



PARKS AND RECREATION COMMISSION AGENDA REPORT

September 10, 2020
Item 4

TITLE: REVIEW OF PROPOSED OPERATOR EXTENSION AND AMENDMENT OF AGREEMENT WITH PLEASANTON GOLF, LLC (CourseCo)

SUMMARY

The Operator Agreement with Pleasanton Golf, LLC (CourseCo) is scheduled to end on December 31, 2020. Staff representatives from the City Attorney's Office, Finance, and Operations Services departments have been discussing with Pleasanton Golf, LLC (CourseCo) management for several months an extension and amendment to the Agreement now being considered by the Commission. The amendment addresses a term extension of five years with additional extension options, payment practices and minor language cleanup to the agreement.

The proposed extension and amendment to the Agreement with Pleasanton Golf, LLC (CourseCo) is for a period of five (5) years. Under this Agreement, Pleasanton Golf, LLC (CourseCo) would not have an ownership interest in the golf course, but merely manage the maintenance and operations of Callippe Preserve for the City. Expenses would be passed through for reimbursement by the City from golf course revenues. Pleasanton Golf, LLC (CourseCo) would receive the noted "fixed" fee each year of the agreement, with any "incentive" fee payments tied to meeting aggressive revenue goals, including green fees, cart rentals, driving range, merchandise, lessons, and food and beverage.

In the first year, the fixed management fee shall not exceed \$120,000 and the City shall pay up to 20% incentive fee that cannot exceed a combined fee of \$150,000. The combined management fee (fixed and incentive) increases by a maximum of the Consumer Price Index (CPI) on July 1, 2021 and July 1st thereafter, in the same proportion as changes to the Consumer Price Index in each subsequent contract year. The City will utilize revenues generated from golf course operations to pay for all operating costs, with any excess funding going towards internal service funds for capital projects and repair and maintenance projects.

RECOMMENDED ACTION

That the Commission review and recommend to the City Council approval of the Extension and Amendment to the Operator Agreement with Pleasanton Golf, LLC (CourseCo) for management of Callippe Preserve Golf Course.

FINANCIAL STATEMENT

The proposed Extension and Amendment of the Agreement with Pleasanton Golf, LLC (CourseCo) is for a period of five (5) years with an option to extend the agreement for one additional three (3) years and one two (2) additional year periods. Under this Agreement, Pleasanton Golf, LLC (CourseCo) would not have an ownership interest in the golf course, but merely manage the maintenance and operations of Callippe Preserve for the City. Expenses would be passed through for reimbursement by the City from golf course revenues. Pleasanton Golf, LLC (CourseCo) would receive the noted "fixed" fee each year of the contract, with any "incentive" fee payments tied to meeting aggressive revenue goals, including green fees, cart rentals, driving range, merchandise, lessons, and food and beverage through enhanced marketing efforts.

In the first year, the combined fixed/incentive fee cannot exceed \$150,000 which is \$18,000 more for the fixed fee portion of the current contract and \$72,000 less for the maximum incentive fee portion of the current contract. The combined management fee (fixed and incentive) increases by a maximum of the Consumer Price Index (CPI) on July 1, 2021 and July 1st thereafter, in the same proportion as changes to the Consumer Price Index in each subsequent contract year. The City will utilize revenues generated from golf course operations and not the City's General Fund to pay for all operating costs, with any excess funding going towards internal service funds for capital projects and repair and maintenance projects.

BACKGROUND

In August 2001, the City solicited proposals from various golf course operators to operate and maintain the proposed municipal golf course in the Happy Valley area (Callippe Preserve). A total of ten (10) proposals were received and reviewed by a screening committee comprised of Golf Committee members and City staff. Three (3) firms were invited to make presentations to a selection subcommittee and, after a careful review and visitations to several currently operated courses, Pleasanton Golf, LLC (CourseCo) was recommended as the proposed operator for Callippe Preserve.

CourseCo, Inc. is a Petaluma based company that has been operating public golf courses since 1989. CourseCo operates and manages 38 facilities including locally: Boundary Oak in Walnut Creek, Metropolitan Golf Links in Oakland, Las Positas in Livermore, Crystal Springs in Burlingame, Deep Cliff in Cupertino, Los Lagos and Rancho Del Pueblo in San Jose, Napa Golf Course in Napa, Foxtail Golf Club in Sonoma County, Pacific Grove and Laguna Seca in Monterey County, Petaluma GCC in Petaluma, Rio Vista GC in Rio Vista, Ancil Hoffman and Cherry Island and Mather GC in Sacramento County, and Callippe Preserve in Pleasanton.

In 2004, the City of Pleasanton entered into two (2) separate agreements with Pleasanton Golf, LLC (CourseCo) which is wholly owned by CourseCo, Inc., to prepare Callippe Preserve Golf Course for public play, and to operate the course for the City once it was opened. The Grow-In Agreement commenced after the construction contractor (Ferma) completed initial grass seeding and watering of the golf area. The Operator Agreement commenced prior to the opening of the golf course, to allow sufficient time for Pleasanton Golf, LLC (CourseCo) to secure staff and equipment. Under the agreement, Pleasanton Golf, LLC (CourseCo), has

acted as the City's agent in all matters related to golf course operations, including employment of all golf course personnel.

In 2010, the City entered into a five (5) year Operator Agreement with Pleasanton Golf, LLC (CourseCo) that ended on June 30, 2015. In the first year of the agreement, the combined fixed/incentive fee could not exceed \$180,000. The combined management fee (fixed and incentive) increased by a maximum of \$6,000 each year for the remaining four (4) years (approximately 4% each year). The City has utilized revenues generated from golf course operations to pay for all operating costs, and prior to the City paying off the golf course debt in June 2013, any excess funding was used first to make annual debt service payments on the bonds sold to finance the course construction and second, to pay back the General Fund.

The five (5) year agreement facilitated greater flexibility for the City and encouraged the contractor to generate more revenue in order to receive their maximum management fee. The more revenue the vendor generated; enabled the City to make annual debt service payments on the bonds sold to finance the course construction, and secondly, to pay back the General Fund faster. The City Council approved the five (5) year term Agreement, which expired on June 30, 2015. The fee structure was equally divided between both "fixed" and "incentive" management as outline below.

In 2015, the City entered into a five (5) extension of the Operator Agreement with Pleasanton Golf, LLC (CourseCo) that ended on June 30, 2020. However, due to COVID-19, City Council approved a six (6) month extension of the agreement to allow staff to finalize contract negotiations with CourseCo for a long-term agreement for continued operation of Callippe Preserve and present to the Parks and Recreation Commission, and City Council prior to December 31, 2020, when the six (6) month extension expires.

DISCUSSION

The proposed Operating Agreement is attached for the Commission's review. Staff representatives from the City Attorney's Office, Finance, and Operations Services departments have been discussing with Pleasanton Golf, LLC (CourseCo) management for several months to re-negotiate the Agreement now being considered by the Commission. The Agreement addresses a term extension of five years; payment practices and minor language cleanup to the agreement, including updated insurance requirements. Staff is prepared to discuss and answer questions regarding any of the proposed terms; however, listed below are brief explanations of what staff considers the primary deal points:

- Term – The proposed Extension and Amendment of the Agreement with Pleasanton Golf, LLC (CourseCo) is for a period of five (5) years with an option to extend the agreement for one additional three (3) years and one two (2) additional year periods. Now that the golf course bonds have been paid off, the contract term is no longer subject to the Internal Revenue Service (IRS) limits on the length and payment options for management contracts. Therefore, a five (5) year extension to the current agreement is allowable and is the most beneficial at this time. Both staff and Pleasanton Golf, LLC (CourseCo) representatives have had a mutually beneficial

relationship and, based on our experience during the past ten (15) years, feel confident retaining them as the City’s golf course operator.

- Management Fee – Proposed payments are divided between both a “fixed” and “incentive” management fee and are outlined below. The first year “fixed” fee is \$120,000, and the combined management fee (fixed and incentive) cannot exceed \$150,000. Each subsequent year the management fee increases by a maximum of the Consumer Price Index (CPI) on July 1, 2021 and July 1st thereafter. In addition, an equal amount “incentive” fee can be achieved on gross revenues (excluding food and beverage, merchandise, and lessons) after established revenue thresholds have been achieved. In year one, Pleasanton Golf, LLC (CourseCo) would receive 15% of all gross revenues in excess of \$3,000,000. In addition, they would receive 15% of all food and beverage if revenues exceed \$1,100,000. In no event could Pleasanton Golf, LLC (CourseCo) receive an “incentive” fee that is greater than the “fixed” fee.

The following table illustrates the proposed fee structure compared to the current fee structure:

<u>Operating Year</u>	<u>Total Management_Fee Attainable</u>	<u>80% Fixed Fee</u>
Proposed Contract - January 1, 2020 to June 30, 2025	\$150,000	\$120,000
Current Fee Structure ¹	\$204,000	\$102,000

As noted in the table above, the 80 percent Fixed Fee will increase by \$18,000 while the Total Management Fee attainable decreases by \$54,000, which is related to a decrease of \$72,000 in the maximum incentive fee. The City and CourseCo propose modifying the maximum incentive fee based on CourseCo’s performance, golf course trends, increased banquet revenue, continued compliance with the National Audubon Society requirements, enhanced maintenance practices resulting in improved playing conditions and partnering with the City through COVID-19 to continue providing golf services, while meeting health and safety requirements.

On July 1, 2021 and on each July 1st thereafter the amounts indicated above under proposed Contract, for the ensuing year, shall be increased in the same proportion as changes in the Consumer Price Index, All Urban Consumers, San Francisco-Oakland-San Jose area; base years 1982-1984 = 100 published by the U.S. Dept. of Labor, ("CPI") shall have occurred since July 1, 2020.

The City and CourseCo will also perform a market study of the clubhouse that will help ascertain whether expansion of the facility and banquet services is viable and profitable given

¹ The actual unaudited Management and Incentive Fees in year five of the current contract ending June 30, 2020 is \$137,3030.

the current design of the clubhouse and market competition in the Tri-Valley for banquet venues. The study is not included in the cost of the operator agreement.

Staff recommends that the Commission review and recommend to the City Council approval of the Extension and Amendment to the Operator Agreement with Pleasanton Golf, LLC (CourseCo) for management of Callippe Preserve Golf Course.

ALTERNATIVE ACTION

Any other action as determined by the Parks and Recreation Commission.

Submitted by:



Kathleen Yurchak
Director of Operations and Water Utilities

Attachments:

1. Extension and Amendment of Golf Course Operator Agreement