TO:    HONORABLE CITY COUNCIL  
FROM:  CITY MANAGER           DEPARTMENT: COMMUNITY SERVICES  
DATE:   OCTOBER 20, 2008       CMR: 410:08  

REPORT TYPE: CONSENT  

SUBJECT: Approval of Amendment No. 3 to Management Agreement with Brad Lozares Golf Shop for Golf Professional Services at 1875 Embarcadero Road, Palo Alto  

RECOMMENDATION  
Staff recommends that the Council approve and authorize the City Manager or his designee to execute the attached Amendment No. 3 to the management agreement with Brad Lozares for golf course professional services at the Palo Alto Municipal Golf Course, 1875 Embarcadero Road.  

BACKGROUND  
On March 16, 1998, the City issued tax-exempt bonds to finance golf course improvements. For the 20-plus years prior to the bonds being issued, the City and the golf professional had operated under one lease agreement for both professional services and the lease of the City-owned pro-shop facility. When the bonds were issued in 1998, IRS regulations required that there be two agreements, a management agreement for golf course professional services and a lease to operate a golf retail establishment. 

In 1998, the Council approved a 20-month management agreement and a 15-year lease with golf professional, Brad Lozares. The original management agreement was amended three times prior to the Council’s approval of a new restated management agreement (Agreement) on January 27, 2003. On May 1, 2006, the Council approved Amendment No. 1 to the Agreement which: 1) extended the term for an additional eighteen months; 2) increased the fixed fee compensation by 3 percent; and 3) reimbursed the golf professional for 60 percent of the bank’s credit card merchant charges attributed to golf cart rentals. 

On May 14, 2007, the Council approved Amendment No. 2 to the Agreement, in which a 2 percent cost of living increase was approved with a City resource impact of $553.21 per month or $6,638.46 for the duration of the 12-month term - January 1, 2008 to December 31, 2008.  

DISCUSSION  
Brad Lozares and his staff have provided excellent services to the City of Palo Alto for more than 25 years, providing the primary interface between the Palo Alto Municipal Golf Course and
patrons. They are highly respected for their professionalism, knowledge of the game and quality of instruction.

Amendment No. 3 is an extension of the agreement for only one year primarily due to the pending golf course operational study recently conducted by Economic Research Associates. The golf course operational study will come before the Council in a study session on November 17th, 2008. A review of the study will provide an opportunity to develop short and long term strategies for the future of Palo Alto Golf Course

The study of the Palo Alto Golf Course examines Bay Area golf market trends, Palo Alto Golf Course market performance, the condition of existing facilities, capital improvement requirements, stakeholder and golfer responses to services and operational policies, and expected future financial performance of current and alternative operating options available for the golf course.

Staff and Brad Lozares recognize the golf course operational study may provide some new direction for the golf course. A one-year extension of the Brad Lozares Management Agreement will allow the Council and staff time to review and discuss the golf course operational study and then develop a plan for how to proceed, while still maintaining high quality golf professional services in the interim.

**Term:**
The attached proposed Amendment No. 3 to the Agreement will extend the term of the Agreement for an additional 12 months – January 1, 2009 to December 31, 2009.

**Compensation changes:**
A number of changes are recommended to the terms of compensation, Percentage Fees and Productivity Rewards, all of which are agreeable to Brad Lozares, and are described below:

A) **Fixed Management Fee**
It is recommended the golf professional receive a 2 percent cost of living increase of $564.27 per month, or $6,771.24 for the duration of the 12-month term, January 1, 2009 to December 31, 2009.

B) **Percentage Fee Changes**
In fiscal year 2007-08, the City of Palo Alto invested $559,086 to replace the deteriorated driving range synthetic turf and netting. The debt service for this investment is $82,186.40 annually for the next 5 years. To ensure there are sufficient revenues to cover the increased debt service, staff proposes an adjustment to the Driving Range fees percentage from the existing arrangement of 60% revenues to the City and 40% of revenues to Brad Lozares to a new arrangement of 62% of revenues to the City and 38% of revenues to Brad Lozares. The result of this change, along with increased fees and increased play is expected to generate sufficient revenue to meet the new debt obligation.

C) **Productivity Reward Changes**
The productivity reward creates an additional incentive for the golf professional to increase revenues for both the City of Palo Alto and the Golf Professional. The current productivity reward terms have been in place since 2003 and need to be adjusted to reflect current market conditions for meaningful and achievable incentives. The changes are described below:

- **Paid Golf Rounds (Discount Card & Replay Rounds)**
  
  If more than 77,500 annual rounds are played per year, then the golf professional will receive $3.00 per round.

  Explanation of change:
  
  This is a change from 87,000 rounds to 77,500. The average annual paid rounds played over the last three years was 75,623 rounds, consequently 77,500 rounds is a more realistic and attainable incentive for the golf professional.

- **Power Golf Cart Rentals**

  If more than $300,000 in annual power cart rental revenue is generated, then the golf professional will receive $100 per $1,000.

  Explanation of change:
  
  This is a change from a target of $250,000 in annual power cart rental revenue with golf professional receiving $200 per $1,000. The average annual power cart sales for the last three years were $294,806. In 2009, the golf professional will increase the fleet size and quality of power carts, and will raise fees which will increase Power Cart revenues significantly. Consequently, $100 per $1000 exceeding $300,000 is a more appropriate incentive.

**RESOURCE IMPACT**

The changes proposed in Amendment No. 3 to the Agreement will result in an additional annual City expense of approximately $6,771.23 for the 12-month duration of the Agreement. The financial terms of the Agreement will be accommodated within the existing resources available to the Community Services Department. The golf course operation is expected to fully recover costs including debt service and cost plan charges during the term of this Agreement. The impact of changes in Productivity Reward and Percentage Fees are dependent on the amount of play at the golf course; staff anticipates an increase in overall golf course revenue as a result of more meaningful and achievable incentives.

**POLICY IMPLICATIONS**

The proposed amendment is consistent with prior Council direction.

**ENVIRONMENTAL REVIEW**

Approval of the amendment to agreement does not constitute a project under the California Environmental Quality Act (CEQA); therefore, no environmental assessment is required.

**ATTACHMENTS**

Attachment A:  Amendment No. 3 to Management Agreement