



Economics Research Associates

Project Report

**Operational Review of City of San Jose
Municipal Golf Course System**

Prepared for

**City of San Jose Department of Parks,
Recreation & Neighborhood Services**

Submitted by

Economics Research Associates

March 2008

ERA Project No. 17434

10990 Wilshire Boulevard Suite 1500
Los Angeles, CA 90024
310.477.9585 FAX 310.478.1950 www.econres.com
Los Angeles San Francisco San Diego
Chicago Washington DC London New York

TABLE OF CONTENTS

<u>Section</u>	<u>Page</u>
I INTRODUCTION AND EXECUTIVE SUMMARY	I- 1
Background.....	I- 1
Work Program and Report Structure.....	I- 1
Executive Summary.....	I- 2
II GOLF MARKET OVERVIEW.....	II- 1
Introduction	II- 1
National Market Trends.....	II- 1
San Francisco Bay Area Regional Market.....	II- 4
Survey of Selected Regional Public-Access Golf Courses.....	II- 7
Market Positioning	II- 9
Changes in Play, Bay Area Municipal Courses, 2000-2007.....	II-10
Survey of Selected 9-Hole Golf Facilities in the Bay Area.....	II-11
Regional Market Area, Supply and Demand Analysis.....	II-13
III DESCRIPTION OF THE CITY OF SAN JOSE GOLF COURSES & OPERATIONS OVERVIEW	III- 1
Introduction	III- 1
San Jose Municipal Golf Course.....	III- 1
Los Lagos Golf Course.....	III-12
Rancho del Pueblo Golf Course	III-26
IV COMPETITIVE BENCHMARKING / CUSTOMER SURVEYS.....	IV- 1
Introduction	IV- 1
Competitive Benchmarking, 18-Hole Municipal Courses	IV- 1
Golf Course Maintenance Expenses.....	IV- 7
Operating Revenues at Selected 9-Hole Golf Courses.....	IV- 8
Customer Surveys, Los Lagos and San Jose Municipal.....	IV- 9
V CAPITAL IMPROVEMENTS.....	V- 1
Introduction	V- 1
Los Lagos	V- 1
Rancho del Pueblo.....	V- 2
San Jose Municipal.....	V- 2

TABLE OF CONTENTS
(continued)

<u>Section</u>	<u>Page</u>
VI REVENUE ENHANCEMENT POTENTIAL	VI- 1
Introduction	VI- 1
Greens Fee Increases	VI- 1
Other Policy Options	VI- 2
VII GOLF COURSE OPERATING OPTIONS.....	VII- 1
Introduction	VII- 1
Golf Facility Leases.....	VII- 2
Management Agreements.....	VII- 4
Hybrid Agreements.....	VII- 7
Operating Options Strengths and Weaknesses	VII- 8
Summary.....	VII- 8
VIII FINANCIAL OUTLOOK.....	VIII- 1
Introduction	VIII- 1
Gross Revenue.....	VIII- 1
Projected City Income	VIII- 3

LIST OF TABLES

<u>Table</u>	<u>Page</u>
II- 1 Distribution of New Public-Access Golf Courses by Type, Since 1990	II-15
II- 2 Physical Facilities at Selected Public Golf Courses in the San Francisco Bay Area.....	II-16
II- 3 Greens Fees, Cart Fees and Annual Rounds at Selected Regional Public Golf Courses	II-17
II- 4 Comparison of Annual Rounds, 2000 and 2007	II-18
II- 5 Characteristics of Selected 9-Hole Public-Access Golf Courses in the San Francisco Bay Area.....	II-19
II- 6 Regional Public Golf Supply and Demand Analysis, Santa Clara and San Mateo Counties, 2007 and 2012.....	II-20
III- 1 Overview of the San Jose Municipal, Los Lagos & Rancho del Pueblo Golf Courses.....	III-35
III- 2 San Jose Municipal Golf Course Summary of Greens Fees Since the Year 2000.....	III-36
III- 3 San Jose Municipal Golf Course Distribution of Rounds by Month.....	III-37
III- 4 San Jose Municipal Golf Course Comparison of Annual Rounds and Sources of Play, 2001 and 2006.....	III-38
III- 5 San Jose Municipal Golf Course Annual Rounds, Gross Operating Revenue, and Revenue to the City of San Jose	III-39
III- 6 San Jose Municipal Golf Course Summary of Average Revenues per Round (and per Tee-Station)	III-40
III- 7 Los Lagos Golf Course Rounds Played by Month	III-41
III- 8 Los Lagos Golf Course Comparison of Rounds and Sources of Play	III-42

LIST OF TABLES
(continued)

<u>Table</u>	<u>Page</u>
III- 9 Los Lagos Golf Course Annual Rounds and Gross Operating Revenue	III-43
III-10 Los Lagos Golf Course Summary of Average Revenues per Round (and per Tee-Station)	III-44
III-11 Los Lagos Golf Course Operating Expenses and Net Operating Income	III-45
III-12 Rancho del Pueblo Golf Course Distribution of Rounds by Month.....	III-46
III-13 Rancho del Pueblo Golf Course Comparison of Rounds and Sources of Play	III-47
III-14 Rancho del Pueblo Golf Course Annual Rounds and Gross Operating Revenue	III-48
III-15 Rancho del Pueblo Golf Course Summary of Average Revenues per Round (and per Tee-Station).....	III-49
III-16 Rancho del Pueblo Golf Course Operating Expenses and Net Operating Income	III-50
III-17 Los Lagos and Rancho del Pueblo Golf Courses Remaining Annual Debt Service Payments	III-51
IV- 1 Summary of Gross Operating Revenue, by Category, Selected Bay Area Municipally-Owned Golf Courses – Part A	IV-12
IV- 2 Summary of Gross Operating Revenue, by Category, Selected Bay Area Municipally-Owned Golf Courses – Part B	IV-13
IV- 3 Annual Maintenance Expenses at Selected Bay Area Municipal Courses.....	IV-14
IV- 4 Gross Operating Revenue, by Category, Selected Bay Area 9-Hole Golf Facilities	IV-15

LIST OF TABLES (continued)

<u>Table</u>	<u>Page</u>
VII- 1 Regulation Length Public Golf Course Facility Lease Terms, Selected Northern California Courses.....	VII-10
VII- 2 Regulation Length Public Golf Course Facility Lease Terms, Selected Southern California Courses.....	VII-11
VII- 3 Percentage Rent Survey by Contract Year, Municipally Owned Golf Courses in California	VII-13
VII- 4 Management Agreement Terms at Selected California Public Golf Courses.....	VII-14
VII- 5 Regulation Length Public Golf Course Golf Operations Concession Agreements, Selected California Courses.....	VII-17
VII- 6 Strengths and Weaknesses of Golf Course Operating Options	VII-18
VIII- 1 San Jose Municipal Projected Operating Revenue.....	VIII- 8
VIII- 2 Los Lagos Projected Operating Revenue	VIII- 9
VIII- 3 Rancho del Pueblo Projected Operating Revenue.....	VIII-10

LIST OF FIGURES

<u>Figure</u>		<u>Page</u>
II- 1	Market Positioning Map for Regional Public-Access Golf Courses.....	II-21

SECTION I: INTRODUCTION AND EXECUTIVE SUMMARY

BACKGROUND

The City of San Jose, through its Department of Parks, Recreation, and Neighborhood Services (PRNS), provides a full range of recreational facilities and programs to its residents, including an affordable and accessible golf system comprised of three municipal golf courses:

- San Jose Municipal (18 holes)
- Los Lagos (18 holes)
- Rancho del Pueblo (9 holes)

The City owns and has overall management responsibility for the golf courses, although the facilities are operated and maintained under formal agreements with professional golf course management firms.

As part of its overall management, PRNS regularly reviews the quality, effectiveness, and efficiency of its recreational facilities and programs. This normal review process, coupled with rapidly changing Bay Area golf market conditions and the significant debt service obligations of the City stemming from the development of the two newest City courses, prompted the City Council to request an independent Golf Program Analysis. In September 2007, the City retained Economics Research Associates (ERA) to conduct an Operational Review of the City's golf courses.

The principal objectives of the Operational Review are to assist the City in evaluating the performance of the golf courses in the current market environment, gain insights into the future market expectations, assess the overall cost-benefit of the golf program, assess the equity of current operating agreements, and maximize the City's investment in its golf program.

WORK PROGRAM AND REPORT STRUCTURE

ERA's overall work program involved a series of tasks including: (1) facility inspections; (2) interviews with the course operators; (3) discussions with City staff responsible for program management; (4) analysis of historical operating performance; (5) comprehensive assessment of current and anticipated future golf market conditions; (6) review of future capital improvement requirements; (7) review of existing operating agreements and alternative models for course operations and management; and (8) financial projections for the City golf course over the near- and mid-term.

The report is organized as follows:

Section I:	Introduction and Executive Summary
Section II:	Golf Market Overview
Section III:	Description of the City of San Jose Golf Courses and Operations Review
Section IV:	Competitive Benchmarks and Customer Surveys

Section V:	Capital Improvements
Section VI:	Revenue Enhancement Potential
Section VII:	Golf Course Operating Options
Section VIII:	Financial Outlook

This study was prepared by the San Francisco and Los Angeles offices of ERA. Gene P. Krekorian, Senior Vice President, served as Principal-In-Charge of the assignment and Richard T. Warfel, Senior Associate, and Diane D. O'Brien, Principal, worked with Mr. Krekorian in conducting this analysis.

EXECUTIVE SUMMARY

The following section contains a summary of findings regarding ERA's operational review of the City of San Jose municipal golf course system. Documentation and analysis of the principal findings is contained in the subsequent sections of the report.

The City's golf system consists of three golf facilities:

<i>Facility</i>	<i>Year Opened</i>	<i>No. of Holes</i>	<i>Par</i>	<i>Course Length (Yards)</i>
San Jose Municipal	1968	18	72	6,700
Los Lagos	2002	18	68	5,393
Rancho del Pueblo	2000	9	28	1,418

At present, the City has a long-term facility lease with Mike Rawitser Golf Shop, Inc. (Rawitser Golf) for operation of San Jose Municipal (agreement expires in 2022 assuming the lessee exercises two five-year term extension options), a management agreement with Los Lagos Golf Course, LLC for operation of Los Lagos (agreement expires in 2017), and a management agreement with San Jose Golf, LLC for operation of Rancho del Pueblo (presently a year-to-year agreement). CourseCo, an established professional golf course management company, is the parent company of both Los Lagos Golf, LLC and San Jose Golf, LLC.

Current Conditions

- In general, the three San Jose municipal golf courses are in very good physical condition. The facilities are maintained above competitive or standard levels, and there is no apparent significant deferred maintenance to the courses or support facilities.
- The level of customer service and the efficiency of the golf operations at each course also are outstanding. Both Rawitser Golf and CourseCo are professional golf management firms, competently providing golf services to the community and maintaining and managing the courses at high levels.
- San Jose Municipal's revenue performance is very impressive, as is Los Lagos' revenue generation in light of the relatively short distance between the courses, and the modest length of the Los Lagos course at 5,393 yards. Rawitser Golf is an

excellent operator and has been extremely innovative in its marketing of San Jose Municipal golf course.

- Los Lagos also is well managed and is highly regarded in customer satisfaction surveys. Los Lagos has remained at an award-winning high standard since its opening in 2002, receiving numerous industry recognition awards.
- Rancho del Pueblo is a reasonably well-designed 9-hole, par 28 course, with a 25-tee lighted practice range. While the course revenue performance understandably is well below the 18-hole regulation length courses, Rancho del Pueblo serves an important segment of the golf market, those golfers preferring playable “short” courses. As well, in 2005 the City entered into an agreement with San Jose Sports Authority for use of Rancho del Pueblo to operate the San Jose First Tee Program, designed as a way to bring golf to youngsters.

Golf Market Trends

- Mirroring the national market, the nine-county San Francisco Bay Area golf market was very strong between the mid-1980s and 2000 with most golf courses operating at close to full capacity and sustaining greens fee increases well above general price inflation. This strong performance stimulated extraordinary expansion of the golf course inventory, primarily public access courses oriented to the upper-mid and high-end segments of the market. (Public access courses are defined as facilities, either publicly or privately owned, that are open to the public).
- Between 1990 and 2007, the inventory of courses in the nine-county San Francisco Bay Area increased at more than twice the rate of the population:

Comparison of Population to the Number of Public Access Golf Courses

<u>Year</u>	<u>Population (millions)</u>		<u>No. of Public Access Golf Courses¹</u>	
	<u>SF Bay Area</u>	<u>California</u>	<u>SF Bay Area</u>	<u>California</u>
1990	6.02	29.34	70	330
2007	7.13	37.48	98	490
Increase/(Decrease)				
Number	1.11	8.14	28	160
Percent	18.4%	27.7%	40.0%	48.5%

¹Expressed as 18-hole equivalents.

- Due in large part to the extraordinary increase in the supply of public courses, combined with a general plateauing of demand for golf, the Bay Area public golf market softened considerably between 2002 and 2005, with play levels declining sharply and revenues contracting at most courses. These same deteriorating market conditions were experienced in virtually every major golf market in the country although the Bay Area fared worse and has recovered slower than many.

- Following the 2002-2005 soft golf market conditions, the regional public golf market has improved very modestly in 2006 and 2007, although the market presently still remains somewhat oversupplied, particularly in the upper mid-market and high end segments.
- Annual play at regulation-length San Francisco Bay Area public access courses over the 1990-2007 period is summarized as follows, with San Jose's three courses included in the "all others" segment:

Year	<i>Annual Rounds at Public Access Courses</i>				<i>Average Rounds Per Course</i>
	<i>Rounds in Thousands (000)</i>				
	<i>High End¹</i>	<i>Upper Mid-Market²</i>	<i>All Others</i>	<i>Total</i>	
1990	240	660	4,000	4,900	70.0
1995	400	840	4,000	5,240	67.2
2000	780	1,150	4,000	5,930	64.5
2007	700	1,100	3,800	5,600	57.2

¹Defined as \$70+ weekday greens fees expressed in 2007 dollars.

²Defined as \$50-\$70 weekday greens fees expressed in 2007 dollars.

- Most of the growth in play has occurred in the upper-midmarket and high-end public access courses as these segments experienced the majority of the inventory expansion. Aggregate market-wide play at the entry level and midmarket courses, which includes San Jose's three municipal courses, has remained fairly stable, but the inventory of courses in this segment also has increased, resulting in a decline in the average play per course.
- As noted above, the average play level on public access courses in the Bay Area has declined over 18 percent since 1990, with the average play down nearly 12 percent since 2000. In comparison, average play per course nationally has declined about 10 percent since 2000.
- While not affected as severely as the high end public courses, entry level and midmarket courses have suffered significant declines in play, particularly on weekdays where competition is fierce. Greens fees increases have slowed, and discounts and specials have become prevalent.
- Play at San Jose Municipal has declined from about 95,500 rounds in FY 2001 to about 87,000 rounds in FY 2007, a drop of 9 percent over the FY 2001-FY 2007 period. Since FY 2003, rounds are down only 2 percent. At Los Lagos, play has declined from 69,460 in FY 2003 to 67,590 in FY 2007, a drop of 2.7 percent. Play in FY 2006 at all Bay Area courses was adversely affected by unseasonably poor weather.
- The propensity to play golf and frequency of play are positively correlated with age. Thus, over the next 5- to 10-year period, the regional golf market is expected to continue to gradually improve as the "baby boom" population ages in-place and limited expansion of the inventory of public golf courses occurs.

- The mid-market segment of the regional public golf market (\$50 to \$70 greens fee including cart) has shown impressive strength in recent years, and courses in this market position should continue to perform well. San Jose Municipal and Los Lagos, positioned just below this level, should retain their current market share assuming the overall golf experience and value of the courses remain competitive.

Comparative Current Operating Performance Regulation Courses

- A comparative benchmark analysis was conducted for San Jose Municipal and Los Lagos golf courses and the following 14 municipally-owned golf courses in the San Francisco Bay Area:
 - Santa Clara, Santa Clara
 - Shoreline, Mountain View
 - Sunnyvale, Sunnyvale
 - Palo Alto, Palo Alto
 - Crystal Springs, Burlingame
 - Boundary Oak, Walnut Creek
 - Callippe Preserve, Pleasanton
 - Diablo Creek, Concord
 - Metropolitan, Oakland
 - Paradise Valley, Fairfield
 - Poplar Creek, San Mateo
 - Rancho Solano, Fairfield
 - Santa Teresa, San Jose
 - Tilden Park, Berkeley

The following is a summary of a comparative analysis that addresses key revenue and expense performance elements. The information pertains to Fiscal Year 2006/2007 or calendar year 2007 (the latest available information).

Greens Fees, Play Levels and Golf Course Revenues

- Current greens fees at San Jose Municipal and Los Lagos are at the midpoint of the range relative to the benchmark municipal courses.

	<i>Regular 18-Hole Greens Fees</i>			
	<i>San Jose Municipal</i>	<i>Los Lagos</i>	<i>14 Selected Municipal Courses Range</i>	<i>Average</i>
Weekday				
Resident	\$35	\$32	\$20-37	\$29
Non-Resident	35	32	25-42	33
Weekend				
Resident	\$49	\$46	\$31-55	\$41
Non-Resident	49	46	37-62	47

- Annual play and golf course revenue (greens fees and cart fees) for 2007 are summarized as follows:

<i>Golf Course</i>	<i>Total Annual Rounds</i>	<i>Gross Revenue (\$000)</i>			
		<i>Greens Fees</i>	<i>Cart Fees</i>	<i>Total</i>	<i>Average Per Round</i>
San Jose Municipal	86,991	\$2,780.0	\$438.0	\$3,218.0	\$37.00
Los Lagos	67,590	1,895.0	570.0	2,465.0	36.47
Santa Clara	87,120	2,178.9	430.0	2,608.9	29.95
Shoreline	67,634	2,158.1	351.9	2,510.0	37.11
Sunnyvale	80,513	2,250.4	356.2	2,606.6	32.37
Palo Alto	76,241	2,318.3	311.3	2,629.6	34.39
Crystal Springs	73,654	2,771.8	602.2	3,374.0	45.81
Boundary Oak	65,100	1,452.0	395.3	1,847.3	28.37
Callippe Preserve	72,961	2,766.7	680.3	3,447.0	47.24
Diablo Creek	67,072	1,295.0	420.2	1,715.2	25.58
Metropolitan	57,001	1,902.0	441.1	2,343.1	41.11
Paradise Valley	58,557	1,520.1	462.0	1,982.1	30.97
Rancho Solano	60,558	1,582.3	576.4	2,158.7	35.65
Tilden Park	65,123	1,617.7	376.8	1,994.5	30.63

Driving Range Revenue

- The San Jose Municipal driving range has 60 tee stations and Los Lagos has 42 tee stations. Both are lighted for night use. The ranges are among the largest within the comparable set of courses. It should be noted that there are several large high quality ranges in the region which are freestanding or part of par-3 or executive length courses.

- Annual range revenue at the competitive courses is summarized as follows:

<i>Facility</i>	<i>Gross Range Revenue (\$000)</i>	<i>Number of Tees</i>	<i>Average Range Revenue per Tee</i>
San Jose Municipal	\$898.0	60	\$14,960
Los Lagos	370.0	42	8,810
Rancho del Pueblo	117.0	23	5,080
Santa Clara	388.0	25	15,520
Shoreline	407.3	35	11,637
Sunnyvale	— No Range —		
Palo Alto	353.7	26	13,604
Crystal Springs	384.3	27	14,233
Boundary Oak	443.6	70	6,337
Callippe Preserve	74.7	30	2,489
Diablo Creek	271.0	40	6,775
Metropolitan	323.9	26	13,604
Paradise Valley	161.0	28	5,749
Rancho Solano	79.0	12	6,581
Tilden Park	496.2	70	7,089

- San Jose Municipal annual revenues are at the high end of the range, while Los Lagos is near the average and Rancho del Pueblo well below average.

Pro Shop Merchandise

- San Jose Municipal and Los Lagos, despite modest size pro shops, generate substantial merchandise revenues.

	<i>Annual Gross Revenue (\$000)</i>	<i>Revenue per Round</i>
San Jose Municipal	\$805	\$9.25
Los Lagos	355	5.25
Rancho del Pueblo	72	2.03

- Merchandise sales at the competitive courses ranges from \$2.03 to \$8.56 per round, with a median of \$4.44 per round.

Food and Beverage Operations

- Both San Jose Municipal and Los Lagos have small clubhouses with no banquet facilities. The 4,000-square-foot San Jose Municipal and 4,700-square-foot Los Lagos clubhouses provide space for the golf pro shop, merchandising, and food and beverage operations. The food and beverage components at San Jose Municipal and Los Lagos are 2,700 and 2,100 square feet, respectively.

- Annual revenue, comprised of golfer-generated and special event/banquet related functions, is summarized as follows:

<i>Facility</i>	<i>Food & Beverage Gross Revenue (\$000)</i>	<i>Clubhouse Size (sq.ft.)</i>
San Jose Municipal	\$ 567.0	4,000
Los Lagos	438.0	4,700
Palo Alto	606.4	8,000
Boundary Oak	1,859.0	30,000
Callippe Preserve	649.6	7,500
Diablo Creek	1,500.0	8,000
Paradise Valley	1,400.0	20,000
Rancho Solano	1,900.0	15,000
Tilden Park	571.8	3,000

- Although total food and beverage revenue at the City’s courses are below average, golfer-generated revenue is well above average. Again, the absence of banquet space limits food and beverage opportunities at the City courses. Further two of the facilities shown above — Diablo Creek and Paradise Valley — have retained an independent “sports bar” operator which has attracted primarily non-golf patrons.

Comparative Current Operating Performance — 9-Hole Courses

- A comparative benchmark analysis was conducted for San Jose’s Rancho del Pueblo golf course and the following 6 golf courses in the San Francisco Bay Area.
 - Mariner’s Point, Foster City
 - Fremont Park, Fremont
 - Mission Hills, Hayward
 - Buchanan Fields, Concord
 - McInnis Park, Novato
 - Pleasanton Golf Center, Pleasanton

The following is a summary of a comparative analysis that addresses key revenue and expense performance elements for these less than regulation length courses. The information pertains to Fiscal Year 2006/2007 or calendar year 2007 (the latest available information).

Course	Total Annual Rounds	Greens Fees	
		Annual (\$000)	Per Round
Rancho del Pueblo	35,500	\$407	\$11.46
Mariner's Point	45,000	510	11.33
Fremont Park	35,000	420	12.00
Mission Hills	55,000	650	11.82
Buchanan Fields	55,000	650	11.82
McInnis Park	55,000	750	13.64
Pleasanton Golf Center	45,000	550	12.22

- Current greens fees at Rancho del Pueblo are at the lower end of the range relative to the benchmark municipal courses, but about average when course length is taken into account.

Annual Golf Course Maintenance Expenses

- Rancho del Pueblo play levels are at the lower end of the range for competitive courses in the region. There are two factors which limit play volume at the courses – first, since the Los Lagos course is relatively short at 5,393 yards, it competes indirectly with Rancho del Pueblo for senior golfers and others preferring short courses, segments which are the primary patrons at the course; and second, the demographics of the immediate market area for Rancho del Pueblo are not as favorable to those available to the competitive 9-hole course in the region.
- The performance of the 26-tee station golf practice range at Rancho del Pueblo is well below average both in total annual volume and on a per-tee-station-per-year basis. This poor performance is attributable to the relatively small size of the range, limited warm-up requirements characteristic of golfers at 9-hole par-3/executive courses, the proximity to a superior range at Los Lagos, slightly unfavorable demographics of the immediate market area, and general locational features (access and visibility) of the range.
- Merchandise sales and food and beverage revenue at Rancho del Pueblo, at \$2.03 and \$3.29 per round, respectively, are consistent with competitive 9-hole courses surveyed.
- Golf course maintenance at Los Lagos and Rancho del Pueblo is provided through the course manager (CourseCo), and is subject to the City's Prevailing / Living Wage Ordinance. Maintenance at San Jose Municipal is provided by the lessee, and is exempt from the living wage ordinance.
- Maintenance expenses vary from course to course depending on areas maintained, golf course features, course market positioning, wage structures, and other such factors.

- Maintenance staffing levels at San Jose's courses and the 14 benchmark facilities is summarized as follows:

	<i>Course Maintenance Employees</i>		
	<i>Full Time</i>	<i>Part Time (FTE)</i>	<i>Total (FTE)</i>
San Jose Municipal	14	2	15
Los Lagos	13	---	13
Comparative Courses			
Range	10-15	0-3	12-17
Average	12	2	14

- Of the 14 benchmark courses, maintenance at four of the facilities is provided by the municipality, and at ten of the facilities by a private provider:

<i>Course</i>	<i>Annual Amount (\$000)</i>		
	<i>Payroll, Benefits Services & Supplies</i>	<i>Water & Utilities</i>	<i>Total</i>
Los Lagos	\$1,030	\$121	\$1,151
Municipal Providers			
Range	\$922-1,195	\$156-350	\$1,124-1,447
Average	\$1,010	\$250	\$1,260
Private Providers			
Range	\$474-1,105	\$ 30-320	\$ 504-1,425
Average	\$804	\$128	\$932

Existing Agreements

- San Jose Municipal is leased to Rawitser Golf. The agreement (including numerous amendments) called for an initial 25-year term commencing January 1, 1988. With two five-year options, the term extends through 2022. The agreement and subsequent amendments called for about \$2 million in lessee-funded capital improvements. The amended 1994 agreement specified rent payments for the initial 20 years of the term (through 2007) at 2 percent of total gross revenue, increasing to 8.5 percent in 2008 through the conclusion of the lease term. In addition, for the period 1995-2007, the lessee was required to contribute 1.0 percent of gross revenue to a capital improvement reserve fund, with the amount increased to 1.5 percent in 2008 and beyond.
- Considering the date and all of the terms of the lease agreement, it is apparent that the original agreement was at least somewhat favorable to the lessee. Unexpected sharp improvements in golf economics over the past 20 years have further distorted the equity of the agreement in favor of the lessee, and widened the gap between contract and market rent. Market rent is defined as the rental income that a property would most probably command in the open market, and is based on rent agreements at similar municipal golf course complexes in the State of

California. Annual lease revenue accruing to the City under market rate terms would be in the \$1.3 million range annually, about \$1.2 million more than the \$114,000 in 2007 rent paid and \$800,000 more than projected rent for FY 2008.

- Significantly, as part of the amended 1994 agreement, which required additional capital improvements committed by the lessee to construct a state-of-the-art practice range, the lessee was granted two 5-year term extension options, exercised at the sole discretion of the lessee.
- Los Lagos is operated by Los Lagos Golf LLC (CourseCo) under a fee-for-service management agreement. The agreement commenced in 2002 for a term of 15 years. The base management fee started at \$132,000 per year, and escalates annually at the CPI. There is a provision for a small incentive fee which cannot exceed 5 percent of total compensation due to regulations imposed by the IRS relating to the tax-exempt bonds used to fund the cost of the project. To date, no incentive management fees have been earned.
- The City also pays a \$25,000 annual management fee (plus expenses) to CourseCo for managing the maintenance of the riparian areas adjoining the Los Lagos golf course.
- Rancho del Pueblo is operated by San Jose Golf LLC (CourseCo) under a fee-for-service management agreement. The original five-year agreement expired in 2004 and a subsequent two-year agreement expired in 2006. The base management fee is approximately \$5,000 per month (net of adjustments to compensate CourseCo for payment of on-site management over the past two years).
- The management fee compensation (\$141,000 for 2007) for the operation of Los Lagos is at, or slightly below, current market compensation levels. The fee equals 3.8 percent of 2007 total gross revenue, slightly below an industry standard which averages about 4 percent. The agreement term of 15 years is at the lengthy end of the 5- to 15-year term range generally observed. Typically, management agreements which do not require significant capital contributions from the operator do not justify terms which exceed five years.
- The management fee compensation (\$60,000 for 2007) for the operation of Rancho del Pueblo represents a high percentage of gross revenue (about 8 percent). However, in absolute dollar terms, it also is at or below market. Nonetheless, when the clear efficiencies associated with one firm managing both Los Lagos and Rancho del Pueblo are considered, the combined fees for both courses is appropriate and reasonable.

Capital Improvements

- Through selected capital improvements funded out of the capital improvement reserve fund and lessee funded (in-kind and contract) improvements, along with appropriate maintenance levels, the condition of San Jose Municipal remains at a relatively high level.

- Annual contributions to the CIP fund at San Jose Municipal will approximate \$85,000-\$100,000 over the near- to mid-term. This level, along with continued maintenance and minor lessee funded improvements should be sufficient to address ongoing golf course capital needs. The clubhouse, while still functional, is 40 years old, and, at some point, will require replacing. The cost of a new 4,000- to 6,000-square-foot clubhouse will be in the \$1.5 to \$2.0 million range. Monies in the CIP fund reserve will not be sufficient to fund the cost of a new clubhouse.
- Los Lagos and Rancho del Pueblo are in very good condition due, in large part, to their recent construction. Nonetheless, two capital improvement requirements have been identified at Los Lagos. The cost of extensive safety protective fencing related to holes #6, #17, and #18 is estimated at approximately \$2 million. The addition of a short game practice area and more on-site parking would be beneficial. A conceptual proposal to increase parking by 50 spaces from the current level of 128 would satisfy the occasional shortage of parking for Los Lagos golfers and directly benefit practice range commercial business. The cost of adding these spaces likely would be in the \$300,000 range, based on an average cost of \$5,000 per space plus 20 percent soft costs.
- The cost of supplementing parking at Los Lagos would be justified if commercial range revenue increased by about \$50,000 per year, equal to about 20 percent of the current revenue generated by usage other than same day golfers. Based on the demographics of the market area, the characteristics of the Los Lagos range, and current performance, this increased business volume appears readily achievable. An increase in gross revenue of \$50,000 would produce \$35,000 to \$40,000 in net operating income (based on 20 to 30 percent incremental operating expenses), yielding a 12 to 13 percent direct return on investment.

Current Financial Performance

- Despite difficult Bay Area market conditions since 2002, the San Jose golf courses have maintained relatively constant revenue and net income performance levels.
- In FY 2007, the City's golf courses generated a combined net income, after a modest allowance for capital improvement reserves, but before debt service obligations and Citywide overhead expenses of \$66,000:

	<i>FY 2007 Annual Amount (\$000)</i>			
	<i>San Jose Muni</i>	<i>Los Lagos</i>	<i>Rancho del Pueblo</i>	<i>Total</i>
Gross Revenue	\$171 ¹	\$3,741	\$741	\$4,653
Less: Cost of Sales	---	474	153	627
Net Revenue	\$171	\$3,267	\$588	\$4,026
Less: Operating Expenses	---	\$2,621	\$655	\$3,276
Less: Capital Improvement Reserve	57	112	15	184
Net Operating Income ²	\$114	\$ 534	(\$ 82)	\$ 566

¹Represents the sum of City rental income based on \$5.7 million in gross revenue, plus contributions to the capital improvement replacement fund.

²Before debt service and Citywide overhead.

- The development costs for Los Lagos and Rancho del Pueblo were funded with city-issued tax exempt public financing. Annual debt service currently is in the \$1.9 million range, of which about \$1.4 million is attributable to Los Lagos and \$0.5 million to Rancho del Pueblo. The cost of developing these facilities, in particular Los Lagos, was 40 percent over the original amount budgeted, totaling about \$26 million.
- After deducting annual debt service of about \$1.9 million, the City's golf program lost \$1.33 million in FY 2007.

Market Projections/Revenue Enhancement Opportunities

- **Play Levels** — As the baby boom population ages, and assuming new construction remains at minimal levels, play at the three courses is expected to increase modestly:

	<i>Annual Rounds</i>	
	<i>Current</i>	<i>Stabilized 2012</i>
San Jose Municipal	86,991	90,000
Los Lagos	67,655	70,000
Rancho del Pueblo	35,513	40,000

- **Greens Fees** — Given the golf experience provided at the City's courses, and in light of current market conditions, the current greens fees structure at the three courses is at or near market levels. While some slight modifications to rates and policies may be possible, it is probable that any such changes would generate marginal increases or be revenue neutral. Increases in greens fees at or near the general cost of living are anticipated.
- **Practice Range** — Practice range annual revenue at Los Lagos presently consists of about \$70,000 from same day golfers (\$1 per round), and \$300,000 from commercial practice business. Given the demographics of the primary market area, and with modest capital improvements (short game practice area; additional parking), there appears to be an opportunity to increase the commercial

component by \$50,000 or more per year. The additional of a short-game practice area would enhance the overall appeal of the practice facility. The number of parking spaces at Los Lagos (128 spaces) is below average and the occasional shortage of parking likely is a deterrent to outside public range patronage.

- **Other Programs and Policies** — There do not appear to be reasonable opportunities to increase revenues from merchandise sales and food and beverage activities, and in fact, it is possible, that merchandise sales could contract at San Jose Municipal and Los Lagos, as the golf merchandising industry is extremely competitive. However, even large reductions in merchandise sales, because of the small operating margins, would not have a significant adverse impact on the overall economic performance of the courses, although the City's lease income at San Jose Municipal could decline by \$20,000 to \$30,000 per year.

Financial Projections

- Based on expected golf market conditions, achievable improvements in revenue performance, and current policies and in-place operating agreements, projected annual net income accruing to the City will increase immediately in 2008 due to the increase in San Jose Municipal rent from 2.0 percent to 8.5 percent of gross revenue (\$370,000 additional rent). Additional improvement is expected as the golf market firms. Nonetheless, the City's golf program is projected to continue to post large net deficits, after debt service payments, over the next five years.

	<i>Annual Amount</i> <i>(thousands of dollars)</i>					
	<i>Current</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Income from Operations						
San Jose Municipal						
Rental Income	\$ 114	\$ 493	\$ 506	\$ 523	\$ 540	\$ 554
Los Lagos						
Revenues	3,741	3,753	3,875	4,066	4,224	4,340
Less: Expenses/COS	<u>3,207</u>	<u>3,119</u>	<u>3,213</u>	<u>3,314</u>	<u>3,416</u>	<u>3,519</u>
Net Income	\$ 534	\$ 634	\$ 662	\$ 752	\$ 808	\$ 821
Rancho del Pueblo						
Revenues	741	767	802	859	902	946
Less: Expenses/COS	<u>823</u>	<u>836</u>	<u>861</u>	<u>890</u>	<u>920</u>	<u>950</u>
Net Income	(\$ 82)	(\$ 69)	(\$ 59)	(\$ 31)	(\$ 18)	(\$ 4)
Total Income from Operations	566	1,058	1,109	1,244	1,330	1,371
Less: Debt Service	<u>1,890</u>	<u>1,906</u>	<u>1,916</u>	<u>1,929</u>	<u>1,945</u>	<u>1,959</u>
Net Cash Flow	(\$1,324)	(\$ 848)	(\$ 807)	(\$ 685)	(\$ 615)	(\$ 588)

- As previously noted, San Jose Municipal and Los Lagos, from a gross revenue standpoint, are performing at or above a competitive level, particularly given recent market pressures. However, at these gross revenue levels, the City's "net income" from its lease at San Jose Municipal and operations at Los Lagos and Rancho del Pueblo, excluding debt service, are well below expectations. This under-performance stems from several key factors including the following:

- As noted, the rent structure related to the lease agreement at San Jose Municipal is substantially below market. A “market” agreement would generate approximately \$800,000 per year more than projected levels in 2008 and beyond.
- The City of San Jose, like many major municipalities, adopted a “Prevailing / Living Wage Ordinance” in 1998, which mandates minimum wage levels for employees of contractors that engage in business with the City. The ordinance applies to maintenance and food and beverage employees at Los Lagos and Rancho del Pueblo, but not to San Jose Municipal, which is “grandfathered” until the current agreement terminates. The effect of this ordinance, which provides for much higher minimum wage levels than prevail under privately operated golf courses presently, is to increase the overall cost of operation at Los Lagos by \$250,000 to \$300,000 per year, and at Rancho del Pueblo by \$100,000 to \$125,000 per year.
- There are riparian areas at Los Lagos maintained at a cost of about \$75,000 annually. San Jose Municipal golf course operations are designed such that there are limited, if any, extraordinary maintenance expenses.

Asset Disposition Considerations

- The sale of municipal golf course assets is highly unusual, yet it is useful to at least consider the possibility of asset disposition. Notwithstanding potential constraints relating to deed restrictions, bond covenants, and other legal matters, Los Lagos and Rancho del Pueblo represent marketable golf course properties, as does the San Jose Municipal golf course leased fee interest.
- Despite operating at a loss, the market value of the fee simple interest of Rancho del Pueblo is estimated at \$3 to \$4 million. Reducing the outstanding debt with the proceeds from a sale would save the City at least \$300,000 to \$400,000 per year.
- The market value (fee simple interest) of Los Lagos is estimated at \$10-\$12 million. The net benefit of such a sale — representing the difference between current net cash flow (after debt service) and estimated debt service remaining after retiring a large portion of the existing debt of \$20 million — is estimated at \$200,000-\$300,000 per year.
- Because of the existing long-term lease agreement at San Jose Municipal, the City’s leased fee interest, valued at \$10-\$12 million, is well below the unencumbered course fee simple value. Sale of the leased fee interest would not produce substantial near-term savings to the City.

Conversion of Golf Courses to Other Recreational Uses

In some regions of the country, golf courses have been closed and, in fact, over the past two years the number of closures has slightly exceeded the number of new courses opened nationwide. Some of the closures have occurred in response to the downturn in

the golf market during the first one-half of the current decade, while other closures have been the result of favorable economics associated with redeveloping the golf course site to a higher and better use.

There is little question that, notwithstanding entitlement and land use issues, along with other potential legal and/or public policy constraints, the value of the underlying land at each golf course far exceeds the value under the golf course use. Moderate density residential land in the area supports values of \$300,000 to \$600,000 per acre, and commercial values potentially range up to \$1 million per acre. The value of each of the two regulation length golf courses, under golf course use, is in the \$10 to \$12 million range, and the value of the Rancho del Pueblo course is estimated in the range of \$3 to \$4 million. Thus, clearly the value of the golf course property at each course under residential/commercial use is much greater than the current value as a golf course. The gross proceeds generated from the conversion to non-recreational uses would be reduced by existing encumbrances, including the \$26 million outstanding golf course debt at Los Lagos and Rancho del Pueblo and the value of acquiring the existing leasehold at San Jose Municipal, estimated at \$8 to \$12 million.

Hypothetically, the golf courses could be converted into other recreational uses including, but not necessarily limited to, baseball fields, soccer fields, active park uses, and passive park space. In general, such recreational uses require substantial operating subsidies, although there is some experience that commercial ball fields and selected other uses can generate sufficient revenue to fund operating expenses and recover a large portion of their capital costs.

For most recreational uses, generating sufficient revenue through user fees to fund operating and maintenance expenses is potentially achievable, although not at all certain, and very few uses can produce revenues at levels necessary to amortize all, or even a small portion of the cost of developing the recreational facilities. Under what would appear to be the most optimistic outcome, whereby non-golf recreational uses generate revenues necessary to fund operating and maintenance expenses, and fully amortize their cost of development, replacement of the golf courses with other recreational uses would have a significant detrimental fiscal impact on the City.

Conversion of Rancho del Pueblo, for example, would eliminate the current operating deficit of about \$70,000 per year, but the \$487,000 annual debt service obligation would remain. With regard to Los Lagos, converting the golf course would result in a loss of the \$600,000 in annual net operating income, and would continue to obligate the City for the \$1.4 million annual debt service payment. Converting San Jose Municipal would result in the loss of about \$500,000 in annual rental income and involve a large front-end cost to acquire the leasehold interest held by the existing lessee.

Role of Golf in Community

The role of public golf in a community predominantly is to provide a form of outdoor recreation for residents of a wide age range. Significantly, golf courses also account for large areas of open space. San Jose's system is particularly broad and encompassing, with a short (1,400 yards) 9-hole course, executive length (5,400 yards) 18-hole course,

and a regulation length (6,700 yards) 18-hole course. Each course appeals to a particular segment of the community and, in addition, the City facilitates a First Tee Program at Rancho del Pueblo which introduces the sport of golf to community youth.

Overall, the golf program generates sufficient revenue to fund direct operating expenses and will produce an operating surplus of nearly \$1 million annually beginning in 2008. However, due to substantial debt incurred in recent years related to the construction of Los Lagos and Rancho del Pueblo, the program has been unable to fully fund the \$1.9 million in annual debt service. Most established cities, because their golf systems have been in place for a long period, are not burdened with golf facility debt and thus are self-sustaining. Following repayment of golf course debt over the next 20 years will eventually allow the City of San Jose to fully achieve financial self-sustainability, and potentially produce surplus revenue for other elements of the City's recreation program.

SECTION II: GOLF MARKET OVERVIEW

INTRODUCTION

The following section presents:

1. Summary of public golf supply and demand trends in the U.S. and the nine-county San Francisco Bay Area,
2. Detailed survey of physical facilities, greens and cart fees, and annual rounds for 29 selected 18-hole (or more) public-access golf facilities in the Bay Area.
3. Discussion of the market position of 18-hole (or more) public-access golf courses in the South Bay, Peninsula and East Bay areas which are considered by ERA to be the primary competitors for the San Jose Municipal and Los Lagos golf courses.
4. Comparative analysis of the change in rounds played for the years 2000 and 2007 for 25 selected public-access golf courses in the Bay Area.
5. Detailed survey of physical facilities, greens fees, and annual rounds for 12 selected 9-hole golf courses in the Bay Area.
6. Analysis of public golf supply and demand for a defined primary market area for the City of San Jose golf courses for the years 2007 and 2012.

NATIONAL MARKET TRENDS

- Nationwide, golf play increased steadily between the mid-1980s and 2000.
- As shown on the table below, during this period, the total number of annual rounds played nationally increased at an average rate of 2.4 percent per year. Golf balls sold, perhaps the best indicator of play, increased at a similar rate (2.5 percent per year). This unprecedented growth in golf play was due to a number of factors including:
 - An increase in the number of golfers,
 - The increasing importance of golf-oriented real estate,
 - Expansion of the golf tourism industry, and
 - One of the longest economic expansions in the nation's history.
- Between 2001 and 2004, however, golf play (demand) declined substantially.
- The National Golf Foundation (NGF) reports that over the 2001-2004 period, annual rounds declined by 7 percent. Golf ball sales, however, declined by nearly 12 percent over this time period.
- The golf participation rate, after rising steadily through 1997, has generally plateaued, and average rounds played per golfer has fallen off sharply. (It should be noted that the NGF recently revised the definition of a golfer from a minimum

age of 12 to 18 years, therefore, to facilitate comparison over the years, in the table below, the golf participation rates are shown using the former definition).

- It appears that the golf market bottomed out in 2005, with modest gains posted since then.

INDICATORS OF U.S. GOLF DEMAND, 1985 – 2007

<i>Year</i>	<i>Rounds (millions)</i>	<i>Number of Golfers (millions)</i>	<i>Participation Rate¹</i>	<i>Golf Ball Sales (millions of dozens)</i>
1985	365	17.5	10.2	36.0
1990	400	27.8	13.5	42.0
1995	420	25.0	11.6	46.0
2000	518	26.7	11.7	52.2
2001	518	28.0	11.9	50.0
2002	502	29.5	12.2	46.7
2003	495	30.4	12.4	43.4
2004	499	29.5 ²	11.5 ²	43.4
2005	489	28.0	11.2	43.6
2006	493	27.9	11.0	---
2007	495	---	---	---
<i>Average Annual Growth</i>				
1985-1990	1.8%	9.7%	---	3.1%
1990-1995	1.0%	(2.1)%	---	1.8%
1995-2000	<u>3.6%</u>	<u>1.3%</u>	---	<u>2.6%</u>
Subtotal	2.4%	2.8%	---	2.5%
2000-2002	(1.6%)	5.1%	---	(5.4%)
2002-2004	(1.4%)	3.1%	---	(7.0%)
2004-2007	(0.3%)	2.5%	---	(1.6%)

¹Represents golfers over 12 years of age. For the segment of the population age 18+, the average golf participation rate in the U.S. was 12.6% in 2006

²Estimated by ERA.

Source: National Golf Foundation.

The increase in golf demand and the popularity of golf-related housing development during the 1990s stimulated extraordinary expansion of the national golf course inventory, primarily between 1995 and 2002, as summarized below:

Number of U.S. Golf Courses¹

<i>Year</i>	<i>Courses Added</i>	<i>Total Golf Courses²</i>	<i>Annual Increase</i>
1990	---	11,105.0	---
1994	262.5	12,148.0	2.2%
1995	336.0	12,484.0	2.8%
1996	319.5	12,803.5	2.6%
1997	316.0	13,119.5	2.5%
1998	327.5	13,447.0	2.5%
1999	375.5	13,822.5	2.8%
2000	398.5	14,221.0	2.9%
2001	284.0	14,505.0	2.0%
2002	220.0	14,772.5	1.8%
2003	171.0	14,875.5	0.7%
2004	150.5	14,963.5	0.6%
2005	124.5	14,994.5	0.2%
2006	119.5	14,968.0	(0.2%)
2007	98.0	14,960	0.0%

¹18-hole equivalents.

²Includes courses additions and closures.

Source: National Golf Foundation and Economics Research Associates.

Thus, over the full 1990-2007 period the inventory of golf courses in the United States increased by 35 percent, while the U.S. population registered only a 14 percent gain, and golf demand (play) increased only 26 percent, over this same period. Since 2002, the number of new courses has declined sharply, and the rate at which courses have closed has accelerated. In 2006 and 2007, for example, the number of courses closed exceeded new course openings.

The extraordinary increase in the national supply of golf facilities coupled with stagnating demand in recent years has resulted in significant weakness in the golf industry. Nearly every major golf market in the country experienced softening conditions over the 2000-2004 time period, manifested by reductions in individual golf course play levels and golf revenues, and leading to industry economic difficulties, consolidation and,

a rapid acceleration of financial failures. Over the past three years, golf market conditions in most markets have experienced modest gradual improvement.

SAN FRANCISCO BAY AREA REGIONAL MARKET

Mirroring the national market, the Bay Area golf market was very strong between the mid-1980s and 2000 with most golf courses operating at close to full capacity and sustaining greens fee increases well above general price inflation. Since 2001, however, this market has softened considerably in response to a number of changing conditions:

- The sharp downturn in the Bay Area economy between 2001 and 2003.
- The dramatic increase in the supply of public golf courses in the region.
- Development of high-end daily fee golf courses located within master-planned golf communities, justified by housing economics rather than golf market conditions.
- Fundamental changes in lifestyle and entertainment / recreation pursuits affecting the demand for golf.

Golf Course Inventory

Comparative data for the State of California and the San Francisco Bay Area which shows population to public golf course ratios for the years 1990 and 2007 is presented below. Over the 1990-2007 period, the Bay Area public golf course inventory has expanded by 40 percent compared with 48 percent for the State of California. Bay Area population has increased only 18.4 percent over this timeframe, resulting in a substantial decline of about 15 percent in the population per golf course such that the gap in this ratio for the state as a whole and the Bay Area has narrowed considerably.

Year	Population (millions)		Number of Public Access Golf Courses		Population per 18-Hole Golf Course	
	Bay Area	California	Bay Area	California	Bay Area	California
1990	6.02	29.34	70	330	86,000	88,900
2007	7.13	37.48	98	490	72,800	76,500
Increase (Decrease)						
Number	1.11	8.14	28	160	(13,200)	(12,400)
Percent	18.4%	27.7%	40.0%	48.5%	(15.3%)	(13.9%)

New San Francisco Bay Area Golf Courses

Table II-1 presents a list of the public golf courses that have entered the nine-county Bay Area regional market since 1990. As shown, 28 new public golf facilities have entered the market, including 16 public courses developed in golf course communities, representing an increase in supply of about one-third.

In addition, a large number of existing courses have been substantially renovated during this same time period, resulting in added competitive pressures. For example, the former Riverside Golf Course in San Jose was remodeled by Jack Nicklaus and now serves as the north course in the Coyote Creek complex. As well, the 27-hole Monarch Bay facility in San Leandro is a complete remodel of the former Tony Lema facility.

The following are notable new additions to the regional public golf market:

- San Juan Oaks, Hollister, opened 1997.
- Ocean Course Half Moon Bay, opened 1997.
- Cinnabar Hills (27 holes), San Jose, opened 1998.
- Eagle Ridge, Gilroy, opened 1999.
- Coyote Creek, San Jose, opened 1999.
- Mission Hills (9 holes), Hayward, opened 1999.
- Rancho del Pueblo (9 holes), San Jose, opened 2000 (built on the site of the former 18-hole Thunderbird golf course).
- Los Lagos, San Jose, opened 2002.
- Metropolitan, Oakland, opened 2003 (built on the site of the former Lew Galbraith golf course).
- Callippe Preserve, Pleasanton, opened in 2005.
- The Ranch, San Jose, opened 2005.

Following an approximate 10-year period of rapid supply growth, and with essentially flat demand, it is ERA's opinion that many markets in the U.S., including the greater San Jose area, are still over-supplied. However, an encouraging trend is that the rate of new supply growth has slowed considerably over the last two years. For example, in the U.S. in 2007, 113 courses opened and 122 courses closed for a net decrease in supply of 9 courses (18-hole equivalents). As well, in 2006, there was a net decrease in supply of 27 courses.

ERA is not aware of any firm plans for the development of new public golf courses in the greater San Jose area. For a number of years there has been a proposal to develop a second golf course, hotel and housing development at San Juan Oaks, but, like many

projects, these plans are on hold. Also, it is possible that the Ridgemark Country Club in Hollister may contract from 36 to 27 holes, but, other than this, we are not aware of any other impending changes to golf course supply in the area.

San Francisco Bay Area Golf Play Trends

Annual play at San Francisco Bay Area courses over the 1990-2007 period at regulation public access courses is summarized as follows:

Annual Rounds at SF Bay Area Public Access Courses, Amounts Shown in Thousands (000)

<i>Year</i>	<i>High-End¹</i>	<i>Upper-Mid-Market²</i>	<i>All Others</i>	<i>Total</i>
1990	240	660	4,000	4,900
1995	400	840	4,000	5,240
2000	780	1,150	4,000	5,930
2007	700	1,100	3,800	5,600

¹Defined as \$70+ weekday greens fees expressed in 2007 dollars.

²Defined as \$50-\$70 weekday greens fees expressed in 2007 dollars.

Clearly, the growth in play on high-end and upper-mid-market public access San Francisco Bay Area courses has resulted from several factors including an increase in the population and number of golfers, increases in real income, and the extraordinary expansion of the high fee golf course inventory. In 1990, there were six courses classified as high-end (inflation adjusted greens fees), compared with 20 as of late 2007.

Presently, approximately 13 and 20 percent of the total rounds played in the San Francisco Bay Area are generated on high-end and upper-mid-market public access courses, respectively, in the San Francisco Bay Area.

Distribution of Rounds, SF Bay Area Courses, 2007, Rounds in Thousands (000)

<i>Category</i>	<i>Number of Courses</i>	<i>Annual Rounds</i>	<i>Average Annual Rounds / Course</i>
High-End	20	700	35
Upper-Mid-Market	20	1,100	55
All Others	<u>58</u>	<u>3,800</u>	<u>65</u>
Total / Average	98	5,600	57

SURVEY OF SELECTED REGIONAL PUBLIC-ACCESS GOLF COURSES

Table II-2 and Table II-3 present a summary of physical facilities, greens and cart fees, and annual rounds at 29 selected 18-hole (or more) public-access golf courses in the Bay Area. The following are key observations:

- The sample of golf courses includes 20 municipal-owned facilities located throughout the Bay Area and 9 privately-owned facilities located in the greater San Jose area.
- Measured from the back tees, the average length of the surveyed 18-hole golf course is nearly 6,700 yards.
 - At 5,393 yards, Los Lagos is the shortest of the surveyed facilities, nearly 20 percent shorter than the survey average.
 - It is ERA's opinion that, despite excellent course conditioning and superior customer service, the short length of the Los Lagos facility limits its market potential. Generally, it is our opinion that "core" golfers, who tend to play the most rounds, prefer a course of at least 6,800 yards, thus the primary target market for Los Lagos is somewhat limited.
 - At San Jose Municipal, the course length of 6,700 yards is about equal to the survey average.
- For the 29 surveyed facilities, clubhouse facilities range in size from 3,000 to 30,000 square feet for an average of about 11,000 square feet. At about 4,000 and 4,700 square feet, respectively, the clubhouse facilities at San Jose Municipal and Los Lagos are smaller than average and, notably, do *not* include banquet facilities, often an important source of business at public golf facilities.
- The number of driving range tee-stations at surveyed facilities ranges from zero at five facilities (Half Moon Bay, Poplar Creek, The Ranch, Sunnyvale and Sunol Valley) to a high of 70 at Tilden Park. For those facilities that offer a range, the average number of driving range tee-stations is 34 and, of these facilities, nine or 38 percent include night lighting. San Jose Municipal and Los Lagos both offer high quality lighted driving ranges with 60 and 42 tee-stations respectively, among the larger and higher quality ranges of the surveyed facilities.
- Of the surveyed 29 facilities, power carts are mandatory and included with the greens fees at the following five privately-owned facilities: Cinnabar Hills, Coyote Creek, Half Moon Bay, The Ranch, and Ridgemark.
- Cart use is optional at the remaining 24 facilities and the average cart fee (per rider for 18 holes in a shared cart) is \$14. At San Jose Municipal and Los Lagos the cart fees are \$13 and \$14 per rider respectively, suggesting that there is potential to increase cart fees at San Jose Municipal by at least \$1.
- Of the 20 surveyed municipal golf courses, 11 offer a separate and discounted greens fee category to City residents and 9 do *not* offer a resident rate.

- Municipal courses where City residents are entitled to a separate discounted rate are Boundary Oak in Walnut Creek, Callippe Preserve in Pleasanton, Diablo Creek in Concord, Las Positas in Livermore, Metropolitan in Oakland, Paradise Valley and Rancho Solano in Fairfield, Poplar Creek in San Mateo, Santa Clara, Shoreline in Mountain View, and Skywest in Hayward.
- Of those courses where discounted resident rates are offered, the average resident discount was \$7.36 on weekdays and \$4.14 on weekends. (This data pertains to regular posted greens fees only and does *not* pertain to monthly passes, coupons, or other forms of discounted play).
- Courses that do *not* offer a separate and discounted greens fee to residents are Crystal Springs in Burlingame, Los Lagos and San Jose Municipal in San Jose, Monarch Bay in San Leandro, Palo Alto Municipal, Santa Teresa in San Jose, Sunnyvale, Sunol Valley in Sunol, and Tilden Park in Berkeley.
- Of those municipal courses that offer discounted resident rates:
 - On *weekdays*, the 18-hole resident rate ranged from \$21 to \$36 for an average of \$27.54.
 - On *weekends*, the 18-hole resident rate ranged from \$29 to \$52 for an average of \$39.27.
 - The average differential for weekday and weekend resident rates is \$11.73.
- The following is a summary of *regular* 18-hole greens fees at the 20 surveyed municipal golf courses:
 - On *weekdays*, regular 18-hole greens fees ranged from \$28 to \$42 for an average of \$34.70. At Los Lagos, the regular weekday rate is \$32 (8 percent below the survey average) and at San Jose Municipal the rate of \$35 is slightly above the survey average.
 - On *weekends*, regular 18-hole greens fees ranged from \$37 to \$62 for an average of \$48.40. At Los Lagos, the regular weekend rate is \$46 (5 percent below the survey average) and at San Jose Municipal it is \$49, slightly above the survey average.
 - The average differential for weekday and weekend regular rates is \$13.70.
- Of the 20 surveyed municipal golf courses, only four do *not* offer a discount to seniors on weekdays -- Santa Clara, Sunnyvale, Sunol Valley and Tilden Park.
- Of the 16 municipal courses that do offer a regular (non-resident) senior weekday rate, these fees range from \$21 to \$30 for an average of \$23.44.
 - At Los Lagos, the weekday senior rate of \$20 is 15 percent below the survey average.
 - At San Jose Municipal, the weekday senior rate of \$21 is 10 percent below the survey average.

- Of the 16 surveyed municipal courses that offer discounted rates to seniors on weekdays, 7 offer an additional discount to *resident* seniors – Boundary Oak, Callippe Preserve, Diablo Creek, Paradise Valley, Rancho Solano, Shoreline, and Skywest. For these courses, the weekday resident senior rate ranges from \$18 to \$26 for an average of \$20.43.
- The following is a summary of regular twilight rates at the 20 surveyed municipal golf courses:
 - On *weekdays*, regular twilight rates range from \$14 to \$27 for an average of \$23.20. At Los Lagos the regular weekday twilight rate is \$23 and at San Jose Municipal it is \$24.
 - On *weekends*, regular twilight rates range from \$14 to \$37 for an average of \$28.38. At Los Lagos the regular weekend twilight rate is \$28 and at San Jose Municipal it is \$31.
- For the 29 surveyed facilities, annual play levels per 18 holes range from a low of 26,000 rounds at Ridgemark in Hollister to a high of 87,000 rounds at San Jose Municipal and Santa Clara. The average number of annual rounds per 18 holes is 61,092.
- At the 20 surveyed *municipal* golf courses, annual rounds per 18 holes range from a low of 40,000 at Sunol Valley to a high of 87,000 at San Jose Municipal and Santa Clara. The average number of annual rounds per 18 holes is about 69,000.
 - At Los Lagos, annual rounds in FY 2006 / 2007 were about 68,000, slightly below average, but strong considering the limitations of a short golf course.
 - As mentioned, at San Jose Municipal, the annual rounds figure of 87,000 tied with Santa Clara for highest of the surveyed facilities. It is ERA's opinion that key strengths of San Jose Municipal include: (1) convenient accessible location, good value for the money, a well-stocked pro shop, and an excellent driving range facility.

MARKET POSITIONING

On Figure II-1, the San Jose Municipal and Los Lagos golf courses, and 17 other public-access golf courses considered by ERA to be most directly competitive and / or located in the greater San Jose area, are plotted on a graph according to annual rounds per 18 holes (vertical axis) and regular weekday greens fee plus cart fee (horizontal axis). Cart fees are included because, for facilities such as Cinnabar Hills, Coyote Creek, and The Ranch, carts are mandatory and included with greens fees. Also shown on the graph is a regression line, or line of best fit through the data points. The regression line shows the average relationship between rounds and rack rates for the courses. The following are key observations:

1. The Market Positioning Map shows graphically where each golf facility is positioned in the market. For example, with a regular weekday greens / cart fee rate of \$88, the Eagle Ridge (ER) facility is shown on the right edge of the map.

As well, with regular weekday greens / cart fees of \$46, the Santa Clara (SC) facility is shown in the top left corner of the map.

2. The Market Positioning Map shows the average relationship between rounds and rates for courses in the area. For example, an average course with a weekday greens plus cart fee of \$50 would be expected to generate about 75,000 rounds.
3. The Market Positioning Map also shows which courses are performing above or below the market average. For example, San Jose Municipal (SJ) is shown well above the regression line indicating that its performance is well above average. As well, Los Lagos (LL) is shown below the regression line indicating that its performance is below average. As mentioned, ERA attributes this to the fact that the 5,393-yard course is much shorter than average and its market potential is somewhat limited.
4. In terms of market positioning, the most direct competitors for San Jose Municipal are Santa Clara, Poplar Creek, and Sunnyvale. To some extent, Los Lagos occupies a unique niche in the market, but in terms of rounds and rates, its closest competitors are Summitpointe and Spring Valley.
5. The Market Positioning Map clearly shows under-served niches in the market. For example, the new Callippe Preserve (CP) course in Pleasanton was developed with the intention of targeting an under-served niche in the market. Since opening in 2005, the course has been quite successful generating 73,000 rounds with an overall actual average greens fee of nearly \$38 (excluding cart fees) last year.

CHANGES IN PLAY, BAY AREA MUNICIPAL COURSES, 2000 - 2007

As mentioned, public golf demand (average golf participation rates and average rounds played per golfer), has been essentially flat for several years. Therefore, with greatly increased public golf course supply, an increase in the Bay Area of about one-third since 1990, the primary impact has been a significant decrease in play at nearly every public golf course in the Bay Area.

Table II-4 presents a comparison of total annual rounds played in 2000 and 2007 for 25 municipal golf facilities (28.5 18-hole equivalent courses) in the Bay Area open over the entire 2000 to 2007 period. The following are key points:

- In 2000, the 28.5 courses generated a total of about 2.3 million rounds for an average of over 81,200 rounds per 18 holes.
- By 2007, the same 28.5 courses (18-hole equivalents), generated nearly 1.8 million rounds for an average of just over 63,000 rounds per 18 holes.
- With an average decline in play for the group of 22 percent, the following is a summary of the decrease in play for ten selected facilities:

<i>Course Name, Location</i>	<i>Change in Play, 2000 - 2007</i>	<i>% Change, 2000 - 2007</i>
Boundary Oak, Walnut Creek	-13,000	-17%
Chuck Corica, Alameda (45)	-77,000	-35%
Diablo Creek, Concord	-9,700	-13%
Los Positas, Livermore (27)	-16,000	-15%
Palo Alto Municipal, Palo Alto	-14,000	-16%
Presidio, San Francisco	-13,000	-17%
San Jose Municipal, San Jose	-9,300	-9%
Santa Clara, Santa Clara	-13,000	-13%
Santa Teresa, San Jose (27)	-20,000	-21%
Sunnyvale, Sunnyvale	-14,000	-15%

As shown above, San Jose Municipal, with a decline in play of 9,300 rounds or 9.6 percent since fiscal year 2000 / 2001, has more successfully limited its market share loss as compared to similar facilities in the region.

At Los Lagos, which opened for play in 2002, annual rounds have declined slightly over the last four years from 69,460 in FY 2002 / 2003 to 67,590 in FY 2006 / 2007, a decline in play of about 1,900 rounds, or 2.7 percent.

At Rancho del Pueblo, annual rounds have declined from about 46,100 rounds in FY 2001 / 2002 to about 35,500 rounds in FY 2006 / 2007, a decline of about 10,500 rounds or 23 percent. As mentioned, this compares to an average decline of 22 percent for 28.5 surveyed municipal golf courses in the Bay Area from 2000 to 2007.

In conclusion, the decline in play at Rancho del Pueblo has been about equal to the average decline in the Bay Area municipal golf market. At San Jose Municipal and Los Lagos, the declines in play have been significantly less than Bay Area average, important indicators of above average operating performance.

SURVEY OF SELECTED 9-HOLE GOLF FACILITIES IN THE BAY AREA

Table II-5 presents a summary of physical facilities, greens fees, and annual rounds at 12 selected 9-hole municipal golf facilities in the Bay Area. For the most part, the 9-hole courses include high quality practice facilities, only Blackberry Farm in Cupertino does *not* offer a driving range. The following are key points:

- Course length at the surveyed 9-hole golf courses ranges from a low of 922 yards at the Par 3 course at Santa Teresa to a high of 2,600 yards at Fremont Park. The average course length of 1,654 yards compares to 1,418 yards at Rancho del Pueblo, indicating that Rancho course is 14 percent shorter than average. Again, it is ERA's opinion that short course length limits somewhat the facility potential.

- For the 11 surveyed 9-hole golf facilities that include a driving range, the number of tee-stations ranges from a low of 18 lit tees at Sunken Gardens in Sunnyvale to a high of 70 lit tees at Mariner's Point in Foster City. The average number of tee-stations of 46 is nearly twice the 25 tee-stations offered at Rancho del Pueblo. It is ERA's observation that 9-hole golf courses are often *not* economically viable as stand-alone operation, therefore, it is typical to include a large practice facility which serves as the primary profit center for the facility.
- Of the 12 surveyed 9-hole municipal golf courses, only three offer a separate and discounted rate to City residents – Blackberry Farm, Fremont Park, and Mission Hills in Hayward. At each facility, the resident discount is \$2 as compared to the regular 9-hole rate.
- The following is a summary of regular 9-hole greens fees:
 - On *weekdays*, regular 9-hole rates range from \$11 to \$17 for an average of \$14.79. At Rancho, the regular 9-hole weekday rate of \$13 is 12 percent below average.
 - On *weekends*, regular 9-hole rates range from \$12.50 to \$20 for an average of \$17.54. At Rancho, the regular 9-hole weekend rate of \$15 is 14 percent below average.
 - At Rancho, considering the facility location and course length, it is our opinion that the rates are appropriate and reasonable.
- 8 out of 12 surveyed facilities, including Rancho, offer a separate and discounted rate to seniors on weekdays. Regular senior weekday rates range from \$9 to \$14 for an average of \$11.28. At Rancho, the weekday senior rate is \$10.
- For those golfers desiring to play 18 holes at a 9-hole course (a second loop), it is typical for a course to offer a replay rate that is less than the regular 9-hole rate. All 12 courses surveyed offer a replay rate and the following is a summary:
 - On *weekdays*, regular replay rates range from \$6.50 to \$13 for an average of \$8.29. At Rancho, the weekday replay rate is \$7.
 - On *weekends*, regular replay rates range from \$7 to \$13 for an average of \$9.50. At Rancho, the weekend replay rate is \$7.
- Total annual play levels at the 12 surveyed municipal 9-hole golf courses ranges from 35,000 to 68,000 for an average of 59,000 rounds. At Rancho del Pueblo, annual rounds totaled 35,500 in FY 2006 / 2007, as mentioned, down from about 46,100 in FY 2001 / 2002.

REGIONAL MARKET AREA, SUPPLY AND DEMAND ANALYSIS

It is ERA's observation that the typical drive time market area for a public-access golf facility depends on the type and quality of the facility. For example, a 9-hole golf course and driving range will typically attract the vast majority of its customers from within a 15-minute drive time area, a typical regulation-length 18-hole golf course will attract golfers from within a 30 to 45 minute drive time, and a high-end destination facility will attract golfers from up to 60 minutes or more.

Based, in part on the facility locations of the City of San Jose golf courses, their positioning in the market, area demographics and drive times, the primary market area is defined as Santa Clara and San Mateo Counties. The following are key demographic projections for this two-County area:

Primary Market Area Demographics

	<u>2007</u>	<u>2012</u>
Population	2,491,788	2,564,699
Population Increase		72,911
Pop. Increase, Percent		3%
Median Household Income	\$92,693	\$111,591
Median Age	36.3	37.5

Source: ESRI Market Profile, Santa Clara and San Mateo Co.

As shown above, the defined primary market area, which contains nearly 2.5 million people, is one of the most affluent in the U.S. The median household income of nearly \$92,700 in 2007 compares to a median household income in California of about \$55,500 and a median household income in the U.S. of about 48,000.

Table II-6 presents an analysis of public golf supply and demand for the years 2007 and 2012 for the defined two-county primary market area. Projected public golf demand is based on market area demographics, published norms for golf participation, and ERA's extensive research experience. The following are key assumptions:

- As mentioned, total population in the primary market area is estimated at about 2.5 million people.
- Based on traditional norms for reporting golf participation statistics, the pool of potential golfers is defined as people age 18 or above. As shown, the segment of the market area population age 18+ is projected to increase from about 1.85 million in 2007 to nearly 1.93 million people by 2012.
- Although the regional area enjoys high average incomes, the area also has one of the most expensive housing markets in the U.S. Based on this, and ERA's local experience, the average golf participation rate in the market area is estimated at 12.5 percent, or about equal to the national average.

- Based, in part, on very high average income levels, the regional area is extensively supplied with *private* golf and country clubs including:
 1. Almaden, San Jose
 2. Boulder Ridge, San Jose
 3. Burlingame Country Club, Burlingame
 4. Cordevalle, San Martin
 5. La Rinconada, Los Gatos
 6. Los Altos, Los Altos
 7. Menlo Country Club, Menlo Park
 8. Palo Alto Hills, Palo Alto
 9. Peninsula, San Mateo
 10. San Jose Country Club
 11. Sharon Heights, Menlo Park
 12. Silver Creek Valley, San Jose
 13. Stanford University, Stanford
 14. The Villages, San Jose
- Based to a large degree on ERA's previous assignments for private clubs in the region, it is estimated that the distribution of public and private golfers in the market area is 70 percent public and 30 percent private.
- Finally, with an estimate of an average of 11 rounds per public golfers per year, potential public golf demand in the market area in 2007 is estimated at about *1.78 million rounds*. By 2012, based solely on projected population increases, potential public golf demand is projected at about 1.86 million rounds, or an increase of 72,000 rounds.
- Table II-6 also shows the estimated total rounds played in 2007 by public-access golf courses in the two-county area. As shown, with 28.5 18-hole equivalent golf courses, the total supply of rounds played was about 1.7 million, or about four percent less than the potential demand estimate.
- Overall, it is ERA's opinion that, with recent additions to area supply including Rancho del Pueblo in 2000, Los Lagos in 2002, Metropolitan in 2003, Callippe Preserve in 2005, and The Ranch in 2005, the regional area remains somewhat over-supplied for public-access golf.
- Over the next five years, potential public golf demand is projected to increase by about 72,000 rounds, or, if evenly distributed, an average of about 2,500 rounds per 18 holes. On the supply side, we are not aware of any proposed additions thus the overall relationship between supply and demand in the market area is projected to improve modestly over the next five years.

Table II-1

DISTRIBUTION OF NEW PUBLIC-ACCESS GOLF COURSES BY TYPE, SINCE 1990
NINE COUNTY SAN FRANCISCO BAY AREA 1/

Courses in **bold** are within the primary market area for the City of San Jose municipal golf courses

<u>Course Name, Location</u>	<u># of Holes</u>	<u>Year Opened</u>	<u>Golf Course Architect</u>	<u>Course Positioning</u>	<u>Golf Community?</u>
Rancho Solano, Fairfield	18	1990	Gary Roger Baird	Mid-Market	Yes
Adobe Creek, Petaluma	18	1990	R.T. Jones II	Upscale	Yes
Oakhurst, Clayton	18	1990	Ron Fream	High-End	Yes
Paradise Valley, Fairfield	18	1993	R.M. Graves	Mid-Market	No
Blue Rock Springs East, Vallejo	18	1993	R.M. Graves	Mid-Market	No
Brentwood, Brentwood	27	1994	Ted Robinson	Upper Mid-Mkt	Yes
McInnis Park, San Rafael	9	1994	Fred Bliss	Mid-Market	No
Hiddenbrooke, Vallejo	18	1995	Arnold Palmer	High-End	Yes
Rio Vista, Rio Vista	18	1996	Ted Robinson	Upper Mid-Mkt	Yes
Poppy Ridge, Livermore	27	1996	Rees Jones	Upper Mid-Mkt	No
San Juan Oaks, Hollister	18	1997	Couples / Bates	Upscale	No
Ocean Course, Half Moon Bay	18	1997	Arthur Hills	High-End	Yes
Rooster Run, Petaluma	18	1998	Fred Bliss	Mid-Market	No
Cinnabar Hills, San Jose	27	1998	John Harbottle	High-End	No
Wente Vineyards, Livermore	18	1998	Greg Norman	High-End	No
Eagle Ridge, Gilroy	18	1999	Miller / Fream	High-End	Yes
Coyote Creek, San Jose	18	1999	Jack Nicklaus	High-End	No
Mission Hills, Hayward	9	1999	Gary Bye	Mid-Market	No
The Bridges, San Ramon	18	1999	Miller / Graves	High-End	Yes
Mare Island, Vallejo	18	2000	Robin Nelson	Mid-Market	Yes
StoneTree, Novato	18	2000	Miller/Tatum/Bliss	High-End	Yes
Roddy Ranch, Antioch	18	2000	J. Michael Poellot	Upper Mid-Mkt	No
Rancho del Pueblo, San Jose	9	2000	Damian Pascuzzo	Mid-Market	No
Shadow Lakes, Brentwood	18	2001	Gary Roger Baird	Upper Mid-Mkt	Yes
Los Lagos, San Jose	18	2002	Brian Costello	Mid-Market	No
Deer Ridge, Brentwood	18	2003	Andy Raugust	Upper Mid-Mkt	Yes
Dublin Ranch, Dublin	18	2003	Knott, Brooks, Linn	Upper Mid-Mkt	Yes
Metropolitan, Oakland	18	2003	Johnny Miller	Upper Mid-Mkt	No
Callippe Preserve, Pleasanton	18	2005	Brian Costello	Upper Mid-Mkt	Yes
The Ranch, San Jose	18	2005	Casey O' Callaghan	High-End	Yes
New Courses (18-H Equivalents)	30.0				16.0
% New Courses in Golf Communities					54%
Total Public Golf Course Supply	93.0				
New Courses as % of Total Supply	32%				

1/ San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Solano, Napa, Sonoma, and Marin Counties
 Source: Economics Research Associates

**Table II-2
PHYSICAL FACILITIES AT SELECTED PUBLIC GOLF COURSES IN THE SAN FRANCISCO BAY AREA**

<u>Course Name, Location</u>	<u>Year Opened</u>	<u>Facility Type</u>	<u># Holes / Par</u>	<u>Length / Slope Rating 1/</u>	<u>Course Designer</u>	<u>Clubhouse Size (SF)</u>	<u>Range, # of Tees</u>
Boundary Oak, Walnut Creek	1969	Municipal	18 / 72	7,098 / 132	Robert Muir Graves	30,000	60
Callippe Preserve, Pleasanton	2005	Municipal	18 / 72	6,748 / 139	Brian Costello	7,500	30
Cinnabar Hills, San Jose	1998	Daily-Fee	27 / 72	6,853 / 140	John Harbottle	18,000	20
Coyote Creek, San Jose	1999	Daily-Fee	36 / 72	7,027 / 140	Jack Nicklaus	13,500	60
Crystal Springs, Burlingame	1924	Municipal	18 / 72	6,560 / 124	Herbert Fowler	6,000	27 (lit)
Diablo Creek, Concord	1963	Municipal	18 / 69	6,830 / 121	Robert Muir Graves	4,500	26 (lit)
Eagle Ridge, Gilroy	1999	Daily-Fee	18 / 72	6,971 / 143	Fream / Miller	16,000	20
Half Moon Bay, HMB	1973	Resort	36 / 72	7,003 / 135	Duane / Palmer; Hills	6,000	None
Los Lagos, San Jose	2002	Municipal	18 / 68	5,393 / 112	Brian Costello	4,700	50 (Lit)
Los Positas, Livermore	1966	Municipal	27 / 72	6,667 / 127	Robert Muir Graves	10,000	30
Metropolitan, Oakland	2003	Municipal	18 / 72	6,959 / 131	Miller / Bliss	6,000	20
Monarch Bay, San Leandro	1958	Municipal	27 / 72	7,015 / 126	John Harbottle	10,000	50 (lit)
Paradise Valley, Fairfield	1993	Municipal	18 / 72	6,993 / 129	Robert Muir Graves	20,000	28 (lit)
Palo Alto Muni, Palo Alto	1956	Municipal	18 / 72	6,833 / 121	William Bell Jr.	8,000	26 (lit)
Poplar Creek, San Mateo	1933	Municipal	18 / 70	6,042 / 111	Steve Halsey	13,000	None
The Ranch, San Jose	2004	Daily-Fee	18 / 72	6,372 / 150	Casey O'Callaghan	20,000	None
Rancho Solano, Fairfield	1990	Municipal	18 / 72	6,638 / 128	Gary Roger Baird	4,000	12
Ridgemark, Hollister	1972	Semi-Private	36 / 72	6,721 / 131	Richard Bigler	20,000	25
San Jose Muni, San Jose	1968	Municipal	18 / 72	6,700 / 119	Robert Muir Graves	4,000	60 (Lit)
San Juan Oaks, Hollister	1997	Daily-Fee	18 / 72	7,133 / 140	Couples / Bates	18,000	25
Santa Clara, Santa Clara	1987	Municipal	18 / 72	6,784 / 118	Robert Muir Graves	6,000	30
Santa Teresa, San Jose	1962	Municipal	27 / 71	6,738 / 126	George Santana	5,500	50
Shoreline, Mountain View	1983	Municipal	18 / 72	6,988 / 129	R.T. Jones II	9,000	26 (lit)
Skywest, Hayward	1965	Municipal	18 / 72	6,789 / 123	Bob Baldock	3,000	19
Spring Valley, Milpitas	1956	Daily-Fee	18 / 70	6,009 / 113	Ray Anerson	3,000	22
Summitpointe, Milpitas	1978	Daily-Fee	18 / 72	6,399 / 133	Ted Robinson	8,000	22
Sunnyvale, Sunnyvale	1969	Municipal	18 / 70	6,226 / 121	Clark Glasson	4,000	None
Sunol Valley, Sunol	1969	Municipal	36 / 72	6,895 / 121	Clark Glasson	40,000	None
Tilden Park, Berkeley	1938	Municipal	18 / 70	6,294 / 124	William Bell Jr.	3,000	70 (lit)

1/ Golf course slope or difficulty rating where 113 is defined as average
Source: Individual Facilities, 2/ 2008

**Table II-3
GREENS FEES, CART FEES AND ANNUAL ROUNDS AT SELECTED REGIONAL PUBLIC GOLF COURSES**

Course Name	Carts Incl.?	Cart Fees, Per Rider	Weekdays (Res. / Non-Res.)			Weekends (Res. / N.R.)		Annual Rounds	Avg. Rounds Per 18 Holes
			Regular	Senior	Twilight	Regular	Twilight		
Boundary Oak	No	\$14	\$23 / \$29	\$18 / \$23	\$19	\$31 / \$37	\$21	65,000	65,000
Callippe Preserve	No	\$14	\$36 / \$42	\$26 / \$30	\$23 / \$26	\$52 / \$62	\$33 / \$39	73,000	73,000
Cinnabar Hills (27)	Yes	Included	\$80	NA	\$60	\$105	\$80	70,000	46,667
Coyote Creek (36)	Yes	Included	\$80	\$60	\$65	\$102	\$75	72,000	36,000
Crystal Springs	No	\$14	\$36	\$25	\$26	\$51	\$36	74,000	74,000
Diablo Creek	No	\$15	\$24 / \$28	\$18 / \$21	\$14	\$32 / \$37	\$14	67,000	67,000
Eagle Ridge	No	\$18	\$70	NA	\$55	\$95	\$65	35,000	35,000
Half Moon Bay (36)	Yes	Included	\$150	NA	\$80	\$170	\$60	90,000	45,000
Los Positas (27)	No	\$13	\$31 / \$34	\$25	\$16	\$37 / \$42	\$19	90,000	60,000
Los Lagos	No	\$14	\$32	\$20	\$23	\$46	\$28	68,000	68,000
Metropolitan	No	\$16	\$30 / \$40	\$35	\$25	\$55 / \$62	\$30 / \$37	57,000	57,000
Monarch Bay	No	\$14	\$37	\$27	\$24	\$61	\$34	75,000	75,000
Paradise Valley	No	\$15	\$27 / \$37	\$21 / \$24	\$24	\$40 / \$52	\$28	59,000	59,000
Palo Alto Muni	No	\$13	\$36	\$27	\$27	\$47	\$31	76,000	76,000
Poplar Creek	No	\$13	\$28 / \$35	\$23	\$24	\$35 / \$45	\$29	83,000	83,000
Rancho Solano	No	\$15	\$27 / \$37	\$21 / \$27	\$24	\$40 / \$52	\$28	61,000	61,000
The Ranch	Yes	Included	\$80	\$60	\$50	\$85	\$60	35,000	35,000
Ridgemark (36)	Yes	Included	\$50	NA	\$30	\$60	\$40	52,000	26,000
San Jose Muni	No	\$13	\$35	\$21	\$24	\$49	\$31	87,000	87,000
San Juan Oaks	No	\$16	\$40 / \$55	\$45	\$45	\$80	\$65	35,000	35,000
Santa Clara	No	\$13	\$21 / \$33	NA	\$16 / \$25	\$29 / \$45	\$21 / \$27	87,000	87,000
Santa Teresa	No	\$13	\$39	\$23	\$25	\$45	\$28	75,000	75,000
Shoreline	No	\$12	\$31 / \$38	\$21 / \$28	\$18 / \$25	\$47 / \$54	\$21 / \$28	67,000	67,000
Skywest	No	\$14	\$25 / \$29	\$18 / \$21	\$17 / \$19	\$34 / \$38	\$22 / \$24	65,000	65,000
Spring Valley	No	\$13 - \$14	\$36	\$28	\$26	\$54	\$29	73,000	73,000
Summitpointe		\$14	\$32	NA	\$26	\$66 w/cart	\$39 w/cart	55,000	55,000
Sunnyvale	No	\$12.50	\$34	NA	\$25	\$45	\$28.50	81,000	81,000
Sunol Valley (36)	No	\$14	\$31	NA	\$23	\$43	\$28	80,000	40,000
Tilden Park	No	\$15	\$32	NA	\$26	\$55	\$29	65,000	65,000

Table II-4

COMPARISON OF ANNUAL ROUNDS, 2000 AND 2007
 SELECTED PUBLIC-ACCESS GOLF COURSES IN THE SAN FRANCISCO BAY AREA

Course Name, Location	Annual Rounds		Change, 2000 - 2007	
	2000	2007	Rounds	Percent
Blue Rock Springs, Vallejo (36)	107,000	81,000	-26,000	-24%
Boundary Oak, Walnut Creek	78,000	65,000	-13,000	-17%
Chuck Corica, Alameda (45)	222,000	145,000	-77,000	-35%
Delta View, Pittsburg	65,000	45,000	-20,000	-31%
Diablo Creek, Concord	76,700	67,000	-9,700	-13%
Harding Park, San Francisco (27)	145,000	102,000	-43,000	-30%
Lake Chabot, Oakland	95,000	43,000	-52,000	-55%
Lone Tree, Antioch	83,000	69,000	-14,000	-17%
Los Positas, Livermore (27)	106,000	90,000	-16,000	-15%
Paradise Valley, Fairfield	64,000	59,000	-5,000	-8%
Palo Alto Muni, Palo Alto	90,000	76,000	-14,000	-16%
Poppy Ridge, Livermore (27)	83,000	65,000	-18,000	-22%
Presidio, San Francisco	75,000	62,000	-13,000	-17%
Rancho del Pueblo, S.J. (9) 1/	46,100	35,500	-10,600	-23%
Rancho Solano, Fairfield	64,000	60,500	-3,500	-5%
San Jose Municipal, San Jose	96,300	87,000	-9,300	-10%
San Ramon, San Ramon	80,000	52,500	-27,500	-34%
Santa Clara, Santa Clara	100,000	87,000	-13,000	-13%
Santa Teresa, San Jose (18)	95,000	75,000	-20,000	-21%
Shoreline, Mountain View	68,000	67,000	-1,000	-1%
Skywest, Hayward	95,000	65,000	-30,000	-32%
Spring Valley, Milpitas	86,000	73,000	-13,000	-15%
Sunnyvale, Sunnyvale	95,000	81,000	-14,000	-15%
Sunol Valley, Sunol (36)	120,000	80,000	-40,000	-33%
Tilden Park, Berkeley	<u>80,000</u>	<u>65,000</u>	<u>-15,000</u>	<u>-19%</u>
TOTALS	2,315,100	1,797,500	-517,600	-22%
Average Rounds Per 18 Holes	81,232	63,070	-18,161	-22%

1/ Rounds shown for first full year of operation in 2001
 Source: Individual Facilities and ERA

Table II-5

CHARACTERISTICS OF SELECTED 9-HOLE PUBLIC-ACCESS GOLF COURSES IN THE SAN FRANCISCO BAY AREA

Course Location	Year Opened	Facility Type	Clubhouse Size (SF)	Course Length / Par	Range, # of Tees	9-H Weekday (Res / Non-Res)			9-H Weekend Fees		Annual Rounds
						Regular	Senior	Replay	Regular	Replay	
Blackberry Farm, Cupertino	1964	Daily-Fee	1,000	1,544 / 29	None	\$12 / \$14	NA	\$8 / \$10	\$14 / \$16	\$8 / \$10	54,000
Buchanan Fields, Concord	1963	Municipal	6,000	1,932 / 31	50 (lit)	\$11	\$9	\$6.50	\$12.50	\$7.50	55,000
Fremont Park, Fremont	2000	Daily-Fee	4,000	2,600 / 33	53 (lit)	\$15 / \$17	\$10	\$10	\$18 / \$20	\$10	35,000
Pruneridge, Santa Clara	1964	Daily-Fee	2,600	1,814 / 31	40 (lit)	\$17	\$12.75	\$13	\$20	\$13	43,000
Santa Tersea, San Jose	1964	Municipal	5,500	922 / 27	50	\$11	NA	NA	\$15	NA	35,000
Mariner's Point, Foster City	1997	Municipal	6,000	1,134 / 27	70 (lit)	\$16	NA	\$10	\$16	\$10	45,000
McInnis Park, San Rafael	1994	Municipal	8,400	1,842 / 31	52 (lit)	\$17	\$13	\$11	\$20	\$13	55,000
Mission Hills, Hayward	1998	Municipal	4,500	1,720 / 30	50 (lit)	\$15 / \$17	\$12 / \$14	\$8	\$18 / \$20	\$10	55,000
Monarch Bay, San Leandro	1958	Municipal	10,000	1,704 / 29	50 (lit)	\$15	\$11	\$6	\$20	\$10	40,000
Pleasanton GC, Pleasanton	1974	Municipal	3,000	1,714 / 30	45	\$14	\$10.50	\$5 - \$7	\$17	\$11	45,000
Rancho del Pueblo, San Jose	2000	Municipal	1,600	1,418 / 28	25 (lit)	\$13	\$10	\$7	\$15	\$7	35,500
Sunken Gardens, Sunnyvale	1959	Municipal	1,400	1,502 / 29	18 (lit)	\$15.50	NA	\$11	\$19	\$12.50	68,000

Table II-6

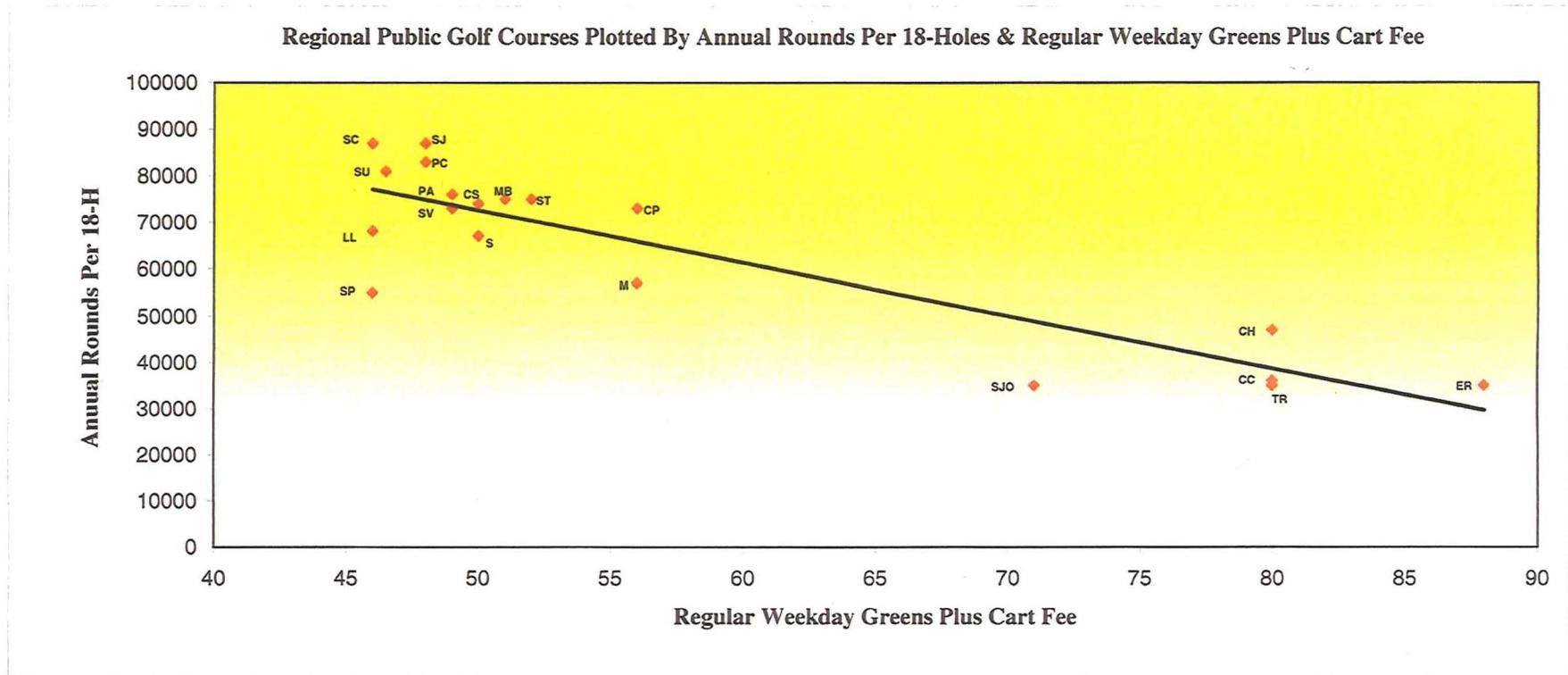
**REGIONAL PUBLIC GOLF SUPPLY AND DEMAND ANALYSIS
SANTA CLARA AND SAN MATEO COUNTIES, 2007 AND 2012**

POTENTIAL DEMAND	2007	2012
Population Projections	2,491,788	2,564,669
Population Age 18+, Percent	74.4%	75.2%
Population Age 18+	1,853,890	1,928,631
Est. Avg. Golf Participation Rate	12.5%	12.5%
Estimated Golfer Population	231,736	241,079
Estimated % of Public Golfers	70%	70%
Estimated Public Golfers	162,215	168,755
Est. Public Golf Rounds / Year	11	11
Potential Public Golf Rounds	1,784,369	1,856,307
Projected Increase '07 - '12, Rounds		71,938
PUBLIC GOLF SUPPLY: SAN MATEO AND SANTA CLARA COUNTIES		
<u>Course Name, Location</u>	<u># Holes</u>	<u>Annual Rounds</u>
Blackberry Farm, Cupertino	9	54,000
Cinnabar Hills, San Jose	27	70,000
Coyote Creek, San Jose	36	72,000
Cypress, Colma	9	40,000
Crystal Springs, Burlingame	18	74,000
Deep Cliff, Cupertino	18	70,000
Eagle Ridge, Gilroy	18	35,000
Emerald Hills, Redwood City	9	40,000
Gavilan College, Gilroy	9	25,000
Gilroy, Gilroy	9	25,000
Half Moon Bay, Half Moon Bay	36	90,000
Los Lagos, San Jose	18	68,000
Mariner's Point, Foster City	9	45,000
Palo Alto Muni, Palo Alto	18	76,000
Poplar Creek, San Mateo	18	83,000
Pruneridge, Santa Clara	9	43,000
The Ranch, San Jose	18	35,000
Rancho del Pueblo, San Jose	9	36,000
Ridgemark, Hollister (Public Play) 1/	36	32,000
San Jose Municipal, San Jose	18	87,000
San Juan Oaks, Hollister 1/	18	35,000
Santa Clara, Santa Clara	18	87,000
Santa Teresa, San Jose	27	111,000
Sharp Park, Pacifica	18	35,000
Shoreline, Mountain View	18	67,000
Spring Valley, Milpitas	18	73,000
Summitpointe, Milpitas	18	55,000
Sunken Gardens, Sunnyvale	9	68,000
Sunnyvale Muni, Sunnyvale	18	81,000
Totals	513	1,712,000
18-Hole Equivalent Courses	28.5	
Potential Public Demand, 2007		1,784,369
Estimated Rounds, 2007		<u>1,712,000</u>
Difference, Rounds		-72,369
Difference, Percent		-4.1%

1/ Located in San Benito Co. but draws primarily from Santa Clara and San Mateo
Source: ESRI Market Profile, National Golf Foundation, ERA

Figure II-1

MARKET POSITIONING MAP FOR REGIONAL PUBLIC-ACCESS GOLF COURSES



CP = Callippe Preserve
CH = Cinnabar Hills
CC = Coyote Creek
CS = Crystal Springs
ER = Eagle Ridge
LL = Los Lagos

M = Metropolitan
MB = Monarch Bay
PA = Palo Alto
PC = Poplar Creek
TR = The Ranch
SJ = San Jose Muni

SJO = San Juan Oaks
SC = Santa Clara
ST = Santa Teresa
S = Shoreline
SV = Spring Valley
SP = Summitpointe
SU = Sunnysvale

SECTION III: DESCRIPTION OF THE CITY OF SAN JOSE GOLF COURSES & OPERATIONS OVERVIEW

INTRODUCTION

The following section presents an operations overview for the three City of San Jose municipal golf courses – San Jose Municipal (18 holes), Los Lagos (18 holes), and Rancho del Pueblo (9 holes). Facility characteristics are summarized on Table III-1 and the following are addressed below:

- Overview of physical facilities;
- Summary of operating agreements;
- Summary of greens fees;
- Assessment of the trend in annual rounds and sources of play;
- Analysis of the trend in gross operating revenue by operating department;
- For Los Lagos and Rancho del Pueblo, analysis of the trend in operating expenses and annual Net Operating Income;
- Discussion of future anticipated debt service requirements.

In the current fiscal year, the budgeted balance for the City Golf Course Fund is nearly \$766,000.

SAN JOSE MUNICIPAL GOLF COURSE

Physical Facilities, San Jose Municipal

Opened in 1968 and operated by Mike Rawitser Golf Shop, Inc. (Rawitser Golf), the San Jose Municipal Golf Course features a regulation-length, 18-hole / par 72 golf course designed by noted golf course architect Robert Muir Graves. Measuring 6,700 yards from the back tees, and routed adjacent to the Coyote Creek (which tends to flood every three to four years), the course slope or difficulty rating is 119 from the back tees where 113 is defined as average in difficulty. As summarized aptly on the golf course website, “A straight forward layout with open fairways on flat terrain, San Jose Municipal Golf Course offers a pleasant experience for golfers of all abilities.” The golf course scorecard is summarized below:

<u>Tees</u>	<u>Yardage</u>	<u>Rating</u>	<u>Slope</u>
Gold Tees	6,700	71.8	119
Black Tees	6,304	70.0	117
Silver Tees	5,568	66.7	109
Orange Tees	4,200	63.6	100

The course scorecard is shown below:

		MEN'S RATING/SLOPE									WOMEN'S RATING/SLOPE													
		Gold	71.8/119	Black	70.0/117	Silver	66.7/109	Black	75.2/126	Silver	71.2/116	Orange	63.6/100											
HOLE	1	2	3	4	5	6	7	8	9	OUT	I	10	11	12	13	14	15	16	17	18	IN	TOT	HCP	NET
Gold	493	417	411	142	363	375	183	418	517	3319	N	373	528	167	395	363	424	394	193	544	3381	6700		
Black	478	389	380	130	349	362	159	403	477	3127	I	357	515	144	381	353	405	359	165	498	3177	6304		
Silver	431	327	312	109	306	351	125	325	435	2721	T	323	456	124	322	317	349	336	151	469	2847	5568		
Handicap	15	1	5	17	11	7	9	3	13		A	12	4	18	6	16	2	8	10	14				
Par	5	4	4	3	4	4	3	4	5	36	L	4	5	3	4	4	4	4	3	5	36	72		
Handicap	3	13	11	17	9	5	15	7	1			14	4	18	10	12	6	8	16	2				
Silver	431	327	312	109	306	351	125	325	435	2721		323	456	124	322	317	349	336	151	469	2847	5568		
Orange	344	236	236	91	242	219	89	259	342	2058		221	383	99	243	220	256	227	88	405	2142	4200		
Scorer:											© Golf ScoreCards, Inc. 5-2007 1-800-238-7267			Attest:			Date:							

Encompassing about 146 acres and including 90 acres of irrigated turf, the San Jose Municipal golf course is maintained by a staff of 14 to 18 employees, a typical number for a municipal facility. The golf course includes 20 greens (18 regular greens, one putting green and one practice bunker / chipping green) and 65 bunkers. The greens include subsurface drainage and are considered to be in good condition.

The golf course is irrigated with a combination of recycled water on fairways and tees and well water on greens. The dual irrigation system was replaced in 1998 / 1999 and the course typically utilizes about 343 acre feet of water per year. Water costs are borne by

the operator and average about \$100,000 per year, excluding pumping costs. Irrigation heads were replaced about two years ago and the remaining useful life of the irrigation system is estimated at 15 years.

The annual capital improvement budget for the facility averages about \$50,000 to \$60,000 and reflecting a desirable pattern of completing steady on-going improvements, tees that have been replaced in recent years include holes 2, 4, 5, 7, 9, 10, 12, 15, 16 and 18. As well, there is an ongoing program to replace old asphalt cart paths with new concrete ones, 60 percent of the cart paths have been replaced thus far. The cart path renovation project is expected to be completed within four years.

Built in 1968, the approximate 4,000 square foot clubhouse is a functional design with good flow; however, it should be noted that, unlike other similar municipal facilities, the clubhouse does *not* offer dedicated banquet space.

With capacity for up to 78 power carts, the cart barn measures about 4,200 square feet and currently houses 72 carts. The cart barn was renovated about two years ago at a cost of about \$472,000 (amount reimbursed from the City). In typical fashion, carts are leased and a new fleet was acquired in 2005. The typical cart fee is \$13 per rider for 18 holes in a shared cart.

San Jose Municipal Golf Course is unique in that, in addition to typical power cart rentals, it also offers Segways for rent (see photo below). The facility maintains a fleet of 20 Segways (specially equipped with golf bag holders) and, since May 2007, has averaged about 150 rentals per month. A 30 to 40-minute training session is required before use and the rental fee is \$26 per rider for 18 holes. It is ERA's opinion that the offering of Segways is an interesting program which helps to differentiate the facility in a competitive marketplace.



Segway

San Jose Municipal Golf Course features a recently renovated, very high quality, two-tier driving range. With 60 tee-stations, natural turf, and night lighting, San Jose Municipal was the first municipal golf course in the U.S. to offer Trackman, a sophisticated ball flight monitoring technology that utilizes Doppler radar for club fitting and lessons. This is another element of high technology product differentiation for the facility.

Overall, it is ERA's opinion that with regular on-going capital improvement projects, the San Jose Municipal Golf Course is in good condition. Anticipated capital improvement requirements in the short-term are minimal and include the continued replacement of cart

paths (as mentioned), new irrigation controllers, and replacement of some maintenance equipment, including a greens mower.

San Jose Municipal Golf Course Operations and Maintenance Agreement

The original golf facility operating agreement between the City of San Jose and Rawitser Golf was entered into in December 1987. The purpose of the operating agreement is to provide for the operation and maintenance of the San Jose Municipal Golf Course in a manner that maximizes public access and provides the greatest benefit to the golfing public. The operator has overall responsibility for carrying out all operations and maintenance of the property.

Commencing on January 1, 1988, the initial term of the 25-year agreement ends December 30, 2012. The operator has the option for up to two five-year extensions through the year 2021, assuming that the agreement has not been previously terminated and the operator is not in default.

Beginning in year eight of the agreement (1995), and extending through year 20 of the agreement (2007), the operator pays to the City an amount equal to two percent (2%) of gross operating receipts. Included in gross receipts are all green fees, driving range fees, cart rental fees, tournament fees, lesson fees, and gross revenue from food and beverage and merchandise sales. It is important to note that for years 21 through 25 of the agreement, years 2008 through 2012, the facility lease payment increases to 8.5 percent of gross revenues.

In addition to the facility lease payment to the City, the operator is required to deposit amounts into a capital improvement fund. During years 8 through 20 of the initial agreement (1995 through 2007), the contribution to the capital improvement fund is one percent (1%) of gross receipts. During years 21 through 25 of the agreement, the capital improvement fund requirement increases to 1.5 percent of gross receipts. Each year, the operator is to present to the City a five-year capital improvement plan detailing improvements and estimated costs.

Under the terms of the agreement, areas of responsibility for the operator include:

- Maintenance of the grounds, buildings, equipment and improvements.
- Collection of all fees.
- Payment of all taxes.
- Payment for the installation, connection, maintenance and furnishings of all necessary utilities including water, gas, electricity, telephone service, C.A.T.V., sewage and other public utilities.

Unlike the Los Lagos and Rancho del Pueblo courses, San Jose Municipal Golf Course is *not* subject to the Prevailing / Living Wage Ordinance requirements.

The following is a summary of gross revenue at San Jose Municipal Golf Course and annual revenue to the City of San Jose since Fiscal Year 1995 / 1996:

Annual Gross Revenue & Revenue to City

<u>Fiscal Year</u>	<u>Gross Revenue (\$000)</u>	<u>Revenue to City (\$000)</u>
1995 / 1996	\$5,047	\$101
1996 / 1997	\$5,324	\$106
1997 / 1998	\$5,226	\$105
1998 / 1999	\$5,323	\$110
1999 / 2000	\$5,826	\$117
2000 / 2001	\$6,026	\$121
2001 / 2002	\$5,786	\$116
2002 / 2003	\$5,614	\$112
2003 / 2004	\$5,632	\$113
2004 / 2005	\$5,342	\$107
2005 / 2006	\$5,226	\$105
2006 / 2007	\$5,699	\$114

As mentioned, beginning in 2008, the facility lease payment increases from two percent of gross revenue to 8.5 percent of gross revenue. If the 8.5 percent facility lease payment is applied to the gross revenue figure of nearly \$5.7 million generated in FY 2006 / 2007, the City would have collected about \$484,400, an increase of about \$370,000.

Greens Fees, San Jose Municipal

Table III-2 presents a summary of greens fees at San Jose Municipal Golf Course since the year 2000.

At the current time, weekday rates are \$36 for regular 18-hole play, \$24 for twilight play, and \$21 for seniors and students. On weekends, the rates are \$49 for regular 18-hole play and \$31 for twilight play (discounted rates for seniors and students are not offered on weekends).

According to the U.S. Bureau of Labor Statistics, the average inflation rate in the San Francisco Bay Area since the year 2000 has been 2.75 percent. As shown, since the year 2000, the average annual rate of increase for greens fees at San Jose Municipal has been at, or slightly above, the average inflation rate for the region.

Annual Rounds and Sources of Play, San Jose Municipal

The following is a summary of annual golf rounds at San Jose Municipal since Fiscal Year 1995 / 1996:

<i>Annual Rounds, San Jose Municipal</i>		
<i>Fiscal Year</i>	<i>Annual Rounds</i>	<i>Annual Change</i>
1995 / 1996	102,955	-
1996 / 1997	100,999	-2%
1997 / 1998	93,075	-8%
1998 / 1999	97,156	4%
1999 / 2000	96,266	-1%
2000 / 2001	95,501	-1%
2001 / 2002	91,393	-4%
2002 / 2003	88,701	-3%
2003 / 2004	86,013	-3%
2004 / 2005	84,460	-2%
2005 / 2006	83,212	-2%
2006 / 2007	86,991	5%

- As shown, annual rounds declined from nearly 103,000 rounds in FY 1995 / 1996 to about 83,000 rounds by FY 2005 / 2006, a decrease of 19 percent over ten years. As will be discussed in more detail in Section IV, this decline is largely attributed to flat public golf demand, greatly increased supply, and a soft economy from 2001 through 2005. ERA has observed similar declines at other comparable courses in the region.
- In FY 2006 / 2007, reflecting improved golf market conditions, annual golf rounds increased to nearly 87,000, an increase of 4.5 percent over the previous year.

Table III-3 presents rounds played by month for the last three years of operation. It is ERA's opinion that, when considering normal variations in weather from year-to-year, the distribution in play is typical for the Bay Area.

Table III-4 presents a comparison of annual golf rounds and sources of play for fiscal years 2001 and 2006, the latest year for which data is available. The following are key observations:

- From FY 2001 to FY 2006, total annual rounds declined from about 95,500 to about 83,200, a decrease of nearly 12,300 rounds or 13 percent.
- Regular 18-hole *weekday* play declined by over 10,000 rounds or 29 percent over the past six years.

- It is ERA’s observation that, typically, weekdays are the period when most courses have excess capacity and are most likely to offer discounts. For example, in recent years, high-end daily-fee courses such as Cinnabar Hills have offered significantly discounted rates on weekdays, thereby competing with mid-market courses such as San Jose Municipal and Los Lagos, which, formerly, served a separate and lower-priced segment of the market.
- Regular 18-hole *weekend* play declined by nearly 4,000 rounds or 16 percent since FY 2001.
- Weekday afternoon play declined by nearly 2,500 rounds or 27 percent since the year 2000.
- The primary category of play showing an increase since FY 2001 is senior weekday play, up nearly 4,500 rounds or 44 percent.
- It is ERA’s opinion that with substantial declines in regular weekday play, this has resulted in increased opportunities for play by seniors at discounted rates.
- Although not tracked as a separate play category, it should be noted that play from tournaments has declined somewhat in recent years. In Fiscal Year 2006 / 2007 it is estimated that about 100 tournament groups with an average size of 30 golfers generated about 3,000 rounds. This is down from about 5,000 tournament rounds generated in FY 2000 / 2001.

Gross Operating Revenue Trends, San Jose Municipal

Table III-5 presents trends in gross operating revenue for San Jose Municipal, by fee category, for FY 2000 / 2001 through FY 2006 / 2007. Also shown is the City share of gross revenue at two percent and the operator’s contribution to the capital improvement fund at one percent of gross revenue. As well, Table III-6 presents the trend in gross operating revenue on an average revenue per round and per range tee-station basis.

Greens Fee Revenue and Actual Average Greens Fee, San Jose Municipal

The following is the trend in greens fees (including tournament fees), annual rounds, and the actual average greens fee since FY 2000 / 2001:

San Jose Municipal Golf Course: Greens Fee Revenue, Annual Rounds, and Actual Average Greens Fee 1/

<i>Fiscal Year</i>	<i>Greens Fees (\$000)</i>	<i>Annual Rounds</i>	<i>Average Greens Fee</i>
2000 / 2001	\$2,689	95,501	\$28.16
2001 / 2002	\$2,661	91,393	\$29.12
2002 / 2003	\$2,616	88,701	\$29.49
2003 / 2004	\$2,537	86,013	\$29.50
2004 / 2005	\$2,552	84,460	\$30.22
2005 / 2006	\$2,599	83,212	\$31.23
2006 / 2007	\$2,780	86,991	\$31.96

1/ Including tournament fees

The actual average green fee is a function of total rounds, the greens fee charged, and the mix of rounds by green fee category. As shown, the actual average greens fee (including tournament fees) has steadily increased from \$28.16 in FY 2000 / 2001 to nearly \$32 by FY 2006 / 2007.

Cart Fee Revenue and Average Cart Fees Per Round, San Jose Municipal

The following is the trend in cart rental fees and the average cart rental fee per round since FY 2000 / 2001:

<i>Cart Fees and Avg. Cart Fee / Round</i>		
<i>Fiscal Year</i>	<i>Cart Fees (\$000)</i>	<i>Average Fee / Rd.</i>
2000 / 2001	\$447	\$4.68
2001 / 2002	\$400	\$4.38
2002 / 2003	\$397	\$4.48
2003 / 2004	\$400	\$4.65
2004 / 2005	\$402	\$4.76
2005 / 2006	\$380	\$4.57
2006 / 2007	\$438	\$5.04

As shown, the average cart rental fee per round was \$5.04 in FY 2006 / 2007. With a regular 18-hole cart fee of \$13 per rider in a shared cart, this implies an average propensity to rent a cart of nearly 40 percent, which is typical.

Gross Merchandise Sales & Average Merchandise Sales Per Round, SJMGC

The following is the trend in gross merchandise sales and average merchandise spending per round since FY 2000 / 2001:

<i>Gross Merchandise Sales and Avg. Merchandise Sales / Round</i>		
<i>Fiscal Year</i>	<i>Gross Sales (\$000)</i>	<i>Average Sales Per Rd.</i>
2000 / 2001	\$1,113	\$11.65
2001 / 2002	966	10.57
2002 / 2003	945	10.65
2003 / 2004	1,018	11.84
2004 / 2005	761	9.01
2005 / 2006	659	7.92
2006 / 2007	805	9.25

As shown, gross merchandise sales peaked at over \$1.1 million in FY 2000 / 2001, equating to average sales of \$11.65 per round.

In FY 2005 / 2006, gross merchandise sales declined to a low of about \$659,000 (nearly \$8 per round) but rebounded somewhat in FY 2006 / 2007 with sales of about \$805,000, or an average of \$9.25 per round. The decline in membership sales at San Jose Municipal is consistent with the trends at virtually every public golf course where the emergence of high volume off-site discount golf retailers has severely impacted opportunities at golf courses.

As will be discussed in more detail in Section IV, even with generally declining sales in recent years, gross merchandise sales at San Jose Municipal are far above average, reflective of, among other things, a well-stocked pro shop and a strong club fitting and sales program.

Driving Range Revenue, San Jose Municipal

The following is the trend in driving range revenue, average range revenue per round, and average range revenue per tee-station (60 tee-stations) since FY 2000 / 2001:

<i>Driving Range Revenue, Average Range Revenue Per Round, and Average Range Revenue Per Tee-Station 1/</i>			
<i>Fiscal Year</i>	<i>Range Revenue (\$000)</i>	<i>Average Revenue Per Round</i>	<i>Avg. Rev. Per Tee-Station</i>
2000 / 2001	\$892	\$9.34	\$14,867
2001 / 2002	\$917	\$10.03	\$15,283
2002 / 2003	\$832	\$9.38	\$13,867
2003 / 2004	\$878	\$10.21	\$14,633
2004 / 2005	\$882	\$10.44	\$14,700
2005 / 2006	\$871	\$10.47	\$14,517
2006 / 2007	\$898	\$10.32	\$14,967

1/ 60 tee-stations

As shown, range revenue has been fairly constant over the last four years averaging about \$882,000 or \$10.36 per round. On an average revenue per tee-station basis, the range generated nearly \$15,000 per tee in FY 2006 / 2007. As will be discussed in more detail in Section IV, this is very strong performance.

Gross Food and Beverage Sales, San Jose Municipal

The following is the trend in gross food and beverage sales since FY 2000 / 2001:

**Gross Food and Beverage Sales and
Average F&B Sales Per Round**

<u>Fiscal Year</u>	<u>Gross Sales (\$000)</u>	<u>Average Sales Per Rd.</u>
2000 / 2001	\$703	\$7.36
2001 / 2002	\$648	\$7.09
2002 / 2003	\$618	\$6.97
2003 / 2004	\$617	\$7.17
2004 / 2005	\$574	\$6.80
2005 / 2006	\$522	\$6.27
2006 / 2007	\$567	\$6.52

Gross food and beverage sales peaked in FY 2000 / 2001 at \$703,000 or \$7.36 per round and declined steadily to \$522,000 or \$6.27 per round by FY 2005 / 2006.

In FY 2006 / 2007, gross food and beverage sales increased slightly to \$567,000 or \$6.52 per round.

In terms of average per-round spending from golfers, these figures are somewhat above average; however, as mentioned, the clubhouse does not offer banquet facilities and thus does not receive revenue from this strong potential source of business which includes golf tournaments, weddings, and other social events.

Gross Lesson Revenue, San Jose Municipal

The following is the trend in gross lesson revenue since FY 2000 / 2001:

**Gross Lesson Revenue and Avg.
Lesson Revenue Per Round**

<u>Fiscal Year</u>	<u>Gross Revenue (\$000)</u>	<u>Average Revenue Per Rd.</u>
2000 / 2001	\$140	\$1.47
2001 / 2002	\$147	\$1.61
2002 / 2003	\$137	\$1.54
2003 / 2004	\$114	\$1.33
2004 / 2005	\$94	\$1.11
2005 / 2006	\$97	\$1.17
2006 / 2007	\$93	\$1.34

Since FY 2001 / 2002, gross lesson revenue declined from \$147,000 to \$93,000 or from \$1.61 to \$1.34 per round. Again, the plateauing of golf demand characteristic in golf markets across the nation has adversely impacted the number of new golfers and hence golf instruction.

Total Revenue, San Jose Municipal

The following is the trend in total revenue and total revenue per round since FY 2000 / 2001:

<i>Total Revenue and Total Revenue Per Round</i>		
	<i>Total Revenue</i>	<i>Average Revenue</i>
<i>Fiscal Year</i>	<i>(\$000)</i>	<i>Per Rd.</i>
2000 / 2001	\$6,026	\$63.10
2001 / 2002	\$5,786	\$63.31
2002 / 2003	\$5,614	\$63.16
2003 / 2004	\$5,632	\$65.48
2004 / 2005	\$5,342	\$63.25
2005 / 2006	\$5,226	\$62.80
2006 / 2007	\$5,699	\$65.51

As shown, total revenue peaked at over \$6 million in FY 2000 / 2001 then, more or less, steadily declined to about \$5.2 million by FY 2005 / 2006.

In FY 2006 / 2007, reflecting an improving market, total revenue increased to nearly \$5.7 million for total average revenue of \$65.51 per round.

Current Practices/Revenue Management, San Jose Municipal

Management at San Jose Municipal has adopted policies and practices which are contemporary and effective in its operation of San Jose Municipal. Moreover, San Jose Municipal has implemented practices and programs which have been innovative and responsive to community needs. Among the programs in place at municipal are the following:

- **Pacesetter Agreement** — Initiated a program to maintain desirable pace of play. Golfers agreeing to pace of play requirements are offered designated early tee times. At present, about two hours on weekend days are being dedicated to program participants. The successful program will be extended to weekdays in the near term.
- **Internet Marketing** — San Jose Municipal maintains an informative up-to-date website which can be used for reserving tee times, advertising web discounts/special on greens/carts at selected times, and providing extensive other information to patrons.

- Retail Marketing — San Jose Municipal merchandise sales volume is substantially above competitive courses reflecting a commitment by management to promote and market this aspect of the golf business. Programs which include custom club fitting and a variety of other promotions have been implemented in an area that most golf operations have elected not to promote due primarily to extraordinary competition from off-site discount golf merchandisers.
- Segways — In early 2007, San Jose Municipal introduced 20 Segway X2 — a state-of-the-art individual carrier motorized transport unit — as an alternative to conventional two-person golf carts. The 18-hole rental fee is \$26. The Segway program has been successful not only in providing an additional service to golfers, but has generated interest and notoriety to the golf course.
- Practice Diagnostic Center — San Jose Municipal offers a well designed and active golf instruction program, which includes a Diagnostic Golf Center. The center features computerized technology employed in instruction. San Jose Municipal has licensed Track Man, a radar-based Doppler System used for evaluating golf performance through tracking ball flight, which has been well received, and again provides a distinctive feature at the course.
- High School Golf — Management at San Jose Municipal has created and manages a high school golf alliance for participating high schools in the area. The program essentially secures available tee times at no cost from many of the regional public golf courses including San Jose Municipal, Los Lagos, Santa Teresa, Coyote Creek, Spring Valley, Summitpointe, and others for use by more than 10 high schools in the region. The high schools use the designated tee times for competitive events and practice.
- Junior Golf — Municipal offers Saturday junior golf clinics for ages 4-17 at a nominal \$10 daily cost. A Junior Golf Club has been formed as well which is supported by San Jose Municipal through \$2 greens fees and a variety of other services.

Overall, San Jose Municipal has been extremely effective and innovative in its marketing and promotion, community service, and revenue management.

LOS LAGOS GOLF COURSE

In August 2000, the City of San Jose Financing Authority issued tax-exempt bonds of nearly \$20.7 million to fund the development of the Los Lagos Golf Course. Through a lease between the Financing Authority and the City of San Jose, the land and improvements are being leased to the City for the 30-year term of the bonds.

Physical Facilities, Los Lagos

Opened on April 1, 2002, the Los Lagos facility features a short but attractive and well-maintained 18-hole / par 68 golf course designed by Brian Costello of JMP Golf Design. Measuring 5,393 yards from the back tees, and bisected by Coyote Creek, the course was designed to appeal to players of all ability levels, and the course slope or difficulty rating is 118 from the back tees, and 112 from the middle tees, where 113 is defined as average.

As shown on the scorecard below, the layout offers a competitive mix of nine par-3 holes, four par-4 holes, and five par-5 holes:

HOLE	PAR	BLUE	WHITE	RED	GOLD	HOLE	PAR	BLUE	WHITE	RED	GOLD
#1	5	500	466	433	388	#10	5	523	491	452	425
#2	3	157	125	104	83	#11	4	340	306	277	210
#3	3	119	109	93	85	#12	3	177	148	126	107
#4	4	291	257	236	216	#13	3	168	153	131	115
#5	3	149	127	105	90	#14	3	167	148	133	98
#6	5	567	521	484	455	#15	4	320	303	274	234
#7	3	113	87	75	64	#16	3	148	119	100	87
#8	3	197	175	146	130	#17	4	389	361	331	285
#9	5	485	468	390	381	#18	5	583	558	525	450
	34	2578	2335	2141	1892		34	2815	2587	2349	2011
							34	2578	2335	2141	1892
						TOTAL 68	5393	4922	4490	3903	

Encompassing a total of 180 acres, but where only 75 acres are irrigated turf, the Los Lagos Golf Course is maintained by a team of 13 (full-time equivalent) maintenance persons (including the Superintendent).

A notable natural feature of the golf course site is the Coyote Creek and its significant riparian corridor. In 1992, the City of San Jose adopted a riparian corridor policy which states that development projects located adjacent to riparian habitats generally have to be set-back 100 feet and, at Los Lagos, the riparian corridor and the associated set-back total about 45 percent of the overall site. CourseCo maintains this riparian corridor as part of its operations and management agreement with the City and in April 2004 Los Lagos received recognition as a Certified Audubon Cooperative Sanctuary, one of just 43 in California.

The Los Lagos Golf Course is watered with a dual irrigation system that carries treated water from South Bay Water Recycling for use on tees, fairways and roughs and water pumped from an on-site well for greens, the clubhouse area, and the driving range. Annual water costs, excluding pumping charges, averaged nearly \$111,000 over the last three years. Potable water is provided by the San Jose Municipal Water System and is used for the clubhouse, driving range and maintenance facility.

The clubhouse measures about 4,700 square feet and features a contemporary Spanish design. An attractive facility, the food and beverage area is considered slightly too small, there are no dedicated banquet facilities, and the open design can be noisy at times.

The parking lot includes only 128 spaces, a number considered inadequate by the operator and possibly a constraint to the range business. Reportedly, there is sufficient land to develop 50 additional parking spaces near the cart storage building.

The driving range is a night-lighted, two-tier structure that includes 42 tee-stations and an enclosed teaching space. Other practice facilities include two practice putting greens, the second recently added and much needed.

The cart storage facility is designed as a low profile, open-walled structure and has capacity for 75 electric golf carts. In September 2005, a new contract was entered into with Yamaha to lease 72 new carts. The term of the lease is for 47 months, commencing October 1, 2005 and ending August 31, 2009.

The golf course maintenance facility is remote from the clubhouse and is a pre-fabricated metal structure of about 4,400 square feet.

Most of the area surrounding the Los Lagos Golf Course is residential and, since opening, safety has been a concern as errantly hit golf balls occasionally leave the property. As a result, protective fences and netting were added around tees on holes 1, 6, 10 and 18 and the 13th green.

Annual contributions to a capital improvement fund are currently budgeted at three percent of gross revenue and have averaged about \$110,000 over the last three years.

Overall, it is ERA's opinion that, still relatively new, the Los Lagos golf facility is attractive and well-maintained. In the short-term, desired capital improvement projects include the development of 50 additional parking spaces and the construction of a short game practice area adjoining the practice range.

Golf Facility Operations and Maintenance Agreement, Los Lagos

In March 2002, the City of San Jose signed a 15-year operations and management agreement with Los Lagos Golf, LLC (LLGC), a 90 percent owned subsidiary of CourseCo, a California golf course management firm based in Petaluma, Ca. LLGC operates Los Lagos, and after paying expenses (including a contribution to a capital improvement fund) and retaining management fees, returns all remaining net income to the City. It should be noted that another subsidiary of CourseCo – San Jose Golf, LLC, operates the City's Rancho del Pueblo Golf Course, and there are marketing and operational synergies between the two facilities. The following are other key points of the Los Lagos agreement:

- LLGC is responsible for all operations and maintenance of the facility and is to collect all revenues from the golf course operation on the City's behalf.
- CourseCo is to provide a Certified Class A Golf Course Superintendent to manage maintenance of Los Lagos Golf Course, and also to oversee maintenance of Rancho del Pueblo Golf Course.
- LLGC will accumulate a capital reserve of between three percent and ten percent annually from operating revenues.

- A fixed management fee is paid to CourseCo and is adjusted annually by the Consumer Price Index (CPI) for all Urban Consumers in the San Francisco – Oakland – San Jose area. This fee was set at \$132,000 in 2002 and, with CPI adjustments, totaled \$141,000 in FY 2006 / 2007.
- In addition to a management fee, there is a potential incentive fee equal to one percent of the increase in gross revenues for each year of the agreement over the gross revenues received during year one. The annual incentive fee is not to exceed five percent of the total fee (management fee plus incentive fee). Thus far, incentive fees have not been paid at Los Lagos.
- As part of the golf course site, there are areas along the Coyote Creek riparian corridor that are set aside as ecologically sensitive mitigation areas. The City has requested that LLGC maintain these areas and, like the basic golf management fee, a base management fee of \$25,000 for this additional service is subject to annual adjustments in the CPI.
- Compensation under the Prevailing / Living Wage Ordinance is a requirement under this agreement for golf course maintenance and food and beverage positions, but not golf operations.

According to a National Golf Foundation (NGF) CLASP Survey (Customer Loyalty and Satisfaction Program), Los Lagos has remained at an award-winning high standard since opening, generally exceeding competitors and the national average in customer satisfaction for overall course conditions. The following is a partial list of awards for the Los Lagos facility and staff:

- 2007: *Golf, Inc. Magazine*, Top 20 Most Admired Operators, Scot Hathaway, PGA, GM Los Lagos and Rancho del Pueblo.
- 2007: Teacher of the Year, Northern California Section PGC, Matt Flenniken
- 2006: National Golf Course Owner's Association Player Development Award.
- 2005: Golf Course Superintendent's Association of America / *Golf Digest Magazine*, Environmental Leader in Golf Award, National Overall Award Winner.
- 2005: National Golf Foundation Customer Loyalty and Satisfaction Program, National Runner-up Award.
- 2005: Golf Course Superintendent's Association of America / *Golf Digest Magazine*, Turfgrass Excellence Award.
- 2004: Club Fitter of the Year, Northern California Section PGA, Matt Flenniken

Greens Fees, Los Lagos

A summary of the current greens fee structure at Los Lagos is as follows:

- Weekdays (Monday through Thursday):
 - Regular 18-hole: \$32

- Twilight: \$23
- Seniors: \$20
- Students: \$12
- Weekends (Friday through Sunday plus Holidays):
 - Regular 18-hole: \$46
 - Twilight: \$28
 - Juniors (after 12 PM): \$12
- Power cart rental fees are \$14 per person for 18 holes in a shared cart.
- A summary of regular 18-hole rates since the course opening is as follows:

Regular 18-Hole Greens Fees at Los Lagos

<u>Year</u>	<u>Weekdays</u>	<u>Weekends</u>
2002	\$29	\$42
2003	\$29	\$42
2004	\$29	\$42
2005	\$30	\$44
2006	\$31	\$44
2007	\$32	\$46

As shown, over the last five years, the average rate increase has been less than \$1 per year -- the regular weekday rate was increased by \$3 and the regular weekend rate was increased by \$4.

Annual Rounds and Sources of Play, Los Lagos

The following is a summary of total annual golf rounds since the Los Lagos course opened in April 2002:

Annual Rounds, Los Lagos GC

<u>Fiscal Year</u>	<u>Annual Rounds</u>	<u>Annual Change</u>
2002 / 2003	69,460	---
2003 / 2004	68,781	-1%
2004 / 2005	68,544	-0.3%
2005 / 2006	65,843	-4%
2006 / 2007	67,590	3%

As shown, from FY 2002 / 2003 through FY 2005 / 2006, annual rounds declined by 3,617 for a decline of five percent. In FY 2006 / 2007, reflecting improved market conditions, annual rounds increased by 1,747, an increase of three percent.

Table III-7 shows the trend in rounds played, by month, at Los Lagos for the last three years. For comparative purposes, average rounds played by month, in percentage terms, are presented for both San Jose Municipal and Los Lagos for the last three years:

Rounds by Month, % Terms, 3-Year Average, San Jose Municipal and Los Lagos Golf Courses

<i>Month</i>	<i>Rounds, % of Total, San Jose Municipal</i>	<i>Rounds, % of Total, Los Lagos</i>
July	10.4%	10.5%
August	10.5%	10.5%
September	9.2%	8.8%
October	8.1%	8.1%
November	7.0%	7.0%
December	5.7%	5.7%
January	6.0%	6.0%
February	6.4%	6.3%
March	7.2%	7.7%
April	8.5%	9.0%
May	10.3%	9.9%
June	<u>10.7%</u>	<u>10.7%</u>
Total	100%	100%

As expected, with essentially the same weather conditions, the distribution of rounds played by month is very similar at the two golf courses.

Table III-8 presents a comparison of annual rounds and sources of play at Los Lagos for FY 2004 / 2005 and FY 2006 / 2007. The following are key observations:

- Opened in 2002, Los Lagos is a relatively new golf course. The experience at new public golf courses opened over the past 10 to 15 years is that, in established markets such as San Jose, first year play is at high levels as golfers are attracted to the new product. Following the first year, play generally declines to a more stable sustainable level. This pattern is exemplified by the historical performance at Los Lagos.
- Over the last three years, total annual rounds declined slightly from 68,544 in FY 2004 / 2005 to 67,590 in FY 2006 / 2007, a decline of one percent.
- Although total rounds declined slightly over the last three years, there has been a significant shift in play with an increase in discounted rounds (i.e. senior, twilight

and 9-hole) and a decrease in full-fee rounds (i.e. regular 18-hole play on weekends and holidays). This is due largely to aggressive discounting at regional regulation-length high-end daily-fee courses, and the subsequent loss of market share at Los Lagos, and this shift in play tends to erode the actual average greens fee.

- Over the last three years, the largest decline in play was for regular 18-hole *weekend* play which declined by 4,768 rounds or 22 percent.
- Over the last three years, regular 18-hole *weekday* play also declined significantly by 4,089 rounds or 33 percent.
- Categories of play showing a substantial increase over the last three years were (1) weekend twilight play, up 2,907 rounds or 62 percent, (2) senior weekday play, up 2,278 rounds or 19 percent, (3) weekday 9-hole play, up 1,231 rounds or 105 percent, and (4) weekday twilight play, up 1,020 rounds or 16 percent.

Gross Operating Revenue Trends, Los Lagos

Table III-9 presents the trend in gross operating revenue at Los Lagos for FY 2002 / 2003 through FY 2006 / 2007 and Table III-10 presents the trend in gross operating revenue on an average revenue per round and per range tee-station basis.

Greens Fee Revenue and Actual Average Greens Fee, Los Lagos

The following is the trend in greens fees, annual rounds, and the actual average greens fee at Los Lagos since FY 2002 / 2003:

Los Lagos Golf Course: Greens Fee Revenue, Annual Rounds, and Actual Average Greens Fee

<u>Fiscal Year</u>	<u>Greens Fees (\$000)</u>	<u>Annual Rounds</u>	<u>Average Greens Fee</u>
2002 / 2003	\$2,052	69,460	\$29.55
2003 / 2004	\$1,962	68,781	\$28.53
2004 / 2005	\$1,932	68,544	\$28.18
2005 / 2006	\$1,850	65,843	\$28.10
2006 / 2007	\$1,895	67,590	\$28.04

- As shown, greens fee revenue declined from just over \$2 million in FY 2002 / 2003 to \$1.85 million in FY 2005 / 2006, then rebounded somewhat in FY 2006 / 2007 to nearly \$1.9 million.
- The actual average greens fee peaked in FY 2002 / 2003 at \$29.55 and has been essentially flat over the last three years averaging \$28.11.

Cart Fee Revenue and Average Cart Fees Per Round, Los Lagos

The following is the trend in cart rental fees and the average cart rental fee per round since FY 2002 / 2003:

<i>Cart Fees and Avg. Cart Fee / Round</i>		
<i>Fiscal Year</i>	<i>Cart Fees (\$000)</i>	<i>Average Cart Fee</i>
2002 / 2003	\$448	\$6.45
2003 / 2004	\$489	\$7.11
2004 / 2005	\$488	\$7.12
2005 / 2006	\$494	\$7.50
2006 / 2007	\$570	\$8.43

As shown, cart rental fees have generally steadily increased from \$448,000 in FY 2002 / 2003 to \$570,000 in FY 2006 / 2007. In FY 2006 / 2007, the average cart rental fee per round was \$8.43. With a regular 18-hole cart fee of \$14 per rider in a shared cart, this implies an average propensity to rent a cart of about 60 percent, which is significantly higher than expected for a short course that is easy to walk. The design of Los Lagos, however, with four bridge crossings and long distances from greens to tees on some holes, contributes to this high golf cart utilization.

Gross Merchandise Sales & Average Merchandise Sales Per Round, Los Lagos

The following is the trend in gross merchandise sales and average merchandise spending per round since FY 2002 / 2003:

<i>Gross Merchandise Sales and Average Merchandise Sales / Round</i>		
<i>Fiscal Year</i>	<i>Gross Sales (\$000)</i>	<i>Average Sales Per Rd.</i>
2002 / 2003	\$270	\$3.88
2003 / 2004	\$347	\$5.04
2004 / 2005	\$372	\$5.43
2005 / 2006	\$339	\$5.15
2006 / 2007	\$355	\$5.25

Gross merchandise sales have been relatively constant over the last four years averaging about \$353,000 or \$5.22 per round. It is ERA's observation that average merchandise spending of about \$4 to \$5 per round is typical.

Driving Range Revenue, Los Lagos

The following is the trend in driving range revenue, average range revenue per round, and average range revenue per tee-station (42 tee-stations) since FY 2002 / 2003:

Driving Range Revenue, Average Range Revenue Per Round, and Average Range Revenue Per Tee-Station¹

<i>Fiscal Year</i>	<i>Range Revenue (\$000)</i>	<i>Average Rev. Per Round</i>	<i>Avg. Rev. Per Tee-Station</i>
2002 / 2003	\$410	\$5.90	\$9,760
2003 / 2004	\$382	\$5.55	\$9,095
2004 / 2005	\$345	\$5.03	\$8,215
2005 / 2006	\$332	\$5.05	\$7,905
2006 / 2007	\$370	\$5.48	\$8,810

¹42 tee-stations

As shown, range revenues peaked at \$410,000 in FY 2002 / 2003, declined steadily to \$332,000 in FY 2005 / 2006, then rebounded somewhat in FY 2006 / 2007 to \$370,000.

In FY 2006 / 2007, average range revenue per tee-station totaled about \$8,810 – average performance for a night-lighted range. As mentioned, with a shortage of parking spaces (128), it is believed that a lack of parking is a constraint to increasing the range business.

Gross Food and Beverage Sales, Los Lagos

The following is the trend in gross food and beverage sales since FY 2002 / 2003:

Gross Food and Beverage Sales and Average F&B Sales Per Round

<i>Fiscal Year</i>	<i>Gross Sales (\$000)</i>	<i>Average Sales Per Rd.</i>
2002 / 2003	\$463	\$6.66
2003 / 2004	\$472	\$6.87
2004 / 2005	\$459	\$6.69
2005 / 2006	\$417	\$6.34
2006 / 2007	\$438	\$6.48

Over the last three years, gross food and beverage sales varied somewhat but averaged about \$438,000 or \$6.50 per round. It is ERA's observation that as compared to typical per-round spending by golfers of about \$5 per round, the food and beverage performance at Los Lagos is above average. As mentioned, without dedicated banquet facilities, banquets and special events are not a major source of food and beverage revenue.

Gross Lesson Revenue, Los Lagos

The following is the trend in gross lesson revenue since FY 2002 / 2003:

*Gross Lesson Revenue and Average
Lesson Revenue Per Round*

<u>Fiscal Year</u>	<u>Gross Revenue (\$000)</u>	<u>Average Revenue Per Rd.</u>
2002 / 2003	\$57	\$0.82
2003 / 2004	\$79	\$1.15
2004 / 2005	\$74	\$1.08
2005 / 2006	\$62	\$0.94
2006 / 2007	\$70	\$1.03

Over the last three years, gross lesson revenue has averaged nearly \$69,000 or about \$1 per round. It should be noted that Las Lagos has been the facility used for the intermediate levels of lessons offered by The First Tee program, a national junior golf program which is discussed in more detail below. As well, Los Lagos conducts junior golf camps in the summer, hosts six high school golf teams, and has developed a close relationship with Stonegate Elementary School. As mentioned, it is reported that the recent addition of a new practice putting green has greatly benefited the facility lesson program.

Total Revenue, Los Lagos

The following is the trend in total revenue and total revenue per round at Los Lagos:

*Total Revenue and Total Revenue Per
Round, Los Lagos Golf Course*

<u>Fiscal Year</u>	<u>Total Revenue (\$000)</u>	<u>Average Revenue Per Rd.</u>
2002 / 2003	\$3,734	\$53.75
2003 / 2004	\$3,763	\$54.71
2004 / 2005	\$3,719	\$54.26
2005 / 2006	\$3,550	\$53.94
2006 / 2007	\$3,741	\$55.35

It is interesting to note that, with the exception of slight downturn in FY 2005 / 2006, gross operating revenue at Los Lagos has been fairly constant since opening averaging about \$3.7 million per year.

As well, total per-round revenue has been fairly constant averaging \$54.40 over the last five years.

Cost of Sales, Operating Expenses and Net Operating Income, Los Lagos

As mentioned, under the Los Lagos golf course operations and maintenance agreement, LLGC operates Los Lagos, and after paying expenses (including a contribution to a capital improvement fund) and retaining management fees, returns all remaining net income to the City.

Presented below and on Table III-11 is an analysis of cost of sales, operating expenses and Net Operating Income (NOI) at Los Lagos since the course opening in FY 2002 / 2003.

Gross Operating Revenue, Cost of Sales and Net Operating Revenue, LLGC

The following is a summary of gross operating revenue, cost of sales (COS), and net operating revenue for Los Lagos since FY 2002 / 2003:

***Gross Operating Revenue, Cost of Sales and Net Operating Revenue,
Amounts Shown in Thousands of Dollars (\$000)***

	<u>'02 / '03</u>	<u>'03 / '04</u>	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>
Gross Op. Rev.	\$3,734	\$3,763	\$3,719	\$3,550	\$3,741
<u>Cost of Sales:</u>					
Merchandise	\$203	\$240	\$256	\$233	\$244
F&B	\$150	\$163	\$152	\$141	\$167
Lessons	<u>\$51</u>	<u>\$71</u>	<u>\$67</u>	<u>\$55</u>	<u>\$63</u>
Total COS	\$404	\$474	\$475	\$429	\$474
Net Op. Rev.	\$3,330	\$3,289	\$3,244	\$3,121	\$3,267

It is ERA's experience that industry standard factors for cost of sales, as a percentage of departmental revenue, are:

- Merchandise: 65 to 70 percent.
- Food and beverage: 30 to 35 percent.
- Lessons: 85 to 90 percent.

As shown below, cost of sales at Los Lagos are generally consistent and in-line with industry standards:

Cost of Sales at Los Lagos Expressed as a Percentage of Departmental Revenue

	<u>FY '02 / '03</u>	<u>FY '03 / '04</u>	<u>FY '04 / '05</u>	<u>FY '05 / '06</u>	<u>FY '06 / '07</u>
Merchandise	75%	69%	69%	69%	69%
F&B	32%	35%	33%	34%	38%
Lessons	89%	90%	91%	89%	90%

Operating Expenses and Net Operating Income, Los Lagos

The following is a summary of net operating revenue, operating expenses, and Net Operating Income at Los Lagos since FY 2002 / 2003:

*Net Operating Revenue, Operating Expenses and Net Operating Income, Los Lagos,
(\$000)*

	<u>'02 / '03</u>	<u>'03 / '04</u>	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>
Net Op. Revenue	\$3,330	\$3,289	\$3,244	\$3,121	\$3,267
<u>Operating Expenses:</u>					
GC Maintenance	\$1,058	\$1,119	\$1,101	\$1,173	\$1,151
Golf Operations	\$533	\$572	\$543	\$495	\$586
Food & Beverage	\$337	\$346	\$321	\$333	\$350
Gen. & Admin.	\$594	\$666	\$639	\$635	\$646
Total Op. Expenses	\$2,522	\$2,703	\$2,604	\$2,636	\$2,733
Net Operating Income	\$808	\$586	\$640	\$486	\$534

- The golf course maintenance category includes water, pumping charges, payroll, other utilities, and services and supplies and has averaged about \$1,136,000 per year over the last four years. The following section presents a comparison of this golf course maintenance budget to other municipal golf courses in the Bay Area.
- The golf operations category includes payroll, utilities, equipment leases and services and supplies and has averaged \$549,000 over the last four years.
- Food and beverage expenses have averaged nearly \$338,000 per year over the last four years.
- The General and Administrative category includes payroll, utilities, legal and accounting, insurance, services and supplies, management fees, mitigation fees, and the capital reserve fund at three percent of gross revenue. Over the last four years, general and administrative expenses have averaged nearly \$647,000 per year.

- Total operating expenses have averaged nearly \$2.7 million per year over the last four years.
- The following is a summary of Net Operating Income (NOI) at Los Lagos since the course opening in 2002:

<i>NOI at Los Lagos Golf Course, Amounts in Thousands (\$000)</i>	
<i>Fiscal Year</i>	<i>Net Op. Income</i>
2002 / 2003	\$808
2003 / 2004	\$586
2004 / 2005	\$640
2005 / 2006	\$486
2006 / 2007	\$534

Although Net Operating Income has trended down over the last three years from \$640,000 in FY 2004 / 2005 to \$534,000 in FY 2006 / 2007, it is ERA's opinion that this is still relatively strong performance for a municipal golf course in the San Francisco Bay Area.

Debt Service Requirements

Despite relatively strong operating performance, Los Lagos Golf Course has not covered debt service on bonds associated with its construction. In FY 2006 / 2007, with Net Operating Income of \$534,000, and debt service of about \$1.4 million, the annual shortfall was nearly \$867,000.

As stated by CourseCo in the Los Lagos Operational and Financial Report of May 2006, key factors that contribute to the annual shortfall include:

- The original feasibility study conducted by the National Golf Foundation (NGF) in 1997, and updated in 1999, was based on total project costs of \$14.2 million; however, actual total project costs were about \$20.7 million, a substantial increase of \$6.5 million.
- Failing to take into account Prevailing / Living Wage Ordinance requirements, the feasibility study underestimated CourseCo employee wages by about \$570,000 per year and underestimated the number of labor hours by about 33,000.
- The feasibility study did not account for the added cost of maintaining environmental mitigation areas within the Los Lagos property.

With future debt service payments ranging from about \$1.4 million to nearly \$1.8 million, the existing Los Lagos bonds are scheduled to be retired by 2030.

Current Practices/Revenue Management, Los Lagos

Management at Los Lagos Golf Course, as at San Jose Municipal, has been pro active and effective in adopting policies and practices which have promoted operating efficiencies, generated above average revenues, and been responsive to community needs.

Los Lagos has received numerous awards for customer service, environmental practices, and player development.

Customer satisfaction at Los Lagos has been very high, as noted in the discussion of golfer survey results. The Customer Loyalty and Satisfaction Program (CLASP) annual surveyed results for the period 2003-2007 have shown consistently high ratings in all aspects of the operation. Los Lagos has been recognized several times as one of the top 10 daily fee golf courses of the 400 reviewed nationally in the NGF customer satisfaction survey.

Los Lagos has been designated as a Certified Audubon Cooperative Sanctuary by the education division of Audubon International. This designation recognizes environmental stewardship. The course superintendent, Alan Andreasen, is the recipient of two prestigious awards, Environmental Leadership in Golf sponsored by Golf Digest and the Golf Course Superintendents Association and Turfgrass Excellence, an award from the Northern California Golf Course Superintendents Association. These awards recognize the ability of the operator to provide a high-quality playing surface while appropriately managing environmental concerns.

Management at the course also has been recognized for player development programs. Scot Hathaway was recently awarded a top honor by Golf, Inc. Magazines and other programs include:

- Junior Golf — Los Lagos provides several programs in an effort to introduce and nurture golf for community juniors. As noted, the course participates in the Play Golf America program. A Summer Junior Golf Camp Program is offered, and group clinics and individual instruction is available.
- Los Lagos Learning Center — The course provides a full range of instructional and performance enhancing programs, including private instruction, group instruction, and custom club fitting. The course participates in the PGA's Play Golf America and Link Up 2 Golf programs.
- Internet Marketing — Los Lagos maintains an informative, up-to-date website. An extensive golfer database has been compiled which allows dissemination of news, play specials, and other programs. Tee time availability also is assessed via the web.

Los Lagos conducts golf operations and maintenance at Los Lagos in a professional manner, implementing Best Practices and programs consistent with upper mid-market high-quality municipal and daily fee courses. Like San Jose Municipal, in light of the relatively short length of the course (5,393 yards, par 68) revenue levels are among the top of the performance range.

The golf course is maintained by a staff of four (full-time equivalent) maintenance employees and the course is watered via a dual irrigation system. Irrigation and pumping costs averaged nearly \$57,000 over the last three years.

Other physical facilities at the approximate 33-acre Rancho del Pueblo facility include a clubhouse of about 1,600 square feet, a night-lighted driving range with 25 tee-stations, and a 10,000 square foot practice putting green. One power cart is available for rent, there is no cart barn.

First Tee Program of San Jose

The World Golf Foundation, Inc. created the First Tee Program in November 1997 as a way to bring golf to youngsters that otherwise would not be exposed to the game of golf and its positive values. The First Tee Program's mission is to impact the lives of young people by providing learning facilities and educational programs that promote character development and life-enhancing values through the game of golf.

In 2005, the City of San Jose entered into an agreement with San Jose Sports Authority for use of Rancho del Pueblo Golf Course to operate the San Jose First Tee Program for an initial term of up to 10 years, with one five-year renewal option.

The Sports Authority will ensure the program is accessible to all children between the ages of 7 through 17 years without regard to race, religion, actual or perceived gender identity, sexual orientation, disability or national origin. The Sports Authority will assume responsibility for all fund-raising efforts and the City shall be compensated for use. Program use fees include payment to the City for instructors, greens fees, tournament fees, and food and beverage. The program shall not impact the general operations of the golf course and must be coordinated with the operator to ensure the programs are scheduled during non-peak hours. The program has been well received in the community. In 2007, for example, 489 youth participated in the program, an increase of 47 percent from 2006, with 1,400 students participating in the Outreach Education Program and 42 volunteers supporting the program.

Golf Facility Operations and Maintenance Agreement, Rancho del Pueblo

On November 22, 1999, the City of San Jose entered into a golf facility operations and maintenance agreement with San Jose Golf, LLC, a 90 percent owned subsidiary of CourseCo, to operate the Rancho del Pueblo Golf Course. The original contract period was for five years expiring on December 20, 2004. The agreement called for a fixed management fee of \$46,800 in year one payable in 12 equal monthly installments of \$3,900 with annual CPI inflation adjustments thereafter.

On December 21, 2004, the agreement was extended for an additional term of 24 months due to IRS regulations regarding contract lengths related to management of facilities involving tax-exempt financing of public improvements; however, the terms of the agreement were restructured. Although the base fee was increased to \$17,729 per month, on-site management staff expenses were shifted to the operator resulting in a net management fee to the operator at a level similar to the original agreement amount.

In addition to a management fee, there is a potential incentive fee equal to one percent of the increase in gross revenues for each year of the agreement over the gross revenues received during year one. The annual incentive fee is not to exceed five percent of the total fee (management fee plus incentive fee).

Beginning December 20, 2006, the contract will be extended automatically each successive month, for 12 months, while a new operations and maintenance agreement is negotiated.

Greens Fees, Rancho del Pueblo

A summary of the greens fee structure at Rancho del Pueblo is as follows:

- Weekdays (Monday through Thursday):
 - Regular 9-hole: \$13
 - Twilight: \$10
 - Seniors: \$10
 - Students: \$7
- Weekends (Friday through Sunday plus Holidays):
 - Regular 9-hole: \$15
 - Twilight: Not Offered
 - Juniors: \$8
- The regular 9-hole rates remain unchanged since the year 2002.
- One power cart is available for rent; the rental fee is \$10 per person for 9 holes in a shared cart.

Annual Rounds and Sources of Play, Rancho del Pueblo

<i>Annual Rounds, Rancho del Pueblo</i>		
<i>Fiscal Year</i>	<i>Annual Rounds</i>	<i>Annual Change</i>
2000 / 2001	39,320	-
2001 / 2002	46,100	17.2%
2002 / 2003	41,335	-10.3%
2003 / 2004	35,400	-14.4%
2004 / 2005	40,392	14.1%
2005 / 2006	37,721	-6.6%
2006 / 2007	35,513	-5.9%

With a peak of about 46,100 rounds in the first full year of operation in FY 2001/ 2002, annual play levels have, more or less, steadily declined to 35,513 rounds in FY 2006 / 2007, a decline of 23 percent over the last five years.

Table III-12 shows the trend in rounds played, by month, for the last three years. The average monthly distribution of play is very similar to that observed at the San Jose Municipal and the Los Lagos golf courses.

Table III-13 presents a comparison of annual golf rounds and sources of play for FY 2002 and FY 2007. The following are key observations:

- From FY 2002 to FY 2007, total annual golf rounds declined from 46,100 to about 35,500, a significant decline of over 10,000 rounds or 23 percent.
- By far, the largest decline in play was for regular 9-hole *weekend* play which declined by nearly 10,700 rounds or 56 percent.
- Regular 9-hole *weekday* play also declined, but not nearly to the extent as the decline in weekend play. Regular 9-hole weekday play declined by nearly 2,400 rounds or 17 percent.
- The primary category of play to show an increase over the six-year period was senior weekday 9-hole play which increased by nearly 1,350 rounds or 29 percent.
- Rancho del Pueblo serves primarily as a walk-on course (no reservations) where the primary target market is seniors and women. Although the course is generally busy after normal work hours, the course tends to have significant excess capacity from the hours of 9am to 2pm, even on weekends.

Operating Revenue Trends, Rancho del Pueblo

Table III-14 presents the trend in gross operating revenue at Rancho del Pueblo for FY 2000 / 2001 through FY 2006 / 2007 and Table III-15 presents the trend in gross operating revenue on an average revenue per round and per range tee-station basis.

Greens Fee Revenue and Actual Average Greens Fee, Rancho del Pueblo

The following is the trend in greens fees, annual rounds, and the actual average greens fee at Rancho del Pueblo since FY 2000 / 2001:

<i>Rancho del Pueblo Golf Course: Greens Fee Revenue Annual Rounds, and Actual Average Greens Fee</i>			
<i>Fiscal Year</i>	<i>Greens Fees (\$000)</i>	<i>Annual Rounds</i>	<i>Average Greens Fee</i>
2000 / 2001	\$429	39,320	\$10.91
2001 / 2002	\$514	46,100	\$11.15
2002 / 2003	\$461	41,335	\$11.15
2003 / 2004	\$412	35,400	\$11.64
2004 / 2005	\$454	40,392	\$11.24
2005 / 2006	\$422	37,721	\$11.19
2006 / 2007	\$407	35,513	\$11.46

As shown, greens fee revenue peaked at \$514,000 during the first full year of operation in FY 2001 / 2002 then, more or less, steadily declined to \$407,000 by FY 2006 / 2007.

In FY 2004 / 2005, Rancho del Pueblo benefited from the closing of the Pleasant Hill Golf Course, and this is reflected in a bump in annual rounds and greens fee revenue.

With some variation, the actual average greens fee has remained fairly constant averaging \$11.15 since the course opening; however, in FY 2006 / 2007 there was an increase of two percent from \$11.19 to \$11.46.

Driving Range Revenue, Rancho del Pueblo

The following is the trend in driving range revenue, average range revenue per round, and average range revenue per tee-station (25 tee-stations) since FY 2000 / 2001:

Driving Range Revenue, Average Range Revenue Per Round, and Average Range Revenue Per Tee-Station¹

<i>Fiscal Year</i>	<i>Range Revenue (\$000)</i>	<i>Average Revenue Per Round</i>	<i>Avg. Rev. Per Tee-Station</i>
2000 / 2001	\$94	\$2.39	\$3,760
2001 / 2002	\$207	\$4.49	\$8,280
2002 / 2003	\$173	\$4.19	\$6,920
2003 / 2004	\$150	\$4.24	\$6,000
2004 / 2005	\$130	\$3.22	\$5,200
2005 / 2006	\$105	\$2.78	\$4,200
2006 / 2007	\$117	\$3.29	\$4,680

¹25 tee-stations.

As shown, range revenue peaked at \$207,000 in FY 2001 / 2002 then, more or less, steadily declined to \$117,000 in FY 2006 / 2007.

In FY 2006 / 2007, average range revenue per tee-station totaled about \$4,680 – well below average performance for a night-lighted range. As mentioned, this compares to average range revenues per tee-station of \$8,800 at Los Lagos for the same year and compares to average revenue per tee-station of over \$8,000 achieved at Rancho del Pueblo in FY 2001 / 2002.

Gross Merchandise Sales & Average Merchandise Sales Per Round, RDPGC

The following is the trend in gross merchandise sales and average merchandise spending per round since FY 2000 / 2001:

<i>Gross Merchandise Sales and Average Merchandise Sales / Round</i>		
<i>Fiscal Year</i>	<i>Gross Sales (\$000)</i>	<i>Average Sales Per Rd.</i>
2000 / 2001	\$79	\$2.01
2001 / 2002	\$83	\$1.80
2002 / 2003	\$74	\$1.79
2003 / 2004	\$56	\$1.58
2004 / 2005	\$55	\$1.36
2005 / 2006	\$54	\$1.43
2006 / 2007	\$72	\$2.03

Gross merchandise sales peaked at \$83,000 or \$1.80 per round in FY 2001 / 2002.

In FY 2006 / 2007, following three years that averaged \$55,000 and nearly \$1.50 per round, gross merchandise sales picked-up significantly to \$72,000, an average of over \$2 per round.

It is ERA's experience that per-round spending on merchandise at a 9-hole course is typically less than 50 percent of that generated at an 18-hole course.

Gross Food and Beverage Sales, Rancho del Pueblo

The following is the trend in gross food and beverage sales since FY 2000 / 2001:

<i>Gross Food and Beverage Sales and Average F&B Sales Per Round</i>		
<i>Fiscal Year</i>	<i>Gross Sales (\$000)</i>	<i>Average Sales Per Rd.</i>
2000 / 2001	\$78	\$1.98
2001 / 2002	\$98	\$2.13
2002 / 2003	\$79	\$1.91
2003 / 2004	\$70	\$1.98
2004 / 2005	\$68	\$1.68
2005 / 2006	\$66	\$1.75
2006 / 2007	\$66	\$1.86

Gross food and beverage sales peaked at \$98,000 or \$2.13 per round in FY 2001 / 2002.

Over the last three years, gross food and beverage sales averaged nearly \$67,000 or about \$1.75 per round.

It is ERA's experience that where an average length of stay at a 9-hole course is typically less than two hours, average per-round spending on food and beverage is far less than at an 18-hole course where a round of golf typically requires four or more hours to play.

Gross Operating Revenue, Rancho del Pueblo

The following is the trend in gross operating revenue and total revenue per round at Rancho del Pueblo:

<i>Gross Op. Revenue and Total Revenue Per Round, RDPGC</i>		
<i>Fiscal Year</i>	<i>Total Revenue (\$000)</i>	<i>Average Revenue/Rd.</i>
2000 / 2001	\$694	\$17.65
2001 / 2002	\$924	\$20.00
2002 / 2003	\$853	\$20.64
2003 / 2004	\$756	\$21.36
2004 / 2005	\$777	\$19.24
2005 / 2006	\$713	\$18.90
2006 / 2007	\$741	\$20.87

Gross operating revenue peaked at \$924,000 in FY 2001 / 2002.

In FY 2006 / 2007, following three years that averaged nearly \$744,000 or \$19.83 per round, gross operating revenue increased to \$741,000 or \$20.87 per round, an increase in average per-round revenue of over 10 percent as compared to the prior year.

Cost of Sales and Net Operating Revenue, Rancho del Pueblo

As shown on Table III-16, the following is the trend in gross operating revenue, cost of sales, and net operating revenue at Rancho del Pueblo:

<u>Gross Op. Revenue, Cost of Sales and Net Op. Revenue, (\$000)</u>			
<u>Fiscal Year</u>	<u>Gross Op. Rev.</u>	<u>COS</u>	<u>Net Op. Rev.</u>
2000 / 2001	\$694	\$81	\$613
2001 / 2002	\$924	\$119	\$805
2002 / 2003	\$853	\$95	\$758
2003 / 2004	\$756	\$128	\$628
2004 / 2005	\$777	\$129	\$648
2005 / 2006	\$713	\$121	\$592
2006 / 2007	\$741	\$153	\$587

Operating Expenses, Net Operating Income and Annual Debt Service, RDPGC

The following is the trend in net operating revenue, operating expenses, and Net Operating Income at Rancho del Pueblo:

<u>Gross Op. Revenue, Cost of Sales and Net Op. Revenue, (\$000)</u>			
<u>Fiscal Year</u>	<u>Net Op. Rev.</u>	<u>Op Expenses</u>	<u>Net Op. Income</u>
2000 / 2001	\$613	\$689	-\$76
2001 / 2002	\$805	\$734	\$71
2002 / 2003	\$758	\$788	-\$30
2003 / 2004	\$628	\$660	-\$32
2004 / 2005	\$648	\$661	-\$13
2005 / 2006	\$592	\$639	-\$47
2006 / 2007	\$587	\$670	-\$83

As shown, the only year in which Rancho del Pueblo earned an operating profit was FY 2001 / 2002 -- \$71,000.

Since the course opening in the year 2000, operating losses have totaled \$210,000.

In FY 2006 / 2007, the operating loss was \$83,000.

Annual debt service for Rancho del Pueblo was nearly \$487,000 in FY 2006 / 2007 indicating an annual shortfall of \$570,000.

As shown on Table III-17, with future anticipated annual debt service payments averaging about \$487,000, the debt for Rancho del Pueblo is scheduled to be retired in 2027.

Current Practices/Revenue Management, Rancho del Pueblo

As a 9-hole par-28 golf course, Rancho del Pueblo competes in a small market segment targeted to a narrow portion of the overall market — primarily seniors, juniors, and beginning golfers. In general, short courses struggle economically as limitations on greens fees disproportionately restrict revenues compared with regulation length 18-hole courses. Generally, these courses rely heavily on the performance of the practice range to achieve economic stability.

Rancho del Pueblo has properly been positioned to serve its constituencies. As noted above, San Jose's First tee Program is operated by the San Jose Sports Authority at Rancho del Pueblo.

As with the City's two regulation length municipal courses, Rancho maintains a quality website, which allows on-line tee time reservations and provides information to the golfing community.

Course management has been reasonably pro active in establishing clubs and leagues in an effort to stimulate more play.

It appears that the coordination of golf course management at Las Lagos and Rancho del Pueblo has substantially benefited Rancho del Pueblo in constraining operating costs, particularly management and administrative expenses.

The challenge for Rancho del Pueblo is primarily growing revenues. A combination of a weakening Bay Area golf market between 2002 and 2005, the opening of Los Lagos in 2002, and intensified competition from the numerous other short courses in the region have severely constrained Rancho del Pueblo.

While revenues and expenses have been well managed, the golf course and, in particular, the driving range are substantially under utilized.

Table III-1

OVERVIEW OF THE SAN JOSE MUNICIPAL, LOS LAGOS & RANCHO DEL PUEBLO GOLF COURSES

Golf Course Name	San Jose Municipal	Los Lagos	Rancho Del Pueblo
Year Opened	1968	2002	2000
Owner:	City of San Jose	City of San Jose	City of San Jose
Operator	Mike Rawitser	CourseCo. Inc.	CourseCo. Inc.
Number of Acres	146	180 (88-Ac. Course)	33
Number of Holes / Par	18 / 72	18 / 68	9 / 28
Course Length (Back Tees)	6,700 Yards	5,393 Yards	1,418 Yards
Slope Rating (Back Tees) 1/	119	112	NA
Golf Course Designer	R. M. Graves	Brian Costello (JMP)	Damian Pascuzzo (Pascuzzo & Pate)
Clubhouse Size (Sq. Feet)	4,000	4,750	4,000
Range, # of Tee-Stations	60	51	25
Range, Night Lighted?	Yes	Yes	Yes
<u>Greens Fees:</u>			
Weekdays:			
Regular	\$35	\$32 (M-Th)	\$13 (M-Th)
Twilight	\$24	\$23	\$10
Seniors / Students / Jr.	\$21	\$20 / \$12	\$10 / \$7
Weekends:			
Regular	\$49	\$46 (F, S,S, Hol.)	\$15 (F,S,S, Hol.)
Twilight	\$31	\$28	-
Juniors	-	\$12 (After 2 PM)	\$8
Power Cart Fees / Person	Power Cart: \$13 Segway: \$26	\$14	\$10 (One Power Cart)
Annual Rounds, FY '06 / '07	86,991	67,590	35,513

1/ Where 113 is defined as average in difficulty

Source: City of San Jose, Mike Rawitser Golf Shop, CourseCo. Inc.

Table III-2

**SAN JOSE MUNICIPAL GOLF COURSE
SUMMARY OF GREENS FEES SINCE THE YEAR 2000**

<u>Year</u>	<u>Weekday Rates</u>			<u>Weekend Rates</u>	
	<u>18-Hole</u>	<u>Twilight</u>	<u>Senior / Student</u>	<u>18-Hole</u>	<u>Twilight</u>
2000	\$29	\$19	\$17	\$40	\$24
2001	\$30	\$20	\$18	\$42	\$25
2002	\$31	\$21	\$19	\$44	\$26
2003	\$31	\$21	\$19	\$44	\$26
2004	\$32	\$22	\$20	\$46	\$27
2005	\$33	\$23	\$20	\$47	\$28
2006	\$34	\$24	\$20	\$48	\$30
2007	\$35	\$24	\$21	\$49	\$31
2008 Planned	\$36	\$25	\$22	\$50	\$32
Avg. Annual Compound Growth Rate 2000 - 2008	2.7%	3.5%	3.3%	2.8%	3.7%

Average Rate of Inflation, S.F. Bay Area, Since the Year 2000:
(U.S. Bureau of Labor Statistics) 2.75%

Source: City of San Jose and Mike Rawitser Golf Shop and U.S. Bureau of Labor Statistics

Table III-3

**SAN JOSE MUNICIPAL GOLF COURSE
DISTRIBUTION OF ROUNDS BY MONTH
FY 2004 / 2005 THROUGH FY 2006 / 2007**

	Rounds Played By Month			3-Year Average
	Fiscal Year			
	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>	
July	9,072	9,014	8,419	8,835
August	8,566	9,039	9,138	8,914
September	7,676	8,011	7,841	7,843
October	6,396	7,331	6,961	6,896
November	5,741	6,351	5,667	5,920
December	5,024	4,701	4,746	4,824
January	5,007	5,064	5,258	5,110
February	5,400	5,830	4,958	5,396
March	6,280	4,562	7,660	6,167
April	7,770	5,946	7,932	7,216
May	8,525	8,586	9,063	8,725
June	<u>9,003</u>	<u>8,777</u>	<u>9,348</u>	<u>9,043</u>
Total	84,460	83,212	86,991	84,888

	Rounds Played By Month, Percent of Total			3-Year Average
	Fiscal Year			
	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>	
July	10.7%	10.8%	9.7%	10.4%
August	10.1%	10.9%	10.5%	10.5%
September	9.1%	9.6%	9.0%	9.2%
October	7.6%	8.8%	8.0%	8.1%
November	6.8%	7.6%	6.5%	7.0%
December	5.9%	5.6%	5.5%	5.7%
January	5.9%	6.1%	6.0%	6.0%
February	6.4%	7.0%	5.7%	6.4%
March	7.4%	5.5%	8.8%	7.2%
April	9.2%	7.1%	9.1%	8.5%
May	10.1%	10.3%	10.4%	10.3%
June	<u>10.7%</u>	<u>10.5%</u>	<u>10.7%</u>	<u>10.7%</u>
Total	100%	100%	100%	100%

Source: City of San Jose and Mike Rawitser Golf Shop

Table III-4

**SAN JOSE MUNICIPAL GOLF COURSE
COMPARISON OF ANNUAL ROUNDS AND SOURCES OF PLAY, 2001 AND 2006**

	<u>FY 2001</u>		<u>FY 2006</u>		<u>Change, FY 2000 - FY 2006</u>	
	<u>Rounds</u>	<u>%</u>	<u>Rounds</u>	<u>%</u>	<u>Rounds</u>	<u>Percent</u>
<u>Weekday Play</u>						
18-Hole	35,092	37%	24,954	30%	-10,138	-29%
9-Hole	2,741	3%	2,603	3%	-138	-5%
Afternoon	9,032	9%	6,557	8%	-2,475	-27%
Twilight	4,144	4%	3,252	4%	-892	-22%
Seniors	10,120	11%	14,558	17%	4,438	44%
Students	<u>1,930</u>	<u>2%</u>	<u>2,924</u>	<u>4%</u>	<u>994</u>	<u>52%</u>
Subtotal, WD	63,059	66%	54,848	66%	-8,201	-13%
<u>Weekend Play</u>						
18-Hole	24,874	26%	20,891	25%	-3,983	-16%
9-Hole	2,342	2%	1,857	2%	-485	-21%
Afternoon	4,156	4%	3,106	4%	-1,050	-25%
Twilight	<u>1,070</u>	<u>1%</u>	<u>835</u>	<u>1%</u>	<u>-235</u>	<u>-22%</u>
Subtotal, WE	32,442	34%	26,689	32%	-5,753	-18%
Other	-	-	1,675	2%	1,675	-
Total Rounds	95,501	100%	83,212	98%	-12,289	-13%

Source: City of San Jose and Mike Rawitser Golf Shop

Table III-5

**SAN JOSE MUNICIPAL GOLF COURSE
ANNUAL ROUNDS, GROSS OPERATING REVENUE, AND REVENUE TO THE CITY OF SAN JOSE
FISCAL YEAR 2000 / 2001 THROUGH FISCAL YEAR 2006 / 2007**

	Fiscal Year						
	'00 / '01	'01 / '02	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07
Annual Rounds	95,501	91,393	88,701	86,013	84,460	83,212	86,991
Annual Change	-	-4.3%	-2.9%	-3.0%	-1.8%	-1.5%	4.5%
<u>Gross Operating Revenue (Amount Shown in Thousands of Dollars, 000)</u>							
Greens & Tournament Fees	\$2,689	\$2,661	\$2,616	\$2,537	\$2,552	\$2,599	\$2,780
Cart Rentals	\$447	\$400	\$397	\$400	\$402	\$380	\$438
Merchandise Sales	\$1,113	\$966	\$945	\$1,018	\$761	\$659	\$805
Driving Range	\$892	\$917	\$832	\$878	\$882	\$871	\$898
Food & Beverage	\$703	\$648	\$618	\$617	\$574	\$522	\$567
Lessons	\$140	\$147	\$137	\$114	\$94	\$97	\$117
Other Income	\$40	\$45	\$55	\$67	\$76	\$97	\$93
Vending (Net)	\$2	\$2	\$2	\$1	\$1	\$1	\$1
Cellular Site Payment	<u>\$0</u>	<u>\$0</u>	<u>\$12</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Gross Operating Revenue	\$6,026	\$5,786	\$5,614	\$5,632	\$5,342	\$5,226	\$5,699
Annual Change	-	-4.0%	-3.0%	0.3%	-5.1%	-2.2%	9.1%
City Share of Rev. @ 2% 1/	\$121	\$116	\$112	\$113	\$107	\$105	\$114
Cap. Improve. Fund @ 1%	\$60	\$58	\$56	\$56	\$53	\$52	\$57

1/ Per lease agreement with Mike Rawitser Golf Shop
Source: City of San Jose and Mike Rawitser Golf Shop

Table III-6

**SAN JOSE MUNICIPAL GOLF COURSE
SUMMARY OF AVERAGE REVENUES PER ROUND (AND PER TEE-STATION)
FISCAL YEAR 2000 / 2001 THROUGH FISCAL YEAR 2006 / 2007**

	Fiscal Year							
	'00 / '01	'01 / '02	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07	
Annual Rounds	95,501	91,393	88,701	86,013	84,460	83,212	86,991	
<u>Average Revenue Per Round</u>								
Average Greens Fee	\$28.16	\$29.12	\$29.49	\$29.50	\$30.22	\$31.23	\$31.96	
Annual Change	-	3.4%	1.3%	0.0%	2.4%	3.4%	2.3%	
Average Cart Rental Fees	\$4.68	\$4.38	\$4.48	\$4.65	\$4.76	\$4.57	\$5.04	
Annual Change	-	-6.5%	2.3%	3.9%	2.3%	-4.1%	10.3%	
Avg. Merchandise Sales	\$11.65	\$10.57	\$10.65	\$11.84	\$9.01	\$7.92	\$9.25	
Annual Change	-	-9.3%	0.8%	11.1%	-23.9%	-12.1%	16.8%	
Avg. Range Rev. / Round	\$9.34	\$10.03	\$9.38	\$10.21	\$10.44	\$10.47	\$10.32	
Annual Change	-	7.4%	-6.5%	8.8%	2.3%	0.2%	-1.4%	
Avg. Range Rev. / Tee	<u>Tees</u> 60	\$14,867	\$15,283	\$13,867	\$14,633	\$14,700	\$14,517	\$14,967
Annual Change	-	2.8%	-9.3%	5.5%	0.5%	-1.2%	3.1%	
Avg. Food & Beverage	\$7.36	\$7.09	\$6.97	\$7.17	\$6.80	\$6.27	\$6.52	
Annual Change	-	-3.7%	-1.7%	3.0%	-5.3%	-7.7%	3.9%	
Avg. Lesson Fee / Round	\$1.47	\$1.61	\$1.54	\$1.33	\$1.11	\$1.17	\$1.34	
Annual Change	-	9.7%	-4.0%	-14.2%	-16.0%	4.7%	15.4%	
Other Income, Average	\$0.42	\$0.49	\$0.62	\$0.78	\$0.90	\$1.17	\$1.07	
Annual Change	-	17.6%	25.9%	25.6%	15.5%	29.5%	-8.3%	
Vending (Net), Per Round	\$0.02	\$0.02	\$0.02	\$0.01	\$0.01	\$0.01	\$0.01	
Annual Change	-	4.5%	3.0%	-48.4%	1.8%	1.5%	-4.3%	
Total Revenue Per Round	\$63.10	\$63.31	\$63.16	\$65.48	\$63.25	\$62.80	\$65.51	
Annual Change	-	0.3%	-0.2%	3.7%	-3.4%	-0.7%	4.3%	

Source: City of San Jose and Mike Rawitser Golf Shop

Table III-7

**LOS LAGOS GOLF COURSE
 ROUNDS PLAYED BY MONTH
 FISCAL YEAR 2004 / 2005 THROUGH FISCAL YEAR 2006 / 2007**

<u>Month</u>	<u>Rounds Played By Month</u>			<u>3-Year Average</u>
	<u>FY '04 / '05</u>	<u>FY '05 / '06</u>	<u>FY '06 / '07</u>	
July	7,484	7,135	6,543	7,054
August	6,881	7,229	7,060	7,057
September	5,700	5,884	6,092	5,892
October	5,190	5,638	5,463	5,430
November	4,580	4,775	4,726	4,694
December	3,992	3,643	3,835	3,823
January	3,830	4,122	4,183	4,045
February	4,527	4,455	3,743	4,242
March	5,591	4,024	5,916	5,177
April	6,375	5,565	6,167	6,036
May	6,942	6,356	6,634	6,644
June	<u>7,452</u>	<u>7,017</u>	<u>7,228</u>	<u>7,232</u>
Total	68,544	65,843	67,590	67,326

	<u>Rounds Played By Month, % of Total</u>			<u>3-Year Average</u>
	<u>FY '04 / '05</u>	<u>FY '05 / '06</u>	<u>FY '06 / '07</u>	
July	10.9%	10.4%	9.5%	10.5%
August	10.0%	10.5%	10.3%	10.5%
September	8.3%	8.6%	8.9%	8.8%
October	7.6%	8.2%	8.0%	8.1%
November	6.7%	7.0%	6.9%	7.0%
December	5.8%	5.3%	5.6%	5.7%
January	5.6%	6.0%	6.1%	6.0%
February	6.6%	6.5%	5.5%	6.3%
March	8.2%	5.9%	8.6%	7.7%
April	9.3%	8.1%	9.0%	9.0%
May	10.1%	9.3%	9.7%	9.9%
June	<u>10.9%</u>	<u>10.2%</u>	<u>10.5%</u>	<u>10.7%</u>
Total	100.0%	96.1%	98.6%	100.0%

Source: City of San Jose and CourseCo. Inc.

Table III-8

**LOS LAGOS GOLF COURSE
COMPARISON OF ROUNDS AND SOURCES OF PLAY
FISCAL YEAR 2004 / 2005 AND FISCAL YEAR 2006 / 2007**

	<u>FY 2004 / 2005</u>		<u>FY 2006 / 2007</u>		<u>Change, Last 3 Years</u>	
	<u>Rounds</u>	<u>%</u>	<u>Rounds</u>	<u>%</u>	<u>Rounds</u>	<u>%</u>
<u>Weekdays:</u>						
Regular	12,345	18%	8,256	12%	(4,089)	-33%
9-Hole	1,174	2%	2,405	4%	1,231	105%
Senior	11,778	17%	14,056	21%	2,278	19%
Twilight	6,309	9%	7,329	11%	1,020	16%
Super Twilight	2,210	3%	2,248	3%	38	2%
Junior	1,899	3%	1,305	2%	(594)	-31%
Junior Replay	155	0%	365	1%	210	135%
Regular Replay	<u>88</u>	<u>0%</u>	<u>52</u>	<u>0%</u>	<u>(36)</u>	<u>-41%</u>
Subtotal, WD	35,958	52%	36,016	53%	58	0%
<u>Weekends:</u>						
Regular	21,292 ¹	31%	16,524	24%	(4,768)	-22%
9-Hole	2,576	4%	3,019	4%	443	17%
Twilight	4,700	7%	7,607	11%	2,907	62%
Super Twilight	1,631	2%	1,577	2%	(54)	-3%
Junior	1,354	2%	1,346	2%	(8)	-1%
Regular Replay	95	0%	210	0%	115	121%
Senior - Friday Only	<u>938</u>	<u>1%</u>	<u>1,291</u>	<u>2%</u>	<u>353</u>	<u>38%</u>
Subtotal, WE	32,586	48%	31,574	47%	(1,012)	-3%
Total Rounds	68,544	100%	67,590	100%	(954)	-1%

¹ Includes 330 miscellaneous rounds.

Source: City of San Jose and CourseCo. Inc.

Table III-9

**LOS LAGOS GOLF COURSE
ANNUAL ROUNDS AND GROSS OPERATING REVENUE
FISCAL YEAR 2002 / 2003 THROUGH FISCAL YEAR 2006 / 2007**

	Fiscal Year				
	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07
Annual Rounds	69,460	68,781	68,544	65,843	67,590
Annual Change	-	-1.0%	-0.3%	-3.9%	2.7%
<u>Gross Operating Revenue (Amounts Expressed in Thousands of Dollars, \$000)</u>					
Greens Fees	\$2,052	\$1,962	\$1,932	\$1,850	\$1,895
Cart Rentals	\$448	\$489	\$488	\$494	\$570
Driving Range	\$410	\$382	\$345	\$332	\$370
Merchandise Sales	\$270	\$347	\$372	\$339	\$355
Food and Beverage	\$463	\$472	\$459	\$417	\$438
Club Rentals	\$15	\$15	\$15	\$18	\$12
Lessons	\$57	\$79	\$74	\$62	\$70
Other Income	\$19	\$17	\$34	\$38	\$31
Gross Op. Revenue	\$3,734	\$3,763	\$3,719	\$3,550	\$3,741
Annual Change	-	0.8%	-1.2%	-4.5%	5.4%

Source: City of San Jose and CourseCo. Inc.

Table III-10

**LOS LAGOS GOLF COURSE
SUMMARY OF AVERAGE REVENUES PER ROUND (AND PER TEE-STATION)
FISCAL YEAR 2002 / 2003 THROUGH FISCAL YEAR 2006 / 2007**

	Fiscal Year					
	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07	
Annual Rounds	69,460	68,781	68,544	65,843	67,590	
<u>Average Revenue / Round</u>						
Avg. Greens Fee	\$29.55	\$28.53	\$28.18	\$28.10	\$28.04	
Annual Change	-	-3.5%	-1.2%	-0.3%	-0.2%	
Avg. Cart Rental Fee	\$6.45	\$7.11	\$7.12	\$7.50	\$8.43	
Annual Change	-	10.2%	0.1%	5.3%	12.4%	
Avg. Merchandise / Rd.	\$3.88	\$5.04	\$5.43	\$5.15	\$5.25	
Annual Change	-	29.9%	7.7%	-5.2%	1.9%	
Avg. F&B / Round	\$6.66	\$6.87	\$6.69	\$6.34	\$6.48	
Annual Change	-	3.2%	-2.6%	-5.2%	2.2%	
Avg. Range Rev. / Rd.	\$5.90	\$5.55	\$5.03	\$5.05	\$5.48	
Annual Change	-	-5.9%	-9.4%	0.4%	8.5%	
Avg. Range Rev. / Tee	<u>Tees</u> 42	\$9,762	\$9,095	\$8,214	\$7,905	\$8,810
Annual Change		-	-6.8%	-9.7%	-3.8%	11.4%
Avg. Club Rental Fee / Rd.	\$0.22	\$0.21	\$0.23	\$0.28	\$0.18	
Annual Change	-	-4.5%	9.5%	21.7%	-35.7%	
Avg Lesson Fee / Round	\$0.82	\$1.15	\$1.08	\$0.94	\$1.03	
Annual Change	-	40.2%	-6.1%	-13.0%	9.6%	
Other Income, Avg. / Rd.	\$0.27	\$0.25	\$0.50	\$0.58	\$0.46	
Annual Change	-	-9.6%	100.7%	16.3%	-20.5%	
Total Per-Round Income	\$53.75	\$54.71	\$54.26	\$53.94	\$55.35	
Annual Change		1.8%	-0.8%	-0.6%	2.6%	

Source: City of San Jose and CourseCo. Inc.

Table III-11

**LOS LAGOS GOLF COURSE
OPERATING EXPENSES AND NET OPERATING INCOME
FISCAL YEAR 2002 / 2003 THROUGH FISCAL YEAR 2006 / 2007
AMOUNTS SHOWN IN THOUSANDS OF DOLLARS (\$000)**

	<u>FY '02 / '03</u>	<u>FY '03 / '04</u>	<u>FY '04 / '05</u>	<u>FY '05 / '06</u>	<u>FY '06 / '07</u>
GROSS OPERATING REVENUE	\$3,734	\$3,763	\$3,719	\$3,550	\$3,741
<u>Cost of Sales</u>					
Merchandise	\$203	\$240	\$256	\$233	\$244
Food and Beverage	\$150	\$163	\$152	\$141	\$167
Lessons	<u>\$51</u>	<u>\$71</u>	<u>\$67</u>	<u>\$55</u>	<u>\$63</u>
Total Cost of Sales	\$404	\$474	\$475	\$429	\$474
NET OPERATING REVENUE	\$3,330	\$3,289	\$3,244	\$3,121	\$3,267
OPERATING EXPENSES:					
<u>Golf Course Maintenance:</u>					
Payroll	\$706	\$772	\$732	\$773	\$782
Water	\$125	\$12	\$121	\$132	\$79
Water Pumping Charges	\$44	\$31	\$21	\$24	\$34
Other Utilities	\$12	\$7	\$11	\$15	\$7
Services and Supplies	<u>\$171</u>	<u>\$297</u>	<u>\$216</u>	<u>\$229</u>	<u>\$249</u>
Subtotal, GC Maintenance	\$1,058	\$1,119	\$1,101	\$1,173	\$1,151
<u>Golf Operations:</u>					
Payroll	\$313	\$379	\$345	\$300	\$360
Utilities	\$15	\$17	\$21	\$20	\$12
Equipment Leases	\$53	\$53	\$53	\$53	\$52
Range Balls and Supplies	\$46	\$34	\$45	\$40	\$57
Services and Supplies	<u>\$106</u>	<u>\$89</u>	<u>\$79</u>	<u>\$82</u>	<u>\$105</u>
Subtotal, Golf Operations	\$533	\$572	\$543	\$495	\$586
<u>Food and Beverage:</u>					
Payroll	\$264	\$275	\$257	\$259	\$268
Utilities	\$29	\$25	\$19	\$23	\$28
Services and Supplies	<u>\$44</u>	<u>\$46</u>	<u>\$45</u>	<u>\$51</u>	<u>\$54</u>
Subtotal, Food and Beverage	\$337	\$346	\$321	\$333	\$350
<u>General and Administrative:</u>					
Payroll	\$140	\$155	\$154	\$155	\$155
Utilities	\$23	\$29	\$15	\$9	\$11
Legal and Accounting	\$18	\$35	\$38	\$39	\$34
Insurance	\$26	\$29	\$34	\$35	\$36
Services and Supplies	\$139	\$102	\$88	\$85	\$83
Management Fees	\$136	\$132	\$133	\$137	\$141
Mitigation Fees	-	\$71	\$65	\$68	\$74
Cap. Reserve Fund @ 3% Gross Rev.	<u>\$112</u>	<u>\$113</u>	<u>\$112</u>	<u>\$107</u>	<u>\$112</u>
Subtotal, G&A	\$594	\$666	\$639	\$635	\$646
TOTAL OPERATING EXPENSES	\$2,522	\$2,703	\$2,604	\$2,636	\$2,733
NET OPERATING INCOME	\$808	\$586	\$640	\$486	\$534

Source: City of San Jose and CourseCo. Inc.

Table III-12

**RANCHO DEL PUEBLO GOLF COURSE
DISTRIBUTION OF ROUNDS BY MONTH
FY 2004 / 2005 THROUGH FY 2006 / 2007**

	Rounds Played By Month			3-Year Average
	Fiscal Year			
	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>	
July	3,974	4,581	3,329	3,961
August	3,939	4,279	3,788	4,002
September	3,014	3,605	3,428	3,349
October	3,328	3,365	3,057	3,250
November	2,893	2,802	2,439	2,711
December	2,668	1,830	1,891	2,130
January	2,412	2,350	2,393	2,385
February	2,683	2,668	2,027	2,459
March	3,269	2,127	3,458	2,951
April	3,890	2,705	3,060	3,218
May	4,028	3,607	3,255	3,630
June	<u>4,294</u>	<u>3,802</u>	<u>3,388</u>	<u>3,828</u>
Total	40,392	37,721	35,513	37,875

	Rounds Played By Month, Percent of Total			3-Year Average
	Fiscal Year			
	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>	
July	9.8%	12.1%	9.4%	10.5%
August	9.8%	11.3%	10.7%	10.6%
September	7.5%	9.6%	9.7%	8.9%
October	8.2%	8.9%	8.6%	8.6%
November	7.2%	7.4%	6.9%	7.2%
December	6.6%	4.9%	5.3%	5.6%
January	6.0%	6.2%	6.7%	6.3%
February	6.6%	7.1%	5.7%	6.5%
March	8.1%	5.6%	9.7%	7.8%
April	9.6%	7.2%	8.6%	8.5%
May	10.0%	9.6%	9.2%	9.6%
June	<u>10.6%</u>	<u>10.1%</u>	<u>9.5%</u>	<u>10.1%</u>
Total	100%	100%	100%	100%

Source: City of San Jose and CourseCo. Inc.

Table III-13

**RANCHO DEL PUEBLO GOLF COURSE
COMPARISON OF ROUNDS AND SOURCES OF PLAY, FY2002 AND FY2007**

	<u>FY2002</u>		<u>FY2007</u>		<u>Change FY2002 - FY2007</u>	
	<u>Rounds</u>	<u>Percent</u>	<u>Rounds</u>	<u>Percent</u>	<u>Rounds</u>	<u>Percent</u>
<u>Weekday Play</u>						
Regular	14,357	31.1%	11,958	33.7%	(2,399)	-17%
Twilight	1,868	4.1%	1,820	5.1%	(48)	-3%
Junior	1,570	3.4%	1,927	5.4%	357	23%
Senior	4,625	10.0%	5,973	16.8%	1,348	29%
Replay	<u>1,466</u>	<u>3.2%</u>	<u>2,368</u>	<u>6.7%</u>	<u>902</u>	62%
WD Total 1/	23,886	51.8%	24,046	67.7%	160	1%
<u>Weekend Play</u>						
Regular	18,901	41.0%	8,245	23.2%	(10,656)	-56%
Twilight	-	0.0%	607	1.7%	607	-
Junior	<u>1,375</u>	<u>3.0%</u>	<u>841</u>	<u>2.4%</u>	<u>(534)</u>	-39%
WE Total	20,276	44.0%	9,693	27.3%	(10,583)	-52%
Other	<u>1,938</u>	<u>4.2%</u>	<u>1,774</u>	<u>5.0%</u>	<u>(164)</u>	-8%
Total Rounds	46,100	100.0%	35,513	100.0%	(10,587)	-23%

1/ Beginning In 2004, Fridays rounds were redefined as weekday rounds, not weekend rounds
Source: CourseCo. Inc.

Table III-14

**RANCHO DEL PUEBLO GOLF COURSE
ANNUAL ROUNDS AND GROSS OPERATING REVENUE
FISCAL YEAR 2000 / 2001 THROUGH FISCAL YEAR 2006 / 2007**

	Fiscal Year						
	'00 / '01	'01 / '02	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07
Annual Rounds	39,320	46,100	41,335	35,400	40,392	37,721	35,513
Annual Change	1/	17.2%	-10.3%	-14.4%	14.1%	-6.6%	-5.9%

Gross Operating Revenue (Amounts Shown in Thousands of Dollars, \$000)

Greens Fees	\$429	\$514	\$461	\$412	\$454	\$422	\$407
Driving Range	\$94	\$207	\$173	\$150	\$130	\$105	\$117
Pro Shop Sales	\$79	\$83	\$74	\$56	\$55	\$54	\$72
Food & Bev. Sales	\$78	\$98	\$79	\$70	\$68	\$66	\$66
Power Cart Rentals	\$1	\$1	\$1	\$3	\$4	\$3	\$3
Other Rentals	\$13	\$11	\$12	\$9	\$8	\$5	\$3
Lessons	\$0	\$8	\$53	\$56	\$58	\$58	\$73
Other	<u>\$0</u>	<u>\$2</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Gross Op. Revenue	\$694	\$924	\$853	\$756	\$777	\$713	\$741
Annual Change	1/	33.1%	-7.7%	-11.4%	2.8%	-8.2%	3.9%

1/ Golf course opened in March 2000
Source: City of San Jose, CourseCo. Inc.

Table III-15

RANCHO DEL PUEBLO GOLF COURSE
SUMMARY OF AVERAGE REVENUES PER ROUND (AND PER TEE-STATION)
FISCAL YEAR 2000 / 2001 THROUGH FISCAL YEAR 2006 / 2007

	Fiscal Year						
	'00 / '01	'01 / '02	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07
Annual Rounds	39,320	46,100	41,335	35,400	40,392	37,721	35,513
<u>Average Revenue Per Round (and Per Tee-Station)</u>							
Average Greens Fee	\$10.91	\$11.15	\$11.15	\$11.64	\$11.24	\$11.19	\$11.46
Annual Change	1/	2.2%	0.0%	4.4%	-3.4%	-0.5%	2.4%
Avg. Range Rev. / Round	\$2.39	\$4.49	\$4.19	\$4.24	\$3.22	\$2.78	\$3.29
Annual Change	-	87.8%	-6.8%	1.2%	-24.0%	-13.5%	18.4%
	<u>Tees</u>						
Avg. Range Rev. / Tee	25	\$3,760	\$8,280	\$6,920	\$6,000	\$5,200	\$4,680
Annual Change		-	120.2%	-16.4%	-13.3%	-13.3%	-19.2%
Avg. Pro Shop Sales / Rd.	\$2.01	\$1.80	\$1.79	\$1.58	\$1.36	\$1.43	\$2.03
Annual Change	-	-10.4%	-0.6%	-11.6%	-13.9%	5.1%	41.6%
Avg. F&B Sales / Round	\$1.98	\$2.13	\$1.91	\$1.98	\$1.68	\$1.75	\$1.86
Annual Change	-	7.2%	-10.1%	3.5%	-14.9%	3.9%	6.2%
Avg. Power Cart Fees / Rd.	\$0.03	\$0.02	\$0.02	\$0.08	\$0.10	\$0.08	\$0.08
Annual Change	-	-14.7%	11.5%	250.3%	16.9%	-19.7%	6.2%
Avg. Other Rental Fees / Rd.	\$0.33	\$0.24	\$0.29	\$0.25	\$0.20	\$0.13	\$0.08
Annual Change	-	-	21.7%	-12.4%	-22.1%	-33.1%	-36.3%
Avg. Lesson Fees / Round	\$0.00	\$0.17	\$1.28	\$1.58	\$1.44	\$1.54	\$2.06
Annual Change	-	-	638.9%	23.4%	-9.2%	7.1%	33.7%
Avg. Per-Rd. Spending	\$17.65	\$20.00	\$20.64	\$21.36	\$19.24	\$18.90	\$20.87
Annual Change	-	13.3%	3.2%	3.5%	-9.9%	-1.7%	10.4%

1/ Golf course opened in March 2000

Source: City of San Jose and CourseCo, Inc.

Table III-16

**RANCHO DEL PUEBLO GOLF COURSE
OPERATING EXPENSES AND NET OPERATING INCOME
FISCAL YEAR 2000 / 2001 THROUGH FISCAL YEAR 2006 / 2007
AMOUNTS SHOWN IN THOUSANDS OF DOLLARS, (\$000)**

	Fiscal Year						
	'00 / '01	'01 / '02	'02 / '03	'03 / '04	'04 / '05	'05 / '06	'06 / '07
Gross Operating Revenue	\$694	\$924	\$853	\$756	\$777	\$713	\$741
Cost of Goods Sold	<u>\$81</u>	<u>\$119</u>	<u>\$95</u>	<u>\$128</u>	<u>\$129</u>	<u>\$121</u>	<u>\$153</u>
Net Operating Revenue	\$613	\$805	\$758	\$628	\$648	\$592	\$587
<u>Operating Expenses:</u>							
Personnel 1/	\$359	\$412	\$440	\$368	\$326	\$322	\$340
Services and Supplies	\$63	\$67	\$69	\$41	\$73	\$80	\$100
Irrigation Water / Pumping	\$42	\$42	\$44	\$65	\$61	\$58	\$51
Other Utilities	\$28	\$29	\$29	\$23	\$25	\$26	\$26
Telecommunications	\$10	\$12	\$24	\$7	\$9	\$11	\$9
Insurance	\$14	\$8	\$10	\$15	\$17	\$18	\$18
G&A, Mktg, Legal, Acct.	\$82	\$92	\$96	\$74	\$74	\$50	\$51
Management Fees 1/	\$47	\$50	\$59	\$52	\$60	\$60	\$60
Capital Reserve Fund	\$18	\$22	\$17	\$15	\$16	\$14	\$15
Other	<u>\$26</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Operating Expenses	\$689	\$734	\$788	\$660	\$661	\$639	\$670
Net Operating Income (NOI)	-\$76	\$71	-\$30	-\$32	-\$13	-\$47	-\$83

1/ In FY 2005 / 2006, as part of a two-year contract extension, the management fee calculation was restructured calling for an increase in the base monthly fee from \$5,000 to \$18,000, while shifting on-site management staff expenses to the operator. This statement reflects an allocation of \$5,000 per month as a management fee with the balance of the \$18,000 monthly contract fee shifted to "personnel" expenses.

Source: City of San Jose and CourseCo. Inc. and ERA

Table III-17

**LOS LAGOS AND RANCHO DEL PUEBLO GOLF COURSES
REMAINING ANNUAL DEBT SERVICE PAYMENTS
AMOUNTS SHOWN IN THOUSANDS OF DOLLARS (\$000)**

FY Ending 6/30	<u>Remaining Annual Debt Service Payments</u>		
	Rancho Del Pueblo	Los Lagos	FY Total
2008	\$488	\$1,418	\$1,906
2009	\$484	\$1,432	\$1,916
2010	\$485	\$1,444	\$1,929
2011	\$485	\$1,460	\$1,945
2012	\$485	\$1,474	\$1,959
2013	\$489	\$1,486	\$1,975
2014	\$487	\$1,501	\$1,989
2015	\$485	\$1,519	\$2,004
2016	\$487	\$1,534	\$2,021
2017	\$488	\$1,550	\$2,039
2018	\$489	\$1,564	\$2,053
2019	\$488	\$1,580	\$2,068
2020	\$487	\$1,597	\$2,084
2021	\$489	\$1,611	\$2,101
2022	\$486	\$1,631	\$2,117
2023	\$486	\$1,647	\$2,133
2024	\$485	\$1,659	\$2,144
2025	\$489	\$1,677	\$2,166
2026	\$490	\$1,696	\$2,186
2027	<u>\$486</u>	\$1,710	\$2,195
2028		\$1,729	\$1,729
2029		\$1,748	\$1,748
2030		<u>\$1,762</u>	<u>\$1,762</u>
Totals	9,738	36,429	46,169

Source: City of San Jose Finance Department

SECTION IV: COMPETITIVE BENCHMARKING / CUSTOMER SURVEYS

INTRODUCTION

In the following section, competitive benchmarking information is first presented that facilitates a comparison of the operating performance of the San Jose Municipal and Los Lagos golf courses to other municipally-owned 18-hole golf courses in the Bay Area. Information pertaining to gross operating revenue, by department and per round, and annual golf course maintenance expenses is presented. As well, a comparison is presented of operating revenues, by department, at Rancho del Pueblo and 6 other 9-hole golf courses with driving ranges in the Bay Area. The section then concludes with results of consumer surveys conducted at Los Lagos and San Jose Municipal.

COMPETITIVE BENCHMARKING, 18-HOLE MUNICIPAL COURSES

Tables IV-1 and IV-2 present a comparison of annual rounds, gross operating revenue, and gross operating revenue per round for the following municipally-owned golf facilities in the Bay Area:

1. Boundary Oak, Walnut Creek
2. Callippe Preserve, Pleasanton
3. Diablo Creek, Concord
4. Los Lagos, San Jose
5. Palo Alto, Palo Alto
6. Paradise Valley, Fairfield
7. Rancho Solano, Fairfield
8. San Jose Municipal, San Jose
9. Santa Clara, Santa Clara
10. Santa Teresa, San Jose
11. Shoreline, Mountain View
12. Sunnyvale, Sunnyvale
13. Tilden Park, Berkeley

The information pertains to Fiscal Year 2006 / 2007 or calendar year 2007 (the latest available information).

The information was obtained through a variety of means including telephone interviews with golf facility managers, staff at the various cities, and management at golf course operating companies. In some cases, selected additional information is presented for other selected municipal courses (where available).

The purpose of this analysis is to:

- Provide a comparison of the operating performance of Los Lagos and San Jose Municipal to other similar facilities.
- Highlight areas where improvement at the City's courses may be possible.
- Provide comparative benchmark data for the City's financial projections that follow.

The following text tables highlight selected data.

Total Annual Play Levels, 2007

<i>Golf Course</i>	<i>Total Annual Rounds</i>
Santa Clara	87,120
San Jose Municipal	86,991
Sunnyvale	80,513
Palo Alto	76,241
Santa Teresa (18)	75,000
Crystal Springs	73,654
Callippe Preserve	72,961
Shoreline	67,634
Los Lagos	67,590
Diablo Creek	67,072
Tilden Park	65,123
Boundary Oak	65,100
Rancho Solano	60,558
Paradise Valley	58,557
Metropolitan	57,001
Average	70,741

- At San Jose Municipal, with nearly 87,000 rounds, annual play levels are about 23 percent higher than the survey average of 70,741.
- At Los Lagos, with nearly 67,600 rounds, annual play levels are about four percent less than the survey average.

Average Greens Fee

The average greens fee is defined as total greens fee revenue (including revenue from annual play cards where appropriate) divided by total golf rounds. The following is a summary of actual average greens fees at the surveyed facilities:

<i>Facility Name</i>	<i>Greens Fees Revenue (\$000)</i>	<i>Rounds</i>	<i>Average Green Fee</i>
Callippe Preserve	\$ 2,767	72,961	\$37.92
Crystal Springs	2,772	73,654	37.64
Metropolitan	1,902	57,001	33.37
San Jose Municipal	2,780	86,991	31.96
Shoreline	2,158	67,634	31.91
Palo Alto	2,318	76,241	30.40
Los Lagos	1,895	67,590	28.04
Sunnyvale	2,250	80,513	27.95
Rancho Solano	1,582	60,558	26.12
Paradise Valley	1,520	58,557	25.96
Santa Clara	2,179	87,120	25.01
Tilden Park	1,618	65,123	24.85
Boundary Oak	1,452	65,100	22.30
Diablo Creek	1,295	67,072	19.31
Average	\$2,035	70,437	\$28.89

- At San Jose Municipal, the overall actual average greens fee of \$31.96 is four percent higher than the survey average of \$28.89.
- At Los Lagos, the overall actual average greens fee of \$28.04 is three percent lower than the survey average.

Average Cart Rental Revenue Per Round

<i>Facility Name</i>	<i>Cart Gross Revenue (\$000)</i>	<i>Avg. Cart Fee / Round</i>
Rancho Solano	\$576	\$9.51
Callippe Preserve	680	9.32
Los Lagos	570	8.43
Crystal Springs	602	8.17
Paradise Valley	462	7.89
Metropolitan	441	7.74
Diablo Creek	420	6.26
Boundary Oak	395	6.07
Tilden Park	377	5.79
Shoreline	352	5.20
San Jose Municipal	\$438	5.04
Santa Clara	430	4.94
Sunnyvale	356	4.42
Palo Alto	311	4.08
Average	\$458	\$6.63

- At Los Lagos, the average cart fee per round of \$8.43 is 19 percent higher than the survey average of \$6.63 per round. This is likely due to the fact that Los Lagos is a popular course with seniors who are somewhat more likely to rent a cart than average.
- At San Jose Municipal, the average cart fee per round of \$5.04 is about 24 percent lower than the survey average. San Jose Municipal is flat course that is easy to walk and, apparently, many golfers prefer do so.

Average Merchandise Revenue Per Round

<i>Facility Name</i>	<i>Merchandise Gross Revenue (\$000)</i>	<i>Avg. Merch. Revenue per Round</i>
San Jose Municipal	\$805	\$9.25
Palo Alto	653	8.56
Shoreline	411	6.08
Paradise Valley	337	5.76
Los Lagos	355	5.25
Diablo Creek	341	5.08
Callippe Preserve	324	4.44
Rancho Solano	247	4.08
Tilden Park	251	3.85
Sunnyvale	261	3.24
Santa Clara	280	3.21
Boundary Oak	132	2.03
Average	\$366	\$5.07

- At San Jose Municipal, average merchandise sales per round of \$9.25 are the highest of the group and are about 36 percent higher than the survey average of about \$5 per round. In part, this is attributed to high quality inventory, strong marketing, and a high-tech club fitting program at the range.
- At Los Lagos, average merchandise sales of \$5.25 per round are four percent higher than the survey average.

Average Driving Range Revenue Per Tee Station

<i>Facility</i>	<i>Night Lighting?</i>	<i>Number of Tees</i>	<i>Gross Range Revenue (\$000)</i>	<i>Average Range Revenue Per Tee</i>
Santa Clara	No	25	\$388	\$15,520
San Jose Municipal	Yes	60	898	14,960
Crystal Springs	Yes	27	384	14,233
Palo Alto	Yes	26	354	13,604
Metropolitan	No	26	324	13,604
Shoreline	Yes	35	407	11,637
Los Lagos	Yes	42	370	8,810
Tilden Park	Yes	70	496	7,089
Diablo Creek	Yes	40	271	6,775
Rancho Solano	No	12	79	6,581
Boundary Oak	Yes	70	444	6,337
Paradise Valley	Yes	28	161	5,749
Callippe Preserve	No	30	75	2,489
Average		42	\$358	\$ 8,524

- At San Jose Municipal, gross range revenue is the highest of the surveyed facilities at nearly \$900,000. On an average range revenue per tee-station basis, the average of \$14,960 is 76 percent higher than the survey average.
- At Los Lagos, average revenues of \$8,810 per tee are 3 percent higher than the survey average. As mentioned, limited parking is cited as a constraint impacting the range business.

Average Food and Beverage Spending Per Round

To the extent possible, ERA attempted to break-out a la carte spending by golfers in the grill versus meeting and banquet revenues.

The following is a summary of average a la carte spending in a golfers grill:

<i>Facility</i>	<i>Average F&B Spending Per Round in a Golfers Grill</i>
Callippe Preserve	\$8.91
Diablo Creek	\$7.45
San Jose Municipal	\$6.52
Los Lagos	\$6.48
Palo Alto	\$6.36
Paradise Valley	\$5.12
Lone Tree	\$5.06
Los Positas	\$4.95
Rancho Solano	\$4.95
Boundary Oak	\$4.22
Tilden Park	\$3.99
Delta View	\$3.89
Average	\$5.66

- At both San Jose Municipal and Los Lagos, the average per round spending by golfers on food and beverage of about \$6.50 per round is about 15 percent higher than the survey average – indicators of strong grill performance.
- It is notable that without dedicated meeting and banquet facilities, total gross food and beverage revenues at San Jose Municipal and Los Lagos were the lowest of the surveyed facilities:

<i>Facility</i>	<i>Total F&B Gross Revenue (\$000)</i>
Los Positas	\$2,200
Rancho Solano	\$1,900
Boundary Oak	\$1,859
Lone Tree	\$1,700
Diablo Creek	\$1,500
Paradise Valley	\$1,400
Delta View	\$975
Callippe Preserve	\$650
Palo Alto	\$606
Tilden Park	\$572
San Jose Municipal	\$567
Los Lagos	\$438
Average	\$1,198

Although ERA requested information, food and beverage revenue information was *not* available at the following facilities: Santa Clara, Shoreline, and Sunnyvale.

GOLF COURSE MAINTENANCE EXPENSES

Table IV-3 presents a comparison of golf course maintenance expenses at Los Lagos Golf Course and 14 selected municipally-owned facilities in the Bay Area for Fiscal Year 2006 / 2007 or calendar year 2007 (the latest available information). Golf course maintenance expense information was *not* available at San Jose Municipal, Santa Clara, and Poplar Creek.

It is important to note that the water cost component of golf course maintenance expenses ranges widely from effectively zero at Diablo Creek, where well water is free and pumped from the ground, to a high of \$320,000 per year at Callippe Preserve and \$350,000 at Shoreline.

The following is a summary of key points where the municipal facilities are placed into two groups – those with public (City) operations and those where golf course maintenance is provided by a private golf course management firm:

- For the 15 surveyed facilities, the average annual golf course maintenance expense was nearly \$1.1 million. Annual water costs averaged \$146,000 for the group.
- At Los Lagos, the total annual golf course maintenance expense of \$1.15 million was 7 percent higher than survey average. As mentioned, the maintenance of the Coyote Creek Riparian area is a unique expense.
- Excluding water costs, which are not under the control of the operator, the average annual expense for services and supplies was:
 - An average of \$926,000 for the total group.
 - About \$1.17 million for the public operations.
 - About \$778,000 for the private operations.
 - On average, excluding water costs, the annual expense for services and supplies was about 50 percent higher for the public operations. To a large degree, this is due to extensive benefits which results in significantly higher labor costs than found in the private sector.
- Overall, the average annual golf course maintenance expense for public operations of \$1.36 million was about \$462,000 higher than the average of nearly \$900,000 for the private operations.

OPERATING REVENUES AT SELECTED 9-HOLE GOLF COURSES

Table IV-4 presents a summary of operating revenues at Rancho del Pueblo and selected 9-hole golf courses with driving ranges in the Bay Area.

<i>Annual Rounds, Green Fee Revenue, and Actual Average Greens Fee</i>			
<i>Course Name</i>	<i>Greens Fee Rev. \$000)</i>	<i>Annual Rounds</i>	<i>Average Greens Fee</i>
McInnis Park	\$750	55,000	\$13.64
Pleasanton Golf Center	\$550	45,000	\$12.22
Fremont Park	\$420	35,000	\$12.00
Mission Hills	\$650	55,000	\$11.82
Buchanan Fields	\$650	55,000	\$11.82
Rancho del Pueblo	\$407	35,500	\$11.46
Mariner's Point	\$510	45,000	\$11.33

<i>Average Merchandise Sales Per Round</i>		
<i>Course Name</i>	<i>Merchandise Sales \$000)</i>	<i>Average Per Round</i>
Buchanan Fields	\$350	\$6.36
McInnis Park	\$261	\$4.75
Fremont Park	\$90	\$2.57
Mission Hills	\$140	\$2.55
Rancho del Pueblo	\$72	\$2.03
Pleasanton Golf Center	\$70	\$1.56

<i>Gross Range Revenues and Avg. Range Rev. Per Tee-Station</i>			
<i>Course Name</i>	<i>Range Revenues (\$000)</i>	<i># Tee-Stations</i>	<i>Average Per Tee</i>
Buchanan Fields	\$800	50 (lit)	\$16,000
McInnis Park	\$650	52 (lit)	\$12,500
Fremont Park	\$650	53 (lit)	\$12,264
Pleasanton Golf Ctr.	\$500	45 (lit)	\$11,111
Mission Hills	\$500	50 (lit)	\$10,000
Rancho del Pueblo	\$117	25 (lit)	\$4,280

<i>Average Food and Beverage Sales Per Round</i>		
<i>Course Name</i>	<i>Gross F&B Sales (\$000)</i>	<i>Average Per Round</i>
Buchanan Fields	\$250	\$4.55
Fremont Park	\$145	\$4.14
Mission Hills	\$60	\$1.09
Rancho del Pueblo	\$66	\$1.86
Pleasanton Golf Center	\$60	\$1.33

CUSTOMER SURVEYS, LOS LAGOS AND SAN JOSE MUNICIPAL

Los Lagos conducts a standardized survey of golfers through an on-site intercept survey format. The golf course randomly distributes a survey questionnaire over a one week period — usually compiling responses from 300-400 golfing patrons. The survey instrument requests golfers to respond to a series of questions regarding course conditions, service level, tee time system, pace of play, facilities conditions, value, overall experience and the like.

Golfers also are asked for their opinions about the same conditions and services offered at other courses which are played frequently as a basis for comparison. The two courses most frequently played by Los Lagos golfers are Santa Teresa in south San Jose and San Jose Municipal.

The profile of golfer's completing surveys at Los Lagos is summarized below:

Distance to Course (minutes driving time)	Percent of Golfers	
	Los Lagos	All Courses
0-10	24%	
10-20	48%	
20-30	14%	
30+	<u>14%</u>	
Total	100%	
Age		
Under 30	20%	
30-49	22%	
50+	<u>58%</u>	
Total	100%	
Gender		
Male	85%	
Female	<u>15%</u>	
Total	100%	
Income		
Under 50,999	16%	
\$50,000-99,000	38%	
\$100,000+	<u>46%</u>	
Total	100%	
Frequency of Play		
(rounds per year)	Percent of Golfers	
	Los Lagos	All Courses
Under 8	54%	19%
8-24	26%	32%
25+	<u>20%</u>	<u>49%</u>
Total	100%	100%
Average Score		
Under 80	6%	
80-99	64%	
100+	<u>30%</u>	
Total	100%	

The survey format is that available through the National Golf Foundation's Customer Loyalty and Satisfaction Survey (CLASP). As such, the responses at Los Lagos can be compared with the national average for similar courses. The responses at Los Lagos have remained relatively consistent over the past five years. The results for 2005, similar to the 2007 results for Los Lagos, allow for a reasonable comparison with the two other local courses and the national average as show below:

Feature	Favorable Rating ¹			
	Los Lagos	San Jose Municipal Golf Course	Santa Teresa Golf Club	National Average (2)
Overall Value of Course	87%	86%	78%	72%
Overall Course Conditions (tees, fairways)	93%	67%	81%	70%
Tee-time Availability	83%	71%	51%	75%
Pace of Play	68%	76%	60%	63%
Convenience of Course Location	87%	57%	86%	66%
Condition of Greens	84%	71%	81%	70%
Friendliness/Service of Staff	88%	71%	64%	80%
Scenery and Aesthetics	83%	52%	83%	70%
Overall Experience	91%	67%	83%	77%
Food & Beverage Service	80%	74%	80%	67%
On-Course Services (restrooms, drinking water)	68%	62%	57%	58%
Amenities (clubhouse, pro shop, locker room)	79%	68%	82%	66%
Condition of Golf Cars	80%	67%	74%	78%

¹Percentage of customers who are somewhat or very satisfied. ²Indicates percentage of golfers who are somewhat or very satisfied nationally at courses of same type, green fee and player type (any filter).

It is very important to point out that the responses to conditions at Los Lagos compared with Santa Teresa and San Jose Municipal may be inherently biased in favor of Los Lagos. This potential favorable bias would stem from a pre-disposition of surveyed Los Lagos golfers through their selection of Los Lagos. Another concern in viewing the results as it pertains to San Jose Municipal and Santa Teresa is the relatively small percentage of Los Lagos golfers responding to questions on these other two courses. This small sample size creates much greater variance and unreliability of these responses. Nonetheless, compared with the national average, Los Lagos, in particular, and San Jose Municipal rank among the top performers in all or most categories.

Table IV-1

SUMMARY OF GROSS OPERATING REVENUE, BY CATEGORY, SELECTED BAY AREA MUNICIPALLY-OWNED GOLF COURSES - Part A
 Amounts Shown in Thousands of Dollars (\$000)

Facility Name	Clubhouse Size (SF)	Annual Rounds	Gross Operating Revenue by Department								Gross Op. Revenue	
			Greens Fees	Cart Fees	Merch. Sales	Range Fees	Lesson Fees	Food and Beverage				
									Grill	Banquets	F&B Total	
Boundary Oak			\$1,452	\$395	\$132	\$444	\$87	\$275	\$1,585	\$1,860		\$4,370
Avg. Per Rd. Spending	30,000	65,100	\$22.30	\$6.07	\$2.03	\$6.82	\$1.34	\$4.22	-	-		\$42.78
Callippe Preserve			\$2,767	\$680	\$324	\$75	\$41	\$650	-	\$650		\$4,537
Avg. Per Rd. Spending	7,500	72,961	\$37.92	\$9.32	\$4.44	\$1.03	\$0.56	\$8.91	-	-		\$62.18
Diablo Creek			\$1,295	\$420	\$341	\$271	\$0	\$500	\$1,000	\$1,500		\$3,827
Avg. Per Rd. Spending	4,500	67,072	\$19.31	\$6.26	\$5.08	\$4.04	\$0.00	\$7.45	-	-		\$42.15
Los Lagos			\$1,895	\$570	\$355	\$370	\$113	\$438	-	\$438		\$3,741
Avg. Per Rd. Spending	4,000	67,590	\$28.04	\$8.43	\$5.25	\$5.47	\$1.67	\$6.48	-	-		\$55.35
Palo Alto			\$2,318	\$311	\$653	\$354	\$0	\$485	\$121	\$606		\$4,242
Avg. Per Rd. Spending	8,000	76,241	\$30.40	\$4.08	\$8.56	\$4.64	\$0.00	\$6.36	-	-		\$54.05
Paradise Valley			\$1,520	\$462	\$337	\$161	\$0	\$300	\$1,100	\$1,400		\$3,880
Avg. Per Rd. Spending	20,000	58,557	\$25.96	\$7.89	\$5.76	\$2.75	\$0.00	\$5.12	-	-		\$47.48
Rancho Solano 1/			\$1,582	\$576	\$247	\$79	\$0	\$300	\$1,600	\$1,900		\$4,384
Avg. Per Rd. Spending	4,000	60,558	\$26.12	\$9.51	\$4.08	\$1.30	\$0.00	\$4.95	-	-		\$45.97

1/ Clubhouse facility does not include a separate club / banquet facility owned by the homeowner's association
 Source: Individual Facilities, 2/2008

Table IV-2

SUMMARY OF GROSS OPERATING REVENUE, BY CATEGORY, SELECTED BAY AREA MUNICIPALLY-OWNED GOLF COURSES - Part B
 Amounts Shown in Thousands of Dollars (\$000)

<u>Facility Name</u>	<u>Clubhouse Size (SF)</u>	<u>Annual Rounds</u>	<u>Gross Operating Revenue by Department</u>								<u>Gross Op. Revenue</u>
			<u>Greens Fees</u>	<u>Cart Fees</u>	<u>Merch. Sales</u>	<u>Range Fees</u>	<u>Lesson Fees</u>	<u>Food and Beverage</u>			
								<u>Grill</u>	<u>Banquets</u>	<u>F&B Total</u>	
San Jose Municipal			\$2,780	\$438	\$805	\$898	\$211	\$567	-	\$567	\$5,699
Avg. Per Rd. Spending	4,000	86,991	\$31.96	\$5.04	\$9.25	\$10.32	\$2.43	\$6.52			\$65.51
Santa Clara			\$2,179	\$430	\$280	\$388	\$13	NA	NA	NA	\$3,290 1/
Avg. Per Rd. Spending	6,000	87,120	\$25.01	\$4.94	\$3.21	\$4.45	\$0.15	-	-	-	NA
Santa Teresa (27 Holes)			\$3,272	\$629	\$476	\$508	\$98	NA	NA	\$949	\$5,932
Avg. Per Rd. Spending	5,500	110,577	\$29.59	\$5.69	\$4.30	\$4.59	\$0.89	-	-	-	NA
Shoreline			\$2,158	\$352	\$411	\$407	\$111	NA	NA	NA	\$3,439 1/
Avg. Per Rd. Spending	9,000	67,634	\$31.91	\$5.20	\$6.08	\$6.02	\$1.64		-	-	NA
Sunnyvale Municipal			\$2,250	\$356	\$261	\$0	\$22	NA	NA	NA	\$2,889 1/
Avg. Per Rd. Spending	4,000	80,513	\$27.95	\$4.42	\$3.24	\$0.00	\$0.27	-	-	-	NA
Tilden Park			\$1,618	\$377	\$251	\$496	\$313	\$260	\$311	\$571	\$3,626
Avg. Per Rd. Spending	3,000	65,123	\$24.85	\$5.79	\$3.85	\$7.62	\$4.81	\$3.99	-	-	\$50.90

1/ Excluding food and beverage revenues which were not available
 Source: Individual Facilities, 2/2008

Table IV-3

ANNUAL MAINTENANCE EXPENSES AT SELECTED BAY AREA MUNICIPAL COURSES
Expenses Shown in Thousands of Dollars (\$000)

<u>Course Name, Location</u>	<u>Maintenance Provider:</u>		<u>Annual Water Costs</u>	<u>Annual Services & Supplies</u>	<u>Annual Maint. Total</u>
	<u>Public / Private</u>	<u>Provider Name</u>			
Delta View, Pittsburg	Public	City Pittsburg	\$133	\$1,033	\$1,166
Los Positas, Livermore (27)	Public	City Livermore	\$52	\$1,110	\$1,162
Palo Alto, Palo Alto	Public	City Palo Alto	\$252	\$1,195	\$1,447
Shoreline, Mountain View	Public	City Mtn. View	\$350	\$1,336	\$1,686
Sunnyvale, Sunnyvale	Public	City Sunnyvale	<u>\$156</u>	<u>\$1,181</u>	<u>\$1,337</u>
Public Operation Average			\$189	\$1,171	\$1,360
Boundary Oak, Walnut Creek	Private	Bob Boldt	\$156	\$1,105	\$1,261
Callippe Preserve, Pleasanton	Private	CourseCo	\$320	\$1,096	\$1,416
Crystal Springs, Burlingame	Private	CourseCo	\$97	\$709	\$806
Diablo Creek, Concord	Private	Valley Crest	\$0	\$811	\$811
Los Lagos, San Jose	Private	CourseCo	\$79	\$1,072	\$1,151
Lone Tree, Antioch	Private	Lone Tree Golf	\$109	\$541	\$650
Metropolitan, Oakland	Private	CourseCo	\$160	\$738	\$898
Paradise Valley, Fairfield	Private	Kemper Sports	\$70	\$597	\$667
Rancho Solano, Fairfield	Private	Kemper Sports	\$30	\$639	\$669
Tilden Park, Berkeley	Private	American Golf	<u>\$179</u>	<u>\$474</u>	<u>\$653</u>
Private Operation Average			\$120	\$778	\$898
Total Survey Average			\$146	\$926	\$1,071

Source: Individual Facilities, 2/2008

Table IV-4

GROSS OPERATING REVENUE, BY CATEGORY, SELECTED BAY AREA 9-HOLE GOLF FACILITIES
 Amounts Shown in Thousands of Dollars (\$000)

<u>Facility Name</u>	<u>Clubhouse Size (SF)</u>	<u>Annual Rounds</u>	<u>Greens Fees</u>	<u>Gross Operating Revenue by Department</u>				<u>F&B</u>
				<u>Merch. Sales</u>	<u>Range Fees</u>	<u>Lesson Fees</u>		
Mariner's Point Avg. Per Rd. Spending	6,000	45,000	\$510 \$11.33	NA -	\$950 \$21.11	\$475 \$10.56	NA -	
Fremont Park Avg. Per Rd. Spending	4,000	35,000	\$420 \$12.00	\$90 \$2.57	\$650 \$18.57	\$100 \$2.86	\$145 \$4.14	
Mission Hills Avg. Per Rd. Spending	4,500	55,000	\$650 \$11.82	\$140 \$2.55	\$500 \$9.09	\$50 \$0.91	\$60 \$1.09	
Buchanan Fields Avg. Per Rd. Spending	6,000	55,000	\$650 \$11.82	\$350 \$6.36	\$800 \$14.55	NA -	\$250 \$4.55	
McInnis Park Avg. Per Rd. Spending	8,400	55,000	\$750 \$13.64	\$261 \$4.75	\$650 \$11.82	\$400 \$7.27	2,500 -	
Pleasanton Golf Ctr. Avg. Per Rd. Spending	3,000	45,000	\$550 \$12.22	\$70 \$1.56	\$500 \$11.11	\$300 \$6.67	\$60 \$1.33	
Rancho Del Pueblo Avg. Per Rd. Spending	1,600	35,513	\$407 \$11.46	\$72 \$2.03	\$117 \$3.29	\$73 \$2.06	\$66 \$1.86	

Source: Individual Facilities and ERA

SECTION V: CAPITAL IMPROVEMENTS

INTRODUCTION

The following section reviews capital improvement needs and parameters at the three-city golf courses. The assessment is based on ERA's inspection of the facilities, a review of improvements completed at each facility, and discussions with management at each of the courses.

LOS LAGOS

The 18-hole Los Lagos golf complex opened in 2002 and thus is less than six years old. In general, the facility is in excellent condition, although, as discussed below, safety-related capital improvements are ongoing.

Since the opening of Los Lagos, the following improvements have been completed. These improvements, in effect, probably should be considered as part of the initial construction costs, rather than replacement of depreciated facilities:

<u>Improvement</u>	<u>Period Completed</u>	<u>Amount</u>
Safety Netting (#1, #6, #10, #13, #18 holes)	2002	\$151,000
Trees/Landscape (#6 hole)	2004	50,000
Safety Fencing (#3 hole)	2004	100,000
Putting Greens	2006	10,000

Near-term capital improvements at Los Lagos are identified as follows:

<u>Improvement</u>	<u>Period</u>	<u>Amount</u>
Raise Netting Height (#6, #17, #18 holes)	2008	\$2,300,000
Parking Area Expansion	2010+	300,000
Chipping/Pitching Practice Area	2010+	25,000

The cost of the additional netting required at Los Lagos (\$2.3 million) would be funded by the City from outside the capital improvement fund. The parking expansion and practice area improvements would likely be funded from the capital improvement reserve fund.

The Los Lagos Golf Course capital improvement fund balance currently is about \$300,000. This fund is augmented at an annual rate of at least 3 percent of total gross revenue, with the City having the discretion to allocate anywhere from 3 to 10 percent of gross revenue to the fund. At 3 percent, contributions to the Los Lagos capital improvement reserve fund are projected at about \$100,000 to \$120,000 annually over the next five to ten years. Upon completion of the safety netting planned for 2008, the capital improvement reserve should be sufficient to fund needed requirements in the foreseeable term.

RANCHO DEL PUEBLO

The Rancho del Pueblo 9-hole golf course and a 25-tee practice range opened in 2000, and thus is less than eight years old. Overall, the golf course and support facilities are in excellent condition.

Shortly after the golf course was completed, the height of the fencing along the eastern boundary of the driving range (adjoining South King Road) and on the north side of the #8 fairway was raised. The only other improvement completed since opening was the addition of a chipping green on the back side of the driving range tee line in 2005.

Additional improvements required over the foreseeable term include increasing the height of the safety netting behind the #4 green and along the north side of the #7 fairway, and installation of safety netting on the west side of the #6 fairway where new residential development is proposed.

The cost of the fencing along #4 and #7 is estimated at \$250,000 to \$300,000, to be funded from development mitigation funds and other non-golf City revenue sources. The cost of the #6 fencing would be the responsibility of the residential developer proposing the project, with ongoing maintenance becoming the responsibility of the golf course.

The Rancho del Pueblo capital improvement fund balance currently is \$27,000. The fund is augmented annually at a rate of 2 percent of gross revenue, which is expected to yield about \$15,000 to \$20,000 per year over the next five to ten years. Even after the safety netting issues have been fully addressed, funding ongoing capital improvement needs will remain a challenge at Rancho del Pueblo.

SAN JOSE MUNICIPAL

San Jose Municipal Golf Course was the first of the City's three courses, opening in 1968. Despite its age, this nearly 40-year-old course, in general, is in relatively good condition. The golf course and support facilities have benefited from a series of improvements completed over the years, in conjunction with appropriate ongoing maintenance resources.

The initial lease agreement between the City and Mike Rawitser Golf Shop, Inc. required the lessee to install a new irrigation system and an asphalt cart path system, and to expend an additional \$1 million on other capital improvements. Over the past 20 years, the following significant improvements have been completed at San Jose Municipal:

<u>Improvement</u>	<u>Period Completed</u>	<u>Amount</u>
Irrigation System, Asphalt Cart Paths, Other Course Imps.	1988-1989	\$1,000,000
Pro Shop/Clubhouse Renovation	1990	125,000
Golf Practice Range (60 tees, double-deck, lighted)	1994	820,000
Additional Range Improvements	1997-1998	180,000
Other Course/Clubhouse	1995-2007	200,000
Cart Barn (4,200 sq.ft.)	2005-2006	573,000
Cart Paths (60%)	2004-2007	250,000
Total		\$3,148,000

The lease agreement calls for the lessee to contribute proceeds to a capital improvement fund beginning in 1995 (8th year of agreement) at an amount equal to 1.0 percent of total gross revenue, with the amount increased to 1.5 percent beginning in 2008. Presently, at the 1.5 percent rate, contributions to the fund are approximately \$80,000 to \$90,000 per year.

Of the total \$3.15 million expended, approximately \$2.0 million was funded by the lessee in accordance with the contractual lease agreement, \$300,000 to \$400,000 by the lessee at their discretion (or as part of cost sharing with the City), and the balance (about \$700,000) from the capital improvement replacement reserve fund.

Improvements scheduled over the next five years are as follows:

Improvement	Period	Amount
Cart Path Completion (40%)	2008-2010	\$150,000
Other Course/Clubhouse Ongoing	2008-2012	200,000

The \$300,000 to \$400,000 improvements anticipated over the next five years would be entirely funded from the capital improvement funds. In general, with the exception of the clubhouse, needed capital improvements over the next five to ten years can be funded from proceeds to be contributed to the capital improvement fund (\$80,000 to \$90,000 per year).

While the ongoing capital improvement fund contributions should be sufficient for anticipated and unanticipated capital requirements at San Jose Municipal, funds for replacement of future major elements (irrigation system, greens, tees, bunkers), which are not expected until after the expiration of the current lease agreement (2022), most likely will not be available.

Contributions to the fund of at least 2.5 to 3.0 percent, compared with the historical 1.0 percent and current 1.5 percent, would be required to properly reserve funds for replacement of long-life items such as the irrigation system.

The size and condition of the existing clubhouse at San Jose Municipal has been satisfactory in meeting golfers' needs, and its design is reasonably functional. The wood frame structure, however, is 40 years old and, while there is no immediate need to be addressed at some point a major investment in the clubhouse will be required. Most likely, a new clubhouse would eventually be constructed. At a modest size of 4,000 to 6,000 square feet, a new clubhouse would cost at least \$1.5 to \$2.0 million (2008 dollars). It is doubtful that the capital improvement fund would have sufficient proceeds for a significant portion of this cost.

SECTION VI: REVENUE ENHANCEMENT POTENTIAL

INTRODUCTION

The following section examines potential modifications in golf course policies and practices which would enhance revenue at the city courses. In general, as described in Section III of the report (Description of the City of San Jose Golf Courses and Operations Review), and Section IV (Benchmarking), the courses appear to be managing revenue at high levels and employing the Best Management Practices in maintenance and operations.

There are many revenue enhancement policies and practices which have been introduced at golf courses over the years, with varying degrees of success. A list of these programs includes:

- Nonresident rates
- Advanced tee time fee
- Differential pricing by golf course
- Senior play restrictions
- Designation of Friday as weekend
- Yield management (differential pricing by day of week, hour of day)
- No-show fees
- Super-twilight fees
- Pre-twilight specials
- Five-somes
- Tournament fees
- Mandatory cart during peak play times

As has been previously noted, the public golf market, both nationally and regionally, still remains soft, particularly relative to the peak period of the late 1990s. Again, this softness is largely attributed to the overbuilding of golf courses in the late 1990s and early 2000-period. This industry contraction has resulted in intense competition among courses, particularly on weekdays where effective rates at the high quality courses have been reduced to levels sufficient to attract municipal golfers. It is this increasingly competitive environment in which these candidate policies and practices at San Jose's municipal courses should be evaluated.

GREENS FEE INCREASES

Many municipalities in the State, particularly ones in Southern California, elect to set greens fees below "market levels". In these cases, increasing fees for residents and/or non-residents has the potential to generate additional gross greens fees revenue. At the City of San Jose courses, greens fees are at, or very near, "market" levels such that an increase in fees would be expected to result in less play, and thus equal or less greens fees revenue. Greens fees at San Jose Municipal, for example, are limited contractually according to the rates at a pre-determined pool of comparable regional courses, yet, course management in their effort to maximize greens fees revenue maintains a greens

fee structure well below the limits stipulated under the contract formula. Thus, increasing fees, other than normal cost of living type adjustments does not appear to be a viable option.

Similarly, the concept of charging higher rates for non-residents is not advisable. Since rates at the City's courses are deemed to be at market levels, a differentiated greens fees structure would be affected only by reducing, or discounting, resident rates which, in turn, would reduce gross revenue from greens fees.

Cart Fees

At San Jose Municipal golf rentals are \$26 per cart (two riders) and \$20 for a single rider. Cart fee rental at Los Lagos is \$14 per player. These rates are at, or slightly below market. While a modest increase could be sustained, additional revenue generated from the increase would be partially offset by a possible reduction in utilization and/or play.

OTHER POLICY OPTIONS

Several policy options are potentially available, but not likely to be productive:

1. **Advanced Tee Time Fee** — charging an additional fee for the privilege of reserving a tee time in advance of the general public would generate some additional revenue. In effect, such a policy selectively increases greens fees during peak periods at courses in high demand. Generally, this service is offered at courses where visiting golfers need to be assured of tee times in advance of making other travel commitments, but clearly provides an opportunity for resident golfers who are willing to pay higher fees to secure prime tee times. The administration of the program must be weighed against the additional revenue benefit. This practice is employed at many high-end daily fee courses, but few cities have adopted this often controversial policy.
2. **Restricted Senior Play** — senior discount play currently is limited to Monday-Friday at San Jose Municipal and Monday-Thursday at Los Lagos. Curtailing senior play during prime morning times during the week would free up some times for full fare golfers. Some senior play would be lost, although some would be shifted to non-prime periods. Alternatively, or in addition, a more modest senior discount could be offered during the prime periods. Some City courses have successful increased revenue through a restricted senior play policy, although the net effect has not been dramatic, particularly at San Jose courses where senior greens fees are not excessively discounted at present.
3. **Designation of Friday as Weekend** — with the advent of 4-day work weeks, combined with stronger demand for golf on Fridays, many courses have included Friday as a weekend day, or charged a Friday rate between weekday and weekend fees. Los Lagos already employs this practice, while San Jose Municipal and Rancho maintain the traditional Monday-Friday weekday rate definition. A higher Friday rate would increase revenue, although some shifting of play from

Friday to Monday-Thursday would be expected. Senior discount play would have to be eliminated on Friday to maximize the impact of this policy.

4. Yield Management — the practice of yield management calls for differential pricing at a course by day of week and by hour of the day. Like airline fares, the objective is to maximize revenue through a range of pricing options. Weekday-weekend rates, and twilight and super-twilight play represent forms of yield management. This concept does not appear to be useful at the City courses where the general fee structure is at or near market levels and excess capacity is available at each course. Further, the experience at most courses which have initiated an aggressive yield management pricing structure program suggests play is redistributed such that revenue remains unchanged.
5. No-Show Fees — the City presently does not have a no-show policy. Collection of fees for no-shows is virtually impossible (credit card companies will not honor a credit card deposit without an authorized signature).
6. Super-Twilight Rates — super-twilight fees (typically starting 2-3 hours prior to sunset) are effective at higher fee golf courses. At municipal courses, such fees have less impact and would have negligible impact on revenues at the city courses. Super-twilight rates after created tee sheet vacancies prior to the start of the twilight rate, just as twilight rates do for periods leading up to the start of twilight.
7. Pre-Twilight Specials — the period prior to the start of twilight typically is slow as golfers elect to wait a short period to benefit by the twilight discounts. This pre-twilight period has been effectively used by some courses to provide discount golf to specific groups such as seniors and juniors. By so doing, there is limited play or revenue loss from golfers postponing their tee time.
8. Five-Somes — the benefit of allowing five-somes must be weighed against resulting slower play. The net impact of allowing five-somes is slightly positive with respect to revenue growth. While some municipal courses in the State allow five-somes, comparison of rounds and revenues at the courses which allow five-somes do not materially increase play levels.
9. Tournament Fees — most municipalities impose a tournament fee for large tournaments, and also require cart usage and purchases of retail merchandise. Extending the fee to smaller tournaments would generate some additional revenue, and certainly would be justified during prime tee time periods.
10. Mandatory Carts — the practice of mandating cart usage during peak periods is employed at many daily fee golf courses, but rarely used at municipal courses. San Jose Municipal offers specials at selected times, including a cart at no cost with a full greens fees.

SECTION VII: GOLF COURSE OPERATING OPTIONS

INTRODUCTION

The following section presents background and information regarding various forms of golf course management and operations available to public agencies.

Section VIII presents 10-year projections for the golf courses, which also provides an assessment of the financial impacts of the various operation options.

The City of San Jose currently leases its 18-hole San Jose Municipal Golf Course to Mike Rawitser Golf Shop, Inc. (Rawitser Golf) on an agreement which expires in 2022, assuming the options for two five-year extensions are exercised by the lessee. The 18-hole Los Lagos and 9-hole Rancho del Pueblo golf courses are operated under a management agreement with limited liability companies involving CourseCo, a professional golf management company. The term of the management agreement at Los Lagos expires in 2017. The agreement at Rancho del Pueblo currently is year-to-year, with a fixed term agreement in the process of being negotiated.

Notwithstanding that there are operating and lease agreements in place, there are two basic golf course operating options for San Jose Municipal, Los Lagos, and Rancho del Pueblo available to the City of San Jose:

1. **Facility Lease** – Under this option, the golf course is leased to a private golf course operator who provides course maintenance, golf operations, and overall facility management services. The food and beverage operation may be included under the golf course facility lease or provided under a separate lease to a dedicated food and beverage operator. The operator's lease payments typically are based on a minimum rental payment versus a percentage of golf and food and beverage departmental gross revenue. The term of the lease is negotiable, although the length generally is related to operator capital improvement levels and rental payment terms. The length of the term generally ranges from 15 to 30 years, or more. The existing operations at San Jose Municipal with Rawitser Golf as well as Spring Valley in Milpitas, and Metropolitan Golf Links in Oakland are examples of facility leases. Under a typical facility lease, the lessee receives 100 percent of the revenue and is obligated to fund required front-end capital improvements, operating expenses, and a reserve for ongoing capital improvements. As such, the financial risk is largely borne by the lessee.
2. **Management Agreement** -- This option relates to a fee-for-service agreement with a Director of Golf, General Manager or an outside management company. Golf and food and beverage functions may be combined or separated, but the structure is the same. All functions would be under the authority of the contract golf director, General Manager or management firm. Under a typical management agreement, the facility owner (City) receives all revenues and is responsible for funding all capital improvements, operating expenses, and reserves for ongoing capital reinvestment. The owner (City) pays the operator a fee for management of the facility. Compensation typically consists of a base fee, plus performance incentives. While there are many ways of structuring incentive

agreements, it is generally more effective to key them off gross revenue above established threshold levels (not net operating income), with incentive payments equaling anywhere from 25 to 100 percent of the base fee. Examples of this structure include Los Lagos managed by CourseCo, as well as the Callippe Preserve in Pleasanton, Rancho Solano and Paradise Valley in Fairfield, and Santa Clara Golf and Tennis Club in Santa Clara.

A third basic option, City self-operation, exists, but the City of San Jose has indicated that this form of operation is not a viable operating alternative. As well, there are several modifications or permutations of the two basic options. These include hybrids such as retention of a golf operations concessionaire on either a management agreement or lease concession basis, with contract or city provided golf course maintenance.

Traditionally, a common hybrid model consists of a golf operations concession (reservations, greens fees collection, starting, pro shop, carts, and range), with either contract or City-provided maintenance. Examples of this type of arrangement include the City of Modesto courses and Palo Alto Muni. This model, again a hybrid of the two basic options outlined above, also is evaluated below.

All of the operating options require City oversight responsibilities including contract monitoring, budget preparation and review, management oversight, and the like. Although a management agreement offers the potential for greater control by the City, this control usually entails a greater level of city oversight responsibilities.

GOLF FACILITY LEASES

Tables VII-1 and VII-2 present a summary of golf course “turnkey” lease terms — facilities where all operations are leased to a contract operator — for selected California public properties. In general, the facilities are leased to a management company with a minimum lease payment versus percentage rents. The contract specifies performance standards, required capital improvements and a range of contractual terms. It is important to note the agreement date, as the improving economics of the golf market and competitiveness in the golf management industry during the 1990-2000 period are reflected in more favorable lease terms to the lessor, with the most recent agreements somewhat adversely influenced by soft golf market conditions since 2001.

There are a limited number of Bay Area public golf facilities which are operated under a full facility lease, most of which are included in the table. There are more facility leases which exist in Southern California due to the much larger number of municipal golf courses in this part of the state as well as the decision by Los Angeles County, which has 16 golf properties in its system, to lease its facilities. The facilities shown in the Southern California table are representative of the transaction terms normally negotiated.

The various terms of the leases are interrelated and the lease payments must be considered in the context of all the terms of the lease.

- **Lease Term.** The term of the facility leases shown generally ranges from 15-30 years. When front-end lessee capital improvements are required, which generally is the case, the term of the lease must be long enough to amortize these capital

expenditures. The length of the term normally is a function of the level of capital improvements. Occasionally a short-term agreement (less than five years) is negotiated, but these are generally related to the continuation of an agreement with an operator where minimum capital improvements are required or where an option is exercised to extend the lease term.

- **Minimum Rent.** The minimum rent typically is established at about 75 to 80 percent of the expected "percentage rent" amount. The minimum often is adjusted annually to reflect about 80 percent of the average of percentage rents paid during the prior three to four years operation, but never less than the preceding minimum rent level.
- **Percentage Rents.** Percentage rents vary by golf department, although often a composite rate is applied to greens fees, cart revenue, and driving range revenue. Merchandise, food and beverage, and other minor departments generally have lower individual percentage rents primarily due to the relatively small operating profit margins on these goods and services. The percentage rents are a function of the length of term, required capital improvements, utility sharing agreements, and the replacement reserve requirements. The rent percentage may increase over the term of the lease. The higher the capital expenditure requirement, replacement reserve, and costs associated with utilities and other course operations, the lower the percentage rent structure. Also, the market strength and potential profitability of the course strongly influence percentage rents.
- **Fees and Operating Policies.** Under most municipal facility leases, the lessor (City) retains substantial control over setting fees and establishing operating policies. As well, specific guidelines such as maintenance standards are in-place or negotiated as an integral part of the lease terms. While changes in fees and policies normally require City approval, in practice, the lessee has greater influence in modifying fees and terms which financially benefit the lessee. Moreover, regardless of the rigor of the lease agreement, a number of "gray" areas such as level of course conditioning generally remain which often are exploited by the lessee.
- **Capital Improvements.** Most facility leases call for capital improvements to be funded by the lessee. A list of improvements is specified and a time frame for their implementation is established. The capital improvements requirement varies widely for the facilities shown, from less than \$1 million to over \$8 million.
- **Capital Improvement Replacement Reserve.** Generally, some provision for establishing a reserve for ongoing future capital improvements is stipulated. The replacement reserve is normally a percentage of greens fee revenue, with the percentage depending on anticipated future capital requirements, the age of the course, and the front-end capital expenditure requirement. Usually, the replacement reserve is in addition to percentage rents, but sometimes the reserve funds are credited against rent payments.

- **Utilities.** Typically, the lessee is responsible for utility costs. However, due to the high cost of water in California, there may be some cost sharing of utilities, or some protection provided the lessee in terms of ceilings or caps on utility rate increases.

For facility lease agreements, the market potentials, specific course maintenance requirements, areas of lessor / lessee responsibility, and other contract terms must all be considered in establishing an equitable lease structure. Thus, while the experience of other courses can serve as a general guideline, specific consideration of the characteristics of San Jose's municipal golf courses, such as its desirable site and course features, recently completed, as well as needed capital improvements, irrigation water availability, quality and cost, San Jose favorable demographics and business community, and the like. Further, the overall objectives of the City will influence the structure of contract terms.

Table VII-3 summarizes percentage rent terms for California municipal lease facilities (with regulation length courses) by year negotiated since 1990. There has been limited activity in recent years, with the Oceanside municipal course the only agreement negotiated since 2005.

The market for golf leases with municipalities has been substantially affected by the soft golf market conditions experienced over recent years. The number of qualified investor / operator groups which have an interest in such agreements has declined sharply, and the rent structure has generally been modified downward. In many instances, municipalities desiring leases are faced with the option of having to select groups with limited experience in exchange for the lessee's willingness to invest private capital and commit to reasonable rent payments.

It also should be noted that with the softening of golf markets in California, there have been a number of initiatives on the part of lessees to renegotiate lease terms, particularly relating to courses which negotiated new leases in the 1995-2000 period. Specifically, since 2001 a number of lessees have requested rent adjustments to compensate for declining golf play levels and associated revenues, and to assume continued lessee funding for capital improvement obligations. Crystal Springs in Burlingame and Fox Tail in Rohnert Park are two examples where leases have recently been renegotiated.

In the cases where rent concessions have been granted by the lessor, rent terms have been modified by reducing base and percentage rent levels, with significant increases in potential participation by the lessor in revenue above the current threshold.

MANAGEMENT AGREEMENTS

Increasingly, public agencies are moving to a management contract approach to operations and maintenance. Typically, these agreements have a 5-year term. As previously indicated, under this structure, the City receives all revenue and is obligated to fund all maintenance, operating and administrative expenses, including a management fee. The management fee is in addition to all on-site salaries and expenses.

A summary of management agreement terms and conditions relating to moderate and high quality municipal golf course operations in California is presented in Table VII-4, and includes the following:

- Los Lagos; San Jose
- Santa Clara Golf Club; Santa Clara
- Paradise Valley Golf Club; Fairfield
- Callippe Preserve; Pleasanton
- Harding Park; San Francisco
- Encinitas Ranch; Encinitas
- Black Gold; Yorba Linda
- Resort at Indian Wells; Indian Wells
- SilverRock Resort; La Quinta
- Desert Willow; Palm Desert
- Carlsbad Municipal; Carlsbad
- Green River; Corona

Ten of the 12 complexes feature 18-hole courses, while three – Desert Willow, Green River, and the Golf Resort at Indian Wells – provide 36 holes.

The basic terms and conditions of the agreements are discussed below.

Term

Generally, management terms are five years in length, long enough to allow a firm to amortize its initial efforts to establish policies, procedures, and systems, and to ensure sufficient job security for key employees. Longer terms offer little advantage to the owner. The renewal of an agreement typically is for a period of three to five years. The terms may be influenced by conditions dictated by the financing instrument used such as tax-exempt bond IRS regulations. For example, the IRS has a number of stipulations imposed to ensure a management contract does not result in private business use of a bond-financed facility. Among other things, the IRS restricts contracts which give the service provider an ownership or leasehold interest or provide compensation for services rendered based in whole, or in part, on a share of net profits from operations of the facility. Specifically, the IRS will allow agreement terms up to 15 years, but the structure of compensation is specific to the term. With 15-year agreements, at least 95 percent of the total compensation must be fixed / guaranteed. At 10 years, at least 80 percent; and at 5 years, at least 50 percent must be fixed / guaranteed. As well, in accordance with IRS regulations, incentive compensation cannot be based, in whole or in part, on a share of net profits, and thus must be based on gross revenue or expense thresholds.

The IRS also requires the management agreement to have an agreement cancellation option for the owner, typically at the end of three years. In cases where a cancellation provision is required by the financing authority, management companies have not objected.

Compensation Structure

For moderate volume courses (\$2.0 - \$2.5 million in annual golf – greens, carts, range) revenue, the base fee generally ranges from \$100,000 to \$140,000 per year. Compensation typically consists of a base, or guaranteed fee, plus an incentive fee. For high volume courses (\$3+ million in golf revenue), the base fee generally ranges from \$150,000 to \$180,000 per year for 18-hole courses. Incentive fees are structured such that expected performance would result in additional compensation of \$40,000 to \$100,000. Total compensation, assuming budgets are met or slightly exceeded, for moderate volume 18-hole public courses, generally ranges from \$130,000 to \$160,000 per year.

The compensation noted above relates to agreements where all management staff, including day-to-day onsite accounting, are onsite, and there are no reimbursements for corporate support functions, marketing, or other normal offsite management services, including routine travel. The cost of some extraordinary services (e.g., legal, specialty agronomical consulting, etc.) may be borne by the golf course owner.

Incentive compensation normally is triggered by performance which exceeds predetermined levels of net operating income (defined as “earnings before interest, taxes, depreciation, and amortization,” or EBITDA) or gross revenue. Since expenses are reasonably predictable, incentive payments based on gross revenue exceeding specified threshold levels are workable.

It should be noted that golf revenue (greens, carts, and range) has little associated variable cost, whereas merchandise and food and beverage have very high variable costs. Given this, each revenue category should be treated independently, such that incentive clauses should more greatly reward extraordinary golf revenue compared with merchandise, food and beverage, lessons, and other miscellaneous sources.

Overall, total compensation should represent 4 to 5 percent of total gross revenue. The 4 to 5 percent allowance is an industry standard which most professional golf management firms utilize when allocating home office services for courses they own and operate.

It is generally desirable for at least one-quarter to one-third of total compensation to be incentive-based.

Again, the type of financing may influence the structure of the compensation and limit the portion which is incentive-based.

Base Fee Adjustments

In many agreements, the base fee is inflation-adjusted. This is a negotiable point, and typically relates to the structure of incentive compensation, which often serves as an inflation hedge.

Management Services

Offsite management services covered under the management fee include, although are not necessarily limited to, the following functions:

- Personnel/Human Resources
- Training
- Payroll and Benefit Administration
- Management Reporting and Accounting Systems
- Internal Audits
- Budgeting Support
- Marketing Support
- Agronomical Support

Typically, all of these services are included under the management fee. If not, an accordingly lower management fee would be expected.

While the management company provides these services, they do so, in effect, as the agent for the City. The City determines the fee structure, establishes policies, and has the right to approve compensation, employment practices, and other similar items. Clearly, the management firms provide input and recommendations, but ultimately the City retains near-full control over all operating decisions.

Other Provisions

Daily accounting and management system reports are an integral part of the golf course operation. This daily function can be provided on-site by golf course administrative staff, or at the home office of the management company. When provided by on-site staff, the expense is borne by the course like any other operating expense. When provided off-site by the management company, there often is a separate charge to the City, in addition to the basic management fee.

There may be other services provided by the management company which are reimbursed by the City separately from the management fee. Examples include travel expenses by home-office management staff, outside agronomical evaluations, and the like. All of these elements of the management agreement are negotiable, and clearly, the overall compensation consists of the sum of the base fee, incentive fee, and reimbursements.

HYBRID AGREEMENTS

There are numerous combinations or permutations of the facility lease and management agreement options, and often such hybrids involve City-provided golf course maintenance. The most common hybrid is retention of a golf operations concessionaire, with City maintenance. Examples include Harding Park and Lincoln Park in San Francisco, Palo Alto Municipal, DeLaveaga in Santa Cruz, and Bing Maloney in Sacramento. Under these agreements, all of the maintenance is provided by City Parks and Recreation staff, and golf operations – pro shop merchandise, cart rentals, driving range, instruction – are provided by a concessionaire. Food and beverage operations may be provided by the golf operations concessionaire, but more often are the responsibility of a separate concessionaire. The responsibilities of the concessionaire and the structure of the golf operations concession agreement vary considerably. In most cases, the concessionaire is responsible for the tee time reservation system, greens fees collections, and starting functions, as well as the carts, merchandise, driving range, and

lessons. However, some cities – such as Los Angeles – retain the reservation, greens fees collection and starting functions.

Concessionaires normally pay rent to the City based on a percentage of gross revenue (percentage varies by revenue category). Sometimes, the rent categories are adjusted downward to reflect the concessionaire responsibility for reservation, greens fees collections, and starting, but in other cases a separate fee is paid to the concessionaire by the City for these services. In these cases, the City receives rent from the concessionaire, and also pays the concessionaire a fee for services.

Representative golf concessionaire agreements for several Northern California facilities are summarized in Table VII-5. Again, with most golf concessionaire agreements, course maintenance is provided by the City, but occasionally the course maintenance is provided by a private landscape maintenance contractor. Boundary Oak in Walnut Creek, Diablo Creek in Concord, and Modesto's Creekside and Dryden courses are examples of courses maintained by private firms.

OPERATING OPTIONS STRENGTHS AND WEAKNESSES

The strengths and weaknesses of the basic options are outlined in Table VII-6, along with a hybrid structure (assumes pro shop operations concession with private contract maintenance). Each option offers advantages and disadvantages relative to economic performance, city control, maintenance and operating quality, required city involvement, and other factors (note that the financial assessment of the options is contained in Section VI).

SUMMARY

The turnkey facility lease often yields a reasonable financial return to the city and requires the least city involvement, but maintenance and golf operations service levels may be below those desired by the City. As well, the city typically relinquishes at least some control over golf practices and policies, much of which may be due to contract "gray" areas. A major advantage of the turnkey operation is that normally substantial capital funds can be attracted from the private sector for course improvements, with the amount directly related to the length of the lease term.

A fee-for-service management agreement offers many advantages such as maintaining greater influence on policy-making, more responsiveness of the operator, and efficiencies relating to one authority managing the facility. Since the city would receive all revenues and expenses under this option, the financial return to the city may exceed that of a turnkey facility lease, but carries with it additional financial exposure. At present, service contracts are more prevalent in the private sector (management of daily fee golf courses). However, there is an emerging trend toward this option primarily as a result of cities seeking to maintain greater control without giving up the benefits of private sector management and operation.

Most of the hybrid models have evolved over time rather than the result of targeting a specific structure. Many cities preferred to retain the maintenance function within their

parks and recreation department, but desired the specialization of golf professionals in operations. Often these agreements were modified to better incentivize the concessionaire or for the City to gain more control. Hybrid models offer some advantages – primarily the ability to contract with specialists in each segment of the operation (i.e., maintenance, golf operations, food and beverage). However, the disadvantages of such agreements are numerous. Under the hybrid model, it is difficult to attract private capital, City control of operations is reduced, the potential for conflicts between concessionaires is increased, and required City monitoring efforts are increased.

Table VII-1
REGULATION LENGTH PUBLIC GOLF COURSE FACILITY LEASE TERMS
SELECTED NORTHERN CALIFORNIA COURSES

Course Location	San Jose Muni San Jose	Spring Valley Milpitas	Presidio San Francisco	Crystal Springs Burlingame	Monarch Bay San Leandro	Metropolitan Oakland	Fox Tail Rohnert Park
Lessor	City of San Jose	County of Santa Clara	National Park Service	City/County of San Francisco	City of San Leandro	City of Oakland	City of Rohnert Park
Lessee	Rawitser Golf Shop	Jetters Golf	Arnold Palmer Golf Mgmt. Co.	Crystal Springs Golf Ptns	American Golf	Oakland Golf, LLC	Rohnert Park Golf, LP
Agreement Date	1988	1993	1995	1997 (revised 2004)	1997	2001	2001 (revised 2005)
Lease Term (years)							
Initial	25	30	25	20	25	25	20
Option Extension	Two 5-year	None	None	None	Two 5-year	Three 5-year	One 10-year
Minimum Rent	\$175,000	\$250,000	\$900,000	\$1.25 million ¹¹	\$750,000	\$400,000 ⁵	\$150,000 ⁶
CPI Adjusted	Yes	No	No	Yes	No	Yes	No
Percentage Rents							
Greens	2.0% ¹ (yrs. 1-20) 8.5% (yrs. 25+)	10.5% ²	30% ¹⁰	25/35/32% ¹²	25/27/28/30 ³	0/15/17.5/20/22.5 ⁷ /25/27.5 ⁷	12.5/13.5/15/20 ⁹
Carts		10.5%	20%	25/35/32%	25/27/28/30 ³		- -
Range		10.5%	10%	25/35/32%	25/27/28/30 ³		-
Merchandise		10.5%	6%	8%	5/6% ⁴	0/4% ³	4/5/6/6% ⁹
Lessons		10.5%	6%	25/35/32% ¹²	5/6% ⁴	0/4%	4/5/6/6% ⁹
Food and Beverage		10.5%	6%	8%	5/6% ⁴	0/4%	4/5/6/6% ⁹
Liquor		10.5%	6%	8%	5/6% ⁴	0/4%	4/5/6/6% ⁹
Banquet Room Rental		10.5%	6%	25/35/32% ¹²	5/6% ⁴	0/4%	4/5/6/6% ⁹
Required Capital Improvements	\$2.0 million	\$2.5 million	\$7.15 million	\$1.98 million	\$8.2 million	\$8.0 million	\$3.0 million
Replacement Reserve Requirements	1.0% (yrs. 8-20) 1.5% (yrs. 21+)	None	None	6%(yrs.1-5); 2%(yr.6+) of total gross revenue	2% of gross	0%(1-2), 2%(3-4);4%(5+) of total gross	3%(yr.1- 10);2%(yr.11) of total gross
Cost of Water	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee

¹ Rate applies to gross revenue from all sources. ² Percentages apply to first 15 years of agreement term. Beginning in year 16, rent equal to 10.5% of total gross revenue up to \$3.0 million plus 15.0% of revenue between \$3.0 and \$4.0 million, plus 20.0% of gross revenue exceeding \$4.0 million. ³ Years 1-2 / 3-5 / 6-10 / 11+. ⁴ Years 1-2 / 3+. ⁵ Increases to \$500,000 by Year 4. ⁶ Escalates to \$200,000 by Year 16. ⁷ Years 1-2 / 3-5 / 6-10 / 11-15 / 16-20 / 21-25 / 26+. ⁸ Years 1-2 / 3+. ⁹ Years 1-5 / 6-10 / 11-15 / 16+. ¹⁰ In addition to percentages, a supplemental contribution equal to 7% of total gross revenue is applied effective 10/1/2004. Further, the percentage rents are increased by CPI beginning in 2010. ¹¹ Escalates steadily to \$1,600,000 by Year 16. ¹² As revised – years 1-2 / 3-5 / 6-20.

Source: Economics Research Associates.

Table VII-2 (Continued)

Course Location	La Mirada La Mirada	Lakewood CC Lakewood	Los Verdes Palos Verdes	Buenaventura/ Olivas Park Ventura	Meadowlark Huntington Beach	Victoria Carson	Simi Hills Simi Valley
Lessor	L.A. County American Golf	L.A. County American Golf	L.A. County American Golf	City of Ventura Evergreen	Huntington Beach American Golf	L.A. County Palmer	Rancho Simi Rec. Golf Enterprises
Lessee	American Golf	American Golf	American Golf	Evergreen	American Golf	Palmer	Golf Enterprises
Agreement Date	1995 ¹¹	1994	1994 ¹¹	2000	1993	1999 ¹²	1991
Lease Term (years)							
Initial	15	30	15	2	25	30	15
Option Extension	---	---	---	1 (city)	15 (city)	---	---
Minimum Rent	\$805,000	\$1,025,000	\$970,000	None	\$175K/ 300K / 500K ¹³	\$550,000	\$50,000
CPI Adjusted	No	No	No	---	No	No	No
Percentage Rents							
Greens	40%	40%	40%	37%		30 / 34 / 37 / 40% 10/	30%
Carts	40%	40%	40%	37%	8/10/18/25% ⁸	30 / 34 / 37 / 40% 10/	30%
Range	30%	30%	30%	37% ⁷	-	20 / 24 / 27 / 30% 10/	30%
Merchandise	5%	5%	5%	0%	8%	5%	5%
Lessons	---	---	---	---	---	---	5%
Food and Beverage	10%	8%	10%	3/3% ⁹	10%	8%	5%
Liquor	12%	12%	12%	3/3% ⁹	10%	12%	10%
Banquet Room Rental	10%	25%	10%	15/20% ⁹	---	25%	---
Required Capital Improvements	\$700,000 ¹¹	\$2,400,000	\$800,000 ¹¹	---	\$3.5M	\$4.25M ¹²	\$1.0+M
Replacement Reserve Requirement	---	---	---	---	---	---	5% of total revenue
Cost of Water	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee

¹ Term extended for additional 10 years with commitment of additional \$1 million in capital improvements.

² Higher percentage applied to monthly gross revenue exceeding \$150,000 for greens fees, \$40,000 for carts, and \$20,000 for practice range.

³ Higher percentage applied to revenue from monthly rounds exceeding 8,333. ⁴ Higher percentage applied to monthly gross revenue exceeding \$10,000.

⁵ Higher percentage applied to monthly gross revenue exceeding \$4,167. ⁶ 10% of greens fees, credited against lessee rental payments. ⁷ No range at Buenaventura.

⁸ Percentages relate to years 1-2, 3-10, 11-18, and 19-25, respectively. ⁹ Separate food and beverage concessionaire. ¹⁰ Percentages relate to years 1-7, 8-12, 13-18, 19-30, respectively.

¹¹ Term extended for an additional 15 years with commitment of additional capital improvements. ¹² Original 40-year lease term expires in 2007, course refurbishment resulted in 30-year extension of lease to 2037. ¹³ Rent percentages apply to the 5-year option period, exercised in 2005. Years 1-2/3-10/11+, ¹⁴ Years 1-5/6-17.

Source: Economics Research Associates.

Table VII-3

PERCENTAGE RENT SURVEY BY CONTRACT YEAR, MUNICIPALLY OWNED GOLF COURSES IN CALIFORNIA

Contract Year	Course	Golf Percentage Rent					F&B	Merchandise	CIP	Initial Cap Investment (millions)	Term (years)
		Year 3	Year 6	Year 11	Year 16	Year 21					
1991	Mountain Meadows	35%	36%	38%	40%	40%	8/10%	5%	---	\$ 0.5	10
1991	Simi Valley	30%	30%	30%	30%	30%	5/10%	5%	5% T	1.0	15
1992	Santa Anita	30%	32%	34%	36%	38%	---	5%	---	1.0	28
1992	Costa Mesa CC	30%	31%	32%	33%	33%	11%	6%	5% G	2.2	18
1993	Meadowlark	10%	10%	18%	18%	25%	3%	0%	---	3.5	25
1993	Spring Valley	10.5%	10.5%	10.5%	10.5/15/20% ¹³	10.5/15/20% ¹³	10.5% ¹⁴	10.5% ¹⁴	---	2.5	30
1994	Lakewood	40% ¹	40%	40%	40%	40%	8/12%	5%	---	2.4	30
1994	Los Verdes	40% ¹	40%	40%	40%	40%	10/12%	5%	---	0.8	15
1995	Presidio	30%	35%	37% ^{8 9}	37% ^{8 9}	37% ^{8 9}	13% ⁸	13% ⁸	---	7.2	25
1995	La Mirada	40% ¹	40%	40%	40%	40%	10/12%	5%	---	0.7	15
1996	Crystal Springs	35%	40%	40%	40%	40%	8%	12%	6% ²	2.0	20
									T		
1996	Black Horse/Bayonet	5% ³	5%	5%	5%	5%	5%	5%	---	1.6	40
1997	Monarch Bay	25%	27%	30%	30%	30%	5%	5%	2% T	8.1	35
1999	Mile Square	30%	30%	35%	35%	40%	6%	6%	---	7.5	40
1999	Long Beach Muni	30% ⁴	30%	30%	30%	30%	8/12%	8%	11% ⁷	1.0	15
									G		
1999	Victoria	30%	30%	34%	37%	40%	8/12%	5%	---	4.3	30
2000	Ventura Muni	37%	37%	37%	37%	37%	3%	0%	---	---	2
2001	Rohnert Park	13%	14%	15%	20%	20%	6%	6%	3% ⁵	3.0	30
									T		
2001	Metropolitan	15%	18%	20%	23%	25/28% ⁶	4%	4%	4% T	8.0	40
2004	Long Beach	30% ¹¹	30% ¹	30% ¹	30% ¹	---	8/12%	8%	11% G	2.6	20
2005	Brookside ¹⁰	38.4%	38.4%	---	---	---	---	---	4% G	---	5
2007	Oceanside Municipal	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	---	2.0 ¹²	30

T = Total G = Golf Related

¹ 30% driving range. ² Declines to 2% in Year 6+. ³ \$1 million in pre-paid rent, plus 5% of total gross, less \$100,000 per year. ⁴ 35% carts. ⁵ Declines to 2% in Year 11.⁶ Years 21-25 / 26+ ⁷ 10% for capital improvements; 1% for junior golf. ⁸ Includes supplemental fee. ⁹ Carts at 27% and driving range at 17%. ¹⁰ Represents 5-year option period.¹¹ 35% on carts; 30% on driving range. ¹² An additional \$2.0 million is proposed in years 5-8. ¹³ Total gross revenue from all departments up to \$3.0 million/\$304 million/\$4.0 million and over.¹⁴ Applies to initial 15 years, then to stepped up percentages as defined for golf-related revenue. Source: Economics Research Associates.

Table VII-4
MANAGEMENT AGREEMENT TERMS AT SELECTED
CALIFORNIA PUBLIC GOLF COURSES

Golf Course	Los Lagos	Santa Clara Golf Club	Paradise Valley / Rancho Solano
Location	San Jose	Santa Clara	Fairfield
Course Type	Mid-Market Municipal	Mid-Market Municipal	Mid-Market Municipal
Number of Holes	18	18	Two 18-hole
Owner	City of San Jose	City of Santa Clara	City of Fairfield
Manager	CourseCo	American Golf	Kemper Sports
Agreement Date	2002		2003
Term (years)	15		5
Options	None	None	None
Options Holder	---	---	---
Annual Gross Revenue – 2007	\$3,700,000	\$3,500,000	\$5,100,000
Base Annual Fee	\$132,000	\$140,000	\$150,000
CPI Adjusted	Yes		Yes
Incentive Structure	1% of increase in total gross revenue established in first operating year	3% of total gross revenue	10% of gross revenue exceeding base of \$4.88 million
Management Functions			
Course Maintenance	X	X	X
Golf Operation	X	X	X
Food and Beverage	X	X	X
Annual Compensation – 2007			
Base	\$143,000	\$140,000	\$175,000
Incentive	---	<u>105,000</u>	<u>20,000</u>
Total	\$143,000	\$245,000	\$195,000
% of Total Gross Revenue	3.9%	7.0%	3.8%
Reimbursements	None		None
Performance/Other Deposit	---	---	---
No Compete Restrictions	No	No	Yes

**Table VII-4
(continued)**

Golf Course	Callippe Preserve Golf Course	Harding Park	Encinitas Ranch	Black Gold
Location	Pleasanton	San Francisco	Encinitas	Yorba Linda
Course Type	Upscale Municipal	Upscale Municipal	Municipal	Upscale Municipal
Number of Holes	18	18	18	18
Owner	City of Pleasanton	City of San Francisco	Encinitas Ranch Golf Auth.	City of Yorba Linda
Manager	CourseCo	Kemper Sports Mgmt.	J.C. Resorts	Kemper Sports Mgmt.
Agreement Date	2004	2003	2002	2006
Term (years)	5	7	10	5
Options	None	None	None	None
Options Holder	---	---	---	---
Annual Gross Revenue – 2006	\$4,000,000	\$6,000,000	\$4,700,000	\$5,800,000
Base Annual Fee	\$75,000	\$192,000	\$150,000 2/	\$195,000
CPI Adjusted	Yes	No	Yes	Yes
Incentive Structure	6.0% of golf revenue (greens, carts, range) in excess of \$1,725,000 (Year 1) \$1,825,000 (Year 2) \$1,925,000 (Year 3) \$2,025,000 (Year 4) \$2,125,000 (Year 5) 2% of F&B/merchandise	5.0% of gross revenue in excess of \$6,000,000	.75% of gross golf revenue Accounting reimbursement Direct	5.0% of gross revenue in excess of \$5,800,000, subject to maximum of 25% of fixed fee
Management Functions				
Course Maintenance	X	-	X	X
Golf Operation	X	X	X	X
Food and Beverage	X	X	X	X
Annual Compensation – 2006				
Base	\$ 75,000	\$192,000	\$162,000	\$250,000
Incentive	<u>75,000</u>	<u>---</u>	<u>35,000</u>	<u>---</u>
Total	\$150,000	\$192,000	\$198,000	\$250,000
% of Total Gross Revenue	3.8%	3.2%	4.2%	4.3%
Reimbursements	Accounting - \$18K/year	None	Accounting - \$24K/year	None
Performance/Other Deposit	\$50,000	\$100,000		\$50,000
No Compete Restrictions	No	6 months		No

**Table VII-4
(Concluded)**

Golf Course	Golf Resort at Indian Wells	SilverRock	Desert Willow	Carlsbad Municipal	Green River
Location	Indian Wells	La Quinta	Palm Desert	Carlsbad	Corona
Course Type	Upscale Municipal	Upscale Municipal	Upscale Municipal	Upscale Municipal	Mid-market Daily Fee
Number of Holes	36	18	36	18	36
Owner	City of Indian Wells	City of La Quinta	City of Palm Desert	City of Carlsbad	County of Orange
Manager	OB Sports	Landmark Golf Mgmt.	Kemper Sports	Kemper Sports	CourseCo
Agreement Date	2005	2004	2006	2006	2006
Term (years)	5	5	2	5	5
Options	None	None	Two 1-year	None	None
Options Holder	---	---	City	---	---
Annual Gross Revenue – 2006	\$8,000,000 ¹	\$3,700,000	\$8,300,000	\$5,500,000 ¹	\$5,000,000
Base Annual Fee	\$120,000	\$90,000	\$300,000	\$100,000	\$165,000
CPI Adjusted	Yes	No	No	No	Yes
Incentive Structure	3% of gross revenue exceeding gross revenue threshold ²	None	5% of gross revenue in excess of \$6,000,000	5% of gross revenue in excess of \$4,500,000	None
Management Functions					
Course Maintenance	X	X	X	X	X
Golf Operation	X	X	X	X	X
Food and Beverage	X	X	X	X	X
Annual Compensation – 2006					
Base	\$120,000	\$90,000	\$300,000	\$150,000 ³	\$165,000
Incentive	<u>60,000 ¹</u>	<u>---</u>	<u>115,000</u>	<u>50,000</u>	<u>---</u>
Total	\$180,000	\$90,000	\$415,000	\$200,000	\$165,000
% of Total Gross Revenue	2.25%	2.4%	5.0%	3.6%	3.3%
Reimbursements	Accounting/Payroll – 2.0% of payroll	None	None	None	None
Performance/Other Deposit	None	\$25,000	None	None	None
Non Compete Restrictions	None	None	2 years	None	None

¹ Projected following completion of 36-hole renovation.

² Direct accounting expenses reimbursement in addition to base fee.

³ Projected for opening year (2007).

Table VII-5
REGULATION LENGTH PUBLIC GOLF COURSE GOLF OPERATIONS CONCESSION AGREEMENTS
SELECTED CALIFORNIA COURSES

Course Location	Boundary Oak GC Walnut Creek	Santa Barbara GC Santa Barbara	Pacific Grove GC Pacific Grove	Diablo Creek Concord	Creekside, Dryden, Muni Modesto
Lessor	City of Walnut Creek	City of Santa Barbara	City of Pacific Grove	City of Concord	City of Modesto
Lessee	Robert Boldt	Richard Chavez	Pevita, Inc.	Joseph Fernandez	FM Golf
Agreement Date	2003	3/2/1999	11/17/1998	7/1/1998	4/1/2000
Lease Term (years)					
Initial	5	5	5	NA	5
Options	---	1 / 5-year	1 / 5-year	2 / 5-year	1 / 5-year
Discretion	City	City	City	Lessee	City
Concessionaire Services					
Reservation	X	X	X	X	X
Starter	X	X	X	X	X
Green Fee Collection	X	X	X	X	X
Marshals	X	X	X	X	X
Range	X	X	X	X	X
Carts	X	X	X	X	X
Pro Shop	X	X	X	X	X
Lessons	X	X	X	X	X
Food and Beverage	O	O	X	O	O
Minimum Rent	No	\$120,000	\$60,000	None	\$22,000 (Year 1)
CPI Adjusted	---	Yes	No	---	\$32,000 (Year 2+)
Percentage Rent					
Carts	15%	25%	10%	35% (0-450K)	---
Range	20 - 25%	25-35% ¹	10%	25% (450K+)	10% of total
Merchandise	5%	5%	10%	30% (0-400K)	gross over:
Lessons	10%	5%	---	25% (6-500K)	Year 1 - \$ 800K
Food and Beverage	---	---	10%	5% (0-500K)	Year 2+ - \$1,000K
Liquor	---	---	10%	---	3 courses combined
Other	---	10%	---	---	---
Investment Requirements	None	None	None	None	None
Utilities	Shared	Lessor	Lessor	Lessor	Lessor
Incentive / Lessor	\$0.50 / round, up to 59,999,	---	---	Per round ²	10% of differential in actual vs. bud
Payments	\$2 / round, 59,000 - 69,999, \$3 / round, above 69,999				total course gross revenue

¹25% current facilities; 30% Phase 1 improvements; 35% Phase 2 improvements.

²\$1.00 per round 93,000-98,000; \$2.00 per round 98,001-102,999; \$3.00 per round 103,000-108,000; \$4.00 per round (108,001+) --- 9 holes yield one-half fee.

Source: Economics Research Associates.

Table VII-6
STRENGTHS AND WEAKNESSES OF
GOLF COURSE OPERATING OPTIONS

Facility Lease	Management Agreement	Hybrid Agreement ¹
STRENGTHS		
<ul style="list-style-type: none"> • Provides strong financial return to city. • Minimizes financial risk. • Minimizes political influence with less direct involvement of City with setting fees, policies, and practices. • Offers potential benefits in golf management expertise and specialized maintenance support services. • May provide private capital investment in facilities. 	<ul style="list-style-type: none"> • Provides strong financial return to city. • Provides high level of city control. • Greater potential quality assurance. • Opportunity to provide shorter term contracts. • Potentially more compatible with multiple operator options. 	<ul style="list-style-type: none"> • Provides opportunity to retain specialists in golf operations, food and beverage, and maintenance operations. • Depending on structure of agreements, may provide: <ul style="list-style-type: none"> – Strong financial return to City. – Reasonable level of City control over rates, policies, and practices. – Downside financial risk protection.
WEAKNESSES		
<ul style="list-style-type: none"> • Minimum operational and quality control. • May involve long-term commitment. • Minimizes financial upside. 	<ul style="list-style-type: none"> • Requires more city involvement than facility lease option. • Minimizes private capital investment in facilities. • Entails greatest level of city financial risk. 	<ul style="list-style-type: none"> • Increases likelihood of conflicts among concessionaires. • Reduces opportunity to attract private capital due to reduced lessee control. • Increases City monitoring requirements.

¹ Example: Golf pro shop concessionaire with private contract maintenance.

SECTION VIII: FINANCIAL OUTLOOK

INTRODUCTION

The following section presents financial projections for the City's golf course system.

GROSS REVENUE

Based on a review of the Bay Area golf market, including anticipated near- and mid-term future market conditions, characteristics of the City's courses, and proposed improvements, annual gross revenue for each course is projected over the 2008-2017 period. The projections are presented in Tables VIII-1 through VIII-3, and reflect the factors, estimates, and assumptions summarized below:

Annual Play

Play levels are projected to improve modestly – about 5 percent – at the three courses in response to continued firming of the public golf market. By the fifth year of the projection period, play at San Jose Municipal is projected at about 85 percent of peak levels achieved in the mid-1990s, and at Los Lagos and Rancho del Pueblo, play is projected to approach levels achieved in their initial operating years.

Year	Annual Rounds		
	San Jose Municipal	Los Lagos	Rancho del Pueblo
Current	86,991	67,590	35,513
2008	88,000	68,000	36,000
2009	88,000	68,000	36,000
2010	89,000	69,000	37,000
2011	90,000	70,000	38,000
2012	90,000	70,000	39,000
2013+	90,000	70,000	40,000

Greens Fees

Greens fees at San Jose Municipal and Los Lagos are escalated at \$1 per year, which results in an increase in the average fee of about \$.75 per year (2.0-2.5 percent per year), and then 3 percent per year beginning in Year 6. The increase at Rancho del Pueblo is projected to average about \$.40 per round per year for the initial 5-year period, then 3 percent per year beginning in Year 6.

Year	Average Greens Fees per Round*		
	San Jose Municipal	Los Lagos	Rancho del Pueblo
Current	\$31.96	\$28.04	\$11.46
2008	32.70	28.00	11.50
2009	33.45	28.75	11.90
2010	34.20	29.50	12.30
2011	34.95	30.25	12.70
2012+	35.70	31.00	13.10

*Expressed in current dollars, with fees beyond 2012 increased at expected general rate of inflation (3% per year).

Clearly, the projected increase in greens fees is contingent on sufficient market strength to sustain such increases. As previously noted, fees at the City's courses presently are at, or near, market levels. With the gradual firming of the Bay Area golf market, increases in greens fees consistent with escalations in the general cost of living appear reasonable.

Cart Fees

Cart utilization is projected to remain constant at its current level over the projection period for San Jose Municipal and Los Lagos.

Course	Utilization	Average Cart Fee Per Round
San Jose Municipal		
Current	40%	\$5.04
Projected	40%	5.20*
Los Lagos		
Current	62%	\$8.43
Projected	62%	8.40*

*2008 dollars.

Driving Range

Range revenue at San Jose Municipal is projected to remain, in real terms, at its current level. The 60-tee station range's current performance, at near \$15,000 per tee station per year, is at the high end of the competitive range.

At Las Lagos, range revenue is projected to experience a one-time increase of \$50,000 per year (12% increase) in 2010, attributable to expanded parking at the course and construction of a short game practice area. The projected revenue for the 42-tee station ranch is equal to \$8,400 per tee station per year.

Driving range revenue at the 25-tee station Rancho del Pueblo Range is projected to increase modestly from its \$117,000 per year (\$4,680 per tee station) to \$150,000 per year (\$6,000 per tee station).

Food and Beverage

The majority of food and beverage sales at all three courses derive from some day golfers, as there is limited capacity of the clubhouses to host non-golf special events. As such, food and beverage revenue per round is projected near current levels:

Course	Food and Beverage Revenue per Round	
	Current	Projected
San Jose Municipal	\$6.52	\$6.60
Los Lagos	6.48	6.50
Rancho del Pueblo	1.86	1.85

Merchandise

Merchandise sales at San Jose Municipal rank the facility at the top of the competitive range. As competition intensifies, merchandise sales are expected to decline slightly from \$9.25 to \$8.50 per round. Merchandise sales at Los Lagos and Rancho del Pueblo are expected to remain at their current per round levels, although the continued competitive forces related to high volume discount retailers and internet transactions threaten the on-site merchandising at the courses.

	Current	Projected
San Jose Municipal	\$9.25	\$8.50
Los Lagos	5.25	5.15
Rancho del Pueblo	2.03	2.00

PROJECTED CITY INCOME

Based on the projections of revenue outlined above, income accruing to the City under the contractual agreements currently in-place is projected. As well, potential income accruing to the City under alternative "market rate" agreements is indicated for comparison.

San Jose Municipal

Under the provisions of the lease agreement with Rawitser Golf, the City receives rental income based on contractual percentages of total gross revenue:

Year	Annual Gross Revenue (\$000)	Contract Rental Income @ 8.5% (\$000)
2008	\$5,795	\$493
2009	5,949	506
2010	6,150	523
2011	6,356	540
2012+	6,520	554

In comparison to golf course lease experience at similar facilities, as shown in the previous section, the contract rent at San Jose Municipal is substantially below market rent levels. Rent for 2008 under market terms, assuming there is no requirement to comply with the City's Prevailing / Living Wage Ordinance, is projected as follows:

Department	Annual Gross Revenue (\$000)	Market rent	
		Percent of Gross	Annual; Amount (\$000)
Greens	\$2,878	30%	\$ 862
Carts	458	30%	137
Range	888	30%	266
Merchandise	750	5%	38
Food & Beverage	602	6%	36
Other	220	5%	11
Total	\$5,795	---	\$1,351

Thus, for 2008, market rents would produce about \$800,000 more than current contract rents at San Jose Municipal. With the City's Prevailing / Living Wage Ordinance, if a lessee were required to comply the rent structure, market rent would be modified to yield about \$250,000 per year less than the amount shown above.

Projections of revenue under a management agreement form of operation for 2008 necessarily require estimates of operating expenses. The expenses shown below reflect compliance with the City's Prevailing / Living Wage Ordinance. At "market" wage levels, expenses would potentially be reduced, and net income increased, by about \$200,000-\$250,000 per year.

	Management Agreement Annual Amount – 2008 (\$000)
Gross Revenue	\$5,795
Less: Cost of Sales	
Merchandise	560
Food and Beverage	210
Subtotal	\$ 770
Gross Profit	\$5,025
Less: Operating Expenses	
Course Maintenance	1,100
Golf Operations	750
Food and Beverage	375
Clubhouse Undistributed	75
General and Administrative	550
Capital Replacement Reserve (3%)	174
Management Fee	
Base	150
Incentive	90
Total	\$3,264
Net Income	\$1,871

Clearly, while net income under a management agreement potentially generates more income to the City compared with a market rate lease, the owner bears all of the operating and financial risk.

Los Lagos

Los Lagos is operated under a management agreement between the City and Los Lagos Golf, LLC (CourseCo). Based on the current operating expense structure, net operating income accruing to the City under the existing agreement, before debt service, is projected (refer to Table VIII-2).

Under a lease agreement similar in structure to that at San Jose Municipal, rental income to the City, before debt service, is estimated for 2008 below. The projections assume the lessee would comply with the City's Prevailing / Living Wage Ordinance. Notwithstanding the in-place management agreement, city income under a traditional facility lease to a private sector provider is estimated based on the following terms (note that rent assumptions are indicated with and without compliance with the City's Prevailing / Living Wage Ordinance.):

Front-End Capital Improvements Required	\$2.0 million
Term	20 years
Minimum Rent	\$400,000/600,000 ¹
Percentage Rent (% of gross revenue)	
Golf	17.0%/25.0% ¹
Merchandise	5.0%/5.0%
Food and Beverage	3.0%/7.0% ¹
Other	5.0%/5.0%

¹With/without Prevailing / Living Wage Ordinance compliance.

The above assumptions yield projections of potential lease revenue, before city debt service, compared with projected City net operating income under its current management agreement, as follows:

	City Net Income – 2008			
	(\$000)			
	With Living Wage		Without Living Wage	
	Management Agreement	Facility Lease	Management Agreement	Facility Lease
Gross Revenue/Rent	3,753	520 ¹	3,753	765 ¹
Cost of Sales	399	---	399	---
Net Revenue	3,354	520 ¹	3,354	765 ¹
Less: Operating Expenses	2,721	---	2,470	---
Net Income/Rent	633	520 ¹	884	765 ¹

¹Rent.

Again, while lease income is estimated to be somewhat less than net operating income under the management agreement operating format, the owner would be relieved of operating and financial risk.

Rancho del Pueblo

Rancho del Pueblo is operated under a management agreement between the City and San Jose Golf, LLC (CourseCo). Based on the current operating expense structure, net operating income accruing to the City under the existing agreement, before debt service, is projected (refer to Table VIII-3).

Under a lease agreement similar in structure to that at San Jose Municipal, rental income to the City, before debt service, is estimated for 2008 below. The projections assume the lessee would comply with the City's Prevailing / Living Wage Ordinance. Notwithstanding the in-place management agreement, city income under a traditional facility lease to a private sector provider is estimated based on the following terms (note that rent assumptions are indicated with and without compliance with the City's Prevailing / Living Wage Ordinance):

Front-end Capital Improvements Required	None
Term	10 years
Minimum Rent	None/\$10,000 ¹
Percentage Rent (% of gross revenue)	
Golf	0%/10% ¹
Merchandise	5%/5% ¹
Food and Beverage	3%/7% ¹
Other	5%/5% ¹

¹With/without Prevailing / Living Wage Ordinance compliance.

The above assumptions yield projections of potential lease revenue, before City debt service consideration, compared with projected City net operating income under its current management agreement, as follows.

	City Net Income – 2008			
	(\$000)			
	With Living Wage		Without Living Wage	
	Management Agreement	Facility Lease	Management Agreement	Facility Lease
Gross Revenue/Rent	\$767	\$10 ¹	\$767	\$89 ¹
Cost of Sales	146	---	146	---
Net Revenue	\$622	\$10 ¹	\$622	\$89 ¹
Less: Operating Expenses	(691)	---	590	---
Net Income/Rent	(\$ 69)	\$10 ¹	\$ 32	\$89 ¹

¹Rent.

While lease income is estimated to exceed net operating income under the management agreement operating format, it is highly probable that maintenance and service quality under the lease would be reduced from current levels.

Table VIII-1
SAN JOSE MUNICIPAL PROJECTED OPERATING REVENUE
(In Current \$000s)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual Rounds Revenue	88,000	88,000	89,000	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Greens Fees	\$2,878	\$2,944	\$3,044	\$3,146	\$3,213	\$3,306	\$3,398	\$3,491	\$3,584	\$3,677
Cart Fees	458	471	491	511	527	543	559	576	593	611
Driving Range	888	915	943	973	1,002	1,032	1,063	1,095	1,127	1,161
Merchandise	750	773	796	820	844	869	896	922	950	979
Food and Beverage	602	620	643	667	687	707	728	750	773	796
Lessons	120	124	127	131	135	139	143	148	152	157
Miscellaneous	100	103	106	109	113	116	119	123	127	130
Total Gross Revenue	\$5,795	\$5,949	\$6,150	\$6,356	\$6,520	\$6,712	\$6,907	\$7,104	\$7,306	\$7,510

Source: Economics Research Associates.

Table VIII-2
LOS LAGOS PROJECTED OPERATING REVENUE
(In Current \$000s)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual Rounds										
18-Hole Regulation	68,000	68,000	69,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
9-Hole Par 3	-	-	-	-	-	-	-	-	-	-
Annual Rounds	68,000	68,000	69,000	70,000						
Revenue										
Greens Fees										
Greens Fees	\$1,904	\$1,955	\$2,036	\$2,118	\$2,170	\$2,242	\$2,314	\$2,386	\$2,458	\$2,531
9-Hole Par 3	-	-	-	-	-	-	-	-	-	-
Cart Fees	571	588	615	643	662	682	702	723	745	767
Driving Range	368	394	445	459	473	487	502	517	532	548
Merchandise	350	361	371	382	394	406	418	430	443	457
Food and Beverage	440	453	472	492	506	522	537	553	570	587
Lessons	70	72	74	76	79	81	84	86	89	91
Miscellaneous	50	52	53	55	56	58	60	61	63	65
Total Gross Revenue	\$3,753	\$3,875	\$4,066	\$4,224	\$4,340	\$4,477	\$4,616	\$4,757	\$4,901	\$5,046
Less: Cost of Sales										
Merchandise	245	252	260	268	276	284	293	301	310	320
Food and Beverage	154	159	165	172	177	20	21	22	22	23
Subtotal Cost of Sales	399	411	425	440	453	304	313	323	333	343
Total Revenue	\$3,354	\$3,464	\$3,640	\$3,784	\$3,887	\$4,173	\$4,303	\$4,435	\$4,568	\$4,704
Operating Expenses										
Course Maintenance	\$1,150	\$1,185	\$1,220	\$1,257	\$1,294	\$1,333	\$1,373	\$1,414	\$1,457	\$1,500
Golf Operations	575	592	610	628	647	667	687	707	728	750
F&B Operating Expenses	350	361	371	382	394	406	418	430	443	457
General & Administrative	390	402	414	426	439	452	466	480	494	509
Management Fee	143	147	152	156	161	166	171	176	181	187
Capital Imp Resrvc	113	116	122	127	130	134	138	143	147	151
Total Operating Expenses	2,721	2,802	2,889	2,977	3,066	3,158	3,253	3,350	3,451	3,554
Net Operating Income	\$634	\$662	\$752	\$808	\$821	\$1,015	\$1,050	\$1,084	\$1,117	\$1,149

Source: Economics Research Associates.

Table VIII-3
RANCHO DEL PUEBLO PROJECTED OPERATING REVENUE
(In Current \$000s)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Annual Rounds	36,000	36,000	37,000	38,000	39,000	40,000	40,000	40,000	40,000	40,000
Revenue										
Greens Fees	\$414	\$428	\$455	\$483	\$511	\$540	\$556	\$573	\$590	\$607
Cart Fees	-	-	-	-	-	-	-	-	-	-
Driving Range	125	139	159	164	169	174	179	184	190	196
Merchandise	72	74	79	83	88	93	96	98	101	104
Food and Beverage	66	68	71	74	78	81	84	86	89	91
Lessons	80	82	85	87	90	93	96	98	101	104
Miscellaneous	10	10	11	11	11	12	12	12	13	13
Total Gross Revenue	\$767	\$802	\$859	\$902	\$946	\$992	\$1,022	\$1,052	\$1,084	\$1,116
Less: Cost of Sales										
Merchandise	50	52	55	58	61	65	67	69	71	73
Food and Beverage	23	24	25	26	27	28	29	30	31	32
Lessons	72	74	76	79	81	83	86	89	91	94
Subtotal Cost of Sales	146	150	156	163	170	177	182	188	193	199
Total Revenue	\$622	\$652	\$703	\$739	\$777	\$815	\$839	\$865	\$891	\$917
Operating Expenses										
Course Maintenance	\$350	\$361	\$371	\$382	\$394	\$406	\$418	\$430	\$443	\$457
Golf Operations	120	124	127	131	135	139	143	148	152	157
F&B Operating Expenses	25	26	27	27	28	29	30	31	32	33
General & Administrative	105	108	111	115	118	122	125	129	133	137
Management Fee	60	62	64	66	68	70	72	74	76	78
Capital Imp Reserve	31	32	34	36	38	40	41	42	43	45
Total Operating Expenses	691	712	735	757	781	805	829	854	879	906
Net Operating Income	(\$69)	(\$59)	(\$31)	(\$18)	(\$4)	\$10	\$11	\$11	\$11	\$12

Source: Economics Research Associates.