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Capital City Golf

"The Exceptional Public Golf Experience"

APPROVED
JUL 31 2001
OFFICE OF THE
CITY CLERK

ANN WEAVER
GOLF MANAGER

CITY OF SACRAMENTO
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July 23, 2001

AG2001-134

City Council
Sacramento, California

Honorable Members in Session

SUBJECT: City Golf Services Contract

LOCATION AND COUNCIL DISTRICT: Bartley Cavanaugh Golf Course
Bing Maloney Golf Course
Haggin Oaks Golf Course
Districts 2, 7 and 8

RECOMMENDATION:

Staff recommends that the City Council:

- (1) Authorize the City Manager to enter into an agreement with Kathken Corporation for the golf shop and food and beverage services at the City's Haggin Oaks, Bing Maloney and Bartley Cavanaugh golf facilities;
- (2) Authorize expense and revenue budget adjustments in the Golf Division operating budget for FY 2001/02 to reflect implementation of this agreement, including deletion of a vacant Accounting Technician position (1.00 FTE).

CONTACT PERSON: Ann Weaver, Golf Manager, 433-6315

FOR COUNCIL MEETING OF: July 31, 2001

CAPITAL CITY GOLF AFFILIATES:

ALISTER MACKENZIE GOLF COURSE AT HAGGIN OAKS • ARCADE CREEK GOLF COURSE AT HAGGIN OAKS • BARTLEY CAVANAUGH GOLF COURSE
BING MALONEY 18-HOLE GOLF COURSE • BING MALONEY EXECUTIVE 9 GOLF COURSE • WILLIAM LAND 9-HOLE GOLF COURSE
TEE TIME RESERVATIONS 916.264.TIME(8463)

SUMMARY:

The existing golf services contracts for the City's Bing Maloney, Bartley Cavanaugh and Haggin Oaks facilities expire on August 31, 2001. Following a Request for Qualifications process, Kathken Corporation was selected as the top responder. The proposed agreement with Kathken is presented for City Council approval.

COMMITTEE/COMMISSION ACTION:

None.

BACKGROUND INFORMATION:

The recommendation for a single operator for golf shop and food and beverage services at City Golf courses results from several factors. The current structure of multiple operators has made financial success difficult to achieve. The area golf market has become increasingly competitive with over thirty new golf courses opened for play within a 50-mile radius of downtown Sacramento over the past 10 years. The Golf Division's 5-Year Business Plan, presented to the City Council last December, included a recommendation that the City seek one operator to achieve operational efficiencies and a stronger marketing position.

- The existing golf services contracts for the City's Bing Maloney, Bartley Cavanaugh and Haggin Oaks facilities expire on August 31, 2001. Golf services include such activities as food and beverage sales, golf merchandise sales, starter services, golf cart rentals and lessons.
- On March 13, 2001, the City Council approved the issuance of a Request for Qualifications (RFQ) for City golf services. City staff direct-mailed the RFQ to over 125 prospective companies and individuals from a list in the National Golf Foundation's (NGF) Directory. The RFQ was placed on the City of Sacramento, Capital City Golf, and the Northern California Professional Golf Course Association of America (NCPGA) web sites. Advertisements for the RFQ were also placed in the Sacramento Bee on April 7 and 8, 2001. The deadline for responses to the RFQ was April 30, 2001.
- The City received three (3) responses to the golf services RFQ: 1) Kathken Corporation; 2) Evergreen Alliance Golf Limited; and 3) Kemper Sports. A screening committee reviewed the responses to the RFQ on May 4, 2001 and rated and ranked the responses from the three prospective operators. Kathken Corporation was unanimously selected as the top responder to the RFQ.
- Ken Morton Sr. President/CEO of Kathken Corporation, has been affiliated with the City of Sacramento golf courses for over forty years. Mr. Morton has been

recognized as a leader in the golf industry and was recently named Golf Professional and Golf Merchandiser of the Year by the Professional Golfers Association of America (PGA). He has proven his ability to operate and manage first class service and products to the Sacramento golfing community and, as founder of Sacramento Area Youth Golf Association (SAY Golf) has brought the City great recognition for its youth golf programs.

- Under the proposed golf services agreement, the Capital City Golf division and its City employees will continue to provide the administration, golf marshalling and golf maintenance services. Kathken Corporation will provide golf shop and food and beverage services at the Bing Maloney, Bartley Cavanaugh and Haggin Oaks facilities.

Key components of the proposed agreement include the following:

- An initial term of ten (10) years, commencing on September 1, 2001, with three (3) additional 5-year mutual options.
- Kathken Corporation would be required to complete a minimum of seven hundred and fifty thousand dollars (\$750,000) of capital improvements during the initial 10-year term, and a minimum of four hundred thousand dollars (\$400,000) of capital improvements for each additional 5-year term.
- The City shall receive: 1) guaranteed minimum rent of one million dollars (\$1,000,000) annually; 2) one hundred percent (100%) of the Irrigation Surcharge fees collected; and 3) percentage rents from green fees, merchandise sales, club and cart rentals, driving ranges, food & beverage sales, club repair, golf lessons and membership sales. Under the proposed contract, the City would not collect percentage rent from the golf cart rentals at the Alister MacKenzie Golf Course. Instead, Kathken will get a flat \$5 of each bundled fee (excluding junior rounds) to cover their cart expenses.
- Effective September 1, 2001, green fees will be increased minimally. Green fees will also be increased by \$0.25 per 9-hole and \$0.50 per 18-hole round of golf to pay for an Internet tee time reservation service and the maintenance and upkeep of the computer hardware, and software associated with the automated reservation/information system. These fee adjustments are made under the City Manager's authority, as previously approved by City Council.
- A financial incentive and revenue sharing of green fees with Kathken Corporation of ten percent (10%) of gross green fees, less the irrigation surcharge and the technology fee.

- Kathken Corporation will hire a full-time Director of Special Events to coordinate marketing and promotion efforts for City golf courses as well as tournament directors to support these activities at Bing Maloney and Bartley Cavanaugh. Additionally, Kathken will provide a full compliment of staff and services at Bing Maloney and Bartley Cavanaugh Golf Courses.
- Assumption by Kathken Corporation of certain administrative services currently paid by the City, including armored car services, janitorial supplies, parking lot maintenance, scorecards and pencils.

FINANCIAL CONSIDERATIONS:

As shown in Exhibit A, the recommended agreement with Kathken Corporation would result in improved economic performance for the Golf Fund with a vendor with a proven history of successful performance. The FY 2001/02 Approved Budget projected green fee revenues at \$5.1 million and concessions at \$1.2 million. Under the proposed agreement, an additional \$150,000 in green fee revenues and \$60,000 in concession revenues are projected based on the anticipated performance of Kathken Corporation to generate increased golf rounds, merchandise and food and beverage sales. Kathken would retain 10 percent ten percent (10%) of gross green fees, less the irrigation surcharge and the technology fee.

The shift in program responsibilities from the City to Kathken under the proposed agreement (e.g. armored car services, janitorial supplies, printing, scorecards) would include expense savings of approximately \$46,000 for labor (reflecting the elimination of a vacant Accounting Technician position), \$75,000 in services and supplies and \$50,000 in starter fees paid to the current vendor.

The proposed increase in greens fees fee to pay for an Internet tee time reservation service and the maintenance and upkeep of the computer hardware, and software associated with the automated reservation/information system is expected to generate \$20,000 in FY 02 and the associated costs are reflected in the Exhibit A analysis.

ENVIRONMENTAL CONSIDERATIONS:

The City Office of Environmental Affairs has determined the proposed project to be exempt from the requirements of the California Environmental Quality Act (CEQA) under Sections 15301 and 15323, relating to projects involving the leasing and normal operations of existing facilities for public gatherings where there is a past history of the same use. The current proposal involves the request for an agreement between the City and Kathken Corporation for operation of the golf shop and food and beverage services at the City's Haggin Oaks, Bing Maloney and Bartley Cavanaugh golf facilities.

POLICY CONSIDERATIONS:

The recommendations in this report are consistent with the City policy directing enterprise fund operations to be self-supporting.

ESBD CONSIDERATIONS:

The revenues generated under this lease preclude the Tenant from becoming certified under the ESBD Program.

Respectfully submitted,



Ann Weaver, Golf Manager

APPROVED:



Barbara E. Bonebrake, Director
Convention, Culture and Leisure Dept.

RECOMMENDATION APPROVED:



Robert P. Thomas, City Manager



Golf Fund Expense and Revenue Summary
Impact of City Agreement with Kathken Corporation

Exhibit A

(in \$ 000's)	<u>2001/02</u> <u>Budget</u>	<u>2001/02</u> <u>Revised</u>	<u>Variance</u>	<u>2002/03</u> <u>Estimate</u>	<u>2003/04</u> <u>Estimate</u>	<u>2004/05</u> <u>Estimate</u>	<u>2005/06</u> <u>Estimate</u>
BEGIN FUND BALANCE	217	217	-	377	302	281	376
REVENUES							
Greens Fees	5,079	5,496	417	5,656	5,818	5,982	6,149
(Green Fees transfer out)	-	(500)	(500)	(566)	(582)	(598)	(615)
Concessions	1,169	1,229	60	1,293	1,303	1,327	1,337
Interest	110	110	-	100	100	100	100
Registrations	50	30	(20)	30	30	30	30
Irrigation Surcharge	263	263	-	265	268	271	273
Pespi Agreement	25	25	-	25	25	25	25
Miscellaneous	78	78	-	78	78	78	78
TOTAL REVENUES	6,774	6,731	(43)	6,881	7,040	7,215	7,377
EXPENDITURES							
Employee Services	2,863	2,817	(46)	2,902	2,989	3,078	3,171
Supplies and Services	2,413	2,308	(105)	2,331	2,354	2,378	2,402
Equipment	218	118	(100)	100	100	100	100
Other/Operating Transfer Out/(In)	(84)	(84)	-	30	30	30	30
Subtotal - Operations	5,410	5,159	(251)	5,363	5,473	5,586	5,702
Debt Service	1,253	1,253	-	1,355	1,244	1,244	1,244
Capital Improvements	159	159	-	239	344	290	242
TOTAL EXPENDITURES	6,822	6,571	(251)	6,957	7,061	7,120	7,188
CURRENT SURPLUS/(DEFICIT)	(48)	160	208	(75)	(21)	95	189
ENDING FUND BALANCE	169	377	208	302	281	376	565

APPROVED
JUL 3 1 2001
OFFICE OF THE
CITY CLERK

RESOLUTION NO. 2001-537

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**GOLF SERVICES AGREEMENT BETWEEN
THE CITY OF SACRAMENTO AND KATHKEN CORPORATION**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. City Manager is authorized to enter into an agreement with Kathken Corporation for golf shop and food and beverage services at the Haggin Oaks, Bing Maloney and Bartley Cavanaugh golf facilities – a copy of the agreement is on file with the City Clerks Office.
2. City Manager is authorized to amend the FY 2001/02 Golf Operating Budget as shown in Exhibit A, including elimination of a vacant Accounting Technician position (1.00 FTE) in Org. 4281.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

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Business Points for Golf Services Contract & City Council Report on 7/31/01

PROCESS

- RFQ issued, received 3 responses to RFQ, screening committee ranked responses
- RFQ direct mailed to over 125 prospective golf companies & individuals
- RFQ advertised on City and Division website, PGA website, and in Sac Bee
- Current leases expire on August 31, 2001
- KPMG (top 5 accounting firm) assisted in the preparation of a 5-year business plan for Capital City Golf – plan presented and approved by City Council in December 2001
- Business plan recommends going to one operator for all golf shop and F & B services
- Ken Morton Sr. (Kathken Corp.) have been business partners with the City for over 44 years, their performance as operators has been excellent

CONTRACT BUSINESS POINTS

- Initial Lease Term is 10 years - three additional 5-year options to extend, options to extend are mutual between City and Kathken
- City employees continue to provide maintenance, marshaling and administration services
- City maintains control of policies & procedures and approval of golf fees
- City shall receive minimum guaranteed rent of \$1 million annually
- City shall receive 100% of irrigation surcharge fees collected
- City shall receive 100% of technology fee
- City shall receive percentage rents for all other categories of revenues (merchandise, food & beverage, golf cart rentals, driving range, etc.)
- City has had two golf operators go bankrupt in the past 5 years, negotiations for this contract were intended to make sure the operator and City were financially stable to ensure a win-win situation with shared risk
- Tenant shall receive 10% of gross green fees (less irrigation surcharge and technology fee)
- Tenant shall not pay percentage rent on carts at Alister MacKenzie G.C. – Tenant receives a flat \$5 of each round, with exception of the junior rounds.
- Tenant shall be responsible for providing and maintaining an integrated point-of-sale and automated tee time reservation system
- New Technology Fee - 9-hole rounds shall be increased by \$.25 and 18-hole rounds increased by \$.50 to cover cost for providing Internet access to golf tee times and system maintenance – normal fee increase to go into effect on 9/1/01, this technology fee will be part of that increase
- Capital Improvements – Tenant shall spend a minimum of \$750,000 during initial 10-year term, and \$400,000 for each mutually agreed upon and approved 5-year extended term
- Capital Improvements Approved include in year one of the contract 1) remodel café at Haggin Oaks; 2) remodel Bing Maloney golf shop; 3) expand BBQ patio area at Bing Maloney and construct new tournament scoreboard; 4) pour concrete pad for 50' x 100' tent/pavilion at Haggin.
- City will purchase 2 single-rider golf carts for golfers with disabilities out of the golf fund's CIP account #CCOO – Tenant shall maintain, repair and replace these carts in future
- Tenant shall hire a Director of Special events to promote City golf facilities and increase rounds and revenues
- Tenant shall prepare a marketing plan for City review and approval annually – Tenant shall contribute 2 1/2 % of its portion of the green fee revenue and City shall contribute \$50,000 annually towards marketing the properties



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