MC02. Eliminate General Fund Subsidy of Golf Course Debt Service

The City has two municipal golf courses in the City: Twin Creeks and Fairways. The operations and maintenance of both of these courses has been transferred to private contractors, leaving the City with no ongoing day-to-day maintenance costs; however, the City issued debt for course improvements and has an ongoing responsibility for the debt service payments. The two golf courses, in aggregate, have fund balances with a cumulative deficit of $300,550 in FY19. The primary City revenue stream from each golf course is the lease payment from the contractor —$100,000 per year for Fairways and $60,000 per year for Twin Creeks.

Twin Creeks is a nine-hole course with a 30-station lighted practice range located in the Creekbridge neighborhood. The City transferred operations and maintenance of the course to First Tee (a national nonprofit organization with a local chapter) in November 2004. The City issued debt of $4.4 million to fund course improvements, and $3.7 million in principal is still owed on this course, with a term out to 2026. The City's debt service cost in FY19 is $459,677. The land for the Twin Creeks course is owned by Monterey County and on a 99-year lease to the City. First Tee, which operates Twin Creeks, provides golf lessons to at-risk youth and is very engaged in the Salinas community. While initially the contract between First Tee and the City called for First Tee to assume responsibility for making the payments on the City's debt, the City recently renegotiated the First Tee contract and reduced the lease payments, effectively leaving the City to cover debt service.

The Fairways Golf Course is an 18-hole course located at the City's airport. The City transferred the day-to-day operations of the golf course to Sierra Golf (a private management company) in 2008; therefore, the City only pays debt service for improvements on an outstanding bond of $4.7 million with a term until 2039. The City debt service cost in FY19 is budgeted at $230,000. The Fairways debt is a variable-rate obligation, meaning that debt service changes with interest rate changes in the market. Interest rates have been historically low. Recent upward rate pressure, if it continues, could push up the cost of debt service in the next few years, requiring additional financial resources from the City. With the golf course on airport land, the disposition or use of the golf course for revenue-generating purposes is subject to Federal Aviation Administration (FAA) regulations and approval. The FAA also limits the use of excess land for airport purposes and may require all revenue to be airport related.

A golf course study for the City of San Jose in 2015 found that golf courses around the nation are generally underutilized and fewer people are playing golf. According to the National Golf Foundation, the number of golfers has dropped by 17 percent since 2005. As of June 2018, the National Golf Foundation reports that golf rounds played for the past year nationally are down 3.3 percent over the prior year; however, in California rounds are up 7.2 percent[59]. Yet, even with this uptick in statewide play, Salinas's golf courses are a significant cost to the City's General Fund.

The City will pay over $7 million in next 10 years servicing golf course debt, while receiving approximately $1.6 million in lease revenues from the golf-course operators. This drain on General Fund revenues does not fit within the City's broader need to reduce budget deficits and improve base service levels.

It is not uncommon for public golf courses to receive General Fund subsidies. The City of San Jose subsidized golf courses by a total of $2.6 million in 2016. An internal auditor report recommended reducing or eliminating subsidies. In 2018, a Los Gatos report on golf course subsidies of $6 per round recommended consideration of selling a golf course for development purposes.

It is recommended that the City seek a way to monetize a portion of the Fairways golf course and to evaluate the potential of converting the Twin Creeks golf course into a revenue-generating asset for the purpose of paying off outstanding debt while also promoting economic development. The City will reap the increase in property and sales taxes from the economic use of these properties, and revenues from the sale or lease of land can be used to reimburse past, and pay future, debt service.

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[59] June 2018, National Rounds Played, National Golf Foundation, August 2018.

Twin Creeks is leased by the City from Monterey County. Economic reuse of this golf course would require either the dedication of the land to the City or a cooperative agreement to share in revenues from a sale or reuse of the property, once the City's debt is repaid. Economic reuse would result in the loss of the golf course and First Tee program; however, use of the property could still include public open space and perhaps a driving range and other golf-related uses.

Fairways is divided into two nine-hole sections. One section is directly under the landing path for one of the airport's runways and cannot be used for any type of development. This portion should remain a golf course. The other nine-hole section (located west of Skyway Boulevard) is out of the direct landing path, but still within the area of flight operations. This portion could be sold or redeveloped into an industrial use, with the proceeds, at a minimum, used to repay the City for prior-years' debt service ($700,000 from FY13 to FY18) and to eliminate the remaining debt on the Fairways course at least. To accomplish this, the City will need to apply to the FAA for disposition of the land.

Additional benefit from this action would be the opening up of needed industrial development land and the associated property and sales taxes from these uses, along with the generation of jobs within the City. The financial impact below assumes the repayment of the golf course debt currently associated with the airport land, and the elimination of future debt. As noted above, because this is variable-rate debt, the savings, based on future debt service, may be much higher. To be conservative, the use of land sales proceeds to repay the Twin Creeks debt is not assumed. If the City is able to accomplish the economic reuse of both golf courses, an additional $400,000 of expense – debt service less rental fees from First Tee — will be freed up for other uses in the City.

Financial Impact

FY19	FY20	FY21	FY22	FY23
$0	$0	$250,000	$265,000	$275,000

FY24	FY25	FY26	FY27	FY28
$290,000	$305,000	$325,000	$340,000	$360,000

MC03. Eliminate Sherwood Hall Deficits

The City of Salinas has strived to provide a breadth of community services to residents. Along with parks and community centers, the California Rodeo Association, through its lease with the City, has successfully constructed and operated the Salinas Sport Complex adjacent to Sherwood Hall.

Salinas has pursued multiple initiatives to provide services in a financially sustainable way.

- In 2017, the City extended an agreement to lease the 80-acre Salinas Regional Soccer Complex (at Constitution Drive) from the County at $1 for up to 90 years. The City was, at the time, already sub-leasing the site to the Salinas Regional Sports Authority who began operating the Regional Soccer Complex in 2010, so the new agreement allowed the City to extend the lease agreement with the Sports Authority to continue operating and financing the Complex. The City also leases the Salinas Sports Complex to the California Rodeo Association to run and maintain the facilities.

- The City leased the Aquatic Center to the Monterey County Aquatics/Salinas Valley Aquatics, Inc., a local nonprofit, in 2009 to operate the facility. The nonprofit invested $2.0 million to expand the pool programs to an 11,000 square-foot municipal aquatic center. The center changed operators to the YMCA in August 2018 to provide various aquatics programs.

These two initiatives are examples of how the City, through creative partnerships with external entities, can reduce the personnel and maintenance cost burden while still providing quality recreational services to its