

8. Recreation and Park Department Property Use and Lease Management

- **The Recreation and Park Department has inadequate systems to monitor its property leases and revenue collections, and ensure coordination between Property Management and Revenue Unit staff. The Budget Analyst found several instances of late or missed rent payments during a review of the Department's 14 top revenue-generating leases. For example, the St. Francis Yacht Club failed to make a \$6,176 monthly payment in September 2002, which was unnoticed by the property manager, and since that time the Revenue Unit has posted each subsequent monthly payment as a late payment. Under the Lincoln Park Golf Course lease agreement, the minimum annual guaranteed rent is to be increased by the Consumer Price Index through 1997, but Department has failed to do this, resulting in an estimated underpayment of \$19,000 in calendar year 2004.**
- **The Recreation and Park Commission approved an amendment to the lease agreement between the Department and the Japanese Tea Garden operator, reducing the minimum annual guaranteed rent for the Japanese Tea Garden in FY 2003-2004, from \$280,000 annually to \$150,000, after the operator failed to pay the minimum annual guarantee two years in a row, due both to a decline in tourism and construction of the adjacent de Young Museum. The Recreation and Park Department expects to select a new operator through a Request for Proposal process in January 2006 and needs to negotiate financial lease terms that acknowledge expected increased Japanese Tea Garden attendance and maximize lease revenues to the Department, comparable to FY 2000-2001 Japanese Tea Garden lease revenues of \$286,493 based on attendance of 422,253.**
- **The management agreement with Kemper Sports Management to operate Harding Park and Fleming Golf Courses makes the City responsible for repaying a loan taken by Kemper without requiring Kemper to provide loan documentation to the City and without Board of Supervisors approval. The management agreement allows Kemper to borrow up to \$2 million from a financial institution of its choosing to pay for golf course costs prior to opening and construct interior improvements to the clubhouse, requiring the City to pay back the loan. The Board of Supervisors should adopt an ordinance, amending the Administrative Code, that requires Board of Supervisors approval for all leases and management agreements entered into by any City department, which makes the City responsible for any debt incurred under the lease or management agreement.**

- **Kemper refused to provide the Budget Analyst with copies of the applicable loan documents. The General Manager should immediately request copies of the subject loan documents from Kemper Sports Management, and should request the Controller to audit the management agreement with Kemper if such loan documents are not provided. If Kemper Sports Management refuses to both (a) provide the loan documents to the City within 30 days of the Department's request, and (b) cooperate with a subsequent audit by the Controller, the Recreation and Park Department should terminate the management agreement with Kemper.**
- **The Rod and Gun Club, which has occupied Lake Merced property owned by the Public Utilities Commission and under the jurisdiction of the Recreation and Park Department since the 1930s, contaminated the soil with lead shot prior to switching to steel shot in 1994. Because lead shot was permitted prior to 1994, the costs of lead mitigation, for which \$3 million has been budgeted in the Water Supply Improvement Program, are borne by the Public Utilities Commission and the water rate payers rather than by the Rod and Gun Club. According to Public Utilities Commission staff, although the current use of the site by the Rod and Gun Club does not in itself present undue risk, debris from gun shot can still present a problem, overburdening the site. Because the Rod and Gun Club currently operates at the Lake Merced property on a month-to-month lease at a rent of only \$4,250 per month, and because of the issues discussed above, the Recreation and Park Department should determine if the existing month-to-month lease with the Rod and Gun Club is the best use of the Lake Merced property or if the Department should enter into a lease agreement for the subject property for other types of property uses consistent with the Lake Merced Master Plan, under development by the Public Utilities Commission.**
- **The Recreation and Park Department should also determine the best uses of the Lake Merced Boathouse, with the intent that the lessee would pay for capital repairs and improvements at a minimum estimated cost of \$500,000. Under a current draft Request for Proposals, the Recreation and Park Department suggested several different uses, ranging from purely commercial to mixed use to recreational, without the Department first determining how the property should best be utilized. The Recreation and Park Department should determine the best uses of the Lake Merced Boathouse, considering the capital costs and community preferences, prior to issuing the Request for Proposals.**

Managing the Department's Lease Agreements

Under the Park Code, Recreation and Park Department properties must be used for recreational purposes. The Recreation and Park Department has 63 lease, license or concession agreements, which generated approximately \$22.4 million in General Fund revenues in FY 2004-2005, for the use of Department property consistent with the Park Code. The Department of Parking and Traffic manages four parking garage lease agreements: St. Mary's, Civic Center, Portsmouth Square, and Union Square. The remaining 59 agreements are managed by the Recreation and Park Department's Property Management Unit, which is part of the newly created Partnerships and Property Division.. The Recreation and Park Department's agreements can range from short term agreements, such as the agreement with Sony Film Studios to film a motion picture on Recreation and Park property, to long term leases, such as the Department's agreement with the Forty-niners for use of Monster Park Stadium.

In FY 2004-2005, the Recreation and Park Department also generated \$8.3 million in golf course revenues from golf course leases and management agreements and \$1.5 million from Marina Yacht Harbor berthing fees and yacht club and other concessions.

The Department's Systems and Procedures for Monitoring Lease and Other Agreements

Because the Recreation and Park Department has inadequate systems to monitor leases and revenues, the Department does not manage its leases efficiently, resulting in lack of lease oversight and missed payments and lost revenues. The Recreation and Park Department has a lease management system, implemented in 1997, which is not maintained by the Department's Information Technology Unit and receives only limited use by property management staff. The 2003 Information Technology Strategic Plan identified significant deficiencies in the lease management system, including the failure of the lease management system to tie into the revenue tracking system. Although the Department is currently implementing a new revenue tracking system, the Department has not adapted the new revenue tracking system to the existing lease management system nor developed plans to upgrade the lease management system to be a useful tool.

Monitoring Lease Revenues and Other Lease Provisions

Most lease information is kept in hard copy files and comprehensive lease information is not stored centrally or readily available. For example, evidence of current insurance coverage was not always accessible and required follow-up to find current documentation.

More importantly, revenue files were not consistently maintained, resulting in late or missing payments not readily identified. The Administration and Finance Division's Revenue Unit is responsible for lease revenue collections, although the Partnership and Property Division's Property Management Unit property managers are responsible for

reviewing rent receipts quarterly and reconciling percentage rent against the minimum annual guaranteed rent in the lease agreement.

The Recreation and Park Department has failed to develop a system of communication and coordination between the Revenue Unit staff and property managers, and to ensure that property managers are effectively monitoring property revenue collections. The Revenue Unit staff receive revenues but are not responsible for ensuring that the revenues are accurate under the terms of the lease agreement. Property managers do not consistently monitor that property rents are received on time or that late payment penalty charges are applied. During a review of the Department's 14 top revenue-generating lease agreements, the management audit found several deficiencies in revenue collection. For example:

- The St. Francis Yacht Club failed to make payment in September 2002 but the property manager was unaware of the missed payments. Additionally, the St. Francis Yacht Club made several late payments in 2004 and 2005 but the Department did not require the tenant to pay late fees. Based on the Budget Analyst's findings, the property manager sent a letter to the St. Francis Yacht Club on October 28, 2005, requesting documentation from the St. Francis Yacht Club on whether the payment was paid and a second letter demanding \$377 in late fees for six late payments in 2004 and 2005.
- The Department did not notify the Golden Gate Yacht Club in writing of late payments in 2002 and 2003. The only documentation in the file was a letter from the Golden Gate Yacht Club to the Recreation and Park Department, identifying the late payments and calculating the repayment schedule.
- The Department did not assess late fee penalties to the Palace of Fine Arts Theatre for late payments from January 2005 through March 2005. According to the Department staff, although the Palace of Fine Arts was assessed and paid rent at fair market value of \$18,500 per month from January 2004 through March 2005, the Recreation and Park Commission did not approve a formal lease agreement with the Palace of Fine Arts until April 2005. Because the Department had no formal provision to assess late fees prior to the new lease agreement in April 2005, the Department was unable to assess late fees for the late payments made prior to that date.
- Under the Lincoln Park Golf Course lease agreement, the minimum annual guaranteed rent is to be increased by the Consumer Price Index through 1997. The Department has failed to do this, resulting in an estimated underpayment of \$19,000 in calendar year 2004.¹

The FY 2005-2006 Recreation and Park Department budget contains funding for a new Director of Partnerships and Property position to manage the Department's chief marketing and revenue-producing functions. To ensure adequate management oversight

¹ The Lincoln Park Golf Course paid \$63,055 in rent in 2004. The Budget Analyst calculates that the minimum annual guaranteed rent should be \$82,086, based on the Consumer Price Index for San Francisco, base year 1967.

over these functions, the Recreation and Park Department should expedite hiring of this new position.

The Recreation and Park Department should develop a lease management system that ties into the revenue tracking system, allowing property management staff to readily monitor lease provisions and payments. The Director of Administration and Finance in coordination with the new Director of Partnerships and Property should assess the Department's current system capability and needs, including tie-in of the lease management system with the new revenue tracking system, and present estimates of costs and timelines for the lease management system upgrades and revenue tracking system tie-in to be presented to the Recreation and Park Commission during the FY 2006-2007 budget review.

The Recreation and Park Department should ensure that the Revenue Unit staff and property managers coordinate and share information about lease revenue collections, including regular channels of communications and review and revision of existing revenue monitoring protocols. Additionally, the Director of Partnerships and Property should review and revise existing protocols and develop rigorous standards to enforce lease provisions, including routinely monitoring lease payments, assessing penalties for all late payments, routinely reviewing and reconciling percentage and other rent payments, adjusting the minimum annual guarantee rents under the terms of the lease agreement, and requiring timely submission of certified financial statements or audit reports.

The Japanese Tea Garden

The Recreation and Park Department issued a Request for Proposal to lease and operate the Japanese Tea Garden tea house, gift shop, and other concessions on July 7, 2005. Department staff expect to recommend a respondent to the Recreation and Park Commission in January of 2006.

Under the existing lease agreement between the Recreation and Park Department and Fashion House, Inc., which was effective from July 1, 2003 through June 30, 2005, the lessee was to pay rent of \$150,000 annually, based on Tea Garden attendance of 350,000 annually. If annual attendance increased to more than 375,000, the minimum annually guaranteed rent increased along a graduated schedule.

Rent under the July 1, 2003 lease agreement was significantly reduced from the prior agreement between the Recreation and Park Department and Fashion House, Inc. In FY 2001-2002 and FY 2002-2003, Fashion House, Inc. had failed to make the minimum annual guaranteed rent payments. The Recreation and Park Commission approved a renegotiated lease, reducing both the minimum annual guaranteed rent and percentage rent. Minimum annual guaranteed rent was reduced from \$280,000 to \$150,000 annually and percentage rent was reduced from 38.5 percent to 25 percent. Under the July 1, 2003 lease agreement, both minimum annual guaranteed rent and percentage rent increased on a graduated schedule if attendance increased above 350,000 annually.

Japanese Tea Garden attendance dropped after September 11, 2001, and continued to be lower than in prior years due both to a decrease in San Francisco tourism and to the closure and construction of the adjacent de Young Museum and the Academy of Sciences. Attendance decreased from 422,253 in FY 2000-2001 to 345,536 in FY 2004-2005. Under the terms of the July 1, 2003 lease agreement, Japanese Tea Garden attendance would have to increase to 550,000 annually for the lease revenues to equal the lease revenues under the terms of the prior agreement.² The July 1, 2003 lease agreement resulted in approximately \$100,000 in reduced Japanese Tea Garden revenues annually.

In the July of 2005 Request for Proposal, the Recreation and Park Department has set the minimum acceptable minimum annual guaranteed rent at \$180,00 and requires the respondent to submit a detailed percentage rent proposal for each revenue stream. The Recreation and Park Department is evaluating candidates to lease and operate the Japanese Tea Garden based on three general criteria: experience and qualifications (30 points), management plan (40 points), and proposed financial terms (30 points).

The Recreation and Park Department needs to negotiate financial lease terms that acknowledge expected increased Japanese Tea Garden attendance and maximize lease revenues to the Department.³ In October 2005, the adjacent de Young Museum and 800-space Music Concourse Parking Garage opened. The de Young Museum expects attendance of 1.0 - 1.2 million annually in the first two years, and an annual attendance of 650,000 - 750,000 each year thereafter.

In FY 2000-2001, Japanese Tea Garden lease revenues were \$286,493 based on attendance of 422,253. Given the improving state of San Francisco tourism and the recently opened capital improvements adjacent to the Japanese Tea Garden, the Recreation and Park Department should negotiate lease terms that allow the Department to receive revenues at least comparable to those generated in FY 2000-2001.⁴

Harding and Fleming Golf Courses Management Agreement

The Recreation and Park Department's golf courses are under several different lease or management agreements.

- The Department entered into a management agreement with Kemper Sports Management to manage the Harding and Fleming Golf Courses in April 2003.
- The Department entered into a management agreement with Global Golf Management to manage the Golden Gate Park Golf Course in May 2004.

² Under the July 1, 2003 agreement, minimum annual guaranteed rent was \$280,000 and percentage rent was 38.5 percent only when attendance reached 550,000. Under the prior agreement, minimum annual guaranteed rent was \$280,000 and percentage rent was 38.5 percent at all levels of attendance.

³ The Recreation and Park Department also receives all Japanese Tea Garden gate revenues, which were \$1.08 million in FY 2004-2005.

⁴ Although the amended lease agreement between the Department and the Japanese Tea Garden operator was not subject to Board of Supervisors approval pursuant to Charter Section 9.118, the Recreation and Park Department expects that the new Japanese Tea Garden lease agreement will require Board of Supervisors approval under the Charter.

- The Department first entered into a 20-year lease agreement to manage the Sharp Park Golf Course restaurant and pro shop with a joint venture partnership, consisting of Jack Gate, Joan Lantz and Mike Shannon, in 1983. The lease agreement was reassigned to Sharp Park Restaurant and Pro Shop, Incorporated, in 1995 under a third amendment to the lease.
- The Lincoln Park Golf Course restaurant and pro shop operates under an original lease agreement, which began in 1982, and was most recently reassigned to Yugi Golf Management in March of 2001. The Recreation and Park Department issued Requests for Qualifications to operate the Sharp Park and the Lincoln Park Golf Courses' restaurants and pro shops in 2004. The Department received three responses to the Lincoln Park Golf Course restaurant and pro shop Request for Qualifications, but rejected all three bids. The Department is now considering various options, including bundling the Sharp Park and Lincoln Park Golf Courses into one agreement and/or soliciting private philanthropic funds to pay for some or all of the costs of renovating the golf courses.

The Department's Agreement With Kemper Sports Management to Manage Harding and Fleming Golf Courses

Harding and Fleming Golf Courses re-opened in FY 2003-2004 after a \$23,611,457 renovation of the two golf courses, as discussed in Section 6 of this management audit report. The Recreation and Park Department solicited candidates to manage the Harding and Fleming Golf Courses through a Request for Proposal and selected Kemper Sports Management among the six respondents in February 2003. The Department entered into a management agreement with Kemper in April 2003, which is effective through June 2010. Under the management agreement, Kemper manages the golf course operations, including hiring and supervising the appropriate staff. The Recreation and Park Department retains responsibility for maintaining the golf courses and facilities.

The Recreation and Park Department's management agreement with Kemper Sports Management pays Kemper \$192,000 per year to operate the golf course, plus reimbursement for all operating expenses. Additionally, the Recreation and Park Department pays the costs of maintaining Harding and Fleming Golf Courses, which includes approximately 26 full time staff positions. As shown in Table 8.1, net Harding and Fleming Golf Courses' revenues, which are allocated to the Golf Fund, were approximately \$780,000 in FY 2004-2005.

Table 8.1

**The Department's Net Revenues under the Management Agreement
with Kemper Sports Management, FY 2004-2005**

	July 2004 through June 2005
Total Harding/Fleming Revenues	\$5,391,136
Kemper's Management Fee	192,000
Kemper's Operating Expenses	208,100
Total Kemper Expenses	<u>1,656,820</u>
Subtotal Kemper Expenses	2,056,920
Recreation and Park Department Maintenance Costs	<u>2,551,916</u>
Net Revenues	\$782,300

Source: Recreation and Park Department

Under the management agreement, Kemper is to submit an annual management plan and budget to the Recreation and Park Commission describing the Kemper manager's and the Department's goals for the coming year. The Department's property manager reviews Harding and Fleming Golf Courses' actual revenues and Kemper's actual expenditures against revenues each month.

Kemper's Loan Agreement

The management agreement with Kemper Sports Management makes the City responsible for repaying a loan taken by Kemper without requiring Kemper to provide loan documentation to the City and without Board of Supervisors approval. The management agreement provides for Kemper to borrow up to \$2 million from a "financial institution of its choosing" to pay for operating costs prior to the opening of Harding and Fleming Golf Courses and to construct interior improvements to the new Harding Park Golf Course clubhouse, although the principal balance can not exceed \$1 million at any one time. Kemper Sports Management has borrowed \$969,640, for which the City is obligated to reimburse Kemper the monthly loan payments and repay the loan in full if the management agreement terminates, except in the event of default by Kemper. The City retains ownership of the improvements.

Although the management agreement sets parameters for loan amortization and interest rates⁵, the management agreement did not require that Kemper seek further approval from the Recreation and Park Department for loan documents nor provide the Department with loan documents. The Recreation and Park Department receives monthly vouchers to reimburse Kemper for the loan payments but does not have records of the loan amortization schedule or other loan documents. Kemper Sports Management rejected the Budget Analyst's request to obtain copies of the loan documents. Because the management agreement did not meet the Charter requirements requiring Board of Supervisors approval, the Recreation and Park Department did not submit the management agreement to the Board of Supervisors for approval.

Because third parties should not incur ongoing liabilities for the City without prior review by the Board of Supervisors, the Board of Supervisors should adopt an ordinance, amending the Administrative Code, to require Board of Supervisors approval for all leases and management agreements entered into by any City department, which makes the City responsible for any debt incurred under the lease or management agreement.

Further, the General Manager should immediately request copies of the subject loan documents from Kemper Sports Management, pursuant to the City's right to audit Kemper Sports Management's revenues and expenditures under the management agreement, and should request the Controller to audit the management agreement with Kemper if such loan documents are not provided. If Kemper Sports Management refuses to both (a) provide the loan documents to the City within 30 days of the Department's request, and (b) cooperate with a subsequent audit by the Controller, the Recreation and Park Department should terminate the management agreement with Kemper.

Lake Merced Property Use

The Recreation and Park Department manages Public Utilities Commission land adjacent to Lake Merced under an agreement dating back to the 1930s. The Public Utilities Commission is beginning the planning process to develop the Lake Merced Master Plan, and as part of that process the Recreation and Park Department needs to determine the best use of its Lake Merced properties, especially the site currently occupied by the Rod and Gun Club and the Lake Merced Boathouse.

The Rod and Gun Club at Lake Merced

The Rod and Gun Club has had an agreement to lease Lake Merced property from the City since 1934, which currently is month-to-month and for use of the land only. Prior to 1994, the Rod and Gun Club used lead shot which has contaminated the soil, but because lead shot was a permitted use during that time, the costs of lead mitigation in and around Lake Merced are borne by the Public Utilities Commission and the water ratepayers rather than by the Rod and Gun Club.

⁵ Tranche 1 of the loan was to be amortized over 48 months, beginning July 1, 2003, and Tranche 2 of the loan was to be amortized over the remaining term of the management agreement through June 2010 at an interest rate equal to the prime rate plus 1.5 percent per annum.

The Public Utilities Commission recently completed a study of Lake Merced, which assessed the potential and impact of raising the Lake Merced water level as part of the Water System Improvement Plan. The study concluded that raising the water could oxidize the lead, potentially contaminating the water, and recommended that the Public Utilities Commission either conduct further investigation or clean up the site as needed.

The Public Utilities Commission does not necessarily consider the lead contamination of the soil to present a health risk under current use, although raising the Lake Merced water levels could present lead contamination risks. Changing use of the site could also present risks, especially if children were to come into contact with the lead contaminated soil.

The current use of the site by the Rod and Gun Club does not in itself present undue risk, according to Public Utilities Commission staff, to the extent that the current steel shot is not a contaminant. However, debris from gun shot can still present a problem, overburdening the site. The Public Utilities Commission has funded \$3 million for Lake Merced shoreline clean up but has not funded clean up of the land adjacent to the Lake. Lake Merced clean up costs are born by the Public Utilities Commission and the water rate payers and not by the Recreation and Park Department or the Rod and Gun Club.

The Recreation and Park Department should present regular reports to the Recreation and Park Commission on the status of discussions with the Public Utilities Commission for the best use of the Lake Merced property currently occupied by the Rod and Gun Club.

The Lake Merced Boathouse

The Recreation and Park Department submitted a request to the Recreation and Park Commission in April of 2005 to approve the issuance of a Request for Proposals to rehabilitate and lease the Lake Merced Boathouse. The Lake Merced Boathouse requires extensive renovation, with minimum estimated costs to bring the Boathouse system up to code of at least \$500,000, according to the Department of Public Works. The Recreation and Park Department has prepared a draft Request for Proposals that would require respondents to be responsible for the Boathouse renovation.

The Recreation and Park Department met with the Lake Merced Task Force and conducted an open community meeting to identify community interest in the property use. The Department did not determine the best use of the property but rather, in drafting the Request for Proposals, suggested several different uses ranging from commercial to mixed use to recreational. In the report to the Recreation and Park Commission, the Recreation and Park Department staff presented several alternative uses for the property, including:

- Boat rentals, bait and tackle sales, fishing permits, continued or expanded boat storage.
- Full scale or casual restaurant and bar, snack bar, or night club, or live entertainment use.

- Lodging, such as a boutique hotel or bed and breakfast.
- Sports medicine or rehabilitation center.
- Community recreation or environmental education center.

The goals of the project, as outlined in the report to the Recreation and Park Commission, were to:

- Enhance recreational opportunities at Lake Merced that complement the recreation opportunities available at Harding Park Golf Course.
- Provide and maintain publicly accessible recreational services such as restrooms, boat launches and piers, community facilities, and/or an environmental education center.
- Secure a single tenant with sufficient resources to implement and operate a self-sustaining program without City investment.
- Increase City revenue from the site.

The Recreation and Park Department needs to determine the best uses for the Lake Merced Boathouse prior to submitting the draft Request for Proposals to the Recreation and Park Commission, including if the Department should solicit a commercial tenant in order to fund the costs of renovation. The Recreation and Park Department has prior experience with property leases in which the tenant paid for the costs of renovation or improvements and used the property as a commercial venture. In the 1995 lease agreement for the Beach Chalet, the Recreation and Park Department entered into a 20-year lease in which the tenant renovated the building, including preserving the historic content of the building. The tenant then operated a full service restaurant at the Beach Chalet, paying the Recreation and Park Department minimum and percentage rents.

However, according to the Recreation and Park Department's report to the Recreation and Park Commission, the Lake Merced Boathouse is not necessarily intended for commercial use. When the Recreation and Park Department submits the draft Request for Proposals to the Recreation and Park Commission, the Department should present an analysis of the best uses of the Lake Merced Boathouse, including (a) potential for commercial development along the lines of the Beach Chalet, or (b) mixed-use or recreational development, and whether these uses would generate sufficient funds to pay the costs of renovation.

Conclusions

The Recreation and Park Department has inadequate systems to monitor leases and track lease revenues. The Department's hard copy files are not organized to readily identify if tenants are complying with insurance and other lease provisions. Nor can property managers track lease payments readily. The Department also needs more rigorous lease

monitoring, including requiring all property managers to routinely monitor lease payments and consistently enforce late payment policies.

The Recreation and Park Department also needs to negotiate lease terms that better serve the Department and the City. The Department entered into an agreement with Kemper Sports Management to manage the Harding Park and Fleming Golf Courses, allowing Kemper to borrow up to \$2 million and obligating the City to repay the loan, without access or approval over the loan documents. Also, the Department the Department should negotiate Japanese Tea Garden lease terms that bring minimum annual guaranteed rent revenues to the level that existed before the 2001 decline in tourism and the opening of the de Young Museum and the Music Concourse Parking Garage.

The Department also should review its existing and proposed property uses on Lake Merced to ensure that the community is well-served. For example, the Rod and Gun Club is a long-standing use, but the use of lead shot prior to 1994 has resulted in soil contamination that could impact rising Lake Merced waters or alternative uses that make the site available to children's recreation. Also, the Department needs to determine the best use of the Lake Merced Boathouse to ensure that the proposed use can generate sufficient funds to pay for the Boathouse's renovation.

Recommendations

The Board of Supervisors should:

- 8.1 Adopt an ordinance, amending the Administrative Code, that requires Board of Supervisors approval for all leases and management agreements entered into by any City department, which makes the City responsible for any debt incurred under the lease or management agreement.

The Recreation and Park Department General Manager should:

- 8.2 Expedite hiring of the new Director of Partnerships and Property position.
- 8.3 Direct the Director of Administration and Finance and the Director of Partnerships and Property to (a) assess the Department's current system capability and needs, including tie-in of the lease management system with the new revenue tracking system, and (b) present estimates of costs and timelines for the lease management system upgrades and revenue tracking system tie-in to be presented to the Recreation and Park Commission during the FY 2006-2007 budget review.
- 8.4 Direct the Director of Administration and Finance and the Director of Partnerships and Property to (a) review and revise existing revenue monitoring protocols to ensure that property managers and Revenue Unit staff share lease revenue collection data on a monthly basis, and (b) develop a schedule to review coordination of lease revenue information and data.

- 8.5 Direct the Director of Partnerships and Property to review and revise existing protocols and develop rigorous standards to enforce lease provisions, including (a) routinely monitoring lease payments, (b) assessing penalties for all late payments, (c) routinely reviewing and reconciling percentage and other rent payments, (d) adjusting the minimum annual guarantee rents under the terms of the lease agreement, and (e) requiring timely submission of certified financial statements or audit reports.
- 8.6 Recommend financial terms in the prospective Japanese Tea Garden lease to the Recreation and Park Commission that maximize lease revenues based on expected increases in Japanese Tea Garden attendance, including achieving revenues of at least \$280,000 annually based on attendance of 425,000.
- 8.7 Immediately request loan documents from Kemper Sports Management.
- 8.8 Request the Controller to audit the management agreement between the Department and Kemper Sports Management if Kemper Sports Management does not provide the loan documents.
- 8.9 Terminate the management agreement with Kemper Sports Management if Kemper Sports Management refuses to both (a) provide the loan documents to the City within 30 days of the Department's request, and (b) cooperate with a subsequent audit by the Controller.
- 8.10 Present regular reports to the Recreation and Park Commission on the status of discussions with the Public Utilities Commission for the best use of the Lake Merced property currently occupied by the Rod and Gun Club.
- 8.11 Determine the best uses for the Lake Merced Boathouse prior to submitting the draft Request for Proposals to the Recreation and Park Commission.
- 8.12 Present an analysis of the best uses of the Lake Merced Boathouse, including commercial development along the lines of the Beach Chalet, or mixed-use or recreational development, and whether these uses would generate sufficient funds to pay the costs of renovation, when submitting the draft Request for Proposals to the Recreation and Park Commission.

Costs and Benefits

The Recreation and Park Department generates approximately \$22.4 million annually in property lease revenues. If the Department were to increase revenues by 1 percent through more rigorous lease management and rent negotiations, the Department would increase revenues by approximately \$224,000 annually.