

Appendix D

Verdugo Hills Golf Course Income Approach Valuation

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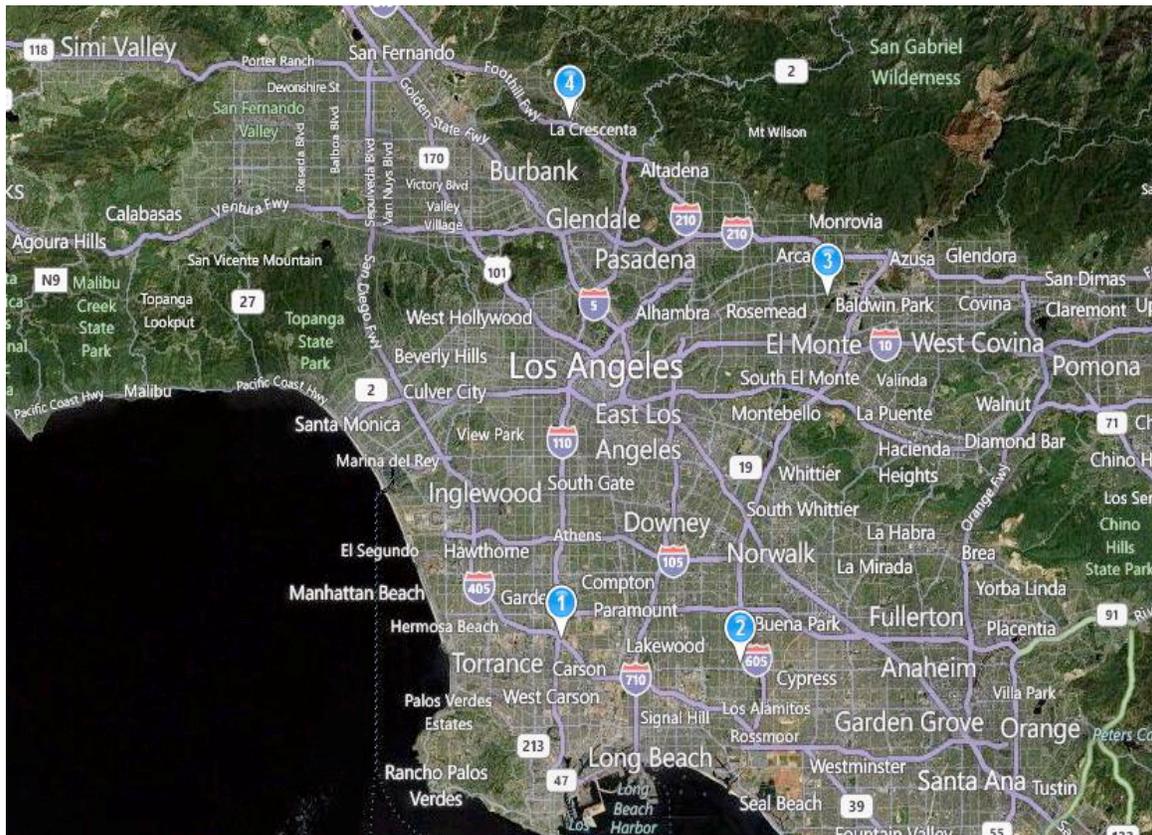
From Snowball West Investment Website:

Current Golf Course Operations

Since Snowball bought the golf course, it has consistently lost money and continues to lose money. The golf course is underutilized, averaging 35 rounds of golf during the weekdays and 60 rounds of golf on the weekends. The total number of rounds available to play daily is 240. The weekly average is 320 rounds, which includes tournaments, when the total possible number of rounds weekly is 1680. The driving range averages only 40-60 people on weekdays and 30-50 people on the weekends. Despite the golf course losing money, Snowball has kept it open as a favor to the community, and in response to a request from former Councilwoman Wendy Greuel

We assume that Snowball's primary interest is likely achieving entitlements for their for proposed development and maximizing income from the golf course is secondary.

We performed a search on the internet and utilizing the website, GolfNow.com identified three eighteen hole lighted par 3's with driving ranges on similar acreages:



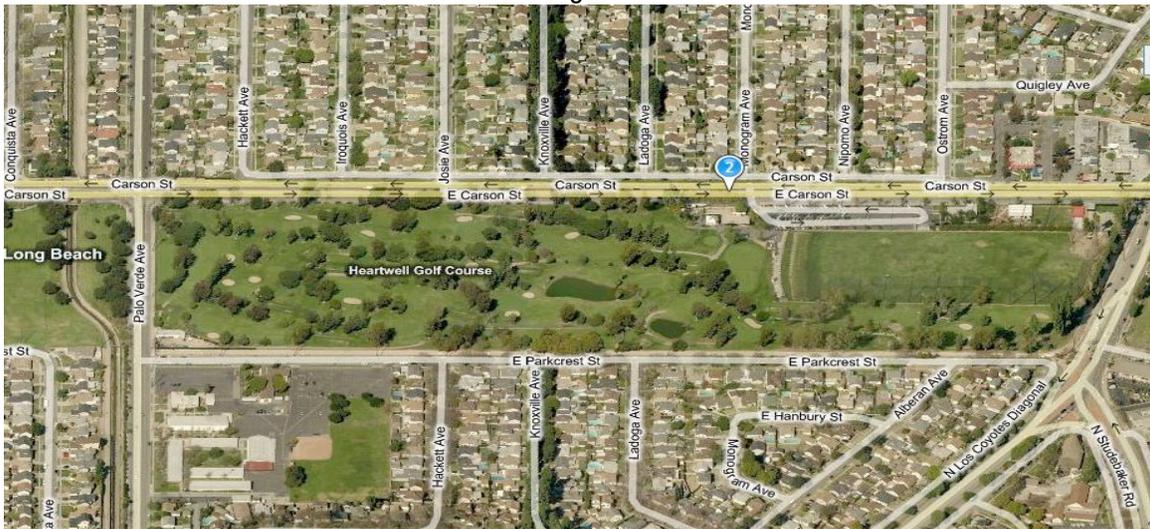
1- Dominguez Hills, 2-Heartwell, 3-Arcadia, 4- Verdugo Hills (Subject)

From GolfNow.com (Italicized comments from their course descriptions):

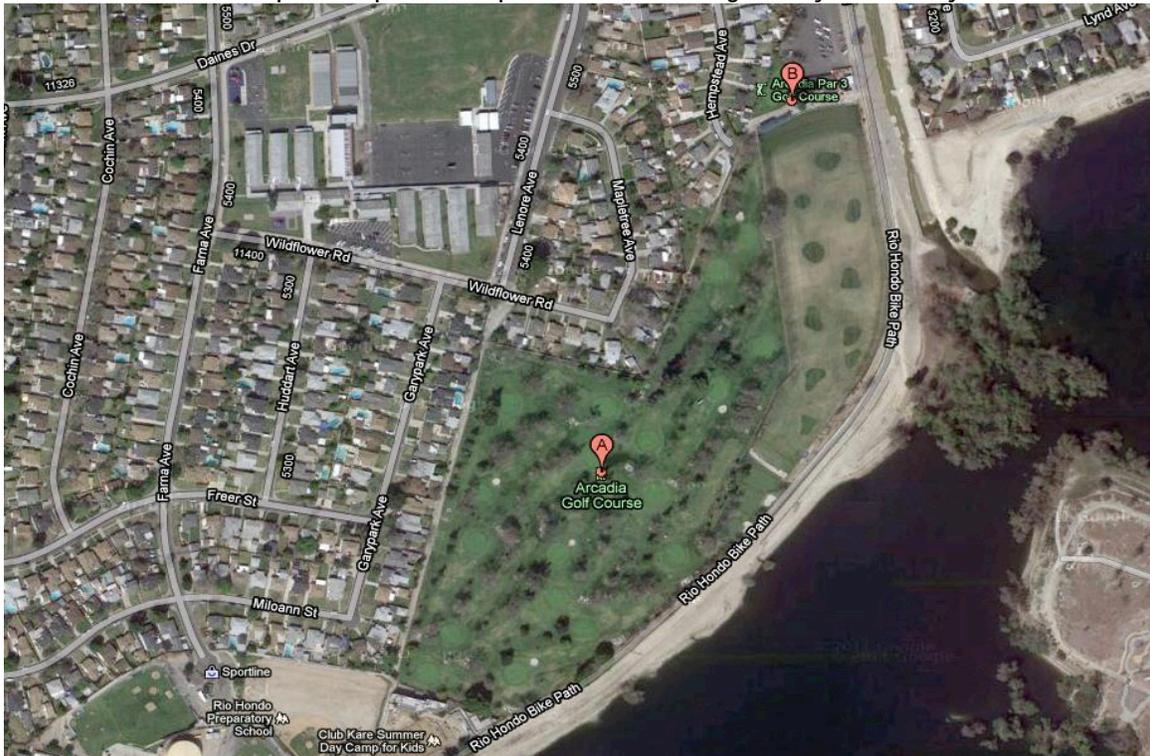
1. Dominguez Hills Golf Course is an 18 hole night lit par-3 course which is located directly off of the 405 freeway. Dominguez Hills is known as one of the top 100 driving ranges in America with its 90 stalls, great ball quality and automated tee system. The golf course also offers wonderful specials throughout the week.



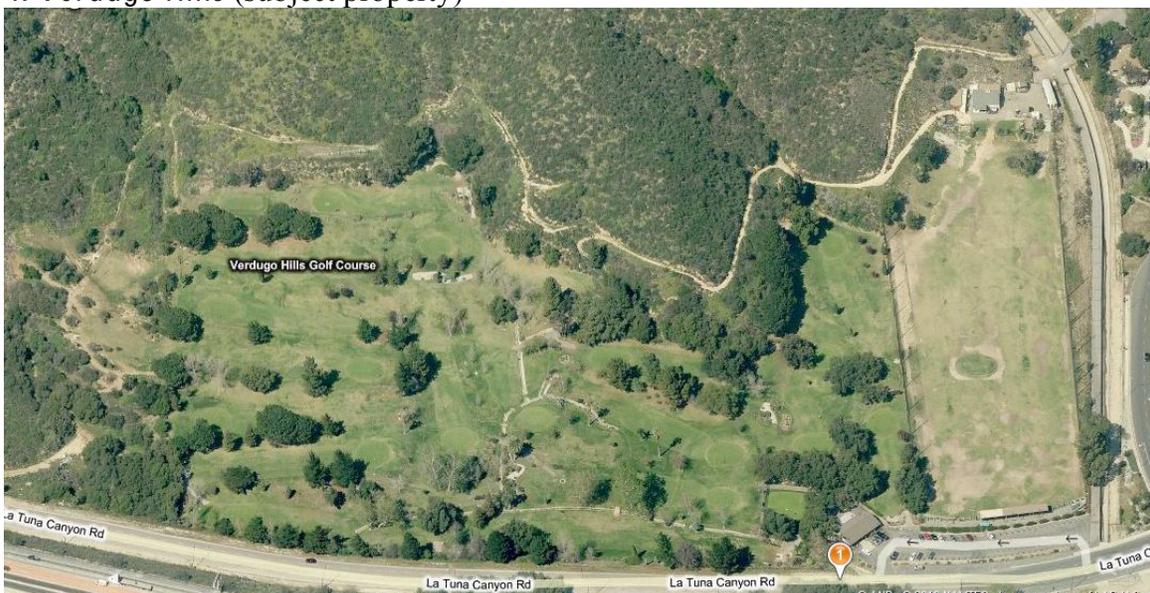
2. Heartwell Golf Course is an extremely enjoyable 18-hole, par 3 course designed by William F. Bell. Heartwell Golf Course opened in 1964 with holes ranging from 85 to 140 yards, two water hazards, and numerous sand traps. The course offers a fully lighted golf course, driving range, two excellent practice greens, and a full service restaurant. The Long Beach course is located next to El Dorado, Skylinks, and both golf courses at Recreation Park. The Bermuda Fairways and Tees on this 2,143 yard course feature well-maintained Poa Annua greens.



3. Located at the base of the picturesque San Gabriel Mountains, Arcadia Par 3 Golf Course is the hidden treasure of Arcadia. This 18-hole par 3 course is 1,947 yards with lush greens and newly created bunkers. The course and the practice facility are *equipped with lights for late night play making it easier to fit into anyone's busy schedule.* It is also home to The Golf Learning Center, where golfers new and old can learn the "greatest game." From our quaint course to our spacious practice facility, Arcadia Par 3 is the perfect place to spend time relaxing with your family and friends.



4. Verdugo Hills (subject property)



In addition, our search on Golfnow.com turned up another seven executive length courses within the same geographic area. Some with driving ranges and some with lighting. There may very well be other more comparable properties, as we only relied on the one website. Note that Verdugo Hills was not one of the courses listed on the GolfNow Site.

All three of the above comparable properties are municipal owned and managed by American Golf Corporation (AGC). Dominguez is owned by the City of Carson, Heartwell by the City of Long Beach and Arcadia by the City of Arcadia.

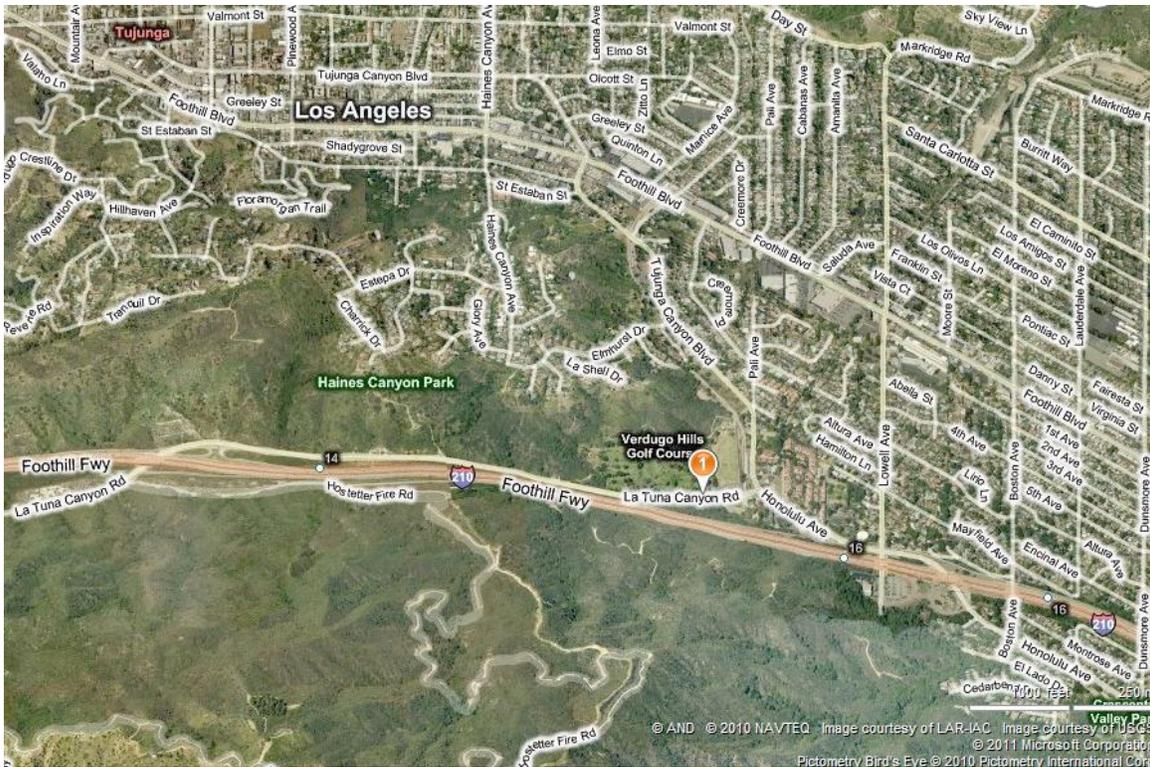
A cursory review of information available on each city's websites indicate that AGC's contract with Carson and Long Beach apparently includes multiple courses. No detailed budgetary or balance sheet information for Dominguez or Heartwell was readily accessible in our quick review. A search of the City of Arcadia's website however revealed two staff memo's from 2008 when AGC's contract was up for renewal. (See Attached) Initially, there were four bidders for the right to lease the facility, that number was reduced to three and detailed negotiations occurred resulting with the staff recommending AGC's contract be renewed. No final lease was located in our search of the website. For the purpose of this analysis, we will rely on information gleaned from the two staff memos.

Comparing Arcadia and Verdugo Hills

Setting: Arcadia appears to be a professionally run and well utilized facility. The promotional blurb on GolfNow.com mentions as one of it's attributes, "Located at the base of the picturesque San Gabriel Mountains...". While the San Gabriel Mountains might be in view, they are not as close as they are to the subject property, Verdugo Hills Golf Club. Verdugo Hills is also bordered to the west by Haines Canyon park and across interstate 210 to the south is Wildwood Canyon Park.

Numerous critiques of Arcadia on the GolfNow.com website, while positive in nature, point out that the presence of a nearby landfill appears to adversely affect the olfactory experience there. We would rate Verdugo Hills a superior location as far as setting and views go.





Accessibility and proximity to customer base: Arcadia is located in a densely populated area, making it more convenient to a larger population than Verdugo, while Verdugo has the advantage of higher visibility from a major freeway. Verdugo Golf Club is 0.8 miles from the closest I-210 exit, while Arcadia is 2.6 miles from the closest I-210 exit. We would rate both locations equal in this category.

Conditions: The single biggest factor in a golfer's perception of quality is the condition of the turf. In light of the owners statement at the start of this narrative as well as the photographic evidence from satellite imagery, one could reasonably assume that ongoing maintenance at Verdugo Hills may be sub par, while Arcadia's professional management, maintenance budget and ongoing capital improvements suggest a superior product.

Conclusions:

Verdugo Hills Golf Course Evaluation- Gross Revenue Approach

Using the current owners of Verdugo Hills reported rounds from the beginning of this narrative, (35 weekday and 60 weekend) at a blended rate of \$10/round, one could calculate annual greens fee revenue of \$152,000.

According to Attachment "B" in the 1-15-2008 Arcadia Staff Report, AGC projected for the Arcadia facility: Cart Rental to be 5.4% of Green Fees, Range Fees to be 55% of Green Fees, and pro shop and other revenues of 41% of Green Fees. Utilizing these same

percentages at Verdugo Hills would suggest a total gross revenue of:

Green Fees	\$152,000
Cart Rental	\$ 8,208
Range Fees	\$ 83,600
Pro shop & other	<u>\$ 62,300</u>
Total Gross Revenue	\$306,108

Some suggest that non-positive cash flow golf operations can be valued at 0.7 to 1.1 times gross income. This would yield a value of only \$ 214,276 to \$ 336,719. The point of this is that under its current condition and operation, Verdugo Hills Golf Course is not worth much. That is not to say that motivated management and some capital improvements could be brought in to make the operation profitable.

Arcadia Golf Course Evaluation- The Income Approach

For the purpose of this appraisal, we rely on the data found on attachments C2 of the attached 1-15-08 Arcadia Staff Report and utilize the following assumptions:

- Operations and maintenance does not include interest (I), taxes (T), depreciation (D), or amortization (A).
- The projections for year 2011-2012 are accurate
- A typical owner of an alternate golf facility in the LA market would expect at least a 10% return
- “IRV” - A generic Capitalization Formula
- $I(\text{income}) = \text{Rate} \times \text{Value}$
- $R(\text{rate}) = \text{Income}/\text{Value}$
- $V(\text{value}) = \text{Income}/\text{Rate}$

Total Revenue	\$1,196,370
Operations and Maintenance	(\$ 654,484)
Rent	<u>(\$ 163,909)</u>
Income (IBITDA)	\$ 377,977

If an owner's required rate of return for a golf course operation is 10% per year, divide the annual income by the Cap Rate to arrive at the value:

$$\$377,977/.10 = \$3,779,977$$

It might be useful to evaluate a golf operation at Verdugo Hills with improvements similar to the ones CDM and Dasher Golf Design designed into the Little Lake Fairview/Dubsdread Golf Course Renovation project for The City of Orlando:



Dubsdread Golf Course, showing retro-fitted chain of ponds that convey and treat previously untreated runoff from approximately 16 acres of Interstate 4 near downtown Orlando.



Dubsdread Golf Course, retro-fitted aqua range.

At Dubsdread, in addition to the drainage improvements incorporated, the entire course was rebuilt including new greens, tees, irrigation and drainage systems, cart paths, restroom facilities, and resurfacing. Comparing the twelve months of pre and post renovation resulted in an increase from a negative net revenue of \$150,000 to a net profit of \$250,000.

With similar upgrades and professional management, we believe the value of a golf operation at Verdugo Hills could rival or exceed the value at Arcadia Golf Course.

Authors:

Michael Dasher

Over 35 years experience in the golf course design and construction industry, including collaborating on or solely designing over fifty new or renovated golf courses. Mr. Dasher graduated from Georgia Institute of Technology in 1973 with a BS Degree in Civil Engineering, and in 1980 with a MS in Civil Engineering with coursework including : project management; water resource management; and real estate development. Author John Strawn called upon Mr. Dasher's insider experiences when writing Driving the Green: The Making of a Golf Course, in 1991.

Professional experience:

- Project Superintendent - Wadsworth Golf Construction (Plainfield, IL, 1973-1979)
- Golf Course Architect - Arthur Hills and Associates (Orlando, FL, (1980-1996)
- President - Dasher Golf Design, Inc. (Winter Park, FL 1997-Present)

R. Thomas Powers

Over 30 years of finance, development and operational experience in real estate, including master planned communities, resort/residential golf facilities and commercial properties (office and retail).

Mr. Powers graduated from East Carolina University in 1970 with a BA Degree – Urban Planning and Economics; and in 1975 with a MA in Economics/Regional Economic Development. He completed course curricula in the Graduate Program of International Economics (MA) at George Washington University in 1980.

Professional experience:

- Senior Economist – Office of Economic Analysis, Federal National Mortgage Association (Washington, DC, 1977-1981);
- Executive Vice President, Chief Economist -- Goodkin Research Corporation and Partner, McCumber-Goodkin Golf Group (Ft. Lauderdale, FL, 1982-1990);
- Director M&A, US Operations – Takanaka & Company and President, Takanaka Golf and Resort Group (Los Angeles, CA and Tokyo, Japan, 1991-94);
- Director – Georgia-Pacific Development Company (Atlanta, 1994-98); and Mr. Powers is currently
- President, Peachtree Real Estate Advisory Services; President, Bluegreen Golf®; and Division President, Bluegreen Communities® (Atlanta, GA 1998-Present).