



Pro Forma
Advisors LLC

August 14, 2014

Mr. Tom Hatch
Chief Executive Officer
City of Costa Mesa
77 Fair Drive
Costa Mesa, CA 92626

Re: Costa Mesa Country Club Performance Review— PFA 10-466

Dear Mr. Hatch:

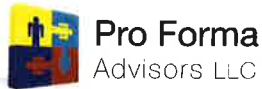
Pro Forma Advisors has completed its performance review of Costa Mesa Country Club, the City of Costa Mesa's 36-hole municipal golf complex. A copy of the final report is attached, with a summary of principal findings followed by documentation and analysis of the results.

We appreciate your confidence in Pro Forma Advisors, and remain available to respond to any questions or clarifications you may have. We also appreciate the assistance provided by City representatives throughout the process.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Gene P. Krekorian". The signature is fluid and cursive, with a long horizontal stroke at the end.

Gene P. Krekorian
Principal, Pro Forma Advisors LLC



Costa Mesa Country Club Performance Review

Costa Mesa, California

Prepared for: **City of Costa Mesa**

Prepared by: **Pro Forma Advisors, LLC**

August 2014
PFAID: 10-466

Version: 1.0



Executive Summary

- ▶ Costa Mesa Country Club (CMCC) is a 36-hole municipal golf complex positioned to serve the mid-segment of the Orange County public golf market. This positioning appears to be reasonable and appropriate given the design and condition of the golf courses and support facilities, and the characteristics of the regional market.
- ▶ CMCC golf course conditions are basically consistent with most Southern California municipal courses, but well below optimal levels. The sub-optimal conditions stem from a lack of sufficient capital reinvestment and below average maintenance resources.
- ▶ Golfer services are provided efficiently and effectively given the positioning of the golf courses. CMCC has a loyal and dedicated maintenance and golf operations staff. However, the maintenance staff is about 25 percent below a desirable level, and the staff size does not satisfy the maintenance standards stipulated in the lease agreement.
- ▶ CMCC ranks among the top of Southern California public golf courses in terms of net income from operations, with an overall operating margin (ratio of net operating income to gross revenue, before rent) of 37 percent.
- ▶ With about 80 percent of net operating income paid to the City in rent/capital replacement reserve funds, CMCC also ranks among the top Southern California municipal golf courses with regard to facility rent paid. Representing a composite 30 percent of total gross revenue, the rent structure at CMCC is equitable.
- ▶ Costa Mesa residents account for approximately 28 percent of total play at CMCC, with Costa Mesa senior residents comprising more than one-third of resident play. Most of the balance of play derives from other areas of Orange County.
- ▶ Standard 18-hole greens fees at CMCC are effectively at market levels given the quality and condition of the product offered. Introducing a higher non-resident rate is not justified and most likely would be revenue neutral at best, and could well result in a loss of greens fees and ancillary revenue.
- ▶ Costa Mesa senior resident rates are among the lowest at municipal courses in Southern California. While higher senior rates would likely raise revenue, setting the senior rate at a municipal golf course is largely a policy decision. Nonetheless, as senior play is expected to increase its share of total play in the mid- to long-term, some revenue loss may occur if the large discounts remain in place.
- ▶ Although the Southern California golf market has softened considerably over the past 10 years, the Orange County public golf market remains one of strongest in the country. The market has stabilized and shown slight improvement over the past two years. The outlook is modestly favorable over the next 10 to 20 years primarily due to the favorable impact of the aging baby boom population considering propensity and frequency of play generally increase with age.

- ▶ The CMCC clubhouse is in relatively poor condition due to its age and deferred maintenance. This condition has affected the competitiveness of the facility in attracting banquet and other group functions.
- ▶ Construction of a new clubhouse is not economically warranted. Rather, it is appropriate to engage in a major renovation of the interior and exterior of the facility. The estimated cost of such a renovation is in the \$1 million (\$50 per square foot) range.
- ▶ Long term capital improvement needs are in the \$250,000-\$300,000 per year range to ensure that the condition of the golf courses and support facilities are in satisfactory condition at the expiration of the lease agreement. The current funding structure is not sufficient, providing less than one-half of this target level.
- ▶ A survey of CMCC golfers revealed that golfer service levels are generally well above average, but that course conditions require attention. The areas where golf course conditions were rated by many golfers to be “below average” or “poor” include course bunkers, fairways and rough areas.
- ▶ Interestingly, the majority of golfers (60 percent) prefer current conditions instead of increasing fees, while 40 percent would be willing to support slightly higher greens fees for better course conditions.
- ▶ The largest concern expressed by golfers is the slow pace of play. Over one-half of those surveyed cited pace of play to be “below average” or “poor.”
- ▶ For the most part, financial control systems and practices are in-place which meet industry standards in providing adequate reporting and cash management. CMCC, however, has lagged behind the industry in several areas of technology such as providing on-line tee time reservation capability and social media marketing.
- ▶ With strategic capital improvements and the commitment of greater maintenance resources, and assuming a greater share of City rent/CIP funds is dedicated to the golf course, the product and overall golf experience at CMCC can improve without the overall financial performance (net income to the operator and net rent to the City) adversely affected:

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General Limiting Conditions

Certain information included in this report contains forward-looking estimates, projections and/or statements. Pro Forma Advisors LLC has based these projections, estimates and/or statements on expected future events. These forward-looking items include statements that reflect our existing beliefs and knowledge regarding the operating environment, existing trends, existing plans, objectives, goals, expectations, anticipations, results of operations, future performance and business plans.

Further, statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "intend," "plan," "project," or other words or expressions of similar meaning have been utilized. These statements reflect our judgment on the date they are made and we undertake no duty to update such statements in the future.

No warranty or representation is made by Pro Forma Advisors that any of the projected values or results contained in this study will actually be achieved.

Although we believe that the expectations in these reports are reasonable, any or all of the estimates or projections in this report may prove to be incorrect. To the extent possible, we have attempted to verify and confirm estimates and assumptions used in this analysis. However, some assumptions inevitably will not materialize as a result of inaccurate assumptions or as a consequence of known or unknown risks and uncertainties and unanticipated events and circumstances, which may occur. Consequently, actual results achieved during the period covered by our analysis will vary from our estimates and the variations may be material. As such, Pro Forma Advisors accepts no liability in relation to the estimates provided herein.

In the production of this report, Pro Forma Advisors has served solely in the capacity of consultant and Pro Forma Advisors has not rendered any "expert" opinions and does not hold itself out as an "expert" (as the term "expert" is defined in Section 11 of the Securities Act of 1933).

This report is not to be used in conjunction with any public or private offering of securities, and may not be relied upon without the express written consent of Pro Forma Advisors.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions, and considerations.

I. Introduction

Costa Mesa Country Club (CMCC) is located in the City of Costa Mesa, in the heart of Orange County, California. The complex, comprised of two 18-hole golf courses, full practice range, approximate 20,000-square-foot clubhouse, and other support facilities, is owned by the City of Costa Mesa. The City leases the entire facility to Mesa Verde Partners, a group which initiated a 17-year agreement with the City in 1992, and was awarded two 10-year extensions, with the lease expiring in 2029.

Opened in 1967, Los Lagos Golf Course is an 18-hole (6,500-yard), par-72 layout, while Mesa Linda is an 18-hole (5,500-yard), par-70 layout. The condition of both golf courses, and the greens complexes in particular, is reasonably good. The pro shop, which was constructed in the late 1990s, also is in good condition. The clubhouse, which houses the coffee shop restaurant, 19th hole bar, banquet facilities, and locker rooms, is over 40 years old, and shows some signs of age.

The golf courses combined generate about 140,000 rounds annually, with Los Lagos accounting for slightly more than one-half the total play, and over \$4 million in greens fees revenue. CMCC is instrumental in serving not only the residents of the City, but also accommodates as many as seven high school golf teams, and hosts several local charitable tournaments and outings.

There are a number of objectives in conducting a performance audit of Costa Mesa Country Club:

- ▶ Evaluate the current performance of the club relative to comparable regional facilities, and identify areas for revenue enhancement.
- ▶ Review the present market positioning of the facility, and assess the potential to reposition the facility in the marketplace.
- ▶ Prepare a long-term capital improvements plan for the facility, and ensure that an appropriate funding mechanism is in place to meet the capital improvement requirements.
- ▶ Assess the economics associated with major modifications or construction of a new clubhouse facility.
- ▶ Review operating and financial procedures in place, including business practices and controls.
- ▶ Evaluate the current operating agreement to determine areas where modifications, if any, might result in a more economic and improved golf product.

Overall, the performance audit is a collaborative and constructive effort which involves the City, the operator and the golfing community, resulting in recommendations for changes in practices and improvements that enhance the experience for both golfers and non-golfers who utilize the facility.

With the objective of gaining an understanding of the current status of the golf courses and likely prospects going forward, Pro Forma Advisors, LLC, an economic consulting firm specializing in commercial recreation and golf course economics, was retained by the City of Costa Mesa to evaluate the current performance of the golf courses, provide data on the regional golf market, assess capital improvement requirements and evaluate a series of other golf course related issues. Assisting Pro Forma Advisors in this evaluation was the golf course architecture firm of Casey O'Callaghan Golf Course Design.

Work tasks completed during the course of this assignment include:

- ▶ Inspection of the Costa Mesa Country Club golf courses and support facilities;
- ▶ Interview of on-site management, City contract administrators, and other key personnel;
- ▶ Survey of Costa Mesa Country Club golfers regarding their golf experience, course policies, areas requiring improvement, and other input;
- ▶ Evaluation of regional golf market conditions, characteristics and trends;
- ▶ Analysis of Los Lagos and Mesa Linda golf courses operating history;
- ▶ Assessment of golf course and support facility capital improvement requirements;
- ▶ Projections of operating performance for the Costa Mesa Country Club complex;
- ▶ Analysis of other issues including construction/major renovation of the existing clubhouse.

Following this Introduction, Section II presents a summary of key findings, with documentation and analysis contained in subsequent sections of the report.

II. Summary

The following section highlights key findings and conclusions resulting from the Costa Mesa Country Club (CMCC) performance review.

Background/Current Conditions

- ▶ The City of Costa Mesa owns the Costa Mesa Country Club (CMCC) complex, which is comprised of two municipal golf courses, a 20,000 square foot clubhouse, 36-tee station driving range and other support facilities. The golf course complex currently is operated, maintained and managed by Mesa Verde Partners under an operating lease agreement.
- ▶ Mesa Linda is an 18-hole regulation length golf course which, due to its relatively short length, appeals to seniors and other golfers desiring a moderate test of golf skill. The course underwent a major renovation in 1987, and is characterized by its small, substantially undulating greens.
- ▶ Los Lagos is an 18-hole regulation length golf course which is regarded as a more challenging test of golf. The golf course was designed by William F. Bell, opening in 1967. Like Mesa Linda, the course is in fairly good condition, consistent with mid-quality municipal courses in the market.
- ▶ The golf courses are operated out of a 4,000-square foot pro shop, constructed in the late 1990s. The building is in very good condition. In addition to the pro shop, the original 20,000-square-foot clubhouse contains a small restaurant, bar, snack shop, banquet facilities, locker rooms and administrative offices. Built in 1967, the building shows signs of age and deferred maintenance.
- ▶ Mesa Verde Partners operates the golf complex under a lease agreement with the City. The original agreement with Mesa Verde Partners commenced in 1992. A 10-year extension of the agreement was awarded in 2006, and a second 10-year extension in 2009, such that the lease agreement expires in August 2029.
- ▶ Beginning in 2009, percentage rents are equal to 35 percent of golf (greens fees, cart rentals, and range) gross revenue, 6 percent of merchandise sales and 11 percent of food and beverage gross revenue.
- ▶ In addition to the rent, the lessee is required to fund a capital improvements reserve fund in an amount equal to 5% of greens fees revenue. One-half of the amount is restricted for use on the golf courses and one-half for any City use, at the full discretion of the City.
- ▶ The condition of the golf courses, although generally consistent with most mid-market municipal golf courses operating in Southern California, is deficient in a number of areas, primarily course fairways, roughs and bunkers.
- ▶ The basic infrastructure for the golf courses now is in relatively satisfactory condition. However, there remain a series of needed capital improvements relating to the golf courses, clubhouse and other support facilities. Moreover, as with all golf facilities, there will be ongoing capital improvement needs as the courses and support facilities continue to age.

- ▶ The golf course has effectively hired and trained employees, both in maintenance and golfer services. Notwithstanding fairly limited maintenance resources (discussed subsequently), the maintenance staff has substantial experience and tenure, and has performed exceptionally well. The golf operations staff also is very experienced, effective and efficient.

Regional Golf Market Conditions

- ▶ Mirroring the national golf market, the Southern California regional golf market has softened considerably beginning in late 2002, with the sharp downturn persisting during the entire decade. The market softness primarily has resulted from the cumulative effects of unprecedented expansion of the public golf course inventory which began in the mid-1990s, unexpected reduction in the demand for golf and, most recently, the severe downturn in the national and regional economies which commenced in 2008. Over the past ten years, total golf play on Southern California public access golf courses has declined from about 12 million to 9.5 million rounds, a decline of 21 percent. Because the inventory of courses has increased during that period, the average rounds per course has declined more sharply, nearly 24 percent.
- ▶ Importantly, the weak golf market condition, in large part, does not appear to be entirely cyclical, but rather a reflection of long-term shifts in the underlying demand for golf. Manifestations of the weak golf market are declining rounds and revenue, operating expense and capital improvement cutbacks, excessive discounting, and financial failures, including some in the regional market.
- ▶ The Orange County subregion has fared better than the broader Southern California market. The Orange County golf market remains among the strongest in the country, with year-round mild climate, excellent demographics and a relatively balanced inventory of public golf facilities. The mid-segment of the golf market, in which CMCC operates, is notably strong with a limited supply of courses.
- ▶ The mid- to long-term outlook for the regional golf market is modestly favorable due to the aging baby boomer population (participation and frequency of play increase with age), limited or no expected additions to the golf course inventory, and an improvement in overall economic conditions. Most golf analysts project average annual growth of 1.0 to 1.5 percent over the foreseeable term, although any substantial growth is not likely to occur for at least a few years. Nonetheless, even with modest market improvement and no additional supply, a return to play levels at individual courses generated in the pre-2000 period will likely take at least 15-20 years, and most likely will never be achieved.

Historical Performance

- ▶ CMCC generated approximately 140,000 total paid rounds of golf in 2012, with Mesa Linda accounting for about 65,000 and Los Lagos 75,000 rounds. Annual play has been relatively stable over recent years, despite the most recent downturn in the Southern California regional economy commencing in 2008.

- ▶ Costa Mesa residents comprise 28 percent of golfers on weekdays and weekends, with golfers residing in other areas of Orange County making up about 60 percent of golfers. The balance of play derives from outlying counties, mostly southeast Los Angeles County.
- ▶ Basic greens fees at CMCC currently are as follows:

	CMCC Greens Fees (excluding cart)	
	Mesa Linda	Los Lagos
Mon-Thurs: Standard	\$26	\$33
Senior*	13	15
Twilight	19	22
Friday: Standard	30	35
Twilight	22	26
Sat-Sun: Standard	38	47
Twilight	24	30

* Costa Mesa residents only.

- ▶ Gross revenue for 2012 is summarized in the table below.

Department	Gross Revenue (\$000)	Per Round	Percentage Distribution
Greens Fees			
Mesa Linda	\$1,754.4	\$27.05	24.3%
Los Lagos	<u>2,389.0</u>	<u>31.36</u>	<u>33.0%</u>
Subtotal	\$4,143.4	\$29.38	57.3%
Cart Rentals	\$753.7	\$5.34	10.4%
Range	541.6	3.84	7.5%
Pro Shop Merchandise	324.9	2.30	4.5%
Food & Beverage	1,391.3	9.86	19.2%
Miscellaneous	75.0	0.53	1.1%
Total Gross Revenue	\$7,229.9	\$51.26	100.0%

- ▶ Gross revenue related to golf (greens fees, carts and range) totaled \$5.4 million in 2012. Comparable gross golf revenue at CMCC's 36-hole direct competitor Mile Square totaled \$7.0 million in 2012. In part, this disparity is attributable to the heavily discounted senior play at CMCC.

- ▶ From the operator's perspective, net operating income for 2012 totaled \$2.67 million before rent/CIP contributions. Over 80 percent of this amount was returned to the City.

CMCC Net Operating Income (\$000) ^{1/}	
	2012
Gross Revenue	\$7,229.9
Less: Cost of Sales	916.8
Gross Profit	\$6,313.1
Less: Operating Expenses	3,647.9
Net Operating Income (EBITDAR)	\$2,665.2
Rent/CIP Reserve	\$2,170.5
Adjusted NOI (EBITDA)	\$494.7
^{1/} Before maintenance equipment lease/replacement reserve expenses.	

- ▶ The golf complex net operating income (\$2.67 million, before rent) resulted in an operating margin (ratio of adjusted net operating income to gross revenue, before rent) of approximately 37 percent. This margin is at the high end of the range achieved at the more successful public access golf courses operating in the Southern California market area.
- ▶ Rent paid to the City totaled \$2.17 million (including \$200,000 in CIP reserve fund contributions) in 2012, representing 30 percent of gross revenue. The rent, both in absolute terms and as a percentage of gross revenue, also is at the high end of the range observed at the more successful public access golf courses operating in the Southern California market area. Overall, the rent structure is equitable.

Comparative Metrics

- ▶ Greens fees and cart rentals are by far the most important source of revenue for a golf course. Comparison of these revenues at CMCC with other Orange County and south Los Angeles County mid-market oriented public access courses indicates that the City's complex is performing well, although below the performance reported at the 36-hole Mile Square facility, CMCC's most directly competitive golf complex. A number of mid-market courses in the region generate higher play levels, but at a lower average greens fees.

Table II-2: Average Revenue per Round at Selected Municipal Golf Courses (2012)							
Course	Annual Paid Rounds	Average Revenue Per Round					Annual (\$000)
		Greens Fees	Cart Fees	Range	Merch	F&B Golfers	F& B Banquet
CMCC-Los Lagos	76,200	\$31.36	\$5.35	\$3.84	\$2.31	\$5.96	\$550
CMCC-Mesa Linda	64,800	27.08					
Mile Square*	150,000	37.00	7.00	2.90	1.67	4.67	1,200
Anaheim Hills	47,800	34.31	11.09	2.62	2.72	6.27	1,700
Dad Miller	72,800	24.59	6.32	2.20	1.58	4.81	100
Green River	52,700	24.48	9.87	1.33	2.47	5.69	1,000
Skyllinks	87,600	31.85	6.96	3.31	1.83	n.a.	n.a.
El Dorado	82,600	29.18	6.72	3.03	1.82	n.a.	n.a.
Lakewood	99,240	23.43	6.60	1.41	1.52	4.03	670
Recreation Park	99,800	26.65	6.75	2.67	1.71	n.a.	n.a.
La Mirada	110,400	20.38	5.57	3.26	1.36	4.30	175
San Clemente	90,000	21.03	6.11	1.67	1.94	180	---
* 36 holes.							

- ▶ Comparison of golf course operating expenses at CMCC with other mid-market oriented 36-hole facilities in Southern California suggests that CMCC is near the bottom of the range. While this indicates that the lessee is providing services efficiently, it also raises the concern that expenses may be below optimal levels. In particular, golf course maintenance expenses, specifically personnel related expenses, appear to be well below levels at comparative courses.

Component	CMCC	Course A	Course B	Course C	Course D	Course E
Payroll and Benefits	\$609	\$920	\$919	\$783	\$850	\$654
Services and Supplies	388	500	551	228	425	354
Utilities	498	350	125	785	160	325
Maintenance Equipment	3	---	10	119	25	---
Total	\$1,497	\$1,770	\$1,605	\$1,915	\$1,460	\$1,333

- ▶ The maintenance staff at CMCC totals 18 full time equivalent employees, including the superintendent and mechanic. The maintenance staff level at comparable 36-hole complexes generally falls in the range of 22-28 full time equivalent employees.
- ▶ It should be noted that the operating agreement between the City and Mesa Verde Partners incorporates golf course maintenance standards, one of which stipulates the golf course should have a maintenance staff of 22 employees.

Golfer Survey

- ▶ A survey of golfers at CMCC was conducted to solicit their assessment of existing facilities, conditions, and services, and to identify preferences with regard to capital improvement needs and other enhancements at CMCC. There were just over 200 responses, of which 91 percent were male, with a median age of about 55. The golfers were frequent players, and of relatively high skill (median handicap of about 15).
- ▶ About two-thirds of the respondents play either Mesa Linda or Los Lagos, while one-third played both courses about the same. The other courses in the region played most frequently, other than CMCC, were Mile Square in Fountain Valley and Meadowlark in Huntington Beach.
- ▶ The two major golf course deficiencies noted most often were golf course bunkers and fairways. About 30 percent rated the bunkers as "below average" or "poor" while 20 percent rated fairways in these categories. At the same time, prioritization of capital improvement needs were, in order of importance, fairways, greens, bunkers and tees.
- ▶ Generally, golfer service levels were rated high. As well, golfers did not express much interest in improvements to the clubhouse or other support facilities, with the exception of the practice range.
- ▶ When asked about the tradeoff between playing conditions and greens fees, 60 percent of the respondents indicated they would prefer current playing conditions rather than an increase in fees, while 40 percent indicated a willingness to pay somewhat higher fees for an improvement in playing conditions.

- ▶ The overwhelming concern among golfers is the pace of play, with 52 percent rating the pace of play as “below average” or “poor.” This problem was particularly emphasized in individual comments with respect to improving the overall golf experience at CMCC. Another major problem cited by golfers was the absence of on-line tee time reservation service.

Capital Improvements

- ▶ Capital improvements at CMCC currently are funded from a capital improvement program (CIP) reserve, which derives funds from lessee contributions in an amount equal to 5 percent of greens fees (in addition to rent). However, only one-half of this amount is restricted for golf course use, the remainder being used at the discretion of the City for any City purpose. Currently, there is about \$600,000 in the reserve fund.
- ▶ A 5-year capital improvements plan for CMCC calls for expenditures of about \$1.35 million, including \$464,000 for golf course entry improvements. Given the current CIP reserve balance, and expected contributions to the fund over the next five years, there will be about a \$200,000 shortfall at the end of the 5-year period.
- ▶ Importantly, the CIP plan does not significantly address clubhouse needs, nor long term major golf course infrastructure components such as the irrigation system. Near-term clubhouse improvements on the order of \$1 million, and long term infrastructure needs of \$3 to \$4 million, are anticipated.
- ▶ Thus, funding the CIP reserve at a rate of \$250,000 to \$300,000 per year more accurately reflects the needs of the golf course and support facilities over the long term. The current funding mechanism, assuming all of the funds are restricted for the golf complex, would produce about \$220,000, still somewhat short of the longer term needs. As noted, presently, only one-half of the CIP reserve funding is dedicated for golf course use.
- ▶ As noted earlier, the condition of the golf courses is considered acceptable by most golfers, but clearly not at an optimal level, even considering the market positioning of the golf courses. While there are improvements which will result from proposed capital improvements (primarily bunkers, tees, cart paths and landscaping), improvement in course conditions will require an increase in ongoing maintenance resources.
- ▶ The condition of the Costa Mesa clubhouse reflects the age of the facility and deferred maintenance. The pro shop building is only about 15 years old and is good condition. Construction of a new clubhouse clearly would represent a major improvement and upgrade the overall quality and image of the CMCC facility, but is not economically justified. The cost of a new 12,000-15,000 square foot clubhouse is estimated at \$3.5-\$4.5 million, and would produce incremental net rental income to the City of less than \$100,000 per year, including the benefit of additional golf tournament play.
- ▶ A more appropriate and economical approach would be to upgrade the existing clubhouse through a major renovation of interior and exterior features. It is estimated that a major renovation would cost in the range of \$1 million (\$50 per square foot of building area). Additional rent from direct food and

beverage revenue and incremental golf revenue related to new tournament activity would approach the level necessary to amortize the cost of the renovation.

Revenue Enhancement/Accountability

- ▶ The golf complex, given its current positioning and condition, is operating at a relatively high level within a very competitive golf market. For the most part, opportunities for improving revenue performance will require contributions toward capital improvements and enhanced maintenance levels (improved course conditions).
- ▶ Greens fees are considered to be at market levels such that increases in greens fees would not likely generate additional greens fees revenue. While it is not unusual to have a differentiated greens fees structure, with higher non-resident rates, in the current market environment, increasing rates for non-residents at CMCC may adversely affect revenues through offsetting reductions in play.
- ▶ Greens fees are a function of play levels and the average greens fees. The focus should be on maximizing "gross revenue" rather than rounds or the greens fees rate. Generally, the profit maximizing approach is achieved by setting target play levels, and firming the average greens fees per round when the targets are reached. Reflecting the characteristics of the golf courses, at Mesa Linda, a reasonable target play level is in the range of 70,000-75,000 rounds and, at Los Lagos, in the range of 80,000 rounds.
- ▶ The senior rate, which applies Monday through Thursday, is very low at Mesa Linda (\$13) and Los Lagos (\$15). Over the next 10-15 years, senior golfers will account for an increasing share of total golf play at courses like Mesa Linda and Los Lagos as the baby boomer generation reaches retirement age. As such, discount policies with respect to senior play need to be closely monitored to avoid dilution of the average greens fees and reduction in overall revenue. Many courses have effectively coupled low senior rates with the mandatory use of a golf cart.
- ▶ Food and beverage revenue would increase with clubhouse improvements, attributed mostly to a greater number of banquet/special events and per capita expenditures. Minor improvements in golfer-generated food and beverage revenue would be expected. Presently, annual banquet business totals about \$550,000. An increase of at least \$250,000 to \$300,000, and possibly more, would be expected with an improved clubhouse facility.
- ▶ Repositioning one or both courses to serve the upper-mid or high-end of the public golf market is an option, but does not appear to be warranted either on an economic basis or from a competitive supply standpoint. It is doubtful that net operating income could be increased sufficiently to amortize the \$4 to \$5 million per course needed to compete in the higher end market segment. Moreover, the mid-market segment which CMCC currently serves is the most productive in terms of market area demand-supply conditions.

Financial Projections

- ▶ At a stabilized play level, expected in the next 3-5 years as the golf market firms, and reflecting selective capital improvements and intensified maintenance, net operating income from the lessee's perspective, expressed in constant 2014 dollars, is projected in Table II-4 (note that projected expenses include full cart fleet lease expenses and a replacement reserve for maintenance equipment).
- ▶ Net rent to the City is projected as follows, assuming that the annual amount dedicated to CMCC capital improvements increases to an appropriate level:

	Actual 2012	Projected
Rent	\$1,963.4	\$2,195.9
CIP (Lessee Contribution)	207.1	215.3
Subtotal	\$2,170.5	\$2,411.2
Less: CMCC CIP Allowance	103.6	284.9
Net City Rent	\$2,066.9	\$2,126.3

- ▶ Thus, with the capital improvements and intensified maintenance, improvement in the product and overall golfer experience would be achieved, while lessee financial performance and City net rent would remain effectively unchanged.
- ▶ As well, if the City contributes an amount equal to 5 percent of gross revenue from greens, carts and range activities out of the rent/CIP reserve receipts to the CMCC capital reserve fund, long term capital needs of the complex will be met, and satisfactory condition of the golf facility at the expiration of the lease agreement will be assured.



Table II-4: Stabilized Net Operating Income (thousands of constant 2014 dollars)		
	Actual 2012	Stabilized
Annual Rounds		
Los Lagos	76,173	78,000
Mesa Linda	64,862	67,000
Total	141,035	145,000
Gross Revenue		
Greens Fees		
Los Lagos	\$1,754.4	\$2,496.0
Mesa Linda	2,389.0	1,809.0
Total	\$4,143.4	\$4,305.0
Cart Fees	753.7	797.5
Practice Range	541.6	595.0
Merchandise	324.9	326.3
Food & Beverage-Golfer	841.3	865.0
Banquet/Special Event F & B	550.0	750.0
Miscellaneous	75.0	75.0
Total	\$7,229.9	\$7,713.8
Less: Cost of Sales	916.8	890.7
Gross Profit	\$6,313.1	\$6,823.1
Operating Expenses		
Course Maintenance	\$1,497.1	\$1,690.0
Golf Operations	599.9	670.0
Food & Beverage	594.9	690.0
Clubhouse Undistributed	172.7	175.0
General & Administrative	783.3	805.0
Total	3,647.9	\$4,030.0
Net Operating Income	\$2,665.2	\$2,793.1
Less: Rent	1,963.3	\$2,195.9
:CIP Replace Reserve	207.2	215.2
Adjusted Net Income	\$494.7	\$382.0

Other Issues

- ▶ Mesa Verde Partners installed a state-of-the-art financial control system at CMCC about 7 years ago. The IBIS system, integrated with other financial reporting systems and standard business practices relating to revenue accountability and cash management, generally meet industry standards. There are some areas, however, where the operator has been slow to implement some basic systems/equipment such as the acceptance of debit/credit cards for all customer expenditures.
- ▶ CMCC provides an adequate instruction and junior program, but it can be enhanced through physical improvements including construction of a new teaching tee line on the far end of the range (requires extension of the range depth), a video building for state-of-the-art instruction, and a short game practice area. As well, greater emphasis can be placed on promoting instruction and junior play, and providing more access to the golf courses.
- ▶ CMCC has not initiated contemporary marketing and social media programs. In particular, the website does not include the capability for on-line tee time reservations, one of the few courses in Southern California which does not offer this service.
- ▶ There are several basic golf course management models employed in operating municipal golf courses, one of which is a facility lease like that in place at CMCC. Notwithstanding that there is a lease in-place, a fee-for-service "management agreement" approach to operation represents a realistic option for courses like CMCC. Under such an agreement, the City retains a professional management company to maintain, operate and manage the golf course, serving as the City's agent in effect. The City retains all of the revenue and is responsible for all of the operating expenses, including the payment of a management fee for the services of the management company. Increasingly, there is a trend away from lease agreements and toward management agreements with regard to the operation of municipal golf courses throughout the country.
- ▶ The primary advantage of the management agreement model is that it provides a high level of City control over how the golf course is positioned and operated, and does allow the City to capture most of the upside financial performance. The principal disadvantages include greater financial downside exposure for the City, and the requirement of greater City resources in monitoring the agreement.
- ▶ The third basic operating model is self-operation whereby the City assumes the responsibility of maintaining and operating the golf complex. Most municipalities have moved away from this model over the past 20-30 years due primarily to the higher cost structure of public employees and the desire to retain professional golf course management. There also are numerous hybrid models which combine parts of the basic management structures.

III. Review of Historical Operations

The following section contains a description of the facility and a review of historical operating performance.

Facility Description

Costa Mesa Country Club is a 36-hole municipal golf facility located about one mile south of the San Diego (I-405) Freeway, just west of Harbor Boulevard, in the City of Costa Mesa. The facility was originally owned by the State of California, opening in 1967, but was purchased by the City of Costa Mesa from the State in March 1980. The overall site is approximately 245 acres.

The facility is comprised of the following components:

- ▶ Los Lagos 18-hole regulation length golf course (6,542 yards)
- ▶ Mesa Linda 18-hole regulation length golf course (5,538 yards)
- ▶ Practice range
- ▶ Clubhouse (20,000 square feet)
- ▶ Pro shop (4,000 square feet)
- ▶ Maintenance facility
- ▶ Cart storage barn
- ▶ Parking lot (300 cars)

Los Lagos is a regulation length, par-72, 18-hole golf course with a returning 9-hole layout. The distance, slope and rating for the golf course three tee placements is as follows:

Tee	Distance (yards)	Slope	Rating
Blue	6,542	126	71.2
White	6,233	122	69.6
Silver	5,907	118	68.2

The golf course was designed by William F. Bell. The golf course terrain is generally flat, and the course is a core design. There is a modest level of tree cover which helps define the golf holes.

Mesa Linda is a short regulation length, par-70, 18-hole golf course, designed as a continuous 18-hole routing. The distance, slope and rating for the golf course three tee placements is as follows:

Tee	Distance (yards)	Slope	Rating
Blue	5,538	117	66.5
White	5,103	112	64.6
Silver	4,591	106	62.0

The Mesa Linda course was redesigned in 1987 by golf architect Ron Fream, with new greens and an irrigation system installed. The golf course also is a core design, generally flat, with modest tree cover. Mesa Linda, while shorter than the Los Lagos course, is characterized by its small, undulating greens.

The golf practice range is located immediately east of the pro shop, and oriented in a west-east direction. The range has approximately 36 tee stations, and features both artificial turf mats and a natural turf tee line. The range has a depth of about 300 yards, and is lighted for night use. The range has a natural turf landing area.

The clubhouse complex is comprised of two structures--a 20,000 square foot clubhouse structure and a 4,000 square foot pro shop. The two-level clubhouse structure houses a coffee shop/restaurant, bar/lounge, snack bar, men's and women's locker rooms, and administrative offices on the lower level, and a banquet complex on the upper level. There are two banquet rooms, one 3,100-square foot room with a maximum seating capacity of about 250 banquet style, and a 1,300-square foot room with a maximum seating capacity of about 125 banquet style. The coffee shop and bar/lounge each have about 60 seats.

The pro shop is a separate structure located about 50 yards east of the clubhouse building, and houses the golfer check-in area, pro shop merchandise, and several administrative offices. The building was constructed in the late 1990s.

The golf course maintenance facility is part of the City's main maintenance yard, located at 2310 Placentia Avenue. According to the golf course superintendent, there is insufficient space available at the City yard to accommodate all of the golf course equipment and supply storage, and some of the equipment and supplies have been stored on open parcels on the periphery of the golf course.

The golf cart storage building, constructed in 1984, is located immediately west of the clubhouse structure. The building stores the fleet of 150 electric carts.

Operating Lease

CMCC is operated on a lease agreement between the City of Costa Mesa (lessor) and Mesa Verde Partners (lessee). The original agreement commenced in September 1992 for a term of 17 years (expiring in August 2009). In 2006, an amendment to the agreement extended the term an additional 10 years, with termination

in August 2019. In 2009, the lease term was extended an additional 10 years, with the lease term expiring in August 2029. The 2006 lease term extension did not involve any additional financial consideration or material changes to the agreement. The 2009 lease term extension also did not involve additional financial consideration, but did result in one significant modification to the treatment of the capital improvement reserve fund. The percentage rent was modified in the 2009 amendment by eliminating the lower rent percentage on the first tier of golf-related gross revenue. This change resulted in effectively increasing rent by \$126,000 per year. As noted below, the most recent amendment also allows one-half of the CIP contribution to be used by the City for any golf or non-golf purpose, at its sole discretion.

The rental terms applying to the 2009-2029 period call for the greater of a minimum amount or the sum of a percentage of gross revenue, which varies by revenue department. These terms are as follows:

Minimum Rent: \$1,764,000 per year, adjusted every two years to 80 percent of the actual rent paid in the previous 12 months, but not less than the current minimum rental obligation.

Percentage Rent (percentage of department gross revenue):

Greens Fees	35%
Cart Rental	35%
Driving Range	35%
Merchandise	6%
Food & Beverage	11%

Capital Improvement Program Contribution: 5% of greens fees revenue (50% to CIP fund and 50% to City).

There are numerous provisions of the lease agreement addressing the various responsibilities of both parties, policy guidelines, performance standards and other terms and conditions.

The contractual agreement appears to be consistent with most similar municipal golf lease agreements. It is, however, somewhat unusual for 10-year term extensions to be granted without significant additional consideration, which normally is in the form of additional lessee-funded capital improvements.

The lease agreement specifies basic maintenance standards for the golf course. One particular requirement called out in the maintenance standards is the size of the maintenance crew--set at 22 individuals.

Historical Performance

Recent historical performance is summarized in the following section.

Annual Play

Annual play (total paid rounds, excluding complimentary) for the past three years is reported as follows:

Fiscal Year	Mesa Linda	Los Lagos	Total Rounds
2010	67,243	78,800	146,043
2011	65,341	75,839	141,180
2012	64,862	76,173	141,035

Play on Mesa Linda has averaged approximately 65,000 rounds annually over the past several years. Los Lagos generates higher play levels, with annual play ranging from 75,000 to 80,000 rounds over recent years. In the peak years of the 1990s, annual play on Mesa Linda totaled in the range of 75,000 rounds, and at Los Lagos in the range of 100,000 rounds.

Annual play in 2012 by type of round is summarized in Table III-2. The average play on weekdays for both courses combined is about 390 rounds, compared with about 425 rounds daily on weekends. The majority of play on Mesa Linda is 18-hole rounds (82 percent), compared with about two-thirds of play on Los Lagos. In large part, this is attributable to the higher play volume on Los Lagos.

Senior play (Costa Mesa residents only) accounts for 20 percent of the weekday play on Mesa Linda and 10 percent of the weekday play on Los Lagos.

Table III-2: CMCC Annual Play by Type of Round--2012

	Mesa Linda	Los Lagos	Total
Weekday			
18-Hole Regulation	24,986	25,488	50,474
Senior 18-Hole	9,049	5,143	14,192
Twilight/9-Hole	7,184	8,673	15,857
Super-Twilight	---	8,408	8,408
Junior	322	---	322
Special	1,833	2,651	4,484
Tournament	338	206	544
Subtotal	43,712	50,569	94,281
Weekend			
18-Hole Regulation	16,317	16,129	32,446
Twilight/9-Hole	4,481	6,397	10,878
Super-Twilight	---	2,733	2,733
Tournament	352	345	697
Subtotal	21,148	25,604	46,752
Total	64,862	76,173	141,035

Source of Play

To document the source of play at Costa Mesa Country Club, the residential zip code of golfers was recorded at check-in over a one week period in November 2013. The results of this brief survey are shown below:

Area of Residence	Weekday	Weekend	Total
Costa Mesa	28%	28%	28%
Other Orange County	60	63	61
Los Angeles County	8	4	7
Riverside/San Bernardino County	1	1	1
Other	3	4	3
Total	100%	100%	100%

Costa Mesa, with a population of 112,000, comprised 28 percent of the play at CMCC on both weekdays and weekends, while golfers residing in other areas of Orange County account for about 60 percent on weekdays and 63 percent on weekends. Golfers from Los Angeles County represented 8 percent of the total on weekdays and only 4 percent on weekends. Golfers from Riverside County, San Bernardino County, and other areas comprised a small percentage of the overall total. Although not shown, the source of play in the afternoon tends to be more localized compared with the morning. As well, the source of play on Mesa Linda is more localized compared with the source of play on Los Lagos.

Greens Fees

The current greens fees structure at CMCC is as follows:

Table III-3: CMCC Greens Fees (excluding cart)						
	Greens Fees					
	Mesa Linda			Los Lagos		
	Mon-Thurs	Friday	Sat-Sun	Mon-Thurs	Friday	Sat-Sun
Standard 18-Hole	\$26	\$30	\$38	\$33	\$35	\$47
Senior 18-Hole	13	---	---	15	---	---
9-Hole	---	---	---	18	20	23
Twilight	19	22	24	22	26	30
Super-Twilight	---	---	---	16	17	18
Junior	13	---	---	---	---	---

On both courses, golf carts are \$26 per cart (\$13 per player with a shared cart).

Gross Revenue

CMCC annual gross revenue for the period 2010 through 2012 is presented in Table III-4. Of the total \$7.23 million gross revenue generated in 2012, greens fees accounted for \$4.14 million (57%). Golf revenue (greens fees, carts and range) totaled \$5.4 million, or about 75 percent of total revenue. Food and beverage revenue totaled nearly \$1.4 million in 2012.

Also shown in the table is the average revenue per round by department. The average greens fees revenue in 2012 is calculated at \$27.05 per round at Mesa Linda and \$31.36 per round at Los Lagos. At most mid-market golf courses, the average greens fees per round is equal to approximately 80 percent of the standard 18-hole rate on weekdays (in peak years, the average was about 100% of the 18-hole standard weekday greens fees). At Mesa Linda, the average greens fees actually exceeds the 18-hole standard weekday rate, and at Los Lagos, the average is 95 percent of the 18-hole standard weekday rate. This indicates that CMCC is not engaged in heavy discounting.

Table III-4: CMCC Historical Operating Revenue-- 2010-2012			
	2010	2011	2012
Annual Rounds (total)			
Mesa Linda	67,243	65,341	64,862
Los Lagos	<u>78,800</u>	<u>75,839</u>	<u>76,173</u>
Total	146,043	141,180	141,035
Annual Gross Revenues (\$000s)			
Greens Fees			
Mesa Linda	\$1,736.8	\$1,774.2	\$1,754.4
Los Lagos	<u>2,380.0</u>	<u>2,388.8</u>	<u>2,389.0</u>
Subtotal	\$4,116.8	\$4,162.9	\$4,143.4
Cart Rentals	770.1	743.5	753.7
Range	513.3	526.2	541.6
Pro Shop Merchandise	296.2	293.8	324.9
Food & Beverage ^{1/}	1,239.9	1,267.8	1,391.3
Miscellaneous ^{2/}	<u>75.8</u>	<u>80.5</u>	<u>75.0</u>
Total Gross Revenue	\$7,012.2	\$7,074.7	\$7,229.9
Revenue per Round			
Greens Fees			
Mesa Linda	\$25.83	\$27.15	\$27.05
Los Lagos	<u>30.20</u>	<u>31.50</u>	<u>31.36</u>
Subtotal	\$28.19	\$29.49	\$29.38
Cart Rentals	\$5.27	\$5.27	\$5.34
Range	3.51	3.73	3.84
Pro Shop Merchandise	2.03	2.08	2.30
Food & Beverage ^{1/}	8.49	8.98	9.86
Miscellaneous ^{2/}	<u>0.52</u>	<u>0.57</u>	<u>0.53</u>
Total Gross Revenue	\$48.01	\$50.11	\$51.26
^{1/} Includes coffee shop, snack bars, vending machines, golfer bar, beverage cart and banquet			
^{2/} Includes miscellaneous rental, instruction net fees, City Championship and ATM fees.			

Food and beverage gross revenue is comprised of various sources of revenue.

CMCC Food & Beverage Gross Revenue by Department (\$000)			
	2010	2011	2012
Golfer Generated			
Coffee Shop	\$263.4	\$278.8	\$281.5
Snack Bars	184.9	189.5	188.8
Vending Machines	9.8	8.7	9.8
Golfer Bar	281.9	280.8	310.8
Beverage Cart	62.1	60.9	63.5
Subtotal	\$802.1	\$818.7	\$854.4
Banquet	<u>\$437.8</u>	<u>\$449.1</u>	<u>\$536.9</u>
Total	\$1,239.9	\$1,267.8	\$1,391.3

Cost of Sales

The cost of sales related to merchandise and food and beverage sales over the past several years, as a percentage of gross sales revenue, is summarized as follows:

Year	Merchandise	Food & Beverage
2010	57.7%	45.7%
2011	83.3%	47.8%
2012	84.4%	46.2%
3-Year Average	73.7%	46.5%

Operating Expenses

Annual operating expenses for CMCC for 2010-2012 are shown in Table III-5. As noted, excluding cost of sales, total operating expenses have been nearly constant at around \$3.7 million per year. The expenses include lease costs for power golf carts, but do not include lease payments or a replacement reserve for periodic replacement of maintenance equipment.

Course Level Net Operating Income

From the lessee's standpoint, net operating income shown at the course level for CMCC is summarized as follows:

CMCC Net Operating Income (\$000) 1/			
	2010	2011	2012
Gross Revenue	\$7,012.2	\$7,074.7	\$7,229.9
Less: Cost of Sales	795.7	848.0	916.8
Gross Profit	\$6,216.4	\$6,226.7	\$6,313.1
Less: Operating Expenses	3,734.8	3,698.6	3,647.9
Net Operating Income (EBITDAR)	\$2,481.6	\$2,528.1	\$2,665.2
Rent	\$2,109.4	2,169.0	\$2,170.5
Adjusted NOI (EBITDA)	\$372.2	\$359.1	\$494.7

1/ Before maintenance equipment lease/replacement reserve expenses.

As shown, operating expenses are deducted from gross profit, yielding net operating income, before rent (earnings before interest, taxes, depreciation, amortization, and rent--EBITDAR). Then, rent paid to the City of Costa Mesa is deducted yielding adjusted net operating income (EBITDA).



Historical Operations

The net operating income margin, defined as the ratio of net operating income before rent (EBITDAR) to gross revenue is calculated at between 35 and 37 percent for the 2010-2012 period. This ratio is consistent with that observed at the most efficient municipal golf course operations in Southern California.

Table III-5: CMCC Operating Expenses (\$000) ^{1/}			
	2010	2011	2012
Course Maintenance			
Payroll and Benefits	\$700.9	\$627.7	\$609.0
Services and Supplies	395.7	403.9	387.7
Utilities	457.1	431.3	497.6
Maintenance Equipment	---	2.5	2.8
Subtotal	\$1,553.7	\$1,465.4	\$1,497.1
Golf Operations			
Payroll and Benefits	\$266.6	\$265.4	\$269.4
Cart Leasing ^{1/}	79.4	60.2	60.5
Cart Operation	106.9	163.9	146.1
Range	103.9	106.8	110.2
Services and Supplies	15.5	16.3	13.7
Subtotal	\$572.3	\$612.6	\$599.9
Food & Beverage			
Payroll and Benefits	\$495.9	\$468.3	\$489.0
Services and Supplies	98.1	87.1	105.9
Subtotal	\$594.0	\$561.4	\$594.9
Undistributed/Clubhouse	\$165.1	\$173.0	\$172.7
General and Admin			
Payroll and Benefits	\$214.2	\$210.9	\$213.5
Insurance	69.5	71.6	67.9
Property Taxes	132.6	126.7	68.4
Marketing/Promotion	14.8	11.0	5.8
Credit Card Fees	83.6	92.4	98.7
Services and Supplies	171.8	170.3	131.0
Management Fee/Home Office	156.0	172.4	168.5
Subtotal	\$842.5	\$855.3	\$753.8
City Championship	7.2	30.9	29.5
Total	\$3,734.8	\$3,698.6	\$3,647.9

IV. Golf Market Overview

The following section presents an overview of the demographic makeup of the Costa Mesa market area and an analysis of national, regional and local golf market conditions.

Market Area Demographics

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 Costa Mesa Country Club, from which 80 to 90 percent of total play is expected to derive, is defined as the County of Orange. Most residents of Orange County are within about a 30-minute drive time (15-20 miles) of the golf complex. Additional support for the two courses derives primarily from the southeast region of Los Angeles County, which is 20-30 miles (30- to 40-minute drive time) northwest of the Costa Mesa courses.

Comparative demographics of the primary market area are presented in Table IV-1.

Table IV-1: Orange County Demographic Summary			
	Costa Mesa	Orange County	California
Population (000)			
2000	108.7	2,846.3	33,871.6
2010	110.0	3,017.3	37,309.4
2020	115.0	3,198.3	40,643.6
2030	120.0	3,286.1	44,279.4
Average Annual Growth			
2000-2010	0.12%	0.59%	0.97%
2010-2020	0.44%	0.58%	0.86%
2020-2030	0.43%	0.27%	0.86%
Median Age	33.6	36.2	35.3
Population 65+	9.2%	11.9%	11.7
Median HH Income	\$65,470	\$75,760	\$61,630

As noted, Orange County population has increased at a very modest rate over the past 10 years, and is projected to continue to increase marginally over the next 10 years, reaching 3.2 million by 2020 (based on most recent 2011 California Department of Finance population projections). The senior population is particularly important in estimating the demand for golf as the propensity and frequency of play both increase with age.

Table IV-2: Orange County Senior Population				
Year	Population (000)			Average Annual % Increase
	65-74	75-84	Total	
2000	148.7	98.0	246.7	---
2010	189.6	113.4	303.0	2.08%
2020	283.9	142.1	426.0	3.47%
2030	367.6	219.1	586.7	3.25%

Source: U.S. Department of Commerce, Bureau of the Census; State of California, Department of Finance, Demographic Unit; and Pro Forma Advisors LLC.

Thus, while the total population in Orange County is projected to increase at an average annual rate well under 1 percent per year, the 65-84 year age cohort is projected to increase at an average annual compound rate of 3-4 percent. This age cohort will represent 13.3% of the total County population by 2020 and 17.9% by 2030, compared with 10.0% in 2010. This aging trend generally parallels that of the State as a whole.

National Golf Market Trends

Nationwide, golf play increased steadily between the mid-1980s and 2000. As shown in Table IV-3, during this period, the total number of annual rounds played nationally increased at an average rate of 2.4 percent per year. Golf balls sold, perhaps the best indicator of play, increased at a similar rate (2.5 percent per year). This unprecedented growth in golf play was due to a number of factors including:

- ▶ An increase in the number of golfers,
- ▶ The increasing importance of golf-oriented real estate,
- ▶ Expansion of the golf tourism industry, and
- ▶ One of the longest economic expansions in the nation's history.

The increase in golf demand and the popularity of golf-related housing development during the 1990s stimulated extraordinary expansion of the national golf course inventory, primarily between 1995 and 2002, as summarized in Table IV-4. Over the full 1990-2010 period, the inventory of golf courses in the United States increased by 34 percent, while the U.S. population registered only a 24 percent gain, and golf demand (play) increased only 12 percent over this same period.

Right after the new century started, the first signs of industry problems surfaced, and have persisted for the past 10 years. While total golfers and rounds played are down industrywide, individual golf courses have experienced steeper declines in utilization, along with revenue contraction and falling net operating income, as the market totals are spread over an increased supply of facilities. Further, golf course transaction prices have declined precipitously, bankruptcies and foreclosures have become routine, and new golf course construction has virtually ceased while the number of courses closing now well exceeds new openings. The impact of market softness has been widespread and affected all segments of the market and all geographic areas.

The National Golf Foundation (NGF) reports that over the 2001-2011 period, annual golf play in the United States declined from 518 million to 449 million rounds, or over 13 percent, before rebounding somewhat in 2012. Golf ball sales, perhaps a better indicator of demand, declined by about 20-25 percent over this time period. The golf participation rate, after rising steadily through 2003, has fallen precipitously from 12.4 percent in 2004 to a current level estimated at only 9.2 percent. (It should be noted that the golfer participation rate is based on the number of golfers relative to the population over the age of 6 years old). Since 2007, the golf market has been significantly impacted by the national economic recession. Annual rounds in the U.S., according to industry reports, have declined by nearly 9 percent since 2007. Other independent sources indicate a much more severe contraction, which is borne out by golf ball sales and other market

Table IV-3: Indicators of U.S. Golf Demand (1985-2012)

Year	Rounds (millions)	Number of Golfers ¹ (millions)	Participation Rate ²	Golf Ball Sales ³ (millions of dozens)
1985	365	17.5	10.2	36.0
1990	400	27.8	13.5	42.0
1995	420	25.0	11.6	46.0
2000	518	28.8	11.7	52.2
2001	518	29.5	11.9	50.0
2002	502	29.5	12.0	46.7
2003	495	30.4	12.4	43.4
2004	499	29.5	11.5	43.4
2005	489	29.3	11.2	43.6
2006	493	29.4	11.2	44.0
2007	490	29.5	11.1	43.5
2008	481	28.6	10.7	42.2
2009	477	27.1	10.0	40.1
2010	466	26.1	9.6	.. ^{5/}
2011	460	25.5	9.2	.. ^{5/}
2012	488	25.7	9.0	.. ^{5/}
Average Annual Growth				
1985-1990	1.8%	9.7%	---	3.1%
1990-1995	1.0%	(2.1)%	---	1.8%
1995-2000	4.3%	2.9%	---	2.6%
Subtotal	2.4%	3.4%	---	2.5%
2000-2005	(1.1)%	0.3%	---	(3.5)%
2005-2010	(1.0)%	(2.3)%	---	(2.1)% ^{4/}
2010-2012	2.3%	(0.8)%	---	.. ^{5/}

1/ Represents golfers over 12 years of age. 2/ Estimated by PFA. 3/ Estimated by PFA based on "soft goods" sales recorded by Data Tech and golf ball manufacture sales. 4/ For period 2005-2009. ^{5/} Data for 2010-2012 not available in comparable format. Source: National Golf Foundation and Pro Forma Advisors LLC.

Table IV-4: Number of Golf Courses ¹ - U.S.				
Year	Average Annual Courses Added	Average Annual Courses Closed	Total Golf Courses ²	Average Annual Percent Change
1990	---	---	11,105	---
2002	315	15	14,725	2.96%
2006	120	60	14,968	0.80%
2007	115	95	14,988	0.13%
2008	70	105	14,953	(0.23%)
2009	50	100	14,903	(0.33%)
2010	45	110	14,838	(0.44%)
2011	35	140	14,733	(0.71%)
2012	14	155	14,592	(0.96%)

^{1/} 18-hole equivalents.
^{2/} Includes courses added, less courses closed., 2006-2011
 Source: National Golf Foundation; and Pro Forma Advisors.

indicators. Rounds nationally in the United States increased a rapid 5.7 percent in 2012, largely due to favorable weather in most parts of the country.

Since 2002, the construction of new courses has declined sharply, and the rate at which courses have closed has accelerated. Between 2006 and 2012, for example, the number of courses closed exceeded new course openings. New courses have been added to the inventory since 2006 at an annual rate of 70-75 courses per year, while course closings have averaged about 110 per year over this period. Despite the slowing expansion of new supply over the past five years, golf market conditions in most markets continued to deteriorate through 2010, although most markets experienced stabilization in 2011 and slight improvement in 2012 (weather adjusted).

Regional Market Trends

Golf demand in Southern California also has increased steadily over the past 10 to 20 years, with strong growth occurring since the mid- to late-1980s time period. Through the mid-1990s, there was relatively limited expansion of the inventory of golf facilities. In the early 1990s, the municipal golf courses and limited number of daily fee golf courses in Southern California were performing exceptionally well, with municipal golf course play exceeding 100,000 rounds at many Southern California courses and play on daily fee courses in the range of 60,000-80,000 annual rounds.

In response to increasing demand and a static supply situation, a number of golf courses were developed. The total number of public regulation length golf courses that have opened in Southern California since 1995 is summarized in Table IV-5.

Table IV-5: Number of Regulation Length Public Golf Courses Opened by Year

	Inland	Los	San		Santa		San Luis		
Year	Orange	Empire ¹	Angeles	Diego	Ventura	Barbara	Kern	Obispo	Total
Up to 1995	21.0	44.5	40.5	33.0	12.5	6.5	7.0	5.0	170.0
1996	2.0	1.0	0.0	0.0	0.0	0.0	0.0	1.5	4.5
1997	1.0	1.0	0.0	0.0	0.0	0.0	0.0	1.0	3.0
1998	0.0	1.0	0.0	1.0	0.0	2.0	0.0	0.0	4.0
1999	2.5	2.0	1.0	2.0	2.0	0.0	1.0	1.0	13.5
2000	0.0	5.0	4.0	1.0	1.0	0.0	0.0	0.0	12.0
2001	3.0	1.0	0.0	1.0	1.0	0.0	0.0	0.0	7.0
2002	0.0	1.0	0.0	0.0	2.0	0.0	0.0	0.0	5.0
2003	0.0	1.0	1.0	0.5	0.0	0.0	0.0	0.0	2.5
2004	1.0	0.0	1.0	0.0	0.5	0.0	0.0	0.0	3.0
2005	0.0	0.0	0.0	1.0	0.5	0.0	0.0	1.0	3.0
2006	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2007	0.0	1.0	0.0	1.0	0.0	0.0	0.0	0.0	2.0
2008	0.0	2.0	0.0	0.0	0.5	0.0	0.0	0.0	3.0
2009	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2010	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2011	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2012	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	30.5	60.5	47.5	40.5	20.0	8.5	8.0	9.5	225.0
Change									
Number	9.5	16.0	7.0	7.5	7.5	2.0	1.0	4.5	56.0
Percent	45%	36%	17%	23%	60%	31%	14%	90%	33%

¹Excludes Coachella Valley.

As shown, these additions represent a 33 percent increase in the Southern California public golf course inventory. At the same time, six regulation length public golf courses have been closed in Southern California (including 18 holes at Green River and 18 holes at El Toro) over the past 6-7 years, reducing the net increase to 50 courses (29%).

Orange County registered a 45% gain in inventory, while the population in Orange County increased by less than 10 percent during this same timeframe.

The expansion of the golf course inventory over the past 17 years in Orange County consisted of the courses shown in Table IV-6.

Golf Course/Location	Date Opened	Course Designer	Course Type
Arroyo Trabuco/Mission Viejo	2004	O'Callaghan	Daily Fee
Talega/San Clemente	2001	Curley/Couples	Daily Fee
Mile Square-Players/Fountain Valley	2001	Rainville-Bye	Municipal
Black Gold/Yorba Linda	2001	Hills	Municipal
Aliso Viejo/Aliso Viejo	1999 ¹	Nicklaus	Daily Fee/Private
Westridge/La Habra	1999	Graves/Pascuzzo	Daily Fee
Strawberry Farms/Irvine	1997	Lipe	Daily Fee
Coyote Hills/Fullerton	1996	Cal Olson	Daily Fee

¹Originally opened as 27-hole facility; 9 holes closed in 2006, facility converted to private.

Along with the unprecedented increase in supply, the demand for golf (propensity to play and frequency of play) has declined, reducing overall aggregate public play in Southern California by 10 to 15 percent over the past four years, and 15 to 20 percent over the past 10 years. Over the 2000-2012 period, the average performance of golf courses in the region has significantly deteriorated, as evidenced in Table IV-7.

Selected characteristics of competitive golf courses serving the mid-segment of the golf market are presented in Table IV-8. The 36-hole Mile Square golf complex in Fountain Valley and the 18-hole Meadowlark Golf Course in Huntington Beach represent the most directly competitive courses to CMCC.

Table IV-9 presents a summary of rounds and rates at the competitive golf courses serving the market. Table IV-10 contains a summary of rounds and rates for the higher end daily fee golf courses in Orange County. Of particular note is the discounted rate structure at these courses available through loyalty or frequent player clubs. Membership in such clubs requires a modest annual fee.

Table IV-7: Trends in play at Orange County Public Golf Course				
	Average Rounds Per Course			
	Entry Level	Mid-Market	Upper-Mid-Market	High End
Annual Rounds				
1999	94,000	70,000	60,000	54,000
2002	94,000	66,000	55,000	48,000
2008	86,000	62,000	52,000	43,000
2012	76,000	57,000	48,000	40,000
Average Daily Greens/ Cart				
1999	\$24	\$36	\$60	\$90
2002	\$25	\$37	\$60	\$92
2008	\$27	\$38	\$61	\$92
2012	\$27	\$36	\$58	\$85
Annual Greens/Cart Revenue (\$000)				
1999	\$2,256	\$2,520	\$3,600	\$4,860
2002	\$2,350	\$2,442	\$3,300	\$4,416
2008	\$2,322	\$2,351	\$3,172	\$3,956
2012	\$2,050	\$2,050	\$2,785	\$3,400

Table IV-8: Selected Characteristics of Market Area Public Golf Courses					
	Los Lagos Costa Mesa	Mesa Linda Costa Mesa	Mile Square-Classic Fountain Valley	Mile Square-Players Fountain Valley	Meadowlark Huntington Beach
Course Type	Municipal	Municipal	Municipal	Municipal	Municipal
Course Architect	William F. Bell	Wm. F. Bell/Ron Fream	David Rainville	David Rainville	William P. Bell
Owner	City of Costa Mesa	City of Costa Mesa	County of Orange	County of Orange	City of
Operator	Mesa Verde Partners	Mesa Verde Partners	Mile Square Golf Crse	Mile Square Golf Crse	EAGL Golf
Year Opened	1967	1967/1987	1969	2001	1928
Number of Holes	18	18	18	18	18
Par	72	70	72	72	70
Length (back/middle)	6542/6233	5538/5103	6714/6466	6759/6334	5568/5251
Rating (back/middle)	71.2/69.6	66.5/64.6	71.2	72.3/70.5	67.1/65.7
Slope (back/middle)	126/122	117/112	119/116	125/119	115/112
Greens Fees (reg/club)					
18 Holes					
Weekday	\$33	\$26	\$38	\$38	\$33
Weekend	47	38	52	52	44
Twilight/9 Holes					
Weekday	22	19	23	23	22
Weekend	30	24	28	28	27
Super Twilight					
Weekday	16	---	---	---	16
Weekend	18	---	---	---	21
Seniors					
Weekday	15	13	38	38	21
Weekend	---	---	---	---	---
Cart Fees (per player)	\$13	\$13	\$13	\$13	\$13
Facilities					
Clubhouse Size (s.f)	24,000	24,000	18,000	18,000	14,000
Seating Capacity	350	350	400	400	250
Driving Range					
# of Tees	36	36	40	40	30
Annual Rounds	76,000	65,000	75,000	75,000	70,000
% Twilight/9-Hole Play	30%	20%	25%	20%	25%

Table IV-8 (continued): Selected Characteristics of Market Area Public Golf Courses					
	Rancho San Joaquin Irvine	Anaheim Hills Anaheim	Willowick Garden Grove	David Baker Fountain Valley	Dad Miller Anaheim
Course Type	Daily Fee	Municipal	Municipal	Municipal	Municipal
Course Architect	Wm. F. Bell	Richard Bigler	Wm. P. Bell	Williams, Gill & Assoc	Dick Miller
Owner	American Golf	City of Anaheim	City of Garden Grove	County of Orange	City of Anaheim
Operator	American Golf	Championship Golf Serv	Donovan Golf Mgmt.	EAGL Golf	Championship Golf Serv
Year Opened	1970	1972	1929	1985	1961
Number of Holes	18	18	18	18	18
Par	72	71	71	62	71
Length (back/middle)	6,431/6,158	6,249/6,009	6061	3847/3118	5890/5622
Rating (back/middle)	70.8/69.7	69.6/68.4	67.7	59.8/57.5	67.8/66.6
Slope (back/middle)	128/125	117/114	110	97/84	114/111
Greens Fees (reg/club)					
18 Holes					
Weekday	\$42	\$48/39	\$26	\$27	\$28
Weekend	59	66/56	38	32	40
Twilight/9 Holes					
Weekday	35	32/26	20	18	19.50
Weekend	45	40/32	25	22	24
Super Twilight					
Weekday	27	20	---	14	114/111
Weekend	27	20	---	15	15
Seniors					
Weekday	29	\$36	---	19	18
Weekend	---	---	---	---	---
Cart Fees (per player)	Included	Included	\$13	\$13	\$12
Facilities					
Clubhouse Size (s.f)	6,500	30,000	5,000	8,000	8,000
Seating Capacity	120	400	120	300	150
Driving Range					
# of Tees	64	36	15	36	17
Annual Rounds	84,000	48,000	80,000	70,000	73,000
% Twilight/9-Hole Play	30%	20%	25%	25%	25%

Table IV-8 (concluded): Selected Characteristics of Market Area Public Golf Courses

	Green River Corona	San Clemente San Clemente	Recreation Park Long Beach	El Dorado Long Beach	Skylinks Long Beach
Course Type	Municipal	Municipal	Municipal	Municipal	Municipal
Course Architect	Cary Bickler	Wm P. Bell	Wm. P. Bell	Ted Robinson	Cal Olson
Owner	Orange County FCD	City of San Clemente	City of Long Beach	City of Long Beach	City of Long Beach
Operator	CourseCo	Dave Cook	American Golf	American Golf	American Golf
Year Opened	1960	1930	1929	1955	2004
Number of Holes	18	18	18	18	18
Par	72	72	72	72	72
Length (back/middle)	6634/6202	6435/6066	6405/6155	6793/6461	6909/6560
Rating (back/middle)	71.6/69.4	70.9/69.3	70.3/69.3	72.3/70.9	72.6/70.8
Slope (back/middle)	123/120	124/120	118/112	128/126	130/127
Greens Fees (reg/club)					
18 Holes					
Weekday	\$32	\$19/34 ^{1/2}	28/35 ^{1/2}	\$30/38 ^{1/2}	\$34/43 ^{1/2}
Weekend	40	26/42	236/48	37/50	45/58
Twilight/9 Holes					
Weekday	17	16/26	17/20	19/25	25/29
Weekend	27	20/32	20/24	23/27	30/35
Super Twilight					
Weekday	16	14	12	16	18
Weekend	17	---	14	17	20
Seniors					
Weekday	25	18/29 ^{1/2}	\$15.50	16.50	18.50
Weekend	---	---			
Cart Fees (per player)	\$13	\$14	\$15	\$15	\$15
Facilities					
Clubhouse Size (s.f)	18,000	10,000	9,000	15,000	10,000
Seating Capacity	350	250	200	300	200
Driving Range					
# of Tees	12	18	10	22	30
Annual Rounds	58,000	75,000	100,000	83,000	88,000
% Twilight/9-Hole Play	20%	25%	30%	30%	30%

Table IV-9: Greens Fees (excluding cart) and Play Levels at Market Area Golf Courses							
	Greens Fees (excluding cart) ^{1/}					Cart Fee	Annual Rounds
	Weekday			Weekend			
	Regular	Senior	Twilight	Regular	Twilight		
CMCC-Los Lagos	\$33	\$15	\$22	\$47	\$30	\$13	76,000
CMCC-Mesa Linda	26	13	19	38	24	13	65,000
Mile Square--Classic	38	25	23	52	28	13	75,000
Mile Square--Players	38	25	23	52	28	13	75,000
Meadowlark	33	23	22	44	27	14	70,000
Rancho San Joaquin	29	27	25	46	35	13	84,000
Willowick	26	19	20	38	25	13	80,000
Anaheim Hills	48	36	32	66	40	Included	48,000
Dad Miller	27	17	19	39	23	12	73,000
Green River	32	25	17	40	27	13	57,900
Recreation Park	28/35	15.50/--	17/20	36/48	20/24	15	99,800
El Dorado	30/38	16.50/--	19/25	37/50	23/27	15	82,600
Skylinks	34/43	18.50/--	25/29	45/58	30/35	15	87,600
Lakewood	27	14	18	36.50	22.75	13	99,240
La Mirada	27	14	18	36.50	22.75	13	110,400
River View	34	30	27	44	30	Included	45,000
San Juan Hills	43	35	23	60	35	15	60,000
San Clemente	19/34	18/29	16/26	26/42	20/32	14	75,000

^{1/} Resident/non-resident fees.

Table IV-10: Summary of Rounds and Rates at Orange County High End Daily Fee Courses

Golf	Standard Rates		Resident/Loyalty Club Rates		Annual
Course	Weekday	Weekend	Weekday	Weekend	Rounds
Coyote Hills	\$70	\$90	\$55	\$75	54,000
Black Gold	87	115	67	87	50,000
Arroyo Trabuco	72	101	59	89	55,000
Strawberry Farms	110	160	75	115	44,000
Oak Creek	130	175	79	115	48,000
Westridge	58	66	58	66	60,000
Tijeras Creek	95	120	60	80	53,000
Tustin Ranch	110	170	55	90	50,000
Talega	80	100	55	75	46,000

Based on a survey of a selected sample of the municipal and higher quality daily fee facilities serving the area, the following observations are offered.

- ▶ The north/central Orange County public golf market is highly competitive. In addition to numerous municipal, mid-market and high end daily fee facilities in Orange County and southeast Los Angeles County, there are a number of higher quality public access golf courses available at relatively affordable greens fees in the western portion of Riverside and San Bernardino counties.
- ▶ Despite the competitive market conditions, Orange County remains one of the strongest golf markets in the country. The market clearly stabilized in 2012 and shown modest improvement in 2013. Even with the modest gains in the past two years, play levels at most courses are still 10-15 percent below their levels achieved in the 2007-2008 period.
- ▶ Most of the play on Orange County golf courses derives from residents of Orange County. There is very limited play on county courses generated by residents of neighboring counties. By contrast, many Orange County golfers travel to golf courses in the western Inland Empire, particularly on the weekends, although this leakage of play has lessened considerably over the past 10 years as the inventory of courses in Orange County has increased.
- ▶ Greens fees at municipal/mid-market daily fee golf courses surveyed range from \$26 to \$38 on weekday (excluding cart), and from \$38 to \$58 on weekends (excluding cart). Los Lagos rates are \$33 on weekdays and \$47 on weekends, while Mesa Linda rates are \$26 on weekdays and \$38 on weekends.
- ▶ The greens fees at the high end daily fee courses (frequent player programs) in the County generally are in the range of \$55 to \$80 on weekdays (including cart) and \$70 to \$115 on weekends (including cart).
- ▶ Senior rates are offered at most golf courses, restricted to weekdays only. The rate charged typically is based on policy decisions rather than market driven. The senior weekday rate is \$14 at Los Angeles County courses, \$15-\$18 on Long Beach City courses, and \$25 at Mile Square. The rate at Los Lagos is \$15, and at Mesa Linda \$13.
- ▶ Twilight rates are offered at all courses, beginning about 5 hours prior to sunset. These rates generally are set at 60-65 percent of the regular 18-hole rates. Super twilight rates beginning 2-3 hours before sunset are offered at most courses.
- ▶ Over the past four years, posted weekday greens fees have generally remained unchanged, with some courses reducing and some increasing rates slightly. Posted weekend rates have increased modestly over this period.
- ▶ Numerous specials and other discounts have increased in importance in recent years at the high end daily fee courses in the market, primarily related to weekday play. Increasingly, frequent player clubs and other loyalty programs have been offered which feature discounted greens fees.
- ▶ Only a few municipal golf courses differentiate between residents and non-residents in setting their greens fees structure. Generally, the non-resident rates are set at market levels, and discounts offered

to residents. Of the surveyed courses, only the City of Long Beach and City of San Clemente offer resident discounts.

- ▶ As a result, the average greens/cart fee declined slightly at most high end daily fee courses between 2001 and 2007, showing more pronounced declines in the 2008-2012 period. The municipal and mid-market daily fee golf courses have been much less affected.
- ▶ Weekend play levels remain moderately strong. On weekdays, however, there is substantial competition for golfers.
- ▶ Annual play levels at most Orange County municipal/mid-market daily fee courses falls in the 70,000-90,000 rounds range. Municipal golf courses in southeast Los Angeles County, where population densities are higher and there are fewer golf options, average in the range of 100,000 rounds annually. Los Lagos currently is generating about 76,000 rounds and Mesa Linda 65,000 rounds per year.
- ▶ Annual play on the higher end daily fee golf courses is typically in the range of 45,000 to 55,000 rounds.
- ▶ Cart fees range from \$12 to \$15 per player (shared cart), with most golf courses charging \$13 per player. Cart utilization at municipal/mid-market daily fee golf courses depends on a number of factors such as topography and golf course routing (greens to tees distances). At most courses which are reasonably walkable, cart utilization typically ranges from 50 to 60 percent.

Golf Market Outlook

There are very limited opportunities to develop additional golf in Orange County, although an 18-hole daily fee golf course is in the early planning stage at the Orange County Great Park. This course would likely be positioned to serve the upper-mid sector of the golf market, and could enter the market in 2016. While there are potential golf course sites available in the Inland Empire, due primarily to economic considerations, there are no golf projects likely to be developed in this region in the foreseeable term.

Future mid- and long-term growth in regional golf demand will be influenced by population growth, the aging of the baby boom segment, propensities and frequency of play, and the health of the economy. Depending on projected demographic shifts, change in propensities to play golf, the future fee structure, changes in the inventory of courses, and other such factors, most models predict annualized growth between 1.0 and 1.5 percent over the mid- to long-term.

V: Comparative Operating Revenues and Expenses

Current operating revenues and expenses at Los Lagos and Mesa Linda are compared with the performance at other courses in the region. The performance at any course is influenced by a number of factors including golf course characteristics, market positioning, operating structure, management objectives, and the like.

Annual Play

Annual play at CMCC in 2012 totaled 141,000 rounds (65,000 rounds on Mesa Linda and 76,000 rounds on Los Lagos). This play level represented 10.3 percent of the primary market (Orange County and south Los Angeles County) aggregate play. CMCC's market share has remained relatively constant at between 10.0 and 10.5 percent since the early 2000 period. The 36-hole Mile Square golf complex, which clearly is the most directly competitive facility, currently generates approximately 150,000 paid rounds annually.

Overall, the play levels at Mesa Linda and Los Lagos remain among the better performing courses in the region. Play has declined about 20 percent since the late 1990s. This reduction in play is consistent with the reduction of play at most other market courses over this same time frame.

Operating Revenues

Annual gross revenue at CMCC and other regional mid-market public access golf courses is shown in Table V-1. The average revenue per round by department for selected public golf courses in the market area is shown in Table V-2. The following observations are offered:

- ▶ Los Lagos greens fees revenue, at \$2.39 million, is consistent with the better performing 18-hole golf courses in the region, although they are well below Mile Square's performance, which average \$2.78 million per 18-hole course. Mesa Linda greens fees revenue, at \$1.76 million, is at the lower end of the range, primarily attributed to the course's short length and the relatively high level of resident senior play at substantial discounts.
- ▶ On a revenue per round basis, Los Lagos average greens fees (\$31.36 per round) is at the high end of the range, while Mesa Linda (\$27.08 per round) is slightly above the average of the mid-market public access golf courses in the market area.
- ▶ Most mid-market golf courses generate cart revenues at between \$5.50 and \$7.00 per round. CMCC cart revenue per round in 2012 averaged \$5.50 per round. While at the low end of the range, the average reflects the relatively flat topography, course length, and other course features.
- ▶ Range revenue at CMCC is relatively strong at \$542,000 per year, particularly given the size and location of the facility. Generally, golf courses produce about \$1 per round in range revenue from same-day golfers, plus commercial practice revenue, suggesting commercial practice revenue in the range of \$400,000 per year. On a per tee basis (36 tees), range revenue is equal to about \$15,000 per tee per year, near the top of range for practice facilities of this type and scale.

- ▶ Merchandise revenue at CMCC is very modest at \$2.31 per round, although this sales level is consistent with the other golf courses in the market area. With competition from off-course large volume discount golf merchandise retailers, merchandise sales at all golf courses is down considerably from past years.
- ▶ Food and beverage revenue at CMCC totals about \$1.4 million annually, comprised of \$840,000 in golfer-generated revenue and \$550,000 in banquet revenue. The golfer food and beverage is equal to \$5.96 per round, which compares with an average of about \$5.00 per round at competitive market area golf courses. Banquet revenue at CMCC is relatively small given the facilities, and well below historical levels.

Table V-1: Annual Gross Revenue at Selected Municipal Golf Courses (2012-2013)							
Course	Annual Paid Rounds	Annual Amount (\$000)					
		Greens Fees	Cart Fees	Range	Merch	F&B Golfers	F& B Banquet
CMCC-Los Lagos	76,200	\$2,390	\$754	\$542	\$325	\$840	\$550
CMCC-Mesa Linda	64,800	1,755					
Mile Square*	150,000	5,550	1,050	435	250	700	1,200
Anaheim Hills	47,800	1,640	530	125	130	300	1,700
Dad Miller	72,800	1,790	460	160	115	350	100
Green River	52,700	1,290	520	70	130	300	1,000
Skyllinks	87,600	2,790	610	290	160	400	400
El Dorado	82,600	2,410	555	250	150	450	750
Lakewood	99,240	2,325	655	140	150	400	670
Recreation Park	99,800	2,660	670	265	170	500	500
La Mirada	110,400	2,250	615	360	150	475	175
San Clemente	90,000	1,893	550	150	175	180	---
* 36 holes.							

Table V-2: Average Revenue per Round at Selected Municipal Golf Courses (2012-2013)							
Course	Annual Paid Rounds	Average Revenue Per Round					Annual (\$000)
		Greens Fees	Cart Fees	Range	Merch	F&B Golfers	F& B Banquet
CMCC-Los Lagos	76,200	\$31.36	\$5.35	\$3.84	\$2.31	\$5.96	\$550
CMCC-Mesa Linda	64,800	27.08					
Mile Square*	150,000	37.00	7.00	2.90	1.67	4.67	1,200
Anaheim Hills	47,800	34.31	11.09	2.62	2.72	6.27	1,700
Dad Miller	72,800	24.59	6.32	2.20	1.58	4.81	100
Green River	52,700	24.48	9.87	1.33	2.47	5.69	1,000
Skyllinks	87,600	31.85	6.96	3.31	1.83	n.a.	n.a.
El Dorado	82,600	29.18	6.72	3.03	1.82	n.a.	n.a.
Lakewood	99,240	23.43	6.60	1.41	1.52	4.03	670
Recreation Park	99,800	26.65	6.75	2.67	1.71	n.a.	n.a.
La Mirada	110,400	20.38	5.57	3.26	1.36	4.30	175
San Clemente	90,000	21.03	6.11	1.67	1.94	180	---
* 36 holes.							

Operating Expenses

Annual operating expenses by department are shown in Table V-3 for Costa Mesa Country Club, along with a series of other mid-market oriented 36-hole golf courses in the region, including Mile Square in Fountain Valley, Brookside in Pasadena, River Ridge in Oxnard, and Green River in Corona, all mid-market daily fee golf courses. Courses are designated with letters A through E to avoid disclosure of specific golf course proprietary information. The maintenance at all of the courses is provided by a private sector contractor. The expenses do not include food and beverage expenses as these vary considerably from facility to facility based on the type and scale of food and beverage operations. The expenses also exclude capital expenditures, interest, depreciation, amortization or other non-cash expenditures.

Course Maintenance

CMCC's total course maintenance expenses are near the mid-range of the selected other 36-hole golf courses shown in the table. However, payroll and benefits at CMCC are by far the lowest among the group of courses, reflecting the lower staffing levels. With a full-time equivalent maintenance staff of 18, including superintendent and mechanic, staffing levels are substantially less than most similar courses where maintenance staff for mid-market golf courses typically is between 22 and 28 employees, on a full-time equivalent basis.

Services and supplies for maintenance operations, at just less than \$200,000 per course per year, are in-line with similar golf courses in the region. Water costs at CMCC are relatively high at approximately \$500,000 per year. CMCC owns all of its maintenance equipment such that there is minimal expenses for this line item. Many golf courses have a replacement reserve allowance for the periodic replacement of aged equipment.

Golf Operations

Golf operations include pro shop operations (reservations, starting, greens fee collection, and retailing), golf cart leasing, practice range operation, instruction and course marshals. CMCC golf operations expenses rank at the high end of the range for 36-hole mid-market courses, reflecting the relatively broad range of services and staffing levels. It should be noted that the cart leasing expense at \$60,000 per year understates the cost by one-half of leasing a full fleet of 150-160 golf carts for a 36-hole complex.

Undistributed Clubhouse Expense

Undistributed clubhouse expenses include costs which are not borne directly by the primary operating departments, and include items such as clubhouse utilities, janitorial service, clubhouse maintenance and the like. Generally, undistributed expenses average about \$8 to \$10 per square foot of clubhouse building area per year.

CMCC has about 24,000 square feet of building space (20,000 square foot clubhouse plus 4,000 square foot pro shop). The annual cost of \$173,000 is equal to \$7.20 per square foot per year, slightly below the standard.

Table V-3: Comparable Golf Course Operating Expenses--36-Hole Courses						
	CMCC	Course A	Course B	Course C	Course D	Course E
Course Maintenance						
Payroll and Benefits	\$609	\$920	\$919	\$783	\$850	\$654
Services and Supplies	388	500	551	228	425	354
Utilities	498	350	125	785	160	325
Maintenance Equipment	3	---	10	119	25	---
Subtotal	\$1,497	\$1,770	\$1,605	\$1,915	\$1460	\$1,333
Golf Operations						
Payroll and Benefits	\$269	\$250	\$232	\$167	\$470	267
Cart Leasing	60	150	119	169	150	214
Cart Operation/Outside	146	200	70	172	110	23
Range	110	100	16	---	10	12
Services and Supplies	14	50	9	14	10	73
Subtotal	\$600	\$750	\$446	\$522	\$363	\$390
Undistributed/ Clubhouse	\$173	\$250	\$216	\$301	\$190	\$162
General and Admin						
Payroll and Benefits	\$214	\$400	\$290	\$186	\$246	\$397
Insurance	68	42	34	32	36	41
Property Taxes	68	192	18	68	120	201
Marketing/Promotion	6	23	17	---	53	23
Services and Supplies	230	260	108	238	110	206
Management Fee	169	216	---	---	173	107
Subtotal	\$755	\$1,133	\$467	\$524	\$618	975
Total	\$3,025	\$4,703	\$2,734	\$3,262	\$3,138	\$3,059
<small>1 Excludes food and beverage Source: Individual Cities Golf Operations</small>						

General and Administrative Expenses

Overall, general and administrative expenses at CMCC fall within the middle of the range of the comparative 36-hole facilities, although there is substantial variation among the individual line items. As many professional golf course management companies do, Mesa Verde Partners deducts a fee for off-site management services (guaranteed payment), designated in the table as a management fee.

Capital Improvements Program

Although not shown in the table, the lessee is obligated to contribute to a Capital Improvements Program (CIP) fund an amount equal to 5 percent of greens fees revenue. In 2012, the contribution totaled \$207,000. Based on the most recent amendment to the operating agreement, one-half of the contribution remains in the CMCC CIP fund for golf course and support facility capital improvements and one-half is retained by the City for use in any way the City deems necessary. Thus, the contribution to the 36-hole golf complex CIP fund is only slightly over \$100,000 per year, or 2.5 percent of annual gross greens fees.

While there are no industry standards which indicate the level of CIP funding, there are general guidelines based on the needs of most public golf courses. In terms of a percentage of gross revenue, a reasonable guideline is 3.0 to 5.0 percent of total gross revenue, or 5.0 to 10.0 percent of greens fees revenue. Applied to CMCC, this would equal \$200,000 to \$400,000 per year, or \$100,000 to \$200,000 per 18-hole course. The County of Los Angeles, with 13 regulation length golf courses in their system, reserves 10 percent of greens fees revenue, which produces about \$200,000 to \$225,000 per year for one of their typical 18-hole golf courses. Often, the CIP guidelines are based on percentages applied to gross "golf" revenue, consisting of greens fees, cart rentals and driving range fees. For CMCC, a guideline of 5.0 percent of golf gross revenue, all of which is available to the golf course, appears reasonable and appropriate.

VI. Golfer Survey

As part of the process of evaluating current performance and identifying capital improvement needs for Costa Mesa Country Club, a survey of existing golfers was conducted in November 2013.

Existing Golfer Survey

A survey of existing golfers was conducted to document the golfer profile, views and perceptions of conditions and needs at CMCC, competitive market observations and other characteristics which may influence the future capital improvements and play policies for the golf course. A web-based survey of about 2,000 golfers was conducted utilizing the current e-mail address data base maintained by the golf course. A total of 205 responses were returned, representing a 10% response rate. The survey instrument is contained in Appendix A and the survey results are summarized in Appendix B. Highlights of the survey are presented below.

Golfer Profile

The profile of the survey respondents is summarized in Table VI-1. Of the total golfer responses, 40 percent played primarily Los Lagos, 26 percent Mesa Linda, and 34 percent both courses about the same amount.

Golfing Characteristics

The respondents to the survey, for the most part, are frequent golfers, with two-thirds playing more than 25 rounds of golf annually, and about 25% playing more than 25 rounds of golf annually at CMCC.

Annual Rounds	Percent of Total	
	All Courses	At CMCC
Less Than 5	2.0%	28.6%
5-15	8.9	34.5
16-25	21.8	12.3
26-50	30.2	17.7
50+	37.1	6.9
Total	100.0%	100.0%

Of the 205 responses to a question regarding golf courses played most frequently, 80 (39%) indicated CMCC as the one which they played most often. For those playing CMCC as their primary course, the second most played course clearly was Mile Square Golf Course (36-hole complex) in Fountain Valley, followed by Meadowlark Golf Course in Huntington Beach and Rancho San Joaquin in Irvine. Dad Miller in Anaheim and San Juan Hills in San Juan Capistrano also were noted.

Table VI-1: Golfer Survey Profile

Characteristic	Percent of Total
Gender	
Male	91.0%
Female	9.0
Total	100.0%
Age	
Under 45	21.3%
45-54	23.8
55-64	27.2
65+	27.7
Total	100.0%
Residence	
Costa Mesa	24.6%
Other Orange County	64.5
Los Angeles County	6.9
Inland Empire	2.5
Other	1.5
Total	100.0%
Household Income	
Under \$50,000	9.6%
\$50,000-100,000	37.2
\$100,000-150,000	25.5
\$150,000+	27.7
Total	100.0%
CMCC Club Member	
Women's	1.0%
Men's	8.6
Neither	90.4
Total	100.0%

The golfer skill level, as indicated by golf handicap, was reported as follows:

Handicap	Percent of Total
Below 10	16.8%
10-18	54.0
19-27	22.8
28+	6.5
Total	100.0%

For those respondents listing another course as their most frequently played (mostly Mile Square and Meadowlark), CMCC was not listed very often (about 25 percent) as the second or third most frequently played course.

Golfers playing regularly at CMCC were asked to indicate the main reason why they played at other courses in the region.

Factor	Percent Ranking First or Second Most Important
Better Overall Value (price/golf experience)	43%
Superior Golf Course Quality/Play Experience	41%
More Convenient Location	38%
Tee Time Availability	33%
Superior Customer Service	11%
Weather	5%

Nearly all (83%) of the respondents agreed that capital improvements are needed at CMCC.

Approximately 60% of respondents indicated that they preferred current conditions and current rates, while 40% indicated they were willing to pay somewhat more for better facilities/conditions.

With regard to CMCC golf course features and facilities, a rating of "below average" or "poor" was indicated as follows:

Feature	Percent
Tees	10%
Greens	4
Fairways	20
Roughs	15
Bunkers	30
Range	12
Restrooms	12
Cart Paths	16

With regard to golfer services, a rating of "below average" or "poor" was reported as follows:

Item	Percent
Golf Carts	6%
Cart Paths	11
Pro Shop Merchandise	10
Customer Service	13
Tee Time Availability	19
Reservation Process	19
Pace of Play	52
Golf Instruction	6

In the area of golfer services, by far the weakest element reported is "pace of play," with 52 percent rating this service as "below average" or "poor." Fairway conditions were cited as the top priority needing capital improvements, followed closely by greens. Bunkers ranked third highest priority and tees fourth highest. No other course features or facilities received high priority rankings, although "hole design," "cart paths" and "driving range" were identified in the next priority tier.

VII. Capital Improvements

Costa Mesa Country Club, like all golf courses, requires ongoing capital improvements in order to maintain the quality of the product and remain competitive in the market place.

Capital Improvement Fund

Golf facility capital improvements are funded from a capital improvement reserve fund. According to the operating lease agreement between Mesa Verde Partners and the City, the lessee is obligated to fund the capital improvement reserve fund with an amount equal to 5 percent of greens fees revenue. This contribution is in addition to rent payments. One-half of the reserve fund amount is dedicated for use on the golf course/support facilities, and one-half for any City purpose at the discretion of the City. In 2012, contributions to the capital improvement reserve funding totaled about \$210,000, with about \$105,000 available for golf complex improvements. The agreement also states that the improvements selected for implementation will be mutually agreed upon by the City and Mesa Verde Partners.

The current capital improvement fund balance is about \$600,000.

Historical Capital Improvements

Nearly \$1 million in capital improvements have been implemented at CMCC since 2007, as delineated in Table VII-1. However, netting out the nearly \$335,000 in funds expended on the Fairview Soccer complex, only about \$650,000 was spent on the golf course, or approximately \$92,000 per year over the 2007-2013 period.

It is important to note that some of the project work has been performed in-house with the existing maintenance staff. According to the golf course superintendent, on many of the projects (including tees, cart paths and bunkers), there has been substantial savings compared to outsourcing all of the work.

Five-Year Capital Improvement Plan

A 5-year capital improvement plan has been prepared by the operator and City which outlines proposed projects and their estimated expenditures over the 2014-2018 period, as shown in Table VI-2. Over the next five years, capital projects totaling \$1.37 million are budgeted at CMCC. The largest single project is the construction of entry way improvements at the entrance to the parking lot, at a budgeted cost of \$436,000. Most of the remaining cost elements are major maintenance items and smaller facility improvements.

Given the current balance in the reserve fund (\$600,000), and expected additions to the fund over the next five years, a shortage of approximately \$200,000 is expected by the end of FY 2017-2018.

More importantly, the 5-year plan does not appreciably address the needs of the clubhouse, and the ultimate need to replace aging infrastructure--primarily the golf course irrigation system.

Table VII-1: CMCC Historical Capital Costs		
Project	Year	Cost (\$000)
Power Transformer Project	2007	\$92.1
Pro Shop Renovation	2007	3.5
Fairview Soccer Field Phase I	2008	51.5
Irrigation Upgrade	2008	87.4
Fairview Soccer Field Phase II	2009	382.6
Pro Shop Break-in (Repl ATM & Cash Drawer)	2010	2.2
Tee Renovation	2011	66.1
Irrigation Booster Pump	2011	7.6
Barrier Fencing	2012	24.9
Parking Lot Resurfacing	2012	53.4
Tree Trimming	2012	20.0
Driving Range Barrier Netting Phase 1	2012	36.3
Surveillance System	2012	26.4
Cart Paths/Bunker Remodel	2013	81.5
Tree Removal/Planting	2013	20.0
Additional Bunker Remodel	2013	<u>19.5</u>
Total	---	\$975.0

Table VII-2: CMCC Budgeted 5-Year Capital Improvement Plan (\$000)						
Project	FY2013-14	FY2014-15	FY2015-16	FY2016-17	FY2017-18	Total
Golf Course Entryway	\$436	---	---	---	---	\$436
Driving Range Protective Netting	---	\$189	---	---	---	189
Golf Course Bunker Rebuild	40	50	\$50	\$50	\$50	240
Irrigation Pump Replacement	10	10	10	10	10	50
Slurry Seal Parking Lot	---	---	50	---	---	50
Driving Range Lighting	---	---	25	---	---	25
Golf Course Restrooms	25	25	25	---	---	75
Golf Course Cart Path	20	20	20	20	20	100
Tee Program	10	10	10	10	10	50
Tree Program	25	20	20	20	20	100
Consulting Services-Soil Testing	5	---	---	---	---	5
Interior Design and T.I.-Club Building	50	---	---	---	---	50
Total	\$616	\$324	\$210	\$110	\$110	\$1,370

As previously noted, the clubhouse shows signs of age and deferred maintenance, although it appears that the integrity of the basic structure is reasonably good. The 5-year plan calls for mostly minor cosmetic improvements to the clubhouse totaling approximately \$50,000. Such improvements would not be expected to have significant impact on the facility's observed quality and revenue performance.

One option which has been posited is construction of a new full service clubhouse with bar/grill seating for 120 and a dedicated special events/banquet room with seating for 200-250. The structure would be on the order of 12,000 square feet, with an estimated cost of about \$3.5 to \$4.0 million. A second option would involve substantial exterior (including architectural) improvements as well as interior enhancements. The cost of this option could vary considerably based on the extent of the improvements. For analysis purposes, a budget equal to \$50 per square foot, or about \$1 million, is considered reasonable.

The impact of an improved clubhouse facility would consist of higher food and beverage revenues, and, more importantly, potentially higher levels of play. Higher play levels would derive from a better overall golfer experience and the ability to host more group outing/tournament play. Presently, CMCC hosts a very limited number of outside tournaments and group outings.

While the positive impact of an improved clubhouse at CMCC is fairly certain, the magnitude of the impact is somewhat speculative. The direct economic impact of the clubhouse improvements at CMCC is estimated in Table VII-3.

Table VII-3: Direct Economics of Alternative Clubhouse Models			
	Baseline	Projected	
	Existing With Minor Improvements	Major Renovation	New Full Service (12,000 sq. ft.)
Incremental Annual Rounds	---	1,000	2,000
Annual Gross Revenue			
Food & Beverage (golfers)	\$840,000	\$845,000	\$850,000
Special Event/Banquet F & B	<u>550,000</u>	<u>750,000</u>	<u>\$900,000</u>
Total Annual Revenue	\$1,390,000	\$1,595,000	\$1,750,000
Cost of Sales	<u>490,000</u>	<u>560,000</u>	<u>610,000</u>
Gross Profit	\$900,000	\$1,035,000	\$1,140,000
Operating Expenses	<u>\$625,000</u>	<u>\$700,000</u>	<u>\$750,000</u>
Net Operating Income	\$275,000	\$335,000	\$390,000

The incremental increase in net food and beverage operating income resulting from an enhanced clubhouse is projected at \$60,000 under a major renovation and \$115,000 with a new full service clubhouse relative to the baseline existing clubhouse. With regard to the major renovation, this incremental direct net operating income would support about one-half the cost of the renovation. Similarly, the incremental direct net operating income under a new full service a new facility would support between one-fourth and one-third of the cost of the facility.

To fully amortize the improvement cost of a new clubhouse facility would require additional net income derived from higher levels of play/fees. For example, under a major renovation, full service clubhouse, at an average greens/cart fee of \$35.00, an additional 1,100 rounds would be required to fully justify the improvement cost, which appears reasonable. By contrast, to fully amortize the cost of a new full service clubhouse would require an additional 6,000 to 7,000 rounds, which appears to be highly unlikely.

In addition to clubhouse improvements, in the longer term there will be increased capital improvement needs at CMCC, including the eventual replacement of the irrigation systems. The current capital improvement reserve fund, which accrues funding based on 5 percent of greens fees, is not adequately structured. Other systems reserve annual amounts equal to 5.0 to 10.0 percent of greens fees revenue, or 3.0 to 5.0 percent of total gross revenue, to the CIP reserve fund.

VIII. Golf Course Financial Performance

The following section contains projections of stabilized financial performance at CMCC, reflecting completion of selected capital improvements at the facility and more intensive maintenance resources.

Revenue Enhancement

Both golf courses, given their current support facilities, are operating at a relatively high level within a competitive golf market. For the most part, opportunities for improving revenue performance will require contributions toward capital improvements.

Product Improvement

Perhaps the single most important means of generating greater revenue at CMCC is through improvement in the quality of the product offered. Specifically, improved course conditions resulting from a commitment of greater maintenance resources would likely increase play. An additional \$100,000-\$125,000 in course maintenance expenditures (maintenance payroll and benefits) would require an additional 3,000 rounds per year (8 rounds per day), or a 2 percent increase over current levels. This appears to be readily attainable.

On-Line Reservations

Presently, tee time reservations are made either by telephone or in-person. CMCC is one of the few public golf courses in Southern California which has not yet introduced an on-line tee time reservation capability. Although it is difficult to assess the beneficial impact of adding on-line tee sheet access, the potential added revenue and reduction in staff servicing expenses should justify the cost of implementing this capability. The experience at many courses is that 25% to 35% of tee times are booked on-line.

Email Communication

CMCC has over 2,000 email addresses in its system, and uses this medium on occasion for communicating with CMCC golfers. The 2,000+ addresses represents on the order of 25 percent of CMCC golfers, and there should be an opportunity to significantly expand the data base. The use of the internet to target golfers through email "blasts" to fill the tee sheet is well documented and presents an opportunity to increase play at CMCC.

Practice Range Improvements/Player Development

CMCC generated \$542,000 in driving range revenue in 2012, equal to \$15,000 per tee station per year (36 tees, with night lighting). While this is reasonably good performance, improvements to the practice range would improve the overall quality of the golf experience. Specifically, in addition to needed repairs, construction of a new tee line on the back end of the range would both free-up capacity on the main tee line, but also provide an opportunity for dedicated golf instruction. A new back tee line would require extending the depth of the range, which appears to be feasible without materially infringing on the golf course.

Tournaments

Presently, CMCC accommodates a relatively small number of tournament rounds. While the golf tournament business is very competitive, the availability of two golf courses at CMCC provides an opportunity to host

more tournament activities, allowing one golf course to be blocked for a tournament (including shot gun starts) while the other remains open for daily fee public play. Improvement of golf course maintenance conditions through a combination of capital improvements and increased maintenance resources, and renovation improvements to the clubhouse would enhance the competitiveness of CMCC in the tournament market. Tournament play at many mid-market public golf courses accounts for 5 percent or more of total play, which would be a substantial increase over current tournament play levels at CMCC.

Senior Rates

Resident senior rates (\$13 on Mesa Linda and \$15 on Los Lagos) at CMCC, applicable on Monday through Thursday, are among the lowest at municipal golf courses in Southern California. Resident seniors account for about 10 percent of total play and about 5 percent of total greens fees revenue. There is not a senior rate offered to non-residents. By comparison, a \$23 senior rate is charged at Meadowlark in Huntington Beach and a \$25 rate is charged at Mile Square in Fountain Valley.

A modest increase in the resident senior rate at CMCC would likely raise greens fees revenue, although some reduction in play would be expected. With an increase of \$5 per round, the net effect on gross revenue is estimated in the range of \$50,000 annually.

It may also be appropriate to introduce a non-resident senior rate (say, at \$23-\$25) at selected times. Clearly, a lower rate for non-resident seniors would stimulate more play, but would only be effective if the additional lower fee play did not displace regular fee play.

Non-Resident Rates

Some municipalities have differentiated rates for residents and non-residents, with Long Beach, San Clemente, Burbank and San Diego among the more notable. While this practice was more common during the peak golf market years when courses were operating at near full capacity, the trend has been to move toward a unified fee structure. At CMCC, greens fees currently are at or approaching market levels such that an increase in rates for non-residents would most likely be at best revenue neutral, and may result in lower greens fees revenue. Offering discounted rates to residents would increase play to some degree, but reduce greens fees revenue. Discounted resident rates below market levels would be a policy decision.

Pace of Play

Improvement in the pace of play would improve the overall golf experience markedly at CMCC. The slow pace of play was cited as perhaps the major deficiency in the survey of golfers. There are a number of strategies which can be employed in speeding up the pace of play, and CMCC has taken a number of measures in this regard, including a strong marshaling program, starters at the first tee of each course, and an emphasis on educating golfers. Nonetheless, efforts to improve the pace of play should be continued.

Projected Stabilized Operating Income

Stabilized net operating income for CMCC is presented below. The projections are based on completion of selected golf course improvements, clubhouse renovation and driving range improvements, as well as commitment of greater maintenance resources to the golf course. All values shown below are expressed in constant 2014 dollars.

Revenues

Reflecting the capital improvements discussed along with the revenue enhancement measures, stabilized revenue, expressed in constant 2014 dollars, is based on the following factors:

<u>Annual Play</u>	<u>Mesa Linda</u>	<u>Los Lagos</u>
Actual 2012	64,862	76,173
Projected	67,000	78,000
<u>Greens Fees</u>	<u>Mesa Linda</u>	<u>Los Lagos</u>
Actual 2012	\$27.05/round	\$31.36/round
Projected	\$27.00/round	\$32.00/round
<u>Cart Fees</u>	<u>CMCC</u>	
Actual 2012	\$5.34/round	
Projected	\$5.50/round	
<u>Merchandise</u>	<u>CMCC</u>	
Actual 2012	\$2.30/round	
Projected	\$2.25/round	
<u>Practice Range</u>	<u>CMCC</u>	
Actual 2012	\$541,600/year	
Projected	\$595,000/year	
<u>Food & Beverage</u>	<u>CMCC</u>	
Actual 2012	\$1,391,300/year	
Projected	\$1,615,000/year	

<u>Miscellaneous</u>	<u>CMCC</u>
Actual 2012	\$75,000/year
Projected	\$75,000/year

Cost of Sales

<u>Department</u>	<u>CMCC</u>
Merchandise	
Actual 2012	84%
Projected	75%
Food & Beverage	
Actual 2012	46%
Projected	40%

Operating Expenses

Projected stabilized operating expenses, expressed in constant 2014 dollars, are presented in Table VIII-1 along with actual expenses reported for 2012. The projected expenses include allowances for maintenance equipment leasing/replacement, golf cart leasing, and a fee for golf course management/home office expenses. No allowance for a golf course capital improvement reserve is included in the expense projections.

As indicated projected stable year expenses are approximately \$400,000 higher than actual 2012 expenses. The principal components of the increase in annual expenses include the following:

- ▶ Additional course maintenance staff (\$125,000)
- ▶ Maintenance equipment annual replacement reserve (\$75,000)
- ▶ Additional golf cart lease expense (\$70,000)
- ▶ Additional food and beverage expenses related to higher volume (\$95,000)

Net Operating Income

Based on a series of factors and assumptions noted above, stabilized net operating income for CMCC, expressed in constant 2014 dollars, is presented in Table VIII-2 from the perspective of the operator. Although the projections show that net operating income to the operator is about \$100,000 below actual

Table VIII-1: CMCC Operating Expenses (\$000) ^{1/}		
	2012	Projected
Course Maintenance		
Payroll and Benefits	\$609.0	\$725.0
Services and Supplies	387.7	390.0
Utilities	497.6	500.0
Maintenance Equipment	2.8	75.0
Subtotal	\$1,497.1	\$1,690.0
Golf Operations		
Payroll and Benefits	\$269.4	\$270.0
Cart Leasing ^{1/}	60.5	130.0
Cart Operation	146.1	145.0
Range	110.2	110.0
Services and Supplies	13.7	15.0
Subtotal	\$599.9	\$670.0
Food & Beverage		
Payroll and Benefits	\$489.0	\$565.0
Services and Supplies	105.9	125.0
Subtotal	\$594.9	\$690.0
Undistributed/Clubhouse	\$172.7	\$175.0
General and Admin		
Payroll and Benefits	\$213.5	\$215.0
Insurance	67.9	65.0
Property Taxes	68.4	68.0
Marketing/Promotion	5.8	12.0
Credit Card Fees	98.7	110.0
Services and Supplies	131.0	130.0
Management Fee/Home Office	168.5	175.0
Subtotal	\$753.8	\$775.0
City Championship	29.5	30.0
Total	\$3,647.9	\$4,030.0



Table VIII-2: Stabilized Net Operating Income (thousands of constant 2014 dollars)		
	Actual 2012	Stabilized
Annual Rounds		
Los Lagos	76,173	78,000
Mesa Linda	<u>64,862</u>	<u>67,000</u>
Total	141,035	145,000
Gross Revenue		
Greens Fees		
Los Lagos	\$1,754.4	\$2,496.0
Mesa Linda	<u>2,389.0</u>	<u>1,809.0</u>
Total	\$4,143.4	\$4,305.0
Cart Fees	753.7	797.5
Practice Range	541.6	595.0
Merchandise	324.9	326.3
Food & Beverage-Golfer	841.3	865.0
Banquet/Special Event	550.0	750.0
Miscellaneous	<u>75.0</u>	<u>75.0</u>
Total	\$7,229.9	\$7,713.8
Less: Cost of Sales	916.8	890.7
Gross Profit	\$6,313.1	\$6,823.1
Operating Expenses		
Course Maintenance	\$1,497.1	\$1,690.0
Golf Operations	599.9	670.0
Food & Beverage	594.9	690.0
Clubhouse Undistributed	172.7	175.0
General & Administrative	<u>783.3</u>	<u>805.0</u>
Total	3,647.9	\$4,030.0
Net Operating Income	\$2,665.2	\$2,793.1
Less: Rent	1,963.3	\$2,195.9
:CIP Repl Reserve	<u>207.2</u>	<u>215.2</u>
Adjusted Net Income	\$494.7	\$382.0

2012 net operating income, there is effectively no difference since the projections include an allowance for leasing the full fleet of carts and a replacement reserve for maintenance equipment.

From the City's perspective, rent and the CIP contribution by the operator are projected at \$2.41 million due to higher gross revenue. The current agreement between the City and the operator calls for operator contributions equal to 5.0 percent of greens fees, of which the City retains one-half for any City use and dedicates one-half for improvements at CMCC. The following table illustrates the net City rent based on the premise that the City returns to the golf course CIP fund a greater amount equal to 5.0 percent of "golf" gross revenue (greens fees, cart rentals, range fees). The City's contribution to the CIP fund under this assumption is about \$285,000 per year. Net City rent, after the higher CIP contribution, is projected at near the same level as generated in 2012.

Projected Net City Rent (\$000)		
	Actual 2012	Projected
Rent	\$1,963.4	\$2,195.9
CIP (Lessee Contribution)	207.1	215.3
Subtotal	\$2,170.5	\$2,411.2
Less: CMCC CIP Allowance	103.6	284.9
Net City Rent	\$2,066.9	\$2,126.3

IX. Other Issues

A series of other issues is presented in the final section of the report.

CMCC Market Positioning

Costa Mesa Country Club is positioned to serve the mid-segment of the public golf market, with Mesa Linda standard 18-hole greens fees of \$26 weekdays and \$38 weekends, and Los Lagos at \$33 weekdays and \$47 weekends. The appropriate market positioning is dependent on several basic factors including the type and quality of the product, market demand and the competitive inventory.

CMCC offers quality golf courses designed to serve a broad segment of the public golf market. The courses are designed in a parkland setting to accommodate relatively high volumes of play, with limited strategic, penal and heroic design features. The design features of Los Lagos and Mesa Linda are modest compared with the high quality daily fee and private golf courses serving the market. Higher quality designed courses have a balance of strategic and heroic design features, with most or all memorable and distinctive holes often achieved through course topography and/or significant sculpting to achieve a high level of interest.

The Orange County public golf market, in terms of the demand-supply of golf courses, is generally in-balance. In most golf markets, the demand for entry level and mid-market public golf courses represents about 70 percent of total demand, with the upper-mid-market and high end segments accounting for about 30 percent. Based on this ratio, there is demand for about 8 higher quality public golf courses.

There are 28 public golf courses serving Orange County at this time, of which 12 are classified as upper-mid-market or high end public courses. Thus, while the overall market is in-balance, there is a disproportionate number of higher quality golf courses serving the market. Part of this imbalance is attributable to the Orange County resort activity concentrated on the Irvine Coast and Laguna Beach. Nonetheless, the higher end of the Orange County golf market is at least slightly, and probably considerably, over-served.

Even if repositioning the golf course(s) was justified from a market perspective, a complete renovation of the golf course(s) would be required in order to serve the upper-mid segment of the market. Based on the experience of other courses such as Harding Park in San Francisco, the cost of a full renovation would be on the order of \$5 million, or more, per course. Harding Park's renovation cost totaled \$10 million. While revenues (and expenses) would be expected to increase with repositioning, it is highly unlikely that net operating income would increase by a sufficient amount to amortize the cost of the renovation.

Financial/Operating Systems

A review of the financial and operating systems in-place based on interviews with department managers suggests that CMCC meets the basic industry standards. CMCC has installed state-of-the-art IBIS golf management software, a comprehensive system for managing golf operations including tee sheet

management, retail point-of-sale with inventory control, and financial/accounting interface capabilities. CMCC accounting produces reporting statements based on output from the IBIS system, using Intuit's QuickBooks software. The financial and other reporting statements contain standard levels of detail to track performance and variances from budget as needed. In addition, CMCC department heads employ appropriate measures and procedures for inventory and cash control, including food and beverage operations.

While CMCC meets standards for inventory control, cash management and financial reporting, there are a few areas where CMCC has been slow to implement basic systems. In particular, it is noted that banquet bars are "cash only" without the capability of accepting debit/credit cards (there is an ATM in the clubhouse, but this is marginally convenient). The beverage cart operation recently initiated the capability to accept debit/credit cards, as well as cash.

CMCC also has not fully employed the capabilities of their financial control/reporting systems. Presently, accounting manually transfers daily activity reports into a month-end accounting statement, although the capability is readily available for integration of the IBIS and QuickBooks systems. Full automation and integration of the various systems would allow the production of real time "flash reports" to document course financial position. There also are capabilities for documenting and monitoring the customer base with the systems in-place which are not utilized.

Promotion/Marketing Activities

There appear to be opportunities for CMCC to more effectively market the facility. Very few resources are dedicated to actively promoting and marketing the facility. The current budget for promotion and marketing is less than \$10,000 per year, equal to less than .2 percent of total gross revenue. Most courses budget about 1 percent of their gross revenue for promotion and marketing activities.

Perhaps the biggest deficiency at CMCC is the absence of an on-line tee time reservation capability, a standard service offered at nearly all Southern California public golf courses. The lack of on-line booking was cited by many golfers in the survey of CMCC golfers conducted in November 2013.

CMCC also has not emphasized web based customer access. There are over 2,000 golfers in CMCC's email data base, which represents less than one-quarter of the estimated golfers at the facility. The practice of using email "blasts" to communicate with golfers and promote the facility is very cost-effective. Other forms of social media also have not been employed.

Player Development

CMCC does reasonably well in the area of player development and junior golf given the facilities available. There are six instructors providing individual and group teaching, and the instruction staff is well qualified. The facility is used by a number of high school golf teams in the area, and on occasion by UC Irvine. A Junior Golf Summer Session also is offered at the course.

Player development at CMCC is constrained to a large degree by the limited facilities available. The effectiveness and breadth of the instruction program at CMCC can be enhanced through physical improvements including construction of a new teaching tee line on the far end of the range (requires extension of the range depth) and a video building for state-of-the-art instruction. As well, greater emphasis can be placed on promoting instruction and junior play, and providing more access to the golf courses.

Management Models

CMCC currently is operated under a facility lease agreement whereby the operator (lessee) assumes full operational and financial responsibility for the facility, subject to a lease payment and capital improvement program reserve obligation to the City. The operator (Mesa Verde Partners) receives all revenues and is responsible for all operating expenses. Some initial capital investment in the form of golf course improvements was committed by the operator upon the initiation of the lease agreement.

The principal advantages of the facility lease agreement model from the City's perspective include minimum operational and financial risk, retention of professional golf course management, reasonably high financial participation in net earnings, and relatively little involvement in monitoring operations. The primary disadvantage of this model is limited control over operations such as positioning of the golf courses, establishing maintenance levels, marketing budgets and other practices, policies and procedures.

There are several basic alternative golf course management models employed in operating municipal golf courses. Notwithstanding that there is a lease in-place, a fee-for-service "management agreement" approach to operation represents a realistic option for courses like CMCC. Under such an agreement, the City retains a professional management company to maintain, operate and manage the golf course, serving as the City's agent in effect. The City retains all of the revenue and is responsible for all of the operating expenses, including the payment of a management fee for the services of the management company. The City also is responsible for all capital improvements.

The primary advantage of the management agreement model is that it provides a high level of City control over how the golf course is positioned and operated, and does allow the City to capture most of the upside financial performance. The principal disadvantages include greater financial downside exposure for the City, and the requirement of greater City resources in managing the agreement.

The third basic operating model is self-operation whereby the City assumes the responsibility of maintaining and operating the golf complex. Most municipalities have moved away from this model over the past 20-30 years do primarily to the higher cost structure of public employees and the desire to retain professional golf course management. There also are numerous hybrid models which combine parts of the basic management structures.



City Monitoring

Even with a facility lease in-place, municipal golf courses require contract management and overall monitoring to ensure that the course is generally being operated in accordance with the terms of the lease agreement. Historically, contract management has been administered from the City Managers office. The Recreation Services Division of the City interfaces with the golf course, but does not have the responsibility for contract compliance.

Even though there are maintenance standards and other duties and responsibilities of the lessee which are outlined in the lease agreement, there are many gray areas and interpretations. It may be appropriate for the City to formalize the process of reviewing golf course conditions and other aspects of the operation. A number of municipalities perform scheduled golf course inspections, communicating deficiencies to the operator for remediation.

Appendix A: Golfer Survey

Costa Mesa Country Club Golfer Survey

Dear Golfer:

On behalf of the City of Costa Mesa, Pro Forma Advisors LLC--an independent golf course consulting firm—is interested in your observations and opinions regarding Costa Mesa Country Club (CMCC). We would appreciate your cooperation in completing the following questionnaire. Thank you for your assistance and participation.

1. Which CMCC golf course do you play most often:
a. Los Lagos ____ b. Mesa Linda ____ c. Both about the same ____

2. What is your handicap (or what would it likely be):
Below 10 ____ 10-18 ____
19-27 ____ 28-45 ____ Over 45 ____
3. Please Indicate Your Gender: Female ____ Male ____

4. Please Indicate Your Age:

Under 17 ____ 35 to 44 ____ 65 or over ____
18 to 24 ____ 45 to 54 ____
25 to 34 ____ 55 to 64 ____

5. What was your approximate total household income last year?

Less than \$50,000 ____ \$100,000-\$149,999 ____
\$50,000-\$74,999 ____ Over \$150,000 ____
\$75,0900-\$99,999 ____

6. What is you ZIP Code? ____

7. About how many rounds of golf will you play this year (at any course)? ____
- Less than 5 ____
- 5 to 15 (approx once a month) ____
- 16-25 (once or twice a month) ____
- 26-50 (once a week) ____
- 50+ (more than once a week) ____

8. About how many rounds of golf will you play this year (at CMCC)? ____

- Less than 5 _____
- 5 to 15 (approx once a month) _____
- 16-25 (once or twice a month) _____
- 26-50 (once a week) _____
- 50+ (more than once a week) _____

9. Are you a member of the men's or women's club at CMCC? _____

10. Including CMCC, please list the four courses you play with #1 being the course you play most often (primary course):

1. _____ 3. _____
 2. _____ 4. _____

11. If you play regularly at courses other than CMCC, please indicate the main reason you play at different courses in the region (please rank importance of factor, with "1" being most important):

- a. More convenient location _____
- b. Superior golf course quality/play experience _____
- c. Superior customer service _____
- d. Weather _____
- e. Tee-Time Availability _____
- f. Better overall value (price/golf experience) _____
- g. Other (specify) _____

12. Do you feel that the current greens fees at CMCC are (please check one response in each column):

	<u>Weekdays</u>	<u>Weekends</u>
Too Low	_____	_____
Reasonable	_____	_____
Excessive	_____	_____

13. How would you rate the following as it relates to the CMCC Facility?

	Very Excellent	Good	Average	Below Average	Poor	Not Applicable
Tees	_____	_____	_____	_____	_____	_____

Greens	___	___	___	___	___	___
Fairways	___	___	___	___	___	___
Roughs	___	___	___	___	___	___
Bunkers	___	___	___	___	___	___
Driving Range	___	___	___	___	___	___
Restrooms	___	___	___	___	___	___
Pro Shop	___	___	___	___	___	___
Restaurant	___	___	___	___	___	___
Other (specify)	___	___	___	___	___	___

Comments: _____

14. How would you rate the following as it relates to golf operations at CMCC?

Very Below Not
Excellent Good Average Average Poor Applicable

Golf Carts	___	___	___	___	___	___
Cart Paths	___	___	___	___	___	___
Pro Shop Merchandise	___	___	___	___	___	___
Customer Service	___	___	___	___	___	___
Tee Time Availability	___	___	___	___	___	___
Reservation Process	___	___	___	___	___	___
Pace of Play	___	___	___	___	___	___
Golf Instruction	___	___	___	___	___	___
Other (specify)	___	___	___	___	___	___

Comments: _____

15. Have you been playing at CMCC for more than four years?

Yes ___ No ___

16. If yes to above, how does your overall play experience compare to that four or five years ago?

- About the Same _____
- Better _____
- Worse _____
- Not Applicable _____

17. In general, do you favor investment to improve the golf course and support facilities?
Yes _____ No _____

18. How would you prioritize needed improvements at CMCC, regardless of the cost of the improvements (rank priority with "1" highest)?

- Greens _____
- Tees _____
- Bunkers _____
- Fairway Conditions _____
- Hole Design _____
- Cart Paths _____
- Driving Range _____
- Entry _____
- Parking Lot _____
- Pro Shop _____
- Restaurant _____
- On-Course Restrooms _____
- Other (specify): _____

19. If there was a general trade-off between physical improvements and slighter higher fees at CMCC, would you generally prefer:

- a. Similar level of facility quality and fees as offered at present _____
- b. Higher level of facility quality and slightly higher level of fees _____

We welcome any other comments or suggestions.

Appendix B: Golfer Survey Response

1. Which CMCC golf course do you play most often?:

Which CMCC golf course do you play most often:	Which CMCC golf course do you play most often:	Which CMCC golf course do you play most often:
Answer Options	Response Percent	Response Count
Los Lagos	40.4%	82
Mesa Linda	26.1%	53
Both about the same	33.5%	68

2. What is your handicap (or what would it likely be)?

Answer Options	Response Percent	Response Count
Below 10	16.8%	34
10-18	54.0%	109
19-27	22.8%	46
28-45	5.0%	10
Over 45	1.5%	3

3. Please Indicate Your Gender

Answer Options	Response Percent	Response Count
Female	9.0%	18
Male	91.0%	183

4. Please Indicate Your Age:

Answer Options	Response Percent	Response Count
Under 17	0.0%	0
18 to 24	0.5%	1
25 to 34	8.4%	17
35 to 44	12.4%	25
45 to 54	23.8%	48
55 to 64	27.2%	55
65 or over	27.7%	56

5. What was your approximate total household income last year?

Answer Options	Response Percent	Response Count
Less than \$50,000	9.6%	18
\$50,000-\$74,999	11.7%	22
\$75,000-\$99,999	25.5%	48
\$100,000-\$149,999	25.5%	48
Over \$150,000	27.7%	52

6. About how many rounds of golf will you play this year (at any course)?

Answer Options	Response Percent	Response Count
Less than 5	2.0%	4
5 to 15 (approx once a month)	8.9%	18
16-25 (once or twice a month)	21.8%	44
26-50 (once a week)	30.2%	61
50+ (more than once a week)	37.1%	75

7. About how many rounds of golf will you play this year (at CMCC)?

Answer Options	Response Percent	Response Count
Less than 5	28.6%	58
5 to 15 (approx once a month)	34.5%	70
16-25 (once or twice a month)	12.3%	25
26-50 (once a week)	17.7%	36
50+ (more than once a week)	6.9%	14

8. Are you a member of the men's or women's club at CMCC?

Answer Options	Response Percent	Response Count
Yes	9.6%	19
No	90.4%	179

9. If you play regularly at courses other than CMCC, please indicate the main reason you play at different courses in the region (please rank importance of factor, with "1" being most important):

Answer Options	1	2	3	4	5	6	N/A	Rating Average	Response Count
More convenient location	38	24	22	25	26	15	36	3.15	186
Superior golf course quality/play experience	41	37	40	21	11	4	32	2.58	186
Superior customer service	11	30	33	37	34	9	32	3.52	186
Weather	5	9	14	24	24	62	48	4.73	186
Tee-Time Availability	33	36	28	28	24	14	23	3.10	186
Better overall value (price/golf experience)	43	30	23	17	26	23	23	3.14	185

10. Do you feel that the current greens fees at CMCC are (please check one response in each column):

Answer Options	Too Low	Reasonable	Excessive	Response Count
Weekdays	2	159	40	201
Weekends	3	121	69	193



11. How would you rate the following as it relates to the CMCC Facility?

Answer Options	Excellent	Very Good	Average	Below Average	Poor	Not Applicable	Response Count
Tees	7	86	86	15	5	0	199
Greens	36	102	52	8	1	0	199
Fairways	8	50	98	35	5	1	197
Roughs	2	45	121	22	7	1	198
Bunkers	4	36	96	40	20	1	197
Driving Range	13	67	87	17	6	8	198
Restrooms	9	58	107	19	5	1	199
Pro Shop	17	58	100	16	6	1	198
Restaurant	11	40	90	23	5	24	193
Other (specify)	5	2	10	3	12	20	52

12. How would you rate the following as it relates to golf operations at CMCC?

Answer Options	Excellent	Very Good	Average	Below Average	Poor	Not Applicable	Response Count
Golf Carts	25	83	63	8	3	19	201
Cart Paths	14	72	90	20	2	3	201
Pro Shop Merchandise	11	57	104	17	3	9	201
Customer Service	40	73	62	18	8	0	201
Tee Time Availability	22	60	80	26	11	1	200
Reservation Process	21	47	90	16	20	6	200
Pace of Play	4	26	66	56	46	2	200
Golf Instruction	9	17	39	4	0	125	194

13. Have you been playing at CMCC for more than four years?

Answer Options	Response Percent	Response Count
Yes	84.2%	170
No	15.8%	32

14. If yes to above, how does your overall play experience compare to that of four or five years ago?

Answer Options	Response Percent	Response Count
About the Same	47.4%	90
Better	34.2%	65
Worse	6.3%	12
Not Applicable	12.1%	23

15. In general, do you favor investment to improve the golf course and support facilities?

Answer Options	Response Percent	Response Count
Yes	82.7%	163
No	17.3%	34

16. How would you prioritize needed improvements at CMCC, regardless of the cost of the improvements (rank priority with "1" highest)?

Answer Options	1	2	3	4	5	6	7	8	9	10	11	12	Rating Average
Greens	49	39	21	24	11	4	5	4	4	7	5	9	3.85
Tees	18	49	44	30	13	8	5	4	3	2	4	2	3.64
Bunkers	30	25	43	33	24	12	6	3	3	1	1	1	3.62
Fairway Conditions	53	35	25	32	15	5	7	8	1	1	0	0	3.09
Hole Design	7	7	17	17	64	20	14	9	7	4	2	14	5.73
Cart Paths	4	2	5	12	17	71	28	19	9	8	5	2	6.43
Driving Range	3	4	10	9	6	28	68	23	15	6	8	2	6.82
Entry	2	5	0	3	6	8	13	69	38	18	11	9	8.22
Parking Lot	0	2	1	6	4	8	3	20	68	34	19	17	9.04
Pro Shop	5	4	2	2	5	3	15	4	17	80	35	10	9.15
Restaurant	4	5	7	8	4	5	8	11	5	14	81	30	9.32
On-Course Restrooms	7	5	7	6	13	10	10	8	12	7	11	86	9.08

17. If there were a general trade-off between physical improvements and slightly higher fees at CMCC, would you generally prefer:

Answer Options	Response Percent	Response Count
Similar level of facility quality and fees as offered at present	60.5%	118
Higher level of facility quality and slightly higher level of fees	39.5%	77