

To: Cedar Hills Residents
From: Mayor and City Council
Subject: Cedar Hills Golf Club
Nov. 15th, 2004

As your Mayor and City Council, we are committed to providing complete, timely, and accurate information about the important issues that face Cedar Hills. We now face an issue of significant impact and importance to all residents. For this reason, we have prepared this information flyer to provide you with the facts you need to understand our situation, our options, and some tough decisions we face going forward. We also plan to conduct a series of "town meetings" in which you will have the opportunity to ask questions and better understand the situation.

Background

On May 8, 2001, the residents of Cedar Hills voted to purchase the golf course at The Cedars, now called the Cedar Hills Golf Club - 56% (445 votes) in favor, and 44% (356 votes) against. Purchase of the golf course was financed through Zions Bank, in the form of a Lease Revenue Bond for \$6.437 million. This arrangement is similar to a home mortgage in that while the City owns the golf course, the bank holds the golf course as collateral against default on the loan. The contract also stipulates that the city building (also known as the Public Safety Building) is also collateral for the loan. Unlike a General Obligation Bond, a Lease Revenue Bond does NOT collateralize property taxes of residents.

The business plan for the course was largely based on a feasibility study conducted by THK, and paid for by Landco Development (the developer of the golf course and The Cedars). Actual business operations of the course show that the THK study was significantly over-optimistic in its assessment of the golf course revenue potential.

Because it was anticipated that the golf course revenue would take some time to grow and for the business to become self-sustaining, part of the initial financing of the golf course included capital to pay interest expenses for the loan during the first two years of operation. The City was not required to make any loan payments until November of 2004, when we begin making semi-annual payments that grow over time. In summary, as taxpaying residents of Cedar Hills, we own the Cedar Hills Golf Club and are responsible for its operation through our city government.

Current Status

During the fiscal year '03-'04 (fiscal year starts July 1) our golf course suffered a cash loss of \$223,780. About \$110,000 of this was from one-time expenses incurred in "starting up" the golf course. These expenses include finishing the office/trailer and outfitting the business with equipment necessary to operate. The rest of the \$223,780 loss comes from a substantial discrepancy between estimated revenue from the course and actual results. In other words, while we have been careful and diligent about spending less than we had originally budgeted in the operation of the course, we've had *far fewer* rounds of golf played at our course than were projected in the feasibility study.

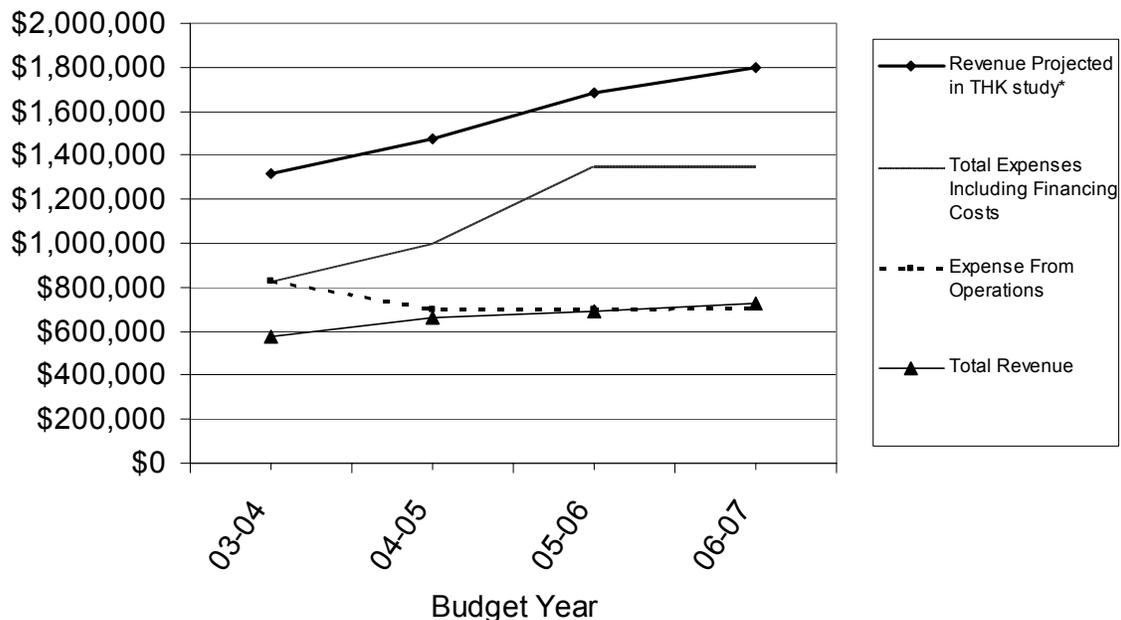
To be specific, the original THK feasibility study projected \$1,316,606 in revenue for last year and the City's budget projected \$837,905, but our actual revenue was only \$574,843. To put the \$223,780 loss in perspective, we collected \$366,000 from the City's portion of property tax during '03-'04. (Only about 16% of your total property tax goes to the City of Cedar Hills, while the majority of your property tax pays for schools and other things.) Obviously, this shortfall is a significant issue in the City's financial operation.

Looking Forward

While our golf course continues to increase in revenue, we will in all likelihood face a greater cash loss from the course during the '04-'05 budget year compared to last fiscal year. Why? Last year interest on the loan was paid from funds included in the original loan, and no loan payments were required from city funds. That will no longer be true going forward. During fiscal '04-'05 only about half the interest will be paid from the original loan, and during subsequent years, none of it will. The annual interest on the golf course bond is about \$360,000, and loan payments increase over time under the current agreement with

Zion's Bank. The total principal and interest payments due to Zion's Bank for calendar 2005 total \$576,000. The current financing agreement was always intended as a near-term arrangement, and the agreement anticipates a refinance before the end of 2007, at which time the full balance of the loan is due. It is impossible to accurately predict the future, but our best projections for revenue compared to operational expenses and loan payments under the current agreement with Zion's Bank are shown below:

Cedar Hills Golf Club Revenue and Expenses



* The data shown is the THK projection for the first four years of course operation. The study originally assumed the course would open in 2002, so the data is shifted one year to accurately reflect that the course didn't open until 2003.

For this current ('04-'05) fiscal year we project a \$40,000-\$60,000 operating loss, as well as total net debt payments of \$240,000, which combine for an overall loss of about \$300,000. The current financing arrangement with Zion's Bank is untenable because assuming the course reaches operational break-even in the '05-'06 fiscal year, the City would be forced to subsidize the \$576,000 due Zion's Bank. Fiscal '06-'07 is likely to bring the same scenario (with \$576,000 due Zion's) and a final payment of over \$6 million due in November 2007.

So what are we doing about this?

The City is diligently investigating every feasible option to improve the financial situation with our golf course. While we cannot list all the information and ideas here, a few highlights are:

- We hired a nationally recognized consultant, Mr. Dick Thorman, (who has over 25 years of consulting experience in the golf industry) to conduct a comprehensive analysis of our golf course and its future, and to make recommendations to improve its operations. Mr. Thorman is not affiliated in any way with the original feasibility study or the developer of the golf course.
- We are currently working toward renegotiating the loan agreement with Zion's Bank. The existing agreement terms are too onerous and threaten the viability of the golf course, especially starting in 2005.
- We are exploring new and different ways to market our golf course – we have a great course and we need more people to experience it for themselves.
- We are reviewing the equipment leases and other golf course expenses to identify areas in which we can reduce expenses and/or restructure debt.
- *We are working to create a policy for dealing with golf course shortfalls when they occur.*

While we expect golf course revenue will continue to grow over time, and we are hopeful that the above measures will materially improve the situation, we must deal with the immediate issue of the losses incurred last year. Because we are certain to experience additional loss beyond the \$223,780 already incurred (probably \$300,000 for this year), we lack the funds to simply cover these losses from the City's accumulated savings. The mayor and council members agree that it is impossible to cut the existing city budget sufficiently to cover the ongoing losses without sacrificing health, safety, and basic utilities for residents. (For a copy of the city budget, visit the web site or request one at the city office). While we continue to pursue reducing city budget expenditures, we have no choice but to increase city revenue (taxes).

While the current City Council is extremely averse to raising taxes, we must increase revenue to cover the golf course shortfall. We are required by law to run a balanced budget each year, and since residents voted to purchase the golf course, we are accountable for the \$223,780 lost during last fiscal year and we must make up the deficit.

How will we cover last year's \$223,780 loss?

We can cover the loss either with increased property taxes, or through an additional fee charged by the City to every household. Each of these options has advantages and disadvantages. However, the *immediately available* options are limited because:

- In the November 2003 election, Cedar Hills voters passed an initiative requiring a vote of city residents to approve an increase in the City's property tax rate.
- Last year the Utah state legislature passed a law (20A-1-204) stipulating that such an election can take place only on the fourth Tuesday in June or the first Tuesday after the first Monday in November.

Since we cannot wait until next June to begin making up for the golf course shortfall (we will then be facing two year's losses), we will likely be forced to implement an additional fee to residents. We anticipate the fee to cover last year's losses to be *approximately* \$11.00 per household per month for the period of one year.

How will we cover future losses?

Because the size and duration of future losses are significantly affected by the financing arrangements (which we are working to renegotiate) we cannot accurately predict what those losses will be in the future until we understand the terms of the new financing. Without a new financing arrangement and increased revenue to the City, we will be forced to default on the golf course bond. As more information is available, we will communicate that to residents as soon as we legally and feasibly are able.

We believe it is extremely likely under any arrangement that we will continue to see losses in the next several years and will continue to be forced to subsidize the operation of the golf course. If this is the case we will likely hold a special election to decide whether to increase the City's property tax rate to cover the losses, or continue assessing a monthly fee. Because each of these approaches has advantages and disadvantages, we will create a voter's pamphlet explaining the tradeoffs and let the voters decide.

This fee (or tax) will last as long as the City owns the golf course and it operates at a deficit, and will be adjusted each year in accordance with the amount of the deficit. If at some point in the future the golf course doesn't have an operating deficit, we will eliminate the fee (or tax).

Question and Answer:

Why are residents forced to pay for shortfalls from the golf course?

The residents of Cedar Hills voted to purchase the golf course. The City now owns and operates the course, and must include associated profit or loss in the annual city budget, which by state law must be a balanced budget. Anticipated profits from the course are a primary reason why a previous Mayor and City Council supported purchasing the course.

What if we don't pay for the shortfall?

The term 'shortfall' refers to expenses to operate the golf course in excess of revenues. The money was already spent in operating the course last year. The money is gone from our City account, and we must have a plan to replace it, or our account will be completely emptied within 12-18 months by continued shortfalls.

Why didn't we vote on a property tax increase during this Nov 2004 election as opposed to a fee?

The City Council has been aggressively researching and pursuing all available options. Some of these are still ongoing, or simply could not be properly completed in time to understand the issue and bring it to a public vote by November 2004.

Can't we just shut down the golf course and sell the property?

Because Zion's Bank holds the golf course (and the city building) as collateral for the loan, failure to appropriate city funds for the loan payments would result in Zions Bank taking ownership of the course. Shutting down the course is not an option at this time.

If I purchase a season pass for the course is my investment at risk?

It appears extremely unlikely in any scenario that the golf course would cease operations. Nevertheless, if that occurs the City will reimburse the cost of passes (prorated for the time period remaining with the pass).

Why doesn't the City sell the course?

The City thoroughly investigated the option of selling the course. At this time, the golf course is still an unproven business operation, so it is difficult to sell it for a high enough price to repay the loan. We expect the course to become more attractive to potential buyers as revenues increase and as we reduce the debt against the course through loan payments.

How long will we be paying this fee?

The fee or tax will be evaluated and adjusted annually to cover any shortfall in the previous year's budget as long as the City owns the golf course. We project the fee will remain for at least several years. If in the future there is no loss, there will be no fee. If the course were ever to produce a profit, city operations would be subsidized by the golf course.

My family and I don't golf and/or I voted against the golf course – why do I have to pay?

Many people voted against the course, and many moved to Cedar Hills after the vote, and these people are understandably frustrated— especially those who don't golf. Just as with the choice of our country's president every four years, we all live with consequences of the majority vote.

If I have to pay for the golf course, why can't I golf for free?

The City Council is investigating ways to offer some benefit from the course to residents paying the fee. Any such golf benefit will come after careful consideration of the impact to our golf course operations. We want to solve a problem, not make the problem worse. We are hopeful that we can offer residents some benefit.

I have a question not answered here – how can I get an answer?

Please send your questions via email to golfquestions@cedarhills.org or bring a printed copy of your questions to the City Building. The Mayor and City Council will compile these questions and appropriate answers into future communications.

How can I get more information or discuss this with somebody?

Your Mayor and City Council are committed to open and honest communication and being clear with residents about our city operations, including the golf course. We encourage you to contact us as well as attend "town meetings" and City Council meetings to keep informed. We will also continue to provide additional information as the situation with our golf course develops.