



# Memorandum

**TO:** NEIGHBORHOOD SERVICES  
AND EDUCATION COMMITTEE

**FROM:** Jon Cicirelli

**SUBJECT: MUNICIPAL GOLF  
COURSES STATUS REPORT**

**DATE:** July 22, 2024

Approved

Date:

7/31/24

## **RECOMMENDATION**

Accept the status report on the City's municipal golf courses under the new lease agreement that took effect on April 1, 2023.

## **BACKGROUND**

The Department of Parks, Recreation and Neighborhood Services (Department/PRNS) has made golf accessible to the public since the San José Municipal Golf Course opened in 1968. In 2000 and 2002, Rancho del Pueblo and Los Lagos golf courses opened, respectively, creating more opportunities for residents and visitors to enjoy San José's open spaces.<sup>1</sup> Table 1 describes the City's golf courses by the numbers:

**Table 1  
San José's Municipal Golf Courses by the Numbers**

	<u>Los Lagos</u> <sup>2</sup>	<u>Rancho del Pueblo</u> <sup>3</sup>	<u>San José Municipal</u> <sup>4</sup>
<b>Acres</b>	180	31	145
<b>Holes</b>	18	9	18
<b>Yards</b>	5,393	1,418	6,639
<b>Par</b>	68	28	72
<b>Range</b>	42 stalls	27 stalls	60 stalls

<sup>1</sup> The County of Santa Clara operates the Santa Teresa Golf Course also located in the City and open to residents.

<sup>2</sup> <https://www.playloslagos.com/>

<sup>3</sup> <https://www.ranchodelpueblo.com/>

<sup>4</sup> <https://www.playsanjosemuni.com/>

<b>Facilities</b>	Putting area, clubhouse with small pro shop, bar and restaurant, office space, maintenance yard	Putting and chipping area, clubhouse with small pro shop, small café, office space, maintenance yard	Putting and chipping area, clubhouse with pro shop, bar and restaurant, office space, maintenance yard
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The City's golf courses provide significant recreational opportunities. Golf is an accessible and inclusive lifetime recreational activity for people of all ages, cultures, and abilities. The City's public golf courses make the game more affordable for a wide variety of players by charging lower fees than private courses. In the spirit of ActivateSJ<sup>5</sup>, the Department's strategic plan, these golf courses serve as one of many opportunities that connect people to recreation for an active San José. The courses have hosted many social events and fundraisers for the community, served as practice facilities for high school golf teams, and hosted youth development programs.

With a total of approximately 300 acres making up nine percent of the City's park and open space acreage, the City's golf courses also provide important environmental benefits for the community. The courses protect habitats and are home to many birds and other animals, including red foxes. Underscoring this role, Los Lagos and Rancho del Pueblo are Certified Audubon Cooperative Sanctuaries for Golf. The courses capture rainfall that recharges groundwater, while their trees and shrubs sequester carbon and remove air pollution. The City's golf courses use reclaimed water where possible and have maintenance standards and practices that are mindful and protective of the riparian corridors and buffers. As evidenced during the 2017 flood incident, Los Lagos and San José Municipal courses also provide flood control capacity along Coyote Creek.

The operation of these facilities has been provided through the City's contracts with third-party vendors. Attachment A to this memorandum provides an overview of past programmatic and policy evaluations of the City's municipal golf courses spanning decades. It also shows how circumstances changed in recent years, leading to a new operating model and long-term lease agreement for the City's three municipal golf courses.

**ANALYSIS**

After years of deliberation and debate about the future of the City's three municipal golf courses, on March 14, 2023, the City Council accepted staff's report on the results of a Request for Proposal and adopted a resolution authorizing the City Manager to execute a long-term lease agreement with San José Municipal Golf, LLC, an affiliate of CourseCo, Inc., for the three City-owned golf courses. The City entered into a 15-year lease agreement beginning April 1, 2023 and ending March 31, 2038, with the option of two additional five (5)-year terms at the City's sole discretion.

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<sup>5</sup> [ActivateSJ Strategic Plan .pdf \(sanjoseca.gov\)](#)

Under the terms of the new lease, San José Municipal Golf, LLC, also referred to as the lessee, is responsible for the management, operations, and maintenance of all the City golf courses, including providing all services and amenities related to golf course operations. Key terms in the new lease agreement include:

- The City is no longer financially responsible for the management, operations and maintenance of the golf courses and receives quarterly rent payments from the lessee based on the financial performance of the golf courses;
- The lessee must invest \$2 million of its own funds for capital improvement projects that will not only preserve but also enhance the golf courses for many years to come. The lessee must also deposit three percent of its gross revenues into an account for capital maintenance to extend the life and maintain existing assets;
- In accordance with City Council direction, the lessee is to ensure and expand community use of the City’s golf courses with a focus on equity and inclusion; and
- The lessee is to incorporate the goals of Climate Smart San José by, among other things, maximizing use of recycled water wherever possible and requiring environmentally sustainable maintenance practices that consider sensitive habitats and riparian corridors.

The Department closely monitors performance under the new lease agreement and has seen progress on each of these key benchmarks of success as detailed below.

**Operational and Financial Results**

During the first 12 months of operations under the new lease, the number of rounds played, and gross revenue generated at the City’s golf courses increased compared to the prior year.

Table 2 compares the rounds and gross revenue at the City’s golf courses for 2022-2023 and 2023-2024.

**Table 2  
Rounds and Gross Revenue During First 12 Months of New Lease with San José Municipal Golf, LLC Compared to Prior Year**

<u>Golf Course</u>	<u>Rounds</u>		<u>Gross Revenue</u>	
	<u>2022-2023</u>	<u>2023-2024</u>	<u>2022-2023</u>	<u>2023-2024</u>
Los Lagos	60,778	64,407	\$4,254,578	\$4,552,576
Rancho del Pueblo	37,367	39,630	\$1,006,634	\$1,123,342
San José Municipal	81,789	83,147	\$6,160,666	\$6,529,829
<b>Total</b>	<b>179,934</b>	<b>187,184</b>	<b>\$11,421,878</b>	<b>\$12,205,747</b>
<b>% change</b>		<b>+3.9%</b>		<b>+6.4%</b>

Note: Attachment A includes a comparison of rounds and revenues from 2015-2016 to 2021-2022. More rounds of golf were played in 2020-2021 and 2021-2022, which were very dry years, than in the past two years as an exceptionally wet winter struck San José in 2022-2023 and average rainfall fell in 2023-2024.

Rent payments to the City from the lessee are made on a quarterly basis and are calculated based on the lessee's revenue for the year. Payments were originally based on the following rent tiers:

Tier 1 .....	up to \$8,000,000.....	10% of revenue
Tier 2 .....	\$8,000,001 to \$12,000,000.....	20% of revenue
Tier 3 .....	\$12,000,001 and up.....	35% of revenue
	Percentage rent on all instruction and merchandise.....	5% of revenue <sup>6</sup>

Based on the gross revenue it earned and the rent tiers, in the first 12 months of operations, San José Municipal Golf, LLC paid the City a total of \$916,129 in rent and deposited an additional \$400,000 into a fund for future golf course capital improvements in lieu of an equal amount of rent, as required by the lease agreement.

### **Capital Investment and Improvement**

As part of the lease agreement, the lessee took over the daily maintenance of the golf facilities at its own expense on April 1, 2023. Through the rest of 2023, it began developing its capital improvement plans to invest \$2 million of its own funds for capital improvement projects. Staff identified initial projects through the Request for Proposal and all projects are subject to the approval of the annual capital plan submitted to the Department. As required by the lease, the lessee also established a capital maintenance fund where it has deposited three percent of its total gross receipts to maintain the condition of existing assets. In 2023, San José Municipal Golf, LLC spent a total of \$104,063 on capital maintenance projects using the money it had deposited, mainly to repair irrigation infrastructure.

For 2024, the lessee has proposed to spend \$2,095,000 on capital improvement and \$257,000 on capital maintenance. These include many of the initial capital improvements required in the lease as well as further improvements proposed by the lessee. In the initial list of capital improvement projects outlined in the lease, the lessee is required to work on specific repairs for each of the golf courses. For Los Lagos, the lessee needs to renovate about 40 percent of the cart pathways throughout the course, make improvements to the additional parking and event area, and renovate/replace the golf course signage at Capitol Expressway. For Rancho del Pueblo, the lessee needs to replace many of the protective netting poles, make improvements to the driving range, replace various equipment, and make improvements to the snack bar and grill. For San José Municipal, the lessee needs to repair/replace range netting, make improvements to the irrigation system, and update the clubhouse. Some of the additional

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<sup>6</sup> Percentage rent tiers will be adjusted annually using the Consumer Price Index. Effective January 1, 2024, the tier thresholds were raised 2.6%.

improvements proposed by the lessee include adding Toptracer (a golf ball tracking technology), adding tee boxes, and upgrading lighting fixtures.

### **Community Use and Access**

Ensuring and expanding community access and use of the City’s golf courses is a key requirement in the lease with San José Municipal Golf, LLC. The lessee proposed several programs to increase access to the golf facilities by all community members, with a focus on equity and inclusion, and City staff added accountability measures into the lease to measure and evaluate performance and compliance.

Per City Council direction, the lease required the lessee to negotiate a use agreement with First Tee of Silicon Valley for programming at Rancho del Pueblo. The lessee entered into an agreement effective June 30, 2023, and First Tee of Silicon Valley continues to operate at Rancho del Pueblo.

The lease required the lessee to expand the use of the facilities by hosting at least 12 non-golf related activities per year per golf course and to ensure at least one First Green (science, technology, engineering, arts, and mathematics environmental outreach program) event per year per golf course. Table 4 below shows that the lessee met and exceeded this goal for the first 12 months of operation. Los Lagos and Rancho del Pueblo each held one First Green event in 2023 that offered an outdoor learning space for Science, Technology, Engineering, Arts, and Mathematics experiences related to the golf course. Both golf courses also held their 2024 First Green event in June 2024. San José Municipal was unable to host any First Green events in 2023 but the lessee has plans to hold two events in the fall of 2024.

The lessee provided the City with quarterly reports on community access events and programming as required in the lease. In the first 12 months of operations, the lessee held a total of 59 events across the three golf courses with a total attendance of 5,984 people, including movie nights, fundraisers, job fairs, celebrations, and neighborhood association meetings. Some events provided the opportunity for people of different age groups and abilities to learn about golf while other events provided a space for members of the public to get together and enjoy the golf course space. Table 3 shows a breakdown of the events by course.

**Table 3**  
**Community Events Summary for April 2023 through March 2024**

<b>Site</b>	<b>Events</b>	<b>Participants</b>
Los Lagos	18	1,935
Rancho del Pueblo	24	3,599
San José Municipal	17	450
<b>Total</b>	<b>59</b>	<b>5,984</b>

Rancho del Pueblo also offered free early morning access and community members regularly use the space for walking. San José high school golf teams are also able to regularly utilize the courses for both practices and games during the season. Additionally, the lessee offered camps in the summer for youth, middle school, and high school age children.

To support with community access for San José residents, the lessee proposed and committed to offer a financial support opportunity through a scholarship fund of at least \$25,000 per year. The lessee coordinated with the Department to prepare a scholarship program during 2023; as of the time of writing this memorandum, the lessee had processed applications for 2024 summer access and programming and had awarded \$9,400 in scholarships. Staff will continue to coordinate with the lessee to help enhance scholarship outreach and refine program offerings.

The lessee also proposed and is developing a San José Turfgrass initiative. The purpose of this initiative is to expand youth access by introducing golf-oriented learning and career opportunities to underserved San José youth. The lessee expects this initiative to be implemented in late 2024 or early 2025.

### **Environmental Stewardship**

In accordance with City Council direction, the lessee is required to incorporate the goals of Climate Smart San José to reduce air pollution, conserve water, and improve quality of life. The lessee continues to implement practices that maximize use of recycled water whenever possible by making irrigation upgrades and repairs. Additionally, Los Lagos and San José Municipal golf courses have recycled water service and, in coordination with City and lessee staff, the San Jose Water Company is planning to install a recycled water main line along King Road that will serve Rancho del Pueblo Golf Course.

The lessee is required to utilize landscape maintenance practices that are environmentally sustainable, adhere to local/state laws, and are sensitive to habitats and the riparian corridors running through Los Lagos and by San José Municipal. The lessee has previously achieved certification as a Certified Audubon Cooperative Sanctuary for its management of Los Lagos and Rancho del Pueblo golf courses and plans to apply for that certification at the San José Municipal golf course in the future.

### **Coordination and Oversight**

The Department closely monitors the performance of the lessee under the new lease agreement. Staff holds monthly meetings with the lessee to review financials, golf/non-golf event participation, upcoming events, maintenance progress and challenges, and contract deliverables. The Department receives quarterly reports that detail the lessee's financial reports and activities. Additionally, the lessee provided the Department with an annual report that outlined all that was done across all three golf courses for 2023,

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including a financial audit report. The Department plans to provide the Neighborhood Services and Education Committee with another status report on the performance of the lessee and the City's three golf courses in fall 2025.

## **COORDINATION**

This memorandum was coordinated with the City Attorney's Office and City Manager's Budget Office.

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Jon Cicirelli  
Director of Parks, Recreation  
and Neighborhood Services

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### **ATTACHMENT:**

- A. Overview of Past Programmatic and Policy Evaluations of the City's Municipal Golf Courses

**Attachment A**  
**Overview of Past Programmatic and Policy Evaluations  
of the City's Municipal Golf Courses**

***A History of Study***

Over the years, the City's golf courses have been the subject of extensive study, largely due to performance that did not meet projections or expectations. There have been City audits (2007 and 2015), civil grand juries (1994 and 2009), consultant evaluations (2000 and 2008), and numerous staff reports. These studies identified various factors that led to the golf courses not generating the revenues needed to cover operating expenses and debt service, including initial financial assumptions, a softening golf market before the Covid-19 pandemic, and higher than expected costs. In their first decade of operation, Los Lagos made net operating income but did not cover a significant portion of its debt service, and Rancho del Pueblo had only one early year of positive operating income and never covered its debt service. In their second decade of operation, both courses generally had net operating losses. As a result of past studies and performance concerns, the City previously explored the sale of Rancho del Pueblo (2009-2011).

On September 2, 2015, the City Auditor's Office issued a report titled "Golf Courses: Loss of Customers and Revenues Requires a New Strategy."<sup>1</sup> The audit report provided background information and analysis on the City's courses and the challenges the City faced in operating them, and recommended changes for the Department to implement. When accepting the audit report, on November 17, 2015, the City Council directed staff to bring back a community engagement strategy proposal to evaluate the current land use of the Los Lagos golf course property. In seeking a broad and inclusive engagement process, the City Council voiced its intention to establish guiding principles for ensuring that future use(s) of the site (status quo or otherwise) would serve the needs and interests of the community. The direction did not include Rancho del Pueblo or the San José Municipal golf courses. Initially, the City Council's direction was limited to an engagement process within the community around the Los Lagos course. At a subsequent City Council meeting on June 7, 2016, engagement was expanded to include citywide outreach.

On February 6, 2018, the City Council accepted a staff report on the community engagement process related to Los Lagos land use and provided further direction.<sup>2</sup> It approved staff's recommended guiding principles for ensuring that future uses for the Los Lagos site serve the needs and interests of the community. The guiding principles focused on maintaining open space and recreation; seeking financial sustainability; and creating opportunity awareness. The City Council also accepted memoranda from Mayor Sam Liccardo, Councilmembers Rocha and Jimenez, and Councilmember Nguyen. The memorandum from Councilmembers Rocha and Jimenez included a recommendation that the City Council accept staff's report and approve the guiding principles for future work on Los Lagos. Memoranda from Mayor Liccardo and

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<sup>1</sup> The September 2015 audit report can be found here:  
<http://www.sanjoseca.gov/Home/ShowDocument?id=33854>.

<sup>2</sup> The February 6, 2018 staff report and Council memoranda be found here:  
<https://sanjose.legistar.com/LegislationDetail.aspx?ID=3299162&GUID=A77C5DBF-3BC5-4BEF-9792-D3A51F6B8261&Options=&Search=>.



Councilmember Nguyen further recommended directing the City Manager to retain recreational use of the Los Lagos land; to explore debt retirement or refinancing; to return to Council for a discussion of options for the recreational use of the site after exploring ways to pay off the debt; to explore management and operations improvements; and, to include other City municipal golf courses in future discussions.

**Changing Circumstances: Golf Resurgence and Debt Clearance**

After years of decline for the industry, the game of golf had a resurgence locally and nationwide during the Covid-19 pandemic. Golf provided a low-impact option for a diverse group of participants to be physically, mentally, and socially active while following the State of California and County of Santa Clara pandemic safety guidelines. Golf was one of the first recreational activities available to residents and visitors after a series of stay-at-home orders led to closures for many activities. Fiscal year 2020-2021 saw the City’s three municipal golf courses achieve record levels of play, with almost 213,000 rounds played generating about \$12 million in gross revenue and resulting in approximately \$1.5 million of income to the City. In 2021-2022, the courses experienced a slight decline in rounds compared with 2020-2021 but continued strong financial results, with more than 201,000 rounds played generating \$12.5 million in gross revenues. By comparison, the last full pre-pandemic year, 2018-2019, had 130,000 rounds played and a net operating loss to the City of \$700,000. Table A below shows that the number of paid golf rounds and financial performance declined through 2018-2019 and then rebounded robustly.

**Table A  
Annual Rounds and Net Revenue/(Loss) for the City’s Golf Courses  
2015-2016 to 2021-2022**

Year	Los Lagos*		Rancho del Pueblo*		San José Municipal		Total	
	Rounds	Net Revenue/ (Loss)	Rounds	Net Revenue/ (Loss)	Rounds	Lease Payment to City	Rounds	Net Income/ (Loss)
2015-2016	48,577	(\$481,855)	21,643	(\$384,655)	72,516	\$436,378	142,736	(\$430,132)
2016-2017	47,049	(\$718,804)	20,776	(\$442,071)	66,146	\$407,888	133,971	(\$752,987)
2017-2018	52,214	(\$467,458)	18,939	(\$492,833)	71,590	\$435,832	142,743	(\$524,459)
2018-2019	46,368	(\$603,545)	20,035	(\$513,696)	62,892	\$413,341	129,295	(\$703,900)
2019-2020**	49,448	(\$279,610)	24,216	(\$458,992)	62,367	\$376,025	136,031	(\$362,577)
2020-2021	71,366	\$945,782	46,363	\$28,336	95,259	\$538,598	212,988	\$1,512,716
2021-2022	66,705	\$366,881	40,201	(\$236,116)	94,370	\$591,612	201,276	\$722,377

\* Net Revenue/(Loss) for Los Lagos and Rancho del Pueblo includes the payment of management fees.

\*\* In 2019-2020, City golf courses closed mid-March and reopened the first week of May in accordance with stay-at-home orders.

Concurrently, the City paid off all golf course debt, enabling better management structures in the future. The City Council approved Mayor Liccardo’s recommendation to pay off the last outstanding golf course debt in the 2020-2021 budget, eliminating future debt service payments that had reached \$2 million per year for Los Lagos and Rancho del Pueblo. Importantly, as the tax-exempt bonds imposed requirements that limited operating options for Los Lagos and Rancho del Pueblo golf courses and saddled the City with all the financial risk in downturns, the clearance of debt also allowed for different management structures, including revenue-sharing, that can drive performance. With debt cleared, all three courses could be operated using a lease

model that gives greater incentives for long-term operators to make business investments and protects the City from downside risk. San José Municipal had this lease model since 1988, providing a stable source of income for the City while also encouraging course maintenance by the lessee.

### ***A New Operating Model and Agreement***

As directed by City Council, staff considered other possible recreational land uses for the golf courses and returned to the City Council with findings and recommendations. On March 15, 2022, the Department provided the City Council a municipal golf courses update including recent performance data, programs offered, and evaluations of other recreational land-use options and their costs. Staff recommended the City Council accept the report, including plans to initiate a Request for Proposal for long-term lease agreements, and adopt a resolution authorizing the City Manager to negotiate, execute, and amend any lease agreements resulting from the Request for Proposal, subject to the appropriation of funds. The City Council approved staff's recommendations and provided further direction to:

- Require that the Request for Proposal stipulates the awardee will include First Tee Silicon Valley as part of Rancho del Pueblo's programming and to that effect, negotiate and execute a new use agreement;
- Return to Council as part of the development of the long-term lease agreements with a report on community use of city-owned golf courses, including details on how that is being ensured and expanded in the new agreements for approval by Council prior to final execution of the agreements; and
- Encourage operators to use practices that accord with the goals of Climate Smart San José by, among other things, maximizing use of recycled water wherever possible and employing environmentally sustainable maintenance procedures that consider sensitive habitats and riparian corridors.<sup>3</sup>

On July 7, 2022, the Department released a Request for Proposal for the management, operations, and maintenance of all three City of San José municipal golf courses. Based on an evaluation of four proposals, the Department issued a Notice of Intent to Award a contract to CourseCo, Inc. and began negotiating the terms of a new lease agreement.

On March 14, 2023, the Department presented the results of the Request for Proposal and key lease terms to the City Council, and the City Council accepted staff's report on the results of a Request for Proposal and adopted a resolution authorizing the City Manager to award, negotiate and execute a long-term lease agreement with San José Municipal Golf, LLC, an affiliate of CourseCo, Inc., to oversee and manage the City's Los Lagos, Rancho del Pueblo and San José Municipal golf courses.<sup>4</sup> The new 15-year lease agreement took effect on April 1, 2023.<sup>5</sup>

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<sup>3</sup> The March 15, 2022 staff report and Council memorandum can be found here: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=5472238&GUID=DD3ACAF3-2019-4955-B63C-204F9EBE8DB9&Options=&Search=>.

<sup>4</sup> The March 14, 2023 staff report and Council memorandum can be found here: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=6047489&GUID=9C278574-2433-4C07-B7CF-DFC9AB735B38&Options=&Search=>.

<sup>5</sup> The lease agreement can be found here: <https://records.sanjoseca.gov/Contracts/OC-004294-000.pdf>.