

DEVELOPMENT PROPOSAL FOR VEGAS VALLEY/STEPHANIE GOLF COURSE SITE

MAY 16, 1997 - 10:00 A.M.  
CITY MANAGER'S CONFERENCE ROOM

PRESENT: Steve Houchens, Deputy City Manager  
George Stephens, Finance Director  
John Redlein, Deputy City Attorney  
Barbara Darling, City Manager's Office  
Linda Owens, Deputy City Clerk

Bill Walters, Walters Group

WALTERS GROUP PROPOSAL

DEPUTY CITY MANAGER HOUCHENS began the interview at 10:40 A.M.

BILL WALTERS started his presentation by saying his company doesn't give formal presentations. He and his wife have lived in Las Vegas since 1982 and have had a second home here since 1977. He devotes a hundred percent of his time to golf. He has owned three golf courses; one in Chicago, one in Arizona, and Desert Pines in Las Vegas. His plan is to only have golf courses in Las Vegas. He is in the process of purchasing Sunrise Country Club and that transaction will close June 2, 1997. The Walters Group is the parent company of the organization. He is a person that does what he says he will do. The City of Las Vegas will not be embarrassed by this proposed golf course.

The Desert Pines Golf Club employs 120 persons; 65 out of Ward 3. It has only been open for five months and has been nominated by Golf Digest for the best golf course in the United States. It is not owned by someone thousands of miles away. A cart can be rented at Desert Pines for \$52.00; or if a reservation is made the night before it is \$43.00.

For this site they will have to vacate a street, build a bridge, and obtain air rights. There is a high tension power line running along Stephanie Street. It will be an 18-hole course similar to those in Scotland; made up of holes from old famous golf courses.

DEPUTY CITY ATTORNEY REDLEIN asked why Stephanie Street needs to be vacated. MR. WALTERS explained it is because of the driving range. They plan to vacate Stephanie at Vegas Valley. He has been told he can get that vacated. Stephanie Street is not a busy street.

DEPUTY CITY ATTORNEY REDLEIN asked about his plans for water on the course. The developer was responsible for water at Desert Pines. MR. WALTERS said at Desert Pines the developer was to use best efforts to find water. At this proposed site it will be excess water from the City's Water Treatment Plant. Sunrise Country Club is irrigated with gray water. BARBARA DARLING said there are standards the water has to meet, but it does not have to be

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drinkable water. MR. WALTERS said Mr. Goecke of Public Works told him there is water to sell; but there will be fresh water for a backup.

BARBARA DARLING asked if they will be using Bermuda grass. MR. WALTERS answered there will be some Bermuda grass. The biggest challenge is that they will be building a golf course in the desert. There is a high water table and the soil is full of salt. They are going to have to resod Sunrise Golf Course. They spent four million dollars more at Desert Pines than what they planned to spend because of the site conditions. This site will be more of a challenge to build than Desert Pines.

BARBARA DARLING asked if the clubhouse will be like Desert Pines. MR. WALTERS replied it will definitely be on par with Desert Pines. It will be a Scottish/Irish type of clubhouse, but not as big as Desert Pines.

BARBARA DARLING asked about the golf fees. MR. WALTERS said the fees will be identical to Desert Pines: \$36.00 with a 25% discount for Resident Seniors and a 75% discount for Resident Juniors. There will be a summer program where the fee will be \$25.00.

MR. WALTERS said this proposed golf course will be for all the residents of Clark County. City residents will get a preference for tee times, but at the same rates.

DEPUTY CITY MANAGER HOUCHEMS asked how many rounds are anticipated. MR. WALTERS replied 45,000 rounds are anticipated.

MR. WALTERS said at Desert Pines they have 5,000 residents who signed up for carts.

He went on to say they found that a majority of the people want to come to a place that is nice, maintained and safe. He doesn't feel the price is a problem at Desert Pines, but the fact is, they are not meeting the number of rounds projected. They send out a newsletter several times a year and solicit comments. Las Vegas has to be promoted as a golf destination.

DEPUTY CITY ATTORNEY REDLEIN asked Mr. Walters how marketing for out-of-town customers meets or conflicts with his obligation to cater to local customers on courses built on public land? MR. WALTERS felt it doesn't. He has to be subsidized by tourists. He added that in Chicago three golf courses can be built for what it costs to build one in Las Vegas. To be able to have a golf course in Las Vegas it has to be subsidized.

DEPUTY CITY ATTORNEY REDLEIN asked how much it will cost to play for a non-resident. MR. WALTERS said \$125.00 Monday through Thursday, and \$145.00 Friday, Saturday and

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Sunday. At the Desert Inn Golf Course it's \$125.00, Las Vegas Hilton Country Club \$145.00 weekdays and \$175.00 weekends, and other courses from \$110.00 to \$175.00 depending on the day of the week.

DEPUTY CITY ATTORNEY REDLEIN asked Mr. Walters how he gets out-of-town people to Desert Pines Golf Course. Mr. Walters felt there needs to be more exposure.

DEPUTY CITY ATTORNEY REDLEIN asked about the income from the lease. MR. WALTERS said it will be 1% for the first six years and 1.5% for the years 6 through 50, or premium if revenues are high enough. This will be a public/private partnership. Fees can be whatever the City would prefer. DEPUTY CITY ATTORNEY REDLEIN felt if Mr. Walters leased private land for a golf course he might have to pay 4% or 5% and then charge \$160 during the week and \$190.00 on weekends.

MR. WALTERS said the market dictates how much to build, maintain, and operate. The Desert Pines project was put together based on the history of the market. Sixty-nine people got the RFP for Desert Pines, but when they found out the economics, etc., only one person submitted a bid. Now he is finding out he is not cutting it economically. The City had to make concessions at Muni Golf Course.

DEPUTY CITY ATTORNEY HOUCHEMS noted his estimated costs are between fourteen and fifteen million dollars. What if somebody said they could do this project for ten million dollars? MR. WALTERS said it can be done for ten million dollars, but it will be sub-standard, not the type he is proposing. In Las Vegas and California it is more expensive than other parts of the country to build a golf course.

MR. WALTERS added there will not be a corporate part. It will be more like Muni. However, they plan to have a bagpiper.

DEPUTY CITY MANAGER HOUCHEMS asked about parking and the driving range. MR. WALTERS said there will not be any parking problems. They have not used all the parking at Desert Pines on a busy day. There will be a traditional driving range that will have natural turf.

DEPUTY CITY ATTORNEY REDLEIN wondered about Mr. Walter's willingness to plunge into another golf course when his present ones have unsatisfactory revenues. MR. WALTERS pointed out that Las Vegas has to be marketed as a golf destination.

DEPUTY CITY ATTORNEY REDLEIN inquired whether they ask golfers for ID. MR. WALTERS replied the golfers have to present ID. They sign an agreement that they are resident card owners. A tourist cannot make a tee time with a Las Vegas resident's card. When coming to play golf they have to present the card to the pro. DEPUTY CITY MANAGER HOUCHEMS

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described a scenario where he owned a card, made a tee time, and then asked what would happen to the other persons in his group. MR. WALTERS said the other persons can buy a card and pay a resident's fee.

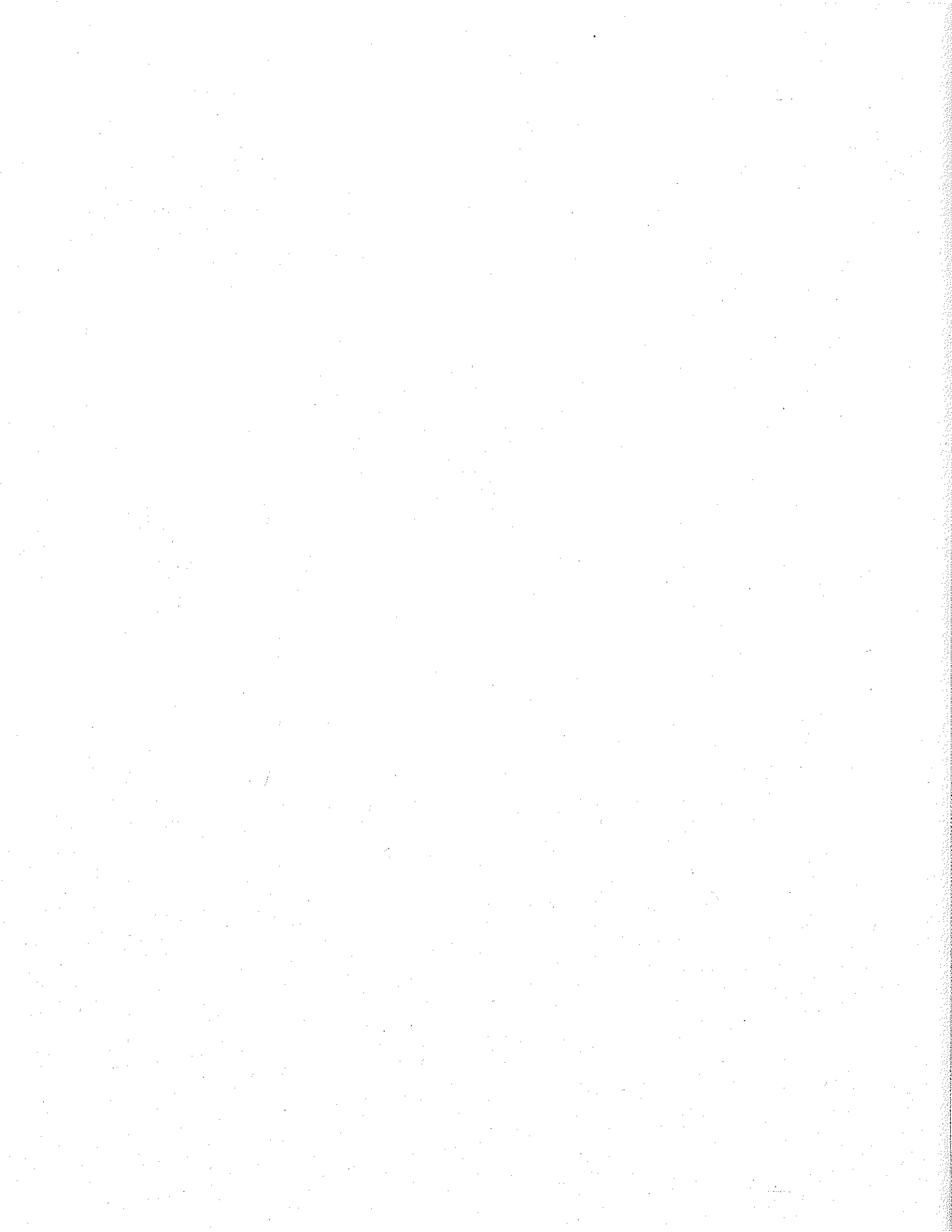
DEPUTY CITY MANAGER HOUCHENS then noted there will be 72 holes at Sunrise Country Club. MR. WALTERS said that will be an exclusive private club, not open to the public.

MR. WALTERS concluded his presentation by saying that they have to get an approval from the County to build a bridge across Vegas Valley.

The interview concluded at 11:10 A.M.

Respectfully submitted:

  
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Linda Owens, Deputy City Clerk



DEVELOPMENT PROPOSAL FOR VEGAS VALLEY/STEPHANIE GOLF COURSE SITE

MAY 19, 1997 - 2:00 P.M.  
CITY MANAGER'S CONFERENCE ROOM

PRESENT: Steve Houchens, Deputy City Manager  
George Stephens, Finance Director  
John Redlein, Deputy City Attorney  
Barbara Darling, City Manager's Office  
Vicky Darling, Deputy City Clerk

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Joseph Guerra, American Golf Corporation  
Bret Martin, American Golf Corporation  
Tom Devlin, American Golf Corporation  
Sheri Clark, American Golf Corporation

DEPUTY CITY MANAGER HOUCHENS began the interview at 2:18 P.M.

JOSEPH GUERRA provided a history of American Golf Corporation beginning in the 1970s through the present date. The company is privately held with 70% of the stock belonging to David Price, CEO of the Corporation. Because the corporation is privately held, it is not subject to the usual market fluctuation. The company holds 25% of the resort golf course market in Las Vegas and has been part of the Las Vegas golf community since acquiring the Sahara Golf Course, now known as the Las Vegas Hilton Country Club in 1983, approximately 13 years ago. They current own the Painted Desert Golf Course and acquired the Wild Horse Golf Course, originally known as the Showboat Golf Course, four to five years ago. Since acquiring that property at auction through customs for back taxes, they have spent millions of dollars to recondition.

MR. GUERRA then introduced his presentation and development team. BRET MARTIN is experienced in marketing and operating golf courses in destination locations such as Las Vegas with significant local play. He is responsible for courses in Phoenix, Arizona, Albuquerque, New Mexico and other properties in the Southwestern portion of the country. TOM DEVLIN is the Director of Construction. He has built every component of golf courses ranging from \$20 million facilities to Municipal courses costing \$4 to \$5 million. He has been involved in three projects in Nevada and is very much part of the Nevada golf community. SHERI CLARK is the impetus for the preparation of this presentation as well as the original proposal. MR. GUERRA explained that he is one of four individuals responsible for acquisition of properties and as such answers only to the CEO.

MR. GUERRA summarized the history of acquisitions for American Golf. In the 1970's, American Golf was the guru in consolidating Municipal golf courses. In the 1980's, it expanded into the daily fee club at the entry level. In the 1990's, they have included acquisition of premium clubs. Each category involves a different segment of the golf community. Today,

American Golf owns 100 properties and leases/operated 145 golf courses in conjunction with governmental entities, small landowners and large corporation property owners. Sixty-three percent of those properties are daily fee properties. They operate 24 properties in Southern California, Southern Nevada, New Mexico and Arizona. MR. MARTIN explained that Dennis Wesseldine is based in Las Vegas for American Golf. He was initially an irrigation specialist and has worked his way up in the Company over a 15 year period. He is an expert on the variables which must be addressed with golf courses in this community such as labor issues and physical constraints.

The key person is a general manager. American Golf selects a person to be responsible for the daily operation who would also interact with City personnel. He would make the day-to-day decisions regarding operation, marketing and recruitment and training of personnel. The golf superintendent is trained to meet a strict criteria for the facility based on its class category. National and regional support is provided for golf cart fleet maintenance, construction and a food and beverage manager to coordinate the menu and staff training. The Regional Sales and Marketing Director heads customers relations and the home office provides human resources support for staff training and development. A Merchandise Director also assists with the property.

In considering this proposal, American Golf looked for a niche and found a gap between the high-end golf course and the Municipal and County offered courses. They then wanted a design making this the most desirable course for both use and value. The links style design does not exist in this market and would create a high culture separating this course from existing courses. A great deal will depend on marketing skills, but the American Golf program has a loyal and large customer base. This customer base is drawn from a central reservation system tying all of their area properties together. If space is not available at one property, it may be possible to accommodate the player at another. Hotel terminals are already in place for the system and currently accommodates hotel resort employees and customers. In addition, American Golf has package options and referral programs with several large corporations, including Hertz, American Express and Platinum Plus Travel, for play at significant discounts.

The proposal requested special consideration for resident players and competitive rates for local players. As reflected in the proposal, the competitive rates being offered locals, with even greater savings for senior and junior players, will meet that requirement and still generate considerable income. In the event of tournament play, alternate tee times for residents will be provided. A focus on serving the local juniors, seniors and women players benefits the company in two ways. It assists the dedicated Regional Sales Manager based in Las Vegas to generate income for the property and adds to customer growth.

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Guest surveys are conducted regularly by an organization hired by American Golf to insure that the best service is being provided. The current database of customers is approximately 800 members.

MR. MARTIN outlined the fee rate contained in the proposal. These rates are very aggressive overall and even more aggressive with regard to local players. The rates fall well below those of Angel Park, for example, and lie in the middle between the high end properties and governmental course rates. Again, there is a significant discount for junior and senior players. The company has a strong position on junior play to develop future players.

MR. DEVLIN addressed the construction aspects of the project based on his 10 years of experience with the company. His focus must be on building a quality project, whether it is a \$20 million course or the remodel of a clubhouse. He cannot cut corners to save costs because ultimately that means the property does not generate the revenue return or have the asset value sought. His concern is to try not to run too far over cost rather than coming in under budget. He also has extensive experience with all phases of permitting, including in environmentally sensitive locations such as Hilton Head, San Luis Obispo and Tahoe. The trick is to get the right people on the team who have expertise with the conditions involved on the particular project. One of the desires of the City for this project is to construct a course which preserves open space as a buffer. The clubhouse merely supports the golf course and should complement it. MS. CLARK added that American Golf currently has a dozen properties with certification and about a dozen more working towards certification.

MR. DEVLIN indicated that one of the greatest physical constraints obvious just from a site inspection will be the need to bring in a significant amount of dirt to shape the topography of the project. The links style will work well with the wetlands type of water concept. The 30 to 35 stall driving range with the fairways and targets shown would support teaching as well as all the other requirements.

MR. GUERRA reviewed the financing capabilities of American Golf. The company currently has assets of approximately \$500 million and debt ranging between \$15 and \$20 million. There is a sister company, National Golf Properties, created in 1993 and traded on the New York Stock Exchange with capital of \$1 billion. Initially shares sold for \$21 and are currently at \$30 per share. It is seen as a growth stock. There are leasehold interests which are sometimes involved and sometimes not. With an annual operating income of \$100 million and targeted cash flow of \$60 million, it would be possible for American Golf to finance this project with cash, financing through Bank of America or other funding sources. There is no doubt that the financing is available.

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MR. GUERRA then outlined the two proposals set forth by American Golf. One is a net deal in a partnership arrangement. The City would receive \$100,000 for years 1 through 15 plus 50% of everything over the \$2 million American Golf feels would be an appropriate return on its investment. In addition, the City would receive a percentage of all golf merchandise, non-golf merchandise and food and beverage sales. In years 16 through 40, the City would receive \$800,000 plus 50% of everything over the \$600,000 American Golf would take as a reduced return on its investment. Again, the City would receive a percentage of the golf merchandise, non-golf merchandise and food and beverage sales.

The second proposal is a landlord arrangement with the City receiving \$100,000 years 1 through 5; \$150,000 years 6 through 10; \$200,000 years 11 through 15; \$800,000 years 16 through 40 and an increasing percentage of all golf merchandise, non-golf merchandise and food and beverage sales. These figures are guaranteed. This is an experienced local company with a solid employee base who can deliver the benefit. They are the largest operator in the Las Vegas area with unmatched financial strength. They have never spent a single day in litigation or default and have never terminated a contract. That is not to say that they have not made mistakes. But even when they have, they have delivered on the contract, treating it as though it were gold.

MR. GUERRA stressed that the company would be seeking input from the City throughout the project. Again, they have unparalleled experience working with governmental entities and industry credibility. They can maximize the quality of the golf course, providing maximized benefit to the landlord; i.e., the City of Las Vegas. They have a wide spectrum of promotions to generate players, keeping the project healthy.

DEPUTY CITY ATTORNEY REDLEIN clarified American Golf's 25% of the destination resort golf course consists of the Las Vegas Hilton, Painted Desert and Wild Horse golf courses. That is not 25% of the total market, just the destination resort market.

DEPUTY CITY ATTORNEY REDLEIN discussed with MR. GUERRA a comparison for the quality of the project at a cost of \$9 to \$11 million. MR. MARTIN explained that although the style would be significantly different, the quality would be very comparable to Angel Park. MR. GUERRA responded his biggest concern would be that specifications of the City or unforeseen construction constraints would drive the costs up to \$15 to \$17 million. At that point, American Golf would need to reevaluate the project. That type of investment for a 40 year leased project would raise concerns because of anticipated erosion of market share and revenue return. He would be very comfortable with this type of world class project costing even as much as \$11 million. If someone else is willing to build this project out at \$20 million, the City should take their proposal. He does not believe that the investment would be justified. MR. DEVLIN compared this project to one in Tahoe where the vistas and revenues would justify a \$20 million investment. MR. GUERRA added that American Golf would have paid \$20 million for the

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Seven Seasons project as well because of the views and other incentives. This project will be accessible, appealing and affordable with a \$9 to \$11 million investment.

DEPUTY CITY ATTORNEY REDLEIN questioned whether American Golf would construct the course for a developer's fee. MR. GUERRA responded that they would not and outlined the risks involved to the government entity having to use general fund monies to support the golf course. He made a comparison to American Golf trying to operate a fire department. This is entirely different than a ballfield. There are inherent risks to the impact of another golf course in a community. The question is raised whether the new course will generate new players or cannibalize customers from other courses.

DEPUTY CITY ATTORNEY REDLEIN asked how the City would know the project costs associated with the project. MR. GUERRA assured him that American Golf always agrees to auditing to make sure that the City's comfort level remains high. They have worked with 70 governmental jurisdictions and with the reputation they currently enjoy, future participation could be at risk. There can be no question about their reporting practices. As one of the check and balance procedures, the people handling the money do not operate the golf course or the construction. The City will have the opportunity to approve the building, contractors and the budget.

DEPUTY CITY MANAGER HOUCHEMS discussed the selection of the architect for the project and possible increases in costs resulting in a withdrawal from the project by American Golf. MR. GUERRA stated that his experience is that once everyone understands the constraints and budget, government entities have been reasonable and understand what is achievable. The City does not want the company to fail.

DEPUTY CITY MANAGER HOUCHEMS questioned whether the projected revenues were possible given the rates as compared to rates at other courses. MR. GUERRA replied that he believes golf rates will come down from their current level within the next 24 months because the anticipated growth has not occurred. That will benefit local players. If they do not, then American Golf and the City can look at possible increases in the future. However, for the proposal, the projects were kept conservative to insure that the project can obtain its market share. MR. MARTIN clarified that the City would need to approve any rate increases for junior or senior golfers, resident rates may be increased 3 to 5% but raising non-resident rates is American Golf's option.

MR. GUERRA outlined future negotiations regarding allocations for resident tee times. American Golf currently anticipates a 60% resident allocation including junior and senior times and a 40% non-resident allocation. That ratio could go to a 50/50 share in season. Again, the company is sensitive to the City's position. Also, reservations may be made up to 60 days in

advance, rather than just one week prior to a tee time. DEPUTY CITY MANAGER HOUCHEMS commented that other courses provide undesirable resident tee times in the very early morning or late afternoon.

MS. DARLING asked MR. GUERRA to explain the difference between American Golf and Golf Enterprises who is currently operating the Municipal course for the City. MR. GUERRA clarified that Golf Enterprise was acquired by DAVID PRICE, the primary stockholder of American Golf, at auction by Customs for back taxes. The total capital for Golf Enterprise had dropped from \$300 million to approximately \$60 million. It had a sketchy and fluctuating history. The companies are absolutely separate entities, with independent capital and employees. However, operating staff from American Golf has been able to provide support to shore up Golf Enterprise. That has stabilized the company and given greater security to its independent employee force. It has been a smooth transition and many of its contracts have been renewed under the new corporate structure.

DEPUTY CITY MANAGER HOUCHEMS commented that a European style links course might be out of character in Las Vegas and questioned the potential water usage. MR. GUERRA responded that the market is saturated with the existing style properties. A links design is unique in the market. This is a market where the most loyal of customers plays at least two courses for variety and the average is four to five courses. MR. MARTIN answered that the water usage would be low because they would use unmanaged growth of nature plants in many areas. MS. CLARK added that the wetlands effect would given added benefit to the Audubon aspect. MR. DEVLIN pointed out that the links style refers to the design and the ball run up to the greens.

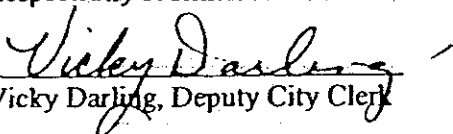
DEPUTY CITY MANAGER HOUCHEMS asked what site constraints exist that they are aware of at this time. MR. DEVLIN responded that there is an easement for power lines as well as other powers lines which will have to be placed underground. Putting the lines underground is always costly. There are some roads which have not been completed and costs may be impacted depending on the improvements required by the City. Overall, access and topography appear straight forward.

MR. GUERRA concluded the meeting by thanking the City for postponing their presentation from Friday to Monday. He has looked at this project site as well as inspected Desert Pines, the Municipal course and Angel Park. He believes that no matter who is selected to develop this project, it will be a quality job based on the quality of the other developer's properties. The overall quality of golf course properties in Las Vegas is impressive since he has seen a wide range of quality between private properties and government. This golf community is one of the best or the best market in the world without one dollar of capital by the City. His company would like to be part of that but the City cannot go wrong no matter which developer they select.

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The interview concluded at 3:40 P.M.

Respectfully submitted:

  
Vicky Darling, Deputy City Clerk