

SUBJECT

The Lakes Specific Plan, Recreation Ground Lease Agreement, and Golf Course Management Agreement (400 S. Pacific Coast Highway, El Segundo, California)

RECOMMENDATION

Conduct a public hearing, receive testimony, and take the following actions:

1. Adopt Resolution No. ____ to certify The Lakes Specific Plan and Topgolf Project Final Environmental Impact Report, including Environmental Findings of Fact and Mitigation Monitoring and Reporting Program (Attachment F);
2. Adopt Resolution No. ____ to approve General Plan Amendment No. 16-01 to change the land use designation from “Parks” to “The Lakes Specific Plan;” Lot Line Adjustment No. SUB 16-03, and Conditional Use Permit No. CUP 16-05 to allow for sale of beer, wine, and liquor (Attachment G);
3. Introduce Ordinance No. ____ to approve Zone Change No. ZC 16-01 to change from O-S (Open Space) to The Lakes Specific Plan (TLSP), Specific Plan No. SP 16-02, Site Plan Review No. 16-01, Zone Text Amendment No. ZTA 16-04 to add TLSP to the El Segundo Municipal Code, and schedule second reading and adoption for November 5, 2019 (Attachment H);
4. Authorize City Manager to execute a Parking License Agreement Between the City of El Segundo and West Basin Municipal Water District;
5. Authorize City Manager to execute The Lakes at El Segundo Due Diligence and Recreation Ground Lease between the City and ES CenterCal, LLC to allow for the operation of a Topgolf driving range and ancillary restaurant, banquet, and related facilities;
6. Authorize City Manager to execute a Golf Course Management Agreement between the City and Topgolf USA El Segundo, LLC to operate The Lakes at El Segundo golf course;
7. Authorize City Manager to amend the Management Agreement with Lane Donovan Golf Partners to implement a 45 day notice of termination.

FISCAL IMPACT

Once developed, the enhanced recreation land use will reverse the past several years of recurring operating losses within Golf Course Enterprise Fund and subsidies from General Fund and Equipment Replacement Fund. The proposed project is anticipated to generate over \$1,900,000 annual revenues and investment to General Fund and Golf Course Enterprise Fund, including:

- \$1,300,000 ground lease payment for driving range (with a 10% adjustment every five years);

- \$200,000 Community Benefit Contribution;
- \$200,000 minimum Golf Course and Driving Range Capital Contribution;
- 3% of gross beverage sales at driving range and golf course (with a minimum guarantee of \$200,000 from the driving range);
- \$20,000 ground lease payment for golf course (with a 10% adjustment every five years);
- Additional sales tax, property tax, utility user tax, and business license revenues estimated to be over \$50,000.

If, within a seven year period, there are three years of golf course operating shortfalls in excess of \$150,000, the City will absorb the portion above the \$150,000. This threshold will adjust by 10% every five years.

Lessee (CenterCal) will pay, on an annual basis, for the first 1,000 hours of General Fund costs associated with providing dedicated public safety services. The City and Lessee will share equally in the costs for dedicated public safety services above 1,000 hours on an annual basis.

The Lessee (CenterCal) and the Licensee (Topgolf) will collectively invest over \$40 million in capital improvements on City-owned properties. In addition to the direct financial benefits, the proposed recreation use will likely have a positive recurring multiplier benefit to the local economy.

BACKGROUND

The City-owned recreation property located at 400 South Pacific Coast Highway consists of 26.54 acres and is identified in the attached Location Map and Vicinity Map (Attachment A). The current driving range and golf course have operated with annual financial losses and experienced maintenance and capital improvement challenges. Financial subsidies from the General Fund and Equipment Replacement Fund have been required on a regular basis to help maintain these recreation uses.

The proposed redevelopment, including recommended modification to the existing golf course, construction of a new clubhouse and pro shop, and replacement of the existing driving range with a new first-class Topgolf driving range facility will help turn around the financial and operational challenges that have plagued this municipal asset for many years.

The proposed Topgolf facility will ensure continued recreation use and provide the community with a different type of golf experience. For example, golf balls used at the new driving range will have an embedded micro-chip that automatically registers at targets in the driving range field. A computer system will track where the balls land and keep score. The proposed development will also include a first-class banquet facility and offer high quality food and beverage services.

The proposed recreation project and associated environmental documents were initially reviewed by Planning Commission on June 8, 2017, and July 13, 2017. On September 5, 2017, City Council certified the Environmental Impact Report (EIR) and approved a Mitigation Monitoring and Reporting Program (MMRP) for The Lakes Specific Plan project. However, City Council did not take any subsequent action to approve the project. Rather, City Council directed staff to issue a

Request for Proposals (RFP) to determine whether other recreational uses or projects may be better suited for the site. City Council further directed staff to seek proposals that would increase revenues via modifying existing land uses, as long as they complied with existing deed restrictions associated with the property.

After evaluation of nine proposals, City Council established a subcommittee comprised of Councilmembers Chris Pimentel and Scot Nicol to negotiate with CenterCal and Topgolf. On November 21, 2018, CenterCal and Topgolf submitted a letter requesting reconsideration of the previous The Lakes Specific Plan (TLSP) and Topgolf project. On December 20, 2018, CenterCal and Topgolf submitted a slightly modified version (updated prototype) of the project, which varied from the 2017 project considered by the Planning Commission and analyzed in the previously-certified EIR. Staff forwarded the modified project to City’s environmental consultant on December 26, 2018. After reviewing the modifications, our consultant determined that all modifications are adequately covered by the EIR and that no additional California Environmental Quality Act (CEQA) analysis is required (See Attachment E).

On January 24, 2019, Planning Commission adopted resolutions recommending that City Council re-certify the project’s EIR and approve the associated entitlement applications. The modified project is now before the City Council for consideration. The determination as to whether to rezone and enter into contracts for the ground lease and management of the property associated with the proposed facilities is considered a legislative act which means it is entirely within City Council’s discretion to approve or deny the proposed project.

SITE DESCRIPTION

The 26.54 acre property is triangle in shape and is currently developed with a publicly-owned golf course and practice facility. The site consists of a nine-hole executive golf course; a practice facility that includes a driving range with a 5,953 square-foot two-level structure containing 57 hitting bays; a putting green; clubhouse and associated facilities; and water features. The clubhouse is a 5,330 square-foot, one-story building which includes a meeting room, restaurant, offices, and a pro shop.

The golf course currently extends eastward into a 3.58-acre portion of the Southern California Edison (SCE) transmission line easement which is subject to an existing easement license agreement between SCE and the City. Immediately south of the golf course is a 5.3-acre property owned by West Basin Municipal Water District which is used for water storage and treatment. A quarter-acre portion of this property is improved with 27 parking spaces and will continue to be utilized for parking to support this recreation use.

**Project Areas
(See also Attachment B)**

	Acres
The Lakes at El Segundo (proposed TLSP area)	26.54
Southern California Edison easement*	3.58
West Basin Municipal Water District property*	0.25
Total	30.37

*Not a part of The Lakes Specific Plan area.

PROJECT DESCRIPTION

The requested entitlements include: general plan amendment; zone change; zone text amendment; specific plan adoption; site plan review; lot line adjustment; and conditional use permit. Based upon the anticipated improvements to the driving range and golf course, both will continue to be available to the public.

Proposed Topgolf Driving Range

The new specific plan and land use changes will facilitate construction of a Topgolf driving range building and surface parking in the CR/OS sub-area (See Attachment C). The Topgolf commercial recreation facility (See Attachment N) will be approximately 67,500 square-feet and will peak at 55 feet in height. There will be approximately 35,000 square-feet of golf hitting bays with private seating areas immediately behind each of the 102 hitting bays. The new artificial turf on the driving range will minimize water usage. The facility will also include: approximately 10,000 square feet of restaurant and bar space; 2,085 square feet of meeting and event area; 1,638 square feet of office; 522 square feet of lounge; 1,130 square feet of lobby; and approximately 17,000 square feet of storage and circulation. A third floor 1,400 square foot outdoor terrace and a 5,400 square foot patio on the lower level will provide additional features. The patio will accommodate live and recorded music performances. Music providers will be required to connect to an in-house sound system, allowing staff the ability to control the volume. All speakers will be oriented inward and down toward the patio floor.

The existing parking lot will be modified and expanded to accommodate the recommended 464 spaces (including 27 spaces on abutting West Basin property) to serve both patrons and employees.

Proposed Golf Course Modifications

The proposal includes new course lighting, and replacement of the clubhouse building and patio, which will overlook a new putting and chip-shot practice area. The project will also include modifications to the layouts of several holes at the existing golf course and the existing parking lots (Attachment D). The existing clubhouse facility, with a restaurant, patio, and a pro shop, will be replaced with a smaller building that offers the same amenities except the banquet facility (Attachment O). Proposed renovations to the golf course will include lighting to accommodate nighttime play and a new and expanded short game area.

Proposed Specific Plan and Land Uses

The proposed land use changes are relatively minor since the Specific Plan area will continue to have the same general uses—a golf course, driving range, and ancillary uses which will be open to the general public. However, the driving range will be under a lease agreement rather than a management agreement and it will be controlled during the lease term by a private entity which necessitated the Specific Plan, general plan, and zoning amendments. As is detailed in the proposed agreement, CenterCal, as the lessee, is required to make the driving range available for use by youth groups, student athletes, residents, and other groups to provide use opportunities that are similar to those currently available at the driving range.

A specific plan is a general plan option that creates regulations for land uses within a particular area to meet specific goals and policies. All future development plans and entitlements within the specific plan boundaries must be consistent with the standards set forth in the adopted plan, even

when they are different from regulations of the City Municipal Code. The Lakes Specific Plan makes minor changes to the uses and development standards currently applicable at the site. The Specific Plan document includes a land use plan, description of existing and proposed utilities and infrastructure, design guidelines, development standards, and administrative provisions.

The general plan amendment application proposes to change the land use designation from Parks to The Lakes Specific Plan. A zone change from O-S (Open Space) to TLSP (The Lakes Specific Plan) is also proposed. Two zoning sub-areas, PR/OS (Public Recreation/Open Space) and CR/OS (Commercial Recreation/Open Space) are proposed and illustrated on the following page.

The PR/OS sub-area encompasses approximately 16 acres on the northern parcel fronting Pacific Coast Highway. The parcel currently contains a nine-hole executive golf course with clubhouse and pro shop. All current uses will remain permitted uses. The CR/OS sub-area encompasses approximately 10.5 acres on the southern parcel fronting on both Pacific Coast Highway and Hughes Way. This sub-area allows for a commercial recreation and entertainment facility as well as for all recreational uses allowed in the PR/OS sub-area. A zone text amendment to acknowledge the new TLSP zone is also proposed.

DISCUSSION

On January 24, 2019, Planning Commission recommended certification of the EIR and approval of the proposed project (Attachments I and J). The following contains a summary of the key project components:

Environmental Impact Report (EIR)

Although the Final EIR was certified on September 5, 2017, the City Council's actions did not result in approval of the project and the necessary findings were not made. Therefore, the Planning Commission recommended that City Council re-certify the EIR. The EIR documents are available to view on the Planning Department's website [here](#)¹ (Also see Attachments F and P).

Specific Plan

The Lakes Specific Plan provides flexibility to expand existing operations and develop new facilities. The plan includes a development concept that allows for the Topgolf facility as proposed, and new land use and zoning categories (Attachment H). Design guidelines are included to ensure high-quality development, while development standards are included to address lot area, height, setbacks, floor area, parking, landscaping, and signage.

General Plan Amendment and Zone Change:

The general plan amendment and zone change establishes TLSP as a new land use and zone. The TLSP zone will allow the flexibility for The Lakes to expand and offer new uses compatible with the existing golf course facility and operations (Attachments G and H).

¹ https://www.elsegundo.org/depts/planningsafety/planning/ea_1135_top_golf_environmental_initial_study/ea_1135_top_golf_draft_eir/default.asp

General Plan and Zoning Consistency

The Specific Plan implements the General Plan within the project area. With approval of the proposed amendment, the Specific Plan will be consistent with the General Plan goals, objectives, and policies. This will further ensure that the proposed project remains consistent with the General Plan goals, policies, and objectives.

Pursuant to Government Code Section 65358, any mandatory element of the General Plan may be modified up to four times per calendar year. This amendment represents this year's second amendment to the Land Use Element. In accordance with Municipal Code Section 15-26-4B, the proposed zone change is necessary to carry out the project because the general plan amendment changes the land use classification of the project from Parks to The Lakes Specific Plan. As a result, the proposed zone change is necessary to maintain consistency with the General Plan.

Zone Text Amendment

The proposed zone text amendment will add TLSP zoning designation to the zoning code.

Lot Line Adjustment

The proposed lot line adjustment will reconfigure the two existing parcels so that Topgolf's facility will be wholly located within the CR/OS sub-area. The golf course and clubhouse will also be located within the PR/OS sub-area. The reconfigured lots will each exceed the minimum lot area requirement of ten acres.

Site Plan Review

Site plan review is needed for the proposed improvements which include the Topgolf building, clubhouse, modified golf course holes, course lighting, and parking lot layout. The proposed development plan is consistent with the development standards and design guidelines.

The zoning code does not contain parking standards for commercial recreational or golf course uses. As a result, a shared parking demand analysis was conducted by a City-selected consultant to determine the number of parking spaces necessary to meet the demands of both uses. The consultant's parking analysis studied two existing Topgolf facilities in Scottsdale and Gilbert, Arizona because, at that time, they were the closest and most comparable facilities. Based on parking data gathered for these two sites, which included weekend and weekday peak demand periods, and factoring in parking required for a nine-hole golf course, the consultant's parking analysis concluded that the maximum expected parking demand is 464 spaces. The proposed project's parking spaces will meet this requirement.

Conditional Use Permit

In accordance with TLSP, the project includes a CUP to allow sale of beer, wine, and liquor within restaurant, bar, and entertainment areas. El Segundo Municipal Code Section 15-23-6 requires certain findings be made in reference to the property and project under consideration. The Planning Commission concluded there is adequate evidence to support the required findings and recommended approval.

IMPLEMENTATION AGREEMENTS

West Basin Municipal Water District Parking License Agreement

The proposed recreation project includes continued use of 27 parking spaces on the abutting West Basin Municipal Water District (West Basin) property. The City and West Basin have negotiated the terms of a draft license agreement allowing the City to maintain and use an existing parking lot adjacent to the project site (Attachment K). Staff from both organizations are working to clarify issues related to the use of these parking spaces by patrons and employees.

CenterCal Recreation Ground Lease Agreement

The proposed ground lease between the City and CenterCal will include an initial term of 20 years. CenterCal will then have six options to extend the agreement by five-year increments, resulting in a potential total agreement term of 50 years. The property that is the subject of the lease is specifically identified in Attachment L, Exhibits A-1 and B-1. The lease generally comprises the current driving range, parking lot, and a portion of the current first and ninth holes at the golf course.

CenterCal will make annual fixed lease payments of \$1,300,000, adjusted every five years by 10%, and \$200,000 yearly payment to the City's General Fund as a community benefit. Additionally, CenterCal will pay the City 3% of gross revenues received from beverage sales with a minimum annual payment of \$200,000, adjusted every five years by 10%. Accordingly, the City will receive a minimum of \$1,700,000 annual revenues from the lease.

As described above, CenterCal's recreation use of the leased property is limited to a driving range as the primary use and restaurant, lounge, and banquet facilities are allowed as ancillary uses. Initially, CenterCal is required to enter into a sublease with Topgolf which will then build and operate the driving range and ancillary facilities, as well as the improvements to the driving range. As both CenterCal and Topgolf entities are proposed to be limited liability corporations, a Topgolf-related entity is issuing a financial guaranty regarding the construction of the facilities as well as seven years of guaranteed operations (rent payments). In the event that Topgolf ceases to be the operator/sublessee in the future, CenterCal has the right to bring in a new operator for the driving range.

For purposes of keeping the driving range available for residents, youth groups, golf instruction, and student activities that currently occur at the driving range, CenterCal is required to abide by Golf Course Manual section IX (Recognized Clubs) and section X (Driving Range Operations) (See Exhibit of Attachment M).

With respect to onsite security issues, CenterCal/Topgolf will provide an onsite private security plan subject to review and approval by the Chief of Police. In addition, this facility will initially be staffed with El Segundo police officers on Friday and Saturday evenings from 7:00 PM. to 2:00 AM. CenterCal will be responsible on an annual basis for the fully burdened cost of the first 1,000 hours of police officers' time. CenterCal and City shall split the cost of hours in excess of 1,000 hours. The Police Chief has the authority to adjust the hours of public safety service time based upon his professional judgment.

For purposes of attempting to have one operator of both the driving range and the golf course, CenterCal is required to have the sublessee/operator of the driving range execute a separate golf

course management agreement (to take over the obligations of operating the golf course), so long as the management agreement has not been otherwise terminated.

Topgolf Golf Course Management Agreement

The proposed Golf Course Management Agreement provides that Topgolf will be responsible for operating a public golf course. Topgolf will have the option to hire a separate management company to do this. The proposed Golf Course Management Agreement is contemplated to be coterminous with the lease so that the driving range and golf course will be managed by the same entity. However, City will have the right, after the first two years of operation, to terminate the management agreement upon 180 day notice.

As per terms of the agreement, Topgolf will pay City \$20,000 a year with a 10% adjustment every five years, plus 3% of gross beverage revenues. Topgolf will be required make a minimum \$200,000 annual Golf Course and Driving Range Capital Contribution.

If the golf course operates at a loss in excess of \$150,000 during three years in any seven year period, then City is responsible for paying any losses in excess of \$150,000 in any subsequent operating year. The \$150,000 threshold figure will adjust by 10% every five years.

The Golf Course Manual establishes uniform rules, procedures, and policies for pro shop operations, food and beverage operations, course rules, programing, and maintenance standards. Specifically, the Manual advances the following objectives regarding youth programming:

- To provide young people with the opportunity to participate in the sport of golf;
- To provide young people the opportunity to develop an interest in a life-long sport through involvement with the schools;
- To create a future interest in golf by providing opportunities for young people to learn the game; and
- To ensure that there is an ongoing program of education and development of juniors interested in golf (Attachment M, sections X and XI)

Topgolf will provide resident discounted rates and early access at the driving range and golf course.

It is anticipated that Topgolf will contract with a golf course operating company to run the day to day operations. As a result, the City Manager needs to be authorized to amend the current management agreement with Lane Donovan Golf Partners. In order to ensure a seamless and timely transition, the requested amendment will reduce the 120-day notice of termination requirement to 45 days. The owners of Lane Donovan were informed of the proposed amendment and are amenable to these terms.

CONCLUSION

After seven years of thorough due diligence, numerous public meetings, a comprehensive bidding process which resulted in nine strong proposals, and extensive negotiations, a high-quality recreation development for The Lakes at El Segundo has been prepared for City Council consideration at this time. The proposed design of this project was overseen by a nine-member Ad

Hoc Golf Course Design Task Force which was established in 2016. This Task Force was made up of members of the Golf Course Subcommittee, City Council, Economic Development Advisory Council, Golf Course Management Company, and Lakes golf professionals. A subsequent six-member Ad Hoc Lakes RFP Task Force was established in 2018 to assist in the development of the project's Request for Proposals (RFP) and to review the proposals submitted. This Task Force was made up of members from Recreation & Park Commission, Planning Commission, Economic Development Advisory Council, Golf Course Subcommittee, and a Chevron representative. In addition, City Council established a separate Ad Hoc City Council Committee consisting of Councilmembers Scot Nicol and Chris Pimentel to negotiate with CenterCal and Topgolf representatives to obtain the proposed Recreation Ground Lease Agreement and Golf Course Management Agreement which is now before City Council.

In addition to the use of citizen task forces and a City Council Committee, outside consultants played an important role throughout this process. For example, the consulting firm of CDB Golf Properties provided insightful advice during the preparation of the project's RFP, review of the nine proposals submitted, and preparation of the requirements for the Golf Course Management Agreement. The financial advisory consulting firm of Keyser Marston Associates (lead by Senior Principal Jim Rabe) provided invaluable financial review and guidance during the negotiation process. As a result of this thoroughly vetted effort, the proposed agreements represent a "win-win" outcome in terms of providing first-class physical improvements to the public golf course and driving range, high quality recreation services, significant financial benefits to the City's General Fund over an extended time frame, and a substantial multiplier effect on the local El Segundo economy.

In many ways, this unique project represents an innovative "public-private partnership" that has the potential to provide public recreation, aesthetic, financial, and economic benefits to the community for many years to come. This is rare moment in the City's history. As a result of the totality of the situation, staff is recommending approval of all the actions requested at the beginning of this staff report.

NEXT STEPS/TIMELINE

Once approved by City Council, it is estimated it will take up to 17 months for the reconfigured golf course and new driving range facility to open to the public. A detailed timeline will be presented at the October 15 City Council meeting.

The proposed Recreation Ground Lease Agreement has a number of conditions that will need to be satisfied prior to CenterCal acquiring a leasehold interest in the property. CenterCal will conduct soils/environmental testing, review issues potentially affecting title to the property, and other typical property-related due diligence. CenterCal, Topgolf, and City will need to resolve a variety of issues described throughout this staff report. The City will also need to confirm that the Topgolf guaranty adequately insures the improvements to both golf course and driving range will be constructed. In addition, the seven years of Topgolf's guaranteed performance requirement (rent) will need to be confirmed. Finally, CenterCal needs to provide construction plans, hire a contractor, and issue its final determination that it will proceed with the project as approved.

Staff will provide regular updates to City Council and the public via the City's website.


STRATEGIC PLAN COMPLIANCE

Goal: Champion economic development and fiscal sustainability.

Objective: Encourage a vibrant business climate that is accessible, user-friendly and welcoming to all residents and visitors.

PREPARED BY: Eduardo Schonborn, AICP, Principal Planner

REVIEWED BY: Gregg McClain, Planning Manager
Sam Lee, Planning and Building Safety Director
Meredith Petit, Recreation and Parks Director

APPROVED BY: Scott Mitnick, City Manager 

ATTACHMENTS:

- A. Location Map and Vicinity Map
- B. Project Areas Map
- C. Project Subareas Map
- D. Site Design Rendering
- E. Memorandum from Kimley-Horn (environmental consultant), dated January 8, 2019
- F. Resolution No. ____, certifying The Lakes Specific Plan and Topgolf Project Final EIR with:
 - Exhibit 1: Environmental Findings of Fact, and
 - Exhibit 2: Mitigation Monitoring and Reporting Program
 - (See Attachment Q for FEIR)
- G. Resolution No. ____, conditionally to approve General Plan Amendment No. 16-01 to change the land use designation from “Parks” to “The Lakes Specific Plan;” Lot Line Adjustment No. SUB 16-03, and Conditional Use Permit No. CUP 16-05 to allow for sale of beer, wine, and liquor
- H. Proposed Ordinance No. ____ to approve Zone Change No. ZC 16-01 to change from O-S (Open Space) to The Lakes Specific Plan (TLSP), Specific Plan No. SP 16-02, Site Plan Review No. 16-01, Zone Text Amendment No. ZTA 16-04 to add TLSP to the El Segundo Municipal Code
- I. Planning Commission Resolution No. 2856, recommending that the City Council certify the EIR for TLSP and Topgolf facility project (without attachments)
- J. Planning Commission Resolution No. 2857, recommending that the City Council adopt an Ordinance and approved the applications associated with TLSP and Topgolf facility project (without attachments)
- K. Draft West Basin Parking License Agreement
- L. Proposed Recreation Ground Lease Agreement
- M. Proposed Golf Course Management Agreement
 - Exhibit C: The Lakes at El Segundo Golf Course Manual (Golf Course, Rules, Procedures, Programming, and Operating Policies)
 - Exhibit C-E: Resident Fee Schedule
- N. Topgolf driving range facility site plan, floor plans, elevations
- O. Clubhouse elevations
- P. Final EIR