

City of Jersey Village

M o E o M o O o R o A o N o D o U o M

TO: Jersey Village City Council

FROM: A. J. Wadacki, Golf Course Management Advisory Committee

DATE: November 28, 2000

SUBJECT: Committee Recommendation

It is recommended that the City operate the golf course, except for the food and beverage operations which should be privatized through a phase out over a to be determined period of time. The current food and beverage staff should be paid an incentive to remain during the transition period. The City should take measures to immediately hire a Director of Golf and Golf Course Superintendent.

Operational Audit Of The Jersey Meadow Golf Course

Interim Draft Report

Prepared for:

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November 2000

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Introduction

The City of Jersey Village, Texas retained National Golf Foundation Consulting, Inc. (NGF Consulting) to conduct an operational review and analysis of the Jersey Meadow Golf Course to determine the best management option that will meet the City's financial objectives.

The City of Jersey Village and NGF Consulting entered into an agreement that identified the following scope of services to be performed by NGF Consulting:

- Inspect the Jersey Meadow Golf Course and its operation.
- Examine the existing management structure and recommend the future management option that best meets the City's objectives.
- Prepare a financial analysis that demonstrates the viability of the management alternative and how it effectively meets the golf operation's fiscal obligations.

To accomplish this task, Angelo Palermo, Senior Associate Consultant, and Darrin Davis, Senior Project Director, visited Jersey Village October 16 to 18, 2000. During this visit, the consultants met with Dale Brown, City Manager. They also attended a meeting of the Golf Course Advisory Committee.

The consultants also met with Darryl Henning, Director of Golf and General Manager and Dennis Dickson, Golf Course Superintendent. They observed the pro shop operation, ate lunches in the restaurant, and inspected the golf course, clubhouse and maintenance building.

Significant Findings and Recommendations

NGF Consulting's examination of the Jersey Meadow golf market, its inspection of the Jersey Meadow Golf Course, its financial overview of the operation and its analysis of management options available to the City revealed the following findings and recommendations:

Jersey Meadow Golf Market Overview

- The Jersey Meadow Golf Course market area was determined to be a 15-mile radius surrounding the course.
- Using the averages of two predictive models (age and household income), NGF Consulting projected there are presently 75,800 resident golfers in the Jersey Meadow golf market. Using 1999 frequency of play data for the State of Texas, these golfers currently demand some 697,000 rounds of public golf annually.
- Once again using the averages of the two predictive models, the number of golfers in the market area is projected to increase to over 85,000 by 2004 and the rounds of golf demanded are projected to increase to over 785,000.

Demand and Supply Analysis

- When the supply of golf is compared to the demand, there is a current under supply of some 1,089,000 rounds when the results of the two predictive models are averaged. The under supply is projected to increase to 1,118,360 rounds by 2001.
- Assuming there are no new courses added to the inventory, the supply is projected to remain constant for the next five years. NGF Consulting believes the demand for public golf in the Jersey Meadow golf market is so strong that any additional new courses should have very little effect on the future performance of Jersey Meadow.
- The Jersey Meadow Golf Course, if operated and maintained to the same standards as competitive courses, can increase its market share.

Competitive Fee Analysis

- In comparison with its primary competitors, Jersey Meadow offers the most reasonable fee levels during peak and off-peak times. While the golf course is relatively comparable to its closest competitors, we note that its overall amenity package is slightly lower in quality than the amenities offered at some of its primary competitors.

Jersey Meadow Operational Analysis

- ♦ Its previous owner, BSL Golf Corp is managing Jersey Meadow for the City until December 31, 2000.
- ♦ Jersey Meadow currently employs a total of 34 employees (18 full-time and 16 part-time).
- ♦ Management does not have a comprehensive operations manual.
- ♦ Management has a computerized accounting procedure and maintains records that were helpful in evaluating the financial performance of Jersey Meadow.
- ♦ NGF Consulting recommends that the City retain a computer consultant to review the present computer equipment and software programs. We also recommend that firms who specialize in

computer programs for public access golf operations be invited to submit proposals on how the present point-of-sales/cash control programs can be upgraded or replaced.

- ◆ The City should adopt a written policy for issuing rain checks and refunds.
- ◆ The City should compare the current tee time reservation procedures with several state-of-the-art computer systems that have been developed in recent years.
- ◆ We recommend the City develop a program for hiring, training and supervising golf course rangers (Player Assistants).
- ◆ The lack of a lighted driving range with up to date amenities, impacts the revenue potential at Jersey Meadow. NGF Consulting recommends installing lights, artificial grass mats, target greens and relocating the ball dispenser to the tee line.
- ◆ The City should develop a more aggressive player development program for people of all ages.
- ◆ Tournaments, leagues, and outings represent a very large portion of the rounds played at Jersey Meadow. Every effort should be made to retain these essential revenue sources, without impacting play from daily fee players.
- ◆ The consultants found the clubhouse building in need of upgrading. The City should develop a long-range plan to accomplish this task.
- ◆ The City should retain the present Golf Shop merchandise program.
- ◆ Food and beverage services represent a significant portion of Jersey Meadow's total revenue. NGF Consulting recommends the City concession this phase of the golf operation to a well-qualified food and beverage operator.
- ◆ NGF Consulting recommends the City continue leasing golf carts rather than purchasing carts. Future lease agreements should include cart maintenance and insurance.
- ◆ NGF Consulting recommends retaining the present Jersey Meadow fee schedule with modest annual increases.
- ◆ The consultants found the Independent Account's Report to be of questionable value because of some of the assumptions used to estimate revenues and expenses for the 18-hole course.

Financial Overview

- NGF Consulting estimates the Jersey Meadow Golf Course could attract 59,000 rounds of golf the first full year of operation by the City of Jersey Village. These rounds are projected to increase to 64,000 rounds by the 2005.
- Fees are projected to remain competitive with other courses of similar quality in the market area.
- Revenues in 2001 are projected to be approximately \$1.9 million and expected to increase to \$2.2 million by 2005. Adjusted gross revenues (minus cost of sales) are projected to be approximately \$1.8 million in 2001 and increase to \$2.1 million by 2005.
- Expenses (including debt service) are projected to be approximately \$1.7 million in 2001 and increase to \$2.1 million by 2005.
- Net Operating Income (NOI) is projected to be \$22,000 in 2001 and decrease to (\$47,000) by 2005.

Management Options

- ◆ NGF Consulting recommends the City of Jersey Village self-operate the Jersey Meadow Golf Course under the direction of a professional golf course manager who has extensive experience managing municipal golf courses. This individual will report to the City Manager and be an ad hoc member of the golf course advisory committee.

- ♦ We also recommend the City retain the services of a professional golf course maintenance firm to groom the course. It is our belief that the cost of maintaining the course can be reduced as a result of savings on wages and salaries, employee fringe benefits and on equipment purchases.

Golf Market Overview

Golf Market Environment

The ongoing performance of a golf facility is affected by its conditioning, overall quality, level of amenities and its position in the local golf market. In the following paragraphs NGF Consulting will review the performance of the Jersey Meadow Golf Course in comparison to its primary competitors. We will also comment on the status of golf demand in the market and its potential for growth over the next few years.

Potential Golf Demand in the Jersey Village Golf Market

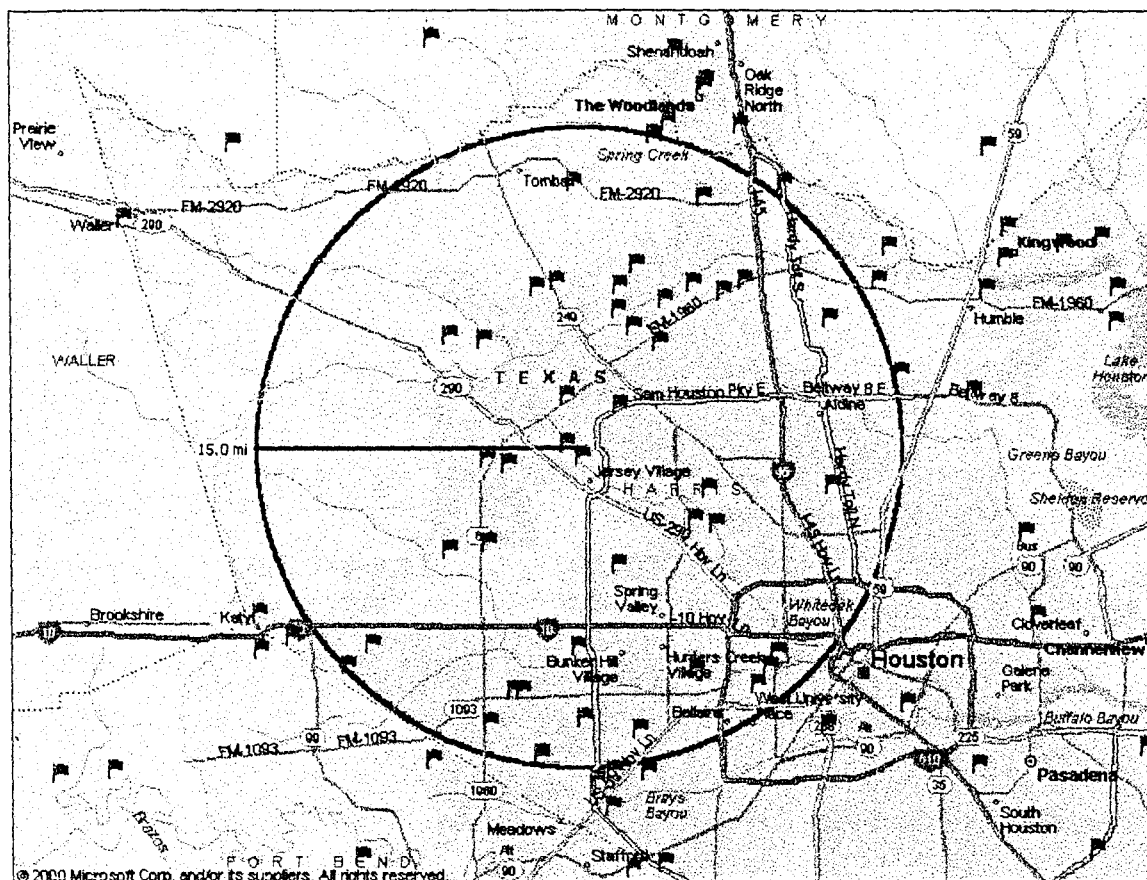
National Golf Foundation is considered the premier source of information on golfer characteristics in the United States. For the past 15 years we have collected and analyzed the playing characteristics of golfers on an annual basis. In addition to using this information to publish the report "Golf Participation in the U.S." each year, we use extracted samples of the database to determine the probable golf characteristics of residents throughout the United States.

For purposes of this study we have examined the golfing characteristics of residents throughout the state of Texas over a three-year period. These "potential golfer" characteristics are then applied to the demographics of the local population comprising the Jersey Village golf market. Specifically, we can predict golfer behavior based on household income and age characteristics of a local population. This results in two golf predictive models, one age based and the other household income based. The two models cross check to each other.

Market Definition

Based on the quality and quantity of golf courses in the northwest section of the Houston area, we have identified the market from which Jersey Meadow Golf Course will most likely continue to generate the majority of its play. This market has been defined as 15-mile radius surrounding the golf course. The following graphic illustrates the defined market.

Jersey Village Golf Market Map



The Jersey Meadow Golf Course is likely to generate play from beyond the defined golf market. However, it is just as likely that market area residents will play some of their golf rounds at facilities outside of the defined market. Thus, balancing out the number of rounds projected for the Jersey Village golf market.

The following table summarizes the strength of the Jersey Village golf market as characterized by the number of potential golfers and public access golf rounds demanded by residents of the market as determined by the age and income predictive models.

Golf Demand in the Jersey Village Golf Market				
	Potential Golfers	1999 Potential Public Rounds Demanded	Potential Golfers	2004 Potential Public Rounds Demanded
Age Model	80,800	702,000	86,800	759,000
Income Model	<u>70,830</u>	<u>691,500</u>	<u>84,090</u>	<u>812,500</u>
Average	75,815	696,750	85,445	785,750

Based on the estimates of the resident population in and around Jersey Village, we are able to predict how many potential golfers live in the market and how many rounds of golf they are likely to demand. The average value of the two golf demand models indicate that approximately 76,000 golfers reside in the Jersey Village golf market and they potentially demand almost 697,000 rounds of golf. By the year 2004 the number of potential golfers is expected to grow by almost 13 percent to more than 85,000 golfers. Similarly, the number of total potential rounds of golf demanded by residents of the Jersey Village golf market is expected to increase to almost 786,000 rounds by the year 2004. These figures suggest that an active growing golfer community populates the Jersey Village market.

Primary Competitors in the Jersey Village Golf Market

Based on our knowledge of the northwest Houston area and conversations with BSL Golf personnel we have visited the golf facilities in the Jersey Village golf market that can be considered most comparable to the Jersey Meadow golf course.

The following tables highlight fees and activity levels at these golf facilities.

Peak Fees				
<u>Facility</u>	<u>Type</u>	<u>18-Hole Weekend Green Fee</u>	<u>18-Hole Cart Fee</u>	<u>Total Weekend Fee</u>
Jersey Meadow Golf Course	18-Hole Municipal	\$40	\$10	\$50
Bear Creek Golf World (Masters Crse)	54-Hole Daily Fee	\$56	Included	\$56
Houston Oaks Golf Club	36-Hole Daily Fee	\$40	\$12	\$52
Pine Crest Golf Club	18-Hole Daily Fee	\$45	Included	\$45
Longwood Golf Club	27-Hole Daily Fee	\$65	Included	\$65
Average		\$49	\$11	\$54

Off-Peak Fees				
<u>Facility</u>	<u>Type</u>	<u>18-Hole Weekday Green Fee</u>	<u>Total Weekday Fee</u>	<u>Twilight Weekday Fee</u>
Jersey Meadow Golf Course	18-Hole Municipal	\$26	\$34	\$18
Bear Creek Golf World (Masters Crse)	54-Hole Daily Fee	\$31	\$42	\$23
Houston Oaks Golf Club	36-Hole Daily Fee	\$25	\$37	\$18
Pine Crest Golf Club	18-Hole Daily Fee	\$32	\$32	\$25
Longwood Golf Club	27-Hole Daily Fee	\$55	\$55	\$35
Average		\$34	\$38	\$24

In comparison with its primary competitors Jersey Meadow offers the most reasonable fee levels during peak (weekend) and off-peak times. While the golf course at Jersey Meadow is relatively comparable to its closest competitors, we note that its overall amenity package is slightly lower in quality than the amenities offered at its primary competitors.

Although not set up as golf facility with amenities focused toward more formal events and outings, the fee levels make it an attractive alternative for those desiring a "no frills" golf experience on a nice course. The following table supports this idea by displaying activity levels of these golf facilities.

Activity Levels				
Facility	Type	1998 Total Rounds	1999 Total Rounds	1999 Rounds Per 18-Hole Course
Jersey Meadow Golf Course	18-Hole Municipal	58,000	---	58,000*
Bear Creek Golf World (Masters Course)	54-Hole Daily Fee	35,000	50,000	50,000
Houston Oaks Golf Club	36-Hole Daily Fee	45,000	55,000	27,500
Pine Crest Golf Club	18-Hole Daily Fee	55,000	60,000	55,000
Longwood Golf Club	27-Hole Daily Fee	<u>67,000</u>	<u>69,000</u>	<u>46,000</u>
Average		54,000	58,500	49,300
*Based on 1998 rounds				

Notwithstanding the lack of updated amenities Jersey Meadow offers a good golf value at its current fee levels. This is substantiated by the number of rounds of golf played at the facility. In comparison to its primary competitors, Jersey Meadow has the highest activity levels, with more than 67,000 rounds of golf played in 1998. If this figure is discounted for play at the closed 9-holes (15%), total rounds played on the 18-hole course are estimated to be 57,800 rounds, still the most active golf facility amongst its peers.

The overall quality of the golf facility, fee levels and performance of Jersey Meadow Golf Course suggests a very active local golf market with flexibility and demonstrated demand at various price points.

In the next few paragraphs we will review status of the market regarding potential golf demand.

Golf Market Summary

The diversity of the local population, the variety in quality of area golf facilities and activity levels experienced by comparable golf facilities in the Jersey Village golf market all contribute to the impression that the golf market environment surrounding Jersey Meadow Golf Course is strong and sustainable at least for the next several years. The golf facility appears to be appropriately priced given the overall quality of the golf course and related amenities. However, it should be noted that the clubhouse amenities are somewhat dated when evaluated in context with its local competitors.

Jersey Meadow Operational Analysis

At the time of the consultants' visit, operation and maintenance of the Jersey Meadow Golf Course was being managed by the staff of the previous owner of the facility, BSL Golf Corp. The City and BSL have entered into an interim management agreement for a period of approximately five months during which time the City will make a decision on how Jersey Meadow will be managed in the future.

Management

Day-to-day management of the golf operation is currently the responsibility of Darryl Henning. Mr. Henning is a Class "A" member of the Professional Golfers Association of America (PGA) and serves as the director of golf and general manager of Jersey Meadow. He is responsible for managing the golf shop, driving range, golf carts and food and beverage operations. Mr. Henning reports to Richard L. Bischoff, president of BSL Golf Corporation.

The maintenance of the course is the responsibility of Dennis Dickson, golf course superintendent. He is a certified member of the Golf Course Superintendents Association of America (GCSAA). He also reports directly to Richard Bischoff.

Personnel - Permanent

Based upon information given to the City by BSL Golf Corp last summer, there are 18 full time employees at Jersey Meadow. In addition to Darryl Henning there are several other full-time employees in the golf operations division. Mr. Henning has three full-time assistants. These individuals are members of the PGA and are in the process of becoming certified as Class "A" members. Also, there is a full time janitor and a full time cart/range attendant. The food and beverage operation consisting of the snack bar and two beverage carts has two full time employees.

The golf course superintendent's full time staff consists of 10 full time employees. In addition to the superintendent there is a heavy equipment operator, a mechanic, an irrigation specialist and six laborers.

Personnel – Part Time/Seasonal

The remaining 16 Jersey Meadow workers are employed on a part time or seasonal basis. These people are employed in the golf shop; serve as rangers/starters, cart/ range attendants and food and beverage workers.

There are six Customer Service Ambassadors (starters/rangers) and four cart/range attendants. Six part time workers are employed in the food and beverage operation.

Personnel Policies and Procedures

The manager was unable to provide the consultants with a copy of BSL Golf Corp's Personal Policies and Procedures manual at the time of the field visit. However, a copy of BSL's response to the City's Request for Proposals for management services, sent to NGF Consulting by Richard Bischoff, contained a copy of this document. The 38-page manual is given to all employees and they are required to acknowledge they have read and understand the contents by co-signing a statement together with their facility manager. The document is fairly comprehensive and is designed for employees of all the BSL Corp golf facilities rather than just employees of Jersey Meadow.

The City of Jersey Village is under no obligation to adopt BSL's personnel policies and procedures. It should apply its own written policies and procedures to the golf operation or reserve the right to approve a firm's policies and procedures should the management of the course be out sourced.

Operations Manual

Jersey Meadow management did not have an operations manual to share with the consultants at the time of the field visit. However, BSL's proposal for management services also contained the table of contents from BSL Golf Corp's *Cash Control & Security Procedures* manual and their manual on *Safety & Loss Procedures*. The scope of the table of contents from the *Cash Control & Security Procedures* manual appeared to be comprehensive. However, without its contents NGF Consulting was unable to evaluate it.

The 48-page *Safety & Loss Procedures* manual contains a great deal of information on the subject. It appears however that this document is generic to many work places rather than specifically designed for a golf course maintenance operation. It is written only in English and given that the majority of laborers on the maintenance crew speak and read only Spanish its value as a means of preventing or reducing accidents is questionable. Mr. Dickson, the golf course superintendent admitted that his ability to communicate in Spanish is limited and although his assistant is more fluent, frequently both of them have to rely upon a snack bar employee to interpret information to some of the maintenance workers.

Documents designed to educate employees serve two main purposes. The first is to provide employees with valuable information that can affect their future health and welfare. The second purpose is to demonstrate that an employer has made an effort to educate employees on job safety in the event an injured employee initiates a lawsuit. It is questionable that a document written in English for employees who can communicate only in Spanish would be looked upon as a defensible effort to prevent accidents and injury. Rather than take the risk of having a court rule that a document written in English that is intended for Spanish-speaking employees is not a reasonable effort, it seems prudent that producing a multi-language document would be well worth the additional cost.

The BSL manuals on various operational topics (Personnel Procedures, Safety & Loss and Cash Controls) are only three of several subjects that should be contained in a comprehensive operations manual. An operations manual can be invaluable to both management employees and staff. For staff, it will remove any doubt on how sensitive situations should be handled and answer questions regarding policies or procedures. Management can use the manual to orient new employees rather than giving verbal explanations on how things should be done.

We strongly recommend that the City develop its own golf course operations manual or require a management firm to produce one so the City will have a clear understanding of how the golf course will be operated in the future. National Golf Foundation has published a 105-page book on developing an operations manual. The process is greatly simplified using a floppy disk that contains a model that is easily edited.

Accounting Procedures/Financial Statements

BSL has a computerized accounting program that tracks all revenues and expenses by department and account. Daily revenues as well as expenses are entered into the computer in the corporate office in Houston.

Computer Applications - Cash Control/Point of Sales System

Jersey Meadow is computerized to some degree in the golf shop, manager's office, and snack bar. However, the system has its deficiencies and should be upgraded or replaced. Some of the weaknesses are:

- The system is not completely networked to include the maintenance operation or all of the computers in the manager's office.
- The system is not interfaced with the City's computer system.
- The point-of-sales program is a DOS based program that was designed for a private club operation rather than a public access golf course. Consequently some of the program's components have been modified while others are not applicable to the Jersey Meadow operation.
- Ringing up a simple sale in the golf shop or snack bar requires several keystrokes, which takes time and can be frustrating to both the customer and the employee.
- Green fees, merchandise sales, cart rentals, and range ball sales are rung up on a cash register located in the golf shop area. This data is then downloaded to the BSL computer located at their Houston office where monthly financial reports are generated. Management was uncertain that the current Jersey Meadow software program has the same report generation capabilities as BSL's computer in Houston.

According to management some reports on rounds played, merchandise sales, and other operational activities that are helpful in evaluating the golf course's performance can be generated by the current system. However, more sophisticated software may be necessary to achieve a state-of-the-art cash control/point of sale system. These systems, of which there are several, have a variety of options that can be selected by the purchaser.

The importance of having a high-quality cash control/point of sales system can't be overstated. The Jersey Meadow Golf Course generates significant revenues. Most of this money is in the form of cash transactions recorded at the golf shop. The volume of activity mandates that cash controls be established that can deter, if not prevent abuses. While NGF Consulting saw no evidence that abuses are currently occurring, the potential still exists. A well-designed computerized system that is properly utilized will serve as a deterrent to attempts to compromise the cash control system.

Another feature a new system would have is to speed up credit card transactions. The current method is time consuming and can cause congestion in the golf shop if several customers are paying their fees with credit cards. A state-of-the-art system would simplify the procedure and reduce the time to make a credit card transaction. We believe Jersey Meadow should encourage payment by credit cards rather than cash. This can also serve to deter internal abuses as well as reduce the amount of cash that needs to be counted and deposited daily. Golf courses have become targets for robberies because they are often located in remote areas and have little if any security at closing. Reducing the amount of cash that is accepted and kept overnight can reduce the potential for robbery.

The most important reason for having a high-quality cash control/point of sales system is the capability of collecting data and generating a variety of reports on a timely basis. It is our understanding that the present system requires considerable effort to generate some of the reports currently being used to monitor the golf operation.

NGF Consulting recommends the City retain the services of a consultant to analyze the current computer system as well as the future needs of the golf operation. It is likely that a new state-of-the-art system will be needed that can accomplish all of the desired tasks. A new system may require a sizeable

expenditure, depending its capabilities. This expenditure can be easily justified because it will bring with it certain efficiencies and capabilities that are lacking in the current system. A system that can produce better data will help management do a better job and can result in a stronger financial performance.

There are several firms that have systems specifically designed for public access golf courses and NGF Consulting recommends that the City, with the help of its consultant, contact them for further information and invite them to review the Jersey Meadow operation. These firms should be asked to submit proposals on how they would upgrade or replace the cash control/ point of sales system.

Rain Checks/Refunds

Jersey Meadow has no written policies regarding rain checks or refunds. The unwritten policy is to issue a credit based on the number of un-played holes and the fee paid by the customer. Cash refunds are not given.

In the past, BSL management has been very liberal in administering Jersey Meadow's rain check policy. NGF Consulting strongly recommends that the City establish a written policy regarding refunds and that this policy is included in a golf course operations manual. In addition to defining under what circumstances rain checks can be issued, the policy should also include control procedures that will be used to account for the credits that are issued and redeemed.

Tee Time Reservation Procedures

The golf shop staff takes tee time reservations. Customers can make reservations via the telephone or in person, seven days in advance of the day of play. All tee times can be reserved thus there is very little "walk on" play. Reservations are entered into the computer system and tee sheets are printed out on the day of play. The manager indicated that the majority of reservations are taken over the phone and the majority of tee times are reserved in advance of the day of play. There are no written tee time reservation procedures.

Administering the reservation system can be very labor-intensive and costly. It is also likely to be very frustrating, especially to customers who call the course for times only to find the phone is busy or that they have been put on hold for several minutes. Also, it is not uncommon for golfers in the heat of their frustration to question the honesty of the employees hired to administer this method of taking reservations.

In an attempt to reduce the cost of taking tee time reservations and provide a system that is above reproach, NGF Consulting recommends the City investigate using a computerized reservation system. In recent years, these systems have become widely used at public access courses. They are capable of accommodating multiple phone lines, thus reducing busy signals. The computer accepts the calls in the order they are made and can handle several calls simultaneously. The computer remains active 24 hours a day and can accept calls long after the golf course closes for the day. On those days when the course may be closed, there is no need to staff the phones. Some courses elect to have staff take reservations part of the day and let the computer do the work the remaining time. For a golf operation like Jersey Meadow, which accepts group reservations and outings several months in advance, these records will be maintained electronically rather than depending on tee sheets that are subject to loss or damage. Tournaments, outings and club block times can be entered into the computer well in advance of the day of play. Some systems will accept advance payment by entering a credit card number. The computer checks the validity of the credit card and charges the account accordingly. These are but a few of the features of computerized tee time reservation systems that warrant further investigation. It should be noted that the computerized tee time

reservation system is a component of the point of sales system, using the same equipment that would be located in the golf shop and the office.

Some golf operations are concerned that computerized tee time systems are impersonal and that maintaining a personal link with customers is important. We agree and recommend using the computerized system only to record reservations taken by staff during the hours the course is open, and using the full capabilities of the system to answer the phone and take reservations when the course is closed for the day. Using a computerized reservation system will also facilitate using credit cards for payment of green fees and guaranteeing payment from no-shows. Guaranteeing a tee time is becoming as common as guaranteeing a hotel reservation or a car rental. Jersey Meadow should not be reluctant to keep pace with the business practices used at many of the better courses in the country.

Course Marshaling

Jersey Meadow employs starter/ rangers to control play on the golf course only on Tuesdays, Thursdays and weekends. There is usually only one person on duty except for days when large tournaments are scheduled. There are no written documents that describe the duties and responsibilities of the starter/ranger position or any other information pertaining to the job. Management gives verbal instruction to these employees.

NGF Consulting believes that it is important to the success of a golf course operation to have an effective course-marshaling program. We recommend the following:

- Develop a training program for rangers that include written materials, classroom instruction and on-the-job supervision.
- Supervision should come from persons responsible for the management of the golf course. It is essential that there is daily interaction between management and the ranger staff preferably at the beginning and end of each person's shift. Rangers should be required to prepare a brief written report detailing any problems that occurred on their tour. Management should review these reports in a timely manner to see if trends are developing that may need to be addressed.
- It may be necessary to assign one person to supervise the ranger staff. This person would prepare and oversee the work schedules, recruit new employees, train new employees and occasionally supervise them by accompanying them on their tours of the course.
- Management should make every effort to investigate how other courses provide marshaling services to their customers and learn from their successes.

Driving Range/Practice Facilities

Jersey Meadow has a practice range that has approximately 25 turf tee stations. The range is conveniently located to the clubhouse and parking lot. Customers are required to purchase tokens in the golf shop for the ball-dispensing machine, which is located outside the entrance to the golf shop. Range customers wishing to buy another supply of balls must return to the golf shop to buy more tokens in order to retrieve additional balls from the ball dispenser.

The range is void of any distance markers or target greens. Balls hit from the forward tees can reach beyond the range limits and land on the back tee for the _____ hole, located at the rear and left side of the fairway. Currently there is netting that runs between the end of the fairway and the tee that is supposed to protect golfers from being hit by range balls. At the time of the consultant's inspection this netting was in poor condition and there was evidence that balls are flying over the netting onto the tee.

The range is unlighted and closes before dark so that balls can be retrieved. It is closed during periods of inclement weather as a result of not having artificial grass mats or covered tees.

The depth of the turf tee area is somewhat limited and increased usage will impact on the ability to maintain turf throughout the year. It is recommended that artificial grass mats be located to the rear of the tee area and that play be restricted to the mats periodically so that the natural turf has a chance to re-establish itself.

Range balls are retrieved from the fairway using a picking machine and are then loaded on to a utility vehicle and transported to the cart storage building where they are placed into a small ball washer. After they are cleaned they are brought back to the clubhouse where they are put into the ball-dispensing machine.

This procedure is very labor intensive and slow. It also requires a large inventory of balls to compensate for unpicked balls and those that are in the process of being cleaned. The ball washer that is being used is an older low-capacity model that requires a great deal of time to clean a large amount of balls.

NGF Consulting believes the range is not achieving its full potential as a revenue generator or providing Jersey Meadow golfers with a venue that is conducive to maximum utilization. To achieve higher utilization and more revenue we recommend the following:

- Build target greens and install distance markers in the fairway. Correct any drainage problems.
- Place higher netting along the rear and left side of the range to prevent balls from being hit beyond the range boundaries.
- Install concrete pads that will accommodate 20 to 25 artificial grass mats at the rear of the turf area. Cover a few of these tees so they can be used during inclement weather or to provide shade.
- Install a dispensing machine that accepts three forms of payment (cash, tokens and debit cards). Facilitating the ease with which persons can purchase additional balls should result in increased business.
- Locate the ball dispenser at the tee line to make it more convenient for customers to purchase additional balls. This dispenser should be a fully automated stand-alone unit. There are models that accept dirty balls at one end and dispense clean balls at the other end.
- Investigate the cost of lighting the range using pole lighting for the tee areas and ground lighting for the fairway. Hitting balls is an activity that appeals not only to golfers but to non-golfers as well. It is estimated that a lighted range can do 60 to 70 percent of its business after 5:00 PM. The lighted range on Jones Road, which is now closed, is reported to have been highly successful. There is every reason to believe that lighting the range at Jersey Meadow will also be successful.
- The use of the range should be promoted and marketed. Together with upgrading the range we also recommend a concerted effort be made to stimulate usage. The range should be promoted by offering specials at down times and packaging range balls with green fees, cart fees or merchandise purchases.

We believe the potential unrealized revenue from the range could contribute significant funds to the operation and maintenance of the golf course. Investing in range improvements can result in a quick payback and a lasting revenue stream. Whatever management option is chosen, upgrading the range and increasing its use should result in considerably more revenue for the City.

Player Development Programs

Jersey Meadow currently employs teaching professionals who give both individual and group golf lessons. According to management, clinics are offered to adults and youth. The some of the leagues that play at Jersey Meadow occasionally take advantage of the adult clinics.

Eight weekly youth clinics are offered during the months of June, July and August. Each clinic is four days in duration (Tuesday through Friday) consisting of three hours of instruction per day. There are a maximum of 32 students per session with an 8 to 1 student teacher ratio. Instruction consists of golf fundamentals being taught at four different teaching stations. A mini-tournament is held on Friday. The fee is \$125 per week and includes range balls and lunch each day. Students may repeat as many weekly clinics as they wish. Instruction is customized according to each individual's ability.

Based on the information given to the consultants it appears that player development programs are focused more on younger player rather than adults. The game of golf is gaining popularity with adults as well as young people. All age groups should have equal access to learning the game.

NGF Consulting recommends that Jersey Meadow' instruction programs introduce new players of all ages to the game and as well as providing more experienced players with learning opportunities to elevate their skills. There are several reasons for this recommendation:

- Introducing new players to the game can increase equipment and merchandise sales.
- New players mean new green fee and cart customers.
- New customers can increase driving range revenues.

Tournaments/Outings/Leagues

Jersey Meadow hosts a variety of tournaments and outings each year. They range from small outings to events that book the entire course for the day. Management reported that when Jersey Meadow was a 27-hole facility it booked outings that other 18-hole courses in the area could not accommodate.

There are no restrictions regarding which days of the week tournaments or outings can be booked. Reservations are accepted months in advance and there are no restrictions regarding the number of players. When very large groups book the course for an event it is not uncommon for groups of eight players to tee off together. Reservations are confirmed after a signed contract and a 10 percent deposit have been submitted.

There is a tournament fee schedule currently in effect. These fees include green and cart fee, range balls, registration table, closest to the pin and long drive contests, computerized scorecards, name plates and scoreboard services and Ace-In-The-Hole vacation packages. Fees are \$29 on weekdays, \$35 on Fridays and \$50 on weekends. An additional \$5 gift certificate fee is optional. Winter rates (November through February) are \$23.00 on weekdays, \$27 on Fridays and \$35 on weekends. There is an optional tournament menu available to groups of 25 or more players who wish to conclude their event with a buffet meal. Additional food and beverage choices are also available for these events.

Several leagues call Jersey Meadow home. Most of the leagues play is on weekdays (Monday through Thursday) after 4 PM. Two leagues per day are scheduled depending on the number of players. League play usually occurs during the months of May through October. Leagues are given discounts, which is \$1 off the regular Super Twilight rates of \$14.50 for walkers or \$19.50 with a cart.

Management reported that approximately 14 percent of Jersey Meadow's annual rounds come from tournaments, outings and leagues.

NGF Consulting recommends that Jersey Meadow continue to be marketed for outings, tournaments, and leagues. Obviously, these activities and groups represent a significant amount of the course's annual business and they should be encouraged to continue patronizing Jersey Meadow.

Clubhouse

The Jersey Meadow clubhouse is a one-story glass and metal building that includes a golf shop, snack bar dining area, restrooms and office area. The total area is reported to be about 6,700 square feet.

The building is well situated, overlooking the 1st and 10th tees and the putting green. The cart storage buildings are located nearby. There is a large parking area that appears to be adequate for both golfers and driving range users.

NGF Consulting recommends the City develop a long range plan to upgrade the clubhouse building so that the golf operation can remain competitive in the food and beverage and tournament business. Each of these components can represent a significant part of the golf operation's business and should be accommodated with more up to date amenities. However, any improvements to the clubhouse requiring additional debt should not be undertaken until all golf course deficiencies have been upgraded and the course is proven to be a financial success. Clubhouses are the focal point of most golf course operations. Some operations have gone to extreme expense to design and build clubhouse facilities only to find out after they are completed that they do not generate enough revenue to pay their cost of operation and debt service.

NGF Consulting recommends that any plans to upgrade or replace the existing facility be based on a modest sized facility that cost \$150 to \$200 per square foot including architect and engineering fees and site development costs.

Rest Rooms/Locker Rooms /Bag Storage

The Jersey Meadow clubhouse has restroom facilities for both men and women. However, there are no locker room facilities. Locker rooms are very seldom built at new daily fee clubhouse facilities. Golfers usually come to the course dressed for play. Most new clubhouses have restroom facilities that include a changing area. Very few have shower facilities, and these are usually found in the men's area. Operators report that women seldom use lockers or shower facilities.

NGF Consulting recommends that the men and women's restroom areas be upgraded with a thorough cleaning, new fixtures and a fresh coat of paint.

Jersey Meadow does not provide club storage at the present time and we do not recommend storage be offered in the future.

Golf Shop Merchandise Evaluation

At the time of the field visit, the golf shop was beginning to show signs of the end of the golf season. It was stocked with a few soft goods, individual clubs, and golf accessories. Less than two percent of the soft goods were for women customers. Merchandise sales averaged slightly more than \$2.00 per round of golf played. Price points appeared to be consistent with the price sensitive customer base.

Management indicated that a large percentage of the merchandise sales are a result of gift certificates that are given out as prizes at tournaments, outings and club events. Competition from retail golf

outlets, mail order firms and Internet companies for golf equipment and merchandise sales has impacted the ability of on-course golf shops to maintain large inventories and reasonable profit margins. Consequently many golf shops have reduced their retail operations to selling only basic merchandise such as balls, gloves, hats, and logoed shirts, sweaters and outer ware. Many shops carry only a small number of putters, specialty clubs and golf bags. They are willing to order sets of clubs, shoes and other merchandise rather than trying to carry a large inventory of these items.

NGF Consulting recommends that the City continue the current golf-merchandising program. We see no reason to increase inventories beyond what has been purchased in the past. The retail sales operation should be looked upon as primarily a service to the customer with profit margins only large enough to offset merchandise costs and overhead.

Food and Beverage Services

NGF Consulting's analysis of the food and beverage services revealed that it is a significant revenue producer at the Jersey Meadow golf course. Based on information taken from a report to the City by Mann, Frankfort, Stein & Lipp, PC, the following table illustrates revenue for 1996 to 1999 from the food and beverage operation:

Jersey Meadow Food & Beverage Sales				
Category	1996	1997	1998	1999
Food	\$167,533	\$164,044	\$186,348	\$168,398
Beer	\$116,030	\$115,397	\$117,881	\$104,141
Total Sales	\$285,569	\$281,438	\$306,227	\$274,538

A review of these figures reveals that food sales represent 60 percent of total sales. Average daily sales (365 days) for the four-year period equate to \$780 per. Per round of golf averages for the same period were \$2.98 for food and \$1.97 for beer.

The snack bar is a basic grill and deep fat fryer operation. The menu items are dependent on those two preparation methods. Due to the limited preparation area and storage area, there is little opportunity to expand the menu items. Many of the tournaments elect to have their sit down meals catered by an outside firm. One such event took place at the time of the consultant's field visit. BSL's Golf Tournament Menu indicates that the choices of catered meals are limited.

Food and beverage is not a service area that most municipal golf courses are adept at operating. Municipal food and beverage operations, particularly those that serve alcoholic beverages usually have a variety of obstacles to overcome to be successful.

We recommend that the City concession out the entire food and beverage service to a private operator. It is necessary that an experienced operator runs the snack bar as well as takes advantage of the opportunity to cater events, thus maximizing the revenue from food and beverage sales. Should the City decide to concession out the food and beverage operation it should try to find an operator who is willing to make an investment in expanding the menu by buying new equipment and enlarging the storage and preparation areas.

Complimenting the golf course services with a high quality food and beverage service will be helpful in attracting new golf events as well as retaining current event customers.

Golf Carts

When the City assumed ownership of Jersey Meadow in August of 2000 it also assumed an ongoing lease of 120 Yamaha electric carts and 2 beverage carts. The four-year lease began March 1999 and will remain in effect until October 2002. Lease payments for the fleet are approximately \$622 per vehicle per year. Payments are divided into 8 monthly payments per year and are due on the 15th of each month (March through October). It is our understanding that the fleet size will be reduced to 85 carts at the end of October 2000 and that lease payments will be adjusted accordingly.

NGF Consulting inspected the cart operation and did not find any major deficiencies. One full-time and five part time employees perform cart duties as well as driving range duties. The carts were clean, there always was an ample supply in the staging area, and carts that had been used were being promptly returned to the storage area.

However, our inspection of the two cart storage buildings with Officer C. J. Hunter of the Jersey Village police department revealed that the electrical system appeared to have a number of code and safety deficiencies. In the past, the buildings have been broken into and damage was done to the carts. There is reason to believe that the alarm system can be compromised, thus making the building vulnerable to theft and vandalism. Officer Hunter has prepared a written report of his inspection of the buildings and submitted copies to the Chief of Police and the City Manager.

Battery chargers are located on shelves and there was evidence that several of them had been pulled or fallen off. The fact that the chargers are not secured from falling represents both a safety problem as well as a potential replacement expense to the City.

The City's risk manager should inspect the cart storage-building deficiencies and Officer Hunter's report and then recommend the appropriate actions that should be taken by the City to correct them.

NGF Consulting recommends the City continues leasing a cart fleet for Jersey Meadow rather than purchasing them. There are a number of advantages for municipalities to lease rather than owning a cart fleet:

- There are no capital purchase costs involved.
- A lease can include maintenance and insurance costs.
- Carts can be leased for a specific period of time and the fleet can be replaced at the end of the leasing period with new carts.

Daily Fee Schedule

Following is Jersey Meadow's daily fee schedule for 2000. This schedule was established by BSL prior to the sale of the facility to the City and has been retained by the City.

Jersey Meadow Daily Fee Schedule						
Category	Monday - Thursday		Friday		Weekends & Holidays	
	Walk	With ½ Cart	Walk	With ½ Cart	Walk	With ½ Cart
18 holes	\$26	\$34	\$32	\$40	\$40	\$50
Twilight*	\$18	\$26	\$18	\$26	\$28	\$38
Super Twilight**	\$14.40	\$19.50	NA	NA	NA	NA
Senior	\$15	\$24	NA	NA	NA	NA
Junior	\$12.99	NA	NA	NA	NA	NA
* Twilight Times - November through March - 1:00 PM				April through October – 3:00 PM		
** Super Twilight - November through March - 3:00 PM				April through October – 5:00 PM		

It is obvious from the above schedule that BSL management created a daily fee schedule that would be attractive to price-sensitive customers yet competitive with other courses in the area. Fees were

developed for various days of the week, times of the day, ages of the customers as well as walkers and riders. In addition to the published daily fees discounts are given to leagues, tournaments and associations. This form of marketing public access golf courses is not uncommon in the Houston area or other areas of the country. It assumes that a variety of fees are sufficient incentive to attract players to a facility. While this may be true to some degree, golfers often seek quality as well as value.

NGF Consulting recommends that the quality of the golf experience at Jersey Meadow be upgraded and the new operation of the facility be stabilized before any significant changes are made to the fee schedule. The schedule used in NGF Consulting's financial proforma on the following pages represent only modest changes based on projected inflation and cost of living increases.

The proposed fee schedule assumes that some capital improvements and maintenance upgrades that have been recommended for Jersey Meadow will be implemented.

Jersey Meadow Historical Financial Performance

NGF Consulting was given copies of the Independent Accountants' Report developed by Mann, Frankfort, Stein & Lipp, PC. The Jersey Meadow Golf Course financial performance for fiscal years 1996 to 1999 is data that was made available to the accountants from BSL's general ledger. Data on the entire 27-hole operation for the four-year period was used. The accountants based their figures on a number of assumptions some of which were developed after conversations with BSL management.

It must be noted that the accountants, at the conclusion of their report stated, "We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the specific items. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you." This caveat brings into question the reliability of the estimates contained in the report.

The data was of some value in identifying most of the revenues and expenses associated with the 18-hole golf course operation. Following is NGF Consulting's summary of the golf course operational data contained in the Independent Accountants' Report, a copy of which can be found in the Appendix.

Jersey Meadow	1996	1997	1998	1999	4 year Ave.	% of Total	Ave Per Rd
Paid Rounds	\$58,490	\$55,938	\$59,101	\$54,819	\$57,087	98.98%	
Complementary Rounds	\$709	\$629	\$435	\$575	\$587	1.02%	
Total Rounds	\$59,199	\$56,567	\$59,536	\$55,394	\$57,674	100.00%	
REVENUES							
Green and Cart Fees	\$1,488,855	\$1,449,812	\$1,629,500	\$1,581,499	\$1,537,417	77.52%	\$26.66
Driving Range	\$39,071	\$40,163	\$47,033	\$43,207	\$42,369	2.14%	\$0.73
Merchandise sales	\$103,598	\$95,598	\$130,384	\$127,960	\$114,385	5.77%	\$1.98
Food sales	\$167,533	\$164,044	\$186,348	\$168,398	\$171,581	8.65%	\$2.98
Beer sales	\$116,030	\$115,397	\$117,881	\$104,141	\$113,362	5.72%	\$1.97
Other	\$1,962	\$2,884	\$8,270	\$3,457	\$4,143	0.21%	\$0.07
TOTAL REVENUES	\$1,917,049	\$1,867,898	\$2,119,416	\$2,028,662	\$1,983,256	100.00%	\$34.39
Cost of Sales							
Merchandise	\$61,378	\$56,823	\$76,657	\$75,510	\$67,592	38.29%	\$1.17
Food	\$73,799	\$66,797	\$79,441	\$67,512	\$71,887	40.73%	\$1.25

Beer	\$26,385	\$40,747	\$39,904	\$41,120	\$37,039	20.98%	\$0.64
Total Cost of Sales	\$161,562	\$164,367	\$196,002	\$184,142	\$176,518	100.00%	\$3.06
Gross Profit	\$1,755,487	\$1,703,531	\$1,923,414	\$1,844,520	\$1,806,738		\$31.33
OPERATING EXPENSES							
Golf Course Maintenance	\$280,996	\$316,014	\$333,635	\$310,679	\$310,331	26.42%	\$5.38
Golf Shop	\$87,585	\$81,860	\$98,394	\$93,083	\$90,231	7.68%	\$1.56
Carts	\$78,861	\$85,404	\$93,193	\$96,309	\$88,442	7.53%	\$1.53
Driving Range	\$25,841	\$40,119	\$52,992	\$49,446	\$42,100	3.58%	\$0.73
Food and beverage	\$57,113	\$63,776	\$68,842	\$62,602	\$63,083	5.37%	\$1.09
Clubhouse	\$25,684	\$25,286	\$23,691	\$29,738	\$26,100	2.22%	\$0.45
Marketing	\$17,016	\$14,031	\$19,286	\$22,605	\$18,235	1.55%	\$0.32
General and administrative	\$231,992	\$221,672	\$243,656	\$230,313	\$231,908	19.74%	\$4.02
Corporate overhead	\$191,705	\$186,790	\$211,942	\$202,866	\$198,326	16.88%	\$3.44
Property taxes	\$94,249	\$109,192	\$94,268	\$126,371	\$106,020	9.02%	\$1.84
TOTAL	\$1,091,042	\$1,144,144	\$1,239,899	\$1,224,012	\$1,174,774	100.00%	\$20.37
EBITDA	\$664,445	\$559,387	\$683,515	\$620,508	\$631,964		\$10.96

Following is NGF Consulting's analysis of the reported data for the 18-Hole golf course for the years 1996 to 1999. Much of the data that was used is based on per hole averages while other data was adjusted based on BSL management's estimates. It is recommended that the Independent Accountants' Report be referenced for an understanding of the assumptions that were used to develop the data used in this analysis.

- ◆ Total rounds averaged 57, 674.
- ◆ Green and cart fee revenues averaged approximately 77 per cent of total revenues, with the remaining revenues coming from the food and beverage operation, driving range, merchandise sales and other sources. Since green fees and cart fees are commingled it was impossible to separate those revenues by category.
- ◆ The cost of merchandise sold in the golf shop averaged 59 percent of total sales.
- ◆ Since the golf shop operating expenses also include salaries and expenses not directly connected to the sale of merchandise it is impossible to determine the profitability of this phase of the golf course operation.
- ◆ Operating expenses for the golf shop averaged \$90,231.
- ◆ Operating expenses for the cart operation averaged \$88,442. This expense includes the prorated (based on 18 golf holes) cost of leasing 120 carts and 2 beverage carts.
- ◆ The cost of food and beverage products averaged \$108,926 or 38 percent of total sales.
- ◆ The operating expenses for the food and beverage service averaged \$63,083 or 22 percent of total sales.
- ◆ Profits from the food and beverage service averaged \$113,000 per year or 39 percent of total sales.
- ◆ Driving range revenue averaged \$42,369 per year while expenses averaged \$42,100. Profits equate to an average of only \$269 per year.
- ◆ Maintenance expenses including wages, salaries, benefits, materials, supplies, and other related expenses averaged \$310,679 and were computed on an average per hole for 18 holes. This methodology assumes that all personnel costs are reduced by one-third, which we believe is an incorrect assumption.

- ◆ Over 45 percent of the total expenses are for General and Administrative, Corporate Overhead and Property Taxes that may be unique to privately owned courses compared to municipal operations.
- ◆ Gross profit per round averaged \$31.33 and average expense per round averaged \$20.37 and average net profit equated to \$10.96 per round.

Conclusions

It is the opinion of the consultants that the lack of detail in the Independent Accountants' Report and the methodology used to develop some of the assumptions makes using this data as baseline data for NGF Consulting's proforma a questionable exercise. Rather than use data that cannot be supported, the consultants have chosen to project the future financial performance based on their knowledge of the performance of public golf courses, conservative estimates based on achievable levels of activity for an 18-hole golf course in the Houston area and operational survey data collected by National Golf Foundation's research department.

Financial Overview

In this section of the report NGF Consulting will analyze the projected budget for FY 2000 – 2001 prepared by BSL management at the request of the City and develop a five-year cash flow proforma based on the consultant's review of the Jersey Meadow operation and their recommendation for future management of the facility.

Budget Review

The consultants were given copies of the Jersey Meadow budget for FY 2000 – 2001 prepared by BSL management. A copy of the complete budget is in the appendix. The following table summarizes this document.

GOLF COURSE BUDGET SUMMARY	
FUND BALANCE	\$250,143
REVENUE	\$2,199,452
TOTAL FUNDS AVAILABLE	\$2,449,595
DEBT SERVICE	\$508,583
SUBTOTAL	\$1,941,012
EXPENDITURES	
SALARIES AND WAGES	\$700,302
COST OF SALES	164,304
SUPPLIES	111,065
MAINTENANCE -BUILDINGS/STRUCTURES	4,293
MAINTENANCE - EQUIPMENT	44,274
SERVICES	174,547
OTHER SERVICES	122,762
PROFESSIONAL SERVICES	165,990
SUNDRY	30,000
CAPITAL OUTLAY	80,000
TOTAL EXPENDITURES	\$1,597,537
FUND BALANCE	\$348,475

The consultant's analysis of the proposed budget follows:

- ♦ The revenue portion of the budget is not supported by rounds projections, other activity data or fee schedules. Green fee and cart revenues are combined into one category. The projected revenue figures appear to be similar to the revenue data for the 27-hole operation contained in the Independent Accountant's Report.
- ♦ Many of the expenditures assume Jersey Meadow is going to be operated by a management firm. For example the cost of employee benefits are projected to be approximately 18 percent of full-time salaries and wages compared to the City's cost of 38 percent. Management fees totaling \$140,000 are also included in this budget.
- ♦ The budget assumes that the current staffing levels remain as they were prior to the City's purchase of the property.

- ♦ The budget assumes the City will continue to operate the food and beverage service but will not sell beer.

It is the consultant's opinion that because the proposed budget prepared by BSL Corp lacks significant support data and contains expense items that assume a particular management method it should be amended. Both the revenue and expense categories should more accurately reflect the future operation of Jersey Meadow.

Five Year Proforma

Having reviewed the operation of the Jersey Meadow Golf Course, it is possible to develop a cash flow proforma that analyzes the facility's future financial performance. NGF Consulting's cash flow proforma displays the projected five-year performance of the golf facility based upon the concept of a professionally managed, high-quality, 18-hole daily fee golf course, competitive with the other public golf courses in the Jersey Meadow market area. Rounds data provided by BSL management for the past 12 months was used to project levels of activity. Current fees and an analysis of fees from competitive courses were used as the basis for a recommended fee schedule.

Following are the general assumptions that have been used in the development of NGF Consulting's cash flow model:

- All projections assume that the Jersey Meadow golf course and amenities will be expertly maintained and professionally managed as one of the area's highest quality public facilities.
- The level of attainable rounds projected for this facility is based upon the performance of the 18-hole course in the past 12 months as well as current and projected demand for public rounds of golf in the Jersey Village market area.
- This golf facility is projected to generate 59,000 rounds in the year 2001 and is projected to increase to more than 63,800 rounds by 2005.
- Revenues used to develop the cash flow estimates were based on average income per round of golf for the 11 month period of December 1999 to October 2000.
- NGF Consulting has projected all revenues to increase two percent per year, beginning in 2002.
- Approximately 86 percent of the facility's rounds are projected to occur as regular rounds and approximately 14 percent of the facility's play will be tournament rounds. These estimates are based on the demonstrated activity during the past 11 months, expected level of quality of the course, anticipated competitive pricing, and the continuation of existing dynamics of the local golf market.
- Our financial projections *do not* include a category for annual memberships. Annual passes tend to undermine the long-term pricing potential for golf facilities and can have a negative impact on profitability.
- NGF Consulting *did not* factor a discount of green fees in anticipation that some fees may be reduced for Jersey Village residents. There is no data available that indicates how many rounds of golf come from persons residing in Jersey Village.
- All cash flow from the various departmental income sources (pro shop, carts, and driving range) will accrue to the City.
- NGF Consulting recommends the City continue leasing carts and that the cost includes maintenance and liability insurance coverage.
- Over 90 percent of all golf rounds are cart rentals and revenues are \$7.22 per round from regular rounds and \$8.46 from tournament rounds. Revenues are projected to increase two percent per year beginning 2002.

- Average merchandise revenue per round is estimated at \$2.23 and is projected to increase two percent per year beginning in 2002.
- NGF Consulting has assumed that soft goods and balls, gloves, hats and other sundry items will most likely be the primary merchandise that is sold in the pro shop. Cost of goods is estimated at 70 percent of the merchandise revenues.
- Average driving range revenue from regular rounds of golf is estimated at \$.87 per round and \$1.55 from tournament rounds. Both revenues are projected to increase two percent a year beginning in 2002. However, if range lights are installed revenue from regular rounds should increase significantly.
- The proforma assumes that a private concessionaire will operate the food and beverage service. It is assumed that an annual concession fee will be paid to the City, however the proforma does not project what that fee will be.
- The proforma model assumes that the City of Jersey Village, using the services of a golf course manager, will self-operate and maintain Jersey Meadow.
- It is our recommendation that the City obtains estimates from professional golf course maintenance firms so that the cost of self-maintenance can be compared with the costs proposed by private firms.
- NGF Consulting has estimated expenses for the golf course operation based upon new staffing levels and revised departmental expenses. It is assumed that City of Jersey Village will employ all staff. Salaries and benefits for full time employees may be subject to some adjustment based on current market conditions. Administration and operation expenses are projected to increase five percent a year.
- In accordance with the concept of maintaining the golf facility at standards as good as or better than the best public golf courses in the market area, NGF Consulting has estimated course maintenance expenses to increase at five percent per year. Maintenance budget expenses are based on the assumption that capital improvements such as the purchase of new equipment, cart path paving, and other facility improvements will come from the a capital improvement fund.

Estimated Administration and Golf Operations Expense	
Salaries / Wages/Benefits - Full-time Employees	
General Manager/ Director of Golf	\$65,000
Assistant Manager/Head Golf Professional	\$40,000
Bookkeeper/Office Manager	\$30,000
City of Jersey Village Benefits @ 38% of Salaries/Wages	\$51,300
Total Full-time Salaries/Wages/Benefits	\$186,300
Salaries / Wages/Benefits - Part-time Employees	
Cashiers, Starters, Rangers, Cart Attendants (13,000 hours @ \$8.00)	\$104,000
Total Salaries/ Wages/Benefits	\$290,300
Supplies, Maintenance and Services	
Supplies	\$20,000
Maintenance - Equipment	\$8,000
Services	\$100,000
Other Services	\$110,000
Professional Services	\$61,500
Insurance	\$30,000
Total Administration and Operation Expense	\$619,800

Estimated Golf Course Maintenance and Building Expense	
Full-time Employees Salaries/ Wages/Benefits	
Course Superintendent	\$ 60,000
Operator – Heavy Equipment	\$ 25,000
Mechanic	\$ 24,200
Irrigation and Spry Technician	\$ 23,400
Maintenance Workers six (6) @ \$15,600 each.	\$ 93,600
Overtime	\$10,000
City of Jersey Village Benefits @ 38% of Salaries/Wages	\$89,756
Seasonal and Part-time Employees (3000 hours @ \$7.00/hr.)	\$ 21,000
Total Salaries / Wages/Benefits	\$346,956
Supplies, Maintenance and Services	
Supplies	\$100,000
Maintenance – Equipment	\$35,000
Services	\$67,000
Other Services	\$12,000
Total – Supplies, Equipment, Services	\$214,000
Total Course Maintenance Expense	\$560,956

The following proforma projects the financial performance of for the first five years (January 1 to December 31) of operation of the Jersey Meadow Golf Course by the City of Jersey Village.

ANNUAL ROUNDS	2001	2002	2003	2004	2005
Regular Rounds	50,150	51,153	52,176	53,220	54,284
TOTAL ANNUAL ROUNDS	59,000	60,180	61,384	62,611	63,863
Average Green Fee Per Regular Round	\$21.12	\$21.55	\$21.98	\$22.42	\$22.87
Average Green Fee Per Tournament Round	\$19.75	\$20.15	\$20.55	\$20.96	\$21.38
Average Cart Fee Per Regular Round	\$7.22	\$7.37	\$7.52	\$7.67	\$7.82
Average Cart Fee Per Tournament Round	\$8.46	\$8.63	\$8.80	\$8.98	\$9.16
PROJECTED REVENUES PER ROUND					
Merchandise Sales	\$2.23	\$2.27	\$2.32	\$2.36	\$2.41
Misc. Sales	\$0.11	\$0.11	\$0.11	\$0.11	\$0.11
Ave Driving Range Sales Per Regular Round	\$0.87	\$0.96	\$1.05	\$1.16	\$1.27
Ave Driving Range Sales Per Tournament Round	\$1.55	\$1.59	\$1.62	\$1.65	\$1.68
REVENUES					
Green Fee Revenue - Regular Rounds	\$1,059,401	\$1,102,201	\$1,146,729	\$1,193,057	\$1,241,257
Green Fee Revenue - Tournament Rounds	\$174,801	\$181,863	\$189,211	\$196,855	\$204,808
Golf Cart Revenue - Regular Rounds	\$362,322	\$376,959	\$392,188	\$408,033	\$424,517
Golf Cart Revenue - Tournament Rounds	\$74,868	\$77,893	\$81,040	\$84,314	\$87,720
Merchandise Sales	\$131,436	\$134,065	\$136,746	\$139,481	\$142,271
Misc. Sales	\$6,663	\$6,797	\$6,933	\$7,071	\$7,213
Aver Driving Range Sales Per Regular Round	\$43,629	\$48,952	\$54,924	\$61,625	\$69,143
Aver Driving Range Sales Per Tournament Round	\$67,911	\$69,270	\$70,655	\$72,068	\$73,510
TOTAL REVENUE	\$1,921,031	\$1,997,999	\$2,078,426	\$2,162,503	\$2,250,437

Less: Cost of Sales					
Merchandise	\$92,005	\$93,845	\$95,722	\$97,637	\$99,589
Driving Range	\$27,885	\$29,555	\$31,395	\$33,423	\$35,663
TOTAL COST OF SALES	\$119,890	\$123,401	\$127,117	\$131,060	\$135,252
ADJUSTED GROSS INCOME	\$1,801,141	\$1,874,598	\$1,951,309	\$2,031,444	\$2,115,185
EXPENSES:					
Administrative and General	\$619,300	\$650,265	\$682,778	\$716,917	\$752,763
Course Maintenance	\$560,956	\$589,004	\$618,454	\$649,377	\$681,846
Golf Cart Lease	\$53,048	\$55,700	\$58,485	\$61,410	\$64,480
Annual Debt Service	\$508,583	\$508,583	\$508,583	\$508,583	\$508,583
TOTAL PROJECTED EXPENSES	\$1,741,887	\$1,828,981	\$1,920,430	\$2,016,452	\$2,117,275
Capital Improvement Reserve	\$36,999	\$38,849	\$40,792	\$42,831	\$44,973
NET OPERATING INCOME	\$22,255	\$6,768	(\$9,913)	(\$27,839)	(\$47,062)

NGF Consulting's financial projections for Jersey Meadow indicate a positive net operating income for 2001 and 2002, there after there is a slight negative net operating income. The NOI is projected to decrease from approximately \$22,000 in its first calendar year to over (\$47,000) by the fifth year. It must be stressed that our projections are based upon the operation of a high-quality public golf facility, which features superior maintenance conditions, offers a high level of customer service and has a fee schedule competitive with other courses in the market area.

NGF Consulting has been extremely conservative in our revenue projections and generous in our expense projections. It is our belief that hiring the services of a private golf course maintenance firm may reduce maintenance costs that can have a positive impact on net operating income.

Management Options

Analyzing the current operation of Jersey Meadow gives the City an opportunity to carefully consider which management option is in its best interest for the future operation of the facility. Arriving at the right method of management can be a complicated procedure because no two facilities have the same needs. However, Jersey Village is limited in the options it can use because it must comply with recent changes in the Internal Revenue Service regulations that pertain to management contracts for facilities financed with tax-exempt bonds, as set forth in IRS Revenue Procedure 97-13, issued January 10, 1997.

Management contracts, operating leases, and concession agreements are the three most commonly used terms to describe a contract between a municipality and a private golf course operator. Each has significant differences; however, there are several factors common to all three. Following is a brief comparison of the three options frequently used to privatize municipal golf courses.

Management Contract

The primary goal of a management contract is to provide the golf facility with experienced, professional managers who are responsible for the daily operations, thus relieving the City of this task.

A typical management contract plan has the City hiring a firm that is charged with all management and maintenance responsibilities. The City would fund all capital improvements, and the management firm would hire all employees. Because employees work for the management firm and not the City, they would not be subject to the same benefits City employees receive. Thus, the operating expense may be reduced substantially. The City would reimburse the management firm for all payroll expenses. The management firm would collect all revenue and provide complete accounting reports to the City.

All revenues would belong to the City, as well as responsibility for all expenses. The management firm would submit detailed budgets to the City prior to the operating year. The City would monitor the firm's utilization of budgeted funds and would be responsible for any unforeseen expenses beyond the control of the management firm.

The firm would be paid a management fee, which may be a fixed dollar amount, a predetermined percentage of operating revenues, or some combination of both. Sometimes, the management firm is paid a commission that is predicated on percentages of gross receipts or net income, over and above the established minimum revenues. The operating expense budget must be maintained at the original projection for incentives to be earned.

Management fees (for courses that do not have to comply with the new IRS regulations) can range from \$50,000 to \$150,000 annually. As a percentage of gross revenues, the management firm's annual fee could be in the range of four to seven percent. Incentives built into the agreement would allow the firm to share any additional revenues, possibly 5 to 15 percent of gross revenues or 10 to 30 percent of net income.

Management fees for facilities that are subject to the IRS guidelines are closely defined and have been summarized on the following pages.

Because of the close working relationship between the City and the management firm, the changing golf economy, and capital requirements of golf courses, the typical management contract

requires frequent revision. The length of the typical agreement is relatively short, two to five years, and may include option periods.

A management contract is appropriate when substantial capital is not needed for the physical facility, and the City could be involved on a part-time basis in the operations of the facility. That is, the City should have an individual who can work with the management firm when a questionable issue arises. This should occur infrequently if the management agreement contains necessary controls.

In conjunction with a well-constructed contract, the management contract form of operation provides the controls necessary to protect a substantial asset, provides the greatest amount of up-side revenue potential, allows the most input into operating and capital programs, and provides the most flexibility of any management style, short of self-operating.

There are potential downsides to the management contract option. The City would need a person with some golf course expertise who could spend time overseeing the management firm. The capital program could be confusing to the City without the proper expertise, although developing a long-term plan (*five years*) would help reduce this concern.

The major concern with a management contract is the risk the City would be taking relative to shortfalls. The management firm's fee is guaranteed, as long as the contract provisions have been met. If new facilities open in the area and negatively impact revenue, or a natural disaster occurs, the City could be left with a shortfall after paying the golf course debt.

Summary of Management Contract Features

- The City is removed from day-to-day operation in exchange for a pre-determined fee plus a percentage of gross revenues or some other formula, which is fair to both parties.
- This option offers the City less control than self-operation, but probably more control than with the lease operation.
- The City may receive lower net revenues than through self-operation because of the incentives paid to the management firm. However, the savings from lower employee benefits may offset the lower revenues.

Summary of Revenue Procedure 97-13

Compensation and Term

a. General. Compensation for management services must be reasonable, with no compensation based on a share of net profits. But reimbursement to the manager for actual and direct expenses paid by the manager to unrelated parties are not treated as compensation. Also, a productivity reward equal to a stated dollar amount based on increases or decreases in gross revenues, or reductions in total expenses (but not both increases in gross revenues and reductions in total expenses) generally does not cause the compensation to be based on a share of net profits.

b. Permitted Arrangements. The management contract must be described in paragraphs (1), (2), (3), or (4) below:

Compensation Type	Maximum Contract Term
(1) At least 95% Periodic Fixed Fee	15 years
(2) At least 80% Periodic Fixed Fee	10 years
(3) At least 50% Periodic Fixed Fee	5 years subject to termination without penalty by the City after 3 rd year
(4) Per-Unit Fee or Periodic Fixed Fee/Per-Unit Fee Combination	3 years subject to termination without penalty by the City after 2 nd year

c. Definitions. A "Periodic Fixed Fee" is a stated dollar amount for services rendered for a specified period of time (for example, a stated dollar amount per month). The amount may automatically increase according to a specified objective, external standard that is not linked to the output or efficiency of the facility, such as the Consumer Price Index. A "per-unit" fee is a fee based on a unit of service provided such as an 18 hole round of golf.

d. One-time Incentive Award for 95%/80% Fixed Fee. For the 95% and 80% Fixed Fee arrangements, a fee does not fail to qualify as a periodic fixed fee as a result of a one-time incentive award during the term of the contract under which compensation automatically increases when a gross revenue or expense target (but not both) is reached, if that award is equal to a single, stated dollar amount.

e. Compensation Mix. If a Periodic Fee (i.e. \$x per month) comprises at least 95%, 80%, or 50% of the compensation as described in (1), (2), or (3) above, the portion of the compensation not fixed may be based on a per-unit fee (i.e. \$y per 9 hole round of golf) or a percentage of gross revenues or expenses (but not both).

Termination Without Penalty

- a. General** Under the 95% and 80% Periodic Fixed Fee arrangement, it is not necessary for the City to reserve the right to terminate the contract. However, under all other fee arrangements, the City must have the right to terminate on reasonable notice, without penalty or cause, at the end of the 3rd year or 2nd year, as described above.
- b. Prohibited Penalties.** The management contract may not include "prohibited termination penalties" such as a limit on the City's right to compete with the service provider, a requirement that the City purchase equipment, goods or services from the service provider, or a requirement that the owner pay liquidated damages upon termination.
- c. Allowable Penalties.** The management contract may include "permitted termination penalties" such as a requirement that the owner reimburse the service provider for ordinary and necessary expenses, or a restriction on the owner against hiring key personnel of the service provider.

Operating Lease

The primary goals of an operating lease would be to relieve the City of all operating concerns, to ensure a minimum rent payment to the City, and to protect the asset.

A description of an operating lease is included in this section for comparison purposes despite the fact that this option is not available to the City according to the IRS guidelines.

An operating lease is similar to a management contract in that the lessee, like the management firm, hires and fires employees and is responsible for the day-to-day operation of the facility. The difference between the two is that the lessee would be committed to pay the City a fixed rent, pay all operating expenses and, typically, provide some capital for investment in the golf facility. This investment differs depending on the subject facility.

A lease agreement for Jersey Meadow would require a lessee to supply the personal property necessary for the operations. This would include golf course maintenance equipment, golf carts, clubhouse furnishings, and all operating licenses. Equipment items could be purchased from the City or included in the lease agreement. Often, a lessee may be required to improve one or more of the site buildings (clubhouse, maintenance barn, cart storage, etc.).

Some disadvantages of the operating lease are that the City would likely receive less of the upside revenue potential than with a management contract. In an operating lease, the City would be less involved in operating and personnel decisions and would have little or no involvement in determining operating expense budgets.

However, if a new lease agreement is properly constructed, with an emphasis on lessee controls and reports, maintenance specifications, and capital improvement provisions, the operating lease can provide the necessary protection for the City and the golf course asset.

Summary of Operating Lease Features

- The City is removed from day-to-day operation in exchange for a pre-determined fee.
- This option offers the City the least amount of control over the golf course operation.
- Management may be forced to cut maintenance expenses and raise fees to financially justify the operation.
- The City would receive significantly less revenue than it would through self-operation.
- Revenue realized from a lease can equal or exceed debt service payments.

Concession Agreement

This form of agreement is similar to a lease agreement. However, a concession agreement usually involves granting a license to operate a portion of the golf operation rather than the entire facility such as the food and beverage operation, the Golf shop, driving range or rental carts. Concession agreements are thought to be easier to cancel than a lease agreement. They are frequently for a shorter term, compared to a lease, and contain more controls. Concession agreements are usually granted for properties in an "as is" condition and seldom require the concessionaire to make major physical improvements to the facility.

Concessionaires are frequently permitted to use course-owned equipment with the obligation only to maintain it. Because of the short term of most concession agreements, there is little incentive on the part of the concessionaire to make major investments. Payment for concession licensees is usually a flat fee plus a percentage of gross receipts.

Summary of Concession Agreement Features

- The City would be removed from the day-to-day operation of one or more of the golf profit centers in exchange for a pre-determined fee plus a percentage of gross receipts.
- Concession agreements provide more control than an operating lease, but less than a management contract.
- The term of a concession agreement is typically shorter than an operating lease.
- The City would be responsible for major capital improvements.

Self-Operation

There are more than 2,400 municipal golf courses in the United States. The majority of these courses are self-operated by governmental jurisdictions, be it a city, town, county, state, or park district. Since the first municipal course in the United States (Van Courtlandt Park) opened in New York City in 1895, municipal governments have developed and operated public access golf courses. Not only are there long traditions of self-operated municipal golf courses, the majority of these courses are successfully providing their communities with affordable golf opportunities. Many courses that have retired capital debt payments are able to operate on a self-sustaining basis, and some generate excess revenues for other recreational activities.

Self-operation gives the municipality the greatest control over the golf operation. In the case of Jersey Meadow, the City would retain control over establishing policies and procedures, hours of operation, fee schedules, and operating and capital budgets. All revenues would be available to pay for maintaining the course and upgrading areas that need improvements. None of the revenue would be taken as profit as would be the case with privately managed courses.

The City has the fiscal resources to make improvements to Jersey Meadow, such as upgrading the clubhouse or purchasing new equipment, which private management firms may not have. Self-operation will assure that improvements will be funded and made in a timely manner. The City's full faith and credit will enable capital projects to be financed at a far lower interest rate than is available to private management firms. Were the City permitted to lease the course to a private operator, it is not likely that capital improvements will be made as quickly or extensively as the City would make them.

Self-operation also has its downside, as some municipalities have painfully learned. In an attempt to capture the favor of their residents, some municipal golf operations have been managed by political decisions rather than business decisions. Invariably, these operations begin to suffer from a lack of resources, due to low revenues and high expenses. When revenues are inadequate to meet operating expenses, budgets are cut and the quality of the course begins to deteriorate. This often results in a loss of customers and a further loss of revenues. The course operation usually goes into a downward spiral until it hits bottom. At that point, the municipalities either retains a management firm or faces up to a costly restoration to bring the facility back to its previous condition.

If there are any doubts the City can operate the Jersey Meadow Golf Course as a business, then the management contract or concession options should be considered.

Comparisons

NGF Consulting has prepared the following chart to identify the major differences of the three management options available to the City of Jersey Village under the IRS guidelines.

Contractual Obligations	Management and Maintenance Contract	Concession Agreements For Operating One or More Profit Centers	Self Operation
Term of Contract	Initial contract may be for two to five years with two-year options.	Initial contract may be for three years with two, one-year options.	Not Applicable.
Payment	City pays management firm a fixed fee for its services, plus incentives.	Concessionaire pays the City a flat fee, plus a percentage of gross receipts.	Not Applicable.
Capital Improvements	City pays for all improvements.	Concessionaire may pay for minor items; the City pays for all major projects.	City is responsible for all capital improvements.
Operation and Maintenance Budgets	The City has total responsibility for the budget managed by the firm.	Concessionaire has budget responsibility. The City should require authorization to review expenditures to verify contract compliance.	City has authority over approving golf course budget.
Revenues	All revenues belong to the City.	All revenues belong to the concessionaire.	All revenues belong to the City.
Fees and Charges	Established by the City.	Recommended by the concessionaire, approved by the City.	Established by the City.
Hours of Operation	Established by the City.	Recommended by the concessionaire, approved by the City.	Established by the City.
Staffing	The City must have approval over management firm's staff. All employees belong to the management firm. City reimburses payroll expenses.	The City has approval over key staff.	City is responsible for staff both permanent and season positions.
Equipment	The City retains ownership of equipment and pays for costs of repairs.	The City may include the use of its equipment in the agreement; concessionaire is obligated to maintain and replace equipment as needed.	City purchases, maintains, and replaces all equipment.

Management Recommendations

NGF Consulting believes the City should self-operate the Jersey Meadow Golf Course under the direction of an individual who has extensive experience in operating all phases of municipal golf courses. This individual will report to the City Manager and serve as an ad hoc member of the golf course advisory committee.

We further recommend that the maintenance of the golf course be contracted to a private firm that has experience in maintaining public access golf courses, preferably municipal courses. This contract will be in the form of a service contract and will comply with the IRS guidelines.

Also, the City should consider granting a concession license for the operation of the food and beverage service if it feels the selling of beer and wine presents a potential liability. This concession may attract an investor who would be willing to upgrade the current operation at little or no expense to the City.

We believe this management method is preferable to any of the other management alternatives. We offer the following reasons for this recommendation:

- The City will have direct control over the golf operation as a result of hiring an experienced golf manager and retaining the services of a well-qualified golf course maintenance firm and a food and beverage concessionaire. The manager, the maintenance firm and the concessionaire will bring immediate expertise to the golf operation.
- Jersey Meadow has a strong customer base. Estimates indicate that an average of some 55,000 to 60,000 rounds of golf have been played at the course in the past four years. If the City upgrades the quality of the operation and makes some course improvements, it is likely that rounds will increase beyond present levels.
- The golf course needs various capital improvements and upgrades, now and in the future. Private management firms or concessionaires are not likely to make major capital improvement expenditures under the IRS guidelines.
- The cost of maintaining and operating the courses can be controlled through good management.
- The course will be maintained to a higher quality because the resources necessary to maintain it will be given the highest priority.
- Cost efficiencies can be realized through state-of-the-art data collection and record keeping systems.
- Fees can be offered that are competitive with other courses in the market area, yet equitable for all players.
- A well-managed marketing program can be established that will bring additional customers to the course. Customer retention will occur as a result of well-trained employees delivering excellent service.
- Providing high quality playing conditions, exceptional customer service, and competitive fees should result in increasing annual rounds and revenue.
- The Jersey Village golf course operation will to be a City government enterprise that is independent of tax support and capable of generating revenues sufficient to operate and improve the facilities as well as meet debt service obligations.

NGF Consulting is confident that this modified form of self-operation can achieve the City's desired goals of providing high quality golf services and the financial viability of the golf operation.

We believe the need to privatize the maintenance operations by hiring a professional golf course maintenance firm on a service contract basis is essential to the financial viability of the golf operation.

In recent years, many municipalities, from all sections of the country, have contracted their maintenance needs to private firms for a variety of reasons. The primary reason has been to stabilize or reduce costs, yet improve the quality of their facilities. In many cases the maintenance firms provide their own equipment, thus saving the municipality the expense of replacing its old, worn out inventory. Maintenance firms with a large customer base bring an economy of scale that can also result in reduced costs to their clients. The reason most maintenance firms can stabilize or reduce costs for their clients is that they do not provide their employees with the same fringe benefits that many municipalities provide. Our research has revealed that fringe benefits can add 30 to 40 percent to the personnel costs of a golf course operation. Reducing benefits to only those that are required by law can result in a substantial reduction in operating costs.

During the period that the maintenance contract is in effect the City will have the opportunity to study this aspect of the golf course operation and decide if it should self-maintain the course in the future. In the mean time the City will have the services of an experienced firm who will immediately take over the maintenance responsibilities.

NGF Consulting recommends the City issues a request for proposals (RFP) for maintenance services and invites qualified firms to submit proposals to determine:

- Will there be substantial reduction in the cost of maintaining the Jersey Meadow Golf Course compared to the projected costs of self-operation by the City?
- How much would the City save if a private firm provided all equipment compared with the City's cost to upgrade the current equipment inventory?
- What level of expertise would a private firm bring to the maintenance operation compared to the City's?
- Will there be an economy of scale on purchases of materials, supplies and equipment if the City selects a firm that maintains several golf courses?

NGF Consulting has projected increased maintenance costs in its financial proforma based on self-operation by the City and assuming that some of additional expenses will result in a higher quality facility. We recommend that our projections be compared with the costs associated with privatizing the golf course maintenance operation.

