



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: March 11, 2014 REPORT NO: 14-023

ATTENTION: Honorable City Council President and City Councilmembers

SUBJECT: Approval of Agreement between the City of San Diego and United States Golf Association to host the 121st United States Open Championship at Torrey Pines Golf Course

REFERENCE: None

REQUESTED ACTION:

Approve the Agreement between the City of San Diego and United States Golf Association (USGA) to host the 121st United States Open Championship (2021 U.S. Open) at Torrey Pines Golf Course.

STAFF RECOMMENDATION:

Approve the requested action.

SUMMARY:

The City of San Diego is the owner and operator of Torrey Pines Municipal Golf Course (Torrey Pines). Designed by legendary course architect William P. Bell and completed by his son, William F. Bell, Torrey Pines opened in 1957, and offers two 18-hole Championship courses; the North and South courses. Since 1968, Torrey Pines has been the venue for the Professional Golfers' Association (PGA) Tour event now known as the Farmer's Insurance Open and has been the venue for the Junior World Golf Championships for the last forty-five years. In 2001, celebrated golf course designer Rees Jones remodeled the South Course, which is known as one of the nation's foremost municipal golf courses. In 2008, the South Course was the home of the 108th U.S. Open Championship, recognized by many as one of the greatest championships in U.S. Open history. Based on the success of the 2008 U.S. Open, the USGA seeks to hold the 2021 U.S. Open at Torrey Pines. Hosting the 2021 U.S. Open at Torrey Pines is consistent with the Golf Business Plan as adopted by the City Council in 2012.

Background

The United States Open Championship is one of golf's most prestigious events world-wide. The City of San Diego successfully hosted the 108th U.S. Open Championship June 9-16, 2008 at Torrey Pines. The Championship at Torrey Pines marked the first time the event had been held on a City municipal golf course. With more than 2,300 members of the international media in attendance, the U.S. Open at Torrey Pines generated international media attention and ended with a dramatic double tie eighteen hole and sudden death play-off.

The 2008 U.S. Open was sold out nearly a year in advance. More than 295,000 people attended the eight day event; generating more than 74,000 room nights in local hotels. The majority of attendees

were shuttled to Torrey Pines from Qualcomm Stadium as part of a comprehensive transportation plan that left traffic running smoothly throughout the area during the event.

Television ratings were the best in U.S. Open recent history with the numbers comparable to the Academy Awards and 2006 Olympics. More than 40 hours of live coverage on NBC and ESPN were broadcast to 173 countries. An event the scope of the U.S. Open would not be successful without volunteers and in 2008 more than 6,000 volunteers representing all 50 states and 17 countries contributed 110,000 work hours to support the Championship.

According to a 2008 U.S. Open Economic Impact Analysis conducted by the San Diego State University Center for Hospitality and Tourism Research (Attachment A), the 2008 U.S. Open generated a total economic impact to the San Diego region of \$142 million, including \$1.5 million in Transient Occupancy Tax (TOT), \$295,000 to the Tourism Marketing District, and \$1.6 million in local sales tax¹.

2021 U.S. Open Agreement

The success of the 2008 U.S. Open and the experience gained from hosting the event serves as the foundation for the 2021 U.S. Open Agreement. It should be noted that in 2008, the USGA contracted with a third party non-profit organization, The Friends of Torrey Pines (Friends) to host the event and in turn the Friends contracted with the City of San Diego for certain responsibilities. Based on the experience gained by the City and the USGA in 2008, the two parties seek to contract directly with one another for the 2021 agreement. The USGA will establish a Local Host Committee (discussed below) to implement certain aspects of the Agreement.

Following is a summary of the key deal points found in the Agreement between the City and USGA to host the 2021 U.S. Open:

Lease of Premises and Property – The USGA agrees to lease all areas of the Torrey Pines golf courses, including the South Course (the “Championship Course”) and the North Course, the practice range, all other buildings, facilities and parking areas located on the grounds of the courses, and all equipment and supplies related to the operation of the courses (the “Torrey Pines Facilities”). The City’s administrative offices and maintenance yard are not included. In addition, the USGA will enter into agreements with the City’s lessees, Torrey Pines Club Corporation, Hilton La Jolla Torrey Pines, and The Lodge at Torrey Pines for use of facilities leased by them. The USGA will develop an event plan for the Championship consistent with facility layout and usage during the 2008 U.S. Open.

Additional City Leased Property – As part of the lease, the City agrees to provide at the Torrey Pines Gliderport and at the Qualcomm Stadium Parking Lot, the areas necessary to support the transportation plan and other activities for championship purposes, consistent with the use period utilized for the 2008 U.S. Open Championship.

Additional Third Party Leased Property – In order to conduct the 2021 U.S. Open at Torrey Pines, the USGA must also reach agreement with the City’s lessees and other nearby property owners. The City agrees to use its good faith, best efforts to facilitate contracts with The Lodge at Torrey Pines, the Hilton La Jolla Torrey Pines, Scripps Memorial Hospital La Jolla, and the University of California at San Diego, with terms, at a minimum, consistent with the championship purposes and the use periods utilized for the 2008 U.S. Open Championship. It is the intent of the USGA to enter into agreements with these third parties before or at about the same time as its agreement with the City.

¹ As reflected in 2008 dollars.

City of San Diego Support – The City agrees to designate lead City staff to assist the USGA with coordination among various City departments to successfully plan and conduct the Championship.

Local Host Committee Support – The USGA will identify a group of individuals and organizations associated with the Torrey Pines golf community to serve as the Local Host Committee. As in 2008, the Local Host Committee will play an important role in working with the USGA to fulfill various functions such as marketing and sales of hospitality venues, coordination and support of community relations efforts and volunteer recruitment and organization.

Dates – The Championship Week, including official practice days, will be conducted June 13-20, 2021. The ending date of the Championship may be extended if rounds are postponed or in the event of a playoff. The USGA will have exclusive use of the Torrey Pines Facilities beginning at 7:01 p.m. on Wednesday, June 9th and ending at 12:01 a.m. on the second day following the conclusion of the Championship. Play on the Championship Course will be limited to competitors and USGA personnel on Monday, June 6th through Wednesday, June 8. Additionally, the USGA will have non-exclusive rights to use the Torrey Pines Facilities on either end of the exclusive period consistent with 2008.

Lease of Premises - The USGA will pay the City a rental amount of \$2,500,000 for lease of the Torrey Pines Facilities, as follows:

\$25,000 upon execution of this Agreement by both parties;

\$250,000 by May 15, 2020

\$250,000 by September 15, 2020;

\$250,000 by January 15, 2021; and

\$1,775,000 by no later than June 30, 2021.

City staff has reviewed the amount of rent and has determined that the payment is fair and reasonable.

Admission Tickets - The USGA will be responsible for the marketing, sales and fulfillment of all admission tickets, and will receive 100% of the gross receipts from all tickets and credentials, including tickets that are provided in corporate hospitality packages. Consistent with USGA practices at other venues, the USGA shall provide the City three hundred (300) weekly grounds tickets that include entrance to the City Hospitality Tent free of charge for use by the City. The City shall also be entitled to purchase three hundred (300) weekly season ticket packages from the USGA at a cost equal to the face value of the admission ticket. Receipt by the City of both no-cost and face value tickets is contingent upon adoption by the City Council of a distribution policy for their use. The USGA will make up to an additional 450 weekly season ticket packages available for purchase at face value by the Local Host Committee.

Corporate Hospitality - The USGA will be responsible for all sales, marketing and fulfillment of the Corporate Hospitality Program. The USGA will develop a marketing plan for the Hospitality Program after consultation with the City and the Local Host Committee and will appoint a marketing director to oversee the implementation of such plan.

The City and the USGA will share in the revenues derived from Hospitality Program sales. The City shall receive twenty percent (20%) of the gross sales of hospitality packages less the gross value of tickets and food and beverages included in the relevant packages. For Hospitality Program sales conducted in City

leasehold space at The Lodge at Torrey Pine and Hilton La Jolla Torrey Pines, the City shall receive a ten percent (10%) share.

Consistent with USGA practices at other venues, sales that are specifically excluded from the Hospitality Program, and therefore exempt from revenue sharing with the City, include any hospitality facility provided for use by the City (City Hospitality Tent) during the week of the Championship; any hospitality facility or facilities to be provided to the Media Rights holders; any facilities used by the USGA or players; any Upgraded Spectator Facilities; and, any hospitality facility or facilities provided by the USGA to its corporate partners or used as a trade-out for services provided by a championship vendor not to exceed 5 tent locations and six 6 table locations.

Merchandise – As was the case in 2008, the USGA will develop a championship logo, utilizing the Torrey Pines marks and will have the exclusive right to sell championship-logoed merchandise in the Torrey Pines Facilities, and/or in other Third Party Leased Properties, during the Exclusive Use Period.

The City owns the name and trademark “Torrey Pines Municipal Golf Course”, “Torrey Pines South Course,” and “Torrey Pines North Course.” As part of the Agreement, the City licenses the use of those names to the USGA and its contractors for the Championship. The USGA will enter into an agreement with Torrey Pines Club Corporation for use of the Torrey Pine Tree logo used in connection with the course.

Official Program/Course Map & Guide/Pairing Sheets – The USGA will publish and distribute the official program, course map and guide, and pairing sheets, in paper or electronic formats, for the Championship, including any related advertising sales, and will retain 100% of any associated revenues. The USGA will provide the City messaging and advertising space based on then best practices.

Television/Media Rights— The USGA is the owner of all commercial rights related to the Championship and will be solely responsible for all arrangements related to any and all radio and television broadcast and media coverage, and will retain 100% of all fees and proceeds from sales and licensing of rights to television, radio, internet, and other such proprietary media rights. The USGA’s event plan will include space for media operations.

Food & Beverage/Catering/Concessions— The USGA will be responsible for arranging for and overseeing all food and beverage service for the Championship and for complying with all applicable laws and permitting requirements.

Course Playing Conditions – Consistent with the 2008 U.S. Open, the USGA will develop an agronomic program for the Championship Course and the practice facilities, and the City will prepare and maintain the Championship Course and practice facilities, at its expense, and in compliance with such agronomic program. The USGA may direct or require that the City make modifications to the Championship Course at the City’s cost and in addition to the specifications of the agronomic program, up to a total cost of \$350,000, including labor and materials. The City and the USGA will mutually agree to limit the number of rounds that will be played on the Championship Course during the period from January 1, 2021 through the start of the Championship, and the City will further agree to prohibit the use of golf carts on the Championship Course for a minimum of 6 weeks prior to the start of the Championship.

Practice/Player Facilities— The City will provide, at its expense, practice facilities and amenities for players that are, at a minimum, consistent with those provided in 2008 or otherwise compliant with then-applicable USGA and professional golf standards.

Outings/Playing Privileges –The USGA will have the exclusive use of the Championship Course for a total of up to 6 days to be used during the calendar years 2019, 2020 and/or 2021 for the purpose of holding golf outings for advertisers, corporate clients, the press and other special guests of the USGA. The exact dates of such exclusive use and the number of players for such outings will be mutually determined by the USGA and the City.

Police/Security/Traffic Control/Emergency Services –The USGA will assume primary responsibility for working with applicable law enforcement authorities and private security providers to implement a comprehensive security plan that complies with the USGA's security standards and procedures, as well as applicable laws. The USGA will work with the City to arrange for all policing, security, traffic control, fire and emergency medical services provided by the City for the Championship and will determine, subject to the City's approval, the time, location, nature, and extent of all necessary service inside and outside of the Torrey Pines Facilities. The USGA will assume all expenses for private security required for the Championship, and up to a maximum of \$450,000 of all expenses for police, fire, and emergency medical services provided by the City. The amount of this payment will be the entire amount the USGA will pay to the City to reimburse the relevant authorities and agencies for their services, and to cover any costs for City permits, including any Special Event Permit, Building Permits, or other required permits as may be necessary pursuant to City law and/or regulations.

Permits/Compliance With All Laws— The USGA will assume responsibility for complying with all county, state and federal laws, regulations, and orders, including obtaining any required permits or approvals that apply to the use of the property for the Championship.

Golf Championship Non-Competition – The USGA recognizes that Torrey Pines currently hosts a PGA Tour event that is scheduled to continue. Except for that event, the agreement requires that no major championships, other PGA Tour events, or other national tournaments are held during the period of three years prior to, or three years following the U.S. Open. The City will not make any announcement regarding the hosting of any future tournament at Torrey Pines during the year beginning July 1, 2020 and ending June 30, 2021 unless agreed to by the Association.

Indemnification and Insurance—The USGA is required to carry appropriate levels of insurance and to indemnify, defend and hold the City harmless against all claims arising out of the USGA's conduct of the Championship. The City agrees to indemnify, defend and hold the USGA harmless against any claims arising out of the City's negligence, the City's merchandising activities, the City's maintenance of the golf course, and the City's breach of any representation or warranties set forth in the Agreement. The City and the USGA both agree to obtain indemnification provisions and insurance requirements from all third party vendors.

FISCAL CONSIDERATIONS:

It is anticipated that the 2021 U.S. Open will bring significant direct and indirect revenue to the City. As previously described, the 2008 U.S. Open generated a regional economic impact of \$142 million with specific benefits to the City of San Diego of \$1.5 million in TOT and \$1.6 million in local sales tax.

Based on the experience of both parties working together to stage one of the most successful U.S. Open Championship's in recent history, the City has been able to negotiate terms that are more favorable than those agreed upon by the City for the 2008 U.S. Open. It should be noted that revenue and expenses related to the Championship may be shared by the Golf Enterprise Fund (EF), the General Fund (GF), and in some cases both funds (EF/GF).

The table below summarizes the 2021 terms and compares them to the City's terms in 2008:

| Term | 2021 U.S. Open | 2008 U.S. Open |
|--|--|--|
| Leased Property | Torrey Pines Golf Course, not including City's offices and maintenance yard, plus use of Qualcomm parking lot and Gliderport for transportation plan. | Same. |
| Rent | \$2,500,000 paid to City (EF) | \$500,000 paid to City (EF) |
| Term (Non-Exclusive Use) | March 2014—September 3, 2021. | August 2002—August 29, 2008. |
| Days of Course Exclusive Use for Championship. | 7:01 p.m. on Wednesday, June 9, 2021 through midnight June 22, 2021 unless extended due to weather or play-off (EF) | 7:00 a.m. on June 8, 2008 through midnight June 17, and was extended due to play-off. (EF) |
| Exclusive Use of the South Course for pre-Championship golf outings. | 6 days total to be used in 2019—2021. (EF) | 5 days total to be used in 2007—2008. (EF) |
| Admission Tickets | 300 weekly grounds tickets with entrance to the City Hospitality Tent free of charge; 300 weekly season ticket at face value; both contingent upon adoption by the City Council a distribution policy for their use. | 100 Grounds only packages free of charge; 250 Grounds only packages at cost; 125 Hospitality Tent Packages free of charge. City Council adopted a Ticket Distribution Policy for these tickets. |
| Merchandise | Require Torrey Pines Golf Shop to sell. (GF) | Same. (The Golf Shop, experienced year over year increased sales from June 2004 through the 2008 U.S. Open; resulting in increased lease revenue to the City). (GF) |
| Corporate Hospitality Share | 20% of net proceeds, except for Hospitality conducted in leasehold hotels is 10% of net proceeds. Anticipated revenue share \$1.3--\$1.7MM. (GF) | 0% paid to City. |
| Official Program | City message. | Same. |
| Course Playing Conditions | Agronomic program aggregate cost to City not to exceed \$350K. (EF) | Same. (EF) |
| Practice/Player Facilities | City to provide. Estimated cost \$300k--\$500K. (EF) | Constructed and paid for by Friends of Torrey Pines. |
| Outings/Playing Privileges | On reasonable notice, City agrees to accommodate not more than 20 foursomes per year of USGA, their invited advertisers, corporate clients, the press and guests. Guests may be required to pay green fees. (EF) | On reasonable notice, City agreed to accommodate not more than 15 foursomes per year of USGA, their invited media, corporate representatives, and guests. Guests may be required to pay green fees. (EF) |
| City Services/Permits | \$450k aggregate. (EF/GF) | \$700k aggregate. (EF/GF) |

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Torrey Pines Golf Course patrons, San Diego regional businesses, city residents and others as described in the report.



Carolyn Wormser
Director of Special Events



Stacey LoMedico
Assistant Chief Operating Officer

Attachments(s): A. 2008 U.S. Open Economic Impact Analysis