



Economics Research Associates

Final Draft

**Operational Analysis of City of Palo Alto
Municipal Golf Course**

Prepared for

City of Palo Alto

Submitted by

Economics Research Associates

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SECTION I: EXECUTIVE SUMMARY

INTRODUCTION

The following section presents a summary of principal findings regarding Bay Area golf market trends, Palo Alto Muni's market performance, the condition of existing facilities, capital improvements requirements, stakeholder and golfer responses, services, operating policies and other issues, and expected future financial performance of the course under alternative operating options available for the course. Analysis and documentation for these findings are contained in the subsequent sections of the report.

STUDY BACKGROUND

Palo Alto Municipal Golf Course (Palo Alto Muni) is an 18-hole regulation length public access golf complex owned by the City of Palo Alto. The golf course, developed on an approximate 170-acre site and opened in 1956, includes an 8,000-square-foot pro shop/restaurant, and a 26-tee station lighted golf practice range.

Presently, the City has two agreements with Brad Lozares for golf operations and an agreement with R&T Restaurant Corporation (R&T) for food and beverage services at the course. The golf course is maintained by the City Recreation and Parks Division of the Community Services Department. Mr. Lozares has a management agreement with the City for operating the golf course (reservations, greens fees collection, starting, and marshalling services) which was recently extended one year and now expires on December 31, 2009. There also is a lease agreement between Mr. Lozares and the City for golf concession operations (carts, range, merchandise, and instruction) which expires on April 30, 2013, with an option to extend the agreement 10 additional years. R&T's lease agreement for food and beverage operations on April 20, 2018.

In response to declining utilization and financial performance of the golf course over the past six years, and as part of the City's routine review of its operations, in April 2007, the City issued a Request for Proposals from qualified firms to conduct an operations analysis of Palo Alto Muni.

A comprehensive analysis was requested to address a range of issues including current performance of the course, the golf market outlook, capital improvement needs, golfer satisfaction levels, alternative operating structures, and the overall potential financial outlook for the facility.

The City selected Economics Research Associates (ERA) to conduct the study. In conducting this operations analysis, ERA reviewed historical course performance, interviewed stakeholders, evaluated current and expected future golf market conditions, surveyed golfers regarding satisfaction levels, investigated capital improvement needs, prepared financial projections, and analyzed alternative facility operating options. The study was conducted during the November 2007 through February 2008 period, and data contained in this report generally are current through February 2008.

CURRENT CONDITIONS

- Palo Alto Muni is an 18-hole regulation length golf course which opened in May 1956. Developed on about 170 acres, the course is operated from an 8,000-square-foot clubhouse that includes a 26-tee station golf practice range which is lighted for night use. The course was originally designed by noted architect William Bell, Senior, and is generally regarded as an efficient and attractive routing.
- Located on a relatively flat site which ranges in elevation from 4.4 feet below to 7.5 feet above sea level, the golf course faces substantial golf course maintenance challenges due to very poor soil conditions, use of reclaimed irrigation water, and the age of the facility.
- The City embarked on an extensive capital improvements program in 1998-1999 in accordance with a facility master plan which had been adopted for the course in 1992 by the City Council. Funded with public debt, about \$7 million in golf course improvements were completed, mostly related to improving the basic golf course infrastructure system including drainage and irrigation. However, due primarily to escalating construction costs and funding constraints, only about 40 percent of the master plan improvements were completed.
- The completed capital improvements clearly improved the condition of the golf course, but, since many of the improvements addressed basic sub-surface infrastructure, from the consumer's perspective the beneficial impact was much less than expected. The inability to complete the full master plan program, primarily due to finite funding resources available at the time, has resulted in inconsistent course conditions.
- The golf course is operated from a 3,000-square-foot pro shop, which services golfer needs, merchandising, office space, and storage. A separate 5,000-square-foot building houses the food and beverage operation. While these structures are adequate for serving basic golfer needs, the structures are aged and require ongoing major maintenance. The food and beverage structure has limited banquet space which diminishes the attractiveness of Palo Alto Muni for tournaments, and restricts the accommodation of non-golf special events. Cart storage for 35 carts is provided below the pro shop.
- The two existing golf operations agreements between the City of Palo Alto and Brad Lozares are unconventional, a product of several influencing factors including IRS regulations relating to the use of tax-exempt project funding, concessionaire-funded pro shop capital improvements, and the City's desire to build-in appropriate performance incentives. One agreement calls for management fees paid to the operator, which are offset under the second agreement by lease payments paid by the operator to the City based on revenue production.
- The existing food and beverage agreement between the City and R&T Restaurant Corporation is more traditional in structure, calling for the greater of a minimum rent payment versus a percentage of gross revenue.

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

<i>Year</i>	<i>Population (millions)</i>		<i>No. of Public Access Golf Courses¹</i>	
	<i>SF Bay Area</i>	<i>California</i>	<i>SF Bay Area</i>	<i>California</i>
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 Palo Alto Muni included in the “all others” segment:

<i>Year</i>	<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. Play at the entry level and midmarket courses, which includes Palo Alto Muni, 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.
- 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 Palo Alto Municipal has declined from about 90,000 rounds in 2000 to 76,240 rounds in 2007, a decline of 16 percent over the 2000-2007 period. Since 2005, rounds are down only 3 percent. By comparison, the average play per public access course in the Bay Area has declined about 12 percent since 2000, with play at the more relevant competitive set of public access courses down about 17 percent.
- 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.

Comparative Current Operating Performance Regulation Courses

- A comparative benchmark analysis was conducted for Palo Alto Muni and the following 15 municipally-owned golf courses in the San Francisco Bay Area:
 - Santa Clara, Santa Clara
 - Shoreline, Mountain View
 - Sunnyvale, Sunnyvale
 - San Jose Muni, San Jose
 - Los Lagos, San Jose
 - 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 Palo Alto Muni are at the midpoint of the range relative to the benchmark municipal courses.

	<i>Regular 18-Hole Greens Fees (2007 rates)</i>		
	<i>Palo Alto</i>	<i>15 Selected Municipal Courses</i>	
	<i>Muni</i>	<i>Range</i>	<i>Average</i>
Weekday			
Resident	\$36	\$20-37	\$29
Non-Resident	36	25-42	33
Weekend			
Resident	\$47	\$31-55	\$41
Non-Resident	47	37-62	47

- As noted, annual play at Palo Alto Muni has declined substantially since FY 2001-2002 due primarily to plateauing public golf demand and extraordinary expansion of the Bay Area golf course inventory:

<i>Fiscal Years</i>	<i>Paid Rounds</i>	<i>Percent Change</i>
2001 / 2002	89,450	---
2002 / 2003	87,892	- 1.7%
2003 / 2004	83,728	- 4.7%
2004 / 2005	78,404	- 6.4%
2005 / 2006	76,014	- 3.0%
2006 / 2007	76,241	+ 0.3%
Change, FY 2001/2002 to FY 2006/2007	-13,209	-15.0%

- 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>Average Per Round</i>
		<i>Greens Fees</i>	<i>Cart Fees</i>	<i>Total</i>	
Palo Alto Municipal	76,241	\$2,318.3	\$311.3	\$2,629.6	\$34.39
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
San Jose Muni	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
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 Palo Alto driving range has 26-tee stations and is lighted for night use. The range is among the smallest 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/Tee</i>
Palo Alto	\$353.7	26	\$13,604
Rancho del Pueblo	117.0	23	5,080
Santa Clara	388.0	25	15,520
Shoreline	407.3	35	11,637
Sunnyvale		— No Range —	
San Jose Municipal	898.0	60	14,960
Los Lagos	370.0	42	8,810
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

- As noted, while the size of the Palo Alto Muni range is on the low end, annual revenues are at the high end of the range on a per-tee-station basis. About 25 percent of revenue is attributed to same-day golfers and 75 percent to commercial golf practice.

Pro Shop Merchandise

- Palo Alto Muni, despite its modest size pro shop, generates substantial merchandise revenues at about \$650,000 per year, equal to \$8.56 per round.
- Merchandise sales at the competitive courses ranges from \$2.03 to \$9.25 per round, with a median of \$4.44 per round.

Food and Beverage Operations

- The Palo Alto Muni clubhouse is modest size with very limited banquet facilities. The two structures, connected with a breezeway, have a total of approximately 8,000 square feet, providing space for the golf pro shop, merchandising, and food and beverage operations. The pro shop and food and beverage components are 3,000 and 5,000 square feet, respectively, with about 3,000 square feet of cart storage located below grade under the pro shop.
- 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>
Palo Alto	\$ 606.4	8,000
San Jose Municipal	567.0	4,000
Los Lagos	438.0	4,700
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

- The \$606,400 in food and beverage revenue at Palo Alto Muni is comprised of about \$380,000 in golfer-generated revenue, \$100,000 from outside day-use patrons, and \$125,000 in special event/banquet business. The golfer revenue at about \$5.00 per round is in-line with comparable courses.
- The limited banquet space at Palo Alto Muni limits food and beverage opportunities, and reduces the competitiveness of the facility in attracting golf tournaments. At most golf facilities, special event business is substantially more profitable than that from day-to-day business activity.

Annual Golf Course Maintenance Expenses

- Golf course maintenance at Palo Alto Muni is provided through the City’s Recreation and Park Division of the Community Services Department.
- Maintenance expenses vary from course to course depending on areas maintained, golf course features, course market positioning, wage structures, and other such factors.
- Golf course maintenance labor expenses, *excluding* benefits, peaked at nearly \$668,000 in FY 2004 / 2005. Since then, reflecting budget cuts and the elimination of a full-time position, golf course maintenance labor expenses (excluding benefits) declined to about \$481,000 by FY 2006 / 2007, a decline of 28 percent over the last two years.
- Maintenance staffing levels at Palo Alto Muni and the 15 benchmark facilities is summarized as follows:

	<i>Course Maintenance Employees</i>		
	<i>Full Time</i>	<i>Part Time (FTE)</i>	<i>Total (FTE)</i>
Palo Alto Muni	9	1	10
Comparative Courses			
Range	10-15	0-3	12-17
Average	12	2	14

The City maintenance staffing level is the lowest of the competitive benchmark facilities, and significantly below the average. This low staffing level is particularly acute in light of the above average acreage maintained and the challenges of a high water table and salt water intrusion at Palo Alto Muni.

- The cost of irrigation at Palo Alto Muni totals about \$252,000 annually, including electrical energy costs for pumping, compared with an average for the 15 benchmark courses of \$146,000 per year.
- There are numerous factors which influence the annual irrigation cost at Palo Alto Muni and the other benchmark courses including consumption, source of water, applicable usage rates, and energy costs. The higher than average cost at Palo Alto Muni reflects primarily the higher usage rate of \$4.31 per hundred cubic feet, which is 50 to 100 percent higher than at many other courses.

- Excluding irrigation, annual maintenance costs at Palo Alto Muni are compared with benchmark facilities, as follows:

	<u>Annual Maintenance Expenses (\$000)</u>
Palo Alto Muni	\$1,195
Public Provider	
Range (5 courses)	\$1,033-1,336
Average	\$1,171
Private Provider	
Range (10 courses)	\$ 474-1,105
Average	\$ 778

- Despite the relatively small staff, Palo Alto Muni maintenance expenses are near the average of the courses maintained with public providers, and substantially above average expenses at courses with private providers.
- The maintenance expenses at Palo Alto Muni do not include any extraordinary allocations for intensive fairway soil treatment, primarily adding large volumes of sand. This practice, which was employed several years ago at an annual cost of about \$200,000, has proved to be very effective in upgrading turf conditions.

Annual Net Operating Income (EBITDA)

- Net Operating Income (NOI) is expressed in the industry standard EBITDA format meaning earnings before interest, taxes, depreciation, and amortization. Note that NOI is shown before any deductions for city-wide overhead (cost plan) and debt service. The following is a summary of NOI (EBITDA) at the Palo Alto Golf Course over the last six years:

<i>Fiscal Year</i>	<i>NOI (EBITDA)</i>	<i>Annual Change</i>
2001 / 2002	\$ 863,546	---
2002 / 2003	954,542	-\$ 90,996
2003 / 2004	850,056	- 104,486
2004 / 2005	818,857	- 31,199
2005 / 2006	1,061,283	+ 242,426
2006 / 2007	992,380	- 68,903

- Despite relatively high maintenance expenses and a difficult golf market, over the last six years, NOI has averaged nearly \$923,500 before city-wide overhead (cost plan) and debt service expenses. Relative to comparable municipal facilities in the Bay Area, this is strong operating performance.

Golfer Survey

- A comprehensive survey of golfers at Palo Alto Muni was conducted during the course of this study to gauge golfer satisfaction and identify areas for improvement. A questionnaire was distributed at the golf course and through the regular customer database in a mailing. A total of 454 completed questionnaires were returned.
- The distribution of surveyed golfers by place of residence is shown below, along with a near 100 percent sample of golfers for a full week of play during early spring 2008:

<u>Golfer Residence</u>	<u>Surveyed Golfers</u>	<u>All Golfers</u>
Palo Alto	42%	21%
South Bay (Other)	50	59
East Bay	3	5
Other	<u>5</u>	<u>15</u>
Total	100%	100%

About one-half of the surveyed respondents belong to one of the Palo Alto Muni clubs and about 30 percent hold senior discount cards.

- In terms of golf reservation and starter system, there was a high level of satisfaction:
 - 90% reported satisfaction with the tee-time reservation system.
 - 97% of golfers tee off almost always on time.
 - 72% believe the marshalls are effective.
 - Pace of play is better than average at 4.5 hours on weekdays and 4.2 on weekends.
- Weekday greens fees were deemed acceptable by 88 percent, and weekend fees by 73 percent of golfers. A high percentage of golfers on weekdays play at discounted senior rates.

- Golfers were asked to rate Palo Alto Muni for a range of facilities and services using a 1-5 scale. The percentage indicating a rating excellent or good for selected facilities/services is as follows (typically a rating of 65 percent excellent/good is desirable, with below 50 percent indicating areas of concern):

<u>Facility or Service</u>	<u>Percent Rating Excellent or Good</u>
Availability of the Pro for Golf Instruction	87%
Golf Instruction Customer Service	87%
Pro Shop Customer Service	85%
Golf Instruction Teaching Effectiveness	84%
Pro Shop Facility	72%
Variety and Availability of Pro Shop Goods	70%
Food and Beverage Hours of Operation	64%
Food and Beverage Customer Service	64%
Cart Condition	63%
Putting Green	62%
Cart Performance	61%
Golf Instruction Pricing	61%
Food and Beverage Appearance/Cleanliness	58%
Quality of Food and Beverage	57%
Restaurant Facility	52%
Food and Beverage Menu Variety	52%
Golf Course Greens	50%
Food and Beverage Value/Pricing	49%
Pricing of Goods in the Pro Shop	47%
Golf Course Tees	45%
Cart Paths	44%
Driving Range	40%
Restrooms	40%
Golf Course Fairways	34%
Cart Rental Fees	32%
Beverage Cart	25%
Golf Course Rough	24%
Golf Course Bunkers	21%

- In rating the “overall golf experience,” only 51 percent of surveyed golfers rated Palo Alto Muni excellent or good. This ranked Palo Alto Muni 7th among the 17 courses most frequently played by Palo Alto golfers, with overall excellent/good rating ranging from 24 to 95 percent at the various South Bay golf facilities.
- The majority of respondents indicated Palo Alto Muni is their primary course.
- Of those respondents who stated that Palo Alto was *not* their primary course, primary reasons were:
 - Course quality / play experience: 41.1%
 - Location: 23.4%
 - Fees: 12.5%

- Tee-time availability: 6.8%
- Clearly, course quality and play experience, and *not* fee levels or tee-time availability, are the primary reasons why most people choose another facility over Palo Alto as their primary course.

CAPITAL IMPROVEMENTS

- As noted earlier, only about 40 percent of the Golf Course Master Plan improvements were completed in the 1998-1999 course renovation. In light of the cost of completing the master plan improvements, and the threat of major disruption/impacts related to the San Francisquito Creek Flood Control project, it is prudent to consider limited targeted improvements to the course.
- The highest priority capital improvements needed for the golf course to remain competitive in the marketplace are summarized below:

<u>Component</u>	<u>Amount (\$000)</u>
Golf Course	\$ 870
Cart Storage	150
Driving Range	600
Maintenance Yard	100
Clubhouse	---
Soft Costs/Contingency	<u>344</u>
Total	\$2,064

- The \$870,000 allowance for the golf course improvements addresses primarily problems with original greens and bunkers which require rebuilding. Completion of the full master plan improvements would likely cost \$4 to \$5 million, or more, and is not considered to be cost-effective at this time. At least in the near- to mid-term, it would appear to be more appropriate to intensify golf course maintenance – including resumption of the fairway sanding program – than investing in extraordinary golf course improvements.
- Cart storage improvements relate to a freestanding 2,000-square-foot structure with capacity for 25 electric carts, most likely located in the back side of the restaurant. Range improvements relate to replacement of artificial turf in the landing area and netting replacement.
- In its current condition, the clubhouse is adequate, although continued major maintenance will be required. There may be an opportunity to add meeting space to the existing clubhouse in order to accommodate special events. A 4,000-square-foot expansion would create the opportunity to host events of 200 to 250. The cost of an expansion of this scale would likely cost in the range of \$1.5 million.
- Expanding the clubhouse to accommodate special events with up to 250 attendees would result in \$50,000 to \$75,000 in additional annual rent to the City, justifying

about one-half of the cost of the improvements. Thus, to justify the clubhouse expansion would require an additional 2,000 to 3,000 rounds of golf at \$30 to \$40 per round directly attributable to the clubhouse. This magnitude of improvement does not appear unreasonable. Nonetheless, clubhouse improvements remain a low priority for the facility.

OPERATING OPTIONS

- At present, the City of Palo Alto has an unconventional golf operations agreement which combines a management contract for golf operations services and a more traditional golf operations concession agreement. The City provides golf course maintenance. The present structure has evolved from various factors including the use of public financing which influences the structure of the management agreement for golf operations. The current operating structure under current contract terms can be continued, either with City maintenance or under private contract maintenance. The current structure also could be continued under conventional “market” concession terms, notwithstanding the IRS regulations governing the use of tax-exempt public funding.
- Other than the current structure, there are two basic golf course operating options for Palo Alto Muni available to the City of Palo Alto – facility lease and management contract. It should be noted that altering the current golf operations and food and beverage agreements would require other potential changes, including possible refinancing of golf course debt and equipment, and inventory and leasehold buyout costs.

Facility Lease

Under this option, the golf facility (including all food and beverage operations) is leased to a private golf course operator. The operator's lease payments typically are based on a minimum rental payment versus a percentage of departmental gross revenue. The term of the lease is negotiated, although the length generally is related to operator capital improvement levels and rental payment terms. The length of the term may range widely from 10 to 30 years, or more. Crystal Springs in Burlingame, Monarch Bay in San Leandro, and Metropolitan Golf Links in Oakland are examples of golf courses with facility leases.

- **Facility Lease Strengths:**
 - ***Financial Return and Risk*** – One of the principal advantages of a facility lease is it shifts most of the financial risk to the lessee, while still generating substantial income for the City.
 - ***Private Capital*** – The private sector may contribute capital for golf course and clubhouse improvements.
 - ***City Involvement and Policy Responsibility*** – A long-term lease limits City participation and may partially shift the responsibility of policy formulation and fee changes from the City to the private lessee.

- **Facility Lease Weaknesses:**

- **Operational Control** – Substantial control by the City is ceded to the lessee relative to maintenance and service levels and operating procedures and policies. While maintenance and operating standards may be established, there may be areas where broad interpretation is applied.
- **Term Length** – Typically, leases involve a long-term commitment (10-30 years), particularly if private capital is invested.
- **Financial Upside** – Most of the financial upside accrues to the operator under better-than-anticipated performance.
- **Deteriorated Facility at Reversion** – As many facility leases involving California golf courses were initiated in the 1970s, a number are now approaching expiration. It has become apparent that there is a risk that maintenance levels will be curtailed sharply in the later years of the lease term resulting in poor facility conditions at the end of the lease term.

Management Contract

This option relates to a fee-for-service contract with either a Director of Golf or an outside management company. All golf and clubhouse food and beverage functions (maintenance, operations, management) would be under the authority of the contract golf director or management firm. Compensation for a management firm typically consists of a base fee, plus performance incentives. While there are many ways of structuring incentive agreements, it is generally more effective to base them on 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 Callippe Preserve in Pleasanton and Rancho Solano and Paradise Valley – two “sister” courses owned by the City of Fairfield. ERA has observed a market trend that favors management contracts over facility leases. It is possible to concession the food and beverage function to an independent operation.

- **Management Contract Strengths:**

- **Control** – The most important advantage of a management agreement is owner (City) control. The owner dictates all fees, policies, budget levels, and other operating parameters.
- **Financing** – Subject to U.S. Internal Revenue Service regulations, management agreements afford the use of lower cost tax-exempt financing. For the City of Palo Alto, such financing was used for master plan golf course improvements.
- **Possessory Interest Tax** – Under a short-term agreement, a management contract would allow exemption from possessory interest property tax, reducing operating expenses by \$50,000 to \$75,000 per year compared with a facility lease.
- **Financial Upside** – Nearly all of the financial upside from better than anticipated performance accrues to the City.

- **Management Contract Weaknesses:**
 - **Financial Risk** – Nearly all of the financial operating risk is borne by the owner (City). The management firm bears little, if any, of the operating risk.
 - **City Involvement** – Compared with monitoring a lease contract, management agreements typically require greater involvement in policy setting, budgeting, planning, and other aspects.
 - **Private Investment** – Management agreements substantially limit the opportunity to utilize private capital.

Hybrid Agreements

A third basic option, City self-operation, exists, but the City has indicated that this form of operation is not under consideration. As well, there are several modifications or permutations of the two basic options under consideration. These include hybrids such as the current Palo Alto structure. Many industry analysts believe that, due in part to greater potential for coordination of operating functions and marketing effectiveness, that a single operator overseeing both golf and food and beverage operations is desirable. In the case of Palo Alto, existing agreements may preclude this option or involve significant buyout costs.

In the short term, there are limited options available to the City with regard to restructuring the golf course operations model. This limitation stems from the existing agreement in-place for the golf operations concessions, which expires in 2013, the restaurant lease which expires in 2018, and the terms and conditions related to the outstanding golf course debt. There are, however, some selected capital improvements such as expansion of golf cart storage which do have merit in the short term.

In the mid to long term, there is a much broader array of options available to the City. At a minimum, the City should strive to coordinate the expiration dates on its various agreements. In the long term, retaining the opportunity to consolidate all, or most, of the golf course functions, including food and beverage, under a single provider should be a priority.

CITY REVENUE UNDER ALTERNATIVE OPERATING OPTIONS

- Assuming completion of the capital improvements, and assuming a modest intensification of the course maintenance program, annual revenues by department are projected for a five-year period following completion of the improvements. As the baby boom population ages, and assuming new golf course construction remains at minimal levels, play at Palo Alto Muni is expected to increase modestly from the current 76,241 to 80,000 rounds annually at stabilization.
- Given the golf experience provided at Palo Alto Muni, and in light of current market conditions, the current greens fees structure at the course 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. Increase in greens fees at or near the general cost of living are anticipated.

- With the addition of cart storage, allowing expansion of the cart fleet from 37 to 60 electric carts, additional cart revenue accruing to the City of about \$45,000 per year is expected.
- There do not appear to be reasonable opportunities to increase revenues from merchandise sales, and, in fact, it is possible that merchandise sales could contract, 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 course. The improvements to the practice range landing area are expected to result in a modest increase in range utilization and revenue. There appear to be opportunities to increase food and beverage volume, although this would require substantial investment in expanding the existing facility to add special event/meeting space.
- Based on a series of factors and assumptions which are enumerated in Section VII of the report, annual revenue accruing to the City under alternative operating options at a stabilized level of play (year 3 – FY 2013) are presented in Table I-1. Net income to the City, before Citywide overhead (Cost Plan) charges, is estimated, expressed in 2013 dollars.
- The projections relate to the various operating structures identified above. Under the current operating structure, projections are indicated both with and without publicly-provided maintenance. The facility lease and management agreement forms assume a private provider of maintenance:

	Stable Year City Net Income* (thousands of 2013 dollars)
	<hr/>
Actual 2007	\$338
Current Operating Structure – Current Terms	
City Maintenance	328
Private Maintenance	705
Current Operating Structure – Market Terms	
City Maintenance	419
Private Maintenance	796
Facility Lease (Private Maintenance)	491
Management Agreement (Private Maintenance)	694
*Before City overhead (Cost Plan) charges.	

- The City funded the \$7 million 1998-1999 capital improvements with a tax-exempt bond issue. To maintain the tax-exempt status of the bonds, the IRS requires compliance with several provisions including the form and structure of

management. These provisions, in large part, have influenced the current structure. The operating option described as the current structure (market terms) and facility lease would require modification of the current debt structure.

- As with most public agencies, the City of Palo Alto assesses a charge to the golf course for Citywide overhead services such as human resources, legal, accounting, budget, management, purchasing, insurance (the City is self-insured), and similar functions. Referenced as the Cost Plan, currently the assessment totals about \$380,000 per year. Deducting this amount from actual 2007 City net income yields \$54,000, before a capital improvement reserve allowance, and negative \$42,000 after a normal reserve allowance for capital improvements.
- Clearly, there is a value of the overhead services provided by the City. While it is difficult to precisely determine the value of these overhead services, an estimate based on assigning the cost of these services if provided by a typical owner/operator can be offered:

Overhead Services	Estimated Annual Expense
On-Site Accounting	\$ 50,000
Audit	25,000
Insurance (liability, general)	40,000
Contract Management	35,000
Other Services*	<u>75,000</u>
Total	\$225,000

*Represents portion of typical professional management fee related to providing human resources, budget, cash management, accounting and reporting systems, and other required overhead services.

The estimated \$225,000 value of overhead services compares with the \$380,000 Cost Plan charge.

- The various operating options require different levels of City overhead services. For example, a facility lease or management agreement would reduce Citywide overhead from current levels (e.g., insurance liability would be directly funded by the course). A review of the various services encompassed by the Cost Plan allocation suggests that conversion from the current operating structure could reduce actual City indirect overhead cost by \$25,000 to \$50,000 per year, depending on the option.
- Given the current City employment-based formula utilized to determine the Cost Plan allocation, privatization of golf course maintenance which could be achieved through contract maintenance, a facility lease, or a management agreement would show a large reduction in the allocation. Such a “reduction,” however, would be a false economy as the actual net reduction in City overhead expenses would be only marginally reduced.

- The actual net operating income at stabilization in FY 2013, after deducting the estimated actual marginal Cost Plan expenses, is summarized as follows:

	Stable Year City Net Income* (thousands of 2013 dollars)		
	Operating Income	Less: Cost Plan Allocation	Net Income
Actual 2007	\$338	\$225	\$113
Current Operating Structure – Current Terms			
City Maintenance	328	277	51
Private Maintenance	705	234	471
Current Operating Structure – Market Terms			
City Maintenance	419	277	142
Private Maintenance	796	234	562
Facility Lease (Private Maintenance)	491	209	282
Management Agreement (Private Maintenance)	694	246	448

*Values inflated to 2013 at 3.5 percent per year.

Table I-1
CITY NET INCOME UNDER ALTERNATIVE OPERATING OPTIONS
STABLE YEAR 2013
 (thousands of constant 2013 dollars)

	Actual 2007	Current Operating Structure						Facility Lease	Management Agreement
		Current Rent		Market Rent		Private	Lease		
		City	Private	City	Private				
Revenue									
Greens Fees	\$2,318	\$3,057	\$3,057	\$3,042	\$3,042	\$3,042	\$ 764	\$3,057	
Cart Fees	191	277	277	115	115	115	115	461	
Range	221	279	279	117	117	117	117	466	
Merchandise	27	31	31	38	38	38	38	764	
Food and Beverage Rent	59	52	52	52	52	52	52	52	
Other/Replacement Reserve	35	---	---	2	2	2	122	38	
Total	\$2,851	\$3,696	\$3,696	\$3,366	\$3,366	\$3,366	\$1,208	\$4,838	
Cost of Sales	---	---	---	---	---	---	---	573	
Net Revenue	\$2,851	\$3,696	\$3,696	\$3,366	\$3,366	\$3,366	\$1,208	\$4,265	
Operating Expenses	\$1,521	\$2,146	\$1,731	\$2,110	\$1,695	\$1,695	---	\$2,455	
Debt Services									
Existing	559	559	559	559	559	559	559	559	
New	---	158	158	158	158	158	---	158	
ARC Benefits	---	---	38	---	---	38	38	38	
Replacement Reserve	95 ¹	120	120	120	120	120	120	120	
Management Fee	338	385	385	---	---	---	---	239	
Subtotal	\$2,513	\$3,368	\$2,991	\$2,947	\$2,570	\$2,570	\$ 717	\$3,569	
Net Income ²	\$ 338	\$ 328	\$ 705	\$ 419	\$ 796	\$ 796	\$ 491	\$ 694	

¹ Allowance added by ERA – currently no reserve fund.

² Before Cost Plan assessment.

SECTION II: GOLF MARKET OVERVIEW

INTRODUCTION

The following section presents a:

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 selected 18-hole (or more) public-access golf courses in the Peninsula, East Bay and South Bay areas.
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. Analysis of public golf supply and demand for a defined primary market area for the City of Palo Alto Municipal Golf Course 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 Rate ¹</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	n.a.	n.a.	n.a.
2005	489	28.0	11.2	43.6
2006	493	27.9	11.0	---
2007	495	---	---	---
<i><u>Average Annual Growth</u></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.

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	---

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.

<i>Year</i>	<i>Population (millions)</i>		<i>Number of Public Access Golf Courses</i>		<i>Population per 18-Hole Golf Course</i>	
	<i>Bay Area</i>	<i>California</i>	<i>Bay Area</i>	<i>California</i>	<i>Bay Area</i>	<i>California</i>
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.

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 San Mateo municipal golf course and clubhouse was completely remodeled in the year 2000 and reopened as Poplar Creek. 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.
- 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 Palo Alto 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 Palo Alto area.
- Measured from the back tees, the average length of the surveyed 18-hole golf course is nearly 6,700 yards. Palo Alto, at 6,833 yards, is 133 yards longer than the survey average (from the back tees), despite the fact that the master plan reconfiguration shortened the course distance from the back, as well as the middle and front, tees.
- 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 8,000 square feet, the Palo Alto clubhouse complex is smaller than average, particularly in terms of meeting and banquet space.
- 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. Palo Alto offers 26 lit tee-stations, about 24 percent fewer tee-stations on average.
- 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 Palo Alto, the regular cart fee is \$13 per rider, suggesting that there is potential to increase cart fees 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 in Santa Clara, Shoreline in Mountain View, and Skywest in Hayward.
- Of those courses where discounted resident rates are offered, the average resident discount is \$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 Palo Alto Municipal, Crystal Springs in Burlingame, Los Lagos and San Jose Municipal in San Jose, Monarch Bay in San Leandro, Santa Teresa in San Jose, Sunnyvale in 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 Palo Alto, the regular weekday rate is \$36 (4 percent above the survey average).
 - On *weekends*, regular 18-hole greens fees ranged from \$37 to \$62 for an average of \$48.40. At Palo Alto, the regular weekend rate is \$47 (2 percent below 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 Palo Alto, the senior weekday rate of \$27 is 15 percent above 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 Palo Alto the regular weekday twilight rate of \$27 is 16 percent above the survey average.
 - On *weekends*, regular twilight rates range from \$14 to \$37 for an average of \$28.38. At Palo Alto, the regular weekend twilight rate of \$31 is 9 percent above the survey average.

- For the 29 surveyed facilities, annual play levels per 18 holes range from a low of 26,000 rounds at Ridgemark to a high of 87,000 rounds at San Jose Muni 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 over 87,000 at Santa Clara. For municipal courses, the average number of rounds per 18 holes is about 69,000.
- At Palo Alto Municipal, the annual rounds figure of 76,000 in FY 2006 / 2007 is about 10 percent higher than the survey average for 18-hole Bay Area municipal courses and 24 percent higher than the average for all surveyed courses.

MARKET POSITIONING

On Figure II-1, the Palo Alto Municipal Golf Course, and 18 other regional public-access golf courses, 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 bottom right corner 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.
 - a. The San Jose Muni (SJ), Santa Clara (SC), and Poplar Creek (PC) facilities are shown well above the regression line indicating that their performance is above average.
 - b. The market position of Palo Alto (PA) is shown just above the market average regression line.
 - c. The short Los Lagos Golf Course in San Jose is shown well below the market average regression line.
4. In terms of rounds and rates, the most direct competitors for Palo Alto Muni are Sunnyvale, Poplar Creek, Crystal Springs, 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.
- The average decline in play for the 28.5 courses was 22 percent. This compares to a decline in play at Palo Alto of 16 percent.
- The following is a summary of the decrease in play at Palo Alto and 9 other municipal facilities in the Bay Area over the 2000 to 2007 time period:

<i>Course Name, Location</i>	<i>Change in Play, 2000 - 2007</i>	<i>% Change, 2000 - 2007</i>
Boundary Oak, Walnut Creek	-13,000	-17%
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	-9,000	-9%
Santa Clara, Santa Clara	-13,000	-13%
Santa Teresa, San Jose (27)	-20,000	-21%
Skywest, Hayward	-30,000	-32%
Sunnyvale, Sunnyvale	-14,000	-15%
Tilden Park, Berkeley	-15,000	-19%
Average	-15,700	-17%

- As shown above, the average decline in play for the 10 selected municipal golf facilities was nearly 16,000 rounds or 17 percent, as compared to a decline in play at Palo Alto of 14,000 rounds or 16 percent. Thus, it is apparent that the observed

decline in play at Palo Alto was slightly less than average in relation to comparable municipal courses in the Bay Area.

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 location of the Palo Alto Golf Course near Highway 101, its upper mid-market positioning, area demographics and drive times, the primary market area is defined as San Mateo and Santa Clara Counties. The following are key demographic projections for this two-County area:

<i>Primary Market Area Demographics</i>		
	<i>2007</i>	<i>2012</i>
Population	2,491,788	2,564,699
Population Increase		72,911
Population Increase, %		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-5 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 and 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 is also 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, Burlingame
 4. Cordevalle, San Martin
 5. La Rinconada, Los Gatos
 6. Los Altos, Los Altos
 7. Menlo, Menlo Park
 8. Palo Alto Hills, Palo Alto
 9. Peninsula, San Mateo
 10. San Jose Country Club, San Jose
 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 golfer 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-5 also shows the estimated total rounds played in 2007 on 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 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 Palo Alto Municipal Golf Course

<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	4,750	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

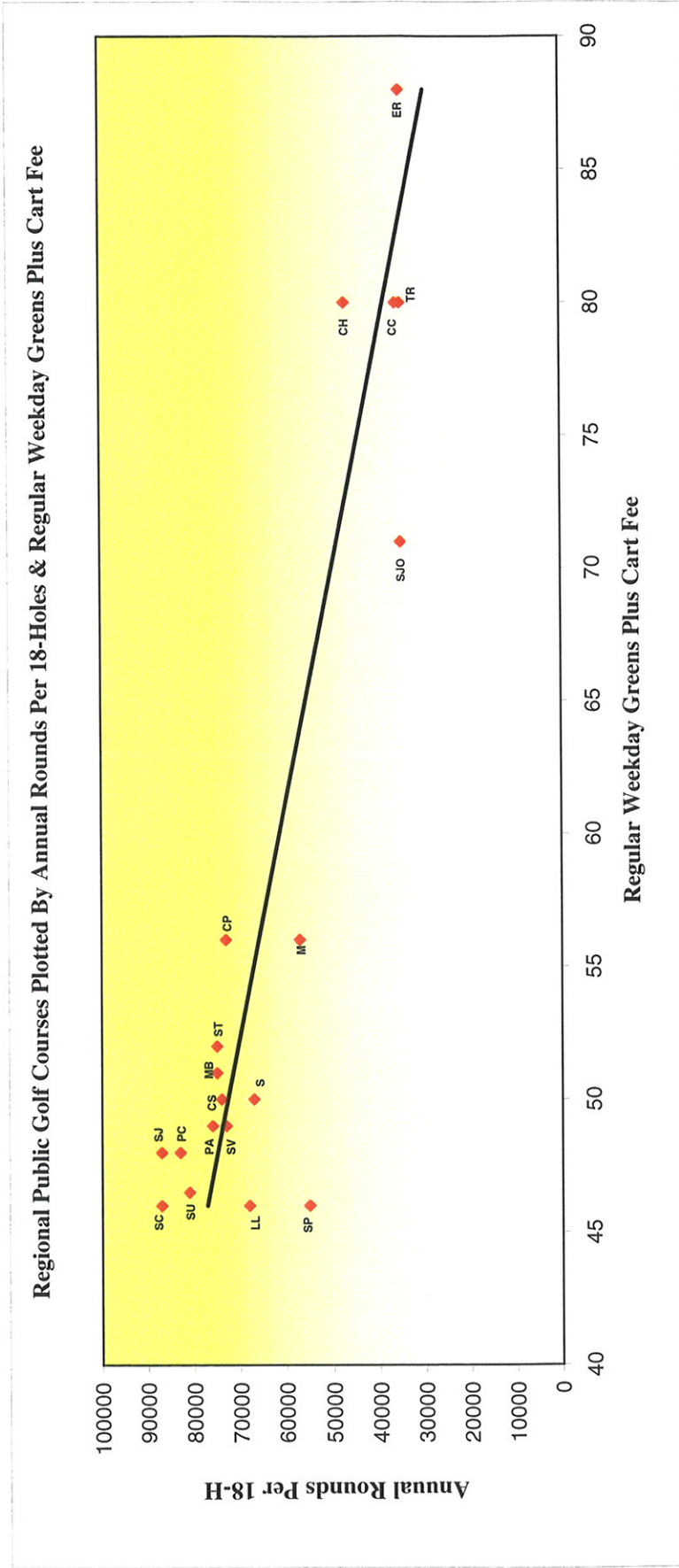
Table II-3

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

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 = Sunnyvale

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%
Long 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 Solano, Fairfield	64,000	60,500	-3,500	-5%
San Jose Muni, San Jose	96,000	87,000	-9,000	-9%
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	2,268,700	1,762,000	-506,700	-22%
Average Rounds Per 18 Holes	79,604	61,825	-17,779	-22%

Source: Individual Facilities and ERA

Table II-5

**REGIONAL PUBLIC GOLF SUPPLY AND DEMAND ANALYSIS
SAN MATEO AND SANTA CLARA 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 Muni, 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

SECTION III: DESCRIPTION OF PALO ALTO GOLF COURSE AND OPERATIONS OVERVIEW

INTRODUCTION

The following section presents:

- Description of the Palo Alto Golf Course;
- Summary of completed capital improvement projects;
- Overview of greens fees;
- Analysis of golf play trends;
- Summary of pro shop and restaurant operating agreements; and
- Analysis of operating revenue and expenses.

FACILITY DESCRIPTION

Opened in May 1956, following a public subscription of \$75,000 to help fund the project, the Palo Alto Golf Course is a 170-acre, 18-hole, municipal golf course located on Embarcadero Road, just east of Highway 101, in Palo Alto. Built on a flat, former salt marsh, the William Bell-designed course features a regulation-length, 18-hole, par 72 design with a returning 9-hole layout. The course scorecard is summarized below:

<u>Tees</u>	<u>Yardage</u>	<u>Rating</u>	<u>Slope ¹</u>
Black Tees	6,883	72.4	121
Blue Tees	6,580	71.2	120
White Tees	6,227	69.8	117
Red Tees	5,579	67.4	111

¹ Where 113 is defined as average in difficulty

In terms of slope and difficulty rating, the course is moderately challenging rated 121 from the back tees where 113 is defined as average. The course scorecard is shown below:

Palo Alto Municipal Golf Course

EST. 1955

Black 72.4/121
 Blue 71.2/120 76.7/129
 White 69.8/117 74.7/126
 Red 67.4/111 71.8/119

Hole	1	2	3	4	5	6	7	8	9	Out	Total
Black	539	418	201	431	392	439	351	192	536	3,499	6,833
Blue	517	411	189	422	382	428	342	176	521	3,388	6,580
White	506	395	146	407	374	392	305	153	514	3,192	6,227
Red	491	259	96	377	353	370	278	133	500	2,857	5,579
Men's Hcp	9	7	15	1	3	5	11	13	17		
Men's Par	5	4	3	4	4	4	4	3	5	36	72
Ladies' Par	5	4	3	5	4	4	4	3	5	37	74
Ladies' Hcp	1	9	17	7	11	5	13	15	3		

Palo Alto Municipal Golf Course

EST. 1955

Black 72.4/121
 Blue 71.2/120 76.7/129
 White 69.8/117 74.7/126
 Red 67.4/111 71.8/119

Hole	10	11	12	13	14	15	16	17	18	In	Total
Black	319	168	489	363	226	499	425	443	402	3,334	6,833
Blue	313	155	480	343	208	469	415	428	381	3,192	6,580
White	295	148	473	321	173	442	389	421	373	3,035	6,227
Red	257	103	461	302	127	410	348	386	328	2,722	5,579
Men's Hcp	18	12	8	4	16	18	6	2	10		
Men's Par	4	3	5	4	3	5	4	4	4	36	72
Ladies' Par	4	3	5	4	3	5	4	5	4	37	74
Ladies' Hcp	14	18	2	10	16	4	8	6	12		

Based on physical site inspections conducted by representatives of ERA, and interviews conducted with the golf course superintendent and maintenance staff, pro shop and restaurant operators, and various user groups and community stakeholders, the following are key points pertaining to the Palo Alto Golf Course:

- Subject Site: With site elevations ranging from approximately 4.4 feet below sea level to 7.5 feet above sea level, the location of the golf course on a former salt marsh creates several challenges for the growing of healthy turf grass – most notably, high salt levels inherent in the native clay soil and a high water table which limits drainage and the leaching of accumulated salts.
- Water Sources: There are two primary sources of irrigation water for the Palo Alto Golf Course – (1) potable water, used to irrigate greens, surrounds, and tees, and (2) recycled water, mixed with potable water in a 65 percent recycled / 35 percent potable water blend, used for irrigating fairways and landscaping. The total irrigated area of the golf course is about 150 acres and water usage ranges from 350 to 400 acre-feet per year. Annual water costs typically range from about \$250,000 to \$360,000 (excluding pumping costs) and are budgeted for \$252,000 this year. Overall, the quality of the irrigation water is considered good. The golf facility shares water with an adjacent athletic field and the golf course water bill is reduced by five percent to account for this.
- Irrigation System: As part of the Master Improvement Plan, the approximate 1,200-head irrigation system was replaced in 1998; however, the maintenance crew reports several problems. Most significant is that, due to salt water intrusion which weakens joints, it is typical for the eight inch main lines to break several times per year. Also, it should be noted that the irrigation system around the main practice putting green was *not* replaced in 1998. This system dates back to the 1970s and at some point will need to be replaced. Overall, the remaining useful life of the irrigation system is estimated at fifteen years.
- Grass Types:
 - Greens: Poa annua – 70 percent, Dominant Bentgrass – 30 percent.
 - Fairways: Perennial Rye – 80 percent, Kikuya – 15 percent, Paspalum (salt tolerant) – 5 percent.
 - Tees: Perennial Rye.
- Greens:
 - Palo Alto Golf Course includes 18 regular greens, one practice putting green, and two chipping target greens. Overall, despite challenges of a high water table and salt intrusion, the greens are in good condition, a testament to the hard work of the experienced maintenance crew.
 - In 1978, the following four greens were replaced: 3, 18, 10, and 17.
 - In 1998, the following eight greens were rebuilt according to California Green Construction specifications (modified United States Golf Association standards) which include the installation of subsurface drainage – 4, 5, 7, 8, 11, 13, 15, and 16.
 - The remaining six old-style “push-up” greens that do *not* have subsurface drainage, which is particularly important considering the high water table and salt intrusion problems include: 1, 2, 6, 9, 12, and 14.

- The newer greens, replaced in 1998, average about 7,000 square feet in size (a typical size).
- The older greens, built in 1978 or earlier, average about 5,500 square feet, or slightly smaller than a typical municipal golf course green of 6,000 to 7,000 square feet.
- It is ERA's opinion that the main practice putting green should be renovated to expand its size and improve drainage.
- Tees:
 - Most holes offer four sets of tees (red, white, blue, and black).
 - Hole #11 has new tees.
 - Holes that would benefit from tee re-leveling work include 2, 3, 6, 14 and 18.
 - It would be desirable that on two long Par 5s, holes 1 and 9, the front tees be moved forward to shorten the hole.
- Fairways: As mentioned, due to a high water table, salt intrusion, and poor drainage, it is a challenge to grow healthy turf on fairways. In 1998, several fairways were raised with a sand cap in height in order to alleviate these problems, and these efforts were successful; however, fairways that would benefit from the same, or a similar treatment, include 5, 6, 12, and 17. It should be noted that, as an on-going maintenance procedure, a sand top dressing program was successfully introduced on fairways that raised the levels and improved drainage. Conducted twice a year in the Spring and Fall, this top dressing program cost about \$200,000 per year (primarily materials), but, as part of an overall cost-cutting program, was eliminated in 2003.
- Rough: Gopher holes are an increasing problem on the course; however, the services of an outside gopher consultant were discontinued about one year ago (annual cost of about \$20,000).
- Bunkers: There are approximately 55 bunkers (a typical number) on the Palo Alto Golf Course. It is common for many of these bunkers to flood-out in winter and it would be desirable to rebuild about half of them. As well, the quality of the sand is inconsistent.
- Cart Paths: For the most part, new cart paths installed in 1991 / 1992 are in good condition. Cart paths not replaced then, and showing their wear, are on holes 9, 12 and 18.
- Driving Range: Night-lighted and containing 26 tee-stations (mats) and a new green, the driving range is currently in need of a new artificial turf landing surface. A preliminary cost estimate for five acres of new artificial turf (including removal and disposal and replacement of ball containment netting) is about \$600,000.
- Maintenance Yard:

- The maintenance yard encompasses about two acres.
- The equipment storage / staff room measures about 2,400 square feet.
- The chemical storage building measures about 450 square feet.
- Recommended improvements include additional lighting, a new pesticide storage shed, tenting or outdoor cover to protect equipment from weather, and replacement of some outdated equipment including a greens mower.
- Parking Lot: Including about 190 spaces, the parking area is considered adequate in size but, with crumbling curbs, the entrance is not attractive. Although not intended, the lot is often used by customers of the adjoining airport.
- Clubhouse / Pro Shop Complex:
 - The original clubhouse building was designed by Joseph Eichler, a well-known architect, in 1955.
 - In the mid 1970s, the original clubhouse was replaced.
 - The current clubhouse complex include a pro shop of about 3,000 square feet, a restaurant / small banquet area of 5,000 square feet, and a small underground cart storage area that can accommodate up to 50 carts (where storage for 60 to 80 carts is more typical).
 - Three years ago, the previous food and beverage operator completed about \$300,000 in improvements to the restaurant including relocating the bar and adding new kitchen equipment and furnishings.
 - The restaurant includes 80 seats indoors and 80 seats outdoors. According to the restaurant operator, various improvements will be completed to the outdoor patio this summer to make it more attractive.
 - Measuring about 1,500 square feet, the banquet room capacity is 120.
 - Limited banquet capacity is a significant weakness of the clubhouse building and this limits the potential of the operator to attract groups such as golf tournaments and weddings. The operator reports that the market demands a banquet facility with a capacity of 250 people or more. Desirable features that would allow the facility to further penetrate the group market include a separate entrance to the banquet room, a designated area for wedding ceremonies, and a bridal changing area.
 - The clubhouse HVAC system is not efficiently designed; the restaurant is often too cold in the winter and too hot during the summer.

Golf Course Capital Improvement Programs

Capital Improvements Completed in the 1970s

In the mid 1970s, an approximate \$1.8 million capital improvement program was completed that included replacement of the clubhouse buildings and the rebuilding of holes 3, 10, 11, and 18 (the holes located closest to Embarcadero Road) under the guidance of noted golf course architect, Robert Trent Jones, Jr. It is ERA's opinion that, with interesting contours, these are among the better holes on the course.

Updated Master Improvement Plan, Late 1990s

In 1992, the City Council initiated an updated Master Improvement Plan for the golf course and in the late 1990s Certificates of Participation (COPs) were issued to fund about \$7 million in improvements. The primary elements of the Plan included upgrading golf course drainage and irrigation systems to replace the inefficient original ones, as well as renovations designed to improve golf course play. The golf course remained open for play during the renovation process. In many cases, holes were shortened and incorporated temporary greens during the construction period. As mentioned, due to rapidly escalating costs and budgetary constraints at the time, only about 40 percent of the envisioned Master Plan improvements were completed including:

- Rebuilding of eight greens to "California Greens" specifications (modified USGA standards).
- Addition of a sand cap on five fairways.
- Installation of a new irrigation system which would utilize a combination of potable water for greens and tees and a separate line for a mix of reclaimed water and potable water for fairways and landscaping.
- Rebuilding and reshaping of greens, tees and bunkers in areas where drainage improvements were completed.
- Realignment of the driving range in order to address safety issues and the addition of night lighting to extend hours of range play.

During our interviews and physical inspections, we noted that, despite the \$7 million capital improvement program, there is a general perception that areas still in need of improvement include greens, fairways, rough and bunkers. To some extent, some components of the previous improvement program are *not* readily apparent to the general public because: (1) for major capital items such as the irrigation system, where a new system today can cost between \$1.5 million and \$2 million, the improvements were under the ground, thus not visible, and (2) less than half of the envisioned improvements were actually completed due to budgetary constraints.

Remaining Masterplan Improvements

As mentioned, improvements not completed, but still considered desirable (to varying degrees), include:

- Replacement of six push-up greens without subsurface drainage.

- Replacement of the main putting green and its outdated irrigation system.
- Installation of a sand cap on at least four fairways.
- Rebuilding of tees on seven holes.
- Renovation of about half of the 55 bunkers.
- Rebuilding of cart paths on at least three holes.
- Installation of new artificial turf and netting on the driving range.
- For the clubhouse / staging area, construction of additional cart storage for approximately 25 electric carts.
- For the maintenance yard, completion of additional lighting, a new pesticide storage shed, and an outdoor cover for maintenance equipment.
- For the restaurant, expansion of banquet space and a new HVAC system at the clubhouse.

Possible Impact of San Francisquito Creek Flood Control Measures

As discussed in more detail below, when planning for future capital improvements at the Palo Alto Golf Course, the potential impact of flood control measures on the San Francisquito Creek needs to be considered.

The Palo Alto Golf Course is bordered on the west, northwest and north sides by San Francisquito Creek. According to representatives of the San Francisquito Creek Joint Powers Authority, the San Francisquito Creek floods every ten years or so (the last major flood occurred in 1998), and there is currently an analysis being conducted by the Army Corps of Engineers to assess potential options of providing protection for a 200-year flood. The Palo Alto Golf Course is an important component of the potential flood control plan for the region because it is situated adjacent to the Creek and the Bay and has few built structures. As part of a flood and drainage control study, several options are being considered including:

- Reinforcement of the current levee system.
- Expanding the current levees and widening the flood channel.
- Building a new engineered stream bed (perhaps through the golf course) that provides additional flow capacity to the Bay.
- Conversion of all or part of land currently developed as golf course and / or airport to natural bay lands through purchase of the golf course and / or airport.

Although an assessment of the potential impact of flood control measures on the golf course is beyond the scope of this report, it is important to note that some of the options under consideration could be beneficial to the course. For example, if an engineered stream bed was built through the course, it is possible that Federal and Local money could be leveraged to fund related golf course improvements. As well, it should be noted that the option of converting some or all of the golf course property to natural bay lands would impact, or eliminate, the golf course. The Flood, Drainage and Ecosystem

Restoration Study is expected to be completed by 2010 with preliminary planning conclusions scheduled for release in May 2008.

GREENS FEES

A summary of regular posted 2007 rates at Palo Alto Golf Course is as follows:

	<u>Weekday</u>	<u>Weekend</u>
Regular 18-Hole Rate	\$36	\$47
Resident Senior	\$27	-
Non-Resident Senior	\$32	-
Junior	\$26	\$28
Midday	\$30	\$40
Twilight	\$27	\$31
Super Twilight	\$22	\$23
A.M. Back Nine	\$23	\$26

- Greens fees do *not* include optional cart fees which are \$13 per person in a shared cart. The average cart rental fee of just over \$4 per round indicates that the average propensity to rent a power cart is 31 percent.
- Regular 18-hole greens fees are \$36 on weekdays and \$47 on weekends.
- Discounted rates are offered to seniors on weekdays only. The resident senior rate is \$27 and the non-resident senior rate is \$32.
- Other discounted fee categories include midday, twilight, super twilight, and early morning back nine.
- Monthly play cards are available to senior residents for \$118.
- Ten-play cards are priced at \$235 for a resident senior, \$299 for a non-resident senior, and \$199 for a junior
- Including all sources of play (including complimentary play), and based on total greens fees paid (including regular greens fees, monthly play cards, and tournament fees), the trend in the actual average greens fee has been as follows:

<i>Fiscal Year</i>	<i>Avg. Greens Fee¹</i>	<i>% Change</i>
2001 / 2002	\$25.57	-
2002 / 2003	\$25.72	0.6%
2003 / 2004	\$27.33	6.3%
2004 / 2005	\$27.85	1.9%
2005 / 2006	\$29.05	4.3%

2006 / 2007 \$30.41 4.7%

¹Actual average green fee is a function of total paid rounds, the greens fee charged, and the mix of rounds by green fee category.

Table III-1 presents a summary of greens fees for five primary fee categories since the year 2000. As shown below, as compared to the reported average inflation rate in the San Francisco Bay Area of 2.75 percent since the year 2000 (as reported by the U.S. Bureau of Labor Statistics), the rate of increase of greens fees at Palo Alto Golf Course has been significantly higher:

<u>Greens Fee Category</u>	Avg. Annual Rate of Increase Since the Year 2000
Weekday Rates:	
Regular 18-Hole	4.8%
Twilight	5.1%
Senior	4.4%
Weekend and Holiday Rates:	
Regular 18-Hole	4.3%
Twilight	5.0%

TRENDS IN PLAY

As will be discussed in more detail in Section IV, with essentially flat public golf course demand and greatly increased supply, annual play levels at regional public-access courses have been generally down on the order of 10 to 30 percent since the year 2000. The following shows the trend in total rounds at Palo Alto Golf Course:

<i>Fiscal Years</i>	<i>Paid Rounds</i>	<i>% Change</i>
2001 / 2002	89,450	-
2002 / 2003	87,892	-1.7%
2003 / 2004	83,728	-4.7%
2004 / 2005	78,404	-6.4%
2005 / 2006	76,014	-3.0%
2006 / 2007	76,241	0.3%
Change, '01 to '07	-13,209	-15%

- Total annual play levels declined by about 13,200 rounds or 15 percent from FY 2001 / 2002 through FY 2006 / 2007.
- In FY 2006 / 2007, following four years of declining play, Palo Alto Golf Course’s annual play levels increased slightly over the prior fiscal year totaling 76,241 rounds. It is important to note that ERA has observed an improving regional golf market over the last year-and-a-half.

Sources of Play

Table III-2 and Table III-3 show the trend in rounds played at Palo Alto Golf Course, by major fee category, over the last six years. A comparison of rounds and sources of play for FY 2002 / 2003 and FY 2006 / 2007 is as follows:

<i>Play Category</i>	<i>Rounds '02/03</i>	<i>Rounds '06/07</i>	<i>Change, #</i>	<i>Change, %</i>
18-Hole Weekday	20,691	10,065	-10,626	-51%
18-Hole Weekend	16,336	14,832	-1,504	-9%
Twilight, Weekday	19,097	16,704	-2,393	-13%
Twilight, Weekend	8,084	7,083	-1,001	-12%
9-Hole, Weekday	3,737	3,010	-727	-19%
9-Hole, Weekend	3,115	2,777	-338	-11%
All Senior Play	7,010	12,197	5,187	74%
All Junior Play	2,658	2,822	164	6%
Total Paid Rounds	87,892	76,241	-11,651	-13%

- Since FY 2002 / 2003, total play levels declined from nearly 88,000 rounds to about 76,200 rounds, a decline of 13 percent.
- Over the last six years, while regular 18-hole *weekend* play declined by nine percent, the decline in play for regular 18-hole *weekday* play was much more significant at 51 percent. Weekdays are typically a period of excess capacity for most public-access golf courses.
- Over the last six years, twilight play declined by 12 to 13 percent.
- 9-hole play declined by 16 percent with steeper declines observed on weekdays.
- Including all categories of senior play (resident, non-resident, and senior cards), play from seniors increased by over 5,000 rounds over the last six years. To a large extent, this is likely due to proactive marketing to seniors to offset increased capacity on the course resulting from the 51 percent decline in regular 18-hole weekday play observed over the same time period.

Distribution of Rounds by Month

Table III-4 shows rounds played by month for the last three years at the Palo Alto Golf Course. Rounds played by month are summarized as follows:

<u>MONTH</u>	<u>Rounds by Month (3-Year Average)</u>	<u>% of Total</u>
July	9,089	12%
August	8,677	11%
September	7,142	9%
October	6,208	8%
November	5,383	7%
December	4,199	5%
January	4,349	6%
February	4,765	6%
March	5,636	7%
April	5,607	7%
May	7,492	10%
June	8,339	11%

With variations due, in part, to the amount and timing of rainfall, the above distribution is considered typical in the Bay Area where the peak season occurs during the summer, spring and summer are shoulder seasons, and winter is the off season.

EXISTING OPERATING AGREEMENTS

The City of Palo Alto has existing operating agreements pertaining to: (1) the pro shop, and (2) food and beverage. The City of Palo Alto maintains the golf course.

Pro Shop Operating Agreement

The current pro shop operating agreement was entered into on March 16, 1998 between the City of Palo Alto and Brad Lozares, renewed for five years on January 28, 2003, and extended at the end of 2007 by one year to December 31, 2008, and again in 2008 by one year to December 31, 2009. The operating agreement covers the golf course, driving range, golf pro shop and cart storage and the following are other key points of this agreement:

- Areas of responsibility for the operator include operate and manage the pro shop; collection of greens fees; acting as starter and marshaling of play on the course; operating and supervising the driving range; providing lessons and golf instruction; handling tournament events; promotion; offering a suitable inventory of merchandise in the pro shop; and providing and maintaining golf carts (50) for rental use.

- As part of the promotional effort, the operator publishes a monthly newsletter (where various seasonal and other discounted rates are advertised) which is communicated via the City's website.
- The operator pays to the City the following share of gross revenues:
 - Greens fees, monthly cards, 10-play cards, tournament fees: 100 percent
 - Driving range: 60 percent
 - Power cart and pull cart rentals: 60 percent
 - Merchandise: four percent
 - Lessons and club repair: zero
- The City pays to the operator a management fee set at \$322,251 in 2003.
- The City reimburses the contractor for 100 percent of credit card processing fees for greens fee, tournament fees, and play cards and 60 percent of credit card fees for power cart rentals.
- In addition to management and percentage fees, the golf professional receives the following productivity or incentive rewards based on exceeding the following baseline golf rounds and gross sales.
 - Paid golf rounds greater than 87,000: \$3 per round.
 - Power cart rentals greater than \$250,000: \$200 per \$1,000.
 - Driving range sales greater than \$440,000: \$200 per \$1,000.
- The contractor furnishes and pays all costs associated with janitorial services and supplies for the pro shop.
- The operator maintains the driving range.
- The City is responsible for all charges for utilities supplied to the clubhouse and driving range, except that the tenant is responsible for telephone charges.
- The City reimbursed the tenant for one-half the cost of tenant improvements to the pro shop, totaling \$200,000.
- The City maintains the parking lot, walkways, public restrooms and exterior of the clubhouse structure and support systems.

Food and Beverage Operating Lease

A food and beverage operating lease was entered into on May 1, 1998, and amended on October 20, 1998, between the City of Palo Alto and R&T Restaurant Corporation. The following are key points relating to this lease:

- Physical facilities covered by the agreement include the restaurant / lounge, banquet areas, and food and beverage cart at the Palo Alto Golf Course. (Food and beverage carts are provided on weekends and for special tournaments).

- With various improvements completed by the operator, the term of the lease is 20 years expiring in 2018.
- Monthly percentage rent is seven percent of gross revenues.
- In addition to rent, the tenant pays to the City about \$2,100 per month for gas, water, trash removal and electrical utilities. (Adjustments to the utility payments are made in even numbered years).
- Annual minimum rent was set at \$48,000 (excluding utilities) in 1999 and each year the annual minimum rent is adjusted for changes in the Consumer Price Index (CPI), a maximum annual upward adjustment of 85 percent of the change in the CPI, or 75 percent of the previous' year actual rent. For 2007 the annual minimum rent, including an allowance for utility reimbursement, was about \$85,000.
- The tenant is responsible for restaurant facility maintenance including plumbing and electrical systems.
- The City maintains mechanical systems including HVAC units, the exterior of the building, public restrooms, exterior walkways, the parking lot, and landscaping.

OPERATING REVENUES AND EXPENSES, PALO ALTO GOLF COURSE

Golf Facility Gross Operating Revenue, FY 2001 / 2002 Through FY 2006 / 2007

Table III-5 presents a summary of total gross operating revenue from golf course, pro shop, and food and beverage operations for FY 2001 / 2002 through FY 2006 / 2007. This represents 100 percent of the revenues collected at the golf course (before revenue splits between the City and the operators). Also presented are average per-round revenue and average range revenue per tee-station figures. The following are key observations:

- Over the last six years, declining annual play levels have been offset by increases in greens fees such that greens fee revenue (including monthly play cards and tournament fees) has remained relatively constant averaging nearly \$2.3 million per year. As mentioned, the actual average greens fee has steadily increased from \$25.57 in FY 2001 / 2002 to \$30.41 in FY 2006 / 2007, while play has declined from 89,450 to 76,241 rounds.
- Over the last six years, cart rental and club rental revenue has increased from nearly \$274,500 in FY 2001 / 2002 to about \$311,300 in FY 2006 / 2007. Over this time period, average cart / club rental revenue per round increased from \$3.07 to \$4.08 per round.
- The Brad Lozares Golf Shop is among the top retailer performers among Bay Area golf courses; however, along with declining play levels, gross pro shop merchandise sales have declined from about \$846,500 in FY 2001 / 2002 to nearly \$653,000 in FY 2006 / 2007. Average merchandise spending per round is significantly higher than average, but has declined from \$9.46 per round in FY 2001 / 2002 to \$8.56 per round in FY 2006 / 2007. Part of this may be explained

by a shift in recent years to proportionally more play from seniors, a group that typically exhibits below average spending on merchandise.

- Driving range revenues have declined from about \$434,000 in FY 2001 / 2002 to nearly \$354,000 in FY 2006 / 2007 – a decline of 19 percent over six years. Much of this can be attributed to declining play levels as the average range revenue per round has been fairly consistent averaging about \$4.75 over the last six years. With 26 tee-stations, average annual range revenue per tee-station has declined from \$16,701 in FY 2001 / 2002 to \$13,604 in FY 2006 / 2007.
- In FY 2001 / 2002, the restaurant generated about \$579,500 in gross revenues, or nearly \$6.50 per round. Then, corresponding with declining play levels and a regional economic slowdown, food and beverage gross revenue declined to about \$472,500, or an average of \$5.64 per round by FY 2003 / 2004. Beginning in FY 2004 / 2004, gross food and beverage revenues have increased from nearly \$503,000, or \$6.41 per round, to nearly \$606,500, or \$7.95 per round, in FY 2006 / 2007. According to the restaurant operator, in FY 2006 / 2007, banquets accounted for about 20 percent of gross food and beverage revenue.
- The following is a summary of gross revenue at the Palo Alto Golf Course, before revenue splits, for FY 2006 / 2007:

<i>Revenue Category</i>	<i>Gross Operating Revenue</i>	<i>Average ¹</i>
Greens Fees	\$2,318,254	\$30.41 Per Round
Cart / Club Rental Fees	\$311,320	\$4.08 Per Round
Merchandise Sales	\$652,819	\$8.56 Per Round
Driving Range ²	\$353,691	\$13,604 Per Tee
Food and Beverage	<u>\$606,440</u>	\$7.95 Per Round
Total	\$4,242,524	

¹ 76,241 total rounds

² 24 tee-stations

- The following is a summary of gross operating revenue at the Palo Alto Golf Course (before revenue splits) from FY 2001 / 2002 through FY 2006 / 2007.

<i>Fiscal Year</i>	<i>Gross Operating Revenue</i>	<i>Annual Change</i>
2001 / 2002	\$4,422,176	-
2002 / 2003	\$4,128,797	-\$293,379
2003 / 2004	\$4,112,452	-\$16,345
2004 / 2005	\$3,932,011	-\$180,441
2005 / 2006	\$4,163,757	\$231,746
2006 / 2007	\$4,242,524	\$78,767

- As shown above, the largest decline in gross operating revenue occurred in FY 2002 / 2003 – a decline of over \$293,000.
- Over the last two fiscal years, total gross operating revenue has increased by a total of \$310,513.

Palo Alto Golf Course, Operating Revenues and Expenses, City Perspective

As mentioned previously, in terms of revenues, the City receives 100 percent of greens fee, card and tournament fee revenue and a percentage of gross revenues from cart and club rentals (60 percent), the driving range (60 percent), merchandise sales (four percent), and food and beverage (seven percent).

In terms of operating expenses, the City maintains the golf course and incurs expenses for golf course maintenance, utilities (including water), pro shop management fees, and credit card fees. As well, as will be discussed in more detail below, there are additional expenses pertaining to annual debt service and allocated City overhead charges.

Table III-6 shows the trend in annual net income for the Palo Alto Golf Course, from the City perspective after revenue splits, from FY 2001 / 2002 through FY 2006 / 2007. The following are key observations:

Total Revenue

- With some fluctuations, total City revenue (after revenue splits) over the FY 2001 / 2002 through FY 2006 / 2007 time period has remained fairly constant averaging nearly \$2.8 million over the last six years. From FY 2004 / 2005 to FY 2006 / 2007, total revenue increased from nearly \$2.7 million to \$2.85 million, an increase of six percent over the last three years.

Operating Expenses

- Golf course maintenance labor expenses, *excluding* benefits, peaked at nearly \$668,000 in FY 2004 / 2005. Since then, reflecting budget cuts and the elimination of a full-time position, golf course maintenance labor expenses (excluding benefits) declined to about \$481,000 by FY 2006 / 2007, a decline of 28 percent over the last two years. It is ERA's opinion that the current golf course maintenance staffing levels are at a bare minimum, generally well below that at comparable facilities, especially when considering the above average acreage maintained and the challenges of a high water table and salt water intrusion.
- Reflecting, in part, escalating costs of health care, the benefits for the golf course maintenance staff (including the superintendent) have increased from 35 percent of the total labor budget in FY 2001 / 2002 to 45 percent of the total labor budget in FY 2006 / 2007. In FY 2006 / 2007, the total labor budget for golf course maintenance was about \$868,000, comprised of about \$481,000 in salaries and nearly \$387,000 in benefits.
- Including salaries and benefits, total golf course maintenance labor expenses averaged nearly \$875,000 over the last six years. These total expenses peaked at

nearly \$939,000 in FY 2004 / 2005 and declined to about \$868,000 (as mentioned) in FY 2006 / 2007. Last year, golf course maintenance labor expenses accounted for 47 percent of total operating expenses for the facility.

- Total golf facility operating expenses, including golf course maintenance labor and benefits, services and supplies, utility charges, pro shop management and other fees, averaged nearly \$1.86 million over the last six years. Total golf facility operating expenses peaked at nearly \$2.0 million in FY 2001 / 2001 and totaled nearly \$1.86 million in FY 2006 / 2007, coincidentally, as mentioned, the average for the previous six-year period.

Annual Net Operating Income (EBIDA)

- Net Operating Income (NOI) is expressed in the industry standard EBIDA format meaning earnings before interest, depreciation and amortization. Note that NOI is shown before any deductions for city-wide overhead (cost plan) and debt service. The following is a summary of NOI (EBIDA) at the Palo Alto Golf Course over the last six years:

<i>Fiscal Year</i>	<i>NOI (EBIDA)</i>	<i>Annual Change</i>
2001 / 2002	\$863,546	-
2002 / 2003	\$954,542	-\$90,996
2003 / 2004	\$850,056	-\$104,486
2004 / 2005	\$818,857	-\$31,199
2005 / 2006	\$1,061,283	\$242,426
2006 / 2007	\$992,380	-\$68,903

- Over the last six years, NOI has averaged nearly \$923,500 before city-wide overhead (cost plan) and debt service expenses. It is ERA’s opinion that in relation to comparable municipal facilities in the Bay Area, this is strong operating performance.
- In FY 2006 / 2007, NOI totaled over \$992,000, down nearly \$69,000 from the previous year.

Net Income After Cost Plan and Debt Service Expenses

- Cost Plan refers to a per-employee charge for allocated City overhead charges. Included are charges pertaining to Human Resources, Finance, City Clerk, City Council, City Manager, and the Community Services Department. Over the last six years, cost plan charges allocated to the golf course have averaged nearly \$316,000. In FY 2006 / 2007, these charges were nearly \$380,000.

- Annual debt service payments for the approximate \$7 million capital improvement plan completed in the late 1990's have averaged nearly \$575,000 per year over the last six years. In FY 2006/ 2007, the annual debt service payment was about \$558,000.
- Over the last six years, annual cost plan charges plus debt service payments averaged nearly \$891,000. In FY 2006 / 2007, these combined expenses totaled about \$938,000.
- As shown below, despite strong operating performance at the Palo Alto Golf Course, it is the combined impact of the cost plan and debt service which has contributed to weak "bottom-line" performance since 2001:

<i>Fiscal Year</i>	<i>Net Income After Cost Plan and Debt Service</i>
2001 / 2002	-\$14,052
2002 / 2003	-\$2,156
2003 / 2004	\$49,006
2004 / 2005	-\$38,828
2005 / 2006	\$148,153
2006 / 2007	\$54,285

- The following is the remaining debt service schedule for the Certificates of Participation issued at the Palo Alto Golf Course in 1998:

<i>Fiscal Year</i>	<i>Debt Service Payment</i>
2007 / 2008	\$559,795
2008 / 2009	\$555,686
2009 / 2010	\$560,674
2010 / 2011	\$559,539
2011 / 2012	\$557,359
2012 / 2013	\$558,986
2013 / 2014	\$559,109
2014 / 2015	\$557,625
2015 / 2016	\$559,750
2016 / 2017	\$560,625
2017 / 2018	\$560,250
2018 / 2019	\$558,625

COST PLAN

As noted above, the City of Palo Alto assesses a charge to the golf course for Citywide overhead services such as human resources, legal, accounting, budget, management, purchasing, insurance (the City is self-insured), and similar functions. Referenced as the Cost Plan, currently the assessment totals about \$380,000 per year. Overhead allocations by cities to their golf course and other operating entities is not unusual.

Overhead Function	Golf Course* Share (\$000)
Human Resources	\$ 39.8
City Attorney	14.1
City Manager – Mgmt.	16.5
City Manager – Public Comm.	2.7
City Manager – Econ.	1.6
City Clerk – Rec.	0.4
City Clerk – Conflict	5.2
City Clerk – Public Info.	9.4
City Council	2.4
PWD-Facilities – Maintenance	123.9
PWD-Facilities – Custodial	51.2
City Auditor	8.1
ASD – Purchasing	46.8
ASD – Treasury	16.2
ASD – Real Estate	7.6
ASD – Budget	9.5
ASD – Accounting	<u>24.4</u>
Total	\$379.9

*11.58% share based on 10.8 golf course employees (FTE) to City total Community Services Department 93.2 employees (FTE).

Clearly, there is a value of the overhead services provided by the City. While it is difficult to precisely determine the value of these overhead services, an estimate based on assigning the cost of these services if provided by a typical owner / operator can be offered:

<u>Overhead Services</u>	<u>Estimated Annual Expense</u>
On-Site Accounting	\$ 50,000
Audit	25,000
Insurance (liability, general)	40,000
Contract Management	35,000
Other Services*	<u>75,000</u>
Total	\$225,000

*Represents portion of typical professional management fee related to providing human resources, budget, cash management, accounting and reporting systems, and other required overhead services.

The estimated \$225,000 value of overhead services compares with the \$380,000 Cost Plan charge.

Golf Operator Revenue

The golf operator has not agreements. The operation receives a management fee for golf reservations, greens fees collection, the starter function, and marshalling. A second "concession" agreement for golf cart rental, practice range operation, and merchandise calls for rent paid by the operator to the City based on a percentage of gross revenue. These revenues, along with play levels and greens fees, are reported as follows over the past six years:

<u>Year</u>	<u>Annual Operator Revenue (\$000)</u>			<u>Rounds</u>	<u>Greens Fees (\$000)</u>
	<u>Management Fee</u>	<u>Less: Concession Rents*</u>	<u>Operator Revenue</u>		
2002	\$345	\$283	\$628	89,450	\$2,287
2003	345	257	620	87,892	2,260
2004	332	269	601	83,728	2,289
2005	322	260	582	78,404	2,183
2006	322	279	601	76,014	2,208
2007	338	266	604	76,241	2,318

*Cart and range revenue only.

Table III-1

SUMMARY OF GREENS AND CART FEES AT THE PALO ALTO GOLF COURSE

2007 Rates:	<u>Weekday</u>	<u>Weekend</u>
18-Hole	\$36	\$47
Senior Resident	\$27	-
Senior Non-Resident	\$32	-
Junior	\$26	\$28
Midday	\$30	\$40
Twilight	\$27	\$31
Super Twilight	\$23	\$22
A.M. Back Nine	\$23	\$26
Cart Fees / Person, Shared Cart, 18-H	\$13	\$13
<u>Discount Carts</u>	<u>Monthly</u>	<u>10-Play</u>
Sr. Resident	\$118	\$235
Sr. Non-Resident	-	\$299
Junior	-	\$199

Comparison of Selected Rates, 2000 Through 2007

<u>Year</u>	<u>Weekday Rates</u>			<u>Weekend Rates</u>	
	<u>18-Hole</u>	<u>Twilight</u>	<u>Senior</u>	<u>18-Hole</u>	<u>Twilight</u>
2000	\$26	\$19	\$20	\$35	\$22
2001	\$28	\$20	\$21	\$39	\$23
2002	\$29	\$21	\$22	\$41	\$24
2003	\$31	\$22	\$23	\$42	\$25
2004	\$32	\$23	\$24	\$43	\$26
2005	\$33	\$25	\$24	\$44	\$28
2006	\$35	\$25	\$24	\$46	\$29
2007	\$36	\$27	\$27	\$47	\$31

Average Annual Compound Growth, 2000 Through 2007:

4.8% 5.1% 4.4% 4.3% 5.0%

Average Inflation Rate, San Francisco MSA, 2000 through 2007: 2.75% 1/

1/ U.S. Department of Labor, Bureau of Labor Statistics
Source: City of Palo Alto and U.S. Department of Labor

Table III-2

SUMMARY OF ANNUAL ROUNDS, PALO ALTO GOLF COURSE, FY 2001 / 2002 THROUGH FY 2006 / 2007

<u>Weekday Play (Paid Rounds):</u>	<u>Fiscal Year</u>					
	<u>'01 / '02</u>	<u>'02 / '03</u>	<u>'03 / '04</u>	<u>'04 / '05</u>	<u>'05 / '06</u>	<u>'06 / '07</u>
18-Hole	27,790	20,691	16,922	12,738	12,321	10,065
Senior Non-Resident	-	2,719	5,845	6,178	6,352	6,441
9-Hole	3,773	3,737	3,553	3,160	3,459	3,010
Senior	1,324	1,218	1,010	1,047	1,015	1,167
Junior	747	506	637	711	847	928
Early Bird	-	54	136	227	496	698
Twilight	17,474	19,097	15,656	14,671	13,720	16,704
Specials	1,843	1,568	3,277	4,362	3,051	2,627
Junior Card	2,328	1,659	1,610	1,631	1,791	1,088
Senior Card	2,012	3,073	3,400	3,512	3,667	4,589
Non-Resident Card	695	2,673	2,764	2,324	2,404	1,720
Subtotal, Weekday Paid Rounds:	57,986	56,995	54,810	50,561	49,123	49,037
<u>Weekend Play (Paid Rounds):</u>						
18-Hole	16,725	16,336	16,952	16,190	15,951	14,832
9-Hole	2,953	3,115	2,815	2,861	2,810	2,777
Junior	593	493	558	637	746	806
Twilight	8,030	8,084	6,687	6,453	5,723	7,083
Subtotal, Weekend Paid Rounds:	28,301	28,028	27,012	26,141	25,230	25,498
Complimentary Play	3,163	2,869	1,906	1,702	1,661	1,706
TOTAL ROUNDS	89,450	87,892	83,728	78,404	76,014	76,241
Change	-	-1.7%	-4.7%	-6.4%	-3.0%	0.3%
<u># of Discount Play Cards:</u>						
Junior	340	216	228	237	238	174
Resident Senior	238	299	309	325	340	378
Non-Resident Senior	111	315	317	275	286	274
Total Cards	689	830	854	837	864	826

Table III-3

COMPARISON OF SOURCES OF PLAY, PALO ALTO GOLF COURSE, FY 2002 / 2003 AND FY 2006 / 2007

<u>Weekday Play (Paid Rounds):</u>	<u>FY '02 / '03</u>	<u>FY '06 / '07</u>	<u>Change, Rounds</u>	<u>Change, Percent</u>
18-Hole	20,691	10,065	(10,626)	-51%
Senior Non-Resident	2,719	6,441	3,722	137%
9-Hole	3,737	3,010	(727)	-19%
Senior	1,218	1,167	(51)	-4%
Junior	506	928	422	83%
Early Bird	54	698	644	1193%
Twilight	19,097	16,704	(2,393)	-13%
Specials	1,568	2,627	1,059	68%
Junior Card	1,659	1,088	(571)	-34%
Senior Card	3,073	4,589	1,516	49%
Non-Resident Card	<u>2,673</u>	<u>1,720</u>	<u>(953)</u>	<u>-36%</u>
Subtotal, Weekday Paid Rounds:	56,995	49,037	(7,958)	-14%
<u>Weekend Play (Paid Rounds):</u>				
18-Hole	16,336	14,832	(1,504)	-9%
9-Hole	3,115	2,777	(338)	-11%
Junior	493	806	313	63%
Twilight	<u>8,084</u>	<u>7,083</u>	<u>(1,001)</u>	<u>-12%</u>
Subtotal, Weekend Paid Rounds:	28,028	25,498	(2,530)	-9%
Complimentary Play	2,869	1,706	(1,163)	-41%
TOTAL ROUNDS	87,892	76,241	(11,651)	-13%

Source: City of Palo Alto, 10/2007

Table III-4

ROUNDS PLAYED BY MONTH, PALO ALTO GC, FY 2004 / 2005 THROUGH FY 2006 / 2007

	<u>FY 2004 / 2005</u>	<u>FY 2005 / 2006</u>	<u>FY 2006 / 2007</u>	<u>3-Year Average</u>	<u>Percent of Total</u>
JULY	9,518	9,355	8,394	9,089	12%
AUGUST	8,695	8,724	8,613	8,677	11%
SEPTEMBER	6,965	7,537	6,925	7,142	9%
OCTOBER	5,788	6,521	6,316	6,208	8%
NOVEMBER	5,391	5,829	4,930	5,383	7%
DECEMBER	4,538	4,067	3,992	4,199	5%
JANUARY	4,172	4,407	4,467	4,349	6%
FEBRUARY	4,935	5,039	4,321	4,765	6%
MARCH	5,704	4,412	6,791	5,636	7%
APRIL	6,217	4,839	5,765	5,607	7%
MAY	7,850	7,211	7,415	7,492	10%
JUNE	<u>8,631</u>	<u>8,073</u>	<u>8,312</u>	<u>8,339</u>	<u>11%</u>
TOTAL	78,404	76,014	76,241	76,886	100%

Source: City of Palo Alto

Table III-5

ROUNDS AND GROSS REVENUES, PALO ALTO GOLF COURSE, FY 2001 / 2002 THROUGH FY 2006 / 2007
Before Revenue Splits Between the City and the Operators

	<u>FY</u> <u>2001 / 2002</u>	<u>FY</u> <u>2002 / 2003</u>	<u>FY</u> <u>2003 / 2004</u>	<u>FY</u> <u>2004 / 2005</u>	<u>FY</u> <u>2005 / 2006</u>	<u>FY</u> <u>2006 / 2007</u>
Total Rounds (Including Comp. Play)	89,450	87,892	83,728	78,404	76,014	76,241
<u>Greens Fees: 1/</u>						
Green Fees	\$2,180,219	\$2,108,185	\$2,126,478	\$2,027,302	\$2,042,184	\$2,148,397
Monthly Play Cards	\$104,173	\$149,773	\$152,343	\$152,980	\$163,714	\$167,005
Tournament Fees	<u>\$3,040</u>	<u>\$2,204</u>	<u>\$9,688</u>	<u>\$3,031</u>	<u>\$2,528</u>	<u>\$2,852</u>
Total Greens Fees	\$2,287,432	\$2,260,162	\$2,288,509	\$2,183,313	\$2,208,426	\$2,318,254
Cart / Club Rental Fees	\$274,450	\$279,036	\$277,701	\$278,128	\$315,959	\$311,320
Pro Shop Merchandise Sales	\$846,487	\$706,813	\$680,207	\$596,486	\$686,559	\$652,819
Driving Range Revenues	\$434,225	\$404,347	\$393,506	\$371,244	\$382,463	\$353,691
Gross Food and Beverage Sales	<u>\$579,582</u>	<u>\$478,439</u>	<u>\$472,529</u>	<u>\$502,840</u>	<u>\$570,350</u>	<u>\$606,440</u>
Total Gross Operating Revenue	\$4,422,176	\$4,128,797	\$4,112,452	\$3,932,011	\$4,163,757	\$4,242,524
<u>Average Per-Round and Per Tee-Station Revenues:</u>						
Actual Average Greens Fee 1/	\$25.57	\$25.72	\$27.33	\$27.85	\$29.05	\$30.41
Average Cart Rental Fee Per Round	\$3.07	\$3.17	\$3.32	\$3.55	\$4.16	\$4.08
Avg. Merchandise Sales Per Round	\$9.46	\$8.04	\$8.12	\$7.61	\$9.03	\$8.56
Average Range Revenue Per Round	\$4.85	\$4.60	\$4.70	\$4.74	\$5.03	\$4.64
Avg. Range Revenue Per Tee-Station:	\$18,093	\$16,848	\$16,396	\$15,469	\$15,936	\$14,737
		<u>Tees:</u>				
		24				
Avg. Food & Beverage Sales / Rd.	\$6.48	\$5.44	\$5.64	\$6.41	\$7.50	\$7.95

1/ Including tournament fees and monthly card sales
Source: City of Palo Alto

Table III-6

**SUMMARY OF ANNUAL NET INCOME TO THE CITY OF PALO ALTO
PALO ALTO GOLF COURSE, FY 2001 / 2002 THROUGH FY 2006 / 2007**

	Percent of Gross Rev.	FY 2001 / 2002	FY 2002 / 2003	FY 2003 / 2004	FY 2004 / 2005	FY 2005 / 2006	FY 2006 / 2007
Revenue:							
Greens Fees	100%	\$2,180,219	\$2,108,185	\$2,126,478	\$2,027,302	\$2,042,184	\$2,148,397
Monthly Play Cards	100%	\$104,173	\$149,773	\$152,343	\$152,980	\$163,714	\$167,005
Tournament Fees	100%	\$3,040	\$2,204	\$9,688	\$3,031	\$2,528	\$2,852
Driving Range	60%	\$260,535	\$242,608	\$236,104	\$229,883	\$229,478	\$221,155
Cart / Club Rentals	60%	\$164,653	\$168,452	\$166,620	\$157,480	\$189,651	\$191,208
Proshop Lease	4.0%	\$12,243	\$3,116	\$14,825	\$27,513	\$30,216	\$26,738
Restaurant Lease	7.0%	\$49,709	\$48,376	\$4,000	\$40,426	\$54,172	\$58,956
Clubhouse Utilities (Reimbursement)		\$21,600	\$25,920	\$2,160	\$10,800	\$21,600	\$25,920
Interest Income, Debt Service		\$34,766	\$48,534	\$42,208	\$44,000	\$31,721	\$8,922
Total Revenue		\$2,830,938	\$2,797,168	\$2,754,426	\$2,693,415	\$2,765,264	\$2,851,153
Operating Expenses:							
Golf Course Maintenance Salaries		\$575,245	\$558,754	\$554,938	\$667,878	\$473,333	\$481,416
Golf Course Maintenance Benefits		\$311,210	\$315,406	\$295,720	\$270,959	\$357,216	\$386,823
Subtotal, Maintenance Labor		\$886,455	\$874,160	\$850,658	\$938,837	\$830,549	\$868,239
Services and Supplies, Golf Course		\$144,539	\$142,789	\$163,936	\$126,906	\$115,071	\$163,827
Allocated Utility and Other Charges 2/		\$343,735	\$372,242	\$437,718	\$402,325	\$349,885	\$415,143
Misc. Contract Services / Other		\$220,989	\$81,497	\$87,288	\$44,274	\$40,073	\$40,729
Management Fee		\$344,674	\$344,938	\$332,071	\$322,000	\$322,248	\$337,835
Credit Card Fees		\$27,000	\$27,000	\$32,699	\$40,216	\$46,155	\$33,000
Total Operating Expenses		\$1,967,392	\$1,842,626	\$1,904,370	\$1,874,558	\$1,703,981	\$1,858,773
NET OPERATING INCOME (EBIDA) 3/		\$863,546	\$954,542	\$850,056	\$818,857	\$1,061,283	\$992,380
City Overhead Allowance (Cost Plan)		\$276,290	\$297,082	\$284,097	\$300,169	\$357,361	\$379,884
Debt Service		\$601,308	\$659,616	\$516,953	\$557,516	\$555,769	\$558,211
City Overhead and Debt Service		\$877,598	\$956,698	\$801,050	\$857,685	\$913,130	\$938,095
Total Expenses		\$2,844,990	\$2,799,324	\$2,705,420	\$2,732,243	\$2,617,111	\$2,796,868
NET INCOME AFTER COST PLAN AND DEBT SERVICE		-\$14,052	-\$2,156	\$49,006	-\$38,828	\$148,153	\$54,285

1/ The restaurant lease payment is based on 7 percent of gross revenue, or the minimum rent, whichever is higher, FY 2003 /2004 reflects an adjustment

2/ Allocated charges for utilities (including water), vehicle replacement, and insurance

3/ EBIDA: Earnings Before Interest, Depreciation and Amortization; EBIDA is the industry standard measure of Net Operating Income

Source: City of Palo Alto and ERA/ 1/08

SECTION IV: COMPETITIVE BENCHMARKING

INTRODUCTION

In the following section, competitive benchmarking information is presented that facilitates a comparison of the operating performance of the Palo Alto Municipal Golf Course to other municipally-owned 18-hole golf courses in the Bay Area.

Information pertaining to annual rounds, total gross operating revenue, average revenue per round, average range revenue per tee-station, and annual golf course maintenance expenses is presented.

COMPETITIVE BENCHMARKING, 18-HOLE MUNICIPAL COURSES

Table IV-1 and IV-2 present a comparison of annual rounds, gross operating revenue, gross operating revenue per round, and average range revenue per tee-station 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, additional information is presented for other Bay Area municipal courses (where available).

The purpose of this analysis is to:

- Provide a comparison of the operating performance at Palo Alto to other similar facilities.
- Highlight areas where improvement at Palo Alto may be possible.

- Provide comparative benchmark data for the 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 Muni	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 Palo Alto Municipal, with over 76,000 rounds, annual play levels are about 8 percent higher than the survey average of 70,741.

Gross Greens Fees and Average Greens Fee Per Round

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 Muni	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 Palo Alto Municipal, with total greens fee revenues of over \$2.3 million, the actual average greens fee of \$30.40 is about 5 percent higher than the survey average of \$28.89.

Gross Cart Revenue and 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 Muni	438	5.04
Santa Clara	430	4.94
Sunnyvale	356	4.42
Palo Alto	311	4.08
Average	\$458	\$6.63

At Palo Alto, the average cart fee per round of \$4.08 is the lowest of the surveyed facilities, 38 percent below the survey average of \$6.63. It is clear that the low cart utilization and low revenues are in part due to the flat course terrain which enables walking. However, due to very limited cart storage (fewer than 35 carts can be stored below the clubhouse), there are only 34 electric carts available, plus 15 older gasoline powered carts stored in open storage outside the clubhouse. This fleet compares with an inventory of 60 to 80 carts typical at most course, and it thus appears apparent that the limited available may limit cart rentals and, on occasion, discourage tournament and/or other play at the course. A discussion of the cost-benefit of constructing additional cart storage is presented under "Capital Improvements" in Section VII of the report.

Gross Merchandise Revenue and Average Merchandise Revenue Per Round

<i>Facility Name</i>	<i>Merchandise Gross Revenue (\$000)</i>	<i>Avg. Merch. Revenue Per Round</i>
San Jose Muni	\$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

With gross merchandise revenues of \$653,000, or \$8.56 per round, the Brad Lozares golf shop is one of the top performing facilities in the Bay Area. Average per round spending on merchandise at Palo Alto is 69 percent higher than the survey average of \$5.07 per round.

Gross Range Revenue and Average 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>
Shoreline	Yes	26	407	15,654
Santa Clara	No	25	388	15,520
San Jose Muni	Yes	60	898	14,967
Crystal Springs	Yes	27	384	14,233
Palo Alto	Yes	26	354	13,615
Metropolitan	No	26	324	13,604
Santa Clara	No	30	388	12,933
Shoreline	Yes	35	407	11,637
Diablo Creek	Yes	26	271	10,423
Santa Teresa	No	50	508	10,160
Boundary Oak	Yes	60	444	7,400
Los Lagos	Yes	50	370	7,400
Tilden Park	Yes	70	496	7,086
Rancho Solano	No	12	79	6,583
Paradise Valley	Yes	28	161	5,750
Callippe Preserve	No	30	75	2,500
Average		36	\$372	\$10,591

The driving range at Palo Alto includes 26 lit tee-stations, 28 percent less than the survey average of 36 tee-stations.

With gross range revenues of about \$354,000 at Palo Alto, the average range revenue per tee-station of \$13,615 is 29 percent higher than the survey average of \$10,591 indicating that range performance is well above average.

Average Food and Beverage Spending Per Round

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

To the extent possible, for those facilities that provided food and beverage revenue information, 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 Muni	\$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 Palo Alto, average per-round spending by golfers in the café of \$6.36 is 12 percent higher than the survey average of \$5.66.

Including banquet and meeting revenues, the following is a summary of total gross food and beverage revenues at surveyed facilities:

<i>Facility</i>	<i>Total F&B Gross Revenue (\$000)</i>
Los Positas	\$2,200
Rancho Solano	\$1,900
Boundary Oak	\$1,860
Lone Tree	\$1,700
Diablo Creek	\$1,500
Paradise Valley	\$1,400
Delta View	\$975
Santa Teresa	\$949
Callippe Preserve	\$650
Palo Alto	\$606
Tilden Park	\$571
San Jose Muni	\$567
Los Lagos	\$438
Average	\$1,178

As mentioned, with limited banquet capacity at Palo Alto (1,500 square feet, capacity of 120 people), total food and beverage revenues are well below average. Total food and

beverage revenues of \$606,000 are 49 percent below the survey average of nearly \$1.2 million.

GOLF COURSE MAINTENANCE EXPENSES

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

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:

- 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. At Palo Alto, annual water costs of about \$252,000 are 73 percent higher than the survey average of \$146,000 per year.
- For the 15 surveyed facilities, the total average annual golf course maintenance expense was nearly \$1.1 million.
- At Palo Alto, where the course is maintained by the City, the total annual golf course maintenance expense of \$1.45 million was 35 percent higher than total survey average of nearly \$1.1 million. As compared to other golf courses maintained by cities, the total maintenance expenses at Palo Alto were 6 percent higher than the survey average of \$1.36 million.
- At Palo Alto, the approximate 170-acre course is maintained by staff of about 10 full-time equivalents (FTE) including the Superintendent. As shown below, it is ERA’s opinion that the current golf course maintenance staffing levels are at a bare minimum, generally well below that at comparable facilities, especially when considering the above average acreage maintained and the challenges of a high water table and salt water intrusion:

	<i>Golf Maintenance Employees</i>		
	<u>Full-Time</u>	<u>Part-Time (FTE)</u>	<u>Total (FTE)</u>
Palo Alto	9	1	10
Comparative Courses			
Range	10 - 15	0 - 3	12 – 17
Average	12	2	14

-
- At Palo Alto, reflecting escalating costs of health care, the benefits for the golf course maintenance staff have increased from 35 percent of the total labor budget in FY 2001 / 2002 to 47 percent of the total labor budget in FY 2006 / 2007. Last year, the total labor budget for golf course maintenance was about \$868,000 allocated about \$481,000 to salaries and nearly \$387,000 to benefits.
 - For the 15 surveyed facilities, *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 15 surveyed facilities.
 - 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.

Table IV-1

SUMMARY OF GROSS OPERATING REVENUE, BY CATEGORY AND PER ROUND, AND PER ROUND, SELECTED MUNICIPALLY-OWNED GOLF COURSES

Amounts Shown in Thousands of Dollars (\$000)

Facility Name	Clubhouse Size (SF)	Annual Rounds	Gross Operating Revenue by Department, Per Round and Per Tee-Station										Total Gross Op. Revenue
			Greens Fees	Cart Fees	Merch. Sales	Range Fees	# Tees, Rev./Tee	Lesson Fees	Grill	Banquets	Food and Beverage	Total	
Boundary Oak Average Spending	30,000	65,100	\$1,452	\$395	\$132	\$444	\$6.82	\$7,400	\$87	\$275	\$1,585	\$1,860	\$4,370
			\$22.30	\$6.07	\$2.03	\$6.82	\$1.34	\$4.22	\$87	\$4.22	-	-	\$42.78
Callippe Preserve Average Spending	7,500	72,961	\$2,767	\$680	\$324	\$75	\$1.03	\$2,500	\$41	\$650	-	\$650	\$4,537
			\$37.92	\$9.32	\$4.44	\$1.03	\$0.56	\$8.91	\$41	\$8.91	-	-	\$62.18
Diablo Creek Average Spending	8,000	67,072	\$1,295	\$420	\$341	\$271	\$4.04	\$10,423	\$0	\$500	\$1,000	\$1,500	\$3,827
			\$19.31	\$6.26	\$5.08	\$4.04	\$0.00	\$7.45	\$0	\$7.45	-	-	\$42.15
Los Lagos Average Spending	4,000	67,590	\$1,895	\$570	\$355	\$370	\$5.47	\$7,400	\$113	\$438	-	\$438	\$3,741
			\$28.04	\$8.43	\$5.25	\$5.47	\$1.67	\$6.48	\$113	\$6.48	-	-	\$55.35
Palo Alto Average Spending	8,000	76,241	\$2,318	\$311	\$653	\$354	\$4.64	\$13,615	\$0	\$485	\$121	\$606	\$4,242
			\$30.40	\$4.08	\$8.56	\$4.64	\$0.00	\$6.36	\$0	\$6.36	-	-	\$54.05
Paradise Valley Average Spending	20,000	58,557	\$1,520	\$462	\$337	\$161	\$2.75	\$5,750	\$0	\$300	\$1,100	\$1,400	\$3,880
			\$25.96	\$7.89	\$5.76	\$2.75	\$0.00	\$5.12	\$0	\$5.12	-	-	\$47.48
Rancho Solano 1/ Average Spending	20,000	60,558	\$1,582	\$576	\$247	\$79	\$1.30	\$6,583	\$0	\$300	\$1,600	\$1,900	\$4,384
			\$26.12	\$9.51	\$4.08	\$1.30	\$0.00	\$4.95	\$0	\$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 AND PER ROUND, SELECTED MUNICIPALLY-OWNED GOLF COURSES

Amounts Shown in Thousands of Dollars (\$000)

Facility Name	Clubhouse Size (SF)	Annual Rounds	Gross Operating Revenue by Department, Per Round and Per Tee-Station										Total Gross Op. Revenue	
			Greens Fees	Cart Fees	Merch. Sales	Range Fees	# Tees, Rev./Tee	Lesson Fees	Grill	Banquets	Food and Beverage	Total		
San Jose Muni Average Spending	4,000	86,991	\$2,780	\$438	\$805	\$898	60	\$211	\$567	-	\$567	-	\$567	\$5,699
			\$31.96	\$5.04	\$9.25	\$10.32	\$14.967	\$2.43	\$6.52					\$65.51
Santa Clara Average Spending	6,000	87,120	\$2,179	\$430	\$280	\$388	30	\$13	NA	NA	NA	NA	NA	\$3,320 1/
			\$25.01	\$4.94	\$3.21	\$4.45	\$12.933	\$0.15	-	-	-	-	-	\$37.76 1/
Santa Teresa (27) Average Spending	5,500	110,577	\$3,272	\$629	\$476	\$508	50	\$98	NA	NA	NA	NA	\$949	\$5,982 1/
			\$29.59	\$5.69	\$4.30	\$4.59	\$10.160	\$0.89	-	-	-	-	-	\$45.06 1/
Shoreline Average Spending	9,000	67,634	\$2,158	\$352	\$411	\$407	26	\$111	NA	NA	NA	NA	NA	\$3,465 1/
			\$31.91	\$5.20	\$6.08	\$6.02	\$15.654	\$1.64	-	-	-	-	-	\$50.85 1/
Sunnyvale Muni Average Spending	4,000	80,513	\$2,250	\$356	\$261	\$0	None	\$22	NA	NA	NA	NA	NA	\$2,889 1/
			\$27.95	\$4.42	\$3.24	\$0.00	-	\$0.27	-	-	-	-	-	\$35.88 1/
Tilden Park Average Spending	3,000	65,123	\$1,618	\$377	\$251	\$496	70	\$313	\$260	\$311	\$571	\$571	\$3,626	
			\$24.85	\$5.79	\$3.85	\$7.62	\$7.086	\$4.81	\$3.99	-	-	-	-	\$50.90

1/ Excluding food and beverage revenue
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

SECTION V: PALO ALTO MUNICIPAL GOLFER SURVEY

INTRODUCTION

As an important means of gauging customer satisfaction levels at the Palo Alto Municipal Golf Course, a five-page survey questionnaire was administered at the golf course and mailed-out to people listed within the golf facility database. The questionnaires were available at the course for six weeks and 2,500 surveys were mailed out. A copy of the questionnaire is shown at the end of this section (Figure V-1) and key areas of inquiry included:

- Demographic characteristics of the respondents.
- Golf play characteristics including rounds played at Palo Alto and at other regional golf courses.
- Listing of other public golf courses most frequently played by respondents.
- Measurement of satisfaction levels at Palo Alto Municipal including:
 - Tee-time system
 - Course marshalling
 - Greens fees
 - Carts
 - Pro shop
 - Golf instruction
 - Food and beverage
 - Practice facilities
 - Golf course
- Rating of the overall golf experience at Palo Alto and other regional public-access golf courses.
- Opened-end comments or suggestions.

A total of 454 completed questionnaires was received which, in the opinion of ERA, is about an average response rate.

As well, it is our opinion that, when considering other corroborative information including observations of pro shop staff and the customer database, the sample is reasonably representative of the golfer population at Palo Alto Municipal.

DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

- Gender:
 - Male: 81 percent
 - Female: 19 percent
- Age Distribution:

<u>Age Group</u>	<u>% of Total</u>
Less than 24	2.2%
25 to 34	2.2%
35 to 44	8.4%
45 to 54	17.6%
55 to 64	29.3%
65 and Over	40.3%

As shown, over 40 percent of survey respondents were age 65 and over. ERA has observed that for other municipal golf course surveys conducted by ERA in the Bay Area, it is common for seniors to account for large percentage of respondents. It is our opinion that this is likely due to the fact that seniors typically account for the vast majority of play on weekdays and, in many cases they are passionate about golf and exhibit a strong desire to express their opinions.

- Annual Household Income:

<u>Household Income</u>	<u>% of Total</u>
Less than \$50,000	8.6%
\$50,000 - \$74,999	9.9%
\$75,000 - \$99,999	12.5%
\$100,000 - \$149,999	25.3%
Over \$150,000	43.8%

As shown, nearly 44 percent of survey respondents reported annual household incomes over \$150,000. While, on average, the survey respondents are clearly affluent, it should be noted that, according to data published by the U.S. Census Bureau, the median household income in Palo Alto is over \$111,000.

- Location of Primary Residence (Zip Code):

<i>Area</i>	<i>Survey Respondents</i>		<i>Total Play Distribution¹</i>
	<i>Number</i>	<i>% of Total</i>	
Palo Alto	187	42%	21%
Redwood City	56	13%	9%
Menlo Park	39	9%	10%
Los Altos	24	5%	5%
San Mateo	24	5%	6%
San Carlos	20	4%	3%
Mountain View	15	3%	5%
Atherton	11	2%	1%
San Jose	9	2%	4%
San Francisco	6	1%	1%
Belmont	6	1%	2%
Burlingame	5	1%	2%
Portola Valley	4	1%	1%
South San Francisco	4	1%	2%
Sunnyvale	4	1%	5%
Cupertino	4	1%	2%
Daly City	3	1%	1%
Moraga	3	1%	1%
Oakland	3	1%	1%
Pacifica	3	1%	1%
San Bruno	2	---	2%
Fremont	2	---	1%
Santa Clara	2	---	1%
Other	<u>11</u>	<u>2%</u>	<u>13%</u>
Total	447	100%	100%

¹Based on a seven-day zip code analysis of all players (793 responses).

As shown above, 187 out of 447 respondents (42 percent) listed Palo Alto as their primary residence.

Other primary source markets include Redwood City (13 percent), Menlo Park (9 percent), Los Altos (5 percent), San Mateo (5 percent) and San Carlos (4 percent).

As expected, the primary market area for the Palo Alto Municipal golf course is within an approximate 30- to 45-minute drive time area.

GOLF PLAY CHARACTERISTICS

- Are you a member of a club at Palo Alto Muni (e.g. women's, men's)
 - Yes: 52 percent
 - No: 48 percent
- Do you have a City senior, non-resident senior, or junior discount card for Palo Alto?
 - Yes: 30.5 percent
 - No: 69.5 percent
- Have you purchased a 10 play card within the past year?
 - Yes: 22.8 percent
 - No: 88.2 percent
- How did you make your tee-time reservation for Palo Alto?
 - Telephone pro shop: 66.4 percent
 - In person: 21.7 percent
 - Walk-on: 11.9 percent
- Are you satisfied with the current tee-time system?
 - Yes: 89.5 percent
 - No: 10.5 percent
- Do you generally tee off on time at Palo Alto?
 - Always: 26.8 percent
 - Almost always: 70.1 percent
 - Seldom / Other: 3.1 percent
- On average, how many hours does it take you to play a round at Palo Alto?
 - Weekday average: 4.5 hours
 - Weekend average: 4.2 hours
 - These results are typical, or slightly better than average, where an 18-hole round of golf on a municipal golf course often takes 4.5 to 5.0 hours or more.
- Do you feel the course marshals are effective in maintaining the course rules and regulations?
 - Yes: 72.1 percent
 - No: 27.9 percent (of those who answered “no,” they were most likely to be between the ages of 55 to 65+, or those who play most frequently).

- Annual Rounds Played:
 - In 2007, survey respondents averaged 51 rounds of which 22 (43 percent) were played at Palo Alto.
 - As expected, annual rounds played on *any* course were correlated with age with older golfers tending to play most frequently:

<u>Age Group</u>	<u>Annual Rounds</u>
Less than 35	31
35 to 44	23
45 to 54	29
55 to 64	47
65+	70

- At Palo Alto in 2007, the same pattern was observed, older golfers tended to play most frequently:

<u>Age Group</u>	<u>Annual Rounds</u>
Less than 35	14
35 to 44	8
45 to 54	12
55 to 64	19
65+	32

- Weekday greens fees:
 - Acceptable: 88.4 percent
 - Expensive: 9.9 percent
- Weekend greens fees:
 - Acceptable: 72.8 percent
 - Expensive: 25.6 percent
 - Not surprisingly, people with an annual household income of below \$75,000 were most likely to find weekend greens fees expensive.

- The top ten courses played by survey respondents were:

<u>Golf Course</u>	<u>Number</u>	<u>% of Total</u>
Palo Alto	346	77.4%
Shoreline (Mountain View)	172	38.5%
Sunnyvale	99	22.1%
San Jose Muni	56	12.5%
Santa Clara	52	11.6%
Poplar Creek (San Mateo)	51	11.4%
Spring Valley (Milpitas)	46	10.3%
Crystal Springs (Burlingame)	44	9.8%
Deep Cliff, Cupertino	42	9.4%
Stanford University	40	8.9%

Of those who listed Palo Alto as their primary course, nearly 83 percent are residents of the City of Palo Alto.

- Of those respondents who stated that Palo Alto was *not* their primary course, primary reasons were:
 - Course quality / play experience: 41.1 percent
 - Location: 23.4 percent
 - Fees: 12.5 percent
 - Tee-time availability: 6.8 percent
 - Clearly, course quality and play experience, and *not* fee levels or tee-time availability, are the primary reasons why most people choose another facility over Palo Alto as their primary course.

CUSTOMER PERCEPTIONS / RATINGS

Survey respondents rated a full range of facilities and services at Palo Alto Golf Course and shown below is a listing, from high to low, of the percentage of respondents who rated an item either “Excellent” or “Good.” Based, in part, on our experience with other similar surveys, we believe that key strengths are indicated by an excellent / good rating by 65 percent or more of respondents. On the other hand, weaknesses are indicated by an excellent / good rating by 50 percent or less of respondents.

<u>Facility or Service</u>	<u>Percent Rating Excellent or Good</u>
Availability of the pro for golf instruction	87%
Golf instruction customer service	87%
Pro shop customer service	85%
Golf instruction teaching effectiveness	84%
Pro shop facility	72%
Variety and availability of pro shop goods	70%
Food and beverage hours of operation	64%
Food and beverage customer service	64%
Cart condition	63%
Putting green	62%
Cart performance	61%
Golf instruction pricing	61%
Food and beverage appearance / cleanliness	58%
Quality of food and beverage	57%
Restaurant facility	52%
Food and beverage menu variety	52%
Golf course greens	50%
Food and beverage value / pricing	49%
Pricing of goods in the pro shop	47%
Golf course tees	45%
Cart paths	44%
Driving range	40%
Restrooms	40%
Golf course fairways	34%
Cart rental fees	32%
Beverage cart	25%
Golf course rough	24%
Golf course bunkers	21%

- Strengths:
 - Golf instruction availability, customer service and effectiveness
 - Pro shop customer service
 - Variety and availability of pro shop merchandise

- Weaknesses:
 - Food and beverage value and pricing
 - Pricing of pro shop merchandise
 - Golf course: tees, cart paths, fairways, rough and bunkers
 - Driving range
 - Restrooms
 - Beverage cart
- Have you ever participated in a tournament or group outing event at Palo Alto Muni?
 - Yes: 62.9 percent
 - No: 37.1 percent
- If you have participated in a tournament, were you satisfied with the experience?
 - Yes: 95.3 percent
 - No: 3.6 percent
- Have you been playing at Palo Alto Muni for more than four years?
 - Yes: 87.8 percent
 - No: 12.2 percent
- If you have been playing at Palo Alto Muni for more than four years, how does the current overall play experience compare to that prior to the most recent renovation in 1999 / 2000?
 - Better: 63.0 percent
 - About the same: 28.9 percent
 - Worse: 2.7 percent
- Operation of the Palo Alto Muni golf course requires the establishment of a number of fees and policies. Who do you believe sets these fees and policies?
 - Do not know: overall -- 35.9 percent, of Palo Alto residents, 30.6 percent do not know who sets fees and policies.
 - Director of the City Parks and Recreation Department: 30.2 percent
 - City Council: 18.2 percent
 - Golf course operator: 12.0 percent
 - City Manager: 3.7 percent

Asked to rate the overall golf experience at Palo Alto Municipal and other golf courses in the area, the following is a summary of the percentage of respondents who ranked a facility either excellent or good:

<u>Golf Course Name</u>	<u>Percent Rating Excellent or Good</u>
1 Cinnabar Hills	95%
2. Callippe Preserve	90%
3. Coyote Creek	85%
4. Santa Teresa	69%
5. The Ranch	61%
6. Los Lagos	56%
7. Palo Alto Municipal	51%
8. Shoreline	51%
9. Spring Valley	48%
10. Santa Clara	43%
11. Crystal Springs	42%
12. San Jose Municipal	41%
13. Poplar Creek	40%
14. Monarch Bay	34%
15. Sunnyvale	30%
16. Deep Cliff	30%
17. Summitpointe	24%

As shown, out of 17 rated facilities, Palo Alto Golf Course (tied with Shoreline) was ranked 7th according to survey respondents.

- If physical improvements were to be made at Palo Alto Muni, would you prefer that the course be closed (possibly for several months) and that the work was completed all at one time, or would you prefer that the course stay at least partially open (perhaps close one nine, use of temporary greens, etc.) and that the work be completed over a much longer period of time?
 - Prefer work completed at one time with a course closure: 65.3 percent.
 - Prefer work completed over a much longer period of time (with a partial course closure): 34.7 percent.
 - For those who responded that they prefer the work completed all at one time with a course closure, they were significantly more likely to use Palo Alto as their primary course.

OPEN-ENDED COMMENTS AND SUGGESTIONS

Comments and suggestions received were extensive, the following is a representative sampling of opinions (in some cases edited for clarity):

Pro shop staff are both helpful and kind. Golf course renovations could be made, but preferably all at one time. Also the wildlife on the course such as geese and coots are severely damaging the course and are an annoyance to the players. Removal would be both a help and make the course experience better.

The pro shop staff is the most friendly, knowledgeable and helpful on the peninsula. They go the "extra step" to make sure the whole experience is a pleasure. The restaurant staff (for the most part) are pleasant and friendly. Women appreciate the opportunity to buy smaller portions at a reasonable price. They also have been very accommodating and manage very well for special functions. Please obtain more comfortable chairs to use on the patio. The present ones are back breakers! All that attended the "Golf day for women" appreciated the instruction and encouragement the staff afforded. Please keep this wonderful facility intact for all of us golfers.

I think the fees are fair...I can't see it going higher, because the bigger percentage of players or spenders in the pro shop are regulars and seniors. I love this muni and I drive 30 minutes to play here...this is my home golf course.

It's a false economy to cut back on course maintenance. Golfers have many choices of courses within an hour's drive and they (we) will quickly register their displeasure if the quality of the golf course deteriorates! I suspect there have already been such cutbacks-the course condition is not as good as I remember it from even two years ago.

The staff are helpful, friendly. The marshals are okay, not great (either too chatty or not helpful). The course is never in great shape – often bare or muddy spots, greens can be rough. But for what we pay, I think its fair, I am actually PROUD of our muni!

I do not know what the operating costs are, but \$47 weekend fees seems steep for what Palo Alto has to offer. Alameda has 2 18 hole courses and a 9 hole par 3 and fees are only \$36 non resident weekends. As far as the restaurant, \$2.50 for a small can of green tea (wow) everywhere else is 99c for the larger can.

PA Muni is overpriced in comparison to surrounding golf courses. Maintenance is decent, but the course design is boring, especially for lower handicap players. Santa Clara is not maintained as well, but is much more fun to play because of the design. The difference between the old and "new" greens (Poa versus Bent) is a very annoying problem at PA muni. The stalls on the driving range are awful, most are uneven and many have humps under the mats. Many of the mats are torn or have bare spots or are too thin. The putting green hump is excessive. The practice green should bear at least some resemblance to the greens on the course. Check out Santa Clara for how to build a good practice green. The new sand practice area is a good improvement.

In general I like the course. It is most convenient and the staff is friendly. I like the wide open nature of the course and the length. I don't like the putting green and feel that the green fees are too high when the greens are in this condition. Slow play is also a problem, especially on weekends. I rarely, if ever see a marshal and would suggest that reminders of pace should be posted on the course (I assume some players just don't know better), but some slow players should be moved along by a marshal. I prefer a lower cost course, but understand we live in a high cost area. Still, keeping golf accessible to all people is important for the long term health of the game. So, make improvements if you want, just keep the fees as low as you can to not lock out those interested in playing. I also think you should start a community based program. For PA residents that gives priority tee times and programs for golf instruction.

My primary issues with Palo Alto is the course condition – principally with the fairways and bunkers. Unlike many, I believe the course design is what it is and improvement in this area would be difficult and ultimately unproductive (witness the improvements of 1999/2000) If maintenance improved, I would play there more often. The pro shop and pro shop store are excellent, among the best in the area. They also deserve better from the city.

Something needs to be done with all the geese and coots on the course. Evidence of their living on the course is everywhere. Palo Alto is short changing its golf course. Mountain View pays much more attention to its facilities and more funds for its support with the surplus. Palo Alto should support the golf course. The key decisions should be made by those familiar with golf and rely on a group of non golfing bureaucrats.

Would prefer a resident discount for greens fees.

The course is flat and does not punish poor shots. It provides an easy, less challenging game, but can become boring after several rounds. The fees are not low compared to somewhat better, more challenging courses.

Palo Alto needs a top notch course, Palo Alto residents should be given special tees times over outsiders – I am tired of paying for our services and not being able to use them because of outsiders who are not contributing to our tax base.

I used to work here in 1994-1995 and people who come here are the ones who play because of the affordability not because of the amenities. Living here most people will pay higher fees to play at better maintained courses. The topography of the area does not allow you to vary many holes so I believe you should keep it the way it was as opposed to spending huge amounts of money to change it.

I feel the PA muni course is one of the finest public golf courses. Brad has done a fantastic job over the years that I have known him. I feel this is my home course as do golfers I play with – they travel from San Francisco. I just hope that no one takes this great golf course away from me.

Fix the tees, fairways and rough and I'll play more often. A beverage cart morning weekdays would be nice.

The golf course and facility is a major asset to Palo Alto. Every effort should be made to continually upgrade & improve. I have played PA for over 40 years & have enjoyed every round. I have met many friends living up and down the Peninsula and business men from all over the world traveling to this area who also enjoy the course. Keep improving the facility. Golf is a major sport for many in the community. Palo Alto should be proud to be one of the few cities in the bay area that has its own fine public course. Areas that need help – do something about the geese – they make such a terrible mess. Add more maintenance personnel – a course this size seems to be understaffed. Improve bunkers – always wet and hard. The restrooms next to the golf shop need upgrading.

Golf course is tremendous asset for Palo Alto. We need to upgrade and maintain it as the super asset it is – when baby boomers retire the course will get more use if it is upgraded. We need a starter. Better monitoring of slow play. Let Brad have some more say in running the course. Discount for residents like Shoreline does. The PA council needs to see this course as a great asset and treat it that way. Course could use an environmental protection plan – could be model for a beautiful course with respect for environment.

Besides being a long course, there is nothing stand out. The greens are slow, fairways have bare spots and uneven grass level, too few bunkers, no water hazards to speak of, course layout is dull.

Food offering is weak, the course maintenance has deteriorated, the pro shop and staff are excellent.

The restaurant is the worst thing about this golf course. The food is poor quality and inconsistent. If I spend the day at the golf course I'm forced to eat the food and I always wonder if I'll get sick. There are often parts of the meal that are dry or wilted. I like to play at P.A and have a beer and sandwich with my friends but often we have one beer and leave because nobody wants to eat there, but we're hungry. Shoreline has a nice restaurant if you could get that restaurant at P.A you would keep a lot more of us around longer after golf. Please do not privatize this golf course!

The muni is an undervalued asset to Palo Alto. The appropriate investment should be made to raise the level of course conditions to other munis. The city officials should review other munis to see what can be done. We are under utilizing the land. Soccer is not the only sport in the city. Brad Lozares does an excellent job in managing the pro shop. The restaurant is professionally managed. The golf course deserves similar management.

In the past improvements are not what is promised. Close parts of the course – and players leave and don't come back. After the last debacle players I used to know never came back.

I was a "regular" for about 5 years, played every weekend. Have moved on. Best public course in the area, can't beat the price, however I would like to see a significant upgrade and face lift to make it even better. Pro shop is well run and professional. Restaurant is pretty good. City council apparently has little regard for the course, evidenced by the desire of some to turn part of the course into soccer fields. I appreciate the fact that this was a good course for kids to learn the game as mine did.

I have been playing at PA muni on and off since the early 60's. Since that time the golf course has been greatly improved. I enjoy playing the present course because it is flat, fair and uncomplicated. That is, the roughs and hazards and trees are not too severe. The pro staff have been consistently helpful and friendly.

If the par 5 holes were converted to par 4 – it would probably bring a lot more women to the course. The par 5 and par 4 holes are both too long. If the sand traps were filled with sand instead of dirt they would be at least playable. The sand traps should not be near the sprinklers – often they are filled with water.

I feel that the golf course should be treated as a civic treasure. If it did not exist there would be no activity (city provided) for its senior citizens other than wandering around the streets for exercise. Its financial structure should provide for its own maintenance first and foremost and consideration of "profit" should be very secondary to providing a first rate, playable course for tax paying citizens.

I believe more money should be spent on course maintenance. A better quality course would bring increased play which should pay for increased maintenance (spend more make more) I expect the city takes money from the golf course and spends it elsewhere. Golf course income should be used to maintain the course at a better level.

Overall Palo Alto muni is a good experience. Reasonable cost for a good golf course.

It seems to me that if the city would not keep bleeding money out of the golf operation and put a little more into improvements and maintenance the playability of the course would become more interesting and play and revenue would increase.

Need a cart path on left side of #18 and right side of #11. Need a 9-hole golf fee, charging 18 holes for 3 playing 9 is unfair. Our women's group has lost members because of the 18 hole fee is too high for these that can only play 9 holes, i.e. some senior men, some senior women, young mother that can only play 9 holes because of young children. Some of the 9 hole groups that have supported PA muni for many years and need to take carts for only 9 holes are dropping out. Some of the senior members are on limited income and can't play as often as they would like.

The course is well run and in good shape. It is inherently limited due to its topography. It would be nice for PA residents to get a discount.

If this is a lead in to bulldozing the golf course to put in soccer fields, forget it! The place is what it is. Don't mess with it. No amount of pushing dirt around will improve it much. I like it because it is close and not all that expensive. The minute you start spending millions to push dirt around it will no longer be cheap. Put soccer field in and it will be so small and useless! Poplar Creek golf course took well over a year to redo. What they got was not a lot better than what they had except for a fancy clubhouse. What you could do is figure out some trees that grow in a salt marsh. Leave the place alone! Replace the trees. Raise the price much and there are lots of other choices.

PA muni needs a major face lift. I believe fees could be raised 30% or more if it was a quality course. PA residents should receive special pricing similar to Shoreline and Sunnyvale. Also advanced tee times for residents. There also needs to be a cart service.

The city needs to treat golf income differently, with the present system it is too hard to fund necessary infrastructure changes. Course quality is important, I play PA because of the location and the golf club. Golfers don't see the money going back into the course. The number of maintenance workers is too small to do more than mow grass. The facility provides more recreation hours than any other PA recreation sponsored by the city and it more than pays for itself. A capital improvement fund should be established so that bonds are not necessary for future improvements. The city council has never taken much interest in the course. Create an enterprise zone which provides a little city income and put the rest back into the course.

PA muni is now going to be a world class course and with as much play as it gets it will never be in pristine shape. The work done to improve greens 4,7,13,15 & 16 (I don't think I left any out) have made a nice difference. I would like to see a few additional greens being done, mainly 1 and 6. With that said it is not a bad value for the price. All in all I think the place is run well with the exception with the exception of the restaurant which has never been much good since Hof Brau left.

PA muni is an excellent course. It is extremely well taken care of. It has the length that you are unable to find at many courses, is always in good shape except for environmental issues that may be difficult or expensive to address such as flooding if it rains a lot / difficulty growing grass due to the salt water table and proximity to the Bay. Pro shop is the best anywhere! Hats off to Brad and crew for making us feel like true guests although it is "only" a muni. They always make me feel that they appreciate that I chose to play there and are constantly trying to help make it an enjoyable experience as compared to other public courses where they act like they are doing me a favor. Overall, an outstanding value for the experience. If improvements are made and fees raised, a limit to the amount charged will be reached based on the real estate able to work with. There is a finite amount of land and it is flat. The layout can only be varied so much, which limits the caliber of golf course.

I have played in Palo Alto since it opened in 1956 and it has always been "ok." If ok is the standard you want to see then that's what you've (the city) got. The restaurant is way below standard in quality and service as are bathrooms and general facilities. I don't

believe that the golf course is important to the city either as a destination venue or as a return on investment. Get a private management company and/or add maintenance staff and spend capital to improve the facilities.

As I recall the last course remodel primarily improved fairway drainage rather than redesign of holes. The course is not particularly challenging, reflecting a low slope rating. Although relatively long, it is flat and straight, with few trees, no out of bounds, forgiving roughs, few fairway bunkers etc. Course management does not require as much thought or effort from the golfer as other courses with more hazards, elevation changes, trees etc. The current budget for course maintenance is fairly low and this may be a constraint in terms of maintaining conditions of the greens, bunkers, fairway and rough. The experience at PA muni is pleasant, but not challenging and not "inspirational." The people and staff are courteous and friendly. My handicap is 15 and I would enjoy a course which might earn a slope rating closer to 130 from the current 118. Depending on playing partners, I generally alternate between blue and white tees. Putting greens are slow and bumpy compared to other courses.

Brad and his staff are great! (0247)

The sprinklers are set so that water often goes into some of the bunkers. That should never happen. The par 4's are currently set at yardage that only semiprofessional women could hope to make in regulation: 2, 5, 6 370 yards (2 185 ft shots!) while the 5 pars require shots of 162, 136, 153, 133 and 140 to reach in regulation. Move the ladies tees up 40 or 50 yards and on 3, 5 and 6 and you will find more women willing to play here and a bigger group of women who are members.

More sand needed in bunkers, improve chipping practice facility, clearer markings of flag distances on driving range, improve fairway turf in places. Do not remove land from the course for other purposes.

Other area muni courses offer resident discounts, but PA doesn't offer any resident benefits, other than earlier tee time booking which requires that you book in person. This benefit is hardly worth using because it requires a special trip. I would like to see resident discounts, since our tax dollars help to budget the course.

I think the course needs to be improved. This is a premium area and PA muni needs to "stay up" with the level of the community. Better quality fairways and greens. Fill all the rabbit holes. Better drainage. This course was built in the 50's and needs a major overhaul. It has the best location on the peninsula and should use that to attract golfers.

I have doubts about any facility upgrades or improvements made correctly or successfully. It seems that the changes made in the past were too expensive for what was accomplished.

Never been impressed with the quality of the course. No resident discount prevents play as well. Good practice facility and instruction. I practice at PA at least 2-3 times a week.

I play with 2 other guys on Mondays twice a month. The experience is pleasant, the staff professional. Lately, the course has been in great shape and a pleasure to play. I enjoy having the golf course nearby, it is my primary course. Please don't change anything except for minor improvements. Note – please keep plenty more trees to replace the dead ones.

I have enjoyed 20 years of play at the muni for the most part. Winter rain drainage has vastly improved the fairway where the work was done. But more improvement is needed. However the greens, both old and new are not of the form that they were during my first 10 years of play. Originally the golf ball would roll smoothly almost 100% of the time, now most outs hop in the air requiring a lot of luck to maintain the line. Being a super senior (age 80) and still a fair golfer (low 80's), price (green fees) is a concern. I plan to play many more years.

PA muni is not always in the best of shape, tees, fairway rough and greens. If improvements could be made it would be a great place to regularly play. I don't feel any changes need to be made regarding course design / redesign. For a neighborhood course I don't want to pay steep green fees since my golf is limited to weekends and the occasional weekday or twilight time. PA muni is a great place to practice, it is very comfortable. One more thing – the practice putting green should be enlarged, often times its too many people there to practice putting. Teaching pros are very good, friendly, helpful and knowledgeable.

Maintenance is very poor the last time I played in November. Layout has improved with last renovation but still tends to be boring. Seems to be continued battle with salt water destroying trees and fairway. Pace of play can be irritating. Inexperienced golfers tend to slow and are not prompted to pick up the pace – moves at the slowest common denominator. Many of the birds on course are beautiful - hawks, owls, etc. but course is ruined by a moronic “Save the coots” mentality. Too many geese – they ruin the experience. I finally found a private club just to get away from it. Palo Alto deserves better.

Driving range is very poor. Driving range balls are old. Bunkers need sand. Palo Alto muni looks “tired” old course. Overall course is boring, flat uninteresting except for few holes. Needs more hills, trees, dog holes etc. to attract golfers like me. that have gone to play other courses like Cinnabar, Coyote Creek where we pay \$60 per round & enjoy the golfing a lot more. Cinnabar & Coyote have beautiful clubhouses and great food.

I am a big fan of PA muni, the course, the pros and the golf shop. I play 80-90 rounds a year there using the non residents senior card (\$299). However, as much as I like PA I am considering switching down to Shoreline because it is significantly less expensive. Shoreline offer s a M-Th senior play card at \$1250/year. I would strongly encourage PA to consider a similar program.

The greens are poor – soggy, bumpy and generally bad for putting. No cart path on 18th hole. The course could be made more interesting by converting most of the areas

between the holes to waste bunker / desert style design. Would likely lower water needs and make the place more suited to our desert style weather. The space between #6 and 7 fairways (#6 green, #7 ladies tee and back towards #6 tee about 50 yards) ought to be a pond as it flood a lot. Piles of sand between #17 green and #4 tee and #15 tee is ugly (perhaps some of these sand piles are also near #8 green). I think with a little imagination and not a lot of money, the course could be made more attractive and give the impression of a better value. Like Shoreline you exercise no control over the geese and coots, Hence the place is covered in bird ____! Very ugly and annoying. Airplane noise, particularly helicopter shouting landings is also a constant annoyance.

Discounts for residents, raise prices for non-residents. Perception is that most using the course are non-residents. Mountain View runs their course better for their residents. Why can't Palo Alto get with it?

Have been an active member at PA muni for years. I believe that now there are many other courses that offer a significantly better playing experience. I feel that the city used the facility as a "cash cow" and has not kept up with the competition. The expectation that the golfing community will continue to use PA muni with a continually deteriorating experience is wrong. There are many other new and improved courses available. The course must offer better value or the golfers will continue to "vote with their feet." The city "powers that be" must recognize this and do something about it. The restaurant is poorly staffed, dirty and poor food. Their answers have been to raise prices. The only part of the golf course that runs well and is above par is the pro shop.

Course gets high rating for staff, but course itself is long and boring, not a lot of challenge except for length. Needs variety. Overall, course is in better shape than before 2000 renovation, but could use improvements in the fairways – too many bare spots. Many bunkers need new sand, bunkers when wet are like concrete. Many of the greens are bumpy, especially after aerating. Thanks for the opportunity to express my views. PA muni is the first course where I joined a group, so I feel loyal, even though I actually prefer playing their courses because they offer more of a challenge. PA is a first rate city and I believe it deserves a first rate golf course.

Please do not shorten the course to an executive length one. That will ruin all the incentives to play at PA. Deep Cliff has lots of beginners and is a different form of physical activity. A full length course is the best! Also attention is needed controlling the geese. Geese feces (poop) is all over the course and has become a hygiene hazard, especially with the occurrence of "bird flu" and the e-coli bacteria infections. Could become a law suit or legal problem... Restaurant is excellent, especially staff and for catered events.

I've been a member of PA golf club for 25 years and have seen the course improve tremendously in that time. Lately the trend appears to be reduced maintenance with the accompanying deterioration. I would hate to see the course revert to the condition it was in 25 years ago. If that happens, golfers will look for other places to play. You have to keep the maintenance upon and convince the city of the value of this fine asset.

The course is long enough to be challenging, but it is too flat and the holes are generally only straight. The course could be re designed to include dog leg left and rights. Also more elevation changes would make it more interesting and appealing to play. The food prices are generally too high and golfers can get better value for their money dining elsewhere.

We started playing at Palo Alto years ago. We have enjoyed excellent support services from the staff at the pro shop. We still and for most parts buy all of the equipment and take lessons there. We play more and more at Shoreline. As our game improves Palo Alto muni feels boring. No turns, flat & straight, poor bunkers but it's reasonably priced. The cafeteria is and always was a sad story. We never stay or dine there. We always dine at Shoreline/Michaels. Having Palo Alto muni renovated to the level of Shoreline or Santa Teresa will be great – even at higher fees. Higher fees will be less crowd as well.

PA muni fills a niche which I appreciate. It's a great value & I truly appreciate it.

The course is a neglected jewel. What a waste! It should be maintained and cared for, but its not. Suggest closing it one day a week to maintain it. It appears the city council doesn't think to invest in this public asset and just lets it slowly decline. Not so much Mountain View. They keep improving their course and the restaurant is outstanding. PA has just dropped the ball on this community asset.

The course length is reasonable. The fairways are all flat and some have poor drainage. The improvements made a few years ago were inadequate, only a couple of holes seemed improved mainly 18th hole. Greens are well kept, but variations in slope would help and add interest.

Fees are at maximum for this facility. Higher fees will discourage local players.

PA muni has been an excellent place and the staff has been superb over the years. Our family has been using PA muni since 1985 and it gets better every year. I have made many purchases and the prices have been competitive. There is always a great selection.

I am a retired senior, so cost is of prime importance. Seniors, both men and women, can play golf when most others are at work or in school. Since PA seniors also pay taxes to the city, and have free time to play when others can't, the fees for them should be much less for those who do not live in PA. Brad has done a great job and I wish him and his employees nothing but the best. P.S. – It would be a major mistake to give the course to a private company to run. Other cities like Mountain View tried and it was wrong. This is our course and the city can run it beautifully.

Figure V-1: PALO ALTO MUNI GOLFER SURVEY

Date: _____

Time: _____

Dear Golfer,

On behalf of the City of Palo Alto, Economics Research Associates – an independent golf consulting firm – is interested in your observations and opinions regarding the Palo Alto Municipal Golf Course. We would appreciate your cooperation in completing the following questionnaire, and returning it to the pro shop prior to tee-off or immediately upon completion of your round today. Thank you for your assistance and participation.

Today's Date: _____ Tee Time: _____

1. Please indicate your sex: _____ Female _____ Male
2. Please indicate your age range:
_____ Under 17 _____ 35 to 44 _____ 65 and over
_____ 18 to 24 _____ 45 to 54
_____ 25 to 34 _____ 55 to 64
3. What was your approximate total household income last year?
_____ Less than \$50,000 _____ \$100,000 - \$149,999
_____ \$50,000 - \$74,999 _____ Over \$150,000
_____ \$75,000 - \$99,999
- 4A. What is your ZIP Code? _____
- 4B. Are you a Palo Alto city resident? _____ Yes _____ No

_____	_____
2006	2007
5. About how many rounds of golf did you play the last 2 years (at any course)?

_____	_____
-------	-------
6. About how many rounds of golf did you play the last 2 years at Palo Alto Muni?

_____	_____
-------	-------
7. Are you a member of a club at Palo Alto Muni (e.g. women's, men's)?
_____ Yes _____ No
8. Including Palo Alto Muni, please list the four courses you play with #1 being the course you play most often (primary course):
1. _____ 3. _____
2. _____ 4. _____

9. If Palo Alto Muni is *not* your primary golf course, please indicate the main reason you play more often at a different golf course? *(Please circle your response)*
- Location
 - Fees
 - Course Quality / Play Experience
 - Tee-time Availability
 - Other (specify) _____
10. How did you make your tee-time reservation for Palo Alto Muni?
- _____ Telephone Pro Shop
 _____ In Person
 _____ Walk-on
11. Are you satisfied with the current tee-time system? _____ Yes _____ No
12. Do you generally tee off on time at Palo Alto Muni? *(please check one)*
- _____ Always
 _____ Almost Always
 _____ Seldom
 _____ Never
13. On average, how many hours does it take you to play a round of golf at Palo Alto Muni?
- _____ Weekdays _____ Weekends
14. Do you feel the course marshals are effective in maintaining the course rules and regulations?
- _____ Yes _____ No
15. Do you feel that the current greens fees at Palo Alto Muni are *(please check one response in each column)*:
- | | <u>Weekdays</u> | <u>Weekends/Holidays</u> |
|------------|-----------------|--------------------------|
| Too Low | _____ | _____ |
| Reasonable | _____ | _____ |
| Excessive | _____ | _____ |
- 16A. Do you have a City senior, non-resident senior, or junior discount card for Palo Alto Muni?
- _____ Yes _____ No
- 16B. Have you purchased a 10-play card within the past year?
- _____ Yes _____ No
17. If an annual play card was available that was priced at about \$1,800 for golf play Monday-Friday (carts not included), would you be likely to purchase one?
- _____ Yes _____ No
18. Operation of the Palo Alto Muni golf course requires the establishment of a number of fees and policies. Who do you believe sets these fees and policies? *(Please circle one response)*
- City Council
 - City Manager
 - Director of the City Parks and Recreation Department
 - Golf Course Operator (Brad Lozares)
 - Do not know

19. If you use an electric cart, in general, how would you rate the following (*please check one category for each item*):

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Cart Condition	_____	_____	_____	_____	_____	_____
Performance	_____	_____	_____	_____	_____	_____
Cart Paths	_____	_____	_____	_____	_____	_____
Rental Fee	_____	_____	_____	_____	_____	_____

20. How would you rate the following as it relates to the pro shop?

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Variety & Availability of Goods	_____	_____	_____	_____	_____	_____
Customer Service	_____	_____	_____	_____	_____	_____
Pricing	_____	_____	_____	_____	_____	_____

21. How would you rate the following as it relates to golf instruction?

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Availability of Pro	_____	_____	_____	_____	_____	_____
Customer Service	_____	_____	_____	_____	_____	_____
Teaching Effectiveness	_____	_____	_____	_____	_____	_____
Price	_____	_____	_____	_____	_____	_____

22. How would you rate the following as it relates to the food and beverage facilities and service?

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Hours of Operation	_____	_____	_____	_____	_____	_____
Customer Service	_____	_____	_____	_____	_____	_____
Food Quality	_____	_____	_____	_____	_____	_____
Menu Variety	_____	_____	_____	_____	_____	_____
Product Value/Pricing	_____	_____	_____	_____	_____	_____
Appearance/Cleanliness	_____	_____	_____	_____	_____	_____

23. How would you rate the following about the Palo Alto Muni golf facility?

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Tees	_____	_____	_____	_____	_____	_____
Greens	_____	_____	_____	_____	_____	_____
Fairways	_____	_____	_____	_____	_____	_____
Rough	_____	_____	_____	_____	_____	_____
Bunkers	_____	_____	_____	_____	_____	_____
Driving Range	_____	_____	_____	_____	_____	_____
Putting Green	_____	_____	_____	_____	_____	_____
Restrooms	_____	_____	_____	_____	_____	_____
Pro Shop	_____	_____	_____	_____	_____	_____
Restaurant	_____	_____	_____	_____	_____	_____
Beverage Cart	_____	_____	_____	_____	_____	_____

24. Have you ever participated in a tournament or group outing event at Palo Alto Muni?
 _____ Yes _____ No
25. If you have participated in a tournament, were you satisfied with the experience?
 _____ Yes _____ No _____ Not Applicable
26. Have you been playing at Palo Alto Muni for more than four years?
 _____ Yes _____ No
27. If yes to above, how does your current overall play experience compare to that prior to the most recent renovation in 1999 / 2000?
 _____ About the Same
 _____ Better
 _____ Worse
 _____ Not Applicable

28. How would rate the overall golf experience at the following courses? (Please respond for only those courses of which you have played)

	Excellent	Very Good	Average	Below Average	Poor	Not Applicable
Palo Alto Muni	_____	_____	_____	_____	_____	_____
Shoreline	_____	_____	_____	_____	_____	_____
Sunnyvale	_____	_____	_____	_____	_____	_____
Santa Clara Golf & Tennis	_____	_____	_____	_____	_____	_____
Poplar Creek	_____	_____	_____	_____	_____	_____
Crystal Springs	_____	_____	_____	_____	_____	_____
Spring Valley	_____	_____	_____	_____	_____	_____
Summitpointe	_____	_____	_____	_____	_____	_____
Deep Cliff	_____	_____	_____	_____	_____	_____
San Jose Muni	_____	_____	_____	_____	_____	_____
Los Lagos	_____	_____	_____	_____	_____	_____
Santa Teresa	_____	_____	_____	_____	_____	_____
Coyote Creek	_____	_____	_____	_____	_____	_____
The Ranch	_____	_____	_____	_____	_____	_____
Cinnabar Hills	_____	_____	_____	_____	_____	_____
Callippe Preserve	_____	_____	_____	_____	_____	_____
Monarch Bay	_____	_____	_____	_____	_____	_____

29. If physical improvements were to be make at Palo Alto Muni, would you prefer that the course be closed (possibly for several months) and that the work was completed all at one time, or would you prefer that the course stay at least partially open (perhaps close one nine, use of temporary greens, etc) and that the work be completed over a much longer period of time?
 (Please circle your response)
- a. _____ Prefer work completed at one time (with a course closure).
- b. _____ Prefer work completed over a much longer period of time (with a partial course closure).

SECTION VI: GOLF COURSE OPERATING OPTIONS

INTRODUCTION

Presently, golf operations (reservations, starting, greens fee collection, cart rentals, practice range operation, merchandising, instruction, and marshalling) are performed by Brad Lozares under an unconventional agreement which combines features of a management contract and concession. The operator receives a fee from the City for services provided, which is offset by rent paid by the operator to the City for merchandise, cart rental, and driving range activity. The food and beverage function is performed by an independent concessionaire, R&T Restaurant, Inc., under a more traditional agreement calling for a minimum rental payment versus a percentage of gross revenue. The City maintains the golf course. Mr. Lozares' agreement expires on December 21, 2008, and the R&T agreement on April 30, 2017.

There are two basic golf course operating options for Palo Alto Muni available to the City of Palo Alto, and numerous "hybrid" agreements such as the current golf operations structure, recognizing that the existing food and beverage agreement has numerous years remaining prior to expiration:

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 operations at San Jose Muni in San Jose, 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. Often the food and beverage function is operated independently under a standard concession agreement. 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 the Callippe Preserve in Pleasanton, Rancho Solano and Paradise Valley in Fairfield, Los Lagos in San Jose, and Santa Clara Golf and Tennis Club in Santa Clara.

A third basic option, City self-operation, exists, but the City of Palo Alto 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 under consideration. 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. The current structure at Palo Alto is a variation of this type of arrangement. 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 VI-1 and VI-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 to 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 Palo Alto Muni, such as its difficult maintenance conditions (salt intrusion), recently completed, as well as needed capital improvements, irrigation water availability, quality and cost, Palo Alto favorable demographics, and the like. Further, the overall objectives of the City will influence the structure of contract terms.

Table VI-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 VI-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. In addition to Palo Alto Muni, examples include Harding Park and Lincoln Park in San Francisco, 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 VI-5. Again, with most golf concessionaire agreements, course maintenance is provided by the City, occasionally the course maintenance is provided by a private landscape maintenance contractor. Boundary Oak, Diablo Creek in Concord and Modesto's Creekside, Dryden, and Muni 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 VI-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, and this clearly is the case at Palo Alto Muni. 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.

ENTERPRISE FUND

Municipalities often create an “enterprise fund” for operations which are funded in whole or part through user fees, including golf courses. The fund is established to account for operations financed and operated in a manner similar to private enterprises. Under such enterprise funds, revenues and expenses for the golf course are segregated from other City operating funds.

The primary advantages of establishing an enterprise fund include:

- Enterprise fund accounting is required which more clearly demonstrates to the public and management the true revenues, expenses, and capital costs related to the golf course.
- Operating surpluses are retained in the enterprise fund. This surplus may be used to fund future golf course capital improvements.

Establishing an enterprise fund does not create a separate or autonomous entity from the City’s general operations, but rather provides for a self-contained organizational accounting unit. It is not uncommon for support services to be provided by the City to the enterprise fund, with the cost of these services recovered through inter-fund transactions. Generally, these services are priced and accounted for based on their actual cost.

Creating an enterprise fund generally is a requirement if golf course improvements are financed with debt which is secured solely by a pledge of the net revenues of the course. The outstanding Palo Alto Muni golf course debt is not structured as such. The current structure, however, would not preclude establishing an enterprise fund. Nor does the creation of an enterprise fund preclude the possibility for the City of provide a subsidy for the golf course.

The establishment of an enterprise fund may make it more difficult, but would not prohibit the City from legitimately transferring funds from the golf course enterprise to the General Fund through property tax in-lieu assessments, asset rent, and other such mechanisms.

It appears that the primary motivation for creating a golf course enterprise fund is to provide a structure for greater accountability and awareness, and to encourage the retention of surplus funds dedicated for future capital improvements. While such an accounting mechanism will not, by itself, directly alter the operating economics of the

golf course, such a fund should help promote greater efficiency and support for the golf course operation.

Table VI-1

REGULATION LENGTH PUBLIC GOLF COURSE FACILITY LEASE TERMS
SELECTED NORTHERN CALIFORNIA COURSES

Course Location	Spring Valley Milpitas	Presidio San Francisco	Crystal Springs Burlingame	Monarch Bay San Leandro	Metropolitan Oakland	Fox Tail Rohnert Park	Black Horse /Bayonet Seaside
Lessor	County of Santa Clara	National Park Service	City/County of San Francisco	City of San Leandro	City of Oakland	City of Rohnert Park	City of Seaside
Lessee	Jetters Golf	Arnold Palmer Golf Mgmt. Co.	Crystal Springs Golf Ptns	American Golf	Oakland Golf, LLC	Rohnert Park Golf, LP	BSL Golf
Agreement Date	1993	1995	1997 (revised 2004)	1997	2001	2001 (revised 2005)	1996
Lease Term (years)	30	25	20	25	25	20	30
Option Extension	None	None	None	Two 5-year	Three 5-year	One 10-year	2 / 5-year
Minimum Rent	\$250,000	\$900,000	\$1.25 million	\$750,000	\$400,000	\$150,000	\$11 million pre-paid
CPI Adjusted	No	No	Yes	No	Yes	No	---
Percentage Rents							
Greens	10.5% ¹	30% ¹⁰	25/35/32% ²	25/27/28/30 ³	0/15/17.5/20/22.5 ⁷	12.5/13.5/15/20 ⁹	5% of total gross, less \$100 K
Carts	10.5%	20%	25/35/32%	25/27/28/30 ³	1/25/27.5 ⁷	-	
Range	10.5%	10%	25/35/32%	25/27/28/30 ³	0/4% ⁸	-	
Merchandise	10.5%	6%	8%	5/6% ⁴	0/4% ⁸	4/5/6/6% ⁹	-
Lessons	10.5%	6%	25/35/32% ²	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% ²	5/6% ⁴	0/4%	4/5/6/6% ⁹	-
Required Capital Improvements	\$2.5 million	\$7.15 million	\$1.98 million	\$8.2 million	\$8.0 million	\$3.0 million	\$1.6 million
Replacement Reserve Requirements	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	None
Cost of Water	Lessee	Lessee	Lessee	Lessee	Lessee	Lessee	City

¹ 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. ² As revised - years 1-2 / 3-5 / 6-20. 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.

Table VI-2 (Continued)

Course Location	Buena Ventura/Olivas Park		Los Verdes Palos Verdes	Meadowlark Huntington Beach		Victoria Carson	Simi Hills Simi Valley
	La Mirada La Mirada	Lakewood CC Lakewood		City of Ventura Evergreen	Huntington Beach American Golf		
Lessor	L.A. County American Golf 1995 ¹¹	L.A. County American Golf 1994	L.A. County American Golf 1994 ¹¹	City of Ventura Evergreen 2000	Huntington Beach American Golf 1993	L.A. County Palmer 1999 ¹²	Rancho Simi Rec. Golf Enterprises 1991
Lessee	15	30	15	2	25	30	15
Agreement Date	---	---	---	1 (city)	15 (city)	---	---
Lease Term (years)							
Initial							
Option Extension							
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 Buena Ventura.
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. ¹⁴ Years 1-2/3-10/11+. ¹⁵ Years 1-5/6-17.
Source: Economics Research Associates.

Table VI-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
1996	Black Horse/Bayonet	5% ³	5%	5%	5%	5%	5%	5%	T	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 G	1.0	15
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
2001	Metropolitan	15%	18%	20%	23%	25/28% ⁶	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
2007	Oceanside Municipal	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	---	2.0	30

T = Total G = Golf Related
¹ 30% driving range. ² Declines to 2% in Year 6+. ³ \$11 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 VI-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 – 2006	\$3,500,000	\$3,500,000	\$5,100,000
Base Annual Fee	\$132,000	\$140,000	\$150,000
CPI Adjusted	Yes		Yes
Incentive Structure	1% of 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 – 2006			
Base	\$153,000	\$140,000	\$175,000
Incentive	7,000	105,000	20,000
Total	\$160,000	\$245,000	\$195,000
% of Total Gross Revenue	4.5%	7.0%	3.8%
Reimbursements	None		None
Performance/Other Deposit	---	---	----
No Compete Restrictions	No	No	Yes

**Table VI-4
(continued)**

	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	75,000	---	35,000	---
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	No

**Table VI-4
(Concluded)**

Golf Course	Golf Resort at			SilverRock	Desert Willow	Carlsbad Municipal	Green River
	Indian Wells	Indian Wells	Upscale Municipal				
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		X
Golf Operation	X	X	X	X	X		X
Food and Beverage	X	X	X	X	X		X
Annual Compensation – 2006							
Base	\$120,000	\$90,000	\$300,000	\$150,000 ³	\$165,000		
Incentive	60,000 ¹	---	115,000	50,000	---		
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		None
Performance/Other Deposit	None	\$25,000	None	None	None		None
Non Compete Restrictions	None	None	2 years	None	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 VI-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)	5	5	5	NA	5
Initial	---	1 / 5-year	1 / 5-year	2 / 5-year	1 / 5-year
Options	City	City	City	Lessee	City
Discretion					
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,				total course gross revenue
	\$3 / round, above 69,999				

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 VI-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.

Source: Economics Research Associates.

SECTION VII: GOLF COURSE FINANCIAL PROJECTIONS

INTRODUCTION

The following section presents financial projections for Palo Alto Muni under alternative operating formats. The analysis treats the food and beverage operation separately from golf operations and maintenance. The projections of financial performance assume that a modest portion of the remaining master plan capital improvements are completed, but that the more costly element of the plan involving raising the elevation of the course are deferred. Operating revenues for the facility are projected, and the net operating income accruing to the operator and to the City of Palo Alto under each of the operating options is projected.

CAPITAL IMPROVEMENTS

The highest priority capital improvements needed for the golf course to remain competitive in the marketplace are summarized in Table VII-1. The "hard" cost of improvements totals \$1.72 million, of which about \$600,000 is attributed to driving range improvements, \$870,000 to golf course improvements, \$150,000 to golf cart storage, and \$100,000 to maintenance yard upgrades. An allowance of 20 percent is added, yielding a total of just over \$2 million. The total does not include any capital improvements for the clubhouse facilities.

The \$870,000 allowance for golf course improvements addresses primarily original greens and bunkers which require rebuilding. Completion of the full master plan improvements would likely cost \$4 to \$5 million, or more, and is not considered to be cost-effective at this time.

As noted in Section III of the report, there are ongoing studies by the San Francisquito Creek Joint Power Authority/U.S. Army Corps of Engineers to evaluate options for regional flood control. Some of the alternative programs being considered for mitigation of flooding events may involve disruption/improvements affecting the golf course. As such, commitment to a major capital improvement program at Palo Alto Muni must consider the potential outcome of these ongoing studies.

Cart Storage

As noted, cart rental revenue at Palo Alto Muni is well below average largely due to the small electric golf cart fleet which is, in turn, attributed to the limited indoor cart storage capacity. The concept of constructing a small storage facility on the back side of the restaurant for 25 electric carts has been suggested. The turnkey cost of a facility of approximately 2,000 square feet (80 square feet per cart) is estimated at \$150,000 (\$75 per square foot).

With 60 electric carts (which compares with 34 electric and 15 old gas powered carts presently), cart rental revenue is projected as follows:

	<u>Current</u>	<u>Projected</u>
Cart Inventory		
Electric	34	60
Gas	<u>15</u>	<u>---</u>
Total	49	60
Annual Rounds	76,241	80,000
Utilization	38%	45%
Average Rate	\$10.75	\$10.75
Annual Gross Revenue	\$311,300	\$387,000
City Share (60%)	\$186,800	\$232,200

Assuming the City funds the cost of the cart storage, the incremental annual revenue accruing to the City represents a direct return of 30 percent on investment.

From the operator perspective, the additional 25 electric carts would generate \$30,000 annually in incremental revenue. The annual expenses related to leasing, maintaining, and renting the carts is estimated at \$1,000 per cart, or \$25,000 per year.

Restaurant Expenses

The existing restaurant has limited meeting space and thus generates only about \$125,000 annually in special event revenue. Accommodating groups of up to 200 to 250 is desirable for special event business. Adding meeting space of 4,000 square feet (15 to 20 square feet per person) would likely cost at least \$1.5 million (\$375 per square foot).

Whether there is sufficient back-of-house infrastructure (kitchen, storage, other) is not clear and would need further investigation. Such improvements to this infrastructure would increase the cost accordingly.

Based on the experience of similar golf course oriented banquet facilities and the demographics of the area, expanding the clubhouse to accommodate special events with up to 250 attendees would add \$600,000 to \$700,000 in annual special event revenue, resulting in \$50,000 to \$75,000 in additional annual rent to the City.

This rental income would justify about one-half of the cost of the improvements. Thus, to justify the clubhouse expansion would require an additional 2,000 to 3,000 rounds of golf at \$30 to \$40 per round directly attributable to the clubhouse. This magnitude of improvement does not appear unreasonable. Nonetheless, clubhouse improvements remain a low priority for the facility.

OPERATING REVENUE

Assuming completion of the capital improvements outlined above, Table VII-2 presents a baseline projection of gross operating revenue and, after deducting direct cost of merchandise and food and beverage sales, net operating revenue. Also shown is net operating revenue excluding the food and beverage function (excludes revenues and cost of sales related to food and beverage operations).

The following assumptions and estimates underlie the projected revenues over a five-year projection period. It is assumed that improvements are completed in by FY 2010, such that the initial year of the projection is FY 2011, the first year following completion of the assumed improvements.

Annual Play

Annual play is projected as follows:

<u>Year</u>	<u>Annual Rounds</u>
Current	76,241
2010	78,000
2011	79,000
2012+	80,000

The average greens fee and ancillary gross revenue per round is estimated as follows:

<u>Revenue Source</u>	<u>Average per Round (constant 2007/2008 dollars)</u>	
	<u>Current</u>	<u>Projected</u>
Greens Fee	\$30.41	\$32.00
Cart Fee	4.08	4.35
Merchandise	8.56	8.00
Food and Beverage – Golfers	5.00	5.00
Other	0.46	0.40
Food and Beverage		
Banquets/Outside Patrons		
Current	\$225,000 per year	
Projected	\$225,000 per year	

Cost of sales related to merchandise and food and beverage operations is presented below:

Merchandise	75%
Food and Beverage	35%

Operating Options

In terms of the golf course operations and maintenance, net operating income from both the operator and the City perspective is evaluated under the current operating structure, a facility lease alternative, and a management agreement alternative. For the current “hybrid” structure and the two basic operating alternatives, the impact of private-provider golf course maintenance is analyzed along with City maintenance.

For analysis purposes, the food and beverage operation is assumed to remain in its current form – that is, a concessionaire structure provided independently of the golf

operations and maintenance function. The current food and beverage agreement calls for rental payments to the City equal to 7 percent of gross revenue, with the concessionaire responsible for utilities and minor maintenance on the food and beverage structure. These terms approximate market levels for similar food and beverage services at golf courses.

PROJECTED NET OPERATING INCOME

Current Structure – Current Terms

Table VII-3 contains projections for the golf operations provider under the current contract terms and conditions:

Lessee Management Fee (paid by the City)	\$322,250 per year
Lessee Rent (paid to the City)	
Golf Cart Rentals	60% of gross revenue
Practice Range	60% of gross revenue
Merchandise	4% of gross revenue

The City receives 100 percent of greens fees, in addition to receiving the rent payments, and is responsible for golf course maintenance.

Under the current terms and conditions, Table VII-4 presents projections of net income accruing to the City. City revenues include 100 percent of greens fees and rental income (60 percent of cart rental and practice range, 4 percent of merchandise, and 7 percent of food and beverage).

The City is responsible for the following:

- **Credit Card Fees** – Based on 1 percent of greens fees, and .6 percent of cart fees, practice range gross revenue.
- **Golf Course Maintenance** – With City employees, at \$1,562,000 per year.
- **Contract Services/Other** - \$160,000 per year.
- **Capital Improvement Replacement Reserve** – 3 percent of total City revenue, equal to about \$101,000 per year.
- **Management Fee** – Paid by City to operator at \$322,250 per year.

Deducting these expenses yields net income to the City prior to debt service (existing and new) and Citywide overhead (Cost Plan).

Current Structure – Market Terms

An analysis of income accruing to the golf operations concessionaire and the City under the current operating structure, but at conventional market terms for the golf operator concession, is presented. It should be noted that the structure of a traditional golf operations concession agreement is most likely in violation of the terms and conditions of the existing Palo Alto Muni golf course debt.

Table VII-5 presents projections for the golf operations concessionaire under market rate terms and conditions. The golf operations concession terms are summarized as follows (note that 100 percent of the greens fees flow to the City):

Term	5 years
Capital Requirements	None
Minimum Rent	\$180,000 per year
Percentage Rent (greater of minimum or percentage rent)	
Carts	25%
Range	25%
Merchandise	5%
Other	5%

The analysis is conducted assuming City golf course maintenance. The food and beverage operation is considered to remain independent of the golf operations under current terms and conditions.

Net income accruing to the City under this structure and market rate terms is projected in Table VII-6. Again, the City receives 100 percent of greens fees and concession rents from the golf operations and food and beverage concessions. The City retains responsibility for golf course maintenance, existing debt service, and the capital improvement replacement reserve fund. Net income is shown before any allocation of Citywide overhead (Cost Plan charges).

The projections of revenues and expenses reflect a 3 percent average annual rate of inflation assumption. However, based on expectations and contractual commitments, some revenues/expenses are escalated at different rates. In particular, City of Palo Alto employee payroll and benefits are escalated based on the following factors provided by the City:

Fiscal Year	Percentage Change
2008	3.42%
2009	5.32%
2010	3.59%
2011	4.66%
2012	3.16%
2013	3.13%
2014	3.60%

Facility Lease

Projected income to the lessee and the City of Palo Alto have been prepared under a facility lease. As will be noted, such a lease would be in conflict with the restrictions related to existing Palo Alto Muni course debt imposed through IRS regulations governing tax-exempt public debt. The basic analysis parameters are as follows:

Lease Term	25 years
Lessee Capital Requirements	\$2.064 million
Minimum Rent	\$750,000
Percentage Rent (greater of minimum or percentage rent)	
Greens, Carts, Range	25% of gross revenue
Merchandise	5% of gross revenue
Food and Beverage	7% of gross revenue
Other	5% of gross revenue
Capital improvement Replacement Reserve	3% of gross, excl. F&B

The projections assume golf course maintenance is provided by the lessee (private provider).

Net income related to the lessee is presented in Table VII-7. The lessee receives all revenues and is responsible for all expenses, including rent paid to the City and funding a capital improvement replacement reserve.

Table VII-8 contains projections of net income accruing to the City. The City receives rent based on a percentage of gross revenue from the various departments. City expenses are limited to existing debt service (analysis assumes lessee funds new capital improvements). Again, net income accruing to the City is expressed before allocations for Citywide overhead (Cost Plan charges).

Management Agreement

Projected income to the City under a management agreement between the City and a professional management company/director of golf also is prepared. Such a structure is compatible with the terms and conditions of Palo Alto Muni's existing debt. The analysis is based on golf course maintenance provided by the private manager. The food and beverage is assumed to be operated independently under the current terms of the agreement. A fixed, or guaranteed, management fee of \$150,000 is assumed, with an incentive fee of \$50,000 earned.

Table VII-9 contains net income accruing to the City under the management agreement. The City receives all revenues and is responsible for all operating expenses, existing and new, debt service, the management fee, and funding the capital improvement replacement reserve. City net income is presented before any allocations for Citywide overhead.

SUMMARY OF CITY REVENUE

A summary of the net operating income accruing to the City of Palo Alto under the alternative operating options is presented in Table VII-10. The summary presents annual net income at the stabilized play level, projected in FY 2013, the third year following completion of the improvements. Under the current operating structure, projections are indicated both with and without publicly-provided maintenance. The facility lease and management agreement forms assume a private provider of maintenance.

Stable year net income to the City for FY 2013 under the various alternatives (expressed in constant 2013 dollars) is compared with actual 2007 net income to the City.

	Stable Year City Net Income* (thousands of 2013 dollars)
Actual 2007	\$338
Current Operating Structure – Current Terms	
City Maintenance	328
Private Maintenance	705
Current Operating Structure – Market Terms	
City Maintenance	419
Private Maintenance	796
Facility Lease (Private Maintenance)	491
Management Agreement (Private Maintenance)	694

*Before City overhead (Cost Plan) charges.

The City funded the \$7 million 1998-1999 capital improvements with a tax-exempt bond issue. To maintain the tax-exempt status of the bonds, the IRS requires compliance with several provisions including the form and structure of management. These provisions, in large part, have influenced the current structure. The operating option described as the current structure (market terms) and facility lease would require modification of the current debt structure.

As with most public agencies, the City of Palo Alto assesses a charge to the golf course for Citywide overhead services such as human resources, legal, accounting, budget, management, purchasing, insurance (the City is self-insured), and similar functions. Referenced as the Cost Plan, currently the assessment totals about \$380,000 per year. Deducting this amount from actual 2007 City net income yields \$54,000, before a capital improvement reserve allowance, and negative \$42,000 after a normal reserve allowance for capital improvements.

Clearly, there is a value of the overhead services provided by the City. While it is difficult to precisely determine the value of these overhead services, an estimate based on assigning the cost of these services if provided by a typical owner/ operator can be offered:

Overhead Services	Estimated Annual Expense
On-Site Accounting	\$ 50,000
Audit	25,000
Insurance (liability, general)	40,000
Contract Management	35,000
Other Services*	<u>75,000</u>
Total	\$225,000

*Represents portion of typical professional management fee related to providing human resources, budget, cash management, accounting and reporting systems, and other required overhead services.

The estimated \$225,000 value of overhead services compares with the \$380,000 Cost Plan charge.

The various operating options require different levels of City overhead services. For example, a facility lease or management agreement would reduce Citywide overhead from current levels (e.g., insurance liability would be directly funded by the course). However, since most of the Cost Plan assessment is a fixed City cost, there would be minimal actual savings under these alternative operations, and thus it is reasonable to compare the economic performance of the course under the various options before consideration of the allocation of Citywide overhead.

	<u>Current (\$000)</u>		Facility Lease	Management Agreement
	City	Private		
On-Site Account	\$ 50	\$ 50	\$ 25	\$ 25
Audit	25	25	25	35
Insurance	40	30	20	40
Contract Maintenance	35	60	75	75
Other Services	<u>75</u>	<u>25</u>	<u>25</u>	<u>25</u>
Total	\$225	\$190	\$170	\$200

Table VII-1
RECOMMENDED CAPITAL IMPROVEMENT PROGRAM, PALO ALTO GOLF COURSE
Preliminary Cost Estimates Based on Industry Standards

<u>GOLF COURSE</u>	<u>Summary of Recommended Improvements</u>	<u>Estimated Cost</u>
Practice Putting Green	Reshape green and install new irrigation system	\$50,000
Greens	Install subsurface drainage on 6 greens (1, 2, 6, 9, 12, 14)	360,000
Existing Tee Boxes	Level, expand and rebuild 5 tee boxes (2, 3, 6, 14, 18)	50,000
New Tee Boxes	Build 2 new forward tees on par 5 holes 1 and 9	30,000
Bunkers	Rebuild 30 bunkers and add subsurface drainage	180,000
Cart Paths	Replace cart paths on holes 9, 12 and 18	100,000
Fairways	Improve drainage with sand cap top dressing	- 1/
Golf Course	Allowance for other miscellaneous improvements	<u>100,000</u>
Subtotal Golf Course		\$870,000
Driving Range	Install new artificial turf and netting	\$600,000
Cart Storage	Construct freestanding structure for 25 carts	150,000
Maintenance Yard	Miscellaneous improvements	<u>100,000</u>
Subtotal		\$1,720,000
Softs Costs / Contingency	Allowance for soft costs and contingency @ 20%	<u>344,000</u>
Total		\$2,064,000

1/ ERA recommends that the former practice of treating fairways with a bi-annual sand cap top dressing be reinstated as part of the regular maintenance program (this program was discontinued in 2003)

Source: ERA 2/2008

**Table VII-2
BASE LINE PROJECTION OF NET OPERATING REVENUE, PALO ALTO MUNICIPAL GOLF COURSE**

OPERATING REV. ASSUMPTIONS: 1/	Current:					
	<u>FY 2007</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Annual Inflation Rate	1.03	1.13	1.16	1.19	1.23	1.27
Annual Rounds	76,241	78,000	79,000	80,000	80,000	80,000
Average Greens Fee / Round	\$30.41	\$32.00	\$32.00	\$32.00	\$32.00	\$32.00
Average Cart Fee / Per Round	\$4.08	\$4.83	\$4.83	\$4.83	\$4.83	\$4.83
Avg. Merchandise Sales / Round	\$8.56	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
Avg. Range Rev. / Tee Station, # tees:	26	\$15,604	\$15,000	\$15,000	\$15,000	\$15,000
Other Revenue / Round	\$0.46	\$0.40	\$0.40	\$0.40	\$0.40	\$0.40
F&B, Golfers Per Round	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00
F&B, Banquets / Other	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000	\$225,000
OPERATING REVENUES: 2/						
Greens / Tournament Fees, Play Cards	\$2,318,254	\$2,809,248	\$2,930,622	\$3,056,750	\$3,148,452	\$3,242,906
Cart / Club Rental Fees	311,320	424,021	442,341	461,378	475,220	489,476
Driving Range Revenues	<u>353,691</u>	<u>438,945</u>	<u>452,113</u>	<u>465,677</u>	<u>479,647</u>	<u>494,036</u>
Subtotal, Golf (Greens, Cart & Range)	\$2,983,265	\$3,672,214	\$3,825,076	\$3,983,805	\$4,103,319	\$4,226,419
Merchandise Sales	\$652,819	\$702,312	\$732,655	\$764,187	\$787,113	\$810,727
Other Revenue	34,842	35,116	36,633	38,209	39,356	40,536
Food and Beverage, Golfers	381,205	438,945	457,910	477,617	491,946	506,704
Food and Beverage, Banquets / Other	<u>225,235</u>	<u>253,238</u>	<u>260,835</u>	<u>268,660</u>	<u>276,719</u>	<u>285,021</u>
Gross Operating Revenue	\$4,277,366	\$5,101,824	\$5,313,109	\$5,532,479	\$5,698,453	\$5,869,407
Cost of Sales						
Merchandise 3/	\$489,614	\$526,734	\$549,492	\$573,141	\$590,335	\$608,045
Food and Beverage 3/	<u>212,254</u>	<u>242,264</u>	<u>251,561</u>	<u>261,197</u>	<u>269,033</u>	<u>277,104</u>
Total Cost of Sales	\$701,868	\$768,998	\$801,052	\$834,338	\$859,368	\$885,149
Net Operating Revenue	\$3,575,498	\$4,332,826	\$4,512,056	\$4,698,141	\$4,839,085	\$4,984,258
Net Operating Rev. Excl. F&B	\$3,181,312	\$3,882,907	\$4,044,873	\$4,213,061	\$4,339,453	\$4,469,637

1/ Operating revenue assumptions are shown in constant year 2007 dollars (without inflation)

2/ Amounts are shown in current dollars including an annual inflation rate of three percent

3/ ERA estimate based on industry standards and ERA's local research experience

Source: ERA 2/2008

Table VII-3
**FINANCIAL PROJECTION OF A GOLF CONCESSION AGREEMENT WITH CITY GOLF COURSE MAINTENANCE, PALO ALTO GC
 UNDER CURRENT CONTRACT TERMS AND CONDITIONS**

		<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Annual Inflation Rate	1.03	1.13	1.16	1.19	1.23	1.27
<u>FACILITY GROSS REVENUE:</u>						
		<u>\$2007</u>				
Greens Fees		\$2,809,248	\$2,930,622	\$3,056,750	\$3,148,452	\$3,242,906
Cart and Club Rental Fees		424,021	442,341	461,378	475,220	489,476
Range Revenues		438,945	452,113	465,677	479,647	494,036
Merchandise Sales		702,312	732,655	764,187	787,113	810,727
Food and Beverage		692,183	718,744	746,277	768,665	791,725
<u>GOLF LESSEE REVENUE:</u>						
Cart and Club Rental Fees @ 40%		\$169,608	\$176,936	\$184,551	\$190,088	\$195,790
Range Revenues @ 40%		175,578	180,845	186,271	191,859	197,615
Merchandise Sales @ 96%		674,220	703,349	733,620	755,629	778,297
Other Misc. Revenues 100%		35,116	36,633	38,209	39,356	40,536
Management Fees		<u>362,694</u>	<u>373,574</u>	<u>384,782</u>	<u>396,325</u>	<u>408,215</u>
Lessee Revenues		\$1,417,215	\$1,471,338	\$1,527,433	\$1,573,256	\$1,620,454
<u>LESSEE EXPENSES:</u>						
Merchandise Cost of Sales @ 75%		\$526,734	\$549,492	\$573,141	\$590,335	\$608,045
<u>Golf Operations</u>						
Labor Including Benefits		\$281,375	\$289,816	\$298,511	\$307,466	\$316,690
Services and Supplies		39,393	40,574	41,792	43,045	44,337
Cart Leasing		54,024	55,645	57,314	59,033	60,804
Utilities		33,765	34,778	35,821	36,896	38,003
Driving Range Supplies		<u>84,413</u>	<u>86,945</u>	<u>89,553</u>	<u>92,240</u>	<u>95,007</u>
Subtotal, Golf Operations		\$438,000	\$507,758	\$522,991	\$538,681	\$554,841
<u>General and Administrative</u>						
Payroll Including Benefits		\$112,550	\$115,927	\$119,404	\$122,986	\$126,676
Marketing		13,506	13,911	14,329	14,758	15,201
Property Taxes		11,255	11,593	11,940	12,299	12,668
Services and Supplies		28,138	28,982	29,851	30,747	31,669
Insurance		10,000	11,255	11,940	12,299	12,668
Undistributed Clubhouse		40,000	46,371	47,762	49,195	50,670
Credit Card Fees 1/	1.5%	<u>14,415</u>	<u>16,357</u>	<u>17,025</u>	<u>17,536</u>	<u>18,062</u>
Subtotal, G&A		\$237,436	\$244,732	\$252,252	\$259,819	\$267,614
Total Lessee Expenses		\$1,257,139	\$1,301,981	\$1,348,383	\$1,388,835	\$1,430,500
LESSEE NET OPERATING INCOME		\$160,076	\$169,357	\$179,050	\$184,421	\$189,954

1/ Based on 1.5 percent of golf lessee revenue for carts and range and 100 percent of merchandise sales
 Source: ERA 2/2008

Table VII-4
**PROJECTION OF NET RENTAL INCOME TO THE CITY OF PALO ALTO, GOLF CONCESSION WITH CITY MAINTENANCE
 UNDER CURRENT CONTRACT TERMS AND CONDITIONS**

<u>CITY REVENUE:</u>		<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Greens Fee Revenue @	100%	\$2,809,248	\$2,930,622	\$3,056,750	\$3,148,452	\$3,242,906
Cart / Club Rental Income @	60%	254,413	265,404	276,827	285,132	293,686
Driving Range Rental Income @	60%	263,367	271,268	279,406	287,788	296,422
Merchandise Rental Income @	4%	28,092	29,306	30,567	31,485	32,429
Food and Beverage Rent @	7%	<u>48,453</u>	<u>50,312</u>	<u>52,239</u>	<u>53,807</u>	<u>55,421</u>
Total Revenue		\$3,403,573	\$3,546,913	\$3,695,790	\$3,806,663	\$3,920,863
<u>CITY EXPENSES:</u>						
Credit Card Fees @ 1/	1.0%	\$33,270	\$34,673	\$36,130	\$37,214	\$38,330
<u>Golf Course Maint. Expenses</u>	<u>\$2007</u>					
Labor Including Benefits	\$870,000	\$1,027,383	\$1,059,848	\$1,093,022	\$1,132,370	\$1,181,175
ARC Benefits	32,100	36,129	37,212	38,329	39,479	40,663
Water Costs / Pumping	300,000	337,650	347,780	358,213	368,959	380,028
Equipment Leasing	100,000	112,550	115,927	119,404	122,986	126,676
Services and Supplies 2/	<u>260,000</u>	<u>292,630</u>	<u>301,409</u>	<u>310,451</u>	<u>319,765</u>	<u>329,358</u>
Subtotal, Course Maintenance	\$1,562,100	\$1,806,342	\$1,862,176	\$1,919,419	\$1,983,559	\$2,057,900
Contract Services / Other	\$160,000	\$180,080	\$185,482	\$191,047	\$196,778	\$202,682
Replacement Reserve @ 3/	3%	110,166	114,752	119,514	123,100	126,793
Management Fees	322,251	<u>362,694</u>	<u>373,574</u>	<u>384,782</u>	<u>396,325</u>	<u>408,215</u>
Total Expenses to City		\$2,492,552	\$2,570,658	\$2,650,891	\$2,736,976	\$2,833,919
City Net Income		\$911,021	\$976,255	\$1,044,899	\$1,069,688	\$1,086,944
New Debt Service 4/		\$158,882	\$158,882	\$158,882	\$158,882	\$158,882
Existing Debt Service		<u>559,539</u>	<u>557,359</u>	<u>558,986</u>	<u>559,109</u>	<u>557,625</u>
Total Debt Service		\$718,421	\$716,241	\$717,868	\$717,991	\$716,507
Net Income After Debt Service		\$192,600	\$260,014	\$327,030	\$351,696	\$370,437

1/ 1.0 percent of greens, cart and range revenues

2/ Including an annual sand cap top dressing program for fairways

3/ Budgeted at 3 percent of revenues from greens fees, cart fees, and driving range fees

4/ 25-year term, interest rate of 6.5%, loan amount: \$2,064,000 annual debt: \$158,882

Source: ERA 2/2008

**Table VII-5
FINANCIAL PROJECTION OF A GOLF CONCESSION AGREEMENT WITH CITY GOLF COURSE MAINTENANCE, PALO ALTO GC
UNDER MARKET RATE TERMS AND CONDITIONS**

		<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Annual Inflation Rate		1.13	1.16	1.19	1.23	1.27
<u>GOLF OPERATOR REVENUE (Excl. Greens Fees):</u>						
Cart and Club Rentals		\$424,021	\$442,341	\$461,378	\$475,220	\$489,476
Driving Range		438,945	452,113	465,677	479,647	494,036
Merchandise Sales		<u>702,312</u>	<u>732,655</u>	<u>764,187</u>	<u>787,113</u>	<u>810,727</u>
Gross Rev. (Excluding Greens Fees)		\$1,565,278	\$1,627,110	\$1,691,242	\$1,741,980	\$1,794,239
<u>Cost of Sales</u>	%					
Merchandise	75%	<u>526,734</u>	<u>549,492</u>	<u>573,141</u>	<u>590,335</u>	<u>608,045</u>
Net Operating Revenue		\$1,038,544	\$1,077,618	\$1,118,102	\$1,151,645	\$1,186,194
<u>OPERATING EXPENSES</u>						
Golf Operations	\$2,008					
Labor Including Benefits	\$250,000	\$281,375	\$289,816	\$298,511	\$307,466	\$316,690
Services and Supplies	25,000	28,138	28,982	29,851	30,747	31,669
Cart Leasing	35,000	39,393	40,574	41,792	43,045	44,337
Utilities	25,000	28,138	28,982	29,851	30,747	31,669
Driving Range Supplies	75,000	<u>84,413</u>	<u>86,945</u>	<u>89,553</u>	<u>92,240</u>	<u>95,007</u>
Subtotal, Golf Operations	\$410,000	\$461,455	\$475,299	\$489,558	\$504,244	\$519,372
<u>General and Administrative</u>						
Payroll Including Benefits	\$100,000	\$112,550	\$115,927	\$119,404	\$122,986	\$126,676
Marketing	12,000	13,506	13,911	14,329	14,758	15,201
Property Taxes	10,000	11,255	11,593	11,940	12,299	12,668
Services and Supplies	25,000	28,138	28,982	29,851	30,747	31,669
Insurance	10,000	11,255	11,593	11,940	12,299	12,668
Undistributed Clubhouse	40,000	45,020	46,371	47,762	49,195	50,670
Credit Card Fees 2/		<u>23,479</u>	<u>24,407</u>	<u>25,369</u>	<u>26,130</u>	<u>26,914</u>
Subtotal, G&A	\$218,541	\$245,203	\$252,782	\$260,595	\$268,413	\$276,465
Total Operating Expenses	\$628,541	\$706,658	\$728,080	\$750,153	\$772,657	\$795,837
NOI Before Rent		\$331,886	\$349,537	\$367,949	\$378,988	\$390,357

1/ Excluding total greens fee revenue which is collected by the City
2/ Budgeted at 1.5 percent of gross revenues for carts, range and merchandise
3/ Budgeted at 3 percent of gross revenues from cart rentals and the driving range
Source: ERA 2/2008

Table VII-6
**PROJECTION OF NET RENTAL INCOME TO THE CITY OF PALO ALTO, GOLF CONCESSION WITH CITY MAINTENANCE
 UNDER MARKET RATE RENT TERMS AND CONDITIONS**

<u>OPERATOR PERSPECTIVE:</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Amount Available For Rent	\$331,886	\$349,537	\$367,949	\$378,988	\$390,357
<u>Rent Calculation:</u>					
Power Cart Rentals @	\$106,005	\$110,585	\$115,345	\$118,805	\$122,369
Driving Range @	109,736	113,028	116,419	119,912	123,509
Merchandise Sales @	35,116	36,633	38,209	39,356	40,536
Golf Lessons / Other @	1,756	1,832	1,910	1,968	2,027
Total Rent Payments	\$252,613	\$262,078	\$271,884	\$280,040	\$288,441
NOI After Rent	\$79,273	\$87,460	\$96,066	\$98,947	\$101,916
<u>CITY PERSPECTIVE:</u>					
<u>Revenues:</u>					
Greens Fees Revenue (100%)	\$2,809,248	\$2,930,622	\$3,056,750	\$3,148,452	\$3,242,906
Less (Credit Card Fees)	14,046	14,653	15,284	15,742	16,215
Net Greens Fee Revenue	\$2,795,202	\$2,915,969	\$3,041,466	\$3,132,710	\$3,226,691
Rental Income F&B	48,453	50,312	52,239	53,807	55,421
Rental Income Golf	252,613	262,078	271,884	280,040	288,441
Total Revenue	\$3,096,267	\$3,228,359	\$3,365,589	\$3,466,557	\$3,570,554
<u>Expenses:</u>					
Golf Course Maintenance	\$2008				
Labor Including Benefits	\$870,000	\$1,059,848	\$1,093,022	\$1,132,370	\$1,181,175
ARC Benefits	\$32,100	37,212	38,329	39,479	40,663
Water Costs / Pumping	\$300,000	347,780	358,213	368,959	380,028
Equipment Leasing	\$100,000	112,550	119,404	122,986	126,676
Services and Supplies 1/	\$260,000	292,630	301,409	319,765	329,358
Subtotal, Course Maintenance	\$1,562,100	\$1,862,176	\$1,919,419	\$1,983,559	\$2,057,900
Contract Services / Other	\$160,000	\$185,482	\$191,047	\$196,778	\$202,682
Replacement Reserve @ 2/	\$101,070	114,732	119,514	123,100	126,793
Total Expenses to City	\$1,823,170	\$2,162,410	\$2,229,980	\$2,303,437	\$2,387,374
City Net Income	\$999,679	\$1,065,949	\$1,135,609	\$1,163,120	\$1,183,179
New Debt Service 3/	\$158,882	\$158,882	\$158,882	\$158,882	\$158,882
Existing Debt Service	59,539	57,359	58,986	59,109	57,625
Total Debt Service	\$718,421	\$716,241	\$717,868	\$717,991	\$716,507
Net Income After Debt, Before Cost Plan	\$281,258	\$349,707	\$417,741	\$445,128	\$466,672

1/ Includes an allowance of \$100,000 for fairway sand cap top dressing program

2/ Budgeted at 3 percent of revenues from greens fees, cart fees, and driving range fees

3/ 25-year term, interest rate of 6.5%, loan amount: \$2,064,000 annual debt: \$158,882

**Table VII-7
FINANCIAL PROJECTION OF A FACILITY LEASE AT THE PALO ALTO GOLF COURSE WITH PRIVATE GOLF COURSE MAINTENANCE**

		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Annual Inflation Rate	1.13	1.16	1.19	1.23	1.27
NET OPERATING REVENUE		\$4,332,826	\$4,512,056	\$4,698,141	\$4,839,085	\$4,984,258
OPERATING EXPENSES						
<u>2008 Dollars</u>						
Golf Course Maintenance						
Labor Including Benefits	\$600,000	\$675,300	\$695,559	\$716,426	\$737,919	\$760,056
Water Costs / Pumping	300,000	337,650	347,780	358,213	368,959	380,028
Equipment Leasing	100,000	112,550	115,927	119,404	122,986	126,676
Services and Supplies 1/	260,000	292,630	301,409	310,451	319,765	329,358
Subtotal, Course Maintenance	\$1,260,000	\$1,418,130	\$1,460,674	\$1,504,494	\$1,549,629	\$1,596,118
Golf Operations						
Labor Including Benefits	\$250,000	\$281,375	\$289,816	\$298,511	\$307,466	\$316,690
Services and Supplies	50,000	56,275	57,963	59,702	61,493	63,338
Cart Leasing	35,000	39,393	40,574	41,792	43,045	44,337
Utilities	25,000	28,138	28,982	29,851	30,747	31,669
Driving Range Supplies	75,000	84,413	86,945	89,553	92,240	95,007
Subtotal, Golf Operations	\$435,000	\$489,593	\$504,280	\$519,409	\$534,991	\$551,041
Food & Beverage Expenses @	45%	\$311,482	\$323,435	\$335,825	\$345,899	\$356,276
General and Administrative						
Payroll Including Benefits	\$150,000	\$168,825	\$173,890	\$179,106	\$184,480	\$190,014
Marketing	30,000	33,765	34,778	35,821	36,896	38,003
Property Taxes	60,000	67,530	69,556	71,643	73,792	76,006
Services and Supplies	75,000	84,413	86,945	89,553	92,240	95,007
Insurance	40,000	45,020	46,371	47,762	49,195	50,670
Credit Card Fees: Greens Fees @	0.5%	14,046	14,653	15,284	15,742	16,215
Card Fees: Cart, Range, Merch. @	1.5%	23,479	24,407	25,369	26,130	26,914
Undistributed Clubhouse	40,000	45,020	46,371	47,762	49,195	50,670
Corp. Overhead Allowance 2/	3%	153,055	159,393	165,974	170,954	176,082
Replacement Reserve @ 3/	3%	110,166	114,752	119,514	123,100	126,793
Subtotal, G&A	\$658,818	\$745,319	\$771,115	\$797,788	\$821,721	\$846,373
Total Operating Expenses	\$2,708,818	\$2,964,524	\$3,059,504	\$3,157,515	\$3,252,241	\$3,349,808
Net Operating Income (NOI)		\$1,368,302	\$1,452,552	\$1,540,626	\$1,586,845	\$1,634,450
Debt Service 4/		185,877	185,877	185,877	185,877	185,877
Total Expenses Before Rent		\$3,150,401	\$3,245,381	\$3,343,393	\$3,438,118	\$3,535,685
Net Income Before Rent		\$1,182,425	\$1,266,675	\$1,354,749	\$1,400,967	\$1,448,573

1/ Includes an annual sand cap top dressing program for fairways budgeted at \$100,000

2/ Budgeted at 3 percent of total gross operating revenue

3/ Budgeted at 3 percent of gross revenues from greens fees, cart rentals, and the driving range

4/ 25-year term, interest rate of 8.5%, amount of loan: \$2,064,000 annual debt service: \$185,877

Source: ERA 2/2008

**Table VII-8
PROJECTION OF NET RENTAL INCOME TO THE CITY OF PALO ALTO, FACILITY LEASE WITH PRIVATE MAINTENANCE**

<u>OPERATOR PERSPECTIVE:</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Amount Available For Rent	\$1,182,425	\$1,266,675	\$1,354,749	\$1,400,967	\$1,448,573
<u>Rent Calculation:</u>	<u>Percent</u>				
Greens Fee Revenue @	\$702,312	\$732,655	\$764,187	\$787,113	\$810,727
Power Cart Rentals @	106,005	110,585	115,345	118,805	122,369
Driving Range @	109,736	113,028	116,419	119,912	123,509
Food and Beverage @	48,453	50,312	52,239	53,807	55,421
Merchandise Sales @	35,116	36,633	38,209	39,356	40,536
Other Revenues @	<u>1,756</u>	<u>1,832</u>	<u>1,910</u>	<u>1,968</u>	<u>2,027</u>
Total Rent Payments	\$1,003,378	\$1,045,046	\$1,088,310	\$1,120,960	\$1,154,589
NOI After Debt Service & Rent	\$179,047	\$221,630	\$266,438	\$280,008	\$293,984
<u>CITY PERSPECTIVE:</u>					
Rent Income	\$1,003,378	\$1,045,046	\$1,088,310	\$1,120,960	\$1,154,589
ARC Benefits	36,129	37,212	38,329	39,479	40,663
Existing Debt Service	<u>559,539</u>	<u>557,359</u>	<u>558,986</u>	<u>559,109</u>	<u>557,625</u>
Net Income After Existing Debt, Before Cost Plan	\$407,710	\$450,474	\$490,996	\$522,372	\$556,301

Source: ERA 2/2008

Table VII-9
FINANCIAL PROJECTION OF A MANAGEMENT CONTRACT AT PALO ALTO GOLF COURSE WITH PRIVATE GOLF COURSE MAINTENANCE

		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
	Inflation Rate	1.13	1.16	1.19	1.23	1.27
NET OP. REV. EXCL. F&B		\$3,882,907	\$4,044,873	\$4,213,061	\$4,339,453	\$4,469,637
Food and Beverage Rent	7%	48,453	50,312	52,239	53,807	55,421
		\$3,931,360	\$4,095,185	\$4,265,301	\$4,393,260	\$4,525,057
OPERATING EXPENSES						
<u>2008 Dollars:</u>						
Golf Course Maintenance		\$600,000	\$675,300	\$716,426	\$737,919	\$760,056
Labor Including Benefits		300,000	347,780	358,213	368,959	380,028
Water Costs / Pumping		100,000	112,527	119,404	122,986	126,676
Equipment Leasing		260,000	292,630	310,451	319,765	329,358
Services and Supplies 1/		\$1,418,130	\$1,460,674	\$1,504,494	\$1,549,629	\$1,596,118
Subtotal		\$2,813,375	\$2,889,816	\$2,985,511	\$3,074,666	\$3,166,690
Golf Operations		50,000	57,963	59,702	61,493	63,338
Labor Including Benefits		35,000	40,574	41,792	43,045	44,337
Services and Supplies		25,000	28,982	29,851	30,747	31,669
Utilities		75,000	86,945	89,553	92,240	95,007
Driving Range Supplies		\$435,000	\$504,280	\$519,409	\$534,991	\$551,041
Subtotal		\$150,000	\$173,890	\$179,106	\$184,480	\$190,014
General and Administrative		30,000	34,778	35,821	36,896	38,003
Payroll and Benefits		40,000	40,000	40,000	40,000	40,000
Marketing		75,000	86,945	89,553	92,240	95,007
Property Taxes		12,886	14,653	15,284	15,742	16,215
Insurance		21,541	24,407	25,369	26,130	26,914
Services and Supplies	0.5%	40,000	46,371	47,762	49,195	50,670
Credit Card Fees: Greens Fees @		150,000	173,890	179,106	184,480	190,014
Card Fees: Cart, Range, Merch. @	1.5%	101,070	114,752	119,514	123,100	126,793
Undistributed Clubhouse		\$620,497	\$709,685	\$731,516	\$752,261	\$773,629
Management Fees		\$2,315,497	\$2,674,639	\$2,755,418	\$2,836,881	\$2,920,787
Replacement Reserve 3/	3%	\$1,335,098	\$1,420,546	\$1,509,882	\$1,556,379	\$1,604,270
Subtotal, G&A		\$50,000	\$57,963	\$59,702	\$61,493	\$63,338
Total Operating Expenses		\$50,000	\$57,963	\$59,702	\$61,493	\$63,338
Net Operating Income		\$36,129	\$37,212	\$38,329	\$39,479	\$40,663
Incentive Management Fees		158,882	158,882	158,882	158,882	158,882
ARC Benefits		559,539	557,339	558,986	559,109	557,625
New Debt Service 4/		\$810,825	\$811,417	\$815,899	\$818,963	\$820,508
Existing Debt Service		\$524,273	\$609,129	\$693,983	\$737,415	\$783,761
Subtotal						
Net Income After Debt, Before Cost Plan						

1/ Includes an allowance of \$100,000 for annual sand cap top dressing program for fairways
 2/ Budgeted at 1 percent of greens fee revenue
 3/ Budgeted at 3 percent of greens fees, cart fees, and driving range revenues
 4/ 25-year term; interest rate of 6.5%, loan amount: \$2,064,000 3/ annual debt service: -\$158,882
 Source: ERA 2/2008

Table VII-10
CITY NET INCOME UNDER ALTERNATIVE OPERATING OPTIONS
STABLE YEAR 2013
 (thousands of constant 2013 dollars)

	Actual 2007	Current Operating Structure						Facility Lease	Management Agreement
		Current Rent		Market Rent		Private	Private		
		City	Private	City	Private				
Revenue									
Greens Fees	\$2,318	\$3,057	\$3,057	\$3,042	\$3,042	\$3,042	\$ 764	\$3,057	
Cart Fees	191	277	277	115	115	115	115	461	
Range	221	279	279	117	117	117	117	466	
Merchandise	27	31	31	38	38	38	38	764	
Food and Beverage Rent	59	52	52	52	52	52	52	52	
Other/Replacement Reserve	35	---	---	2	2	2	122	38	
Total	\$2,851	\$3,696	\$3,696	\$3,366	\$3,366	\$3,366	\$1,208	\$4,838	
Cost of Sales	---	---	---	---	---	---	---	573	
Net Revenue	\$2,851	\$3,696	\$3,696	\$3,366	\$3,366	\$3,366	\$1,208	\$4,265	
Operating Expenses	\$1,521	\$2,146	\$1,731	\$2,110	\$1,695	\$1,695	---	\$2,455	
Debt Services									
Existing	559	559	559	559	559	559	559	559	
New	---	158	158	158	158	158	---	158	
ARC Benefits	---	---	38	---	38	38	38	38	
Replacement Reserve	95 ¹	120	120	120	120	120	120	120	
Management Fee	338	385	385	---	---	---	---	239	
Subtotal	\$2,513	\$3,368	\$2,991	\$2,947	\$2,570	\$2,570	\$ 717	\$3,569	
Net Income ²	\$ 338	\$ 328	\$ 705	\$ 419	\$ 796	\$ 796	\$ 491	\$ 694	

¹ Allowance added by ERA – currently no reserve fund.

² Before Cost Plan assessment.