



DEVELOPMENT AND DELIVERY OF RECREATIONAL GOLF
OPPORTUNITIES AT HURON HILLS GOLF COURSE

MILES OF GOLF
FINANCIAL PROPOSAL

October 29, 2010

RFP NO. 762

Miles of Golf
3113 Carpenter Road
Ypsilanti, MI 48197

8. Proposal Financing. *This section should include a development budget and a 10 year pro forma (operating budget) analysis and other financial information for the proposal. The financial proposal must be submitted in a separate, sealed envelope. Included the anticipated time schedule to assemble needed financial commitments, types of financing expected, and letters of interest from banks or other sources if construction/renovation of existing recreational facilities is part of the proposal.*

Phase I Financing – approximately \$40,000. This would be funded from Miles of Golf operating funds. There would be no financing.

Phase II Financing – approximately \$250,000. It is anticipated that this would be funded from either a bank term loan, from Miles of Golf investors, or both. It is anticipated this funding would take 90 days.

See Appendix I. Capital Expenditures.

See Appendix J. Financials

11. Financial Return to The City. *The proposal must demonstrate a financial benefit to The City taking into consideration golf operations, pro-shop operations, food and drink concessions, sale of merchandise, instructional programs, and off-season recreational activities. Preferences will be given to proposals that recognize and balance the financial and operational risks and rewards between The City and Respondent. The City desires a long-term sustainable operation. Preferences will be given to realistic assumptions toward achieving this end. Financial proposal must be submitted in a separate sealed envelope.*

Phase I. *Huron Hills continues to operate as an 18 hole golf course. The current maintenance building and clubhouse receive landscaping and upgrades to improve appearance and cart paths are improved. This phase would begin as soon as practically possible.*

Our analysis indicates that Miles of Golf can operate Huron Hills at roughly a breakeven, which is a \$250,000-\$300,000 improvement over the current operation. This assumes the equipment currently at Huron Hills remains with the golf course and assumes the buildings and irrigation systems do not require significant maintenance or upgrades.

The City has indicated that the “living wage” does not apply to summer part-time staff which is usually comprised of students. The current part-time summer staff at both city golf courses are exempt from the “living wage” provision. If summer part-time staff is not exempt for Miles of Golf, the “roughly breakeven” becomes a \$30,000 deficit.

Our analysis indicates to us that over the long term, the current format for Huron Hills is not sustainable without some subsidy or without changing the format. Phase II implements a

format change which should make the Huron Hills golf center self-sustaining and generate a return for The City. During Phase I, Miles of Golf will operate Huron Hills at its own risk with this exception: If summer staff is not exempt from the living wage provision, there needs to be discussions on handling the deficit.

If the golf course is more successful than anticipated, Miles of Golf would share that success with The City. With an agreed COLA adjustment, ten percent of revenues in excess of \$575,000 would be paid to The City. If, after a good faith effort, the golf course jeopardizes the success of The City and Miles of Golf partnership, there needs to be a mechanism to deal with this outcome.

Capital Improvement Estimates. These improvements to be paid for and completed by Miles of Golf:

	estimates
1. Cart paths	\$5,000
2. Landscaping and building improvements	\$35,000
Total	\$40,000

Phase II. *Miles of Golf moves its golf center to the first 7 holes of Huron Hills and operates the golf course as a 9 hole course. The maintenance building and clubhouse remain. It is anticipated that this phase will be completed in a 3-5 year time period.*

With a 20 year agreement, the capital to build the golf center at Huron Hills most likely needs to be funded by The City with taxable bonds. Outside funding generally requires a 30-40 year agreement. Alternative financing would continue to be pursued, but our proposal would commit The City to funding the golf center. The payments to The City would cover the cost of the improvements plus additional monies paid to The City. The additional amount paid by Miles of Golf is a function of The City's net interest rate with the lower the net interest rate the larger the spread between the bond payments and the amount received from Miles of Golf. Miles of Golf will limit The City's commitment to the project to \$3,250,000 with an upward annual COLA adjustment from the date of the agreement until construction is complete. To minimize The City's risk, Miles of Golf will pay The City \$250,000 at the start of Phase II to be amortized over the life of the project. Appendix I. is a line item list of capital expenditures.

The formula for computing the spread between Miles of Golf payments to The City and The City's cost of borrowing follows. Once the bond rate is set, The City would know the 20 year payout from Miles of Golf.

Miles of Golf Payments to The City:*

City Bond Rate	3.0%	4.0%	5.0%	6.0%	7.0%**
20 year amortization					
Miles Payment to The City 20 year amortization					
yrs 1-5	5.0%	5.5%	6.0%	6.5%	7.0%
yrs 6-10	6.0%	6.5%	7.0%	7.5%	7.5%
yrs 11-15	7.0%	7.5%	8.0%	8.0%	8.0%
yrs 16-20	8.0%	8.5%	9.0%	9.0%	9.0%

** At an interest rate above 7%, the project becomes questionable and would require further discussions between The City and Miles of Golf on the feasibility of the project.

*There are formulas for each 5 year increment that will compute Miles payments for bond rates that are fractions of percents.

For illustrative purposes, here is an outcome if Phase II were funded today. It appears that the City could issue taxable Build America Bonds for the Huron Hills expansion. Interest rates for these bonds are currently in the 4-5% range. Assuming the bond was for \$3,000,000 (\$3,250,000 project cost minus \$250,000 Miles payment), the City would receive the following returns:

	City Return @ 4% int. on bond	City Return @5% int. on bond
Years 1-5	147,433	101,656
Years 6-10	251,267	207,618
Years 11-15	359,303	317,672
Years 16-20	471,317	431,586
Total	1,229,320	1,058,532

Issues to be discussed are the funding costs during construction and the un-amortized balance of the \$250,000 Miles of Golf paid the City at the termination of the agreement.

Phase III. *The maintenance building and clubhouse are removed. A new maintenance building is built north and west of the golf shop. A new golf course clubhouse is built on the golf course. Expanded food and beverage options are explored.*

Phase III is optional and would be subject to future negotiations between The City and Miles of Golf.

Appendix I. Capital Expenditures

	Phase I	Phase II
Golf Center		
Construction Costs		
Golf Shop		945,000
Teaching Academy Studios (5)		183,750
Club Testing Studios (3)		110,250
Parking, driveways, lighting w/o curbs		250,000
Practice Area		177,500
Tees Shelters		407,000
Range Ball Processing Building		65,000
Detention Pond		50,000
Site work, landscaping		35,000
Signage		30,000
Utility hook up		
water		69,315
sanitary sewer		27,530
storm sewer		25,000
gas		4,520
electric, phone, and TV		16,272
<i>Utilities Total</i>		<i>142,637</i>
Construction Cost Sub-Total		2,396,137
Plan/Design/Test/Proj.Mgmt (20%)		479,227
Miscellaneous		
Move from Carpenter Road to Huron Hills		30,000
Contingency (10%)		287,536
Capitalized Interest on loan fees		50,000
Capitalized Construction Loan		6,094
Miscellaneous Sub-Total		373,630
TOTAL GOLF CENTER COST		3,248,995
Golf Course		
cart paths	5,000	
landscaping and bldg improvements	35,000	
<i>Project cost Sub-total</i>		-
Contingency (10%)	4,000	-
Total Golf Course Cost	44,000	

20. Appendix J. Financials*

Miles of Golf Financial Data 2008-2010

	2008	2009	2010
Sales	3,628,711	3,561,549	3,731,076
Expenses	3,591,068	3,507,665	3,698,524
Earnings	37,643	53,884	32,552
Current Assets	1,253,861	1,076,497	918,057
Fixed Assets	716,832	712,021	688,126
Other Assets	129,943	136,531	228,744
Current Liabilities	982,445	868,086	732,363
Long Term Liabilities	450,214	335,102	294,151
Shareholder Equity	667,977	721,861	808,413

*Miles of Golf financials are reviewed by Rogow & Loney, CPAs.

Appendix J. Financial Statements
Miles of Golf Forecast

	2011f	2012f	2013f	2014f	2015f MOG to HH	2016f	2017f	2018f	2019f	2020f
PROFIT & LOSS										
GROSS SALES										
Shop	3,193,268	3,320,999	3,453,839	3,591,992	3,735,672	3,885,099	4,021,077	4,161,815	4,307,478	4,458,240
Range	575,022	598,023	621,944	646,822	672,695	699,603	724,089	749,432	775,662	802,810
Kendall Academy	109,574	113,957	118,516	123,256	128,187	133,314	137,980	142,809	147,808	152,981
Huron Hills	392,228	454,354	472,528	491,429	345,722	359,551	373,933	388,890	404,446	420,623
Other	3,996	4,156	4,322	4,495	4,675	4,862	5,032	5,208	5,390	5,579
TOTAL SALES	4,274,089	4,491,489	4,671,148	4,857,994	4,886,950	5,082,428	5,262,111	5,448,154	5,640,784	5,840,234
COST OF GOODS										
Merchandise Purchases	2,123,523	2,208,464	2,296,803	2,388,675	2,484,222	2,583,591	2,674,016	2,767,607	2,864,473	2,964,730
Range Purchases	18,000	18,720	19,469	20,248	21,057	21,900	22,666	23,460	24,281	25,130
TOTAL COST OF GOODS	2,141,523	2,227,184	2,316,272	2,408,922	2,505,279	2,605,490	2,696,683	2,791,066	2,888,754	2,989,860
OPERATING EXPENSES										
G&A	888,618	930,512	955,471	1,000,006	1,026,971	1,054,514	1,091,422	1,129,622	1,169,158	1,210,079
Range	222,857	234,841	240,959	247,261	253,752	265,494	274,787	284,404	294,358	304,661
Shop	507,871	533,948	549,039	564,584	580,594	608,679	629,983	652,032	674,853	698,473
Huron Hills	427,636	447,935	461,491	475,519	356,544	367,662	379,189	391,141	403,537	429,024
TOTAL OP. EXPENSES	2,046,983	2,147,236	2,206,961	2,287,370	2,217,861	2,296,349	2,375,380	2,457,199	2,541,906	2,642,236
OPERATING INCOME	85,583	117,069	147,916	161,702	163,810	180,588	190,048	199,889	210,124	208,137
OTHER										
Interest - Line of Cr	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Interest - Term Loan	(10,000)	(10,000)	(10,000)	(10,000)	(35,000)	(35,000)	(35,000)	(35,000)	(35,000)	(35,000)
Misc										
OTHER TOTAL	(11,000)	(11,000)	(11,000)	(11,000)	(36,000)	(36,000)	(36,000)	(36,000)	(36,000)	(36,000)
NET INCOME BEFORE TAX	74,583	106,069	136,916	150,702	127,810	144,588	154,048	163,889	174,124	172,137

Huron Hills Golf Course Forecast
10/28/2010

The City's Rev/Cost	2009	2010				Miles Rev/Cost	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
							18 holes	18 holes	18 holes	18 holes	9 holes	9 holes	9 holes	9 holes	9 holes	9 holes	
revenue																	
rounds	17,304		pct of	pct of	ave.												
sales/rounds	14		total	total	pct chg		0.15	0.15	0.04	0.04	-0.33	0.04	0.04	0.04	0.04	0.04	
passes	6,632	8,801	2.6%	2.9%	34.2%	passes	10,121	11,639	12,105	12,589	8,435	8,772	9,123	9,488	9,867	10,262	
concessions	10,602	12,763	4.3%	4.1%	10.1%	concessions	14,677	16,879	17,554	18,256	12,232	12,721	13,230	13,759	14,309	14,882	
cart rental	8,172	35,371	6.2%	11.5%	290.2%	cart rental	65,066	74,826	77,819	80,932	54,224	56,393	58,649	60,995	63,435	65,972	
merchandise	10,260	10,305	3.6%	3.3%	18.7%	merchandise	11,851	13,628	14,173	14,740	9,876	10,271	10,682	11,109	11,554	12,016	
golf fees	192,551	217,515	73.5%	70.5%	14.3%	golf fees	250,142	287,664	299,170	311,137	208,462	216,800	225,472	234,491	243,871	253,626	
tournaments	6,259	6,485	2.3%	2.1%	12.7%	tournaments	7,458	8,576	8,919	9,276	6,215	6,464	6,722	6,991	7,271	7,562	
lessons	15,629	21,942	8.2%	7.1%	-9.3%	lessons	32,913	41,141	42,787	44,498	46,278	48,129	50,055	52,057	54,139	56,305	
total sales	250,298	308,412			17.1%	total sales	392,228	454,354	472,528	491,429	345,722	359,551	373,933	388,890	404,446	420,623	
	526,462	562,982			16.2%		127%	116%	104%	104%	70%	104%	104%	104%	104%	104%	
op. exp.							op. exp.	427,636	447,935	461,491	475,519	356,544	367,662	379,189	391,141	403,537	429,024
net	(276,164)	(254,570)					net	(35,408)	6,419	11,036	15,910	(10,822)	(8,112)	(5,256)	(2,251)	909	(8,400)
cum net	(718,645)	(973,215)						(35,408)	(28,990)	(17,953)	(2,043)	(12,866)	(20,977)	(26,233)	(28,484)	(27,575)	(35,975)
cum net												-0.4					
op. exp.																	
permanent staff	117,753	116,325				HH maintenance staff	92,192	94,958	97,806	100,741	62,258	64,125	66,049	68,031	70,072	72,174	
other pd time off		81				HH operations staff	65,016	66,966	68,975	71,045	43,906	45,223	46,580	47,977	49,416	50,899	
vacation	8,322	4,590				Miles management	22,110	22,773	23,456	24,160	24,885	25,632	26,400	27,193	28,008	28,849	
personal leave	1,877	1,529				Miles marketing	3,870	3,986	4,106	4,229	4,356	4,486	4,621	4,760	4,902	5,049	
sick time	100	1,387				Miles accounting	3,870	3,986	4,106	4,229	4,356	4,486	4,621	4,760	4,902	5,049	
holiday	6,568	6,318															
temporary staff	107,923	121,425															
temp overtime	627	66															
permanent overtime	2,099	2,185															
sick leave/def comp	583	681															
longevity pay	1,200	1,218															
benefit waiver	32	455															
life insurance	210	310															
medical insurance	17,777	20,337				medical insurance	12,000	12,900	13,868	14,908	16,026	17,228	18,520	19,909	21,402	23,007	
disability insur	6	32															
veba	6,408	15,168															
retiree med. Insur.	20,640	23,736				2.60% maintenance wk. comp	2,397	2,469	2,543	2,619	1,619	1,667	1,717	1,769	1,822	1,877	
workers comp	2,748	3,996				1.68% mgmt + operation wk. comp.	1,594	1,642	1,691	1,742	1,302	1,341	1,381	1,423	1,465	1,509	
social security	18,433	19,970				9.4% payroll taxes	17,490	18,015	18,555	19,112	13,068	13,460	13,863	14,279	14,708	15,149	
retirement	10,044	16,632															
dental	2,064	2,533															
optical	385	450															
unemployment	1,721	1,521															
total staff	360,945					total staff	220,539	227,695	235,106	242,783	171,774	177,648	183,753	190,099	196,698	203,562	
natural gas	2,357	1,907				natural gas	2,500	2,575	2,652	2,732	2,814	2,898	2,985	3,075	3,167	3,262	
cable tv	884	380															
electricity	5,867	4,932				electricity	5,500	5,665	5,835	6,010	6,190	6,376	6,567	6,764	6,967	7,176	
water	1,541	1,091				water	1,200	1,236	1,273	1,311	1,351	1,391	1,433	1,476	1,520	1,566	
telecommunication	1,221	1,867				telecommunication	600	618	637	656	675	696	716	738	760	783	
bldg maint	7,889	217				bldg maint	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305	
equip maint	23,302	67				equip maint	12,000	12,360	12,731	13,113	7,868	8,104	8,347	8,597	8,855	9,121	

Huron Hills Golf Course Forecast
10/28/2010

The City's Rev/Cost	2009	2010	Miles Rev/Cost	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
radio maint			radio	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305
radio service	900	864											
rent city vehicle													
rent outside vehicle	1,503	885											
fleet maint	768	60											
contracted services	6,963	245	contracted services	6,000	6,180	6,365	6,556	3,934	4,052	4,173	4,299	4,428	4,560
printing	535	18											
rent													
training			35,000 landscaping (\$35,000)	3,487	3,487	3,487	3,487	3,487	3,487	3,487	3,487	3,487	3,487
conferences		230	5,000 cart paths (\$5,000)	498	498	498	498	498	498	498	498	498	498
advertising	4,974	14,121	advertising	14,000	14,420	14,853	15,298	15,757	16,230	16,717	17,218	17,735	18,267
background checks	43	1,097											
employee recognition			Kendall Academy Contract	26,330	32,913	34,230	35,599	37,023	38,504	40,044	41,645	43,311	45,044
bad debts													
postage													
chemicals	10,086	11,057	fertilizer/chemicals	25,000	25,750	26,523	27,318	16,391	16,883	17,389	17,911	18,448	19,002
uniforms	1,213	829	tree maintenance	10,000	10,300	10,609	10,927	6,556	6,753	6,956	7,164	7,379	7,601
materials & supplies	16,637	19,812	seed/plant/soil	15,000	15,450	15,914	16,391	9,835	10,130	10,433	10,746	11,069	11,401
cost of inventory	15,705	10,256	cost of inventory	17,774	20,440	21,258	22,108	14,812	15,405	16,021	16,662	17,328	18,021
depreciation			maint equip leases	11,208	11,208	11,208	11,208	11,208	11,208	11,208	11,208	11,208	23,837
bank fees			cart leases	18,000	18,000	18,000	18,000	12,060	12,060	12,060	12,060	12,060	12,060
interest													
insurance premiums	1,188	2,172	insurance premiums	9,000	9,270	9,548	9,835	10,130	10,433	10,746	11,069	11,401	11,743
dues & licenses	812	320											
municiple services	58,092	87,468	accounting/legal	2,000	2,060	2,122	2,185	2,251	2,319	2,388	2,460	2,534	2,610
transfer to IT fund	21,096	24,894	IT	6,000	6,180	6,365	6,556	6,753	6,956	7,164	7,379	7,601	7,829
taxes	1,181	1,093	personal property taxes	1,000	1,030	1,061	1,093	1,126	1,159	1,194	1,230	1,267	1,305
gas	5,466	9,111	gas	16,000	16,480	16,974	17,484	10,490	10,805	11,129	11,463	11,807	12,161
tires	92	171											
repair parts	4,132	4,166	small tools	2,000	2,060	2,122	2,185	1,311	1,351	1,391	1,433	1,476	1,520
repair parts outside	773	2,530											
total exp.	522,740	562,982	total exp.	427,636	447,935	461,491	475,519	356,544	367,662	379,189	391,141	403,537	429,024
					1.05	1.03	1.03	0.75	1.03	1.03	1.03	1.03	1.06
			total maint	196,589	202,151	207,879	213,779	135,284	139,007	142,840	146,789	150,857	167,675
					1.03	1.03	1.03	0.63	1.03	1.03	1.03	1.03	1.11