ITEM NO. 29

STAFF REPORT

CITY OF OCEANSIDE

DATE: August 16, 2006

TO: Honorable Mayor and City Councilmembers

FROM: Public Works Department

SUBJECT: **APPROVAL TO ISSUE REQUEST FOR PROPOSALS FOR THE LEASE OF THE OCEANSIDE MUNICIPAL GOLF COURSE LOCATED AT 825 DOUGLAS DRIVE**

SYNOPSIS

Staff recommends that the City Council authorize staff to issue a Request for Proposals (RFP) for leasing the future operation and management of the Oceanside Municipal Golf Course.

BACKGROUND

The Oceanside Municipal Golf Course has been operated and maintained by the American Golf Corporation (AGC) since the signing of the original lease agreement on June 23, 1982. The term of the original lease agreement was for 3 years beginning on July 1, 1982, and ending on June 30, 1985. Renewal options set forth in the original lease agreement allowed for 2 additional 5-year terms and one additional 7-year term. These renewal options allowed AGC to operate the course until June 30, 2002.

On February 3, 1993, a second amendment was made to the original lease agreement which established one additional 5-year term from July 1, 2002, through June 30, 2007. Since 1982 a total of 4 amendments have been made to the original lease agreement. These amendments have accomplished a number of items including lease term extensions, capital improvements, rate increases, and establishment of the Golf CIP Fund.

On April 19, 2006, City Council approved a budget resolution to conduct an operating agreement study to evaluate the options for the future operation and management of the Oceanside Municipal Golf Course (Attachment A). As part of the study, a market evaluation was conducted along with a course and facility examination. Planning documents were reviewed and interviews with American Golf Corporation staff and City staff were conducted. In addition, the study solicited guidance and input from the members of the Parks and Recreation Commission Golf Committee and members of the Men's and Women's Clubs.

ANALYSIS

The Oceanside Municipal Golf Course is currently operating under the last 5-year term which ends on June 30, 2007. During this last term of the lease agreement staff is recommending that the City issue an RFP for leasing the future operation and management of the Oceanside Municipal Golf Course.

The operation agreement study evaluated two basic options for the City relative to the golf course:

1. Long-term lease agreement
2. Management agreement

A number of strengths and weaknesses are associated with each option. Proceeding under the premise and overall consensus from the golf community of providing a high-quality City facility at reasonable rates as well as enhancing the golf course through significant capital improvements while retaining current revenue, a long-term lease agreement was determined most suitable for the City.

There will be a ninety-day period in which an interested party can submit a proposal to lease, manage and operate the Oceanside Municipal Golf Course. The proposal will include term length, minimum rent, percentage rent (percent of gross), maintenance standards and capital improvement contribution.

FISCAL IMPACT

The City currently receives thirty percent (30%) of gross income related to green fees, cart rentals fees, driving range income and six percent (6%) of gross income related to food, beverages, Pro Shop and miscellaneous income. Annual rent to the City has averaged about $600,000 over past five years.

INSURANCE REQUIREMENTS

Does not apply.

COMMISSION OR COMMITTEE REPORT

The Golf Committee and Parks and Recreation Commission both have reviewed the recommendation and are recommending approval.

CITY ATTORNEY'S ANALYSIS

City Attorney analysis does not apply.

RECOMMENDATION

Staff recommends that the City Council authorize staff to issue a Request for Proposals (RFP) for leasing the future operation and management of the Oceanside Municipal Golf Course.

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ERA

Economics Research Associates

ANALYSIS OF OPERATING OPTIONS OCEANSIDE MUNICIPAL GOLF COURSE

PREPARED FOR THE

CITY OF OCEANSIDE

AUGUST 2006

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EXECUTIVE SUMMARY

The current lease agreement between the City of Oceanside and American Golf Corp. (AGC) for maintenance, operation, and management of the City's Oceanside Municipal Golf Course expires in June 2007. Economics Research Associates (ERA) conducted an analysis of golf course operations and operating options available to the City, with the findings contained in a separate report. The following highlights the options available to the City.

There are three basic options/strategies which are available:

1. Renegotiate and extend the lease agreement with AGC;
2. Proceed with a market-wide RFP for leasing the golf course to AGC or another professional golf course management firm; or
3. Alter the structure of the golf course operation from a "lease" to a "management contract" – a fee-for-service agreement with a private management company to operate the course on the City's behalf.

The appropriate option must consider the following:

- The golf course currently is contributing about $500,000 annually to the City General Fund, net of funds put back in the course.
- In the relatively near term, the golf course requires about $3+ million in capital improvements, plus clubhouse improvements which could range widely from $100,000 to over $2 million.
- If the City is willing to participate in providing less expensive tax-exempt financing, such participation will most likely require a management contract.

The recommended strategy will depend on the City's objectives, risk tolerance, and level of participation.

If the City desires to minimize its involvement, utilize private capital for course improvements, and limit its financial risk while maintaining near current levels of income, the lease option is preferred. It is doubtful that all of the $3 million golf course capital

improvements can be funded without reducing the current rent payments to the City and/or increasing the fee structure.

Under the lease option, whether the City elects to renegotiate with AGC or proceed with an open market RFP depends on its level of confidence in AGC, its general policies on seeking market bids, and interest in possibly receiving a stronger financial proposal.

If, however, the City desires much greater control over golf course conditions, service levels, policies, and other operating aspects; has greater risk tolerance; and is willing to maximize the impact of improvement funds through tax-exempt financing, a management agreement is preferable. Such agreements typically are short-term (5-year) and result in the City receiving all of the course revenues and bearing all the expenses. A fee of about $150,000 per year paid to a professional operator would be expected. There has been a trend in the industry toward the management agreement form of operation, particularly in cases where greater control is sought by the public agency and where public financing is employed.

Further, it appears clear that the City is making positive strides towards enhancing the overall image and marketability of Oceanside. To the extent that the golf course is to play a role in this overall strategy, the management contract form of operation may be preferable. The City's desired course condition and service level may exceed the private sector's target, and there may need to be a conscious tradeoff between the golf course market positioning and financial operating results.

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Section I

INTRODUCTION

Oceanside Municipal Golf Course is an 18-hole regulation length public golf course located in the City of Oceanside, San Diego County, California. The golf course, opened in 1970, is owned by the City of Oceanside. The City leased the golf course to American Golf Corporation (AGC) in 1982 for a term of 25 years, including two 5-year option extensions, with the lease expiring in July 2007.

As the lease term approaches its expiration, the City of Oceanside has initiated the process of evaluating the golf course in terms of market positioning, past and future operating performance, capital improvement needs, and operating options, among other issues. As part of this process, the City retained Economics Research Associates (ERA) to assist in an analysis of the operating options available to the City in the context of the north San Diego County golf market environment, course capital improvement needs, and other city objectives and considerations.

The following report reviews the historical performance of Oceanside Municipal, presents an overview of the regional golf market, shows market experience relative to various golf course operating alternatives, and illustrates the economic and non-economic strengths and weaknesses of principal options available to the City.

ERA acknowledges the invaluable assistance provided during the course of this assignment by City of Oceanside Parks and Recreation staff, cooperation from American Golf Corporation management, and input provided by members of the Oceanside Municipal Golf Course Men's and Women's Clubs and the Golf Advisory Committee.

Every reasonable effort has been made in order that the data contained in this study reflect the most accurate and timely information possible as of June 2006, the date when primary research was collected for this study, and it is believed to be reliable. This study is based on estimates, assumptions, and other information developed by Economics Research Associates from its independent research effort, general knowledge of the golf industry, and

consultations with client representatives and the golf industry. No responsibility is assumed for inaccuracies in reporting by the client, its agents and representatives, or any other data source used in preparing this study. No warranty or representation is made by Economics Research Associates that any of the projected values or results in this study will actually be achieved.

Section II

SUMMARY OF FINDINGS

The following section presents a summary of principal findings regarding operating options for the City's Oceanside Municipal Golf Course in the context of the current and anticipated San Diego County golf market environment. Analysis and documentation for the findings are contained in the subsequent sections of the report.

GOLF MARKET

- After a 10-year period of relatively strong steady performance, golf markets in most parts of the country softened considerably in 2002 and 2003. The softness resulted from extraordinary expansion of the inventory of courses coupled with a downturn in the economy and demand for golf. Since 2003, golf markets in most areas have stabilized, with demand plateauing and a gradual recovery emerging.

- Despite the current market softness, golf demand is expected to gradually increase at a modest 1 to 2 percent annual pace due, in large part, to America's aging. The propensity to play golf and frequency of play generally increase with age.

- Conditions in Southern California and San Diego County generally have mirrored the national trends. Between 1991 and 2001, 12 regulation length public courses were added to the San Diego County inventory (46% increase). Since 2001, only two public courses have opened.

- The soft market conditions present in San Diego County are manifested by the following observations:

  - The rate of increase in greens fees has declined and, in some cases, rates have been reduced.

  - Twilight times for many courses have been moved up as an inducement, and a super twilight rate has been introduced.

  - Greens/cart fee "specials," particularly during the week, have emerged.

- Differentiation between County resident and non-resident rates has been introduced as an inducement for residents, without sacrificing revenue from the less price sensitive visitor market.
- New golf course construction and planning has slowed considerably.

- Weekend demand remains relatively strong, but competition for finite levels of weekday play is relatively intense.
- Only one additional golf course (Carlsbad Municipal) is expected to enter the market within the next five years. The course, due to its character and cost, will be positioned at the high end of the public market. Thus, with a limited expansion, the San Diego County golf market should firm over the near- to mid-term.

OCEANSIDE MUNICIPAL

- The City's municipal course, opened in 1970, is positioned at the entry level in the regional golf market. The condition of the golf course has vacillated over the years, in part due to the presence of high levels of sodium in the soil. Over the past year, the condition of the course has improved due to more intense maintenance, higher rainfall levels, and selective course improvements.
- Annual play during the 1990s routinely was in the range of 110,000 rounds. However, annual play has declined sharply and steadily from 107,000 rounds in 2000 to 79,700 round in 2005, a 25 percent reduction, with a modest increase projected for 2006.

Year	Total Rounds
2000	107,000
2001	104,000
2002	98,000*
2003	92,401
2004	86,878
2005	79,711
2006 (projected)	84,000

*Estimated.

This loss of play is due in part to overall golf market softness, and the entry of the Encinitas Ranch, Arrowwood, Woods Valley and other courses, but also reflects erosion of the competitiveness of Oceanside Municipal Golf Course.

- Oceanside residents comprise nearly 63,000 of the 79,700 annual rounds played in 2005 (79%), with senior 18-hole play accounting for about one-fourth of the resident play:

	2005 Annual Rounds	Percent of Total
Resident		
18-Hole	15,867	19.9%
Senior	17,884	22.4
9-Hole/Twilight	19,761	24.8
All Other	9,248	11.6
Subtotal	62,760	78.7%
Non-Resident		
19-Hole	9,077	11.4%
9-Hole/Twilight	6,562	7.0
All Other	2,312	2.9
Subtotal	16,951	21.3%
Total	79,711	100.0%

- Regular play greens fees have increased sharply over the past eight years:

	1998	2001	2006
Weekday			
Resident Regular	$13.00	$13.50	$23.00
Resident Senior	6.00	9.00	12.00
Non-Resident	17.00	18.00	26.00
Weekend – 18-Hole			
Resident	$17.00	$18.00	$25.50
Non-Resident	23.00	24.00	35.00

The current rates include a $1 per round capital improvement surcharge assessed to all 18-hole rounds, and a $.50 per round surcharge for nine-hole and twilight rounds.

- Annual gross revenue and rent generated by the course is summarized below:

Year	Gross Revenue ($000) Golf[1]	Other[2]	Total	Rent Paid[3] ($000)
2000	$1,871	$480	$2,351	$578
2001	1,961	502	2,463	620
2002	1,959	497	2,456	620
2003	1,905	497	2,402	605
2004	1,819	491	2,310	580
2005	1,772[4]	429	2,201	529

[1]Includes greens fees, cart rentals, and practice range.
[2]Includes food and beverage, merchandise, and miscellaneous.
[3]Excludes lessee's capital improvement contribution (3% of greens fees).
[4]Includes capital improvement surcharge fund of $68,000.

CAPITAL IMPROVEMENTS

- The golf course requires a series of capital improvements. A golf course master plan prepared by golf architect Rainville/Bye recommended hole-by-hole improvements including selected greens, tees, cart path, drainage, water features, and other miscellaneous elements, with the following estimated cost:

Golf Course	$1,682,000
Practice Range	632,000
Total	$2,314,000

  Including an allowance for irrigation system and other miscellaneous improvements, the total costs are estimated in the $3.0 million range.

- The master plan does not address the clubhouse. Such improvements could range from minor cosmetic upgrades to full renovation or construction of a new facility. The corresponding costs would range from less than $100,000 to $1.5 million (5,000 square feet), or more.

- At the present time, the City has a capital improvement reserve fund. The current lessee contributes, in addition to rent, 3 percent of greens fee revenue, which is matched by the City from its rental income. Also added to the fund is a $1 per 18-hole round ($.50 per 9-hole/twilight) surcharge assessed golfers. In 2005, a total of about $140,000 was contributed to the reserve fund.

- Contributions to the capital improvement reserve account are not sufficient to fund the capital improvement needs identified in the Golf Course Master Plan. Rather, the annual contributions are typically needed to address ongoing minor capital improvements and unexpected maintenance issues.

REVENUE ENHANCEMENT

- Play at the course in 2006 is projected at about 84,000 rounds. Increasing revenue at the course can most readily be achieved through increasing play, with a target stabilized level of 90,000 to 95,000 annual rounds. Increasing play to this target level is dependent on improving the golf course experience through better course conditions which, in turn, require the implementation of the capital improvements program and potentially slightly higher maintenance resources.

- The current greens fee structure at Oceanside Municipal is, for the most part, at or near market levels such that increases would most likely be revenue neutral. The resident weekday senior rate of $12, with no restrictions, is below market, but at present senior play is not displacing a significant, if any, regular rate play on weekdays.

- At higher play levels, modest greens fees revenue increases may be achieved through imposing some restrictions on senior play tee times and promoting non-resident play with some preferred tee time access. Such policy changes, effective once play levels increase, may generate an additional $50,000 to $100,000 per year ($.75 to $1.00 increase in the average rate).

FINANCIAL PROJECTIONS

- Future income accruing to the City from Oceanside Municipal will depend on the type of course operation, capital improvements completed, and market positioning. Thus, to some degree, there is a clear tradeoff between City income and the course condition and quality of the golf experience. The financial performance of the course, and City income, will vary depending on the assumptions regarding capital improvements and maintenance and service levels.

- Two revenue projection alternatives have been prepared – one reflecting partial completion of golf course improvements and a modest upward repositioning of the course (slightly higher maintenance and golf operations service level),

designated as "Partial Cap Ex," and a second reflecting full implementation of master plan capital improvements along with modest upward repositioning of the course, designated as "Full Cap Ex." Both alternatives assume minimum clubhouse improvements. The Partial Cap Ex scenario assumes $1 million in improvements, while the Full Cap Ex assumes $3 million.

		Projected Stabilized (2006 dollars)	
Department	**Current**	**Partial Cap Ex**	**Full Cap Ex**
Annual Rounds	84,000[1]	90,000	95,000
Average Greens Fee	$16.46[2]	$17.00	$17.50
Gross Revenue ($000):			
Greens Fees	$1,312.0[2]	$1,530.0	$1,662.5
Carts	373.6	423.0	446.5
Range	86.7	142.0	146.5
Merchandise	102.7	126.0	132.0
Food and Beverage	310.5	360.0	380.0
Other	15.2	15.0	15.0
Total	$2,200.7	$2,596.5	$2,782.5

[1]Estimated for 2006. [2]Includes per-round capital improvement surcharge.

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- Baseline annual net operating income from the golf course at stabilized play, expressed in constant 2006 dollars, is presented as follows:

	Annual Amount (thousands of constant 2006 dollars)		
		Projected Stabilized	
	Current	**Partial Cap Ex**	**Full Cap Ex**
Gross Revenue	$2,200.7	$2,596.5	$2,782.5
Less: Cost of Sales	170.0	203.0	215.0
Gross Profit	$2,030.7	$2,393.5	$2,567.5
Operating Expenses:			
Maintenance	$ 602.8	$ 650.0	$ 650.0
Golf Operation	198.4	220.0	220.0
Food and Beverage	137.8	144.0	152.0
Clubhouse Undistributed	26.4	30.0	30.0
General & Administrative	253.5	325.0	335.0
Management Fee	85.4[1]	120.0	120.0
Total	$1,304.3	$1,489.0	$1,507.0
Net Income – Before Rent, Capital Improvement Reserve, Debt Service, and City Overhead	$ 726.4	$ 904.5	$1,060.5

[1]Estimated at 4% of total gross revenue.

GOLF COURSE OPERATING OPTIONS

- There are two basic golf course operating options for Oceanside Municipal available to the City of Oceanside following expiration of the current lease agreement:
  - **Facility Lease**: Under this option, the golf course 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. The current Oceanside Municipal, Mission Trails, and Chula Vista courses are examples of facility leases.
  - **Management Contract**: This option relates to a fee-for-service contract with either a director of golf or an outside management company. All golf functions (maintenance, golf 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 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 Carlsbad Municipal Course (under construction), Encinitas Ranch and Yorba Linda's Black Gold.

- A third basic option, City self-operation, exists, but the City 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 golf course maintenance.

- The strengths and weaknesses of facility leases are summarized as follows:
  - **Strengths**:
    - ***Financial Return and Risk*** – One of the principal advantages of a facility lease is to shift 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 Political Influence*** – A long-term lessee limits City staff participation and may partially insulate the City from outside influence regarding golf course policies and fees.

– **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.

• The strengths and weaknesses of management contracts are summarized as follows:

– **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 Oceanside, such financing potentially would save $20,000 to $60,000 per year in debt service related to golf course improvements depending on the amount of improvements financed.
- ***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.
- ***Financial Upside*** – Nearly all of the financial upside from better than anticipated performance accrues to the City.

– **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. Additional City costs in the range of $25,000 to $50,000 per year is anticipated.
- ***Private Investment*** – Management agreements substantially limit the opportunity to utilize private capital.

PROJECTED CITY INCOME

Facility Lease

- The following facility lease terms, fees, and other factors are considered reasonable in the context of the capital improvement needs and current market environment:

	Partial Cap Ex	Full Cap Ex
Lease Term	10 years	20 years
Initial Capital Investment	$1.0 million	$3.0 million
Minimum Rent	$450,000	$350,000
Percentage Rent (percent of gross)		
Golf*	25%	20%
Merchandise	5%	5%
Food and Beverage	5%	5%
Capital Improvement Reserve	5% of golf revenue	5% of golf revenue

*Greens, carts, range.

- Applying these terms to the projected stabilized financial projections yields the following lessee annual operating projections:

	Stable Year Amount (thousands of constant 2006 dollars)	
	Partial Cap Ex	Full Cap Ex
Net Operating Income, Before Rent, CIP Reserve, Debt Service	$904.5	$1,060.5
Less: Capital Improvement Reserve[1]	104.8	112.8
Debt Service	183.9[2]	337.0[3]
City Rent	548.9	451.1
Subtotal	$837.6	$ 900.9
Adjusted Net Operating Income	$ 66.9	$ 159.6

[1]5% of golf revenue.
[2]$1.0 million amortized over 10 years at 9% interest.
[3]$3.0 million amortized over 20 years at 9% interest.

- Annual net revenue accruing to the City at stabilization under a long-term facility lease is projected as follows:

		Stable Year Amount (thousands of constant 2006 dollars)	
		Partial Cap Ex	**Full Cap Ex**
Rental Income		$548.9	$451.1
Less:	CIP Reserve	---	---
	City Contract Monitoring	50.0	50.0
Net Revenue		$498.9	$401.1

- While the above scenarios are considered reasonable and representative, there are numerous permutations of the scenarios depending on the underlying factors and assumptions.

Management Contract

- The estimated fee under a short-term management contract is estimated as follows:

Agreement Term	5 years
Base Fee	$120,000 per year
Incentive Fee	10% of golf revenue exceeding $1.8 million

Typically, total compensation (base plus incentive fee) represents about 4 to 5 percent of total gross revenue.

- Annual net income accruing to the City at stabilization under a management contract is estimated as follows:

		Stable Year Amount (thousands of constant 2006 dollars)	
		Partial Cap Ex	**Full Cap Ex**
Net Operating Income Before CIP, Debt Service, Incentive Management Fees		$904.5	$1,060.5
Plus:	Property Tax Exemption	60.0	60.0
Less:	CIP Reserve[1]	104.8	112.8
	Debt Service	98.1[2]	294.3[3]
	Incentive Management Fee[4]	29.5	45.6
	City Overhead/Services	75.0	75.0
Adjusted Net Revenue		$657.1	$ 592.8

[1]5% of golf revenue. [2]$1 million amortized over 20 years at 7.5% interest.
[3]$3 million amortized over 20 years at 7.5% interest.
[4]10% of gross golf revenue exceeding $1.8 million.

- While a management agreement, on a pro forma basis, typically shows equal or greater financial return to the public agency, the practical application often results in less income than under a lease agreement. This situation stems from the tendency of the public agency and/or contract management firm to increase the maintenance and service levels above that provided by a typical lessee, or through the tendency to offer resident greens fees and other concessions under a management contract.

CLUBHOUSE

- The existing clubhouse facilities are aged and inefficient in design and function. These facilities derive little, if any, support from non-golfers.
- There is concurrence among the golf community stakeholders that clubhouse improvements have much lower priority than golf course improvements.
- Replacement of the clubhouse to meet golfer needs would cost at least $1.5 million. This cost cannot be recovered through increased net operating income from merchandise and food and beverage sales.
- A clubhouse designed with conference/meeting and banquet facilities would be twice the size (about 10,000 square feet) and cost $3 to $4 million. About one-half the cost could be recovered through increases in net operating income.
- A community-oriented clubhouse probably should be considered independent of the golf course.

Section III

FACILITY DESCRIPTION AND EXISTING OPERATIONS OVERVIEW

This section presents a description of Oceanside Golf Course, a review of historical operations, and an overview of the Master Plan prepared by Rainville-Bye Golf Course Architects in May 2005.

PROPERTY DESCRIPTION

The Oceanside Golf Course complex consists of the following components:

- 18-hole regulation length golf course
- Golf driving range
- Clubhouse and cart storage
- Maintenance yard
- Parking

Project Location and Access

Oceanside Municipal Golf Course is located off of North Douglas Drive in the northern portion of the City of Oceanside and just south of Camp Pendleton Marine Base. As shown in Figure III-1, regional access to the course from all North San Diego County is convenient via the San Luis Rey Mission Expressway (State Highway 76). State Highway 76, an east-west limited access expressway traverses the City, is located 2 miles south of the course and provides access to the San Diego Freeway (Interstate 5).

The golf course is located within the flood plain of Pilgrim Creek and is bounded by Douglas Drive on the south, and Camp Pendleton on the north, with open space on the eastern and western sides (see Figure III-2). Entry to the course is from Douglas Drive, just north of the North River Road intersection.

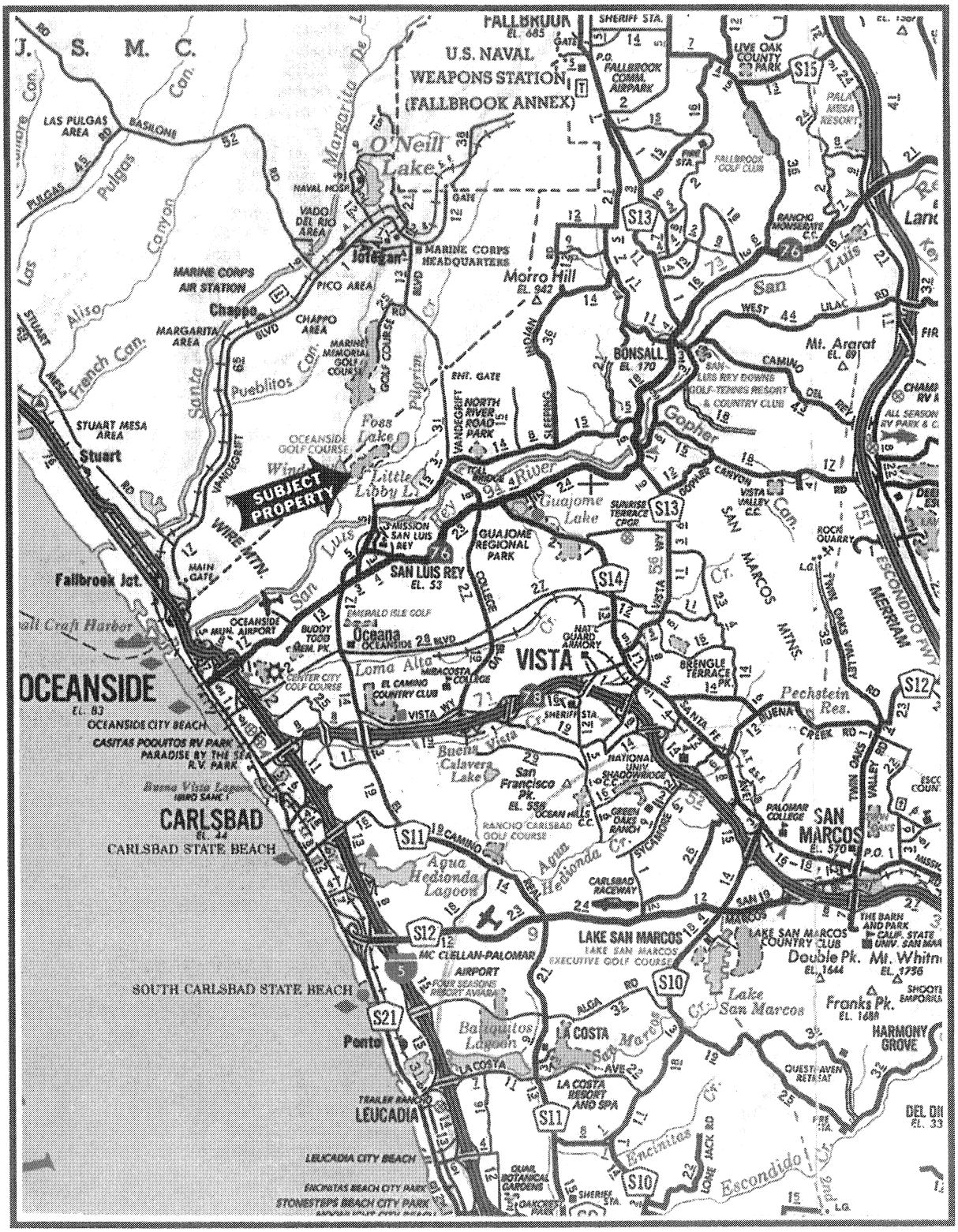


Figure III-1

REGIONAL ACCESS

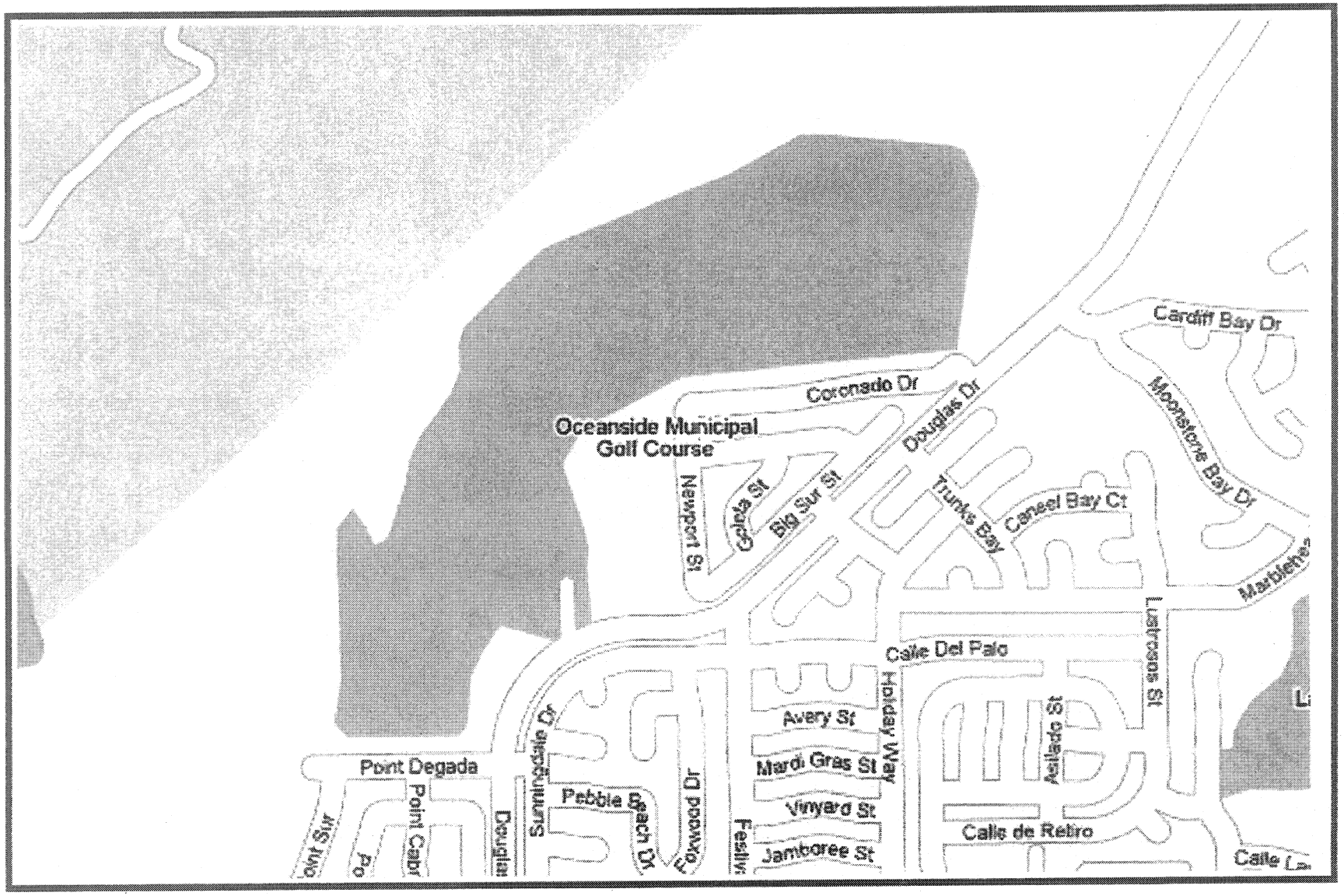


Figure III-2

LOCAL ACCESS

Golf Course

The golf course was designed by Richard Bigler and opened in 1970. The course is constructed on an approximately 150-acre site, most of which lies within the Pilgrim Creek Flood Plain, with the Pilgrim Creek channel traversing the golf course property.

The par 72 golf course is designed with returning nines. Each nine is par 36 and has two par 3, five par 4 and two par 5 holes. The distance, rating and slope from each of the three tees is as follows (a scorecard is shown in Figure III-3):

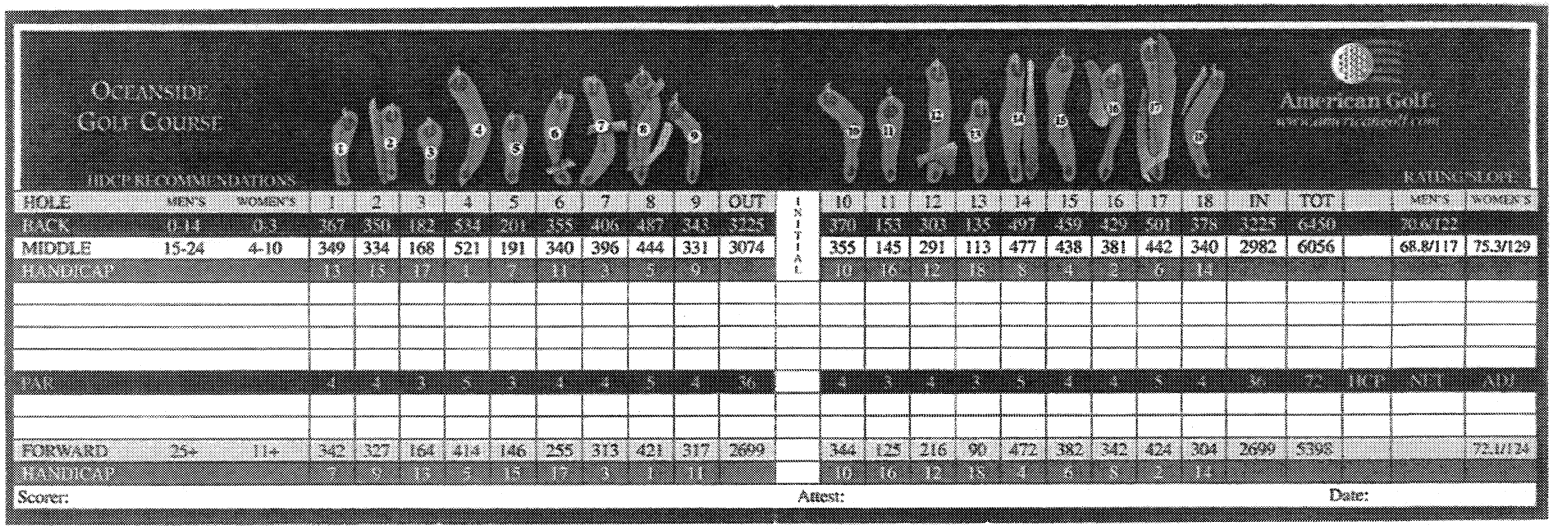
Tee	Distance (yards)	Rating	Slope
Back	6,450	70.6	122
Middle	6,056	68.8/75.3*	117/129*
Forward	5,398	72.1*	124*

* Women's slope and rating.

The course is a core design with the clubhouse/staging area in the center of property. The front nine is located on the east and the back nine on the west side of the property. Access to the clubhouse is off Douglas Drive, which forms the south boundary of the course.

The golf course has a moderate level of tree coverage which helps define fairways as well as provide general landscape amenity. The most prominent feature of the property is the presence of Pilgrim Creek. While the water corridor provides interest and enhances the course appearance, it represents a significant flood hazard. The creek comes into play on most holes as the course runs both parallel to and crosses the watercourse.

In addition to the river, there is one lake on the golf course located between holes #9, #17, and #18. The lake also serves as reservoir storage for the golf course irrigation system.



OCEANSIDE GOLF COURSE

American Golf

HDCP RECOMMENDATIONS

RATING/SLOPE

HOLE	MEN'S	WOMEN'S	1	2	3	4	5	6	7	8	9	OUT	INITIAL	10	11	12	13	14	15	16	17	18	IN	TOT		MEN'S	WOMEN'S
BACK	0-14	0-3	367	350	182	534	201	355	406	487	348	3225		370	153	303	135	497	459	429	501	378	3225	6450		70.6/122	
MIDDLE	15-24	4-10	349	334	168	521	191	340	396	444	331	3074		355	145	291	113	477	438	381	442	340	2982	6056		68.8/117	75.3/129
HANDICAP			13	15	17	1	7	11	3	5	9			10	16	12	18	8	4	2	6	14					
PAR			4	4	3	5	3	4	4	5	4	36		4	3	4	3	5	4	4	5	4	36	72	HCP	NET	ADJ
FORWARD	25+	11+	342	327	164	414	146	255	313	421	317	2699		344	125	216	90	472	382	342	424	304	2699	5398			72.1/124
HANDICAP			7	9	13	5	15	17	3	1	11			10	16	12	18	4	6	8	2	14					

Scorer: Attest: Date:

Figure III-3

OCEANSIDE GOLF COURSE SCORECARD

Golf Driving Range

The practice range is located east of the clubhouse and is aligned from south to north. The range has approximately 25 tee stations, but is not night lighted.

Clubhouse

The clubhouse is comprised of two freestanding structures with a combined floor area of about 4,500 square feet. The approximate spatial distribution of the buildings is as follows:

	Approximate Building Area (square feet)
Building 1	
Pro Shop	950
Administrative Office	250
Subtotal	1,200
Building 2	
Restaurant	1,200
Kitchen	600
Meeting Room	600
Office	200
Storage/Restroom/Common Area	700
Subtotal	3,300
Total	4,500

Cart storage is located in a recently constructed freestanding 4,000-square-foot structure adjacent to the pro shop.

Maintenance Yard

The golf course maintenance yard is located behind the practice range, and northeast of the cart storage building.

Parking

Golf course and clubhouse parking is located to the east and south of the clubhouse. There are about 150 parking spaces located in this paved area.

Golf Course Irrigation

The primary source of golf course irrigation is reclaimed water delivered to the golf course irrigation lake, with City potable water available as a backup source.

REVIEW OF HISTORICAL OPERATIONS

Tables III-1 to III-3 summarize the recent historical performance of Oceanside Golf Course. Highlights of the performance are discussed below.

Annual Play

- Annual play, defined as starts or rounds of any type, is reported as follows:

Year	Total Rounds
2000	107,000
2001	104,000
2002	98,000*
2003	92,401
2004	86,878
2005	79,711
2006 (projected)	84,000

*Estimated.

- About 67 percent of total play is classified as 18-hole rounds (assuming most complimentary play is 18-hole), and 33 percent 9-hole or twilight (see Table III-1).
- About 30 percent of total play occurs on weekends (average 220 rounds per day), and 70 percent on weekdays (average 225 rounds per day).
- Complimentary play (employees, marshals, PGA professionals, other) accounted for 4-5 percent of total play in 2005, or about 3,200 rounds per year.
- About 2 percent of total annual rounds, or about 2,000 rounds, are classified as tournament play.
- Oceanside residents nearly 80 percent of total annual play and nonresidents 70 percent (see Table III-2). Senior resident play represents nearly 40 percent of total resident play.

Table III-1

OCEANSIDE GOLF COURSE
ANNUAL PLAY BY TYPE OF ROUND
2005

Type of Round	Annual Rounds	Percent of Total Play
18-Hole		
Regular	9,077	11.4%
Resident	15,867	19.8
Tournament	1,750	2.3
Senior	17,884	22.4
Junior	1,273	1.6
Specials/Internet/Miscellaneous	5,359	6.7
Subtotal	51,210	64.2%
9-Hole/Twilight		
Regular	5,562	7.0%
Resident	12,755	16.0
Senior	7,006	8.8
Subtotal	25,323	31.8%
Complimentary Play	3,178	4.0%
Total	79,711	100.0%

Source: American Golf Corporation and Economics Research Associates.

Table III-2

OCEANSIDE GOLF COURSE
RESIDENT VERSUS NONRESIDENT PLAY
2005

	Annual Rounds	Percent of Total
Resident		
18-Hole	15,867	19.9%
Senior	17,884	22.4
9-Hole/Twilight[1]	19,761	24.8
All Other	9,248[2]	11.6
Subtotal	62,760	78.7%
Nonresident		
18-Hole	9,077	11.4%
9-Hole/Twilight	5,562	7.0
All Other	2,312	2.9
Subtotal	16,951	21.3%
Total	79,711	100.0%

[1]Senior and regular resident.
[2]Includes tournament, specials/internet, junior, and complimentary play, distributed proportionately with resident/nonresident 18-hole and 9-hole/twilight play.

Source: American Golf Corporation and Economics Research Associates.

Table III-3

HISTORICAL REVENUE AND REVENUE PER ROUND
Oceanside Golf Course
2000-2005
(In Thousands of Dollars)

	2000	2001	2002		2003	2004	2005
Rounds	107,000	104,000	98,000	*	92,401	86,878	79,711
Revenue							
Greens Fees (1)	$1,375.8	$1,434.3	$1,427.3		$1,385.0	$1,319.4	$1,247.1
Carts	388.8	431.1	441.6		424.1	408.2	373.6
Practice Range	106.2	95.3	89.9		95.9	91.3	86.7
Merchandise	126.5	140.5	133.6		130.0	125.0	102.7
Food and Beverage	339.7	347.8	347.7		353.3	360.6	310.5
Miscellaneous	14.0	13.2	15.2		14.0	5.0	15.3
Total Revenue	$2,351.1	$2,462.3	$2,455.3		$2,402.3	$2,309.3	$2,135.9
Revenue Per Round							
Greens Fees (1)	$12.86	$13.79	$14.56		$14.99	$15.19	$15.64
Carts	3.63	4.15	4.51		4.59	4.70	4.69
Practice Range	0.99	0.92	0.92		1.04	1.05	1.09
Merchandise	1.18	1.35	1.36		1.41	1.44	1.29
Food and Beverage	3.17	3.34	3.55		3.82	4.15	3.90
Miscellaneous	0.13	0.13	0.16		0.15	0.06	0.19
Total Revenue	$21.97	$23.68	$25.05		$26.00	$26.58	$26.80

* 1998 rounds played are an estimate.

(1) Excludes capital improvement surcharge.

Source: American Golf Corporation and Economics Research Associates.

Greens Fees

- The current greens fee structure, effective May 2006, is as follows:

Type of Round	Oceanside Resident	Oceanside Nonresident
Weekday		
18-Hole	$23.00	$26.00
18-Hole Senior	12.00	---
9-Hole	12.75	15.25
9-Hole Senior	6.00	---
Twilight	12.75	15.25
Weekend		
18-Hole	$25.50	$35.00
9-Hole	15.25	17.50
Twilight	15.25	17.50

- The above rates include a mandatory surcharge of $0.50 per 9-hole or twilight round and $1.00 per 18-hole round.
- Excluding the surcharge which totals $65,000-$75,000 per year, gross revenue at the course has declined from about $2.5 million in 2001 to $2.14 million in 2005 (see Table III-3).
- Greens fee revenue in 2001 totaled $1.43 million, equal to $13.79 per round. In 2005, greens fee revenue totaled $1.25 million, equal to $15.64 per round. Including the capital improvement surcharge, the average greens fee in 2005 is calculated at about $16.40 per round.

Other Revenue

- Power cart fees for 18 holes are $12.00 for non-residents and $10.75 for residents. Cart fees for 9 holes are $8.25 per person. Cart rental revenue in 2005 totaled $274,000, equal to $4.69 per round. Cart utilization is approximately 50 percent.
- Range fees are $.07 per ball.
- Pro shop merchandise revenue totaled $103,000 in 2005, equal to $1.29 per round.
- Food and beverage revenue is generated primarily from same-day golfers. Food and beverage gross revenue in 2005 totaled $311,000, equal to $3.90 per round.

GOLF OPERATIONS AGREEMENT

Oceanside Golf Course is owned by the City of Oceanside and has operated on a long-term facility lease by American Golf Corporation (AGC). The current lease was originally negotiated in 1982 and amended in 1993. With a series of options, the lease term will expire June 30, 2007. Golf course lease terms call for the greater of a minimum annual payment or the amount generated by specified percentage applied to gross revenue.

The minimum for the golf course is specified as follows:

Year	Annual Minimum Rent ($000)
1982-1983	$ 50.0
1984-1986	60.0
1987-1991	78.0
1992-1997	96.0
1998-2007	108.0/120.0[1]

[1]Original lease/February 1993 amendment.

Percentage rents are:

	Percent of Gross Revenue (years)				
Department	1-2	3-5	6-10	11-15	16-25
Greens Fees	8%	10%	12%	13.5%	15%/30%[1]
Practice Range	8%	10%	12%	13.5%	15%/30%[1]
Cart Rental	8%	10%	12%	13.5%	15%/30%[1]
Lessons	0%	0%	0%	0%	0%
Food and Beverage	5%	6%	6%	6%	6%
Merchandise Sales	5%	6%	6%	6%	6%

[1]Original lease/February 1993 amendment.

Annual rent paid to the City has averaged about $600,000 over the past five years.

In 2000, an amendment to the lease established a golf rate surcharge to be placed into the Capital Improvement Project Enterprise Fund. The surcharge, which is included in the posted greens fees, is assessed at $1 per 18-hole round and $.50 per 9-hole/twilight round.

MASTER PLAN SUMMARY

The City of Oceanside retained Rainville and Bye Golf Course Architects in 2005 to prepare a master plan for enhancement and improvement of the Oceanside Golf Course. The entire golf course was built in the floodplain of Pilgrim Creek. A number of flood events have occurred over the years emphasizing the need for improved course and practice range drainage. The primary purpose of the master plan is to improve the course condition by mitigating seasonal drainage problems which occur in low areas throughout the course, and through selected other capital improvements. The master planning process identified also approximately 15 acres of "jurisdictional wetlands" as defined by the U.S. Army Corps of Engineers and California Department of Fish and Game. As well course safety and speed of play issues are addressed through specific course modifications.

The plan sets forth a guideline for future improvements along with preliminary construction cost estimates. These estimated costs are summarized by hole in Table III-4. As shown, golf course and practice range improvement costs are estimated at just under $2.5 million (2005 dollars). This cost estimate excludes costs related to a suggested tree replacement plan, golf course irrigation system, and other miscellaneous improvements. Including an allowance for these components, the total cost estimate is more likely in the $3.0 million range.

The master plan does not address clubhouse improvements. Such improvements could range from minor cosmetic upgrades to full renovation or new clubhouse construction, with corresponding costs ranging from less than $100,000 to $1.5 million (5,000 square feet), or more.

Table III-4

MASTER PLAN COST ESTIMATE
(thousands of 2005 dollars)

Component	Amount
Hole 1	$ 27.1
Hole 2	77.7
Hole 3	10.8
Hole 4	55.7
Hole 5	22.8
Hole 6	199.6
Hole 7	132.2
Hole 8	102.2
Hole 9	24.4
Hole 10	34.4
Hole 11	143.8
Hole 12	270.7
Hole 13	55.4
Hole 14	89.7
Hole 15	239.9
Hole 16	28.1
Hole 17	144.4
Hole 18	23.3
Subtotal	$1,682.2
Practice Range	632.0
Total	$2,314.2

Source: Rainville-Bye Golf Course Architects.

Section IV

DEMOGRAPHIC AND GOLF MARKET OVERVIEW

The following section provides background data and a brief overview of the regional golf market. An appropriate market area for Oceanside Golf Course is defined and demographic characteristics are discussed. The inventory of existing golf courses in the market area is reviewed and future golf supply is identified.

MARKET AREA DEFINITION

The primary market area for a golf course is influenced by a number of factors including course quality, rate structure, transportation network and access, location and characteristics of competitive facilities, resident demographic attributes, and other such factors. The primary market area for the subject facility, from which 60-70 percent of total play is expected to derive, is defined as the area within about a 20-minute drive time, equivalent to about a 10-mile radius from the course. As defined, the primary market area extends from the ocean on the west to Bonsall and San Marcos on the east and from Camp Pendleton on the north to Batiquitos Lagoon/La Costa Boulevard on the south (Figure IV-1).

Demographic Characteristics

A summary demographic profile for the primary market area, San Diego County, and California is shown in Table IV-1. The population of San Diego County as a whole experienced tremendous growth during the 1980s, increasing from 1.8 million in 1980 to 2.5 million in 1990 which represents an annual growth rate of 3 percent. The County population growth rate has averaged about 1.3 percent annually since 1990 to its current level, estimated at just over 3 million. By 2010, the County population is forecast to reach 3.3 million.

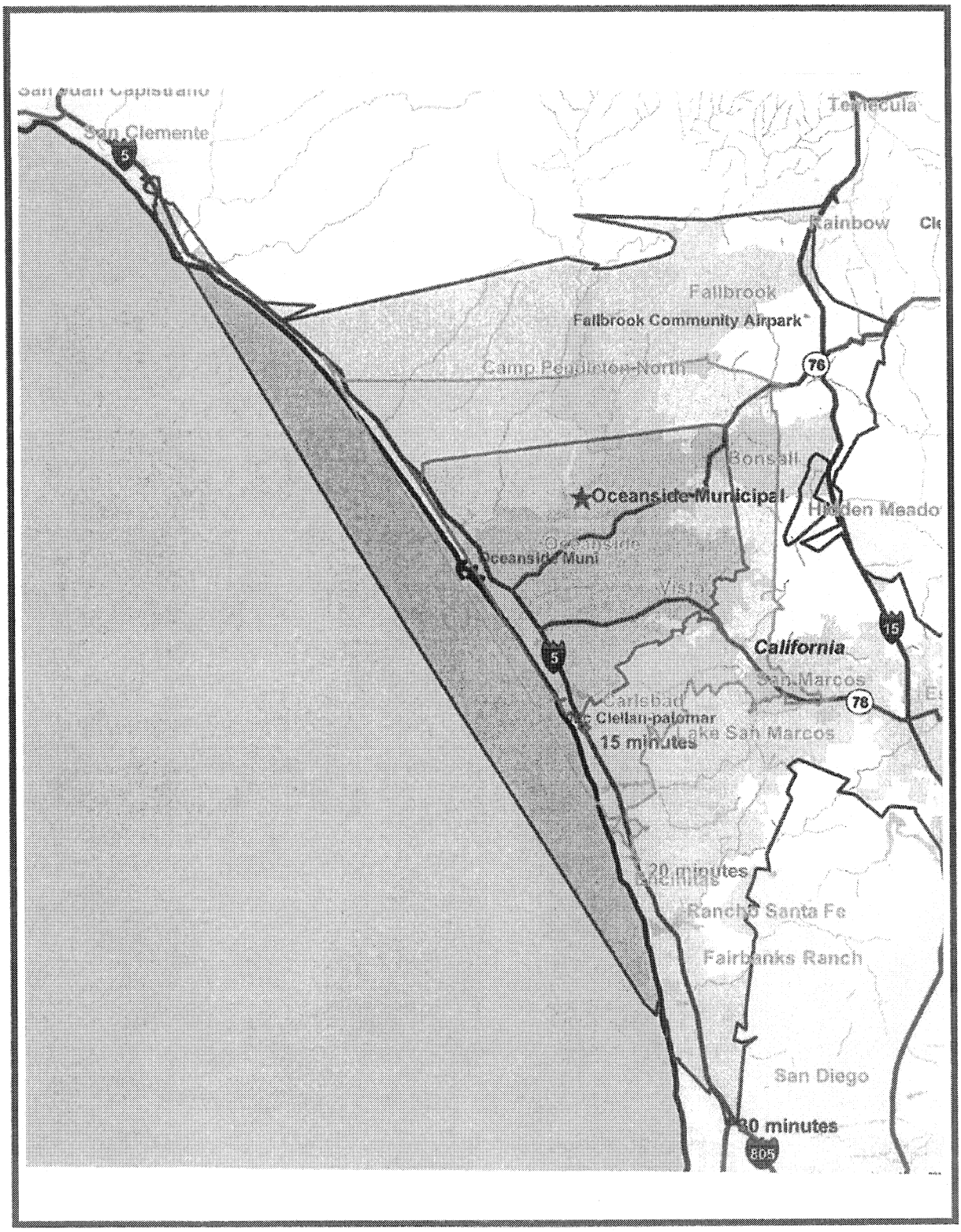


Figure IV-1

OCEANSIDE PRIMARY MARKET AREA

Table IV-1

DEMOGRAPHIC CHARACTERISTICS

	Primary Market Area[1]	San Diego County	State of California
Population (000s)			
1990 Census	300.1	2,498.0	29,758.2
2000 Census	361.4	2,813.8	33,871.6
2005 Estimate	395.0	3,053.3	36,529.7
2010 Projection	426.9	3,296.9	39,339.2
Average Annual Growth			
1990-2000	1.9%	1.2%	1.4%
2000-2005	1.8%	1.6%	1.5%
2005-2010	1.6%	1.5%	1.5%
Median Age	32.6	34.0	34.0
Population 65+	11.8%	11.1%	10.7%
Median Household Income	$54,200	$55,300	$56,000
Percent of Households with Annual Incomes Exceeding			
$100,000	20.8%	22.7%	24.4%
$150,000	7.5%	9.0%	10.4%
$200,000	3.7%	4.8%	5.7%

[1]Defined as 20-minute drive time or 10-mile radius.

Source: ESRI Business Analyst Online; U.S. Census; and Economics Research Associates.

The average growth rate of the primary market area population is comparable to that of the County. As indicated, the population of the primary market area is estimated at about 395,000 currently. By 2010, the primary market area population is forecast to reach 426,900, reflecting an annual increase of about 1.6 percent.

Primary market area age characteristics reflect two significant demographic components – young families and retirees. The median age of primary market area residents is 32.6 years as compared to 34.0 years for San Diego County and the State. The 65+ age cohort accounts for about 11.8 percent of the primary market area total population, compared to 11.1 percent for San Diego County and 10.7 percent for California.

Household income characteristics of primary market area residents are comparable to County residents overall. The median household income of primary market residents is estimated at $54,200 compared to the County median of $55,300 and the State median of $56,000. About 20 percent of primary market area households earn $100,000 or more annually compared to 23 percent of total households countywide.

GOLF MARKET OVERVIEW

National Market Trends

In general, golf markets in most parts of the country have softened considerably over the past four years, with the high-end daily fee segment most affected. This softening has resulted primarily from excessive expansion, again mostly in the high-end daily fee market segment, as well as a decline in corporate sponsored individual and tournament play. Golf demand at all but the highest price market level is expected to continue to increase with America's aging, albeit at a very modest pace of 1-2 percent per year. While golf course supply expansion has slowed considerably, most golf markets have seen only very modest signs of recovery beginning with a slight increase in 2004 and 2005 play levels.

Regional Market Trends

Golf demand in Southern California has been increasing steadily over the past 10 to 20 years, with strong growth occurring since the mid- to late-1980s time period. At the same time, there was relatively limited expansion of the inventory of golf facilities. In response to increasing demand and a static supply situation, a number of golf courses were developed. The total number of public golf courses that have opened in Southern California since 1995 is summarized below:

	Number of Golf Courses Opened By Year					
Year	Los Angeles	Orange	Inland Empire[1]	Ventura	San Diego	Total
Up to 1995	40.5	21.0	44.5	12.5	33.0	151.5
1996	0.0	2.0	1.0	0.0	0.0	3.0
1997	0.0	1.0	1.0	0.0	0.0	2.0
1998	0.0	0.0	1.0	0.0	1.0	2.0
1999	1.0	2.5	2.0	2.0	2.0	9.5
2000	3.0	0.0	5.0	1.0	1.0	9.0
2001	0.0	3.0	1.0	1.0	1.0	7.0
2002	0.0	0.0	1.0	2.0	0.0	3.0
2003	0.0	0.0	1.0	0.0	0.5	1.5
2004	1.0	1.0	0.0	0.0	0.0	2.0
2005	0.0	0.0	0.0	0.0	1.5	1.5
Change in Inventory (1996-2005)						
Number	5.0	9.5	13.0	6.0	7.0	40.5
Percent	12%	45%	29%	48%	21%	27%

[1]Excludes Coachella Valley.

As shown, these additions represent a 48 percent increase in the Ventura County public golf course inventory, a 45 percent increase in Orange County, a 29 percent increase in the Inland Empire, a 21 percent increase in San Diego County, and a 12 percent increase in Los Angeles County.

As a result of the significant increase in inventory over a relatively short period of time coupled with a downturn in the economic health of the region in the 2002-2003 period, the Southern California public golf market has experienced a significant slowdown over the past three years, particularly in the high-end daily fee segment. Annual play on most high-

end daily fee courses in the region has declined an average of about 10-15 percent over the last three years, with some experiencing reductions of 15-25 percent over this time period.

San Diego County Market Conditions

The San Diego County public golf market has fared somewhat better than most national markets. There currently are 40 regulation length daily fee golf courses serving San Diego County. Additions to the inventory since 1990 are as follows:

	New Public Course Openings
Mt. Woodson	1991
Aviara	1991
Steele Canyon	1991
Eastlake	1991
Vineyard	1993
Eagle Crest	1993
Twin Oaks	1993
Encinitas Ranch	1998
Grand del Mar	1999
Maderas	1999
Auld	2000
Barona Creek	2001
Woods Valley Ranch	2003/2005
Arrowood	2005

With the opening of Encinitas Ranch, Grand del Mar (formerly Meadows del Mar) and Maderas, the upper mid- and high-end daily fee golf market softened, although the well-designed midmarket courses (e.g. Encinitas Ranch, Twin Oaks, Arrowood, Barona Creek) have performed very well. Play levels at most courses have remained more or less unchanged over the past three years. However there are a number of manifestations of market softness:

- The rate of increase in greens fees has declined and, in some cases, rates have been reduced.
- Twilight times for many courses have been moved up as an inducement, and a super twilight rate has been introduced.
- Greens/cart fee "specials," particularly during the week, have emerged.

- Differentiation between County resident and nonresident rates has been introduced as an inducement for residents, without sacrificing revenue from the less price sensitive visitor market.
- New golf course construction and planning has slowed considerably.

The upper end of the daily fee golf market is likely to remain sluggish in the near term as the market works to absorb the new supply. However, as development opportunities become limited due to lack of available land suitable for golf course development and as the population continues to grow and mature, it is anticipated that market area demand will catch up with supply, such that the long-term outlook remains favorable.

Golf Course Survey

Greens fees and play levels at regional golf courses are summarized in Table IV-2. Table IV-3 presents characteristics of selected competitive daily fee courses in the region. As noted, play levels at most courses have declined or remained more or less unchanged over the past several years. At the same time, the rate of increase in greens fees has slowed although the rate increases have been such that total greens/cart revenue has remained steady at most facilities.

Aviara, Maderas and Grand del Mar represent the high end of the daily fee golf market in San Diego County. Aviara greens fees are the highest in the market — $195 during the week and $205 on weekends. Greens fees are $135 Monday through Thursday and $175 Friday through Sunday at Maderas in Poway and $90 Monday through Thursday and $115 Friday through Sunday at Grand del Mar.

Mid-market North County daily fee golf courses, which include Carmel Mountain Ranch, Eagle Crest, Arrowood, Mount Woodson, Twin Oaks, and Redhawk are generally accommodating between 45,000 and 55,000 total rounds annually at greens fees of $50–60 (including cart) during the week and $70–80 (including cart) on weekends. The overall weighted average greens/cart fee revenue per round typically is about $40-50 for these facilities.

Table IV-2

SUMMARY OF GREENS FEES AND PLAY LEVELS 2005/2006

Golf Course	Number of Holes	Annual Rounds	18-Hole Greens Fees (including cart) Monday-Thursday	Friday	Saturday-Sunday
Oceanside	18	79,700	$33.75/38[1]	$33.75/38[1]	$36.25/47[1]
Carmel Mountain Ranch	18	40,000	83/53[1]	93/63[1]	105/75[1]
Arrowood	18	48,000	62/47[2]	70/55[2]	90/75[2]
Pala Mesa	18	52,000	69	74	85
Temecula Creek	27	70,000	60	60	80
Mount Woodson	18	46,000	65	85	90
Eagle Crest	18	50,000	55	60	75
Fallbrook	18	60,000	37	37	47
San Luis Rey	18	60,000	44	46	64
Castle Creek	18	48,000	43	45	56
Meadow Lake	18	50,000	43	43	59
San Vicente	18	65,000	51	61	61
Twin Oaks	18	50,000	60/42[2]	65/47[2]	80/62[2]
Steele Canyon	27	68,000	45/84[1]	55/84[1]	89/124[1]
Riverwalk	27	65,000	55/95[1]	69/105[1]	79/105[1]
Aviara	18	44,000	195	205	205
Maderas	18	38,000	135	175	175
Grand del Mar[3]	18	35,000	110	140	140
Rancho Bernardo Inn	18	48,000	59/90[1]	69/90[1]	85/115[1]
Carlton Oaks	18	48,000	55	60	80
Redhawk	18	45,000	60	60	80
Doubletree-Carmel Highland	18	40,000	60	70	80
Encinitas Ranch	18	70,000	66[4]	71[4]	86[4]
Vineyard	18	60,000	44/49[1]	44/49[1]	45/65[1]
Barona Creek	18	38,000	80	80	100
The Auld Course	18	36,000	50/75[1]	60/85[1]	74/95[1]
Torrey Pines					
South	18	75,000	56/101/131[5]	56/101/131[5]	61/116/151[5]
North	18	100,000	45/76/91[5]	45/76/91[5]	50/81/101[5]

[1]Resident/nonresident. [2]County resident/nonresident/JC Player. [3]Formerly Meadows del Mar. [4]Southern California resident. [5]City/county/visitor. [6]Projected Year 1.

Source: Economics Research Associates.

Table IV-3

SELECTED CHARACTERISTICS OF PUBLIC GOLF COURSES
San Diego County
2006

Course/Location	Oceanside Oceanside	The Vineyard Escondido	Eagle Crest Escondido	Mount Woodson Ramona	Twin Oaks San Marcos	Encinitas Ranch Encinitas
Course Type	Municipal	Municipal	Daily fee	Daily fee	Daily fee	Municipal
Course Architect	Bigler	David Rainville	Rainville	Landmark	Ted Robinson	Bickler
Owner	Oceanside	Escondido		Capital Golf	JC Golf	Encinitas
Operator	American Golf	American Golf		Capital Golf	JC Golf	JC Golf
Year Opened	1970	December 1993	May 21, 1993	August 1991	May 1, 1993	March 1, 1998
Number of Holes	18	18	18	18	18	18
Par	72	70	72	70	72	72
Course Length (back/middle)	6,450/6,056	6,301/5,930	6,417/6,035	5,779/5,218	6,535/6,146	6,821/6,521
Rating (back/middle)	70.6/68.8	71.2/69.4	71.6/69.3	68.8/65.7	71.9/70.1	72.2/71.0
Slope (back/middle)	122/117	127/122	136/125	130/121	130/126	127/124
Greens Fees						
Standard (18 Holes)						
Weekday	$26	$49	$55/60[1]	$65/85[1]	$60/65[1]	$54/59[1]
Weekend	$35	$65	$75	$90	$80	$74
Twilight (9 Holes)						
Weekday	$15.25	$40	$	$30/40[1]	$33/43[1]	$29/33[1]
Weekend	$17.50	$45	$	$40	$43	$40
Resident (18 Holes/Twilight)						
Weekday	$23/12.75	$44/27[3]	---	---	$42/47[1,4]	$37/43[1,5]
Weekend	$25.50/15.25	$45	---	---	$62	$52[5]
Seniors (18 Holes/Twilight)						
Weekday	$12/6	$34/27[3]	$28/35[1]	$39[2]	$42	---
Weekend	---	---	---	---	---	---
Cart Fees (18/9 Holes)		Included	Included	Included	Included	$12/person
Mandatory	No	Weekends 'til 12	Yes	Yes	Yes	No
Percent Using Carts	50%	80%	100%	100%	100%	65%
Inventory	80	75	80	80	75	75
Facilities						
Clubhouse Size (sq.ft.)	4,000	3,500	Modular	Modular		Modular
Seating Capacity	60	---	---	70	---	---
Driving Range	Yes	Yes	Yes	No	Yes	Yes
Number of Tees	25	35	20	---	25	25
Average Daily Rounds						
Weekday	190	150-200	100	100-125	150	175-200
Weekend	225	200-250	175	150-200	245	200-250
Annual Number of Rounds	80,000	60,000	50,000	46,000	50,000	70,000
Percent Twilight/9-Hole Play	30%	20%	10%	15%	20%	25%

Table IV-3
(Continued)

Course/Location	Castle Creek Escondido	Arrowood Oceanside	Barona Creek Lakeside	Carmel Mountain Ranch San Diego	Doubletree-Carmel Highland San Diego	Pala Mesa Fallbrook
Course Type	Daily Fee	Daily Fee	Resort	Daily fee	Resort	Resort
Course Architect	Daray	T. Robinson Jr.	Baird	Ron Fream	Daray	Rossen
Owner		---	Barona Band		MA Mutual	Triple Tree
Operator		JC Resorts	Barona Band		Doubletree	Triple Tree
Year Opened	1956	2005	January 2001	April 1986	1967	1962
Number of Holes	18	18	18	18	18	18
Par	72	72	72	71	72	72
Course Length (back/middle)	6,372/5,939	6,721/6,242	7,088/6,590	6,404/6,023	6,413/6,013	6,504/6,131
Rating (back/middle)	70.8/68.1	72.9/70.9	74.5/72.1	72.0/70.3	70.7/68.4	72.0/70.2
Slope (back/middle)	124/116	140/136	139/133	131/123	123/116	131/127
Greens Fees						
Standard (18 Holes)						
Weekday	$43/45[1]	$52/60[1]	$80[6]	$83/93[1]	$60/70[1]	$69/74[1]
Weekend	$56	$75	$100[6]	$105	$80	$85
Twilight (9 Holes)						
Weekday	$29/31[1]	$35	$50[6]	$41/46[1]	$40	$
Weekend	$40	$45	$60[6]	$51	$50	$
Resident (18 Holes/Twilight)						
Weekday	---	$47/55[1]	---	$53/63[1,6]	---	---
Weekend	---	$75	---	$75	---	---
Seniors (18 Holes/Twilight)			---			
Weekday	$30[11]	$42	---	$47[2]	$50[2]	---
Weekend	---	---		---	---	---
Cart Fees (18/9 Holes)	Included	Included	Included	Included	$10/8 per person	Included
Mandatory	Fri-Sun a.m.	No	Yes	Yes	On weekends	Yes
Percent Using Carts	60%	90%	100%	100%	60%	100%
Inventory	75	80	84	80	80	90
Facilities						
Clubhouse Size (sq.ft.)	11,000	6,000	4,000	20,000	n.a.	---
Seating Capacity	200	120	120	190	700	600
Driving Range	Yes	Yes	Yes	No	Yes	Yes
Number of Tees	15	30	20	---	No	Yes
Average Daily Rounds						
Weekday	140	145	---	100	100	150
Weekend	220	200	---	150	150	175
Annual Number of Rounds	50,000	48,000	38,000	40,000	40,000	52,000
Percent Twilight/9-Hole Play	20%	12%	5%	15%	10%	15%

[1]Monday through Thursday/Friday. [2]Monday through Thursday. [3]Escondido and San Diego cities. [4]JC Player rate is $38/42/58. [5]Encinitas resident/JC Player rate is $3 more.
[6]Includes range balls.
Source: Economics Research Associates.

FUTURE GOLF SUPPLY

New golf course construction and planning has slowed considerably in recent years. Planned and proposed golf course projects in the region are summarized in Table IV-4. In terms of future public golf courses, only one golf course currently is under construction in north San Diego County. Among the other golf courses which are in some form of planning in the region, the City of Carlsbad's municipal golf course located adjacent to Legoland, is the most prominent. After a long entitlement process, course construction began recently. Owing to significant development costs, the golf course will be oriented toward the high-end of the market. While there are discussions about other facilities, most are unlikely to enter the market due to environmental considerations, cost of development, and land use issues.

Table IV-4

SAN DIEGO COUNTY FUTURE GOLF COURSE SUPPLY

Golf Course/ Development/Location	Number of Holes	Course Type	Status	Comments
City of Carlsbad Palomar Airport Road Carlsbad	18	M/R	UC	City of Carlsbad high-end municipal course, with opening scheduled for 2007. Greens fees at $80-$100 for non-residents ($60-$75 for residents).
San Pasqual Indian Reservation North L. Wohlford Road Valley Center	18	DF/R	P	Golf course proposed as part of large-scale resort/casino development.
NCFUA Subarea I Black Mountain Road San Diego	18	DF	A	Part of Black Mountain Ranch specific plan area. Daily fee course approved for later phase of development.
San Elijo Hills San Elijo Hills Development Co. San Marcos	18	DF	P	Scott Miller design. Proposed as part of 3,400-unit planned residential community.

Status: DF = Daily Fee, M = Municipal, R = Resort, P = Proposed, A = Approved, UC = Under Construction

Source: Economics Research Associates.

Section V

GOLF COURSE OPERATING OPTION

There are two basic golf course operating options for Oceanside Municipal available to the City of Oceanside following expiration of the current lease agreement:

1) **Facility Lease** – Under this option, the golf course 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 generally ranges from 15 to 30 years, or more. The current Oceanside Municipal, Mission Trails, and Chula Vista courses are examples of facility leases.

2) **Management Contract** – This option relates to a fee-for-service contract with either a director of golf or an outside management company. All golf functions (maintenance, golf operations, management) would be under the authority of the contract golf director or management firm. 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 Carlsbad Municipal Course (under construction), Encinitas Ranch and Yorba Linda's Black Gold.

A third basic option, City self-operation, exists, but the City 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 golf course maintenance.

GOLF FACILITY LEASE TERMS

Table V-1 presents a summary of golf course "turnkey" lease terms — facilities where all operations are leased to a contract operator – for selected California public properties.

Table V-1

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

Course Location	Oceanside Oceanside	Chula Vista Chula Vista	Mission Trails San Diego	Los Lagos/Mesa Linda Costa Mesa	Brookside Pasadena	Mountain Meadows Pomona
Lessor Lessee	Oceanside American Golf	Chula Vista American Golf	San Diego American Golf	Costa Mesa Mesa Verde Partners	Pasadena American Golf	L.A. County American Golf
Agreement Date	1982	1986	1986	1992	1986	1991
Lease Term (years)						
Initial	10	20	35	18[1]	20	10
Option Extension	3-5	10	---	2-5	5	---
Percentage Rents						
Greens	30%	15%	11.5%	30/35%[2]	38.45	35/52%[2]
Carts	30%	15%	10.5%	30/35%	38.4%	35/52%[4]
Range	30%	15%	10.5%	30/35%	38.4%	33%
Merchandise	6%	6%	6.0%	6%	---	5%
Lessons	6%	6%	10.0%	5%	---	10%
Food and Beverage	6%	6%	10.5%	11%	---	10%
Liquor	6%	6%	10.5%	11%	---	12%
Banquet Room Rental	---	6%	---	25%	---	25%
Required Capital Improvements	---	$1.4M	$104,000	$1.938M[1]	---	$500,000
Replacement Reserve Requirements	3% of greens	---	---	5% of greens	4% of total gross	---[6]
Cost of Water	Tenant	Tenant	Tenant	Tenant	Tenant	County

Table V-1
(Continued)

Course Location	La Mirada La Mirada	Lakewood CC Lakewood	Los Verdes Palos Verdes	Buenaventura/ Olivas Park Ventura	Meadowlark Huntington Beach	Victoria Carson	Simi Hills Simi Valley
Lessor Lessee	L.A. County American Golf	L.A. County American Golf	L.A. County American Golf	City of Ventura Evergreen	Huntington Beach American Golf	L.A. County Palmer	Rancho Simi Rec. Golf Enterprises
Agreement Date	1995[11]	1994	1994[11]	2000	1993	1999[12]	1991
Lease Term (years)							
Initial	15	30	15	2	25	30	15
Option Extension	---	---	---	1 (city)	15 (city)	---	---
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	---[9]	---[6]	---[9]	---	---	---	5% of total revenue
Cost of Water	Tenant	Tenant	Tenant	Tenant	Tenant	Tenant	Tenant

[1]Term extended for additional 10 years with commitment of additional $1 million in capital improvements.
[2]Higher percentage applied to monthly gross revenue exceeding $150,000 for greens fees, $40,000 for carts, and $20,000 for practice range.
[3]Higher percentage applied to revenue from monthly rounds exceeding 8,333. [4]Higher percentage applied to monthly gross revenue exceeding $10,000.
[5]Higher percentage applied to monthly gross revenue exceeding $4,167. [6]10% of greens fees, credited against lessee rental payments.
[7]No range at Buenaventura. [8]Percentages relate to years 1-2, 3-10, 11-18, and 19-25, respectively. [9]Separate food and beverage concessionaire.
[10]Percentages relate to years 1-7, 8-12, 13-18, 19-30, respectively. [11]Term extended for an additional 15 years with commitment of additional capital improvements.
[12]Original 40-year lease term expires in 2007, course refurbishment resulted in 30-year extension of lease to 2037.
[12]Rent percentages apply to the 5-year option period, exercised in 2005.

Source: Economics Research Associates.

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 are reflected in more favorable lease terms to the lessor since the early 1990s.

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. Due to front-end lessee capital improvement requirements, the term of the lease must be long enough to amortize capital expenditures. The length of the term normally is a function of the level of capital improvements. There are several short-term agreements (less than five years) listed which relate to continued agreements with operators where minimum capital improvements are required or where an option extends 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. The percentage rents are a function of the length of term, required capital improvements, utility sharing agreements, and the replacement reserve requirements. Percentage rents may "step up" over the term of the lease (see Table V-2). 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.

Table V-2

PERCENTAGE RENT SURVEY BY CONTRACT YEAR

Contract Year	Course	Golf Percentage Rent Year 3	Year 6	Year 11	Year 16	Year 21	F&B	Merchandise	CIP	Initial Cap Investment (millions)	Term (years)
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 Country Club	30%	31%	32%	33%	33%	11%	6%	5% G	2.2	18
1993	Meadowlark	10%	10%	18%	18%	25%	3%	0%	---	3.5	25
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]	---	7.15	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] T	2.0	20
1996	Black Horse/Bayonet	5%[3]	5%	5%	5%	5%	5%	5%	---	1.6	40
1997	Monarch Bay	25%	27%	30%	30%	30%	5%	5%	2% T	8.1	35
1999	Mile Square	30%	30%	35%	35%	40%	6%	6%	---	7.5	40
1999	Long Beach Muni	30%[4]	30%	30%	30%	30%	8/12%	8%	11%[7] 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] T	3.0	30
2001	Galbraith	15%	18%	20%	23%	25/28%[6]	4%	4%	4% T	8.0	40
2004	Long Beach	30%[11]	30%[1]	30%[1]	30%[1]	---	8/12%	8%	11% G	2.6	20
2005	Brookside[10]	38.4%	38.4%	---	---	---	---	---	4% G	---	5

T = Total G = Golf Related

[1]30% 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 range at 17%. [10]Represents 5-year option period. [11]35% on carts; 30% on range.

Source: Economics Research Associates.

- **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 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**. Due to the high cost of water in California, there may be some cost sharing of utilities, or some protection provided the lessee in terms of ceilings or caps on utility rate increases.

For facility lease agreements, the market potentials, specific course maintenance requirements, areas of lessor/lessee responsibility, and other contract terms must all be considered in establishing an equitable lease structure. Thus, while the experience of other courses can serve as a general guideline, specific consideration of the characteristics of Oceanside Municipal, along with the overall objectives of the city, will influence the structure of contract terms.

Of particular note are four municipal golf courses located in Los Angeles County which have exercised option terms or renegotiated a lease extension based on a substantive capital improvements program. These include Victoria Golf Club in Carson, Los Verdes Golf Course in Rancho Palos Verdes, Brookside Golf Course in Pasadena and El Dorado Golf Course in Long Beach. Each of these courses is located within a somewhat stronger golf market than with San Diego County.

Victoria

In 1999, Palmer Golf committed to a $4.3 million full golf course renovation of Victoria golf course in Carson. The County of Los Angeles leased the complex for 30 years to Palmer. Golf percentage rent steps up from 30 percent for the initial 10 years, to 34

percent in years 11-15, 37 percent in years 11-20, and 40 percent in years 21-30. The County sets aside 10 percent of the rent on greens fees for future capital improvements.

Los Verdes

American Golf leases Los Verdes golf course, located in Rancho Palos Verdes, from the County of Los Angeles. The 15-year agreement commenced in 1994, and involved $800,000 in front-end capital investment. The lessee pays 40 percent of golf revenue over the full term. Again, the County sets aside 10 percent of the rent in greens fees for future capital improvements. Irrigation is very expensive at Los Verdes, costing the lessee about $350,000 per year.

Brookside

American Golf has leased Brookside golf course in Pasadena from the City since 1986. With amendments, the terms were 20 years, but in 2005, American Golf executed a five-year option, extending the term to 2011.

The option calls for golf percentage rent to increase from 35 percent to 40 percent. There also is 4 percent golf revenue CIP reserve. The 4 percent reserve is deducted off the top, leaving 96 percent of golf revenues, to which the 40 percent rent is applied. The 36-hole facility generates about $6 million annually in golf gross revenue.

El Dorado

El Dorado golf course in Long Beach, along with four other City courses, are leased by American Golf from the City of Long Beach. The original agreement commenced in 1984 and had a term of 15 years. In 1999, the lessee committed about $1 million in improvements to El Dorado and $1.6 million to other Long Beach courses over the subsequent seven years in exchange for a 10-year extension. Percentage rent remained at 40 percent on greens fees, but was increased from 30 to 35 percent for carts, from 25 to 30 percent on the range. The 40 percent greens fees includes a 10 percent CIP reserve set aside. In 2004, with the renovation of Skylinks, an additional five-year extension was granted with an extra 1 percent of greens fees paid for the City's junior golf program.

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.

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

MANAGEMENT AGREEMENTS

Increasingly, there are a number of public agencies which are moving to a management contract approach to operations and maintenance. Typically, these agreements have a 5-year term. The management fee is in addition to all on-site salaries and expenses.

A summary of management agreement terms and conditions relating to higher quality municipal golf course operations in California is presented in Table V-3, and includes the following:

- Carlsbad Municipal; Carlsbad, California
- Callippe Preserve; Pleasanton, California
- Harding Park; San Francisco, California
- Encinitas Ranch; Encinitas, California
- Black Gold; Yorba Linda, California
- Resort at Indian Wells; Indian Wells, California
- SilverRock Resort; La Quinta, California
- Desert Willow; Palm Desert, California

Six of the eight complexes feature 18-hole courses, while two – Desert Willow and the Golf Resort at Indian Wells – provide 36 holes.

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

Table V-3

MANAGEMENT AGREEMENT TERMS AT SELECTED CALIFORNIA PUBLIC GOLF COURSES

Golf Course	Callippe Preserve Golf Course	Harding Park	Encinitas Ranch	Black Gold
Location	Pleasanton	San Francisco	Encinitas	Yorba Linda
Course Type	Upscale Municipal	Upscale Municipal	Municipal	Upscale Municipal
Number of Holes	18	18	18	18
Owner	City of Pleasanton	City of San Francisco	Encinitas Ranch Golf Auth.	City of Yorba Linda
Manager	CourseCo	Kemper Sports Mgmt.	J.C. Resorts	Kemper Sports Mgmt.
Agreement Date	2004	2003	2002	2006
Term (years)	5	7	10	5
Options	None	None	None	None
Options Holder	---	---	---	---
Annual Gross Revenue – 2005	$4,000,000	$6,000,000	$4,700,000	$5,800,000
Base Annual Fee	$75,000	$192,000	$150,000	$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 – 2005				
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	$24K/year	None
Performance/Other Deposit	$50,000	$100,000		$50,000
No Compete Restrictions	No	6 months		No

Table V-3
(Continued)

Golf Course	Golf Resort at Indian Wells	SilverRock	Desert Willow	Carlsbad Municipal
Location	Indian Wells	La Quinta	Palm Desert	Carlsbad
Course Type	Upscale Municipal	Upscale Municipal	Upscale Municipal	Upscale Municipal
Number of Holes	36	18	36	18
Owner	City of Indian Wells	City of La Quinta	City of Palm Desert	City of Carlsbad
Manager	OB Sports	Landmark Golf Mgmt.	Kemper Sports	Kemper Sports
Agreement Date	2005	2004	2006	2006
Term (years)	5	5	2	5
Options	None	None	Two 1-year	None
Options Holder	---	---	City	---
Annual Gross Revenue – 2005	$8,000,000[1]	$3,700,000	$8,300,000	$5,500,000[3]
Base Annual Fee	$120,000	$90,000	$300,000	$100,000
CPI Adjusted	Yes	No	No	No
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
Management Functions				
Course Maintenance	X	X	X	X
Golf Operation	X	X	X	X
Food and Beverage	X	X	X	X
Annual Compensation – 2005				
Base	$120,000	$90,000	$300,000	$150,000[3]
Incentive	60,000[1]	---	115,000	50,000
Total	$180,000	$90,000	$415,000	$200,000
% of Total Gross Revenue	2.25%	2.4%	5.0%	3.6%
Reimbursements	Accounting/Payroll – 2.0% of payroll	None	None	None
Performance/Other Deposit	None	$25,000	None	None
No Compete Restrictions	None	None	2 years	None

[1]Projected following completion of 36-hole renovation.
[2]Annual gross revenue threshold set at about $2 million below expected gross revenue. Threshold is set annually.
[3]Projected for opening year (2007).

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. In cases where a cancellation provision after three years 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, rante) 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 entity.

Incentive compensation normally is triggered by performance which exceeds predetermined levels of net operating income (EBITDA) or gross revenue. Since expenses are reasonably predictable, incentive payments based on gross revenue exceeding specified threshold levels are workable.

Importantly, all gross revenue is not the same. Golf revenue (greens, carts, and range) has little associated variable cost, whereas merchandise and food and beverage have

very high variable costs. Each should be treated independently, such that incentive classes should more greatly reward extraordinary golf revenue compared with merchandise, food and beverage, lessons, etc.

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
- Management Reporting and Accounting Systems
- Internal Audits
- Budgeting Support
- Payroll Benefit Administration
- Marketing Support
- Agronomical Support

Typically, all of this service is included under the management fee. If not, an accordingly lower management fee would be expected.

Other Provisions

In some cases, a performance deposit from the management company to the owner is required. For the agreements reviewed, these range from $25,000 to $100,000.

Some management agreements allow some home office/corporate expenses to be reimbursed by the golf course. Most common is a fee for day-to-day accounting. The alternative to accounting reimbursements is to retain the day-to-day accounting function onsite, and paid from the golf course budget.

In some cases – although not applying to any of the agreements summarized in the exhibit – other home office expenses or allocations are charged in addition to the management fee. Clearly, the overall compensation consists of the sum of the base fee, incentive fee, and reimbursements.

The strengths and weaknesses of the options are outlined in Table V-4. 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).

The turnkey facility lease often yields a reasonable financial return to the city and requires the least city involvement, but where a high maintenance and golf operations and service levels may be below those desired by the City. As well, the city typically relinquishes substantial control over golf practices and policies. 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 contract 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

Table V-4

STRENGTHS AND WEAKNESSES OF GOLF COURSE OPERATING OPTIONS

OPTION I Facility Lease	OPTION II Facility Service Contract
STRENGTHS	
• Provides strong financial return to city. • Minimizes financial risk. • Minimizes political influence. • Offers potential benefits in golf management expertise and specialized maintenance support services. • May provide private capital investment in facilities.	• Provides strong financial return to city. • Provides high level of city control. • Greater potential quality assurance. • Opportunity to provide shorter term contracts.
WEAKNESSES	
• Minimum operational and quality control. • May involve long-term commitment. • Minimizes financial upside.	• Requires more city involvement than facility lease option. • Minimizes private investment in facilities. • Entails greatest level of city financial risk.

Source: Economics Research Associates.

the private sector (management of daily fee golf courses). However, there appears to be 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.

Section VI

FINANCIAL PROJECTIONS

Based on a review of operations at Oceanside Golf Course, proposed master plan improvements, current and anticipated golf market conditions, and other factors and considerations, this section offers golf course financial projections and City net revenue expectations under the two basic operating options reviewed in the previous section of the report.

CURRENT OPERATING INCOME

Historical annual golf course net operating income, as reported by the current course operator, along with rental payments accruing to the City, for calendar years 2000 through 2005 is presented in Table VI-1. Net operating income for 2005 is summarized below:

	Amount ($000)
Gross Revenue[1]	$2,136
Less: Cost of Sales	170
Gross Operating Profit	$1,966
Less: Operating Expenses[2]	1,219
Net Operating Income	$ 747
Less: City Rent[3]	566
Adjusted Net Income, before internal management fee	$ 181

[1]Excludes capital improvement surcharge.
[2]Excludes internal corporate overhead/internal management fee.
[3]Includes capital improvement fund construction, equal to 3% of greens fees ($39,000).

COMPARATIVE OPERATING EXPENSES

Table VI-2 presents a summary of golf course operating expenses for selected municipal/entry level and midmarket daily fee golf courses in the region, designated as courses A-E to avoid disclosure of the individual participating facility. Current operating

Table VI-1

HISTORICAL OPERATING PERFORMANCE
Oceanside Golf Course
2000-2005
(In Thousands of Dollars)

	2000	2001	2002	2003	2004	2005
Revenue						
Greens Fees	$1,375.8	$1,434.3	$1,427.3	$1,385.0	$1,319.4	$1,247.1
Carts	388.8	431.1	441.6	424.1	408.2	373.6
Practice Range	106.2	95.3	89.9	95.9	91.3	86.7
Merchandise	126.5	140.5	133.6	130.0	125.0	102.7
Food and Beverage	339.7	347.8	347.7	353.3	360.6	310.5
Miscellaneous	14.0	13.2	15.2	14.0	5.0	15.3
Total Revenue	$2,351.1	$2,462.3	$2,455.3	$2,402.3	$2,309.3	$2,135.9
Cost of Sales						
Merchandise	81.6	94.8	93.1	94.7	92.2	66.3
Food and Beverage	104.4	102.2	103.4	111.6	113.5	103.7
Subtotal	186.0	196.9	196.4	206.3	205.7	170.0
Gross Profit	$2,165.1	$2,265.3	$2,258.9	$2,196.0	$2,103.6	$1,965.8
Operating Expenses						
Course Maintenance						
Payroll	$276.5	$288.8	$267.9	$259.0	$258.0	$274.6
Services & Supplies	90.2	116.9	86.3	95.3	116.7	124.4
Water & Utilities	178.3	181.4	196.3	180.6	221.6	179.0
Maintenance Equip. Lease	40.0	38.4	36.4	35.1	23.7	24.8
Subtotal Course Maint.	$585.0	$625.5	$586.9	$570.0	$620.0	$602.8
Golf Operations						
Payroll	$151.4	$158.2	$149.3	$138.3	$130.7	$119.0
Services & Supplies	47.6	51.4	43.2	31.2	23.6	27.4
Cart Lease	60.0	57.6	50.7	48.6	53.4	52.1
Subtotal Golf Ops.	$259.0	$267.2	$243.3	$218.2	$207.8	$198.4
Food and Beverage Op Exp.	$98.8	$103.1	$105.6	$107.8	$155.8	$137.8
Clubhouse Undistributed	$10.6	$11.4	$14.2	$16.5	$24.5	$26.4
General and Administrative						
Payroll	$131.7	$137.5	$128.8	$106.4	$126.6	$113.9
Insurance	8.0	8.4	14.0	15.9	16.4	21.8
Property Taxes	39.8	40.5	40.7	40.7	40.7	33.7
Advertising/Promotion	19.2	22.2	-	-	-	-
Other Services & Supplies	52.5	57.3	52.2	50.0	67.8	84.1
Management Fee	96.4	97.6	-	-	-	-
Subtotal G&A	$347.6	$363.6	$235.8	$212.9	$251.6	$253.5
Capital Repl. Reserve	-	-	-	-	-	-
Total Expenses	1,301.0	1,371.0	1,185.8	1,125.4	1,259.7	1,218.8
Net Operating Income	$864.1	$894.4	$1,073.1	$1,070.6	$843.9	$747.0
Less: Facility Rent	619.6	663.1	662.9	647.0	619.2	566.1
Adjusted Net Operating Income	$244.5	$231.3	$410.2	$423.6	$224.7	$180.9

Source: American Golf Corporation and Economics Research Associates.

Table VI-2

COMPARATIVE OPERATING EXPENSES*
(Thousands of Constant 2006 Dollars)

	Municipal/Entry Level		Mid-Market Daily Fee			Oceanside Municipal	
	A	B	C	D	E	Current	Projected
Course Maintenance							
Salaries and Benefits	$ 300	$ 325	$ 350	$ 495	$ 440	$ 274	$ 275
Services and Supplies	150	160	150	220	240	125	125
Water and Utilities	235	40	155	275	80	179	200
Maintenance Equipment	50	50	15	140	30	25	50
Subtotal	$ 725	$ 575	$ 670	$1,130	$ 790	$ 602	$ 650
Golf Operations							
Salaries and Benefits	$ 175	$ 110	$ 100	$ 245	$ 270	$ 119	$ 130
Cart Lease	60	55	90	75	20	52	55
Cart Maintenance and Staff	40	45	90	90	50		
Practice Range	20	15	15	55	25		
Services and Supplies	15	25	125	85	40	52	55
Subtotal	$ 315	$ 250	$ 420	$ 550	$ 405	$ 198	$ 220
Clubhouse Undistributed	$ 75	$ 100	$ 50	$ 60	$ 50	$ 26	$ 30
General and Administrative							
Salaries and Benefits	$ 125	$ 135	$ 125	$ 200	$ 185	$ 114	$ 125
Insurance	40	35	35	30	35	22	30
Property Taxes	50	35	130	15	125	34	60
Advertising & Marketing	15	25	30	25	120	---	25
Services and Supplies	125	95	125	185	110	84	85
Base Management Fee	120	120	120	165	170	---	120
Subtotal	$ 475	$ 445	$ 465	$ 720	$ 745	$ 254	$ 445
Course Capital Reserve	---	---	---	---	---	---	---
Total	$1,925	$1,370	$1,605	$2,460	$1,990	$1,080	$1,345

*Excludes food and beverage expenses.

Source: Economics Research Associates.

expenses, as reported by the current course operator, for Oceanside Golf Course also are shown. Considering course maintenance payroll and services and supplies alone, Oceanside expenditures are about 20-30 percent below comparable courses. It is important to recognize that comparison must consider that each golf course has its own unique characteristics in terms of maintenance requirements, the overall physical condition of the course, climate, soil conditions, and other factors. Further, the methods used in maintaining a golf course differ among facilities which may affect cost comparisons.

FINANCIAL PROJECTIONS

The projected economic performance of Oceanside Golf Course will depend on several factors:

- Golf market conditions.
- City-controlled policies, particularly regarding fees and resident privileges.
- Golf course/clubhouse modifications and capital improvements.
- Golf course maintenance standards and golf operation service levels.
- Form of golf course management and agreement terms.

Financial projections are prepared for two development scenarios. The first assumes a modest level of capital improvements (estimated at $1 million and designated "Partial Cap Ex") and the second alternative reflects a more significant program whereby all of the Golf Course Master Plan improvements are completed (estimated at $3 million and designated "Full Cap Ex"). Under both scenarios, a slightly higher maintenance level and golf operations service level are assumed. Both scenarios reflect only negligible clubhouse improvements. Financial assumptions for each scenario are summarized below:

	Current 2005	Partial Cap Ex	Full Cap Ex
Stabilized Play (rounds)	84,000[1]	90,000	95,000
Revenue per Round			
Greens Fee	$16.40[2]	$17.00	$17.50
Cart Fee	4.69	4.70	4.70
Practice Range			
Per Round	0.70	0.75	0.75
Commercial ($000)	20	75	75
Food and Beverage	3.90	4.00	4.00
Miscellaneous ($000)	15	15	15

[1]Estimated for 2006.
[2]Includes capital improvement surcharge.

NET OPERATING INCOME

Based on the above factors and assumptions, net operating income for each scenario is projected at the stabilized play level, expected within one to two years following completion of the improvements program. Operating expenses are increased slightly from existing levels, reflecting an elevation in the course maintenance and customer service levels. Net operating income (in constant 2006 dollars) generated from golf course operations, before rent or debt service, is projected as follows:

	Amount ($000s)	
	Partial Cap Ex	Full Cap Ex
Revenue		
Greens Fees	$1,530	$1,663
Cart Fee	423	447
Practice Range	143	146
Merchandise	126	133
Food and Beverage	360	380
Miscellaneous	15	15
Total Revenue	$2,597	$2,783
Less: Cost of Sales	(203)	(215)
Gross Operating Profit	$2,394	$2,568
Operating Expenses		
Course Maintenance	$ 650	$ 650
Golf Operations	220	220
Clubhouse Undistributed	30	30
Food and Beverage Operating	144	152
General & Administrative	445	455
Total Expenses	$1,489	$1,507
Net Income Before Rent, Debt Services, and Capital Reserve	$ 905	$1,061

PROJECTED CITY INCOME

The income accruing to the City of Oceanside under the two financial projection scenarios, each evaluated under the two operating options outlined in Section V, are presented below.

Facility Lease

The following facility lease terms, fees, and other factors are considered reasonable in the context of the capital improvement needs and current market environment. There clearly are an unlimited number of permutations of these terms which can be formulated, and the market may offer rent terms which are higher or lower than presented. It is important, however, to recognize that the terms must be viewed as a package. As such, changes in specific components (e.g., lease term or capital investment) will affect all other terms accordingly.

	Partial Cap Ex	Full Cap Ex
Lease Term	10 years	20 years
Initial Capital Investment	$1.0 million	$3.0 million
Minimum Rent	$450,000	$350,000
Percentage Rent (percent of gross)		
Golf*	25%	20%
Merchandise	5%	5%
Food and Beverage	5%	5%
Capital Improvement Reserve	5% of golf revenue	5% of golf revenue

*Greens, carts, range.

Applying these terms to the projected stabilized financial projections yields the following lessee annual operating projections:

	Stable Year Amount (thousands of constant 2006 dollars)	
	Partial Cap Ex	**Full Cap Ex**
Net Operating Income, Before Rent, CIP Reserve, Debt Service	$904.5	$1,060.5
Less: Capital Improvement Reserve[1]	104.8	112.8
Debt Service	183.9[2]	337.0[3]
City Rent	548.9	451.1
Subtotal	$837.6	$ 900.9
Adjusted Net Operating Income	$ 66.9	$ 159.6

[1]5% of golf revenue.
[2]$1.0 million amortized over 10 years at 9% interest.
[3]$3.0 million amortized over 20 years at 9% interest.

Annual net revenue accruing to the City at stabilization under a long-term facility lease is projected as follows:

	Stable Year Amount (thousands of constant 2006 dollars)	
	Partial Cap Ex	**Full Cap Ex**
Rental Income	$548.9	$451.1
Less: CIP Reserve	---	---
City Contract Monitoring	50.0	50.0
Net Revenue	$498.9	$401.1

As noted, an allowance for City overhead and contract administration ("City Contract Monitoring") is deducted from the rent paid under the facility lease. Based on the terms of the lease, there is no capital improvement reserve fund contribution by the City.

Again, while the above scenarios are considered reasonable and representative, there are numerous permutations of the basic scenarios resulting from modifications to the underlying factors and assumptions.

Management Contract

The management fee typically consists of a guaranteed base fee plus an incentive fee. Again, there is an unlimited number of combinations which can be formulated. For

analysis purposes, the estimated fee under a short-term management contract is estimated as follows:

Agreement Term	5 years
Base Fee	$120,000 per year
Incentive Fee	10% of golf revenue exceeding $1.8 million

Typically, total compensation (base plus incentive fee) represents about 4 to 5 percent of total gross revenue.

Annual net income accruing to the City at stabilization under a management contract is estimated as follows:

		Stable Year Amount (thousands of constant 2006 dollars)	
		Partial Cap Ex	**Full Cap Ex**
Net Operating Income Before CIP, Debt Service, Incentive Management Fees		$904.5	$1,060.5
Plus:	Property Tax Exemption	60.0	60.0
Less:	CIP Reserve[1]	104.8	112.8
	Debt Service	98.1[2]	294.3[3]
	Incentive Management Fee[4]	29.5	45.6
	City Overhead/Services	75.0	75.0
Adjusted Net Revenue		$657.1	$ 592.8

[1]5% of golf revenue. [2]$1 million amortized over 20 years at 7.5% interest.
[3]$3 million amortized over 20 years at 7.5% interest.
[4]10% of gross golf revenue exceeding $1.8 million.

While a management agreement, on a pro forma basis, typically shows equal or greater financial return to the public agency, the practical application often results in less income than under a lease agreement. This situation stems from the tendency of the public agency and/or contract management firm to increase the maintenance and service levels above that provided by a typical lessee, or through the tendency to offer resident greens fees and other concessions under a management contract.