

CITY OF OAKLAND
AGENDA REPORT

2010 OCT 14 PM 2:11

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Audree V. Jones Taylor
DATE: October 26, 2010

RE: 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 During Fiscal Year July 1, 2010 Through June 30, 2011 In The Amount Of \$138,103 As Authorized in the First Sublease And Operating Agreement Approved By Resolution No. 81274 On May 6, 2008

SUMMARY

This report provides an update to the Finance and Management 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 2010-11 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 \$138,103 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 \$138,100 for the current FY 2010-11. 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 (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 \$552,410 in calendar year 2010, 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). This total net rent is divided between the Port and the City, with the combined total subsidy of approximately \$276,205 in calendar year 2010. The City’s 50% rent share in 2010 would be roughly \$138,103 after the rent subsidy (please see table below). These projections are based on previous years’ revenue figures, a 2.39% 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 Current Sublease (Projected)	City’s Share of Current Sublease Rent (Projected)	Total Rent Per Proposed Rent Reduction	City’s Share of Rent per Proposed Reduction (50%)	Projected Loss to City’s (Fund 3200)
2009	539,520	269,760	269,760	134,880	134,880
2010	552,410	276,205	276,205	138,103	138,103
TOTAL	1,091,930	545,965	545,965	272,983	272,983

Note: There is a positive balance in Fund 3200 and rent revenue is used for CIP project.

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 unanticipated sharp downturn in the Bay Area golf market, the reduction in golf demand, and changes in consumer recreational preferences, Metro has experienced a 5.2% decrease in green fees from fiscal year 2008. Recently, Metro offered many pricing special for golfers, has been creative with marketing strategies to attract new golfers, and is gaining a momentum in attracting returning golfers.

Oakland Golf has offset larger net losses through a reduction in staffing, operating expenditures and the rent relief that was approved by the City in Fiscal Year 2008-09. Despite these cost reductions at Metro, Oakland Golf still stands to have an estimated net loss of \$183,500 in calendar year 2009.

Cost Cutting Measures

Oakland Golf used several measures to reduce overhead and expenditures at Metropolitan Golf Course:

Eliminated the following positions:

- Administrative Services Cost Savings \$28,000
- Head Golf Professional Cost Savings \$71,000
- Tournament Director Cost Savings \$50,000
- 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 our golf course philosophy 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, adjusting for best practices and water reduction.

Total Cost Savings of \$404,000

OPR will verify with Oakland Golf to ensure that Metropolitan Golf Links remains in compliance with the maintenance standards set forth by the original agreement.

OPR will review the Oakland Golf's financial statements prepared by an outside auditor for the past 2 calendar years (2008 and 2009). In addition, OPR is requesting Oakland Golf to provide quarterly fiscal 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 Metro construction was complete.

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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 Metro 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: \$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.

The Sublease with Oakland Golf was negotiated from 1999-2001, and was executed in August 2001. The term of the Sublease was 25 years, with three five-year extensions at the option of Oakland Golf. Metropolitan Golf Links reopened for play in April 2003. In 2005, due to the economy, the golf industry took a downturn which played a significant role 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 Metropolitan Golf Links 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 Metropolitan Golf Links 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 2010-11 would be the fourth (4) of the possible five (5) years for the rent relief.

If the rent relief is not passed by Council, Oakland Golf LLC would have 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 coordinate the use of Metro banquet facilities 12 times per year for events and to host two (2) tournaments at Metropolitan Golf Course. The intent of this usage is to generate additional revenue for the City and as an offset to 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 at Metropolitan Golf Links has only grown to 55,400 rounds, and it is not expected to grow significantly in the next four years. Revenues are also forecasted to remain constant.

There are many reasons why Metropolitan Golf Links underperformed 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 chart of Oakland Golf’s profits over the past 6 years.

Calendar Year	2004	2005	2006	2007	2008	2009
Rounds	33,892	54,197	56,042	57,001	59,061	55,348
Net Revenues (Golf & F&B)	1,749,011	2,792,292	2,809,180	2,863,156	2,846,785	2,687,577
Expenses	1,971,104	3,557,127	3,551,226	3,123,024	3,007,989	2,974,838
Net Operating Income Profit/(Loss)	(222,093)	(764,835)	(742,046)	(259,868)	(161,204)	(287,261)

Staff calculates that the loss to the City’s Golf Fund will be approximately \$138,103 this fiscal year if approved for the rent relief. The total rent relief to Oakland Golf will be approximately \$272,983 for FY 2009-10 & FY 2010-11.

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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 \$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 banquet facilities 12 times per year for events, and the golf course two (2) times per year for tournaments. This gratis usage is provided to offset the loss of revenue from the reduced rent.

Oakland Golf has participated in the founding of The First Tee of Oakland which is a character development program via the game of golf that benefits underserved youth directly in their school. This fall The First Tee of Oakland will participate in five (5) middle schools (Elmhurst, Alliance Academy, Edna Brewer, Cole and Madison). At the conclusion of the first year under the revised rent terms, Oakland Golf hosted some landmark events and provided services for several OUSD sites, community based organizations, and Oakland based charities as outlined by the graph below:

Junior Usage of Metro in 2010			
Organization	Students	Weeks/Events	Total usage
OTEI Field Trips	100	12	240
Elmhurst Golf Team	6	16	96
Junior Tournaments	40	3	120
Spanish Speaking Unity Council	12	4	48
Holy Names University	6	25	150
University of California	16	25	400
East Bay YMCA	40	2	80
Oakland High	6	6	36
The First Tee of Oakland	20	8	160
Piedmont Golf Team	10	16	160
Bishop O' Dowd Boys/Girls	24	16	384
Laney College	100	5	500
Chabot College	4	20	80
Metro Jr. Golf Program*	50	48	2,400
TOTAL USAGE	338		4,854

*Metropolitan Golf Links – began donating range balls for the program’s Saturday class in June and will continue for the balance of 2010.

SUSTAINABLE OPPORTUNITIES

Economic: Metropolitan Golf Links creates sales tax revenue through green fees, cart rental, food and beverage and by drawing visitors to Oakland who might also make purchases at other nearby businesses.

Environmental: Metropolitan Golf Links is a fully-certified Audubon International Cooperative Sanctuary. CourseCo is the first golf management firm to receive the Governor's award for economic and environmental leadership for sustainable practices.

Social Equity: The Metropolitan Golf Link's Oakland Turfgrass Education Initiative (OTEI) is a nonprofit that exposes 80 -100 Oakland youth each year to turfgrass management with the objective of helping youth create career paths into industries not currently offered to urban youth. In addition, Metropolitan Golf Link's Junior Golf Program offers free golf equipment and lessons to children ages 6 - 17.

DISABILITY AND SENIOR CITIZEN ACCESS

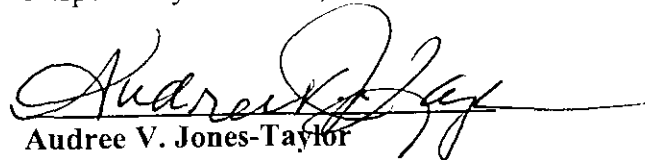
Metropolitan Golf Links conforms to the requirements of the Americans with Disabilities Act, the Older American Act, and other applicable laws, including having an ADA accessible golf cart available on site.

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

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, 2010 through June 30, 2011.

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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FILED
OFFICE OF THE CITY CLERK
OAKLAND

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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, 2010 THROUGH JUNE 30, 2011 IN THE AMOUNT OF \$138,103 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 temporary reduction in its rent for fiscal years 2010 -2011 in the total amount of approximately \$138,103 over the next year 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, _____, 2010

PASSED BY THE FOLLOWING VOTE:

AYES - DE LA FUENTE, KERNIGHAN, NADEL, QUAN, 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