GOLF COURSE Q & A

How many rounds of golf are played at the Hiddenbrooke Golf Course?
There were 33,370 rounds of golf played in 2019, and 42,400 in 2020. As a result of the pandemic, golf became a very attractive outdoor socially distancing sport, resulting in the 26% increase in rounds in 2020.

How is the Golf Course being marketed?
The Hiddenbrooke Golf Course is listed with CBRE, a nationally known and experienced firm in golf course and resort sales.

What is the current asking price?
The original asking price when the golf course went on the market in May 2020 was $3.78 million. That price was later reduced to the current asking price of $2.75 million.

Was there more interest from potential buyers when the price was reduced?
Yes, the price reduction has triggered new interest from a range of potential buyers, including those in the golf course, residential, event, and private school sectors.

What other properties does the Golf Course include?
There are seven vacant, unentitled lots that come with the golf course property and have potential for residential use. There is also a 1.25 acre lot adjacent to the Golf Course parking lot that has development opportunity.

Does the Golf Course breakeven financially?
No, based on HPOA's review of the financial data (under a Confidentiality Agreement), the golf course has not made money in recent years. The pandemic further exacerbated the operating deficit due to the loss of food and beverage revenue from events that were cancelled. Food and beverage revenue and golf revenue are about equal and constitute about 90% of all golf course income. This situation continues today.

Is there a timeline for a decision to close the Golf Course?
HPOA is not privy to this type of information but is aware that this option has been under consideration by the Owner. If there is new buyer interest, a decision may not be needed or could be postponed.

How much would Hiddenbrooke home values drop if the Golf Course closes?
Each situation is different, but it is commonly reported that when a community is built around a golf course and the golf course closes, home values could drop as much as 20-25%. That equates to a $120,000 to $150,000 drop for a home with a current value of $600,000. The City of Vallejo would also be affected by a decline in home values due to lower property tax revenue.

Does the Owner owe money on a loan for the Golf Course?

There is no outstanding loan on the Golf Course, and the Owner continues to provide money to keep the course going. Therefore it seems unlikely that the Golf Course would fall into bankruptcy.

What happens to the property if the Golf Course closes?

It is our understanding that the owner will continue to have a responsibility to maintain the weeds and ponds. However, the standard of care would be a concern. The golf course would continue to be for sale, but if left largely unattended, the golf course itself would deteriorate making it very expensive to bring back the fairways and greens.

How much will it cost for needed capital improvements to the Golf Course?

The owner has not been able to put money into capital improvements in recent years, leading to the need for new capital investment to bring the course back to its former condition. HPOA has heard that this expense would be around $1.5 to $2 million.

What is HPOA doing to help sell the Golf Course?

The current CBRE broker has extensive experience in selling golf and resort properties, and HPOA lacks any connections that would help with locating a buyer. HPOA has had ongoing meetings with the City Manager to obtain the City's commitment to work with interested private buyers to expedite and facilitate the sale of the golf course, including ways to leverage some of the City's resources. HPOA has taken steps to see if there are individuals in Hiddenbrooke who may be interested in forming a group to buy the Golf Course. Finally, HPOA has answered questions and provided information to several prospective buyers about the HIddenbrooke community.

Why is HPOA exploring the idea of having the City own the Golf Course?

HPOA initiated discussions with the City when there were concerns in 2020 with the lack of buyer interest (in part due to the pandemic) as well as information that the owner may be considering whether to close the golf course. The preference has always been for a new private owner and the City is considered a backup should a buyer not come forward. The City currently owns and operates the Blue Rock Springs golf course and has years of experience with golf operations. Plus the Hiddenbrooke Golf Course is well known and an asset the City would likely not want to lose. Currently the City uses a golf course management company to run Blue Rock Springs and there would be economies of scale from using the same company to run both courses. The City also has some financial resources with the Hiddenbrooke Improvement District (HID) bond to purchase and improve the golf course (per the bond documents, a "public golf course" is one of the designated uses of the bond money). Additionally, the HID bond currently has a surplus of $4.7 million (created by taxpayer payments which exceeded the required debt service), an amount that would be sufficient to both buy the golf course as well as accomplish several other priority Hiddenbrooke projects. However, given the City's financial condition, the

City Council would probably not be supportive of using any General Funds to subsidize the golf course. The future source of operating funds has been one of the key discussion topics with the City. Another recent topic is whether there is any role that the Greater Vallejo Recreational District (GVRD) could play in a solution.

<u>Why should HPOA consider buying the Golf Course if it doesn't breakeven and has major repair work to be done?</u>
HPOA ownership is problematic for a number of reasons, and this option is viewed as a last resort if the golf course closes and residents are unwilling to live around a closed golf course with vacant buildings and poorly maintained grounds. If HPOA were to buy the golf course, homeowner dues would go up significantly and HPOA would need to hire a management company and assume many other responsibilities it does not now have. Dues increases would be less if HPOA buys the golf course just to have the Clubhouse facilities for residents and maintains the open space.

<u>Would HPOA ownership require a community vote?</u>
A decision by HPOA to acquire the Golf Course would not need a community vote, but any money to purchase and operate the Golf Course would need to come from homeowner dues. Under the CC&Rs, a major increase in dues (above the amount allowed by changes in the Consumer Price Index) would require a community vote. A quorum for a membership vote would be 25 percent of members (306 homes), and a majority of the voting members would need to approve an increase.

<u>Would HPOA ownership of the Golf Course result in having HPOA being subject to State Davis Stirling laws governing homeowner associations with common area?</u>
Not necessarily. It may be possible to set up a new corporation outside of HPOA, but controlled by the HPOA Board, to run the Golf Course. This would need further legal review.

<u>Would contributing to the operating cost of the Golf Course (either directly or indirectly through paying for access to the Club's facilities) cause HPOA to return to being governed by Davis Stirling laws</u>?
This would probably not be the case. The principal responsibility to maintain and operate the Golf Course would remain with the Owner, whether or not HPOA members contributed.

<u>What is the basis for the cost numbers used in the Golf Course Survey?</u>
HPOA's "best estimate" of homeowner dues for either a City-owned or HPOA-owned golf course is based on financial data contained on the CBRE website for 2014 through 2019. While exact numbers cannot be provided (due to the Confidentiality Agreement mentioned above), the assumptions behind the numbers can be helpful. The estimates reflect the difference in golf course revenues versus golf course expenses and the resulting homeowner dues required for the golf course to breakeven. The estimates were made for 2021 and assume a "normal" operating year (i.e., without Covid as was the case with the financial data on the CBRE website). An effort was also made to use more conservative assumptions in order to

avoid being too optimistic. The City's golf course management company for Blue Rock Springs has also reviewed the financial data at the City's request, and their estimates were lower than HPOA's if the City were to own the golf course (i.e., a lower operating deficit).

a) City Ownership of the Golf Course ($400 - $500 increase in annual HPOA dues)
With City ownership, and in order for the golf course to breakeven without using any City General funds, it is assumed that there would need to be financial support from Hiddenbrooke homeowners. This would be in the form of an increase in HPOA dues by $400 to $500 a year (compared to $85 now). The basis for the two numbers is described below.

- The pandemic is over and the Golf Course is able to schedule events again (weddings, family, corporate, golf tournaments) that bring in Food and Beverage revenue.
- The number of golf rounds played is the average of the last four years with today's daily golf rates (i.e., the significant "bump" in the number of golf rounds during Covid would not continue).
- Food and Beverage revenue is assumed to be the average of the last 6 years.
- Repair and maintenance costs are the average of the last 4 years.
- Cost of Sales is the average of the last 3 years.
- The cost of raw irrigation water was increased from 2019 per the City's new water rate schedule (estimate does not assume a new well to substitute for City water). Electricity cost is assumed to not change due to the installation of energy efficient LED lights for the parking lot and entry road.
- The most significant assumption made in HPOA's analysis is that there would be a major reduction in the Payroll and Benefits cost (labor) to be more in line with these costs for other Golf Courses with a similar amount of annual revenue. Payroll and Benefits costs are currently 71% of total revenue, whereas the typical percentage for golf courses with the same amount of revenue would be only 45% to 48%. Rather than using this optimistic estimate, a more conservative range was used -- for the $400 per year dues increase, Payroll and Benefits was assumed to be 52% of estimated revenues; for the $500 a year dues increase, Payroll and Benefits was assumed to be 55% of estimated revenue.
- Golf Course management fees were not changed.
- There would be no property taxes paid due to City ownership.
- An allowance was made for bad debt (delinquent owners).

The Golf Course Survey indicates that owners may be willing to pay $400 to $500 extra in dues if they receive something in return, i.e., the ability to use the Club facilities (pool, gym, tennis courts).

b) For HPOA Ownership ($800 - $1,000 increase in annual HPOA dues)
HPOA's ownership cost would include the purchase cost, an amount for needed capital improvements, operating and maintenance costs, and a capital reserve for

future capital improvements. The assumptions for the low and high range costs are provided below.

The low range estimate ($800 a year increase in dues) is based on the following:

- $3.5 million to buy the Golf Course and make needed capital improvements (assumes 15 year loan and 5.5% interest rate for this type of loan)
- $100 per lot per year to go towards a Capital Reserve Fund for future repairs/improvements
- $400 per lot per year for the operating deficit (as calculated above)
- includes City property taxes
- includes an allowance for bad debt (delinquent owners)

The high range estimate ($1,000 per year increase in dues) is based on the following:

- $4 million to buy the Golf Course and make needed capital improvements (assumes 15 year loan and 5.5% interest rate for this type of loan)
- $100 per lot per year towards a Capital Reserve Fund for future repairs/improvements
- $500 per lot per year for the operating deficit (as calculated above)
- includes City property taxes
- includes an allowance for bad debt (delinquent owners)