

2011 OCT 13 PM 2:27

TO: Office of the City Administrator  
ATTN: Deanna Santana  
FROM: Audree V. Jones Taylor-Director  
DATE: October 25, 2011

**RE: Resolution To Approve Fifty Percent (50%) Of The Minimum Rent Relief To Oakland Golf LLC For The Operation Of The Metropolitan Golf Links During Fiscal Year July 1, 2011 Through June 30, 2012 In The Amount Of \$142,908 As Authorized in the First Sublease And Operating Agreement Approved By Resolution No. 81274 C.M.S. On May 6, 2008**

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## SUMMARY

This report provides an update to the Life Enrichment Committee and Council on the progress of Oakland Golf, LLC (a Limited Liability Company formed by Northern California golf course operator CourseCo, Inc., "Oakland Golf"); which entered into a Sublease and Operating Agreement (the "Sublease") with the City of Oakland in June 2001 for the development, operation and management of the Metropolitan Golf Links. The City Council passed Resolution No. 81274 C.M.S. approving rent relief for Oakland Golf for a twelve (12) month period; rent has been reduced to fifty percent (50%) of the minimum rent otherwise payable pursuant to Section 6(a) of the Sublease (the "Relief Minimum Rent"). Rent reduction for Oakland Golf for FY 2011-12 will provide economic viability of the enterprise. Rent from Oakland Golf is split equally between the City and the Port of Oakland, and therefore, the impact to the City's Golf Enterprise Fund (3200) will be approximately \$142,908 for the current fiscal year, with the Port experiencing an equal revenue reduction.

## FISCAL IMPACT

The approved Rent Relief period will result in reduced revenue to the City's Golf Enterprise Fund (3200) of approximately \$142,908 for the current FY 2011-12. There is no negative impact to the City's General Purpose Fund. The loss in revenue will impact the amount of funding allocated for Oakland Golf's capital improvement projects (CIP) at Metro that the City's Golf Enterprise Fund (GEF) (3200) provides.

Under the terms of the Sublease, it was anticipated that Oakland Golf would pay net annual rent to the City and the Port of approximately \$571,630 in calendar year 2011, which is based on a combination of Minimum Rent (\$523,000), annual Consumer Price Index, Percentage Rent, and allowable rent credits. In addition to Minimum Rent, Oakland Golf is to pay Percentage Rent for golf-related activities (green fees, pull carts, power golf carts, and range), food and beverage sales, retail sales, and services (pro shop, instruction, equipment rentals, pay phones, newspaper

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racks, and other operations). The total net rent for calendar year 2011 is 285,815. This amount is equally divided between the Port and the City. The City's 50% rent share in 2011 would be roughly \$142,908 after the rent subsidy (please see table below). These projections are based on previous years' revenue figures, a 3.48% Consumer Price Index (CPI) increase, and the deletion of the CIP and reclaimed water Credits if applicable.

<b>RENT PROJECTION - OAKLAND GOLF SUBLEASE</b>					
<b>Calendar Year</b>	<b>Total Rent Per Original Sublease to City and Port (Projected)</b>	<b>City's Share of Rent Per Original Sublease (Projected)</b>	<b>Total Rent Per Proposed 50% Reduction to City and Port</b>	<b>City Share of Rent Per Proposed 50% Reduction</b>	<b>Projected Revenue Loss to City's Golf Fund (3200)</b>
2010	552,410	276,205	276,205	138,103	138,103
2011	571,630	285,815	285,815	142,908	142,908
<b>TOTAL</b>	<b>1,124,040</b>	<b>562,020</b>	<b>562,020</b>	<b>281,011</b>	<b>281,011</b>

Note: The GEF 3200 will contribute over \$1.9 million to the General Purpose Fund within a 4 year period

Per the First Amendment to the Sublease and Operating Agreement between the City and Oakland Golf, Council shall review the fiscal situation of Oakland Golf annually, and after review, shall decide whether to extend the Rent Relief for another 12 months, up to a total of no more than four additional years (48 months) effective date of July 1, 2008 (total possible Rent Relief period is five years).

Due to the continuous slow market in the Bay Area and on a national level, the reduction in golf demand, and changes in consumer recreational preferences, Metropolitan Golf Links (MGL) continues to experience losses for this fiscal year. This unfortunate trend began in 2003. While the financial picture for Metropolitan, like many golf courses, remains slow, staffing and operating reductions, tee sheet management, and increased marketing programs are targeted measures to work through the tough financial times, and keep the enterprise alive and viable. The rent relief is extremely important because based on the YTD actual MGL is projecting to have losses in excess of \$324,194 for calendar year 2011.

#### Cost Cutting Measures

Over the course of the rent relief period Oakland Golf has used the following measures to reduce overhead and expenditures at Metropolitan Golf Links while sustaining the integrity and maintaining a good experience which is critical in the operations and sustainability of the course.

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Eliminated the following positions:

- Administrative Services      Cost Savings \$35,000
- Head Golf Professional      Cost Savings \$85,000
- Tournament Director      Cost Savings \$65,000
- Maintenance staff (7)      Cost Savings \$210,000

Reduction of Maintenance Schedule:

The overarching theme at this course based on the present economic condition has evolved to maintenance as needed without compromising the golf course, experience of the guests, and the agreement with the City of Oakland. The reduction of the maintenance schedule has been made in the following areas of the course: bunkers, cart paths, greens and surrounding areas, all of which have been adjusted with best practices and environmental stewardship.

Total Cost Savings of **\$395,000** annually.

OPR continues to monitor the course in partnership with Oakland Golf to ensure that MGL remains in compliance with the maintenance standards set forth by the original agreement.

OPR intends to review Oakland Golf's financial statements prepared by an outside auditor for the past 2 calendar years (2009 and 2010). In addition, OPR is requesting Oakland Golf to provide quarterly financial statements for the remaining contractual period and to complete a review every five years with an outside Certified Public Accountant.

## **BACKGROUND**

The course (formerly The Lew F. Galbraith Golf Course) is an 18-hole course constructed in 1966 on Port property adjacent to the Oakland International Airport, over a clay covered landfill. The golf facility was leased to the City of Oakland and operated by the City under the jurisdiction of OPR for many years before it was subleased by a private operator. In 1994, the Port needed to utilize the golf course property to dispose of dredged material from the deepening of Oakland shipping channels. The golf course was closed in 1994 so that the dredged material could be placed on the site, and the course remained closed for almost 10 years until the new Metropolitan Golf Links construction was complete.

In 1999, as part of a Request for Proposal (RFP) process and after substantial negotiations, Oakland Golf, LLC (a Limited Liability Company formed by Northern California golf course operator Course Co, Inc.) was selected to design, develop, construct and operate MGL pursuant to the terms and conditions of a Sublease and Operating Agreement (Concessionaire Agreement). Approximately \$14 million was invested into renovating and improving the course:

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\$9.5 million from Oakland Golf, and an additional \$4.5 million from the Port and City. The Sublease with Oakland Golf was negotiated from 1999-2001, and was executed in August 2001. The course opened for play in April, 2003 and the term of the Sublease is 25 years, with three five year extensions at the option of Oakland Golf Course Co, Inc. In 2005, due to the economy, the golf industry took a downturn which had a significant impact in the sudden slump in rounds played at local courses including Metropolitan Golf Links.

In 2006, Oakland Golf hired the firm Economic Research Associates (ERA) to undertake an evaluation of its Sublease terms. The ERA report concluded that the completion of the MGL construction coincided with the unanticipated sharp downturn in the Bay Area golf market due to the expansion of golf supply in the region, a weakened economy and the unanticipated reduction in golf demand due to changing consumer recreational preferences. As a result the financial burden of the major capital investment at MGL has undermined the economic viability of Oakland Golf's investment.

In 2008 and 2009, the Office of Parks and Recreation recommended and Council amended the Sublease with Oakland Golf per Resolution No. 81274 C.M.S. approving Oakland Golf LLC for a twelve (12) month Rent Relief period with rent to be reduced to fifty percent (50%) of the minimum rent otherwise payable pursuant to Section 6(a) of the Sublease (the "Relief Minimum Rent").

OPR was instructed to come before Council annually for each of the five years for the rent reduction period to request approval of the rent relief. Per the First Amendment to the Sublease and Operating Agreement between the City and Oakland Golf, Council requested to review the fiscal condition of Oakland Golf annually. After review Council decides whether to extend the Rent Relief for an additional 12 months. FY 2011-12 would be the fourth (4) of the possible five (5) years for the rent relief.

If the rent relief is not approved by Council, Oakland Golf LLC would have to make reductions in staffing of maintenance personnel at the course which would significantly reduce the current level of maintenance. Under this agreement, the Office of Parks & Recreation has the ability to host two (2) tournaments at MGL, which in calendar year 2011 will be the City of Oakland's Green Tee Golf Fundraiser and The Googie and Friends Golf Tournament, which benefits junior golf in Oakland. The intent of these tournaments is to generate additional revenue for the City and to offset the reduced rent to the GEF.

## **KEY ISSUES AND IMPACTS**

The original proposal was based on projections that golf rounds would increase to 70,000 annually within the first five years of the Sublease. Unfortunately, the number of rounds played

annually has not reached near that mark. For example the projected rounds for calendar year 2011 are 52,900 and that number is not expected to grow significantly in the foreseeable future.

There are many reasons why Metropolitan Golf Links was unsuccessful in meeting the projected rounds during this period. In the past decade, 108 new holes of golf have been added in Alameda County alone – all at public golf courses. Contra Costa County also added an additional 90 holes at public golf courses. In addition, the greater Bay Area has a very competitive “daily fee” golf market, in which premium golf courses discount their fees heavily through last-minute internet specials to stay competitive. Nationally, an unanticipated sharp downturn in the region golf market due to the expansion of golf supply in the Bay Area, a weakened economy and the unanticipated reduction in golf demand due to changing consumer recreational preferences has impacted the industry. For these reasons, Oakland Golf has not experienced the revenue that it had hoped when it negotiated the Sublease with the City. Below is a snapshot of Oakland Golf’s financial picture for 2007-2011.

Calendar Year	2007	2008	2009	2010	2011
<b>Rounds</b>	<b>57,001</b>	<b>59,061</b>	<b>55,348</b>	<b>53,933</b>	<b>52,900</b>
<b>Net Revenues (Golf &amp; F&amp;B)</b>	<b>2,863,156</b>	<b>2,846,785</b>	<b>2,687,577</b>	<b>2,434,276</b>	<b>2,390,032</b>
<b>Expenses</b>	<b>3,123,024</b>	<b>3,007,989</b>	<b>2,974,838</b>	<b>2,741,229</b>	<b>2,604,771</b>
<b>Net Operating Income Profit/(Loss)</b>	<b>(259,868)</b>	<b>(161,204)</b>	<b>(287,261)</b>	<b>(306,413)</b>	<b>(324,284)*</b>

\*NOI calculation includes actual operating losses through April 2011

Staff calculates that the loss to the City’s Golf Fund will be approximately \$142,908 this fiscal year if approved for the rent relief. The total rent relief to Oakland Golf will be approximately \$285,815 for FY 2011-12.

If rent relief is not granted to Oakland Golf, the company states that it will need to further reduce expenses, by reducing maintenance levels and laying-off additional staff. Such reductions may result in Oakland Golf violating certain terms of the Sublease, including mandatory staffing and maintenance standards.

If the rent relief is denied Oakland Golf would have an estimated deficit of \$373,500 versus the \$183,500 projected. This substantial increase in operating losses would seriously undermine the economic viability of the golf course. To date, Oakland Golf, LLC has invested approximately \$9.5 million in Metropolitan Golf Links, of which \$7 million is a bank loan. An additional

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\$800,000 has been contributed to fund day-to-day operations. Moreover, expenses cannot be reduced further without materially affecting property conditions. Denial of the rent relief would also eliminate the Office of Parks & Recreation ability to coordinate the use of Metropolitan Golf Links for the golf tournaments it holds two (2) times per year. This agreement allows usage for the course and the venue, the only cost associated is for food and beverages. This serves to offset the loss of revenue from the reduced rent.

Going forward, according to the National Golf Foundation (NGF), the industry's knowledge leader on the U.S. golf economy, in the next few years the golf market is expected to improve from recent declines. In a recently published Golf Participation Report, the NGF provided the following information on golf participation for 2010.

- The number of golfers fell slightly in 2010 to 26.1 million, down 3.6% from the 27.1 million recorded in 2009, not surprising considering the severity of the economic recession that has affected consumer behavior during the period.
- The number of rounds of golf also fell 2.3% during the past year, from 486 million in 2009 to 475 million in 2010, corroborating the decline in the number of golfers.
- Considering the severity of the recession and its effects on both discretionary income and time, golf has held up rather well. Multiple NGF studies of golfers since 2008 would attribute the gradual decline in golfers and rounds primarily to the impact of lower job security and concern over personal finances, not waning appeal for the game.

In addition, the NGF reported the following forecast over the 10 year period from 2010 through 2020. Keep in mind that NGF did not anticipate the reported decline in 2010.

- The number of golfers is expected to grow by about three million between now and 2020. This is a growth rate of about 1%, similar to the forecasted growth rate of the general U.S. population.
- Most of our forecasted growth comes from expected increases in the size of high income/high participation rate clusters.
- While the growth of low participation clusters is also expected to be high, the effect on overall golf participation is subdued because of the low participation rates.
- Over the next 10 years, rounds played per year are expected to gradually increase by 73 million rounds, or 15%. The increase is based in part on the expected increase in golfers, and in part by the aging of the golfing population and the increased play frequency expected of those golfers.

Understanding the golf trends going forward, rounds at Metropolitan Golf Course may increase if the NGF forecast is correct.

**OUTREACH:**

A primary and guiding principle for Oakland Golf LLC and Metropolitan Golf Links is to be a true Community Asset for the citizens, young and old, of Oakland and surrounding communities. It is their belief that one of the best ways to achieve this is to grow the game, and remove as many barriers as possible, while balancing our primary mission of generating revenue.

To that end, Oakland Golf LLC was a the founding partner in the creation of The First Tee of Oakland and a sustaining partner in the Metropolitan Junior Golf Program, formerly the Galbraith Junior Golf Program. Below is a snapshot of their involvement in providing opportunities for young people.

The Metropolitan Golf Link's founded the Oakland Turfgrass Education Initiative (OTEI) a nonprofit organization that introduces 200-250 Oakland youth annually to the profession and game of golf through study tours. The OTEI programs primary purpose is to promote academic skills, leadership, self esteem, and integrity for Oakland's youth. Though collaboration with OUSD, MGL and its staff provide the opportunity for Oakland youth to experience work-based learning programs through OTEI's year round internship program exposing them to numerous career opportunities this golf and event facility has to offer. Their staff volunteers for OUSD Career days and speak in the classroom. OTEI also offers Oakland students the ability to attend trades shows throughout the county.

Metropolitan Golf Link's Junior Golf Program offers free golf lesson equipment to children ages 6 – 17. In addition, MGL provides volunteers in the program discounted greens fees, and has provided free range balls for the program's Saturday class since June 2011 based on a hardship request from the program's Board President.

Junior Usage of Metro in 2010	
Organization	Students
Elmhurst Golf Team	18
Junior Tournaments	60
Havenscourt Middle School (OTEI)	12
Lighthouse Charter School (OTEI)	6
University of California	16
College Prep	60
Aviation High School (OTEI)	40
Millsmont Academy (OTEI)	30
The First Tee of Oakland	125
Piedmont Golf Team	10
Bishop O' Dowd Boys/Girls	24
Laney College	100
Maynard Academy (OTEI)	35
Oakland High School (OTEI)	60
Dewey High School (OTEI)	30

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Metro Jr Golf Program*	75
<u>Total youth served....</u>	<u>701</u>

Projected Junior Usage of Metro in 2011	
Organization	Students
Elmhurst Golf Team	18
Junior Tournaments	80
Havenscourt Middle School (OTEI)	50
College Prep	75
Lighthouse Charter School (OTEI)	50
University of California	16
Aviation High School (OTEI)	60
Millsmont Academy (OTEI)	30
The First Tee of Oakland	200
Piedmont Golf Team	50
Bishop O' Dowd Boys/Girls	24
Laney College	100
Maynard Academy (OTEI)	40
Oakland High School (OTEI)	60
Dewey High School (OTEI)	60
Metro Jr Golf Program*	50
<u>Total youth projected to serve 2011</u>	<u>963</u>

## SUSTAINABLE OPPORTUNITIES

**Economic:** Metropolitan Golf Links supports Oakland's sales tax revenue through green fees, cart rental, food and beverage and by attracting visitors to Oakland for league play, tournaments and weekend rounds, these individuals also make purchases at other nearby businesses including hotels and eateries.

**Environmental:** One of CourseCo and Metropolitan Golf Links primary core values is Environmental Stewardship. To this end Metropolitan Golf Links is a fully certified Audubon International Cooperative Sanctuary. Through this program and their in-house initiatives they have developed programs that assure that our asset is being managed with the focus towards sustainability. MGL continues to be a leader in Environmental Management and Resource management using effective Integrated Pest Management. CourseCo has been recognized for these accomplishments by receiving the Governor's award for economic and environmental leadership for sustainable practices. MGL has received the Environmental Leadership in Golf by



Golf Digest for the last three years, and MGL continues to be a community asset for the citizens of Oakland.

**Social Equity:** The Metropolitan Golf Link's Oakland Turfgrass Education Initiative (OTEI) is a nonprofit organization that introduces 200-250 Oakland youth annually to the profession and game of golf through study tours. The OTEI program's primary purpose is to promote academic skills, leadership, self esteem, and integrity for Oakland's youth. Through collaboration with OUSD, MGL and its staff provide the opportunity for Oakland youth to experience work-based learning programs through OTEI's year round internship program exposing them to numerous career opportunities this golf and event facility has to offer. Their staff volunteers for OUSD Career days and speak in the classroom. OTEI also offers Oakland students the ability to attend trades shows throughout the nationwide.

Metropolitan Golf Link's Junior Golf Program offers free golf lesson equipment to children ages 6 - 17.

#### **DISABILITY AND SENIOR CITIZEN ACCESS**

Metropolitan Golf Links conforms to the requirements of the Americans with Disabilities Act, the Older Americans Act, and other applicable laws, including having an ADA accessible golf cart available on site.

In addition they provide free course access, and the instructors donate their time for the Stroke Association clinics held there in August.

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**ACTION REQUESTED OF THE CITY COUNCIL**

Adopt a resolution to approve fifty percent (50%) of the minimum rent relief to Oakland Golf LLC for the operation of the Metropolitan Golf Links for fiscal year July 1, 2011 through June 30, 2012.

Respectfully submitted,




Audree V. Jones-Taylor

Director, Office of Parks & Recreation

Prepared by:

Jason Mitchell, Administrative & Fiscal Manager

APPROVED AND FORWARDED TO THE  
LIFE ENRICHMENT COMMITTEE:



OFFICE OF THE CITY ADMINISTRATOR

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Approved as to Form and Legality

  
Oakland City Attorney's Office

## OAKLAND CITY COUNCIL

Resolution No. \_\_\_\_\_ C.M.S.

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**RESOLUTION TO APPROVE FIFTY PERCENT (50%) OF THE MINIMUM RENT RELIEF TO OAKLAND GOLF LLC FOR THE OPERATION OF THE METROPOLITAN GOLF LINKS DURING FISCAL YEAR JULY 1, 2011 THROUGH JUNE 30, 2012 IN THE AMOUNT OF \$142,908 AS AUTHORIZED IN THE FIRST SUBLEASE AND OPERATING AGREEMENT APPROVED BY RESOLUTION NO. 81274 ON MAY 6, 2008**

**WHEREAS**, Metropolitan Golf Links is an 18-hole regulation public golf course developed on property owned by the adjoining Oakland International Airport and was designed on the site of the former City of Oakland Galbraith Municipal Golf Course ("Premises"); and

**WHEREAS**, the Port of Oakland ("Port") is the lessor of that real property, and the City of Oakland ("City") is the lessee pursuant to the Amended and Restated Galbraith Golf Course Lease dated March 16, 1999 as amended by the First Supplemental Agreement and the Second Supplemental Agreement ("Lease") and

**WHEREAS**, the City, with the Port's consent, in 2001, subleased the Premises to Oakland Golf LLC in an agreement entitled "Sublease and Operating Agreement" ("Sublease") for the purpose of operating and managing the Metropolitan Golf Links; and

**WHEREAS**, between 2001 and 2003, Oakland Golf LLC completed a \$14 million capital improvement project at Metropolitan Golf Course; \$9.5 million of which was funded by Oakland Golf LLC, and \$4.5 million of which was funded by the Port and the City; and

**WHEREAS**, Oakland Golf LLC has requested a temporary reduction in its rent for fiscal year 2011 -2012 in the total amount of approximately \$142,908 in order to continue the economic viability of the enterprise; and

**WHEREAS**, the City desires to use the course twice annually for golf tournaments and to use the clubhouse no more than 12 times each year for events and that the revenue from those events will accrue to the City's General Purpose Fund; and

**WHEREAS**, without rent relief, Oakland Golf LLC would be forced to cut costs, which would lower maintenance standards at the course; now, therefore be it

**RESOLVED**, that the City Council accepts and approves the reduction of rent, between the Port of Oakland and City, as presented to the City Council; and be it

**FURTHER RESOLVED**, that the City Council accepts and approves the rent reduction, between the City of Oakland and Oakland Golf LLC, as presented to the City Council; and be it

**FURTHER RESOLVED**: That the Office of the City Attorney has approved this resolution as to form and legality and a copy will be on file in the Office of the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, \_\_\_\_\_, 2011

PASSED BY THE FOLLOWING VOTE:

AYES - DE LA FUENTE, KERNIGHAN, NADEL, SCHAAF, BROOKS, REID, KAPLAN, AND  
PRESIDENT BRUNNER

NOES -

ABSENT -

ABSTENTION -

ATTEST:

\_\_\_\_\_  
LATONDA SIMMONS  
City Clerk and Clerk of the Council of  
the City of Oakland, California