Rancho Santa Fe Association

Board of Directors Meeting

Staff Report – Request for Board Action

Date: May 6, 2021

By: Seth Goldman, Chief Financial Officer

Item: Restaurant Cost-Sharing Agreement and FY2021-2022 Participation

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Background / Discussion:

The Ranch Clubhouse Restaurant is available for use by all Rancho Santa Fe Association members, whether or not they are members of the RSF Golf Club. To recognize the shared usage of the amenity, the RSF Board of Directors approved in July 2019, an agreement with the RSF Golf Club under which the Association shares the cost of running the Ranch Clubhouse restaurant and provides joint strategic oversight of the food and beverage operations, (the “Agreement”). This oversight is provided through a Joint Committee (known as the 3X3 Committee) comprised of three members appointed by the Association Board and three members appointed by the Golf Club’s Board of Governors.

The agreement includes an operating budget for the Food & Beverage Operations, referred to as “Exhibit A”, based on the allocation of certain costs as between the Food and Beverage Operations and the other operations of the RSFGC. Per the agreement, “[i]n connection with the annual budget for the RSFA for each future fiscal year, the RSFGC General Manager and the RSFA CFO shall prepare an operating budget for the Food and Beverage Operations containing substantially the same line items as shown on Exhibit A and based on substantially the same method of allocation as noted thereon. The actual costs, line items, and allocations are subject to periodic review with the understanding that adjustments may be made to assure that the ultimate sharing arrangement remains fair and equitable… It is the intent of the Boards that the net loss or profit, if any, of the Food and Beverage Operations calculated in the same manner as the budget shown as Exhibit A be ultimately shared equally by the RSFA and the RSFGC. Notwithstanding the foregoing, the RSFA’s share of the net loss for any fiscal year shall be limited to a fixed annual amount, which shall be mutually agreed upon, based on the proposed budget for the Food and Beverage Operations for that fiscal year."

The agreement established an annual cost share, beginning with $300,000 for the 2019-2020 fiscal year. The fixed amount of $300,000 was used again in the 2020-2021 fiscal year.

The F&B operation has been impacted significantly by COVID-19. The management of the operation has chosen to remain fully staffed during this period, emphasizing member experience. Since the Agreement was created, revenue growth has not kept up with costs (particularly personnel-related). As a result, the Restaurant operation is budgeting a much larger loss in the 2021-2022 fiscal year.

During the 2021-2022 fiscal year budget process, representatives of the Golf Club requested several changes to Exhibit A:

- Admin Allocation – Per Resolution 2017-102, the Association provides accounting and human resources services required for the operation of the Golf Club. The Association charges the Golf Club (and likewise all other divisions) for their portion of the cost of these functions. When the Agreement was created in 2019, these costs were not part of Exhibit A. The Golf Club has requested that a portion of the amount charged to the Golf Club be allocated to the F&B operation, included in Exhibit A and thus, shared between the Golf Club and the Association.
- Personnel Restructuring – When the Agreement was created, the costs of the Golf Club's management team (General Manager, Director of Membership and Administration, and various office staff) were purposely excluded, as were the Manager, Assistant Manager and Chief Financial Officer excluded from the Admin Allocation. The Golf Club's General Manager resigned in March 2021. The Golf Club is currently proposing that the next General Manager will be 66.7% dedicated to the Restaurant operation. The Golf Club has requested that the portion of this individual's cost dedicated to the Restaurant operation be included in Exhibit A (and thus, be shared between the Golf Club and the Association).

Fiscal Impact:

The Golf Club is budgeting a loss, *excluding* the cost of the new General Manager, of approximately $795,000. As Exhibit A also includes Capital Expenditures and Transfers to Reserves, the amount that would be shared would equal $830,000, resulting in an Association contribution of $415,000.

The amount of the Admin Allocation attributable to the F&B operation for the 2021-2022 fiscal year is approximately $112,000. Adding the Admin Allocation to Exhibit A would increase the Association contribution by $56,000, bringing the total to $471,000.

The current budget for the next General Manager is $300,000 including taxes and benefits. If this person was hired by the beginning of the year, and 2/3 of this person's cost was charged to the F&B operation and included in Exhibit A, this would increase the Association contribution by another $100,000.

Summary:

There are several items for the Board to consider.

1. Should Exhibit A be amended to include the Admin Allocation? At the meeting of the 3X3 Committee on April 13, 2021, its members recommended this amendment. Staff recommends amending Exhibit A to include the Admin Allocation.
2. Should a portion of the cost of a new General Manager be included in Exhibit A? The addition of this cost was not addressed at the 3X3 Committee meeting on April 13, 2021.
    a. As the Golf Club has not yet decided how they will structure the club, identified a candidate, formalized compensation, or determined the structure of the restaurant operation, staff recommends not including this cost in the base fixed amount of the cost-share at this time. Staff recommends that the Board consider this once the unknowns above are resolved.
    b. The Board will need to consider whether including a portion of the General Manager is consistent with the intent of the Agreement, whether any additional Golf Club personnel might be added in the same fashion, and whether any other modifications to the Agreement, including to the Admin Allocation, need to be considered.
3. As the Board will need to approve the entire budget next week, including the loss in the Restaurant operation and the Association cost-share amount, is there any additional information that the Board will require prior to considering the item on May 13, 2021?

2021-2022 Working Budget - FOR ILLUSTRATION ONLY

Food & Beverage
As of May 03, 2021

	FY2021	FY2022	
	Projected YE 06/30/2021	As Presented - 04/07/2021	Updated 05/03/2021
Revenues			
Social Dues	-	-	48,000
Food and Beverage	2,234,124	2,599,465	2,946,765
Other Revenue	4	4	-
	2,234,128	**2,599,469**	**2,994,765**
Cost of Sales	**1,189,484**	**1,344,598**	**1,434,943**
Wages	1,087,564	1,334,162	1,518,880
Employee Benefits	229,864	246,991	262,430
Payroll Taxes	163,250	190,901	203,425
Operating	159,512	196,698	199,698
Utilities	99,379	107,428	111,135
Professional Services	-	100,000	-
Insurance	62,504	107,235	107,235
Supplies	127,181	134,961	134,961
Property Taxes	16,590	17,088	17,088
	1,945,844	**2,435,463**	**2,554,851**
Net Income before Non-Operating Expenses	**(901,200)**	**(1,180,592)**	**(995,029)**
Loan Forgiveness	**288,458**	**-**	**-**
Admin Allocation to F&B	**-**	**-**	**(111,817)**
Add back proposed cost of Restructuring	**-**	**-**	**200,000**
ESTIMATED Contribution to Reserves	**(77,820)**	**-**	**(35,022)**
ESTIMATED Capital Expenditures from Operations		**None at this time**	

Amount that would be shared per a modified Exhibit A		**941,868**
		50%
	Fixed	
BASE Assn Contribution per Above	**$ 300,000**	**$ 470,934**

IF RESTRUCTURING OCCURS (Contribution could be adjusted based on actual costs)		
Amount that would be shared per a modified Exhibit A		**1,141,868**
		50%
	Fixed	
Potential Assn Contribution per Above	**$ 300,000**	**$ 570,934**

5/3/2021