



LEMOORE
CALIFORNIA

ITEM # 4

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M E M O

DATE: March 3, 1995
TO: Lemoore City Council
FROM: Allen L. Goodman, City Manager
SUBJECT: Status - Golf Course Lease Purchase Financing

The purpose of this memo is to provide the City Council information on the status of Lease/purchase Agreement and payments on the City's Golf Course, and open a discussion on options available to the City in regard to funding lease-purchase payments.

Background

In order to finance the expansion and remodeling of the City's golf course, the City entered into a lease/purchase financing arrangement with First Golf, an affiliate of Banc One, a large Midwestern banking corporation. Annual lease purchase payments are made to this bank. The basic elements of this agreement are that the City leased the old golf course and the property for the new nine to First Golf. In return, First Golf agreed to fund the purchase of the property necessary for the additional nine holes (including the residential property adjacent to the back nine), construct the additional nine holes, remodel the front nine, and construct the club house and maintenance facility. Once the improvements were completed, the City leased back the improvements and agreed to make lease/purchase payments calculated to retire the principal and interest on the improvements over a 20 year period.

Rather than operate the course as we had the old nine hole facility, we have contracted with Golf Resources, Inc. to operate and maintain the course. Under our agreement with Golf Resources, the goal is to have the course pay all operating costs and the annual lease-purchase amount as soon as possible.

One of the responsibilities of Golf Resources is to prepare annual expenditure and revenue projections for the course, including recommendations for golf course fees and charges. They have presented Five Year operating scenarios with their proposed budgets in 1993-94 and 1994-95. These five year projections are exhibits 1A & 1B to this report. The 1993-94 projections showed a steady increase in income so that by 1997-98 net income would be \$412,964. The revised five year projection submitted with the 1994-95 budget scaled course revenue and play and the estimated net income to reflect the experience with the

local golf market and green fee structures at competing courses. Based upon the first seven months of play this year, the net income should be somewhat more than the 55,000 round projection with the 1994-95 budget.

The legal obligation of the City to make lease/purchase payments is strictly limited to proceeds from the golf course. First Golf has no recourse to the City General Fund. The City may contribute toward golf course funding, but is not obligated to do so under the lease/purchase agreement. Should the City be unable to make scheduled lease/purchase payments from golf course revenues, First Golf has the option to take possession and operate the course itself for a period of thirty years or until it has been repaid. First Golf does not take title to the land, and must use the property as a golf course.

From the outset, it was recognized that it would require some time before play would develop sufficiently to cover all costs. During that period of time, it was understood that shortfalls would have to be made up by the City and/or from the proceeds of land sales at the Golf Course.

Lease/purchase Payments Status

Annual lease/purchase payments are \$238,000 semi-annually (\$476,000 each year). The pay off amount on the lease-purchase as of June 30, 1995 will be \$4,351,684. The original funding included \$300,000 which has been held in a reserve account. Interest earned on this reserve amount is applied to lease-purchase payments.

A summary of lease-purchase payments and sources of revenue through the end of this fiscal year is as follows:

Lease-Purchase Payments	\$ 1,465,364
Sources of Revenue:	
City Funds (non-golf course)	614,856
Proceeds from sale of land	369,258
Reserve Fund	300,000
Interest on Reserve Fund	76,000
Income from Golf Course Operation	105,000
TOTAL	<u>\$ 1,465,364</u>

As of June 30, 1995, the reserve fund and interest will be exhausted. The income from the golf course is from the last two fiscal years.

In addition to lease purchase payments, the City has provided \$205,000 in operating capital for the course.

Residential Land Sales

Offsetting the City's support to the Golf Course has been residential land sales at the Course. In addition to the \$349,000 already received from land sales, the City fronted money for the full completion of Golf Links Drive and has purchase contracts for the remainder of the property as follows:

Deed of Trust for Parcel 2, Phase One (Ron Roberts)	\$ 173,000
Reimbursement for Golf Links Drive from Parcel 2	297,000
Option-Parcel 2, Phase 2 (Ron Roberts)	454,250
Option-Parcel 3, Phase 2 (Pierce Realty)	353,970
TOTAL	<u>\$ 1,277,250</u>

The prospective amounts from future land sales are more than sufficient to reimburse the City for contributions made by the City to date to the Golf Course. There is one limitation on the use of proceeds from land sales that should be noted. The Lease-Purchase Agreement provides that the first \$510,000 is to be used to buy down the the principal amount, or as an operating reserve fund. This means that the next \$161,000 in proceeds from land sales would be used for the reserve fund or for lease-purchase payments.

The timing of additional land sale proceeds obviously depends upon actions of the land purchasers. The option held by Ron Roberts for the second half of Parcel 2 must be exercised by March 15. Mr. Roberts has indicated his interest in exercising this option. This would result in an additional \$227,000 in the immediate future, with a deed of trust on the remaining amount for the land which is paid as lots are sold. Pierce Realty has until September 13, 1995 to exercise its option on the second phase of Parcel 3. The City will be reimbursed for Golf Links Drive when development occurs on Parcel 2. While tentative maps have been approved, they are valid for a period of two years and may be extended by the Planning Commission.

Up to this point, lease-revenue payments have been made using City funds, proceeds from land sales, income from golf course operations, the Reserve Fund and interest earnings. While golf course operating income should continue to increase, it is apparent that the course will not generate enough operating income to cover lease-purchase payments for several years. While land sale proceeds could help bridge this gap, uncertainty over the timing of closing of purchase options and starting of development on other parcels means that the City would have to add to the amounts already contributed. Further reliance on the City's funds should be avoided, and as land sales are closed, proceeds should go to reimburse the City.

What Options Are Available to the City?

There are several options available to the City which need to be explored and developed further before any decision is made. These options are presented in no particular order of priority at this point.

- o Renegotiate the terms of the lease-purchase with Banc One. While we have not discussed this with them, this may be a preferable option to them rather exercising their right to take possession and operate the course.

- o Determine if it is possible to refinance the course in a way that would significantly reduce current debt service payments. We are discussing this possibility with underwriters and should have an idea about how feasible this might be within the next 30 to 60 days.
- o In accordance with the Lease-purchase Agreement with Banc One, the course could be taken back and operated by them until the lease-purchase amount is repaid.
- o Attempt to sell the Course. It is not known if this is a feasible option. It would seem to staff that the other options should be explored before this avenue is seriously considered.

This discussion of options available to the City is only a beginning, and a thorough review of the lease-purchase agreements is needed to make sure that the ramifications of any possible course of action is fully understood. Dale's office has begun this review, and he will be able to discuss the lease-purchase agreements or answer legal questions at the Council meeting.

golfl/p

EXHIBIT 1-A

FIVE YEAR PROJECTION

Rounds:

Basis for projection of rounds:

New golf courses built in the market area would likely have a fee structure higher than Lemoore.

Increase in population that is anticipated with the future expansion of the Lemoore Naval Air Station.

Improved economic condition in California.

Income:

The five year projection is based on the following rates:

Jan 94	\$8.75/\$12.00	\$10.75/\$14.50
Jan 95	\$9.50/\$13.00	\$11.50/\$15.50
Jan 96	\$10.25/\$14.00	\$12.25/\$16.50
Jan 97	\$11.00/\$15.00	\$13.00/\$17.50
Jan 98	\$11.75/\$16.00	\$13.75/\$18.50

Monthly rates starting July 94 increase 7% annually

Per round income 5% annual increase.

Expenses:

Operating expenses are based on a 5% annual increase.

Five Year Goal:

The original Lemoore Golf Course was a 9 hole community golf course that was supported by local participation and a solid base of local monthly card holders.

When the new nine and clubhouse were completed and opened for play in April of 92 the rate for daily play and monthly card play was increased.

In August of 92 the rates were increased again. The increases kept the daily rate competitive with other golf courses in the market area but the monthly card was now at a level that other golf courses in the area could beat. The result was that the monthly card players took their business to other courses and the loss of income was not made up by any increase in the daily fee play.

In order to bring the monthly card play back to Lemoore, promotions were offered that were competitive with the other courses.

To bring the daily fee player to Lemoore, advertising and promotion was done not only in the primary market area but also in the Fresno market area.

Even though the per round generated by the monthly card holder is less than 1/2 of that generated by the daily fee player, the golf course is still dependant upon the income derived from the monthly card holder while the daily fee play is being promoted.

The goal is to increase the daily fee play and decrease the dependency on the monthly card play.

PROJECTED

FIVE YEAR PROFIT (LOSS) Lemoore Municipal Golf Course

	1993/94	1994/95	1995/96	1996/97	1997/98
Rounds	52,500	57,000	61,000	65,000	65,000
Income	\$1,020,778	\$1,178,239	\$1,336,690	\$1,508,161	\$1,598,623
Cost of Goods Sold	\$177,608	\$194,712	\$218,838	\$245,018	\$258,440
GROSS INCOME	\$843,170	\$983,527	\$1,117,852	\$1,263,143	\$1,340,183
Operating Expenses	\$607,298	\$637,663	\$669,545	\$703,024	\$738,176
Fixed Expenses	\$175,506	\$178,715	\$182,038	\$185,479	\$189,043
TOTAL EXPENSES	\$782,804	\$816,378	\$851,583	\$888,503	\$927,219
INCOME (LOSS)	\$60,366	\$167,149	\$266,269	\$374,640	\$412,964

EXHIBIT 1-B

FIVE YEAR PROJECTION

ROUNDS:

Basis for projected rounds:

Projected changes in the local golf market which include fee structures, availability of golf, population changes and economic conditions.

Increase in population base in local area due to expansion of Lemoore Naval Air Station and the housing development adjacent to the golf course.

Development of new golfers through in house clinics, camps and lesson programs.

Solicitation of daily fee and tournament groups through advertising and personal contact.

There will be three new golf course built in the Fresno area in the next three years along with the opening of Eagle Lakes (formerly Jackson Lakes) sometime this year. The Fresno courses will not be in direct competition but will, over a period of time, take players from other daily fee courses that are in direct competition with Lemoore. These daily fee courses will then be actively soliciting players in order to keep their rounds up to prior levels. Eagle Lakes will take player that would play Lemoore but it will take some time to see if the condition of Eagle lakes is able to be at a level that entices the more avid golfer.

Due to this direct and indirect competition, the annual increase in rounds for Lemoore is projected at around 5% annually.

INCOME:

Income from green fees is projected using an annual 5% increase in fees

Fees collected from monthly tickets are projected to increase by 3% annually.

Per round income is projected to increase at a rate 3% annually.

EXPENSES:

Operating expenses are based on a 5% annual increase

PROJECTED

FIVE YEAR PROFIT (LOSS) Lemoore Municipal Golf Course

	1994/95	1994/95	1995/96	1996/97	1997/98	1998/99
Rounds	55,000	58,000	59,000	62,000	65,000	65,000
Income	\$1,079,866	\$1,145,618	\$1,211,523	\$1,329,699	\$1,455,619	\$1,512,254
Cost of Goods Sold	\$170,322	\$179,612	\$187,883	\$203,547	\$219,804	\$226,462
GROSS INCOME	\$909,544	\$966,006	\$1,023,640	\$1,126,152	\$1,235,815	\$1,285,792
Operating Expenses	\$653,438	\$653,438	\$673,041	\$706,693	\$742,028	\$779,129
Fixed Expenses	\$186,265	\$186,265	\$188,455	\$188,341	\$191,412	\$194,574
TOTAL EXPENSES	\$839,703	\$839,703	\$861,496	\$895,034	\$933,440	\$973,703
INCOME (LOSS)	\$69,841	\$126,303	\$162,144	\$231,118	\$302,375	\$312,089