ATTACHMENT 1

THE MONTGOMERY COUNTY ENTERPRISE FUND

PERFORMANCE AUDIT OF SELECTED ENTERPRISE FACILITIES

Earlier this year, Commission staff engaged the services of KPMG, LLP to conduct a performance audit on four of our largest Enterprise facilities: Little Bennett Golf Course, Northwest Golf Course, Cabin John Ice Rink, and Wheaton Ice Rink. Only a select number of facilities were targeted for the audit in view of the potential cost of conducting an Enterprise-wide audit of all facilities. Staff also believed that the audit findings and recommendations would, in many cases, be applicable to some degree across all facilities in the Enterprise Fund.

The four facilities that were selected for the performance audit were chosen based on one or more of the following factors.

- Total annual revenue.
- Past importance to the Enterprise Fund, positive or negative, and their potential to have a long-term positive or negative effect on the future health of the Enterprise Fund.
- Past, current, and/or continuing operating losses.
- Current debt service burden, if any.

The objective of the audit was that each of the four facilities-operations be reviewed and evaluated with respect to their ability to remain or achieve self-sustaining status and function in a manner similar to a private business enterprise. The performance audit was to include, but not necessarily be limited to, the following considerations.

- Are staffing levels appropriate for the size of the facility and the scope of the services provided? Is there unwarranted duplication or overlap of staff, or are staff levels insufficient? Is there an appropriate balance of career versus non-career or seasonal staff?

- Are the overall operating expenditures (both direct and indirect) appropriate? Are expenditures geared toward meeting program and maintenance goals and objectives? Are there adequate controls in place to monitor expenditures, identify waste or unnecessary costs, and make necessary and timely corrections to stay on budget or adjust for a downturn in revenue?

- Are fees and fee structures competitive and adequate in comparison to the services offered? Are the policies related to fees a help or hindrance to maximizing the revenue potential of these facilities-operations?

Planning Board Presentation – October 23, 2003
Enterprise Fund Status
Attachment 8 (cont)

- Are adequate performance measures or other such mechanisms in place to ensure a high level of performance on the part of management and staff in achieving the goal of self-sustainability for each facility-operation?
- Do the management and administrative structure and oversight of the Enterprise facilities contribute to or detract from the ability of each individual facility-operation and the Enterprise Fund as a whole to perform as an efficient business-like operation and achieve the policy objective of self-sustainability?
- Are marketing efforts adequate? Is the Department using the right media to market Enterprise facilities, services, and programs? Have the target markets been adequately identified, and are they being reached?
- Are customer service efforts adequate? Are employees receiving the right amount of training to ensure high quality customer service? Do current survey techniques (e.g. facility surveys, customer comments' cards, mystery shopper visits) go far enough in contributing to customer service improvements?
- Are individual cost centers or operations (e.g. pro shops, snack bars, driving ranges) within the larger operations functioning in an efficient cost effective manner?

It was expressly <u>not</u> the intent of this project to evaluate the potential of each facility-operation for privatization at this time.

The full report is attached. A summary matrix of the audit recommendations is also attached and contains staff comments and an assessment of whether the recommendations can be implemented in the near term of if their implementation is longer-term.

ATTACHMENT 1

KPMG PERFORMANCE AUDIT RECOMMENDATIONS – 2003
Update on Enterprise Division and Ice Rink Related Recommendations

#	Recommendation	Implementation		Revenue Impact	Expenditure Impact	Staff Comments - 2003	Updated Status as of 2007
		Short Term	Long Term				
1.A	Restructure the Enterprise and Park Fund management and administrative structure.		X	Should result in increased revenue by virtue of improved coordination and focus on Enterprise matters.	Increase in expenditures due to additional staffing in Enterprise Office.	**Agree**. A restructuring would likely result in a combination of more revenue and savings which would help pay for the additional staff.	Completed - Increase supervision, cohesiveness, accountability, and responsibility in one location.
2.A	Revise the employee performance management process.	X	X	Setting and enforcing achievable goals for managers is expected to have positive impact on revenue.	Setting and enforcing achievable goals for managers is expected to result in significant savings.	**Agree**. As above, this should tighten up management control of facilities and set actual targets for managers to meet.	Accomplished and updated on an annual basis.
3.A	Reduce seasonal staff at Wheaton Ice Arena.	X		Could have a negative impact on revenue if service levels are affected.	Savings could be realized in one of the ice rinks' largest expenditure areas.	**Agree**. Unnecessary coverage should be eliminated. However, care must be taken not to reduce service levels and safety.	Accomplished, reviewed annually
3.B	Golf Related Recommendation						
3.C	Establish balance of duties [between manager and assistant manager] (Wheaton Ice).	X		Unclear	Unclear	**Agree**. But management is unsure what effect if any the distribution of duties is having on operations.	Completed
3.D	Golf Related Recommendation						
4.A	Golf Related Recommendation						
4.B	Golf Related Recommendation						
4.C	Golf Related Recommendation						

KPMG RECOMMENDATIONS - 2003 (cont)

	Recommendation	Implementation Short Term	Implementation Long Term	Revenue Impact	Expenditure Impact	Staff Comments - 2003	Updated Status as of 2007
4.D	Conduct a costing study for each ice rink.		X	Unclear	No anticipated effect.	**Neutral**. Many complex issues are involved including whether such an approach is in keeping with our ice rink scheduling policy.	Yes, done annually, renew, completion and analyze what the market will bear.
4.E	Modify policy to allow for enhanced revenue opportunities (ice). - provide for visiting pros - dasher board advertising - separate discount coupons for W & CJ	X	X	Visiting pros would enhance program opportunities (e.g. more revenue). Dasher advertising would be clear revenue.	No anticipated effect.	**Agree** re: visiting pros. **Agree** that dasher advertising holds significant potential for increased revenue but should be considered in the broader context of marketing efforts Enterprise-wide.	Completed visiting coaches Policy, continue to explore sponsorship opportunities.
4.F	Golf Related Recommendation						
4.G	Golf Related Recommendation						
5.A	Conduct a more detailed review of certain expenditures and consider replacing Wheaton compressor system.		X	Unclear as it relates to compressor problems. Compressor failure could result in significant losses.	Compressor savings may be difficult to estimate and must be compared against cost of new system.	**Disagree** as it relates to compressors. Compressors are relatively new and may experience better operating efficiency and longer life with better outside maintenance support due to resolution of lawsuit among the rink contractors.	Review contract
5.B	Golf Related Recommendation						

ATTACHMENT 1

KPMG RECOMMENDATIONS - 2003 (cont)

#	Recommendation	Implementation Short Term	Implementation Long Term	Revenue Impact	Expenditure Impact	Staff Comments - 2003	Updated Status as of 2007
4.D	Conduct a costing study for each ice rink.		X	Unclear	No anticipated effect.	**Neutral**. Many complex issues are involved including whether such an approach is in keeping with our ice rink scheduling policy.	Yes, done annually, renew, completion and analyze what the market will bear.
5.E	Consider need for a more accurate overhead allocation.		X	No anticipated effect.	No anticipated change overall but could affect facility-by-facility distribution.	**Disagree**. Not needed. Also, to be truly accurate, some marginal performing facilities would take the hardest hits.	Continue to disagree, methodology is reviewed annually
5.F	Golf Related Recommendation						
5.G	Golf Related Recommendation						
6.A	Golf Related Recommendation						
6.B	Reduce inventory levels and monitor inventory turnover on an on-going basis (ice rinks).		X	Better turnover would enhance revenue by allowing products to be sold at a better margin.	Savings would result from better sales margins. See revenue.	**Agree**. This has an Enterprise-wide implication involving the "positioning" of our facilities in the market	Completed – reviewed annually
6.C	Golf Related Recommendation						
6.D	Strive for continuous improvement (ice rink snack bars).			See 6.E and 6.F	See 6.E and 6.F	**Agree**.	Continue review and upgrade
6.E	Consider additional food and beverage revenue-generating options.			If carefully planned, would have a positive effect on net operating income.	See revenue impact.	**Agree**.	Agree

ATTACHMENT 1

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KPMG RECOMMENDATIONS - 2003 (cont)

#	Recommendation	Implementation		Revenue Impact	Expenditure Impact	Staff Comments - 2003	Updated Status as of 2007
		Short Term	Long Term				
6.F	Centralize food and beverage purchasing and planning. - standardize menus - better coordination in purchasing	X	X	Better product coordination may increase sales.	Savings from more coordinated purchasing and standard menu items.	**Agree**. A separate centralized food services operation to coordinate all snack bars for Enterprise operations has been discussed in the past and bears further study.	Agree
6.G	Do not outsource the food and beverage or pro shop operations.	X	X	There are advantages to be gained by continuing to self-operate under improved operations and purchasing efficiencies.	See revenue impact.	**Agree**. Our food service operations are likely too small to attract competent, reliable vendors.	Agree
7.A	Develop and implement a marketing plan to achieve specific business goals and allocate sufficient budget to achieve those goals.		X	Revenue could be increased through amore coordinated marketing effort.	Would likely increase costs over what is currently spent on advertising and marketing.	**Agree**. Enterprise marketing position vacant pending decision on the future role for this position. Marketing plan will likely involve a combination of staff efforts as well as those of a consultant.	Market manager employed. Coordinates division goals with marketing plan. Coordinates web-site for each facility.
7.B	Golf Related Recommendation						

KPMG RECOMMENDATIONS - 2003 (cont)

#	Recommendation	Implementation		Revenue Impact	Expenditure Impact	Staff Comments - 2003	Updated Status as of 2007
		Short Term	Long Term				
8.A	Implement a more structured and frequent customer feedback mechanism that includes follow-up.	X	X	Unclear	Unclear	**Agree**. We need to find ways of retaining our current customers to stave off further loss of our market share.	Completed
9.A	Require managers to complete training on use of Performance Accounting.	X	X	Unclear	Unclear	**Agree**. Training already available. Types of training and topics covered need to be discussed.	Continued on-going training.

ATTACHMENT 1

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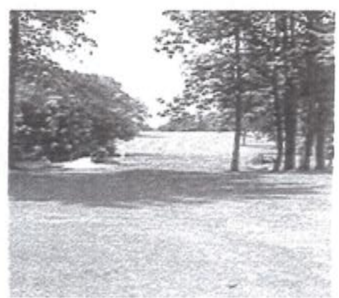
KPMG

Maryland - National Capital Park and Planning Commission



Performance Audit of the Montgomery County Enterprise Fund

October 2003

Table of Contents

1 Executive Summary

In order for the Maryland-National Capital Park and Planning Commission ("Commission" or "MNCPPC") to achieve self-sustainability of the Montgomery County Enterprise Fund ("Enterprise Fund"), the Commission needs to identify ways to enhance the financial performance of the Enterprise Fund facilities ("Enterprise Facilities".) Based on a performance audit of four selected facilities, Little Bennett Golf Course, Northwest Golf Course, Cabin John Ice Rink, and Wheaton Ice Arena, several opportunities to improve the financial performance of the Enterprise Fund were identified. The key opportunities are summarized below.

Management and administrative structure – The Commission should consider restructuring the management and administrative structure and oversight of the Enterprise Facilities to align the accountability for the Enterprise Fund's performance with the authority to impact it's performance through the management of the Enterprise Facilities. Under the current structure, the Planning Board holds the Enterprise Office accountable for the Enterprise Fund's performance, while the Park Fund has the authority over the management of the Enterprise Facilities. We recommend the Commission align the accountability and authority with the Fund that would cause the least reorganization and disruption, and that has the strongest resources to effectively manage the facilities.

Performance measures – The Commission should implement and monitor additional performance measures to drive improved results by revising the employee performance management process to make employees more accountable for the performance of their facilities and reinforcing the Employee Recognition Program to provide further incentive to employees to achieve performance goals.

Staffing – The Commission could improve the bottom line of the golf courses by changing some of the staffing mix and levels, specifically by shifting the maintenance staff at both golf courses to a higher percentage of part-time, seasonal employees, and reducing the number of pro shop employees at both golf courses. Commission management responded that increasing seasonal staff could be difficult due to Commission limitations on hours, salaries and promotions.

Fees – The Commission has opportunities for enhanced revenue, especially in the following areas:

- Offer twilight fees and frequent player programs at Little Bennett Golf Course
- Offer discount fees at golf courses during slow times of play
- Contract with visiting pros at Cabin John Ice Rink
- Implement dasher board advertising at ice rinks
- Provide incentives for teaching professionals to sell pro shop goods.

Operating expenditures – The Commission may have opportunities to reduce expenditures at the facilities through:

- Reducing maintainable acreage at both golf courses and reducing personnel and materials costs within golf course maintenance
- Planning 5 to 10 years in advance for capital expenditures at levels commensurate with industry averages
- Reducing the golf cart fleet at Little Bennett Golf Course
- Replacing the compressor system at the Wheaton Ice Arena to reduce maintenance costs
- Continuing investigations with PEPCO on utility costs at the ice rinks, and perhaps pursuing further action with a utility consultant.

Additionally, the operating expenditures could be better controlled through the design and implementation of stronger expenditure monitoring controls and a revised expenditure policy to ensure correct facility classification.

Individual cost centers – The financial performance of the individual cost centers could be improved through:

- Reducing inventory levels at the Little Bennett, Cabin John and Wheaton pro shops
- Reducing new grill operations at the Little Bennett Golf Course
- Considering additional food and beverage revenue-generating options at the golf courses
- Centralizing food and beverage purchasing and planning.

Marketing – To maximize the effectiveness of marketing efforts, the Commission should develop and implement a robust marketing plan aligned with achieving specific business (revenue) goals. The marketing budget needs to be more clearly allocated among facilities and marketing initiatives, and consistent with the facilities that would benefit from more advertising. Little Bennett Golf Course in particular could benefit from improved marketing collateral and website.

Customer service – The Commission could improve its customer service efforts by implementing a more structured and frequent customer feedback mechanism that includes follow-up.

Other – Key to implementing many of the recommendations is the need for the facility managers to effectively monitor facility performance on a timely basis. Currently, not all of the facility managers possess the skill and knowledge to effectively use Performance Accounting, the system in place to monitor financial performance of the facilities. We recommend the Commission should consider requiring all facility managers to complete training on use of Performance Accounting.

Section 3 of this report provides details supporting these findings and further describes the recommendations. These recommendations present several opportunities for the Commission to improve the financial performance of the Enterprise Facilities and help achieve its goal of self-sustainability.

We would like to take this opportunity to thank the Montgomery County Department of Park and Planning, and especially the Enterprise Office. Without their cooperation and assistance, KPMG would not have been able to complete this performance audit in an efficient and timely manner.

2 Approach and Workplan

The Commission engaged KPMG to conduct a performance audit on selected facilities administered under its Montgomery County Enterprise Fund. The purpose of the performance audit was to identify areas of improvement in the facilities' management, operation, and programming that will enhance their financial performance and ultimately help the Enterprise Fund maintain its self-sustaining status and avoid depleting any remaining cash reserves in the Fund.

The facilities selected for inclusion in the performance audit include:

- **Little Bennett Golf Course**, an 18-hole facility in the northern part of Montgomery County next to the Frederick County line. Little Bennett opened in 1994 and has been widely touted as the Department's flagship golf facility. After 8 1/2 years of operation, Little Bennett continues to struggle in covering its operating expenditures let alone its debt service payments. As such, this facility remains a major concern of the Department in managing the current fiscal situation faced by the Enterprise Fund.
- **Northwest Golf Course,** a 27-hole facility, has consistently been one of the Enterprise Fund's strongest performers. Though Northwest Golf Course continues to generate an operating surplus, due to its past and continuing importance to the Enterprise Fund and the significant levels of revenue it generates, it is being included in the performance audit in order that it remains self-sustaining.
- **Cabin John Ice Rink** has been a consistently strong performer in the Enterprise Fund, and it currently ranks as the number one revenue generating facility on the Montgomery County side of the Commission. This is an important facility to the Enterprise Fund because of its past performance and future potential.
- **Wheaton Ice Arena** opened in November 2000 and replaced a covered, outdoor facility that was built in the 1960s. Though Wheaton Ice Arena has achieved its annual revenue goals, the Enterprise Office staff believes there are further opportunities for growth, but high expenditures continue to be an area of concern.

The objectives of this engagement included:

- Reviewing and evaluating the operations of the selected Enterprise Facilities
- Evaluating the effectiveness and efficiencies of the respective operations at each of the facilities
- Identifying and developing suggestions and recommendations for operational improvement; in addition to providing corrective measures in order to improve the facilities' bottom lines.

The objective of this audit is that each of these facilities-operations be reviewed and evaluated with respect to their ability to remain or achieve self-sustaining status and function in a manner similar to a private business enterprise. The performance audit shall include, but not necessarily be limited to, the following considerations:

- Are staffing levels appropriate for the size of the facility and the scope of the services provided? Is there unwarranted duplication or overlap of staff, or are staff levels insufficient? Is there an appropriate balance of career versus non-career or seasonal staff?

- Are the overall operating expenditures (both direct and indirect) appropriate? Are expenditures geared toward meeting program and maintenance goals and objectives? Are there adequate controls in place to monitor expenditures, identify waste or unnecessary costs, and make necessary and timely corrections to stay on budget or adjust for a downturn in revenue?

- Are fees and fee structures competitive and adequate in comparison to the services offered? Are the policies related to fees a help or hindrance to maximizing the revenue potential of these facilities?

- Are adequate performance measures or other such mechanisms in place to ensure a high level of performance on the part of the facilities' management and staff in achieving the goal of self-sustainability for the Enterprise Fund?

- Do the management and administrative structure and oversight of the Enterprise Facilities contribute to or detract from the ability of each individual facility and the Enterprise Fund as a whole to perform in an efficient business-like manner and achieve the policy objective of self-sustainability?

- Are marketing efforts adequate? Is the Department using the right media to market Enterprise Facilities, services, and programs? Have the target markets been adequately identified, and are they being reached?

- Are customer service efforts adequate? Are employees receiving the right amount of training to ensure high quality customer service? Do current survey techniques (facility surveys, customer comments' cards, mystery shopper visits) go far enough in contributing to customer service improvements?

- Are individual cost centers or operations (pro shops, snack bars, driving ranges) within each facility functioning in an efficient, cost effective manner?

The scope of this engagement did not include validating the accuracy and reliability of the data used, implementing our recommendations, conducting customer satisfaction surveys or performing post implementation reviews.

We conducted our performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the U.S.

Activity I - Planning

We held an initial planning meeting, on June 10, 2003, which included KPMG and Commission management. This meeting set the tone for the project and facilitated a project schedule within the framework of the Commission's normal work routines. At this meeting, we reaffirmed the project's scope and objectives, worked with management to identify Commission personnel who would participate in the project, and discussed the documents that we would review during the engagement.

Activity II - Information Gathering

This activity was devoted to gathering information relating to the functions, activities, processes, financial and human resources, and performance of the facilities.

We gathered information through the following:

- Review of existing documentation;
- Seventeen one-on-one interviews with select Commission and facility representatives; and
- Four site visits (Cabin John Ice Rink, Wheaton Ice Arena, Little Bennett Golf Course, and Northwest Golf Course).

We conducted interviews with the following individuals:

Facility / Office	Interviewees	Title
Wheaton Ice Arena	• Cathy Laws • Ron Postman	• Facility Manager • Assistant Facility Manager
Cabin John Ice Rink	• Christy Barbour • Dean Trumbell	• Facility Manager • Assistant Facility Manager
Little Bennett Golf Course	• Chris Oleson • John Gabbeitt	• Facility Manager • Superintendent
Northwest Golf Course	• Lee Carrol • Jonathan Lust • Jay Vargo	• Facility Manager • Assistant Facility Manager • Superintendent
Park Fund	• Gordon Rosenthal • Michael Horrigan • Ronnie Gathers • Marty Aument • Gary Harman	• Division Chief • Regional Operations Manager • Regional Operations Manager • Park Manager (Wheaton) • Park Manager (Cabin John)
Enterprise Office	• Jerry Bush • Karen Warnick	• Administrative Supervisor • Administrative Specialist
Finance	• Al Warfield	• Accounting Manager

Activity III - Information Analysis and Evaluation

This activity was devoted to analyzing and evaluating the information gathered during Activities I and II, and identifying functional, operational and performance issues.

The goals of this activity were to identify the following issues relating to the facilities:

- Current organizational structure
- Business performance measures
- Staffing levels
- Fee structures
- Expense levels
- Overall efficiency of the individual cost centers
- Marketing efforts
- Customer service efforts.

This activity consisted of the following work steps:

- **Analyzed data.** We classified, compared and analyzed all of the information collected in Activities I and II of the engagement. The comparative information for the ice rinks was based on results from an industry survey conducted by the Ice Skating Institute. Industry averages for single sheets of ice were used for comparison to Wheaton, and industry averages for multiple sheets of ice were used for comparison to Cabin John. The comparative information for the golf courses was based on information obtained from the National Golf

Foundation, National Golf Course Owners Association and KPMG's proprietary database of golf courses. Industry averages for Little Bennett are based on data for high-end, 18-hole public golf courses and for Northwest are based on data for average, 27-hole public golf courses.

- **Identified functional, operational, and performance issues.** We identified and highlighted issues relating to staffing levels; financial resource allocation; fee structures; expense levels; business performance measures; current organizational structure; marketing and customer service efforts; and the overall efficiency of the individual cost centers; and facility performance compared to peers. We also developed suggestions and recommendations for improving current operations.

- **Validated observations and recommendations.** We met with Commission management to present and validate our observations and suggestions for operational improvement.

Activity IV - Reporting

This is the culmination of all phases of the engagement. This phase consisted of the following steps:

- **Prepared a written draft report of our observations and recommendations.** This document served as the output of our review and included all of our observations and recommendations regarding the functions, operations, and performance of the facilities.

- **Met with Commission management to discuss the draft report.** We met with representatives of the Commission to discuss our observations, suggestions and recommendations regarding the facilities current operations. This provided Commission management with the opportunity to respond to our findings and recommendations.

Under the current structure, the Enterprise Office, which is looked to by the Planning Board as accountable for the Enterprise Fund's performance, does not have the authority for the management and oversight of the Enterprise Facilities within the Enterprise Fund. Rather, the authority lies with personnel that report up to the Park Fund.

The impact of the misalignment of accountability and authority is a lack of control over the financial performance of the Enterprise Facilities. Specifically, those who are accountable do not have authority over activities that directly impact the Enterprise Fund's performance, such as expenditure authorization and facility personnel performance evaluations (both discussed as separate issues later in this report.)

The lack of control and misalignment of authority can be demonstrated by the conflicting perceptions about the Park Managers' responsibility for the Enterprise Facilities' financial performance, and the involvement of various personnel in the management of the facilities, as described below:

- The Park Managers interviewed indicated that they did not feel responsible for the financial performance of the ice rinks, despite the fact that their position is assigned that responsibility. A Regional Operations Manager explained that the Park Managers should have direct responsibility for the financial performance, but this has not been occurring since positions were lost during Park Fund budget cuts. The Park Managers are involved in human resource matters, some operational issues, and purchasing approvals. It appears that the Park Managers monitor revenue metrics at a high level only. In fact, one Park Manager said they had their own budget to be responsible for, excluding the Enterprise Facility's budget.

- There are regular meetings at the ice rinks with the Facility Manager, Park Manager and the Regional Operations Manager, at which operational issues, personnel issues, and financial performance are discussed. However, specific initiatives to decrease expenditures and/or increase revenues are not directed by the Park Manager or the Regional Operations Manager. This is left to the Facility Manager.

Recommendation 1.A – Restructure the Enterprise and Park Fund management and administrative structure

The Commission management should consider restructuring the management and oversight of the Enterprise Facilities to align the ultimate accountability for the facilities' financial performance with the authority to impact their financial performance. Whether the accountability and authority reside with the Enterprise Office or Park Fund should be determined by the Commission. There is no standard practice for the reporting structure of Enterprise Facilities, as it varies by organization and their unique situations.

Based on our understanding of the current structure, it appears that the Planning Board looks to the Enterprise Office as ultimately accountable for the Enterprise Fund's performance. This is a reasonable placement of that responsibility. When the Commission makes its decision as to where the authority and accountability for the Enterprise Facilities rest, they should consider which structure causes the least amount of reorganization and disruption, and where the resources are the strongest in terms of their ability to effectively manage the facilities.

3 Findings and Recommendations

3.1 Management / Administrative Structure

Summary of Recommendations

The Commission should consider restructuring the management and administrative structure and oversight of the Enterprise Facilities to align the accountability for the Enterprise Fund's performance with the authority to impact it's performance through the management of the Enterprise Facilities. Under the current structure, the Planning Board holds the Enterprise Office accountable for the Enterprise Fund's performance, while the Park Fund has the authority over the management of the Enterprise Facilities. We recommend the Commission align the accountability and authority with the Fund that would cause the least reorganization and disruption, and that has the strongest resources to effectively manage the facilities.

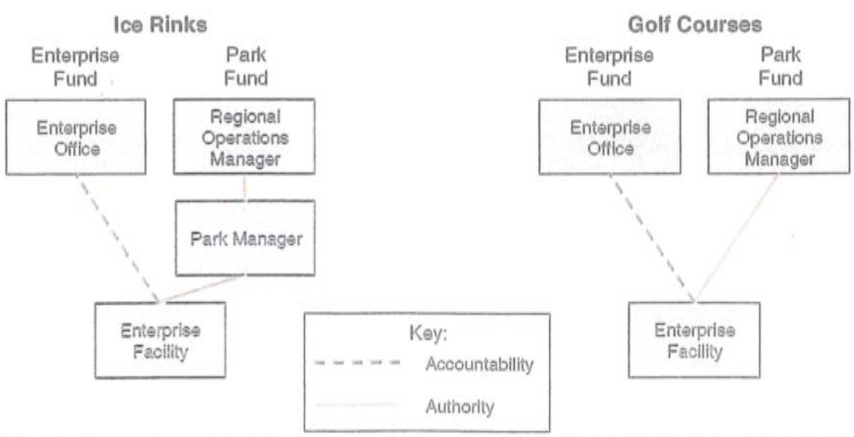
Requirements

Do the management and administrative structure and oversight of the Enterprise Facilities contribute to or detract from the ability of each individual facility and the Enterprise Fund as a whole to perform in an efficient business-like manner and achieve the policy objective of self-sustainability?

Findings and Recommendations

Finding 1.A – Management and administrative structure detracts from Enterprise Fund's performance (All facilities)

The management and administrative structure and oversight appear to detract from the ability of each Enterprise facility, and the Enterprise Fund as a whole, to perform as an efficient business and achieve the goal of self-sustainability. The management and oversight authority for the Enterprise Facilities is not aligned with the Enterprise Office, which is ultimately responsible for the performance of the Enterprise Facilities within the Enterprise Fund. The current structure has the Facility Managers of the ice rinks reporting to the respective Park Manager, who reports to the Regional Operations Manager. The Facility Managers of the golf courses report directly to the Regional Operations Manager. The Park Manager and the Regional Operations Manager ultimately report up to the Park Fund.



3.2 Performance Measures

Summary of Recommendations

The Commission should consider implementing performance measures and other mechanisms to drive a high level of performance in achieving self-sustainability, and monitor such performance, through the following recommendations:

- Revise the employee performance management process to make employees more accountable for the performance of their facilities
- Reinforce the Employee Recognition Program to provide further incentive to employees in achieving performance goals.

Requirements

Are adequate performance measures or other such mechanisms in place to ensure a high level of performance on the part of the facilities' management and staff in achieving the goal of self-sustainability for the Enterprise Fund?

Findings and Recommendations

Finding 2.A – Inadequate employee performance measures (All facilities)

The current employee performance management system does not adequately drive individuals' performance to achieve the Enterprise Fund's goal of self-sustainability. Based on our interviews and document reviews, the performance of individuals – namely the Facility Managers – is based on subjective, qualitative terms (e.g., develops professionally via education or conferences, reviews trade literature for current trends, improves snack bar sales) rather than the measurable performance of the facility they are responsible for managing. The interviews of the Facility Managers, as well as their supervisors, revealed that evaluations are primarily based on their overall performance rather than based on specific, quantitative factors. Currently, staff members do not have annual quantitative performance objectives, but rather subjective expectations.

The current system does not hold the manager accountable for their facility's performance in terms of reward or consequence. The current system limits the supervisor's ability to reward those who are exceptional performers or those who have exceeded the supervisor's expectations. Employees are evaluated against their supervisor's documented expectations using the Performance Management Form, which provides the following rating categories:

2 - Employee *consistently meets supervisor's expectations*
1 - Employee *falls short of fully meeting supervisor's expectations*
0 - Employee *frequently fails to meet supervisor's expectations*

A performance management system without specific, measurable criteria tied to the performance of the facility being managed does not adequately compel employees to strive to achieve specific performance levels.

Managers also expressed a need for employees to be provided with incentives to reinforce exceptional performance. The Commission's policies do provide for an Employee Recognition

Aligning accountability and authority would entail having the Enterprise Facility Managers report to someone in the selected office's line of authority, whose responsibilities would include some of the functions currently assigned to the Park Managers, such as:

- Setting performance benchmarks and monitoring performance against those benchmarks
- Purchasing authority / oversight for the facilities
- Providing personnel management, including performance management / evaluations
- Ensuring facility compliance with Commission policies and procedures
- Providing oversight of marketing efforts
- Serving as a liaison to Park Managers as necessary.

The person(s) to whom the Facility Managers report may be two different full-time employees. The first role could be a Director of Golf, to whom the golf managers would report. This individual should have a strong financial background, be able to handle the day-to-day monitoring of the golf operations, and provide the Commission with the expertise it needs to efficiently operate golf courses. The second role could be someone to whom the other Enterprise Facility Managers report. This individual should also have a strong financial background and experience handling day-to-day operations of recreation facilities, such as ice skating rinks.

Such a restructuring would allow for more control over the performance of the facilities directly impacting the performance of the Enterprise Fund.

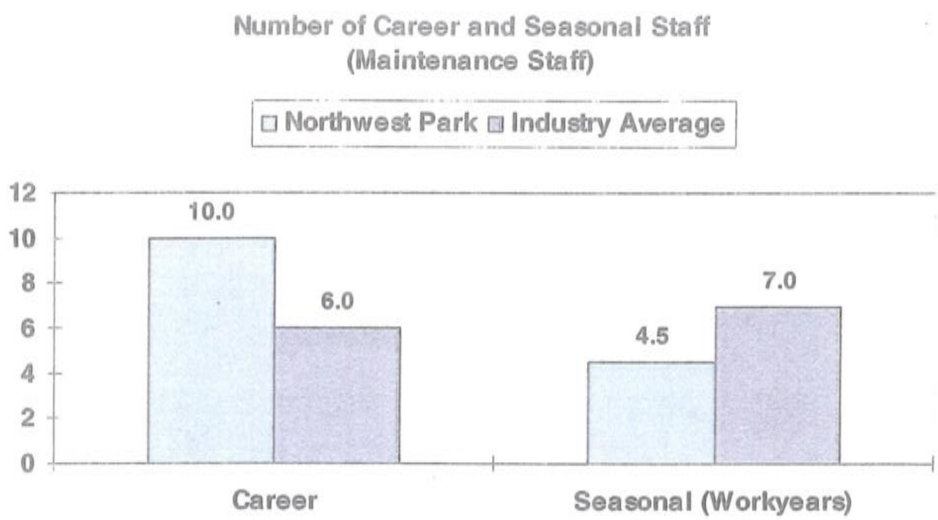
Finding 3.B – Inadequate staffing levels (Golf Courses)

Northwest Golf Course

The following highlights our findings related to staffing of the Northwest Golf Course maintenance, pro shop, food and beverage, and the driving range:

Maintenance

The current maintenance staff at Northwest consists of 10 full-time career staff and 4.5 seasonal employees in workyears (FTEs), at an expected cost of $687,000. The industry average is 6 full-time career staff and 7 seasonal (workyear) staff, with average annual payroll expenditures of between $420,000 and $500,000 for a 27-hole golf facility in this area.



Based on this comparison, Northwest has a significantly larger number of full-time staff and a smaller seasonal staff, which is partially attributable to the requirement of maintaining a 230-acre course, which is substantially larger than most 27-hole golf courses. The Superintendent is aware of the issue of the additional acreage, and is trying to systematically reduce the maintainable acreage. This effort should be a goal at Northwest and may allow a reduction in staff.

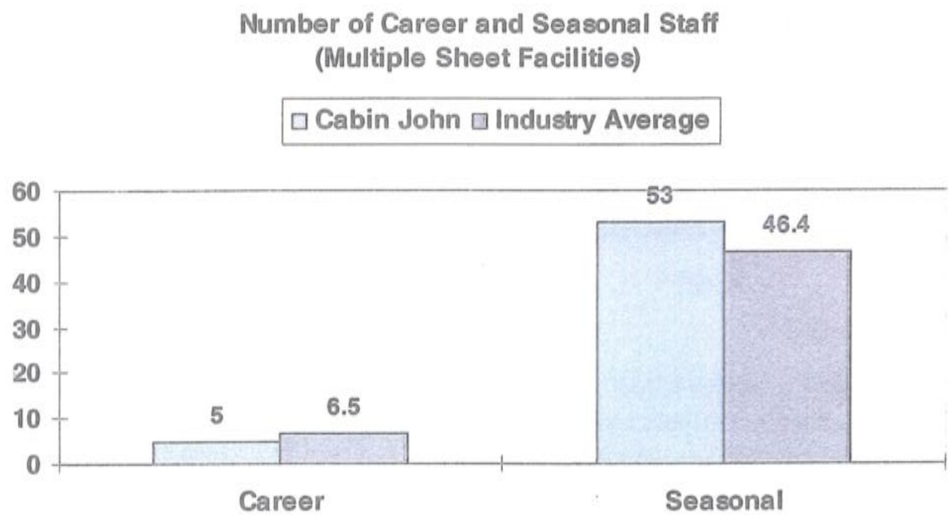
Pro Shop

In 2003, the pro shop at Northwest employed 2 full-time career staff and 8.9 seasonal employees, at an expected cost of $251,000. They also had 1 part time career staff position that was not staffed during 2003. The industry average for a similar operation is 8 full-time equivalents at a cost of $200,000.

The number of career staff at Wheaton is consistent with the industry average. However, the Facility Manager splits her time between the Wheaton Ice Arena, the nearby outdoor in-line rink, the train and the carousel. The Assistant Manager splits his time between the ice arena, the train and the carousel, except during the winter season, when the train and carousel are closed. During that time, he spends 100% of his time at the ice arena. Since the Facility Manager and Assistant Facility Manager's time are allocated to different facilities throughout the year, there are actually slightly less than 4 full time career staff at Wheaton.

The seasonal staff at Wheaton is above the industry average in terms of number of employees. This comparison is based on the number of employees rather than the number of full-time equivalents (FTEs), which may not provide an exact comparison since Wheaton's seasonal staff is not full-time and it's unclear whether the industry average assumes full-time status. Additionally, the industry survey report does not indicate whether the facilities included in the survey are year-round or seasonal rinks.

However, Wheaton's 2003 seasonal staff expenses were $22,967 over budget. That coupled with the comparison of staff to industry averages, may indicate that Wheaton Ice Arena is over staffed with seasonal employees.



The current staff at Cabin John Ice Rink consists of 5 career staff and 53 seasonal staff at 17.7 workyears. Cabin John appears to be adequately staffed, if not slightly understaffed, with career professionals in comparison to the industry average. Cabin John's level of seasonal staff is 14% higher than the industry average. Since Cabin John is slightly below industry average for career staff and above for seasonal staff, overall they appear to be adequately staffed.

Recommendation 3.A – Reduce seasonal staff at Wheaton Ice Arena

The Commission should consider the possibility of reducing seasonal staff at the Wheaton Ice Arena. Prior to staffing reductions, the Commission should include in their consideration the impact that such a reduction would have on the operations and performance of the ice arena.

3.3 Staffing

Summary of Recommendations

The Commission could improve the bottom line of the golf courses and ice rinks by changing some of the staffing mix and levels, specifically by:

- Reducing the number of seasonal staff at Wheaton Ice Arena
- Shifting the maintenance staff at both golf courses to a higher percentage of part-time, seasonal employees (considering difficulties in using seasonal employees)
- Reducing the number of pro shop employees at both golf courses.

Additionally, some of the facility job responsibilities could be more effectively administered by:

- Establishing a balance of duties between the Facility Manager and Assistant Facility Manager at the Wheaton Ice Arena
- Clarifying the job description and reporting lines for the golf mechanics.

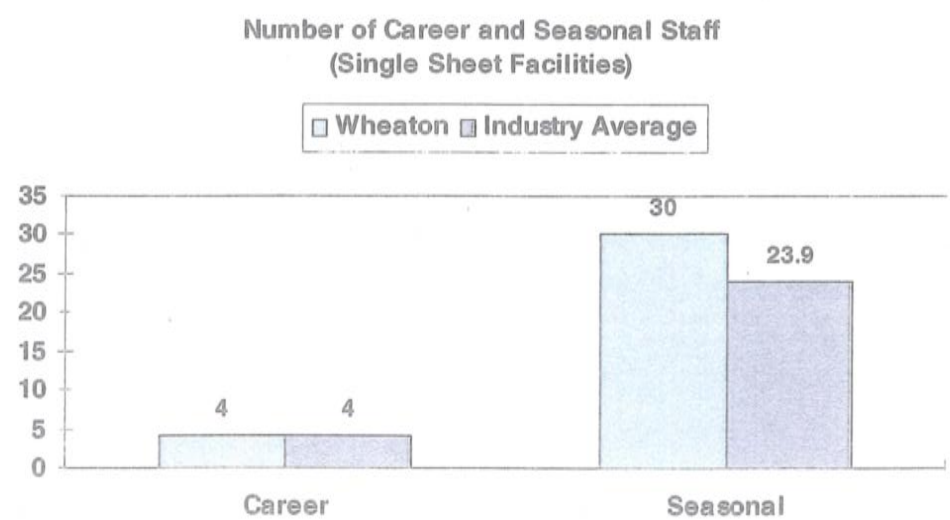
Requirements

- *Are staffing levels appropriate for the size of the facility and the scope of the services provided?*
- *Is there unwarranted duplication or overlap of staff, or are staff levels insufficient?*
- *Is there an appropriate balance of career versus non-career or seasonal staff?*

Findings and Recommendations

Finding 3.A – Adequate staffing (Ice Rinks)

The number of career and seasonal staff at each ice rink compared with industry averages are shown below.



The current staff at Wheaton Ice Arena consists of 4 career staff (Facility Manager, Assistant Facility Manager, Skating Director and the Building/Maintenance Technician) and 30 seasonal staff at 13 workyears.

Program, in which employees can be rewarded for exceptional behavior either on a monetary or non-monetary basis; however some Facility Managers were unaware of this program.

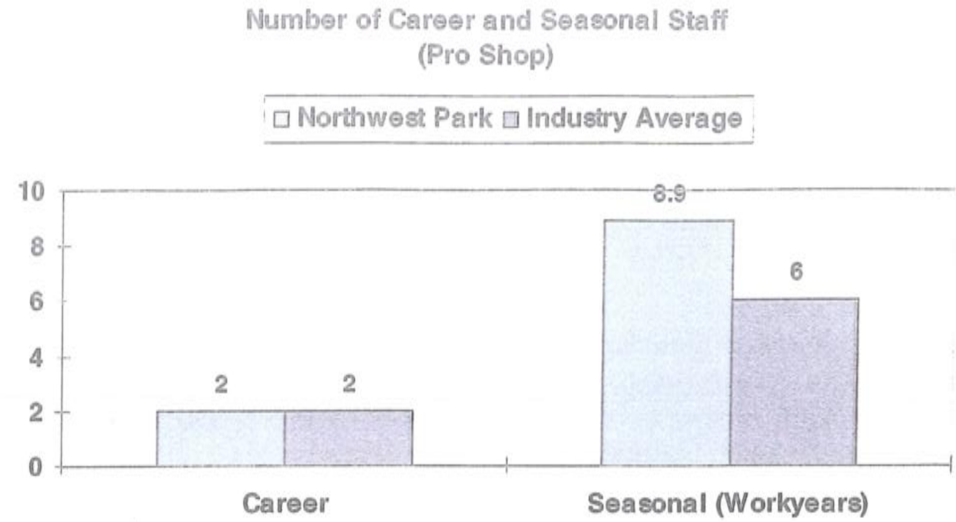
Recommendation 2.A – Revise the employee performance management process

The Commission should consider revising the employee performance management system as well as personnel policies to drive employee behavior towards meeting facility performance goals. Such a system would include setting specific, measurable, attainable performance goals that are within their level of responsibility. Examples of such goals could be to "increase lesson revenue by $x by the end of the year", or "decrease inventory of ice skates on hand by $y by the end of the year." These goals should be tied directly to the approved budgets for each facility, and the strategy to achieve budget goals.

Performance evaluations are useful for providing the employee with feedback from the organization regarding their performance, in addition to:

- Evaluating the relative individual (or team) contributions in achieving the facility's goals and objectives;
- Justifying reward decisions, including merit increases, promotions, and other rewards;
- Producing evidence and/or opportunity for career progression;
- Ascertaining training and development requirements;
- Generating evidence to evaluate the effectiveness of selection and placement decisions;
- Justifying disciplinary actions or termination of consistently under-performing employees;
- Establishing revised performance goals.

To provide additional incentive to employees in achieving their performance goals, the Employee Recognition Program should be made more visible through communications and / or training on the program.



Given the disparity, there may be an opportunity to reduce costs by reducing the seasonal staff for next season.

Food and Beverage

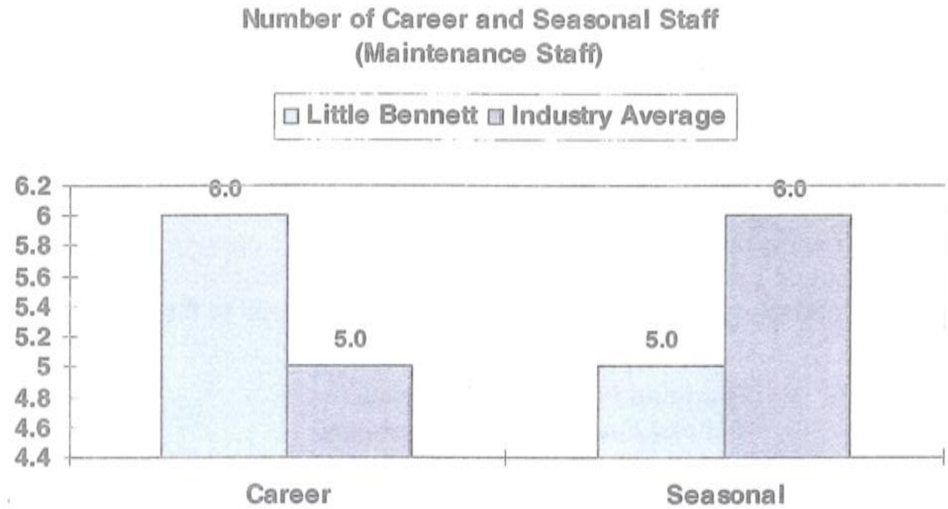
There are 2.1 seasonal (workyear) employees in the food and beverage operation at Northwest at a cost of $72,900. Food and beverage labor as a percentage of food and beverage revenue was 53% for 2002 and was budgeted at 56% for 2003. This is high compared to the industry average of 35%.

The food and beverage operations are at the minimum staffing level of 2 full-time equivalents. The high ratio of labor cost as a percentage of sales is due to the low sales revenue. To get the staffing in line with the industry average, food and beverage revenues must increase from $130,000 (expected revenues for 2003) to approximately $200,000. Increasing food and beverage revenues is discussed further in *Recommendation 6.E.*

Driving Range
The staff at Northwest Driving Range consists of 3.9 seasonal (workyear) employees. For a driving range of its size, with revenues of $259,000 in 2003, it appears to be adequately staffed based on an industry average of 4 seasonal staff.

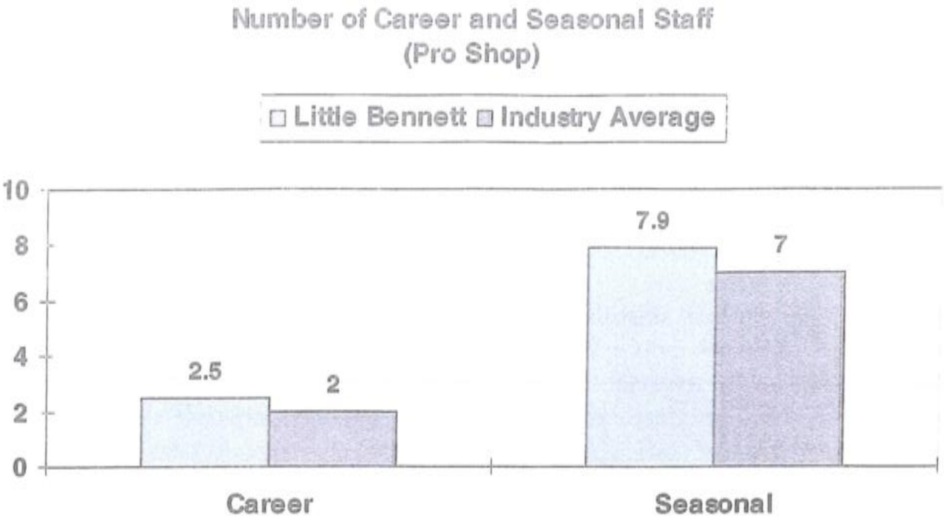
Little Bennett Golf Course
The following highlights our findings related to staffing of the Little Bennett Golf Course maintenance, pro shop, food and beverage, and driving range:

Maintenance
The current maintenance staff at Little Bennett consists of 6 full-time employees and 5 seasonal employees (workyears), at an expected cost of $477,000. The industry standard for maintenance salary costs for an 18-hole golf course of this caliber is $400,000, which is equivalent to a staff of 5 full-time career employees and 6 seasonal (workyears) employees.



Based on this comparison, Little Bennett maintenance has one more full-time staff and one less seasonal staff compared to industry averages.

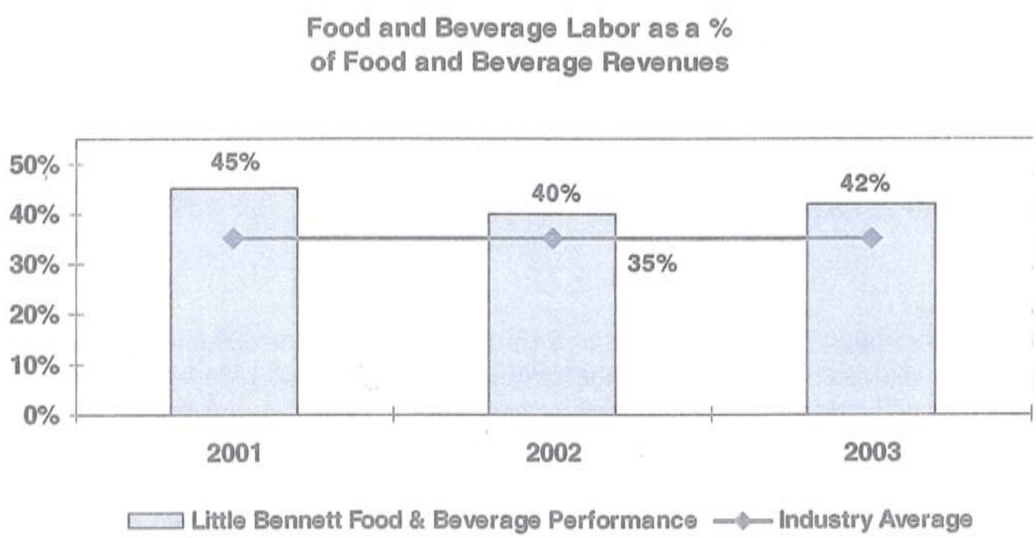
Pro Shop
In 2003, the pro shop at Little Bennett employed 2.5 full-time career and 7.9 seasonal (workyears) employees, for a total of 10.4 full-time equivalents. The industry average for a similar golf course in the area is 8 full-time equivalents. The cost of personnel for the pro shop is expected to be $266,000 in 2003, compared to an industry benchmark of $200,000 to $250,000.



Given the disparity, there may be an opportunity to slightly lower costs by reducing the career and seasonal staff.

Food and Beverage

The food and beverage labor expense at Little Bennett is $76,000 or 42% of food and beverage revenues, which is higher than the industry average of 35%.



The food and beverage operations are at the minimum staffing level of 2 full-time equivalents. The high ratio of labor cost as a percentage of sales is due to the low sales revenue. To get the staffing in line with the industry average, the food and beverage revenues needs to increase from $180,000 (expected revenues for 2003) to approximately $215,000. Increasing food and beverage revenues is discussed further in *Recommendation 6.E.*

Driving Range
The Little Bennett Driving Range employs 1.6 seasonal employees. For a driving range of its size, with revenues of $83,282 in 2003, it appears to be adequately staffed based on an industry average of 3 seasonal staff.

Recommendation 3.B – Reconfigure the staffing mix and reduce some staffing levels at the golf course facilities

Maintenance
The Commission should consider shifting the maintenance staff at both courses to a higher percentage of part-time, seasonal employees. We recommend that the staff be reduced at the career level, and increased at the seasonal level. An appropriate mix to consider is approximately 6 full-time employees at both facilities, which would allow for more part-time staff, which would also allow for further reduction of staff when weather, season or budget dictates. We recommend 7 to 8 seasonal work years at Northwest, and 5 to 6 seasonal work years at Little Bennett.

The physical characteristics of Little Bennett most likely account for the higher payroll cost. This golf course has 180 acres of maintainable acres as opposed to the industry average of 100-110 acres. Over time, by reducing the maintainable acres, some seasonal staff and related costs can be reduced.

Management commented that increasing seasonal staff could be difficult due to several factors, such as:

- Difficulty in attracting workers at MNCPPC wages that are lower than area fast food franchises
- Limitations on the hours seasonal employees can work in a year
- Limitations on promotions.

Pro Shops
We recommend the Commission consider lowering the staff size at both pro shops. It is our experience that pro shops of these sizes need no more than 8 full time equivalents to run successfully.

Food and Beverage
Since food and beverage staffing levels are at a minimum, we do not recommend a staffing reduction. Given that, the only way to get the staffing in line with the industry average is to increase the food and beverage revenues at both courses. (See *Finding 6.E, Inadequate food and beverage revenue* for additional information.)

Driving Range
The Commission should consider selling tokens at the Northwest pro shop, instead of at the driving range facility. By selling tokens at the pro shop, the staff at the driving range could be further reduced during slow times.

When presented this recommendation, Management informed us that the Northwest Driving Range is currently taking steps to automate the sale of tokens. This can help achieve reduced staffing at the driving range.

Finding 3.C – Improper balance of duties (Wheaton Ice Arena)

There appears to be a lack of clarity as to the roles of the Facility Manager and Assistant Facility Manager, as there is significant imbalance of duties between these positions. The position descriptions of the ice rink Facility Managers and Assistant Facility Managers, as defined by the Commission, state the following responsibilities.

Those highlighted in bold were observed as not operating effectively.

Facility Manager	Assistant Facility Manager
1. Manages and establishes operating procedures.	1. Supervises facility operations.
2. Manages and coordinates a wide variety of recreational activities.	2. Participates in planning and coordination of recreational activities.
3. Develops marketing strategies for programs.	3. Provides assistance in marketing programs and facility.
4. Manages and coordinates operating budget and **controls expenditures in accordance with approved budget.**	**4. Participates in budget formulation and controls expenditures in accordance with approved budget.**
5. Supervises staff.	5. Supervises designated staff.
6. Manages records. Supervises the processing and maintenance of administrative records.	**6. Maintains a variety of administrative records for the facility.**
7. Manages daily activities.	7. Monitors facility activities.
8. Coordinates externally.	8. Coordinates externally.

Currently, the Facility Manager monitors the financial aspects of the facility; and the Assistant Facility Manager monitors the overall maintenance and operational issues of the facility. The concerns are two-fold: (1) the Assistant Facility Manager is not truly performing as a back-up resource for the Facility Manager; and (2) the Facility Manager is not supervising all of the operations of the ice arena.

Recommendation 3.C – Establish balance of duties

The Commission should review the roles of these managers and provide more clarity to these individuals as to their roles and responsibilities in order to obtain an effective balance of duties. The balance of duties should resemble the working relationships that currently reside at Cabin John. The Facility Manager and Assistant Facility Manager at Cabin John have an effective working relationship, with clearly defined roles and an established balance of duties. The Assistant Facility Manager is fully informed and aware of all financial and operational issues.

Finding 3.D – Golf Mechanic's role unclear (Golf Courses)

The mechanic at each golf course is part of Central Maintenance, instead of an employee of the course. Although the mechanic's salary is part of the maintenance budget for each course, neither golf course superintendent perceived that they had control over his work schedule and job responsibilities.

Recommendation 3.D – Create clear job description and reporting lines for Golf Mechanic

The Commission management has indicated that the superintendents of the golf facilities and the mechanics have been made aware of their respective job descriptions and reporting relationships. However, since there seems to be continuing confusion, a meeting of both parties and

Commission management is recommended to clarify any confusion and open channels of communication.

3.4 Fees

Summary of Recommendations

The Commission has opportunities for enhanced revenue opportunities, especially in the following areas:

- Twilight fees and frequent players programs at Little Bennett Golf Course
- Discount fees at both golf courses during slow times of play
- Visiting pros at Cabin John Ice Rink
- Dasher board advertising at ice rinks
- Usage of ice rink discounts only at rink where purchased
- Provide incentives for teaching professionals to sell pro shop goods
- Add a short game area at Northwest Golf Course.

Additionally, there may be an opportunity to improve revenues at the ice rinks. We recommend a more robust costing study be performed that considers not only competitor fees, but also cost of doing business, demand elasticity and user patterns.

Requirements

- *Are fees and fee structures competitive and adequate in comparison to the services offered?*
- *Are the policies related to fees a help or hindrance to maximizing the revenue potential of these facilities?*

Findings and Recommendations

Finding 4.A – Adequate fee structure (Golf Courses)

The current fee structures are based on the Enterprise's study of fees of comparable public facilities in the area. The current fees for the Little Bennett Golf Course appear competitive, and are presented below:

Little Bennett Golf Course

Course Name	Year Opened	Location	Non-Peak Fees 9	Non-Peak Fees 18	Peak Fees 9	Peak Fees 18	Golf Cart Included
Little Bennett Golf Course	**1995**	Clarksburg	$29.50	$51.50	$35.50	$65.50	Yes
P.B. Dye Golf Club	1999	Ijamsville	$35.00	$69.00	$45.00	$89.00	Yes
Whiskey Creek	2000	Ijamsville	--	$75.00	--	$90.00	Yes
Musket Ridge Golf Club	2001	Myersville	$39.00	$65.00	$49.00	$80.00	Yes
Worthington Manor Golf Club	1998	Urbana	$35.00	$60.00	$40.00	$79.00	Yes

Source: Interviews with competitive courses' management and/or course website

KPMG visited Little Bennett, Whiskey Creek, P.B. Dye and Musket Ridge golf courses. Based on those visits, Little Bennett provides a competitive golfing experience given its main competitors although the fees for Little Bennett are lower than its competitors. The disparity in fees is reasonable due to the slightly lower quality amenities at Little Bennett compared to some of its competitors. At Little Bennett, the clubhouse design and food and beverage offerings are good, but not to the same standards as Whiskey Creek or P.B. Dye Golf Club, in terms of ambiance, food quality, service and menu selection. Whiskey Creek and P.B. Dye have larger, more spacious dining rooms with views of the golf courses, the menu offerings are more varied, the quality of their food is higher and they have table service.

Little Bennett played 28,258 18-hole equivalent rounds in 2002 (24,513 rounds of 18-hole play and 7,490 rounds of 9-hole play), which was in line with the 25,000 average of the competitors' rounds in 2002: PB Dye (24,000), Whiskey Creek (30,000), Worthington Manor (27,000) and Musket Ridge (19,000). In 2003, it decreased to 21,123 18-hole equivalent rounds (18,246 rounds of 18-hole play and 5,753 rounds of 9-hole play), which is lower than the industry benchmark of 36,000 rounds. The decrease from 2002 to 2003 is likely due primarily to poor weather conditions.

In a memo dated March 13, 2003, the Commission recommended increasing green fees $6 per year over a three-year period. The fee increase for the first year of the three-year period has already taken place, which we agree was appropriate. However, with inflation remaining low and competition fierce, we would counsel a yearly consideration of price increases rather than continue with the other two $6 year increases proposed in the March 2003 memo. We believe such increases would be dangerous to the competitive position of Little Bennett. A variable pricing strategy could increase profitability and is discussed in *Finding 4.B – Lack of Discounted Fees.*

Northwest Golf Course

The current fee structure for the Northwest Golf Course appears competitive with other public courses in the area, and is presented below:

			Non-Peak Fees		Peak Fees		
Course Name	**Year Opened**	**Location**	**9**	**18**	**9**	**18**	**Golf Cart Included**
Northwest Park Golf Course	**1964**	Wheaton	$26.50	$41.50	$30.50	$48.50	Yes
Cross Creek Golf Club	2002	Beltsville	--	$52.00	--	$67.00	Yes
Trotters Glen Golf Course	1993	Olney	$14.00	$24.00	$17.00	$29.00	Yes
Blue Mash Golf Club	2001	Laytonsville	$36.00	$58.00	$40.00	$72.00	Yes
Laytonsville Golf Club	1973	Laytonsville	$25.00	$38.50	$29.00	$44.50	Yes
Needwood Golf Course	1985	Derwood	$26.50	$41.50	$30.50	$48.50	Yes

Source: Interviews with competitive courses' management and/or course website

Northwest is priced at about the average of its competitors. It is well established, has a good location and is most comparable in quality to Needwood and Laytonsville in terms of golf course design, condition, layout and playability. In 2002, it played 35,023 18-hole rounds and 49,510 9-hole rounds. In 2003, it played 24,158 18-hole rounds and 35,763 9-hole rounds. In 2002, these results combine to be 59,778 18-hole equivalent rounds, which is just over the benchmark of 52,000 rounds, while in 2003, at 42,040 18-hole equivalent rounds, they are under the benchmark. The decrease from 2002 to 2003 is likely due primarily to poor weather conditions.

Recommendation 4.A – Maintain current fee plans for next year

At Little Bennett, the initial fee increase of $6 this year appears to be acceptable, and should help increase revenues. However, we recommend the Commission proceed with caution after the first year of the increase, as the competitive advantage will be dissipated with further yearly raises that may cause golfers to consider playing the competition's courses.

The Commission should maintain the current fee plans for next year at Northwest.

Finding 4.B – Lack of discounted fees (Golf Courses)

In golf, there are usually discounts offered during weekdays or in the late afternoon/ early evening. The latter category is called twilight rates. Neither Little Bennett nor Northwest currently offers twilight rates, while their competitors do.

The twilight rates for Little Bennett and Northwest's competitors are:

Competitor Twilight Rates	
Little Bennett Golf Course	**Northwest Golf Course**
Whiskey Creek	**Cross Creek**
25% discount: Monday - Thursday	23% discount: Weekdays
33% discount: Friday - Sunday, Holidays	33% discount: Weekends
PB Dye	**Trotters Glen**
30% discount: Monday - Thursday	38% discount: Weekdays
25% discount: Friday	45% discount: Weekends
22% discount: Saturday - Sunday, Holidays	**Blue Mash**
Worthington Manor	31% discount: Weekdays
42% discount: Monday - Thursday	30% discount: Weekends
33% discount: Friday	**Laytonsville**
49% discount: Saturday - Sunday, Holidays	No twilight rates offered
Musket Ridge	**Needwood**
40% discount: Monday - Thursday	No twilight rates offered
39% discount: Friday - Sunday	

Source: Interviews with competitive courses' management and/or course website

Recommendation 4.B – Offer discounted fees for slow times

Twilight rates

Little Bennett Golf Course

The Commission should consider a twilight rate at Little Bennett on weekdays and weekends. Course management should analyze their tee-sheets to determine timing and study competitors programs as well.

Northwest Golf Course

We recommend against offering a twilight rate at Northwest at this time, as there is a great deal of 9-hole play in the late afternoon and the early evening; and therefore may negatively impact revenues here.

Discounts

The Commission may want to consider offering discounted green fees at both locations, but especially at Little Bennett. Again, tee sheets must be analyzed to determine slow periods. At Little Bennett, weekdays (Monday through Thursday) are slow, while at Northwest, weekdays are full of retirees and others who are not time constrained. Examples of such discounts may be:

- Tuesday and Wednesday (10:00 – 3:00) buy 3 green fees (and cart) receive 4th for free
- Free lunch with green fee purchased on Tuesday and Wednesday
- Free range balls with green fee purchased on Tuesday and Wednesday

- Unlimited golf on Tuesdays and Wednesdays (with cart) for $x price.

A typical approach to determine if pricing programs are reasonable is to divide total yearly green fees by total 18-hole rounds. The result should be approximately 75% of the posted peak green fee rate. If the result is below 75%, the implication is that the course is discounting too much. This test should help managers determine if their pricing programs are correct, are in line with industry averages, and will help generate the highest revenue per round while staying competitive. The following analysis is based on Little Bennett's 2002 results:

Little Bennett (2002)		
Green Fees:		$931,467
	divided by	
Rounds:		24,322
Net Green Fee Rate		$38.30
Posted Green Fee Rate		$46.50
Net Green Fee Rate %		***82.4%***

In 2002, Little Bennett had a net green fee rate percentage of 82.4%. This shows that the course was not discounting at too great of a rate. However, what it also shows that there is room for discounting at Little Bennett, while still generating high revenue per round.

Finding 4.C – No yearly frequent player option (Little Bennett Golf Course)

With the heightened competition, many daily fee golf courses offer a frequent player or membership option. While membership options are not common amongst municipal courses, we have seen frequent player options work in numerous government owned facilities, especially some of the higher end courses that compete directly with high-end daily fees. These frequent player options are not memberships in the sense that they provide any exclusivity or privilege. They are actually pre-paid green fees that capture the local golfer for at least a year and create loyalty to a course.

The membership options for some area public courses are presented below:

Competitor Membership Options		
Membership	**Cost**	**Description**
PB Dye		
Unlimited Membership	$4,000 a year	unlimited golf, cart included, 20% guest discount
Mon-Fri Membership	$2,750 a year	unlimited golf (M-F) cart included, 20% guest discount
Twilight Membership	$995 a year	unlimited golf (M-F after 3:00pm; Sat-Sun after 4:00pm)
Worthington Manor		
Individual Membership	$3,500 initiation, $265 a month	unlimited golf, cart not included
Musket Ridge		
Family Membership	$3,600 a year	unlimited golf, cart not included
Individual Membership	$2,700 a year	unlimited golf, cart not included
Players Club	$100	1 round of golf - then 20% off additional rounds

Source: Interviews with competitive courses' management and/or course website

Recommendation 4.C – Provide frequent player programs in the future

The Commission may want to consider adding frequent player programs in the future. The following are examples:

- **Pay-Per-Use Package:** a modest initial payment and discounted green fees for the season.

  Example (for illustrative purposes only):
  $400 a year- entitles the golfer to 50% discount of posted green fee rate. Also would include advance, preferred tee-times, and discount in pro shop

  If a golfer believes he will play 20 rounds per year, he may save $200;

20 rounds x $60 =	$1,200
($60 x .50) x 20 rounds + $400 =	$1,000
Savings	*$200*

- **Monday-Friday Package-** would entitle the golfer to unlimited rounds from Monday through Friday

  Example (for illustrative purposes only):
  $1,500 a year- would entitle the golfer to unlimited rounds from Monday through Friday. Also would include advance, preferred tee-times, cart fee included and discount in pro shop

- **Twilight Package-** would entitle the golfer to unlimited twilight rounds from Monday through Friday

  Example (for illustrative purposes only):
  $500 a year- would entitle the golfer to unlimited twilight rounds from Monday through Friday. Also would include advance, preferred tee-times, cart fee included and discount in pro-shop

While these are valid programs that have been used successfully, we recommend structuring discounts and twilight fees as a first step. Then in a subsequent year, frequent player programs could be introduced.

Finding 4.D – Inadequate criteria for fee analysis (Ice Rinks)

Prior to developing the proposed user fee schedules for the following year, Enterprise staff conduct surveys for user fees of similar facilities. The fee policy states that fees are to be based on the comparative fee information, input from facility managers, attendance information and user patterns (for each facility), and the financial picture of individual facilities and the Enterprise Fund as a whole. However, based on our interview findings, current fees are primarily based on the comparative fee study, and adjusted some based on input from the facility manager, gut feeling, and some pressure to cover expenses.

Recommendation 4.D – Conduct a costing study for each ice rink

Based on our review of the Enterprise User Fee Policy, the Commission should consider conducting a costing study for each facility. This study should entail evaluating the gross unit cost of the facility per admission/lesson hour; and include the actual operating costs of the facility, any overhead allocations, depreciation amounts and other costs associated with the ice rinks. In doing so, the Commission will be able to determine a more actual cost of the facility and adjust their fees accordingly.

The following chart highlights the criteria currently used by the Commission and those criteria we feel are essential in conducting a fee analysis.

Criteria for Fee Analysis	Currently Used by Commission	Not Used by Commission	*KPMG Recommendation
Actual Cost of Operations		×	1
Attendance Information/User Patterns	✓		4
Demand Elasticity (User's Willingness to Pay)		×	3
Facility Manager Input	✓		-
Financial Picture of Rink	✓		-
Local Surveys	✓		2

** Denotes ranking order of emphasis*

The Commission should also consider the current demographics of the area of each ice rink in terms of the user's willingness to pay. Since both Cabin John Ice Rink and Wheaton Ice Arena are located in different areas and attract different clientele, fees can be established at different rates for each facility.

Finding 4.E – Limitations on revenue opportunities (Ice Rinks)

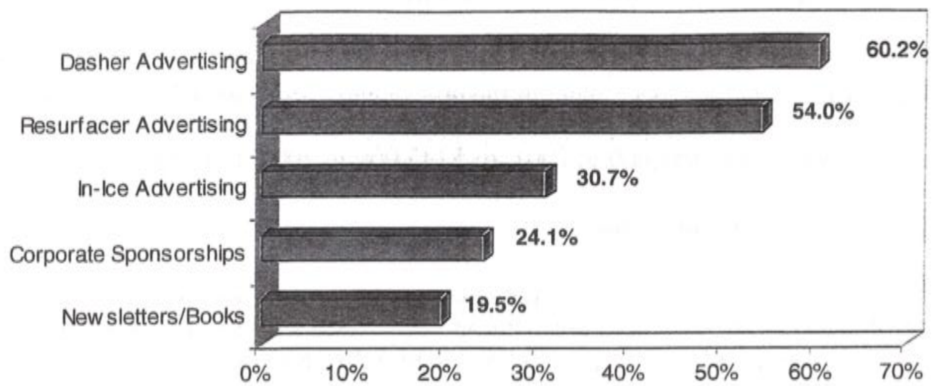
Managers are currently frustrated with the following rules the Commission has placed on seeking potential revenues from other sources for their respective ice rinks:

Visiting Pros ***(Cabin John Ice Rink)***
Current Commission policies discourage managers from recruiting visiting pros from participating in special events at the ice rinks. In an attempt to enhance revenues for the ice arena, the Facility Manager at Cabin John Ice Arena sought to bring in visiting pros to come in for a demonstration. Current policies specify that this professional can only be compensated for his/her services through a seasonal employment status or through an annual contract. This policy has caused managers much frustration in producing a self-sustaining ice arena; and additionally limiting their ability in bringing in additional sources of revenue.

Dasher Advertising ***(Both Ice Rinks)***
Policies prevent ice rink managers from utilizing dasher boards for advertising purposes. Dasher boards provide constant visibility to patrons and spectators and can be used to provide these

individuals with various sources of information. Dasher boards can also be used to expand corporate sponsorships, thereby contributing to an increase in overall admissions and lessons. Nationally, approximately 60.2% of ice rinks are currently utilizing dasher advertising. The graph below presents participation in advertising programs among ice arenas throughout the country.

Participation in Advertising Programs



Discount Coupon Vouchers *(Both Ice Rinks)*
Facilities provide patrons with discount coupon vouchers that can be purchased at either of the ice rinks for a fixed price. Patrons use these vouchers for services at either of the ice rinks.

Recommendation 4.E – Modify policy to allow for enhanced revenue opportunities

The Commission should simplify their business operating rules in the following areas:

Visiting Pros
The Commission should allow for visiting pros in order to allow Facility Managers to bring in additional sources of revenue. The Commission should consider establishing contracting procedures for managers to compensate visiting pros under a one-lump sum payment for their services.

Dasher Advertising
The Commission should consider the current developments in the industry, and allow Facility Managers to seek out opportunities in dasher advertising. Dasher advertising creates constant viewership and may entice other corporations to sponsor their events at these ice rinks.

Discount Coupon Vouchers
The Commission should revise its procedure to have separate discount coupon vouchers for each ice rink.

Finding 4.F – Lack of sales incentive for teaching professionals (Golf Courses)
Traditionally hard goods (golf clubs) are sold through teaching professionals, who are compensated on a percentage of sales basis. This is not the case at Little Bennett or Northwest.

Recommendation 4.F – Create a sales incentive for teaching professionals

The Commission may want to create an incentive program for the teaching professionals to sell golf clubs to their students. Clubs that are used for demonstration purposes are free from the manufacturers and the incentive is based on sales. In addition to the obvious benefits for pro shop and pro, this program creates an additional service for the golfer.

Finding 4.G – No short game area (Northwest Golf Course)

Northwest does not currently have a short game area. Due to the recent construction of stand-alone practice facilities over the past two years in the area, a short game area is necessary to bring the Northwest Driving Range back to parity with its competitors. Driving range revenues at Northwest have decreased from $367,000 in 2001, to $295,000 in 2002, to $259,000 in 2003.

Recommendation 4.G – Add a short game area

The Commission should consider adding a short game practice area to the Northwest driving range. The lack of a short game practice area can be considered a deficiency when considering the competition. The addition of a short game area would help bring people back to the driving range, and highlight the entire facility.

The golf course maintenance crew could construct the short game area to reduce the cost of the endeavor. This should be able to be done for approximately $15,000- $20,000, based on similar projects at other golf courses. The assumptions behind the estimate are that the construction is only of a green and a bunker by existing workforce. The ultimate cost will vary based on the superintendent's expertise, the complexity of the short game area and the equipment available to the crew.

3.5 Operating Expenditures

Summary of Recommendations

There are areas where the expenditures at certain facilities seem out of line with expected expenditures, specifically maintenance, office supplies and utilities. Prior to addressing the issues, the Commission should validate the accuracy of the reported 2003 expenditures. Upon completing this validation, the Commission should further examine expenses in additional detail to identify errors or improper expenditures, and areas for cost reductions. This may include:

- Replacing the compressor system at Wheaton to reduce maintenance costs
- Continuing investigations with PEPCO on utility costs, and perhaps pursuing further action with an utility consultant
- Reducing maintainable acreage at both golf courses to reduce personnel and materials cost within golf course maintenance
- Planning 5 to 10 years in advance for capital repairs and expenditures and ensuring they are commensurate with industry averages
- Reducing the golf cart fleet at Little Bennett.

The operating expenditures could be better controlled to ensure appropriateness and alignment with the Enterprise Fund's goal of self-sustainability through the following recommended actions:

- Consider adopting a more detailed method of overhead allocation
- Design and implement stronger expenditure monitoring controls
- Implement an expenditure policy to ensure correct facility classification.

Requirements

- *Are the overall operating expenditures (both direct and indirect) appropriate?*
- *Are expenditures geared toward meeting program and maintenance goals and objectives?*
- *Are there adequate controls in place to monitor expenditures, identify waste or unnecessary costs, and make necessary and timely corrections to stay on budget or adjust for a downturn in revenue?*

Findings and Recommendations

Finding 5.A – Expenditure Analysis (Ice Rinks)

Below is an analysis of certain expenditure categories for the ice rinks as compared to their respective industry averages. Wheaton Ice Arena was compared with industry averages for single sheet ice rinks and Cabin John Ice Rink was compared with industry averages for multi sheet ice rinks. The survey conducted by the Ice Skating Institute, from which the industry averages were obtained, did not specify whether the rinks included in the survey were open year-round or seasonally. Therefore, direct comparisons between the ice rinks and the industry averages should consider that potential limitation. Significant variances are highlighted in yellow on the following page:

	Wheaton Ice Arena			Cabin John Ice Rink		
	Industry Average	FY2003 Expense	Variance	Industry Average	FY2003 Expense	Variance
Manager	$ 43,832	$ 53,680	$ 9,848	$ 67,486	$ 57,017	$ (10,469)
Assistant Manager	19,182	56,370	37,188	43,266	41,350	(1,916)
Skating Director	7,333	46,102	38,769	19,742	38,000	18,258
Food service salaries	4,271	22,075	17,804	12,278	31,508	19,230
Advertising	6,868	5,875	(993)	23,083	3,083	(20,000)
Repairs and maintenance	20,743	35,218	14,475	43,683	42,804	(879)
Office supplies	3,477	23,953	20,476	9,103	10,097	994
Electricity	50,053	93,235	43,182	130,063	178,301	48,238
Fuel, oils, gasoline, lubricants	2,992	1,843	(1,149)	4,554	119	(4,435)
Natural gas	11,142	7,390	(3,752)	42,255	93,285	51,030
Telephone	2,981	11,818	8,837	7,061	25,509	18,448
Water	6,751	-	(6,751)	11,463	47,142	35,679

Based on the above analysis of the ice rinks' 2003 expenditures compared to industry averages, and interviews with facility employees and supervisors, it appears that certain expenditures seem to be out of line, specifically:

Wheaton Ice Arena

- Salary amounts for the assistant manager, skating director and food service were significantly above industry averages. It should be noted that some of the rinks included in the industry average might be open only seasonally, while Wheaton is open year round. Additionally, Wheaton has a strong lesson program, which also contributes to the higher skating director salary.
- The assistant manager and skating director salaries were higher than the Cabin John salaries for the same positions. Employee tenure primarily contributes to the higher salaries.
- Repairs and maintenance is 70% above the industry average. One of the issues mentioned by interviewees that contributed to the high utility expenditures at Wheaton is a three year-old compressor system that is undersized for its current use. The compressor suffers from various contractual, installation and service problems, which result in maintenance costs of $10,000 per repair.
- Wheaton's office supplies expenditures were more than 6 times higher than the industry average. Management stated that all purchases made by credit card were included in the office supplies expenditure category, rather than being correctly allocated to the appropriate accounts.
- Electricity and telephone expenditures were above industry averages. *See further discussion of utility expenditures below.*

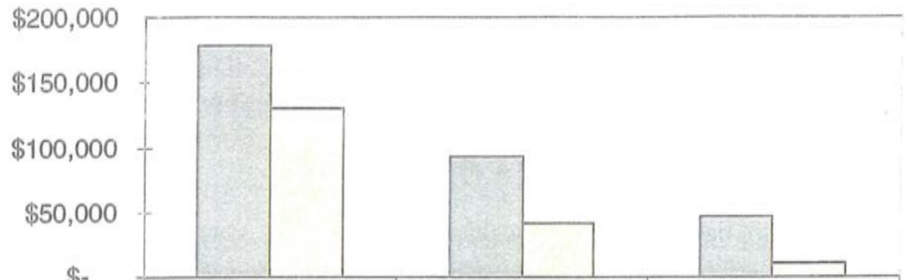
Cabin John Ice Arena

- Salary amounts for the skating director and food service were significantly above industry averages. Demographic area and employee qualifications may contribute to higher salaries. It should be noted that some of the rinks included in the industry average may be open only seasonally, while Cabin John is open year round. Additionally, Cabin John has a strong lesson program, which also contributes to the higher skating director salary.
- Advertising is 86% below the industry average.
- Electricity, natural gas, telephone and water expenditures were significantly above industry average. *See further discussion of utility expenditures below.*

Utility Expenditures

Both facilities reported high expenditures for utilities (electricity and / or natural gas for FY03). The following graphs show the utility expenditures for each facility as compared to the industry average for single and multiple sheet facilities.[1]

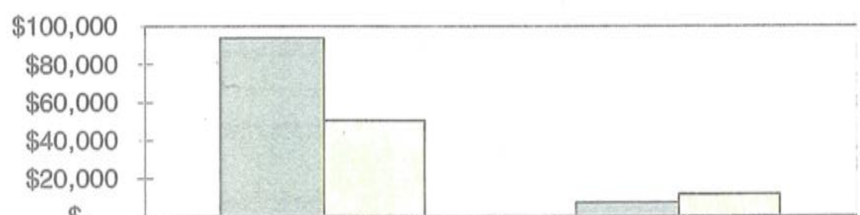
FY03 Utility Expenses - Cabin John Ice Rink
(Multiple Sheet Facilities)



	Electricity	Natural Gas	Water
Cabin John	$178,301	$93,285	$47,112
Industry Average	$130,063	$42,255	$11,463

Cabin John Ice Arena often faces additional charges for electricity immediately after power outages. During times of power shortages, PEPCO will cut Cabin John's power before residential areas. Once reported to PEPCO, and the power is turned on, the facility is charged with penalty fees for peak-time usage. Industry averages for combined utility expenses are 42% lower than those of Cabin John Ice Rink.

FY03 Utility Expenses - Wheaton Ice Arena
(Single Sheet Facilities)



	Electricity	Natural Gas
Wheaton	$93,235	$7,390
Industry Average	$50,053	$11,142

Industry averages for electricity for single sheet facilities are 46% less than those of Wheaton Ice Arena.

1 FY03 expenses for water/sewer were not available for Wheaton Ice Arena.

Recommendation 5.A – Conduct a more detailed review of certain expenditures and consider replacing Wheaton compressor system

We recommend that the expenditure categories with significant variances, e.g. Wheaton's office supplies, be further examined to determine:

- Accuracy of reported FY03 expenditures
- Causes of significant variances, such as coding expenses to the wrong expenditure account
- Steps to correct errors
- Steps to prevent future problems through new policies, procedures and / or controls.

We understand the Commission is currently working with PEPCO and other utility vendors to determine the causes for their high utility costs and determine their appropriateness. Pending results of those discussions, the Commission may consider engaging a utility consultant to help resolve the problems. Management stated that they are currently investigating the reason for why Wheaton did not report a water expenditure in 2003.

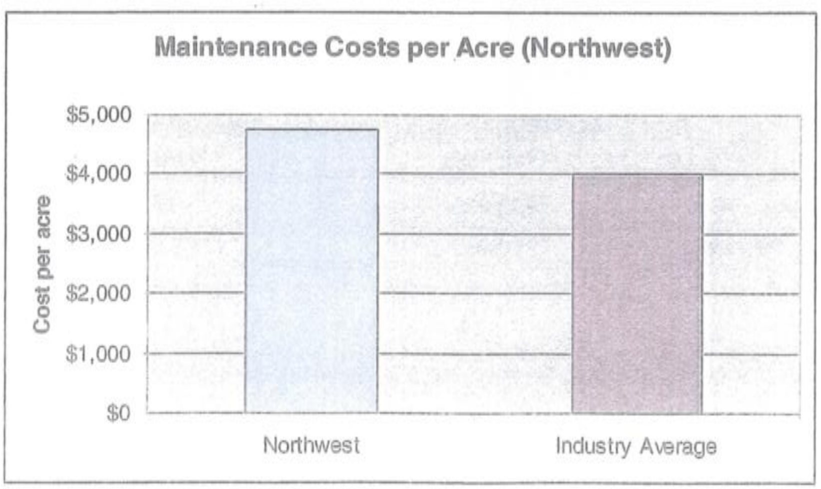
Additionally, the Commission should consider replacing the current compressor system at Wheaton Ice Arena to avoid ongoing and expensive repairs of the current system.

Finding 5.B – Expenditure Analysis (Golf Courses)

On the follow page is an analysis of certain expenditures for the golf courses as compared to their respective industry averages and a peer golf course, Red Gate. The analysis focused on the items with the largest impact to the courses' financial performance and the greatest opportunity for change. Also provided below is an explanation of the implications of the expenditures and their variances from industry averages and Red Gate's performance. Note that the pro shops and snack bars were not addressed in this section, but are addressed in *Section 3.6 – Individual cost centers*.

Northwest Golf Course

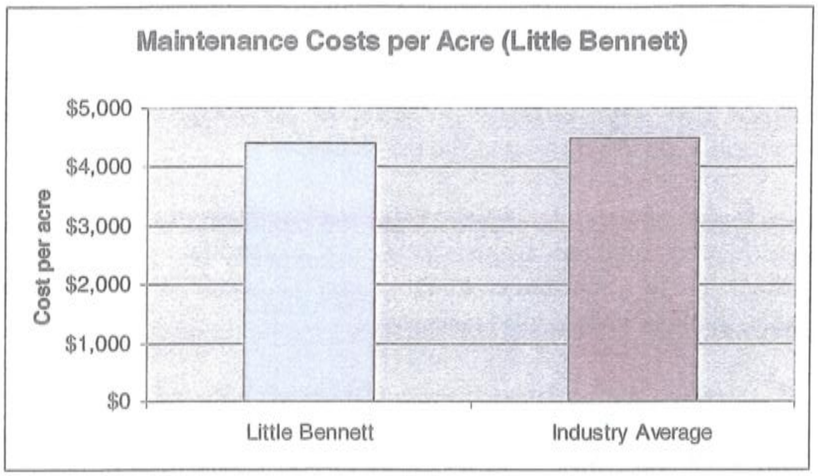
- Golf course maintenance costs at Northwest in 2003 were $1,043,714, which is $4,744 per acre for 220 acres. This is higher than the benchmark of $4,000 per acre. This is primarily due to the large amount of maintainable acreage and the resulting personnel and equipment / supplies costs needed to maintain that additional acreage. Management has reduced, and is continuing to take steps to further reduce, the maintainable acreage.



- Advertising expenditures in 2003 of $7,652 are slightly below the industry average of $11,000 for a similar public course, but slightly higher than those of Red Gate at $4,818. The expenditure level appears reasonable and relatively in line with similar courses in the area.
- Telephone expenditures in 2003 were only $54, which is significantly below the industry average of $10,000, and should be verified for accuracy.

Little Bennett Golf Course

- Golf course maintenance costs at Little Bennett in 2003 were $791,514, which is $4,397 per acre for 180 acres. This is in line with the industry benchmark of $4,500 per acre for similar courses. However, Little Bennett could reduce their maintainable acreage to achieve lower maintenance costs for personnel and equipment / supplies.



- While 2003 advertising expenditures of $7,907 were above Red Gate's expenditures of $4,818, they are significantly below the industry average of $28,000 for a high-end public course. As discussed in *Findings 7.A* and *7.B*, Little Bennett's marketing efforts are much less than those at similar courses.

Recommendation 5.B – Reduce golf course acreage

The most significant recommendation based on our review of the operating expenditures is to reduce the acreage the golf courses. This would help reduce both personnel costs and equipment / supplies costs.

Other smaller items to note include the following:

- As for advertising, the Commission may consider increasing the advertising budget for Little Bennett to implement some marketing initiatives that may ultimately help increase revenue. This is discussed further at *Recommendation 7.B – Create better marketing collateral and website*.
- As for Northwest's telephone expense, see *Recommendation 5.A* for a discussion on conducting a more detailed review to verify accuracy of certain expenditures.

Finding 5.C – Inadequate monitoring controls (All facilities)

We found that there are some inadequate controls over expenditures; there is a lack of adequate control to monitor expenditures, identify unnecessary costs and make timely corrections to the budget.

There are authorization limits for field purchase orders and central purchase orders, which is appropriate. There are also monitoring controls over the approval of purchase card and petty cash expenditures, requiring Park Manager approval. However, the Park Managers, who are responsible for writing purchase orders, do not monitor expenditures on a detailed level, but rather look at them on a monthly basis at a high level in comparison to budget. The Facility Managers monitor their expenditures in comparison to the total budget. Finance monitors expenditures in the context of approving purchasing orders to ensure the facility has sufficient budget remaining to cover the expenditure. Enterprise Office monitors expenditures in comparison with budget and with variances in revenues to budget, to determine whether adjustments to revenue and expenditure targets should be made.

What is missing is a formal process by which a detailed monthly review of expenditures is performed, expenditures are monitored against budget by expenditure category, variances are analyzed and explained, and an adjustment to the budget is made on these variances. This information is available, but is not being used consistently.

Recommendation 5.C – Design and implement more effective monitoring controls

The Commission should consider designing and implementing additional monitoring controls to better monitor expenditures, identify waste, and make timely adjustments to the budget as needed. The new controls should specify responsibility for the following activities:

- Monthly review of facility expenditures by expenditure category compared to budget
- Identification of variances from budget and explanations as to why the variance occurred
- Reporting of variances and explanations by the Enterprise Office, and acknowledgement of review of such report
- Periodic adjustments to revenue and expenditure targets, as needed and recommended by the Enterprise Office
- Definition of action plans to achieve revised budgets, and approved by the Enterprise Office
- Reporting and follow-up on status of action plans by the Enterprise Office.

Responsibilities for the expenditure analysis should rest with someone outside of the line of authority to make and approve expenditures to ensure independence.

Finding 5.D – Expenditures not consistently geared toward meeting facility goals (Ice Rinks)

During our interviews, it was brought to our attention that on more than one occasion, a Park Manager or other supervisor would incur expenditures that were not communicated to the Facility Manager, and in some cases, were not incurred on behalf of the facility, but on behalf of another facility. In the cases where the expenditure was not for the benefit of the facility, the Facility Manager did not realize there was a mechanism in place to reclassify the expenditure to the appropriate facility or park. Some of the examples cited, which occurred more than a year ago, include the purchase of a truck and a purchase of marketing giveaways.

This further illustrates the findings discussed in *Section 3.1 – Management and Administrative Structure*, that describe how the responsibility for monitoring expenditures and the authority to approve expenditures by the Park Managers, does not lie with the Enterprise Office, which is ultimately accountable for the performance of the Enterprise Facilities.

Recommendation 5.D – Implement expenditure policy to ensure correct facility classification

The Commission should consider implementing a policy to ensure that expenditures are correctly classified to the appropriate facility. The policy should include the following points:

- Required communication between the authorized purchasing agent and the Facility Manager to ensure the manager's knowledge of the expenditure so they can modify their expenditures as necessary, to avoid duplication or budget overages
- Expenditures should be charged to the facility for which the expenditure was made
- A process by which a Facility Manager can challenge an expenditure charged to their facility that the manager asserts was not for the benefit of the facility, which may require the involvement of the appropriate supervisors from the Enterprise and Park funds for resolution.

Finding 5.E – High-level approach to indirect overhead allocation (All facilities)

The current method for allocating indirect overhead is based on a facility's total revenue and total expenditures in relation to the Enterprise Facilities as a whole. Once the allocation percentage is determined, adjustments are made based on the judgment of the Enterprise Office in consideration of such things as political issues and the impact to each facility's bottom line.

Typically, organizations adopt a method of allocating overhead that is either based solely on revenue, solely on expenses, or based on a more detailed method considering relevant criteria driving the expenditure amount. For example, maintenance costs might be based on acreage maintained, administrative costs based on full-time equivalents (FTEs), and depreciation of facilities based on square footage of facilities.

Recommendation 5.E – Consider need for a more accurate overhead allocation

If the Commission wants to more accurately allocate overhead expenses to each facility, we recommend it adopt a more robust method of overhead allocation. This alternative method of overhead allocation would consider the individual expenditure line items being allocated, and the drivers of each of those expenditure line items. For example, administration costs could be allocated based on the FTEs at each facility. However, if the Commission does not feel that a more accurate allocation is necessary, which may be the case if cost recovery and grant reporting are not issues, the current method of allocation should be maintained.

Finding 5.F – Adequate capital expenditures (Golf Courses)

In 2003, Northwest had capital expenditures of $16,060, which was less than 1% of revenues, while Little Bennett Golf Course had capital expenditures of $67,964, which was 4.7% of revenues. The capital expenditures noted above consisted primarily of equipment, and not of capital repairs and improvements. Capital repairs and improvements expenditures are embedded in the operating expenditures.

The industry average for capital expenditures, which includes capital equipment, repairs, and improvements, is 3-5% of revenues. The expenditure levels at Little Bennett are in-line with the industry average, while those at Northwest are below the industry average. Since capital repairs and maintenance are not separately reported by the golf courses, those expenditures have not been considered in the analysis above and would likely cause the ratios to be higher. Overall, it appears that the courses have adequate capital expenditures.

Another observation is that the expenditures don't appear to be systematically planned, but rather expended as the specific needs arise. This non-systematic approach to capital expenditures could result in significant unplanned expenditures in the future. For example, irrigation systems typically have a useful life of 20 years. Many courses start to experience leaks around year 17, when significant capital repairs must begin. Long-term, detailed planning of capital expenditures would consider and account for such things as the repair and replacement of an irrigation system, which can cost around $1 million.

It should also be noted that there is currently a need for fairway mowers at Northwest.

Recommendation 5.F – Maintain current capital expenditure levels and implement a long-term, detailed capital expenditure budget

We recommend the Commission maintain current levels of capital expenditures to adequately maintain the golf courses while keeping expenditures within 3-5% of revenues. The expenditures should include replacement of the fairway mowers at Northwest in the short-term, to adequately maintain the condition of the golf course.

The Commission may also consider requiring capital repairs and improvements expenditures to be tracked as separate line items in the financials, to allow for more robust capital expenditure monitoring and analysis in the future.

Additionally, we recommend the Commission meet with the Facility Managers and Superintendents and work to establish a detailed capital expenditures budget for the next 5 to 10 years, and update that budget annually.

Finding 5.G – Excessive number of golf carts (Little Bennett Golf Course)

Little Bennett has 100 golf carts. The benchmark for an 18-hole project of this type is 72-75 carts. Despite Little Bennett's high golf cart utilization and terrain considerations, 100 golf carts seems excessive.

Recommendation 5.G – Reduce the golf cart fleet

We recommend the Commission consider reducing the golf cart fleet at Little Bennett Golf Course to 80 golf carts. This is slightly higher than the industry average of 72-75, as it takes into account that Little Bennett is not as prompt at repairing their golf carts. The additional 20 carts could be sold or provided to another golf course that reports up to the Enterprise Fund. On the rare occasion when an outing requirement exceeds 80 carts, the extra carts can be rented for the day.

The Commission specifically asked about the implications of leasing the golf carts. It's becoming increasingly common for golf courses to lease carts. The following is a list of advantages to the leasing of golf carts:

- Most golf cart leases work on a revolving 3-year contract. Therefore, every three years, the golf course would receive a new fleet of golf carts, and the course will always be working with great equipment.
- The leasing company is responsible for any large cart maintenance issues. This will reduce the costs, both in cart and staffing expenses.
- Most of the larger golf cart companies offer the golf courses the opportunity to make lease payments during the peak months of the golf course. For example, during the six months of peak play, the course could pay all 12-months of the lease. This enables the course to pay for the carts during months when revenue is strongest.

Despite the advantages of leasing and the increasing trend toward leasing in the industry, we do not recommend the Commission lease golf carts at this time. The primary reason for this recommendation is that the Commission can get more utilization out of the purchased carts at their courses. Older carts at public courses, particularly municipal courses, are more acceptable, and the players at these courses are typically not as sensitive to older carts as players at private or higher-end courses, where leasing carts is more common.

In the future, when a large number of the carts are ready for replacement, the Commission may want to consider leasing for all of its golf courses together. This would increase the Commission's price negotiation power.

3.6 Individual Cost Centers

Summary of Recommendations

The Commission should consider the following in improving the operations of the various cost centers:

- Reduce inventory levels at Little Bennett, Wheaton and Cabin John pro shops
- Reduce new grill operations at Little Bennett
- Consider additional food and beverage revenue-generating options at the golf courses, such as the introduction of a signature food item, soliciting customer feedback for menu ideas, adding a phone and menu board to call-in orders at the 8th hole for pick-up after the 9th hole, and adopting a week-day special that packages golf with food and beverages
- Centralize food and beverage purchasing and planning.

Requirements

Are individual cost centers or operations (pro shops, snack bars, driving ranges) within the larger operations functioning in an efficient cost effective manner?

Findings and Recommendations

Finding 6.A – High cost of goods sold (Little Bennett Pro Shop)

The cost of goods sold as a percentage of revenues at Little Bennett was 88% in 2001, 73% in 2002 and 98% in 2003. The 2003 expenditures were significantly higher than the industry average of 70%.

Little Bennett is currently carrying $190,000 in inventory and turns its inventory annually. This inventory is made up of 40% hard goods and 60% soft goods. A similar golf pro shop usually turns its inventory four times per year.

A visual inspection of the pro shop indicates a large number of high priced hard and soft goods. It has a cluttered feel and does not allow the customer to easily access the entire shop.

Recommendation 6.A – Reduce inventory levels and revise inventory mix

The Commission should consider reducing inventory levels of hard goods to 25% of total inventory, while repositioning soft goods based on sales of items at specific price points. The pro shop should also refocus its purchasing on a few strong brands. The pro shop currently carries 6 brands of golf gloves, and over 10 brands of golf balls; generally a golf facility of this type requires no more than 2-3 different brands of gloves, clubs and putters.

The Commission may want to also consider a purchasing service, such as that provided by VGM for pro shop inventory. There are several companies who have contracts with thousands of golf product companies. These companies are able to use their buying power to reduce costs to individual golf facilities and keep abreast of products that are in the greatest demand. They will come to the golf facility, discuss purchases with the Facility Manager and place orders for them.

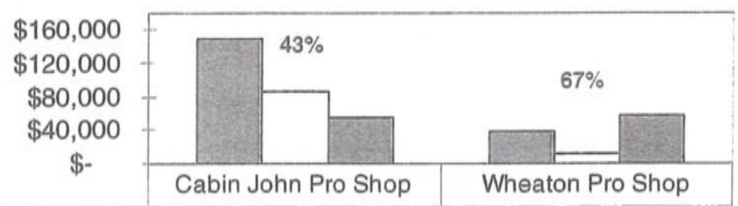
There is a small cost to join one of these groups, which is typically more than offset by savings in purchasing.

Finding 6.B – High inventory levels (Both ice rink pro shops)

Although both ice rink pro shops are generating gross profits, they have relatively high levels of inventory. Cabin John has $56,261 of inventory, which is 66% of the 2003 cost of goods sold. Wheaton's inventory is $58,594, which is 461% of 2003 cost of goods sold. This means at consistent sales levels with no further purchases, it would take Cabin John almost eight months to turn their inventory and it would take Wheaton more than four years to turn their inventory.

FY03 Merchandise Sales vs. Cost of Goods Sold at Ice Rink Pro Shops

(* Denotes gross profit margin)



	Cabin John Pro Shop	Wheaton Pro Shop
Merchandise Sales	$149,461	$39,023
Cost of Goods Sold	$85,404	$12,713
Total Cost in Inventory	$56,261	$58,594

Upon reviewing the inventory at the ice rink pro shops, we found the Wheaton Pro Shop holds over twice the amount of inventory for figure skates as does Cabin John, while Cabin John has significantly more merchandise sales revenue than Wheaton.

Recommendation 6.B – Reduce inventory levels and monitor inventory turnover on an on-going basis

We recommend both pro shops, particularly Wheaton, reduce their current inventory levels and strive to turn their inventory two to three times per year. Wheaton's inventory reduction should especially focus on its figure skates.

To facilitate ongoing monitoring of inventory levels, the Facility Manager and Assistant Facility Manager should analyze inventory turnover on a regular basis.

Finding 6.C – High food and beverage cost of goods sold (Little Bennett Golf Course)

Food and beverage cost of sales as a percentage of revenues was 56 % in 2003, which is higher than the industry average of 35%. This is partially attributable to the new grill between the 7th and 11th tees, which did not generate sufficient revenue to bear the costs of operation and the spoilage the grill was incurring.

Recommendation 6.C – Reduce new grill operations

The course should evaluate the new grill operation by day and by hour, to determine if and when it is profitable to operate and revise hours/days of operation accordingly.

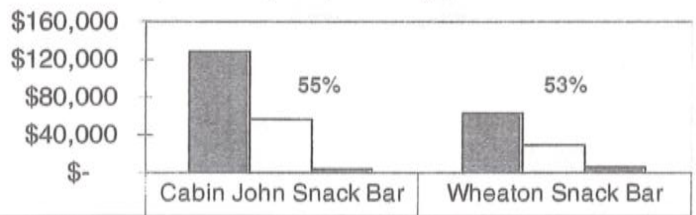
Note that since the time of our site visit to Little Bennett, management performed the evaluation and as a result, reduced the hours and days of operation. They have also already taken steps to reduce spoilage.

Finding 6.D – Adequate performance of snack bars (Ice Rinks)

Both snack bars produced substantial gross profit margins in FY03. Cabin John had a 55% gross margin and Wheaton had a 53% gross margin. Additionally, the cost of inventory on hand was relatively low in comparison to cost of sales.

FY03 Merchandise Sales vs. Cost of Goods Sold at Ice Rink Snack Bars

(* Denotes gross profit margin)



	Cabin John Snack Bar	Wheaton Snack Bar
Merchandise Sales	$127,588	$63,459
Cost of Goods Sold	$56,791	$29,687
Total Cost in Inventory	$4,236	$5,378

Recommendation 6.D – Strive for continuous improvement

As both ice rink snack bars are producing a profit, we recommend the Commission consider *Recommendations 6E - Consider additional food and beverage revenue-generating options* and *6F - Centralize food and beverage purchasing and planning* to further improve the performance at the snack bars. Both ice rinks, Wheaton especially, should monitor their inventory levels to help ensure they do not incur excessive waste in the future.

Finding 6.E – Inadequate food and beverage revenue (Golf Courses)

As stated in the staffing section, since staffing levels at both Little Bennett and Northwest are at minimum staffing levels, the only way to get the food and beverage labor cost as a percentage of food and beverage revenue in line with industry averages is to increase the revenue generated at the food and beverage outlets.

Recommendation 6.E – Consider additional food and beverage revenue-generating options

The Commission may want to consider having facilities managers meet with food and beverage staff, review menus and find a signature item that they can become known for, (i.e., a great hamburger). Additional considerations to generate food and beverage revenue include:

- Survey the existing players to determine particular items of interest to them and create a menu based on that feedback.
- Install a telephone and menu board after the 8th green to promote selling food and beverages at the turn. Give the player the opportunity to call in his order and pick it up after the 9th hole. This has been done successfully at other golf facilities.
- Create weekday specials (when slow-play exists), which bundle golf with lunch or breakfast. For example, on Tuesdays, offer a golf, cart and lunch special for $70 at Little Bennett, instead of $65.50. This will generate additional food and beverage revenue and market the snack bar for future play.

Further discussion regarding the food and beverage operation is discussed in *Recommendation 6.F – Centralize food and beverage purchasing and planning.*

Finding 6.F – Lack of coordination between snack bars (All facilities)

Each facility operates its snack bar independently from the other facilities, and the facility managers do not communicate with each other with respect to the snack bar operations. Menu selection and purchasing were two areas where the facilities could benefit from coordinated efforts. One facility manager claimed that the different facilities are being charged different prices by the same vendor.

The following are examples of how coordinated efforts could benefit the snack bars:

- *Similar Vendors:* Managers at the facilities indicated that certain vendors could be shared to purchase joint goods. The facilities could potentially benefit from corporate discounts for combined purchases.
- *Revenue Enhancers:* The Facility Manager at Cabin John Ice Arena determined nutritional snacks increased revenues; unfortunately this idea was not shared with Wheaton Ice Rink, and as a result Wheaton Ice Rink has not benefited from this potential source of additional revenue. Similarly, Wheaton Ice Arena provides a full birthday party package, whereas Cabin John does not. (*See revenue-generating suggestions provided at Recommendation 6.E.*)

Recommendation 6.F– Centralize food and beverage purchasing and planning

The Commission should consider standardizing menus at some of the facilities and centralizing purchasing efforts. Food service vendors, such as SYSCO and VGM, could help evaluate the programs and compare potential savings with a central purchasing program. This could help lower food and beverage costs at all facilities.

At a minimum, the Commission should encourage communication and the sharing of ideas between Facility Managers with respect to food and beverage operations. Facility Managers should discuss snack bar operations during their quarterly meetings, especially successful initiatives and the possibility of consolidating their purchases to achieve vendor discounts.

Through a collaborative effort, Facility Managers could reduce the cost of expenses through bulk purchasing and increase their revenues through the sharing of ideas.

Finding 6.G – Outsourcing/ privatization of pro shop and food and beverage operations (Golf Courses)

The Commission has specifically asked the following questions regarding the privatization of the pro-shop and food and beverage operations:

- What is the common practice for snack bar and pro-shops in terms of privatizing or self-operating?
- Should the snack bars and/or pro-shops be privatized/ outsourced?

Generally speaking, outsourcing occurs when the running of these cost centers become too overwhelming for the current management team. In terms of food and beverage operations, outsourcing usually occurs with high-end clubs, usually private, which in addition to everyday food and beverage needs, have a large amount of banquet business. These outsourcing companies posses the equipment and personnel necessary to handle large functions.

Similar to the food and beverage operations, pro-shop outsourcing normally occurs in high-end daily-fee and resort courses. In most outsourcing cases, a management company, such as Troon or Kemper, is hired to manage the entire property, not just the pro-shop.

Recommendation 6.G – Do not outsource the food and beverage or pro shop operations

Although the snack bars and the pro-shops at both Little Bennett and Northwest are both losing money, we recommend the Commission not outsource these operations. As noted in previous sections, these cost centers are suffering primarily from improper operations and purchasing inefficiencies. Their financial performance can be improved through the implementation of recommendations in this report.

3.7 Marketing

Summary of Recommendations

To maximize the effectiveness of marketing efforts, the Commission should develop and implement a robust marketing plan aligned with achieving specific business (revenue) goals. The marketing budget needs to be more clearly allocated among facilities and marketing initiatives, and consistent with the facilities that would benefit from more advertising. Little Bennett in particular could benefit from improved marketing collateral and website.

Requirements

- *Are marketing efforts adequate?*
- *Is the Department using the right media to market Enterprise Facilities, services, and programs?*
- *Have the target markets been adequately identified, and are they being reached?*

Findings and Recommendations

Finding 7.A – Uncoordinated and inadequate marketing efforts (All facilities)

Overall, the marketing efforts do not appear to be adequate in the sense that they are not aligned to achieve specific business goals. Rather, the marketing efforts appear to be based on disjointed efforts, a lack of communication, and varying perceptions of target markets and the appropriate media outlets to reach those markets. Additionally, the success of the marketing efforts is not evaluated to determine the cost-effectiveness of past marketing choices.

Marketing efforts appear to be uncoordinated from a budget, target market, media outlet and content standpoint. The Facility Managers and the Enterprise Office marketing manager undertake separate marketing efforts based on their perceptions of target markets and preferred media outlets. The Enterprise Office marketing manager places advertisements for the facilities in local newspapers, family periodicals and military newspapers without input from the Facility Managers. The Facility Managers were unaware of what advertising the Enterprise Office placed. Some of the Facility Managers expressed concern in not having the autonomy to place advertisements in the media outlets of their choice, such as larger community or regional newspapers. The Facility Managers distribute fliers to schools and coupons to targeted zip codes, although the coupon mailers were discouraged by the Enterprise Office marketing manager.

A marketing budget is allocated for each facility – there is no centralized marketing budget. Expenditures made by the Enterprise Office marketing manager were charged to the respective facility's account. There is no allocation of the budget to the Enterprise Office and the facility. In fact, the Enterprise Office marketing manager was unaware of the budgets for each facility and expenditure amounts were determined based on what she thought was reasonable and what was spent in the past. The Facility Manager did not know how much the Enterprise Office would spend on marketing until they received their Performance reports, which indicated how much had been spent.

Recommendation 7.A – Develop and implement a marketing plan to achieve specific business goals and allocate sufficient budget to achieve those goals

A marketing plan is designed to achieve specific business goals. Based on those business goals, the marketing plan would typically define marketing objectives, target markets, media outlets to reach the defined target markets, a budget, and a process for evaluating the success of marketing efforts.

We recommend that the Commission develop a marketing plan based on defined business (revenue) goals to drive all marketing efforts. The marketing plan should include the following components:

- Marketing objectives should be defined and aligned with specific business (revenue) goals. The marketing objectives should be clearly defined and measurable. For example, if a facility defines a business goal to increase its group lesson revenue by $X by the year 2005, a marketing objective could be to bring in Y number of new lessons by 2004 and Z number of new lessons by 2005.

- Target markets for each marketing objective should be identified and agreed upon by the Facility Managers.

- The facilities can understand their market better by creating a system to capture user information. This system usually would entail capturing user demographic information such as address, age, email address, phone number, preferred times of play, interest in discounts. The ice rinks have done this to some extent; however, the golf courses have not done so as yet. Such information will help them identify their current users and better understand who their target market is for specific marketing objectives.

  - For example, if a golf course is trying to fill in the gaps of their tee-sheet, they can email coupons for those empty tee times to their golfers who play during those times, or are interested in discounts.

- A budget allocation should be made for each marketing objective. For example, a specific budget could be allocated to each facility for lesson advertising, special event advertising, and coupon mailers.

- Media outlets should be identified to reach the target markets and costs should be evaluated to determine feasibility in light of the budget.

- Assignment of responsibility for the marketing initiatives and their corresponding budgets. For example, the Enterprise Office marketing manager may be responsible for the general "we're here" advertising while the Facility Manager may be responsible for special event advertising and the corresponding budget.

- An evaluation process should be established to determine the effectiveness of each marketing initiative. That process should specifically track how well the initiative met the marketing objective. For example, if the marketing objective was to bring in Y new lessons in 2004, and 12 ads were placed to achieve that objective, all new lessons should be asked how they came to learn of the lesson program and how that information was collected and reported.

Finding 7.B – Inadequate marketing collateral and website (Little Bennett Golf Course)

In our opinion, the tri-fold marketing brochure highlighting Little Bennett needs to be improved. It does not adequately describe the Little Bennett golf experience.

Because Little Bennett is not necessarily perceived as a municipal golf course, the golfer may not think to access it via the Maryland-National Capital Park and Planning website (http://www.mc-mncppc.org/parks/facilities/bennett.shtm). As this is such an important communication and marketing tool today, the Commission should consider establishing a separate website for this project, that matches the quality level of the competition's websites.

Recommendation 7.B – Create better marketing collateral and website

Little Bennett has significant competition, and despite the lower fees, played 24,000 rounds last year. The golf course needs recognition and the ability to market specific initiatives; which need to be measured and therefore executed individually.

The Commission should consider changes to the tri-fold marketing brochure and to the access point and content of the Little Bennett website. As part of the marketing collateral program, each golf facility should be appraised of the marketing campaigns of their competitors, so that marketing programs can be considered as a continuum and countered as appropriate.

To accomplish this the Commission may consider increasing the marketing budget at Little Bennett Golf Course to a maximum of 2% of revenue.

3.8 Customer Service

Summary of Recommendations

The Commission could improve its customer service efforts by implementing a more structured and frequent customer feedback mechanism that includes follow-up.

Requirements

- *Are customer service efforts adequate?*
- *Are employees receiving the right amount of training to ensure high quality customer service?*
- *Do current survey techniques (facility surveys, customer comments' cards, mystery shopper visits) go far enough in contributing to customer service improvements?*

Findings and Recommendations

Finding 8.A –Inconsistent customer feedback mechanisms, lacking follow-up (All facilities)

Customer service feedback efforts are lacking consistency, depth and implementation, and especially follow-up to issues uncovered as part of the program. The methods by which customer service feedback is obtained consist of surveys, customer comment cards and a secret shopper-program.

- **Surveys.** In the mid-1990s, a survey was created and conducted in an effort to quantify customer satisfaction. The survey provided some useful data for the individual rinks and courses evaluated, although the response rate was very low.

- **Customer comment cards.** The Enterprise Office provides comment cards at the facility sites, with a sign inviting customers to complete them. The cards ask for praise, concerns, a rating and allows for customers to provide contact information. Typically, the response rate is fairly low. The customer service manager at the Enterprise Office would call the customer back most of the time.

- **Secret shopper-program.** The secret shopper-program involves having unidentified people pose as customers to evaluate a facility. The mystery shopper would call and request information on the phone and go to a facility to play golf or skate. While on site, they would evaluate the facility based on characteristics such as exterior, bathroom, front office staff, and pro shop staff. They would complete an evaluation form and rank the characteristics on a scale from 1-5, in addition to writing specific observations. The Enterprise Office would pay the mystery shopper $50 in addition to facility fees.

- **Follow-up.** The results of each of these customer feedback mechanisms were provided to the managers and their supervisors. The Enterprise Office did not require any action, as they had no authority to do so. The actions in response to the findings by the Facility Managers are unknown, as they were not monitored or reported.

Recommendation 8.A – Implement a more structured and frequent customer feedback mechanism that includes follow-up

Provided the Commission determines customer service is an area requiring attention, we recommend the Commission implement a more structured customer service evaluation mechanism that provides timely feedback and includes follow-up on resulting initiatives. Using similar approaches as have been used in the past by the Commission, we recommend the following actions be taken to revise those approaches.

Survey program. The Commission should consider taking the following steps to implement a more structured survey program:

- Capture the addresses and e-mail addresses of golf and rink customers, as they check in to the pro shop / admissions counter. (There may need to be a "catch" to get these customers to volunteer such information, such as: e-mailed coupons, tournament information, news, and preferred availability.)

- Consider conducting a web-based survey, which may improve response rate through companies such as Alinea Group, Opquest, Optimal Connections and Perseus.

- Create a schedule upon which to mail / e-mail surveys to your users (either bi-annually or annually).

- Randomly select approximately 1,000 customers per golf course and 500 per ice rink to mail / e-mail surveys to, with an enticement to return the survey. (Enticement may be coupons for such things as $5 off a round, $1 off skate rental, buy-one-get-one-free soft drink) A 15-20% return rate is typical for surveys, which would yield substantially good data.

- Create a reporting system in which survey results can be easily understood and interpreted. The reporting system must have the ability to be benchmarked to previous results and to other Enterprise Facilities.

- Establish policies and procedures ensuring Facility Managers and their supervisors:
  - Receive the data on a timely basis
  - Address issues with employees
  - Address facility or service-related issues
  - Follow-up with the Enterprise Office on what actions were taken to address the issues.

- Create a reward system for highest score and / or most improved. This reward system can be integrated into the employee performance management and compensation system.

Secret shopper program. The Commission should consider implementing a more structured and frequent secret shopper program, incorporating the following recommendations:

- Eliminate the $50 fee and limit payment to reimbursement of facility fees and snack bar costs.

- Similar to the survey program, create a reporting system in which Secret shopper results can be easily understood and interpreted. The reporting system must have the ability to be benchmarked to previous results and to other Enterprise Facilities.

- Establish policies and procedures ensuring:
  - Receive the data on a timely basis
  - Address issues with employees
  - Address facility or service-related issues
  - Follow-up with the Enterprise Office on what actions were taken to address the issues.

- Create a reward system for highest score and / or most improved. This reward system can be integrated into the employee performance management and compensation system.

3.9 Other

Summary of Recommendations

To better enable effective monitoring of financial performance of the Enterprise Facilities, the Commission should consider requiring all Facility Managers to complete training on use of Performance Accounting.

Requirements

The finding and recommendation in this section does not respond to a specific question posed by the Commission in their request for proposal. This is included in the report because we feel that observation is key to implementing many of the recommendations made elsewhere in this report.

Findings and Recommendations

Finding 9.A – Insufficient knowledge of Performance Accounting (All facilities)

The staff at the ice rinks and golf courses possess industry experience and effective interpersonal communication and relationship management skills, which we consider appropriate to the roles and functions of the ice rinks and golf courses.

However, some managers do lack basic understanding of the capabilities found in the Performance Accounting systems. For example, at Wheaton Ice Arena, manual processing of information and duplication of effort was observed. Manual logs of rental fees, attendance, parties and leased ice fees are kept daily. Similar summaries of information are available through Performance Accounting, and were provided to us by the Facility Manager at Cabin John Ice Rink. However, some of the Facility Managers were uncomfortable or unaware of procedures for accessing certain financial information.

Additionally, some of the Facility Managers emphasized the need to have debt service budgets before the end of the year, so they could determine their budget status. However this information is entered into Performance Accounting by Finance and can be viewed at least six months before the year-end. Although the data is available, some of the Facility Managers are unaware and unable to access it.

Based on interviews, the Facility Managers have had the opportunity to learn the Performance Accounting system. They need to be responsible and accountable for learning the programs.

Recommendation 9.A – Require managers to complete training on use of Performance Accounting

As part of their performance requirements, the Facility Managers should be required to complete training sessions on financial monitoring and the capabilities of Performance Accounting system. The training should reinforce the importance of relying on these systems in conducting day-to-day business. It should also be made clear by their supervisors that it's a requirement to perform their job and proficient use of the software in performing their jobs will be included in their performance evaluations.