

STONE MOUNTAIN MEMORIAL ASSOCIATION

JOINT MEETING OF THE
DEVELOPMENT COMMITTEE

AND

FINANCE COMMITTEE
STONE MOUNTAIN INN

NOVEMBER 13, 2006

11:00 a.m.

A meeting of the Development and Finance Committees of the Stone Mountain Memorial Association was held at 11:00 a.m. on Monday, November 13, 2006, at the Stone Mountain Inn.

FINANCE COMMITTEE MEMBERS PRESENT

Bill Chappell, Chairman

Greer Johnson

Mike Pentecost

DEVELOPMENT COMMITTEE MEMBERS PRESENT

Mark Baxter, Chairman

Ray S. Smith III

Joan Thomas

ABSENT

Brent Brown

Noel Holcomb

OTHERS PRESENT

Tom Gilliland, Chairman SMMA

Curtis Branscome, C.E.O.

Bob Cowhig, Director of Planning and Construction

Gail Durham, Director of Finance and Secretary

Jerry Spicer, Director of Administration & Public Safety

Call to Order

The meeting was called to order by Chairman Bill Chappell.

Review of Fifth Amendment to Lease

Mr. Branscome reviewed the nine items covered in the proposed Fifth Amendment to the Lease with Herschend Family Entertainment Corporation.

The original lease concessions had a five year term limit. In August of 2008 these lease concessions will expire and revert to the original lease terms. This expiration date has been removed from the rent concessions and extends the reduced rent for the full lease term plus any extensions. The HFEC group is still not receiving the return on investment from Stone Mountain Park that they get from their other properties, but are receiving about half that amount. SMMA has helped them achieve these returns through the concessions and any higher returns will have to be earned by efficient management, marketing and promotion of the Park. No additional concessions will be offered.

The SMMA Master Plan as amended August 15, 2005 has been incorporated in the Lease amendment. This is very important because no development will be allowed that is not included in the Master Plan.

Additional rent payments under certain conditions have been extended. These additional payments were to expire in 2008. However, if HFEC achieves windfall revenues the provision for additional rent is due for the term of the Lease.

HFEC elected to change their fiscal year to a calendar year end. The amendment incorporates this change into the lease amendment. The additional rent payment will be due each January after the close of the fiscal year.

The increase in percentage rent has been extended for the term of the lease and the penalty for early termination of the lease has been increased to 125% of the prior year's rent. The original lease called for 100% of the prior year's rent. However, with the current lease concessions, SMMA would have not received as much compensation if HFEC chose to terminate the lease. The percentage was increased to insure SMMA received adequate compensation equal or greater than the amount specified in the original agreement.

The amendment calls for SMMA to finance the expansion of Evergreen to include an additional ballroom and parking not to exceed \$6 million in exchange for additional rent. The additional rent will be 50 basis points less than the twelve month Libor rate at the time the amendment is executed and to be adjusted annually.

The provision for parties to engage economic consultants in 2008 to evaluate what changes to the Lease are appropriate has been eliminated.

The Security Deposit requirement has been removed if certain criteria demonstrating financial health of the Lessee are met. The original lease required an \$8.5 million non-revocable letter of credit to guarantee performance. This LOC was reduced per the original lease to \$5 million after a certain level of capital investment was made in the Park. HFEC pays about \$70,000 per year to maintain the LOC with no return. The financial ratios required by the original lease are very strong for HFEC and would indicate that SMMA no longer has need for the LOC. We have proposed that the LOC be reduced to zero as long as their tangible net worth at the end of the year is \$60 million or higher, the debt to total assets ratio is under 40%, or that their debt service coverage ratio does not drop below 1.65 for any two out of three years. These are strong financial indicators and provide a good comfort level for SMMA. Dropping this requirement will add \$70,000 directly to the bottom line for Silver Dollar City/Stone Mountain Park. Mr. Gilliland asked if HFEC provided the LOC or if the local operating entity provided it. Mr. Branscome said that HFEC is the guarantor, but the expense is charged to the local unit.

Mr. Baxter motioned for the committee to recommend to the SMMA Board that the Fifth Amendment be adopted; Mr. Chappell seconded and was unanimously approved by both committees.

Review of Proposed 2007 Budget

Ms. Durham stated that there were no major changes in the budget for 2007 and that it was fairly consistent with the 2006 budget. A few items that vary from the 2006 were reviewed. Interest income is increased due to the rising interest rates in 2006. Labor costs are projected to increase less than

\$100,000. The budget includes a mid-year 4% increase in pay rates and the addition of two full-time positions in the police department. SMMA has had a part-time police assistant Chief and we will convert that to a full-time position. We have added another full-time morning watch officer in light of the changing Park environment and the concerns about Park safety during the night hours. A discussion was held about safety in the Park. Ms. Thomas asked if there was evidence of gang activity in the Park. Mr. Branscome stated that there were gangs in DeKalb County that would occasionally enter the Park and leave graffiti which is promptly removed by our Grounds Quality staff.

Mr. Branscome stated that Mr. Jerry Spicer was retiring from his full-time position as Director of Public Safety and Administration. His last day will be November 30 and his wife will be taking him on a well deserved vacation. SMMA will continue a consulting relationship with Jerry over the next few years.

Mr. Branscome said that there are 20 or so retirees that continue to receive health benefits. The policy was in place prior to privatization. Mr. Gilliland wanted to know if the benefit was a Medicare supplement. Ms. Durham explained that this was a complete health policy with the same benefits offered to all employees. The retirees utilize the drug coverage extensively and must file claims with Medicare as their primary carrier prior to filing with SMMA's health insurance provider.

Repairs and maintenance will increase about \$44,000 to include eradication of kudzu and privet. Operating expenses will increase about \$45,000 reflecting the rise in fuel costs in addition to general price increases.

Depreciation is budgeted \$540,000 less than in 2006 because of the number of aging assets that will become fully depreciated in 2007. However, with the new projects that are scheduled in 2007 and 2008, depreciation should increase in future years.

Operating profit after depreciation expense is budgeted at about \$853,000. Total operating expenses have been budgeted at \$6 million versus the prior year budget of about \$5.8 million. Mr. Branscome said that our target since the rent concessions in 2003 has been to fund depreciation. Mr. Chappell asked the committee if there was any discussion required prior to entertaining a motion to approve the budget for 2007. Mr. Smith moved to approve recommendation of the budget to the Board, Mr. Gilliland seconded and the 2007 budget was approved unanimously by the committees.

Ms. Spencer stated that working with other State Authority Boards around the State she has noticed a growing trend for the State to look at reserve funds. She said she did not know what SMMA has committed, but this may be an issue in the future. Stone Mountain does not receive tax revenues, but being administratively attached to DNR could impact any reserves. Mr. Branscome said that SMMA's capital program expenditures are \$25 million for the next five years and is in excess of the cash reserves. Approving the lease amendment today commits another \$6 million for the Evergreen expansion. Mr. Cowhig will execute a contract this winter for the pedestrian tunnel and that is budgeted at \$1.5 million. The design of this project was discussed.

The small capital budget includes miscellaneous equipment and several vehicles that are due for replacement and totals about \$153,000. Several capital items not included in the long range capital budget are re-roofing the Department of Public Safety building, enhancing the domestic water system that services the top of the mountain and replacing the air conditioning system for the Motorola room also at the top of the mountain. These capital projects are budgeted for at \$290,000.

Review of 2006 Year-to-Date Financial Statements

Ms. Durham reported on the financial statements for the nine months ended September 30, 2006.

Revenues were \$8.1 million and about \$445,000 better than budget. Total operating expenses are \$4.1 million year-to-date and \$309,000 better than budget.

After depreciation expense of \$3 million, the excess of revenues over expenses is \$962,000 and \$937,000 better than budget.

The cash provided from operating activities at the end of nine months is \$3.75 million and cash used on capital projects has been about \$2.9 million. SMMA is in good financial condition.

2007 Skyride Pricing Request

Mr. Branscome stated that SMMA retained the right to approve the Skyride pricing under the terms of the lease. The individual Skyride price has not changed since the beginning of 2003 when it was increased from \$6 to \$7. HFEC has requested that the price be increased to \$9 and that the child's price (eliminated in 2002) be reinstated at \$7. Given the length of time that the rate has been in effect and looking at the comparison pricing presented for other tramway, the staff recommendation is to approve the price increase. Mr. Gilliland asked what the percentage increase would be. Mr. Branscome stated that this would be about a 30% increase over a four year period. This only applies to the individual ride ticket. The wristband price for all attractions includes the Skyride. The only up-charge at this time is the Duck ride and that ticket is not included in the all attractions wristband price. Mr. Gilliland asked how much revenue is generated from the tram. Mr. Branscome stated that it was over \$1 million.

The Finance committee declined to recommend the increase and deferred the issue to the SMMA Board.

Update on Stone Mountain Tennis Center

Chairman Tom Gilliland updated the committees on discussions he had with Vernon Jones, C.E.O. of DeKalb County. They are very interested in the Tennis Center and they did make an offer. We agreed to let them have the Tennis Center for \$1 per year subject to certain conditions related to the use and control of the facility. DeKalb County made an offer to the Georgia Tennis Foundation of \$600,000 and GTF did not accept the offer. In the interim, Gary Hill states he has some other potential sponsors that can keep them going financially for a while. Mary Margaret Oliver helped us with Board backing from DeKalb County. Now there is some interchange between DeKalb County's attorneys and GTF and it looks like there is potential for an assignment of the management agreement. They have determined that the County can in fact go outside its boundaries and are past that legal issue.

Mr. Branscome stated that he is concerned about the parking issues relative to the tennis stadium and events that DeKalb County may be contemplating for that venue. In light of this, he has told John Russell to hold off on pursuit of the airport property to use as soccer fields.

Meeting adjourned at 12:10 p.m.

Notes taken by

Gail Durham, Secretary