

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL

FROM: JASON NUTT, ASSISTANT CITY MANAGER

JEN SANTOS, DEPUTY DIRECTOR - PARKS
TRANSPORTATION & PUBLIC WORKS DEPARTMENT

SUBJECT: APPROVAL OF AGREEMENT WITH TOUCHSTONE GOLF LLC.,
FOR MANAGEMENT OF BENNETT VALLEY GOLF COURSE
ENTERPRISE

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Transportation and Public Works Department that the Council, by resolution: 1) approve and authorize the City Manager to negotiate and execute an Agreement with Touchstone Golf LLC., to manage the Bennett Valley Golf Course (BVGC) Enterprise in accordance with the business terms set forth in the staff report and resolution; and 2) authorize increased appropriations in the BVGC Operations Fund in the amount of \$345,000 to fund the transition plan capital costs from the Agreement, with the source of the funds from the BVGC Capital Fund; and 3) authorize increased appropriations in the BVGC Operations Fund in the amount of \$351,225 for the creation of sufficient projected reserves with the source of the funds from the General Fund; and 4) authorize the Chief Financial Officer to appropriate all operator fees and operating and maintenance expenditures from BVGC revenue to Touchstone Golf LLC., as described in the Agreement; and 5) approve and authorize the City Manager to negotiate and execute assumption from the current course operator of the Master Lease Agreement for golf carts with Yamaha Motor Finance Corporation, U.S.A. for the remainder of the Master Lease Agreement term through October 2022.

EXECUTIVE SUMMARY

The purpose of this action is to receive approval from Council for the City Manager to negotiate and execute an agreement with Touchstone Golf LLC., (Touchstone) to operate and maintain the Bennett Valley Golf Course (BVGC), including the restaurant facilities in accordance with the business terms set forth in this staff report and

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resolution. On February 15, 2021, the BVGC Ad Hoc Committee and the Transportation and Public Works Department recommended, and Council approved a solicitation for a single operator to manage the operations and maintenance of BVGC. Touchstone is recommended as the highest ranked firm from the BVGC Review Committee for operation and maintenance management of the BVGC.

Approval of the Resolution will authorize staff to finalize an Operating and Maintenance Agreement with Touchstone to manage the BVGC. Touchstone, the city, and the current golf course operator will implement the transition plan from the Agreement with Touchstone and provide continuity of golf operations and maintenance between the current golf course operator and Touchstone.

The transition plan includes but is not limited to providing golf tee times, opening the restaurant, maintaining the golf course facility and equipment, marketing, and outreach strategies, and all the support services necessary for operating the BVGC enterprise. Approval of the Resolution will utilize the remaining Fiscal Year 21-22 funds from the BVGC Capital Fund for implementation of the transition plan capital needs.

The city will earn all revenues from the golf course enterprise and those revenues will fund all expenditures, including a management fee and incentive to Touchstone. Approval of the Resolution authorizes the Chief Financial Officer to appropriate all expenditures from the revenues. Current operating reserves are low, and therefore the Resolution will authorize funds from the General Fund to create the sufficient level of reserves.

BACKGROUND

The BVGC is a 150-acre, 18-hole golf course with a driving range, pro shop, course restroom, maintenance shops and yards and restaurant with banquet rooms. The golf course is a par 72, 6,500-yard course from the championship level tees and was built in 1969 on heavy clay soil. This is a fair-weather course and is unplayable in rainy weather due to the soil type and other site characteristics.

The golf course drainage system of swales is generally adequate, but the fairways are flat which does not allow rainwater to flow towards the swales and pipes. Lack of drainage is a problem because it severely limits play in the days following a rain event. Irrigation water is mostly provided by a well system and directed to an irrigation system installed over 50 years ago.

The golf course is bisected by Matanzas Creek and most of the water east of the creek will percolate towards the creek. There is one original drain inlet that collects and transfers rainwater into the creek via a twelve-inch outfall pipe. The west side of the golf course drains to a twenty-four-inch storm water drain that eventually returns the water downstream to Matanzas Creek via an existing outfall pipe.

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The restaurant building was in continuous operation from 2005 until December 2020 when it was closed due to pandemic restrictions eliminating and limiting indoor gathering. The restaurant is in fair condition although reopening the site will necessitate some moderate updates to meet current building code compliance standards and health inspection requirements.

The golf course and restaurant share a large parking lot with Galvin Community Park. The Park is highly active with tennis, soccer, baseball, a dog park, playground, picnic sites and a fly-casting pond. When sports tournaments are held on the weekend the parking lot is full.

There is also a privately operated and maintained cell tower on site and the funds collected from the cell tower lease agreement are deposited as revenue in the BVGC enterprise fund annually.

In 2004 the city sold bonds and borrowed funds from Park Development Impact Fees to modernize the pro-shop and construct the restaurant and banquet rooms. Upon construction completion the City entered into two separate operations agreements for the restaurant and golf.

As required per each agreement, both operators provide a portion of their revenue to the city intended to cover the basic operations, minor improvements, and debt payments. In 2017, the city added an additional fee per round of golf to assist with capital improvements.

As a result of the pandemic, the restaurant operator requested early termination of their agreement which was granted by the City in December 2020. The current golf operator's agreement terminates on June 30, 2022, and the operator is not seeking renewal or extension.

On February 2, 2021, staff presented a study concept to Council during a study session to consider whether to pursue an evaluation of using portions of the golf course property to finance capital investments at both the golf course and the adjacent Galvin Community Park. Following this presentation citizens from the golfing community formed the Save the Bennett Valley Golf Course group.

Mayor Rogers established the BVGC Ad Hoc Committee on March 2, 2021, and appointed Council Members Sawyer (Chair), Alvarez, and Tibbetts to serve on the committee and work with staff to develop a scope of work for full Council consideration to evaluate the concept presented by staff on February 2, 2021. Mayor Rogers joined the committee following the resignation of Councilmember Tibbetts.

Staff provided an Ad Hoc Committee update during staff briefings at City Council on April 13, 2021 and explained that the Ad Hoc Committee requested that they focus on a comprehensive operational analysis rather than one that involves a potential real estate

transaction.

The Ad Hoc Committee met on April 20, 2021, and again on June 1, 2021, to discuss potential future operations of BVGC and to hear from the citizen's group, Save the Bennett Valley Golf Course. On July 15, 2021, the Ad Hoc Committee recommends approval to solicit proposals to provide the city with an evaluation and study of the BVGC and to make recommendations for future operations and capital improvements. The Ad Hoc approved of the scope of work, and composition of the review/selection committee for the BVGC evaluation study.

On August 17, 2021, the BVGC Ad Hoc Committee and the Transportation and Public Works Department recommended, and City Council approved a solicitation for a consultant to evaluate the golf course enterprise, including the restaurant to determine the best method for soliciting for the future operations of the BVGC and restaurant. Upon recommendation from the proposal Review Committee, on November 4, 2021, the National Golf Foundation (NGF) was approved by the City to provide the evaluation of the BVGC enterprise and make recommendations to Council for the future operations, maintenance, and improvements.

NGF's research showed that a Full-Service Management Agreement for a single management firm to operate and maintain the BVGC Enterprise is the recommended approach to managing the BVGC. The recommendation for a single operator will allow for enhanced property efficiency, greater City control, better economics for the benefit of the City and the limited timeframe needed to make this change. NGF's recommendation is made for the reasons listed below that a management agreement will:

- Provide the most amount of revenue to support the golf course and restaurant as a self-sustaining enterprise
- Allow the City to use incentives to keep operations at a high level with strong accountability
- Provide for continuity of service and be ready to go on or before July 1, 2022
- Give the City time to plan for the long-term future of BVGC, including the preparation of a site master plan of improvements
- Be a short-term agreement (3 years plus options for renewal), giving flexibility to the City

NGF describes that the concept of a Full-Service Management Agreement requires the City to hire a private management entity to operate all aspects of BVGC Enterprise in exchange for a management fee, typically around 2-4% of total revenue. These agreements are typically short-term in nature (3-5 years). The City is earning all revenues, is responsible for all expenses (salaries, maintenance, liabilities, capital) and pays a management fee to an operator. The operator manages all aspects of the golf course, restaurant and owns and/or maintains all equipment necessary to operate and maintain the facility.

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- The advantages to this strategy include the expected benefit of professional management, access to national purchasing and marketing programs, retaining private-sector labor expense, and direct City strategic oversight of the BVGC operation. The city receives all revenue for the BVGC enterprise.
- The disadvantage primarily relates to the fixed management fee for service, which must be paid regardless of yearly variations in performance. The city is responsible for all expenses.

NGF worked closely with staff and the BVGC Ad Hoc Committee to ensure that recommendations provide continuity of services during the transition from the current operator to the new operator. See Attachment 1 for the section of the presentation to Council from February 15, 2022 regarding NGF's evaluation of BVGC.

On February 15, 2022, the BVGC Ad Hoc Committee and the Transportation and Public Works Department recommended, and Council approved a Request for Proposals (RFP) solicitation for a single operator to manage the operations and maintenance of BVGC. As part of the approval process, NGF made a presentation to Council outlining the recommended approach to solicit for a single operator to operate and maintain the BVGC under an Agreement.

PRIOR CITY COUNCIL REVIEW

February 2, 2021 – Staff presented a study concept to Council during a study session to consider whether to pursue an evaluation of using portions of the golf course property to finance capital investments at both the golf course and the adjacent Galvin Community Park.

March 2, 2021 – Mayor Rogers established the BVGC Ad Hoc Committee and appointed Council Members Sawyer (Chair), Alvarez, and Tibbetts to serve on the committee and work with staff to develop a scope of work for full Council consideration to evaluate the concept presented by staff on February 2, 2021.

April 13, 2021 – Staff provided an Ad Hoc Committee update during staff briefings and explained that the Ad Hoc Committee requested that they focus on a comprehensive operational analysis rather than one that involves a potential real estate transaction.

August 17, 2021 – Council approved by motion the scope of work for the BVGC operational evaluation, release of an RFP, approval of the proposal review committee, and to delegate authority to the City Manager or designee to further modify the Scope of Work and evaluation process.

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November 4, 2021 – National Golf Foundation (NGF) approved by the city to provide the evaluation and analysis of the BVGC Enterprise with recommendations for future operations and maintenance.

February 1, 2022 – Staff provided an Ad Hoc Committee update during staff briefings regarding the initial analysis of options available for future operations and maintenance of BVGC and restaurant.

February 15, 2022 – Council approved, by motion, the Scope of Services and release of a Request for Proposals (RFP) to solicit for a single management company to provide operations and maintenance for the BVGC and the restaurant together. Council approved the proposal Review Committee to include one Council Member, one member of the golfing community, and staff members familiar with operations and maintenance of the BVGC enterprise.

ANALYSIS

In response to the RFP to solicit for a single operator to manage the BVGC, the city received five proposals on March 24, 2022, as follows in alphabetical order: CourseCo, Kemper Sports, Touchstone, Troon, Windsor Golf. The proposal Review Committee ranked each of the proposals and interviewed the top ranked firms. Following the interviews, the Review Committee recommended the highest ranked firm, Touchstone to move onto negotiations for an agreement to operate and maintain the BVGC.

Staff from the City Attorney's Office, Finance, and Transportation and Public Works have worked diligently and continue to negotiate an agreement with the Review Committee's top ranked firm, Touchstone to operate and maintain the BVGC. Comprehensive reference checks were conducted regarding Touchstone's performance at similar golf course operations with a restaurant and key staffing. All reference checks were positive, and very appreciative to work with Touchstone. All references recommend that the city enter into an agreement for Touchstone to operate and maintain the BVGC. These are some of the comments received regarding Touchstone from a variety of references; "Could not say enough great things about Touchstone", "...they are fantastic and easy to work with", "...they are an extension of our staff", "...they always answer the phone", "...they are "terrific", "...they are a "definite A", ...they have "a lot of connections", "they pay close attention to detail" among other similar comments received.

Approval of the Resolution will authorize staff to finalize key agreements in connection with the golf course transition and then allow staff to begin the implementation of the plan to transition from the current golf course operator to the Touchstone Operations and Maintenance Agreement Scope of Services. A requirement of the Touchstone agreement is to meet the Ad Hoc Committee's request to achieve continuity of golf operations and maintenance with less than 5 days without golf tee times, with the goal of no loss of golf tee times.

Touchstone notes that they are golfers at heart and emphasize their ability to navigate the passion for the sport with the business of the sport. They are experienced working with existing municipal golf course operations all over the country, operate and maintain 21 municipal golf courses in California, and are based in Berkeley, California.

Approval of the Resolution will allow staff to provide single operator professional management services to BVGC Enterprise that include all operations, including the restaurant and banquet facilities and all maintenance of the facilities, golf course and equipment. Touchstone also has the capabilities and experience to manage future capital projects with approval from the City.

FISCAL IMPACT

The BVGC Enterprise includes but is not limited to the entire golf course, maintenance shops, yard, maintenance equipment, course restroom, driving range, driving range ball dispenser building, pro shop with restrooms and office, restaurant, full bar, banquet facilities, and parking lot. Since becoming a city facility the entire BVGC Enterprise is set up as an enterprise fund, in that, all revenues collected from operators are used to fund the operating, maintenance, management and debt service requirements of the entire enterprise.

However, research shows that the revenues owed to the City from the two operating agreements did not produce funds necessary to cover all operating and maintenance costs and the debt service. Each year, the budget relies upon the reserve funds to cover annual shortfall. In FY 13/14 BVGC Enterprise received \$469,166 from the General Fund to the BVGC Enterprise to maintain the reserves.

On February 15, 2022, NGF's initial analysis of the future management of the BVGC show that beginning July 1, 2022, the City of Santa Rosa will:

- Collect total receipts in the range of +/- \$4.2 million (assuming the restaurant/event center is open) from golf facility operations (green fees, cart fees, shop sales, driving range, food & beverage, events, etc.)
- Be responsible for upwards of \$3.6 million in total expenses that will include:
 - Golf operating expenses totaling +/- \$850,000 (incl. labor, cart lease, supplies, professional services, and a management fee of about +/- \$150,000)
 - Golf course maintenance expenses totaling +/- \$920,000 (incl. labor, utilities, repair & materials, supplies and equipment)

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- Restaurant (Event Center) expenses totaling +/- \$890,000 (inc. labor, variable expenses, utilities and building maintenance)
- Pro Shop Direct cost of goods sold totaling +/- \$940,000

NGF estimated this will result in a net position of about +/- \$600,000 (plus additional cell tower revenue, approximately \$50,000 annually) that will be available for payment of golf bonds, any City oversight expenses and other ongoing capital improvements (equipment, course repairs, restaurant upgrades, etc.).

The analysis proposed from Touchstone to operate and maintain the BVGC shows that approval of the Resolution will allow the City of Santa Rosa to:

- Collect total receipts in the range of +/- \$3.4 million in year 1 and +/- \$4.6 million by year 3 from restaurant and banquet sales and events and golf facility operations such as green fees, cart fees, shop sales, driving range, food & beverage, events, and similar services.
- Be responsible for expenses upwards of +/- \$2.9 million in year 1 and +/- \$3.8 million in year 3 that will include but is not limited to:
 - Annual management fee: \$96,000
 - Incentive Fee for reaching target goals and net income of +/- \$20,000 in year 1 and +/- \$50,000 in year 3
 - Golf operating expenses totaling +/- \$1.21 million in year 1 and +/- \$1.35 million in year 3 (incl. labor, cart lease, supplies, professional services)
 - Golf course maintenance expenses totaling +/- \$791,000 in year 1 and +/- \$836,000 in year 3 (incl. labor, utilities, repair & materials, supplies and equipment)
 - Restaurant (Event Center) expenses totaling +/- \$687,000 in year 1 and +/- \$1.31 million in year 3 (inc. labor, variable expenses, utilities and building maintenance)
 - Pro Shop Direct cost of goods sold totaling +/- \$121,000 in year 1 and +/- \$136,000 in year 3

Staff plan to return to Council before the mid-year budget cycle and provide Council with the opportunity to discuss options to fund the major capital needs at the BVGC.

Therefore, the Touchstone proposal is based on the current operation with only modest improvements to the course and facilities, along with normal weather. As capital improvements are funded and implemented, revenue and net income will grow which

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aligns with the NGF projections. As mentioned, the NGF projections for revenue are predicated on the city funding the necessary capital improvements.

Staff will prepare an analysis for Council review of the potential to increase golf revenue by increasing golf fees to a competitive rate. This information will be presented for Council consideration prior to the mid-year budget cycle along with options for funding major capital projects.

The Fiscal Year 22-23 BVGC operating budget is projected to have approximately \$537,000 in funds available as of June 30, 2022. Touchstone shows a net gain in operating income of \$482,923, after including the city's existing debt service and transition plan needs is showing a first-year loss of (\$234,682). There is also approximately (\$317,000) in expenses at the golf course that were not included in the Touchstone's analysis that include costs related to banking and equipment replacement and repair. Historically, the city did not capture the replacement costs of the maintenance equipment. As the city acquires new golf course maintenance equipment, each item will be paired with a replacement fund annual cost.

Additionally, staff recommends maintaining a reserve amount of \$681,574 which is equal to 20% of the projected revenue in the first year of the agreement. The current Council reserve policy is six months of operating expenses plus \$200,000, based on the current agreement this is equal to \$466,000. Staff is recommending this increase to be prepared for the increased risk inherent in the new agreement's treatment for revenue and expenditure variance. In other words, if projections are not met, a much larger strain on reserves will occur versus our prior agreement.

In order to offset the first-year start-up capital needs of the golf course, staff recommend transfer of \$345,000 from the BVGC Capital fund to the Golf Course Operating Fund. This leaves a remaining first year loss of \$351,225. Therefore, staff recommend approval of \$351,225 from the General Fund to increase anticipated reserves needed.

Recap;

<u>\$537,031:</u>	<u>BVGC Operating funds projected available on 6/30/2022</u>
(\$234,682):	Year 1 projected losses from operator after debt service and start up cost
(\$466,000):	Reserve requirement per Council Policy
(\$215,574):	Increasing reserves to 20% of projected revenue
(\$317,000):	Additional golf course expenses not included in Touchstone projection
<u>\$345,000:</u>	<u>BVGC Capital Fund transfer to cover capital needs</u>
\$351,225:	General Fund transfer to cover a portion of reserves

Approval of the Resolution will bring total funds transferred and available for year one to \$1,233,256 and the total anticipated budget operations and reserves needed in the first year to \$1,233,256, thereby balancing the budget.

The Golf Course Enterprise Fund will continue to utilize the existing capital project funds related to the day-to-day operations such as major repair of irrigation and pumps system equipment, tree removals necessary for safety, building repairs, and equipment purchases. The existing capital funds are anticipated to be completely utilized in year one.

The BVGC will continue, for now, to collect golf fees, and the capital fund golf fee at the levels established by Council until such time as staff returns to Council with strategies for funding long-term capital projects prior to the Fiscal Year 22-23 mid-year budget cycle.

Capital Projects:

Touchstone has committed \$50,000 of its own funds with no city obligation towards immediate needs to repair the landscaping and irrigation around the restaurant and front entry to the golf course for an immediate positive impact. Touchstone also recommends as an example that projects such as replacing and/or refurbishing the irrigation system can be done in-house under Touchstone's direction saving the city 20-30% of what it would otherwise spend. This strategy and others recommended by Touchstone, and NGF will be discussed at a future Council meeting prior to the Fiscal Year 22-23 mid-year budget cycle.

NGF notes during their February 15, 2022, presentation to Council that when the future single operator management agreement is implemented in Fiscal Year 22-23, the city can begin planning for the necessary large-scale capital upgrades of BVGC in two phases. (See Attachment 2 for the section of the February 15, 2022 NGF presentation to Council regarding capital improvements):

- Phase 1 – completion of a full site master plan, creating a priority ranking of capital investments.
- Phase 2 – undertaking of the improvements that will likely cause some closure of golf operations for 6 - 9 months to complete the improvements.

During their February 15, 2022 presentation to the City Council, NGF's initial estimate of all necessary and high priority capital improvements at the golf course, driving range and restaurant total approximately \$6,800,000. NGF presented the following financing options for capital projects:

- General Fund Investment with phased investment strategy.
- Bonding for the capital improvements to occur as soon as possible which would close the golf course for extended periods of time.

- Net gains collected from the BVGC enterprise are saved and utilized for major capital improvements.

As mentioned in the Council presentation from February 15, 2022, the highest priority and critical need is to implement a capital project to replace the over 50-year-old irrigation system and pumps (which would include new water storage). Staff will develop a comprehensive review of the funding strategies available to the city for implementation of long-term capital and high priority needs.

Options for funding long-term capital needs and the options for golfing fees will be brought to Council for consideration prior to the Fiscal Year 22-23 mid-year budget cycle.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15601(b)(3) in that CEQA only applies to projects or activities which have the potential for causing a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

March 9, 2021 – Ad Hoc Committee – recommends a comprehensive operational study without any real estate considerations

March 31, 2021 – Ad Hoc Committee meeting – bond debt discussed

April 6, 2021 – Ad Hoc committee provided with update from the Save the Bennett Valley Golf Course Group regarding communication and conversations with multiple golf consultants

April 20, 2021 – Ad Hoc Committee meeting

June 1, 2021 – Ad Hoc Committee meets together with the Save the Bennett Valley Golf Course Group

July 15, 2021 – Ad Hoc Committee recommends approval of the scope of work, approval to solicit proposals and composition of the review/selection committee for the BVGC evaluation study

August 17, 2021 – Ad Hoc Committee meeting

October 28, 2021 – Ad Hoc Committee reviews proposals received to provide analysis of BVGC enterprise

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December 21, 2021 – The Ad Hoc Committee reviews preliminary analysis from NGF regarding options for future management of BVGC and restaurant

January 20, 2022 –The Ad Hoc Committee reviews further analysis from NGF and recommends Council approval of a preparation of solicitation for a single management company to provide operations and maintenance for the BVGC and the restaurant together

April 19, 2022 – The Ad Hoc Committee received an update on the status of the RFP process and projected schedule

May 17, 2022 – The Ad Hoc Committee receives information regarding budgetary needs and strategies for Fiscal Year 22-23

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Operations evaluation excerpt of the Council presentation from February 15, 2022
- Attachment 2 – Capital Projects excerpt of the Council presentation from February 15, 2022
- Resolution/Exhibit A (Current Draft - Operations and Maintenance Agreement with Touchstone LLC (with attachments)) and Exhibit B (Master Lease Agreement for Golf Carts)

CONTACT

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