

INDIAN WELLS CITY COUNCIL

November 28, 2022



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, City Finance Director
Subject: **Resolution Amending the City's Resident and Resident Guest Amenity Fees**

RECOMMENDED ACTION:

Council **APPROVES** Resolution Amending the Resident Amenity Fee.

DISCUSSION:

SUMMARY

During the October 3, 2022, City Council Meeting, Council directed the Golf Ad Hoc Committee to consider options to amend the methodology for the computation of the Resident Amenity Fee. The Golf Resort Ad Hoc Committee met with Staff to discuss opportunities to re-craft the fee to be more equitable and balanced, including all relevant golf rate categories. Based on discussions with the City auditors and the Golf Ad Hoc Committee, a weighted average calculation is recommended for the City Council's consideration.

BACKGROUND

Current Resident and Guest Golf Rates

Indian Wells residents possessing a Resident Benefit Card may play the golf courses at the Indian Wells Golf Resort for a discounted rate. The discounted rate varies seasonally:

- January 1 – April 30, Residents play at a discounted rate of \$50.00
- May 1 – December 31 Residents play at a discounted rate of \$35.00
- Resident Walk-ups (without a reserved tee time) play at a discounted rate of \$35.00 year-round.

All residents must present their resident benefit card at check-in to receive the special resident rates.

Indian Wells residents possessing a Resident Benefit Card also receive significant discounts for their friends and family. When accompanied by a resident, the discounted resident guest rate is as follows:

- July 1 - August 21: The Resident Guest Rate is \$55 (Monday - Thursday); \$65 (Friday - Sunday)
- August 30 - September 30: The Resident Guest Rate is \$65 (Monday - Thursday); \$75 (Friday - Sunday)
- October 1 - April 30: The Resident Guest Rate is \$110 (Monday - Thursday); \$110 (Friday - Sunday)
- May 1 - May 17: The Resident Guest Rate is \$89 (Monday - Thursday); \$99 (Friday - Sunday)
- May 18 - May 31: The Resident Guest Rate is \$79 (Monday - Thursday); \$89 (Friday - Sunday)
- June 1 - June 20: The Resident Guest Rate is \$55 (Monday - Thursday); \$65 (Friday - Sunday)

Special Revenue Fund: 1984-2017

Between 1984 and 2017, the Golf Resort was operated as a Special Revenue Fund, which accounted for the operations of the Golf Course Operator. Capital expenses, City administrative costs, and depreciation were accounted for in separate funds. This made it difficult to track the total costs of the Golf Resort.

Business Enterprise Fund: 2018

In 2018, the City Council decided to change the Golf Resort to a Business Enterprise fund which would allow for tracking capital expenses, City administrative costs, and depreciation in one business fund. City Staff worked with its auditor to remove the Golf Resort's assets and depreciation from the City and place them into the newly created business enterprise fund. The business enterprise fund is a separate accounting and financial reporting mechanism for which revenues and expenditures are segregated into a fund with financial statements separate from all other governmental activities. This meant the Golf Resort would operate as a stand-alone business.

The Resident Amenity Fee

The decision to operate the Golf Resort as a for-profit business meant the Council needed to address the lost opportunity revenue brought about by the decision to offer low-cost Resident and Resident Guest rates. Council had previously implemented various forms of General Fund subsidies such as the "cost of golf" methodology or a "Resident Community" fee.

The City developed the Resident Amenity Fee ("RAF") methodology in response to the creation of the Golf Enterprise Fund. The Resident Amenity Fee is the General Fund subsidy (expenditure) paid to the Indian Wells Golf Resort for the lost opportunity revenue that the Golf Resort, as a stand-alone business, would have otherwise received from a non-resident tee time.

Current Methodology Used to Calculate the RAF

During the May 16, 2019, City Council meeting, the Council discussed and implemented the current Resident Amenity Fee. The current methodology for calculating the Resident Amenity Fee is outlined below. Attachment #1 of this report includes the terms and definitions utilized in the computation.

1. Monthly, the Golf Resort determines the Mathematical Average rate in three round categories: (1) Eighteen Hole Prime, (2) Eighteen Hole Non-Prime, and (3) Tournaments.
2. Next, determine the average monthly Resident Rate by dividing the total amount of Resident golf fee revenue collected by the total number of Resident Rounds played. (Resident Golf Revenue/Resident Rounds).
3. Calculate the RAF by determining the variance between the mathematical average and Resident Rate (computed in step 2), then multiply it by the total number of Resident Rounds played. ("mathematical average" less the average Resident Rate) * (Resident Rounds).

The current methodology has been criticized since some 18-hole rate categories were omitted from the calculation (e.g., Troon Rewards Program, Wholesale, and other categories.). As such, the Golf Ad Hoc Committee, in consultation with the City's auditors and Staff, has developed a much more equitable methodology based upon weighted averages of golf rate categories determined per hour, per day, and per course basis, all but three categories are included in the calculation.

Proposed Methodology Used to Calculate the RAF

The proposed new RAF methodology is preferred for several reasons:

1. Auditors support and recommend the new method;
2. Includes previously omitted rate categories;
3. Computed on an hourly basis of use rather than monthly averages of uses and rates in the existing methodology.

The proposed new RAF methodology is as follows:

1. The Golf Resort determines the Weighted Average (per hour, category, and course) of actual rounds in eight round categories: (1) Eighteen Hole Prime, (2) Eighteen Hole Non-Prime, (3) Tournaments, (4) PGA Tour, (5) Troon Programs, (6) Wholesaler, (7) nine-hole, and (8) Special. The Weighted Average methodology calculates the average hourly rate in each category, and the number of actual rounds played in each category.
2. Next, determine the average Resident Rate by dividing the total amount of Resident golf fee revenue collected by the total number of Resident Rounds played per hour, per day, and course basis. (Resident Golf Revenue/Resident Rounds).
3. Calculate the Resident Amenity Fee by determining the variance between the Weighted Average and Resident Rate on a per-hour, per-day, and per-course basis, then multiply it by the actual number of Indian Wells Resident Rounds played on a per-hour per course basis. ("weighted average" less the Resident Rate) * (Resident Rounds).

The weighted average formula includes the Eighteen Hole Prime, Eighteen Hole Non-Prime, Tournaments, PGA Tour, Troon Programs, Wholesaler, the nine-hole and afternoon rates, and the Special category.

The weighted average formula excludes the PGA/Cart, Juniors, and comp rounds. These rate categories are omitted because they are either courtesy rates provided to PGA members and children playing after 3:00 pm or rate categories used for sales, marketing, and potential revenue-generating opportunities. In addition, Resident and resident guest rates are removed in determining the statistical average.

Proposed Methodology Used to Calculate the Resident Guest Amenity Fee

The Resident Guest Rate was modified in 2019 by the Golf Resort Advisory Committee and is calculated based on the annualized cost of golf under the theory that the Golf Resort should not profit off a Resident's friends or family.

During the year, the fees collected would equal the cost of golf on a per-round basis. To capture the average cost of golf per round (\$90 in 2019), Resident Guest rates vary from \$110 during the season to \$55 during the summer. This staff report shows a complete breakdown of seasonal rates in the "Current Resident and Guest Golf Rates" section.

Since implementing the Resident Guest Rate, the Golf Resort has not captured any subsidy of this rate for accounting purposes. Therefore, the weighted average methodology is recommended for applying to the Resident Guest Amenity Fee.

1. The Golf Resort determines the Weighted Average (per hour, category, and course) of actual rounds in eight round types: (1) Eighteen Hole Prime, (2) Eighteen Hole Non-Prime, (3) Tournaments, (4) PGA Tour, (5) Troon Programs, (6) Wholesaler, (7) nine-hole, and (8) Special. The Weighted Average methodology calculates the average hourly rate in each category, and the number of actual rounds played in each category.
2. Next, determine the average per hour per course Resident Guest Rate by dividing the total amount of Resident Guest golf fee revenue collected by the total number of Resident Rounds played on a per hour, per day, and course basis. (Resident Guest Golf Revenue/Resident Guest Rounds).
3. Calculate the Resident Guest Amenity Fee by determining the variance between the Weighted Average and Resident Guest Rate on a per hour, per day, and per course basis, then multiply it by the actual number of Indian Wells Resident Guest Rounds played on a per hour, per day, and per course basis. (“weighted average” less the Resident Guest Rate) * (Resident Guest Rounds).

FISCAL IMPACT

Using annualized data from the Fiscal Year 2021-22, implementing the Weighted Average of actual rounds in seven round categories, as explained above, will reduce the annual General Fund subsidy for the RAF by \$210,721, roughly equivalent to 10.1%, as seen in the table below.

The Resident Amenity Calculation	
Description	Fiscal Year 2021-22
Current Resident Golf Amenity Fee Calculation	\$ 2,085,364
Proposed Resident Golf Amenity Fee Calculation	\$ 1,874,643
Variance/Savings	\$ 210,721 10.1%

Using the same weighted average methodology on the Resident Guest rates discussed above, the Resident Guest Amenity Fee (subsidy) would increase the General Fund subsidy by \$234,276. The increase is due to the non-collection of the Resident Guest subsidy since the inception of the Resident Guest program.

ATTACHMENTS:

1. Resolution
2. Golf Resort – Terms and definitions