



## Legislation Text

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Staff Report for a City of San Leandro City Council Resolution to Approve an Appropriation of \$260,834.19 from the Shoreline Enterprise Golf Course Fund (596); and to Approve a \$360,234.19 Disbursement for Fiscal Year 2020-2021 for American Golf Corporation's Incentive Management Fee for the Management of Monarch Bay Golf Club

### **SUMMARY AND RECOMMENDATIONS**

American Golf Corporation (AGC) completed the first fiscal year 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. The first operating year was June 2, 2020 to June 30, 2021 (13 months). Staff recommends that the City Council adopt a resolution to approve an appropriation of \$260,834.19 from the Shoreline Enterprise Golf Course Fund (596) unrestricted fund balance, and to approve a \$360,234.19 payment for AGC's 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;
- AGC to spend \$8.1M on renovations;
- Creation of a Golf Capital Improvement Project account;
- Minimum rent of \$750K 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.

Subsequent lease agreement addendums included:

- 2006 - Agreement for AGC to purchase the City's reclaimed water;
- 2010 - Addition of cell sites at the driving range, with agreement that all cell site revenues would be deposited into the Golf CIP account; and
- 2019 - Temporary waiver of payment for reclaimed water.

From 1997-2020, the City received more than \$17M in golf revenues from the AGC lease.

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 recent 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 will:

- Direct operations at Monarch Bay Golf Club;
- Assume greater risk;
- Control the operational budget; and
- Fund 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.
- **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 for the preceding operating year (based on a fiscal year).

## **Analysis**

The first operating year (June 2020 - June 2021) of the Management Agreement was during the year of the COVID-19 pandemic. Because there were so many unknowns on how the pandemic would impact golf, the budget was conservative with a forecast of \$715,000 in net revenues.

According to the National Golf Foundation, the golf industry and most golf courses around the country flourished during the pandemic. Most courses saw record revenues and Monarch Bay Golf was no exception. For the past operating year (13 months), Monarch Bay Golf's net revenues were \$2,607,862, which is by far the highest in its history. The year prior to the pandemic, Monarch Bay Golf Club's net revenues were \$1,018,676. Staff has spoken to multiple municipal golf facilities in California, and they have also seen their net revenues more than double from pre-pandemic years.

AGC's Incentive Management Fee calculation:

\$ 2,551,171 Net Revenue

\$ 750,000 Target Net Revenue

\$ 1,801,171 Net Revenue (NR) in excess of Target Net Revenue (TNR)

\$360,234.19 Incentive Management Fee (20% of NR in excess of TNR)

The City's net revenues are \$2,190,936.81 after payment of AGC's Incentive Management Fee. It should be noted that the City's net revenues for Monarch Bay Golf during the lease with AGC for the past 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

### **Fiscal Impacts**

AGC's Incentive Management Fee is \$360,234.19 for Fiscal Year 2020-2021. The Fee will be funded by the Shoreline Enterprise Golf Course Fund (596) unrestricted fund balance.

### **Budget Authority**

On June 28, 2021, Council approved an appropriation of \$99,400 in the Shoreline Enterprise Golf Course Fund FY2021/2022 budget (596-56-001-5890). Appropriation requested by this action is for \$260,834.19 from the unrestricted funds in the Shoreline Enterprise Golf Course to Account 596-56-001-5890. Total Incentive Management Fee, \$360,234.19.

### **ATTACHMENT(S)**

- Management Agreement Monarch Bay Golf Club

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