



Legislation Text

File #: 22-687, **Version:** 1

Adopt a Resolution to Approve an Appropriation of \$134,049.82 from the Shoreline Enterprise Golf Course Fund (596) and Authorize the City Manager to Approve a \$250,399.82 Disbursement for American Golf Corporation's Fiscal Year 2022 Incentive Management Fee for the Management of Monarch Bay Golf Club

COUNCIL PRIORITY

- Community & Business Development

SUMMARY AND RECOMMENDATIONS

American Golf Corporation (AGC) successfully completed the second year (July 1, 2021 to June 30, 2022) of management of Monarch Bay Golf Club for the City of San Leandro (City). The City's agreement with AGC states the City shall pay AGC 20% of the amount by which net operating income for a given operating year exceeds \$750,000. Staff recommends that the City Council adopt a resolution to approve an appropriation of \$134,049.82 from the Shoreline Enterprise Golf Course Fund (596) unrestricted fund balance, and to approve a \$250,399.82 payment for AGC's Fiscal Year 2022 Incentive Management Fee for the management of Monarch Bay Golf Club.

BACKGROUND

On November 15, 1997, the City entered into a Lease Agreement with AGC for the operation and maintenance of Monarch Bay Golf Club, which includes the 9-hole, par 30, Marina golf course, the 18-hole, par 71, Tony Lema golf course, the Everett Rooney driving range and the 9,000 square foot clubhouse.

The general terms of the 1997 Lease Agreement were:

- 20-year term with two 5-year extensions, if mutually agreed to;
- Creation of a Golf Capital Improvement Project account;
- Minimum rent of \$750,000.00 annually, or 75% of the average total annual rent paid for the previous three years, whichever is greater; and
- Escalating percentage rent from years 1-10, with the highest rate of 30% on golf revenues and 6% on clubhouse revenues.

With the City's intention to sell a portion of the 9-hole golf course to Cal Coast as part of the proposed Shoreline Development Project, this action opened the Lease Agreement between the City and AGC. Subsequently, on June 1, 2020 the, City approved a Management Agreement with AGC. The Management Agreement replaced the Lease Agreement.

Conversion to a management agreement structure is consistent with the direction of many municipal

golf courses upon the expiration of lease agreements. The conversion from a lease agreement to a management agreement means the City:

- Directs operations at Monarch Bay Golf Club;
- Assumes greater risk;
- Controls the operating budget; and
- Funds capital improvement projects.

The Management Agreement stipulates the City shall pay the following to AGC:

- **Base Management Fee.** \$150,000 per year, payable in twelve (12) monthly installments of \$12,500. The City shall pay AGC the Base Management Fee in advance, no later than 10 days following the first day of each month during the term of the Agreement.
- **Incentive Management Fee.** Equal to twenty percent (20%) of the amount by which net operating income for a given operating year exceeds \$750,000. For purposes of this provision, net operating income is gross revenues minus operating expenses. The City shall pay the Incentive Management Fee, if any, to AGC within 45 days following the final calculation of financial results for the facility for the preceding operating year (based on a fiscal year).

Analysis

According to the National Golf Foundation, the golf industry, during the pandemic, saw a boom for most courses around the country. Most courses saw record revenues and Monarch Bay Golf Course was no exception. For the past operating year, Monarch Bay Golf's net revenues were \$2,001,999, which is the second highest in its history (FY 2020-2021 being the highest). The year prior to the pandemic, Monarch Bay Golf Club's net revenues were \$1,018,676.

AGC's Incentive Management Fee calculation:

\$ 2,001,999 Net Revenue

\$ 750,000 Target Net Revenue

\$ 1,251,999 Net Revenue (NR) in excess of Target Net Revenue (TNR)

\$250,399.82 Incentive Management Fee (20% of NR in excess of TNR)

The City's net revenues are \$1,751,599.18 after payment of AGC's Incentive Management Fee. It should be noted that the City's annual net revenues for Monarch Bay Golf during the lease with AGC for the last five fiscal years averaged under \$900,000.

Previous Actions

- Resolution No. 2020-052 Authorizing the City Manager to Enter into a Management Agreement with American Golf Corporation and to Terminate the Lease Agreement

Financial Impacts

AGC's Incentive Management Fee is \$250,399.82 for Fiscal Year 2021-2022. On June 21, 2022, Council approved an appropriation of \$116,350 in the Shoreline Enterprise Golf Course Fund FY 2022-2023 budget (596-56-001-5890). Appropriation requested by this action is for \$134,049.82 from the unrestricted funds in the Shoreline Enterprise Golf Course to Account 596-56-001-5890. Monarch Bay Golf Club revenues will offset the cost of the fee.

This Council action will require an appropriation of \$134,049.82 that will draw down the Shoreline Enterprise Golf Course Fund's undesignated fund balance. The Golf Course Fund maintains sufficient funding available after this action if Council approves.

ATTACHMENTS

Attachment A: Resolution of the City of San Leandro City Council to Authorize an Appropriation of \$134,049.82 from the Shoreline Enterprise Golf Course Fund (596) and to Approve a \$250,399.82 Disbursement for Fiscal Year 2021-2022 for American Golf Corporation's Incentive Management Fee for the Management of Monarch Bay Golf Club

Attachment B: American Golf Corporation Invoice No. 20220630-1632

Attachment C: Management Agreement Monarch Bay Golf Club: City of San Leandro and American Golf Corporation

PREPARED BY: Liz Jimenez, Public Works Services Manager, Public Works