Agenda Report

June 2, 2010

TO: City Council via Economic Development and Technology Committee

FROM: Rose Bowl Operating Company (RBOC)

SUBJECT: Authorization for General Manager to enter into an Amendment to Agreement Numbers 12,651-1 and 12,231 with American Golf Corporation for an additional five year term.

RECOMMENDATION:

It is recommended that the City Council authorize the City Attorney to prepare an amendment to Agreement Numbers 12,651-1 and 12,231 between American Golf Corporation and the Rose Bowl Operating Company which:

1. Find that the contract Amendment proposed herein is categorically exempt under California Environmental Quality Act (CEQA) Guidelines Section 15323 (Normal Operations of Facilities for Public Gatherings), and;

2. Authorize the General Manager to enter into an Amendment to Agreement Numbers 12,651-1 and 12,231 with American Golf Corporation ("AGC"), for an additional five-year term, to expire on January 31, 2016, and specifying: (A) the annual and percentage rents to be paid by AGC; (B) a revised allocation of parking revenue and costs; (C) the portion of revenues to be paid into the Golf Facility Capital Improvement Fund; and (D) the percentage share of water saving and costs to be split between AGC and RBOC, without competitive bidding pursuant to Pasadena City Charter Section 1002(F)(Professional or Unique Services) and;

3. Grant the proposed contract an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance pursuant to Pasadena Municipal Code Section 4.08.049 (B), contracts for which the City's best interest are served.

BACKGROUND:

AGC entered into Agreement Number 12,651 with the City of Pasadena ("City") for the exclusive right to operate and maintain the Brookside Golf Courses for a period of ten years, beginning February 1, 1986, and ending January 31, 1996. AGC agreed to pay the City for the right, license and privilege of operating and maintaining the Golf Courses for the greater of a minimum annual amount, or a sum of percentages of annual gross receipts. In 1992 AGC entered into Amendment No. 12,651-1 with the City for the exclusive right to operate and maintain the Golf Courses for a period of twenty years, beginning February 1, 1986, and ending January 31, 2006. The City further granted AGC an option to renew this Agreement for one additional term of five years. AGC exercised the option to renew this Agreement in January 2006. This term is now expiring.

Subsequently, in September 2004, AGC assumed the food and beverage operation (Agreement 12,231) from the Arroyo Seco Food and Beverage Co. for the exclusive right to serve, sell, vend and dispense at Brookside Golf Club. This agreement is now expiring as well.

Over the past twenty-four years, AGC has done a tremendous job in operating the courses at Brookside. Not only have revenues increased dramatically, the golf experience has greatly improved. Concurrently, since assuming the restaurant lease in 2004, AGC has greatly improved the food and beverage operations as well as increased revenues. Over the past twenty-four years, AGC has paid the City and RBOC in excess of $41,000,000 for the rights to maintain and operate the Brookside Golf Courses, and over the past five years has paid more than $2,000,000 in rent for the food and beverage concession. Staff research indicates that Brookside is one of the most financially successful municipal golf operations in the country.

AGC Agreement Number 12,651-1 and Agreement Number 12,231 RBOC both expire on February 1, 2011. Staff has spent months investigating various options for the future operations of Brookside once AGC's agreements expire. The three major options staff explored were:

(1) Long term lease, including major capital investment;
(2) Management agreement, with RBOC assuming all the financial risk; and
(3) Short term lease, including minor capital investment.

In addition, staff explored the notion of operating the golf courses, in house, and also explored negotiated short and long term leases with AGC. Staff also researched options with the largest and most profitable golf course management companies nationwide.

Staff has reported to the RBOC that there are many uncertainties facing the golf industry and especially at Brookside which are not likely to be resolved in the next couple of years. These include: a slumping golf industry, overbuilding of golf courses regionally and nationally, major golf industry "shake outs", water cost and availability issues in Southern California, and the Rose Bowl Strategic Plan.

Therefore, staff is recommending a short term lease with capital investment with AGC as the preferred and best option.

For the following reasons, we believe an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance (pursuant to Pasadena Municipal Code Section 4.08.049 (B), contracts for which the City's best interests are served) would be applicable here. Staff has been monitoring other California government agencies that have gone to bid on their golf courses over the past eighteen months, with the most recent being the County of Los Angeles, the City of Ventura, and the City of Alameda. In all cases, the responses were very poor or no response at all. This is due to the downturn and uncertainty of the golf industry. Staff believes that going to bid during these difficult times would result in an inferior agreement than that is currently being proposed. Also, AGC has 24 years of operating experience at Brookside and staff is believes changing operators during these turbulent times would not be prudent. Over the past 20 plus years, AGC has been the country's largest municipal golf operator and their experience in operating municipal courses is unmatched.

Staff believes that over the next five years staff hopes to have a better view of the long term trends and the basis upon which to again review the notion of a new, long term contract. Staff also believes that a short term lease with AGC is the most practical way to operate Brookside during these challenging times. (A detailed matrix of the changes and a comparison with the present terms and conditions is attached as Appendix "A" to the report):

A chart comparing the revenue stream between the current agreement with AGC and the proposed deal points, using calendar 2009 revenues, is attached to this report as Appendix B. The chart indicates that the major changes in the revenue streams are as follows: (1) the "all other golf" revenue source, which is being reduced from 38.4% to 28.5%: (2) Golf Course CIP increasing from 4% to 9.5%; (3) eliminating the 10% CIP of Green Fee; and (4) the "parking revenue", which is changing from 50% of gross to 100% of net revenue. The total net increase in revenue from the current revenue stream to the proposed revenue stream results in an increase of approximately $20,000.

ENVIRONMENTAL:

State CEQA Guidelines Section 15323 exempts from CEQA review the "normal operations of facilities for public gatherings for which the facilities were designed, where there is a past history of the facility being used for the same or similar kind of purpose." For purposes of this section, "past history" means that "the same or similar kind of activity has been occurring for at least three years and that there is a reasonable expectation that the future occurrence of the activity would not represent a change in the operation of the facility." The activity occurring here, the operation of a public golf course has been occurring at the facility for at least three years and there is a reasonable expectation that the future occurrence of the activity would not represent a change in the operation of the facility.

CONCLUSION:

Due to the uncertain variables affecting Brookside, including the poor golf economy nationwide, availability of water and the Rose Bowl Strategic Plan, staff believes that a five year lease with AGC is the most practical way to operate Brookside in the short term. Staff also believes that over the next five years the few trends on these variables may be better understood and RBOC should be in a better position to undertake an open selection process for a long term operator.

FISCAL IMPACT:

Using the 2009 revenue streams, with no increase over the next five years, the RBOC would receive the following revenue over the five years of the lease extension:

• Percentage Rent	$ 9,412,475
• Capital Improvement	$ 2,428,010
• Parking	$ 5,445,000
• AGC Investment	$ 500,000
Total	**$17,815,485**

Respectfully submitted,

Paul Arevalo

Paul Arevalo,
President, Rose Bowl Operating Company

APPENDIX "A"

Extension Term	February 1, 2011 until January 31, 2016 It is the intention of the parties to ultimately negotiate and execute a long-term lease extension. During the term of this agreement, American Golf shall have a right of first refusal to negotiate and execute a long-term lease.
Percentage Rent – Golf	28.5% of gross Golf Revenue
Percentage Rent – F&B	13% of gross revenue day-to-day 15% of gross revenue of UCLA games 20% of gross revenue of all Rose Bowl Events
Minimum Rent – Total	$1,825,000 annually. Starting in Year 4 and continuing through the end of the term, Minimum Rent shall be $1,825,000 or 80% of the average total rent paid over the prior 3 years.
Capital Improvement Program – Set Aside	9.5% of gross Golf revenue. As with current terms, parking reimbursement will not be subject to CIP percentage. These funds shall be exclusively used for repairs, improvements and FF&E replacement to the golf course, food and beverage, and clubhouse facilities, all to be mutually agreed upon, in writing, by AGC and RBOC. Where repairs or improvements to the golf course are required as a result of the gross negligence of Lessee, then cost of those improvements and repairs shall be funded solely by Lessee. Cost of repairs and improvements in excess of the Set Aside funds shall be funded by Landlord.
Capital Improvement Investment	$500,000 Payable as $100,000 annually to the Golf Facility Capital Improvement Fund on July 1st of each Full Lease Year. Funds to be deposited into an interest bearing account and interest accrues to Capital Improvement Fund.

	The Fund shall be used to fund specified improvements, to be mutually agreed upon, in writing, by AGC and RBOC. In the event RBOC and AGC have not executed a long-term extension by the expiration of this term, RBOC shall reimburse AGC $500,000 at the expiration of this term.
Rose Bowl Event Parking	RBOC retains 100% of Parking Revenue and bears all costs of the parking operation. RBOC to pay AGC a set amount of $32,000 per parking event. This amount includes, but is not limited to: light and cart rental, Event-Day Liability Insurance, actual Lessee's out-of-pocket expense directly related to the parking event, plus general and administrative costs and average daily operating costs. In addition to the $32,000 per parking event payment, RBOC shall reimburse AGC for costs related to the repair of golf carts used in the parking operation.
Water Costs	AGC will pay the first $850,000 of water costs ("Water Baseline"). AGC and RBOC to split the next $350,000 of water costs 50/50. All water costs in excess of $1,200,000 to be split 75% RBOC and 25% AGC. RBOC and AGC shall split 50/50 Full-year "Windfall" water savings under the Water Baseline. This amount shall be pegged to the direct savings in a normal water usage Year, resulting from the purchase of reduced rate water by the golf course, made available by the actions and investment of RBOC. Sixty days prior to the commencement of each Lease Year, a Water Usage plan shall be presented to RBOC for approval by RBOC, with such approval not to be unreasonably withheld.

Green Fee Rate Increases	Rates to be set as currently outlined in the lease.
Golf Course Maintenance Standards	As currently maintained, and in accordance with the comparable golf course standard currently outlined in the Lease. The existing clubhouse maintenance structure shall continue.
Golf Course Closure or Parking Restrictions Notification	To preserve the integrity of advance bookings and to mitigate cancellations, discounts or penalties, RBOC shall provide Lessee with 90 days advanced notification of all golf course closures or parking restrictions resulting from events in Rose Bowl or greater Arroyo. In the event that the City of Pasadena makes a special exception to allow more than 12 parking events in a given year, RBOC shall reimburse AGC lost net profit for those events, in addition to the normal costs outlined above.
Stadium Expansion Contingency	AGC shall agree to the RBOC funded improvements to Hole #18. The tees constructed by RBOC shall be well-planned to create a true par-3 that does not compromise the integrity of the par-4. RBOC shall also fund mutually agreeable extended area improvements to integrate the par-3.
Lease Year Definition and Percentage Rent Payment Schedule	A Full Lease Year shall be February 1 thru January 31st. Percentage Rent and Capital Improvement Set-Aside percentages shall be trued-up two times a year, Actual dates TBD.

APPENDIX "B"

Below is the revenue stream between the current agreement with AGC and the proposed deal points using calendar 2009 revenues:

RENT

Revenue Source	Gross	%	Current	%	Proposed
Green Fee	$2,961,860	28.8%	$853,016	28.5%	$844,130
All Other Golf	$2,149,744	38.4%	$825,501	28.5%	$612,677
Golf F & B	$2,937,528	12.5%	$367,191	13%	$381,879
UCLA F & B	$ 100,928	15%	$ 15,139	15%	$15,139
RB Game F & B	$ 143,348	20%	$ 28,670	20%	$28,670
Total	$8,293,408		**$2,089,517**		**$1,882,495**

CIP

GC CIP	$5,111,604	4%	$204,464	9.5%	$485,602
City CIP of Green Fee	$2,843,391	10%	$284,339	0%	0
Total CIP			**$488,803**		**$485,602**
Total Brookside Rent/CIP			**$2,578,320**		**$2,368,097**

PARKING

Revenue Source	Gross	%	Current	%	Proposed
RB Events	$1,720,000	50%	$860,000	100%	$1,720,000
Parking Company			$ 0		(278,000)
AGC Expense			$ 0		(352,000)
Total Parking			**$860,000**		**$1,090,000**
Grand Total Rent/CIP/Parking			**$3,438,320**		**$3,458,097**

As the above chart indicates, the major changes in the revenue streams are as follows: (1) the "all other golf" revenue source, which is being reduced from 38.4% to 28.5%: (2) Golf Course CIP increasing from 4% to 9.5%; (3) eliminating the 10% CIP of Green Fee; and (4) the "parking revenue", which is changing from 50% of gross to 100% of net revenue.

The following is a summary of the proposed major deal points:

1. Extend the terms of Agreement Numbers 12,651-1 and 12,231 to January 31, 2016.
2. Beginning February 1, 2011, the minimum rent shall be $1,825,000 annually.
3. Beginning February 1, 2011, the percentage rents to the RBOC by AGC shall be:
    a) 28.5% of gross golf fees;
    b) 13% of gross day-to-day food and beverage revenue;
    c) 15% of gross UCLA game-day food and beverage revenue; and
    d) 20% of gross revenue on all other Rose Bowl events.
4. Beginning February 1, 2011, 9.5% of gross golf fees shall be paid into a Golf Facility Capital Improvement Program.
5. AGC to pay an additional $500,000 ($100,000 annually) into the Golf Facility Capital Improvement Fund.
6. RBOC retains 100% of parking revenues and bears all parking costs.
7. AGC will pay the first $850,000 of any water costs; AGC and RBOC are to split the next $350,000 of water costs 50/50; and all water costs in excess of $1,200,000 are to be split 75% RBOC and 25% AGC. AGC and RBOC are to split 50/50 of water savings under $850,000.