

REPORT OF GENERAL MANAGER

NO. 04-142

DATE May 5, 2004

C.D. Various

BOARD OF RECREATION AND PARK COMMISSIONERS

SUBJECT: AUTHORIZATION TO PROCEED WITH SELF-OPERATION OF GOLF CARS

\*J. Combs            H. Fujita             
G. Stigile            K. Chan             
F. Mok            J. Kolb           

  
General Manager

Approved           

Disapproved           

Withdrawn           

RECOMMENDATION:

That the Board:

- 1) Find that in accordance with Charter Section 1022 and based on staff analysis (Attachment A and B), it is not more economical and it is not more feasible to contract the operation of golf cars;
- 2) Direct staff to proceed with self-operation of golf cars as described in this report;
- 3) Direct staff to submit a request to the CAO amending the Personnel Resolution to establish Sub-Authority for one Golf Starter Supervisor I and one Equipment Mechanic with salaries to be funded through golf car rentals;
- 4) Direct staff to submit a request to the CAO as required for the unfreeze of fifty part-time SPA II's and two part-time Clerk Typists (Accounting and Payroll support), and any vacancy that may arise in any of these positions, and authority to backfill any vacancy that may arise due to promotion or transfer into any of these positions;
- 5) Direct the Chief Accounting Employee to create a new account under Department #89 for Golf Car Operations and transfer \$400,000 from Department Account 321K (Golf Surcharge Unallocated) into the new account to serve as a zero-interest loan for start-up expenses for self operation of golf cars;
- 6) Direct staff to prepare and issue a Request For Proposal for the Golf Car Lease and Maintenance Agreement for the fleet.

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### SUMMARY:

As reported to the Board on February 18, 2004, and in accordance with Memorandum of Understanding #15, Section 2.10 and Charter Section 1022, staff was to meet with representatives of Service Employees International Union (SEIU), Local 347 to discuss the impact on City employees of contracting for golf car rental operations. This process was to take place concurrently with the Request For Proposal process for a golf car concessionaire that had been initiated in December 2003.

Staff completed both economic analysis and feasibility studies on contracting versus self operation models (Attachment A and B) prior to meeting with Local 347 on March 22, 2004. The conclusion of the analysis, as well as the discussions with Local 347, is that it is more economical and feasible for the Department to self-operate golf car rental operations if the Department is able to obtain an unfreeze for the two full time employees and an authorization to fill any future position vacancies in the golf car program. There is currently an unfreeze that covers the fifty two part time employees necessary to staff this service.

If the Board agrees with this conclusion, the current concessionaire will continue on a month-to-month lease while staff processes the unfreeze request and RFP for golf car lease/maintenance. It is possible to process an unfreeze request through the CAO, Mayor and Council in approximately one month while the RFP process for golf car lease/maintenance will take approximately three to four months before cars are delivered to each facility. If the unfreeze request is approved, the Department will proceed with the hiring of staff -- current concession employees will be offered the opportunity to interview for positions in golf car operations, although this is not a requirement of the Service Contractor Worker Retention Ordinance.

Monthly revenues in the amount of \$108,333 (\$1,300,000 annually) will be deposited in the Department general revenue account to make whole the revenue budget gap resulting from the loss of concession revenues. Monthly revenues in the amount of \$33,000 will be deposited into the Golf Surcharge Account until that interest free loan is repaid in full. The remaining revenues will be deposited into the newly created Golf Car Operations account for on-going operational expenses.

The Request For Proposal to operate RAP's golf car concession is due on June 22, 2004. If the process to self operate develops as planned, the Department will implement a program to self operate the golf car rental operations and the RFP will be withdrawn. However, if the unfreeze request and authorization to fill future vacancies are not approved, the RFP process will continue.

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### BACKGROUND:

Successful self-operation of RAP's golf car program is driven by four elements:

- Experience
- Customer Service and Satisfaction (quality and maintenance of cars)
- Revenue Production (ability to promote, package, and expand)
- Charter Mandate

### **Experience**

In 1993, the Department assumed operation of the golf car fleet at Harbor Park Golf Course resulting from a non-responsive concessionaire. Harbor's City staff began with sixteen cars and has expanded to its present fleet of 30 cars. Department employee, Beverly Cox, took over management of the operations with the goal to be more responsive and improve service to our customers. Last year the Harbor Park golf car program enjoyed the second highest Customer Satisfaction rating of all City golf car rental operations. Beverly's leadership skills will be utilized in our proposed self operation program.

Harbor's self operation program has also been financially successful, operating in the black since 1993. For Fiscal Year ending June 30, 2003, gross revenues exceeded \$148,700. Direct expense for the program (labor and supplies) was \$29,579 resulting in Net Operating Income of \$119,121. The Net Operating Income was divided up with \$59,439 going to the General Fund and the balance of \$59,682 to the facility MRP account/facility improvements.

### **Customer Service and Satisfaction**

It is a primary goal of the Golf Division to provide optimal service to its patrons. To that end, the division believes that self operation will provide golfers with a more customer friendly process as well as allow the Golf Division to effectively and quickly promote, price and package its product. Starter window personnel will not only assume responsibility for collecting green fees and golf car fees but will have close operational control over car employees who stage rental cars as conveniently as possible near the first tee and assist with golf bags.

Self-operation plans include ensuring quality cars and maintenance by leasing cars through competitive bid. All new golf cars will be green to distinguish this program from the present operation. Golf cars will be cycled out of the fleet every four years. Specific maintenance schedules will be established for City staff and the contractors' factory trained mechanics. RAP's mechanic and operations staff will provide daily and weekly maintenance in accordance with the Owner's Manuals and Maintenance and Service Manuals. The golf car provider will conduct major and warranty maintenance as required. No more than 10% of the 504 cars should be out of service at any one time. Golf cars sustain frequent damage to the body, suspension systems, brakes and

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differential assemblies that will require the car provider to remove the unit, make repairs, and return them to revenue production in a timely manner. First year costs to lease the golf car fleet are currently estimated at \$489,064 including maintenance services and shop repair and maintenance supplies. A portion of these costs will be loaned from the Golf Surcharge Account Unallocated Balance and then repaid from revenues derived from golf car rentals.

Implementing operational control over both the Starter and golf car functions will allow the Golf Division to implement timely marketing steps, it otherwise could not, like packaging. An example might be to offer both a golf car and round of golf in 90+ degree temperatures in the Valley for just the price of a round of golf.

RAP has just implemented a new golf reservation system. This system will allow the golfer to reserve a tee time as well as a golf car and permit them to make one payment via a credit card. This is a significant step forward in customer service and increases our ability to promote the use of golf cars. The new reservation system will permit our staff to track every golf car, know where it is, how many times it has been rented and the amount of revenue it has produced. Operational control will permit the Golf Division to weigh the cost benefit of changes to the golf car operations and implement changes in a timely manner. Examples might be the addition of ice chests in the Valley, or club wash units or car enclosures kits that may help boost rentals and be responsive to customer needs at different times of the year at different facilities.

Having control over the golf car fleet will allow us to experiment by transporting golf cars to our other facilities and running trials for customer demand that may lead to increased sales and improved customer service programs at those facilities. Providing golf cars to nine hole facilities may not be cost effective for a concessionaire but golf cars may be desired by our patrons and could also provide sufficient revenues, like Harbor, to justify expanding our program. Operational control by the Department would provide this flexibility.

### **Revenue Production**

The City continues to look to Golf as a source of additional revenue during the budget process. Self-operation of golf cars is one alternative to raising green fees which effectively results in excluding certain demographics and is contrary to the Department's mission of providing affordable recreational opportunities. The nation's golf industry has witnessed a loss of 82 million rounds in the past 5 years. Increased competition for the remaining customers has made the public golf industry more price sensitive than ever. All of this serves to make alternate sources of revenue attractive and necessary in this environment.

The attached pro forma comparison of self-operation versus concession of golf car rentals projects \$150,000 more in net operating income -- \$1,500,000 over ten years -- by self-operating.

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The amount could potentially be even greater if bidders expect to maintain the current concessionaire's profit level. This estimate is based on the full application for the Cost Allocation Plan (CAP) Rate, (83.12% of full time salaries and 62.97% of part time salaries).

While some elements of the CAP Rate have direct application (such as water and electricity) other elements (such as building leases, parking services, Ethics Commission and many others) have little relation to golf car rentals and could arguably be removed from the CAP assessed to golf car operations significantly lowering estimated overhead rates and in turn, increasing profit to the City. Discussions with the CAO and City Controller's Office resulted in a lack of consensus on the appropriate CAP Rate to apply in this operation. A decision was made to apply the full CAP Rate as a precautionary measure.

Revenue for each management model was based on 2003 golf car operation revenue and was held constant to provide a consistent comparison of revenues versus expenses related to each model. Department staff fully expects net revenues to be in excess of the \$150,000 projection based on a more realistic CAP rate. With elimination of inapplicable CAP Rate elements and increased marketing and promotion afforded through control of both starter and golf car operations, profits could reasonably be in the range of \$300,000 to \$400,000 per year.

The Golf Advisory Committee has previously reviewed and approved Staff's recommendations for self-operation of the golf car program, with the request that a review of the operation and revenue productions be undertaken annually commencing at the completion of the first year.

### **Charter Mandate**

City Charter Sec. 1022, Use of Independent Contractors, as amended effective July 1, 2000, states in part "Nothing in this Article shall be deemed or construed as preventing the Council, or a board of commissioners in the case of those departments having control of their own revenues and funds, from entering into contracts for the performance of work when it is determined by the Council or the board of commissioners that the work can be performed more economically or feasibly by independent contractors than by City employees."

To implement Charter Section 1022, guidelines found in Attachment B and adopted by Council were reviewed and analyzed by staff.

Based upon the pro forma financial and feasibility analysis performed by staff, it is more economical to self-operate golf car rental operations, even under full application of all Cost Allocation Plan, and is feasible to self-operate if employees can be hired and exempted from any future hiring freezes.

This report prepared by John L. Mallon II, Golf Manager