

## Minutes

Audio Tape No. 663 & 664

The City Council of the City of Leawood, Kansas, met for a Special Call Meeting at City Hall, 4800 Town Center Drive, at 6:00 P.M., on Monday, June 5, 2006. Mayor Peggy Dunn presided.

**Councilmembers present:** Jim Rawlings, Lou Rasmussen, Gary Bussing, Scott Gullledge, Mike Gill, Gregory Peppes, Debra Filla, and James Azeltine.

**Councilmembers absent:** None.

**Staff present:** Scott Lambers, City Administrator  
Shannon Marcano, Assistant City Attorney  
Kathy Rogers, Finance Director  
Chris Claxton, Parks & Recreation Director  
Joe Johnson, Public Works Director  
Deb Harper, City Clerk  
Christy Wise, Deputy City Clerk

**Others present:** Shane Gardner, Orion Managing Officer  
Matt Roberts, Orion Management  
Pete Spratlin, Orion Golf Course Superintendent  
Dick Fuller, IRONHORSE Advisory Board Chair  
Carl Howell, IRONHORSE Advisory Board  
John Campbell, IRONHORSE Advisory Board  
Tom Davidson, IRONHORSE Advisory Board

### **1. Opening Remarks**

Mayor Dunn called the Work Session to order at 6:05 P.M. Introductions were made by those present.

City Administrator Scott Lambers stated the purpose of the Work Session is to review the proposal submitted by Orion Management Solutions for 2007-2008. The document discusses two options: shutting the golf course down in total or leaving the clubhouse and practice facilities open. The IRONHORSE Advisory Board has reviewed the proposal and is recommending favorable consideration from the Governing Body.

Mr. Lambers advised he does not agree with the proposal as it is essentially a continuation of the status quo. He recommended a turnkey approach to the golf course operations in which the City captures revenues from green fees and cart rentals while paying the management company for course maintenance. The driving range, Pro Shop, food & beverage, and alcohol sales will become the responsibility of Orion and they will be allowed to keep any profits during the two year period. Orion will be given the opportunity to provide a brief presentation followed by questions and discussion. The next step will be to draft a contract for Council consideration.

Councilmember Peppes arrived at 6:08 P.M.

**2. Discussion of IRONHORSE Advisory Board's Recommendation regarding Orion's Proposal for management of IRONHORSE Golf Course for 2007 and 2008**

Councilmember Rasmussen clarified the recommendations from the IRONHORSE Advisory Board as approving the functions to be performed by Orion in Sections 1-6 of the proposal. Board members did not discuss the details of contract negotiations as seen in Section 7.

Mr. Lambers confirmed for Councilmember Gill that his recommendations, as outlined in the memorandum regarding response to the proposal by Orion, have not been discussed with the management company. Both proposals contain two-year contracts in which facilities remain open in 2007, however there are differing approaches in functionality. Councilmember Gill stated the proposed outsourcing structure is a radical change and would like to hear the risks and rewards.

Councilmember Rasmussen summarized points of interest from Sections 1-6 of the proposal submitted by Orion. Financial terms of the contract have been left to the discretion of the City Administrator, although the advisory board will become involved with this aspect if requested. He also noted that Johnson County Wastewater District has recently become involved with improvements to the golf course.

First and foremost, Mayor Dunn requested that Council arrive at a consensus to either close the golf course completely or leave partially open during 2007. She concurred that negotiations of the contract should be performed by the City Administrator.

Councilmember Gullledge arrived at 6:15 P.M.

Orion Managing Officer Shane Gardner listed advantages of keeping the clubhouse and practice facilities open such as maintaining customer contact, continued presence in the golf community, and the generation of some revenue.

Councilmember Azeltine asked if the sample of possible profits from booking the clubhouse, listed on page 5 of Orion's proposal, is a realistic figure. Mr. Gardner stated even more revenue can be captured if other events scheduled at the Lodge can be steered towards IRONHORSE for catering services. If IRONHORSE cannot provide the services needed by a customer, staff can make arrangements with another caterer to minimize the patron's points of contact. This will also provide Orion the ability to keep an eye on the facility. The net cost of \$96,000 to keep the facility open may not be recovered for a period of six months to one year.

Councilmember Azeltine stated understanding with the value of remaining open and maintaining relationships for the sake of continuity upon reopening; however, the current financial situation at the golf course is disturbing. He inquired about the City's ability to break-even during the closure period if the clubhouse remains open.

Mr. Lambers stated he is concerned with the effect that decreased traffic will have on the golf course while closed. He recommended turning the driving range, Pro Shop, and food & beverage facilities over to Orion. They will be responsible for all expenses and will receive 100% of the revenue. Orion already controls the sale of alcohol at IRONHORSE as the City cannot hold a liquor license.

Councilmember Bussing arrived at 6:25 P.M.

Referring to page 2 of Orion's proposal, Mayor Dunn noted the City will still incur expenses in the amount of \$744,000 if the course is completely closed. Keeping the course partially open will cause an increase in expenses but will generate some revenue, hence the calculated \$96,000 difference.

Mr. Lambers explained the current process involves the City making all purchases for the Pro Shop, food & beverage, etc., with reimbursement coming from revenue. His proposal would transfer total financial responsibility for these facilities to Orion in addition to operations and maintenance of the driving range. The City's concerns will be limited to green fees and cart rentals. An agreement will be made for the annual budget regarding course maintenance fees.

Councilmember Azeltine asked why it is desirable for the City to step away from this type of business. Mr. Lambers responded the City is currently losing money from these enterprises.

Councilmember Gill remarked the facilities should be City-run if there is reasonable expectation for a break-even opportunity, especially if continued utilization of the junior course is possible. The City should not run the facilities, however, if a money loss is foreseen. From an outsourcing arrangement standpoint, Councilmember Gill stated the current proposal needs careful consideration as it contains many trapdoors that will produce a bad result. The risks, incentives, and behaviors need to be aligned in such a way to protect the interests of the City.

Mr. Lambers advised the current contract with Orion will expire at the end of 2006.

Councilmember Gill encouraged assigning the proposal to the IRONHORSE Advisory Board for the purpose of understanding what a viable interest-based arrangement should be. He voiced several concerns related to the proposal recommended by Mr. Lambers such as no incentive fees, which are based upon gross revenue; no interest in 80% of the total revenue; 100% responsibility for expenses by Orion with no explanation as to how the 5% contingency will be covered; and a profit/loss statement and opportunity with respect to the clubhouse, Pro Shop, and food & beverage.

Mr. Lambers informed the driving range and alcohol sales are revenue producers. In order to obtain profits from the clubhouse and Pro Shop, it will be up to Orion to improve their performance in these areas. The incentive is the revenue coming in from these operations.

Mayor Dunn stated a consensus on the proposal is not expected this evening as another Work Session will take place following Mr. Lambers' presentation to Orion. An agreement should be made regarding whether to close the course completely or stay partially open. She stated concern with the significant marketing costs the City will expend if total closure occurs. She also pointed out that samples given for catering events on page 5 are hypothetical figures and do not reflect current revenues.

Regarding Mr. Gardner's earlier statement of arranging catering for Lodge patrons with other companies, Mayor Dunn advised against taking a middleman cut when it would save the client money to obtain these services themselves. She stated favor with the idea of IRONHORSE showcasing their catering abilities.

Mr. Gardner explained that liquor laws prohibit the serving of alcohol unless some measure of food is provided. Therefore, Orion cannot provide alcohol for an event if the customer arranges for an outside catering service. If Orion is allowed to book the services without raising the price, however, they can benefit from the liquor sales.

Item No. 3 of Mr. Lambers' proposal states there will be no cart rental revenue in 2007. Councilmember Gill asked if it would be possible to sublease the carts in order to generate a return. Mr. Lambers stated a decision was made to extend the lease in anticipation of the carts being unused. Subleasing the equipment would cause unknown wear and tear to the carts. Mr. Gardner added it is beneficial for the City to extend the life of the carts with proper maintenance, which is provided at IRONHORSE.

Councilmember Peppes inquired if there is a high demand for catering assistance at the Lodge. Parks & Recreation Director Chris Claxton stated she was unsure of the exact percentage of clients who need aid in this area, however a paramount number have already chosen a caterer when they reserve the facility.

Councilmember Peppes agreed with the advantages of keeping the course partially open in terms of maintaining customer contact and presence in the community. He shared that *The Business Journal* recently rated IRONHORSE second in terms of difficulty for an 18-hole public golf course.

Noting the \$96,000 disadvantage of keeping the course partially open, Councilmember Rawlings asked if Orion could shift their payroll in order to reduce the deficit. Mr. Gardner confirmed downsizing will occur followed by a transfer of duties where needed for remaining key personnel. He also informed Councilmember Rawlings that Orion currently has the capability to cater for large groups as they have served 50-200 people for various tournaments and other events. Any events that Orion can cater at Ironwoods Lodge will also help reduce the deficit.

Mr. Gardner verified for Councilmember Filla that a number of area golf courses were closed during the last year. IRONHORSE membership fees reached a highpoint in 2005. Membership fee revenue for 2006 is currently \$10,000 behind that of last year's documentation.

Regarding marketing expenditures, Mr. Gardner informed it is typical to spend \$40,000 during a year the course is open. There are currently 115 members in the Triple Crown Club, 45 members in the Conductor's Club, 80 Tour Cards have been sold, and there are 80 members in the IRONHORSE Competitive Golf Association. The majority of nonmembers are Leawood residents with some from south Overland Park.

Ms. Claxton confirmed for Councilmember Filla that the Parks & Recreation Program Guide is the only source of marketing used for the Aquatics Center.

Councilmember Filla stated concern for expenditures created by the golf course when compared to the amount of citizens it services. She suggested alternative uses for the facility and posed the question of how quickly debt could be repaid if the scheduled golf course improvements did not occur.

Councilmember Azeltine verified with Mayor Dunn that a motion was approved to reconstruct the greens on April 17, 2006. He agreed with Councilmember Filla in principle but noted as Leawood citizens voted in favor IRONHORSE, another vote would be necessary in order to change the use of this amenity. Factually, the City owns the golf course and must provide maintenance. He acknowledged that some citizens may be unhappy about the mill levy and asked if there were other options for mitigating improvement expenses.

Councilmember Azeltine asked for explanation of Item No. 1 in Mr. Lambers' memorandum, which states:

Debt Service – A .83 mill levy is programmed to be imposed in 2007 for the debt service obligation to the Golf Course until the obligation expires in 2015. Therefore, this expense will essentially be “off-budget.”

In terms of the golf course budget, Mr. Lambers stated this will allow more focus on operational expenses. He explained that an Enterprise Fund is used for the golf course, which cannot carry a negative balance by state law. Money is transferred to the fund from ending cash balances at the beginning and end of every year. Although there is no issue with the City's debt rating, Moody's has been critical of this strategy and encourages a difference approach. From a proactive standpoint, the mill levy is needed to cover the expense of the debt service.

Councilmember Azeltine stated he is not in favor of the mill levy increase and would like to explore other options.

Councilmember Rasmussen stated Item No. 1 is not pertinent to the objective of the Work Session as discussion of the mill levy will occur next week at the Budget Sessions. He recommended that fellow councilmembers review the financial analysis of the City in detail. In terms of the functions to be performed by Orion in 2007 and 2008, Councilmember Rasmussen voiced approval for recommendations given by the IRONHORSE Advisory Board to keep the course partially open.

Councilmember Rawlings concurred with keeping the course partially open, however he would like to see the \$96,000 financial difference become smaller.

Councilmember Bussing stated he would support keeping the course open and Mr. Lambers' recommendation to transfer certain responsibilities to Orion Management Company.

Under the City Administrator's proposal, Mr. Gardner reported Orion will lose \$101,000 in 2008 and \$182,000 in 2007 to operational expenses, separate from the \$50,000-60,000 inventory expense, when compared to the 2006 Budget. From his experience with other golf courses, a division of royalties will eventually produce areas of neglect and can be a difficult situation.

Councilmember Azeltine noted the primary risk of keeping the facilities open as the \$96,000 City-covered expense. He stated he did not see any risks being taken by Orion.

Based upon profit incentive, Councilmember Gill expressed concern that cost cutting efforts by Orion will cause a decrease in quality of services provided. He stated more consideration is necessary before final contract decisions are made.

Mayor Dunn asked for a conclusion to the consensus of whether to keep the golf course partially open during reconstruction.

Discussion took place regarding Orion's current contract. A three-year contract was signed in 2001 with two one-year extensions, which expires at the end of 2006. In November 2005, the Governing Body agreed to contract with Orion for another two years, through the end of 2008.

Mr. Lambers disagreed with Orion's estimated cost of \$744,000 to completely close the golf course, stating operations will shut-down more than they are anticipating. This will allow the management company to reduce staffing costs. Operational expenses and any start-up costs for 2008 will be transferred to City Hall. He derived at his proposed course maintenance fee of \$565,000 by using Orion's figure as a baseline with a 3% increase for inflation and an arbitrary 10% reduction for savings.

Councilmember Gill stated there should be more than a 10% savings in maintenance with the course closed for play. He discussed with Councilmember Bussing changes that must occur in order to profit from keeping IRONHORSE partially open.

Councilmember Filla stated the decision to close all facilities or keep some open should be based upon services desired by the citizens.

Mr. Gardner informed Councilmember Gulledge the profit margin for an average catered event is approximately \$3,000-4,000. There is potential to recoup the \$96,000 loss through catering services. Councilmember Gulledge stated approval for keeping the facilities open.

Golf Course Superintendent Pete Spratlin stated it will be optimal to have three growing seasons for the grass before reopening the golf course.

Mayor Dunn proposed continuing the discussion at another Work Session in either July or August. There being no further business, she adjourned the Work Session at 7:25 P.M.

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Christy Wise, Recording Deputy City Clerk