



Council
Communication
Office of the City Manager

Date	November 20, 2006
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Agenda Item No.	54
Roll Call No.	<u>06-</u>
Communication No.	<u>06-743</u>
Submitted by: Donald M. Tripp, Park and Recreation Director	

AGENDA HEADING:

Approving First Amendment and Addendum to A. H. Blank Golf Course Management Agreement – Construction of Improvements.

SYNOPSIS:

Recommend approval of the first amendment and addendum to authorize C Corporation (Jeff Chiodo, President) to 1) construct an 18-hole miniature golf course, 2) expand the existing clubhouse to provide underground cart storage, improve/expand restroom facilities and add banquet seating and 3) overlay the existing parking lot and extend cart paths along the golf course.

FISCAL IMPACT:

Amount: This agreement authorizes C Corporation to undertake projects estimated at \$900,000 for miniature golf and clubhouse expansion (plus a \$50,000 contingency), and \$100,000 for parking lot and cart path improvements. The agreement also authorizes C Corporation to secure a loan not to exceed \$1,000,000 to fund the projects. Additionally, C Corp. will construct and pay for an estimated \$730,000 in future golf course and clubhouse improvements which will not result in any additional City obligation.

Improvements are expected to increase Golf Course revenues. The current agreement with C Corporation requires that the City receive 10% of all gross revenues over \$1,000,000, beginning in 2010 (based on the three year average from 2006 through 2009 and each successive year thereafter). In other words, the new revenues generated by this agreement will translate to new City revenues beginning in 2010.

Funding Source: C Corporation will finance the Blank Golf Course construction projects with a twenty-five (25) year loan, and make payments on the loan during the life of the agreement. In addition, C Corporation will pay an additional \$50,000 toward the principal balance of the loan on July 1, 2010. If the golf course management contract is terminated, the City would assume the remaining debt. (Debt and revenue estimates are included in the Council packet. For instance, if the Agreement is not extended beyond 2019, there will be an outstanding loan of \$599,758. During that time period the City will have received an estimated \$355,866 in additional revenue from the improvements. The City would have options to assume, refinance, or pay off the loan or to transfer it to a new operator.)

ADDITIONAL INFORMATION:

On July 10, 2006, by Roll Call number 06-1385, the Des Moines City Council approved the A.H. Blank Golf Course Management Agreement. The terms and conditions within this agreement require the Contractor to make and maintain improvements to the golf course as stated in section III. 15. Capital

Projects. Additionally, beginning in 2010, the City shall receive 10% of all gross revenues above the baseline of \$1,000,000 established in the 2005 golf season.

The Management Agreement with C Corporation states that “the contractor shall participate in an annual evaluation of performance by not later than January 15 of each year during the term of this Agreement. The evaluation may cover, but is not limited to:

- (a) Financial performance in comparison to Grandview and Waveland Golf Courses and other public golf courses within the metropolitan area.
- (b) Course use including rounds, concessions and cart sales.
- (c) Course care including maintenance and cleanliness of the golf course, clubhouse, fixtures, furnishings, signs and equipment.

Since the primary goal of the City is to provide affordable golf as a recreational opportunity to all citizens and maximize revenues and performance, if the contractor’s operations result in a significant decline in subsection a-c above, as compared to other public golf courses in the Des Moines metropolitan area, the City may notify the contractor he/she is in default.

Within the current clubhouse design and golf course infrastructure, C Corporation can operate to cover expenses and outstanding debt. However, for C Corporation to complete the necessary future capital improvements over the initial term of the agreement, additional revenue sources need to be secured. The plan to fund future capital improvements and equipment by C Corporation is to construct a new 18-hole miniature golf course and expand the clubhouse to improve restroom facilities and provide banquet space for golf outings and non-golf related special occasions. The business pro-forma anticipates gross revenues in the amount of \$325,000 annually from the miniature golf course, food/beverage and banquet revenues associated with the recommended improvements. Debt service, cost of goods, payroll, supplies and materials, etc. are estimated at \$162,511. The net profit would be \$162,489. From this net profit the City would receive \$32,500, beginning in 2010 (10% of gross revenues above the \$1,000,000 gross revenue baseline established in 2005). Additionally, C Corporation will set aside 20% of gross revenues, estimated at \$65,000, in a Capital Improvement Plan (CIP) Reserve Fund, leaving a net profit of \$64,989 to C Corporation. The CIP Reserve fund equals \$65,000 per year for a total of \$845,000 through the initial term (12 years) of the Management Agreement.

Additionally, C Corporation has identified approximately \$730,000 in additional capital and equipment needs over the initial term (12 years) of the agreement, which would be paid by C Corporation from their CIP Reserve Fund. The anticipated capital improvement needs identified by C Corporation include the following: replacement of the irrigation pumps and computer system, future cart path extensions and replacements, practice range upgrades, maintenance building roof replacement, clubhouse mechanical equipment upgrades, miniature golf course upgrades, tees, greens and fairway upgrades and reforestation within the course. These funds would be used to pay for the implementation of the 12-year CIP Plan schedule, identified as Attachment A of the First Amendment and Addendum, which is on file in the City Clerk’s office. Fifty-percent of any remaining balance in the C Corporation CIP Reserve Fund at the end of the initial term would be used to pay down the principal balance of the outstanding capital loan debt, if the first contract renewal extension is exercised by the City. This amount would equal approximately \$57,000 based on 2006 dollars. If the City does not renew the extension, the balance of this fund (\$113,000) stays with C Corporation.

The First Amendment and Addendum formalizes the requirements and restrictions placed on C Corporation to construct these enhancements. The requirements placed on C Corporation include receiving all appropriate Board and Commission approvals, Finance Department approval for debt service, bonding requirements by the City’s Engineering Department and insurance requirements

approved by the City's Risk Manager. The First Amendment and Addendum to the A.H. Blank Golf Course Management Agreement has been reviewed and approved by the above departments and is being recommended for approval to the Des Moines City Council.

Miniature Golf Course: The miniature golf course operation will be an 18-hole family-oriented recreation center located just north of the clubhouse. The anticipated cost for this improvement is \$300,000. This miniature golf course shall also provide nine handicapped accessible holes to accommodate individuals with disabilities. The course design is shown in Exhibit A of the First Amendment and Addendum.

Clubhouse Expansion: The clubhouse expansion will provide underground cart storage, improved rest room facilities and feature a 300-seat banquet room facility. The anticipated cost for this improvement is \$600,000. This project has been reviewed and approved by the Urban Design Review Board at their September 19, 2006, meeting.

Parking Lot Resurfacing and Cart Path Extensions: Due to deterioration of the current parking lot and the addition of the miniature golf course and clubhouse expansion, the existing parking lot needs to be resurfaced in addition to extending some of the existing cart paths in order to maintain and increase usage at the course. The anticipated cost for these improvements is \$100,000. This cost will be borne by C Corporation, as the City waived the \$50,000 management fee in 2006 and in 2010, of which C Corporation needs to make improvements in a similar amount.

The total cost estimated for the above improvements is \$1,000,000, plus a \$50,000 contingency. C Corporation will borrow the needed funds (up to \$1 million) to complete all necessary work to construct the improvements. The current agreement provides for a twelve (12) year term with four – four-year options to renew for a total of twenty-eight (28) years. C Corporation would borrow the necessary funds over a twenty-five (25) year variable rate term. However, with the \$50,000 principal payment in 2010, this loan will be paid off in 21 years or 2027. The impact of this financing would obligate the City to buy out the debt balance at the time of termination or transfer it to the successive manager, if the contract was terminated or the first renewal was not awarded to C Corporation. The City Manager's Office, Office of Economic Development and Finance Department have reviewed the business plan (pro-forma) and recommend approval of this First Amendment and Addendum to the Management Agreement.

PREVIOUS COUNCIL ACTION(S):

Date: July, 10, 2006

Roll Call Number: 06-1385

Action: On agreement with C Corporation, (Jeff Chiodo, President) for the A.H. Blank Golf Course and Clubhouse Management Agreement from July 1, 2006 through January 15, 2019, continued from June 19, 2006 Council Meeting. ([Council Communication No. 06-443](#)) Moved by Kiernan to adopt. Motion Carried 6-1. Nays: Hensley.

BOARD/COMMISSION ACTION(S):

Date: September 19, 2006

Roll Call Number: N/A

Action: Urban Design and Review Board approval for clubhouse expansion design.

Date: September 26, 2006

Roll Call Number: N/A

Action: Park and Recreation Board approval for miniature golf course improvements.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS: NONE

ATTACHMENT A: First Addendum to A.H. Blank Golf Course Management Agreement

Anticipated Schedule of Outstanding Debt and Potential New Golf Fund Revenue

Principal Loan amount: \$1,000,000

Year	Principal Balance	In addition to the amortization schedule an additional \$730,000 in capital improvements is scheduled through the initial term of the A.H. Blank Golf Course Management Agreement, which will be paid by C Corporation. Fifty percent of any fund balance within the CIP Reserve Fund set aside by C Corporation would be paid towards the principal balance if the first renewal option is exercised.	New City Revenues
2007	\$986,756		
2008	\$971,255		\$0
2009	\$954,577		\$0
2010 (\$50K from C Corp)	\$885,080		\$32,500
2011	\$861,850		\$33,150
2012	\$836,853		\$33,813
2013	\$809,957		\$34,489
2014	\$781,015		\$35,179
2015	\$749,873		\$35,883
2016	\$716,363		\$36,600
2017	\$680,306		\$37,332
2018	\$641,507		\$38,079
2019	\$599,758		\$38,841
2019 – End of term	\$599,758	Revenue Sub-total	\$355,866
2020	\$554,836		\$39,617
2021	\$506,498		\$40,410
2022	\$454,485		\$41,218
2023	\$338,296		\$42,042
2023 – End of 1st renewal	\$338,296	Revenue Sub-total	\$519,153
2024	\$273,495		\$42,883
2025	\$203,768		\$43,741
2026	\$128,739		\$44,616
2027	\$48,006		\$45,508
2027 – End of 2nd renewal	\$0	Revenue Sub-total	\$695,900

Note:

Based on the terms and conditions of the estimated amortization schedule above, the City or successive contractor would need to assume the principal loan balance at the time of termination with C Corporation. If the City allows the first and second renewal period to be exercised, then C Corporation will assume all debt service and the City will own the improvements at the termination of the note on this loan. Should the City not renew the Management Agreement with C Corporation, this debt could be transferred to a new operator as a part of the bid process.