



Legislation Text

File #: 24-150, Version: 1

Review and recommend to City Council a Resolution Authorizing the City Manager to Enter into a One (1) 5-year Renewal Term of the Management Agreement Between the City of San Leandro and American Golf Corporation.

SUMMARY AND RECOMMENDATIONS

On June 1, 2020, the San Leandro City Council adopted a Resolution authorizing the City Manager to execute a Management Agreement with American Golf Corporation (AGC) which runs through November 14, 2024 (Initial Term). Upon expiration of the Initial Term, the parties may mutually agree to renew this Agreement for up to two (2) successive five (5) year terms (Renewal Terms).

Staff recommends that the Facilities and Transportation Committee recommend to the City Council that the Initial Term be renewed for (1) 5-year term to expire on November 15, 2029. City staff has completed a series of evaluative and due diligence reviews to ensure that AGC is fully in compliance with the terms of the Management Agreement.

With the execution of the Extension, one minor addition will be made to the Agreement clarifying the purchase, lease and ownership of the golf cart fleet and other large equipment as transferrable/surrendered to the City upon termination or expiration of the Agreement. All other terms and conditions remain.

BACKGROUND

The 9-hole Marina Executive Golf Course was originally built in 1963 and expanded to an 18-hole Executive course in 1973. The Everett Rooney Driving Range opened in 1971 and in 1983 the Tony Lema 18-hole regulation course was opened and the Marina course reverted back to a 9-hole Executive course. From 1963 to 1997, these recreational amenities were maintained by the City's Public Works Department, while the Food & Beverage and Golf Shop operations were concessioned out.

During those years the golf operations struggled financially and it was reported that in 1996 (last complete year of a City operation), the City lost \$250,000 from the operation. There was significant need for capital improvements to enhance the quality of play and to improve the golfing experience, but with no identified funding source. The City issued a Request for Proposal for a Lease and seven firms responded. A subcommittee of three councilmembers and two members from the golfing public reviewed the proposals and narrowed the field of interviewees down to three firms: AGC, Arnold Palmer Company, and Senior Tour Players.

The general terms of the 1997 Lease Agreement were:

- 20-year term (to commence after completion of Phase III work, which was November 15, 2004) + two 5-year extensions if mutually agreed to;
- AGC spent \$8.1M (1997-2001) on renovations including the double-deck driving range and improvements to both courses;
- Establishment of funding source for capital projects equivalent of 4% of revenues (green fees, cart fees,

and driving range fees.

- Minimum rent payment to the City by AGC of \$750K annually, or 75% of the average total annual rent paid for the previous 3 years, whichever is greater;
- An escalating percentage rent from years 1-10, with the current rate of 30% on golf revenues and 6% on clubhouse revenues.

From 1997 to 2020, the City received more than \$15M in rent revenues from AGC. This does not include the \$8.1M AGC investment in the beginning years of the lease.

Conversion to a Management Agreement in 2020

The Shoreline Development purchase and sale agreement of a portion of the 9-hole Marina Golf Course in early 2020, approved by the City Council, automatically reopened the lease agreement [was set to expire November 2024] between the City and AGC. In order to facilitate the City's interest in selling a portion of the Marina Golf Course, in June 2020, both parties agreed to terminate the lease agreement and enter into a management agreement through November 14, 2024 (Initial Term to coincide what the Lease Agreement would have allowed). AGC is paid a base management fee of \$150,000 annually and an incentive management fee of 20% of all net revenues over \$750,000.

All golf course revenues are deposited with the City in the Golf Enterprise Fund. AGC submits for approval to the City, an Annual Plan and Budget. All golf expenditures are paid for by AGC including salaries and benefits, supplies, etc and the City reimburses them after receipt of an expenditure reconciliation report and review of invoices. After annual operating expenses are paid, any additional revenue stays in the Golf Fund for funding of Capital Improvement projects at the golf course and funds City administration of the golf course.

Below were the major points for the conversion from a lease agreement to a management agreement in 2020 and which continue to hold true in 2024:

- Conversion to a management agreement structure is consistent with the recent directions of many municipal golf courses upon the expiration of lease agreements;
- Can provide for a shorter term than a Lease Agreement and given changing conditions, this makes the most sense;
- Funding of operations is approved by the City which gives the City more involvement in the decisions made surrounding golf course operations and customer service.
- Financial risk is minimized in that the City approves a budget, receives all of the revenues in advance, and determines which capital improvement projects are undertaken. In that regard, the City has greater control over the operations at Monarch Bay.
- The City is responsible for determining and funding major capital improvements, and therefore the City has greater flexibility in the future use of the property.

It had been noted that the golf industry nationwide suffered a downturn starting in 2006, with more than 1,550 public and private golf courses having gone out of business through 2020, while overall participation and golf revenues declined throughout the country. Monarch Bay Golf Course was not immune to the downturn in golf, as total net golf revenues varied from a high of \$1M in 2011 to less than \$650K in 2016. In 2017, net revenues began to increase, and in 2019 exceeded \$1M for the first time since 2011.

Approving a Five (5) Year Extension to the Management Agreement with AGC

In evaluating the current Management Agreement, staff has analyzed the strengths and benefits and continues to support this operating model. Over the next five years, with the Marina Course going through a rebuilding, and the trends and changes in the golf industry, it is in the best interest of the City to continue with AGC under the current management agreement for the next five years. Continuing with a Management Agreement does not preclude the city from exploring other alternative operating options.

While there are other experienced municipal golf operators throughout the country, staff believes remaining in partnership with AGC in a management agreement is beneficial to the City because of the following:

- The 27-year partnership between AGC and the City resulted in an experienced operator that is familiar with Monarch Bay, which staff believes is advantageous to the City;
- Continued continuity with the golfing community for another 5 years;
- Continued participation with the Shoreline Project developers by AGC;
- City retains control over decisions on the rebuilding and replacement of the golf course;
- AGC has been regarded as one of the most successful golf operating companies in the country with 50+ years' experience operating 500+ courses during that time;
- AGC is an industry leader in controlling expenses and producing EBITDAR which is important to funding future capital improvements over the next five years;
- A 5-year management agreement extension gives the City flexibility in determining the future of the property
- AGC has managed Monarch Bay the past 4 years with very positive financial returns to the City as shown below:

<u>Year</u>	<u>2021*</u>	<u>2022</u>	<u>2023</u>	<u>2024**</u>
Revenues	\$5,514,786	\$5,404,565	\$5,027,723	\$5,339,575
Expenses	<u>\$3,270,907</u>	<u>\$3,683,272</u>	<u>\$3,895,903</u>	<u>\$4,097,553</u>
Net Income	\$2,243,880	\$1,721,292	\$1,131,819	\$1,242,022

*13 months

** Projected

- AGC has operated Monarch Bay since 1997 and has not been out of compliance per Section 7.1 Termination by Owner and Section 7.3 Curing Defaults
- City staff has initiated and has completed (or will complete by May) due diligence and evaluation of AGC's compliance with the terms of the Agreement including:
 - Financial Audit
 - Finance Department conducted an onsite cash handling audit and payroll check
 - City has reviewed back up detail on approximately 5%-10% of the invoices/charges submitted in the monthly summary of expenses charged from the Operating Account.
 - City is performing an inventory check using the Asset List that the City has on record of

capital equipment that the City owns that is housed at the Golf Course

- City has requested AGC to provide information on status of equipment
- City has requested a user login to view financial information in the Point of Sale software, and to print reports from that software
- Maintenance Audit
 - The City recently had an inspection and audit of Monarch Bay's maintenance management practices against the maintenance standards set forth in the Agreement. This was performed by a former Regional U.S.G.A. representative and the City's Golf Course Operations Advisor.
 - Report will be received in early April
- Customer Survey
 - Survey sent to 36,000 golfers -January 2024 - 500 responded
 - 75% play weekly to monthly - high users
 - 65% indicate Monarch is their primary course
 - 52% are Player's Club Members
 - 21% San Leandro Residents - 79% Bay Area cities
 - 60% rate VALUE as excellent or good; 24% rate VALUE as average
 - 60% say course conditions have improved in last 3 years
 - 95% indicate staff is friendly and helpful

Conclusion and Recommendation

Staff recommends that the Facilities and Transportation recommend to the City Council that the current Management Agreement, which is set to expire November 14, 2024, with AGC be renewed for (1) 5-year term to expire on November 15, 2029.

Fiscal Impacts

There is no fiscal impact on the City's General Fund. Based on AGC's FY 2024 projected net revenues of \$1,242,022 it is anticipated that total net revenues for the proposed 5-year term to expire on November 15, 2029 will be approximately \$6.2M. All net revenues will be placed in the Golf Fund for golf course administration and funding of Golf Course Capital Improvement Projects.

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