NGF CONSULTING
NATIONAL GOLF FOUNDATION

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March 10, 2011

Mr. Burt Hall
Director of Recreation and Parks
City of Rockville
3760 Darrow Rd
Rockville, MD 44224

Re: Accounting Error in NGF Consulting Report on Redgate GC

Dear Burt:

In reviewing the NGF's "Strategic Outlook and Analysis of the Redgate Municipal Golf Course" report with City Finance Director Gavin Cohen, I have uncovered a significant accounting error that was made in the economic projections for future performance of the RedGate GC under the two management company operation scenarios. This error, while significant, does not change the overall finding of NGF Consulting that some form of private outsource arrangement would improve the overall financial condition of the RedGate GC over the next five years. I also note again that projections made by NGF Consulting for the Strategic Outlook study were not meant to be ironclad budgets, but rather estimates of future performance based on a wide variety of variables under a management company scenario. We noted that the only sure way to find out *precisely* what the RedGate economic picture would look like after privatization is to solicit proposals from prospective vendors and conduct a thorough review. Only then will the City of Rockville fully understand the economic impact of a potential privatization of RedGate GC.

The error in the NGF report is due to a glitch in NGF's excel model that did not include cost of goods sold in the net income calculations under the management company scenarios. This error was not present in either self operation scenario presented, nor does it apply to any potential lease of the RedGate GC. The appendix to this letter shows the corrected management company projections along with modifications of language from the NGF report.

In summary, the NGF offers the following thoughts on our accounting error and its impact on upcoming City of Rockville decisions regarding Redgate GC:

1. All four NGF scenarios show a negative ending fund balance in 2015. As before, the "Enhanced Management Company Scenario" shows the most favorable fund balance for the City in 2015 of the scenarios evaluated. The scenario projections prepared by NGF do not include the "lease" option that was the course of action identified by NGF as the most desirable, though difficult to obtain, for the City of Rockville on RedGate GC.

2. The NGF projections for management company performance are based on a set of very conservative assumptions, especially for cost of sales. Private golf management companies will typically have cost of sales that are lower then municipalities, although NGF uses the same municipal figure for both self operation and privatization in our projections (60% F & B and 75% merchandise).

3. Despite the NGF error, the following statement from the NGF report still applies (page 3, middle of 2nd paragraph):

"In completing this review, NGF has explored the possibility of changing the present system from self-operation to some form of outsource arrangement in an effort to control costs. NGFC has concluded that outsourcing RedGate, preferably with key current operations and maintenance staff remaining in place, would give the City the best opportunity to reduce the operating deficits at RedGate and ultimately make it self-sustaining again."

4. The City of Rockville still has flexibility in some cost items shown in the NGF projections including Management Fee, Administrative Charge and Capital Projects. The City may be able to negotiate a more favorable management fee than NGF projections. Other than the tournament pavilion, the remaining capital projects identified by NGF are not "urgent" in that they require immediate attention to maintain conditions needed for projected activity levels. Some of the items such as cart path completion, turf enhancement, bunker enhancement and tree care/removal, could be deferred to help replenish the golf fund balance.

Burt, the NGF offers its most sincere apology about the mistake and our lapse in quality control. It is truly amazing that all the NGF internal and City reviews of our work did not turn this up sooner. I wish to reiterate clearly that the error in no way changes the basic findings of the NGF study that: (1) the existing structure results in operating expenses that are much higher than industry expectations; and (2) the City of Rockville should explore the possibility of outsourcing the operation to a private operator as a means to determine if in fact this move would lead to improved financial performance and restoration of a positive Redgate Golf Fund balance. NGF Consulting is prepared to continue our assistance to the City of Rockville in this matter. We hope we can help the City ultimately find the best operating scenario for the long term future to help the City reduce the economic loss presently experienced at RedGate GC.

Sincerely,

Richard B. Singer
Director of Consulting Services

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APPENDIX

The attached pro forma cash flow tables are corrected to show the NGF estimate for performance under the management company scenarios. The paragraphs below include some change in language on pages 82-3 and 85.

RedGate Municipal GC – Management Company with "As-Is" Revenue Projections

The NGF projections show 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 see improved financial performance, although income on operations is still projected to be negative through 2015. The RedGate Golf Fund would still have a negative balance of more than $1.5 million by the end of 2015.

RedGate Municipal GC – Management Company with "Enhanced" Revenue Projections

The NGF projections show 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, leading to positive income from operations by 2012. Considering the assumptions made for this projection are realized, the RedGate GC may not be able to earn enough income to cover both direct expenses on the operations, AND cover overhead expenses such as management fee, interest and depreciation. The RedGate Golf Fund still shows a negative balance of more than $800,000 by the end of 2015.

Pro Forma Estimate – Management Company with 'As-Is' Projections

RedGate Municipal Golf Course – 'Base' Management Company
Projected Revenue and Expense Analysis

	As-Is	New Management Co. in Place			
Revenues/Sources	**Projected FY11**	**Projected 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**
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
Total Revenues / Sources	**$1,062,703**	**$1,399,976**	**$1,441,975**	**$1,485,235**	**$1,529,792**
Cost of Sales					
Food & Beverage (60%)	$0	$81,113	$83,546	$86,052	$88,634
Pro Shop (75%)	$0	$72,422	$74,595	$76,832	$79,137
Total COS	**$0**	**$153,534**	**$158,140**	**$162,885**	**$167,771**
Gross Margin	**$1,062,703**	**$1,246,442**	**$1,283,835**	**$1,322,350**	**$1,362,020**
Expenses					
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
Total Operating Expenses	**$1,415,300**	**$1,350,000**	**$1,387,620**	**$1,426,369**	**$1,466,280**
Net GC Operating Income	**($352,597)**	**($103,558)**	**($103,785)**	**($104,019)**	**($104,259)**
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
Net Facility Income	**($619,247)**	**($407,720)**	**($393,203)**	**($392,693)**	**($392,189)**
Working Capital, Ending*	**$0**	**($407,720)**	**($800,923)**	**($1,193,616)**	**($1,585,805)**

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

Pro Forma Estimate – Management Company with 'As-Is' Projections

RedGate Municipal Golf Course – 'Enhanced' Management Company
Projected Revenue and Expense Analysis

	As-Is + Tourn. Pavilion	New Management Co. in Place			
Revenues/Sources	**Projected FY11**	**Projected 2012**	**Projected 2013**	**Projected 2014**	**Projected 2015**
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
Total Revenues / Sources	**$1,062,703**	**$1,606,608**	**$1,696,176**	**$1,789,673**	**$1,887,252**
Cost of Sales					
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
Total COS	**$0**	**$222,274**	**$234,666**	**$247,601**	**$261,101**
Gross Margin	**$1,062,703**	**$1,384,334**	**$1,461,510**	**$1,542,072**	**$1,626,151**
Expenses					
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
Total Operating Expenses	**$1,409,300**	**$1,368,000**	**$1,387,620**	**$1,426,369**	**$1,466,280**
Net GC Operating Income	**($346,597)**	**$16,334**	**$73,890**	**$115,703**	**$159,872**
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
Net Facility Income	**($613,247)**	**($287,828)**	**($215,528)**	**($172,971)**	**($128,058)**
Working Capital, Ending*	**$0**	**($287,828)**	**($503,356)**	**($676,327)**	**($804,385)**

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