Executive Summary

Prince William County Park Authority,
A Component Unit of Prince William County

Golf Course Operational Review

Forest Greens Golf Course

General's Ridge Golf Course

Prince William Golf Course

June 30, 2010

Golf Convergence
4215 Morningstar Drive
Castle Rock, CO 80108
(t) 303 283 8880
(f) 303 283 8884
www.golfconvergence.com
twitter.com/golfconvergence

Table of Contents

Appendices

Executive Summary

Scope

This review encompassed a comprehensive analysis of the financial performance of Forest Greens, General's Ridge and Prince William, all of which are golf courses operated by the Prince William County Park Authority (PWC Park Authority, Park Authority, Recreation Services, or Golf Department).

This review was requested by staff because, as of June 30, 2009, the Park Authority did not meet the required debt coverage ratio of 1.10 for 1999 Revenue bonds which financed the construction of Forest Greens and General's Ridge. The calculated revenue bond debt coverage ratio for FY 2009 was 0.54. The outstanding debt, which is currently 9,060 million dollars, was refinanced in April, 2010.

Notwithstanding the legal requirements, PWC Park Authority has been extremely diligent in conducting periodical operational reviews. Those reviews, last conducted by the National Golf Foundation in 2003 and 2005, provided many precise operational recommendations.

It is conventional to attribute shortcomings in performance to factors beyond one's control. Clearly, the NGF reports and this review cite numerous uncontrollable factors plaguing the golf industry and negatively affecting the financial performance of the PWC golf courses.

However, those factors contribute little to the challenges faced. Dating back over a decade, the terms and conditions by which the PWC Park Authority entered into the business of golf now serve as highly restrictive limitations on its ability to operate a desired recreational asset for the community on a basis that is financially self-sustaining.

As importantly, during the time since the Prince William County Park Authority entered the golf business in 1996, an undisciplined culture has evolved within the Golf Department, a division that lacks strong golf industry knowledge and meaningful experience. It is therefore predictable that revenue lags, and expenses, though typical for a municipal operation, exceed industry guidelines.

Thus, the purpose of this report was revised to focus on the structural impediments that have precluded the creation of a meaningful strategic vision, the development of appropriate tactical plans, and the formation of policies and procedures that can ensure effective operational execution. Seeking the solutions to those systematic historical challenges served as the focus for this review.

Conclusion

The Park Authority's goal is simple: ensure that the golf courses are financially self-sustaining, provide sufficient capital for continued investment, and retire the associated debt as scheduled.

Unfortunately that goal is unobtainable under current operations. This report's core message is that the existing debt, though recently refinanced, still cannot be serviced from free cash flow without a change in the organizational structure that will induce a change in the policies and procedures.

Annual principal and interest payments will average $681,103 through 2027. With a net asset deficiency of $8,579,642 as of June 30, 2009, the annual net loss, when debt service for 2005 – 2009 was included, averaged $1,224,800. The annual net loss, when debt service was accounted for, was $656,245 for 2000 – 2004.

The typical municipal golf course generates earnings (before interest, taxes and depreciation) of only $206,000. Our conclusion is that the income potential is too low to service such a large debt.

Compounding this dilemma is the fact that General's Ridge operated by the Prince William County Park Authority based on a lease from City of Manassas Park. The current debt is $3,086,164. General's Ridge is a burden on the entire golf operation. The cash deficiency available for debt service from this course will average $815,738 when computed to loan maturity. This represents 69% of the Golf Department's entire millstone.

These facts lead to the following strategic recommendations:

1) General's Ridge should be sold to the City of Manassas Park as soon as feasible. While one would like to recapture the historical investment, the likely ongoing operating losses, the continuing debt service, and the forthcoming capital investment required will afflict the PWC Park Authority and jeopardize its ability to fulfill its overall mission.

   An alternative would be for the PWC Park Authority to invest $4.646 million to correct the structural flaws of the golf course and expand the clubhouse with the hopes of abating the losses. See Appendix WIN Step 5 for a comprehensive analysis and investment return calculation projecting a 9.46% positive internal rate of return. Note that currently, General's Ridge is projected to incur a cash flow deficit of $10.6 million through 2029 representing a present value loss of $7.1 million based on an imputed interest rate of 4%. This deficit, which cannot be abated from a status quo approach, can be eliminated with this investment, if properly planned and fully executed commencing July 1, 2011 and completed by May 1, 2012.

General's Ridge maybe one of the most difficult municipal golf course in America because of its extreme green complexes, naturally maintained forests, and undulating fairway slopes. It is an exasperating experience, rather than enjoyable entertainment. As a result, the brand image of the golf course, after 14 years of operation, is tarnished that a quick reversal is unlikely without renovation.

Shunning the first two options, another alternative is to abandon the lease agreement. However, such an action, while financially prudent, is morally bankrupt. Also not viable is the unrealistic option of continuing operations as they have been and miraculously generating profits that will appreciably reduce cash flow deficits that exceed $850,000.

That fact begs the question, why would the City of Manassas Park want to acquire this troubled asset? The purchase price that could be negotiated plus the investment required to renovate the golf course into a viable asset when equity ownership is available is far greater than the economic potential of the asset as a lease.

Demand for public golf exceeds the supply of courses in Prince William County. If the Park Authority owned the asset, the decision is clear; renovate the golf course. But why take on the significant risk of making a capital investment in the course when it is under an operating lease?

2) If legally permissible pursuant to the bond covenants, retain a single private management firm, via competitive bidding, to manage all aspects of Forest Greens and Prince William, commencing January 1, 2011.

   At a minimum, the Golf Department should be made autonomous of the Recreation Services Department, with a Director of Golf retained. That individual should report to the Executive Director of the Park Authority without the influence and/or interference of the Executive Staff. The Director should have the flexibility to replace all current staff. That individual should be held accountable for the operating results. For that responsibility, the Director of Golf should receive an incentive bonus for meeting the financial goals established by the Board.

   Why the change in leadership? There are numerous factors that inhibit municipalities in their ability to compete: committee-based decision making, budget constraints, personnel policies (high benefits and restricted termination flexibility), lack of marketing expertise, special interests, procurement challenges, inadequate incentives, and bureaucracy.

With professional leadership and crisp operational execution, Forest Greens could adequately service its associated debt structure, and an appropriate investment could be made in Prince William to render that facility competitive and also capable of generating positive cash flow.

Strategic Constraints: A Quandary

When entering the golf business, the Prince William County Park Authority made historical errors that continue to limit its options to effectively manage the Golf Department. These errors include the following:

1) **Ratification of the Deed of Lease** dated September 23, 1994, between City of Manassas Park and Southern Golf Development. The lease required the Park Authority to borrow, construct and operate (for up to 33 years) a golf course, clubhouse, roadways, utility lines, and trails easements with no rights to ownership and no provision specifying the residual termination value of the agreement.

   The inability to "terminate" the lease and "put" the asset to the equity owner, based on the investment made less the return achieved, is a serious shortcoming of what is effectively a development agreement.

2) **Secured financing via revenue bonds** for the construction of Forest Greens Golf Course and General's Ridge.

   These bonds effectively limit the ability of third parties to manage the golf courses under the following arrangements:

Fee Arrangement	Additional Compensation Allowed	Term	Useful Life of Property
95%	One-time incentive fee	15 years	80%
80%	N/A	10years	80%
50%	Capitation Fee with 20% variable component	5 years	N/A
Per-Unit Fee	Based on unit of service, i.e., rounds played	3 years	N/A
% of Revenue	100% based on percentage of fees charged or a combination of per unit	2 years	N/A

   The 95%, 80%, and 50% guidelines appear to allow for third-party management of the golf courses. However, the payment of a fixed amount to a third party often doesn't provide the financial incentives to ensure the Park Authority's interests are fully protected.

The value of a third-party contract is determined by the fixed expense of that agreement measured against the efficiencies that can be achieved through professional management. To illustrate, to the extent that the third-party fee (i.e., $75,000 per course per annum) is less than the revenue increases or expense reductions, the contract is viable. However, there is no guarantee that a financial benefit will be derived. Additionally, the capital investment requirements under such a fixed-fee arrangement are not abated.

The preferred arrangement is an operating lease in which the Park Authority receives a flat fee in exchange for professional management and benefits from the skills contributed to the golf courses. Our meetings with third-party management companies indicated they are interested in such an arrangement with Prince William County; however, such an agreement appears to be precluded by the IRS guidelines.

Reaching a legally supported conclusion as to the third-party management options was beyond the scope of this engagement. However, the following municipalities that have comparable revenue bonds outstanding contract with third-party companies for the private management of their golf courses:

Nationally Accredited Third Party Management Firms	
Billy Casper Golf	**Kemper Sports**
City of Sumner, WA	City of Carlsbad
Clark County, NV	City of Dinuba
Westchester County, NY	City of Lake Jackson
	City of Palm Desert
	City of Portland
	City of Yorba Linda
	El Paso International Airport
	Pierce County
	Union County

3) **Land and Water Conservation Fund** governing Forest Greens and Prince William effectively limit the ability to sell these properties.

Thus, in conducting this strategic review, the most viable options to mitigate the losses and generate positive cash flow are non-starters precluded by operating lease covenants, IRS regulations, or easement agreements. **<u>None of these constraints were created by current senior management</u>**.

The structural limitations are unfortunate, because the Washington metropolis is one of the stronger markets for golf where demand continues to exceed supply. The age, income, ethnicity, and population density mix are favorable for a successful golf course operation.

Tactical Obstacles

The 2005 NGF reported saliently, “The current process is one that is more oriented to maintaining a park where the emphasis is controlling expenses, than it is to running a business that is competing head-to-head with private enterprise.[1]

Such is evidenced with recent reorganizational changes of the Golf Department where accountability for the courses was divided between two individuals. The void created by the departure of the Golf Director in 2009 remained unfilled until June 21, 2010 with the retention of a Golf Director that oversees Forest Greens and Prince William. To fill the void until June 21, 2010, staff was shifted not based on competency but on expediency.

Until the void was filled, the Golf Department lacked qualified leadership that was accountable for the operating results. The result of such decisions is predictable – disappointing financial performance. The relationship between the marketing department and the golf course managers was strained. The viewpoints of the business manager for simple pricing tiers, elimination of unlimited season passes, controlled discounting, and more effective customer communication was in contrast to the opinion of the golf course managers who desire not only the continuation of unlimited season passes but advocate additional value be provided to the customer.

The course managers offered handicap service, a lesson, range discounts, and merchandise that advertised the course. While valuable communication tools are available, managers by choice sent newsletters only monthly, reflecting a minimal commitment to create customer loyalty.

Simply stated, management and staff lack the unified cohesion required to operate a successful enterprise***. It is our professional opinion that the low utilization at the courses is due to inadequate marketing and the ineffective use of technology, rather than from rates being overstated.***

Further, the golf courses are a living organism that requires constant reinvestment, yet no meaningful capital funds have been provided to the facilities during the past five years. The current capital expenditures exceed $4 million.

As a result, the challenges that the Recreation Services Division is currently experiencing can be tracked through four distinct phases that have been experienced by many municipalities during the past decade. These phases are detailed below:

[1] National Golf Foundation, “Operational Review and Recommendations,” September, 2005, pg 18.

- Phase 1 - Profitable operation
- Phase 2 - Competitive forces lead to declining customer base, rates fail to keep pace with inflation, and excessive discounts given to retain remaining customers; all cause revenues to fall.
- Phase 3 - Reduced profits or operating losses create deferral of capital expenditure, resulting in deterioration of course conditions, further adversely impacting rounds and revenue
- Phase 4 – General fund subsidy, privatization to independent management, sale, or closure of courses is required to relieve the Park Authority of the draining financial obligation caused by the attempt to provide a recreational service.

The Golf Department is in the latter stages of Phase 3.

It is a harsh reality that golf is not a core service akin to fire, police, schools, and others that are the responsibilities of the County. The Park Authority's golf courses and the water park have an aggregate net asset value of $9.663 million, and a return on that investment should be expected, measured in both financial terms and in the quality of life afforded to the citizens of Prince William County.

As currently constituted, the golf courses are not generating the return desired. Further, without change and without considering the $4.0 million in deferred capital investment which is exclusive of the General Ridge's renovation costs, golf will require increasing subsidy from the general fund exceeding $4 million through 2017. Thus, the "financial bogey" of the Park Authority exceeds $8 million.

Operational Underachievement

The lack of a strategic vision and the absence of meaningful tactical plans have resulted in inconsistent execution, though guidance has been well provided historically in the NFG operational reviews. Many of the recommendations of the 2005 and 2003 were not adopted from lack of financial resources, personnel, and the inherent nature of the culture.

Operational reviews, such as this report, have largely been discounted and not effectively implemented. Without change, historical results are effective predictors of future performance.

Therefore, it is our conclusion that the projected annual cash flow deficit for all three golf courses, which is nearing $400,000, can be mitigated only in the following ways:

1) The introduction of a professional management culture which would facilitate the following:

A. Curtail the dominant discounting mentality incorrectly justified by a false perception that supply vastly exceeds demand as well as by the lagging economy.

B. Increase yield by engaging in proactive marketing. This should leverage the potential of an integrated tee time reservation/POS system implemented in 2010 and eliminate the dependence on unlimited season play passes. These passes are incorrectly priced based on current high use.

C. Adjust expenses to industry standards based on the flexibility provided to private rather than municipal management.

Financial Implications

The following reflects the historical financial statements prepared by the Park Authority:

	Audited			Unaudited	Budget
	2005	2006	2007	2009	2010
Revenue	3,718	3,555	3,386	3,105	3,388
Compensation and benefits	1,757	1,820	1,866	1,883	1,519
Contractual services	212	207	196	207	0
Materials, supplies and utilities	1,089	1,121	1,109	941	1,168
Operating Expenses	3,058	3,148	3,171	3,031	2,687
EBITDA	660	407	215	74	701
Other Expenses					
Depreciation	377	535	933	879	889
Interest Expenses, Net	849	818	789	775	710
	1,226	1,353	1,722	1,654	1,599
Net Income	-566	-946	-1,507	-1,580	-898
Depreciation	377	535	933	879	889
Principal	570	459	440	414	432
Cash Flow Deficit	-759	-870	-1,014	-1,115	-441
Rounds (18 hole equiv)/Admissions	106,363	95,637	78,199	74,017	74,000
Revenue/round	34.96	37.17	43.30	41.95	45.78
Net income/round	-5.32	-9.89	-19.27	-21.35	-12.14
Cash flow/round	-21.71	-23.40	-23.42	-26.58	-9.63

Note 1: The above CAFR reports were prepared on an accrual basis and different slightly from the cash basis financial statements prepared by the Golf Department. The differences are not statistically significant.

Note 2: EBITDA = earnings, before interest, taxes, depreciation and amortization.

A review of these financial statements reveals several interesting statistics:

1) The FY 2010 budget projects a dramatically improved financial performance which is unlikely to be achieved, especially in light of the adverse winter weather which caused the golf courses to be closed for 40 days.

2) The financial performance of the Prince William County golf courses is not much different from that of the average municipal golf course operation, as reflected below[2]:

FY09 Actual	Prince William County Park Authority	Municipal
Facility Revenues: average per 18-holes	1,035,000	1,133,333
EBITDA	24,666	206,000
EBITDA as a % of Gross	2.38%	18.17%

The typical municipal golf course earns $206,000. That means that Forest Greens, General's Ridge, and Prince William are underperforming by $108,000 per facility. It should be noted that the average income among Virginia daily fee golf courses is $273,500, and it is $208,600 among Middle Atlantic golf courses.[3]

Is there hope? For 2005 – 2010, the average yearly interest and principal payments on the debt averaged 1.233 million. With the refinancing that was completed in April, 2010, the new interest and principal amortization schedule requires average annual payments of $681,103, a savings of $551,897 per year.

Category	Amount
5 Year Historical PWC Average EBITDA (2005 – 2009)	$293,200
Under performance	324,800
Average Municipal	$618,000
Current Debt Service (Principal/Interest)	681,000
Cash Flow Shortfall with average performance	$63,000

An annual general fund requirement of $63,000 is tolerable. However, one must not lose sight of where the significant financial drain is currently occurring; General's Ridge is the culprit, as highlighted below:

---

[2] PGA PerformanceTrak, http:apps.pgalinks.com/professionals/apps/memberinfor/AOSurvey/index.cfm, 2008

[3] http://apps.pgalinks.com/professionals/apps/memberinfo/AOSurvey/index.cfm?

Revenue	FG 2009	GR 2009	PW 2009	Total
Total Gross Revenue	1,408,421	776,930	893,799	3,079,150
EBITDA	268,198	-227,866	101,956	142,288
Cash Required from General Fund	416,260	770,866	71,956	1,115,170

Note: The above cash based financials differently slightly from the CAFR reports which are prepared on an accrual basis. The differences are not statistically significant.

To narrow this gap, increases in market share or price are the only two viable options, as forecasts for growth in the golf industry for next decade project a flat industry.

What Are The Options?

How does one address the underperformance from internal factors? Any one of the following five organizational structures can be used to manage a multi-course municipal golf entity:

1) Exclusively Park Authority employees
2) Exclusively Park Authority employees, except for food and beverage; this one is usually a losing financial proposition
3) Park Authority employees for Administration and Pro Shop, with maintenance contracted
4) Each course managed by different concessionaires via a lease or management agreement
5) All courses managed by a single concessionaire via a lease or management agreement.

For the Park Authority, the arrangement of exclusive municipal employees would accelerate expenses, particularly labor, and thus options 1, 2, and 3 are not viable. Option 4 (using different concessionaires) is also not viable, since the golf courses get branded as individual golf courses and the economies of scale of operating multiple facilities is lost. Thus, by default option 5, either management or lease agreements, becomes the recommendation of choice because it provides the following benefits:

- Eliminate the Park Authority's financial risk for operating the golf courses.
- Somewhat alleviate the requirement for the Park Authority to invest in capital improvements.
- Generate annual lease income estimated at 5% of gross revenue, $150,000 for the three courses in total.
- Ensure that the properties are enhanced through industry-standard capital investment programs by the management company. It is speculated that a private management company would be willing to invest up to $1.0 million per course in improvements under a 10-year lease.

- Introduce best management practices to the operation of the Park Authority's golf courses, providing integrated tee time reservations and POS software to effectively manage and to enhance the customer experience.

The chart below highlights the financial difference to the Recreation Services Division between the status quo and private contract management over the **next 10 years**:

Three Golf Courses	Status Quo	Private Contract Management
Expenditures over Revenues	4,000,000	
Annual Income Rental Income		1,500,000
Likely Capital Investment by Park Authority	2,000,000	2,000,000
Financial Return (After 5 Years)	6,000,000	500,000

Privatization has the potential to save the Park Authority $5.5 million within 10 years, while preserving the customer experience.

Is there a caveat? Absolutely. A lease may not be permissible under the 1999 revenue bond provisions. The scope of this engagement was limited to an operational review. It is thus our recommendation that Prince William County counsel should be engaged to determine the viable practical and legal alternatives available.

There may not be a huge appetite for management companies to assume all the risk that a traditional lease has, because there are currently far too many opportunities to pick up properties in distress. Thus, a shared risk arrangement is far more likely. It is important to note that a lease proposal may generate more interest among local third-party management companies than those with a national presence.

A Plan for Action: A Mandate for Change

Thus, our recommendation to privatize is clear. If privatization is selected, the Prince William County Park Authority's investment is low, the staff required is nominal, the risk level is low, and the Park Authority's net income will be moderate. In contrast, the status quo options will require high investment, significant staff, and high risk, with likely losses and subsidy from the general fund.

However, we know that change often meets with much resistance. The Recreation Services Division can implement progressively the recommendations listed below to reduce the annual deterioration of the fund balance:

1) **Short-term: Strategic Options**

- The Park Authority's role of providing golf to each market segment (from accomplished to entrant, providing a value-based experience to each) should be emphasized. Each of the Park Authority's golf courses should have a clear vision of market niche of that facility: "silver" (Forest Greens), "bronze" (General's Ridge), and "steel" (Prince William), as later defined in this report.
- The Golf Department should be made autonomous from the Recreation Services Department effective July 1, 2010.
- General's Ridge should either be sold by September 30, 2010, or a $4.6 million renovation should be completed from September 15 through April 15 through reconstruction of the greens, clearing the natural forests, and reshaping numerous fairway.

2) **Short-term: Tactical Options**

- Prepare an RFP for public tender to lease the full operations of Forest Greens, General's Ridge, and Prince William golf courses effective January 1, 2011.
- Should privatization of the golf courses not be feasible, the next alternative suggestion is that the position of Director of Golf should be filled by a skilled manager with multi-course experience, and while a PGA or CMAA CCM designation is desired, it should not be required.
- Each golf course manager should prepare a FY 2011 budget reflecting a positive earnings target. The submission of such budget should be accompanied with an undated resignation that could be exercised if the actual performance of the course was materially different than budget due to controllable factors. One of the factors that would influence that decision of retention is that the Revenue Per Round should be no less than 50% of the prime time rack rate with cart.
- Integrated tee time reservations, point of sale, and email marketing software should be fine-tuned and utilized more effectively. The current 17-second latency factor in switching screens at the course renders the software ineffective. The goal should be a 3 second response.
- A contract with golfnow.com (tee time marketing company) should be considered for General's Ridge as the effective yield is likely to be increased. Conversely, the use of a third-party intermediary for the other two courses is discouraged as the effective yield is likely to be lowered.
- Accounting reports should be prepared consistent with generally accepted principles for golf courses which emphasize departmental revenue (green fees, carts, merchandise, food and beverage, range, and other) and expense (maintenance, pro shop, administration) reporting.

- General's Ridge should be closed annually from December 15 through February 28.
- Maintenance crews should be reduced from November through February to three employees per course.

3) **Short-term: Operational Options**

- Prime-time rack rates – **with cart** for Forest Greens, General's Ridge and Prince William should be established at $69, $58 and $49.
- Permanent tee times should be introduced for Forest Greens and General's Ridge.
- Twenty-five round punch cards should be introduced providing golfers a
- Unlimited season passes, both 5- and 7-day, should be retained based on 60- and 75-round break points, respectively.
- Electronic marketing efforts via email, Facebook, Twitter, and Groupon should be emphasized over print advertising. Consideration might also be given to advertising via Google Adwords.
- Emphasis should be placed on expanding the email database.
- Marketing for the golf courses should focus on the individual facilities and not, except where the economies of scale are present, on the aggregation of the three golf courses. Forest Greens and Prince William are 27 miles apart and serve an entirely different customer base. Ninety percent of all golfers at facility live/work within a 10 mile radius of the golf course.

> **Warning**: The introduction of these rates, which represent in some cases a significant increase, will result in the decrease in total revenue if proper marketing and the proper use of technology is not implemented.

4) **Intermediate**:

- Current personnel, not retained by the third party management company, if retained, should be transitioned to other departments within the Park Authority.
- Surplus assets and minimal non-revenue producing assets should be identified and scheduled for liquidation.

5) **Long-Term**:

- Expansion of the Forest Greens clubhouse and construction of a new clubhouse for Prince William should be strongly considered within the next three years. Both facilities should be about 8,000 - 12,000 square feet to accommodate tournaments which can account for up to 30% of a golf course's revenue. Note that it will be necessary to connect to public sewer at Prince William golf course in order to obtain appropriate permits.

What is Achievable?

The Park Authority will be required to make a number of difficult decisions. A golf course that is cash-poor but asset-rich, in order to balance the budget, will ultimately be required to liquidate assets or privatize services.

The challenges ahead are not trivial:

1) The organizational and management structure is entrenched.
2) The overhead cost structure is largely fixed.
3) Deferred capital expenditures are significant.
4) The bond debt will remain a financial burden through 2029.

Many who are part of the Park Authority have strengths that can serve as a firm foundation for future growth. They possess the talent and passion required to implement the recommendations in this report should they be adopted by Park Authority Board.

Operational Review

Prince William County Park Authority,
A Component Unit of Prince William County

Golf Course Operational Review

Forest Greens Golf Course

General's Ridge Golf Course

Prince William Golf Course

June 30, 2010

Golf Convergence
4215 Morningstar Drive
Castle Rock, CO 80108
(t) 303 283 8880
(f) 303 283 8884
www.golfconvergence.com
twitter.com/golfconvergence

An Operational Review: The Process

Why Was Golf Convergence Retained?

Strategists are often retained because of the following scenarios: 1) when there is a change in management and those who are now accepting accountability seek to benchmark the current operation upon their entrance; 2) when the deterioration of the financial condition of the operation is clear to all; and/or 3) when leadership is proactive in seeking to outperform the competition to ensure that the full potential of the golf courses is realized.

This review was requested by staff, as of June 30, 2009, the Park Authority did not meet the required debt coverage ratio of 1.10 for 1999 Revenue bonds which financed the construction of Forest Greens and General's Ridge. The calculated revenue bond debt coverage ratio for FY 2009 was 0.54. The outstanding debt, which was refinanced in April, 2010, is $9,060 million dollars.

Equally important and of greater concern was the consistency in massive cash flow deficiencies over the past decade which, when debt service was accounted for, aggregated $9,405,225.

Thus, Golf Convergence was retained to analyze the erosion of the financial condition of the Prince William County Park Authority Golf Courses, as highlighted below:

Operational X-Ray

Category	Indicator	Amount
Market Supply	Undersupplied	9%
Weather	Decline in playable days	0%
Rounds	Decrease in Rounds over Past 6 years	28%
Value	Experience < Price	37%

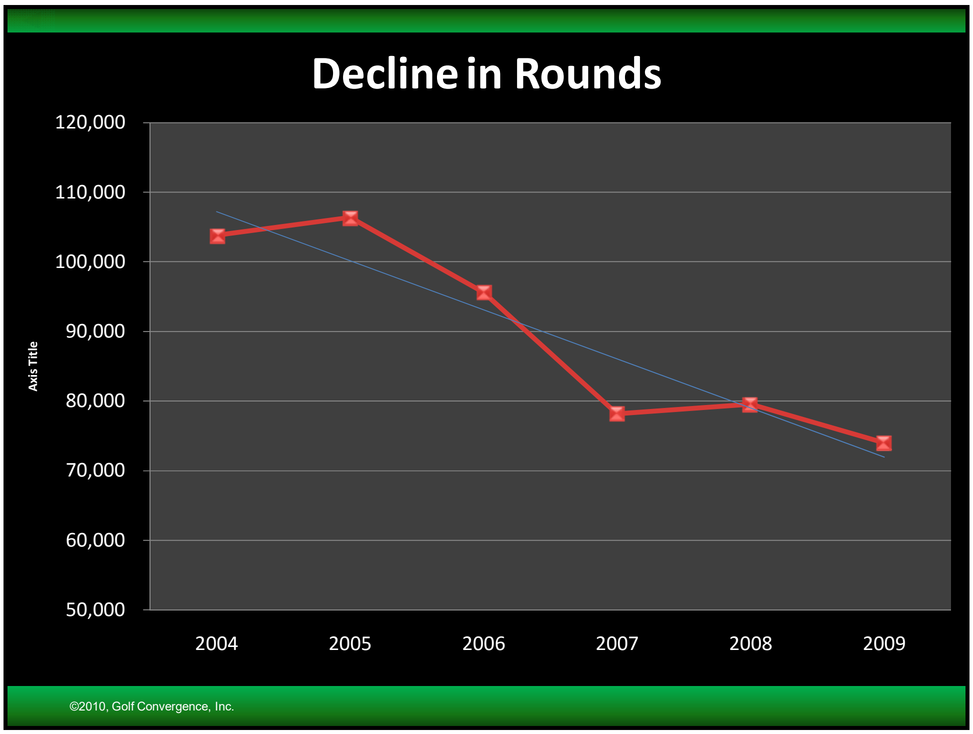
Note: Rounds nationally decreased by 9% during same period.

The market is slightly undersupplied for public golf courses. The impact of weather has been neutral, but rounds have fallen 28% during the past six years.[4]

The formula for the successful operation of a golf course is straightforward. To the extent that the value provided exceeds the price (measured by the experience offered minus the price), golfers become loyal to a facility and increase their play. The reverse is also true. To the extent that price exceeds the experience, attrition occurs.

For the Prince William County Park Authority, the current price charged exceeds the value provided to the customer by 30%; hence, customer attrition.

This decline, as measured by rounds, has occurred for over a decade, as shown below:



Why the decline? That is the purpose of this golf course operational analysis.

The questions that were posed to Golf Convergence were, "First, under what circumstances, if any, can the Prince William County Park Authority golf courses be made profitable? Second, what organizational structure will provide the greatest financial return to the Park Authority while maximizing the customer experience?"

[4] Note: The years 2004 through 2009 were used to analyze rounds for the three courses, since Prince William Golf Course was acquired in the middle of 2003. If we measure the performance of Forest Greens and General's Ridge since 2001, rounds for those two courses have fallen 18.9%,

The Process of Examination Adopted

The goal for this engagement was simple. To craft a vision that articulately communicates the strengths and weaknesses (internal) and the opportunities and threats (external) for the Park Authority's Golf Department, a vision that can be easily understood by all interested groups.

To accomplish this, the **Golf Convergence WIN™ Formula** was engaged**;** it includes the following steps:

1) **Strategic: Geographic Local Market Analysis -** Age, income, ethnicity within 10 miles of the golf courses
2) **Strategic: Weather Impact -** Management performance versus weather
3) **Tactical: Technology -** An integrated foundation to identify the insights required to manage
4) **Tactical: Key Metrics, Financial Modeling, Yield Management -** Comparing financial performance to competitive local golf courses
5) **Operational: Facilities and Maintenance -** Equipment and capital benchmarks
6) **Operational: Customer Franchise Analysis -** Who are the golf course's best customers and how loyal are they?
7) **Operational: Customer Surveys** - Barriers, Price Points, Brand Image
8) **Operational**: **Management, Marketing and Operation Review** - The entrance, staffing, organizational structure, merchandising, food and beverage, advertising, marketing, and public relations are evaluated and compared to the industry's best management practices.

The formula results in the development of viable recommendations ranging from creating a new strategic vision for the golf courses, to tactical plans focused on finances, to human relations and technology, to operational suggestions centered on agronomy, to maintenance, to pro shop operations including customer service, to yield management and marketing.

For the client to understand this process of examination, it is first necessary to gain a macroeconomic view of the nation's economy, the current factors affecting the business of golf, and to learn the golfers' preferences and the barriers to their increased play.

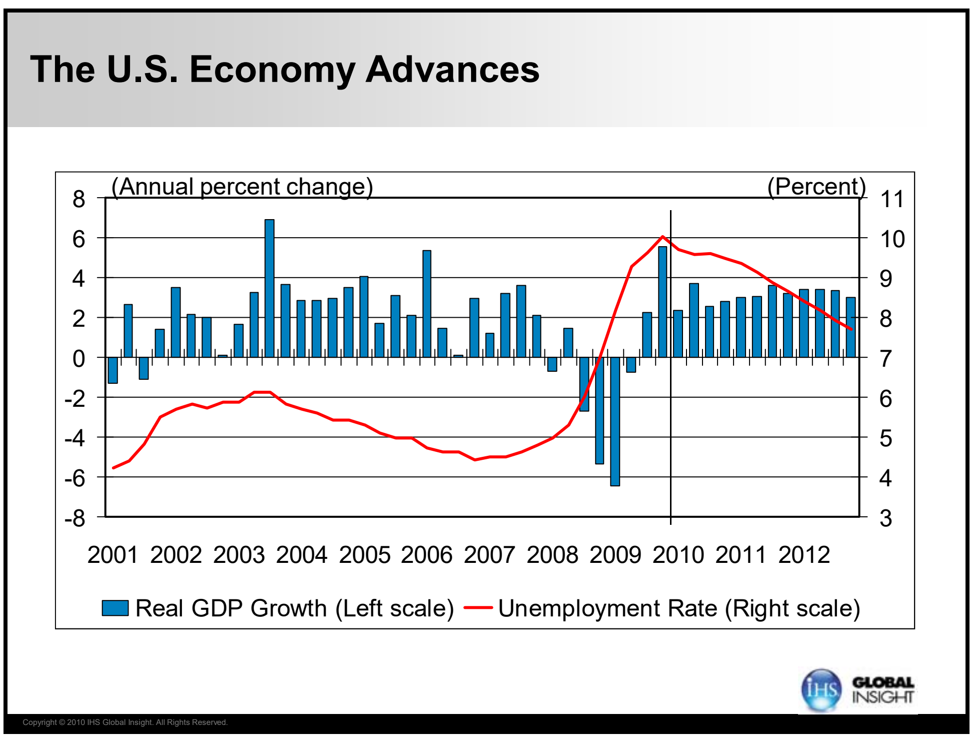
Global Perspectives

The Current Economic Outlook

Golf is a recreational sport that consumes the disposable income of its patrons. Golf competes for the entertainment dollars of its consumers.

The financial prosperity of golf is indirectly correlated to the world economy. To measure the impact of the current economic conditions on the golf industry, in April, 2010, the National Golf Foundation (NGF) included at its annual symposium a presentation titled, "Economic and Capital Markets at Home and Overseas"[5]

The speaker, Chris Holling, Vice President of HIS Global Insight, presented the case that the U.S. Economy was at a crossroads. Negative factors included high unemployment, reduced asset values, tight credit, and high debt burdens. Countering those factors are real income growth, low inflation, low interest rates, and the stock market rally. The net result of those factors becomes reflected in the U.S. GDP growth rate, as highlighted below:



[5] IHS Global Insight, "Economic and Capital Markets and Homes and Overseas", April 29, 2010, Slide 4

Of great concern is that the economy is considered at full employment when unemployment is 4%. Unemployment is expected to exceed 7.5% for the next three years. That factor alone has a significant impact on consumer confidence and on the average disposable income available for recreation and entertainment.

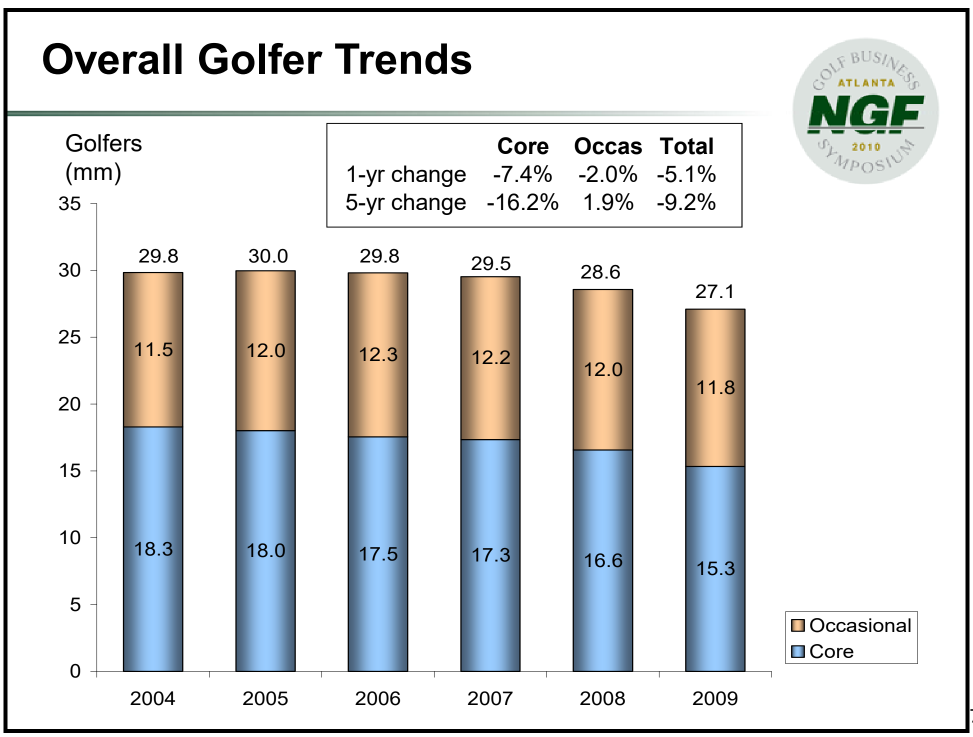
Interestingly, among those who play golf; this recreational activity consumes 3% of disposable per capita income, $32,000[6], or $960 annually.

What Are the Implications for Golf?

In 2009, rounds declined 1% while revenue fell 6%. Six of every seven golf courses lost money. Rounds in 2010 are likely to fall slightly, tournament rounds are predicted to go down by 3%, and price degradation across the industry will continue.

All economic forecasts from leading industry research groups forecast a “flat industry” for the foreseeable future. For the next decade, the sport is likely to remain at 25 to 30 million participants, and revenue growth will only come from market share increases (stealing your competitors’ customers) or price increases.

Those conclusions are reached based on overall golfer trends as reflected below:



[7]

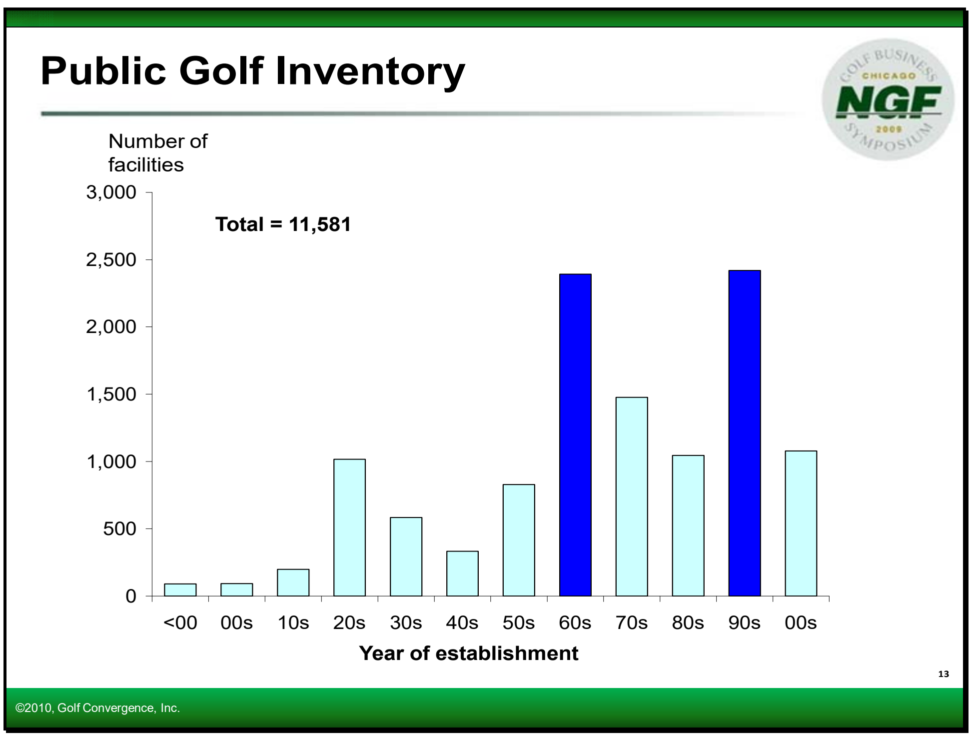
[6] http://www.bea.gov/briefrm/percapin.htm
[7] National Golf Foundation, “State of the Industry”, April 29, 2010, Slide 4.

During this same period, while the number of golfers has fallen 9.2%, rounds volume has fallen 2.7%.

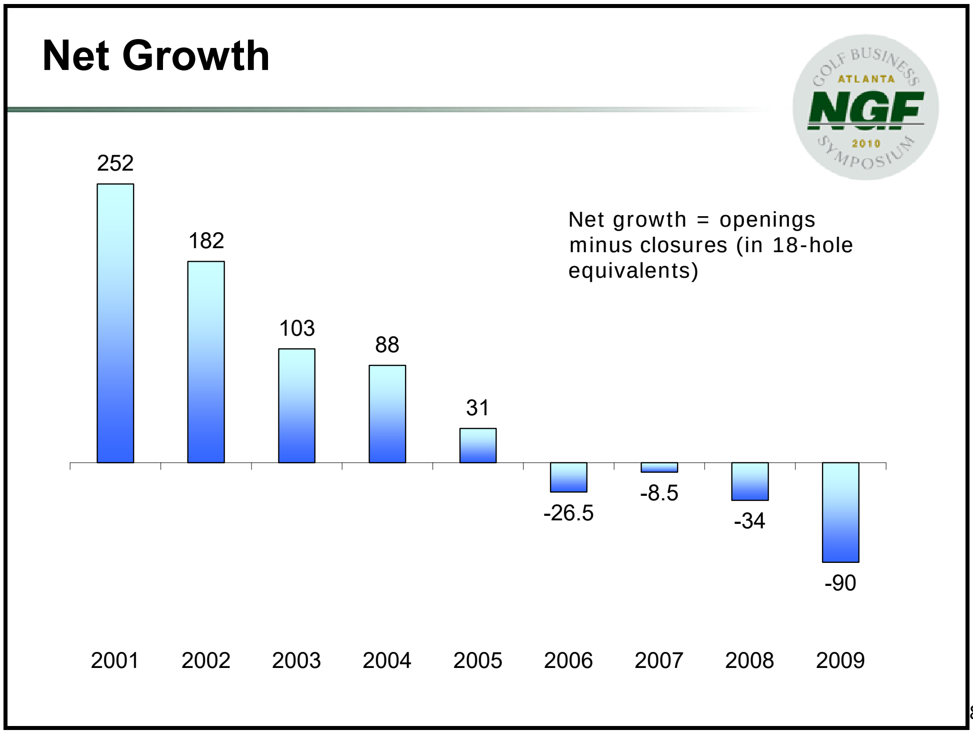
The net decrease in 1.5 million golfers from 2008 to 2009 included 5.2 million golfers who left the game; their numbers were not offset by the 1.7 million beginners and the 2.0 million former golfers who returned to the sport.

Since 1990, the growth in the number of golf courses is up 24%, while the number of golfers has increased only 16%. As a result, rounds played at each golf course have fallen from 40,400 in 1990 to 32,640 today.

Today's supply imbalance is attributable to the golf courses opened during the 60's and the 90's, as reflected below:



For the past four years, for the first time in history, more U.S. courses have closed than opened. This prediction is evidenced in the following chart:



[8]

Thus, the largest contributing influences are "uncontrollable factors" at a national level, and a quick reversal is not likely. Therefore, there are no foreseeable changes which will provide the Prince William County Park Authority the opportunity to "earn its way" out of a declining fund balance in the short term based on a surge in demand or a dramatic restriction of supply.

The National Golf Foundation in 2009 published an extensive study on "The Future of Public Golf in America"[9] which cited that 15% of the golf courses rated their financial health as extremely poor. Of those golf courses, 56% of daily fee golf courses were considering closing and selling, and 26% of municipal golf courses were evaluating the same alternatives. Uniformly, with rounds and revenue off, losses increased, maintenance standards were deteriorating, capital investments were deferred, and discounting practices were employed to boost rounds. The Prince William County Park Authority has experienced the same.

As a result, the NGF concluded that from 500 to 1,000 golf courses will close or be sold during the next five years. The golf courses most at risk[10] were:

---

[8] National Golf Foundation, "State of the Industry", April 29, 2010, Slide 15.
[9] National Golf Foundation, "The Future of Public Golf in America," April 22, 2009, Slides 1 -43.
[10] National Golf Foundation, "The Future of Public Golf in America," April 22, 2009, Slide 21.

- Nine-hole facilities
- Facilities with lower price points
- Alternative facilities
- Facilities in less-populated areas

Fortunately, none of those traits are found at Prince William County.

The NGF study further revealed significant differences between how successful golf courses were operating in contrast to those courses that were financially challenged. These differences are reflected below:[11]

The Right Things

	Success (7-10)	At-Risk (0-3)
Customer service emphasis	73%	52%
Have strategic plan	69%	48%
Structured player development	59%	41%
Customer surveys	49%	36%
Promote other revenue centers	43%	26%
Pace of play	43%	24%

26

Maintaining customer databases, engaging in email marketing, and publishing newsletters are additional traits of successful facilities that have been widely recognized over the years. While Prince William County Park Authority does engage in such activities, the use of these tools could be significantly expanded. Fortunately, as discussed in detail later in this report in Step 3, Information Systems Technology is in place, so these deficiencies are correctable.

[11] National Golf Foundation, "The Future of Public Golf in America," April 22, 2009, Slide 26.

The Business of Golf

In theory, business is actually very simple. It is simply balancing supply against demand. By establishing the price that correctly balances the value delivered commensurate with market demand, net income is maximized.

Business can be made very complicated. The permutations of operating a successful golf course exponentially increase quickly when one considers the factors that impact supply (the number of golf courses) or those factors that affect demand (course conditioning, price, weather, service, and customer demographics and preferences).

In a perfect market, customers purchase products that satisfy their needs or desires for prices they determine to be the best value. Golfers purchase a round of golf for the price that creates the social status they seek, for the networking they want to achieve, for convenience to home or business, and for the recreational and leisure experience.

Unfortunately, capitalism is not about perfect markets. Inadequate information, undisciplined decision making, and government intervention can create aggregate failure. The essence of capitalism is for the successful entrepreneur to gain a strategic advantage over competitors within an imperfect market.

Thus, the goal of the golf course owner should be to blend the following triad:

1) Superlative information
2) Disciplined decision making
3) Crisp execution

But to achieve that strategic goal, the first component, superlative information, starts with an understanding of the breadth and depth of the golf industry.

An understanding of macroeconomics as it relates to supply and demand and the underlying performance, structure, and behavior of the golf industry creates the essential perspective necessary to craft a strategic plan as part of an operational analysis for which this study was commissioned. In the previous pages, we have examined macroeconomic supply and demand changes, but it is necessary to take a microeconomic perspective regarding demand.

A Closer Look at Actual Demand: Who is the Customer?

The financial health of the business of golf can be measured by many numbers. Three of the most effective are the relationship between the number of golf courses, the number of golfers, and the number of rounds played. Many factors influence those three components.

In order to compute the number of golfers and the number of rounds, we first need to define “golfer.” The National Golf Foundation defines a “golfer” as an individual, age 6 or older, who played at least one round in the past year. “Core golfers” are defined as those adults 18 or older who play between eight and 24 rounds per year. The term “avid golfer” is used for those golfers who play more than 24 rounds per year. Other industry research groups use 12 years or older as the benchmark for what constitutes a golfer. Again, the golf industry’s methods of gathering statistics are not standardized.

Another term that causes much debate is “round.” When you play a “round,” have you played nine or 18 holes? The most common use of the word “round” merely means “a start.” In other words, a golfer teed off on at least one hole. The Prince William County Park Authority has historically reported “18-hole equivalents” as rounds rather than starts. This reporting preference makes the process of comparing Prince William County to other industry benchmarks more complicated.

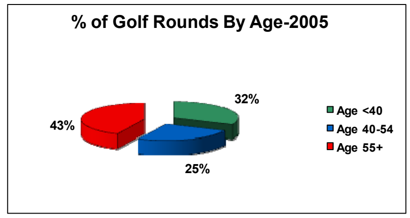
With the term golfer now defined, a further analysis reveals that the game of golf is all of the following:

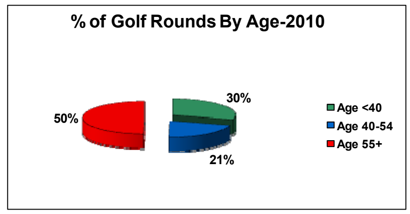
1) Golf is a game of the aging population.
2) Golf is a game of the wealthy.
3) Golf’s growth is constrained by the time-crunched nature of our society.

As has been demonstrated in economic surveys conducted throughout the world, golf thrives in cities where the population is aging. Over 68% of all golf rounds are played by those older than 43 years of age, as reflected below:

Factor 1: Demographic Changes

- Most of the new demand is going to come from golfers over 55
- Over 50% of all golf in the US will be played by golfers over 55 by 2012.
- That is up from 36% in 1986 and 43% in 2005
- This is a very important shift in terms of how to price golf (manage senior discounts)





Data Source: 2007 Pellucid Corp.

Not only is golf a game whose participants are aging, golf is also a game of the wealthy, and the sport is clearly losing its middle-class appeal, as reflected below:

Factor 2: Golf is Expensive

Inc. Group	'00 % Golfers	'00 % HHs	Index	'05 % Golfers	'05 % HHs	Index
Upper Class $75K+	27%	23%	115	49%	34%	144
Middle Class $35-$74.9K	43%	36%	119	35%	35%	100
Working Class <$35K	30%	41%	73	16%	31%	52

Data Source: 2007 Pellucid Corp.

This chart reflects that using a baseline index of 100, the upper class constitutes a greater portion of golf's participants, while the relative frequency of participation by the middle class and the working class is decreasing.

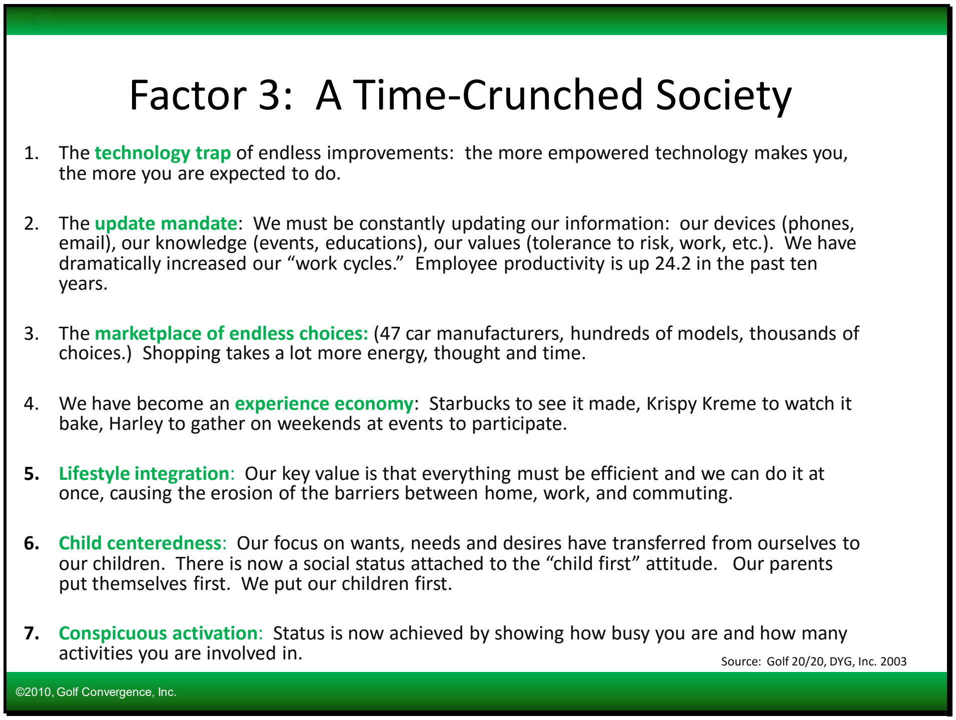
The fact that golf is an elitist game is clearly demonstrated with the statistic that indicates that those with incomes of less than $34,999 play only 3.45 rounds per year, while those with incomes greater than $75,000 play 431% more, or 14.89 rounds per year. Golf is clearly losing its middle-class appeal.

All of this begs the question as to why golf is not more popular among the young, middle, and working classes.

First, the game is difficult to learn, and if you're not very good at it, it isn't a lot of fun. Second, the cost to even begin playing is high—clubs, shoes, golf balls. It's not uncommon to invest at least $500 to more than $3,000 to start.   Third, a round of golf consumes the better part of a day. Fourth, the attitude present in many male-dominated pro shops creates a harsh and unfriendly environment for many women. Finally, many golf course personnel believe that they are "members" of the club, not "workers" at the club.

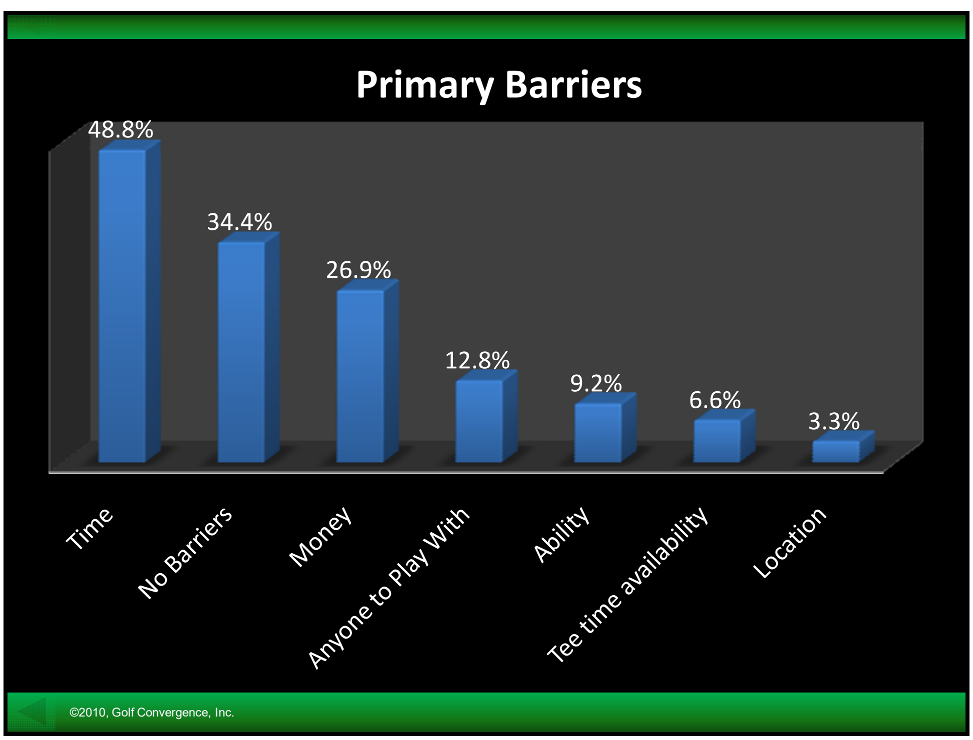
While the demand/supply imbalance bodes poorly for golf, such imbalance masks a more subtle and pervading problem that is retarding the growth of the game. That problem is the significant change in the demographics of how our society functions in the United States. Sociologists track seven major categories to determine the nature of a society, some of which are technology (i.e., medicine, computers), social trends (reduced social conformity), and demographics (i.e. baby boomers and Gen X).

Within the seven categories, when three or more become altered significantly, society changes. That is what has occurred during the past seven years. Labeled the "time crunch," societal changes include the following:



The time crunch, in which 50% of all families are divorced and 80% of existing families have dual wage earners, has completely redefined the concept of leisure. c

In a survey conducted for the Prince William County Park Authority, we asked, "What are the primary barriers to playing golf?" The survey response is below:



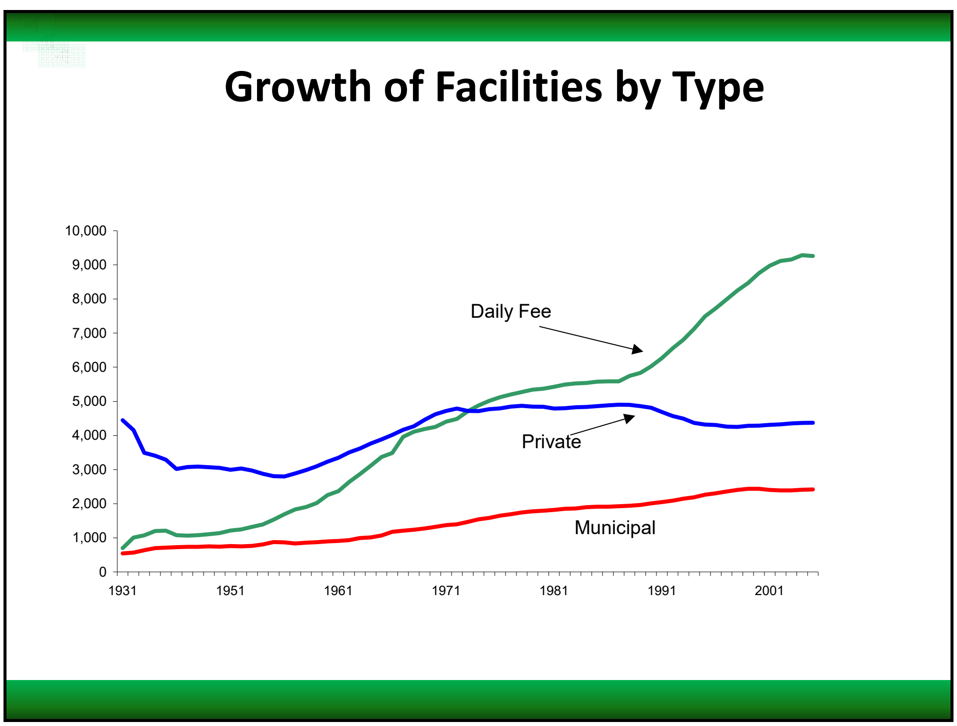
The survey results for Prince William County golfers are not encouraging. Those who might like to play more, find time the constraint. The "no barrier to play" result indicates the demand for golf is at capacity. The survey for the Park Authority also confirmed that the individuals who utilize the golf courses mirror the national demographic trends regarding age and household income.

The factors of golf's lessening popularity, and changes within our societal framework have created the downward golf spiral that the Prince William County Park Authority's golf courses are experiencing.   This downward spiral has been accentuated for the Prince William County Park Authority because General's Ridge requires a massive renovation and Prince William (particularly its "condemned" clubhouse) have become dated, and the golf experience at these facilities is substandard for the price charged when compared to other public alternatives.

The Role of Government in Golf

Golf started in North America in the late 1880's. Access was largely through private country clubs.

Because of the origins of the game within America as private club-based, municipalities filled the void for the public by building golf courses as a part of their parks and recreation programs. The need for municipalities to continue to operate golf courses has been largely eliminated by the evolution of daily fee golf courses – those open to the public via private enterprise—which became a significant factor starting in the 1960's, as illustrated below:



The current debate: Is providing golf to citizens an essential function of government?

The role of government is to provide those essential services to a society that could not otherwise be provided efficiently or effectively by private enterprise. Hence, police, fire, water, sanitation, and highways are usually within the bailiwick of government. But if a need of the citizens is adequately met by private enterprise, should the government provide that service if it is not essential to the health and welfare of its citizens?

It is the finding of this report, as presented later in detail in Step 1, Geographic Local Market Analysis, that supply from private enterprise and other municipal entities nearly meets the needs of the citizens of the Prince William County Park Authority for golf as a recreational sport.

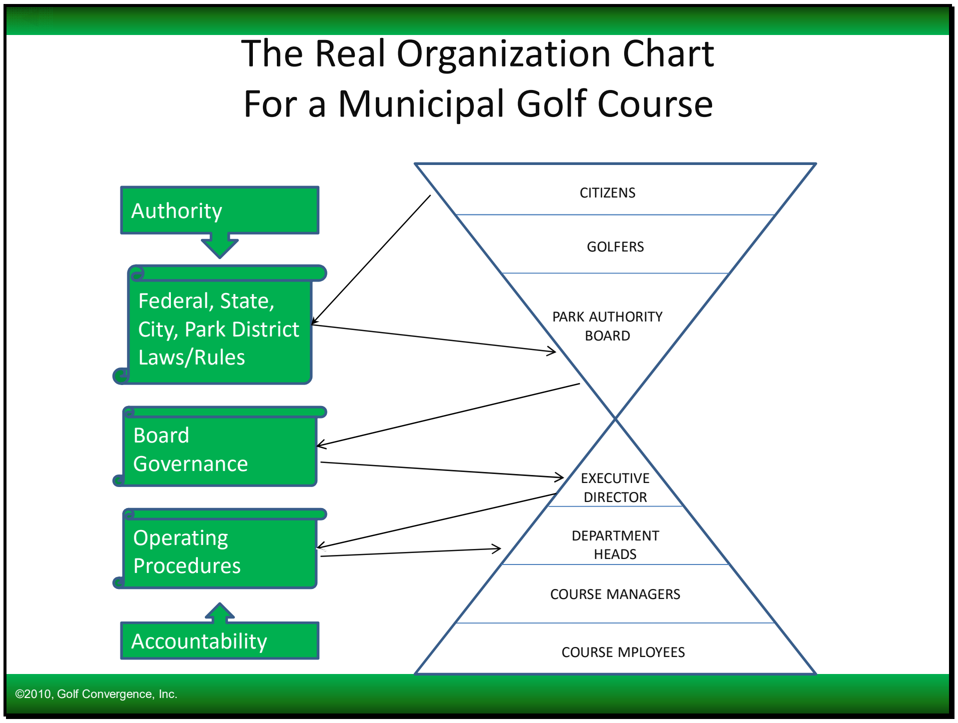
The Organizational Chart of Municipal Golf

Municipal golf courses serve various constituencies, including: Prince William County Board of Supervisors, the Park Authority Board, Management/Staff, Golfers and ultimately, Residents who support the courses with their taxes.

The mission statement of a municipal golf course can range from generating the largest possible return on investment, merely creating a value-based recreational opportunity, or alternatively, catering to the perceived needs of niche groups. Some golf courses also emphasize the value of teaching core values to young golfers.

The national brand image of municipal golf courses often gets a bad rap. Viewed as the entry door to the game, facilities often are downtrodden and degrading. Such is not the case in the Prince William County Park Authority, where, in the aggregate, management and staff are dedicated, hardworking, and passionate about creating value for their constituency. But decision making in response to the uncontrollable factors reported, as well as the lack of resources, often impairs their ability to execute.

With that considered, the real organization chart for a municipal golf course is as follows:



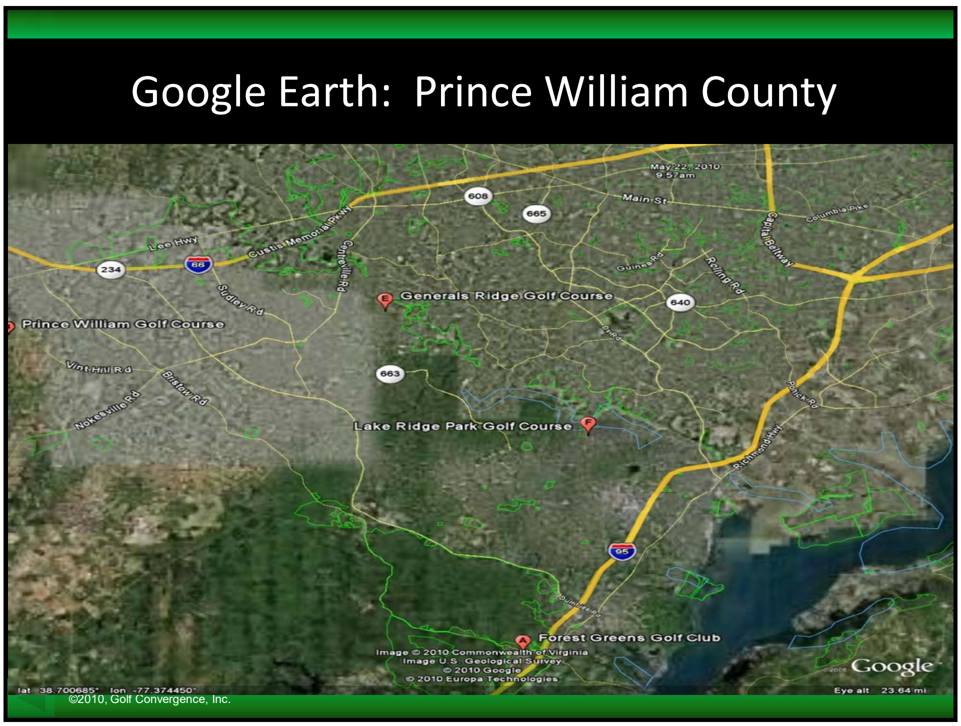
With this understanding of the macroeconomic factors prevalent in our nation, the microeconomic influences affecting the local golf courses, and the current political, economic, and financial environment observed in Prince William County, this much is clear—the Recreation Services Division, if it is to provide golf, must do so in a way that ensures that the golf courses are financially self-sustaining and free from general fund support.

The Client: An Overview

The Prince William County Park Authority

Prince William County is third most populous local jurisdiction in the Commonwealth of Virginia, and is part of the Washington Metropolitan Area. Its county seat is the independent city of Manassas. It is the third most populous local jurisdiction in Virginia, with an estimated population of 394,370, a median household income of $65,960 and a median age of 32[12].

The County is encompasses 348 square miles, including 11 square miles of water, as pictured below:



Prince William County was created by an act of the General Assembly of the colony of Virginia in 1731. Prince William County government operates under the County Executive form of government. The County Executive is appointed by the Board of County Supervisors, and acts as the chief administrative officer, overseeing the County government on a day-to-day basis. The eight-member Board is elected by the residents of Prince William County and is the policy-making body for the County government.[13]

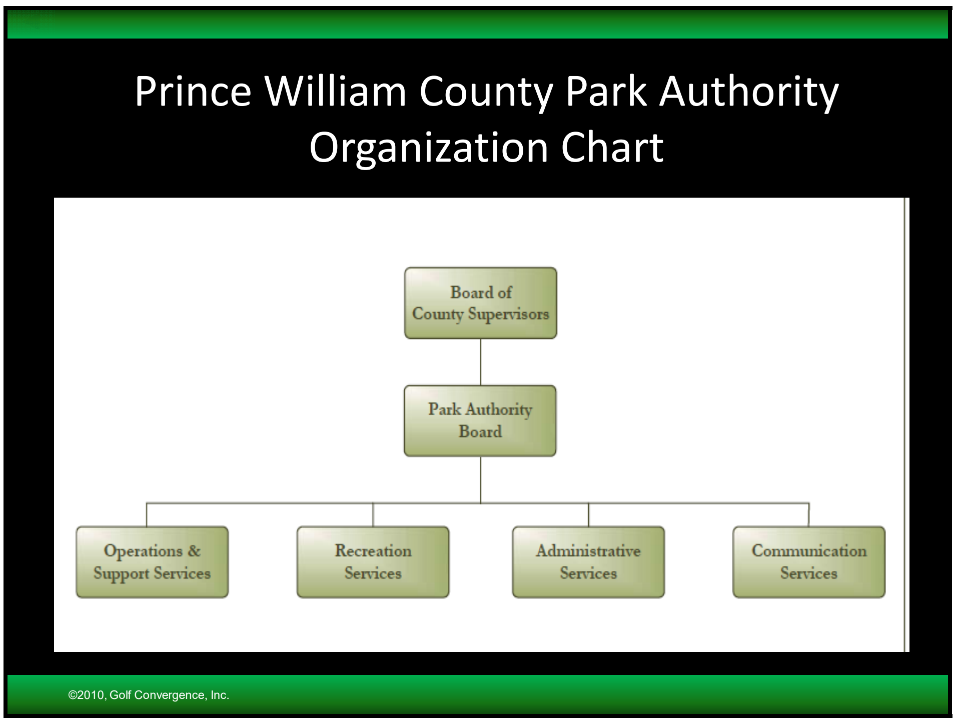
---

[12] http://en.wikipedia.org/wiki/Prince_William_County,_Virginia
[13] http://www.pwcgov.org/default.aspx?topic=040050

Through his staff, the County Executive implements policies established by the council. As of June 30, 2010, the Prince William County fund balance was $458,848 million. The FY 2010 adopted budget was $1.540 billion, with expenditures exceeding revenues by $74 million.[14] Real property taxes (at 55.8%) comprise the largest component of revenue.

Park Authority

The Prince William County Park Authority, founded in 1977 by the Board of Supervisors, provides the residents and visitors with top-quality recreational programs, parks and facilities. The Park Authority is an autonomous organization governed by an eight-member board appointed by the Board of County Supervisors[15].



The Park Authority's $29.428 million budget is funded by a $15,101 million tax transfer and revenue from producing facilities of $14,327.[16]

Assets Managed

The Golf Department generates $3.101 million of that revenue from the operation of four golf courses:

---

[14] http://www.pwcgov.org/docLibrary/PDF/10350.pdf
[15] http://www.pwcgov.org/docLibrary/PDF/10433.pdf
[16] http://www.pwcparks.org/AboutUs/tabid/57/Default.aspx

Course	Par	Course Rating	Slope Rating	Yardage	Management Oversight
Forest Greens	72	71.8	140	6,790	Golf Department
General's Ridge	72	72.5	143	6,651	Golf Department
Lake Ridge	27	N/A	N/A	N/A	Recreation Services
Prince William	70	72.1	125	6,635	Golf Department

To provide a frame of reference, there are basically four types of golf courses: municipal (including military and corporate golf courses), daily fee, private clubs, and resorts.

Municipal golf courses can be operated with a "general fund" or an "enterprise fund," also known as a "special fund." The enterprise fund, used by a slight majority of facilities in North America, is accounted for as a separate economic entity in which profits and losses are separately measured but which ultimately can receive financial support from the "general fund" when circumstances turn dire. As such, an enterprise fund can and should operate independent of Park Authority departmental influence.

Currently, the Park Authority's golf courses are accounted for as an integral component of the Recreation Services Division and are not managed autonomously.

The scope of this operational review was limited to Forest Greens, General's Ridge and Prince William.

The Strategic Planning Pyramid

Undertaking the eight-step Golf Convergence WIN™ formula requires an extensive analysis of the golf courses, including all of the following elements:

Service-Level Target

In crafting a strategic plan, the selection of the vision and mission of the golf course is determined by many factors, including financial assets, personnel resources, and the market demand for a specific product.

Golf courses and their associated service standards can be classified as follows: “platinum, gold, silver, bronze, and steel,” as reflected in the chart below:

Definition of Market Segments

	Platinum	Gold	Silver	Bronze	Steel
Vision	Rolls Royce	BMW	Volvo	Chevrolet	Hyundai
Examples	Pine Valley, NJ Seminole, FL	Cherry Hills, CO American Club, WI	TPC Clubs Bandon Dunes, OR	Lakewood, CO Bethpage, NY	Brookhaven, TX City Park, Anywhere
Cost	Over $350 per round	$200 to $500 per round	$100 to $250 per round	$60 to $125 per round	$75 or less
Carts	Caddies Mostly	Caddies + Electric Carts	Caddies Rare: Electric Carts plus Pull Carts	Electric or Gas Carts plus Pull Carts	Gas Carts plus Pull Carts
Access	By Invitation	Waiting List	Available	Seeking	Open Access
Style	Formal	Professional	Relaxed	Very Casual	Loose
Social Status	Generational Wealth	Upper Class	Upper Middle Class	Middle Class	Anyone
Championships	USGA/PGA	USGA/PGA	USGA/ PGA State Golf Assoc.	State Golf Associations	None

Other factors that determine the appropriate service level include gender/ethnicity, dress standards, whether carts are required, smoking regulations, tipping and gift policies, and other activities offered.

Why is this relevant for the Prince William County Park Authority?

The resources invested determine the experience created. The experience delivered defines the price that can be charged. The price charged ultimately determines the investment return. Presented below is an analysis of the Prince William County golf course assets, based on the evaluation of more than 3,000 public golf courses in North America[17]:

[17] PGA PerformanceTrak, "2009 Operating Profiles"

Public Club – Asset Base

	Platinum Top 10%	Gold Top 25%	Silver Median	Bronze 3rd Quintile	Steel - Bottom 25%
Rounds Played	30,000	35,000	40,000	45,000	Over 50,000
Full Time Employees	> 40	>20	> 10	> 5	< 5
Total Revenues	> $3.5 million	> $2 million	>$1.5 million	> $1 million	< $1 million
Green Fes, Guest, Cart, Trail	> $1.8 million	> $1.0 million	$750,000	>$500,000	< $500,000
Merchandise	> $300,000	$200,000	$100,000	> $75,000	< $75,000
Maintenance	> $800,000	> $700,000	> $500,000	> $400,000	< $400,000
Annual Renovation	> $800,000	> $700,000	> $85,000	> $50,000	< $50,000
EBITDA	> 1,200,000	> $600,000	> $400,000	> $200,000	< $200,000

This chart illustrates the following points:

1) Based on gross revenues, the Golf Department's golf courses would be deemed to be:

	Currently	Potential
Forest Greens	Bronze	Silver
General's Ridge	Steel	Bronze
Prince William	Steel	Steel

2) There is a great inconsistency in the classifications between the rounds played, the gross revenue of the associated courses, maintenance budgets, and the EBITDA achieved.

There is a breach between the expectations of management, the assets (as measured by gross revenue plus capital), and the customer experience that ultimately determines value that leads to customer loyalty or customer attrition.

What has caused this gap?

In the case of Forest Greens, the potential of the golf course exceeds $2.0 million in annual revenue, but discounting is prevalent, as previously mentioned.

General's Ridge, maybe one of the most difficult municipal golf course in America because of its extreme green complexes, naturally maintained forests, and undulating fairway slopes, can become enjoyable entertainment—not a punishing experience. For it to thrive, the options are to either sell it or to undertake a massive renovation which comes with extreme risks, as described below:

1) Making significant capital investments in an operating lease in which no meaningful residual equity exists is a financial gamble. The nexus of such a decision is based on the perceived ROI likely less the investment; as opposed to the assured significant losses should the status quo prevail.

2) The brand image of the golf course, after 14 years of operation, is so tarnished that a quick reversal is unlikely without dramatic and expensive changes.

3) The golf course, because of its constrained routing and topography, is likely to appeal, even if renovated fully, only to the accomplished and skilled player. This, of course, limits its total revenue potential. The bright side is that the revenue per round of such courses is vastly higher than the diminutive yield now achieved at General's Ridge.

It should be noted that the recommended renovations include the following:

Priority	Task	Magnitude	Cost	Total
1	Master Plan			20,000
2	Design			60,000
3	Construction Engineering and Field Work			100,000
4	Fairway regrading	20,000 cubic yards	$4 per cubic yard	80,000
5	Grassing new fairway			100,000
6	Tree removal within 20 yards of fairway	30 acres	$10,000 per acre	300,000
7	Irrigation for new fairways and green recontouring			350,000
8	Greens	110,000 square feet	$8 per square foot	880,000
9	Bunkers/Drainage			350,000
10	4th Hole			300,000
11	12th hole			300,000
12	Cart paths: asphalt			200,000
13	Clubhouse			1,000,000
				4,040,000
	Contingency		15%	606,000
	Estimated Cost of Renovation			**4,646,000**

Regarding Prince William, it is clearly a "diamond in the rough." A new clubhouse and improvements in maintenance should see revenues soar, as the underlying course layout is very competitive.

The 2010 – 2013 Strategic Plan

After conducting an operational analysis, the product of which is a strategic recommendation for a client, a plan can be constructed based on numerous factors, including political considerations, financial resources, organizational cultural, and history and tradition.

In this engagement, the following questions were posed to members of Park Authority Board, Executive Director, Recreation Services Division Management and Staff to better understand the scope within which politically viable and financially beneficial solutions could be crafted.

1) **Does the Prince William County Park Authority want to continue to provide golf at the current levels of supply to its citizens**? Yes.

2) **Can any of the Park Authority Golf Courses be sold**? No. Forest Greens and Prince William are governed by land, water and conversation easements. General's Ridge is hampered by an operating lease in which the equity for the course is retained by the City of Manassas Park.

3) **Is Prince William County willing to increase property taxes to fund necessary improvements?** No.

4) **Is the Prince William County willing to increase the general fund transfer to fund the necessary improvements?** No.

5) **Is the Prince William County Park Authority willing to make any substantive changes to its business practices in 2010?** Perhaps.

6) **Is the Park Authority governed by 1999 Revenue Bond IRS restrictions governing the management of the golf courses?** Perhaps

7) **Is the Park Authority willing to invest in the golf courses beyond ordinary repairs and maintenance?** No**.** For the past decade, only mandatory capital expenses have been made, when necessary.

8) **Can the wage scale be renegotiated to provide wage concessions?** Perhaps, current wages are defined and largely unchangeable. It may be possible to establish a 501C4 that would provide more flexible salary arrangements.

9) **Does private management (third-party) deem the Park Authority's golf courses sufficiently attractive to invest capital and assume the financial risk of operation?** Yes.

Thus, the role of this engagement became focused on determining what is the best strategic vision for the golf courses that will minimize the capital investment required and maximize the operational income derived, subject to the limitations defined above.

The essential question addressed was: "Can the current organizational structure manage the facilities in such a way as to maximize revenue, increase operational efficiency, and enhance customer service, or is there an alternative form of management available that will reduce the Park Authority's investment risk while maximizing the customer experience to the citizens?

Strategic Analysis

Step 1: Geographic Local Market Analysis

Supply trends are positive

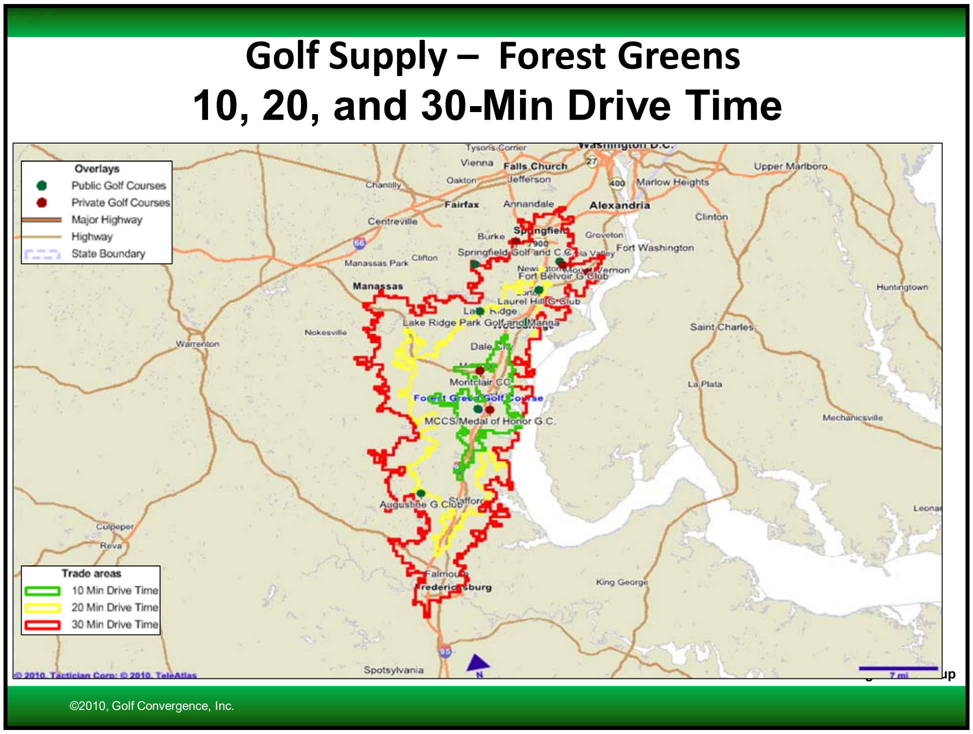
For this business plan, we conducted intensive research of the demographic trends, the local golfer base, supply levels, mix, current supply/demand balance, and the impact of historical supply dilution. This analysis is undertaken because, in conducting strategic analysis for over 200 golf courses, certain characteristics, as highlighted below, are predictable:

Just the Facts: Industry	
90% Rounds	30 Minutes
12% golfers	60% revenue
Distinct Customers	4,000: 4 to 7
Barrier	Time
Defectors	50%
Game	Caucasian, Rich, Old

Ninety percent of all golf rounds originate from customers who live or work within 30 minutes of the golf course. Twelve percent of those customers generate 60% of the course's revenue. Those golfers play 4 to 7 different course, and each course serves a median of 4,000 different customers who cite time as the biggest barrier to more frequent play, as confirmed again in the Prince William County survey. We know that 50% of the customers who play at a facility in a given year, will not return the next. Furthermore, we know that the game of golf largely attracts Caucasians, who are rich and older than the general population.

Thus, in determining the competitive forces surrounding the Park Authority's facilities, golf courses that are located within a 10/20/30-minute drive from Prince William

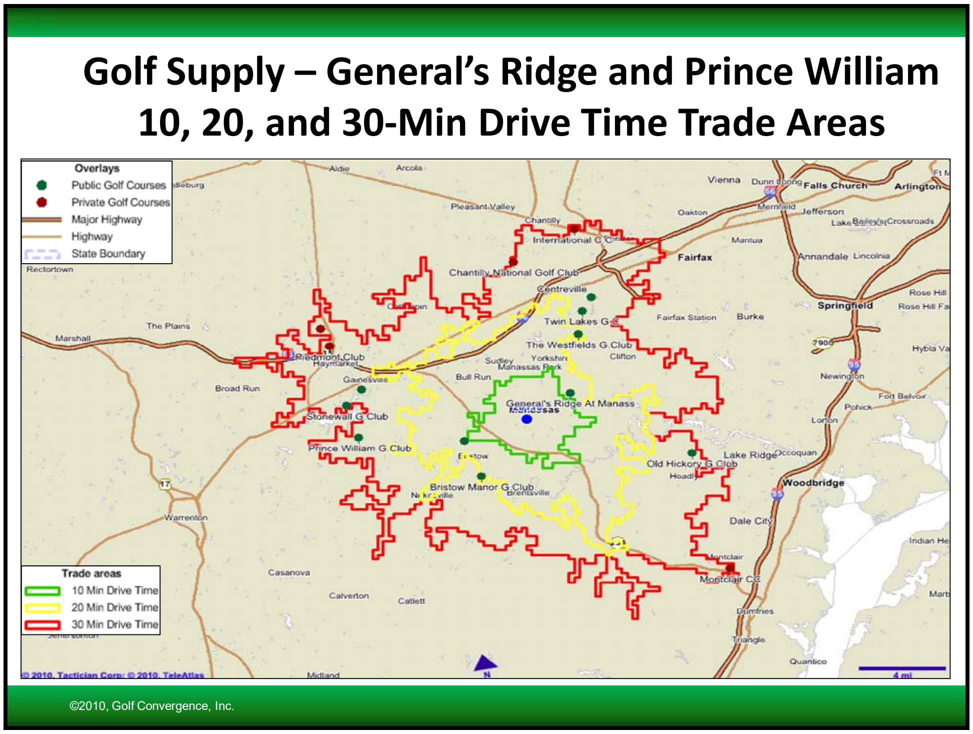
County’s courses were evaluated. The competitive map, which is presented to determine the market potential of the golf course, is reflected below for Forest Greens.



Note: Data sources for this analysis included: Tacticians licensed annual consumer survey (2007), state-level facts on participation and frequency, National Golf Foundation database of 16,000 US golf facilities (not including stand-alone driving ranges), licensed U.S. Census data, 2000 actual, 2008 estimate and 2013 projections.

Because Forest Greens and Prince William are 27 miles apart, it was necessary to examine Forest Greens, General’s Ridge, and Prince William demographics independently.

As can be seen from the drive time map for General’s Ridge and Prince William, those courses serve an entirely different customer base. This fact underscores the fact that there is some inherent inefficiency in marketing the three golf courses together and/or creating multiple course unlimited passes. While golfers may play each of these courses, it is likely that the Prince William customer will play Forest Greens only rarely, and vice versa.



When considering price, quality, proximity, and accessibility to Prince William County Park Authority, golfers have many viable alternative courses to play. However, proximity from work/home to the golf course is a determining factor in measuring the viability of a golf course and its tendency to prosper. A detailed list of these courses is presented in Appendix 1A for Forest Greens by address, zip code, and classification as to type of course and in Appendix 1B for General's Ridge and Prince William.

Presented below is a summary of the supply/demand factors found within the Prince William County Park Authority:

Supply Mix

Category	Forest Greens	General's Ridge /Prince William	Virginia	US
Private/Public Mix	42% / 58%	39% / 61%	38% / 62%	28% / 72%
Premium/Value Mix %	50% / 50%	64% / 36%	30% / 70%	25% / 75%
Premium >$71 %	29%	64%	26%	9%
Value $40-$70 %	29%	36%	61%	28%
Price <$40 %	42%	36%	75%	63%

Source: Longitudes Group

This chart reflects that the market for golf in the Prince William County Park Authority is oriented toward higher-priced facilities, thereby creating an opportunity for the Prince William County Park Authority to provide a value-based product with rate integrity to bolster revenue. There is an ample supply of premium golf courses in Prince William County. However, the market is prone to discounting, in which the premium golf courses have the flexibility to create a great golf experience for only a slightly higher fee. The overall point is that golf in this area is *highly* competitive.

Population Demographics – Age, Income, and Ethnicity Are Neutral

To understand the potential growth opportunities for golf within a market, a study of the age, income, and ethnicity of the population within a 30-minute drive time is essential. Presented below are those statistics for Prince William County Recreation Services Division:

Market Share Analysis

Category	Forest Greens	General's Ridge Prince William	Virginia	US
Golf Participation	10%	9%	10%	11%
Avid Household Index	105	91	99	100
Age Index	89	94	96	100
Income Index	160	94	101	100
Ethnicity Index	74	80	83	100

Source: Longitudes Group

The chart reflects that golfer demographics are slightly unfavorable in the Prince William County market.

For Forest Greens the median age is young, and the population is ethnically diverse—neither of these populations is supportive of golf.

These negative factors are mitigated by tremendous household income.

For General's Ridge and Prince William, all three benchmarks of age, income and ethnicity are slightly unfavorable. As previously discussed, golf attracts an older, wealthy, and Caucasian consumer.

Net Result – Demand Exceeds Supply

When calculating the supply of golf courses in the Prince William County Park Authority market with the demand for golf when considering the local demographics, the result is a golf intensity index. This index indicates that the market is undersupplied, as shown in the chart below:

Golf Intensity Index

Category	Forest Greens	General Ridge And Prince William	Virginia	National Index
Golf Intensity Index	152	128	124	166
Private Golf Intensity Index	90	93	97	100
Public Golf Intensity Index	213	153	140	100

Source: Longitudes Group

Note: The Intensity indexes are a calculation made by Longitudes Group which contrast demand for golf as measured by age, income, population and ethnicity against the supply of golf courses within a 30 minute drive time.

In summary, demand exceeds supply. The average age is very young due to of the strong military/government presence, household income is “competitive,” and the ethnicity is diverse (not a surprise after witnessing the Asian influence at the Prince William County courses).

The conclusion is that the Prince William County market is vibrant, in contrast to the rest of the United States. The Golf Intensity Index indicates that Prince William County is well situated to offer enjoyable, value-based entertainment to golfers while keeping its golf operations financially self-sustaining.

Step 2: Weather Impact Analysis (WIA)

A key measure in determining if the revenue potential of a golf course is being realized is correlating the number of playable golf days to revenue. Measuring numerous variances, including Season Days, Golf Playable Hours, Equivalent Golf Playable Days, and Corporation Rounds in total, allows us to measure the efficiency of management in maximizing the course’s potential.

The chart below has been prepared for the Prince William County Park Authority:

Golf playable days during the past decade averaged only 219 playable days per year.

The second step in determining whether the utilization of the golf course is industry-appropriate is to determine course capacity, based on the number of playable days the golf course could have achieved.

Presented below is

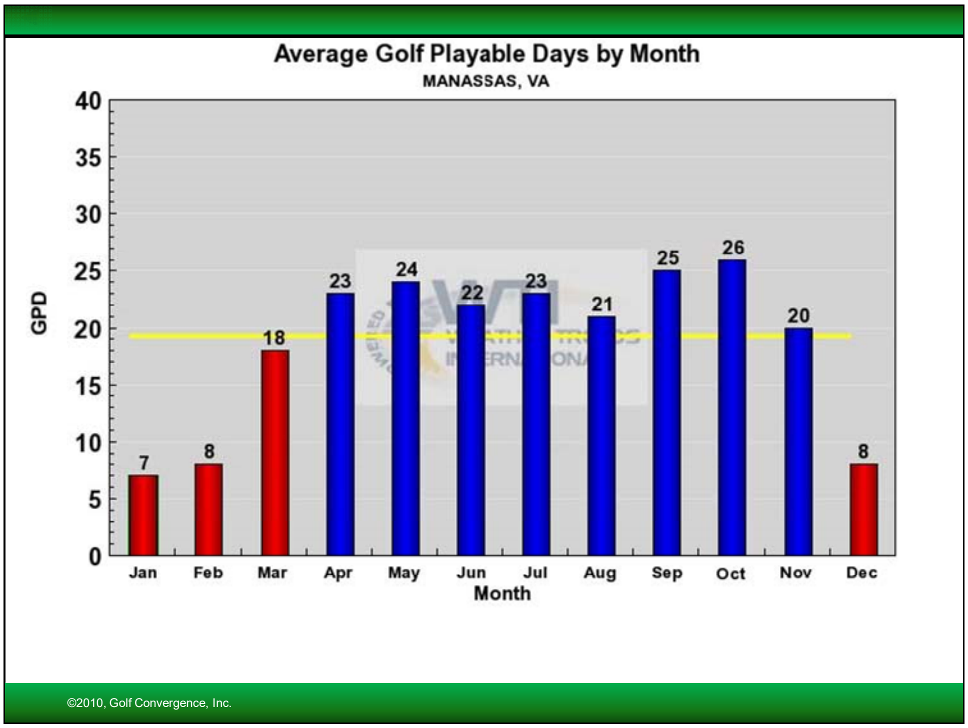
Courses	2009 Starts	Capacity	Utilization
Forest Greens	28,117	60,444	46.5%
General's Ridge	19,523	60,444	32.3%
Price William	29,389	60,444	48.6%
Total	77,029	181,332	42.8%

Note 1: Capacity was calculated based on the number of playable days/yr times 276 rounds per day representing 10-minute tee time intervals for the average 11½ hours of daylight during which a start might be recorded.

Note 2: Prince William County utilizes 18-hole equivalents rather than starts, as benchmarks, contrary to golf industry practice.

The rounds potential in 2009 was 181,322 rounds. Considering that the Recreation Services Division's actual annual rounds-played statistic is 109,151, the actual course utilization of 42.8% is below the national course utilization rate of 52%.

A second question that was analyzed, based on the low utilization of the courses, was if all three courses should remain open. Frankly, the answer to that question is subject to debate, since the fixed costs for each facility, particularly in wages, exceed $20,000 monthly. It is our opinion that a strong case can be made to close one course (probably General's Ridge) from December 1 to February 28; there have only been 7 or 8 playable days per month during those dates for the past decade, as reflected below.



The winter of 2010 (although an anomaly), when snow was on the ground for more than 40 consecutive days, certainly supports that position. Personnel vacations could be scheduled when the course is closed.

Tactical Analysis

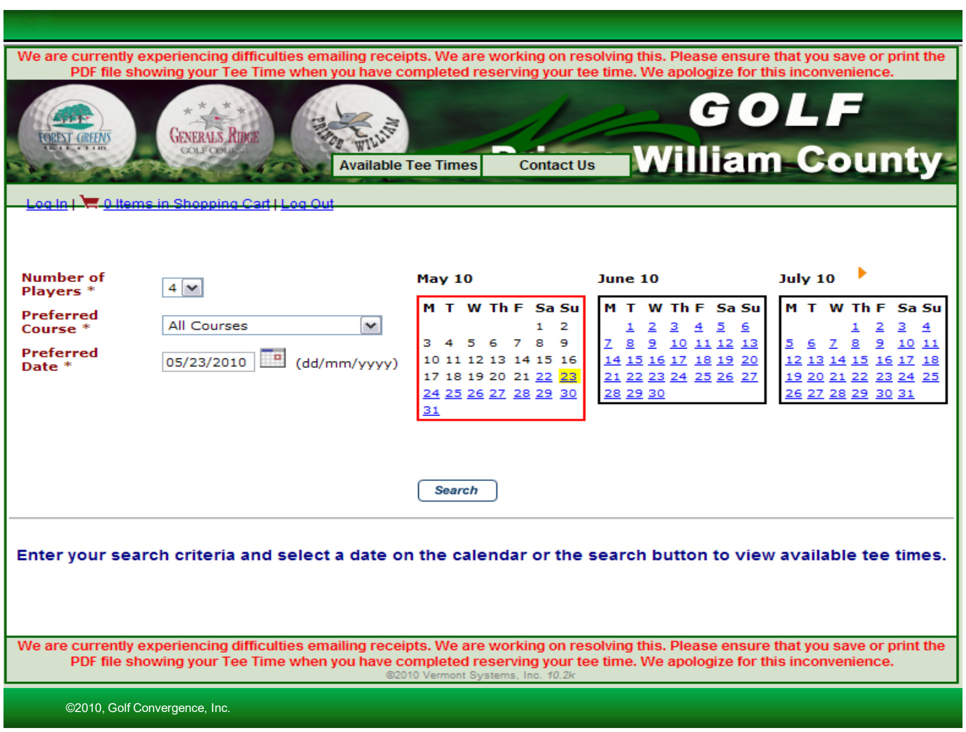
Step 3: Information Systems Technology

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

Thus, we reviewed the use of technology by analyzing the Golf Department's internet use, the integration of tee time reservations with the POS, and the deployment of email-based communication.

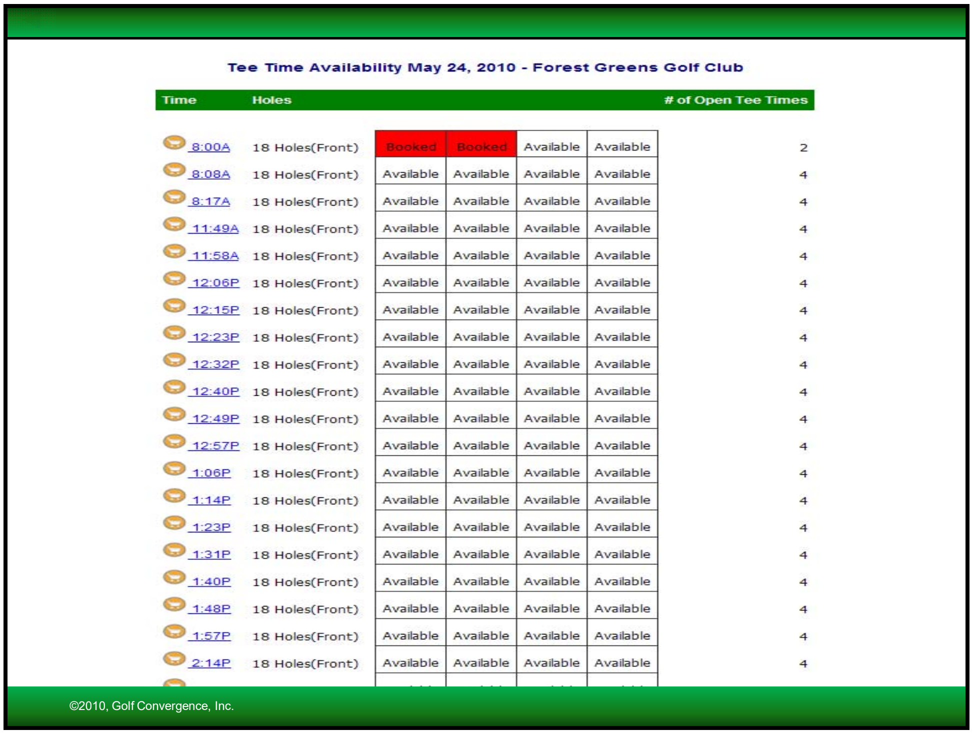
Currently, Vermont Systems GolfTrac system is used at the three golf courses. The system provides for the integration of the tee time reservation system, which also features online Internet reservations with the POS systems. The system's software architecture meets the criteria required to properly manage the golf courses.

It should be noted that the online system was installed (replacing teetimes.com) in April 2010, and it still has some "bugs" that need to be resolved as shown below:



The online system is easy to use, but these are two recommendations to improve its effectiveness:

1) Tee times booked are shown. For example, on May 23, 2010 at 3:55 p.m., the following tee times were displayed for the next day:



Tee Time Availability May 24, 2010 - Forest Greens Golf Club

Time	Holes					# of Open Tee Times
8:00A	18 Holes(Front)	Booked	Booked	Available	Available	2
8:08A	18 Holes(Front)	Available	Available	Available	Available	4
8:17A	18 Holes(Front)	Available	Available	Available	Available	4
11:49A	18 Holes(Front)	Available	Available	Available	Available	4
11:58A	18 Holes(Front)	Available	Available	Available	Available	4
12:06P	18 Holes(Front)	Available	Available	Available	Available	4
12:15P	18 Holes(Front)	Available	Available	Available	Available	4
12:23P	18 Holes(Front)	Available	Available	Available	Available	4
12:32P	18 Holes(Front)	Available	Available	Available	Available	4
12:40P	18 Holes(Front)	Available	Available	Available	Available	4
12:49P	18 Holes(Front)	Available	Available	Available	Available	4
12:57P	18 Holes(Front)	Available	Available	Available	Available	4
1:06P	18 Holes(Front)	Available	Available	Available	Available	4
1:14P	18 Holes(Front)	Available	Available	Available	Available	4
1:23P	18 Holes(Front)	Available	Available	Available	Available	4
1:31P	18 Holes(Front)	Available	Available	Available	Available	4
1:40P	18 Holes(Front)	Available	Available	Available	Available	4
1:48P	18 Holes(Front)	Available	Available	Available	Available	4
1:57P	18 Holes(Front)	Available	Available	Available	Available	4
2:14P	18 Holes(Front)	Available	Available	Available	Available	4

Forest Greens' competitors will often review another golf course's available tee times to determine if they should provide discounts to increase their demand.

The "best practice" method is to have the golfer request a specific time and to only display the two tee times that best match that request.

2) Advanced tee time access is provided to "premium registered users," such as season pass holders. In some cases, advanced tee time access is provided to residents but not to non-residents, especially when advance tee time reservation access is purchased. For example, Monmouth, Morris and Westchester County all earn in excess of $250,000 for selling such a privilege.

Equal access to tee time reservations should be given to all golfers who secure a tee time by a credit card, in case of no-shows, but is only charged upon the arrival of the golfers at the course.

It is counterintuitive to provide unlimited season pass holders priority access to prime tee times that have the potential to provide the highest yield.

Unlimited-play passes are designed to reward frequency of play and are paid for with an advance cash deposit; this has the effect of protecting the highest yielding tee times

3) The Web site as designed requires additional review to improve navigation (if you select one course, the link to return to the home page is below the fold and difficult to find), and competitors are being permitted to advertise on the Park Authority site via Google AdWords, as shown below:

Beyond the challenges noted with the Web site, the Vermont System currently in use doesn't provide for the capture of all the information needed to effectively manage a golf course. We noted the following deficiencies:

- Monthly financial reports are not prepared in accordance with generally accepted accounting principles for golf courses.
- No effective marketing programs are being conducted, because there is no central database of acquired, core, and defector golfers.
- Nearly all 15 key financial reports by which to properly manage the facility are not available to golf course personnel, as summarized below:

15 Key Management Reports

Customer Analysis				
Customer Distribution	Yes		No	✓
Customer Demographics (Via Survey)	Yes		No	✓
Customer Retention	Yes		No	✓
Customer Spending By Class (Via VSI)	Yes	✓	No	
Customer Spending By Individual	Yes		No	✓
Zip Code Analysis	Yes	✓	No	
Facility Analysis				
Merchandise Sales By Vendor (Via Acct.)	Yes	✓	No	
Reservations By Booking Method	Yes		No	✓
Reservations By Day Of Week (Via VSI)	Yes	✓	No	
Revenue Benchmarks	Yes		No	✓
Revenue Per Available Tee Time (Via Acct.)	Yes	✓	No	
Revenue Per Department (Via Acct.)	Yes	✓	No	
Revenue Per Hour (Via VSI)	Yes	✓	No	
Round Per Revenue Margins	Yes		No	✓
Utilization	Yes		No	✓

These reports provide the financial benchmarks necessary to maximize the investment return of a golf course. They provide precise insights on the key performance indicators for a golf course, including customer demographics, spending patterns, frequency of play, revenue per tee time, and course utilization. Lacking such information, the adjustment of rates, the efficacy of email programs, and the astute financial management of a golf course is pure guesswork.

Information Systems Technology Recommendations

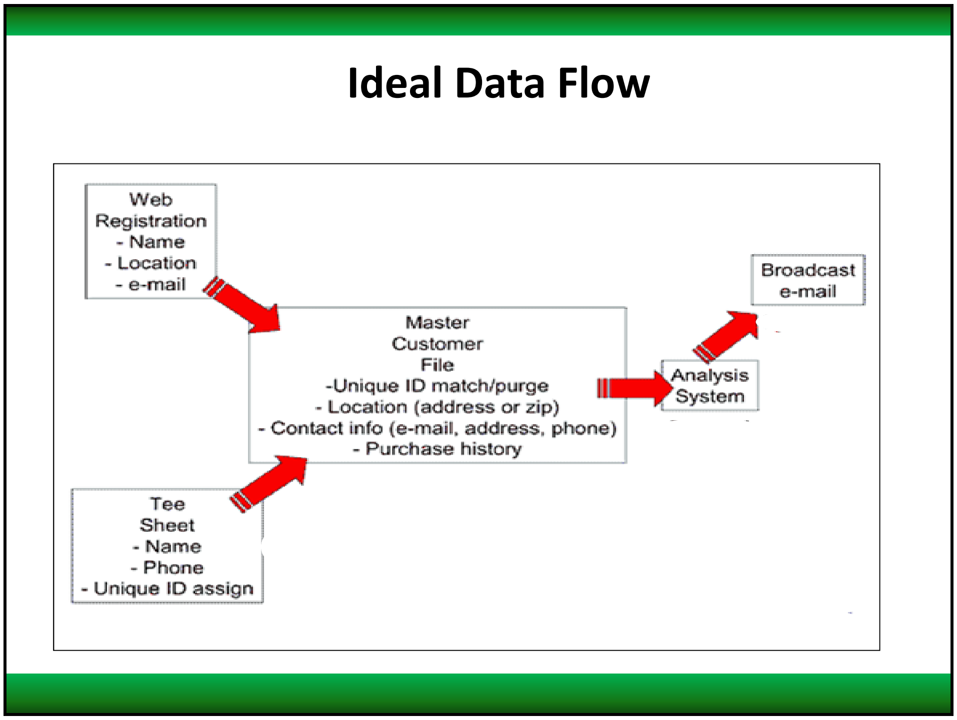
This report advocates that the current integrated golf management system be fine-tuned to ensure that a central database repository is created to enhance email market capabilities. The capability to do such at the current time is limited as we measured 17-second latency when switching from one day to another on a tee time sheet to book a reservation. Golf course personnel will not use the system properly unless the screens are refreshed within three seconds.

What is the rationale for this recommendation? The formula to profitably operate the course is simple and consists of the following steps:

- Create a customer database.
- Integrate the Tee-Time Reservation System with POS.
- Issue identification cards and/or 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 Web site.
- Develop a consolidated reporting system, and monitor the 15 key management reports.

As noted in the list above, the Golf Department is still a long way from ideal in its utilization of technology. The ideal system will have the following components:



An online registration system that is integrated into the POS system can identify specific golfer interests, such as last-minute tee times, tournaments, etc.

The Recreation Services Division will also be able to engage in Customer Franchise Analysis to identify retained customers, defectors, and new acquisitions. Targeted messages to appropriate golfer segments can be automatically created and delivered monthly. Note: as a general rule of thumb, a course should only blast to its entire list of golfers two or three times per month.

The correct deployment of technology will yield the following benefits:

- Maximize Revenue
  - ✓ Web-based marketing presence
  - ✓ Reservation cards sold for premium access
  - ✓ Dynamic yield management
  - ✓ Create distinct Prince William County Park Authority brand

- Increase Operational Efficiency
  - ✓ Better internal control
  - ✓ Timely and more meaningful reporting
  - ✓ Elimination of repetitive tasks by staff

- Enhance Customer Service
  - ✓ 24-hour access to tee-time reservations
  - ✓ Email communication of promotions, tournaments, updates
  - ✓ Sell prepaid gift cards online

Pursuant to this golf course analysis, a financial proposal was received from other leading golf management software providers. Because the Vermont System is utilized throughout for all activities with the Park Authority, it is not recommended that the system be changed at the current time. However, should the recommendation to create an autonomous Golf Department be adopted, consideration should be given to the more robust integrated golf management systems available. Leading vendors for a multiple course environment include Club Prophet, EZ Links and IBS. .

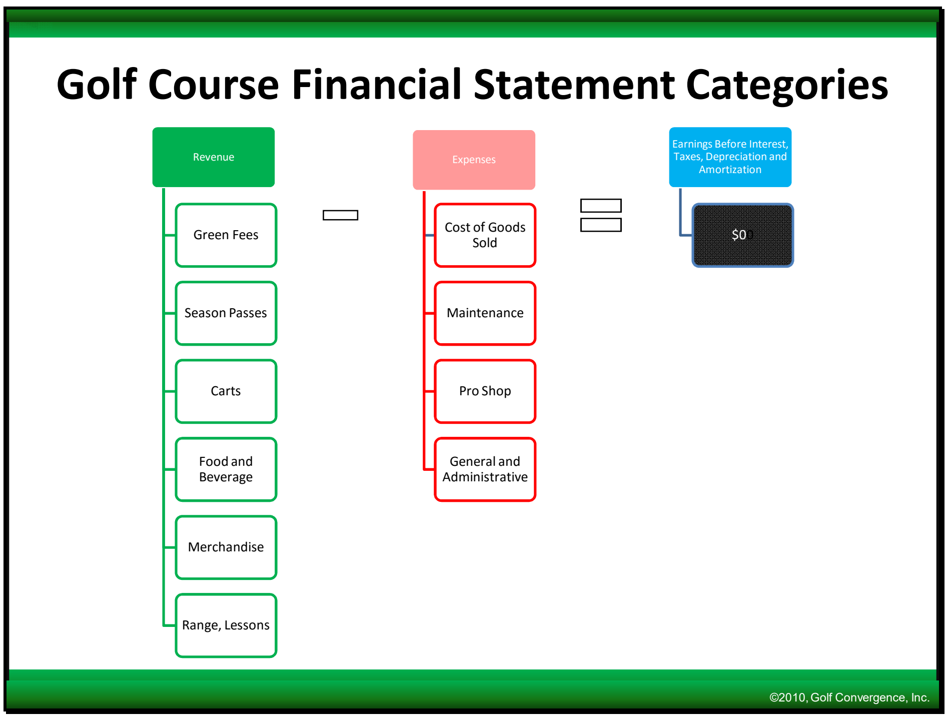
In conclusion, the proper use of technology is to create a management and marketing advantage. The creation of a unique selling proposition (such as affordability) that is communicated to the existing customer base will boost revenues. This can only be done effectively if technology is properly installed and utilized.

Step 4: Financial Metrics

The foundation of a business is its financial statements. For management and staff, being able to plan, execute, and forecast accurate and meaningful financial information is imperative.

The financial statements prepared for Prince William County Park Authority are based on accounting principles consistent with Park Authority policies, but they differ from generally accepted accounting principles used by successful golf courses.

The financial statements for a golf course are usually organized as follows:



In contrast, presented below are the financial statements and projections for the Golf Department. These projects reflect, after debt service, a requirement of general fund subsidy exceeding $400,000 per year. As will be documented in Step 5, the sinking fund should have a balance that exceeds $4 million. Thus, for the golf courses to be deemed in good financial health, there should be a cash reserve exceeding $8 million when considering the likely operating losses through 2017.

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue										
Total Gross Revenue	**3,620,871**	**3,079,150**	**3,204,639**	**3,268,732**	**3,334,107**	**3,400,789**	**3,468,804**	**3,538,181**	**3,608,944**	**3,681,123**
Total COGS	**312,495**	**177,823**	**196,079**	**200,001**	**204,001**	**208,081**	**212,242**	**216,487**	**220,817**	**225,233**
Adjusted Gross Revenue	3,308,376	2,901,327	3,008,560	3,068,731	3,130,106	3,192,708	3,256,562	3,321,693	3,388,127	3,455,890
Gross Operating Margin	*91%*	*94%*	*94%*	*94%*	*94%*	*94%*	*94%*	*94%*	*94%*	*94%*
Expense										
Maintenance Expense	1,764,236	1,642,267	1,675,112	1,708,614	1,742,786	1,777,642	1,813,195	1,849,459	1,886,448	1,924,177
Food and Beverage Concessions	159,977	121,905	124,343	126,830	129,367	131,954	134,593	137,285	140,031	142,831
Golf Operations	1,068,695	995,917	1,045,614	1,066,526	1,087,857	1,109,614	1,131,806	1,154,442	1,177,531	1,201,082
Total Expense	2,992,909	2,760,088	2,845,069	2,901,970	2,960,010	3,019,210	3,079,594	3,141,186	3,204,010	3,268,090
EBITDA	315,467	141,238	163,491	166,761	170,096	173,498	176,968	180,507	184,118	187,800
Interest Expense	858,000	849,000	849,000	335,352	327,330	312,870	305,436	290,295	280,406	268,334
Interest Expenses, Net	773,000	775,000	775,000	261,352	253,330	238,870	231,436	216,295	206,406	194,334
Depreciation	862,000	879,000	880,000	880,000	880,000	880,000	880,000	880,000	880,000	880,000
	1,635,000	1,654,000	1,655,000	1,141,352	1,133,330	1,118,870	1,111,436	1,096,295	1,086,406	1,074,334
Net Income (Loss)	-1,319,533	-1,512,762	-1,491,509	-974,591	-963,234	-945,372	-934,468	-915,788	-902,288	-886,534
Capital Improvements	0	0	0	0	0	0	0	0	0	0
Principal	367,000	414,000	414,000	354,658	361,479	371,709	378,529	395,580	402,401	416,041
Depreciation	862,000	879,000	886,000	886,000	886,000	886,000	886,000	886,000	886,000	886,000
Cash Required from General Fund	-824,533	-1,047,762	-1,019,509	-443,249	-438,713	-431,081	-426,997	-425,368	-418,689	-416,575

Findings: Industry Benchmarks and Analysis

Why use benchmarks? They provide a frame of reference on which an operation can be reviewed. A financial comparison of the Park Authority's financials to industry benchmarks is presented below[18]:

Description	Forest Greens	General' Ridge	Prince William	Municipal	Daily Fee/Semi-Private	Private
Total Rounds Played	27,625	19,000	27,392	37,087	30,985	23,000
Total Facility Revenues	$1,408,421	776,930	893,799	1,133,333	1,300,000	2,800,000
Revenue Per Round Utilized	50.98	40.82	32.62	30.56	41.96	121.73
Course Maintenance Payroll	338,133	390,056	281,360	270,000	227,819	409,043
Pro Shop Operations	334,405	341,835	319,676	273,468	230,000	289,000
Net Income (EBITDA)	267,148	-227,866	101,956	206,000	200,000	250,000
Net Income as a % of Gross	12.90%	-29.32%	11.40%	18.17%	15.38%	8.92%

To drill into the benchmarks further, we obtained from Golf Datatech an analysis of rounds played and the revenue per utilized round (gross revenue/divided by rounds) for

[18] PGA PerformanceTrak, http:apps.pgalinks.com/professionals/apps/memberinfor/AOSurvey/index.cfm.</FN>

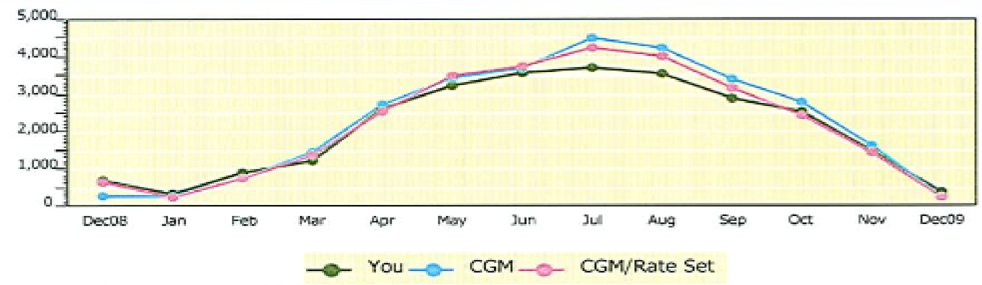
the Washington/Baltimore marketplace for the $51 to $75 rate set. Those statistics are below:

Competitive Golf Marketplace
CGM Financial Benchmark Reporting System

Report: Executive Summary Report (Public & Resort Facilities)
Period: December 2009 - December 2008
CGM: DC-Baltimore
Rate Set: $51 - $75
Course: [redacted]

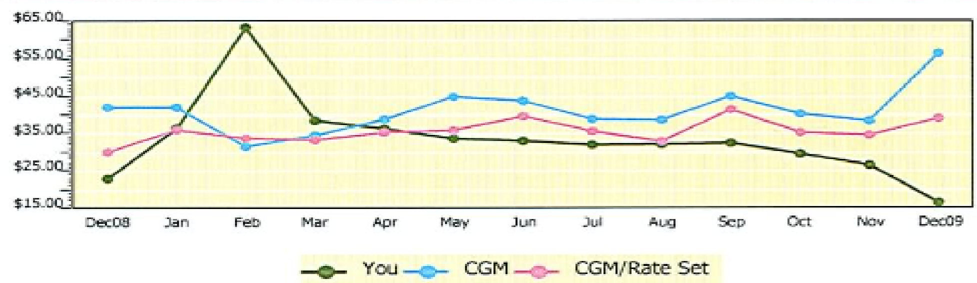
Rounds Played

	December			YTD		
	2009	2008	Change (%)	2009	2008	Change (%)
Your Course	368	686	-318(-46%)	26,391	27,191	-800(-3%)
Your CGM	250 6th of 27	- -	-	25,367 16th of 27	- -	-
Your CGM/ Rate Set	229 3rd of 12	646 4th of 8	-417(-65%)	22,946 7th of 12	27,037 4th of 8	-4,091(-15%)



RevPUR (Revenue per Utilized Round)

	December			YTD		
	2009	2008	Change (%)	2009	2008	Change (%)
Your Course	$16.45	$22.82	$-6.37(-28%)	$33.47	$33.62	$-0.16(0%)
Your CGM	$56.32 21st of 27	- -	-	$41.76 21st of 27	- -	-
Your CGM/ Rate Set	$39.05 9th of 12	$29.99 6th of 8	$9.06(30%)	$38.16 9th of 12	$37.04 6th of 8	$1.11(3%)



Courses in Your CGM/Rate for the Selected Month:	1757 Golf Club	Andrews AFB Golf Course
Atlantic Golf At South River	Bristow Manor	Compass Point Golf Courses
Forest Greens Golf Club	Geneva Farm Golf Club	Potomac Ridge – Hollow, Ridge
Queenstown Harbor – Lakes	The Rookery	Westwinds Golf Club

Forest Greens was included in this competitive rate set analysis. Rounds achieved and yield was slightly above the competitive set. With the exception of Bristow Manor, none of the courses really directly compete with Forest Greens. It is always disappointing that more golf courses don't participate in these valuable benchmarking tools

Accounting Recommendations

As part of achieving the financial goal of becoming self-sustaining, we recommend that the following enhanced accounting and budgeting policies and procedures are implemented:

- The Golf Department should consider classifying its revenues and expenses using the basic golf definitions created by the PGA, NGCOA and USGA. These classifications would align the Division's financial data through generally accepted reporting practices used by the golf industry and provide the opportunity to undertake the financial analysis required to properly manage the facilities.

- Create monthly reports for the operational staff highlighting course utilization revenue per available tee time (REVPATT) by five profit centers (green fees, carts, merchandise, food and beverage, and other), and also by core customer spending, customer retention, composition of golfers, and season-pass rate analysis.

- Compare the monthly operational information to national benchmarks prepared by Golf Datatech and PGA PerformanceTrak by participating in these national services.

  These services will provide management the immediate feedback needed as to whether the recommended rate changes are having the desired effect of increasing the effective yield. This service compares your operation against comparable golf courses in the local, regional, and national markets.

Operational Analysis

Step 5: Architectural and Agronomic Review

Background – Agronomy

The scope of this engagement was limited to revenue-based initiatives, and does not include a comprehensive analysis of all aspects of the golf operation. However, to craft a strategic plan, it is necessary to undertake, on at least a limited scope, an architectural and agronomic review of the course and the associated maintenance. These have a significant impact on revenue.

Why? Turf grass is a living, breathing organism which will not stop growing. Courses face the challenges of proper staffing levels, adequate equipment to maintain prescribed levels of conditioning, and a budget that facilitates keeping turf conditions at a level that will attract daily play throughout the golf calendar year.

Maintenance: A Wide Range of Costs

An average 18-hole golf course covers 150 acres, of which only 100 acres are maintained turf grass[19], and a course includes the following:

---

19 GCSAA, "Golf Course Environmental Profile, 2007," Page 12. Note: In published report, averages were utilized which don't necessarily summarize to total.

An Anatomy of a Golf Course

		Acreage	%
Turf grass	Rough	51	34.0
	Fairways	30	20.0
	Driving Range/Practice Areas	7	4.7
	Greens	3	1.3
	Tees	3	1.3
	Clubhouse House	3	1.3
	Nurseries	1	.7
	Total	100	63.3
Non-Turf grass	Non-turf grass landscape	24	16.0
	Water	11	87.3
	Building	6	4.0
	Bunkers	4.5	2.9
	Parking Lots	4.5	2.9
		50	33.1

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 the equipment required to maintain the course, and 4) the equipment that is required to maintain the facility.

The cost of maintaining the various types of golf courses, usually laid out on about 150 acres of land, can vary from $200,000 to more than $2.5 million. The National Golf Foundation reported the following total maintenance costs in a report titled, "Operating and Financial Performance Profiles of 18-hole Golf Facilities in the U.S."[20]

Description	Annual Maintenance Costs
Public Mid-Range Frostbelt	$377,160
Public Mid-Range Sunbelt	540,660
Public Premium Frostbelt	555,460
Public Premium Sunbelt	825,640
Private Mid-Range U.S.	611,240
Private Premium U.S.	1,412,720

Presented below is a labor and capital overview of the Recreation Services Division:

[20] National Golf Foundation, "Operating and Financial Performance Profiles of 18-hole Golf Facilities in the U.S.," 2006 edition, pages 4, 10, 17, 24

	Forest Greens	General's Ridge	Prince William
Labor Hours Budgeted	11,416	18,936	15,716
Equipment	395,828	375,394	311,644
Maintenance Costs	*638,318*	*583,880*	*420,067*

The numbers presented above were prepared by the superintendents at the respective golf courses as to their maintenance practices and equipment utilized.

The Prince William County Park Authority's maintenance costs are higher than the industry average for Forest Greens and General's Ridge ($611,099 per 18-hole equivalent). This reflects the the salary scale that includes benefits. The labor hours are in line with industry averages for golf courses in the Middle Atlantic region that are open year round.

The average maintenance costs for daily-fee golf courses located in the State of Virginia are $430,405, and they are $424,250 in the Middle Atlantic Region, as reported by PGA PerformanceTrak. [21]

Recreation Services Division – Tired Assets; the Natural Replacement Cycle

Since a golf course is a living organism that is changing daily, creating a capital budget and providing an annual reserve to replace the vital components of a golf course is prudent and is accomplished via a reserve for a sinking fund.

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 maintaining 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.

The Golf Course Superintendents Association of America estimates that the amount of capital improvements required as part of a golf course's natural replacement cycle is $2,200,086, and that a prudent golf course should create an annual capital improvements allowance of $101,104.

Presented below are the estimated life spans of the various components of a golf course, as estimated by the GCSAA and the Golf Course Builders Association of America:

[21] http://apps.pgalinks.com/professionals/apps/memberinfo/AOSurvey/index.cfm?

Capital Investment Matrix

Golf Course - Estimated Deferred Capital Expenditures: Conservative Approach					
c		Years Minimum	Years Maximum	Estimated Cost to Replace	Annual Capital Reserve
Greens		15	30	657,761	21,925
Bunker Sand		5	7	44,800	6,400
Irrigation System		10	30	114,000	3,800
	Irrigation Control	10	15	121,000	8,067
	PVC Pipe	10	30	309,600	10,320
	Pump Station	15	20	97,790	4,890
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
Corrugated Pipe		15	30	398,180	13,273
Bunker Drainage Pipes		5	10	65,000	6,500
Mulch		1	3	1,200	400
Grass		Varies	Varies	N/A	
Total Deferred Capital				2,200,086	101,104

As part of this analysis, using the matrix presented above, a detailed financial review of the deferred capital expenditures on the Park Authority's golf courses was conducted. Excluding required clubhouse renovations, it is estimated that the deferred capital expenditures now exceed $4.1 million, itemized as follows;

Course	Amount Required for Sinking Fund
Forest Greens	$1,324,126
General's Ridge	1,263,183
Prince William	1,518,385
Total	$4,105,694

It has been the policy of the the Park Authority to defer capital improvements; hence, the increasing deferred capital investment required. It is recommended that a sinking fund be created to ensure that the golf course infrastructure remains competitive with industry standards.

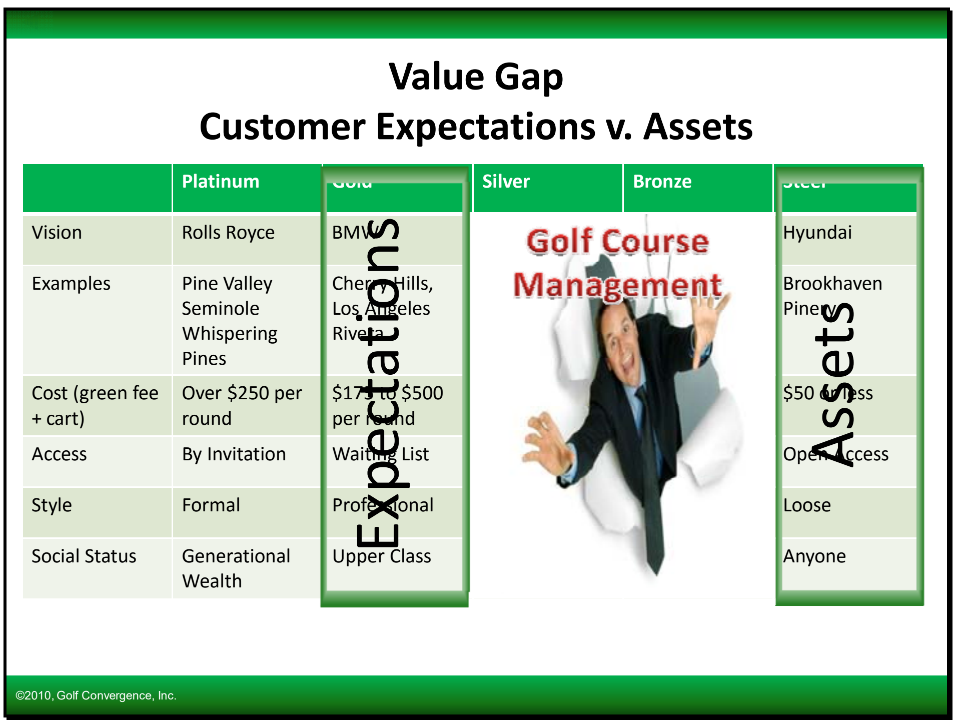
Step 6: Golf Operations

Creating Value

The formula for a successful golf course is simple; value = experience – price. To the extent that the experience created equals or exceeds the price, loyal customers are developed. To the extent that the price exceeds the experience derived, attrition occurs.

The potential experience that can be created is based on the start-up capital invested, the revenue generated, and the capital reserves that may be additionally required to sustain the operation.

Where the customer expectations exceed the assets committed, the results create customer consternation which results in customer attrition and disappointing financial results; these are depicted below:



A golfer's perception of value is quickly determined based on the following:

1. Entrance to Property and Flowers?
2. Clubhouse Size?
3. Signage (welcoming rather than punitive)?
4. Parking Lot Paving?
5. Striping Patterns Observed on Greens, Fairways, if any?

6. Type of Grass on Course (bent or rye)?
7. Fairway Bunkers (many or few)?
8. Presence of Natural Hazards (trees, lakes, etc.)?

As part of this operational review, we photographed those aspects of the Prince William County Park Authority's golf courses and those of its top 20 competitors. Those photographs were shared with management and staff.

In doing so, we concluded that many within the golf industry have become seduced by the "game" of golf at the expense of their success in the "business" of golf.

Management and staff often forget that the golf course is a meeting place for businesspeople that work hard and want to be catered to and made to feel special in a beautiful setting. Course personnel need to recognize that golf provides families with a place to bond, friends with an opportunity to extend and deepen their camaraderie, juniors a venue to learn the values of discipline and ethics, seniors a well-earned hobby, and men's and ladies' groups the opportunity to meet and compete. Today's savvy businessperson knows the golf course is an office, a lunch meeting, a conference room—it is common ground.

At its most basic, golf is simply entertainment, and golf courses are like theme parks—no two courses are identical, and each one offers a different thrill ride every time a customer plays.

Golf operations can be viewed as an "assembly line" in which each golfer proceeds, depending on the type of golf course, to 13 "touch points" which combine to identify the customer value experience: advertising, reservations, directions, club entrance, club house, golf shop, cart, range, starter, golf course, bathrooms, cart return, and restaurant. The following table illustrates the "Assembly Line of Golf."

Touch Point	Municipal	Daily Fee	Resort	Private Club	Military
Reservations	X	X	X	X	X
Club Entrance	X	X	X	X	X
Bag Drop		X	X	X	
Cart: GPS		X	X		
Locker Room Before Round			X	X	
Pro Shop	X	X	X	X	X
Range	X	X	X	X	X
Starter & Marshalls	X	X	X	X	X
Beverage Cart Attendant		X	X	X	
Halfway House			X	X	
Cart Return—Club Cleaning			X	X	
Locker Room After Round			X	X	
Bar/Restaurant	X	X	X	X	X
Likely # of Contact Points	**6**	**9**	**13**	**12**	**6**

As expected, the higher the price per round of golf, the greater the number of anticipated touch points a golfer will experience. Thus, the exclusive private club, the high-end daily fee course, or exclusive resorts are likely to take advantage of many opportunities and to continue efforts to further enhance the overall impression.

Each golf course operation is a series of interconnected processes, the end product of which is a challenged, entertained, and satisfied customer. By understanding and exceeding your customers' unique needs and desires, customer loyalty can be created—and it will lead to financial success.

Therefore, the success of a course is measured by how much fun the customer has, and how his or her perception of personal service was met or exceeded. By understanding and exceeding each customer's unique needs and desires, customer loyalty is created, and that customer loyalty is essential to increasing revenue.

To properly analyze these touch points from an operational perspective, the following components are analyzed:

- Organizational Culture
- Labor Scheduling and Reporting of the following departments
    1. Pro Shop Staffing
    2. Starters
    3. Player Assistants
    4. Cart / Range Attendants
    5. Lessons

- Infrastructure
    1. Snack Bar and Beverage Carts
    2. Merchandising
    3. Miscellaneous
- Revenue Management and Demand Pricing
- Marketing

Organizational Cultural, Labor and Infrastructure

The Prince William County Park Authority uses a bi-furcated organizational structure, as summarized below:

Responsibility	Park Authority Personnel	Golf Department
Revenue Management	X	X
Marketing	X	X
Maintenance		X
Pro Shop Staff	X	X
Starters		X
Player Assistant		X
Cart/Range Attendants		X
Lessons		X
Snack Bar and Beverage Carts		X
Merchandising		X
Accounting & Budgeting	X	
Procurement	X	

The principal limitation of this organizational cultural is that the goals of the Park Authority and the Golf Department are not fully aligned. There is no single individual that is leading the golf operation. It is a process of team coordination in which no one individual has the responsibility or accountability for making decisions. Thus, inaction prevails.

It is our professional opinion that the retention of a Director of Golf whose focus is the business of golf, not the game of golf, or the retention of a third-party management company will accomplish the following:

- Increase revenues
- Improve employee satisfaction
- Improve customer service
- Improve operational efficiencies
- Increase customer access to the golf course

Revenue Management and Demand Pricing

In undertaking revenue management, the first step is to prepare a list of the competitive set of golf courses. With the assistance of the golf course general managers, the following list of courses was prepared:

Competitive Set

Forest Greens	General's Ridge	Prince William
Laurel Hill	Twin Lakes	Bristow Manor
Old Hickory	Laurel Hill	Twin Lakes
Stonewall	Old Hickory	Stonewall
Gaunlet	Virginia Oaks	Westfields
Cannon Ridge	Forest Green	Virginia Oaks
Pohick	Bull Run	Bull Run
Osprey	Westfields	Fairfax National
Augustine	Stonewall	Broad Run

Rates were determined at the competitive course as follows:

Course	Prime Time Rack Rate	Cart	Range	Sales Tax	Walking
Augustine	50.00	Yes	Yes	Yes	Same Rate
Bristow Manor	69.00	N/S	N/S	N/S	Can walk
Broad Run	47.50	No	No	No	Can walk
Bull Run	70.00	Yes	Yes	Yes	Can walk
Cannon Ridge	79.00	N/S	N/S	N/S	Can walk
Fairfax National	59.00	Yes	Yes	No	Same Rate
Forest Green	69.00	Yes	No	No	Same Rate
Gaunlet	57.50	N/S	N/S	N/S	Can walk
General's Ridge	59.00	Yes	No	No	Same Rate
Laurel Hill	79.00	Yes	Yes	N/S	Can walk
Old Hickory	95.00	Yes	Yes	N/S	Can walk
Osprey	59.00	Yes	No	N/S	Can walk

Course	Prime Time Rack Rate	Cart	Range	Sales Tax	Walking
Pohick	44.50	No	No	No	Can walk
Prince William	49.00	Yes	No	N/S	Can walk
Stonewall	119.00	Yes	Yes	N/S	Same Rate
Twin Lakes	48.00	No	No	No	Can walk
Virginia Oaks	69.00	Yes	No	Yes	Same Rate
Westfields	109.00	Yes	Yes	Yes	Same Rate

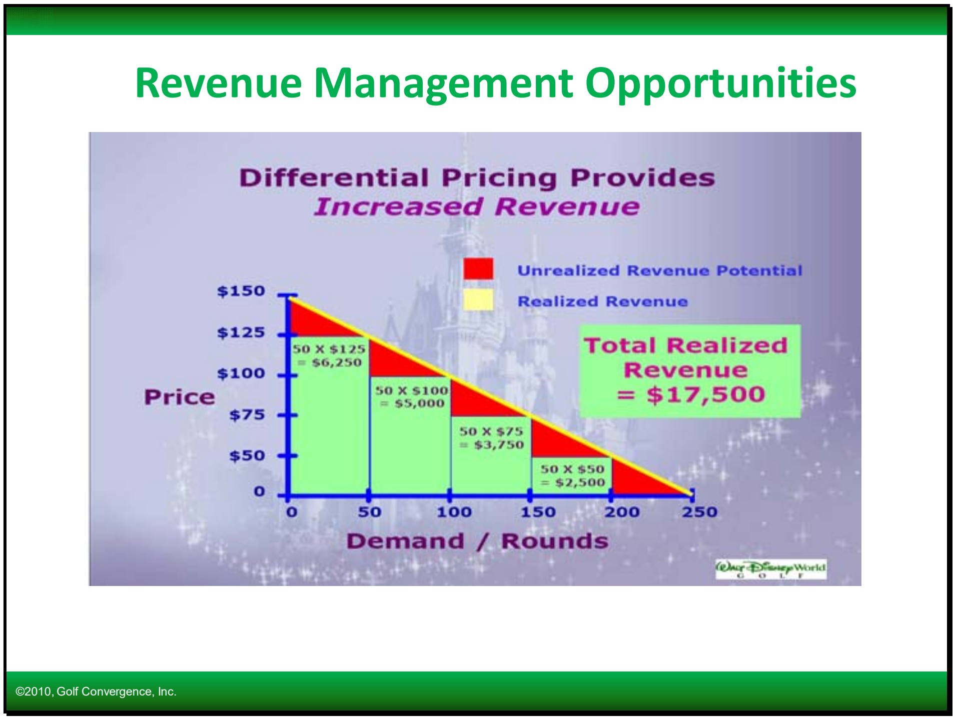
Note: Based on posted rates on web site on May 24, 2010 for summer 2010, weekend prime time.

Yield management is the art of establishing rates by time of the day, day of the week, and time of the year by the golfer type that will maximize revenue.

It is perceived that the prices set by municipalities serve as the "buoy" by which all prices are set in the market. Should a municipality raise its prices, the daily fee golf courses will also adjust their prices upward to reflect the incremental value the golfer experiences. Unfortunately, with so many viable alternatives available, the ability for the Park Authority to continue to raise prices is limited because of the experience offered.

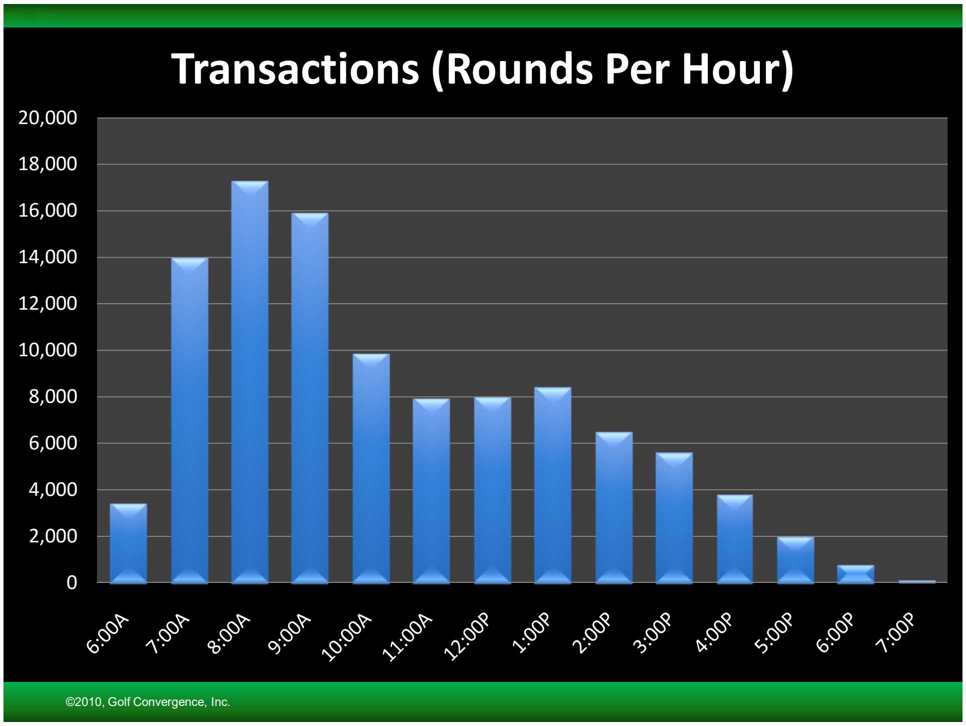
Because of these factors, there has been a lack of focus on driving revenues by measuring utilization, determining revenue per available tee time realized, and by calculating the revenue generated by each price category versus rounds consumed.

The goal of revenue management is simple: sell the right tee time to the right golfer at the right time at the right price. The failure to engage in dynamic yield management results in lost profit opportunities. Presented below is an example of how Walt Disney World creates tiered buckets to ensure revenue is maximized.

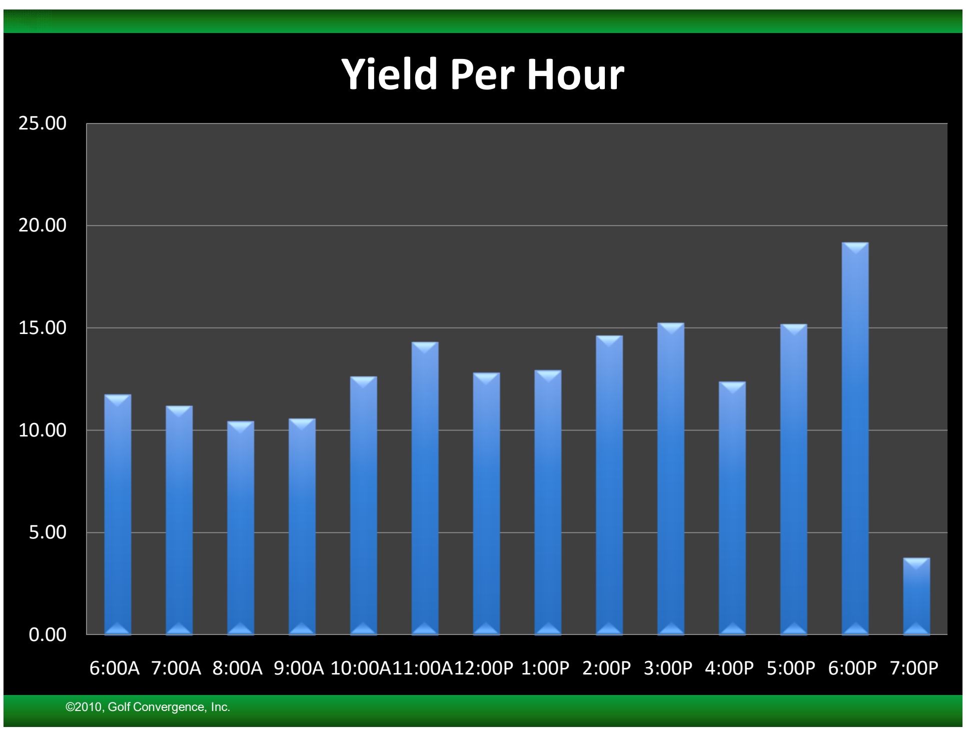


While the Recreation Services Division has different price points, the fundamental concept of valuing each tee time based on value to the golfer is correct. However, the revenue per purchased round is below industry standards and is being unduly lowered by the impact of season passes.

Presented below are the transactions per hour for all three courses:

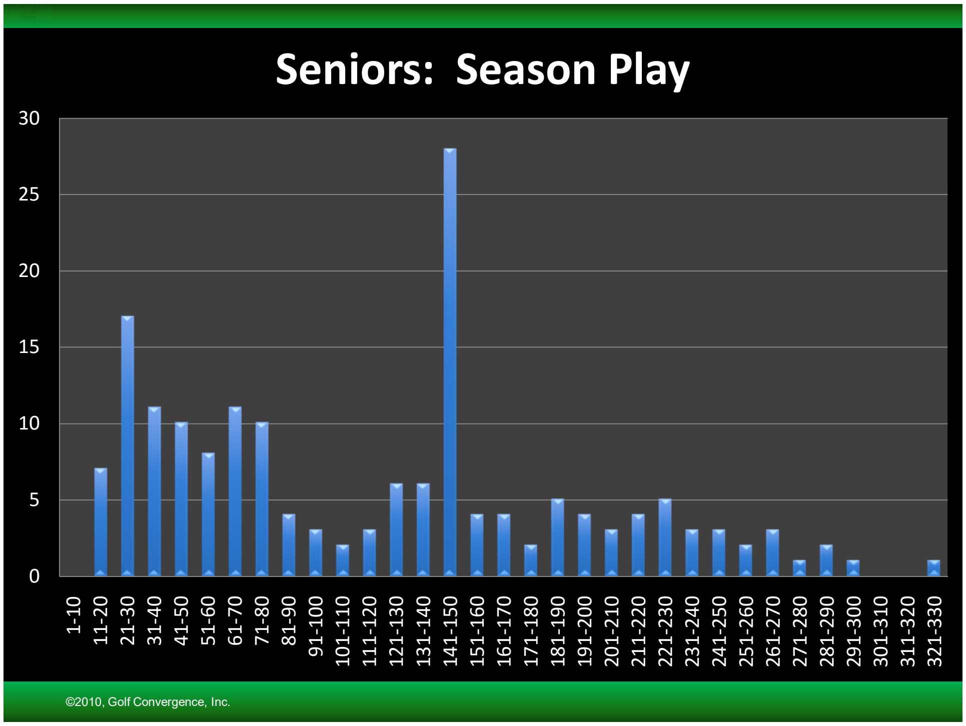


That distribution is normal. What is not normal is the yield (green fees only) per hour, as seen below:



The highest utilization of the course is generating the least revenue per transaction. That is directly contrary to acceptable yield management theory, which says that peak demand times should yield the highest yield per time.

What is causing the downward skewing of the yield? Senior passes are one of the culprits, as shown below:



One hundred and seventy-three passes were sold, and they resulted in 17,195 rounds (23.2% of total play). Each pass holder averaged 99 rounds. The break point for unlimited season passes is normally set at a 50 rounds. Translated, these passes are underpriced by nearly 100%.

As a result, it is our recommendation, consistent with the NGF 2003 and 2005 operational review, that the following be accomplished:

1) The membership program should be dramatically revised. It is our suggestion that the price point break be raised to 75 rounds, if current rack rates are maintained.
2) A 10 and 25-punch pass card, comparable to Fairfax County, should be introduced.

Suggested 2011 rates are listed below:

Day of Week	Golfer Type	Forest Greens	General's Ridge	Prince William
Weekend	**Regular**	54	43	34
		49	39	31
	Regular	38	30	24
	Regular	35	28	22
	Regular	30	24	19
	Regular	32	26	20
Weekday	**Regular**	38	30	24
	Regular	26	21	17
	Regular	23	18	14
	Regular	19	15	12
	Regular	23	18	14
Weekday	**Senior**	23	18	14
Weekday	**Junior**	23	18	14
Punch Tickets - Cart Included		**Forest Greens**	**General's Ridge**	**Prince William**
5 Day	Regular	990	846	728
7 Day	Regular	1142	967	823
5 Day	Senior	707	620	549
7 Day	Senior	1000	854	734
Punch Tickets - Walking Only		**Forest Greens**	**General's Ridge**	**Prince William**
5 Day	Regular	709	564	446
7 Day	Regular	861	685	542
5 Day	Senior	425	339	268
7 Day	Senior	719	572	453
Unlimited Play Pass - Cart Included		**Forest Greens**	**General's Ridge**	**Prince William**
Unlimited	Regular	3,426	2,900	2,469
Unlimited	Senior	3,000	2,561	2,202
Unlimited Play Pass - Walking Only		**Forest Greens**	**General's Ridge**	**Prince William**
Unlimited	Regular	2,582	2,056	1,626
Unlimited	Senior	2,157	1,717	1,358
Permanent Tee Times		**Forest Greens**	**General's Ridge**	**Prince William**
Weekends - With Cart	Regular	1380	1160	980
Weekends - Walking Only	Regular	1080	860	680
Special Events		**Forest Greens**	**General's Ridge**	**Prince William**
Weekend	Tournament	76	64	49
Weekday	Tournament	54	50	39
Weekday	Leagues	23	18	14
Carts		**Forest Greens**	**General's Ridge**	**Prince William**
All	Cart	15	15	15
All	Cart	11	11	11
All	Cart	11	11	11

The other culprit of the low yield per round is that tournaments are not being posted when played but at the close of business. The above pricing addresses that challenge.

Marketing

There is a significant opportunity to improve all aspects of marketing these properties. The Prince William County Park Authority's golf courses serve a defined niche; the value-oriented golfer, where affordable, is a principal motivation. This niche is largely filled by new entrants to the game, those seeking recreational rather than competitive entertainment, and seniors.

A comprehensive marketing plan should be developed. This campaign should embrace the theme that everyone in the community is a valued customer and welcome at the facility.

Understanding the challenges faced, the Recreation Services Division, upon installing integrated technology to create a central customer database, can engage in new marketing initiatives based on the following priorities:

With financial resources limited, it is often not where funds are invested that matters but where funds are conserved. It is suggested that generic brand advertising in local media be suspended. The funds invested are unlikely to produce incremental returns. Participation in the Prince William County Golf Association also produces a low investment return.

Conversely, the use of email, Twitter, and Facebook updates to the Parks and Recreation database, initially, and ultimately to an expanded Recreation Services Division customer database, is advised. Consideration might also be given to advertising via Google AdWords.

Recommendations

It is advocated that the Prince William County Park Authority undertake the following initiatives to integrate its culture into the national golf community:

- Join the National Golf Course Owners Association and participate in the Association's online Listserv forum, which provides key employees who answer queries concerning best practices.

- Membership in the National Golf Foundation is also advocated; the Foundation's monthly newsletter offers a broad perspective about industry changes and appropriate responses to those changes.

- Finally, the Prince William County Park Authority should send a representative to the PGA Merchandise Show or to the NGCOA Annual conference, where numerous outstanding educational sessions are provided. These week-long educational programs for golf managers would be beneficial, especially since training of the staff has mostly been from internal resources.

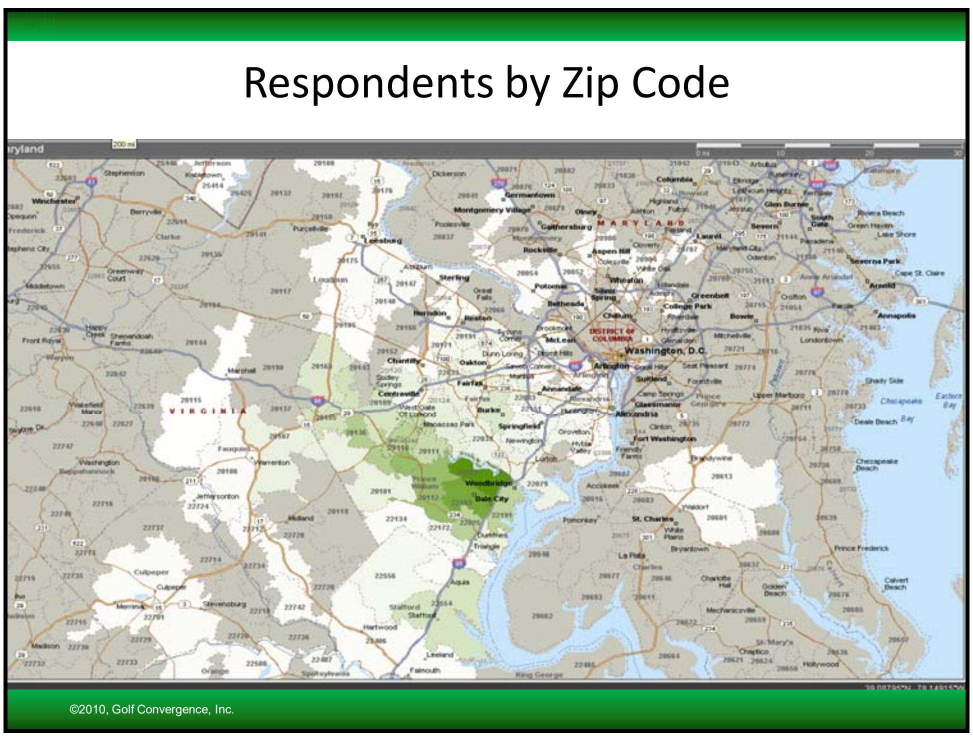
- The financial interests of the Park Authority and the Golf Division should be aligned based on gross revenue, or preferably, net income.

Step 7: Golfer Survey

In conducting an operational analysis, obtaining a current perspective of the customer database by identifying customer age, gender, net income, ethnicity, playing frequency, favorite golf courses, and price point barriers is valuable. The key point being measured is the opportunity to increase current market share.

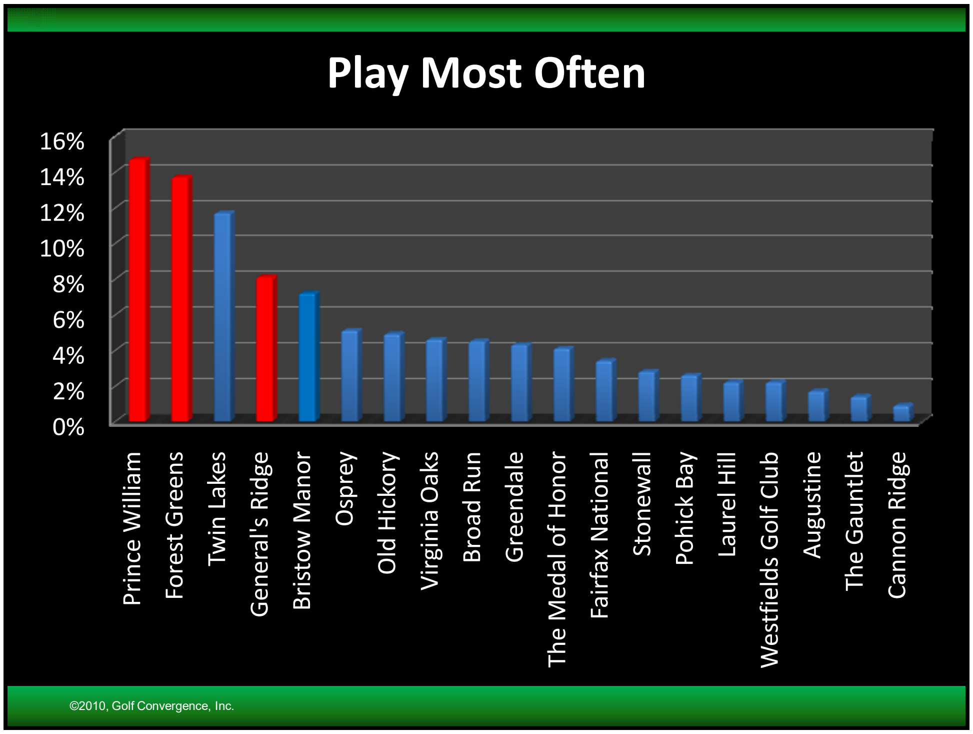
For the Golf Department, we conducted a survey of more than 7,800 golfers who represented individuals either registered with a Park Authority golf course, or who booked prior to 2010 with Golf Department's tee time provider, teetimes.com. In total, the survey remained open for 12 days and yielded 701 responses, providing a 99% confidence factor and a margin of error on the results of 1% +-, which indicates that the results achieved are reasonably accurate. The completion rate for those starting the survey was 87.5%, an acceptable average that suggests the survey was well-constructed.

The zip codes of respondents were as follows:



Key: Respondents per zip code ranged from one (white) to 70 (dark green).

The respondents indicated that the courses they played most often were:



Who is the Customer?

The geographic local market analysis performed in Step 1 of the Golf Convergence WIN™ formula indicated that the Prince William County Park Authority golfer was likely to be Caucasian, slightly older, and very wealthy. The survey confirmed that fact.

The statistics were confirmed in a survey of Prince William County Park Authority golfers. Survey respondents have the following demographic profile:

Who Is Your Customer?

Gender Demographics			
Gender	Survey Response	National Average	Index
Male	85%	55%	154
Female	15%	45%	34

Household Income			
Household income ($s)	Survey Response	National Average	Index
0 - 34,999	1%	5%	22
35,000 - 49,999	3%	10%	30
50,000 - 74,999	12%	25%	49
75,000 - 99,999	20%	35%	57
100,000 - $249,999	58%	23%	253
$250,000 or more	5%	2%	265

Age Demographics			
Age group	Survey Response	National Average	Index
Junior (up to age 17)	0%	24%	2
Student (18-23)	0%	8%	5
Young Adult (24-34)	9%	15%	61
Adult (35-59)	59%	35%	169
Senior (60 and older)	31%	18%	171

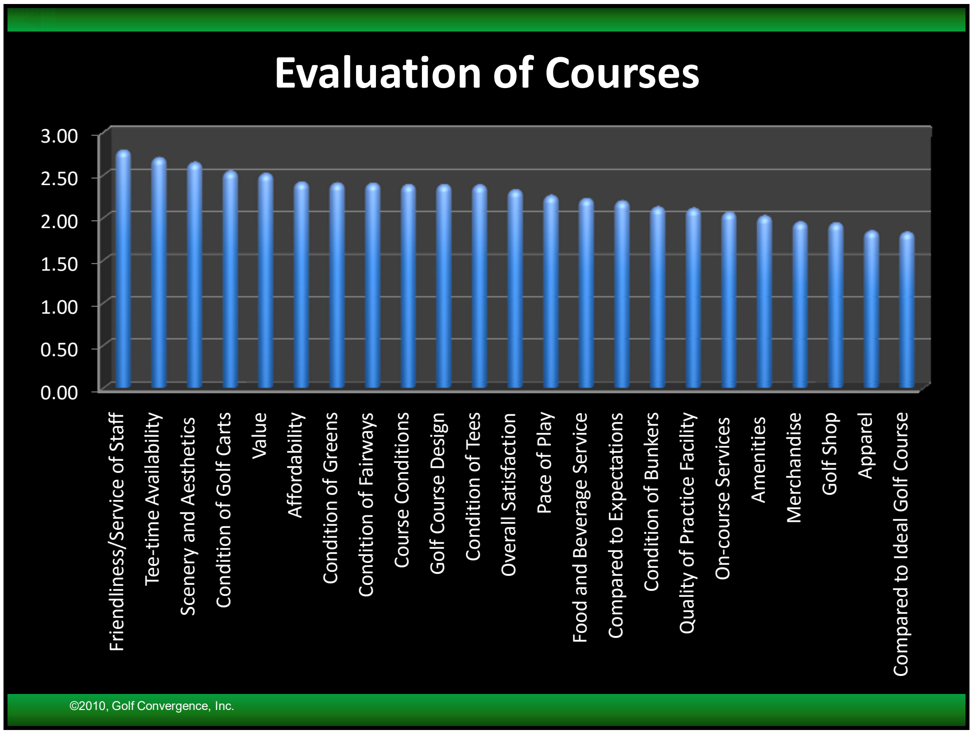
Race/Ethnicity			
Race/Ethnicity	Survey Response	National Average	Index
White, non-Hispanic	80%	69%	115
African-American	7%	12%	60
Hispanic	3%	13%	22
Asian or Pacific Islander	7%	4%	195
Other	3%	3%	112

Prince William County Park Authority customers are older and wealthy – both great demographics for golf. Their penchant to play the Park Authority golf courses emphasizes that cost is an important determinant in that decision.

The survey revealed that of these golfers, 18% are on active duty or have retired from the military, 81% play four or more courses, mostly playing 18 holes, and that 64% play more than 19 rounds per year, which puts them in the category known as core golfers. A slight majority prefer to pay between $46 and $85 for a weekend green fee and cart.

What Do They Like About the Park Authority's Courses?

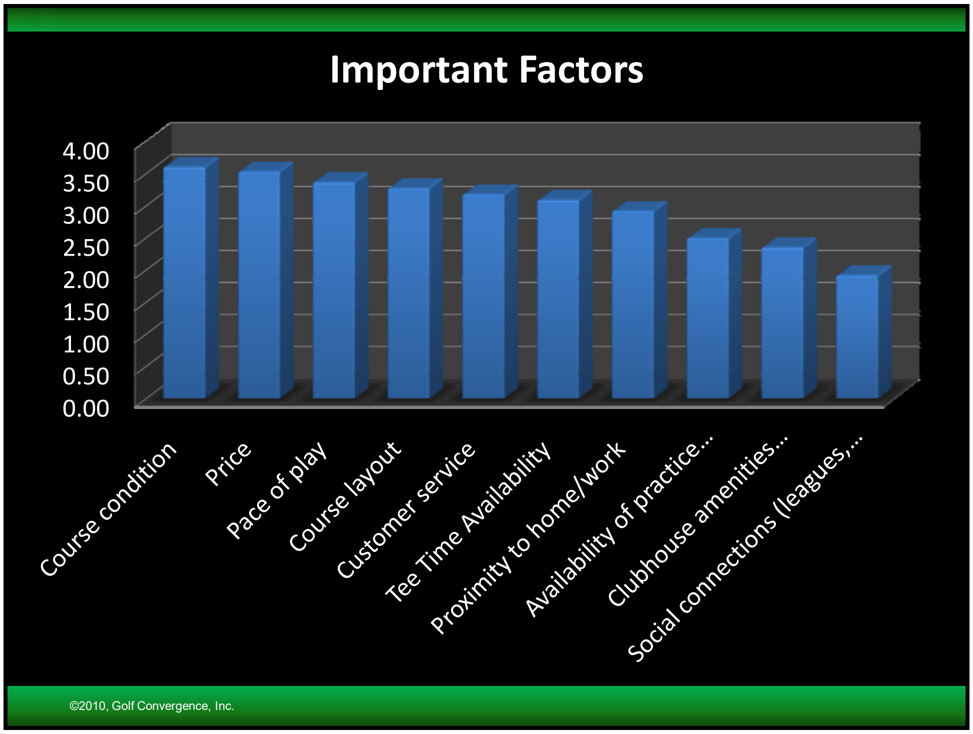
The golfers were asked to rate 23 different attributes of the Park Authority's golf courses. Friendliness of staff, tee-time availability, scenery, and value all ranked very high on a composite for the three courses, as shown below:



What is interesting about these "composite" results on the ranking of three golf courses, if the rankings for the individual courses are viewed separately, value and affordability soar to the 3rd and 4th most valued for Prince William County courses, but amenities and the quality of the golf shop plummet to last. Clearly, price is an important criterion in the local golfer's decision.

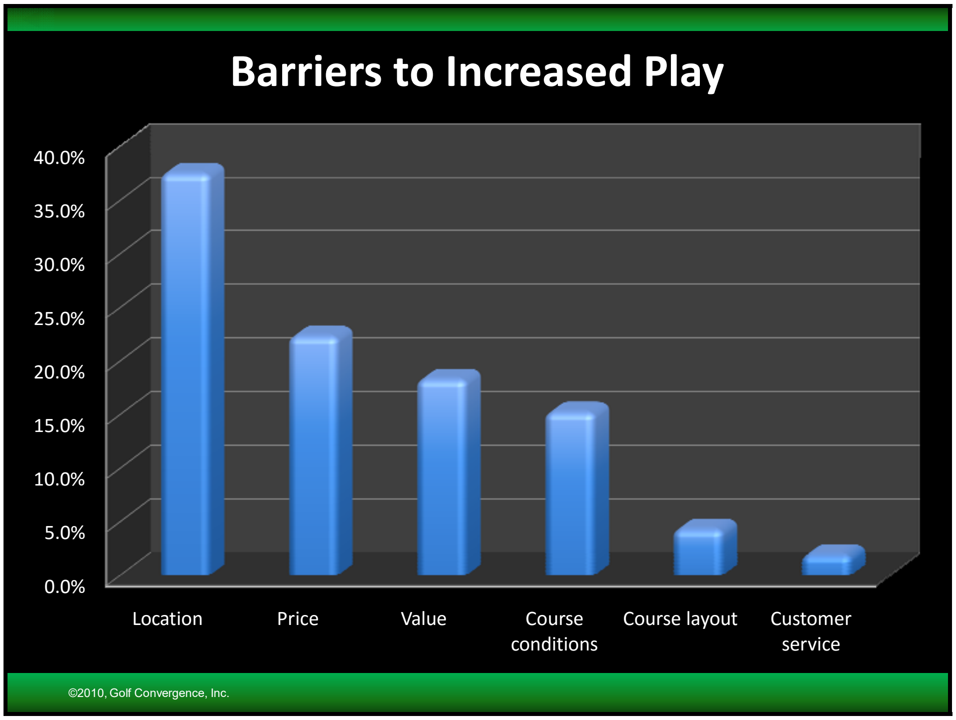
What is Important?

When asked, "What factors are important to you in selecting one course over another, the results of the Prince William County Golf Course survey are consistent with other surveys conducted by Golf Convergence and by leading trade organizations such as the Golf Course Superintendents Association of America. Conditioning and value (price/experience delivered) predict success as shown below:



Since a large part of the "experience" equation is the conditioning of the golf course, this should be no surprise.

The answers to the question, “What are the barriers to playing the Park Authority’s courses?” indicates that the opportunities to increase rounds will be problematic, as shown below:



With “location of the golf courses,” ranked 1, the Park Authority’s option to increase play is limited.   It is encouraging that “course conditioning” was ranked as an important criterion and does not seem to be a barrier to increased play.

Of concern is the fact that price was ranked as the second most important criterion and was also ranked second as a barrier to increased play. Golfers often maintain that if the prices were lowered, the increase in rounds would offset the lower fees. Such a trade-off is perilous, as noted in the chart below:

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%

Lessons Learned

With 83.5% of the survey respondents indicating that they are likely or very likely to play the Golf Department's golf courses again, it is important that the following findings be carefully considered by management:

1) Since course conditions and price were cited in the golfer survey as significant concerns, and since the survey indicated that only a slight majority of golfers (54%) are willing to pay $5 more per round for capital improvements, increased financial contribution from current core customers is unlikely.

2) A slight majority prefer to pay between $46 and $85 for a weekend green fee and cart.

3) To purchase last-minute tee times at a value, the largest group of respondents checked the golf course's Web site. The Prince William County Park Authority has a workable Web site that is underutilized for marketing the golf courses. Newsletters are sent only monthly, and value-priced offers based on projected idle times are rarely posted to the Web site.

4) Eighty-three percent of survey respondents felt the golf courses are a vital park resource. However, 53.7% felt the courses should be financially supported by the Park Authority, with only 40.9% believing they should be self-sustaining.

5) Less than 10% felt the golf courses should be sold or that they have outlived their usefulness.

These results don't provide any quick solutions with which the downward spiral of the golf courses can be easily reversed. The customer is clearly seeking a recreational activity that is subsidized by the Park Authority.

Value is made up of many components. The value formula is straightforward. To the extent that the customer experience exceeds price, loyalty is created. To the extent that the price exceeds customer experience, loyalty is lost. Thus, while conditioning remains a dominant factor, being able to play quickly on the day and time desired continues to highlight the fact that we function within a time-crunched society. The Prince William County Park Authority has the opportunity to profit by focusing on affordable value and the tee time availability.

Step 8: Customer Loyalty

Customer's Key Benchmarks

Knowing who your customers are, their spending preferences, and their 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, which the Recreation Services Division lacks, most golf courses greatly minimize their revenue opportunities.

A leading golf course management company[22] 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 merely once per year.
4) 50% of those who play will not return next year.
5) Only 13% will play six or more times.
6) Customers average six rounds played at a specific course per year.
7) A golf course will have a 20% wallet share of core golfers who play 40 rounds per year.
8) Customers become at risk of not returning when they haven't played your course in 90 days.
9) The response rate from customers offered a 20% off coupon, a 10% off coupon, or merely receiving acknowledgement that they are missed is nearly the same.

It is fair to conjecture that golfers at the Prince William County Recreation Services Division have comparable profiles. However, without the use of an integrated golf management system, measuring any of the key metrics is not possible at this time.

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, as described in Step 4 regarding financial metrics. The CFA measures customer franchise health, such as the

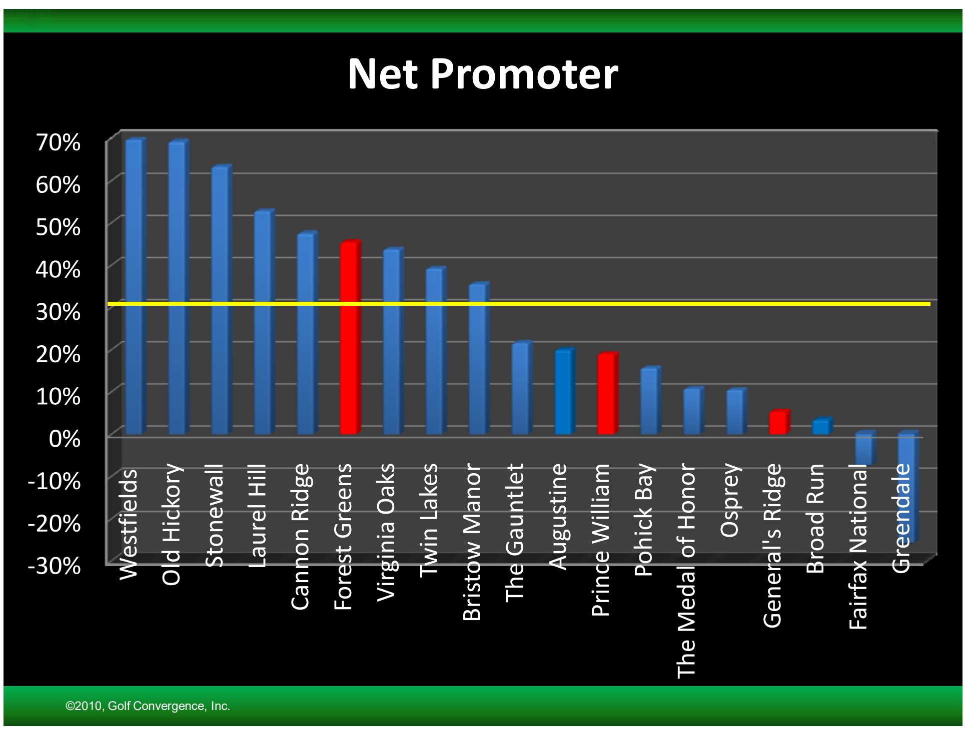
[22] Peter Hill, Billy Casper Golf Management, "Programming for Profit," February 4, 2009 presented at NGCOA Multi-Users Conference.

number of unique guests acquired, retained, and lost, as well as the spending level of each group, down to the individual customer level.

Unfortunately, this analysis also could not be completed for the Prince William County Park Authority because, as has been noted, the tee sheet and the POS only began seamless integration in April, 2010; thus, the data was not available to undertake the requisite analysis.

As a result, the Park Authority is lacking critical metrics needed by a golf course to identify core customers, spending patterns, customer retention, turnover frequency of golfers, zip code distribution, course utilization, revenue per available tee time, and revenue per tee time purchased.

However, we were able to ascertain those factors that are vital to golfers at Prince William County Park Authority golf courses. With a national average of 26, these courses received loyalty scores from 48 to -20, as noted below:



The Park Authority's courses received grades of 45 (Forest Greens), 5 (General's Ridge) and 19 (Prince William). The scores for General's Ridge and Prince William are significantly below the defined industry metric and signify that none of the golf courses unique or different enough to command loyalty by offering an experience greater than the rates charged.

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 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 the 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.

Is Privatization an Option?

Golf Course Organizational Structures

In evaluating the issues brought forward in this report, it is vital to understand the various organizational structures utilized in the management of a golf course.

There are five primary organizational structures to manage a multi-course municipality facility:

1) Exclusively employees of Park Authority. Leading municipalities like Monmouth and Morris County, New Jersey use this method very successfully, producing a superior golf experience profitably. Milwaukee County is also a good example of this management structure.

2) Exclusively employees of the Park Authority except for food and beverage, which is always a money loser; (Park Authority of Los Angeles).

3) Employees of Park Authority for Administration and Pro Shop, with maintenance contracted; (Park Authority of Anaheim, Park Authority of Modesto, Park Authority of Ocala).

4) Each course managed by different concessionaires via a lease or management agreement; (Park Authority of Indianapolis).

5) All courses are managed by a single concessionaire via a lease or management agreement; (Park Authority of Chicago, Park Authority of New York, Cook County, Forest Preserve District).

   It should be noted that under a lease, the third-party management company pays a rent measured as a flat fee or a percentage of gross revenues and inures to the profit. Under a management agreement, the profit inures to the benefit of the owner, who pays a management fee to the third party as an integral component of the operational expense.

The Prince William County Park Authority currently manages all aspects of the golf operation.

For the Prince William County Park Authority Golf Department, the exclusive use of municipal employees would accelerate expenses, particularly labor, and thus options 1, 2, and 3 are not viable. Option 4 (using different concessionaires) is also not viable, as the golf courses get branded as individual golf courses and the economies of scale of operating multiple facilities is lost.

Thus, option 5, either management or lease agreements, by default, becomes the recommendation of choice.

Why Retain an Independent Management Company?

During the heyday of golf expansion in the 1990's, management companies flourished by leasing golf courses from municipalities. A typical arrangement is that the Park Authority would receive up to 10% of gross revenues, property taxes would be paid, capital investment accounts funded, and the Park Authority would receive a portion of the net income in excess of $200,000.

In seeing the profits made during good times during the last decade, many golf course owners, including municipalities, opted for a "management contract" under which the golf course would pay upwards of $200,000 in professional fees for independent management. Unfortunately, with the downturn in the golf industry, surplus profits became massive deficits.

Thus, the pendulum has swung to a place where lease arrangements are becoming more attractive as operating options for golf services.

How can third-party management generate a profit when a municipality is challenged to do so? Presented below is a summary of the strengths and weaknesses of entering into such arrangements:

Strength:	Weaknesses
Professional management skills are more diverse and better refined.	**Contract compliance.** Requires retention of contract administrator by the Park Authority.
Proven systems, policies and procedures can be implemented faster, particularly in the areas of technology, marketing, and staffing.	**Financial stability**. The ability of a third party to meet its contract obligations are predicated on having a firm financial position and the willingness to provide a superior product. Third-party management companies have often been categorized as "sucking the paint off the walls."
Efficient labor structure in number of personnel used and wages paid.	
Flexibility in contract negotiation and timeliness and cost efficiency of completing capital improvements.	
Stakeholders aligned more easily. Currently the Park Authority has concessionaire, volunteers of concessionaire, Park Authority management, Park Authority staff, Park Authority Volunteers. These five groups can be reduced to two with a singular focus achieved.	

What are the Risks?

There are risks that should be understood.

There may not be a huge appetite for management companies to assume all the risk that a traditional lease has, because there are currently far too many opportunities to pick up properties in distress. Thus, a shared-risk arrangement, a new hybrid, is far more likely. Also, a lease proposal may generate more interest among local third-party management companies than those with a national presence.

Likely Terms and Deal Structure

Should a private management company be retained, it would likely require the following:

1) The transition of the majority of current management and staff elsewhere in the Park Authority organization. Typically, the private operator would want to have to deal with only one person or a very small committee.

2) Complete control over all hiring decisions (including which, if any, current staff to retain), pay rates, operating expenditures, ongoing capital expenditures, etc.

3) Total control over virtually all aspects of the courses, as the financial operations of the courses are in need of a significant turnaround.

4) The flexibility to convert the operations into a market-rate experience, while improving the conditioning, service levels, and overall operations, as justification for the increased prices charged. Generally, golf consumers are willing to trade their hard-earned dollars for an improved experience. An annual green fee increase of $1.00 per round would be automatic, as well as 4.0% increases in all merchandise and food and beverage pricing.

5) Elimination of all general overhead in exchange for the management company accepting line-item responsibility. This would require that the Park Authority make changes to its existing staff and cost structure to eliminate these costs from its overall operations, as it would no longer have the ability to "charge" allocated costs to the golf operations.

6) At least a 10-year lease in exchange for a capital investment of perhaps $1.0 million per course.

7) Management Company would have the unlimited capacity to book tournaments and outings during prime time.

8) The Park Authority, at its own expense, could choose to fund any of the major capital improvements. If such improvements were funded, the Lessee would agree to pay additional annual rent in an amount equal to 4.0% of the amount of the expenditures, starting from the date of the improvements and continuing through the end of the lease term.

What is the Upside?

The challenges that preclude a self-sustaining entity, as currently constituted, include a flawed organizational structure, a culture of entitlement, a diminished customer base, and significant deferred capital investment. Thus, the Park Authority's options are limited.

While not without risk, as described above, the upside of entering into a lease agreement with a professionally qualified, financially sound management company is that prices can be maintained, expenses lowered, customer service enhanced, and freed up cash reserves can be allocated to capital accounts to whittle down the deferred capital maintenance.

The chart below highlights the financial difference to the Park Authority between the options over the next 10 years:

Three Golf Courses	**Status Quo**	**Private Contract Management**
Expenditures over Revenues	4,000,000	
Annual Income Rental Income		1,500,000
Capital Investment by Park Authority	2,000,000	2,000,000
Financial Return (After 5 Years)	6,000,000	500,000

The alternative is to tap the general fund for the annual operating losses that are likely to occur and to fund the deferred capital investment. Thus, the recommendation of this report is to give full consideration to privatization via a management lease.

Warning: The Park Authority's 1999 Revenue Bonds have provisions that greatly restrict the ability to enter into third-party management contracts. Determining the legal options to effectuate the optimum and permissible third-party relationship was beyond the scope of this engagement.

The Critical Path: Recommendations for Implementation

Strategic Vision

The foundation to operate a municipal golf course for the recreational benefit of its citizens must be based on a clear vision as to the purpose of those facilities, their organizational culture, and the financial expectations. This foundation is predicated on the formation of a clearly defined vision.

A Vision Statement guides all decisions regarding the operation of the facility. This statement serves as a lighthouse that provides a frame of reference for the Prince William County Board of Supervisors, the Park Advisory Board, Management, Staff, Golfers, and Taxpayers.

In developing a vision statement, history, tradition, and governance determine the golf course's operational philosophy, balancing an emphasis between the business of golf and the game of golf. The differences in these philosophies are highlighted below:

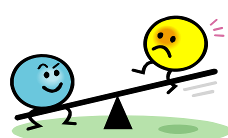
Organizational Philosophy

Business of Golf

- Rate Management
- Merchandise
- Maintenance
- Labor Scheduling

Game of Golf

- Core Customers
- Leagues
- Junior Programs
- Tournaments/Outings
- Golf Instruction



This strategic plan heralds an emphasis on the business of golf. The goal is to maximize revenue, increase operational efficiency, and enhance customer experience.

Vision Statement

It is the perception of those creating this document that over time, the Recreation Services Division has shifted greatly to the game of golf, and prudent business practices have been overlooked and/or abandoned. Thus, the changing the focus of the organizational culture from an emphasis on the game of golf to the business of golf is advocated.

Therefore, this Operational Analysis recommends the following Vision Statement for the Prince William County Park Authority's Golf Department be adopted:

Golf Course Department

We will provide, in a responsible fiscal manner, as a recreational component of our leisure programs, golf consistent with the standards of leading municipalities with respect to green fees, maintenance and administrative operations in order to maximize revenue, increase operational efficiency and ensure optimum customer service as prudent stewards of a government owned asset.

Conflicts among Stakeholders

It should be understood that in creating this vision and in implementing the recommendations, achieving unanimous consent by all stakeholders is nearly impossible for several reasons. First, change is required. Second, each constituency has a strong proclivity to protect its own vested interests at the expense of group's best interest.

These conflicts are highlighted below:

Constituency	Sensitive Issue
Board of County Supervisors	Accountability for fulfilling strategic mission
Park Authority Board	Allocation of resources to achieve vision
Golf Management	Directing execution to being directed
Golf Staff	Decreasing staff, salaries or increasing responsibilities and/or work hours
Golfers	Increase in rates or accessibility to golf course
Taxpayers	Increase in taxes and allocation therefore

However, this is where the Golf Department's leadership will be tested to build an effective consensus for the operational issues facing Prince William County Park Authority. The organizational and management structure is entrenched, the overhead cost structure is largely fixed, and the deferred capital expenditures are significant.

Therefore, full adoption of the recommendations herein should be adopted to achieve financial solvency within the Special Revenue Fund for Golf.

Recommendations

Thus, our recommendation to privatize is clear. If privatization is selected, the Prince William County Park Authority's investment is low, the staff required is nominal, the risk level is low, and the Park Authority's net income will be moderate. In contrast, the status quo options will require high investment, significant staff, and high risk, with likely losses and subsidy from the general fund.

However, we comprehend that change often meets with much resistance. The Recreation Services Division can implement progressively the recommendations below to reduce the annual deterioration of the Special Revenue Fund balance:

1) Short-term: Strategic Options

- The Park Authority's role of providing golf to each market segment from accomplished to entrant, providing a value-based experience to each, should be emphasized. The Park Authority's golf courses should have a clear vision as to the market niche of each facility: silver (Forest Greens), "bronze" (General's Ridge) and "steel" (Prince William), as defined in this report.
- The Golf Department should be made autonomous from the Recreation Services Department effective July 1, 2010.
- General's Ridge should either be sold by September 30, 2010 or a $4.6 million renovation completed from September 15 through April 15 through reconstruction of the greens, clearing the natural forests, and reshaping numerous fairways.

2) Short-term: Tactical Options

- Prepare an RFP for public tender to lease the full operations of Forest Greens, General's Ridge, and Prince William golf courses effective January 1, 2011.
- Should privatization of the golf courses not be feasible, the next alternative suggestion is that the position of Director of Golf should be filled by a skilled manager with multi-course experience, and while a PGA or CMAA CCM designation is desired, it should not be required.
- Each golf course manager should prepare a FY 2011 budget reflecting a positive earnings target. The submission of such budget should be accompanied with an undated resignation that could be exercised if the actual performance of the course was materially different than budget due to controllable factors. One of the factors that would influence that decision of retention is that the Revenue Per Round should be no less than 50% of the prime time rack rate with cart.
- Integrated tee time reservations, point of sale, and email marketing software should be fine-tuned and utilized more effectively. The current 17-second latency factor in switching screens at the course renders the software ineffective. The goal should be a 3 second response.
- A contract with golfnow.com (tee time marketing company) should be considered for General's Ridge as the effective yield is likely to be increased. Conversely, the use of a third-party intermediary for the other two courses is discouraged as the effective yield is likely to be lowered.
- Accounting reports should be prepared consistent with generally accepted principles for golf courses which emphasize departmental revenue (green fees, carts, merchandise, food and beverage, range, and other) and expense (maintenance, pro shop, administration) reporting.
- General's Ridge should be closed annually from December 15 through February 28.
- Maintenance crews should be reduced from November through February to three full-time employees per course.

3) Short-term: Operational Options

- The prime time rack rates (with cart) for Forest Greens, General's Ridge, and Prince William should be established at $69, $58 and $49.
- Permanent tee times should be introduced for Forest Greens and General's Ridge.
- Twenty-five-round punch cards should be introduced.
- Unlimited season passes, both 5- and 7-day, should be retained based on a 60 and 75 rounds break point, respectively.

- Electronic marketing efforts via email, Facebook, Twitter, and Groupon should be emphasized over print advertising. Consideration might also be given to advertising via Google AdWords.
- Emphasis should be placed on expanding the email database.
- Marketing for the golf courses should focus on the individual facilities and not, except where the economies of scale are present, on the aggregation of the three golf courses. Forest Greens and Prince William are 27 miles apart and serve an entirely different customer base. Ninety percent of all golfers live/work within a 10 mile radius of the golf courses they play.

Warning: The introduction of these rates, which represent in some cases a significant increase, will result in the decrease in total revenue if proper marketing and the proper use of technology is not implemented.

4) **Intermediate**:

- Current personnel, not retained by the third party management company, if retained, should be transitioned to other departments within the Park Authority.
- Surplus assets and minimal non-revenue producing assets should be identified and scheduled for liquidation.

5) **Long-Term**:

- Expansion of the the clubhouse for Forest Greens and construction of a new clubhouse for Prince William should be strongly considered within the next three years. Each facility should contain about 8,000 - 12,000 square feet to accommodate tournaments which can account for up to 30% of a golf course's revenue.

What is Achievable?

The Park Authority will be required to make a number of difficult decisions. A golf course that is cash-poor but asset-rich, in order to balance the budget, will ultimately be required to liquidate assets or privatize services.

The challenges ahead are not trivial:

1) The organizational and management structure is entrenched.
2) The overhead cost structure is largely fixed
3) Deferred capital expenditures are significant.
4) The bond debt will remain a financial burden through 2027.

The leadership of the Park Authority has much strength that should serve as a firm foundation for future growth. They possess the talent and passion required to implement the recommendations in this report, should it be adopted by the Park Authority Board.

Benefits

This operational analysis recommends the full consideration that the Park Authority's golf course be leased to a third-party management company.

Thus, our recommendation to privatize is clear. If privatization is selected, the Prince William County Park Authority's investment is low, the staff required is nominal, the risk level is low, and the Park Authority's net income will be moderate. In contrast, the status quo options will require high investment, significant staff, and high risk, with likely losses and subsidy from the general fund. **Privatization has the potential to save the Park Authority $5.500 million** within 10 years while preserving the customer experience.

The alternative is to tap the general fund for the annual operating losses that are likely to occur and to fund the deferred capital investment.

If privatization is selected, the Park Authority Council will draw acclaim from the following actions:

- Leveraging the Park Authority's assets to function as a vital recreational resource,
- Endowing the citizens of Prince William County with the opportunity to learn a lifelong skill that instills integrity and ethics and provides the ability to extend social and business networking opportunities,
- Operating financially self-sustaining golf courses through contract management.