

Los Lagos

Operational and Financial Report May 2006

Prepared by CourseCo, Inc in collaboration with the
Department of Parks, Recreation and Neighborhood Services



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Since its introduction into the market, Los Lagos has garnered praise for its quality and affordability...

Los Lagos has not covered debt service. The expectations that it could do so reach back to a feasibility study by the NGF Consulting.

...even such strong revenue performance cannot overcome the dual effects of understated pro forma operating costs and project bond costs 45% higher than anticipated.

BACKGROUND AND SUMMARY

The City of San José's Parks, Recreation and Neighborhood Services' Mission Statement is "To support livability of neighborhoods, offer opportunities for individuals to enjoy life and strengthen communities of people." Los Lagos Golf Course was developed with one of these Department's core services explicitly in mind: "To provide opportunities for City residents to play, learn, socialize and receive supportive assistance to live healthy and enriched lifestyles."

Since its introduction into the market on April 1, 2002, Los Lagos has garnered praise for its quality and affordability as reflected in revenue production, public response, survey data, and awards received. Notwithstanding negative industry and national economic trends, and the jarring dip in the local economy in 2001-03, Los Lagos has joined the ranks of the busiest courses in the Bay Area and formed a bond with the community particularly in environmental education and junior golf. The property has become prominent for its multiple awards in customer service, turfgrass quality, and environmental management. Among the numerous course openings in the region in recent years, Los Lagos' is the most successful.

Los Lagos opened on the threshold of a decline in the fortunes of the golf industry nationally, a decline which has been considerably worse in the Bay Area. Furthermore, with respect to the general economy, real household income declined 2.3% nationally from 2001 to 2004, a recessionary trend striking directly at Los Lagos' customer demographic.

Despite its excellent performance, Los Lagos has not covered debt service on bonds associated with its construction. The expectations that it could do so reach back to a feasibility study prepared in 1997 (updated 1999) by NGF Consulting, an affiliate of the National Golf Foundation, which stated that the course would cover debt service at a project cost of \$14.2 million. However, actual bonded debt for the project is over \$20 million. The NGF study also contained assumptions that proved incorrect with respect to golf participation trends, the local economy, and the competitive environment. The report also failed to include Prevailing Wage/Living Wage rates in its expense projections; materially underestimated total labor hours; nor were report writers aware of the added cost of maintaining environmental mitigation areas within the property. Other factors aside, the annual incremental cost of the Prevailing/Living Wage requirements, coupled with the NGF's material miscalculation of staffing levels necessary to meet quality prescriptions (and maintain mitigation areas), alone account for over \$500,000 annually. Please see the table included at Exhibit A.

The reliability of the prediction that Los Lagos' net revenues could cover debt service is strongly affected by these elements. It is noteworthy that Los Lagos has actually exceeded the gross revenues called for in the NGF study. This is attributable to effective marketing and the strong positive response the golf market has accorded to the design, convenience, quality, and services of Los Lagos. However, even such strong revenue performance in a difficult market cannot

overcome the dual effects of understated pro forma operating costs and project bond costs 45% higher than the NGF projection anticipated. Under these circumstances, it is highly improbable that Los Lagos will meet debt service in the near future.

This report discusses operational and financial history, market conditions, the competitive environment, marketing, community service, and the financial future.

OPERATIONS SUMMARY

Diversity in Hiring

Ethnic and gender diversity in staffing is a value CourseCo shares with the City of San José. The management and line staff at Los Lagos reflects the philosophy articulated by CourseCo in 1996:

Our efforts to employ the highest quality workforce, reflecting a maximum of diversity, is a philosophical and business principle, regardless of (Prop. 209) . . . our efforts to build teams from diverse elements make our lives and work more interesting (and) our products better.

The current staff at Los Lagos is about 60% non-white.

In a historically very conservative industry with few entry points open to ethnic minorities, developing an ethnically diverse management staff is challenging. The six managerial positions at Los Lagos and Rancho del Pueblo include two Asians, one Latino, and one woman. This diversity allows us to better communicate with and serve our customers.

Golf Course Conditions

The overall course conditions at Los Lagos have remained at an award-winning high standard since opening. According to the NGF CLASP Survey (Customer Loyalty and Satisfaction Program conducted nationally as a service of the National Golf Foundation) that Los Lagos has conducted for the past three years, we have far exceeded our competitors and the national average in customer satisfaction in overall course conditions. The following are percentages of customers that responded with a "somewhat favorable" or "very favorable" rating of overall course conditions, i.e. a four or five on a five-point scale.

Table 1 – Overall Course Conditions			
	2005	2004	2003
Los Lagos	93%	94%	89%
National Average	70%	73%	76%
Santa Teresa Golf Course	81%	68%	70%
San José Municipal	67%	49%	60%

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...course conditions at Los Lagos have remained at an award-winning high standard since opening.

Alan Andreasen, CGCS, Head Golf Course Superintendent for both Los Lagos and Rancho del Pueblo Golf Courses, received the Excellence in Turfgrass Maintenance Award in 2005 from the Golf Course Superintendent Association of Northern California. In 2006, he was national overall winner of the GCSAA/*Golf Digest* Environmental Leaders in Golf Award for Public Courses, one of the highest honors in the industry.

Customer Satisfaction

The CLASP surveys also measure other elements of customer appraisal. The evaluations are based on 13 different "business drivers," which are then compared to the national average of like facilities and to direct competitors in the immediate market identified by survey respondents. The percentages are based on the number of respondents who rated the facility either "somewhat satisfied" or "very satisfied."

Table 2 – Overall Experience			
	2005	2004	2003
Los Lagos	91%	93%	89%
National Average	77%	78%	80%
Santa Teresa Golf Course	83%	65%	65%
San José Municipal	67%	62%	77%

Table 3 – Overall Value of Course			
	2005	2004	2003
Los Lagos	87%	86%	84%
National Average	72%	74%	60%
Santa Teresa Golf Course	78%	52%	58%
San José Municipal	86%	58%	61%

Table 4 – Condition of Greens			
	2005	2004	2003
Los Lagos	84%	88%	88%
National Average	70%	73%	72%
Santa Teresa Golf Course	81%	66%	61%
San José Municipal	71%	52%	65%

Table 5 – Friendliness of Staff			
	2005	2004	2003
Los Lagos	88%	90%	88%
National Average	80%	77%	80%
Santa Teresa Golf Course	64%	70%	58%
San José Municipal	71%	56%	74%

The other categories, Convenience of Course Location, Scenery and Aesthetics, Tee Time Availability, Pace of Play, Food & Beverage Service, On-course Services, Amenities, and Condition of Golf Cars, are summarized in the Table at Exhibit E.

MARKETING

Because of budget constraints, Los Lagos marketing efforts have stressed low-cost methods, notably the internet, unpaid media (news), and direct sales. The combination of these approaches has synergistically produced a notable positive “word-of-mouth” effect. Los Lagos’ high visibility in the market, strong and steady total rounds, and stable green fee per round, all evidence effective marketing. The 2006 Marketing Plan appears at Exhibit F.

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SYNERGY WITH RANCHO DEL PUEBLO

Unified management of Los Lagos and Rancho creates a synergistic blend between the two properties. Management costs are significantly reduced, and the ability to cross-market has helped both facilities. Los Lagos is the next step for beginner golfers who start learning the game via Rancho’s comprehensive junior programs. It is the ideal “move up” venue after mastering the shorter and easier Rancho nine. A coupon on the bottom of the Los Lagos receipt encourages customers to play Rancho, further encouraging cross use. This has boosted rounds and revenue to Rancho.

Los Lagos’ relationship as an Affiliate Facility, is based at Rancho, with The First Tee of San José, has broadened its outreach among junior players and their families. Los Lagos has been the facility used for the intermediate levels offered by The First Tee. It is also the home course for the junior traveling league sponsored by The First Tee. Recently, Los Lagos teamed with The First Tee to provide an outreach opportunity by introducing golf to over 650 students of the Tom Matsumoto Elementary School located in nearby Evergreen School District.

JUNIOR GOLF

Los Lagos has continued to increase this important market segment for economic reasons as well as to fulfill the mission of a publicly owned golf course to bring the game to the youth of the community. Rounds played by juniors have increased each year and have grown as a percentage of total rounds:

Table 6 - Historical Junior Rounds Played		
	Rounds Played	% of Total Rounds
Fiscal Year 2002/3	1,436	2.07%
Fiscal Year 2003/4	2,870	4.17%
Fiscal Year 2004/5	3,253	4.75%

Full-fledged junior golf instruction programs depend on access to short game practice facilities, which Los Lagos currently lacks.

This growth is a function of several programs that promote golf to juniors, with a boost from the high profile of youthful golfers such as Michelle Wie and Tiger Woods. Los Lagos conducts junior golf camps in the summer, hosts six high school golf teams, addresses juniors’ needs and tastes in merchandising and clubfitting,

and has developed a close relationship with Stonegate Elementary School. This year, 120 Stonegate students participated in introduction to golf. Los Lagos offers Junior Golf Play Days during the summer months to give youth an added opportunity to get together for the fun and character-building benefits of simply playing the game.

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INSTRUCTION

Los Lagos actively participates in the PGA's Growth of the Game Initiative. This is a program of beginner golf lessons designed to help people get past the daunting aspects of entering the game. Our programs are listed on the Web for would-be golfers to sign up and learn about each level of instruction available. Los Lagos received the third most "unique hits" in the Northern California Section of the PGA, and the 17th nationally, under this program. We will continue to utilize the Play Golf America website to promote and track our efforts to create new golfers.

Junior Camps were added in the summer in 2005, with three week-long programs serving 70 youth in the first year. We work with Yerba Buena, Mt. Pleasant and Andrew Hill High Schools offering free golf lessons to their golf teams during their seasons.

Los Lagos' Director of Instruction, Matt Flenniken, is a recognized leader in instruction and club fitting. In addition to Club Fitter of the Year in Northern California, he was the 2003 national leading Club Fitter for Henry-Griffitts, an industry leader in custom equipment. Los Lagos is a certified location for fitting Ping, Titleist, Cobra and Henry-Griffitts golf equipment.

We are challenged in our ability to run a full golf instruction program because of Los Lagos limited practice putting green, which must be kept closed three days a week to avoid over-wear. Lack of a chipping/pitching area and an instruction area with appropriate separation from other facility users are also limiting factors. This limitation can be substantially rectified if a short game area is constructed on available land adjacent to the range.

COMMUNITY SERVICE/ACTIVITY

In keeping with the City of San José's Parks, Recreation and Neighborhood Services commitment to provide a continuum of service to improve health and wellness through special programs and inclusive recreation that enhances independence, improves social skills and self-esteem, and promotes community integration, Los Lagos actively seeks to serve the community in multiple ways. The following is a partial list of Community groups that have utilized Los Lagos tournament services for their fundraising programs:

- San José Fire Department (2003-05)

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We are challenged in our ability to run a full golf instruction program because of Los Lagos limited practice putting green....

- San José Holiday Parade (2002-05)
- Evergreen High School (2003-05)
- Evergreen School District (2002, 2003, 2005)
- California Park and Recreation Society (2003)
- Police Athletic League (2002, 2003, 2005)
- San José State College of Business Alumni (2003-05)
- Franklin/McKinley Educational Foundation (2003)
- Hispanic Chamber of Commerce (2002-04)
- Del Mar Doñs High School (2004-05)
- MACSA (2004)
- CET (2003, 2005)
- Gonzales Memorial (2002-05)

The following High Schools use Los Lagos as a golf team practice facility:

- Andrew Hill
- Yerba Buena
- Mt. Pleasant
- Valley Christian
- Willow Glen
- Leigh

Los Lagos has developed an annual field trip program with fourth grade class of local Stonegate Elementary School. The annual program includes a presentation by the Wildlife Rehabilitation Center (WRC), the United States Golf Association, a tour of the Coyote Creek Riparian Corridor, a putting contest, and lunch at the clubhouse. The entire fourth grade participates with over 120 students taking part. It has received excellent press coverage.

Los Lagos has been utilized by the WRC as the release property for two red-shouldered hawks into the Coyote Creek Riparian Corridor. The hawks are regularly spotted flying overhead. Los Lagos management has worked actively to develop the valuable relationship with the Wildlife Rehabilitation Center for the benefit of both organizations, the public perception of golf courses as habitat and places of environmental learning. The WRC's involvement in the Stonegate Elementary School Field Trip is very much appreciated and has contributed to the success of that program.

Los Lagos is an affiliate facility of The First Tee of San José, hosting a portion of its upper level classes. CourseCo was instrumental in bringing The First Tee to San José, and Los Lagos and Rancho del Pueblo general manager, Scot Hathaway, PGA, serves on the Board of Directors. Los Lagos is also the home course of The First Tee traveling junior league team that competes with other teams throughout the Santa Clara Valley.

In 2004, Los Lagos was the venue of a national Nike print ad for which a fee was charged.

*Los Lagos is an
Affiliate Facility of
The First Tee
of San José...*

...Los Lagos received recognition as a Certified Audubon Cooperative Sanctuary, one of just 43 in California.

...Los Lagos has received significant recognition, including national honors, in customer service, agronomic quality, and environmental management. This level of recognition is rare in the industry.

ENVIRONMENTAL MANAGEMENT

On April 14, 2004, Los Lagos received recognition as a Certified Audubon Cooperative Sanctuary, one of just 43 in California. The certification recognized meeting standards in the following categories:

- Wildlife & Habitat Management
- Chemical Use Reduction & Safety
- Water Conservation
- Environmental Planning
- Water Quality Management
- Outreach & Education

We continued to be dedicated to protecting and enhancing the environment, especially the fragile Coyote Creek Riparian Corridor that bisects the property. With interpretive signage we have developed on the course, in the clubhouse, and on golf carts, we are also making our customers and visitors aware of the importance of this issue.

AWARDS AND RECOGNITION

In just three years, Los Lagos has received significant recognition, including national honors, in customer service, agronomic quality, and environmental management. This level of recognition is rare in the industry. We believe it is attributable to the synergistic public/private partnership between CourseCo and the City of San José. Common values and mutually supportive efforts have worked to the clear advantage of Los Lagos customers and the natural environment. Los Lagos has earned the following awards.

National Golf Foundation Customer Loyalty and Satisfaction Program*:

- 2003 – National First Runner-up Award Winner
- 2004 – National Runner-up Award Winner
- 2005 – National Runner-up Award Winner

**The only course in the country to receive this honor for each of the past three years.*

GCSAA/Golf Digest Environmental Leaders in Golf Awards:

- 2003 – Chapter Award Winner - Public
- 2004 – Chapter Award Winner - Public
- 2005 – National Overall Award Winner
- 2005 – Turfgrass Excellence Award

2005 - City of San José Commendation (sponsored by Councilwoman Linda LeZotte)

Northern California Section PGA of America:

- 2003 Club Fitter of the Year Award – Matt Flenniken, PGA
- 2005 Horton Smith Award – Janet Davis, PGA
- Scot Hathaway, PGA – named to Board of Directors, The First Tee of San José
- Scot Hathaway, PGA – recognized by Titleist as a national leader in merchandise sales

MARKET CONDITIONS

A January 2006 report on the Bay Area golf market by Economics Research Associates (ERA), the leading independent golf market analyst, describes local and national supply and demand conditions. In addressing the excess of supply over demand, the report points out that over the 1990-2004 period, the inventory of golf courses in the United States increased by 35% while population rose only 19%. Circumstances in the Bay Area compound the difficulties in the national picture. ERA has this to say about local conditions:

Historically, the Bay Area golf market has been very strong with most golf courses operating at close to full effective capacity and sustaining greens fee increases well above the general price inflation. Since the late-1990s, 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.*
- *The development of high-end daily-fee courses located within East Bay and South Bay 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.*

Consequently, in the face of flat or declining demand growth, increases in supply have resulted in downward pressure on rounds, rates, and operating margins at virtually every course in the region.

Over the 1990-2005 period, the Bay Area public golf inventory has expanded 44 percent compared with 18 percent for the State of California. Bay Area population has increased only 17 percent over this time frame resulting in a substantial decline of nearly 20 percent in the population per golf course . . .

The disparity between the conditions the NGF feasibility study assumed and those that ERA reports today are markedly different. Notwithstanding these circumstances, Los Lagos has been very well received by the public and has, in fact, outperformed its competitors.

Circumstances in the Bay Area compound the difficulties in the national picture.

...Los Lagos has been very well received by the public and has, in fact, outperformed its competitors.

FINANCIAL PERFORMANCE

Rounds of golf played, the key metric in public golf performance, has remained relatively steady for the first three years of operations while most courses in the region have declined sharply. Los Lagos' rounds declined by only 237 (0.3%) this last fiscal year despite the opening of yet another 18-hole championship facility in the immediate market, and a decline in rounds in the western states of 2.3% (according to the National Golf Foundation).

Fiscal Year	Rounds
Fiscal Year 2002/3	69,460
Fiscal Year 2003/4	68,781
Fiscal Year 2004/5	68,544

Fiscal Year	Total Revenue	Revenue per Round
Fiscal Year 2002/3	\$ 2,052,198	\$29.55 per Round
Fiscal Year 2003/4	\$ 1,962,278	\$28.53 per Round
Fiscal Year 2004/5	\$ 1,931,831	\$28.18 per Round

Green Fee Revenue has continued to fall slightly since Los Lagos opened, attributable to market factors discussed above. The mix of round type has changed as bargain rounds (senior, off-peak, etc.) have increased and full-fee rounds declined under competitive pressure from aggressive discounting at championship facilities. This erodes average green fee per round. Golfers are increasingly taking advantage of the marketplace's discount pricing that has become the norm among struggling higher-end facilities, minimizing the price advantage that Los Lagos offers. As an example, nearby Cinnabar Hills Golf Club, a new championship 27, offers a membership program whereby for a quarterly fee of \$275, a golfer can play for half price at any time, making the effective rate only \$40 (including cart) on the weekdays and \$50 (including cart) on the weekends. This very substantially lowers the fee for the frequent player. Los Lagos' fee, cart included, for weekdays is \$43, and on the weekends is \$57. In 2005, a similar discount program was offered at San José's newest course, The Ranch at Silver Creek. A detailed breakdown of historical rounds by fee type is included at Exhibit B.

There has been considerable reduction in the number of full-rate players since the first year, FY 2002-03. They have been replaced by the discounted rates of Senior, Twilight, Super Twilight, and 9-Hole play. This trend is to be expected as Los Lagos has adjusted pricing and found its niche in the market. Los Lagos is a very senior-friendly course, walkable and affordable, and also one that can be played quickly when compared to the competition.

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Driving Range

Fiscal Year 2002/3	\$409,831
Fiscal Year 2003/4	\$382,007
Fiscal Year 2004/5	\$344,657

This revenue center has declined since opening, but current-year data suggests that it has leveled off and is now showing signs of increasing. The higher revenue in the first year may be attributable to the closure in December 2001 of Vista Oaks Driving Range, located just down the street from Los Lagos on Capitol Expressway. Golfers seeking a practice venue with full practice putting area and a pitching/chipping area cannot utilize Los Lagos which lacks these features. Going forward, it will be important to consider access to vacant land adjacent to the range for completion of the practice facilities envisioned by the NGF Study, which would boost range patronage. The lack of adequate parking is also a factor, perhaps a significant one, in lower than desired range revenue. At peak time periods, the full lot discourages visitors. Los Lagos has over 100 fewer parking spaces than San José Muni. It should also be noted that poor range drainage and soil conditions have forced early closure of the range for hand-picking of balls during the winter months the past two years.

It is important to consider access to vacant land adjacent to the range for completion of the practice facilities envisioned by the NGF Study...

Merchandise Sales

Despite very limited retail square footage, Los Lagos has performed far better than national norms in sales per square foot and profit margins. Margins of gross profit from the first full year to the most recent are 24.60%, 30.77%, and 31.23% respectively. Tailoring limited stock to its customers' tastes, moving inventory rapidly, and purchasing carefully, has increased both gross and net sales continuously. Los Lagos' Matt Flenniken was named Club Fitter of the Year by the PGA of Northern California in 2004, which reflects Los Lagos' success in golf club sales. A leader in golf shoes sales, Los Lagos sold 1,209 pairs of shoes in 2005 and is on a similarly hot pace in 2006.

...Los Lagos has performed far better than national norms in sales per square foot and profit margins.

Fiscal Year 2002/3	\$269,644	\$499.34 per sq. ft.	\$3.88 per Round
Fiscal Year 2003/4	\$346,666	\$641.97 per sq. ft.	\$5.04 per Round
Fiscal Year 2004/5	\$372,143	\$689.15 per sq. ft.	\$5.43 per Round
National Median ('05)*	N/A	\$106.84 per sq. ft.	\$3.55 per Round

* According to PGA of America Statistics

Cart Revenue

Los Lagos continues to build in this revenue category. The historical cart utilization percentage is 56%, high for a shorter than regulation course and comparable to rates for longer, less walking-friendly courses. For the first six months of this year,

...cart utilization is high for a shorter than regulation course and comparable to rates for longer, less walking-friendly courses.

utilization is just over 60%. This is due to a marketing-driven increase in tournament play for which carts are mandatory, and suggestive selling by golf shop staff.

Table 11 - Historical Cart Revenue		
Fiscal Year 2002/3	\$448,187	\$6.45 per Round
Fiscal Year 2003/4	\$489,247	\$7.11 per Round
Fiscal Year 2004/5	\$487,762	\$7.12 per Round

Food and Beverage

Table 12 - Historical Food and Beverage Revenue		
Fiscal Year 2002/3	\$462,919	\$6.66 per Round
Fiscal Year 2003/4	\$472,389	\$6.87 per Round
Fiscal Year 2004/5	\$458,786	\$6.69 per Round

Increasing sales per round to golfers has been the strategic focus of food and beverage operations, and this has been successful. The dollar per round sales continue to be strong. The café environment is airy, light and attractive and offers golfers a panoramic patio setting to enjoy the café's fast and appealing menu. There are structural impediments to growth in food and beverage sales to non-golfing groups: The clubhouse floor plan makes it difficult to hold outside events during golfing hours; and inadequate parking limits access. Los Lagos has held some non-golf related events after golfing hours this winter and has received favorable comments from each event.

EXPENSE MANAGEMENT

Personnel Expenses

Table 13 - Historical Personnel Expenses		
Fiscal Year 2002/3	\$1,432,855	
Fiscal Year 2003/4	\$1,627,536	+13.59%
Fiscal Year 2004/5	\$1,523,044	-06.42%

Personnel Expenses have been fairly consistent since opening, except for a large increase in the second fiscal year when worker's compensation rates, health premium increases, and commencement of mitigation area maintenance together produced a \$100,000 in unusual new costs. The following year, paring staff to further reduce costs coupled with a drop in worker's compensation rates substantially offset the unusual increases of the prior year.

Total annual cost for maintenance of environmental mitigation areas of the Coyote Creek corridor is approximately \$75,000 annually.

...annual cost for maintenance of environmental mitigation areas is approximately \$75,000 annually.

Los Lagos is also subject to Prevailing Wage and Living Wage Ordinances for the Maintenance Department and the Food and Beverage Departments, respectively. Prevailing and Living Wage rates are substantially higher than comparable industry rates, and the disparity continues to increase. In the Course Worker classification, annual Prevailing Wage increases from 2003 to 2005 averaged 5.25%. The highest Living Wage classification, effecting Cooks, was less than half that increase.

These higher than industry-standard wages have a significant impact on the personnel expenses for Los Lagos.

The table below recaps Prevailing and Living Wage rates paid at Los Lagos since opening, and provides comparison to market rates by classification.

PREVAILING WAGE (Per Hour)	2002	2003	2004	2005	2006	2006 Market Rate
Mechanic	\$29.44	\$31.67	\$33.32	\$33.49	\$34.36	\$24.00
Ride-On Mower Operator	\$24.21	\$25.16	\$26.11	\$27.18	\$28.05	\$15.50
Course Worker	\$14.20	\$14.80	\$15.40	\$16.55	\$17.10	\$10.50
LIVING WAGE (Per Hour)	2002	2003	2004	2005	2006	2006 Market Rate
F & B Counter Help	\$11.35	\$11.35	\$11.56	\$11.97	\$12.86	\$7.00
Cooks	\$11.92	\$12.11	\$12.73	\$12.73	\$13.15	\$9.00

These higher than industry-standard wages have a significant impact on the personnel expenses for Los Lagos. The cost is multiplied when the payroll taxes and worker's compensation expenses are applied. Using 2006 wage rates, the impact is \$305,543 annually for both the maintenance department and the food and beverage department. The full analysis is included at Exhibit C. Los Lagos will continue to evaluate the effectiveness of each employee to assure productivity is maximized.

It should be noted that in addition to failing to factor Prevailing and Living Wage costs, the NGF report materially underestimated labor hours. See the table included at Exhibit A.

Non-Personnel Expenses

Los Lagos, through continual evaluation and zero-based budgeting, has effectively held the line on non-personnel expenses. The maintenance standards established by the City are designed to deliver excellent playing conditions exceeding quality norms for courses in Los Lagos price category. This contributes to higher than usual labor costs, but also places Los Lagos as a market leader in quality, as indicated in CLASP survey results which will be presented later in this report.

Los Lagos, through continual evaluation and zero-based budgeting, has effectively held the line on non-personnel expenses.

Fiscal Year 2002/3	\$855,974		
Fiscal Year 2003/4	\$829,765		-3.06%
Fiscal Year 2004/5	\$835,025		+0.63%

Los Lagos maintain(s) rounds compared to other courses... Significantly, Los Lagos has maintained fee integrity...

Table 16 - Historical Operating Expenses (Personnel & Non-Personnel)		
Fiscal Year 2002/3	\$2,288,829	
Fiscal Year 2003/4	\$2,457,301	+7.36%
Fiscal Year 2004/5	\$2,358,069	-4.04%

COMPARISON TO COMPETITORS

Los Lagos has been able to maintain a relatively stable number of rounds when compared to other courses in the Bay Area where decline in double digits has been typical. Significantly, Los Lagos has also substantially maintained fee integrity as shown in the small decline in Average Green Fee per Round. Levels of play are very closely linked to average green fee per round. There has been a significant drop in average fees in the Bay Area as operators struggle to find the optimum position on the demand curve for their products.

Table 17 - Historical Rounds Comparisons				
	FY 02-03	FY 03-04	FY 04-05	% Change
Los Lagos	69,460	68,781	68,544	-1%
San José Municipal	88,656	86,013	84,460	-5%
Summit Pointe	78,677	69,202	68,830	-13%
Deep Cliff	70,987	66,861	61,446	-13%
Tilden Park	82,395	75,083	69,891	-15%
Crystal Springs	70,099	67,203	57,299	-18%

FIVE-YEAR PRO FORMA PROJECTION

The following is a Five-Year Summary Pro Forma based upon the first three years of operations and the present market conditions for the golf industry in the Silicon Valley area. A more detailed version of this pro forma appears as Exhibit D.

There is no consensus in the golf industry as to when, or if, a rebound in the industry's fortunes will occur.

There is no consensus in the golf industry as to when, or if, a rebound in the industry's fortunes will occur. Pessimists point out that 30 years ago recreational tennis had over twice the number of participants it has today, implying golf could be in trouble. We do not share this view. Golf is relatively stable and has not been especially prone to short-cycle fads. Its appeal has always been limited (to an estimated 8% to 12% of the population) by its difficulty, cost, and the time involved to play. The industry, though typically conservative and slow to act, seems aware of these negative factors and there are some signs that the industry will reflect this knowledge in future golf development. Golf courses, un-economic in their own right but added as amenities in new residential communities, have contributed greatly to oversupply. A continuation of this trend will be unfortunate, but the closure of nearly 100 courses nationally last year could indicate a countervailing trend which would be partially mitigating. Los Lagos is positioned

to compete well with expensive, long and difficult courses of the type so common in the recent golf course construction boom. Respected analysts believe it will take as much as a decade for the over-supply of courses nationally to return to the healthier supply/demand ratios of the 1990s and earlier.

Golf courses, un-economic in their own right but added as amenities in new residential communities, have contributed greatly to oversupply.

In brief, the main assumptions of the pro forma are:

- Regional economic recovery continues;
- No new courses open in immediate market;
- Practice facilities and parking are augmented;
- Rounds growth will derive from increasing market share via program enrichment and marketing, coupled with normal population growth. Continued discounting by high-end championship facilities will continue, with some stifling effect on Los Lagos rounds growth;
- Unit revenues are expected to increase 3%, keeping pace with inflation;
- Operating expenses are targeted for control to 2.5% growth.

5-Year Pro Forma - Los Lagos Golf Course

	<u>FY 2006-7</u>	<u>FY 2007-8</u>	<u>FY 2008-9</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
ROUNDS	70,000	71,000	72,250	73,500	75,000
TOTAL REVENUE	3,902,640	4,040,137	4,238,700	4,355,299	4,575,736
<i>\$ Per round</i>	\$55.75	\$56.90	\$58.67	\$59.26	\$61.01
COST OF GOODS SOLD					
Lessons	81,900	85,500	108,000	135,000	157,500
Merchandise	259,663	279,252	292,693	306,690	322,337
Food & Beverage	157,389	166,956	174,992	183,360	192,715
Total Cost of Goods Sold	498,951	531,708	575,685	625,050	672,552
<i>\$ Per round</i>	\$7.13	\$7.49	\$7.97	\$8.50	\$8.97
GROSS MARGIN	3,403,689	3,508,429	3,663,015	3,730,249	3,903,184
<i>\$ Per round</i>	\$48.62	\$49.41	\$50.70	\$50.75	\$52.04
OPERATING EXPENSES					
TOT. OPERATING EXPENSES	2,480,050	2,548,155	2,618,337	2,690,664	2,765,209
NET OPERATING INCOME	923,639	960,274	1,044,678	1,039,584	1,137,975
Less: Cap. Reserve, Mgt. Fee, Mitigation	330,751	340,519	352,272	361,726	374,457
Net Inc. After Cap. Reserve, Mgt. Fee, Mitigat	592,888	619,755	692,405	677,859	763,518

A more detailed version of this pro forma appears in Exhibit D.

CAPITAL IMPROVEMENT PROJECTS

The following Capital Projects have been approved for Fiscal Year 2005-6 and are in the process of being completed:

- Build an extra putting green next to Clubhouse - \$30,000
- Construct building for pump station #1 - \$16,000
- Construct building for pump station #2 - \$40,000
- Weather seal the clubhouse - \$15,000

It is projected that for Fiscal Year 2006/7, Los Lagos will need replacement of equipment totaling \$126,274 and non-equipment capital improvements totaling an additional \$10,000. The equipment projections are reviewed annually with the superintendent and the course mechanic. This practice will continue and may lead to postponement of equipment purchases that appear in the 5-Year Capital Budget (included at Exhibit G).

Fiscal Year 2007/8, the 7th year of operations, calls for equipment replacements totaling \$225,726. Again, it is difficult to project when a piece of equipment will need replacing when projecting out over a lengthy time period. Equipment replacement is adjusted and modified each year after the review by the Superintendent and the Mechanic.

Fiscal Year 2007/8 also calls for replacement of the driving range netting totaling \$114,000. The netting will be evaluated and replacement may be done at a later date. During the replacement of the netting it may be cost effective to repaint the poles. The rusting of the poles became apparent even before we opened and has been discussed with City Staff on numerous occasions. The cost estimates that have been received are approximately \$250,000.

Additional Long Term Projects not included in Five-Year Plan

- Additional Parking Area – Los Lagos has only 128 parking spaces, which is insufficient for peak demand. Periodic parking shortages deter customers. The area between the present parking lot and the creek should be considered for parking enhancement at the earliest time possible.
- Additional Practice Area – This will help in making Los Lagos a destination practice facility. With no area to chip or hit bunker shots, Los Lagos is strictly a driving range and not the full revenue generating practice facility that was envisioned in the NGF study.

A Combined Sources and Uses Plan of Capital Project Funds for Los Lagos and Rancho del Pueblo is provided at Exhibit G. We have shown this plan for Los Lagos and Rancho separately, as well as combined, because of the shared management of the two properties and a history of cross-transfer of capital funds.

SAFETY

Following the opening of the course, some potential safety concerns were identified and corrected in a very timely manner.

- Protective fences were added by the 1st and 10th tees
- A protective fence was added to the 18th tee
- A protective fence was added to the 6th tee
- A protective fence was added by the 13th green

- Signage guiding tee shots and letting players know of their responsibility for errant shots was added to the 1st, 6th, 10th, 13th, 17th and 18th tees
- Aiming posts were added to fairways #6, #17, and #18
- Mowing patterns were changed to visually orient players hitting direction.

Proposed Safety Elements for 2006-07

- Design and construction of netting along perimeter holes 6, 17 & 18 to deter errant balls
- Phase I of a tree replacement plan

CONCLUSION

Los Lagos has performed well financially under difficult market conditions. The property has substantially sustained rounds and fee integrity in a golf economy of unprecedented challenge, exceeding the performance of the market and its competitors. It has broadly engaged the community, which has expressed its awareness and appreciation for the course's quality and services. Sound environmental practices and public education are explicit San José community values and inherent in the operational mandate of this property. Accordingly, Los Lagos has systematically manifested those values in operation of the property, earning extensive public recognition for the results.

Outstanding customer service consistent with course quality and the public investment the property represents has been consistently delivered as evidenced by CLASP survey results and other means.

There are inherent, non-operational and non-market related barriers to Los Lagos achieving debt service coverage. These are, principally, the level of actual bond debt relative to project costs originally anticipated; cost impacts of Prevailing and Living Wage not factored into the original feasibility study; and elevated maintenance standards and the added cost of mitigation area maintenance.

Los Lagos occupies a very strong market niche as a very fine "super executive" course of peerless turfgrass quality and appealing hospitality and services. It can be played affordably and relatively quickly. Affordability and speed are important selection criteria to the modern golfer, and will become more so. With some augmentation of practice and instruction facilities and parking, Los Lagos can grow in service and net revenue at a pace that continues to exceed its competitors.

Los Lagos has performed well financially under difficult market conditions.

There are inherent, non-operational and non-market related barriers to Los Lagos achieving debt service coverage.

EXHIBITS

Exhibit A - Labor Hours and Wages Comparison – NGF Report to Actual

Exhibit B – Rounds Distribution by Type

Exhibit C – Cost Comparison – Prevailing Wage/Living Wage to Market Rates

Exhibit D – Five Year Pro Forma with Notes

Exhibit E – CLASP Survey Comparisons

Exhibit F – 2006 Marketing Plan

Exhibit G – Combined Sources and Uses Plan

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EXHIBIT A – LABOR HOURS AND WAGES COMPARISON – NGF REPORT TO ACTUAL

Department	Function	Description	NGF Estimated (3 yr. Avg.)		Actual (3 yr. Avg.)	
			Hours	Wages	Hours	Wages
G&A	General Manager ⁽¹⁾			\$51,750		\$71,782
	Administrative Assistant ⁽¹⁾	Verify/process payroll, invoices, reconcile daily deposits, HR compliance maintain files, attend weekly manager's meetings and general administrative responsibilities	2,000/Year	\$42,435	2,000/Year	\$40,780
Total G&A				\$94,185		\$112,562
Maintenance	Superintendent ⁽¹⁾			\$94,185		\$89,669
	Asst. Superintendent			\$51,750		\$57,834
	Mechanic ⁽¹⁾	Included in duties of Asst. Superintendent in NGF report			2,000/Year	\$67,660
	Irrigation Tech			\$34,155	2,000/Year	\$32,160
	Courseworkers	IN TOTAL	10,400/Year	\$14.35/Hour	23,483/Year	\$19.90/Hour
		Greens: Hand mow, roll, aerify, topdress			75/Week 3,744/Year	
		Tees: Mow (3 times per week), aerify, topdress			24/Week 1,248/Year	
		Fairways: Mow (3 times per week), aerify			24/Week 1,248/Year	
		Roughs: Mow (2 times per week), aerify			80/Week 4,160/Year	
		Bunker Maintenance			32/Week 1,664/Year	
	Course Setup			28/Week 1,456/Year		
	Detail work including weed-eating, divot repair, weed pulling, edging, special projects			80/Week 4,160/Year		
Total Maintenance			10,400/Year	\$274,421	23,483/Year	\$614,785

Department	Function	Description	NGF Estimated (3 yr. Avg.)		Actual (3 yr. Avg.)	
			Hours	Wages	Hours	Wages
Golf Operations	Head Professional/Asst. Professional	Merchandising, tournament sales, staff management		\$36,225		\$53,000
	Inside Staff	Golf Shop open approx. 5,150 hours per year <ul style="list-style-type: none"> Making starting times, managing tee, collect fees, distributing carts, cleaning of golf shop, tournament management, customer service 	6,651/Year	\$10.35/Hour	9,015/Year	\$9.49/Hour
	Outside Staff	5.5 hours per day, 2,007 hours per year <ul style="list-style-type: none"> Pulling carts out, washing carts, putting carts away properly, starter Range Picking: 3 people, 3 hours per day <ul style="list-style-type: none"> Picking up and washing range balls 		\$10.35/Hour	2,007/Year	\$7.89/Hour
	Satellite Shop	5 hours per day, 1,825 hours per year <ul style="list-style-type: none"> Collect fees for range balls, supervise picking of driving range balls in evening 		\$10.35/Hour	1,825/Year	\$9.49/Hour
	Marshals	60 hours per week, 2,600 hours per year <ul style="list-style-type: none"> Monitor pace of play and customer compliance to course rules 			2,600/Year	\$6.75/Hour
Total Golf Operations			6,651	\$156,818	18,732	\$213,827
Food & Beverage	IN TOTAL		5,113/Year	\$10.35/Hour	13,135/Year	\$11.59/Hour
	F&B Manager ⁽¹⁾	Staff management, banquet sales and coordination, inventory control and ordering, menu preparation and pricing				\$55,755
	Cooks	Prepare food, clean-up			5,486/Year	\$11.59/Hour
	Counter Staff	Customer service, clean tables, bartending, collect payment			5,651/Year	\$11.59/Hour
	Beverage Cart	On course sales			24/Week 1,248/Year	
	Janitorial	Cleaning of clubhouse and kitchen			4/Day 1,095/Year	
Total Food & Beverage			5,113	\$52,926	13,135	\$207,995
Total Los Lagos Wages				\$578,360		\$1,149,169

⁽¹⁾ Position shared with Rancho del Pueblo Golf Course with full expense being absorbed by Los Lagos Golf Course

EXHIBIT B – ROUNDS DISTRIBUTION BY TYPE

Rounds Distribution by Fee Type			
Weekday	2002 - 2003	2003 - 2004	2004 - 2005
Regular	18,433	14,517	12,078
Twilight	7,330	8,616	8,950
Senior	8,348	10,945	11,613
Junior	1,892	1,573	1,901
Other ⁽¹⁾	1,140	1,256	2,017
Weekday Total	37,143	37,087	36,559
Weekend/Holiday Rounds (Friday-Sunday)			
Regular	23,860	21,957	20,692
Twilight	5,604	6,413	7,269
Junior	572	1,104	1,352
Other ⁽¹⁾	2,284	2,228	2,671
Weekend/Holiday Total	32,320	31,702	31,984
Total Rounds	69,463	68,789	68,543
Fiscal Year Percentage Change			
Weekday	2002/03 - 2003/04	2003/04 - 2004/05	1st Year to 3rd Year
Regular	-21.24%	-16.80%	-34.48%
Twilight	17.54%	3.88%	22.10%
Senior	31.11%	6.10%	39.11%
Junior	-16.86%	20.85%	0.48%
Other ⁽¹⁾	10.17%	60.59%	76.93%
Weekday Total	-0.15%	-1.42%	-1.57%
Weekend/Holiday Rounds (Friday-Sunday)			
Regular	-7.98%	-5.76%	-13.28%
Twilight	14.44%	13.35%	29.71%
Junior	93.01%	22.46%	136.36%
Other ⁽¹⁾	-2.45%	19.88%	16.94%
Weekend/Holiday Total	-1.91%	0.89%	-1.04%
Total Percentage Change	-0.97%	-0.36%	-1.32%

⁽¹⁾ Other includes 9-hole rounds and replay rounds

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EXHIBIT C – COST COMPARISON – PREVAILING WAGE/LIVING WAGE TO MARKET RATES

<u>Department</u>	<u>Position</u>	<u>Hours Worked</u>	<u>Current PW/LW Rate</u>	<u>Wages with PW/LW</u>	<u>Market Rate</u>	<u>Wages with Market Rate</u>	<u>Difference</u>
Maintenance	Mechanic	\$2,018.75	\$33.49	\$67,607.94	\$24.00	\$48,450.00	\$19,157.94
	Ride-On Mower Operators	\$7,638.50	\$27.18	\$207,614.43	\$15.50	\$118,396.75	\$89,217.68
	Courseworkers	\$13,745.75	\$16.55	\$227,492.16	\$10.50	\$144,330.38	\$83,161.79
	Mitigation Worker	\$1,903.50	\$16.55	\$31,502.93	\$10.50	\$19,986.75	\$11,516.18
Total Maintenance				<u>\$534,217.46</u>		<u>\$331,163.88</u>	<u>\$203,053.58</u>
Food & Beverage	Cook	\$5,486.00	\$13.15	\$72,140.90	\$9.00	\$49,374.00	\$22,766.90
	Counter/Beverage Cart/Janitorial	\$5,651.00	\$12.86	\$72,671.86	\$7.00	\$39,557.00	\$33,114.86
Total Food & Beverage				<u>\$144,812.76</u>		<u>\$88,931.00</u>	<u>\$55,881.76</u>
Total Combined Wages				<u>\$679,030.22</u>		<u>\$420,094.88</u>	<u>\$258,935.34</u>
Payroll Burden (18%)				\$122,225.44		\$75,617.08	
Total Annual Impact on Facility				<u>\$801,255.65</u>		<u>\$495,711.95</u>	<u>\$305,543.70</u>

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EXHIBIT D – FIVE-YEAR PRO FORMA WITH NOTES

Notes to Pro Forma

The Five-Year Pro Forma on the following page is based upon the first three years of operations and the present market condition for the golf industry in the Silicon Valley.

It is our belief that the current economic recovery in the Silicon Valley will continue and have a positive effect on the revenue generation potential at Los Lagos. There are no new golf courses scheduled to open within the next five years, although there is talk of a golf course in Menlo Park and in Hollister. It is assumed that practice facilities and parking will be augmented.

Rounds are projected to increase by 1,000+ per year up to 75,000 in the fifth year. Because of the increase in discounting coming from higher end championship facilities, the growth rate is lower in the first three years, 2%, and increases in the fourth and fifth year, 3%. This will be accomplished by positive effects of the economic environment, a normal population growth, new golfer program development and a continued aggressive marketing plan targeted at increasing frequency of play for our core golfers and emphasizing our facility's advantages over the competition.

Unit revenue growth is projected to increase by 3% per year on average, which is consistent with the present inflation trends.

Total expenses are projected to be controlled at about 2.5% per year. The City of San José Prevailing Wage Ordinance for increases in wages paid to maintenance personnel are projected to increase by 4% per year. Living Wage Ordinance for food and beverage personnel are projected to increase 3% per year. All other personnel expenses are projected to increase by 2% per year. CourseCo will continue to aggressively manage the controllable expenses to keep them below the growth rate of revenue, thereby increasing the bottom line.

5- Year Pro Forma - Los Lagos Golf Course

	<u>Budget FY 2006-7</u>	<u>FY 2007-8</u>	<u>FY 2008-9</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>
ROUNDS	70,000	71,000	72,250	73,500	75,000
REVENUE					
Green Fees	2,024,798	2,094,798	2,174,312	2,278,288	2,394,527
<i>\$ Per round</i>	\$28.93	\$29.50	\$30.09	\$31.00	\$31.93
Carts	539,000	546,700	578,000	588,000	622,500
<i>\$ Per round</i>	\$7.70	\$7.70	\$8.00	\$8.00	\$8.30
Range	364,213	380,498	398,813	417,885	439,205
<i>\$ Per round</i>	\$5.20	\$5.36	\$5.52	\$5.69	\$5.86
Rentals	17,500	18,283	19,163	20,079	21,103
<i>\$ Per round</i>	\$0.25	\$0.26	\$0.27	\$0.27	\$0.28
Merchandise	381,857	398,931	418,133	438,128	460,482
<i>\$ Per round</i>	\$5.46	\$5.62	\$5.79	\$5.96	\$6.14
Lessons	91,000	95,000	120,000	150,000	175,000
<i>\$ Per round</i>	\$1.30	\$1.34	\$1.66	\$2.04	\$2.33
Subtotal -- Golf Operations	3,418,368	3,534,210	3,708,421	3,892,380	4,112,817
<i>\$ Per round</i>	\$48.83	\$49.78	\$51.33	\$52.96	\$54.84
Food & Beverage Sales	484,273	505,926	530,279	555,637	583,985
<i>\$ Per round</i>	\$6.92	\$7.13	\$7.34	\$7.56	\$7.79
Subtotal -- Food & Beverage	484,273	505,926	530,279	462,919	462,919
TOTAL REVENUE	3,902,640	4,040,137	4,238,700	4,355,299	4,575,736
<i>\$ Per round</i>	\$55.75	\$56.90	\$58.67	\$59.26	\$61.01
COST OF GOODS SOLD					
Lessons	81,900	85,500	108,000	135,000	157,500
Merchandise	259,663	279,252	292,693	306,690	322,337
Food & Beverage	157,389	166,956	174,992	183,360	192,715
Total Cost of Goods Sold	498,951	531,708	575,685	625,050	672,552
<i>\$ Per round</i>	\$7.13	\$7.49	\$7.97	\$8.50	\$8.97
GROSS MARGIN	3,403,689	3,508,429	3,663,015	3,730,249	3,903,184
<i>\$ Per round</i>	\$48.62	\$49.41	\$50.70	\$50.75	\$52.04
OPERATING EXPENSES					
Golf Operations					
Personnel	302,933	308,992	315,172	321,475	327,905
Non Personnel	219,222	223,606	228,079	232,640	237,293
Subtotal	522,155	532,598	543,250	554,115	565,197
Maintenance					
Personnel	795,970	827,809	860,921	895,358	931,172
Non Personnel	494,650	504,543	514,634	524,927	535,425
Subtotal	1,290,620	1,332,352	1,375,555	1,420,284	1,466,597
Food & Beverage/Clubhouse					
Personnel	258,484	266,239	274,226	282,453	290,926
Non Personnel	65,345	66,652	67,985	69,345	70,732
Subtotal	323,829	332,891	342,211	351,797	361,658
General & Administrative					
Personnel	157,829	160,986	164,205	167,489	170,839
Non Personnel	185,617	189,329	193,116	196,978	200,918
Subtotal	343,446	350,315	357,321	364,468	371,757
TOT. OPERATING EXPENSES	2,480,050	2,548,155	2,618,337	2,690,664	2,765,209
NET OPERATING INCOME	923,639	960,274	1,044,678	1,039,584	1,137,975
Less: Fixed Management Fee	136,956	141,065	145,297	149,656	154,145
Capital Reserve Fund	117,079	121,204	127,161	130,659	137,272
Incentive Fee	-	-	-	-	-
Mitigation Expenses	76,715	78,250	79,815	81,411	83,039
Interest Income & Other Income	-	-	-	-	-
Total Mgmt Fee, CRF	330,751	340,519	352,272	361,726	374,457
Net Inc. After Mgmt Fee and CRF	592,888	619,755	692,405	677,859	763,518

EXHIBIT E – CLASP SURVEY COMPARISONS

Los Lagos Golf Course

NGF CLASP Survey Comparisons for 2003 through 2005

Business Drivers (in order of importance to your customers)	Los Lagos ⁽¹⁾			National Average ⁽²⁾			Santa Teresa Golf Club ⁽¹⁾			San Jose Muni Golf Course ⁽¹⁾			Deep Cliff ⁽¹⁾	Coyote Creek ⁽¹⁾	Deep Cliff ⁽¹⁾
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
Overall Value of Course	87%	86%	84%	72%	74%	60%	78%	52%	58%	86%	58%	61%	79%	40%	55%
Overall Course Conditions (tees, fairways)	93%	94%	89%	70%	73%	76%	81%	68%	70%	67%	49%	60%	53%	85%	65%
Tee-time availability	83%	84%	82%	75%	72%	69%	51%	45%	47%	71%	55%	39%	72%	60%	60%
Pace of Play	68%	63%	60%	63%	58%	59%	60%	49%	39%	76%	54%	63%	37%	65%	50%
Convenience of Course Location	87%	84%	80%	66%	51%	70%	86%	73%	74%	57%	65%	52%	68%	55%	60%
Condition of Greens	84%	88%	88%	70%	73%	73%	81%	66%	61%	71%	52%	65%	58%	65%	65%
Friendliness/Service of Staff	88%	90%	88%	80%	77%	80%	64%	70%	58%	71%	56%	74%	74%	60%	80%
Scenery and Aesthetics	83%	80%	79%	70%	80%	78%	83%	76%	65%	52%	44%	48%	84%	70%	60%
Overall experience	91%	93%	89%	77%	78%	80%	83%	65%	65%	67%	62%	77%	74%	74%	70%
Food and Beverage Service	80%	75%	78%	67%	64%	68%	80%	60%	61%	74%	66%	63%	53%	68%	70%
On-course Services (restrooms, drinking water)	68%	76%	70%	58%	53%	68%	57%	51%	39%	62%	46%	55%	44%	70%	55%
Amenities (clubhouse, pro shop, locker room)	79%	77%	79%	66%	67%	72%	82%	66%	61%	68%	45%	65%	53%	84%	35%
Condition of Golf Cars	80%	76%	82%	78%	71%	82%	74%	60%	54%	67%	59%	59%	43%	72%	20%

(1) Percentage of customers who are somewhat or very satisfied

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

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Los Lagos Golf Course - 2006 Marketing Plan

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INTRODUCTION

The long-term goal of Los Lagos Golf Course is to become the best value for golf in Silicon Valley by creating an experience different from any other course in the area. We will capitalize on personal service, outstanding conditions, and promotion of golf course's "personality" in the golf market. We plan to be more than a great golf facility. We plan to create of a golf experience unique in the industry, surpassing the standards set by decades of average operations, as measured by our competitors. Expanding our exposure via the Internet, public relations, and on-site operations and maintenance will allow us to build and maintain higher than average player utilization rates, while elevating Los Lagos' overall reputation, thus increasing revenues.

Los Lagos has the location, course, and facilities to create an unmatched experience for the golfer of any playing capability. As an important part of the City of San José's Parks, Recreation and Neighborhood Services Department, the facility and operations can foster goodwill, business alliances, and community benefits for its residents and non-residents alike.

2006 brings new possibilities for the operations canvassing new and unique areas and venues to accomplish fiscal profitability and market-share. Golf courses in our area are no longer in competition only with other golf properties, but also with other outdoor recreational activities that are present in the Silicon Valley. While economic concerns loom, we must find new and creative ways to separate and distinguish Los Lagos from the crowd of competitors.

The following is a synopsis of our market and goals for Los Lagos in 2006.

MARKET ANALYSIS

Customer Demographics

Los Lagos Golf Course averaged 68,928 rounds per year during the first three fiscal years. Weekday rounds averaged 36,930 (53.58%) and weekend rounds averaged 31,998 (46.42%).

Demographic breakdown by County based on our tee sheet was as follows:

	Rounds	Usage
Santa Clara County	14,107	87.78%
San Mateo County	681	4.24%
Alameda County	325	2.02%
Santa Cruz County	193	1.20%
San Francisco County	149	0.93%
Contra Costa County	149	0.93%
San Benito	59	0.37%
San Joaquin County	49	0.30%
Monterey County	28	0.17%
Merced County	21	0.13%



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Demographic breakdown by City based on our tee sheet was as follows:

	Rounds	Usage
San José	9,900	61.60%
Los Gatos/Saratoga	930	5.79%
Santa Clara	721	4.49%
Los Altos/Palo Alto/Cupertino	624	3.88%
Sunnyvale	591	3.68%
Campbell	545	3.39%
Morgan Hill/Gilroy	404	2.51%
San Mateo/Redwood City	381	2.37%

Golf Cart Utilization has averaged 53.08% for the first three fiscal years.

Customer Psychographics

One of the most typical profiles of families and individuals interested in golfing at Los Lagos can be described by the following:

- The golfer looking for golf close to home or work due to time constraints
- Social golfers for valued golfer playing with friends and family
- Golfers for whom course conditions and service are as important as value
- Golfers who come from all walks of life, economic demographic, player ability, and education

Analysis of Customer Attitudes Toward Price

When customers have more choices, they are more price-sensitive. In this market next year, the number of golf courses to choose from is not changing. Therefore, customer's price-sensitivity due to this factor will remain the same.

In addition, competitor price-cutting can lead customers to become more price-sensitive. Competitors will cut prices aggressively if they suffer from unused capacity, or if they have aggressive growth and expansion plans. In our market, several of the recently opened higher-end facilities have offered discounted play programs. We anticipate this to continue until the demand for golf catches up with the supply of courses available.

Finally, when the differences between alternatives appear to be minor to customers, then customers tend to be more price-sensitive and less concerned about quality, image and other product differences. In our market, there is not much difference between what each golf course is offering. We expect to see no change differences between competing courses in the future. This is the number one reason to pursue various and different programs, as well as tournaments, at Los Lagos in the future.



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In summary, when we consider the impact of trends in customer choice, competitor pricing, and differentiation between competing courses, we see a stable pricing environment in which we will need to price Los Lagos in the proper niche to maximize play and revenue.

Competitive Pricing Analysis

Facility	Weekday Rate	Weekend Rate
Boulder Creek	\$22	\$40
Summit Pointe	\$27	\$48
Sunnyvale Muni	\$32	\$42
San José Muni	\$33	\$47
Santa Clara G&TC	\$33	\$42
Palo Alto Muni	\$35	\$46
Spring Valley GC	\$35	\$53
Santa Teresa	\$37	\$54
Shoreline GL	\$38	\$54
Aptos Seascape	\$45	\$70
Los Lagos	\$30	\$44
Los Lagos – Proposed 4/06	\$31	\$45

STRENGTHS, WEAKNESSES, OPPORTUNITIES & THREATS (S.W.O.T.) ANALYSIS

Strengths

Definition:

- ▶ What are our business advantages?
- ▶ What are our core competencies?
- ▶ Where are we making money?
- ▶ What are we doing well?
 - Administrative Efficiency
 - Atmosphere/Ambiance
 - Cash Flow
 - City of San José High Maintenance Standards
 - Club Fitting
 - Condition of Course



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- Course Design
 - Native Areas
 - Lack of Homes on and Surrounding Course
- Course Length
- CourseCo, Inc Reputation
- Customer Service
- Employment Commitment
 - Low Attrition
 - Get the Job Done Well
- Environmental Programs
- Food Quality
- Good Course for Beginners/Seniors
- Good Location / Large Market
- Heated Range
- Inexpensive
 - Good Value
- Lighted Driving Range
- Merchandise Selection & Sales
- Modern Design of Shop
- New Course
- Reputation
- Staff Knowledge
 - Experiences outside of the golf industry
- Tee Time Accessibility
- Tournament Operations
- Well Qualified Maintenance Staff

Weaknesses

Definition:

- What are we avoiding?
- What resources do we lack?
- What are we doing poorly?
- Where are we losing money?
- What needs improvement?
 - Banquet Facilities (Lack of)
 - Camaraderie



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- Cart Policy and Process
 - › Maintenance
 - › Management
- Course Design
 - › Poor Routing
 - › Errant Golf Balls
 - › Par 68
- Customer Communication
 - › When they are not here
- Driving Range
 - › Condition
 - › Design
 - › Hard to Pick
 - › Programs
- Employee Facilities
 - › Lockers
- Employee Recognition
- Food & Beverage Staff Scheduling
 - › Simultaneous handling of counter and intercom customers
- Food Delivery
 - › Prep Time
 - › Menu Selection
- First Tee Management
 - › Consistent Starters
- Friday Pricing
- Low Employee Pay Scale
- Mandated City Policies
- Marketing / Advertising
- Marshalling Program
- Merchandise Display
- Office and Storage Space
- Pace of Play
- Parking Lot
- Player Programs
 - › Men's
 - › Ladies
 - › Juniors
 - › Seniors

- Point of Sale System
 - Credit Card Server
 - Simultaneous Transactions
- Practice Area (Lack of)
 - Chipping and Bunkers
- Putting Area
 - Shortage and Availability
- Soil & Use of Reclaimed Water
- Staff Communication
- System Upgrades
- Team Players Among Staff
 - i.e. Schedules
- Tee Time Restrictions
 - Nine Hole
- Tournaments
- Website

Opportunities

Definition:

- Any beneficial trends?
- Niches competitors are missing?
- New technologies?
- New customer needs?

- Publicity from Audubon Society Partnership
- Homeless Onsite
- National Player Programs
 - Women
 - Juniors
 - Couples
- CourseCo Bay Area Club
- Elementary School Outreach
- Corporate Golf Clubs
- New Merchandise Trends
- Club Repairing
- Expanded Lesson Programs



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- Practice Facility
 - › Chipping
 - › Bunker
 - › Putting
- Women's Golf
- Non Golf Events
 - › Banquets
 - › Meetings
- Corporate Employee Development
- Using Technology to Reach the Customer
 - › Course Guides
 - › GPS
 - › Course Maintenance (we use the latest technology to increase efficiency)
- Increase Utilization of Tee-Sheet and Range
- Community Outreach

Threats

Definition:

- › Obstacles to overcome?
- › Aggressive competitors?
- › Successful competitors?
- › Poor economic conditions?
- › Changing business climate?
- › Vulnerabilities?
 - High Cost of Golf
 - Mandated Salary Increases / Pay Scale
 - Homeless On-Site
 - New Course Opening
 - › The Ranch at Silver Creek
 - › Possible 2nd course (i.e. Boulder Ridge)
 - Economy
 - Weather
 - Discount Golf
 - › From Other Courses
 - Course Conditions
 - Time Constraints on Prospects/Customers



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- Changing Lifestyles of Golfers
- Aging Population
- Neighborhood Litigation
- Environmentalists
- Mitigated Area Policing
- Course Debt/Debt Service
- Litigations
 - › Customer
 - › Client

VISION

Los Lagos' vision in 4 years time is:

Despite the current golf trends of over-building and declining play our vision is to retain our current customer base, add and introduce new patrons to the game of golf, and enhance club activities. This vision will keep us focused on making Los Lagos the first choice for golfers in the Silicon Valley.

MISSION STATEMENT

The central purpose and role of Los Lagos Golf Course is defined as:

Los Lagos Golf Course will be recognized as the #1 public golf course in the Silicon Valley. We will provide the finest playing conditions, premium service, and best overall value and golf experience for all levels of play.

VALUES

The values governing Los Lagos will include the following:

- We will ALWAYS look and act in a Professional manner
- We will ALWAYS say "Thank You" to our patrons when they pay us money, and when we see them leaving the facility
- We will make our front-line operations fast and simple
- We will give our customers a quality product with a high perceived value
- We will continuously look for ways to do EVERYTHING better



2006 Marketing Plan

- We will do everything possible to CUT WASTE
- We will know our business better than anyone in our market
- We will ELIMINATE red-tape for our customers and in dealing with ourselves
- We Value change for the growth opportunities it provides, and not as an inconvenience.

OBJECTIVES

Business Objectives

Short-term and intermediate objectives:

- To use promotions to add value and introduce golfers to Los Lagos on a more frequent basis, thus increasing rounds played
- To help increase club participation from existing and new members
- To continuously train or replace staff in front-line operations consistent with mission and behaviors.

Longer-term business objectives of Los Lagos are summarized as:

- To become the leading golf course and recreational operation in the area.

Marketing Objectives

Our marketing plan is designed to accomplish the following objectives for 2006:

- Increase awareness of the golf course within a certain demographic or location and increase the average number of times specific player segments play the golf course
- Position the golf course as the best value in the Silicon Valley with the best service and the best possible conditions
- Enhance and add programs to touch all existing and potential golfers, as well as community events
- Retain customers by eliminating the causes of customer defections and strengthening our relationships with existing customers.

MARKETING STRATEGY

- Los Lagos Golf Course strives to be the premier provider of golf experiences for all golfers in the areas served as stated in its Mission Statement
- The marketing strategy will communicate the unique value the programs offer to participants. This strategy redirects the focus from the "cost" issue, to the benefits that participants gain from involvement in the programs



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- Ongoing efforts attempt to understand how Los Lagos can maintain the quality and integrity of programming within the limited financial resources of participants. This challenge is increasing. As costs continue to increase in a number of areas, the demands and expectations of the golfers do as well. Los Lagos is constantly working to improve the programs through changes in structure and implementation.

POSITIONING STRATEGY

Image and Positioning in the Marketplace

In 2006, Los Lagos will continue to strive to exceed our customers' expectations in providing the best value for their golf dollar.

COMMUNICATION is the only avenue to promote attitude, system flows, and every aspect of internal and external operations. Proper communications must be in place to provide broad cues for all types of people to key.

These are:

- Visual
- Auditory
- Kinesthetic

All three of these communication styles need to be tied in to:

- Staff
- Public
- Perceived Value

From initial contact with the property to the exit, the sole purpose of the presentation is to key on the broad cues of communication styles of the patrons. This is mandatory to ensure an enjoyable, quality experience (fun) for both the staff and the patron. The entire golf experience should be both fun and relaxing from beginning to end.

Essential components:

- Front end appearance
- Interior presentation
- Attitude of personnel
- Flow
- F & B Service
- Golf Car presentation
- Starter/Ranger attitude
- Golf course amenities
- Conditions
- DETAILS!!!



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It is important that Los Lagos maintains its high quality course condition, which has received National recognition from the NGF Customer Loyalty and Satisfaction Program and regional recognition from the Northern California GCSAA, awarding Los Lagos the Excellence in Turfgrass Award for 2005. We have done this while keeping a keen eye on how what we do effects the environment around the course. Golf Course Superintendent Alan Andreasen and Los Lagos received the National GCSAA/Golf Digest Environmental Leaders in Golf Award in 2005.

Los Lagos will continue to be recognized as the course that offers "added value" rather than a course where the expectation is "discounting." This is solely accomplished through customer service, conditions, and perceived value.

This image and positioning will occur through the sales presentations that are made, the ads that are published, the sales materials that are handed out, the merchandise in the shop, the cleanliness of the facility, the quality of the course and the consistency and quality of the food and beverage. Simply put, through the complete golf experience.

The Los Lagos team must embrace the direction of the club and support it. The advancement of this attitude and commitment comes from the top and through training, accountability and reward.

Product Marketing

- The key to rounds played is a direct reflection of playability and conditions of the course, customer service, activities, and overall public perception of the property.
- Great effort has been made, and will continue to be an ongoing concern to address the "first impression" of the golf facility.

Pricing

Facility	Weekday Rate	Weekend Rate
Boulder Creek	\$22	\$40
Summit Pointe	\$27	\$48
Sunnyvale Municipal	\$32	\$42
San José Municipal	\$33	\$47
Santa Clara Golf and Tennis Club	\$33	\$42
Palo Alto Municipal	\$35	\$46
Spring Valley Golf Course	\$35	\$53
Santa Teresa	\$37	\$54
Shoreline Golf Links	\$38	\$54
Aptos Seascape	\$45	\$70
Average Rate of Middle Six Facilities	\$34	\$48
Los Lagos	\$30	\$44
Los Lagos – Proposed 4/06	\$31	\$45



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Because Los Lagos is a par 68 facility, we feel our best pricing comparison comes from San José Municipal.

MARKETING COMMUNICATIONS

The strategies and ideas that create the core of our marketing plan have been laid out in the previous section. These are the things around which our marketing communications efforts will be based. The following section lays out the nuts and bolts of how we plan to communicate our message to our targets.

Advertising Plan

We will promote through email, internet and internally from the golf course. Outside print and radio advertising will only be used when warranted.

San José Mercury News will be utilized to promote special programs and events (Player Development Programs, Demo Days, etc.).

Primary contact with customers will be personal contact, telephone and email.

2006 Marketing and Advertising Dollars	Budgeted
Collateral Needs	\$6,000
Contingent Needs	\$14,500
Telephone Directories	\$14,000
San José Mercury	\$10,000
Website	\$6,000
Magazine Advertising	<u>\$5,000</u>
TOTALS	\$55,500

Direct Mail and Internet Marketing

We will focus our internet and direct mail efforts on the following locations and targets. In 2006, these media will be of major focus due to costs and specific targeting application. We will use the following sources:

- Website Data Collections
- E-Mail Address Collection form on each cart.
- E-Mail Address Collection points in Clubhouse

Content will be determined by objective. Some examples include:

- Special events
- Special promotions
- General information
- Our monthly event and promotions calendar
- Tips to improve your game



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Data capture and list creation

- Data from website visitors.
- Continue with our fishbowl "Enter to Win" initiative in the golf shop. Phone numbers, mailing addresses and e-mail addresses will be collected.
- Collection form on each golf cart.

Collateral Materials

Specifically, we are budgeting for creation and/or production of the items listed below.

The club has a packet of information that accomplishes the goals of the club. The pieces include:

- Containment Folder;
- Brochure;
- Rate Card;
- Scorecards;
- Catering Materials;
- Promotional Posters (as needed).

The current collateral package for Los Lagos is complete, reflects a contemporary feel, and is consistent with portraying Los Lagos as a high value facility.

Programs and Promotions

In conjunction with our overall strategy for Los Lagos Golf Course, our main focus for ongoing operations starting in 2006 and beyond, are comprised of several key areas:

- Increasing community involvement;
- Creating activities at the facility that are associated with golf, while creating anticipation for future events breeding more activity;
- Creating a sense of a "place to be" in the marketplace;
- Increasing rounds from all players in addition to our individual golf clubs;
- Creating a "private club" experience in regards to the facility and the golfer's experience while at Los Lagos;
- Promoting the Play Golf America beginner Golf Lesson Program;
- Offering three different levels of classes and playing opportunities for graduates.

EXHIBIT G – COMBINED SOURCES AND USE PLAN FOR CAPITAL IMPROVEMENT FUNDS

**LOS LAGOS GOLF COURSE
Capital Improvement Funds**

	<u>2006/7</u>	<u>2007/8</u>	<u>2008/9</u>	<u>2009/10</u>	<u>2010/11</u>
BALANCE	440,000	420,804	299,850	120,432	138,287
SOURCES	117,078	119,420	121,808	124,244	126,729
USES					
NON EQUIPMENT CAPITAL ITEMS	10,000	114,100	75,500	-	12,600
EQUIPMENT	126,274	126,274	225,726	106,389	177,898
TOTAL USES	136,274	240,374	301,226	106,389	190,498
BALANCE FORWARD	420,804	299,850	120,432	138,287	74,519

**RANCHO DEL PUEBLO
CIF SOURCES AND USES**

	<u>2006/7</u>	<u>2007/8</u>	<u>2008/9</u>	<u>2009/10</u>	<u>2010/11</u>
BALANCE	16,000	7,333	(155,692)	(226,328)	(236,683)
SOURCES	17,343	17,690	18,044	18,405	18,773
USES					
NON EQUIPMENT CAPITAL ITEMS	20,000	64,000	67,500	-	-
EQUIPMENT	6,010	116,715	21,180	28,760	43,000
TOTAL USES	26,010	180,715	88,680	28,760	43,000
BALANCE FORWARD	7,333	(155,692)	(226,328)	(236,683)	(260,910)

**COMBINED LOS LAGOS & RANCHO DEL PUEBLO
CIF SOURCES AND USES**

	<u>2006/7</u>	<u>2007/8</u>	<u>2008/9</u>	<u>2009/10</u>	<u>2010/11</u>
BALANCE	456,000	428,137	144,158	(105,896)	(98,396)
SOURCES	134,421	137,110	139,852	142,649	145,502
USES					
NON EQUIPMENT CAPITAL ITEMS	30,000	178,100	143,000	-	12,600
EQUIPMENT	132,284	242,989	246,906	135,149	220,898
TOTAL USES	162,284	421,089	389,906	135,149	233,498
BALANCE FORWARD	428,137	144,158	(105,896)	(98,396)	(186,391)

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