



## **AGENDA MEMORANDUM**

First Reading Item for the City Council Meeting of July 18, 2017  
Second Reading Item for the City Council Meeting of July 25, 2017

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**DATE:** June 30, 2017

**TO:** Margie C. Rose, City Manager

**THRU:** Sylvia Carrillo-Treviño, Assistant City Manager  
Keith Selman, Assistant City Manager

**FROM:** E. Jay Ellington, Director of Parks and Recreation Department  
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<b>Cash Loan from General Fund to Golf Fund</b>
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**CAPTION:**

Ordinance advancing \$655,910 in cash from the No. 1020 General Fund and appropriating it in the No. 4690 Golf Fund as a loan to fund improvements to the 9-hole executive golf course at Gabe Lozano Golf Complex; loan to be repaid from the No. 4690 Golf Fund in the principal amount of \$93,701.43 per year for seven years at a simple interest rate of 3.5% annually; and amending the FY2016-2017 Operating Budget adopted by Ordinance 030965 to increase expenditures in the No. 4690 Golf Fund by \$655,910.

**PURPOSE:**

The purpose of this agenda item is to facilitate improvements to the 9-hole executive golf course at Gabe Lozano Golf Complex. In prior years, a golf surcharge was assessed and collected from every round of golf. These funds were to be used for capital expenditures at the municipal golf courses and were collected prior to the privatization of management of the municipal golf courses to Foresight. Foresight, however, has been unable to use these funds during their lease agreement because the cash has been unavailable due to the negative financial position of the Golf Fund. This loan creates an avenue to make the improvements to the Gabe Lozano Golf Complex as the Golf Fund's net financial position improves.

**BACKGROUND AND FINDINGS:**

During the annual report on Golf Operations presented at the June 14, 2016, City Council meeting, Council Members requested information on the outstanding balance of the Golf Fund and the possibility of access to the golf surcharge reserve fund to make improvements to the two municipal golf courses.

When Foresight took over operations of both City golf courses in February 2011, the golf surcharge reserve fund had a balance of \$655,910. Since that time, Foresight was able to utilize \$294,825 of this balance to lease equipment for both courses. Foresight's original intent, however, was to use the golf surcharge reserve fund to make capital improvements at both golf courses. Because the Golf Fund was in a negative position at that time, utilization of the full amount could not be achieved. Instead, in order to be able to use some of this balance, Foresight's contract included a provision that the annual amount spent for lease payments from the golf surcharge reserve fund was to be offset by the amount of the City's annual revenue-sharing amount received from Foresight each year for three years. The lease was paid off in FY 2015, and so the annual lease payment amount of \$96,262 will now be included in Foresight's revenue-sharing payments that will be deposited into the Golf Fund (Fund No. 4690) for FY 2016.

Although \$294,825 of the original \$655,910 of the golf surcharge reserve fund has already been spent on lease payments, Foresight has a plan for capital improvements at both golf courses in which utilization of the initial balance of the golf surcharge reserve fund of \$655,910 would be needed. By improving the clubhouses at both facilities and the driving range and executive course at Gabe Lozano, Foresight predicts a significant increase in revenue that would accelerate the re-payment of the loan from the General Fund.

Since Foresight assumed management of the courses, total revenue generated by the golf courses has been \$5,339,008. The City has received \$569,460 in shared net revenue, and \$653,183 in surcharge fees has also been collected and used each year to make improvements (cart path reconstruction, green reconstruction, creation of bunkers, etc.) to the Gabe Lozano and Oso Beach golf courses.

Foresight has submitted a proposed list of improvements they will make to Gabe Lozano Golf Course with the amount available. Improvements will be focused on upgrading the 9-hole executive course and will include bunker and green reconstruction, enhanced drainage and irrigation, seeding fairways and tees, and other minor updates. An itemized cost estimate for these improvements is provided for your review. These improvements were included in the long-term capital improvement list originally created in 2011 when the agreement with Foresight was first executed.

Foresight selected the 9-hole executive course for this project because it fits within the amount that would become available in the golf surcharge reserve fund as well as the potential for increased revenue because of the project. An improved executive course will give Foresight the capacity to market additional tee times comparable to those at the 18-hole courses, focus on youth development programs as well as increase food and beverage sales.

Foresight has provided a five-year pro forma that reflects an anticipated \$834,455 increase in revenue based on current rates with the improvement to the 9-hole executive course. A second pro forma demonstrates projected revenues with incremental rate increases at the 9-hole and 18-hole courses. The increase at the 18-hole courses has been planned and discussed with prior administrations. Foresight contends there will be exponential improvement in the quality of play that will be realized due to the improvements at the 9-hole executive course and will merit an initial fee increase from \$10.25 to \$13.00. This pro forma includes a \$1,025,255 increase in anticipated revenues. Both pro forma are included for your review. The lease with Foresight requires the City Manager to approve any proposed fee increases for the golf courses and do not require City Council action.

The City Manager requested this proposal be endorsed by the Parks and Recreation Advisory Committee (PRAC) prior to coming before City Council. On Wednesday, March 8, 2017 the PRAC passed a resolution of support for the loan and suggested fee increase from \$10.25 to \$13.00 at the executive course once proposed improvements are complete.

Staff recommends moving forward with the \$655,910 loan to the Golf Fund to facilitate the proposed improvements at the 9-hole executive course at Gabe Lozano Golf Facility. In addition, additional surcharge fees will be collected providing for additional funds for the next improvements (lighting and other improvements at driving range, pro shop enhancements, etc.) Foresight wishes to make at the facilities.

Staff recommends approving the initial proposed increase of green fees at the 9-hole executive course from \$10.25 to \$13.00 once improvements are complete. A thirty-day notice prior to the change of the fee should be required of Foresight. Any further fee increases should be considered on a year-by-year basis.

**ALTERNATIVES:**

Do not approve the cash loan and wait until current operations produce enough revenue to supplant the golf surcharge reserve fund balance in the Golf Fund, resulting in a positive financial position.

**OTHER CONSIDERATIONS:**

N/A

**CONFORMITY TO CITY POLICY:**

Conforms to City policy

**EMERGENCY / NON-EMERGENCY:**

Non-emergency

**DEPARTMENTAL CLEARANCES:**

Parks and Recreation, Financial Services, Office of Management and Budget, City Attorney's Office

**FINANCIAL IMPACT:**

X Operating      ☐ Revenue      ☐ Capital      ☐ Not applicable

<b>Fiscal Year: 2016-2017</b>	<b>Project to Date Expenditures (CIP only)</b>	<b>Current Year</b>	<b>Future Years</b>	<b>TOTALS</b>
Line Item Budget				
Encumbered / Expended Amount				
This item		\$655,910.00		\$655,910.00
Total		\$655,910.00		\$655,910.00

Fund(s): **Golf Fund**

**Comments:** Principal and interest payments will need to be budgeted in the Golf Fund every year until the loan is paid back to the General Fund.

**RECOMMENDATION:**

Staff recommends approval of the ordinance as presented.

**LIST OF SUPPORTING DOCUMENTS:**

Ordinance

Loan Repayment Schedule

Amendment to Agreement Regarding the Gabe Lozano 9-Hole Executive Golf Course Project

Gabe Lozano 9-Hole Master Plan