

INDIAN WELLS CITY COUNCIL

September 7, 2023



To: City Council
From: Finance Department
Prepared by: Kevin McCarthy, Finance Director
Subject: **Golf Resort Management Agreement**

RECOMMENDED ACTIONS:

Council **AUTHORIZES** the City Manager to execute a Golf Course Management Agreement with Troon Golf subject to non-substantive administrative edits and;

FINDS the project to be exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15060.

BACKGROUND

Since 2009, Troon has served as the management company of the Indian Wells Golf Resort (the IWGR). Troon provides daily operations of the facility overseen by the General Manager. Troon employs all employees of the IWGR. The IWGR is separated into various Departments and Divisions, similar to the City of Indian Wells. These individual Departments and Divisions (e.g., Pro shop, banquets, golf, Vue Restaurant, Shots in the Night) are overseen by various directors and managers.

Over the years, the management agreement has been amended to memorialize changes in the operations of the IWGR, extension of terms and conditions, and more. In addition, the City and Troon entered into a Restaurant Lease Agreement for Troon to manage the Food & Beverage operations of the IWGR. The current management agreement is set to expire on June 1, 2024.

City Council Strategic Goal:

During the March 23, 2023, strategic planning session, the Council's consensus was to advise the City Manager to develop negotiation strategies and direct the City Manager to enter agreement negotiations with Troon Golf. These negotiation strategies were further developed into actionable goals and later categorized.

The actionable goals in this new agreement fall into five key categories:

1. Establishing profitability requirements after routine capital repairs and replacements established by Council benchmarks and performance measures.
2. Reconfiguring management fee structure based upon adherence to the Annual Plan as defined in this agreement.
3. Implementing termination provisions based on poor financial performance.
4. Providing "Exceptional Customer Service" as defined in this agreement.
5. Providing "First-Class" services as defined in this agreement and the Troon operational standards and employee training manuals.

In addition, the Council also provided direction that if the City Manager and Troon could not come to favorable terms on a new agreement, the staff would notify Troon of the City's intent to conduct a Request for Proposal process for management services of the IWGR.

FISCAL IMPACT:

The critical deal points listed below lie at the crux of this new agreement. Embedded are the City Council's new benchmarks and financial performance measures. These benchmarks and financial performance measures permeate the Golf Resort's operating budget, defined in this agreement as the "Annual Plan."

Key Deal Points in the Agreement:

1. This Agreement replaces and supersedes all previous agreements and amendments.
2. Term Article VI: Extends Term to June 30, 2034.
3. Termination for Financial Performance Article VI: Adds new termination provision Section 6.5, allowing the City to terminate for poor financial performance.
4. Management Fees Article VII: Establishes new financial performance requirements for compensation. The financial performance expectations are derived from the Golf Resort's Annual Plan. In the broadest of terms, Troon will earn a lower management fee than it currently does if it does perform to at least 95% of the Annual Plan, about the same if Troon reaches between 95.1% to 99.9% of the

Annual Plan, and above what they earn now if they equal or outperform the annual plan.

5. Adds new F&B Incentive in Article VII: Adds new F&B Incentive Provision Section 7.2. Increasing food and beverage covers and customer service satisfaction is essential to the City (see Operational Performance Measures, Exceptional Customer Service, and First-Class benchmarks). This provision provides a financial incentive to develop further and expand the Food & Beverage program.
6. Adds Section 3.4 in Annual Plan Article III: Adds Council's Benchmarks and Performance Measures. Establishes Troon's responsibility to develop a rolling ten-year capital plan and budget limited to replacing existing equipment as a part of the Annual Plan.
7. Adds Section 3.15 Key Money: Troon agrees to contribute \$1,250,000 as a key money contribution to be used by the City to cover the costs associated with the re-model or reinvention of the Vue Grille & Bar at the Golf Resort or any other mutually agreed upon capital project designed to expand ROI.
8. Adds Section 3.4 (b) clarifying language defining the City Council's new Benchmarks and Performance Measures that the operator must meet. It further explains Financial Performance Measures, Operational Performance Measures, and Employee Performance Measures. The City uses these Benchmarks and Performance Measures as a part of the active management of the Agreement with Troon.
9. Adds clarifying language defining "Exceptional Customer Service" and "First Class" standards. These standards are part of the active management of the Agreement with Troon.
10. Adds Article IV Section 4.1(b) defining Competitors: Defines specific limitations of Troon providing management services to competitors of the Golf Resort.
11. Adds Article III Section 3.12 Prevailing Wages: Adds Prevailing Wage language in accordance with State Law.

OPTIONS:

1. Approve the new Golf Course Management Agreement with Troon Golf as presented.
2. Amend or modify the proposed agreement as presented.

3. Direct Staff to proceed with a Request for Proposal for golf course management services.
4. Provide alternative direction to Staff.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA):

This action has been reviewed per the authority and criteria contained in the California Environmental Quality Act (CEQA), the State and local CEQA Guidelines, and the City's environmental regulations. The City, acting as the Lead Agency, determined that the ordinance is not subject to CEQA pursuant to Sections 15060(c)(2), 15060(c)(3), and 15061(b)(3) of the State CEQA Guidelines, because it will not result in a direct or reasonably foreseeable indirect physical change to the environment as there is no possibility that the action would result in a significant environmental impact, and because it does not constitute a "project" as defined in Section 15378 of the State CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3.

ATTACHMENTS:

1. Troon Agreement – Golf Course Management Agreement