



City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Community Services

Meeting Date: August 19, 2024

Report #:2405-3024

TITLE

Approval of Amendment Number 3 to Contract Number C18169712 with OB Sports Golf Management (Baylands), LLC in the Amount of \$10,107,560 and Extend the Contract Term by Two Years and Nine Months for Management of Golf Course Operations at the Baylands Golf Links; Approval of Amendment Number 3 to Contract Number C18171872 with OB Sports Golf Management (Baylands), LLC to Extend the Contract Term by Two Years and Nine Months for a Real Estate License for the Restaurant to Provide Food and Beverage Services; and Approval of an Amendment to Fiscal Year 2025 Budget Appropriation in the General Fund (2/3 vote required); CEQA status – categorically exempt.

RECOMMENDATION

Staff recommends that City Council:

1. Approve and authorize the City Manager or their designee to execute Amendment Number 3 to Contract No. C18169712 with OB Sports Golf Management (Baylands), LLC (Attachment A) to extend the term for two years and nine months in the amount of \$10,107,560 for a revised not to exceed compensation of \$27,994,281 for golf management services on the course, at the driving range, at the Golf Shop, and surrounding areas of the Palo Alto Baylands Golf Links for the term of October 1, 2024 through June 30, 2027;
2. Approve and authorize the City Manager or their designee to execute Amendment Number 3 to Contract No. C18171872 with OB Sports Golf Management (Baylands), LLC (Attachment B) to extend the term for two years and nine months for OB Sports to provide food and beverage services under a license arrangement for the term of October 1, 2024 through June 30, 2027 and for OB Sports Golf Management, LLC to pay a minimum of \$217,800 which is subject to mutual increase based on net revenue expectations;
3. Amend the Fiscal Year 2025 Budget Appropriation for the General Fund (requires a two-thirds approval by the City Council) by:

- a. Increasing the Charges for Services revenue estimate in the Community Services Department by \$130,000; and
- b. Increasing the expenditure appropriation for contact services in the Community Services Department by \$130,000.

EXECUTIVE SUMMARY

Staff recommends City Council approve contract renewals with OB Sports as the contracted operator of Baylands Golf Links for continuation as a premier municipal golf course in the region.

In 2018 the City re-opened the former Palo Alto Municipal Golf Course as the Baylands Golf Links after a full course redesign and construction. To facilitate course operations, the City awarded contracts to OB Sports Golf Management¹ for the provision of course management, maintenance, customer service, retail sales, and food and beverage. As OB Sports performed well, the contracts were mutually renewed in 2021² for three years through June 2024 and then the term was extended for three months through September 2024 without initial additional compensation to allow both parties to work on another renewal. Both parties now seek renewal for two years and nine months through June 2027.

Since Fiscal Year 2019, the golf course has overachieved player green fee, driving range, and miscellaneous revenue over projected pro formas in all years except Fiscal Year 2020 due to course closure and restrictions at the onset of the COVID-19 pandemic. Operation revenue has exceeded expenditures in each fiscal year since then. For the current Fiscal Year 2025, the overall course revenue budget is \$5.0 million with an expense budget of \$4.2 million.

Separate from contract renewal amendments with OB Sports, this report also provides brief updates on golf matters involving the First Tee of Silicon Valley, a second deck driving range, and environmental compliance.

BACKGROUND

In 2012, the City of Palo Alto sought designs for modification to the former Palo Alto Municipal Golf Course due to an adjacent San Francisquito Creek levee expansion project which would change the boundaries of the golf course. On July 1, 2016, the golf course closed to commence construction of a full course renovation and re-opened in May 2018 as the Baylands Golf Links.

¹ City Council, April 16, 2018; Agenda Item #10; SR #8848, <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2018/item-8848.pdf>

² City Council, June 21, 2021; Agenda Item #16; SR #12343, <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2021/id-12343.pdf>

Preceding the May 2018 course re-opening, OB Sports Golf Management (Baylands), LLC was awarded contracts through a Request for Proposal process to be the single full-service course operator. Previously, the golf course was managed by three vendors and the change to a single full-service operator allowed for more efficient and effective coordinated service delivery focused on the customer experience. Course management, course maintenance, customer service, and golf shop retail sales are provided through a golf management services contract while the provision of food and beverages is through a facility lease with a restaurant license agreement contract. Locally, the company also manages the Golf Club at Moffett Field, a daily fee course open to the public.

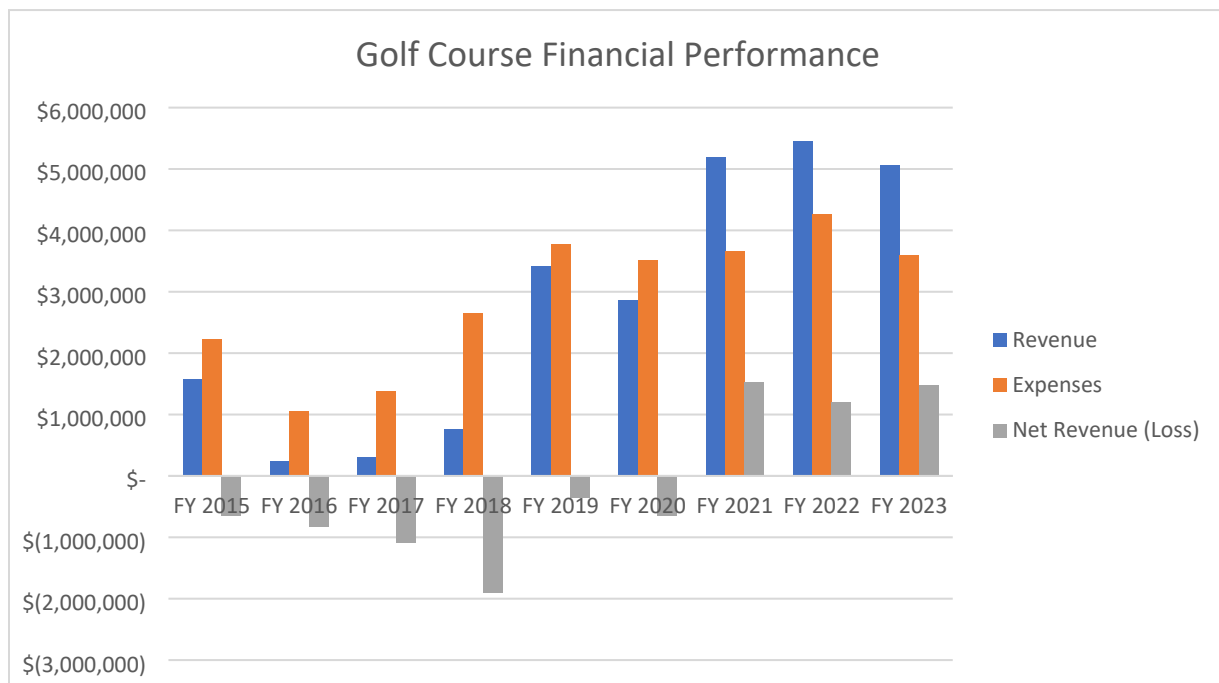
ANALYSIS

The two contracts with OB Sports were established in 2018 through June 30, 2021, and each contains a mutual renewal option for up to three years (FY 2022- FY 2024). If the first option to renew is exercised, a second mutual renewal option may be exercised for up to three additional years (FY 2025 – FY 2027). The first mutual renewal option was exercised on June 21, 2021, for Fiscal Year 2022 – Fiscal Year 2024 as Amendment No. 1. The City then extended the term for three months to cover the period of July – September 2024 without initial additional compensation as Amendment No. 2 to allow both parties to work on another renewal.

Operating with a single full-service provider has resulted in a positive player experience with higher service levels than before. Therefore, Staff recommends City Council approve Contract renewals for both Contracts for the second renewal period of two years and nine months (October 2024 – June 2027) as Amendment No. 3 to continue having a single operator provide all services at the golf course. Although Amendment No. 3 covers two years and nine months, the financial compensation is retroactive for three months to compensate for three full years (FY2025 - FY2027).

For the past six fiscal years, OB Sports has managed and maintained the City's golf course by reestablishing and growing a customer base while making the Baylands Golf Links one of the premier municipal courses in the Bay Area. OB Sports has placed an emphasis on creating a high-quality player experience, which incorporates attention to course play, course conditions, customer service, practice facilities, food and beverage selection, and aesthetics of the golf shop and restaurant.

Since Fiscal Year 2019 when OB Sports began managing the golf course on behalf of the City, golf performance has overachieved player green fee, driving range, and miscellaneous revenue over projected pro formas in all years except Fiscal Year 2020 due to the impact of course closure and then restricted play associated with the onset of the COVID-19 pandemic. Green fee revenue has increased from \$2.4 million to a high of \$4.0 million with overall revenue including driving range, cart rental, and golf shop sales reaching \$5.3 million in Fiscal Year 2022. Operating expenditures and debt service in Fiscal Year 2022 was \$4.3 million. In comparison, prior to course renovation the overall revenue in Fiscal Year 2015 was \$1.6 million with \$2.2 million in expenditures. The following chart illustrates the financial performance of the golf course from Fiscal Year 2015 through Fiscal Year 2023.



Prior to Fiscal Year 2019 the golf course was operated by the City but managed by three service providers. During Fiscal Years 2017 and 2018, the course was closed for course renovation while the driving range remained open. These two fiscal years incurred high net losses due to loss of green fee revenue while still incurring expenses such as debt service, potable water for irrigation to grow in natural turf grass, and startup costs to renovate the golf shop. In Fiscal Year 2019 the City incurred the last year of debt service on prior financing while initiating new debt service for the course renovation which resulted in overall net income loss. Operating losses in Fiscal Year 2020 are associated with course closure due to the onset of the COVID-19 pandemic.

Several factors are attributed to the more than three-fold revenue increase over the past few years:

- Course redesign with a layout appealing to players of different abilities.
- Increase in demand for golf play after the lifting of COVID-19 restrictions.
- Enhanced Course maintenance for desired playing conditions
- Customer service and premium player experience
- Dynamic pricing

As OB Sports manages the last three factors above and successfully manages expectations, staff recommends the City Council approve Amendment No. 3 contract renewals with OB Sports for Fiscal Years 2025 through 2027 to continue operating the golf course on behalf of the City.

If not approved, the City and OB Sports would transition to close out services for golf course management and food and beverage service. The transition period is estimated to take six to nine months. This would likely impact the strong customer base and reputation that OB Sports

and the City have worked to develop since re-opening with a full course re-design. During the transition period, OB Sports would plan on ceasing operations and work with the City to terminate leases on golf carts and course maintenance equipment. Concurrently, the City would issue an expedited solicitation for a Request for Proposals for full-service golf course operations.

As the City and OB Sports have successfully worked closely over the past six years, staff recommends continuing the course operator relationship for Fiscal Year 2025 – Fiscal Year 2027 to ensure no interruption in services at the golf course and retention of the course's customer base and reputation. Then during the summer of 2026, the City would either enter into discussions with OB Sports for another contract renewal and amendment or issue a Request for Proposals for a full-service course management vendor to operate the golf course on the City's behalf starting July 2027 in Fiscal Year 2028.

Additional Information on Other Golf Course Matters Not Managed by OB Sports

Staff would like to use this report as an opportunity to update the Council and community on other matters pertaining to the golf course. The course has multiple ongoing matters relating to operations, capital improvements, and environmental monitoring that are led by City staff. The City continues to develop a working relationship with the First Tee of Silicon Valley to provide youth programming, is exploring the return on investment of constructing a second deck driving range, and is working towards compliance for the required mitigation and monitoring of wetlands on the golf course.

First Tee of Silicon Valley - The City has maintained a relationship with the First Tee of Silicon Valley (FTSV) since 2009 to provide youth character guidance and development through the game of golf. On May 9, 2022, the City Council approved a Letter of Intent for establishing a partnership with the FTSV Youth Development Teaching Program. At the time, FTSV intended to raise funding for a new training facility, to raise the existing driving range netting, and to add protective netting along Embarcadero Road and the youth area. The FTSV and City staff are discussing a revised project scope and plan to return to Council at the end of calendar year 2024.

Assessment of Driving Range Second Deck - Staff engaged a golf industry consulting firm to assess the financial feasibility of expanding the driving range capacity by constructing a second deck. Staff will present the feasibility study to the Parks and Recreation Commission in the next few months for their review and input to incorporate into the next steps, which, if found to be a feasible project, may include additional studies, coordinating with OB Sports, and presenting to other Commissions, Committees, or Council.

Golf Course Mitigation and Monitoring - As part of the golf course's renovation project, the City was required to mitigate impacts to the wetlands as per conditions of environmental regulatory permits. The mitigation required the expanded and enhanced wetlands to be monitored and reported for five years. While the mitigation (expansion and enhancement of wetlands) occurred, the required monitoring and reporting did not adhere to the permit. Staff are working diligently with an ecological consulting firm to assess current conditions and develop a plan to achieve compliance. Staff also communicate with the Regional Water Quality Control Board (Water

Board) to provide regular progress updates and submittals. Staff anticipates submitting the existing conditions report and plan to achieve compliance to the Water Board in August 2024. Additionally, City staff are working collaboratively with OB Sports' agronomy staff to ensure that the golf course is adhering to the permit requirements such as managing the paspalum turf adjacent to the established wetlands. OB Sports golf course marshals continue to monitor and educate players to prevent encroachment into sensitive habitat areas. Signage and out-of-bounds markers are also used to identify these protected areas.

FISCAL/RESOURCE IMPACT

The golf course operating budget in the General Fund FY 2025 Operating Budget is \$5.0 million in revenue and \$4.2 million in expenses, which includes debt service payments. The recommendation in this report to extend these contracts does not result in any direct change to the resource impact. As of the writing of this report, staff and OB Sports estimate a revenue increase of approximately \$130,000 for a new total revenue budget of \$5.1 million and an expense increase of approximately \$130,000 for a new total expense budget of \$4.3 million. These projected impacts represent the assumption of continued strong revenue performance and resources required to maintain optimum service levels and to provide the premium player experience the golf course has established. The expense increase will cover higher costs of course maintenance supplies and materials and increased labor costs.

In addition to compensation for course management and maintenance services, the contract is structured to financially incentivize the contractor to exceed annual revenue targets through a revenue share. After achieving the annual revenue targets, amounts in excess are shared through an 80/20 split with 80% retained by the City and 20% paid to the Contractor. All revenue up to the revenue target is fully retained by the City.

For FY 2026 and FY 2027, the second and third years of the contract amendment, payment to the contractor for course management and maintenance is limited to no more than a 3% increase over the prior fiscal year.

The restaurant facility license contract is a revenue contract with OB Sports paying rent and utilities in the amount of \$6,050 per month during the contract renewal period (FY 2025 – FY 2027) and is subject to increase based on net revenue. This is a 10% increase for both rent and utilities. OB Sports has remained current on their monthly rent and utilities payments to the City. OB Sports serves the surrounding businesses and hosts banquets and meetings. Approximately 900 customers are served weekly with up to 1,350 during the peak summer season. Approximately three banquets are held weekly. The Baylands Café operates at approximately 70% capacity when considering in-person service and food orders to go.

OB Sports would be able to continue to manage course operations on behalf of the City, continue to lease the Baylands Café restaurant, and provide exceptional unified service to golfers seeking golf play and food and beverage service as part of the premium player experience at Baylands Golf Links.

STAKEHOLDER ENGAGEMENT

Staff provide an annual performance update to the Parks and Recreation Commission (PRC) on the progress of the golf course. The report and presentation include revenues, expenditures, Palo Alto player residency, and rounds of golf. The report also covers programs at the golf course such as golf clubs and youth programs (First Tee, Youth on Course, High School golf, and summer golf camps). Based on previous feedback from the PRC, they have been satisfied with OB Sports' performance as a golf course operator.

The Community Services Department has collaborated with OB Sports and the Administrative Services Department to assess the financial impact of renewing the contracts through Fiscal Year 2027.

ENVIRONMENTAL REVIEW

City Council's approval of these Contract Amendments for golf course services is categorically exempt from CEQA per CEQA regulations 15301 (Existing Facilities), 15304 (Minor Alterations to Land), and 15323 (Normal Operations of Facilities for Public Gatherings).

ATTACHMENTS

Attachment A: Amendment No. 3 to Contract C18169712 with OB Sports for Golf Course Management

Attachment B: Amendment No. 3 to Contract C18171872 with OB Sports for Restaurant Lease License

APPROVED BY:

Kristen O'Kane, Community Services Director