

SUMMARY OF FINDINGS – MNGL RFP FOLLOW UP

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RE: Follow up with attendees of pre-submittal meeting for Mississippi National Golf Links Golf Operations RFP

Introduction

In August 2013, the City of Red Wing issued a MNGL Golf Course Operations RFP. The City only received one proposal from a local group interested in responding to the RFP. Given the magnitude of the policy and fiscal decision facing the City Council, the City requested that Schoenbauer Consulting, LLC follow up with those attending a presubmittal meeting to determine why they chose not to submit a proposal. The following summarizes the conversations with 9 of the 10 parties attending the mandatory meeting but did not submit a proposal.

Core Questions

Core questions asked of the attendees included:

- Main reason(s) you did not submit a proposal?
- Were there any specific requirements in the RFP that if changed would have encouraged you to submit a proposal?
- Do you have any specific advice to the City in regard to what to do with MNGL?
- What level of capital investment and/or yearly subsidy, if any, do you think is likely needed to make the course economically viable?

These questions were discussed with each of the attendees, albeit to varying levels of detail depending on their interest in responding. The following summarizes the common themes and perspectives from these conversations.

Main Themes

A number of consistent themes came out of the discussions with virtually all of the attendees. These include:

- 36 hole course is not economically viable in short or long term, as is likely the case with 27 holes
- 18 hole course would also be a challenge and would almost assuredly require a significant yearly operational/capital investment subsidy
- Initial capital improvements would be minimum of \$1 million, and likely closer to \$2 million to do it right
- Risk is just too high for this to be a profitable venture if required to meet the terms of the RFP
- Reality is that a yearly subsidy of \$200,000 to \$500,000 would be needed to balance annual revenues and expenses/ongoing capital improvements
- More vendors would have been interested in operating the course under a management fee-based (versus lease) approach to limit their risks in a very uncertain market
- Biggest problem is there is no way to generate enough revenue to cover expenses, especially given the large physical expanse of the course and the challenge to efficiently maintain it
- On the positive side, all agreed the maintenance of the greens during the closed year was very good to excellent

Additional Perspectives Shared

Common additional perspectives include:

- RFP seemed slanted toward local proposers or those politically connected; it was also too inflexible to consider other options
- The focus on keeping 36 holes open and expecting the vendor to take all the risk is unrealistic in today's marketplace
- Lack of past financials to evaluate the course made it difficult to determine past economic performance; also, it is unrealistic that the course will ever be able to generate the same number of rounds that it did in its better years given the state of/demand for golf today
- Capital improvement needs are extensive to make the course playable at a quality level, and there are numerous liability issues that must be addressed; key improvements cited include paths (which some cited as a key liability risk), bunkers, tree issues, club house code issues, etc.
- Bottom line is there is not enough demand to barely support 18 holes, much less any more; in spite of any past history as a destination course, MNGL really has to be looked at as a local course going forward
- Common perspective that participation in golf is dying off and not likely to be anywhere as robust as in the past; golf marketplace must adjust to this reality
- Although the property has many stunning features, the overall design is not that good and will limit its potential as a tourist draw; also, the driving range is in the wrong location (too far from the club house) from a revenue perspective

Representative Comments

The following are direct comments from attendees that reflect general opinions and points of discussion:

- “I drove away thinking the City would not get a single proposal”
- “Great piece of property, but does not seem it was laid out by a professional golf course designer”
- “Goofy layout is an issue”
- “Can't see any viable route to being profitable, even with 18 holes”
- “Terrible RFP; seemed written to favor a local group, and written hoping for the Greater Fool to take it on and think that they can, against all odds, make it work”
- “This is a white elephant”
- “Having only a sole candidate is unfortunate; it's like an executive search in which the one candidate available may not be the right one”
- “The City is incredibly naive if they think that the terms of the RFP are doable in this marketplace”

Side Note

If desired, several vendors indicated that they would talk with the City about other options and approaches, including management arrangements, selling the property, and other downsizing options that may be more viable in the marketplace.

Consultant's Perspective Based on Feedback

Based on the discussions with potential vendors, in concert with the previous report of findings, continuing the golf course operation carries with it considerable risk and uncertainty to the City of Red Wing. Maintaining the golf operation at any level will in all likelihood require considerable initial and ongoing capital investments and significant yearly operational subsidy.