
MISSISSIPPI NATIONAL GOLF LINKS STUDY



CITY OF RED WING

JUNE 21, 2013



MISSISSIPPI NATIONAL GOLF LINKS STUDY

Introduction and Acknowledgments

INTRODUCTION/OVERVIEW OF PUBLIC PROCESS

In May of 2013, the City of Red Wing retained Schoenbauer Consulting, LLC to complete the *Mississippi National Golf Links Study*. This report summarizes the findings of the process and provides options and recommendations for action by the City Council.

PUBLIC INVOLVEMENT

The general public, stakeholders, special interest groups, and residents were invited to participate in the planning process to ensure that pertinent planning issues were discovered and addressed by the study. The public process included:

- A series of interviews, phone calls, and email exchanges with defined stakeholder groups and interested residents
- An open house – where all interested parties could provide input and perspectives
- Social media – using the City’s web-based public access portal to gather additional information on the community opinions

The process also included conversations with public golf course operators to gain their perspective on the golf industry in general, and issues facing public golf courses in particular. Evaluation of the economic performance of several similar public courses was also completed to add insights into the public golf industry.

The public process gave all members of the community access to the process, consultant team and City staff. Public input into the planning process was insightful and central to defining realistic options available to the City as it moves forward in making important decisions about the future of the golf course.

In addition to general public involvement, the Mississippi National Study Team (council subcommittee and staff) provided important background information and input into the planning effort.

ACKNOWLEDGMENTS

The consultant team appreciates the opportunity to work with the City of Red Wing in undertaking an open public process for the project. The team especially acknowledges input from the many stakeholder groups involved in the process. Their individual and collective insights and perspectives were instrumental in drawing reasoned conclusions.

The consultant team also thanks the City of Red Wing staff. Their commitment to an open public process ensured that all opinions were duly considered. Their understanding of the larger planning context and how the golf course fits into the larger city picture was also of high value.

Finally, the consultant team extends a thank you to the citizens who took the time to participate to ensure we understand the issues and find solutions that seemed reasonable.

Sincerely,

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Table of Contents

BACKGROUND AND PROJECT GOALS	1 - 2
Overview/Background	1
Project Goals	1
KEY FINDINGS FROM THE PUBLIC PROCESS	3 - 14
Golf Course History	3
A Passionate Belief in Mississippi National	4
Mississippi National in Context of Red Wing Priorities	5
Golf Course Trends and Marketplace Realities	7
Economic Realities Facing the Golf Industry	8
Themes from Stakeholder Interviews and Public Input	9
Demand for Additional Parks and Recreational Amenities	11
Willingness to Subsidize the Golf Course	12
Intangible Public Value of a Public Golf Course	12
Opportunities/Limitations for Alternative Land Uses	13
Affect of Red Wing Golf Course on Decision Process	13
Limitations of Evaluation	14
OPTIONS AND RECOMMENDATIONS	14 - 20
Overview	15
Option 1: Run as a Subsidized Public Enterprise	15
Option 2: Run as a Self-Sustaining Enterprise	16
Option 3: Use Land for Other Recreational Purpose	17
Option 4: Cease Golf Operation and Divest Property	17
Recommendations Based on Study Findings	17
Conclusions/Final Thoughts	20
APPENDIX A OPERATIONAL INFORMATION ON GOLF COURSES	21
APPENDIX B PROJECTED CAPITAL OUTLAY 2013 - 2023	22



The driving range at Mississippi National Golf Course has remained open for the 2013 season.

Background and Project Goals

OVERVIEW/BACKGROUND

In March 2013 Red Wing City Council closed Mississippi National Golf Links for the 2013 golf season. This was primarily due to litigation related to the former operator's failure to operate the course under the lease agreement. Significant uncertainty about the financial sustainability of the course in the short and long term also factored into the Council's decision to close the course and take the time to explore options for public use of the property.

During the 2013 golf season, the course is being minimally maintained to ensure that it could be, at the City Council's discretion, reopened in the future without significant deterioration of the fairways and greens. The driving range at Mississippi National was kept open during the 2013 season as a standalone feature.

PROJECT GOALS



The primary purpose of the study was to gather information about Mississippi National Golf Course (and public golf courses in general) to better position the City Council to make an informed decision about its future. This includes laying out clear options available to the city, including alternative uses of the property other than golf.

Key principles established for the study include:

- Maintaining an open and transparent public process
- Seeking creative ideas and options
- Providing context and background information to aid the City Council in analyzing and considering complicated alternatives

The Study Team spent a number of days in Red Wing gathering background information and interviewing various stakeholders and members of the community. Specifically, the Study Team's charge was to:

- Understand the community issues and perspectives associated with the golf operation
- Provide a public conduit for generating ideas
- Define viable options for City Council consideration
- Undertake baseline economic evaluation and community merits of the course, and alternatives or options
- Provide perspectives related to options based on findings from the public process
- Recommend a plan of action for the City Council to further consider



The golf course is being maintained at a minimal level during the closed 2013 season.

Key Findings from the Public Process

GOLF COURSE HISTORY: A BRIEF SYNOPSIS

Mississippi National Golf Course was originally constructed as an 18 hole golf course in 1986, following City acquisition of property that the City acquired from the state in 1977. Land use of the original property was restricted to “public recreation.” Wendell Pittinger operated the course through a lease arrangement with the City from the beginning until 2012.

In 1991-1992, Mr. Pittinger approached the city about expanding to 27, then again in 1998 to 36 holes. With each expansion phase, Mr. Pittinger, as the lessee, took the lead in negotiating land acquisition for the course. As part of the purchase agreements, some of the land parcels contained restrictions and clauses should the golf operation ever cease to exist and the land would be sold off by the City.

Notably, for the last 9 holes added in 1998, a revenue bond was secured by Mr. Pittinger with a local bank, in which future golf revenues would, in theory, be used to pay off the bond.

Unfortunately, by the mid-2000s it was increasingly clear that overall participation in golf had plateaued and even started to decline on a per capita basis. By around 2006/2007, it was also clear that the golf market was significantly overbuilt with public and private courses, including the area in and around Red Wing. This resulted in a loss of rounds played at Mississippi National and an associated decline in revenue. Around 2008 the economic recession further exasperated the revenue side, which resulted in a tightening of maintenance and operating budgets that further impacted the appeal of the course in an overbuilt market.

To address what appeared to be an increasingly desperate situation, Mr. Pittinger asked to re-negotiate the lease for a longer term under the presumption that it would offer more certainty to fiscal planning and future investments. Mr. Pittinger thought that a longer term would either help him refinance his obligation or sell his lease rights to another operator. Neither outcome occurred. In 2010, Mr. Pittinger went one step further and approached the City about buying the course, which was not acted upon for a variety of reasons.

In 2012, Mr. Pittinger ceased operating the course and walked away after selling off equipment and other saleable course amenities. This has resulted in litigation proceedings between the City, Mr. Pittinger, and other involved interests. In addition, the infrastructure of the course is in a state of disarray, making it that much more difficult for the City to maintain, much less operate the course.



The golf course club house, as with the rest of the course, sits idle in 2013, with many of its furnishings sold off.

**A PASSIONATE BELIEF
THAT MISSISSIPPI
NATIONAL REMAINS
AN IMPORTANT PUBLIC
AMENITY**



The local advocacy group firmly believes that the course is a vital community asset that must be preserved.

With the many uncertainties facing the City, the Council decided the best short-term solution was to close the course for 2013 and do only minimal maintenance. Even at that, total cost to the City in 2013 is around \$200,000. Also note that from its inception, the City has invested over \$3.4 million in land and capital improvements.

With publicly-stated certainty, a local advocacy group remains passionate and committed to their belief that Mississippi National is a vital community asset that can be economically self-sustaining. The group also points to a variety of studies citing the positive economic contribution that golf courses make to local and regional economies. For example, a study in 2007 suggests that golf represents \$2.4 billion to the state's economy, and in 2005 Minnesota ranked at or near the top in golfer participation in the U.S. The limiting factor behind some of this information is that the economy and industry has changed since many of these studies were completed. Nonetheless, the assertion that golf contributes to local and regional economies remains a valid and important consideration in determining the future of the course.

To back up their beliefs, the local advocacy group has taken action by forming the *Red Wing Municipal Golf Corporation* as a non-profit organization committed to keeping the course open. The group has spent much time and effort preparing a golf course management proposal for consideration by the City of Red Wing (which is part of the public record).

The proposal details how the organization would run the course, its economic pro forma, and a variety of clauses and performance expectations. In essence, the group's pro forma states that the golf course will at least break even with no ongoing public subsidy from the City. It also asserts that initial capital investments can be modest to get the course in operational form. Notably, the proposal *does not* include providing a golf professional and an onsite kitchen, and would provide limited beverage service.

The proposal and related documents also details the group's assertions that there are other important reasons for preserving the course. For example, the group asserts that maintaining the course is good for business – noting that golf packages are commonly sold by local hotels (as referenced in “New Facts and Proposals” by RWMGC, February 22, 2013). Conversations the group has had with hotel operators suggest that some of their summer room stays are indeed golfers. In its report, the group does point out that there are no actual stats about golf tourists impact on the food and beverage industry in the city, although anecdotally it could be reasonably assumed that golfers coming to the community eat, drink, and buy gas. Further, the group has submitted a host of supportive literature on the benefits of public golf course in economically-challenging times. (All of which is available on the City's website.)

The group asserts that the previous operator and perhaps the City itself did not fully take advantage of the course and the land asset for public use. For example, the group asserts that putting more emphasis on trails, skiing, special events, field classrooms, Audubon sanctuary, etc. would add substantially to the public value of the course.

The City's critique of the proposal, as summarized in the February 25, 2013 City Council Agenda Report, raises some important questions, such as:

- The proposal requires the city to co-sign on lease arrangements, which obligates the City to cover the cost if revenues fall short
- Achieving the rounds played expectations of the course may be, on paper, attainable but unlikely in the current golf environment
- Start-up costs are omitted or not adequately addressed
- No mechanism is in place to fund larger capital costs and ongoing maintenance costs

Subsequent to this critique, the group submitted a revised proposal and otherwise assert that they have or can address the stated concerns.

The merits or soundness of the group's proposal is hard to judge other than to say that it appears the economic margins are extremely tight with little room for error on revenue performance. It also seems that should it not perform as the proposal suggests, the City would be responsible to make up any shortfall, and may find itself in the exact same spot several years from now as in 2013. Further, some of the group's assumptions and expectations are in contrast to the economic headwinds facing the golfing industry and the general sentiments the community has about the golf course, as covered in the forthcoming discussion.

In spite of these concerns, the group's passion and belief in the course as a public good is a pertinent point that should not be taken lightly as the City considers its options in the context of other community investment priorities.

MISSISSIPPI NATIONAL IN CONTEXT OF COMMUNITY STRATEGIES

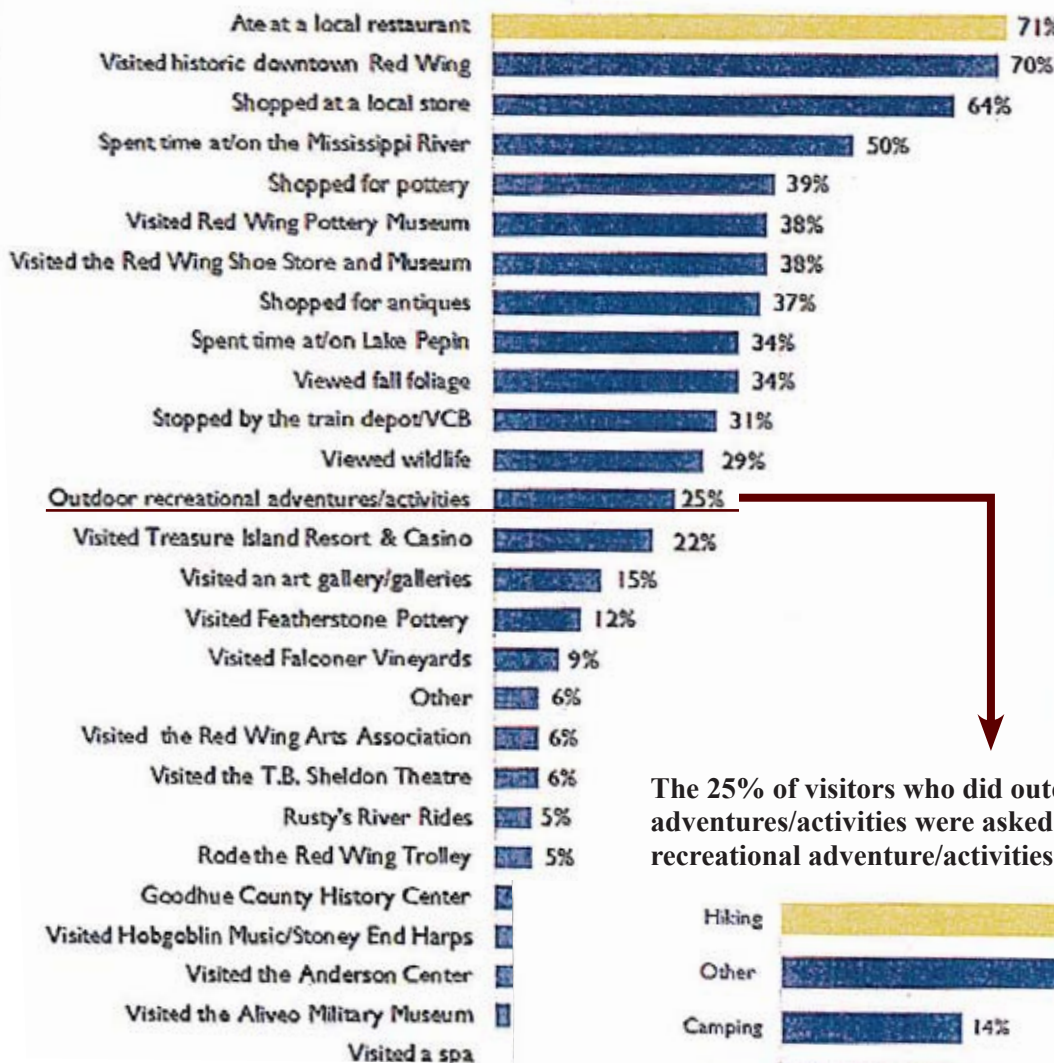
The Red Wing Strategic Plan sets forth four strategies that serve as the foundation for City Council resource allocations toward their Vision. A commitment to each of these over time will ensure that the City Council apportions financial resources to the highest priorities within the community. The strategies include:

- 1) **Regional Center:** Capitalize on the thriving, dynamic and distinctive community character
- 2) **Community Connections:** Create and maintain strong public and public-private partnerships and an active and engaged citizenry
- 3) **Community Vitality:** Plan and fund steady and sustainable population growth, workforce development and a diversified employment and business base
- 4) **Organizational Culture:** Strive to be a progressive, creative and competitive employer

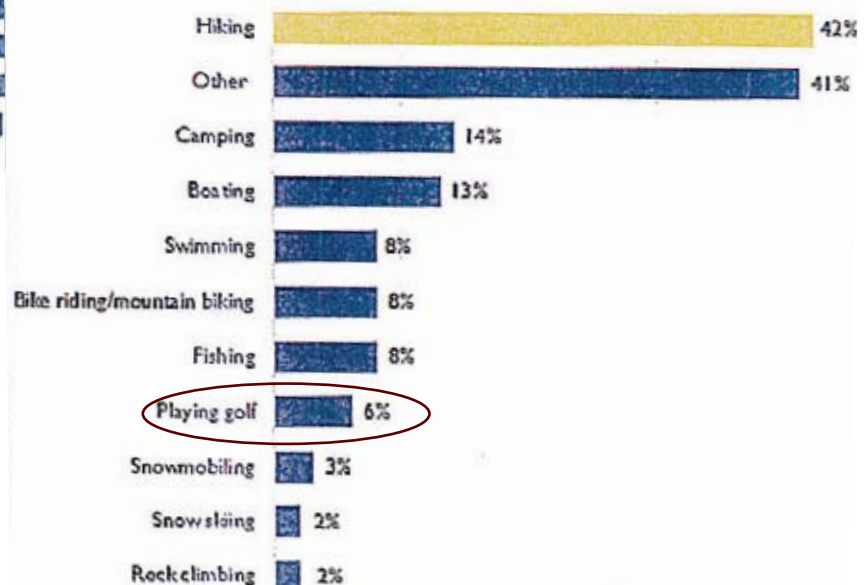
The extent to which Mississippi National factors into this framework is a matter of individual perspective. Clearly, advocates of the golf course passionately believe that it fits in quite well with virtually all of them.

The activities of visitors is also an important consideration in determining the level of priority of investments into Mississippi National relative to other public goods that might enhance Red Wing as a tourist destination. A visitor study conducted by the Red Wing Visitor and Convention Bureau in October of 2012 resulted in the following profile.

While you were visiting Red Wing, which of the following did you do? (Select all that apply)



The 25% of visitors who did outdoor recreational adventures/activities were asked "which outdoor recreational adventure/activities?"



Note: Information is based on a survey of visitors that had direct contact with the Visitor and Convention Bureau.

GOLF COURSE TRENDS AND MARKETPLACE REALITIES



Even with a storied history, the marketplace realities facing Mississippi National cannot be ignored.

As the previous graphs highlight, visitors do come to Red Wing to play golf. But participation in golf is not near the top of visitor activities and why they come to Red Wing. Nonetheless, tourism in an area is additive, and golf is one of many contributing factors to the local economy.

The use trend over the last decade or so at Mississippi National is, in many ways, indicative of the golf course industry as a whole. Interviews with a variety of public golf course providers in Minnesota leads to some fundamental conclusions, including:

- A significant oversupply of golf courses – both public and private – exists and will likely require more consolidation to get to a more sustainable supply-demand balance
- Participation in golf has declined, with fewer younger age groups taking up golf to the same level; and there are no real prospects for major growth in the foreseeable future if these trends continue

A study by the National Golf Foundation found that the number of rounds played between 2010 and 2011 dropped 9.9% across Minnesota, and 9.6% within metro areas.

The demographics of golfers and golf course use also pose some inherent constraints on maintaining, much less increasing, rounds played at any given course. A *Management and Operational Analysis* completed for Becker's Pebble Creek Golf Club in 2012 highlights this challenge with these findings:

- Golfers average 41.5 years of age with median household income of \$85,800, of which nearly 80% are Caucasian and 78% male
- Ninety percent of all golfers reside or work within 30 minutes of a golf course; fifteen percent of the golfers generate 60% of the annual revenue; typical golf course has only 6,000 distinct customers each year, and they generate on average 25,000 rounds played

The study entitled *Golf Participation in America, 2010-2020* by the National Golf Foundation (copyright 2010) provides some insights on overarching trends, including:

- A net decline of between 500 and 1,000 golf courses is expected in the 2010s
- With the closing of so many courses, an increase in the number of golfers and rounds played over the next 10 years will come, but it will be gradual, and hardly noticeable; at the end of the decade the average number of golfers per golf course may rise by only 150 to 200 golfers; rounds may increase somewhat more, due to the aging of the population, particularly the baby boomers
- Local market conditions will have much more to do with individual course performance than the macroeconomics of the golf business; in reality, closing of courses, whether public or private, in over-saturated markets can make a difference on a local trade area
- But, increases in golfers and rounds to surviving courses will not necessarily lead to proportionate increases in revenues, as aggressive pricing will likely continue to attract bargain-hunting golfers

ECONOMIC REALITIES FACING THE GOLF INDUSTRY AND MISSISSIPPI NATIONAL



At some point, the need for significant capital improvements in the cart paths at the course cannot be further delayed without an impact on the appeal and economic performance of the course.

Complicating the situation in Red Wing is Minnesota Golf Association's research suggesting that one 18 hole golf course is needed for a population of 30,000 to 40,000 residents. Further, in a 20-mile or so radius of Red Wing, there are numerous courses available to compete for the displaced golfers from Mississippi National during 2013. (The fact that these golfers did not go over to the Red Wing Golf Club in significant numbers highlights the relative ease at which one can find a place to play in the area.) With 54 holes of golf available in Red Wing alone, there is no way to get around the fact that the local market is likely overbuilt.

Evaluation of the economic performance of a variety of public golf courses is consistent with the noted trends and marketplace realities. Virtually all of the public golf course providers contacted as part of this study expect that their local courses will require some level of subsidy for the foreseeable future. (This is true regardless of the management operations model used.) Even with aggressive marketing, all of the operators expect that it will continue to be challenging to maintain (much less expand) golf rounds and revenue on a year to year basis. Drawing golfers from outside the immediate area (i.e., tourist golfers) is also expected to be an ongoing and uncertain challenge, even with courses that have a reputation of being well-designed and maintained.

As the spreadsheet entitled *Operating Information on Various Golf Courses* (Springsted 2013) in appendix A illustrates, virtually all of the public courses evaluated for this study required substantial transfers in (property tax support) in 2011 in order to break even on a year-to-year operating basis. Without transfers in, the net income average for these courses was a *minus* \$246,327. Discussions with many of the operators confirm that directly supporting the golf operation with property taxes is essentially a given, with the prospect of being able to break even or make a profit being well into the future, if ever.

Even with the best of intentions, the prospect for Mississippi National to reopen and generate enough revenue to be self-sustaining is highly suspect if judged against the performance of these other public courses. Further, a baseline evaluation of Mississippi National's own financial outlook (as also illustrated in the spreadsheet in appendix A) suggests a subsidy of around \$222,052 would be required for the course to break even. Even still, this does not take into account additional capital outlays over time above the depreciation number, and some one-time start-up costs to get the course back up and running. As outlined on the spreadsheet entitled *Projected Capital Outlay at Mississippi National 2013-2023+* in appendix B illustrates, projected capital outlays over the next decade total \$3,350,356 (total capital for buildings and outdoor improvements).

Notably, capital outlays can be deferred to some degree to buy time. But the City must recognize that these investments are on the horizon and ignoring them only increases the risk to the City going forward. And deferring capital expenditures too long ultimately impacts the golf experience and hence use levels – as some have suggested was an issue with Mr. Pittinger's operation of the course.

THEMES FROM STAKEHOLDER INTERVIEWS AND COMMUNITY INPUT

Importantly, refinement of operating numbers for Mississippi National as part of a more nuanced and detailed evaluation by the City and/or a prospective golf course operators/managers (under an RFP process) could result in a smaller (or larger) revenue gap. Inputs such as donations and volunteer time may also play some role in improving bottom line prospects. Well-crafted up-front capital investments to bring the course back up to a high quality golfing experience coupled with an astute and assertive marketing campaign may also enhance the prospect for improved revenue performance.

Nonetheless, the prospect for the economic performance of this course bucking the overarching trends and the economic realities facing the public golf industry will likely prove challenging. Any option for continuing the golf course operation must be evaluated within this context, with the City being extremely cautious about any financial agreements and long term commitments it makes going forward.

The public process for this study was purposefully inclusive to ensure that all stakeholders or interested parties had a chance to voice their opinion and perspectives on the future of Mississippi National as a public amenity. The public process included the following:

- Interviews with identified stakeholders and interest groups
- Phone interviews with public golf course operators, including review of financial statements
- Public open house
- Staff meetings to gather background information
- Tour of facility
- Online engagement tool
- Council work sessions, which are open to the public

OVERARCHING THEMES FROM THE STAKEHOLDER INTERVIEWS

A variety of groups and individuals were interviewed in person, by phone, or by email exchange during the course of the study. Although the stakeholder groups were quite diverse, a number of commonly-held beliefs and themes emerged. Key themes include:

- **Golf is a challenging industry** – with a sense that there is not enough demand to support 54 holes in Red Wing; general consensus is that there is likely an over-supply of golf courses in the greater Red Wing area, and that not all of them will likely survive
- **Golf is a *desirable* public amenity for the area, but it is *not a vital public service* in Red Wing** – many would like to see the course survive, however, it is not a top priority for public recreational amenities
- **A gap exists between a vision/desire for having a robust public recreational infrastructure (including a public golf course) and a willingness to pay** – most see much value in these amenities for local quality of life/tourism draw, but there is also very limited willingness to support any increases in local taxes beyond current levels

- **Limited support for the City to subsidize the golf course on a year-to-year basis** – with most feeling that the course ultimately needs to be at least a breakeven enterprise
- **Some willingness to make limited capital investments** – but only *if* a viable long term operator/course manager was in place *and* held the ongoing financial risk (i.e., no long term public backing once agreed upon capital investments)
- **Little interest in having City employees actually running the course** – with most feeling that if it stays open it should be run by a professional golf course operator/manager under a long-term agreement; City should also be very careful to limit any exposure to ongoing financial risk beyond agreed upon capital investments
- **Low expectation that the city can afford additional public park and open space if course is closed** – general consensus is that the City is already hard pressed to support current parks, open space and trail system; there is an openness to alternative land uses that includes privately-funded recreational amenities, like a campground, adventure recreation area, etc.
- **Indifference about future of the semi-public course** – with the general belief being that the course is also financially stressed with a very uncertain economic future; there is a general openness to the City working with the private course operator to find a collective solution to golf in the city, but only if it is a “good deal” for the City; there is a general consensus that the City holds no responsibility for the success or failure of the semi-public course

OVERARCHING THEMES FROM THE PUBLIC OPEN HOUSE AND OTHER COMMUNITY OUTREACH

The attendees of the June 12th open house largely came out in favor of keeping the course open. A spirited defense of the course as a public asset was offered, with a vocal group of supporters asserting that the course, if well managed, can be economically viable. Response to the consultant’s presentation highlighting findings to date was, in general, not well received, with some citing that the information was too negative. Key points made during the open house align closely with those of the local advocacy group as previously cited, including:

- The course is a vital community asset, and the city should support it
- The proposal by the *Red Wing Municipal Golf Corporation* is economically sound and viable approach to keeping the full 36 hole course open
- There are other recreational opportunities that could be added to the course that would enhance its value to the community
- The course is a great way to get more kids involved in outdoor activities and healthy lifestyles; it also allows seniors to stay physically active and be involved in outdoor recreation
- The interviews and other background information gathered by the consultant team was not representative, especially not those attending the open house
- It cannot be asserted that the last operator walked away for business reasons alone, and that poor marketing and operation of the course was what really caused the problems

DEMAND FOR ADDITIONAL PARKS AND RECREATIONAL AMENITIES IN RED WING

Members of the Red Wing Golf Club were in attendance and publicly admitted that their course is facing economic challenges as well. Those speaking on that issue suggested that the Club is very open to working with the City on a collaborative basis to figure out how to comprehensively address the golf course issue in the city. The groups expressed an openness to explore a wide range of possibilities.

Although in the minority, several attendees were more cautious or neutral on the value of the course, citing that keeping it would be fine as long as it did not unduly cost tax payers money. The value of spending a public dollar on the course versus some other recreational feature also needed to be carefully considered by the City Council.

Based on public input as part of this study, the parks and trail system in Red Wing is highly valued and considered to be reasonably robust, with limited, if any, need to expand. A cursory review of the system plan suggests that the overall acreage of land for parks and amenities provided meets or exceeds standards commonly used for cities of a similar size. If anything, adding trails would be a likely point of focus over time based on general recreational demand research.

Perhaps of equal or more importance, there is a general sense among participants that funding is already constrained for park development and maintenance of the existing park and trail infrastructure. So the idea of adding new lands and recreational features brings with it immediate concerns about the city's capacity to fund development, maintenance, operations, and programming. Coupled with the apparent low support in the community for any new taxes, adding new public parks and recreational facilities in lieu of the golf course would appear to be fiscally challenging.

The idea of alternative land uses – such as a campground, expanded mountain bike and ski trail system, climbing area, and perhaps motor sports – was debated a number of times during the process. Whereas this has some inherent appeal, procuring public funding through state or regional grant programs is far from certain given the limited amount available and the competitive nature of these programs. Even if funding for new development was available, the city would still not be able to avoid some additional fiscal obligations related to local matches and ongoing costs associated with operations, maintenance, and programming. Further, the local advocacy and volunteer groups have stated that they do not have the capacity to take on more miles of mountain bike or ski trails without some funding support.

Looking to the private sector for funding new recreational opportunities poses similar uncertainties. The validity of any of the fore mentioned ideas as being profitable private enterprise opportunities is suspect in this marketplace, and perhaps even unlikely. Even the validity of the campground idea as a private enterprise is subject to a limited marketplace supply and demand.

WILLINGNESS TO SUBSIDIZE THE GOLF COURSE AND OTHER FORMS OF PUBLIC RECREATION IN RED WING

Whether or not the City should invest more capital and otherwise invest in Mississippi National was a central point of discussion during the planning process. As previously noted, support for doing so is limited, even though the City routinely supports other recreational facilities to varying levels.

The distinction being made by the community between subsidizing the golf course and other publicly-provided facilities is important. With most of the other facilities, the community seems willing to subsidize because these are seen as a general public good with access being available to all at little or no additional cost. Even with the swimming pool, where a use fee is charged, the community sees this as an important-enough amenity to keep fees at a reasonable level and cover the revenue gap with a subsidy. (The City has subsidized the pool an average of \$160,000/year over the past five years.)

Conversely, the community-at-large seems to view the golf course as an enterprise that should largely support itself. Findings from the 2010 Red Wing Resident Survey (online, non-scientific) supports this contention, with nearly 80% of those responding being in favor of selling the course to a private enterprise rather than continuing to subsidize it at an average level of \$162,000 per year.

The golf course is also seen by many as a facility that largely serves a special interest group, with many either not interested in golf or feeling that it is too costly to play. While it is recognized that the course serves local school leagues and youth groups, and helps draw some tourists, this does not overshadow the core belief that the city should not be subsidizing the course in any large way.

INTANGIBLE PUBLIC VALUE OF A PUBLIC GOLF COURSE IN RED WING



Supporters of Mississippi National advocate that the golf course brings values beyond just golf to the community, such as open space.

In spite of the challenges, a case can be made that having a public golf course in town is important to the sense of place, vibrancy, and perceived quality of life in the community. A case can also be made that the golf course is important to tourism, although clear evidence of the actual economic impact on the local economy beyond the course itself is harder to discern.

All of this underscores the importance of making informed decisions that place the value of the course in the broader context of it being part of an affordable public amenities infrastructure. Based on the findings from this public process, this notion of broader public value is not lost or taken lightly by defined stakeholders or residents in general. All things equal, the community at-large would prefer to retain the course. But it is equally clear that the community is not willing to subsidize the golf course at the expense of other public services that are of higher priority and supported by their local tax dollars.

OPPORTUNITIES/ LIMITATIONS FOR ALTERNATIVE LAND USES IN LIEU OF THE GOLF COURSE



Much of the golf course land has significant use restrictions and other resell conditions.

AFFECT OF RED WING GOLF COURSE ON DECISION PROCESS

The 36 holes of Mississippi National cover 417.19 acres. Of those acres, a total of 340.57 have some sort of restrictions that impact or otherwise preclude the City from selling the property outright. Key among these includes:

- 301.55 acres surplus property acquired from the State in 1977 must be used for public recreation purposes
- 39.02 acres have some form of restrictions with respect to what happens to the land if the course is discontinued; most often, the previous property owner has the right of first refusal to buy back the property at a set price

That leaves approximately 76.62 acres without any restrictions, which is only about 18.4% of the total land area.

The marketplace value for the land that can be sold off appears to be limited due to zoning, lack of residential development pressure, and no public utilities. The most likely scenario is selling the land to adjoining property owners at a modest price point. With demand for new housing expected to be very limited in the Red Wing area for the foreseeable future, selling the land for larger-scale residential developments does not appear to be a particularly viable option in the near or even longer-term.

As noted earlier, the prospect for privately-funded recreational reuse of the land is an uncertain avenue to follow, although this cannot be entirely discounted as a possibility.

As this study highlights, there are many factors that the City Council will need to consider in determining the best course of action for the public golf course. Complicating this is the existence of the semi-public course in town. Whereas the city has no direct influence over the actions of the Red Wing Golf Course, this process has opened up a dialogue between parties about the sustainability of 54 holes of golf in Red Wing. Where this may go remains uncertain and requires more discussions as the City considers its options.

As previously noted, the semi-public course seems to be experiencing fiscal issues as well, which is understandable since it is the same marketplace. If that is the case, the group is likely facing some very tough decisions about the future of its own course. This difficult reality may provide the opportunity for the City and Red Wing Golf Course group to work toward a collaborative solution at some level.

Importantly, the City is not responsible to solve any one's problems but its own. In this context, any agreement that the City makes with the private group should be done solely in the best interest of the City. Key considerations/recommendations in this regard include:

- **Mississippi National is considered to be the better course** – although opinions vary, the general consensus seems to be that Mississippi National's lower course in particular is the better golf course to preserve, assuming the City decides that is in its best interest

- **One time opportunity to collaborate** – at this crucial point, it seems reasonable for the City to open up a more determined discussion with the semi-public group about collaborative opportunities; but this should not be an open ended process, and any collaborative opportunities need to be determined within the City’s decision process and time frame
- **Open space opportunity** – as defined in the Red Wing Open Space Preservation Plan (2008), the Red Wing Golf Club is an “extremely high priority open space preservation site” since it lies in the middle of Red Wing and presents a large area of open space adjacent to developed neighborhoods

LIMITATIONS OF THE EVALUATION

As with any study, there are practical limits within the working budget to take input, evaluate options, and make recommendations. The goal with this study was to define the overarching issues and set forth a recommendation that gives the City Council a clearer set of choices to consider and take action against. Once that decision is made, then evaluation of a given course of action can take on greater depth and due diligence to ensure that the best interest of the City is achieved.

Options and Recommendations

OVERVIEW

The goal with this report is to summarize the public discussion, outline core options available to the City, and then provide a recommendation on the best course of action. While all options as outlined are viable at some level, each comes with significant economic and public service impacts to the City and its residents.

The recommendations following the options discussion sets forth the consultant's best judgement on the most prudent course of action based on the findings of the study. Importantly, these recommendations are meant as the basis for more targeted discussion and evaluation going forward, fully recognizing that a more detailed review of selected options will result in new information that will influence the direction the City ultimately goes.

OPTION 1: RUN AS TAX-SUPPORTED PUBLIC ENTERPRISE

Discussion: This is essentially an all-in scenario in which the City determines that the course is a high-enough public value to warrant investing significant capital over time to: a) improve the course; and b) provide an ongoing operational subsidy.

Based on evaluation of other public courses (appendix A), a subsidy in the \$222,000 per year range should be used as the working benchmark – with the goal being to find ways to reduce that level of commitment should this option be further considered. Reducing the number of holes from 36 to 27 or even 18 should be considered under this option to reduce the level of capital investment and, presumably, ongoing operational costs.

Key Perspective(s): Based on the findings from the public process, there is little general support for significant ongoing tax support, or for the City operating the course on its own. That makes this option seemly the least viable.

Decision Ramification(s): Accepting this option essentially commits the City to tax supporting the course on a long-term basis. Conversely, rejecting it essentially says that the course must be proven to be fiscally self-sustaining over the long run, or it will be permanently closed.

OPTION 2: RUN AS SELF-SUSTAINING ENTERPRISE

Discussion: Under this scenario, the course would be required to be a self-sustaining enterprise once the City makes an initial, one-time capital investment to get the course up to an acceptable operational level. (Note: Without some up-front capital investment, it is highly unlikely that any private manager/operator would find the venture economically-viable to operate over time.)

Since there is little interest/support for the City to run the course with city staff, this option would require securing a contract with a private professional golf course manager/operator to run the course as an independent enterprise.

As with the first option, reducing the number of holes from 36 to 27 or even 18 will likely need to be considered to make this a viable approach.

Key Perspective(s): This is the most realistic option to consider if the City wants to continue the golf operation. But it comes with some significant decision points, not the least of which is determining the level of capital investment the City is willing to commit to in order to interest an outside vendor to respond to an RFP. Further, outside operators may also seek/require some ongoing tax support if a true self-sustaining enterprise is simply not feasible. (If the tax support is small, a self-sustaining argument could still be made on the basis of the course providing a general public good to the community. But any larger tax support starts to shift the discussion more towards option 1, which as defined gets little support from the community at-large.)

The City would also need to decide if it wants to retain ownership of the course, or if it would be sold to an outside interest as part of the RFP process.

Decision Ramification(s): This option will require the City to set an investment threshold for capital improvements that it will not go beyond. It also requires the City to decide if it wants to hold onto or sell the property and get out of the golf business for good. The key risk with holding onto the property is that the City may end up in the same position in the future if a private operator/manager is not able to make it work financially and walks away after their contract expires.

Another real potential with this option is that a private golf course manager/operator may find that the course simply cannot be an economically-viable operation without an ongoing subsidy, even with an up-front capital investment by the City.

OPTION 3: CEASE GOLF OPERATION AND USE LAND FOR OTHER RECREATIONAL PURPOSES

Discussion: Under this scenario, the golf course operation would cease and the land would be used for other recreational purposes – either public or private.

Key Perspective(s): Based on findings from the public process, the City is challenged to take care of the parks and trails it already has in the system, much less adding more acres and infrastructure. On the private side, developing new recreational facilities under a for-profit scenario is likely to be challenging and would require the City to almost give the land away. Some of the noted land restrictions may also preclude this from being a viable approach for much of the land area. Further, the local advocacy groups likely have limited capacity to develop new mountain bike or ski trails without more city support.

Decision Ramification(s): This option will require the City to set an investment threshold for capital improvements that it would be willing to make to transition the land from a golf course to some other recreational use. The City would also have to accept and plan for additional ongoing subsidy of any new public recreational features. A minimalist option would be to use the property as a trailhead for Memorial Park, and then set aside the remaining land as a land bank available for public use at some future date.

OPTION 4: CEASE GOLF OPERATION AND DIVEST PROPERTY

Discussion: This is essentially the default option if options 1, 2, and 3 are not pursued.

Key Perspective(s): There would likely be some onetime costs associated with divesting the property, such as removing some of the infrastructure in order to gain interest in anyone purchasing the property. In all likelihood, much of the land would revert back to or be purchased by previous or adjacent land owners at very modest costs. In other words, breaking even more or less would be the most prudent expectation that the City should have under this option.

Decision Ramification(s): This option essentially takes the City out of the golf business, most likely permanently.

RECOMMENDATIONS BASED ON STUDY FINDINGS

As the listed options illustrate, there is no perfect solution that will satisfy all parties or interests. Clearly, the *Red Wing Municipal Golf Corporation* group's belief in the course and spirited defense of their proposal to run it underscores their commitment to making it work. One also has to be open to the notion that Red Wing is in fact a more robust golf market than other areas or regions in Minnesota. And perhaps adding some new recreational features/uses and otherwise creatively managing the course would make it more inviting to non-golfers and enhance the community's sense of its value. These are indeed legitimate points to ponder and consider going forward.

Unfortunately, the findings of this process, overarching realities of the golf marketplace, and the economic challenges facing the course and city cannot be conveniently dismissed. The simple truth is that keeping the course open at any level will require more investment by the City.

The two key questions then become:

- 1) What level of investment is the City willing to make in the course within the context of the broader public good – keeping in mind that a dollar spent on the golf course is a dollar not spent somewhere else?
- 2) What level of investment will actually be required to improve the course and keep it running?

With the first question, the City Council is encouraged to proactively set forth the overarching principles and parameters that will guide its future decisions. In doing so, any proposals that ultimately come forward can be measured against set values that have been pre-vetted against the broader set of community priorities. This allows the City to take a more dispassionate view of the decisions being made about an amenity that has a long history in the city.

With the second question, the City should rely upon the marketplace (using an RFP process) to understand the viability of running the course as a self-sustaining enterprise relative to the principles and parameters it sets forth. The proposal (and subsequent revisions) put forth by the *Red Wing Municipal Golf Corporation* was by all accounts created in earnest. But too many uncertainties remain about the assumptions being made and the economic risks to the City for the Consultant team to recommend that approach be accepted outright. That said, the group should certainly be encouraged to submit a formal proposal to the City consistent with the provisions in an RFP that all potential vendors would have to adhere to.

The following lays out the consultant's recommended course of action based on the findings of this study. The recommendations assume that option 1 is not viable and thus uses option 2 as the starting point. Options 3 and 4 would come into play based on the results of an RFP process.

BASELINE DECISION PARAMETERS

The decision tree starts with the City Council clearly defining the overarching principles and parameters of an acceptable outcome, which would be reflected in the RFP. The following outlines some of the key considerations in this regard. (Note that specific dollar figures are not provided in this public document since doing so may be counter to the City's best interest in securing proposals.)

BE REALISTIC ABOUT THE INVESTMENT NEEDED TO BE SUCCESSFUL

If the City pursues keeping the course open, it is strongly encouraged to invest at a level needed to make the course a true local and tourist destination. Whereas some believe a minimal capital investment will suffice to get the course back running, under-investing raises the risk of continued poor economic performance. This will only result in the City being back in the same spot a few years from now. Notably, the public investment could be augmented with private funds, as was suggested at the public open house (where it was stated that a private contribution of \$200,000 was available, if matched).

At the City level, setting the capital investment and ongoing subsidy thresholds will be the most critical initial decisions. Within the RFP, defining expectations associated with marketing, maintenance, ancillary amenities and activities to be provided, etc. will be important for responders to prepare their proposals.

OPTIONS RELATED TO NUMBER OF HOLES

The RFP should define the extent to which the City expects proposers to define the pros/cons and benefits of providing 36, 27, or 18 holes. A pro forma of each should be asked for, plus having the proposer provide a recommendation on the most viable option. The pro forma requirements should include the capital investment requirements by the City, along with any ongoing subsidy required to make the given scenarios viable as an enterprise.

OPTIONS RELATED TO OPERATING OR OWNING THE COURSE

Through the RFP process, the City should explore the cost-benefit of the following:

- Having a vendor operate/manage the course as a publicly-owned facility
- Selling the course once any agreed upon capital investments were made; this would require clearly defining the obligations of any new owner to provide public golf services to the community

AMENITIES BEYOND GOLF

Clearly defining any expectations the City has for the vendor to accommodate recreational amenities and public uses of the course beyond the golf operation. This includes defining the extent to which access will be provided and the responsibility of the vendor and city to pay for value-added features. Although the findings of this study touched on this issue, additional diligence is needed at the master planning level to determine the type of amenities that could actually be accommodated, and the cost to the city to do so.

MARKETING STRATEGY/LEVEL OF COMMITMENT

Since success of the course will rely in part on attracting visitors, the City should require vendors to clearly define their approach to marketing and promotion of the course, including outlining basic strategies and level of funding commitment.

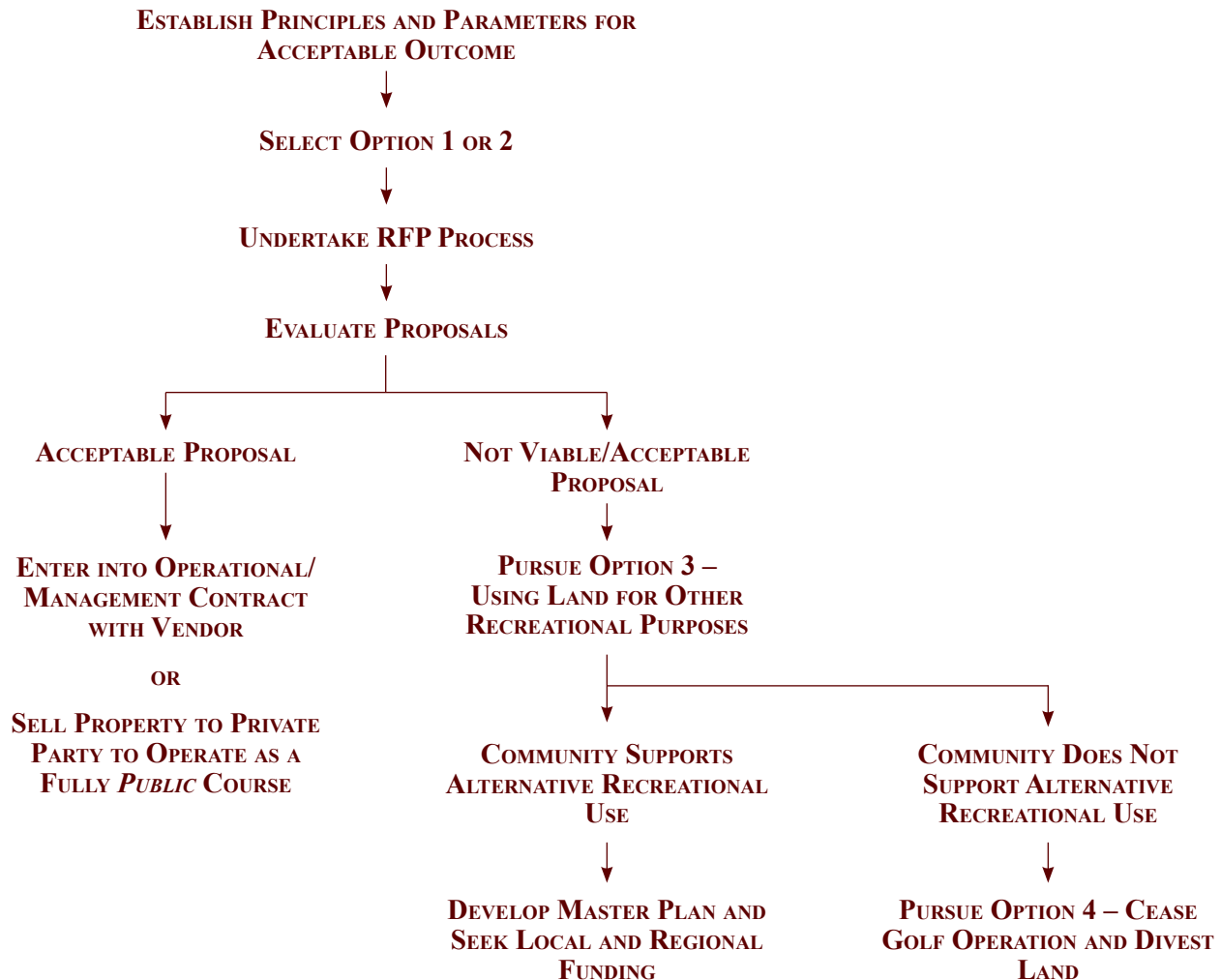
COLLABORATIVE OPPORTUNITIES WITH RED WING GOLF CLUB

As noted, the Red Wing Golf Club has publicly expressed a desire to collaborate with the City on solving the golf issue in Red Wing. A couple of possibilities in this regard include:

- Red Wing Golf Course becomes open space, with members moving to Mississippi River as part of larger negotiation; requires cost evaluation to determine level of City investment that would be justified relative to value of members supporting Mississippi National (through memberships, etc.)
- Mississippi National closes, and City takes over Red Wing Golf Course as fully public course; argument here is that Red Wing Golf Course is much smaller area and more cost effective to operate

DECISION TREE

The following lays out a basic decision tree that illustrates the options and course of action available as each decision is made.



As the decision tree illustrates, once the City establishes the parameters for an acceptable outcome, the decision process is straightforward. Note that under the “not viable/acceptable proposal” track, the decision time frame becomes less of an issue. Basically, should the decision be made to close the course, the City could take whatever time is needed to further consider the viability of option 3.

CONCLUSIONS/FINAL THOUGHTS

As already stated, there is no perfect solution that will satisfy all parties or interests. The decision tree as outlined is the Consultant’s best judgment as to how the City Council can best move forward in a thoughtful, professional manner.

APPENDIX A

(Prepared by: Springsted, Inc.)

Operating Projections for Mississippi National

Operating Information on Various Golf Courses - 2011 Audited Data

Observations:

- * # Rounds played seems to vary first by course location than by number of holes.
- * Cart revenue projected for Mississippi National much higher than average; may be indicative of the need to use a cart due to hilly nature of a portion of the course.
- * Several entities contract out food/beverage service.
- * Personnel costs on average appear to be much higher than estimated by RWMGC, primarily due to volunteer-time assumptions.
- * 6 of the 7 courses surveyed were subsidized with General Fund tax dollars. Average subsidy was \$159,241/year.
- * 5 of the 7 courses had negative operating income even after transfers. Average Net Income before transfer = (\$246,327); after transfer = (\$87,086).
- * This is income statement data so no capital expenditures are shown here. However, depreciation expense is estimated to cover capital outlay in a given year.
- The average depreciation/annual capital is assumed to be approximately \$157,000 annually. This varies significantly from the 2013-2017 average CIP needs listed on the Capital Outlay worksheet.
- * Our estimated annual subsidy is approximately (\$222,000). Initial restart-up capital costs will most likely increase this deficit in the first year

Course Name	Anoka	Apple Valley	Becker	Moorhead - (The Meadows) (Village Green)	New Prague	Woodbury	Average
# Holes	18	18	27	18	18	18	18
# Rounds Played 2011	32,900	31,123	27,381	25,942	21,191	26,421	27,233
Operating Revenues							
Golf Rounds	559,591	669,089	516,313	353,614	378,225	710,139	508,800
Carts	163,201	88,813	165,058	120,698	113,416	146,775	131,327
Range/Lessons		44,151	26,205	22,864	32,414	61,109	32,221
Pro Shop Sales	82,443	84,986	107,364		26,327	59,162	72,056
Beer/Liquor/Wine		77,313	see Moorhead	contract out/get approx.		79,730	79,730
Concession/Food/Non-alcoholic Beverage		59,512	see Moorhead	\$30k annual commission	113,570	100,279	91,120
Other	89,251		14,999	64,885	43,744	10,672	32,618
Total Operating Revenues	894,486	1,023,864	829,939	562,060	567,799	1,153,715	825,053
Operating Revs/Round	\$ 27.19	\$ 32.90	\$ 30.31	\$ 21.89	\$ 21.89	\$ 43.67	\$ 30.30
Operating Expenses							
Personal services	487,318	563,617	466,549	315,863	313,123	663,914	449,782
Supplies	145,279	147,078	97,613	86,600	94,040	126,499	112,388
Repairs and maintenance			74,168	13,374	52,035	57,541	54,516
Other charges		20,440	120,667	88,824	95,249	60,349	56,405
Professional services (incl. insurance/utilities)	163,327	66,989	73,926	42,171	71,512	91,005	85,070
Contractual services	117,291	21,835		60,208	73,614		54,590
Cost of Sales - Food & Beverage		65,133		See above		50,831	73,005
Cost of Sales - Pro Shop	78,155	112,448	100,863		18,380	53,188	72,607
Depreciation	319,295	60,712	225,364	104,973	104,973	181,140	157,495
Total Operating Expenses	1,310,665	1,058,252	1,159,150	712,014	804,545	1,302,386	1,022,222
Operating Income/(Loss)	(416,179)	(34,388)	(329,211)	(149,954)	(236,746)	(148,671)	(197,169)
Non-Operating Revenues/(Expenses)							
Interest income	260	9,142	19,789	19,789	70	18,516	11,261
Interest expense	(75,696)	(5,323)	(4,146)	(88,459)	(22,638)	(181,490)	(66,601)
Gain (loss) on sale of fixed assets	(7,363)	11,970	48,257				13,216
Other income			250	710			239
Total Non-Operating Revenues/(Expenses)	(82,799)	15,789	44,361	(67,960)	(22,568)	(162,974)	(49,159)
Income (loss) before transfers	(498,978)	(18,599)	(284,850)	(217,913)	(304,706)	(311,645)	(246,327)
Transfers In	209,380		179,060	255,110	121,270	94,760	159,241
Transfers Out							
Net income	(289,598)	(18,599)	(105,790)	37,197	(49,596)	(216,885)	(87,086)
Net income without transfers in	(498,978)	(18,599)	(284,850)	(217,913)	(304,706)	(311,645)	(246,327)

1 time capital costs to operate/supplies
1 time capital costs for kitchen items*

Net Year 1 (307,544) (45,044) (462,618) (492,044)

* No estimate for kitchen capital items yet revenues reflect extensive food/beverage sales.

APPENDIX B

(Prepared by:
Springsted, Inc.)

Projected Capital Outlay at Mississippi National 2013-2023+												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023+	Totals
Capital Outlay - Buildings - Requirements												
Cart Storage Building						3,437						26,489
Club House		106,901	23,052								188,295	295,196
Gazebo												-
Old High Pump House			2,890								6,356	9,246
Low Pump House												-
Maintenance Shop												-
New Pump House												-
Old High Pump House #2	615			354		16,645					77,422	94,067
Range Building				354					905			969
Golf Course Storage			32,886						3,161			1,259
Total Capital Outlay - Requirements	615	106,901	58,828	708	-	20,082	-	-	4,066	-	272,073	463,273
5-Year Average = \$33,410/year												
Capital Outlay - Buildings - Renewal												
Cart Storage Building	26,450		1,941		42,050	4,212		6,315				80,968
Club House	366,194	105,767	254,963	290,552	20,707	24,188	99,457	162,996	8,237			1,333,061
Gazebo				2,774								2,774
Old High Pump House	6,197	2,270	2,012	4,009		5,761		27,841			4,938	53,028
Low Pump House	40,889		2,647					7,035				50,571
Maintenance Shop	6,019		13,319	14,248		16,394		53,050	3,555		6,769	113,354
New Pump House			4,919	4,571			56,444					65,934
Old High Pump House #2		2,600	57,210	3,920				6,082				69,812
Range Building	3,801	2,128	2,846	923	1,205			33,520				44,423
Golf Course Storage							484	24,174				24,658
Total Capital Outlay - Renewals	449,550	112,765	339,857	320,997	63,962	50,555	156,385	321,013	11,792	-	11,707	1,838,583
5-Year Average = \$257,426/year												
Capital Outlay - Outside												
Cart Paths	50,000	50,000	50,000	50,000	100,000	100,000	50,000	50,000	50,000	100,000		650,000
Bridge Replacement				45,000								45,000
Irrigation System			100,000	53,500			100,000					253,500
Dredge Pond #2											100,000	100,000
Total Capital Outlay - Outside	50,000	50,000	150,000	148,500	100,000	100,000	150,000	50,000	50,000	100,000	100,000	1,048,500
5-Year Average = \$95,700/year												
5-Year Average Summary = \$390,536/year												

	2008	2009	2010	2011	2012	2013
Actual City Expenditures (buildings/land/maintenance)	107,816	131,608	162,580	78,132	111,529	
some capital deferred pending outcome of study						