

The Stratton Township Park

The Stratton Township Park is located on a piece of property that contains two golf courses, a swimming pool, and 800 acres of woods and open spaces. Three years ago, the Stratton Parks Department (Stratton) carved out miles of trails to allow visitors to hike the property and enjoy nature. To make that experience more enjoyable for visitors and available to school groups, Stratton decided to offer guided tours that have proven popular. It has also found that the availability of the hiking trails has increased park visits.

To operate the park, the pool, and the two golf courses, Stratton employs a full-time park manager with an \$80,000 annual salary, an assistant manager who earns \$45,000 per year, and a full-time maintenance staff who earn a total of \$350,000 per year. The assistant manager spends 50 percent of her time managing the golf course, 15 percent on pool operations, 5 percent organizing concerts, and the remainder on general park operations. Benefits for these full-time employees add 35 percent to personnel costs. Total depreciation for the coming year will be \$450,000. Of that amount, \$25,000 is for the park's central facility where the manager and assistant manager work. Central supply and central utility costs are expected to be \$10,000. Utility and fuel costs for the trail and wilderness areas of the park are an additional \$100,000 per year. Stratton expects 30,000 cars full of people to come to the park in the coming year. Stratton charges \$8 for parking.

Stratton plans to have the golf courses open seven days per week for twenty weeks each year. Out of the total 140 days in that time period, management expects to be able to allow play on 130 days during those weeks with golfers playing an estimated 15,600 rounds. The average expected green fee is \$32.50 per round of golf. Golfers account for 11,200 of the cars that pay to park at Stratton.

Management expects 40 percent of the golfers to hire a caddy at a fee of \$12 per round. The course has a group of caddies available every day the courses are open and pays each of the ten caddies who work at the course \$50 per day regardless of the number of rounds they work. Caddies are seasonal workers and do not receive benefits.

Stratton also hires two seasonal people to handle reservations and scheduling. Each scheduler is paid \$500 per week. The park also employs three people to staff the check-in desk. Each of the check-in people is paid \$10 per hour. They work 40 hours per week. None of the seasonal employees receive benefits. The forecast seasonal cost for parts and supplies for the golf course is \$60,000. Total fuel and utility costs related to operating and maintaining the golf course are forecast to be \$60,000 for the season.

Depreciation expenses for the golf courses for the coming fiscal year will be \$160,000. Stratton allocates \$800 worth of maintenance staff expenses to the golf course for each of the maximum 140 days that the course is available during the 20-week season regardless of whether the course is open for play or not and \$400 per day throughout the remainder of the year. The golf courses are allocated \$750 per week of the park manager's salary for each of the 20 weeks the courses are open for play. The park's assistant manager is in charge of the golf course. Seventy-five percent of her salary is charged to the golf course.

Were the golf course to close, Stratton would lay off two maintenance workers who earn a combined total of \$70,000 plus benefits. Given the seniority these employees have, the township would have to offer these workers other positions elsewhere in the township's operations at their current salaries. While their salaries would not be an expense for the Park, the township would still have to pay their salaries.

Stratton employs a pool manager for 13 weeks during the summer at a salary of \$1,000 per week including benefits. Depreciation expenses for the pool and related equipment are \$2,000 per week. Stratton also allocates \$500 of the park manager's salary to pool operations each week. However, the park manager would still be employed by Stratton regardless of whether the pool is open or not.

To operate the pool, Stratton also employs a head lifeguard at a cost of \$160 per day and six other lifeguards at a total daily cost of \$600. Stratton also uses \$50 worth of chemicals per day and \$235 worth of electricity each day the pool is open. Repairs are done by the park's regular maintenance staff. \$300 worth of the maintenance workers' time is allocated to the pool for each day the pool is open.

If the maintenance staff were not working on the pool, they would be doing other things. Maintenance parts and supplies cost the park an average of \$60 per day of pool operation. The pool operates seven days per week throughout the 13-week season.

Stratton currently charges each swimmer an average of \$3.50 per day for admission, and attendance averages 300 people per day. Swimmers account for 5,460 of the cars that pay for parking.

Nature tours are popular, and management expects 600 individuals and 80 groups to go on tours next year. Individuals pay \$2.50 per tour and the group charge is \$25 regardless of the size of the group. Tours are guided by Stratton High School students. Stratton donates \$50 per day to the school's activities fund for each of the 60 days the student guides volunteer at the park.

The rest of the visitors to the park come to picnic, hike the nature trails, use the sports field, and generally enjoy the outdoors. In a typical year, 30,000 of these "nature" visitors use the park. The remainder of the 30,000 cars that came to the park were driven by "nature" visitors.

Stratton also has five concession stands distributed throughout the park as well as the Nineteenth Hole Restaurant at the golf course and the Swimming Hole Snack Bar at the pool. Concessionaires pay the park a flat fee of \$15,000 per season for each of the five stands, \$35,000 for the Nineteenth Hole, and \$20,000 for the Swimming Hole. In addition, each concessionaire pays the park 5 percent of their gross receipts. Total depreciation for the concessions' facilities will be \$60,000. Maintaining the facilities will require \$40,000 of allocated maintenance staff time and \$30,000 in supplies. Forty-five percent of the maintenance labor, supply, and depreciation costs are related to the Nineteenth Hole, 30 percent is for the Swimming Hole Snack Bar, and the remainder is for the other concession stands.

Each "nature" visitor spends \$4 at one of the park's five general concession stands. Half of the golfers who play on the Stratton courses stop for a meal at the Nineteenth Hole and spend an average of \$25. Swimmers spend an average of \$3.50 per day at the Swimming Hole Snack Bar.

During the summer months, Stratton also offers a series of five free concerts for

area residents. On average, 5,000 people come to each concert in 1,400 cars. These cars are in addition to the 30,000 cars that pay for daily parking. Each concert costs the township \$20,000. The only revenue generated by the concerts comes from parking fees and concession sales. During a typical concert, attendees spend an average of \$5 per person at concession stands.

Question 1: Prepare an annual program budget for the Stratton Township Park including golf operations; the pool; concerts; other park activities including tours, nature visitors, and general concessions; and administrative costs. Show line-item details for each function by natural account and summarize the budget for the park as a whole.

Because of the current fiscal situation, the Stratton Township needs to reduce its operating costs. As usual, the park is on the list of targeted operations. As the finance director for the township, you have been asked to work with the park's manager to explore possible options.

Question 2: Based on the information in the budget, find the break-even green fees for the golf course and the break-even admissions charges for the pool. You may assume that the volume of users would not change with increases in pricing. You may also assume that the course will operate for a full 130 days.

- a. Do both break-even analyses based on the cost of delivering the services with and without the allocated management salaries.
- b. Do you think the park can realistically charge these fees to park users? What might the consequences of raising the fees be economically, politically, and in a public relations sense?

Question 3: The park manager wants to know whether it would make sense to shut down one or more of the operations at the Stratton Township Park. Determine the impact of shutting down the golf course, the pool, the concert series, and the tours

and show the overall marginal impact of making each of these changes. Be sure to include all marginal revenues and marginal expenses in your calculations.

Question 4: After completing these analyses, the manager has decided to recommend three changes to the park's budget.

First, he plans to increase green fees for golf to \$5 above the break-even price excluding allocated management costs and rounded to the next highest multiple of \$.50. Since competitive private clubs in the region charge \$100 or more for a round of golf, he does not believe that an increase in price will result in a decline in the number of golfers using the course.

Second, he wants to raise pool admission charges to \$4.50. Given the demographics of those who use the pool, he believes that raising prices by \$1.00 will result in a 5percent drop in attendance.

Third, he wants to eliminate three of the concerts the township had planned for the next year.

Prepare a revised budget for the Stratton Township Park reflecting these changes. Will these budget modifications meet the township's goal of reducing the subsidy it would have given to the park in the next fiscal year by 20 percent?

Question 5: After receiving your analysis of the impact of eliminating concerts, and raising green fees and pool admission charges, the park manager has asked you to come up with some additional proposals for meeting the township's subsidy reduction goal. What would you recommend?