

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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TO: Budget and Finance Committee
FROM: Budget and Legislative Analyst 
SUBJECT: October 15, 2014 Budget and Finance Committee Meeting

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Item 2
File 14-0979

Department:
Recreation and Park Department (RPD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would (a) amend the Park Code to authorize flexible pricing at Gleneagles Golf Course in McLaren Park; (b) approve the First Amendment to the existing lease, which exercises the option to extend the existing lease by approximately eight years with Gleneagles Golf Partners, for management, operation and maintenance of the Gleneagles Golf Course commencing on the effective date of this ordinance and ending November 30, 2022 at a base rent of seven percent of annual gross revenues, subject to conditions, incentives, participation rent and rent credits; and (c) affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).

Key Points

- Based on a Request for Proposal (RFP) process, to which Gleneagles Golf Partners was the only respondent, on November 29, 2004, the Recreation and Park Commission approved a lease between RPD as landlord, and Gleneagles Golf Partners, as tenant, for management, maintenance and operation of the Gleneagles 9-hole golf course in McLaren Park.
- The original lease was for a nine-year term from December 1, 2004 through November 30, 2013, and included one nine-year option to extend. Due to ongoing negotiations over lease modifications between Gleneagles Golf Partners and RPD, the RPD General Manager approved a month-to-month extension of the lease effective December 1, 2013.

Fiscal Impact

- Base rent of 7% of annual gross revenues is to be paid by Gleneagles Golf Partners to RPD under the existing and proposed lease. Gleneagles Golf Partners realized total gross revenues of \$5,314,738 over the nine-year, seven-month existing lease from December 1, 2004 through June 30, 2014 and paid RPD total base rent of \$372,032 or an average of \$38,820 annually.
- Gleneagles Golf Partners is estimated to earn total gross revenues of \$4,420,756 from July 1, 2014 through November 30, 2022, and based on 7% of gross revenues would pay RPD an estimated \$309,453, or an average of \$36,767 annually. However, Gleneagles Golf Partners may deduct the cost of completing deferred maintenance from the base rent, with written approval from RPD Commission, such that RPD does not project to receive any base rent.
- In addition, RPD estimates expending approximately \$68,000 annually for water, sewer and electric charges, which are not currently being paid by RPD under the existing lease. Overall, RPD would incur an estimated average annual net loss of \$106,820.

Policy Consideration

- The FY 2014-15 RPD budget reflects projected expenditures exceeding revenues at each of the RPD's four other golf courses. The General Fund supports net losses to RPD's golf fund.

Recommendations

- Amend the title of the proposed ordinance to delete the words "nine year" on page 1, line 5.
- Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.

MANDATE STATEMENT / BACKGROUND**Mandate Statement**

In accordance with City Charter Section 9.118(c), any lease exceeding ten years or that has anticipated revenue of \$1,000,000 or more is subject to approval by the Board of Supervisors.

Background

Based on a Request for Proposal (RFP) process, to which Gleneagles Golf Partners, LP (Gleneagles Golf Partners) was the only respondent, on November 29, 2004, the Recreation and Park Commission approved a lease between the Recreation and Park Department (RPD) as landlord, and Gleneagles Golf Partners, as tenant, for management, maintenance and operation of the Gleneagles 9-hole golf course in McLaren Park (Resolution #0411-010). According to Mr. Tom Hart, Property Manager at RPD, RPD provides maintenance at the other four¹ City golf courses with RPD staff, but does not provide maintenance at Gleneagles Golf Course in McLaren Park. Under this lease, Gleneagles Golf Partners is responsible for all of the following activities:

- Taking reservations;
- Registering players;
- Collecting greens fees;
- Providing golf instruction;
- Operating a golf shop and driving range;
- Providing building maintenance;
- Providing food and beverage services; and
- Providing maintenance of the golf course.

The original lease was for a nine-year term from December 1, 2004 through November 30, 2013, and included one nine-year option to extend, if the Gleneagles Golf Partners operated the property and business in a satisfactory manner and completed the following specified capital improvements at a minimum cost of \$250,000:

- Renovations to the clubhouse, kitchen, restrooms and adjacent patio;
- Renovations to the maintenance building;
- Purchasing course maintenance equipment and seven golf carts;
- Completing extensive fence repairs and installing a new front gate; and
- Performing extensive deferred tree work to eliminate safety hazards, to stem the spread of turf diseases and to bring needed sunlight and air to the playing surfaces.

Mr. Hart advises that all of the above capital improvements were completed at a cost of \$254,250 by Gleneagles Golf Partners. Mr. Hart notes that Gleneagles Golf Partners also completed a \$150,000 greens renovation project, for a total of \$404,250 in capital

¹ The other four City golf courses are Harding Park, Lincoln Park, Sharp Park and Golden Gate Park.

improvements. Mr. Hart also reports that Gleneagles Golf Partners significantly opened the Gleneagles Golf Course to youth programs, including First Tee, and the overall community.

Due to ongoing negotiations over potential lease modifications between Gleneagles Golf Partners and RPD, on November 21, 2013, the RPD General Manager approved a month-to-month extension of the lease effective December 1, 2013, in accordance with Section 24.13 of the existing lease terms.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would (a) amend the Park Code to authorize flexible pricing at Gleneagles Golf Course in McLaren Park; (b) approve the First Amendment to the existing lease, which exercises the option to extend the existing lease by approximately eight years with Gleneagles Golf Partners, for management, operation and maintenance of the Gleneagles Golf Course commencing on the effective date of this ordinance and ending November 30, 2022 at a base rent of seven percent of annual gross revenues, subject to conditions, incentives, participation rent and rent credits; and (c) affirm the Planning Department's determination under the California Environmental Quality Act (CEQA).

Park Code Amendment

The proposed ordinance would amend Section 12.12(d) of the City's Park Code to authorize temporary fee increases and/or decreases from time to time based on fluctuations in customer demand at Gleneagles Golf Course in McLaren Park, subject to approval by the Recreation and Park Department General Manager or his designee. As specified in the Park Code, such flexible pricing would include:

1. Discounts up to 25% for greens fees;
2. Increases of up to 50% for all non-resident fees and tournament fees; and
3. Increases of up to 25% for resident fees.

Currently, Park Code Section 12.12(d) authorizes such flexible pricing at Harding Park, Sharp Park and Lincoln Park golf courses. Mr. Hart advises that this flexible pricing provision is intended to allow more sensitive pricing to attract more users to City golf courses at less-than-peak or higher use times, in order to generate additional revenues. According to Mr. Hart, such flexible pricing has primarily been used at Harding Park to allow discounted fees to accommodate the aeration of the greens and to allow increased fees before and after tournaments are scheduled, when Harding Golf Course is in prime condition.

Mr. Hart anticipates that the proposed flexible pricing would likely be used at Gleneagles Golf Course, subject to approval by the RPD General Manager or his designee, to provide discounted fees if the weather is particularly cold and/or rainy, or at certain times of the day

when tee times would otherwise go unused, and to provide increased fees if another San Francisco golf course is closed for a tournament or undergoing maintenance.

Proposed Amendment and Extension of Lease

Table 1 below provides a summary comparison of the existing and proposed lease terms.

Table 1: Summary of Existing Nine-Year Lease and Proposed Nine-Year Lease Extension

| Provisions | Existing Lease | Proposed Lease Extension |
|-------------------------------|---|---|
| Term | <ul style="list-style-type: none"> 9 years (December 1, 2004 to November 30, 2013); Extended on month to month basis, effective December 1, 2013. | <ul style="list-style-type: none"> 8 years (December 1, 2014 through November 30, 2022) |
| Options to further extend | <ul style="list-style-type: none"> One nine-year option to extend | <ul style="list-style-type: none"> None |
| Adjacent Semi-Paved Lot | <ul style="list-style-type: none"> Part of leased premises for lessee to develop use | <ul style="list-style-type: none"> Deleted from leased premises for lessee's use; RPD assessing lot for another use. |
| Base Rent | <ul style="list-style-type: none"> 7% of annual gross revenues | <ul style="list-style-type: none"> 7% of annual gross revenues |
| Additional Participation Rent | <ul style="list-style-type: none"> 2% of annual gross revenues that exceed 20% over 2003; 3% that exceed 30%. | <ul style="list-style-type: none"> 2% of annual gross revenues that exceed 20% over 2003; 3% that exceed 30% |
| Rent Credits | If City requests improvements which lessee agrees to perform, with approval from RPD Commission, lessee may deduct such costs from base rent. | <ul style="list-style-type: none"> Same as existing lease. In addition, lessee, with written approval from RPD Commission, may deduct costs for deferred maintenance or emergency repairs from base rent. |
| Maintenance and Repairs | Lessee is responsible for all maintenance and repairs, at lessee's sole expense. | <ul style="list-style-type: none"> Same as existing lease. In addition, if extraordinary repairs exceed \$150,000 and RPD and lessee cannot agree on terms, RPD can authorize termination of lease early, with 180 days written notice. |
| Utilities and Janitorial | Lessee responsible for installing, maintaining and paying for all utilities, including gas, electric, water, sewer, telephone, trash and janitorial services. | <ul style="list-style-type: none"> RPD to assume 50% of water charges, up to 12,500 units annually. RPD to assume \$9,300 in prior unpaid water charges. RPD to assume all electric and sewer charges. |
| EZLinks System | Not applicable. | <ul style="list-style-type: none"> RPD to purchase EZLinks or a similar tee-time reservation system license at estimated cost of \$1,200 per month, to be used by lessee. |

Although the existing lease allows for one nine-year option to extend, given that the existing lease has already been extended on a month-to-month basis for approximately one year, the proposed lease extension would be for an additional eight years, commencing approximately December 1, 2014 through November 30, 2022. Therefore, the title of the proposed ordinance should be amended to delete the words “nine year” on page 1, line 5.

California Environmental Quality Act (CEQA)

The proposed ordinance would affirm the Planning Department’s determination under CEQA.

FISCAL IMPACT

Gleneagles Golf Course Rates

Based on an increase of \$1 for each golf course rate effective on September 5, 2014, the current Gleneagles Golf Course Rates are shown in Table 2 below.

Table 2: Current Gleneagles Golf Course Rates

| | Weekdays | Weekend (Friday-Sunday) |
|-----------------------------|-----------------|------------------------------------|
| Standard (9 holes) | \$20 | \$23.50 |
| Standard (18 holes) | 28 | 35.50 |
| Senior (65 years and older) | 16 | - |
| Junior | 16 | - |

Mr. Hart notes that all four of the other City golf courses currently charge different rates for San Francisco residents versus non-residents. Mr. Hart advises that RPD will evaluate and propose new resident and non-resident rates in 2015 for Gleneagles Golf Course, subject to approval by the RPD Commission and the Board of Supervisors.

Existing and Projected Base Rent

As shown in Table 1 above, the base rent of 7% of annual gross revenues to be paid by Gleneagles Golf Partners to RPD will remain the same as is being paid under the existing lease. According to Mr. Hart, the base rent of 7% of annual gross revenues was determined by the Gleneagles Golf Partners response pursuant to the RFP issued in 2004. Mr. Hart notes that prior to 2004, the previous operator of the Gleneagles Golf Course paid 6% of annual gross revenues to RPD. Mr. Hart states that the rents paid at Gleneagles Golf Course are not comparable to those paid at other RPD golf courses because the 9-hole Gleneagles Golf Course at McLaren

Park is the only golf course that is entirely maintained by the golf course operator and not by RPD staff.

As shown in Table 3 below, Gleneagles Golf Partners realized total gross revenues of \$5,314,738 over the nine-year, seven-month existing lease from December 1, 2004 through June 30, 2014. During this period, Gleneagles Golf Partners paid RPD total rent of \$372,032 or an average of \$38,820 annually.

**Table 3: Gleneagles Golf Course Gross Annual Revenues and Base Rent Paid to RPD
December 1, 2004 through June 30, 2014**

| Fiscal Year | Gross Annual Revenue | RPD Base Rent Revenue (7% of Annual Gross Revenues) |
|--------------------|-----------------------------|--|
| 2004-05* | \$338,403 | \$23,688 |
| 2005-06 | 672,942 | 47,106 |
| 2006-07 | 712,113 | 49,848 |
| 2007-08 | 642,831 | 44,998 |
| 2008-09 | 662,408 | 46,369 |
| 2009-10 | 562,949 | 39,406 |
| 2010-11 | 381,718 | 26,720 |
| 2011-12 | 483,154 | 33,821 |
| 2012-13 | 443,071 | 31,015 |
| 2013-14 | 415,149 | 29,060 |
| Total | \$5,314,738 | \$372,032 |

*Reflects seven months from December 1, 2004 to June 30, 2005.

Although RPD does not audit the expenditures incurred by the lessee, according to Mr. Hart, Gleneagles Golf Partners advise that they expend approximately \$500,000 per year to operate and maintain the Gleneagles Golf Course. Mr. Hart advises that all City golf courses have experienced a decrease in revenues since 2009 as the golf industry nationwide realized less revenue during the slower economic times.

As shown in Table 4 below, Gleneagles Golf Partners is estimated to earn total gross annual revenues of \$4,420,756 from the Gleneagles Golf Course from July 1, 2014 through November 30, 2022, over the course of the extended lease. Based on the annual base rent of 7% of gross revenues payable by Gleneagles Golf Partners to RPD, this would result in an estimated \$309,453 in rent being paid to RPD, or an average of \$36,767 annually. Comparing actual revenues realized from FY 2004-05 through FY 2013-14 in Table 3 above to projected revenues to be realized from FY 2014-15 through FY 2022-23 as shown in Table 4 below indicates lower average projected gross revenues and base rent to be paid to RPD over the next eight years.

Table 4: Gleneagles Golf Course Estimated Total Revenues and RPD Base Rent for Fiscal Years FY 2014-15 through November 30, 2022

| Fiscal Year | Gross Annual Revenue | RPD Base Rent Revenue (7% of Annual Gross Revenues) |
|--------------------|-----------------------------|--|
| 2014-15 | \$470,054 | \$32,904 |
| 2015-16 | 484,156 | 33,891 |
| 2016-17 | 498,680 | 34,908 |
| 2017-18 | 513,641 | 35,955 |
| 2018-19 | 529,050 | 37,034 |
| 2019-20 | 544,921 | 38,144 |
| 2020-21 | 561,269 | 39,289 |
| 2021-22 | 578,107 | 40,467 |
| 2022-23* | 240,878 | 16,861 |
| Total | \$4,420,756 | \$309,453 |

*Reflects five months from July 1, 2022 through November 30, 2022.

Participation Rent

As shown in Table 1 above, the existing and proposed lease includes additional participation rent of 2% of annual gross revenues that exceed \$793,954 (20% more than 2003 rent of \$661,628), and 3% of annual gross revenues that exceed \$860,117 (30% more than 2003 of \$661,628). However, Mr. Hart advises that under the existing lease, Gleneagles Golf Partners has never met the threshold to require payment of any participation rent to the RPD. Participation rent is also not expected to be paid under the proposed lease because the annual gross revenue thresholds are not expected to be met.

Maintenance and Repair Costs

Although Gleneagles Golf Partners is currently responsible for paying for all maintenance and repairs at the golf course, under the proposed lease extension, Gleneagles Golf Partners may deduct the cost of completing deferred maintenance or emergency repair costs from the base rent, up to the amount of the base rent, with written approval from RPD Commission. Given the level of deferred maintenance and repairs required at Gleneagles Golf Course, Mr. Hart estimates Gleneagles Golf Partners will request rent credits equal to the amount of the base rent that would otherwise be paid to RPD, as shown in Table 4 above.

In addition, if extraordinary repairs exceed \$150,000 and RPD and Gleneagles Golf Partners cannot agree on the terms for repairs and payments, RPD can authorize termination of the subject lease, with 180 days written notice.

Utility Expenses

While Gleneagles Golf Partners is currently responsible for all utility expenses, under the proposed lease, RPD will assume 50% of the San Francisco Public Utilities Commission (SFPUC) water charges, up to 12,500 units² annually as well as all sewer and electric charges. Mr. Hart advises that this change was included because SFPUC water rates increased from \$3.25 per unit to \$5.26 per unit on July 1, 2014, resulting in significant additional annual expense for the Gleneagles Golf Partners. Mr. Hart notes that RPD's assumption of the sewer and electric expenses are not expected to be significant. Mr. Hart notes that currently RPD pays all maintenance expenses on all RPD golf courses, which includes water and sewer charges³, except Gleneagles Golf Course.

Depending on annual rainfall, Mr. Hart estimates that Gleneagles Golf Course will use approximately 30,000 units of water annually. Therefore, while RPD would pay up to 12,500 units of water, Gleneagles Golf Partners would be responsible for paying the balance of 17,500 units of water charges to the SFPUC. Assuming RPD is required to pay 12,500 annual units of water at the current rate of \$5.26 per unit of water, RPD anticipates expending \$65,750 annually for water. Including sewer and electric charges, RPD estimates expending a total of approximately \$68,000 annually, which is not currently being paid by RPD under the existing lease.

Based on a negotiated settlement, RPD will also pay \$9,300 in one-time prior water charges owed by Gleneagles Golf Partners to the SFPUC, due to a long dispute regarding leaks in two water lines into an adjacent RPD playground.

Overall Fiscal Impact

In summary, although the proposed negotiated lease extension provides for the same base rent of 7% of annual gross revenues to be paid by Gleneagles Golf Partners to RPD, RPD does not anticipate receiving any base rent revenues, because Gleneagles Golf Partners may deduct the cost of completing deferred maintenance or emergency repair costs from the annual base rent as rent credits up to the amount of the base rent, with written approval from RPD Commission. In addition, RPD estimates expending \$68,000 annually for water, sewer and electric charges. Overall, RPD would incur an estimated average annual net loss of \$106,820, as shown in Table 5 below.

Table 5: Annual Fiscal Impacts

| Gleneagles Golf Course | Current | Proposed | Total Annual |
|-------------------------------|-----------------|-------------------|---------------------|
| Average Base Rent | \$38,820 | \$36,767 | (\$2,053) |
| Rent Credits | | (36,767) | (36,767) |
| Water, Sewer & Electric | | <u>(68,000)</u> | <u>(68,000)</u> |
| Total | \$38,820 | (\$68,000) | (\$106,820) |

² One unit of water is equal to one hundred cubic feet (Ccf) of water.

³ Mr. Hart notes that responsibility for paying electric charges varies by RPD golf course.

This projected annual net loss of approximately \$106,820 to RPD, summarized in Table 5 above, is in comparison to the current average annual revenue of \$38,820 received over the past ten years from Gleneagles Golf Partners, as summarized in Table 3 above.

In addition, RPD will incur a one-time \$9,300 prior water charge to the SFPUC.

Mr. Hart notes that all RPD golf course revenues and expenses are supported through RPD's Golf Fund, such that any shortfall (expenditures in excess of revenues) resulting from the Gleneagles Golf Course will be funded by the City's General Fund.

POLICY CONSIDERATION

As shown in Table 6 below, the current FY 2014-15 RPD budget reflects projected expenditures exceeding revenues at each of the RPD's four other golf courses, ranging from \$41,167 at Golden Gate Park Golf Course to \$2,453,878 at Harding Park Golf Course.

Table 6: FY 2014-15 Budgeted Revenues and Expenditures for Four Other RPD Golf Courses

| RPD Golf Courses | Harding Park | Lincoln Park | Sharp Park | Golden Gate Park |
|------------------|---------------------|--------------------|--------------------|------------------|
| Revenues | \$7,206,953 | \$900,000 | \$1,075,000 | \$260,000 |
| Expenses | <u>(9,660,831*)</u> | <u>(1,393,362)</u> | <u>(1,301,169)</u> | <u>(301,167)</u> |
| Annual Net Loss | (\$2,453,878) | (\$493,362) | (\$226,169) | (\$41,167) |

*Includes \$1,180,000 Open Space payment and \$330,000 capital fund set-aside.

If the proposed lease extension is approved, Gleneagles Golf Course will also operate at an annual net loss of approximately \$106,820 for RPD. As noted above, net losses in the Golf Fund are supported by the City's General Fund. Therefore, approval of the proposed ordinance is a policy decision for the Board of Supervisors.

RECOMMENDATIONS

1. Amend the title of the proposed ordinance to delete the words "nine year" on page 1, line 5.
2. Approval of the proposed ordinance, as amended, is a policy decision for the Board of Supervisors.