



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve Budget Modification No. 19 for the Golf and Tennis Operations

BACKGROUND

The City presently owns and manages two public golf courses Sunnyvale Golf and Sunken Gardens. 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, which includes a 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 are non-transferable, and non-saleable.

The City 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 (RTC 15-0908). Subsequently, the City entered into a Concession License Agreement with KSM Sunnyvale, LLC (KSM) for the operation of the restaurant at Sunnyvale Golf Course on June 1, 2016 (RTC No. 16-0163).

KSM signed the Concession License Agreement on June 1, 2016 to open Barrel 19 Bistro & Bar (Barrel 19) at Sunnyvale Golf Course. The Agreement was for ten years and called 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 was to be open seven days a week from 6:30 a.m. to sunset providing breakfast, lunch, bar and banquet menus. KSM kept all revenues and was responsible for all operating expenses. Also, KSM was required to make capital improvements to the facilities at a minimum of \$150,000 and a maximum of \$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 a slow rebound of customers has resulted in KSM terminating the Concession License Agreement and entering into a new Management Agreement for KSM to operate Barrel 19.

In August 2018, the City Council approved the termination of the concession License Agreement and authorized the City Manager to enter a new management agreement with KSM (Attachment 1 - Management Agreement for Sunnyvale Golf Course, RTC No. 18-0644).

EXISTING POLICY

Council Policy 7.1.4 Budget Appropriation and Control:

1. The City's budget appropriation control is at the program and department level, within the same fund. Expenditures of the City of Sunnyvale for each fiscal year, appropriations to reserves and inter-fund transfers/loans are governed and controlled according to the amounts adopted by the City Council through a resolution for each of the classifications of the General Fund and Special Revenue Funds.
2. If the expenditures for the Proprietary Funds and Internal Services Funds for the fiscal year exceed actual revenues plus the planned appropriation from the Rate Stabilization Reserve Account or the Resource Allocation Plan Reserve Account, as the case may be, on an annualized basis, Council approval shall be required.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

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

As required by the new management agreement, KSM has submitted a 3-year Pro Forma Summary for Barrel 19 for the Council to review in August 2018 (RTC No. 18-0644). Since the execution of the new management agreement, City staff has been working with KSM to prepare a detailed operating budget for Fiscal Year 2018/19 (Attachment 2). KSM estimated \$472,771 for the revenue, \$720,197 for the Operating and other Expenses and the net loss in the amount of \$247,427. The net loss is higher than the original Pro Forma Summary due to the challenging winter weather. The golf course was closed or had very little play in November, December, January, February and the first half of March due to the poor air quality because of major fires and excess rain. The poor air quality and rain also dramatically reduced the daily foot traffic from local tech companies, especially since many of them have in-house options for food and beverage.

Despite the challenging winter, KSM remains optimistic about meeting the original target to generate a profit in 2021. Barrel 19 staff have been utilizing Google Ad Words and Website Search Engine to boost the website traffic and incoming phone calls. Staff will continue to build a base of loyal customers for lunch and Happy Hour business. They anticipate seeing a significant increase in Event business as two of the direct competitors (David's at Santa Clara Golf & Tennis Club and Terragon Restaurant) have recently closed.

It should be noted that the challenging winter has not only impacted Barrel 19 revenue, but also the golf operations revenue since there has been less golf play. Therefore, the revenue for golf operations has been projected downward by \$100,000 as part of the revised FY 2018/19 revenue estimate in the FY 2019/20 Recommended Budget.

FISCAL IMPACT

Budget Modification No. 19 has been prepared to appropriate \$472,771 revenue and \$720,197 operating expenses in the Golf and Tennis Operations Fund. In addition, a transfer from General Fund to the Golf and Tennis Operations Fund in an amount of up to \$400,000 to subsidize the FY 2018/19 Barrel 19 and the golf operations deficit is needed to maintain a positive fund fiscal position in the fund. Future funding is included with the FY 2019/20 Recommended Budget.

Budget Modification No. 19 FY 2018/19

	Current	Increase/(Decrease)	Revised
Golf and Tennis Operations Fund			
<u>Revenues</u>			
Barrel 19 Operating Revenue	\$0	\$472,771	\$472,771
<u>Transfers</u>			
Transfer in from General Fund	\$1,200,000	\$400,000	\$1,600,000
<u>Expenditures</u>			
Program 647 - Golf Course Operations - Barrel 19 Operating Expenses	\$3,929,667	\$720,197	\$4,649,864
General Fund			
<u>Transfers</u>			
Transfer out to Golf and Tennis Operations Fund	\$1,200,000	\$400,000	\$1,600,000

ALTERNATIVES

1. Approve Budget Modification No. 19 to recognize \$472,771 in revenue and appropriate \$720,197 in operating expenses in the Golf and Tennis Operations Fund to operate Barrel 19 Bistro & Bar (Barrel 19) at Sunnyvale Golf Course and approve a \$400,000 transfer from General Fund to the Golf and Tennis Operations Fund.
2. Do not approve Budget Modification No. 19.

STAFF RECOMMENDATION

Alternative 1: Approve Budget Modification No. 19 to recognize \$472,771 in revenue and appropriate \$720,197 in operating expenses in the Golf and Tennis Operations Fund to operate Barrel 19 Bistro & Bar (Barrel 19) at Sunnyvale Golf Course and approve a \$400,000 transfer from General Fund to the Golf and Tennis Operations Fund.

Prepared by: Grace Zheng, Assistant Director of Finance

Reviewed by: Timothy J. Kirby, Director of Finance

Reviewed by: Chip Taylor, Director of Public Works

Reviewed by: Teri Silva, Assistant City Manager

Approved by: Kent Steffens, City Manager

ATTACHMENTS

1. Management Agreement and Termination of Existing Agreement
2. Barrel 19 FY2018/19 Operating Budget