

# MEMO

---

THE MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION  
*Department of Finance, Office of Secretary-Treasurer*

PCB03-53  
July 21, 2003

To: Montgomery County Planning Board  
From: Patricia Colihan Barney, Secretary-Treasurer  
Subject: Financial Review - Cabin John Indoor Baseball Facility

**Recommendation – Based on the information provided, the financial analysis does not lend support to the proposed project.**

- Montgomery Lane, LLC (ML) did not provide a market feasibility study that supports their financial projections/plan for the facility.
- As the Commission’s risk exposure is related to the soundness of the partner’s financial plan, the Commission’s risk exposure is greater.
- In the team’s opinion, the proposal does not provide the Commission with reasonable rental payments from Montgomery Lane, LLC, a for profit organization.

The latest proposal from Montgomery Lane, LLC (ML) dated March 17, 2003 regarding the construction and management of an indoor baseball/softball facility as well as the survey performed by Woelfel, Research Inc. dated June 6, 2003 have been reviewed. Summarized below are the results of the financial analysis of the project.

**Market Feasibility Study:**

ML did not provide a market feasibility study. A market study should include financial projections based upon a comprehensive analysis of the supply and demand for the facility within a defined market area taking into account existing and planned competition. The demand should be based on demographic information collected and applied in a statistically sound manner.

**Financial Risk Assessment:**

The partner’s projected financial performance is critical to the project’s ultimate success, and it has a significant impact on the Commission’s exposure to financial risk. The

evaluation team did not have a level of comfort with regard to the financial viability of this project. At the direction of the Board, the team attempted to quantify the potential financial risks to the Commission.

The Commission's risk falls within three primary areas:

- 1) Will the partner have sufficient funds to complete the construction?
- 2) Will the Commission receive the rental stream from the project for the lease of the land?
- 3) Will the project's cash flow be sufficient to cover the debt service?

### **Completion of Projection –**

The first risk to the Commission is that ML would not be able to complete the construction of the project, and that the Commission would be left with a partially built facility on its parkland. This risk would be partially offset by the required performance and labor and materials bonds. However, if the construction costs were significantly higher, as the Park Development and Design (PD&D) staff believe, some risk would remain along with the potential staff costs from the Legal Department, Finance Department, Office of the Executive Director and PD&D to call the bonds and provide increased project oversight.

### **Revenue Stream –**

Without a level of comfort on the projected cash flow, there is a greater risk that the Commission would not receive a portion of these payments. Page 1 of the Proposed Development and Operations Plan indicates that there will be a 15-year lease with B-CC; however, the letter of intent from B-CC to ML dated March 20, 2003 indicates a 20-year lease. Assuming the 20-year lease, the payments to the Commission during years 1 – 20 range from \$10,000 to \$48,770 for a total of \$439,380. The majority of the rental stream is projected to occur during years 21 – 40. The payments during that time period range from \$40,000 to \$110,000 for a total of \$1,460,000; however during this time period, no operator/tenant has been identified. The lack of a tenant increases the risk to the project.

### **Loan Default –**

The other risk is that B-CC would be unable to make their rental payment to ML. This rental payment is the revenue source for ML's loan payments. B-CC's rental payment to ML begins at \$340,500 which equates to \$12.16 per SF increasing to \$544,342 which equates to \$19.44 per SF during the last year of the lease. Although we have no details on ML's planned financing arrangement, based on our experience, these loans typically are secured by the project's revenue stream and a leasehold mortgage interest in the improvements on the land. Upon the event of a monetary default, the loan terms would dictate who assumes the leasehold interest and what actions the lender may take to recover their investment. In this situation, the question of first right of refusal presents

another risk; that is would the Commission if it desired be able to buy out the leasehold interest and if so at what cost?

If there is a loan default, there are a number of possible outcomes:

- 1) The lender could find another operator to assume the leasehold interest for the baseball facility.
- 2) The lender could find another operator to assume the leasehold interest and convert the facility to a different use. We do not know if the proposed lender is aware that there would be use restrictions on the facility.
- 3) The Commission could buy out the leasehold interest and find another lessee for the baseball or other facility.
- 4) The Commission could buy out the leasehold interest and self-operate the facility as a baseball facility or other facility.

The financial risk to the Commission would occur under scenario 3 or 4. To quantify the potential exposure, the team developed assumptions for a worse case scenario.

#### **Assumptions -**

- Actual cost of the facility is \$2,360,000.
- Commission pays \$150,000 estimated cost for required parking lot.
- Tenant is unable to make the rental payments, and there is a default on the loan in the first year.
- Commission is able to exercise a first right of refusal
- Commission cannot locate another lessee and must self-operate.
- Commission sells revenue bonds to finance the acquisition. Facility must be secured by all Commission Enterprise Fund revenues as is it not self-sustaining.
- Operating costs are \$11.23 per SF which is based on the average cost per SF of a 30,000 SF community center and the Commission's 38,000 SF indoor tennis facility (adjusted to reflect staffing costs projected by B-CC and ML).
- Revenues are 75% of amount projected by B-CC
- Commission funds the debt service and the net operating loss of the facility.

Although not reflected in the attached projection, there is also the risk that the facility would need to be converted to another use and the construction and staff costs associated with that possible renovation.

#### **Projections for Worse Case Scenario -**

Attachment A presents the worse case scenario based on the above assumptions. In year 1, the negative cash flow is projected to be approximately \$305,000 due to the additional outlay for the parking lot. In year 2, the negative cash flow is projected at \$150,000. Over the 20-year period, the worse case cumulative loss is projected to be \$2.7 million. Assuming 85% of the revenues projected by B-CC results in a cumulative projected loss over the 20 years of about \$1.4 million.

The Board needs to consider whether the amount of risk is acceptable given the nature of the project. The financial risk could be reduced by obtaining a market study including financial projections, obtaining a personal guarantee and/or letter of credit, and by requiring that the Commission certify that all funds are in hand prior to any construction.

### **Survey Results:**

Although the market study was not provided, the survey results raised a number of additional financial questions/issues.

- The survey sample was too small.
- A significant potential user was not included in the survey. Other responders' opinions may not represent leagues' positions. The results presented in some cases are misleading.
- Results from the survey were not linked to the revenue assumptions and were not used to revise the revenue projections.
- The most popular times for use are weekends and weekday evenings between 4:00 – 8:00 pm. The desired times for use may overlap and impact projected revenues.
- A wide variation exists between the current spending, as reported by team responders, on existing facilities and estimated spending at the new facility. Of the top three team responders, current spending was \$4,300, \$6,500 and \$7,500 and spending at the new facility was estimated to be \$10,000 for two responders and \$40,000 for one.
- No information to support the expenditure assumptions was provided by the survey.

### **Development Cost/Financing Issues:**

- Parks staff reviewed the reasonableness of development costs of \$1,856,703 for an almost 28,000 SF building and found that the costs appear to be understated. PD&D staff has estimated the cost at approximately \$2.4 million. A higher cost would probably result in a higher equity contribution and definitely a higher debt service payment. The cash flow projections do not provide the capacity for increased debt service.
- Development costs should include bonding.
- More details are needed on the financing plan including the security to be provided.
- The proposal states that ML will be financing \$1,481,703 and personally investing \$350,000. The total is short \$25,000.
- The \$98,000 investment of B-CC will need to be confirmed in writing.

### **Financial Projections:**

- ML did not provide a market study to support the financial projections.
- ML cash flow is dependant on \$340,500 annual rental payment (which is projected to increase by 2.5% per year) from B-CC. The lease term needs to be clarified, and there are numerous questions regarding B-CC's projected cash flow.

- The parking study indicates that there is not sufficient parking for the facility when fields 5 & 6 are being used. The proposal does not respond to that issue.
- Park staff needs to comment on sufficiency of ML's projected roof and equipment escrow and other possible long-term capital needs.
- ML needs to add costs for landscaping.
- ML did not provide a comprehensive staffing plan, which would describe the positions, responsibilities, and rates of pay. Projected personnel costs may be understated.
- B-CC revenues appear to be overstated. Questions on assumptions include using 25 weeks for November to March time period, using 100% facility utilization during certain times, batting cage revenue, an inconsistent fee assumption, and lack of information regarding summer camp revenues and expenses. In addition, there do not appear to be written commitments from users other than the proposed tenant.
- B-CC expenses appear to be understated when compared to operations conducted in similar facilities. Excluding the rental payment and including the ML management and other related operating expenses results in an estimated operating cost per square foot of \$7. In comparison our estimates of similar buildings for a community center and the Commission's Indoor Tennis facility are closer to \$11 per square foot.
- B-CC projections indicate a \$94,138 loss in year 1 due to capital equipment purchases. The contribution from their resources should be reflected in the cash flow statement. Net income for year 2 and forward are fairly minimal and do not provide much cushion if projected financial results are not met.

**Commission Return on Investment:**

- The average ground lease payment for the first 15 years is \$16,000 per year. A larger portion of the rental payments should be received in the first 15 years. Based on the cash flow analysis and the appraisal, the Commission should receive a greater rental payment particularly considering that the transaction is with a for profit organization.

**Organizational Issues:**

- Per the ML Operating Agreement, the term of the company is until December 31, 2025, unless terminated sooner. The proposed project is for a lease term that extends well beyond that date.
- The proposed lease with B-CC as operator is for a period of 15 or 20 years. The proposal does not address the operator for the remaining 25 or 20 years of the lease.

**Cabin John Indoor Baseball Facility  
Worse Case Scenario**

**ATTACHMENT A**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20	
Capital Outlay Parking Lot	-150,000																				
Revenues:																					
Per BCC		462,925	478,433	494,487	511,107	528,316	546,135	564,586	583,695	603,485	623,983	644,574	665,845	687,818	710,516	733,963	758,184	783,204	809,050	835,749	863,328
Estimated at 75%		347,194	358,825	370,865	383,330	396,237	409,601	423,440	437,771	452,614	467,987	483,431	499,384	515,864	532,887	550,473	568,638	587,403	606,787	626,811	647,496
Operating Expenses	\$ 11.23	314,440	323,873	333,589	343,597	353,905	364,522	375,458	386,722	398,323	410,273	422,581	435,258	448,316	461,766	475,619	489,887	504,584	519,721	535,313	551,372
Debt Service 5.50%		187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188	187,188
Total Expenses		501,628	511,061	520,777	530,785	541,093	551,710	562,646	573,909	585,511	597,461	609,769	622,446	635,504	648,954	662,807	677,075	691,772	706,909	722,501	738,560
<b>Cash Flow - 75% of BCC revenue projections</b>		-304,434	-152,236	-149,912	-147,455	-144,856	-142,109	-139,206	-136,138	-132,897	-129,474	-126,338	-123,062	-119,640	-116,066	-112,334	-108,437	-104,369	-100,122	-95,689	-91,064
Cumulative - 75%		-304,434	-456,670	-606,583	-754,037	-898,893	-1,041,002	-1,180,208	-1,316,346	-1,449,244	-1,578,717	-1,705,055	-1,828,118	-1,947,758	-2,063,824	-2,176,158	-2,284,596	-2,388,964	-2,489,086	-2,584,775	-2,675,840
<b>Cash Flow - 85% of BCC revenue projections</b>		-258,142	-104,393	-100,463	-96,344	-92,024	-87,495	-82,748	-77,769	-72,549	-67,075	-61,881	-56,478	-50,859	-45,015	-38,938	-32,619	-26,048	-19,217	-12,115	-4,731
Cumulative - 85%		-258,142	-362,535	-462,998	-559,342	-651,366	-738,862	-821,609	-899,378	-971,927	-1,039,002	-1,100,883	-1,157,360	-1,208,219	-1,253,234	-1,292,171	-1,324,790	-1,350,838	-1,370,055	-1,382,170	-1,386,901

**Notes:**

a) Construction Costs:  
 \$70 per S.F., 28,000 S.F. \$1,960,000  
 Other site costs \$ 400,000  
 Total \$2,360,000

b) Debt Service 5.50%  
 assuming \$2,360,000 \$ (187,188)

c) Cost of parking lot - \$150,000.

d) Per S.F. costs ML & BBC  
 Costs excluding rent \$ 123,680  
 Manager \$ 60,000  
 Roof & Equipment \$ 11,763  
 Outside Repairs \$ 1,100  
\$ 196,543  
 Total Cost per S.F. of 28,000 s.f. 7.02

e) Estimated operating costs per S.F.:

**Recreation Center**  
 Total Cost \$350,000  
 S.F. \$ 30,000  
 Est. Cost per S.F. \$ 11.67

**Cabin John Indoor Tennis  
without personnel:**

Total costs \$489,200  
 Personnel \$163,300  
 Net costs \$325,900  
 S.F. \$ 37,680  
 Net Cost per S.F. \$ 8.65

BBC & ML personnel \$ 60,000  
 S.F. \$ 28,000  
 Cost per S.F. 2.14  
 Est. Cost per S.F. \$ 10.79

Average of  
 the costs per (11.67+10.79)  
 S.F. divided by 2 \$ 11.23

