

STAFF REPORT**CITY OF OCEANSIDE**

DATE: June 6, 2007

TO: Parks & Recreation Commission

FROM: Public Works Department

SUBJECT: **APPROVAL OF A RENOVATION AND OPERATING LEASE AGREEMENT WITH OCEANSIDE GOLF LLC FOR THE OCEANSIDE MUNICIPAL GOLF COURSE**

SYNOPSIS

Staff recommends that the City Council approve a Renovation and Operating Lease Agreement with Oceanside Golf LLC for the Oceanside Municipal Golf Course; and authorize the City Manager to execute the document.

BACKGROUND

In 1970 the City opened to the public, the Oceanside Municipal Golf Course, an 18 hole regulation length golf course, located at 825 Douglas Drive, Oceanside, CA ("Golf Course"). In 1982, the City leased the Golf Course to the predecessor of American Golf Corporation ("AGC"). Since said date AGC has continuously operated the Golf Course while paying, as rent, 30% of the gross income from golf revenue and 6% of other revenues as rent. During Fiscal Year 2005-06, the City received \$562,995 in rental revenue from AGC and anticipates similar revenue in Fiscal Year 2006-07. Under the terms of the lease agreement with AGC, as amended, the lease will expire on June 30, 2007.

Although AGC has adequately maintained the Golf Course over the past 35 years, due to the age of the Golf Course significant capital improvements are needed to keep the Golf Course competitive in the public golf course market of San Diego County. In 2005 in order to assess the condition of the Golf Course, staff had a detail improvement plan prepared by Rainville & Bye, Golf Course Architects ("Golf Course Master Plan"). In 2006, a Request for Proposals ("RFP") was initiated by staff. The RFP asked for proposals to lease and/or manage the Golf Course and contribute towards a significant capital improvement program as described in the Golf Course Master Plan.

ANALYSIS

In response to the RFP, staff received four proposals for the lease and/or management of the Golf Course. The four proposals were reviewed and analyzed by staff with the assistance of a representative of the Golf Sub-Committee and a golf industry consultant from Economic Research Associates. It was the conclusion of staff that the proposal from Landscape Golf Group/Bellows Golf Management ("LGG/BGM") provided the City with the best opportunity for significant capital improvements to the Golf Course and potential increase in revenue from the Golf Course.

Although the entities comprising the LGG/BGM partnership have experience in the management and operation of both municipal golf courses and privately-owned public golf courses although not as extensive as AGC. However, in light of the significant amount of capital improvement to be invested by LGG/BGM when compared to AGC as well as the other proposals, the LGG/BGM proposal when assessing all the attributes set forth therein, appears to be the best situation for the City. In addition, the LGG/BGM partnership has substantial expertise in the area of golf course construction and renovation.

Some of the more pertinent terms of the proposed Renovation and Operating Lease Agreement ("Agreement") are summarized as follows:

- 30-year initial lease term, with a 20-year performance related option.
- Lessee shall pay 20% of total gross revenue as monthly rent.
- \$4,525,000 capital improvement investment by lessee over the initial term of the lease.
- City has the right to terminate the lease upon thirty (30) days notice, subject to repayment of any capital improvement investment
- Lessee shall also pay 2% of total gross revenues on a monthly basis into a small capital improvement reserve.
- Significant golf course improvements to take place within the first 5 years of the initial term.
- Annual contributions of \$2,500 each to the golf teams of both El Camino High School and Oceanside High School.

In addition, the proposed Agreement contains a rate restructuring to offset the cost of LGG/BGM's capital improvement investment. The proposed rate schedules are based upon a study of comparative rates at comparable courses in San Diego County and increases the existing rates on average by approximately \$2.00 per round. Additional justification for LGG/BGM's proposed rate restructuring is to also establish a long term capital improvement fund for the Golf Course. In return, the golfer should experience a better round of golf resulting from the noticeable improvements to the Golf Course.

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FISCAL IMPACT

The proposed Agreement provides value to the City in a number of different ways. The proposed Agreement sets forth a rental amount of 20% of the total gross revenue, payable monthly. Assuming similar annual rental revenue received by the City in Fiscal Year 2005-06 of approximately \$562,000, over the initial 30 year term, the City could potentially receive a total of \$16,860,000 (without adjusting for any increases). Please bear in mind that inasmuch as the rental rate is a percentage of total gross revenue, which can vary significantly based on the number of rounds played in any given year, the total amount over the term of the lease is only a reasonable estimate at this time.

In addition to the rental revenue, the lessee is also required to invest \$4,525,000 for capital improvements to the Golf Course during the first 5 years of the term of the Agreement. Where possible, the capital investment shall be for improvements as described in the Golf Course Master Plan. It is anticipated that there will be gradual improvement during the first 3 years of the lease term so as to minimize disruption in play and maximize rental revenue. The more extensive improvement to the Golf Course will take place in the 5th year of the lease term.

Another form of compensation from the lessee shall be the requirement of lessee to contribute 2% of the total gross revenue towards a capital improvement reserve beginning in third year of the lease. Based upon the annual rental revenue received by the City in Fiscal Year 2005-06, an additional \$11,240 per year or a total of \$337,200 over the initial term of the lease will be available for smaller capital improvement items.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

COMMISSION OR COMMITTEE REPORT

The Parks and Recreation Commission at its meeting held on _____, 2007 considered the proposed Agreement with LGG/BGM. The Commission voted _____ to _____ the Agreement.

The Golf Sub-Committee has also review the Agreement with LGG/BGM and recommends approval of the Agreement.

RECOMMENDATION

Staff recommends that the City Council approve a Renovation and Operating Lease Agreement with Oceanside Golf LLC; and authorize the City Manager to execute the document.

PREPARED BY:

SUBMITTED BY:

DOUGLAS E. EDDOW
Real Property Manager

PETER A. WEISS
Interim City Manager

REVIEWED BY:

Michelle Skaggs-Lawrence, Deputy City Manager _____

Joseph Arranaga, Acting Deputy Public Works Director _____

Eileen Turk, Parks and Recreation Division Manager _____