



## CITY COUNCIL AGENDA REPORT

To: Honorable Mayor and City Council Members

From: Red Wing City Golf Course Committee members: Council President Bayley, Mayor Egan, Council member Meinke, Public Works Director Moskwa and Council Administrator Kuhlmann

Agenda Item No.: 9.D.

Meeting Date: February 25, 2013

### **Action Requested**

Update on Golf Course Mediation and Consideration of Action related to 2013 Golf Season

### **Attachments**

This report references the January 14, 2013 Red Wing Municipal Golf Corp. Golf Course Management Proposal to the City of Red Wing.

**Strategic Plan Reference** – The Mississippi National Golf Course is a community asset such as those identified in the Strategic Plan. Strategy I. Regional Center, Goal D. speaks to the importance of *Capitalizing* on the thriving, dynamic, and distinctive community character. Goal D. of Strategy I addresses the city's objective of demonstrating a long-term commitment to sustainability by developing and implementing a plan to maintain, preserve, and enhance the open green space of the City including parks, trails, bluffs, and waterways.

### **Background**

The issue of city funding and support for Mississippi National Golf Links (MNGL) has been debated for years. Rising maintenance and capital expenditures at the course during the most recent economic crisis triggered a widespread debate about how to reduce or even eliminate city costs at the course. About two years ago the City explored the possibility of selling the course. With the presence of a long-term management lease and a revenue bond secured by the lessee, there were very few viable or reasonable offers to buy the course, and that talk stopped.

Now that the lessee, Wendell Pittinger, has walked away from the course and the City has formally terminated the lease, the City is once again faced with the decision of what to do with the MNGL. A Committee established by the City Council has been meeting with community members, city staff, and operators of other golf courses and others to examine all possible options.

After the termination of the lease with WPGO, Mr. Pittinger removed all appliances, equipment, furniture, fixtures, etc. The 36 holes and the clubhouse are now empty. By law, approximately

301 acres of the 417 acre golf course property must remain open green space to be used for public recreational purposes only. It cannot be developed. This is based on State Legislative action adopted in 2011 that amended the Laws of 1976, Chapter 50.

### **Discussion**

Council has repeatedly stated its intention to conduct a thorough public process to determine a) if the property should continue to be run as a golf course, or other public recreational space; b) if it is a golf course, should it be 36, 27 or 18 holes; c) if it is a golf course, should the city own and operate it, or own and lease it to a private operator, or sell it; d) if it is a golf course, what other uses could be carried on at the site (for example, cross-country skiing, biking, moto-cross, nature center, Frisbee golf, hiking/camping) and should there be a formal mechanism to coordinate those activities, for example, some sort of "Mississippi National Recreation Area."

Because of this intention, and due to the pending litigation (see below), the Committee has been initially working on finding a way to keep the course open for the 2013 golf season, while the larger issues are debated in a public way.

The Golf Course Committee is made up of council members Lisa Bayley, Marilyn Meinke, Dan Bender (prior to Marilyn Meinke), Mayor Dennis Egan, Council Administrator Kay Kuhlmann, and Public Works Director Rick Moskwa, with significant input from Finance Director Marshall Hallock and Planning Director Brian Peterson.

The Committee has met and/or corresponded with the Red Wing Municipal Golf Corporation (RWMGC) multiple times, representatives of the Red Wing Golf Club, Larry Norland, Director of Golf for Greenhaven, the Anoka Municipal Golf course, Leif Ericson, Manager of the Rochester Municipal Golf courses, representatives of the Red Wing High School golf team, Randy Juliar, former superintendent of MNGL and the current owner of Turf Solutions & Management, LLC, and has spoken with numerous others.

**Restrictions:** The pending litigation has not been resolved by our attempt at mediation. To date, the bank continues to assert its rights as they relate to the leasehold mortgage and the right to capture any revenue created at the course. These issues will be resolved through the litigation over the next six months or so (at least), but in the meantime, they greatly hinder our flexibility to make immediate short-term decisions about the future of the course. The uncertainty this creates is a major stumbling block to making any short-term decisions.

**Immediate Short-Term:** We have contracted with former superintendent Randy Juliar for three months, through April 2013, to maintain the course at a level that would allow it to be played this summer. An immediate decision needs to be made about whether or not the course can be opened this summer.

### **Key Facts:**

- It will cost the City about \$200,000 to "mothball" the course for one year, which means maintaining it at a level where it could be quickly brought back to playable quality. This does not include the normal costs of maintaining the clubhouse and courses, such as property taxes, equipment, security, utilities and basic maintenance, which could add an additional \$175,000.

- City Staff met with Public Health representatives to tour the kitchen and assess the needs and costs to bring the kitchen up to code (there are currently no appliances). At this point, only candy bars and a pop machine could be allowed. Before food could be served, significant planning and upgrades would have to be done, including new tiling, sinks, stainless steel serving tables, coolers, drains, etc, in addition to new refrigerator/freezers, ovens/grills, etc.

The first decision to be made is whether or not to open the summer of 2013. This decision needs to be made now, due to the lead time required to equip the course and hire workers.

Red Wing Municipal Golf Corporation: The RWMGC, a group of committed citizen volunteers, has presented a formal management proposal which calls for the non-profit organization to completely take over management and maintenance of the course. The obligations of the City would be to co-sign a five-year lease for carts for a total of \$482,000 and potentially co-sign a five-year lease for grounds maintenance equipment. Any profits from the course would be used to pay for operations including any lease fees.

The Golf Course Committee has met multiple times with RWMGC and has reviewed the proposal with Larry Norland and Leif Ericson, both managers of other city municipal courses. The RWMGC proposal projects approximately 25-35,000 rounds of golf per year. The group has about \$25,000 in membership fees collected (tentatively) for the coming year, and about \$100,000 in pledges. Their proposal assumes that no property taxes would need to be paid (approximately \$51,000/year).

Analysis by the outside groups agreed that the Profit and Loss projected by RWMGC is attainable but unlikely (for example it assumes a 35 percent margin on the golf shop sales, and 35,000 rounds, both of which are very optimistic). The proposal is very detailed and includes many major items (such as lease for equipment for the ground crew) but omits other start-up costs (for example, for point-of-sale equipment such as cash registers, computers, furniture, course equipment). They also felt that the membership fee was too low to cover necessary costs. The net income projected is razor thin (\$1,693 projected net income in 2013 and does not include provisions for taxes in 2013).

Perhaps most importantly for the Golf Course Committee, there appears to be no mechanism in the RWMGC proposal for funding large capital costs and on-going maintenance costs. Because the RWMGC is a start-up organization, they do not yet have funds saved for capital expenses, nor do they have a financial track record which would allow them to borrow money without the City underwriting those loans. This is a serious concern, as historically the City has spent approximately \$150,000 to \$200,000 in recent years on capital and related maintenance costs alone.

The RWMGC has worked very hard to answer Committee questions and has been flexible in regard to considering different ideas. On the positive side, working with this group would fit into the City Strategic Plan goal of encouraging citizen involvement while providing recreational green space and maintaining our city parks.

Options:

- 1) Enter into an Agreement with Red Wing Municipal Golf Corporation for 2013 Season  
Council and the Mayor have repeatedly stated their desire to have a broad, public discussion about the future of the course. This desire, combined with the ongoing

litigation, is what is driving the discussion of a one-year agreement to keep the course open in the short term while long-term decisions are made. Several people, including the RWMGC members and the operator of the Rochester municipal course have recommended trying to keep the course open if at all possible.

At the January 28, 2013 City Council meeting, the RWMGC stated that they would not be interested in the one-year option, due to the large start-up costs involved, the difficulty of fundraising for a single year of operation, and the prohibitive cost of leasing carts for a single year.

The Golf Course Committee met with the RWMGC after that to explore the possibility of some type of joint operation with the City for 2013, given that the City will have to pay about \$200,000 to mothball the course any way. Two issues were difficult (although not impossible) to resolve:

Start-up costs: Most estimates for equipping the course (not the clubhouse) put a minimum cost at about \$480,000 for used equipment. The RWMGC would not be interested in raising funds for this (nor did they present a plan to do so) for only one year. This would be a cost borne by the City.

Leases: Golf carts are typically leased from a third-party vendor and rented to players by the round. Leases are typically multi-year, with the longer-term leases being least expensive. A single-year lease for all of the necessary carts would be more than a long-term lease. The RWMGC would like to have the City cosign a five-year lease for golf carts, which brings the price to \$91,000 per year. If the City only entered into a one-year agreement with the RWMGC, the City would be obligated to pay the remaining four years on the lease, if the city did not allow RWMGC to operate the entire five years of the cart lease. The total potential liability for the city would be \$482,000.

Leasing of other grounds maintenance equipment may be necessary. The costs for what would have to be leased have not been thoroughly refined and, therefore, this cost is unknown at this time. However, there is a potential liability for the City if the City would have to cosign a lease agreement.

With assertion of the bank and its interest in all golf revenues not being resolved, this option runs the risk of having any revenues generated by MNGL unavailable to cover operational costs.

2) Enter into an Agreement with Red Wing Municipal Golf Corporation for 2013-2018 Seasons

This is the option preferred by RWMGC. Everything that applies in 1) above would apply in this option, with the exception that after the first year, the City would have no costs, according to their proposal, other than the continued underwriting of the cart lease.

Again, with assertion of the bank and its interest in all golf revenues not being resolved, this option runs the risk of having any revenues generated by MNGL unavailable to cover operational costs.

3) Operate the Course During the 2013 Golf Season With City Staff

Council directed the Committee to explore the option of opening the course for the 2013 Golf Season using a combination of public works employees and equipment, and directly contracting with the current superintendent or another entity. While this is potentially feasible, the same issues which face the RWMGC in Paragraph 1) still exist: the high startup costs to equip the course and the need to enter into a longer-term cart lease. In addition, this option would create additional, unplanned work for the public works staff, which has already been pared down and struggles to meet its work requirements now.

Again, with assertion of the bank and its interest in all golf revenues not being resolved, this option runs the risk of having any revenues generated by MNGL unavailable to cover operational costs.

4) Leave the Course closed for 2013 Golf Season

As stated above, the cost to close the course for one year while other options are explored would be about \$200,000 for maintenance of the grounds plus another approximately \$175,000 (property taxes, equipment, maintenance, and security for the clubhouse).

5) Leave the Course closed for 2013 Golf Season but Keep Driving Range Open

The Golf Course Committee has been approached by the RWHS golf team regarding how we could keep the driving range open, at a minimum. The driving range would need to be maintained to a high standard (mowed more often) than if it is closed, the cost of operating the driving range hasn't been discussed in the agreement with Turf Solutions & Management LLC. Additional costs would be a ball retriever and ball dispenser machine. The team estimates both together would cost about \$4,000, which they are trying to raise in private donations. Another idea would be to hire a summer worker to attend the golf shack and dispense balls. The high school season is May through mid-June.

**Recommendation – Short Term**

After many hours of consultation and discussion, it is the recommendation of the Golf Course Committee that the course be closed for the 2013 Golf Season. This recommendation is based on the following: the pending litigation, which creates uncertainty regarding whether revenue created at the course could be diverted to the bank; the undercapitalization of the RWMGC proposal; and the high cost of equipping the course.

If the City Council does not follow the recommendation, the Committee would need immediate guidance about how to proceed, and some parameters for entering into a possible agreement with RWMGC or running the course internally.

**Recommendation – Long Term**

Once the Council has made a decision about whether or not to open the course for the 2013 season, it needs to decide what to do long-term.

Options are:

- #2 above, entering into a five-year agreement with RWMGC which starts immediately;

- sell the course (with restriction on use as described above);
- enter into a management agreement with an outside party;
  
- lease the course to an outside party for operation as a golf course;
- Create a sustainable community asset based on a public process to determine the use of the land and the structure of organization to operate.

All of these options require additional research and public input. The Committee recommends having a public, defined process with a proposed end date of August 1, 2013 (if option #2 is not chosen). We propose that the Committee have two assignments: first, to take public input regarding the course itself (how big it should be, who should run it and how), and second, to create a citizen-led task force made up of stakeholders such as the RWMGC, Friends of the Bluffs, etc, to discuss additional options for the property (such as creating a Mississippi National Recreation Area and coordinating services).

The Red Wing 2020 Executive Committee, in an effort to broaden community knowledge of current issues, is hosting a Community Forum on Mississippi National Golf Links on March 19. The forum will be held at the Sheldon Theatre at 6:00 p.m. The agenda has not been finalized but anticipates the following topics:

- ✓ Update on City litigation
- ✓ Presentation of public process to determine long term future of MNGL
- ✓ Presentation by outside resource speaker on similar community discussions of how to best plan for and sustain community assets