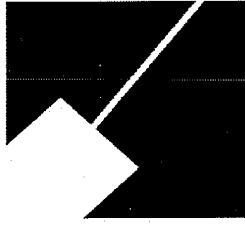


M-NCPPC



Montgomery County Department of Park and Planning

THE MARYLAND NATIONAL CAPITAL  
PARK AND PLANNING COMMISSION

8787 Georgia Avenue  
Silver Spring, Maryland 20901

MCPB  
Item: 1  
March 30, 2006

TO: Montgomery County Planning Board

VIA: Mary Bradford  
Director of Parks

FROM: William Mooney  
Acting Deputy Director

A handwritten signature in black ink, appearing to read "W. Mooney", written over the printed name and title.

SUBJECT: GOLF PROGRAM: NEW DIRECTION

**SUMMARY RECOMMENDATIONS:**

**Authorize initiation of Revenue Authority (RA) operation of park golf courses under a binding letter of intent and operating agreement, which include terms to be incorporated into a long-term lease during the 2006 golf season; and, continuation of the process with the Revenue Authority towards a long-term transfer of golf course operational management.**

This action is being pursued in accordance with Section 1-500(i) of the Commission's procurement regulations as an intergovernmental agreement, and is therefore not subject to competitive bidding provisions.

**Background:**

Currently, there are ten public golf courses in Montgomery County. M-NCPPC owns four courses – Needwood, Northwest, Little Bennett and Sligo (Park Golf Courses); the RA owns five – Rattlewood, Poolesville, Falls Road, Laytonsville and Hampshire Greens (RA Golf Courses) and the City of Rockville owns the tenth (Redgate) which is not a subject of this proposal.

During the past three years, there have been three studies conducted that analyzed different aspects of the operations of the Park Golf Courses. Management practices, financial comparison to the RA, and strategies to improve the performance of the system have been studied. As a result of those studies, changes were made in the operations and marketing was strengthened. In addition to the above changes, debt was restructured when rates fell which provided additional relief. In the FY06 budget preparation, the Planning Board considered several additional options for the Park Golf Courses, which included transfer to the RA. However, at that time, the Board chose to continue operating and develop stronger marketing, among other strategic changes. As part of those initiatives, the Board approved seeking partnerships that would benefit the golf system.

Staff initiated this effort in fall 2005. However, after reviewing the updated financial projections, staff concluded that seeking partnerships and the continued strategic initiatives was not going to meet the expectations of the Board for operation of its golf system.

In the face of a national trend of flat demand for golf, mounting financial losses and an inability to make the capital improvements that would enable the Park Golf Courses to be competitive; staff has concluded that the timing is right for the recommended merger of the Park Golf Courses into the RA golf system. While it may seem that the change is happening in a fairly rapid manner, the option to merge has been under consideration for well over a year. Additionally, there has been recognition for much longer that substantive changes are needed in order to operate the system in a fiscally responsible way. The current urgency to begin the transfer on April 15 is in recognition of the start of the 2006 golf season and the cash flow that is necessary for the RA to sustain the operations.

This proposal is a substantive and significant change from how M-NCPPC has operated in the past and it has one very important opportunity – improving access to golf on our public courses. M-NCPPC currently supports First Tee and high school golf, as does the RA. This is also an opportunity to improve access for low income and disadvantaged members of our community. This change in operations presents M-NCPPC with a way to make this a priority and enable new programs. The RA is prepared to work with us and the Department of Recreation to build such programs.

The decision to recommend this course of action was also made with the understanding that there are several private entities that have expressed or may express interest in some level of partnership, management agreement, or full takeover of one or more of the Park Golf Courses. Staff gave serious consideration to these potential options before reaching a conclusion. Key factors weighing on the conclusion included the time required to pursue any option other than the RA merger, the mounting financial burden that would ultimately fall to the taxpayer, the standing policy of not divesting of fee interest in parkland, and the ability to continue meeting the established public purpose of providing high quality golf to residents at affordable prices through a public system of golf courses.

In January 2006, the Planning Board authorized the staff to enter into negotiations with the RA with the objective of transferring to the RA the operation of the Park Golf Courses. The Board was told that staff<sup>1</sup> met in December 2005 to review golf issues and concluded that the continued decline in the fiscal health of the golf program precludes the use of more measured turn-around actions and demonstrates the urgency of taking a significant new approach.<sup>2</sup>

- FY05 actual net cash flow: -\$ 497,344
- Latest FY06 year-end projected net cash flow: -\$1,016,800  
(See attached graphs for fiscal results.)

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<sup>1</sup> Johnson, Barney, Mooney, Keogh, Bush, Warnick, and Kendal, plus consultant Don Zuchelli.

<sup>2</sup> The Parks' staff has, in fact, launched a number of initiatives to address the financial condition of the golf program. Examples are listed in the Appendix. However, the senior staff has concluded that these actions will take too long to have a beneficial turn-around effect, and the financial drain will be too great during the wait.

Further, the Board was told that the County Council was expecting a report in the immediate future setting forth the Planning Board's latest actions and proposals regarding golf.

**Proposal:**

The staff recommended in January 2006, and continues to recommend, pursuant to the Planning Board's policy to seek partnerships, that the M-NCPPC complete negotiations with the RA with the objective of turning over to the RA the operation, maintenance, and capital improvement of all four courses (thereby putting operation of all nine county-level courses under one agency).

Title to the Park Golf Courses will remain with M-NCPPC, and the Planning Board would retain (subject to negotiation) a significant policy role with regard to environmental protection, public access, possible additional facilities and uses on the property, and the impacts of capital improvements. Through the comprehensive ability and expertise of the RA to manage golf operations, and with the combined assets of the two existing systems, M-NCPPC and the RA anticipate that the combined golf system will be stronger than either of the current operations. As a result, M-NCPPC would be relieved of the fiscal exposure and capital investment burden expected, under current policies, to adversely impact the Enterprise and Park Funds. The RA would become the sole provider of public golf in the county<sup>3</sup> with the opportunity to market "Montgomery Golf" at all nine courses.

In order to meet the proposed April 15 transition date, the RA and M-NCPPC intend to enter into interim agreements in the form of a binding letter of intent and operating agreement, which terms will be incorporated into a long-term lease after the 2006 golf season. The proposed terms of the lease will be open for public comment prior to final approval of the lease by the Planning Board and the County Council. In the event that the RA and the M-NCPPC do not ultimately agree on terms of a lease, the operations of the Park Golf Courses will return to M-NCPPC after the 2006 golf season, on November 1, 2006. The significant provisions that are under negotiation with the RA to be included in both the interim agreements and the lease include:

- **Structure of Transaction.** RA will take over operations of all of the Park Golf Courses on April 15, 2006, under the terms of a binding letter of intent and an operating agreement that expire on October 31, 2006. Upon approval of the Planning Board and County Council, the RA and M-NCPPC will enter into a 40-year Lease, subject to the right of either party, during the term, to extract any of the Park Golf Courses from the lease, subject, respectively, to appropriate reimbursement for certain losses to the RA, and restrictions on M-NCPPC as to future use of the property as a result.
- **Purpose.** The purpose of the partnership is to create a successful system of daily-fee golf in Montgomery County, which is accessible and affordable to the public and serves the golfing community of Montgomery County, while realizing operating and cost efficiencies with consistent operations and programming.

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<sup>3</sup> Other than the City of Rockville.

- **Non-Competition.** M-NCPPC will not provide public golf facilities in competition with or act in a manner to frustrate the success of the RA golf system. The golf course at Fairland Regional Park is specifically excluded from this requirement.
- **Use of the Property.** Use of property will be limited to golf and related operations and activities, or such other uses as approved by M-NCPPC.
- **Rent.** The RA will pay a base rent to M-NCPPC (which will include reimbursement to M-NCPPC for the value of all equipment and inventory to be transferred to the RA) at least sufficient to cover its existing debt service at Little Bennett until the debt is paid off. In addition, after a certain period RA will pay a percentage rent based on revenues derived from operations.
- **Operating Standards.** The RA will operate the Park Golf Facilities in a manner consistent with its operations of its other golf facilities in Montgomery County; subject to (1) sound environmental practices and in compliance with federal, state, and local laws and regulations that apply to operations of park property, including environmental laws and regulations and M-NCPPC Park Regulations, (2) maintaining the tax-exempt status of the Little Bennett debt, and (3) in accordance with the terms of the Operating Agreement.
- **Accessibility.** MCRA shall assure access to golf for members of lower income communities through (1) continuation of programs such as First Tee and high school golf at a reduced rate, and (2) development of new programs and funding therefor in partnership with M-NCPPC, the Montgomery County Department of Recreation, and other county agencies.
- **Master Plan.** Within the first year of its operations of the Park Golf Courses, the RA will develop and present to the Planning Board, a Golf Master Plan, which will include a capital improvement plan to accomplish the purpose set forth above in a unified system of public golf in Montgomery County. Any capital improvements will be subject to the appropriate governmental approvals and permits.
- **Needwood Irrigation Upgrades.** M-NCPPC will complete and pay for the design for the irrigation system upgrades to Needwood Golf Course, and the RA will be responsible for implementing the upgrades – the timing of which will be addressed in the master plan.
- **Annual Reporting.** The RA will make an annual presentation to the Planning Board of its operations during the preceding calendar year and projections for the coming year, including, a representation of its compliance with the terms and the purposes of its agreements with M-NCPPC, and proposed updates to its Golf Master Plan.
- **Liabilities.** The RA will accept the Property “AS IS” from M-NCPPC provided, however, a shared obligation with regard to environmental conditions is under consideration.
- **Signage.** The RA will include signage approved by MNCPPC, at the MNCPPC Golf Facilities that identify the Park Golf Courses as part of the M-NCPPC park system.
- **Joint Marketing.** The RA will transfer current paid subscribers of Player’s Choice into a similar RA marketing program, providing appropriate credit for any fees paid and points earned. It is noted that this is a \$60,000 commitment that must be accommodated.
- **No Assignment.** The RA will not be able to transfer or assign its rights or obligations with regard to operations of the Park Golf Courses.

The desired outcomes from this initiative are:

- The long-term availability of high-quality golf opportunities at all levels for residents and visitors on the Park and RA Golf Courses through their integration into the golf program managed by the RA;
- The opportunity for the RA to improve its offerings by spreading its programming and costs over more courses;
- The strengthening of the Parks' fiscal condition by the removal of a program that will likely drain Enterprise Fund funds away from non-golf activities and may require continuing tax-supported subsidies; and,
- The continued support for the First Tee program and the high school golf program.

The deliverables required from this initiative are:

- The negotiation of agreements that meet the needs of M-NCPPC and which include provisions intended to help make the RA/M-NCPPC partnership a success;
- The endorsement of the contracted transaction by County leadership and by interested citizens; and
- The successful implementation of the terms of those agreements, which would include, to the fullest extent possible, a transition in management that is transparent and seamless to the golfer.

**Interested Parties:**

- Golfers who prefer or depend on the availability of public access courses;
- Elected officials concerned about the availability of high-quality recreation services and the maximizing of tax funds for services that require them;
- RA and M-NCCPC Boards and staff, interested in effective delivery of their missions; and
- Public golf employees, interested in secure employment opportunities to work within their professions.

**Issues:**

Major issues being worked on by negotiators for the RA and M-NCPPC include the following:

- Financial details;
- Balancing the long-term financial, service delivery and asset protection interests of both parties, and the creation of reasonable short-term expectations by all parties;

- Debt obligations for Little Bennett;
- Transition schedule;
- Allocation of policy discretion between RA and M-NCPPC on various issues once the agreements are in place;
- Future for M-NCPPC golf employees; and,
- Providing opportunities for the Planning Board to review and comment on the RA's Golf Master Plan, on financial results and projections, at least annually during the term of the lease. (Note: the Planning Board would retain all of its current regulatory authority such as mandatory referral of proposed improvements, the right to require park permits, etc.)

The above issues are addressed in the letter of intent and operating agreement between the RA and M-NCPPC, which terms will be incorporated into the long-term lease. However, two issues are not addressed in those agreements and, therefore, are discussed here:

1. The impact on employees: The golf courses have 38 full time positions and 31 current full-time employees. Staff in the Enterprise Division and Central Administrative Services is actively working to reassign these employees. There are sufficient vacancies in the Montgomery County Parks Department to accommodate all of the maintenance personnel. There are three golf course managers and three course superintendents that we are also working to reassign. The RA has taken applications from all interested staff and is interviewing for their positions. The Executive Director has made a commitment that all full-time employees will be accommodated to the best of her ability. MCGEO represents 19 of the affected career employees and has invoked article 30 of our collective bargaining agreement. MCGEO wants to negotiate the net loss of the career positions from Enterprise to other assignments and the impact on the bargaining unit. The Executive Director and Craig Ballen, labor counsel, will meet with MCGEO. There are also 168 part-time seasonal employees. The acting Enterprise Division chief has advised all divisions that hire seasonal staff to give priority consideration to those who wish to continue seasonal employment with the park system.
2. Business Terms: The Secretary-Treasurer has engaged a financial advisor<sup>4</sup> to review the business terms of the merger. She will provide additional information during the briefing. At this time, the initial terms and principles include the following items that both partners support:
  - During the initial six years of the lease, the RA will pay a base rent that will provide a revenue stream for payment of the Commissions debt and principal on golf-related obligations. This is approximately \$480,000 per year.

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<sup>4</sup> Tom Bluff of Global Golf Advisors

- Commencing in year 5 of the lease, a formula based payment will be developed that will recognize that: (1) the combined system will be stronger and a better service to the community and the taxpayer; (2) both parties have contributed substantive resources to the joint system; (3) the RA will provide management of the system for the benefit of the golfing public; and (4) that both parties will benefit from the entirety of the system.

Both parties remain strongly committed to making this transition and new partnership a long-term success. Consistent with that commitment is the joint effort to place the RA in charge of the course operations by April 15, 2006 – the approximate beginning of the high-revenue season for golf, via interim agreements which enumerate all of the terms that will be incorporated into a long-term lease after the 2006 golf season. The proposed terms of the lease will be open for public comment prior to final approval of the lease by the Planning Board and the County Council. In the event that the RA and the M-NCPPC do not ultimately agree on terms of a lease, the operations of the Park Golf Courses will return to M-NCPPC after the 2006 golf season, on November 1, 2006.

**Requested Action:**

- Discussion and decision by the Planning Board.

**Recommendation:**

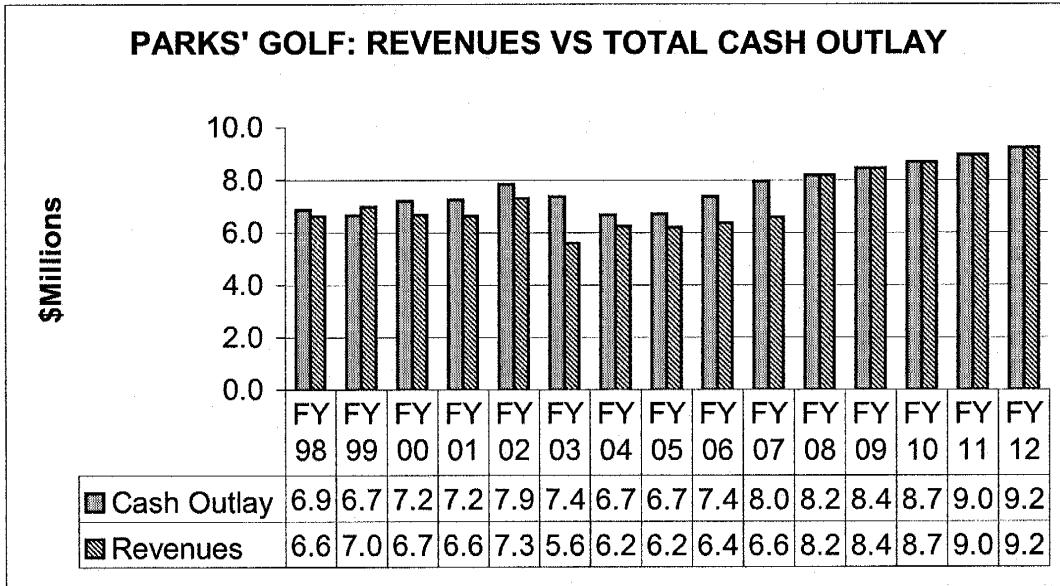
- **Authorize initiation of Revenue Authority operation of Park Golf Courses under a binding letter of intent and an operating agreement, which incorporate the terms presented in this memorandum, and continuation of process with RA towards transfer of golf course operational management for the long-term.**

**Appendices:**

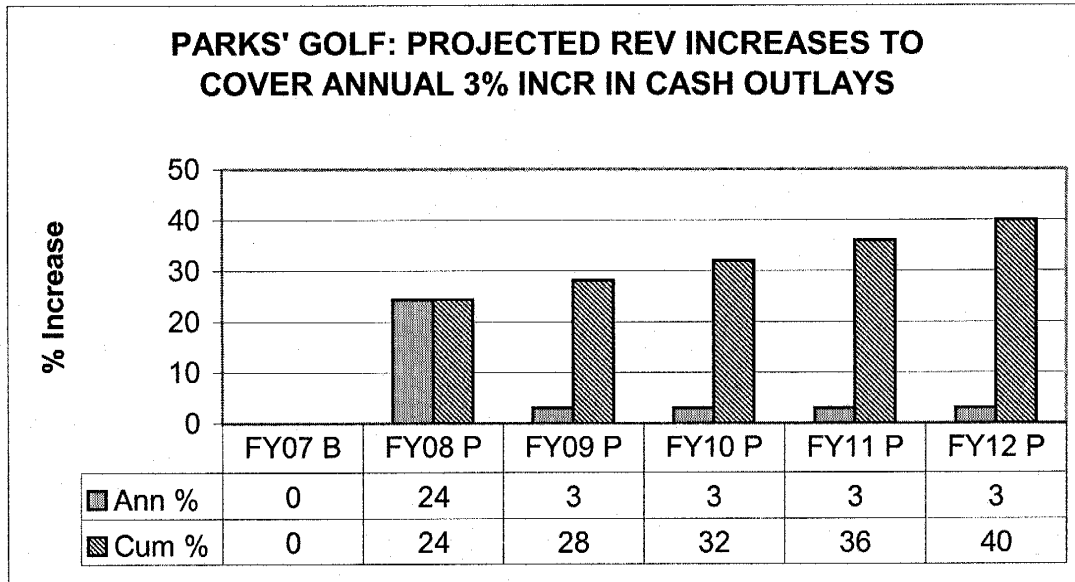
- Fiscal Charts (Attachment 1)
- Recent Actions Taken by Enterprise Division (Attachment 2)

**PARKS' GOLF: LOOKING AHEAD**

Scenario: Total cash outlays (operations, debt service, capital outlay and CIP cash) assumed to grow 3% per year over FY07 Budget level. *No additional reinvestment.*



- To cover all cash requirements in FY08, revenues would need to reach \$8.2 million. The highest revenues since FY98 totaled \$7.3 million (FY02).



- FY08 would require a 24% rise in revenues over FY07 Budget, to cover cash outlays. Increases each year beyond that would be 3%. Cumulative change over FY07 would be 40% by FY12.



EXAMPLES OF RECENT ACTIONS TAKEN BY THE ENTERPRISE DIVISION TO STRENGTHEN THE FINANCIAL PERFORMANCE OF THE PARKS' GOLF PROGRAM:

- Hired a term-contract (seasonal, non-career) manager at Little Bennett to focus on scheduling tournaments and outings.
- In the process of revamping the web pages for all the courses.
- Implemented a pilot program to allow the golf course managers to teach lessons on overtime pay in an effort to enhance the lesson program and hopefully increase pro shop sales and greens fees.
- Hired a term contract manager for Northwest Golf Course to test the theory that financial incentives for the managers will translate into more golf course business. This individual teaches lessons on the side and also earns straight overtime for all hours worked over 37 1/2.
- The above listed manager, Kent Keith, has made various changes to the playability of the course and customer service aspects of the operation to bring in more business.
- Our marketing manager, Kate Stookey, has secured a number of sponsorships from TV and radio sites for various ad campaigns and events at the courses.
- Secured the right to directly supervise the golf-course mechanics. This was a KPMG recommendation and goes to the ability of the superintendents to more efficiently run their maintenance program.
- Implemented the Players Choice program at the golf courses this summer which allows gold card holders to earn points for every dollar spent at the courses and to redeem those points for free golf rounds.
- Taken steps to significantly improve maintenance efforts at Sligo Golf Course to improve turf conditions and course playability and overall course presentation/aesthetics.