



## Legislation Text

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**File #:** 2019-0310, **Version:** 1

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**DATE:** November 5, 2019

**SUBJECT:**

**PRESENTATION ON TOPGOLF INTERNATIONAL, INC., DBA TOPGOLF ENTERTAINMENT GROUP AND RESOLUTION WAIVING THE REQUIREMENT FOR A COMPETITIVE SOLICITATION PROCESS, AS PERMITTED BY BOARD OF PORT COMMISSIONERS POLICY NO. 360, AND DIRECTING STAFF TO NEGOTIATE AND ENTER INTO AN EXCLUSIVE NEGOTIATING AGREEMENT WITH TOPGOLF INTERNATIONAL, INC., DBA TOPGOLF ENTERTAINMENT GROUP, TO RUN THROUGH DECEMBER 31, 2020**

### **EXECUTIVE SUMMARY:**

In July 2015, the Board of Port Commissioners (Board) directed staff to issue a Solicitation of Interests, Qualification and Vision (SOIQV)<sup>i</sup> for East Harbor Island to transition the site from its historically industrial use to commercial mixed-use including hospitality, retail and attractions. The SOIQV was issued on October 26, 2015, and sought development ideas to reimagine all or a portion of the 42 acres of land and 13 acres of water overlooking San Diego Bay (EHI Redevelopment Site). On December 29, 2015, staff received six submittals in response to the SOIQV, including a submittal from Topgolf International, Inc., dba Topgolf Entertainment Group (Topgolf). The submittals were subsequently narrowed down to finalists OliverMcMillan, Inc. (OM) and Sunroad Enterprises (Sunroad). OM was selected for redevelopment of the East Basin Industrial Subarea, as defined in the existing Port Master Plan, portion of the EHI Redevelopment Site (Attachment A - Location Map). Sunroad was selected for redevelopment of the seven-acre land parcel adjacent to the East Basin Industrial Subarea, commonly known as the "Elbow Parcel". The Board encouraged OM and Sunroad to incorporate Topgolf into their projects or to set aside land in their proposals for the District to work directly with Topgolf. However, because of the programmatic nature of their respective proposals, neither developer chose to incorporate Topgolf or set land aside for the District. The District entered into Exclusive Negotiating Agreements (ENAs) with both OM and Sunroad. The ENA with OM was voluntarily terminated by OM in February 2019 and no project moved forward on the East Basin Industrial Subarea of the EHI Redevelopment Site.

Since the SOIQV was issued, staff has made significant progress toward understanding the development potential of the EHI Redevelopment Site. The District now has a potential development partner for the seven-acre Elbow Parcel, Sunroad. Sunroad and the District are currently negotiating for possible development of a 450-room hotel. Additionally, the Port Master Plan Update (PMPU) process has progressed considerably since the SOIQV was issued. The vision for Harbor Island reflected in the PMPU Discussion Draft is one of balanced uses that "improve the year-round experience of Harbor Island for all visitors." For the northern area of the EHI Redevelopment Site (generally the East Basin Industrial Subarea in the current PMP), the PMPU Discussion Draft proposes an overlay designation that reflects planned development - the East Harbor Island Planning

Area. The East Harbor Island Planning Area is intended to “redevelop underutilized and vacant areas into a distinctive and attractive waterfront” and may include “restaurant, retail, attractions and other activating uses.” There is also significant stakeholder interest in bringing new attractions to the region, and Topgolf proposes to redevelop a portion of the East Harbor Island Planning Area with a proven, successful attraction.

It is rare for staff to recommend the Board waive a competitive process for a development, but staff believes the circumstances surrounding the Topgolf opportunity support staff’s recommendation. Staff believes we have a rare opportunity to bring a best-in-class operation that also fits within the Board’s vision for adding new attractions to the East Harbor Island Planning Area. Topgolf has nearly two decades of experience developing and operating its unique concept, a proven track record of stimulating growth and development adjacent to its projects, analytics that demonstrate the economic benefit to the District and job growth to the region, and support from stakeholders. Topgolf is also consistent with the policies of the PMPU Discussion Draft. An economic impact study prepared by London Moeder concludes that Topgolf would result in a significant regional benefit and direct economic benefit to the District (Attachment B - London Moeder Economic Impact Analysis Report).

Based on staff’s experience over the last few years, the direction of the PMPU Discussion Draft, Topgolf’s proven track record, and progress made with Sunroad on potential development of a 450 room hotel, staff believes that development of a Topgolf facility could not only be a significant attraction in its own right but could also induce demand for other development and de-risk future development on the balance of the EHI Redevelopment Site. For these reasons, staff recommends the Board waive the requirements for a competitive process as permitted by Board of Port Commissioners Policy No. 360 and direct staff to negotiate and enter into an ENA with Topgolf.

### **RECOMMENDATION:**

Adopt a resolution waiving the requirement for a competitive solicitation process, as permitted by Board of Port Commissioners Policy No. 360, and directing staff to negotiate and enter into an Exclusive Negotiating Agreement with Topgolf International, Inc., dba Topgolf Entertainment Group, to run through December 31, 2020.

### **FISCAL IMPACT:**

These items do not result in fiscal impact at this time.

### **COMPASS STRATEGIC GOALS:**

This agenda item supports the following Strategic Goal(s).

- A vibrant waterfront destination where residents and visitors converge.
- A Port with a comprehensive vision for Port land and water uses integrated to regional plans.
- A financially sustainable Port that drives job creation and regional economic vitality.

### **DISCUSSION:**

#### **SOIQV Background**

At the July 14, 2015 Board meeting, the Board directed staff to issue a SOIQV for the redevelopment of the East Basin Industrial Subarea of Harbor Island, which consists of approximately 35 acres of land and 13 acres of water, across from the San Diego International Airport. On October 6, 2015, the Board directed staff to also include the seven-acre Elbow Parcel adjacent to the East Basin Industrial Subarea, collectively increasing the solicitation opportunity to a contiguous 55-acre site. The SOIQV was issued on October 26, 2015 and sought development ideas to reimagine all or a portion of the 42 acres of land and 13 acres of water overlooking the East Harbor Island Basin and San Diego Bay.

On December 29, 2015, staff received six submittals which were subsequently narrowed down to OM and Sunroad. OM and Sunroad were encouraged to work with Topgolf, or set aside land for the District to work with Topgolf, as a potential activating use on the EHI Redevelopment Site. Neither developer incorporated Topgolf as their respective development programs already proposed development/uses across the entirety of the 55-acre site. As a result, the Board directed staff to continue discussions with Topgolf to determine if there were other opportunities to work together in the future on Harbor Island or other locations on tidelands.

On September 8, 2016, the Board selected OM to develop the East Basin Industrial Subarea and directed staff to enter into an ENA with OM. OM's ENA commenced on May 2, 2017. OM voluntarily terminated the ENA on February 6, 2019. Upon hearing of OM's withdrawal from the ENA, Topgolf immediately reached out to staff to communicate their continued interest in the EHI Redevelopment Site (Attachment B - Topgolf Letter of Interest 2019).

## **TopGolf**

### *Overview*

The Topgolf concept began just outside of London, England in 1999 and now has over 57 facilities internationally with 10 more in the pipeline and attracts more than 17 million guests annually. Topgolf is a golf entertainment concept that combines the golf aspect of interactive driving range games and a social aspect that is a dynamic gathering experience. The golfing component allows for many different game types for all skill levels and provides real-time feedback of each shot due to Topgolf's patented technology. The games are designed so that groups can play competitively in a social setting while being able to enjoy high quality food and drinks at the same time. Topgolf's facilities include restaurant, bar, and meeting space, event/stage areas, outdoor patios, three levels of driving range bays, and additional games and entertainment. Even if guests are not playing golf, there are many other entertainment options available, such as restaurants and bars, outdoor patios with free games, and scheduled events.

While Topgolf is golf-themed, more than 50% of its patrons are non-golfers. Topgolf facilities host fundraisers, birthday parties, business meetings and corporate events. Topgolf's revenues are roughly 50% from food and beverage. The Topgolf concept has become very popular across the nation and has been widely recognized as a great way for golfers and non-golfers to be able to enjoy the game of golf in a dynamic and inclusive setting.

### *Proposal*

Topgolf submitted a high-level proposal to the District which included the following elements:

- Topgolf facility including driving range, restaurant, bar, meeting space, event/stage area, outdoor patios, three levels of golf bays, and additional games and entertainment;
- An approximate 7-acre footprint;
- \$40 million minimum investment;
- Initial rent to the District that would exceed the revenue generated by the rental car lease that it would replace;
- Public viewing areas;
- Participation in shared parking options for the East Harbor Island Planning Area and other public infrastructure;
- Twenty-year term with eight five-year extensions;

Topgolf has expressed a willingness to work with staff on the site layout and location within the East Harbor Island Planning Area.

### *Qualifications to Develop and Operate*

Project-Related Experience: Topgolf has 19 years of operating history and experience associated with over \$1 billion of domestic development. Topgolf has 57 locations worldwide, 10 under construction and is actively looking for development opportunities across the nation. As part of some of its previous developments, Topgolf has negotiated and executed leases with public agencies including the Wood Dale Park District in Illinois, and with the Pima and Maricopa Indian Tribes on federal reserved land in Scottsdale, Arizona.

Project Team: In addition to an experienced internal team, Topgolf selected design/build contractor McCarthy, civil engineer Manhard Consultants, the architecture firm The ARIA Group, and retail brokers Epstein & Associates. Topgolf stated that if they are selected to move forward, they would also identify local consultants to assist in the programming, development and entitlement/permitting processes.

Preliminary Conceptual Financial Plan: Topgolf is backed by an investor group that includes Callaway Golf Company as well as other institutional and private investors. They expect this project to be funded through corporate debt, as well as cash flow from operations and “will not need to obtain conventional bank financing.”

Management and Operation: Topgolf would operate the East Harbor Island facility and anticipates promoting or transferring an internal Director of Operations to this location. As they do for other locations, four weeks prior to opening, an external marketing firm would be hired to provide “a street team focused on attending events in the area” to promote the location. As part of their ongoing marketing efforts, they would host event showcases, media taste and tours, and VIP nights to focus on engaging the community through outreach events, specific to local community needs and interests. In other locations, they offer lessons, kid’s programs, summer academy programs, tournaments, leagues and nights that feature live music or DJs.

### **District Due Diligence**

Staff conducted a due diligence process consistent with other redevelopment opportunities, which included an evaluation of the Topgolf concept with the PMPU team, a site-visit to Topgolf's Glendale, Arizona location and meetings with local government officials, a review of an economic impact report prepared by London Moeder Advisors, preliminary stakeholder outreach and a review of the team's qualifications.

### *Site Visit*

Staff conducted a site visit of the Glendale, Arizona location, a similar prototype to what they envision for Harbor Island. Staff's site visit was useful to see first-hand why Topgolf is such a popular attraction. Some of the staff observations of the Topgolf facility are included below.

- Topgolf visitors were very diverse, with children, students, sports teams, families, golfers, youth camps, and restaurant patrons.
- The Topgolf experience was unique to each guest. It ranged from playing a game at a driving range bay, to casual dining on the outdoor deck while enjoying the views, to playing a free game on the patio, to dining at the indoor lounge while watching sports, to conducting a meeting or team building event, to watching a live performance in the stage area.
- The Topgolf experience at each bay was unique to each group. There were a dozen ways to set up the game which catered to all skill levels. There were pro golfers on staff to help guests, virtual gaming with other locations to enhance team building, and other options for leisure participants.
- The high level of employee satisfaction at Topgolf translated to a high level of customer service and high-quality food.
- Topgolf takes process improvement to a whole new level at each new location. For instance, the head chef at the Glendale location took his experience from a different Topgolf location and had free reign to build out the entire two-level kitchen to his exact specifications which resulted in a highly efficient kitchen operation.
- The assortment of activities, level of service, and quality of food was all provided at a reasonable price.

As part of the due diligence visit, staff interviewed Brian Friedman, Director of Economic Development of the City of Glendale, who was complimentary of the working relationship and development partnership with Topgolf. He stated there was an increase in land value around the area immediately after the Topgolf transaction was finalized. One particular adjacent parcel benefited from a 50% increase in land value approximately 45 days after the Topgolf transaction closed. Topgolf now serves as a meeting hub for different groups to gather for offsite business meetings, family gatherings, after school hang outs, team building, and fundraisers.

### *Projected Economic Impact*

Topgolf retained London Moeder Advisors to analyze the economic impact of a Topgolf facility at this

location. The results of the report provided very clear metrics that prove that a Topgolf facility would be very beneficial to Harbor Island and the region. The number of jobs, additional hotel expenditures, and economic impact this project could produce further substantiates the positive impact Topgolf could have to the District and region. Below is summary of the findings in the report (Attachment C - London Moeder Economic Impact Analysis Report).

- Attracts approximately 500,000 visitors annually;
- Potentially increase hotel expenditures by approximately \$3 million;
- Creates over 325 temporary jobs during construction (full-time equivalent) that translates to over \$17 million of annual wages;
- Stimulate approximately \$58 million during construction from potential economic output;
- Creates approximately 500 permanent jobs once operational (full-time equivalent) that translates to over \$20 million of annual wages; and
- Stimulate approximately \$65 million in potential economic impact once operational

### *Stakeholder Outreach*

Staff has reached out to several stakeholders including nearby tenants and developers regarding the possibility of a Topgolf facility at the East Basin Industrial Subarea and has received overwhelming support. The stakeholders expressed support for such an attraction and stated that a Topgolf facility would be beneficial to businesses on Harbor Island by providing a highly desirable attraction and amenity that would increase the number of people visiting the area. Staff also received numerous letters of support for the proposed Topgolf facility, as referenced on Attachment D (Attachment D - Letters of Support).

### *Consistency of TopGolf Proposal with Port Master Plan Update*

The area conceptually identified by Topgolf is within the approximately 38.7-acre East Harbor Island Planning Area of the Port Master Plan Update (PMPU) Discussion Draft. The East Harbor Island Planning Area is an overlay designation with an identified allocation of land use designations and an allowance for flexibility in how those designations are arranged. The PMPU team reviewed the Topgolf proposal for consistency with the PMPU Discussion Draft, including the standards and vision contemplated for the East Harbor Island Planning Area. The PMPU team believes that the Topgolf project could complement the planning area and help to further one of the intentions of the planning area, which is to provide “a balance of uses that improve the year-round experience of Harbor Island for all visitors.” Further, Planning Area Standard PD2.45 of the PMPU Discussion Draft states that development in the East Harbor Island Planning Area “may include visitor-serving commercial activities, including overnight accommodations, restaurant, retail, **attractions and other activating uses...**” [emphasis added]. The Topgolf proposal is considered an attraction and activating use and would fit within the acreage allocated to the Commercial Recreation land use designation. Attachment E illustrates a potential location for Topgolf within the East Harbor Island Planning Area (Attachment E - East Harbor Island Planning Area with Topgolf).

### **De-risking Future Development on the EHI Redevelopment Site**

Development of a Topgolf facility on Harbor Island would support a strategy to de-risk future development on the balance of the EHI Redevelopment Site. Since OM's withdrawal from the ENA,

staff has analyzed a phased approach for development on the EHI Redevelopment Site. This phased approach would allow the District to de-risk the redevelopment of the balance of the EHI Redevelopment Site by conducting additional due diligence to understand existing environmental conditions. Furthermore, Topgolf would add a high-quality attraction and, in conjunction with a possible a 450-room hotel on the Elbow Parcel, attract other high-caliber developers to future redevelopment opportunities. In addition, Topgolf would contribute to parks and promenades and enhance the future public infrastructure as envisioned for the East Harbor Island Planning Area in the PMPU Discussion Draft. Topgolf is a popular attraction with a proven track record and has the potential to enhance future solicitation(s) and ultimately increase the value of the remaining redevelopment area on the EHI Redevelopment Site.

## **Next Steps and Recommendation**

The PMPU team believes Topgolf is an attraction that aligns with the current vision of the PMPU Discussion Draft for the East Harbor Island Planning Area. Topgolf will attract visitors to Harbor Island and the region, be a catalyst project and create positive economic impacts. Staff believes Topgolf would be an ideal attraction for Harbor Island, attracting new visitors from the San Diego region while giving those visitors already here for conventions, meetings, and leisure travel another reason to spend time on District tidelands. Topgolf has nearly two decades of experience developing and operating its attraction and casual dining concept, a proven track record of stimulating growth and development adjacent to its projects, analytics that demonstrate the economic benefit to the District and job growth to the region, support from various stakeholders, and consistency with the PMPU.

The decision to waive competitive requirements is in the Board's sole discretion. Given the unique opportunity presented by Topgolf, particularly in the context of future planning goals for the East Harbor Island Planning Area, along with previous Board direction to continue discussions with Topgolf on opportunities to work together on Harbor Island or other locations on tidelands, staff recommends that the Board waive the requirement for a competitive solicitation, consistent with BPC Policy No. 360. BPC Policy No. 360 states:

1. It is the policy of the Board of Port Commissioners (Board) that all development proposals shall be subject to a competitive process unless one of the following exceptions applies:
  - a. The Board has authorized staff to negotiate the redevelopment of a property with the existing tenant of that property pursuant to Board Policy No. 355.
  - b. The development proposal will result in a real estate agreement with a term of five (5) years or less.
  - c. The Board expressly waives, by a majority affirmative vote of four (4) or more of the members of the Board, the requirement for a competitive process.

If the Board approves the staff recommendation, staff would negotiate and enter into an ENA with Topgolf to cover approximately 7 acres of the eastern portion of the East Harbor Island Planning Area. During the term of the ENA, staff would work towards the following items:

- (1) Refine the proposed land use and development program, which is necessary prior to environmental review under the California Environmental Quality Act (CEQA), and facilitate

the coordinated feedback loop as part of the PMPU process;

- (2) Allow Topgolf to conduct due diligence; and
- (3) Negotiate a term sheet or other agreement to be brought back to the Board for approval, in their sole and absolute discretion, prior to the expiration of the ENA on December 31, 2020.

A cross-functional team from Real Estate, Development Services, and Planning will continue to examine how to best redevelop the East Harbor Island Planning Area. If the Board directs staff to move forward with Topgolf, and if Topgolf and the 450 room hotel projects are entitled, staff will proceed with solicitations for other commercial mixed-use which may include hospitality, retail and other attractions that would further redevelopment goals for East Harbor Island Planning Area in the current PMPU Discussion Draft.

Staff recommends the Board waive the requirement for a competitive solicitation process, as permitted by Board Policy No. 360, and direct staff to negotiate and enter into an ENA with Topgolf to run through December 31, 2020.

#### **General Counsel's Comments:**

The General Counsel's Office has reviewed the agenda sheet and attachments, as presented to it, and approves them as to form and legality.

#### **Environmental Review:**

The proposed Board actions, including without limitation, receiving a presentation on Topgolf International, Inc., dba Topgolf Entertainment Group, and adopting a resolution waiving the requirement for a competitive solicitation process and directing staff to enter into an exclusive negotiating agreement with Topgolf International, Inc., dba Topgolf Entertainment Group, does not constitute a "project" under the definition set forth in California Environmental Quality Act (CEQA) Guidelines Section 15378 because no direct or indirect changes to the physical environment would occur. CEQA requires that the District adequately assess the environmental impacts of projects and reasonably foreseeable activities that may result from projects prior to the approval of the same. Any project developed as a result of the Board's action that may require the District's or the Board's discretionary approval and which may result in a physical change to the environment will be analyzed in accordance with CEQA prior to such approval. Future CEQA review, if required, may result in the District, in its sole and absolute discretion, requiring implementation of mitigation measures, adopting an alternative, including without limitation, a "no project alternative" or adopting a Statement of Overriding Considerations, if required. The proposed Board action in no way limits the exercise of this discretion. Therefore, no further CEQA review is required.

The proposed Board action complies with Sections 21 and 35 of the Port Act, which allow for the Board to pass resolutions and to do all acts necessary and convenient for the exercise of its powers. The Port Act was enacted by the California Legislature and is consistent with the Public Trust Doctrine. Consequently, the proposed Board action is consistent with the Public Trust Doctrine.



The proposed Board action does not allow for “development,” as defined in Section 30106 of the California Coastal Act, or “new development,” pursuant to Section 1.a. of the District’s Coastal Development Permit (CDP) Regulations because it will not result in, without limitation, a physical change, change in use or increase the intensity of uses. Therefore, issuance of a Coastal Development Permit or exclusion is not required. However, development within the District requires processing under the District’s CDP Regulations. Future development, if any, as defined in Section 30106 of the Coastal Act, will remain subject to its own independent review pursuant to the District’s certified CDP Regulations, PMP, and Chapters 3 and 8 of the Coastal Act. The Board’s action in no way limits the exercise of the District’s discretion under the District’s CDP Regulations. Therefore, issuance of a CDP or exclusion is not required at this time.

**Equal Opportunity Program:**

Not applicable.

**PREPARED BY:**

Wendy Siao  
Program Manager, Real Estate

James Hammel  
Program Manager, Real Estate

**Attachment(s):**

Attachment A: Location Map

Attachment B: Topgolf Letter of Interest 2019

Attachment C: London Moeder Economic Impact Analysis Report

Attachment D: Letters of Support

Attachment E: East Harbor Island Planning Area with Topgolf

<sup>i</sup> Collectively, the SOIQV includes the original request for Statements of Interest, Qualifications and Vision 15-46 for the redevelopment of a portion of East Harbor Island, on file in the Office of the District Clerk as Document No. 64108, together with Addendum No. 1, on file in the Office of the District Clerk as Document No. 64194.