



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jon Cicirelli

**SUBJECT: MUNICIPAL GOLF COURSES
UPDATE**

DATE: February 28, 2022

Approved

Date

3/2/2022

RECOMMENDATION

- (a) Accept the report on the City's municipal golf courses, including plans to initiate a Request for Proposals (RFP) for long-term golf course lease agreements.
- (b) Adopt a resolution authorizing the City Manager to negotiate, execute, and amend any and all lease agreements for operations of the City's golf courses resulting from the upcoming 2022 RFP, subject to the appropriation of funds.

OUTCOME

Acceptance of this report and recommendations outlined in it will preserve the City's three golf courses in their current public recreational use; allow City staff to initiate a procurement process and negotiate and execute long-term lease agreements that will incentivize capital investment, marketing and business expansion, efficiencies and cost containment, and community access for a wide variety of affordable recreational activities; and protect the City financially from future downturns in the golf industry.

EXECUTIVE SUMMARY

The City of San José's first municipal golf course, the San José Municipal Golf Course (SJ Muni) opened in 1968, followed by Rancho del Pueblo and Los Lagos golf courses in 2000 and 2002, respectively. The three City-owned municipal golf courses span 300 acres of public recreational open spaces.

Prior to the novel coronavirus pandemic, these courses, operated by third-party vendors, experienced declining performance with a [2015 City Auditor's report](#)¹ highlighting the concerning trends. The report prompted the City Council to evaluate land use at the Los Lagos

¹ <https://www.sanjoseca.gov/Home/ShowDocument?id=33854>

golf course through an inclusive community engagement process. That process culminated in a February 2018 report and City Council discussion that approved guiding principles and set forth further direction to improve golf operations and explore other recreational land use options. Since 2018, the Administration has taken steps to address the City Council's directions on municipal golf course operations and future land use.

After years of decline for the industry, the game of golf has had a resurgence locally and nationwide during the pandemic. Fiscal year (FY) 2020-2021 saw the City's three municipal golf courses achieve record levels of play, with almost 213,000 rounds played resulting in approximately \$1.5 million of income to the City. (By comparison, the last full pre-pandemic FY of 2018-2019 had 130,000 rounds played and a net operating loss of \$700,000). Golf provided a low-impact option for a diverse group of participants to be physically, mentally, and socially active while following 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. As a lifetime and inclusive outdoor recreational activity, golf at the City's courses has provided opportunities for residents as young as eight years old and older, and of all cultures and abilities, to enjoy leisurely or competitive recreation in safe and social spaces. As the game of golf surged and welcomed new and returning players during the pandemic, the City's courses continued to provide important environment benefits, including the protection of bird habitats and riparian corridors, flood control capacity, and more.

Concurrently, the City paid off all golf course debt, enabling better management structures in the future. The City Council approved the Mayor's recommendation to pay off the last outstanding golf course debt in the FY 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 allows for different management structures, including revenue-sharing, that can drive performance. Going forward, all three courses can 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. SJ Muni currently has this lease model, which has been a stable source of income for the City while also encouraging course maintenance by the operator.

As directed by City Council, staff has considered other possible recreational land uses for the golf courses. Other recreational land uses require upfront and/or ongoing costs. Converting golf courses to other recreational activities, like a sports complex, requires significant capital investment or additional maintenance without revenue to offset the costs to the General Fund. Converting land into a passive park or naturalizing it into open space also requires funding for maintenance and safe operations, and the passive land use may not mitigate prohibited activity as a more active recreational land use does. The one-time and ongoing funding needed for these other options would compete with other high priorities, such as revitalizing the Police Activities League Stadium Complex.

Based on these factors, staff plans to issue a RFP to solicit a lease agreement partnership model for the three courses.

BACKGROUND

The Department of Parks, Recreation and Neighborhood Services (PRNS) has made golf accessible to the public since the [SJ Muni](https://www.sjmuni.com/)² Course opened in 1968. In 2000 and 2002, [Rancho del Pueblo](https://www.ranchodelpueblo.com/)³ and [Los Lagos](https://www.playloslagos.com/)⁴ golf courses opened, respectively, creating more opportunities for residents and visitors to enjoy San José's open spaces, especially in areas that previously lacked this amenity.⁵ The operation of these facilities is provided through the City's contracts with third party vendors. Specifically, Los Lagos and Rancho del Pueblo golf courses are each managed by CourseCo, Inc., and SJ Muni is leased to Mike Rawitser Golf Shop. Table 1 below describes the City's golf courses by the numbers:

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

	Los Lagos	Rancho del Pueblo	SJ Muni
Acres	180	31	145
Holes	18	9	18
Yards	5,393	1,418	6,639
Par	68	28	72
Range	42 stalls	27 stalls	60 stalls
Facilities	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

The City's Municipal Golf Courses Provide Recreational and Environmental Benefits

The City's golf courses provide significant recreational opportunities. Golf is an accessible and inclusive lifetime recreation for people of all ages, cultures and abilities, and the City's public golf courses make the game more affordable for a wide variety of players by charging lower fees compared to private courses. In the spirit of ActivateSJ, PRNS's strategic work plan, these golf courses serve as one of the many opportunities that connect people to recreation for an active San José. The courses host many community social events and fundraisers, serve as practice facilities for more than a dozen high school golf teams, and host youth development programs.

² <https://www.sjmuni.com/>

³ <https://www.ranchodelpueblo.com/>

⁴ <https://www.playloslagos.com/>

⁵ The County of Santa Clara operates the Santa Teresa Golf Course also located in the City and open to residents.

With a total of about 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. They protect habitats and are home to many birds and other animals, including red foxes. Underscoring this role, Los Lagos is a Certified Audubon Cooperative Sanctuary for Golf. The courses capture rainfall that recharges groundwater to produce clean water while their trees and shrubs sequester carbon and produce clean air. 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 seen in the 2017 flood incident, Los Lagos and SJ Muni also provide flood control capacity along the Coyote Creek.

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 projects 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, 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 older studies and performance concerns, the City has 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."⁶ 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 SJ Muni 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.⁷ 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

⁶ The audit report can be found here: <http://www.sanjoseca.gov/Home/ShowDocument?id=33854>.

⁷ The staff report and Council memoranda be found here: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=3299162&GUID=A77C5DBF-3BC5-4BEF-9792-D3A51F6B8261&Options=&Search=>.

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 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.

ANALYSIS

Municipal Golf Course Performance Since the September 2015 City Audit

In the years following the City Auditor's Office report, the number of golf rounds played and the financial performance at each of the City courses generally declined until the novel coronavirus pandemic, during which business surged. In FY 2014-2015, the last complete year evaluated during the audit, Los Lagos hosted 50,000 golf rounds and lost \$300,000; Rancho del Pueblo hosted 24,000 golf rounds and lost \$300,000; and SJ Muni hosted 77,000 golf rounds and generated \$400,000 in lease income, resulting in a net loss of \$200,000 for golf operations. Including a \$2 million payment for debt services during FY 2014-2015, the total golf subsidy was \$2.2 million. Table 2 below shows that the number of paid golf rounds and financial performance declined through FY 2018-2019, when there was a net operating loss of about \$700,000 plus approximately \$1,900,000 in debt service for that year.

Table 2
Annual Rounds and Net Revenue/(Loss) for the City's Golf Courses
FYs 2015-2016 to 2020-2021

	Los Lagos		Rancho del Pueblo		SJ Muni	
Year	Rounds	Net Revenue/(Loss)	Rounds	Net Revenue/(Loss)	Rounds	Lease Payments to City
2015-2016	48,577	(\$481,855)	21,643	(\$384,655)	72,516	\$436,378
2016-2017	47,049	(\$718,804)	20,776	(\$442,071)	66,146	\$407,888
2017-2018	52,214	(\$467,458)	18,939	(\$492,833)	71,590	\$435,832
2018-2019	46,368	(\$603,545)	20,035	(\$513,696)	62,892	\$413,341
2019-2020	49,448	(\$279,610)	24,216	(\$458,992)	62,367	\$376,025
2020-2021	71,366	\$945,782	46,363	\$28,336	95,259	\$538,598

That downtrend persisted until March 2020, when the City closed its golf courses in compliance with County of Santa Clara and State of California COVID-19 public health orders. The City's golf courses safely reopened under updated public health orders on May 5, 2020. As one of the few allowable competitive sporting activities available to the public – with indoor leisure and recreation options closed at that time – the City's golf courses saw an immediate, robust increase in participation. That immediate increase continued as a very significant resurgence throughout FY 2020-2021, as shown in Table 2 above. In FY 2020-2021, the golf courses generated a combined \$1.5 million in net operating income for the City based on about \$12 million in gross revenues. The City's course operators have forecasted the uptick in golf to continue into 2022, which appears to be validated by the FY 2021-2022 results to date.⁸ Net operating income from the golf courses has remained in the City's Municipal Golf Course Fund where it can be used in various ways including for future capital projects to maintain and improve the facilities and support growth in usership at all City golf courses.

This resurgence in golf participation is being observed nationwide. A July 2021 article from the National Golf Foundation observed that year-to-date rounds at public courses were up 26 percent compared to the 2017-2019 average, versus 13 percent at private clubs. In July 2021, Kemper Sports surveyed nearly 25,000 current, lapsed, and new golfers over a two-week period and found a 27 percent increase in golfers age 18-34 and 58 percent of those surveyed stated they intended to play more golf in the remainder of 2021 than they did in 2020.

Golf course operators predict that the increase in participation will continue, although perhaps not at the historic levels seen in the first year after the onset of the pandemic. Driving ranges have remained highly utilized, indicating players continue to practice frequently. National golf equipment and apparel sales suggest the growth in play will not fall dramatically, as many individuals have invested in their ability to play the game. "Off course golf activity" like TopGolf, which opened in Alviso in April 2021, has been shown to bring new players to golf courses as well, as "off course" golf has attracted a younger demographic according to research by the National Golf Foundation. That same research reported meaningful increases in the number of youth and non-white golfers in "on course" golf over the past five years.

Regardless of the trending declines prior to the novel coronavirus pandemic, and then the subsequent resurgence during the pandemic, the City's courses have continued to offer community events and programming. First Tee – Silicon Valley (First Tee) has continued to provide youth development programs at Rancho del Pueblo that build character, instill life-enhancing values, and promote healthy choices through the game of golf. Although First Tee reported a decline in participants during the COVID-19 pandemic, due to capacity limits and safety protocols, in the past First Tee has typically served 600 to 800 youth annually at Rancho del Pueblo. First Tee reports that, historically, over 70 percent of these participants were San José residents, of which almost 70 percent were from East San José. About 30 percent of these

⁸ Through the first six months of 2021-2022, SJ Muni rounds were consistent with the first six months in 2020-2021. Los Lagos and Rancho Del Pueblo rounds were down 10 percent compared to the prior year, after a rainy December 2021 slowed business. Combined, the three courses had 6 percent fewer rounds from July to December of 2021 than in the same months in 2020; nonetheless, their total represented a 39 percent increase compared to 2019.

participants in 2021 were low-income (low-income participants pay a deeply discounted fee for an 8-week class). Other community events and programs are described below in the status updates related to City Council direction.

Implementation of City Council Direction

The status of the Administration's implementation of City Council direction is given below.

Status update for direction from Mayor Sam Liccardo:

1. Proceed with unambiguous direction that any future use of the land encompassing the Los Lagos golf course must remain open to the public for recreational use.

Staff update: Staff considered only recreational land use options for Los Lagos in responding to item 2 below.

2. Adopt staff recommendations and guiding principles, with the additional direction to return to Council in 12 to 18 months for a discussion of options for the recreational use of the site after having explored alternatives for paying off the debt that encumbers the parcels comprising the property. Those alternatives include, but are not limited to:
 - a. Proceeds from the sale of City property;
 - b. Funding from the upcoming state parks bond, should it be approved by the voters, or another source for conservation and recreational use;
 - c. Purchase by the City's Environmental Services Department for municipal water access to underground aquifers or for environmental protection, with accompanying recreational use;
 - d. Purchase by the Santa Clara Valley Open Space Authority or other agency for conservation and recreational use;
 - e. A local ballot measure in 2018 or 2020 to fund parks land acquisition or operations; and
 - f. Any other financially feasible option that ensures that the land remains in public ownership.

Staff update: Staff explored various alternatives for paying off the debt on golf courses. Debt on the Los Lagos and Rancho del Pueblo golf courses was paid down in the FYs 2019-2020 and 2020-2021 budgets, as directed in the Mayor's Budget Messages for those years and as approved by the City Council, using one-time funding such as proceeds from the sale of the Hayes Mansion and savings from the refunding of City Hall debt.

Staff evaluated the community benefits, revenues and costs, and potential challenges to continue or expand the recreational use of the Los Lagos site as directed by Council. Cost analyses were high level, without the development of concept plans, and therefore the capital and operations costs should be considered rough estimates at this time and will

need refinement if any of these options were pursued in the future. These options included:

- Sports complex – grade the site to construct four multi-sport artificial fields (including soccer), concession building, restrooms, and other amenities such as lighting and parking.
 - Preliminary opinion of capital cost: \$55-70 million.
 - Net annual operations and maintenance cost: \$1.3 million.
 - Public use benefits: Addresses need for additional reservable competitive sports fields, resulting in high-density use of recreational space.
 - Potential concerns: Initial capital costs and ongoing infrastructure maintenance and operational costs are very large and funding needs would compete with other projects in PRNS's infrastructure backlog; potential environmental impacts due to need for additional lighting and due to past land uses.
- Regional park – develop picnic areas and additional walking trails; renovate the clubhouse into an interpretive center that can also be an event space; add new restroom and other amenities.
 - Preliminary opinion of capital cost: \geq \$25 million (assumes 20 acres of active use, remaining to be open space and walking trails).
 - Net annual operations and maintenance cost: \$1.1 million.
 - Public use benefits: Space may be well suited for celebrations (weddings, picnics, birthdays), youth programming, and community events.
 - Potential concerns: Initial capital costs and ongoing costs are very large and funding needs would compete with other projects in PRNS's infrastructure backlog; the Coyote Creek Park chain already has several large City and County parks, including Kelley Park and Hellyer Park; lower-density park use may present challenges with mitigating prohibited uses.
- Open space preserve – allow the land to naturalize and renovate the clubhouse into an interpretive center that can also be an event space.
 - Preliminary opinion of capital cost: \geq \$10 million
 - Net annual operations and maintenance cost: \$800,000.
 - Public use benefits: Preserves natural habitats, conserves water, and provides more community trail access.
 - Potential concerns: Initial capital costs and ongoing costs are very large and funding needs would compete with other projects in PRNS's infrastructure backlog; lower-density park use may present challenges with mitigating prohibited uses.

- Golf course – maintain land use with ongoing capital repair
 - Preliminary opinion of capital cost: \$0 redevelopment (ongoing capital maintenance required, funded by operations).
 - Net annual operations and maintenance cost: Under a lease model, the City may have no operating costs and may instead receive lease income.
 - Public use benefits: Aligns with past community feedback; no re-development costs; may have no City operating costs with lease model; retains an affordable golf course as a community and recreational programming option for all ages, including for community events.
 - Potential concerns: Does not increase the number of recreational users on the land, as a sports complex might; perception that golf is not welcoming to all community members; golf's resurgence might be short lived.

Based on the evaluation of these options, staff recommends retaining Los Lagos as a golf course. A sports complex, a regional park, and an open space preserve would each align with PRNS's strategic plan, ActivateSJ, and meet community needs; however, they will each require one-time capital funding, as well as ongoing operations and maintenance support, which would compete with other high-priority projects and needs in PRNS's infrastructure backlog, including the revitalization of the Police Activities League Stadium Complex. Retaining the golf course aligns with past community feedback, where community members voiced concern that there are few low-cost outdoor competitive recreational options for the senior population, which the golf course satisfies. Los Lagos is an Audubon Cooperative Sanctuary, underscoring its environmental stewardship. Moving to a lease model with all three golf courses could eliminate City operational and maintenance costs, provide a potential revenue stream, and serve the diverse recreational needs of the community as the lease can be crafted to seek increased community access and affordable programming to underserved residents.

3. Consider a Qualified Management Agreement Request for Proposals that would encompass a relatively short duration, to enable staff maximum flexibility to recommend additional and/or alternative uses that will (a) expand access to the land by the public for recreation and exercise, particularly for families of modest means; and (b) reduce the financial operational burden on PRNS.

Staff update: Staff prepared a Request for Proposal (RFP) for the operation of Los Lagos and Rancho del Pueblo golf courses under a Qualified Management Agreement in FY 2018-2019 with a focus on expanding access and reducing the financial burden to the City with improved performance goals and allowable incentives. Operations of General Obligation Bond-funded public facilities by vendors are restricted to the use of Qualified Management Agreements, where no revenue-sharing provisions are allowed until the bond debt is fully repaid. RFP development was paused as the FY 2019-2020 Adopted Operating Budget gave direction to pay off debt, which opened a path for the Rancho del Pueblo golf course to be managed as a lease, rather than a Qualified Management Agreement.

To take advantage of this change, staff pivoted and released separate RFPs for each golf course in October 2019. This included releasing an RFP seeking a golf course operator under a Qualified Management Agreement for Los Lagos golf course; and an RFP seeking a lease agreement for Rancho Del Pueblo golf course. However, the onset of the COVID-19 pandemic and PRNS's emergency response obligations prevented staff from completing the RFP process. Subsequently, the 2020-2021 Operating Budget was adopted and included the payoff of all outstanding debt associated with the Los Lagos golf course, as well. With the payoff of the General Obligation Bond debt, the City is now able to enter into individual or joint facility lease agreements for both the Los Lagos golf course and Rancho Del Pueblo golf course. Given that the underlying conditions of the Los Lagos RFP had changed, and the same provisions could be solicited using the same operating instrument as that which was planned for Rancho Del Pueblo, the RFPs were cancelled in July 2020.

As noted earlier, the City's golf courses have seen a significant increase in play in the last 18 months. This turnaround made the once-financially burdensome Qualified Management Agreement that was in place for Los Lagos an asset to the City, since nearly all profits earned, or losses incurred, belong to the City under that type of arrangement. This means that the full benefit of Los Lagos golf course's recent profitability, which has been significant, is afforded to the City in its entirety.

Looking forward, short-term agreements present various drawbacks. Potential course operators may be unwilling to undertake major capital investments for a golf course if they determine they cannot generate a return on investment during their contract. Fewer capital investments may lead to increases in the City's deferred maintenance infrastructure backlog and make the golf course less marketable in the future. A short-term contract may also deter a potential operator from bidding as high in terms of lease/rent payments, which might limit the City's income. Flexibility can be created in a long-term contract with the addition of an early termination clause, which could be expected to include the City paying reasonable compensation to the terminated party for the unrealized amortization of the major capital investment, or the fair market value of the capital improvement on the date of termination, whichever is lower.

Status update for direction from Councilmember Nguyen:

1. Accept the staff report and recommendation; and to include the following recommendations from community input:
 - a. Maintain City ownership and recreational land use of the Los Lagos property as golf course and park;
 - b. Diversify public utilization including investment for improved and diversified services and amenities, such as quality dining, banquets, conference venue, and events, etc.
 - c. Develop a marketing strategy to increase more players and attendants;

- d. Explore and establish new revenue streams including new fee structure;
- e. Explore refinancing or debt retirement options.

Staff update: Updates for items 1a and 1e are provided above. Staff has worked closely with the current operator, CourseCo, Inc., on 1b, 1c and 1d. In response, CourseCo, Inc. has implemented a new fee structure, and has developed community programming with a focus on increasing public utilization of the Los Lagos golf course. In addition to golf play and tournaments, other activities have included:

- i. National Night Out event in partnership with neighborhood associations;
 - ii. Summer music series;
 - iii. A free golf clinic on behalf of Balancing life after a stroke;
 - iv. Veterans Day breakfast;
 - v. Los Lagos-fest Oktoberfest; and
 - vi. Easter egg hunt.
2. For future update and discussion of golf courses, include Los Lagos together with all City golf courses in global planning and strategic solution for consistency and uniformity.

Staff update: This memorandum includes updates on all three of the City's municipal golf courses and strategically considers their future use and operation together.

Next Steps for Operations of the City's Municipal Golf Courses

It is unclear how long golf's stark increase in participation may last or to what degree it might fade. While a Qualified Management Agreement at Los Lagos has been advantageous recently, the burden of risk related to potential future losses remains with the City. Thus, staff has begun planning for a combined RFP for the long-term operation of all three City courses using a lease agreement partnership model that would begin after the current lease agreement for SJ Muni expires on December 31, 2022.⁹

A combined RFP for a long-term lease agreement for all three municipal courses will be written to provide for the following:

- **Loss Protection to the Department/General Fund** – The financial structure in the lease agreement will be written so that respondents to the RFP could bid on the annual percentage of gross revenues that would be paid to the City.
- **Expansion of Public Access** – A lease agreement RFP will be written to include community benefit requirements and/or provide RFP scoring incentives for proposing lessees to include expanding resident access to the land for recreation and exercise in their proposals, with special focus given to ensuring that families and individuals of

⁹ The City's contracts for the management and operation of Los Lagos and Rancho del Pueblo golf courses are month-to-month with automatic extensions.

modest means have access to the open spaces that golf courses afford. Potential examples include course walks for families, interpretative sessions for course wildlife in the riparian area, senior hours for using a mile measured walking course, and youth development programs.

- **Incentive for Investments, Marketing and Efficiencies** – A lease agreement allows the lessee to retain most of the financial upside to running this type of business, with the profit motive incentivizing operators to make capital investments for the long-term success of the courses and increase marketing and promotions for golf-related activities, as well as for other non-golf revenue producing events. Additionally, the profit motive will foster creative ways of improving operational efficiencies and cost controls.
- **Flexibility to Pivot if Conditions Change** – A lease agreement can include an early termination clause for the City that can be triggered if conditions change and warrant a reconsideration of the recreational land uses. An early termination clause can be expected to include compensation for the lessee.

CONCLUSION

Since February 2018, the Administration has taken steps to address the City Council's directions on municipal golf course operations and future land use. Staff recommends that the City's three municipal golf courses remain in their current public recreational use, and is preparing an RFP to solicit a long-term lease agreement partnership model for the three courses, based on:

- City Council-approved guiding principles;
- The results of prior community engagement supporting retaining golf courses;
- Staff's analysis of the benefits and costs of other recreational options including one-time and ongoing costs;
- The significant improvement in the performance of the City's municipal golf courses;
- The ability to enter into a lease agreement(s) for operations of all three courses that provides downside protection to the City and incentivizes the lessee to make capital investments, increase marketing and contain costs, and improve community access; and
- Lifetime recreational opportunities and important environmental benefits that golf courses provide to the community.

EVALUATION AND FOLLOW-UP

The performance of the City's municipal golf courses, as reflected by income and expenses in the Municipal Golf Course Fund, will continue to be reported in the budget annually.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the City Council meeting on March 15, 2022.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

The Municipal Golf Courses Update was received by the Parks and Recreation Commission (Commission) on December 1, 2021. The Commission voted 6-2-1 to accept the staff update report on the City's municipal golf courses, including plans to initiate the procurement process for future golf course operations. Following the meeting, the Commission prepared a letter outlining the Commission's concerns. The Commission recommends the term of the lease agreement not exceed 15 years with the possibility of extensions. In addition, while the Commission acknowledges the importance of providing outdoor recreational activities for residents, it recommends adhering to the goals of Climate Smart San José.

COST SUMMARY/IMPLICATIONS

Lease agreements that are the result of the procurement process for a golf course operator may have implications on the City's revenue or expenses. As the solicitation for a golf course operator has not yet been issued, and no agreements have been negotiated or executed, the exact revenue from or costs for these agreements are as of yet unknown. When these revenues and/or costs are known, they will be incorporated into the normal budget process.

HONORABLE MAYOR AND CITY COUNCIL

February 28, 2022

Subject: Municipal Golf Courses Update

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CEQA

Not a Project, File No. PP17-009, Staff Reports, Assessments, Annual Reports, and Informational Memos that involve no approvals of any City action.

/s/

JON CICIRELLI

Director of Parks, Recreation
and Neighborhood Services

For questions, please contact Avi Yotam, Deputy Director at avi.yotam@sanjoseca.gov.