

January 5, 2009

Mr. Keith Miller  
Executive Director  
Montgomery County Revenue Authority  
101 Monroe St., Suite 410  
Rockville, MD 20850

**Re: NGF Consulting Project #128022**

Dear Keith:

Attached to this letter is a summary of NGF Consulting's financial analysis of the Montgomery County Revenue Authority (MCRA) 9-course golf system. As agreed, the NGF Consulting team has reviewed the basic financial condition of each individual facility, as well as the system as a whole, to aid in determining the overall impact of each facility on overall operations. This is especially important in regards to the four facilities that are presently leased by MCRA from Maryland-National Capital Park and Planning Commission (M-NCPPC). Specifically, we have been engaged to help the MCRA determine if any one of the four leased golf facilities can be clearly identified as being 'adverse' to the system as a whole, based on historic and projected financial performance and needed improvements.

The NGF consulting team has completed a review of financial and activity records for each of the nine golf courses with special focus on rounds activity, revenue performance and expenses incurred at each location. Our review has identified which facilities are meeting basic expectations given its overall quality and in light of recent enhancements. We have identified what impact capital improvements have had on selected facilities, and what impact future capital enhancements are likely to have on selected facilities.

Keith, we appreciate your utilizing the expertise of the National Golf Foundation and our consulting practice to assist the MCRA with this project. We look forward to your comments and engaging in a comprehensive discussion about our findings. The summary report and financial tables are in the attached report.

Sincerely,



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Director of Consulting Services

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RBS/jsc

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## INTRODUCTION AND EXECUTIVE SUMMARY

### Purpose

NGF Consulting, a subsidiary of the National Golf Foundation, was retained by the Montgomery County Revenue Authority (MCRA) of Montgomery County, Maryland to assist in completing a financial analysis of the 9-facility golf system. We understand that the MCRA golf system consists of five facilities that are fully owned by MCRA, plus another four facilities that are owned by M-NCPPC and leased to MCRA for operation. Terms of the lease agreement for the four County facilities specify that MCRA can 'extract and return' of any one (or more) of the four if it is determined that any facility of the four is 'adverse' to the entire golf system.

In analyzing the financial situation of the MCRA golf system, the NGF Consulting team has paid special attention to the four County golf courses under this lease agreement. For the purposes of our evaluation, the NGF team has established that a facility would be considered 'adverse' to the system as a whole if the facility: (1) shows continued annual economic loss from basic operations; (2) could only reduce (or eliminate) economic annual loss with additional capital investment, and that amortization of that new capital investment will itself result in economic loss; (3) is presently operating at or above break-even, but site specific issues (location, infrastructure, market, etc.) are likely to require large-scale capital investment, and that capital investment will itself result in economic loss; and (4) the continued economic loss resulting from items 1-3 result in a drain on economic resources from the other facilities in the system. The findings in this financial analysis will be used to help determine the appropriate course of action for the MCRA.

### National Golf Foundation Background

National Golf Foundation Consulting, Inc is a wholly owned subsidiary of the National Golf Foundation, Inc. (NGF). The NGF is a not-for-profit 501(c)(6) organization, incorporated in 1936 and located in Jupiter, Florida with a staff of approximately 25 professionals and an operating budget of approximately \$4.5 million. The mission of the NGF is *To Help Golf Businesses Succeed* by providing research, consulting, marketing, customer targeting and other consulting services. The NGF is trusted by the game's leading stakeholders as the experts on all issues related to the business of golf, from both an industry and facility standpoint.

The NGF's work today is supported by a base of approximately 4,000 members representing every facet of the industry: private and public golf facilities; golf course architects; developers and builders; golf equipment and accessory manufacturers/ distributors/retailers, companies offering specialized services to the golf industry; national, regional, state, and local golf associations; instructors; schools and individuals. The NGF's board of directors includes senior executives from the leading companies in each major segment in the golf industry including officers from TaylorMade-adidas, Callaway Golf Company, FootJoy, TORO, Textron Financial, Eaton Golf Pride, GOLF MAGAZINE and Golf Channel.

There is no greater authority than NGF on the business of golf. The NGF's database of U.S. golf facilities is the industry's gold standard and is licensed by the USGA, PGA of America, Club Managers Association of America and the Golf Course Superintendents Association of America as well as private enterprise such as Weather.com and NAVTEQ. The NGF's annual surveys are designed to ascertain golfing habits and trends of golfers, golf facilities and golf manufacturers nationwide. From this research, the NGF publishes upwards of 60 research documents that provide dependable information on the number, nature, and habits of golfers in

each state, as well as golf facility operational issues, golf travel issues, alternative golf facility operations, and an annual directory of golf.

Our most important research is published and distributed to NGF members and non-members and is widely quoted in local, national and international press and are used by numerous other golf-oriented consulting and information firms. NGF publications include: *Golf Industry Report* – published quarterly; *A Strategic Perspective on the Future of Golf* – 1999, 2007; *Golf Facilities in the U.S.* – 2007; *Operating & Financial Performance Profiles of 18-hole Golf Facilities in the U.S.* – 2006; *Golf Participation in the U.S.* – 2005; *Development and Operation Manual: How to Plan Build and Operate a Successful Golf Range* – 2003; *Marketing Your Golf Course* – 2003; *Women Welcome Here! A Guide to Growing Women’s Golf* – 2003; *The Spending Report: Sizing the Golf Consumer Marketplace* – 2003; *U.S. Golf Travel Market* – 2003; and *Careers in Golf: An Insider’s Guide to Careers in the Golf Industry* – 2001.

## **Project Background**

The Montgomery County Revenue Authority was created in 1957 as an instrumentality of Montgomery County, Maryland and is a public corporation governed by a six-member board (five members appointed by the County Executive and County Council and a sixth member who is ex-officio / non-voting member). The Authority was established to “*construct, improve, equip, furnish, maintain, acquire, operate, and finance projects devoted wholly or partially for public use, good, or general welfare.*”

The two primary activities of the MCRA are to operate self-supporting facilities and to finance public facilities. On the operations side, the MCRA manages a golf course system that is comprised of nine golf courses, and the Montgomery County Airpark. The operated facilities generate various forms of revenue, which are used to fund the operations and to provide for improvements. A portion of the operating revenues is used to retire any debt associated with operated facilities.

## **Vision Statement**

The vision statement for the MCRA is as follows:

*Montgomery County Revenue Authority is committed to growing a sustainable network that is nationally, regionally and locally recognized for its offerings and performance; is dedicated to achieving higher environmental standards; and continues to offer new and innovative programs and services for the benefit of the community and our team.*

## **MCRA Golf**

The Montgomery County Revenue Authority’s golf course system is operated under the flag of Montgomery County Golf (MCG). The golf course system is comprised of nine golf facilities, five of which are owned by MCRA and four that are owned by the Maryland-National Capital Park and Planning Commission (M-NCPPC) and operated under lease by MCRA. These four leased facilities were added to the MCRA system in April of 2006. The Revenue Authority has completed a master plan concept for these courses and has successfully integrated the four new courses into the golf course system. The total nine-facility system hosted just under 390,000 rounds of golf in FY2008 and generated over \$16.5 million in total revenue.

The golf courses included in the MCRA system are listed below:

| <b>MCRA Golf Courses (FY2008)</b> |                                |                         |  |  |   |   |
|-----------------------------------|--------------------------------|-------------------------|--|--|---|---|
|                                   | <b>Number<br/>of<br/>Holes</b> | <b>Total<br/>Rounds</b> | <b>Total<br/>Facility<br/>Revenue<br/>(Millions)</b> | <b>Total<br/>Operating<br/>Expense<br/>(Millions)***</b> | <b>Avg.<br/>Total<br/>Rev.<br/>(FY08)**</b> | <b>Avg.<br/>Green<br/>Fee<br/>Rev.<br/>(FY08)**</b> |
| Falls Road GC                     | 18                             | 49,559                  | \$3.00m  | \$1.64m  | \$60.64                                     | \$31.62   |
| Hampshire Greens GC               | 18                             | 32,048                  | \$1.79m  | \$1.25m  | \$55.82                                     | \$30.57   |
| Laytonsville GC                   | 18                             | 44,959                  | \$1.74m  | \$1.02m  | \$38.75                                     | \$24.24   |
| Poolesville GC                    | 18                             | 34,739                  | \$1.37m  | \$0.99m  | \$39.46                                     | \$21.93   |
| Rattlewood GC                     | 18                             | 32,934                  | \$1.42m  | \$0.87m  | \$43.15                                     | \$22.63   |
| Little Bennett GC                 | 18                             | 30,328                  | \$1.60m  | \$1.36m  | \$52.71                                     | \$28.45   |
| Northwest GC                      | 27*                            | 63,988                  | \$2.48m  | \$1.56m  | \$38.82                                     | \$24.46   |
| Needwood GC                       | 27*                            | 71,238                  | \$2.46m  | \$1.28m  | \$34.58                                     | \$23.37   |
| Sligo Creek GC                    | 9                              | 29,906                  | \$0.64m  | \$0.57m  | \$21.29                                     | \$15.61   |

\*Includes an additional 9-hole executive course. \*\*Average revenue per round of golf. \*\*\*Operating expense excludes management fee

Throughout the 1990s and into the early 2000s, the Revenue Authority has continued to reinvest the necessary capital to keep the golf course system up to date and sustainable. This has resulted in upgrades to buildings, golf courses, equipment and customer service. Projects have included bunker renovation at Laytonsville and Poolesville Golf Courses; drainage issues were addressed at several properties; a partial tee renovation at Poolesville; and two complete facility renovations. During the period of 2001-2004 the Revenue Authority completed renovations to Laytonsville and Falls Road, which included new clubhouses, a golf cart storage facility at Laytonsville, and complete golf course renovations to both properties.

Montgomery County Golf courses received several awards in 2007 including the following from the readers of *Pros and Hackers*:

- Most Playable – Falls Road, Hampshire Greens, and Needwood
- Best Pro Shop – Little Bennett
- Best Finishing Hole – Little Bennett
- Best Value – Falls Road
- Best Practice Facility – Little Bennett

### Summary of Findings

The NGF review of the MCRA golf system shows generally positive economic performance with revenue growth recorded at all but two facilities (Poolesville and Rattlewood) in FY2008, despite a general downturn in the overall U.S. golf economy. The nine facilities appear to be well-located throughout Montgomery County with very little overlap of immediate markets. Total revenues at three of the facilities (Falls Road, Northwest and Needwood) were in excess of \$2.4 million in FY2008 (top 25% of all public golf courses nationwide), and Falls Road revenue exceeded \$3.0 million in FY2008 (top 10% nationwide).

Total expenses required to operate the MCRA facilities are in line with national and regional averages. The U.S. average for total operating expenses is approximately \$1.07 million for 18-hole facilities, while only 25% of public golf courses have operating expenses in excess of \$1.48

million. Thus, Falls Road is the only MCRA facility with expenses beyond the norm, but this is clearly off-set by higher revenue.

It appears to the NGF team that the recent renovations at Laytonsville and Falls Road have had a positive effect on revenues, although Poolesville still has the lowest total revenue of any 18-hole facility in the system. It may be some time before the full impact of these changes is felt, but revenue growth and performance does seem to be moving at a better pace than facility expenses.

Overall, all but two of the nine MCRA golf facilities are operating with a positive level of earnings before interest, depreciation and amortization (EBIDA), with only Sligo Creek and Little Bennett operating in the red on this measure. When interest and amortization are included in the measure, Poolesville, Rattlewood and Hampshire Greens also show red figures due to large debt reduction schedules for recent capital enhancements.

Two of the MCRA facilities leased from M-NCPPC (Northwest and Needwood) are among the strongest economic performers in the system, but capital investments scheduled for these facilities (over \$4.0 million by FY2011) may affect the bottom line at these facilities. Still, the continued high rounds totals and golfer-rich locations make the longer term earnings potential of these two facilities among the best in the system and clearly worth the new investment in upgrades.

### Statement of 'Adverse' Facilities

On the negative side, the NGF Consulting team is of the opinion that both Sligo Creek and Little Bennett are the strongest candidates for achieving the 'adverse' classification among the four leased facilities. The summary is as follows:

- **Sligo Creek** appears to be the most 'adverse' facility in the overall system due to its poor economic performance and its general type of facility (9-hole with limited ancillaries). Based on our review of the economic performance data and a general working knowledge of the Sligo Creek facility, **it is the NGF team's opinion that this facility may not be economically viable under its current configuration and given the likely high cost of a remake, it is hard for the NGF team to see how this facility can expect anything other than continued subsidy from the rest of the system.** Among the reasons for this belief include:
  - The revenue needed for a break-even level of EBIDA is likely not achievable at this facility given its present configuration.
  - 9-hole layout and rounds capacity limitations.
  - Limited ancillary facilities does not allow for non-golf revenue growth.
  - Upgrades at the facility are likely needed just to keep present rounds activity and rounds growth is unlikely.
  - Market leaves no room for raising fees as a means to increase revenue

As such, it is likely that a whole new concept may be required for this facility. Alternate configurations such as driving range only, learning center, par-3 course, or some combination thereof, will have to be considered as a separate line of feasibility analysis for the future of this property. The NGF can state with confidence that the Sligo Creek Golf Course, as presently configured, can be classified as 'adverse' to the MCRA system as a whole. This is due to its own economic performance and how this performance may affect the other facilities in the system.

- Although Little Bennett is presently struggling to meet its expense obligations, there does seem to be better potential with this facility as Little Bennett has seen revenue growth in the last two years. In addition, Little Bennett is well thought of by the golfing public (three awards noted above plus 'most improved customer loyalty award from NGF survey), and it has the ancillary facilities needed to improve its non-golf (F & B + merchandise) revenues. These factors lead NGF to believe that although Little Bennett has a negative EBIDA in FY2008, the facility has a better chance to operate in the black than does Sligo Creek.

## ECONOMIC REVIEW OF GOLF FACILITIES

In completing this analysis of the MCRA golf system, the NGF Consulting team has completed a careful review of the financial performance of the facilities. Included in this review is an analysis of the last three full fiscal years (FY2006-2008), and is derived from data submitted to NGF Consulting by MCRA staff. The review of historical performance data has been divided into two sections - the five MCRA-owned facilities and the four leased golf facilities.

### MCRA Facilities

MCRA owns and operates five golf courses in Montgomery County, Maryland in the Washington, DC metropolitan area through a division called Montgomery County Golf (MCG). MCG is a division of the MCRA, and also includes four other facilities leased by MCRA from Montgomery County. The five MCRA-owned facilities include:

- **Falls Road Golf Course** - completed in 1961 on 158 acres of farmland east of the Village of Potomac. It appears from the data that this may have been the most active (rounds played) facility in the MCRA system at one time, but rounds have been steady at around 50,000± for the last three years. It is clear that Falls Road is one of Montgomery County's most popular golf courses and includes the most active driving range in the MCRA system. Falls Road has the highest green fee revenue-per-round of golf in the system in FY2008 and had the highest net earnings on operations. The facility is planned to undergo roughly \$1.4 million in upgrades over the next five years.
- **Hampshire Greens Golf Course** - one of the newest facilities in the MCRA system, having opened to the public in June of 1999 along with a housing development of the same name. Hampshire Greens is located in Silver Spring, convenient to the Washington beltway. This is an ideal location for a higher end daily fee course and is accessible to golfers throughout the Washington and Baltimore areas. Hampshire Greens features the most modern design in the system with bentgrass from tee to green and a fair and challenging golf layout with four sets of tees. The facility also boasts a high green fee revenue-per-round, but has played only 30,000 to 32,000 rounds annually in the last three years. Hampshire Greens is budgeted for \$1.0 million in improvements over the next five years, including \$745,000 in FY2009.
- **Laytonville Golf Course** - This facility has a new, full-service clubhouse and newly renovated golf course. Laytonville includes one of the premier learning centers for youth and offers clinics and specialized summer golf camps and programs. This facility has also seen rounds played at approximately 50,000 in each of the last three years. Having undergone recent renovations, Laytonville is not expected to require much more than \$130,000 in capital upgrades over the next five years.

- Poolesville Golf Course** – includes over 380 acres in the Potomac Valley of Southwest Montgomery County, less than an hour from the Capitol and 35 minutes from Northern VA and Rockville. The golf course features two scenic lakes and a high-quality practice facility with a 2-acre short game area and both grass and artificial tees on the driving range. Despite the high quality facilities, Poolesville is hosting only about 34,000 rounds annually and also has the lowest average green fee revenue-per-round of the five MCRA-owned facilities. The MCRA has planned roughly \$1.8 million in upgrades for this facility in the next five years.
- Rattlewood Golf Course** – This facility represents an acquisition by the MCRA in 1995 from a private developer, located eight miles north of Damascus on Penn Shop Road off Maryland Route 27. The club includes an 18,000 square-foot clubhouse and a par-72 golf course of average length with some challenges. Among golfers, Rattlewood has a reputation for being open during wet conditions because it drains very effectively, leading to enhanced revenue. It appears that league play is a very important part of the overall Rattlewood operation. Still, the facility is hosting under 35,000 rounds annually and also has a low average green fee revenue-per-round. Rattlewood is planned to receive about \$865,000 in capital upgrades in the next five years, \$600,000 of which will be completed before FY2011.

### Revenue Analysis

The following table summarizes the revenues earned by the five MCRA-owned courses listed above for each of the last three fiscal years. We note a clear pattern with increases in green fee, range and lesson revenue, and a corresponding decrease in shop sales and cart revenue.

| <b>MCRA Five Owned Golf Courses<br/>Total Golf Revenue</b> |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <b>FY2006</b>      | <b>FY2007</b>      | <b>FY2008</b>      |
| Total Rounds   | <b>186,829</b>     | <b>195,229</b>     | <b>194,239</b>     |
| <b>Revenue</b>   |                    |                    |                    |
| Greens Fees  | \$4,733,313        | \$4,864,908        | \$5,144,204        |
| Tournament GF  | \$0                | \$19               | \$199,665          |
| Golf Car Fees  | \$1,559,828        | \$1,642,860        | \$1,348,768        |
| Driving Range  | \$532,348          | \$592,092          | \$615,162          |
| Club Repair  | \$14,457           | \$0                | \$0                |
| Golf Lessons   | \$216,733          | \$258,860          | \$269,052          |
| Handicap Fees  | \$24,315           | \$0                | \$0                |
| Pro Shop Sales   | \$845,109          | \$880,971          | \$688,608          |
| Food & Beverage Sales                                      | \$822,260          | \$950,706          | \$883,580          |
| Tournament F & B   | \$5,062            | \$0                | \$76,742           |
| Rental Income  | \$30,415           | \$0                | \$0                |
| Misc. Income   | \$9,749            | \$110,728          | \$102,434          |
| Reservation Fees   | \$12,928           | \$0                | \$0                |
| <b>Total Facility Revenue</b>                              | <b>\$8,806,517</b> | <b>\$9,301,144</b> | <b>\$9,328,217</b> |
| Source: MCRA   |                    |                    |                    |

## Expense Analysis

The following table summarizes the expense incurred by the MCRA in maintaining the five owned courses listed above for each of the last three fiscal years. We note a decline in total expense in FY2008 with a concerted effort to control expenses after a roughly nine percent (9%) increase from FY06 to FY07. Overall the expenses at the MCRA-owned facilities are in line with national and regional averages compiled by the NGF, and generally consistent with the other four leased facilities.

| <b>MCRA Five Owned Golf Courses<br/>Personnel and Maintenance Expenses</b> |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <b>FY2006</b>      | <b>FY2007</b>      | <b>FY2008</b>      |
| Payroll Expense  | \$3,077,344        | \$3,302,896        | \$3,351,988        |
| Operating Expense  | \$2,266,818        | \$2,519,312        | \$2,431,639        |
| <b>Total Base Expense</b>  | <b>\$5,344,161</b> | <b>\$5,822,208</b> | <b>\$5,783,627</b> |
| Source: MCRA   |                    |                    |                    |

## Net Income

The net from operations on the five MCRA-owned golf facilities has exceeded approximately \$1.8 million in each of the last three full fiscal years, even exceeding \$1.9 million in FY2007. However, when other 'below the line' items like interest (net), capital expenses and depreciation are considered, the results tell a different story. The net interest expense, mostly from previous renovations and capital expenditures, has been close to \$1.0 million in each of the last three years, leaving a net income after debt of under \$1.0 million in every year but FY2007. Depreciation on these facilities is roughly \$1.0 million per year leading to an overall loss for the facility in each year but FY2007.

| <b>MCRA Five Owned Golf Courses<br/>Net Income</b>               |                    |                    |                    |
|--|--------------------|--------------------|--------------------|
|  | <b>FY2006</b>      | <b>FY2007</b>      | <b>FY2008</b>      |
| Earnings Before Int., Deprec. + Amort. (EBIDA)                   | \$1,798,184        | \$1,975,485        | \$1,851,628        |
| Less:  |                    |                    |                    |
| Other (Net Interest)   | (\$1,029,819)      | (\$916,685)        | (\$969,570)        |
| Capital Expenditures   | \$0                | \$0                | (\$127,576)        |
| <b>Net Income after Interest + Capital Needs, Before Deprec.</b> | <b>\$768,365</b>   | <b>\$1,058,800</b> | <b>\$754,481</b>   |
| Less:  |                    |                    |                    |
| Depreciation   | (\$981,695)        | (\$1,024,648)      | (\$1,120,784)      |
| <b>Net Income after Capital Needs and Depreciation</b>           | <b>(\$213,330)</b> | <b>\$34,152</b>    | <b>(\$366,302)</b> |
| Source: MCRA   |                    |                    |                    |

## Leased County Facilities

As noted, the MCRA operates four other golf facilities owned by the M-NCPPC via lease agreement. These four facilities include:

- **Little Bennett Golf Course** – located at the north end of Little Bennett Regional Park with scenic views of Sugarloaf Mountain. The Little Bennett golf course is rather hilly and includes a grass driving range and three practice greens, plus a full pro shop. The facility also boasts a relatively high green fee revenue-per-round, but has played only 29,000 to 30,000 rounds annually in the last three years. With total facility revenues of only \$1.6 million, Little Bennett has shown a negative EBIDA the last two years, although there is only a modest \$12,000 net interest expense. Little Bennett is scheduled for approximately \$773,000 in improvements over the next five years, including \$534,000 for FY2009-10.
- **Needwood Golf Course** – located at the north end of Rock Creek Regional Park. The facility offers a driving range, pro shop, practice putting green, and snack bar. The facility also includes an executive nine-hole course that is good for golfers of all levels, especially beginners. With over 71,000 rounds reported in FY2008, Needwood is now the most active facility in the MCRA system. The facility is planned to undergo roughly \$2.4 million in upgrades over the next five years, including a large \$1.5 million project planned for FY2011.
- **Northwest Golf Course** – Located in north of the Washington, D.C. Beltway in Northwest Branch Park, and in proximity to the Needwood Golf Course in golfer-rich section of Montgomery County. This 27-hole has a beautiful layout and is popular with golfers of all abilities. The course has four sets of tees, large greens and is the longest golf course in Montgomery County. Northwest's driving range is large and heated and thus earns the second highest range revenue in the system (behind only Falls Rd.). The 63,000 rounds in FY2008 is second highest in the system, meaning that the two highest rounds totals (Needwood and Northwest) are among the leased facilities in the system. The facility is planned to undergo roughly \$2.5 million in upgrades over the next five years, including a large \$2.1 million project planned for FY2010.
- **Sligo Creek Golf Course** – this facility is a challenging 9-hole course located near downtown Washington, DC, just off the Capital Beltway. Although the course features hilly terrain, many golfers still choose to walk this course resulting in low cart fees. As a 9-hole course, this facility has struggled with revenues. The facility had one of its best years in FY2008, producing only 29,000 rounds and just over \$636,000 in total facility revenue. This facility has major needs for upgrading and possibly even a complete reconstruction to a slightly different type of facility. As such, no capital expenses are budgeted for Sligo Creek at this time. With a loss of \$143,000 in FY2008, Sligo Creek is clearly the least profitable facility in the MCRA system.

### Expense Analysis

The following table summarizes the expense incurred by the MCRA in maintaining the four leased golf courses in the system. We note an 11 percent increase in expenses at the facilities between FY07 and FY08, slightly less than the corresponding increase in revenues over that period. Overall the expenses at the leased facilities are in line with national and regional averages compiled by the NGF, and generally consistent with the other five facilities owned by MCRA.

| <b>MCRA Four Leased Golf Courses<br/>Personnel and Maintenance Expenses</b> |                  |                    |                    |
|---|------------------|--------------------|--------------------|
|   | <b>FY2006*</b>   | <b>FY2007</b>      | <b>FY2008</b>      |
| Payroll Expense   | \$450,548        | \$2,193,020        | \$2,511,649        |
| Operating Expense   | \$318,411        | \$2,111,982        | \$2,266,924        |
| <b>Total Base Expense</b>   | <b>\$768,959</b> | <b>\$4,305,002</b> | <b>\$4,778,573</b> |
| Source: MCRA. *FY2006 reflects partial year.                                |                  |                    |                    |

### Revenue Analysis

The following table summarizes the revenues earned by the four leased courses listed above for each of the last three fiscal years. We note that rounds played and all revenue categories except cart fees increased by about 12 to 15 percent from FY2007 to FY2008, mostly a reflection of enhancements made by MCRA to these facilities. Food and beverage revenue has been a very strong area of growth since the addition of these leased facilities. Total F & B revenue is up by 30 percent in FY2008 over FY2007.

| <b>MCRA Four Leased Golf Courses<br/>Total Golf Revenue</b> |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
|   | <b>FY2006*</b>     | <b>FY2007</b>      | <b>FY2008</b>      |
| Total Rounds  | <b>46,415</b>      | <b>172,538</b>     | <b>195,460</b>     |
| <b>Revenue</b>  |                    |                    |                    |
| Greens Fees   | \$1,360,015        | \$3,904,928        | \$4,560,130        |
| Tournament GF   | \$0                | \$3,290            | \$68,999           |
| Golf Car Fees   | \$301,778          | \$910,712          | \$876,185          |
| Driving Range   | \$127,630          | \$411,072          | \$435,755          |
| Club Repair   | \$35               | \$0                | \$0                |
| Golf Lessons  | \$44,424           | \$115,334          | \$111,475          |
| Handicap Fees   | \$2,005            | \$0                | \$0                |
| Pro Shop Sales  | \$121,639          | \$398,419          | \$423,458          |
| Food & Beverage Sales                                       | \$156,880          | \$483,836          | \$608,626          |
| Tournament F & B  | \$0                | \$0                | \$19,673           |
| Rental Income   | \$3,034            | \$0                | \$0                |
| Misc. Income  | \$0                | \$64,737           | \$78,636           |
| Reservation Fees  | \$0                | \$0                | \$0                |
| <b>Total Facility Revenue</b>                               | <b>\$2,117,440</b> | <b>\$6,292,329</b> | <b>\$7,182,938</b> |
| Source: MCRA. *FY2006 reflects partial year.                |                    |                    |                    |

### Leased Facilities Net Income

In reviewing the net income of the leased facilities and comparing these figures to those of the five owned facilities presented previous, it is clear that the comparison is not 'apples to apples' as the owned facilities have a substantial debt service requirement, not present with the leased facilities. To summarize the economic status of the leased facilities we find it important to complete the net income review on an individual facility basis. A summary of net income by Facility:

### Needwood Golf Course

The MCRA operation has increased the EBIDA at Needwood Golf Course to over \$858,000 in FY2008, demonstrating the strong profit potential of this well-located facility. This level of EBIDA is the second highest in the total system (only Falls Road is higher) and the highest of the four leased facilities. As noted Needwood is generating the highest rounds total in the system and setting the stage for the \$2.2 million in upgrades planned for this facility in the next three years.

| <b>Needwood Golf Course<br/>Net Income</b>                       |                  |                  |                  |
|--|------------------|------------------|------------------|
|  | <b>FY2006</b>    | <b>FY2007</b>    | <b>FY2008</b>    |
| Earnings Before Int., Deprec. + Amort. (EBIDA)                   | \$409,310        | \$646,810        | \$858,163        |
| Less:  |                  |                  |                  |
| Other (Net Interest)   | \$0              | \$0              | (\$7,687)        |
| Capital Expenditures   | \$0              | \$0              | (\$30,000)       |
| <b>Net Income after Interest + Capital Needs, Before Deprec.</b> | <b>\$409,310</b> | <b>\$646,810</b> | <b>\$820,476</b> |
| Less:  |                  |                  |                  |
| Depreciation   | \$0              | (\$51,049)       | (\$74,295)       |
| <b>Net Income after Capital Needs and Depreciation</b>           | <b>\$409,310</b> | <b>\$595,761</b> | <b>\$746,181</b> |
| Source: MCRA   |                  |                  |                  |

### Northwest Golf Course

The net from operations at Northwest is the third highest in the system showing that two of the top three earners for MCRA are among the leased facilities. Although the performance of Northwest is relatively strong, it seems to have even greater potential given the 27-hole layout and the location. Given this, the MCRA has allotted over \$2.2 million in upgrades for the next two years.

| <b>Northwest Golf Course<br/>Net Income</b>                      |                  |                  |                  |
|--|------------------|------------------|------------------|
|  | <b>FY2006</b>    | <b>FY2007</b>    | <b>FY2008</b>    |
| Earnings Before Interest + Deprec. (EBIDA)                       | \$472,355        | \$688,808        | \$608,378        |
| Less:  |                  |                  |                  |
| Other (Net Interest)   | \$0              | \$0              | (\$8,259)        |
| Capital Expenditures   | \$0              | \$0              | (\$5,000)        |
| <b>Net Income after Interest + Capital Needs, Before Deprec.</b> | <b>\$472,355</b> | <b>\$688,808</b> | <b>\$595,119</b> |
| Less:  |                  |                  |                  |
| Depreciation   | \$0              | (\$53,056)       | (\$83,264)       |
| <b>Net Income after Capital Needs and Depreciation</b>           | <b>\$409,310</b> | <b>\$635,752</b> | <b>\$511,855</b> |
| Source: MCRA   |                  |                  |                  |

### Little Bennett Golf Course

Little Bennett has shown negative EBIDA for each of the last two years, due largely to low activity. The facility has a relatively high average revenue per green fee round but low rounds keep revenue down. It would appear that Little Bennett would have to increase rounds to well over 40,000 to post a positive EBIDA, and even that level will likely not cover the capital requirements of this facility that are needed to maintain current activity, let alone any growth. It

seems probable that this facility will continue to struggle economically as needed upgrades will not likely result in revenue growth.

| <b>Little Bennett Golf Course<br/>Net Income</b>                 |                  |                    |                    |
|--|------------------|--------------------|--------------------|
|  | <b>FY2006</b>    | <b>FY2007</b>      | <b>FY2008</b>      |
| Earnings Before Interest + Deprec. (EBIDA)                       | \$244,001        | (\$263,211)        | (\$120,064)        |
| Less:  |                  |                    |                    |
| Other (Net Interest)   | \$0              | \$0                | (\$12,362)         |
| Capital Expenditures   | \$0              | \$0                | (\$99,000)         |
| <b>Net Income after Interest + Capital Needs, Before Deprec.</b> | <b>\$244,001</b> | <b>(\$263,211)</b> | <b>(\$231,426)</b> |
| Less:  |                  |                    |                    |
| Depreciation   | \$0              | (\$45,860)         | (\$95,036)         |
| <b>Net Income after Capital Needs and Depreciation</b>           | <b>\$244,001</b> | <b>(\$309,071)</b> | <b>(\$326,462)</b> |
| Source: MCRA.  |                  |                    |                    |

### Sligo Creek Golf Course

Sligo Creek is the worst overall facility in terms of EBIDA as both rounds and average rate are low, and there are clear overall limitations with this facility as it is presently configured. It is likely that the level of rounds that would be required to sustain this facility, and its needed upgrades, is far in excess of what is reasonable for the market and/or beyond the carrying capacity of the facility. Given this, it is likely that an entirely new facility concept may be required for this facility to become economically viable. However, given the likely high cost of such a remake, it is hard for the NGF team to see how this facility can expect anything other than continued subsidy from the rest of the system.

| <b>Sligo Creek Golf Course<br/>Net Income</b>                    |                 |                    |                    |
|--|-----------------|--------------------|--------------------|
|  | <b>FY2006</b>   | <b>FY2007</b>      | <b>FY2008</b>      |
| Earnings Before Interest + Deprec. (EBIDA)                       | \$38,427        | (\$83,993)         | (\$143,746)        |
| Less:  |                 |                    |                    |
| Other (Net Interest)   | \$0             | \$0                | (\$2,794)          |
| Capital Expenditures   | \$0             | \$0                | \$0                |
| <b>Net Income after Interest + Capital Needs, Before Deprec.</b> | <b>\$38,427</b> | <b>(\$83,993)</b>  | <b>(\$146,540)</b> |
| Less:  |                 |                    |                    |
| Depreciation   | \$0             | (\$16,704)         | (\$21,818)         |
| <b>Net Income after Capital Needs and Depreciation</b>           | <b>\$38,427</b> | <b>(\$100,697)</b> | <b>(\$168,358)</b> |
| Source: MCRA   |                 |                    |                    |

### Summary of Leased Facilities

It is clear that Northwest and Needwood are among the strongest economic performers in the overall system, but the \$4.0+ million in capital investments scheduled for these facilities in the next three years may affect the bottom line at these facilities in the short term. However, over the longer term (beyond five years) the continued high rounds totals and golfer-rich locations should produce revenue totals to justify the investments.

On the negative side, Sligo Creek and Little Bennett are clearly struggling to make ends meet, although Little Bennett has shown more improvement than Sligo Creek. We note that no capital expenses have been budgeted for Sligo Creek for the FY08 through FY13 period, making the poor economic performance appear slightly better than it may actually be. The NGF Consulting projections for the next five years (presented next) will reflect expected capital enhancements at all facilities except Sligo Creek.

## **PRELIMINARY FINANCIAL PROJECTIONS – FY2009 – FY2013**

In an effort to help identify which (if any) of the leased golf facilities within the MCRA may be 'adverse' to the system as a whole, the NGF Consulting team has prepared a schedule of economic projections for each facility over the next five years of operation (through FY2013). These projections are based on the overriding assumption that all nine facilities will continue to be managed under the same basic operational structure that exists today, and that all capital improvements planned for the facilities as of December 2008 will be completed. Other assumptions utilized in completion of these projections include:

### **Basic Assumptions**

- Projected rounds performance at each facility is estimated at approximately the same level as FY08 for all five years.
- Average revenues are also held at approximate FY08 levels for the first year, with slight variations at each facility to reflect clear trends observed by NGF Consulting.
- All revenue categories are projected to grow at approximately 3.5% annually through FY2013, based on actual performance from last two years.
- Direct labor expenses are projected to increase at a rate of 5% per year through FY2013. Non-labor expenses increase at a rate of 2% per year through FY2013, based on actual performance from the last two years.
- The management fee is fixed at \$160,000 per year for each facility through FY2013.

### **Complete Nine-Facility Operation**

The first estimate of performance is based on the assumption that the MCRA continues on an 'as-is' basis with all nine facilities operating under the basic assumptions identified above. The summary results are displayed in the following table:

**MCRA Complete Nine-Facility Operation  
Projected Economic Performance (FY09-FY13)**

|                                  | <b>FY09</b>          | <b>FY10</b>          | <b>FY11</b>          | <b>FY12</b>         | <b>FY13</b>         |
|----------------------------------|----------------------|----------------------|----------------------|---------------------|---------------------|
| Total Rounds                     | 383,500              | 383,500              | 383,500              | 383,500             | 383,500             |
| <b>Revenues</b>                  |                      |                      |                      |                     |                     |
| Greens Fees                      | \$9,630,345          | \$9,967,407          | \$10,316,266         | \$10,677,336        | \$11,051,042        |
| Tournament GF                    | 266,345              | 275,667              | 285,315              | 295,301             | 305,637             |
| Golf Car Fees                    | 2,248,200            | 2,326,887            | 2,408,328            | 2,492,620           | 2,579,861           |
| Driving Range                    | 1,034,725            | 1,070,940            | 1,108,423            | 1,147,218           | 1,187,371           |
| Golf Lessons                     | 375,760              | 388,912              | 402,524              | 416,612             | 431,193             |
| Pro Shop Sales                   | 1,111,500            | 1,150,403            | 1,190,667            | 1,232,340           | 1,275,472           |
| Food & Beverage Sales            | 1,493,050            | 1,545,307            | 1,599,392            | 1,655,371           | 1,713,309           |
| Tournament F & B                 | 94,035               | 97,326               | 100,733              | 104,258             | 107,907             |
| Misc. Income                     | 179,030              | 185,296              | 191,781              | 198,494             | 205,441             |
| <b>Total Revenues</b>            | <b>\$16,432,990</b>  | <b>\$17,008,145</b>  | <b>\$17,603,430</b>  | <b>\$18,219,550</b> | <b>\$18,857,234</b> |
| Total Cost of Sales              | \$1,457,592          | \$1,508,608          | \$1,561,409          | \$1,616,058         | \$1,672,620         |
| <b>Gross Profit</b>              | <b>\$14,975,398</b>  | <b>\$15,499,537</b>  | <b>\$16,042,021</b>  | <b>\$16,603,491</b> | <b>\$17,184,614</b> |
| <b>Operating Expense</b>         |                      |                      |                      |                     |                     |
| Total Payroll Expense            | \$6,156,819          | \$6,464,660          | \$6,787,893          | \$7,127,288         | \$7,483,652         |
| Total Operating Expense          | \$4,796,815          | \$4,897,247          | \$4,999,913          | \$5,104,867         | \$5,212,169         |
| <b>Total Expenses</b>            | <b>\$10,953,635</b>  | <b>\$11,361,907</b>  | <b>\$11,787,806</b>  | <b>\$12,232,155</b> | <b>\$12,695,821</b> |
| <b>Operating Profit (loss)</b>   | <b>\$4,021,763</b>   | <b>\$4,137,629</b>   | <b>\$4,254,215</b>   | <b>\$4,371,337</b>  | <b>\$4,488,793</b>  |
| Management fees                  | \$1,440,000          | \$1,440,000          | \$1,440,000          | \$1,440,000         | \$1,440,000         |
| <b>EBIDA</b>                     | <b>\$2,581,763</b>   | <b>\$2,697,629</b>   | <b>\$2,814,215</b>   | <b>\$2,931,337</b>  | <b>\$3,048,793</b>  |
| <b>Other Income and Expenses</b> |                      |                      |                      |                     |                     |
| Interest Income                  | \$91,000             | \$92,820             | \$94,676             | \$96,570            | \$98,501            |
| Interest Expense                 | (1,090,365)          | (1,112,172)          | (1,134,415)          | (1,157,104)         | (1,180,246)         |
| Depreciation                     | (1,395,196)          | (1,423,100)          | (1,451,562)          | (1,480,593)         | (1,510,205)         |
| Net Other Income (Expense)       | (\$2,394,561)        | (\$2,442,452)        | (\$2,491,301)        | (\$2,541,127)       | (\$2,591,949)       |
| <b>Net Income (Loss)</b>         | <b>\$187,203</b>     | <b>\$255,178</b>     | <b>\$322,914</b>     | <b>\$390,210</b>    | <b>\$456,843</b>    |
| Capital Needs                    | \$2,240,245          | \$3,662,013          | \$2,651,256          | \$1,206,000         | \$595,000           |
| <b>Net (after Capital Needs)</b> | <b>(\$2,053,042)</b> | <b>(\$3,406,835)</b> | <b>(\$2,328,342)</b> | <b>(\$815,790)</b>  | <b>(\$138,157)</b>  |

## Operations Without Needwood Golf Course

In an effort to identify 'adverse' facilities among the leased courses in the system, NGF has prepared the same projection as shown above with each of the individual four leased facilities removed from the operation. The table below shows the MCRA golf operation as an eight-facility system, without Needwood Golf Course:

| <b>MCRA Projected Economic Performance (FY09-FY13)<br/>Eight-Facility System (w/o Needwood GC)</b> |                      |                      |                      |                      |                     |
|--|----------------------|----------------------|----------------------|----------------------|---------------------|
|  | <b>FY09</b>          | <b>FY10</b>          | <b>FY11</b>          | <b>FY12</b>          | <b>FY13</b>         |
| Total Rounds   | 313,500              | 313,500              | 313,500              | 313,500              | 313,500             |
| <b>Revenues</b>  |                      |                      |                      |                      |                     |
| Greens Fees  | \$7,950,345          | \$8,228,607          | \$8,516,608          | \$8,814,690          | \$9,123,204         |
| Tournament GF  | 260,745              | 269,871              | 279,317              | 289,093              | 299,211             |
| Golf Car Fees  | 1,968,200            | 2,037,087            | 2,108,385            | 2,182,179            | 2,258,555           |
| Driving Range  | 940,225              | 973,133              | 1,007,193            | 1,042,444            | 1,078,930           |
| Golf Lessons   | 326,760              | 338,197              | 350,033              | 362,285              | 374,965             |
| Pro Shop Sales   | 981,300              | 1,015,646            | 1,051,193            | 1,087,985            | 1,126,064           |
| Food & Beverage Sales  | 1,290,050            | 1,335,202            | 1,381,934            | 1,430,301            | 1,480,362           |
| Tournament F & B   | 94,035               | 97,326               | 100,733              | 104,258              | 107,907             |
| Misc. Income   | 148,930              | 154,143              | 159,538              | 165,121              | 170,901             |
| <b>Total Revenues</b>  | <b>\$13,960,590</b>  | <b>\$14,449,211</b>  | <b>\$14,954,933</b>  | <b>\$15,478,356</b>  | <b>\$16,020,098</b> |
| Total Cost of Sales  | \$1,292,798          | \$1,338,046          | \$1,384,878          | \$1,433,348          | \$1,483,515         |
| <b>Gross Profit</b>  | <b>\$12,667,792</b>  | <b>\$13,111,165</b>  | <b>\$13,570,055</b>  | <b>\$14,045,007</b>  | <b>\$14,536,583</b> |
| <b>Operating Expense</b>   |                      |                      |                      |                      |                     |
| Total Payroll Expense  | \$5,387,124.90       | \$5,656,481.14       | \$5,939,305.20       | \$6,236,270.46       | \$6,548,083.98      |
| Total Operating Expense  | \$4,234,762          | \$4,323,425          | \$4,414,061          | \$4,506,717          | \$4,601,445         |
| <b>Total Expenses</b>  | <b>\$9,621,887</b>   | <b>\$9,979,906</b>   | <b>\$10,353,366</b>  | <b>\$10,742,988</b>  | <b>\$11,149,529</b> |
| <b>Operating Profit (loss)</b>   | <b>\$3,045,905</b>   | <b>\$3,131,258</b>   | <b>\$3,216,690</b>   | <b>\$3,302,020</b>   | <b>\$3,387,053</b>  |
| Management fees  | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000         |
| <b>EBIDA</b>   | <b>\$1,765,905</b>   | <b>\$1,851,258</b>   | <b>\$1,936,690</b>   | <b>\$2,022,020</b>   | <b>\$2,107,053</b>  |
| <b>Other Income and Expenses</b>   |                      |                      |                      |                      |                     |
| Interest Income  | \$91,000             | \$92,820             | \$94,676             | \$96,570             | \$98,501            |
| Interest Expense   | (1,082,677)          | (1,104,331)          | (1,126,417)          | (1,148,946)          | (1,171,924)         |
| Depreciation   | (1,320,902)          | (1,347,320)          | (1,374,266)          | (1,401,751)          | (1,429,786)         |
| Net Other Income (Expense)   | (\$2,312,579)        | (\$2,358,830)        | (\$2,406,007)        | (\$2,454,127)        | (\$2,503,210)       |
| <b>Net Income (Loss)</b>   | <b>(\$546,673)</b>   | <b>(\$507,572)</b>   | <b>(\$469,317)</b>   | <b>(\$432,107)</b>   | <b>(\$396,156)</b>  |
| Capital Needs  | \$1,897,745          | \$3,370,338          | \$1,078,000          | \$1,006,000          | \$595,000           |
| <b>Net (after Capital Needs)</b>   | <b>(\$2,444,418)</b> | <b>(\$3,877,910)</b> | <b>(\$1,547,317)</b> | <b>(\$1,438,107)</b> | <b>(\$991,156)</b>  |

## Operations without Northwest Golf Course

The table below shows the MCRA golf operation as an eight-facility system, without Northwest Golf Course:

| <b>MCRA Projected Economic Performance (FY09-FY13)<br/>Eight-Facility System (w/o Northwest GC)</b> |                      |                      |                      |                      |                     |
|---|----------------------|----------------------|----------------------|----------------------|---------------------|
|   | <b>FY09</b>          | <b>FY10</b>          | <b>FY11</b>          | <b>FY12</b>          | <b>FY13</b>         |
| Total Rounds  | 321,500              | 321,500              | 321,500              | 321,500              | 321,500             |
| <b>Revenues</b>   |                      |                      |                      |                      |                     |
| Greens Fees   | \$8,080,345          | \$8,363,157          | \$8,655,868          | \$8,958,823          | \$9,272,382         |
| Tournament GF   | 252,705              | 261,550              | 270,704              | 280,179              | 289,985             |
| Golf Car Fees   | 1,984,700            | 2,054,165            | 2,126,060            | 2,200,472            | 2,277,489           |
| Driving Range   | 786,725              | 814,260              | 842,759              | 872,256              | 902,785             |
| Golf Lessons  | 335,460              | 347,201              | 359,353              | 371,930              | 384,948             |
| Pro Shop Sales  | 990,600              | 1,025,271            | 1,061,155            | 1,098,296            | 1,136,736           |
| Food & Beverage Sales   | 1,322,550            | 1,368,839            | 1,416,749            | 1,466,335            | 1,517,657           |
| Tournament F & B  | 88,455               | 91,551               | 94,755               | 98,072               | 101,504             |
| Misc. Income  | 157,950              | 163,478              | 169,200              | 175,122              | 181,251             |
| <b>Total Revenues</b>   | <b>\$13,999,490</b>  | <b>\$14,489,472</b>  | <b>\$14,996,604</b>  | <b>\$15,521,485</b>  | <b>\$16,064,737</b> |
| Total Cost of Sales   | \$1,299,647          | \$1,345,135          | \$1,392,214          | \$1,440,942          | \$1,491,375         |
| <b>Gross Profit</b>   | <b>\$12,699,843</b>  | <b>\$13,144,338</b>  | <b>\$13,604,389</b>  | <b>\$14,080,543</b>  | <b>\$14,573,362</b> |
| <b>Operating Expense</b>  |                      |                      |                      |                      |                     |
| Total Payroll Expense   | \$5,345,540          | \$5,612,817          | \$5,893,458          | \$6,188,131          | \$6,497,537         |
| Total Operating Expense   | \$3,992,382          | \$4,076,073          | \$4,161,630          | \$4,249,099          | \$4,338,530         |
| <b>Total Expenses</b>   | <b>\$9,337,922</b>   | <b>\$9,688,890</b>   | <b>\$10,055,087</b>  | <b>\$10,437,230</b>  | <b>\$10,836,067</b> |
| <b>Operating Profit (loss)</b>  | <b>\$3,361,921</b>   | <b>\$3,455,448</b>   | <b>\$3,549,302</b>   | <b>\$3,643,313</b>   | <b>\$3,737,295</b>  |
| Management fees   | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000         |
| <b>EBIDA</b>  | <b>\$2,081,921</b>   | <b>\$2,175,448</b>   | <b>\$2,269,302</b>   | <b>\$2,363,313</b>   | <b>\$2,457,295</b>  |
| <b>Other Income and Expenses</b>  |                      |                      |                      |                      |                     |
| Interest Income   | \$91,000             | \$92,820             | \$94,676             | \$96,570             | \$98,501            |
| Interest Expense  | (1,082,106)          | (1,103,748)          | (1,125,823)          | (1,148,340)          | (1,171,306)         |
| Depreciation  | (1,311,933)          | (1,338,171)          | (1,364,935)          | (1,392,233)          | (1,420,078)         |
| Net Other Income (Expense)  | (\$2,303,039)        | (\$2,349,099)        | (\$2,396,081)        | (\$2,444,003)        | (\$2,492,883)       |
| <b>Net Income (Loss)</b>  | <b>(\$221,117)</b>   | <b>(\$173,652)</b>   | <b>(\$126,779)</b>   | <b>(\$80,690)</b>    | <b>(\$35,589)</b>   |
| Capital Needs   | \$2,119,500          | \$1,519,675          | \$2,611,256          | \$1,106,000          | \$595,000           |
| <b>Net (after Capital Needs)</b>  | <b>(\$2,340,617)</b> | <b>(\$1,693,327)</b> | <b>(\$2,738,035)</b> | <b>(\$1,186,690)</b> | <b>(\$630,589)</b>  |

## Operations without Sligo Creek Golf Course

The table below shows the MCRA golf operation as an eight-facility system, without Sligo Creek Golf Course:

| <b>MCRA Projected Economic Performance (FY09-FY13)<br/>Eight-Facility System (w/o Sligo Creek GC)</b> |                      |                      |                      |                     |                     |
|---|----------------------|----------------------|----------------------|---------------------|---------------------|
|   | <b>FY09</b>          | <b>FY10</b>          | <b>FY11</b>          | <b>FY12</b>         | <b>FY13</b>         |
| Total Rounds  | 355,500              | 355,500              | 355,500              | 355,500             | 355,500             |
| <b>Revenues</b>   |                      |                      |                      |                     |                     |
| Greens Fees   | \$9,193,545          | \$9,515,319          | \$9,848,355          | \$10,193,048        | \$10,549,804        |
| Tournament GF   | 266,345              | 275,667              | 285,315              | 295,301             | 305,637             |
| Golf Car Fees   | 2,195,000            | 2,271,825            | 2,351,339            | 2,433,636           | 2,518,813           |
| Driving Range   | 1,034,725            | 1,070,940            | 1,108,423            | 1,147,218           | 1,187,371           |
| Golf Lessons  | 375,760              | 388,912              | 402,524              | 416,612             | 431,193             |
| Pro Shop Sales  | 1,076,500            | 1,114,178            | 1,153,174            | 1,193,535           | 1,235,309           |
| Food & Beverage Sales   | 1,437,050            | 1,487,347            | 1,539,404            | 1,593,283           | 1,649,048           |
| Tournament F & B  | 94,035               | 97,326               | 100,733              | 104,258             | 107,907             |
| Misc. Income  | 165,030              | 170,806              | 176,784              | 182,972             | 189,376             |
| <b>Total Revenues</b>   | <b>\$15,837,990</b>  | <b>\$16,392,320</b>  | <b>\$16,966,051</b>  | <b>\$17,559,863</b> | <b>\$18,174,458</b> |
| Total Cost of Sales   | \$1,411,952          | \$1,461,370          | \$1,512,518          | \$1,565,456         | \$1,620,247         |
| <b>Gross Profit</b>   | <b>\$14,426,038</b>  | <b>\$14,930,949</b>  | <b>\$15,453,533</b>  | <b>\$15,994,406</b> | <b>\$16,554,210</b> |
| <b>Operating Expense</b>  |                      |                      |                      |                     |                     |
| Total Payroll Expense   | \$5,842,408          | \$6,134,528          | \$6,441,254          | \$6,763,317         | \$7,101,483         |
| Total Operating Expense   | \$4,519,835          | \$4,614,504          | \$4,711,279          | \$4,810,214         | \$4,911,363         |
| <b>Total Expenses</b>   | <b>\$10,362,243</b>  | <b>\$10,749,032</b>  | <b>\$11,152,533</b>  | <b>\$11,573,531</b> | <b>\$12,012,846</b> |
| <b>Operating Profit (loss)</b>  | <b>\$4,063,795</b>   | <b>\$4,181,918</b>   | <b>\$4,300,999</b>   | <b>\$4,420,875</b>  | <b>\$4,541,365</b>  |
| Management fees   | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000         | \$1,280,000         |
| <b>EBIDA</b>  | <b>\$2,783,795</b>   | <b>\$2,901,918</b>   | <b>\$3,020,999</b>   | <b>\$3,140,875</b>  | <b>\$3,261,365</b>  |
| <b>Other Income and Expenses</b>  |                      |                      |                      |                     |                     |
| Interest Income   | \$91,000             | \$92,820             | \$94,676             | \$96,570            | \$98,501            |
| Interest Expense  | (1,087,571)          | (1,109,322)          | (1,131,508)          | (1,154,139)         | (1,177,221)         |
| Depreciation  | (1,373,378)          | (1,400,846)          | (1,428,862)          | (1,457,440)         | (1,486,589)         |
| Net Other Income (Expense)  | (\$2,369,949)        | (\$2,417,348)        | (\$2,465,695)        | (\$2,515,008)       | (\$2,565,309)       |
| <b>Net Income (Loss)</b>  | <b>\$413,846</b>     | <b>\$484,570</b>     | <b>\$555,305</b>     | <b>\$625,867</b>    | <b>\$696,056</b>    |
| Capital Needs   | \$2,240,245          | \$3,662,013          | \$2,651,256          | \$1,206,000         | \$595,000           |
| <b>Net (after Capital Needs)</b>  | <b>(\$1,826,399)</b> | <b>(\$3,177,443)</b> | <b>(\$2,095,951)</b> | <b>(\$580,133)</b>  | <b>\$101,056</b>    |

## Operations without Little Bennett Golf Course

The table below shows the MCRA golf operation as an eight-facility system, without Little Bennett Golf Course:

| <b>MCRA Projected Economic Performance (FY09-FY13)<br/>Eight-Facility System (w/o Little Bennett GC)</b> |                      |                      |                      |                     |                     |
|--|----------------------|----------------------|----------------------|---------------------|---------------------|
|  | <b>FY09</b>          | <b>FY10</b>          | <b>FY11</b>          | <b>FY12</b>         | <b>FY13</b>         |
| Total Rounds   | 354,500              | 354,500              | 354,500              | 354,500             | 354,500             |
| <b>Revenues</b>  |                      |                      |                      |                     |                     |
| Greens Fees  | \$8,789,345          | \$9,096,972          | \$9,415,366          | \$9,744,904         | \$10,085,976        |
| Tournament GF  | 219,945              | 227,643              | 235,611              | 243,857             | 252,392             |
| Golf Car Fees  | 1,987,200            | 2,056,752            | 2,128,738            | 2,203,244           | 2,280,358           |
| Driving Range  | 962,225              | 995,903              | 1,030,759            | 1,066,836           | 1,104,175           |
| Golf Lessons   | 358,360              | 370,903              | 383,884              | 397,320             | 411,226             |
| Pro Shop Sales   | 986,800              | 1,021,338            | 1,057,085            | 1,094,083           | 1,132,376           |
| Food & Beverage Sales  | 1,327,750            | 1,374,221            | 1,422,319            | 1,472,100           | 1,523,624           |
| Tournament F & B   | 80,985               | 83,819               | 86,753               | 89,790              | 92,932              |
| Misc. Income   | 168,010              | 173,890              | 179,977              | 186,276             | 192,795             |
| <b>Total Revenues</b>  | <b>\$14,880,620</b>  | <b>\$15,401,442</b>  | <b>\$15,940,492</b>  | <b>\$16,498,409</b> | <b>\$17,075,854</b> |
| Total Cost of Sales  | \$1,272,688          | \$1,317,232          | \$1,363,335          | \$1,411,052         | \$1,460,439         |
| <b>Gross Profit</b>  | <b>\$13,607,932</b>  | <b>\$14,084,210</b>  | <b>\$14,577,157</b>  | <b>\$15,087,357</b> | <b>\$15,615,415</b> |
| <b>Operating Expense</b>   |                      |                      |                      |                     |                     |
| Total Payroll Expense  | \$5,414,973          | \$5,685,721          | \$5,970,007          | \$6,268,507         | \$6,581,933         |
| Total Operating Expense  | \$4,126,215          | \$4,212,743          | \$4,301,201          | \$4,391,639         | \$4,484,106         |
| <b>Total Expenses</b>  | <b>\$9,541,188</b>   | <b>\$9,898,464</b>   | <b>\$10,271,208</b>  | <b>\$10,660,146</b> | <b>\$11,066,039</b> |
| <b>Operating Profit (loss)</b>   | <b>\$4,066,744</b>   | <b>\$4,185,746</b>   | <b>\$4,305,949</b>   | <b>\$4,427,211</b>  | <b>\$4,549,376</b>  |
| Management fees  | \$1,280,000          | \$1,280,000          | \$1,280,000          | \$1,280,000         | \$1,280,000         |
| <b>EBIDA</b>   | <b>\$2,786,744</b>   | <b>\$2,905,746</b>   | <b>\$3,025,949</b>   | <b>\$3,147,211</b>  | <b>\$3,269,376</b>  |
| <b>Other Income and Expenses</b>   |                      |                      |                      |                     |                     |
| Interest Income  | \$91,000             | \$92,820             | \$94,676             | \$96,570            | \$98,501            |
| Interest Expense   | (1,078,002)          | (1,099,562)          | (1,121,553)          | (1,143,984)         | (1,166,864)         |
| Depreciation   | (1,300,160)          | (1,326,164)          | (1,352,687)          | (1,379,741)         | (1,407,335)         |
| Net Other Income (Expense)   | (\$2,287,162)        | (\$2,332,906)        | (\$2,379,564)        | (\$2,427,155)       | (\$2,475,698)       |
| <b>Net Income (Loss)</b>   | <b>\$499,582</b>     | <b>\$572,840</b>     | <b>\$646,385</b>     | <b>\$720,056</b>    | <b>\$793,678</b>    |
| Capital Needs  | \$1,916,245          | \$3,452,013          | \$2,571,256          | \$1,161,000         | \$580,000           |
| <b>Net (after Capital Needs)</b>   | <b>(\$1,416,663)</b> | <b>(\$2,879,173)</b> | <b>(\$1,924,871)</b> | <b>(\$440,944)</b>  | <b>\$213,678</b>    |

## **ANALYSIS OF FACILITIES 'ADVERSE' TO THE SYSTEM**

The income estimates presented by NGF Consulting have been prepared based on existing and projected market conditions, the quality of the subject facility and the intended segment of the golf market toward which each facility is oriented. Particular focus was paid to the reality of actual performance by each of the four leased facilities and the potential to grow rounds and/or revenues in its particular market location. A brief summary of the conclusions drawn by this analysis include:

- Northwest GC and Needwood GC have roughly the same impact. These two facilities are performing very well economically and if either is removed from the system as whole, the economic condition of the MCRA golf system would deteriorate considerably. These two facilities are among the most profitable in the entire nine-course system.
- Eliminating Little Bennett results in highest net income performance after capital needs. However, this includes \$773,000 in upgrades to Little Bennett, and these upgrades have the chance of improving overall performance. Still, as presently configured, Little Bennett does provide the most direct economic loss of any facility in the system.
- If the MCRA were to eliminate Sligo Creek, the result would be the highest net income before capital needs. We note that no specific capital expense has been budgeted to this facility as of December 2008. However, it is clear that this facility needs substantial capital investment. Thus, Sligo Creek economic performance is having the greatest negative impact on the system as a whole of any leased facility before capital investment, plus Sligo is in clear need of a large capital investment.

### **Net Income (Before Capital Needs)**

Below is a summary of the EBIDA performance of the full MCRA golf system by facility. The struggles at Little Bennett and Sligo Creek are clearly shown in this exhibit, along with planned capital needs at each facility. We note no capital expenses planned for Sligo Creek as a new master plan for that property will be required.

**MCRA Golf System Projected Economic Performance (FY09-FY13)  
Summary of Net Income and Capital Needs**

|  | FY09               | FY10               | FY11               | FY12               | FY13               |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>Earnings Before Interest, Depreciation and Amortization (EBIDA)</b> |                    |                    |                    |                    |                    |
| Falls Road   | \$847,471          | \$876,519          | \$905,981          | \$935,838          | \$966,063          |
| Laytonsville   | \$394,591          | \$410,007          | \$425,584          | \$441,304          | \$457,149          |
| Poolesville  | \$23,986           | \$27,527           | \$30,858           | \$33,954           | \$36,784           |
| Rattlewood   | \$260,703          | \$271,509          | \$282,352          | \$293,213          | \$304,071          |
| Hampshire Greens   | \$146,325          | \$155,920          | \$165,519          | \$175,102          | \$184,643          |
| Sligo Creek  | (\$202,032)        | (\$204,288)        | (\$206,784)        | (\$209,539)        | (\$212,572)        |
| Northwest  | \$499,842          | \$522,182          | \$544,913          | \$568,023          | \$591,498          |
| Needwood   | \$815,858          | \$846,371          | \$877,525          | \$909,317          | \$941,740          |
| Little Bennett   | (\$204,981)        | (\$208,116)        | (\$211,734)        | (\$215,875)        | (\$220,583)        |
| <b>Total EBIDA</b>   | <b>\$2,581,763</b> | <b>\$2,697,629</b> | <b>\$2,814,215</b> | <b>\$2,931,337</b> | <b>\$3,048,793</b> |
| <b>Capital Needs</b>   |                    |                    |                    |                    |                    |
| Falls Road   | \$258,000          | \$175,000          | \$560,000          | \$300,000          | \$45,000           |
| Laytonsville   | \$0                | \$5,000            | \$21,000           | \$30,000           | \$45,000           |
| Poolesville  | \$55,000           | \$539,000          | \$305,000          | \$249,000          | \$445,000          |
| Rattlewood   | \$395,000          | \$200,000          | \$67,000           | \$113,000          | \$15,000           |
| Hampshire Greens   | \$745,000          | \$99,000           | \$5,000            | \$169,000          | \$30,000           |
| <b>Sligo Creek</b>   | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         | <b>\$0</b>         |
| Northwest  | \$120,745          | \$2,142,338        | \$40,000           | \$100,000          | \$0                |
| Needwood   | \$342,500          | \$291,675          | \$1,573,256        | \$200,000          | \$0                |
| Little Bennett   | \$324,000          | \$210,000          | \$80,000           | \$45,000           | \$15,000           |
| <b>Total Capital Needs</b>   | <b>\$2,240,245</b> | <b>\$3,662,013</b> | <b>\$2,651,256</b> | <b>\$1,206,000</b> | <b>\$595,000</b>   |

**Most 'Adverse' Facility – Sligo Creek**

Based on the above analysis of expected future performance, coupled with the previous analysis of actual performance, it is clear to the NGF Consulting team that Sligo Creek is the most 'adverse' facility in the overall system due to its poor economic performance and its general type of facility (9-hole with limited ancillaries). NGF research has shown that 9-hole facilities of this type are three times more likely to close due to economic troubles than full 18-hole facilities due to revenue limitations inherent with 9-hole facilities coupled with expense structures that are more similar to 18-hole facilities (high fixed costs). We also note that eliminating or modifying the \$160,000 management fee at this facility will not be enough to eliminate the economic loss and still leaves the problem of appropriate management for the facility.

Based on our review of the economic performance data and a general working knowledge of the Sligo Creek facility, **it is the NGF team's opinion that this facility may not be economically viable under its current configuration due to** limitations in capacity, ancillary facilities and lack of ability to raise fees. As such, it is likely that a whole new concept may be required for this facility. Alternate configurations such as driving range only, learning center, par-3 course, or some combination thereof, will have to be considered as a separate feasibility analysis for the future of this property. **The NGF can state with confidence that the Sligo Creek Golf Course, as presently configured, can be classified as 'adverse' to the MCRA system as a**

**whole.** This is due to its economic performance and how this performance may affect the other facilities in the system.

Although Little Bennett is presently struggling to meet its expense obligations, there does seem to be better potential with this facility as Little Bennett has seen revenue growth in the last two years. In addition, Little Bennett is well thought of by the golfing public (three awards noted above plus ‘most improved customer loyalty award from NGF survey), and it has the ancillary facilities needed to improve its non-golf (F & B + merchandise) revenues. These factors lead NGF to believe that although Little Bennett has a negative EBIDA in FY2008, the facility has a better chance to operate in the black than does Sligo Creek.

**Limiting Conditions**

The income and expense projections presented by NGF Consulting have been prepared based on all previously noted assumptions. NGF Consulting is confident that the stated financial projections can be achieved at the subject facilities based on present facility and market conditions. From a practical standpoint, those managing these facilities will need to respond to variable market conditions as well as unforeseen maintenance needs. Due to the fact that these conditions are more likely to change as the next five years unfold, NGF Consulting has limited its projections to a five-year period. Nevertheless, we are confident that the MCRA facilities will be able to continue to achieve similar results beyond the next five years of operation.

Our estimates of performance for the nine-facility MCRA golf system could change should the following conditions occur:

| <b>Stronger Performance</b>             | <b>Weaker Performance</b>      |
|---|--------------------------------|
| Future course closings                  | New course openings            |
| Faster population growth than projected | Incorrect price levels         |
| Positive regional/ national publicity   | Poor customer service          |
| Lack of loyalty to existing courses     | Low quality facility           |
| Unforeseen surge in golf interest       | Poor yearly weather conditions |
| Excellent yearly weather conditions     | Regional economic recession    |

It is important to measure the future performance of golf facilities in such a way as to help the Authority make financial decisions based on realistic expectations. It is obviously possible that either more or fewer rounds will be realized at any of the MCRA courses. We note that our projections for future performance of the nine-course system do anticipate increases in activity that may not occur, potentially leading to MCRA subsidies.