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MONTGOMERY VILLAGE GOLF COURSE

Operations Analysis

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Analysis Summary

This presentation was made specifically in response to a comment made at the May 30th MVGC Community Meeting by a community resident that works at the Falls Road Golf Course in Potomac, MD. The resident recognized that golf rounds are down nationally, but he asserted that Montgomery County owned courses were experiencing increased popularity. More specifically, the resident pointed out that the Falls Road Golf Course was doing very well financially in contradiction to Monument Realty's assertion that MVGC was not financially viable. Additionally, the resident suggested that if MVGC was better managed and if some improvements were made to the course, then MVGC could be profitable as well. In response, Monument representatives indicated that they would investigate and report back their findings to the community.

In order to respond directly to these comments, Monument analyzed the financial reports provided by the Montgomery County Revenue Authority ("MCRA") for the Montgomery County owned golf courses for the fiscal years 2007-2012 during which time the courses were under the management of the MCRA. This analysis demonstrates that, when compared apples-to-apples, the County owned courses were not profitable and in fact were losing substantial amounts of money in the aggregate. Only the Falls Road Golf Course consistently earned a market profit over the relevant period. The analysis included a brief comparison of Census Bureau demographics between Montgomery Village and Potomac in an attempt to explain why the Falls Road Golf Course may be successful in contrast to MVGC and the other Montgomery County operated course. Prior to presenting any of this information to the community, Monument met at MVGC with the resident that posed the initial questions and provided a point-by-point review. These findings were first reported to the community at the July 11, 2013 Joint Property Committee meeting.

Note that these findings were presented in conjunction with a number of other very compelling facts that help explain why MVGC is no longer a viable golf course, including:

- The previous owner, who operated the golf course for over 30 years, filed for bankruptcy in August 2013.
- In March 2013, Monument purchased the property in a bankruptcy court sanctioned auction process, in which it was the only bidder.
- Membership has declined from a peak of 350 members in the 1990s to approximately 150 today. Rounds played are down dramatically.
- Of approximately 40,000 Montgomery Village residents, there are only a little more than 20 club members.
- As many residents have argued, the previous owner may have mismanaged the golf course for more than ten years, building up massive deferred maintenance costs.

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Public Revenue Reporting

- The Montgomery County Revenue Authority manages all 9 County owned courses
- 8 of the courses are at least 18 hole courses and 1, Sligo Creek, is a 9 hole course
- The Montgomery County Golf Courses reported total **Net Income of \$17,811,475** through the MCRA for fiscal years 2007-2012
- The six year average for annual reported Net Income for all 9 courses was **\$2,698,579 or \$348,025 per course**
- One golf course, Falls Road, accounted for \$5,794,090 (33%) of the reported Net Income for fiscal years 2007-2012

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*Source: Montgomery County Revenue Authority Annual Reports

Public vs. Private Expense Differences

- All private golf courses in Montgomery County pay an Amusement Tax equal to 10% of GROSS GOLF RELATED INCOME such as greens fees, cart fees and driving range fees - public courses DO NOT PAY THIS TAX
- All private golf courses in Montgomery County pay a Property Tax equal to 1.1% of assessed value and Personal Property Taxes - public courses DO NOT PAY THESE TAXES

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Public vs. Private Expense Differences

Private vs. Public Courses An Apples-to-Apples Comparison

Montgomery County Public Courses
Operating Budget (Actual)

Fiscal Year	2007	2008	2009	2010	2011	2012	Six Year Total	Six Year Average
Reported Net Income (Loss)*	\$2,697,556	\$3,022,626	\$2,450,752	\$3,130,338	\$3,223,824	\$3,286,379	\$17,811,475	\$2,968,579
10% Amusement Tax & Property Tax	(\$2,086,181)	(\$2,223,752)	(\$2,219,022)	(\$2,130,168)	(\$2,121,542)	(\$2,200,300)	(\$12,890,964)	(\$2,148,494)
Adjusted Net Income (Loss)	\$611,375	\$798,874	\$321,730	\$1,000,170	\$1,102,282	\$1,086,079	\$4,920,511	\$820,085

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*Source: Montgomery County Revenue Authority Annual Reports

Public vs. Private Expense Differences

- A complete understanding of the financial performance requires an analysis of Capital Expenses (improvements) and debt service
- Average annual Capital Expenses for all 9 courses was \$1,057,716 or \$117,524 per course
- Public courses are publicly funded through low interest bonds and this debt service is not reported in the financials of the public courses
- Private business loans with strong financial backing can obtain debt service at about 3.5% above prime rate currently at 3%
- Annual debt service could total approximately \$1,377,000 for all 9 courses or \$153,000 per course

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*Source: Montgomery County Revenue Authority Annual Reports

Private vs. Public Courses

An Apples-to-Apples Comparison

Montgomery County Public Courses

Operating Budget (Actual)

Fiscal Year	2007	2008	2009	2010	2011	2012	Six Year Total	Six Year Average
Total Annual Reported Net Income* (Loss)	\$2,697,556	\$3,022,626	\$2,450,752	\$3,130,338	\$3,223,824	\$3,286,379	\$17,811,475	\$2,968,579
10% Amusement Tax & Property Tax (Annual Total)	(\$2,086,181)	(\$2,223,752)	(\$2,219,022)	(\$2,130,168)	(\$2,121,542)	(\$2,200,300)	(\$12,890,964)	(\$2,148,494)
Total Annual Adjusted Net Income (Loss)	\$611,375	\$798,874	\$321,730	\$1,000,170	\$1,102,282	\$1,086,079	\$4,920,511	\$820,085
Total Annual Capital Improvements* & Debt Service	(\$2,373,561)	(\$2,949,858)	(\$2,949,867)	(\$2,587,689)	(\$2,729,322)	(\$3,312,999)	(\$16,903,296)	(\$2,817,286)
Total Annual Cash Flow	(\$1,762,186)	(\$1,691,984)	(\$2,169,137)	(\$1,128,519)	(\$1,168,040)	(\$1,767,920)	(\$9,687,785)	(\$1,664,631)
Annual Cash Flow Average Per Course	(\$172,841)	(\$170,599)	(\$204,748)	(\$134,071)	(\$112,237)	(\$173,188)		(\$161,221)

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*Source: Montgomery County Revenue Authority Annual Reports

Falls Road Golf Course Community vs. MVGC Community

Zip Code 20854 Facts*

- 2010 Census population was 49,611
- There are 15,396 owner occupied properties in zip code 20854
- 55% of these properties are valued (2010) between \$500k-\$999k
- 37% of these properties are valued over \$1MM
- 46% of the households have an income over \$200k annually
- Median household income is \$190,000

Zip Code 20886 Facts*

- 2010 Census population was 33,282
- There are 8,983 owner occupied properties in zip code 20886
- 30% of these properties are valued (2010) between \$200k-\$299k
- 39% of these properties are valued \$300k-\$499k
- 47% of the households have an income under \$75k annually
- Median household income is \$78,776

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*Source: 2010 U.S. Census

Private vs. Public Courses

An Apples-to-Apples Comparison

Montgomery County Public Courses

Operating Budget (Actual) *Excluding Falls Road*

Fiscal Year	2007	2008	2009	2010	2011	2012	Six Year Total	Six Year Average
Total Annual Reported Net Income* (Loss)	\$2,697,556	\$3,022,626	\$2,450,752	\$3,130,338	\$3,223,824	\$3,286,379	\$17,811,475	\$2,968,579
10% Amusement Tax & Property Tax (Annual Total)	(\$2,086,181)	(\$2,223,752)	(\$2,219,022)	(\$2,130,168)	(\$2,121,542)	(\$2,200,300)	(\$12,890,964)	(\$2,148,494)
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Total Annual Capital Improvements* & Debt Service	(\$2,373,561)	(\$2,949,858)	(\$2,949,867)	(\$2,587,689)	(\$2,729,322)	(\$3,312,999)	(\$16,903,296)	(\$2,817,286)
Total Annual Cash Flow	(\$1,762,186)	(\$1,691,984)	(\$2,169,137)	(\$1,128,519)	(\$1,168,040)	(\$1,767,920)	(\$9,687,785)	(\$1,664,631)
Annual Cash Flow Average Per Course	(\$172,841)	(\$170,599)	(\$204,748)	(\$134,071)	(\$112,237)	(\$173,188)		(\$161,221)
Total Annual Cash Flow Excluding Falls Road	(\$2,109,480)	(\$1,980,912)	(\$2,380,029)	(\$1,475,019)	(\$1,597,252)	(\$2,215,385)	(\$11,758,076)	(\$1,959,679)
Annual Cash Flow Average Per Course Excluding Falls Road	(\$237,453)	(\$228,039)	(\$256,703)	(\$194,143)	(\$179,918)	(\$250,770)		(\$224,504)

*Source: Montgomery County Revenue Authority Annual Reports



Public vs. Private Expense Summary

- **During the 6 year period in this analysis, 6 of the 9 public courses lost significant amounts of money every year**
- **2 of the public courses earned a modest profit in all 6 years**
- **Only Falls Road consistently earned a market profit in all 6 years**



MVGC Future Sustainability

Renovation Work Necessary to Improve MVGC

The following work will need to be done to MVGC to make it competitive with other high end daily fee golf courses in Montgomery County.

Buildings

- Demolish and **rebuild a new 6,000 sf clubhouse** with grill, function room and pro-shop
- Demolish and **rebuild a new 5,000 sf cart barn and maintenance facility**
- Re-pave parking lot and area surrounding buildings

Equipment and Furnishings

- Lease new turf equipment, buy maintenance tools and machinery, buy new fuel storage
- Lease new golf and beverage carts
- Buy new furniture, artwork and equipment for grill and function space
- Buy furniture, POS, golf merchandise display equipment for golf shop



MVGC Future Sustainability

Golf Course

- **Re-grade** areas of fairways and rough to correct drainage problems and provide better course aesthetics
- Provide **new drainage** on fairways and rough to correct drainage problems
- Re-grade fairway bunkers and provide new bunker drainage
- **Add fairway bunkers** where necessary to improve playability of golf course
- Re-grade and reshape all greens to improve drainage and playability
- Re-grade and reshape greenside bunkers to improve drainage and playability
- Add new drainage to new greens and greenside bunkers
- **Add 12" of new greens** mix to all new greens
- Re-grade and reshape all tee boxes to improve drainage and playability
- Add new drainage to new tees
- Add 8" of new greens mix to all new tees
- **Add new topsoil** for around new greens, tees and bunkers
- **Add new topsoil** for all fairway and rough areas where topsoil depth is inadequate
- Add new topsoil around trees with roots showing



MVGC Future Sustainability

Golf Course (Continued)

- Add complete ***new fully automated Rainbird irrigation system*** throughout golf course
- ***Enlarge pond or add a second pond*** to increase volume of water for new irrigation system
- ***Drill new wells and add new larger pumps*** at irrigation ponds
- ***Add concrete cart paths and new bridges*** throughout golf course
- Add lighting and landscaping to tunnels
- Seed rough with TT Fescue
- Seed fairways, greens and tees with Bentgrass
- Add new sand to bunkers
- Remove dying trees as necessary and add trees as necessary
- Remove range structure and rebuild range tee area
- Add new landscaping at entry and around course



MVGC Capital Improvements Required

	MONTHS 0-7	MONTHS 8-15
Course		
Irrigation, Ponds	\$1,200,000	
Greens, Fairways, Bunkers	\$1,000,000	
Tunnels/Bridges	\$150,000	
Range	\$100,000	
Cart Paths	\$400,000	
Landscaping	\$100,000	
Permits	\$150,000	
Legal	\$100,000	
Course Architect	\$300,000	
Surveyor/Environmental	\$200,000	
Equipment		
Maintenance Large		\$160,000
Carts		\$48,000
Club		
Club House/Pro Shop	\$1,800,000	
Maintenance Shed Structure		\$600,000
Maintenance Shed Equipment		\$200,000
Architect	\$300,000	
Cost of Improvements	\$5,800,000	\$1,008,000
Personal		
Management Company	\$75,000	\$75,000
Payroll	\$175,000	\$320,000
Debt Service	\$382,000	\$465,000
Total Cost of Improvements Plus Carry Costs		\$8,300,000

Notes:

Construction is assumed to have begun in March and completed in June of the following year.

Equipment Lease is on a 5 years schedule at 2% of purchase price for per month payment.





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