

IRONHORSE

Golf Club



GOLF COURSE COMMITTEE

May 30, 2002 – 5:30 p.m.

Committee members in attendance were Dick Fuller (Chairman), Councilman Scott Gullede, Councilman Lou Rasmussen, Councilman Mike Gill, Mike O'Connell, Dave Fearis, Bob Reid, Jim Dickson, Charles Lewis, John Campbell, and Bobby Davidson. Chris Claxton, Parks and Recreation Director, Julia Brickman, as well as Shane Gardner, and Matt Roberts of IRONHORSE. Also in attendance was Lew Herman from Cochran, Head & Co., P.A.

The meeting was called to order at 5:50 p.m.

Committee Appointment

Dick announced the new committee appointment of Councilman Scott Gullede. Scott is from Ward Four which is where IRONHORSE Golf Course is located.

Dick introduced Lew Herman from Cochran, Head & Co., P.A. He completed the audit for the City.

A motion was made by Charles Lewis to approve the minutes from the April 25, 2002 meeting. John Campbell seconded the motion. The minutes were approved with the amendment made by Dave Fearis: The First Tee is run by Joe Lewis' son, not Jill's son.

A discussion was held regarding the newspaper article by the Kansas City Star. Mike Gill stated he has received a number of calls and comments about the unfortunate article. The way it is written suggest that there is some mismanagement on the part of Orion that he does not believe is fair. Mike did some research and shared his findings with the Golf Committee.

Mike Gill stated the article mentions \$500,000 of annual debt service. It neglects to indicate the numbers it depicted for the course is in net of those payments. If you wanted to see how the course is doing on a revenue production basis you need to add the debt payment it makes back to it, which is a very significant number. They paid roughly \$530,000 last year. Assuming the Star has their figures right, they missed the mark by \$500,000 a year or more. In 1998 we lost the greens and the City suffered some loss. In response to that under leadership of this committee, Dick Fuller and Jim Dickson, in particular, we insisted that the current management company (Evergreen) bring in new

talent. As a result we saw Pete Spratlin and Matt Roberts come to the table. In 1999 they turned the course around and provided excellent playing conditions. The Golf Committee and the City Council agreed that these individuals have done a tremendous turn around job. The Star unfortunately mischaracterized their status.

From the opening of the course to date, the City has made an outflow of cash investment of approximately 1.8 million dollars. Everything else is borrowed money that the bonds are paying off. Of those 1.8 million dollars, all but \$70,000 occurred prior to 1999. On average, including the year of 1994, that runs a deficit cash flow of about \$344,000 a year. Since Matt, Pete, and Shane have gotten involved in the course, that bleed has decreased to an average of \$23,000 a year. In years 1999 and 2000 the golf course, for the first time in history, under their leadership actually made positive cash. In 1999 and 2000 it made \$63,000 after paying off all of the debt. Unfortunately in 2001 it had a deficit of \$196,000. This year we are hoping we will be able to break even. During the seven years the course has existed, twice it has made positive cash flow and only while under Orion's management. The Kansas City Star failed to recognize the incredible turn around in the past few years.

We also recognize when the debt service is paid off, there will be an enormous positive cash flow if all we do is preserve the current cash state. Then the payback of 1.8 million dollars would probably take three to four years. At which point, the City would recoup 100% of its investment. The bonds have been paid off, the City would own a golf course worth millions of dollars (which is an incredible asset to the City), and it will be generating positive cash to the City somewhere between \$500,000 to \$600,000. He did not read any of these figures in the newspaper article. He is very proud of what this group has accomplished and stated that we are always open to better ideas. The message left to the public view was wrong.

Mike O'Connell agreed and added that if the Kansas City Star, would have done the homework it would have recognized that in the past twenty-four months eighty-one holes of golf have been added that are in direct competition; and our rounds have held up better than the other courses we are competing against.

Some comments the Star made were inaccurate information but we need to make sure the right information gets out there. No one on the Golf Course Committee was asked to make comments for the article and no one that has been involved with the golf course was asked. Since 1998 we have increased our bottom line by eighty-six to ninety-three percent.

Lou Rasmussen opened a discussion with Mr. Herman regarding his comments in the article.

City Auditor's Report on Course Operations (Lew Herman)

Lew Herman discussed his comments in the Management Letter regarding the internal control issues. He stated the payroll processing should be separated into different departments, cash disbursements need some improvements, and cash receipts need to be

cross-checked. Mr. Herman gave suggestions for all of these areas in the Management Letter.

Dave asked why the City should have someone else distribute paychecks to employees. Mr. Herman said he suggested doing that in order to be sure there are no ghost employees receiving paychecks. This practice could be done periodically, it doesn't have to be done every time.

Dick commented in the Golf Course Operations paragraph wherein it states that the private management company reports to a Golf Course standing committee and the City. This is not accurate. Orion reports directly to Chris Claxton, which is an added control. The Golf Course Committee is an advisory board to the City Council and does not make policy. Mr. Herman stated that he asked several staff members and that this was the information he was given.

Dick said for clarification, it appears there is a level of management that is left out. Mike Gill said next year he wants to see this redefined in the Management Letter.

In Orion's contract it states they report directly to a staff member, which is Chris. John Campbell said this Golf Committee is really an advisory board that only makes recommendations to the City Council.

Mike Gill stated the Golf Committee board members are a "blue chip committee" that knows what they are talking about. These people are excellent and any corporation would want them on their board.

For instance Dave Fearis is the immediate past President of the International Greens Keeper Association and was the Superintendent at Blue Hills. After 1998 he came on board to help us turn our greens around.

Mr. Herman was asked if he had received a copy of Orion's contract and he stated he had.

Bobby asked in the fifth paragraph under Golf Operations, Mr. Herman suggested "the City should take a more active role in establishing policies for operations."

Mr. Herman stated he recommends this because we are still in a deficit position. Bobby replied that we already have policies for operations that have been approved throughout the City. What else can the City do or do you have a specific suggestion? Lou Rasmussen said Mr. Herman never received the business plan. Mr. Herman replied if we see an enterprise fund that is it not making money then obviously we want to see that change.

Mr. Herman made some recommendations to Orion on how they can make more money. For instance, they should sell more outside events. Most clubs make money off of events not off of daily fees. Mike O'Connell said we know that and have had many

conversations regarding that, but we decided that we do not want to take the golf course away from the citizens. Mr. Herman said that is a policy decision and maybe it is time to re-evaluate those policies more closely. If he doesn't make these suggestions then he is not doing his job.

Mr. Herman said he spoke with Shane and Matt. The reason why he started to look at the golf course was because the gross revenue was down \$250,000. Mr. Herman stated he was told there are a lot of improvements that need to be made and we do not have the money to do them. Do we have to wait until the debt is paid off before we can make the improvements?

Mike Gill said his understanding is that we need to be more involved and we are working towards that. He assumes Mr. Herman is suggesting more monthly meetings and involvement rather than less. Mr. Herman said under the circumstances, as long as these concerns are here, you need to stay on top of them. Mr. Herman asked if he has properly explained his comments. Bobby said yes, in light of the fact that he did not receive a business plan.

Mr. Herman stated that he had access to some information that he obtained from meeting with Orion. Shane reported he told Mr. Herman about the bartering (trade-outs). We tried to give him as much information as he needed. Most of the conversations were regarding procedural issues. This was the first time Orion has been audited and they provided Mr. Herman with things they think they've improved on, background information on financial statements, how much is owed, and revenue.

Mike Gill made a motion to recommend the adoption of every internal control suggestion made by Cochran, Head & Co., post haste. He would like to get it to the City Council so it can be instituted. Jim Dickson seconded the motion.

Lou Rasmussen said one concern from 1994 is identifying on the books, the operation versus cash flow requirements associated with capital. The retained earnings say to him by the end of 2001 our retained earnings are in a deficit condition of \$412,000.

After seven years of operations (from an operating point of view) the golf course has made all operating expenses, and only owes the City of Leawood.

A discussion was held about the audited numbers. Lou Rasmussen asked how much the City has invested in separate capital investments and for operations? Mr. Herman said he could not give those numbers off the top of his head. It is called the cash flow statement and should be on the yearly report.

Mr. Herman said on exhibit A, is the net of depreciation. The investment is 7.6 million dollars. The 6.25 million dollars in bonds was approved by the citizens. Roughly 1.6 million dollars has been put in as capital. Lou Rasmussen asked how much money has been invested for operations for the golf course?

The capital for the land is 7.6 million dollars and is considered as equity of the golf course. 1.1 million dollars was contributed as capital, minus the deficit in earnings of \$770,000 which is net of those two numbers. 1.1 million dollars as capital may include the land and contributions on top of that, he does not know.

Lou Rasmussen said every year we struggle with fees for the golf course, when we became aware that we were operating in a deficit we decided we should build into a fee structure for recovery of the monies owed the City. We decided to pay back \$60,000 a year to meet this deficit. Lou Rasmussen's point is how can we structure a fee schedule if we do not know what the cumulative operating deficit is, if it is not distinguished from the debt payment. Mr. Herman said it would be difficult.

Mr. Herman stated the propriety funding is not the same because it could be money transfers or loans for operations or for capital. We do not know the exact amount of loans that were made. We believe that the impression that the land was donated is accurate. Out of 190 acres, 150 acres was probably donated. We spent \$600,000 which bought us approximately forty acres.

Dick said Don Bell came to the City and offered to donate the land if we agreed to build the golf course. **Mr. Bell didn't have sufficient funds to donate the land so the City bought the land and then Mr. Bell paid us back.** For every lot that was sold we received \$10,000 dollars.

Mr. Herman said the value of the contributed capital is usually donated land, whatever the market value of the land is at the time of donation. That's what should be on the City's records. He asked if that is a fair amount of land for 1.2 million dollars? Lou Rasmussen said no, the land is useless because it is in the flood plains. John added the developers made a lot of money by developing the lots into homes.

Mike Gill and Lou Rasmussen said they are concerned that the outgoing funds are listed but it doesn't show what has been returned.

Mike Gill made a motion regarding the comments on the article received tonight. There was a lot of discussion about bartering. The motion is "that Orion and the City get together (and perhaps with an outside auditor), come up with methods for accounting of bartering. The reason for this motion was the comments attributed to the auditor referencing marketing. It turns out that the comment was solely made to make the fact aware with Orion that there was bartering made with certain things and the City Management did not make him aware that bartering was going on. The comment stating, "Some of the marketing decisions haven't been made in the best interest of the City" was because he did not think that there was communication going on within the City about the bartering. Tonight Mr. Herman found out that the business plan does show a bartering plan. Mike asked Mr. Herman if he had been aware of the business plan would he have made the same comment? Mr. Herman said no. The motion was seconded by Jim Dickson.

Shane stated with most of the trade agreements, we use their services anyway, so it is a dollar for dollar trade. Ever since the golf course has opened, even with EAGL, it has been beneficial. Every year in an agreement like with AAA Linens it has helped keep our expenses down because of the trades, like for linens and mats. Shane stated we are happy to work with the City and if the City decides to do something different that is fine.

Mike Gill said that today in a conversation with Scott Lambers they discussed communication issues. He stated it is very important that Chris and Orion continue to communicate and to include other members of City Management. One suggestion is perhaps every Monday morning Orion could call Chris and report on the weekend activities. Chris could then meet with Scott Lambers if necessary to go over any concerns or issues that might exist. Then they can decide if there are any additional communications that should occur with the Golf Committee, himself, Kathy Rogers, or anyone else in the City. If Scott thinks so then we could make it happen.

Dick said in the past the City Council has been comfortable with recommendations made by the Golf Course Committee. It appears there has been a lack of communication recently. Kathy and Scott are always welcome to attend any meetings or to ask questions of the committee via Chris.

Scott Gulledge made a motion that this committee requests that the City Administrator either hire Cochran and Head or utilize internal staff to determine the actual value of the golf course.

Lou Rasmussen expanded that from 1994 (the time the books have started) so it is clear about the deficit and retained earnings, operations, and to know the land value. He asked to get a book value of this property. Right now he thinks our assets are understated.

Currently 7.6 million dollars (as invested) is the net value. Mr. Herman said the land on the golf course is stated at 1.582 million dollars. Lou Rasmussen said it was donated, but we have made improvements. Mr. Herman said the value of the land is recorded as the fair market value at the time the land is donated.

The motion was seconded by Lou Rasmussen. The motion passed unanimously.

John asked if we just look at a value from an economical or accounting standpoint, if you want to find out the value then you need to bring in a business and real estate appraiser.

The committee is requesting that the motion go on the June 17th City Council agenda.

Dick said we appreciate Lew Herman's appearance tonight and he has enlightened all of us of the reality of what took place.

Presentation by Architect (Hoefler Wysocki) for Ironhorse Centre Development, 151st and Nall (Report from Sub-committee).

The minutes from the May 21, 2002 sub-committee meeting were distributed to the full Golf Course Committee. Dick gave a quick overview of the concerns they raised with the developer.

Jim Dickson made a motion for these minutes to be approved and entered as part of the meeting minutes. John Campbell seconded the motion. The motion passed unanimously.

Dick stated we asked them to submit in writing that they are in compliance with the ongoing golf course requirements.

General Operations Report

Shane reported they put together some marketing information that Chris had asked for. Chris put together a packet of information and distributed it to the Golf Course Committee.

Dave asked if we are making the maximum of what we need to make per round? Matt said yes. Dave wanted to know if we are charging full fees for the leagues etc. Matt said that the Tuesday and Wednesday Senior and Ladies League are slightly below what we have budgeted per round. They get a small discount.

Shane said we have shied away from larger leagues because we are not able to sell events during those days. The theory in 1995 or 1996 was to make the golf course available to residents. But now that we are in a more competitive environment we need to reevaluate the leagues. We've discussed next year adding one corporate league and seeing how that goes. We've also thought about scheduling both leagues on one day to free up the other days.

Shane reported as of April 30th we are \$48,000 behind budget. Towards the end of May we will be close to being down \$100,000 in net operational income. Shane said we are not ready to hit the panic button yet because we are at the time of our heavy season with all of our big events coming up. He spoke with five other golf courses and they are all between seventy to eighty percent of their budget. We think we can book more rounds with the upcoming weekends and more events. Right now we have already booked seven shotguns in October.

Discussion of Comp Rounds Report

Matt distributed a spreadsheet containing a breakdown of comp rounds, which includes employee and PGA rounds. Matt reported he added the trend to show a negative cash flow of \$65,000 at the end of the year. He also stated we are working on keeping our expenses down and lowering our costs of supplies and payroll. Every month from now until October we have six shotguns, five of those are at 8:00 a.m. so we will be open afterwards therefore garnering more paid rounds.

Lou Rasmussen asked if the pump is installed and running. Shane said it is in the maintenance facility. Jim replied if the Blue runs dry then Pete would use the pump. Chris spoke with Brett Haugland of Continental engineers who is working out our meter

issues together with Pete. She also spoke with Brett about the permit from OP so that KCP&L can come in and install the service. The permit is currently at Overland Park and they are waiting for the plans from Continental. Joe Johnson said it should be a one to two day turnaround on the permit.

John asked Shane if he would attribute the YTD deficit to anything else besides weather? Shane replied the rain has hit on the days we make the most money. Matt stated he thinks the economy is the number one reason. We have also seen a decline in food and beverage and pro shop sales. For instance there has been a decline of people buying rounds of drinks and purchasing any "extras" in the golf shop. The budget for May is \$66 per round. Right now we are doing approximately \$54 to \$55 per round.

Matt is also going to add a column to break down promotional rounds, which are the VIP cards. It is not a true comp and it will be called VIP/promo. Mike Gill said when we see a VIP member we will see more money because there is also someone in the full pay column for that VIP member.

Course / Project Update

Shane distributed and summarized Pete's report on the golf course. Pete could not attend tonight as his wife is going in to deliver the baby. Paul Vermillion, from USGA, said the course conditions have reached a high water mark and has reached its peak. It is the best he has ever seen it.

A brief update about everyone's background on the Golf Course Committee was given for Scott Gullledge.

Jim said there is a zoysia patch on the practice range. He stated Paul addressed it and said we should treat it next fall. Dave and Pete discussed using Prostar. To treat the range it will cost about \$1,100.

The creek bank and bridge stabilization on 8, 9, and 10 is complete and looks great. Lou Rasmussen stated there is a degree of confusion on the creek bank stabilization and the problem on thirteen that came up during the CIP work session. They are two different projects. The bank stabilization is not a SMAC project. The only thing that was authorized was the study and now 1.8 million dollars showed up in the CIP. Dick said we are concerned about number thirteen and this project and the impact on the golf course.

Chris reported that herself, and Joe Johnson took Scott Lambers and the Mayor to the course (along with Pete Spratlin) so they could see the difference between both projects. This was at the request of the City Administrator.

Jim said Paul told him that there is a USGA foundation that has a lot of money. They have criteria they use for qualifications for financial aid. He said since we have three separate holes we ought to contact the group in Colorado Springs. Shane said he contacted Robin and she will give him more information so we can apply for grant.

Charles Lewis made a motion to adjourn the meeting. Jim Dickson seconded the motion. The meeting adjourned at 8:10 p.m. The next meeting will be held on June 27th.

Respectfully submitted,

Chris Claxton
Parks & Recreation