capital improvements, all operating expenses, and a reserve for ongoing capital improvements. Advantages: All financial risk is borne by lessee. Disadvantages: Upside financial benefit is enjoyed by lessee; landlord gives up de facto control for term of lease, although this is generally mitigated up front by landlord’s retention of price setting and policy making decisions as part of lease agreement.
4. Full Management Agreement: This option relates to a fee-for-service agreement with a Director of Golf, General Manager or outside company. Golf and food/beverage functions can be combined or separated, but the structure is the same. All functions are under the authority of the contract golf manager, General Manager or management firm. Under the typical arrangement, the landlord receives all revenues and is responsible for funding all capital improvements, operating expenses, and reserves for ongoing capital reinvestment. The landlord pays the operator a fee for management of the operation. Compensation typically consists of a base fee plus performance incentives. Advantages: 1) The city is able to take advantage of the management, business, marketing and promotional acumen of a company experienced in municipal golf management/operation; 2) the City is able to reduce its labor costs by outsourcing the function to the management company; 3) the City is able to retain absolute control over prices and policies; and 4) the City is able to retain flexibility in the selection and retention of its management tenant, as the all notions of the long term are vitiated by the fact that the management firm is not asked to bring any up-front capital improvement dollars to the table. Disadvantages: The City assumes all risk and without constant oversight/vigilance, runs the risk of losing control over expenses. As the report notes, this is the most popular method of municipal golf course management in the United States at the moment.

5. Full Self Operation: A mere extension of the “Current Model” (status quo), this model simply takes all golf course functions/concessions in house. Advantages: The same as the “Current Model” with the possibility of additional net revenue from the driving ranges, assuming they are managed properly. Disadvantages: The same as the “Current Model” with the addition of the greater risk that would be assumed through the acquisition of even more functions. As the report notes, this is an extremely rare option in the United States anymore, although it is not unusual for course maintenance to be provided by public employees.

Overriding Philosophical Considerations

Times are tough – for the nation, the City of Los Angeles, the Department of Recreation and Parks, the Department’s municipal golf program and the City’s individual golfers.

It would be nice if we could roll back the clock 20 years to a time of high demand, price leadership, newer infrastructure, and a firm public commitment to supporting all forms of recreation and open space activity. But that would make us guilty of engaging in the same “time warp” thinking the consulting report identifies in the City’s management of its golf program. That is why we are persuaded of the wisdom of pursuing the “Modified Management Model.” Its focus upon revenue generation makes us a bit uneasy, as does its invitation to the kinds of promotional activities we once decried as undue inhibitions on general public access. However, its balanced approach – keeping the strengths of the current system while fixing its one glaring weakness – strikes us as the best hope for keeping a semblance of the old verities and values that have suffused the system for generations. Those “verities and values” are as much about maintaining the dignity of the workforce that delivers public services as it is about maintaining affordable access to its publicly owned golf properties; indeed, the two go hand in hand.

By preferences/presumptions in its City Charter and a strong Living Wage Ordinance, the City of Los Angeles makes crystal clear its commitment to the dignity of the workforce that delivers its public services. We share that commitment and believe that what we propose herein is the best route to maintaining it.

By history/tradition, the City of Los Angeles has made equally crystal clear its commitment to keeping its publicly owned/operated parks accessible to as wide a swath of its income demographic as feasible – a feasibility factor that has no doubt gone up in this era but an important determination nonetheless. We applaud that commitment and believe that what we propose herein is the best route to maintaining it.

Just as Henry Ford thought it important for those who assembled the Model-T to earn enough salary to buy the cars they made, we think it important that those who operate and maintain the City’s municipal golf courses earn enough to pay greens fees on the courses they tend. There are many cities in California with insufficient golf markets and golf courses to maintain this rather staid standard of American lore; however, such is not the case here in the City of Los Angeles, although we acknowledge that there is no guarantee that this will remain true indefinitely should fixed costs continue to escalate while average incomes continue to decline.

Rationale

While much of the reasoning of the Golf Advisory Committee's recommendation of a "Modified Management" structure for the City's municipal golf program already appears in previous sections, allow us to encapsulate it here in a nutshell.

The report finds some strengths in the current system, namely the quality of the maintenance program and the general affability of the on-site Operations personnel. To that we would add the physical courses themselves. Our predecessors bequeathed us some superb golf courses, albeit many courses whose physical plants have been allowed to deteriorate in the absence of a real capital reinvestment program.

The report finds some problems in the current system – the largest one being the \$1.3 million additional annual revenue necessary to achieve full sustainability, which the report defines as coverage of all expenses, including a "distribution" of \$1 million per year to the Department's general fund, plus a minimum of 10% of gross receipts to begin that long neglected capital reinvestment program. Some of the minor ones include a non-competitive greens fee structure ("minor" in the sense that it can be quickly remedied), a poorly structured concessions oversight function, and a breakdown in communications among the system's key stakeholders.

The report finds only one intractable problem, and it is directly related to solving the largest of the mere "problems" – the mandate to generate \$1.3 million annually in order to achieve full sustainability. Because it has been managed for so many years (up until the previous fiscal year) as an appropriated, command-and-control bureaucracy, the Department does not possess within its ranks persons with hands-on experience in managing a \$30 million business enterprise.

If the City is going to be able to close its sustainability gap and get about commencing a long overdue capital reinvestment program, one strategically thought through as opposed to ad hoc, without resorting to the employment of a "Full Management Agreement" model of operation, it is going to have to import the business acumen absolutely essential to do so – at least during the interim necessary to change the culture of the program sufficiently to permit those coming up through its ranks to develop the business and management skills that are surely to become the central organizing principles of this new order.

Our reasoning is not complicated – just a little common sense applied to what we know about the current system and what the consulting report has added to that knowledge. Keep what works; build on that to solve those problems for which there are solutions within the system's current capacity to effectuate; and make the one systemic change necessary to give the program the tools it needs to solve its "intractable" problem and thereby close the sustainability gap – and do so while maintaining the City's commitment to its own professed values.

Conclusion

The only model described in the report capable of achieving full sustainability per the need to set aside a minimum of 10% of greens fees into dedicated capital reserve funds and the need to accommodate the city's internal charge-offs (e.g., CAP allocations, overhead, and "distribution" of \$1 million per year to the general fund of the Department) while remaining faithful to the city's overriding commitment to the maintenance of the integrity of the workforce that delivers public services, is the **"Modified Management Model."**

The status quo, no matter how buttressed by outside consulting assistance, cannot achieve the management/marketing savvy needed to close the report's identified \$1.3 million annual revenue generation gap. "Full self-operation" performs marginally better, and for that reason ought to be strongly considered for incorporation into the "Modified Management Model" scheme; however, it too fails for financial reasons. Even if we were to stipulate that the long-term leasing model does not violate the city's commitment to its existing workforce, a stipulation which we do not accept, the long-term leasing model, employed most noticeably on a local level by Los Angeles County, Pasadena and Long Beach, would not be in order, as it would provide too little financial advantage in exchange for giving up too much flexibility and control. The "Full Management" option delivers the financial goods without jettisoning fundamental control; however, because it relies upon the outsourcing of all current labor, it fails the second prong of our test – the city's overriding commitment to the maintenance of the integrity of the labor force that delivers constituent services.

The Modified Management Model involves nothing more than the incorporation of the thin veneer of experienced, professional business management necessary to wring that extra \$1.3 million from the current program, restore teamwork among the stakeholders, effectuate long delayed strategic planning processes, initiate modern marketing practices, and provide a spark of energy and renewal to a system in desperate need of it. It does not involve substitution of public employee labor for private sector labor, and it does not convulse or otherwise encumber the system with changes guaranteed to spark a political backlash; it merely brings aboard that veneer of professional management which would then be held accountable for delivering the full sustainability that is the subject of this exercise.

Failure to deliver that "full sustainability" can only lead to a system literally dead in the water, i.e., incapable of producing the revenue stream necessary to fund a capital improvement program, or a system that will have to look to a form of labor outsourcing as the only way to avoid that fate – a choice we believe can be obviated by the "Modified Management Model" as implied in the report and described above in great detail.

* * * * *

On behalf of the Golf Advisory Committee, the constituent groups it represents, the golfers of the City of Los Angeles, and the citizens of the City of Los Angeles, we thank you for sanctioning an open comments period regarding this report re the future of the Los Angeles municipal golf program, and we thank you for considering our views thereon.