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OFFICE OF THE CITY CLERK
OAKLAND

2013 OCT 10 PM 2:54

AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Audree V. Jones-Taylor
Parks and Recreation

SUBJECT: Metropolitan Golf Rent Relief

DATE: September 30, 2013

City Administrator
Approval

Deanna Santana

Date

10-8-13

RECOMMENDATION

Staff recommends that the City Council Adopt a Resolution authorizing the City Administrator to execute a Second Amendment to Sublease and Operating Agreement ("2nd Amendment") extending the fifty percent (50%) of the minimum rent relief to Oakland Golf LLC for the operation of the Metropolitan Golf Links (Metro) during Fiscal Year July 1, 2013 through June 30, 2014 in the amount of \$149,179 as authorized in the first sublease and operating agreement approved by resolution no. 81274 C.M.S. on May 6, 2008.

EXECUTIVE SUMMARY

The City Council passed Resolution No. 84128 C.M.S. approving rent relief for Metro for an additional twelve (12) month period; rent was 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 Metro for FY 2012-13 would continue to provide economic viability for the enterprise.

Rent from Metro is split equally between the City and the Port of Oakland. The impact of continuing the rent relief to the City's Golf Enterprise Fund (3200) will be approximately \$149,179 for FY 2013-14, with the Port experiencing an equal revenue reduction.

1. **Findings:** A golf market analysis report provided by Pro Forma Advisors, LLC (an independent economic consulting company specializing in golf course economics) indicates that the current rent structure was established during an economic upturn (late 1990s) with an expectation of 70,000 rounds of golf per year. The golf market in the Bay Area experienced a decline in overall golf participation and was further weakened by a severe national and regional economic recession, which began in late 2007. The expectation of 70,000 rounds of golf is unrealistic in today's market. We are currently undergoing a review to develop long term solutions by amending the current agreement in such a way to benefit all entities and begin to stabilize rent at Metro Golf.

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OUTCOME

Entering into the 2nd Amendment would result in a loss of approximately \$149,179 to the City Oakland Golf Fund over a twelve (12) month period from July 1, 2013 to June 30, 2014 (the Golf Fund FY 2013-14 Budget anticipates this loss of revenue). Concurrently, the Port will consider passing a Resolution that authorizes the requested twelve (12) month period for additional rent relief.

FISCAL

There is no negative impact to the City's General Purpose Fund (i.e., no monies from the General Purpose Fund are utilized to support the operations of Metro). More specifically, the City's revenues collected from taxes would not subsidize or make up the loss in rent. Metro's operations are funded by revenues collected through green fees, merchandizing, cart rentals, range fees, instruction and other sales. Metro operations are not supported by revenues collected from taxes or any revenues not associated with Metro's operations.

The reduction of rent payment would impact the amount of funding allocated for Oakland Golf's minor capital improvements at Metro that the City's Golf Enterprise Fund (3200) provides.

ANALYSIS

On June 30, 2013, the five-year rent relief period from the 1st Amendment expired between the Port of Oakland, the City of Oakland and Oakland Golf, LLC. The full minimum annual guaranteed rental (with current CPI adjustment) would be \$596,704 and payable to the Port, effective July 1, 2013. The proposed 2nd Amendment would retain the modified economic terms and conditions from the approved 1st Amendment as detailed below:

1. **Rent Relief:** Oakland Golf, LLC and staff from the City and Port have discussed a prospective 12 month extension of the Rent Relief period that expired on June 30, 2013. Under the terms of the proposed 2nd Amendment, and for a twelve (12) month period commencing July 1, 2013 (2nd rent relief period), the full minimum annual guaranteed would again be reduced to fifty percent (50%) of the full minimum annual guaranteed that would otherwise be payable.

Under the proposed 2nd Amendment, the requested rent relief minimum annual guaranteed would be \$298,352, with the City's 50 percent share at \$149,176 (plus its 50% share of any Percentage Rental). The 2nd Rent Relief period would commence on July 1, 2013 and expire on June 30, 2014. During the 2nd Rent Relief period, Oakland Golf, LLC, and staff from the Port and the City will negotiate economic terms and conditions that are both (i) sustainable for Oakland Golf, LLC and (ii) adequately compensate the City and the Port. The revised terms and conditions will be documented in a long term amendment to the Sublease and presented to the City Council and the Board for review and approval.

2. **Percentage Rentals:** Assessed for various golf-related, retail, food and beverage sales.

- 20% of Gross revenues derived from golf-related activities including Green Fees, Pull Carts, Power Pull Carts, and Driving Range
- 4% of Gross revenues derived from food and beverage sales and ancillary services (e.g., Banquet room) and retail sales and services (e.g., pro shop, instruction, equipment rentals, pay phones, newspaper racks, and other income derived from the operations at Metropolitan Golf Links)

POLICY ALTERNATIVES

OPR is in receipt of a regional golfing industry study by Pro Forma Advisors LLC. The study points out that the Bay Area golf market began to soften considerably in 2002 the year the base rent was developed on an expectation of 70,000 rounds of golf annually. The study suggests that paid golf rounds at Metro did not reach 60,000 in the five year rent relief period (2008-2012). In 2012 paid rounds played at Metro were roughly, 52,500; considerably less than the anticipated 70,000. The study indicates that an industry standard for a ground lease is 10 percent of gross revenues for a base rent. *“As a ground lease, most of the capital investment is funded by the lessee. In the case of Metropolitan, approximately \$9.5 million has been invested. At this level, ground rent equal to about 10 percent of golf gross revenue would be expected”*.

In 2012 gross revenues were at roughly \$2.57 million. The 10 percent of gross revenues rent would amount to annual rent of \$257,000, which would be split equally between the City and Port (roughly \$128,500 each).

However, while a 10 percent of gross revenues is an industry standard for a ground lease, the consultants recommends that rent be the greater of the annual minimum base rent or sum of percentage rents with a minimum base rent of \$150,000 (\$75,000 to the city and a similar amount to the Port) and base rent annual adjustment of 80 percent of prior three year actual rent.

PUBLIC OUTREACH/INTEREST

This item did not require any additional public outreach other than the required posting on the City’s website.

COORDINATION

This item did not require any coordination with departments other than requiring signatures from the Budget Office (fiscal impact) and the City Attorney’s Office (resolution).

COST SUMMARY/IMPLICATIONS

The approved Rent Relief period will result in reduced revenue to the City’s Golf Enterprise Fund (3200) of approximately \$149,176 for the current FY 2013-14. There is no negative impact to the City’s General Purpose Fund. The loss in revenue will impact the amount of finding allocated for Oakland Golf’s capital improvement projects (CIP) at Metro that the City’s Golf Enterprise Fund provides.

RENT PROJECTION - OAKLAND GOLF SUBLEASE					
Calendar Year	Total Rent Per Original Sublease to City and Port (Projected)	City's Share of Rent Per Original Sublease (Projected)	Total Rent Per Proposed 50% Reduction to City and Port	City Share of Rent Per Proposed 50% Reduction	Projected Revenue Loss to City's Golf Fund (3200)
2012	591,523	295,761	295,761	147,881	147,881
2013	596,704	298,352	298,352	149,176	149,176
TOTAL	1,188,227	594,113	594,113	297,057	297,057

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. Though this program and their in-house initiatives they have developed programs that assure that our asset is being managed with the focus towards sustainability. Metro 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:

Metro'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 Oakland Unified School District (OUSD), Metro and its staff provide the opportunity for Oakland's youth to experience work-based learning programs through OTEI's year round internship program. The program exposes Oakland's youth to numerous career opportunities in the golfing industry. Metro's staff volunteers for OUSD Career days and speak in the classroom. Lastly, OTEI offers Oakland students the ability to attend trades shows throughout the nationwide.

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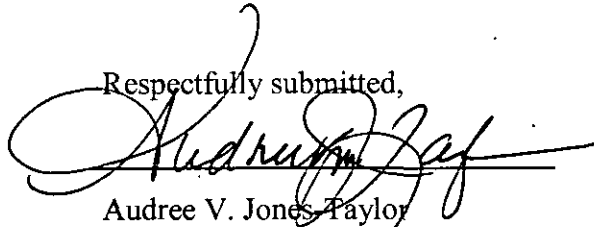
Finance and Management Committee

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

For questions regarding this report, please contact Robert Davila, Administrative and Fiscal Manager, at 510-238-3926.

Respectfully submitted,



Audree V. Jones-Taylor
Director, Office of Parks and Recreation

Prepared by:
Robert Davila, Administrative and Fiscal Manager
Office of Parks and Recreation

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Approved as to Form and Legality

DRAFT

Oakland City Attorney's Office

OAKLAND CITY COUNCIL

Resolution No: _____ C.M.S.

RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO EXECUTE A SECOND AMENDMENT TO SUBLEASE AND OPERATING AGREEMENT ("2ND AMENDMENT") EXTENDING THE FIFTY PERCENT (50%) OF THE MINIMUM RENT RELIEF TO OAKLAND GOLF LLC FOR THE OPERATION OF THE METROPOLITAN GOLF LINKS (METRO) DURING FISCAL YEAR JULY 1, 2013 THROUGH JUNE 30, 2014 IN THE AMOUNT OF \$149,179 AS AUTHORIZED IN THE FIRST SUBLEASE AND OPERATING AGREEMENT APPROVED BY RESOLUTION NO. 81274 C.M.S. 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 one-year extension of the temporary reduction in its rent for fiscal year 2013 -2014 in the total amount of approximately \$149,179 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 Parks and Recreation's Self Sustaining Fund; and

WHEREAS, the Port of Oakland will concurrently consider passing a Resolution authorizing the revenue reduction; and

WHEREAS, without the extension of 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 a one-year extension to reduction of rent, between the Port of Oakland and City, as requested of 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, _____ 2013

PASSED BY THE FOLLOWING VOTE:

AYES - GALLO, REID, GIBSON-MC ELHANEY, SCHAAF, BROOKS, KALB, KAPLAN AND PRESIDENT KERNIGHAN

NOES -

ABSENT -

ABSTENTION -

ATTEST:

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