

ATTACHMENT II

Present Value Analysis

When preparing the present value analyses, each analysis calculated the sales increase that would be required to provide a similar return on investment over twenty years as compared to the proposed sale of the Eisenhower Golf Course to the county. Rather than detailing each analysis, an overview is provided for each schedule- see below. If the City is to retain ownership and be responsible for the operations of the golf course, it is assumed that it would incorporate a similar operating model as the county; e.g., hire an outside operator having golf course expertise and depending upon the club house investment have a separate operator having banquet expertise or manage it as part of golf course operations. Relative to maximizing revenues, this would be dependent upon the investment made in the course and the club house which would have corresponding expense models associated for each. By example, if the City is to limit the investment in the club house thereby minimizing debt/debt service and future salary and operating cost of the facility, the revenue stream from this investment would be limited. Conversely, if the City is to maximize the investment in the club house, the amount of debt/debt service would increase as to would salary and operating cost; however there would be the potential, not guarantee, that the revenue generated from such an investment could be increased. The same is true for the golf course itself, the higher the investment the higher the potential returns. However, each investment option has a set of short and long-term business risks.

Analysis I: Borrowing \$5 million and making improvements over a two year period

Expenses assumptions:

- Cost of goods sold remain at 45% of sales
- Debt service calculated on level payment, 20 year amortization with bi-annual payments at 4%- \$365,558
- Health cost 6% annual increase
- Salary and non-health benefits 3% annual increase
- Other operating expenses 1% annual increase
- Maintenance and equipment lease expenses would be eliminated for the years closed
- Other cost would remain assuming budget would be earmarked to facilitate capital program
- Debt Service would begin in year 1; otherwise would not have funding for capitalization expenses
- Interest rate / Internal Rate of Return; starting at 4% in year one and increasing to 6% in year 7 and remaining flat thereafter

Revenue assumptions and outcomes:

- Rounds played remain constant at 39,980 which has been the historical four year average and do not have significant upward potential.
- In order to each a NPV of \$2.9 million, the following revenue would need to occur
 - Net income from club house activities/enhanced services, revenues less expenses would have to start at \$200,000 in year 3 and grow 1% annually thereafter - assuming it would take two years to build/renovate club-house
 - Golf course revenue; Dues, Green Fees, Cart Fees and Driving Range, would need to increase by 50% over the 4 year average in year 3 and then increase by 2% annually thereafter
 - Other revenues; Golf Cards, Rentals, Clinic, Miscellaneous, would have to increase by 2% each year.

Analysis II: Borrowing \$8 million and making improvements over a two year period**Expenses assumptions:**

- Cost of goods sold remain at 45% of sales
- Debt service calculated on level payment, 20 year amortization with bi-annual payments at 4%- \$584,892
- Health cost 6% annual increase
- Salary and non-health benefits 3% annual increase
- Other operating expenses 1% annual increase
- Maintenance and equipment lease expenses would be eliminated for the years closed
- Other cost would remain assuming budget would be earmarked to facilitate capital program
- Debt Service would begin in year 1; otherwise would not have funding for capitalization expenses
- Interest rate / Internal Rate of Return; starting at 4% in year one and increasing to 6% in year 7 and remaining flat thereafter

Revenue assumptions and outcomes:

- Rounds played remain constant at 39,980 which has been the historical four year average and do not have significant upward potential.
- In order to each a NPV of \$3.4 million, the following revenue would need to occur
 - Net income for club house activities/enhanced services, revenues less expenses, would have to start at \$200,000 in year 3 and grow 1% annually thereafter- assuming it would take two years to build/renovate club-house

- Golf course revenue; Dues, Green Fees, Cart Fees and Driving Range, would need to increase by 75% over the 4 year average in year 3 and then increase by 2% annually thereafter
- Other revenues; Golf Cards, Rentals, Clinic, Miscellaneous, would have to increase by 2% each year.

Analysis III: Borrowing \$5 million and making improvements over a four year period

Expenses assumptions:

- Cost of goods sold remain at 45% of sales
- Debt service calculated on level payment, 20 year amortization with bi-annual payments at 4%- \$365,558
- Health cost 6% annual increase
- Salary and non-health benefits 3% annual increase
- Other operating expenses 1% annual increase
- Maintenance and equipment lease expenses would be eliminated for the years closed
- Other cost would remain assuming budget would be earmarked to facilitate capital program
- Debt Service would begin in year 1; otherwise would not have funding for capitalization expenses
- Interest rate / Internal Rate of Return; starting at 4% in year one and increasing to 6% in year 7 and remaining flat thereafter

Revenue assumptions and outcomes:

- Rounds played remain constant at 39,980 which has been the historical four year average and do not have significant upward potential.
- In order to reach a NPV of \$3.2 million, the following revenue would need to occur
 - Net income for club house activities/enhanced services, revenues less expenses, would have to start at \$100,000 in year 3 then to \$200,000 in year 5 then grow 1% annually thereafter- assuming it would take two years to build/renovate club-house
 - Revenues, both Golf Course and Other, would have realize 50% of the 4 year average assuming 9 holes would be playable in years 1 through 4
 - Golf course revenue; Dues, Green Fees, Cart Fees and Driving Range, would need to increase by 70% over the 4 year average in year 3 and then increase by 2% annually thereafter
 - Other revenues; Golf Cards, Rentals, Clinic, Miscellaneous, would have to increase by 2% each year.

Analysis IV: Borrowing \$8 million and making improvements over a four year period

Expenses assumptions:

- Cost of goods sold remain at 45% of sales
- Debt service calculated on level payment, 20 year amortization with bi-annual payments at 4%- \$584,892
- Health cost 6% annual increase
- Salary and non-health benefits 3% annual increase
- Other operating expenses 1% annual increase
- Maintenance and equipment lease expenses would be eliminated for the years closed
- Other cost would remain assuming budget would be earmarked to facilitate capital program
- Debt Service would begin in year 1; otherwise would not have funding for capitalization expenses
- Interest rate / Internal Rate of Return; starting at 4% in year one and increasing to 6% in year 7 and remaining flat thereafter

Revenue assumptions and outcomes:

- Rounds played remain constant at 39,980 which has been the historical four year average and do not have significant upward potential.
- In order to reach a NPV of \$2.72 million, the following revenue would need to occur
 - Net income for club house activities/enhanced services, revenues less expenses, would have to start at \$100,000 in year 3 then to \$200,000 in year 5 then grow 1% annually thereafter- assuming it would take two years to build/renovate club-house
 - Revenues, both Golf Course and Other, would have realize 50% of the 4 year average assuming 9 holes would be playable in years 1 through 4
 - Golf course revenue; Dues, Green Fees, Cart Fees and Driving Range, would need to increase by 1.9% over the 4 year average in year 5 and then increase by 2% annually thereafter
 - Other revenues; Golf Cards, Rentals, Clinic, Miscellaneous, would have to increase by 2% each year.

Whether to earmark the funds for one capital project or another is a policy decision. Fundamentally, the same financial outcome relative to the debt/debt service impact would be the same. It is noted that members of the City Council have expressed a desire to commit the funds, or portion thereof, to a revenue generating CIP project.