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MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOSHUA TETZLAFF, CITY ADMINISTRATOR
SUBJECT: GOLF EQUIPMENT FUNDING DISCUSSION
DATE: MARCH 15, 2024

During its discussions in 2024, the City Council approved in the budget the purchase of 60 golf carts. The golf course also requested purchasing two utility carts for general use around the course at a cost of \$28,400, but the City Council tabled the purchase of the utility carts. With the purchase of the golf carts, the City Council delayed the decision on how to pay for those carts, whether it be through bonding or cash. At the next meeting in April, the City's financial advisor will be present to discuss bonding for the 2024 project. In the past, the City has at times included an equipment certificate to their bonds to pay for equipment. Generally, these equipment certificates have been for five years. Now is the time to make a decision on how to pay for the carts.

The cost of the golf carts that were purchased was \$184,400. This is the final cost after trade-in of the existing golf carts. The idea for bonding would be that the golf course would pay for these carts over a five-year period at an estimated interest rate of 3.5% (per Baker Tilly). This interest rate is subject to change at final sale of the bonds. For this term, if the City were to bond for the full amount, the *estimated cost of the bond would be \$42,000/year to the golf course for five years.*

To get an idea of existing cash for the Golf Club fund, for end of the year cash balances, I had estimated that the Golf Club fund would have an estimated \$620,810 in fund balance. This was a conservative estimate based on the prior year's spending. When we look at our bank reconciliation as of January 31, 2024, the fund has a balance of \$677,509, which is up from \$458,434 from the same time in 2023.

I have also had Kurt run year-to-date numbers on memberships the Golf Club has received and how it may compare with the past. At this time last year, the Golf Club had sold 105 memberships. This year, the Golf Club has sold 192 memberships. From a year-to-date standpoint, memberships are up. If you compare with year-to-five days into the seasons, numbers are down slightly (2023: 233 vs 204: 192) but that may have to do with the season starting 33 days earlier this year than last. I believe looking at these numbers that memberships are strong thus far.

As for current debt, I have included the bond payment schedule for the existing debt. As can be seen, there are five years remaining (including 2024) on the debt schedule, with the debt completely dropping off in 2028. With this schedule, bond payments would look to begin in either 2025 or 2026. With the existing debt load, I would recommend starting the bond payments on principal in 2025 to save on a year's worth of interest payments.

Generally, the arguments for how to pay for this will be to

- 1) Pay for the carts from the existing cash balance
- 2) Pay for the carts with a combination of debt certificates and cash.
- 3) Pay for the carts using debt entirely.

I believe each of these payment scenarios has merit. From a cash perspective, the more you are able to pay with cash, the less interest is paid on the carts and lower the overall cost of the carts. From a debt perspective, it reduces the year-to-year cost of the carts, freeing up capital for other uses. It also allows the Golf Club to take advantage of the fact an estimated 3.5% interest rate. At that rate, there is a chance that revenue collected from cart use or investment of capital may actually outpace the interest that is paid over the life of the equipment certificate. Using a combination of both hedges the City against both scenarios, combining the risks and rewards of each to a varying degree.

In my opinion, I would recommend the City proceed with bonding for the entire amount of \$184,400. With a cash standing of \$677,509 as of January 31, the City certainly has the cash to pay for the carts. That being said, 3.5% interest is a low enough rate that holding the cash would allow the City more freedom into the future. With the payments, the City would earmark a portion of the current cash balance and be able to invest it into the future to see interest return mirroring if not exceeding 3.5%. It would also allow for a situation that, as rates naturally rise at the golf course, the cost of borrowing the carts decreases against the revenues collected for their use.

Recommendation

Staff recommends having Baker Tilly proceed with an equipment certificate for the full amount of \$184,400 for the golf carts purchased by the New Prague Golf Club.