Resolution authorizing a new lease to Crystal Springs Golf Partners, L.P., for the use of property owned by the City and County of San Francisco on property known as San Francisco Public Utilities Commission (SFPUC) Parcel No. 31, located at 6650 Golf Course Drive, Burlingame, California, for a term of 20 years to commence following Board approval, for rent equal to the greater of percentage rent or $1,000,000 annual base rent; and authorizing the Director of Property and/or the SFPUC General Manager to execute documents, make certain modifications, and take certain actions in furtherance of this Resolution, as defined herein.

WHEREAS, The City and County of San Francisco ("City") owns in fee certain real property presently under the jurisdiction of the San Francisco Public Utilities Commission ("SFPUC") consisting of approximately 199 acres of SFPUC Parcel No. 31 located at 6650 Golf Course Drive in Burlingame, California ("Premises"), in the Peninsula Watershed; and

WHEREAS, The Peninsula Watershed surrounds the Crystal Springs Reservoir, which the SFPUC maintains for use as a water supply; and

WHEREAS, In 1996, the SFPUC awarded a 20-year lease ("Original Lease") to Crystal Springs Golf Partners, LP ("Tenant") as the successful bidder in a competitive bidding process, for the operation of an 18-hole regulation-length municipal golf course and driving range on the Premises; and

WHEREAS, The Original Lease expired on March 31, 2017, and Tenant desires to obtain a new lease to continue operating the municipal golf course and driving range at the Premises; and
WHEREAS, Since the Original Lease’s inception in 1996, the golf market has softened due to falling customer demand and an oversupply of new golf courses both nationally and in the Bay Area, and in 2003, in response to these conditions, the SFPUC amended the Original Lease to provide a rent reduction to Tenant; and

WHEREAS, In 2011, Tenant approached SFPUC staff with a request for an additional rent reduction and a lease term extension in response to a further softening of customer demand and worsening financial performance caused by the Great Recession; and

WHEREAS, The SFPUC did not act on Tenant’s 2011 request at the time, but staff agreed to consider the request after consulting with experts in the golf course industry; and

WHEREAS, To inform the SFPUC’s economic decisions regarding the Premises, SFPUC staff relied on the advice of consultants including Economic & Planning Systems, Inc. ("EPS"), an economic consulting firm that is the primary consultant under the SFPUC’s Professional Services Contract CS-287, and Tenant’s consultant, Pro Forma Advisors LLC, a firm that specializes in market analysis, financial feasibility, economic impact studies and appraisals for large-scale real estate developments, including golf courses ("Pro Forma Advisors"); and

WHEREAS, The SFPUC’s consultants found that after sharp declines in overall economic performance of golf courses over the past 10 to 15 years due to a 20% decline in the number of golfers, the Bay Area golf market has stabilized over the past three years; and

WHEREAS, The SFPUC’s consultants further found that the financial performance of Bay Area golf courses remains relatively flat, and the mid-to-long-term outlook for the regional golf market is highly uncertain; and

WHEREAS, The high fixed cost nature of the golf business, coupled with the required capital investment and the high uncertainty of future demand for golf translates to very high risk for investors in the golf industry; and
WHEREAS, To minimize this risk, the SFPUC is seeking a lease rather than a fixed management fee arrangement with an operator whereby the operator would retain all operating revenues and costs and pay a percentage of gross revenue to the SFPUC with a minimum base rent, requiring the operator to fund any operating shortfalls; and

WHEREAS, Golf operators prefer a contract fee model, whereby property owners retain operating revenues and costs and pay the operator a fee, requiring the property owner (SFPUC) to fund any operating shortfalls; and

WHEREAS, In 2014, SFPUC staff asked EPS to evaluate the likelihood of a successful request for proposals ("RFP") process for a new golf course lease to replace the Original Lease upon expiration; and

WHEREAS, EPS's analysis of recent RFP releases confirm golf course operator preference for a contract fee structure in order to reduce financial risk, suggesting that an RFP for a lease participation structure would not likely result in better deal terms for the SFPUC; and

WHEREAS, Recent attempts by public agencies to lease courses have resulted in few or no bids, and requested terms have included substantially reduced rent or rent credits for rapid recovery of any invested capital; and

WHEREAS, For example, the County of Los Angeles had no bids on the Marshall Canyon golf course, the City of Portland received no qualified bids for the Heron Lake golf course, and the Los Angeles Department of Airports received only one bid on the Westchester golf course from its incumbent operator; and

WHEREAS, EPS concluded that given the ongoing soft economic conditions of the golf industry, the continuing capital investment needs at the Golf Course, and the likelihood of low tenant interest in responding to an RFP by the SFPUC due to golf operators’ preference for a management fee arrangement rather than a lease, especially a lease requiring tenant-funded
capital investments, there is a substantial risk that the SFPUC's issuance of a RFP will yield
disadvantageous rent terms to the SFPUC or a golf course tenant that does not suit the
SFPUC's needs; and

WHEREAS, Based on the advice of the SFPUC's consultants, SFPUC staff concluded
that it is impractical to competitively bid the new lease opportunity and instead negotiated with
Tenant proposed terms and conditions of a new 20-year lease, a copy of which is on file with
the Clerk of the Board of Supervisors under File No. 170695 ("New Long-Term Lease"), which
is incorporated herein by this reference; and

WHEREAS, The SFPUC and Tenant negotiated in good faith for over a year to finalize
the terms and conditions of the proposed New Long-Term Lease, and although lease
negotiations are completed, due to no fault of Tenant there was insufficient time to seek the
necessary City approvals of the proposed New Long-Term Lease prior to the expiration of the
Original Lease; and

WHEREAS, The SFPUC and Tenant entered into a new month-to-month lease so that
Tenant can continue to operate the golf course while seeking City approval of the proposed
New Long-Term Lease; and

WHEREAS, The New Long-Term Lease fair market rent structure was determined
using a comprehensive financial model developed by SFPUC staff ("SFPUC Model") that
determined the percentage rent and base rent structure based on an expected internal rate of
return ("IRR") on Tenant's required investment; and

WHEREAS, The SFPUC consulted with leading industry experts to validate the
proposed fair market rent structure throughout the negotiations with Tenant; and

WHEREAS, Under Professional Services Contract CS-287, Century Urban, a SFPUC
sub-consultant specializing in economic and feasibility analysis and asset management,
validated the SFPUC Model; and
WHEREAS, Pro Forma Advisors vetted the proposed fair market rent structure reflected in the SFPUC Model, and in its view, concluded that given the current and anticipated market conditions, and expected operating performance at Crystal Springs, the proposed rent structure is well within the range of current fair market rental terms; and

WHEREAS, Pro Forma Advisors cited the annual Financing and Investment Survey from the Society of Golf Course Appraisers, an organization dedicated to the advancement of the golf course consulting and valuation profession, that showed that the expected IRR for golf courses ranges from 10% to 22%, averaging 14%; and

WHEREAS, Given the above, SFPUC staff determined that the projected IRR of 13.95% under the SFPUC Model for Crystal Springs is consistent with current industry investment criteria; and

WHEREAS, SFPUC staff have consulted with the Director of Property, who concurs that the proposed rent structure reflects fair market rent; and given that such proposed rent is less than $45 per square foot, and the rent structure has been validated by an independent, qualified golf course appraiser, Administrative Code, Section 23.30, does not require a formal appraisal; and

WHEREAS, On April 24, 2017, the Planning Department issued a categorical exemption for the New Long-Term Lease under Section 15301, Class 1 (Existing Facilities) of the California Environmental Quality Act, Case Number 2017.005038ENV, a copy of which is on file with the Clerk of the Board of Supervisors under File No. 170695, which is incorporated herein by this reference; and

WHEREAS, Any future capital improvements not contemplated in the New Long-Term Lease will be subject to prior SFPUC approval, and the New Long-Term Lease expressly acknowledges that the SFPUC may not consider future capital improvements before completion of all environmental review required by law; and
WHEREAS, Although there are no current SFPUC pipelines or other infrastructure placed on or beneath the Premises, the Lease provides that the Premises will still be subject to use by the City and the SFPUC for City uses, including the installation or maintenance of pipelines or other infrastructure and, in such instance, requires Tenant to remove its improvements as necessary to accommodate such City uses; and

WHEREAS, CourseCo. Inc. ("CourseCo."), a California-based professional golf course management company, manages the Golf Course on Tenant’s behalf, and several principals of Tenant are also principals of CourseCo.; and

WHEREAS, CourseCo. has a proven track record of managing golf courses, including Crystal Springs Golf Course, and has never had a golf course contract cancelled or not renewed; and

WHEREAS, In 2014 CourseCo. entered into a contract with SEIU Local 265, the Golf Courses and Greens Attendants Union, regarding the CourseCo maintenance workers, and CourseCo. is the winner of a number of industry awards for environmental management and sustainability, including an award from the City and County of San Francisco; and

WHEREAS, On May 23, 2017, by SFPUC Resolution No. 17-0123 ("SFPUC Resolution"), a copy of which is on file with the Clerk of the Board of Supervisors under File No. 170695, which is incorporated herein by this reference, SFPUC approved the New Long-term Lease, and authorized the SFPUC General Manager and/or the Director of Property to undertake the process to, following Board of Supervisors approval of the New Long-term Lease, accept and execute the New Long-Term Lease and any other related documents necessary to consummate the transactions contemplated therein, in the form approved by the City Attorney; and

WHEREAS, Charter, Section 8B.121(a) grants the SFPUC Commission the exclusive charge of the real property assets under the Commission's jurisdiction, and Charter, Section

Public Utilities Commission
BOARD OF SUPERVISORS
9.118(c) requires that any City lease of real property having a term of ten or more years or anticipated revenue to the City of $1,000,000 or more be approved by resolution of the Board of Supervisors; and

RESOLVED, The Board of Supervisors, having reviewed and considered the proposed New Long-Term Lease and the SFPUC Resolution, finds that the proposed New Long-Term Lease is in the best interest of the City and meets the requirements of the City Charter and Administrative Code, Chapter 23; and, be it

FURTHER RESOLVED, That the Board of Supervisors finds that competitive bidding procedures are impractical, given the soft economic conditions in the golf industry, poor responses to other jurisdictions’ recent RFP’s for golf course leases, and golf operators’ general preference for a contract fee structure rather than SFPUC’s preferred lease participation structure; and, be it

FURTHER RESOLVED, That in accordance with the recommendations of the SFPUC General Manager and the Director of Property, the Board of Supervisors hereby approves the Lease and the transaction contemplated thereby in substantially the form of such instrument presented to this Board; and, be it

FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of Property and/or the SFPUC’s General Manager to enter into any additions, amendments, or other modifications to the Lease that the Director of Property and/or the SFPUC’s General Manager determines are in the best interest of the City, do not materially increase the obligations or liabilities of the City or materially diminish the benefits to the City, and are necessary or advisable to complete the transaction contemplated in the Lease and effectuate the purpose and intent of this resolution, such determination to be conclusively evidenced by the execution and delivery by the Director of Property or the SFPUC’s General Manager of the Lease and any amendments thereto; and, be it
FURTHER RESOLVED, That the Director of Property and/or the General Manager of the SFPUC are hereby authorized and urged, in the name and on behalf of the City and County, to execute and deliver the Lease with Tenant, in substantially the form of such instrument presented to this Board, and to take any and all steps (including, but not limited to, the execution and delivery of any and all certificates, agreements, notices, consents, and other instruments or documents) as the Director of Property or SFPUC General Manager deems necessary or appropriate in order to consummate the Lease, or to otherwise effectuate the purpose and intent of this Resolution, such determination to be conclusively evidenced by the execution and delivery by the Director of Property or SFPUC General Manager of any such documents; and, be it

FURTHER RESOLVED, That within thirty (30) days of the Lease being fully executed by all parties, the SFPUC shall provide the final Lease to the Clerk of the Board for inclusion into the official file.
Recommended:

JOHN UPDIKE
Director of Property

HARLAN L. KELLY, JR.
General Manager of the SFPUC
Resolution authorizing a new lease to Crystal Springs Golf Partners, L.P., for the use of property owned by the City and County of San Francisco on property known as San Francisco Public Utilities Commission (SFPUC) Parcel No. 31, located at 6650 Golf Course Drive, Burlingame, California, for a term of 20 years to commence following Board approval, for rent equal to the greater of percentage rent or $1,000,000 annual base rent; and authorizing the Director of Property and/or the SFPUC General Manager to execute documents, make certain modifications, and take certain actions in furtherance of this Resolution, as defined herein.

July 13, 2017 Budget and Finance Sub-Committee - RECOMMENDED AS COMMITTEE REPORT

July 18, 2017 Board of Supervisors - ADOPTED

Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

File No. 170695

I hereby certify that the foregoing Resolution was ADOPTED on 7/18/2017 by the Board of Supervisors of the City and County of San Francisco.

Angela Calvillo
Clerk of the Board

Mayor

Date Approved

7/17/17