



CITY OF
ALBUQUERQUE

City of Albuquerque

A Golf Study
As of May 10, 2017

“Creating Great Friends and Memories In Celebrating Life”

Arroyo del Oso
Ladera
Los Altos
Puerto del Sol

Submitted by:

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Table of Contents

EXECUTIVE SUMMARY5

Golf – A Fabulous Game 5

The Purpose 5

Who Should Be Served?..... 7

The City – Its Method of Accounting 8

The Assets in Question 8

Management Alternatives 11

The Critical Path 13

The Hurdles Are High..... 15

Operational and Organizational Structure Options..... 16

Third Party Management or Lease – Which is the Better Financial Option?..... 19

Tactical Recommendations 20

Summary – A Community Asset of Costly Potential..... 22

THE SUPPORTING RESEARCH25

Analysis and Research Performed 25

Limitations of Study and Caveats 27

The City of Albuquerque Golf Study 28

 What is the Role of Municipal Golf in America?..... 28

 The Mission and Vision Statement Frame the Operational Policies 30

 Creating A Consensus – The Interests Are Diverse..... 34

 Fiscal Sustainability is the Defined Goal 37

Strategic - Step 1: Analysis of Regional and Local Trends in Public Golf 40

 Tendencies and Preferences that Influence Demand & Supply 40

| | |
|---|-----------|
| Macro-Economic Analysis: MOSAIC Profile | 45 |
| The MOSAIC Profile Reflects Potential | 47 |
| The Correlation Between the MOSAIC Profile and Maslow | 48 |
| Drilling Down to Uncover The Financial Potential of a Golf Course | 49 |
| Layout – Are the Existing Courses Compatible with the Neighborhood? | 51 |
| Micro Economic Analysis: | 51 |
| The Appropriate Green Fees..... | 53 |
| Step 1 - GLMA Conclusions and Recommendations..... | 55 |
| Strategic - Step 2: Weather Impact Study | 57 |
| Annual Golf Playable Days | 57 |
| Yearly Playable Rounds..... | 59 |
| Viable Operating Season..... | 61 |
| Storm Clouds Ahead | 62 |
| Step 2 – Weather Playable Days Conclusions and Recommendations | 63 |
| Tactical - Step 3: Technology..... | 64 |
| Many Applications – Integration Lacking..... | 64 |
| Opportunities to Leverage Technology to Boost Revenue..... | 65 |
| Best Practices..... | 69 |
| Customer Database Segmentation - Who Is the Customer?..... | 70 |
| <i>Email practices integration with social media</i> | 72 |
| Dynamic Transaction Oriented Web Site..... | 74 |
| What About Third Party Tee Time Reservation Company that Provide Free Software? | 78 |
| The Goals to Be Achieved Formula for Proper Adoption of Technology..... | 79 |
| Step 3 – Technology Conclusions..... | 80 |
| Tactical: Step 4 – Financial Benchmarking | 81 |
| To Manage Well, Accounting Information Must Produce Meaningful Insights..... | 81 |
| National Benchmarks vs. Local Performance | 83 |
| A Considered Consolidated Review | 85 |
| The Deep Hole..... | 88 |
| Step 4 – Financial Benchmarking Conclusion | 88 |
| Operational - Step 5: The Physical Assets – Resources on Which to Grow | 90 |
| The Core Assets: Delightful Municipal Golf Courses..... | 91 |
| Architectural Review..... | 91 |
| The Challenge of the Albuquerque Golf Courses | 93 |
| Years of Neglect Have Created a Big Tab – Now Due | 95 |
| While The Checkbook is Out, Don't Forget About Equipment..... | 97 |
| Maintenance: Creating the Experience | 98 |
| Labor Expense..... | 101 |

| | |
|---|------------|
| Water Use – All Courses..... | 102 |
| The Net Result – Poorly Conditioned Golf Courses | 104 |
| Safety Concerns | 105 |
| Step 5 – A Summary: The Facilities’ Assets and the Opportunity to Grow | 107 |
| Operational: Step 6 - The Assembly Line of Golf | 109 |
| What is Important?..... | 109 |
| Secret Shopper Review | 109 |
| Competitors are Formidable Foe..... | 111 |
| Activity Levels..... | 113 |
| Mirror, Mirror on the Wall – What Rates Would be the Fairest to All?..... | 114 |
| City of Albuquerque: It Is Not Only Location, Location, Location..... | 118 |
| Step 6 – A Summary of Golf Operations | 127 |
| Operational: Step 7 – Golfer Habits and Preferences: A Customer Survey | 128 |
| What is the Demographic Profile of City of Albuquerque golfers? | 130 |
| What Do Golfers Like about City of Albuquerque’s golf courses?..... | 132 |
| Customer Franchise Analysis | 139 |
| Step 7 – A Summary of Golfer Habits and Preferences: A Customer Survey | 140 |

FINAL GOLF STUDY REPORT: 5/10/2017

Executive Summary

Golf – A Fabulous Game

Golf is a refuge from the world. Mobile phones, iPads, desktop computers, television and the proliferation of social media applications intrude on our daily lives impacting the quality of one's leisure.

Golf offers the opportunity to be engrossed with nature, enjoying the outdoors while engaged in a game that is challenging, frustrating and often rewarding. It is the allure that the game can be mastered is what attracts and retains many. It is the ability to escape to a preserve providing the opportunity for private reflections that appeals to all.

Golf provides a forum for families to bond, friends to unite, people in business to entertain and an office for those retired to remain physically and intellectually engaged. It is also the entry door for the young, while engrossed in a sport, learning values that last a lifetime. Honesty, integrity, and respect are the real lessons gained from golf that provide the platform for the young and all to become responsible citizens.

Can the significance and worth of providing affordable golf being truly measured?

The Purpose

The question posed was, "What is the appropriate 10-year strategic vision for the golf courses operated by the City of Albuquerque that will ensure that value is created for the citizens on the basis that is fiscal self-sustaining?"

Since 2000 when rounds played peaked at 412,000, use of the City's golf courses has dramatically fallen 48.65%. Only 211,548 rounds were played in 2016. Since 2012, operating losses have increased from \$129,472 to \$1,623,285 in 2016. During the past three years to support the Golf Course Enterprise Fund, \$2.5 million has been transferred from the General Fund.

For the foreseeable future, losses exceeding \$1 million are anticipated. Deferred capital expenditures to provide a meaningful experience now exceed \$16.5 million. With the Golf Enterprise Fund maintaining a net fund position of \$3,314,429 comprising \$666,085 in current assets as of June 30, 2016, the ability to fund capital improvements from the Golf Enterprise Fund is nil.

Thus, the long-term economic viability of the golf courses is in question as the quality of the golf experience is likely to continue to deteriorate. For slightly higher fees charged by other local golf courses, the golfer receives exponentially a far better value. Thus, rates increase for the City of Albuquerque's golf course is an impractical solution as it can be debated that the fees now charged are more than current fair market value.

Many will cite the uncontrollable factors. Shockingly, since 1996, the supply of golf courses has increased 54% from 99 holes available for public play to 216 with the opening of Isleta (1996), Santa Ana (1997), Paako Ridge (2000), Twin Warriors (2001) and Sandia (2005).

Such a simplistic explanation overlooks the complexity of a golf operation and the myriad of controllable factors that must be executed consistently for financial success. If the value is not provided to the golfer, every golf enterprise will suffer.

Revenues from golf operations have remained relatively stable. The culprit in this financial puzzle is the explosion of expenses highlighted here:

| Year | Revenues | Expenses | Operating Income |
|------|-------------|-----------|------------------|
| 2016 | \$3,514,693 | 5,137,978 | (1,623,285) |
| 2015 | 3,660,341 | 4,362,384 | (702,043) |
| 2014 | 3,792,591 | 4,385,120 | (592,529) |
| 2013 | 3,681,595 | 4,075,304 | (393,709) |
| 2012 | 3,808,960 | 3,928,432 | (129,472) |

The casual observer, knowing that the well failed at Los Altos in May 2015, would cite the increase in water costs as the major contributing factor as shown below:

| | 2016 | 2015 | 2014 |
|--------------------|-------------|---------|---------|
| Arroyo del Oso | \$510,306 | 491,155 | 446,137 |
| Ladera | 48,788 | 70,455 | 11,354 |
| Los Altos | 605,951 | 94,741 | 55,164 |
| Puerto Del Sol | 225,255 | 199,965 | 194,369 |
| Total | \$1,390,300 | 856,316 | 707,024 |
| % of Gross Revenue | 39.56% | 23.39% | 18.64% |

It should be noted that the Arroyo del Oso and Puerto del Sol access non-potable water from the Albuquerque Bernalillo County Water Utility Authority while Ladera and Los Altos are designed to use well water.

A reliable benchmark is that water cost should be less than \$.50 per 1,000 gallons or \$162 per acre feet. The City's current cost of non-potable water is \$889 per acre feet. Thus, an estimated \$1 million was expended in 2016 beyond that which is feasible.

Beyond the apparent cause of the financial challenge attributable to water, there is an additional factor: fringe benefits paid to City workers is currently 54.1% of base wages.

The impact on the financial statements of the golf course of this practice is illustrated below:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|-------------------------------|-------------|-----------|-----------|-----------|-----------|
| Wages | \$1,357,575 | 1,167,042 | 1,297,244 | 1,322,290 | 1,378,741 |
| Benefits | 735,068 | 635,552 | 702,196 | 615,167 | 609,203 |
| % Benefits | 54.15% | 54.46% | 54.13% | 46.52% | 44.19% |
| National Benchmark | 22.00% | 22.00% | 22.00% | 22.00% | 22.00% |
| Standard Compensation | 298,667 | 256,749 | 285,394 | 290,904 | 303,323 |
| Excessive Compensation | 436,402 | 378,803 | 416,802 | 324,263 | 305,880 |

Therefore, of the City's \$1.6 million operating loss in 2016, based on golf industry benchmarks, \$1.0 million can be attributed to the cost of water and \$436,402 to excess compensation paid.

There is a third factor adversely impacting the City's potential to viably operate the golf courses: the organizational structure and culture in which principal revenue sources from carts, range, and merchandise are realized by third-parties. Significant income is foregone by the City by receiving a negotiated percentage payment from these revenue centers.

Who Should Be Served?

In its golf courses, the City of Albuquerque has unique assets. Since 1960 with the opening of Los Altos, the City has provided athletic competition, entertainment, leisure, and outdoor recreation to the citizens of Albuquerque and the surrounding suburbs. The desire to improve the quality of life of its citizens resulted in the opening of Los Altos in 1960, Arroyo del Oso in 1965, Puerto del Sol in 1978, and Ladera in 1980.

The heart of the question is, "What is the role of municipalities to offer golf to its citizens when such activity is adequately provided by private enterprise?"

A decision that appears simple when framed from a context of the private enterprise becomes incredibly complex when viewed through the lenses of interdependent governmental entities.

The core role of government is to provide:

- 1) Sufficient Protection to foster a civilization and promote economic activity;
- 2) Civic Amenities ranging from sanitation and hygiene to enriching the quality of lives through a diverse array of parks and recreation programs;
- 3) Education to foster rational, intellectual, and reasoned thought;
- 4) Justice and Administration.

With that understanding of government's role, the question reframed becomes, "To what extent should a governmental entity subsidize the leisure of a recreational asset that is utilized by less than 9% of the population whose average age is 41.5 years, who have median household income of \$85,800, and 80% of which are Caucasian?" Those statistics represent the profile of today's golfer in America.

The answer to that question is likely to be rooted in differing beliefs as to whether a City should invest in the asset that has an intangible value or whether the activity should be held to the benchmark of being financially self-sustaining.

The City – Its Method of Accounting

The activity of the City of Albuquerque is accounted in a "General Fund." In 2016, the City generated \$874 million in revenue. These funds are provided principally by charges for services rendered (26.5%), shared taxes and fees (22.4%), sales taxes (18.7%), and property taxes 16.2%. The net assets of the City are \$3.511 billion.

An "Enterprise Fund," a different accounting unit, is a self-supporting fund established to account for all business-type operations. The golf courses operate within a non-major enterprise fund. Other non-major enterprise funds comprise Apartments, Parking and the Stadium Fund. Major Enterprise Funds account for the Airport, Refuse Disposal and Transit Fund.

The Assets in Question

Golf Operations includes the following facilities and programs:

- ◆ Three twenty-seven-hole golf courses: Arroyo del Oso, Ladera and Los Altos
- ◆ A nine-hole at Puerto del Sol;
- ◆ A six-hole par three pitch and putt course at Balloon Fiesta Park that is managed by the Recreation Division. It is funded and accounted for within the General Fund and is external to the Golf Enterprise Fund.

The golf courses provide recreation for an estimated 38,500 golfers amongst a population of 425,000 that live within 10 miles of the City’s golf courses.

The strengths, weakness, opportunities, and threats to the Albuquerque golf courses summarized below:

| Strengths | Weaknesses | Opportunities | Threats |
|--|--|--|--|
| Demand exceeds supply against national benchmarks | Deferred capital maintenance and capital requirements | Community theme of “Where Great Friends and Memories Are Made In Celebrating Life” | Competition |
| The abundance of playable golf days. | Cro-magnon use of technology regarding developing databases to understand customer’s preferences and desires. No email database of customers exists. | Adept marketing department could rebrand facilities with enhanced utilization of technology. | Albuquerque Water Utility Authority Board’s unchecked ability to impose water rates and annual permit fees. |
| Four facilities appeal to diverse level of ability and skill | Concessionaire organizational structure with tiered contract expiration dates | Leveraging third party capital to improve citizen’s golf experience | Culture and organizational inflexibility riddled with fear of the auditors, the press, and distrust between City leadership and concessionaires. |

A golf course has five principal revenue sources: green fees and a season pass, carts, merchandise, range, and food and beverage.

A financial snapshot of the golf operations recent performance is presented below:

| Revenue Sources | Executive | 2016 | 2015 | 2014 | 2013 | 2012 |
|---------------------------------------|----------------|-----------|-----------|-----------|-----------|-----------|
| Concessionaire Revenue | Arroyo del Oso | 1,405,589 | 1,528,112 | 1,363,403 | 1,420,230 | 1,449,777 |
| | Ladera | 588,717 | 664,291 | 562,403 | 622,059 | 671,624 |
| | Los Altos | 696,225 | 707,844 | 717,720 | 708,515 | 670,650 |
| | Puerto Del Sol | 480,982 | 452,946 | 452,567 | 509,056 | 529,684 |
| | Total | 3,171,513 | 3,353,194 | 3,096,092 | 3,259,861 | 3,321,736 |
| | | | | | | |
| Green Fees & Season Passes | Arroyo del Oso | 1,521,120 | 1,510,995 | 1,612,328 | 1,646,674 | 1,634,226 |
| | Ladera | 726,430 | 615,842 | 498,735 | 588,865 | 616,846 |
| | Los Altos | 874,721 | 953,555 | 1,044,251 | 1,020,408 | 933,703 |
| | Puerto Del Sol | 428,331 | 409,127 | 440,333 | 429,106 | 451,673 |
| | Central Pass | 97,085 | 133,596 | 98,402 | 94,596 | 116,887 |
| | Total | 3,647,687 | 3,623,115 | 3,694,050 | 3,779,649 | 3,753,335 |
| | | | | | | |
| Total Revenue | Arroyo del Oso | 2,926,709 | 3,039,107 | 2,975,730 | 3,066,905 | 3,084,003 |
| | Ladera | 1,315,147 | 1,280,133 | 1,061,138 | 1,210,925 | 1,288,470 |
| | Los Altos | 1,570,946 | 1,661,400 | 1,761,971 | 1,728,923 | 1,604,354 |
| | Puerto Del Sol | 909,313 | 862,073 | 892,899 | 938,162 | 981,357 |
| | Central Pass | 97,085 | 133,596 | 98,402 | 94,596 | 116,887 |
| | Grand total | 6,819,200 | 6,976,309 | 6,790,141 | 7,039,510 | 7,075,070 |

Based on golf industry benchmarks, expenses incurred are allocated 15% to administration, 20% to the operation of the pro shop and restaurant and 45% to maintenance.

In theory, the City of Albuquerque's golf course should be able to generate earnings before interest, tax, depreciation and amortization (EBITDA) of \$1.39 million presuming water costs were comparable to national benchmarks. Based on potential water costs the City is likely to incur in the short-term, presuming the new well is completed at Los Altos, the EBITDA potential is estimated at \$520,000, or \$115,555 per 18-hole equivalent. The average 18-hole municipal golf course in the United States generated \$240,000 in EBITDA in 2015 as reported by PGA Performance Trak.

The chasm between what the financial potential of the golf courses are and what is being achieved (\$520,000 profit vs. a \$1.6 million loss) is huge.

A golf course is a living organism that requires constant capital investment for the course, the equipment, and the associated buildings. The cost to renovate the golf course to competitive condition was estimated as part of this analysis. Annually, \$130,000 for course improvements,

\$90,000 for equipment replacement and \$75,000 for building repairs and facelifts should be reserved. Currently, there are no reserves established.

A result, the City faces a deep-hole of capital investment that is critical, that which is necessary to remain competitive and that ideally would be made to comprehensively ensure the City's golf courses where viable options for golfers to consider versus the other alternatives within the metroplex. The investment required to render the golf courses competitive is:

| Golf Course | Investment |
|----------------|--------------|
| Arroyo del Oso | \$6,091,525 |
| Ladera | 2,595,250 |
| Los Altos | 6,092,247 |
| Puerto del Sol | 1,710,000 |
| Total | \$16,575,921 |

The \$16.5 million recommended includes thorough course renovations including rebuilding green and tee complexes, irrigation systems, fixing the numerous drainage issues that exist on nearly all of the golf courses, reseeding fairways. Modifications that are advisable at Ladera including clubhouse remodeling and renovations rendering it a multi-purpose facility would be additional. Adding soccer fields, repositioning the range and consolidating the 27 hole complex into a championship 18 hole golf course would better serve a wide portion of the surrounding population.

Management Alternatives

The management of a municipal golf course usually takes one of three forms.

The first form of management uses only city employees, and in this form, the swing of quality will hit both extremes, from outstanding, dedicated employees to those merely "punching the clock."

The second form of management is "leases." Third parties pay a negotiated rental fee to the municipality, and for this fee, they gain the benefits of revenue, gains, and losses. If the contract is well written, the third party is held accountable for ongoing capital improvements. While this form of agreement provides the municipality the least short-term risk while being isolated from net operating losses, it provides the highest long-term risk if capital improvements are not made.

Leasing to individual concessionaires often can produce less than desirable results. Concessionaires are for-profit entities, and as such, they create a natural conflict of interest between the scope of services and efficiency of operations.

Currently, the most popular form of privatization is management contracts, by which the third party is paid an annual fee, currently ranging from \$75,000 (for a single course) to an estimated \$200,000 (for upwards of four courses), to manage the facility.

This independent company assumes full responsibility for operating all aspects of the golf course and hires qualified employees as part of their team based on national salary benchmarks. The intellectual property that they have developed in managing, more than likely at over 100 golf courses, is implemented including Accounting, Point of Sale, a transaction based website, agronomic and maintenance practices, appropriate rate structures, customer loyalty programs and marketing applications. The fee earned by the management company is based on their intellectual capital and the economies of scale they can introduce from operating comparable multi-course facilities and national purchasing programs.

Under this model, the City inures to the benefit of all revenue generated and is responsible for all expenses incurred and capital improvements required.

The following chart summarizes the matrix of decisions a municipality faces as far as risk, capital investment exposure, and the right to inure to the benefit of profits or to fund loss:

| Matrix of Decisions | Self-Manage | Lease | Management |
|---------------------|--------------|--------------------------------|------------------------------------|
| Risk | Full Risk | No Risk | Full Risk |
| Capital Investment | Full Capital | No Capital, unless negotiated. | Full Capital |
| Profits | Full Profits | No Profits other than "rent." | Full Profits less a management fee |

The City of Albuquerque's golf course is operated under a "modified" lease model. This means the City inures to the benefit of the green fees and is responsible for all golf course maintenance and capital improvements. Three concessionaires (Arroyo del Oso and Puerto Sol, Ladera and Los Altos) receive cart, range, merchandise, food and beverage including liquor sales and all other miscellaneous revenues less a negotiated percentage payment.

Managing a municipal golf course is a challenge, regardless of its management structure. The city requires transparency. When self-managed, the golf course management and staff are usually well compensated, and the golfers expect low prices and a quality golf experience. Those elements do not mix well.

There are some key rules of thumb, depending on the financial position of a golf course. If the course is incurring operating losses and lacking capital – leasing is preferred. If the value is eroding and expenses are increasing, professional management is a viable option. If a course is breaking even and covering debt and capital, self-management remains the preferred management choice.

The Critical Path

Because of the City’s labor cost, the option to self-manage is not viable. Thus, the likely option becomes issuing a Request for Proposal divesting the City of any operational responsibility. While that decision seems simple, it is actually complicated.

The City gains the greatest leverage and flexibility in having the concessionaire contracts all co-terminate on the same date.

Unfortunately, the current concessionaire contracts terminate at varying dates over the next four years. Thus, the issue of a Request for Proposal cannot occur for the assumption of operations by a management company until 2021. The year 2021 is accurate presuming that an agreement on the expiration dates of the concessionaire agreements can occur which are currently in dispute.

The variances in opinion are shown below:

| Golf Course | City’s Position | Concessionaire’s Viewpoint |
|----------------|-------------------|----------------------------|
| Arroyo del Oso | December 31, 2018 | August 8, 2020 |
| Ladera | April 18, 2021 | April 18, 2026 |
| Los Altos | December 31, 2017 | December 31, 2018 |
| Puerto del Sol | December 31, 2018 | August 8, 2020 |

Note - Concessionaire’s viewpoint obtained in a joint meeting in February 2017.

More importantly, the City, management and staff, the concessionaires, the golfers, and the public have widely divergent and conflicting opinions regarding the optimum use of the golf courses and the associated land. Disagreement on the proper capital allocation and operational management of the golf course is not far from the surface.

To illustrate, there are divergent opinions that should first be reconciled to select the optimum model for the City. These divergent views include whether the City should:

- ◆ Close Puerto del Sol because the net operating loss is projected at \$315,536 largely due to the associated water cost of \$225,255 and labor expenses of \$360,643?
- ◆ Close Los Altos based on historical operating losses in 2015 and 2016 that are likely to continue in the short term.

It should be noted that, at some interim point, it will also be necessary to update the aged irrigation systems at Los Altos and Puerto del Sol for an estimated cost of \$2.6 and 1.0 million, respectively.

The closing and repurposing of Los Altos and Puerto Del Sol should be considered to mitigate losses. If the City decides to close these two courses the immediate savings would be an estimated \$1.64 million annually as reflected below:

| Course | Labor | Water | Total |
|----------------|----------------|----------------|--------------------|
| Los Altos | \$443,491 | 605,951 | \$1,049,442 |
| Puerto del Sol | 360,643 | 225,255 | 589,898 |
| Total | 804,134 | 831,206 | \$1,639,340 |

Further, the City would save \$1.5 million by not investing in a new well at Los Altos. The financial rationale for closing both is compelling. This option would leave the city with two municipal courses to serve the public one on the west side, and one on the east side of Albuquerque.

But should the courses be closed? As Puerto del Sol is leased from the Airport Authority, that decision is easier.

However, if the city were to close Los Altos, the issue of drilling a well still needs to be addressed.

If the fields are re-purposed for Recreational fields or new park land, the area will still need to be watered. The Park Management Division of the Parks and Recreation Department already has a water budget that exceeds \$5 million annually. Add Los Altos' 152.4 acres would only increase that amount substantially.

Repurposing this area and not drilling the well would only shift the water expenses to another division within the general fund. Having a well in place would decrease the cost of water from \$889 to \$47-acre foot, but the question of the \$2.6 million irrigation system will eventually have to be answered. There is no funding to address capital needs of this course or any of the city courses.

If the golf course were to continue in operation, drilling a well would have to be considered in order to minimize the increasing cost of water at the golf course. Once the well is activated, the annual cost of water at Los Altos would decrease from \$605,950 to approximately \$50,000.

A question that was beyond the scope of this study was, “Should the land at Los Altos be sold?” In preparing this Golf Study for the City of Albuquerque’s golf courses, we were encouraged to construct recommendations to ensure that fiscal stability is achieved within the Golf Department, irrespective of the political consequences that often limit and options.

Thus, closing Puerto del Sol and Los Altos produces the greatest financial benefit to the City.

The Hurdles Are High

The implementation of any solution within this municipal environment has many hurdles. Some of these hurdles, but not all, include:

- 1) The number of golf courses the City may deem to operate.
- 2) The timeframe that the optimum solution can be implemented. The management company model or leasing all four courses to a single concessionaire cannot be implemented by April 22, 2021. There is the opportunity to retain third party management or lease individual courses perhaps as soon as January 1, 2019.
- 3) The City’s lack of capital to invest in necessary course improvements to bring the current conditions to competitive standards.
- 4) The antiquated course maintenance equipment that requires a new fleet be acquired for each course – regardless of the operational model selected.
- 5) The varied expiration of current concessionaire contracts.
- 6) The logistical hurdles of scheduling the concession contracts to co-terminate to provide the City the greatest flexibility and leverage.
- 7) The requirement to issue a Request for Proposal for either the management company model or the lease option.
- 8) The lack of flexibility in renegotiating the current concessionaire contracts converting to a different operating business model.
- 9) The interest independent third parties might have in responding to a Request for Proposal based on the scope of service requested, the capital investment required, the length of the agreement and extensions available to it.
- 10) The possible requirement by the City to mandate the use of union labor in the operation of their courses.
- 11) If the golf courses were leased, the City would need to accept some responsibility for capping the water expenses incurred whose future costs are uncertain.

- 12) Understanding the dynamics of local politics or the evolving vision that one City Manager may have or how that vision may change between administrations ultimately determines the path selected.

Based on these hurdles, it is not possible as part of this Golf Study, to construct a logical path on which the City of Albuquerque's courses should proceed.

Without the constraints found within all governments, a business solution could be derived that would optimize the financial return to the City within the shortest period. But to do such as part of this report would be pure conjecture as to what may occur.

Operational and Organizational Structure Options

The permutations for the operational management of the City Albuquerque's golf courses are diverse and dependent upon the decisions first made on Los Altos or Puerto del Sol and successful navigating the hurdles listed above.

It is our sincere belief that any changes will be difficult and time-consuming based on city processes and the time it will take to evaluate and move forward with any of the options listed below.

In theory, the options for the operation of the golf courses include:

- 1) Continue operating under the current concessionaire model.

The likely result is annual losses exceeding \$1 million, increasing deferred capital expenditures and a deteriorating experience provided to the golfer.

Option 1 of continuing the current business model ad infinitum makes little sense.

- 2) Transfer the Golf Enterprise Fund to the General Fund; this solution is not without precedence. Because municipalities across the country are losing money from their golf operation, many are doing exactly this.

This option does not solve the immediate operating losses. While it may seem to address the long-term capital needs of the courses by making the Golf Management Division eligible for General Obligation (GO) Bond Funding, capital funding for golf remains unlikely.

The city's GO Bond Funding is at capacity, and if Golf were to receive funding for capital improvements, it would be at the expense of other departments in the city or divisions within the Parks and Recreation Department. It may solve some of Golf's capital needs. However, it does not address some of the main issues that are making golf unprofitable. This does not address the rising costs of labor and the rising cost of operating expenses.

Under this option, because of the City's high labor cost, the current lease model would remain in place resulting in golf continuing to lose money annually, capital improvements would be minimal, and the experience to the golfer would continue to deteriorate. The golf courses would need to be treated as many of the other recreational activities that are designed to improve the quality of life for citizens however cost recovery is improbable.

Option 2 to transfer the Golf Enterprise Fund to the General Fund doesn't achieve the goal of making golf financially feasible or self-sustaining.

3) Retain a **national management company** to operate all four courses ideally or individually, when feasible.

Management of all four courses by a single entity will produce economies of scale and a singular vision. The management company would take over all operations of the courses including maintenance and turf management. The city would only need one contract and would have the following options.

The City would only be responsible for paying an annual management fee estimated at \$200,000 for four courses, would inure to the benefit of the profits and be responsible for all expenses and capital improvements.

An immediate \$2.4 million capital investment by the City would be likely under this option to acquire a new maintenance equipment that is currently beyond its useful life.

This option would greatly reduce the amount of time that is spent on a daily basis reconciling daily deposits for all four courses. Currently, the Golf Management Division (GMD) has two full-time staff assigned to daily deposits. This would also reduce the amount of time spent monitoring of the contract as there would be one contract with one termination date.

The staff at all four courses would be employees of the management company. This would eliminate the high cost of labor that is currently incurred.

The downside to this option is that 38 blue-collar workers would have to be absorbed into the Parks and Recreation Department or other City departments.

Because arranging for the lease to co-terminate is specified as a hurdle, if not overcome, the default option becomes issuing a Request for Proposal for the Management of the courses individually. Over time, the golf course management agreement could be established to co-terminate.

- 4) Upon the expiration of the current concessionaire contracts, issue a Request for Proposal for the lease of the individual course or if and when the contracts co-terminate, lease all four golf courses in which they City would receive a percentage of gross revenue.

As part of the new agreement, the concessionaires would accept responsibility for the entire golf operation at their facility including staffing, maintenance and capital improvements thereon.

In equity, such an arrangement would necessitate:

- a. A flat rental fee, i.e., 12% of gross revenue, to be paid by the concessionaire to the City. It should be noted that by State Liquor Laws, the concessionaires are required to pay a 20% royalty for those holding the liquor license. Currently, the City of Albuquerque owns the liquor licenses utilized at each golf course.

Such revenue received by the City would cover administrative expenses of overseeing the golf operation and be allocated to a capital reserve for significant future capital improvements exceeding \$50,000 per incident, i.e., bunker renovation, irrigation systems, green complexes rebuilt, clubhouse repair, etc.

- b. The concessionaires would accept responsibility for all capital improvements required for the golf course and the facilities that have an investment less than \$50,000 per incident.
- c. The Concessionaire offers current blue-collar golf course maintenance workers the opportunity to transition to their management under fair market compensation based on Golf Course Superintendents Association of America (GCSAA) pay scales. Based on the 2015 Compensation Benefits Report issued by the GCSAA, a Class A superintendent base wage in New Mexico is \$64,910.

Like option 3, the employment status of the 38 blue-collar workers would have to be determined.

- d. The City would accept responsibility for water expenses above a threshold to be negotiated. Below is a current water budget forecast, exclusive of utilities, for 2017:

| | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol |
|--|----------------|--------------|--------------|----------------|
| Annual Water Budget in Acre-feet | 548.52 | 423.66 | 443.05 | 236.896 |
| Cost per Acre foot of water | \$889.00 | \$47.10 | \$889.00 | \$889.00 |
| Irrigated Acres | 170.62 | 144.76 | 152.40 | 75.26 |
| 1" of water applied across each respective golf course | 4,616,222.50 | 3,930,849.23 | 4,138,307.70 | 2,043,628.86 |
| Annual Water Cost | \$487,634.28 | \$19,954.39 | \$393,871.45 | \$210,600.54 |

Note: The current water budget is \$1,112,060. If the well was drilled at Los Altos, the annual water cost is estimated to be \$833,137 based on current usage at each facility.

The concessionaires would have the opportunity to earn significant revenue justifying the risk assumed. The freedom from City accounting systems, the ability to create a meaningful transaction based website, and selecting a point of sales system that efficiently creates databases to facilitate effective marketing. Perhaps most importantly, they would be entirely responsible for the experience they create for the golfer. The list of benefits to the concessionaires over current operations is long.

Option 4 for issuing a Request for Proposal for concessionaires to assume responsibility for maintenance relieves the City of operational exposure to the financial performance of the golf courses, and to the extent, the leases have capital investment provisions required of the concessionaire may mitigate long-term capital requirements.

Third Party Management or Lease – Which is the Better Financial Option?

The answer to the question depends on what assumptions you are using: one course or all four courses? What capital investment is made? The permutations are limitless. However, presented below is a four courses comparison of earnings before interest, taxes, depreciation and amortization (EBITDA) presuming that the well is drilled at Las Altos and the water cost equals that of Ladera:

| Third Payment Management | |
|--------------------------|-------------|
| Gross Revenue | \$6,819,200 |
| Current Expenses | 6,793,496 |
| Project EBITDA | 25,704 |
| Water Adjustment | 557,168 |
| Labor Savings | 436,402 |
| Adjusted Expenses | \$1,019,274 |
| Management Fee | 200,000 |
| Net income | \$819,274 |
| Lease | |
| Gross Revenue | 6,819,200 |
| Royalty Percentage | 12% |
| Net Income | \$818,304 |

While the comparison is based on numerous assumptions, in all significant and material respects the results are fairly comparable. Thus, the ultimate selection of the new business model adopted should be on the preference of City Council.

What is known is that the historical business model on which the golf courses have operated is not sustainable. For the strategic recommendations to be implemented to resuscitate the golf franchise, either way, the City will have to allocate capital resources whether through the general fund or via the issuance of alternative funding sources.

Tactical Recommendations

The tactical and operational recommendations are summarized below and detailed in the main section of this report contained therein.

Recognizing that selecting and implementing the ideal business model and organization structure for the golf courses may require debate, deliberation and some time to reflect, there are tactical recommendations that should and can be addressed now. These include:

- 1) All concessionaires' leases should be structured to co-terminate to provide the City the great flexibility and leverage in negotiating.
- 2) The City's financial statement should embrace cost allocation by course rather than the aggregation of expenses in a consolidated account.
- 3) Any new concessionaire lease should be premised on a single percent of gross revenue rather than each revenue component having a differing rental percentage payable to the City. A 12% payment of gross revenue is consistent with industry

benchmarks. Note the necessity to charge 20% for utilization of the City's liquor licenses. This requirement underscores the point that the management of the golf course by an independent entity would be far more efficient.

- 4) Each golf course should hire a Class A member of the Golf Course Superintendents Association of America to introduce professionalism and a more knowledgeable level of care and maintenance of the golf course resulting in improved playing conditions for the golfers.
- 5) The City should purchase annually a minimum of \$500,000 in new maintenance equipment replacing a fleet that is costly to maintain and even with the finest care, produces an inferior product.
- 6) The tee sheet and POS system should be fully integrated with the adoption of online tee time reservations available from desktop computers and mobile phones. A database of golfers utilizing the facility should be created to facilitate marketing.
- 7) The daily transfer of funds and reconciliation there on should revert to the historical practices. To ensure that the City is secure in the remittance of their funds, the concessionaire, we believe, are willing to post a cash deposit, to eliminate the current time consumptive practices that are in place.
- 8) The experience provided and the value received at Arroyo del Oso, Ladera and Los Altos vary considerably yet the fees at each are identical. We would suggest that the prime tee green fee is raised at Arroyo del Oso by \$4. While the 'potential' experience of the course layout at Ladera is superior to Los Altos that would justify a \$2 increase in the green fee, the substandard conditioning at Ladera as exemplified by the numerous gopher holes (notwithstanding a \$35,000 investment in remediation) precludes the possibility of raising the fees at this time.
- 9) Balloon Fiesta Park's six-hole golf, currently operated by the Parks and Recreation Department, and not the Golf Management Division should be closed and repurposed for soccer, rugby, etc. The field is currently maintained by Park Management Division. The facility is not near any residential units that would benefit from the driving range or the abbreviated course. More importantly, it is required to close for two prime months: September and October for the legendary Balloon Festival. More importantly, the greens are currently hand-watered via quick couplers. Consideration is being given to installing an irrigation system to automate this process. The return on that investment would be negative and further accelerate the losses realized.

Summary – A Community Asset of Costly Potential

Undertaking a feasibility study for the City of Albuquerque Department necessitated the evaluation of the potential of the facility, the future investment required, the highest and best use of the property, and whether the experience offered to golfers was consistent. All of these were evaluated with the goal of creating a financially self-sustaining entity, if possible.

Our evaluation of the City of Albuquerque’s golf courses concluded that substantial challenges exist, as noted below:

| Project | Rating |
|--------------------------|--------|
| Strategic | |
| Vision - Competitive Mix | Red |
| Demographics | Green |
| Weather | Green |
| Tactical | |
| POS/TTRS | Red |
| Website | Red |
| Financial | Red |
| Operational | |
| Course Layouts | Yellow |
| Agronomic | Red |
| Deferred Capital | Red |
| Clubhouses | Yellow |
| Food and Beverage | Yellow |
| Golf Playing Preferences | Green |
| Customer Loyalty | Green |

Key: Red – Negative
Yellow – Neutral
Green – Positive

The City of Albuquerque is in need of capital investment and is likely to see short-term operational losses despite operating within a market whereby demand exceeds supply and the favorable playing season is fabulous. However, customer expectations of low-priced value golf amongst an aging population render a significant up-front capital investment, a hazardous financial proposition.

The core assets have the potential, with the creation of the proper vision, the allocation of the appropriate resources, and the consistent execution of operational policies and procedures, to become a marginally sustaining asset whose intangible value may contribute to the lifestyle of the City’s citizens.

This report clearly defines a specific vision that can be achieved based on the location of the golf courses, the demographic profile of the residents, the ability to leverage weather and technology to create incremental revenue, the proper stewardship of the courses and establishing service standards commensurate with the experience desired and the fees posted.

It was written for the lay person providing detail and background so that they could be informed as to the logic of the recommendations reached.

FINAL GOLF STUDY REPORT: 5/10/2017



CITY OF
ALBUQUERQUE

City of Albuquerque

A Golf Study

Presenting a 10-Year Vision
As of May 1, 2017

“Where Great Friends and Memories Are Made
In Celebrating Life”

Arroyo del Oso
Ladera
Los Altos
Puerto del Sol

Submitted by:

JJ Keegan+
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Castle Rock, CO 80108
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The Supporting Research

Analysis and Research Performed

To undertake this management and operational review, JJ Keegan+ employed a precise methodology of seven steps. These steps and the knowledge gained from each are summarized below:

| Step | Function | Description | Knowledge Gained |
|------|-------------|---|--|
| 1 | Strategic | Geographic Local Market Analysis | Do the demographics indicate that there is sufficient demand to meet the available supply of golf courses? Based on the age, income, ethnicity, and population density, what type of facility would create the highest probability of a fiscally sustainable golf operation? |
| 2 | | Weather Impact Analysis | Are the current losses being realized a function of adverse weather or management policies? Are there sufficient playable days to generate a return on the proposed investment? |
| 3 | Tactical | Technology | How effectively has an integrated golf management solution been deployed to create the collection of data required to manage the golf course properly? |
| 4a | | Key Metrics | How does the operational performance of ABQ GOLF compare to the 15 industry management benchmarks that measure strengths and weaknesses and to regional and national indices? |
| 4b | | Financial Modeling/ Revenue Management | Are the proposed course renovations proposed by the ABQ GOLF Department financially viable? What debt service can each golf course cover? Have accurate financial models that support proactive decision-making been developed. What is the current utilization and REVPAR? |
| 5 | Operational | Golf Operation and Course Agronomic Review | What is the current physical state of each golf course? What is the optimal and best use of the property? What are the recommendations for facility expansion and layout modification based on likely to produce a financial return or create supportable intangible value to the quality of life within the City? |
| 6 | | Management, Marketing, and Operational Review | Does the value provided equal or exceed the associated fees? Are the proper operating procedures consistently deployed through each step of the “assembly line of golf” to create value for the golfer? |
| 7a | | Customer Preferences | Who are the core customers and how much do they spend? What is their annual retention rate of your golfers? What are the barriers to increased play? What are the primary reasons they select one course over another? |
| 7b | | Customer Loyalty | How loyal are your customers? What are the key loyalty drivers that create satisfaction, and what is the financial referral impact of promoters versus the negative impact of detractors? |

These steps provide a comprehensive framework from which JJ Keegan+ has successfully crafted strategic plans for municipal golf courses across the United States. While each municipality is unique, there is a great similarity amongst all municipal golf courses on how the mission and vision as defined by a City or a City Council can be translated into a vibrant golf operation.

As an integral part of this report, the following analysis and research were provided to the City of Albuquerque throughout the engagement. The chart below summarizes the research from which the conclusions and recommendations in this report were formed. This data for each of the four facilities was presented to the City of Albuquerque Department as a supplement to this report.

| Task | Document | Pages | Date |
|---|-----------------|-------|----------|
| Step 1 – City of Albuquerque - Geographic Local Market Analysis | PowerPoint | 12 | 4/1/17 |
| Step 1 – City of Albuquerque - Geographic Local Market Analysis | Excel | 20 | 3/27/17 |
| Step 2 - Weather Trends International Playable Days Report | Adobe Acrobat | 10 | 1/7/17 |
| Step 2 - Playable Day Analysis vs. Management Performance | Excel | 1 | 1/7/17 |
| Step 3 – Technology Integration Review and Assessment | Excel | 2 | 2/3/17 |
| Step 4 – PGA Performance Trak – National and State Benchmarks | Adobe | 45 | 4/2/17 |
| Step 5A – Architectural Master Plan Study Narrative – Staples Golf Design | Adobe Acrobat | 75 | 4/6/17 |
| Step 5B – Agronomic & Maintenance Review – Mike Vogt, CGCS | Word | 34 | 3/28/17 |
| Step 6A - Competitive Course Review: City of Albuquerque Courses: Photos | Adobe Acrobat | 771 | 11/22/17 |
| Step 6B - Competitive Course Review: ABQ area competitive golf courses | Adobe Acrobat | 326 | 11/20/17 |
| Step 6c – Competitive Map Driving Distance between courses | Adobe Acrobat | 1 | 11/19/17 |
| Step 7A - City of Albuquerque Golfer survey | PowerPoint | 54 | 3/28/17 |
| Step 7B – City of Albuquerque Golfer survey – raw data | Microsoft Excel | 1 | 3/28/17 |

This analysis also included a review of:

1. 2012 – 2016 City of Albuquerque Enterprise Fund Financial Statements (CAFR Reports) including revenue, expenses, and rounds played since the inception of the golf courses.
2. 2012 – 2016 Historical Data, by G/L account code, for City of Albuquerque Enterprise Fund.
3. 2012 – 2016 financial data by line item – unaudited.
4. 2014 Five Review Capital Plan.

5. City of Albuquerque course fees and season pass with an examination of pricing to measure the value being afforded golfers in relationship to the fees charged.
6. Reconciliation of Concessionaire's Lease Payments.
7. Interviews with City Officials to understand resources and priorities for allocation.
8. In person and Webinar based meetings with Park and Recreation Department Management, and Golf Course Management to discuss questions/issues arising from the review of the above.
9. Identifying any contractual or use permit compliance issues.
10. Preparing findings and recommendations, including a plan for financing improvements and achieving financial stability.
11. Six site visits comprising 20 days by JJ Keegan+, Andy Staples Golf Design, and Michael Vogt, CGCS.

Limitations of Study and Caveats

This feasibility study engagement, like many, has taken many twists and turns, creating some unanticipated challenges, including the following:

- ◆ The City of Albuquerque has not created a strategic business plan for the golf courses, so the vision for the facilities is not defined.
- ◆ The embedded political constraints by which the City of Albuquerque operates narrows and restricts the viable organizational, management, and capital investment strategies.
- ◆ The recommendations contained in this report would be vastly different if the operator of the golf courses were operating as a private enterprise versus a municipality entity.
- ◆ The facilities' adoption of technology, including meaningful customer tracking of customer email addresses, playing frequency or spending behavior, was lacking. A thorough yield management analysis to determine the revenue potential of the facilities was therefore restricted in scope.
- ◆ The lack of capital limits the viable options.

The City of Albuquerque Golf Study

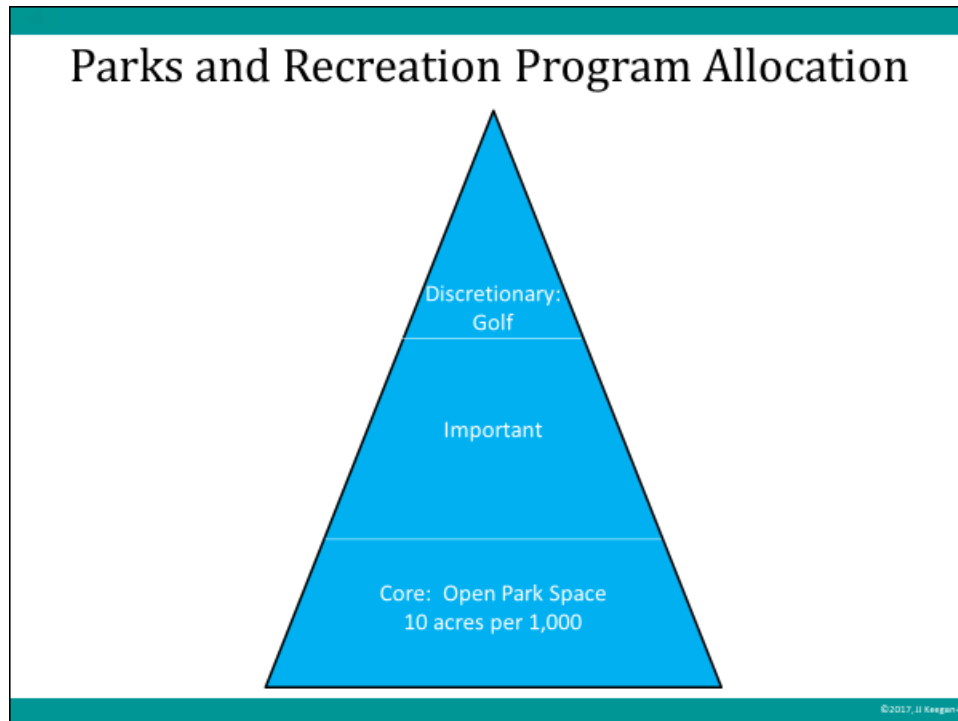
What is the Role of Municipal Golf in America?

Historically, municipal golf courses are often viewed as the entry door—the stereotype of inexpensive, affordable golf. Average course conditions, small clubhouses, and limited food service cater mainly to seniors, juniors, season pass holders, and new golfers. During the past decade, this stereotype has changed, as many municipal courses now offer high-quality experiences throughout the country.

While looking to provide a recreational experience to its citizens, municipal golf encompasses a number of goals and functions:

- ◆ Provide an appropriate return on investment with a value-based recreational activity for the citizens.
- ◆ Municipal golf serves as an entry door to the game as it introduces individuals to the sport, its rules, and its defining culture. Golf is the only sport in which professionals are role models who demonstrate that referees are not necessary for an event to be fair and fun.
- ◆ For families and friends, golf is an opportunity to enjoy each other's company via a walk through nature's preserve. For the competitive athlete, golf is an arena to demonstrate ability. For business men and women, golf is an office, and for those who are retired, golf serves as a place to meet, exercise, and enjoy the reward for a life of diligent effort.

What is often lost in the debate on the viability of municipal golf courses is that golf is classified as a discretionary program. The allocation of resources for parks and recreation departments is determined by a matrix of the core, important, and discretionary areas of importance by national standards, as highlighted in the chart below.



Thus, it is essential to understand the organizational framework in which the golf course operates within a City's defined charter of providing leisure services. Parks and Recreation systems across this country provide three types of services:

- ◆ **Core Essential Services:** These are services the city must provide to manage parks. They would include providing parks and open space for no cost, park maintenance, security, administration, and essential parks-related duties that are commonly considered good public services. These types of services are typically supported by tax dollars. The City of Albuquerque maintains 230 acres per 1,000¹ in population.
- ◆ **Important Services:** These are services which provide for the public good and the private good. Examples of Important Services would include programs such as swim lessons, summer day camps, and after-school programs.
- ◆ **Value-Added/Discretionary Services:** These are services that are nice to provide if money is available to support the services and if the community is willing to invest in them through user fees. These services would include **golf**, senior trips, fitness programs, and individual instructional classes and lessons.

¹ <http://www.businessinsider.com/us-cities-with-the-best-parks-2013-6?op=1>

With golf clearly a value-added/discretionary service, the golf course needs to be **fiscally self-sustaining**, especially since private enterprise can adequately fulfill this need for the citizens. It is with this understanding that the recommendations within this report were framed.

While this report emphasizes the desire that an enterprise fund is financially self-sustaining, such may not be achievable due to uncontrollable factors such as the demographics of the courses' locations addressed herein compounded by the fluctuations in weather and the organizational culture and management model in which the golf courses operate.

Understanding and applying the mission and vision statement of the City of Albuquerque is the foundation for the research, analysis, and recommendations which follow.

The Mission and Vision Statement Frame the Operational Policies

The success of the storied golf courses of the world all has one thing in common: a rigid discipline to adhere to the strategic vision for the facility. Thus, in undertaking a management and operational review, understanding the client's broad vision must first be established.

For City of Albuquerque, the mission statement is:

- ◆ Protect, plan, enhance, and maintain a Parks, Major Public Open Space, and Trails System that gives Albuquerque its sense of place.
- ◆ Promote economic development and tourism by continuing to provide quality, affordable facilities and programs (e.g. Golf, Recreation, Swimming Pools, Parks, Open Space, Balloon Fiesta Park, Shooting Range, and Sporting Events).
- ◆ Assure quality educational programs for youth to encourage positive behavior towards a conservation ethic and therefore combat "Nature Deficit Disorder."
- ◆ Provide quality recreation programs to encourage healthy, active lifestyles for all ages.
- ◆ Encourage and develop a healthy and safe work environment, ethical management practices, and a spirit of teamwork for all Parks and Recreation employees.²

The City of Albuquerque functions with themes designed to guide future development, operations, and maintenance of the Albuquerque park system. Regarding recreation, the vision is "inspire personal growth, healthy lifestyles, and a sense of community" with the following goals:

- ◆ Promote and Market Albuquerque's Recreation Programs, Parks, Golf Courses, and Open Space

² <https://www.cabq.gov/parksandrecreation/our-department>

- ◆ Develop New Strategies to Improve Albuquerque’s Leisure, Recreation, and Sports Facilities and Programs
- ◆ Conserve and Sustain Albuquerque’s Natural and Cultural Resources for Future Generations
- ◆ Meet Youth Entertainment and Sports Needs and Expectations
- ◆ Maintain Harmony with Community and Neighborhood Associations
- ◆ Ensure Every Visitor has a Quality Experience
- ◆ Involve and Empower Community Groups
- ◆ Increase Customer Confidence

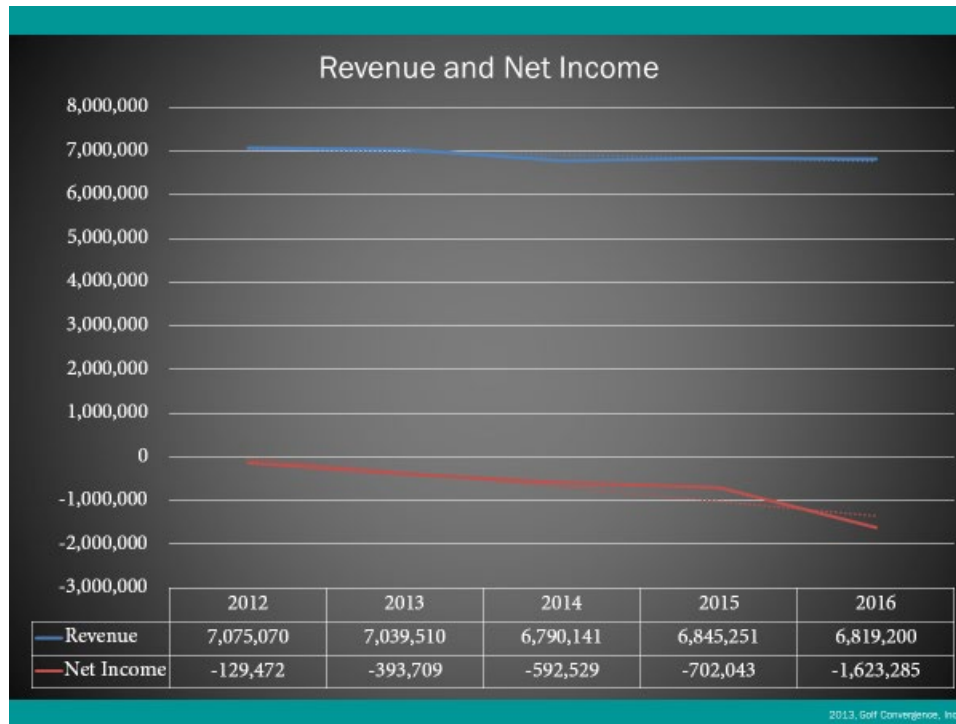
The Golf Department does not have a defined mission statement; from interviews conducted, it is surmised that an appropriate mission statement for the golf courses is:

**Functional Mission Statement
For Golf Department**

To provide a convenient and affordable golf experience that affords a variety of golf opportunities from entry level/practice facilities to a championship course.

It is the desire of the City of Albuquerque to grow the game of golf by providing instructional programs and services that allow residents to explore the pursuit of golf as a life time leisure activity.

It is our professional opinion that such a philosophy of operation represents a long-term strategy in which short-term losses requiring financial support from the General Fund are likely. Such is evidenced by the dismal recent results for the Golf Department highlighted below:



Are these the accurate numbers? While there are perhaps, “fairly stated in all significant and material respects,” there are valid concerns regarding the revenue reported through the Sirius POS and the City’s Central Accounting System.

The following highlights the variance between the internal financial statements of the Park, based on “cash flow” vs. “net income” published by the City which includes numerous adjustments including interest, taxes, depreciation, cash payments to other funds for goods and services any payments for general fund services.

| | Park and Recreation Financial Statements | City’s Consolidated Annual Financial Report (CAFR) |
|------|---|---|
| 2016 | -941,555 | -1,623,285 |
| 2015 | -528,202 | -702,043 |
| 2014 | -358,593 | -592,529 |
| 2013 | 117,932 | -393,709 |
| 2012 | 215,621 | -129,472 |

A reconciliation of the 2016 variance is shown here:

| Description | | Amount |
|--|-----------|-------------|
| CAFR Net Operating Loss | | \$1,623,285 |
| Depreciation | | 336,588 |
| Utilities Per CAFR | 1,773,840 | |
| Utilities Per Internal Statement | 1,390,300 | 383,540 |
| CAFR Adjustments | | -38,398 |
| Estimated Net Loss - Internal Statements | | \$941,555 |

The concern is that the internal staff and the concessionaires, both of whom are unlikely to review the CAFR report, may not realize the large gap between cash flow and the actual financial performance of the golf courses as reflected in net income. The actual financial performance is far worse than they many perceive minimizing the urgency to take corrective action.

While mission statements and vision statements provide a framework for operations, the key concept that supports lofty goals is the definition as to the operational standards and capital investment guidelines.

Specifically, what is the operational goal: to provide five stars (platinum), four-stars (gold), three-stars (silver), two stars (bronze) or one star (steel) experiences to the constituency? Are capital improvements to be made only when critical or to remain competitive or, to the highest standard, comprehensive to be on the forefront as the recognized leader in a competitive marketplace?

For the City of Albuquerque, the operational policies and capital investment philosophies are framed by their desire that “the current park and recreation needs be met without sacrificing the ability of future generations to meet their needs.”

That statement provides decisions will be supported “that provide services at a sustainable rate, such as providing infrastructure that can be reasonably maintained, setting realistic program and service delivery targets, or modifying land management techniques to increase efficiency.”

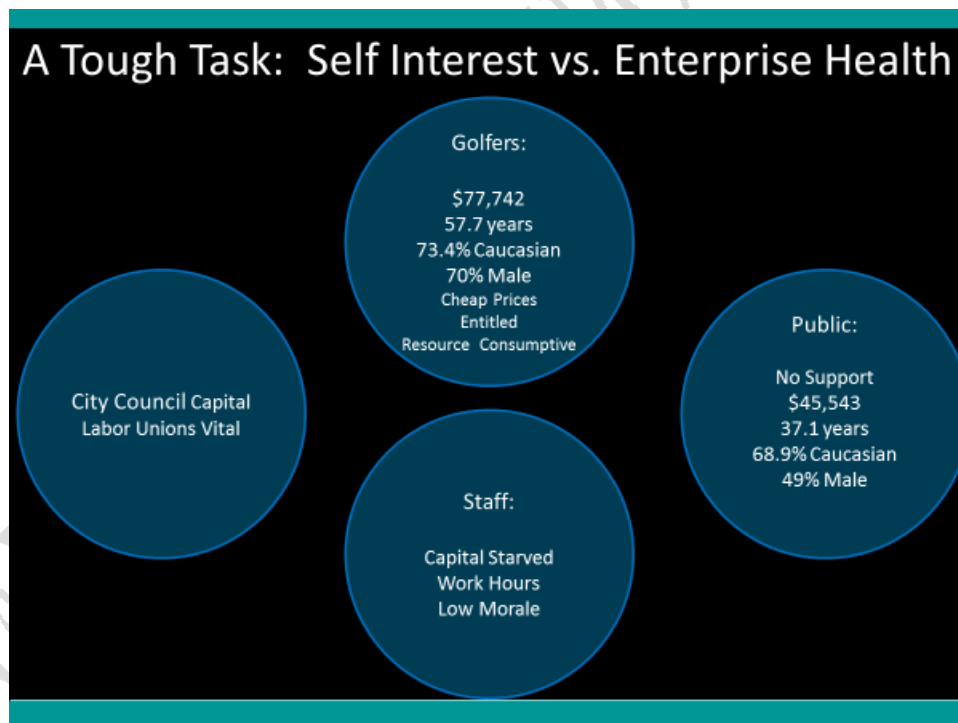
The recommendations contained in this report are framed by that philosophy of **practical prudence and efficiency** that the City of Albuquerque’s courses will operate at a **one-star (Steel) or two-star (Bronze) level**.

Creating A Consensus – The Interests Are Diverse

To effectively construct a 10-year vision for a municipal golf enterprise, it is vital to understand the divergent constituencies and ascertain where common interests are found.

Ideally, one would hope that although a City would desire an enterprise fund to be self-sustaining, capital funds would be available when required for critical investment. It seems equitable that management and staff will have the resources required to serve the customer properly and will enthusiastically commit to a professional level of service. The customer should be willing to pay for the fair value of the experience provided and not anticipate, expect, or demand subsidized support for their recreational leisure. For those citizens who do not participate in a specific recreational activity, a collegial understanding exists that resources are appropriately allocated to those activities to which they participate.

Currently, it is the observation of JJ Keegan+ that there is a wide chasm between the interests of each constituency as illustrated below:



Note: Data based on a survey conducted by JJ Keegan+ as an integral part of this review.

Regarding management and staff, we believe they are engaged in a repetitive cycle of defeat as illustrated here:



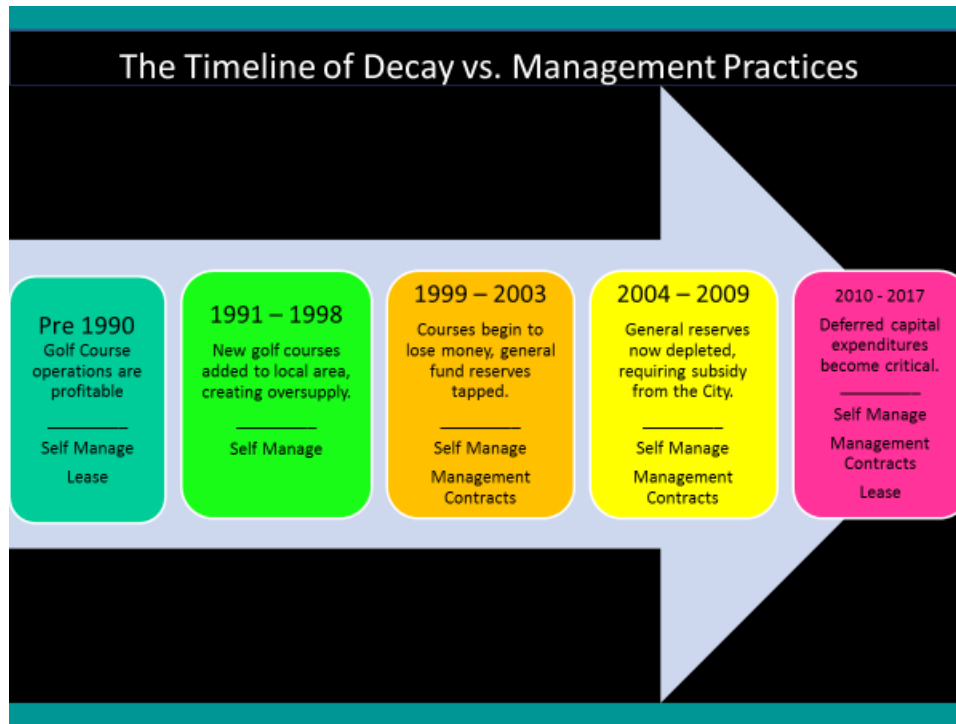
Not a winning formula. The foundation for a successful golf enterprise is found within a vibrant management team, and staff focused on creating value for the customer.

Compounding this cycle of despair, the City cannot effectively control labor expenses.

Labor unions serve a vital role in the United States, particularly for a five-day work week manufacturing or industrial enterprise. However, industry wage scale and work hour limitations are incompatible to effectively and efficiently serve a seasonal enterprise that requires long hours during limited months.

Thus, the City of Albuquerque's Golf Department is a failing enterprise where critical and competitive capital investment has long been deferred.

The insatiable, unreasonable, and inflexible demands from its customers and the constraint of operating lacking the deftness of private enterprise, a devil's triangle have formed resulting in its golf operation spun into the death spiral which is chronicled below:



Some solace can be found in that the challenges faced in operating golf courses by the City of Albuquerque are not unique. As reported by the National Golf Foundation in 2012, the last time the survey was conducted, regarding municipal golf courses only³:

- ◆ 70% cover operating expense
- ◆ 39% have debt
- ◆ 40% cover debt service
- ◆ 73% deferring capital improvements
- ◆ 39% lowering maintenance standards

The City of Albuquerque’s golf courses have current capital requirements exceeding \$16.5 million to remain competitive, as detailed below:

| Golf Course | Investment |
|----------------|---------------------|
| Arroyo del Oso | \$6,091,525 |
| Ladera | 2,595,250 |
| Los Altos | 6,092,247 |
| Puerto del Sol | 1,710,000 |
| Total | \$16,575,921 |

³ National Golf Foundation, “Maximizing the Economic Benefits of Municipal Golf Courses,” October, 2012, Slide 25

Regarding the golfers, it is our independent and professional opinion that the City of Albuquerque has long been held hostage to the demands of various groups that are vastly more resource consumptive than financially contributing to the golf enterprise. There exist a narrow niche of citizens, who have champagne tastes on the City's beer budget, who believe that being vocal and demanding compensates for rationale and reasoned thought in a democratic process. Their mantra of "give us what we want" is contrary to the City's philosophy of providing recreational opportunities for the masses which takes precedence over capital investment for splinter groups.

Some camps will strongly maintain that resources should be allocated to enhance the intangible value of the golf courses regardless of the financial return. Such positions are usually rooted in a deep self-interest to receive subsidized governmental support for their personal hobbies. Such was confirmed by the survey conducted for this Golf Study in which it is the belief of the golfers who responded that:

| Earnings should be sufficient to cover: | % |
|---|--------|
| Operational, capital expenses and debt obligations. | 11.68% |
| Operational and capital expenses | 11.17% |
| Operational expenses only | 23.35% |
| The golf course is an important recreational asset enhancing the quality of life to all Albuquerque residents. Like other park and recreational amenities, the operating deficit and capital programs should be covered by the City's General Fund even if that meant an increase in taxes. | 53.81% |

Thus, the chasm between the goals of City, management, staff, the golfers, and taxpayers are large.

Fiscal Sustainability is the Defined Goal

What is known is that the mission statement outlined by the City of Albuquerque has in the past, currently, and will in the future, determine the tactical resources required, the operational policies and procedures to be implemented, and the capital investment that is made.

In a well-managed operation, every operational decision can be traced up to the tactical plan and then up to the strategic vision as illustrated below:



To illustrate, the concept of the integration of operational policies to tactical resources to the strategic vision, would you expect valet parking at a low-end municipal golf course? No. Would you expect bottled water, free range access, ball repair tools, carts with GPS and towels at a golf course charging more than \$200? Very likely.

Hence, the importance of the defined strategic vision. Without a defined strategic vision effective tactical plans cannot be developed. Without tactical plans, efficient operational execution cannot occur. The result of this lack of strategic planning is highly predictable—policies, procedures, and practices become based on the ever-changing whims of the owner, management, staff, or upon the influences created by golfers. Management and staff, as best they might only respond to the latest self-imposed crisis or artificially defined priority. As the saying goes, “Vision without action is a daydream. Action without vision is a nightmare.” Either way, chaos ensues.

“Strategic,” “tactical,” and “operational” are three buzzwords in the business lexicon that make most people’s eyes glaze over. Succinctly, they mean the following:

- ◆ **Strategic:** *culture*; vision, history, tradition, and governance.
- ◆ **Tactical:** *asset management*; comprising the facilities (golf course, clubhouse and other physical entities, finances, and human resources).

- ◆ **Operational:** activities (green fees, tournament, merchandise, food and beverage and range) and management (leadership, staffing and scheduling, marketing, and customer interaction).

It is the interrelationship of these components that creates the anatomy for a golf course operation as illustrated here:



This review was framed by the mission statement for the City of Albuquerque Golf Department to ensure the consistency of current operations to the strategic vision for the golf courses as set by City.

Therefore, it is essential that the type of golf experience offered, and the associated investment by the City be consistent with the demographic profile of the immediate community.

Strategic - Step 1: Analysis of Regional and Local Trends in Public Golf

Tendencies and Preferences that Influence Demand & Supply

For this operational review, we conducted intensive research on the local golfer base, supply levels, the current supply/demand balance, and the impact of historical supply dilution.

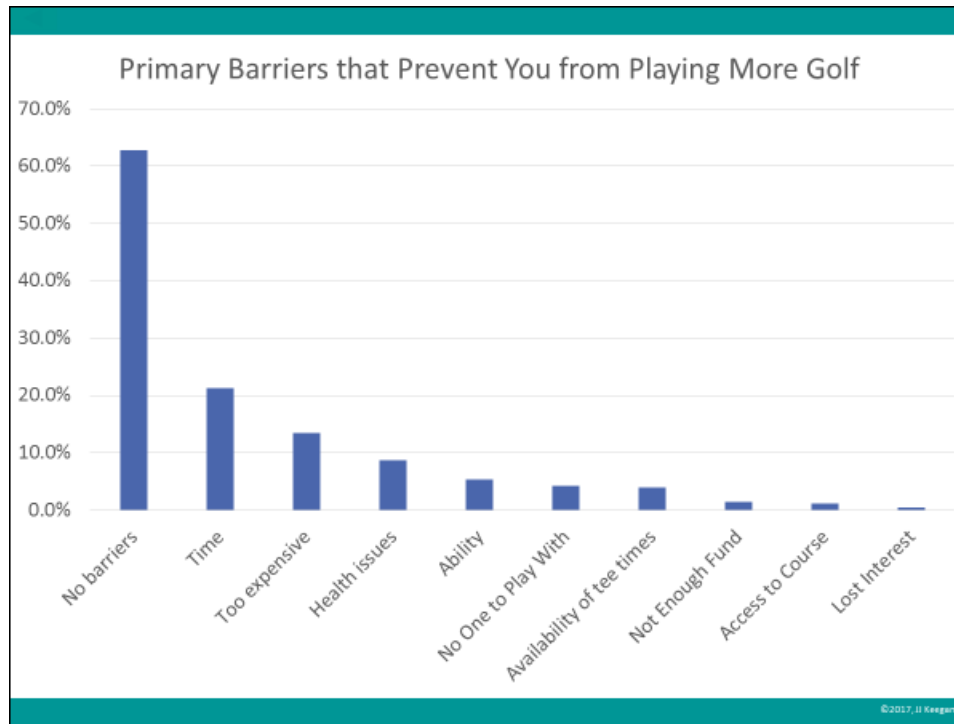
This analysis is undertaken because the JJ Keegan+ has learned from conducting strategic analyses for over 1,000 golf courses nationally that certain characteristics are predictable, as highlighted below:

| Just the Facts: The Industry | |
|------------------------------|---|
| 80% Rounds | Live or work within 30 minutes of golf course |
| 20% of Customers | Core golfers generate 60% of revenue |
| Defectors | 50% play course once and don't return within 12 months |
| Distinct Customers | 6,000 golfers play 4 to 7 courses annually |
| Barriers to playing more | Time or "No Barriers." Money is cited less than 20% of time |
| Game | Caucasian, Well-to-do, Older than General population |

In essence, 60% of a golf course's revenue is generated from 20% of the customers. This 20% represent an average of 6,000 distinct customers who play 4 to 7 different golf courses, resulting in more than 30,000 rounds per year played at the average golf course.

What is always fascinating is that 50% of the golfers who play a golf course one year will not return the next, especially if the golf course is not utilizing effective email communication. Those defectors are replaced by a new set of golfers who are playing the first time or returning after a one-year absence or greater.

When asked to identify their barriers to increased play, survey respondents cited the “lack of time” or “no barriers” answers common to every survey by JJ Keegan+ which is consistent with the Albuquerque survey conducted as shown here:



The answers “no barriers” and “time” are troubling in that they are uncontrollable factors. Considering that the median household income reported is \$77,742 among golfers, the customer certainly can pay a higher green fee if the value provided is also increased.

The expense of the sport, while ranked third, is selected by only 13.1% of citizens. Thus, those who proclaim, often loudly at times and most often frequent golfers, that the solution to the current problem is to lower fees, speak from a platform of self-interest hoping to cajole the City into lowering rates and subsidizing their leisure.

The chart below highlights the perilous path that discounting offers:

| Decrease in Price | Number of Additional Rounds Required to Offset Discount |
|-------------------|---|
| 5% | 5.26% |
| 10% | 11.11% |
| 15% | 17.65% |
| 20% | 25.00% |
| 25% | 33.33% |
| 30% | 42.86% |
| 35% | 53.85% |
| 40% | 66.67% |
| 45% | 81.82% |
| 50% | 100.00% |

The key to financial success in managing a golf course is not focusing on price but rather the value created by the experience offered. Where the experience equals or exceeds the rate charged, customer loyalty is created. Where the experience is less than the price charged, customer attrition occurs.

It is the belief of JJ Keegan+ that the recent drop in rounds over the past 16 years is a result of the increase in supply in the market and equally the result of a declining experience provided to the golfer at the City of Albuquerque's golf courses from the lack of capital investment.

Understanding the experience sought by the golfers is rooted in realizing what motivates a golfer to play? This subject has been extensively studied by the National Golf Foundation.

The National Golf Foundation in a 2012 study asked golfers why they play the game. The responses were very insightful as highlighted in the following figure.⁴

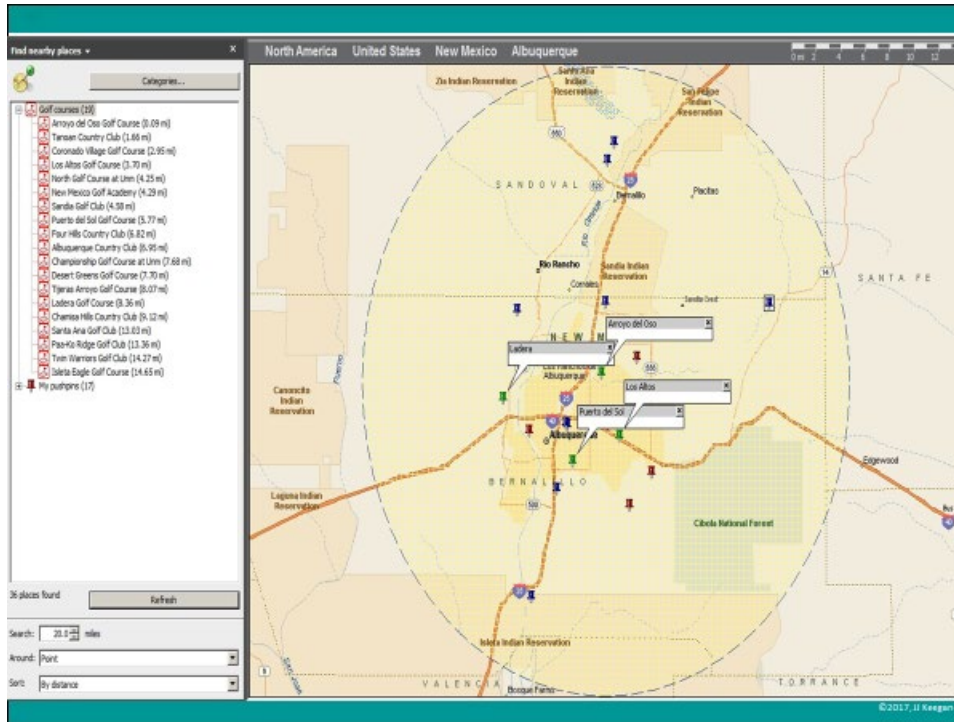
⁴ National Golf Foundation, "Attrition and Attraction," April, 2012, Slide 19.

| Why We Play | Not and Fringe | Casual | Hooked and Nuts | Average |
|----------------------|----------------|--------|-----------------|---------|
| Time outdoors | 43 | 54 | 63 | 53 |
| Social aspect | 33 | 46 | 53 | 44 |
| The exercise | 32 | 44 | 48 | 41 |
| Ball striking | 23 | 40 | 59 | 41 |
| The challenge | 18 | 36 | 66 | 40 |
| The courses | 20 | 28 | 52 | 33 |
| Stress relief | 19 | 36 | 43 | 33 |
| Mental game | 10 | 23 | 39 | 24 |
| Values of the Game | 9 | 23 | 39 | 24 |
| The competition | 6 | 13 | 34 | 18 |
| Keeping score | 6 | 10 | 35 | 17 |
| History & Traditions | 6 | 9 | 27 | 14 |
| Practicing | 5 | 9 | 26 | 13 |

So despite all the commercials, you see about longer, straighter, fewer strokes, they only matter to a small segment of those who play golf. And despite the PGA Tour, the Golf Channel, and the plethora of talk shows focused on championship golf, all segments of golfers are attracted to the sport by the opportunity to spend time outdoors, the social aspects of the game, and exercise. History and traditions, the competition, and ball striking do not make the top three categories.

There is a disconnection between the brand image of the game in the minds of the public at large (reinforced by the industry through its advertising) and what is sought by golfers. A lesson to be learned. Those three themes—spending time outdoors, the social aspects of the game, and exercise—should be hallmarks of the industry and the mantra of every golf course to attract and retain players to a game that still, at its core, is a game of the wealthy.

As part of this management and operational review, to determine the competitive forces surrounding City of Albuquerque's golf courses, facilities that are located within 20 miles from City Center were evaluated shown here:



Key:
 Green dots – City of Albuquerque’s golf courses
 Blue dots - Public golf courses
 Red dots - Private clubs or restricted access

In the Appendices to this report, we have presented a detail list of every golf course including address, the number of holes, year opened, price, point, type of golf course, peak green guest fee, and the sales per square foot in the clubhouse.

With all those dots within 20-mile, the superficial observer might presume that the market is vastly oversupplied with too many golf courses. The opposite is more reflective of the data.

There are 1,733 golfers per 18 holes in the United States. If one considers just the top 100 core-based statistical areas (CBSA), there are 2,233 golfers per 18 holes. The concentration of golfers (demand) vs. the golf courses (supply) in the Top 100 CBSA is illustrated below:

| | Nation | Top 100 Core Based Statistical Areas | % in Top 100 CBSA | Remaining USA | % in Non Top 100 CBSA |
|-------------------|-------------|--------------------------------------|-------------------|---------------|-----------------------|
| Number of Golfers | 24,435,110 | 16,490,169 | 67.49% | 7,944,941 | 32.51% |
| Rounds | 451,577,900 | 280,138,204 | 62.04% | 171,439,696 | 37.96% |
| Rounds Per Golfer | 18.48 | 16.99 | | 21.58 | |
| Courses | 15,204 | 7,206 | 47.40% | 7,998 | 52.60% |
| Rounds/Course | 29,701 | 38,876 | | 21,435 | |
| Golfers > Courses | | | 14.64% | | -14.64% |

Albuquerque is the 36th largest Core Based Statistical Area in the United States. Demand for golf exceeds supply within the regional market.

We are very appreciative of the fact that demand has significantly decreased since 1996 as the supply of golf courses has increased 54% from 99 holes available for public play to 216 with the opening of Isleta (1996), Santa Ana (1997), Paako Ridge (2000), Twin Warriors (2001) and Sandia (2005).

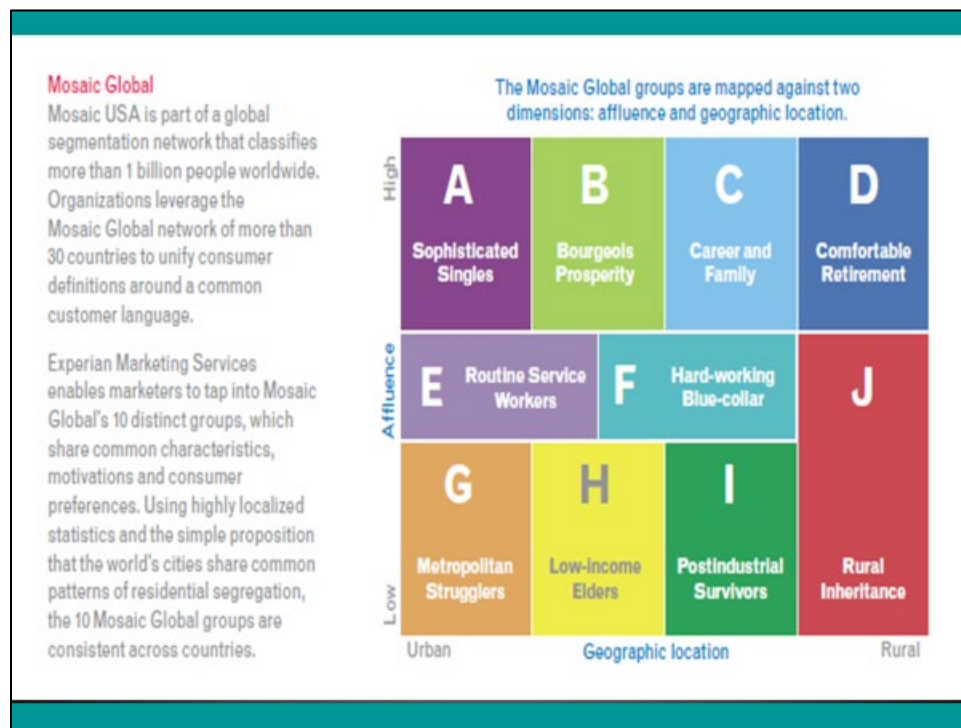
While the number of golfers per 18 holes has fallen over the past two decades, we believe to state that supply now vastly exceeds demand for golf in the Albuquerque market is inaccurate if national benchmarks are utilized.

That raises the question as to what is the ideal type of golf course that would prosper in the local market.

Macro-Economic Analysis: MOSAIC Profile

How do Nordstrom, Neiman Marcus, Outback, Starbucks, Four Seasons, Ritz Carlton, and every other department store, restaurant, and hotel chain determine the locations for their businesses? They evaluate demographics.

To determine the location of their retail locations, they use the MOSAIC™ lifestyle database, which in 2012 had ten lifestyle groups, as illustrated below:



What is the objective of the MOSAIC Lifestyle typology?

- ◆ To classify neighborhoods in a way that provides the most powerful description of consumers' behaviors, lifestyles, and attitudes.
- ◆ To identify lifestyle groups that are as recognizable and meaningful as possible to marketers.
- ◆ To ensure that each of the named groups contains sufficient numbers of households to be statistically reliable for most analyses.
- ◆ To ensure that each cluster is homogeneous regarding demographics and consumer behavior.
- ◆ To avoid an excessive concentration of individual U.S. MOSAIC types within particular geographic regions, except where appropriate.”⁵

This methodology applies to determining the financial potential of a golf course and the type of course layout best suited for the local community.

⁵ <http://www.spatialinsights.com/catalog/product.aspx?product=80&content=1386>

The majority of golfers can be classified in the top four tiers of the MOSAIC lifestyle database. Thus, golf courses that are located in the lifestyle groups classified as “Sophisticated Singles, Bourgeois Prosperity,” “Career and Family,” or “Comfortable Retirement” categories.

For the City of Albuquerque and two of its competitors (Isleta Eagle and Sandia), the MOSAIC profile surrounding each golf course as measured by a 10-mile radius is reflected below:

Mosaic Profile Index Analysis

| | Arroyo del Oso | Isleta Eagle | Ladera | Los Altos | Puerto del Sol | Sandia |
|---------------------------|----------------|--------------|--------|-----------|----------------|--------|
| Total Benchmark | 7.02% | -10.37% | -0.92% | 1.97% | -1.39% | 13.07% |
| Sophisticated Singles | -0.31% | -1.05% | -0.87% | -0.32% | -0.74% | -0.23% |
| Bourgeois Prosperity | 5.65% | -4.63% | -1.24% | 4.75% | 1.76% | 8.08% |
| Career and Family | -1.23% | -6.37% | -0.07% | -5.89% | -4.50% | 1.48% |
| Comfortable Retirement | 2.91% | 1.67% | 1.26% | 3.43% | 2.09% | 3.73% |
| Routine Service Workers | -3.85% | 5.85% | 5.13% | -4.92% | 2.98% | -4.80% |
| Hard Working Blue Collar | -4.47% | -2.33% | -4.00% | -3.73% | -3.51% | -4.80% |
| Metropolitan Strugglers | 1.90% | 6.04% | 2.15% | 5.62% | 3.04% | -2.12% |
| Low Income Elders | 0.70% | 0.34% | 0.37% | 0.70% | 0.24% | 0.50% |
| Post Industrial Survivors | 4.56% | 6.31% | 3.17% | 6.21% | 4.50% | 4.01% |
| Rural Inheritance | -5.76% | -5.74% | -5.80% | -5.75% | -5.77% | -5.75% |

Note: Percentage represent difference from US general population. For example, there are 5.65% more bourgeois prosperity and 4.47% less hard working Blue collar within 10 miles of Arroyo del Oso that the remainder of the US.

©2017, JJ Keegan+

The MOSAIC Profile Reflects Potential

In studies performed by JJ Keegan+, it has been established that a golf course should have a +20% rating in its MOSAIC profile index compared to the US population for a golf course to be financially sustaining if it offers an upscale golf experience charging a green fee + cart exceeding \$75. When the MOSAIC Profiles exceeds +30, this translates into a five-star (platinum) experience is possible. When the MOSAIC profile is between +20 and +30, this represents a four star (gold) level is feasible.

Golf courses who ratings range between +10 to +20 can support a recreational golf course priced between \$50 - \$75 for a prime tee time on the weekends with cart a three-star (silver) level of service.

Golf courses whose MOSAIC profile rating is less than +10, and especially if the rating is negative, are challenged to attract and retain golfers beyond the 10-mile radius. As a result,

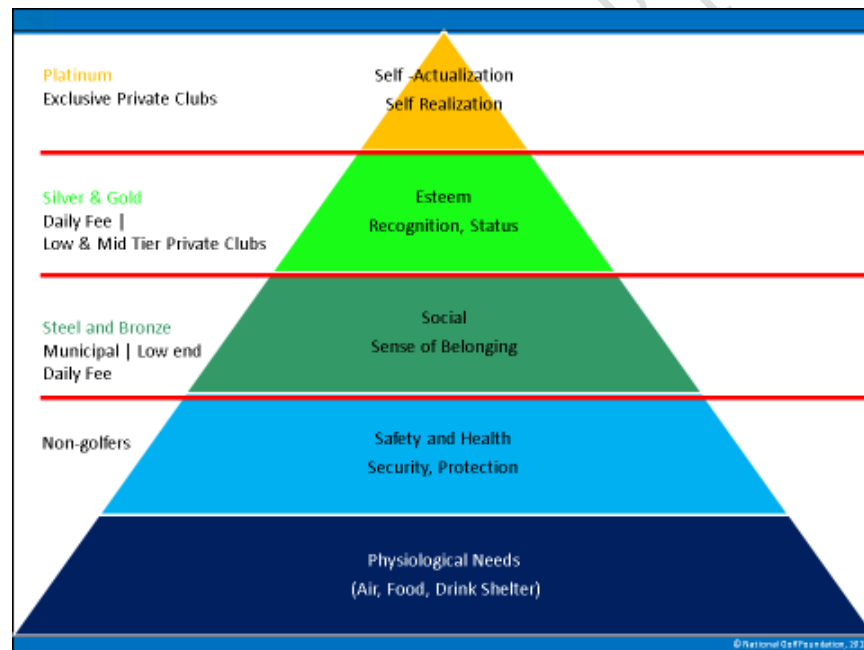
the green fee + cart that is posted is usually less than \$40. The experience typically provided at this level is two stars (bronze) or one star (steel).

Sandia, notwithstanding the resort environment created with its hotel, casino, and spa, is being best positioned to attract golfers that live within a 10-mile radius of the golf course.

Conversely, Isleta Eagle is dependent upon attracting golfers from beyond its 10-mile radius to have any opportunity to be successful. In all probability, the 27-hole Isleta Eagle Golf Course is a loss leader for the hotel and casino.

The Correlation Between the MOSAIC Profile and Maslow

Having defined the segments of society that are likely to be attracted to the game of golf, the actual facilities to which they are attracted, surprisingly, can be traced to Maslow's Hierarchy of Needs as shown here:



It is important to match the client's expectations with the experience created by the golf course management team and the associated course layout. Thus, based on the experience currently provided by the City of Albuquerque's golf course, the primary role is to create a sense of belonging as the encounter is at an entry level: one-star (steel) or two-star (bronze), service level.

Most golf course operators believe that their course is unique in the challenges it presents to generate a sustainable financial return. From the demographic profile of the customers to the diverse supply of golf courses in their competitive set, to the impact of weather, to the course

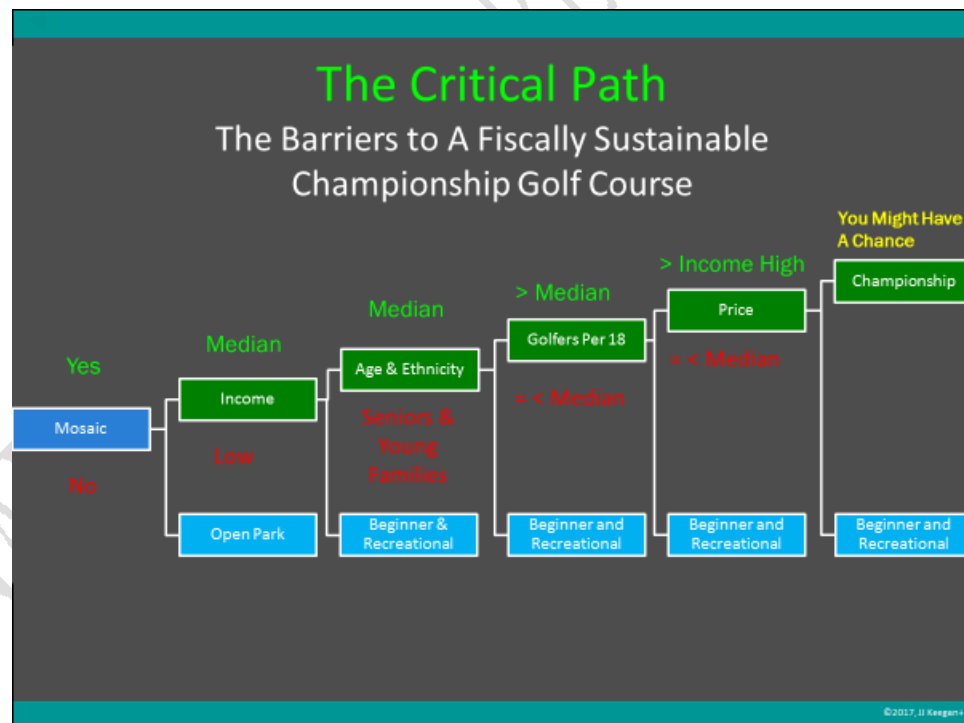
layout, to the diversity of the labor pool, and to the capital available to invest, no two courses offer an identical experience.

Drilling Down to Uncover The Financial Potential of a Golf Course

There are six numbers that determine the potential of a golf course within a 10-mile radius of the golf course:

- 1) The concentration of sophisticated singles, bourgeois prosperity, career and family, and comfortable retirement as defined by Experian's MOSAIC global profile of 10 categories.
- 2) The median household income.
- 3) The median age.
- 4) The number of African-Americans, Asian-American, and Hispanics.
- 5) The number of golfers per 18 holes.
- 6) The slope rating.

If these statistics are applied, the type of golf course best suited for the local market and the financial potential of that golf course can be determined based on the following thresholds:



To clarify, where there is low income, low number of golfers per facility, and a high slope rating, a facility will be consistently financially challenged. Even where the income is high, if the golfers per 18 holes are low, the course will face challenges. Also, if the income was high, the

golfers per 18 stable, and the local community ethnicity very diverse, the golf course will be financially challenged depending on the type of course layout and the golf experience provided.

A point of clarification is that for every one round of golf played by a Hispanic-American or African-American, a Caucasian plays seven rounds of golf. For every round played by an Asian American, a Caucasian plays four rounds of golf.

For City of Albuquerque, the demographic profile surrounding each golf course is reflected below:

| Category | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Isleta Eagle | Sandia | 100 CBSA | U.S. |
|-----------------------------------|----------------|----------|-----------|----------------|--------------|----------|----------|----------|
| Demographics | | | | | | | | |
| Slope Rating | 125 | 121 | 114 | 113 | 134 | 129 | 120 | |
| MOSAIC Attitudinal Behavior Index | 7.02% | -0.92% | -0.92% | -1.39% | -10.37% | 13.07% | N/A | 0.00% |
| Age (Median) | 38.70 | 35.60 | 39.00 | 35.10 | 36.80 | 39.60 | 37.30 | 36.90 |
| | 105 | 96 | 106 | 95 | 100 | 107 | 101 | 100 |
| Income (Med Hhld) | \$47,841 | \$45,454 | \$43,984 | \$44,893 | \$41,156 | \$51,495 | \$57,264 | \$52,747 |
| Income (Median) | 91 | 86 | 83 | 85 | 78 | 98 | 109 | 100 |
| Likely Golfer Household Income | \$79,416 | \$75,454 | \$73,013 | \$74,522 | \$68,319 | \$85,482 | \$95,058 | \$87,560 |
| Income (Index) | 91 | 86 | 83 | 85 | 78 | 98 | 109 | 100 |
| Income (Average Hhld) | \$66,155 | \$61,096 | \$63,545 | \$61,924 | \$55,435 | \$69,405 | \$80,080 | \$73,343 |
| Income (Median) | 90 | 83 | 87 | 84 | 76 | 95 | 109 | 100 |
| Ethnicity (% Cauc.) | 70.60% | 67.17% | 69.90% | 67.70% | 64.83% | 73.43% | 66.50% | 71.10% |
| Ethnicity Index | 99 | 53 | 53 | 53 | 56 | 53 | 94 | 100 |
| Hispanic | 44.30% | 44.30% | 44.95% | 50.66% | 50.66% | 39.72% | 20.10% | 17.00% |
| Hispanic Index | 261 | 261 | 264 | 298 | 298 | 234 | 118 | 100 |
| African American | 3.50% | 3.45% | 3.42% | 3.47% | 3.70% | 3.21% | 15.00% | 13.30% |
| Black Index | 26 | 26 | 26 | 26 | 28 | 24 | 113 | 100 |
| Asian American | 3.04% | 2.34% | 3.14% | 2.80% | 2.37% | 3.06% | 7.10% | 5.40% |
| Asian Index | 56 | 43 | 58 | 52 | 44 | 57 | 131 | 100 |

The chart above provides insights as to:

- 1) Which golf courses have the opportunity to financially self-sustaining based solely on local demographics? Arroyo del Oso and Sandia.
- 2) Is the course layout and experience offered consistent with the neighborhood? Los Altos and Puerto del Sol.

Currently, City of Albuquerque offers a broad spectrum of golf experiences are provided as shown below:



Layout – Are the Existing Courses Compatible with the Neighborhood?

This analysis reveals that a championship course with an appropriate clubhouse to encourage daily fee play and host tournaments and outings are marginally appropriate for Arroyo del Oso.

Ladera's slope rating at 121 is high in relationship to the demographics within a 10-mile radius of the golf course. Holes 7, 8, 9 and 16, 17, and 18 are daunting probably for the majority of players. The MOSAIC profile suggests a course rating of 114 for a multi-purpose facility would be ideal. The introduction of soccer and miniature golf at this location is appropriate. It is our recommendation that a master plan for Ladera is undertaken to unmask its full potential to serve citizens with diverse recreation amenities on a more stable financial platform.

Los Altos with a MOSAIC profile of 1.92% and a slope rating of 114 is ideal is as Puerto del Sol MOSAIC profile of -1.39% and its slope rating of 113.

Micro Economic Analysis:

To support the macroeconomic conclusions, a detailed analysis of the microeconomic components of the market within a 10-mile radius of each course was undertaken regarding participation rates, the number of avid golfers, total participation, golfing fees, and annual spending by golfers is presented below:

| Demand | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Isleta Eagle | Sandia | 100 CBSA | U.S. |
|---|----------------|-----------|-----------|----------------|--------------|-----------|-------------|-------------|
| Population | 577,989 | 548,852 | 468,727 | 580,207 | 469,877 | 516,138 | 203,040,187 | 319,293,362 |
| Total Population +18 | 454,489 | 419,815 | 372,234 | 449,252 | 361,142 | 408,029 | 163,029,570 | 246,375,829 |
| Population > 18% | 79% | 76% | 79% | 77% | 77% | 79% | 80% | 77% |
| Golf Participation | 12.12% | 11.95% | 11.34% | 11.40% | 10.76% | 12.76% | 14.50% | 14.20% |
| Total Golfers | 42,872 | 37,803 | 33,070 | 40,045 | 29,684 | 40,803 | 16,493,905 | 24,416,632 |
| Avid Golfers | 11,490 | 10,131 | 8,863 | 10,732 | 7,955 | 10,935 | 4,420,367 | 6,543,657 |
| Rounds Played | 713,131 | 599,264 | 550,807 | 642,038 | 470,800 | 682,643 | 288,126,400 | 451,577,900 |
| Rounds Played Per Golfer | 16.63 | 15.85 | 16.66 | 16.03 | 15.86 | 16.73 | 17.47 | 18.49 |
| Annual Spending | 1,143 | 1,458 | 1,322 | 1,172 | 1,220 | 2,005 | N/A | 1,034 |
| Golfers per 18 Holes | 3,853 | 5,264 | 3,411 | 4,125 | 3,506 | 6,430 | 2,283 | 1,733 |
| Avid per 18 holes | 821 | 1,066 | 739 | 859 | 723 | 1,367 | 607 | 464 |
| Avid Household Index | 177 | 230 | 159 | 185 | 156 | 294 | 131 | 100 |
| Green Fee Carts/18 | \$2,699,517 | 3,232,784 | 2,375,477 | 2,697,553 | 2,088,395 | 4,497,317 | | 1,416,063 |
| Merchandise and Food and Beverage/18 | \$1,005,164 | 1,366,563 | 873,728 | 1,072,240 | 877,349 | 1,666,890 | N/A | 376,938 |
| Estimated Revenue Potential of Golf Course/18 (70% Realization) | \$2,222,809 | 2,759,608 | 1,949,523 | 2,261,876 | 1,779,446 | 3,698,524 | N/A | 1,793,001 |
| Adjusted Revenue Based on Actual Holes | \$3,334,213 | 4,139,412 | 1,949,523 | 1,130,938 | N/A | N/A | N/A | N/A |
| 2016 Revenue | \$3,084,003 | 1,288,470 | 1,604,354 | 981,537 | N/A | N/A | N/A | N/A |
| Performance to Theoretical Potential | 92.5% | 31.2% | 82.3% | 86.8% | N/A | N/A | N/A | N/A |

What does these statistics mean?

- 1) Golf participation amongst all citizens is less than national averages. That is to be anticipated based on the population being 44% Hispanic.
- 2) Demand exceeds supply for each of the Albuquerque golf courses compared to national benchmarks. The golfers per 18 holes and the number of avid golf per 18 holes are significantly above national averages.
- 3) Arroyo del Oso, Los Altos, and Puerto del Sol are operating at effective revenue capacity and have limited upside revenue opportunities.
- 4) The upside potential for Ladera is huge with 5,264 per 18 holes within 10 miles of the golf course. However, investment is required in the from the entrance signage, to the parking lot, to the clubhouse to the driving range to the 9-hole course to the 18-hole course. An investment in these items should produce a stellar return.

These statistics support and provide hope that if the value proposition offered by the City of Albuquerque market exceeds the competitive market, it may be possible to increase rounds at the City's golf courses.

Those statistics, in the aggregate, become a standard measure of golf course supply within a local market, the segmentation of courses by price point and public/private interrelationship. This data facilitates a deeper insight as to the potential of an individual facility.

The demographic data suggest that within a 10-mile radius of the City of Albuquerque golf facilities there would be few golf courses price over \$70 and that the majority of golf courses would be priced in the value and price brackets. This relationship was confirmed and as illustrated below:

| Category | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Isleta Eagle | Sandia | 100 CBSA | U.S. |
|--------------------------------------|----------------|--------|-----------|----------------|--------------|--------|-----------|-----------|
| Premium >\$71 | 1 | 0 | 1 | 0 | 0 | 1 | 728 | 1,337 |
| Value \$40-\$70 | 5 | 5 | 4 | 5 | 5 | 3 | 2,173 | 3,974 |
| Price <\$40 | 2 | 2 | 2 | 2 | 2 | 1 | 1,983 | 5,937 |
| Category | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Isleta Eagle | Sandia | 100 CBSA | U.S. |
| Private/Public Mix | 38% | 22% | 36% | 36% | 30% | 29% | 32% | 25% |
| Premium/Value Mix % | 17% | 0% | 20% | 0% | 0% | 25% | 25% | 25% |
| Premium >\$71 % | 13% | 0% | 17% | 0% | 0% | 20% | 15% | 12% |
| Value \$40-\$70 % | 63% | 71% | 67% | 71% | 71% | 60% | 44% | 35% |
| Price <\$40 % | 25% | 29% | 33% | 29% | 29% | 20% | 41% | 53% |
| Number of Holes - Total Facilities | 252.0 | 171.0 | 216.0 | 225.0 | 198.0 | 144.0 | 131,184.0 | 253,728.0 |
| Number of Holes - Public Facilities | 153.0 | 135.0 | 135.0 | 144.0 | 144.0 | 99.0 | 86,769.0 | 185,049.0 |
| Number of Holes - Private Facilities | 99.0 | 36.0 | 81.0 | 81.0 | 54.0 | 45.0 | 44,415.0 | 68,679.0 |
| 18-Hole Equivalents | 14.0 | 9.5 | 12.0 | 12.5 | 11.0 | 8.0 | 7,288.0 | 14,096.0 |
| Public 18-Hole Equiv. | 8.5 | 7.5 | 7.5 | 8.0 | 8.0 | 5.5 | 4,820.5 | 10,280.5 |
| Private 18-Hole Equiv. | 5.5 | 2.0 | 4.5 | 4.5 | 3.0 | 2.5 | 2,467.5 | 3,815.5 |

As would be expected, the value (\$40 - \$70) and price (Under \$40) dominate the Albuquerque metroplex. Surprisingly, the private/public mix is slightly higher than United States averages. The relative long golf season explains the strength in private clubs extends beyond golf to a culture of diverse recreational opportunities and fine dining in a private setting.

The Appropriate Green Fees

With the numbers per 18 holes for the City of Albuquerque’s golf courses significantly above national benchmarks, it becomes imperative that the green fee is established appropriately for each facility.

The median household income within the competitive local market determines the base green fee that is achieved. While extraneous elements, i.e., national famed course designer, scenic views, comprehensive amenity packages, upscale clubhouse can upwardly influence the green fee posted, lacking such components green fees are determined by surrounding median household income. It is of note that the median household income in the US is \$52,747 and that the average green fee with cart prime time is \$42 (0.0008%).

In the competitive market, a review performed concurrent with this analysis, none of the attributes that would positively influence the green fee price were noted. Thus, the likely ceiling for a prime time weekend tee time with golf cart are likely to be:

| Golf Course | Income | Potential Green Fee | Current Green Fee With Cart Prime Time | Variance | Market Value Analysis |
|----------------|----------|---------------------|--|----------|-----------------------|
| Arroyo del Oso | \$47,841 | \$38.00 | \$43.50 | \$5.23 | Overpriced |
| Ladera | \$45,454 | \$36.00 | \$43.50 | \$7.14 | Overpriced |
| Los Altos | \$43,984 | \$35.00 | \$43.50 | \$8.31 | Overpriced |
| Puerto del Sol | \$44,893 | \$36.00 | \$43.50 | \$7.59 | Overpriced |

Note that the median household income of golfers who responded to the Golf Survey conducted by J.J. Keegan+ was \$77,742. The disparity in income produces two insights:

- 1) Attracting new players to the game with median household incomes of \$45,000 is a challenge. Golfers spend only 2% of disposable income on golf. That would suggest that their annual budget for golf would be about \$900, which is less than a set of golf clubs.
- 2) Albuquerque's current Core and recreational golfers have the financial capacity to pay \$62.19 for a value based round of golf. That provides hope that if the course conditions and the experience are enhanced at the City of Albuquerque's golf courses, a rate increase might be appropriate in the future.

The macroeconomic analysis of green fee pricing provides a first but not definitive perspective if the green fees charged are appropriate. Other factors that need to be considered are the quality of the course layout and the competitive market pricing.

The City of Albuquerque market is unique in offering the same price amongst its 18-hole golf course regardless of the vastly different experiences provided.

Setting green fees is a process determining a balance between the location of the golf course and the experience provided. The rates for each of the golf courses is the same. What is known for sure is that the experience provided at each of the City of Albuquerque's golf courses varies widely suggesting that the fees should be adjusted to the experience provided.

Step 1 - GLMA Conclusions and Recommendations

For the City of Albuquerque, does the City invest in a money-losing operation in the hopes of tracking recreational golfers who play infrequently and seek a low price-point experience? Or, should the City of Albuquerque raise price hoping to generate sufficient capital to reinvest to enhance the experience?

Neither of these is good options. Unless course improvements are made that will produce little short-term economic benefit, the losses are likely to accelerate at a greater rate than if the investment isn't made.

Is selling the golf courses an option? In today's golf market, buyer financing is scant. Further, the multiples on which golf course trade are low. We estimate the fair market value of the golf courses, based on current industry multiples ranging from 0.6 – 1.5 gross revenue and 8.0 – 12 earnings before interest, taxes, depreciation and interest. Applying these current industry metrics to the City of Albuquerque courses would suggest the following valuations:

| Golf Course | Gross Revenue | Theoretical EBITDA | Water Cost | Net Income Water Adjusted | Valuation Based on Revenue | Valuation Based on Net Income |
|----------------|---------------|--------------------|------------|---------------------------|----------------------------|-------------------------------|
| Arroyo del Oso | 3,084,003 | 616,801 | 510,306 | 106,495 | 3,392,403 | 1,064,946 |
| Ladera | 1,288,470 | 257,694 | 48,788 | 208,906 | 1,417,317 | 2,089,060 |
| Los Altos | 1,604,354 | 320,871 | 605,951 | -285,080 | 1,764,789 | N/A |
| Puerto del Sol | 981,357 | 196,271 | 225,255 | -28,984 | 1,079,493 | N/A |
| Total | 6,958,184 | 1,391,637 | 1,390,300 | 1,337 | 7,654,002 | N/A |

Note: Theoretical Net Income is based on an industry benchmark of 20% of gross revenue.

Should the golf courses be sold or closed?

First, Puerto del Sol is leased from the airport, so the sale of the golf course is not a viable option. However, considering the net income water adjusted is negative, there is a basis for considering either vacating the lease or repurposing the nine holes as open park space for soccer fields and keep the lighted driving range open. Converting that land to a Top Golf entertainment center would be an ideal solution.

Second, considering that the Los Altos well failed in May 2015 and the date that the new well may be drilled and brought online are unknown, from strictly a financial perspective, the cost of the potable water renders that facility economically unviable. Closing Los Altos makes

economic sense especially considering that the new well will cost \$1.5 million and a new irrigation system at an estimated cost of \$2.9 million is also necessary.

Regarding Ladera, because the cost of the water is so low and the numbers of golfers per 18 holes that live with 10 miles are so high, there is an opportunity for additional investment at this facility. The course is in such poor condition with a routing that is largely boring. Holes 1, 2, 3 and 10, 11, and 13 are a replica of each other. Fixing this issue is paramount. Thus, it is recommended that the City considers developing a master plan for Ladera to optimize the potential of this complex.

The bell weather of the Albuquerque golf courses has long been Arroyo del Oso. The accelerating cost of water remains a significant concern rendering closing nine holes a possibility. The Dam 9 is the most compelling of the 27-hole complex. With little investment, the best holes of the front 9 and the Dam 9 could be cherry picked to create a formidable nine holes reducing the footprint of the campus. As part of this engagement, Staples Golf Design has created pencil sketches of the opportunities.

With those conclusion drawn, the viable option, based on the competitive local market analysis, we can determine at what level is the appropriate capital investment that is likely to generate a positive return on investment for the golf courses: critical, competitive, comprehensive.

| Golf Course | Appropriate Course Layout | Justifiably Capital Investment |
|----------------|---------------------------|--------------------------------|
| Arroyo del Oso | Championship | Competitive |
| Ladera | Recreational | Comprehensive |
| Los Altos | Open Park Space | Critical |
| Puerto del Sol | Open Park Space | None |

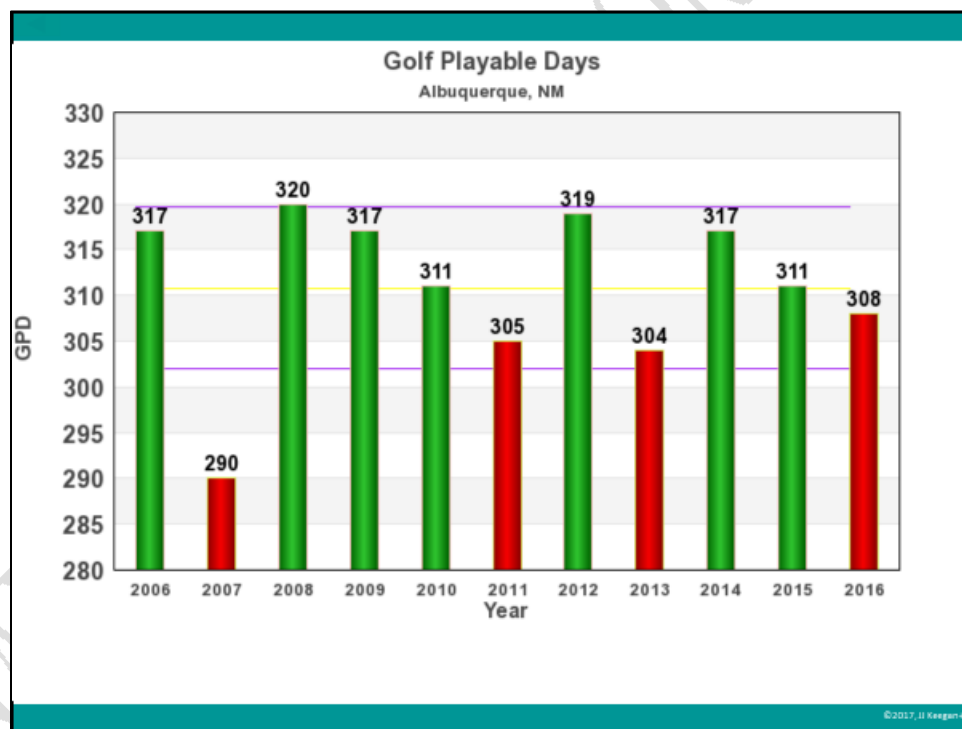
Strategic - Step 2: Weather Impact Study

The axiom that “if rounds are up, it’s because of good management, and if rounds are down, it’s because of bad weather,” is a standard joke. But golf is an outdoor sport. Experts estimate that over 90% of rounds are played when the temperature is between 55 and 90 degrees. Rain, snow, and wind are mitigating factors that will reduce the number of playable days.

Monitoring the number of playable golf days in a year compared to a 10-year trend allows an analyst the opportunity to filter the financial information to clearly differentiate between the impact of weather and the impact of management on a course’s performance.

Annual Golf Playable Days

The City of Albuquerque’s golf courses are open 364 days of the year, weather permitting. On average, there are 311 playable golf days per year in City of Albuquerque, as illustrated below:



The City is fortunate to have an abundance of playable golf days to earn revenue.

Analysis of weather-playable days can also reveal whether management is under- or out-performing the weather. Presented below is a chart highlighting the revenue earned per day over the last five years.

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------|-----------|-----------|-----------|-----------|-----------|
| Arroyo del Oso | 9,502.30 | 9,772.05 | 9,387.16 | 10,088.50 | 9,980.59 |
| Ladera | 4,269.96 | 4,116.18 | 3,347.44 | 3,983.31 | 4,169.80 |
| Los Altos | 5,100.47 | 5,342.12 | 5,558.27 | 5,687.25 | 5,192.08 |
| Puerto Del Sol | 2,952.31 | 2,771.94 | 2,816.72 | 3,086.06 | 3,175.91 |
| Central Pass | 315.21 | 429.57 | 310.42 | 311.17 | 378.28 |
| Grand total | 22,140.26 | 22,431.86 | 21,420.00 | 23,156.28 | 22,896.67 |

While City of Albuquerque management outperformed the weather from 2012 – 2013, for the past three years the golf course appears to be undermanaged in relationship to the number of player days available. The calculation would suggest that revenue opportunities aggregating \$235,116, \$144,615 and \$459,036 have been lost in 2016, 2015, and 2014, respectively. On the surface, it would appear that the potential of the Golf Department has been under-managed since 2013.

If the golf courses could be compared to football, basketball, or baseball team, the fans might be calling for a change in management based on recent performance.

While Albuquerque Golf Management would be quick to sight uncontrollable factors for such decline, i.e., the economy, it is the opinion of JJ Keegan+ that the decline is most likely attributable to controllable factors.

This chart also provides two additional insights. There is not a direct correlation, as would be expected, between the number of playable days and revenue. 2014 has the most playable days but the lowest revenue per day at all courses except Los Altos. Second, the revenue per days has fallen at all courses, except Ladera, since 2012. We believe this again underscores that the quality of the golf experience is deteriorating from lack of maintenance and capital investment resulting in golfers seeking other alternatives.

However, reports like these are dangerous. While based on empirical facts, we have a tendency to want to reach definitive conclusions where perhaps observations on trends serve the greater good.

Are the prices too high, the customer service too poor, marketing too inefficient, technology misapplied or is the experience provided to the golfer too inferior? In our search for a single reason on which action could be taken to correct, unfortunately, under-management is a myriad of issues. Rarely is there a single cause. And, less frequently, can the deficiency be corrected without investment, whether in additional or different personnel.

The fundamental question is, “How can that be corrected?” The numbers suggest that the value proposition being offered is deteriorating; hence, the need for capital investment.

Additional leveraging technology through segmentation of data and implementing yield management with dynamic pricing should be considering. Further, the use of short- and long-range weather forecasting to efficiently manage the facility is advocated.

A more relevant adoption of the number of playable days is to determine what is the fair market value of the annual season pass. The table below provides some direction:

| Description | National Average | City of Albuquerque |
|----------------------------|------------------|---------------------|
| Playable Days | 260 | 311 |
| Playing Frequency | 32% | 32% |
| Rounds Played | 83 | 100 |
| Rate Rack | \$40.00 | \$34.00 |
| Frequency Discount | 36% | 36% |
| Annual Fee | \$2,130 | \$2,166 |
| Current Albuquerque Pass | | \$1,580 |
| Fair Market Undervaluation | | \$588 |

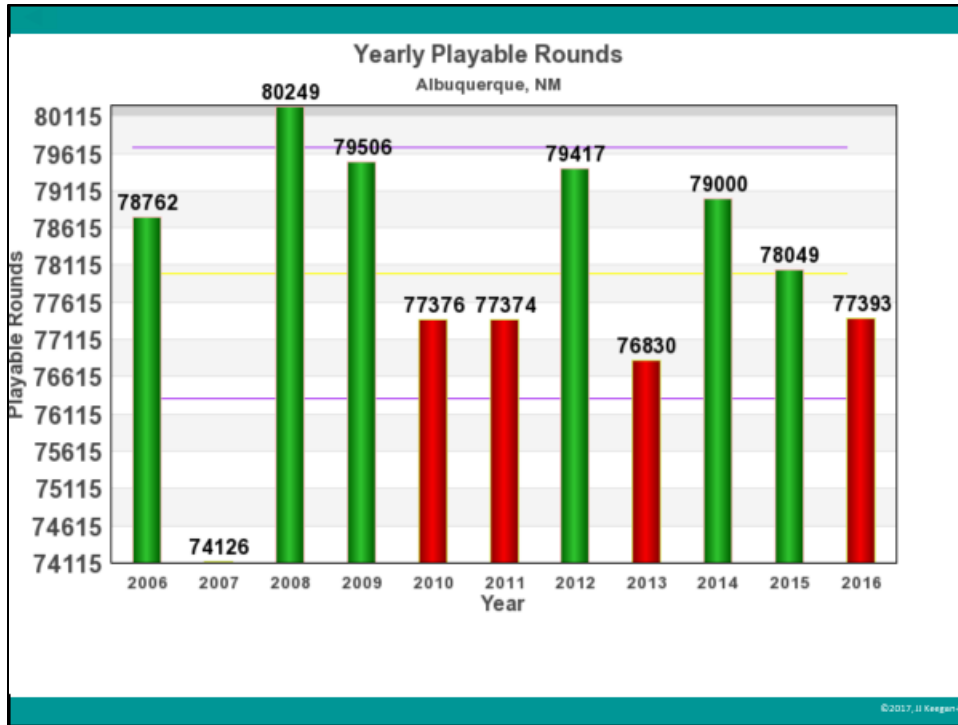
The City of Albuquerque offers seven different passes including unlimited play pass: \$1,580, Senior pass: \$1,100, Junior pass: \$700, PM pass: \$325 and a Fiesta Pass, \$500.

The City of Albuquerque might consider the elimination of season passes in exchange for a discount rate card that is used by the competitive courses. For an annual fee, ranging from \$150 to \$199, golfers receive a plethora of benefits including a discounted green fee each time a round is played. The challenge for the City of Albuquerque of these type of programs revolves around their division of revenue between the City and the concessionaires which create a natural conflict of interest when bundling rates.

There is another reason for dismantling season passes: someone always loses. The golfer who purchases the pass and doesn't use it resents the City. If a golfer purchases a pass and uses beyond the break point, golf course personnel begin to resent their abuse of the season pass in which the golfer is paying an obscenely low rate per round. Unfortunately, the data doesn't exist to measure the actual usage of season passes by Albuquerque's golfers.

Yearly Playable Rounds

A second analysis has been undertaken to determine the efficiency of management, this by comparing actual rounds played to the course's theoretical capacity, based on weather patterns.



To determine the effective utilization of the facilities, the golf course rounds reported have to be adjusted to 18 hole equivalents as shown here:

| | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Theoretical Capacity |
|---------|----------------|--------|-----------|----------------|----------------------|
| 2016 | 52,758 | 28,309 | 55,192 | 34,897 | 77,393 |
| 2015 | 56,574 | 27,893 | 58,243 | 34,321 | 78,049 |
| 2014 | 59,446 | 26,108 | 63,023 | 35,259 | 79,000 |
| 2013 | 62,542 | 33,557 | 62,383 | 34,825 | 76,830 |
| 2012 | 64,149 | 33,289 | 63,162 | 36,696 | 79,417 |
| Average | 59,094 | 29,831 | 60,401 | 35,200 | 78,138 |

Arroyo del Oso and Ladera are 27 hole courses (multiple the rounds reported above by 1.5 to reflect actual rounds). While Los Altos also has a 9-hole par 29 golf course, the play on that golf course is not separately recorded according to the interviews we conducted. Therefore, the actual rounds reported, as also for Puerto del Sol, are shown. A round is defined as a golfer commencing play on either the 1st or 10th tee.

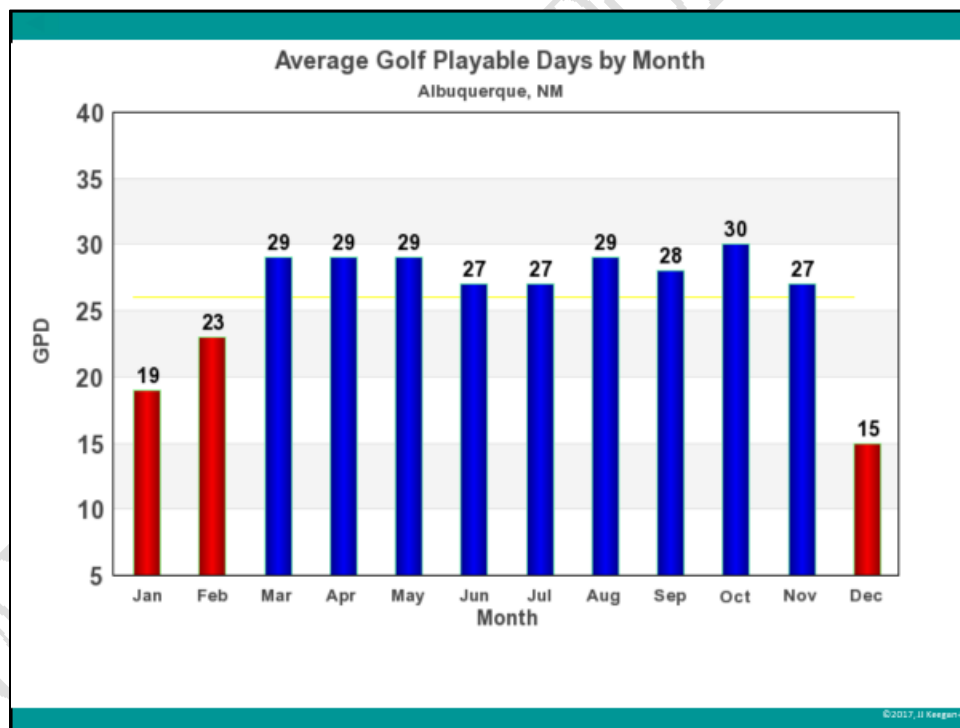
As can be seen in the chart below, City of Albuquerque is operating at 59.61% of capacity well above the national average of 52%:

| | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Total |
|------|----------------|--------|-----------|----------------|--------|
| 2016 | 68.17% | 36.58% | 71.31% | 45.09% | 55.29% |
| 2015 | 73.10% | 36.04% | 75.26% | 44.35% | 57.19% |
| 2014 | 76.81% | 33.73% | 81.43% | 45.56% | 59.38% |
| 2013 | 80.81% | 43.36% | 80.61% | 45.00% | 62.44% |
| 2012 | 82.89% | 43.01% | 81.61% | 47.42% | 63.73% |
| | 76.36% | 38.54% | 78.04% | 45.48% | 59.61% |

That raises the question and concern that the opportunity to increase revenue at Arroyo del Oso or Los Altos is somewhat limited by the facilities operating, particularly the prime times, are at near capacity.

Viable Operating Season

A third analysis of weather-playable days reveals that the City of Albuquerque effectively has an 11-month golf season, as illustrated below:



A Golf Playable Day (GPD) is defined as a day when the maximum heat index (a combination of temperature and humidity) is below 97 and above 45, and there are less than 0.20 inches of rainfall.

This variable is quite subjective, as golfers in different parts of the country may be harder when it comes to the weather in which they play golf, but this should capture just about all “normal”

golfers. These numbers can be used to compare “good” years with “not good” years. Monthly values can help owners and managers determine when to have the most staff and plan for the most rounds.

A golf facility that is open nearly eleven months per year comes with the operational challenges of balancing full-time and seasonal staff. The temptation is to use a lot of seasonal staff to avoid benefits. However, these employees, who are the lowest paid and the least vested in ensuring a superior customer experience, are the employees who most frequently interact with the customers and therefore define the customer experience.

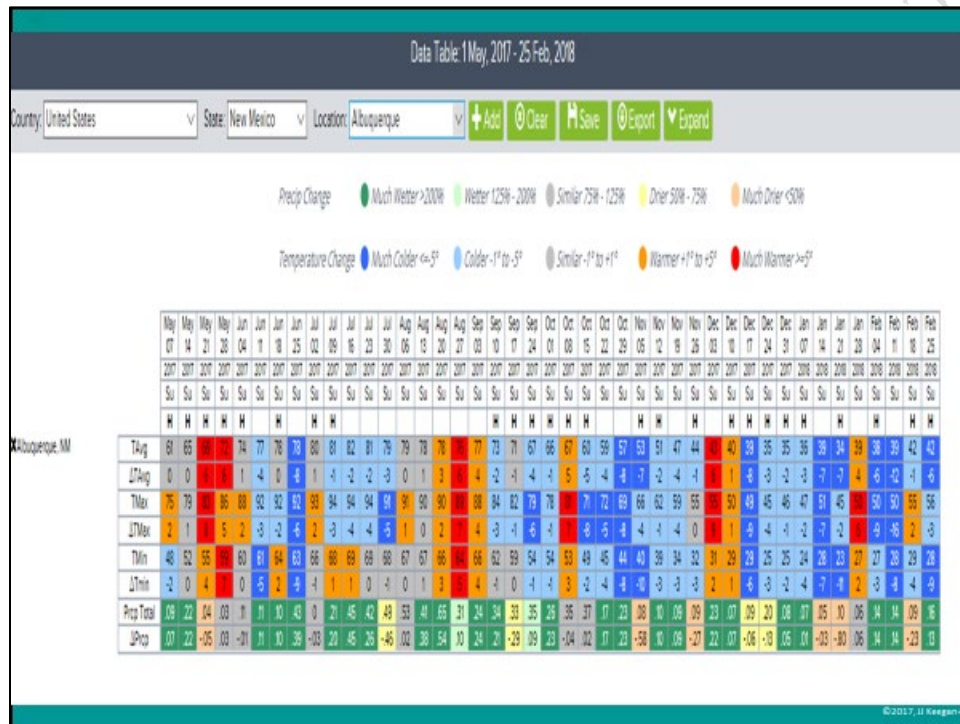
Storm Clouds Ahead

Short- and long-term weather forecasting provides a golf management team the opportunity to adjust its operational practices. Examples of such are presented below:

- 1) Knowing season start times on a city-by-city basis will improve revenue forecasting and enhance the strategic planning process.
- 2) Production profiles for clubs, balls, apparel, and other golf-related merchandise could be adjusted to manage better a possible overstock scenario and soften the need for dramatic markdowns.
- 3) Inventory allocation could be adjusted to place the most product in areas of the country with the most favorable weather.
- 4) Caution should be exercised in offering off-season rates in the spring, thinking that the revenue can be made up in the summer.
- 5) Outings and events could be scheduled for days on which the probability of rain is low.
- 6) Advertisements in local media could be placed for weekends during which weather is to be favorable.
- 7) If a superintendent knew that in 48 hours it was going to rain 1¼ inches, using 600,000 gallons of water on the golf course that day could be avoided, saving over \$1,500 in water expense.
- 8) A superintendent could defer a fertilizer application costing upwards of \$10,000 with the knowledge that it would likely be washed away by heavy rains.

The 43-week advanced weather forecast for the City of Albuquerque is illustrated below. Though Albuquerque only has 23 days of rain annually accumulating 9 inches, the 2017 forecast appears that more rain is likely than in FY 2016.

Note in the chart below those weeks higher in the dark rain where the forecast for 200% more precipitation than occurred last year. Also note that the maximum temperature doesn't exceed 50 degrees from December 17 until January 7, 2018. Fifty degrees is an important benchmark since that is the temperature required for the germination of most grasses to begin.



Note: The areas on the chart that are dark blue represent that temperatures will be approximately 200% colder than the year before. Green represents 200% more precipitation than the previous year.

Step 2 – Weather Playable Days Conclusions and Recommendations

“Weather” can be effectively managed to increase revenue and control expenses. Weather Trends International provides golf courses numerous operational tools for an annual license fee of \$500 per 18-hole golf course.

We believe that the annual weather playable days’ report and the 11-month weather forecasting tool, using by most of the Top 100 corporations in the United States, has great applicability for golf courses. The leading golf course management companies are now licensing this tool. It is our suggestion that the City of Albuquerque obtains an annual license to include delivery of the annual weather playable days’ report.

Tactical - Step 3: Technology

Many Applications – Integration Lacking

Many view the adoption of technology at a golf course to serve the singular function as documenting the historical transactions facilitating the creation of an income statement and balance sheet.

Technology, when properly deployed, is one of the most tools available to a golf course management team to create incremental revenue. Technology defines and guides the marketing strategy to build a larger customer database, create customer loyalty, and boost revenue.

As part of this strategic review, the management of City of Albuquerque’s Golf Department was provided the opportunity to self-assess their utilization of software based on a template developed as an integral component of an Ed.D. dissertation conducted in conjunction with the Clemson University PGA Professional Golf Management Program.

In comparison to its industry peers, the Golf Department is on par. The City’s score was 2 out of 50. In a 2016 Clemson University Ph.D. study conducted by JJ Keegan+ in which ten astute golf operators overseeing 34 courses participated, the median score was 25. As shown below, the various modules utilized to manage the golf courses are highlighted:

JJKeegan+
ASTUTE INSIGHTS • MEANINGFUL VALUE

GOLF EXECUTIVE MANAGEMENT SYSTEM

Your Rating of technology adoption:
 Less than 20 "yes": High School - potential to boost income greater than \$200,000.
 21 - 30 "yes": College - typical use by a golf course - potential to boost income greater than \$200,000.
 31 - 40 "yes": Graduate - in top 25% of golf courses - potential to boost income greater than \$200,000.
 More than 40 "yes": Post graduate - top 5% of golf courses in US - potential to boost income greater than \$25,000.

YOUR SCORE = 2

INSTRUCTIONS: Check "yes" for each question your golf course currently performs.

| Category | Module / Question | Vendor Name | Yes/No | CUSTOMER |
|--|--|-------------|--------|----------|
| Software / POS | Mobile / In-Course / Front-End / Facility / Out / Telematics / In-Play / On / Near / In-Use / Technology to Measure the Investment Returns at Your Course | | | |
| | Point of Sale | SIRIUS | | |
| | Open-to-Buy | None | | |
| | Tee time reservation system | None | | |
| | Report Writer | None | | |
| | Field Management | None | | |
| | Web Site Developer | None | | |
| | Email Marketing System, i.e., Vertical Response, Constant Contact | None | | |
| | Customer Survey tool, i.e., Survey Monkey | None | | |
| | Food and Beverage | SIRIUS | | |
| Hotel Reservation System | None | | | |
| Reports | Question: Do you know a GOLF REPORT? | | Yes | |
| | Customer Reports: The 1% of your customers by name who generate 50% of your revenue? | | Yes | |
| | The age, income, ethnicity and playing habits of your customers, i.e., number of courses played, rounds played per year, etc.? | | Yes | |
| | How many distinct golfers played your course in 2012 delineating customers who returned, who were playing for the 1st time and who played in 2011 and didn't play in 2012? | | Yes | |
| | The SKU that generates the highest revenue per round? | | Yes | |
| | By customer how much they "yield" per visit rank ordering your best customers by spending per visit? | | Yes | |
| | The zip (postal) code distribution of your customers? | | Yes | |
| | By merchandise sponsor sales, turnover rates, and levels of current inventory on hand? | | Yes | |
| | The allocation of tee time reservations made by staff in the pro shop, on your web site, by third parties, etc.? | | Yes | |
| | Rounds played by hour, by day, by month for the entire year summarized on 1 page? | | Yes | |
| Facility Reports | Course utilization (% of capacity and revenue % of rack) by hour, by day, by month for the entire year summarized on 1 page? | | Yes | |
| | Revenue per round by green fees, carts, merchandise, food and beverage and other (range, lessons, etc.)? | | Yes | |
| | Revenue by department for green fees, carts, merchandise, food and beverage and other (range, lessons, etc.)? | | Yes | |
| | Rounds per Revenue Margin / By golfer type, who play the most in comparison to revenue earned, i.e., season passers, leagues, residents, etc.? | | Yes | |
| | Question | | Yes | Custom |
| | Is the tee sheet interfaced with POS System? | | Yes | |
| | Is the tee sheet the primary screen from which all transactions are entered? | | Yes | |
| | Do you have at least 1,500 or 80% of your customer's email addresses? | | Yes | |
| | Do you attempt to collect email addresses at the POS Register? | | Yes | |
| | Do you have a migration issue for golfers to enter their vital information in Pro Shop? | | Yes | |
| Does your starter have a tablet based software program to check-in and accept tender from golfers? | | Yes | | |
| Does your software include a query based reporter to create your own custom designed reports? | | Yes | | |
| Can you export any information you desire to Excel? | | Yes | | |

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The City is losing tens of thousands of dollars through its nascent use of technology at their golf courses.

It is inconceivable to us that the City of Albuquerque's Department of Finance and Administrative Services Information Technology Services Division is adamant in their refusal to allow the Parks and Recreation Department to develop and maintain a customer database that includes their frequency of play, spending habits, and relevant contact information. *We know of no other City in the United States that has such a restrictive policy.* This policy is compounding the losses incurred.

Because of the rudimentary technology provided by the City to the concessionaires for recording point of the sales transaction, the Concessionaires have also been precluded from creating a meaningful database of customer transaction history.

It is comical and brings to mind the most famous Pogo quote "We have met the enemy, and he is us."

The Parks and Recreation Department issued in 2016 a Request for Proposal for an integrated Park management system including league scheduling, pass management, theatre seating and golf with only Vermont Systems responding. It is a popular with municipalities though, in our opinion, pedestrian software regarding the depth of its functionality. The implementation of this software is not likely to occur, first at Ladera Golf Course, until 2018.

The City of Albuquerque redefines the concept that "the wheels turn slowly in government."

Opportunities to Leverage Technology to Boost Revenue

While the City use of technology is substandard, this review formulated many suggestions and noted the following opportunities to better use technology:

| Opportunities to Further Leverage Technology | The Benefit |
|---|--|
| The Sirius tee sheet is not interfaced with the POS system. | Identification of exactly who is playing your golf course and what they are spending is fundamental to segment the database to commence effective targeted email marketing. |
| The tee sheet isn't the primary screen from which all transactions are entered. Thus, the capture of who is playing the golf course and their transaction spending is an opportunity foregone. | Using the POS system to record merely a green fee eliminates the opportunity to identify and measure unique customers and their spending patterns. |
| The software does not offer a query based report writer to create customer designed reports. | The "devil is in the detail." The ability to quickly identify core acquired and defectors are essential to understanding the needs, wants, and desires of your customers. |
| The customer database is not effectively segmented to determine the age, income, ethnicity, and playing habits of your customers as measured by the number of courses played, rounds played per year and dollars spent annually | Matching the golf experience provided to the demographics of a course's database is important to maximize the revenue potential of each facility. |
| The number of distinct customers that play each facility is unknown. More importantly, the names, zip codes and emails addresses of the core, acquired and defectors, while available with the existing POS system, is not leveraged. | <p>Knowing the zip code distribution of one's customer database facilitates the selection of appropriate print media.</p> <p>The key to effective marketing is crafting tailored marketing messages. Sending one email to a valued customer thanking them for their loyalty while sending a different email to those who have not played one's course in 90 days creates loyalty and repeat purchases.</p> |
| Registration kiosks are not available at POS terminals to facilitate golfer's registering for targeted emails. | The creation of a customer database at the POS terminal is always a challenge. Have a separate kiosk where the golfer can self-register helps expand the database. |
| The starter doesn't utilize tablet based software to facilitate check-in and tendering of fees. | An evolving trend in other consumer stores, i.e., Apple stores, is the use of "tablet" based POS software to accelerate the processing of a sale and to enhance customer convenience. Golf Channel is launching "G1" to achieve enhance the customer touch points at a golf course. Teensnap also provides a tablet-based software for the golf course industry that is very impressive. |

| Opportunities to Further Leverage Technology | The Benefit |
|---|--|
| <p>At least ten different items are not purchased from each vendor?</p> | <p>Merchandise sales at municipal golf courses is largely an after-thought offering “consumables.” With a purchasing process that is often convoluted requiring vendors to register, the issuance of a purchase order can be time-consuming even though these are concessionaire responsibilities. It is efficient to limit the number of vendors to a few per category to avoid the burdensome process of municipal purchasing.</p> |
| <p>The City of Albuquerque does not provide for the online tee time reservations via a desktop computer, iPad or mobile phone.</p> <p>The City of Albuquerque’s website provides only static vs. dynamic content, i.e., the ability to book tee times, lessons, enroll in leagues and tournaments, etc.</p> <p>Every airline, car rental company, and hotel realize that customers go to the web to book a reservation. As such, these companies all have booking process in the upper left-hand corner of the screen as individual read from left to right and from top to bottom.</p> | <p>Organizing the website to facilitate customer transactions will enhance service, encourage greater Internet booking and save pro shop labor in processing reservations.</p> <p>The goal of technology is to increase customer service. Streamlining the reservation process will enhance increased customer use of this tool.</p> <p>With only 12% of tee times booked online, this is a great opportunity for growth that will facilitate an increase in the customer database without requiring internal labor.</p> |
| <p>The website does provide the opportunity for a golfer to register for course newsletters, specials, tournaments or outings. However, the link is not prominently featured.</p> | <p>Building a customer database of 4,000 email address per 18-hole equivalent is the median currently within the golf industry. The City of Albuquerque doesn’t maintain a customer database</p> <p>There is a great opportunity to start building a customer file for one to one marketing is far more effective that generic print advertising.</p> |
| <p>The current phone number, address and office hours of the golf courses are displayed in the center of the page perhaps below the fold depending on the end-users’ screen resolution. The phone number and address for the central Golf Office is not listed.</p> | <p>Having the phone number in the upper reach corner of the website, we believe the most convenient location for a golfer who is seeking to call for additional information.</p> <p>The goal is to make the process of interacting with the City of Albuquerque Golf Department as convenient as possible.</p> |

| Opportunities to Further Leverage Technology | The Benefit |
|--|---|
| <p>The social media tools are not utilized effectively.</p> <p>Facebook, Twitter, and Instagram are effective ways of communicating to the golfer using the social media application Hootsuite.</p> | <p>Labor savings and economies of scale can be achieved through using an email delivery tool that automatically integrates to the leading social media forums, i.e. Facebook, Twitter, Instagram, etc.</p> |
| <p>The City of Albuquerque does not engage in email marketing.</p> <p>The perceived trustworthiness of emails can be achieved by monitoring its sender’s score. Like a credit score, a Sender Score is an indication of the trustworthiness of an email source.</p> | <p>Understanding how an organization’s emails are treated by the major ranking indexes ensure higher delivery rates and better search engine optimization placement.</p> <p>The Golf Department score is available at https://www.senderscore.org/ upon entering the domain’s IP address.</p> |
| <p>The ranking and consumer use of the City of Albuquerque golf website is unknown.</p> <p>Alexa Traffic ranks a website’s popularity. The rank is calculated using a combination of average daily visitors to this site and page views on this site over the past three months. The site with the highest combination of visitors and pageviews is ranked #1.</p> <p>The city of Albuquerque has a bounced rate of 46.90%, customers view only 3.00 pages on average and spend only 2.57 minutes on the site.</p> | <p>Understanding how golfers are using the website provides effective feedback to ensure that the site is properly constructed.</p> <p>Currently, the City of Albuquerque site is ranked 113,118 in the world and 21,112 within the United States. The ranking is very good and underscores the need to create an online tee time reservation either housed within or via re-direct to an online booking engine to enhance the customer experience.</p> <p>The creation of a website that facilitates consumer transaction efficiently will boost customer loyalty and revenue.</p> |

FINAL GOLF STUDY

| Opportunities to Further Leverage Technology | The Benefit |
|--|---|
| The website grader score is unknown by staff. The ABQ website scored 86 comprising: performance 21/30, mobile 30/30, SEO 25/3 and security 10/10 | <p>Creating a website that is transaction oriented, rather than information based, will enhance customer service and has the potential to create incremental revenue.</p> <p>Unless a website and email are properly constructed and effectively implemented, the brand image created and marketing message sent create little value.</p> |
| A smartphone application has not been developed nor can golfers receive text alerts broadcast from the email system. | The average person checks their cell phone 150 times per day. Having a mobile application facilitates connecting with the customer. |
| <p>RFID loyalty customer recognition is not deployed?</p> <p>A favorite customer likes to hear is his name. Technology is available that through the use of smart cards, a customer's name appears on the POS register as they approach.</p> | Just as staff wear name tags created a personal feeling, recognizing customer's by name creates loyalty. |

While the list presented above seems daunting in its message and might be perceived as an unfavorable critique of current practices, one must realize that the use of technology at golf courses is in the nascent stage of development.

The biggest barrier JJ Keegan+ observes in conducting strategic reviews are the defensive attitudes of management and staff to suggestions made in sincerity to help a client enhance their operation.

JJ Keegan+ believes that by addressing the issues listed above, the opportunities to increase the size of the customer database, enhance customer loyalty and increase revenue abound. We believe it is the highest priority for the Golf Department to create its brand via a unique website with on-line reservation capabilities. Having no ability for a golfer to be able to book tee times in a serious tactical flaw.

Best Practices

While it is easy to list what is wrong, what follows is a treatise illustrating best practices for technology supporting why its proper use is important. From the self-assessment, there were three areas identified focus on which would greatly aid the Golf Department's marketing initiatives to stimulate revenue:

- ◆ Customer database segmentation through enhanced reporting.
- ◆ Email practices integration with social media emphasizing open, bounce and click through rates.
- ◆ Website remodels to focus dynamic transaction based orientation vs. static page.

Customer Database Segmentation - Who Is the Customer?

A fundamental test for any business is identifying who its customers are and what they are spending.

Knowing who your customers are, their spending preferences, and their playing frequency is fundamental to maximizing your net income, increasing your operational efficiency, and enhancing your customer service. This knowledge is the essential foundation for a meaningful marketing program. Without this information, most golf courses greatly minimize their revenue opportunities.

A leading golf course management company⁶ that serves more than 100 public golf courses has identified certain predictable characteristics:

- 1) A golf course, on average, has 8,000 distinct customers, from a minimum of 3,500 to a maximum of 11,000.
- 2) 10% to 20% of those customers are “initiators” and make the tee time.
- 3) 50% of those customers play the course only once per year.
- 4) 50% of those who play will not return next year.
- 5) Only 13% will play six or more times per year.
- 6) Customers average six rounds played at a specific course per year.
- 7) 20% of a golf course’s wallet share will come from core golfers who play 40 rounds per year.
- 8) Customers become at risk of not returning when they have not played your course in 90 days.
- 9) The response rate from customers offered a 20% off coupon, a 10% off coupon, or merely receiving acknowledgment that they are missed is nearly the same.

Thus, we reviewed the use of technology by the Golf Department analyzing the golf course’s internet use, and its integration of tee time reservations with the POS.

⁶ Peter Hill, Billy Casper Golf Management, “Programming for Profit,” February 4, 2009 presented at NGCOA Multi-Users Conference.

Why is the integration of the tee time reservation with the POS system important? There are two byproducts of such integration:

- 1) A meaningful set of insights by which to manage the facility.

When the City installs a superior golf management software program, many of the most valuable reports required to operate a golf course are available but are not being utilized to optimize revenue as reflected in the chart below:

| The Key Reports | |
|---|-----------------------------------|
| Customer Analysis | Currently Report Available |
| Customer Distribution: stratifies golfers into 10 segments by number and spending | No |
| Customer Demographics: age, income, and ethnicity of your customers | No |
| Customer Retention: core, new and lost customers | No |
| Customer Spending by Class: SKU generates highest yield per transaction | No |
| Customer Spending by Individual: the best customers by frequency and spending | No |
| Zip Code Analysis: residential and business location of customers | No |
| Facility Analysis | Currently Report Available |
| Merchandise Sales by Vendor: rank vendors orders by inventory, sales and turnover | No |
| Reservations by Booking Method: customer reservation preferences, i.e., phone, internet, etc. | No |
| Reservations by Day of Week: highlights demand by day to facilitate proper pricing. | No |
| Revenue Benchmarks: benchmarks (green fees, carts, etc.) to compare to competitive norms. | No |
| Revenue Per Available Tee Time: established net rate per round by time slot | No |
| Revenue by Department: focuses on revenue centers | No |
| Rounds per Revenue Margins: customer frequency versus yield per customer | No |
| Course Utilization | No |

Vermont Systems has some but not all of the reports, we believe, that would guide management. Also, the software used for a golf course should include a SQL database with the ability to export into a report writer. It is suggested that this opportunity is explored and that “template reports” be developed to refine management’s current marketing focus to emphasize customer specific messaging.

Why? From analyzing the customer database at over 1,000 golf courses, JJ Keegan+ has found it is beneficial if the foundation of a marketing program is based on using technology to identify and segment the following target markets:



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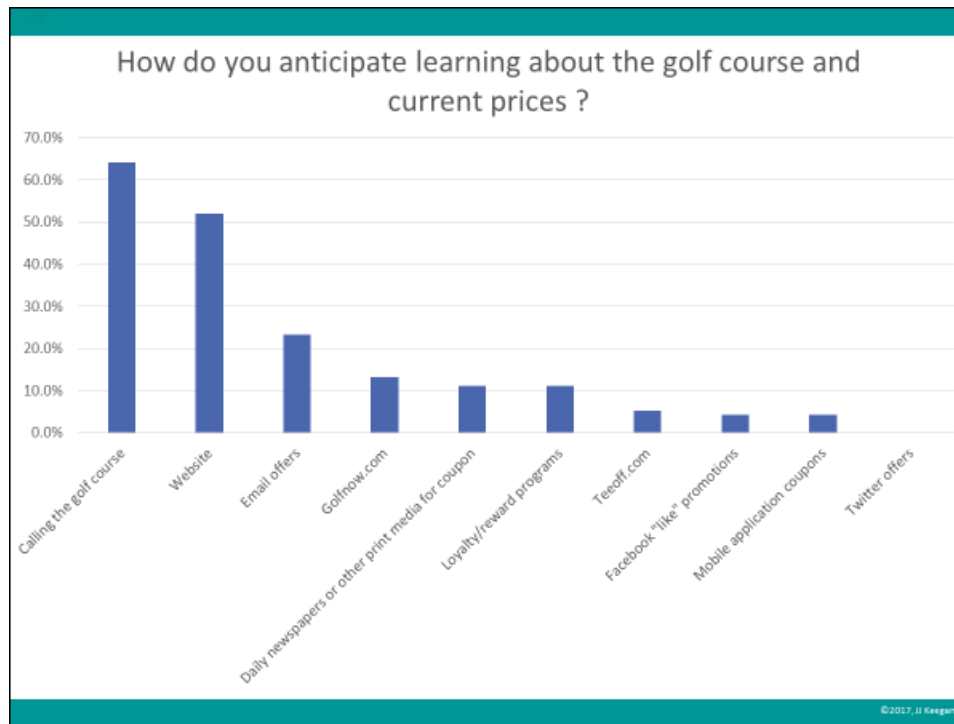
Currently, such segmented marketing is not occurring.

- 2) It provides the opportunity to engage in dynamic yield management pricing. Software that has yield management capabilities that are easy to implement ensure increased utilization of existing tee time inventory. The software is so flexible it allows for the distribution of tee times at different rates to different platforms. Leveraging a dynamic pricing module has the potential to increase the effective yield of each golf course based on historical demand.

Email practices integration with social media

One of the most cost effective methods for marketing is via email. In our review, we are concerned with what appeared to be a myopic focus of the Golf Department on social media utilizing only Facebook and marginally Twitter. Pinterest and Instagram are not utilized. Utilizing a social media application, Hootsuite, is advised to coordinate and contemporaneously deliver information about the course, i.e., rates, specials, tournaments, outings, etc.

Our concern is that while Facebook and other social media may be an effective method for attracting new entrants to the game and more frequently used by females, the customer profile of social media users and golfers are necessarily aligned. In over 200 surveys conducted by JJ Keegan+, and as further confirmed as part of this strategic review, golfers consistently to learn about the golf and playing opportunities via email and the golf course website as shown here:



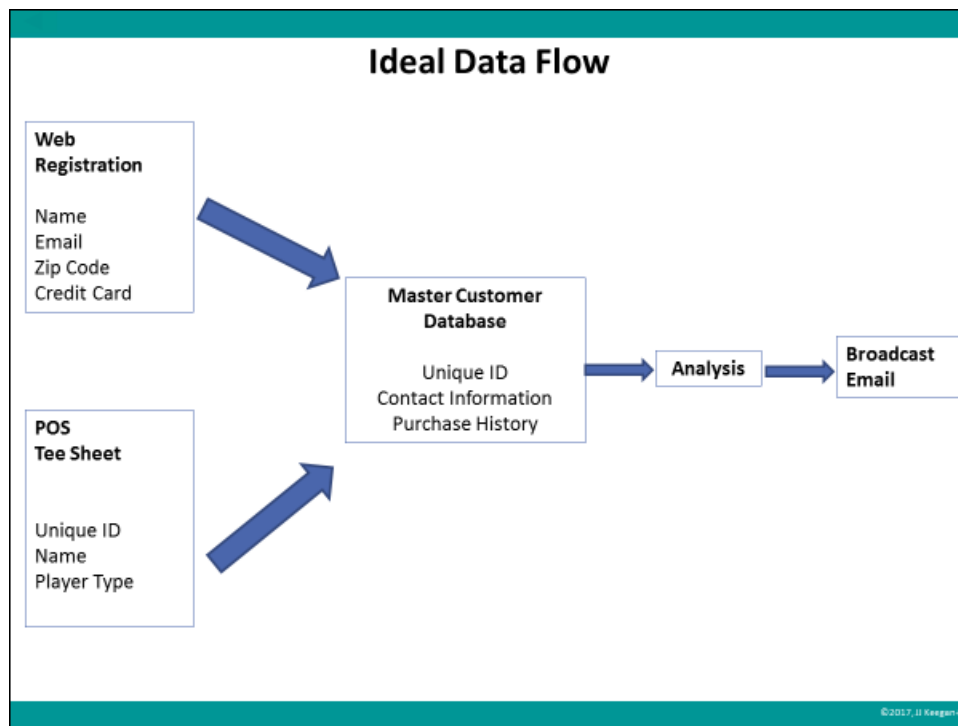
Calling the golf course, the number one answer provided by respondents to the City of Albuquerque survey is the least effective method of communicating: one on one with no consistency in the message delivered.

The City of Albuquerque is fortunate to have one full-time public information officer (PIO) whose responsibility include some marketing for the golf course. Such responsibilities are often handled by the golf course staff. Thus, leveraging this position to the greatest benefit is advised.

Two effective marketing tricks JJ Keegan+ has observed are:

- 1) Sending a duplicate email five days after a broadcast message is launched with customization of the message acknowledging whether the recipient did not open the initial email, open but not click or open and clicked by did not consummate a transaction. The response to a second email sent is very worth of the effort.
- 2) Fine tune your marketing message using A/B testing or multi-variant testing. The essence of this method is that the call to action (the enticement for the customer to act) is different even though the all other elements of the email's copy and layout are identical. By monitoring which campaign produced the highest click-through rate, you will be able to communicate more effectively in future campaigns.

The ideal data flow for a golf course is reflected below:



The lesson of targeted email marketing is that it shows a concern for your customer. Such a practice will reap the rewards. The importance of correctly mining your email list and segmenting it properly into core (frequent golfers), acquired (new golfers that year), and defectors (former customers who have not returned).

Dynamic Transaction Oriented Web Site

One of a golf course's most valuable marketing tools is its website. It is the belief of the JJ Keegan+ that the home page of a website will include the following elements:

- ◆ Why Statement
- ◆ Phone Number
- ◆ Flash of Pictures
- ◆ Online Reservations
- ◆ Minimum Below Fold
- ◆ Email Registration
- ◆ Search Functionality: Title Tags, Meta Tags
- ◆ Social Media Marketing Icons

The “Why?” statement represents the “unique selling proposition for each golf course. The “Why?” speaks more to the emotional experience you are likely to feel when playing at a course.

The marketing messages by many golf courses are rarely consistent, and they largely represent a “broadcast” message for everyone to come play our course. Each course is unique and appeals to a narrower set, not to “everyone.” Some possible “why” statements include the following:

Option 1: “We deliver a convenient and affordable recreational experience for those who play just for fun.”

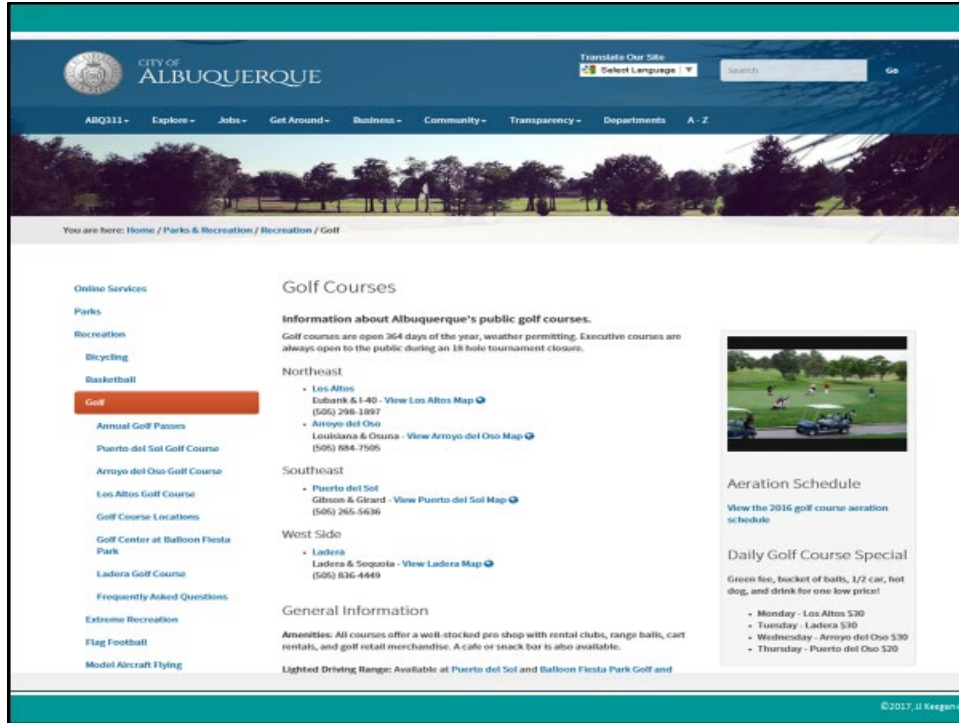
The subtle message here is that frequent customers who act as though this is their private club should sense the equality in the message and perhaps play elsewhere if they do not want to encounter beginners. And conversely, beginners and many women might feel more welcome reading this “why.”

Option 2: “We are here to provide a course that allows you to learn how good you are at golf and how much you appreciate the traditions of the game.”

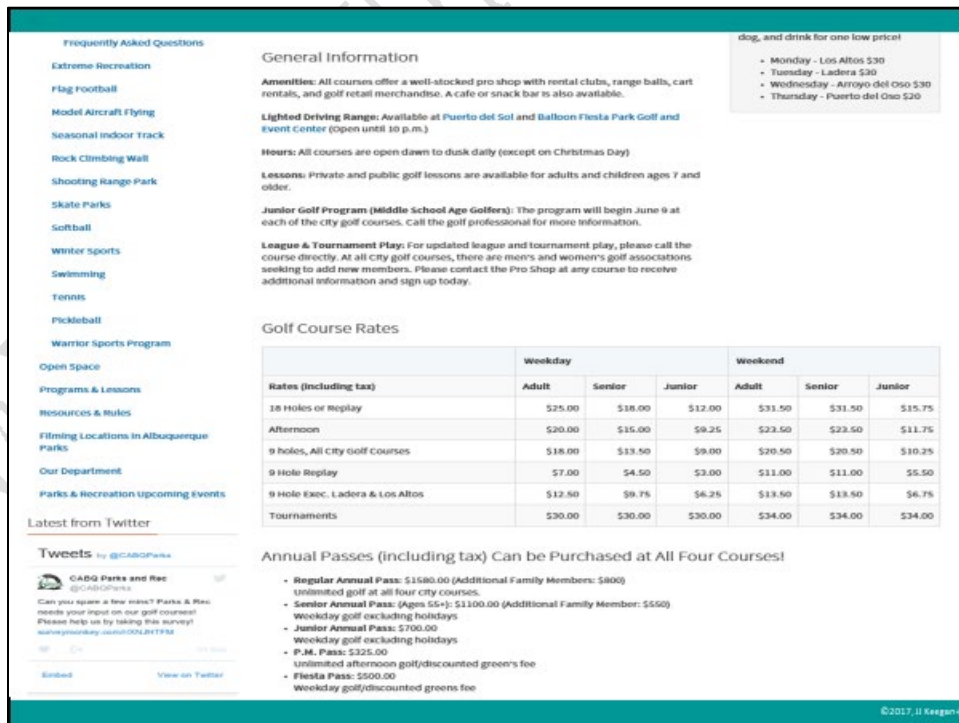
This statement would be appropriate wording for a course with a slope rating greater than 140. The subtle message here is to bring your game, and that this is not the facility for amateurs who do not appreciate the challenges golf offers and the traditions so respected in golf that shapes the culture of the game.

The creation of a unique selling proposition (such as affordability and welcoming new entrants to the game at Los Altos or Puerto del Sol, or a championship venue for Arroyo del Oso or Ladera) that is communicated to the existing customer base will boost revenues. Currently, the unique selling proposition for each golf course is not defined on the Golf Department website.

The current City of Albuquerque, golf operations website, is sorely lacking. Fifty percent of those facilities are “below the fold” and cannot be seen from the home page without a customer scrolling. The home page is illustrated here:



When scrolling down the page, a customer inconvenience, the following additional information is shown:



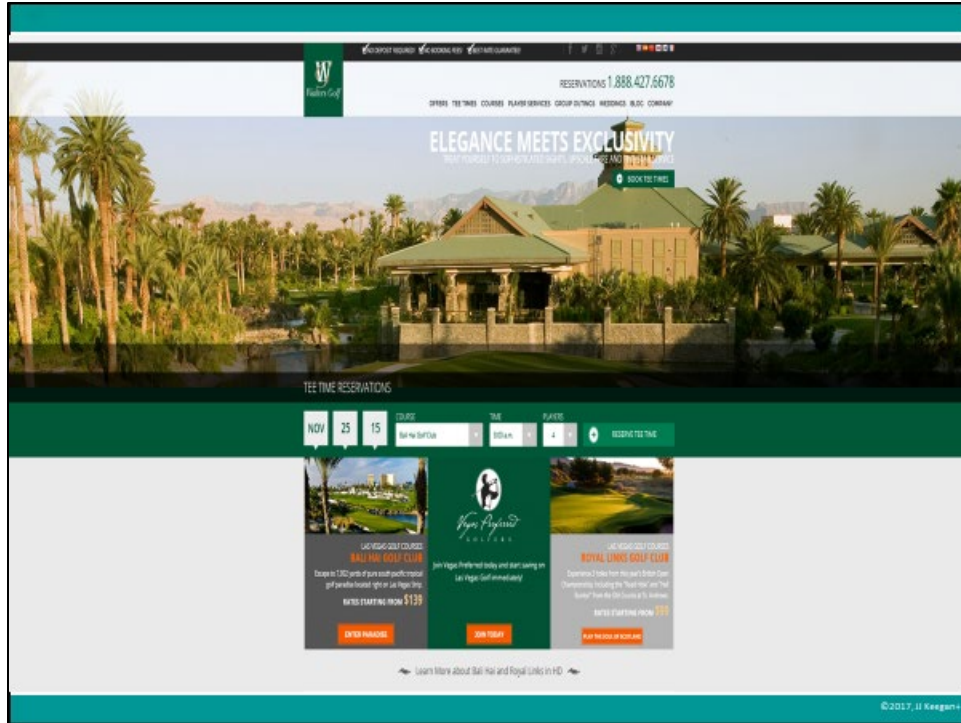
There is no ability to book a tee time, register for a newsletter or engage with staff by leaving a message using a plethora of software tools, i.e., Zendesk. The sole opportunity on the site featuring rates is Monday – Thursday specials offered at one course per day.

If one would see a virtual tour of one of the City of Albuquerque's golf course, that click on a link that displays the following page that is poorly designed and provides little information of value:



The City of Albuquerque would be well-served by creating a link from its website to an online register system where the tee sheets at each golf course fully integrated.

A website that captures many of the desirable elements (why statement, online booking on the home page, email registration with the opportunity to define your specific interests) is shown here:



As a multi-course operator, note how tee times can easily be booked from the home page.

The key to market positioning is establishing strong, exclusive brand recognition. It is the suggestion of JJ Keegan+ that the Golf Department’s transition its static pages to transactional oriented pages to bolster its brand and create incremental revenue. With this repositioning, embedding meta and title tags in every page to ensure heightened visibility on search engines is recommended.

What About Third Party Tee Time Reservation Company that Provide Free Software?

The City of Albuquerque utilized the third-party software of EZ Links several years ago. It is a superior software solution though it comes with some perils.

The Golf Department provides the third-party vendor tee times daily to liquidate at whatever price they deem appropriate to generate revenue to provide for their supplemental compensation.

There is no greater issue in the golf industry than the impact of barter trade creating customer disintermediation. The National Golf Course Owners Association has issued multiple white pages advocating a series of “best practices.”

Presented below is an analysis of the perceived advantages and disadvantages of working with third parties:

| <i>Perceived Advantages</i> | <i>The Disadvantages of Third Parties</i> |
|---|--|
| May claim to provide a means of marketing your facility at no direct out-of-pocket expense. | You lose control of managing the relationship with your customers. The golf consumer may be trained to look for and pay for only discounted golf. The perceived “value” of your golf course is diminished in the consumers’ eyes, and their willingness to pay full rack rate or book in advance is discouraged. |
| May claim to be a means to reach new channel of customers and fill holes in your tee sheet. Claims to bring in incremental business, e.g., out of town golfers that you would not normally see. | Some third-party wholesalers/discounters in specific geographic areas have grown in such scope they control so much of the tee time inventory they have gained leverage over the owner/operator, similar to hotels.com, expedia.com. |
| In many cases, the third party will handle the technology needs of the program. | Third parties can and have separated the owner/operator from their customer base. Separation from your customer base may fracture any emotional ties and sense of loyalty that is key in establishing repeat business. |
| Variable pricing is introduced in which bargain hunters will be attracted to the golf course. | Operating yields decrease. Third parties can and have generated advertising and other revenues by selling access to customers (“eyeballs”) that come to their portals to book tee times at your course, <i>and</i> this revenue is not shared with the golf course or courses in that market area. |

Notwithstanding the disadvantages noted, when properly managed third-party services can generate incremental revenue. It is suggested that the Golf Department research and identify a third-party booking platform to provide online booking of tee times to their customers. There are several vendors in the industry that interface with Vermont Systems.

The Goals to Be Achieved Formula for Proper Adoption of Technology

The formula to profitably operate a golf course consists of the following steps:

- ◆ Create a customer database of upwards of 4,000 names per 18 holes.
- ◆ Integrate the Tee Time Reservation System with POS.
- ◆ Issue identification cards and capture golfers’ email addresses.
- ◆ Communicate with your customers via an opt-in email marketing program.
- ◆ Display tee times by best available time or price (maximum two times displayed).
- ◆ Center a marketing focus on your website.
- ◆ Develop a consolidated reporting system and monitor the 15 key management benchmarks.

An online registration system integrated into the POS system can identify specific golfer interests, such as last-minute tee times, tournaments, and other course activities.

The correct deployment of technology will yield the following benefits:

- ◆ Maximized Revenue
 - Web-based marketing presence.
 - Reservation cards sold for premium access.
 - Dynamic yield management.
 - Create a distinct brand for the City of Albuquerque's golf courses.

- ◆ Increased Operational Efficiency
 - Better internal control.
 - Timely and more meaningful reporting.
 - Repetitive tasks by staff eliminated.
 - Enhance customer service.
 - 24-hour access to tee time reservations.
 - Email communication of promotions, tournaments, and updates.
 - Sell prepaid gift cards online.

In conclusion, the proper use of technology should create a management and marketing advantage.

Step 3 – Technology Conclusions

A golf course's revenue potential can only be achieved if the technology is properly employed to learn and leverage customer information as to their habits and preferences.

The City's current software is at best basic and most likely dysfunctional compared to what is available currently to efficiently manage a golf course. The interaction of the tee sheet to the POS system is essential. Vermont Systems, the contemplated POS vendor, has such capability. Adding their tee time reservation software is suggested.

Further, we recommend that the Golf Department's website is completely re-done. While Vermont System could develop the website for Golf Department, it is our recommendation that Quick 18 or Course Trends be retained to develop the site. While it will be graphically beautiful, far more importantly, it will also contain dynamic yield management tools to ensure that tee times are sold based on the relative balance of demand versus supply for each time.

Tactical: Step 4 – Financial Benchmarking

To Manage Well, Accounting Information Must Produce Meaningful Insights

The genesis for this strategic review of the City of Albuquerque golf operations was rooted in City Council desire to learn why operating losses are accelerating and why deferred capital investment is mounting.

In undertaking a financial analysis and benchmarking the operational results of the facilities as a basis for formulating recommendations, there are three principal approaches that could be implemented:

- ◆ Historical review based on the current management model and organization structure.
- ◆ Evaluation on the premise that all golf courses were fully leased to third-party concessionaires and the City's sole responsibility was the collection of rent and the administrative costs to oversee the existing agreements.
- ◆ The golf courses via an independent third party management in which an annual fee was paid to it but with the City receiving the benefits of all revenues with the responsibility for covering all expenses and investing in capital improvements.

Unfortunately, the City of Albuquerque does not maintain their financial statements for the golf courses consistent with generally accepted accounting principles for the industry. It is our sense that monthly financial statements are not produced that provide for meaningful analysis and review of developing trends. Beyond rounds played, gross revenue, and a comparison of expenses to budget, a proactive financial analysis is not undertaken.

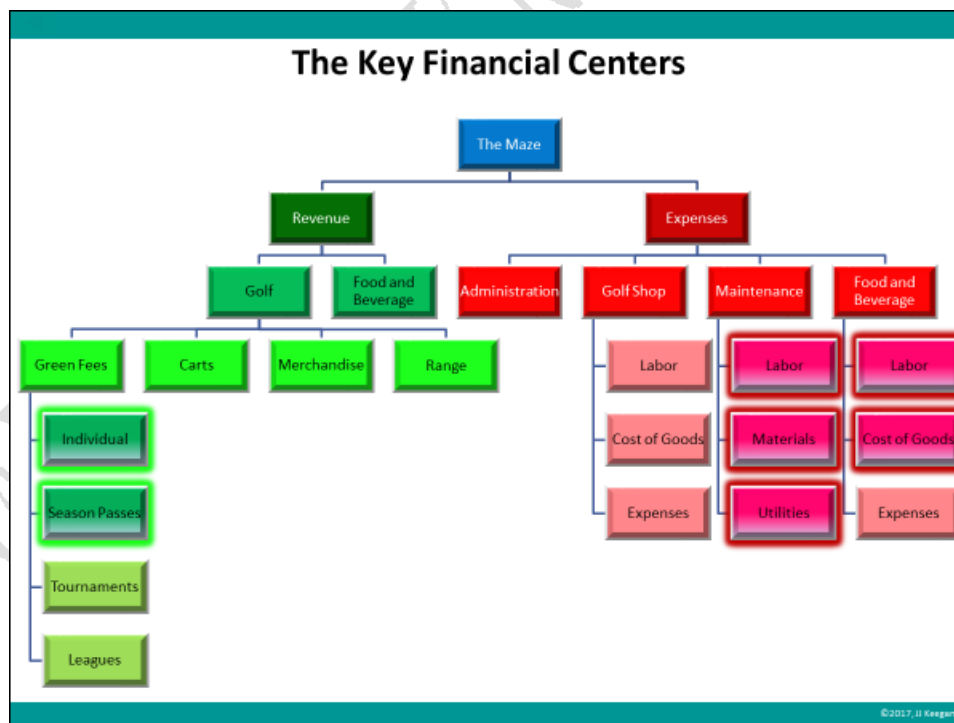
There are several reasons for this:

- 1) The concessionaire model under which the City operates creates independent revenue and cost centers that are not consolidated. The concessionaires remit a percent of revenue and are entitled to all profits from golf carts, merchandise, food, and beverage. Their costs remain within their private domain.
- 2) The City's financial statements for administration and maintenance are prepared on a consolidated basis with no cost accounting to individual courses. The City has no idea precisely what it costs are to operate each of the courses individually.

- 3) The daily flow of revenue from the concessionaires to the City and in turn back to the concessionaires for their share is convoluted resulting in numerous reconciliations and adjustments. During the time frame in which this report was drafted, the Concessionaires owed the City money, acknowledged such, and were waiting for an accounting of remitting funds due.
- 4) The internal financial statements, after the Consolidated Financial Annual Report adjustments are made, are never updated.

Thus, there are several challenges in undertaking a comprehensive financial analysis of the City's golf course financial statements. We have had to make numerous assumptions and undertake various allocations with the hope that the financial statements represented herein are "fairly stated in all significant and material respects." What we know for sure is that there are not completely accurate nor can they be relied upon to cross reference to any internal or published document heretofore.

Golf courses usually maintain their financial statements segregating green fees, carts, merchandise, food, and other (lessons, range, etc. Expenses are segregated by the administration, pro shop and maintenance as reflected in the chart below:



Despite the hundreds of general ledger accounts, there are only several categories one need to examine to determine the financial health of a golf course: green fees, season passes,

maintenance labor expense, maintenance materials, maintenance utilities, food and beverage labor and cost of goods sold.

These represent the various majority of revenue and expenses. Carts, merchandise, range all are dependent upon green fees or season passes.

National Benchmarks vs. Local Performance

Throughout this Golf Study, extensive financial analysis was undertaken. It is important to frame such financial review based on national benchmarks.

| Financial Performance - Municipal Golf vs. City of Albuquerque | | | | |
|--|---------------------|-----------------|------------------|--------------------|
| | Platinum Top 10% | Gold Top 25% | Silver Median | Steel - Bottom 25% |
| Rounds Played (232) | 52,000 | 38,713 | 29,582 | 22,000 |
| Peak Season Green Fee + Cart (237) | 75 | 57 | 45 | 39 |
| Full Time Employees (181) | 15 | 10 | 6 | 5 |
| Revenues (146) | 2,618,819 | 1,600,000 | 1,068,792 | 718,882 |
| Membership Fees (58) | 321,408 | 221,438 | 106,500 | 71,988 |
| Green Fees (164) | 1,013,735 | 729,725 | 480,763 | 240,000 |
| Cart Fees (157) | 398,898 | 300,000 | 204,011 | 120,000 |
| Merchandise Revenue (168) | 250,000 | 166,163 | 98,334 | 54,140 |
| Food and Beverage (79) | 678,474 | 356,780 | 166,938 | 100,000 |
| Range (138) | 137,846 | 75,000 | 42,818 | 16,000 |
| Total Payroll (128) | 1,070,035 | 792,261 | 500,000 | 343,873 |
| Golf Operations Payroll (124) | 550,000 | 345,000 | 250,000 | 139,500 |
| Golf Operations Expenses (103) | 419,777 | 142,000 | 100,000 | 63,084 |
| Maintenance Payroll (94) | 533,944 | 413,000 | 273,950 | 199,000 |
| Maintenance Expenses (91) | 400,000 | 250,000 | 163,490 | 94,175 |
| Water Expenses (46) | 180,000 | 105,400 | 32,500 | 12,000 |
| Golf Course Renovation (89) | 175,000 | 100,000 | 50,000 | 25,000 |
| EBITDA (75) | 1,100,000 | 625,000 | 240,000 | 50,000 |

Source: PGA Performance Trak 2015 (survey conducted in 2016) – Note: Number in Parenthesis represents number of respondents to survey ©2017, II K&G&T

Note 1: These statistics represent 18-hole golf courses.

In theory, based on operating 4.5 18-hole equivalents, the City of Albuquerque, if it merely matched the national media would generate \$1,080,000 in earnings before interest, taxes, depreciation and amortization. Contrasted to the net operating loss reported in the City's CAFR report, \$1,623,285 in the aggregate or \$360,733 per 18-hole equivalent. The chasm between the performance of peers vs. the actual results stunning.

Unfortunately, the data to compare the City's courses vs. the financial performance of local and state golf courses is not available. Not surprisingly, only 11 golf courses in the State of New Mexico participated in the PGA PerformanceTrak annual operating review. As a result, there is

insufficient data available to present the financial performance of the City of Albuquerque's regional peers.

If we view all golf courses in the United States, we noted that municipal golf courses play more rounds (29,582 vs. 22,500), generate less revenue (1,068,792 to \$1,463,833), spent less on maintenance salaries (273,950 versus 290,000) and less on maintenance expenses (163,490 vs. 200,000). The net result is higher earnings (240,000 vs. 196,271). Shown here at the financial statistics of all golf courses in the United States:

| Category | Course Reporting | Top 10% | Top 25% | 2015 Median | Bottom 25 % |
|-------------------------------|------------------|-----------|-----------|-------------|-------------|
| Rounds | 1,167 | 43,000 | 32,000 | 22,500 | 16,000 |
| Green Fee + Cart (Prime Time) | 1,189 | 129 | 90 | 65 | 45 |
| Revenue | 532 | 4,788,620 | 2,779,360 | 1,463,833 | 819,455 |
| EBITDA | 326 | 1,111,438 | 510,000 | 196,271 | 70,000 |
| Maintenance Salaries | 385 | 703,289 | 480,000 | 290,000 | 175,000 |
| Maintenance Expense | 365 | 525,000 | 352,000 | 200,000 | 104,226 |

The reconstructed financial statements for the City of Albuquerque's golf course that reflect the revenue they received and their financial responsibilities is shown here:

| Financial Performance - Municipal Golf vs. City of Albuquerque | | | | | |
|--|--|--|---|--|---------------------------|
| | Arroyo del Oso 27 Holes Functional | Arroyo del Oso 18 Hole Theoretical | Ladera 18 Holes Functional 9 Holes Little Use | Los Altos 18 Holes Functional Chip/Putt Little Use | Puerto del Sol 9 Holes |
| Rounds Played | 79,097 | 52,758 | 42,442 | 55,192 | 34,897 |
| Peak Season Green Fee + Cart | 45 | 45 | 45 | 45 | 45 |
| Revenues (City + Concessionaires) | 2,926,709 | 1,952,115 | 1,315,147 | 1,570,946 | 909,313 |
| Green Fees | 1,521,120 | 1,014,587 | 726,430 | 874,721 | 428,331 |
| Cart Fees | 501,030 | 334,187 | 200,599 | 270,450 | 111,831 |
| Merchandise Revenue | 258,805 | 172,623 | 67,846 | 57,605 | 122,328 |
| Food and Beverage | 398,437 | 265,757 | 212,902 | 296,533 | 67,839 |
| Range | 234,895 | 156,675 | 104,326 | 116,993 | 152,583 |
| Total Payroll (Maintenance + Administration) | 573,694 | 382,654 | 562,740 | 517,752 | 397,774 |
| Full Time Employees (4 Administrative) | 11 | 11 | 9 | 9 | 6 |
| Golf Operations Payroll | Unknown | Unknown | Unknown | Unknown | Unknown |
| Golf Operations Expenses | Unknown | Unknown | Unknown | Unknown | Unknown |
| Maintenance Payroll | 462,302 | 308,355 | 451,347 | 443,491 | 360,642 |
| Maintenance Expenses | 846,821 | 564,830 | 331,408 | 725,718 | 536,249 |
| Water Expenses | 510,306 | 340,374 | 48,788 | 605,951 | 225,255 |
| Golf Course Renovation | 0 | 0 | 0 | 0 | 0 |
| EBITDA | 110,604 | 73,773 | -167,717 | -368,750 | -505,693 |

Source: PGA Performance Trak 2015 (survey conducted in 2016) – Note: Number in Parenthesis represents number of respondents to survey © 2017, II Keegan

A golf course needs to consistently generate over \$1 million in revenue to be self-sustaining. All Albuquerque courses meet this base threshold.

A review of the national benchmarks compared to Albuquerque's golf course produces some startling insights:

- 1) The rounds played at Albuquerque three 18 hole golf courses exceeds the national median by 69% (50,144 vs. 29,582).
- 2) The average green fee revenue earned at Albuquerque's three 18 hole golf courses exceeds the national median by 81% (871,912 vs. 480,763).
- 3) The revenues generated at Albuquerque's golf courses for the cart, merchandise, food and beverage, and the range exceeds the national median for those four categories by 294% (1,508,128 vs. 512,101).
- 4) Maintenance salaries and expenses to maintain the cost incurred by Albuquerque are in the Top 10% of all municipalities.

While the number of playable days, 311 exceeds the national average of 260, explain part of the difference, the conclusion is that the City of Albuquerque's golf courses are clearly underperforming compared to their peers. As a result of these variances, EBITDA (earnings before interest, taxes, depreciation, and amortization) is below industry averages.

A Considered Consolidated Review

What is the probably consolidated net operating of the City of Albuquerque golf courses?

Realizing that the City does not allocate costs to the golf course and that the actual expenses of the concessionaires is unknown, allocating total costs based on the number of holes at each facility and applying national benchmarks for the concessionaire's expenses results in the following estimate:

| | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Total |
|-----------------------------------|----------------|-----------|-----------|----------------|-----------|
| Rounds | 79,097 | 42,443 | 55,112 | 34,897 | 211,549 |
| Revenue Per Round | 37.00 | 30.99 | 28.50 | 26.06 | 31.78 |
| Rack Rate With Cart | 45.00 | 45.00 | 45.00 | 46.50 | 45.00 |
| Yield | 82.22% | 68.87% | 63.33% | 56.04% | 70.62% |
| Target | 80.00% | 80.00% | 80.00% | 80.00% | 80.00% |
| Over (Under Performance) | 2.22% | -11.13% | -16.67% | -23.96% | -9.38% |
| | | | | | |
| City Revenue: Green Fees | 1,521,120 | 726,430 | 874,721 | 428,331 | 3,550,602 |
| Concessionaire Revenue | 1,405,589 | 588,717 | 696,225 | 480,982 | 3,171,513 |
| Season Passes Revenue | 24,271 | 24,271 | 24,271 | 24,271 | 97,085 |
| Total Revenue | 2,950,980 | 1,339,418 | 1,595,217 | 933,584 | 6,819,200 |
| | | | | | |
| Wages - Administrative | 111,392 | 111,392 | 74,262 | 37,131 | 334,177 |
| Wages - Concessionaire | 421,677 | 176,615 | 208,868 | 144,294 | 951,454 |
| Wages - Maintenance | 462,302 | 451,348 | 443,491 | 360,643 | 1,717,784 |
| Total Payroll | 995,371 | 739,355 | 726,621 | 542,068 | 3,003,415 |
| | | | | | |
| Expenses - Administrative | 0 | 0 | 0 | 0 | 0 |
| Expenses - Concessionaire | 702,794 | 294,359 | 348,113 | 240,491 | 1,585,756 |
| Expenses - Maintenance | 771,219 | 267,914 | 698,811 | 466,381 | 2,204,325 |
| Total Expenses | 1,474,013 | 562,273 | 1,046,924 | 706,872 | 3,790,081 |
| | | | | | |
| Total Expenses | 2,469,384 | 1,301,628 | 1,773,545 | 1,248,940 | 6,793,496 |
| | | | | | |
| Theoretical Net Income | 481,596 | 37,790 | -178,328 | -315,356 | 25,704 |
| Adjustments to Industry Benchmark | | | | | |
| Water Expenses | 510,300 | 48,788 | 605,591 | 225,255 | 1,390,300 |
| National Water Costs | 73,507 | 73,507 | 49,005 | 24,502 | 220,520 |
| Potential Net Income | 918,389 | 13,071 | 378,258 | -114,603 | 1,195,484 |

Note: Wages – Concessionaire = 30% Revenue, Expenses – Concessionaire = 50% Revenue

On a consolidated basis, it is estimated that the City's net income from the golf courses is \$25,704.

This analysis would suggest that the net income earned by the concessionaires is \$967,259 (\$941,555 reported internal operating loss vs \$25,704 consolidated profit). We are confident that the concessionaires will loudly protest that they are not making that kind of money. If they aren't, it is because they are poor managers for the potential to earn that income has been demonstrated by their peers.

Thus, applying industry benchmarks to a set of numbers which are probably fairly stated, the net income potential is estimated between \$1,195,484 (as shown above) and \$1,344,423 (20% of gross revenue) if water costs were comparable to national averages.

The consistent net income of Arroyo del Oso was predictable as the facility has long been considered the bell weather on which the other golf courses were financially supported.

What is also clear from this analysis though that under the current operating model, Puerto del Sol is losing \$315,356, it would still lose \$114,603 if water costs were comparable to national benchmarks. If the golf courses were owned by private business, it would be shuttered, and the current airport lease canceled. Thus, if one's perspective is solely financial, the recommendation to close Puerto del Sol is prudent.

That begs the questions, what about Los Altos? It is obvious drilling the well investing \$1.5 million will have a great impact on reducing the water expenses.

However, the appropriate issue to address is what return can be anticipated from that investment. Assuming the current concessionaire remains in effect for the next 30 years, the projected cash flow is negative for the first 20 years with NO ADDITIONAL capital investment. If we anticipate an annual capital reserve for the golf course of \$132,500, which is the standard allowance to ensure that a golf course remains agronomical competitive, the return on investment is negative for 30 years as shown here:

| Begin | End | Net Investment - Current Model | Internal Rate of Return | Net Investment With Capital Reserves | Internal Rate of Return | Independent Management | Internal Rate of Return |
|-------|------|--------------------------------|-------------------------|--------------------------------------|-------------------------|------------------------|-------------------------|
| 2017 | 2026 | -787,500 | -5.73% | -2,112,500 | -24.89% | -1,671,495 | -16.28% |
| 2027 | 2036 | 1,025,000 | -3.56% | -1,625,000 | -9.13% | -693,995 | -3.23% |
| 2037 | 2046 | 2,837,500 | 6.71% | -1,137,500 | -3.73% | 283,505 | 0.76% |

The quick conclusion is that one or both of those facilities should be closed. But such a quick decision ignores the quality of life issues that these facilities are located in an area of town where the demographics are adverse to a successful golf enterprise and do create an intangible value in providing open space and the potential of an enhanced life experience for the area residents.

As Puerto del Sol is leased, not owned, and as there is a rental payment due annually to the Airport Authority, of the course facilities, Puerto del Sol is the obvious choice for immediate closure.

The Deep Hole

What will it take to break even? That question on the surface is easy to understand: increase revenues or decrease expenses. We have addressed the expenses that are out of line on water costs and employee benefits. Thus, revenue increases need to be considered.

What is the increase in the prime time rack that needs to be implemented, presuming no loss in current rounds volume, that will achieve break-even? That calculation is shown here:

| | Internal Financial | CAFR |
|---------------------------------------|-----------------------|-----------|
| Net Operating Loss | 941,555 | 1,623,285 |
| Rounds | 211,628 | 211,628 |
| Effective Rate Increase to Break Even | 4.45 | 7.67 |
| Increase In Prime Green Fee Rate | 7.42 | 12.78 |

Is this Golf Study recommending a rate increase? Absolutely Not! Any rate increase at the current time will increase the outflow of golfers to the competitive courses. Until a capital investment is made, as recommended in the next section, the quality of the current experience already exceeds posted prices. Therefore, to cure the operating deficit, the best options are: 1) transferring the entire golf operation to the concessionaires in exchange for lease payments; 2) retaining independent management to oversee the operations. Either option, however, will require a substantial investment in equipment to render the golf experience competitive.

Step 4 – Financial Benchmarking Conclusion

In four months of analysis and in recognizing the constant hurdles that would be placed in front of practical solutions if the golf courses were privately managed vs. a ‘hybrid lease,’ one reaches the stark conclusion that there will be much debate and little action.

The City of Albuquerque is leveraging the plethora of core golfers in the metroplex realizing that their vast numbers will overlook the inferior experience due to the convenience of residing close to the golf course. Even after those who are disgruntled and opt to play golf elsewhere, there will be a sufficient number of golfers remaining that are merely seeking a convenient recreational experience and will continue to patronize the City of Albuquerque’s golf courses. Those golfers who would be classified as infrequent or casual do not know that the experience they are getting is not worth what they are paying.

Thus, the philosophy of funding capital investments only when cash flow is sufficient is faulty. As stewards of great assets, there comes a responsibility to protect, maintain, and invest for the current and future generations.

Should the City of Albuquerque not choose to invest, they should leave the business of golf and privatize the operation of the facilities.

FINAL GOLF STUDY REPORT: 5/10/2017

Operational - Step 5: The Physical Assets – Resources on Which to Grow

Golf courses have in common three attributes that must be seamlessly blended on a consistent basis to create a pleasurable golf experience: architecture, agronomy and maintenance, and operations. If any one of the elements is not executed correctly, the financial success of a golf course becomes challenged.

The myriad of shot values presented as the routing meanders through terrain provides a panoply of nature that makes a golf course a compelling and an integral component of a park system. The carpet of freshly cross cut green grass, gleaming raked white sand bunkers, glistening trees trimmed as they evolve through various shades of color during a season, and babbling brooks leading to beaming lakes that reflect the sun's warmth all surrounded by fresh air ensures that golf celebrates and nurtures the best of our environment.

But a golf course is designed by an architect only on the day it opens. It is a living organism that is growing and changing daily, shepherded and guided by deft maintenance personnel that are caring in creating an experience that provides enjoyable leisure and recreation. But passion alone is insufficient. There are many components to properly maintaining a golf course: sufficient qualified and certified personnel, adequate water, properly designed and flowing irrigation systems, and chemicals (fertilizers, herbicides, and pesticides). Without all of these resources to properly condition a golf course, the facility will underperform for it will fail to engage and retain the golfer.

Even if the course is grand and finely maintained, the lack of consistent execution in operations will limit its potential.

But if the trifecta of architecture, agronomy and maintenance, and operations come together, the final product is an interesting recreational sport that offers the appropriate challenge for each's level of ability. By operating multiple golf courses, an opportunity exists to create a diverse array of experiences to attract and retain all skill levels – from the entry level golf to the accomplished player. That is the goal of the City of Albuquerque.

Throughout this report, we have harped about how the City's fabulous assets have gone unloved, neglected, and essentially abandoned. We have tried to jolt hoping that the reader of this report realizes how fabulous the underlying core assets owned by the City of Albuquerque are and the potential they offer citizens in the Albuquerque metroplex.

Presented below is a snapshot of each course's history framed from the perspective of their original architecture and how poorly they have been maintained.

The Core Assets: Delightful Municipal Golf Courses

This architectural assessment included a review of four golf courses: Arroyo del Oso, Ladera, Los Altos, and Puerto del Sol.

The average slope rating for U.S. golf courses built before 1980 is 120. Since 1980, the U.S. slope rating for new courses built has increased to 127. Slope ratings range from 85 to 155. City of Albuquerque's golf courses with slope ratings from 113 to 125 provides an appropriate diversification of golf experiences for the public golfer.

Ever since Ladera was built in 1950, golf has been an important part of that vision. We believe these golf courses offer a unique opportunity, not only because of their location within the urban core but also because of their unique classic style and character. Much of that unique style has been lost over time, but the underlying landforms and vision are still there waiting to be uncovered and revitalized:

The Park System should be celebrated for creating at each of the facilities golf learning centers that meet the needs of avid golfers as well as provide an introduction to the game for kids, women, seniors, and beginning golfers. Between Arroyo del Oso, Ladera, Los Altos and Puerto del Sol, the facilities include entry-level courses (par 3, executive and short-regulation), a driving range, a short-game practice facility, and a grass putting course to complete the regulation length golf courses.

Architectural Review

To properly frame the priorities, this strategic review undertook the following:

- A. A detailed analysis of each golf course, documenting with photographs items that should warrant the attention of management. Pictures were taken from every tee, fairway, and green on each of the City of Albuquerque's golf courses.
- B. A comprehensive review of each clubhouse facility documenting the review in photographs.

The narrative reviews of each golf course and the associated photo essays were submitted as an integral part of this engagement by Andy Staples, ASGCA, Staples Golf Design.

The principal recommendations of their report are as follows:

1. It is highly advisable to perform comprehensive Master Plans for all courses, but most importantly for Ladera. This course presents the largest opportunity for improvement both regarding the golf course experience and for uses specifically designed to engage golfers and non-golfers alike.
2. Establish a “highest and best use” of each property to fully understand the market value of the land, and determine hypothetical uses, other than golf, for the land.
3. All courses should perform a safety analysis of the current design to understand the possible impacts of errant golf balls leaving the property, or possible impacts within the course itself. The City faces a liability that has not been addressed or quantified.
4. Each course should continue to focus on the environmental concerns of water availability, energy efficiency, and the reduction of resources, including the reduction of the use of potable water on all courses.
5. All courses would benefit from a tree inventory and overall management plan (replacement and removal) to address the long-term health, age, and species selection. Visible signs of aging, root intrusion and poor health were apparent during the survey.
6. All course should assess their current turf varieties and investigate opportunities to upgrade them to the latest advanced, engineered varieties that are more drought-tolerant and less maintenance intensive.
7. Arroyo del Oso and Ladera use the colors of blue, white and red for their tee markers which are gender unfriendly. Men are inherently against playing the color of red, and women do not feel able to move to another set of tees.
8. Perform an overall yardage analysis that examines the integration of more “forward” set of tees at each course. At a minimum, a tee should be placed approximately 60-65% of the back tee yardage to give a player that doesn’t have the same swing speed as an accomplished golfer, the feeling of playing the same course.
9. Examine the overall entry design for each course. Currently, each course’s entry is underwhelming and does not do a very good job of welcoming a user.

10. All courses should examine ways to connect each golf course into the City’s overall trail plan and ensure each clubhouse is identified as a place for trail users to utilize along their walks/runs.

The City should perform a comprehensive marking and branding exercise for each facility. Establishing a “vision” for each property, and correctly matching this vision with all aspects of the course’s brand message is a sign of a solid business.

The Challenge of the Albuquerque Golf Courses

The typical golf course encompasses:

| | | Acreage | % |
|-------------------|------------------------------|--------------------------|--------|
| Turf Grass | Rough | 51 | 34.46% |
| | Fairways | 30 | 20.27% |
| | Driving Range/Practice Areas | 7 | 4.73% |
| | Green | 3 | 2.03% |
| | Tees | 3 | 2.03% |
| | Clubhouse | 3 | 2.03% |
| | Nurseries | 1 | 0.68% |
| | Total | 98 | 66.22% |
| | Non-Turf grass | Non-turf grass landscape | 24 |
| Water | | 11 | 7.43% |
| Building | | 6 | 4.05% |
| Bunkers | | 4.5 | 3.04% |
| Parking Lots | | 4.5 | 3.04% |
| | | 50 | 33.78% |

The challenge the City of Albuquerque faces is the massive footprint on which their courses are built. The acreage for Albuquerque’s golf courses are:

| Course | Acreage | Irrigated Turf |
|--------------------------------------|---------------|----------------|
| Arroyo del Oso | 282.97 | 155 |
| Ladera | 261.51 | 134 |
| Los Altos | 237.65 | 138 |
| Puerto del Sol | 100.71 | 55 |
| Total Acreage | 882.84 | 482 |
| Actual Cost (Total & Water) | \$4,492,157 | 1,390,300 |
| Cost Per Acre | 5,088 | 2,884 |
| Typical Acreage for 4.5 golf courses | 666 | 405 |
| Excess Acreage | 216.84 | 77 |
| Incremental Cost of Excess Acreage | \$1,103,348 | 222,102 |

The golf courses have nearly 216 acres that are not required increasing operational costs by \$1,103,348 as detailed above.

While the cost of maintaining the golf course annually is one cost, an equal challenge is generating such cash flow to invest in the capital reserves that are required.

One might question how are capital reserves determined?

The Golf Superintendents Association of America, in cooperation with the Golf Course Builders Associations, recognizes that a golf course is a living organism and a depreciable asset, analyzed the components of a golf course, their life expectancy, and the annual capital reserve required to ensure the course remained viable. Presented below is a chart that highlights that an 18-hole golf course should allocate \$132,038 per 18-hole golf course for capital reserves.

| Renovation Cost and Annual Capital Reserve | | | | | |
|--|--------------------|------------------|------------------|------------------------------|---------------------------|
| Component | | Years Minimum | Years Maximum | Estimated Cost to Replace | Annual Capital Reserve |
| Greens | | 15 | 30 | 775,000 | 25,833 |
| Bunker Sand | | 5 | 7 | 44,800 | 6,400 |
| Irrigation System | | 10 | 30 | 314,000 | 10,467 |
| | Irrigation Control | 10 | 15 | 171,000 | 11,400 |
| | PVC Pipe | 10 | 30 | 329,600 | 10,987 |
| | Pump Station | 15 | 20 | 425,000 | 21,250 |
| Corrugated Pipe | | 15 | 30 | 398,180 | 13,273 |
| Cart Paths | Asphalt | 5 | 10 | 93,350 | 9,335 |
| Cart Paths | Concrete | 15 | 30 | 146,685 | 4,890 |
| Practice Range Tees | | 5 | 10 | 37,680 | 3,768 |
| Tees | | 15 | 20 | 150,720 | 7,536 |
| Bunker Drainage Pipes | | 5 | 10 | 65,000 | 6,500 |
| Mulch | | 1 | 3 | 1,200 | 400 |
| Grass | | Varies | Varies | N/A | |
| Total Deferred Capital | | | | 2,952,215 | 132,038 |

It should be highlighted that this sinking fund estimate represents the amount for capital improvement of the course infrastructure, but excludes the clubhouse facilities and parking lots at each golf course as well as the maintenance equipment required. An annual reserve of \$250,000 would be inclusive of those additional requirements. It should also be noted that a historical calculation of the deferred capital expenditures for a sinking fund reserve is different than the desired capital investment recommended within this report.

The industry benchmark would suggest that the City of Albuquerque Golf Department should allocate \$594,171 annually for capital investment on its 18-hole golf courses. Since 2012, the total investment has been nominal here they should have been \$2,970,855 placing the golf course in the grips of the death spiral of deteriorating playing conditions leading to declining, further reduction in revenue, and increasing losses. It is folly to think that management can defer capital investment without impacting the customer experience. The competitive market in Albuquerque is too strong with too many viable alternatives nearby.

Years of Neglect Have Created a Big Tab – Now Due

The City of Albuquerque's golf courses are in very poor condition. Like any amenity, they need continued upkeep and capital improvements to ensure that the infrastructure is maintained. It is not enough to simply water and mow the grass. Cart paths and parking lots need to be periodically seal coated or replaced, trees need to be trimmed or removed and irrigation components need to be upgraded.

Arroyo del Oso has the potential to offer a somewhat more upscale experience and become the City's confirm its position as the City's flagship golf course. Ladera, based on its location, has significant upside potential. Los Altos and Puerto del Sol are appropriate facilities attracting senior citizens and new entrants to the game. With adequate capital investment and improved on-going maintenance, once again all could be good, playable, public facilities.

Each course has a unique set of conditions which dictate the need for required maintenance and capital improvement.

Different soil conditions, topography, and vegetation impact the life cycle of cart paths, drainage, and irrigation. Trees mature and invasive species such as buckthorn, cottonwood, and box elder bushes plug drainage lines, shade turf, and narrow playing corridors. Root encroachment and shade from trees, compaction from carts, lack of fertilizer, and poor irrigation increases maintenance costs, reduces the health of turf grasses and accelerates the need for capital improvements.

It is our recommendation that a program is established to conduct a sympathetic restoration of Arroyo del Oso and Ladera. Construction projects should be directed towards improving course conditioning and playability, reducing maintenance inputs and restoring or enhancing the unique classic character of the individual courses. The cost of completing such improvements would be as follows:

| ADO Projects | QTY | UNIT | UNIT \$ | TOTAL |
|-------------------------------|-----------|-------|-----------|---------------------|
| 1) Bunker renovation | 71,500.0 | SF | \$ 13 | \$ 893,750 |
| 2) Line lakes - HDPE | 90,000.0 | SF | \$ 3 | \$ 247,500 |
| 3) Landscape planting | 10.0 | Acres | \$ 16,000 | \$ 160,000 |
| 4) Cart path repair | 100,000.0 | SF | \$ 6 | \$ 625,000 |
| 5) New forward teeing grounds | 36.0 | Tees | \$ 7,750 | \$ 279,000 |
| 6) New irrigation system | 155.0 | Acres | \$ 21,500 | \$ 3,332,500 |
| Contingency | | | \$ 0 | \$ 553,775 |
| TOTAL | | | | \$ 6,091,525 |

| Ladera Projects | QTY | UNIT | UNIT \$ | TOTAL |
|---------------------------------|----------|-------|------------|---------------------|
| 1) Drainage | 1.0 | Allow | \$ 100,000 | \$ 100,000 |
| 2) Bunker renovation | 65,340.0 | SF | \$ 13 | \$ 816,750 |
| 3) Landscape planting | 25.0 | Acres | \$ 16,000 | \$ 400,000 |
| 4) New forward teeing grounds | 54.0 | Tees | \$ 7,750 | \$ 418,500 |
| 5) New irrigation system (Exec) | 40.0 | Acres | \$ 21,500 | \$ 860,000 |
| Contingency | | | \$ 0 | \$ 259,525 |
| TOTAL | | | | \$ 2,595,250 |

| Los Altos Projects | QTY | UNIT | UNIT \$ | TOTAL |
|-------------------------------|-----------|-------|--------------|---------------------|
| 1) Well reconstruction | 1.0 | Allow | \$ 1,500,000 | \$ 1,500,000 |
| 2) Line lakes - HDPE | 105,180.9 | SF | \$ 3 | \$ 289,247 |
| 3) Safety netting | 1.0 | Allow | \$ 250,000 | \$ 250,000 |
| 4) Bunker renovation | 65,000.0 | SF | \$ 13 | \$ 812,500 |
| 5) Landscape planting | 1.0 | Acres | \$ 16,000 | \$ 16,000 |
| 6) New forward teeing grounds | 36.0 | Tees | \$ 7,750 | \$ 279,000 |
| 7) New irrigation system | 137.0 | Acres | \$ 21,500 | \$ 2,945,500 |
| Contingency | | | \$ 0 | \$ 609,225 |
| TOTAL | | | | \$ 6,092,247 |

| Puerto del Sol Projects | QTY | UNIT | UNIT \$ | TOTAL |
|--------------------------|------|-------|------------|---------------------|
| 1) Safety netting | 1.0 | Allow | \$ 500,000 | \$ 500,000 |
| 2) Turf reduction | 5.0 | Acres | \$ 5,500 | \$ 27,500 |
| 3) New irrigation system | 55.0 | Acres | \$ 21,500 | \$ 1,182,500 |
| Contingency | | | \$ 0 | \$ 171,000 |
| TOTAL | | | | \$ 1,710,000 |

We have also included above the capital costs for Los Altos and Puerto though the return on investment for those capital expenditures is highly negative.

While The Checkbook is Out, Don't Forget About Equipment

Beyond the reserves for the golf course, equipment is required to maintain. It's not uncommon for an 18-hole golf course in your region to spend an average of over \$37,000 per 18-hole golf course per year. Thus, City of Albuquerque should be creating annual equipment reserves exceeding \$166,500 annually. No such reserve currently exists.

Equipment needs are great at all City of Albuquerque courses. Many frontline pieces of equipment are of the 1990's vintage with well over 5,000 hours. In the accompanying report prepared by Mike Vogt, Certified Golf Superintendent, included are industry average mileage equivalents.

With several individual equipment exceptions, a totally new fleet of equipment is recommended at each facility based on a proposed investment as follows:

| CRITICAL EQUIPMENT NEEDS FOR ALBUQUERQUE CITY GOLF COURSES | | | | | | |
|--|------------------------|------------------|------------------|------------------|------------------|------------------|
| | Total Equipment Needed | 2017 | 2018 | 2019 | 2020 | 2021 |
| Arroyo del Oso | \$727,400 | \$290,960 | \$145,480 | \$145,480 | \$72,740 | \$72,740 |
| Ladera | \$772,600 | \$309,040 | \$154,520 | \$154,520 | \$77,260 | \$77,260 |
| Los Altos | \$640,100 | \$256,040 | \$128,020 | \$128,020 | \$64,010 | \$64,010 |
| Puerto del Sol | \$292,800 | \$117,120 | \$58,560 | \$58,560 | \$29,280 | \$29,280 |
| Total Equipment Replacement per Year | \$2,432,900 | \$973,160 | \$486,580 | \$486,580 | \$243,290 | \$243,290 |

Maintenance: Creating the Experience

Every golf course is unique. A course a “The Sum of its Parts.” One designed and built, each is a vast array of inputs that influence the current experience. To determine whether a golf course is competitive based on today’s benchmarks, in addition to the age of the golf course, the amount of play, and the green fees charges, the following items greatly influence the customer experience:

- ◆ Organizational Structure
- ◆ Operational budget
- ◆ Labor: Staffing levels and hours invested
- ◆ Maintenance equipment fleet
- ◆ Historical Agronomic Practices

Organizational Structure

In a multiple course municipality, the ideal organizational structure is that though each golf course is independent – they function as a cohesive team sharing knowledge, equipment, and labor resources.

Unfortunately, City of Albuquerque needs to take action to unite these seemingly stand-alone teams into one cohesive organization.

Other anomalies to the labor organization chart within the Albuquerque Park and Recreation Golf system is that the golf courses’ supervisors and their assistants are part of the M Series

Union. Most of the members on the grounds crew are part of the Blue Collar Union. In 96% of all golf courses in the U.S., the superintendent is an exempt, annual salaried employee.

When interviewed for this review, superintendents at each course said they rarely talk with the other superintendents at sister courses. Quarterly staff meetings between all superintendents are advised.

Equipment and staff sharing would also benefit the organization. An individual on the staff who is a Golf Course Superintendent's Association of America Class A Certified superintendent should serve as the coordinator and leader for the group in management meetings and presentations before the City of Albuquerque. This individual could develop standards currently lacking for:

- ◆ Cultural practices
- ◆ Disease control methods
- ◆ Equipment purchases
- ◆ Equipment repairs and maintenance
- ◆ Equipment sharing
- ◆ Nutrient applications
- ◆ Purchasing and Inventory Levels
- ◆ Special Projects
- ◆ Staffing Requirements
- ◆ Standards of Maintenance

In our review, a similar look and feel at all four facilities were observed. Maintenance facilities were cluttered and unkempt, mostly due to extremely outdated, poorly repaired, and under-sized maintenance facilities:

These maintenance facilities are not only unsightly; they may contribute to unsafe work conditions. A proper turf care center is designed to be the support facility to a well-managed golf maintenance program. Adequately sized and maintained storage, work, and employee areas are critical to ensuring safety and employee morale. Under-roof equipment storage will enhance the longevity of equipment and golf course accessories.

The maintenance facilities at the City of Albuquerque are not suitable for the equipment, chemicals, fertilizers, parts, and accessories. Also, the facilities are not conducive to employee hygiene, meal breaks, and most of all, safety.

Operational Budgets

The quality of the playing field can be reduced to a study of the four principal elements: 1) the cost of labor, which is the largest expense; 2) water, fertilizer, chemicals; 3) the constant cycle of capital improvements; and 4) the equipment required to maintain the course.

In February 2016, the Golf Course Industry Magazine surveyed superintendents who reported the following costs to maintain an 18-hole golf course:

| | 2012 | | | 2015 | | |
|--|---------|-------------|---------|---------|-------------|---------|
| | All | Non-Private | Private | All | Non-Private | Private |
| Total | 651,392 | 458,071 | 848,951 | 697,000 | 487,000 | 940,000 |
| Labor | 444,974 | 296,373 | 586,016 | 394,620 | 315,090 | 652,010 |
| Water | 16,499 | 12,484 | 20,390 | 22,800 | 17,400 | 28,600 |
| Fuel | 22,260 | 22,260 | 33,876 | 29,200 | 22,900 | 36,200 |
| Mowing/Cultivating Equipment | 37,644 | 25,335 | 50,649 | 31,300 | 25,700 | 37,700 |
| Handheld Equipment | 3,066 | 1,702 | 4,419 | 2,410 | 1,720 | 3,180 |
| Course Accessories | 4,561 | 3,804 | 5,294 | 4,410 | 3,030 | 5,970 |
| Electricity and Natural Gas | 19,048 | 17,990 | 20,088 | 21,300 | 18,200 | 24,800 |
| Shop Tools | 2,568 | 1,878 | 3,284 | 2,860 | 2,160 | 3,620 |
| Irrigation Parks, Heads, and Maintenance | 7,918 | 5,948 | 9,876 | 84,100 | 6,880 | 10,170 |
| Fungicides | 33,461 | 22,163 | 44,478 | 34,100 | 20,900 | 49,000 |
| Herbicides—pre-emergent | 6,369 | 5,109 | 7,603 | 6,370 | 4,880 | 8,010 |
| Herbicides—post-emergent | 3,869 | 3,613 | 4,144 | 4,260 | 3,500 | 5,120 |
| Insecticides | 5,141 | 3,694 | 6,570 | 6,190 | 3,580 | 9,160 |
| Granular fertilizers | 17,723 | 15,203 | 20,244 | 20,300 | 16,800 | 24,300 |
| Liquid fertilizers | 10,231 | 7,315 | 13,088 | 12,100 | 9,000 | 15,500 |
| Wetting agents | 4,399 | 3,129 | 5,669 | 6,150 | 3,500 | 9,120 |
| Plant Growth Regulators | 5,151 | 4,309 | 5,982 | 4,570 | 3,230 | 6,050 |
| Seed | 4,620 | 4,127 | 5,136 | 7,390 | 7,030 | 7,780 |
| Aquatic Weed Control | 1,890 | 1,635 | 2,145 | 2,570 | 1,500 | 3,710 |
| Total Materials | 206,418 | 161,698 | 262,935 | 302,380 | 171,910 | 287,990 |

Note that “public” in the Golf Course Industry survey includes both daily fee and municipal golf courses. Also, note the 6% increase in maintenance costs during this time frame. The increasing cost of fertilizers, herbicides, pesticides, utilities and water make the long-range prospect for golf challenging.

While actual maintenance expenses are not tracked for each course, we believe the following fairly states the actual expenses incurred for the fiscal year ending June 30, 2016:

| | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol | Total |
|--------------------------|----------------|---------|-----------|----------------|-----------|
| Salary | 328,672 | 317,718 | 354,404 | 316,099 | 1,316,893 |
| Benefits | 245,023 | 245,023 | 163,348 | 81,674 | 735,068 |
| Total Payroll | 573,694 | 562,740 | 517,752 | 397,774 | 2,051,961 |
| Maintenance Expenses | 771,219 | 267,914 | 698,811 | 466,381 | 2,204,325 |
| Fuel, Network, Insurance | 75,602 | 63,494 | 26,907 | 69,869 | 235,872 |
| Total Expenses | 1,420,516 | 894,148 | 1,243,471 | 934,023 | 4,492,157 |

A more detailed look reveals a darker story.

Labor Expense

Labor consists of two components: the average wage per hour and the number of hours worked.

Currently, labor rates for hours worked are unsustainable under the present business model. It also seems the labor force is shy by at least 2.5 FTE (full-time equivalents) at each 27-hole facility. Labor hours must be preserved at a minimum rate of 475 hours per week to maintain acceptable conditions (12 FTE per 27-holes). Currently, there are nine full-time employees working at each 27-hole venue. The current average per hour labor rate is \$19.30, not including mandatory employer contributions.

The real Achilles heel is that the benefits paid employees are 54.15% as shown below:

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|------------------------|-------------|-----------|-----------|-----------|-----------|
| Wages | \$1,357,575 | 1,167,042 | 1,297,244 | 1,322,290 | 1,378,741 |
| Benefits | 735,068 | 635,552 | 702,196 | 615,167 | 609,203 |
| % Benefits | 54.15% | 54.46% | 54.13% | 46.52% | 44.19% |
| National Benchmark | 22.00% | 22.00% | 22.00% | 22.00% | 22.00% |
| Standard Compensation | 298,667 | 256,749 | 285,394 | 290,904 | 303,323 |
| Excessive Compensation | 436,402 | 378,803 | 416,802 | 324,263 | 305,880 |

Note: Difference between wages report above \$1,357,575, and the total salaries allocated by the golf course (\$1,316,893) represents a \$40,682 attributable to many factors including overtime wages not allocated to the golf courses.

The threshold for when privatization should be considered is 40%. More ominous is that the maintenance costs as a percentage of revenue for Albuquerque's golf courses exceed the total revenue earned from green fees and season passes by 123% (\$3,647,562 vs. \$4,492,157). For municipal golf courses, the benchmark is 40%.

Water Use – All Courses

While labor is a significant burden from the lack of the number of qualified personnel required, another gaping hole in the expenses is the cost of water.

As background, the water sources for each course is:

- ◆ ADO: (Non Potable or Recycled Water)
- ◆ Ladera: Well water
- ◆ Los Altos: City potable (well was inoperable at the time of our assessment)
- ◆ Puerto: (Non Potable or Recycled Water)

Note that it is incredibly important, not only regarding long term cost sustainability, but as a matter of best practice for the City to transition their golf courses off the City's potable water system, and into a more realistic, responsible water source for all their golf courses.

Understanding groundwater is the most reasonable short-term solution; the City should work to achieve this goal as soon as is feasible. In the long term, the City should consider the introduction of onsite wastewater treatment facilities, and the introduction of reclaimed effluent water as the primary source of irrigation water for their courses.

The water use at all courses is noted below.

| ABQ Water Use, 2016 | | | | | | | |
|---------------------|----------------|------------------------------|---------------------------------|--|--------------------|--------------------------------------|--------------------|
| | Irrigated Turf | Water Expended Per Acre-Foot | Total Gallons of Water Expended | Total Gallons of Water Expended Per Playable Day | Cost Per Acre-Foot | Cost Per Gallon Per Thousand Gallons | Cost |
| Arroyo del Oso | 155 | 4.23 | 213,807,134 | 687,483 | \$778 | 2.39 | \$510,306 |
| Ladera | 134 | 4.01 | 175,278,511 | 563,596 | \$91 | 0.28 | 48,788 |
| Los Altos | 138 | 4.80 | 216,035,954 | 694,649 | \$914 | 2.80 | 605,951 |
| Puerto del Sol | 55 | 4.70 | 84,177,089 | 270,666 | \$872 | 2.68 | 225,255 |
| Total | 482 | 4.44 | 689,298,688 | 2,216,394 | \$650 | 2.02 | \$1,390,300 |

With the average cost of water, based on the Golf Course Industry survey at \$17,400 per 18 holes, one can immediately see the huge burden that water expenses are casting upon the City of Albuquerque's golf courses.

With the cost of potable water at \$889-acre feet with a well use water management fee of \$47.10 per acre feet fixed by the Albuquerque Bernalillo County Water Authority, there are some savings identified.

The cost of water can be controlled by the quality of the irrigation system, soil type and turf section, the competence of the staff dispensing the water and governors that can be placed on various irrigation heads to control the excess use of water.

The maintenance crew at Ladera has established a benchmark of water usage at acre-feet at 4.01. If each of the other courses were to use water at that level, expenses would be reduced by \$137,310. It is our professional opinion that at Los Altos the antiquated irrigation system is being used to overwater the cost.

| | 2016 Use (AcFt) | Acres of Irrigated Turf | Acre Ft/Actual Used | 2016 \$ | \$/AcFt | Acreage Feet of Water Used | Variance Between Course Actual Use Per Acre Feet and Ladera | Savings potential |
|--------------|-----------------------|-------------------------------|---------------------------|-----------|---------|-------------------------------------|--|----------------------|
| ADO | 656.15 | 155 | 4.23 | \$510,306 | \$778 | 622 | 34 | \$26,397 |
| Ladera | 537.91 | 134 | 4.01 | \$48,788 | \$91 | 538 | 0 | - |
| Los Altos | 662.99 | 138 | 4.80 | \$605,951 | \$914 | 554 | 109 | \$99,643 |
| Puerto | 258.33 | 55 | 4.70 | \$225,255 | \$872 | 221 | 13 | \$11,270 |
| | | | | | | | | \$137,310 |

As the Table above shows, the City's golf courses range from 4.01 AcFt/Ac to 4.80 AcFt/Ac. It is not uncommon to find a course's water use to exceed 5.0 AcFt/Ac, and in other cases, their use can be closer to 3.5-acre feet actual use. It should be noted that the Albuquerque Water Utility Authority set budgets based on water usage of 3.55-acre feet which may be unrealistic considering the arid desert environment in which the courses are located.

The best metric to understand total water use for golf courses is to divide the total number of gallons used (or acre feet used) by the total number of acres receiving irrigation. This narrows the total amount of water used down to the acre, providing a uniform point for comparison (assuming the turf variety, growing environment, and useful annual rainfall are equal). Assuming the soil types and turf varieties are similar among courses, the irrigation systems, and their operation should be evaluated.

By looking at the numbers, Ladera uses the lowest amount of water per acre, while Los Altos uses the highest. A great deal of this difference could be accounted towards the newer irrigation system at Ladera, as the other courses have older, less efficient systems. Additional information should be gathered to ensure that additional operational efficiency can be gained.

Another possible saving could be achieved by the reduction of the turf irrigated. Presented below is our estimate of the potential savings:

| | 2016 Use (AcFt) | Acres of Turf | Turf Reduction Suggested | \$/AcFt | Actual AcFt/Ac | Acre Feet Savings | Savings potential |
|----------------|-----------------------|------------------|--------------------------------|---------|-------------------|----------------------|----------------------|
| Arroyo del Oso | 656.15 | 155 | 5 | \$ 778 | 4.23 | 21 | \$16,461 |
| Ladera | 537.91 | 134 | 15 | \$ 91 | 4.01 | 60 | 5,460 |
| Los Altos | 662.99 | 138 | 12 | \$ 914 | 4.80 | 58 | 52,691 |
| Puerto del Sol | 258.33 | 55 | 3 | \$ 872 | 4.70 | 14 | 12,287 |
| | | | | | | | \$86,899 |

The Net Result – Poorly Conditioned Golf Courses

The main purpose of this study is to investigate current conditions and assess limiting factors present in achieving proper golf course conditions based upon standards and resources available.

Golf course conditions were identical from course-to-course throughout the Albuquerque Recreation and Park system.

The result of inadequate labor who lack proper industry certifications combined with outdated equipment results in golf courses that are poorly maintained for the fees charged. Only the core location, Arroyo del Oso, with a high density of population provides a nominal cushion for the errors made.

The condition of the golf courses in the survey conducted was rated as average. Also important, there is significant deferred maintenance in fundamental projects, such as tree trimming, and removal of dead trees.

Unfortunately, as golf courses begin losing money in a competitive market, the first cuts are always made by deferring capital expenditures. While understandable because of the large investment required to maintain each course, these cuts are often made without the continuing

recognition that the condition of the golf course remains the number-one requirement of golfers.

Each course in the park system has similar conditions to those below:



Photo illustrates greens have been and are being damaged by Pocket Gophers (*Thomomys bottae*)

Deferred maintenance and replacement of assets have taken a toll on appearance and playability of each course in the Albuquerque Park and Recreation system.

The courses suffered from weed encroachment, areas of turf loss on greens, tees, fairways and rough, projects left unfinished, and an appearance of poor housekeeping.

In the accompany report for each course, we analyze in detail the following components of the course: greens, tees, fairways and sand bunkers.

Safety Concerns

One of the main objectives of this assessment was to analyze possible safety concerns at each golf course if present. Generally speaking, an area of concern for clubs built before 1980, is in regards to the issue of safety related to the proximity of adjoining golf holes. Due to increased club and ball technology, many courses are seeing golf balls hit into places not seen before.

As is customary during the design of a golf course (developed by Urban Land Institute (ULI) and accepted by the American Society of Golf Course Architects (ASGCA)), a golf course "safety envelope" (SE) study is undertaken during the initial evaluation of any facility by applying industry standard distances off the centerline of play (see diagram below).



Note: Diagram of the industry standard safety envelope demonstrating the areas where golf balls have the highest probability of landing based on how far most golfers can hit the ball.

The City of Albuquerque has an existing liability that has been largely overlooked as time has passed.

Standard playing corridors that were designed to "industry standards" 40-50 years ago may no longer be considered safe for today's conditions. Most notably, the golf ball is traveling much further than just 15 years ago. The altitude of the course is also a consideration; at over 5,000 feet in elevation, balls travel further due to the thinner air.

Thus, the following areas should be considered for additional investigation as to liability that may exist in each course:

| Course | |
|----------------|---|
| Arroyo del Oso | #1 green of the Dam 9 9 th hole on the front Nine |
| Ladera | No Areas of Note |
| Los Altos | Hole 1, left side along the freeway Hole 8th Netting on Driving Range Hole 14, left side of the fairway Hole 16, left side at the car dealership, height, and quality of the netting Hole 18, left side along the freeway |
| Puerto del Sol | Range distance height of netting Holes 5,6,7,8,9 based on adjoining properties and major street |

Step 5 – A Summary: The Facilities’ Assets and the Opportunity to Grow

The options available for the City of Albuquerque all point to a single solution – investment: in labor resources, in capital to renovate the golf courses, and in equipment to ensure that they are properly conditioned to create the desirable playing experience for the fees charged.

While one would hope that the fees would be raised, rounds would increase, and the excess cash flow could then be invested based on, in essence, a financial loan and subsidy from the public golfer, such a strategy will only accelerate the death spiral the golf courses find themselves in.

If the golf courses are viewed from the financial benchmark of having to be self-sustaining, the short and intermediate prospects for the golf courses are dim.

Golf enterprise funds across the nation are increasingly unable to meet expenses and to generate sufficient cash flow for capital investment.

Should the City of Albuquerque opt not invest in the golf courses in the short-term, soon after that they will be considering:

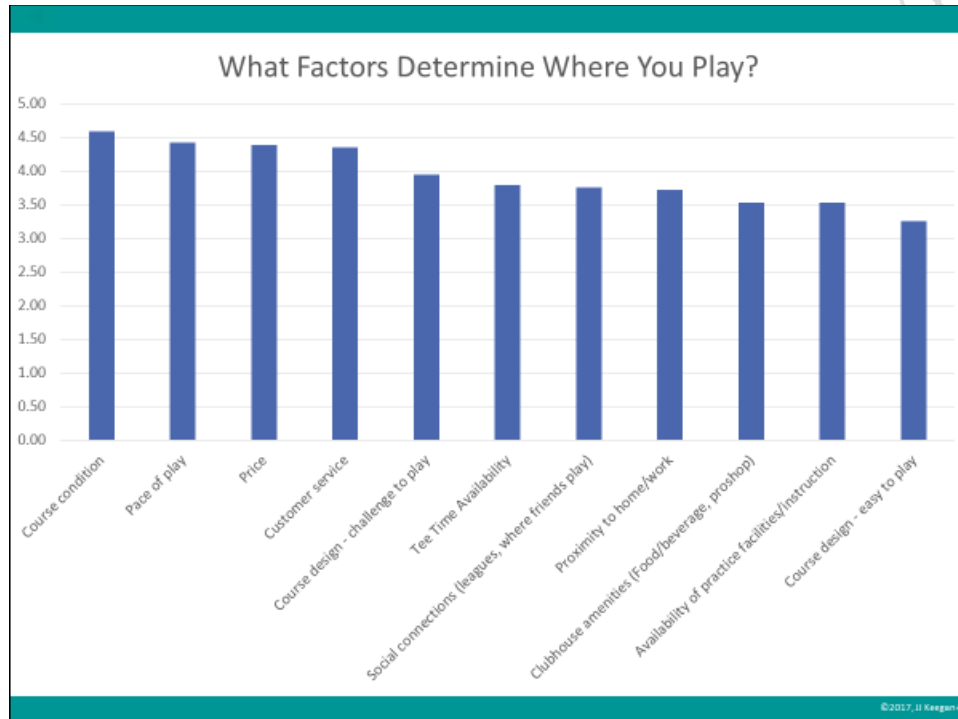
- Golf operations and course maintenance outsourced to the private sector.
- Folding of golf operations back into the General Fund, as the cities of Ann Arbor, MI, Fort Worth, TX, Phoenix, AZ and Ann Arbor, MI have done in the past few years.

FINAL GOLF STUDY REPORT: 5/10/2017

Operational: Step 6 - The Assembly Line of Golf

What is Important?

How does a golfer select which course to play? In surveys conducted by JJ Keegan+ across the United States and as confirmed in the survey of City of Albuquerque golfers conducted for this report, “What is the primary reason you choose one course over another,” the results are very consistent as shown here:



Course condition and price are always amongst the top three criteria that golfers select in which course they choose to play. Recently, we have observed “pace of play” becoming a more important factor, and interestingly, in the golfer survey conducted, this is a growing frustration with golfers who play the City of Albuquerque’s golf courses.

Secret Shopper Review

To determine if the City of Albuquerque courses were competitive based on those criteria, JJ Keegan+ retained a Golf Magazine Top 100 Courses in the World Rater. For this engagement, he undertook the following analysis:

- ◆ Secret shopped each of the City’s golf courses to measure value received considering the course layout, customer service, pace of play, availability of practices facilities,

and clubhouse amenities versus and the prices paid. Our associate played golf at every City of Albuquerque golf course taking over 100 pictures per facility to document the customer experience. Those photographs were provided to the Golf Department to provide them a perspective of a visiting golfer.

- ◆ Visited 15 direct competitors of the City of Albuquerque to assess the customer experience, course layout, and pricing at each facility. Our associate took upwards of 25 pictures per facility and visited with staff at each course to ascertain their perceptions regarding City of Albuquerque’s golf courses.

The focus of this review was to determine the value received by the golfer. The standard formula for financial success at a golf course is usually straightforward: value = experience – price. To the extent that experience exceeds the price, there is the possibility for success. To the extent that price exceeds the experience, customer attrition is very likely.

Value for a golfer is determined by the slope rating, the strategy required to navigate the course, course conditioning, turf texture (bent, bluegrass, rye, etc.), ambiance (clubhouse, vistas, etc.), and amenities (tees, divot repair tools, bottled water, etc).

The secret shopper analysis as part of this study comprised an analysis of over 200 components of the operation. The secret shopper review evaluated the following customer touch points:

| Touch Point | Municipal | Daily Fee | Military | Resort | Private Club |
|-------------------------------|-----------|-----------|----------|--------|--------------|
| Reservations | | | | | |
| Club Entrance | | | | | |
| Bag Drop | | | | | |
| Locker Room | | | | | |
| Pro Shop | | | | | |
| Cart | | | | | |
| Range | | | | | |
| Starter | | | | | |
| Course | | | | | |
| Beverage Cart Attendant | | | | | |
| Half Way House | | | | | |
| Cart Return | | | | | |
| Locker Room | | | | | |
| Bar/Restaurant | | | | | |
| Likely # of Points of Contact | 9 | 11 | 9 | 12 | 14 |

It is ironic; the lowest paid workers often frame the customer’s experience.

As the expression goes, a guest sees more in an hour than a host sees in a year. Such was the case in the secret shopper review performed at City of Albuquerque's golf courses. While reviews like this are patently unfair, as they picture only one place, one time, and one day, they are indicative of the experience a customer will receive.

Competitors are Formidable Foe

The State of New Mexico, according to the National Golf Foundation Supply database as of September 30, 2016, has 81 courses that were built from 1899 to 2011. Of those courses, 38 are a daily fee, 21 municipally owned and 22 private clubs operate with the state. The average green fee with cart is \$50.65.

The courses listed within that database that are in proximity to the City of Albuquerque's courses are:

| Course Name | Zip | Type | Type | Year Open | Fee |
|--|-------|------|------|-----------|-----|
| Tierra Del Sol Golf Course | 87002 | DF | JG | 1982 | 41 |
| Twin Warriors Golf Club | 87004 | DF | RS | 2001 | 120 |
| Santa Ana Golf Club | 87004 | DF | JG | 1991 | 37 |
| Coyote del Malpais Golf Course | 87020 | MU | JG | 1994 | 35 |
| Paa-Ko Ridge Golf Club | 87047 | DF | RD | 2000 | 60 |
| Pueblo De Cochiti Golf Course | 87083 | DF | JG | 1981 | 68 |
| Albuquerque Country Club | 87104 | PR | JG | 1928 | 80 |
| Isleta Eagle Golf Club | 87105 | DF | JG | 1996 | 69 |
| Puerto Del Sol Golf Course | 87106 | MU | JG | 1978 | 21 |
| Championship Golf Course At University of New Mexico | 87106 | DF | UN | 1967 | 79 |
| Arroyo Del Oso Golf Course | 87109 | MU | JG | 1965 | 45 |
| Tanoan Country Club | 87111 | PR | RD | 1978 | 70 |
| Sandia Golf Club | 87113 | DF | RS | 2005 | 86 |
| Desert Greens Golf Course | 87114 | DF | RS | 1962 | 49 |
| Tijeras Arroyo Golf Course | 87116 | PR | MI | 1970 | 33 |
| Ladera Golf Course | 87120 | MU | JG | 1980 | 44 |
| Los Altos Golf Course | 87123 | MU | JG | 1960 | 45 |
| The Canyon Club | 87123 | PR | JG | 1958 | 80 |
| The Club At Rio Rancho | 87124 | PR | RD | 1970 | 50 |
| University of New Mexico North Course | 87131 | DF | UN | 1942 | 28 |

Note: Features are as posted for prime time with a cart in NGF database.

Type Key: JG (just golf), RS (resort), RD (residential development), UN (University), MI (Military)

The Albuquerque marketplace has public golf opportunities ranging from entry level to upscale Paa-ko Ridge, and Twin Warriors are among the finest experiences a public golfer can enjoy. In the mid-tier market, Isleta, Santa Ana, and Sandia with a spectacular clubhouse will consistently attract the well-to-do recreational and avid golfer.

As can be seen in the mileage chart below, many of the competitive golf courses are very close.

| | Slope Rating | Arroyo Del Oso | Isleta Eagle | Ladera | Los Altos | Paa Ko Ridge | Puerto Del Sol | Sandia | Santa Ana | Twin Warriors | UNM South |
|----------------|--------------|----------------|--------------|--------|-----------|--------------|----------------|--------|-----------|---------------|-----------|
| Arroyo Del Oso | 125 | 0.0 | 18.5 | 12.6 | 5.8 | 24.6 | 11.2 | 5.9 | 16.7 | 18.5 | 12.0 |
| Isleta Eagle | 134 | 18.5 | 0.0 | 18.2 | 18.3 | 37.1 | 10.1 | 21.1 | 31.8 | 32.8 | 7.3 |
| Ladera | 121 | 12.6 | 18.2 | 0.0 | 12.5 | 31.7 | 10.4 | 14.0 | 24.9 | 26.6 | 11.2 |
| Los Altos | 114 | 5.8 | 18.3 | 12.5 | 0.0 | 20.1 | 6.0 | 14.6 | 25.5 | 27.2 | 12.4 |
| Paa Ko Ridge | 138 | 24.6 | 37.1 | 31.7 | 20.1 | 0.0 | 30.0 | 33.3 | 44.1 | 45.8 | 31.7 |
| Puerto del Sol | 113 | 11.2 | 10.1 | 10.4 | 6.0 | 30.0 | 0.0 | 13.1 | 23.9 | 25.6 | 4.7 |
| Sandia | 129 | 5.9 | 20.1 | 14.0 | 14.6 | 33.3 | 13.1 | 0.0 | 11.9 | 13.6 | 14.8 |
| Santa Ana | 134 | 16.7 | 31.8 | 24.9 | 25.5 | 44.1 | 23.9 | 11.9 | 0.0 | 2.6 | 25.6 |
| Twin Warriors | 140 | 18.5 | 32.8 | 26.6 | 27.2 | 45.8 | 25.6 | 13.6 | 2.6 | 0.0 | 27.4 |
| UNM - North | 124 | 6.2 | 12.0 | 8.1 | 7.3 | 26.1 | 2.7 | 9.4 | 20.3 | 22.0 | 5.50 |
| UNM - South | 134 | 12.0 | 7.3 | 11.2 | 12.4 | 31.7 | 4.7 | 14.8 | 25.6 | 27.4 | 0.00 |

Note: Source of Data is MapQuest.

The review of the competitor's courses provided the following insights:

- 1) Many golf courses (Isleta Eagle, Sandia, Santa Ana, Twin Warriors) have modern clubhouses or pavilions conducive to hosting tournaments, leagues, and outings.
- 2) For accomplished golfers seeking a competitive course layout to test their game, there are many outstanding alternatives in addition to those listed above: Black Mesa, Cochiti, Paa-ko Ridge University of New Mexico – South.

Thus, there are a plethora of great opportunities to play golf in the City of Albuquerque market at very competitive rates.

| | Weekday Golf Fees | Weekend Golf Fees |
|----------------|-------------------|-------------------|
| ADO | \$38.50 | \$45.00 |
| Ladera | \$38.50 | \$45.00 |
| Los Altos | \$38.50 | \$45.00 |
| Puerto del Sol | \$40.00 | \$46.50 |
| Desert Greens | \$42.00 | \$52.00 |
| Isleta Eagle | \$55.00 | \$69.00 |
| Paa-Ko Ridge | \$92.00 | \$117.00 |
| Sandia | \$81.00 | \$90.00 |
| Santa Ana | \$55.00 | \$65.00 |
| Twin Warriors | \$59.99 | \$79.99 |
| UNM - South | \$65.00 | \$75.00 |

Note: Rates as published on the website of each course on April 1, 2017, for green fee + cart.

While it appears superficially that the City of Albuquerque has the lowest rates, each of the competitive golf courses offers discounts programs. Isleta Eagle (Swinger's Club - \$159), Sandia (Champions Club - \$199), Santa Ana (Star Reward - \$159), University of New Mexico - South (Trophy Club – Rates Not Published) provide free rounds of golf, discounts for every rounds played, free range balls, discounts on merchandise, etc. The University of New Mexico offers any ACCESS PASS for unlimited play with cart and range access for \$2,499 for seven days per week, \$1,999 for Monday – Friday and \$350 for 31 consecutive days. Each of the competitive golf course offers unlimited play season passes.

Fees at the golf course, while each has a published rate, change frequently based on various promotions. Thus, a sophisticated shopper can realize green fees rates not that significantly different than offered by the City of Albuquerque for a vastly better experience.

Activity Levels

City of Albuquerque's golf courses are being utilized as follows:

Competitive Revenue Yield Analysis

| Course | 18 Holes # Rates | FY 2016 Rounds | Green Fees | Cart Revenue | % Cart / Green Fees | Green Fee + Cart Revenue | Yield Per Round | % Realization |
|----------------|---------------------|-------------------|-------------|--------------|------------------------|-----------------------------|--------------------|---------------|
| Arroyo del Oso | 45.00 | 79,097 | \$1,291,374 | \$680,000 | 52.66% | 1,971,374 | 24.92 | 55.39% |
| Ladera | 45.00 | 42,442 | 610,912 | 255,000 | 41.74% | 865,912 | 20.40 | 45.34% |
| Los Altos | 45.00 | 55,192 | 740,543 | 350,000 | 47.26% | 1,090,543 | 19.76 | 43.91% |
| Puerto del Sol | 46.50 | 34,897 | 379,438 | 165,600 | 43.64% | 545,038 | 15.62 | 33.59% |
| Effective Rate | 45.38 | 211,628 | 3,022,267 | 1,450,600 | 48.00% | 4,472,867 | 21.14 | 46.58% |
| Revenue Target | | | | | | 5,761,572 | | 60.00% |
| Revenue Lost | | | | | | 1,288,705 | | \$13.42 |

Note 1: Arroyo del Osa does 52,757 rounds per 18 holes.

Note 2: The accounting procedures employed utilized at Ladera, and Los Altos don't differentiate between a 9-hole round of their championship vs. executive golf courses. They are commingled.

The effective rate yield for the City of Albuquerque's golf courses, 46.86%, which is below the national benchmark of 60%. The implication is that through discounting, the heavy concentration of senior play, the influence of strong league play and the dilutive effect of season passes, the City of Albuquerque is realizing \$1,288,705 less in revenue per year in contrast to a normal golf operation.

Mirror, Mirror on the Wall – What Rates Would be the Fairest to All?

It is very typical for municipalities to offer a plethora of rates appealing to every constituency and every whim that they might have to visit one's facility.

One of the ways to capture loyalty is through season passes and by basing fees predicated on one's age. The city of Albuquerque offers all the permutations thereby diluting their effective yield as shown here:

Golf Course Rates

| Rates (including tax) | Weekday | | | Weekend | | |
|---------------------------------|---------|---------|---------|---------|---------|---------|
| | Adult | Senior | Junior | Adult | Senior | Junior |
| 18 Holes or Replay | \$25.00 | \$18.00 | \$12.00 | \$31.50 | \$31.50 | \$15.75 |
| Afternoon | \$20.00 | \$15.00 | \$9.25 | \$23.50 | \$23.50 | \$11.75 |
| 9 holes, All City Golf Courses | \$18.00 | \$13.50 | \$9.00 | \$20.50 | \$20.50 | \$10.25 |
| 9 Hole Replay | \$7.00 | \$4.50 | \$3.00 | \$11.00 | \$11.00 | \$5.50 |
| 9 Hole Exec. Ladera & Los Altos | \$12.50 | \$9.75 | \$6.25 | \$13.50 | \$13.50 | \$6.75 |
| Tournaments | \$30.00 | \$30.00 | \$30.00 | \$34.00 | \$34.00 | \$34.00 |

Annual Passes (including tax) Can be Purchased at All Four Courses!

- **Regular Annual Pass:** \$1580.00 (Additional Family Members: \$800)
Unlimited golf at all four city courses.
- **Senior Annual Pass:** (Ages 55+): \$1100.00 (Additional Family Member: \$550)
Weekday golf excluding holidays
- **Junior Annual Pass:** \$700.00
Weekday golf excluding holidays
- **P.M. Pass:** \$325.00
Unlimited afternoon golf/dischonated green's fee
- **Fiesta Pass:** \$500.00
Weekday golf/dischonated greens fee

For more information or to purchase, call [505 767-5200](tel:5057675200).

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What is the appropriate fee based on experience provided? As part of this strategic review, the management of City of Albuquerque’s Golf Department was provided the opportunity to self-assess the fees charges in relationship to the customer experience provided by considering the following factors: slope, strategy, conditioning, turf texture, ambiance, and amenities.

The important question is, “What is the Fair Market Value for Experience provided considering the local demographics and the demand for golf course within the competitive marketplace. Shown below is our calculation of the fair market value of the prime time green fee for Arroyo del Oso.

| ASSEMBLY LINE | Description | Weight | Raw Score | Weighted |
|-----------------------------------|--------------------------|--------|-----------|----------|
| Step 1 | Slope | 65% | 50 | 32.5 |
| Step 2 | Strategy | 5% | 6.25 | 0.3125 |
| Step 3 | Conditioning | 10% | 0 | 0 |
| Step 4 | Turf Texture | 5% | 0 | 0 |
| Step 5 | Ambience | 10% | -10 | -1 |
| Step 6 | Amenities | 5% | 0 | 0 |
| Subtotal Green Fee Experience | | | | 31.8125 |
| Step 7 | Demand Adjustment | | | 120% |
| Recommended Value Based Green Fee | | | | \$38.18 |
| WGS&M Profile | | | | 100% |
| Step 8 | Course Current Green Fee | | | \$31.50 |
| Variance | | | | \$6.68 |

Is this exercise a precise measure of value? Not exactly, but it begins to frame the discussion and awaken the consciousness to ensure that golfers are receiving full value for the fees paid.

One of the biggest detractors to value at Arroyo del Oso is the pace of play. In the calculation made above, we selected 5 hours as the average time for a weekend round. The valuation template reflects that if the pace of play improved to 4 hours per round, the fair market value increases by \$2.40 to 40.58. Based on the round played, 79,097, at an effective target yield of 60%, Arroyo del Oso theoretically could increase its green fee revenue by \$113,900 if it solved its pace of play problem.

Every government entity, like the City of Albuquerque, constantly balances the philosophical issue of providing a recreational leisure at an affordable price versus creating a pricing matrix that is likely to ensure that each course is financially self-sustaining. Such goals are often at odds. Each golf course represents an intangible asset that creates a value that often cannot be quantified when considering the quality of life generated. The result of that philosophical debate is that prices may understate fair market value for the experience provided.

When the prices are identical between golf courses, as they are for the City of Albuquerque's golf course, the logic behind such decisions is rooted in politics which each representative wanting to ensure that the golf course within their District is "the best amongst the group" with an understanding that equal prices amongst all are the appropriate political but wrong business solution.

Regarding the rates available, it is our suggestion; the following additional rates are implemented:

| | Weekday | Weekend |
|---|-------------|---------|
| 18 Hole – Arroyo del Oso | 28.50 | 35.50 |
| 18 Hole – Ladera and Los Atos | 26.00 | 33.50 |
| 18 Hole – Senior – Arroyo del Oso | 22.00 | 35.50 |
| 18 Hole – Senior – Ladera and Los Altos | 20.00 | 33.50 |
| 18 Hole – Junior – Arroyo del Oso | 16.00 | 20.00 |
| 18 Hole – Junior - Ladera and Los Altos | 14.00 | 18.00 |
| Season Pass – Unlimited Play | Discontinue | |
| Senior Pass – Seniors (Monday to Friday) | \$1,400 | |
| Patron Card – One Free Round plus 20% off additional rounds | \$150 | |
| Punch Card - 10 Rounds: \$8 discount per rounds | \$50 | |

The recommendation to eliminate the “season passes” is based on their dilutive effect on revenue.

If one were brave, they would eliminate all senior rates which would be a great outcry of injustice – they are old, poor, and need your subsidy will be the banter before the City. The lines of those wanting to speak as to their need for you to subsidize their leisure will be long.

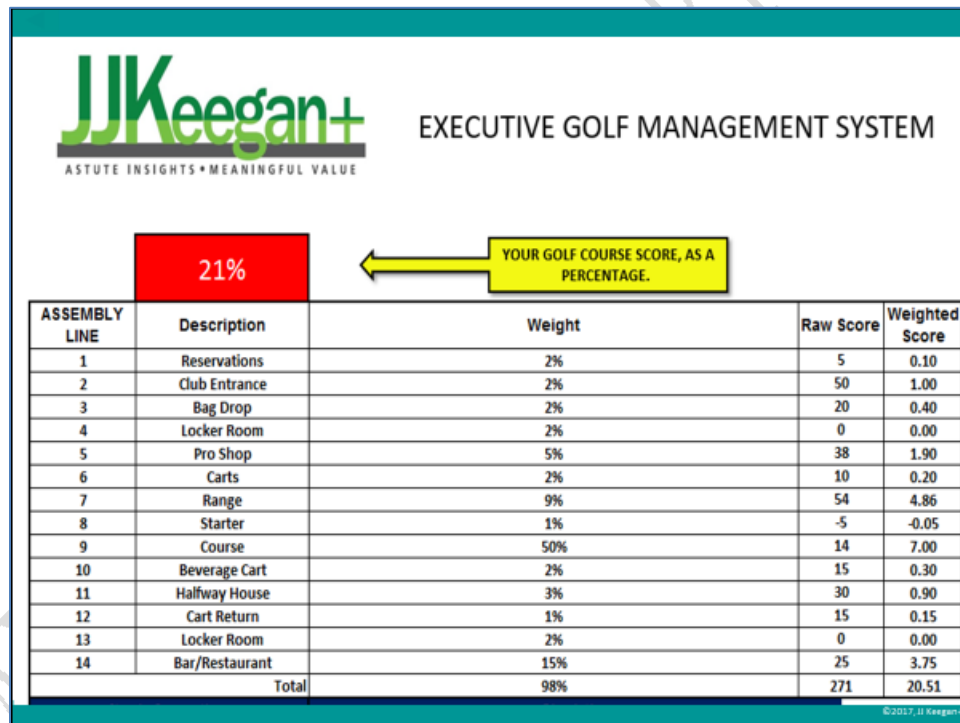
The truth of the matter is that as a group, they collectively have aggregated the greatest amount of wealth, have the most leisure time, and utilize golf as a recreational sport, in place of their former office, to remain in good health. While there may be a few who have made poor life choices that have permanently limited their income that impacts their ability to play as frequently as they may desire, capitalism creates and capitalism destroys. The financial health of an enterprise should not be compromised, in our professional opinion, to accommodate the needs, wants, and wishes of everyone. Those that cannot afford golf on the basis that creates a self-sustaining golf enterprise are presented the option of walking the fabulous trails created by the City of Albuquerque to remain in good health and to engage in community fellowship with their friends.

In providing a plethora of rate combinations, it becomes confusing and ineffective. Therefore, we are advocating “sun-setting” every rate and re-examining a limited set that best meets the golfer’s preferences while implementing effective yield management to boost the average daily rate received per round.

City of Albuquerque: It Is Not Only Location, Location, Location

Setting prices as discussed herein is predicated on a firm understanding as to the experience provided to the customer. Value = experience – price. Where the experience is less than the price charged, customer attrition occurs. When the experience equals or exceeds the price assessed, customer loyalty is created.

The secret shopper review of City of Albuquerque’s golf courses revealed that they are at a competitive disadvantage on course layout and clubhouse amenities. As part of this strategic review, the management of City of Albuquerque’s Golf Department were provided the opportunity to self-assess their utilization of the customer experience. The evaluation considered over 250 criteria to determine if the golf course would be considered platinum (five-star: >80), gold (four-star >60), bronze (three-star >40), bronze (two-star >20), or steel (one-star <=20).



On a 100 point rating systems, the City of Albuquerque’s golf courses were scored in the aggregate at 21 – bronze, entry-level recreational.

While one may question, “Is that unreasonable low?” The answer is no. The competitive set of courses provides high bronze to gold level regarding the golf experience.

The principal asset of the City of Albuquerque's golf courses is their central location to a dense population base within the area. From the secret shopper analysis performed, presented below are summary comments and photos from each facility. It should be noted that the perspective from which these comments were drafted was from the **GOLFER experience** offered by the City of Albuquerque.

FINAL GOLF STUDY REPORT: 5/10/2017

Arroyo del Oso



- ◆ **Strengths:** Historical brand as the place to play golf in Albuquerque. The DAM 9 has many interesting and challenging holes.
- ◆ **Weaknesses:** The clubhouse is outdated, the range is not convenient to the 1st and 10th tee, irrigation and drainage create less than desirable playing conditions on many holes, and the green to tee walks or to the clubhouse upon finishing detract from the experience. The demographics of the immediate neighborhood limit the upside revenue potential or return on investment that might be garnered from an appropriate investment. Cars are in play on the 9th hole creating liability.
- ◆ **Opportunities:** A modernized, larger clubhouse with a new irrigation system would provide the foundation for a vastly superior customer experience. A higher rate, justified by the convenient location, might be achieved. The trimming of trees and purchasing of paint could vastly improve the vistas as shown here:



FINAL GOLF STUDY REPORT

Ladera

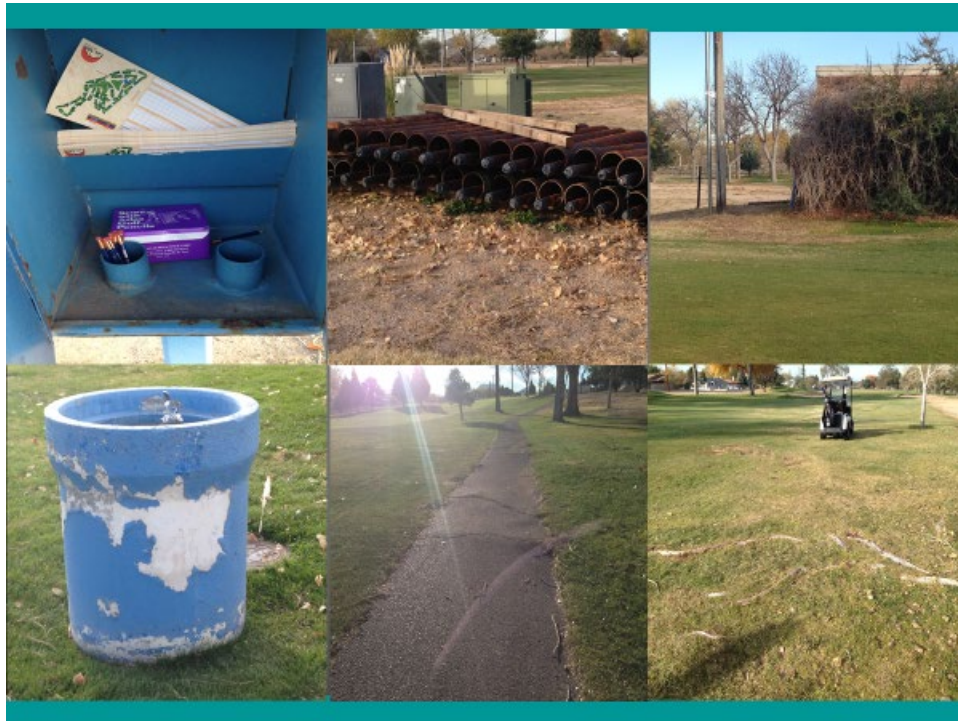


- ◆ **Strengths:** Holes 7 to 9 and 15 to 18 are interesting golf holes. The practice facility is extensive and convenient to the clubhouse. The course's water source is a well which is very cost effective.
- ◆ **Weaknesses:** Holes 1 and 10, 2 and 11 and 3 and 12 mirrors each other. The conditioning is at best marginal, the bunkers (many of which should be removed) are in poor condition. The wall is blocking views from the clubhouse, the kitchen location, the lack of proper entrance signs make for a dismissal experience. The total acreage versus what is required is extensive rendering many areas unkempt and unsightly.
- ◆ **Opportunities:** A pavilion to host tournaments and outings > 80 golfers would provide an opportunity to boost rounds. The demographics within 10 miles are strong such that creating an 18 hole championship course and converting the facility to multi-purpose (miniature golf, disc golf, soccer) would produce a return on investment for this course located in a growing and vibrant part of the metroplex.



FINAL GOLF STUDY REPORT 2017

Los Altos



- ◆ **Strengths:** Enjoyable entry level golf course with a strong senior base of players. There is a sufficient diversity of holes and modern clubhouse. Chip and putt nine holes available for beginning golfers. Range, with the ball machine, is convenient for golfers looking to practice.
- ◆ **Weaknesses:** Various bunkers are within the trees create an unfair obstacle. The course is currently using potable water at an absurd cost rendering the facility a huge money pit. Cart paths are cracking, and tree limbs within the fairway are becoming a concern. Safety hazards exist from holes in the fence at the back of the range, from the tee on 14 to apartments, throughout the entire 16 holes adjacent to a car lot and the 18th that borders an interstate. The fencing on the 18th hole is inadequate, and it is merely time a matter of time before a severe accident occurs from a golfer hitting a car on the Interstate. The drive into the facility intersects the course also placing cars at risk.
- ◆ **Opportunities:** The character of the course would suggest that a gentle bunker renovation is removing those encased within the trees, enhancing the screens on the 8th, 16th, and 18th holes, rerouting the 14th hole and reducing the size of the campus of acreage maintained.



FINAL GOLF STUDY REPORT

Puerto del Sol



- ◆ **Strengths:** Located near the airport and near many hotels, the facility offers residents and visitors the opportunity to visit the range or play a quick nine holes. Though a nine-hole course, there are several holes of note: 5, 6, and 7.
- ◆ **Weaknesses:** A dated, dysfunctional clubhouse with limited food and beverage options, a small parking lot and several holes where apartment or a major street on the 9th make safety concern. Signs proliferate and are often inaccurate as the yardage on the 1st hole cites a 382-yard hole in a short par 3. The City is also required to pay the airport \$30,000 for the ground lease which compounds the expense of exorbitant water fees.
- ◆ **Opportunities:** Conversion of this facility into a Top Golf location in a public/private partnership would be ideal. The balance of land could be used for inner city parkland with trails for residents to enjoy.

Step 6 – A Summary of Golf Operations

As the expression goes, you reap what you sow. For the past decade, the City of Albuquerque has not invested in their golf courses. As a result, customer loyalty is down as the customer experience deteriorates.

In a crowded market, City of Albuquerque's golf courses, individually and collectively, are undistinguished and represent the typical "municipal golf experience." While some facilities, i.e., Arroyo del Oso and Ladera have upside potential, the capital investment required is daunting, and a direct return on such investment in the short-term is unlikely.

FINAL GOLF STUDY REPORT: 5/10/2017

Operational: Step 7 – Golfer Habits and Preferences: A Customer Survey

Creating a strategic vision review requires a clear understanding of the golf industry and the unique characteristics that define the sport.

Presented below are some statistics regarding golf in the United States provided by the National Golf Foundation⁷:

- There are 24.1 million golfers in the United States. 80% of those played 92% of all rounds
- 31 million people either played golf on a golf course last year, took part in the game at a driving range, a Topgolf facility or on an indoor golf simulator.
- 81 million have an interest in golf in which 62 million watched golf on TV.
- The average golfer is 41.4 years of age with a median household income of \$96,236 and played 19.3 rounds.
- There are 5.8 million women (23.95%) who play golf have an average age is 37.0 and median household income \$96,486.
- There are 3.0 million juniors who play golf, 32.1% are female, and the median household income of their families is \$106,732. Juniors average 9.1 rounds per year.
- More than 34.7 percent of golfers (8.3 million) are between the ages of 18 and 39. Seniors (ages 50 and over) comprise another 35.3 percent, or 8.5 million.
- There are 15,204 golf facilities, 11,361 of which are open to the public.
- Only 22 percent of all golfers regularly score better than 90 for 18 holes on a regulation-length course. For females, the percentage is just 7 percent, and for males, it is 25 percent.
- The average 18-hole score is 97 for men and 114 for women. It's an even 100 for all golfers.
- The average scores have changed very little over the years.

⁷ National Golf Foundation, "Golf Participation in the US", 2016 Edition.

In conducting a feasibility study, it is invaluable to obtain a current perspective of the customer database by identifying customers' ages, genders, net incomes, ethnicities, playing frequency, favorite golf courses, and price point barriers. The key point being measured is the opportunity to increase current market share.

We conducted a survey as an integral component of this golf course operational and financial consulting review.

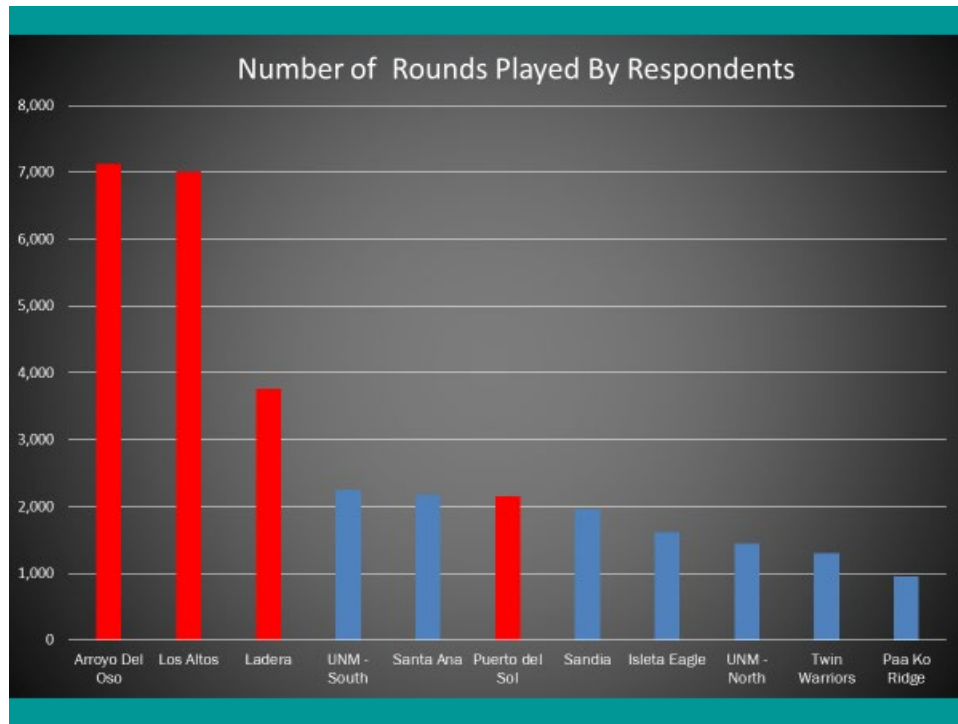
Regretfully, the City of Albuquerque lacks a database of its golfers due to xenophobia suffered by the City of Finance and Administrative Services Information Technology Services Division. The concessionaires also do not maintain a database of their customers, largely in part, due to the inferior POS/TTRS selected by the City for their required use. Press releases to media outlets were not undertaken as leadership felt that the media would front run the results of the Golf Study and ask a lot of impertinent questions prematurely. City's leadership, based on the 2013 auditor's report of the Golf operation, is understandably sensitive to further negative press coverage.

Therefore, the electronic survey was distributed as follows:

- 1) The Parks and Recreation Department posted a link on their Facebook page, via Twitter and golf website:
<http://www.cabq.gov/parksandrecreation/recreation/golf>.
- 2) The survey was distributed to the various City of Albuquerque's Mens' and Ladies' Leagues and Club.

The 43-question survey remained open for 45 days and generated 337 responses of which 208 completed all questions. In that there are 40,000 golfers in the Albuquerque marketplace, that response rate generates a 93%% confidence factor with a margin of error of 5% (337 responses) and 6.3% (208 responses). The completion rate for those starting the survey was 59.0%, an acceptable response rate considering extensive skip logic was embedded to provide respondents the opportunity to provide input, at their option, regarding each facility.

To ensure that the respondents were qualified to provide valuable insights and perspective on the City of Albuquerque's golf courses, the competitive set of golf courses that they have played during the past 12 months was ascertain as is reflected below:

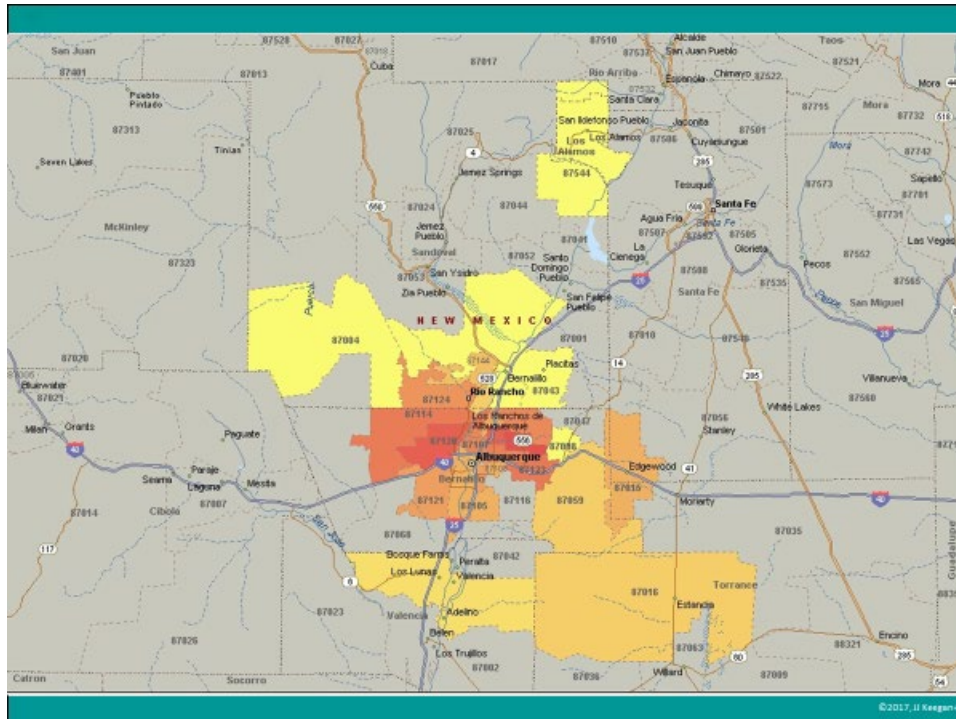


It was heartening that the respondents have significant playing experience at each of the City of Albuquerque's golf courses during the past year.

What is the Demographic Profile of City of Albuquerque golfers?

The geographic local market analysis performed in Step 1 of the JJ Keegan+ WIN™ formula indicated that the demographics within ten miles of the course (37.1 years of age with a median household income of \$45,543) were not representative of the typical golfer who was likely Caucasian and earn an above-average income. The survey confirmed that fact.

The geographic distribution of respondents reflecting a strong concentration within the City of Albuquerque as illustrated here:



Note: Shading grid red is the heaviest concentration of respondents by zip code.

Here is what we learned from the respondents:

What Do We Know For Sure About the Survey Respondents

- 71.5% Male
- 57.9 Years of Age
- \$77,442 median household income
- Play 37.2 rounds annual on 7.4 courses
- 5,134 yardage preferred by women
- 6,484 yardage preferred by men
- Conditioning, pace of play and price are the top three in determining where they play
- “No Barriers – 62%” and “Time - 21.5%” were cited as the constraints to them playing additional rounds. Only 13.5% indicated that money was an issue.
- To learn about a golf course and its current rates, 60% call the golf course, 52% rely on the course’s website and only 25% seek information via emails.

What is an anomaly in the results is that 28.5% respondents were women. It is interesting that when Facebook is utilized as a distribution media point for surveys, the response rate of women goes up from the national average of 23.9%.

These habits and preferences generate some concerns:

- 1) 39.6% of the respondents were over 65. How long can they continue to play before health becomes a feature?
- 2) The median household income of \$77,242 is 80% of the average golfer in the United States. If the City were to raise green fees rates, what would it accelerate the attrition of golfers?
- 3) They play 7.4 courses annually. What is lacking in the experience the City provides that undermines loyalty?
- 4) There is a catch 22 in the data. Do the golfers call the golf course because the City has not provided an online tee time system and didn't engage in email marketing or is it because the technology is beyond their intellectual grasp. We believe it is because the City is negligent in providing viable technology solutions to efficiently and effectively serve the golfer.

What Do Golfers Like about City of Albuquerque's golf courses?

The golfers were asked amongst the competitive set of golf courses which facilities they considered "best in class" to rate conditioning, course layout, customer service, food service, merchandise, practice facilities, and price.

| | 1 st | Arroyo del Oso | Ladera | Los Altos | Puerto del Sol |
|------------------------|-----------------|----------------|--------|-----------|----------------|
| Conditioning | Sandia | 3 | 9 | 6 | 10 |
| Course Layout | UNM – South | 2 | 7 | 8 | 11 |
| Customer Service | Arroyo del Oso | 1 | 10 | 2 | 4 |
| Food Service | Arroyo del Oso | 1 | 9 | 3 | 10 |
| Merchandise | Arroyo del Oso | 1 | 7 | 9 | 11 |
| Practice Facilities | Arroyo del Osa | 1 | 5 | 6 | 4 |
| Price | Arroyo del Oso | 1 | 2 | 3 | 4 |
| Scenery and Aesthetics | Paa-ko Ridge | 5 | 10 | 8 | 9 |
| Value | Arroyo del Oso | 1 | 3 | 2 | 4 |

Rating Scale: Ranged from 1 (most desirable) to 11 (least desirable)

Amongst the competitive set of golf courses Sandia (Conditioning), Course Layout (UNM) and Paa-ko Ridge (Scenery and Aesthetics) ranked one in three of the nine categories. Conditioning is the #1 criteria by which a golfer selects to play. Strike 1 against the City of Albuquerque. It courses, as documented in the secret shopper review are tired, dated, and shotty. The Dam 9 is a compelling layout with a variety of interesting holes but is used as an afterthought for operational convenience.

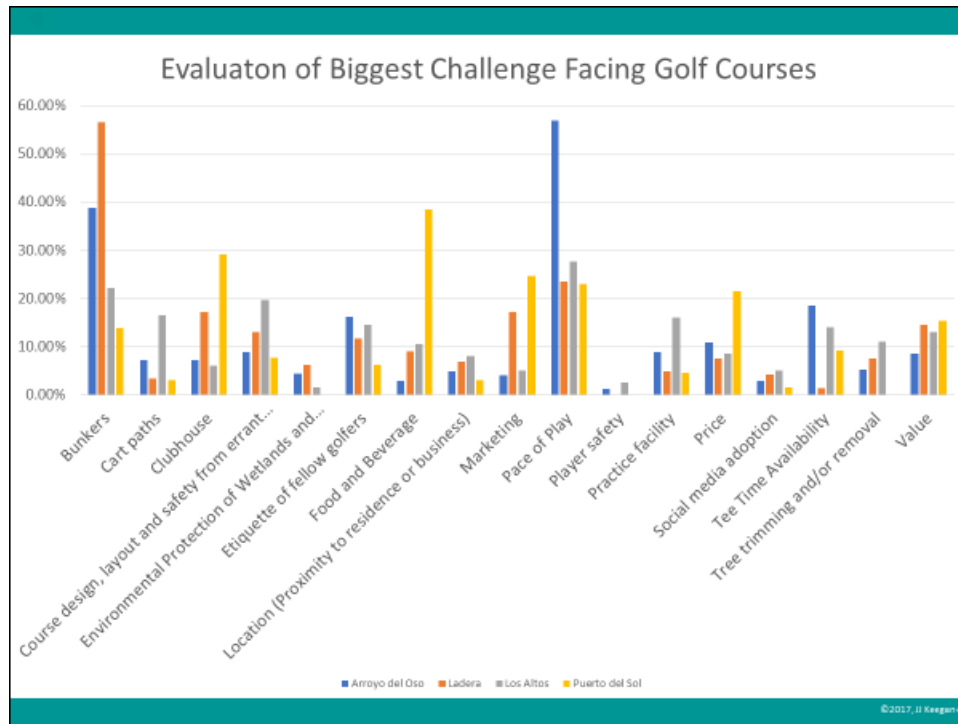
It is both sad and encouraging as to its potential that Arroyo del Oso ranked 1 in 6 of the nine categories. Customer service, food service and merchandise are attributable to the services of the Concessionaire – not the city. What opportunity an opportunity if it was only maintained and a renovation was undertaken to restore the golf course to a championship character. The course that based on demographics that a great upside potential, Ladera, is perceived negatively across the board on the categories that attract and retain customers.

The rating of best in class – price on the City of Albuquerque’s golf courses shown below amplified by the fact that proximity was the #1 reason respondents opted to play the City golf courses is very telling.



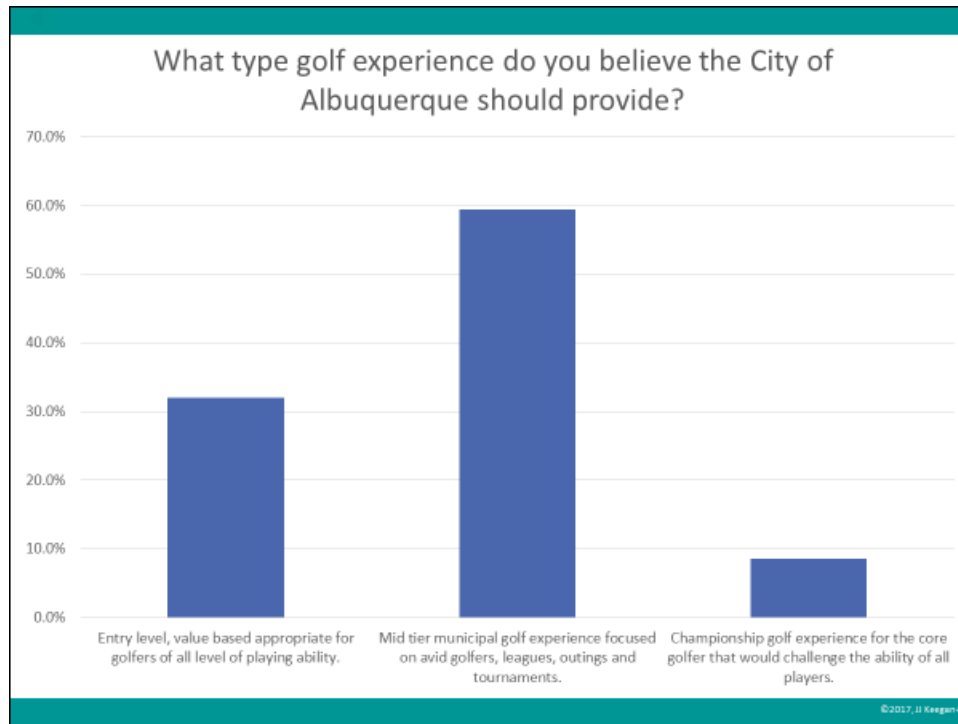
The City of Albuquerque should take great solace that its implied mission statement of providing entry level golf at a low cost has resonated with its golfers.

When asked what the three biggest challenges the golf courses were facing, the pace of play at Arroyo del Osa, the bunkers at Arroyo del Oso and certainly at Ladera and the food and beverage service and clubhouse at Puerto del Sol headed the list. Golfers were providing the opportunity to evaluate each golf individually. The responses received as shown below were representative of the golfer's sentiments:



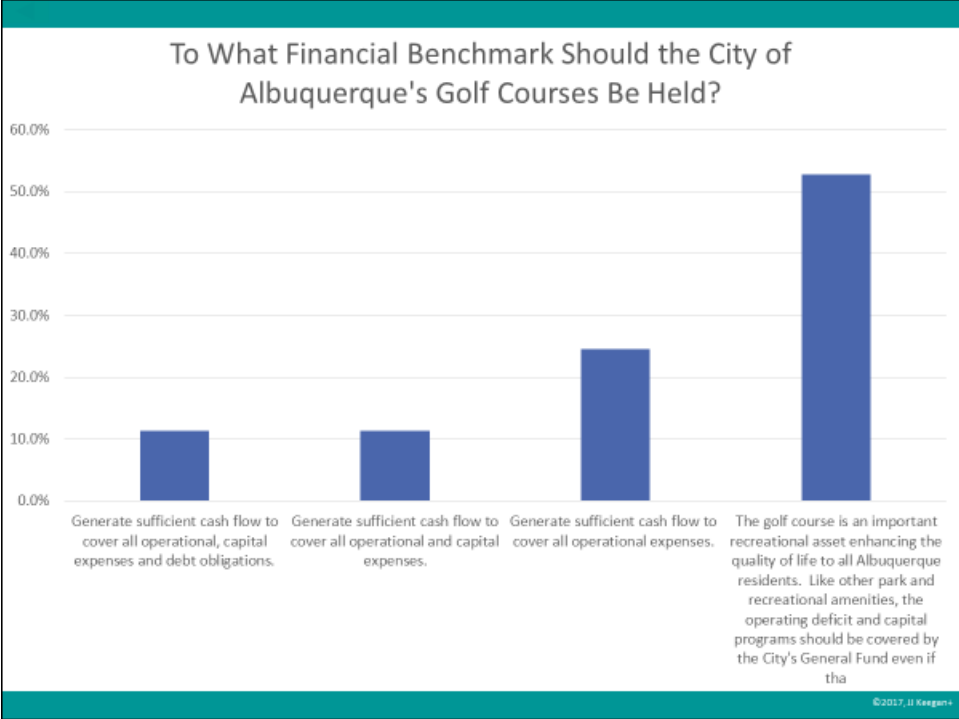
The pace of play is reflective of the importance of time in our society. What slow play is an inconvenience to the golfer, it is a revenue drain for the City in that it limits the number of golfers that enjoy an 18 hole round. Think of water going down a narrow drain. The wider the drain, the greater the quantity of water that will flow.

Golfers were also provided the opportunity as to express their preference for the type of golf experience they were seeking shown here:

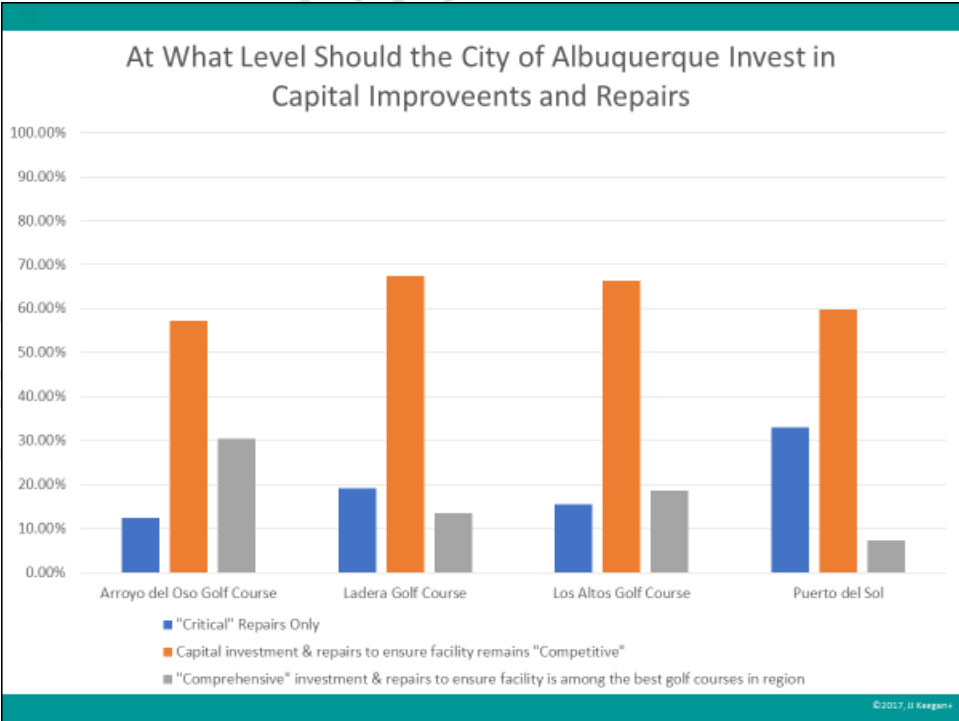


The response to this question is probably indicative of the respondents who were principally avid golfers and frequent participants in leagues.

Not surprisingly, golfers believe that their recreational leisure should be funded by the government. We have yet to see or hear any golfer volunteer that the rates they are paying for the 4 to 5-hour experience is underpriced. Respondents believe, as shown below:



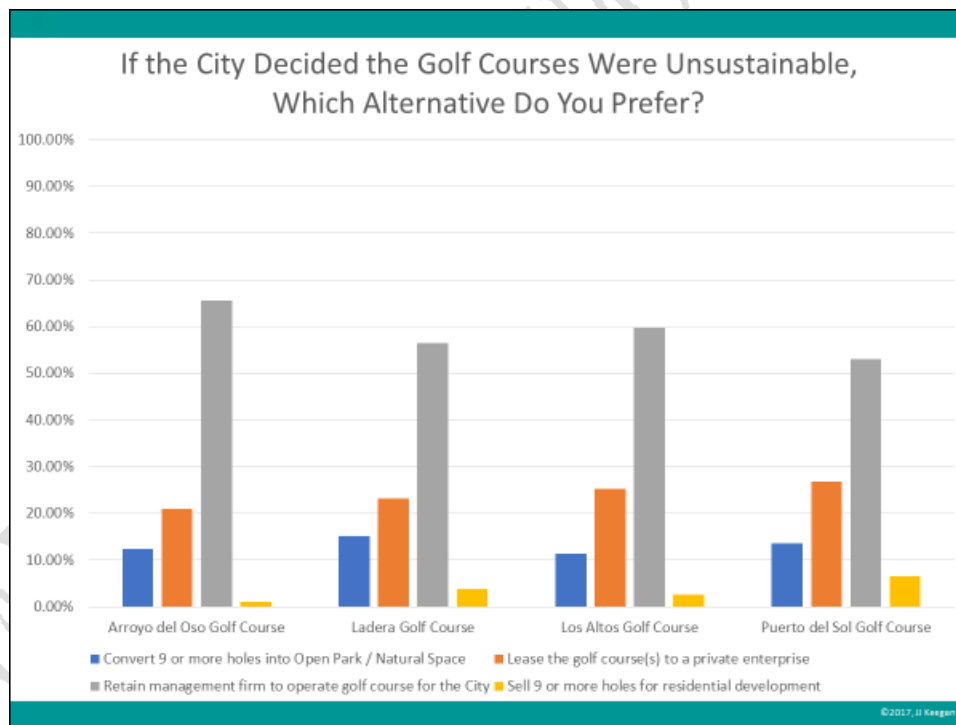
In having conducted surveys across the country, we are always surprised and pleased at the accuracy of golfer’s responses to the survey in reflecting their priorities compared to our professional assessment of where capital investments should be allocated.



Astutely, the 30% of the respondents feel that comprehensive investment at Arroyo del Oso would produce a positive result. Wisely, they acknowledge that a renovation at Puerto del Sol is not feasible. Seeking for the golf courses to remain competitive is a realistic position

Sometimes questions are asked in surveys that you ponder whether the respondent has the background and experience to provide a cogent answer. If most golfers were quizzed on the differences between self-management by the City, a lease or retaining a management company, it is anticipated that there would be confusion regarding the differences between a lease and the management company.

A lease is one in which the City receives a percentage of gross revenue, and the lessee inures to the benefit of all revenue. Investment in capital repairs is negotiated. A management agreement is one in which an independent third party is paid a fee, likely between \$150,000 and \$200,000 to manage the facilities for the City’s exclusive benefit. The respondents' belief was strong that a management company is the preferred business model for the golf courses as shown here:



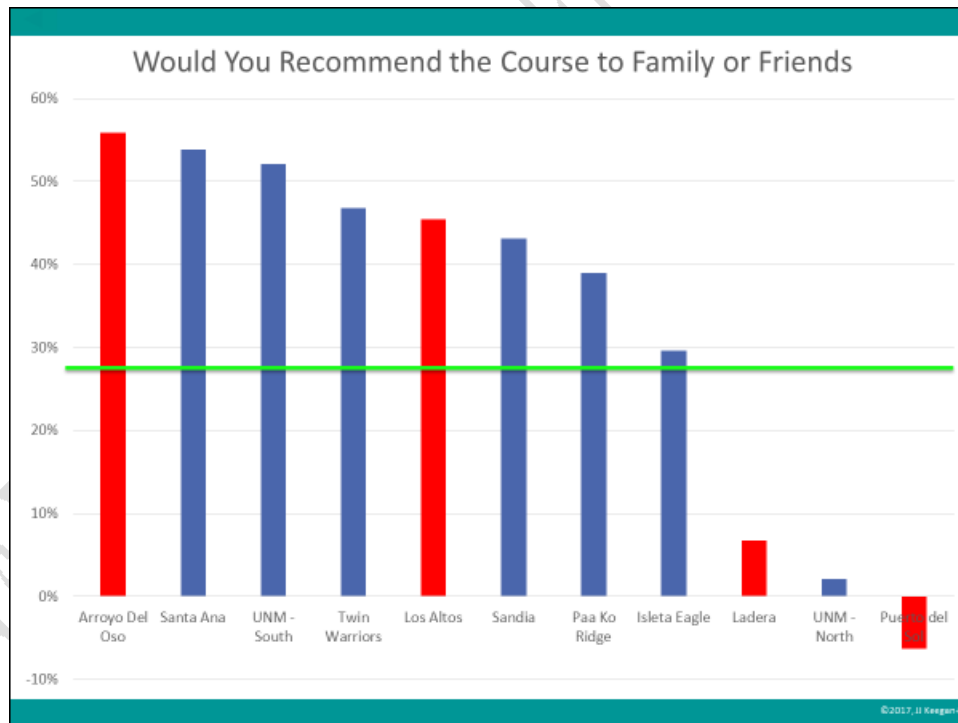
Perhaps the conclusion to be drawn is that they are happy with the current golf experience and believe that a change in which the City is totally removed from the responsibility to manage the golf courses is the best option. What the term of that agreement would reflect would certainly be beyond the vast majority of the golfers or the citizens.

Customer Franchise Analysis

The customer franchise analysis (CFA) provides operators with the first tool to win the share-of-golfer battle caused by the current oversupply environment in many markets. The CFA leverages information in the operator’s point-of-sale (POS) or electronic tee sheet system to understand and target key customer groups regarding financial metrics. The CFA measures customer franchise health, such as the number of unique guests acquired, retained, and lost, as well as the spending level of each group down to the individual customer level.

In undertaking this operational review, a golf course must identify core customers, spending patterns, customer retention, the turnover frequency of golfers, zip code distribution, course utilization, revenue per available tee time, and revenue per tee time purchased. These critical metrics have not been developed by the City of Albuquerque golf department. The leveraging of such metrics is fundamental to creating customer loyalty.

Illustrated here is that respondents are only loyal to Arroyo del Oso and would recommend three other courses before another City facility:



Note: “Promoter Score” is a term to measure the loyalty of customers to a facility. Are they “promoters” of that enterprise? The national average is 26. A negative score represents that the facility has more detractors than loyal customers.

This rating from the City of Albuquerque’s golf courses customer base is very disappointing.

Why are those loyalty share numbers important? Loyalty correlates to wallet share, and the percentage of wallet share a course receives from its golfers is a highly predictive factor of success. Higher wallet share equals higher revenue which equals higher net income. Wallet share represents the percentage of a golfer's money spent at each golf course versus the total amount spent annually by the golfer.

It is much easier to attract a greater wallet share of an existing customer through building loyalty than it is to attract a new customer to the golf course. Promoters refer five golfers per year to the facility, while strong detractors can provide up to five negative references.

That is why addressing the challenges identified in the survey are important to sustain the loyalty to City of Albuquerque's golf courses.

Step 7 – A Summary of Golfer Habits and Preferences: A Customer Survey

The golfer survey validated our concerns regarding the ongoing viability of the golf courses – without further capital investment. Golfers are currently playing courses close to where they live, and they are inexpensive. A golf course is a living organism that requires continual investment to produce a consistent experience.

The density of golfers per 18 holes, as documented in Step 1, suggests that if the City demonstrates leadership by investing in golf courses, components of the core customer base will increase their frequency and the improvements will attract additional golfers that should stimulate utilization and revenue to create a more viable operation.

When one reviews the many individual comments made by the patrons, one recalls Peter Finch's famous line from the movie, "Network" – "We are mad as hell, and we are not going to take it anymore."

While the convenient location will continue to provide a foundation for modest revenue, the potential for these golf courses is far greater is prompt investment and attention is given.

FINAL GOLF STUDY REPORT: 5/10/2017