

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

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Petitioner:

**HIWAN COUNTRY CLUB, INC,**

v.

Respondent:

**JEFFERSON COUNTY BOARD OF  
EQUALIZATION.**

Attorney or Party Without Attorney for the Petitioner:

**Docket Number: 42803**

Name: Richard G. Olona, Esq.  
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Attorney Reg. No.: 17940

**ORDER**

**THIS MATTER** was heard by the Board of Assessment Appeals on January 31, 2005, Debra A. Baumbach and Sondra W. Mercier presiding. Petitioner was represented by Richard G. Olona, Esq. Respondent was represented by Writer Mott, Esq. Petitioner is protesting the 2003 actual value of the subject property.

**PROPERTY DESCRIPTION:**

Subject property is described as follows:

**30671 Club House Lane, Evergreen, Colorado  
(Jefferson County Schedule No. 202652)**

The subject property consists of an 18-hole regulation golf course, clubhouse, maintenance building, seasonal residence, storage buildings, swimming and tennis complex and cabana.

## **ISSUES:**

### **Petitioner:**

Petitioner contends that the subject property was overvalued for tax year 2003. Petitioner believes that the income approach is the most reliable method for valuing the subject and that Respondent's cost and market approaches are not reliable.

### **Respondent:**

Respondent contends that their cost approach provides sufficient evidence of value for the subject.

## **FINDINGS OF FACT:**

1. Petitioner's witness, Mr. David Fowler, President of Hiwan Golf Club, testified that Hiwan Country Club (the club) is a closely-held "for profit" corporation. As such, the club cannot assess the members for losses or capital improvements like member-owned private clubs. Mr. Fowler testified that the club was originally built as an amenity to the surrounding residential development, which is now built-out. He testified that there was a drop in membership subsequent to September 11 and the following recession, and that the loss of members had caused a loss in revenue. Mr. Fowler testified that the club's toughest competition is the Fox Hollow Golf Course owned by Jefferson County.

2. During cross-examination, Mr. Fowler testified that the number of social memberships had been capped at 75 since 2000 because greater numbers of social memberships had resulted in overuse of the pool. He indicated that the club could handle as many as 500 golf memberships, but they were unable to sell that many golf memberships.

3. Petitioner's next witness, Mr. Jeff Monroe, a Licensed Appraiser with Tax Profile Services, Inc., testified that in their approach to valuing the club, they first deducted tangible personal property and intangible property such as staff, client list and name recognition. The remaining value was allocated to real property, with value given to the improvements less depreciation with the remaining value attributable to land. Mr. Monroe testified that this was reportedly the method used to determine the residual value of the land in the cost approach as well as the final value indicated by the income approach.

4. Mr. Monroe presented a calculation for economic obsolescence for the subject, as shown in Section 7 of Petitioner's Exhibit A. He testified that, on average, 69 memberships remained unsold during the base period. With a loss of \$25,000.00 per unsold membership and the loss of annual dues, Mr. Monroe calculated the total annual net revenue loss to be \$208,380.00. This amount was capitalized at 12 percent to indicate economic obsolescence of \$1,736,500.00.

5. Petitioner's next witness, Mr. Daniel Sherman, General Manager of the Hiwan Golf Club, testified that between 2000 and 2003 there was a downturn in golf memberships, leading to a downturn in income. He testified that they made operational changes, including reducing the number of employees, controlling expenses and increasing the amount of time devoted to marketing calls. Wages were frozen and benefits were reduced to help control costs. Mr. Sherman reported that Fox Hollow and Legacy Ridge, two daily fee courses, were providing tough competition because of lower costs. In cross-examination, Mr. Sherman testified that Hiwan's membership had rarely been over 450, but that it would be good if they could maintain that level of membership. On Mondays, the club was open to outside tournaments, adding approximately \$290,000.00 in revenue from food and beverage sales, greens fees and carts. Mr. Sherman disagreed with the Respondent's assertion that there were additional ways to increase revenue or cut costs of operation.

6. Tom McElhinney, a Certified General Appraiser with Tax Profile Services, Inc. testified that the Respondent did not fully understand the negative effect that numerous public daily fee courses have had on private courses. He indicated that the number of municipal courses in the area was three times the national average.

7. Mr. McElhinney testified that, while his opinion of value included a cost approach, it was not a reliable indication of value, as courses typically sell below cost. He indicated that new developers generally use the cost approach as a tool to allocate costs to the remaining surrounding development.

8. Mr. McElhinney presented two sales in Petitioner's sales comparison approach. The sales price of King's Deer Golf Club in Monument was approximately half of what it cost to build the course and the developer recouped the cost as part of the surrounding real estate sales. He testified that the sellers of Eagle Trace Golf Course sold the course for the same amount they initially paid, with no increase in value.

9. According to Mr. McElhinney, the income approach is the only method used to value golf courses in the open market. He would typically expect to see golf courses in this region with annual gross revenues of \$3,000,000.00 to \$5,000,000.00. Mr. McElhinney testified that a gross income modifier of 1 has been typical across the country for the past several years, indicating a value of \$3,500,000.00 for Hiwan Country Club.

10. In cross-examination, Mr. McElhinney testified that he only used two sales compared to the six sales used by the Respondent because he did not believe Respondent's additional four sales were arm's-length transactions. Mr. McElhinney testified that Respondent's Sale 3 was a financial restructure, not a sale. Respondent's Sale 4 was purchased primarily for the ability to develop the adjacent sites. Mr. McElhinney reported that a long-term lease that was in place at the time of sale affected the purchase price of Respondent's Sale 5, and that Respondent's Sale 6 was purchased out of foreclosure.

11. Respondent's witness, Mr. Jon S. Aasen, Certified General Appraiser and MAI with the Jefferson County Assessor's Office, presented a detailed cost approach. To determine the subject's land value, he relied on nine land sales that were acquired by municipalities for open space

or golf course expansion. Mr. Aasen concluded that the \$10,000.00 per acre assigned value was reasonable.

12. Mr. Aasen compared Marshall & Swift cost analysis to actual construction costs for several Denver Area courses to determine the subject's per hole value. He concluded to a depreciated cost of \$100,000.00 per hole. The clubhouse and other building improvements were valued using the Cole-Layer-Trumble (CLT) system. The total value indicated by Mr. Aasen's cost approach is \$5,500,000.00.

13. In the sales comparison approach, Mr. Aasen presented six comparable properties with sales prices ranging from \$107,778.00 to \$291,532.00 per hole, with an average unadjusted sales price of \$206,505.00 per hole. Four of the six sales were adjusted upward for location, while all of the sales were adjusted upward for having smaller (assumed to be inferior) clubhouse size. An upward adjustment was applied to sales that lacked pool and/or tennis facilities. As indicated in Respondent's Exhibit 2, Respondent's comparable sales ranged from \$274,199.00 to \$345,758.00 after adjustments. Mr. Aasen used this range as a test of reasonableness for the value indicated by the cost approach: \$5,500,000.00 less the residential unit at \$154,500.00 equals \$296,972.00 per hole.

14. As shown in Respondent's Exhibit 1, Mr. Aasen presented a market analysis for the residential portion of the subject based on three sales of properties believed to be most comparable to the subject. After adjustment for market conditions and physical differences, the comparables indicated a range in value for the subject of \$308,800.00 to \$409,960.00. Mr. Aasen concluded that Sale 1 was most comparable to the subject, with an adjusted price of \$308,800.00. Mr. Aasen made a further deduction of \$150,000.00 to compensate for the less desirable location of the subject adjacent to the maintenance building, the condition of the home's interior and the requirement to subdivide the site into a legal lot. The value concluded in the market approach was the same as the cost approach, at \$154,500.00, with \$141,630 attributed to the residential improvement and \$12,870.00 attributed to the residential land value.

15. Mr. Aasen did not present an income approach, as Hiwan's negative net income made the income approach unreasonable. In his report, Mr. Aasen suggests that a new management team should be brought in to either increase revenues, cut expenses or both. In cross-examination, Mr. Aasen testified that he believes that the legal agreement between the membership and ownership should be changed to allow the operator to pass some costs on to the membership. He indicated that this is an intangible that doesn't hinder the value of the real estate.

16. In cross-examination, Mr. Aasen agreed that Respondent's Sale 1, which cost \$5,000,000.00 to build but sold for far less, indicates economic obsolescence. Mr. Aasen further acknowledged that in the sales comparison approach, the average unadjusted price was \$206,505.00 per hole, but the average adjusted price was \$315,000.00 per hole.

17. In rebuttal, Mr. Monroe presented page 58 of Petitioner's Exhibit D, in which Mr. Monroe duplicated the adjustments indicated in Respondent's Exhibit 1. Mr. Monroe's calculations resulted in an average adjusted price of \$252,253.00 per hole, far below Respondent's indicted

average. He then eliminated Sale 3, as it was a financial restructuring instead of a sale and Sale 5, as the transaction was influenced by a negotiated lease agreement. The remaining four sales indicate an average adjusted per-hole price of \$207,754.00.

18. Petitioner is requesting a 2003 actual value of \$3,500,000.00 for the subject property.

19. Respondent assigned an actual value of \$5,383,550.00 subject property for tax year 2003.

## **CONCLUSIONS:**

1. Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2003 valuation of the subject property was incorrect.

2. The Board was convinced that the subject property is affected by economic obsolescence. Sufficient evidence was presented to indicate that competition from lower cost municipal courses, coupled with recession in the market, has caused a loss in revenue that is likely to be long-term. The calculation for economic obsolescence is as shown in Section 7 of Petitioner's Exhibit A.

3. The Board does not believe that the sales comparison approach provides an accurate indication of value for golf course properties; however, it is useful as a test of reasonableness of the values derived from the income and cost approaches. The Board found that the Respondent's adjustments to sales were generally unsupported and excessive. In fact, the Board was unable to replicate Respondent's indicated values by applying the adjustments contained in Mr. Aasen's written analysis.

4. While the Board was convinced that the income approach would be a reliable method for valuing a golf course, neither party presented sufficient evidence to support a value using this approach.

5. The Board finds the Respondent's cost analysis to be well supported and reasonable, with the exception of a lack of deduction for external obsolescence. Numerous sales and much of the testimony indicate that the cost of an existing course does not equal current value, as evidenced by the large decrease in value of Respondent's Comparable Sale 1. While comparable land sales for dedicated open space or golf course development are difficult to find, the Board was convinced that the Respondent provided the most accurate indication of land value at \$10,000.00 per acre. The Petitioner made no attempt to support their suggested land value of \$5,000.00 per acre.

6. Pursuant to Colorado Revised Statutes, residential properties must be valued based on the market approach. Respondent analyzed comparable sales to determine a value for the residential portion of the subject property. The Respondent recognized that the only comparables available were stand-alone single-family residences located on residential lots with both the land and the

improvements included in the sales prices. The Respondent's adjustment for this difference is reasonable; therefore, the Board concluded to a residential improvement value of \$154,500.00.

7. In reaching its determination of value, the Board relied on the \$5,500,000.00 value indicated by Respondent's cost approach, less \$154,500.00 attributed to the residence, and deducted \$1,736,500.00 for external obsolescence as presented by the Petitioner. The resulting value for the golf course and associated golf structures is \$3,609,000.00 or \$200,500.00 per hole. This value is well supported by the comparable sales presented.

8. Based on all of the evidence and testimony presented, the Board concluded that the 2003 actual value of the subject property should be reduced to \$3,763,500.00, with \$154,500.00 attributed to the value of the residential portion of the subject, and \$3,609,000.00 attributed to the golf course and related structures.

### **ORDER:**

Respondent is ordered to reduce the 2003 actual value of the subject property to \$3,763,500.00.

The Jefferson 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 3<sup>rd</sup> day of March 2005.

**BOARD OF ASSESSMENT APPEALS**

*Debra A. Baumbach*

Debra A. Baumbach

*Sondra W. Mercier*

Sondra W. Mercier

This decision was put on the record

**MAR 02 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

