



## CITY COUNCIL AGENDA REPORT

To: Honorable Mayor and City Council Members  
From: Kay Kuhlmann, Council Administrator  
Agenda Item No.: 9F.1  
Meeting Date: March 22, 2013

### **Action Requested**

Consider proposal from Red Wing Municipal Golf Corporation

### **Attachments**

Red Wing Municipal Golf Corporation proposed a 3-Year Lease, 36-Hole Red Wing Public Golf Course Management Proposal

### **Background**

The Mayor and City Council have struggled with the future of Mississippi National Golf Links for several years. Most recently the City Council took action on February 25, 2013 as reported in the minutes of the Council meeting. *“Regarding the short-term recommendation, Council Member Ralph Rauterkus moved, seconded by Council Member Peggy Rehder, to adopt option #5 (leave the course closed for 2013 golf season but keep the driving range open for the entire season). After further discussion, the motion carried unanimously.”*

Since that time, the Red Wing Municipal Golf Corporation has proposed a new 3-year lease, 36-hole Red Wing Public Golf Course Management Proposal. This proposal is attached for your review.

The Council Ad-Hoc Golf Course Committee has met twice since the February 25 City Council action to discuss 1) the driving range; 2) the long term planning process; and 3) the Red Wing Golf Corporation proposal.

Recommendations on Council agenda items 9F2 and 9F3 are based on previous direction from the City Council (both the February 25 and March 11) meetings.

The Red Wing Municipal Golf Corporation Management Proposal submitted to the City on Monday, March 18 is different in several ways from previous proposals submitted by the corporation. The Management Proposal highlights the new facts and proposals that address the Council Ad Hoc Committee report of February 22, 2013. The proposal also provides corrections and explanations to the Ad Hoc Committee report and answers to specific ad hoc committee

concerns. The report addresses the undercapitalization of the Red Wing Municipal Corporation, provides a comparison of the Red Wing Municipal Golf Course proposal with the City's mothballing proposal, and provides a profit and loss statement.

### **Discussion**

The Ad Hoc Golf Committee met on Friday, March 22, 2013 to discuss the proposal, to discuss the related litigation, and discuss the proposal with Red Wing Municipal Golf Corporation Board members President John Kjolhaug, Vice-President Gary Fridell, and Jan Pinsonneault.

The following is a brief summary of the issues discussed by the Ad Hoc Committee.

**Indemnification**—The City asked the Red Wing Municipal Golf Course Corporation representatives to protect the City against any claim by the bank for revenues generated at Mississippi National. The potential claim could be up to \$735,000, as that is the outstanding balance of the Revenue Bond.

The Red Wing Municipal Golf Course Corporation cannot provide this protection or indemnification; they suggest the corporation could negotiate a lease term long enough to allow fifteen years to repay the \$735,000 to the City.

Background on indemnification - Issues of validity of the leasehold mortgage and the revenue bond will be addressed this summer through the litigation process. The discovery for Associated Bank and Wendell will be served in March. We anticipate bringing summary judgment motion to court this summer, with an expectation for a court order this fall.

- 1) Unless resolved, revenues generated by the RWMGC may result in Associated Bank sending the City a bill for revenues to go toward the outstanding bond balance. The balloon payment due in November of 2012 was not paid. The balance is approximately \$735,000. The litigation would be against the City and not RWMGC because we hold the Revenue Bond.
  - a) The way to address this concern is for the RWMGC to indemnify the City through cash, or a letter of credit or a bond.
- 2) The bank continues to assert its leasehold interest. This means that the bank could file for injunctive relief to stop the RWMGC operation because the lease provides the bank with this right if WPGO does not operate, and/or request all revenues.
  - a) There is no way to address this concern if the Council determines to enter into a lease with RWMGC. The only action would be to defend the motion if entered by the bank.
  - b) If injunctive relief is given by the courts, the City would be on the hook for all contracts entered into by RWMGC and co-signed by the City. There have been cases where liens have been placed against public property for outstanding debt.

**Management Plan**— Several issues were discussed as part of the proposed management plan. A primary issue is the cash flow. The City's concern is that there doesn't seem to be adequate resources to address any type of unexpected expenditure. The representatives of the Red Wing Municipal Golf Corporation have talked to local bankers to seek funds and have gotten positive feedback from a local banker about setting up a consortium of banks to share in providing cash flow. Another discussion focused on the expenditures listed in the profit and

loss statement. The Red Wing Municipal Golf Corporation proposed expenditures estimates are low in the areas of utilities, service contracts, building repairs, and contractual service repairs.

Background on City Expenditures – The City estimated cost for utilities is approximately double the estimate in the Management Proposal budget. Also, the City averages \$4,400 annually for elevator, alarm and fire system contracts; \$13,875 for service repairs (services performed by outside contractors such as plumbers); and \$17,250 for building repairs. In addition, the City would seek reimbursement for equipment purchase to operate the driving range. This is \$17,000.

**Lease Discussion** – The Ad Hoc Committee identified several lease provisions including the City’s need to review equipment rental agreements, proof of insurance (liability, property and worker’s compensation); background checks on all corporate board members and the local manager for liquor licenses; and copies of the incorporation documents and the IRS acknowledgement letter. In addition, the City would need the lease to contain all the maintenance provisions listed as City maintenance obligations in the WPGO Section VII A-V (except Q & R) and maintenance items listed as the responsibility of WPGO in Section IX A-I.

Background on Lease – The lease will be an extensive document just like the lease with WPGO. If the Council wishes to enter into a lease, the Ad Hoc committee feels a memorandum of understanding should be created to outline the agreement so that both parties could proceed. The City would draft a lease and initiate negotiations and the Red Wing Municipal Golf Corporation would provide the City with the documents listed in the paragraph above.

**Driving Range** – A brief discussion on the driving range resulted in agreement that if the Red Wing Municipal Golf Corporation is to operate the driving range and collect the revenue. The corporation must also take responsibility for maintenance of the driving range.

**Long Term Planning** – Long term planning for the area was not specifically discussed in the meeting with representatives of the Red Wing Municipal Golf Corporation. However, a three year agreement that commits to 36 holes of golf operation changes the long term planning process.

### **Recommendation**

The Council members of the Ad Hoc Committee weren’t able to come to an agreement on the proposal. They anticipate discussing the proposal with the full Council.

The City Attorney and City staff strongly recommend against entering into a lease agreement with the Red Wing Municipal Golf Corporation. The primary reason is the ongoing litigation with Associated Bank that, however small, risks up to \$735,000.

If the City Council directs staff to proceed with negotiating a lease with the Red Wing Municipal Golf Corporation, staff recommends Council not enter into a contract for the driving range maintenance and for long term planning services as presented in agenda items 9F2 and 9F3.

**RED WING MUNICIPAL GOLF CORPORATION**  
**3-Year Lease, 36-Hole Red Wing Public Golf Course**  
**Management Proposal**

**RWMGC will operate and maintain the 36-hole Red Wing public golf course.**

- **RWMGC and the City of Red Wing will enter in to a three-year lease arrangement. The lease will be revenue/expense neutral: RWMGC will require NO taxpayer funds to operate the golf course.**
  
- **Golf course operation, at least for the first year, will be minimalist; that is, we will**
  - **sell golf memberships and green fees;**
  - **provide golf carts (RWMGC has a fantastic arrangement with EZ GO carts for 60 electric carts @ \$575 per cart per year);**
  - **have no on-site prepared food service;**
  - **provide limited beverage sales: (e.g., beer, nonalcoholic beverages, water);**
  - **offer only limited golf shop sales: (e.g., balls, gloves, tees, etc.).**
  
- **RWMGC will operate 36 holes. Both Sharan Wendel and Nate Petric, Wendell Pittenger employees, have stated that out-of-town golfers, who pay green fees, come to Red Wing to play the Highlands course. The Highlands course requires golf carts to play. The main sources of revenue for the Red Wing public golf course are green fees and cart rental. Thus, the Highlands course is the main revenue source for RWMGC. Further, it makes no financial sense to operate only one 18-hole course while maintaining both 18-hole courses in 2013. Nor does it make sense to have RWMGC operate one 18-hole course and the City pay to mothball the other 18 holes. RWMGC will operate and pay for maintenance for both 18-hole courses with revenues from golfers.**
  
- **A 36-hole operation will provide the Red Wing High School golf teams a home course for practice and competition.**
  
- **Grounds Maintenance of the 36 holes will be the priority of RWMGC. RWMGC has a brand new agreement with Turfwerks for a three-year lease of equipment at \$132,000 per year for three years. Turfwerks does require the City to co-sign the lease. The good news is that Turfwerks has now agreed to limit the City's potential liability in the event of a failure of RWMGC to complete the three year lease agreement. The City's potential liability is now limited to one year, or \$132,000, not the \$482,000 as stated in the *Ad Hoc* Committee Report.**
  
- **RWMGC and the City will agree that if RWMGC operates the Red Wing public golf course in a break-even manner, the City will extend the lease between RWMGC and the City operation of the City's public golf course beyond the initial 3-year lease.**
  
- **RWMGC will limit personnel expenses in administration and food and beverage service.**

- **RWMGC will initially have no golf professional; no on-site, kitchen-prepared food; and limited beverage service.**
  
- **RWMGC will keep statistics on golfers, hometowns, which course is played, etc., so that in three years the City, as well as RWMGC, will possess facts, rather than speculations, about golf course usage.**
  
- **The books and records of RWMGC will be open to inspection by the City of Red Wing.**
  
- **RWMGC will partner with other Red Wing groups for use of the golf course land; e.g., cross-country skiers, hikers, Horticulture Society, ELC, Friends of the Bluffs, etc. RWMGC will work with the MN DNR on projects like European buckthorn eradication.**
  
- **RWMGC will participate with the City in a conversation as to the use of the approximately 390 acres of golf course land over the next three years.**

## **NEW FACTS AND PROPOSALS SUBSEQUENT TO THE *AD HOC* COMMITTEE REPORT OF FEB. 22, 2013**

This new proposal by RWMGC to operate the Red Wing Municipal Golf Course, as an alternative to the expensive “mothballing” of the Red Wing public golf course, is made because of (A) new conversations with City Council members, (B) new facts of which the *Ad Hoc* Committee was unaware, and (C) your consideration of RWMGC's new 3-year lease, 36-hole operation proposal allows RWMGC to respond to the *Ad Hoc* Committee report of Feb. 22, 2013.

1. **EQUIPMENT:** Turfwerks, a golf course equipment supplier, made a new and exciting offer to RWMGC whereby, for course maintenance equipment, RWMGC and Turfwerks will agree to, and the City will co-sign, a 3-year lease of **\$132,000** per year. **BUT**, the City's exposure to RWMGC's defaulting on the lease would be limited to one year, or **\$132,000**. The *Ad Hoc* report showed the City's financial exposure to be **\$482,000**. The City's potential liability is now limited to one year, or **\$132,000**, not the **\$482,000**, as stated in the *Ad Hoc* Committee Report.
2. **CART RENTAL:** EZ GO Carts has made RWMGC a fantastic offer of cart leases at **\$575** per cart per year. This means that RWMGC can operate its cart rental fleet for the annual expense of **\$34,500** for a 60 cart fleet. RWMGC originally thought we would have to pay **\$83,324** annually for cart leases.
3. **MEMBERSHIPS:** The Red Wing public golf course will have **\$30,000** in memberships, not **\$25,000**. We are confident that we will receive more memberships when we can announce we will be operating the Red Wing public golf course in 2013 and beyond.
4. **LEASE LENGTH:** RWMGC is offering this 3-year lease proposal to the City as an alternative to a 5-year lease, and as a compromise between the City's proposal of a 1-year lease and our proposal of a 5-year lease.

## **CORRECTIONS AND EXPLANATIONS TO THE *AD HOC* COMMITTEE REPORT**

The *Ad Hoc* Report states that “35,000 rounds, ... which are very optimistic.” RWMGC's golf rounds estimate is based upon actual prior-year MNGL rounds data as provided by Wendell Pittenger to Norby Appraisal, plus detailed discussions with previous employees of MNGL regarding actual rounds played, plus the National Golf Foundation (NGF) Golf Industry Standards and Norms Report for Municipal Golf Courses, plus NGF past and current Minnesota Rounds Played Monthly Data. **WE REMAIN CONFIDENT IN OUR ANALYSIS.**

Having said this, because of the late start in 2013, the uncertainty about the course opening in 2013, and the “poaching” of members by area golf courses, RWMGC has adjusted our projections for 2013 to 15,000 rounds played. (RWMGC is offering conservative numbers).

The Ad Hoc Report states that RWMGC's January 14, 2013 proposal “omits other start-up costs (for example, point-of-sale equipment such as cash registers, computers, furniture, course equipment).” These items were built into our budget. RWMGC apologizes for not specifically identifying these items in our Projected Profit and Loss Income Statements. We should have identified these items under the Expensed sub-category of Other. RWMGC plans on using prepaid memberships and pledge funds to pay for start-up expenses before green fees and cart rental revenues arrive.

The *Ad Hoc* Report did not address the loss of business to the Red Wing business community by mothballing the Red Wing public golf course in 2013. Kathy Silverthorn, Executive Director of the Red Wing Visitor and Convention Bureau, has provided RWMGC with the following information:

*Nichols Inn and Americinn*

	<i>2011 golf packages sold</i>	<i>\$15,970.41</i>
	<i>2012 golf packages sold</i>	<i>\$ 9,585.12</i>
<i>St. James Hotel</i>	<i>27 golf packages @ \$180.00</i>	<i>\$ 4,860.00</i>
<i>Best Western</i>	<i>29 golf packages @ \$205.00</i>	<i>\$ 5,945.00</i>
<i>Country Inn and Suites</i>	<i>2011 sold over 250 room nights</i>	
<i>Neelam Shah of The Super 8 and Parkway Motel: “Some people come and stay and golf every year.”</i>		

- RWMGC will offer Stay and Play Golf packages with Red Wing motels and hotels.
- Sargent's Nursery has told us of many conversations with customers who say they are at the Nursery while spouses are playing golf at the Red Wing public golf course.
- While we do not have statistics about golf tourists and the Red Wing food and beverage industry, we do know golf tourists eat and drink and buy gas at Red Wing establishments. The Red Wing public golf course is a \$750,000 to \$1,000,000 Red Wing business which RWMGC will continue running, but which mothballing would eliminate. No business, including the Red Wing public golf course, can close for a year and not suffer the loss of customers. It will take a number of years for the Red Wing public golf course to recover from mothballing.
- Approximately ten workers will lose their jobs and incomes if the Red Wing public golf course is mothballed.

# ANSWERS TO SPECIFIC *AD HOC* COMMITTEE CONCERNS

## A. PENDING LITIGATION

Any claim by Associated Bank for revenues from an operation of the Red Wing public golf course by RWMGC is tenuous and problematic. The revenue bond between the City and Goodhue County National Bank (now Associated Bank)—the only vehicle Associated Bank has to claim revenues from the operation of the Red Wing public golf course—became due and matured in November 2012. Associated Bank would have to convince a Court that it can unilaterally continue this bond beyond its maturity date and without the consent and agreement of the City of Red Wing. A unilateral change of a bond provision would not be allowed by the Courts.

“Revenues” is not defined: gross revenues or net revenues? Even if Associated Bank claims gross revenues, no Court would allow Associated Bank to be paid gross revenues while suppliers and workers are left with nothing. Further, Associated Bank taking gross revenues would effectively shut down the golf course operation and Associated Bank would end up with nothing. As for net revenues, there will be no revenues in excess of expenses for the first few years; Wendell Pittenger left nothing behind.

The bottom line is that the supposed claim by Associated Bank for revenues from the Red Wing public golf course in 2013 and beyond is bogus.

The City has already shown that it is not concerned about a claim by Associated Bank for golf course revenues in 2013. At the March 11, 2013 Council meeting, the Council approved operating the golf range in 2013. Any revenues from the operation of the golf range are in the same category as any other golf course operation revenue. *If the City is not worried about Associated Bank's claim to golf range revenues, then it is not worried about Associated Bank's claim to other golf operation revenues.*

Any theoretical claim by Associated Bank to 2013 golf course operation revenues would be based on such weak legal arguments that the improbable claim should not be used by the Council as an excuse to close Red Wing's public golf course in 2013.

## B. STARTUP COSTS

RWMGC is proposing an innovative solution to running a municipal public golf course. RWMGC is a citizen-organized, citizen-operated non-profit, with citizens who have joined together to save a valuable City recreational asset. For payment of start-up costs, RWMGC has \$30,000 of prepaid memberships, and we are confident of selling at least double that figure to Red Wing citizens. (In 2009 and 2010, Wendell Pittenger showed approximately \$120,000 per year in golfing memberships.) RWMGC has pledges of cash and loans in excess of \$100,000 for beginning operations at the Red Wing public golf course. Red Wing citizens have shown their

support of RWMGC's operation of the Red Wing public golf course by generously and confidently pledging their own money to support our municipal golf course.

### **C. UNDERCAPITALIZATION OF RWMGC PROPOSAL**

What may be the most misunderstood about RWMGC's proposal is that RWMGC does not need to pre-fund large capital outlays and/or on-going course maintenance costs. The citizens of Red Wing have already invested and spent in excess of \$3,600,000 to build the 36-hole Red Wing public golf course. Our budget and cash flow analyses take into account all equipment and on-going annual maintenance costs. Nothing is hidden, nothing is left out.

Our capital is Red Wing's citizens and volunteers. Our capital is the energy and enthusiasm of those citizens and of Red Wing golfers. RWMGC is what innovation and entrepreneurship is all about. RWMGC has a plan, shown by our *pro forma*, that will operate the Red Wing public golf course on a revenue/expense neutral basis, with NO City payments. But, if we fail, it will be RWMGC that fails. The City will not be financially hurt. (The financial risk to the City is, as previously stated, the \$132,000 possibility of RWMGC not making payments for equipment leases.) This proposal of RWMGC is made with the determination to operate the Red Wing public golf course without City funds and with very limited City risk.

**COMPARISON OF RWMGC'S PROPOSAL  
WITH “MOTHBALLING”  
THE RED WING PUBLIC GOLF COURSE IN 2013**

<u>FACTOR</u>	<u>MOTHBALLING</u>	<u>RWMGC 3-YEAR LEASE, 36-HOLE PROPOSAL</u>
Cost to City	\$375,000 to \$400,000	\$0.00
City recovering “mothballing” costs	NO	
Paying for maintenance costs	City of Red Wing	Golfers
Serving Red Wing golfers (and keeping money in Red Wing)	NO	YES
Meeting needs of RW High School golf teams	NO (Using other courses will mean students will be cut from the high school program and home course matches will be eliminated. No other course provides what we can.)	YES
Playing by golf tourists	NO	YES
Income from golf tourists to Red Wing hospitality industry and businesses	NO	YES
Golf programs for youth and children	NO	YES
Planning for use of the approx. 400 acres of public golf course land (City conversation)	YES	YES
Knowledge about the operation and cost of Red Wing's public golf course	NO	YES
Following Red Wing's Strategic Plan and Mission Statement	NO	YES: innovation, citizen involvement, work with non-profit, volunteers; preserving and enhancing this valuable asset

## PROFIT AND LOSS STATEMENT - 2013

<b>Revenues</b>		
<b>Golf Revenue</b>		<b>\$692,125</b>
Green fees (15K green fee rounds)	\$356,125	
Cart rental, daily (15K green fee rounds @ \$17 per round)	\$255,000	
Cart rental, seasonal	\$13,000	
Memberships	\$60,000	
Range sales	\$8,000	
Beverage sales (alcohol and non-alcohol), net		\$37,500
<b>Total Revenues</b>		<b>\$729,625</b>
<b>Expenses</b>		
<b>Grounds maintenance</b>	\$340,000	
includes: payroll, taxes, feed, seed, etc.		
<b>Payroll, golf shop</b>	\$103,939	
includes golf shop and beverage service, including payroll taxes		
<b>Other expenses</b>	\$115,060	
utilities	\$ 27,000	
insurance	\$ 26,650	
property taxes (for a non-profit)	\$ 0	
payroll and accounting	\$ 25,503	
advertisement and promotions	\$ 15,375	
other (incl. set-up of golf shop)	\$ 20,532	
<b>Cart lease</b>	\$34,500	
<b>Course maintenance equipment</b>	\$132,000	
<b>Total Expenses</b>		<b>\$725,499</b>
<b>Net Income</b>		<b>\$ 4126</b>

# **PROFIT AND LOSS STATEMENT – BASIC ASSUMPTIONS**

## **36 holes, 2 courses, Highlands and Lowlands**

### **Revenues**

- 1. 15,000 greens fee rounds in 2013**
- 2. Greens fees: Highlands: weekdays \$25, weekends \$30. Lowlands: weekdays \$20, weekends \$25**
- 3. Daily cart rentals: 15,000 green fee rounds @ \$17 per round**
- 4. Seasonal Cart rental is down from a normal \$30,000 to \$13,000 because of uncertainty of course opening, late start, and loss of members to other courses.**
- 5. Memberships are anticipated to be down from a normal of about \$100,000 to \$60,000 because of uncertainty of course opening, late start, and loss of members to other courses.**
- 6. Range sales: RWMGC has used the City's estimated revenue of \$8,000.**

### **Expenses**

- 1. Grounds maintenance expenses are reduced from \$370,000 to \$340,000 because of late start and because the City is paying grounds-keeping through April 30, 2013.**
- 2. Payroll golf shop: RWMGC has deducted \$27,000 from its 5-year lease Golf Course Management Proposal to the City of Red Wing, dated January 14, 2013, because RWMGC will initially have no golf professional, will combine golf shop and beverage service personnel, have no on-site prepared food service, and a limited beverage service.**
- 3. Payroll golf shop: RWMGC has included in its budget for Payroll golf shop the sum of \$103,939 for the combined golf shop and beverage service personnel and payroll taxes.**
- 4. Other expenses are the same as proposed in the 5-year lease proposal of RWMGC.**