

1 [Real Property Lease - Crystal Springs Golf Partners, L.P. - 6650 Golf Course Drive,
2 Burlingame, California - \$1,000,000 Annual Base Rent]

3 **Resolution authorizing a new lease to Crystal Springs Golf Partners, L.P., for the use of**
4 **property owned by the City and County of San Francisco on property known as San**
5 **Francisco Public Utilities Commission (SFPUC) Parcel No. 31, located at 6650 Golf**
6 **Course Drive, Burlingame, California, for a term of 20 years to commence following**
7 **Board approval, for rent equal to the greater of percentage rent or \$1,000,000 annual**
8 **base rent; and authorizing the Director of Property and/or the SFPUC General Manager**
9 **to execute documents, make certain modifications, and take certain actions in**
10 **furtherance of this Resolution, as defined herein.**

11
12 WHEREAS, The City and County of San Francisco ("City") owns in fee certain real
13 property presently under the jurisdiction of the San Francisco Public Utilities Commission
14 ("SFPUC") consisting of approximately 199 acres of SFPUC Parcel No. 31 located at 6650
15 Golf Course Drive in Burlingame, California ("Premises"), in the Peninsula Watershed; and

16 WHEREAS, The Peninsula Watershed surrounds the Crystal Springs Reservoir, which
17 the SFPUC maintains for use as a water supply; and

18 WHEREAS, In 1996, the SFPUC awarded a 20-year lease ("Original Lease") to Crystal
19 Springs Golf Partners, LP ("Tenant") as the successful bidder in a competitive bidding
20 process, for the operation of an 18-hole regulation-length municipal golf course and driving
21 range on the Premises; and

22 WHEREAS, The Original Lease expired on March 31, 2017, and Tenant desires to
23 obtain a new lease to continue operating the municipal golf course and driving range at the
24 Premises; and

1 WHEREAS, Since the Original Lease's inception in 1996, the golf market has softened
2 due to falling customer demand and an oversupply of new golf courses both nationally and in
3 the Bay Area, and in 2003, in response to these conditions, the SFPUC amended the Original
4 Lease to provide a rent reduction to Tenant; and

5 WHEREAS, In 2011, Tenant approached SFPUC staff with a request for an additional
6 rent reduction and a lease term extension in response to a further softening of customer
7 demand and worsening financial performance caused by the Great Recession; and

8 WHEREAS, The SFPUC did not act on Tenant's 2011 request at the time, but staff
9 agreed to consider the request after consulting with experts in the golf course industry; and

10 WHEREAS, To inform the SFPUC's economic decisions regarding the Premises,
11 SFPUC staff relied on the advice of consultants including Economic & Planning Systems, Inc.
12 ("EPS"), an economic consulting firm that is the primary consultant under the SFPUC's
13 Professional Services Contract CS-287, and Tenant's consultant, Pro Forma Advisors LLC, a
14 firm that specializes in market analysis, financial feasibility, economic impact studies and
15 appraisals for large-scale real estate developments, including golf courses ("Pro Forma
16 Advisors"); and

17 WHEREAS, The SFPUC's consultants found that after sharp declines in overall
18 economic performance of golf courses over the past 10 to 15 years due to a 20% decline in
19 the number of golfers, the Bay Area golf market has stabilized over the past three years; and

20 WHEREAS, The SFPUC's consultants further found that the financial performance of
21 Bay Area golf courses remains relatively flat, and the mid-to-long-term outlook for the regional
22 golf market is highly uncertain; and

23 WHEREAS, The high fixed cost nature of the golf business, coupled with the required
24 capital investment and the high uncertainty of future demand for golf translates to very high
25 risk for investors in the golf industry; and

1 WHEREAS, To minimize this risk, the SFPUC is seeking a lease rather than a fixed
2 management fee arrangement with an operator whereby the operator would retain all
3 operating revenues and costs and pay a percentage of gross revenue to the SFPUC with a
4 minimum base rent, requiring the operator to fund any operating shortfalls; and

5 WHEREAS, Golf operators prefer a contract fee model, whereby property owners
6 retain operating revenues and costs and pay the operator a fee, requiring the property owner
7 (SFPUC) to fund any operating shortfalls; and

8 WHEREAS, In 2014, SFPUC staff asked EPS to evaluate the likelihood of a successful
9 request for proposals (“RFP”) process for a new golf course lease to replace the Original
10 Lease upon expiration; and

11 WHEREAS, EPS’s analysis of recent RFP releases confirm golf course operator
12 preference for a contract fee structure in order to reduce financial risk, suggesting that an RFP
13 for a lease participation structure would not likely result in better deal terms for the SFPUC;
14 and

15 WHEREAS, Recent attempts by public agencies to lease courses have resulted in few
16 or no bids, and requested terms have included substantially reduced rent or rent credits for
17 rapid recovery of any invested capital; and

18 WHEAREAS, For example, the County of Los Angeles had no bids on the Marshall
19 Canyon golf course, the City of Portland received no qualified bids for the Heron Lake golf
20 course, and the Los Angeles Department of Airports received only one bid on the Westchester
21 golf course from its incumbent operator; and

22 WHEREAS, EPS concluded that given the ongoing soft economic conditions of the golf
23 industry, the continuing capital investment needs at the Golf Course, and the likelihood of low
24 tenant interest in responding to an RFP by the SFPUC due to golf operators’ preference for a
25 management fee arrangement rather than a lease, especially a lease requiring tenant-funded

1 capital investments, there is a substantial risk that the SFPUC's issuance of a RFP will yield
2 disadvantageous rent terms to the SFPUC or a golf course tenant that does not suit the
3 SFPUC's needs; and

4 WHEREAS, Based on the advice of the SFPUC's consultants, SFPUC staff concluded
5 that it is impractical to competitively bid the new lease opportunity and instead negotiated with
6 Tenant proposed terms and conditions of a new 20-year lease, a copy of which is on file with
7 the Clerk of the Board of Supervisors under File No. 170695 ("New Long-Term Lease"), which
8 is incorporated herein by this reference; and

9 WHEREAS, The SFPUC and Tenant negotiated in good faith for over a year to finalize
10 the terms and conditions of the proposed New Long-Term Lease, and although lease
11 negotiations are completed, due to no fault of Tenant there was insufficient time to seek the
12 necessary City approvals of the proposed New Long-Term Lease prior to the expiration of the
13 Original Lease; and

14 WHEREAS, The SFPUC and Tenant entered into a new month-to-month lease so that
15 Tenant can continue to operate the golf course while seeking City approval of the proposed
16 New Long-Term Lease; and

17 WHEREAS, The New Long-Term Lease fair market rent structure was determined
18 using a comprehensive financial model developed by SFPUC staff ("SFPUC Model") that
19 determined the percentage rent and base rent structure based on an expected internal rate of
20 return ("IRR") on Tenant's required investment; and

21 WHEREAS, The SFPUC consulted with leading industry experts to validate the
22 proposed fair market rent structure throughout the negotiations with Tenant; and

23 WHEREAS, Under Professional Services Contract CS-287, Century Urban, a SFPUC
24 sub-consultant specializing in economic and feasibility analysis and asset management,
25 validated the SFPUC Model; and

1 WHEREAS, Pro Forma Advisors vetted the proposed fair market rent structure
2 reflected in the SFPUC Model, and in its view, concluded that given the current and
3 anticipated market conditions, and expected operating performance at Crystal Springs, the
4 proposed rent structure is well within the range of current fair market rental terms; and

5 WHEREAS, Pro Forma Advisors cited the annual Financing and Investment Survey
6 from the Society of Golf Course Appraisers, an organization dedicated to the advancement of
7 the golf course consulting and valuation profession, that showed that the expected IRR for
8 golf courses ranges from 10% to 22%, averaging 14%; and

9 WHEREAS, Given the above, SFPUC staff determined that the projected IRR of
10 13.95% under the SFPUC Model for Crystal Springs is consistent with current industry
11 investment criteria; and

12 WHEREAS, SFPUC staff have consulted with the Director of Property, who concurs
13 that the proposed rent structure reflects fair market rent; and given that such proposed rent is
14 less than \$45 per square foot, and the rent structure has been validated by an independent,
15 qualified golf course appraiser, Administrative Code, Section 23.30, does not require a formal
16 appraisal; and

17 WHEREAS, On April 24, 2017, the Planning Department issued a categorical
18 exemption for the New Long-Term Lease under Section 15301, Class 1 (Existing Facilities) of
19 the California Environmental Quality Act, Case Number 2017.005038ENV, a copy of which is
20 on file with the Clerk of the Board of Supervisors under File No. 170695, which is incorporated
21 herein by this reference; and

22 WHEREAS, Any future capital improvements not contemplated in the New Long-Term
23 Lease will be subject to prior SFPUC approval, and the New Long-Term Lease expressly
24 acknowledges that the SFPUC may not consider future capital improvements before
25 completion of all environmental review required by law; and

1 WHEREAS, Although there are no current SFPUC pipelines or other infrastructure
2 placed on or beneath the Premises, the Lease provides that the Premises will still be subject
3 to use by the City and the SFPUC for City uses, including the installation or maintenance of
4 pipelines or other infrastructure and, in such instance, requires Tenant to remove its
5 improvements as necessary to accommodate such City uses; and

6 WHEREAS, CourseCo. Inc. ("CourseCo."), a California-based professional golf course
7 management company, manages the Golf Course on Tenant's behalf, and several principals
8 of Tenant are also principals of CourseCo.; and

9 WHEREAS, CourseCo. has a proven track record of managing golf courses, including
10 Crystal Springs Golf Course, and has never had a golf course contract cancelled or not
11 renewed; and

12 WHEREAS, In 2014 CourseCo. entered into a contract with SEIU Local 265, the Golf
13 Courses and Greens Attendants Union, regarding the CourseCo maintenance workers, and
14 CourseCo. is the winner of a number of industry awards for environmental management and
15 sustainability, including an award from the City and County of San Francisco; and

16 WHEREAS, On May 23, 2017, by SFPUC Resolution No. 17-0123 ("SFPUC
17 Resolution"), a copy of which is on file with the Clerk of the Board of Supervisors under File
18 No. 170695, which is incorporated herein by this reference, SFPUC approved the New Long-
19 term Lease, and authorized the SFPUC General Manager and/or the Director of Property to
20 undertake the process to, following Board of Supervisors approval of the New Long-term
21 Lease, accept and execute the New Long-Term Lease and any other related documents
22 necessary to consummate the transactions contemplated therein, in the form approved by the
23 City Attorney; and

24 WHEREAS, Charter, Section 8B.121(a) grants the SFPUC Commission the exclusive
25 charge of the real property assets under the Commission's jurisdiction, and Charter, Section

1 9.118(c) requires that any City lease of real property having a term of ten or more years or
2 anticipated revenue to the City of \$1,000,000 or more be approved by resolution of the Board
3 of Supervisors; and

4 RESOLVED, The Board of Supervisors, having reviewed and considered the
5 proposed New Long-Term Lease and the SFPUC Resolution, finds that the proposed New
6 Long-Term Lease is in the best interest of the City and meets the requirements of the City
7 Charter and Administrative Code, Chapter 23; and, be it

8 FURTHER RESOLVED, That the Board of Supervisors finds that competitive
9 bidding procedures are impractical, given the soft economic conditions in the golf industry,
10 poor responses to other jurisdictions' recent RFP's for golf course leases, and golf
11 operators' general preference for a contract fee structure rather than SFPUC's preferred
12 lease participation structure; and, be it

13 FURTHER RESOLVED, That in accordance with the recommendations of the
14 SFPUC General Manager and the Director of Property, the Board of Supervisors hereby
15 approves the Lease and the transaction contemplated thereby in substantially the form of
16 such instrument presented to this Board; and, be it

17 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of
18 Property and/or the SFPUC's General Manager to enter into any additions, amendments,
19 or other modifications to the Lease that the Director of Property and/or the SFPUC's
20 General Manager determines are in the best interest of the City, do not materially increase
21 the obligations or liabilities of the City or materially diminish the benefits to the City, and are
22 necessary or advisable to complete the transaction contemplated in the Lease and
23 effectuate the purpose and intent of this resolution, such determination to be conclusively
24 evidenced by the execution and delivery by the Director of Property or the SFPUC's
25 General Manager of the Lease and any amendments thereto; and, be it

1 FURTHER RESOLVED, That the Director of Property and/or the General Manager
2 of the SFPUC are hereby authorized and urged, in the name and on behalf of the City and
3 County, to execute and deliver the Lease with Tenant, in substantially the form of such
4 instrument presented to this Board, and to take any and all steps (including, but not limited
5 to, the execution and delivery of any and all certificates, agreements, notices, consents,
6 and other instruments or documents) as the Director of Property or SFPUC General
7 Manager deems necessary or appropriate in order to consummate the Lease, or to
8 otherwise effectuate the purpose and intent of this Resolution, such determination to be
9 conclusively evidenced by the execution and delivery by the Director of Property or SFPUC
10 General Manager of any such documents; and, be it

11 FURTHER RESOLVED, That within thirty (30) days of the Lease being fully executed
12 by all parties, the SFPUC shall provide the final Lease to the Clerk of the Board for inclusion
13 into the official file.

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Recommended:



JOHN UPDIKE
Director of Property



HARLAN L. KELLY, JR.
General Manager of the SFPUC



City and County of San Francisco

Tails
Resolution

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

File Number: 170695

Date Passed: July 18, 2017

Resolution authorizing a new lease to Crystal Springs Golf Partners, L.P., for the use of property owned by the City and County of San Francisco on property known as San Francisco Public Utilities Commission (SFPUC) Parcel No. 31, located at 6650 Golf Course Drive, Burlingame, California, for a term of 20 years to commence following Board approval, for rent equal to the greater of percentage rent or \$1,000,000 annual base rent; and authorizing the Director of Property and/or the SFPUC General Manager to execute documents, make certain modifications, and take certain actions in furtherance of this Resolution, as defined herein.


July 13, 2017 Budget and Finance Sub-Committee - RECOMMENDED AS COMMITTEE REPORT

July 18, 2017 Board of Supervisors - ADOPTED

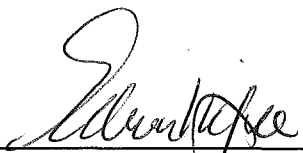
Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

File No. 170695

I hereby certify that the foregoing Resolution was ADOPTED on 7/18/2017 by the Board of Supervisors of the City and County of San Francisco.



Angela Calvillo
Clerk of the Board



Mayor

7/27/17

Date Approved