September 24, 2012

Lynne Paulson
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Dear Lynne,

This letter follows up my January 12, 2012 letter that assessed the Lake Tahoe Golf Course Economic Feasibility Analysis report (hereafter referred to as the HEC Report) prepared by Hansford Economic Consulting.

In this letter, I summarize my conclusions from reviewing the literature pertaining to the emergence of non-standard length golf courses, and provide some thoughts on other revenue generating activities (including clubhouse events) at the Lake Valley State Recreation Area (LVSRA) and the Washoe Meadows State Park (WMSP). I do want to state upfront that although I have been a golfer for more than 40 years and an economist for more than 30 years, I do not consider myself an authority on the economics of the golfing industry and that the conclusions presented here are based solely on the literature review, including consideration of articles and viewpoints by industry experts such as Jack Nicklaus..

Non-Standard Golf Courses

Historically, the vast majority of golf courses in the U.S. has been designed with 18 holes of play in mind, although 9-hole courses, which reportedly first appeared in Portsmouth, England in 1914 (Santella 2012), appear to be gaining in popularity (Golfscene 2010). As detailed in the HEC Report (see Section 4, *Competitive Market Analysis*), three of the 21 public golf courses in the competitive market region for the LTGC are 9-hole courses.

Because of concerns (player and golf managers alike) over the time that it takes to play 18 holes of golf (frequently in excess of five hours) and green fee costs, the concept of non-standard length golf courses (i.e., 12-15 holes) has emerged as an alternative to "traditional" 18-holes courses (see Why 18 Holes.com). Although not a new concept for golf courses (see Prestwick 12 Golf.com), non-standard courses also appeal to golf course developers who increasingly face high land costs and on-going maintenance costs (e.g., water, pesticides), in addition to environmental constraints in getting approvals for developing new courses. These collective concerns have largely fueled recent interest in non-standard length courses.

According to golf course architect Edwin Roald, "we need to abandon the principle that a 'full' round of golf consists of eighteen holes and get used to the thought that a golf course may have just any number of holes that suits its particular environment" (Stuller 2010). Furthermore, Roald adds that "most courses have at least a couple of holes with terrain that forced architectural compromises", suggesting that eliminating several holes from most courses would not compromise course integrity and, in many cases, would eliminate the holes that are " the weakest to play and most expensive to maintain" .

Also notable among the advocates of non-standard golf courses is the legendary Jack Nicklaus, widely considered one of the greatest professional golfers to have ever played the game. Now a golf course designer and developer, he was quoted in a March 2007 edition of *Golf Digest* (Golfscene 2010) as saying:

> "we should consider the possibility of making 12 holes a standard round…of course it would meet resistance, but eventually it would be accepted because it would make sense in people's lives."

The decline in golf play over the past 5-10 years has been well documented (Stuller 2010). Projections of future play (National Golf Foundation 2010) suggest little to no growth through 2020 in the number of rounds played, and the expectation that between 500 and 1,000 existing golf courses in the U.S. will close over this time period. These trends obviously suggest a further tightening of the golf market as competition to attract players increases, which would appear to only further enhance the appeal of non-standard length courses.

Because of an already abundant supply of quality golf courses in the Tahoe Basin and surrounding Reno/Carson City areas, the future of the LTGC as an economically viable golf operation would appear to be murky. As noted in my January 19 letter, golf-related revenues at the LTGC have been steadily declining since 1997, with annual golf revenues decreasing by about 50 percent between 1997 and 2010. A number of factors are at play in these trends, including the poor economy, apparent waning interest in golf, and increased competition from the development of other courses within a reasonable drive of South Shore. Although an upgrade of the LTGC (as envisioned in Scenario 1B of the HEC Report) may help sustain current levels of business, the overall situation appears in need of some thinking 'outside the box' concerning the course's future, particularly in light of estimated costs for the proposed changes to the course's layout and for restoring the Upper Truckee River. The opportunity to stand out in a very competitive and highly saturated market warrants closer examination of a non-standard course.

Recent examples of non-standard courses that purportedly have been (or, in the case of Bandon Preserve, expects to be) successful include the par-3 Bandon Preserve in Bandon, Oregon and Monarch Dunes in Nipomo, California. Bandon Dunes recently (May 2012) opened for play (Gould 2011), but Monarch Dunes has been open since 2008 or 2009. Both 3-par courses are part of "complexes" of courses that include traditional 18-hole courses. The Derryvale Golf Club in Mississauga, Ontario is, however, an example of an "18-holer" that converted in 2010 to 12 holes. Although the conversion to 12 holes is new, early reports are that the course is "thriving". According to Jim Holmes, owner of Derryvale, "People love it…our green fees are up, and our number of rounds are up. The course fits people's time frame" (Tucker 2010).

Lastly, I would be remiss if I didn't mention the "traditionalist mentality" barrier that Jack Nicklaus presumably makes in his *Golf Digest* interview in reference to "resistance". Being a golfer myself, I understand that some golfers would not play a non-standard course no matter how good the design. Ten years ago, I probably would have counted myself in this camp. I no longer feel this way for a number of reasons, most important of which is the time commitment it typically takes these days to play 18 holes, but equally also my desire to just have "a good experience".

Potential Revenues from Non-Golf Recreation Activities

Under any reasonable scenario, golf-related revenues alone would appear insufficient to cover the ongoing costs of golfing operations at the LTGC, particularly if the costs associated with upgrading or redesigning the course and river restoration costs are factored in. As discussed in my January 19 letter, the redesign/relocation costs for the golf course alone are estimated at between seven and eight million dollars (according to the Final EIS). Golfing revenues alone, no matter what the design, appear insufficient to cover these costs; as a consequence, other revenues are a key ingredient to even approach economic feasibility, based on a cost-revenue comparison.

Based on a review of monthly concessionaire reports (2007-2010) submitted to State Parks by American Golf (the current concessionaire at LVSRA), recreation activities other than golf that generate revenues for State Parks are limited to concessionaire revenues related to snowmobile operations. American Golf revenues from its sublease concession are used to determine the monthly rent due to State Parks. For rent calculation purposes, State Parks "theoretically" receives 10% of American Golf's revenues from the snowmobile sublease. However, because American Golf is required to make a minimum monthly payment of $4,538 between October and March, the snowmobile revenues don't play a role in the actual monthly rent calculations.

Based on the vision articulated in the LVSRA General Plan that included a broader range of recreational activities than what is currently provided, recent snowmobile-related revenue can only be characterized as limited. The potential for utilizing the LVSRA and WMSP area for more revenue-generating activities (as well as non-revenue generating recreation activities) appears clearly underutilized. In addition, using these areas for the wide range of recreation activities envisioned in the General Plan would generate user value to visitors that potentially far exceeds the likely costs paid by users to access the areas. Although the appropriate mix of revenue generating and non-revenue generating activities that could be supported by more and better facilities can only be determined based on a detailed assessment of current and projected recreation patterns, user needs, and the existing and planned supply of recreation opportunities, community input for these recreation services was documented in comments on the Draft EIR, as pointed out in the WMC's January 2012 comments.

Clubhouse Events Revenue

As described in the HEC Report, non-golf related clubhouse events at the LTGC generated an average of $256,000 in annual revenues for American Golf, based on information from 2003 to 2006. This represented about 43% of the total (including golf-related) annual event revenues generated over this time period. Similar to revenues from snowmobile operations, the rent paid to State Parks by the concessionaire related to non-golf related events is based on a percentage of total revenues (in the case of food and beverage, the percentage is 10%), subject to a minimum monthly rent.

The HEC Report also estimates that revenues associated with non-golf related events could increase by an estimated $131,000 annually, based on annual revenues per square foot generated at the North Tahoe Conference Center. Although I consider the similar site approach used to estimate event revenue appropriate for purposes of developing "rough" estimate of potential revenues, it should be underscored that the annual revenue amount could be considerably higher if it was assumed that the current level of event revenues were to continue in the absence of the golf course. As described in the HEC Report, total event revenues averaged an estimated $599,000 annually between 2003 and 2006. Presumably, golf-related events occur during the more desirable summer period when the golf course is open. Thus, these "prime-time" golf-related event revenues, which account for about 65 percent of total event revenues, may just be replaced by non-golf related event revenues. In any case, there appears to be substantially more potential for event revenues than the $131,000 estimated in the HEC Report. The fact that this amount of $131,000 was used for the estimation presented in the HEC Report also is an important consideration that warrants revisiting.

Conclusions

I believe that the main conclusions to be drawn from the information presented in this letter report are that: 1) a more in-depth consideration of the feasibility of a non-standard length golf course for the LTGC is warranted, based on the many factors that suggest simply renovating/relocating the existing course will not be economically sustaining; and 2) to achieve economic feasibility for operations at LVSRA (and WMSP), broader consideration of potentially important sources of revenue generation, including facilities to support recreation activities other than golf and expanded clubhouse utilization, is needed.

In my view, a more comprehensive evaluation of potential revenue sources would be best approached through preparation of a business plan. This plan would include detailed analyses of current and projected market conditions faced by State Parks and its concessionaire for wisely utilizing the many and varied resources in the LVSRA and WMSP. I understand that State Parks is moving in the direction of business plans for its units and that the U.S. Fish and Wildlife Service also has adopted this resource planning approach. As a resource economist, I applaud these efforts.

Thank you for the opportunity to further review and comment on developments for this important project.

Sincerely,

Thomas Wegge

Thomas Wegge
Principal Economist
TCW Economics

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