



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve Management Agreement for Sunnyvale Golf Course between the City of Sunnyvale and KSM Sunnyvale, LLC and Terminate Existing Concession License Agreement with KSM Sunnyvale, LLC

BACKGROUND

The City presently owns and manages two public golf courses. Sunnyvale Golf Course was built by the City in 1967 and opened for business in 1968. It is an 18-hole championship course situated on 145 acres of property at 605 Macara Avenue. Sunken Gardens Golf Course and Driving Range was purchased from a private entity with bond revenue in 1973, and was shortly thereafter re-opened as a public course. These facilities operate as part of the Golf and Tennis Enterprise Fund. Services provided at these facilities include golf play on-course, golf practice on the driving range and putting greens, golf merchandise sales, golf cart and equipment rentals and golf lessons.

Buildings at each course currently house a pro shop, restaurant, bar, banquet rooms and outdoor patio space. Areas used for food, beverage, and banquet related services (those encompassed by the scope of these leases) include approximately 16,000 square feet at Sunnyvale Golf Course and 3,000 square feet at Sunken Gardens Golf Course. Since inception, food, beverage, and banquet services have been provided through agreements with outside vendors. These agreements were non-transferable, and non-saleable.

The City issued a Request for Proposals (RFP) and entered into a Concession License Agreement with Gold Rush Eatery for the operation of the restaurant at Sunken Gardens Golf Course on August 13, 2015. The City issued a RFP and entered into a Concession License Agreement with KSM Sunnyvale, LLC (KSM) (Attachment 1 - License Agreement) for the operation of the restaurant at Sunnyvale Golf Course on June 1, 2016 (RTC 16-0163).

KSM signed the Concession License Agreement on June 1, 2016 to open Barrel 19 restaurant at Sunnyvale Golf Course. The current agreement is for ten years and calls for rents to be paid to the City of \$500 per month for the first two and one-half years gradually increasing to \$2,500 per month in year ten. The restaurant is to be open seven days a week from 6:30am to sunset providing breakfast, lunch, bar and banquet menus. KSM keeps all revenues and is responsible for all operating expenses. Also, KSM was required to make capital improvements to the facilities at a minimum of \$150,000 up to \$175,000. But unexpected delays including deferred infrastructure maintenance and new building and health code requirements resulted in a late opening in May 2017. The loss of revenue for 11 months combined with unexpected infrastructure expenses and slow rebound of customers has resulted in KSM proposing to terminate the Concession License Agreement and enter into a Management Agreement (Attachment 2 - Proposed Management Agreement for Sunnyvale Golf Course).

EXISTING POLICY

General Plan, Chapter 4, Community Character - Recreation

Policy CC-10.6 - Leverage available resources by pursuing co-funded and/or cooperative agreements for provision and maintenance of programs, facilities, and services, in order to maximize benefits to the community. Partners may include, but are not limited to, school districts, non-profit groups, governmental agencies and businesses.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment.

DISCUSSION

The restaurant at Sunnyvale Golf Course has struggled with profitability for a number of years with different operators. A long-term operator, Lookout Inn Inc. closed the Lookout Inn (previous name of restaurant) in August 2012 as golf rounds were decreasing and affecting restaurant revenues. A new operator, Synergy Company reopened the Lookout Inn in June 2013 but closed in December 2014 as a result of Synergy filing for bankruptcy. A new operator was approved by City Council in 2015, but decided not to proceed. The restaurant did not reopen for 2.5 years until May 2017 with KSM.

In September 2017, KSM notified the City that their initial required capital improvement budget of \$175,000 was exceeding \$225,000 and requested restructuring of the Concession License Agreement. The delay in opening, unexpected capital costs, and inability to recapture golfers after a 2.5-year restaurant absence was resulting in an increasing deficit. On June 12, 2018 KSM notified the City that their deficit had reached \$700,000 (initial investment and operating losses) and required changes to the Concession License Agreement for their continued operation of the restaurant at Sunnyvale Golf Course.

Sunnyvale Golf Course had an increase of 8% in green fee revenues in FY 2017/18. The availability of a restaurant and food service permits the scheduling of tournaments and events which increase revenue. Growth is anticipated in the number of tournaments and events resulting in planned incremental golf revenues. Staff believes the continued operation of Barrel 19 without a lapse for a RFP for a new operator will provide better revenue and potentially help offset the three-year planned deficit of the restaurant operations.

The proposed Management Agreement was negotiated between both parties, is for five years with the option of two additional five year extensions and has provisions for early termination based on convenience. The restaurant would initially be open Wednesday through Sunday between the hours of 11:00 am and 7:00 pm, although the agreement provides for the ability to change these hours as needed with City approval. Prepacked food will be available for sale in the Golf Pro Shop on Monday and Tuesday when the restaurant is not open. The proposed Management Agreement would require the City to pay for two years a monthly fixed management fee equal to \$5,802.21, or 4.16% (or 1/24th) of the total value of the additional capital improvements KSM completed beyond the original agreement (Attachment 2, Exhibit B - Capital Equipment and Improvements List). All capital equipment and improvements listed in Attachment 2, Exhibit B shall become the property of the City upon full payment of the fixed management fee at the end of the two (2) year period. The ability for

the City to keep the equipment and capital improvements provides an advantage for any future operations. The proposed Management Agreement would have the City pay all operating costs including payroll, utilities, marketing, and goods and services. Any revenue that is generated exceeding operating costs would be shared at 50% between KSM and the City up to a maximum of \$100,000 to KSM. The KSM's planned operating budget for Barrel 19 would be approved annually by the City and any expenditure that exceeds its planned budget by more than 5% would need approval by the City Manager or his designee.

The continued operation of Barrel 19 will allow the planned scheduled events to proceed without impacting any customers. Also, if KSM and the City are not able to agree on the terms of a Management Agreement and KSM decides to cease its operation of the restaurant, the Council can decide to initiate a new RFP for a new operator of the restaurant; however, the 19 events confirmed and 29 possible events that are planned at the Sunnyvale Golf Course in calendar year 2018 will be in significant jeopardy. In addition, for calendar year 2019 KSM is currently in discussions for 32 potential events representing roughly \$237,000 in revenue.

FISCAL IMPACT

The proposed Management Agreement has a fixed management fee of \$139,252.90 over the first two years. In addition to the fixed management fee, and utilizing KSM's estimates provided in the Pro Forma from KSM included as Attachment 3, the agreement would result in a predicted loss of \$136,872.33 over the first two years and four months of the agreement (September 2018 through December 2020). However, the Pro Forma shows a predicted net positive revenue for calendar year 2021 of \$15,221, which would be split between KSM and the City. These figures are estimates using expenditures provided by KSM and can vary. The City has the authority in the proposed Management Agreement to approve budgets and business plans to minimize exposure of losses. In addition, any expenditure of over 5% of the approved budget will need approval by the City Manager or his designee.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Authorize the City Manager to terminate the Concession License Agreement for operation of certain areas and facilities at the Sunnyvale Golf Course with KSM Sunnyvale, LLC, and to execute a Management Agreement with KSM Sunnyvale, LLC in substantially the same form as Attachment 2.
2. Do not Authorize the City Manager to terminate the Concession License Agreement for operation of certain areas and facilities at the Sunnyvale Golf Course with KSM Sunnyvale, LLC, and execute a Management Agreement with KSM Sunnyvale, LLC in substantially the same form as Attachment 2.
3. Other action as determined by Council.

STAFF RECOMMENDATION

Alternative 1: Authorize the City Manager to terminate the Concession License Agreement for operation of certain areas and facilities at Sunnyvale Golf Course with KSM Sunnyvale, LLC, and

execute a Management Agreement with KSM Sunnyvale, LLC in substantially the same form as Attachment 2 of the report.

The increase in the rounds of golf and the size and number of tournaments can be partially attributed to the operation of a restaurant at the golf course. These increases, the potential for future revenue sharing and the desire to honor the banquet reservations that have already been booked support staff's recommendation to authorize the new Management Agreement. Keeping a restaurant service available at Sunnyvale Golf Course will help keep revenues from golf rounds stable and continue to offer a full range of services to the community of golfers that use the facility.

Prepared by: Jim Stark, Superintendent of Parks, Golf and Trees

Reviewed by: Chip Taylor, Director, Public Works

Reviewed by: Timothy J. Kirby, Director, Finance

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Concession License Agreement for Sunnyvale Golf Course
2. Proposed Management Agreement for Sunnyvale Golf Course
3. KSM Pro Forma for Barrel 19