ROUND ONE

PRESERVING TORREY PINES

GENERAL FACTS

Torrey Pines Golf Complex is one of the few City-owned municipal public golf courses that has been able provide affordable golf to the average citizen in a world-class tournament venue, which attracts major golf tournaments and tourists from all over the globe. For decades, Torrey Pines has hosted the Farmers Invitational PGA (Professional Golfers’ Association) golf tournament (previously known as the San Diego Open, the Andy Williams San Diego Open, and the Buick Invitational), which is still one of the most popular stops on the PGA tour. In addition, Torrey Pines achieved a new pinnacle of golf prestige when it was selected to host the 2008 U.S. Open, perhaps the most prestigious golf event in the world. Tiger Woods’ playoff victory over Rocco Mediate (while playing on a left leg with ligament damage and a stress fracture) is a sports memory that will live on as one of the iconic moments in golf history. In addition, the Women’s Samsung World Golf Championship followed in 2009. As one can imagine, the costs of maintaining a world-class golf venue must be balanced with keeping fees affordable to the masses. With the announcement that Torrey Pines will host the 2021 U.S. Open, the financial conflict continues.

The Balancing Act

Torrey Pines has been able to withstand these pressures, by using two critical devices. First, Torrey has maintained a differential fees program for residents and non-residents. Resident fees for a prime-time tee time range from $40.00 on weekdays for the North Course to $76.00 dollars on weekends for the South Course. Non-resident fees range from $100.00 on weekdays for the North Course to $239.00 on weekends for the South Course (golf carts are an additional $40.00 per cart). However, the North and South Courses of Torrey Pines are very walkable and more than half of locals choose to walk rather than ride in a golf cart. On the other hand, most non-residents ride in golf carts thus taking on the additional charge. In addition to golf carts, non-residents often make advanced reservations at a cost of $43.00 per person. Therefore, an advanced weekend reservation for a non-resident could cost $302.00 per person. Part of the price differential structure is to reserve 70% of the rounds for residents and thus limit non-residents to 30% of the rounds. Nonetheless, while limiting non-resident rounds to 30% at Torrey Pines, non-resident greens fees account for the majority of the revenue generated at all three municipal venues within the City of San Diego (“City”). These revenues provide the cushion that enables the whole municipal golf system in San Diego to cover costs and show a surplus.
The second way in which the City has been able to manage the tension between a world-class tournament site and community park is to keep golf funded as an Enterprise Fund so that its finances are largely insulated from other budgetary issues facing the City. All golf operations at the three golf courses operated by the City of San Diego (Torrey Pines Golf Course, Balboa Golf Course, and Mission Bay Golf Course) are funded by a Golf Enterprise Fund. All revenues from golfing operations, including greens fees, hotel and restaurant rentals, percentage-lease rents from lessees like the pro shops go to supporting the Enterprise Fund. All expenses are paid out of the revenues accumulated in the fund. No taxpayer money supports golf operations. To the contrary, golf operations pays an annual rent based on percentage of revenues, which currently amounts to $2.5 million per year. In years when there are no special events (e.g. the U.S. Open), the Enterprise Fund has been running at an average annual surplus of $3 million per year (after all costs including the lease payments to the City). The key to the solid financial position of the Enterprise Fund is the revenue derived from non-resident rates at Torrey Pines, particularly on the South Course.

**The Golf Enterprise Fund and Capital Improvements**

As of early 2014, the Enterprise Fund had a surplus of $20 million, all of which is intended to go to capital improvement. Since 2006, during the pension fund crisis that kept the City from going to the bond market, it has been the policy of the City to fund capital projects with cash on hand and not to use any form of debt to fund such improvements.

The surplus fund is therefore the focus of discussions on the funding of capital projects. In 2014, the City decided to fund a renovation of the Torrey Pines North Golf Course according to a plan proposed by San Diegan and PGA Tour Pro Phil Mickelson. Mickelson’s plan involves replacing twenty-two acres of turf at the margins of the golf course with canyon soil, canyon grass, and some canyon shrubs natural to the habitat. (This would integrate Torrey Pines North with the surrounding canyons in a way that would beautify the golf course and save the canyons from the intrusive effect of watering and fertilizer).

The effect of the renovation would be to dramatically cut maintenance costs—the canyon plants are native and do not need water, fertilizer, or need to be mowed. The natural coastal canyon look would also enhance the uniqueness of Torrey Pines North. Mickelson’s plan calls for other renovations to the golf course, including multiple tees to allow players of all skills to enjoy the course, a re-do of the greens to make them capable of being accessible to the average player, and installing flexible place pins in locations that have shown to be difficult to world-class professional golfers during tournaments.
There is a lot of enthusiasm for the renovation of the North Course, but these renovations do not come cheap. Initial estimates of the project were $7 million, but this quickly ballooned to $12 million. In addition, the renovation of the North Course would require closing the course for approximately six months at a cost in revenue of $3 million during the closure. The approval of the North Course project by the City Council in June of 2014, around the same time it was announced that the 2021 U.S. Open would be held at Torrey Pines South, left the City with a dilemma. The City already had plans to renovate the Balboa Golf Course Clubhouse and build a new restaurant/wedding reception center for a total of $12 million. At Mission Bay, there is a plan to make up for deferred maintenance of the golf course and to rebrand Mission Bay as a premier practice and teaching facility as well as a beautiful venue for those developing their golf skills. The total projected cost of the Mission Bay project is $9 million. The Mission Bay project would be complete in 2018.

The Funding Shortfall

Even without improvements to Torrey Pines for the 2021 U.S. Open, existing projects call for much more expenditures than the Golf Enterprise Fund has to give. With $20 million on hand\(^1\), the City needs $12 million for Torrey Pines North, $12 million for Balboa, and $9 million for Mission Bay. That is a total of $33 million, leaving a $13 million shortfall. That shortfall could be made up with future annual surpluses, which average $3 million. However, during the North Course renovation, the City will lose $3 million in revenues. Therefore, surpluses would not start accruing until 2015 and it would take 4.5 years (mid-2021) to fund all projects with revenue from the surpluses.

The City also wants to upgrade the Torrey Pines grounds for the 2021 U.S. Open. It would like to build a new clubhouse at Torrey Pines as well as a Tournament Operations Center. The proposed clubhouse would house the pro shop, additional office space for golf operations staff, and a “low-cost” restaurant targeted at the resident golfers who play Torrey regularly. The Tournament Support Center would include a “great room,” which could be used during tournaments for press events and during all times for receptions, public meetings, parties, etc. The total cost of the two combined projects would be a least $20 million. When added to the costs already discussed, it brings the cost of all projects to $53 million. With $20 million on hand, and projected revenues of $3 million per year, it would take 11 years to generate the funds to be able to pay for all projects. The City can delay some of the projects at Balboa and Mission, so that instead of spending a total of $21 million on these projects prior to 2021, the City will

\(^1\) The U.S. Open and the Farmers Invitational always result in substantial losses to the Enterprise Fund. The fees paid for the use of the course are relatively small and the revenue loss from closing the courses is far greater. Benefits do accrue to the city coffers from increased tourism taxes, but none of these funds go to the Enterprise Fund. For purposes of this negotiation, the negotiators can ignore any projected losses from the U.S. Open.
need to spend $10 million. However, this still leaves a shortfall of $22 million between cash on hand and projected capital expenditures through 2021.

In practical terms, in order to be ready for the 2021 U.S. Open, the Torrey Pines projects must begin in fiscal-year 2018 and there can be no delays in the Balboa and Mission Bay projects. If the proposal of having cash on hand to finance projects is followed, the shortfall would be reduced by $6 million to $16 million (operating surpluses come in at the rate of $3 million a year [except for 2015 and 2016 which will yield only $1.5 million because of the North Course renovations/closure]; thus only $6 million more will be on hand by 2018.) Unless there are substantial sources of new revenue, this means the City will have to scale back the Torrey Pines projects.

**Some History: Past Battle over the Torrey Pines Clubhouse and its Aftermath**

The last time the City proposed the building of a new clubhouse and a new tournament support center at Torrey Pines, there was a public outcry because the proposal included doubling most golf fees. The meetings led to enormous media attention locally and in national golf circles. The California Coastal Commission (“CCC”) also had issues with the proposal. The City eventually withdrew its application to the CCC for a permit to build the Clubhouse and Tournament Support Center, but did gain approval for spending $5 million on parking lot renovations. The infrastructure built can be used to support the proposed clubhouse and tournament support center.

The consequence of the dispute was a resolution by then San Diego Mayor Jerry Sanders. It was a solution that pleased very few people. Mayor Sanders first lit a fire under local seniors by floating a plan to end senior rates at City Golf Courses, but then withdrew that proposal after enormous public opposition. Mayor Sanders then decided not to build anything at Torrey Pines until the Enterprise Fund had the money to do it, but kept the large fee increases. Interestingly, the fees had been set at those levels to pay for the bonds the City had originally planned to use to fund the entire project. There was a policy set at that time that all capital expenditures would be funded out of cash on hand in the Enterprise Fund. The new, higher rates would be used to build up the Golf Enterprise Fund so that it could eventually pay for the clubhouse, the tournament support center, and capital projects for all three public courses. However, local golfers were dissatisfied by the sharp increase in fees imposed. Thus, although the building stopped at Torrey Pines, public outcry did not stop the fee increases.

Despite the opposition by golfers, the plan to use greens fees to build reserves has worked well. The revenue from non-resident fees at Torrey Pines has become the key to financial stability of the whole municipal golf system in San Diego. Without the non-resident fees, there
would be no funds for capital improvements, the Golf Enterprise Fund would run in the red, and
the long-term viability of municipal golf in San Diego would be called into question.

In the view of the City’s Golf Operations, keeping non-residents coming to Torrey Pines
and paying the higher fees (and being pleased with the experience they have) is critical. The
City has followed a two-part strategy to achieve these goals. First, they have pursued high-profile
professional golf tournaments to maintain and enhance the Torrey Pines brand. The annual
Farmers Insurance Invitational PGA tournament provides over 16 hours of national television
coverage on CBS (6 hours) and the Golf Channel (10 hours of live tournament coverage plus
countless hours of pre- and post- round analysis). These broadcasts are classic “free media” and
the annual nature of that coverage not only reaches new people every year, but also reinforces
the mystique and lure of playing Torrey Pines. The U.S. Open is arguably the premier golf
event in the world. For Torrey Pines to be hosting it for a second time insures its reputation as
one of America’s great golf courses. The publicity leading up to the U.S. Open, the international
media coverage before, during and after the event, and the event itself will bring countless non-
resident visitors to play Torrey Pines for the foreseeable future.

That being said, Torrey Pines has no difficulty attracting visitors to pay the fees that
support municipal golf at all three San Diego public golf courses. Indeed, every year Torrey
Pines sells out the 30% non-resident cap imposed. Torrey could sell many more non-resident
rounds at premium rates if not for that cap. There is a substantial consensus that the 30% cap is
the right number.

**Future Concerns with Attracting Non-Resident Golfers**

The City wants to make sure that non-residents have a great experience at Torrey Pines to
keep them coming back. In a world of opulent facilities, the Torrey Clubhouse is a non-descript
building of little architectural value that actually blocks the view of the golf course and the
Pacific Ocean. Although functional for an excellent pro-shop, a limited starters’ booth and
crammed administrative offices, it provides nothing else. There is no restaurant, no locker rooms,
no meeting rooms, no card rooms, snack bar or beverage bar. The Torrey Pines Lodge, a high-
end private sector hotel which has a long-term ground lease, is located next to the clubhouse and
provides a bar, several restaurants, and potential meeting rooms. However, the Lodge is very
upscale and its dining and meeting place facilities are quite expensive. The Lodge is fine for
well-heeled tourists, but is not affordable for budget-conscious locals.

The 2006 Clubhouse proposal that went through the design process would have moved
the Clubhouse (point “A” in the attached map, page 8 of the General Facts) from its present
location to an area near the 18th hole on the North Course. In fact, the plan was to move the 18th
green on the North Course to make way for the new Clubhouse, shorten the 18th from a par 5 to a
par 4, and to have an attractive deck at the new Clubhouse from which to view the new 18th green. (The location of the proposed new Clubhouse is at point “B” on the attached map). The 2006 Clubhouse proposal accommodated a pro shop, an improved starter’s facility, and a “low-cost” lunch room which would target local golfers. Locker rooms would be in the Tournament Support Center which would also include offices from which to administer professional tournaments, the “great room” for press conferences, meeting, and receptions. (Proposed location of Tournament Operations Center is at south end of driving range shown as point “C” on the attached map).

The City believes the 2006 proposal hit the mark at giving the entrance to the both the North and South courses of Torrey Pines the “wow” factor justifying high fees. In addition, golfers participating in professional and other tournaments would have locker rooms in the tournament support center, while the great room could be used for community dinners, receptions, and community organizations. The great room also has the potential to attract corporate outings and related events that like to combine golf with lunch and/or dinner. All of these added amenities could provide additional revenue, but there is no projection of how much.

The new clubhouse and tournament support center were in the long-term capital budget for the Golf Enterprise Fund, but with U.S. Open coming in 2021, the City would like to move these projects up so that they are ready in 2021. To facilitate this plan, current Mayor Kevin Faulconer has asked the head of City Golf and the City Attorney to sit down with two members of the newly-formed Municipal Golf Committee to come up with an agreement the parties and the Mayor could use to bring consensus to the Golf Community and avoid the rancor and negative publicity that surrounded this issue in 2006. The Mayor understands that no agreement reached by the group will be binding on anyone. The role of the negotiators is to come up with a plan that is a “grand bargain” each side can sell to its stakeholders and constituencies as an appropriate balancing of the interests of all sides.

**New Revenue Sources: Naming Rights?**

One area the Mayor would like the negotiators to explore is new revenue. The building plans for a Tournament Support Center at Torrey Pines, a Restaurant-Reception Center at Balboa and a state-of-the-art practice and teaching facility at Mission Bay, all look to increase revenues in the future. However, the Balboa and Mission Bay projects have been delayed and any additional revenue is unlikely to materialize prior to the U.S. Open in 2021. Prudent budgeting suggests that no such profits should be projected until the facilities are up and running.

Easily the largest potential source of additional revenue would come from selling naming rights to any of new buildings, and to the South and North golf courses at Torrey Pines. For years, the PGA tour has sold naming rights to its tournaments and indeed the name of most
tournaments, including the Farmers (Insurance) Invitational at Torrey Pines. There has been considerable criticism of the PGA for doing this at tournaments, but the practice of using naming rights for permanent facilities such as golf courses or clubhouses is relatively new and even more controversial. The benefits of corporate money paid for naming rights are obvious, and in the case of Torrey Pines, they have the potential to be the key revenue source that could either eliminate or put a major dent in the shortfall in the Golf Enterprise Fund. The downside is that Torrey Pines is a public park and this kind of commercialization is at odds with the municipal character of the golf courses.

Two members of the City Council have spoken out against the idea of naming either of the golf courses for a corporate interest. This could mean a divisive fight if the City sought to enter into a naming rights contract for either course at Torrey Pines. On the other hand, Callaway which is strongly identified with Phil has approached the City about naming rights for the North Course and has offered to pay $1 million dollars per year for 10 years if the North Course is renamed “Callaway’s Torrey Pines North.” Similarly, Nike, which is strongly identified with Tiger Woods, has offered $1 million dollars a year for 20 years if the South Course is re-named “Nike’s Torrey Pines South.” The Mayor has asked City negotiators to see if there is a way to gain some or all of this revenue in some less commercialized way (and appease the opposition of both golf and park purists who find the naming rights idea too tacky to be considered).

The Negotiation

The mayor has asked the Director of Golf Operations and the Deputy City Attorney assigned to golf issues to sit down with two members of the Municipal Golf Committee (“MGC”) (a strictly advisory body that gives feedback and suggestions to City Golf and the City Council). The MGC was formed seven years after the 2006 meeting in which the old Golf Advisory Committee (“GAC”) voted against the 2006 plan to raise fees and build the clubhouse. The GAC was disbanded and Golf Operations resisted forming a new citizens’ golf committee despite recommendations from the City Council. In 2012, the City Council amended the golf business plan to require the formation of the MGC. Its members are nominated by City Councilmembers, appointed by the Mayor, and confirmed by the City Council. The eleven member group includes representatives from the resident golf clubs at Torrey, Balboa, and Mission Bay, three at large members, members with business experience, a member with landscape architect experience, a member representing golf businesses that lease or otherwise have monetary interests in the one or more of the three courses. Representing the MGC are the Chair of the MGC who regularly negotiates with the city in his/her day job on a wide variety of issues and an at-large member who happens to be an attorney well-versed in negotiations and Torrey Pines history.
The job of the negotiators is to avoid the rancor of previous years and develop a joint proposal that could be sold to the many stakeholders interested in all sides of the issues at Torrey Pines.

**EXHIBIT** (Map of Torrey Pines with points of interest):

This map may be accessed at: