



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julie Edmonds-Mares

**SUBJECT:** SUMMARY OF MUNICIPAL  
GOLF COURSES

**DATE:** May 25, 2012

Approved

Date

5/25/12

## EXECUTIVE SUMMARY

The purpose of this memorandum is to provide the Mayor and City Council with a brief summary of the history, operations and financial performance of the three city-owned golf courses.

The City of San José owns three municipal golf courses as follows:

- San José Municipal (“Muni”)
- Rancho del Pueblo (“Rancho”)
- Los Lagos

Both Muni and Los Lagos are 18-hole courses while Rancho is a nine-hole course. A brief summary of each course, as well as their operating structure and financial performance is provided in the following sections and in the Attachments. In summary, the three courses generate a net negative income stream to the City of approximately \$1.7 million when their operations and maintenance costs are combined with debt service payments. When looking solely at operations and maintenance, the three courses result in a net positive income stream to the City of approximately \$249,000 annually.

In March 2008, Economic Research Associates submitted a report to the City titled “Operational Review of the City of San Jose Municipal Golf System,” hereinafter referred to as the “ERA Report.” A copy of the report can be found on the following website: <http://www.sjpark.org/golf.asp>. While this report is over four years old, it provides significant details on the history and operations of each course.

## BACKGROUND

Attachment A provides a brief summary of the size, age, location and characteristics of each course. Additionally, Attachment B provides a table showing the rounds and financial performance of each course since the 2000-2001 Fiscal Year. The remainder of this background section provides a brief summary of each course, its operating agreement, and financial performance.

## San Jose Muni

### *Description*

Opened in 1968 and currently operated by Mike Rawitser Golf Shop, Inc. (Rawitser), Muni features a regulation-length, 18-hole/par 72 golf course designed by golf course architect Robert Muir Graves. The site encompasses approximately 146 acres including 90 acres of irrigated turf. Further detail on the course is provided in Attachment A and on the course's website: <http://www.sjmuni.com/>

### *Operating Agreement*

The City entered into an agreement with Rawitser to operate Muni in 1988. The agreement term was for 25 years with two five-year extensions to potentially extend the agreement through the year 2022. Both extensions are at the sole discretion of the operator. The initial 25-year term will expire in December 2012, however, the operator has already formally notified the City that it is exercising the first five-year extension, extending the contract through December 2017. City staff anticipates that Rawitser will be requesting the second extension at the appropriate time in the future which will extend the final contract to December 2022. Key terms of the agreement are as follows:

- Agreement, including extensions, expires in December 2022, unless Rawitser fails to request the second five-year extension;
- Rawitser is responsible for payment of all operations, maintenance and utility costs;
- Rawitser pays city 8.5% of gross receipts, regardless of Operator's expenses (this increased from 2.5% to 8.5% in the 21<sup>st</sup> year of the agreement (January 2008) and continues at 8.5% through the end of the agreement);
- Rawitser pays 1.5% of gross receipts, on top of the 8.5% listed above, to a Capital Improvement Fund.

Further analysis regarding the operating agreement for Muni can be found in the ERA Report referenced in the Executive Summary.

### *Financial Performance*

Rawitser pays for all of its operations and maintenance costs. Additionally it provides the City with an annual payment of 8.5% of gross receipts regardless of their operations and maintenance costs and places an additional 1.5% of gross receipts into a capital improvement fund. In Fiscal Year 2010-2011 the City received net revenue of \$428,667 and estimates \$457,363 in net revenue in Fiscal Year 2011-2012. There is no debt service associated with this property, so when looked at in isolation from the other golf facilities, the anticipated City revenue in the current fiscal year signifies that Muni provides a net positive benefit of \$457,363. A summary of the rounds, total facility revenue, and total City revenue per year from Fiscal Year 2000-2001 to current year is included in Attachment B.

## Los Lagos Golf Course

### *Description*

Opened on April 1, 2002, Los Lagos is operated by Los Lagos Golf Course, LLC, a subsidiary of CourseCo. Inc., and features a short 18-hole/par 68 golf course designed by Brian Costello of JMP Golf Design. Measuring 5,393 yards from the back tees, and bisected by Coyote Creek, the course was designed to appeal to players of all ability levels. The course encompasses approximately 180 acres, with 75 acres of irrigated turf. A notable natural feature of Los Lagos is Coyote Creek and its significant riparian corridor which is maintained by the course operator. Further information on Los Lagos can be found in the table on Attachment A and on the course website at the following link: <http://www.playloslagos.com/>

### *Operating Agreement*

This golf course operates under a management agreement. The agreement for Los Lagos is a fee-for service agreement with Los Lagos Golf Course, LLC, which is a subsidiary of CourseCo, Inc., a professional golf management company that also operates Rancho. Key terms of the agreement include:

- The agreement expires in 2017 however the City can currently terminate it at any time with no penalty upon at least six month's notice to the operator;
- The City receives 100% of the gross revenue from the facility but is required to pay for the following:
  - a. An annual fixed fee currently at \$159,120, with annual consumer price index increases;
  - b. An annual incentive fee equal to 1% of the increase in gross revenues for each year of the agreement, as compared to the first full year of operations of the course (the incentive fee cannot exceed 5% of the fixed fee);
  - c. A capital improvement fund which can be set by the Director of Parks, Recreation & Neighborhood Services (PRNS) at anywhere between 3% to 10% of the annual gross revenue (it is currently set at 3%);
  - d. 100% of the annual operating and maintenance costs for the facility.

As can be seen from the above agreement parameters, the gross receipts from the facility must cover the annual fixed fee, potential incentive fee, capital improvement fund and the course operations and maintenance costs before the City can realize any net operating profits from the facility.

### *Financial Performance*

As seen in Attachment B, Los Lagos, excluding debt service payments, has traditionally operated at a net operating profit to the City, ranging from over \$800,000 in the first year of operations to \$624,000 in Fiscal Year 2008-2009. However, the past three years have seen a significant dip in the total revenue from the facility. This led to a net operating loss for the City of \$15,000 in Fiscal Year 2010-2011, with slight operating profits of approximately \$70,000 projected for the following two fiscal years. When the operating profit is combined with an estimated debt service payment of \$1,484,000, the total city financial position is anticipated to be a negative \$1,414,000 on this course for the current

fiscal year. Since the incentive fee is based on improved performance over the first year of operations, the Operator has never received an incentive fee as the first year remains the highest revenue year to date.

## **Rancho del Pueblo**

### *Description*

Opened in 2000 and operated by San Jose Golf, LLC, a 90% owned subsidiary of CourseCo, Rancho is a 9-hole/par 28 golf course designed by Damian Pascuzzo of Pascuzzo and Pate. Further information on Rancho can be found in the table on Attachment A and on the course website at the following link: <http://www.ranchodelpueblo.com/>

### *Operating Agreement*

This golf course operates under a management agreement. The agreement for Rancho is a fee-for service agreement with San Jose Golf, LLC, which is a subsidiary of CourseCo, Inc., a professional golf management company that also operates Los Lagos. Key terms of the agreement include:

- The agreement with the operator is currently on a month-to-month basis and therefore can be terminated by the City on short notice;
- The City receives 100% of the gross revenue from the facility but is required to pay for the following:
  - a. A management fee currently at \$246,000 which includes (1) a fixed fee with annual increases consistent with the consumer price index and (2) an annual percentage fee equal to 1% of the increase in gross revenues for the facility.
  - b. A capital improvement fund set at 2% of annual gross revenues from course operations.
  - c. 100% of the annual operating and maintenance costs for the facility.

As can be seen from the above agreement parameters, the gross receipts from the facility must cover the total of the management fee, the capital improvement fund and 100% of the operator's operations and maintenance costs before the City can realize any net operating profits from the facility. While this agreement is very similar to Los Lagos, important differences are:

- The annual fixed fee paid to the operator for Rancho is higher than Los Lagos. This is because IRS regulations required that salaries of certain staff at Rancho be included in the management fee, as opposed to being deducted against overall operating expenses as is the case with Los Lagos.
- The Los Lagos agreement requires the operator to achieve a specific performance target to receive the additional 1% of gross revenue. The Rancho agreement does not have this target and provides the additional 1% automatically to the operator.

### *Financial Performance*

Rancho has had a difficult time recovering 100% of its operational expenses. According to the ERA report, "in general, short courses struggle economically as limitations on green fees disproportionately restrict revenues compared with regulation length 18-hole courses. Generally, these courses rely heavily on the performance of the practice range to achieve economic stability." The ERA report also pointed to a combination of a weakening golf market and intensified competition in the region for other short courses as reasons Rancho struggles to generate sufficient revenue to cover expenses. Since its opening in 2000, there has only been one year (2001-02) where it made a net operating profit for the City (\$70,639). Since the course opening in 2000 and projected through the end of Fiscal Year 2011-2012, the City will have contributed over \$1.2 million towards operational expenses.

As mentioned above and as seen in Attachment B, Rancho, excluding debt service payments, has traditionally operated at a net operating loss to the City, ranging from a \$76,000 loss in the first year of operations to an expected \$278,000 loss in the current fiscal year. When the operating profit is combined with an estimated debt service payment of \$453,000, the total city financial position is anticipated to be negative \$731,000 on this course for the current fiscal year.

### **All Courses - Factors Impacting Financial Performance**

The operators of the facilities have worked closely with the City over the past several years to identify opportunities to lower costs and increase revenue. At Los Lagos and Rancho, this includes, but has not been limited to:

- Rancho reduced the operating hours of the Café to better align with peak use;
- Rancho reduced maintenance staffing by one worker;
- Los Lagos eliminated a golf operations manager, the assistant superintendent and one course worker;
- Los Lagos maintenance staffing reduced work hours by 20% annually;
- Non-essential turf has been removed to reduce water costs;
- Operation of decorative fountains and chemical application and fertilization of turf has been reduced.

A significant impact on the operations and maintenance budget as identified in the ERA report is prevailing wage. Currently, both the Rancho and Los Lagos agreements require the operators to pay prevailing wage. The Muni agreement does not have this requirement as it was put into place prior to the City's prevailing wage policy. As mentioned in the ERA report, this results in much higher minimum wage levels than exist in privately operated golf courses. A recent analysis by CourseCo, the operator for both Rancho and Los Lagos, estimates that the requirement to pay prevailing wage has increased the combined annual operating costs for the two courses by approximately \$385,000.

## Outstanding Debt Summary

### Outstanding Lease Revenue Bond Debt

Attachment C provides a detailed analysis of the outstanding debt on both Los Lagos and Rancho as of Fiscal Year 2011-2012. Muni does not have any outstanding debt associated with it. In summary, a principal amount of \$26,115,000 of lease revenue bond debt remains outstanding on the two courses as shown in the below table:

Course	Total Outstanding Lease Revenue Bond Debt	Annual Debt Service Payment (FY 11-12 est.)	Key Notes
Rancho	\$5,415,000	\$453,000	Full payment anticipated by 2028 under current payment schedule
Los Lagos	\$20,700,000	\$1,484,000	Full payment anticipated by 2031 under current payment schedule
<b>Total</b>	<b>\$26,115,000</b>	<b>\$1,937,000</b>	

### Unsecured Promissory Note

In addition to the debt referenced in the table on the previous page, the City and the Authority entered into an Unsecured Promissory Note (the "Note") in May 1997 with an original principal amount of \$2,500,000 related to the construction of Rancho. In October 1998, the Note was amended to increase the original principal amount to \$3,300,000. In the event of a sale of the golf course, the Note is immediately due and payable, at the option of the City. However, proceeds from the sale of Rancho would flow through the Authority to the City for repayment of the Note and would be available to the City for any purpose. Thus, the Note has no financial impact to the City in the event of the sale of Rancho.

### ERA Report Analysis of Debt Service

The following excerpt from the 2008 ERA report provides an opinion on why the golf courses are not recovering the full cost of their debt service:

*Historically debt service has not been attached to recreational facilities. Golf courses are one of the few assets where the City attempts to cover the entire investment. The program has been successful at contributing approximately one third of the debt payment obligation annually and it covers all of the operational expenses. Part of the underperformance of not meeting the full debt service obligation stems from the original feasibility study conducted by National Golf Foundation in 1997 and updated in 1999. The original feasibility study did not consider several key factors when developing the operational expenses at Los Lagos Golf Course.*

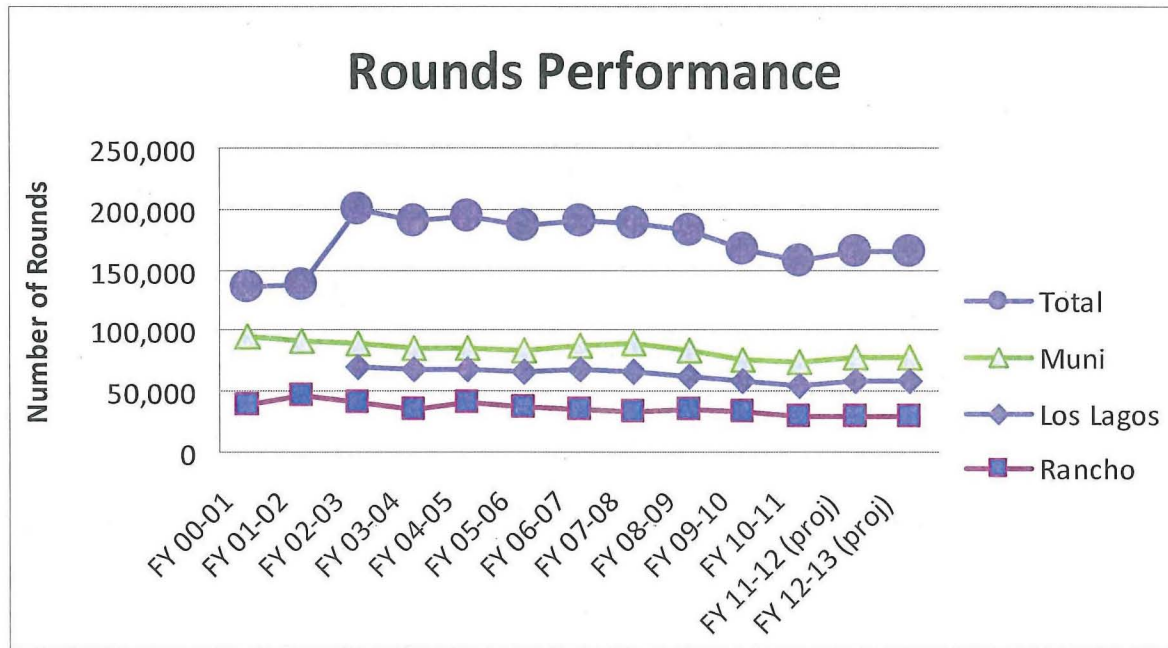
The key factors called out specifically by ERA for Los Lagos not being able to cover debt service payments with operation profits were (1) Impact of paying prevailing/living wage; (2) The increase in the construction costs from \$14.2 million to \$20.7 million, and (3) Additional annual expenses associated with unanticipated maintenance of the mitigation areas.

**ANALYSIS**

**General Fund Subsidy**

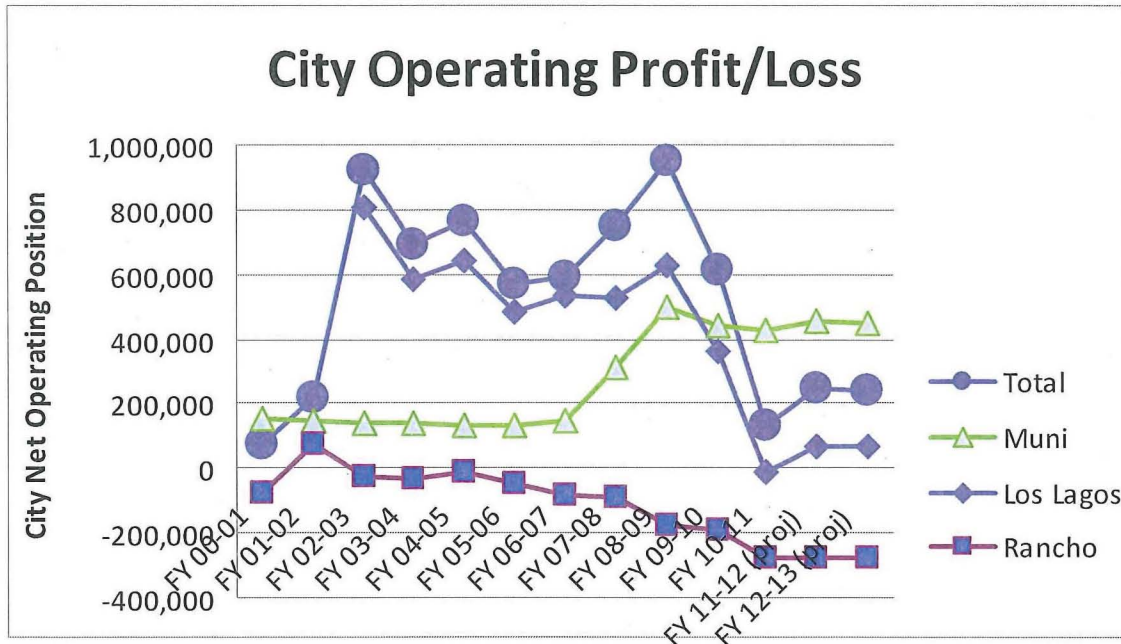
Attachment B provides a table with the total rounds performance, total operating revenue, debt service payments, and net City revenue for each course since Fiscal Year 2000-2001 and projections for Fiscal Years 2011-2012 and 2012-2013. The remainder of this section provides charts compiled from the table in Attachment B which indicate the trends for round performance and finances of the courses over the years. It should be noted that the first full Fiscal Year of operations of Los Lagos was in Fiscal Year 2002-2003 which results in a spike in overall performance of the courses in the charts below. In summary, the City's overall subsidy (operations plus debt service) of the three courses for Fiscal Year 2011-2012 is expected to be \$1.7 million. This has more than doubled since Fiscal Year 2002-2003 when the subsidy was approximately \$749,000. The need for this subsidy stems from the \$1,937,000 in annual debt service payments for Rancho and Los Lagos as well as the operating subsidy for Rancho. Without these debt service payments, the combined operation and maintenance of all three the courses would be a net positive revenue stream to the City.

The below chart shows the net rounds performance of the three courses since Fiscal Year 2000-2001.



As noted above, the opening of Los Lagos provide for an overall spike in performance in FY 2002-2003. However, consistent with national golf trends, since Fiscal Year 2002-2003, rounds have decreased at each course for an average 21% decrease when the courses are combined.

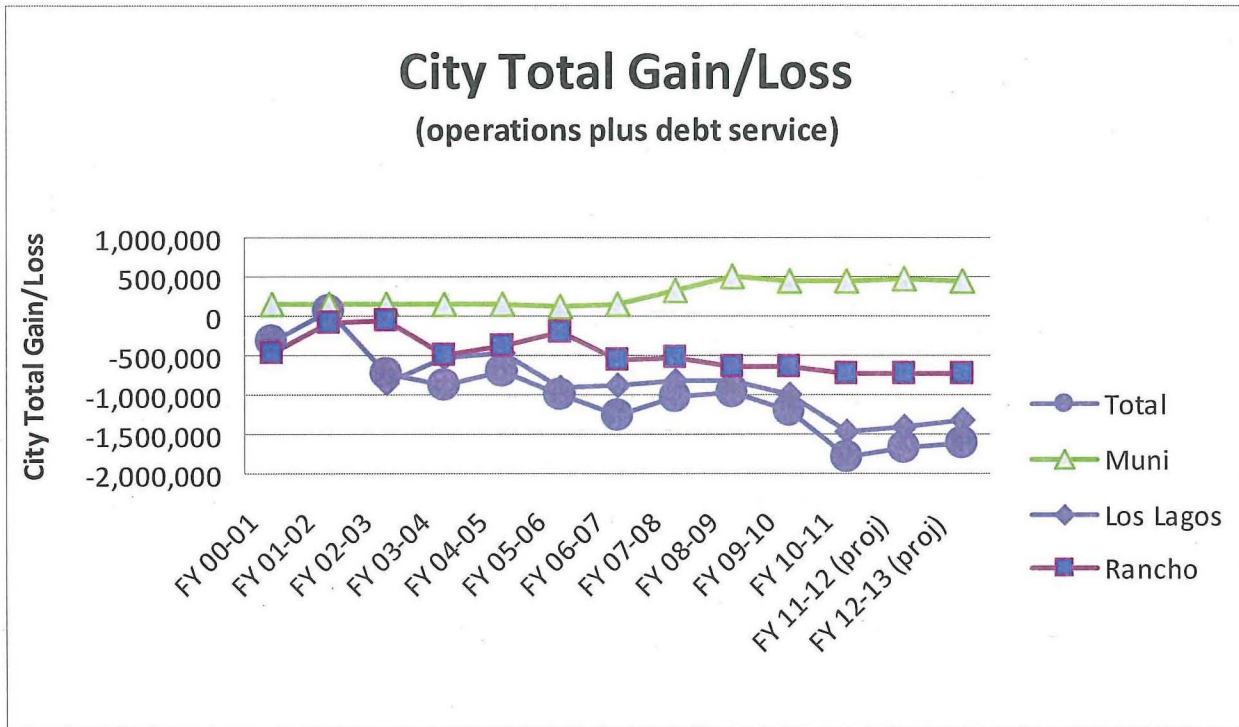
The below chart provides a summary, by course and combined, of the annual net income to the City from the operations of the three courses. It is important to note that this does not include debt service costs.



As seen above, the City has received a net operating profit from the three courses since Fiscal Year 2000-2001 (as well as prior to that time since Muni has always provided a net profit to the City). The highest net profit to the City was in Fiscal Year 2008-2009 at \$947,087. However, as can also be seen in the rounds performance chart, there is a significant decline in both rounds performance and revenue from the three courses after Fiscal Year 2008-2009. The revenue decline was partially offset by the increase in annual revenue from Muni as the amount paid to the City by the operator increased from 2% to 8.5% of gross receipts after 2008. In summary, while the three courses continue to operate at a combined operations and maintenance surplus, the \$249,291 anticipated to be generated from the combined courses this fiscal year is substantially lower than the peak of \$947,087.

The below chart provides a summary of the City's total financial position from each course, and combined, when operating revenue and debt service are both included. As can be seen from the chart, when debt service is included, the City is anticipated to finish the year in the negative by an approximately \$1.7 million for the Fiscal Year 2011-2012.





**Possible Sale**

In the fall of 2011 there was significant discussion with the community regarding the potential sale of Rancho. The following factors would need to be considered for each site prior to the consideration of the potential sale of any of the courses:

Course	Is it on Parkland?	Can City Terminate Agreement?	Key Development Issues	Total Outstanding Lease Revenue Bond Debt
Rancho	No, can sell with Council approval	Agreement is month to month.	General Plan and zoning change required	\$5,415,000
Muni	No, can sell with Council approval	Expires in 2022. Early termination would require negotiations with the operator and may be at significant cost to the City	General Plan and zoning change required	\$0
Los Lagos	Yes, citywide vote required to sell the property	Can terminate with 6 months prior notice	General Plan and zoning change required; Riparian corridor.	\$20,700,000

## **Parkland**

Section 1700 of the City Charter reads as follows:

*Except as otherwise provided elsewhere in this Charter, the public parks of the City shall be inalienable unless otherwise authorized by the affirmative votes of the majority of the electors voting on such a proposition in each case; provided and excepting, however, that the same or any interest therein, or any concessions or privileges therein or in any building or structure situate therein, may be leased by the Council, or the Council may grant permits or licenses for the same, without any vote of any electors, if the term of each such lease or permit does not exceed three (3) years. As used herein "public parks" means any and all lands of the City which have been or are dedicated, improved and opened to the public for public park purposes.*

As noted in the above section, a "public park" is defined as land that has been dedicated, improved and opened to the public for public park purposes. Neither Muni or Rancho have ever been defined by the City as public parks so they do not fall under this Charter language and, therefore, could be sold or used for purposes other than golf, assuming other hurdles such as agreements and development impacts are overcome. Alternatively, Los Lagos is considered chartered parkland because the course was built along the Coyote Creek Park Chain. Therefore, if Los Lagos were to be sold it would need to be approved by a citywide vote of the residents.

## **Operating Agreements**

### *San Jose Municipal*

The term of the existing contract for Muni ends in December 30, 2012, but has two five-year extensions that may be executed by the operator that could ultimately extend the agreement to 2022. The operator has already notified the City that it is to exercising the first option to extend the contract through 2017. Outside of default by the operator or taking of the property by a third party, the agreement does not provide a mechanism for the city to terminate the agreement prior to its expiration. If the City desired to terminate the contract, it would need to negotiate early termination with the operator, which would be expected to include loss of future income of the operator as well as other operator costs associated with the expectation of operating the course for the full term.

### *Los Lagos*

The agreement for Los Lagos extends through 2017, however the City has the ability to terminate the agreement at any time with at least 6 months notice, with no penalty.

### *Rancho del Pueblo*

The agreement for Rancho is currently on a month-to-month basis which provides the City the ability to terminate the agreement on short notice, with no penalty.

## **Development Potential and Restrictions**

Significant staff work and community outreach was performed in Fall 2011 to evaluate the development potential for Rancho del Pueblo golf course. Per an assessment prepared for the City by HMH in 2010, it was estimated that the course could generate up to \$20.2 million in revenue if sold for

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housing development. However, this would require a change to the City's General Plan and other planning and development approvals. The development of both Muni and Rancho would also require changes to the City's General Plan and, as both of them are along Coyote Creek, the City's riparian corridor policy would likely influence and limit any future development on the sites.

### **COORDINATION**

This memorandum was coordinated with the City Manager's Office of Economic Development and Budget Office, Office of the City Attorney, Department of Planning, Building and Code Enforcement and the Finance Department.

/s/

JULIE EDMONDS-MARES

Acting Director of Parks, Recreation and  
Neighborhood Services

For questions regarding this report please contact Matt Cano, Deputy Director, at 535-3580

**Attachment A  
Golf Course Features**

	<b>San Jose Municipal</b>	<b>Los Lagos</b>	<b>Rancho del Pueblo</b>
Year Opened	1968	2002	2000
Owner	City of San Jose	City of San Jose	City of San Jose
Operator	Mike Rawitser	CourseCo. Inc	CourseCo. Inc
Prevailing Wage Required?	No	Yes	Yes
Number of Acres	146	180 (88 acre course)	33
Number of Holes/Par	18/72	18/68	9/28
Course Length (back tees)	6,700 yards	5,393 yards	1,418 yards
Slope Rating (back tees) 1/ Golf Course Designer	119 R. M. Graves	112 Brian Costello (JMP)	NA Damian Pascuzzo (Pascuzzo & Pate)
Clubhouse Size (square feet)	4,000	4,750	4,000
Range, # of Tee Stations	60	51	25
Range, Night Lighted?	Yes	Yes	Yes

<b>Green Fees</b>			
<b>(Adult regular play only shown for comparison. Courses also have Senior and Junior rates)</b>			
Weekday Adult, Regular	\$37	\$34	\$13
Weekend Adult, Regular	\$51	\$47	\$15

**Attachment B**  
**Detailed Round and Financial Performance and Projections for City Golf Courses**  
**Fiscal Year 2000-2001 through Fiscal Year 2012-2013**

Year	Los Lagos					Rancho					SJ Muni			Total				
	Rounds	Total Operating Revenue	City Operating Profit/(Loss)	Annual Debt Payment	Total City Revenue	Rounds	Total Operating Revenue	City Operating Profit/(Loss)	Annual Debt Payment	Total City Revenue	Rounds	Total Operating Revenue	Total City Revenue	Rounds	Total Operating Revenue	City Operating Profit/(Loss)	Combined Annual Debt Payments	Annual City Financial Position
FY 00-01	<i>Course was not open yet</i>					39,320	694,000	-76,000	-398,043	-474,043	95,501	6,026,000	150,650	134,821	6,720,000	74,650	-398,043	-323,393
FY 01-02	<i>Course was not open yet</i>					46,100	924,000	71,000	-169,999	-98,999	91,393	5,786,000	144,650	137,493	6,710,000	215,650	-169,999	45,651
FY 02-03	69,460	3,734,000	808,000	-1,651,911	-843,911	41,335	853,000	-30,000	-15,000	-45,000	88,701	5,614,000	140,350	199,496	10,201,000	918,350	-1,666,911	-748,561
FY 03-04	68,781	3,763,000	586,000	-1,101,274	-515,274	35,400	756,000	-32,000	-463,291	-495,291	86,013	5,632,000	140,800	190,194	10,151,000	694,800	-1,564,565	-869,765
FY 04-05	68,544	3,719,000	640,000	-1,101,274	-461,274	40,392	777,000	-13,000	-370,575	-383,575	84,460	5,342,000	133,550	193,396	9,838,000	760,550	-1,471,849	-711,299
FY 05-06	65,843	3,550,000	486,000	-1,391,274	-905,274	37,721	713,000	-47,000	-166,098	-213,098	83,212	5,226,000	130,650	186,776	9,489,000	569,650	-1,557,372	-987,722
FY 06-07	67,590	3,741,000	534,000	-1,402,644	-868,644	35,513	741,000	-83,000	-465,727	-548,727	86,991	5,699,000	142,475	190,094	10,181,000	593,475	-1,868,371	-1,274,896
FY 07-08	66,060	3,669,000	524,000	-1,333,147	-809,147	32,779	666,400	-88,600	-441,299	-529,899	89,613	6,042,000	312,000	188,452	10,377,400	747,400	-1,774,446	-1,027,046
FY 08-09	62,675	3,401,624	624,000	-1,444,000	-820,000	35,627	676,002	-176,000	-460,000	-636,000	84,022	5,872,000	499,087	182,324	9,949,626	947,087	-1,904,000	-956,913
FY 09-10	58,791	3,214,617	361,385	-1,374,978	-1,013,593	32,257	622,848	-188,235	-447,108	-635,343	75,922	5,204,000	442,350	166,970	9,041,465	615,500	-1,822,086	-1,206,586
FY 10-11	54,259	2,948,532	-15,480	-1,464,006	-1,479,486	28,169	565,076	-279,693	-452,699	-732,392	74,523	5,043,000	428,667	156,951	8,556,608	133,494	-1,916,705	-1,783,211
FY 11-12 (proj)	57,785	3,149,032	70,000	-1,484,000	-1,414,000	29,408	599,923	-278,072	-453,149	-731,221	78,000	5,380,740	457,363	165,193	9,129,695	249,291	-1,937,149	-1,687,858
FY 12-13 (proj)	57,785	3,149,032	70,000	-1,402,000	-1,332,000	29,408	599,923	-278,072	-455,000	-733,072	78,000	5,223,529	444,000	165,193	8,972,484	235,928	-1,857,000	-1,621,072

**Data Sources and Notes**

- 1) The following numbers were taken from the March 2008 Economic Research Associates Report: Rounds, Total Operating Revenue and City Operating Profit/Loss for each course from FY 00-01 through FY 06-07
- 2) The Rounds and Total Operating Revenue from FY 08-09 for SJ Muni was received from the SJ Muni Operations Team
- 3) The remaining Round, Total Operating Revenue and City Operating Profit/Loss numbers were derived from a combination of the course operators and the City's financial management system, or estimates for FY 11-12 and FY 12-13

## Attachment C – Outstanding Debt Summary

### Outstanding Lease Revenue Bond Debt

#### *Rancho del Pueblo Golf Course*

Rancho was originally funded by the City of San José Financing Authority Lease Revenue Bonds, Series 1997A (the “1997A Bonds”) with an original par amount of \$6,875,000. Interest rates on the 1997A Bonds ranged from 5.30% to 5.60%.

In August 2007, the 1997A Bonds with an outstanding principal of \$5,965,000 were refunded with the City of San José Financing Authority Lease Revenue Bonds, Series 2007A (the “2007 Bonds”) to achieve debt service savings. The current outstanding principal amount of the 2007A Bonds related to Rancho is \$5,415,000 with a final maturity of August 2028. The 2007A Bonds related to Rancho pay interest at a rate ranging from 4.125% to 4.625%.

#### *Los Lagos Golf Course*

The City of San José Financing Authority Lease Revenue Bonds, Series 2000B (the “2000B Bonds”) originally funded Los Lagos and also refunded the 1992 Certificates of Participation related to Camden Park. Of the total original par amount of \$22,635,000 for the 2000B Bonds, \$20,680,000 was attributable to Los Lagos. Interest rates on the 2000B Bonds ranged from 4.70% to 5.50%.

In August 2007, the 2000B Bonds, with an outstanding principal of \$20,390,000 related to Los Lagos, were also refunded with the 2007A Bonds to achieve debt service savings. The current outstanding principal amount of the bonds related to Los Lagos is approximately \$20,700,000 with a final maturity of August 2031. The principal on the 2007A Bonds is slightly higher than the refunded 2000B Bonds due to additional funding requirements related to the reserve fund and costs of issuance for the 2007A Bonds. The 2007A Bonds related to Los Lagos pay interest at a rate ranging from 4.125% to 4.75%.

#### *Bond Structure*

The 2007A Bonds are secured by Rancho and Los Lagos through a lease structure. The City leased Rancho and Los Lagos to the Authority pursuant to Site and Facility Lease. The Authority subleased these same facilities back to the City pursuant to a Project Lease in exchange for the rental payments which support repayment of the 2007 Bonds.

Additional facilities refinanced with the 2007A Bonds and supported by the leases on Rancho and Los Lagos include Camden Park, Murdock Park, and the Berryessa Community Center. The Hayes Mansion was not directly financed by any of the bond series that the 2007A Bonds refunded. However, the City advanced funds for the Hayes Mansion and then paid for other eligible projects with tax-exempt bonds. Because of this advance, the City allocated a share of the 2007A Bonds debt service to the Hayes Mansion.

#### *Defeasance of the Outstanding Lease Revenue Bond Debt*

The following table provides a summary of the costs and assumptions necessary to fully pay down the lease revenue bond debt attributable to Rancho and Los Lagos.

Bondholders have “call protection” on the 2007A Bonds, which means that the bonds are prevented from being called prior to August 2017. Interest payments on the bonds are guaranteed during the call protection period but not afterward. IRS regulations require that in the event the golf courses are sold, all of the bonds attributable to the golf courses be called in full. Due to the call protection on the 2007A Bonds, proceeds from the sale of one or both of the golf courses would need to be sufficient to pay the maturing principal and interest on the 2007A Bonds from the sale date until August 15, 2017 and to payoff the remaining principal outstanding after August 15, 2017.

## Attachment C – Outstanding Debt Summary

Once sufficient funds are deposited into an irrevocable escrow to fully defease the bonds attributable to the golf courses, Rancho and Los Lagos can be released from the Project Lease in order to complete the sale of the courses. To the extent that the bonds related to both golf courses and/or the other facilities refinanced by the 2007A Bonds are not defeased, a substitute asset or assets will need to be identified, with written consent of the bond insurer (Ambac), to secure the remaining outstanding debt at the time of sale.

### Golf Course Lease Revenue Bonds Defeasance Analysis

	Notes	Rancho del Pueblo	Los Lagos	Total
<b><u>CSJFA 2007A Bonds</u></b>	1,2			
Principal and Interest 2012 Through 2017	3			
Principal		\$1,485,000	\$3,840,000	\$5,325,000
Interest		<u>1,249,000</u>	<u>5,113,000</u>	<u>6,362,000</u>
Subtotal		2,734,000	8,953,000	11,687,000
Remaining Principal after 2017		<u>3,930,000</u>	<u>16,860,000</u>	<u>20,790,000</u>
<b>Total</b>		<b><u>\$6,664,000</u></b>	<b><u>\$25,813,000</u></b>	<b><u>\$32,477,000</u></b>

Notes:

1. The 2007A bond financed several projects including Camden Park, Los Lagos, Rancho del Pueblo, Murdock Park and Berryessa Community Center. In the event that the sale proceeds of the golf courses are insufficient to defease all of the 2007A Bonds, one or more substitute assets will need to be pledged.
2. If the entire bond issue is not defeased, a substitute asset would need to be identified to provide sufficient value to cover the remaining lease revenue bonds outstanding.
3. Bondholders have "call protection" prior to August 2017. Proceeds of the sale of the golf courses would need to be sufficient to pay principal and interest from the date of the sale of the golf courses until the call date of August 2017 and principal. The sale proceeds would be deposited in a defeasance escrow from which bondholders would be paid principal and interest through 2017 and the remaining principal following August 2017.

### Unsecured Promissory Note

The City advanced \$3,150,000 on or about June 17, 1997 to the Authority to acquire Rancho prior to the issuance of the 1997A Bonds. The Authority reimbursed the City \$650,000 from bond proceeds of the 1997A Bonds. The Authority and the City entered into an Unsecured Promissory Note (the "Note") for the remaining \$2,500,000. In October 1998, the Note was amended and increased the initial principal amount of the Note to a total of \$3,300,000. The principal sum of the Note accrues interest at 7.5% compounded annually commencing on June 17, 1997, with the entire unpaid balance of interest and principal due on August 15, 2034.

The Note is subject to repayment annually commencing on August 15, 2006, from net profits derived from the operation of Rancho, but only to the extent that the City receives any net profit from the facility. In the event of a sale of the golf course, the Note is immediately due and payable, at the option of the City. However, proceeds from the sale of Rancho would flow through the Authority to the City for repayment of the Note and would be available to the City for any purpose. Thus, the Note has no financial impact to the City in the event of the sale of Rancho. Alternatively, the City Council could forgive the Note in the event of the sale.