



DATE: December 7, 2021

CATEGORY: Consent

DEPT.: Community Services

TITLE: **Extension of Amended and Restated Management Services Agreement with Touchstone Golf, LLC**

RECOMMENDATION

Authorize the City Manager or designee to execute the five-year extension to the Amended and Restated Management Services Agreement with Touchstone Golf, LLC, to operate and manage Shoreline Golf Links and Michaels Restaurant from January 1, 2022 through December 31, 2026.

BACKGROUND

Shoreline Golf Links (SGL or Course) opened to the public in 1983 and was leased to private operators between 1983 and 1995. In December 1995, the City assumed operations of the Course. At that time, revenues exceeded expenditures, and it was anticipated SGL would be able to provide a reasonable annual financial contribution to the General Operating Fund (GOF) to support other recreation programs. By Fiscal Year 2006-07, due to the increased supply of and competition from other golf courses, SGL was operating at a deficit, was no longer able to contribute to the GOF, and was drawing down on reserves to meet its financial obligations. This situation was exacerbated by the Great Recession.

Staff provided analysis of operating models for SGL at the January 25, 2011 Study Session and recommended that the City pursue the management services agreement model. On March 8, 2011, the City Council approved the solicitation of a Request for Proposals (RFP) for a management services agreement for all golf course operations. On September 27, 2011, Council authorized the City Manager to enter into a management services agreement with Touchstone Golf, LLC (Touchstone), for the management and operation of SGL.

On January 8, 2012, Touchstone took over operations of SGL under a management services agreement with the City for a term of five years with an option to extend for an additional five years at the sole discretion of the City (Attachment 1).

After Touchstone successfully managed and operated the course for five years, the City Council authorized the City Manager on November 1, 2016 to execute the option to extend the agreement for an additional five years through December 31, 2021 (Attachment 2).

On October 23, 2018, the City Council authorized the transfer of management and operations of Michaels Restaurant to Touchstone (Attachment 3). This action terminated the previous lease and established an entirely new agreement with Touchstone that included the operation of both Michaels Restaurant and SGL. The Amended and Restated Management Services Agreement with Touchstone has a term from January 1, 2019 through December 31, 2021 in order to align with Touchstone's previous management services agreement for SGL. The current agreement has an option to renew for an additional five years, through December 31, 2026, at the sole discretion of the City. Touchstone has submitted its formal request for extending the contract for an additional five years as indicated in the current agreement (Attachment 4).

ANALYSIS

Touchstone has managed SGL since January 2012. Since taking over the Course in 2012, Touchstone has operated the Course at a net positive contribution of \$468,300 to the GOF through Fiscal Year 2020-21. Despite operating at a deficit in Fiscal Years 2018-19 and 2019-20 due to an abnormally high number of rainy weekends followed by COVID-19, Touchstone was able to make up that deficit in Fiscal Year 2020-21 while continuing to make course improvements and renovating the driving range landing area. Touchstone has operated and maintained the golf course throughout the last 10 years for a net revenue to the City despite impacts from natural occurrences (inclement weather and air quality impacts to outdoor activities), increased competition from nearby courses, and multiple projects around Shoreline at Mountain View, impacting the golfing experience and access to the Course. A five-year extension will allow Touchstone to build upon the momentum of Fiscal Year 2020-21.

Touchstone has managed Michaels Restaurant since January 2019. Since this time, Touchstone has not had a full year of operation without interruption from either renovations or the COVID-19 pandemic. Like many other restaurants since March 2020, the restaurant has been operating at a net negative during the pandemic. However, due to the success of the golf course in Fiscal Year 2020-21, the golf operations were able to cover the Fiscal Year 2020-21 deficit of the restaurant and still transfer \$250,000 to the General Fund. The proposed five-year extension to the Amended and Restated Management Services Agreement will allow Touchstone an opportunity to operate

Michaels Restaurant to its full potential. With the final phase of renovations scheduled to be completed in January 2022, Touchstone will have an opportunity to open without further impacts to operations, assuming there are no further adverse impacts from the pandemic.

A number of large projects are planned for the Course in the next three years. Retaining the same operator will facilitate getting through these projects due to their familiarity with City processes and the special considerations required at Shoreline at Mountain View. Future projects include renovating at least two greens complexes as well as repairing and lining all greenside bunkers across the entire golf course. These improvements are necessary due to landfill subsiding over the years and will make the Course more playable while increasing the golfing experience for customers.

Next Steps

Staff has developed a plan through 2026 that will be executed should the five-year extension be approved. The plan includes hiring a consultant to review the operations of the Course and Michaels Restaurant and recommend the best agreement structure for management of both operations. This review will examine whether the current Management Services Agreement is still the most effective structure and whether operation of the golf course and restaurant should remain under one agreement or operate under separate agreements and/or separate contractors as they were prior to 2019.

Following this review and based on the recommendation of the consultant, the City will conduct an RFP process in 2026 (year five of the five-year extension) for the management and operations of the golf course and restaurant.

FISCAL IMPACT

Under the extension of the agreement, the City will continue to pay a monthly management fee of \$10,000 to Touchstone for management and operations of the Course and Michaels Restaurant. In addition, the extension continues to have an Incentive Management Fee where Touchstone can receive an annual one-time increase to its management fee for achieving a gross revenue goal of \$2,600,000 in a fiscal year.

After having their most successful year in Fiscal Year 2020-21, Touchstone is budgeted for a transfer to the GOF of \$150,000 for Fiscal Year 2021-22 from the golf course and restaurant. Using a similar net allocation goal for the entire five-year extension, the City is projected to receive a total of \$750,000 over the next five years. With the Course

reaching record numbers and the restaurant operating at full potential, it is anticipated that even greater revenue will be realized in years two through five of the extension.

ALTERNATIVES

1. Do not authorize the five-year extension of the current agreement, direct staff to issue an RFP for a Management Services Agreement for management and operations of Shoreline Golf Links and Michaels Restaurant, and authorize a limited extension of the current agreement to allow for continuity of management and operations during the RFP process and finalization of a new agreement.
2. Do not authorize the five-year extension of the current agreement, direct staff to issue an RFP for a Management Services Agreement for management and operations of Shoreline Golf Links and a separate RFP for management and operations of Michaels Restaurant, and authorize a limited extension of the current agreement to allow for continuity of management and operations during the RFP process and finalization of a new agreement.
3. Provide other direction.

PUBLIC NOTICING

Agenda posting and a copy of this report distributed to Touchstone Golf, LLC, the Advisory Greens Committee, and golf membership groups.

Prepared by:

John R. Marchant
Community Services Director

Brady Ruebusch
Shoreline Manager

Approved by:

Audrey Seymour Ramberg
Assistant City Manager/
Chief Operating Officer

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- Attachments:
1. [September 27, 2011 City Council Report](#)
 2. [November 1, 2016 City Council Report](#)
 3. [October 23, 2018 City Council Report](#)
 4. Touchstone Request for Extension