



## **City Council Agenda Statement**

**Meeting Date:** February 15, 2022

**Agenda Heading:** Staff Presentations

**Item Number:** D.11

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### **TITLE:**

Amendment to Topgolf Agreement to Modify Golf Course Improvements to Delete the Requirement for One Par 4 Hole and Add a Periodic Increase to the Annual Topgolf "Payment for Public Good; and Discussion of Golf Course and Driving Range User Rates

### **RECOMMENDATION:**

1. Approve an amendment to the agreement with Topgolf allowing Topgolf to modify the golf course improvements portion of the Topgolf project at the Lakes at El Segundo (400 S. Pacific Coast Highway, El Segundo, CA 90245), and approve and authorize the City Manager and City Attorney to negotiate final language to add a periodic increase to the annual Topgolf "Payment for Public Good."
2. Discuss golf course and driving range user rates.

### **FISCAL IMPACT:**

No fiscal impact in FY 2021-2022. Increased Community Benefit revenue (General Fund) in subsequent years.

### **BACKGROUND:**

The last day the Lakes at El Segundo golf course operated was February 14, 2021. Topgolf took possession of the Lakes facility on February 15, 2021. The Lakes facility has been closed since Topgolf took possession of the facility and will remain closed during the construction of the Topgolf facility and the simultaneous improvements to the golf course that will provide an enhanced experience to golfers once completed. While the demolition and construction to the areas adjacent to the golf course began in February 2021, the improvements to the golf course did not begin until July 2021. The completion of the improvements to the golf course are nearing completion. The Topgolf facility is anticipated to be completed by mid-April 2022. The grand opening of the entire facility is anticipated to be mid to late April 2022.

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Topgolf remains committed to be a community partner and keep the commitments they agreed to in the formal agreement signed with the City. The City's and Topgolf's commitment per the agreement is that the golf course, the new club house, and the Topgolf facility will all be ready to open concurrently in Spring 2022.

### **DISCUSSION:**

CenterCal and Topgolf completed upgrades to the golf course portion of the property beyond those required by the current Agreement. The enhancements included laying down new fairways, greens, and tee boxes. These play areas will have new and high-quality grass that is consistent with the Topgolf brand. The completion of the golf course improvements and its opening must still occur prior to or concurrently with the opening of the Topgolf facility. Staff sees no downside to the benefit of Topgolf enhancing the improvements currently required to be made to the golf course and related facilities.

Because of safety concerns, some of which involve state health and safety regulations, while members of the public have expressed the desire to reopen as soon as possible, realistically the facilities will likely open concurrently. Since construction is expected to commence in the next week on the Topgolf course portion of the property, for these same health and safety reasons it was necessary to pause operations at the golf course on February 14th.

### **Justification for Removing the Par 4 Requirement**

Prior to engaging the redesign of The Lakes at El Segundo, Topgolf's golf course architect spent several days observing play around the course. Two significant concerns became clear:

#### **Safety**

First, the Par 4 created a significant safety concern as many golfers were hitting their tee shots wildly off line. A short yardage Par 4 by its very nature encourages players of all abilities to attempt harder, faster swings with longer clubs (hybrids, fairway woods, and drivers) to try and reach the green from their tee shot. These swings with longer clubs create a much wider shot dispersion with much higher ball speeds. Further, short courses often attract less-skilled (novice) players, and when coupled with the increased number of rounds due to the introduction of night golf, more errant shots will naturally result.

Lastly, Topgolf designed the Par 4 to be the first hole played so proper behavior and pace of play can be monitored by staff from the clubhouse and starter stand. Unfortunately, this resulted in the hole being immediately adjacent to the Pacific Coast Highway (PCH) given the location of the new clubhouse. The result of this is more novice players, using longer clubs on a hole next to a high traffic corridor. If a Par 4 is required, then due to this elevated liability exposure for Topgolf and the City, Topgolf would require tall barrier netting in excess of 100' in order to mitigate that liability.

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Therefore, Topgolf believes that due to the small land area (16 acres) and the associated safety risks, a Par 4 hole should be removed from the course.

### **Pace of Play**

The second item of concern is Topgolf's architect noted there was a bottleneck created at the tee box of the old Par 4 hole. There were significant delays (sometimes 30+ minutes) while players waited for the group(s) in front to clear the green so they could try and reach it. As noted above, a short Par 4 encourages this behavior. Not only does a slower pace reduce the number of rounds that can be played, but it is also one of the single biggest determinants in a player's decision to return to the course in the future. According to the National Golf Foundation, as of March 2020, there are roughly 700 Par 3 courses ("short courses") around the U.S.. These courses are becoming increasingly popular and attractive to both experienced and novice golfers alike. Some of the most notable championship golf courses around the country such as Pinehurst, Bandon Dunes, Pebble Beach, Augusta and PGA National have a Par 3 course for their guests (none of these courses have Par 4s, as it inherently contradicts the whole concept of a short course). Pinehurst, as one of the most legendary golf courses that frequently holds major amateur and professional tournaments, has created a Par 3 experience called The Cradle. This course plays to a total of 789 yards (300+ yards shorter than our new Lakes at El Segundo design), with the shortest hole playing 56 yards and the longest at 127 yards.

As Topgolf is a leader in the golfing industry, they are seeing firsthand that golf is transforming into an experience enjoyed by all ages and skill levels as more and more people are wanting to take part in a fun, competitive and unintimidating sport. Topgolf is a big part of this transformation and is one of the primary reasons they have partnerships with the LPGA, PGA, 1st Tee, PGA of America, and most notably, one of the principal reasons Topgolf was acquired by one of the world's largest golf brands; Callaway Golf. As soon as a Par 4 is introduced into a short course like The Lakes, the skill level to successfully play the Par 4 increases dramatically. This then immediately discourages and/or intimidates novice players which ultimately leads to a reduced number of guests who walk away from the experience looking forward to playing the course again.

Topgolf's success is built on listening to their guests, creating fun experiences, and removing the traditional barriers of entry to learning this great game of golf. They've created an experience inside their venues around the world that is welcoming to all age groups and skill levels.

Regarding the price index inflator on the Community Benefit Fund payment, the total compensation package for the City as outlined in the lease was looked at as a whole and includes escalators, especially on rent payments. However, a price index escalator was not included on the Community Benefit Fund payment. The City reached out to Topgolf and requested a price index escalator be included with this annual payment. Topgolf agreed. The Community Benefit Fund payment will be tied to the annual

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escalation that matches Topgolf's pricing adjustments each year on resident golf course rates. The Community Benefit Fund payment adjusts accordingly by the same percentage amount but never drops below \$200K. If Topgolf does not raise resident golf course rates in a particular year, then payment remains the same as the previous year.

The City, Topgolf, and CenterCal are all working towards the same outcome: ultimately providing a unique customer experience and ensuring the golf course remains as a community asset available to the public and El Segundo-based youth groups as soon as feasibly possible.

### **CITY STRATEGIC PLAN COMPLIANCE:**

Goal 5: Champion Economic Development and Fiscal Sustainability

Objective 5B: El Segundo approaches its work in a financially strategic and responsible way.

#### **PREPARED BY:**

Joseph Lillio, Chief Financial Officer

#### **REVIEWED BY:**

Joseph Lillio, Chief Financial Officer

#### **APPROVED BY:**

Barbara Voss, Deputy City Manager

### **ATTACHED SUPPORTING DOCUMENTS:**

1. Resolution - Topgolf Lease Amendment
2. Topgolf - Amended Exhibit D
3. Redline of Topgolf Lease Amendment
4. Revised Amendment No 1 to Topgolf Lease

**RESOLUTION NO. \_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL SEGUNDO APPROVING AMEDNMENT NO. 1 TO THE DUE DILIGENCE AND RECREATION GROUND LEASE AGREEMENT BETWEEN THE CITY OF EL SEGUNOD AND ES CENTERCAL, LLC AND FINDING THAT THE AMENDMENT IS EXEMPT FROM REVIEW UNDER THE CALIFORNIA ENVIRONMENTAL QUALITY ACT**

The City Council of the City of El Segundo does hereby resolve as follows:

**SECTION 1:** The City Council finds and declares as follows:

A. Lessor and Lessee (collectively, the “Parties”) entered into a Due Diligence and Recreation Ground Lease Agreement (the “Lease”) on February 6, 2021. Among other things, the Lease contemplates modifications and improvements to the City’s existing municipal golf course and the construction of a new golf course recreation facility (“Topgolf”) on the adjacent property.

B. Paragraph 3.7 of the Lease obligates ES CenterCal, LLC to make cash “Payments for Public Good” to the City in the amount of \$200,000 per calendar year during the term of the Lease. The City and ES CenterCal, LLC wish to amend the Lease to require the annual Payments for Public Good to be increased each year by a percentage equal to the percentage change in the Consumer Price Index, as specified.

C. Exhibit D to the Lease (“Golf Course Improvements”) requires, among other things, that the golf course shall have a minimum of one Par 4 hole. The parties wish to amend the Lease to delete this requirement.

D. The accompanying staff report, together with the oral report presented by staff, provide additional supporting information upon which the findings and declarations set forth in this Resolution are based.

**SECTION 2:** **CEQA.** The City Council finds and determines that there is no possibility that the minor amendments to the Lease may have a significant effect on the environment. The elimination of the Par 4 hole will not require any grading, import/export of soil, or additional truck trips. The change will only require the siting and location of a 4.25-inch circular hole in an existing green. Consequently, the project is exempt from further review under CEQA pursuant to State CEQA Guidelines sections 15061(b)(3). In addition, the City Council finds that the project is exempt from review pursuant to sections 15301 (Existing Facilities) and 15304 (Minor Alterations to Land) of the State CEQA Guidelines and that no exception set forth in section 15300.2 of the CEQA Guidelines applies to the project.

**SECTION 3:** The City Council hereby approves Amendment No. 1 to the Due Diligence and Recreation Ground Lease Agreement in the form attached hereto as Exhibit A and authorizes the Acting City Manager to execute the same on behalf of the City.

SECTION 4: The City Clerk is directed to file a Notice of Exemption pursuant to State CEQA Guidelines section 15062.

SECTION 5: This Resolution will become effective immediately upon adoption and will remain effective unless superseded or repealed.

PASSED AND ADOPTED this 15th day of February, 2022.

\_\_\_\_\_  
Drew Boyles, Mayor

ATTEST:

\_\_\_\_\_  
Tracy Weaver, City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Mark D. Hensley, City Attorney

CERTIFICATION:

STATE OF CALIFORNIA            )  
COUNTY OF LOS ANGELES    )       SS  
CITY OF \_\_\_\_\_            )

I, Tracy Weaver, City Clerk of the City of \_\_\_\_\_, California, do hereby certify that the whole number of members of the City Council of said City is five; that the foregoing Resolution No. \_\_\_\_ was duly passed and adopted by said City Council, approved and signed by the Mayor of said City, and attested to by the City Clerk of said City, all at a regular meeting of said Council held on the \_\_\_\_\_ day of \_\_\_\_\_, 2022, and the same was so passed and adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

\_\_\_\_\_  
City Clerk

**EXHIBIT A**

[Amendment No. 1 to Due Diligence and Recreation Ground Lease Agreement]

## Exhibit D

### GOLF COURSE AND PREMISIES IMPROVEMENTS

#### GOLF COURSE IMPROVEMENTS

Lessee and a Task Force appointed by the City Council shall work together and reasonably cooperate for purposes of preparing a preliminary and conceptual design of the following golf course and clubhouse improvements to be presented to the City Council for approval consistent with the Lease provisions. The final design shall be consistent with the conceptual design. During the course of design and ultimate construction, a “standard of quality” shall be maintained throughout the newly constructed facility as mutually agreed upon by both parties. The use of the word “Quality” in this agreement is intended to mean that the building, building materials and furnishings shall convey design interest and coordination, craftsmanship and use of durable and visually attractive finishes and materials. With respect to the design of the improvements to the course itself, “Quality” is intended to mean that, in consultation with an approved golf course architect, the safety of the facility shall be maintained or improved, that the level of difficulty in playing the course shall be maintained or improved. In both the case of the buildings and the course improvements, the City’s intent is that they shall be of the same, or better quality than what currently exist. This exhibit contains photos of the existing facility as examples of the current level of quality. The facility is intended to be in “turn-key” condition at the time of completion meaning that the Lessee shall provide a facility that is furnished and ready for operations.

- Construction of new pro shop at approximately 2,500 square feet interior usable/lease able area. Detailed below are some of the key building improvements anticipated:
  - Facility Generally – Facility shall include a security camera system that provides surveillance of the interior and exterior of the facility to the satisfaction of the ESPD.
  - Limited Golf Shop Area/Starter Desk – The newly constructed structure shall contain a segregated area for a pro-shop and starter/check-in desk as one combined unit. Generally, this facility will be equipped with sufficient desk space to facilitate placement of a computer, phone and cash register with desk space providing glass surfaces such that display shelving is readily accessible by employees and for display of soft goods as a part of pro-shop operations. This facility will include internet and phone cabling along with standard electrical outlets installed as provided for in the latest version of the California Building and Electrical Code. There will be sufficient space for both the retail storage and display of retail goods within the pro shop.



- Restrooms – separate male and female restrooms, fully ADA compliant to specifications that are current as of construction year. Restrooms shall contain the amount of fixture units consistent with city code and capacity for the facility and be consistent with the existing clubhouse (including installation of soap dispensers, hand drying devices and trash enclosures). Restrooms shall be accessed from the interior of the newly constructed facility.
- Management Office – within the described (structure) a separate office for management operations shall be included. This office shall include a door and adequate space for a wall safe as required by current permitting policy.
- Café/Bar with seating area – The facility shall be sufficiently constructed to include wiring for sound and wi-fi capabilities. Additionally, televisions of sufficient size (55”) shall be included and mounted on the interior and potentially on the exterior patio areas. Exterior television equipment shall be constructed with exterior placement/waterproof integrity. Indoor snack bar portion of facility shall consist of sufficient square footage to maintain and operate a small commercial kitchen with equipment, such as a commercial grade reach-in freezer and cooling units, a three compartment sink, mop closet, griddle (with grill), microwave, dishwasher and/or fryer. New facility shall also contain sufficient space for and include an ice making machine and soft drink dispenser (typically vendor provided) as well as a counter with sufficient space to refrigerate and serve numerous beer choices. All equipment shall be included and will be further outlined through the collaborative efforts with the Taskforce during the design process. Dining area should be able to accommodate 20-30 guests and in accordance with established LA County Health Department guidelines.
- To the extent practical, all equipment that is in good repair at the existing facility, not past its useful life shall be utilized and installed at the new facility.
- Outdoor patio space with seating area – Outdoor space shall include hard floor surfaces (i.e. concrete or other approved material) and maintain position directly adjacent to the snack bar entry. Generally this will be at least 750 square feet with some or all the area covered. The Covered outdoor area shall be of sufficient size to accommodate adequate seating for 15-20. The balance of outdoor dining area (which may not be covered) shall accommodate seating for at least an additional 20-35 This area shall also be equipped with appropriate space heaters, lighting and outdoor furniture/seating.

- Construction of a practice putting green and practice chipping/bunker area with the putting green surface area being no less than 4,500 square feet with the intent being that the area shall be the maximum allowable by the physical constraints of the site. Prior to construction, the existing putting green surface area shall be given sole and exclusive priority to the golf course putting green. Any remainder putting green may be utilized as a putting green within the TopGolf site.
- Screening poles and safety netting will be installed to ensure the safety of golfers, the public, automobiles, and surrounding properties and rights of way per golf course architect recommendations
- Golf course modifications:
  - Upon completion of construction, the golf course with described improvements shall maintain or increase in degree of difficulty compared to its current condition. The approved Golf Course Architect shall provide an assessment of difficulty of the course before and after; Lessee will maintain and or improve the difficulty of the golf course.
  - The overall final design of the golf course after modifications shall maintain a level of safety consistent or safer than existing conditions. For the purposes of determining golf course safety, the golf course architect will determine the degree of safety through the use of industry-accepted guidelines including dispersion analysis and assumptions that 90% of golf shots are within 14 degrees from the intended target line in any given golf hole.
  - ~~○ The course shall have a minimum of one Par 4 hole. While no specific definition has been established in yardage for distinguishing a range for a Par 4 hole, effective length as defined by the USGA in conjunction with consultation by a golf course architect shall prevail. In general, a Par 4 is considered to maintain yardage with a range of 230-270 yards. In developing yardage, the Lessee and City will maintain an objective approach while providing flexibility.~~
  - Construction of new Hole #1 tee box.
  - Construction of new Hole #2 green and bunkers.
  - Construction of new Hole #3 green, bunkers and tee box.
  - Hole #3 will be redesigned in such a fashion to maintain a minimum Par 3 and incorporate the northern body of water feature.
  - Construction of new Hole #5 tee box.
  - Construction of new Hole #8 tee box.

- Construction of new Hole #9 green, bunkers, and tee box.
- Where possible, the existing tee boxes shall be leveled and lengthened. Lessee shall make every effort (within the project scope and budget) in consultation with an approved golf course architect (approved mutually by the Lessee and City), to expand tee boxes. The intention of this effort is to increase yardage from tee boxes to holes to achieve the yardage for a nine hole course within the footprint as possible. The total current yardage of play for the existing nine-hole course is approximately 1,340 yards from the white tee line (Men's).
- Lessee to add bunkers and/or sand traps to the north side of hole number 8 with the intention of increasing speed of play. Placement, sizing and number of bunkers and/or sand traps will be based upon approved golf course architect recommendations.
- When possible, Lessee shall utilize existing and available poles and netting not otherwise repurposed by TopGolf project.
- Lessee shall install lighting on the golf course to allow for night time play on the course.

## **PREMISES IMPROVEMENTS**

- Construction of the Top Golf Driving Range and Facility in accordance with Sections 4.1 and 12.1 of the Lease.
- Replacement/relocation of the existing net poles with the Top Golf required poles, which will adhere to all building and safety codes, SCE safety standards and other applicable safety standards. Any/all poles not specifically used in the construction of the TopGolf facility shall be repurposed, to the extent possible, for the golf course modifications.
- Expansion of the existing parking which shall extend over the area where Hole #1 is currently located on the golf course and provide adequate parking per city code. During the design process, the City shall determine the number and location of parking spaces that will be reserved (during the hours of operation of the Lakes) for patrons of the Lakes golf course, consistent with Section 5.4 of this Lease and subject to the terms and conditions of the approved Required Project Entitlements (as defined in the Lease). Should parking conflicts arise after the commencement of joint use of the parking facility, the City and the Lessee shall mutually cooperate and work together to implement parking control measures to further reserve parking spaces by use of patrons of the Lakes.

3.7 Lessee shall make cash payments to Lessor ~~in the sum of Two Hundred Thousand Dollars (\$200,000) per each~~ calendar year during the Term of this Lease following the Fixed Rent Commencement Date (the “**Payments for Public Good**”). The amount of the annual payment shall be Two Hundred Thousand Dollars (\$200,000) in the first year and shall increase by ten percent (10%) at the commencement of each five-year period during the term of this Lease (including any option periods that may be exercised by Tenant) commencing with the day following the fifth anniversary of the Fixed Rent Commencement Date. Lessor shall in its sole discretion use the proceeds of the foregoing Payments for Public Good to create a fund controlled by Lessor and used to develop or improve public facilities and amenities, to foster educational and other programs and otherwise to promote the benefit and support the public good with regard to the City of El Segundo and its residents. Each installment of the foregoing Payments for Public Good shall be due and payable by Lessee within one hundred twenty (120) days after the end of each calendar year during the Term of this Lease following the Fixed Rent Commencement Date. In computing the Payments for Public Good for the first calendar year or portion thereof following the Fixed Rent Commencement Date (and any calendar year that includes the date of termination of this Lease), if such calendar year shall contain less than 365 days, then the Payments for Public Good shall be multiplied by fraction, the numerator of which shall be the number of days in such shorter calendar year, and the denominator of which shall be 365. The Payments for Public Good shall not be subject to escalation hereunder.

**AMENDMENT NO. 1 to the**

**DUE DILIGENCE AND RECREATION GROUND LEASE AGREEMENT between the City of El Segundo (“Lessor”) and ES CenterCal, LLC (“Lessee”) dated February 6, 2021**

This Amendment No.1 to Due Diligence and Recreation Ground Lease Agreement (this “Amendment”) is entered into this 15th day of February, 2022, by and between Lessor and Lessee.

**RECITALS**

1. Lessor and Lessee (collectively, the “Parties”) entered into a Due Diligence and Recreation Ground Lease Agreement (the “Lease”) on February 6, 2021.
2. Paragraph 3.7 of the Lease obligates Lessee to make cash “Payments for Public Good” to Lessor in the amount of \$200,000 per calendar year during the Term of the Lease. The Parties wish to amend the Lease to require the annual Payments for Public Good to be increased each year by a percentage equal to the annual percentage increase in the resident golf rates charged at the Lakes at El Segundo course, if any.
3. Exhibit D to the Lease (“Golf Course Improvements”) requires, among other things, that the golf course shall have a minimum of one Par 4 hole. The parties wish to amend the Lease to delete this requirement.
4. Capitalized terms used but not otherwise defined herein shall have the same meanings as set forth for such terms in the Lease.
5. The Parties desire to amend the Lease as provided herein.

**NOW, THEREFORE**, in consideration of the foregoing, the Parties agree as follows:

1. Section 3.7 of the Lease is hereby amended to read as follows:

**“3.7** Lessee shall make cash payments to Lessor each calendar year during the Term of this Lease following the Fixed Rent Commencement Date (the **“Payments for Public Good”**). The amount of the annual payment shall be Two Hundred Thousand Dollars (\$200,000) in the first year and shall increase by ten percent (10%) at the commencement of each five-year period during the term of this Lease (including any option periods that may be exercised by Tenant) commencing with the day following the fifth anniversary of the Fixed Rent Commencement Date. Lessor shall in its sole discretion use the proceeds of the foregoing Payments for Public Good to create a fund controlled by Lessor and used to develop or improve public facilities and amenities, to foster educational and other programs and otherwise to promote the benefit and support the public good with regard to the City of El Segundo and its residents. Each installment of the foregoing

Payments for Public Good shall be due and payable by Lessee within one hundred twenty (120) days after the end of each calendar year during the Term of this Lease following the Fixed Rent Commencement Date. In computing the Payments for Public Good for the first calendar year or portion thereof following the Fixed Rent Commencement Date (and any calendar year that includes the date of termination of this Lease), if such calendar year shall contain less than 365 days, then the Payments for Public Good shall be multiplied by fraction, the numerator of which shall be the number of days in such shorter calendar year, and the denominator of which shall be 365. The Payments for Public Good shall not be subject to escalation hereunder.”

2. Exhibit “D” to the Lease is hereby amended. The amended Exhibit “D” is attached hereto and is dated February 15, 2022.
3. Except as modified by this Amendment, all other terms and conditions of the Lease shall remain the same.
4. This Amendment may be executed in counterparts each of which shall be deemed an original.

IN WITNESS WHEREOF, Lessee and Lessor have caused this Amendment to be executed by their duly authorized representatives as of this 15th day of February, 2022.

**Lessor:**

**THE CITY OF EL SEGUNDO**, a general law City and Municipal corporation

By: \_\_\_\_\_  
Name: Joe Lillio, Acting City Manager

Attest:

\_\_\_\_\_  
Tracy Weaver, City Clerk

Approved as Form:  
Mark D. Hensley, City Attorney

**Lessee:**

**ES CENTERCAL, LLC,**

a Delaware limited liability company

By: CENTERCAL, LLC,  
a Delaware limited liability company

By: CENTERCAL ASSOCIATES, LLC,  
a Delaware limited liability company

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Print Title: \_\_\_\_\_

By: \_\_\_\_\_  
Print Name: \_\_\_\_\_  
Print Title: \_\_\_\_\_