

January 10, 2013

Julie Franklin, City Clerk

Via Email: jfranklin@steamboatsprings.net

Re: Response to RFP Process/ Accommodations Tax Proposal

Dear Julie,

This letter contains the response of the Haymaker Golf Management Committee to the request for proposal for future use of the Steamboat Springs Accommodations Tax Revenues.

PROPOSER: Haymaker Golf Management Committee
P.O. Box 773990
Steamboat Springs, CO 80477

CONTACT INFO: John A. Vanderbloemen, Chairman
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PROJECT(S): FUTURE CAPITAL REPLACEMENTS AT HAYMAKER
GOLF COURSE

PROJECT REQUEST SUMMARY

The Haymaker Golf Committee requests that a portion of future accommodations tax revenues be allocated to a Capital Reserve Fund, established within the Haymaker Golf Enterprise Fund, for the purpose of covering the unmet future costs of reasonable and necessary capital replacements at Haymaker.

To date, the Golf Enterprise Fund has not required subsidies from the City's general fund, unlike most recreational facilities owned by cities across the state. Unfortunately, a careful and conservative analysis of future capital replacement needs over the next 25 years, indicates that Haymaker will likely

need a portion of future accommodations tax revenues in order to provide for future capital needs and preserve the quality of this important asset.

HOW THE PROJECT ADHERES TO BALLOT LANGUAGE CRITERIA

Haymaker is one of many excellent local amenities that promote tourism and enhance the vitality of Steamboat Springs as a destination resort. Haymaker was designed, built and is maintained as a resort quality golf facility, not a basic municipal golf course with little or no attraction to traveling golfers. Haymaker has been recognized on many "best in Colorado" lists and is a favored venue of the Colorado Golf Association, having hosted multiple major statewide events and the annual Haywhacker Junior championship, perhaps the most popular junior event in Colorado. These events involve almost exclusively players from outside our area of the state. Additionally, Haymaker enhances the community identity of Steamboat Springs through recreational opportunities and programs provided to the residents of our community.

Haymaker has been widely recognized as an environmental model for golf courses around the state. Environmental sensitivity has been a key part of the operation dating back to Haymaker's planning and construction in 1995. Haymaker was the first course in Colorado to obtain "Audubon Certified Signature Status", a status acknowledged as the benchmark for environmental sensitivity in the golf industry.

Finally, the continuation of Haymaker as a desirable and attractive recreational facility enhances the economic health of the Yampa Valley and the City of Steamboat Springs as it helps to attract not only visitors but also new residents to the community. According to local realtors, the availability of quality affordable golf at Haymaker has been a positive factor for a number of location neutral business people and second homeowners who decided to move to Steamboat Springs.

HAYMAKER BACKGROUND INFORMATION

City Council voted to use accommodations tax funds to acquire the Haymaker site in the early 1990s. The original thirteen member golf advisory committee was appointed by City Council in 1993 to investigate the concept of building and operating a city owned golf course on the site. The investigation and reporting to City Council continued for several years. A feasibility study was performed by the National Golf Foundation and the committee hired a Denver based golf consulting firm, Renizon, to assist in evaluating construction and operational options. The committee spearheaded efforts to obtain voter approval to issue an Accommodations Tax Revenue bond. Voter approval was obtained and the bonds were issued in 1995.

The City, based upon committee recommendations, contracted with a golf course architect and then a golf course contractor. Haymaker was constructed in 1995-1996, and then the constructed course "grew in", and opened for play in August 1997. After construction, the original golf advisory committee was

disbanded, and City Council adopted an Ordinance establishing a five member Golf Management Committee that reports directly to the City Manager. Haymaker was then established by the City as a separate Enterprise Fund, rather than a department within the General Fund.

During the first decade of operations, reserves were created through operational profits, excess accommodations tax and interest earnings. These reserves ("unrestricted reserves") were earmarked into three fund categories, an operational reserve, a clubhouse construction reserve and a capital reserve. The clubhouse construction reserve fund (approximately \$1.5 million) was expended in 2005-06 to assist in the cost of construction of the permanent clubhouse that opened in 2006. Haymaker's Enterprise Fund currently holds an unrestricted reserve of approximately \$1.25 million. \$300,000 of this reserve is earmarked as an operational reserve, essentially a "rainy day fund" to cover unanticipated shortfalls of operational revenue. The capital reserve category intended to fund future capital needs therefore totals approximately \$925,000 as of December 31, 2012. In light of the substantial future capital needs discussed below, this capital reserve is inadequate and likely will not be sufficient to meet such future needs. (The Enterprise Fund also contains "restricted reserves" that were mandated by the bond issue and will be expended in 2013 to assist in paying off the current bonded indebtedness.)

During its fifteen years of operation, Haymaker has turned a relatively small operational profit every year, except for 2010 and 2011, and has met its ongoing capital and equipment needs through its operations budget, as they have arisen. Beginning in 2011, the City directed Haymaker and all other enterprise funds of the City to begin reimbursing the City general fund for an allocation of City "overhead expenses". (Haymaker has funded this new expense item in the amount of \$107,000 in 2011 and 2012. This line item in the 2013 budget will be \$119,000.) Haymaker's average budgeted expenses for routine, ongoing capital needs or equipment acquisitions has generally ranged between \$50-100,000 per year. This amount does not include the large sum expended in 2005 for the permanent clubhouse.

Haymaker has cut its expenses significantly over the past several years as the economy (and Haymaker revenue) has suffered. Golf courses are what some refer to as generational assets with a virtually unlimited life expectancy. Golf course maintenance involves more than just mowing and tending the turf. Over the past several years, Haymaker's reduced maintenance budget has not funded course renovation and reconstruction of course elements that are typical for a course of Haymaker's quality. It is, however, the major capital replacement items that loom in the future that generate the greatest concern and are the focus of this request. The attached spreadsheet defines these major items, **the largest of which is clearly the cost of replacing the irrigation system at Haymaker.** Installation of the irrigation system in 1996 cost over \$1 million. This item alone is conservatively estimated in the attached analysis at a current cost of approximately \$2.5 million. As the spreadsheet indicates, assuming a 4% long term average inflation factor, the essential system replacement cost estimated to be performed in 2030-2031 will be over \$5.1 million.

In 2011, prior to creating the Accommodations Tax Committee, the City Council opened the current discussion of "what to do with future accommodations tax revenues after Haymaker's bonded indebtedness is paid off". The Golf Committee conducted a detailed review of its capital reserves and future capital needs over the next 25 years. A report was provided to City staff and Council in early 2011. The Golf Committee, with the professional assistance of a CPA member of the Committee, studied the long term capital needs of Haymaker. The result was a spreadsheet analysis created with input from the golf course superintendent, City finance staff and the City's facilities manager. This initial spreadsheet, that was discussed with City Council in April 2011, was revisited and amended this winter in light of more current information.

The Committee has examined the costs of those future capital needs that will not be funded through the normal operations budget of Haymaker. The anticipated costs of items set forth on the attachment are based on current cost estimates plus a 4% inflation factor. The current cost estimates were obtained from City Facilities Manager Steve Hoots, as to Clubhouse and other building and facility needs, while golf course related cost estimates were obtained from the golf superintendent.

(The second attached spreadsheet was included simply to illustrate the list of equipment replacement needs with estimated expenses and timing of such needs that Haymaker will face. The Committee is not seeking financial assistance from the Accommodations Tax fund for these more routine "capital" expenses. Such expenses will be funded from operational revenues.)

One might ask why has Haymaker not performed at the levels anticipated in the NGF feasibility study commissioned by the City Council prior to the construction of Haymaker. Several points in this regard might be useful. The feasibility study anticipated substantially more tourist rounds and revenue per year than Haymaker has experienced. (Additionally, the feasibility study anticipated less rounds and revenue from locals than Haymaker has experienced.) Additionally, the feasibility study was created in the mid-90s, at a time when the Front Range Metro areas were somewhat short on quality public golf facilities. Demand for golf exceeded supply. During the time when Haymaker was being constructed and shortly thereafter a number of excellent upscale public golf facilities were created in the Denver metro area. Examples include Fox Hollow in Lakewood, Legacy Ridge in Westminster, Buffalo Run in Aurora, The Ridge at Castle Pines, and numerous others. This resulted in a number of new upscale public golf courses in the Denver area, which have been difficult for Haymaker to compete with. **It might also be noted that the feasibility study made no analysis of the long-term capital needs, which are now being analyzed and presented.**

The Committee's goal is to improve Haymaker's operational profits in order to create adequate reserves to handle these needs. The Committee intends to improve the bottom line at Haymaker, and certainly desires to create more reserves than shown on the attached spreadsheet so that necessary funding for

these long term capital needs is reduced or eliminated. The Committee would suggest that \$190,000 of future accommodations tax revenue be set aside each year for transfer to a Capital Reserve Fund. Every five years the financial operation of Haymaker and the amount in this Fund would be reviewed by City Staff and/or City Council. The Golf Committee, therefore is not requesting an automatic transfer every year for the next 25 years, but rather an initial 5 year commitment for annual transfers. Thereafter, a review of Haymaker's financial performance shall be conducted to determine if transfers should be amended.

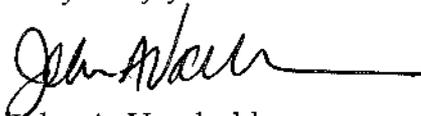
As you probably know, the Golf Committee, the City Finance Department and City Manager annually review the Haymaker Enterprise Fund and cooperatively create its budget. The attached spreadsheet assumes that \$75,000 per year will be set aside from operations and transferred into the Capital Reserve Fund. Revenue and expense items are assumed to increase at a rate of 4% per year.

The Golf Committee recognizes that there are many interesting projects that are requesting Accommodations Tax funding assistance. The Committee submits that the City should focus on taking care of the assets that the City currently has before it adds new projects that may or may not be self sufficient. Addressing the capital replacement needs of proven City assets makes good fiscal sense. It is unreasonable to assume that the City general fund reserves will be available to fund future capital expenses of anything other than normal City infrastructure.

A previous City Council, with voter approval, wisely dedicated accommodations tax revenue to fund the creation of Haymaker. Haymaker serves not only as a beautiful entry portal to the City and an appropriate green space in the south valley, but also is an asset that will endure for generations. It seems only logical that a portion of future accommodations tax revenue should be set aside to fund necessary capital replacements to preserve this asset, which was created through the use of accommodations tax revenues in the past.

The Golf Management Committee stands ready to answer any questions or provide any additional information that the Accommodations Tax Committee may have concerning this response to the Stage 2 RFP. If you currently have any questions, please do not hesitate to direct them to the Golf Management Committee, attention John Vanderbloemen, via email to jav@lvlaw.net or by phone to 879-0100.

Very truly yours,



John A. Vanderbloemen
Chairman, Haymaker Golf Management Committee

HAYMAKER GOLF COURSE - Capital Improvement Projections

Assumptions:

Annual Inflation Rate	4.0%
Annual Earnings Rate	1.5%
Annual Contribution to Reserve Fund	\$ 75,000
Average Annual Operating Profit	\$ 100,000

Reserve Fund Balance	January 10, 2013	\$ 925,000
Required Set Aside from Lodging Fund		\$ 190,000

Cash Flow Without Additional Funding

Year	Annual Capital Expense	Reserves	Earnings on Reserves	Operational Contribution <i>(inflation adjusted)</i>	Net Reserves
2013	(26,000)	\$ 925,000	13,875	75,000	987,875
2014	(10,816)	987,875	14,818	76,125	1,068,002
2015	(17,998)	1,068,002	16,020	77,267	1,143,291
2016	(90,079)	1,143,291	17,149	78,426	1,148,787
2017	(46,233)	1,148,787	17,232	79,602	1,199,389
2018	(234,084)	1,199,389	17,991	80,796	1,064,092
2019	(187,520)	1,064,092	15,961	82,008	974,541
2020	(44,989)	974,541	14,618	83,238	1,027,409
2021	(14,233)	1,027,409	15,411	84,487	1,113,074
2022	(50,328)	1,113,074	16,696	85,754	1,165,196
2023	(92,367)	1,165,196	17,478	87,041	1,177,347
2024	(16,010)	1,177,347	17,660	88,346	1,267,343
2025	(16,651)	1,267,343	19,010	89,671	1,359,374
2026	(109,096)	1,359,374	20,391	91,016	1,361,685
2027	(172,891)	1,361,685	20,425	92,382	1,301,602
2028	(18,730)	1,301,602	19,524	93,767	1,396,163
2029	(46,750)	1,396,163	20,942	95,174	1,465,530
2030	(2,902,995)	1,465,530	21,983	96,602	(1,318,881)
2031	(2,654,630)	(1,318,881)	(19,783)	98,051	(3,895,243)
2032	(43,822)	(3,895,243)	(58,429)	99,521	(3,897,973)
2033	(79,757)	(3,897,973)	(58,470)	101,014	(3,935,185)
2034	(41,474)	(3,935,185)	(59,028)	102,529	(3,933,158)
2035	(59,153)	(3,933,158)	(58,997)	104,067	(3,947,241)
2036	(353,736)	(3,947,241)	(59,209)	105,628	(4,254,557)

Cash Flow With Lodging Set Aside Funding

Year	Annual Capital Expense	Fund Contribution	Reserves	Earnings on Reserves	Operational Contribution <i>(inflation adjusted)</i>	Net Reserves
2013	(26,000)		925,000	13,875	75,000	987,875
2014	(10,816)	190,000	987,875	17,668	76,125	1,260,852
2015	(17,998)	190,000	1,260,852	18,913	77,267	1,529,034
2016	(90,079)	190,000	1,529,034	22,936	78,426	1,730,316
2017	(46,233)	190,000	1,730,316	25,955	79,602	1,979,640
2018	(234,084)	190,000	1,979,640	29,695	80,796	2,046,047
2019	(187,520)	190,000	2,046,047	30,691	82,008	2,161,226
2020	(44,989)	190,000	2,161,226	32,418	83,238	2,421,894
2021	(14,233)	190,000	2,421,894	36,328	84,487	2,718,476
2022	(50,328)	190,000	2,718,476	40,777	85,754	2,984,679
2023	(92,367)	190,000	2,984,679	44,770	87,041	3,214,123
2024	(16,010)	190,000	3,214,123	48,212	88,346	3,524,670
2025	(16,651)	190,000	3,524,670	52,870	89,671	3,840,561
2026	(109,096)	190,000	3,840,561	57,608	91,016	4,070,090
2027	(172,891)	190,000	4,070,090	61,051	92,382	4,240,633
2028	(18,730)	190,000	4,240,633	63,609	93,767	4,569,280
2029	(46,750)	190,000	4,569,280	68,539	95,174	4,876,243
2030	(2,902,995)	190,000	4,876,243	73,144	96,602	2,332,993
2031	(2,654,630)	190,000	2,332,993	34,995	98,051	1,409
2032	(43,822)		1,409	21	99,521	57,129
2033	(79,757)		57,129	857	101,014	79,243
2034	(41,474)		79,243	1,189	102,529	141,487
2035	(59,153)		141,487	2,122	104,067	188,524
2036	(353,736)		188,524	2,828	105,628	(56,756)