



FILED
OFFICE OF THE CITY CLERK
OAKLAND
2012 NOV 15 PM 3:12

AGENDA REPORT

TO: Deanna J. Santana
City Administrator

FROM: Audree V. Jones-Taylor
Parks and Recreation

SUBJECT: Metropolitan Golf Rent Relief

DATE: November 6, 2012

City Administrator
Approval

Date

11/15/12

RECOMMENDATION

Adopt a Resolution to approve fifty percent (50%) of the minimum rent relief to Oakland Golf LLC (Oakland Golf) for the operation of the Metropolitan Golf Links (Metro) during Fiscal Year July 1, 2012 through June 30, 2013 in the amount of \$147,881 as authorized in the first sublease and operating agreement approved by Resolution No. 81274 C.M.S. on May 6, 2008.

The basis for the rent relief is an anticipated negative operating loss in 2012, which is the fifth and final year of the rent relief agreement.

EXECUTIVE SUMMARY

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 2012-13 will provide economic viability for the enterprise.

Rent from Oakland Golf is split equally between the City and the Port of Oakland. The impact to the City's Golf Enterprise Fund (3200) will be approximately \$147,881 for FY 2012-13, with the Port experiencing an equal revenue reduction.

OUTCOME

Adoption of staff's recommendation would result in reduced revenue to the City's Golf Enterprise Fund (3200) of approximately \$147,881 for Fiscal Year 2012-13.

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 Golf Course). 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 capital improvement at Metro that the City's Golf Enterprise Fund (3200) provides.

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ANALYSIS

The table below is a snapshot of Oakland Golf's financial picture for 2008-2012. The table is intended to show an operating loss at Metropolitan Golf Course. The rent relief requested from the City and the Port would provide roughly \$295,761 relief (\$147,881 for each entity). The rent relief would eliminate the anticipated negative gap.

Staff calculates that the loss to the City's Golf Fund will be approximately \$147,881 this fiscal year if approved for the rent relief. The total rent relief to Oakland Golf will be approximately \$295,761 for FY 2012-13.

Metropolitan Golf Links-Net Operating Surplus Statement (see Exhibit A) is intended to support the notion that rent relief is warranted. The table presents revenue and spending data by quarter for years 2010, 2011 and 2012. The fourth quarter in 2012 (Oct-Dec) is a projected value, which utilizes past fourth quarter activities to anticipate 2012 revenues and spending. The value of the City's rent relief (\$147,881) is intended to offset the anticipated losses in 2012.

Golf Market Pricing – SF – East Bay Area (see Exhibit B) is a comparison of similar metropolitan golf courses in the region. The chart provides a comparison of Green Fees and Cart Fees for residents, non-residents, seniors and juniors during weekday and weekend rounds. The comparison shows that fees at Metro are slightly higher than most surrounding courses. Metro's golf fees with a cart are between 15 percent and 30 percent higher for resident rounds during weekday and weekend play as compared to fees at Lake Chabot Golf (Oakland's other 18 hole golf course).

Calendar Year	2008	2009	2010	2011	2012**
Rounds	59,061	55,348	57,960	57,132	57,702
Net Revenues (Golf & F&B)	2,846,785	2,687,577	2,426,717	2,384,148	2,433,729
Expenses	3,007,989	2,974,838	2,733,129	2,723,956	2,685,922
Net Operating Income Profit/(Loss)	(161,204)	(287,261)	(306,412)*	(339,708)*	(252,194)

* Prior year net operating loss is adjusted to audited values.

**Year-end (4th Quarter) estimated values are based on prior year activities.

POLICY ALTERNATIVES

OPR is in the process of developing a request for proposal to understand regional golfing industry impacts. The base rent, currently based on 70,000 rounds of golf, would be adjusted to one recommended by an independent consultant study that will focus on economic conditions in the golf industry with specific attention to the San Francisco Metropolitan Region.

Any revenue increases above the estimated amounts during this period would be shared with the City and Port as payments above the proposed base rent amount suggested in the consultant's study.

In addition, because the sublease agreement is between the City and the Port, OPR would recommend that Oakland Golf make full rent payment to the City. The City would in turn make

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partial rent payments to the Port. This proposal would aid the Port and the City when communicating with the golf course management team and any future payments. As it currently stands Port staff is agreeable to any decisions made by the City Council on annual rent payments.

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 \$147,881 for the current FY 2012-13. 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 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 \$591,523 in calendar year 2012, 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 racks, and other operations). The total net rent for calendar year 2012 is equally divided between the Port and the City. The City's 50 percent rent share in 2012 would be roughly \$147,881 after the rent subsidy (please see table below). These projections are based on previous years' revenue figures, a 3.48 percent Consumer Price Index (CPI) increase, and the deletion of the CIP and reclaimed water Credits if applicable.

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)
2011	571,630	285,815	285,815	142,908	142,908
2012	591,523	295,761	295,761	147,881	147,881
TOTAL	1,163,153	581,576	581,576	290,789	290,789

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). This is, however, the final year of the rent relief period. Staff would ask that a rent structure be developed based on an independent study of local or regional economic conditions in the golf industry. Staff would expect the independent study to be completed before the end of the fiscal year. Staff will schedule with the Council Committee a report recommending rent structure soon after the independent study is completed.

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. 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.

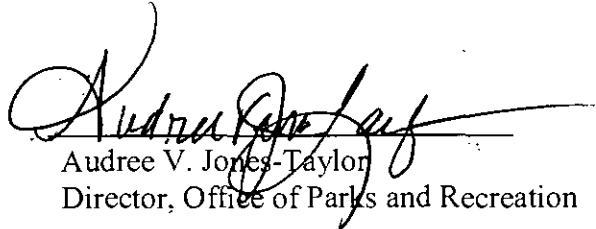
Social Equity:

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 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.

Metro's Junior Golf Program offers free golf lesson 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

Attachments (2):

Exhibit A- Metropolitan Golf Links Net Operating Surplus Statement

Exhibit B- Golf Market Pricing – SF – East Bay Area

Metropolitan Golf Links Net Operating Surplus Statement

	1st Qtr 2010	2nd Qtr 2010	3rd Qtr 2010	4th Qtr 2010	1st Qtr 2011	2nd Qtr 2011	3rd Qtr 2011	4th Qtr 2011	1st Qtr 2012	2nd Qtr 2012	3rd Qtr 2012	4th Qtr 2012	Forecast
Public Rounds	10,277	11,043	13,338	10,612	10,153	11,609	13,285	10,435	9,223	12,151	14,044	10,301	
Tournament Rounds	1,224	974	2,036	1,242	870	1,573	1,733	1,084	930	1,567	1,669	1,560	
Member Rounds													
Player Assistant Rounds	462	525	588	418	398	452	519	429	558	251		444	
Comp Rounds	1,270	1,525	1,490	936	987	1,380	1,214	1,001	787	1,384	1,753	1,080	
TOTAL ROUNDS	13,233	14,067	17,452	13,208	12,408	15,024	16,751	12,949	11,498	15,353	17,466	13,385	
REVENUE													
Green Fees	361,604	390,449	460,592	324,126	306,583	409,740	425,829	352,005	310,387	401,389	441,473	368,091	
Sales per Paid Rounds	30.23	31.13	28.86	26.43	26.84	30.03	27.41	29.46	28.98	28.73	28.10	89.60	
Merchandise	27,480	31,062	50,928	34,481	29,678	47,878	44,973	29,896	27,634	42,275	50,084	33,161	
Sales per Paid Rounds	2.30	2.48	3.19	2.81	2.60	3.51	2.89	2.50	2.58	3.03	3.19	8.08	
Carts	79,749	79,611	106,128	83,684	72,235	94,967	109,806	84,549	68,457	94,940	118,765	88,793	
Sales per Paid Rounds	6.67	6.35	6.65	6.82	6.32	6.96	7.07	7.06	6.39	6.50	7.56	21.61	
Range	65,716	74,104	84,425	56,051	66,858	75,820	85,951	70,999	71,834	81,236	84,851	74,558	
Sales per Paid Rounds	5.49	5.91	5.29	4.57	5.85	5.56	5.53	5.94	6.71	5.82	5.40	18.42	
Instruction	17,232	27,172	31,340	33,098	17,458	24,772	32,100	9,954	11,735	13,247	16,204	8,500	
Sales per Paid Rounds	1.44	2.17	1.96	2.70	1.53	1.82	2.07	0.83	1.10	0.95	1.03	5.55	
Other Sales	3,282	2,938	4,093	2,435	2,668	4,036	3,839	5,651	4,483	3,157	4,055	4,501	
Sales per Paid Rounds	0.27	0.23	0.26	0.20	0.23	0.30	0.25	0.47	0.42	0.23	0.26	1.08	
Total Revenue -- Golf Operations	555,063	605,336	737,506	533,875	495,479	657,213	702,498	553,055	494,529	636,244	715,431	577,604	
Sales per Paid Rounds	46.40	48.26	46.20	43.50	43.38	48.17	45.21	46.29	46.17	45.55	45.53	48.70	
COST OF GOODS SOLD													
Merchandise	17,591	23,991	38,866	25,276	15,851	45,096	32,248	23,193	19,631	31,683	39,072	21,182	
COGS %	64%	77%	76%	73%	53%	94%	72%	78%	71%	75%	78%	189%	
Lessons	13,543	19,976	23,753	35,507	12,981	22,610	25,650	12,621	8,833	12,715	12,704	21,146	
COGS %	79%	74%	76%	107%	74%	91%	80%	127%	8,833	75%	96%	78%	344%
TOTAL COST OF GOODS SOLD	31,134	43,957	62,619	60,783	28,832	67,706	57,897	35,813	28,464	44,898	51,776	42,328	
GROSS MARGIN	523,929	561,369	674,887	473,092	466,647	589,507	644,601	517,241	466,064	591,846	663,655	535,276	
EXPENSES													
Golf Operations, G&A and Marketing	236,804	231,720	298,629	242,566	241,545	249,803	279,253	247,616	255,190	283,890	273,230	256,451	
Golf Course Maintenance	141,977	168,473	198,417	179,406	140,290	181,827	189,434	184,852	154,174	215,167	199,139	172,697	
Rent & CIF Expenses	70,500	64,336	63,507	55,448	67,224	68,410	62,952	69,617	72,879	56,086	75,997	63,616	
Other Income (Expense) Including F&B profit	(7,895)	(206)	541	(201,000)	(7,130)	(3,446)		176,827	(272)	82	(250)	177,327	
Debt Service and Related Payments	205,908	189,411	183,443	187,582	186,333	186,093	185,199	183,508	156,050	147,052	147,052	147,052	
NET OPERATING SURPLUS(OEFICIT)	(139,154)	(92,778)	(73,568)	(912)	(175,873)	(100,073)	(72,238)	8,476	(172,500)	(120,267)	(32,013)	72,587	

Notes:

No Depreciation included
method of counting rounds changed in 2010

Golf Market Pricing - SF - East Bay Area

Golf Course Information	Metro-Pofitan		Monarch Bay	Chuck Corica	Sky West	Lake Chabot
Distance from Your Course			2.4	4.7	7.8	8.1
Municipality	Oakland		Sari Leandro	Alameda	Hayward	Oakland
Holes	18		18 plus 9 Hole Exec.	36 plus 9 Hole Exec.	18	18 plus 9 Hole Exec.
Municipal Course Market Position	Upper Middle		Upper Middle	Middle	Low	Middle
Date of Oopenina	2003		2001	1927	1965	1923

Tilden Park	Callippe Preserve	Boundary Oak	Diablo Creek
18.7	23.4	30.1	33.8
East Bay Parks	Pleasanton	Walnut Creek	Concord
18	18	18	18
Upper Middle	Upper Middle	Middle	Middle
1937	2005	1969	1963

Green Fee "GF" (without cart fee)	Metro-Politan	Metro Cart Requirement	Monarch Bay	Chuck Corica	Sky West	Lake Chabot
18 hole weekday - Non-Resident	\$40.00		\$34.00	\$30.00	\$30.00	\$30.00
18 hole weekday - Resident	\$30.00		\$30.00	\$28.00	\$26.00	\$25.00
18 Hole weekend - Non-Resident	\$62.00		\$54.00	\$40.00	\$39.00	\$40.00
18 Hole weekend - Resident	\$55.00	With Cart	\$42.00	\$35.00	\$35.00	\$33.00
Senior weekday Non-Resident	\$35.00	With Cart	\$29.00	\$25.00	\$21.00	\$18.00
Senior weekday Resident	\$35.00	With Cart	\$22.00	\$23.00	\$18.00	\$17.00
Junior(with restrictions)	\$15.00		\$10.00	\$10.00	\$10.00	\$6.00

Tilden Park	Calipee Reserve	Boundary Oak	Diablo Creek
\$29.00	\$44.00	\$31.00	\$30.00
Club Rate	\$37.00	\$25.00	\$25.00
\$49.00	\$64.00	\$42.00	\$39.00
Club Rate	\$53.00	\$36.00	\$33.00
\$25.00	\$32.00	\$25.00	\$22.00
\$25.00	\$27.00	\$20.00	\$19.00
\$10.00	\$13.00	\$14.00	\$14.00

Cart Fee: 18 hole weekday	\$16.00		\$15.00	\$15.00	\$15.00	\$15.00
Cart Fee: 18 hole weekend	\$16.00		\$15.00	\$15.00	\$15.00	\$15.00
Cart Fee: Senior weekday	Included		\$11.00	\$13.00	\$12.00	\$10.00
Cart Fee: Twilight	\$10.00		\$10.00	\$10.00	\$10.00	\$10.00

	\$16.00	\$15.00	\$16.00	\$16.00
	\$16.00	\$15.00	\$16.00	\$16.00
	\$10.00	\$15.00	\$16.00	\$16.00
	\$11.00	\$12.00	\$11.00	\$9.00

Resident Weekday 18 GF+Cart	\$46.00		\$45.00	\$43.00	\$41.00	\$40.00
Resident Weekend 18 GF+Cart	\$55.00		\$57.00	\$50.00	\$50.00	\$48.00
Resident Weekday Senior+Cart	\$35.00		\$33.00	\$36.00	\$30.60	\$27.00

Club Rate	\$52.00	\$41.00	\$41.00
Club Rate	\$68.00	\$52.00	\$49.00
\$35.00	\$42.00	\$36.00	\$35.00

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Approved as to Form and Legality



Oakland City Attorney's Office

OAKLAND CITY COUNCIL

Resolution No: _____ C.M.S.

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, 2012 THROUGH JUNE 30, 2013 IN THE AMOUNT OF \$147,881 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 2012 -2013 in the total amount of approximately \$147,881 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 requested of 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 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, _____ 2012

PASSED BY THE FOLLOWING VOTE:

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

NOES -

ABSENT -

ABSTENTION -

ATTEST:

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