

Agenda Report

March 8, 2004

TO: City Council through Economic Development and Technology Committee
FROM: Rose Bowl Operating Company
SUBJECT: Amendment to Agreement Number 12,651 between American Golf Corporation and the Rose Bowl Operating Company.

RECOMMENDATION OF THE ROSE BOWL OPERATING COMPANY:

It is recommended that the City Council authorize an amendment to Agreement Number 12,651 between American Golf Corporation (AGC) and the RBOC which:

1. Modifies the formula for contribution to the Golf Course Capital Improvement Fund from the current \$1 per round to 4% of total golf course revenues.
2. Revises the standards set forth in the Course Maintenance, Performance Requirements and Golf Course Operations sections of the current agreement to equal the standards applied at specific "higher-end" municipal courses.
3. Modifies the current Fee Schedule for years 2004 through 2006 to include:
 - a. Revision of fees annually over the next 3 years (see attachment B)
 - b. Revision of the Weekend Reservation Card Program (see attachment D).
 - c. Establishment of a Non-resident Discount Program during non-prime times.
 - d. Revision of recognized Holidays (see attachment D).

RECOMMENDATION OF THE RECREATION AND PARKS COMMISSION:

At the special meeting of February 13, 2004, the Recreation and Parks Commission voted 6-1 to support the Rose Bowl Operating Company's recommendation to amend Agreement Number 12,651 between American Golf Corporation and the RBOC, and provided the following additional recommendations:

1. Residents are given the option of reserving tee times one day in advance of non-residents if they are willing to pay the non-resident fee,
2. A discounted rate to be established for golfers meeting low-income standards,
3. RBOC staff continues to work with the Recreation and Human Services Department to provide youth golf programs, and

4. Once new revenue sources are realized, golf course revenues currently used to support the Rose Bowl bonds should be used to support the city's recreation and parks programs.

BACKGROUND:

History

In 1986, The City of Pasadena (City) entered into Agreement No. 12,651 with American Golf Corporation (AGC) for the maintenance and operation of the E.O. Nay and C.W. Koiner Courses at Brookside Golf Club. Since that time, under AGC's management, maintenance and operation of the golf courses have improved, resulting in a significant increase in revenues for the RBOC and City.

However, since 1999, golf revenues have stayed relatively flat and in some instances have declined slightly. This trend is typical for municipal golf courses throughout Southern California. The downturn in the economy has led to stagnation in the number of golf rounds played. Nevertheless, this has not stopped the development of many new courses in Los Angeles County. The resulting increased competition has become a particular challenge for more established municipal courses, due to the fact that a large number of golfers appear willing to travel further and pay considerably higher green fees, up to \$50 more in some cases, to play the newer and better maintained courses.

Maintenance/Master Plan

To retain market share in the face of increased competition and greater customer demands for quality, for which they have indicated a willingness to pay, municipal courses need to undertake renovation and improve maintenance. To recapture these golfers, municipal courses need to be renovated and maintained at a higher level to match the quality of these new courses. The recently approved \$8.1 million Brookside Master Plan will do much to further these aims and enhance the public appeal of Brookside. In September, the new irrigation system was completed at Brookside and turf conditions are already showing a dramatic improvement.

Even though Brookside has recently embarked on a phased \$8.1 million renovation program, funds must be set aside for additional future improvements which will be needed after the renovation so Brookside can continue to maintain its competitive position. Currently, the Capital Improvement Fund sets aside \$1 per round for capital improvements. In 2002, this translated to \$152,000. The National Golf Foundation recommends that a minimum of 4% of golf course revenues (green fees, tournament surcharges, monthly tickets, I.D. cards, driving range and golf carts) be set aside for course improvements. Staff recommends adopting this 4% formula. Based on the above referenced 2002 figures, and using the proposed 4% formula, funding for capital improvements would have been \$226,000 or roughly a 50% increase.

The current agreement with AGC requires that it maintain and operate Brookside in a manner consistent with several specific golf courses in the Los Angeles area: Long Beach City courses,

Los Angeles County courses and the City of Burbank's course. Many of these courses can be characterized as "lower-end." While they charge relatively low rates, they receive a standard of maintenance which is less than what the marketplace is demanding.

Staff recommends that the maintenance and operations standards set forth in the agreement with AGC be revised upward to equal those of "higher-end" municipal courses, specifically Industry Hills in the City of Industry and Rio Hondo in the City of Downey. These courses are maintained at a level consistent with guidelines and practices established by the National Golf Foundation and the Golf Course Superintendents Association of America. Bringing Brookside up to these standards will require increased grooming, fertilization and irrigation and will necessitate additional expenditures beyond what can be supported by the current fee structure.

Funding of Enhanced Maintenance/Proposed Fee Revision

In order to fund the proposed enhanced maintenance and capital improvement program at Brookside, golf rates should be made comparable with those of Los Angeles County's higher-end municipal courses. Brookside's current rates, specifically resident rates, are under market as compared to the two higher-end municipal courses (see Attachment A).

The proposed 3-year fee structure (see Attachment B) increases rates on an average of 9½% annually. Because rates have not increased over the past four years, this percentage is reduced to 5% annually over a six year span. Over the next three years, resident rates will increase at a greater percentage than non-resident rates. The reason for this is that from 1986 to 2000 (last fee increase), non-resident and tournament rates have increased at a much greater pace than resident rates (see attachment C). During those 14 years, the average resident rate has increased \$11.25 while the average non-resident rate has increased \$21.65 and the average tournament rate has increased over \$41. Staff believes that continuing the policy of increasing non-resident and tournament rates aggressively will lead to erosion of non-resident/tournament play, which accounts for 82% of total golf revenues. It should also be noted that resident rates, over the next three years, will continue to be less than non-resident rates by as much as 25%. Implementing a 3-year fee structure will insure increased revenues annually, and reduce the erosion of play, which typically occurs when fees increase dramatically.

Even with improved maintenance and capital improvements, Brookside needs to remain competitive during non-prime times. Non-prime times are considered all day Monday through Friday and the afternoons during the weekend. Staff is recommending that a non-resident discount program be made available to maximize revenues. Many non-residents do not frequent Brookside on a regular basis, during non-prime time, because rates are 25% to 40% more than many of the other municipal courses in the area. Staff believes that by offering a discount program, these golfers will play Brookside on a regular basis. Currently, Brookside's utilization

during non-prime time is only 75% of maximum. Utilization during prime-time is nearly 100%. The cost of the annual non-resident discount card would be \$100.

Organized Clubs

Brookside is home to two Women's Club totaling 110 members, a Senior Men's Club with 150 members and a Men's Club with 550 members. Fifty percent of the two Women and Senior Clubs and eighty percent of the Men's Club are non-residents. Most of the Clubs came into existent over 60 years ago. Because of the Clubs support of Brookside over the many years, the policy has been that non-resident club members could purchase an annual discount card for \$50, which entitles them to green fee discounts at all times. Staff is recommending that this policy continue through 2004. Staff also recommends that the Clubs, especially the Men's Club, which is by far the largest, take a more active role in the community by assisting in the development of a junior golf program. This program would include disadvantaged Pasadena youths that otherwise would not be afforded the opportunity to learn and play golf. Staff is working with representatives of the Men's Club, John Wells Golf Shop and American Golf in developing a comprehensive Junior Program, which is expected to be unveiled by this year. Staff's desire is to come back to the RBOC before November 1, 2004 with recommendations regarding the Junior Program and benefits afforded the Clubs in 2005 and beyond.

Staff is also recommending that the Advanced Weekend Reservation policy allow golfers to make reservations eight days in advance. Currently, the policy allows golfers the ability to make reservations five days in advance. Also, the current policy allows residents a 1 hour head start on non-residents to make weekend reservations. The current policy, from the 1960's, is outdated and has an important flaw. Many Los Angeles area courses allow golfers, regardless of their residency, to reserve weekend times seven days in advance. We want to gain a competitive advantage by offering reservations eight Days and under the current system many nonresident golfers do not attempt to get reservations at Brookside because if they fail to get a reservation in our five Day reservation system they will be locked out of all other seven Day reservation courses.

SUMMARY OF DEAL POINTS

1. Capital Improvement Fund

This Section to be amended to reflect an increase to the Capital Improvement Fund. AGC to deposit 4% of all golf revenues into the Capital Improvement Fund. The current \$1 per round set aside will be discontinued. The Capital Improvement Fund's annual contribution would increase from the \$152,000 in 2002 to \$230,000 in 2004, over \$254,000 in 2005 and over \$267,000 in 2006, if applied to the proposed new fee structure. These additional funds would be earmarked for course improvements up and above the already approved \$8.1 million capital improvement program.

2. Course Maintenance, Performance Requirements and Comparable Golf Course Operations

This Section to be amended to reflect better maintained and operated golf courses similar to Industry Hills in the City of Industry and Rio Hondo in the City of Downey. AGC will be required to spend \$75,000 additionally in 2004, \$150,000 in 2005 and \$225,000 in 2006, to the already established \$1,650,000 maintenance budget. Over a three year period, AGC will be required to spend an additional \$450,000 on increased golf course maintenance.

3. Fee Schedule

This section to be replaced with Attachment D. Included are discounts for Residents at all times as well as a discount program for Affiliate Club Members and Non-Residents during non-prime times.

FISCAL IMPACT:

Based on the proposed 3-year fee schedule, and using AGC's latest Utilization Report, a break down of increased golf revenues, over 2002, would be as follows:

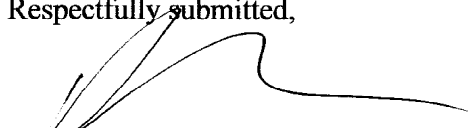
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenue Increase	\$352,021	\$753,766	\$1,091,223
RBOC Rent	\$ 93,396	\$198,118	\$340,592
10% Set Aside	29,812	65,701	95,897
Course CIP	78,321	103,151	116,649
AGC's Expenses**	75,000	150,000	225,000
AGC's Share	75,492	236,796	313,085

*RBOC's rent percentages increase in 2006.


** Does not include CPI for AGC's current \$2,850,000 operational budget for Brookside.

Currently the RBOC receives over \$1.6 million in rent from golf course operation.

Respectfully submitted,


Patrick T. Green
RBOC, President

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