

Agenda Item: ID 19-1277 (3-E.)

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Supplemental Information Packet

Agenda Related Item(s) – File ID 19-1277 (3-E)

**Contents of Supplement: Review of Operations, Facility Conditions,
and Capital Improvements Riverside Golf Course.**

Item(s)

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Review of Operations, Facility Conditions, and Capital Improvements Riverside Golf Course

Fresno, California

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I. Introduction and Background

The City of Fresno owns the Riverside Municipal Golf Course, an 18-hole regulation length golf course complex providing an affordable, quality golf experience for area residents and visitors. The golf course complex consists of the 18-hole, par 72 course, a 30-tee practice range, 1,200-square-foot pro shop, and a 3,000-square-foot clubhouse which includes a small food and beverage operation. The golf course is leased from the City of Fresno by EBITgolf, Inc. and operated by CourseCo Golf Management.

The golf course originally opened in 1939 and the clubhouse about the same time. As such, despite selective historical capital reinvestment, the golf course faces a series of future capital improvements to remain competitive in the marketplace.

In September 2018, the City of Fresno retained Jetter Consulting, a golf course services consulting group, to evaluate operations, golf course/support facility conditions, and capital improvement requirements related to Riverside Municipal Golf Course. Jetter Consulting was supported by Pro Forma Advisors, a golf course economics consulting firm.

A series of tasks have been completed during the course of this assignment:

- ▶ Inspection of the golf course, infrastructure and support facilities;
- ▶ Interview of the golf course manager and golf course superintendent;
- ▶ Assessment of the existing condition of the golf course/support facility capital improvements;
- ▶ Overview of golf market conditions and trends;
- ▶ Formulation of capital improvement plan, including potential funding sources;
- ▶ Preparation of financial projections reflecting capital improvement plans, along with supportable rent structure.

Following this introduction is a summary of findings. Documentation and analysis supporting these conclusions is contained in subsequent sections of the report.

II. Summary

The principal findings resulting from a review and evaluation of Riverside Golf Course performance and conditions is summarized below. Documentation and analysis of these findings is presented following this summary.

Background

- ▶ Riverside Golf Course is an 18-hole regulation-length golf course, located on the south side of the San Joaquin River in northwest Fresno, California. The course provides a quality, affordable golf experience for community residents and visitors. In addition to the golf course, support facilities include a 1,200-square-foot pro shop, 3,000-square-foot clubhouse, 5,000-square-foot cart storage building, 30-tee station golf practice range, and maintenance complex.
- ▶ The golf course is located in northwest Fresno, just south of the Fresno-Madera County line. The golf course lies on the south side of the San Joaquin River, and is located near the intersection of West Herndon Avenue and North Riverside Drive. Northwest Riverside has experienced substantial growth over the past 10 years, as Fresno's population continues to expand. There has been substantial new housing development immediately south and west of the golf course within the past several years.
- ▶ Golf course irrigation is provided by ground water extracted from an on-site well. There is no cost for the water, other than electrical pumping expenses. This affordable water source represents a significant asset for the golf course.
- ▶ From the City's perspective, Riverside Golf Course is operated as part of an Enterprise Fund. Facility rent is contributed to the fund, with monies used to fund debt service related to the 2009 irrigation system, City expenses and golf course capital improvements. As of July 1, 2018, the fund balance is approximately \$650,000.
- ▶ The golf facility is leased by the City of Fresno to EBITgolf, Inc, with the 30-year lease agreement (including options) expiring in 2019. Current terms call for rent equal to 14 percent of gross golf (greens fees, cart rentals, driving range) gross revenue, 3 percent of food and beverage revenue, 3 percent of merchandise sales, and 3 percent of miscellaneous revenue. In addition, the course operator contributes \$1 per paid round of golf to the Golf Enterprise Fund. In 2017, rent paid to the City totaled slightly more than \$250,000.

Historical Performance

- ▶ In 2017, the golf course generated about 50,000 rounds at an average greens fee of about \$18.00 per round. Gross revenue for 2017 totaled just less than \$2.0 million, consisting of \$1.4 million in golf (greens, carts and range) revenue, \$205,000 in merchandise, and \$292,000 in food and beverage revenue. Annual

play and gross revenue for 2018, based on year-to-date activity, will be at similar levels to 2017. The revenue profile is consistent with golf courses operating in a similar market environment.

- ▶ During golf's peak performance years of the late 1990s, Riverside Golf Course accommodated an average of about 75,000 rounds per year. Thus, current play is down one-third over the past 20 years. It should be noted that Riverside golf play in 2017 was adversely affected by poor weather, and in 2018 due to inadvertent damage to the greens complexes, in addition to increased market competition.
- ▶ In recent years, greens fees at Riverside Golf Course have increased at approximately the rate of general inflation, or an average of about 2 percent annually. The current regular 18-hole rate is \$25 on weekdays and \$31 on weekends, with discounts offered for seniors, juniors, twilight and golfer specials/promotions. Based on a survey of competitive market courses and observed discounting, greens fees appear to be at market levels, such that future increases will likely continue at rates consistent with the general inflation rate.
- ▶ In 2017, the golf course financial performance is reported as follows:

Table II-1: Riverside Golf Course Net Cash Flow (thousands of dollars)			
	2015	2016	2017^{1/}
Gross Revenue	\$2,243.8	\$2,105.9	\$1,933.3
Less: Cost of Sales	<u>308.5</u>	<u>298.9</u>	<u>267.9</u>
Gross Operating Profit	\$1,935.3	\$1,806.9	\$1,665.4
Operating Expenses ^{2/}	<u>1,485.1</u>	<u>1,429.6</u>	<u>1,453.0</u>
Net Operating Income	\$450.2	\$377.3	\$212.4
Less: Rent	<u>301.9</u>	<u>276.6</u>	<u>253.1</u>
Net Cash Flow	\$148.3	\$100.7	(\$40.7)
^{1/} Unusually heavy rainfall year, as well as abnormally hot summer months.			
^{2/} Excludes internal base management fee.			

- ▶ As noted, at the current rent structure, virtually all of the 2017 (and expected 2018) course net operating income is needed to fund the rent obligation, with the operator effectively operating at break-even, before consideration of off-property management/other expenses. Again, performance was negatively impacted by unusually poor weather conditions in 2017, and poor course conditions in 2018.

Golf Market Conditions

- ▶ The regional public golf market, not unlike virtually every golf market in the country, has experienced major challenges over the past 10-15 years due to a variety of factors including unprecedented expansion of the golf course inventory, the major economic downturn commencing in 2008, and more importantly, a sharp fundamental decline in the demand for golf (number of participants and frequency of play). This market softness has affected nearly all segments of the golf market. Previous expectations that the market would improve as the economy strengthened and the baby boom population, where propensity and frequency of play increase sharply with age, expanded significantly, have been unfulfilled.
- ▶ Over the mid- to long-term, the regional golf market is not expected to improve materially despite little, if any, expansion of the supply of courses and continued growth in the 65-75 year old age demographic. Nonetheless, regional golf courses serving the mid-market segment – specifically courses offering a quality golf experience at a relatively affordable fee--have performed relatively better than the higher end golf courses and private clubs in recent years, and should continue to do so going forward.
- ▶ A comparison of Riverside Golf Course with selected other Central Valley municipal golf courses indicates that Riverside is performing reasonably well in a difficult golf market environment, as shown in Table II-2.
- ▶ One of the major challenges facing the golf industry is expected sharp increases in labor costs due to the scheduled increase in the California minimum wage. The minimum wage will increase from \$10 per hour in 2016 to \$15 per hour by 2022, a 50 percent increase. A high percentage of employees at the golf course earn at or near the minimum wage.

Table II-2: Comparative San Joaquin Valley Municipal Golf Course Revenue Performance							
Golf Course	Riverside	Visalia	Ridge Creek	Manteca	Swenson Park	Creekside	Dryden Park
Number of Holes	18	27	18	18	18	18	18
Annual Rounds	49,620	63,870	32,890	51,810	41,880	51,900	32,700
Gross Revenue							
Greens Fees/Passes	\$875	\$1,177	\$770	\$673	\$526	\$798	\$444
Cart Rentals	415	478	204	320	252	262	209
Practice Range	110	137	67	51	49	43	17
Merchandise	205	157	349	112	68	89	61
Food & Beverage	300	442	1,097	60	131	215	136
Other	35	22	3	3	6	2	1
Total	\$1,940	\$2,413	\$2,492	\$1,218	\$1,032	\$1,409	\$868
Revenue/Round							
Greens Fees/Passes	\$17.64	\$18.43	\$23.41	\$12.99	\$12.56	\$15.37	\$13.57
Cart Rentals	8.36	7.48	6.20	6.18	6.02	5.05	6.40
Practice Range	<u>2.22</u>	<u>2.15</u>	<u>2.04</u>	<u>0.98</u>	<u>1.17</u>	<u>0.82</u>	<u>0.50</u>
Subtotal Golf	\$28.22	\$28.06	\$31.65	\$20.15	\$19.75	\$21.24	\$20.47
Merchandise	4.13	2.46	10.61	2.16	1.62	1.71	1.85
Food & Beverage	6.05	6.92	33.35	14.48 ^{3/}	3.12	4.15	4.15
Other	<u>0.71</u>	<u>0.34</u>	0.09	<u>0.06</u>	<u>0.14</u>	<u>0.04</u>	<u>0.02</u>
Total	\$39.10	\$37.78	\$75.76	\$36.85	\$24.64	\$27.14	\$26.49

Course Conditions/Capital Improvements

- ▶ Riverside golf Course has benefited from a series of important capital improvements completed over the past 20 years, including a new irrigation system, new concrete cart path network, and improvements/renovations to several greens complexes, about one-half the course bunkers, and a number of tee complexes. In total, over \$3 million has been expended over this 20-year period.
- ▶ Nonetheless, there are a number of capital improvements required over the next 20-year term:

Improvement	2019-2023	2024-2028	2029-2033	2034-2038	Total
Tees	\$25	---	---	\$125	\$150
Greens	200	60	60	60	380
Bunkers	140	---	---	110	250
Trees	45	45	45	45	180
Driving Range	---	---	100	---	100
Irrigation	15	15	25	200	255
Cart Paths	0	10	10	10	30
On-Course Restrooms	20	---	---	20	40
Maintenance Facility	10	10	10	10	40
Clubhouse	20	20	20	20	80
Pro Shop	10	10	10	10	40
Parking Lot	35	---	35	---	70
Miscellaneous	15	15	15	15	60
Total	\$535	\$185	\$330	\$625	\$1,675

- ▶ Over the next approximately 20-year period, capital improvement requirements at Riverside Golf Course total an estimated \$1.68 million, expressed in constant 2018 dollars. In current (inflated) dollars, the total over the 20-year period is estimated at about \$2.1 million, assuming modest inflation averaging 2 percent annually over this period.
- ▶ It is important to point out that at the conclusion of the 20-year period, the golf course will be facing future capital needs as much of the golf course features/infrastructure will be aging. In particular, over the subsequent 20 years, the irrigation system may need reinvestment as well as greens, tees and bunkers. At the same time, the debt on the course will have been fully amortized, thus freeing up funds for reinvestment in the course.

- ▶ The future capital improvement estimates include nominal funds for the clubhouse and pro shop structures. While these may be sufficient for the buildings to remain serviceable over the next 20 years, it is likely that at that point, significant reinvestment in these will be needed. Such investment funds would be in addition to the estimates provided, although it is also recognized that the incremental revenue stream from new structures may support much of their development cost. This also applies to the maintenance facility, which is only superficially addressed during the 20-year planning horizon.

Financial Projections/Supportable Rent

- ▶ Based on a series of factors and assumptions, a 10-year pro forma financial analysis of the golf course has been prepared from the operator's perspective. The projections reflect modest improvement of the golf product at Riverside, which is expected to translate into some revenue increases. The pro forma analysis also incorporates the impact of extraordinary cost increases such as the implementation of the California Minimum Wage legislation.

Table II-4: Riverside Golf Course 10-Year Operating Projections										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Annual Rounds	52,000	53,000	54,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000
Gross Revenue	\$2,030	\$2,109	\$2,190	\$2,274	\$2,319	\$2,365	\$2,413	\$2,461	\$2,510	\$2,560
Cost of Sales	255	265	275	286	292	298	304	310	316	322
Gross Profit	\$1,775	\$1,844	\$1,915	\$1,988	\$2,027	\$2,068	\$2,109	\$2,151	\$2,195	\$2,238
Operating Expenses	1,535	1,603	1,675	1,751	1,786	1,822	1,858	1,895	1,933	1,972
Net Oper Income	\$240	\$241	\$240	\$237	\$241	\$246	\$251	\$256	\$260	\$266

- ▶ With modest improvement in rounds/revenues, over the next ten years, the golf course will produce about \$240,000-\$265,000 annually in net operating income before rent, a standard internal management fee, and funding of a capital improvement reserve. Allowances for replacement/leasing of a cart fleet and maintenance equipment are included as expense items.
- ▶ The distribution between operator compensation and rent/capital improvement contributions varies among courses depending on lessee funded capital investment, reasonable management fees to fund off-property management services, and lessee risk level. In this instance, the operator (lessee) is not expected to contribute additional capital investment, and a normal management fee would typically be in the \$80,000-\$100,000 range per year. Factoring in a modest risk premium for the operator, and based on the experience of other courses, annual rent/capital contribution on the order of \$100,000 per year, escalating at the cost of living would appear to be reasonable. It may be appropriate to have additional percentage rents if revenues exceed projected levels in order to allow the City to participate in upside revenues. For

example, if revenues from golf (greens fees, carts and range) exceed \$1.5 million per year (indexed with inflation), then 10-20 percent of the incremental gross revenue above this threshold would be due as additional rent to the City.

- ▶ Based on the pro forma projections, the City would receive \$100,000 per year, while the operator would retain about \$140,000 annually. The operator's share represents compensation for normal off-property management services and operating risk.

Golf Enterprise Fund

- ▶ From the perspective of the Golf Enterprise Fund, net cash flow over the next 20 years is projected in Table II-5.
- ▶ The table shows additions to the Enterprise Fund Balance for City rent receipts. Deductions include debt service, annual PERS liability and capital improvement expenditures. To the extent that obligations exceed rent revenue, and there are insufficient funds in the Golf Enterprise Fund, General Fund subsidies would be required. Note that the debt related to prior golf course capital improvements is fully amortized by 2034, thus freeing-up about \$155,000 per year.
- ▶ As indicated, there is a current Enterprise Fund Balance estimated at approximately \$650,000. Projected annual deficits, however, requires the Fund Balance to be drawn down, resulting in full depletion by 2022, when a \$127,000 General Fund subsidy is required. For the balance of the projection period, an annual General Fund subsidy of about \$125,000 per year is projected. Over the 20-year period, General Fund requirements are projected at slightly more than \$2.0 million.



Summary

Table II-5: City of Fresno Golf Enterprise Fund Projections (thousands of dollars)							
Year	Begin Fund Balance	Add: Rent	Less: Debt Service	Less: PERS Liability	Less: Capital Improvements	Add: General Fund Subsidy	End Fund Balance
2019	\$650	\$100	(\$155)	(\$31)	(\$107)	---	\$457
2020	457	102	(155)	(32)	(109)	---	263
2021	263	104	(155)	(32)	(111)	---	69
2022	69	106	(155)	(33)	(114)	127	0
2023	0	108	(155)	(34)	(116)	197	0
2024	0	110	(155)	(34)	(41)	120	0
2025	0	113	(155)	(35)	(42)	119	0
2026	0	115	(155)	(36)	(43)	119	0
2027	0	117	(155)	(36)	(43)	117	0
2028	0	120	(155)	(37)	(44)	116	0
2029	0	122	(155)	(38)	(80)	151	0
2030	0	124	(155)	(39)	(82)	152	0
2031	0	127	(155)	(39)	(84)	151	0
2032	0	129	(155)	(40)	(85)	151	0
2033	0	132	(155)	(41)	(87)	151	0
2024	0	135	---	(42)	(168)	75	0
2035	0	137	---	(43)	(172)	78	0
2036	0	140	---	(43)	(175)	78	0
2037	0	143	---	(44)	(179)	80	0
2038	0	146	---	(45)	(182)	81	0

III. Riverside Golf Course

A brief description of the facility and a review of the operating history at the golf course is presented below

Golf Course

Riverside Golf Course is an 18-hole, regulation-length municipal golf course owned by the City of Fresno and operated under a lease agreement with EBITgolf, Inc (the course is operated by CourseCo, a professional golf course management company). The course was designed by William Bell, Sr., a prominent California golf course architect, opening in 1939 as a WPA project. The course is designed as a parkland style layout located on the south side of the San Joaquin River in northwest Fresno, California (see aerial photograph in Figure III-1).

There are four sets of tees on the par-72 course:

Tee	Distance (yards)	Rating	Slope
Blue	6,674	71.5	127
White	6,435	70.5	125
Red	5,776	67.7/73.1*	120/127*
Gold	5,427	66.3/71.0*	116/122*
* Men's /Women's			

The golf course practice range features 30 tee stations. The range is lighted for night usage.

Existing Clubhouse and Support Facilities

The golf course is operated from a small (1,200-square-foot) freestanding pro shop. A separate clubhouse building of approximately 3,000 square feet houses a small food and beverage operation (1,500 square feet), restrooms, and administrative offices. Restaurant seating for about 50 is provided. The structure was constructed circa 1939, and is in fair condition. The building is situated on a site overlooking the San Joaquin River. Cart storage for 80 carts is contained in a relatively new 5,000-square-foot metal building which is located immediately west of the pro shop. The golf course parking lot contains 145 parking spaces, generally sufficient for servicing golf course needs.

Capital Improvements

A substantial amount of investment has been committed to improve the golf course over the past 10-20 years. In particular, a new golf course irrigation system, continuous concrete cart path system, and other on-course improvements totaling over \$2.5 million have been completed since 2007.



Figure III-1 Riverside Golf Course Aerial Photo



Riverside Golf Course

Due in part to these improvements and ongoing maintenance, golf course conditions historically have been very good. However, in 2018 the golf course greens were severely damaged due to the inadvertent introduction of a Bermuda grass variety. This condition adversely impacted play in 2018. Much of the problem has been rectified, with full recovery anticipated over the next two years.

Although the golf course and some of the support facilities are in good condition, notwithstanding the temporary issue with the greens, the existing pro shop and clubhouse buildings are aged and at some point will need to be addressed.

Location

Riverside Golf Course is located in northwest Fresno, just south of the Fresno-Madera County line. The golf course lies on the south side of the San Joaquin River, and is located near the intersection of West Herndon Avenue and North Riverside Drive. The course is approximately one-half mile east of State Highway 99, with access from Herndon Avenue. A regional map is presented in Figure III-2. Herndon Avenue is a primary east-west arterial serving the north Fresno area.

Northwest Riverside has experienced substantial growth over the past 10 years, as Fresno's population continues to expand. There has been substantial new housing development immediately south and west of the golf course within the past several years.

As noted the golf course is situated on the south side of the San Joaquin River. The existing clubhouse site is on a bluff overlooking the river the north, featuring panoramic views of the river and open space. This parcel is designated as the site for the new clubhouse.

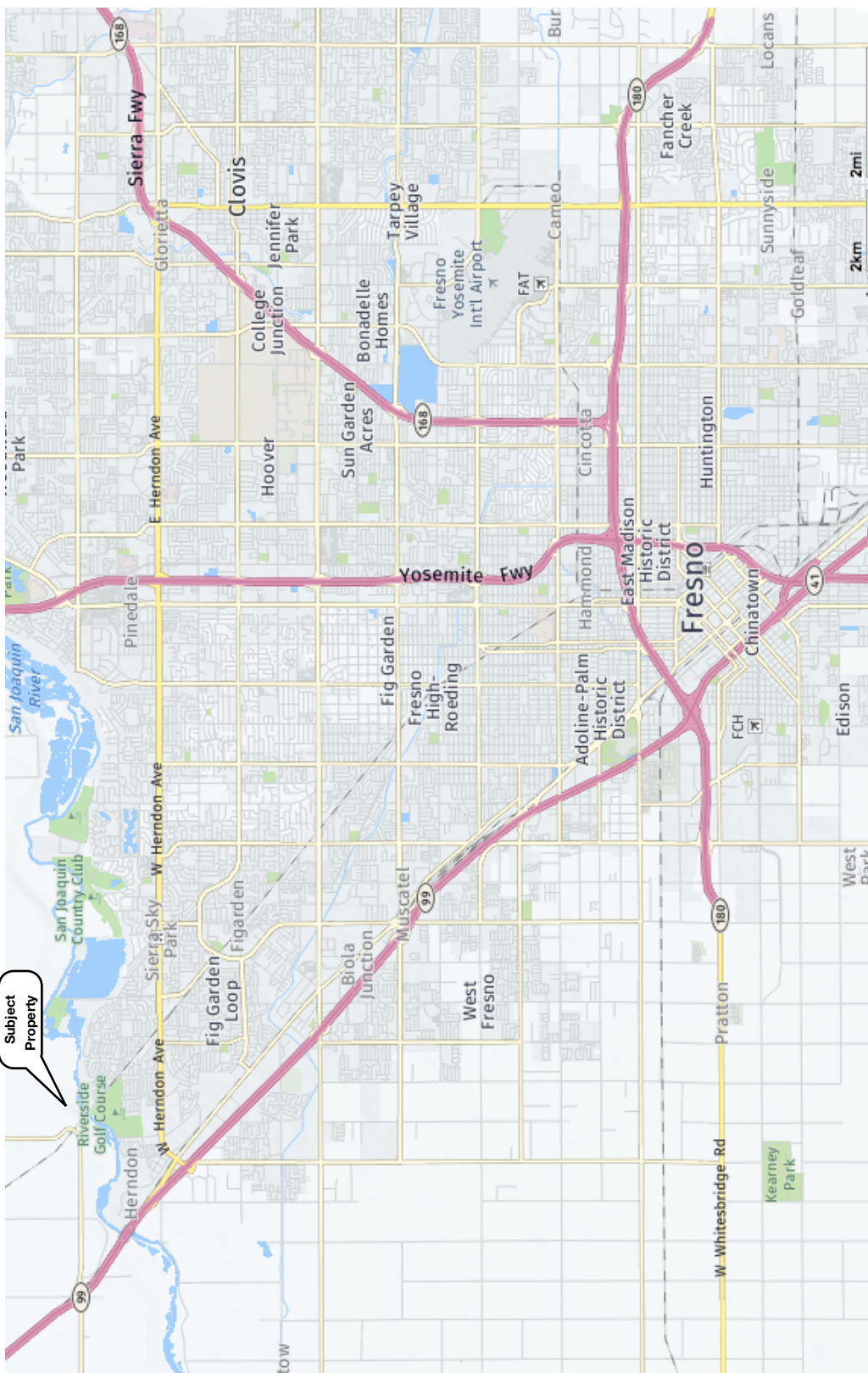


Figure III-2 Riverside Golf Course Regional Location



Riverside Golf Course

Operating History

The Central Valley, like virtually every major golf market in the country, has softened considerably since 2001. The softness, which has adversely impacted all segments of the golf market and performance of essentially all individual courses, has resulted from unprecedented expansion of the golf course supply over the 1995-2000 period coupled with stagnating golf demand, exacerbated by the effects of the pronounced 2008-2009 national and regional economic downturn.

Annual Play

The trend in annual rounds at Riverside Golf Course for the 1995-2018 period is shown in Table III-1. While play at the golf course has declined sharply from peak levels in the late 1990s, the golf course has performed reasonably well compared with most public access courses in the Central Valley. Until the past two years, where unusual weather and poor condition of the greens affected play, the course consistently accommodated 55,000 rounds per year.

Table III-1: Riverside Golf Course Annual Play			
Year	Annual Rounds	Year	Annual Rounds
1995	74.2	2007	52.7
1996	75.3	2008	40.8*
1997	79.0	2009	54.0
1998	73.7	2010	50.1
1999	70.7	2011	53.6
2000	72.7	2012	55.8
2001	70.1	2013	60.4
2002	68.6	2014	60.4
2003	68.5	2015	60.3
2004	64.6	2016	55.0
2005	61.0	2017	49.6
2006	57.9	2018	49.0**
<p>* During the 2008 period, play was significantly disrupted due to installation of a new irrigation system and cart path network.</p> <p>** Projected based on actual play through August 2018.</p>			



Riverside Golf Course

As noted, play has declined sharply over the past two years due to increased competitive market conditions, unusually poor weather in 2017 (winter rains and hot summer temperatures), and the damage to the greens in 2018.

Annual rounds by type and month for 2017 are shown in Table III-2. Again, poor winter weather, and hot summer weather, affected play levels during parts of the year.

Month	Regular 18-Hole	Annual Passes	Play Card	Senior	Discount 18-Hole	Junior	Tournament	Employ/Comp	Twilight	Super Twilight	Total
January	646	342	24	533	538	167	5	95	120	213	2,683
February	667	316	58	515	352	240	140	88	170	259	2,805
March	1,070	481	112	1,102	694	258	22	190	168	437	4,534
April	1,352	456	106	842	224	480	495	173	393	553	5,074
May	1,037	440	134	1,137	367	244	596	233	374	753	5,315
June	1,184	451	203	889	506	140	299	169	234	627	4,702
July	1,288	485	210	869	717	137	98	170	94	578	4,646
August	1,001	403	128	785	980	127	164	128	76	581	4,373
Sept	812	448	127	668	944	213	357	123	57	448	4,197
October	728	419	135	936	404	232	535	124	188	484	4,185
Nov	822	434	174	682	888	77	68	180	92	356	3,773
Dec	584	476	143	452	1,126	58	253	181	20	344	3,637
Total	11,191	5,151	1,554	9,410	7,740	2,373	3,032	1,854	1,986	5,633	49,924
Percent	22.4%	10.3%	3.1%	18.8%	15.5%	4.8%	6.1%	3.7%	4.0%	11.3%	100.0%

Source: CourseCo Golf Management.



Riverside Golf Course

Golf tournament play in recent years has represented approximately 5.0 percent of total play, equal to an average of about 3,200 rounds annually.

Table III-3: Riverside Golf Course Tournament Play	
Year	Rounds
2006	2,621
2007	2,880
2008	1,560
2009	2,422
2010	2,796
2011	3,025
2012	3,061
2013	3,162
2014	3,382
2015	3,768
2016	3,280
2017	3,032

Tournaments are defined as group bookings with more than 20 players, with golfers assessed an additional tournament fee of \$5 to \$7. Individual tournaments range from 20 to 144 golfers, with most having 50 to 60 golfers.

Table III-4: Riverside Golf Course 2016 Tournament Activity		
Tournament Size (players)	Number of Tournaments	Percent Distribution
Under 40	22	34%
40-80	22	34%
80-100	16	25%
More Than 100	5	8%
Total	65	100%



Riverside Golf Course

Greens Fees

Riverside Golf Course offers City residents and visitors a quality, affordable golf experience. Current greens fees are as follows:

Table III-5: Riverside Golf Course Greens Fees (excluding cart)		
	Weekday	Weekend
Standard 18-Hole	\$25.00	\$31.00
Senior	17.50	17.50 ^{1/}
Twilight/9-Hole	20.00	22.00
Super-Twilight	14.00	14.00
Junior	13.00	13.00
^{1/} After 12:00 on weekends and holidays.		

Monthly play passes (unlimited golf play) are offered at \$125 per month plus a \$2.00 per round capital improvements fund surcharge. Senior passes (weekday play only) are \$46 per month. There are a limited number of golfers who participate in this program.

Recently, Riverside Golf Club offered an annual membership which allows unlimited and unrestricted play for a 12-month period. The annual cost currently is \$1,575 without golf cart, and \$2,275 with golf cart use. The number of members varies from about 60 to 80 at any given time.

Golf carts are optional. The 18-hole cart rental fee is \$14.00 per player. Players participating in tournament events are assessed a “tournament fee which includes greens fees, golf cart, and modest food service for \$55 to \$65 per player.

Revenue

Annual gross revenue by major department over the 2013-2017 period is shown in Table III-6. Total gross revenue was relatively stable through 2016 at approximately \$2.1 to \$2.2 million annually. In 2017, however, gross revenue declined to \$1.93 million due in large part to unusually poor weather conditions. While not shown, gross revenue for 2018 will likely be similar to 2017 levels.



Riverside Golf Course

Table III-6: Riverside Golf Course Gross Revenue (\$000)

Department	2013	2014	2015	2016	2017
Greens Fees	\$994.4	\$939.4	\$915.9	\$845.9	\$751.3
Annual Dues/Player Cards	57.9	93.2	99.9	120.1	123.0
Carts	420.6	415.6	484.4	444.2	416.4
Range	111.6	126.0	124.6	120.5	109.0
Subtotal Golf	\$1,584.5	\$1,574.2	\$1,624.8	\$1,530.7	\$1,399.7
Merchandise	\$215.0	\$236.7	\$232.0	\$209.2	\$205.0
Food & Beverage	326.9	320.6	342.5	324.4	292.6
Instruction	17.7	25.2	25.7	27.1	18.1
Other	15.4	16.8	16.5	14.5	17.9
Total	\$2,159.5	\$2,172.4	\$2,241.6	\$2,105.9	\$1,933.3

Over the 2013-2017 period, food and beverage annual gross revenue at Riverside Golf Club averaged about \$325,000 per year. Food and beverage revenue derives from four sources: same-day golfers, tournament golfers, non-golfer breakfast/lunch business, and non-golf special events. Same-day golfers account for the majority of food and beverage revenue, estimated at 90 percent of the total, or about \$290,000 (\$5.50 per round of golf), excluding tournament play. Each of the other sources represent nominal amounts of annual revenue, not surprising given the very limited food and beverage facilities available. It is important to note that presently, the golf course has a limited “liquor” license which restricts alcoholic beverage sales to beer only.

The average revenue per round in 2017 for each of the major departments is calculated in Table III-7. The average golf play (greens, annual membership dues, and carts) revenue averaged just less than \$30 per revenue round, in-line with similarly positioned public access courses in the region.



Riverside Golf Course

Table III-7: Riverside Golf Course Average Revenue Per Round		
Department	Revenue Per Round	Type of Round
Golf Play		
Daily Fee Play	\$20.73	Paid Rounds
Annual Memberships	<u>12.32</u>	Member Rounds
Golf Play	\$18.91	Revenue Rounds
Carts	9.01	Revenue Rounds
Range	2.36	Revenue Rounds
Merchandise	4.43	Revenue Rounds
Instruction	0.39	Revenue Rounds
Food & Beverage	6.33	Revenue Rounds
Other	0.39	Revenue Rounds
Total	\$41.82	Revenue Rounds

Riverside Golf Course net operating income, from the operator's perspective, is shown over the 2013-2017 period in Table III-8. The table shows "earnings before interest, taxes, depreciation and amortization" (EBITDAR). Importantly, operating expenses do not include a provision for a management fee--essentially compensation for off-property support functions and the expertise provided by the professional firm/individuals involved. Then, rent is deducted yielding "earnings before interest, taxes, depreciation and amortization" (EBITDA), but after rent payments.

Net operating income (EBITDA) accruing to the operator in 2016 totaled \$132,500, declining sharply to a loss of \$40,700 in 2017, a poor weather year where golf play was adversely affected.



Riverside Golf Course

Table III-8: Riverside Golf Course Operating Income
(thousands of dollars)

	2014	2015	2016	2017 ^{6/}
Annual Rounds				
Paid	55,316	56,528	51,520	46,227
Total	60,283	60,283	55,031	49,620
Gross Revenue				
Golf ^{1/}	\$1,574.1	\$1,624.9	\$1,530.7	\$1,399.7
Merchandise	235.7	232.0	209.2	205.0
Food & Beverage	320.6	342.5	324.4	292.6
Other ^{2/}	41.5	44.4	41.6	36.0
Total	\$2,171.9	\$2,243.8	\$2,105.9	\$1,933.3
Less: Cost of Sales	<u>306.2</u>	<u>308.5</u>	<u>298.9</u>	<u>267.9</u>
Gross Profit	\$1,865.7	\$1,935.3	\$1,806.9	\$1,665.4
Less: Operating Expenses^{3/}	<u>1,365.9</u>	<u>1,485.1</u>	<u>1,429.6</u>	<u>1,453.0</u>
EBITDAR^{4/}	\$499.8	\$450.2	\$377.3	\$212.4
Less: Rent^{5/}	<u>281.0</u>	<u>301.9</u>	<u>276.6</u>	<u>253.1</u>
EBITDA^{6/}	\$218.8	\$148.3	\$100.7	(\$40.7)

^{1/} Includes daily fee greens fees, monthly pass revenue, annual pass revenue, cart rentals, and driving range fees.

^{2/} Includes net instruction revenue, club rentals and other miscellaneous revenue.

^{3/} Excludes internal management fee assessed golf course.

^{4/} Earnings before interest, taxes, depreciation, amortization and rent (EBITDAR).

^{5/} Earnings before interest, taxes, depreciation and amortization (EBITDA).

^{6/} Unusually poor weather year (winter rains; summer heat).



IV. Golf Market Overview

The following section presents a review and analysis of the national and regional golf market.

Market Area Demographics

The primary market area served by Riverside Golf Course is generally defined as golfers residing within about a 20- to 30-minute drive time, which broadly corresponds to the area extending from Selma on the south to Madera on the north, and from Kerman on the west to the Sierra Nevada foothills on the east. This approximates about a 30-mile radius area from Riverside Golf Course, and contains a resident population of about 1.2 million, as shown in Table IV-1.

Table IV-1: Summary of Market Area Demographic Characteristics						
	Drive Time (minutes)				Fresno/ Madera MSA	State of California
	0-10	10-20	20-30	Total		
Population (\$000)						
2000	39.0	368.9	278.4	686.3	922.5	33,871.7
2010	54.6	398.3	358.7	811.6	1,081.3	37,333.6
2017	60.6	412.0	391.1	863.7	1,134.6	39,189.0
2022	64.6	425.2	412.2	902.0	1,196.0	41,061.5
Average Annual Growth						
2000-2010	3.42%	0.77%	2.57%	1.69%	1.60%	0.98%
2010-2017	1.50	0.48	1.24	0.89	0.69	0.87
2017-2022	1.29	0.63	1.06	0.87	1.06	0.94
Median Age	34.2	30.6	32.2	31.5	32.0	36.2
Population 65+	12.0%	11.5%	11.6%	11.6%	11.9%	13.3%
Median Household Income	\$70,980	\$40,340	\$57,050	\$48,000	\$48,200	\$64,500
Households > \$100,000	37.8%	18.0%	31.4%	25.5%	25.8%	34.6%

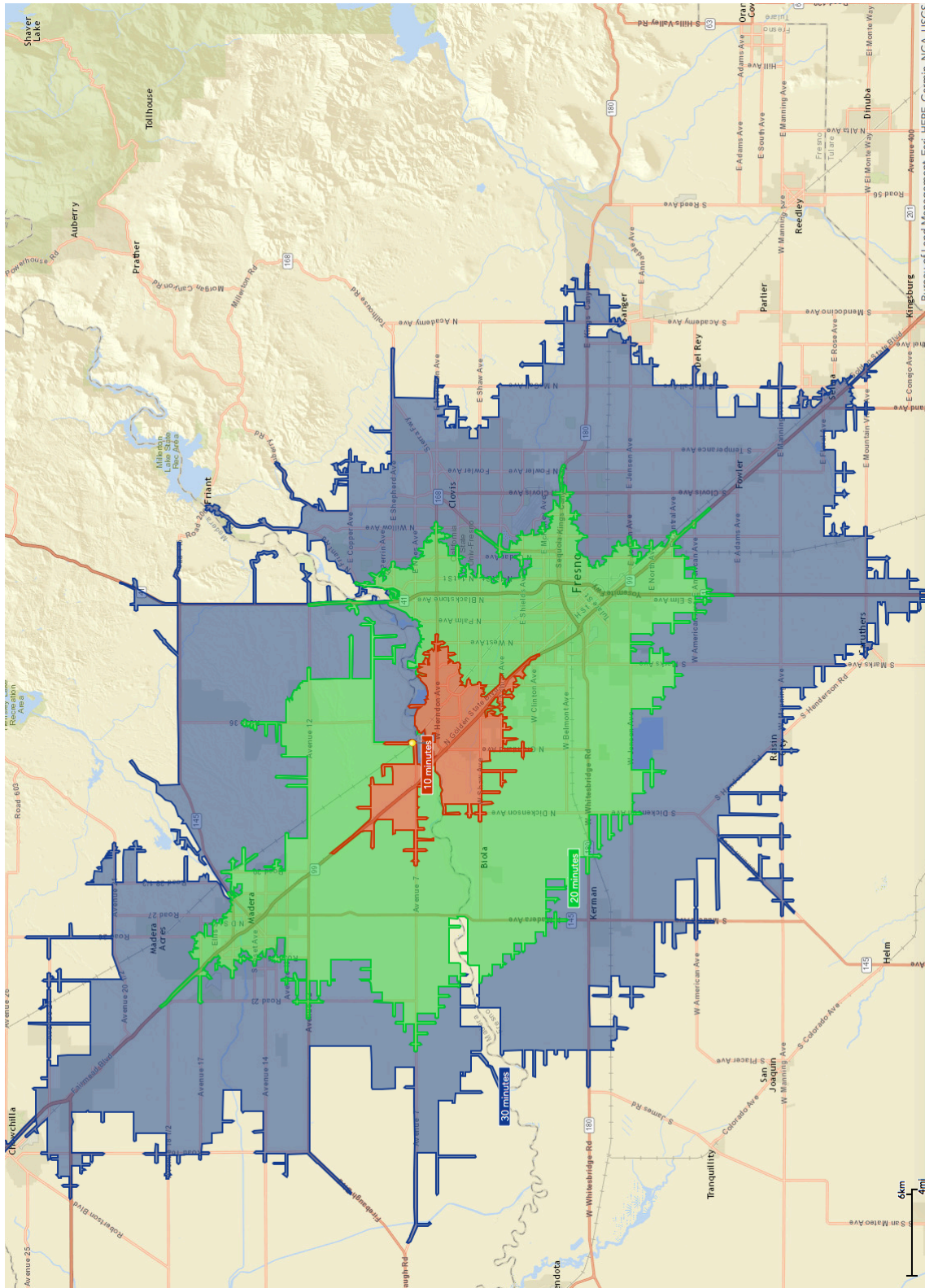


Figure IV-1 Riverside Golf Course Primary Market Area

National Golf Market Overview

Nationwide, golf play increased steadily between the mid-1980s and 2000. As shown in Table IV-2, 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 during this period 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;
- ▶ One of the longest economic expansions in the nation's history.

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 in Table IV-3. Over the 1990-2010 period, the inventory of golf courses in the United States increased by 34 percent, while the U.S. population registered only a 24 percent gain, and golf demand (play) increased only 12 percent over this same period.

Right after the new century started, the first signs of industry problems surfaced, and have persisted for the past 10-15 years. While total golfers and rounds played are down industrywide, most individual golf courses have experienced steeper declines in utilization, along with revenue contraction and falling net operating income, as the market totals are spread over an increased supply of facilities. Further, golf course transaction prices declined precipitously, bankruptcies and foreclosures have become routine, and new golf course construction has virtually ceased while the number of courses closing now well exceeds new openings. The impact of market softness has been widespread and affected all segments of the market and all geographic areas. Importantly, the industry problems go well beyond cyclical trends, as there appear to be fundamental shifts in recreational preferences and other underlying factors affecting long-term demand for golf.

The National Golf Foundation (NGF) reports that since 2001, annual golf play in the United States declined from 518 million to 456 million rounds in 2017, or about 12 percent. Golf ball sales, perhaps a better indicator of demand, declined by about 20-25 percent over the past 15 years. The golf participation rate, after rising steadily through 2003, has fallen precipitously from 12.4 percent in 2004 to a current level estimated at only 7.9 percent. (It should be noted that the golfer participation rate is based on the number of golfers relative to the population over the age of 6 years old). The golf market also was significantly impacted by the 2008 national economic recession. Annual rounds in the U.S., according to industry reports, have declined by about 7 percent since 2007. Other independent sources indicate a more severe contraction, which is borne out by golf ball sales

Table IV-2: Indicators of U.S. Golf Demand (1985-2017)

Year	Rounds (millions)	# of Golfers ¹ (millions)	Participation Rate	Golf Ball Sales ^{2/} (millions of dozens)
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	28.8	11.7	52.2
2001	518	29.5	11.9	50.0
2002	502	29.5	12	46.7
2003	495	30.4	12.4	43.4
2004	499	29.5	11.5	43.4
2005	489	29.3	11.2	43.6
2006	493	29.4	11.2	44.0
2007	490	29.5	11.1	43.5
2008	481	28.6	10.7	42.2
2009	477	27.1	10	40.1
2010	475	26.1	9.6	-- ^{4/}
2011	463	25.7	9.2	-- ^{4/}
2012	490	25.3	9.0	-- ^{4/}
2013	465	24.7	8.9	-- ^{4/}
2014	457	24.7	8.5	-- ^{4/}
2015	465	24.1	8.2	-- ^{4/}
2016	468	23.8	8.0	-- ^{4/}
2017	456	23.8	7.9	-- ^{4/}
Average Annual Growth				
1985-1990	1.8%	9.7%	---	3.1%
1990-1995	1.0%	(2.1)%	---	1.8%
1995-2000	4.3%	2.9%	---	2.6%
Subtotal	2.4%	3.4%	---	2.5%
2000-2005	(1.1%)	0.3%	---	(3.5%)
2005-2010	(1.0%)	(2.3%)	---	(2.1%) ^{3/}
2010-2017	(0.4%)	(1.6%)	---	-- ^{5/}

1/ Represents golfers over 6 years of age. 2/ Estimated by PFA based on "soft goods" sales recorded by Data Tech and golf ball manufacture sales. 3/ For period 2005-2009. 4/ Data for 2010-2017 not available in comparable format.
Source: National Golf Foundation; Golf Data Tech; and Pro Forma Advisors LLC.

Table IV-3: Number of Golf Courses¹ - U.S.

Year	Annual Courses Added	Annual Courses Closed	Total Golf Courses ²	Average Annual Percent Change
1990	---	---	11,105	---
2002	315	15	14,725	2.96%
2006	120	60	14,968	0.8%
2007	115	95	14,988	0.13%
2008	70	105	14,953	(0.23%)
2009	50	100	14,903	(0.33%)
2010	45	110	14,838	(0.44%)
2011	35	140	14,733	(0.71%)
2012	14	155	14,592	(0.96%)
2013	14	157	14,449	(0.98%)
2014	11	174	14,289	(1.13%)
2015	17	177	14,129	(1.12%)
2016	15	211	13,933	(1.39%)
2017	15	206	13,743	(1.36%)
^{1/} 18-hole equivalents. ^{2/} Includes courses added, less courses closed., 2006-2017 Source: National Golf Foundation; and Pro Forma Advisors				

and other market indicators. Revenue contraction in many instances has been more pronounced than the decline in rounds due to intense price competition which has resulted in declining effective golf rates. The combination of lower rounds and a lower average effective rate has substantially adversely impacted revenue at virtually all golf courses, regardless of market positioning.

The decline in the number of golfers nationally is staggering. While the number of golfers has declined by 20 percent over the past 15 years, from over 30 million to under 24 million, the number of core golfers (defined as golfers age 18 and older playing at least 8 rounds per year) has declined 30 percent over this same period. Among the most disturbing statistics is that the largest departing golfer segment is the 18-34 year age group. The decline in the number of golfers in this age cohort does not portend a near term recovery of the golf industry.

Since 2002, the construction of new courses has declined sharply, and the rate at which courses have closed has accelerated. Between 2006 and 2017, for example, the number of courses closed exceeded new course openings. New courses have been added to the inventory since 2006 at an annual rate of 40-50 courses per year, while course closings have averaged about 145 per year over this period. Over 1,500 golf courses have closed over the past 10 years. The rate at which golf courses are closing has accelerated. In 2017, 206 golf courses closed nationwide.

Regional Market Trends

The San Joaquin Valley regional market has very closely mirrored national market trends. Golf demand was strong and increasing during the late 1980s and 1990s, with golf courses in these regions performing well. The strong demand coupled with overall interest in golf, stimulated expansion of the golf course inventory both in the Central Valley, as well as the San Francisco East Bay. Within the central San Joaquin Valley, seven regulation length 18-hole public access courses opened, more than doubling the inventory since 1990.

The regional golf market, not unlike nearly every major golf market in the country, has deteriorated significantly since 2002 due to a combination of declining demand and the increases in supply. These factors have resulted in downward pressure on rounds, rates, and operating margins at virtually all golf courses, regardless of market positioning. The weakness in the golf market, combined with sharply rising costs, has also contributed to numerous course closings, including some in the Central Valley. As shown in Table IV-4, since 2002, there have been approximately 135 golf facilities closed in the State of California. Significantly, one-half of these (68 facilities) have closed over the past five years. While there often are a number of factors underlying the decision to close a golf course, the golf market deterioration is a major force influencing this trend.

Table IV-4: Closed California Golf Facilities--2002-2017

Year	Number of Facilities	Number of Courses*
2002	2	1.5
2003	4	3.0
2004	5	3.5
2005	6	4.5
2006	10	6.5
2007	8	5.0
2008	8	5.5
2009	7	5.0
2010	6	4.0
2011	8	5.0
2012	3	3.0
2013	13	8.5
2014	10	8.0
2015	17	12.5
2016	16	14.5
2017	13	11.5
Total	136	101.5

* Expressed as 18-hole equivalents.

Within about 35 miles of Riverside Golf Course, there are seven regulation length 18-hole public courses, and two 9-hole executive length courses:

Table IV-5: Local Area Public Access Golf Courses				
Course/Location	Course Type	Number of Holes	Year Opened	Distance from Riverside (miles)
Riverside Golf Course, Fresno	Regulation, Muni	18	1939/1954	---
Bluff Point Golf Course, Fresno	Executive, Daily Fee	9	1989	5
Fig Garden Golf Club, Fresno	Regulation, Semi-Private	18	1958	7
Dragonfly Golf Club, Fresno	Regulation, Daily Fee	18	1999	16
Madera Golf Course, Madera	Regulation, Muni	18	1991	18
Airways Golf Course, Fresno	Executive, Muni	9	1952	18
Eagle Springs Golf & CC, Friant	Regulation, Semi-Private	18	1990	24
Sherwood Forest Golf Club, Sanger	Regulation, Daily Fee	18	1968	32
Ridge Creek Golf Club, Dinuba	Regulation, Muni	18	2008	37

The mid- to long-term outlook for the regional golf market is highly uncertain at this time. For optimists, the aging baby boomer population (participation and frequency of play increase with age), few if any additions to the golf course inventory, and an improvement in overall economic conditions suggest stabilization or possible marginal industry growth. For the less-than-optimistic, the market is still seeking its bottom, with the hope of achieving some stability in the next 3- to 5-years.

Regional Golf Course Performance

The results of a survey of regional golf courses serving the Fresno market are presented in Table IV-6. A summary of greens fees at regional golf courses is shown in Table IV-7. A review of the market data yields a number of observations:

- ▶ Annual play at Riverside Golf Course is at the high end of the range for competitive regional courses.
- ▶ The decline in play at Riverside Golf Course since 2000 has been consistent with that experienced at competitive market courses.
- ▶ Riverside Golf Course greens fees are at market relative to competitive regional courses.
- ▶ Cart utilization at Riverside Golf Course is relatively high, despite the flat terrain and short distances from greens to tees.



Market Overview

Table IV-6: Selected Characteristics of Regional Public Golf Courses

Course	Riverside Golf Course	Fig Garden Golf Club	Dragonfly Golf Club	Madera Golf Course
Location	Fresno	Fresno	Madera Golf Course	Madera
Architect	William Bell	Nick Lombardo	Gary Roger Baird	Robert Putnam
Operator	CourseCo	In-House	In-House	Sierra Golf Mgmt
Year Opened	1939/1954	1958	1999	1991
Number of Holes/Par	18	18	18	18
Course Length (back/middle)	6,645/6,425	6,900/6,297	6,716/6,202	6,814/6,355
Rating (back/middle)	71.1/70.1	71.6/69.1	72.3/69.9	72.2/70.0
Slope (back/middle)	123/121	123/118	128/120	121/118
Greens Fees (regular/club) ^{1/}				
Standard (18 holes)				
Weekday	\$25	\$47/\$30	\$42/\$32	\$23
Weekend	31	47/30	67/50	28
Twilight/Mid-Day				
Weekday	\$20	\$37/\$20	\$30	\$18
Weekend	22	37/20	35	23
Super Twilight				
Weekday	\$14	\$25/\$15	\$20	\$17
Weekend	14	25/15	20	21
Senior (18 holes)				
Weekday	\$17.50	---	\$32	\$14
Weekend	---	---	57	14
Range Balls Included	no	no	no	no
Cart Fees (18/9 holes)	\$14/\$10	\$14/\$10	\$18/\$12	\$16/\$16
Cart Inventory	80	80	82	75
Utilization	65%	70%	80%	60%
Facilities				
Clubhouse Size (sq.ft.) ^{2/}	4,200 (2 bldgs)	5,000	4,000	6,000
Banquet Seating Capacity	none	100	200	200
Snack Bar	yes	yes	yes	yes
Driving Range (tees/lighted)	30/yes	12/no	15/no	20/no
Annual Number of Rounds	50,000	45,000	45,000	40,000
Percent Twilight/9-Hole	20%	25%	20%	20%
* Includes cart.				



Market Overview

Table IV-6 (continued): Selected Characteristics of Regional Public Golf Courses			
Course	Eagle Springs Golf Club	Sherwood Golf Club	Ridge Creek Golf Club
Location	Friant	Fresno	Dinuba
Architect	Johnny Miller	Bob Baldock	John Fought
Operator	Table Mtn Rancheria	In-House	Kemper Sports
Year Opened	1990	1968	2008
Number of Holes/Par	18/72	18/71	18/72
Course Length (back/middle)	6,379/6,184	6,247/6,050	6,995/6,493
Rating (back/middle)	70.9/70.0	69.8/68.9	72.0/70.0
Slope (back/middle)	131/129	126/124	123/118
Greens Fees (regular/club) ^{1/}			
Standard (18 holes)			
Weekday	\$65*	\$20	\$41/\$35
Weekend	75*	25	61/45
Twilight/Mid-Day			
Weekday	\$50*	\$20	\$32/\$28
Weekend	50*	25	35/31
Super Twilight			
Weekday	---	---	\$22/\$20
Weekend	---	---	27/25
Senior (18 holes)			
Weekday	\$55*	---	\$31/\$25
Weekend	65*	---	49/39
Range Balls Included	no	no	no
Cart Fees (18/9 holes)	Included	\$10/\$5	\$15/\$11
Cart Inventory	80	75	80
Utilization	100%	75%	60%
Facilities			
Clubhouse Size (sq.ft.) ^{2/}	6,000	4,000	6,000
Banquet Seating Capacity	50	50	200
Snack Bar	yes	yes	yes
Driving Range (tees/lighted)	15/no	12/no	30/no
Annual Number of Rounds	35,000	45,000	25,000
Percent Twilight/9-Hole	10%	15%	20%
* Includes cart.			

Table IV-7: Summary of Greens Fees at Regional Public Access Golf Courses

Golf Course	Regular				Twilight	
	Weekday		Weekend		Weekday	Weekend
	Standard	Senior	Standard	Senior		
Riverside	\$25.00	\$17.50	\$31.00	---	\$20.00	\$22.00
Fig Garden	47.00/30.00*	---	47.00/30.00*	---	37.00/20.00*	37.00/20.00*
Dragonfly	47.00	37.00	62.00	52.00	45.00**	50.00**
Madera Muni	23.00	14.00	28.00	14.00	18.00	23.00
Eagle Springs	65.00**	55.00**	70.00**	60.00**	50.00**	50.00**
Sherwood	20.00	---	25.00	---	20.00	25.00
Ridge Creek	41.00/35.00*	31.00/25.00*	61.00/45.00*	49.00/39.00*	32.00/28.00*	35.00/31.00*

* General public/Loyalty Club members.

** Includes cart.

- ▶ The soft golf market conditions are evidenced by an increasing number of golf specials and other discounts, primarily related to weekday play.
- ▶ Weekend play levels at most courses have not declined as sharply as weekday play, where competition is more intense.
- ▶ While greens fees have increased slightly or remained unchanged at most golf courses over the past five years, the average greens fees per round has declined at many courses in response to the heavy market discounting.
- ▶ Over the mid- to long-term, the regional golf market is not expected to improve materially despite no anticipated expansion of the supply of courses and continued growth in the 65-75 year old age demographic where propensity and frequency of play increase sharply. Regional golf courses serving the mid-market segment – specifically courses offering a quality golf experience at a relatively affordable fee-- have performed relatively better than the higher end golf courses and private clubs in recent years. Riverside's attributes, suggests that the course's market positioning is appropriate and that with continued commitment to providing a quality golf experience at an affordable rate should result in stable performance over time.

Comparative Operating Metrics

It is informative to view the most recent year financial performance of Riverside Golf Course with that of several other selected San Joaquin Valley municipal golf courses, as shown in Table IV-8. In terms of rounds, Riverside's current performance is consistent with the performance of the other higher performing courses such as Manteca Park in Manteca, Creekside in Modesto, and Valley Oaks in Visalia (27 holes). Prior to 2017, Riverside outperformed these courses. More important is the "golf" revenue (greens fees, carts and range), which shows that Riverside is outperforming other Central Valley municipal golf courses, despite the contraction in 2017.

Table IV-8: Comparative San Joaquin Valley Municipal Golf Course Revenue Performance							
Golf Course	Riverside	Visalia*	Ridge Creek	Manteca	Swenson Park	Creekside	Dryden Park
Annual Rounds	49,620	63,870 ^{2/}	32,890	51,810	41,880	51,900	32,700
Gross Revenue							
Greens Fees/Passes	\$875	\$1,177	\$770	\$673	\$526	\$798	\$444
Cart Rentals	415	478	204	320	252	262	209
Practice Range	110	137	67	51	49	43	17
Subtotal Golf	\$1,400	\$1,792	\$1,041	\$1,044	\$827	\$1,103	\$670
Merchandise	205	157	349	112	68	89	61
Food & Beverage	300	442	1,097	60 ^{1/}	131	215	136
Other	35	22	3	3	6	2	1
Total	\$1,940	\$2,413	\$2,492	\$1,218	\$1,032	\$1,409	\$868
Revenue/Round							
Greens Fees/Passes	\$17.64	\$18.43	\$23.41	\$12.99	\$12.56	\$15.37	\$13.57
Cart Rentals	8.36	7.48	6.20	6.18	6.02	5.05	6.40
Practice Range	2.22	2.15	2.04	0.98	1.17	0.82	0.50
Subtotal Golf	\$28.22	\$28.06	\$31.65	\$20.15	\$19.75	\$21.24	\$20.47
Merchandise	4.13	2.46	10.61	2.16	1.62	1.71	1.85
Food & Beverage	6.05	6.92	33.35	14.48 ^{3/}	3.12	4.15	4.15
Other	0.71	0.34	0.09	0.06	0.14	0.04	0.02
Total	\$39.10	\$37.78	\$75.76	\$36.85	\$24.64	\$27.14	\$26.49
[*] 27 hole facility. ^{1/} Rental income. ^{2/} 27-holes. ^{3/} Calculation based on converting rental income to gross revenue, assuming rent equal to 8.0% of gross revenue.							

V. Course Conditions/Capital Improvements

The following section provides an assessment of current facility conditions, including the golf course and support facilities, and future capital improvement requirements. The assessment is based on an inspection of the golf course, supplemented with interviews with the golf course superintendent and golf course management.

Golf Course Features/Maintenance Assessment

Tee Complexes

Over the years, it appears that most, if not all, of the tee complexes have been expanded, leveled and resurfaced. Additional forward tees have been added in consideration for juniors, beginner golfers and players with less distance.

The primary tee complexes are in very good condition with adequate size, quality Bermuda turf and level teeing surfaces. The forward tees are quite small and may be difficult to maintain at times depending on levels of play. Additional forward tees on several of the holes would be helpful to further distribute play and shorten the longer and more difficult holes.

Due to constant topdressing that is required for proper tee maintenance, public golf course tees surfaces generally need to be renovated to reestablish a level surface about every fifteen to twenty-five years depending on size and usage. Long-term capital funds should be reserved for this eventuality and near-term reserve funds should be allocated to address modest improvements or additions to forward tees.

Fairways

There are approximately 30 acres of predominately Bermuda grass fairways on the course. The fairways are adequately large, with reasonably sized landing areas. The fairways feature subtle contours that are characteristic of older and relatively flat public golf courses. Turf quality is in reasonable playing conditions, although there are some bare spots and weeds are present in some areas.

Steps are being taken by the golf course superintendent to reduce weed populations with herbicide applications and promote Bermuda grass migration to eliminate bare spots. Additionally, Kikuyu grass randomly exists throughout some of the fairways, but is being temporarily tolerated since eradication would result in additional bare areas. As the fairway turf quality improves over the next one to two years, the superintendent plans to institute a herbicide program to reduce the presents of Kikuyu grass and continue to promote Bermuda grass fairways. This is an effective plan and should be executed as soon as practical since the aggressive nature of Kikuyu grass will continue to spread and ultimately become very difficult to eliminate.

Unless it is determined that fairway improvements need to be expedited or significantly expanded, it is unlikely that capital funds will be necessary in effecting this improvement.

Greens

There are approximately 108,000 square feet of greens surface including the practice putting and chipping greens. Most of the greens are a blend of creeping bent grass and poa annua, with the exception of greens #9 and #10 which were re-sodded with 100% creeping bent grass in 2018 due to Bermuda grass encroachment. The greens are in reasonably good playing condition and supported by a contemporary and thoughtful maintenance program that is appropriate for a mid-market public golf course such as Riverside. The size, character and quality of the greens vary considerably as a result of an ongoing reconstruction program, but the expectation is that within the next few years there will be greater uniformity in quality.

Ten of the eighteen greens on the golf course have been reconstructed to USGA specifications over the last 20 years. The reconstructed greens include adequately large putting surfaces, sand based root-zones and sub-surface perforated drainage systems. The combination of these characteristics generally improves the overall health and quality of the greens. Additionally, during their reconstruction, the greens were expanded to allow for more pin locations and better recoverability.

The remaining original eight greens are generally very small by contemporary standards and are vulnerable to decline during periods of stress from increased play and environmental conditions.

Plans should be put in place and capital funds should be allocated to reconstruct the remaining original eight greens. Ideally reconstruction would include only one or two greens at a time to minimize disruption to play and revenue.

Greens Surrounds

The turf quality on the greens surrounds generally is in good condition but share some of the quality issues that are present in the fairways, including weeds, bare areas and Kikuyu grass populations. The contouring and features are modest but interesting and drainage issues are minimal.

The greens surrounds are currently experiencing a stepped-up maintenance program similar to fairways. However, consideration should be given to expediting Kikuyu grass elimination around the greens to improve the overall golf experience.

Any significant modifications to greens surrounds should take place as part of the renovation of the original eight greens, captured during greens reconstruction process. Therefore it is unlikely that any additional allocation of reserve funds would be required.

Bunkers

In general, the bunkers on the golf course are positioned well with simple features and appropriately maintained. Twenty-two of the forty-nine bunkers were renovated in 2016 to address general maintenance and quality issues including poor drainage and contaminated sand.

Typically bunkers require renovation every fifteen to twenty-five years depending on the type of construction, maintenance practices and golfer impact. Many of the twenty-seven bunkers yet to be renovated are showing signs of failure and should be considered a high priority capital need.

Roughs

There are 76 acres of roughs, which comprise the largest area of maintained turf on the golf course. Most of the quality issues that are present in the fairways and greens surrounds (i.e. weeds, bare spots and Kikuyu grass) are also present throughout the roughs but on a more severe level. Gopher and ground squirrel populations appear to be managed well and do not pose a significant issue.

There are opportunities to improve high impact and important visual areas of the roughs, but these maintenance efforts should be a lower priority, addressed after the more important features of the course such as fairways and greens surrounds.

Unless it is determined that rough improvements need to be expedited or significantly expanded, it is unlikely that capital funds will be necessary.

Trees

There is a wide variety of tree species throughout the golf course that provide both aesthetic and biological diversity. It appears that a fairly consistent tree maintenance program, including pruning and tree removal, has been executed over the years. In particular, a significant number of Stone Pines have failed and been removed during winter storm winds and saturated soils. There are some immediate needs for minor pruning, and limited tree removal. This condition, however, is typical of most golf courses, varying from year to year depending on severe weather events, insect infestation and other unusual circumstances.

Given the limited life cycle for trees, which can vary significantly depending on species, environmental and physical influences, a proactive tree replacement program is warranted. The current state of the tree plantings throughout the course is reasonably good so it is likely modest plantings of 30-40 trees every 4-5 years would be satisfactory. A certified arborist can conduct a tree inventory and evaluation to gain a very comprehensive understanding of tree health, although this does not appear to be necessary at this time, and ultimately may not significantly affect the tree care/replacement program.



Driving Range

The 5-acre lighted driving range includes 30 hitting stalls on a one-half acre natural turf tee line, along with a 12 foot x 250 foot concrete pad to position hitting mats when the grass tee is closed. A chipping green with a sand bunker is also located on the range and a large practice putting green is located near the first tee. The practice facilities are well maintained and, although additional maintenance is required, the grass practice tee is a benefit to the customers.

The range was reconstructed in 2001 and the containment netting on the west boundary was replaced and expanded in 2016. The highest sections of netting reach 90 feet. The south portion of the practice range landing area is quite narrow as a result of a dog-leg on the adjoining first hole. Questions regarding range ball containment to the general manager and golf course superintendent did not reveal any safety issues relating to errant range balls. To accurately assess potential liabilities, a range ball flight trajectory study could be conducted.

The typical useful life of driving range netting ranges from 12 to 15 years, with wood netting poles typically lasting 20 to 40 years. Considering the netting was replaced and poles were evaluated and repositioned in 2016, it is unlikely that any significant capital funds will be required at the practice range for at least 10 years. The cost and extent of work required during replacement can vary significantly depending on the condition of rigging, poles, baseboards and modifications to the existing system.

Historical Capital Improvements

There have been numerous capital improvements to the golf course and support facilities over the past 20 years. Between 1989 and 2007, eight greens were reconstructed to USGA standards (#1, #5, #6, #7, #8, #9, #11, and #14). In addition, a practice putting green was constructed, the driving range renovated with a new tee line, new targets, night lighting, and a new chipping green and practice bunker. Two other greens were reconstructed more recently--#10 in 2008 and #12 in 2015. A new cart storage building was constructed in 2000.

Over the last 10 years (2008-2018), about \$3.0 million in capital improvements have been completed, including a new state-of-the-art irrigation system and complete concrete cart path network, as shown in Table V-1.

Table V-1: Riverside Golf Course Completed Capital Improvements--2008-2018 (thousands of dollars)			
Improvement	Year	Cost	Comment
#10 Green Complex	2008	\$100	New green complex at USGA standard
Irrigation System	2009	2,000	New irrigation system and irrigation lake
Cart Path Network	2009	500	New complete concrete cart path network
Tee Renovation	2014	100	Tee renovation (#2, #5, #8, #10, #11, #15)
#12 Green Complex	2015	120	New green complex at USGA standard
Range Netting	2015	100	Install new netting and poles to 80 foot height
Bunker Renovation	2016	110	Added drainage, liners and sand to 22 bunkers
Total	---	\$3,030	--

Golf Facility Infrastructure Assessment

Irrigation System

A new Toro Golf irrigation system, lined irrigation lake and Flowtronics pump station were installed in 2009. Irrigation heads are consistently spaced at 65 foot intervals with predominately individual head control. The superintendent reports that the system is in good condition and performing well, and only requires normal repairs and maintenance.

In 2006, a new well was installed and it remains consistent and reliable. The proximity of the golf course to the San Joaquin River will likely continue to be favorable for well water production. In the unlikely event of a catastrophic failure of the primary well, it may be feasible to revitalize a currently unused second well that exists on the property.

Overall the irrigation and water supply systems are contemporary and in excellent condition, recognizing that ongoing routine maintenance and repairs are required. Moreover, given the many hours of operation, work load, and their complexity, it is expected that major components of the well, irrigation pump station and irrigation system will fail or require capital upgrades from time to time.

The useful life of the underground main and lateral line plumbing system may extend beyond 50 years however sprinkler heads, valves and the central control system will likely need replacement in 15 to 25 years.

Drainage

Given the time of the year of this assessment, it is difficult to visually identify existing drainage issues. Minor areas of saturated turf that resulted from cart path irrigation run-off were observed, but they were

in out-of-play areas and can easily be addressed with gravel filled drain pits if existing subsurface drainage is not practical. This method has successfully been utilized throughout the golf course over the years. According to the golf course superintendent and general manager, despite the fact that there is very limited subsurface drainage beyond the pipes that were installed in bunkers and reconstructed greens, there are few problems, even during the wet winter months.

Although much of the property is relatively flat, it is likely that the drainage canal to the south/east, the centrally located irrigation pond and, most importantly, the river to the north, which sits 30 to 80 feet below the golf property, provide adequate releases for surface runoff.

Based on information provided by CourseCo staff and visual observation, it does not appear that any major drainage improvements are required beyond those associated with other projects such as bunker and green reconstruction.

Cart Paths

The continuous concrete cart path system that was installed in 2009 is very well routed and constructed. Effective curbing protects tee and green surrounds as well as helps to channel water away from these high profile areas. Generally, steel reinforcement is not used in golf course cart paths so tree roots and cracks can often result in major separation and failures. Nonetheless, these problems are very minimal throughout the course.

Considering the paths have been in place for only about 10 years, it is likely that they will remain stable, reliable and only need limited sectional replacements periodically beyond year 10.

On-Course Restrooms

The on-course standalone restrooms located near the 4th and 7th tees are serviceable, but could benefit from modest upgrades. Consideration should be given to improved concrete pathway access, accent landscaping, upgraded plumbing fixtures, lighting and trim. Further, evaluation of the wood roof structure and roofing material should take place to identify repair/replacement needs. The condition of the septic tanks and leach fields is unknown.

Maintenance Facility

The maintenance facility includes an array old buildings and sheds that do not provide adequate storage for the golf course maintenance equipment. Creative efforts have been implemented to modify, improve and maintain the existing structures to provide dedicated space for equipment repairs, office space and storage. The inventory of miscellaneous equipment stored outdoors is organized and the yard is adequately large, but lacks asphalt pavement.

The limited resources that today's public golf courses have at their disposal are generally invested in areas that have the potential to generate revenue. As such, it is not surprising to see maintenance facilities that are inadequate and outdated. Unfortunately, this leads to a number of challenges and

inefficiencies considering the complexities of golf course maintenance, equipment repairs, storage requirements and government/code regulations.

In the near-term, additional covered equipment storage would be helpful to protect equipment and, looking forward, consideration should be given to modernizing the entire facility. Such extensive modernization is considered a relatively low priority, although safety issues should be addressed when they occur. Nonetheless, the City may see the benefit of planning and funding such a project.

Clubhouse

The clubhouse, which was constructed in the 1940's, is very modest and consistent with most municipal golf course buildings that were constructed during this period. Considering the age of the structure, the building appears to have been reasonably well maintained and continues to service the operation today, although there are clearly some components with deferred maintenance.

Even if a more detailed evaluation reveals that the clubhouse building is structurally sound and modest capital investment can prolong its integrity and useful life, the current layout, size and amenities significantly limit tournament, event, banquet and other food and beverage opportunities that exist on golf courses today.

Preliminary analysis and discussion have been underway to evaluate the feasibility of constructing a new \$2.7 million clubhouse facility. Certainly the upside of a properly financed, constructed and utilized clubhouse could be significant. However, major clubhouse improvements/replacement should not be pursued with capital funds that are critical to the short- and long-term capital needs of the golf course. Further in-depth analysis that goes beyond the scope of this assessment is required. A report prepared by Pro Forma Advisors, LLC dated September 2017 and titled "Analysis of Market Support for New Clubhouse, Riverside Golf Course" presents a more detailed assessment of a potential new clubhouse.

Pro Shop

The pro shop is well located to manage the first tee, has excellent proximity to the driving range and cart storage building, and provides good access for customers entering from the parking lot. The building is surrounded on all sides by quality concrete flat work that serves as the customer and cart staging area. The exterior is very basic. Like the clubhouse, the pro shop is an aged, small and simple building that lacks architecture interest. Yet, creative and efficient utilization of the limited interior space has produced a reasonably attractive and functional environment that welcomes the golfing customer.

Thought could be given to softening the exterior by removing some concrete adjacent to the building to create landscape buffers and installing freestanding shade lattice structures over the entrances. Routine maintenance and modest upgrades should allow the building to remain serviceable and adequate for the foreseeable future.

Cart Storage Building

The butler-type metal cart storage building was constructed in 2000 and comfortably houses at least 72 carts. The building is positioned in close proximity to the pro shop, which allows for efficient management of cart staging, returns and cleaning/service.

The building is in excellent condition and should not require any significant capital needs in the foreseeable future.

Parking Lot

The parking lot is well laid-out with an adequate number of spaces, and provides good access to the restaurant, pro shop and driving range. There are minimal cracks and no signs of failure due to settling. As with most parking lots that include shade trees, mature tree roots ultimately cause damage to adjacent asphalt and concrete curbing. The number of trees is very limited (only four in this case) and the benefit of their shade probably outweighs the damage they cause.

Minor patching, crack filling, sealing and striping on an appropriate interval should ensure the parking lot remains functional and will mitigate unnecessary failures and costly repairs.

ADA and Other Code Compliance

The Americans With Disabilities Act (ADA) and other code compliance issues are outside the scope of this assessment.

Capital Improvements Summary

Based on the above assessment of the golf course and support facilities, a summary of capital improvement requirements over the next 20 years is presented in Table V-2. As noted, over the next approximately 20-year period, capital improvement requirements at Riverside Golf Course total an estimated \$1.68 million, expressed in constant 2018 dollars. In current (inflated) dollars, the total over the 20-year period is estimated at about \$2.1 million, assuming modest inflation averaging 2 percent annually over this period.

It is important to point out that at the conclusion of the 20-year period, the golf course will be facing future capital needs as much of the golf course features/infrastructure will be aging. In particular, over the subsequent 20 years, the irrigation system may need reinvestment as well as greens, tees and bunkers. At the same time, the debt on the course will have been fully amortized, thus freeing up funds for reinvestment in the course.

The future capital improvement estimates include nominal funds for the clubhouse and pro shop structures. While these may be sufficient for the buildings to remain serviceable over the next 20 years, it is likely that at that point, significant reinvestment in these will be needed. Such investment funds would be in addition to the estimates provided, although it is also recognized that the incremental revenue stream from new structures may support much of their development cost. This also applies to the maintenance facility, which is only superficially addressed during the 20-year planning horizon.

Table V-2: Summary of Capital Improvement Requirements (thousands of constant 2018 dollars)

Improvement	2019-2023	2024-2028	2029-2033	2034-2038	Total
Tees	\$25	---	---	\$125	\$150
Greens	200	60	60	60	380
Bunkers	140	---	---	110	250
Trees	45	45	45	45	180
Driving Range	---	---	100	---	100
Irrigation	15	15	25	200	255
Cart Paths	0	10	10	10	30
On-Course Restrooms	20	---	---	20	40
Maintenance Facility	10	10	10	10	40
Clubhouse	20	20	20	20	80
Pro Shop	10	10	10	10	40
Parking Lot	35	---	35	---	70
Miscellaneous	15	15	15	15	60
Total	\$535	\$185	\$330	\$625	\$1,675

Table V-2 (continued): Capital Improvement Requirement Notes

Improvement	Comment
Tees	2019-2023: 5 new forward tees @ \$5000/ea. 2034-2038: level and resurface tees as needed
Greens	2019-2023: rebuild 3 original greens complexes @ \$60,000/ea. One additional green in each subsequent 5-year interval.
Bunkers	2019-2023: rebuild 28 bunkers @ \$5,000/ea. 2034-2038: rebuild 22 bunkers @ \$5,000/ea.
Trees	2019-2038: Tree maintenance & removals @ \$7,500/year; 35 new plantings every 5 years @ \$250/tree
Driving Range	2029-2033: netting, rigging and any necessary pole replacement
Irrigation	2019-2033: general capital repairs; 2034-2038: selected sprinkler head, valve, control system replacement
Cart Paths	2019-2038: sectional replacement as needed
On-Course Restrooms	2019-2023 & 2033-2038: upgrades/modernize; septic tank/leach field condition?
Maintenance Facility	2019-2038: General capital repairs; Optional: \$50,000 for additional equipment storage building
Clubhouse	2019-2038: General capital repairs
Pro Shop	2019-2038: General capital repairs; Optional: \$20,000 site improvements
Parking Lot	2019-2023 & Yr 2029-2032 patching, sealcoat, striping
Miscellaneous	2019-2038: Unexpected general capital repairs

VI. Financial Projections

The following section presents 10-year pro forma financial projections for Riverside Golf Course based on anticipated market conditions, scheduled capital improvements to the course, and other factors and circumstances which will affect the cost of operations.

Underlying Assumptions

The projections are based on a series of general underlying assumptions, as outlined below.

- ▶ The projections are annual estimates based on calendar years beginning in 2019 and extending through 2028.
- ▶ The golf course continues to be operated by a professional golf course management firm applying best practices in revenue generation and expense efficiencies.
- ▶ Golf carts are assumed to be leased, with a 4-year rotation of the cart fleet. A fleet of 72 golf carts is assumed.
- ▶ Golf course maintenance equipment presently is both owned and leased. An annual allowance, treated as an ongoing operating expense, is included in the analysis to fund lease payments and provide an annual reserve for the replacement of owned equipment.
- ▶ Ground water continues to be the source of irrigation for the golf course at no cost other than electrical pumping expenses.
- ▶ The analysis does **not** include an internal management fee as an expense item. All off-property operating expenses are funded out of net operating income accruing to the operator.
- ▶ A series of golf course capital improvements are implemented over the near term, including renovation of most of the remaining greens complexes (at least six greens) not addressed over the previous 20 years, reconstruction of about 25 bunkers not previously addressed, expanding and rebuilding a series of tee complexes, and other selected improvements (see Section V of the report for a description of needed capital improvements).
- ▶ Minor, mostly cosmetic, improvements to the existing support facilities are completed. Specifically, the analysis is based on retaining the existing pro shop and clubhouse buildings. While there has been exploration into developing a new clubhouse capable of accommodating tournament players and social/community special events, the projections assume continued use of the existing facilities during the forecast period.
- ▶ The following values are expressed in constant 2018/2019 dollars. The pro forma reflects a 2 percent average annual inflation rate applied to revenues and expenses, with the exception of most golf course

payroll expenses which are escalated at a faster rate over the next four years to reflect the scheduled increase in the California Minimum Wage legislation.

- ▶ The California Minimum Wage is scheduled to escalate as follows:

Scheduled California Minimum Wages and Salaries		
Year	Minimum Hourly Wage	Minimum Annual Salary
2015	\$9.00	\$37,440
2016	10.00	41,600
2017	10.50	43,680
2018	11.00	45,760
2019	12.00	49,920
2020	13.00	54,080
2021	14.00	58,240
2022	15.00	62,400

Revenue/Expense Factors and Assumptions

Utilization

Utilization (annual golf rounds) is one of the primary factors underlying golf course revenue. Annual play in 2016 totaled about 55,000 rounds, declining to just under 50,000 in 2017 due in large part to unusually high rain levels and hot summer months, in addition to increased golf market competition. In 2018, based on year-to-date activity, annual rounds are estimated at just under 2017 levels. Despite improved weather conditions, 2018 play has been adversely impacted by the poor condition of the greens during much of the year caused by inadvertent introduction of Bermuda grass in the greens complexes. While the golf market remains highly competitive, the analysis assumes that most of the lost play over the 2016-2018 period is recaptured through more normal weather conditions and strategic golf course improvements which will enhance the overall golf experience. As such, annual golf play is projected to increase modestly from its current level of about 50,000 rounds to a stabilized level of 55,000 rounds over the next four years.



Financial Projections

Annual utilization is projected as follows:

Year	Annals/Passes	Daily Fee	Total
2016 Actual	9,390	45,640	55,030
2017 Actual	9,980	39,640	49,620
2018 Estimated	10,000	39,500	49,500
2019 Projected	10,000	42,000	52,000
2020 Projected	10,000	43,000	53,000
2021 Projected	10,000	44,000	54,000
2022+ Projected	10,000	45,000	55,000

Gross Revenue

Greens Fees (average revenue per round)

Daily Fee

2017 Actual \$18.95

Projected 19.00

Annals/Passholders

2017 Actual \$12.32

Projected 12.50

Cart Rental (per total round)

2017 Actual \$8.39

Projected 8.50

Practice Range (per year)

2017 Actual \$109,040

Projected 120,000

Merchandise (per total round)

2017 Actual \$4.13

Projected 4.00

Food & Beverage (per total round)

2017 Actual \$5.90

Projected 6.00

Other-Net (per year)

2017 Actual \$20,100

Projected 25,000



Financial Projections

Cost of Sales (percentage of departmental gross revenue)

Merchandise	70%
Food & Beverage	35%

Operating Expenses

Annual operating expenses by department are projected for Riverside Golf Course in Table VI-1 . The annual expenses are projected based on the experience of a number of golf courses serving the market including Manteca Golf Course in Manteca, Creekside in Modesto, Dryden Park in Modesto, Valley Oaks in Visalia, and Las Positas in Livermore, as well as Riverside Golf Course historical experience.

It should be noted that the expenses do not include an allowance for a management fee as compensation for off-property expenses and management expertise. As well, there is no capital improvements replacement reserve included in the expense projections.

Net Operating Income

Based on the factors and assumptions presented above, a 10-year operating income statement from the perspective of the operator is presented in Table VI-2. As shown, net operating income, before an internal management fee, a capital improvement reserve, and rent to the City, is projected at \$240,000 in 2019. Net operating income is expected to remain at nearly the same level over the subsequent four years, despite forecast growth in rounds played, as the revenue gains are offset by the extraordinary increase in expenses due to the scheduled increases in the California Minimum Wage. Beginning in 2023, net operating income is projected to increase at about the rate of general inflation (2 percent per year).

Table VI-1: Projected Riverside Golf Course Operating Expenses ¹ (thousands of constant 2019 dollars)	
	Annual Amount
Course Maintenance	
Payroll and Benefits	\$335
Services and Supplies	160
Water and Utilities	50
Maintenance Equipment	65
Subtotal	\$610
Golf Operations	
Payroll and Benefits	\$175
Cart Lease	70
Outside Services	75
Practice Range	20
Service and Supplies	60
Subtotal	\$400
Food & Beverage	
Payroll and Benefits	\$120
Services and Supplies	40
Subtotal	\$160
General and Administrative	
Payroll and Benefits	\$200
Insurance	30
Property Taxes	25
Advertising and Marketing	10
Service and Supplies	100
Base Management Fee	---
Subtotal	\$365
Total	\$1,535
Source: Pro Forma Advisors.	



Financial Projections

**Table VI-2: Riverside Golf Course Pro Forma Financial Projections
(In Current \$000s)**

	Year										Total
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Annual Rounds											
Daily Fee/Tournament	42,000	43,000	44,000	45,000	45,000	45,000	45,000	45,000	45,000	45,000	—
Passholders	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	-
Total	52,000	53,000	54,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	-
REVENUE											
Greens Fees	\$798	\$833	\$870	\$907	\$925	\$944	\$963	\$982	\$1,002	\$1,022	\$9,246
Monthly Passes	\$125	\$128	\$130	\$133	\$135	\$138	\$141	\$144	\$146	\$149	\$1,369
Cart Fees	442	460	478	496	506	516	526	537	548	559	\$5,067
Driving Range	120	122	125	127	130	132	135	138	141	143	\$1,314
Pro Shop Merchandise	208	216	225	233	238	243	248	253	258	263	\$2,385
Food & Beverage	312	324	337	350	357	364	372	379	387	394	\$3,577
Miscellaneous/First Tee Maintenance	25	26	26	27	27	28	28	29	29	30	\$274
Gross Revenue	\$2,030	\$2,109	\$2,190	\$2,274	\$2,319	\$2,365	\$2,413	\$2,461	\$2,510	\$2,560	\$23,232
Less: Cost of Sales											
Pro Shop Merchandise	\$146	\$151	\$157	\$163	\$167	\$170	\$173	\$177	\$180	\$184	\$1,669
Food & Beverage	\$109	\$114	\$118	\$123	\$125	\$128	\$130	\$133	\$135	\$138	\$1,252
Subtotal Cost of Sales	\$255	\$265	\$275	\$286	\$292	\$298	\$304	\$310	\$316	\$322	\$2,921
GROSS PROFIT	\$1,775	\$1,844	\$1,915	\$1,988	\$2,027	\$2,068	\$2,109	\$2,151	\$2,195	\$2,238	\$20,311
OPERATING EXPENSES											
Course Maintenance											
Salaries & Benefits	\$335	\$358	\$384	\$410	\$419	\$427	\$436	\$444	\$453	\$462	\$4,128
Water & Utilities	50	51	52	53	54	55	56	57	59	60	\$547
Services & Supplies	160	163	166	170	173	177	180	184	187	191	\$1,752
Maintenance Equip. Lease/Reserve	65	66	68	69	70	72	73	75	76	78	\$712
Subtotal Course Maintenance	\$610	\$639	\$670	\$702	\$716	\$731	\$745	\$760	\$775	\$791	\$7,139
Golf Operations											
Pro Shop Staff	\$175	\$187	\$200	\$214	\$219	\$223	\$228	\$232	\$237	\$241	\$2,156
Cart Lease/Reserve	70	71	73	74	76	77	79	80	82	84	\$766
Outside Services	75	80	86	92	94	96	98	99	101	103	\$924
Driving Range	20	20	21	21	22	22	23	23	23	24	\$219
Services & Supplies/Utilities	60	61	62	64	65	66	68	69	70	72	\$657
Subtotal Golf Operations	\$400	\$421	\$442	\$465	\$475	\$484	\$494	\$504	\$514	\$524	\$4,723
Food & Beverage	\$160	\$171	\$183	\$196	\$200	\$204	\$208	\$212	\$216	\$221	\$1,972
Clubhouse Undistributed/Utilities	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
General & Administrative											
Salaries & Benefits	\$200	\$204	\$208	\$212	\$216	\$221	\$225	\$230	\$234	\$239	\$2,190
Insurance	30	31	31	32	32	33	34	34	35	36	\$328
Property Taxes	25	26	26	27	27	28	28	29	29	30	\$274
Other Services/Supplies/CC Fees	100	102	104	106	108	110	113	115	117	120	\$1,095
Advertising & Promotion	10	10	10	11	11	11	11	11	12	12	\$109
Base Management Fee	0	0	0	0	0	0	0	0	0	0	\$0
Subtotal G&A	\$365	\$372	\$380	\$387	\$395	\$403	\$411	\$419	\$428	\$436	\$3,997
TOTAL EXPENSES	\$1,535	\$1,603	\$1,675	\$1,751	\$1,786	\$1,822	\$1,858	\$1,895	\$1,933	\$1,972	\$17,830
NET OPERATING INCOME	\$240	\$241	\$240	\$237	\$241	\$246	\$251	\$256	\$261	\$266	\$2,480

Source: Pro Forma Advisors, LLC



Financial Projections

Supportable Rent

Supportable rent payment to the City is effectively related to the operator's net operating income. Net operating income is distributed between the property owner (City) and operator based on operator invested capital, typical compensation for off-property services, and operating risk.

A summary of golf course lease terms for a selected sample of municipal golf courses is presented in Table VI-3. Clearly, there are many factors which are considered in establishing the appropriate rent structure at the facilities reviewed. The rent structure should be viewed in the context of all of the terms and characteristics of the specific facility. Specifically, in addition to the strength of the market and competitive positioning of the course, other factors influencing rent include the term of the agreement, initial lessee-funded capital improvements, the CIP contribution, the cost of irrigation water, and other such considerations.

In comparing terms for the various municipal golf courses shown, annual gross revenue at the facility is particularly important as it reflects, in large part, market strength and the ability of the course to pay rent.

The Valley Oaks golf course in Visalia is the most directly comparable to Riverside in terms of market strength and revenue generation, although Valley Oaks is a 27-hole facility. Riverside benefits from no water cost, and it is assumed that there are no initial capital investment requirements related to a future City of Fresno agreement. The Soule Park Golf Course in Ojai and the Napa Golf Course in Napa also are considered reasonably comparable to Riverside in terms of market environment, but the terms of the agreement differ significantly in structure. The Pacific Grove Golf Links in Pacific Grove clearly benefits from stronger market conditions compared with Riverside, and the Kern County golf courses--Buena Vista, North Kern and Kern River--operate in a somewhat weaker market than Riverside Golf Course.



Financial Projections

Table VI-3: Regulation Length Public Golf Course Facility Lease Terms				
Course	Riverside Golf Course	Valley Oaks	Buena Vista	Kern River
Location	Fresno	Visalia	Taft	Bakersfield
Number of Holes	18	27	18	18
Lessor	City of Fresno	City of Visalia	Kern County	Kern County
Lessee	EBIT Golf Inc.	EBITgolf, Inc.	Sorenson Bros.	Kern River Golf Course
Agreement Date	9/2009	7/2018	7/2008	7/2008
Lease Term (years)				
Initial	10	20	10	10
Option Extension	lessee exclusive right	none	right of first refusal	none
Minimum Annual Rent	none	\$90,000/\$110,000	none	none
CPI Adjusted	---		---	---
Percentage Rents				
Greens	14%	---	9%	9%
Carts	14%	---	5%	5%
Range	14%	---	20%	20%
Merchandise	3%	---	3%	3%
Lessons	---	---	---	---
Food and Beverage	3%	---	3%	3%
Liquor	---	---	---	---
Banquet Room Rental	---	---	---	---
Required Initial Capital Imps	none	\$300,000	none	none
CIP Repl Reserve Require	\$1 per round	3% of golf revenue	\$10,000/year	\$10,000/year
Annual Rounds	51,500	50,000	40,000	45,000
Gross Revenue (historical)				
Golf	\$1,530,000	\$1,805,000	\$1,085,000	\$1,160,000
Merchandise	210,000	160,000	55,000	65,000
Food and Beverage	325,000	440,000	340,000	190,000
Other	40,000	20,000	---	---
Total	\$2,105,000	\$2,425,000	\$1,480,000	\$1,415,000
Cost of Water	none	none	\$100,000/year	\$100,000/year
Annual Contributions				
Rent	\$230,000	\$90,000	\$70,000	\$99,000
CIP Fund	\$45,900	54,000	\$10,000	\$10,000
Amort of Initial Cap Invest	---	24,000	---	---
Total	\$275,900	\$164,000	\$80,000	\$109,000
Percent of Total Revenue	13.1%	6.5%	5.4%	7.7%



Financial Projections

Table VI-3 (continued): Regulation Length Public Golf Course Facility Lease Terms			
Course	North Kern	Pacific Grove	Soule Park
Location	Bakersfield	Pacific Grove	Ojai
Number of Holes	18	18	18
Lessor	Kern County	City of Pacific Grove	Ventura County
Lessee	North Kern Golf Shops	Pacific Grove Golf LLC	Golf Ojai LLC
Agreement Date	7/2008	10/2014	7/2017
Lease Term (years)			
Initial	10	9.75	20
Option Extension	right of first refusal	two 5-year	two 5-year
Minimum Annual Rent	none	\$300,000	\$60,000
CPI Adjusted	---	\$5,000/yr-begin yr. 3	no
Percentage Rents			
Greens	9%	Min + 65% of total golf revenue exceeding \$2.35M	3.5%
Carts	5%		3.0%
Range	20%		3.0%
Merchandise	3%	---	3.0%
Lessons	---	---	3.0%
Food and Beverage	3%	---	3.0%
Liquor	---	---	---
Banquet Room Rental	---	---	3.0%
Required Initial Capital Imps	none	\$100,000	none
CIP Repl Reserve Require	\$10,000/year	1.5% of total revenue	\$150,000/year
Annual Rounds	40,000	52,600	45,000
Gross Revenue (historical)			
Golf	\$745,000	\$2,230,000	\$1,400,000
Merchandise	25,000	305,000	75,000
Food and Beverage	100,000	---	700,000
Other	---	110,000	25,000
Total	\$870,000	\$2,645,000	\$2,200,000
Cost of Water	\$100,000/year	\$443,300/year	\$50,000/year
Annual Contributions			
Rent	\$57,000	\$300,000	\$70,000
CIP Fund	\$10,000	\$39,700	150,000
Amort of Initial Cap Invest	---	\$13,600	---
Total	\$67,000	\$353,300	\$220,000
Percent of Total Revenue	7.7%	13.4%	10.0%

A comparison of the overall annual contributions for the selected sample of golf courses is summarized as follows:

Table VI-4: Annual Occupancy Costs for Selected Courses					
Course	Base Rent	CIP Contribution	Amortization of Cap Imps ^{1/}	Total	Percent of Total Gross
Riverside (existing)	207,000	46,200	---	253,200	12.7%
Valley Oaks	\$90,000	\$72,000	\$40,800	\$202,800	8.3%
Kern River	99,000	10,000	---	109,000	7.7%
Soule Park	70,000	150,000	---	220,000	10.0%
Pacific Grove	300,000	39,700	13,600	353,300	13.4%
Buena Vista	70,000	10,000	---	80,000	5.4%
North Kern	57,000	10,000	---	67,000	7.7%
^{1/} Based on amortization of initial capital improvements over 10 years at 6% cost of capital.					

In general, the combination of rent, CIP contributions and amortization of front-end capital improvements represent between 5.4 and 13.4 percent of total gross revenue, averaging just more than 9 percent, well below the existing Riverside Golf Course. As such, on the basis of comparable municipal golf course experience, the existing Riverside rent structure appears somewhat above the comparables in the market.

Again, the distribution between operator compensation and rent/capital improvement contributions varies depending on lessee funded capital investment, reasonable management fees to fund off-property management services, and lessee risk level. In this instance, the operator (lessee) is not expected to contribute additional capital investment, and a normal management fee would typically be in the \$80,000-\$100,000 range. Factoring in a modest risk premium for the operator, and based on the experience of other courses, annual rent/capital contribution on the order of \$100,000 per year, escalating at the cost of living would appear to be reasonable.

Golf Enterprise Fund

From the perspective of the Golf Enterprise Fund, net cash flow over the next 20 years is projected in Table VI-5. The table shows the beginning period Enterprise Fund Balance, adding projected rent, and deducting debt service, annual PERS liability and a capital improvements reserve, yielding the end-of-period Fund Balance. As indicated, there is an existing Enterprise Fund Balance estimated at approximately \$650,000. Projected annual activity, however, requires the Fund Balance to be drawn down, resulting in full depletion by 2022, when a \$127,000 General Fund subsidy is required. For the balance of the projection period, a General Fund subsidy averaging \$125,000 per year is projected.



Financial Projections

Table VII-5: City of Fresno Golf Enterprise Fund Projections (thousands of dollars)							
Year	Begin Fund Balance	Add: Rent	Less: Debt Service	Less: PERS Liability	Less: Capital Improvements	Add: General Fund Subsidy	End Fund Balance
2019	\$650	\$100	(\$155)	(\$31)	(\$107)	---	\$457
2020	457	102	(155)	(32)	(109)	---	263
2021	263	104	(155)	(32)	(111)	---	69
2022	69	106	(155)	(33)	(114)	127	0
2023	0	108	(155)	(34)	(116)	197	0
2024	0	110	(155)	(34)	(41)	120	0
2025	0	113	(155)	(35)	(42)	119	0
2026	0	115	(155)	(36)	(43)	119	0
2027	0	117	(155)	(36)	(43)	117	0
2028	0	120	(155)	(37)	(44)	116	0
2029	0	122	(155)	(38)	(80)	151	0
2030	0	124	(155)	(39)	(82)	152	0
2031	0	127	(155)	(39)	(84)	151	0
2032	0	129	(155)	(40)	(85)	151	0
2033	0	132	(155)	(41)	(87)	151	0
2034	0	135	---	(42)	(168)	75	0
2035	0	137	---	(43)	(172)	78	0
2036	0	140	---	(43)	(175)	78	0
2037	0	143	---	(44)	(179)	80	0
2038	0	146	---	(45)	(182)	81	0