

COUNCIL AGENDA: 03-19-02

ITEM: 5.2

MEMORANDUMTO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Albert Balagso

SUBJECT: PROPOSED AGREEMENT FOR
OPERATIONS AND MAINTENANCE
OF LOS LAGOS GOLF COURSE

DATE: 03-13-02

Approved

Date

3-13-02

RECOMMENDATION

It is recommended the City Council:

1. Adopt a resolution authorizing the City Manager to negotiate and execute an Operations and Maintenance Agreement between the City of San Jose and Los Lagos Golf Course, LLC commencing March 1, 2002 for a fifteen year term with an initial management fee of \$132,000 per year plus an annual incentive fee;
2. Adopt a resolution authorizing the City Manager to negotiate and execute a Second Amendment to the Grow-in Agreement between the City and San Jose Golf, LLC to allow cost savings of up to \$411,000 realized under the agreement to be allocated as described in this staff report; and,
3. Adopt a resolution establishing the initial fees for the Los Lagos Golf Course, and delegating authority to the Director of Parks, Recreation and Neighborhood Services to approve clubhouse rental and food and beverage fees for the course opening, to approve reduced rates for groups and/or promotional packages, and to approve fee changes at Los Lagos Golf Course after the first year of operations.

BACKGROUND

In August 2000, the City of San Jose Financing Authority (Financing Authority) issued tax-exempt bonds to fund the development of an 18-hole municipal golf course on approximately 100 acres of City-owned land at Tuers Road and Capitol Expressway in south central San Jose. Through a lease between the Financing Authority and City of San Jose, executed as part of the project financing, the land and improvements are being leased to the City for the 30-year term of the bonds.

Currently, the course is undergoing grow-in with construction almost complete. Earlier this year, the City Council named the course, Los Lagos. The course is expected to open to the public in April, 2002.

In order to proceed with the opening of Los Lagos, an Operations and Maintenance Agreement needs to be executed with a golf course management firm.

ANALYSIS

In November 1999, the City issued a Request for Letters of Interest and Qualifications (RFLOI/Q) for operations and maintenance of the golf course to seventeen firms, which had indicated interest in receiving a Request for Qualifications and/or Request for Proposal. Five firms submitted responses to the RFLOI/Q.

CourseCo, Inc. was identified as the preferred respondent, San Jose Golf, LLC (SJG) is a California limited liability company formed by CourseCo, Inc. and Capital Development Group, and it is the operating entity of the City's Rancho del Pueblo Golf Course and the entity the City entered the Grow-in Agreement with for Los Lagos Golf Course. The same parties that formed SJG have created a separate legal entity to manage Los Lagos. The name of that entity is Los Lagos Golf Course, LLC (LLGC), also a California limited liability company.

Staff recommends that the City enter into the Operations and Maintenance Agreement with LLGC for management of the new Los Lagos Golf Course.

Proposed Terms and Conditions

1. Term of Agreement

The agreement term is proposed to commence on March 1, 2002 for a 15-year term. The March 1 commencement date begins the pre-opening period (up to 30 days) prior to the course opening.

2. Management Fee

A management fee would be paid to LLGC on a monthly basis for the term of the Agreement. The initial annual amount would be \$132,000 (or \$11,000 per month) adjusted annually by the Consumer Price Index for all Urban Consumers in the San Francisco-Oakland-San Jose area. This is considered the 'Fixed Annual Fee.'

Additionally, there would be an 'Incentive Fee' equal to 1% of the increase in gross revenues for each year of the Agreement over the gross revenues received during the first 12 months (April 1 through March 30) of golf course operations. This period would commence on the first day of full course operations. The annual Incentive Fee is not to exceed 5% of the total Fee (Fixed Annual Fee plus Incentive Fee). This fee structure is consistent with IRS regulations, which restrict the types of management fees that may be paid by the City on tax-exempt bond-financed facilities.

3. Maintenance Standards

Incorporated as an exhibit to the Agreement are Maintenance Standards for the course (which includes the Public Art maintenance) prepared by Terry Buchen Golf Agronomy International and LLGC. These Maintenance Standards are in accordance with the project's EIR and Chemical Application Management Plan (CHAMP).

4. Golf Course Superintendent

As part of the Operations and Maintenance Agreement terms, LLGC will provide a Certified Class A Golf Course Superintendent to manage maintenance of Los Lagos Golf Course who will also oversee maintenance of Rancho del Pueblo Golf Course. Both courses will have dedicated Assistant Golf Course Superintendents. The Operations and Maintenance Agreement with SJG for Rancho del Pueblo Golf Course has already been amended to account for this change.

5. Furniture, Fixtures and Equipment, Security and Grow-in Funding

The following amounts have been previously appropriated for project purposes: \$1,275,000 to purchase furniture, fixtures and equipment (FF&E); \$50,000 for site security; and, \$1,188,000 for grow-in maintenance of the course under the Grow-in Agreement with SJG.

It is currently estimated there will be a savings from FF&E purchases, security and grow-in costs of approximately \$411,000. Therefore, staff is recommending that Council authorize the City Manager to negotiate and execute a Second Amendment to the Grow-in Agreement and use the savings for the expenditures described in Attachment A.

6. Facilities to be Operated

The management firm will be responsible for operations and maintenance of the 18-hole golf course, two-story lighted driving range, a clubhouse (which includes a golf shop and food and beverage operation), cart barn, maintenance facility and parking area. Additionally, LLGC is expected to enter one or more leases to provide golf carts for the course operation.

7. Hours of Operation

The hours of operation of the facility will be set by LLGC with approval by the Director of Parks, Recreation and Neighborhood Services.

Generally, the golf course will open one-half hour prior to daylight and close at dusk. From Spring through Summer, this is approximately 5:30 a.m. to 9:00 p.m. In the Fall through Winter, this is approximately 6:00 a.m. to 6:00 p.m. The lighted driving range may be open later, but in no case later than 11:00 p.m.

8. Golf Course Fees

Greens fees, across the nation, are traditionally set based on the use of historical data. In the case of a new course, with no history available, the primary option used by golf professionals is survey data of comparable facilities.

For Los Lagos, staff has performed a greens fee survey of area golf courses that shows pricing of the market area competition. Los Lagos is expected to be drawing players from these and comparable courses. The courses surveyed included San Jose Municipal, Santa Teresa, Santa Clara Golf and Tennis, Sunnyvale Municipal, Shoreline Golf Links, Boulder Creek, and Palo Alto Municipal. The resulting averages of the pricing structure of these facilities were then compared directly to San Jose Municipal's current fee schedule. For information, current fees at San Jose Municipal are:

<u>Type of Fee</u>	<u>Amount</u>
Weekend – Regular	\$44.00
Weekday – Regular	\$31.00
Senior – Weekday	\$19.00
Junior	\$11.00

Given that San Jose Municipal is a par 72 course, and Los Lagos is a par 68 course with five par 5 holes, it was felt that rates should be set commensurate with both area market pricing and slightly below San Jose Municipal. The following schedule is proposed for fees in the first year of Los Lagos operation:

<u>Year 1</u>	<u>Maximum Rates</u>
Weekends & Holidays – 18-hole rounds/regular	\$42.00 (Fri-Sun)
Weekends & Holidays – Twilight *	\$25.00 (Fri-Sun)
Weekdays – 18-hole rounds/regular	\$29.00 (Mon-Thu)
Weekdays – Twilight *	\$20.00 (Mon-Thu)
Weekdays – Seniors/62 and older (before 10AM)	\$19.00 (Mon-Thu)
Weekend & Holidays – Juniors/17 and younger (after 2PM)	\$10.00 (Fri-Sun)
Weekdays – Juniors/17 and younger (anytime)	\$10.00 (Mon-Thu)
Golf Carts	\$13.00 (Per Rider fee)
Pull Carts	\$ 5.00
Range/Buckets:	
Large (102 balls)	\$ 8.00
Medium (68 balls)	\$ 6.00
Small (30 balls)	\$ 3.50

*Twilight would begin approximately five hours before sunset. Also, Fridays are considered a 'Weekend' day.

Certain flexibility in the rate structure needs to be allowed for creating packages (e.g. round of golf, cart, food and beverage, etc.) to fill times of the day when play is slow. Therefore, staff recommends that the rate resolution provide that the Director be authorized to approve reduced rates for groups and/or promotional packages to generate visibility and additional revenue for the course. The Director would also be authorized to approve a facility rental fee (for clubhouse use), and food and beverage pricing for course opening.

The Manager will propose future fee changes to the City in January, for intended implementation the following April, or on such later date as agreed to by the City. The proposed fee changes submitted would be accompanied by a survey of greens fees at ten area golf courses. In determining proposed greens fee changes, the Manager shall eliminate the two (2) highest and two (2) lowest courses (in terms of greens fees), and make recommendations within the range of the other six (6) courses.

The following ten golf courses would be utilized in the annual survey for the purpose of changing greens fees.

1. San Jose Municipal (Par 72)
2. Santa Teresa (Par 71)
3. Santa Clara Golf & Tennis Club (Par 72)
4. Sunnyvale Municipal (Par 70)
5. Shoreline Golf Links (Par 72)
6. Palo Alto Municipal (Par 72)
7. Boulder Creek (Par 65)
8. Spring Valley (Par 70)
9. Aptos Seascape (Par 71)
10. Course to be recommended by the Manager

If any of these facilities should change ownership or be closed, replacement courses would be added to the list by the Director of Parks, Recreation and Neighborhood Services.

The PRNS Director would be authorized to approve any proposed fee changes in accordance with this methodology. Upon approval of fee changes, the Manager would post the new fee schedule at least two (2) weeks prior to implementation of the fees at Los Lagos.

This fee setting method is consistent with the method for setting greens fees at San Jose Municipal.

9. Resident Discounts

There are select golf courses in the local market area which have Resident/Non-Resident rates and/or provide preferential tee times for local residents. Both are advantageous to the local golfer community. As examples (out of 12 area courses contacted), Shoreline Golf Links offers resident/non-resident rates, Santa Clara Golf and Tennis Club offers resident/non-resident rates and preferential tee times, and Palo Alto Municipal Golf Course provides preferential tee times only.

Discount or preferential tee time programs for City residents could have a direct and potentially significant impact on Net Operating Income for the course. At this time, staff has no data regarding the mix of resident and non-resident play expected at Los Lagos that could assist in projecting what the impact might be and how to structure differential fees so there would be no, or at least minimal, impact on Net Operating Income.

In the first year, the golf course operator will collect information from all course players regarding their place of residence and other appropriate data. Staff will return to Council with an analysis after the first year of course operation such that Council may consider implementation of resident preference programs in the second year of operation. The analysis will focus on impact(s) of resident preferences on Net Operating Income, including the possibility that they may result in a need for financial support from the General Fund.

10. Golf Course Rules and Regulations

Among the golf course rules and regulations, the following should be noted:

1. A full bar is proposed to be available at the golf course clubhouse;
2. The clubhouse will be a smoke-free environment;
3. The golf course will have a soft spike policy; and,
4. The Golf Course Superintendent will have authority to establish certain local rules to address course conditions (e.g. frost delay, keeping carts on cart paths, etc.).

11. Environmental Sensitivity of Site

Coyote Creek and its riparian corridor bisect the golf course. This area is extremely sensitive environmentally and will be signed asking golfers not to enter the area to retrieve errant golf balls. Only maintenance staff will be permitted to do so with as little intrusion into these areas as possible.

Additionally, LLGC recognizes the value of the riparian corridor as an asset and is proceeding with Audubon Sanctuary certification of the course. LLGC also covenants in the agreement to protect Municipal Water facilities and utilities located on the course, watercourses on the property, and to use only those chemical fertilizers, chemical herbicides and pesticides to control noxious weeds and pests on the course consistent with the Maintenance Standards.

12. Operating and Capital Budgets

Annually, by February 1, the management firm will submit to the City an Operating Budget and Capital Budget for the following fiscal year for City approval.

Since net operating income derived from golf course operations will be used to make lease payments to the Financing Authority (and, in turn, will fund the Authority's semi-annual debt service on the outstanding bonds), approval and monitoring of the annual Operating Budget will

be important. The City's General Fund is ultimately responsible for repayment of the debt obligation if net operating income from the golf course is insufficient.

Capital expenditures are defined as those improvements to the facility costing in excess of \$5,000 and having a useful life of more than five (5) years. Such capital expenditures will be identified in the annual Capital Budget provided to the City.

13. Collection of Revenues and Payment of Expenses

LLGC is to collect all revenues from the golf course operation (including, but not limited to, greens fee and range revenues, food and beverage revenues including liquor, golf shop sales revenues, and any web presence revenues) on the City's behalf and deposit them into an operator account. LLGC is to then make payment of all expenses from those revenues on deposit in the operator account.

If expenses should be higher in any given month than available revenues, LLGC may use Working Capital funding provided by the City.

14. Capital Reserve

LLGC will accumulate a capital reserve of between 3% and 10% annually from operating revenues. The specific percentage will be determined by the Director of Parks, Recreation and Neighborhood Services and is expected to vary each year, depending on future capital repair and replacement needs.

15. Routine and Capital Maintenance

Routine maintenance is to be performed by the management firm and charged to the facility's operating budget.

Capital maintenance will require approval by the City, whether the funding for such repairs is from the facility's capital reserve or proposed to be funded by the City. Upon approval of any capital repair, LLGC will initiate the work, as appropriate, and in accordance with all requirements including the City's public bidding procedures unless it is determined the capital repair is a Public Works project. In that case, the project would be implemented by the Department of Public Works.

If there should be the need for an emergency capital repair/replacement, this will require the prior approval of the Director of Parks, Recreation and Neighborhood Services.

16. Trail Maintenance

LLGC will keep the regional trail that has been developed and which is between the course and Coyote Creek (on the creek's east side), free of inorganic debris and weeds for the length of the course. LLGC will also close the gates at each end of the trail daily in accordance with City park operating hours.

17. Creek Maintenance

Maintenance of Coyote Creek will continue to be the responsibility of the Department of Parks, Recreation and Neighborhood Services. LLGC will have no responsibility in this area, except for keeping the new bridge, connecting the east and west sides of the golf course free of debris and graffiti.

18. Mitigation Area Maintenance

As part of the golf course project, there are areas along the Coyote Creek riparian corridor that are set aside as mitigation areas with special plantings. The project is currently under construction and is to be completed in March 2002. The plants themselves will require ongoing maintenance and monitoring for a 10-year period.

LLGC will not initially be responsible for maintenance of the mitigation areas. Upon plant installation, the contractor will perform this maintenance for a one-year period.

City staff has retained a consulting biologist to develop a maintenance manual for these mitigation areas and to perform the first year of required monitoring and reporting. The monitoring and reporting to be done by the consulting biologist for the full ten-year period is to be addressed in a separate contract.

Once the consulting biologist has prepared the maintenance manual for the mitigation areas, LLGC will be given the opportunity to review the required maintenance and provide a cost estimate for doing it. If LLGC should decide not to perform this maintenance, the City would need to retain a firm to do so, or perform the work with City crews. It is expected the golf course net operating income will absorb the cost of the mitigation area maintenance, if the golf course operator provides it.

19. City Use

The City will be entitled to various uses of Los Lagos facilities under the proposed Agreement. Conditions under which these uses may occur are detailed in Attachment B, and include the following:

Clubhouse and Patio Areas may be used up to eight (8) times per year for a City business-related purpose. Capacity would be determined by LLGC based on the time of the event and other activities occurring at the course/clubhouse. All food and beverage charges would be the responsibility of the user. One clubhouse/patio use could occur in the month of December.

Tournaments

The City would be allowed three (3) shotgun tournaments per year. No shotgun tournament play would be allowed in December, January or February because of the uncertain weather. Such tournaments could be scheduled between Monday and Thursday. This is considered 'weekday' play. Organizers of the City's shotgun tournaments, under this provision, will be required to pay

greens fees for 144 players (whether 144 players or a lesser number show up to play on the date and time of the event) plus cart fees. All food and beverage associated with any shotgun tournament would be the responsibility of the event organizer.

One (1) shotgun tournament will be allowed in the morning to begin at the time the course normally opens. The greens fees and cart fees charged would be at the regular rates (weekday greens fees).

Two (2) shotgun tournaments would be allowed in the afternoon. During the 'peak' season (May through September) such tournament would begin at 2PM or after. During the 'shoulder' season (March, April, October, November) such tournament would begin no earlier than 1PM and no later than 2PM. Greens fees and cart fees charged would be 25% off the regular rates (weekday greens fees).

The City is not precluded from scheduling other tournaments directly with the course operator. Attachment B describes the criteria for City Use of the clubhouse and tournament play.

Pre-Opening Community Event

One of the opening events will be a pre-opening community event at Los Lagos that will be hosted by Vice Mayor Shirakawa. This event is to thank and acknowledge the community for its patience and tolerance during the construction of the golf course and to celebrate the facility's addition to the immediate community. The event is scheduled for Friday, March 29, 2002, and it will provide the opportunity for community members to use and enjoy the facility.

20. Funding to be Released upon Execution of Operations and Maintenance Agreement

Upon execution of the Operations and Maintenance Agreement, the following City funds will be paid to LLGC for the purpose noted below. Council has already appropriated the funds.

Pre-Opening (operations)	\$171,000
Inventory	87,000
Opening Events	25,000
Liquor License	60,000
Working Capital	<u>75,000</u>
TOTAL	\$418,000

21. Prevailing Wage

Prevailing Wages are a requirement under this agreement and will be monitored by the Office of Equality Assurance.

22. Living Wage

Living Wages are a requirement under this agreement and will be monitored by the Office of Equality Assurance.

Projected Financial Performance of Los Lagos

Current projections of annual revenues and expenses for the golf course, including a reserve for future capital improvements and annual debt service payments, show that the course will be essentially self-supporting over at least the first six years of its operation (Attachment C). In the first two years, most of the existing operating reserve of \$500,000 will be used to supplement course net operating income to cover these expenses. Thereafter, annual net operating income from the golf course should be sufficient to fund virtually all of its obligations and to generate an operating surplus in future years.

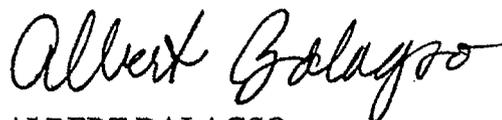
PUBLIC OUTREACH

Public outreach has occurred through two community meetings conducted by City staff with residents in the immediate vicinity of the golf course on both sides (for the Lone Bluff Way and Tuers Road neighborhoods).

Additionally, public outreach has recently occurred through the Parks and Recreation Commission's public hearing associated with the naming process of the course.

COORDINATION

This memorandum has been coordinated with the City Manager's Office, City Attorney's Office, and the Departments of Finance; Conventions, Arts and Entertainment; Parks, Recreation and Neighborhood Services; and Public Works.



ALBERT BALAGSO
Acting Director Parks, Recreation and
Neighborhood Services

ATTACHMENT A

Proposed Allocation of Cost Savings from FF&E purchases, Security, and Grow-in funding:

Maintenance of Course for one extra month - March 2002 (Grow-in Agreement only provided funding through the end of February 2002)	\$ 123,000
Driving Range (building modification for ball machine, screening and other furnishings)	58,300
Signage (including entry walls deleted from construction contract)	38,000
Enclosures for the Golf Course Pump Stations (to protect them from vandalism which has occurred during construction)	40,000
Other Clubhouse and Course furnishings	48,200
Other Food and Beverage equipment	25,500
Other Maintenance Equipment, and Maintenance Building changes	<u>78,000</u>
TOTAL	\$ 411,000

ATTACHMENT B

This is the recommended criteria for City Use of Los Lagos Golf Course. All uses of Los Lagos, under the City Use provision, must be for a City business-related purpose.

Clubhouse and/or Patio(s):

Use is on a first come, first served basis, as determined by the Director, and is expected to be primarily in the late afternoon and early evening. Exclusive use would not be available. The indoor seating capacity of the Clubhouse is standing: 200; seated: 75; Patio (total 1,200 sq. ft.) - standing: 400; seated: 150.

Allowable uses include:

- Receptions and banquets, as approved by the City Manager;
- Official welcoming functions for visiting dignitaries and VIPs to the City, such as a Sister City delegation.

Operator charges for goods and services will be the responsibility of the event organizer.

Tournament play:

Use is to be awarded on a first come, first served basis, as determined by the Director. The City Manager or his designee and/or the Mayor or a member of the City Council must sponsor the request for a tournament use under this provision and the event must be for one of the following purposes:

- City recognition of staff, volunteers, community based organizations that provide direct services to/for the City
- Tournament is in support of national or state professional organizations' conventions or conferences such as ICMA, League of Cities, etc, for which a City department or Office is providing local host duties
- Council member-sponsored community event
- City of San Jose sponsored charitable event with the proceeds dedicated to a charitable purpose

For the first year of course operations, requests for a tournament under the City Use provision would be accepted from April 1 through May 10 for calendar year 2002 tournaments. Thereafter, a window from January 1 through February 28th would be established to receive requests for tournaments per calendar year.

In the event that the City's maximum number of tournaments is not filled and a request is received after the timeframe of January 1 – February 28, and the request meets the criteria for allowable uses as described above, the Director may consider the request as a City Use. The

request would be referred directly by the Director to the operator to schedule assuming course availability.

The three tournaments available through the City Use provision can be scheduled as described in Section 18 of this staff report.

Golf-related fees and all other operator charges for good and services would be the responsibility of the tournament organizer.

City of San Jose						
Los Lagos Golf Course (formerly referred to as Tuers-Capitol Golf Course)						
Total Project Costs of \$18,134,925; Fixed Rate Debt Issue of \$20,680,000						
# Rounds per Year	70,000	73,000	76,000	78,000	80,000	80,000
	Year 1	Year	Year	Year	Year	Year
Fiscal Year (1)	4/02-3/03	4/03-3/04	4/04-3/05	4/05-3/06	4/06-3/07	4/07-3/08
Gross Revenues	\$ 3,499,160.00	\$ 3,801,282.00	\$ 4,122,885.00	\$ 4,408,606.00	\$ 4,711,448.00	\$ 4,909,650.00
SOURCES:						
Net Operating Income	\$ 1,026,400.00	\$ 1,218,187.00	\$ 1,424,845.00	\$ 1,596,052.00	\$ 1,779,705.00	\$ 1,864,942.00
Reserve Fund Interest Earnings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL SOURCES	\$ 1,026,400.00	\$ 1,218,187.00	\$ 1,424,845.00	\$ 1,596,052.00	\$ 1,779,705.00	\$ 1,864,942.00
USES:						
Debt Service*	\$ 1,101,273.76	\$ 1,101,273.76	\$ 1,101,273.76	\$ 1,391,273.76	\$ 1,402,643.76	\$ 1,417,838.76
Capital Reserve Adjustment	\$ 104,975.00	\$ 114,038.00	\$ 123,687.00	\$ 132,258.00	\$ 141,343.00	\$ 147,289.00
Management Fee	\$ 132,000.00	\$ 137,280.00	\$ 142,771.00	\$ 148,482.00	\$ 154,421.00	\$ 160,598.00
Incentive Fee	\$ -	\$ 3,021.00	\$ 6,237.00	\$ 7,815.00	\$ 8,127.00	\$ 8,453.00
TOTAL USES	\$ 1,338,248.76	\$ 1,355,612.76	\$ 1,373,968.76	\$ 1,679,828.76	\$ 1,706,534.76	\$ 1,734,178.76
Difference	\$ (311,848.76)	\$ (137,425.76)	\$ 50,876.24	\$ (83,776.76)	\$ 73,170.24	\$ 130,763.24
Operating Reserve (\$500K)	\$ 311,848.76	\$ 137,425.76	\$ -	\$ 50,725.48	\$ -	\$ -
Net Difference after Reserve	\$ -	\$ -	\$ 50,876.24	\$ (33,051.28)	\$ 73,170.24	\$ 130,763.24

Assumes: 4% annual expense inflation; 5% annual greens fee increase; 3% other revenue rate increases;
\$42-weekend, \$29-weekday greens fees in Year 1