Item 2 Files 10-1107	Department: Recreation and Park Department (RPD)

EXECUTIVE SUMMARY

Legislative Objective

- Resolution approving a nine year and three month agreement between the Tournament Players Club of California, Inc. (TPC), a wholly owned subsidiary of the PGA TOUR, Golf Course Properties, Inc, and the Recreation and Park Department (RPD) for TPC to manage of the clubhouse and non-maintenance golf operations at Harding Park and Fleming Golf Courses.

Fiscal Impact

- RPD estimates paying the Tournament Players Club of California, Inc. incentive fees averaging $69,720 per year, which is 78.3 percent, or $251,394, less than the $321,114 in average annual fees payable under the terms of the existing agreement with the current golf course manager, KemperSports.

Key Points

- RPD is requesting approval to award an agreement, based on a competitive Request for Proposals process, to the Tournament Players Club of California, Inc. (TPC), a wholly owned subsidiary of the PGA TOUR, Golf Course Properties, Inc. The proposed agreement would authorize TPC to manage the Harding Park and Fleming Golf Courses including (a) collecting all revenues at the course, (b) managing tee times, (c) operating a pro shop, restaurant, bar, and driving range, and (d) providing maintenance to the clubhouse only (golf course maintenance is provided by RPD). The agreement would have a term of nine years and three months, beginning October 1, 2010 and terminating December 31, 2019. Such a termination date would coincide with the Master Tournament Agreement between the PGA TOUR and the City which governs the terms for holding PGA TOUR tournament events at the Harding Park Golf Course through December 31, 2019. The proposed management agreement includes an option to extend the term to coincide with any future extensions to the term of the Master Tournament Agreement, with such amendments to the Master Tournament Agreement subject to future Board of Supervisors approval.

- The proposed agreement requires the City to pay the TPC annual incentive payments equal to (a) 25 percent of TPC's actual net operating income (gross revenues less operating expenses excluding RPD course maintenance costs), which exceeds the budgeted net operating income, plus (b) 25 percent of any RPD actual net operating income (gross Harding Park and Fleming Golf Courses revenues less all golf course expenses, including RPD's maintenance costs).

- The proposed agreement would allow the TPC to (a) request binding arbitration if the RPD budget for the maintenance of Harding Park and Fleming Golf Courses is reduced by any amount compared to the prior fiscal year, or (b) terminate the agreement if the maintenance budget is reduced by 15 percent or more. Such arbitration and termination provisions are not included in (a) the existing course management agreement with KemperSports, or (b) the existing agreement with the PGA TOUR in the Master Tournament Agreement. However, although the proposed agreement would expand the termination rights of the course manager, the proposed agreement is also anticipated to result in $2,325,395 in savings to the RPD ($251,394 average annual savings x 9.25 years).

Recommendation

- Approval of the proposed resolution is a policy matter for the Board of Supervisors.

MANDATE STATEMENT

Section 9.118 of the San Francisco Charter states that award of any agreement with a term of more than 10 years, or anticipated expenditures of more than $10,000,000, is subject to Board of Supervisors approval. The proposed agreement has a term of nine years and three months (or 9.25 years), with an option to extend beyond 10 years (see Term and Extension Options Section below).

BACKGROUND

On August 22, 2003, based on the results of a competitive Request for Proposals process, the Recreation and Park Department (RPD) awarded an agreement to KemperSports for the management of the Harding Park and Fleming Golf Courses. Harding Park Golf Course, an 18-hole golf course, and Fleming Golf Course, a 9-hole golf course, are co-located within the same area surrounded by Lake Merced. The existing agreement includes (a) a term of seven years expiring on August 21, 2010 (which has been extended on a month-to-month basis pending the approval of the proposed agreement), with an option to extend up to two years through August 21, 2012, (b) a management fee of $192,000 per year to be paid by RPD to KemperSports, and (c) an incentive fee of 5.0 percent of all course gross revenues above $6,000,000 annually to be paid by RPD to KemperSports. Over the past three fiscal years (FY 2007-2008 through FY 2009-2010), RPD has paid KemperSports average annual management and incentive fees totaling $262,242.

According to Mr. Tom Hart, the Property Manager for RPD golf courses, under the scope of work included in the existing agreement, KemperSports manages the golf course, including (a) reserving and coordinating tee times, (b) collecting all course revenues[1], (c) operating a pro shop, driving range, restaurant and bar, (d) developing and executing management and marketing plans to promote the course, (e) coordinating operations with and for The First Tee program[2], and (f) performing daily maintenance and repairs to the club house facility and equipment (such as golf carts). Under the terms of the existing agreement, RPD is responsible for golf course maintenance and any capital improvements.

Under the terms of the current agreement, at the beginning of each fiscal year, RPD and KemperSports agree on a course operating budget (excluding RPD's maintenance costs). During the course of the fiscal year, all operating expenses incurred by KemperSports are submitted to RPD for reimbursement, subject to (a) RPD approval of such operating expenditures, and (b) availability of funds in the approved RPD golf course operating budget.

According to Mr. Hart, in order to achieve a more fiscally improved agreement, RPD felt it was prudent to conduct a new Request for Proposals (RFP) process to manage the two golf courses

[1] All revenues are collected by the course manager and forwarded to RPD with the exception of 85% of lesson fees. According to Mr. Hart, the golf teachers who provide lessons receive, in addition to their nominal salary as employees of the course manager, a commission of 85% of fees they generate. Mr. Hart noted that paying a nominal salary plus a commission of between 80%-90% is industry standard.

[2] According to Mr. Hart, the First Tee program is a network of national not-for-profit chapters that teach the game of golf to youth while imparting life skills and character development. The local chapter of The First Tee is The First Tee of San Francisco and is located at Harding Park Golf Course.

rather than simply exercising the option to extend the existing contract with KemperSports by two years. On February 18, 2010, RPD issued a Request for Proposals for the management of Harding Park and Fleming Golf Courses, with the same scope of work as the existing agreement with KemperSports.

As shown in Table 1 below, five qualified responses were received, with the RPD evaluation panel[3] scoring the proposal from the PGA TOUR, Golf Course Properties, Inc, the parent company of Tournament Players Club, Inc. (TPC), as the highest scoring proposal with 476 points.

Table 1: Request for Proposals Scoring Results

Firm	Experience (250 points)	Management, Operations, and Marketing Plan (125 points)	Cost (125 Points)	Total Score (500 points)
PGA TOUR, Golf Course Properties, Inc. (TPC)	237	116	123	476
KemperSports (incumbent course manager)	220	108	102	430
Troon Golf	233	97	98	428
CourseCO, Inc	215	95	97	407
Greenway Golf	169	83	83	335

Based on the PGA TOUR's high score of 476 points, as determined by the RPD evaluation panel, RPD is now requesting approval to award an agreement to manage the Harding Park and Fleming Golf Courses to the Tournament Players Club of California, Inc. (TPC), a wholly owned subsidiary of PGA TOUR, Golf Course Properties, Inc.

DETAILS OF PROPOSED LEGISLATION

The proposed resolution would authorize RPD to enter into a 9 year and 3 month (9.25 years) agreement with TPC beginning on October 1, 2010 and ending December 31, 2019 for the management of Harding Park and Fleming Golf Courses. The following sections discuss the various significant provisions of the proposed agreement.

Services Provided

According to Mr. Hart, the proposed agreement with TPC provides for the same management services included in the existing agreement with KemperSports, including (a) reserving and coordinating tee times, (b) collecting all golf course and related revenues[4], (c) operating a pro shop, driving range, restaurant and bar, (d) developing and executing management and marketing plans to promote the course, (e) coordinating operations with and for The First Tee

[3] The evaluation panel included the Superintendent of Citywide Services for RPD, the President of the Recreation and Park Commission, a Supervising Purchaser from the Office of Contracts Administration, the Deputy Director of the Mayor's Office of Economic Development, and a member of the Human Rights Commission Local Business Enterprise Committee.

[4] The proposed agreement with TPC, similar to the existing agreement with KemperSports, requires the course manager to collect all revenues and forward them to RPD with the exception of 85% of golf lesson fees (see Footnote 1 above).

program, and (f) performing daily maintenance and repairs to the club house facility and equipment (such as golf carts). Under the terms of the proposed agreement, RPD is responsible for golf course maintenance and any capital improvements.

Fees

In contrast to the existing agreement with KemperSports for the management of the Harding Park and Fleming Golf Courses, the proposed agreement does not require the City to pay an annual management fee.

The proposed agreement requires the City to pay TPC only an incentive fee equal to:

> (1) 25.0 percent of the TPC's actual net operating income (gross revenues less operating expenses, excluding RPD course maintenance costs) which exceeds the budgeted net operating income (the budgeted net operating income must be approved annually by RPD), plus
>
> (2) 25.0 percent of RPD actual net operating income (gross revenues less gross expenses, including RPD's maintenance costs).

According to Mr. Hart, and as discussed in the Fiscal Impact Section below, RPD estimates paying TPC $69,720 in average annual incentive fees under the first provision (1) described above (also see Table 2 below). Mr. Hart noted that due to RPD's historical operating deficit at the Harding Park and Fleming Golf Courses, RPD does not currently anticipate paying any incentive fees to the TPC under the second provision described above.

According to Mr. Hart, TPC intends[5] to donate all incentive payments received from RPD to The First Tee of San Francisco and other local charities. However, such donations are not explicitly required in the proposed agreement.

Term and Extension Options

The proposed management agreement has a term of nine years and three months, commencing October 1, 2010 and terminating on December 31, 2019. This termination date coincides with the current expiration date of the existing 17 year and 7.5 month Master Tournament Agreement between the PGA TOUR and the RPD, which governs the terms for holding PGA TOUR tournament events at the Harding Park Golf Course through December 31, 2019.

The proposed management agreement includes an option to extend the term of the proposed management agreement to coincide with any future extensions to the term of the Master

[5] According to Mr. Hart, TPC originally intended to request that in lieu of a fee paid to TPC, the City would make contributions according to the incentive fee formula to the First Tee Program of San Francisco or other local charities. Mr. Hart noted that requiring such a contribution would be inappropriate because it would dictate how City funds would be appropriated. Mr. Hart further noted that requiring the TPC to donate all payments to the First Tee Program is beyond the scope of the proposed agreement for golf course management services between the TPC and RPD.

Tournament Agreement. However, such amendments to the Master Tournament Agreement are subject to future Board of Supervisors approval.

FISCAL IMPACTS

As discussed above, while the proposed agreement with the TPC, as compared to the existing agreement with KemperSports, does not include a fixed management fee, the proposed agreement requires the City to pay TPC an incentive fee equal to:

(1) 25.0 percent of the TPC's actual net operating income (gross revenues less operating expenses, excluding RPD course maintenance costs) which exceeds the budgeted net operating income, as approved by the RPD, plus

(2) 25.0 percent of RPD actual net operating income (gross revenues less gross expenses, including RPD's maintenance costs). As discussed above, due to the RPD's historical operating deficits at the Harding Park and Fleming Golf Courses, RPD does not anticipate paying TPC any fees based on this provision of the incentive fee formula.

As shown in Table 2 below, RPD estimates paying TPC incentive fees averaging $69,720 per year, or $209,160 over the first three fiscal years of the 9.25 year term of the proposed management agreement.

Based on the estimated average annual incentive payments of $69,720 over the first three fiscal years, RPD is projected to pay $644,910 to the TPC, which is $2,325,395, or 78.3 percent, less than the $2,970,305 in fees which would have been payable to KemperSports under the term of the existing Harding Park and Fleming Golf Courses management agreement.

Table 2: Estimated Fees and Savings Provided Under The Proposed Agreement Over Three Fiscal Years (FY 2010-2011 through FY 2012-2013)

	Amount Payable Under Current Terms With KemperSports	Amount Payable Under Proposed Terms With TPC	Estimated Savings
FY 2010-2011 RPD Forecast[6]	$305,737	$40,562	$265,175
FY 2011-2012 RPD Forecast	318,149	62,061	256,088
FY 2012-2013 RPD Forecast	339,456	106,537	232,919
Total RPD Forecast	**$963,342**	**$209,160**	**$754,182**
Average Annual RPD Forecast (Total RPD Forecast ÷ 3)	321,114	69,720	251,394
Years in Proposed Agreement	x 9.25	x 9.25	x 9.25
Total Over Agreement Term of 9.25 Years	**$2,970,305**	**$644,910**	**$2,325,395**

[6] Data in Table 2 is based on (a) forecasts provided by RPD for FY 2010-2011 through FY 2012-2013 (as shown in Attachment I from RPD), and (b) extrapolating such forecasts over the 9.25 year term of the proposed agreement. According to Mr. Hart, RPD only forecasted the fees payable under the first three years of the proposed agreement because estimates after such a three year period would be unreliable due to potential fluctuations in course expenses and revenues.

POLICY CONSIDERATIONS

The proposed amendment would not reduce RPD's FY 2010-2011 operating deficit at the Harding Park and Fleming Golf Courses.

As discussed above, RPD has historically had an operating deficit at the Harding Park and Fleming Golf Courses. According to Mr. Hart, RPD's annual operating deficit is funded through the City's General Fund. For the past three fiscal years, the actual RPD operating deficit at Harding Park and Fleming Golf Courses averaged $533,105 including (a) $838,804 in FY 2007-2008, (b) $541,246 in FY 2008-2009, and (c) $219,266 in FY 2009-2010[7].

Mr. Hart advises that RPD's FY 2010-2011 budget, as previously approved by the Board of Supervisors, included an operating deficit of $353,000[8] for the Harding Park and Fleming Golf Courses which assumed that RPD would award the proposed agreement to TPC on October 1, 2010, such that the proposed agreement would not have an additional impact on the current RPD budget deficit for the two golf courses.

According to Mr. Hart, RPD anticipates that the operating deficit at Harding Park and Fleming Golf Courses will be reduced, but may not eliminated, as a result of the proposed agreement.

The proposed agreement includes a new arbitration and termination provision which could allow TPC to terminate the agreement if the annual maintenance budget for Harding Park and Fleming Golf Courses is reduced by any amount when compared to the prior fiscal year.

The proposed agreement provides the TPC with the right to terminate the agreement under the following two scenarios:

> (1) If the annual RPD course maintenance budget is decreased by an amount <u>less than 15.0 percent</u>, and the TPC "reasonably determines" that the City cannot meet the Master Tour Agreement maintenance standards, TPC can initiate a binding arbitration process which could result in TPC being given the right to terminate the proposed agreement with RPD if the arbitrator agrees with TPC's determination that the City cannot meet the Master Tour Agreement maintenance standards.
>
> (2) If the annual course maintenance budget is decreased by <u>15.0 percent or more</u>, and the TPC "reasonably determines" that the City cannot meet the Master Tour Agreement maintenance standards, TPC has the right, without arbitration, to terminate the proposed agreement with RPD.

These binding arbitration and termination provisions are not contained in the existing agreement with KemperSports. According to Mr. Hart, these new termination provisions are included because the TPC's marketing plan is based on the Harding Park and Fleming Golf Courses being maintained by RPD at its current maintenance standards because (a) the TPC intends to

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[7] The deficits shown above include repayments to the Open Space Fund of (a) $1,417,075 in FY 2007-2008, (b) $583,508 in FY 2008-2009, and (c) $0 in FY 2009-2010.
[8] The budgeted FY 2010-2011 deficit of $353,000 assumes a repayment to the Open Space Fund of $1,038,516.

designate Harding Park Golf Course as a TPC-branded course, (b) TPC-branded courses are well known by golfers throughout the country to be professional quality courses which are maintained at the highest levels, and therefore (c) the TPC brand will enable the Harding Park Golf Course to increase revenues by attracting more non-resident players[9]. Mr. Hart noted that the TPC brand is normally sold to private golf courses at an annual cost of $300,000 to $500,000. However, the TPC would provide such a designation to the Harding Park Golf Course at no additional charge to the City.

However, the Budget and Legislative Analyst notes that because these binding arbitration and termination provisions are based on the TPC's prospective determination that the RPD's maintenance budget would not result in meeting the Master Tour Agreement maintenance standards, instead of the actual quality of maintenance, the proposed agreement could result in a scenario where TPC would have the right to terminate the agreement without RPD failing to meet the Master Tour Agreement maintenance standards, even if RPD maintenance costs were reduced through increased efficiency such that the applicable maintenance standards could be met at the same time RPD maintenance costs were reduced.

In response to the Budget and Legislative Analyst's inquiry regarding why the arbitration and termination provisions were linked to maintenance budget levels rather than simply whether or not the City actually maintains the course according to the Master Tournament Agreement maintenance standards, Mr. Hart provided the attached memorandum (Attachment II) which states:

> "…a simple interpretation of whether or not RPD was following the prescribed elements in the Master Tournament Agreement would be difficult to ascertain because any qualified authority on golf course maintenance that would be able to mediate a dispute between RPD and the Manager over maintenance quality would either be a competitor to, or a client of, the PGA TOUR, and thus have a conflict of interest."

Because the proposed agreement would provide binding arbitration and termination provisions related to golf course maintenance if the RPD budget for the maintenance of Harding Park and Fleming Golf Courses is reduced by any amount, a provision which is not included in both (a) the current golf course management agreement with KemperSports, and (b) in the existing Master Tour Agreement between RPD and the PGA Tour, the Budget and Legislative Analyst considers these binding arbitration and termination provisions to be an unnecessary expansion of the rights of TPC, the proposed golf course manager.

However, in consideration of the $2,325,395 in total estimated savings (see Table 2 above) which RPD anticipates would result from the award of the proposed 9.25 year agreement, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter for the Board of Supervisors.

RECOMMENDATION

Approval of the proposed resolution is a policy matter for the Board of Supervisors.

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[9] Mr. Hart noted that non-resident players are restricted by Section 12.12(a)(1) of the Park Code to 50 percent of the rounds played.

Attachment I

Harding Park Golf Complex (Harding and Fleming)
Incentive Scenarios

PGA TOUR Golf Course Properties, Inc. stated in their response they felt revenues could be increased by 10%. RPD feels this additonal 10% is attainable within the first three years of the Management Agreement. Following that premise, the next fiscal years could be as represented below.

	Approved FY 2010-2011[1]			Estimated FY 2011-2012[2]			Estimated FY 2012-2013[3]		
	Budget	Est Actual	Difference	Budget	Est Actual	Difference	Budget	Est Actual	Difference
Total Revenue	$8,112,486	$8,274,736	$162,250	$8,274,736	$8,522,978	$248,242	$8,522,978	$8,949,127	$426,149
Total Manager Expenses	$3,287,783	$3,287,783	$0	$3,353,539	$3,353,539	$0	$3,454,145	$3,454,145	$0
Net Operating Revenue	$4,824,703	$4,986,953	$162,250	$4,921,197	$5,169,439	$248,242	$5,068,833	$5,494,982	$426,149
TPC Incentive	$40,562			$62,061			$106,537		
Incentive under Kemper[4]	$113,737			$126,149			$147,456		
Mgmt fee under Kemper	$192,000			$192,000			$192,000		
Total under Kemper	$305,737			$318,149			$339,456		
Savings with TPC	**$265,174**			**$256,088**			**$232,919**		

[1] The current fiscal year budget is set. It is estimated that TPC could increase revenues by 2% without increasing expenses.
[2] FY 2011-2012 would set the budget at the (estimated) actual from FY 2010-11; revenue would increase 3% above budget; expenses would be increased 2% above the previous fiscal year and would not be icreased during the fiscal year.
[3] FY 2012-2013 would set the budget at the (estimated) actual from FY 2011-12; revenue would increase 5% above budget; expenses would be increased 3% above the previous fiscal year and would not be icreased during the fiscal year.
[4] Kemper's current incentive is 5% of gross revenues above $6,000,000.

Attachment II

SAN FRANCISCO RECREATION & PARKS

Mayor Gavin Newsom
Philip A. Ginsburg, General Manager

MEMORANDUM

Date: September 8, 2010

To: Nate Cruz
Budget and Legislative Analyst's Office

From: Tom Hart

Subject: Section 7.1 of the proposed Management Agreement between the City and Tournament Players Club of California, Inc.

PGA TOUR Golf Course Properties, Inc. (for whom TPC of California, Inc. will act as Manager of Harding Park) responded to the Request for Qualifications under the assumption that the City would abide by the terms and conditions in the Master Tournament Agreement between the City and the PGA TOUR. Exhibit B, Section A of that Agreement clearing puts forth minimum year-round standards that are expected to be met in order for Harding to host major international golf tournaments. PGA TOUR Golf Course Properties, Inc. is proposing to manage Harding without charging the City a management fee and has given the City a TPC brand license, normally sold to premier courses for a fee ranging between $300,000 and $500,000 per year. With this investment in Harding, it is vital to Tournament Players Club of California, Inc. that the City maintain the courses as specified in Exhibit B, Section A of the Master Tournament Agreement. The TPC brand is a symbol of quality in course maintenance and, unless the required practices are not followed, Harding would not be able to maintain that standard.

With the current budget and the input from the PGA TOUR, RPD staff has been able to successfully maintain the courses to a level worthy of the TPC brand. The trigger point for termination of the Management Agreement by the Manager (a 15% reduction in budget for maintaining the courses) was a negotiated figure. Both parties agreed that more than a 15% reduction would probably not enable RPD to maintain the courses at the current quality level. The figure is somewhat arbitrary, but is necessary since a simple interpretation of whether or not RPD was following the prescribed elements in the Master Tournament Agreement would be difficult to ascertain because any qualified authority on golf course maintenance that would be able to mediate a dispute between RPD and the Manager over maintenance quality would either be a competitor to, or a client of, the PGA TOUR, and thus have a conflict of interest. Given that if this termination option moved forward, the City would still have 270 days to install new management of the courses, which should be sufficient time to award a new management agreement..