

DRAFT
MEMORANDUM

TO: Catherine Swanson Rivenbark, AICP
Development Department, City of Coral Gables

FROM: Barry Abramson

SUBJECT: Stage I Financial Evaluation of Proposal by Liberty Events LLC to Lease
The Country Club of Coral Gables

DATE: September 17, 2008

Executive Summary

The financial proposal entailing guaranteed minimum rent of \$240,000 per year rising to \$360,000 in the 11th lease year plus participation rent allowing the City to share in upside with no City funds being put at risk appears to present a reasonable starting point for negotiation.

Refined financial projections based on further market and operating analyses which would be required of the Proposer should the proposal proceed to the next stage would enable the City to better assess and negotiate the rent terms that would provide comfort to the Proposer that it could recoup its investment and make a reasonable profit while providing a appropriate return to the City.

Evaluation Framework

This memorandum presents our initial stage financial evaluation of the proposal by Liberty Events LLC (proponent alternately referred to in proposal as Liberty Entertainment Group) to lease the Country Club of Coral Gables. This evaluation is based upon the proposal submission and clarifications thereupon provided by the Liberty team in a conference call on September 10 and a follow-up call with Nick Di Donato on September 17, but prior to negotiation.

Our evaluation focuses on the financial aspects of the lease proposal and supplements the evaluation of qualifications and operating, marketing, and financial plans and estimates by the

City's hospitality consultant, Adelfi Group, and other research on qualifications performed on behalf of and by the City.

It is our understanding that the evaluations by these parties have indicated the proposer to be qualified and the proposed management, marketing, and operating plans and estimates to provide a reasonably satisfactory starting point, though in need of further study and refinement before a lease should be approved.

The primary elements of the financial proposal are as follows:

Scope: The Proposer would lease the property and be responsible for renovating, refurbishing, managing, marketing, and operating the facility comprising all food service, function space rental, membership club, fitness, and tennis facilities. The proposal also states the intent to request the right to enter into a lease after five years of operation for the Grenada Golf Course.

Term: A period of not less than 10 and not more than 20 years

The proposal states "an executed lease agreement is aimed for December 1, 2008 with an opening date scheduled for October 1, 2009." A schedule in the proposal indicates a construction start in December, 2008 and that the opening date refers to opening of the banquet spaces, with the club and casual food service open for member use starting in March of 2009. Mr. Di Donato clarified that the intent is that the first lease year would commence upon possession and primarily comprise the period prior to banquet opening.

Investment: Private investment in capital improvements for renovation and refurbishment and start-up opening costs, estimated to be between \$1.0 and \$1.5 million, to be borne at the sole expense and risk of the proposer.

Lease Payments:**Minimum Guar-**

anteed Rent: Free rent for lease year 1 (approximately the period prior to opening of the banquet facilities).

\$20,000 per month (\$240,000 per year) for lease years 2 through 10

\$30,000 per month (\$360,000 per year) for lease years 11 through 20

Note: the operating projections presented in the proposal show rent payments in each of the first ten years of operation based on minimum rent of \$20,000 per month. Mr. Di Donato clarified that, as this ten year operating period approximately spans lease years 2 through 11, the rent in the 10th operating year (11th lease year) should be based on \$30,000 per month.

Participation

Rent: 5.0% of Sales over \$4 million throughout the lease term (i.e. total lease payments would be the sum of the minimum guaranteed lease payments and the overage – the increment by which 5% of gross revenues exceeds the minimum.)

Property

Taxes: The proposal states that “proposed lease payments are based on documentation and financial considerations including current real estate tax information provided by the City of Coral Gables.” The Proposer stated in the September 10th conference call that this caveat referred to the proposed lease payments being based on the assumption that property taxes would not escalate dramatically from their current level, as it would not be a feasible project with significant increase in taxes. The Proposer said it had erroneously assumed in its projections a property tax of \$9,000, but that it could pay the correct amount (it mentioned \$19,000, whereas the 2007 property tax is approximately \$21,000 approximately \$20,000 with early payment discount). The Proposer also stated that if it could not be guaranteed that property taxes would not increase dramatically, it would seek to cap the combined amount of annual

lease payments and property taxes. Note that the City's share of property tax is approximately 28%.

**Operating
Deficits**

The Proposer confirmed that any operating deficits would be funded by the Lessee, though it noted that this entity would be a single asset LLC.

Evaluation

Based on the information available at this time, the proposal appears to present a reasonable starting point for negotiation. The City would receive the proposed guaranteed minimum rent of \$240,000 per year rising to \$360,000 in the 11th lease year plus participation rent allowing the City to share in upside with no City funds being put at risk.

We note the lack of annual escalations to base rent and would address this in negotiations.

The financial projections in the proposal indicate strong financial performance for the project and significant participation rent accruing to the City. At this point, we consider these projections to be a starting point for more refined analysis by the Proposer rather than a reliable indicator of financial performance. Upon receiving more refined financial projections, the City and its consultants would be better able to assess and negotiate the base and participation rent terms that would provide comfort to the Proposer that it could recoup its investment and make a reasonable profit while providing a fair return to the City.

As the lessee would be a single asset LLC, its willingness to fund any future operating deficits, should they occur, would depend upon its assessment of whether further investment would be warranted by anticipated improved performance. As the primary member of the LLC lessee will be Liberty Group LLC or its principal(s), the ability to fund any operating deficits would be impacted by their financial capacity. Provision of financial information adequate to assess this capacity would be required prior to entering into a lease agreement. Finally, provision for operating reserves or other safeguards and reasonable asset management

oversight by the City could help forestall possible financial operating problems and would be addressed in negotiation.

In addition to its lease revenues, the City would receive its share of property taxes, which would be approximately \$6,000 based on the 2007 assessment. We note that the arrangement Proposer has said it would seek limiting the total amount of rent and property taxes to protect it from a substantial increase in property taxes could, if agreed upon, lower the lease revenues and combined financial benefits to the City. The City's willingness to provide such a limitation and, if so, the specifics thereof would need to be addressed in negotiations in a manner that would not unduly impact revenues to the City.

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