

**TOWN OF
APPLE VALLEY, CALIFORNIA**

AGENDA MATTER

Subject Item:

DISCUSSION AND RECOMMENDATION REGARDING THE CONTINUED COURSE OF ACTION FOR THE APPLE VALLEY COUNTRY CLUB

Summary Statement:

At the October 27, 2009 Council meeting, Town Manager Frank Robinson presented a staff report on the options available in respect to the ongoing implementation of the purchase and sale of the Apple Valley Country Club (AVCC). The report presented five (5) distinct courses of action for Council consideration:

- 1) Continue with the AVCC Purchase
- 2) Terminate the AVCC Purchase
- 3) Rejuvenation of the AVCC Membership Bringing the Organization to Self-Sufficiency
- 4) Conduct a Town-Wide Election to Determine Whether or Not to Continue with the Purchase of the AVCC
- 5) Create a Stakeholders Task Force to Evaluate the AVCC and Recommend a Course of Action to the Council

At the conclusion of the presentation, public comment was received, followed by Council discussion of the options presented. After deliberation, Council moved to close escrow on the Apple Valley Country Club and appoint a stakeholders' Task Force to study and recommend a course of action. It was determined by consensus that Council members Bob Sagona and Scott Nassif would assemble the members of the Task Force and serve on the committee as well.

(Continued)

Recommended Action:

(Recommendation of the AVCC Task Force)

- A. That the Town Council move forward with the purchase of the Apple Valley Country Club/Golf Course, receive the Task Force Committee's report and provide direction to staff, if necessary.

OR

(Recommendation of Councilman Roelle)

- B. That the Town Council vote to either proceed or terminate the purchase of the Apple Valley Country Club without cause in its sole discretion, and that the club be transferred back to the Board of Directors immediately and provide direction to staff, if necessary.

Proposed by: Task Force Advisory Committee/Councilman Roelle **Item Number** _____

T. M. Approval: _____ **Budgeted Item** Yes No N/A

At the meeting of March 9, 2010, a request was made by Councilman Roelle that an item be placed on a future agenda to discuss whether or not the Town should continue with its purchase of the Apple Valley Country Club or turn it over to the Board of Directors. It was requested that the item placed on the agenda allow the Town Council the ability to vote in favor or against the continued purchase after hearing the recommendation from the Task Force.

Task Force Recommendation:

The Task Force is comprised of two Town Council members; one representative each from the local banking community, the business community and the real estate industry; a property owner; a former AVCC equity member; a former AVCC Board member; and a community member. The Task Force held its initial meeting on January 15th of this year and as part of its first order of business, the Task Force adopted four (4) Evaluation Principles to consider when contemplating any action with regard to the Apple Valley Country Club:

- 1) The long-term impact on the financial viability of the Town
- 2) No increase in the General Fund subsidy to the Parks and Recreation Fund
- 3) The ability to reduce Town of Apple Valley/Apple Valley Country Club operating expenses and raise revenues
- 4) Long-term impact on property values on properties surrounding the Apple Valley Country Club

Over the past three months, the Task Force performed its due diligence by reviewing the AVCC purchase and management agreements, user fees, financials, facility conditions, food and beverage operations, water issues and new well construction. Midway through the investigation process, the Task Force discovered the necessity to form a subcommittee to more closely scrutinize the Club's current fiscal situation and contemplate the future viability of the Club. The subcommittee examined budgets and profit and loss statements and constructed various scenarios based upon operational budget cuts and increased revenues. The subcommittee reported its findings to the Task Force at the March 24, 2010 meeting.

As part of its fact-finding efforts, the Task Force also interviewed the AVCC management regarding current operations and budget shortfalls, held a contract question-and-answer session with staff from the Town Attorney's office, and retained an independent expert in golf operations to perform a complete review of AVCC financials and golf course/club operations. Mr. Mark Hoelsing presented his findings at the March 24 and April 6, 2010 Task Force meetings.

At the final Task Force meeting on April 6, 2010, the Task Force carefully reexamined the information compiled over the course of its investigation and came to a consensus regarding its proposed recommendations pertaining to the future of the Apple Valley Country Club.

Therefore, based upon a thorough examination, thoughtful deliberation and fixed determination, the Task Force respectfully recommends the following courses of action in regards to the Apple Valley Country Club:

- 1) Initiate a major marketing strategy immediately, heightening the general awareness within a 45 minute radius of the Town of Apple Valley Country Club's conversion to a public venue.

- 2) Consider re-branding the golf course. The term “Country Club” can confuse potential patrons and may deter them from visiting the facility.
- 3) Open the golf course for general public play on Mondays. This step alone could generate an increase in play at the facility approaching 8% (1,700 – 2,000 rounds) per year.
- 4) Develop a long range strategy to return the golf course to break-even or better performance. The Task Force recommends that the golf course operator and the current Golf Course Task Force, or other committee acceptable to the Town Council, work together in order to develop those strategies.
- 5) Add a staff member to the club’s management team with the primary responsibility to oversee sales of tournaments and catering events. This staffer would also be responsible to develop and execute the annual marketing plan with concurrence of the Town staff.
- 6) Initiate steps to more readily identify the clubhouse to major automobile traffic on Hwy. 18, including road signage, as well as identifiable clubhouse signage.
- 7) Strongly consider filling in the pool, and in its place create a visually stunning and versatile landscaped event lawn in that area. This will be the clubs single best feature to draw events (i.e. weddings / corporate entertainment) to Apple Valley Country Club.
- 8) Renegotiate the purchase agreement to provide an annual pass program in lieu of the equity member discount that would generate substantially more revenue than the current members provide the club. That annual pass membership would be available to the general public as well.
- 9) Continue the trail fee program for former members that utilize their own carts on the golf course.
- 10) Re-evaluate the current rate structure for Apple Valley Country Club
- 11) At such time as the Town sees appropriate, or upon the successful closing of escrow, conduct a thorough RFP or RFQ process inviting management bids from qualified golf course operators, including the current operator.
- 12) Consider option of selling off parcels of unused land on the golf course perimeter for the purpose of raising capital to fund capital improvements.
- 13) Negotiate with Desert Community Bank to abate debt service for 5 years or until such a time that the course becomes profitable, whichever comes first.

If these recommendations are implemented successfully, the resulting operational expenses are expected to be reduced to an approximate \$633,926 subsidy for the Town (Exhibit A).

This predicted year-three \$633,926 subsidy is reflective of a reduction in subsidy by an amount equal to \$661,813 from the current level of subsidy.

Also, savings related to item numbers 8, 12, and 13 have not been included in the Pro Forma savings, and represent significant potential savings to the Town of Apple Valley.

At this time staff recommends that the Town Council discuss the recommendations presented within this report and provide direction to staff regarding recommendations A or B.

EXHIBIT A

Apple Valley Country Club

Scenario: New management agreement, banquet room improvements, aggressive marketing, range improvements, courtyard improvements, return to well water

3 - Year Pro Forma

	<u>08/09 Actuals</u>	<u>09/10 Projected</u>	<u>10/11 Proforma</u>	<u>11/12 Proforma</u>	<u>12/13 Proforma</u>
REVENUES:					
COURSE AND GROUNDS	-	594,111	653,522	751,550	864,283
GUEST FEES	182,863	-	-	-	-
PRO SHOP	50,938	46,439	85,658	94,224	103,646
OTHER GOLF TENNIS POOL	158,617	26,148	26,932	27,740	28,573
FOOD & BEVERAGE	316,679	379,264	474,080	711,120	1,066,680
DRIVING RANGE	-	-	35,691	39,260	43,186
MEMBERSHIP DUES	478,412	-	-	-	-
TOTAL REVENUES	1,187,509	1,045,962	1,275,884	1,623,895	2,106,368
COST OF SALES:					
PRO SHOP	33,514	30,115	55,548	61,103	67,213
FOOD & BEVERAGE	116,935	125,789	157,236	235,854	353,782
TOTAL COST OF SALES	150,449	155,904	212,784	296,957	420,995
MERCHANDISE COGS %	66	65	65	65	65
F & B COGS %	37	33	33	33	33
PAYROLL AND EXPENSES					
OUTSIDE GOLF SERVICES	-	57,280	58,998	60,768	62,591
CARTS	4,865	-	-	-	-
GOLF SHOP	99,044	106,004	109,184	112,460	115,833
GOLF COURSE MAINTENANCE	472,517	516,819	465,137	479,091	493,464
FOOD AND BEVERAGE	278,676	302,262	260,744	355,560	533,340
G AND A	270,155	218,282	224,830	231,575	238,523
MARKETING	4,202	14,025	100,000	103,000	106,090
CLUBHOUSE/POOL/TENNIS	86,938	107,187	110,403	113,715	117,126
INSURANCE	52,143	54,322	55,952	57,630	59,359
WATER AND ELECTRICITY	55,624	269,972	60,000	61,800	63,654
PROPERTY TAX	39,226	31,387	-	-	-
LEASES	64,027	90,785	93,509	96,314	99,203
TOTAL PAYROLL/EXPENSES-	1,427,417	1,768,325	1,538,757	1,671,913	1,889,184
TOTAL EXPENSES	1,577,866	1,924,229	1,751,541	1,968,870	2,310,179
EBITDA	(390,357)	(878,267)	(475,658)	(344,976)	(203,811)
Management Fee	122,713	114,317	96,000	110,400	126,960
Interest Expense - Financing	265,316	303,155	303,155	303,155	303,155
NET INCOME (LOSS)	(778,386)	(1,295,739)	(874,813)	(758,531)	(633,926)
Capital Projects	-	-	-	-	-
NET CASH FLOW	(778,386)	(1,295,739)	(874,813)	(758,531)	(633,926)
BUDGETED ROUNDS - TOTAL	-	25,957	28,553	31,408	34,549
BUDGETED 18 HOLE ROUNDS	-	25,957	28,553	31,408	34,549
BUDGETED 9 HOLE ROUNDS	-	-	-	-	-

The information contained in this pro forma is based on assumptions and future events and does not take into account, nor make provision for, any rise or decline in local or general economic conditions and other circumstances that may have significant adverse effects on actual results. These projections have been prepared based on current information available. Kemper Sports cannot, and does not, warrant or guarantee the information contained in this pro forma to be a projection of actual results of the operation of this facility.

Prepared on behalf of the Town of Apple Valley by:

