July 26, 2018

Memo to: Washoe Meadows Community, ATTN: Lynne Paulson
From: Thomas Wegge, TCW Economics

RE: Comments on the EIR on the Upper Truckee River Restoration and Golf Course Reconfiguration Project Alternative 2B

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In response to your recent request, this memorandum addresses the applicability of information and analyses presented in the three letter reports previously prepared by TCW Economics (TCW) for the Washoe Meadows Community concerning economics-related issues involving the Upper Truckee River Restoration and Golf Course Reconfiguration Project (UTRRGCRP). For reference, these letter reports are dated January 19, 2012; September 24, 2012; and March 20, 2013, and address the following topics:

- **January 19, 2012 TCW Letter Report**: Focused on reviewing and critiquing the 2008 Lake Tahoe Golf Course Economic Feasibility Analysis report prepared by Hansford Economic Consulting (HEC) as a subcontractor to EDAW, Inc on the draft EIR/EIS on the UTRRGCRP. We assessed the adequacy and appropriateness of methods and assumptions pertinent to the "scope and objectives of the commissioned [HEC] study." The methodology and data used to assess the financial feasibility of the golf course/restoration scenarios identified in the HEC report, and to evaluate potential impacts on the South Shore economy from implementing the different scenarios were evaluated.

- **September 24, 2012 Letter Report**. Reviewed the literature pertaining to the emergence of non-standard length golf courses, and developed summary conclusions concerning other revenue generating activities (including clubhouse events) presently occurring at the Lake Valley State Recreation Area (LVSRA) and the Washoe Meadows State Park (WMSP) located in the south shore area of the Lake Tahoe Basin.

- **March 20, 2013 Letter Report**: Evaluated at a reconnaissance level other potential sources of revenue generation associated with alternative uses of lands comprising the LVSRA and WMSP. The cost effectiveness of potential uses considered was not conducted, instead focusing on potential revenues that could accrue to California State Parks (CSP) associated with the different uses. Potential uses were classified into three categories: golf-related revenues, clubhouse event-related revenues, and revenues from other non-golf recreational activities.

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These three letter reports are hereby incorporated by reference into these comments on the May 2018 UTRRGCRP EIR.

The TCW letter reports not only identify key issues concerning the analyses conducted by HEC that serve as the basis for determining the financial feasibility of the project alternatives, but also closely examine the methods and assumptions used to estimate economic impacts on the South Lake Tahoe economy associated with continued operations at LVSRA, both with and without a golf course. Per the discussion below, the conclusions of the letter reports, including identification of deficiencies in the 2008 HEC report, remain applicable to the June 2018 EIR for Alternative 2B.

The HEC report concluded that Alternative 1B identified in the draft EIS/EIR would be feasible. Our analysis presented in the January 19, 2012 TCW letter report concluded that Alternative 2 would not be financially feasible based on the use of more recent (2007-2011) Lake Tahoe Golf Course (LTGC) golf revenue data, or if a more appropriate (i.e., less narrowly defined) analytical framework had been used for the assessment. (Notably, the U.S. EPA also recommended in its comment letter on the 2012 draft EIR/EIS that a more widely configured analytical framework be used for the financial analysis.) Since the financial feasibility analysis described in the January 19, 2012 TCW letter report was conducted, revenue data for six additional years (2012-2017) have become available. These revenue data indicate lower average annual revenue compared to revenues over the 2007-2011 period, with a mean annual value of $569,709 (in constant 2011 dollars) compared to $523,901 (in constant 2011 dollars) for the 2012-2017 period. As such, the findings of insufficient revenues presented in the January 19, 2012 letter report would still apply if the more recent revenue data were used to conduct the analysis. The implications of this finding are that additional revenue is needed to achieve a breakeven operation.

The potential for revenue generation from other activities at the LTGC was initially evaluated in the September 24, 2012 letter report, along with the concept of converting the existing 18-hole golf course to a non-standard course with possibly 12 or 13 holes. Assessing the potential viability of a non-standard length course was deemed necessary because the assessment of this option (Scenario 2, which is similar to Alternative 3 in the EIR) in the HEC Report was based on inferences about the feasibility of golf on a reduced-size golf course developed from results of a statistically invalid and biased informal survey of players of the Lake Tahoe Golf Course; trends in golf course design were evaluated in more detail in the March 20, 2013 TCW letter report. Because fee revenue from only the golf course would be insufficient to achieve breakeven operations, the need for evaluating the revenue potential of enhanced recreation opportunities was apparent.

Other important findings identified in the TCW letter reports that still apply to considering the effects of Alternative 2B include:

- Estimates presented in the 2008 HEC report of economic effects generated by the LTGC on the South Lake Tahoe economy are overstated because State Parks' calculations are based on a number of unsupportable assumptions, including (1) an unsubstantiated and exaggerated proportion of golfers that are out of town visitors who visit the area with the sole intent to play golf at LTGC, and (2) overstated estimates of average spending by golfers per trip.

- Due to unresolved sources of funding for restoration and golf relocation costs, it is likely that the state (taxpayers) would have to subsidize the proposed project through either reduced concessionaire rental charges, or as a funding participant. The analysis presented in the January 19, 2012 TCW letter report demonstrates that the concessionaire would not even be able to cover the annual capital expense for relocating designated portions of the golf course under the current rental arrangements, even assuming $10/round green fee surcharges. Potential local or state liability to pay off a construction loan for relocating the golf course is also a concern due to a potential shortfall in golfing revenues.

In conclusion, the decline over the past 10-15 years in the number of rounds of golf played has been well documented. As discussed in the September 24, 2012 TCW letter report, projections of future play suggest little to no growth through 2020 and the expectation that 500 to 1,000 existing golf courses in the US will close. The resulting competition to attract players would appear to enhance the appeal of unique (e.g., non-standard length) courses. Other factors enhancing the trend toward a new concept in golf courses include the emerging demographics of potential players that have constraints on time, environmental constraints on golf course developments, and high maintenance costs for golf courses. These trends, which were documented by TCW Economics in 2012, are still applicable today according to industry analysts (MarketWatch 2017a).

Although Alternative 2B, as described in the June 2018 EIR/EIS for the UTRRGCRP, appears to address some of the ecosystem issues raised by commenters on the 2012 draft EIR/EIS, the reconfigured golf course design would not be expected to solve the fundamental economic challenges identified in these comments. At the core of these challenges is the need to generate sufficient revenues, likely from multiple sources, in order to be sustainable. It appears that the LTGC has an opportunity to be at the forefront as the golfing industry evolves and attempts to redefine itself by incorporating innovative design concepts. Of particular importance appears to be that renovation designs should focus on changes that make golf courses playable and enjoyable (National Post 2017b).

References

MarketWatch 2017a. *Death Watch: How much longer can golf survive?* Written by Jason Notte. April 18, 2017. https://www.marketwatch.com/story/death-watch-how-much-longer-can-golf-survive-2017-04-18

National Post 2017b. *As courses close and millennials turn their backs, golf reckons with uncertain future.* Written by Scott Stinson. July 15, 2017 https://nationalpost.com/sports/golf/as-courses-close-and-millennials-turn-their-backs-golf-reckons-with-uncertain-future.