

STRATEGIC RESEARCH

Financial Feasibility Proposed Mineral Springs Pool and Spa Facility Manitou Springs Colorado

Prepared for
The Mineral Springs Foundation
by
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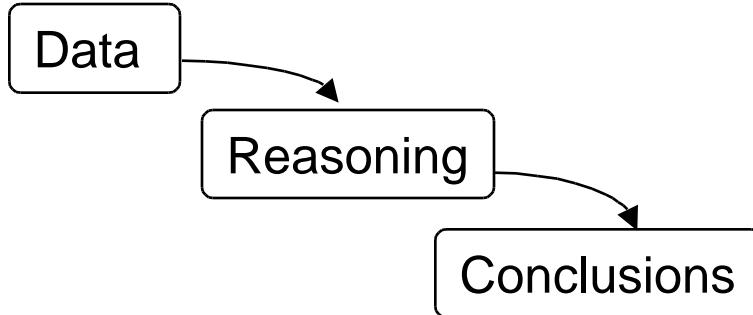
Final Report

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Introduction

Purpose

This report presents the results of an analysis of the financial feasibility of a proposed mineral springs spa facility to be located in Manitou Springs, Colorado.

Background

In November 1997 residents of the City of Manitou Springs approved a .2% sales tax increase for three years to fund the planning and development of a mineral springs pool and spa facility. Additional funding for planning and development of the facility was committed by the City of Manitou Springs from lottery and general funds and from the Mineral Springs Foundation. During the past year studies of well drilling feasibility, facility design and market research were completed.

Study Objectives

This study has two primary objectives:

- (1) Determine the project's financial feasibility.
- (2) Prepare a detailed financial plan for the project.

Study Tasks

The study effort included the following work tasks:

- (1) Review existing documents and reports.
- (2) Develop estimates of operating costs and pricing.
- (3) Develop a financial model.
- (4) Develop a financing strategy.
- (5) Prepare operating and financing projections to a stabilized level of operations.
- (6) Conduct work sessions and briefings with client.
- (7) Prepare recommendations on financing.
- (8) Prepare draft and final reports documenting findings.

Organization and Format of the Report

The report is organized into three sections.

- (1) Introduction
- (2) Summary of Findings
- (3) Assumptions Used in Financial Projections

Summary of Findings

Project Description

The following is a brief description of the proposed mineral springs pool and spa facility.

- Primarily serve the needs of residents of Manitou Springs, the surrounding metro area, out-of-town day and overnight visitors.
- Promote economic development of the community through an increase in out-of-town visitors.
- 9,000 square feet of gross building area with on-site parking.
- 12 pools, including two large hot mineral pools, nine small hot mineral pools and one cold plunge mineral pool.
- Fee based spa treatments, such as massage, will be available.
- Owned by a nonprofit corporation with contracted private sector management.
- Facility will revert to City ownership after 15 years.
- Project development and operations oversight provided by the Mineral Springs Foundation.

Construction Costs

Construction cost estimates for the project are shown in the table below. The costs are preliminary and will be refined as more detailed plans are developed in the future.

Project Costs	
Land acquisition cost	\$450,000
Well drilling cost	\$119,900
Water filtration and discharge equipment cost	\$599,235
Building construction cost	\$900,000
Pools construction costs	\$225,000
Cost of professional services	\$184,414
Cost of fixtures, furnishings, office and point-of-sale equipment	\$180,000
Water purchase for aquifer replacement	\$15,000
Project contingency	\$184,414
Total project construction cost	\$2,857,962

Project Schedule

- Start design and construction planning early in 1999 and complete by the fall of 1999.
- Bond election in 1999 and sell bonds in December 1999.
- Start construction in 2000 and complete by the end of year.
- Open facility in 2001 and achieve a stabilized level of operations in 2003.

Financing Assumptions

Preliminary plans call for the facility to be financed and developed by a non-profit foundation on behalf of the City of Manitou Springs. Management would be contracted out to a private management company. Cost of construction will be financed with tax exempt bonds. Details for financing are provided below. After 15 years the ownership of the facility would be turned over to the City.

The plan requires a \$425,000 contribution to start-up working capital and a \$425,000 loan to provide the necessary cash to cover any operating deficits in the first several years before stabilized operations are achieved.

Bond Financing Issuance Cost	
Underwriter fees and discount	\$28,580
Bond sales commission	\$28,580
Miscellaneous cost of financing (legal opinion, etc.)	\$57,159
Financing contingency	\$14,290
Total issuance cost	\$128,608
Interest Rate, Debt Service and Par Amount of Bonds	
Par amount of bonds	\$2,986,570
Interest rate	7.25%
Annual debt service	\$333,106
Term of bonds in years	15
Sources and Uses of Bond Funds	
Total Issuance cost	\$128,608
Total project construction cost	\$2,857,962
Total	\$2,986,570
Working Capital	
Equity contribution for start-up working capital	\$425,000
Amount borrowed for start-up working capital	\$425,000
Interest rate for start-up working capital loan	9.5%
Debt service on working capital (interest only)	\$40,375

Financial Projection Assumptions

The proforma model developed for this analysis requires a large number of inputs, including data on membership fees, day use fees, projected attendance, inflation, construction costs, facility utilization, staff salaries, operating expenses and debt service. We compiled data from several sources including:

1. The Mineral Springs Foundation.
2. Other mineral springs pools and spas.
3. Trade associations.
4. Market research study completed in September 1998.

The data used in our projections was subjected to careful review to insure its accuracy and reasonableness. However, the projections should be treated as preliminary pending the refinement of plans. On the revenue side we assumed that it would take three years to achieve stabilized operating revenue. On the expense side we assumed that expenses in the first two years would be at the same level as in year three, the year of stabilized level of operations. Thus, the projections should be characterized as “conservative”. The detailed assumptions and their sources that we used in our projections are presented in Section 3 of this report.

Financial Projections

The financial projections were prepared for the years 2000 - 2012. The first year shows only revenue from bond financing and contributions for start-up working capital. Construction takes place in 2000. The facility is planned for opening in 2001. A stabilized level of operations is achieved in year three. A summary of the projections is presented below.

FINANCIAL PROJECTIONS SUMMARY MINERAL SPRINGS POOL AND SPA FACILITY -- MANITOU SPRINGS, COLORADO

Year	Total Income	Total Expenses	Expenses as a Percent of Income	Net Income before Debt Service	Debt Service	Annual Debt Service Coverage (as a % of net income before debt service)	Net Income after Debt Service	Cumulative Cash Reserves	Major Maintenance and Replacement Reserves	Cumulative Operating Fund after Major Maintenance and Replacement Reserves
2000	\$3,736,542	\$3,036,570	N/A	\$699,971	\$0	N/A	\$699,971	\$699,971	\$0	\$699,971
2001	\$1,041,871	\$1,399,728	134%	(\$357,857)	\$333,106	N/A	(\$690,963)	\$9,009	\$106,429	(\$97,420)
2002	\$1,877,972	\$1,522,743	81%	\$355,230	\$333,106	107%	\$22,124	\$31,132	\$109,622	(\$184,918)
2003	\$2,756,075	\$1,647,796	60%	\$1,108,279	\$333,106	333%	\$775,173	\$806,305	\$112,910	\$477,345
2004	\$2,838,758	\$1,696,019	60%	\$1,142,739	\$333,106	343%	\$809,633	\$1,615,938	\$116,298	\$1,170,680
2005	\$2,923,920	\$1,745,688	60%	\$1,178,232	\$333,106	354%	\$845,126	\$2,461,064	\$119,787	\$1,896,019
2006	\$3,011,638	\$1,796,848	60%	\$1,214,791	\$333,106	365%	\$881,684	\$3,342,749	\$123,380	\$2,654,324
2007	\$3,101,987	\$1,849,542	60%	\$1,252,445	\$333,106	376%	\$919,339	\$4,262,088	\$127,082	\$3,446,582
2008	\$3,195,047	\$1,903,817	60%	\$1,291,230	\$333,106	388%	\$958,124	\$5,220,212	\$130,894	\$4,273,812
2009	\$3,290,898	\$1,959,720	60%	\$1,331,178	\$333,106	400%	\$998,072	\$6,218,285	\$134,821	\$5,137,063
2010	\$3,389,625	\$2,017,300	60%	\$1,372,325	\$333,106	412%	\$1,039,219	\$7,257,503	\$138,865	\$6,037,416
2011	\$3,491,314	\$2,076,608	59%	\$1,414,706	\$333,106	425%	\$1,081,600	\$8,339,103	\$143,031	\$6,975,985
2012	\$3,596,053	\$2,137,695	59%	\$1,458,358	\$333,106	438%	\$1,125,252	\$9,464,355	\$147,322	\$7,953,915

Source: David Bamberger & Associates.

The detailed projections are presented on the following page

Financial Feasibility Tests

We applied four feasibility tests to the financial projections.

- (1) Annual cash flow -- Does operating income each year cover operating expenses and debt service? The project meets this test at stabilized level of operations in year three and generates a very large cash surplus each year thereafter.
- (2) Cumulative cash flow -- Does cumulative net operating income cover cumulative expenses plus cumulative debt service? The project meets this test and in fact carries forward a very large cash reserve each year after year three.
- (3) Cumulative operating fund -- Does cumulative cash flow cover necessary reserves for major maintenance? The project meets this test in year three and accumulates a significant amount in the reserve fund in subsequent years.
- (4) 1.50 debt coverage ratio -- Does income each year cover operating expenses and debt service times 1.50 each year? The project meets this test in every year after stabilized level of operations are achieved in year three.
- (5) Internal rate of return -- IRR is 23% based on initial investment outlay and net operating income over 12 years.

Conclusions

- Our preliminary analysis shows that the project is financially feasible.
- After achieving a stabilized level of operations in year three the project generates a significant amount of positive cash flow and accumulates large cash reserves each year.
- Some creative financial strategies will be necessary to meet the 1.5 debt coverage requirement in years one and two.
- Start-up working capital of about \$850,000 will be required to cover expected operating losses in the first several years of operations.
- Return on investment is at, or above, a rate that most investors try to achieve.

Recommendations

- A funding plan to cover start-up working capital should be developed.
- A detailed plan for tax exempt bond financing should be developed.
- A plan for seeking necessary City approval should be developed.

Assumptions Used in Financial Projections

Financial Projection Assumptions -- Page 1

LINE ITEM	AMOUNT	NOTES / SOURCES
PROJECT DESCRIPTION		
Gross building area (square feet)	9,000	Mineral Springs Foundation.
Number of pools	12	Mineral Springs Foundation 2 Large, 9 Small, 1 Cold Plunge.
Land (square feet)	90,000	DB&A estimated using a floor area ratio of 10%.
PROJECT COSTS		
Land acquisition cost	\$450,000	DB&A estimated at \$5.00 per square foot.
Well drilling cost	\$119,900	High bid plus 5% inflation factor. Mineral Springs Foundation Bid Comparison.
Water filtration and discharge equipment cost	\$599,235	Water and Waste Engineering, Inc. report dated 2/17/98 plus 5% inflation factor. Initial nine pool system plus \$42,000 for additional 3 pools.
Building construction cost	\$900,000	Building cost estimated at \$100 per square foot by DB&A.
Pools construction costs	\$225,000	Mineral Springs Foundation estimate of \$30,000 for large and \$10,000 for small pools. Includes an additional \$75,000 for heat pump system.
Cost of professional services	\$184,414	DB&A estimate at 10% of hard costs based on data from other projects.
Cost of fixtures, furnishings, office and point-of-sale equipment	\$180,000	Estimated by DB&A at 20% of building construction cost.
Water purchase for aquifer replacement	\$15,000	Mineral Springs Foundation (one time expense).
Project contingency	\$184,414	Estimated by DB&A at 10% of hard costs.
Total project construction cost	\$2,857,962	Calculated.
FINANCING		
Underwriter fees	\$28,580	From Laura Feiman at 1% of Construction costs.
Bond sales commission	\$28,580	From Laura Feiman at 1% of Construction costs.
Miscellaneous cost of financing (legal opinion, etc.)	\$57,159	From Laura Feiman at 3 % of Construction costs.
Financing contingency	\$14,290	Estimated by DB&A at .5% of Construction costs.
Capitalized interest return	\$0	Estimated by DB&A. Accrues as income in year following construction.
Total construction cost	\$2,857,962	Calculated.
Principle fund for capitalized interest	\$0	Estimated by DB&A.
Total cost of project (including cost to finance)	\$2,986,570	Calculated.
Percent equity contribution toward project costs	0%	Estimated by DB&A.
Equity contribution for project construction and financing costs	\$0	Calculated.
Total amount financed	\$2,986,570	Calculated.
Interest rate for capitalized interest	0.00%	Capitalized interest would not be available to fund working capital. based on discussions with Steve Jeffers Bigelow and Company, Denver.
Interest rate for financing	7.25%	Estimated by DB&A based on discussions with Steve Jeffers Bigelow and Company, Denver.
Years for amortization	15	Estimated by DB&A.
Annual debt service	\$333,106	Calculated.
Net proceeds from debt financing	\$2,886,542	Calculated.
Equity contribution for start-up working capital	\$425,000	Estimated by DB&A.

Financial Projection Assumptions -- Page 2

LINE ITEM	AMOUNT	NOTES / SOURCES
Amount borrowed for start-up working capital	\$425,000	Estimated by DB&A.
Interest rate for start-up working capital	9.5%	Estimated by DB&A based on Prime +2% rolled over annually.
INFLATION		
Annual inflation rate for costs	3.0%	Estimated by DB&A based on recent U.S. Consumer Price Index history. Applies to all costs except cost of goods and services sold which is calculated as a percent of revenue generated.
Annual inflation rate for income	3.0%	Estimated by DB&A based on recent U.S. Consumer Price Index history.
FEES		
Annual memberships - adults Manitou Springs residents	\$160.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - families Manitou Springs residents	\$250.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - seniors Manitou Springs residents	\$140.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - adults non-residents	\$200.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - families non-residents	\$290.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - seniors non-residents	\$180.00	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - adult Manitou Springs residents	\$7.41	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$8.00 peak months - \$7.00 nonpeak months)
Daily public pool admissions - seniors Manitou Springs residents	\$5.91	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$6.50 peak months - \$5.50 nonpeak months)
Daily public pool admissions - children Manitou Springs residents	\$3.91	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$4.50 peak months - \$3.50 nonpeak months)
Daily public pool admissions - adult non-residents	\$11.58	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$12.50 peak months - \$11.00 nonpeak months)
Daily public pool admissions - seniors non-residents	\$7.41	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$8.00 peak months - \$7.00 nonpeak months)
Daily public pool admissions - children non-residents	\$5.41	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$6.00 peak months - \$5.00 nonpeak months)
Private pool rental - Manitou Springs residents	\$9.33	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$10.50 peak months - \$9.00 nonpeak months)
Private pool rental - non-residents	\$10.50	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$12.00 peak months - \$10.00 nonpeak months)
Spa treatments	\$43.61	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998. (weighted average of \$50.00 peak months - \$40.00 nonpeak months)
Average spending per attendee for concessions	\$1.30	Estimated by DB&A based on data from other spas.
Annual membership usage multiple	1.5	DB&A. Used in calculating total annual visits.
Average number of members in a family membership	2.2	DB&A. Used in calculating total annual visits.
ANNUAL ATTENDANCE/MEMBERSHIP SALES		
Annual memberships - adults Manitou Springs residents	40	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - families Manitou Springs residents	25	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - seniors Manitou Springs residents	15	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - adults non-residents	312	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - families non-residents	195	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Annual memberships - seniors non-residents	117	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.

Financial Projection Assumptions -- Page 3

LINE ITEM	AMOUNT	NOTES / SOURCES
Daily public pool admissions - adult Manitou Springs residents	2,290	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - senior Manitou Springs residents	458	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - children Manitou Springs resident	305	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - adult non-residents	81,454	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - seniors non-residents	16,290	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Daily public pool admissions - children non-residents	10,860	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Private pool rental - Manitou Springs residents	570	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Private pool rental - non-residents	20,295	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Spa treatments	19,584	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Total annual attendance at stabilized operations -- annual membership holders	21,460	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Total annual attendance at stabilized operations -- annual day users holders	158,445	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
UTILIZATION AND RAMP-UP		
Days of operation per year	360.0	Closed Christmas, Easter, Thanksgiving, + 2 days maintenance.
Hours per day of operation	14.0	Hours of operation -- 8 am to 10 pm (spa treatments may be shorter hours).
Capacity of small pool in persons	6	Mineral Springs Foundation.
Capacity of large pool in persons	35 and 50	Mineral Springs Foundation -- 1 at 35 and 1 at 50.
Total potential pool capacity in person hours per year	730,800	360 days x 145 person/hr x 14 hours/day.
Year 1 attendance and memberships sold as a % of year 3 stabilized operations	40%	Estimated by DB&A.
Year 2 attendance and memberships sold as a % of year 3 stabilized operations	70%	Estimated by DB&A.
Year 3 attendance and memberships sold as a % of year 3 stabilized operations	100%	Estimated by DB&A.
CONCESSIONS AND COST OF GOODS AND SERVICES SOLD		
Concession cost of goods sold as a % of sales revenue	55%	Estimated by DB&A.
Spa treatment cost of services sold as a % of sales revenue	10%	Estimated by DB&A.
MAJOR MAINTENANCE AND REPLACEMENT RESERVES		
Annual reserve for building maintenance and replacement as a % of cost	1.5%	Estimated by DB&A.
Annual reserve for fixtures, furnishings office and point-of-sale equipment as a % of cost	10.0%	Estimated by DB&A based on data from the Mineral Springs Foundation.
Annual reserve for pools as a % of cost	6.7%	Estimated by DB&A based on data from the Mineral Springs Foundation.
Annual reserve for filtration and discharge equipment maintenance and replacement as a % of cost	8.0%	Estimated by DB&A based on data from the Mineral Springs Foundation.

Financial Projection Assumptions -- Page 4

LINE ITEM	AMOUNT	NOTES / SOURCES
Annual reserve for well redrilling as a % of cost	10.0%	Estimated by DB&A based on data from the Mineral Springs Foundation.
STAFF SALARIES		
Benefit rate	25%	Estimated by DB&A.
Spa director annual salary	\$50,000	Estimated by DB&A.
Spa operations personnel average annual salary	\$25,000	Estimated by DB&A based on data from a Colorado Spa.
Number of spa operations personnel (full time equivalent)	18	Estimated by DB&A based on data from a Colorado Spa.
OPERATING EXPENSES		
Pool maintenance	\$6,000	Estimated by DB&A based on data from a Colorado Spa.
Gas utilities	\$70,000	Assumes large outdoor pool closed three months in winter.
Electric utilities	\$70,700	Engineers report, adjusted for more pools and addition of heat pump system.
Wastewater utilities	\$13,000	Engineers report plus 22% rate increase, plus factor for water therapies.
Office supplies, equipment and telephone	\$11,000	Estimated by DB&A based on data from a Colorado Spa.
Insurance	\$31,000	Estimated by DB&A based on data from a Colorado Spa.
Office and point-of-sale equipment purchase and repair	\$2,000	Estimated by DB&A based on data from a Colorado Spa.
Trash removal	\$4,000	Estimated by DB&A.
Chemicals	\$77,000	Estimated by DB&A based on data from a Colorado Spa.
Landscaping & Snow Removal	\$12,000	\$1,000 per month for 10 months for landscaping plus \$2,000 for snow removal.
Conferences / employee education and training	\$4,200	Estimated by DB&A based on data from a Colorado Spa.
Fees, Licenses & Memberships	\$2,000	Includes ISPA, Chamber of Commerce, and similar type memberships.
Professional Services	\$4,000	Estimated by DB&A based on data from a Colorado Spa.
Advertising and promotion	\$150,000	"Market Research Mineral Springs Pool and Spa", DB&A, September 1998.
Amount spent for preopening advertising and promotion	\$50,000	Estimated by DB&A.
Banking and credit card fees	\$9,500	Estimated by DB&A based on data from a Colorado Spa.
Repairs	\$40,000	Estimated by DB&A based on data from a Colorado Spa.
Cleaning	\$33,500	Estimated by DB&A based on data from a Colorado Spa.
Other supplies	\$20,000	Estimated by DB&A based on data from a Colorado Spa.
Miscellaneous	\$8,000	Estimated by DB&A based on data from a Colorado Spa.
Management fixed fee	\$60,000	Estimated by DB&A.
Management fee as % of operating revenue	2%	Estimated by DB&A.
Property Taxes	\$0	Required unless a publicly owned facility. Cost times 29% assessment times 70 mills.