



COUNCIL AGENDA: 12-14-04

ITEM: 2.21

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Sara L. Hensley
Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: 11-22-04

Approved

Date

11.29.09

SUBJECT: EXTENSION OF THE OPERATIONS AND MAINTENANCE AGREEMENT WITH SAN JOSE GOLF, L.L.C. RELATING TO RANCHO DEL PUEBLO GOLF COURSE AND RELATED APPROPRIATION ORDINANCE AND FUNDING SOURCES RESOLUTION AMENDMENTS IN THE MUNICIPAL GOLF COURSE FUND TOTALING \$80,142

COUNCIL DISTRICT: 5
SNI AREA: EAST
VALLEY/680 COMMUNITIES

RECOMMENDATION

1. Authorize the City Manager to negotiate and execute an extension of the Operations and Maintenance Agreement between San Jose Golf, L.L.C. and the City of San José for operations and maintenance of Rancho del Pueblo Golf Course for a term of up to 24 months, with the fixed management fee of \$17,729.42 per month.
2. City Council adoption of Appropriation Ordinance and Funding Sources Resolution amendments in the Municipal Golf Course Fund as follows:
 - a. Increase the Operating Expenses appropriation by \$80,142.
 - b. Increase the Earned Revenue estimate by \$80,142.

BACKGROUND

The City identified CourseCo, Inc., the parent corporation of San José Golf, L.L.C., as the preferred Manager of Rancho del Pueblo Golf Course located at King Road and Hermocilla Way through a Request for Qualifications and Proposal process. On June 29, 1999, City Council adopted a resolution authorizing the City Manager to negotiate and execute an Operations and Maintenance Agreement with San José Golf, L.L.C., for the operations and maintenance of Rancho del Pueblo Golf Course. On November 22, 1999, the Operations and Maintenance Agreement was executed for the term of five (5) years commencing December 20, 1999.

Subject: Approve Extension of the Operations and Maintenance Agreement with San Jose Golf, L.L.C. relating to Rancho del Pueblo Golf Course and Related Appropriation Ordinance and Funding Sources Resolution Amendments Totaling \$80,142

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The Department of Parks, Recreation and Neighborhood Services has been in the process of developing a Request for Qualifications and Proposal (RFQ/P) for operations and maintenance of the course once the current agreement expires on December 20, 2004. Due to the City's fiscal position, it is more prudent to request an extension of the existing agreement while analysis is conducted regarding the potential sale of the golf course. Therefore, the RFQ/P process has been suspended while the analysis of the potential sale of the property is in progress.

ANALYSIS

In order to operate and maintain the golf course while the analysis is conducted, an extension of the current agreement is required.

The proposed Operations and Maintenance Agreement extension shall be for no more than 24 months. The current agreement's terms will remain the same except the fixed management fee will be adjusted to incorporate the manager's expense for all supervisory staff. Under the current arrangement, the manager's expense for lower level supervisory staff is reimbursed as an expense of the operation of the golf course. An adjustment is being made in order to be consistent with recently issued IRS interpretation of the rules related to qualified management agreements, at the request of the Office of the City Attorney.

The initial fixed management fee from November 1999 was \$46,800 for the year (which was \$3,900 per month). After the course opening in March 2000, this fixed management fee was paid out of operating revenues in equal monthly installments. Over the agreement term, the fixed fee has been adjusted annually by the Consumer Price Index for all Urban Consumers in the San Francisco-Oakland- San José area to its current level of \$4,372.42 per month.

To make the agreement extension comply with the recent IRS ruling, the monthly cost of the four supervisory staff totals \$13,357 which would be added to the current monthly fixed management fee of \$4,372.42 for a revised total of \$17,729.42 per month. For information, in the current management agreement that expires in December, the cost of the four positions shown below has been treated as an expense against course operations.

Assistant Superintendent	\$5,000
Foreman	\$3,250
Golf Operations Manager	\$3,440
Assistant Food & Beverage Manager	\$1,667

Since all of the expenses that, by the new IRS interpretation, must be included in calculating the management fee were previously accounted for as operating expenses, the increase in the management fee will be offset by an equal increase in net operating income from course operations.

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The extension of the Operations and Maintenance Agreement with the current manager will allow staff the time to evaluate the potential sale of the course and/or to implement the Request for Qualifications and Proposal without jeopardizing the operation of the golf course. It also provides the time to coordinate with the stakeholders involved. The requested extension is on a month-to-month basis to allow the City maximum flexibility in dealing with the future of the course while continuing golf operations to the public at no net additional cost.

PUBLIC OUTREACH

Public Outreach is not applicable to the extension of this Agreement.

COST IMPLICATIONS

The strategy to extend the Agreement while the analysis is conducted for the sale of the golf course is consistent with the Mayor's Budget Message for Driving a Strong Economy. The revenues to the City from the golf course operation have not met the associated debt service since it opened in March 2000, and the General Fund has been required to subsidize the operation and debt service. The extension would be funded through Municipal Golf Course Fund 518.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	RC #	Total Appn.	Amt. for Contract	2004-05 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
518	0642	Non-Personal/Equipment		\$100,000		Page XI-60	
		Total		\$100,000			

COORDINATION

This memorandum has been coordinated with the Office of the City Attorney, and the Department of Planning, Building and Code Enforcement.

HONORABLE MAYOR AND COUNCIL

11-24-04

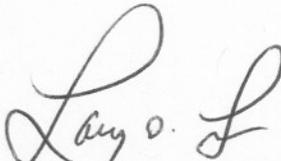
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CEQA

This is not a project.


for SARA L. HENSLEY
Director, Parks, Recreation and
Neighborhood Services


LARRY D. LISENBEE
Budget Director

I hereby certify that there will be available for appropriation in the Municipal Golf Course Fund in the Fiscal Year 2004-2005 monies in excess of those heretofore appropriated, therefrom said excess being at least \$80,142.


LARRY D. LISENBEE
Budget Director

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CITY OF SAN JOSE
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