TOPGOLF DEVELOPMENT PROJECT

Presentation to City Council
September 5, 2017
Agenda

- Golf Course Enterprise Fund
- Brief History
- Ground Lease – Deal Points
- Due Diligence Items
- Land Use Approval (Specific Plan/CEQA)
- Staff’s Recommendation
- If Approved, Next Steps and Construction Schedule
ENTERPRISE FUND

Reasons for use:

- When GASB (Government Accounting Standards Board) standards require
  - GASB requires use of an enterprise fund if the following criteria are met:
    - An activity is financed with debt that is secured solely with revenues from the activity
    - Law or regulation requires that the costs of the activity, including capital costs, be recovered with revenue from the activity, rather than taxes or other revenues
- To account for services provided to the general public on a user charge basis
- When the governing body has determined that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes
GAAP (Generally Accepted Accounting Principles) requires state and local governments to use the enterprise fund type to account for “business-type activities”
- Activities similar to those found in the private sector
- Business type activities include services primarily funded through user charges
- Operations are entirely, or predominately, self-supporting; not tax supported

Some examples of costs and activity reported in an enterprise fund:
- Full accrual accounting
- Capital assets and long-term liabilities recorded within the funds
- General overhead rates for City staff and services that provide support to the enterprise
- Depreciation expense is recorded as an operating expense (non-cash entry)
- Capital replacement reserves (historically not accounted for by the City)
ENTERPRISE FUND

- Common Types of Enterprise Funds
  - Water and sewer
  - Gas and electric utilities
  - Airports & Ports
  - Toll roads and bridges
  - Parking garages and lots
  - Golf courses
  - Hospitals

- Financial statements are quite similar to those used by for-profit entities
ENTERPRISE FUND

- City Council approved construction of a Golf Course in July 1992 with Resolution No. 3775
- The City entered into a lease agreement with ABAG Finance Corp., a for-profit private entity, to finance the construction of the golf course.
  - *Certificates of Participation (debt) issued in the amount of $5,575,000*
- City Council decided to have the Golf Course managed in its entirety by a private firm and to operate the Golf Course as an enterprise fund
  - *A type of fund established to account for the total costs of those government facilities and services that are operated in a manner similar to private enterprise where operations are entirely, or predominately, self-supporting*
- City entered into contractual agreement with a Golf Course management firm
  - “*City and Operator agree that the primary objective for Operator’s performance under this Agreement are to maximize (1) the public use of the El Segundo Golf Course...and (2) the profit received by the City*”
Golf Fund Revenue and Expenditure
10 Year History

Revenue – Expenditure = ~(-$1.3M)
Golf Fund Revenue and Expenditure (Minus Depreciation and Admin Cost) 10 Year History

Revenue – Expenditure = ~$1.9M
# 10-Year Financial History of the Golf Fund

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Total Net Cash for FY ending Sept. 30</td>
<td>(357,547)</td>
<td>(534,238)</td>
<td>(325,847)</td>
<td>(339,595)</td>
<td>(392,075)</td>
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<td>Operating Revenues</td>
<td>$2,283,666</td>
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<td>$1,961,600</td>
<td>$1,954,466</td>
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<td>Operating Expenses</td>
<td>(2,270,853)</td>
<td>(2,600,154)</td>
<td>(2,010,105)</td>
<td>(1,993,528)</td>
<td>(2,010,157)</td>
<td>(2,017,716)</td>
<td>(2,152,077)</td>
<td>(2,178,263)</td>
<td>(2,108,879)</td>
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<td>Net Operating Income (Loss)</td>
<td>12,813</td>
<td>(445,992)</td>
<td>113,456</td>
<td>(31,928)</td>
<td>(55,691)</td>
<td>(22,463)</td>
<td>98,893</td>
<td>(104,999)</td>
<td>(237,860)</td>
<td>(280,108)</td>
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<td>Bonds Interest Expense</td>
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<td>(74,353)</td>
<td>(88,022)</td>
<td>(61,319)</td>
<td>(32,984)</td>
<td>(3,421)</td>
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<td>Operating Expenses added back for illustrative purposes only (not in compliance with GAAP):</td>
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<tr>
<td>Depreciation Expense (non-cash entry)</td>
<td>218,575</td>
<td>239,126</td>
<td>220,503</td>
<td>192,966</td>
<td>193,659</td>
<td>206,075</td>
<td>205,669</td>
<td>210,355</td>
<td>48,378</td>
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<td>Net Income / Loss (less depreciation)</td>
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<td>(281,219)</td>
<td>245,937</td>
<td>99,719</td>
<td>104,984</td>
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<td>(189,482)</td>
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<td>Revised Net Income less Admin Charges</td>
<td>219,411</td>
<td>(151,019)</td>
<td>376,137</td>
<td>229,919</td>
<td>235,184</td>
<td>310,391</td>
<td>434,762</td>
<td>235,556</td>
<td>(59,282)</td>
<td>(54,984)</td>
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<td>Cash Flow Activity:</td>
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<td>Bond Principal payments</td>
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<td>(437,000)</td>
<td>(463,000)</td>
<td>(492,000)</td>
<td>(286,000)</td>
<td>(200,000)</td>
<td>(38,000)</td>
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<td>Loan to General Fund</td>
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### 1992 COPs issued for the Golf Course

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<tr>
<th>Date</th>
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<th>Coupon Rate</th>
<th>Interest Payment</th>
<th>Total Interest &amp; Principle</th>
<th>Principle Balance</th>
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<td>-</td>
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<td>176,420.00</td>
<td>176,420.00</td>
<td>5,575,000.00</td>
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<tr>
<td>8/1/1993</td>
<td>-</td>
<td>4.00%</td>
<td>176,420.00</td>
<td>176,420.00</td>
<td>5,575,000.00</td>
</tr>
<tr>
<td>2/1/1994</td>
<td>-</td>
<td>4.00%</td>
<td>176,420.00</td>
<td>176,420.00</td>
<td>5,575,000.00</td>
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<tr>
<td>8/1/1994</td>
<td>170,000.00</td>
<td>4.00%</td>
<td>176,420.00</td>
<td>346,420.00</td>
<td>5,405,000.00</td>
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<tr>
<td>2/1/1995</td>
<td>-</td>
<td>4.00%</td>
<td>173,020.00</td>
<td>173,020.00</td>
<td>5,405,000.00</td>
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<tr>
<td>8/1/1995</td>
<td>175,000.00</td>
<td>4.50%</td>
<td>169,082.50</td>
<td>348,020.00</td>
<td>5,230,000.00</td>
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<td>169,082.50</td>
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<td>8/1/1996</td>
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<td>164,457.50</td>
<td>164,457.50</td>
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<td>5.00%</td>
<td>164,457.50</td>
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<td>5,045,000.00</td>
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<td>8/1/1997</td>
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<td>159,338.75</td>
<td>359,575.50</td>
<td>4,850,000.00</td>
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<td>2/1/1998</td>
<td>-</td>
<td>5.25%</td>
<td>159,338.75</td>
<td>159,338.75</td>
<td>4,850,000.00</td>
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<td>8/1/1998</td>
<td>205,000.00</td>
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<td>153,701.25</td>
<td>364,338.75</td>
<td>4,645,000.00</td>
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<tr>
<td>2/1/1999</td>
<td>-</td>
<td>5.50%</td>
<td>153,701.25</td>
<td>153,701.25</td>
<td>4,645,000.00</td>
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<tr>
<td>8/1/1999</td>
<td>215,000.00</td>
<td>5.75%</td>
<td>153,701.25</td>
<td>368,701.25</td>
<td>4,430,000.00</td>
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<tr>
<td>2/1/2000</td>
<td>-</td>
<td>5.75%</td>
<td>147,520.00</td>
<td>147,520.00</td>
<td>4,430,000.00</td>
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<tr>
<td>8/1/2000</td>
<td>230,000.00</td>
<td>6.00%</td>
<td>147,520.00</td>
<td>377,520.00</td>
<td>4,200,000.00</td>
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<tr>
<td>2/1/2001</td>
<td>-</td>
<td>6.00%</td>
<td>140,620.00</td>
<td>140,620.00</td>
<td>4,200,000.00</td>
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<tr>
<td>8/1/2001</td>
<td>240,000.00</td>
<td>6.15%</td>
<td>140,620.00</td>
<td>380,620.00</td>
<td>3,960,000.00</td>
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<td>2/1/2002</td>
<td>-</td>
<td>6.15%</td>
<td>133,240.00</td>
<td>133,240.00</td>
<td>3,960,000.00</td>
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<td>8/1/2002</td>
<td>255,000.00</td>
<td>6.30%</td>
<td>133,240.00</td>
<td>388,240.00</td>
<td>3,705,000.00</td>
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<tr>
<td>2/1/2003</td>
<td>-</td>
<td>6.30%</td>
<td>125,207.50</td>
<td>125,207.50</td>
<td>3,705,000.00</td>
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<tr>
<td>8/1/2003</td>
<td>270,000.00</td>
<td>6.45%</td>
<td>125,207.50</td>
<td>395,207.50</td>
<td>3,435,000.00</td>
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<tr>
<td>2/1/2004</td>
<td>-</td>
<td>6.45%</td>
<td>116,500.00</td>
<td>116,500.00</td>
<td>3,435,000.00</td>
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<tr>
<td>8/1/2004</td>
<td>290,000.00</td>
<td>6.60%</td>
<td>116,500.00</td>
<td>406,500.00</td>
<td>3,145,000.00</td>
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### 2004 Refunding of the 1992 COPs

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Principal Component</th>
<th>Interest Component</th>
<th>Total Payment</th>
<th>Total Debt Outstanding at 9/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/20/2007</td>
<td>$ 33,203.03</td>
<td>$ 10,521.97</td>
<td>$ 43,725.00</td>
<td>$ 3,270,010.66</td>
</tr>
<tr>
<td>10/20/2007</td>
<td>$ 33,367.66</td>
<td>$ 10,357.34</td>
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<td>$ 2,088,875.19</td>
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<tr>
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<td>$ 33,533.11</td>
<td>$ 10,191.89</td>
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<td>$ 2,055,507.53</td>
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<td>12/20/2007</td>
<td>$ 33,699.38</td>
<td>$ 10,025.62</td>
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<td>$ 1,988,275.04</td>
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<td>1/20/2008</td>
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<td>$ 1,954,408.58</td>
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<td>2/20/2008</td>
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<td>$ 9,690.61</td>
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<td>$ 1,920,374.18</td>
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<tr>
<td>3/20/2008</td>
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## 2004 Refunding of the 1992 COPs

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Principal Component</th>
<th>Interest Component</th>
<th>Total Payment</th>
<th>Total Debt Outstanding at 9/30</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/20/2010</td>
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$5,497,322.55 $5,921,080.00
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ISSUES TO RESOLVE

- Future of Lakes Facility
- Capital Improvement Funding
- Loan Payment ($5.6 Million)
GROUND LEASE DEAL POINTS

- $525,000 ANNUAL GROUND LEASE ($43,750/MONTH)
- 3% of Gross Receipts from Beverage Sales
  (Begins after year 3)
- Build TopGolf Facility
- Design & Reconstruct Lakes Golf and Practice Facility
- Build New City Clubhouse
- $400,000 for Course Lighting
- Business License Tax Rebate Waiver
INDIRECT BENEFITS

- Business Attraction/Corporate Amenity
- Employment Opportunities
- Marketing/Community Partner
- Tax Revenue
## Financial Analysis and Comparison

The Lakes & TopGolf (Pro Forma Advisors)

### Stable Year Average Net Benefits

<table>
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<tr>
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<th>Existing Golf Course</th>
<th>TopGolf Current</th>
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<td>Golf Complex Direct Net Contribution</td>
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<td>Construction Impact</td>
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<td><strong>Net Annual Cost-Benefit</strong></td>
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Sales Tax; UUT; Business Tax; Property Tax

Net Annual Cost-Benefit: $162,800 vs $604,500
DUE DILIGENCE PERIOD & STATUS

- TITLE DUE DILIGENCE
- FINANCIAL GUARANTEE REVIEW & APPROVAL BY CITY
- CHEVRON AGREEMENT
- WEST BASIN AGREEMENT
- GOLF COURSE LIGHTING PROJECT BUDGET & IMPLEMENTATION
- GOLF COURSE, CLUBHOUSE & INSTRUCTIONAL PROGRAMS
  - UTILIZED GOLF COURSE DESIGN TASK FORCE
- LAND USE APPROVAL / ENVIRONMENTAL REVIEW / CEQA
- DUE DILIGENCE PERIOD EXTENSION THROUGH DECEMBER 31, 2017
GOLF PROGRAMS & INSTRUCTION

- Topgolf Special hours for Rec and Parks ID Cardholders to utilize Topgolf facilities
  - *Open hitting bays at 6am; TopGolf opens at 9am*
  - *Ball prices at comparable rates*
- Topgolf will offer discounts to Rec and Parks ID Cardholders during certain hours
  - *Discount on Topgolf play*
- Topgolf will give the Rec and Parks Dept access to hitting bays at no cost and additional bays at a discount.
  - *Up to 10 bays – 134 hours a week*
  - *Additional bays at 50% discount*
EIR and Planning Entitlements

- General Plan Amendment
- Zone Change
- Zone Text Amendment
- Specific Plan
- Site Plan Review
- Lot Line Adjustment
- Conditional Use Permit
- Environmental Impact Report (EIR)
General Plan & Zoning

Current
Open Space Parks (O-S)

Proposed
The Lakes Specific Plan (TLSP)
Specific Plan

What the Specific Plan does:

- Creates customized land use regulations
- Provides controls to regulate operations
Proposed Subareas of Specific Plan

• Public Recreation/Open Space
• Commercial Public Recreation/Open Space
Site Plan Review

- New Topgolf facility
- New clubhouse
- Modified 6 golf course holes
Parking lot expansion to 523 spaces
EIR Topics

- Aesthetics
- Agriculture
- Air Quality
- Biological Resources
- Geology and Soils
- Greenhouse Gas Emissions
- Hazards/Hazardous Materials
- Hydrology/Water Quality
- Land Use/Planning
- Mineral Resources
- Noise
- Population/Housing
- Public Services
- Recreation
- Transportation/Traffic
- Utilities/Service Systems
EIR Conclusions

- Less Than Significant Impacts With Mitigation Incorporated (during construction)
  - Hazards & Hazardous Materials
  - Noise
  - Air Quality
Planning Commission Review

- June 8, 2017 and July 13, 2017
- Recommendation to City Council
  - Certify EIR
  - Approve the changes to the General Plan, Zoning and Zoning Code
  - Adopt resolution to approve the project
TIMELINE, CONSTRUCTION SCHEDULE

■ COMPLETION OF DUE DILIGENCE / E.I.R. APPROVAL
  - October 3: City Council 2\textsuperscript{nd} Reading
  - November 2: Effective Date (30 days from 10/3)
    ■ Would trigger addendum to establish “Premises Turnover Date”

■ Construction of Golf Course/Clubhouse ~ 6-8 months (re-open by SUMMER 2018)

■ Construction of TopGolf Facility ~ 10-12 months (open by NOVEMBER 2018)
End
Golf Fund Revenues Versus Expenditures
10-year History

DOLLARS (in thousands)

Revenue
Expenditure

FY06-07 FY07-08 FY08-09 FY09-10 FY10-11 FY11-12 FY12-13 FY13-14 FY14-15 FY15-16

- $1,217,817
GOLF COURSE ENTERPRISE FUND

Golf Fund Revenues and Expenditures
10-year History

Golf Course Fund Total Loan Owed to City: $5,655,675 (~$1.75 million to General Fund) / Annual Budget does not include Capital Improvement Funds
IF APPROVED, NEXT STEPS

- Final approval from City Council by CenterCal
- CenterCal must submit a Due Diligence Acceptance Notice within 10 days of the end of the Due Diligence period and once entitlements have been approved
- Immediately following, the City and CenterCal will execute an addendum to the lease agreement identifying the “Premises Turnover Date”, which will require the facility to close and CenterCal to begin payment of the “Initial Rent” of $18,000/month
- Once the TopGolf facility opens for operation or after ten months, whichever comes first, CenterCal will begin paying the “Fixed Rent” of $43,750 per month ($525,000 annually)
- It is required that the City-operated portion of the facility be re-opened at the same time or sooner than the TopGolf facility.
MODIFIED OUTFIELD CONFIGURATION

RED TARGETS = 25 YARDS (STD=25 YDS)
YELLOW TARGETS = 50 YARDS (STD=50 YDS)
GREEN TARGET = 90 YARDS (STD=90 YDS)
BROWN TARGET = 125 YARDS (STD=125 YDS)
BLUE TARGET = 150 YARDS (STD=150 YDS)
WHITE TARGET = 175 YARDS (STD=185 YDS)
BLACK TARGET = 200 YARDS (STD=215 YDS)

SITE AREA = 698,214 SF (16.03 ACRES)
BUILDING/OUTFIELD AREA = 5.01 ACRES
PARKING AREA = 4.77 ACRES
OPEN SPACE = 6.25 ACRES
STANDARD PARKING = 476 SPACES
ACCESSIBLE PARKING = 10 SPACES
TOTAL PARKING PROVIDED = 486 SPACES