

April 26, 2016

Dave deNagy
District Manager
Governmental Management Services, LLC
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St. Augustine, FL 32092-3649

Re: 2016 Review of the Eagle Harbor Golf Operation

Dear Dave:

The following report provides a summary of National Golf Foundation Consulting's ("NGF") review of the Crossings at Fleming Island Community Development District ("CDD") golf program - the Eagle Harbor Golf Club ("Eagle Harbor GC" or "EHGC"). This summary is based on the NGF's annual review of the property from 2009 to 2015, and the most recent visit and property tour in February 2016. The winter 2016 site visit included a brief inspection of the upgraded EHGC golf course and clubhouse, and meetings with senior golf / food & beverage staff and GMS officials. Other activities included competitive market research, an update of local demographics and golf supply/demand measures, and collection and review of historical operating data for Eagle Harbor GC.

This review focuses on changes to the EHGC operation and the market environment since NGF's engagement in 2015, which preceded a period of major improvements at the club, including new Tif Eagle greens, significant upgrade to the practice facility, and major modifications to the clubhouse. NGF's summary in 2016 provides an early peek at how the facility is performing after these upgrades, as well as some management and staffing changes at the golf course, and presents NGF projections on activity levels and cash flows over the next ten years as EHGC competes in the market with an enhanced customer experience.

This NGF review was managed by Ed Getherall, Director of Consulting. The letter report provides an "at-a-glance" summarization of the main findings and NGF recommendations for the CDD in the continued operation of its golf course. We note that a full, comprehensive review of operations was not completed for the CDD in this review, and the findings and recommendations contained in this summary letter are the result of a more limited view of the operation than we had been retained for in the early years of this annual engagement.

OVERALL SUMMARY

In summary, NGF Consulting concludes that the 2015 capital improvement program has significantly enhanced the customer experience for both golfers and non-golfers (Talon's), and that EHGC is now in a stronger position to increase activity from Eagle Harbor residents, as well as draw more play from outside the gates - perhaps even expanding the club's effective trade area.

We note that many of the operational and physical recommendations that NGF has made in previous years were implemented in 2015, so new recommendations in 2016 focus on remaining physical plant issues and some other operational 'tweaks' that should help the facility maximize the economic performance of EHGC.

Preliminary (e.g., first five months of FY 16) indicators for EHGC are positive, with year-to-date performance on pace to reverse years of declining rounds, membership and revenues. However, through the first five months of FY 16, the loss on operations has been more than \$246,000, largely reflective of ±\$200,000 in one-time start-up costs associated with the expanded operation. Since management has reduced expenses in March after getting a clear handle on the levels of service required, as well as demand patterns, in the Talon's business, the operational deficit should begin to decline.

A new management team that includes two new positions aimed at increasing activity at the club seems to have also breathed new life into the facility, including fresh ideas for programming and events, and an overall renewed focus on increasing demand from the Eagle Harbor community. The CDD continues to get excellent value out of EHGC's maintenance staff, which not only maintains golf playing conditions that were observed to be above standard, but also manages many in-house projects (e.g., bridge repair, drainage fixes) that would otherwise have to be contracted out.

While external factors - such as yearly weather variations, local competitive pressures, and macro trends in golf participation among young people - will continue to present challenges, there are a number of market signs pointing in a favorable direction for EHGC. The demographic and economic factors affecting the demand for public golf in the local market are generally favorable, and rounds played at several clubs were up in 2015. With an increasing population, no new courses on the horizon, and increased engagement (for both golf and Talon's) from the 'captive audience' EH community, the club has a realistic opportunity to build rounds and revenues over the next several years.

The CDD has continued to resist the all-too-common strategy of reducing budgets and service levels in the face of operating losses. To the contrary, it has invested significantly in EHGC, and we believe that with the facility upgrades of 2015, the club has a realistic opportunity going forward to once again achieve break even or a modest profit on operations in the near future. NGF expects that the significantly improved Eagle Harbor GC should be able to generate activity in the 39,000 to 43,000 rounds per year range, with highest green fees over \$50 (with cart). Average or 'blended' rates will be much lower due to various discounted round categories, as is standard in golf operations.

The NGF Consulting preliminary cash flow projection shows that the newly upgraded EHGC should produce between \$2.4 to \$2.7 million in total annual gross operational revenue (all sources) over the near term (through FY 19), growing to the \$2.75 to \$3.1 million range in the FY 20 through FY 25 period, assuming stabilized rounds of 36,500 and only modest average annual increases in most revenue inputs. Significantly higher food and beverage volume and rounds played increases are the primary drivers of revenue improving considerably over recent historical operating results.

Considering preliminary expense estimates prepared by NGF Consulting for this study, EHGC is projected to generate stabilized net operating income (before depreciation and capital reserve) of between \$100,000 and \$150,000 per year. Though the facility will still fall far short of being able to meet CDD debt obligations, the overall financial picture should be significantly improved due to facility upgrades, proactive management, increased marketing, and a stronger emphasis on player development and programming.

EAGLE HARBOR GC – SIGNIFICANT CHANGES (2016 REVIEW)

A summary of the key changes since early 2015 documented by NGF in both the operation of EHGC and the external environment are noted in this review. The list was not meant to address all issues in the operation, but rather to focus on key items NGF believes are critical in considering recent performance and preparing a long-term strategic plan for EHGC.

Organization, Administration and Staffing

The primary change to the basic operational organization at Eagle Harbor GC in FY 16 is the addition of staff – particularly in the Food & Beverage area – with the intent to ensure that service levels are commensurate with the improvements in the facilities. The facility is still operated via full-service management agreement with Jacksonville-based Hampton Golf (runs concurrent with the maintenance equipment lease agreement), which provides management and operations service for the facility for a monthly fee of \$7,200 (\$86,400 annually). GMS provides oversight on behalf of the CDD; the annual budget amount for their management fee is \$22,100 for FY 16. This structure offers the CDD both centralized strategic oversight and on-site operations from a multi-facility management company that has a centralized office, dedicated sales office, high quality technology, and experienced golf staff that can be tapped for operational and/or maintenance expertise.

Specific organizational or administrative changes in the EHGC operation since our visit in early 2015 include:

- EHGC has a new General Manager (GM) in place since the last NGF visit. Ryan Parr comes to EHGC with a strong Food & Beverage managerial background, which is important given the extensive investment in the clubhouse in 2015.
- Overall staffing at EHGC was increased significantly post-renovation, especially in the F&B area. New full-time positions include Food & Beverage Manager, Bar Manager, Wedding & Special Events Manager (Teri Hellard also helps facilitate golf tournaments; about 30% of compensation is commission-based). F&B customer service staff, excluding the two managers, totaled 5 full-time and 15 part-time, servers. Total “back of the house” staff totaled 10 full-time equivalents (FTEs).
- Staffing was increased for FY 16 to reflect the larger scale of the food & beverage operation after the clubhouse improvements, and to bring the overall customer service experience to a higher level. In March 2016, with a firmer handle on sales volume and overall functionality of the department, management reduced F&B staffing and overall revenue center costs significantly. Changes included the elimination of the Bar Manager position, as well as one full-time kitchen staffperson.
- Another new key addition was the Director of Player Development, Bryan Kipnis, who fills a commission-only position charged with increasing the volumes of lessons, clinics, and other programs (excluding Get Golf Ready, which is under purview of the Head Golf Professional, Marshall Collins). Mr. Kipnis is aggressively working to increase the engagement of residents of the Eagle Harbor community.
- Maintenance staffing has remained essentially the same, with 8 full-time staff in addition to the Golf Superintendent. Unlike an increasing percentage of operators nationwide that have begun relying to a higher degree on part-time and/or seasonal labor in the face of tighter budgets, Eagle Harbor continues to employ full-time staff, *which we view as a strong positive for the club*. The philosophy has resulted in Eagle Harbor being able to maintain good conditions, and also allows the crew to complete projects in-house that might otherwise be contracted out, such as bridge and drainage repairs.

Performance Review (Activity, Revenue and Expense)

NGF has reviewed the recent performance of EHGC in terms of rounds activity, membership, revenues and facility expenses. Key findings are summarized below.

Rounds and Member Activity

Rounds activity in the last two full fiscal years prior to the renovation appeared to show a new “stable” level of around 31,000 rounds, after the club was \pm 34,000 rounds the previous three years. Previous data collected by NGF shows EHGC reported a peak of just under 48,000 rounds in FY 2007, with a downward trend continuing through FY 2013.

The number of members (‘Patrons’) also showed a steady decline since a peak of 270+ in the early part of the decade. By October 2009, the Patron Program had fallen to 182 members, bottoming out to only 104 by September 2015. Eagle Harbor’s membership also became less active, with average annual rounds per member declining from about 87 in FY 11 to less than 75 in FY 14. The proportion of total play from members declined from 38% in FY 10 to 31.4% in FY 14. A push by the new management, helped by the improvements in the golf course, range and clubhouse, has resulted in a significant increase in members in FY 16, standing at 157 at the time of the NGF report.

At just under 14,000 rounds through February, the first five months of FY2016 show growth of about 17% over the same time period in both FY 14 and FY 15. Management reported to NGF that the strong showing is attributable to both the increased membership and more daily fee play, particularly from the Eagle Harbor community.

Eagle Harbor Golf Club Rounds Played (FY2010-2015)							
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	1 st 5 Months FY2016
Member	13,024	12,563	12,010	9,550	9,738	6,348	4,334
Guest	21,270	22,112	22,157	20,845	21,139	12,797	9,463
Total Rounds	34,294	34,675	34,167	30,395	30,877	19,145	13,797
Total Members	n/a	145	145	132	132	112	156
Member Rounds per Member	n/a	86.6	82.8	72.3	73.8	56.7	27.8
Member Rounds % of Total	38%	36%	35%	31%	31.5%	33.2%	31.4%

Source: Eagle Harbor GC.

For a frame of reference, the NGF notes that total average rounds per 18 holes in the U.S. now stand at 32,500 for public golf courses, and the local Florida average is around 40,000 rounds per 18 holes in 2014, down about 20% from a 50,000 rounds average recorded in 2005. Overall, current rounds played volumes at Eagle Harbor and at most of its competitive set are well below capacity for the year-round northeast Florida golf climate. Capacity is based on a number of factors, including course type and size, fee structure, weather conditions, down time for maintenance, and tee time intervals. Based on Eagle Harbor’s market positioning and other factors, NGF has previously estimated a maximum yearly capacity of about 55,000 rounds, though this figure is likely not realistic given the current competitive dynamic in the market.

Eagle Harbor Golf Club Total Rounds Played 1st 5-Months (FY2014-2016)						
	Oct	Nov	Dec	Jan	Feb	5-Month Total
FY2014	2,778	2,516	2,622	1,863	2,062	11,841
FY2015	2,860	2,176	2,440	2,274	2,059	11,809
FY2016	2,867	2,719	3,140	2,342	2,729	13,797
Difference '14-'16	89	203	518	479	667	1,956

Source: Eagle Harbor GC.

Revenue

In FY 14, the club's last full fiscal year prior to the facility upgrades (necessitated course closure from May 20, 2015 through the end of the fiscal year in September), EHGC generated \$1.71 million in total revenue, down 1.3% from the \$1.734 million in FY2013. Overall, this represented a total EHGC revenue decline of about 8.6% from a recent high in FY2011. A summary of revenue at Eagle Harbor is shown below:

Eagle Harbor Golf Club Total Facility Gross Revenue FY2010-16						
Income	2011	2012	2013	2014	2015	2016*
User Fees / Dues	\$417,977	\$404,344	\$374,511	\$353,505	\$200,450	\$131,173
Green/Cart Fees	813,094	795,606	750,825	728,321	453,145	317,823
Merchandise Sales	118,608	119,692	100,811	105,300	101,510	42,593
Total F & B Sales	388,859	395,342	396,278	413,418	301,832	362,261
Rental Income	18,166	16,086	15,298	16,222	4,024	7,272
Membership (Other)	59,681	57,863	49,613	50,530	29,637	39,439
Misc. Income	56,330	52,310	46,907	43,713	24,999	13,426
Total Revenue	\$1,872,716	\$1,841,242	\$1,734,243	\$1,711,009	\$1,115,598	\$404,854
Annual Change in Revenue		-1.7%	-5.8%	-1.3%	-34.8%	
Total Decline (FY11-FY15)	-40.4%					

Source: Eagle Harbor Golf Club
* October, 2015 – February 29, 2016

The first five months of FY 2016 show significant improvement in revenue over the same time period in FY 15 and FY 14. Overall, revenues through February '16 are up by \$203,000, or 28.5%, over '15, and by more than \$256,000 over '14, an increase of 39%. The most significant gains have been in the food & beverage segment, where revenues are up 81% over FY 15, and 136% over FY 14, a strong early indication that the clubhouse and restaurant improvements are gaining traction with the Eagle Harbor community and other local residents.

Eagle Harbor Golf Club Total Facility Gross Revenue First Five Months (FY2014-16)				
Income	1st 5 Months FY2014	1st 5 Months FY2015	1st 5 Months FY2016	Change FY'15– FY'16
User Fees / Dues	\$140,057	\$139,479	\$131,173	(\$8,306)
Green/Cart Fees	282,806	277,397	317,823	\$40,426
Merchandise Sales	39,116	51,281	42,593	(\$8,688)
Total F & B Sales	153,572	201,335	362,261	\$160,926
Rental Income	8,199	4,879	7,272	\$2,393
Membership (Other)	17,255	20,490	39,439	\$18,949
Misc. Income	16,424	16,144	13,426	(\$2,718)
Total Revenue	\$657,429	\$711,005	\$913,987	\$202,982
Source: Eagle Harbor Golf Club				

Average Revenue - Analysis of average revenue shows generally consistent performance through FY 2014, with a moderate downward trend in driving range revenue per round (captured in Miscellaneous Income) since peaking at about \$1.62 in FY 2011. At ± \$37, Eagle Harbor's total golf revenue (green, cart, membership) per round is significantly higher than the average for 'Standard' public golf courses in the U.S. (~ \$24), while total revenues are about 60% higher than the national average of about \$34.

Eagle Harbor Golf Club Average Revenue per Round FY2010-15						
	2011	2012	2013	2014	2015	2016*
Total Rounds	34,675	34,167	30,395	30,877	19,145	13,797
Average per Round						
User Fees / Dues	\$12.05	\$11.83	\$12.32	\$11.45	\$10.47	\$9.50
Green/Cart Fees	\$23.45	\$23.29	\$24.70	\$23.59	\$23.67	\$23.04
Merchandise Sales	\$3.42	\$3.50	\$3.32	\$3.41	\$5.30	\$3.09
Total F & B Sales	\$11.21	\$11.57	\$13.04	\$13.39	\$18.92	\$26.26
Rental Income	\$0.52	\$0.47	\$0.50	\$0.53	\$0.21	\$0.53
Membership (Other)	\$1.72	\$1.69	\$1.63	\$1.64	\$1.55	\$2.86
Misc. Income	\$1.62	\$1.53	\$1.54	\$1.42	\$1.31	\$0.97
Total Revenue	\$54.01	\$53.89	\$57.06	\$55.41	\$61.43	\$66.25
Source: Eagle Harbor Golf Club. *First 5 months of FY2016						

Cost of Sales - Cost of goods sold at EHGC is in line with accepted industry averages in its food and beverage concession area and pro shop, with figures in both areas very consistent year over year. For the FY 11 through FY 15 period, pro shop merchandise COS averaged 75%, while food & beverage COS averaged about 43%. The cost of sales being within industry norms is viewed by NGF Consulting as an indicator of appropriate management practices and employee controls.

Expenses

Basic expenses to operate the facility totaled around \$1.66 million in FY 14, excluding depreciation and debt service (interest and principal), an increase of 2.3% over FY 13. Total expenses were \$1.5 million in FY 15, when the club was closed between May 20 and September 30 for golf course and clubhouse improvements. (The figures below account for direct expenses to operate the 18-hole facility and do not account for additional items such as depreciation or other financing charges). NGF views the EHGC expense budget as appropriate given the high quality nature of the operation and the also higher-than-standard level of total revenue.

Total labor expense remained at or below 50% through partial operating year FY 15, comparing favorably to industry standards. However, we note that the labor budget (including Employee Expenses line item) for FY 16 increased by more than \$242,000 over FY 14 actual, bringing labor as a percentage of total operating expenses from 47.5% to 53%. As noted earlier, the higher budget is due to the expected larger scale of the food & beverage operation. Based on discussions with GMS officials and golf course staff in early April, labor expenses have been significantly reduced from budget beginning in March, so total operating expenses at year end are expected to come in significantly lower than the \$1.033 million budgeted. We note that the CDD continues to get excellent value out of EHGC's maintenance staff, which not only maintains golf playing conditions that were observed to be above standard, but also manages many in-house projects that would otherwise have to be contracted out.

Further analysis of total Eagle Harbor expenses follows the summary table below:

**Eagle Harbor Golf Club
Total Facility Expenses
FY2011-16**

Expense	2011	2012	2013	2014	2015	2016*
Salaries & Wages	\$722,978	\$703,310	\$695,224	\$671,821	\$554,559	\$401,701
Casual Labor/Bonus	213	250	860	2,633	1,559	3,301
Employee expenses	109,533	116,885	119,732	118,653	100,709	72,677
Employee Uniforms	621	1,957	1,397	2,493	4,145	3,738
Employee Advertising/Training	2,170	610	1,182	1,455	0	752
Janitorial Expense	15,457	14,002	14,100	9,930	10,377	4,013
Tournament & Events	8,389	12,858	11,472	10,774	15,601	3,381
Centralized Services	14,471	22,867	19,096	76,032	68,960	36,742
Course & Grounds	11,366	33,385	35,066	17,426	22,465	12,656
All Repairs	53,748	134,251	57,057	54,541	39,126	15,814
Operating Supplies	52,722	53,319	53,661	66,772	46,189	113,378
Office Supplies	3,590	6,296	5,076	3,733	3,285	3,028
Postage + Printing	1,556	443	354	298	562	527
Utilities	82,503	73,843	63,609	69,644	65,033	30,319
Fuel + Oil	46,519	42,870	41,628	37,873	25,176	13,644
Refuse + Portables	11,759	14,157	12,119	10,280	13,470	5,903
Telephone	4,695	7,053	8,692	7,839	5,948	2,289
License / Permits / Contracts	18,270	19,365	21,993	25,702	5,797	1,198
Music / Cable	2,181	1,944	1,964	2,149	1,930	685
Chemicals / Fertilizer	61,087	70,005	83,365	66,811	102,167	17,829
Sand / Seed / Dressing	14,332	15,491	14,675	15,284	13,186	5,291
Trustee Fees	28,412	32,544	31,128	30,993	25,339	14,781
Management Fees - Hampton	97,231	97,848	89,701	86,400	70,844	35,495
Insurance	13,500	18,237	20,084	16,914	22,053	28,278
Management Fees - GMS	19,675	12,470	19,100	19,100	19,100	9,208
Rentals / Leases	200,526	194,249	180,095	189,536	182,189	79,318
Other (Incl. Lake Maint. Beg. 2014)		(43,388)	23,860	48,303	79,723	40,457
Total Expense	\$1,597,504	\$1,657,120	\$1,626,292	\$1,663,389	\$1,499,492	\$956,403
Annual Change in Expenses		3.7%	-1.9%	2.3%	-9.9%	
Total Increase (FY11-FY15)			-6.1%			
Source: Eagle Harbor Golf Club *First 5 months of FY2016						

Summary

Total loss on operations for EHGC was just under \$231,000 in FY 14, a loss nearly \$86,000 higher than in FY 13, despite slightly higher rounds. The loss in FY 15 was nearly \$600,000 as about 4.5 months of revenues were lost to the renovation, while expenses remained high. With rounds up 17% year-over-year in the first five months of FY 16, and food & beverage revenues up dramatically due to the new facilities, this year holds promise for EHGC easily surpassing recent rounds played and revenue standards. Through the first five months of FY 16, the loss on operations was more than \$246,000, but this was largely attributable to one-time costs (e.g., supplies, fixtures, equipment) associated with the more expansive F&B operations. NGF notes that the CDD has continued to resist the all-too-common strategy of reducing budgets and service levels in the face of operating losses, and we believe that with the EHGC facility upgrades of 2015, the club has a realistic opportunity going forward for once again achieving break even or modest profit on operations.

**Eagle Harbor Golf Club
Summary of Golf Facility Performance
FY2011-16**

	2011	2012	2013	2014	2015	2016*
Total Revenue	\$1,872,716	\$1,841,242	\$1,734,243	\$1,711,009	\$1,115,598	\$913,987
Less:						
Cost of Sales:	\$249,248	\$259,474	\$252,937	\$278,344	\$214,555	\$204,174
Total Expense	\$1,597,504	\$1,657,120	\$1,626,292	\$1,663,389	\$1,499,493	\$956,403
Net Ordinary Income	\$25,963	(\$75,352)	(\$144,986)	(\$230,724)	(\$598,450)	(\$246,591)
Less:						
Depreciation	\$95,597	\$75,797	\$0 ¹	\$0 ¹	\$0 ¹	\$0 ¹
Net After Depreciation	(\$69,634)	(\$151,149)	(\$144,986)	(\$230,724)	(\$598,450)	(\$246,591)
Other Income						
Other Income	\$852	\$1,102	\$427	\$2,504,889 ²	\$0	\$0
Club Subsidy	\$148,400	\$150,000	\$150,000	\$150,000	\$326,400	\$465,000
Total Other Income	\$149,252	\$151,102	\$150,427	\$2,654,889	\$326,400	\$465,000
Other Expense						
Interest Expense	\$299,640	\$431,607	\$312,510	\$312,510	\$239,580	\$92,400
Bond Principal	\$235,000	\$220,000	\$235,000	\$235,000	\$270,000	\$118,750
Non-Recurring Capital	\$19,930	\$0	\$0	\$2,800	\$12,500	\$0
Other	\$9,000	\$0	\$13,047	\$8,500	\$10,770	\$0
Total Other Expense	\$563,570	\$651,607	\$560,557	\$558,810	\$532,850	\$211,150
Net Other Income	(\$414,318)	(\$500,505)	(\$410,130)	\$2,096,079	(\$206,450)	\$253,850
Net Income	(\$483,952)	(\$651,654)	(\$555,117)	\$1,865,355	(\$804,899)	\$7,259

1 Depreciation for FY13-16 not available.

2 One-time write-off of Developer Note + Line of Credit (bond refunding deal 2014)

*First 5 months of FY2016

Physical Condition Review

Below NGF provides a summary review of the current physical plant issues of Eagle Harbor GC, as well as a synopsis of the 2015 upgrade program, which addressed many of the key NGF recommendations from previous years. We note that this summary is not based on a formal inspection of all facilities, but the most recent cursory review completed by NGF in February 2016. Later in this report, we provide a prioritized list of recommendations for remaining physical plant improvements.

Conditions – February 2016

The Eagle Harbor golf course appears to be in good condition, with no obvious urgent problems that would need to be addressed immediately to prevent the loss of revenue or that would entail large capital expense. The new Tif Eagle greens have not fully matured, perhaps partially due to opening three months after sprigging, but the greens reportedly roll very nicely and should soon be in peak shape. Drainage improvements to the driving range have obviated the need to close it after significant rainfall.

Short-term course upgrades will continue to focus on mitigating tree shade issues (e.g., along right side of hole #8 and #9), addressing the few remaining areas of poor drainage (installation of herring bone drains on #8 and #9 was underway as of February NGF visit), and repairing the remaining bridges (about four remain). As noted in previous studies, the cart barn is also in need of some repair, and the fence around the protected natural area on #16 needs replacing.

The most important areas of longer-term (2018 to 2024 period) significant capital investment at EHGC include potential replacement of the irrigation system, cart path upgrades, and re-grassing of fairways and tees.

2015 Upgrade Program – Golf Course

The CDD spent just under \$500,000 on golf course related improvements funded from the Capital Reserve Fund. Improvements included:

- 20 new Tif Eagle greens (more drought tolerant and resistant to damage)
- Extensive modification of irrigation system: an inside & outside zone was added to each green, reducing water usage and increasing control over the amount of water each green receives.
- Renovation (re-decking, new railing) of six bridges, including at putting green, #8, #9, #14, and between #7 and #8
- Cart path repair, including at #4 and #5s
- Upgrade to on-course restrooms
- Practice facility: three new target greens; 1,400 feet of new herring bone drains; new balls, aiming sticks, markers
- New golf course assets, such as markers, hazard stakes, water cooler houses, trash receptacles, etc.
- New Jacobsen Eclipse greens roller
- New bulkhead around #9 green

In addition to these improvements, numerous holes were modified to enhance playability and reduce maintenance, including: addition of new waste area along #16 to address drainage issue; conversion of five grass bunkers to sand; sodding in of sand bunkers on #7 and #8; filling of three pot bunkers on right side of green at #4.

2015 Upgrade Program – Clubhouse

The CDD spent approximately \$1 million on renovation of the clubhouse and golf shop, funded from the refinance of the 2000 series bonds. The renovation, which allows for enhanced banquet/ meeting capabilities, included:

- Complete building redesign to accommodate a new sports bar, lounge, expanded dining, outside seating, and new restrooms. The new capacity for the building is about 300 overall (~140 in main dining room + patio, 100 in bar, and 60 in center patio area), up from about 100 in the Main dining + Bogey rooms of the old layout.
- New flooring, painting, furnishings and fixtures.
- More functional golf shop, with dedicated entrance at west end of building.
- All mechanical systems updated to include HVAC and sound.
- Redesign of kitchen layout to handle increased traffic.

Review of Fees and Charges

The overall fee structure for Eagle Harbor Golf Club is presented in the table below. The table shows some modest fee changes since our review in 2015:

- EH 18-hole resident rates after 12 pm on weekends have been reduced by \$5.
- Patron Program Senior category no longer offered (current seniors grandfathered in)
- Public 18-hole rates have been increased by \$5.

Rack rates are not the sole indicator of market positioning in this golf market due to the prevalence of fee discounting, as well as the new trend of dynamic pricing, whereby some clubs are no longer posting rates online and are acting nimbly with respect to green fees based on variable demand. NGF believes that EHGC is priced appropriately, but that management should be extra vigilant in monitoring what competitors are doing through dynamic pricing tactics.

Eagle Harbor Fees (2016)				
Monthly Fees				
Patron	Golden Eagle	Executive¹	Active Military	Senior²
Single	\$225	\$180	\$190	\$190
Family	\$255	\$210	\$210	\$210
Eagle Harbor Resident Golf Rates				
	Before 12pm	After Noon	After 3pm	9 hole rate
Mon-Thur. Weekday	\$34	\$29	\$20	\$21
Fri-Sat-Sun-Holiday	\$42	\$29	\$20	\$26
Public Golf Rates (includes cart)				
	Before 12pm	After Noon	After 2pm	9 hole rate
Mon-Thur. Weekday	\$44	\$39	\$20	\$27
Fri-Sat-Sun-Holiday	\$54	\$39	\$20	\$33
Cart Fees				
9-Hole Cart	\$12	18-Hole Cart	\$20	
Half Trail Fees				
Pers. Cart Single Ann.	\$1,500	Family Ann.	\$2,000	
EH Cart Single Annual	\$1,750	EH Single Ann.	\$2,500	
9H (Per Round)	\$7	18H (Per Round)	\$12	
1 Executive under age 40. 2 Senior Monday-Friday only; no new memberships, existing grandfathered				

Marketing and Technology

In previous years, NGF observed that Hampton Golf's marketing and technology was relatively strong for EHGC, and that the management firm was implementing key activities that are proven to increase sales at golf facilities (website, smartphone app, POS system upgrade, email program, online tee times, etc.). Observations of note in our 2016 review include:

- **Marketing Budget** - NGF recommends marketing budgets for golf courses of at least 2% of total gross facility revenue. The FY 16 budget includes about \$30,000 for marketing (included in Centralized Services line item), an increase of about 50% over recent years, and equivalent to about 1.4% of budgeted revenues. However, NGF notes the 'effective' marketing budget can be considered higher, as Hampton Golf now employs a Wedding & Special Events Manager who supplements marketing with direct selling. The overall Centralized Services budget for FY 16 is \$83,000, inclusive of some items not related to direct marketing.
- **POS** – EHGC uses the IBS POS system for tee time reservations, operations / accounting reporting, retail point-of-purchase reporting, and overall management information systems (separate Pinnacle system is used for Talon's). The system is provided via Hampton Golf as this POS is in place at all Hampton Golf facilities. Management reported an upgrade to the system in 2015, including improvements to online tee times, customer tracking and performance reporting. In early 2016, Hampton cleaned out the Player Profile system, reducing it to about 12 profiles, based on categories such as EH resident/non-resident, zip code, patron/guest, distance from club, etc. This customer segmentation allows the club to do targeted marketing.
- **Tournaments and outings** – Management has become more proactive in seeking larger outings now that EHGC has better facilities to serve them. The new Wedding & Special Events Manager also helps to facilitate outings.
- **Email** – EHGC currently captures email addresses when golfers sign up for 'Coupons & Specials' and via the website's Eagle Harbor mailing list sign-up. The club also has access to Hampton Golf's full database.
- **Website** - At present, www.eagleharboronline.com has a link to www.hamptongolfclubs.com, and this site includes basic information about the golf facility, noting memberships are available and directing prospective golfers to an on-line tee time reservation system. During the spring of 2016, a new website is being developed for the Eagle Harbor community that will better segregate the golf club and Talon's.
- **Smartphone App** - One area where the NGF Consulting review has shown EHGC to be "ahead of the curve" in modern marketing is the new Hampton Golf/Eagle Harbor smartphone app. The smartphone app is a new technology platform for marketing golf courses, and Hampton Golf's program is one of the more advanced that NGF has observed. It is popular with young adults, reduces phone calls to pro shop, and aids in overall customer engagement. The Hampton Golf smartphone app is free to golfers and includes:
 - Ability to book tee times directly from your phone
 - Customer zip code origin capture
 - Listing of special offers
 - The Eagle Harbor golf course scorecard

- GPS caddie with distance from the phone to the green
- Email marketing program through Hampton Golf database
- Weather information
- Mobile texting marketing of promotions, discounts, specials, etc.
- **Social Media** – With several key staff that fall into the ‘millennial’ segment, EHGC is active on Facebook, Instagram, and Twitter. These vehicles allow the club to do marketing at the facility level without going through the corporate office to advertise specials, post pictures, etc.
- **Loyalty Program** – The Eagle Harbor Loyalty Program is a ‘Buy 5, Get 1’ program for both F&B and golf, with a 90-day expiration.
- **Signage** – In 2016, the sign at the EHGC club entrance has been changed to place a bigger emphasis on Talon’s, and notes that the facility is open to the public. GMS is currently working with the County on erecting a new sign at the Eagle Harbor community entrance on US 17, and is pursuing the idea of an electronic reader board, which would require a change to a County ordinance.
- **Grand Re-opening** – EHGC hosted a Friday night event featuring live music, a Velcro wall, and a buffet (discounted for residents) that drew ±700 participants.

Marketing and Technology Summary

NGF has noted in previous years that the Hampton Golf marketing plan is a comprehensive program that should result in increased business, if most of its core elements are actively implemented. The changes noted since our last review, including the significantly increased marketing budget for FY 16, indicate a management team that intends to ramp up marketing and promotional activities to let customers know about the great changes that have occurred at EHGC. Both golf course and clubhouse improvements give management a great story to tell, and NGF expects that the increased marketing emphasis will bear fruit in 2016 and beyond in terms of market share for golf and food & beverage/ banquet business.

NGF’s review of the POS and other technology systems at EHGC shows this facility to be relatively advanced in its use of technology when compared to the golf course industry in general. Hampton Golf and EHGC management continue to improve systems to better understand the club’s customers and overall business, and to make marketing more targeted and efficient through customer tracking and segmentation. NGF is also encouraged that our long-time recommendation to improve the Eagle Harbor Golf Club website is being implemented.

Food and Beverage Operation

The Food & Beverage operation at EHGC Club includes the ‘*Talon’s*’ brand name and is under the direct operation of the overall facility operator, Hampton Golf. Talon’s has benefitted greatly from the clubhouse renovation, with a much more functional and efficient layout; new flooring, paint, fixtures and furniture; added capacity; a more spacious and efficient kitchen; and a new modernized look overall that has allowed broadened its appeal and allowed management to diversify the customer base. In 2016, the NGF documented the key aspects of the F & B service areas, including:

1. **Dining Room** – The new main dining area in the Eagle Harbor clubhouse offers an increased capacity of ~140, including the outside patio. The restaurant has a new menu that is proving very popular.

2. **Sports Bar** – The new, nicely appointed and modern looking sports bar, featuring multiple high quality flat screen tv's, is adjacent to the pro shop on its east side (bar was formerly between dining room and 'Bogey Room'). The bar has already proven to be popular with golf and non-golf patrons alike, and is drawing more young adults than in the past. Promotions such as the proposed Beer Mug Club (patron gets name on mug, discounted beer, etc.) should help the bar gain even more traction with millennials.
3. **Center Patio** – A new addition resulting from the renovation, this area (where fountain was formerly situated) has a nice view of the golf course, large screen television, and can seat 60 to 70 patrons.
4. **Meeting Room** – A separate conference room (formerly 'Bogey Room') for small meetings located immediately to left of main entrance. The freshly appointed meeting room has seating available for 15 patrons. The space is equipped with some modern audio-visual (A/V) amenities to help attract smaller corporate meetings to the space.
5. **Beverage Cart** – The Eagle Harbor cart lease includes one beverage cart for use as the on-course food and beverage service vehicle. In previous years, Eagle Harbor staff reported using the beverage cart on weekends, tournament days, and other busy periods, but NGF is told now that service is available 7 days a week.
6. **Functions** – Eagle Harbor is now capable of hosting large events (weddings, dinners, parties, etc.) of up to 300 patrons for single events, when the dining room, rear patio, central patio and bar/lounge are combined.
7. **Event Pavilion** – The Eagle Harbor outdoor facility is sometimes used for catered events. Eagle Harbor also has a wedding gazebo on the island near the clubhouse.

Other improvements to the clubhouse include: new restrooms; a more functional golf shop better located at west end of building; updated mechanical systems (include HVAC and sound); redesigned kitchen layout to handle increased traffic; upgraded foyer for better entrance presentation; reduced office space, eliminating under-utilized areas to meet overall space requirements of the new building program.

Talon's is open to the public for breakfast, lunch, and specialty dinners. Management continues to break down the perception that some people had that the restaurant was not open to the public. In past years, it was reported to NGF that as much as half of total food and beverage revenues were derived from non-golf patrons and activities. This percentage will likely go up significantly with the renovated facility and the increased marketing focus. Hampton Golf continues to have success with the popular Sunday Brunch, and is marketing it, and the "theme" nights summarized below, more aggressively to the Eagle Harbor community.

- **Mondays:** Kids Eat Free – 5 pm to 9 pm in the Dining Room.
- **Tuesdays:** Taco Tuesdays - \$1 tacos from 6 pm to 9 pm.
- **Wednesdays:** Trivia night – 20 wings for \$9.99 from 6 pm to 9 pm.
- **Thursdays:** Karaoke Night (coming soon).
- **Fridays:** T.G.I. Friday – happy hour specials 4 pm to 6 pm; live music coming soon.
- **Sundays:** Sunday brunch special \$9.95 adults and \$6.95 kids.

With the new and improved facilities, increased marketing budget, and new Events Manager position, Hampton Golf is now more active than ever in promoting Talon's, including wedding/banquet services that are available at Eagle Harbor. Management is also promoting small meetings among civic and professional groups. Management reports doing well with

corporate meetings and that they are currently booking weddings into 2017. Talon’s business is also being promoted through the “Take a Free Ride” van which features Talon’s signage and transports local Fleming Island people to and from the clubhouse.

The early result of the new facilities and initiatives has been significant improvement in F&B revenue through the first five months of FY 16. A summary of F & B operations at EHGC in FY 2011 – FY 2016 (partial year) follows:

Eagle Harbor GC Food and Beverage Concession						
Income	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	1st 5 Months FY 2016
Rental Revenue	\$18,166	\$16,086	\$15,298	\$16,222	\$4,024	\$7,272
Total F & B Sales	\$388,859	\$395,342	\$396,278	\$413,418	\$301,832	\$362,261
Total Revenue	\$407,026	\$411,428	\$411,575	\$429,640	\$305,856	\$369,533
Total Rounds	34,675	34,167	30,395	30,877	19,145	13,797
F & B Rev. per Round	\$11.71	\$12.04	\$13.54	\$13.92	\$15.98	\$26.78
Cost of Sales:	\$167,892	\$170,684	\$179,181	\$189,218	n/a	n/a
COS %	41.2%	41.5%	43.5%	44.0%	n/a	n/a
Source: Eagle Harbor GC						
Note: Cost of sales information not included for FY 15 and FY 16 due to partial operating years						

The “typical” F & B concession at public golf courses produces approximately \$6.10 per round, including non-golfer related service, with approximately 40% cost of sales, not including labor. Typical net earnings on F & B for public golf courses, after labor expense, is generally in the 10% range, though those with large scale banquet operations and/or a high volume of non-golf business (e.g., lunch, dinner) can have significantly higher margins.

Review of the financial records shows EHGC F&B revenue in the first five months of FY 16 is up substantially year-to-date, with almost \$370,000 in revenue already generated, which is not far off from what the facility generated for the entire year in the 2011 to 2014 period. F&B revenue measured as a function of rounds played is up nearly \$11 per round in the first five months. However, though an accounting of direct expenses for the F&B revenue center was not available for this report, GMS reported to NGF that losses were more than \$200,000 in the first few months of operation after reopening due largely to one-time start-up costs.

Player Development and Programming

EHGC appears to be more active than ever in player development and overall programming, with a strong focus on juniors and getting more involvement from the Eagle Harbor community (7,000 residents). Key elements are described below:

- **Increasing Women’s Participation:** EHGC continues to be proactive in efforts to increase female participation. This includes enhanced marketing and the introduction of leagues and other social events such as the twice-monthly ‘9 & Dine’, which drew 20 participants in March. This represents a major “industry best practice” and is recommended by NGF in every golf course review of operations.
- **Lessons and ‘Onboarding’:** With the addition of a commission-based Director of Player Development position, EHGC continues to place a high priority on lessons and programs in an effort to drive business to the facility and cultivate new customers for the future. Professional golf instruction is available seven days a week. Private instruction can be arranged by appointment, and a number of group clinics are scheduled throughout the week. The facility is having some success with adult beginner-oriented Get Golf Ready (PGA of America program). Management reports that 14 people attended the first class, and 18 (mostly women) in the second class.
- **Juniors:** Management has told NGF that there is an increased emphasis on the junior program. EHGC now hosts two PGA Junior League Golf teams, totaling 24 kids (up from one team and 9 juniors last year). The teams feature one boy and one girl that are world-ranked.
- **Events:** Creative golf-themed events are becoming more and more popular with operators looking to make golf more fun for less committed golfers, including many young adults who want their recreation to be ‘experiential’.
 - Examples of new events at EHGC include the weekly 9-hole Thursday Scramble, which kicked off with a 9-hole Night Golf event on April 21. The event had a much larger turnout than anticipated, with 13 teams (52 participants) generating about \$2,500 in direct revenue, plus additional bar revenue before and after the event. Management was asked by several golfers to do the night golf event once a month.
 - The facility will also be starting ‘Balls & Beers’ at the driving range. Participants will pay a small fee for this event, which will feature a keg and unlimited range balls for an hour, and an EHGC pro will walk the range giving quick lessons and tips.

MARKET ANALYSIS SUMMARY FINDINGS

NGF made several key observations regarding the local Eagle Harbor area golf market, including national trends, local demand/supply, and area golf facility competition.

Golf Industry Overview 2015

While socio-demographic, financial and cultural headwinds certainly persist, golf continued its macro trend toward stabilization in 2014-2015. Considering the severity of the recession and its lingering effects on discretionary income and time, golf has held up rather well. Multiple NGF studies of golfers since 2008 attribute the gradual decline in golfers and rounds since peak participation primarily to the impact of lower job security and concern over personal finances, not waning appeal for the game. Golf's pay-for-play green fee revenues and other spending on the sport will always be vulnerable to outside forces such as weather and the economy, but the game remains popular and is fortunate to have a deep well of interested prospects.

Positive economic indicators, stabilization in participation and rounds played, an increase in weather-adjusted utilization, and the return of private equity funding to the industry are just a few of the under-reported developments in golf that tell the current story of the industry. Also, participation has historically tracked closely with Real Adjusted Household Income, suggesting that if income increases, there's a likelihood that the golfer trajectory would increase with it.

Other findings:

- **Participation** - The national golfer number (participation) appears to be continuing a stabilization trend (with some net leakage among mainly occasional/less committed golfers), with 2015 projected to be the fifth consecutive year at approximately 24+ million golfers that played at least one round of golf in the past 12 months.
- **Rounds Played / Looking Ahead** – Despite poor weather that suppressed first-quarter play in 2015, rounds played nationally finished the year 1.8% ahead of 2014, according to Golf Datatech. The overall South Atlantic region, in which Jacksonville falls, was up only 0.5%, but Florida was up 1.7% *and the Jacksonville/Daytona Beach submarket was up 5%*. The next couple of years should provide a stronger indication of whether playable day- adjusted rounds have stabilized.
- **Golf Course Supply** - The correction in golf course supply continued in 2015 at a level comparable with the previous three years. According to NGF data, since the market correction in golf course supply began in 2006, there has been a cumulative net reduction of 679.5 golf courses (18HEQ), which represents a drop of about 5% off the peak supply year of 2005. For perspective, golf supply grew by 40% in the previous 20 years (1985-2005). This much-needed move toward supply/demand equilibrium is expected to continue for the next several years.

Local Market Golf Supply & Demand Summary

Below is a summary of key findings regarding the public golf supply/demand dynamic in the Eagle Harbor GC primary trade area, as well as the Jacksonville MSA. This information is derived from the NGF Demand Model (based on ongoing NGF golf participation research), NGF U.S. Golf Facilities Database, and NGF Golf Market Analysis Platform (GolfMAP).

Demographics & Golf Demand

- There are an estimated 323,000 people residing within 10 miles of EHGC in 2015, and this market is expected to grow to 341,000 by 2020. Both median income (\$91,844) and median age (43.5) in the “fall out of bed” 2-mile market are considerably higher than the corresponding national figures - \$52,747 and 37.8,

respectively. Both income and age correlate positively with golf participation and frequency, except among the very elderly.

- NGF proprietary golf demand indices for the Jacksonville MSA overall and the local Eagle Harbor area indicate more than 20,000 golfing households within 10 miles, and golf participation rates and rounds played indices (permanent residents) that are $\pm 10\%$ higher than the total U.S. average. Residents in this local area are more likely to be golfers and play more rounds per golfer than the total U.S. average.
- There are about 5 million overnight visitors to Duval County each year. These visitors contribute significantly to golf course activity in the overall region. NGF research shows that roughly one-third of all golfers participate in the activity while traveling, playing 0.557 rounds per day of travel. Based on current golf participation rates, the estimate for total tourist golf rounds in the broader Jacksonville market is 75,000 to 100,000 rounds annually. Though Orange Park/Clay County might capture only a small proportion of these incremental rounds from visiting golfers, it is nonetheless important for EHGC to maintain a strong marketing presence, especially through digital/website channels, as a couple of thousand visitor rounds could make a big difference in the bottom line.
- People who express an interest in playing golf but have not yet started include former golfers (gave it up), and those who have never tried. The demographic profile of latent demand tends to be more female and younger than the population as a whole. Surveys show these golf-interested non-golfers cite several barriers to entry in golf, including the cost and social aspects (no one to play with). NGF estimates 2,000+ interested non-golfers in the 2-mile market (including many within Eagle Harbor community), and nearly 38,000 in the 10-mile market. EHGC management should continue to create new programming aimed at inviting and “onboarding” prospective new golfers, especially within the captive market of Eagle Harbor.

Golf Supply

- There are seven total golf facilities, totaling 126 holes, within ten miles of Eagle Harbor GC, including five that are public or semi-private. The 20-mile market is home to 28 facilities (19 public), totaling 477 holes (315 public).
- The net change in golf facilities since 2003 has been a decline of 36 holes in the local 10-mile Eagle Harbor market and a total of 144 holes in the Jacksonville MSA (8.0 18-hole equivalents). This is consistent with an overall trend in the industry that is seeing contraction of golf courses in all areas of the country since the mid 2000's.
- All of the subject local markets have significantly more households per 18 holes of golf than the national average. For example, the 10-mile market has nearly 2.5 times as many households per 18-hole golf course as does the nation. The NGF shows no record of any new golf development project in the Jacksonville MSA as of March 2016, meaning ratios will become more favorable for existing operators with population growth.

Competitive Golf Market

The charts shown in the **Appendix** illustrate summary information for EHGC and those public/semi-private facilities that NGF Consulting, with input from Eagle Harbor on-site management, has identified as the facility's primary and secondary competitors. The charts show summary rounds played, member fee, and daily fee information for each facility profiled. The bullet points below summarize the key findings NGF has derived from this competitive review, *focusing on changes to the market since our previous review in early 2015.*

Significant Findings – Competitive Golf Market

- Eagle Landing Golf Club, Country Club of Orange Park, Bent Creek Golf Course, and the Golf Club at Fleming Island continue to be the most direct competitors to EHGC. The quality semi-private clubs located east of the St. John's River, such as Cimarrone GC, Golf Club at South Hampton and St. Johns Golf & Country Club, remain secondary competitors.
- The top of the local daily fee market remains about ± 70 for a peak season prime time round of golf at facilities such as St. Johns G&CC and Golf Club at South Hampton. Posted green fee rates remain largely stable since our update in early 2015, while discounting and 'specials' are still pervasive. Nearly every club in the public golf market discounts fees via, couponing, use of third party tee time providers and overall yield management ("e-specials", etc.). These practices, along with loyalty programs, put downward pressure on green fees and average daily rates.
- An emerging market dynamic is the use of 'dynamic' pricing in this market, which is essentially taking existing yield management to a new level. About half of the clubs no longer publish 'rack' rates on their website, directing golfers to call the pro shop or go to the online tee time interface to find current fees.
- Several of EHGC's competitors, including Eagle Landing and the formerly fully private clubs Country Club of Orange Park and Magnolia Point, continue to discount aggressively to build market share. Eagle Landing, for example, is featuring all-inclusive special rates that include cart, meal (breakfast before 11am, lunch between 11am – 3pm) & 2 draft beers or fountain drinks (twilight is 2 draft beers only).
- As is the case in most markets nationally, rounds played per golf course declined in this market since the mid-2000s. NGF is noting a stabilization in weather adjusted rounds played in the 2014 – 2015 period, which is consistent with national and regional trends. Several clubs, such as St. Johns and Bent Creek, report significantly higher rounds played for 2015. These two, along with EFGC chief competitor Eagle Landing, all surpassed the 50,000 round threshold in 2015 (an increase of 7.2% for Eagle Landing). These clubs – especially Bent Creek – likely benefited from the temporary closure of EHGC.
- NGF expects that the significantly improved Eagle Harbor GC should be able to generate activity in the 39,000 to 43,000 rounds per year range, with highest green fees over \$50 (with cart). Average or 'blended' rates will be much lower due to various discounted round categories, as is standard in golf operations.

Market Summary

While external factors - such as yearly weather variations, local competitive pressures, and macro trends in golf participation among young people - will always present challenges for golf operators, there are a number of market signs pointing in a favorable direction for EHGC. The demographic and economic factors affecting the demand for public golf in the local market are

generally favorable for golf participation, and rounds played at several clubs were up in 2015. With an increasing population, no new courses on the horizon, and increased engagement (both golf and Talon's) from the 'captive audience' Eagle Harbor community, EHGC has an opportunity to build rounds and revenues over the next several years.

NGF has noted in past studies that the location of EHGC is not convenient to people that live outside the immediate area (e.g., east of the river) and that the CDD Board should always assume the facility will have a smaller market draw. The primary market area is Orange Park, but EHGC is located approximately 6.5 miles from the I-295 interchange with U.S. Highway 17. The demographic characteristics favoring strong golf participation tend to be better on the east side of the St. Johns River, and the I-295 corridor is the primary thoroughfare to Eagle Harbor for this population. However, despite these constraints, the EHGC facility improvements made in 2015 should allow the club to expand its effective trade areas and become more of a "destination" property, while also achieving more engagement from the EH community.

NGF CONSULTING RECOMMENDATIONS

Many of the recommendations NGF Consulting made in previous years' reports were implemented (physical plant) and/or enhanced (e.g., marketing) in 2015, so the tone of our recommendations in 2016 is for management and the CDD and Hampton Golf to "keep doing what you're doing". Summary recommendations follow:

Marketing and Fees

The CDD, by investing in the Eagle Harbor Golf Club despite recent operating losses, is giving Hampton Golf the tools it needs to maximize revenue at the facility. EHGC's quality mix of golf course, driving range and clubhouse amenities makes it a very desirable golf destination in this market, so the overriding NGF recommendation is for Hampton Golf to leverage this investment and use the enhanced marketing budget to effectively communicate the changes at Eagle Harbor GC to the golf community, as well as to prospective user groups for Talon's.

Based on NGF's review in early 2016, Hampton Golf and its on-site management team show every indication of trying to grow the rounds and restaurant activity at the club, particularly among Eagle Harbor residents. Key recommendations include:

- Use of technology in developing marketing strategies has become ubiquitous in the golf industry among savvy and forward looking operators. Management should continue to build the email database, track customer origins through zip code collection, and develop/refine the pared down customer profiles within the POS system to aid in segmenting user groups and targeting marketing programs. This should be an invaluable tool in creating marketing and retention strategies.
- With the added appeal of Eagle Harbor after the facility improvements, the club has more of a destination appeal for area golfers, though it remains a somewhat difficult location for people that do not reside west of the river. We recommend that marketing efforts continue to target golfers from "outside the gates", who reportedly account for about one-third of current play.
- With the growing use of 'dynamic pricing' in the market, management should be vigilant about tracking competitive fees and implementing its own version of this strategy. The ultimate goal of yield management and dynamic pricing (matching price to demand during various periods of the week) for online tee times is to maximize revenues, and must include maintaining rate integrity when the facility has 'pricing power' (typically weekend mornings). Dynamic pricing works best if the email database is segmented by customer groups, allowing marketing that is more creative

than simply sending an all-inclusive email blast offering a special. Also, as a facility captures more information about its customers and what gets them to the golf course more often, its reliance on exposing lower rates to the general public (thus devaluing the product) can be lessened and hopefully eliminated over time.

Player Development and Programming

Research from NGF and other leading industry organizations confirms that golf, in order to combat the headwinds that have resulted in decreased participation (especially among young people), must become much more active and effective in player development and “onboarding” to get more people into the game; the same applies to programming to keep people engaged and retain them as golfers. Activating latent demand among groups that traditionally have shown low golf participation – such as women and minorities – is critical to golf’s future. PGA of America data shows that every new golfer developed could be worth as much as \$250 per year (10 rounds at \$25), and the common successful player development program produces at least 200 new golfers per facility.

NGF observations and recommendations regarding player development and programming at Eagle Harbor GC:

- Through its new Director of Player Development, management should continue to build its Junior Program through initiatives such as the club’s burgeoning PGA Junior League Golf program, which is a great way to cultivate a new customer base within the Eagle Harbor community.
- One of the major initiatives to grow activity that NGF recommends is a young adult program (e.g., reduced rates for golfers age 18-29 on weekday afternoons). National NGF research (“*Golf & the Millennial Generation*”) has shown this to be a key demographic in growing golf activity. New events at Eagle Harbor, such as the 9-hole Thursday Scramble that kicked off with a very successful Night Golf event in April, show great promise for providing a golf experience to those millennials and other golfers that are less traditional with respect to the game.
- Continue to focus on building participation in the women’s segment, through programs such as Get Golf Ready, as well as events such as EHGC’s ‘9 and Dine’ or female-only leagues, as a way to make the golf course a more inviting and social place for women. At present, women account for about 20% of golf participants, but 40% of beginners. There are many reasons why female golf participation is low, but common issues relate to golf course difficulty, retail selection, on-course services (restrooms, drinking fountains), food / beverage selection, and customer service.

Food & Beverage Operation

The redesigned and expanded EHGC clubhouse offers significant opportunities to enhance revenue in FY2016 and beyond. Key NGF recommendations related to the F & B area include:

- Leverage the increased marketing budget and the new Wedding and Special Events Manager positing to enhance overall F&B marketing and direct selling. Though management must be careful of potential displacement of golfers, the new manager should be relatively free to pursue larger events (weddings and banquets) that are typically at the highest margins. Brides.com, weddings.com and other regional wedding publications and websites should be considered for advertising vehicles. Hampton Golf had previously indicated to NGF the idea of hosting a wedding “show,” a concept that we have seen work successfully in other locations.

- Continue to develop marketing strategies to increase demand from Eagle Harbor community residents for dining and bar business, emphasizing new facilities, new menu, and great service. Residents represent the “low hanging fruit” in that Talon’s Restaurant is certainly the most convenient choice for them.
- Continue to get a handle on customer demand patterns and overall service needs for the newly redesigned Talon’s so that F&B expenses – especially labor and cost of goods – do not continue to outpace revenues.

NGF Consulting Recommended 10-Year Capital Plan for Eagle Harbor

The CDD completed the bulk of the high priority capital investment needs for EHGC in 2015, including the greens replacement and clubhouse renovation as detailed earlier in the report. Based on the NGF tour in 2016 and input from the Eagle Harbor staff, the following is a summary of capital expenditures (presented in 2016 dollars) that may be required at Eagle Harbor through the end of 2025.

Continuing Annual Recommendations

- Bridge upgrades. The maintenance crew re-decked and added new railing to six bridges in 2016, at an estimated hard cost of about \$4,000 per bridge. This leaves three bridges that remain in need of repair (annual estimated cost of \$5,000, though this will be funded out of maintenance budget).
- Irrigation upgrades. Annual cost of \$5,000 to replace antiquated irrigation heads; maintenance on the pump station.
- Continue to improve sand bunkers with cost funded out of operations budget.
- Cart barn repair. Est. cost = \$15,000.
- New pump station processor. Est. cost = \$15,000.

Long Term Planning – 2020 and Beyond

- Re-grassing the rest of the complex with grass chosen for fairways and roughs. Estimated cost = \$150,000 to \$180,000.
- New irrigation system. Estimated cost = \$800,000 to \$1.0 million.
- Cart path repair (sections) or replacement = \$100,000 to \$250,000.

10-Year Capital Plan for Eagle Harbor Golf Club Golf Course Operations						
	2016	2017	2018	2019	2020-2025	
					Low	High
Continuing Annual Upgrades						
Annual Irrigation Upgrades	\$5,000	\$5,000	\$5,000	\$5,000		
Bridge Upgrades	\$5,000	\$5,000	\$5,000			
Cart Barn Repair		\$15,000				
Pump Station Processor		\$15,000				
Annual Total	\$10,000	\$40,000	\$10,000	\$5,000		
Beyond Five Years						
Cart Path Upgrades					\$100,000	\$250,000
Ancillary Item Replacement					\$25,000	\$30,000
Re-grass tees and fairways					\$150,000	\$180,000
Construct nursery green					\$30,000	\$50,000
New Irrigation System					\$1,000,000	\$1,200,000
Total Long-Term Golf Course	\$0	\$0	\$0	\$0	\$1,305,000	\$1,710,000
Totals	\$10,000	\$40,000	\$10,000	\$5,000	\$1,305,000	\$1,710,000

Source: NGF Consulting and Eagle Harbor GC

FINANCIAL PROJECTIONS- FY 2016 – FY 2025

NGF Consulting has created a cash flow model for EHGC, in consideration of facility improvements made in 2015, recent historical operating results, the performance of the club in the first five months of FY 2016, and our analysis of the local golf market in early 2016. We also assume the present management and operational structure will remain in place through the end of the subject 10-year period. Additional assumptions are shown below.

Basic Assumptions

- The overall economic condition remains stable, without any sizable increase or decrease in the Jacksonville/Orange Park area economy, employment, or visitation.
- EHGC will continue to operate in similar fashion to today, with the inclusion of the member program, the Hampton Golf management agreement, and enhanced marketing and programming activities as described earlier in this report.
- Rounds played projections for FY 16 reflect the increase in play of about 17% year-over-year through February, as well as observed market conditions. NGF has projected conservatively that the upgraded EHGC will achieve stabilized play of 36,500 rounds by FY 17. This level of rounds is slightly higher than actual activity levels from FY 09-12. We believe this is a reasonable and sustainable level for planning purposes, but Hampton Golf may surpass these figures with aggressive programming and new strategies aimed at increasing engagement from the local EH community.
- The number of members is projected to stabilize at 160 by FY 17, reflecting a modest increase over the 154 members the facility had during February 2016. Based

on actual on FY 14 results, NGF Consulting has assumed average annual dues revenues of \$2,650 per member in FY16, with a 2% increase for FY17-25.

- Average “Other Member Fees,” at \$350 per year per member in FY 16, are also based on actual FY 14 results, with average fees following a similar pattern as described above for dues.
- The average “Daily Fee/Guest Green + Cart Fee” represents an average green and cart revenue across all rounds, including member rounds, and is based on actual FY 14 results. The average fee is \$23.50 in FY 16 and is projected to grow annually at 2% through 2025.
- Ancillary per-round revenues (merchandise, range, other) are also set at levels achieved over the FY 2013 to FY 2014 time period. These average revenues are assumed to increase at 2% per year through 2025.
- Cost of goods sold (COGS) percentages for merchandise (75%) and food & beverage (45% in FY 16; 42% thereafter to reflect better handle on new expanded operation) were also based on recent operating results.
- Food & beverage projections are based on increases achieved early in FY 16, and the expected aggressive push to drive expand non-golf restaurant and banquet revenue. Total F & B revenue (including non-golf revenue) is presented on a per-round average of \$26.50 in FY 16, growing by 5% in FY 17, and by 2.5% annually from FY 18 through FY 24.
- **Expenses:** FY 16 Maintenance, Operations, Food & Beverage and Administration expenses are based on FY 16 budget numbers supplied by GMS, and are projected to grow at 2.5% annually through 2025. NGF has adjusted the F&B budget down to \$700,000 in FY 17, under assumption that management has a better handle on the expanded operation in its second full year. F&B expenses are assumed to grow by 2.5% annually thereafter.
- As the NGF Consulting projections are estimates of future results, all figures have been rounded to the nearest \$100 for simplicity.

Cash Flow Statement

NGF Consulting has utilized these assumptions to create the cash flow statement in the following exhibit. Each category of revenue has been listed separately.

Eagle Harbor Golf Club – 10-Year Financial Outlook

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Rounds	35,500	36,500	36,500	36,500	36,500	36,500	36,500	36,500	36,500	36,500
Total Members	154	160	160	160	160	160	160	160	160	160
Revenues per Round/Member										
DF/Guest Green + Cart Fees	\$23.50	\$23.97	\$24.45	\$24.94	\$25.44	\$25.95	\$26.46	\$26.99	\$27.53	\$28.08
Member Dues (per Member)	\$2,650	\$2,703	\$2,757	\$2,812	\$2,868	\$2,926	\$2,984	\$3,044	\$3,105	\$3,167
Other Member Fees (per Member)	\$350	\$357	\$364	\$371	\$379	\$386	\$394	\$402	\$410	\$418
F & B Sales	\$26.50	\$27.83	\$28.52	\$29.23	\$29.96	\$30.71	\$31.48	\$32.27	\$33.08	\$33.90
Merchandise Sales	\$3.40	\$3.47	\$3.54	\$3.61	\$3.68	\$3.75	\$3.83	\$3.91	\$3.98	\$4.06
Range Income	\$1.50	\$1.53	\$1.56	\$1.59	\$1.62	\$1.66	\$1.69	\$1.72	\$1.76	\$1.79
Other Income	\$0.45	\$0.46	\$0.47	\$0.48	\$0.49	\$0.50	\$0.51	\$0.52	\$0.53	\$0.54
Revenues										
DF/Guest Green + Cart Fees	\$834,300	\$874,900	\$892,400	\$910,300	\$928,500	\$947,000	\$966,000	\$985,300	\$1,005,000	\$1,025,100
Member Dues (per Member)	408,100	432,500	441,100	450,000	459,000	468,100	477,500	487,000	496,800	506,700
Other Member Fees (per Member)	53,900	57,100	58,300	59,400	60,600	61,800	63,100	64,300	65,600	66,900
F & B Sales	940,800	1,015,600	1,041,000	1,067,000	1,093,700	1,121,000	1,149,100	1,177,800	1,207,200	1,237,400
Merchandise Sales	120,700	126,600	129,100	131,700	134,300	137,000	139,800	142,600	145,400	148,300
Range Income	53,300	55,800	57,000	58,100	59,300	60,400	61,700	62,900	64,100	65,400
Other Income	16,000	16,800	17,100	17,400	17,800	18,100	18,500	18,900	19,200	19,600
Total Revenue	\$2,427,100	\$2,579,300	\$2,636,000	\$2,693,900	\$2,753,200	\$2,813,400	\$2,875,700	\$2,938,800	\$3,003,300	\$3,069,400
Total F & B COGS	\$423,400	\$426,600	\$437,200	\$448,100	\$459,400	\$470,800	\$482,600	\$494,700	\$507,000	\$519,700
Total Merchandise COGS	\$90,500	\$95,000	\$96,800	\$98,800	\$100,700	\$102,800	\$104,900	\$107,000	\$109,100	\$111,200
Total COGS	\$513,900	\$521,600	\$534,000	\$546,900	\$560,100	\$573,600	\$587,500	\$601,700	\$616,100	\$630,900
Adjusted Gross Income	\$1,913,200	\$2,057,700	\$2,102,000	\$2,147,000	\$2,193,100	\$2,239,800	\$2,288,200	\$2,337,100	\$2,387,200	\$2,438,500
Expenses										
Golf Course Maintenance	\$685,000	\$702,100	\$719,700	\$737,700	\$756,100	\$775,000	\$794,400	\$814,300	\$834,700	\$855,600
Golf Operations	285,000	\$292,100	\$299,400	\$306,900	\$314,600	\$322,500	\$330,600	\$338,900	\$347,400	\$356,100
Food & Beverage	775,000	\$700,000	\$717,500	\$735,400	\$753,800	\$772,600	\$791,900	\$811,700	\$832,000	\$852,800
Admin	200,000	\$205,000	\$210,100	\$215,400	\$220,800	\$226,300	\$232,000	\$237,800	\$243,700	\$249,800
Total Expenses	\$1,945,000	\$1,899,200	\$1,946,700	\$1,995,400	\$2,045,300	\$2,096,400	\$2,148,900	\$2,202,700	\$2,257,800	\$2,314,300
Net Ordinary Income	(\$31,800)	\$158,500	\$155,300	\$151,600	\$147,800	\$143,400	\$139,300	\$134,400	\$129,400	\$124,200

Cash Flow Results

The NGF Consulting preliminary cash flow projection shows that, if operated based on the parameters discussed previously, the newly upgraded EHGC should produce between \$2.4 to \$2.7 million in total annual gross operational revenue (all sources) over the near term (through FY 19), growing to the \$2.75 to \$3.1 million range in the FY 20 through FY 25 period, assuming stabilized rounds of 36,500 and only modest average annual increases in most revenue inputs. Significantly higher food and beverage volume and rounds played increases are the primary drivers of revenue improving considerably over recent historical operating results.

Considering preliminary expense estimates prepared by NGF Consulting for this study show that, after generating a small operating loss in FY 16, EHGC is projected to generate stabilized net operating income (before depreciation and capital reserve) of between \$100,000 and \$150,000 per year. Though the facility will still fall far short of being able to meet CDD debt obligations, the overall financial picture should be significantly improved due to facility improvements, proactive management, increased marketing, and a stronger emphasis on player development and programming.

SUMMARY CONCLUSION

The Crossings at Fleming Island CDD was operating the Eagle Harbor Golf Club with economic losses approaching \$231,000 (before depreciation) in FY14. Based on our analysis in early 2016, NGF Consulting concludes that the 2015 capital improvement program has significantly enhanced the customer experience for both golfers and non-golfers (Talon's), and that EHGC is now in a stronger position to increase activity from Eagle Harbor residents and non-residents alike. The new management team at Eagle Harbor GC seems to have breathed new life into the facility, while the maintenance staff continues to provide excellent value.

We believe strongly that the CDD's willingness to invest in the facility in the face of increasing operating deficits will pay strong dividends, as the club now has a realistic opportunity to achieve operating profits and perhaps contribute toward debt obligations.

Dave, I look forward to discussing our findings with you after you've had a chance to review this report. Thank you for your continued confidence in NGF Consulting.

Sincerely,



Ed Getherall
Director of Consulting Services

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EFG/jcr

Appendix

PRIMARY COMPETITORS – SUMMARY INFORMATION

The following table illustrates summary information for EHGC and a selected group of public/semi-private golf facilities that NGF Consulting, with input from EHGC, has previously identified as the facility's primary and secondary competitors.

Eagle Harbor Golf Club Competitors – Summary Information						
Golf Facility	Location	Type	Year Open	Par / Slope	Front Tee / Back Tee	Location Relative to Eagle Harbor ¹
Eagle Harbor Golf Club	Fleming Island	18H-SP	1993	72 / 141	4,980 / 6,840	--
The Golf Club at Fleming Island	Fleming Island	18H-SP	2000	71 / 138	4,689 / 6,688	1.5 mi NE
Country Club of Orange Park	Orange Park	18H-SP	1989	72 / 133	4,704 / 6,935	5 mi NE
Champions at Julington Creek	Jacksonville	18H-SP	1988	72 / 120	5,049 / 6,908	6.5 mi E
Magnolia Point Golf and Country Club	Green Cove Springs	18H-SP ²	1987	72 / 138	4,984 / 6,796	8 mi S
Eagle Landing Golf Club	Orange Park	18H-SP	2006	72 / 137	5,894 / 7,037	8 mi NW
Cimarrone Golf Club	Jacksonville	18H-SP	1989	72 / 134	4,704 / 6,891	10.5 mi SE
The Golf Club at South Hampton	St. Augustine	18H-SP	2000	72 / 133	4,786 / 7,028	11 mi SE
Bent Creek Golf Course	Jacksonville	18H-MU	1989	71 / 131	4,865 / 6,420	11.5 mi NW
St. Johns Golf & Country Club	St. Augustine	18H-SP	2001	72 / 133	5,286 / 7,236	13 mi SE

1. Air miles from subject site, rounded to half-mile; actual driving distances will likely be greater.
 2. One of the three nine-hole courses has closed.
 Type: DF – Daily Fee; MU – Municipal; SP – Semi-Private

KEY COMPETITORS – FEE AND ROUNDS PLAYED INFORMATION

The tables below show summary rounds played, member fee, and daily fee information for the courses listed above. The rates shown include cart and reflect “rack” rates, or current rates reflected by online booking engine. Unless otherwise noted, rates reflect peak season resident rates. Twilight rates vary by time of the year.

Daily Fee Pricing (as of April 25, 2016)						
Golf Facility	18-H Prime Time Green Fee w/ cart (WD/WE)	18-H Midday Green Fee w/ cart (WD/WE)	18-H Aft./Twi. Green Fee w/cart (WD/WE)	9-H Green Fee w/cart (WD/WE)	18-H Senior Green Fee w/cart (WD/WE)	Different Seasonal Rack Rates (Y/N)
Eagle Harbor Golf Club	\$44/\$54 ¹	\$39/\$39 ¹	\$20/\$20 ¹	\$21/\$26	DNA	No
The Golf Club at Fleming Island	\$39/\$49	\$35/\$35	\$29/\$29	DNA	DNA	N/A
Country Club of Orange Park	\$35/\$45 ⁴	\$30/\$30 ⁴	\$30/\$30 ⁴	DNA	DNA	online pricing
Champions at Julington Creek	\$37/\$63 ⁴	\$33/\$42 ⁴	\$24/\$36 ⁴	\$26/\$30 11am+	DNA	dynamic pricing
Magnolia Point Golf and C.C.	\$31/\$41 ⁴	\$27/\$27	\$17/\$17	\$17/\$17	DNA	online pricing
Eagle Landing Golf Club	\$49/\$55	\$43/\$52	\$25/\$30	\$21/\$25	\$35/\$39	No
Cimarrone Golf Club	\$35/\$41	\$25/\$27	\$20/\$20	N/A	N/A	online pricing
The Golf Club at South Hampton	\$61/\$69 ⁴	\$37/\$45 ⁴	\$20/\$20 ⁴	N/A	DNA	online pricing
Bent Creek Golf Course	\$39/\$49 ²	DNA	\$27/\$30 ²	\$21/\$30	\$29/\$41 ²	No
St. Johns Golf & Country Club	\$61/\$78 ⁴	\$45/\$53 ⁴	\$25/\$31 ⁴	N/A	DNA	online pricing
1 EH res. pay \$34/\$42 PT; \$29 after noon and \$20 twilight w/cart. 2 Pro Card (\$25/year) Peak \$29/\$39, Twi \$24/\$27, Sr \$25/\$35 3 Players Card (\$75) between \$4 and \$9 savings per round based on dynamic pricing. 4 Current online booking rates - Peak rates used				N/A – Information not available DNA – Does not apply WD - Weekday WE – Weekend		

Rounds Played and Membership Fees					
Golf Facility	2015 Rounds	Initiation Fee (Full Golf)	Monthly Dues Single	Monthly Dues Family	Cart Fee (9H/18H)
Eagle Harbor Golf Club	19,145 (7+mos.)	DNA	\$225	\$255	\$12/\$20
The Golf Club at Fleming Island ²	32,000*	DNA	\$345	\$485	included
Country Club of Orange Park ²	N/A	\$1,500	\$305	DNA	DNA
Champions at Julington Creek	33,000*	DNA	\$195	\$225	\$12/\$20
Magnolia Point G&CC	30,000*	DNA	\$185	\$250	N/A
Eagle Landing Golf Club	51,127	\$1,500	\$225	\$275	\$11/\$21
Cimarrone Golf Club	36,000*	\$1,000	\$170	\$200	\$18
The Golf Club at South Hampton	49,000	Waived	\$209	\$260	\$12/\$21
Bent Creek Golf Course	52,000	DNA	\$99	DNA	\$8/\$14
St. Johns Golf & Country Club	50,000	Waived	\$228	\$271	N/A
1 Dual membership Fleming & Orange Park: \$455/mo single; \$595/mo family 2 Eagle Landing non-residents can join Players Club: \$36 a month + tax; includes range and golf in the afternoon for cart fee. *NGF Consulting estimate				DF – Daily fee DNA – Does not apply N/A – Information not available	