



Findings of the Duluth Golf Citizen Advisory Committee

March 11, 2019



The Duluth Golf Citizen Advisory Committee

- Gary Anderson, City Councilor
- Jason Crawford, Duluth Planning Commission
- Arik Forsman, City Councilor
- Ed Hall, Former Park Commission President
- Dennis Isernhagen, Park Commissioner
- Tim Lee, Friends of Duluth Public Golf Vice President
- Chris Stevens, Friends of Duluth Public Golf President
- Erik Torch, Parks and Recreation Commission President
- Jim Filby Williams, Director of Public Administration

Mayor Larson's Charge to the Citizen Advisory Committee

1. Advise how to provide quality, affordable, financially sustainable public golf.
 2. Engage community input.
 3. Draw on relevant data, best practices, and expertise.
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Study Process to Date

- **Dec 2017** Council calls for study process including golfers
- **Jan 2018** Mayor forms committee and assigns its charge
- **Jan 2018 –** Bimonthly committee working sessions
- **Mar 2019**
- **Sept 2018** Phone survey of Duluth citizens
- **Oct 2018** Online surveys of Duluth Golf participants
- **Nov 2018** Conduct of focus groups – one with golfers, one with non-golfers
- **Mar 4 2019** Unanimous committee affirmation that the final report is substantially sound and accurate.

Committee Approval of Report

“All committee members have affirmed that they believe that the findings detailed in this report are substantially sound and accurate. This affirmation does not signify that each member wholeheartedly endorses every element of this lengthy report. Rather, the affirmation signifies each member’s confidence that the report is a product of a good-faith collaborative effort, informed by credible industry experts, to ascertain and even-handedly present facts pertinent to the future success of Duluth Golf...”

The Value of Public Golf (Findings 1-2)

Finding 1

Duluth Golf should be evaluated and supported on the same basis as other City-supported recreational activities: the extent to which City investments in golf cost-effectively advance the Parks and Recreation mission and vision.



Finding 2

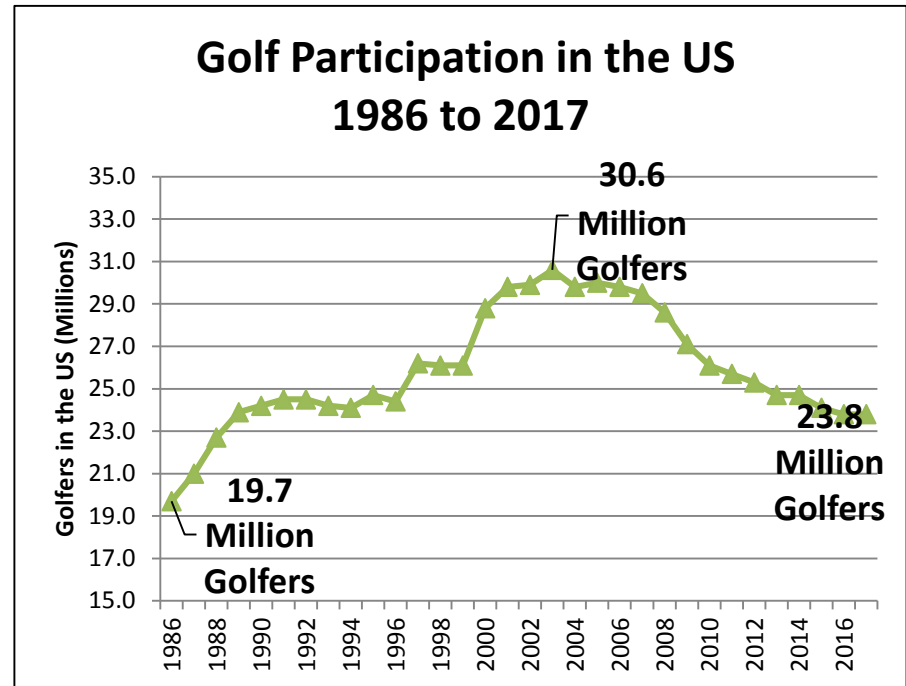
Duluth Golf has been and continues to be a significant means by which the City of Duluth fulfills the Parks and Recreation mission and vision.



The Financial Condition of the Golf Industry

Finding 3

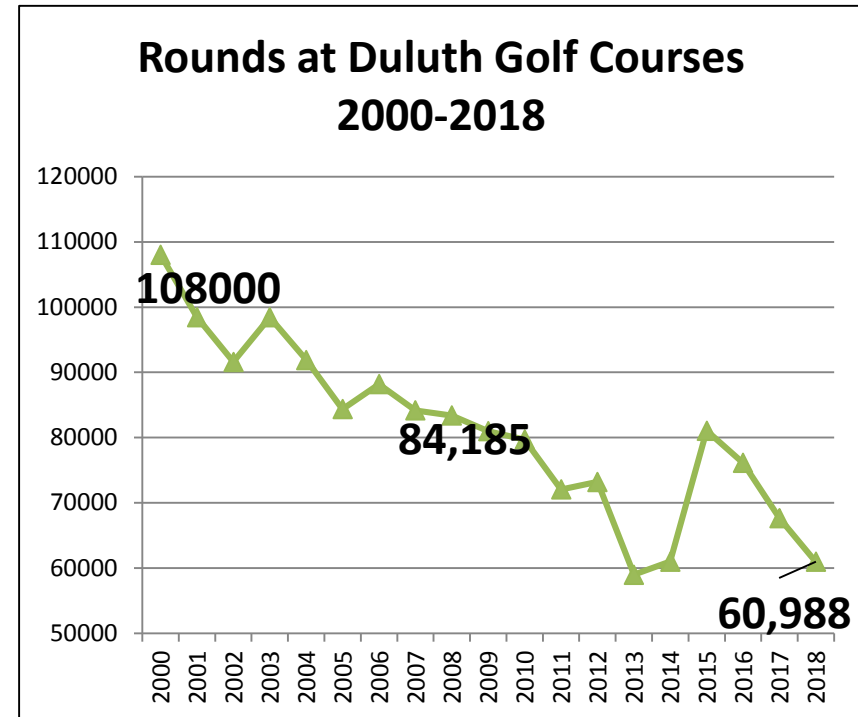
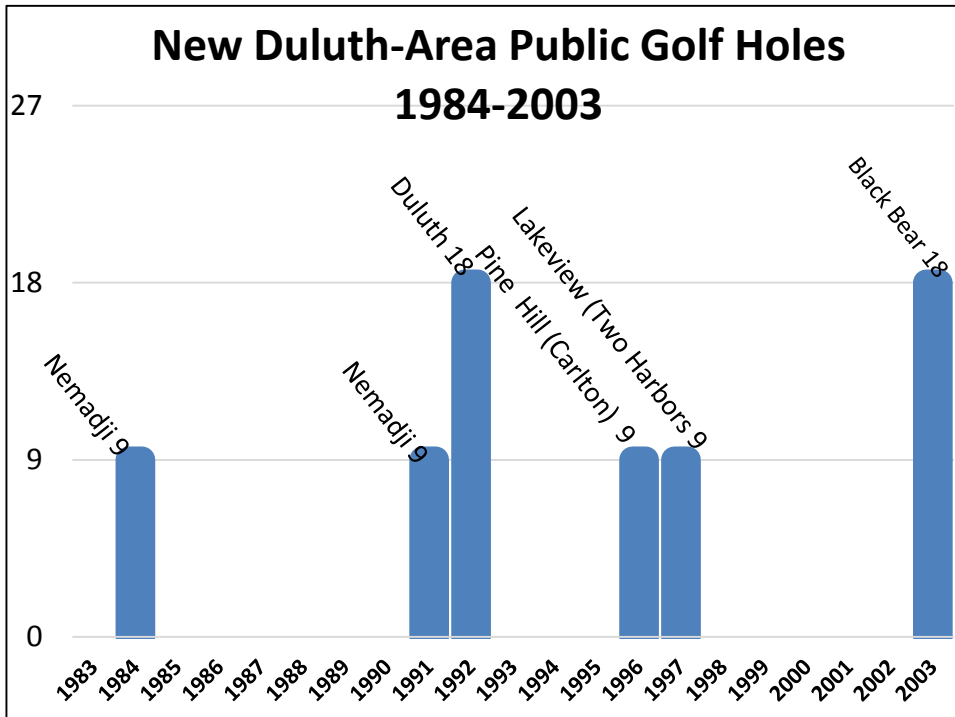
Demand for golf is likely not sufficient to financially sustain the number of golf holes across the nation or in Duluth.



The Financial Condition of the Golf Industry

Finding 4

Some publicly accessible golf holes in the Duluth area likely need to close to bring the supply of public golf into balance with demand.



The Condition of City of Duluth Golf Infrastructure

Finding 5

The overall condition of golf infrastructure at both City of Duluth courses is poor.

Finding 6

Clubhouses, irrigation systems, and maintenance equipment at both courses are in extremely poor condition and vulnerable to sudden failure that could significantly hamper continued golf operations.



The Condition of City of Duluth Golf Infrastructure

Finding 7

The City should promptly renew or replace clubhouses and irrigation systems for any golf facilities it wishes to keep.

Finding 8

There are opportunities to replace failing golf assets with more cost efficient designs.

Finding 9

Minimal renewal of failing golf facilities at Enger and Lester is estimated to cost \$3.7 and \$3.4 million, respectively.





The Enterprise Fund Model for Managing Golf Finances

Finding 10

Under Minnesota law, the most appropriate accounting structure for management of Duluth Golf finances is an enterprise fund.

Finding 11

Management of Duluth Golf under an enterprise fund structure does not necessarily preclude ongoing City subsidy for the program.

Finding 12

All Duluth enterprise funds, including golf, have been charged an admin fee to offset the cost of admin support services

Potential Sources of Financial Support for Golf

Finding 13

Recreational activities that take place on Duluth Parks and Recreation properties receive financial support from a variety of sources.

Potential Funding Sources

1. General Fund
2. Tourism Tax
3. Half-and-Half Tax
4. Parks Fund
5. State and Federal Grants
6. Asset Sales
7. Partnerships
8. Borrowing

Analysis of Potential Sources of Financial Support

Finding 14

The case for Duluth Golf to immediately receive tourism tax support is weak. When golf infrastructure is satisfactorily renewed, a case could be made to provide limited tourism tax support for the specific purpose of marketing Duluth Golf to tourists who are already here or already planning to come.

Finding 15

The City should consider a limited operating subsidy for golf from the General Fund and/or the Parks Fund comparable to support provided from these sources to other recreational activities that have similar levels of community participation. The support could be in the form of in-kind services and/or funding.

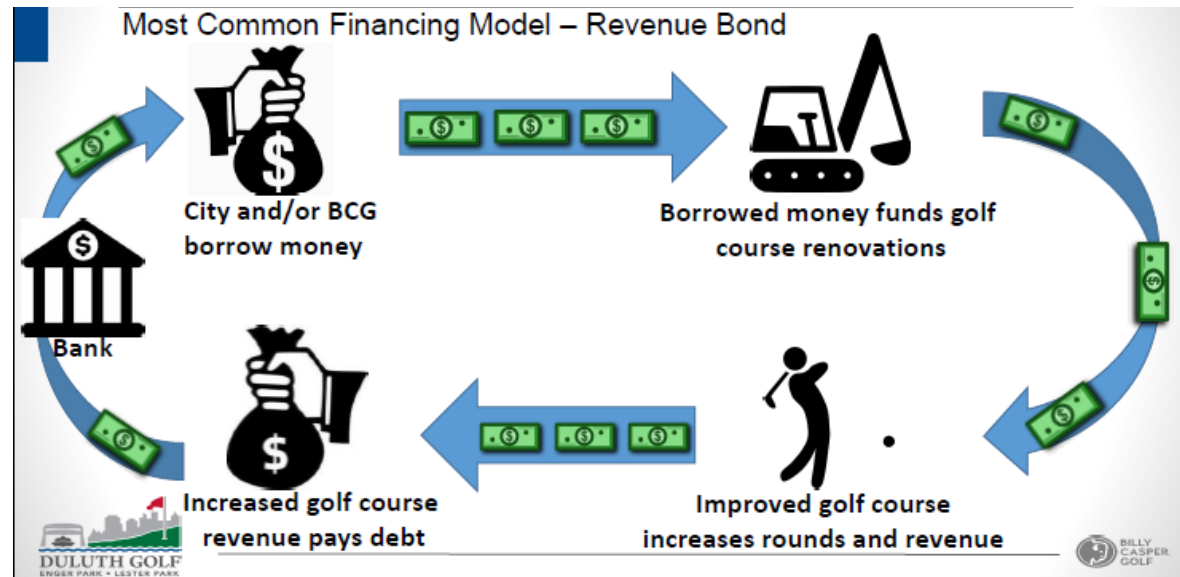
Finding 16

Federal and state recreational grants are generally not available for golf courses.

Analysis of Potential Sources of Financial Support

Finding 17

The only debt-financing vehicle available to Duluth Golf under current law is revenue bonding in which borrowing for golf capital improvements would be financed with revenue generated by golf.





Analysis of Potential Sources of Financial Support

Finding 18

Given the current financial weakness of Duluth Golf and the golf industry, and the magnitude of the financial risks for the City of Duluth General Fund, revenue bonding for Duluth Golf should be used judiciously and sparingly.

Finding 19

The case can be made that proceeds from the potential sale of golf-associated real estate assets should be retained in the Golf Fund and reinvested in golf facilities the City intends to retain.

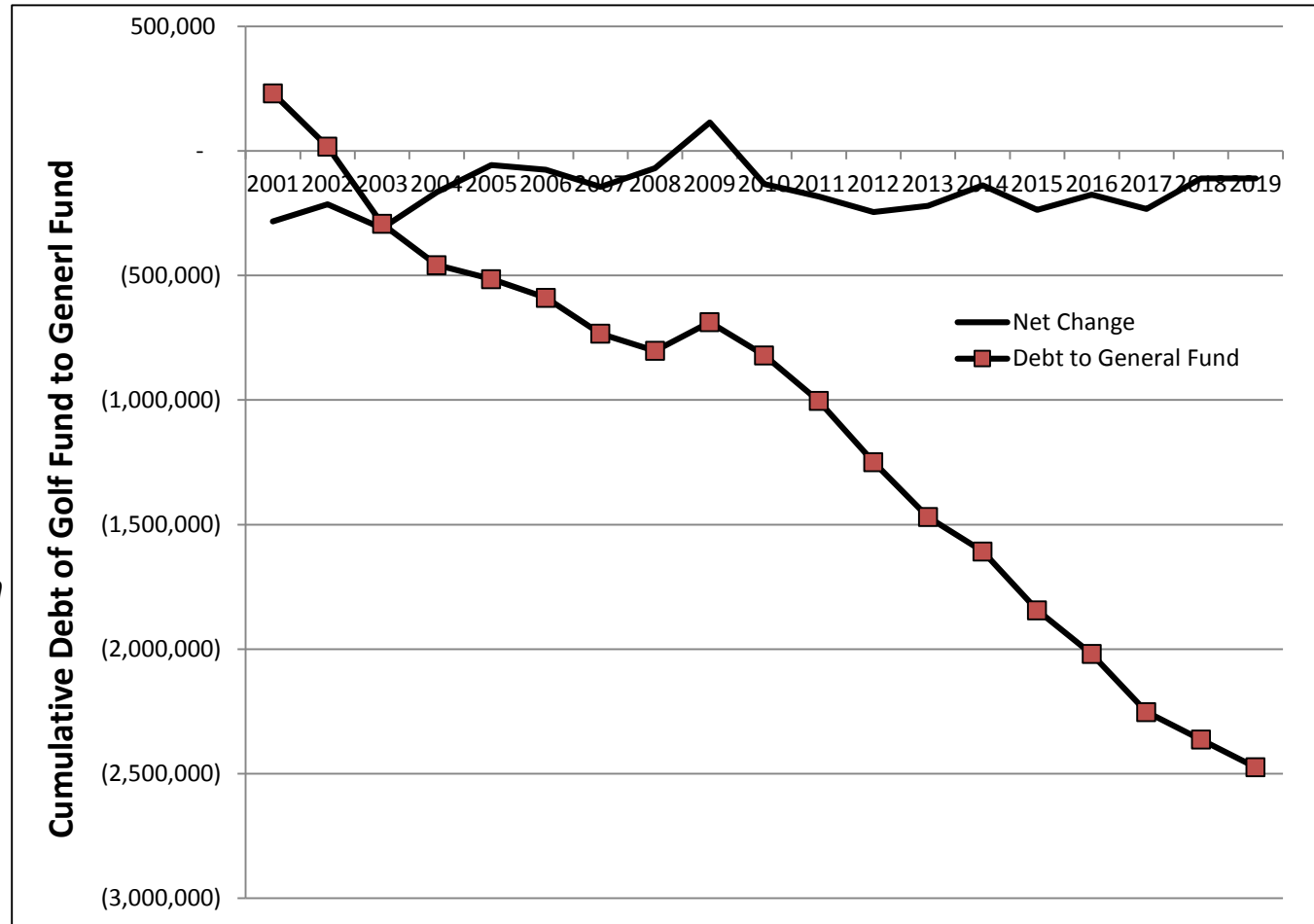
Finding 20

There is opportunity to make the support of Duluth Golf's nonprofit partners more impactful.

Financial Performance of Duluth Golf

Finding 21

Duluth Golf's most important and difficult financial challenge has been and continues to be how to pay for periodic non-discretionary renewal of deteriorated golf capital assets without drawing more on the City's limited financial resources than citizens support or the City can afford.



Financial Performance of Duluth Golf

Finding 22

The challenge of renewing deteriorated golf assets is compounded by the oversupply of public golf holes in the Duluth golf market, the associated loss of pricing power, Duluth's short and highly variable golf operating season in Duluth, and the unusually low amount of revenue Duluth Golf receives per round in association with season passes.

Finding 23

Some downsizing of Duluth Golf is likely to be necessary for Duluth Golf to operate on a financially sustainable basis.

Finding 24

Golf revenues cannot plausibly be sufficient to pay down all of the debt of the Golf Fund to the General Fund or to pay for all of the costs of increasingly critical capital maintenance.

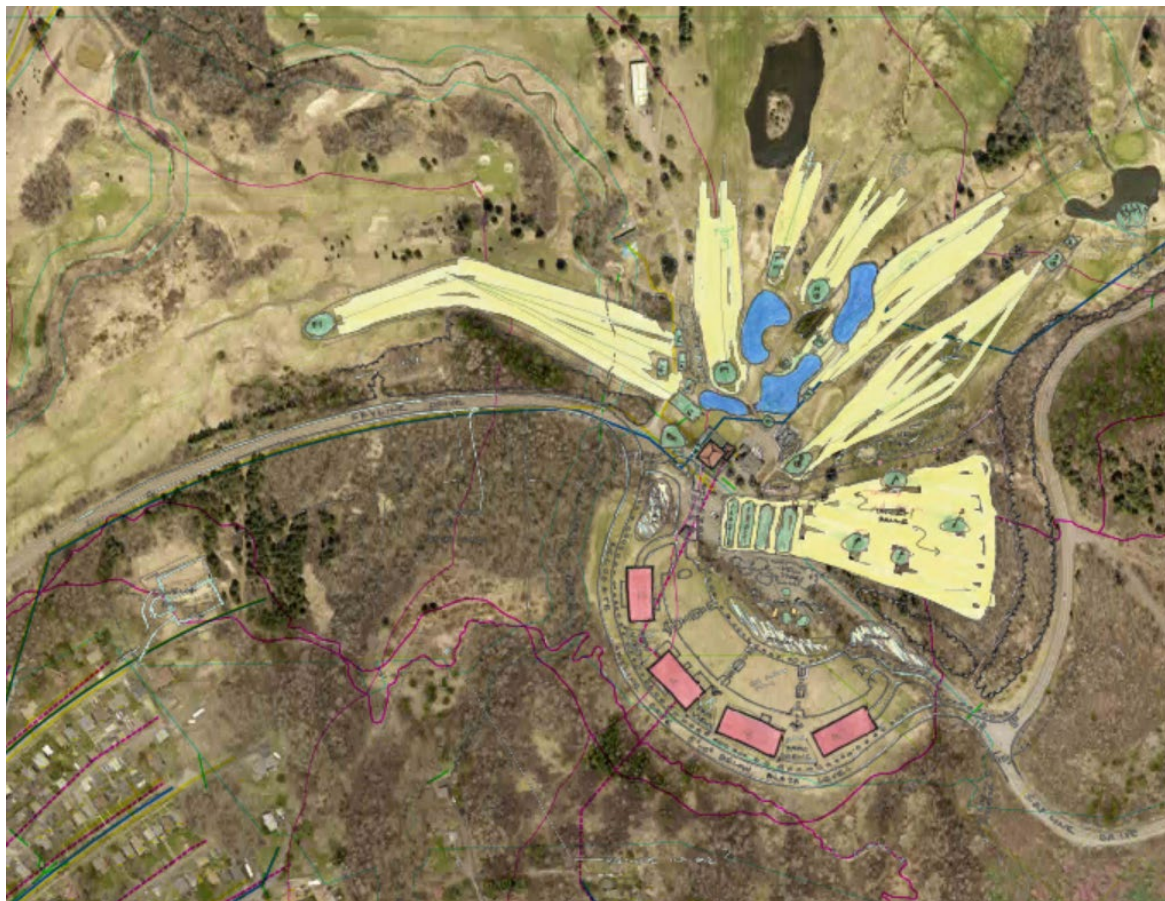
Finding 25

In order to finance necessary capital maintenance, it will likely be necessary to dedicate 100% of all proceeds from the sale of golf assets to be reinvested in golf assets the City intends to retain.

Redevelopment Opportunities at Enger and Lester

Finding 26

There may be an opportunity at Enger to reconfigure the clubhouse/range area to accommodate multi-family housing without associated elimination of golf assets and, thereby, generate cash for reinvestment in Enger golf course, help meet the community's housing needs, and attract avid golfers to live and play at Enger.



Redevelopment Opportunities at Enger and Lester

Finding 27

Portions of Lester have significant potential for mixed- use residential development.

Finding 28

Estimating the market value of Lester is unusually difficult because the market value of Lester is partly a function of a development plan that does not yet exist. A specific development plan will only become apparent through negotiation of a development agreement with a specific developer.

Finding 29

A developer may be amenable to purchasing all of Lester Park Golf Course, closing and developing one of the nines for mixed use residential, and continuing to operate 9 or 18 holes as a privately owned, publicly accessible golf course.



Public Opinion Research

Performed by Zenith Research

Three Phases

Phase I - Randomly sampled phone survey of Duluth citizens

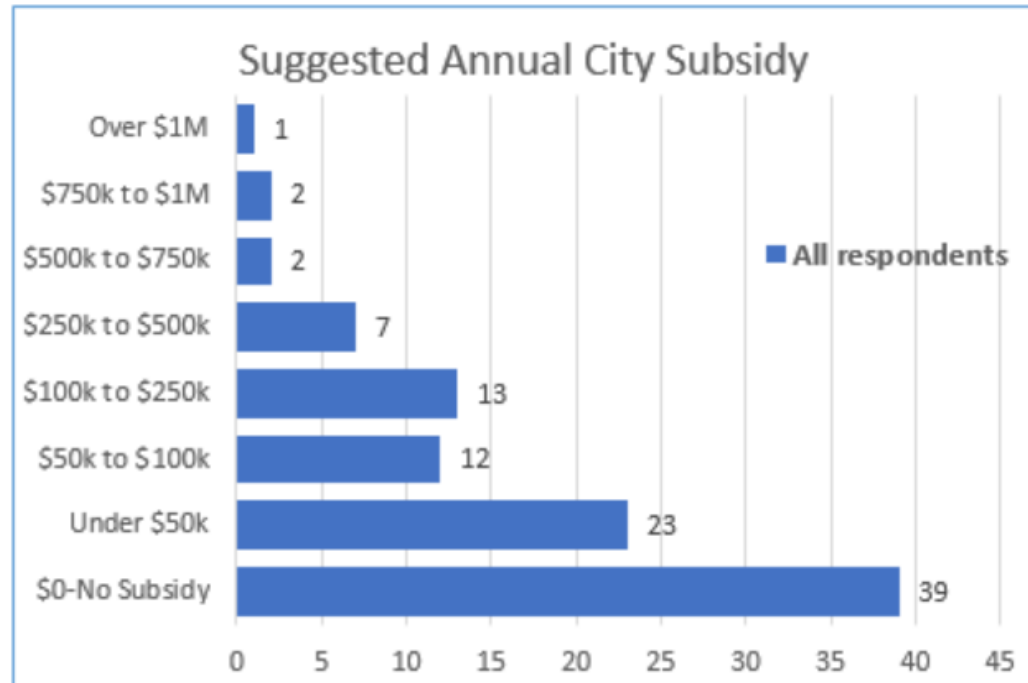
Phase II - Online survey of Duluth Golf participants

Phase III - Focus groups with golfers and non-golfers, respectively

Public Opinion Research

Finding 30

A random sample of Duluth citizens rated the importance of City-owned golf courses low relative to other City facilities and prefer that the City expend little or no public money to subsidize Duluth golf.



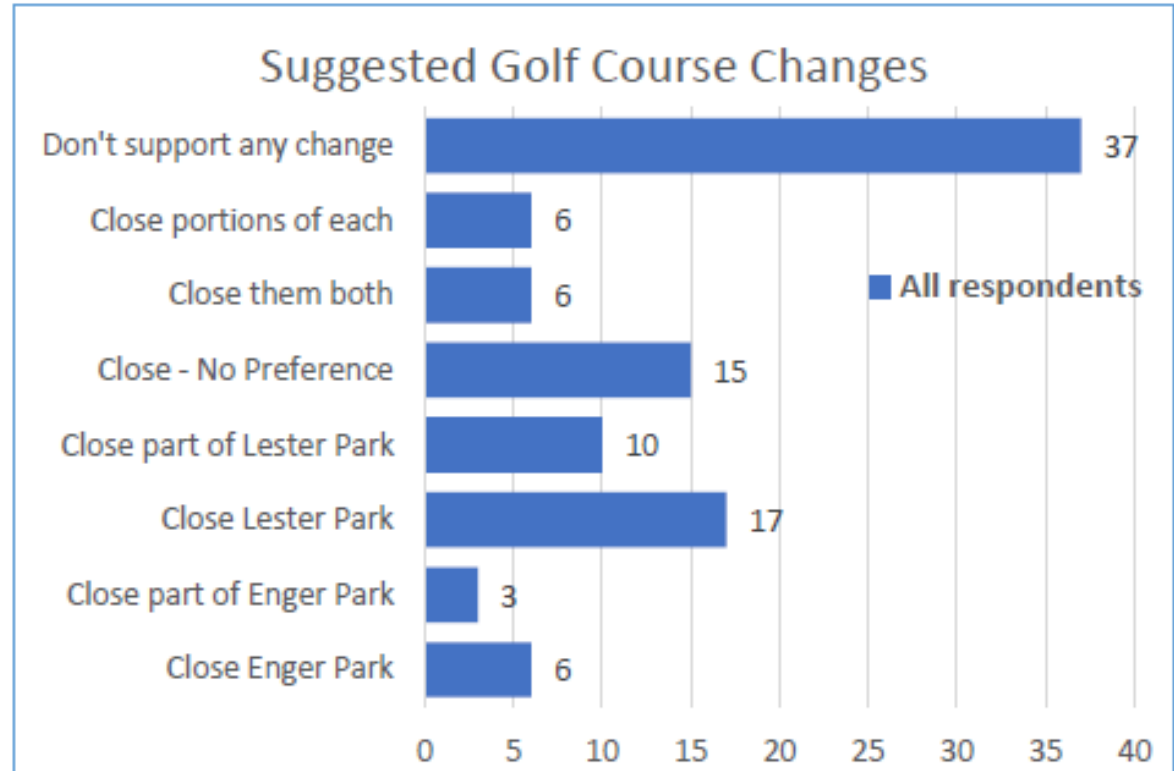
Level of Subsidy Suggested by Random Sample of Duluth Citizens



Public Opinion Research

Finding 31

Most Duluth citizens surveyed support at least some downsizing of Duluth Golf facilities and more of the citizens surveyed favor downsizing or closure at Lester than at Enger.

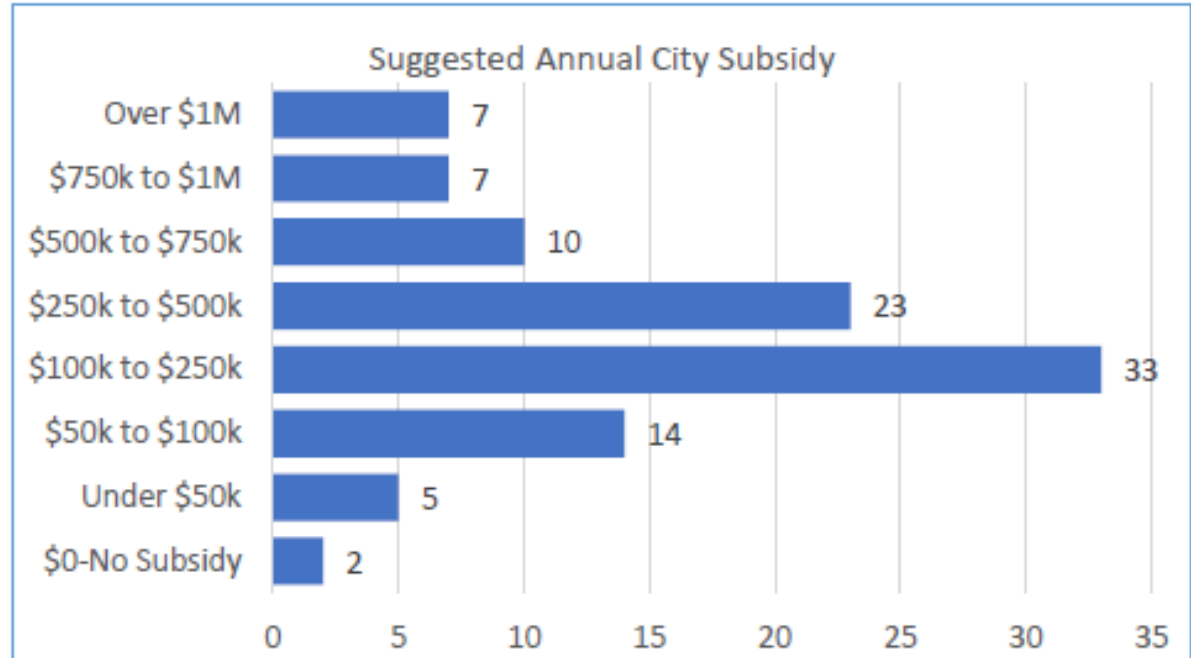


**Golf Course Changes Preferred by
Random Sample of Duluth Citizens**

Public Opinion Research

Finding 32

In an online survey, Duluth Golf participants who reside in Duluth rated the importance of City-owned golf courses as high relative to other City park and recreation facilities and preferred that the City expend substantial public money to subsidize Duluth Golf.

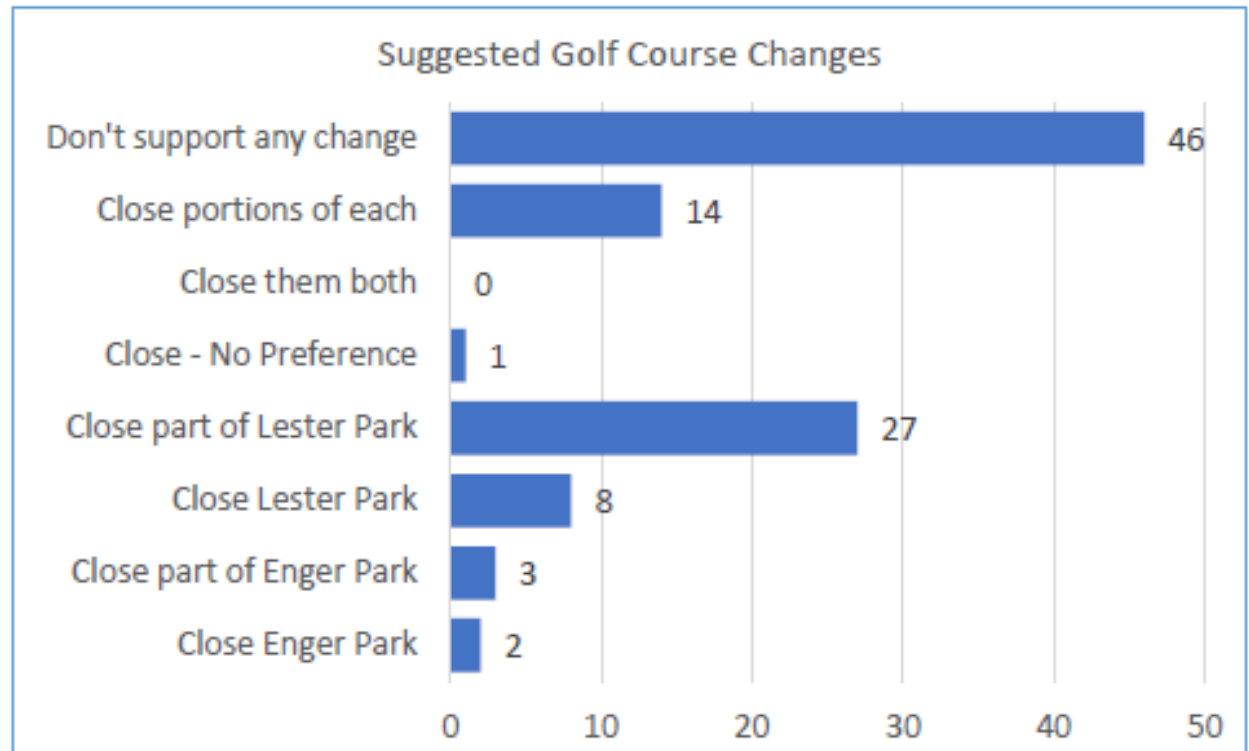


Level of Subsidy Suggested by Golfers

Public Opinion Research

Finding 33

Most Duluth Golf participants surveyed who reside in the city support closure of at least nine holes. Of those who prefer closure or downsizing of a specific course, many more prefer closure or downsizing at Lester rather than at Enger.

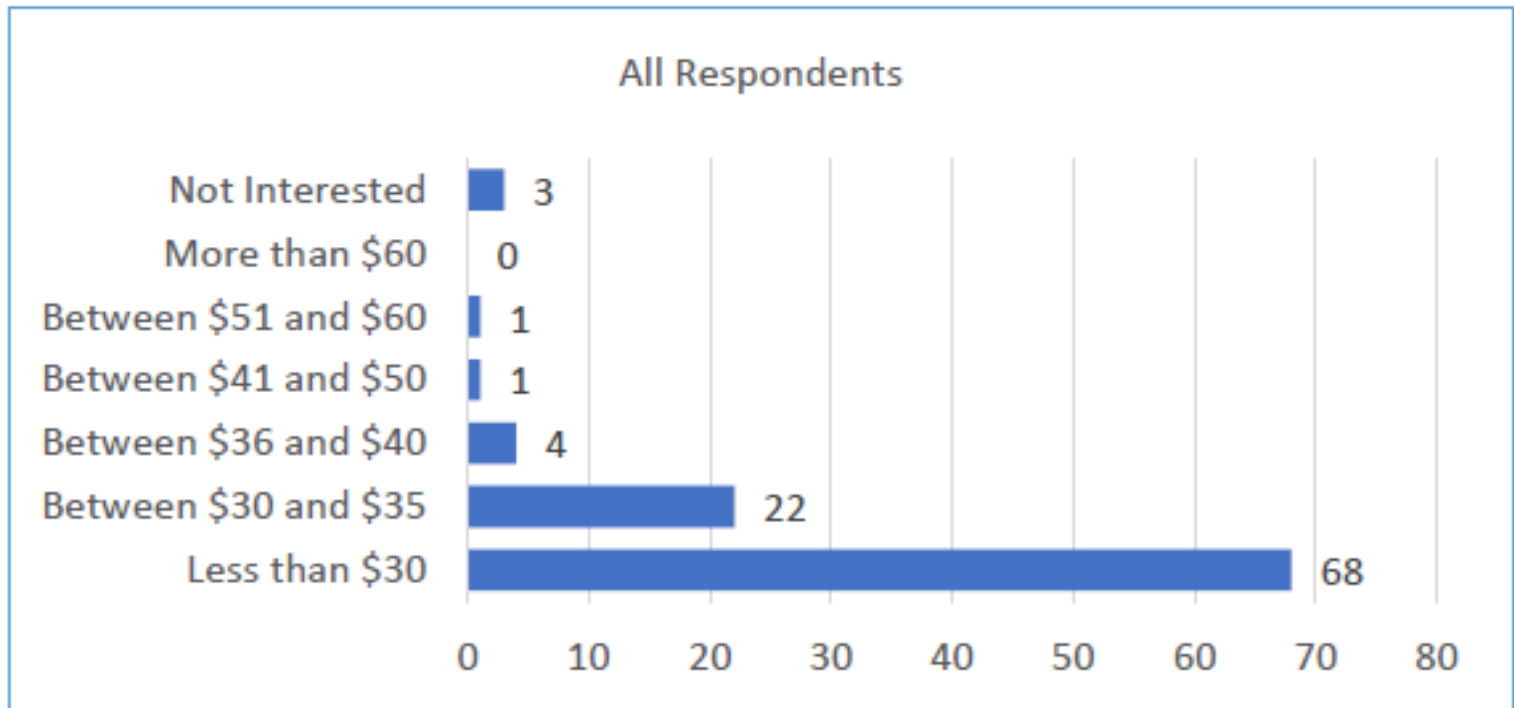


**Golf Course Changes Preferred by
Sample of Duluth Citizens Who Golf at
Enger and/or Lester**

Public Opinion Research

Finding 35

Duluth Golf participants surveyed who reside in the City of Duluth say they are not willing to pay significantly higher greens fees.





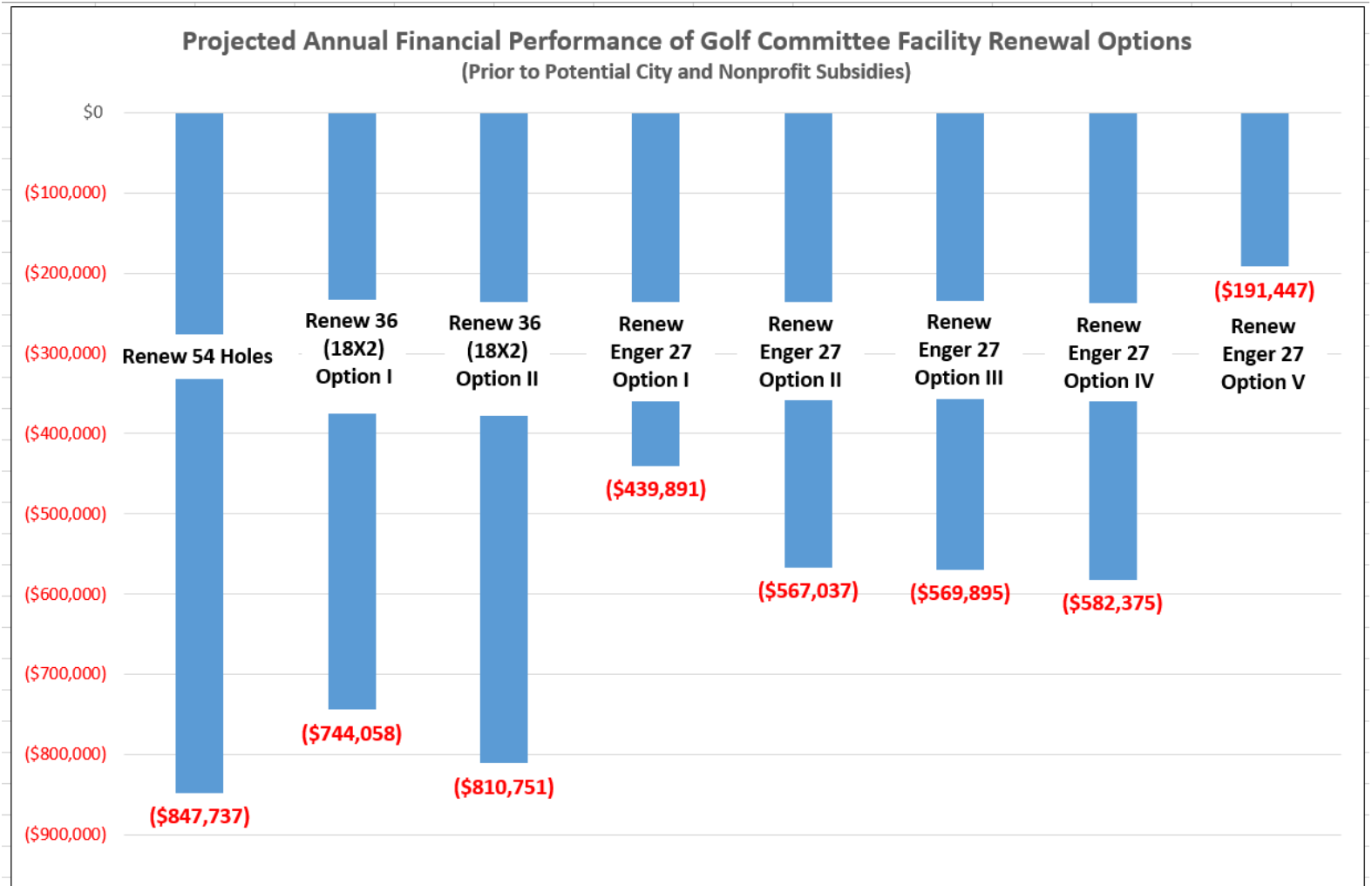
Golf Infrastructure Reinvestment Financing

Golf Facility Renewal Options Developed by Citizen Advisory Committee

| Options | Option Label | Total Holes Retained and Improved (All/Lester/Enger) | Total Holes Closed and Sold (All/Lester/Enger) | Clubhouses | Projected Capital Expense | Projected Sale Proceeds | Capital Funding Gap Before Bonding |
|---------------------|--|--|--|--|---------------------------|-------------------------|------------------------------------|
| Renew 54 | Keep and renew 54, critical improvements with basic clubhouse renovations. | 54/27/27 | 0/0/0 | Renovate both - \$750K each | \$9.8m | \$0 | \$9.8m |
| Renew 36 I | Keep and renew 36 (18 per course), critical improvements with basic clubhouse renovations. | 36/18/18 | 18/9/9 | Renovate both - \$750K each | \$7.5m | \$1.6m | \$5.9m |
| Renew 36 II | Keep and renew 36 (18 per course), critical improvements with new Enger multi-purpose event clubhouse, and basic Lester clubhouse renovation | 36/18/18 | 18/9/9 | New \$5m Enger, Renovate Lester \$750K | \$11.8m | \$1.6m | \$10.2m |
| Renew 27 I | Keep and renew 27 at Enger with basic clubhouse renovation. | 27/0/27 | 27/27/0 | Renovate Enger \$750K | \$5.7m | \$1.8m | \$3.9m |
| Renew 27 II | Keep and renew 27 at Enger. Sell 27 at Lester with assumption that owner will operate 9 or 18 as publicly accessible course. Basic Enger clubhouse renovation. | 27/0/27 | 27/27/0 | Renovate Enger \$750Km | \$5.7m | \$1.8m | \$3.9m |
| Renew 27 III | Keep and renew 27 at Enger with new clubhouse comparable to existing clubhouse without significant event capacity. | 27/0/27 | 27/27/0 | New \$2.5m Enger | \$7.4m | \$1.8m | \$5.6m |
| Renew 27 IV | Identical to 2C but with multi-purpose event clubhouse | 27/0/27 | 27/27/0 | New \$5m Enger | \$9.9m | \$1.8m | \$8.1m |
| Renew 27 V | Identical to 2A but with pre-fab clubhouse, value-engineered critical course improvements, and reconfiguration of Enger range area. | 27/0/27 | 27/27/0 | Pre-fab \$500K | \$3.8m | \$2.2m | \$1.6m |



Golf Infrastructure Reinvestment Financing





Golf Infrastructure Reinvestment Financing

Finding 36

Retention, renewal, and operation of more than 27 holes of golf is likely to require City of Duluth subsidies significantly in excess of what Duluth citizens say that they can support.

Finding 37

Retention, renewal, and operation of 27 holes is likely to be a significant financial challenge that may require annual borrowing costs in excess of \$200,000 per year for 25 years.





Findings on the Public Process for Closure and Sale of City-Owned Golf Holes

Finding 38

Potential City decisions to cease or reduce golf operations at a City-owned golf course are procedurally distinct from potential decisions to sell a park property.

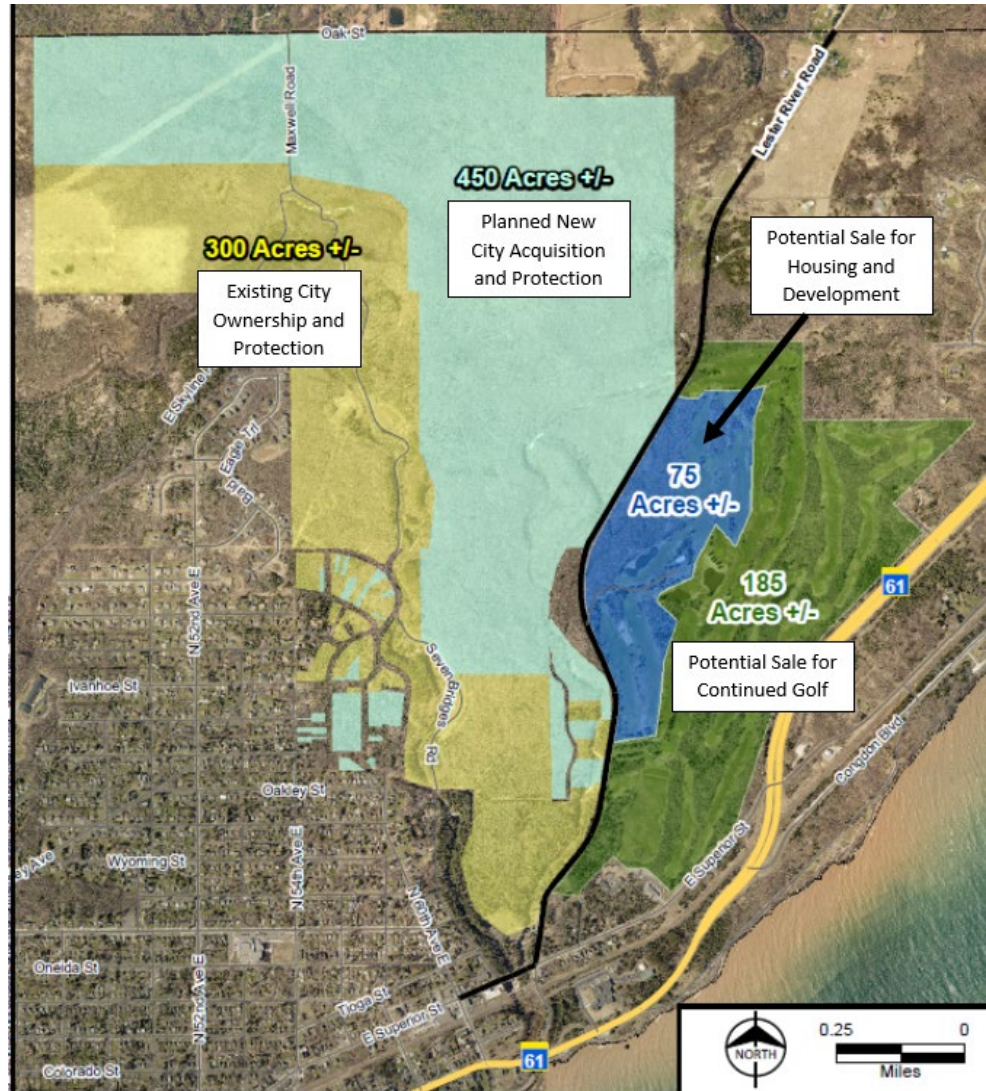
Finding 39

The City of Duluth administration has the authority to close existing golf holes without Council approval.

Finding 40

State of Minnesota law prescribes a specific process by which super-majorities of the Planning Commission and the City Council may approve the sale of a park property.

End Note on Prioritization of Public Green Space for Housing and Parks





Next Steps in Golf Study Process

- **March 11** Release and Presentation of Golf Citizen Advisory Committee Findings
- **March 13** Parks Commission discusses findings and receives public comment
- **Late March** Finalize specific recommendations.
- **April** Present specific recommendations at second Council Committee of the Whole
- **May/June** Tbd