AN ASSESSMENT OF POSSIBLE FINANCIAL TERMS FOR THE NEXT CONCESSION CONTRACT AT ASILOMAR CONFERENCE GROUNDS

Presented to:

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EXECUTIVE SUMMARY

In May 2005, the California Department of Parks and Recreation (DPR) retained California State University, Sacramento (CSUS) to provide an independent assessment of possible financial terms for a new concession contract for the Asilomar Conference Grounds (Asilomar) scheduled to commence on June 1, 2007. Dennis H. Tootelian, Ph.D., Professor of Marketing and Director of the Center for Small Business at CSUS, was designated as the principle investigator.

The objectives of this study were to develop recommendations for: a) a minimum rental rate(s) to be established by the DPR in its Request for Proposals, b) the length of the contract necessary for financial feasibility, and c) an appropriate index to be used by the new concessionaire for computing maximum price increases in the future. The results of this study are designed to provide the DPR with information it can use in making decisions about the financial terms to include in the Request for Proposals and next concession contract it will issue for Asilomar.

Parameters for the analysis were established by the DPR for rental revenues over the term of the contract, expenditure levels to be paid by the next concessionaire for various activities that the DPR and state law deem necessary to preserve and develop Asilomar's conference grounds, and implementing a "healthy foods" initiative for its food services.

The financial goals identified by the DPR for the new concession contract for Asilomar's conference grounds include:

- Minimum rental revenue of 8% of gross receipts per year over the term of the contract.

- Minimum Resource Management Program funding starting at approximately $150,000 in 2007, and increasing at a rate based on an appropriate index over the term of the contract.

- Minimum Interpretation and Education Program funding starting at approximately $50,000, and increasing at a rate based on an appropriate index over the term of the contract.

- Minimum Operational Support Costs starting at approximately $500,000, and increasing at an appropriate rate over the term of the contract.

- Minimum Facility Improvement Account contributions that are at an appropriate level to maintain Asilomar over the term of the contract.

- Minimum ADA Accessibility Project payments that will cover the remaining accessibility modification costs, estimated to be $14.8 million, between 2007 and 2012.

- Increase the use of “healthy foods” at Asilomar where possible.

METHODOLOGY

Data for this analysis were supplied by the DPR and included past Profit and Loss Statements prepared by the current concessionaire for the years 2000 through 2004, descriptions of the projects to be completed with the Facility Improvement Account and the ADA Accessibility Project, and descriptions of the Asilomar facilities and grounds. This information provided a historical financial summary of the operation of Asilomar and the basis for projecting its future profitability under various rent and DPR-mandated expense scenarios.

The analysis consisted of four phases. Phase One involved re-creating the financial history of the operations, which provided the basis for projecting future revenues and expenses. Phase Two consisted of making projections of revenues and expenses other than rent over ten, fifteen, and twenty year periods: the most likely time periods to be used for the next concession contract for Asilomar. Phase Three consisted of estimating the Total Assets needed to generate the projected revenues and identifying possible ways to fund the ADA Accessibility Project. Phase Four involved making projections of various rental rate and DPR-mandated expense scenarios and assessing their impacts on the profitability of Asilomar’s conference grounds.

GENERAL RECOMMENDATIONS

While final decisions as to the financial terms and length of the contract must be made by the DPR, the following recommendations are provided based on the results of this analysis:

- The overall findings of this study indicate that the DPR could establish the following as minimum requirements for a new contract:

  - Contract term of twenty years.

  - Rental rate of 8.00% of gross Revenues.

  - Resource Management Program funding starting at $150,000 in the first year of the new contract, and increasing at an annual rate of 2.50%.

  - Interpretation and Education Program funding starting at $50,000 in the first year of the new contract and increasing at an annual rate of 2.50%.

- Operational Support Costs funding starting at $500,000 in the first year of the new contract and increasing at an annual rate of 5.00%.

- Facility Improvement Account funding set at 2.00% of gross Revenues per year as considered by the DPR to be sufficient to ensure that Asilomar is maintained in an appropriate manner.

- Coverage of the ADA Accessibility Project, anticipated to be $14,808,000 over the first six years of the new contract.

The DPR-mandated expenses for the Resource Management Program, Interpretation and Education Program, and Operational Support Costs are significant but manageable. They do not need to be scaled back in the early years of the contract while the ADA Accessibility Project is being completed. However, the negative profitability in the first six years may need to be mitigated by financing the ADA expenditures over a longer period of time.

Funding of the ADA Accessibility Project can be managed under various funding scenarios. Depending on the resources and financial policies of the next concessionaire, they may elect to fund the project internally and thereby retain the cost of borrowing. Other options include external financing over as many as twenty years.

These contract terms provide a needed revenue stream to the DPR, and allow the new concessionaire to earn a reasonable level of profitability as measured by Net Profit divided by Total Assets. Because revenues were projected to increase at a rate below historical averages, there appears to be considerable opportunity for the next concessionaire to improve on the profitability levels identified in this analysis.

- Although a shorter term provides the DPR with greater control over the performance of the new concessionaire, the new contract should be for twenty years. This term will be needed for the new concessionaire to generate the earnings to fund the Facility Improvement Account and ADA Accessibility Project expenses. A contract of ten or fifteen years is too short to achieve the DPR's goals in these areas and allow for reasonable profitability to accrue to the new concessionaire.

- The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) should be continued for the next concession contract. This index can be used to establish limits on price increases instituted by the new concessionaire. Consideration was given to a variety of other indicators, and the average annual growth rates from 2000 through 2004 are shown below:

  - Consumer Price Index for All Urban Consumers (CPI-U): 2.4862%.

- Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W): 2.5523%.
- Producer Price Index (PPI) for Accommodations: 1.8825%.
- Producer Price Index (PPI) for Full Service Accommodations: 1.9905%.
- Producer Price Index (PPI) for Limited Service Accommodations: 0.9876%.

Because CPI-W has a higher growth rate than other indicators, it provides the next concessionaire with a broader range of options for adjusting prices to help compensate for higher costs of operations. It also provides about the same protection to the DPR in the growth of costs associated with those programs funded through the DPR-mandated fees. Furthermore, CPI-W is best because it is most closely aligned to one of the highest cost elements of the business: wages and salaries. In the case of the current concessionaire, wages and salaries averaged 34.98% of total revenues.

- The profitability of the contract should be measured by the return on Total Assets (i.e., Net Profit divided by Total Assets). This method provides a clear measure of how much is earned per dollar invested by both the concessionaire and creditors. In this case, "Net Profit" would be Net Profit before all Rent minus rent and DPR-mandated expenses. It is projected that Total Assets may rise from about $5.1 million at the start of the contract to as much as $8.2 million in the final year to generate the projected level of Revenues. However, this estimate may be somewhat high because the manner in which the projections were made creates higher asset needs than have been experienced by the current concessionaire.

ANALYSIS OBJECTIVES

In May 2005, the California Department of Parks and Recreation (DPR) retained California State University, Sacramento (CSUS) to provide an independent assessment of possible financial terms for a new concession contract for the Asilomar Conference Grounds (Asilomar) scheduled to commence on June 1, 2007. Dennis H. Tootelian, Ph.D., Professor of Marketing and Director of the Center for Small Business at CSUS, was designated as the principle investigator. A copy of Dr. Tootelian's academic resume is presented in Appendix A.

The objectives of this study were to develop recommendations for: a) a minimum rental rate(s) to be established by the DPR in its Request for Proposals, b) the length of the contract necessary for financial feasibility, and c) an appropriate index to be used by the new concessionaire for computing maximum price increases in the future. The results of this study are designed to provide the DPR with information it can use in making decisions about the financial terms to include in the Request for Proposals and next concession contract it will issue for Asilomar.

Parameters for the analysis were established by the DPR for rental revenues over the term of the contract, expenditure levels to be paid by the next concessionaire for various activities that the DPR and state law deem necessary to preserve and develop Asilomar's conference grounds, and implementing a "healthy foods" initiative for its food services.

The financial goals identified by the DPR for the new concession contract for Asilomar's conference grounds include:

- Minimum rental revenue of 8% of gross receipts per year over the term of the contract.
- Minimum Resource Management Program funding starting at approximately $150,000 in 2007, and increasing at a rate based on an appropriate index over the term of the contract.
- Minimum Interpretation and Education Program funding starting at approximately $50,000, and increasing at a rate based on an appropriate index over the term of the contract.
- Minimum Operational Support Costs funding starting at approximately $500,000, and increasing at an appropriate rate over the term of the contract.
- Minimum Facility Improvement Account contributions that are at an appropriate level to maintain Asilomar over the term of the contract.

- Minimum ADA Accessibility Project payments that will cover the remaining accessibility modification costs, estimated to be $14.8 million, between 2007 and 2012.

- Increase the use of "healthy foods" at Asilomar where possible

Hereafter, all of the goals other than rental revenue are referred to as DPR-mandated expenses. They are so designated because the expenditures are used to preserve and/or develop the facilities and grounds at Asilomar.

It is DPR's desire to structure a contract for Asilomar that achieves these goals and still provides the new concessionaire with a reasonable level of profitability over the term of the contract. For purposes of this study, "profitability" is defined as the Return on Total Assets (i.e., Net Profit divided by Total Assets). This amount is the profit generated by each dollar of assets employed. The focus of this analysis is to examine various scenarios for generating revenues and incurring expenses in a manner to meet DPR's goals and provide a reasonable rate of return for a concessionaire.

METHODOLOGY

Data for this analysis was supplied by the DPR and included past Profit and Loss Statements prepared by the current concessionaire for the years 2000 through 2004, descriptions of the projects to be completed with the Facility Improvement Account and the ADA Accessibility Project, and descriptions of the Asilomar facilities and grounds. This information provided a historical financial summary of the operation of Asilomar and the basis for projecting its future profitability under various rent and DPR-mandated expense scenarios.

The analysis consisted of four phases. Phase One involved re-creating the financial history of the operations, which provided the basis for projecting future revenues and expenses. Phase Two consisted of making projections of revenues and expenses other than rent over ten, fifteen, and twenty year periods: the most likely time periods to be used for the next concession contract for Asilomar. Phase Three consisted of estimating the Total Assets needed to generate the projected revenues and identifying possible ways to fund the ADA Accessibility Project. Phase Four involved making projections of various rental rate and DPR-mandated expense scenarios and assessing their impacts on the profitability of Asilomar's conference grounds.

The proposed methodology for designing the model to test various rental rate and DPR-mandated expenses was submitted and approved by the DPR prior to its use.

Phase One: Historical Financial Summary

Financial statements provided by the current concessionaire for the years 2000 through 2004 formed the basis for summarizing the operations of Asilomar. Initially, revenue line items and expense line items for each year were computed as a percent of total revenues for that year. These statistics could then be examined to assess variations in the composition of annual revenues and the expenses over time. Additionally, the annual percentages were averaged for the five-year period for use in projecting revenue and expense line items into the future. These statistics are presented in Appendix B.

Average growth rates in revenue and expense totals and line items also were computed. This information could be used when developing future trends in revenues and expenses. These statistics are presented in Appendix C.

Finally, industry averages were obtained from three syndicated services: Dun & Bradstreet Industry Norms and Key Business Ratios, The Risk Management Association Annual Statement Studies, and The Almanac of Business and Industrial Financial Ratios. The SIC code used to identify industry averages was the 70 series for lodging. While it is recognized that an individual property may not precisely fit with the SIC description, the averages provide some general basis for comparing the past operations of Asilomar to the broader lodging industry. Industry average statistics extracted from these three sources are presented in Appendix D.

Phase Two: Revenue and Expense Projections

To assess the impact of possible rental rates on profitability, projections were made for twenty (i.e., 2007 through 2026), fifteen (i.e., 2007 through 2021), and ten (i.e., 2007 through 2016) year periods. These three time periods provide a good basis for examining the viability of alternative contract lengths.

Consumer Price Index (CPI) measures were obtained from the United States Department of Labor, Bureau of Labor Statistics. The current concession contract uses the CPI for Urban Wage Earners and Clerical Workers (CPI-W). After reviewing the statistics for various indices, it was decided that the CPI-W would be used for projection purposes. The primary reason for this decision is that this index has a conservative growth rate when compared to other options available, which helps to ensure that revenue projections will not be unrealistic.

Total revenues were projected based on the average annual growth rate in the CPI-W for the period 2000 through 2004, which was 2.5523% per year. This rate is considered to be a reasonable historic time frame that places more emphasis on recent rather than past market conditions.

As previously indicated, this growth rate is a conservative statistic for projection purposes. The average CPI-W growth rate of 2.5523% for 2000 through 2004 is lower than other time periods examined. Growth rates for five, ten, fifteen, and twenty years were 2.93%, 2.92%, 2.98%, and 3.21% respectively. Additionally, the actual average annual growth rates in revenues for Asilomar was 3.38% for 2000 through 2004, and 2.86% for 2001 through 2004. Accordingly, the smallest growth rate was used to project future revenues for Asilomar. To the extent that the next Concessionaire can generate revenues at a greater rate, higher levels of profitability could be achieved.

To assess the projected Costs of Sales, the historical expenditures for each revenue line item (i.e., lodging, food, bar, retail, grocery, guest services, other) were computed as a percent of their individual revenues (e.g., food costs divided by food revenues). These figures were then multiplied by projected revenues for the line items to compute their projected Cost of Sales. The sum of these costs represents the total projected Cost of Sales.

Projected Operating Expenses for controllable and non-controllable expenses were computed using their average percents of total revenues from 2000 through 2004. These average percentages for individual cost items were needed in order to extract a minimum rental rate and other DRP-mandated expenses. The result was to project Net Operating Profit before rent and DPR-mandated expenses (hereafter “Net Profit before All Rent”).

The impact of various rental rates and DPR-mandated expenses on projected Net Profit before All Rent could then be examined over the life of the next contract.

Summary projections for Revenues, Costs of Goods, Gross Margin, Operating Expenses, and Net Profit before All Rent for the period 2007 through 2026 are presented in Appendix E.

The viability of the projected revenue stream was separately examined using average total revenues per guest and the total revenue per average available room nights. Comparing these statistics to projected revenues provided an indication of whether the projected revenue levels over the term of the contract would be possible without an expansion of the facilities or an increase in room and other prices to levels that would not be acceptable to the DPR. The validation statistics for total revenue projections are provided in Appendix F.

Phase Three: Total Asset Projections and Possible Funding for the ADA Accessibility Project

To assess the potential profitability of Asilomar for the next concessionaire based on the desired rental rate and DPR-mandated expenses, it was necessary to estimate the Total Assets needed to generate the projected Revenues. The Return on Total Assets (i.e., Net Profit divided Total Assets) is a critical measure of business "profitability" since it shows how much profits are returned for each dollar in assets committed to the business.

Additionally, because the ADA Accessibility Project was expected to be completed in the first six years of the new contract, it was assumed that the next concessionaire would have to fund some or all of this project through internal or external financing. While funding these ADA Accessibility Project expenditures would be left to the discretion of the next concessionaire, some options were explored to ensure that these costs could be managed over the term of the new contract.

Projected Total Assets needed for operations were computed based on historical averages from 2000 through 2004. The ratios of Revenues to Total Assets for the current concessionaire were:

Year	Revenue / Total Assets
2000	$3.09
2001	$3.44
2002	$3.95
2003	$4.18
2004	$4.51
Annual rate of growth	9.9267%
Average	$3.83

As shown above, the amount of Revenues that could be generated from a dollar of assets rose at an average compounded rate of 9.93% per year.   In 2000, a dollar of assets generated $3.09 in Revenues, while in 2004 a dollar of assets generated $4.51 in Revenues. This suggests that the Total Assets needed to generate the same about of Revenues might decline each year (see Column 4 in Appendix G).

However, to project the Total Assets needed in the future, the historical average ratio of Revenues to Total Assets was used. This average ratio was $1.00 in assets generated about $3.83 in Revenues. Using this fixed ratio results in an increasing amount of Total Assets needed as annual Revenues rise (see Column 5 in Appendix G).

To estimate the profitability of Asilomar for the next concessionaire, the Total Assets in Column 5 of Appendix G were considered the more conservative measure. Given a dollar profit level, the more assets needed to generate those profits, the lower the level of profitability. Accordingly, the computations of profitability as measured by return on Total Assets are considered quite conservative.

While each potential concessionaire will have its own way to fund the ADA Accessibility Project, it was necessary to estimate the "costs of borrowing" to meet those expenditure needs, whether the funds are "borrowed" internally or from an external source (e.g., bank). To assess these costs, the "Prime Rates" as of January 1 for the previous ten years were obtained from Federal Reserve Board statistics:

Year	Prime Rate
1995	8.50%
1996	8.50%
1997	8.25%
1998	8.50%
1999	7.75%
2000	8.50%
2001	9.50%
2002	4.75%
2003	4.25%
2004	4.00%
2005	5.25%
Average	7.0682%

This ten-year time period was considered reasonable, given that the ADA Accessibility Project would take approximately six years to complete and the next contract was likely to be for a period of at least ten years.. The average Prime Rate was found to be nearly 7.07%, with rates ranging from a high of 9.50% in 2001 to a low of 4.00% in 2004.

Because the cost of borrowing would vary by the size, stability, and other attributes of the next concessionaire, the "cost of borrowing" statistic used for analysis purposes was the 10-year average Prime Rate plus 2.00%. Using a potentially higher rate increased the projected costs of borrowing and thereby made the computation of profitability even more conservative.

Phase Four: Rental Rate and DPR-Mandated Expense Scenarios

Scenarios using the projected Revenues and Net Profit before All Rent were computed using variations in the following:

- The rental rate for different contract terms. In particular, the ADA Accessibility Project was scheduled to be completed in 2012, during the first six years of the new concession contract. This $14.8 million expense has a substantial impact on profitability during the 2007 through 2012 contract years. Accordingly, variations in contract lengths were tested to assess the ability to mitigate this impact.

- DPR-mandated funding for the Resource Management Program and Interpretation and Education Program. Growth rates were maintained at a rate of 2.50% per year, which is slightly below the CPI-W level used for revenue projections.

- DPR-mandated funding for Operational Support Costs. This fee was reduced to the minimum level to mitigate the impact in the first six years of the new contract. A growth rate in this expense was set at 5.00%, which DPR considered necessary to keep pace with increasing personnel costs over the term of the new contract.

The scenarios focused on ways in which the next concessionaire could fund the expenditures needed for the ADA Accessibility Project. The scenarios shown in Appendix H were created to examine a few of the many possible ways in which the next concessionaire could meet the minimum rental rate and DPR-mandated funding, including the costs associated with the ADA Accessibility Project. An important objective was to allow the next concessionaire to cover these expenses and generate a profit level over the life of the contract that is reasonable based on Net Profit divided by Total Assets (i.e., Return on Total Assets).

Importantly, it is recognized that revenues were projected using a conservative growth rate, making it possible for the next concessionaire to achieve greater profitability than shown with the projections.

OVERALL FINDINGS AND GENERAL RECOMMENDATIONS

The findings in terms of projected Revenues and Net Profit before All Rent based on the desired levels of rent and DPR-mandated expenses are presented below. These findings are followed by general recommendations with respect to the objectives of the study (i.e., minimum rental rate, contract term, and index for computing maximum price increases).

Overall Findings

Based on the analyses described in the Methodology section, it appears that:

- The projections for Revenues for Asilomar, if adhering to the historical trends from 2000 through 2004, will be approximately $19.5 million in 2007 and grow to $31.5 million by 2026. This increase in Revenues is based on the CPI-W rate of 2.55% per year, which is below the historical average of 3.36% per year from 2000 through 2004. The lower growth rate was used to conservatively estimate future revenues.

- The projections for Net Profit before All Rent will be approximately $4.3 million in 2007 and rise to $6.9 million in 2026. This profit stream is based on Asilomar's historical average operating expenses (with a 10% increase in food costs) and profitability as percents of total Revenue.

- To achieve the desired levels of rental income and DPR-mandated expenses,[1] Asilomar's operations will have to generate:

    - More than $86.6 million for rental payments and DPR-mandated expenses for a ***twenty year*** contract. This amount will consume 17.3% of projected total Revenues, and will create losses in the first six years of the new contract if the ADA Accessibility Project funding is not allocated over a longer period of time than the six years needed to complete the project. Based on projections using the historical trends in revenues and expenses for Asilomar from 2000 through 2004, the concessionaire will achieve a return of approximately 4.59% on Revenues and an average return of 15.51% on Total Assets.

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[1]Rent was set at 8% of Revenue over the term of the contract and DPR-mandated expenses (i.e., Resource Management Program starting at $150,000 and increasing at the rate of 2.50% per year, Interpretation and Education Program starting at $50,000 and increasing at the rate of 2.50% per year, Operational Support Costs starting at $480,000 and increasing at the rate of 5.00% per year, Facility Improvement Account set at 2.00% of Revenues per year, , and ADA Accessibility Project funds of $14,808,000) over the life of the next contract.

- Nearly $64.4 million for rental payments and DPR-mandated expenses for a ***fifteen year*** contract. This amount will consume 18.3% of projected total Revenues, and will create losses in the first six years of the new contract if the ADA Accessibility Project funding is not allocated over a longer period of time than the six years needed to complete the project.. Over the fifteen-year term of the contract, the concessionaire will achieve a return of approximately 3.56% on Revenues and an average return of 11.71% on Total Assets.

- Nearly $45.3 million for rental payments and cover DPR-mandated expenses for a ***ten year*** contract. This amount will consume 20.6% of projected total revenues, and will result in losses during each of the first six years of the new contract if the ADA Accessibility Project funding is not allocated over a longer period of time than the six years needed to complete the project. Over the ten-year term of the contract, the concessionaire will achieve a return of approximately 1.22% on Revenues and an average return of 3.30% on Total Assets.

➢ The need to generate funding for facility improvements, while significant, is manageable given the rental payments and other DPR-mandated expenses for a new concession contract. These expenses can be absorbed and still allow the new concessionaire to achieve a reasonable level of profitability over a fifteen or twenty-year contract.

➢ The $14.8 million for the ADA Accessibility Project represents a very significant expenditure that must be absorbed by the revenues of Asilomar. Because these costs must be covered in the first six years of the contract, they will average nearly $2.5 million per year. This one expense alone consumes nearly 11.85% of projected total revenues and 54.21% of projected Net Profits before All Rent during this time period.

➢ The results of computing various rental rates and DPR-mandated expenses and examining their impacts on projected Net Profit before All Rent are presented in Appendix H. Appendix H contains four scenarios for funding the ADA Accessibility Project:

- Scenario One: No Borrowing for the ADA Accessibility Project Expenses.

  Scenario One is an analysis based on the next concessionaire funding the ADA Accessibility Project and being reimbursed for these expenses through the generation of profits over the life of the new contract. The analysis shows significant losses in 2007 through 2012 while the project is being completed, and profits thereafter. The losses for the first six years are recovered in approximately the first nine months of 2015. The overall

Net Profit divided by Revenues is 4.59%, and the Net Profit divided by Total Assets is 15.51%.

- Scenario Two: Borrowing Funds for ADA Accessibility Project Expenses Each Year with Terms Through the Life of the Contract.

  The analysis for Scenario Two is based on the next concessionaire borrowing approximately $2,468,000 in each of the first six years of the new contract to fund the ADA Accessibility Project expenses in those years. The costs of the loans are assumed to be the historical average prime rate plus two percent, and each loan will expire at the end of the new contract (e.g., the loan in 2007 would be for twenty years, the loan in 2008 would be for nineteen years). In this scenario, losses are sustained in years 2012 through 2014 due to the overlap in loan payments. However, prior earnings more than offset these losses. The overall Net Profit divided by Revenues is 2.25%, and the Net Profit divided by Total Assets is 8.45%.

- Scenario Three: Borrowing All Funds for ADA Accessibility Project Expenses at the Beginning of the Contract.

  Scenario Three is an analysis based on the next concessionaire borrowing the entire amount needed for the ADA Accessibility Project (i.e., $14,808,000) in the first year of the new contract. The cost of the loan is assumed to be the historical average prime rate plus two percent for twenty years. Losses sustained in the first five years of the new contract are smaller than found in Scenario One. However, it takes until approximately the eleventh month of 2016 to recover those losses. The overall Net Profit divided by Revenues is 1.92%, and the Net Profit divided by Total Assets is 6.26%.

- Scenario Four: Borrowing Funds for ADA Accessibility Project Expenses Each Year with Ten Year Terms.

  The analysis for Scenario Four is based on the next concessionaire borrowing approximately $2,468,000 in each of the first six years of the new contract to fund the ADA Accessibility Project expenses in those years. The cost of the loans is assumed to be the historical average prime rate plus two percent, and each loan will have a duration of ten years. Accordingly, all loans will be repaid by the end of 2021. In this scenario, losses are sustained in years 2011 through 2016 due to the overlap in loan payments. However, prior earnings more than offset these losses. The overall Net Profit divided by Revenues is 3.25%, and the Net Profit divided by Total Assets is 11.17%.

General Recommendations

While final decisions as to the financial terms and length of the contract must be made by the DPR, the following recommendations are provided based on the results of this analysis:

- The overall findings of this study indicate that the DPR could establish the following as minimum requirements for a new contract:

  - Contract term of twenty years.

  - Rental rate of 8.00% of gross Revenues.

  - Resource Management Program funding starting at $150,000 in the first year of the new contract, and increasing at an annual rate of 2.50%.

  - Interpretation and Education Program funding starting at $50,000 in the first year of the new contract and increasing at an annual rate of 2.50%.

  - Operational Support Costs funding starting at $500,000 in the first year of the new contract and increasing at an annual rate of 5.00%.

  - Facility Improvement Account fee set at 2.00% of gross Revenues per year as considered by the DPR to be sufficient to ensure that Asilomar is maintained in an appropriate manner.

  - Coverage of the ADA Accessibility Project, anticipated to be $14,808,000 over the first six years of the new contract.

  The DPR-mandated expenses for the Resource Management Program, Interpretation and Education Program, and Operational Support Costs are significant but manageable. They do not need to be scaled back in the early years of the contract while the ADA Accessibility Project is being completed. However, the negative profitability in the first six years may need to be mitigated by financing the ADA expenditures over a longer period of time.

  Funding of the ADA Accessibility Project can be managed under various funding scenarios. Depending on the resources and financial policies of the next concessionaire, they may elect to fund the project internally and thereby retain the cost of borrowing. Other options include external financing over as many as twenty years.

  These contract terms provide a needed revenue stream to the DPR, and allow the new concessionaire to earn a reasonable level of profitability as measured by Net Profit divided by Total Assets. Because revenues were projected to increase at a rate below historical averages, there appears to be considerable opportunity for the next concessionaire to improve on the profitability levels identified in this analysis.

- Although a shorter term provides the DPR with greater control over the performance of the new concessionaire, the new contract should be for twenty years. This term will be needed for the new concessionaire to generate the earnings to fund the Facility Improvement Account expenses and ADA Accessibility Project. A contract of ten or fifteen years is too short to achieve the DPR's goals in these areas and allow for reasonable profitability to accrue to the new concessionaire.

- The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) should be continued for the next concession contract. This index can be used to establish limits on price increases instituted by the new concessionaire. Consideration was given to a variety of other indicators, and the average annual growth rates from 2000 through 2004 are shown below:

  - Consumer Price Index for All Urban Consumers (CPI-U): 2.4862%.
  - Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W): 2.5523%.
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  - Producer Price Index (PPI) for Limited Service Accommodations: 0.9876%.

  Because CPI-W has a higher growth rate than other indicators, it provides the next concessionaire with a broader range of options for adjusting prices to help compensate for higher costs of operations. It also provides about the same protection to the DPR in the growth of costs associated with those programs funded through the DPR-mandated fees. Furthermore, CPI-W is best because it is most closely aligned to one of the highest cost elements of the business: wages and salaries. In the case of the current concessionaire, wages and salaries averaged 34.98% of total revenues.

- The profitability of the contract should be measured by the return on Total Assets (i.e., Net Profit divided by Total Assets). This method provides a clear measure of how much is earned per dollar invested by both the concessionaire and creditors. In this case, "Net Profit" would be Net Profit before all Rent minus rent and DPR-mandated expenses. It is projected that Total Assets may rise from about $5.1 million at the start of the contract to as much as $8.2 million in the final year to generate the projected level of Revenues. However, this estimate may be somewhat high because the manner in which the projections were made creates higher asset needs than have been experienced by the current concessionaire.

APPENDIX A: RESUME OF DENNIS H. TOOTELIAN, Ph.D.

Dennis H. Tootelian
6000 J Street
Sacramento, CA 95819-6088
Area Code (916), Telephone 971-4096

EDUCATION

Ph.D. Arizona State University, January 1973
Major Field: Marketing
Minor Fields: Management and Managerial Accounting

M.B.A. California State University, Sacramento, 1969
Major: Marketing

B.S. California State University, Sacramento, 1968
Major: Marketing
Minor: Economics

MEMBERSHIPS

Chairman of the Advisory Board to the California Senate Select Committee on Small Business Enterprises, 1979.

Member of the Executive Committee, California Chamber of Commerce Committee on Small Business, 1977-1979.

Member, Mayor's Small Business Advisory Committee, Sacramento, California, 1990-1993.

Member, Mayor's Women and Minority Business Enterprise Task Force, Sacramento California, 1989-1993.

Chairman, Board of Directors, Methodist Hospital of Sacramento, 1994-1997.

Member, Board of Directors, Mercy Healthcare Sacramento, 1994-2000.

Member, California Healthcare Association's Governance Forum, 1999-2001.

President, American Marketing Association (Sacramento Valley Chapter), 1978-1979.

Member, Editorial Advisory Committee, ***Journal of Hospital Marketing***.

Member, Editorial Advisory Committee, ***Journal of Professional Services Marketing***.

Member, Editorial Review Board, ***Journal of Customer Services in Marketing and Management***.

HONORS

Phi Kappa Phi (National Honor Society), initiated 1968.

Beta Gamma Sigma (National Business Honor Society), initiated 1968.

Delta Sigma Pi "Scholarship Key" (graduated top of the 1968 class in Business Administration), 1968.

Outstanding Alumnus, School of Business and Public Administration, California State University, Sacramento, 1984.

Distinguished Faculty Award, California State University, Sacramento, 1993.

Order of the Hornet, California State University, Sacramento, 1993.

OCCUPATIONAL EXPERIENCE

September 1978 to Present--Professor of Marketing, California State University, Sacramento

June 1975 to Present--Director, Center for Small Business, California State University, Sacramento

September 1992 to 1996--Director, Center for Management Services, Sacramento State University, Sacramento

September 1975 to August 1978--Associate Professor of Marketing, California State University, Sacramento

February 1973 to August 1975--Assistant Professor of Marketing, California State University, Sacramento

TEXTBOOKS

Cases and Classics in Marketing Management. Coauthor: Ralph M. Gaedeke, Harcourt Brace and Jovanovich. Publication date: February 1986.

Essentials of Pharmacy Management. Coauthor: Ralph M. Gaedeke, Mosby-Yearbook Inc. Publication date: January 1993.

Marketing Management, Readings and Cases. Coauthors: Ralph R. Gaedeke, Leete A. Thompson. Scott, Foresman, & Company. Publication date: January 1980.

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Small Business Management. Coauthor: Ralph M. Gaedeke. Scott, Foresman, & Company. Publication dates: January 1980 (1st edition), January 1985 (2nd edition), January 1991 (3rd edition, Allyn & Bacon).

Small Business Management--Operations and Profiles. Coauthors: Ralph M. Gaedeke, Bank of America. Scott, Foresman & Company. Publication dates: February 1978 (1st edition); January 1985 (2nd edition).

MONOGRAPHS

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- ***Planning For a Changing Role in Healthcare Delivery***, Mosby-Yearbook, Inc., 1995.
- ***The Future Role of Pharmacy***, Mosby-Yearbook, Inc., 1995.
- ***The Pharmacy Management Process in Hospital Settings***, Mosby-Yearbook, Inc. 1995.

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"***A Pharmacy Lease: It Can Make All the Difference***," ***California Pharmacist***, July 1988, Vol. XXXV, No. 13, pp. 22-24, 26-27.

"***A Comparison of Business Experience and Ethical Theory Orientation in the Evaluation of Marketing Practices and Code of Ethics***," ***Journal of Professional***

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"***American Park Golf Center***," a case presented at the Intercollegiate Case Clearing House (ICCH) workshop, December 1976. Part of the ICCH offering.

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"***Marketing's Role In A Changing Pharmacy Environment***," ***California Pharmacist***, November 1986, Vol. XXXIV, No. 5, pp. 30-32, 35-37.

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"***Systems Approach to Research Management***," presented at the Western General Systems Conference, Sacramento, California, October 1974.

"***The Changing Role of Pharmacies in the 1990s***," ***Journal of Health Care Marketing***, March 1986, Vol. 6, No. 1, pp. 57-63. Coauthor: Ralph M. Gaedeke.

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"***The Marketing of Physician Services: To What Extent Are They Affected by Closed Drug Formularies***," ***Health Marketing Quarterly***, Spring/Summer 1991. Coauthor: Ralph M. Gaedeke.

"***The Promotion of Legal Services: Business Executives' and Attorneys' Perceptions***," ***Journal of Professional Services Marketing***, Summer 1987, Vol. 3, Nos. 1 and 2, pp. 275-286. Coauthor: Ralph M. Gaedeke.

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"***The Teen Market: An Exploratory Analysis of Income Spending and Shopping Patterns***," ***Journal of Consumer Marketing***, Fall 1992, Vol. 9, No. 4, pp. 35-44. Coauthor: Ralph M. Gaedeke.

"***The Teen-Age Market--A Comparative Analysis: 1964-1974***," ***Journal of Retailing***, Vol. 52, No. 2, Summer 1975, pp. 51-60, 92. Coauthor: H. N. Windeshausen.

"***The Vital Link: Marketing Strategy and Financial Goals***," ***California Pharmacist***, October 1988, Vol. XXXVI, No. 4, pp. 33-34, 36-39.

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APPENDIX B: HISTORICAL FINANCIAL PATTERNS BASED AS A PERCENT OF TOTAL REVENUES

	2000	2001	2002	2003	2004	Avg.
TOTAL REVENUES						
REVENUES--LODGING						
Rooms	47.16%	49.55%	48.38%	50.14%	49.50%	48.97%
Meeting rooms	8.13%	7.45%	7.28%	6.75%	7.04%	7.31%
Cancellations	1.68%	2.31%	2.46%	2.43%	2.51%	2.29%
Telephone	0.07%	0.07%	0.03%	0.01%	0.00%	0.04%
Other lodging	0.60%	0.40%	0.00%	0.00%	0.00%	0.19%
Total Lodging	57.64%	59.78%	58.15%	59.33%	59.06%	58.80%
REVENUES--FOOD						
Dining	0.27%	0.00%	0.00%	0.00%	0.00%	0.05%
Refreshment and stands	0.05%	0.00%	0.00%	0.00%	0.00%	0.01%
Conference	27.78%	23.68%	19.17%	18.50%	18.73%	21.42%
Functions	3.48%	3.32%	4.06%	3.92%	3.72%	3.71%
Food sales (other)	4.38%	6.99%	12.01%	11.64%	11.75%	9.49%
Miscellaneous	0.07%	0.01%	0.01%	0.01%	0.01%	0.02%
Total Food	36.03%	34.00%	35.25%	34.07%	34.21%	34.69%
REVENUES--BAR						
Beer	0.56%	0.54%	0.60%	0.59%	0.56%	0.57%
Wine	1.05%	0.94%	1.07%	1.02%	1.02%	1.02%
Total Bar	1.61%	1.48%	1.67%	1.62%	1.58%	1.59%
REVENUES--RETAIL SALES						
Publications	0.17%	0.22%	0.29%	0.34%	0.34%	0.27%
Grocery	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Sundries	0.09%	0.09%	0.06%	0.05%	0.04%	0.06%
Novelty/Souvenirs	1.37%	1.22%	1.07%	1.09%	0.98%	1.14%
Apparel	1.11%	0.97%	1.13%	1.14%	1.11%	1.09%
Vending	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Retail Sales	2.75%	2.49%	2.54%	2.61%	2.47%	2.57%
REVENUES--GROCERY						
Sales	0.47%	0.48%	0.43%	0.43%	0.43%	0.45%
Total Grocery	0.47%	0.48%	0.43%	0.43%	0.43%	0.45%
REVENUES--GUEST SERVICES/RENTALS						
Guest services--rentals	0.07%	0.59%	0.38%	0.45%	0.63%	0.43%
Miscellaneous	0.00%	0.00%	0.02%	0.04%	0.01%	0.02%
Total Guest Services/Rentals	0.07%	0.59%	0.40%	0.49%	0.64%	0.45%
REVENUES--OTHER						
Other	1.43%	1.18%	1.55%	1.44%	1.61%	1.45%
Total Other	1.43%	1.18%	1.55%	1.44%	1.61%	1.45%

	2000	2001	2002	2003	2004	Avg.
TOTAL REVENUES						
Lodging	57.64%	59.78%	58.15%	59.33%	59.06%	58.80%
Food	36.03%	34.00%	35.25%	34.07%	34.21%	34.69%
Bar	1.61%	1.48%	1.67%	1.62%	1.58%	1.59%
Retail	2.75%	2.49%	2.54%	2.61%	2.47%	2.57%
Grocery	0.47%	0.48%	0.43%	0.43%	0.43%	0.45%
Guest Services	0.07%	0.59%	0.40%	0.49%	0.64%	0.45%
Other	1.43%	1.18%	1.55%	1.44%	1.61%	1.45%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
TOTAL COSTS OF SALES						
COSTS OF SALES--FOOD						
Dining actual	6.72%	7.14%	7.40%	7.42%	7.44%	7.24%
Dining with increase for Healthy Foods	7.40%	7.85%	8.14%	8.16%	8.18%	7.96%
Refreshment/Stands/Vending	0.57%	0.00%	0.00%	0.00%	0.00%	0.11%
Food Rebates	-0.10%	-0.17%	-0.22%	-0.24%	-0.30%	-0.21%
Net Food Cost	7.87%	7.69%	7.92%	7.92%	7.88%	7.86%
COSTS OF SALES--Beer & Liquor (Bar)						
Beer	0.16%	0.16%	0.17%	0.17%	0.17%	0.17%
Wine/Liquor	0.41%	0.37%	0.43%	0.39%	0.42%	0.41%
Net Bar Cost	0.58%	0.54%	0.59%	0.57%	0.59%	0.57%
COSTS OF SALES--RETAIL COSTS						
Publications	0.12%	0.13%	0.19%	0.22%	0.24%	0.18%
Grocery	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
News/Food	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%
Sundries	0.06%	0.04%	0.03%	0.02%	0.02%	0.03%
Novelty/Souvenirs	0.21%	0.62%	0.57%	0.57%	0.55%	0.51%
Toys	0.07%	0.00%	0.00%	0.00%	0.00%	0.01%
Gifts	0.28%	0.00%	0.00%	0.00%	0.00%	0.05%
Apparel	0.55%	0.44%	0.52%	0.50%	0.52%	0.50%
Other retail	0.12%	0.00%	0.00%	0.00%	0.00%	0.02%
Retail rebates	-0.01%	0.00%	-0.01%	-0.01%	-0.01%	-0.01%
Net Retail Cost	1.42%	1.22%	1.30%	1.30%	1.31%	1.31%
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
COSTS OF SALES--GROCERY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Grocery	0.32%	0.32%	0.29%	0.29%	0.29%	0.30%
Net Grocery Cost	0.32%	0.32%	0.29%	0.29%	0.29%	0.30%
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
COSTS OF SALES--OTHER	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Other Cost	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

	2000	2001	2002	2003	2004	Avg.
TOTAL NET COSTS OF SALES*						
Lodging	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Food	21.83%	22.61%	22.47%	23.24%	23.04%	22.64%
Bar	35.81%	36.38%	35.63%	35.06%	37.19%	36.01%
Retail	51.67%	49.18%	51.06%	49.65%	53.15%	50.97%
Grocery	67.13%	66.00%	66.27%	66.07%	66.33%	66.36%
Guest Services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.30%	0.00%	0.00%	0.00%	0.01%	0.06%
Total	10.18%	9.76%	10.10%	10.07%	10.07%	10.04%
*Line item Cost of Sales / Line item Revenue.						
GROSS MARGINS*						
Lodging	57.64%	59.78%	58.15%	59.33%	59.06%	58.80%
Food	28.17%	26.31%	27.33%	26.15%	26.32%	26.84%
Bar	1.03%	0.94%	1.07%	1.05%	1.00%	1.02%
Retail	1.33%	1.26%	1.25%	1.32%	1.16%	1.26%
Grocery	0.15%	0.16%	0.15%	0.15%	0.15%	0.15%
Guest Services	0.07%	0.59%	0.40%	0.49%	0.64%	0.45%
Other	1.43%	1.18%	1.55%	1.44%	1.61%	1.45%
Total	89.82%	90.24%	89.90%	89.93%	89.93%	89.96%
*Line item Gross Margin / Total Revenue.						
OPERATING EXPENSES						
CONTROLLABLE EXPENSES						
Executive and management	4.95%	5.99%	5.86%	4.15%	4.52%	5.09%
Administrative	0.00%	0.30%	0.00%	2.44%	1.90%	0.95%
Field hourly supervisor	0.00%	2.25%	4.11%	4.87%	5.13%	3.35%
Field hourly	30.09%	26.90%	24.86%	23.75%	22.70%	25.55%
Payroll taxes	3.22%	3.17%	3.03%	3.17%	3.05%	3.12%
Employee benefits	9.29%	9.46%	9.73%	10.47%	11.11%	10.04%
ADP charges	0.15%	0.14%	0.14%	0.15%	0.12%	0.14%
Advertising and promotions	0.64%	0.65%	0.51%	1.09%	1.00%	0.78%
Agency fees	0.23%	0.01%	0.00%	0.00%	0.00%	0.04%
Armored car	0.01%	0.02%	0.02%	0.03%	0.03%	0.02%
Auto and lube oil	0.01%	0.03%	0.05%	0.03%	0.04%	0.03%
Bad debt	0.11%	0.16%	0.01%	0.02%	0.03%	0.06%
Cash over/short	-0.04%	-0.02%	0.00%	-0.01%	0.01%	-0.01%
China, glass, silver	0.18%	0.12%	0.11%	0.11%	0.08%	0.12%
Classified ads	0.33%	0.11%	0.06%	0.03%	0.03%	0.11%
Cleaning supplies	0.54%	0.51%	0.49%	0.53%	0.41%	0.49%
Complimentary services	0.01%	0.02%	0.00%	0.00%	0.01%	0.01%
Contract services	0.51%	0.38%	0.66%	0.65%	0.75%	0.59%
Decorations	0.00%	0.00%	0.02%	0.02%	0.01%	0.01%
Equipment rental	0.26%	0.15%	0.09%	0.18%	0.13%	0.16%
Extermination	0.00%	0.02%	0.04%	0.10%	0.04%	0.04%
Freight	0.05%	0.02%	0.04%	0.07%	0.03%	0.04%
Gas and oil	0.13%	0.11%	0.10%	0.13%	0.12%	0.12%
Green path	0.00%	0.00%	0.01%	0.02%	0.01%	0.01%
Grounds maintenance	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Ice	0.00%	0.02%	0.00%	0.03%	0.01%	0.01%
Laundry/dry cleaning	0.82%	0.90%	0.97%	0.85%	0.94%	0.90%
Linen and uniforms	0.32%	0.50%	0.44%	0.49%	0.22%	0.39%
Moving	0.14%	0.12%	0.00%	0.00%	0.06%	0.06%

	2000	2001	2002	2003	2004	Avg.
Music and entertainment	0.00%	0.00%	0.01%	0.03%	0.00%	0.01%
Office supplies/postage	0.33%	0.38%	0.35%	0.23%	0.22%	0.30%
Operating supplies	0.00%	0.16%	1.87%	1.72%	1.50%	1.08%
Other supplies	2.58%	1.76%	0.00%	0.01%	0.02%	0.83%
POS/Terminal charges	0.08%	0.06%	0.13%	0.09%	0.09%	0.09%
Printing	0.04%	0.17%	0.24%	0.12%	0.14%	0.14%
Professional development	0.22%	0.08%	0.15%	0.11%	0.03%	0.12%
Promotions	0.09%	0.21%	0.25%	0.14%	0.20%	0.18%
Recruitment/screening	0.06%	0.03%	0.08%	0.03%	0.03%	0.05%
Repairs and maintenance	1.96%	1.28%	1.45%	1.18%	1.06%	1.38%
Subscriptions/memberships	0.06%	0.09%	0.11%	0.09%	0.15%	0.10%
Telephone	0.21%	0.29%	0.20%	0.25%	0.30%	0.25%
Temporary labor	0.60%	0.16%	0.39%	0.06%	0.16%	0.27%
Tour agent commissions	0.00%	0.04%	0.07%	0.15%	0.00%	0.05%
Trash removal	0.00%	0.34%	0.29%	0.29%	0.33%	0.25%
Travel and entertainment	0.32%	0.20%	0.22%	0.20%	0.23%	0.23%
Electric	1.28%	1.77%	1.73%	1.69%	1.59%	1.62%
Gas and oil	1.33%	2.09%	1.11%	1.57%	1.57%	1.53%
Sewer	0.28%	0.31%	0.24%	0.26%	0.27%	0.27%
Water	0.48%	0.47%	0.42%	0.48%	0.48%	0.46%
Other utilities	0.28%	0.00%	0.00%	0.00%	0.00%	0.05%
Utility recovery	0.00%	-1.16%	-0.01%	0.00%	0.00%	-0.23%
Other controllables	0.29%	0.19%	0.20%	0.30%	0.22%	0.24%
Total Controllables	62.44%	60.96%	60.87%	62.41%	61.09%	61.53%
NON-CONTROLLABLE EXPENSES						
Rent	12.15%	12.29%	12.04%	12.36%	12.31%	12.23%
Facility Improvement Account	5.04%	5.02%	5.01%	5.01%	5.00%	5.02%
Government Improvement Fund						
Accounting fees	0.07%	0.02%	0.08%	0.08%	0.07%	0.06%
Bank charges	0.16%	0.11%	0.04%	0.03%	0.04%	0.07%
Consultant fees	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%
Contributions	0.01%	0.00%	0.02%	0.02%	0.00%	0.01%
Credit card fee	0.61%	0.83%	0.78%	0.94%	0.96%	0.83%
Insurance	1.11%	1.26%	1.60%	2.22%	2.53%	1.76%
Legal fees	0.02%	0.00%	0.03%	0.70%	0.26%	0.20%
Licenses	0.02%	0.04%	0.01%	0.02%	0.02%	0.02%
Other professional services	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%
Other taxes	0.00%	0.08%	0.05%	0.05%	0.03%	0.04%
Personal/property taxes	0.71%	0.84%	0.63%	0.74%	0.70%	0.72%
Miscellaneous					0.32%	
Total Non-Controllables	19.93%	20.50%	20.21%	21.73%	22.14%	20.93%
Depreciation	1.08%	1.86%	2.28%	2.63%	3.08%	2.21%
Amortization	0.60%	0.57%	0.62%	0.46%	0.52%	0.55%
Total Depreciation and Amortization	1.67%	2.43%	2.90%	3.09%	3.60%	2.77%
TOTAL OPERATING EXPENSES	84.04%	63.39%	63.77%	65.50%	64.69%	68.00%
NET OPERATING PROFIT	5.78%	6.34%	5.92%	2.71%	3.10%	4.74%

	2000	2001	2002	2003	2004	Avg.
RENT & STATE-MANDATED EXPENSES						
Rent	12.15%	12.29%	12.04%	12.36%	12.31%	12.23%
Facility Improvement	5.04%	5.02%	5.01%	5.01%	5.00%	5.02%
Government Improvement Fund (Credit)	0.00%	0.00%	-0.08%	-0.43%	-0.11%	-0.13%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Rent	17.19%	17.31%	16.97%	16.93%	17.20%	17.12%
NET OPER. PROFIT BEFORE ALL RENT	22.97%	23.65%	22.89%	19.64%	20.30%	21.86%

APPENDIX C: HISTORICAL GROWTH RATES IN REVENUES AND EXPENSES

	2000-04	2001-04	2002-04	Avg.
TOTAL REVENUES				
Lodging	3.99%	2.43%	1.63%	2.68%
Food	2.02%	3.05%	-0.65%	1.47%
Bar	2.94%	5.21%	-1.70%	2.15%
Retail	0.66%	2.68%	-0.57%	0.92%
Grocery	1.12%	-0.56%	1.00%	0.52%
Guest Services	77.97%	5.39%	26.98%	36.78%
Other	6.46%	13.89%	2.67%	7.67%
Total	3.36%	2.85%	0.85%	2.35%
TOTAL NET COSTS OF SALES				
Lodging	n.a.	n.a.	n.a.	n.a.
Food	3.41%	3.71%	0.61%	2.57%
Bar	3.92%	5.99%	0.43%	3.45%
Retail	1.37%	5.37%	1.44%	2.73%
Grocery	0.82%	-0.39%	1.05%	0.49%
Guest Services	n.a.	n.a.	n.a.	n.a.
Other	-54.32%	n.a.	n.a.	n.a.
Total	3.07%	3.92%	0.72%	2.57%

APPENDIX D: INDUSTRY AVERAGE STATISTICS

	1999/2000	2000/01	2001/02	2002/03	2003/04	5 Yr. Avg.
RMA						
Operating expenses	83.60%	81.90%	86.10%	85.60%	87.30%	84.90%
Operating profit	16.40%	18.10%	13.90%	14.40%	12.70%	15.10%
Profit before taxes	8.50%	10.20%	3.10%	3.40%	2.70%	5.58%

	1999	2000	2001	2002	2003	5 Yr. Avg.
Dun & Bradstreet						
Gross Profit	67.60%	65.80%	69.90%	68.80%	37.70%	61.96%
Net Profit/Net Sales	3.70%	3.60%	5.10%	1.80%	2.70%	3.38%

	1999/2000	2000/01	2001/02	1998/99	1997/98	5 Yr. Avg.
Almanac of Business						
Profit before taxes	6.70%	6.20%	6.50%	6.70%	8.20%	6.86%

Average of Ratios						
Net profit before taxes (RMA + Almanac)	7.60%	8.20%	4.80%	5.05%	5.45%	6.22%

APPENDIX E: PROJECTED TOTAL REVENUES AND NET PROFIT BEFORE ALL RENT

Year	Projected Projected Revenues	Projected Net Profit Before All Rent
2007	19,541,266	4,270,986
2008	20,040,018	4,379,995
2009	20,551,499	4,491,785
2010	21,076,035	4,606,429
2011	21,613,959	4,723,999
2012	22,165,612	4,844,570
2013	22,731,345	4,968,218
2014	23,311,517	5,095,022
2015	23,906,497	5,225,062
2016	24,516,662	5,358,421
2017	25,142,401	5,495,184
2018	25,784,111	5,635,438
2019	26,442,199	5,779,271
2020	27,117,083	5,926,775
2021	27,809,192	6,078,044
2022	28,518,966	6,233,174
2023	29,246,856	6,392,264
2024	29,993,323	6,555,413
2025	30,758,843	6,722,727
2026	31,543,901	6,894,311

APPENDIX F: VALIDATION STATISTICS FOR PROJECTED TOTAL REVENUES

	Projected Revenue	Projected Number of Guests -0.10%	Projected Revenue per Room Night 2.55%	Needed Revenue per Room Night
2007	19,541,266	174,418	$181.33	$177.66
2008	20,040,018	174,237	$185.96	$182.19
2009	20,551,499	174,057	$190.70	$186.84
2010	21,076,035	173,876	$195.57	$191.61
2011	21,613,959	173,696	$200.56	$196.50
2012	22,165,612	173,516	$205.68	$201.51
2013	22,731,345	173,337	$210.93	$206.66
2014	23,311,517	173,157	$216.31	$211.93
2015	23,906,497	172,978	$221.83	$217.34
2016	24,516,662	172,798	$227.49	$222.89
2017	25,142,401	172,619	$233.30	$228.58
2018	25,784,111	172,441	$239.26	$234.41
2019	26,442,199	172,262	$245.36	$240.39
2020	27,117,083	172,084	$251.62	$246.53
2021	27,809,192	171,905	$258.05	$252.82
2022	28,518,966	171,727	$264.63	$259.27
2023	29,246,856	171,549	$271.39	$265.89
2024	29,993,323	171,372	$278.31	$272.68
2025	30,758,843	171,194	$285.42	$279.64
2026	31,543,901	171,017	$292.70	$286.78

APPENDIX G: PROJECTED TOTAL ASSETS

Projected Total Assets

Year	Projected Revenues	Projected Assets $3.8340***
2007	19,541,266	5,096,875
2008	20,040,018	5,226,962
2009	20,551,499	5,360,370
2010	21,076,035	5,497,183
2011	21,613,959	5,637,487
2012	22,165,612	5,781,373
2013	22,731,345	5,928,931
2014	23,311,517	6,080,255
2015	23,906,497	6,235,441
2016	24,516,662	6,394,589
2017	25,142,401	6,557,798
2018	25,784,111	6,725,172
2019	26,442,199	6,896,819
2020	27,117,083	7,072,846
2021	27,809,192	7,253,367
2022	28,518,966	7,438,494
2023	29,246,856	7,628,347
2024	29,993,323	7,823,045
2025	30,758,843	8,022,713
2026	31,543,901	8,227,477

*The projected future ratio of Revenues generated per dollar of Assets based on the historical average growth rate in this ratio from 2000 through 2004 (9.93% per year).
**The amount of Assets needed to achieve the Projected Revenues based on the projected ratio of Revenues generated per dollar of Assets (see column to the left).
***The historical ratio of Revenues generated per dollar of Assets for 2000 through 2004 was $3.8340. If this ratio were maintained over the contract, this column shows the amount of Assets that would be needed to generate the Projected Revenues.

APPENDIX H: ALTERNATIVE SCENARIOS FOR RENTAL RATES AND DPR-MANDATED EXPENSES

SCENARIO ONE: NO BORROWING FOR ADA EXPENSES

			$150,000	$50,000	$500,000	2.00%	$14,808,000			
			2.5000%	2.5000%	5.0000%	2.00%	6 Years			
			Resource	**Interpretation/**	**Operational**	**Facility**				
		8.0000%	**Management**	**Education**	**Support**	**Improvement**	**ADA**	**Net to**	**Net /**	**% of**
Year	**Proj. Rev.**	**Rent**	**Program**	**Program**	**Costs**	**Account**	**Project**	**Concession**	**Total Assets**	**Revenue**
2007	19,541,266	1,563,301	150,000	50,000	500,000	390,825	2,468,000	-851,140	-16.70%	26.21%
2008	20,040,018	1,603,201	153,750	51,250	525,000	400,800	2,468,000	-822,007	-15.73%	25.96%
2009	20,551,499	1,644,120	157,594	52,531	551,250	411,030	2,468,000	-792,739	-14.79%	25.71%
2010	21,076,035	1,686,083	161,534	53,845	578,813	421,521	2,468,000	-763,365	-13.89%	25.48%
2011	21,613,959	1,729,117	165,572	55,191	607,753	432,279	2,468,000	-733,912	-13.02%	25.25%
2012	22,165,612	1,773,249	169,711	56,570	638,141	443,312	2,468,000	-704,414	-12.18%	25.03%
2013	22,731,345	1,818,508	173,954	57,985	670,048	454,627		1,793,097	30.24%	13.97%
2014	23,311,517	1,864,921	178,303	59,434	703,550	466,230		1,822,583	29.98%	14.04%
2015	23,906,497	1,912,520	182,760	60,920	738,728	478,130		1,852,004	29.70%	14.11%
2016	24,516,662	1,961,333	187,329	62,443	775,664	490,333		1,881,318	29.42%	14.18%
2017	25,142,401	2,011,392	192,013	64,004	814,447	502,848		1,910,480	29.13%	14.26%
2018	25,784,111	2,062,729	196,813	65,604	855,170	515,682		1,939,440	28.84%	14.33%
2019	26,442,199	2,115,376	201,733	67,244	897,928	528,844		1,968,145	28.54%	14.41%
2020	27,117,083	2,169,367	206,777	68,926	942,825	542,342		1,996,540	28.23%	14.49%
2021	27,809,192	2,224,735	211,946	70,649	989,966	556,184		2,024,565	27.91%	14.58%
2022	28,518,966	2,281,517	217,245	72,415	1,039,464	570,379		2,052,154	27.59%	14.66%
2023	29,246,856	2,339,748	222,676	74,225	1,091,437	584,937		2,079,240	27.26%	14.75%
2024	29,993,323	2,399,466	228,243	76,081	1,146,009	599,866		2,105,748	26.92%	14.84%
2025	30,758,843	2,460,707	233,949	77,983	1,203,310	615,177		2,131,601	26.57%	14.93%
2026	31,543,901	2,523,512	239,798	79,933	1,263,475	630,878		2,156,716	26.21%	15.02%
TOTAL	**501,811,285**	**40,144,903**	**3,831,699**	**1,277,233**	**16,532,977**	**10,036,226**	**14,808,000**	**23,046,052**	**Average =**	**17.26%**
							NP / Rev. =	**4.59%**	**15.51%**	

SCENARIO TWO: BORROWING FUNDS FOR ADA EACH YEAR NEEDED WITH TERMS THROUGH LIFE OF THE CONTRACT

			$150,000	$50,000	$500,000	2.00%	$14,808,000	=Incremental		
			2.5000%	2.5000%	5.0000%	2.00%	9.0682%	= Prime +2%		
		8.0000%	**Resource Management**	**Interpretation/ Education**	**Operational Support**	**Facilities Improvement**	**ADA**	**Net to**	**Net /**	**% of**
Year	**Proj. Rev.**	**Rent**	**Program**	**Program**	**Costs**	**Account**	**Project**	**Concession**	**Total Assets**	**Revenue**
2007	19,541,266	1,563,301	150,000	50,000	500,000	390,825	341,608	1,275,252	25.02%	15.33%
2008	20,040,018	1,603,201	153,750	51,250	525,000	400,800	678,225	967,768	18.51%	17.03%
2009	20,551,499	1,644,120	157,594	52,531	551,250	411,030	1,009,953	665,307	12.41%	18.62%
2010	21,076,035	1,686,083	161,534	53,845	578,813	421,521	1,336,947	367,688	6.69%	20.11%
2011	21,613,959	1,729,117	165,572	55,191	607,753	432,279	1,659,439	74,649	1.32%	21.51%
2012	22,165,612	1,773,249	169,711	56,570	638,141	443,312	1,977,759	-214,173	-3.70%	22.82%
2013	22,731,345	1,818,508	173,954	57,985	670,048	454,627	1,900,284	-107,187	-1.81%	22.33%
2014	23,311,517	1,864,921	178,303	59,434	703,550	466,230	1,822,809	-226	0.00%	21.86%
2015	23,906,497	1,912,520	182,760	60,920	738,728	478,130	1,745,333	106,671	1.71%	21.41%
2016	24,516,662	1,961,333	187,329	62,443	775,664	490,333	1,667,858	213,460	3.34%	20.99%
2017	25,142,401	2,011,392	192,013	64,004	814,447	502,848	1,590,382	320,097	4.88%	20.58%
2018	25,784,111	2,062,729	196,813	65,604	855,170	515,682	1,512,907	426,533	6.34%	20.20%
2019	26,442,199	2,115,376	201,733	67,244	897,928	528,844	1,435,431	532,714	7.72%	19.84%
2020	27,117,083	2,169,367	206,777	68,926	942,825	542,342	1,357,956	638,584	9.03%	19.50%
2021	27,809,192	2,224,735	211,946	70,649	989,966	556,184	1,280,481	744,084	10.26%	19.18%
2022	28,518,966	2,281,517	217,245	72,415	1,039,464	570,379	1,203,005	849,149	11.42%	18.88%
2023	29,246,856	2,339,748	222,676	74,225	1,091,437	584,937	1,125,530	953,710	12.50%	18.60%
2024	29,993,323	2,399,466	228,243	76,081	1,146,009	599,866	1,048,054	1,057,694	13.52%	18.33%
2025	30,758,843	2,460,707	233,949	77,983	1,203,310	615,177	970,579	1,161,023	14.47%	18.08%
2026	31,543,901	2,523,512	239,798	79,933	1,263,475	630,878	893,103	1,263,613	15.36%	17.85%
TOTAL	**501,811,285**	**40,144,903**	**3,831,699**	**1,277,233**	**16,532,977**	**10,036,226**	**26,557,643**	**11,296,409**	**Average =**	**19.61%**
							NP / Rev. =	**2.25%**	**8.45%**	

SCENARIO THREE: BORROWING ALL FUNDS FOR ADA AT THE BEGINNING OF THE CONTRACT

			$150,000	$50,000	$500,000	2.00%	$14,808,000	=One loan		
			2.5000%	2.5000%	5.0000%	2.00%	9.0682%	=Prime + 2%		
		8.0000%	**Resource Management**	**Interpretation/ Education**	**Operational Support**	**Facilities Improvement**	**ADA**	**Net to**	**Net /**	**% of**
Year	**Proj. Rev.**	**Rent**	**Program**	**Program**	**Costs**	**Account**	**Project**	**Concession**	**Total Assets**	**Revenue**
2007	19,541,266	1,563,301	150,000	50,000	500,000	390,825	2,049,646	-432,786	-8.49%	24.07%
2008	20,040,018	1,603,201	153,750	51,250	525,000	400,800	1,982,505	-336,512	-6.44%	23.54%
2009	20,551,499	1,644,120	157,594	52,531	551,250	411,030	1,915,364	-240,104	-4.48%	23.02%
2010	21,076,035	1,686,083	161,534	53,845	578,813	421,521	1,848,224	-143,588	-2.61%	22.54%
2011	21,613,959	1,729,117	165,572	55,191	607,753	432,279	1,781,083	-46,995	-0.83%	22.07%
2012	22,165,612	1,773,249	169,711	56,570	638,141	443,312	1,713,942	49,644	0.86%	21.63%
2013	22,731,345	1,818,508	173,954	57,985	670,048	454,627	1,646,801	146,296	2.47%	21.21%
2014	23,311,517	1,864,921	178,303	59,434	703,550	466,230	1,579,660	242,922	4.00%	20.81%
2015	23,906,497	1,912,520	182,760	60,920	738,728	478,130	1,512,519	339,484	5.44%	20.44%
2016	24,516,662	1,961,333	187,329	62,443	775,664	490,333	1,445,379	435,940	6.82%	20.08%
2017	25,142,401	2,011,392	192,013	64,004	814,447	502,848	1,378,238	532,242	8.12%	19.74%
2018	25,784,111	2,062,729	196,813	65,604	855,170	515,682	1,311,097	628,343	9.34%	19.42%
2019	26,442,199	2,115,376	201,733	67,244	897,928	528,844	1,243,956	724,189	10.50%	19.12%
2020	27,117,083	2,169,367	206,777	68,926	942,825	542,342	1,176,815	819,725	11.59%	18.83%
2021	27,809,192	2,224,735	211,946	70,649	989,966	556,184	1,109,675	914,890	12.61%	18.57%
2022	28,518,966	2,281,517	217,245	72,415	1,039,464	570,379	1,042,534	1,009,620	13.57%	18.32%
2023	29,246,856	2,339,748	222,676	74,225	1,091,437	584,937	975,393	1,103,847	14.47%	18.08%
2024	29,993,323	2,399,466	228,243	76,081	1,146,009	599,866	908,252	1,197,496	15.31%	17.86%
2025	30,758,843	2,460,707	233,949	77,983	1,203,310	615,177	841,111	1,290,490	16.09%	17.66%
2026	31,543,901	2,523,512	239,798	79,933	1,263,475	630,878	773,970	1,382,746	16.81%	17.47%
TOTAL	**501,811,285**	**40,144,903**	**3,831,699**	**1,277,233**	**16,532,977**	**10,036,226**	**28,236,164**	**9,617,888**	**Average =**	
							NP / Rev. =	**1.92%**	**6.26%**	

SCENARIO FOUR: BORROWING FUNDS FOR ADA EACH YEAR NEEDED WITH TEN YEAR TERMS

			$150,000	$50,000	$500,000	2.00%	$14,808,000	=Incremental		
			2.5000%	2.5000%	5.0000%	2.00%	9.0682%	= Prime +2%		
		8.0000%	**Resource Management**	**Interpretation/ Education**	**Operational Support**	**Facilities Improvement**	**ADA**	**Net to**	**Net /**	**% of**
Year	**Proj. Rev.**	**Rent**	**Program**	**Program**	**Costs**	**Account**	**Project**	**Concession**	**Total Assets**	**Revenue**
2007	19,541,266	1,563,301	150,000	50,000	500,000	390,825	459,413	1,157,447	22.71%	15.93%
2008	20,040,018	1,603,201	153,750	51,250	525,000	400,800	896,445	749,548	14.34%	18.12%
2009	20,551,499	1,644,120	157,594	52,531	551,250	411,030	1,311,097	364,164	6.79%	20.08%
2010	21,076,035	1,686,083	161,534	53,845	578,813	421,521	1,703,369	1,266	0.02%	21.85%
2011	21,613,959	1,729,117	165,572	55,191	607,753	432,279	2,073,260	-339,173	-6.02%	23.43%
2012	22,165,612	1,773,249	169,711	56,570	638,141	443,312	2,420,771	-657,185	-11.37%	24.82%
2013	22,731,345	1,818,508	173,954	57,985	670,048	454,627	2,286,490	-493,393	-8.32%	24.03%
2014	23,311,517	1,864,921	178,303	59,434	703,550	466,230	2,152,208	-329,626	-5.42%	23.27%
2015	23,906,497	1,912,520	182,760	60,920	738,728	478,130	2,017,927	-165,923	-2.66%	22.55%
2016	24,516,662	1,961,333	187,329	62,443	775,664	490,333	1,883,645	-2,327	-0.04%	21.87%
2017	25,142,401	2,011,392	192,013	64,004	814,447	502,848	1,513,753	396,726	6.05%	20.28%
2018	25,784,111	2,062,729	196,813	65,604	855,170	515,682	1,166,242	773,197	11.50%	18.86%
2019	26,442,199	2,115,376	201,733	67,244	897,928	528,844	841,111	1,127,034	16.34%	17.59%
2020	27,117,083	2,169,367	206,777	68,926	942,825	542,342	538,361	1,458,180	20.62%	16.48%
2021	27,809,192	2,224,735	211,946	70,649	989,966	556,184	257,990	1,766,574	24.36%	15.50%
2022	28,518,966	2,281,517	217,245	72,415	1,039,464	570,379	0	2,052,154	27.59%	14.66%
2023	29,246,856	2,339,748	222,676	74,225	1,091,437	584,937	0	2,079,240	27.26%	14.75%
2024	29,993,323	2,399,466	228,243	76,081	1,146,009	599,866	0	2,105,748	26.92%	14.84%
2025	30,758,843	2,460,707	233,949	77,983	1,203,310	615,177	0	2,131,601	26.57%	14.93%
2026	31,543,901	2,523,512	239,798	79,933	1,263,475	630,878	0	2,156,716	26.21%	15.02%
TOTAL	**501,811,285**	**40,144,903**	**3,831,699**	**1,277,233**	**16,532,977**	**10,036,226**	**21,522,082**	**16,331,970**	**Average =**	**18.60%**
							NP / Rev. =	**3.25%**	11.17%	