Phase Two Recommendations Report

District of Saanich – Cedar Hill Golf Course

June 2021

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Introduction

GGA Partners ("GGA") was engaged in December 2020 to complete a golf course service review for Cedar Hill Golf Course ("Cedar Hill", "CHGC" or "the Course") which is owned by the District of Saanich ("the District", or "DoS").

The phase one research report included all preliminary research and short-term recommendations (relating to the 2021 season), based on the following areas of analyses:

Stakeholder Engagement – GGA has conducted virtual management discussions to better understand: (i) current operations, (ii) quality of the facility, (iii) the customer experience at the facility, and (iv) the state of the facility from a capital maintenance perspective. In addition, the ongoing communication has given the operators an opportunity to explain their "wants" and "needs", as well as provide insight regarding issues and/or opportunities available. GGA also conducted a series of Cedar Hill Golf Club ("Club") member focus groups.

Customer Survey – GGA leveraged management discussions and focus group feedback to design, facilitate and report on a brief electronic customer survey for patrons of CHGC, ensuring that this stakeholder group was involved in the process and to contribute.

Market Analysis – GGA has studied the market area (30-minute drive radial) in order to better understand supply and demand. We have leveraged our industry experience and research to outline key industry trends, competition (supply), key aspects of demand, demographic characteristics, and to assess the optimal market positioning for the course. This has led to revenue recommendations specific to a pricing and programming plan. Included with this analysis was an evaluation of competitive course pricing for various daily fee and annual pass categories.

Operational Review Analysis – GGA has reviewed historical operations and cash flow, management structures, as well as a high-level review of capital requirements. We have leveraged our proprietary database of operational and financial golf course data to benchmark operating performance to support recommendations relating to potential cost saving opportunities. Further analysis and long-term recommendations will be completed in phase 2 following our site visit of the facility.

Site Visit – GGA conducted a site visit and follow up discussions with key operating staff and management. GGA also toured 'competitor' golf facilities to better understand CHGC's position in the marketplace and identify opportunities for competitive advantage.

The phase two report herein leverages the research and observations to date to outline GGA's comprehensive recommendations relating to CHGC operation and future sustainability of the business, as outlined below:

SWOT Analysis – GGA has compiled its research and observations to develop a "SWOT" analysis (strengths, weaknesses, opportunities and threats) of the entire operation as it relates to strategic positioning, facilities, capital, finance, market, membership, communications and operations to support recommendations.

Comprehensive Recommendations – GGA has developed a list of recommendations for each functional area of the operation, along with probable costs (when applicable), actionable steps for implementation and proposed timing. Accompanying with the recommendations is a financial impact analysis that demonstrates the possible range of financial improvements from 'status quo'. GGA has also prepared a 'sensitivity analysis' on key variables (i.e., rounds demand, net revenue per round) to provide a range of impacts from a 'best case' to a potential 'worst case'.

Presentation – Following issuance of the final report, a GGA representative will present to the mayor and council, summarizing the key findings and recommendations while also clearly outlining GGA's process and recent industry trends for municipalities that are important for the District to monitor going forward. The presentation will outline ideal timelines for implementation of key recommendations, and GGA's vision for CHGC over the next 5-10 years once all recommendations are adopted.

Executive Summary

Cedar Hill Golf Course is well positioned to provide a financially sustainable operation that serves to grow the game of golf within the District and provide an affordable leisure service for all patrons of the District to enjoy.

Like many municipal and daily fee courses across North America, the golf-side of the business at CHGC has benefited greatly from the spike in demand that occurred as a result of the pandemic, when the sport incurred limited competition from leisure alternatives. Even in the post-pandemic future, we expect a portion of the 'demand gain' to be retained in the long-term as a portion of the 'covid-era beginners' persist as long-term golfers. This will place added capacity stress on an already busy golf course at pre-covid levels. The positioning of CHGC in the context of the local golf market is a leader of the mid-tier segment, providing an affordable price point, favourable downtown location and quality of course conditioning that is superior to alternatives at similar price points.

Relevant industry trends for CHGC to consider for the future include the movement away from senior discounting and annual membership passes. Both of these offerings are becoming less common across the municipal golf landscape, and both typically lead to lower golf revenue per round of available inventory. By transitioning away from these offerings, and maintaining the current level of usage (rounds played) CHGC will enhance golf revenues to sustainably support ongoing maintenance and long-term capital investment.

A key strategic decision for CHGC is the going forward operating structure when the current golf contract expires at the end of 2021. The decision is not purely financially driven, and must account for factors such as union impact and the continued ability for the District to control the pricing and programming for all residents. A continued management contract that maintains the current golf operations agreement with the addition of F&B concessionary operations provides the best fit for the goals of the District because it 1) reduces operational risk, and oversight needs; 2) Continues to meet expectations for a municipal golf and F&B experience; 3) Improves the financial model for CHGC by minimizing the cost centres which have historically been the drivers of operating losses (F&B and Clubhouse); and 4) has minimal impact to union relationships and the existing staffing profile.

The refinement of the operating structure of CHGC and the tactical adjustments to improve 'revenue per round' project to create a financial model that is self-sustainable, generating positive cash flow each year beyond expected 'maintenance' needs which can be reinvested back into the facility. Suggested capital improvements focus on increasing utilization (improved drainage to increase playable days) and addressing areas of weakness as identified on the customer survey and reaffirmed during GGA's site visit, such as the booking experience, lesson programs, driving range and F&B offering.

Looking out five years, CHGC will continue to provide strong 'value-for-money' and an improved customer experience that is fair and accessible for all residents of the District. Financial flexibility will allow the District to consider capital improvement projects and programs that serve to promote golf and recreation of all ages and increase participation.

SWOT/SOAR ANALYSIS

The capabilities and potential of CHGC are considerable and out-weigh the shortcomings for the business. The research phase has helped to identify the Strengths, Weaknesses, Opportunities and Threats ("SWOT") outlined below.

Exhibit 1: SWOT Analysis

Strengths	Weaknesses
- Excellent location with favourable demographics around the facility. - Golf course greens. - Overall high customer satisfaction. - Experienced and knowledgeable golf management staff (maintenance and pro). - Positive growth trend of paid revenue per round. - COVID-19 has driven an unprecedented surge in demand for golf, increasing demand for CHGC in the short to medium term.	- Outdated tee time booking system (iGolf). - Clubhouse F&B experience. - Bunkers and Drainage on course. - Driving range and physical Pro Shop area. - Lack of yield management tactics to maximize occupancy/utilization and average green fee rate. - Financial tracking and departmental allocation to support strategic decision making.
Opportunities	**Threats**
- "Retain the Gain" – Convert a portion of the 'new golfer' audience that started golfing in 2020 (as a result of the covid-spike in demand) to long-term customers. - Increase peak green fee rates without affecting relative market position. - Lease or management contract that supports financial sustainability. - Booking system that improves customer experience and CRM capabilities for CHGC. - Trail system walking traffic exposure to CHGC. - Flex pass membership that improves the average revenue from 'member rounds'.	- Annual Pass overutilization limiting profitability. - Continued clubhouse flooding in the future. - Drainage/irrigation issues limiting supply of rounds inventory. - Lack of F&B offering impacting golfer satisfaction. - Relationship with 'Club' providing minimal benefit back to CHGC. - Lack of consistent rate increases not supporting annual increases to cost centres.

In leveraging the competitive strengths and new opportunities for CHGC, a forward-looking analysis of Strengths, Opportunities, Aspirations and Results ("SOAR") help to create a vision of future aspirations and the results they are intended to bring, to guide the objectives of the recommendations that follow:

Exhibit 2: SOAR Analysis

Strengths	Opportunities
(see above)	(see above)
Aspirations	**Results**
- Financially sustainable operating model that is self-sufficient to fund capital and still provide excellent value to the public. - Culture of continuous improvement. - A more efficient and effective organization. - Programs and amenities that reflect appropriate value for the fees paid to enhance the customer experience across all elements of CHGC.	- Maximum value for taxpayers' dollars. - Capital investment into the assets to improve the customer experience, turning weaknesses into strengths. - Management contract/lease structure with goals and incentives aligned with the District. - Proactively capitalizing on opportunities and strengths while addressing risks and weaknesses.

Short-Term Recommendations

The following section provides recommendations pertaining to the immediate 2021 season:

Fees and Rate Offering

Our competitive research supports the opportunity to raise peak green fee rates ('Peak Rate') in 2022 and make minor tweaks to the discounting structure to improve the average green fee rate received per round. We recommend increasing the Peak Rate from $51 to $54, based on the following factors:

- **Minimal impact on competitive price positioning** – CHGC would still be priced at a significant discount to any competitor facility of comparable or higher quality.
- **Realigns to operating expense growth** – Peak Rates have increased at 1.3% annually since 2016, while golf related operating costs have increased at 5%.
- **Heightened demand for golf** – The increase in demand for public golf was highly publicized in 2020 due to COVID. We expect a portion of this demand to remain for the long-term.
- **Improves the relative 'discount' of off-peak pricing to incentivize a spread of demand** – Holding flat several 'off-peak' rates (i.e., winter and twilight) will improve the relative discount of these play periods, which have historically been underutilized.

Based on the realigned Peak Rate, the following table summarizes our recommended approach for full price offering and discounting structure to deploy in 2022:

Exhibit 3: 2022 Proposed Fee Changes (incl. GST)

Round Type	2021	2022 Proposed	Proposed % Increase YoY	% of Peak Rate
Weekend / Holiday Walking Rates (Summer)	$ 51.00	$ 54.00	6%	100%
Weekday Walking Rates (Summer)	$ 46.00	$ 48.00	4%	89%
Weekend / Holiday Walking Rates (Winter)	$ 41.00	$ 41.00	0%	76%
Weekday Walking Rates (Winter)	$ 41.00	$ 41.00	0%	76%
Twilight (S)	$ 41.00	$ 41.00	0%	76%
Twilight (W)	$ 31.00	$ 31.00	0%	57%
Junior (S)	$ 26.00	$ 28.00	8%	52%
Junior (W)	$ 21.00	$ 23.00	10%	43%
9 Holes (S)	$ 31.00	$ 32.00	3%	59%
9 Holes (W)	$ 23.00	$ 25.00	9%	46%
13 Holes (Summer Only)	$ 41.00	$ 44.00	7%	81%
Super Twilight (Summer Only)	$ 31.00	$ 33.00	6%	61%
Cart Fee per 18HE	$ 18.38	$ 19.00	3%	n/a
Full Membership (Annual Pass)	$ 2,330	$ 2,400	3%	n/a
Junior Membership	$ 300	$ 325	8%	n/a
Flex Pass (After March 15th)	n/a	$ 300	n/a	n/a
Flex Pass (Before March 15th)	n/a	$ 400	n/a	n/a

We believe the proposed pricing structure remains competitively attractive in the local market at all price points. The increases to the Peak Rates will improve the average rate per round while partially incentivizing more play during non-peak periods. We expect the District to be able to target an overall average rate per round of $40 in 2022 based on the proposed fee structure. The District should anticipate a higher percentage of non-passholder rounds (beneficial for the overall average rate) and more balanced demand to ensure an equal or greater total number of rounds played in 2021 and beyond.

Other considerations are summarized below:

- **Strategy for rate increases** – The repositioning of the Peak Rate in 2022 will better align with the growth of operating costs for the golf related expenses. Moving forward, we recommend a minimum increase every year that matches annual inflation ("CPI") for the year.

- **Senior Discounts** – The industry is moving away from the era of very significant 'senior discounts'. While a handful of municipalities across Canada continue to offer senior rates, they tend to be directed towards off-peak time periods. Victoria is also a unique market, known for being a retirement destination. Within the local competitive set, only two competitors offer a senior discount, and CHGC maintains a far lower price point even after these discounts. Accordingly, we recommend that the District does not institute a permanent senior rate.

- **Winter rates** – Based on the change of conditions and the infrequency of play historically, we recommend maintaining the same winter rates. The average discount in the local market when comparing peak winter rates to summer rates is 27%. With the proposed increase to the peak summer rates, CHGC improves the discount to 24%, which better aligns with the market.

- **Twilight rates** – Similar to the strategy for winter rates, we would suggest holding twilight rates flat to encourage more 'off peak' demand. The district will benefit from a 'smoothing out' of rounds demand. The hold on rates also repositions the discount level to be better aligned with industry standards (proposed discount would improve to 24%).

- **9-hole rates** – The industry standard for pricing 9-hole rates as a percentage of the respective seasonal 18-hole rate is approximately 60%. Anything lower provides minimal incentive to encourage the customer to upgrade to 18-holes. We have suggested minimal increases to the 2021 9-hole rates to align with the 60% target.

- **Annual Passes –** We recommend a phase out of the annual pass program at the end of 2022 season. The standard for municipal golf courses across the province, and the Country, is to focus on green fees rather than annual passes. This change will align CHGC with the best practice across Canada. Once the district communicates the phase out (during 2021), they should provide a sign-up period so that anyone who signs up before the deadline may be 'grandfathered' for the 2022 season, but once the season begins the pass will no longer be offered. The price of the annual pass for those who sign up or grandfathered for the final 2022 season should increase by at least 3% to cover inflationary expense increases.

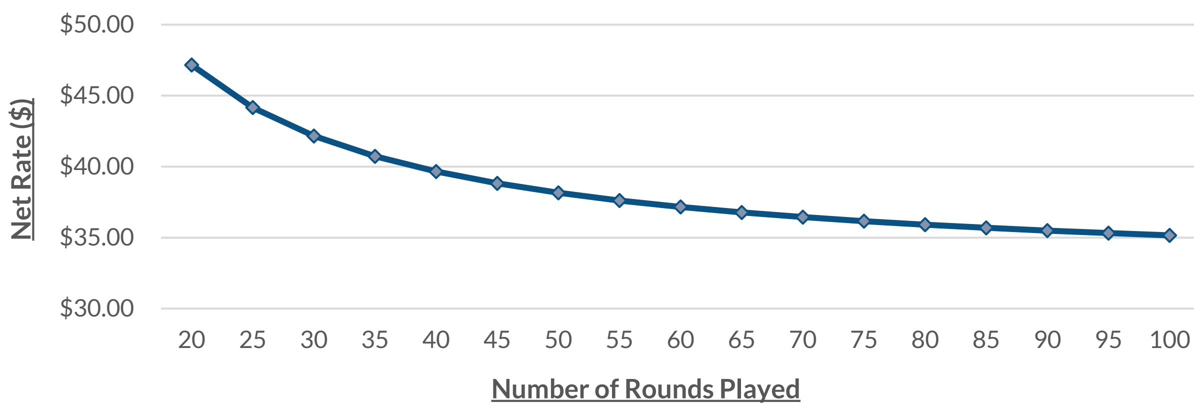
- **Flex Pass –** As a replacement strategy for the annual pass program, we recommend a 'flex pass' program. This type of programming has become increasingly popular as it maintains a customer volume incentive, while also protecting a desired net rate per round for the facility. Flex pass structures generally involve an affordable upfront payment ($300-$500) and a discounted rate per round.

We suggest the following structure for CHGC:

- $300 upfront payment (or $250 if joining the program after March 15th)
- 25% discount on the peak summer weekend fee
- 40% discount on all other daily fees (When playing during twilight hour - 40% discount rather than the twilight discount of approximately 25%)

The structure above would reasonably guarantee that CHGC receives a net rate per round of over $35 per flex player, even at 100 rounds annually. For context, the average revenue per passholder round in 2020 was $26.50. In future years, the upfront payment should increase at a proportional rate to Peak Rate increases, maintaining the same discount percentage structure.

Exhibit 4: Projected Range of Average Rate per Round – Flex Passholders



Note - Assumes an average Peak Rate of $48 and an average discount of 33%, to account for a balanced mix of weekend, weekday, and off-season golf.

Booking System

The district has taken the necessary steps and appropriate level of due diligence in evaluating a new booking system vendor for CHGC. We strongly feel that a change is required, and that the current booking system is inadequate both logistically and in terms of the customer experience.

We agree with the decision to evaluate 'Tee-on' and 'Lightspeed' as the potential replacement system. These systems appear to have the appropriate capabilities to effectively and efficiently manage the golf booking process at CHGC, and at a reasonable price point. These systems are widely used across the public domain in Canada, and from our experience have generated high levels of satisfaction from existing facilities.

Key considerations that should be components of the new booking system are as follows:

- Ability to pay by credit card at the time of booking with cancellation policy for any cancellations within 24 hours of tee time.
- Requirement to specify 9 or 18 holes at time of booking.

We have also provided a list of best-practice trends relating to golf booking system expectations, as well as facility-wide information system software considerations for the future.

Key Trends for the Future

The following summary identifies trends and best-practice capabilities for golf booking systems. It will be important for Cedar Hill to ensure that the vendor and system selected to manage the course be current with, and/or pursuing research and development initiatives aligned with these trends.

- **Movement towards single-source integrated software providers** – Having all software requirements provided by a single-source (or at a minimum the capabilities for integration) has the ability to significantly improve both efficiency and effectiveness of operations and communications at a lower cost. This approach also allows the course to direct responsibility for any technology challenges to one specific vendor.

- **Automation of yield management practices and dynamic pricing models** – The concept of yield management has gained considerable traction with golf course operators over the past ten years, with most operators adopting a stratified pricing structure to help manage utilization through price-point. As a result, the concept of dynamic pricing is becoming more and more prevalent in the public and municipal golf realm. The premise that a unit of inventory at a golf course, a tee time, is worth precisely what someone is willing to pay for it at any given time has been slowly increasing in popularity and acceptance among owners and operators.

  While the large majority of tee sheet software programs easily manage multiple green fee prices for different times of the day, days of the week and weeks of the year, until recently, they have not been sophisticated enough to help operators efficiently execute and effectively manage a robust yield management program or to automatically adjust pricing for individual units of inventory based on a pre-defined set of criteria. Recently, a number of software providers have improved this capability, and will continue to, develop more sophisticated ways for golf course operators to leverage technology to efficiently and effectively manage complex yield management programs and to automate dynamic pricing models based on various criteria established by the operator.

- **Increased customer interaction with the course's software programs** – Course websites as booking engines are becoming ever more robust, interactive and user friendly. Customers are increasingly able to interact with a course's software programs via calendars of events, reservations, personal profiles, member and loyalty program registrations and account management, new online course communities - which bring the social network to the specific golf course or system community, online merchandise stores, blogs, and integration with some of the biggest social network sites in existence, Facebook, Instagram, Twitter and LinkedIn.

- **Centralization of communications and development of customer defined content solutions** – Solutions providing one location from which all communications are managed, regardless of the media through which they are delivered and allow customers to customize are currently under development. These solutions will be implemented for existing customers, as well as prospective customers.

- **Continued migration towards mobile living -** The use of technology to deliver online communications is no longer only a strategy and tactic for retaining and attracting younger customers – all age groups are now very active online. Customers expect, and software providers will deliver, the ability to do almost everything on mobile devices that they can do online on a desktop computer.

- **Greater focus on data security -** More emphasis will be placed on data security and credit card protection, with customers demanding a higher degree of security and software providers responding accordingly.

- **More prevalent use and development of automated dashboards for management** – Fully integrated, automated financial and operational dashboards, that include utilization and communication statistics, with crisp and clean graphical depictions of the past, present and future, will continue to become more prevalent to improve customer communication and marketing impact.

- **Continued discussion on running software applications through the 'Cloud' and Software as a Service (SaaS) –** The number of courses that are running software in the Cloud will continue to trend upwards; however, the majority of courses that move to Cloud hosting and virtual servers will be smaller courses, in more urban settings, with a more sophisticated infrastructure.

  A benefit of Cloud hosting is that PCI compliance (security, data integrity and privacy requirements for "Payment Card Industry" data security standards) can be transferred from the vendor to the client - this is not the case if there is a server on-site – where compliance falls to the course.

<u>**Information System Software Considerations**</u>

Based on the research and analysis conducted by GGA to-date, the following are suggested software requirements that Cedar Hill should consider over the long-term to achieve best-practices for an overall facility management information system:

1. **Fully Integrated System from a Single Source Vendor**
   Utilizing software from a single source would allow Cedar Hill to maximize the amount of integration and reporting capability that is possible between each function.
2. **Sophisticated Customer Relationship Management and Integrated Sales and Marketing Solution**

   An important aspect of the system relates directly to the customer relationship management function. Best-practice systems are fully integrated and <u>*customer-centric*</u> software packages.
3. **Comprehensive Tee Sheet Management System**
   Tee sheet software manages and controls the most valuable inventory that golf courses have: tee times. This software must be the cornerstone of the Cedar Hill's system, full-featured, flexible and scalable.
4. **Fully Integrated Point-of-Sale with Secure Payment Processing and Inventory Management System**

   The point-of-sale system is the money manager of any fully integrated operations software program. All financial transactions flow through the point-of-sale system and should be directly associated with reservations and inventory management modules.
5. **Sophisticated Web functionality and Presence**

   The website will be the key tool for customer communications and interactions (courses-to-customer, customer-to-courses and customer-to-customer).
6. **Robust Administrative Capabilities and System Integrations**

   The administrative capabilities of an operation's software system should be robust, including real-time, customizable reporting capabilities, management dashboards and tools.
7. **Continuous User Training Programs and Comprehensive User Training Aids**

   The greatest barrier most courses face in today's world of software conversions and on-going best practice utilization relates to training. Software training should be a considered a continuous process that never ends.

Access to the Tee

Depending on the maintenance practices, we would recommend implementing a 'Sunrise' 9-hole rate if it can be done without significantly inhibiting the maintenance staff's routine. This would involve back-nine rounds during the first hour of tee times, priced at $25 in the summer and $20 in the winter.

Assuming the district and golf operations contractor have the authority to adjust the tee intervals in 2021 (unrestricted by COVID health policies), we recommend maintaining the 9-minute tee interval with consideration to trial a split interval (8-minute; then 9-minute; then 8-minute) during the first 3 hours of the day.

Capital Priorities

Continued Drainage Improvements - Based on the patron survey results and the anticipated capacity constraints on the golf course, a capital priority for 2021 should be the continued focus on golf course drainage. Continued investment in drainage improvements will improve satisfaction while also increasing playable days to increase the overall supply of rounds available.

Golf Practice Facilities – The district should consider low-cost investments to the golf practice facilities, as this area was rated well below benchmark range on the patron survey. Given the industry growth in 'new golfers' during 2020, the ability to provide a satisfying experience for beginners to practice and improve their game may have long-term customer retention benefits for CHGC. Immediate considerations include the following:

- Upgrade quality of range balls
- Permanent artificial turf tee area which would include a concrete base and proper permanent matts inset and spaced out in an attractive and functional manner.

Estimated Cost: $20k-$40k

Temporary F&B Service - Consider adding a temporary halfway house or concession stand behind the 9th green to serve sandwiches, beverages (alcoholic and non-alcoholic) and snacks. Stationing a stand or beverage cart here and adding a bbq would be a nice touch that would increase spend and possibly attract people from the walking trail to purchase food. If this service is not offered, golfers will bring their own food and beverage with them. The concern is that golfers become accustomed to doing this which may impact food and beverage revenues in the future, and there is risk associated with golfers consuming their own alcohol on the course.

Advertising and Promotion

Consider leveraging social media during 2021 to post 'flash promotions' for 'day-of' rounds during pockets of available timeslots. The high participation rate on the patron survey is evidence that the District's social media outlets are effectively reaching the patrons. Sporadic flash promotions will provide the District and golf contractor with a low-cost tool for yield management to fill the tee sheet. An important consideration for this tactic is to not fall into a pattern (i.e. same day of the week), otherwise customers will catch-on and wait for the flash promotion rather than book in advance.

Financial Tracking

Based on our review of the CHGC financial reporting, allocations, and departmental tracking, we recommend the following considerations to better align with best-practice financial performance tracking for daily-fee facilities:

- Utilities – unless specifically metered by department, these should all be charged to Administration or Clubhouse.
- Food and Beverage – Separate revenues and costs (incl. payroll and other operating expenses) by function to properly track the profitability of each food and beverage department.
- Overhead Charges – Separate charges by department; currently lumping all overhead into one account (~$160k), mostly payroll related.
- Departments – Cedar Hill should operate with the following departments: Administration, Clubhouse, Food & Beverage, Golf Operations and Greens/Golf Course Maintenance. While the District may allocate cost centres such as 'Pond and Trail' to fall under CHGC responsibility, there should be a process to separate costs and/or cost centres that do not relate to normal golf facility operations.

Long-Term Recommendations

The following section provides recommendations extending beyond the immediate 2021 season and affecting the overall operating model and long-term sustainability of CHGC:

Capital Priorities

Move the Pro Shop into the Clubhouse - Overall, the Pro Shop building is substandard and does not reflect the quality and standards represented by the golf course and the Clubhouse building. While there is certainly a convenience factor due to its location adjacent to the driving range and cart storage building, the District should consider moving the Pro Shop operation back into the Clubhouse when the building is reopened.

Estimated Cost: $15k-$30k furnishing/fixtures

Convert current Pro Shop building to a teaching centre with one or two golf simulators – This would allow professional staff to give lessons year-round and achieve the course's goal of helping people learn and improve. In addition, there would be the opportunity for additional revenue through usage/booking fees for private parties.

Estimated Cost: $40k-$60k to own and furnish (lease is an alternative option for the simulators)

Raise the Driving Range border fencing – This will allow for golfers to hit shots up to 200 yards. This will also decrease the risk of injury to golfers on the golf course around the range, especially on holes number 1 and 3 which are on either side of the range. The addition of simulators (previously mentioned) and a raised fence would allow the golf course to attract longer-hitting golfers of all ages and abilities.

Estimated Cost: $50k-$75k

Continued priority on drainage – This has been mentioned as a focus for the immediate term (2021) and should continue to be an ongoing focus due to the importance it has on the customer golf experience and ability to maximize inventory (rounds played). CHGC has made positive strides on the drainage project in recent years and it should be a continued priority to keep the course busy in the winter which positively impacts golfer enjoyment and revenue for the golf course.

Estimated Cost: Include in annual 'capital maintenance' budget as special projects

Cart path paving – The costs for maintaining the cart paths of a golf facility can vary greatly depending on the connection of the paths (full path versus tees/greens only), type of paving (asphalt, curbed, etc.) and the climate effect on deterioration. Newly repaved cart paths generally have a minimal positive impact on golfer satisfaction for the cost associated. Accordingly, we recommend the District take an approach to 'repair as needed' on an annual basis with a focus around tees, greens and high traffic areas.

Estimated Cost: Include in annual 'capital maintenance' budget as special projects

Irrigation system satellite boxes – Well past useful life (16 years old) and in need of replacement over the next couple of years.

Estimated Cost: $100k-$140k

Golf Course cosmetic changes – The site-visit tour of the golf course revealed the following suggestions for 'special project' changes to the golf course:

- Removal of some trees and bushes at the back of hole 7 tee would allow the District to build a permanent sign with the name of the golf course. This would help create exposure for Cedar Hill Golf Course to the traffic passing by on Finlayson Street.
- Reshape the current tee area for hole number 9 to eliminate the left side of the current tee area. There is a large hedge on the right side of the tee which will force golfers to aim more to the left side of the fairway and reduce the likelihood of shots ending up in the homes on the right, which has been a safety issue in the past.
- Some safety netting on the left side of hole number 13 will require replacement in the next 5-10 years and should be added to the long-range capital plan.

Estimated Cost: Include in annual 'capital maintenance' budget as special projects

Equipment Leasing Strategy

Consideration should be given to establishing a lease program for mowing equipment in the future. Leasing gives the District cost surety and ensures that the golf course has the up-to-date equipment it needs. As a best-practice guide, long lasting assets such as tractors (i.e. with a lifespan of eight or more years) should be owned, while short-term equipment (with a lifespan of five to six years or less) should be leased. Furthermore, all equipment bids should be evaluated through a bid process and lease evaluation options need to include a terminal value guarantee with all leases being operational as opposed to capital. Leasing mowing equipment has become standard practice at golf courses in Canada.

In the past, the argument against leasing assets was that the cost of borrowing was at least 2% higher than a conventional bank loan. The major reason for leasing assets was to ensure the assets were rolled over every three to five years and the leases were typically operating leases which would become an operating cost, not a capital purchase.

The benefit to leasing was to ensure customers paid for the cost annually and the charge was representative of a charge for the asset over its useful life. Further, equipment was relatively new; and as such, maintenance costs remained relatively constant, the conditioning of the course was preserved, and the decision makers would avoid the temptation of 'putting off' a purchase if there was a need to preserve cash. In recent years, the reason to lease versus purchasing equipment has been enhanced due to very competitive bids from manufacturers.

A component of evaluating the lease option versus the purchase of equipment is the residual value some manufacturers will place on their equipment in order to sell their product. For example, a manufacturer may place a high residual value on a piece of equipment whereby the actual fair market value at the end of the lease is less than the residual value. This example will give a benefit to the business far in excess of the additional interest cost. Also, due to competition, some manufacturers offer 'in house' financing that will give interest rates well below existing banking rates.

Based upon current trends, most golf facilities are leasing equipment versus purchasing due to the following:

a) Most facilities are more concerned about cash; and as such, the lease option typically conserves cash.
b) Leasing is another source of financing and allows the facility more financing capability.

c) The equipment is rolled over on a regular basis which protects course conditioning and ensures consistent repair costs.
d) In a competitive marketplace, some manufacturers offer 'in house' credit/leasing which reduces the annual cost to the business due to higher residual values.
e) The additional interest cost may be insignificant compared to the benefits outlined in (a) to (d).

Relationship with the 'Club'

The Cedar Hill Golf Club has been associated with the golf course for decades, but the membership has declined significantly from a high of 800 members to approximately 165 members currently (with many not residents of the District). Preferential 'club' associated relationships are highly uncommon in the municipal golf industry, where a goal is always to provide equal and fair value to all patrons of the District/municipality.

While in the past there may have been a strategic benefit for the relationship due to the size of the audience, that no longer appears to be the case. The club is currently entitled to 29 events and activities, one of which is a regular Tuesday Ladies' Day from April through October. For each event, tee times are blocked for club use, often in prime time, and are not available to the public. Club members use their annual pass or pay green fees, but with one exception – the Cedar Hill Open – no additional fees are paid to block book.

Other event examples and their associated impacts are as follows:

- Ladies' Field Day – once a year, the ladies' division holds this event to raise funds for hospice. They request and receive a $4,000 grant from Saanich Council to run the event, and block off a full Friday, making it unavailable to the public. Given that a typical Friday will generally bring in over $8,000 in green fees, and that the group receives an additional $4,000 from Council, the District is out $12,000 for that day.
- Cedar Hill Open – held in May, this event is held over two weekend days and all green fees are waived, on condition that financial profits derived from the tournament and collected by the club are reinvested into golf club capital projects. That profit has ranged from $1,497 to $8,254. Green fees typically collected on May weekends are $16,000, leaving the District with negligible financial impact from the tournament.
- Multiple interclub events, wherein golfers from another club will come play for free at Cedar Hill.
- Nine memorial tournaments that generally consist of block bookings for 30 – 35 people.
- The Club president, ladies' captain and men's captain each receive pre-booked weekly tee times.
- The Club receives free use of a boardroom monthly, as well as a large boardroom twice a year. In addition, they receive free use of an office for the club president, as well as storage space and use of a computer to log scores. The value of this benefit is conservatively over $11k per year (2020 excluded) just for the rental fees associated with the office space and booking of other spaces.

We recommend dissolution of the formal arrangement with the golf club. The course should continue to offer to host events for the club or other organizations (open to everyone), and encourage the Club to remain intact and be free to use other courses as well. The Club would be welcome to use the facilities just as all patrons of the District are.

Succession Planning

The golf course maintenance was highlighted as a key strength of the operation, as observed during GGA's site visit and confirmed through the customer survey feedback. An intentional succession plan should be considered by the District, as this component of the operation is likely to continue to be staffed 'in-house' in the future.

The current Superintendent is planning to retire at the end of the year. This is a significant loss to the golf course as his leadership and expertise has positioned Cedar Hill as one of the best conditioned golf courses in the area. It is apparent that he has done an excellent job of building a team of educated and experienced professionals who perform the daily maintenance work at the golf course. GGA recommends that the District work closely with the Superintendent to determine if one of his current team is prepared to step into his position when he resigns. This should be done in the short term to allow the District to work with this individual to prepare them for the Superintendent role prior to the end of the year.

If the District determines that they will need to look externally for a new Superintendent, a job posting should go out mid summer with the goal of hiring a replacement in the Fall. This will provide enough time for the new Superintendent to get up to speed on the role and ensure a smooth transition.

Key Performance Metric Tracking

The financial results of a public golf course are significantly affected by both the number of members or pass holders and their propensity to play under a fixed annual fee as well as the course's ability to attract public play and drive green fee rounds. Each round of golf played typically generates either a green fee or an annual fee return and impacts other revenue streams such as golf cart rental, practice facility revenue, food and beverage and merchandise sales.

Of the above-noted revenue sources, the financial results of a public golf course are impacted the most by direct contribution to net income generators, being green fees, annual pass fees, golf cart revenue, and practice facility revenue. Typically, food and beverage and merchandise revenue do not contribute to net income to the same extent, as there is a direct cost associated with the product being sold. For instance, in a well-run public facility, approximately 15% to 25% of every dollar of food and beverage revenue, and 20% to 30% of merchandise revenue goes directly to net income.

We identify the following metrics as key performance indicators for CHGC operations:

1. **Rounds Played** – The standard measure of demand in the industry, a round played is the equivalent of a 'sale'. It's also important to track the 'type' of rounds generated at the facility. Tournament and group outing rounds tend to generate a higher average rate compared to member rounds.

2. **Average Rate per Round** – The advent of dynamic pricing has eliminated the significance of posted rates in most markets. Optimizing the average rate per paid round and the number of rounds played is the key formula to maximize revenue.

3. **Occupancy** – Each market has a finite inventory of available tee times, based on seasonality, sunlight and weather. Occupancy is a measure of how many of those tee times are sold throughout the year.

4. **Revenue per Available Round (REVPAR)** – Popular in the hotel industry, REVPAR is similar to average rate per round but measures the average revenue earned per available round (Occupancy % multiplied by the average rate).

5. **Average Rate / Peak Rate** – Due to discounting and dynamic pricing, golf courses typically target an average rate per round of 70% to 80% of their posted peak rate available. If the average rate is above this threshold, it may indicate that the facility is leaving revenue on the table and should raise peak rates. If the average rate falls below this range, the facility may be over discounting or have a peak rate that the market is not willing to support.

6. **Revenue per Round** – The true 'average rate per round' is more than just the green fee paid. Driving range, F&B and merchandise should all be monitored on a per round basis to gain a true understanding of the overall value per customer. To properly monitor this data point, the facility must clearly differentiate between event related F&B revenue and golf related F&B revenue.

7. **Cost of Goods Sold** – Food and Beverage and merchandise sales are both core ancillary revenue opportunities attached to each round of golf. Both have a direct cost associated with them.

8. **F&B Profit Margin** – In addition to COGS, F&B labour and other operating expense are also variable costs associated with F&B revenue. All three should be tracked together to determine the overall net profit margin of the F&B operation and its contributors.

At a minimum, the District should have reporting transparency from the golf and F&B departments to track the key metrics above on a monthly basis or more frequently. We encourage the management team to set up a dashboard using the metrics above, which will help to streamline monitoring and operational discussion throughout each season. The following table highlights the historical performance of the KPI metrics above, to help set the baseline for long-term targets:

Exhibit 5: Historical KPI Performance

	2016	2017	2018	2019	2020
Rounds Played	44,287	41,456	36,251	52,161	47,697
Average Rate per Round	$23.23	$24.47	$27.69	$26.34	$29.88
Occupancy	84%	78%	68%	99%	90%
Revenue per Available Round (REVPAR)	$19.42	$19.15	$18.95	$25.94	$26.91
Average Rate / Peak Rate	48%	50%	55%	53%	59%
Total Revenue per Round*	$43.17	$44.41	$56.73	$42.86	$35.76
Cost of Goods Sold - F&B	44%	47%	49%	45%	49%
F&B Profit Margin	-4%	-5%	-12%	-9%	-138%

Rounds played – 50,000 rounds should be a minimum target threshold moving forward, which was already surpassed in 2019 without the benefit of covid-generated demand increases.

Average Rate per Round – CHGC has been on an improving trend, but is still below the typical benchmark range when evaluating as a percentage of the peak rate charged (59% in 2020). The elimination of the passholder program will improve the overall average rate per round, and CHGC should target 70% of the peak rate as the long-term target for average rate per round.

F&B profit margin – The overall profit margin and cost of good sold are underperforming relative to benchmark range. A breakeven profit margin and COGS of 42% or lower should be the target over the next five years.

Future Operating Structure

The CHGC operation has historically operated under a management contract for the golf operations, with the course maintenance and clubhouse/F&B operations managed 'in-house' by the District. With the flooding and resultant clubhouse closures for the majority of the past two years, and the golf operations management contract set to expire at the end of this year, the District has several options available to consider for the future operating model of CHGC.

Two important considerations in evaluating potential operating models moving forward are the following union provisions:

- A contractor would be required to offer wages at least equal to those specified in the collective agreement (only for positions in the current wage schedule).
- Contracting out cannot result in the layoff or termination of permanent staff.

Below is a summary of the different operating models that should be considered by the District.

Exhibit 6: Summary of Pros and Cons of Most Efficient and Effective Operating Model Options

Operating Model	Pros	Cons
Third Party Lease	• Limited operating and capital risk • Known cash flow (rent) • Control over affordability would be maintained • Reduced monitoring and administrative requirements and costs • More consistent delivery of products and services • Capital funding is deployed to highest and best use for financial success	• Limited strategic and operating control. • Capital funding may not be deployed to highest and best use with respect to the District's goals and objectives
Third Party Management Contract	• Full control over strategy, operations and capital deployment • District fully participates in performance improvements	• Operating, capital and financial risk is largely borne by District with sole responsibility for operating losses and capital funding. • Risk of significant labor cost increases.

Third Party Lease

In this model, the District would lease the entire golf course (Pro Shop, Food and Beverage and Maintenance) to a third party and in return receive a fixed annual fee or percentage rents based on revenue.

Exhibit 7: Key Terms of a Third Party Lease Structure

Operational Authority	Capital Responsibility	Financial Structure	Contract Term
The **lessee has operational**	The **District** is typically responsible for funding	The **lessee retains proceeds** and is	10 to 25 years with review points every

Operational Authority	Capital Responsibility	Financial Structure	Contract Term
authority, with the exception of the establishment of rates and fees in select circumstances.	**deferred capital** at the outset of lease. The **lessee** is typically responsible for funding all or a portion of **capital improvements** at the outset of the lease and funding **ongoing capital repairs** and replacements. The **lessee** is typically responsible for **managing and completing** all capital projects.	responsible for operating losses. The **lessee pays rent** to District, typically calculated as either a fixed fee or a percentage of revenue with a minimum base amount.	5 to 10 years and the ability terminate contracts early for 'convenience' with a notice period.

Exhibit 8: Pros and Cons for the District - Third Party Lease

Pros	Cons
• The District is no longer responsible for managing the golf course freeing up senior staff to focus on other priorities. • Golf Course remains an amenity for residents of the District. • Lessee assumes risk of operating losses. • Congruent management across all departments. • Annual revenue certainty. • District no longer perceived to be competing with restaurants and banquet space in the community.	• Existing union labour agreement makes this an impossibility due to the number of permanent staff in the Golf maintenance and clerical positions. • Less control over golfer experience.

Third Party Management

In this model, the District would contract a management company to manage the entire operation (Pro Shop, Food and Beverage and Maintenance) on behalf of the District.

Exhibit 9: Key Terms of a Third Party Management Structure

Operational Authority	Capital Responsibility	Financial Structure	Contract Term
The **District has operational authority**. The **Manager** is **responsible for managing operations** based on direction from the District.	**All capital funding** is the responsibility of the **District**. The **Manager** is typically responsible for **managing and completing** all capital projects.	The **District retains proceeds** and is responsible for any **operating losses**. The District pays a management fee to the Manager, typically a base fee, either fixed or	5 to 10 years with options to extend upon mutual consent and 60-to-90-day notice requirements for termination.

Operational Authority	Capital Responsibility	Financial Structure	Contract Term
		set as a percentage of gross revenue, plus an incentive fee set as a percentage of sustaining cash flow.	

Exhibit 10: Pros and Cons for the District - Third Party Management

Pros	Cons
• District maintains authority without management responsibility. • Professional and congruent management across entire golf course. • One point of contact for District for all golf course departments. • District no longer perceived to be competing with restaurants and banquet space in the community.	• Cost of hiring management company. • Lack of cost certainty. • Union agreement may make it less attractive to quality operators.

Hybrid Management Model A

In this model, the District would continue with the management contract model for the Pro Shop (Retail, Carts and Range) and add the Food and Beverage operation (Beverage Cart, Halfway house and concession only). Golf course maintenance would remain the responsibility of the District. The event space would remain under District control and be available for rent through approved caterers but not be operational on a daily basis or staffed by the District.

Exhibit 11: Key Terms of Hybrid A Management Structure

Operating Model	Operational Authority	Capital Responsibility	Financial Structure	Contract Term
Contract - Pro Shop, Carts, Range, Beverage Cart, Halfway house and Concession	The **District has operational authority**. The **Contractor** is responsible for **managing golf operations and F&B concession operations** based on direction from the District.	**All capital funding** is the responsibility of the **District, except for the lease** or purchase of cart fleet.	The **District pays a retainer** to the contractor. **Contractor retains** retail, cart, lesson, halfway house and beverage cart **revenue.** Share of room rental fee with the District. Contractor pays his staff.	3-5 years with options to extend upon mutual consent.

Exhibit 12: Pros and Cons for the District – Hybrid A Option

Pros	Cons
• Status quo for Pro Shop operation. • F&B operation is reduced staff and no prep which should provide better cost certainty. • Aligned incentives for golf and F&B operations. • District no longer perceived to be competing with restaurants and banquet space in the community.	• Still potential for minor losses on F&B. • No full-service restaurant operation. • Attracting a quality operator to manage the food and beverage in addition to the golf operations.

Hybrid Management Model B

In this model the District would lease the Golf Operations and Clubhouse Operations to a third party and retain the maintenance responsibility of the golf course.

Exhibit 13: Key Terms of Hybrid B Lease Structure

Operational Authority	Capital Responsibility	Financial Structure	Contract Term
The **lessee has operational authority**, with the exception of the establishment of rates and fees in select circumstances.	The District is typically responsible for **funding deferred capital** at the outset of lease. The **lessee** is typically responsible for funding all or a portion of **capital improvements** at the outset of the lease and **funding ongoing capital repairs** and replacements, with the exception of the golf course. The **lessee** is typically responsible for **managing and completing** all capital projects	The **lessee retains proceeds** and is **responsible for operating losses.** The **lessee pays rent to District**, typically calculated as a percentage of gross revenue with a minimum base amount. The minimum amount must cover the golf course maintenance cost (~$1 million).	5 to 10 years and the ability to terminate contracts early for 'convenience' with a notice period.

Exhibit 14: Pros and Cons for the District – Hybrid B Option

Pros	Cons
• Golf and food and beverage synergies. • No longer responsible for the losses in the food and beverage operation. Better cost certainty. • Potential for the food and beverage operation to be profitable and provide a valuable service to the community. • District no longer perceived to be competing with restaurants and banquet space in the community.	• Lack of control over golf course maintenance may make it challenging attracting a quality golf operator. • Less cost certainty due to weather related costs and other uncontrollable costs associated with golf course maintenance. • Union agreement may make it less attractive to quality lessees.

Recommendation

The union provisions are very clear in stating that the full lease of all operations is not a possibility for CHGC. While it is never ideal to operate under multiple leases/contractors because of conflicting incentives between the parties, the best solution given the union provisions is a hybrid approach that can satisfy the union relationship.

Accordingly, we propose the following hybrid structure:

Hybrid Model A – Maintain golf operations contract with the addition of F&B concessionary operations

Under the proposed model, the District would hire a golf pro contractor and put them back into the clubhouse. The golf shop and halfway house would operate together (currently located beside each other), with a cafe style F&B offering that can be managed through the golf contract without 'skilled' knowledge of hospitality or restaurant operations. The concessionary food and beverage offering would provide grab 'n' go sandwiches, snacks and all beverages to service the golfer audience. There should also be an opportunity for a barbeque menu on the patio (hotdogs and hamburgers). The lower and upper level patios would remain as space for pre and post round dining and socialization. The existing F&B indoor space would also be available for seating and would be a 'maintained' area but not a 'serviced' area.

All existing clerical/administrative positions would be maintained with no change to the existing operations. We expect that there would be an opportunity to reassign one clerical/administrative staff to the REC centre because of the reduced oversight needs with a single contractor managing two departments.

The clubhouse kitchen and event space would be separate from the Golf and F&B contract. The space would not be operational on a daily basis but would be available to rent as needed with options for third-party catering.

Expected Impacts

A key objective of the recommended operating structure is to improve financial sustainability for the District without negatively impacting the customer experience for patrons. We believe the proposed structure accomplishes this objective for the following reasons:

- Eliminates risk and financial loss of the clubhouse and F&B operations.
- Provides an expected level of F&B offering associated with the municipal golf experience (grab 'n go meals, snacks and beverage), while maintaining the ability to offer event space and catering for more sophisticated dining or golf event needs.
- The current Pro Shop building could be converted to a teaching centre with one or two golf simulators – This would allow the professional staff to give lessons year-round and achieve the course's goal of helping people learn and improve. It will also make the contract more appealing to potential contractors by providing the infrastructure for an additional year-round revenue source.
- The side-by-side location of the halfway house and golf shop will provide operational synergies and is likely to increase concession revenue as a result of the improved accessibility and increased foot traffic.
- No impact to the daily golf experience and/or rates for patrons.
- Golf and F&B incentives are aligned under one contractor, to support the overall success of the business.

- Minimal union impact – Given the two recent clubhouse closures, and the resulting reallocation of union labour, there are only expected to be two or three F&B union employees remaining under contract at the end of this year.

- Requirement for district management and oversight of the facility and the contractor would be reduced.

A noted risk to the proposed model is that it focuses on service for daily golf but less so for group outings and tournaments. CHGC had generated approximately $85k annually on average from tournament green fee revenue prior to 2020, which translates to 1,500-2,000 event rounds annually. This makes up less than 5% of total rounds inventory (low by industry standards), which infers confidence that any potential impact to customer event satisfaction will be minimal. Additionally, the District would still have the ability to provide third-party catered services for any mid-large outing or event.

Contract Considerations and Terms

The golf operations are contracted out by the District to the head professional. The District pays the individual a set retainer, and in return the contractor is charged with the following main responsibilities:

- Operate the Pro Shop business, including the retail business.
- Provide lessons, junior golf and public golf clinics.
- Hire and manage golf course marshals and operations staff, also being responsible for payment of salaries and wages.
- Maintain PGA of Canada 'Class A' professional status.
- Acquire and maintain a fleet of golf carts, and be entitled to all income and expenses related to the golf cart operations.

The term of the contract concludes at the end of 2021. We have reviewed the current contract and find the terms/conditions to be attractive and competitive for future contracts. While a common contract structure involves a percentage of revenue compensation for the golf related revenue components (green fees, carts, retail, etc.), the current contract provides greater risk/reward for the contractor because they are liable for all golf related expenses.

Based on our assumptions outlined in the future section "Financial Impact – In-House Golf Operations", we expect that future operators should comfortably be able to breakeven on the golf operations (green fees excluded) even under the assumption that all supporting staff are compensated at union level wages. As a result, there appears to be much greater upside opportunity for profitability from the contract beyond the retainer amount.

The existing contract terms can continue to form the baseline for the future contract to be issued, with the following suggested considerations (further due diligence in the form of legal and contract review is required):

- Contractor operates and staffs the Beverage Cart, Halfway house and Concession elements of CHGC, including labour, cost of goods sold, supplies and maintenance/cleaning of the patio areas and indoor seating space.
- The district would maintain control over a listing of menu items available for sale to ensure the offering meets expectations in terms of variety and quality.

- Contractor is responsible for booking all events, and the District receives a share of the rental fee. The district will also provide an approved list of catering vendors for use in events.
- F&B hours of operation should loosely mirror the pro shop, and may close down in the early evening.
- Liquor license - BC liquor license laws will have to be evaluated to determine responsibility.
- The contractor shall be responsible for monitoring and enforcing conduct around the facilities and patio areas.
- The contractor may use any future teaching center (golf simulator) but must pay all operating costs.

Financial Projections

Critical to developing a sustainable financial model for CHGC is the understanding of the key metric targets needed to achieve a self-sustaining operation. GGA has developed a financial impact comparison including a five-year pro forma financial model for CHGC that projects out the expected financial performance based on status quo operations achieving the KPI revenue targets previously outlined. We have also evaluated a sensitivity analysis on two key variable inputs (number of rounds and net rate per round) to provide the District with a range of revenue expectations for the future.

Status Quo Financial Assumptions:

- Annual inflation has been projected at 2% annually over the five-year horizon.

- The District reserves 6% of gross revenue annually for capital maintenance of the facilities.

- Annual passholder program is eliminated at the end of 2022, declining to 100 members in 2021 and 75 in 2022. Passholders play 80 rounds annually on average consistent with historical usage rates.

- CHGC targets 50,000 rounds annually, which has already been surpassed in 2019 and should continue to be the minimum target for annual demand.

- CHGC targets an average rate per round of $35 (consistent with 2020 levels inflation adjusted) in 2021, $37.50 in 2022 and $40 in 2023 before increasing annually at normal rate level increases. The shift away from passholder rounds (historically much lower revenue per round) is the driver that helps CHGC increase the average rate to $40. We believe this to be a conservative assumption, considering the average revenue per green fee round in 2020 was more than $38.

  - Successfully achieving this target will also require annual peak rate increases that at a minimum cover inflationary costs and the growth of operating expenses.

- F&B departmental impacts are wiped out in 2021 because of the expected year-long closure. In 2022 and beyond the model projects revenue per round of $15 and an overall 8% loss on revenue, both consistent with historical performance.

- Golf Operations and Golf Course Maintenance expenses trend at inflationary increases based on 2020 levels.

- Facility and Administration trends at inflationary increases based on 2019 levels due to the significant cost savings that occurred in 2020 as a result of covid-19 restrictions and the clubhouse flooding. The exception is the first year of the model (2021), which projects to be similar to 2020 levels because of the new Clubhouse closure.

- Pond and Trail maintenance expenses ($45k) have not been included in the forward-looking projection as they do not relate to normal components of the golf course operations. While the District may include this responsibility within the golf course maintenance staff, our intention is to demonstrate the financial sustainability of the operations specific to CHGC.

- Debt servicing payments conclude at the end of 2021 per management discussions.

Exhibit 15: Status Quo Pro-Forma Income Statement (2019A – 2025E)

	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue							
Annual Pass Dues	$274,551	$268,773	$233,000	$179,993	$0	$0	$0
Food & Beverage Operations	$646,551	$60,581	$0	$765,000	$780,300	$795,906	$811,824
Golf Operations	$1,298,064	$1,372,519	$1,471,198	$1,651,222	$2,001,246	$2,041,271	$2,082,097
Facility Rental	$16,687	$1,300	$0	$20,168	$20,571	$20,983	$21,403
Miscellaneous	$0	$2,485	$0	$0	$0	$0	$0
Total Operating Revenue	**$2,235,853**	**$1,705,657**	**$1,704,198**	**$2,616,382**	**$2,802,118**	**$2,858,160**	**$2,915,323**
Cost of Sales							
Food & Beverage	$293,488	$29,793	$0	$359,550	$366,741	$374,076	$381,557
Total Cost of Sales	**$293,488**	**$29,793**	**$0**	**$359,550**	**$366,741**	**$374,076**	**$381,557**
Gross Profit	**$1,942,365**	**$1,675,864**	**$1,704,198**	**$2,256,832**	**$2,435,377**	**$2,484,084**	**$2,533,766**
Operating Expenses							
Food & Beverage Operations	$410,604	$114,651	$0	$466,650	$475,983	$485,503	$495,213
Golf Operations	$74,757	$70,764	$72,179	$73,623	$75,095	$76,597	$78,129
Golf & Grounds Operations	$938,378	$900,777	$918,793	$937,168	$955,912	$975,030	$994,531
Other Dept. / Amenity Operatior	$0	$34,919	$0	$0	$0	$0	$0
Facility & Administration	$687,953	$517,516	$527,866	$730,061	$744,663	$759,556	$774,747
Total Operating Expenses	**$2,111,692**	**$1,638,626**	**$1,518,838**	**$2,207,502**	**$2,251,652**	**$2,296,685**	**$2,342,619**
Operating EBITDA	**$ (169,327)**	**$ 37,238**	**$ 185,360**	**$ 49,330**	**$ 183,724**	**$ 187,399**	**$ 191,147**
Non-Operating Expenses							
Debt Payments	$137,120	$129,370	$129,370	$0	$0	$0	$0
Capital Expenditures	$121,000	$121,000	$102,252	$156,983	$168,127	$171,490	$174,919
Pond and Trail Maintenance	$45,000	$45,000	$0	$0	$0	$0	$0
Other	$1,145	$3	$0	$0	$0	$0	$0
Total Non-Operating Expenses	**$304,265**	**$295,373**	**$231,622**	**$156,983**	**$168,127**	**$171,490**	**$174,919**
Net Income	**$ (473,592)**	**$ (258,135)**	**$ (46,262)**	**$ (107,653)**	**$ 15,597**	**$ 15,909**	**$ 16,227**

Based on the assumptions described herein, the projections demonstrate a path to a self-sustaining operation. The ability to grow golf fee revenue will be the key determinant of financial improvement over the next five years, but we believe the assumption targets for average rate per round are conservative and attainable. Through the transition of the annual pass program to a 'flex' program, and a focus on yield management with a drastically improved customer booking experience, CHGC can significantly elevate the average rate earned per round while still maintaining an appealing price-point for District residents.

The following sensitivity table highlights the range in golf related revenue per year depending on the two key variables of average rate and number of rounds played:

Exhibit 16: Golf Related Revenue Sensitivity

		Avg. Rate per Round				
		$35.00	$37.50	$40.00	$42.50	$45.00
Rounds Played	45,000	$1,575,000	$1,687,500	$1,800,000	$1,912,500	$2,025,000
	47,500	$1,662,500	$1,781,250	$1,900,000	$2,018,750	$2,137,500
	50,000	$1,750,000	$1,875,000	$2,000,000	$2,125,000	$2,250,000
	52,500	$1,837,500	$1,968,750	$2,100,000	$2,231,250	$2,362,500
	55,000	$1,925,000	$2,062,500	$2,200,000	$2,337,500	$2,475,000

Financial Impact – In-House Golf Operations

With the golf contract set to expire at the end of 2021, it is important for for the District to understand the expected financial impact of the option to bring the operation 'in-house' in the future. This exercise also serves to test the attractiveness of the current contract in terms of expected profitability, to help support any changes to the terms of a future golf management contract.

Assumptions for a District managed golf operation (assumed to come into effect for FY2022) are provided below:

- The cart fee remains at the proposed rate of $19, increasing with inflation over time. Cart utilization of 20% is projected, which is slightly above the current contractor's projection but below industry standards for courses of similar playability (25% to 40%).

- Merchandise sales of $2.00 per round played and range sales of $0.50 per round played, consistent with current contractor estimates. Cost of sales for merchandise sold is 75%.

- Minimal lesson revenue ($4,500) as we assume a structure where the head pro retains 75% of all lesson revenue. We assume 300 lessons annually at the current rate of $60.

- The district would be responsible for the payment and maintenance of carts; we assume a 50 cart fleet is leased, at $1,000 per cart annually.

- Operating expenses include $8,000 annually for range balls and $25,000 annually for supplies, repairs and miscellaneous.

- The department payroll structure assumes a Head Pro and Assistant Pro as full-time positions, 10 hours per day of hourly support during the playable season (300 days) and 36 hours per week of marshal support (only needed during peak season 30 weeks of the year).
    - Head Pro - $85,000
    - Assistant Pro - $45,000
    - Hourly Support and Marshal union wage - $25/h

- Capital maintenance expenditure is held consistent with the status quo model.

Exhibit 17: 'In-House' Pro Forma Income Statement (2019A – 2025E)

	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue							
Annual Pass Dues	$274,551	$268,773	$233,000	$179,993	$0	$0	$0
Food & Beverage Operations	$646,551	$60,581	$0	$765,000	$780,300	$795,906	$811,824
Golf Operations	$1,298,064	$1,372,519	$1,471,198	$1,970,722	$2,331,012	$2,381,665	$2,433,494
Facility Rental	$16,687	$1,300	$0	$20,168	$20,571	$20,983	$21,403
Miscellaneous	$0	$2,485	$0	$0	$0	$0	$0
Total Operating Revenue	**$2,235,853**	**$1,705,657**	**$1,704,198**	**$2,935,882**	**$3,131,884**	**$3,198,554**	**$3,266,720**
Cost of Sales							
Food & Beverage	$293,488	$29,793	$0	$359,550	$366,741	$374,076	$381,557
Golf				$75,000	$76,500	$78,030	$79,591
Total Cost of Sales	**$293,488**	**$29,793**	**$0**	**$434,550**	**$443,241**	**$452,106**	**$461,148**
Gross Profit	**$1,942,365**	**$1,675,864**	**$1,704,198**	**$2,501,332**	**$2,688,643**	**$2,746,448**	**$2,805,573**
Operating Expenses							
Food & Beverage Operations	$410,604	$114,651	$0	$466,650	$475,983	$485,503	$495,213
Golf Operations	$74,757	$70,764	$72,179	$315,000	$321,300	$327,726	$334,281
Golf & Grounds Operations	$938,378	$900,777	$918,793	$937,168	$955,912	$975,030	$994,531
Other Dept. / Amenity Operatior	$0	$34,919	$0	$0	$0	$0	$0
Facility & Administration	$687,953	$517,516	$527,866	$730,061	$744,663	$759,556	$774,747
Total Operating Expenses	**$2,111,692**	**$1,638,626**	**$1,518,838**	**$2,448,880**	**$2,497,857**	**$2,547,815**	**$2,598,771**
Operating EBITDA	**$ (169,327)**	**$ 37,238**	**$ 185,360**	**$ 52,452**	**$ 190,785**	**$ 198,633**	**$ 206,802**
Non-Operating Expenses							
Debt Payments	$137,120	$129,370	$129,370	$0	$0	$0	$0
Capital Expenditures	$121,000	$121,000	$102,252	$156,983	$168,127	$171,490	$174,919
Pond and Trail Maintenance	$45,000	$45,000	$0	$0	$0	$0	$0
Other	$1,145	$3	$0	$0	$0	$0	$0
Total Non-Operating Expenses	**$304,265**	**$295,373**	**$231,622**	**$156,983**	**$168,127**	**$171,490**	**$174,919**
Net Income	**$ (473,592)**	**$ (258,135)**	**$ (46,262)**	**$ (104,530)**	**$ 22,658**	**$ 27,144**	**$ 31,882**

The projections suggest that an in-house financial model is likely to yield comparable financial results to the current contract, with realistic and attainable revenue targets needed to breakeven with the expected departmental expense profile. This also infers that the current contract should remain attractive and fair to future operators even with the requirement to pay union wage levels.

Impact of Union Wages

A noted challenge to the financial sustainability of CHGC is the effect of required union level wages on the expense profile of the operation. GGA has compared the current union wage levels for employed positions at CHGC, including the 'expected positions' of an in-house golf operation, to benchmark ranges for compensation levels at comparable daily-fee facilities. The table below highlights the expected union impact on the overall cost profile for CHGC:

Exhibit 18: Expected Union Impact on Payroll

	2022 Payroll Projection	Union Impact	Non-Union Projection	Difference
Food and Beverage	$420,750	25%	$336,449	$84,301
Golf Operations	$232,000	27%	$182,677	$49,323
Golf Course Maintenance	$677,766	32%	$513,459	$164,307
Facility and Administration	$312,765	35%	$231,678	$81,087
Overall	**$1,643,281**	**30%**	**$1,264,263**	**$379,018**

**The compensation comparison focused only on hourly wage rates compared to industry norms, and does not include the additional 13% for casuals that the District pays in lieu of entitlements and benefits.*

We estimate the overall impact of union wages to be a 30% increase on the expected facility-wide payroll expense, which equates to nearly $380k based on projections for 2022. The department most affected is Golf Course Maintenance, being the largest cost centre for CHGC with the most union employees.

Important to note that the projection for F&B is based on returning to historical levels of utilization and staffing. Given the recent flooding closures and reduction of union staff for this department, the future impact is likely to be lower than the amount forecasted above especially if the department is contracted out.

Financial Impact – Recommended Hybrid Model

While the elasticity for expense savings in the future is more limited than the revenue opportunity under the current model, the recommended operating model adjustment to include F&B within the golf operations contract projects to have significant impacts on the expected financial projections, providing a material surplus each year that would allow the District to reinvest in capital projects proposed herein. Adjusted assumptions for the hybrid management model (differing from the status quo assumptions) include the following, which come into effect for FY2022:

- F&B revenues and expenses become part of the management contract.

- The golf contract fee paid increases from $70k to $125k to reflect the additional scope and responsibilities. The additional fee nearly covers the average historical loss of the F&B department (~$60k) with room for negotiation.

  As an alternative contract structure, the district may also consider a lesser retainer amount plus a percentage of revenue incentive.

- Labour and fixed costs within 'Facility and Administration' departments (i.e. utilities, repairs, overhead) are reduced by 15% based on 2019 levels, as a result of the reduced usage and maintenance needs within the clubhouse.

- Capital maintenance expenditure is held consistent with the status quo model.

Exhibit 19: Hybrid Model A Pro-Forma Income Statement (2019A – 2025E)

	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue							
Annual Pass Dues	$274,551	$268,773	$233,000	$179,993	$0	$0	$0
Food & Beverage Operations	$646,551	$60,581	$0	$0	$0	$0	$0
Golf Operations	$1,298,064	$1,372,519	$1,471,198	$1,651,222	$2,001,246	$2,041,271	$2,082,097
Facility Rental	$16,687	$1,300	$0	$20,168	$20,571	$20,983	$21,403
Miscellaneous	$0	$2,485	$0	$0	$0	$0	$0
Total Operating Revenue	**$2,235,853**	**$1,705,657**	**$1,704,198**	**$1,851,382**	**$2,021,818**	**$2,062,254**	**$2,103,499**
Cost of Sales							
Food & Beverage	$293,488	$29,793	$0	$0	$0	$0	$0
Total Cost of Sales	**$293,488**	**$29,793**	**$0**	**$0**	**$0**	**$0**	**$0**
Gross Profit	**$1,942,365**	**$1,675,864**	**$1,704,198**	**$1,851,382**	**$2,021,818**	**$2,062,254**	**$2,103,499**
Operating Expenses							
Food & Beverage Operations	$410,604	$114,651	$0	$0	$0	$0	$0
Golf Operations	$74,757	$70,764	$72,179	$127,846	$130,403	$133,011	$135,671
Golf & Grounds Operations	$938,378	$900,777	$918,793	$937,168	$955,912	$975,030	$994,531
Other Dept. / Amenity Operatior	$0	$34,919	$0	$0	$0	$0	$0
Facility & Administration	$687,953	$517,516	$527,866	$626,521	$639,051	$651,832	$664,869
Total Operating Expenses	**$2,111,692**	**$1,638,626**	**$1,518,838**	**$1,691,535**	**$1,725,366**	**$1,759,873**	**$1,795,070**
Operating EBITDA	**$ (169,327)**	**$ 37,238**	**$ 185,360**	**$ 159,847**	**$ 296,452**	**$ 302,381**	**$ 308,429**
Non-Operating Expenses							
Debt Payments	$137,120	$129,370	$129,370	$0	$0	$0	$0
Capital Expenditures	$121,000	$121,000	$102,252	$156,983	$168,127	$171,490	$174,919
Pond and Trail Maintenance	$45,000	$45,000	$0	$0	$0	$0	$0
Other	$1,145	$3	$0	$0	$0	$0	$0
Total Non-Operating Expenses	**$304,265**	**$295,373**	**$231,622**	**$156,983**	**$168,127**	**$171,490**	**$174,919**
Net Income	**$ (473,592)**	**$ (258,135)**	**$ (46,262)**	**$ 2,864**	**$ 128,325**	**$ 130,891**	**$ 133,509**

The financial impact of the proposed operating structure projects to generate an additional $115k annually compared to the status quo model. The primary driver of improved profitability is the potential for facility savings with a reduction in District responsibilities, while the F&B subsidy cost can be passed on to the contractor fee to increase the attractiveness of the contractor opportunity.

Over time, the additional cashflow generated above and beyond the annual budget for 'capital maintenance' will sufficiently address all items listed on the long-term capital plan to improve the safety and customer experience of CHGC.

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