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Title: Introduction of Ordinance Approving a 15-Year Lease Amendment with an Option for a 10-Year Extension Between the City of Alameda and Greenway Golf Associates, Inc., for Premises Located at the Chuck Corica Golf Complex. [Requires Four Affirmative Votes] (Recreation and Parks 280) [Not heard on February 20, 2018]

Attachments: 1. [Exhibit 1 - Original Lease Agreement](#), 2. [Exhibit 2 - Lease Amendment](#), 3. [Exhibit 3 - Detailed Cost Estimates](#), 4. [Presentation](#), 5. [Ordinance](#)

Text

Title

Introduction of Ordinance Approving a 15-Year Lease Amendment with an Option for a 10-Year Extension Between the City of Alameda and Greenway Golf Associates, Inc., for Premises Located at the Chuck Corica Golf Complex. [Requires Four Affirmative Votes] (Recreation and Parks 280) [Not heard on February 20, 2018]

Body

To: Honorable Mayor and Members of the City Council

From: Jill Keimach, City Manager

Re: Introduction of Ordinance Approving a 15-Year Lease Amendment with an Option for a 10-Year Extension Between the City of Alameda and Greenway Golf Associates, Inc., for Premises Located at the Chuck Corica Golf Complex (Requires Four Affirmative Votes)

BACKGROUND

In July 2012, the City Council approved a 20-year lease with an option for a five-year extension with Greenway Golf Associates, Inc. (Greenway) for operation and maintenance of the Chuck Corica Golf Complex (Golf Complex), after an extensive RFP process.

Since then Greenway has had significant support from the golf community. It successfully renovated the Mif Albright 9-hole Par 3 course and the driving range. The South Course construction is nearly complete and will fully open to the public in mid-2018. Greenway invested \$5.5 million into the South Course and the City invested \$1 million, per the current agreement.

The existing agreement includes North Course improvements to the irrigation system, basic drainage, and renovation of the bunker and cart paths. It does not address other infrastructure needs, such as the Clubhouse, restrooms and more long-term structural needs. Now that Greenway has operated and maintained the Golf Complex for over five years, Greenway staff better understand the drainage and other infrastructure problems at the North Course and have found that the issues will not be mitigated by the improvements required by the original agreement. Greenway proposed a lease amendment in order to properly address the North Course infrastructure needs as well as improve the Clubhouse, Golf Shop and outdoor patio area.

At the meeting of August 23, 2016, staff requested the Golf Commission determine its priorities for improvements at the Golf Complex that are outside the requirements of the existing lease agreement. The Commission unanimously agreed that a full renovation of the North Course improvements was its top priority, including raising the course for improved drainage, a new irrigation system, work on the ponds and waterways, and renovation of the fairways, tees, greens, roughs, bunkers. The second priority was the clubhouse remodel and the third priority was the front entryway.

In April and May 2017, the City Council discussed real property negotiations regarding Greenway Golf to refine the terms of the agreement.

DISCUSSION

Based on the Golf Commission priorities, direction from the City Council and negotiations with Greenway, staff, including the City Attorney's office, developed the attached Lease Amendment (Exhibit 1). The total proposed lease term with this amendment and the original agreement, is 40 years plus a 10-year option to extend. The lease amendment adds four more years at a reduced rent payment of \$75,000 plus two more years at a reduced rent payment of \$175,000 to help offset the required additional capital improvement costs incurred by Greenway. The remaining years provide for the same calculations of rent based on gross revenue, as in the original agreement, with a small adjustment to add a smaller percentage tier for lower margin activities, specifically instruction and Par 3 green fees. In addition, Greenway's payments into the Capital Reserve Fund will not start until 2027 based on the assumption that many of the Golf Complex's infrastructure and improvement needs will be completed through the more comprehensive Lease Amendment project requirements.

The capital value invested by Greenway assuming approval of the proposed lease agreement totals \$16,500,000, with \$8,000,000 a result of the proposed amendment. The City's contribution totals \$3,350,000 including a \$1,000,000 payment toward the South Course construction, reduced rent, and the parking lot improvement.

This table details all proposed Lease Amendment term points with detailed project descriptions following below.

Greenway Golf Lease Amendment - Proposed Terms

	Original Lease	Lease Amendment
Term Length	20 year term	40 year term (effective 1/1/13)
	One 5- year option to extend	One ten-year option to extend
	Total = 25 year term (2013-2037)	Total = 50 year term (2013-2062)
		Define "Lease Year" to one-year period beginning on Jan. 1 of each year, starting 01/01/2013
Rent	Years 1-4 (2013-2016) = \$75,000/yr.	Years 1-8 (2013-2020) = \$75,000/year
	Years 5 - 8 (2017-20)= 8% of Gross up to \$4M and 12% of Gross over \$4M with \$300,000 Minimum	Year 9-10 (2021-2022) = \$175,000/year
	Years 9 - 20 plus 5-yr. option (2021-2037) = 10% of Gross up to \$4M and 12% of Gross over \$4M with \$350,000 Minimum	Years 11 - 20 (2023 - 2032) = 8% of Gross up to \$4M and 12% of gross over \$4M (higher margins*) AND 3% (lower margins**) with \$300,000 Minimum
		Years 21 - 40 plus 10-yr. option (2033-2062) = 10% of gross up to \$4M and 12% over \$4M (higher margins) and 3% (lower margins) with \$350,000 minimum. Annual increase to minimum amount based on Bay Area CPI.
Capital Reserve	Starting 7/1/2017: 3% of prior year's annual Gross. Payments only made when balance is less than \$500,000	Starting on 7/1/2027: 3% of prior year's annual Gross. Payments only made when balance is less than \$250,000
Greenway Capital Value	Capital Value invested by Greenway is \$8,500,000 Projects include: • Driving Range Renovation • South Course Renovation • Par 3 Course Renovation • Minimal North Course Improvements	Total of Capital Value invested by Greenway from Original plus Amendment is \$15,500,000 Capital Value from the amendment is \$7,000,000 Projects include: • North Course Full Renovation • Clubhouse, Golf Shop and Restrooms Remodel • Expanded Outdoor Patio • Water and Fire Lines Installation
Other		All North Course improvements are subject to prevailing wage and Project Labor Agreement

		City responsible to resurface parking lot by end of Year 7 (2019)
Contribution	\$1,900,000 for four years of reduced rent plus one million dollar payment for construction	Total for original and amendment is \$3,550,000 Amendment contribution is \$1,650,000 including additional years at reduced rent and value of parking lot improvement.
Total City Revenue for Lease Term	\$7,450,000 over 25 years (2013-2037)	\$18,148,828 over 50 years (2013-2062)

* higher margin = green fees, cart rentals, range balls, tournament, merchandise sales and membership fees * lower margin = instruction and Par 3 green fees

The lease amendment requires additional projects including a full renovation of the North Course with a significantly larger scope of work than is required in the original lease. As outlined in Exhibit D of the original lease agreement, Greenway was required to invest an estimated \$1,100,000 including upgrading the irrigation system, replacing and completing basic improvements to the drainage system, overplanting the fairways with climate appropriate grass, installing new cart paths, and renovating the sand bunkers. As part of the proposed lease amendment, the North Course design will remain the same, however the project will include the following:

North Course Drainage Improvement Plan - Estimated to begin spring 2018.

A) Course Drains and Contouring - In reviewing the updated government issued flood zone plans, it indicates more of the North Course sits in the flood zone and is subject to an increased level of flooding than what was contemplated when Exhibit D to the original Lease was prepared. The North Course infrastructure is not capable of supporting adequate surface water run-off due to ground settling, improper grades of the golf course and the sub-surface water table. This increased level of anticipated flooding will not be remediated sufficiently under the originally proposed repairs for replacement of drain tiles and minor modifications to the waterways. Water will continue to pond on the course.

Proposed Project: The best solution to address these newly identified issues is to raise the course approximately 3 feet with approved imported material, completely re-grade all holes and install new drainage pipes. Since the layout/acreage of the North Course is smaller and has more waterways than the South Course, the North Course will require about half of the imported soil required for the South Course. This imported soil falls within the existing environmental and grading permits, which were approved prior to the South Course project and include up to 400,000 cubic yards on the North Course, if warranted. A detailed grading plan will be developed and submitted to the City and governing agencies as required for final approval.

B) Golf Course Waterways - There are three types of waterways on the North Course, 1) Storm Water Retention Ponds, which are man-made ponds developed for the primary purpose of accommodating higher peaks of rain and assist to reduce course flooding. During the dry periods these ponds are designed to remain empty so their capacity is available for rains. However, in their current condition, these ponds become very unsightly and smell when empty, leading to ongoing complaints from players. 2) US/State Managed Canals and Waterways, these are canals controlled by US and State agencies and move water through the property. Greenway has been maintaining these as much as possible but they require further cleaning in order to function better. 3) Irrigation Pond, this is the only pond on the North Course designed to remain full as a water feature. However, years of erosion have made this pond unattractive and in need of dredging and repair.

Proposed Project: All of the North Course waterways need major repair beyond the original agreement scope of work. Greenway will incorporate the repairs on the waterways as part of the revised Drainage Improvement Plans which includes dredging of storm water retention and irrigation ponds to get the muck and debris out, adding suitable water plants to improve appearance and reduce smells, enlarging ponds to increase capacity of storm water run-off, reshaping banks and adding rocks to control erosion and improve appearance and further clear out canals for improved water movement.

North Course Tees, Fairways, Roughs and Greens Improvement Plan

It has been determined that the prior rebuild of the North Course putting greens were not done to USGA specifications as was originally thought and the underlying infrastructure and drainage throughout are not adequate to sustain year-round quality playing surfaces.

Proposed Project: All greens, tees, fairways, roughs and sand bunkers need to be fully repaired and rebuilt from the ground up to best meet the desired objectives. Repairs include reshaping and contouring each hole to allow for proper surface and subsurface drainage, reduced water use requirements, and to provide for a consistent year round high quality playing surface. The concept of repair on the North Course is to position it as a very good quality parkland style, value priced course with attractive wetlands, water features and little rough and few sand bunkers. The playability of the course will revolve around the waterways and the tree lined fairways. Greenway would repair and re-open 9-holes before beginning on the second nine holes. Both during and after construction, Greenway will plant over 100 California native trees planted throughout the North Course in addition to a memorial tree grove along Clubhouse Memorial Drive from Island Drive to the parking lot.

Additional Proposed Improvements:

Fire Sprinkler System and Main Water Supply Lines - The new event center requires a dedicated fire line for its water sprinkler system. Additionally, the main water line to Jim's on the Course and to the Clubhouse is experiencing breaks and is supported by old pipes. Greenway proposes to install a dedicated fire line and separate main water supply line from Island Drive to the Clubhouse to support the restaurant and new event center.

Expanded Outdoor Social Patio - In support of the new expanded restaurant and social patio, Greenway took responsibility for demolition of the existing patio materials, grading, leveling, and resurfacing with stone pavers and adding a new two foot high stone wall surrounding the outdoor patio.

Clubhouse Remodel - There is no requirement in the existing agreement to address the clubhouse improvements; however, as other improvements are made on the golf course, the age and poor condition of the clubhouse building is becoming more noticeable and concerning. This lease amendment will require Greenway to repair and remodel the clubhouse including:

- Golf Clubhouse Restroom: New fixtures, tile and lighting
- Golf Shop: Replace windows, flooring, wall coverings, fixtures and lighting.
- Exterior: Re-facing walls, walkway lighting upgrades & staining walkway

Through this lease amendment, the City is responsible for repaving and restriping the parking lot within two years of execution of the amendment. This improvement project will be incorporated into the Public Works' annual street paving contract and therefore will be included in the Project Stabilization Agreement with union labor. Staff is proposing to fund the parking lot project with reserves identified in the Capital Improvement Project Fund 310. These funds are available from completed projects that had a positive balance of General Fund dollars. This project will also provide the option to implement stalls for parking for a ferry shuttle bus, as needed in the future.

The North Course improvements are subject to a Project Labor Agreement (PLA) between Greenway, Operating Engineers (OE3) and Laborers Union #304 Alameda. Subsequently, all Greenway construction employees will participate in one of these unions for the duration of the North Course project.

Greenway Golf has committed to the Golf Commission and golf community that it will not increase youth or senior green fees. The accommodations for free high school youth team play and one free tournament per year for the Alameda Friends of the Parks Foundation will remain with this lease amendment. Also remaining in place, Greenway must provide discounted rates for residents in accordance with a rate schedule that is reasonably approved by the City and comparable to nearby municipal golf facilities.

Greenway manages golf courses across the country and its investments in their infrastructure are a proven model that these improvements and types of courses provide a solid return on investment. The portion of the golf industry that is in decline are those built as part of residential developments because they are suburban courses with limited demand and were built to sell houses, rather than built based on an identified need in the area. Greenway specifically identifies courses, such as Alameda's Chuck Corica Golf Complex, that are in the middle of a significant population and is located there based on demand. The improvements to the North and South Courses will also reduce operational and maintenance costs with improved irrigation efficiency and the elimination of fertilizers and other supplements.

It should be noted that other municipal golf courses across California are incurring General Fund debt for golf course improvements. For example, the City of Palo Alto authorized a \$13 million bond debt for construction of its new course and previously paid an annual management fee of \$345,000 to its golf course operator but is currently seeking to change its management structure. The City of San Jose has an annual General Fund subsidy of \$2,600,000 for two public golf courses, including the debt service payments. No capital improvements were required from its operator. Other agencies, such as the County of Orange and the East Bay Regional Park District, directly paid for major capital improvements at their golf courses. The City of Oceanside gave its operator a 30-year term in exchange for \$3,600,000 in capital improvements.

With this lease amendment, Greenway Golf is required to invest a total of \$15,500,000 into the Chuck Corica Golf Complex with no additional funding required from the City, other than reduced rent and the paving of the parking lot. It is also important to note that both the original agreement and proposed lease amendment have minimum annual rent payments to the City, so there is little to no financial risk for the City's General Fund.

FINANCIAL IMPACT

Greenway Proposed Improvements Value

Lease Amendment Item	Proposal Amount
North Course	6,645,632
Clubhouse Remodel	1,189,000
Outdoor Patio	120,000
Main Water Supply Line	90,000
TOTAL VALUE OF PROPOSED IMPROVEMENTS	8,044,632
Existing Agreement Project Value - North Course	(1,100,000)
TOTAL VALUE OF ADDED IMPROVEMENTS	6,944,632

City Contribution

Lease revenue offset	
4 additional years at \$75,000	900,000
2 additional years at \$175,000	250,000
Parking lot	500,000
TOTAL CITY CONTRIBUTION	1,650,000

The total lease revenue from the original 25-year agreement to the City is estimated to be \$7,450,000. The total lease revenue to the City from the original agreement plus the lease amendment with a 50-year term, is estimated to be \$18,148,828.

Funding in the amount not to exceed \$500,000 is required to improve the parking lot. The budget will be allocated in the mid-cycle budget adjustment for FY 2018-19 and will transfer \$500,000 from the Capital Improvement Project Fund (310) surplus balance to the Golf Fund (280.5). Additionally, the City will forego additional rent by providing an additional six years at a reduced rental rate in the total amount of \$1,150,000.

MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

This action has no effect on the Municipal Code.

ENVIRONMENTAL REVIEW

The project from this action includes the rehabilitation and improvement of an existing park, the proposal is consistent with the zoning and general plan designation for the property, and the improvements will be subject to the existing design requirements of the Alameda Municipal Code ensuring compatibility with adjacent land uses.

The project will restore and rehabilitate deteriorated facilities, with no proposed expansion or intensification of an existing use; the project will involve grading on land with less than 10% slope; the project will not occur in wetlands, a scenic area, or in an area mapped as containing a severe geologic hazard; the project will involve filling of earth with material compatible with the natural features of the site; the project will include minor trenching and backfilling where the surface will be restored; and the project will include the replacement of existing conventional landscaping with water efficient landscaping.

For these reasons, the proposed project will not result in any significant environmental impacts and is categorically exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15301 (existing facilities), 15304 (Minor Alterations to Land) and 15061 (General Rule Exemption).

RECOMMENDATION

Introduce an ordinance approving a 15-year lease amendment with an option for a 10-year extension between the City of Alameda and Greenway Golf Associates, Inc., for premises located at the Chuck Corica Golf Complex.

Respectfully submitted,
Amy Wooldridge, Recreation and Parks Director

Financial Impact section reviewed,
Edwin Gato, Acting Finance Director

Exhibit:

1. Original Lease Agreement
2. Lease Amendment
3. Detailed Cost Estimates