

September 14, 2018

Wayne Branthwaite
Southern Hills, Inc.

Re: Update of Boca National GC Market and Financial Analysis

Dear Wayne:

The NGF team is continuing our work on the update report for the Boca National Golf Club ("Boca National GC" or "BNGC"), specifically focusing on the market and financial implications of developing an 18-hole golf facility (plus additional amenities) as opposed to a 27-hole facility as previously reviewed by our team. While we are continuing to gather data and prepare financial models, we are prepared to give you a preliminary update on our findings to date, which are summarized in this brief interim letter report.

REVIEW OF NGF'S 2017 FINDINGS

The feasibility report submitted by NGF for the proposed Boca National GC in 2017 was prepared under the assumption of replacing the 27-hole layout that exists on the site as the previous Ocean Breeze G&CC. As noted in our 2017 report, the NGF assumed that this basic layout could be replicated, with appropriate driving range and golf academy elements included as well. We indicated that the inclusion of these elements was subject to a final land-use plan establishing that a marketable driving range and golf academy could fit on the Ocean Breeze site along with 27 holes of regulation golf. This was the basis for the NGF's 27-hole financial projections and facility pro-forma. The NGF team also considered a somewhat reduced pricing structure to more closely replace the Boca Raton Municipal GC (to be closed), with peak green and cart fees topping out at \$79 per round for non-residents in-season and \$59 for residents.

Since the completion of the 2017 feasibility analysis, the Greater Boca Raton Beach and Park District has engaged a prestigious golf architectural firm, Nick Price Golf Course Design, to prepare a review of the site and what can be accommodated to replace the existing Ocean Breeze footprint. This review is complete and the primary finding from the architect is that this site will not be able to accommodate a 27-hole championship golf course **and** a full-length driving range and golf academy. As such, the new City golf course on this site will have to be either: (1) a 27-hole regulation golf layout **without** adequate driving range and academy; or (2) an 18-hole championship golf course with adjacent golf learning center (on eastern parcel) that will include a full-length driving range, 9-hole executive "short" golf course, practice holes and a golf academy. The financial projections completed by NGF for this 2018 update will assume the latter scenario, an 18-hole course with extensive golf learning center on the eastern parcel.

The financial projections prepared by NGF in the 2017 feasibility study included revenue to be generated from a full driving range and modest golf lesson program. As the above-noted architect's review shows a full driving range cannot be included in a 27-hole layout, the previous NGF financial estimate is thus **overstated by about \$125,000 to \$140,000 in net income from driving range and academy**. The result is net income from operations on a 27-hole Boca National GC should be closer to \$135,000+/- in Year 1, growing to around \$368,000+/- by year 5. This is reflective of a regulation-length 27-hole golf course with three equal 9-hole layouts.

PRELIMINARY FINDINGS – 2018

As noted above, the NGF is completing an updated review of the proposed Boca National GC as a Nick Price/Tom Fazio II-designed 18-hole championship golf course, with additional golf learning center / driving range on the eastern parcel of the property. Below, we note the most salient findings to date, all of which will be supported with documentation in our full narrative report to be delivered in October 2018. The key findings as of September 2018 are as follows:

1. Our preliminary review of the public golf market in the greater Boca Raton area in the summer of 2018 suggests there is opportunity to be more aggressive with pricing at the new Boca National GC, **assuming the design quality, aesthetic appeal and maintenance condition matches the high-end of the public golf market.** Our initial feasibility study assumed a peak rate (non-resident, weekend, in-season) of \$79 (including cart). The market research in 2018 offers support for peak green + cart fees to go as high as \$110 for non-resident / weekend / in-season players, with additional discounts down to \$79 for residents in-season and a \$40 afternoon twilight rate for residents. This fee structure would likely maximize the revenue performance of BNGC, but not be a replacement for the existing Boca Muni GC.
2. A new golf learning center / academy with a recognizable “brand” name and the inclusion of components and amenities consistent with higher quality golf academies (full-length range, practice holes, academy building and “short” course) should produce annual net revenue to the District in the range of \$30,000 to \$50,000 range. This projected amount is based on preliminary NGF research, and is contingent on several variables unknown at this time, such as whether the academy will be self-operated or run via concession, what license fee arrangements will be, etc. In any event, the primary benefits of the academy are expected to be ancillary to the direct revenues it produces.
3. Designing the new Boca National GC facility as an 18-hole championship golf course with extensive practice amenities (golf learning center / academy) provides the City of Boca Raton an opportunity to expand the reach and impact of the facility to a wider section of Boca residents, especially juniors and other golf beginners. A high-quality and modern golf learning center with appropriate and comprehensive programming should impact the City by bringing golf to the grassroots of the community and helping to support all golf operations in the City with additional beginning golf players.

Pro-Forma – 18-Hole Facility + 9-Hole “Short” Course + Golf Learning Center

The NGF is preparing an analysis of the potential performance of the new BNGC if the facility were to be developed and operated with an 18-hole regulation-length golf course, a 9-hole “short” course, a full driving range, a golf academy and basic clubhouse. NGF has made several assumptions that will be detailed in our full report. The most significant assumption is the expectation that the new BNGC will be designed, developed and maintained to the highest standards of quality and will employ experienced professional management from its initial opening. In addition, for the purpose of presenting an “apples-to-apples” comparison with the previous projections, the pricing structure presented in our original 2017 report is maintained in the 2018 update, with peak non-resident in-season green + cart fee at \$79.

The results of the NGF review show that the proposed new BNGC would have a more modest economic impact in year 1 as an 18-hole facility, but eventually grow to a level of net income that is comparable our original 27-hole estimate (assuming the reduction for driving range as noted). The NGF is projecting 50,000 paid rounds on the 18-hole course and another 10,000 paid rounds on the 9-hole short course, leading to approximately \$3.3 million in gross revenue

by the fourth year of operation. As is common with new courses, the District should anticipate a modest “ramp up” period for rounds and revenue, and NGF has projected about 88%-90% of stabilized rounds in the first full year of operation.

Considering all direct on-site expenses estimated for the new facility, including cost of sales and management fee, the net income available to the Greater Boca Raton Beach and Park District for capital reserve and contingencies is projected to be about \$60,000 in Year 1, growing to approximately \$379,000 by the fourth year of operation in the 18-hole + learning center scenario. This amount is comparable to the 27-hole estimate provided in 2017 (adjusting for net effects of not having driving range and golf academy), and suggests that revenue lost from the absence of a third nine holes will be recovered by the driving range, 9-hole short course and extensive learning center. A summary of projected performance is shown below:

Boca National Golf Club (18H Layout) Comparative Analysis (Year 1 and Year 4/Stable)		
	Year 1	Year 4 (Stable)
18-H Paid Rounds	44,000	50,000
9-H “Short” Course Rounds	8,000	10,000
Total Golf Fee Revenue	\$1,597,000	\$1,892,000
Golf Center (Incl. Short Course)	434,000	548,000
All Other Revenue (Net)	279,000	329,000
Total Facility Revenue	\$2,310,000	\$2,769,000
Average Golf Fee / Round	\$42.78	\$44.66
Less:		
Course Maintenance	\$985,000	\$1,047,000
Operating Expenses	1,145,000	1,217,000
Management Fee	120,000	126,000
Total Expenses	\$2,250,000	\$2,390,000
Net Operating Income (Loss)	\$60,000	\$379,000

SUMMARY

NGF’s preliminary research for the 18-hole + 9-hole short course/range/golf academy scenario indicates similar projected net revenue outcomes to the 27-hole regulation scenario, with additional driving range/academy revenue and expense savings essentially offsetting the reduced revenue resulting from having 9 fewer regulation holes. In the next phase of due diligence, NGF (pending further direction from the District) will explore how the 18-hole regulation scenario will play out financially with green fees placed at ‘market’ rate rather than at more affordable rates dictated by public policy (i.e., the desire to ‘replace’ Boca Muni).

Sincerely,



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