

PORTLAND PARKS GOLF:

Changes needed to ensure
long-term sustainability

May 2019



PORTLAND
CITY AUDITOR

Audit Services



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Portland Parks Golf:

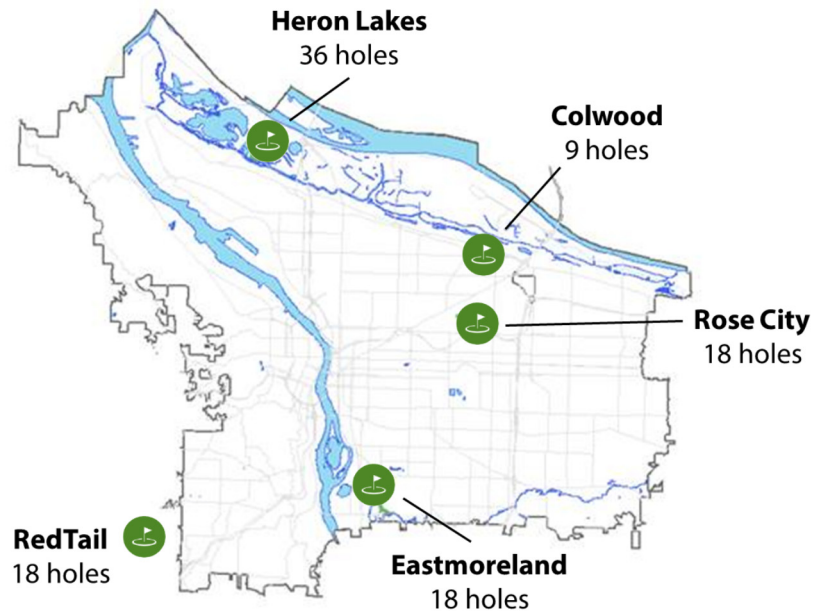
Changes needed to ensure long-term sustainability

Summary Portland Parks and Recreation's golf program is at a crossroads. Intended to be self-supporting, the program required an infusion of \$800,000 of taxpayer funds in 2017 to remain solvent. While Parks has taken steps to cut costs and increase the number of golfers, it is fighting a national trend of a sport in decline and past ineffective program management.

Many of the factors that led to the funding shortfall in 2017 remain in place. To ensure the golf program is viable for the long term, we recommend that Parks and Recreation:

- Develop alternative financial forecast scenarios and present them to City Council for direction on how to proceed;
- Negotiate contracts to reflect current conditions;
- Improve contract monitoring;
- Present contracts to City Council for approval and renewal.

Background The City of Portland has offered golf for more than 100 years. Parks owns five courses, four in Portland: Colwood, Eastmoreland, Heron Lakes, and Rose City; and one in Beaverton, RedTail Golf Center.



Source: Audit Services Division

The 2018 budget for the golf program was \$9.6 million, which was about 5 percent of the overall Parks budget of \$213 million. It is intended to pay for itself from revenues generated at each course. These monies are put into the Golf Fund, which stood at around \$1.2 million in 2014. In just two years this amount declined by 77 percent, to \$285,000. The Golf Advisory Committee, a volunteer group of community members, provides input on the program.

The City's involvement with the five courses is varied and complex. City staff maintains the courses and most clubhouses, while day-to-day operations are managed by private operators under contract with the City.

Audit Results

The long-term viability of the golf program is in question. It has taken steps to decrease costs and increase use of the City’s courses, but despite these improvements, financial risks remain. A history of lax contract management combined with the sport’s decreasing popularity contributes to the financial risks for the City.

Financial conditions remains dire

City Council rescued the golf program in Fiscal Year 2016-2017 with an \$800,000 transfer from the General Fund to the Golf Fund. The emergency transfusion stanching three consecutive years of net operating losses. Some conditions that led to the bailout remain and are projected to worsen, for instance, employee retirement and health benefits. Besides ongoing operating costs, the golf program must also pay over \$1 million in administrative costs every year.

Some courses are doing better than others financially.

	2014	2015	2016	2017	2018
Heron Lakes 36 holes	1	1	1	1	1
Eastmoreland 18 holes	2	2	3	2	3
RedTail 18 holes	3	3	2	3	2
Rose City 18 holes	4	4	4	4	4
Colwood 9 holes	—	5	5	5	5

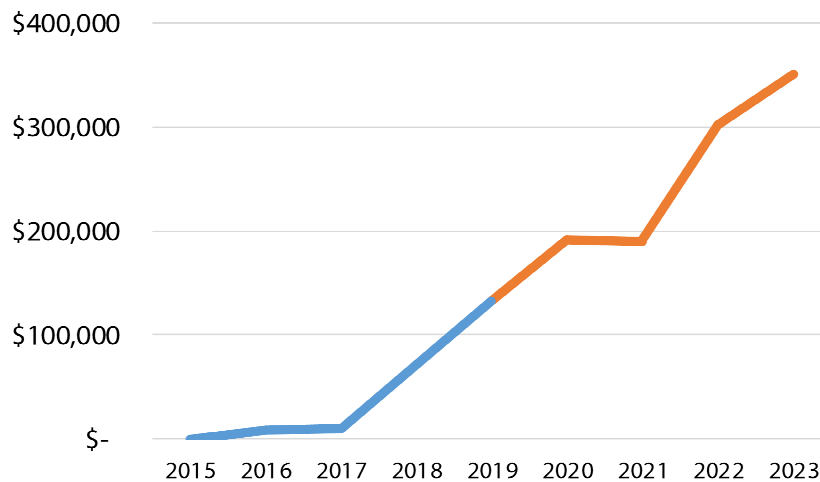
Positive cash flow | Negative cash flow

Source: Audit Services Division

Staff salaries and benefits are the largest cost of the golf program at more than \$3 million per year. The City Budget Office estimates that City employee retirement and health benefits will outpace inflation.

Parks borrowed money in 2014 to purchase the Colwood course jointly with the Bureau of Environmental Services, which was interested in restoring wetlands in a natural area of the property. The plan was to redesign part of the property into a nine-hole course and repay the debt in five years. Construction challenges delayed the opening, and Colwood did not generate enough revenue to pay the debt as planned. The loan terms were amended, and a balloon payment is due by 2023.

Colwood debt repayment will impact golf fund for four more years



Source: Audit Services Division

The past five years left the golf program with almost no funds in reserve. It has little ability to absorb future downturns or additional employee costs.

Parks reduced costs and increased outreach

Parks developed a strategic plan in 2015 to help focus the golf program, recognizing an excess supply of golf courses in the Portland area and low demand both nationally and locally. The game of golf can be intimidating, hard to learn, and expensive. The plan is focused on three key results areas each with its own set of goals and initiatives.

Strategic plan identified three key areas:



Source: Audit Services Division graphic of Portland Parks & Recreation Golf Program Strategic Plan 2015-2018

The financial situation golf is in will make reaching goals in these areas a challenge. When it was clear the Golf Fund was in trouble, Parks cut maintenance expenses, eliminated five groundskeeper positions, and left vacant two of four superintendent positions. Parks also reduced the number of mowers and shared larger equipment among the courses. Resources were shifted to equalize maintenance at the five courses. Revenues currently cover expenses in part because of these actions.

Parks recognized that it needed to increase demand for golf, too. One of its greatest challenges is to recruit new players, especially women and people of color, who have not always felt welcome at courses. The program has taken several steps to invite diverse communities to play. It partnered with several organizations to increase participation by women and youth and established a social media presence.



Golf as a sport is in decline so revenues are declining Outreach to women and youth are critical to the success of the game especially since women are the segment that is growing. Courses should be made more friendly to women.

– Golf Advisory Committee member

Its newest course, Colwood, is an entry-level course in one of the City's most racially diverse neighborhoods. The nine-hole course is easier and faster to play than the other City courses. The facility also has a bar and grill, an event space, a driving range and an integrated FootGolf course – a game that combines golf and soccer.



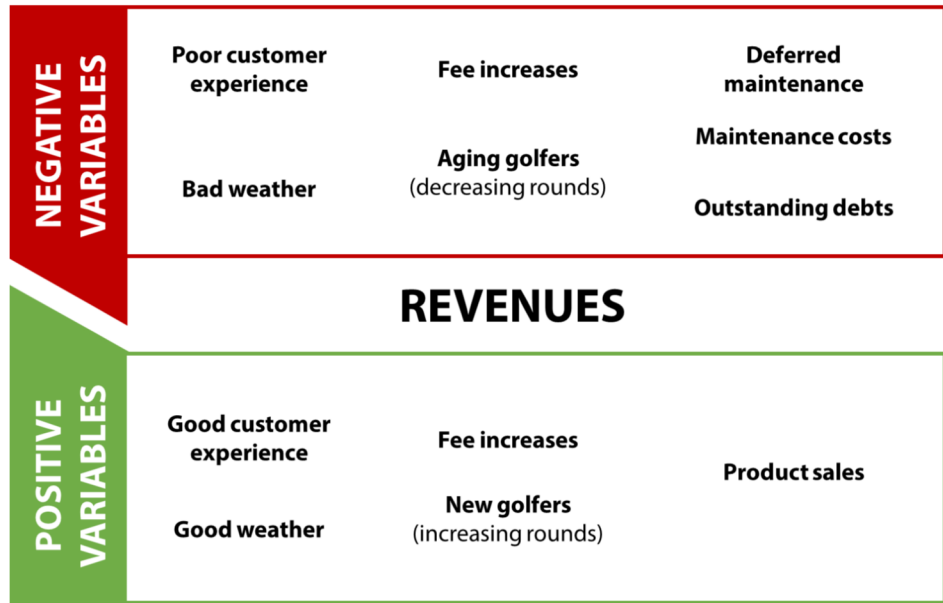
Source: Audit Services Division

Beginning golfer participating in the Golf Program's *The Next 100* event at Colwood Golf Center.

The golf program cannot determine if these steps have been effective, because it has not collected data about customers.

Multiple factors constrain program's ability to ease financial tension

Many variables influence the success of the golf program. Some are in its control, such as fees charged and customer experience. Others, such as the weather, are not.



Source: Audit Services Division

To remain self-supporting, the program must achieve positive results with the factors it can control to withstand factors outside its control. Despite making improvements, the program faces challenges that threaten its ability to increase revenue.

The City receives much of its money from greens fees, so the number of rounds played is critical to earning enough to cover expenses. Rounds of golf played at Parks courses are down six percent over the last five years and 46 percent over the last 25 years. This is despite a 19 percent increase in Portland's population since 2000.

Rounds played and fees charged are linked, and the revenues produced by them affect the golf program's ability to maintain courses and provide a reliable customer experience. Golf program management has neglected some issues that could increase rounds played.

Fees

Increases in fees charged for golf rounds, cart rentals, and using the driving range may improve revenue, but higher costs also may work against the program's goal to increase rounds and diversify its customer base. Recent greens-fee increases have outpaced inflation, and the program had two increases in just the past year. Even so, Portland's fees are about average when compared to other regional public courses, but future hikes could make Portland less competitive.

Deferred maintenance

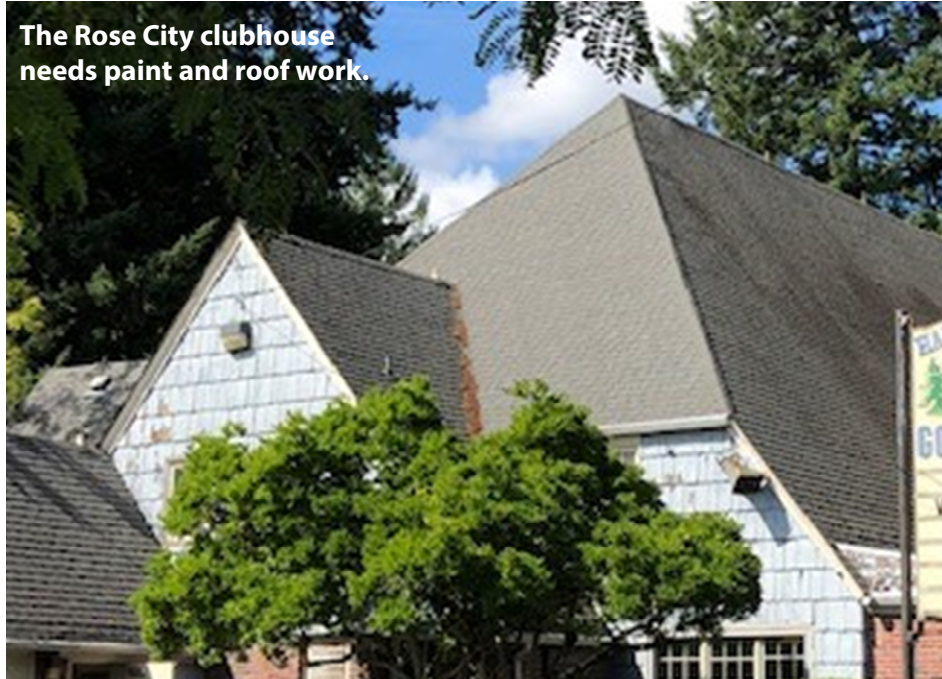
Management said the revenue from fee increases was intended to cover both increasing operating costs and capital improvements. Parks spends an average of \$176,000 annually on maintaining the City's golf facilities. Even with this investment, Parks has a backlog of maintenance tasks for buildings at its courses. Deferred maintenance has not been consistently tracked, prioritized, or funded. While the superintendents periodically create lists of maintenance needs, they have not been budgeted. For example, maintenance staff requested bids to get a large set of windows at the Eastmoreland clubhouse fixed multiple times but funding was never available. The windows now have dry rot and are in need of fresh paint.

Operating a challenging business within the confines of government is difficult. Operational costs will only increase over time under this structure. There is also quite a bit of deferred maintenance across the system.

– Golf Advisory Committee member

The Rose City clubhouse was built in 1932 and is listed on the National Register of Historic Places. The operator said that other than periodic boiler repairs, the clubhouse is not maintained. This lack of attention to maintenance could discourage golfers from returning to City courses.

**The Rose City clubhouse
needs paint and roof work.**



Source: Audit Services Division

Customer experience

Like fee increases, the customer experience can also affect rounds played and revenue. The customer experience is tied not only to the hospitality and program offerings provided by the operators but also to the amenities at the course. The concessionaires of both Eastmoreland and Rose City have been operating those facilities for decades and have deep ties to their neighborhood communities.

A 2014 assessment of Portland's courses by the National Golf Foundation pointed to specific upgrades across the system that would help to raise revenues while improving the City's assets. For example, Heron Lakes is a destination course designed by a noted golf architect. Yet it has no interior event space, minimal outdoor event space, and limited parking. The operator said Heron Lakes loses golfers because its parking lot can only accommodate enough vehicles for an 18-hole course, but it's a 36-hole course. Customers on busy weekends are forced to park on the entrance road where cars can be hit by golf balls.

The operator estimated that Heron Lakes has lost about \$250,000 over the past few years because of the inadequate event space. Over several years, Parks invested time, effort, and money into plans for a new, larger clubhouse with event space at the expense of maintaining the existing clubhouse at Heron Lakes or pursuing a less costly alternative such as a covered outdoor patio.

The RedTail course has challenges, too. The course’s level of difficulty means it takes on average about five hours to finish a round. That time commitment is a deterrent for casual or busy golfers. Small changes to the design of the course could decrease the play time and increase use, but they require funds to implement.

Without attention to the factors that are within its control, the golf program will remain vulnerable to external factors, such as the overall decline in golfers or periodic poor weather years.

Lax contract management puts City at disadvantage

Five golf courses, five unique contracts, four operators, and three agreement types create challenges for City oversight and potential for error.

Contract oversight by the City has been lax, relying on trust and relationships rather than measurable outcomes. One manager led the Parks program for more than 30 years and over time his management approach became increasingly hands-off.

The golf program uses three types of contracts for course operations, with each contract having different terms.

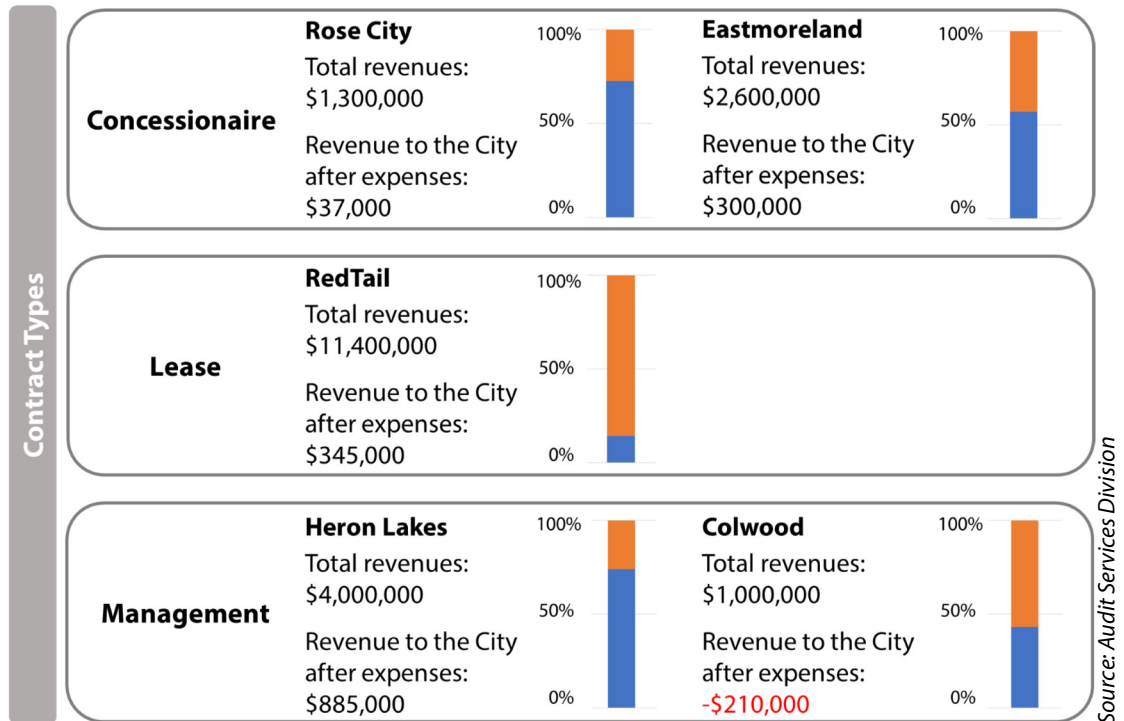
	City golf courses	City receives money	City pays money out
Contract Types	Concessionaire Eastmoreland — Rose City	Concessionaire pays City set percent of sales, rentals, driving range fees, food and beverage, etc.	City pays concessionaires set percent of greens fees
	Lease RedTail	Lessee pays City set percent of sales, rentals, driving range fees, food and beverage, etc.	City pays lessee set percent of greens fees — City pays Washington County property tax
	Management Heron Lakes — Colwood	City collects all revenue	City pays operator a management fee — City pays for all operating expenses

Source: Audit Services Division

Revenue from golf rounds is decreasing

While overall revenues have been trending up in the last five years, it masks a troubling fact for the program – a major source of revenues for the City, greens fees, has declined. In the concession and lease agreements, the City receives most of its revenue from greens fees, and the operators receive most of their revenue from food, beverage, and product sales.

Percent of 2018 revenue from **golf activities*** versus **sales** varies by course



*Golf activities includes greens fees, driving range, and cart rentals. All bars are gross revenues, prior to City/operator split, where applicable.

For example, 86 percent of gross revenue at RedTail Golf Center in 2018 was generated by sales, including items such as golf apparel, golf clubs, food, and beverages. The City received between 2 percent and 2.5 percent of that revenue. RedTail’s gross sales revenue increased by 39 percent over the last five years, while greens fees declined by 42 percent. These numbers are in stark contrast to a contract provision in the lease requiring golf activities to be the highest priority.

The variability in contract terms for leases and concessions may mean the golf program is not benefiting from shifts in revenue sources. However, revenue produced from rounds played is an indicator of golf's success as a Parks and Recreation Bureau program. A program with increasing revenue from other sources but decreasing participation may not accomplish Bureau goals.

Contract provisions not followed

We found many contract requirements had not been followed:

- Two courses were required to have annual marketing plans but did not produce them, and the City never asked for them. This omission works against the golf program's goal to increase the number of golfers.
- One course is required to have a performance review every five years. It has never been done.
- Contracts require the City to make or pay for repairs for normal wear and tear. The City has not done so, and deferred maintenance is growing for items such as roofs, gutters, and paint at course facilities.
- Financial incentives for operators were included in contracts, but both the operators and golf program managers said the thresholds to receive them were so high, they were almost never met.

Additionally, some contracts were extended every five years with little, if any, review of their terms. Without reviewing contract terms, the program was unable to adjust to changing circumstances or ensure terms were fair to both parties. Golf course operating contracts are not required to go to Council.

A lack of strict compliance with contract terms alone does not necessarily mean the operators have not run the courses well. But without better information, the program may not be able to identify gaps in service or identify revenue opportunities.

Courses not identified as part of larger Portland Parks and Recreation system

One result of the City's hands-off management is that each course developed its own identity and brand. There are some advantages to this, such as golfers forming relationships with operators and loyalty to a specific course. But when we visited the five courses, other than the sign at the entrance to Heron Lakes, the only visible indication that any course was part of the Portland Parks and Recreation system was a City no-smoking sign. That is a lost opportunity for the City to inform the public about its golf program, appeal to Portlanders' affinity for their parks, and to cross-market the courses.

The golf program isn't seen as a park and rec activity. Most citizens don't even know the courses are owned by the city and maintained by them too.

– Golf Advisory Committee member

The program has been managed separately from other recreation programs run by Parks, although that is changing. For example, the City has recently offered introductory golf lessons at Parks community centers to help introduce the game and the program to a wider audience.

Parks has aligned the end dates of the contracts for their four Eastside courses to respond to the challenges with the existing operating structure. They intend to solicit new bids for operating under a more streamlined system. This move provides an opportunity to construct a contract to address the issues identified in this report.

Recommendations The Parks Bureau should:

1. Present alternative financial forecast scenarios to Council for direction on the future of the golf program that include factors such as:
 - Deferred maintenance;
 - Course improvements;
 - Level of fee support; and
 - Reserves to weather future downturns.
2. Define the mission for the golf program in contracts and make operators accountable partners in that mission. Operators should share in both risks and rewards. With that in mind, Parks should negotiate contracts that:
 - Ensure revenue sharing is mutually beneficial;
 - Implement strategic initiatives that help increase rounds;
 - Require operators to collect enough customer data to measure effectiveness of strategic initiatives;
 - Include incentives to contractors to increase golf rounds;
 - Include strategies to market City's courses as part of a system;
 - Determine whether and how to tie golf program to City recreation division;
3. Increase monitoring to ensure contract provisions are followed.
4. Present contracts to City Council for approval and renewal.

**Objective,
Scope,
and
Methodology**

Our audit objectives were to determine if the City of Portland Golf Program is positioned to be financially sustainable in the long term, and if the program is managed effectively to meet that objective. Our scope looked primarily at the past five fiscal years, 2014-2018 (July 1, 2013-June 30, 2018).

To accomplish our objectives, we:

- Reviewed Golf program strategic plan, policies & procedures, enterprise business plan, maintenance standards, relevant City code, and National Golf Foundation Consultant's report.
- Reviewed the most recent contracts and extensions for the City's five courses.
- Reviewed documents on the purchase and payment of the Colwood property.
- Interviewed Golf program management and staff, staff of Commissioner in charge, Parks finance, City budget office, Parks Recreation manager, and METRO auditors.
- Interviewed the operators of all City of Portland golf courses and toured facilities.
- Reviewed all City golf and course specific web sites.
- Reviewed golf fund summaries, golf activity reports, golf budgets, golf forecasts, and golf cash reports.
- Analyzed use, revenue, and expense trend data.
- Where possible checked/reconciled program data with SAP; on some older figures accepted golf program numbers.
- Reviewed media reports, other golf audits, and industry reports.
- Surveyed program partner organizations.
- Attended a Golf Advisory Committee Meeting.
- Reviewed minutes for Golf Advisory Committee.
- Surveyed the Golf Advisory Committee.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESPONSE TO THE AUDIT




PORTLAND PARKS & RECREATIONSM

Healthy Parks, Healthy Portland

DATE: May 17, 2019

TO: Auditor Mary Hull Caballero

CC: Commissioner Nick Fish

FROM: Adena Long, Director, Portland Parks & Recreation 

SUBJECT: Response to "PORTLAND PARKS GOLF: Changes needed to ensure long-term sustainability"

Thank you for your thoughtful audit of Portland Parks & Recreation's (PP&R's) Golf Program.

The Golf Program is unique in the City as it successfully promotes environmental stewardship and recreation opportunities, while being a self-supporting business model that responds to market forces.

PP&R appreciates that the audit underscores and reinforces the focus of PP&R's 2015 Golf Program Strategic Plan to: increase participation; improve financial stability and sustainability; and, demonstrate environmental stewardship.

The Golf Program began more than 100 years ago to bring equity and access to the game of golf. To ensure the long-term viability of golf in Portland, investments must be made to our system to increase the game's appeal to more Portlanders, across age, gender, race, physical ability and more. PP&R has prioritized historically underrepresented communities' participation by increasing the diversity of the Golf Advisory Committee, leading racial equity trainings for PP&R staff and operators on culturally-responsive customer service, and increasing social media, events and partnerships with culturally-specific organizations and communities as well as creating targeted women's programs.

To ensure best management and performance of the clubhouse operations, PP&R is aligning the expiration of four eastside golf course contracts to 2021 in order to do a comprehensive request for proposals that allows for the option of single or multiple operators, with appropriate alignment and incentives.

Administration

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PORTLANDPARKS.ORG

Nick Fish, Commissioner
Adena Long, Director



While maintenance of aging facilities remains a challenge, the Golf Program continues to be a good investment for Portlanders. PP&R's courses consistently generate operating surpluses and provide valuable ecosystem services over 800 acres of open space and natural area. PP&R's Golf Program is an industry leader with sustainable practices: all courses are certified Salmon Safe, two golf courses are designated as certified Audubon Cooperative Sanctuaries, and the program adheres to PP&R's Integrated Pest Management Program.

PP&R is committed to implementing the audit's recommendations and looks forward to sharing updates with you and the community as this work progresses.



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Portland Parks Golf:

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Report #516, May 2019

Audit Team: Bob MacKay, Martha Prinz

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