

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To: Scott C. Stiles From: Omar Sandoval  
Dept.: City Manager Dept.: City Attorney  
Subject: Approval of a Termination Agreement with Donovan Golf Courses Management, Inc.; approval of an Agreement with Billy Casper Golf, LLC; and appropriate funds for Fiscal Year 2018-19 for implementing changes to the operation of Willowick Golf Course. (*Action Item*)

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OBJECTIVE

To request approval by the City Council authorizing the City Manager to execute agreements terminating the current operations contract with Donovan Golf Courses Management, Inc., and entering into a new management agreement with Billy Casper Golf, LLC, for the operation of the Willowick Golf Course.

BACKGROUND

Since 2001, Donovan Golf Course Management, Inc. (Donovan), has been operating the Willowick Golf Course under an operations agreement wherein Donovan has full control, assuming all rights and liabilities, pertaining to the operations of the golf course and its amenities. The contract includes a lease of the single family structure on the property, which Donovan uses for storage. The Donovan agreement generally requires Donovan to pay the City twenty three percent (23%) of green, cart, and range fees, eight percent (8%) of gross revenue from club repair, hand carts and pro shop sales, and five percent (5%) of other revenue, with some adjustments related to the construction of the clubhouse and other capital improvements. Payment to the City is due after a reconciliation is performed at the end of each annual contract term. Over the years, the Donovan contract permitted Donovan and the City to enjoy healthy net revenues, but these have declined over time due to reduced interest in the game of golf and increased costs in golf course operations. Because the payments to the City are based on gross revenue rather than net revenue, Donovan has fallen behind in remitting required payments to the City for the last two years, and has sought to renegotiate the payment terms.

Rather than engage in protracted legal proceedings over the overdue payments owed the City, Donovan and the City have agreed to amicably terminate the contract and part ways effective May 15, 2019. The termination agreement simply moves to May 15, 2019, the termination date of the contract and related lease, with a reconciliation of amounts due for the current contract term to be completed within 90 days of the termination date. Payment will also be due at that time, along with the amounts due for past terms.

Concurrent with the negotiations with Donovan, City staff sought the assistance of golf course operators with experience in managing municipal golf courses, and Billy Casper Golf (BCG) stepped up to offer their expertise and services to take over operations of the golf course on short notice.

DISCUSSION

City staff has successfully negotiated a Golf Course Management Agreement with BCG, through which BCG will manage the golf course on behalf of the City. BCG will charge the City a \$7,500 monthly base management fee for which BCG will be responsible for all aspects of the operations of the golf course and its amenities. Under this new agreement, the City will be responsible for operating expenses and will realize revenue only to the extent that gross revenues exceed operating expenses. Under this Agreement, BCG will receive an incentive management payment of ten percent (10%) of positive net operating income if it exceeds \$250,000 at the end of each fiscal year, capped at no more than 35 percent (35%) of the base management fee. Furthermore, the Agreement provides that the City may terminate the Agreement if net operating income does not equal or exceed \$200,000 for two consecutive fiscal years.

The BCG Agreement will have a term of five years, with the option to extend it for two successive periods of three years. The City may unilaterally terminate the Agreement for convenience after the first six months upon 60 days notice. However, termination during the first five years of the Agreement will be subject to a termination fee of 25 percent of the management fees paid in the last full fiscal year for the remaining term of the Agreement at the time of

termination.

The BCG Agreement requires the City to keep a bank account with minimum funding in the amount of \$30,000 to pay for operating expenses. BCG will deposit gross revenues received from the services, food, and merchandise sold at the golf course in this account. Thus, the City will be required to make an initial deposit into this bank account and may not need to make additional deposits unless expenses exceed revenue on an ongoing basis. Because there will be a need to make some capital expenditures, such as irrigation and clubhouse upgrades, and possible acquisition of course and range equipment, a deposit of at least \$375,000 is recommended to enable a seamless and successful BCG transition into the operation of the golf course.

**FINANCIAL IMPACT**

The BCG Agreement will cost the City a minimum of \$90,000 annually, which is expected to be offset by golf course revenues. BCG estimates that golf course operations will generate net income to the City, although an exact estimate cannot be determined until a few months after they take over operations of the golf course.

**RECOMMENDATION**

It is recommended that the City Council:

- Authorize the City Manager to execute the Donovan Golf Courses Management, Inc., Termination Agreement, and authorize minor revisions as necessary;
- Authorize the City Manager to execute the Billy Casper Golf, LLC, Management Agreement, and authorize minor revisions as necessary; and
- Appropriate \$375,000.00 from the Golf Course Fund (Fund 117) for Willowick Golf Course operating and necessary capital expenses for Fiscal Year 2018-19.

**ATTACHMENTS:**

<b>Description</b>	<b>Upload Date</b>	<b>Type</b>	<b>File Name</b>
Donovan Termination Agreement	4/4/2019	Backup Material	GG-Donovan-Willowick_Operations_Termination_Agreement-Final.pdf
2001 Donovan Agreement	4/4/2019	Backup Material	2001_Willowick-Donovan_Operations_Agreement.pdf
2019 BCG Management Agreement	4/4/2019	Backup Material	2019_Willowick_-_BCG_Management_Agreement_-_Final_Clean_-_4-4-2019_-_BCG_Executed.pdf

**REVIEWERS:**

<b>Department</b>	<b>Reviewer</b>	<b>Action</b>	<b>Comments</b>
City Attorney	Sandoval, Omar	Approved	
City Clerk	Pomeroy, Teresa	Approved	
City Attorney	Sandoval, Omar	Approved	
Deputy City Manager	Stipe, Maria	Approved	
City Manager	Stiles, Scott	Approved	