

DATE ISSUED: October 7, 2002

REPORT NO. 02-229

ATTENTION: Honorable Mayor & City Council
Docket of October 14, 2002

SUBJECT: Proposed Lease Agreement with The Friends of Torrey Pines, LLC for the use of Torrey Pines Golf Course for the 2008 U.S. Open

SUMMARY

Issue – Should the Mayor and City Council authorize the City Manager to enter into a lease agreement with Friends of Torrey Pines for the purpose of organizing and operating the 2008 U.S. Open Golf Tournament?

Manager's Recommendation – Approve the lease agreement with Friends of Torrey Pines to operate and organize the 2008 U.S. Open Golf Tournament.

Fiscal Impact – \$500,000 generated from lease rent payments and up to \$350,000 in cost recovery. The USGA will also reimburse the City for direct public safety costs at a level similar to prior U.S. Opens. An estimated \$460,000 in transient occupancy tax and \$170,000 in sales tax.

BACKGROUND

The City of San Diego is the owner and operator of Torrey Pines Municipal Golf Course. The facility was constructed in 1957 and includes two 18-hole courses. Since 1968, it has been the venue for the Professional Golfers' Association (PGA) Tour event (Buick Invitational) organized by the Century Club of San Diego. It has also been the venue for the Junior World Golf Championships for the last thirty-five (35) years.

On June 12, 2001, the Mayor and City Council authorized the City Manager to enter into an agreement with the Century Club for the funding, design and construction of improvements to the south course that included redesign of the greens, realignment of the fairways and the addition of new tees and bunkers for a total cost of \$3 million. A generous group of private individuals provided funds which were used for these renovations with the City providing

approximately \$950,000. The agreement allowed the City to obtain renovations to the south course more quickly, and at higher quality, than the Golf Operation Enterprise Fund could fund. This also enabled the Century Club to improve the south course to a championship level prior to the February 2002 PGA Tour event. The quality of the course that resulted from these course improvements greatly enhanced the reputation of Torrey Pines as one of the nation's premier municipal golf courses which facilitated securing Torrey Pines as the site for the 2008 U.S. Open.

On June 14, 2001, as approved by the Mayor and City Council, the City and the Century Club also entered into a Memorandum of Understanding (MOU) which contemplates the lease of Torrey Pines to the Century Club should the United States Golf Association (USGA) select Torrey Pines as a future venue for the U.S. Open, a premier golf tournament. The Friends of Torrey Pines is the duly assigned successor of the Century Club pursuant to the terms of this MOU.

The USGA has served as the national governing body of golf since its formation in 1894. It is a nonprofit organization committed to promoting the game of golf and supports golf associations throughout the country, including the San Diego County Junior Golf Association and the San Diego County Women's Golf Association. The USGA has sponsored the U.S. Open since 1895 and it is now a prestigious, internationally renowned sporting event. The 2002 Open, held at Bethpage Black Course, Farmingdale, New York, attracted 156 of the world's best golfers. It enjoyed extensive network television coverage and attracted sellout numbers of spectators, with 42,500 tickets sold for each day of the championship.

The USGA has conditionally selected Torrey Pines for the 2008 U.S. Open and, now therefore, the Friends of Torrey Pines is seeking permission from the City to use Torrey Pines for the purpose of hosting this event. It is proposed the championship rounds will be played on the south course with the remainder of the course property used to support the event.

DISCUSSION

The proposed lease agreement, which is attached, grants the Friends of Torrey Pines the nonexclusive use of Torrey Pines for preparation of the 2008 U.S. Open from execution of the lease through June 7, 2008, and again following the conclusion of the championship for clean up and course restoration. The lease grants the Friends of Torrey Pines exclusive use for the conduct of the championship, including practice rounds, from June 8, 2008 through to the second day following the conclusion of the championship. Under the lease, the Friends of Torrey Pines have agreed to certain obligations that will be either their responsibility directly or will be performed under a contract between the Friends of Torrey Pines and the USGA.

Friends of Torrey Pines Obligations

The Friends of Torrey Pines shall pay \$500,000 rent to the City rent for the potential lost golf

revenue due to the event. The City will receive this rent in two installments, \$250,000 on January 30, 2008 and \$250,000 on August 31, 2008. The second installment is subject to a potential reduction based upon increased revenue due to the City from the operations of the pro shop concessions on the course property. The Friends of Torrey Pines will pay for and construct approximately \$350,000 in course improvements as directed by the USGA for the event and will provide practice facilities and related equipment for competitors.

Under the agreement, the City will be reimbursed by the Friends of Torrey Pines for the direct costs of police, fire, paramedic, traffic control, and other emergency services throughout the duration of the championship not to exceed \$350,000. The remainder of the City's direct costs will be reimbursed by the USGA at a level similar to that which they have reimbursed costs for such services at prior years U.S. Open events.

USGA Obligations

In addition to reimbursement for a portion of the City's direct costs, the USGA will be responsible for coordination of the championship including all tournament related expenses including all plumbing, electrical, and telecommunication enhancements required for the event. They will be responsible for the hospitality program, media and broadcasting facilities, ticket sales and all other operational details. The USGA will develop and implement a maintenance and agronomic program for the south course in preparation of the championship. They will also provide the grandstands, portable toilet facilities, and all necessary signage. The USGA will return the course to championship condition following the event at no cost to the City.

City Obligations

The City will provide Torrey Pines and adjoining City properties subject to existing contractual agreements for use as a venue for the 2008 U.S. Open. The Friends of Torrey Pines will have non-exclusive use of the leased property from execution of the lease through June 8, 2008 for the purpose of planning, coordinating, and implementing the plans for conducting the 2008 U.S. Open. The Friends of Torrey Pines shall have exclusive use of the leased property from June 8, 2008 through the third day following the conclusion of the 2008 U.S. Open. The USGA will be provided exclusive use of the Championship Course at no charge for up to five days during calendar year 2007 and/or 2008 for the purpose of holding golf outings for special guests of the USGA.

During the event, the City will provide normal municipal services, including public safety and traffic control. The parking lot at Qualcomm Stadium will be utilized for overflow shuttle parking.

Under the agreement, unless otherwise approved by the USGA, for the period beginning July 1, 2005 and ending one year following the Championship, the City agrees that the current green fee payable by City residents for use of the Championship Course shall not be increased by any more

than a percentage corresponding to any increase necessary to reflect the effect of inflation as demonstrated by the Consumer Price Index.

In addition, for the purpose of planning and preparing for the 2008 U.S. Open, from the date of the execution of the lease through August 1, 2008, the City will provide up to 60 rounds of golf per calendar year for designated members of the USGA staff to play on Torrey Pines at no charge. The City has agreed to prohibit the use of golf carts on the south course six weeks prior to the event. The City has also agreed that the final two rounds of the Buick Invitational or other national competitive tournament held between January 1, 2008 and the US Open will occur on the north course instead of the south course.

The City has facilitated, and the USGA has executed, agreements with the three existing City lessees that are adjacent to Torrey Pines for services and operational commitments related to the 2008 U.S. Open.

City Benefits

The City will receive 100 tickets to the event at no charge, the right to purchase 250 additional grounds-only admission tickets, a hospitality tent on the course grounds at no charge, and the right to include a message from the Mayor and a message from the City's Parks and Recreation Department in the Championship program. The City shall also have the right to place one advertisement in the Championship program and be provided a number of Championship programs free of charge. It is anticipated that the City will receive increased rent revenue from the Torrey Pines Lodge, the Hilton, and the Torrey Pines Club Corporation due to increased sales of merchandise and food and beverage services during the championship. In addition, the City will see a direct economic impact of an estimated \$460,000 in Transient Occupancy Tax and \$170,000 in sales tax.

CONCLUSION

The 2008 U.S. Open can provide a terrific opportunity for the City to welcome another world class sporting event to San Diego. City staff has worked closely with the Friends of Torrey Pines in drafting the lease agreement to ensure that Torrey Pines Golf Course will serve as a highly successful venue for the 2008 U.S. Open. The course will benefit from the worldwide publicity this championship brings, and the experience will enhance the prospects of Torrey Pines hosting similar events.

There are tremendous economic impacts attributed to such an event. It is estimated that the Buick Invitational currently brings \$28 million into the San Diego region each year. According to the Long Island Convention and Visitors Bureau, the economic impact on their region as a result of the 2002 U.S Open held at New York's Bethpage Black Course was estimated to be in excess of \$85 million.

ALTERNATIVE

Do not approve the lease agreement with Friends of Torrey Pines to operate and organize the 2008 U.S. Open.

Respectfully submitted,

William T. Griffith
Real Estate Assets Director

Approved: Bruce Herring
Deputy City Manager

GRIFFITH/GDJ-sb

Attachment: [Lease Agreement with Friends of Torrey Pines](#)