

CITY OF LONG BEACH

R-17

OFFICE OF THE CITY MANAGER

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January 7, 2014

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute all documents necessary for the Seventh Amendment to Lease No. 17448 between the City of Long Beach and American Golf Corporation, a California corporation, for the continued operation of the City's golf courses and associated activities. (Districts 3, 4 and 5)

DISCUSSION

Heartwell Junior Golf Building

Located on the eastern edge of Heartwell Park adjacent to the Heartwell Park Golf Course Driving Range, American Golf Corporation (AGC) leased City property (Leased Premises) under Lease No. 17448 (Golf Lease) consisting of a 3,100 square foot (SF) office building, more commonly known as the Heartwell Junior Golf building (Golf Building), and an additional 28,760 SF surplus parcel of land (Surplus Parcel) for the operation of the City's golf courses. In a citywide effort to bring the headquarters of the Special Olympics of Southern California (SOSC) to the City, AGC agreed to vacate the Leased Premises for SOSC's occupancy in 2007 and relocated its staff into leased modular facilities placed in Heartwell Park. In need of additional office space in order to consolidate all of its operations, in February 2013, SOSC terminated its lease and relocated to larger offices elsewhere in the City. Since SOSC's departure, maintenance of the Leased Premises has fallen to the Department of Parks, Recreation and Marine (PRM).

AGC has approached the City with a desire to return the Golf Building back to AGC for use by its staff in lieu of the leased modular facilities. AGC and City staff have discussed market rate terms for the lease of the Golf Building, which would include a rent credit for PRM's non-exclusive use of a 950 SF classroom within the Golf Building for programming space for PRM classes. Further, in order to relieve PRM from annual maintenance costs for the Surplus Parcel, AGC has agreed to maintain the Surplus Parcel on behalf of PRM in exchange for an additional rent credit.

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Skylinks Golf Course Bonds

On December 10, 2002, the City Council authorized the Fourth Amendment to the Golf Lease approving the closure and reconstruction of Skylinks Golf Course and its associated facilities (Skylinks Project), and issuing the Long Beach Bond Finance Authority Lease Revenue Bonds, Series 2003 (Skylinks Bonds), to pay for the Skylinks Project. As outlined in the Fourth Amendment, AGC is required to deposit ten percent of gross monthly green fees into the Debt Service Account for annual debt service. Further, AGC is required to maintain a minimum reserve of 150 percent of the maximum annual debt service. After payment of the annual debt service, any excess funds are utilized for capital improvements to the golf courses.

The current lease of the Skylinks property to American Golf includes an annual debt service coverage requirement of 150 percent annual debt service, instead of a more typical 125 percent coverage requirement for similarly rated projects. In 2003, the higher coverage factor was deemed more appropriate, since revenues from the reconstructed golf course were not yet proven. On November 27, 2012, lease revenue refunding bonds were sold to refund the 2003 Skylinks lease revenue bonds and take advantage of the then-current interest rates, thus lowering the annual debt service. The City now proposes to amend the lease to reduce the annual debt service coverage requirement to 125 percent from the original 150 percent. This action is recommended due to the reduced amount of bonds outstanding, the stability of Skylinks revenue, and the additional annual savings afforded by the lower interest rates of the newly issued lease refunding bonds. The bond indenture requires that any moneys made available by this change be deposited in the Golf Capital Improvement Fund for payment of capital improvements to the City's municipal golf courses, as pre-approved by the Director of PRM.

The Seventh Amendment will memorialize the agreement between AGC and the City to reduce the annual debt service coverage requirement to 125 percent from 150 percent. The Department of Financial Management believes that the new standard will continue to provide conservative debt coverage, since the revenue from green fees has historically been stable and has easily exceeded the amount required for debt service.

The proposed Seventh Amendment to Lease No. 17448 would contain the following major terms and provisions:

- Landlord: City of Long Beach, a municipal corporation.
- Tenant: American Golf Corporation, a California corporation.
- Leased Premises: The Leased Premises shall be increased to include the 3,100 SF Golf Building located at 6730 East Carson Street. The Leased Premises shall also include the 28,760 SF Surplus Parcel of land adjacent to the Golf Building to be maintained by the Tenant on behalf of the City.

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- Use: Tenant shall accept the Golf Building and Surplus Parcel in their "as-is" condition and shall be responsible for all utility and maintenance costs. The non-exclusive classroom in the Golf Building shall be made available for programming by the City at the following times: Monday through Friday, 6 PM to 10 PM, and Saturdays from 8 AM to Noon. Tenant shall receive a rental credit in exchange for the non-exclusive use of the classroom and for the maintenance of the Surplus Parcel. The Surplus Parcel shall be utilized for passive uses incidental to the occupancy of the Golf Building.
- Rent: The initial monthly base rent for the Golf Building shall be \$1.20 per SF or \$3,720 per month. A monthly credit of \$570 shall be applied for the non-exclusive use of the classroom within the Golf Building. An additional monthly credit of \$650 shall be applied for the maintenance of the Surplus Parcel. The net monthly rent shall be \$2,500. The net monthly rent for the Golf Building shall be adjusted annually based on the increase in the Consumer Price Index (CPI). The monthly rent for the Golf Building may be adjusted every ten years upon a market value analysis with CPI adjustments continuing during the intermittent years.
- Bond Debt Reserve: The debt reserve requirement for the refunded Skylinks Bonds shall be decreased to 125 percent of the annual debt service.

All other remaining terms and provisions of Lease No. 17448 shall remain in full force and effect.

This matter was reviewed by Deputy City Attorney Gary J. Anderson on November 15, 2013 and Budget Management Officer Victoria Bell on November 21, 2013.

TIMING CONSIDERATIONS

City Council action is requested on January 7, 2013, in order to execute the Seventh Amendment in a timely manner.

FISCAL IMPACT

Annual rent of \$30,000 shall accrue to the General Fund (GP) in the Department of Parks, Recreation and Marine (PR). There is no local job impact associated with the recommended action.

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SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

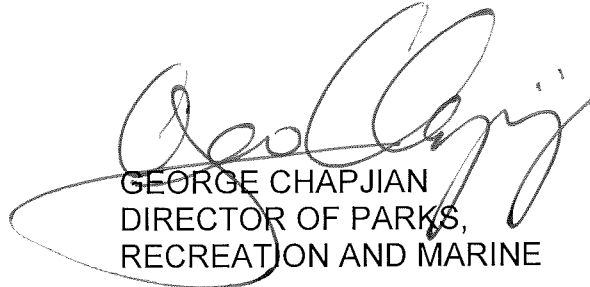


MICHAEL P. CONWAY
DIRECTOR OF BUSINESS
AND PROPERTY DEVELOPMENT

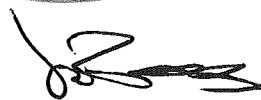


ARA MALOYAN, PE
ACTING DIRECTOR
OF PUBLIC WORKS

MPC:GC:AM:JG:jmlr

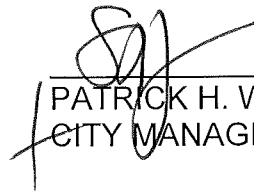


GEORGE CHAPJIAN
DIRECTOR OF PARKS,
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JOHN GROSS
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APPROVED:



PATRICK H. WEST
CITY MANAGER