

# RedGate Municipal Golf Course Financial Projections

As part of this study effort, NGF Consulting has prepared an analysis to show what the potential economic performance of RedGate Municipal Golf Course could be considering the recommendations made in this report, particularly the consideration of retaining a professional golf management company to operate the facility for the City of Rockville. In this section, the facility's economic potential is evaluated with estimates of performance based on a set of assumptions that may or may not become reality. We feel that the cash flow models presented below represent the best effort to create a "fair estimate of performance" for this facility based on our complete review of the operation.

The projections have been divided into four potential scenarios of operation: (1) "As Is" scenario assumes the facility continues on its present course with the same basic operating structure; (2) "As-Is" with Enhancements scenario that assumes the City can improve its rounds and revenue performance at RedGate, take direct control of concessions and otherwise maintain the same operation and expense performance; (3) Management Company Operation with "As-Is" revenue performance scenario assumes the City hires a professional management company and the present level of revenue is maintained; and (4) Management Company Operation with Enhanced Revenue performance scenario assumes the City hires a professional management company that produces an enhanced level of revenue at RedGate.

## REDGATE MUNICIPAL GC – "AS-IS" PROJECTIONS

NGF Consulting has created a cash flow model for the continued operation of RedGate Municipal Golf Course assuming a continuation of revenue performance similar to recent experience, coupled with City-projected expenses for the next five years. The tables show the projected cash flows for the full operation through FY2015, or the next five years that NGF Consulting can project with confidence. Each category of revenue has been listed separately, and an estimate of the projected average revenue per round has been provided. Base assumptions in preparing financial performance estimates include:

- The RedGate Municipal Golf Course facility will retain its present operating structure including the pro shop, snack bar and driving range concession through FY2015.
- RedGate GC can produce total rounds played closer to its five-year average of 37,500 rounds per year. The same general mix of play is assumed, although a higher proportion of "discount" rounds are assumed to reflect greater reliance on discount cards, season passes and *GolfNow* sales.
- The average green/cart fee revenue per round is maintained through the remainder of FY2011, with a 3% annual increase expected through 2015.
- The facility can maintain 3.0% growth in average revenues per round across all other categories through 2015.
- The NGF recommended highest priority capital items (totals \$204,000) are completed over two years in FY2011 and FY2012, with the tournament pavilion completed first.

- All expenses remain 'as-is' with historical annual increases – 4% growth in personnel expense, 1% in contract services, 3% in commodities and capital outlay fixed at \$96,000 per year.

### Inputs

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a preliminary sketch pro forma for the next five years of operation. The inputs for the pro forma are summarized in the following table:

<b>RedGate Municipal Golf Course – 'As-Is' Scenario Basic Activity and Average fee / Revenue Inputs</b>					
	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
<b>Total Rounds</b>	35,000	37,500	37,500	37,500	37,500
<b>Average Fees</b>					
Golf Course Fees	\$23.50	\$24.21	\$24.93	\$25.68	\$26.45
Cart Rentals	\$6.35	\$6.54	\$6.73	\$6.93	\$7.14
Driving Range*	\$0.06	\$0.06	\$0.06	\$0.07	\$0.07
Concessions / Other*	\$0.38	\$0.39	\$0.40	\$0.41	\$0.42
Pro Shop Rental*	\$0.08	\$0.09	\$0.09	\$0.09	\$0.10
*Net to City					

### Pro Forma Estimate 2011 – 2015

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a pro forma for the next five years of operation beginning in FY2011 (already underway). The tables show that if operations continue as is, RedGate will not be able to earn revenue sufficient to cover basic expenses, and the operating deficit on the property will fall between \$285,000 and \$350,000 per year. When the additional overhead expenses (overhead, interest, depreciation) are added, the cumulative loss on the RedGate operation will exceed \$3.0 million by 2015. The 5-year cash flow pro forma is presented on the following page, including the full "below the line" expenses based on City projections for administrative overhead that is expected to increase to more than \$335,000 by FY2012.

<b>RedGate Municipal Golf Course – ‘As-Is’ Scenario Projected Revenue and Expense Analysis</b>					
<b>Revenues/Sources</b>	<b>Projected FY11</b>	<b>Projected 2012</b>	<b>Projected 2013</b>	<b>Projected 2014</b>	<b>Projected 2015</b>
Golf Course Fees	\$822,500	\$907,688	\$934,918	\$962,966	\$991,855
Cart Rentals	222,087	245,089	252,441	260,014	267,815
Driving Range Fee	2,134	2,355	2,426	2,499	2,574
Concessions (incl. lessons)	13,192	14,558	14,995	15,445	15,908
Pro Shop Rental	2,790	2,790	2,790	2,790	2,790
<b>Total Revenues / Sources</b>	<b>\$1,062,703</b>	<b>\$1,172,479</b>	<b>\$1,207,570</b>	<b>\$1,243,713</b>	<b>\$1,280,941</b>
<b>Expenses</b>					
Personnel	\$873,200	\$908,128	\$944,453	\$982,231	\$1,021,520
Contract Services	157,700	159,277	160,870	162,478	164,103
Commodities	288,400	297,052	305,964	315,142	324,597
Capital Outlay	96,000	96,000	96,000	96,000	96,000
<b>Total Operating Expenses</b>	<b>\$1,415,300</b>	<b>\$1,460,457</b>	<b>\$1,507,286</b>	<b>\$1,555,852</b>	<b>\$1,606,220</b>
<b>Net GC Operating Income</b>	<b>(\$352,597)</b>	<b>(\$287,978)</b>	<b>(\$299,716)</b>	<b>(\$312,139)</b>	<b>(\$325,279)</b>
Administrative Charge	\$165,750	\$334,800	\$338,148	\$341,529	\$344,945
Debt Service	\$10,900	\$10,162	\$9,418	\$8,674	\$7,930
Recc. Capital Projects	\$90,000	\$114,000	\$100,000	\$100,000	\$100,000
<b>Net Facility Income</b>	<b>(\$619,247)</b>	<b>(\$746,940)</b>	<b>(\$747,282)</b>	<b>(\$762,342)</b>	<b>(\$778,154)</b>
<b>Working Capital, Ending*</b>	<b>\$0</b>	<b>(\$746,940)</b>	<b>(\$1,494,222)</b>	<b>(\$2,256,564)</b>	<b>(\$3,034,718)</b>

\*Assumes \$0 balance at the end of FY2011 due to City Council action in September 2010.

## REDGATE MUNICIPAL GC – ENHANCED FACILITY PROJECTIONS

NGF Consulting has created a second cash flow model assuming several changes in the RedGate operation, but retaining the basic City-run operational structure. This scenario is presented by NGF to represent a “best case” scenario of revenues and expenses within a City-run operational structure. The key assumptions that drive this projection include enhancements to the RedGate property (turf improvements, on-course facilities, etc.), the addition of a tournament pavilion (open by the beginning of FY2012) and the assumption of direct City control of all concessions (range, snack bar and pro shop) at RedGate GC. Other assumptions in preparing financial performance estimates include:

- RedGate GC can produce total rounds played in excess of 40,000 by FY 2012, growing to 43,000 by FY2015. The same general mix of play is assumed, although a higher proportion of “discount” rounds are assumed, to reflect greater reliance on discount cards, season passes and *GolfNow* sales. NGF Consulting estimates that tournament rounds would rise from the current  $\pm 1,100$  annually to about 3,000.

- The average green/cart fee revenue per round is reduced by 10% in FY2011, and then increased by 3% each year through 2015. This reflects an NGF recommendation to lower the average rate to stimulate greater rounds activity.
- RedGate would then perform with industry averages for revenues and expenses on concession items. NGF projects \$5.00 per round on the snack bar, \$2.50 per round in the pro shop, \$0.65 per round in lessons and \$1.00 per round on the driving range. Growth in these items is projected at 3% per year through 2015. Increases in per-round food & beverage sales are partly due to the assumed addition of the pavilion. Direct cost of sales is assumed at 60% for the snack bar, 75% for pro shop.
- RedGate expenses are assumed to be generally similar to the "As-Is" scenario with increases in personnel (\$67,000 increase) and commodities (\$20,000 increase) to reflect additional expenses associated with City take-over of concessions, including additional salary for the Head professional and other new staff.
- The NGF recommended highest priority capital items (totals \$204,000) are completed over two years in FY2011 and FY2012, with the tournament pavilion completed first.
- All other expenses remain 'as-is' with historical annual increases – 4% growth in personnel expense, 1% in contract services, 3% in commodities and capital outlay fixed at \$96,000 per year.

### Inputs

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a preliminary sketch pro forma for the next five years of operation. The inputs for the pro forma are summarized in the following table:

<b>RedGate Municipal Golf Course – "Enhanced" Scenario</b>					
<b>Basic Activity and Average fee / Revenue Inputs</b>					
	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
Total Rounds	36,500	40,000	41,000	42,000	43,000
<b>Average Fees</b>					
Golf Course Fees	\$22.50	\$23.18	\$23.87	\$24.59	\$25.32
Cart Rentals	\$6.35	\$6.54	\$6.73	\$6.93	\$7.14
Driving Range Fee	\$1.00	\$1.03	\$1.06	\$1.09	\$1.13
Lessons	\$0.65	\$0.67	\$0.69	\$0.71	\$0.73
Concessions / Other	\$5.00	\$5.15	\$5.30	\$5.46	\$5.63
Pro Shop Rental	\$2.50	\$2.58	\$2.65	\$2.73	\$2.81

### Pro Forma Estimate 2011 – 2015

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a pro forma for the next five years of operation beginning in FY2011 (already underway). The tables show that even with an enhanced scenario in place, the RedGate GC will still not be able to earn enough revenue to cover basic expenses, although the loss on operations would be reduced considerably from the "As-Is" scenario. When the additional overhead expenses (overhead, interest, depreciation) are added, the cumulative loss on the RedGate operation will still reach in excess of \$2.49 million by 2015. The 5-year cash flow pro forma is presented on the following page, including the full "below the line" expenses based on City projections for administrative overhead that is expected to increase to over \$335,000 by FY2012.

<b>RedGate Municipal Golf Course – ‘Enhanced Facility’ Scenario Projected Revenue and Expense Analysis</b>					
	<b>New Tourn. Pavilion</b>	<b>on-course restrooms+ cart paths</b>			
<b>Revenues/Sources</b>	<b>Projected FY11</b>	<b>Projected 2012</b>	<b>Projected 2013</b>	<b>Projected 2014</b>	<b>Projected 2015</b>
Golf Course Fees	\$821,250	\$927,000	\$978,680	\$1,032,627	\$1,088,930
Cart Rentals	231,605	261,428	276,002	291,216	307,094
Driving Range Fee	36,500	41,200	43,497	45,895	48,397
Lessons	23,725	26,780	28,273	29,831	31,458
Concessions / Other	182,500	206,000	217,485	229,473	241,984
Pro Shop Rental	91,250	103,000	108,742	114,736	120,992
<b>Total Revenues / Sources</b>	<b>\$1,386,830</b>	<b>\$1,565,408</b>	<b>\$1,652,679</b>	<b>\$1,743,778</b>	<b>\$1,838,856</b>
<b>Cost of Sales</b>					
Food & Beverage (60%)	\$109,500	\$123,600	\$130,491	\$137,684	\$145,191
Lessons (80%)	\$18,980	\$21,424	\$22,618	\$23,865	\$25,166
Pro Shop (75%)	\$68,438	\$77,250	\$81,557	\$86,052	\$90,744
<b>Total COS</b>	<b>\$196,918</b>	<b>\$222,274</b>	<b>\$234,666</b>	<b>\$247,601</b>	<b>\$261,101</b>
<b>Gross Margin</b>	<b>\$1,189,912</b>	<b>\$1,343,134</b>	<b>\$1,418,013</b>	<b>\$1,496,177</b>	<b>\$1,577,754</b>
<b>Expenses</b>					
Personnel	\$940,000	\$977,600	\$1,016,704	\$1,057,372	\$1,099,667
Contract Services	157,700	159,277	160,870	162,478	164,103
Commodities	308,400	317,652	327,182	336,997	347,107
Capital Outlay	90,000	114,000	96,000	96,000	96,000
<b>Total Operating Expenses</b>	<b>\$1,496,100</b>	<b>\$1,568,529</b>	<b>\$1,600,755</b>	<b>\$1,652,848</b>	<b>\$1,706,877</b>
<b>Net GC Operating Income</b>	<b>(\$306,188)</b>	<b>(\$225,395)</b>	<b>(\$182,742)</b>	<b>(\$156,670)</b>	<b>(\$129,123)</b>
Administrative Charge	\$165,750	\$334,800	\$338,148	\$341,529	\$344,945
Debt Service	\$10,900	\$10,162	\$9,418	\$8,674	\$7,930
Recc. Capital Projects	\$90,000	\$114,000	\$100,000	\$100,000	\$100,000
<b>Net Facility Income</b>	<b>(\$572,838)</b>	<b>(\$684,357)</b>	<b>(\$630,308)</b>	<b>(\$606,874)</b>	<b>(\$581,998)</b>
<b>Working Capital, Ending*</b>	<b>\$0</b>	<b>(\$684,357)</b>	<b>(\$1,314,665)</b>	<b>(\$1,921,539)</b>	<b>(\$2,503,537)</b>

\*Assumes \$0 balance at the end of FY2011 due to City Council action in September 2010.

### **REDGATE MUNICIPAL GC – MANAGEMENT COMPANY WITH “AS-IS” REVENUE PROJECTIONS**

The third scenario presented by NGF Consulting involves a significant change in the operation of RedGate GC, and includes the retention of a professional management company to operate

and maintain the RedGate GC in exchange for a fee paid by the City of Rockville. It is assumed that this structure would be created after an RFP process with the best qualified candidate being retained by the City beginning in FY2012. Under a traditional model of management company (outsource) structure, all of the direct expenses on the operation would be borne by the City of Rockville, although the structure of the operation would fall under a more "private sector" model with expenses, particularly personnel expenses, falling within the private structure. In this scenario, NGF has shown what this management company structure would look like assuming "As-Is" revenue performance. Other assumptions in preparing financial performance estimates include:

- RedGate GC can produce total rounds played closer to its five-year average of 37,500 rounds per year. The same general mix of play is assumed.
- The average green/cart fee revenue per round is maintained through the remainder of FY2011, with a 3% annual increase expected through 2015.
- The facility can maintain 3.0% growth in average revenues per round across all other categories through 2015.
- All expenses fall under a management company model and are based on NGF data collected from various management companies with operations at similar northeastern U.S. municipal golf operations in the last few years. An expense inflation factor of 3% per year is assumed based on historical performance. A management fee of \$120,000 per year is assumed, based on actual experience at similar facilities nationwide. City overhead is reduced to \$60,000 per year, as it is assumed that most overhead expenses to operate the facility will be included as part of the management company's budget.

### Inputs

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a preliminary sketch pro forma for the next five years of operation. The inputs for the pro forma are summarized in the following table:

<b>RedGate Municipal Golf Course – "Base" Management Company Scenario</b>					
<b>Basic Activity and Average fee / Revenue Inputs</b>					
	<b>As-Is</b>	<b>New Management Co. in Place</b>			
	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
Total Rounds	35,000	37,500	37,500	37,500	37,500
<b>Average Fees</b>					
Golf Course Fees	\$23.50	\$24.21	\$24.93	\$25.68	\$26.45
Cart Rentals	\$6.35	\$6.54	\$6.73	\$6.93	\$7.14
Driving Range Fee	\$0.06	\$0.41	\$0.42	\$0.44	\$0.45
Concessions / Other	\$0.38	\$3.61	\$3.71	\$3.82	\$3.94
Pro Shop Rental	\$0.08	\$2.58	\$2.65	\$2.73	\$2.81

### Pro Forma Estimate 2011 – 2015

Utilizing the above assumptions, we can see that the use of a management company structure at RedGate would immediately result in lower expenses and thus an improvement in economic performance. NGF is projecting that with the incorporation of a management company structure beginning in FY2012, the City will immediately see positive income on operations. Given this

performance, coupled with the reductions in city overhead expenses, the RedGate Golf Fund would improve performance considerably, although the fund would still have a negative balance of more than \$960,000 by the end of 2015.

<b>RedGate Municipal Golf Course – 'Base' Management Company Projected Revenue and Expense Analysis</b>					
	<b>As-Is</b>		<b>New Management Co. in Place</b>		
	<b>Projected FY11</b>	<b>Projected 2012</b>	<b>Projected 2013</b>	<b>Projected 2014</b>	<b>Projected 2015</b>
<b>Revenues/Sources</b>					
Golf Course Fees	\$822,500	\$907,688	\$934,918	\$962,966	\$991,855
Cart Rentals	\$222,087	245,089	252,441	260,014	267,815
Driving Range Fee	\$2,134	15,450	15,914	16,391	16,883
Concessions (incl. lessons)	\$13,192	135,188	139,243	143,420	147,723
Pro Shop Rental	\$2,790	96,563	99,459	102,443	105,516
<b>Total Revenues / Sources</b>	<b>\$1,062,703</b>	<b>\$1,399,976</b>	<b>\$1,441,975</b>	<b>\$1,485,235</b>	<b>\$1,529,792</b>
<b>Cost of Sales</b>					
Food & Beverage (60%)	\$0	\$81,113	\$83,546	\$86,052	\$88,634
Pro Shop (75%)	\$0	\$72,422	\$74,595	\$76,832	\$79,137
<b>Total COS</b>	<b>\$0</b>	<b>\$153,534</b>	<b>\$158,140</b>	<b>\$162,885</b>	<b>\$167,771</b>
<b>Gross Margin</b>	<b>\$1,062,703</b>	<b>\$1,246,442</b>	<b>\$1,283,835</b>	<b>\$1,322,350</b>	<b>\$1,362,020</b>
<b>Expenses</b>					
Personnel	\$873,200	\$645,000	\$664,350	\$684,281	\$704,809
Contract Services	\$157,700	70,000	72,100	74,263	76,491
Commodities	\$288,400	298,000	306,940	316,148	325,633
Capital Outlay	\$96,000	96,000	96,000	96,000	96,000
Administrative Expense	0	200,000	206,000	212,180	218,545
Insurance, etc.	0	26,000	26,780	27,583	28,411
Other	0	15,000	15,450	15,914	16,391
<b>Total Operating Expenses</b>	<b>\$1,415,300</b>	<b>\$1,350,000</b>	<b>\$1,387,620</b>	<b>\$1,426,369</b>	<b>\$1,466,280</b>
<b>Net GC Operating Income</b>	<b>(\$352,597)</b>	<b>\$49,976</b>	<b>\$54,355</b>	<b>\$58,866</b>	<b>\$63,512</b>
Management Fee		\$120,000	\$120,000	\$120,000	\$120,000
Administrative Charge	\$165,750	\$60,000	\$60,000	\$60,000	\$60,000
Debt Service	\$10,900	\$10,162	\$9,418	\$8,674	\$7,930
Recc. Capital Projects	\$90,000	\$114,000	\$100,000	\$100,000	\$100,000
<b>Net Facility Income</b>	<b>(\$619,247)</b>	<b>(\$254,186)</b>	<b>(\$235,063)</b>	<b>(\$229,808)</b>	<b>(\$224,418)</b>
<b>Working Capital, Ending*</b>	<b>\$0</b>	<b>(\$254,186)</b>	<b>(\$489,249)</b>	<b>(\$719,057)</b>	<b>(\$943,475)</b>

\*Assumes \$0 balance at the end of FY2011 due to City Council action in September 2010.

## **REDGATE MUNICIPAL GC – MANAGEMENT COMPANY WITH “ENHANCED” REVENUE PROJECTIONS**

The fourth scenario presented by NGF Consulting combines the best results for both revenues and expenses, with a management company operation combined with enhancements in revenue generation. First, NGF assumes that the City will complete an RFP process to hire a qualified full-service management company beginning in FY2012. Second, NGF assumes that the “best case” of revenues presented earlier will come to fruition under a management company scenario. The key assumptions that drive this projection include enhancements to the RedGate property (turf improvements, on-course facilities, etc.), the addition of a tournament pavilion (open by the beginning of FY2012) and the assumption of increases in rounds and average revenues per round. In this scenario, NGF has shown what a management company structure would look like assuming enhanced revenue performance. Other assumptions in preparing financial performance estimates include:

- RedGate GC can produce total rounds played in excess of 40,000 by FY 2012, growing to 43,000 by FY2015. The same general mix of play is assumed, although a higher level of tournaments and outings will be hosted due to the presence of the pavilion. NGF Consulting estimates that tournament rounds would rise from the current level of about 1,100 annually to about 3,000.
- The average green/cart fee revenue per round is maintained through the remainder of FY2011, with a 3% annual increase expected through 2015.
- RedGate would then perform with industry averages for revenues and expenses on concession items. NGF projects \$5.00 per round on the snack bar, \$2.50 per round in the pro shop and \$1.00 per round on the driving range. Growth in these items is projected at 3% per year through 2015. Increases in per-round food & beverage sales are partly due to the assumed addition of the pavilion. Direct cost of sales is assumed at 60% for the snack bar and 75% for pro shop.
- An expense inflation factor of 3% per year is assumed based on historical performance. A management fee of \$120,000 per year is assumed, based on actual experience at similar facilities nationwide. City overhead is reduced to \$60,000 per year, as it is assumed that most overhead expenses to operate the facility will be included as part of the management company's budget.

### **Inputs**

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a preliminary sketch pro forma for the next five years of operation. The inputs for the pro forma are summarized in the following table:

<b>RedGate Municipal Golf Course – “Enhanced” Management Company Scenario Basic Activity and Average fee / Revenue Inputs</b>					
	<b>As-Is</b>	<b>New Management Co. in Place</b>			
	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
Total Rounds	35,000	40,000	41,000	42,000	43,000
<b>Average Fees</b>					
Golf Course Fees	\$23.50	\$24.21	\$24.93	\$25.68	\$26.45
Cart Rentals	\$6.35	\$6.54	\$6.73	\$6.93	\$7.14
Driving Range Fee	\$0.06	\$1.03	\$1.06	\$1.09	\$1.13
Concessions / Other	\$0.38	\$5.15	\$5.30	\$5.46	\$5.63
Pro Shop Rental	\$0.08	\$2.58	\$2.65	\$2.73	\$2.81

### Pro Forma Estimate 2011 – 2015

Utilizing the above assumptions, we can see that the use of a management company structure at RedGate, coupled with enhanced revenue performance, would substantially improve the bottom-line for the City of Rockville. Considering the assumptions made for this projection are realized, the RedGate GC would be able to earn revenue to cover both direct expenses on the operations, AND cover overhead expenses such as management fee, interest and depreciation. The result is a near elimination of the RedGate GC Fund deficit and a positive fund balance by the end of FY2015.

<b>RedGate Municipal Golf Course – 'Enhanced' Management Company Projected Revenue and Expense Analysis</b>					
	<b>As-Is + Tourn. Pavilion</b>	<b>New Management Co. in Place</b>			
<b>Revenues/Sources</b>	<b>Projected FY11</b>	<b>Projected 2012</b>	<b>Projected 2013</b>	<b>Projected 2014</b>	<b>Projected 2015</b>
Golf Course Fees	\$822,500	\$968,200	\$1,022,177	\$1,078,522	\$1,137,327
Cart Rentals	\$222,087	261,428	276,002	291,216	307,094
Driving Range	\$2,134	41,200	43,497	45,895	48,397
Lessons	\$0	\$26,780	\$28,273	\$29,831	\$31,458
Concessions / Other	\$13,192	206,000	217,485	229,473	241,984
Pro Shop	\$2,790	103,000	108,742	114,736	120,992
<b>Total Revenues / Sources</b>	<b>\$1,062,703</b>	<b>\$1,606,608</b>	<b>\$1,696,176</b>	<b>\$1,789,673</b>	<b>\$1,887,252</b>
<b>Cost of Sales</b>					
Food & Beverage (60%)	\$0	\$123,600	\$130,491	\$137,684	\$145,191
Lessons (80%)	\$0	\$21,424	\$22,618	\$23,865	\$25,166
Pro Shop (75%)	\$0	\$77,250	\$81,557	\$86,052	\$90,744
<b>Total COS</b>	<b>\$0</b>	<b>\$222,274</b>	<b>\$234,666</b>	<b>\$247,601</b>	<b>\$261,101</b>
<b>Gross Margin</b>	<b>\$1,062,703</b>	<b>\$1,384,334</b>	<b>\$1,461,510</b>	<b>\$1,542,072</b>	<b>\$1,626,151</b>
<b>Expenses</b>					
Personnel	\$873,200	\$645,000	\$664,350	\$684,281	\$704,809
Contract Services	\$157,700	70,000	72,100	74,263	76,491
Commodities	\$288,400	298,000	306,940	316,148	325,633
Capital Outlay	\$90,000	114,000	96,000	96,000	96,000
Administrative Expense	\$0	200,000	206,000	212,180	218,545
Insurance, etc.	\$0	26,000	26,780	27,583	28,411
Other	\$0	15,000	15,450	15,914	16,391
<b>Total Operating Expenses</b>	<b>\$1,409,300</b>	<b>\$1,368,000</b>	<b>\$1,387,620</b>	<b>\$1,426,369</b>	<b>\$1,466,280</b>
<b>Net GC Operating Income</b>	<b>(\$346,597)</b>	<b>\$238,608</b>	<b>\$308,556</b>	<b>\$363,304</b>	<b>\$420,973</b>
Management Fee	\$0	\$120,000	\$120,000	\$120,000	\$120,000
Administrative Charge	\$165,750	\$60,000	\$60,000	\$60,000	\$60,000
Debt Service	\$10,900	\$10,162	\$9,418	\$8,674	\$7,930
Recc. Capital Projects	\$90,000	\$114,000	\$100,000	\$100,000	\$100,000
<b>Net Facility Income</b>	<b>(\$613,247)</b>	<b>(\$65,554)</b>	<b>\$19,138</b>	<b>\$74,630</b>	<b>\$133,043</b>
<b>Working Capital, Ending*</b>	<b>\$0</b>	<b>(\$65,554)</b>	<b>(\$46,416)</b>	<b>\$28,214</b>	<b>\$161,257</b>

\*Assumes \$0 balance at the end of FY2011 due to City Council action in September 2010.

## JUSTIFICATIONS FOR ENHANCED REVENUE PROJECTIONS

NGF Consulting believes the “enhanced revenue” financial projections created for RedGate Municipal Golf Course, under the assumptions noted above, are achievable considering basic primary improvements to the facility are completed, including the addition of a new tournament pavilion. We base this assertion on the potential high quality of the facility after the recommended changes, and the available capacity to grow rounds and return the facility to rounds totals approaching those achieved two years ago (2008).

NGF Consulting believes the financial projections created for RedGate Municipal Golf Course, under the assumption of recommended changes being enacted, are achievable for the following reasons:

- Potential high quality of RedGate Municipal Golf Course after improvements.
- RedGate Municipal Golf Course is operating at rounds levels that are lower than actual capacity, and the facility has achieved rounds played levels close to what NGF Consulting is projecting as recently as 2008.
- Increased marketing emphasis to emphasize improvements made at the facility will result in a change in the perception of RedGate Municipal Golf Course in the marketplace.
- Ability to regain market share as “lost” golfers return; stemming some of the outflow of rounds from Rockville to other Montgomery County area golf courses.
- More proactive direct selling of larger tournaments and events; better golf experience to offer large group events.
- Improved food & beverage operation and facilities, which will also enhance tournaments.
- Potential for regional economic recovery, resulting in increased discretionary income.

## FINANCIAL PROJECTIONS SUMMARY

The results of the NGF Consulting financial analysis of RedGate Municipal Golf Course show that even if the performance of RedGate is improved and rounds are increased to more than 43,000 annually, the facility will still not be able to generate enough revenue to cover all direct expenses and City overhead. Thus the City of Rockville should anticipate that deficits in the RedGate GC Fund balance would continue into the foreseeable future.

The results also show that the facility could benefit from the introduction of a professional management company operating RedGate via contractual agreement with the City of Rockville that allows for a "private sector" expense structure and full operation of all concessions. Under this operational model, reduced expenses on the operation and reduced City overhead (management company performs those functions currently being done by City) will help to lower the deficits on the operation and even produce a positive Fund balance on the operation in a few years. However, these projections are based on the assumption that some improvement is made to RedGate so that the facility can compete on more equal footing with the key competitive MCRA courses that have been improved considerably in recent years.

The NGF projections assume a total capital outlay of around \$500,000, spread out over five years, to complete the primary improvements recommended by NGF in 2010 (included in pro forma estimate). We note that some of this capital expenditure does not have increased revenue attached to it, but will be required to maintain present levels of rounds and fee performance.

Our analysis and financial projections lead us to the following key conclusions for continued operations at RedGate Municipal Golf Course:

1. The continued operation of RedGate Municipal Golf Course on an 'as-is' basis, without facility improvements or reductions in expenses, will likely result in ever-increasing fiscal deficits and City bailouts of the RedGate GC Fund. If RedGate continues to be operated under its current structure, but improves its revenue to a "best case" level of performance, the fiscal situation would improve but not enough to cover all direct expenses and City overhead. Also, the City would have to fund not only the operating deficits (and ultimately once again have to erase the accumulated negative fund balance), but would be left without a funding mechanism for needed facility improvements.
2. The only way to secure fiscal stability within the RedGate Fund is to simultaneously reduce expenses AND grow revenues. Based on the NGF review of this operation, it appears that the most efficacious way to achieve this goal is to outsource the golf operation, with present key management and maintenance personnel retained (if possible), via contract to a qualified management company capable of managing the facility at a much lower rate than the City of Rockville. Under this form of operation, NGF Consulting believes that the RedGate operation should be able to increase rounds and revenues and generate a positive fund balance within a few years.

In summary, the NGF Consulting cash flow model for the RedGate Municipal Golf Course, assuming a private management company and basic primary facility upgrades, shows the improved golf facility generating significantly improved revenue performance and expense reductions that should help the City replenish the RedGate GC Enterprise Fund over the longer term (2015). However, even with an improved financial scenario, RedGate Municipal Golf Course may still have to operate with Fund deficits for at least the next two or three fiscal years.