

**BOARD OF ASSESSMENT APPEALS,
STATE OF COLORADO**
1313 Sherman Street, Room 315
Denver, Colorado 80203

Petitioner:

COBBLE CREEK GOLF COMMUNITY LLC,

v.

Respondent:

**MONTROSE COUNTY BOARD OF
EQUALIZATION.**

Attorney or Party Without Attorney for the Petitioner:

Docket Number: 43674

Name: Richard G. Olona, Esq.
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ORDER

THIS MATTER was heard by the Board of Assessment Appeals on March 31, 2005, Sondra W. Mercier and Karen E. Hart presiding. Petitioner was represented by Richard G. Olona, Esq. Respondent was represented by Robert J. Hill, Esq.

PROPERTY DESCRIPTION:

Subject property is described as follows:

**699 Cobble Drive, Montrose, Colorado
(Montrose County Schedule No. R0016384)**

Petitioner is protesting the 2004 actual value of the subject property, a daily fee 18-hole golf course with a 2,500 square foot clubhouse, 3,200 square foot maintenance building and parking lot.

ISSUES:

Petitioner:

Petitioner contends that the Respondent relied solely on the cost approach to value, despite the availability of information for use in the income and market approaches. Petitioner contends that the Respondent overvalued the land and did not apply an adjustment for economic obsolescence in the cost approach.

Respondent:

Respondent contends that the cost approach provides the best evidence of value for the subject property. The subject's revenue and sales history is limited, so the income approach is not appropriate.

FINDINGS OF FACT:

1. Both parties stipulated to the admission of Petitioner's Exhibits A and B and Respondent's Exhibit 1. Mr. Thomas McElhinney and Mr. Bradley Hughes were accepted as expert witnesses.

2. Petitioner's witness, Mr. Clifford Hayden, the current manager and developer of Cobble Creek Golf Community, testified that the subject is an 18-hole golf course that includes a pro shop and maintenance facility surrounded by residential home sites. The community remains in the development stage, although construction commenced in mid-1998. The subject was originally a 9-hole course and the additional 9 holes were added in September 2003. Mr. Hayden testified that he built the course as a business venture, intending that the golf course would create a higher price point and higher number of sales of the adjacent residential sites. Mr. Hayden indicated that he knew that the course would have to be subsidized for a brief period of two to three years, but this has continued beyond that period. Costs, including employee costs, equipment, and gas, have increased. He noted that the revenue increased when they went to an 18-hole course, but overall, the potential for golf revenue in Montrose is elastic: a \$1.00 or \$2.00 increase in fees caused a decrease in play. Consequently, the ability to increase revenue has been difficult.

3. Mr. Hayden testified that his primary competition is Black Canyon, the golf course owned by the City of Montrose. Devil's Thumb and Fairway Pines in Ridgeway provide additional competition. He noted that people will drive to golf courses and that this has been important as they have competed for business. Mr. Hayden indicated that they are attempting to market the course and increase revenue by offering play packages along with local motels/hotels to market to the Denver area.

4. In cross-examination, Mr. Hayden testified that there were 555 residential home sites approved for the Cobble Creek development. Of those, only 150 homes have been completed, 10 to 12 are under construction, and approximately 400 sites are available. While the residential market in

Montrose is fairly active, additional competition is entering the market. He testified that the greens fees are \$30.00 for 18-holes on weekdays, and \$32.00 on weekends, plus a \$12 cart fee per person. With daily fee play plus play packages, a 10-round card, and homeowner's play pass for one year, he estimated that the average fee is \$16.00 to \$18.00 per person.

5. Petitioner's witness, Mr. Thomas McElhinney, a Certified General Appraiser with Tax Profile Services, Inc. testified that golfers will drive to get to specific golf courses similar to ski resorts, and that golf is time- and equipment-intensive similar to skiing. He testified that in Colorado, the rate of participation is slightly over 10 percent of the population that will play one or more times per year. It takes a population of 20,000 -25,000 permanent residents to sustain one 18-hole golf course operation. The first step in his analysis is to compare the number of courses to population to determine potential play on the course. For the subject property, he analyzed a 35-mile radius, including Montrose, Delta, and Ouray Counties, with a total population of 69,000 in 2003. He concluded that the population within the 35-mile radius of the subject could not support three facilities, let alone the four courses in the area as shown on page 47 of Petitioner's Exhibit B. Additionally, the median household income for the City of Montrose is \$33,750.00, as compared to \$42,000.00 for the United States as a whole or \$47,200.00 for the State of Colorado. Consequently, lower local incomes result in a price sensitive population for the golf industry.

6. Mr. McElhinney referred to Petitioner's Exhibit B, page 25, which shows that golf courses located on the western slope have been experiencing flat revenues and increasing expenses, but no ability to increase greens fees. Increases in income have only been associated with increases in capacity or course improvements. He noted that golf courses around Grand Junction, with double the population of the subject's area, average near 40,000 rounds annually. Smaller communities average fewer than 20,000 rounds annually. More specifically, Black Canyon has historically shown well under 20,000 rounds, of which many are heavily discounted or are only 9-hole rounds.

Mr. McElhinney presented the following indicators of value:

Cost Approach:	\$1,775,960.00
Market Approach:	\$1,350,000.00
Income Approach:	\$ 707,150.00

7. In Petitioner's income analysis, Mr. McElhinney based revenues on a stabilized estimate of 20,000 rounds and \$25.00 greens fees as 2/3 of total revenue. He added other revenue of \$250,000.00 and deducted 70 percent for operating expenses based on his analysis of other Colorado properties. Mr. McElhinney pointed out that page 25 of Petitioner's Exhibit B shows western slope golf course expenses far over 70 percent.

8. In analyzing the Respondent's assigned value, Mr. McElhinney assumed that, even if the course could generate 40,000 rounds at \$40.00 per round, that level of activity would still not support the assigned value. As a test of reasonableness for Petitioner's indicated value, Mr. McElhinney doubled the revenue and expense information for the subject when it was operated as a 9-hole course and concluded to just over \$1 million in value. Even tripling the subject's revenue and

expenses as a 9-hole course only increased the value to \$1.5 million. He testified that there is no way the subject property can generate enough rounds or enough revenue to support the assigned value.

9. In cross-examination, Mr. McElhinney explained that he relied on sales of agricultural land to establish the \$4,000.00 per acre land value concluded in the cost approach. The cost of the vertical improvements (buildings) at \$457,680.00 was taken from the Montrose County Assessor's historical information. Total depreciation of \$977,000.00 is for all sources and is calculated on page 14 of Petitioner's Exhibit A.

10. Mr. McElhinney testified that two trends are shown by the sales used in the market approach. First, Sale 1 was a new course that sold for 50 percent of what it cost to create. Secondly, Sale 2 is an older course that was acquired by American Golf and sold 10 years later for nearly the same amount despite the fact that American Golf had spent a significant amount on course improvements.

11. Respondent's witness, Mr. Bradley B. Hughes, a Certified General Appraiser with the Montrose County Assessor's Office testified that he did not complete an income approach, as the revenue and expenses were not stable. In fact, the subject property actually had a negative income. Mr. Hughes relied on the cost approach with support from the market approach.

Mr. Hughes presented the following indicators of value:

Cost Approach: \$2,540,000.00

12. As summarized on page 9 of Respondent's Exhibit 1, Mr. Hughes used information from Marshall Valuation Services to value the vertical improvements. He concluded to a depreciated building value of \$406,154.00. For course construction costs, Mr. Hughes relied on Petitioner's Quality Index analysis, concluding to a cost of \$95,000.00 per hole. Mr. Hughes deducted \$108,000.00 for the functional obsolescence of the greens, which are native push-up style rather than the superior USGA modified greens. He deducted an additional \$77,520.00 for physical depreciation of the original 9-hole portion of the course. The total course depreciation was \$185,520.00. To determine land value, Mr. Hughes analyzed agricultural land sales and development land sales. After deducting 65 percent for the lack of development rights, Mr. Hughes concluded to a value of \$3,500.00 per acre. Mr. Hughes placed a value of \$2,540,000.00 on Cobble Creek, based on the cost approach.

13. Mr. Hughes testified that Petitioner's Comparable 1 is similar to Cobble Creek. Both properties are 18-hole courses with similarly sized clubhouses and maintenance facilities, and they declared similar personal property values. The number of rounds played at King's Deer for 2003 was 15,388, which is similar to the subject. The average green fee per round at King's Deer was \$22.00, ranging from \$20.00 to \$35.00 depending on season. Mr. Hughes believes that external obsolescence was already included in the adjusted price for King's Deer at \$150,000 per hole. Because of the subject's modified greens, he made a \$6,000.00 per hole negative adjustment to arrive at \$144,000.00 per hole. Mr. Hughes testified that his analysis of the King's Deer sale supports the

value of \$141,000.00 per hole as indicated in Respondent's cost approach. In cross-examination, Mr. Hughes indicated that he had not inspected King's Deer.

14. Petitioner is requesting a 2004 actual value of \$1,000,000.00 for the subject property.

15. Respondent assigned an actual value of \$2,933,100.00 to the subject property for tax year 2004; however, they are recommending a reduction in value to \$2,540,000.00.

CONCLUSIONS:

1. Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2004 valuation of the subject property was incorrect.

2. The Board was convinced that the Cobble Creek Golf Course value should be reduced for external obsolescence. Sufficient evidence was presented to indicate that the population in Montrose and the surrounding area is insufficient to support the current number of golf courses. Additionally, the median income of the area, below that of the State overall, creates a cost sensitive population, further limiting price increases and future revenue growth.

3. While the Board was convinced that the income approach would be the most reliable method for valuing a golf course, the Board was not convinced that the current income and expenses were stabilized, as there is minimal history for this property as an 18-hole course. The Petitioner's income analysis and testimony substantiated that even if the number of rounds and fees doubled, it would not support the Respondent's value.

4. The Board relied on Petitioner's cost approach, which after a deduction for economic obsolescence, indicated a value of \$1,775,960.00 for the subject property for tax year 2004.

5. Based on all of the evidence and testimony presented, the Board concluded that the 2004 actual value of the subject property should be reduced to \$1,775,960.00.

ORDER:

Respondent is ordered to reduce the 2004 actual value of the subject property to \$1,775,960.00.

The Montrose County Assessor is directed to change his/her records accordingly.

APPEAL:

Petitioner may petition the Court of Appeals for judicial review within 45 days from the date of this decision.

If Respondent alleges procedural errors or errors of law by this Board, Respondent may petition the Court of Appeals for judicial review within 30 days from the date of this decision.

DATED and MAILED this 5th day of May 2005.

BOARD OF ASSESSMENT APPEALS

Karen E Hart
Karen E. Hart

Sondra W Mercier
Sondra W. Mercier

This decision was put on the record

MAY 04 2005

I hereby certify that this is a true and correct copy of the decision of the Board of Assessment Appeals.

Penny S. Lowenthal
Penny S. Lowenthal

