MEMO

To: Ann Kattreh and Eric Roggeman, City of Edina

From: Nick Anhut and Mark Ruff, Ehlers

Date: February 26, 2015

Re: Braemar Golf Pro Forma Review

The City of Edina Parks Department and Finance Department have requested that Ehlers review pro forma financial assumptions for the City of Edina's Golf Enterprise (the "Enterprise") as prepared by City staff and offer comments regarding the financial projections. The basis for our comments are actual historical revenue and expense results for the Enterprise, review of planning documents from peer municipally managed golf courses, and our experience with budgets for municipal recreational enterprises. Generally, we find the City's projections to be based upon reasonable assumptions with the caveats and clarifications raised below.

General Pro Forma Models

In preparation for reviewing various capital investments proposed within the Braemar Golf Course Master Plan, City staff prepared baseline annual financial projections through 2020 to update the City's 2014 Golf Operations Study to incorporate recent changes to the Enterprise with the closing of Fred Richards and new contract with Tin Fish. City staff included reductions in revenues related to concessions and greens fees, with more modest adjustments to reflect streamlined expenditures within retail operations, commodities, personnel and contractual services. The City then created three additional models to incorporate the impact of selected Master Plan changes to the course:

- Adding $2.4 million course, driving range and par 3 renovations in 2015,
- $8.4 million 27-hole course renovation with the new driving range and par 3, and
- $6.4 million 18 hole full course renovation in 2017 with the new driving range and par 3.

It should be noted that these models do not assume any substantial price or fee increases and do not include any cash transfer support from external funds. Our evaluation also does not incorporate review of the proposed construction costs, related contingencies, or time horizons.

Status Quo Model

The status quo model's projected revenues for 2015 of just over $2.9 million are adjusted from recent history for the closure of Fred Richards and outsourced grill operations with Tin Fish. Revenues for concessions and alcohol sales are conservatively reduced to reflect the contract in effect starting in the summer of 2015 which shows lower revenues but also lower expenditures. Green Fees revenue in 2015 reflects a onetime modest increase in number of rounds of 10% for 9-hole rounds and 25% for executive course rounds to offset the closure of Fred Richards. These baseline revenues assume no change to current pricing levels. In general, 2016 to 2020 year-over-year projected general revenues assume 3% growth in combined pricing/usage and green fee and range utilization revenues assume a 1% growth, which are reasonable assumptions. See the detailed chart below which also shows a baseline comparison to recent historical operating performance:

Status Quo Model			
Revenues	2011-2014 Compiled	2015 Proposed	2020 Stabilized
Concessions/Sales	$ 580,974	$ 303,075	$ 260,760
Golf Dome	$ 326,276	$ 332,801	$ 385,808
Green Fees	$ 1,534,510	$ 1,468,535	$ 1,543,445
Driving Range	$ 243,625	$ 246,061	$ 258,613
Miscellaneous	$ 559,437	$ 582,000	$ 632,178
Total Revenue	$ 3,244,821	$ 2,932,472	$ 3,080,804
Expenditures	2011-2014 Compiled	2015 Proposed	2020 Stabilized
Cost of Goods Sold	$ 313,477	$ 180,024	$ 171,700
Personal Services	$ 1,521,625	$ 1,340,175	$ 1,553,630
Contractual Services	$ 544,356	$ 493,703	$ 545,088
Commodities	$ 337,851	$ 288,945	$ 319,018
Capital Outlay	$ 3,355	$ 3,422	$ 3,778
Central Services	$ 134,809	$ 137,505	$ 151,817
Depreciation	$ 411,470	$ 456,000	$ 556,000
Total Expenditures	$ 3,266,942	$ 2,899,773	$ 3,301,031
Operating Income (Loss)	$ (22,121)	$ 32,699	$ (220,227)

Excluding debt service and non-recurring capital expenditures, the status quo projected 2015 budget for expenditures is over $360,000 less than recent historical levels. This is primarily due to reductions in commodities, staffing, and contractual services spending related to Fred Richards, along with contracting with Tin Fish for operation of the Grill. Including 2015, the City's projected expenditures include 2% inflationary factor for all line items except for personal services at 3% to be consistent with the City's budgetary practices for other departments. The City's 2015 status quo budget has a sound basis given the City's experience and is in line with the level of expenditures of similar municipal golf enterprises within the metro area.

Despite the projection of a slight positive operating performance in 2015, aging of the course will likely create larger negative cash flows in the short term prior to payment of non-operating expenditures like existing debt and capital replacement needs. For example, the status quo scenario will require at least $2,000,000 in irrigation improvements by 2017 plus annual improvements of over $200,000 per year which exceed projections for depreciation expense.

Status Quo	2015	2016	2017	2018	2019	2020
Revenues	$ 2,932,472	$ 2,897,815	$ 2,942,181	$ 2,987,452	$ 3,033,652	$ 3,080,804
Expenditures	$ (2,899,773)	$ (2,937,050)	$ (3,000,475)	$ (3,165,583)	$ (3,232,419)	$ (3,301,031)
Operating Income	$ 32,699	$ (39,236)	$ (58,294)	$ (178,130)	$ (198,767)	$ (220,227)
Add: Depreciation	$ 456,000	$ 456,000	$ 456,000	$ 556,000	$ 556,000	$ 556,000
Less: Existing Debt	$ (84,215)	$ (97,490)	$ (95,540)	$ (93,590)	$ (96,565)	$ (94,465)
Capital Expense	$ (849,500)	$ (191,000)	$ (2,208,000)	$ (298,000)	$ (293,000)	$ (200,000)
New Debt	$ -	$ -	$ 2,000,000	$ (158,400)	$ (158,400)	$ (158,400)
Annual Cash Flow	$ (445,016)	$ 128,274	$ 94,166	$ (172,120)	$ (190,732)	$ (117,092)

Driving Range and Par 3 Improvement Model

Projections for revenues adding the impact of improvements to the range and par 3 during the summer of 2015 build upon the status quo model. Key differences are the impacts of proposed construction starting in July, 2015. This event is expected to limit utilization of the range and executive course for the remainder of the season. Upon completion, staff expects increased driving range and par 3 stabilized revenues, and modest increases in membership revenue due to improved amenities. The proforma anticipates range revenues nearly doubling from historical levels once stabilized after construction, and Par 3 green fees recovering by 2017 to a stabilized level 14% higher than the status quo projections. Conservatively, the model does not assume any increase in 9-hole or 18-hole regulation course utilization during Par 3 construction, nor any increases above status quo levels afterward.

New Driving Range & Par 3 Model		
Revenues	2015 Proposed	Stabilized 2020
Concessions/Sales	$ 303,075	$ 260,760
Golf Dome	$ 383,953	$ 385,808
Green Fees	$ 1,300,489	$ 1,577,118
Driving Range	$ 77,960	$ 433,740
Miscellaneous	$ 582,000	$ 641,636
Total Revenue	$ 2,647,477	$ 3,299,062
Expenditures	2015 Proposed	Stabilized 2020
Cost of Goods Sold	$ 180,024	$ 171,700
Personal Services	$ 1,297,597	$ 1,552,192
Contractual Services	$ 493,703	$ 545,088
Commodities	$ 272,515	$ 318,662
Capital Outlay	$ 3,422	$ 3,778
Central Services	$ 137,505	$ 151,817
Depreciation	$ 456,000	$ 676,000
Total Expenditures	$ 2,840,765	$ 3,419,238
Operating Income (Loss)	$ (193,289)	$ (120,176)

Expenditures are expected to decline slightly in 2015 compared to the Status Quo model due to reorganization and temporary closure of the range and Par 3 during construction. However, City staff expects to carry forward this level of expenditures with only inflationary adjustments mentioned above, as well as a projected $120,000 increase in an accounting depreciation expense directly related to the new capital improvements. Not including depreciation, the projections for total operating expenditures are at or below Status Quo projections.

Range/Par 3	2015	2016	2017	2018	2019	2020
Revenues	$ 2,647,477	$ 2,961,655	$ 3,148,405	$ 3,197,592	$ 3,247,803	$ 3,299,062
Expenditures	$ (2,840,765)	$ (2,995,444)	$ (3,118,824)	$ (3,283,886)	$ (3,350,674)	$ (3,419,238)
Operating Income	$ (193,289)	$ (33,789)	$ 29,580	$ (86,293)	$ (102,872)	$ (120,176)
Add: Depreciation	$ 456,000	$ 516,000	$ 576,000	$ 676,000	$ 676,000	$ 676,000
Less: Existing Debt	$ (84,215)	$ (97,490)	$ (95,540)	$ (93,590)	$ (96,565)	$ (94,465)
Capital Expense	$ (2,649,500)	$ (191,000)	$ (2,208,000)	$ (298,000)	$ (293,000)	$ (200,000)
New Debt	$ 2,400,000	$ (190,000)	$ 1,810,000	$ (348,400)	$ (348,400)	$ (348,400)
Annual Cash Flow	$ (71,004)	$ 3,721	$ 112,040	$ (150,283)	$ (164,837)	$ (87,041)

27-hole Regulation Course Renovation Model

The next model builds upon the range and Par 3 improvements, and includes projections for revenues assuming 27-hole renovation to occur in three 9-hole phases from 2017-2019 to allow for continuous 18-hole operations during construction. City staff expects green fee, cart rental and retail revenues to temporarily decline due to 33% reduction in utilization during the construction period. Revenues return to stabilized levels in 2020, with green fee revenues recovering to a level 5.7% higher than the status quo projections. Membership revenue also declines during course renovation, but does not fully recover to stabilized levels immediately afterward. Similar to the previous model, the model conservatively does not assume any increased utilization of the Par 3 course during construction of the 27-hole regulation course.

27 Hole w/ New Driving Range & Par 3		
Revenues	2015 Proposed	Stabilized 2020
Concessions/Sales	$ 303,075	$ 260,760
Golf Dome	$ 383,953	$ 385,808
Green Fees	$ 1,300,489	$ 1,651,666
Driving Range	$ 77,960	$ 433,740
Miscellaneous	$ 582,000	$ 653,188
Total Revenue	$ 2,647,477	$ 3,385,161
Expenditures	2015 Proposed	Stabilized 2020
Cost of Goods Sold	$ 180,024	$ 171,700
Personal Services	$ 1,297,597	$ 1,552,192
Contractual Services	$ 493,703	$ 545,088
Commodities	$ 272,515	$ 318,662
Capital Outlay	$ 3,422	$ 3,778
Central Services	$ 137,505	$ 151,817
Depreciation	$ 456,000	$ 976,000
Total Expenditures	$ 2,840,765	$ 3,719,238
Operating Income (Loss)	$ (193,289)	$ (334,076)

The proposed 27-hole renovation model builds in reduced operating expenditures related to limited operations during the 2017-2019 phased construction, however stabilized expenditures are expected to be identical to previous models save for the added depreciation expense related to the over $8 million project.

27-Hole Ren.	2015	2016	2017	2018	2019	2020
Revenues	$ 2,647,477	$ 2,961,655	$ 2,513,014	$ 2,553,771	$ 2,595,405	$ 3,385,161
Expenditures	$ (2,840,765)	$ (2,995,444)	$ (2,570,558)	$ (2,771,482)	$ (2,973,756)	$ (3,719,238)
Operating Income	$ (193,289)	$ (33,789)	$ (57,545)	$ (217,711)	$ (378,351)	$ (334,076)
Add: Depreciation	$ 456,000	$ 516,000	$ 576,000	$ 726,000	$ 876,000	$ 976,000
Less: Existing Debt	$ (84,215)	$ (97,490)	$ (95,540)	$ (93,590)	$ (96,565)	$ (94,465)
Capital Expense	$ (2,649,500)	$ (191,000)	$ (8,556,383)	$ (98,000)	$ (93,000)	$ -
New Debt	$ 2,400,000	$ (190,000)	$ 8,158,383	$ (864,000)	$ (864,000)	$ (864,000)
Annual Cash Flow	$ (71,004)	$ 3,721	$ 24,915	$ (547,301)	$ (555,916)	$ (316,541)

18-Hole Regulation Course Renovation Model

The final revenue model exchanges the 27-hole renovation for an 18-hole renovation that includes the elimination of 9 holes from the golf facility. Construction is expected to occur in 2017 and cause a full shutdown of the regulation course that year. In addition to zero 18 or 9-hole green fee revenue, City staff expect 90% reductions to rental and retail revenues during the year-long construction period. Revenues return to stabilized levels 2018, with green fee revenues recovering to a level 7.8% higher than the status quo projections. Membership revenue also declines during course renovation, but stabilizes immediately afterward with modest increases. As with prior models, the pro forma conservatively does not assume any increased utilization of the Par 3 course during construction of the regulation course.

18 Hole w/ New Driving Range & Par 3		
Revenues	2015 Proposed	Stabilized 2020
Concessions/Sales	$ 303,075	$ 260,760
Golf Dome	$ 383,953	$ 385,808
Green Fees	$ 1,300,489	$ 1,679,416
Driving Range	$ 77,960	$ 429,445
Miscellaneous	$ 582,000	$ 670,508
Total Revenue	$ 2,647,477	$ 3,425,937
Expenditures	2015 Proposed	Stabilized 2020
Cost of Goods Sold	$ 180,024	$ 171,700
Personal Services	$ 1,297,597	$ 1,241,754
Contractual Services	$ 493,703	$ 436,070
Commodities	$ 272,515	$ 254,930
Capital Outlay	$ 3,422	$ 3,778
Central Services	$ 137,505	$ 151,817
Depreciation	$ 456,000	$ 891,000
Total Expenditures	$ 2,840,765	$ 3,151,049
Operating Income (Loss)	$ (193,289)	$ 274,888

The proposed 18-hole renovation model also assumes reductions in expenditures related to the regulation course closure in 2017 for construction. Upon reopening in 2018, City staff expects a reduction in stabilized expenditures related to personnel, maintenance and commodities attributed to the elimination of 9 regulation holes. The leaner operating budget is estimated to be $480,000 less than that of the 27-hole models prior to inclusion of depreciation.

18-Hole Ren.	2015	2016	2017	2018	2019	2020
Revenues	$ 2,647,477	$ 2,961,655	$ 1,136,974	$ 3,321,826	$ 3,373,349	$ 3,425,937
Expenditures	$ (2,840,765)	$ (2,995,444)	$ (1,408,805)	$ (2,882,726)	$ (3,094,915)	$ (3,151,049)
Operating Income	$ (193,289)	$ (33,789)	$ (271,831)	$ 439,101	$ 278,435	$ 274,888
Add: Depreciation	$ 456,000	$ 516,000	$ 576,000	$ 733,500	$ 891,000	$ 891,000
Less: Existing Debt	$ (84,215)	$ (97,490)	$ (95,540)	$ (93,590)	$ (96,565)	$ (94,465)
Capital Expense	$ (2,649,500)	$ (191,000)	$ (6,566,179)	$ (98,000)	$ (93,000)	$ -
New Debt	$ 2,400,000	$ (190,000)	$ 6,168,179	$ (704,000)	$ (704,000)	$ (704,000)
Annual Cash Flow	$ (71,004)	$ 3,721	$ (189,371)	$ 277,011	$ 275,870	$ 367,423

Revenue Considerations:

Coupled with national trends in declining golf participation, the marketplace for golf in the metropolitan area during the limited spring, summer and fall seasons is fairly competitive with the majority of pressure coming from alternative recreational activities. Regional weather patterns also induce volatility into annual golf enterprise revenue performance. While price is an important factor, the most significant a risk of flight from core users is to a superior product because of limited supply with recent course closures throughout the metro area. Within its relative control, maintaining Enterprise revenue levels will primarily depend upon the ability of the City to provide a competitive product to maintain a variety of core golf users and successfully market the product to ultimately grow utilization.

It is our understanding that the majority of miscellaneous and sales revenue projections also reflect limited year round use of the golf amenities. The City expects to explore opportunities to promote more year round use of the facilities in the future. Also, it is assumed Golf Dome revenues will stabilize at current levels due to recent improvements and performance.

We are relying on statements from staff that there is capacity available within all models to support current utilization levels while reducing from a 27 to 18-hole regulation course. However, the City should consider its reliance on increases to green fees revenue within the renovation models. While it may be reasonable to set an expectation of no drop off in rounds purchased once operations are stabilized, it is inconsistent with the City's overall conservative approach to rely on the higher levels of projected revenue within the 18-hole model without engaging in a more detailed market analysis to validate it.

Expenditure Considerations

While the City models project a reduced operating footprint from historical levels, it is reasonable to assume a sustainable level of reductions can be obtained due to recent changes within the golf enterprise. The pro forma also includes a 3% inflation on personnel costs, despite its reliance on part-time and seasonal labor whose costs may not historically increase at that rate. One consideration is de-coupling when reductions in operating costs will occur relative to reductions in course use during periods of construction. It is absolutely reasonable to assume that commodity, goods, some personnel and maintenance expense will be reduced during these time frames, however a cash flow consideration should be given to whether a lag will exist between when reductions in revenues and expenditures are realized.

Non-Operating Pro Forma Considerations

In addition to the operating assumptions, City staff has also anticipated non-operating expenditures for existing debt on the Braemar Golf Dome, new debt service related to the proposed Master Plan improvements, and planned capital outlays to evaluate annual cash flow activity. The City has incorporated a long-term plan for capital improvements for the golf enterprise within its 5-year Capital Improvement Plan. The plan includes detailed line item expenses identified for equipment replacement, repairs and facility renovations. Prior to any renovation, the status quo capital outlays average $674,000 per year primarily identifying major irrigation upgrades needed within the 3-5 year horizon.

Under a special legislative authority, the City has considered the issuance of General Obligation Bonds to finance major capital improvements to selected recreational enterprises like the Golf Dome and Braemar Ice Arena. This debt requires a pledge of existing enterprise revenues, but is backed by the City's levy authority which ensures low interest costs relative to other forms of debt. The City's existing golf debt service averages $94,000 per year. Using current market "AAA" rates inflated by half a percent, Ehlers estimates annual debt service at $190,000 for the range improvements, $674,000 for the 27-hole renovation, and $514,000 for the 18-hole renovation. These estimates are based on a 15-year term of repayment.

The City has utilized options to pay for operating deficits, capital and non-operating expenses using operating cash, capital reserves, Braemar Memorial Funds and transfers from either of Liquor or General Fund surpluses. These projections do not assume any income related to transfers or potential interest earning, and are included for illustrative purposes. The City should consider funding long-term capital improvements through use of a capital reserve for the Enterprise. Future capital costs are difficult to predict, but additional attention should be placed on maximizing revenues and/or reducing operating expenses in order to accrue additional funding for this Enterprise's capital reserve.

Comparison to Peer Municipal Golf Operations

When comparing the Enterprise to similar municipal golf operations, the total projected revenues are achievable but are on the higher end of what we see within the metro area. Comparable golf facilities operated by municipalities in the metropolitan area perform in the range of $2.0 to $2.8 million in annual gross revenues. However, Edina's Golf Enterprise is larger than most due to operating a domed golf practice facility, driving range and 36-hole golf course. Other like municipally operated facilities typically contain only a single 18 to 27-hole course and outdoor range. Operation of the Golf Dome alone enables Edina's revenues to be potentially $300,000 higher than a typical municipal golf operation. We have no reason today to doubt the ability of the City to achieve $3.0 to 3.4 million per year revenues for its operation, but we believe that examining revenues from other facilities is helpful to provide context for risk and sensitivity analysis.

Likewise, comparable golf enterprises share recent history of operating expenditures at or exceeding operating revenues. Typical operating margins range from levels of -10% to 4% of revenues due primarily to reduction in rounds purchased and the inability to adjust costs commensurate with reduced utilization. .

Background on Ehlers

Ehlers is a financial advisory firm experienced in assisting local governments with the financing of a variety of assets, including recreational facilities. Ehlers is not an accounting firm nor was this report prepared by certified public accountants or according to general accepted accounting principles. This report is not intended to be construed as an appraisal, a feasibility study, nor as a review of the City's capacity/business plan for the Braemar Golf Improvements. We are engaged in a limited scope primarily to raise questions about the proposed operating and capital budget, and offer insights given our experience with the City's finances generally and with operating budgets for other recreation enterprises.