



## CITY COUNCIL AGENDA REPORT

To: Honorable Mayor and City Council Members  
From: Kay Kuhlmann, Council Administrator  
Agenda Item No.: 9C Mississippi National Golf Links Action  
Meeting Date: September 12, 2011

### **Action Requested**

The City Council is asked to consider two motions. Both motions are recommended by Ad-Hoc Golf Course Committee of Mayor Dennis Egan, Council Vice President Lisa Bayley and Council member Mike Schultz.

In addition to the two motions listed below, the committee is recommending a process to conclude the discussion on the possible sale of the golf course.

- 1, Motion to decline the Technical Proposal for the purchase of Mississippi National Golf Links submitted by Sharan & Gerald Wendel on July 29, 2011.
2. Motion to decline Red Wing Municipal Golf Course Corporation proposal to operate Mississippi National Golf Course.

### **Attachments**

- Technical Proposal RFP for Mississippi National Golf Links submitted by Sharan & Gerald Wendel (confidential – for City Council only)
- Information submitted by Red Wing Municipal Golf Corporation
- Mississippi National Proposal Comparison (confidential – For City Council only)

### **Background**

The City of Red Wing has been addressing declining state revenues since 2009. In response to reductions in revenues, the city has made reductions in expenditures. In two years the City has reduced employment by 34 full time positions, reduced the capital budget by several hundred thousand dollars a year, and used fund balance to bridge budget gaps. Despite the efforts, the city again faces a budget shortfall of an estimated \$1.8 million in 2011.

Council direction has been to continue to identify service reductions. The sale of Mississippi National was only identified as an expenditure reduction because of the severe fiscal crisis the city was and continues to experience and because the golf course service could continue as a private operation.

The initial approach to selling the golf course was to negotiate with the lease holder. After month of discussion the Council determined that a public sale process should

occur. The city created a Request for Proposal document and advertised the sale through multiple sources. The process was started in the spring of 2011 and concluded in August of 2011. One proposal was submitted by Sharan and Gerald Wendel. The Red Wing Municipal Golf Corporation (RWMGC) presented information to the City Council on July 25, 2011 and has provided additional information since that date.

The Golf Course Ad-Hoc Committee met to review the Wendel proposal in August. The proposal is attached for your review. The key elements are highlighted in the attached comparison.

The RWMGC also submitted a proposal, but not in response to the City's Request for Proposal. The proposal outlines a scenario where the non-profit corporation would operate the golf course. The corporation directors Jim Clark, Chris Crider, Joan Collinge, James Eng, Erik Fridell, Gary Fridell, David Hanft, John Kjolhaug, Judith Kjome, Dean Lund, Jan Pinsonneault, Robert Tjossem and Greg Turner dedicated an extensive amount of time preparing a proposal which included Director Biographies, business pro forma, equipment leases and amortization tables for bond & bridge loans. RWMGC representatives also met with the Golf Course Ad-Hoc Committee on two occasions to address questions and further explain the proposal.

The comparison document referenced above included the information submitted by the Sharon & Gerald Wendel, the Red Wing Municipal Golf Corporation and the proposal from Wendell Pittinger Golf Operations. The purpose of the three way comparison was to show the Council three different types of proposal and to help weigh the fiscal impact on the City.

### **Discussion**

The Golf Course Committee met on Friday, September 9<sup>th</sup> to consider the two proposals and make a recommendation to the City Council. The sale of Mississippi National assumes that the City would be able to terminate the lease with WPGO. The buy-out cost is assumed to be the pay-off of the outstanding bonds.

With this understanding, consideration was given to the Wendel proposal. The strength of the Wendel proposal is their extensive operational knowledge of golf course management. The weakness of the proposal is that the offered price does not cover outstanding debt and contingency of city responsibilities to completed unfinished/deferred maintenance items. The net short term financial impact would be negative. The long term impact would be the savings of the city's annual contribution to maintenance of the asset.

The Golf Course Ad-Hoc Committee considered the RWMGC proposal. The strength of the proposal is that the golf course remains a city asset; the golf course could see revenues which would reduce or eliminate city fiscal burdens, and the dedication and talent in the corporate directors. The weakness of the proposal is the negative fiscal impact on the City. The City would have to pay off the bond, back a bridge loan and would assume losses should they occur.

The Ad Hoc Golf Course Committee compared the Wendel and RWMGC proposal with the negotiated deal with WPGO. Financially the negotiation with WPGO was

more favorable than the proposal from the Wendels and RWMGC. Therefore, the Golf Course Ad-Hoc Committee recommends the City Council pass two motions to decline both proposals.

If the Council takes action to decline the Wendel and RWMGC proposals, the Committee recommendation moving forward is as follows:

1. The Golf Course Ad-Hoc Committee recommends the Council reinstate negotiations with WPGO. The comparison data shows that some of the elements are open for negotiations. The negotiations should be concluded prior to the September 26<sup>th</sup> City Council meeting so that the Council can receive a draft of the purchase agreement.
2. The Golf Course Ad-Hoc Committee recommends the Council hold a public forum on Wednesday, October 5<sup>th</sup> to discuss the draft purchase agreement with citizens. This meeting would be held in the Council chambers at 7 p.m.
3. The Golf Course Ad-Hoc Committee recommends that the Council consider sale of the Mississippi National Golf Links at the October 10, 2011 City Council meeting.

### **Financial Impact**

The attached proposal comparison was created to assist with the fiscal analysis. The Wendel proposal and the RWMGC proposal are recommended to be eliminated from further consideration due to the short term negative fiscal impact or the uncertainty of the fiscal impact.

### **Alternatives**

The City Council has several alternatives available to consider. They are as follows:

1. Pass motions to decline the offer to sell Mississippi National Golf Links to Sharan and Gerald Wendel and to work with the RWMGC to operate Mississippi National Golf Links and direct the Golf Course Ad-Hoc Committee to reinstate negotiations with WPGO.
2. Consider entering into a sale agreement with Sharan and Gerald Wendel
3. Consider entering into an operational agreement with Red Wing Municipal Golf Corporation (RWMGC).

### **Recommendation**

The Golf Course Ad-Hoc Committee recommends Council pursue alternative 1 as listed above.

### RWMGC and the City of Red Wing, a Public Private Partnership

The non-profit management model as proposed by RWMGC is much more than the City lending money to the group for a bridge loan for beginning operational expenses and possibly equipment and inventory. It is a partnership of the City and the group working towards one common goal, which is to ensure this valuable asset remains so for generations to come. It is a proposal that is predicated upon the City partnering with the group.

We envision the City providing its expertise and assistance whenever possible, whether financial or otherwise, as it will be in the City's interest to do so. One long-term goal of the partnership is to reach a point where the golf course becomes an additional source of revenue for the City.

### Bond Debt

In return for assuming the bond debt, the City retains title and control of the land that was purchased and improved with the bond proceeds. The RWMGC financial model shows proceeds from the golf course operation retiring the debt on this City asset free from any City contribution.

### Risks

Certainly there are some risks in this untested public-private partnership. However, at a minimum, it gives the City time to allow the real estate market to recover instead of locking in a sale at depressed prices. There are also undeniable risks in the private sale. Once title to the property is in private hands there is the potential of the buyer, or subsequent buyers, attempting to defeat deed restrictions. If the City retains title and control, it alone will determine future use.

**PRESENTATION TO RED WING CITY COUNCIL, CITY STAFF, AND THE CITIZENS OF  
RED WING, MN FROM THE RED WING MUNICIPAL GOLF CORPORATION  
CONCERNING THE FUTURE OF MISSISSIPPI NATIONAL GOLF LINKS**

We, the newly formed non-profit Red Wing Municipal Golf Corporation, thank Red Wing City Council, Staff, and the Ad-Hoc Golf Course Committee for the opportunity to present our thoroughly researched plan to keep the current Mississippi National Golf Links in the hands of its current owners, the citizens of Red Wing, MN. Red Wing Municipal Golf Corporation was formed in the successful mold of various non-profit golf course management companies in the United States. The primary goal of non-profit golf course management is to run a self-sustaining golf course that would be completely absent of taxpayer investment in yearly operational and capital improvement expenditure. All revenues of operations are funneled directly back into the improvement and enhancement of prior citizen investment in our publicly-owned golf course. The following framework is the basis for private-public partnership that benefits all parties concerned.

The extraordinary amount of detail necessary for a complete overview of a community-owned, non-profit company run golf course is not possible to relate in a ten-minute presentation. The many facets of a business plan, promotional needs, membership involvement in operations and maintenance, and administration of this innovative, progressive, and exciting venture have been undertaken in earnest. However, the realization of our plan cannot be accomplished without the support and cooperation of City Council, City Staff, and the citizens in general. We wish to highlight the foundations for what we believe is an opportunity to not only become a highly successful example of community involvement and enhancement in community building but a nationally-recognized golf course operations model for other cities to emulate for years to come. Open and transparent communication between citizens, city government, and Red Wing Municipal Golf Corporation is highly encouraged and we look forward to the opportunity to keep our gorgeous community asset thriving and renowned throughout the region, state, and nation. The creation of our non-profit model has only been made possible by tapping and utilizing the incredible amount of passion, creativity, and intelligence of our city's residents.

Sincerely,

Red Wing Municipal Golf Corporation Board of Directors

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**In order to preserve and enhance the quality of life for all citizens of Red Wing, the City of Red Wing needs to save Mississippi National Golf Links, a 400-acre-public recreational facility built with the imagination, work, and money of Red Wing civic-minded citizens for the use of succeeding generations of Red Wing citizens.**

**This is a plan to (1) save Mississippi National Golf Links as a publicly-owned golf facility serving the people of Red Wing; (2) remove the City, the taxpayers of Red Wing, from payment of operating expenses and capital improvements for Mississippi National Golf Links; (3) pay the remaining 1.2 million dollars owing on the construction of MNGL from the revenues of MNGL; (4) save the \$5.1 million investment in MNGL that the citizens of Red Wing have already made; and (5) allow the present lessee to leave MNGL, as he seemingly wants.**

Three factors seem to drive the effort of the City staff and City Council to sell Mississippi National Golf Links. The City, sensibly, does not want to pay for the yearly operation and maintenance expenses of MNGL. The City, sensibly, does not want to pay for the capital improvements of MNGL. Both of these potential expenses for the City are imposed by the 2008 lease the City entered into with Wendell Pittenger. A third factor is the 1.12 million dollars owed on a City revenue bond, owned by Associated Bank and guaranteed by Mr. Wendell Pittenger.

The following is a plan to save MNGL as a publicly-owned golf course and eliminate City payments for MNGL's operation, maintenance, and capital improvements. This plan would also pay for the \$1.12 million owing on the golf course by revenues from the golf course, and not from the City's general funds.

1. Mr. Pittenger and the City would agree to cancel and terminate the 2008 lease. The key to preserving MNGL as a publicly-owned recreational facility is to terminate the 2008 lease that is so unfavorable to the City of Red Wing. The reasons the City needs to terminate this lease are obvious. But, why would Mr. Pittenger agree to terminate a lease that is so favorable to him and unfavorable to the City? One important reason is that Mr. Pittenger is the guarantor of the \$1.12 million owed on the revenue bond that is due Associated Bank in September 2011. Associated Bank is also the mortgagee on the Pittenger lease. If the \$1.12 million is not paid by September 2011—and it will not be paid by the revenues from the golf course—Mr. Pittenger will be responsible for paying the entire amount remaining on the bond. On the assumption that Mr. Pittenger would rather not pay \$1.12 million to Associated Bank in September, and also because Mr. Pittenger has in numerous ways expressed a desire to be released from his lease with Red Wing, under this plan there is much for Mr. Pittenger to find attractive.
2. The City would agree to take responsibility for the \$1.12 million owed Associated Bank and agree that Mr. Pittenger would have no further responsibility for payment of the \$1.12 million remaining on the revenue bond. See #7 for the source of funding.

3. Mr. Pittenger would agree to terminate his association with MNGL and transfer the personal property that he owns related to MNGL to the City. (Mr. Pittenger would retain the name MNGL and his lease of golf carts.)
4. The City would enter into a new lease with a new lessee to operate the golf course. This lease would be only five years in length. The new lessee would be responsible for all operation and maintenance expenses of MNGL as well as all capital improvements. The lessee would agree to an open account on the revenues and expenses of MNGL at all times and the books would be subject to inspection by the City. The lessee would agree to pay the \$1.12 million to the City from the revenues of the golf course over a period of time. (This is like the original plan to repay the revenue bond from golf course revenues over a number of years.)
5. The lessee of MNGL will be a local group which will operate MNGL on a non-profit basis. It is recommended there be a local group for a number of reasons. The local operators will bring local knowledge of the course along with enthusiasm because the course belongs to the citizens of Red Wing. We have Red Wing citizens who have the will, knowledge, ability, and enthusiasm to operate MNGL as a municipal course for the City of Red Wing. We have people in Red Wing who are perfectly capable and can maintain the golf course, operate the clubhouse, bar and grill, and pro shop. The local group would encourage and use local volunteers to assist in the maintenance and operation of MNGL. We already see talented and enthusiastic citizens working on and for the Sheldon Theatre, the library, the Athletic Field ballpark, etc.
6. The five-year lease would give the City, the lessee, and the golfing public time to assess how MNGL was being operated. Today, with no audit of MNGL for its 26 years of existence, we do not know the revenues and expenses of MNGL. After five years, the City, the lessees, and the golfing public will have an understanding of the financial situation of MNGL. After five years the City can evaluate what it wishes to do with MNGL: continue with the local lessee, obtain a new lessee, operate MNGL with City staff, or sell MNGL. After five years the local lessee will be able to evaluate whether or not it makes sense to continue to operate MNGL for the public.
7. The \$1.12 million to pay off the bond could be negotiated by the City with some local financial institution, as was done in 1998, with the \$1.12 million to be paid from golf course revenues. This would not, however, be the best plan. I recommend the City invest \$1.12 million in the \$5.1million-City asset, MNGL, from the City's "rainy day" fund. This \$1.12 million from the "rainy day" fund will not permanently be gone. The money from the "rainy day" fund will be an investment by the City in this valuable Red Wing asset. The money from the City "rainy day" fund will be repaid to the City "rainy day" fund over a period of years from the revenues of the golf course. A huge advantage would be no interest payment, as would be the case of a revenue bond. In this case, the City investing in itself makes financial sense. The City would lose some interest, but consider that under present interest rates that the City is getting very little interest on its funds, anyway. For example, if

\$50,000 per year were repaid to the “rainy day” fund from the revenue of the golf course, in 23 years the “rainy day” fund would be completely repaid. The City would have a completely paid-for 36-hole golf course that would serve Red Wing citizens on into the future, while at the same time bringing in tourists and tourist dollars.

8. The new lease will be limited to five years so that the City and the lessee can evaluate the future of MNGL. The City will have complete, transparent, and clear financial records from the course. The City will, if it decides to sell MNGL in five years, have sufficient time to advantageously market the golf course, be able to sell the course without a 30-year lease that depresses the amount the City could get for the golf course, be able to sell to someone other than the lessee operator, sell at a time when probably the market for golf courses is not at its lowest point as is the case today, be able to sell the course with knowledge of its financial and physical condition rather than ignorance, as is the case today, and generally be able to sell without the rush that is present today. The new lessee would also be able to evaluate his position from knowledge, rather than ignorance, and to determine if a continued lease would be in his best interests.
9. The local users of MNGL will form a volunteer advocacy organization to assist the lessees in the operation of MNGL. We, the citizens of Red Wing, we who own MNGL, will enthusiastically join to make the public municipal golf course a success. We, the citizens, will be making a better asset for ourselves. Thirty-five and twenty-five years ago, optimistic and forward-looking citizens gave Red Wing a publicly-owned golf facility. We have the same optimistic and forward-looking citizens today who will make MNGL a true gem of southern Minnesota recreational facilities.

What are the costs, advantages and disadvantages to the City?

Costs: The City will immediately use \$1.12 million from its “rainy day” fund. But, this amount will be paid back in full to the City over 20 to 25 years.

Advantages:

- (1) The City will no longer have yearly obligations to operate and maintain MNGL.
- (2) The City will no longer have obligations to fund capital improvements at MNGL.
- (3) The \$1.12 million owed on the bond will be repaid in full from the revenues of the golf course, not from general tax levies.
- (4) The City will be able to examine any and all financial records of the golf course.
- (5) The City will not lose the \$5.1 million dollars already invested in MNGL by the citizens of Red Wing.
- (6) The City will retain a wonderful 400-acre recreational facility for its citizens for generations to come.

(7) The vision and hard work of past Red Wing citizens to give a publicly-owned golf course to Red Wing will not be destroyed.

(8) Red Wing will have a premier recreation facility that will attract residents and tourists to the City for years to come.

(9) The actual cost to the City after 23 years will be none.

(10) After financing costs (\$1.12 million) are paid, the publicly-owned MNGL will thereafter be making money available for other recreation activities in Red Wing.

(11) Associated Bank will be repaid its \$1.12 million loan.

(12) Mr. Pittenger will no longer owe Associated Bank \$1.12 million dollars.

(13) Mr. Pittenger will be able to exit his 30-year lease with the City, as he has been trying to do since 2005.

Disadvantages: To the City of Red Wing, NONE. For the local lessees, there is some risk, but this is mitigated by a short five-year lease.

While local persons with whom I have talked are convinced MNGL can be run as a public golf course for the citizens of Red Wing, after five years everyone will have facts and knowledge to assess their assumptions. That knowledge is missing today. Frankly, I believe that after five years both the City of Red Wing and the lessees will be so pleased with the operation of the publicly- owned and locally-leased MNGL, that this successful public-private partnership based on transparency and clarity will be the option that all parties will enthusiastically embrace for the future.

Some might ask why the City, by paying Associated Bank \$1.12 million, should pay the debt of a private individual, Mr. Wendell Pittenger. I agree with the principle that the City has no business paying off an obligation of a private individual. In this case, there are reasons for the City doing so. The City of Red Wing has already benefitted from most of the \$1.7 million-dollar revenue bond that Mr. Pittenger has guaranteed. We have examined City records and found most of the \$1.7 million was used to pay for land for the last nine holes, for construction of the last nine holes, for an addition to the clubhouse, and for improvements to the course. The City's agreeing to take over Mr. Pittenger's \$1.12 million obligation is compensation to Mr. Pittenger for termination of his lease.

This plan is truly a five-win plan: for the City, the citizens, the golfing public, Mr. Pittenger, and Associated Bank. We can do it; we need the will. Save MNGL offers its help to the City of Red Wing in preserving one of Red Wing's fine public assets. We can Save MNGL, the City's expenditures on MNGL will be terminated in this time of fiscal problems, and the City's income from MNGL will be increased once the \$1.12 million is paid off.

Save MNGL  
Gary Fridell