

**Comprehensive Review and  
Operations Assessment  
for  
Enger Park and Lester Park  
Golf Courses  
in  
Duluth, Minnesota**

Prepared For:

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# Executive Summary

## PURPOSE

National Golf Foundation Consulting, Inc. (“NGF Consulting” or “NGF”) was retained by the City of Duluth (“City” or “Duluth Golf”) to assist in evaluating the operational and economic performance of City’s municipal golf system. The following is a summarized version of our full system report, detailing the main findings and NGF recommendations for the City to improve its municipal golf system. In this Executive Summary, NGF provides a brief review of our findings and recommendations on the Duluth Golf system, intended to provide an “at-a-glance” summarization of the full review. Additional detail on this summary can be found in the full body of our comprehensive report and its appendices.

## BACKGROUND

The City of Duluth is operating two separate 27-hole golf courses that are among the more popular and active golf courses in this market area. The two Duluth golf courses are each serving a similar market niche, but have different locations with separate demographics. The two courses are clearly aging (both facilities are over 70 years old) and will require new capital investment to remain competitive. This investment is recommended for both the golf courses and support amenities (clubhouses). Overall, the NGF believes that the City’s golf system reflects very well on the City of Duluth and is a fine complement to the overall City image.

In the last several years, the economic performance of the City’s golf system has declined, leading to stress within the system. There have been many changes over the years, including the addition of the Lake-9 course at Lester Park Golf Course, and the change from City self-operation to a management contract with Professional Golf Management (PGM) in 2007. While some of these changes have not been overly popular, the golf assets within the City are now fixed and the NGF Consulting review has been completed to offer the most appropriate plan for these facilities going forward, regardless of what has happened in the past. In reviewing the Duluth Golf system, it was conveyed to the NGF consultants that the City of Duluth is “committed to providing affordable golf to the citizens of Duluth,” while making every effort to minimize the economic burden on the City.

The Duluth Golf system now has clearly been impacted by the national economic recession of 2008-2011, and the Duluth Golf courses have been hit especially hard with poor weather in 2010 and 2011. In some ways, Duluth Golf has been hit by a “perfect storm” of events including recession, declining demand for golf, increasing number of golf courses, and poor weather. Despite all this, it appears the Duluth Golf program is still well positioned to regain its market share through changes already underway in the system, and other changes recommended by NGF. However, the NGF did observe that record-keeping within the system is poor, due mostly to an antiquated point-of-sale (POS) system. Throughout the course of this engagement the NGF consultants found it hard to gather appropriate operating data to complete our review, along with several inconsistencies and missing details within the data provided.

In 2011, NGF was retained by the City of Duluth to assist with evaluating the Duluth Golf system and to make recommendations to help ensure the long-term viability of the golf program. This includes a thorough review of the system on an ‘as-is’ basis, as well as a consideration of other

operating alternatives, including further privatization (sale or lease) options and even reduction of holes or closure of golf course(s). It is expected that the results of this NGF study will be used by the City as a guide for the future of the golf system, and to help convey to interested parties (citizens of Duluth, City Council, etc.) that the City will operate the golf system in the most efficient manner possible, and clearly identify why and how much City economic support may be required.

NGF Consulting completed a thorough review of the City's golf program that included several meetings, inspections, review of data, and utilization of the NGF Consultants' experience and basic knowledge of golf industry best practices. NGF findings and recommendations are designed to give the City of Duluth a full understanding of its golf system as a whole, along with an understanding of each Enger Park and Lester Park GC's. The ultimate goal of this project is to create a formal business plan for the City golf courses that will put the system on a path toward long-term economic stability and sustainability.

The key issues addressed by the NGF team include:

- Overall condition and operating structure of the Duluth Golf system
- A review of golf industry standards and norms of operation
- Status of the Duluth area golf market
- A summary of NGF recommendations
- An estimate of realistic economic potential of the Duluth Golf system

The NGF consulting engagement was managed by Richard Singer, Director of Consulting Services for the NGF, with assistance from Senior Associate Consultant John S. Wait.

## **SUMMARY OF FINDINGS AND RECOMMENDATIONS**

In summary, our findings are that the City of Duluth is operating two distinct golf courses with the potential for high quality that are presently suffering from some disadvantages related to the age and condition of the facilities. NGF Consulting found six key specific controllable areas that are contributing to the economic distress within the system and form the core of our recommendations to the City, including:

- Aging condition of facilities, especially the clubhouse at Enger Park GC
- Decline in golf facility activity, especially during wet periods
- Poor record-keeping and understanding of who plays golf, at what rate and at what time
- Inadequate financial controls at the golf course and City oversight
- Legacy of antiquated marketing practices
- Not seeking to capitalize on the growing tourist market in Duluth

**In review of the Duluth Golf system, NGF finds that action on these above items will provide the greatest relief from economic stress to the system, and that some of these items will require investment of capital by the City – (i.e., spend money to make money) – to gain relief.** Assuming the viability of the golf system is in the best interest of the City, it is

expected that these investments will provide some economic stimulus to the Duluth Golf system.

NGF recognizes that in operating public golf facilities there are variables to the operation that can be controlled by the owner (City) and variables that cannot be controlled. Uncontrollable factors include the location of the facilities, the demand for golf, the weather, and the condition of the national, local, and regional economy. While some of the key controllable factors were identified above, other controllable factors include direct expenses to operate the facilities (reduced by City in 2011), condition of the golf facilities, quality of services offered, and the extent to which the facilities are appropriately marketed. The review and NGF recommendations contained in this report are designed to focus on the factors of the golf system that can be controlled by the City and to form the foundation of a system-wide business plan for golf. The key NGF Consulting findings from this golf system review are shown below.

### **Overall System Findings and Recommendations**

The NGF has reviewed the operation and management of the Duluth Golf System, along with alternate options for governance. It is the opinion of the NGF consultants that the basics of the present system should be continued, and that none of the alternate options reviewed clearly placed the system in an improved economic condition. The present system appears to work well for both parties as the City is relieved of direct operational responsibility and personnel costs (especially benefits), while the operator (PGM) has the opportunity to increase their earnings. However, the system of compensation is somewhat unique in municipal golf in that senior PGM principals are compensated only by management fee and not via salary, and there is no variable portion in the agreement to allow the vendor to share some risk with the City (the NGF notes that this may not be allowable under City Duluth regulations).

The NGF review of PGM as a management entity showed a high level of expertise that is brought to the system and both senior principals appear to be well-liked by customers. The NGF review did not reveal any serious concerns that would lead to a recommended change in management entity, although there were some areas of management and oversight that could be improved as recommended. Some of the concerns (record keeping, cost of sales, etc.) were clearly related to problems with antiquated systems (POS) as apposed to poor management. We also have observed that some action has already been taken by PGM to correct some deficiencies documented by NGF in this review.

The NGF recommendations for management and governance are that the present system be extended beyond the 2012 period with some modifications in compensation structure. The NGF recommends the following terms be incorporated into the next agreement with the golf management entity:

- Be a five-year agreement.
- Include a base management fee of \$100,000 per facility (\$200,000 total), plus an incentive of at least 25% of total net revenue (all sources).
- The City will be responsible for all capital expenditures.

It has been assumed by NGF that the above terms are within City legal guidelines and would not trigger a property tax requirement. If this assumption is not correct and there are legal ramifications of the recommendation, then NGF recommends a continuation of the present agreement, inclusive of senior management compensation.



Other key NGF recommendations for the Duluth golf system include:

- **Capital.** NGF has observed declining condition of both Enger Park and Lester Park golf facilities. The facilities are suffering from age (especially Enger Park) and continued deferral of capital upgrades eventually will catch up to the system. NGF has recommended specific upgrades to facilities, beginning with upgrades and a new clubhouse at Enger Park, as a program to help improve revenue performance. Other capital needs such as equipment replacement and irrigation upgrades are likely to be required in the three to seven year horizon and should be in the City's planning. The estimated cost to complete the NGF recommended facility improvements, along with a list in order of NGF recommended priority, is detailed in the table below. The estimated costs detailed below do not include any lost revenue due to business disruption that may occur as a result of the upgrades.

<b>City of Duluth Golf System Recommended Physical Improvements</b>	
<b>Highest Priority Items</b>	<b>Highest Estimated Cost</b>
Enger Park GC Clubhouse	\$1,350,000
Enger Cart Paths	150,000
Enger Drainage Program	600,000
Enger On-Course Restrooms (2)	160,000
Enger Irrigation	1,500,000
Enger Park Greens	405,000
Enger Park Bunkers	147,000
<b>Total High Priority (Enger)</b>	<b>\$4,312,000</b>
<b>Lower Priority Items</b>	
Lester Cart Paths	150,000
Lester Clubhouse	150,000
Lester Park GC Maintenance Shed	300,000
Lester Irrigation System	1,500,000
Lester Park Drainage Program	600,000
Lester On Course Restroom (2)	160,000
Lester Park Bunkers	70,000
<b>Total Lower Priority</b>	<b>\$2,930,000</b>
<b>Total Duluth Golf Upgrades</b>	<b>\$7,242,000</b>

- **Mission Statement / Master Plan.** The City of Duluth needs to create a formal "mission statement" for the golf system defining the proper role of these City recreational amenities. A formal master plan for operations and improvements should also be created, perhaps based on the NGF recommendations contained in this report.
- **POS.** The City of Duluth needs to upgrade the Point-of-Sale (POS) system for the Duluth golf courses. Most important, all revenue centers should be on the same POS system to allow for ease of reporting and review of performance. The system also needs to be able to integrate with tee sheets so as to allow for automated (on-line) tee time reservations.

- **Modernization / Marketing.** The Duluth golf system needs to modernize its marketing, particularly on-line marketing. This process is well underway with PGM recognizing the importance of a strong internet presence. This and other initiatives show that the current management team is committed to modernizing the Duluth Golf system.
- **Fee Structure.** The basic fee structure for Duluth Golf appears to be market justified, although some adjustment is warranted, especially if upgrades are completed as recommended. Key inputs to the NGF fee recommendations include:
  - **Rack Rate:** The rack rate is basically what non-residents will pay. Local area golfers will be able to purchase the Patron Gold card (resident card) for \$5. Non residents can purchase it for \$25
  - **Patron Card:** Introduce two levels of Patron Card – Patron Gold, which is designed mostly for locals; and Patron Platinum, which is basically the current program.
  - **Weekend Rates:** Add a weekend rate that is higher than the weekday rate
  - **Seniors:** Raise minimum age by 1 year every year until minimum rate reaches 62. (e.g. 56 in 2012, 57 in 2013, etc.)
  - **Driving Range:** Assumes the conversion to electronic card dispensers, which would allow for discounts for larger purchases.
- **Food and Beverage.** The NGF has noted a few minor problems with the food and beverage operation at the two Duluth golf courses. Some ideas for enhancing this service area include:
  - Establish a required schedule for on-course beverage cart service. There should always be beverage cart service anytime there are golfers on the course, but the schedule can be somewhat flexible to include modest service with fewer than 10 groups are on the course.
  - Establish a “grab-and-go” system to allow golfers to make quick purchases of food, snack and beverage items. Include pre-made sandwiches (fresh daily) and other snack items.
  - Improve the control on access to the liquor storage at Enger Park.
  - Create a new and more attractive menu with additional “light” choices (salads, wraps, etc.).
- **Golfer Survey.** The NGF conducted a survey of both Lester Park and Enger Park golfers that shows strong general satisfaction with many aspects of the golf operation, including facility staff and operational policies. The respondents did note declining physical condition, especially in the clubhouses and hoped for future improvement in these areas.

## External Factors

The external (uncontrollable) factors that affect the City's ability to sell golf rounds all tended to be negative in 2011. NGF findings include:

- The national and state economies appear to be in recession, and this has limited the amount of discretionary consumer income that can be spent on golf. The NGF has also documented a rapid inflation in expenses to operate golf facilities nationwide.
- Among the keys to growth in golf activity will be increasing participation among minorities and females. Beginner-type facilities can be helpful in meeting this challenge, and both Enger Park and Lester Park generally meet these criteria with some of the 9-hole configurations.
- The local Duluth area demographics are generally favorable for golf participation, but at much lower fees than other regional communities. The immediate sub-markets surrounding each golf course are quite different from each other with Enger Park showing a younger and lower-income population, while the Lester Park area market has an older population with higher-than-average incomes.
- Despite recent declines, data collected by NGF show some favorable attributes related to economic activity in Duluth that can translate to high golf activity. These include lower-than-average unemployment, growing tourism, convenient transportation infrastructure, and residential home pricing more stable than other areas of the U.S.
- The Duluth area has over 4,600 hotel rooms and is attracting upwards of 3.5 million tourists annually.
- The golf market in the greater Duluth area is highly weather dependent, with length of winter and rain-out days in summer playing a key role in revenue generation.
- The overall golf market in the Duluth MSA area is somewhat large, with upwards of 24,000 golfers potentially demanding 367,000 rounds and spending over \$13.0 million on golf annually. Overall participation in golf is predicted to be higher than average in the Duluth market, but actual participation may be slightly lower, indicating a somewhat "inactive" golf population.
- There are relatively few competing full-length 18-hole golf courses in the immediate market area, but several facilities stand out as offering competition to the Duluth golf system overall. These include the Nemadji courses in Superior and Lakeview National in Two Harbors.
- The City of Duluth golf courses generally compare favorably to their immediate competition with higher fees and higher rounds activity. The two Duluth courses are the most active golf facilities in the market area in terms of rounds played.

## Enger Park Golf Course Summary

- Enger Park is the premier facility in Duluth Golf, and a popular public golf facility in the Duluth region, with nice surroundings and no adjacent development. The 27-hole layout gives the facility great flexibility in maintaining a high volume of rounds annually, although the fact that the three nine-hole courses are not of equal quality.

- The new tournament pavilion added in 2011 is a nice complement to the facility and should help to enhance tournament activity and total rounds and revenue for the facility.
- There is nothing inherent in the design or structure of this golf course that would prevent it from improving revenue and profitability, although eight of the golf holes are now over 70 years old and much of the facility is showing its age on both the golf course and clubhouse. Many aspects of the facility are well beyond their expected useful life and capital upgrades will be required to:
  - Improve drainage
  - Improve irrigation
  - Add wall-to-wall cart paths
  - Improve on-course services
- The Enger Park-clubhouse is in very poor condition and is also not very functional. Improvement to (or replacement of) this facility would go a long way toward enhancing the operation and providing the potential to increase both golf and non-golf revenue (banquets, parties, etc.).
- Enger Park GC is producing a high level of rounds activity, but at a very low level of revenue per round due largely to the high season pass volume. The \$16.44 in golf revenue (green fees, passes, carts, range) per round is much lower than industry standards, even for a municipal golf course.
- The maintenance condition of the Enger Park is generally adequate, considering the age of the facility and the low maintenance budget. This reflects the good quality of the superintendent and the maintenance staff. Maintaining golf courses in Minnesota is more difficult than in other areas of the U.S. due in part to the winter season and heavy snow cover.
- The total operating expense is within industry norms, but there has been a significant increase in maintenance expenses in the last two years. This is likely a reflection of declining conditions and the age of the facilities requiring constant repair.

### **Lester Park Golf Course Summary**

- Lester Park is also a golf course with an original design dating back to the 1930's. In 1988, a third nine holes (Lake-9) was added to the property, along with other improvements at both Lester Park and Enger Park GC's.
- While Lester Park GC has 27 holes, the set up is not ideal in that the three nine-hole courses are not of equal design or quality. The original 18 holes offer a simple design with ease of play. The newer Lake-9, while clearly more scenic, is much more difficult to play with narrower holes and more hazards.
- The newer Lake-9 offers features that are much more marketable, especially to tourists, including scenic views of Lake Superior, modern golf design features and more challenge for better players.
- Like its sister at Enger Park, Lester Park GC also includes many features that are over 70 years old and showing age. Many aspects of the facility are well beyond their expected useful life and capital upgrades will be required to:
  - Cart Paths

- Improve drainage
  - Clubhouse
  - Maintenance shed
  - Improve on-course services
- The Lester Park-clubhouse is also in declining condition, but is much more functional than Enger Park and thus does not require replacement. Rather, a program of basic upgrades to improve electrical and plumbing would be recommended for this facility.
  - Alcohol sales at Lester Park are limited to beer, as no hard alcohol is allowed at the site. This has served to limit food and beverage revenue at the property and may impact total volume as some golfers will not play at a facility that does not offer this service. The NGF has recommended that full alcohol sales be allowed at Lester Park as part of the program to improve golf system revenue.
  - Lester Park GC is producing rounds activity that is less than Enger Park and the average revenue per round is also lower. The \$15.81 in golf revenue (green fees, passes, carts, range) per round is much lower than industry standards, even for a municipal golf course.
  - The maintenance condition of the Lester Park is generally adequate considering the budget. The total operating expense is within industry norms.

## Financial Overview Summary

As part of our review of the City of Duluth golf system, NGF Consulting created three cash flow models for the continued operation of the Duluth Golf system under various assumptions, including continuation on an “as-is” basis, the consideration of eliminating (closing) the Lake-9 course at Lester Park and operating with full implementation of NGF recommendations, including new capital investment. The details and assumptions of these financial projections are contained in the body of the NGF report.

## Summary of Performance

Analysis of the three scenarios evaluated by NGF led to the following results:

- **Scenario 1 – “As-Is” Operation:** Assuming continued operation on an “as-is” basis, even with favorable weather and a stable economy, the City of Duluth should not expect this golf system to be profitable after all city overhead expenses are included in the evaluation. This is the case even with the elimination of the interest and principal, beginning in 2013. In all, the Duluth golf system is not generating enough revenue to cover growing expenses, unless fees are increased at a rate comparable to the expenses and these fee increases would not be supported by the market given the current quality of the facilities. Further, the physical quality of the City's golf assets is declining and golfers in the market may find the golf courses less desirable in the future, leading to further declines in revenue.
- **Scenario 2 – “As-Is” + Lake-9 Closing:** If the City were to reduce the operation by closing the less-popular Lake-9 at Lester Park, the slight reduction in expenses will likely be off-set by loss of revenue, leading to no real economic improvement in the system. In all it is expected that the overall market environment in Duluth and the inability for the golf courses to attract much of a non-resident market will likely continue to impact this golf operation, even if the number of holes are reduced. The

scenery and ambiance of the Lake-9 course is the best in the system, and will be needed to capture a share of the tourist golf market.

- **Scenario 3 – Implement NGF Recommendations:** The results of the NGF analysis show that the City of Duluth can vastly improve its golf system by enhancing its facilities (especially Enger Park), improving some business practices, adjusting fees and slightly modifying the management agreement. Of course, this is all predicated on favorable weather and a somewhat stable economy, but the City's economic position in the golf courses is improved even with the addition of \$229,000 in debt service beginning in 2013. The improvement will be achieved by enhancing the golf product, thereby attracting new golf customers (particularly tourists) to the facilities (especially Enger Park) later in the decade at a time when the present clientele of senior golfers are expected to reduce golf activity. The enhanced clubhouse at Enger Park will allow for a greater volume of golf events, as well as other non-golf events that can bring strong economic return (weddings, banquets, parties, etc.).

## Summary Conclusion

The recommendations made by NGF Consulting are generally centered on increasing revenues and reducing expenses through some capital investment. Still, despite the course of action recommended by NGF, the City of Duluth should expect a “new reality” in rounds and revenue performance that is not likely to return to levels experienced a decade ago, but should exceed the levels experienced in 2011.

It is clear that there are three key issues leading to economic hardship within the Duluth Golf system, with two of these not being controllable by the City. Key stresses to the system are: (1) weather impacts; (2) age of facilities needing upgrade (particularly the clubhouse at Enger Park); and (3) the trend toward declining golf activity in this market and nationwide. Despite these hardships, there are many positives within the system that could help to improve its economic situation, including: (1) high quality of facilities design if improved; (2) dedicated staff committed to doing all it can to improve performance; and (3) potential strong tourist golf market in Duluth if facilities were available and marketed appropriately.

As part of this consulting effort, NGF reviewed alternate options for the operation and management of the City's golf system, along with a possible reduction of holes. This review showed that none of these options would immediately improve the economic performance of Duluth Golf to a level that is clearly better than the expectations under the present system and configuration, without enhancement of facilities through some capital investment. Put simply, there is no “magic bullet” for Duluth Golf in changing management, managers or reducing holes (closing the Lake-9); and the dedicated, hard-working, experienced staff of professionals offers the best likelihood of improved economic performance in Duluth Golf going forward.

Some of the recommendations made by NGF in this analysis require the City to make investments in Duluth Golf properties (Enger Park as a priority), and much of the \$4.0 million+ in new investment over the five years involves improving Enger Park so as to allow for greater use, thus increasing revenue. NGF recognizes that these investments may add economic stress to the City golf system in the years these investments are made, and the first few years after. This is due not only to the actual financial investments themselves, but the disruption the changes may cause in facility operations. In the longer term (beyond five years) the upgrades NGF suggests should help position the City golf courses as high quality public golf facilities that are both desirable to a wide range of golfing customers, and efficient in their maintenance practices.

**The five most important NGF recommendations for Duluth Golf include:**

1. Improve record-keeping and financial controls at the golf courses and invest in a new POS system
2. Commit to new investment to improve the Enger Park Golf Course (clubhouse, drainage, cart paths, irrigation, etc.)
3. Enhance marketing efforts, with particular focus on the growing Duluth tourist market
4. Modify the existing management agreement after 2012 to include a more incentive-based agreement (if allowable by law). If this type of change is not allowable the present type of agreement is preferable to alternatives evaluated by NGF (self operation, concessions, lease, etc.)
5. Seek to adjust golf fees at both courses with:
  - a. Weekday/weekend segments
  - b. Lester Park / Enger Park segments
  - c. Resident / non-resident segments
  - d. Raise fees on pre-paid golf passes
  - e. Adjust cart passes to reflect fee-per-rider vs. fee-for-cart.
  - f. Commit to annual (or bi-annual) adjustments in fees to keep pace with expense inflation



# City of Duluth Municipal Golf System Overview

The City of Duluth golf system comprises two separate revenue centers and/or facilities located within the City of Duluth. The facilities and type are shown below:

Facility	Type
Enger Park Golf Course	27-Hole Regulation Golf Course
Lester Park Golf Course	27-Hole Regulation Golf Course

In our review of the Duluth Golf system, the NGF Consulting team found good quality golf facilities, each serving roughly the same general market niche and thus competing directly with each other. The NGF has observed that despite the City's direction that the two golf courses be operated with identical fees and policies, the two facilities are situated in very different sub-markets and have different market potential opportunities.

The centerpiece facility, Enger Park, features a very high quality golf course, together with aging ancillary support amenities (clubhouse) that are limiting the total revenue potential of the facility. The addition of a new tournament pavilion (under construction during NGF's August 2011 site visit) should help the facility attract a new level of group activity to assist with increasing revenue. The second facility, Lester Park GC, has many similar characteristics of Enger Park GC, with upgrades needed to its golf course and clubhouse.

As part of this consulting effort, NGF Consulting has observed very dedicated and hard working staff members at both City of Duluth golf facilities. Both facilities are presently operating under somewhat reduced staffing due to budgetary limitations, and are trying to get by with often very limited resources. The private management company structure appears to be serving the City well, although some change may be in order when the present agreement expires at the end of 2012. The City appears willing to put additional resources into the golf courses, provided these resources are used to help improve financial performance and increase revenues.

## LOCATION AND ACCESSIBILITY ANALYSIS

The two golf facilities, Enger Park and Lester Park, are located at opposite ends of the City. Lester Park is on the northeastern edge of the City, while Enger Park is on the west side, close to downtown. The two locations have some common traits, but are also very different from each other. On the common side, they are both located near major roads, but are not directly on them, nor can they be seen from the highway. Both locations are scenic, although Lester Park has superior views *from the golf course*.

Enger Park is located close to the center of the metropolitan area and is very convenient to both downtown and the majority of hotels. Being in the center, it is no more than a 20 minute drive for the vast majority of the population in the metropolitan area, including Superior Wisconsin. Lester Park is on the very edge of town, with far less population



nearby. It is close to the major highway leading to the resort areas on the north shore of Lake Superior. It is also our understanding that culturally and politically the east side (Lester Park) and west side (Enger Park) of Duluth are very different.

A peculiarity of the area is the fact that the weather conditions for the two courses can be different, even though they are located less than eight miles apart. Enger Park sits upon a hill, further away from Lake Superior and the weather up there can be very different than down near the lake, where Lester Park is located. In addition, the soil conditions for the two courses are different, with implications for golf course maintenance (more later in this report).

### Enger Park GC Location

Enger Park Golf Course is located on a large hill overlooking the city and Lake Superior. And while the road (Skyline road) off which Enger Park is located offers spectacular views of the City and Lake, the vistas are very limited on the actual golf course. The golf course is located in the large Enger Park, which has an entrance that is two miles from Interstate-35. *However, there is no signage from I-35 directing you to the course, the addition of which may be very helpful to the Enger Park GC operation.* There is a sign off US-53 which connects to Skyline.

### Lester Park GC Location

Lester Park Golf Course is located off Lester River Road at the northeastern city limits of Duluth, approximately 4.5 miles from the terminus of I-35 and 1.1 miles from Highway 61, the major road from Duluth to Canada and the north shore resort area. *Again, the signage directing customers to the golf course is poor and the addition of a sign at the closest intersection on Highway 61 would be very helpful.* Lester Park GC has gentle hills and offers often spectacular views of Lake Superior from all three nines.

### Local Map Context



## ORGANIZATION AND ADMINISTRATION

The City golf program is structured as an enterprise fund, which is common in municipal golf all across the U.S. The system is structured with ultimate authority in the City of Duluth Park and Recreation Department. Due largely to labor concerns, including limitations on the maximum number of part-time hours worked, the City has elected to “outsource” the operations to a private management company named “Professional Golf Management (PGM) to operate the golf courses effective July 1, 2007. PGM is a start-up company created by the existing City-employed Head Golf Professional and Superintendent for the golf operations in Duluth at that time.

Under the agreement with PGM, all operating expenses, including payroll, pass through to the City. All revenue also belongs to the City. PGM is paid a management fee, which this year totals \$400,000. Included in this fee are the salaries of seven management level positions involved with the golf course (Director of Golf, Head Pro, Superintendent, two Assistant Superintendents, food and beverage director and an accountant – the Director of Golf and Superintendent are the two owners of PGM). The Director of Golf maintains an office at Lester Park and serves as the Head Professional at that location. The Head Superintendent has an office at Enger Park. Despite office locations at separate facilities, both top managers spend a lot of time at both facilities on a regular basis.

### City-Wide Support for Golf System

The City of Duluth golf operation is a key element of the City’s public service offering, and the system has support from City administration and the Park and Recreation Department in particular.

**Marketing** – At present, PGM is responsible for all marketing for the golf course. However, there is no comprehensive City-wide marketing plan for golf incorporating research, planning, strategy, market identification, budget, advertising, timetable, and follow-up. There is some marketing support from the City of Duluth for the golf course, including basic descriptions on its City website and a direct link to [www.golfinduluth.com](http://www.golfinduluth.com), the PGM website for the two golf courses.

**Accounting** – The golf courses are required to provide an appropriate accounting statement to the City each year for review. All financial statements provided to NGF Consulting by the City of Duluth are prepared using an accrual basis of accounting, where revenues are recognized when earned, and expenses are recognized when incurred.

**Enterprise Fund** – The City of Duluth operates the golf courses under a defined Golf Enterprise Fund. The enterprise fund structure is very common for municipal golf systems, both in the State of Minnesota and nationwide. The City currently supports the enterprise fund for larger capital improvements and covering the debt service on the facility.

As of December 31, 2010, the Golf Course Fund cash position had a negative balance of (\$820,222.93) with total net assets of \$1,019,719 and unrestricted net assets of (\$-799,559). Notably, the final bond payment for the 1988 renovations to both Lester

Park and Enger Park is due in 2012. This date coincides with the end of the current management contract with PGM.

Enterprise accounting allows a community to demonstrate to the public the portion of total costs of a service that is recovered through user charges and the portion that is subsidized by the tax levy or other available funds, if any. A community may choose to recover total service costs through user charges, but it is not required. Enterprise funds frequently are used to account for services whose costs are only partially funded by fees and charges. A community may account for a certain service in the general fund, special revenue fund or an enterprise fund. The advantages of using the enterprise fund method include the ability to demonstrate the total cost of the service, ability to retain investment income, and surplus.

### **Citizen Committees**

Like many municipalities that operate golf facilities, the City of Duluth has a Golf Association (called the Duluth Men's Golf Association) whose responsibility is to organize golf events and participate in the enhancement and upkeep of the City's golf facilities through volunteerism.

Duluth benefits from a fund of money, derived from donations and fundraising golf events, separate from the City. These funds have been used for several additions and improvements to the Duluth golf facilities over the years, including (partial list):

- The new tournament pavilion at Enger Park GC
- Televisions of the clubhouse(s)
- Winter covers for the greens
- Other items

## **GOLF OPERATIONS**

A summary of the NGF review of Duluth golf course operations in areas including the POS system, marketing, fee structure, patron program, groups / tournaments, and lessons is covered in the following section.

### **Point-of-Sale (POS) and Reservation Systems**

Both facilities are employing the "Greenskeeper" point-of-sale (POS) system. This is an older program and is being operated on outdated computers (vintage 2000) that have limited storage capacity. Each of the two facilities has two separate POS stations: one in the pro shop and one at the grill. This arrangement seems to be adequate given the current volume at the two facilities. The system lacks the ability to book tee times directly through the system (an integrated tee sheet), which is a severe disadvantage in modern golf operations where golf customers are used to automated systems, especially through the internet. Further, this system is reported to have frequent problems and the down time not only decreases operational efficiency, but inconveniences customers. The lack of reporting functions and storage capacity hampers management decision making and the lack of an integrated tee-sheet hurts both marketing (capturing information), and operating efficiency.

The NGF was informed that the capacity for these systems is so limited that the data drive has to be “wiped clean” at the end of each year to make room for the next year. Unfortunately, there has been no effort to preserve this older data, which is very unfortunate as it does not allow for audits after the fact to review operations. As such, the NGF analysis performed in 2011 was limited given the lack of data. For example, PGM was unable to comply with NGF requests for rounds information from 2010 or earlier. This makes it very difficult to cross-check revenue information against the rounds to determine if there are any issues. It also makes it difficult to do analyses based on day of the week, time of day, type of round, etc. which are critical to proper planning.

### NGF Commentary on POS

We find the POS system at the Duluth municipal golf courses to be cumbersome, limited in capacity and in need of a significant upgrade. This would include updating all the computers as well as the software. The new POS system should include an integrated tee sheet with online reservations capability. A new POS system will also enable the facilities to create a loyalty program for their customers.

It should be noted that it is likely that Duluth can obtain a new POS system with integrated tee sheet capabilities for little or no financial outlay through one or more of the golf industry vendors. These companies often provide these systems in exchange for tee times that they can sell on their own. In all, there are a number of other excellent POS providers that should be considered by the City for the future use at Enger Park GC and Lester Park GC's.

### Cash Controls

The review of the cash control systems at Duluth golf courses relates to the POS systems and the limitations noted above. The NGF consultants could not find a unique code on the z-out (closing report) that assures that the z-out was the only one printed that day. Without such a code, it would be possible for someone to print a z-out *prior* to the end of the business day and use that for the cash count. Then print a *second z-out* at the end of the day. This second z-out would be discarded and the operator would be able to keep all the cash transactions that occurred between the 1<sup>st</sup> and 2<sup>nd</sup> z-out. *The easy fix is to install a new POS with better controls.*

Another major issue we had concerning cash (and inventory controls) is with the beverage cart operation. At the time of our inspection, the beverage cart attendants did their own inventory, both checking out and checking in. This means there is no way to determine what the actual sales are from the beverage cart. This makes it extremely easy for the beverage cart attendant to underreport sales and keep the cash. And, based on our interviews, such instances have been noted. It also may help explain the extremely high cost-of-sales in the food and beverage department at both courses (more later in this report).

Fortunately, based at least in part on our recommendation, this procedure has been changed. A second person is now required to record all inventory additions to the beverage cart and the final inventory at the end of the shift. This is a far better system.

## Duluth Golf Marketing

Traditionally, Duluth Golf has not market itself aggressively, and this trend continued in 2010 when total expenditures for advertising was just \$7,661.56. Most (73%) of this advertising has been exclusively for Lester Park (\$5,573) while none of it has been for just Enger Park. The vast majority of the Lester Park advertising has involved discounting and use of redemption ads (coupons).

Duluth Golf Advertising and Printing Expenses				
Sudden Values	\$ 1,450.00	LP	Internet	Coupon
Yellow Pages	\$ 1,404.00	Both	Yellow pg	info
Value Card	\$ 120.00	LP	Internet	Coupon
Constant Contact	\$ 384.72	Both	email	some coupon
Duluth news	\$ 3,452.84	LP	Paper	Coupon
Vista Fleet	\$ 550.00	LP	Public/book	Coupon
Website	\$ 300.00	Both	Internet	info
	<b>\$ 7,661.56</b>			

In general, NGF recommendations for total marketing expenses for a public golf course are between 2% and 3% of total gross facility revenue, a “standard” of approximately \$39,000 to \$59,000 for the Duluth golf system (total revenue of \$1.96 million in 2010).

### NGF Commentary on Duluth Golf Marketing

Aside from inadequate budget, there are some concerns about the current marketing program:

- **Tourists:** Notably, none of the advertising targets the large tourist population in the area. We will discuss this in greater detail below.
- **Value Card:** We really like the value card concept
- **Image:** Little of the marketing is directed at improving the facilities’ image.
- **Internet:** Less than a fourth (24%) of the advertising was internet based, which is usually much more cost-effective than other media.
- **Social Networking:** There is also no social networking presence for Duluth Golf. Social networking is becoming the fastest growing marketing media in golf and is highly cost-effective.
- **Website:** There is a website for Duluth Golf ([www.golfinduluth.com](http://www.golfinduluth.com)) as well as separate websites for each course. We find these websites to be very basic in that they provide information, but little else.

- On the positive side, they do a good job providing information about the courses. This is especially true concerning leagues and events. We also like the ability to sign up for emails and ability to order gift certificates.
- Unfortunately, they do a poor job in creating a positive image for the clubs. For example, more than half of the Lester Park webpage is devoted to rules and regulations. This would be considered “negative” advertising. It is giving golfers reasons for not wanting to play, rather than providing compelling reasons to play

Other issues related to the Duluth golf courses websites include:

- **No online tee-time capability:** This goes back to the inadequate POS system. Golfers today are looking for online tee-times as an ever increasing percentage of golfers *prefer* to book online. Moreover, having online tee-times reduces staff time required to answer phones. This in turn can improve customer service to customers at the golf course and potentially reduce payroll cost.
- **Dated:** Information on the website, such as about events, leagues, etc., is not kept current. Events scheduled for April are still on the site (under tournaments) as late as September. Although the calendar under the Events tag is kept up to date.
- **Few Pictures:** Pictures sell the course. The golf courses would benefit from more pictures, especially for Lester Park.
- **Layout:** The layout is stiff and not very “modern”.
- **Food and Beverage:** Is not mentioned on any of the websites.
- **Merchandise sales** are not mentioned on any of the websites
- **Range** is not mentioned on any of the websites
- **Lessons/Clinics/Junior Programs** are not mentioned on the websites.
- **Leagues:** Provide information on each league, including times, participation requirements, fees, prizes, and number participating.

### Tourist Market

The market that is most overlooked by the current marketing strategy are tourists. According to Visit Duluth, the greater Duluth area hosts about 3.5 million tourists a year. Given that Minnesota has the highest golf participation rate in the country, we can assume that a large portion of these visitors (perhaps in excess of 1.0 million) play golf. This number dwarfs the local golf market, yet no effort is being made to capture any of these potential rounds.

One of the first questions to be asked is why aren’t more of these tourists playing golf in Duluth now? To best understand the issues involved, we need to separate these golfers



into two groups: 1) golfers who intend to play golf while in the Duluth area (planners) and 2) those that are not planning to play golf (impulse).

**Planners:** These are golfers who intend to play golf when in Duluth. Again, they can be further subdivided into two groups: 1) those that came to the Duluth area specifically to play golf and 2) those that are here for other reasons, but intend to play while they are here.

With regards to the first group, it is unlikely that they are playing any golf in Duluth, but rather are using Duluth as waypoint on their golfing trip. These golfers are likely to be playing resort courses at Giants Ridge, Wilderness or Superior National. These golfers are not likely to be interested in playing either Duluth courses as they are currently configured. This is because they are looking specifically for a resort golf experience, which typically involves a much higher expectation for quality. [It should be noted that we believe there is a significant opportunity to capture this market with a resort quality course in Duluth.]

The second group also will likely have higher standards. This is because golfers when they travel usually want a better golf experience than what they typically have at home. However, because there are no resort courses in Duluth, the two Duluth Golf facilities have an opportunity to capture some play from this market.

**Impulse Market:** It is likely that the vast majority of the golfers traveling through this area are not planning to play golf while in Duluth. Thus, for them to play in the Duluth would require them acting “on impulse.” This group represents the Duluth Golf best opportunity of capturing additional rounds.

Why are these golfers not playing golf at Duluth Golf now? Here are the most likely reasons:

- **Quality:** As stated above, golfers when they travel are looking for a quality golfing experience. Because they view this as a “vacation”, they want to treat themselves to great golf course. Price is typically not a major concern as they see it as a “one-time expense” as opposed to their weekly golf expense at home. While they prefer playing “resort” courses, they would also be interested in any unique golfing experience, such as a course offering beautiful scenery that is different from what they see at home. It is this latter aspect that provides opportunity for Duluth golf, especially for Lester Park which offers some spectacular scenery.
- **Awareness:** We suspect that the biggest reason golfers do not play here when they travel is simply because they are not aware of the city’s courses and especially are not aware of the scenic nature of both facilities.
- **Opportunity:** Most of the impulse market will not be traveling with their clubs because they were not planning on playing golf. Thus it is critical to make them aware of the availability of quality rental sets at an affordable price.

Please note that the one reason not mentioned above is price. When golfers travel they tend to be willing to pay substantially more for their golf then when they are at home. This is because they view it differently – it is a vacation expense as opposed to a

reoccurring expense. In fact, being an inexpensive course can work against getting tourist play because golfers correlate price with quality and assume an inexpensive course is not going to be of very good quality.

### **NGF Recommendations for Duluth Golf Marketing**

The NGF recommendations for improving the marketing of the Duluth municipal golf courses include the following ideas for both the local market and the tourist market.

#### **For the Local Market**

- **Improve the Website:** Add information about food and beverage, merchandise, the driving range, lessons and clinics and junior programs. Also, advertise special “sales” and other merchandise discounts on the website.
- **Consider adding a newsletter** which would contain information about leagues, member news (holes-in-one, etc), maintenance procedures, pro’s tips, etc.
- **Add on-line tee times**
- **Add more pictures: especially for Lester Park**
- **Value Card:** Create a Value Card program for Enger Park as well. The times can be restricted to lower volume days and times.
- **Social Networking:** Create accounts for Facebook, MySpace, and Twitter. Try to have someone on staff who can keep these accounts current and proactive. [Make sure you monitor the content!]
- **Print Is Not Dead** – Although various forms of print media are less popular with golf facilities in the Internet age, this area of golf marketing is not totally dead. Print media can help raise brand awareness and promote the image of Enger Park, even if at a quick glance or to drive prospects to the Website for more information. Magazine ads and rack brochures are still effective in the Duluth market and should be included in the facility’s marketing plan.

#### **For The Tourist Market**

Again, we see tourists as the best opportunity for not only increasing play, but also *significantly raising the revenue per round*.

- **Billboard:** A billboard will be the most effective way of reaching all the golfers traveling through the area. The ideal location would be on I-35 as most of the tourists will be using this road. Another excellent location would be on Hwy 61 coming south into town.
- **Brochures:** A brochure should be developed and distributed to all tourist racks in the area, as well as all the area visitors bureau, the Chamber, Visit Duluth and the CCVB for mail-outs. The brochure should be professionally designed and feature professionally taken photos of the course. It *needs to have the word “golf” appear on the top of the front panel* so it is easy to see in a tourist rack.



- **Co-op advertising/cooperation with area agencies:** Work with VisitDuluth and other area agencies promoting tourism to be included in their brochures, websites as well as information packets.
- **Regional Golf Publications:** Place ads in regional golf publications.
- **Promote with area hotels:** Area hotels should be approached directly about marketing the course to their guests. Incentives could be given to both the guests (coupons, etc.) and the front desk staff.
- **Website:** To attract more golfers, the website should contain a layout for each facility, be readily found for searches for “golf Duluth”, “Golf Superior”; “Golf Iron range”, “Golf Minnesota”; etc., include online tee-times and have lots of pictures (especially for Lester Park).

### Duluth Golf Fee Structure

The table that follows displays the present fee structure for the Duluth Golf Courses. (It should be noted that the fees for the two courses are the same). Later in this report, the NGF team will offer insights into how this structure fits in with the product offering and the local market, as well as provide a recommendation for any changes to the fee structure.

The NGF has observed that Duluth Golf staff has been resisting the use of tee-time wholesalers like *GolfNow.com*. These groups provide a service to sell tee times for golf courses at a discount to the public. The advantage to Duluth Golf of using this service would be the sale of additional tee times, while the disadvantage is a third party is discounting these tee times without Duluth Golf’s control. It is appropriate for golf courses like Duluth Golf to resist this service in an effort to retain control of the facility’s pricing and keep third parties from discounting City services.

2011 Rates		
	18 Holes	9 Holes
Rack Rate	\$30.00	\$17.00
Patron	\$15.00	\$8.50
Senior (55+)	\$25.00	\$15.00
Senior Patron	\$12.50	\$7.50
Juniors	\$17.00	\$12.00
Twilight	\$15.00	
<b>Golf Carts</b>		
Regular half-cart	\$15.00	\$8.50
Daily Trail Fee	\$15.00	
<b>Driving Range</b>		
Token	\$4.00	

## Comments and Suggestions

- **Senior Rate:** It is hard to understand why golfers at age 55 should be entitled to such a good discount (16% on green fees, 30% on passes) when they should be *at their peak earning capacity*, and, because most are empty nesters at this time, *they have the disposable income of any group*. Certainly, it is reasonable for retirees who are living on fixed incomes to have the benefit of a discount. But retirement age is generally given at 65. *We would encourage raising the senior age limit to 60 or even 65 over time by raising the limit one year each year (eg. 56 in 2012, 57 in 2013, etc.) In this way, no current senior would be affected. It should be noted that Nemadji, Duluth Golf's primary competitor, does not offer ANY senior discounts.*
- **Twilight:** Because of the prevalence of evening leagues, evening tee-times are at a premium, so having a twilight rate during these times may not be ideal. On the other hand, it is often difficult to generate play in the middle of the day, especially early afternoons. Consider a tiered rate or "mid-day" rate in lieu of a "twilight rate." [Note: this is where the ability to analyze tee-time data is critical in knowing when to offer discounts and when not to. As noted, this type of analysis is not readily possible with the current POS system.]
- **Weekend Rates:** Unfortunately, we were not provided with the data to be able to analyze performance by day of the week. However, our interviews and experience in other markets strongly suggest that weekends (especially in the morning) have a much higher demand than weekdays. As golf pricing is typically demand driven, *we recommend creating a weekend rate*. Initially, the weekend rate should be \$4 higher (\$34 green fee, \$49 with cart).
- **Split Rate:** We understand political considerations were an influence as to why the two facilities have the same price structure. However, in the business world, *demand* should be the primary consideration. *We would encourage Duluth Golf to consider pricing Lester Park and Enger Park differently*. At present, Lester Park would probably be discounted. However if conditions are improved there, we could actually see Lester Park priced *higher*, especially if tourists are being targeted.
- **Non-resident Pricing:** Because tourists are LESS price sensitive than the local market, it is common in resort areas to have a split rate structure whereby local area residents pay less than non-residents. *Assuming Duluth Golf implements our recommendations regarding marketing to tourists, we would recommend creating a nonresident rate that is higher than the current rack rate.*

## Patron Program

The City of Duluth is offering a discount / loyalty card for frequent golfers called the “Patron Card.” This name is common in the Minneapolis area, and several of the other public courses in the region use the same name for discount cards. The Patron Card basically functions as a discount card whereby the purchaser is entitled to play for 50% off green fees. The Patron card costs \$185 (with tax, \$199.57).

## Comments and Suggestions

- **Pricing/Benefits:** Consider increasing the price to \$200, but adding a 10% discount *on regularly priced merchandise*. (The buyers club would be eliminated).
- **Two Levels:** If the City takes our recommendations about marketing to tourists and desires to have a non-resident rate, the best way to implement this would be by creating a second patron card. The two cards could be distinguished by having a “Regular” Patron card and a “Preferred” or a “Gold” Patron card. The Preferred Patron card would be the existing program. The new, or Regular, Patron card would then have the following characteristics:
  - Card holders would receive a 10% discount on the NEW rack rates (which would be about 10% higher than the current rates).
  - Duluth Residents would be able to purchase the card for \$5. Nonresidents (including other local areas) would be able to purchase for \$20.

The NGF review finds this system to be one of the most effective loyalty / discount programs in place at municipal golf facilities (systems) nationwide. The program is a great way to tie the golf customer to Duluth Golf and provides strong incentive to play all rounds within the system. Further, the program allows a simple way to enact discounts while still maintaining the integrity of golf “rack” rates.

## Annual Passes

Duluth Golf offers a number of annual pass options. The plans and prices are given below.

Type	Price	With Tax	Comment
Adult Individual	\$650.00	\$701.10	May be issued to any individual
Young Adult	\$400.00	\$431.50	Ages 19-24
Senior Unlimited	\$450.00	\$485.44	Ages 62 and older
Senior Family Dual	\$800.00	\$863.00	Ages 62 and older
Junior Unlimited	\$275.00	\$296.66	Ages 8-18
Family	\$1,040.00	\$1,121.90	Maximum 2 persons age 25 and older
Cart - Unlimited	\$750.00	\$809.06	Maximum 2 persons age 25 and older
Cart - 5 day	\$550.00	\$593.31	Good Monday-Friday; Family membership
Cart Trail Pass	\$240.00	\$258.90	

As we will discuss more in the performance section, the annual passes is where these subject golf courses are getting the majority of play. In particular, it appears that the senior pass holders play a disproportionate share of total rounds. While this is not necessarily bad, it does call into question the pricing on the senior pass. We feel the regular adult pass is appropriately priced.

### Comments and Suggestions

Senior Pass: There are several issues we have regarding the senior pass:

- **Age:** We note that the senior passes are at age 62, while the senior “ticket” (daily rate) is at age 55. In this case, the NGF recommends raising the age of the daily rate until it matches the pass rate.
- **Rate:** The senior pass is sold at 30% discount from the regular pass rate, yet the daily senior rate is only a 16% discount. The NGF feels the adult pass is priced appropriately but would recommend raising the pass rate for seniors. This should be done in phases (over a few years), but the end result should have an equivalent discount to the daily rate (16%).
- **Weekday (restricted):** Duluth should raise the rate on the unrestricted pass and also offer a lower priced weekday only pass (restricted) that would be less than the current price. (The NGF suggested price would be \$350 for seniors, \$450 for anyone else).

- **Cart Pass:** Philosophically, the NGF does not recommend the use of cart passes because of their potential for abuse. This is especially true with Duluth Golf where the cart pass is for *both* seats. This, in turn causes several concerns:
  - The cart holder, who almost always has a green fee pass as well, tends to take “ownership” of the course. They feel like regular rules do not apply to them and they will tend to just grab a cart and go, without checking in.
  - Because they are paying for the cart, they feel like they can allow anyone to ride with them – including non-family players. (This is not allowed by the rules). Thus denying the City revenue.
  - Because they are paying for both seats, these players do NOT want the club assigning someone else to ride with them. They want the cart to themselves. As a result, this puts a big strain on the facility as the number of carts is limited, and the wear on the carts increases. (We observed numerous foursomes with three and four carts).
  - We suggest the following changes:
- Create a SINGLE seat cart pass. This would make it clear that the pass holder will be sharing the cart with other golfers. The suggested rate would be \$600 for unlimited, and \$500 for the 5-day.
- Increase the rate for the Family Unlimited cart pass to \$850 for unlimited and \$600 for five-day.

## Key Markets Served

As Duluth Golf is operating as public golf courses, the predominance of revenue generated by the facility is derived from green and cart fees, plus additional revenue from ancillary amenities such as the driving range, and food and beverage. With its position as a Duluth municipal golf course, it appears that the vast majority of the play at this facility is derived from Duluth residents, with some play coming from outlying communities, notably Superior. As noted earlier, Duluth Golf does a poor job of capturing the lucrative tourist market.

## Junior Golf

Duluth Golf does have a good junior program. The featured part of the program is an innovative junior golf tournament program conducted with the cooperation of other area golf facilities.

## Group and Tournament Play

Duluth Golf has a very active group, league, event, and tournament program, and the system of two 27-hole golf courses allow for a much greater level of accommodation for these groups and events than a typical single 18-hole facility.

## Leagues and Clubs

Leagues are a huge part of the volume at both facilities, with league play occurring nearly every day during the season. League participation is a bit stronger at Enger, but is still very high at Lester. Almost all of the leagues are nine-hole. The NGF found both courses do an excellent job managing their leagues.

Unfortunately, league round records are not currently being kept at either course. However, staff estimates that Enger Park does about 10,000 rounds a year (about 20% of the play) from leagues and Lester Park does around 6,300 (16% of the play). *We would recommend that league play be tracked at both courses, given the importance to the operation.*

This level of activity is high for a municipal golf course and provides both advantages and disadvantages. Advantages include a large and loyal customer base that frequents the facility and provides a strong and loyal core of revenue. The disadvantage is that it can sometimes be difficult for Duluth Golf to sell rounds to non-regular players, some who are willing to pay the higher non-patron green fee. A key element in municipal golf operations such as Duluth Golf is to balance the needs of regular league players and allow open times for regular daily fee guests. It appears that Duluth Golf is striking this balance well with most (if not all) league and club play held on weekdays.

The only league recommendation we would have would be to consider a self-sponsored couples league at Lester Park on Friday evenings.

## Outings and Tournaments

Another form of group play that can be particularly lucrative for public golf courses is the large outing and/or tournament, especially charity tournaments. These tournaments and other events are a proven method for stimulating interest and maximizing activity at public golf courses, and help to expose the facility to new golfers who may not be familiar with the property.

Being 27-hole facilities, both Enger Park and Lester Park have the advantage of being able to host tournaments while still accommodating daily fee play. It also allows them to host larger tournaments than would be possible on an 18-hole course. Both courses currently host about 2-3 major tournaments a year.

The main problem at both facilities is the lack of a hosting area for before and after the tournaments where food and beverage can be served. This problem is being resolved at Enger Park with the addition of a tournament pavilion, which was under construction at the time of our visit.

We do applaud the fact that most of the tournaments are posted on the website. We also like the fact that tournament results are posted. While both facilities appear to do a good job hosting tournaments, *there is little effort to solicit tournament play.* Further, tournament rounds are not being tracked currently.

## Recommendations:

Because tournaments are both lucrative and provide an excellent opportunity for marketing, the NGF makes the following recommendations:

- **Tracking:** All tournament and group rounds should be tracked.
- **Marketing:** NGF would like to see a more proactive effort to solicit tournaments including:
- **Brochure:** A tournament package should be developed including a brochure, options, menu, etc.
- **Calling:** Likely tournament and group sponsors should be contacted directly, instead of waiting for the phone to ring.
- **Pricing:** Currently, tournaments and groups are being charged standard rates. The NGF encourages a more flexible pricing structure based on demand.
- The goal would be to attract more tournament play during slow periods with better pricing.
- Charge a premium price (higher than regular rate) if the tournament/outing is being played during peak periods. This reflects that you are inconveniencing your regular customers and thus risk losing them.
- **In-House Tournaments:** Consider adding more in-house tournaments with varied formats. These can be highly profitable and popular. (Scrambles work best for attracting the most participation). We suggest having three per year per course.

## Cart Operations

The City owns a total of 110 carts, with 60 at Enger Park and 50 at Lester Park. The carts are in the second year of a four year lease that runs about \$106,000/year. This works out to be about \$80/month per cart. In addition, Duluth Golf has an arrangement with the operator at Nemadji to store 10 of their carts at Enger Park, where they can be used as needed. They pay a fee of \$3,000 total for the year for the 10 carts.

Staff report that there have been times they have run out of carts, but it is unusual because of the high percentage of walkers. Additional carts are brought in for tournaments. Neither facility has a cart storage building for carts. This has several implications:

- **Gas Carts:** The facilities require the use of gas instead of electric carts. Electric carts are generally less expensive to operate (both for the cost of gasoline and ease of maintenance), and electric carts generally are preferred by golfers as they are quieter and do not have the exhaust fumes. However, electric cart fleets require appropriate storage facilities to allow for re-charging batteries each evening.
- **Cleanliness:** The carts are harder to keep clean as they are exposed to the weather.
- **Vandalism:** Being stored in the open makes the carts more susceptible to vandalism, although this has not been a major problem at either course.
- **Aesthetics:** Having all the carts stored in front of the clubhouse is not very attractive.



Private carts are allowed at Enger Park, although not encouraged. Annual cart trail passes are currently only offered to existing customers. No new passes are being sold.

There is a cart barn facility at Enger Park that the City leases out for cart storage. The building has 24 bays for carts, all of which are leased (at \$325/year), an amount NGF finds to be low as most facilities charge \$400 or more.

Duluth golf does not have any single rider “handicap” carts, which is out of compliance with the American with Disabilities Act (ADA).

### Recommendations

- **Quantity:** NGF typically recommends a minimum of 60 carts for an 18-hole golf operation and 90 for a 27-hole operation. The facilities are barely getting by on the current number. If the City adheres to our recommendation to pursue more tourist play, more golf carts will be needed as most of these golfers will want to ride. Adding more tournament play will also increase the need for carts. We would recommend adding at least 30 more carts to the fleet (15 at each facility).
- **Cart Barns:** While this is a lower priority than other upgrades, we would encourage building cart barns at each facility and switching to electric carts.
- **ADA Carts:** NGF recommends the purchase of at least two single rider handicap carts at each facility to be in compliance with the ADA.

Duluth Golf is also earning revenue for pull cart rentals, although the revenue is much lower than for power carts. Golfers choose to walk for two reasons: (1) to save money; and (2) to add an exercise component to the enjoyment of the activity. The trend in the golf industry is to make carts mandatory, although the NGF did observe that very few of the public golf courses in the area require the mandatory use of power carts.

### Maintenance Equipment

Maintenance equipment is a mix of owned and leased equipment. A new equipment lease started this year. We found the equipment to be mostly in good shape.

### Merchandise Sales

Overall, merchandise sales averaged \$2.35 per round for Duluth Golf. This is about the normal average for municipal golf courses (except for high-end facilities). Lester Park, with its much larger pro shop, averages nearly double the sales as Enger Park (\$3.07 per round compared to \$1.77).

Cost of sales for the merchandise operation was right at 70%, which is excellent. However, there was a considerable difference between the two operations. Enger Park reported sales of \$91,794 with purchases of just \$41,015, for a cost-of-sales of around 45%. This is extremely low. On the other hand, Lester Park reported sales of \$123,652 with purchases of \$109,456 for a cost of sales of 89.5%, which is extremely high. It may



be that some of the merchandise purchases attributed to Lester Park were really for Enger Park.

Duluth golf does offer an innovative Buyers Club Program whereby golfers for \$30/year can get 10% off all their merchandise purchase during the year. *This is a good program, but may be better off being incorporated into the Patron Card program.*

## Recommendations

While the merchandise sales are at an average level, there are things that can be done to improve performance. Of course, perhaps the biggest issue, particularly at Enger Park, is the poor pro shop layout and relatively small sales area. Other suggestions:

- **Attitude:** Many golf operators place little effort trying to promote merchandise sales. However, if you treat the merchandise sales as though it were retail *store* and not just a convenience item for customers, the whole attitude changes. By emulating the practices of successful *retail* stores, sales can increase significantly. It's all about attitude and how to approach sales.
- **Sales:** Sales, sales, sales. The magic word in retail is "sales." Sales should not be restricted to merchandise that is old and has not sold. The successful retailer will put everything on sale, just not all at the same time! Always have a sale going on – including new and "prime" merchandise. We would suggest having "theme" sales – such as all Nike goods (hard and soft), then all Callaway, etc.
  - Sales should be promoted with signage in the pro shop, notices on the cart, through email blasts, and notices on the website.
  - The pro shop should set up a special area or table for sales and clearance items. This area should be clearly marked, accessible, and well lit.
- **Hard Goods:** The biggest issue facing golf pro shops in competing with discounters is the high cost of inventory and the large number of choices there are in equipment. The Duluth golf courses should only one or two brands that the Head Pros are most comfortable selling. With equipment, it is difficult to please everyone. Pick products that are going to work the best for most people.
- **Soft Goods:** When the NGF team looked at the shirts in the pro shop, we could not find any that were under \$50. This is not consistent with the market, which is very price sensitive. The Duluth golf courses should carry value priced shirts with an attractive golf course logo.
  - **Sizes:** Because Enger Park has a very large senior market, make sure you carry more Mediums and smalls than would normally be the case.
  - **Women's clothes:** Make sure to have a good selection of women's clothes on hand at both locations. This is important not only as a revenue center, but women are sensitive to the golfing environment. A lack of women's items make them feel less welcome and will hurt rounds performance as well as merchandise sales.

- **Incentive:** There is no incentive for PGM or any of the staff to sell more merchandise. Incentives have a very strong, positive effect on sales. One way to do this would be to create a commission pool from the sales (such as 10% of the net sales [gross sales less cost of sales], then dividing it among the staff on a monthly basis.

## Other Operating Concerns

Below are some of the operating issues we found that are common to both facilities, or the operation in general.

### Fraud Protection

Currently, deposits are made on a daily basis. However, the close-out reports are sent to the City on a weekly basis. The City enters the data from the z-out or closing report into their system as well as into a spreadsheet to track performance.

The issue is that there is no guard against someone taking cash out and going into the system to alter the daily reports. The reports the City gets do not include voids. Further, records are erased from the POS at the end of the year due to storage concerns. (*We do not understand this practice, given the easy ability to add additional storage. Certainly the old data should be backed up and preserved*).

There is a grand total marker on the register report that supposedly would track the cumulative sales. However, this apparently is not being recorded by the City. A spot check by NGF revealed a discrepancy.

We would encourage a procedure whereby a closing report is faxed to the City *at the end of the day after closing*. This would likely mean two different people would be involved in creating the closing report, one person sending the raw information at night, then the person doing the cash deposit and another report in the morning, thus diminishing the potential for error.

Further, the City should track voids and cancelled sales. Consideration should be given to creating a “void log” whereby sales staff is required to keep track of the voids, giving the reason and their initial. These log totals can then be compared to the void total to see if they are all accounted for.

### Tee-times

Tee-times at both courses are being kept manually. Tee-times are set at seven or eight minute intervals. Golfers are allowed to book one week out.

**The NGF is recommending that the City of Duluth obtain a new POS system for the golf courses that includes an integrated electronic tee-sheet, and for the City to then set up an online tee-time system.** There are many reasons for doing this, including:

- **Customer Convenience:** Customers generally prefer to make tee-times online, when given a choice. It is much faster for them and gives them the ability to book at anytime, day or night, and have a better view of what’s available.

- **Operating Efficiency:** Having the tee-times booked online dramatically reduces the amount of time staff has to spend answering the phone. This, in turn can improve customer service. No one likes standing in line at the register while the cashier talks on the phone to take a tee-time.
- **Accounting:** The electronic tee-sheet provides validation of the rounds play recorded in the POS.
- **Management Tool:** Having an electronic tee-sheet provides the manager with a lot of reports that should help in developing strategies to maximize revenue. These reports include no-show reports, to what degree no-shows (people who book tee-times but then fail to come) are a problem; tee-time utilization, to know when the slow periods are so strategies can be developed to counter (adding a league, discounts, etc.)

We also are told that there is an issue with pass-holders taking up all the prime rounds. This IS a big concern as the pass-holders are averaging about \$8.75 per round in green fees, compared to the \$30 green fee for daily fee players. Thus the City is giving up over \$21 in potential revenue for each prime-time slot taken by a pass-holder. There are several strategies that can be taken to reduce this problem, they include:

- **Raising the pass-holder rate:** This would accomplish two things, it would likely reduce the number of pass-holders and would increase the yield per round for the pass-holders. An analysis should be done to see if the pass-holders are monopolizing the prime times for both weekends and weekdays. If the issue is only on weekends, consider raising the rates only for the 7-day passes, thus encouraging more 5-day (restricted) passes.
- **Limit the number of pass-holders:** In lieu of raising the rates, the City could simply limit the number of passes sold. Again, an analysis would reveal whether to do this for all passes or just the 7-day passes.
- **Block tee-times:** One could “block” several tee-times during this period, not allowing anyone to book a time. These would then be reserved for “walk-up:” play. Customers would then need to be alerted to the fact that walk-up play is encouraged, with tee-times being set aside.
- **Modern POS:** With an integrated POS and online tee-times, it is possible to set up restriction and access by customer type. In other words, certain tee-times could be set aside only for pass-holders. Conversely, pass-holders could be blocked from booking at other times.

## ENGER PARK GOLF COURSE

Enger Park was the City’s first course (by a couple of years) and remains the busiest in the system. The facility features 27 holes of regulation golf, a clubhouse and a driving range. It is located convenient to downtown.

## Facility Overview

Enger Park opened in 1936 and was built as a Depression era project. The facility was expanded to 27 holes in 1988. At that time, nine of the original 18 holes were also renovated and a new irrigation system installed under the supervision of golf architect Dick Phelps. Currently, Enger Park still has 9 of its original greens that are now close to 80 years old.

The three separate 9-hole courses at Enger Park are challenging with a traditional layout and a small number of sand bunkers. The courses are adequate to accommodate golfers of all skill levels and offer a scenic environment, with some nice views of Lake Superior and a park setting devoid of housing. The location convenient to downtown, I-35 and the Superior area help make this the area's most popular golf course. Enger Park is the busiest course in the region, with nearly 50,000 rounds a year. It has hosted upwards of 70,000 rounds in the past.

The facility includes an approximately 8,000 square foot (sf) clubhouse that first opened in 1938. The building has three levels including a basement, main floor and an apartment upstairs. The main floor hosts the pro shop, grill and offices. Parking for the clubhouse is located across Skyline drive.

The driving range is located on the other side of the parking lot from the clubhouse and is not convenient to any of the starting holes or clubhouse. It does have its own building which houses the ball machine.

One key aspect of the Enger Park golf course is that it offers 27 holes of golf. This configuration is growing in popularity within the golf industry; it allows for three tee areas to begin play simultaneously, allowing for a greater volume of “peak” rounds at times when demand is strongest (i.e., weekend mornings), or even the accommodation of leagues, tournaments and outings without having to close the course to others. This system will work very well at golf courses that offer three equal 9-hole courses, thus allowing golfers to have a full round of 18 holes on two equally pleasing and challenging 9-hole courses.

However, at Enger Park this is one area of concern, because the three nines are not of equal quality or appeal. The new nine and renovated nine holes form the Front and Middle nines and are significantly more popular and appealing than the Back nine, which features 70-year-old greens and fairways.

## Golf Course

The Enger Park Golf Course is a scenic golf layout with interesting topography and numerous mature trees bounded in many areas by natural woodlands. The golf course is in a park setting and is devoid of any development visible from the golf course, creating a true “oasis” atmosphere for golfers despite close proximity to the busy city life that surrounds it.

The three nines at Enger Park are descriptively named “Front”, “Middle” and “Back”. They all start and finish proximate to back of the clubhouse.





There are approximately 42 bunkers over the 27 holes, with the Front nine having the most (18) and the other two nines having twelve each. Water comes into play on ten holes. There are some slight elevation changes on all three nines.

The mix of 18-hole configurations resulting from the three 9-hole courses also leaves a mix of course layouts. Yardages range from between 6,382 and 6,573 from the longest (Blue) tees to between 5,159 and 5,452 from the most forward (Red) tee. Enger Park now offers four sets of tees, which is one less than the “standard” for modern high-quality golf courses. The multiple tee positions allow for golfers of different skill levels to play from a total golf course yardage that is comfortable for them.

The USGA slope and rating data in the table below show the relative difficulty of the Enger Park golf course each tee for each nine. The USGA rating (middle figure) reflects the yardage compared to the “standard” or par for that tee (for all three courses, the par is 36). Slope, the third figure, represents a course’s difficult, compared to the “standard” USGA Slope Rating of 113. As can be seen, the Middle nine is rated the most difficult of the three and the Back nine the easiest.

Enger Park Golf Course			
Men's Course Yardage /Rating/Slope			
	Front	Middle	Back
Blue	3359 /36.5/ 136	3168 /35.4/ 142	3214 /35.7/ 133
White	3158 /35.6/132	2987/ 34.6/ 139	3073/ 35.1 /131
Gold	2902/ 34.4/ 127	2752/ 33.5/ 134	2939/ 34.5/ 128
Red	2663/ 64.7 / 115	2496/ 63.6 / 116	2789/ 64.8 / 121
Women's Course Rating/Slope			
White	38.5 /132	37.6 /135	38.2 /132
Gold	36.9 /126	36.3/ 130	37.4 /129
Red	2663/ 35.6 / 120	2496/ 34.9 / 124	2789/ 36.6/ 125

Overall, Enger Park Golf Course has the basic layout and amenities to offer a high quality golf experience with good basic design, tree-lined holes, and interesting topography. Enger Park GC possesses design characteristics and features comparable to other public golf courses in the market area and consistent with its target fee level. Thus, no significant changes to the layout are recommended: these would likely have a high dollar investment that is not likely to be recovered through increased activity or increased fees.

## Other Buildings

There are several other buildings at Enger Park in addition to the clubhouse and maintenance buildings.

- **Storage Buildings:** There are two storage buildings being used by course maintenance, although one is also used to store the beverage carts. These buildings date back to the 1930s and are not in good condition, although they are functional for the current use.
- **Range Building:** There is a 1200 sf building on the range. It appears to have been designed to have an attended range with perhaps a snack bar. However, it is currently used only to house the range ball machine and some storage. Unless the range is lit for night use, there probably is little need for this building.
- **Private Cart Storage Building:** There is a building at the end of the parking lot for storage of private carts. The building has 12 bays, each able to store two carts. Customers are charged a monthly fee for the use and all bays are utilized. The building is suffering from some damage, which would appear to be water damage and possibly wood-eating insects. It is encouraged that repairs be made.

## Present Operational Issues

Enger Park is operated as a public golf facility with the majority of revenue derived from green fees and cart fees, with additional ancillary concessions (pro shop, F&B, other rentals) that will be addressed later in this chapter. The NGF review of the facility's basic operation follows in this section.

### Staffing

PGM golf management is responsible for staffing at both golf facilities. At Enger Park, PGM is employing a PGA Head Professional to head up the golf operations, reporting directly to PGM management. They have a full-time food and beverage director who reports to the Head Professional. (The person heading this position was dismissed after our visit).

The Head Superintendent oversees golf course maintenance and has one full-time Assistant Superintendent that supervises the maintenance crew at Enger Park.

Both starters and rangers are paid employees as opposed to volunteers as is the case with many similar facilities. At Enger Park, starters are used throughout the day. Rangers are used mostly in the evenings during leagues and weekend mornings.

### Clientele

The Enger Park management staff reports a very local clientele, with strong league and club participation. The City does not offer a resident rate, so resident participation is not tracked. However, it is believed that the vast majority of the play comes from Duluth residents. Another factor noted to NGF was that the predominant Enger Park golfer is much older and there are a shrinking number of younger adult players at Enger Park. This has implications for the future of Enger Park Golf and the facility's marketing program.

### Cart Use

Enger Park houses 60 of the City's 110 carts, plus has another 10 that they lease from Nemadji. Staff report that while the course does frequently run out of carts, golfers are rarely kept waiting for a cart. Based on revenue reports, NGF estimates only 36% of golfers rent carts. This rate is well below expectation (which would be 60-70%). The low cart use has implications for revenue (cart fees are a major profit center at most golf facilities) as well as pace of play. Walkers typically cannot play as fast as riders.

While current cart utilization appears low the NGF is recommending a larger cart fleet. This would prevent chances for running out of carts, which is a significant customer service issue. It might also encourage staff to promote more cart usage.

Consideration should also be given to constructing a cart barn to house the carts. This would not only help with the carts appearance and reduce wear, but it would allow the City to convert to electric carts. Electric carts are not only less expensive to operate, but they are more popular with golfers. *Thus, a cart barn would likely lead to increased cart revenue.*

The cart use at Enger Park has implications for revenues in wet periods after heavy rain. If the course is too wet to allow carts, there are many golfers who will not play Enger Park. For this reason it may be a boost to revenues for Enger Park to add a wall-to-wall cart path system to allow carts onto the golf course in some fashion (cart path only) even after periods of heavy rain (more in the physical review later in this section).

## Pro Shop Operations

Enger Park Golf Course's pro shop is relatively small, probably less than 400 sf in size, which may help explain the relatively poor performance in merchandise sales. In fact, Enger Park averaged \$1.77 per round in merchandise sales in 2010, far below the \$3.07 average seen at its sister course, Lester Park. The small sales area definitely limits the amount of merchandise that can be displayed.

In addition to its small size, it suffers from a poor layout. The pro shop is very narrow and has the sales counter in the front of the room. If there is any line at all (and there often is), one must push through the crowd at the cash register in order to get to the merchandise. This will greatly cut down on any "impulse" purchase. It is far more preferable to have the sales counter at the back of the room so golfers must walk past the merchandise to get to the counter.

Pro Shop Sales - Enger Park					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
<b>Total Rounds</b>	50,003	47,677	-4.7%	49,321	3.4%
<b>Merchandise Sales</b>	\$89,997	\$84,673	-5.9%	\$87,186	3.0%
<b>Revenue/Round</b>	\$1.80	\$1.78	-1.3%	\$1.77	-0.5%
<b>Cost of Sales</b>	\$50,709	\$39,669	-21.8%	\$45,262	14.1%
<b>Percentage</b>	56.3%	46.8%	-16.9%	51.9%	10.8%
<b>Gross Profit</b>	\$39,288	\$45,004	14.5%	\$41,924	-6.8%

As noted, the cost of goods sold in the pro shop is very low, although this may be artificial as all the merchandise is received at Lester Park and no doubt not all of the cost has been properly allocated. We will look at the overall cost of sales for the two operations later in the report.

The "key" figure in merchandise sales is the revenue per round. At Enger Park GC, the total merchandise revenue per round has been very consistent over the three-year period, with less than 2% variability.

## Physical Evaluation

Enger Park appeared to be a very well maintained golf course at the time of the NGF visit in late August 2011. However, the *condition* of the course was less than ideal in many cases, not because of maintenance practices but because of the age of the course and other issues such as drainage characteristics.



## Basic Evaluation

The basic NGF findings on our physical evaluation of the Enger Park Golf Course property include:

- **Greens:** In general, we found the greens to be in good shape. However, all the greens are now at or past their normal “life cycle”, meaning it will become increasingly more difficult to sustain a high quality putting surface. The USGA recommends rebuilding greens every 25 to 30 years to promote strong turf and proper drainage. The greens are largely contaminated by Poa, which is common for courses in this area. Greens #1 and #7 on the Front and #18 on the Middle are in poor shape and should be rebuilt. All of the back-nine greens are “push up” greens and should be rebuilt.
- **Tees:** There are two issues with regards to the tees: size and leveling. The tees for the Front and Middle courses were built to modern standards in 1988 and are of adequate size and generally in much better condition than the Back nine. The Back nine tees are much smaller and need to be enlarged, especially for the middle and gold tees, which are the most popular. There are numerous tees throughout that are not level, which is a problem for golfers.
- **Cart Paths:** Cart paths are mostly found around tees and greens. Several holes have none. This means that in wet conditions, the course is more likely to be damaged by carts (and it is), or play and revenue will be reduced by not allowing cart usage. (Currently, PGM has opted to preserve revenue and accept the damage). Further, the cart paths on the Back nine are gravel (as are some of those on the other nines), which get in bad shape after rains. The resulting potholes can increase cart damage. (Note: we understand that the City has its own Asphalt crews, which could facilitate adding paved cart paths as well as significantly reduce the cost).
- **Drainage:** There are significant drainage issues on several holes. In particular, #11 and #18 on the Middle and #1 and #9 on the Back are very bad. As a result, the fairways on these holes are substandard and very uneven. This is particularly hard on golfers who ride as it is both uncomfortable (especially if you have back problems) and causes increased wear on the carts.
- **Turfgrass** – Turfgrass at Enger Park consists mainly of Kentucky Bluegrass mixed with Poa on the fairways, tees, and roughs, with a Bentgrass/Thatch/Poa mix on the greens. The turf appeared to be generally healthy and in no need of urgent repair or replacement, although there were areas of stressed turf observed. It appears that the condition of the turf is an annual variable at Enger Park, as each year the course comes out of the cold winter and an evaluation of condition must be completed. In 2011, it appeared that the cold ice covering from the previous winter had “thinned” out some turf areas, leading to fragile conditions. Continued extreme care by the superintendent is needed to ensure maximum turf health each year. The greens are particularly vulnerable and should not be cut too low (to make faster) as this will likely add to the stress of the turf condition.
- **Irrigation** - Enger Park uses City water to irrigate the golf course. There are two pump houses with three total pumps and a capacity of 1,500 gallons per minute. The current irrigation system was installed in 1988. At 23 years of

age, it is nearing the end of the normal life expectancy for such systems. The number of irrigation repairs and issues suggest that the irrigation system will need to be replaced within the next several years.

- **Maintenance Area** – The current maintenance facility is basically functional and includes most of the key elements desired by NGF in our facility reviews. The facility space is generally adequate to store all of the equipment (owned by the City) and there is sufficient space for equipment repair, however, there is no machine lift, which would be highly desirable. An old maintenance building is being used for additional storage (and is where the beverage carts are being kept). No urgent repair or renovation of the maintenance compound should be required in the next five years.
- **Traps** – The sand traps at Enger Park are in substandard shape. The sand is of poor consistency with lots of rock. Many of the traps need reshaping, including a lower face to make them more visible and easier to maintain. The NGF recommends a complete rebuilding of the traps, including reshaping some, and adding liners.
- **Fairways** – We see numerous complaints that the fairways are cut too short at both courses, not allowing the ball to properly sit up. Drainage issues have made several of the fairways almost unplayable and extremely rough. There are bare spots throughout, most likely caused by winter kill.
- **On-Course Facilities** – The Enger Park Golf Course does not have on-course permanent restrooms. Having appropriate and clean on-course restrooms is a customer benefit feature that can add play to a golf course, especially in the female segment. There are port-a-potties set up at various locations on the three nines. We recommend having permanent restroom facilities on each nine.
- **Course Aesthetics** – Enger Park has a park-like environment that helps make the entire experience low-key and relaxing. It offers some exciting views of Lake Superior and is surrounded by mature trees. The lack of housing on the course is a definite plus.
- **Yardage Markers** – We would like to see yardage more clearly indicated on the course, with sprinkler head all marked. This should improve pace of play and enhance the golf experience.

### Driving Range

Enger Park has a driving range located on the other side of the parking lot from the Clubhouse. The range has stations enough for about 20 golfers. There is a ball machine that takes tokens located in a small building adjacent to the range. In addition to containing the ball machine, the 1,200 sf range building has about 400 sf of interior space that is currently used for storage. The building is constructed as though the intent was to have an attended range, but that has not been the case.

Range balls are provided through a ball machine that takes tokens. The tokens must be purchased from the pro shop. The ball machine itself is about 20 years old. The tokens have been specially designed to make it very difficult to forge (which had been a problem in the past).

The fact the range is very convenient to the parking lot would encourage more range-only use. However, the fact that a golfer would have to cross the street twice – to go to

the clubhouse to get a token then return – makes it much less convenient. And because the range is not convenient to any of the first tees, further hampers its use.

The range itself is rather narrow, bordered on the left by trees, the parking lot and Skyline drive and on the right by a steep cliff. We understand that the range loses a lot of balls and we certainly can see why. Another issue is that the range tees are not wide enough, so they get “beat up” with use.

### Recommendations

- There is little that can be done regarding the width of the range without a major investment. Netting could be put up to try to keep the balls in play, but their high cost and negative aesthetic value may not make them feasible. The best solution would be to relocate the range, should there be a major renovation of the rest of the facility. In such a case, the existing range could be converted into a pitch and putt course.
- **Ball Machine:** The NGF encourages the replacement of the existing ball machine with a modern self-service machine that can take magnetic (swipe) cards. The electronic cards allows for golfers to prepay for the range balls. They function like a debit card, with a dollar amount stored on the card and then charged each time a bucket of balls is used. The advantages of the electronic system are many:
  - **Convenience:** Golfers will be able to go straight from their car to the range without having to go to the pro shop each time. This should encourage more range usage.
  - **Prepay discounts:** Golfers can be encouraged to purchase larger amounts by giving them discounts (e.g. for \$100 they get \$125 worth of credit).
  - **Tracking:** Because the cards have to be purchased, the City can get information from the golfer and then be able to track usage. This can be helpful both in marketing and operational planning.
- **Target Greens:** Consider making target greens instead of using poles. This is much more aesthetically pleasing for the golfer and gives them better feedback on their shots.
- **Widen Tees:** The tees could be enlarged, both making the longer to accommodate a few more golfers and wider to make it easier to maintain.
- **Lighting:** Consider adding lighting to the range. Modern range lighting uses up lighting instead of down lighting, thus is far more acceptable to residential areas. The range building makes it easy to have an attendant present.

### Enger Park Clubhouse Operation

The clubhouse operation at Enger Park has many components and is a major contributor to the overall success of the Duluth Golf program, in terms of service to golfers. Together, these elements account for upwards of \$300,000+ in revenue, or approximately 25% of total Enger Park GC revenue. The Enger Park clubhouse is a key aspect of this golf operation in that it may be the area with the greatest potential for

revenue increases, reaching out to non-golfers who do not presently use the facility but may be attracted to it for the right level of concession service.

### Inventory of Facilities

The Enger Park clubhouse was constructed in 1938 and is definitely showing its age. It consists of three levels, including a basement, and has about a 3,000 sf footprint. The building suffers from numerous structural problems and has a very poor layout for golf. The concerns about the Enger Park clubhouse noted by NGF include:

- **Not ADA Accessible:** The building is not handicap accessible nor in compliance with Americans with Disabilities Act (ADA) regulations. While this does not have a major impact on revenue, it certainly is a negative reflection on the course and the City. Any renovation of the facility will likely require compliance with ADA regulations.
- **No Air Conditioning:** This is a detriment to clubhouse sales, especially food and beverage as people do not want to sit around in an uncomfortable setting – which it definitely was during our visit. It also has an adverse affect on employee morale, especially kitchen workers where it can become extremely uncomfortable. Poor morale, in turn, adds to operating inefficiency, creates higher turnover, and can adversely affect customer service and thus revenue.
- **Parking:** The parking lot is located on the other side of Skyline Drive. As there is no bag-drop area, golfers are thus required to carry their bags across a fairly busy street in order to access the clubhouse and course.
- **Men's Restroom:** Another major issue is that the men's restroom is located in the basement, rather than on the main floor. There is no elevator connecting the floors.
- **Insulation:** The clubhouse has very poor insulation, making it unnecessarily hot in the summer and cold in the spring and fall. Like the AC, this affects both revenue and employee efficiency.
- **Electrical:** The clubhouse apparently has some significant electrical problems. There is a definite problem with running too many appliances at one time, which can short the circuit. If the POS system goes down, this will adversely affect customer service and create a greater potential for errors.
- **No broadband service:** The course has to use satellite service for internet, which can be spotty service and is slower.
- **No wifi:** The clubhouse does not offer public wifi.

A summary of the Enger Park clubhouse layout is detailed in the paragraphs that follow.

**Upper Level** - The upstairs floor of the clubhouse is a two-bedroom apartment that is currently not used. Access to the upper level is through a stairway in the office area, and is not in public view. This floor is basically wasted space currently, with some of the floor used for storage. This area would have potential to be converted to meeting and/or

banquet space should the clubhouse be renovated. It should also be pointed out that the roof leaks and is slated for replacement as is a new floor. PGM was in the process of repainting the clubhouse during our visit.

**Main Level** - Elements of the main level of the Enger Park clubhouse include:

- **Pro shop:** The pro shop is located at the back of the clubhouse. As noted earlier, it is a small space with narrow access inhibiting merchandise sales. Access to the pro shop is either through the back door or through the grill.
- **Entrance:** There are two entries, one in the front (main) and one in the back (for the pro shop). Golfers familiar with the clubhouse know to bring their clubs around back, although there is no sign directing them to do this. Naïve golfers are likely to enter through the front door and may be carrying their bags through a narrow path and around patrons sitting in the bar area. There is no clear path from the front entry to the pro shop.
- **Kitchen:** The kitchen is basic and mostly represents a short order kitchen, with limited cooking area and almost no storage. Instead other areas of the clubhouse are used for storage, increasing the operating inefficiency. There is also little food prep space and sparse cooking equipment. Adding to the poor aesthetics and inefficiency is that there is no loading area. Food deliveries are made through the front door and are often stacked at the main entry way in full view of the public (we saw several examples of this). To the staff's credit, these boxes are removed quickly and put in their proper places.
- **Enger Park Grill:** The basic snack bar at Enger Park, the grill area serves the day-to-day needs of golfers and others. The space has seating for up to 50 and includes a counter bar area. The grill occupies the most space on the main floor and is the area golfers would walk into from the front door. The dining area is L-shaped, with some of the tables out-of-sight from the grill bar.
- **Offices:** The pro's office and pro shop storage are located on this floor, with the entry next to the main entrance.
- **Deck:** There is a nice deck area outside the pro shop that would appear to have the ability to seat 30-40 people.
- **Ladies Restroom:** Only the women's restroom is located on the main floor.

**Lower Level** - The lower level can be accessed through a central stairway leading to a lower level hallway, or through a door to the outside near the cart staging area. Elements of the lower level of the Enger Park clubhouse include:

- **Men's Locker Room / Restroom:** The lower level includes men's locker / restrooms with many lockers present, although there is not a high volume of use. The lockers are old and worn. The floor is cement in most areas, with some carpeting in the locker area. There were noticeable holes in the ceiling and a pool of water in the restroom stemming from the roof leak. The bathroom would be

considered substandard. There is also no shower in the locker room, which is highly unusual for a locker room.

- **Storage:** There is an abundance of storage in the basement, which is being used by both the pro shop and grill.
- **Beverage Cart Staging:** There is an ice machine near the back door entrance to the basement and with soda and other storage nearby, making it a convenient area to load the beverage carts. (Alcohol is stored in a closet in the dining area on the main floor).
- **Repair room:** There is a club repair room set up downstairs, not accessible to the public.
- **Meeting room:** There is a meeting room downstairs, which is frequently used by the men's group. However, this room is not aesthetically pleasing. The carpet was actually wet during our visit and had a strong odor. Lighting is poor.

### Food and Beverage

The food and beverage service at Enger Park is divided into two key areas of service: (1) Enger Park Grill; and (2) Beverage Cart. All concessions are operated directly by PGM. A summary of each area follows:

The Grill includes counter service of a basic menu of items consistent with a good quality public golf course. The grill is open for breakfast and remains open as long as the pro shop does. The Enger Park Grill offers a limited fixed menu of items generally consistent with golf course service at a relatively low price. A clubhouse sandwich at \$5.95 is the most expensive item on the menu, with sandwiches from \$3 to \$6 and beer at \$3.50. This service is consistent with successful concession operations at golf courses and appropriate for serving golfers. If Duluth seeks to increase grill revenue and expand the service to a broader segment of the non-golfing public, some upgrade to the menu will likely be required.

The "typical" food and beverage concession at public golf courses produces approximately \$5.61 per round, including banquets (see **Appendix B**). Analysis of Enger Park shows average revenue per round from the grill at approximately \$3.45 in 2010, of which \$1.74 is coming from alcoholic beverages. Enger Park does very little if any non-golf banquets or outings.

### Comments and Recommendations

- **Food Quality:** We found the food quality to be good. Customers seemed to agree.
- **Menu:** Beverage pricing is NOT on the menu. Instead, there was a note on the menu to "refer to beverage list for all beverages offered." The only beverage list we could see was a short list posted on the back of the cash register. This was not easy to see. We would recommend a beverage list with pricing be included on the menu. We would also encourage a redesign of the menu.



- **Food Selection:** There is only one salad listed on the menu, along with a single chicken wrap. We would encourage a wider selection of “healthy” food choices, including more salads, fruit plates, and wraps. We would also encourage offering golfers the choice of bread, including whole grain breads.
- **Pricing:** The pricing for the food is very reasonable, if not cheap. There would appear to be some room for price increases, especially on the sandwiches.
- **Fountain Drinks:** Enger Park only offers a 12 oz fountain drink. This is too small. We would encourage offering two sizes – a 16oz and a 32 oz. Fountain drinks are the most profitable item on the menu. Staff should encourage their purchase by offering popular sizes and selections. (Make sure the cups you get will fit in the golf carts).
- **Liquor Storage:** Hard liquor is stored in a closet off the grill dining area, around the corner from the grill. It is common practice to keep this door unlocked during the day. We encourage this door to be kept locked at all times to prevent unauthorized access.

PGM does a good job with its beverage cart operations, with the exception of cash controls. The beverage carts are well-stocked, the operators are well-trained and personable, and they are run most of the day, with two run during leagues.

However, we had a major concern with the lack of cash controls. At the time of our inspection, beverage cart operators were trusted to fill their carts with the inventory at the start of their shift and whenever needed. They then self-report how many they sold. *There was no accounting for how much inventory was being taken.* Thus it would be extremely easy for a beverage cart attendant to sell the inventory (beer, food, etc) to the golfers *and not report the sales, keeping the cash.* Indeed, it is our experience that this temptation is simply too strong and the system was more than likely being abused. The extremely high cost of sales for the food and beverage department, in our opinion, is likely due in part to this practice.

Since our visit, it is our understanding that this policy has been revised by PGM. They have taken our advice and now require a second person to be involved in the loading of inventory, with the amount of inventory tracked for each attendant. We applaud this move.

## Facility Performance and Data Analysis – Enger Park

Enger Park Golf Course is operating as a fully public municipal golf course, and the predominance of revenue generated by the facility is derived from golf green fees (including cart fees and passes). Additional revenue is collected from merchandise sales, patron card sales, and other rentals. A summary of activity, revenue, and expenses is shown below.

### Activity Levels

Rounds at Enger Park have been relatively stable over the past three years, with 50,003 in 2008, down to 47,577 in 2009 and back up to 49,321. This kind of variability can easily be due to weather-related variances. Similarly, revenues from green fees and passes



has also been stable, going from \$598,014 in 2008, down slightly to \$590,758 in 2009, then back up to \$599,126 in 2010. Average rounds per 18-hole public golf course in the total U.S. now stand at about 32,500 rounds per year on 18 holes (equates to 48,750 for 27 holes), indicating that despite the declines, Enger Park is still doing slightly better than the national standards. (see **Appendix B**).

Enger Park Golf Course Rounds Played Data– 2008-2010						
2008-2010	2008		2009		2010	
Season Pass Rates	Quantity Sold	Revenue	Quantity Sold	Revenue	Quantity Sold	Revenue
18 Hole	4247	\$110,619.53	3715	\$99,870.22	3001	\$83,401.00
9 Hole	9740	\$144,967.44	7910	\$124,653.53	7232	\$113,968.00
Add 9 Hole	239	\$2,667.91	180	\$2,002.32	174	\$2,096.00
55+ 18 Hole	758	\$16,922.79	837	\$19,397.45	2104	\$29,951.00
55+ 9 Hole	2298	\$27,789.77	2355	\$30,563.15	1550	\$27,044.00
Jr. 18 Hole	129	\$1,800.00	169	\$2,506.60	204	\$3,024.00
Jr. 9 Hole	783	\$7,283.72	753	\$7,678.33	637	\$6,496.00
Jr. Add 9	11	\$51.16	16	\$74.16	15	\$69.45
Twilight	828	\$10,013.02	780	\$10,122.83	689	\$8,936.00
Fall Unlimited	437	\$6,504.19	456	\$7,186.10	575	\$9,062.00
Fall 9 Hole	1203	\$10,071.63	1049	\$9,724.22	1368	\$11,422.00
Patron 18			472	\$6,344.38	531	\$7,380.00
Patron 9			657	\$5,176.83	1094	\$8,620.00
Patron 55+ 18			140	\$1,622.25	271	\$3,138.00
Patron 55+ 9			308	\$1,998.61	434	\$2,813.00
Patron Jr. 18			0		1	\$7.42
Patron Twilight			42	\$272.54	64	\$414.90
Patron Fall Unlimited			65	\$512.17	96	\$756.00
Patron Fall 9			128	\$593.28	222	\$925.00
Coupon Use	231	\$ 6,676.51	553	\$11,656.00	902	\$14,958.65
Pass Rounds	29099		27092		28157	
<b>Green Fee Total</b>	<b>50,003</b>	<b>\$345,367.67</b>	<b>47,677</b>	<b>\$341,954.96</b>	<b>49,321</b>	<b>\$334,482.42</b>

**Enger Park Golf Course  
Season Pass Data– 2008-2010**

2008-2010			2008		2009		2010	
Season Pass Rates	Quantity Sold	Revenue	Quantity Sold	Revenue	Quantity Sold	Revenue	Quantity Sold	Revenue
Unlimited	201	\$117,585.93	130	\$83,850.00	128	\$83,200.00		
Sr. Unlimited (62+)	153	\$59,670.00	169	\$74,414.00	173	\$76,120.00		
Young Adult (19-24)	42	\$13,860.00	65	\$25,971.00	58	\$23,166.00		
Junior Unlimited	24	\$7,920.00	61	\$15,749.00	80	\$21,783.00		
Sr. Dual Family	36	\$6,840.00	12	\$(1,680.00)	11	\$(1,100.00)		
Family	51	\$46,410.00	36	\$36,900.00	40	\$41,000.00		
Patron Card	2	\$360.00	85	\$13,600.00	117	\$20,475.00		
<b>Pass total</b>	<b>509</b>	<b>\$252,645.93</b>	<b>558</b>	<b>\$248,804.00</b>	<b>607</b>	<b>\$264,644.00</b>		

**Observations**

- **Pass Rounds:** Pass rounds accounted for 57% of play, which is very high for a municipal facility. Pass holders accounted for 28,157 rounds, which averages out to 57.4 rounds per pass-holder, which is higher than the national average and significant given the short season. It is important to note that PGM does NOT keep a separate accounting on pass-holder rounds. Instead the same “key” is used for pass-holders and coupon users. PGM then estimates that 90% of the rounds under this key are pass-holders. It is quite possible that the percentage of pass-holder rounds being attributed to pass-holders is high. This may mean that there could be issues with comp rounds or employee rounds that are included in this total. **The NGF recommends a separate key be established for pass-holders, whether a new POS system is obtained or not.**
- **Rack Rate Rounds:** 18-hole daily fee play at rack (regular) rate accounted for only 6.1% of the rounds, which is low for any public golf course. These are the rounds with the highest profit margin.
- **Senior Daily Fee:** Senior play accounted for 21% of the non-pass rounds.
- **Nine-hole play:** 9-hole daily fee rounds accounted for 59% of the non-pass play, which is very high. This high percentage is likely due to the high 9-hole league participation.
- **Senior dominated:** Staff estimates that over half, if not 2/3rds of the play at Enger Park are from seniors over 55.
- **Weekend Afternoons:** NGF has been informed that weekend afternoons are slow, with no league play or twilight times. The NGF encourages adding twilight times and implementing a “family rate” where a junior would play free with each full pay adult.
- **Patron play:** Patron card holders accounted for 2,713 rounds or 13% of the non-pass play. This is an increase from 2009 (8.9% of play).

### Capacity Issues

As we will present later in the 'Competitive Analysis' section, historical rounds played at Enger Park are generally higher than other regulation golf courses in this area. Based on Enger Park's market positioning, location, 27-hole layout, and higher fee structure, NGF Consulting has estimated a maximum yearly capacity of about 65,000 to 70,000 rounds in a good weather year, indicating this facility is operating with rounds activity close to a reasonable maximum.

### Revenue Analysis

The table below compares the revenues from various sources for Enger Park over the past three years.

Enger Park Golf Course Total Gross Revenue – 2008-2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Pass Revenue	\$252,645.93	\$248,804.00	-1.5%	\$264,644.00	6.4%
Green Fees	345,367.67	341,954.96	-1.0%	334,482.42	-2.2%
Cart Fees	142,947.74	165,635.29	15.9%	168,631.51	1.8%
Range Tokens	38,576.40	45,046.00	16.8%	42,674.00	-5.3%
Locker Rentals	418.68	335.00	-20.0%	194.00	-42.1%
Club Rentals	2,009.94	1,870.00	-7.0%	1,579.15	-15.6%
Pull Cart	2,222.70	1,967.00	-11.5%	1,481.00	-24.7%
Merchandise	89,997.22	84,673.00	-5.9%	87,186.00	3.0%
Food & Beverage (non alc)	87,743.60	77,662.18	-11.5%	82,901.00	6.7%
Alcoholic Beverages	95,264.15	101,662.80	6.0%	87,445.00	-14.0%
Gift Certificate	42,637.88	29,272.00	-31.3%	27,393.00	-6.4%
Club Dues and Credit	-	-		24,154.00	
<b>TOTAL</b>	<b>\$1,099,831.91</b>	<b>\$1,098,882.23</b>	<b>-0.1%</b>	<b>\$1,122,765.00</b>	<b>2.2%</b>

Last year, Enger Park generated \$1.122 million in revenue, which was the highest of the three years and 2.2% more than in 2009. The biggest improvement was in pass sales, which increased by \$15,840 (6.4%), more than making up for the \$7,472 drop (2.2%) in green fees.

When compared to industry averages (**Appendix B**) we see that Enger Park is operating with revenues that were above average in 2009 (U.S. average = \$993,800 in 2009), even when considering that the U.S. averages presented by NGF include ancillary revenues such as range, merchandise, and food and beverage. Total golf revenue (green fees, cart fees, memberships only) average about \$700,000 per 18 holes for public golf courses in the U.S. in 2009 (equates to \$1.05 million for 27-hole courses). For Enger Park, total golf revenue was \$767,758 last year, which is better than the average for 18-hole courses, but less than expected for a 27-hole facility.

### Average Revenue Analysis

The total average revenue earned per round was \$22.76 for 2010, showing relatively steady performance in this figure over the three years shown, and within each category. The average per round revenue for just the golf revenue (green, cart, and membership) was \$15.57. The average for mid-fee public golf courses in the U.S. was \$21.54 for total revenue per round in golf revenue (green, cart, membership), plus an additional \$9.04 in ancillary spending (food, beverage + merchandise – See **Appendix B**).

Enger Park Golf Course Average Revenue per Round – 2008-2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Total Rounds	50,003	47,677	-4.7%	49,321	3.4%
Pass Revenue	\$5.05	\$5.22	3.3%	\$5.37	2.8%
Green Fees	\$6.91	\$7.17	3.8%	\$6.78	-5.4%
Cart Fees	\$2.86	\$3.47	21.5%	\$3.42	-1.6%
Range Tokens	\$0.77	\$0.94	22.5%	\$0.87	-8.4%
Merchandise	\$1.80	\$1.78	-1.3%	\$1.77	-0.5%
Food & Beverage (non alc)	\$1.75	\$1.63	-7.2%	\$1.68	3.2%
Alcoholic Beverages	\$1.91	\$2.13	11.9%	\$1.77	-16.9%
Other	\$0.95	\$0.70	-25.8%	\$1.11	58.4%
<b>Total</b>	<b>\$22.00</b>	<b>\$23.05</b>	<b>4.8%</b>	<b>\$22.76</b>	<b>-1.2%</b>

### Comments and Observations

- **Green Fees:** While rounds increased 3.4% last year, green fee revenue declined by 2.2%. The average green fee per round *for non pass-holders* went from \$16.61 in 2009 to \$15.80 in 2010, a drop of 4.8%. As prices were the same for the two years, the drop in revenue yield can be attributed to a change in playing patterns. In particular, patron card rounds were up 5%, while 18 hole rack rate rounds (the most expensive) declined by 19.2%
- **Pass-holders:** Annual pass revenue was \$5.37 per total round last year. But what is more important is that they averaged \$8.67 *per pass-holder round*, which is 45% less than the non-passholders average. This may indicate that the pass rates are too low. This average has been amazingly consistent as it was \$8.68 in 2009 and \$8.67 in 2008.
- **Patron Cards:** In 2010, 117 Patron cards were sold, a 37.5% increase over the previous year. These cards sold for a combined \$20,475 (\$175 each). In addition, the patron card holders played 2,713 rounds, generating \$24,054 in green fee revenue. Combined with the card sales, Patrons generated \$44,529 or \$16.41/round. This is considerably higher than the average for annual passes.
- **Range Revenue:** The range revenue of 87 cents per round is well below expectation. We would expect *at least* \$1/round and would anticipate, closer to

\$1.50. We believe a self-service electronic ball dispenser that would not require the golfer to go to the clubhouse, would dramatically improve performance.

- **Merchandise sales** are very low at \$1.77/round. Much of the blame is likely due to the small size and layout of the pro shop.
- **Food and beverage** including alcohol sales, averaged \$3.45 per round. We believe this number to be artificially low due to unreported sales (see comments under Clubhouse operations). It is also noteworthy that sales for alcoholic beverages superseded all other food and beverage sales.
- **Cart usage:** There were 13,671 cart rounds recorded at Enger Park last year. When full cart rounds (2 riders) are taken into consideration, we get 18,051 riders total, or 36.6% of the play. In other words, it means 2/3<sup>rd</sup>s of the golfers are walking, which is low cart utilization. Moreover, it is contrary to our observation and staff interviews. When we watched, it appeared that 60% or more of the play were riding. The NGF team also noted that cart ridership at the leading competitor (Nemadji) was over 70%.

It can also be pointed out that a full field on all 27 holes would require 108 carts. Enger Park currently has 70 (with more brought in for tournaments). Thus, they have 65% of the carts required for 100% utilization and a full field. As staff report (and we observed) they do run out of carts regularly (but not requiring customers to wait more than five minutes), suggests that their cart utilization would be close to the 60% level.

- **Cart usage 2:** The average cart revenue per round, \$3.42, is low compared to average and reflects the lower than expected cart usage. Of course, because of limited cart capacity, Duluth Golf is not in a position at this time to promote more cart usage. However, as cart usage is a good revenue source and helps speed play, we do encourage acquiring more carts and encouraging more cart rentals.
- **Pull cart usage:** Pull cart rentals average only 3 cents per round last year, down from 4 cents the previous two years. While we would not expect a lot of revenue from pull cart sales, the fact that walkers exceed riders, we would anticipate higher pull cart sales.

### Food and Beverage Performance and Data Analysis

Food and Beverage performance declined 5% last year, despite a 3.4% increase in rounds, going from \$179,325 to \$170,346, a loss of \$8,979. This is certainly troubling. The decline can be attributed to alcohol sales. Non-alcohol beverage and food sales actually increased by 6.7%, or nearly double the rate of increase in rounds. However, alcoholic beverage sales dropped by \$14,216 or 14%. It should be noted that the alcoholic beverages cost of sales also dropped by 14%, suggesting the loss was not due to theft.

Of great concern to us is the very high cost of sales for both food and beverage and for alcoholic beverages. In each case, the COS was nearly double what the national average is. Combined, the COS for the department was 57.1% last year, up from 54.7% in 2009 and 49.1% the previous year. NGF data shows that the industry standard for

total F&B cost of sales was 41.8% in 2009. The difference between Enger Park's COS and the industry average would amount to \$26,116 last year. Certainly some of the issue can be blamed on the low food prices on the menu. However, the alcoholic beverage prices are certainly in-line with expectation, yet their COS was far higher than normal (40.8% compared to a "standard" 25-30%).

Unfortunately, PGM does not provide an accounting for the food and beverage department separate from other clubhouse operations. This is unfortunate as we feel it is extremely important to monitor the food and beverage area as a separate profit center, accounting for the expenses (particularly payroll) in addition to the cost of sales. The F&B payroll in 2010 was \$51,361. If we assume that supplies were no more than 10% of revenue, we can then project an operating profit for the F&B area of \$27,353 or about 15% of the gross sales.

When compared to industry averages (**Appendix B**) we see that Enger Park is operating with clubhouse revenues that were below average in 2009 (U.S. average = \$182,200 in total F&B in 2009, which would equate to approximately \$273,300 for 27-hole courses.)

The table that follows shows some detailed break-out of food and beverage sales as provided by the City of Duluth. The second table shows a summary of cost of goods sold for use in comparison to national data.

Enger Park Golf Course Food and Beverage Performance – 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
<b>Total Rounds</b>	<b>50,003</b>	<b>47,677</b>	<b>-4.7%</b>	<b>49,321</b>	<b>3.4%</b>
Food and beverage	\$87,744	\$77,662	-11.5%	\$82,901	6.7%
Revenue/Round	\$1.75	\$1.63	-7.2%	\$1.68	3.2%
Cost of Sales	\$58,370	\$60,095	3.0%	\$61,611	2.5%
Percentage	66.5%	77.4%	16.3%	74.3%	-4.0%
<b>Gross Profit</b>	<b>\$29,373</b>	<b>\$17,567</b>	<b>-40.2%</b>	<b>\$21,290</b>	<b>21.2%</b>
Alcoholic Beverage sales	\$95,264	\$101,663	6.7%	\$87,445	-14.0%
Revenue/Round	\$1.91	\$2.13	11.9%	\$1.77	-16.9%
Cost of Sales	\$31,473	\$38,080	-21.8%	\$35,710	14.1%
Percentage	33.0%	37.5%	13.4%	40.8%	9.0%
<b>Gross Profit</b>	<b>\$63,791</b>	<b>\$63,583</b>	<b>-0.3%</b>	<b>\$51,735</b>	<b>-18.6%</b>
Combined Sales	\$183,008	\$179,325	-2.0%	\$170,346	-5.0%
Revenue/Round	\$3.66	\$3.76	2.8%	\$3.45	-8.2%
Cost of Sales	\$89,844	\$98,175	-21.8%	\$97,321	14.1%
Percentage	49.1%	54.7%	11.5%	57.1%	4.4%
<b>Gross Profit</b>	<b>\$93,164</b>	<b>\$81,150</b>	<b>-12.9%</b>	<b>\$73,025</b>	<b>-10.0%</b>

## Expense Analysis

Basic expenses to operate and maintain Enger Park Golf Course totaled just over \$900,000 in 2010, an amount fairly consistent with the previous two years. A summary of Enger Park Golf Course expenses as provided by the City are shown below. It should be noted that we excluded non operating expenses such as depreciation, bond payments and interest, city allocations, etc. The overall expenses to operate this facility are similar to than expense averages for mid-range public golf courses in the nation (average facility = \$931,900 in expenses- See **Appendix B**).

Enger Park Golf Course Total Operating Expenses – 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
<b>Course Maintenance</b>					
Employee Payroll: Maintenance	\$97,215	\$101,804	4.7%	\$130,591	28.3%
Maintenance: Repair & Maint	21,528	27,823	29.2%	48,272	73.5%
Maintenance: Supplies - Maintenance	22,968	21,082	-8.2%	32,785	55.5%
Maintenance: Supplies - Fertilizer	14,748	16,883	14.5%	24,395	44.5%
Maintenance: Supplies - sand/seed	7,806	10,318	32.2%	9,078	-12.0%
Motor fuels	36,124	19,148	-47.0%	27,224	42.2%
Electricity / Vehicle /ST Eq Rent	14,376	50,264		58,799	
<b>Subtotal</b>	<b>\$214,766</b>	<b>\$247,322</b>	<b>15.2%</b>	<b>\$331,145</b>	<b>33.9%</b>
<b>Golf Operations</b>					
Employee Payroll: Clubhouse	\$141,385	\$120,153	-15.0%	\$128,106	6.6%
Golf Cart Rental	66,058	7,865	-88.1%	3,350	-57.4%
Supplies - Clubhouse	19,035	18,023	-5.3%	18,131	0.6%
Satellite TV / Internet	2,064	2,473	19.8%	2,777	13.3%
<b>Subtotal</b>	<b>\$228,542</b>	<b>\$148,515</b>	<b>-35.0%</b>	<b>\$152,364</b>	<b>2.6%</b>
<b>General &amp; Admin</b>					
Advertising	\$2,445	\$2,600	6.3%	\$4,257	63.7%
Automobile Mileage	1,266	215	-83.1%	225	4.9%
Bank, Discretionary, EE Training, Prof.	1,324	620	-53.2%	215	-65.3%
Clubhouse, Dues & Subscriptions	5,430	6,092	12.2%	9,348	53.4%
Insurance	24,510	11,203	-54.3%	17,946	60.2%
Licenses & Permits	4,870	5,146	5.7%	5,715	11.0%
Utilities	17,206	33,629	95.4%	18,517	-44.9%
Building Maintenance	14,900	486	-96.7%	2,069	325.8%
Other	9,736	3,661	-62.4%	3,800	3.8%
Refuse Disposal	6,149	5,055	-17.8%	2,303	-54.4%
Credit Card Commissions	11,368	11,628	2.3%	13,016	11.9%
Management Fee	193,125	198,925	3.0%	200,000	0.5%
<b>Subtotal</b>	<b>292,329</b>	<b>279,258</b>	<b>-4.5%</b>	<b>278,311</b>	<b>-0.3%</b>
<b>Total Expenses</b>	<b>\$735,636</b>	<b>\$675,095</b>	<b>-7.2%</b>	<b>\$761,820</b>	<b>11.2%</b>



### Cost of Sales

The total cost of sales (COS), as would be expected, does follow the revenue very closely, going down 1.6% in 2009 and increasing by 3.3% in 2010.

Enger Park Golf Course Direct Cost of Sales (COS)– 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Cost of Goods					
COGS-Food & Beverage	\$58,370	60,095	3.0%	\$61,611	2.5%
COGS-Golf	50,709	39,669	-21.8%	45,262	14.1%
Merch Discounts	-1,832	-1,297	-29.2%	-1,515	16.9%
Alcohol: COGS-Liquor	11,321	15,596	37.8%	12,703	-18.5%
Alcohol: COGS-Food & Beverage	20,153	22,484	11.6%	23,007	2.3%
<b>Subtotal</b>	<b>\$138,721</b>	<b>\$136,547</b>	<b>-1.6%</b>	<b>\$141,068</b>	<b>3.3%</b>

Other observations:

- **Merchandise:** The merchandise COS was 50.2% last year and has remained around 50% the last three years. This is extremely low and is likely due to the fact all merchandise is received at Lester Park and it is probable that the COS allocation has not been equitable.
- **Food and Beverage:** The COS for food, beverage and alcohol sales are nearly double the expected industry standards, possibly indicative of a serious problem at Enger Park. At least part of the blame lies with the beverage cart operation (see Clubhouse Operations). It should also be noted that since our inspection, PGM has terminated the F&B manager at Enger Park and revised its beverage cart policy.

### Other Expense Findings

- **Variable Expenses:** Overall, while the expenses have tracked with revenue, as would be expected, the expenses have proven more volatile. While revenue declined 1.6% in 2009, expenses dropped 7.2%, and when revenue increased 3.6% in 2010, expenses jumped 11.2%.
- **Course Maintenance:** Course maintenance expenses took a sharp (33.9% or \$83,823) increase in 2010, going from \$247,323 (which was 15.2% more than in 2008) to \$331,145 in 2010. The increases were across the board, with the exception of sand and seed, which went down. Payroll jumped \$28,797 (28.3%). The biggest percentage increase was for repairs and maintenance, which went up 73.5% or \$20,449. Maintenance supplies went up \$11,704 (55.5%) while fertilizer increased by \$7,512 (44.5%). Motor Fuels increased 42.2% or \$8,076 and Electricity jumped \$7,995 or 52.5%. We do understand that there were a lot of extra repairs, particularly with regards to equipment last year as they were at the end of the lease. There was also a \$15,000 repair to the irrigation system due to lightning damage. However, *in spite of the increases in 2010, the overall*

*course maintenance expenses are still lower than expectation.* They are closer to what we would expect for an 18-hole course, not a 27-hole facility.

- **Golf Operations:** Golf operations expenses dropped 35% in 2009 or \$80,027. The biggest reason was a drop of \$58,193 in golf cart rental. Golf operations expenses increased 2.6% in 2010, with payroll increasing the most (\$7,953).
- **General and Administrative:** G&A expenses were basically flat in 2010. The biggest change was a \$15,112 drop in utilities.

### Other Expenses

The City attributes a number of other expenses to the Golf Fund that are not included in the above analysis. In 2010, these totaled \$127,743. These include:

- Depreciation - \$71,339
- City Cost Allocations - \$33,400
- Bond Interest - \$7,414
- Capital Lease Interest - \$1,206
- Fiscal Agents Fee - \$2,000
- Bond Amortization - \$2,925
- Capital Equipment - \$3,218

## Enger Park GC Net Operating Income Summary

The Enger Park Golf Course operates as a fully public municipal golf course, with green fees and other ancillary revenues as its primary sources of income. In total, this and other revenue drivers generated just over \$900 thousand in operating revenue in 2010.

Total expenses to operate the facility total approximately \$874,357 in 2010 before additional expenses such as interest, depreciation and other City overhead. Taken together, this yields a Net Operating Income (NOI) of \$219,877. This represents a decline of 23.5% from 2009 (\$287,240). Conversely, 2009 profits were up 27.4% from 2008.

Enger Park Golf Course Operations Summary 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Revenue					
Annual Passes	\$252,646	\$248,804	-1.5%	\$264,644	6.4%
Green Fees	345,368	341,955	-1.0%	334,482	-2.2%
Cart Fees	142,948	165,635	15.9%	168,632	1.8%
Other Revenue	358,871	342,488	-4.6%	355,007	3.7%
<b>TOTAL REVENUE</b>	<b>\$1,099,832</b>	<b>\$1,098,882</b>	<b>-0.1%</b>	<b>\$1,122,765</b>	<b>2.2%</b>
Cost of Goods	\$138,721	\$136,547	-1.6%	\$141,068	3.3%
<b>Gross Profit</b>	<b>\$961,111</b>	<b>\$962,335</b>	<b>0.1%</b>	<b>\$981,698</b>	<b>2.0%</b>
Expenses					
Course Maintenance	\$214,766	\$247,322	15.2%	\$331,145	33.9%
Golf Operations	228,542	148,515	-35.0%	152,364	2.6%
General & Administrative	292,329	279,258	-4.5%	278,311	-0.3%
<b>TOTAL Expenses</b>	<b>\$735,637</b>	<b>\$675,095</b>	<b>-8.2%</b>	<b>\$761,821</b>	<b>12.8%</b>
<b>Operating Income</b>	<b>\$225,474</b>	<b>\$287,240</b>	<b>27.4%</b>	<b>\$219,877</b>	<b>-23.5%</b>

Again, the biggest reason for the improvement in profitability in 2009 was the termination of the golf cart lease – a \$60,000/year annual expense. Of greater concern is the decline in profitability seen in 2010, which came despite a 2.2% increase in revenue. Here the biggest issue was the dramatic 33.9% increase in course maintenance expenses.

## LESTER PARK GOLF COURSE

Lester Park has a lot of similarities to its sister course, including also being a 27-hole layout. Lester Park also shares most of the same operational concerns and facility issues, including an aging golf course and clubhouse.

Lester Park is located at the northeastern corner of the City (on the border), much further away from the population center. However, it is located less than a mile from Lake Superior and it offers spectacular views of the Lake from a large percentage of the holes.

### Facility Overview

Lester Park is a few years newer than its sister course, opening in 1938. The course was expanded from its original 18 to 27 holes in 1988 at the same time Enger Park was expanded. Dick Phelps again was the designer. However, unlike Enger Park, the nine new holes were not integrated with a 2<sup>nd</sup> nine, but formed a completely new nine. The existing 18 holes received only a new irrigation system and a few cosmetic changes. The result is an even worse configuration than Enger Park with a much stronger differential between the “new” nine (Lake Nine) and the older 18. As a result, the course is almost always set up as an 18-hole course (Front and Back nines) and a 9-hole course (Lake).



The Lake nine, being a more modern nine, differs considerably from the other two nines. In addition to having modern green and tee complexes, it features a lot more elevation

changes, narrower fairways, and a lot more bunkers. It is considered to be substantially more difficult than the other two nines. As a result, staff reports it is much less popular. (However, its design, layout, and superior aesthetic value would make it much more popular with tourists – Unfortunately, being only nine holes makes it an unlikely choice.)

As with its older sister, Lester Park has an old clubhouse that lacks air conditioning and is in need of updating. However, its clubhouse has a much better layout and is more functional than Enger Park GC.

## Golf Course

The Lester Park Golf Course features interesting elevation changes and dramatic vistas. As with Enger Park, there are no residential developments along the course. Unlike Enger, Lester Park has little room for expansion, but does have room for renovations and improvements.

Both the Front and Back nines have 10 sand bunkers each. The Front has three holes where water comes into play, while the Back has two. In contrast, the Lake nine has 25 sand bunkers but just one water hole.

While the irrigation system for all 27 holes was installed in 1988, seventeen of the greens are original and date back to 1939. However, even the greens on the Lake nine are approaching the end of the normal life cycle for greens as twenty-three year of age.

Lester Park Golf Course			
Men's Course Yardage /Rating/Slope			
	Front	Back	Lake
Blue	3183/35.4/118	3189/35.5/125	3417/37.1/144
White	3061/34.8/116	3001/34.7/119	3168/36/137
Red	2811/36.2/127	2271/36.5/121	2693/36.6/132

Unlike its sister course, Lester Park only has three sets of tees. Yardage from the back tees for the Front and Back 18 total only 6,371, making it a relatively short course by modern standards. Because of its shorter length, lack of traps, older greens, and lower difficulty level, the Front/Back 18 holes are not very appealing to lower handicap golfers or tourists. The Lake nine, however, would be appealing to this group except that it has only nine-holes and lower handicap players and tourists tend to prefer 18 holes.

At 5,082 yards from the front tees, Lester Park does set up better for women. But the lack of “senior” tees (around 5,500 yards), likely both hurts play from seniors and will slow down the pace of play as the seniors who do play will do so from longer than ideal, thus taking more strokes and slowing play.

We do note that number 4 on the Lake hole appears to be unfair, featuring a badly sloping fairway that pushes the ball in the opposite direction to the dogleg and usually into the woods.



## Present Operational Issues

As noted above, most of the operational issues that were detailed in the Enger Park review are also present at Lester Park. A summary of key issues unique to Lester Park are identified by NGF in this section.

### Staffing

The most senior PGM executive / owner serves as the Head Professional at Lester Park, along with several support positions such as assistant golf professionals. The PGM accountant is also headquartered at Lester Park.

### Clientele

Lester Park's clientele is similar to Enger Park's with a few minor differences. Seniors make up a much smaller proportion of the golfers at Lester Park. There are also not quite as many leagues. Most of the golfers come from the East side of town, although there certainly is some crossover.

### Cart Use

Lester Park has only 50 carts, 20 fewer than Enger Park. This is less than half that required to host a full field (108) and suggests lower cart utilization than at Enger Park. However, revenue reports put their utilization rate at 43%, which is higher than at Enger Park.

As with Enger Park, NGF recommends a larger cart fleet and that consideration be given to constructing a cart barn to house the carts. This would not only help with the carts appearance and reduce wear, but it would allow the City to convert to electric carts – more popular with golfers and could lead to increased revenue.

## Pro Shop Operations

Lester Park enjoys a much larger pro shop with a significantly better layout than its sister course. Therefore, it is not surprising that it outperforms its sister course in terms of merchandise sales. In fact, in 2010, Lester Park sold 39% more merchandise (\$33,929) than Enger Park despite playing 20% fewer rounds.

The cost of sales for Lester Park as reported is very high (98.7% last year). Again, we feel this is due to misallocating costs to Enger Park rather than a true reflection of the operation.

Below is a table for the performance of pro shop sales at Lester Park and the combined operation. As can be seen, when the two operations are combined, the cost of sales is closer to expectation. In 2008 and 2009, the combined cost of sales was excellent, 71% in 2008 and 65% in 2009. However, last year, COS climbed to 79.1%, which is a bit high.

<b>Pro Shop Sales – Lester Park</b>					
	<b>2008</b>	<b>2009</b>	<b>% Chg 2008-09</b>	<b>2010</b>	<b>% Chg 2009-10</b>
<b>Total Rounds</b>	<b>43,879</b>	<b>38,026</b>	<b>-13.3%</b>	<b>39,441</b>	<b>3.7%</b>
Merchandise Sales	\$109,226	\$113,854	4.2%	\$121,115	6.4%
Revenue/Round	\$2.49	\$2.99	20.3%	\$3.07	2.6%
Cost of Sales	\$90,980	\$89,342	-21.8%	\$119,522	14.1%
Percentage	83.3%	78.5%	-5.8%	98.7%	25.8%
<b>Gross Profit</b>	<b>\$18,246</b>	<b>\$24,512</b>	<b>34.3%</b>	<b>\$1,592</b>	<b>-93.5%</b>
<b>Pro Shop Sales – City of Duluth Combined Lester + Enger Park GC</b>					
<b>Total Rounds</b>	<b>93,882</b>	<b>85,703</b>	<b>-8.7%</b>	<b>88,762</b>	<b>3.6%</b>
Merchandise Sales	\$199,223	\$198,527	-0.3%	\$208,301	4.9%
Revenue/Round	\$2.12	\$2.32	9.2%	\$2.35	1.3%
Cost of Sales	\$141,689	\$129,011	-21.8%	\$164,784	14.1%
Percentage	71.1%	65.0%	-8.6%	79.1%	21.7%
<b>Gross Profit</b>	<b>\$57,534</b>	<b>\$69,516</b>	<b>20.8%</b>	<b>\$43,516</b>	<b>-37.4%</b>

## Physical Evaluation

The condition of Lester Park was a bit below that of Enger Park, which may be attributed largely to the fact more holes are from the original 1938 design. As with Enger Park, drainage is a significant issue, although there are other concerns at Lester Park GC.

## Basic Evaluation

The basic NGF findings on our physical evaluation of the Lester Park Golf Course property include:

- **Greens:** Same issues as with Enger Park, except that more of the greens are original.
- **Tees:** Same issues as with Enger Park – size and leveling. In addition, the “senior” tees are an afterthought, mostly just added to the back of the forward tees. We would recommend some new tee boxes.
- **Cart Paths:** As with Enger Park, cart paths are largely found only around greens and tees, except for the Lake nine. The Lake nine does have cart paths all the way around, but they are largely gravel and in poor condition.
- **Drainage:** There are significant drainage issues on several holes. In particular, #1 and #7 on the front are very bad. As a result, the fairways on these holes are substandard and very uneven. This is particularly hard on golfers who ride as it is both uncomfortable (especially if you have back problems) and causes increased wear on the carts.
- **Turfgrass** – Same issues as Enger Park.



- **Irrigation** – Lester Park uses City water to irrigate the golf course. There are two pump houses with three total pumps and a capacity of 1,500 gallons per minute. The current irrigation system was installed in 1988. At 23 years of age, it is nearing the end of the normal life expectancy for such systems. The number of irrigation repairs and issues suggest that the irrigation system will need to be replaced within the next several years.
- **Fairways** – We see numerous complaints that the fairways are cut too short at both courses, not allowing the ball to properly sit up. Drainage issues have made several of the fairways almost unplayable and extremely rough. There are bare spots throughout, most likely caused by winter kill.
- **Maintenance Area** – The maintenance facility at Lester Park is substandard. The building is too small and cannot accommodate all the equipment. There is little storage. Further, the restroom functions only when the irrigation system is charged.
- **Traps** – As with Enger, the sand traps at Lester Park are in substandard shape. The sand is of poor consistency with lots of rock. Many of the traps need reshaping, including a lower face to make them more visible and easier to maintain. We would recommend a complete rebuilding of the traps, including reshaping some, and adding liners.
- **Roughs** – We received numerous comments that the rough was too high. This will really slow down play as golfers waste time looking for balls.
- **On-Course Facilities** – As with Enger Park, there are no on-course restrooms at Lester Park. The NGF recommends having permanent restroom facilities on each nine.
- **Course Aesthetics** – Lester Park has outstanding aesthetics, especially on the Lake 9-holes. The lack of housing on the course is also a definite plus.
- **Yardage Markers** – The addition of yardage more clearly indicated on the course, with sprinkler heads all marked would improve the overall perception of quality at the course and help to improve pace of play.

### Driving Range

The driving range is located down the hill from the clubhouse, convenient to both the parking lot and clubhouse, but on the opposite side to the first holes. In general, the practice facilities at Lester would be considered superior to those at Enger. The range is wider and longer and there is an excellent short game area.

However, the range is still too narrow and there appears to be ample room to widen the range, which we would encourage the City to do. As with Enger, we would also suggest lighting and adding target greens.

As with Enger, there is an unoccupied range attendant building that houses the ball machine. The ball machine is very similar to the one at Enger Park. Again, we recommend replacing it with an electronic card machine that would also take tokens.

## Lester Park Clubhouse Operation

The clubhouse operation at Lester Park contributed \$291,461 in revenue in 2010, which represents 30% of the total. The Lester Park clubhouse operations averaged generating \$7.42/round, which is 42% better than Enger's \$5.22/round.

### Inventory of Facilities

The Lester Park clubhouse was constructed in 1942 and, like its sister clubhouse, is definitely showing its age. As with Enger, the Lester clubhouse consists of three levels, including a basement, and has about a 4,000 sf footprint. However, its main floor layout is much better than Enger's and the building is ADA accessible. Overall, while the clubhouse is far from ideal, it is definitely in better condition than Enger Park GC and much more functional, which help explains its far better performance (as measured by revenue per round). The concerns about the Lester Park clubhouse noted by NGF include:

- **No Air Conditioning:** This is a detriment to clubhouse sales, especially food and beverage as people do not want to sit around in an uncomfortable setting – which it definitely was during our visit. It also has an adverse affect on employee morale, especially kitchen workers where it can become extremely uncomfortable.
- **Men's Restroom:** As with Enger, the men's restroom is located in the basement, rather than on the main floor. There is no elevator connecting the floors. However, there is a unisex handicap accessible restroom on the main floor.
- **Insulation:** The clubhouse has very poor insulation, making it unnecessarily hot in the summer and cold in the spring and fall. Like the AC, this affects both revenue and employee efficiency.
- **No broadband service:** The course has to use satellite service for internet, which can be spotty service and is slower.
- **No wifi:** The clubhouse does not offer public wifi.
- **No Liquor License:** The Lester clubhouse does not have the ability to sell alcohol, which probably costs it about 32 cents/round (based on Enger's performance) or \$12,521 in direct sales. However, what cannot accurately be measured is the loss of rounds due to golfers not willing to play Lester Park because of the lack of liquor sales. Based on Enger's sales, this figure is likely to be close to 5%.

A summary of the Lester Park clubhouse layout is detailed in the paragraphs that follow.

**Upper Level** - The upstairs floor of the clubhouse is a two-bedroom apartment that is currently not used. Access to the upper level is through a stairway in the kitchen, making it unavailable for public use. This area could have potential as meeting and banquet rooms should the clubhouse be renovated. Of course this would require a major renovation that would likely also require the addition of an elevator to make it ADA compliant.

### **Main Level** - Elements of the main level of the Lester Park clubhouse include:

- **Pro shop:** The pro shop is located at the back of the clubhouse. It has a much larger sales floor, without the restricted flow that was present at Enger.
- **Entrance:** There are three entries, one in the front (main) and one on the side (for the pro shop) and one on the back going out to the deck. Golfers familiar with the clubhouse know to bring their clubs around to the side, although there is no sign directing them to do this. Naïve golfers are likely to enter through the front door and may be carrying their bags through a narrow path and around patrons sitting in the bar area. Only the side entry is ADA compliant.
- **Kitchen:** The kitchen is basic and mostly represents a short order kitchen, with limited cooking area and limited storage. It is a larger kitchen than at Enger. Storage is also more convenient as it is located just down stairs in the basement, with the stairs being off the kitchen.
- **Lester Park Grill:** Seating at Lester Park is comparable to Enger and with a similar L-shaped. This time, though, it bends around towards the front door, again out-of-sight from the grill. The grill occupies the most space on the main floor and is the area golfers would walk into from the front door.
- **Offices:** The pro's office and accountant's office and pro shop storage are located on this floor.
- **Deck:** There is a nice deck area outside the pro shop that would appear to have the ability to seat 20-30 people.
- **Ladies Restroom:** The women's restroom and locker room are located on the main floor.
- **Unisex Handicap Restroom:** There is a handicap accessible, one stall unisex restroom located on the main floor.

### **Lower Level** - Elements of the lower level of the Lester Park clubhouse include:

- **Men's Locker Room / Restroom:** The lower level includes men's locker / restrooms with many lockers present, although there is not a high volume of use. The lockers are old and worn. The floor is cement in most areas, with some carpeting in the locker area. Unlike Enger, there is a shower present.
- **Storage:** There is an abundance of storage in the basement, which is being used by both the pro shop and grill.

### **Food and Beverage**

The food and beverage service at Lester Park is divided into two key areas of service: (1) Lester Park Grill; and (2) Beverage Cart. All concessions are operated directly by PGM. A summary of each area follows:

The Grill includes counter service of a basic menu of items consistent with a good quality public golf course. The grill is open for breakfast and remains open as long as the pro shop does. The menu at Lester is identical to the one at Enger, with the exception that Lester does not offer pizza.

The “typical” food and beverage concession at public golf courses produces approximately \$5.61 per round, including banquets (see **Appendix B**). Analysis of Lester Park shows average revenue per round from the grill at approximately \$3.54 in 2010. Lester Park does very little if any non-golf banquets or outings.

### Comments and Recommendations

- **Food Quality:** We found the food quality to be good. Customers seemed to agree.
- **Menu:** Beverage pricing is NOT on the menu. Instead, there was a note on the menu to “refer to beverage list for all beverages offered.” The only beverage list we could see was a short list posted on the back of the cash register. This was not easy to see. We would recommend a beverage list with pricing be included on the menu. We would also encourage a redesign of the menu.
- **Food Selection:** There is only one salad listed on the menu, along with a single chicken wrap. We would encourage a wider selection of “healthy” food choices, including more salads, fruit plates, and wraps. We would also encourage offering golfers the choice of bread, including whole grain breads.
- **Pricing:** The pricing for the food is very reasonable, if not cheap. There would appear to be some room for price increases, especially on the sandwiches.
- **Fountain Drinks:** Enger Park only offers a 12 oz and a 22 oz fountain drink. This is too small. We would encourage offering two sizes – a 16oz and a 32 oz. Fountain drinks are the most profitable item on the menu. Staff should encourage their purchase by offering popular sizes and selections. (Make sure the cups you get will fit in the golf carts).

The same issues noted at Enger Park are present at Lester Park. However, it does not appear as though they have had as much of a problem. Nonetheless, we are glad that they have revised their procedures since our visit.

## Facility Performance and Data Analysis – Lester Park

Lester Park Golf Course historically has not performed as well as its sister course, although it still has a lot of activity. PGM tries to push more play to Lester Park through the use of coupons.

### Activity Levels

Lester Park rounds performance has mimicked Enger Park, but with considerably more volatility. In 2008, Lester Park reported 43,879 rounds. Rounds declined 13.3% in 2009 to 38,026 while Enger Park’s rounds went down by 4.7%. Similarly, rounds increased by 3.7% in 2010 to 39,441 at Lester Park while Enger Park’s rounds increased by 3.4%.

And while the percentage is slightly smaller (54.9% compared to 57.1%), rounds play at Lester Park is similarly dominated by Pass-holders. Average rounds per 18-hole public golf course in the total U.S. now stand at about 32,500 rounds per year on 18 holes (equates to 48,750 for 27 holes), indicating that despite the declines, Lester Park is still doing slightly better than the national standards. (see **Appendix B**).

<b>Lester Park Golf Course Rounds Played Data– 2008-2010</b>						
<b>2008-2010</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>	
<b>Season Pass Rates</b>	<b>Quantity Sold</b>	<b>Revenue</b>	<b>Quantity Sold</b>	<b>Revenue</b>	<b>Quantity Sold</b>	<b>Revenue</b>
18 Hole	2860	\$74,493	2805	\$75,354	2327	\$61,533
9 Hole	6154	\$91,594	6354	\$100,234	5464	\$85,956
Add 9 Hole	158	\$1,764	230	\$2,559	153	\$1,844
55+ 18 Hole	246	\$5,492	402	\$9,302	395	\$9,145
55+ 9 Hole	2252	\$27,233	2138	\$27,759	2335	\$30,256
Jr. 18 Hole	94	\$1,312	96	\$1,425	90	\$1,335
Jr. 9 Hole	671	\$6,242	752	\$7,681	569	\$5,802
Jr. Add 9	4	\$19	24	\$111	8	\$37
Twilight	710	\$8,586	635	\$8,244	524	\$6,802
Fall Unlimited	696	\$10,359	572	\$9,014	682	\$10,748
Fall 9 Hole	1216	\$10,180	838	\$7,768	1133	\$9,461
Patron 18			326	\$4,382	465	\$6,464
Patron 9			705	\$5,555	801	\$6,312
Patron 55+ 18			74	\$857	94	\$1,089
Patron 55+ 9			382	\$2,479	492	\$3,193
Patron Jr. 18			3	\$22	0	\$0
Patron Twilight			0	\$0	0	\$0
Patron Fall Unlimited			55	\$357	100	\$649
Patron Fall 9			45	\$355	98	\$772
Coupon Use			160	\$742	269	\$1,122
Pass Rounds	953	\$11,956	962	\$12,241	1793	\$23,435
<b>Green Fee Total</b>	<b>27,865</b>	<b>\$0</b>	<b>20,468</b>	<b>\$0</b>	<b>21,649</b>	<b>\$0</b>
<b>Grand Total</b>	<b>43,879</b>	<b>\$249,230</b>	<b>38,026</b>	<b>\$276,441</b>	<b>39,441</b>	<b>\$265,952</b>

**Lester Park Golf Course  
Season Pass Data– 2008-2010**

2008-2010	2008		2009		2010	
Season Pass Rates	Quantity Sold	Revenue	Quantity Sold	Revenue	Quantity Sold	Revenue
Unlimited	163	\$95,356	109	\$71,110	73	\$47,450
Sr. Unlimited (62+)	107	\$41,730	141	\$63,080	132	\$57,904
Young Adult (19-24)	31	\$10,230	45	\$17,600	32	\$12,800
Junior Unlimited	19	\$6,270	81	\$20,160	71	\$19,470
Sr. Dual Family	57	\$10,830	13	(\$1,560)	-12	(\$1,200)
Family	41	\$37,310	27	\$27,675	43	\$44,075
Patron Card	2	\$360	75	\$12,000	84	\$14,700
<b>Pass total</b>	<b>420</b>	<b>\$202,086</b>	<b>491</b>	<b>\$210,065</b>	<b>423</b>	<b>\$195,199</b>

**Observations**

- **Rack Rate Rounds:** 18-hole daily fee play at rack (regular) rate accounted for only 5.9% of the rounds, even fewer than at Enger Park. These are the highest profit margin rounds and the totals appear lower than standard expectations for public courses.
- **Senior Daily Fee:** Senior daily fee play accounted for 19% of the non-pass rounds, compared to 21% at Enger. Staff estimates that over half, if not 2/3rds of the play at Enger Park are from seniors over 55.
- **Nine-hole play:** 9-hole daily fee rounds accounted for 62% of the non-pass play, which is very high, even higher than for Enger's 59%. As there are fewer league rounds at Lester, we can assume the higher percentage is due to the Lake nine, which is unique among the six nines with Duluth Golf.
- **Weekend Afternoons:** The NGF is informed that weekend afternoons are slow, with no league play or twilight times. We encourage adding twilight times and implementing a "family rate" where a junior would play free with each full pay adult.
- **Patron play:** Patron card holders accounted for 2,319 rounds or 13% of the non-pass play – the same percentage as with Enger Park. This is an increase from 2009 when they were 10% of the play.
- **Pass Holders:** Pass holders accounted for 21,649 rounds, which averages out to 63.86 rounds per pass-holder, which is even higher than Enger Park's 57.6. Again, this number could be inflated as other non-paying rounds are also under this "key". The assumption that 90% of these rounds are pass-holders may not be accurate. If it is accurate, it could indicate that non-pass-holders are being allowed to play for free. We recommend a separate key be established for pass-holders.

### Revenue Analysis

The table below compares the revenues from various sources for Lester Park over the past three years.

Lester Park Golf Course Total Gross Revenue – 2008-2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Pass Revenue	\$202,086	\$210,065	3.9%	\$195,199	-7.1%
Green Fees	249,230	276,441	10.9%	265,952	-3.8%
Cart Fees	125,771	133,974	6.5%	136,530	1.9%
Range Tokens	24,272	26,467	9.0%	26,056	-1.6%
Locker Rentals	726	809	11.5%	862	6.6%
Club Rentals	1,749	1,243	-28.9%	1,213	-2.4%
Pull Cart	1,837	1,772	-3.5%	1,644	-7.2%
Merchandise	109,226	113,854	4.2%	121,115	6.4%
Food & Beverage (non alc)	87,744	77,662	-11.5%	82,901	6.7%
Alcoholic Beverages	95,264	101,663	6.7%	87,445	-14.0%
Gift Certificate	27,196	24,802	-8.8%	28,036	13.0%
Club Dues and Credit	20,704	0		22,214	
<b>TOTAL</b>	<b>\$945,804</b>	<b>\$968,751</b>	<b>2.4%</b>	<b>\$969,166</b>	<b>0.0%</b>

Last year, Lester Park generated \$969,186 which is almost identical to the revenue from 2009, and about \$43,000 more than in 2008. Unlike Enger Park, where pass revenue increased last year, pass revenue declined by 7.1% (or \$14,966) at Lester. Green fee revenue was also down (\$10,489 or 3.8%). Also taking a significant plunge was beer sales, which declined 14% or \$14,217. Making gains were merchandise sales (up \$7,250 or 5.4%, non-alcoholic food and beverage sales (up 6.7% or \$5,238) and “club dues and credit” up \$22,214.

When compared to industry averages (**Appendix B**) we see that Lester Park is operating with revenues that were slightly below average in 2009 (U.S. average = \$993,800 in 2009). Total golf revenue (green fees, cart fees, memberships only) average about \$700,000 per 18 holes for public golf courses in the U.S. in 2009 (equates to \$1.05 million for 27-hole courses). For Lester Park, total golf revenue was \$597,681 last year, which is less than the average for 18-hole courses, and about 60% of what is expected for a 27-hole facility.

### Average Revenue Analysis

The total average revenue earned per round was \$24.57, which is nearly \$2 (10%) higher than Enger Park's \$22.76 for 2010. The average per round revenue for just the golf revenue (green, cart, and membership) was \$15.15, slightly less than Enger's \$15.57. The average for mid-fee public golf courses in the U.S. was \$21.54 for total revenue per round in golf revenue (green, cart, membership), plus an additional \$9.04 in ancillary spending (food, beverage + merchandise – See **Appendix B**).



Lester Park Golf Course Average Revenue per Round – 2008-2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Total Rounds	43,879	38,026	-13.3%	39,441	3.7%
Pass Revenue	\$4.61	\$5.52	19.9%	\$4.95	-10.4%
Green Fees	\$5.68	\$7.27	28.0%	\$6.74	-7.2%
Cart Fees	\$2.87	\$3.52	22.9%	\$3.46	-1.7%
Range Tokens	\$0.55	\$0.70	25.8%	\$0.66	-5.1%
Merchandise	\$2.49	\$2.99	20.3%	\$3.07	2.6%
Food & Beverage (non alc)	\$1.75	\$2.07	18.4%	\$2.37	14.7%
Alcoholic Beverages	\$1.03	\$1.40	35.2%	\$1.17	-16.6%
Other	\$1.19	\$0.75	-36.7%	\$1.37	81.8%
<b>Total</b>	<b>\$20.16</b>	<b>\$24.23</b>	<b>20.1%</b>	<b>\$23.79</b>	<b>-1.8%</b>

#### Comments and Observations

- **Green Fees:** While rounds increased 3.7% last year, green fee revenue declined by 7.2% to just \$6.74. The average green fee per round *for non pass-holders* went from \$15.74 in 2009 to \$14.95 in 2010, a drop of 5%. As prices were the same for the two years, the drop in revenue yield can be attributed to a change in playing patterns. In particular, patron card rounds were up 32%, while 18-hole rack rate rounds declined by 18.3%.
- **Pass-holders:** Annual pass revenue was \$4.95 per total round last year. But what is more important is that they averaged \$8.34 *per pass-holder round*, which is 44% less than the non-pass-holders average. However, unlike Enger, this figure has varied considerably. In 2009, pass-holders averaged \$9.58 per pass-holder round, while in 2008 it was \$7.24. We suspect that this variability is really due to misappropriation of the non-fee rounds, particularly in 2009.
- **Patron Cards:** In 2010, 84 Patron cards were sold, a 12% increase over the previous year – which is substantially less than the 37% increase seen at Enger. These cards sold for a combined \$14,700 (\$175 each). In addition, the patron card holders played 2,319 rounds, generating \$19,600 in green fee revenue. Combined with the card sales, Patrons generated \$34,300 or \$14.79/round. This is considerably higher than the average for annual passes, but quite a bit lower than Enger Park's \$16.41 per round. This may suggest that more rounds from Patron Card purchases at Enger were played at Lester than the other way around. This, in turn, *may* indicate that Lester Park patrons are more loyal, while Enger Park patrons are more willing to travel to play, or have to travel to play due to lack of tee-times.
- **Range Revenue:** The range revenue of 66 cents per round is well below expectation. We would expect *at least* \$1/round and would anticipate, closer to \$1.50. We believe a self-service electronic ball dispenser would significantly improve performance.

- **Merchandise sales** in 2010 averaged \$3.07, 74% higher than Enger's \$1.77/round. We attribute much of the difference to the poor layout of the pro shop at Enger.
- **Food and beverage** including beer sales, averaged \$4.32 per round, or 25% higher than at Enger, *despite not being able to serve "hard" liquor*.
  - The difference may be due to better beverage cart controls at Lester
  - It also may be due to a younger customer base, which are more likely to purchase food and beverage.
- **Beer Sales:** Beer sales at Lester Park averaged \$2.22 last year.
  - This is 25% less than at Enger, even though Enger sells hard liquor. Again, this raises concern about sales reporting at Enger.
  - The 17% drop in beer sales in 2010 is very troubling, especially with an increase in non-beer food and beverage sales. This may be due to poor beverage cart controls as discussed previously.
- **Cart usage:** There were 11,916 cart rounds recorded at Lester Park last year. When full cart rounds (2 riders) are taken into consideration, we get 15,497 riders total, or 39.3% of the play. In other words, it means 2/3<sup>rd</sup>s of the golfers are walking (low cart utilization). Moreover, it is contrary to our observation and staff interviews. When we watched, it appeared that 60% or more of the play were riding.
- **Cart usage 2:** The average cart revenue per round, \$3.46, is low compared to average and reflects the lower than expected cart usage. It is consistent with the \$3.42 per round at Enger.
- **Pull cart usage:** Pull cart rentals average only 4 cents per round last year, down from 5 cents the previous two years. While we would not expect a lot of revenue from pull cart sales, the fact that walkers greatly exceed riders, we would anticipate higher pull cart sales.

### Food and Beverage Performance and Data Analysis

Food and Beverage performance improved by 5.8% last year, increasing from \$131,825 to \$138,533. The increase is greater than the improvement in rounds (3.7%) as revenue per round improved 2%, from \$3.47 to \$3.54. This comes after a sharp increase (24.7%) the previous year as it improved from just \$2.78 in 2008.

The NGF has observed that despite the fact that overall food and beverage revenue improved over this period of time, beer sales declined by 13.5% last year after improving 17.2% the previous year. Further, non-alcoholic sales increased by 19%. Last year, beer sales averaged \$1.17/round.

The cost-of-sales at Lester Park was far more reasonable than what was found at Enger, with an overall COS of 43.8%. While this is still a little higher than desirable, it is not out of line. Low menu prices may be largely responsible.

As with Enger, we do not have an exact accounting of the overall profitability of the F&B department although NGF has provided an estimate. With total sales at \$139,953, we can subtract the cost of sales (\$61,150), the estimated payroll (\$34,606) and an estimate of supplies (\$13,953), yielding a profit of \$29,823, or about \$2,500 more than Enger, despite a lower volume.

The table that follows shows some detailed break-out of food and beverage sales as provided by the City of Duluth. The second table shows a summary of cost of goods sold for use in comparison to national data.

<b>Lester Park Golf Course Food and Beverage Performance – 2008 – 2010</b>					
	<b>2008</b>	<b>2009</b>	<b>% Chg 2008-09</b>	<b>2010</b>	<b>% Chg 2009-10</b>
<b>Total Rounds</b>	43,879	38,026	-13.3%	39,441	3.7%
Food and beverage	\$76,641	\$78,642	2.6%	\$93,545	19.0%
Revenue/Round	\$1.75	\$2.07	18.4%	\$2.37	14.7%
Cost of Sales	\$39,452	\$46,315	3.0%	\$45,240	2.5%
Percentage	51.5%	58.9%	14.4%	48.4%	-17.9%
<b>Gross Profit</b>	<b>\$37,189</b>	<b>\$32,327</b>	<b>-13.1%</b>	<b>\$48,305</b>	<b>49.4%</b>
Alcoholic Beverage sales	\$45,381	\$53,183	17.2%	\$45,988	-13.5%
Revenue/Round	\$1.03	\$1.40	35.2%	\$1.17	-16.6%
Cost of Sales	\$14,691	\$16,573	-21.8%	\$15,911	14.1%
Percentage	32.4%	31.2%	-3.7%	34.6%	11.0%
<b>Gross Profit</b>	<b>\$30,690</b>	<b>\$36,611</b>	<b>19.3%</b>	<b>\$30,077</b>	<b>-17.8%</b>
Combined Sales	<b>\$122,022</b>	<b>\$131,825</b>	<b>8.0%</b>	<b>\$139,533</b>	<b>5.8%</b>
Revenue/Round	\$2.78	\$3.47	24.7%	\$3.54	2.0%
Cost of Sales	<b>\$54,143</b>	<b>\$62,888</b>	-21.8%	<b>\$61,150</b>	14.1%
Percentage	44.4%	47.7%	7.5%	43.8%	-8.1%
<b>Gross Profit</b>	<b>\$67,879</b>	<b>\$68,937</b>	<b>1.6%</b>	<b>\$78,382</b>	<b>13.7%</b>

### Expense Analysis

Basic expenses to operate and maintain Lester Park Golf Course totaled just under \$900,000 in 2010 (\$882,671), which was a 12% (\$94,900) increase from 2009 (\$787,772). A summary of Lester Park Golf Course expenses is shown below, derived from full expense reports provided by the City of Duluth. It should be noted that we excluded non-operating expenses such as depreciation, bond payments and interest, city allocations, etc. The overall expenses to operate this facility are similar to than

expense averages for mid-range public golf courses in the nation (average facility = \$931,900 in expenses- See **Appendix B**).

<b>Lester Park Golf Course</b> <b>Total Operating Expenses – 2008 – 2010</b>					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
<b>Course Maintenance</b>					
Employee Payroll: Maintenance	\$101,676	\$106,190	4.4%	\$121,421	14.3%
Maintenance: Repair & Maint	\$23,454	\$24,510	4.5%	\$47,801	95.0%
Maintenance: Supplies - Maintenance	\$21,565	\$17,723	-17.8%	\$22,969	29.6%
Maintenance: Supplies - Fertilizer	\$13,962	\$16,883	20.9%	\$24,395	44.5%
Maintenance: Supplies - sand/seed	\$4,068	\$10,318	153.6%	\$9,078	-12.0%
Motor fuels	\$29,423	\$17,849	-39.3%	\$25,408	42.4%
Electricity / Vehicle /ST Eq Rent	8,696	44,533		47,042	
<b>Subtotal</b>	<b>\$202,844</b>	<b>\$238,006</b>	<b>17.3%</b>	<b>\$298,476</b>	<b>25.4%</b>
<b>Golf Operations</b>					
Employee Payroll: Clubhouse	\$96,047	\$107,925	12.4%	\$119,733	10.9%
Golf Cart Rental	\$37,298	\$980	-97.4%	\$0	-100.0%
Supplies - Clubhouse	\$10,988	\$18,017	64.0%	\$17,846	-0.9%
Satellite TV / Internet	1,971	2,726	38.3%	2,634	-3.4%
<b>Subtotal</b>	<b>\$146,304</b>	<b>\$129,648</b>	<b>-11.4%</b>	<b>\$140,212</b>	<b>8.1%</b>
<b>General &amp; Admin</b>					
Advertising	\$2,445	\$2,600	6.3%	\$4,257	63.7%
Automobile Mileage	1,507	215	-85.8%	225	4.9%
Bank, Discretionary, EE Training, Prof.	1,597	395	-75.3%	497	25.8%
Clubhouse, Dues & Subscriptions	3,081	5,901	91.5%	5,465	-7.4%
Insurance	24,515	11,229	-54.2%	15,193	35.3%
Licenses & Permits	1,119	999	-10.7%	1,200	20.1%
Utilities	17,939	29,107	62.3%	17,405	-40.2%
Building Maintenance	3,394	1,913	-43.6%	0	-100.0%
Other	9,710	4,420	-54.5%	5,539	25.3%
Refuse Disposal	1,678	2,103	25.3%	3,219	53.1%
Credit Card Commissions	8,783	10,081	14.8%	10,311	2.3%
Management Fee	193,125	198,925	3.0%	200,000	0.5%
<b>Subtotal</b>	<b>\$268,893</b>	<b>\$267,888</b>	<b>-0.4%</b>	<b>\$263,311</b>	<b>-1.7%</b>
<b>Total Expenses</b>	<b>\$618,041</b>	<b>\$635,542</b>	<b>2.8%</b>	<b>\$701,998</b>	<b>10.5%</b>

## Cost of Sales

Cost of sales as a percentage of sales revenue, has increased each of the last three years, from 49.7% in 2008 to 62% in 2010.

Lester Park Golf Course Direct Cost of Sales (COS)– 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Cost of Goods					
COGS-Food & Beverage	\$39,452	\$46,315	17.4%	\$45,240	-2.3%
COGS-Golf	\$92,845	\$90,638	-2.4%	\$121,038	33.5%
Merch Discounts	-\$1,865	-\$1,297	-30.5%	-\$1,515	16.9%
Alcohol: COGS-Liquor					
Alcohol: COGS-Food & Beverage	\$14,691	\$16,573	12.8%	\$15,911	-4.0%
<b>Subtotal</b>	<b>\$145,123</b>	<b>\$152,230</b>	<b>4.9%</b>	<b>\$180,673</b>	<b>18.7%</b>

Other observations:

- **Merchandise:** The merchandise COS was 98.7% last year, a sharp increase from 78.5% in 2009 and 83.3% in 2008. The higher COS for Lester is likely due to the fact all merchandise is received at Lester Park and it is probable that the COG allocation has not been equitable.
- **Food and Beverage:** The COS for both food and beverage and alcohol sales are considerably lower than for Enger Park. Non-alcoholic F&B COS was 54.6% last year, which is still very high (should be around 35%-40%), while beer sales was 18.2%, which is good, but still higher than in 2009 (16.2%) and 2008 (15.4%).

## Other Expense Findings

- **Variable Expenses:** Unlike Enger, which saw expenses dip in 2009, expenses have increased steadily at Lester Park over the last three years, from \$763,164 in 2008 to \$882,671 last year, with the main increases coming in Course Maintenance.
- **Course Maintenance:** Course maintenance expenses took a sharp (25.4% or \$60,469) increase in 2010, going from \$239,006 (which was 17.3% more than in 2008) to \$298,476 in 2010. As with Enger, the increases were across the board, with the exception of sand and seed, which went down. Repairs and maintenance had the biggest jump, both in terms of dollars (\$23,291) and percentage (95%). Payroll increased by \$15,221 (14.3%) Maintenance supplies went up \$5,246 (29.6%) while fertilizer increased by \$7,512 (44.5%). Motor Fuels increased 42.2% or \$7,560 and Electricity jumped \$2,329 or 24.5%. However, *in spite of the increases in 2010, the overall course maintenance expenses are still lower than expectation.* They are closer to what we would expect for an 18-hole course, not a 27-hole facility.

- **Golf Operations:** Golf operations expenses dropped 11.4%% in 2009 or \$16,657. The biggest reason was a drop of \$36,300 in golf cart rental, while all other expenses increased. Golf operations expenses increased another 8.1% (\$10,564) in 2010, all due to an \$11,808 (10.9%) increase in payroll.
- **General and Administrative:** G&A expenses have been mostly consistent the last three years, with a slight decrease each year. Last year, G&A expenses went down by 1.7% of \$4,577.

### Other Expenses

The City attributes a number of other expenses to the Golf Fund that are not included in the above analysis. In 2010, these totaled \$116,735. These include:

- Depreciation - \$60,028
- City Cost Allocations - \$33,400
- Bond Interest - \$7,414
- Capital Lease Interest - \$1,027
- Fiscal Agents Fee - \$2,000
- Bond Amortization - \$2,925

## Lester Park GC Net Operating Income Summary

Lester Park Golf Course operates as a fully public municipal golf course, with green fees and other ancillary revenues as its primary sources of income. In total, this and other revenue drivers generated \$966,398 in operating revenue in 2010. When the \$180,673 in cost of sales is subtracted, it yields a Gross Profit of \$785,725.

Total expenses to operate the facility total approximately \$701,999 in 2010 before additional expenses such as interest, depreciation and other City overhead. Taken together, this yields a Net Operating Income (NOI) of \$83,726. This represents a decline of 58.4% from 2009 (\$201,425). Conversely, 2009 profits were up 10.3% from 2008.

Lester Park Golf Course Operations Summary 2008 – 2010					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Revenue					
Annual Passes	\$202,086	\$210,065	3.9%	\$195,199	-7.1%
Green Fees	\$249,230	\$276,441	10.9%	\$265,952	-3.8%
Cart Fees	\$125,771	\$133,974	6.5%	\$136,530	1.9%
Other Revenue	\$368,717	\$368,717	0.0%	\$368,717	0.0%
<b>TOTAL REVENUE</b>	<b>\$945,804</b>	<b>\$989,196</b>	<b>4.6%</b>	<b>\$966,398</b>	<b>-2.3%</b>
Cost of Goods	\$145,123	\$152,230	4.9%	\$180,673	18.7%
<b>Gross Profit</b>	<b>\$800,682</b>	<b>\$836,967</b>	<b>4.5%</b>	<b>\$785,725</b>	<b>-6.1%</b>
Expenses					
Course Maintenance	\$202,844	\$238,006	17.3%	\$298,476	25.4%
Golf Operations	\$146,304	\$129,648	-11.4%	\$140,212	8.1%
General & Administrative	\$268,893	\$267,888	-0.4%	\$263,311	-1.7%
<b>TOTAL Expenses</b>	<b>\$618,041</b>	<b>\$635,542</b>	<b>2.8%</b>	<b>\$701,999</b>	<b>10.5%</b>
<b>Net Operating Income</b>	<b>\$182,640</b>	<b>\$201,425</b>	<b>10.3%</b>	<b>\$83,726</b>	<b>-58.4%</b>

Again, the biggest reason for the improvement in profitability in 2009 was the termination of the golf cart lease – a \$60,000/year annual expense. Of greater concern is the decline in profitability seen in 2010, which included the triple whammy of declining revenues coupled with increases in both cost-of-sales and operating expenses.

## CITY OF DULUTH GOLFER SURVEY

NGF's Golfer Survey Program was distributed seeking opinions of both Enger Park and Lester Park golf operations. A total of **339 surveys** were collected by NGF with 196 coming from Enger Park GC and 143 from Lester Park GC. The surveys have been used to gain insight into how some users feel about the facilities and their place in the market. The survey is not intended to be a scientific study of Duluth golfers. A copy of the survey instrument is displayed in **Appendix C** to this report.



## Enger Park GC Survey

The NGF received 196 responses to the Enger Park GC survey. Of these responses, 108 were from season pass holders (56%), 15 were from patron card holders (8%) and the remaining 73 (36%) coming from daily fee players. The general findings and a table showing the ratings follow:

<b>Enger Park Golf Course 196 Responses (9/8/2011 – 10/8/2011)</b>		
<b>Factor</b>	<b>Average Score (Scale 1-5)</b>	<b>Percentile*</b>
Overall Customer Satisfaction	7.7	18
Satisfaction compared to expectations	7.3	14
Satisfaction compared to other courses	7.5	46
Likelihood to play more	6.2	N/A
Likelihood to recommend	7.8	24
* Measured on a scale of 0 to 100, this number represents the percent of golf facilities that received lower customer ratings on this measure than the subject facility compared to other golf courses in U.S.		

<b>Enger Park Golf Course 196 Responses (9/8/2011 – 10/8/2011)</b>		
<b>Factor</b>	<b>Average Score (Scale 1-5)</b>	<b>Percentile*</b>
Overall Value	7.6	38
Overall Course Conditions	7.3	20
Pace of Play	7.2	43
Friendliness/Helpfulness of Staff	8.3	38
Golf Course Design / Layout	8.5	51
* Measured on a scale of 0 to 100, this number represents the percent of golf facilities that received lower customer ratings on this measure than the subject facility compared to other golf courses in U.S.		

## Summary of Findings

1. Enger Park golfers that responded to the survey show a much lower level of overall customer satisfaction than is typical for other golf facilities nationwide (of all price categories). In all, the survey showed that 78% of Enger Park golfers made a positive referral about the course and that the average Enger Park golfer referred 4.6 other golfers to the facility. By comparison, only 10% of Enger Park golfers made negative referrals, with an average of 3.2 negative referrals.
2. The profile of the Enger Park golfer is predominantly male (82%) and much older (66% over 50) than the national benchmark (total U.S. is 85% male and 50% over 50). Over 49% of respondents indicated they played a total of over 25

rounds of golf annually. The survey group is also very local with the majority (70%) originating in just five ZIP Codes: 55811, 55803, 55804, 55805 and 55810. The map displaying the origin of customers is displayed in **Appendix C** to this report.

3. Our surveys show that other golf facilities utilized by this survey group include (in order of importance – all with more than 10%): Lester Park GC (also City of Duluth), Nemadji GC, Black Bear GC, Hidden Greens North, Grandview GC, Pike Lake GC and Black Bear Golf Club.
4. When asked directly about their level of satisfaction with the level of snack bar selection, 60% indicated they were “somewhat” or “very” satisfied, while most of the other respondents were neither satisfied nor dissatisfied. Only 6% indicated any dissatisfaction. There were similar responses to snack bar pricing with 50% indicated they were “somewhat” or “very” satisfied, while most of the other respondents were neither satisfied nor dissatisfied. Only 13% indicated any dissatisfaction with snack bar pricing.
5. When asked “how much additional green fees would you be willing to pay if the money was invested back into the property” the top responses were as follows:
  - \$2 to \$4 (66 responses - 33%)
  - \$2 to \$4 (31 responses - 16%)
  - \$2 to \$4 (10 responses - 5%)
  - Not willing to pay more (64 responses – 33%)
  - I will pay whatever the fees are (25 responses - 13%)
6. When asked about the most important barriers to playing more golf at Enger Park, the six most common responses were (only choices with more than 20 responses):
  - Lack of free time (86 responses)
  - Golf course is too congested (35 responses)
  - Fees too expensive (33 responses)
  - Spouse or significant other doesn't play (23 responses)
  - Round of golf takes too long (20 responses)
  - Friends play at another course (20 responses)
7. Survey respondents were also asked to voice their opinions in an open-ended comments section. These comments further show the general approval of the facility, especially the staff. Among the most common items identified as being in need of improvement at Enger Park were: (1) improving the clubhouse; (2) improving course conditions (especially drainage and bunkers); and (3) sending the beverage cart out more often.

## Lester Park GC Survey

The NGF received 143 responses to the Lester Park GC survey. Of these responses, 78 were from season pass holders (55%), 13 were from patron card holders (9%) and the remaining 52 (36%) coming from daily fee players. The general findings and a table showing the ratings follow:

<b>Lester Park Golf Course 143 Responses (9/13/2011 – 10/8/2011)</b>		
<b>Factor</b>	<b>Average Score (Scale 1-5)</b>	<b>Percentile*</b>
Overall Customer Satisfaction	7.6	16
Satisfaction compared to expectations	7.2	9
Satisfaction compared to other courses	7.3	37
Likelihood to play more	6.3	N/A
Likelihood to recommend	7.6	15
* Measured on a scale of 0 to 100, this number represents the percent of golf facilities that received lower customer ratings on this measure than the subject facility compared to other golf courses in U.S.		

<b>Lester Park Golf Course 143 Responses (9/13/2011 – 10/8/2011)</b>		
<b>Factor</b>	<b>Average Score (Scale 1-5)</b>	<b>Percentile*</b>
Overall Value	7.6	39
Overall Course Conditions	6.9	11
Pace of Play	7.4	53
Friendliness/Helpfulness of Staff	9.0	86
Golf Course Design / Layout	8.1	30
* Measured on a scale of 0 to 100, this number represents the percent of golf facilities that received lower customer ratings on this measure than the subject facility compared to other golf courses in U.S.		

## Summary of Findings

1. Lester Park golfers that responded to the survey also show a lower level of overall customer satisfaction than is typical for other golf facilities nationwide (at all price categories). In all, the survey showed that 81% of Lester Park golfers made a positive referral about the course and that the average Lester Park golfer referred 4.9 other golfers to the facility. By comparison, only 7% of Lester Park golfers made negative referrals, with an average of 3.2 negative referrals.
2. The profile of the Lester Park golfer is predominantly male (87%) and much older (66% over 50) than the national benchmark (total U.S. is 85% male and 50% over 50). Over 46% of respondents indicated they played a total of over 25

rounds of golf annually. The survey group is also very local with the majority (83%) originating in just four ZIP Codes: 55804, 55803, 55811 and 55812. The map displaying the origin of customers is displayed in **Appendix xx** to this report.

3. Our surveys show that other golf facilities utilized by this survey group include (in order of importance – all with more than 10%): Enger Park GC (also City of Duluth), Nemadji GC, Giants Ridge GC, Black Bear GC, Hidden Greens North and Superior National at Lutsen.
4. When asked directly about their level of satisfaction with the level of snack bar selection, 67% indicated they were “somewhat” or “very” satisfied, while most of the other respondents were neither satisfied nor dissatisfied. Only 5% indicated any dissatisfaction. There were similar responses to snack bar pricing with 57% indicated they were “somewhat” or “very” satisfied, while most of the other respondents were neither satisfied nor dissatisfied. Only 7% indicated any dissatisfaction with snack bar pricing.
5. When asked “how much additional green fees would you be willing to pay if the money was invested back into the property” the top responses were as follows:
  - \$2 to \$4 (43 responses - 30%)
  - \$2 to \$4 (21 responses - 15%)
  - \$2 to \$4 (9 responses - 6%)
  - Not willing to pay more (39 responses – 27%)
  - I will pay whatever the fees are (31 responses - 22%)
6. When asked about the most important barriers to playing more golf at Lester Park, the four most common responses were (only choices with more than 18 responses):
  - Lack of free time (71 responses)
  - Spouse or significant other doesn’t play (23 responses)
  - Golf course is too congested (19 responses)
  - Fees too expensive (18 responses)
7. Survey respondents were also asked to voice their opinions in an open-ended comments section. These comments further show the general approval of the facility, especially the staff, the site and scenery. Among the most common items identified as being in need of improvement at Lester Park were: (1) adding alcohol sales to the property; (2) improving the clubhouse; (3) ending the excess use of single-rider carts; and (4) improving course conditions (tees and fairways mentioned most).

## SUMMARY – CITY OF DULUTH MUNICIPAL GOLF OPERATIONS

The Duluth municipal golf system appears to be a good quality municipal golf system with many parts that appear to work well together. The Enger Park Golf facility includes outstanding amenities at a desirable location and has a regional reputation for high quality and high activity. The Lester Park Golf Course offers a nice complement to the Enger Park Golf Course, but we note that the third “Lake” 9-hole course is highly varied from the rest of the property.

### Summary Financial Performance 2008-2010

The table that follows shows a summary of financial performance of the Duluth municipal golf system from the perspective of each revenue center. Although this method is not used by the City in its accounting of the golf enterprise, the NGF has reorganized the financials into this format for a more “at-a-glance” view of the system and its income production from the perspective of each revenue center.

City of Duluth Golf Operations Combined Summary (Lester + Enger Park 2008 – 2010)					
	2008	2009	% Chg 2008-09	2010	% Chg 2009-10
Revenue					
Annual Passes	\$454,732	\$457,874	0.7%	\$454,149	-0.8%
Green Fees	571,607	614,368	7.5%	606,690	-1.2%
Cart Fees	285,350	295,051	3.4%	304,506	3.2%
Range Revenue	62,848	71,213	13.3%	69,063	-3.0%
Food & Beverage	295,476	300,580	1.7%	298,553	-0.7%
Merchandise Sales	199,223	215,445	8.1%	215,445	0.0%
Other Revenue	13,662	0		19,012	
<b>TOTAL REVENUE</b>	<b>\$1,882,898</b>	<b>\$1,954,531</b>	3.8%	<b>\$1,967,418</b>	0.7%
Cost of Goods	\$282,834	\$316,430	11.9%	\$307,969	-2.7%
<b>Gross Profit</b>	<b>\$1,600,064</b>	<b>\$1,638,101</b>	2.4%	<b>\$1,659,449</b>	1.3%
Expenses					
Course Maintenance	\$417,610	\$485,329	16.2%	\$629,621	29.7%
Golf Operations	\$374,846	\$278,162	-25.8%	\$292,576	5.2%
General & Administrative	\$561,223	\$576,385	2.7%	\$557,623	-3.3%
<b>TOTAL Expenses</b>	<b>\$1,353,678</b>	<b>\$1,339,876</b>	-1.0%	<b>\$1,479,820</b>	10.4%
Other Items					
Depreciation	\$147,121	\$147,121	0.0%	\$131,367	-10.7%
City Allocation Expense	64,900	66,800	2.9%	66,800	0.0%
Bond Interest	22,873	19,083	-16.6%	14,828	-22.3%
Bond Amortization	5,850	5,851	0.0%	5,851	0.0%
<b>TOTAL Other Items</b>	<b>\$240,744</b>	<b>\$238,855</b>	-0.8%	<b>\$218,846</b>	-8.4%
<b>Net Operating Income (loss)</b>	<b>\$5,642</b>	<b>\$59,370</b>		<b>(\$39,217)</b>	

# External Factors Affecting the Duluth Municipal Golf Operation

To appropriately assess the activity levels and potential market opportunities for the various elements of the Duluth municipal golf operation, the environment in which the golf facilities operate must be understood. Therefore, it is helpful to examine local economic and demographic trends, as well as other factors, that have the potential to impact rounds played and revenues earned. This overview will include an analysis of the area's demographics, as well as a brief discussion of the local economy. In the second part of this section we provide an analysis of key golf market demand and supply indicators and a review of the competitive public golf market in the Duluth area.

## DEMOGRAPHICS SUMMARY

Summary Demographics						
	Enger Park			Lester Park		
	3 mi	5 mi	10 mi	3 mi	5 mi	10 mi
Population 1990 Census	37,431	83,457	129,224	10,011	27,557	77,561
Population 2000 Census	37,019	84,960	131,878	10,089	27,829	78,685
CAGR 1990-2000	-0.11%	0.18%	0.20%	0.08%	0.10%	0.14%
Population 2010 Estimate	35,673	83,873	131,081	9,959	27,711	78,263
CAGR 2000-2010	-0.37%	-0.13%	-0.06%	-0.13%	-0.04%	-0.05%
Population 2015 Projected	37,725	85,444	132,902	9,899	27,271	80,413
CAGR 2010-2015	1.12%	0.37%	0.28%	-0.12%	-0.32%	0.54%
Median HH Inc	\$29,889	\$35,892	\$41,782	\$60,425	\$63,981	\$42,977
Median Age	35.0	34.1	36.7	41.6	37.8	35.4
	Duluth MSA		MN		U.S.	
Population 1990 Census	269,230		4,375,085		248,710,012	
Population 2000 Census	275,486		4,919,479		281,421,906	
CAGR 1990-2000	0.23%		1.18%		1.24%	
Population 2010 Estimate	275,247		5,278,338		308,332,907	
CAGR 2000-2010	-0.01%		0.71%		0.92%	
Population 2015 Projected	277,539		5,471,485		322,581,814	
CAGR 2010-2015	0.17%		0.72%		0.91%	
Median HH Inc	\$44,074		\$57,371		\$51,627	
Median Age	39.9		37.4		37.1	
CAGR = Compound Annual Growth Rate						
Source: NGF Consulting, Tactician Corporation, Applied Geographic Solutions						

From the data collected for this study, NGF Consulting has made the following observations regarding the demographics of Duluth and surrounding areas:

- The greater Duluth area has shown stable population since 1990. The NGF estimates 35,673 reside within three miles of Enger Park, and almost 83,873 within 10 miles. Lester Park's residential pool is slightly smaller, with only 9,959 within three miles and 78,263 within ten.
- Median household incomes in the Enger Park trade area are lower than national figure of \$51,627, but the Lester Park markets show considerably higher incomes than the U.S. figures. The 5-mile Lester Park market area has the highest income of the sub-markets reviewed, indicating a higher proportion of upper income residents. In general, higher income residents are more likely to participate in golf, and they play more frequently than lower income golfers. Thus the local Lester Park market appears more favorable for high golf participation and activity, when compared to the local Enger Park market.
- The Median Age in the Enger Park local market area is much younger than the national median of 37.1 years, but Lester Park's local markets are higher. In general, golf participation rates and frequency of play increase with age (though both decline at the oldest age segments), making relatively older markets more attractive to golf facility operators, all other factors being equal.

## ECONOMIC OVERVIEW

In addition to identifying trends in golf course demand and supply, the NGF has examined certain economic indicators and other mitigating factors that have the potential to affect the performance of the City of Duluth golf courses. Following are some key observations highlighting the broader economy, transportation, and visitation characteristics of Duluth and the surrounding MSA: St. Louis and Carlton Counties in Minnesota, and Douglas County in Wisconsin. The overall findings are viewed as mixed for the region overall, while the Duluth golf market does seem to show many positive characteristics related to continued operation of City of Duluth golf courses.

It is unclear what effects the troubled regional and national economies will have on activity levels at public courses. On one hand, decreased discretionary income and the plunging values of many stock portfolios, retirement accounts, and homes will almost certainly cut down on recreational / leisure spending. However, interviews with area golf operators indicate that golfers are either playing less or shifting play patterns to less expensive rounds, which actually could benefit lower price point municipal golf courses.

## Duluth MSA

- The Duluth MSA is home to about 279,771 people, ranking as the fourth largest metropolitan area in Minnesota and the second largest on Lake Superior.
- The Duluth/Superior Metropolitan Statistical Area (MSA) is comprised of St. Louis and Carlton Counties in Minnesota and Douglas County in Wisconsin (2010 Census 279,771). Located on the western edge of Lake Superior, the area serves as a major transportation center for the transshipment of coal, taconite, agricultural products, steel, limestone, and cement.



- The international "Twin Ports" of Duluth and Superior form the hub of economic and cultural activity, but there are dozens of interrelating communities across the MSA, each with unique strengths, resources and opportunities for development.
- In recent years, the region has become a popular tourist destination and a convenient base for scenic trips along the North Shore via Highway 61.

### Climate

- The Duluth area climate is predominantly "continental," with cooler summer temperatures and winter temperatures warmer than other areas of the upper Midwest. Its location at the tip of Lake Superior has significant influence on the climate. Annual precipitation average is 30 inches of rain and 80.5 inches of snow. As a result, golf is generally limited to the May through October season each year, with very limited activity in other months.

### Basic Economy

- Duluth's largest employer is SMDC Health System/Essentia Health, which serves a regional population of 460,000 in northeastern Minnesota, northwestern Wisconsin and Michigan's Upper Peninsula. Other top employers include the University of Minnesota Duluth, Allete (Minnesota Power), Cirrus Design, City, County, and Federal government, and public school education.
- There are 166 public and private K-12 schools within a 60 mile radius of Duluth.
- The University of Minnesota Duluth supports the food industry with its technology for extracting and isolating compounds from natural resources.
- The City's harbor welcomes over 1,000 ocean-going and Great Lakes freighters annually. Interlake cargoes of iron, grain, coal and stone combine to make this the top port on the Great Lakes with a total of \$250 million in economic impact.
- The total unemployment rate in the Duluth area was reported at 7.4% in August 2011 ([www.positivelyminnesota.com](http://www.positivelyminnesota.com)), a figure considerably lower than the total U.S. unemployment rate of 9.1% in August 2011.

### Tourism

- The website [www.visitduluth.com](http://www.visitduluth.com) estimates total tourist visitors per year to the Duluth area of 3.5 million, generating a \$780 million economic impact.
- Duluth has around 4,600 hotel rooms.
- More than 50 restaurants operate in the downtown area.

### Transportation

- The Duluth International Airport has the second longest runway in Minnesota with a CAT II Instrument Landing System. Along with the Range Regional Airport and Falls International Airport, the region has 18 daily round-trip commercial passenger services. Duluth International serves five major cities.
- There is round the clock customs and border crossing support at three ports of entry at Duluth/Superior, Grand Portage, and International Falls.

- Four Class I railways in the region crisscross North America.
- The highway/Interstate system into and out of the area provides border-to-border shipment of goods.
- Around-the-clock customs, freight forwarders and shipping agents at each port of entry, plus two prominent overnight carriers in Duluth are essential components to serving businesses that require next day shipment.

### Stress Index

The following table shows the “economic stress index” for St. Louis County. The data shows factors identified in July 2011 indicate that all key “stress” factors are elevated in St. Louis County.

<b>Economic Stress Index – St. Louis County, MN</b> <b>The Combined Impact of</b> <b>Unemployment, Foreclosures, and Bankruptcy</b>			
	<b>July 2011</b>	<b>Annual Point Change</b>	<b>October 2007</b>
Stress Index	8.64%	0.01	5.62
Unemployment	7.3%	0.0	4.8
Foreclosure	0.66%	0.02	0.40
Bankruptcy	0.79%	-0.01	0.46
Source: © Associated Press Interactive Economic Stress Index: Measuring Financial Strain by County. The recession began in December 2007			

## GOLF MARKET SUPPLY AND DEMAND INDICATORS

The basic measures of golf demand and supply that may affect the performance of City of Duluth golf courses are outlined below.

### National Trends in Golf

#### Participation

Golf participation in the U.S. has grown from 3.5% of the population in the early 1960s to about 9.2% of the population today. NGF estimates that about 26.1 million golfers ages 6 and above reside in the U.S. Other surveys completed outside the golf industry show the number of people who “identify themselves as golfers” is as high as 45 million, indicating a large potential “latent” demand from very inactive golfers.

Over the past 50 years, golf demand grew at about 4% per year while facility supply grew at about 2% per year. However, since 1990, the situation has reversed – demand has grown at only 0.5% per year while facility supply has grown at 1.4% per year. With the increase in supply, we are seeing a marked increase in competition, and the supply is greater than the demand in some markets.

In addition to increased competition, four other factors have contributed to a decline in the number of rounds per course nationally during the 2002 to 2010 period. These include: 1) an uneven national economy; 2) recent reductions in corporate spending on golf; (3) significant

reductions in the traveling golfer market; and 4) the increasing time pressure on individuals and families.

The number of golf course closings quadrupled from an annual average of 24 courses per year in the 1993-2001 time period to more than 100 courses in 2005. In 2006, there was negative net growth in golf facilities for the first time in six decades, with 146 18-hole equivalents closing and 119.5 opening. In 2007, there were 113 openings and 121.5 closures, and in 2008, 72 golf course openings and 106 closures. In 2009, 49.5 openings minus 139.5 closures equated to a net loss of 90 18-hole equivalents. Closures continue to be disproportionately public, stand-alone 9-hole facilities or short courses (executive or par-3 length) with a value price point. Net growth in supply has been negative now for four consecutive years, with the largest drop of 90 courses in 2009. However, U.S. openings averaged 200+ (net) for 20 years, and total 18-hole equivalent supply is up 5% since 2000, indicating a slow market correction is underway. NGF reports 2010 net growth was negative 61 (18-hole equivalents) (openings minus closings). The state of Minnesota saw 3 (18-hole equivalent) closings and no golf course openings in 2010. At December 2010, no new golf projects were on the horizon throughout the whole state.

U.S. rounds decreased 3.3% for the year through August 2011, while the West North Central Region decreased 7.1%. In terms of the total number of rounds produced, NGF estimates that national rounds experienced an overall drop from 2000 to 2010 of -9.5%.

## Local Golf Demand

The methodology for determining the relative strength of the subject market is based on ongoing NGF research of American golf participation habits. The NGF Golf Demand Model includes the critical combination of age and income, regional seasonality, and available golf course supply, as well as existing and emerging demographic trends in a particular market area. This model can be used as a benchmark for estimating potential market strength in a particular area. Each year, the NGF does an annual survey of golfers nationwide. The results of this survey allow NGF to make accurate predictions concerning demand, participation, and golf spending. The results for the local areas are posted below:

Golf Demand							
Golf Demand Indicators	Enger Park			Lester Park			
	3 mi	5 mi	10 mi	3 mi	5 mi	10 mi	
	# of Golfing Households	2,764	7,168	11,321	876	2,619	6,457
	Number of Rounds Played	36,114	98,608	161,632	13,302	39,931	91,434
	Retail Indicators						
Golfing Fees	\$1,238,331	\$3,581,351	\$5,899,051	\$456,118	\$1,369,212	\$3,141,443	
Hard Goods Spending	\$201,766	\$550,923	\$903,042	\$74,319	\$223,096	\$510,843	
Soft Goods Spending	\$129,706	\$354,161	\$580,517	\$47,777	\$143,418	\$328,396	
Golf Demand Indicators	Duluth MSA		MN		U.S.		
	# of Golfing Households	23,968	450,888		21,237,600		
	Number of Rounds Played	367,677	6,693,520		498,831,616		
	Retail Indicators						
	Golfing Fees	\$13,422,060		\$269,428,192		\$20,179,122,176	
Hard Goods Spending	\$2,054,216		\$37,400,156		\$2,794,251,520		
Soft Goods Spending	\$1,320,553		\$24,042,702		\$1,796,280,960		
Source: National Golf Foundation							

Key observations from the above tables include:

- The Duluth MSA is home to an estimated 24,000 golfing households capable of producing over 367,000 rounds of golf and over \$13,000,000 in golf spending annually.
- Merchandise sales reflect all merchandise purchases, including those at retail stores, discount stores, and over the Internet.

In order to make comparisons more meaningful, NGF indexes are used to compare the above values against a national mean, which is set at Index=100. An index value of 90 means 10% less than the national average, while an index value of 110 means 10% more than the national average.

<b>Golf Demand Indices</b>						
	<b>Enger Park</b>			<b>Lester Park</b>		
	<b>3 mi</b>	<b>5 mi</b>	<b>10 mi</b>	<b>3 mi</b>	<b>5 mi</b>	<b>10 mi</b>
Index: Golfing Households	89	106	110	114	123	109
Index: Rounds Played by Residents	50	62	67	73	80	65
Index: Rounds Played Locally (less than 50 mi)	45	57	63	69	77	62
Index: Rounds Played Regionally (50-200 mi)	50	61	66	99	83	66
Index: Rounds Played on Vacation (more than 200 mi)	76	100	101	16	96	93
Index: Rounds Played at Seasonal Home	65	81	80	11	70	72
Index: Golfing Fees	42	56	60	62	68	56
Index: Hard Goods Spending	50	62	67	73	80	65
Index: Soft Goods Spending	49	62	67	73	80	65
	<b>Duluth MSA</b>		<b>MN</b>		<b>U.S.</b>	
Index: Golfing Households	110		116		100	
Index: Rounds Played by Residents	72		73		100	
Index: Rounds Played Locally (less than 50 mi)	74		73		100	
Index: Rounds Played Regionally (50-200 mi)	64		67		100	
Index: Rounds Played on Vacation (more than 200 mi)	96		106		100	
Index: Rounds Played at Seasonal Home	83		84		100	
Index: Golfing Fees	65		73		100	
Index: Hard Goods Spending	72		73		100	
Index: Soft Goods Spending	72		73		100	
Source: National Golf Foundation						

- Almost tree-fourths (74%) of the rounds played by area households are done locally.
- Area golf participation is 10% higher than the U.S. (Index=110), but pretty uniform across the area, with the exception of the local 3-mile market around Enger Park (Index=89).
- While participation is higher than the national average, the number of rounds played per person is 28% lower (Index=72) than the national average, reflecting the shorter season.
- Notably, the golf fees are about 35% lower (index=65) than the national average in the local Duluth market, but 27% lower in the overall State of Minnesota (Index=73).

## Golf Supply Factors

The NGF has counted a total of 34 golf facilities (29 public and 5 private) within the broader Duluth MSA in 2011. Utilizing this data in conjunction with the demographics presented earlier, we note the following comparison of golf facility supply to the number of households available in the market to support each facility. The data shows that the Duluth MSA market has 42% fewer households (Index=58) per 18 holes of golf (unfavorable).

Golf Facility Supply						
	Enger Park			Lester Park		
	3 mi	5 mi	10 mi	3 mi	5 mi	10 mi
Total Golf Facilities	1	1	8	1	3	4
Public Golf Facilities	1	1	6	1	1	2
Private Golf Facilities	0	0	2	0	2	2
Total Golf Holes	27	27	153	27	63	90
Public Golf Holes	27	27	117	27	27	54
Private Golf Holes	0	0	36	0	36	36
	Duluth MSA			MN		U.S.
Total Golf Facilities	34			479		15,902
Public Golf Facilities	29			428		11,633
Private Golf Facilities	5			51		4,269
Total Golf Holes	477			7,416		268,443
Public Golf Holes	405			6,543		191,214
Private Golf Holes	72			873		77,229
Source: National Golf Foundation						

Household Supply Ratios						
Household/Golf Supply Indicators	Enger Park			Lester Park		
	3 mi	5 mi	10 mi	3 mi	5 mi	10 mi
Households per 18 Holes: Total	11,208	24,398	6,575	2,795	3,304	6,466
Households per 18 Holes: Public	11,208	24,398	8,598	2,795	7,709	10,777
Households per 18 Holes: Private	NA	NA	27,942	NA	5,782	16,165
Households Supply Index: Total	145	316	85	36	43	84
Households Supply Index: Public	103	225	79	26	71	99
Households Supply Index: Private	0	0	104	0	22	60
	Duluth MSA		MN		U.S.	
Households per 18 Holes: Total	4,455		5,128		7,733	
Households per 18 Holes: Public	5,247		5,812		10,856	
Households per 18 Holes: Private	29,517		43,561		26,879	
Households Supply Index: Total	58		66		100	
Households Supply Index: Public	48		54		100	
Households Supply Index: Private	110		162		100	
Source: National Golf Foundation						

## Recent Construction Activity

There have been no new holes of golf added in any of the local markets in the past ten years.

Golf Course Construction Activity, 2001 - 2010						
Golf Course Construction Activity	Enger Park			Lester Park		
2001-2010	3 mi	5 mi	10 mi	3 mi	5 mi	10 mi
Total holes added past 10 years	0	0	0	0	0	0
Public holes added past 10 years	0	0	0	0	0	0
Private holes added past 10 years	0	0	0	0	0	0
Percent Total Holes Added	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Percent Public Holes Added	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Percent Private Holes Added	NA	NA	0.00%	NA	0.00%	0.00%
	Duluth MSA		MN			U.S.
Total holes added past 10 years	63		675			24,318
Public holes added past 10 years	54		621			17,469
Private holes added past 10 years	9		54			6,849
Percent Total Holes Added	13.20%		9.10%			9.10%
Percent Public Holes Added	13.30%		9.50%			9.10%
Percent Private Holes Added	12.50%		6.20%			8.90%
Source: National Golf Foundation						

## Facilities in Planning or Under Construction

NGF research indicates no new golf courses presently in planning for the 10-mile market area as of September 2011.

## Golf Course Market Supply / Demand Summary

Using the most basic measures of golf demand and supply, the Duluth area appears to be a “saturated” market, with a mostly lower-than-average number of households (relative to national benchmarks) available to support existing golf courses, and a lower level of golf demand per household. However, though the predictive demand model and supply ratio analysis is very useful in evaluating the relative strength of golf markets, it cannot stand on its own in determining the status or health of a golf market. Rather, these analyses must be considered in the context of what is actually happening “on the ground” in the market, in terms of price point and activity level trends at existing golf courses.

## COMPETITIVE GOLF MARKET

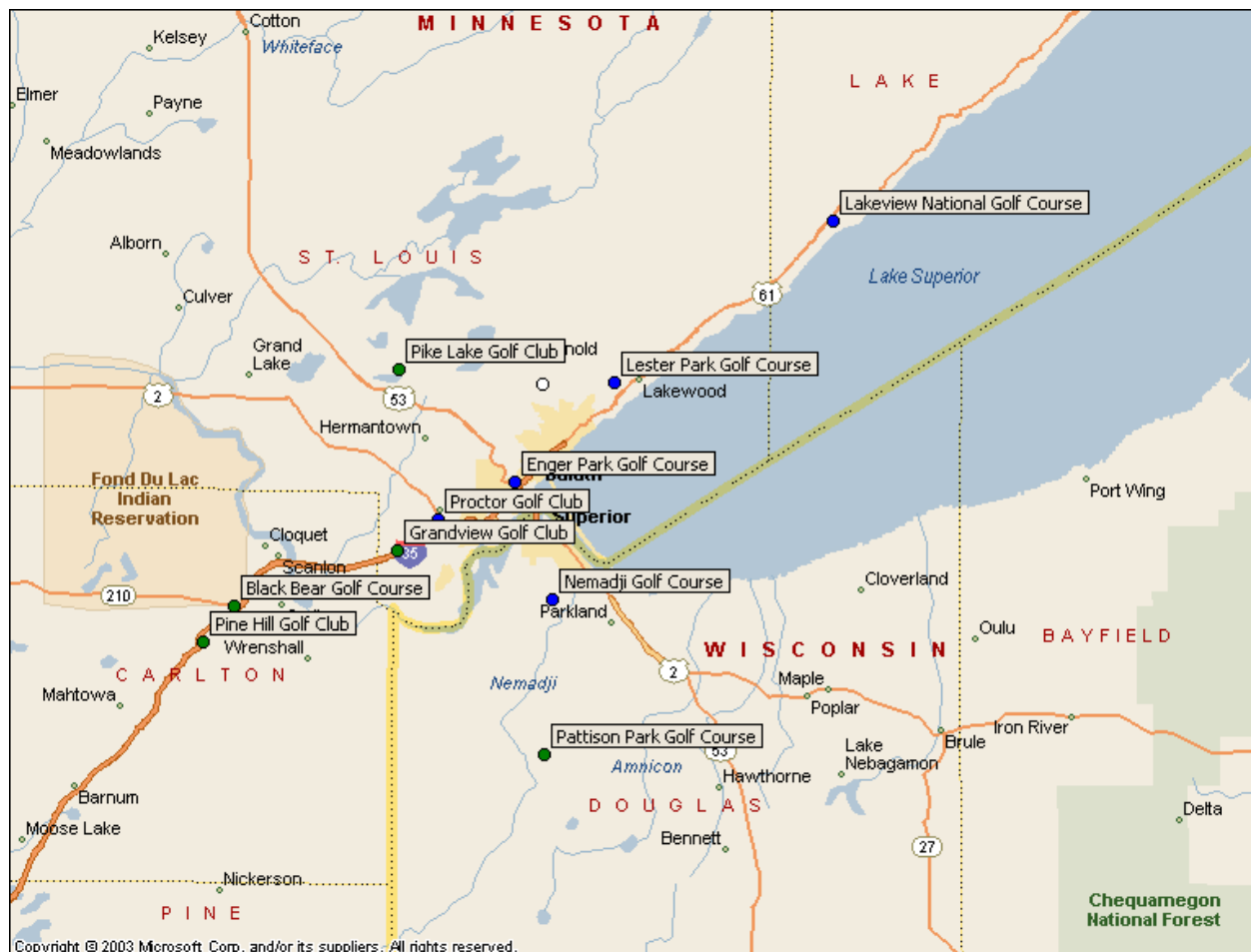
NGF Consulting has analyzed the public access golf market in the Duluth primary trade area, with particular emphasis on determining the facility’s current market position and prospects for sustaining and/or building market share in the future.

On the following pages, we list summary operating information for those public golf facilities that NGF has identified as the key competitors for the municipal golf operations in Duluth. The facilities listed were chosen based on interviews with Enger Park and Lester Park management and other market golf operators, as well as factors such as facility type, quality, location, and price points.

There are nine public golf facilities within a 25-mile radius of the two courses, which we will define as the Primary Market Area. Of these, one is a 36-hole facility in Superior (Nemadji), two are 27-hole complexes (Enger and Lester), two are 18-hole regulation courses (Lakeview and Black Bear), one is a 9-hole regulation course (Grandview) and four are nine-hole executive length courses (Pine Lake, Proctor, Pattison and Pine Hill). Combined, the courses average \$33.70 to play during the week (cart and green fee) and \$34 on weekends. Surprisingly, only two courses (Grandview and Pine Hill) have higher green fees on weekends than on weekdays.

The relative location of Duluth and these facilities is illustrated on the map below.

### Public Golf Facilities Map – Primary Competitors





## Competitive Assessment Review – Primary Competitors

The following tables show summary operating information for Duluth golf courses and those public facilities that NGF Consulting has identified as the facility's primary competitors.

Summary Information – Duluth Golf System Primary Competitors						
Facility	Type	Location	Year Open	Par / Slope	Back Tee / Forward Tee	Architect
Lester Park GC	MU-27	Duluth	1934	72 / 144*	6,371 / 5,582*	
Enger Park GC	MU-27	Duluth	1992	72 / 138	6,527 / 5,159	Rick Phelps
Nemadji Golf Club East West	MU-18	Superior WS	1984	72 / 130	6,774 / 4,978	Don Herfort
Nemadji Golf Club North South	MU-18	Superior WS	1932	71 / 119	6,319 / 4,898	Stanley Pelcher
Lakeview National GC	DF-18	Two Harbors		72 / N/A	6,773 / 5,364	
Pike Lake Golf Course	DF-9 E	Duluth	1921	64 / 94	4,308 / 3,242	
Grandview Golf Club	DF-9	Duluth	1928	72 / N/A	5,306 / 4,350	Freddy Hendrickson
Black Bear Golf Club	DF-18	Carlton	2003	72 / 137	6,560 / 5,072	Robert Graves
Proctor Golf Club	MU-9	Proctor WS		66 / N/A	4,224 / N/A	
Pattison Park GC	MU-9 E	Superior WS		62 / N/A	4,112 / 3,696	
Pine Hill Golf Club	DF-9 E	Carlton	1996	62 / 90	3,890 / N/A	Bob Kelley
*Slope and distances are from the longest combination of tees (1 & 19), and include the Lake 9 at Lester Park. **Also has 9-hole par-3 course KEY: MU – Municipal DF – Daily Fee SP – Semi-Private E – executive course						

The NGF has focused on those courses that are most comparable to Enger Park and Lester Park. These would be the two courses at Nemadji and Black Bear. Two Harbors would be in that group, but they have been in such terrible condition and are further out from the population center, that they get very little play. Nemadji is clearly the most direct competitor. These courses are similar in nature to both Enger and Lester and their prices and target markets are similar.

This table provides general comparative and summary fee and rounds played information for the primary competitors, as defined previously.

<b>Primary Competitive Golf Facilities – Summary Rounds Played and Fee Information</b>								
<b>Golf Course</b>	<b>2010 Rounds Played</b>	<b>2011 Weekday 18- Hole Green Fee</b>	<b>2011 Friday 18-Hole Green Fee</b>	<b>2011 Weekend 18- Hole Green Fee</b>	<b>Twilight Rate</b>	<b>18H Cart Fee</b>	<b>Family Dues</b>	<b>Single Dues</b>
Lester Park GC	39,400	\$30.00	\$30.00	\$30.00	\$30.00	\$15.00	\$1,040	\$650
Enger Park GC	49,300	\$30.00	\$30.00	\$30.00	\$30.00	\$15.00	\$1,040	\$650
Nemadji GC East West	33,000	\$27.00	\$27.00	\$27.00	\$20.00	\$12.00	\$1,000	\$600
Nemadji GC North South	33,000	\$27.00	\$27.00	\$27.00	\$20.00	N/A	\$1,000	\$600
Lakeview National GC	24,000	\$10.00	\$10.00	\$10.00	\$15.00	\$10.00	DNA	DNA
Pike Lake Golf Course	18,000	\$26.00	\$26.00	\$26.00	DNA	N/A	DNA	DNA
Grandview Golf Club	N/A	\$20.00	\$20.00	\$21.00	DNA	\$12.00	DNA	DNA
Black Bear Golf Club	22,000	\$49.00	\$49.00	\$49.00	\$35.00	N/A	\$999	\$949
Proctor Golf Club	N/A	\$20.00	\$20.00	\$21.00	DNA	\$12.00	DNA	DNA
Pattison Park GC	N/A	\$17.00	\$17.00	\$17.00	DNA	\$7.50	DNA	DNA
Pine Hill Golf Club	16,000	\$17.00	\$17.00	\$18.00	DNA	\$7.50	DNA	DNA
<b>Average Rounds* /Fees</b>	<b>28,522</b>	<b>\$24.60</b>	<b>\$24.60</b>	<b>\$24.90</b>	<b>\$25.00</b>	<b>\$9.75</b>	<b>\$1,015.80</b>	<b>\$689.80</b>
<b>KEY</b> *NGF Consulting estimate. Average rounds per 18 holes. N/A – Not Available DNA – Does not apply								

## Significant Findings – Key Competitors

NGF Consulting research indicates the following significant findings for the Duluth area public access golf market:

- **Age:** Black Bear is by far the newest course, having opened in 2003. This is important as golfers tend to prefer more modern courses, given comparable fees.
- **Tees:** Both courses at Nemadji have five sets of tees. This gives them an advantage as it allows them to appeal to a wider market.
- **Length:** Nemadji East-West is the longest course at 6,774 yards, followed by Black Bear at 6,560. This is relevant for two reasons. First, lower handicap golfers tend to prefer to play from at least 6,700 yards. This means that at present, only Nemadji EW meets these criteria. Secondly, golfers tend to equate distance with difficulty and, to a lesser extent, quality. This is most important for tourists and others not familiar with the local courses. They will look at the back yardage (which is often the only information available and use it to judge the courses. Any golf course with less than 7,000 yards is judged as being “short” by modern standards. As a result, even though only 4% of players play from that distance, most golfers will use it to judge a course. Lester Park and, depending on which nines are used, Enger Park, is at a competitive disadvantage in this area.
- **Forward Tees:** Women, who on average hit the ball 80% as far as men, are most comfortable with yardages under 5,000. Again Nemadji has an advantage as both their courses are less than 5,000 yards from the forward tee, while both Lester and Enger are over 5,150 yards.
- **Cart Fee:** The average ½ cart fee for the five courses is \$13.60. The City charges \$15, which is the highest in the area.
- **Green Fees:** The average green fee is \$29.80. City courses are at \$30, \$3 higher than Nemadji, but less than the \$35 at Black Bear. None of the courses charge more on weekends.
- **Annual Passes:** Black Bear charges \$949 for a single annual pass, which is substantially higher than the other two facilities. The City courses charge \$650 and Nemadji \$600. Assuming 35 rounds per pass, the City courses average \$18.57 per pass round, compared to \$17.14 for Nemadji and \$27.11 for Black Bear.
- **Rounds:** Nemadji reported doing 60,000 rounds last year, or an average of 30,000 rounds per 18 holes. Lester Park did about 39,400 total rounds, which works out to 26,267 per 18 holes. Enger, which did close to 49,300 rounds, averages 32,867 per 18 holes, making it the busiest course in the region. Black Bear rounds are estimated at 22,000 rounds in 2010.
- **Maintenance:** Nemadji spends \$650,000 per year on course maintenance, an average of \$325,000 per 18 holes. Enger Park spent \$331,000 last year, a considerable increase from previous years. Yet this averages out to being \$220,000 per 18 holes. Lester Park spent \$298,500 on maintenance, which is equivalent to \$199,000 for 18 holes. It is estimated that Black Bear spends at least \$425,000 on its 18hole course. Clearly the City is spending much less per 18 holes to maintain its courses.

## EXTERNAL FACTORS SUMMARY

Some summary points about the overall market environment within which the City of Duluth golf courses are operating, and factors affecting these golf operations that are generally uncontrollable by the golf courses and the City include:

- National trends in the golf industry are generally not favorable for operators. The total number of “core” golfers is declining and total spending on golf is declining along with them, while the total number of golf facilities has expanded in the last ten years, leading to a decline in per-course rounds and revenues. The NGF has also documented a rapid inflation in expenses to operate golf facilities nationwide.
- Among the keys to growth in golf activity will be increasing participation among minorities and females. Beginner-type facilities can be helpful in meeting this challenge, and both Enger Park and Lester Park generally meet these criteria with some of the 9-hole configurations.
- The local Duluth area demographics show a relatively small and stable population that tends to be older than the rest of Minnesota and the U.S. The immediate sub-markets surrounding each golf course are quite different from each other with Enger Park showing a younger and lower-income population, while the Lester Park area market has an older population with higher-than-average incomes.
- Despite recent declines, data collected by NGF show some favorable attributes related to economic activity in Duluth that can translate to high golf activity. These include lower-than-average unemployment, growing tourism, convenient transportation infrastructure, and residential home pricing more stable than other areas of the U.S.
- The golf market in the greater Duluth area is highly weather dependent, with length of winter and rain-out days in summer playing a key role in revenue generation.
- The overall golf market in the Duluth MSA area is somewhat large, with upwards of 24,000 golfers potentially demanding 367,000 rounds and spending over \$13.0 million on golf annually. Overall participation in golf is predicted to be higher than average in the Duluth market, but actual participation may be slightly lower, indicating a somewhat “inactive” golf population.
- There are relatively few competing full-length, 18-hole golf courses in the immediate market area, but several facilities stand out as offering competition to the Duluth golf system overall. These include the Nemadji courses in Superior and Lakeview National in Two Harbors. The overall ratio of households to golf courses is unfavorable in the Duluth market, but more is needed to stimulate greater activity from the “inactive” households as noted.
- The City of Duluth golf courses generally compare favorably to their immediate competition with higher fees and higher rounds activity. The two Duluth courses are the most active golf facilities in the market area in terms of rounds played.

# Summary of NGF Consulting Recommendations

NGF Consulting has prepared a schedule of recommendations for the continued operation of the Duluth golf courses. These recommendations have been organized into three main categories: (1) Basic oversight and structure; (2) Physical Improvements; and (3) Operational Recommendations. In the chapter following these recommendations, NGF Consulting will display the potential financial impact of enacting all of these recommendations.

## SUMMARY DISCUSSION

In general, Duluth Golf has been well operated and is well received by its patrons. However, it is also clear that there is considerable room for improvement. With the volume Duluth Golf is experiencing, the NGF would expect to see a greater level of profitability. We also feel there may be an opportunity to increase the volume.

However, in order to greatly improve performance, the City will be faced with some very difficult decisions. Both facilities are suffering from age, both on the golf course and with their clubhouses. Without some capital investment the economic performance is likely to decline. Further, the NGF notes that there are also opportunity costs for not investing in the golf courses. That is, how much revenue is the City foregoing because of its poor clubhouses and because the courses cater almost exclusively to area residents.

Another decision facing the City in the near future is the management of the facility. The current management contract is set to expire in a year and the City will have to consider if it wants to continue with the same management structure and/or the same company.

In order to help the City make these important decisions, we will be discussing various factors and options that the City should consider.

## RECOMMENDATIONS ON BASIC OVERSIGHT AND STRUCTURE

The NGF Consulting recommendation for the future operation of the City's golf system (Enger Park Golf Course and Lester Park Golf Course) is based on our understanding of the economic performance of the system and the City's need to maximize economic performance. Before completing this recommendation, the NGF finds it important to review the mission and purpose of the Duluth City golf system.

### Mission Statement

Perhaps the most critical issue is "what is the mission statement for Duluth Golf?" All other decisions need to take this into consideration. It is not clear to us that there is a defined Mission Statement. Some considerations:

1. Are the two golf courses intended to only be amenities to the citizens of Duluth? In which case, they would be treated similar to parks, swimming pools, etc. where the operations are heavily subsidized.
2. As an enterprise fund, they golf courses are supposed to be self-supporting. How important is it to the City that the golf operations be **fully self-supporting (including capital improvements)**? To the extent that profitability is important, the operation will need to function more like a business and less like a park. This, in turn, affects issues such as management, pricing, marketing, etc.
3. Does the City want the golf facilities to be an economic stimulus for the Duluth? There are several ways in which the facility can significantly increase its economic impact. One, if Duluth Golf converted one of the facilities so that it would be more appealing to tourists (resort golf), it could improve tourism to the area, both in bringing new people in and getting existing tourists to stay longer. Secondly, studies have shown that public golf opportunities are important considerations for corporate relocations, as well as residential. Third, improving one or both of the facilities can act as an economic stimulus to the areas around the golf facilities.

In summary, the NGF has crafted its recommendations based on the assumption that the City will seek to have a golf system that is operationally self-supporting and not a burden to City taxpayers. The City appears willing to make some capital investment in the facilities to ensure their economic viability, some of which may not be fully supported by operations.

## Ownership/Management Options

The following section summarizes the options available to the City of Duluth by presenting descriptions of the most typical management options for public sector golf operations, as well as discussion of each option in consideration for the City of Duluth. Before presenting the recommended management arrangement for the City's golf course, NGF Consulting has presented four basic options the City of Duluth could consider for golf facility operations:

1. **Sale or Closure of the Golf Course(s).** The City could sell one (or both) of the golf courses, or close the facilities down entirely.
2. **Continue with Existing Full-Service Management Contract.** Hire a management company to operate all aspects of all City golf facilities (status quo).
3. **Operating Lease.** Lease the facility to a private operator in exchange for an annual (or monthly / quarterly) lease payment to the City.
4. **Hybrid Contract.** A hybrid contract combines some of the advantages of a lease with those of a management contract. These are usually of shorter term (3-5 years) than a lease and should have escape clauses that can be triggered if the operator does not perform up to expectation.

## Selling the Facilities

The NGF was specifically requested by City staff to address the possibility of the City selling one or both of the golf facilities. The NGF review showed that both Lester Park and Enger Park golf courses sit on City Park property, and thus any conveyance may be hindered. Further, there are outstanding tax-exempt bonds that encumber the two facilities making full conveyance even more difficult. Still, the basics of a golf course sale can be evaluated to provide the City a "frame of reference" for use in City planning. **As experienced golf facility consultants, the**

**NGF can state that this is the worst time in history to be trying to sell a golf course.** There are several reasons for this including:

- It is a strong buyers market, meaning that values are greatly depressed. The NGF estimates that there are approximately 500 golf courses currently being marketed for sale in the US.
- There are few qualified buyers, due largely to the limited capital available from banks and other lending institutions for financing golf course purchases.
- Buyers are looking for bargains and there are only so many true golf course sale bargains. As a result there are few willing to pay anywhere close to what the golf course would normally be worth.

Golf courses are typically traded based on economic performance, mostly based on revenues. There are two key ratios that are often used. First is Net Operating Income (assuming it is positive) with a sales trade ratio of value to NOI at between 8 or 10 to 1. Based on 2010 numbers, this would place the value of the combined facilities between \$1,940,000 and \$2,450,000.

The other ratio used total revenue. Recently, the NGF has documented actual sales transactions of golf courses trading in the 2.5 to 1 down to 1.5 to 1 or worse, depending on trends. Using a conservative 1.25 ratio, we have an estimated value for the combined facilities to be \$2,500,000. Of course the scenery would add value, but the fact the season is so short is detrimental. Hurting it even more is the estimated need for infrastructure repairs that could total \$2.0 million or more just to stabilize the business.

In summary, the NGF does not recommend this course of action at this time. Not only would the City realize very little in return, but Duluth would also be losing a valuable asset with no guarantee that the new vendor would operate or maintain the courses in a manner satisfactory to the City.

### **Closure of one (or both) of the City Golf Courses**

NGF Consulting was hired to help the City of Duluth identify the most viable option for the continued operation of the City's golf courses with its present basic physical structure intact. As such, analyzing the potential benefits of closing the golf course entirely was beyond the scope of this study. The NGF did review possible reduction or re-configuration alternatives in the physical recommendations section later in this chapter of the NGF report.

### **Management Options**

Currently the City is using an outside management company (PGM) to operate the facility. The management contract is supervisory only as the City is still responsible for all the operating expenses. The City also collects all the revenue.

The biggest problem with this type of contract is that there is *no incentive* to improve performance. PGM makes the same whether the City makes money or loses money. Indeed, as more volume usually requires more work, it can be argued there is actually a *disincentive* for producing more rounds. Certainly, this works against better business sense.



The problem, as explained to NGF is that any incentive-based contract could trigger the facilities having to pay property tax, which could be an additional \$250,000 or more expense. If so, this would be a high price to pay for adding an incentive.

### Options:

The NGF offers the following possible options to work within this limitation:

- **User agreement:** The golf management agreement can be modified to a “user” agreement vs. management contract, thus not triggering a property tax clause. The City Attorney should be consulted to see if such an agreement can be constructed.
- **Partial Incentive:** It also may be the case that the management company could “lease” or “use” some of the facilities while “managing” the rest. For example, the City could hire the management company to manage the course and the City would retain all the green fees, but the management company would pay for the golf carts, merchandise and possibly food and beverage and retain these revenue streams. *Again, it is uncertain as to the property tax implications and the City attorney should be consulted.* While this type of agreement does provide an incentive to improve certain areas, the disadvantage is that the agreement would treat different revenue streams to the facility in different fashion. This situation is not favorable for golf facility operations.
- **Reimbursement:** As we understand it, the property tax mostly goes to the County. Perhaps it would be possible, given the economic and social benefit these clubs provide the county, where the County could reimburse the City for the property taxes that are triggered.

### Management Contract

The primary goal of a management contract or management agreement is to provide a golf facility with experienced, professional managers who are responsible for the daily operations, thus relieving the owner (City) of this task. In a typical management contract, the City hires a firm that is charged with all management responsibility (PGM) and the City owns all revenue, expenses and is responsible for capital improvements. Because employees work for the management firm and not the City, payroll cost may be less; thus, the operating expenses may be reduced. Management fees paid as compensation in these agreements typically include a fixed and variable portion (% of revenue or % of revenue increase), with a minimum of about \$50,000 for an 18-hole facility. The NGF would expect the management fee to a private company for the operation of the City of Duluth golf courses would be a minimum of \$50,000 to \$70,000 per facility per year (\$100,000 to \$140,000 for both courses), plus an incentive of between 3% and 6% of total gross revenue.

### Leasing

Another option to consider would be leasing the facilities to a third party operator, possibly even PGM. While this would trigger the property tax clause, an operator may well feel the added expense is worthwhile.

An added advantage to the lease is that this could potentially be a way of funding the needed capital improvements. Many municipalities have given long-term leases to operators in exchange for them making significant capital improvements. In such situations, the lease terms generally have a very low (\$1/year) lease payment, or a revenue sharing agreement that would kick in only after a certain level of revenue is reached.

This certainly would seem a viable option for the City as it could solve two big problems at once—cash flow and capital improvements. The “catch” is that the City needs to pick the right operator and have a lease that will provide the City with protection should the operator “bleed” the lease or allow the facilities to deteriorate (especially towards the end of the lease, which is common).

### Hybrid Contract

A hybrid contract combines some of the advantages of a lease with those of a management contract. These are usually of shorter term (3-5 years) than a lease and should have escape clauses that can be triggered if the operator does not perform up to expectation.

In the hybrid contract, the operator is responsible for all operating expenses, while the municipality is usually responsible for capital improvements. ALL revenue from the facility is pooled and treated equally (green fees, cart fees, net merchandise sales, net food and beverage sales, etc.). The operator would get a certain percentage that would cover the anticipated operating expenses plus a small margin, and the municipality gets the rest.

With this type of agreement, the operator's interests and the City's are aligned, which is ideal. When the operator makes more money, so does the City. If performance declines, the operator suffers as does the City.

Again, like with adding incentives to a standard management contract, the property tax issues would need to be addressed under this type of agreement.

### Overview Discussion

The NGF review of the various operational considerations for the Duluth Golf courses shows that two of the four options presented are probably not the best fit for the City of Duluth and can be eliminated from further evaluation:

- **Sale or Closure of the Golf Course(s).** Given that the golf courses occupy City Park property and that there is no strong market of buyers for existing golf courses, selling one or both Duluth golf courses does not seem to make sense right now. Further, closure of one or more of the golf courses is an intense political/policy decision for the City and likely would not result in substantial savings for the City in light of the need to continue to maintain the site(s) in some fashion without any revenue, and expected reduction in expense that is coming when bonds are paid off in 2012.
- **Lease.** This option will remove too much direct control of the golf courses away from the City and turn over a large business operation located within the City to a private entity to run as a private business. This arrangement does not appear to be at all consistent with City recreation goals and may run into the same “conveyance” issues that would be present in the case of an outright sale of the golf courses.

In light of this, the NGF sees continuation of the present management contract or a modification of the contract as the two most appropriate options for the City of Duluth going forward. However, the NGF must also note that if the City opts to try and modify its management contract terms, the key issues that must be addressed prior to making the evaluation include the legal ramifications of property tax issues and whether to retain the same management entity (PGM) or seek a new vendor.

## NGF Consulting Recommendations on Basic Oversight and Structure

The NGF team is recommending that the City of Duluth continue its relationship with PGM as the management entity for the City's golf courses. The NGF did not find any reason to replace this team and we have documented great efficiencies within this operation that is an advantage to the City of Duluth. There were some issues related to record keeping and cost of sales, but those issues are either related to the poor POS system in place (more later in this chapter) or have been corrected.

However, the NGF team does believe that the type and details of the agreement could be modified to create more of a “win-win” scenario for the City and its golf management partner. The NGF recommends the following terms be incorporated into the next agreement with the golf management entity:

- Be a five-year agreement.
- Include a base management fee of \$100,000 per facility (\$200,000 total), plus an incentive of at least 25% of total net revenue (all sources).
- The City will be responsible for all capital expenditures.

It has been assumed by NGF that the above terms are within City legal guidelines and would not trigger a property tax requirement. If this assumption is not correct and there are legal ramifications of the recommendation, then NGF recommends a continuation of the present agreement, inclusive of senior management compensation.

## SPECIFIC PHYSICAL RECOMMENDATIONS

NGF Consulting has noted several areas of physical concern at both Enger Park and Lester Park that could be upgraded to improve the facilities and help to produce additional revenue and/or reduce expense. **Given the recommended push to attract a greater volume of tourist play for Duluth Golf and the preferred location of Enger Park GC, the NGF has recommended a focus be placed on upgrading Enger Park in higher priority over Lester Park GC.** A summary of the physical improvements recommended for the City of Duluth golf courses is shown below.

### Enger Park Golf Course Improvements

The improvement recommended for Enger Park golf course (27-H, executive, range and clubhouse) include (presented in order of NGF recommended priority):

1. **Clubhouse** – The existing clubhouse at Enger Park has many problems including size, configuration, limited kitchen facilities and lack of storage. Further, the building is not ADA compliant, does not have an HVAC system and is requiring constant repairs for leaks, electrical problems and other issues. Renovation is a possibility, but ADA concerns may limit the ability to complete a renovation. The NGF recommends that if funding is available the City would benefit from a full clubhouse replacement. ***NGF estimates approximately \$300/ per sf to replace the clubhouse (including ‘soft’ costs), or \$900,000 to replace the existing 3,000 sf or upwards of \$1.350 million to replace and expand to 4,500 sf.***

2. **Cart paths** – The need for “wall-to-wall” cart paths at Enger Park is evident, and revenue can be enhanced from such a program by allowing carts out on the golf course during wet periods. ***NGF estimates that new cart paths will cost around \$25 per linear foot of cart path (asphalt), or roughly \$150,000 for the approximately 6,000 linear feet needed for completion.***
3. **Drainage:** As noted, Enger Park has problems with excessive water remaining on the golf course property and creating unfavorable playing conditions that lead to reduced revenue. This issue is especially problematic on the Middle and Back nines. There are several methods to improve drainage on a golf course and it is unclear from our preliminary physical review exactly which program would work best for Enger Park GC. ***The NGF estimates that a drainage improvement project at this facility would cost between \$250,000 and \$600,000, depending on the method used.*** The NGF recommends consulting a golf course architect for the best solution and detailed cost estimate.
4. **On-Course Restrooms**– Enger Park has no on-course permanent restrooms. This definitely inhibits play, particularly from women. Each nine should have a restroom facility. However, there are a couple of strategic locations whereby one facility could service two nines. ***NGF estimates approximately \$60,000 to \$80,000 for each new on-course restroom facility with full plumbing and electricity.***
5. **New Irrigation System** – Enger Park should plan for completely replacing the existing irrigation system with a new system for irrigation on all 27 holes. ***NGF Estimated cost = \$1.0 million to \$1.5 million, plus would require some loss of revenue during installation process.***
6. **Greens:** All the greens are at the age where they will likely need to be rebuilt. This is especially true of the back nine where the greens are over 70 years old. The NGF preference would be to close nine holes at a time and do a complete renovation on this nine. ***NGF Estimated cost = \$12,000 to \$15,000 per green to repair and re-grass, or \$324,000 to \$405,000.***
7. **Bunker Enhancements** – Replace sand and repair drainage to the 42 bunkers on the golf course. ***NGF Estimated cost = \$3,500 per bunker, or approximately \$147,000 for 42 bunkers.***

## Lester Park Golf Course Improvements

The improvement recommended for Lester Park golf course (27-H, executive, range and clubhouse) include (presented in order of NGF recommended priority):

1. **Cart paths** – The need for “wall-to-wall” cart paths at Lester Park is evident, and revenue can be enhanced from such a program by allowing carts out on the golf course during wet periods. ***NGF estimates that new cart paths will cost around \$25 per linear foot of cart path (asphalt), or roughly \$150,000 for the approximately 6,000 linear feet needed for completion.***
2. **Clubhouse** – The existing clubhouse at Lester Park has many problems, although these appear solvable through upgrade and not full renovation. Key areas to be upgraded include air conditioning, electrical/plumbing and expanding (or screening) the outside deck. ***NGF estimates approximately \$120,000 to \$150,000 for clubhouse upgrades at Lester Park GC.***

## Upgrade Recommendations – Lower Priority

Other upgrade considerations with much lower priority include:

3. **Maintenance Shed**– Lester Park needs a more efficient maintenance facility with full storage to prevent storage of some pieces of maintenance equipment being stored outdoors. ***NGF estimates approximately \$250,000 to \$300,000 for new maintenance shed at Lester Park GC.***
4. **New Irrigation System** – Lester Park should plan for completely replacing the existing irrigation system with a new system for irrigation on all 27 holes. ***NGF Estimated cost = \$1.0 million to \$1.5 million, plus would require some loss of revenue during installation process.*** Installing new controllers and satellites on the irrigation system may be completed in lieu of a full irrigation system replacement. The NGF recommends hiring an irrigation consultant to examine the system and determine if a full replacement is needed or if new controllers would be sufficient. ***NGF Estimated cost = \$100,000 to \$150,000 for purchase and installation of satellite controls for irrigation system on 27 holes.***
5. **Drainage:** As noted, Lester Park has problems with excessive water remaining on the golf course property, although this is not as problematic as at Enger Park. There are several methods to improve drainage on a golf course and it is unclear from our preliminary physical review exactly which program would work best for Lester Park GC. ***The NGF estimates that a drainage improvement project at this facility would cost between \$250,000 and \$600,000, depending on the method used.*** The NGF recommends consulting a golf course architect for the best solution and detailed cost estimate.
6. **On-Course Restrooms**– Lester Park has no on-course permanent restrooms. This definitely inhibits play, particularly from women. Each nine should have a restroom facility. However, there are a couple of strategic locations whereby one facility could service two nines. ***NGF estimates approximately \$60,000 to \$80,000 for each new on-course restroom facility with full plumbing and electricity.***
7. **Bunker Enhancements** – Replace sand and repair drainage to the 20 bunkers on the first two nines. ***NGF Estimated cost = \$3,500 per bunker, or approximately \$70,000 for 20 bunkers (excluding Lake-9 bunkers).***

## Estimated Cost and Priority of Physical Improvements

The estimated cost to complete the above noted facility improvements, along with a list in order of NGF recommended priority, are detailed in the table below. The list assumes a priority placed on improving Enger Park as recommended by NGF. The estimated costs detailed below do not include any lost revenue due to business disruption that may occur as a result of the upgrades.

<b>City of Duluth Golf System Recommended Physical Improvements</b>	
<b>Highest Priority Items</b>	<b>Highest Estimated Cost</b>
Enger Park GC Clubhouse	\$1,350,000
Enger Cart Paths	150,000
Enger Drainage Program	600,000
Enger On-Course Restrooms (2)	160,000
Enger Irrigation	1,500,000
Enger Park Greens	405,000
Enger Park Bunkers	147,000
<b>Total High Priority (Enger)</b>	<b>\$4,312,000</b>
<b>Lower Priority Items</b>	
Lester Cart Paths	150,000
Lester Clubhouse	150,000
Lester Park GC Maintenance Shed	300,000
Lester Irrigation System	1,500,000
Lester Park Drainage Program	600,000
Lester On Course Restroom (2)	160,000
Lester Park Bunkers	70,000
<b>Total Lower Priority</b>	<b>\$2,930,000</b>
<b>Total Duluth Golf Upgrades</b>	<b>\$7,242,000</b>

## SPECIFIC OPERATIONAL RECOMMENDATIONS

After our thorough review of the Duluth City golf program, NGF Consulting is not inclined to recommend that any drastic changes be made to the operation of the facilities. As noted above, the management structure of the facility is sound, and the facility is being managed and maintained efficiently. In all, NGF has observed a very dedicated staff that is working hard to improve the physical and financial condition of this property for the City of Duluth. Therefore, no major changes in operation are recommended. Our operational recommendations are as follows:

**Create a Master Plan** - Once the Mission Statement has been resolved, it will be easier to organize the City's priorities with regards to the golf operations. One of our key recommendations would then be for the City to create a Master Plan for the two golf courses. This would include both renovations and operations. The master plan would lay out what capital improvements would be made and on what schedule. It should also indicate how these improvements are to be funded.

**Respect the Assets** - The Enger Park and Lester Park Golf Courses are a valuable asset for the City of Duluth, and the City should do all it can, within reason, to protect these assets and see to it that the system remains healthy and fiscally stable.



**Commit to Capital** - The City of Duluth should commit to making the physical improvements detailed above. While it is not clear that the improvements will immediately pay for themselves in enhanced revenue, these physical changes should lead to some increases in revenue that will help the Duluth golf courses over the long run.

## Operational Recommendations

- The City of Duluth should invest in a new, modern point-of-sale (POS) system that is designed specifically for golf and allows for integrated tee-sheets. This will allow for greater efficiencies in management control and reporting, as well as allow for online tee times bookings (key in 2010's golf courses).
- Create a plan to improve cash and inventory controls at the City golf courses. This is ultimately the vendor's (PGM) responsibility but the City can provide guidelines and assistance in implementation.
- Add more carts to each facility so there are 70 carts at Enger Park and 60 carts at Lester Park.
- Create a plan for more aggressive retailing at both golf locations. Focus on having more publicized "sales" of merchandise and add a larger selection of women's apparel.
- Purchase new range ball dispensing machines at both properties. The preference is to add some form of pre-paid debit or magnetic strip card reader to the system, as opposed to a token-operated machine. Many golf facilities have gone to this system with great success. The golfer can pre-load a large amount (many facilities include quantity discount) on to a card and then re-load throughout the year. Payment is then controlled in the pro shop rather than through a coin/vending process.

## Food & Beverage Recommendations

The NGF has noted a few minor problems with the food and beverage operation at the two Duluth golf courses. Some ideas for enhancing this service area include:

- Establish a required schedule for on-course beverage cart service. There should always be beverage cart service anytime there are golfers on the course, but the schedule can be somewhat flexible to include modest service with fewer than 10 groups are on the course.
- Establish a "grab-and-go" system to allow golfers to make quick purchases of food, snack and beverage items. Include pre-made sandwiches (fresh daily) and other snack items.
- Improve the control on access to the liquor storage at Enger Park.
- Create a new and more attractive menu with additional "light" choices (salads, wraps, etc.).

## Business / Marketing Recommendations

The NGF has documented a strong marketing program for Duluth Golf that includes several elements that are common in golf facility marketing, but could be enhanced. Duluth Golf should make a commitment to continuing with enhanced marketing efforts described in this report. Strategies may include advertising to create a brand image and maintain awareness,



developing a public relations campaign, and utilizing Web, print, and yield management strategies, some of which are now being implemented at the golf course in 2011.

An effective and comprehensive marketing plan must incorporate research, planning, strategy, market identification, budget, advertising, timetable, and follow-up. Advertising should be tracked adequately to gauge its effectiveness; first-time customers, to the extent that they can be identified, should be surveyed as to their experience and why they decided to try Duluth Golf GC.

Other marketing recommendations include:

- **Improve the Website:** Add more pictures (especially for Lester) and information about food and beverage, merchandise, the driving range, lessons and clinics and junior programs. Also, advertise special “sales” and other merchandise discounts on the website. Must allow on-line tee times.
- **Add a newsletter** which would contain information about leagues, member news (holes-in-one, etc), maintenance procedures, pro’s tips, etc.
- **Value Card:** Create a Value Card program for Enger Park. The times can be restricted to lower volume days and times.
- **Social Networking:** Create accounts for Facebook, MySpace, and Twitter. Try to have someone on staff who can keep these accounts current and proactive.
- **Print Ads** –Magazine ads and rack brochures could be used in both Duluth and other metro areas like Minneapolis. A brochure should be developed and distributed to all tourist racks in the area, as well as all the area visitors bureau, the Chamber, Visit Duluth and the CCVB for mail-outs.
- **Billboard:** A billboard will be the most effective way of reaching all the golfers traveling through the area. The ideal location would be on I-35 as most of the tourists will be using this road. Another excellent location would be on Hwy 61 coming south into town.
- **Co-op advertising/cooperation with area agencies:** Work with VisitDuluth and other area agencies promoting tourism to be included in their brochures, websites as well as information packets.
- **Regional Golf Publications:** Place ads in regional golf publications.
- **Promote with area hotels:** Area hotels should be approached directly about marketing the course to their guests. Incentives could be given to both the guests (coupons, etc.) and the front desk staff.

**Email** – Email databases are essential in today’s golf market place, as a means of staying in touch with the club’s customer base. Duluth Golf should continue to aggressively add to its existing email database. Email marketing, with the exception of word-of-mouth and free advertising, is the most cost-effective advertising possible. In today’s market, it is essential to have and use an email database. Email addresses can be captured from customers via a sign-up sheet at the pro shop, with a notice that people on the email list will receive the newsletter as present, but also get notice of special promotions. The facility’s Website should continue to promote Duluth Golf and build upon its existing database.

**Plan Execution** - Of course, no matter how well conceived the plan, it will be useless if not effectively executed. The marketing plan should be considered a guideline, but there should be

enough flexibility to make adjustments as the market dictates. Although the responsibility for marketing Duluth Golf falls heavily on PGM, the City of Duluth should become a larger part of Duluth Golf marketing, especially with tournaments and events. The Golf Manager must be a driving force behind the implementation of the marketing plan, and must be motivated and dedicated to building market share and customer loyalty.

## Fee Recommendations

Analyzing green fee structures can be a difficult exercise without having detailed records about play patterns by time of day and day of week, preferably across two or more consecutive years so that changes in demand can be analyzed in the context of fee increases or decreases. That being said, given our analysis of the current competitive golf market dynamic, as well as other factors such as the demographic profile of Duluth and the uncertain regional economy, NGF Consulting has prepared a recommended fee schedule that appears in the tables that follow.

Key inputs to this fee recommendation include:

- **Rack Rate:** The rack rate is basically what non-residents will pay. Local area golfers will be able to purchase the Patron Gold card (resident card) for \$5. Non residents can purchase it for \$25
- **Patron Card:** Introduce two levels of Patron Card – Patron Gold, which is designed mostly for locals; and Patron Platinum, which is basically the current program.
- **Weekend Rates:** Add a weekend rate that is higher than the weekday rate
- **Seniors:** Raise minimum age by 1 year every year until minimum rate reaches 62. (e.g. 56 in 2012, 57 in 2013, etc.)
- **Driving Range:** Assumes the conversion to electronic card dispensers, which would allow for discounts for larger purchases.

## Annual Passes

As the NGF is recommending a different rate at Lester Park than at Enger Park, we need to adjust the pass rates as well. Our proposal lowers the rate for players wanting to play only Lester Park, while the fee for Enger Park would be higher, but would also include both courses.

Pass Type	Actual	Proposed	
	2011	Lester	Enger & Lester
Adult Individual	\$650	\$625	\$675
Family	\$1,040	\$995	\$1,150
Adult 5- Day		\$450	\$495
Family 5-Day		\$750	\$825
Young Adult	\$400	\$380	\$410
Senior Unlimited	\$450	\$475	\$525
Senior Family Dual	\$800	\$775	\$850
Junior Unlimited	\$275	\$275	\$275
Patron Gold – Resident	Na	\$5	\$5
Patron Gold – Non resident	Na	\$25	\$25
Patron Platinum	\$185	\$200	\$200
Cart - Unlimited	\$750	\$800	\$800
Cart - 5 day	\$550	\$575	\$575

	Enger Park				Lester Park			
	18 Holes		9 Holes		18 Holes		9 Holes	
	Weekday	Weekend	Weekday	Weekend	Weekday	Weekend	Weekday	Weekend
Rack Rate	\$34.00	\$39.00	\$19.00	\$22.00	\$32.00	\$36.00	\$18.00	\$20.00
Patron Gold	\$28.00	\$34.00	\$17.00	\$18.00	\$26.00	\$32.00	\$15.00	\$17.00
Patron Platinum	\$14.00	\$17.00	\$8.50	\$9.00	\$13.00	\$16.00	\$7.50	\$8.50
Senior	\$25.00	\$28.00	\$15.00	\$17.00	\$23.00	\$26.00	\$14.00	\$16.00
Senior Patron	\$12.50	\$14.00	\$7.50	\$8.50	\$11.50	\$13.00	\$7.00	\$8.00
Juniors	\$17.00	\$20.00	\$12.00	\$15.00	\$17.00	\$20.00	\$12.00	\$15.00
Twilight	\$18.00	\$20.00			\$17.00	\$19.00		
<b>Golf Carts</b>								
Regular half-cart	\$15.00	\$15.00	\$8.50	\$8.50	\$15.00	\$15.00	\$8.50	\$8.50
Daily Trail Fee	\$15.00				\$15.00			
<b>Driving Range</b>								
Small Bucket (1)	\$4.00				\$4.00			
Medium Bucket (1)	\$6.00				\$6.00			
Large Bucket (1)	\$8.00				\$8.00			
(1) assumes electronic card rate								

## Patron Cards

- **Pricing/Benefits:** Consider increasing the price to \$200, but adding a 10% discount on *regularly priced merchandise*. (The buyer's club would be eliminated).
- **Two Levels:** If the City takes our recommendations about marketing to tourists and desires to have a nonresident rate (in other words, a higher rack rate with a discount for locals), the best way to implement this would be by creating a second patron card. The

two cards could be distinguished by having a “Regular” Patron card and a “Preferred” or a “Gold” Patron card. The Preferred Patron card would be the existing program. The new, or Regular, Patron card would then have the following characteristics:

- Card holders would receive a 10% discount on the NEW rack rates (which would be about 10% higher than the current rates).
- Duluth Residents would be able to purchase the card for \$5. Nonresidents (including other local areas) would be able to purchase for \$20.

## **FUNDING SOURCES**

The NGF recommendations for the City of Duluth golf program include recommendations that require an influx of new capital. Below is a list of potential funding sources and a brief discussion on each:

### **Revenue Bonds**

The current revenue bond that funded the last round of renovations will be paid up next year. Given that the courses have supported the payment of this bond, it is reasonable to assume (especially with the improvements we have recommended) that they would be able to support a new, similar bond of at least the same amount, if not a bit more.

### **Tourism Taxes**

Currently, the City collects close to \$7.5 million in tourism taxes. These are used to fund the convention and visitors bureau, the Duluth Entertainment & Convention Center, The Zoon, The Great Lakes Aquarium, and other worthy projects.

However, should the City endorse our recommendation about upgrading one of the facilities to attract tourists, it would seem reasonable that Tourism taxes could help fund part of this project as a resort-quality golf course will have a very positive impact on area tourism. A full feasibility study would be recommended to determine the actual impact it may have.

### **Other Agencies**

Other government or quasi-government agencies may also be willing to fund some of the project. These potentially could include St. Louis County (a joint venture?), and the IRRRB. Other sources may be agencies that have a vested interest in a given aspect of the facilities, such as generating tourism revenue (CVB grants, etc.). This money could also be used to promote better marketing.

### **Private Money**

A modern trend utilized by other municipalities has been to seek private funds for golf course projects - particularly building new clubhouses. Corporations may be willing to help fund some or all of the construction in exchange for naming rights for the building and/or long-term advertising/co-op marketing agreements. Even individuals may be willing to donate money as a memorial.

# City of Duluth Golf Program Financial Projections

As part of this study effort, NGF Consulting has prepared an analysis to show what the potential economic performance of the City of Duluth Golf Courses would be if the program continues on its present course, and what it could be considering the recommendations made by NGF in this report, particularly the physical upgrades to both Enger and Lester Park GC's. The NGF team will also review the potential economic impact of reducing the system with the closure of the Lake-9 at Lester Park GC. In this section, each facility's economic potential is evaluated with estimates of performance based on a set of assumptions that may or may not become reality. We feel that these estimates represent the best effort to create a "fair estimate of performance" for these facilities based on our complete review of the operation. Improvements to marketing and upgrades to the facilities are also assumed in this analysis.

## FINANCIAL PROJECTIONS ASSUMING "AS-IS" OPERATION

NGF Consulting has created a cash flow model for the continued operation of the City of Duluth municipal golf courses under the same operational and physical structure, and with a "standard" set of uncontrollable factors (market, economy, and weather conditions). The projections cover a five-year period, or through the end of 2016. This projection is intended to show the City what it can expect from the golf operation in the next five years assuming no change in the operation. Base assumptions in preparing this financial performance estimate include:

- The Duluth golf courses will remain under the present operating structure through the end of 2016. NGF assumes relatively stable rounds production at both facilities with slight declines in pass-holder sales reflecting the aging population. The declining pass-holder rounds would be made up with slight increases in tournament rounds at Enger Park from the new tournament pavilion. The NGF projects between 40,000 and 41,000 total rounds per year at Lester Park and 49,000 to 50,000 rounds at Enger Park each year from 2011 through 2016.
- NGF has assumed selling around 1,000 total golf passes, including around 200 patron cards each year through 2016.
- The fee structure is held constant at 2011 level through 2012. After 2012, the NGF is assuming the City can maintain 2.0% growth every other year (2013 and 2015) in all green and cart fees through 2016.
- Other revenue centers such as merchandise, range, food/beverage and other continue to generate average per round revenue roughly equal to 2011, with slight increases (2%) every other year to reflect modest fee increases every two years.
- Beginning in 2012, expenses are estimated using actual figures from 2011, with the historical 4% annual increases in all personnel categories and 2% increases in all non-personnel categories through 2016.
- Cost of sales is assumed at proportions established in 2008-2011: 98% for Merchandise, 48% for non-alcohol F&B and 34% for alcohol at Lester Park; and 52% for Merchandise, 74% for non-alcohol F&B and 40% for alcohol at Enger Park.

- Interest and bond principal is assumed to end after 2012. Other City overhead and depreciation is assumed to continue through 2016.

## Inputs

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a preliminary sketch pro forma for the next five years of operation. The estimates for 2011 are based on projections for year-end performance derived from reports as of August 31, as presented earlier in this report. The inputs for the pro forma are summarized in the following table:

<b>Duluth Golf Enterprise Basic Activity and Fee / Revenue Inputs 'As-Is' Operation</b>						
<b>Description</b>	<b>2011 Projected</b>	<b>2012 Projected</b>	<b>2013 Projected</b>	<b>2014 Projected</b>	<b>2015 Projected</b>	<b>2016 Projected</b>
Enger Fee Rounds	21,200	21,500	21,500	21,950	21,950	21,200
Enger Pass Rounds	27,900	27,668	27,668	27,435	27,435	27,203
<b>Total Enger Park Rounds</b>	<b>49,100</b>	<b>49,168</b>	<b>49,168</b>	<b>49,385</b>	<b>49,385</b>	<b>48,403</b>
Lester Fee Rounds	17,500	17,710	17,710	17,500	17,500	17,500
Lester Pass Rounds	22,500	22,028	21,805	21,340	21,120	20,663
<b>Total Lester Park Rounds</b>	<b>40,000</b>	<b>39,738</b>	<b>39,515</b>	<b>38,840</b>	<b>38,620</b>	<b>38,163</b>
<b>Total Rounds</b>	<b>89,100</b>	<b>88,905</b>	<b>88,683</b>	<b>88,225</b>	<b>88,005</b>	<b>86,565</b>
Enger Passes	600	595	595	590	590	585
Lester Passes	450	445	445	440	440	435
<b>Key Daily Golf Fees (Excl. Tax)</b>						
18-Hole	\$27.81	\$27.81	\$28.37	\$28.37	\$28.93	\$28.93
9-Hole	\$15.76	\$15.76	\$16.08	\$16.08	\$16.40	\$16.40
Sr 18-hole	\$23.17	\$23.17	\$23.63	\$23.63	\$24.11	\$24.11
Sr. 9-Hole/TL	\$12.98	\$12.98	\$13.24	\$13.24	\$13.50	\$13.50
Fall 9-Hole	\$9.27	\$9.27	\$9.46	\$9.46	\$9.64	\$9.64
Coupon	\$13.00	\$13.00	\$13.26	\$13.26	\$13.53	\$13.53
Patron 9	\$7.50	\$7.50	\$7.65	\$7.65	\$7.80	\$7.80
Fall Unlimited	\$15.76	\$15.76	\$16.08	\$16.08	\$16.40	\$16.40
Patron 55+ 18	\$11.59	\$11.59	\$11.82	\$11.82	\$12.06	\$12.06
Patron 55+ 9	\$6.95	\$6.95	\$7.09	\$7.09	\$7.23	\$7.23
<b>Pass Fees (Excl. Tax)</b>						
Unlimited	\$650.00	\$650.00	\$663.00	\$663.00	\$676.26	\$676.26
Sr. Unlimited (62+)	\$450.00	\$450.00	\$459.00	\$459.00	\$468.18	\$468.18
Young Adult (19-24)	\$400.00	\$400.00	\$408.00	\$408.00	\$416.16	\$416.16
Junior Unlimited	\$275.00	\$275.00	\$280.50	\$280.50	\$286.11	\$286.11
Family	\$1,040.00	\$1,040.00	\$1,060.80	\$1,060.80	\$1,082.02	\$1,082.02
Patron Card	\$185.00	\$185.00	\$188.70	\$188.70	\$192.47	\$192.47

<b>Duluth Golf Enterprise Basic Average Revenue Inputs 'As-Is' Operation</b>						
	<b>2011 Projected</b>	<b>2012 Projected</b>	<b>2013 Projected</b>	<b>2014 Projected</b>	<b>2015 Projected</b>	<b>2016 Projected</b>
<b>Lester Park</b>						
Cart Fees	\$3.46	\$3.46	\$3.53	\$3.53	\$3.60	\$3.60
Range Tokens	\$0.66	\$0.66	\$0.67	\$0.67	\$0.69	\$0.69
Locker Rentals	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Club Rentals	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Pull Cart	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Merchandise	\$3.07	\$3.07	\$3.13	\$3.13	\$3.19	\$3.19
F & B (non-Alc)	\$2.37	\$2.37	\$2.42	\$2.42	\$2.47	\$2.47
Alcoholic Beverages	\$1.17	\$1.17	\$1.19	\$1.19	\$1.21	\$1.21
Gift Certif.	\$0.71	\$0.71	\$0.73	\$0.73	\$0.74	\$0.74
Club Dues & Credit	\$0.56	\$0.56	\$0.57	\$0.57	\$0.59	\$0.59
<b>Enger Park GC</b>						
Cart Fees	\$3.42	\$3.42	\$3.49	\$3.49	\$3.56	\$3.56
Range Tokens	\$0.87	\$0.87	\$0.89	\$0.89	\$0.91	\$0.91
Locker Rentals	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Club Rentals	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Pull Cart	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Merchandise	\$1.77	\$1.77	\$1.81	\$1.81	\$1.84	\$1.84
F & B (non-Alc)	\$1.68	\$1.68	\$1.71	\$1.71	\$1.75	\$1.75
Alcoholic Beverages	\$1.77	\$1.77	\$1.81	\$1.81	\$1.84	\$1.84
Gift Certif.	\$0.56	\$0.56	\$0.57	\$0.57	\$0.58	\$0.58
Club Dues & Credit	\$0.49	\$0.49	\$0.50	\$0.50	\$0.51	\$0.51

### Pro Forma Estimate for 'As-Is' Operation (2011 – 2016)

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a pro forma for the next five years of operation, including a year-end projection for 2011 for each facility, and then for the overall combined system. As this is an estimate of future performance, all figures have been rounded to the nearest \$100 for simplicity.



## Lester Park GC Projected Future Performance (2011-2016)

<b>Lester Park Golf Course Projected Economic Performance 'As-Is' Operation</b>						
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>REVENUES</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
<b>General Revenue</b>						
Green Fees	\$268,600	\$271,400	\$276,900	\$274,000	\$279,400	\$279,400
Season Pass	198,300	196,000	200,000	197,700	201,700	199,400
Cart Fees	138,400	137,500	139,500	137,100	139,000	137,400
Range Tokens	26,400	26,200	26,600	26,100	26,500	26,200
Locker Rentals	900	900	900	900	900	900
Club Rentals	1,200	1,200	1,200	1,200	1,200	1,200
Pull Cart	1,700	1,700	1,700	1,700	1,700	1,700
Merchandise	122,800	122,000	123,700	121,600	123,400	121,900
F & B (non-Alc)	94,900	94,300	95,600	94,000	95,300	94,200
Alcoholic Beverages	46,600	46,300	47,000	46,200	46,900	46,300
Gift Certif.	28,400	28,300	28,700	28,200	28,600	28,200
Club Dues & Credit	22,500	22,400	22,700	22,300	22,600	22,400
<b>Operating Revenue</b>	<b>\$950,700</b>	<b>\$948,200</b>	<b>\$964,500</b>	<b>\$951,000</b>	<b>\$967,200</b>	<b>\$959,200</b>
<b>Less:</b>						
Merchandise COS	\$120,300	\$119,600	\$121,200	\$119,200	\$120,900	\$119,500
F & B COS	\$45,600	\$45,300	\$45,900	\$45,100	\$45,700	\$45,200
Alcohol Cos	\$15,800	\$15,700	\$16,000	\$15,700	\$15,900	\$15,700
<b>Total Cost of Sales</b>	<b>\$181,700</b>	<b>\$180,600</b>	<b>\$183,100</b>	<b>\$180,000</b>	<b>\$182,500</b>	<b>\$180,400</b>
<b>Gross Margin</b>	<b>\$769,000</b>	<b>\$767,600</b>	<b>\$781,400</b>	<b>\$771,000</b>	<b>\$784,700</b>	<b>\$778,800</b>
<b>Expenses</b>						
Maintenance Payroll	\$126,000	\$131,000	\$136,200	\$141,600	\$147,300	\$153,200
Maint. non-Payroll	183,000	186,700	190,400	194,200	198,100	202,100
Golf Operations Payroll	127,000	132,100	137,400	142,900	148,600	154,500
Golf Ops. non-Payroll	24,000	24,500	25,000	25,500	26,000	26,500
G & A	70,000	71,400	72,800	74,300	75,800	77,300
Management Fee	200,000	200,000	200,000	200,000	200,000	200,000
<b>Total Operating Exp.</b>	<b>\$730,000</b>	<b>\$745,700</b>	<b>\$761,800</b>	<b>\$778,500</b>	<b>\$795,800</b>	<b>\$813,600</b>
<b>Operating Income (Loss)</b>	<b>\$39,000</b>	<b>\$21,900</b>	<b>\$19,600</b>	<b>(\$7,500)</b>	<b>(\$11,100)</b>	<b>(\$34,800)</b>

## Enger Park GC Projected Future Performance (2011-2016)

Enger Park Golf Course Projected Economic Performance 'As-Is' Operation						
	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected
<b>REVENUES</b>						
<b>General Revenue</b>						
Green Fees	\$331,000	\$336,000	\$342,800	\$349,600	\$356,600	\$344,400
Season Pass	264,000	261,800	267,000	264,800	270,100	267,800
Cart Fees	167,900	168,200	171,500	172,300	175,700	172,200
Range Tokens	42,700	42,800	43,600	43,800	44,700	43,800
Locker Rentals	200	200	200	200	200	200
Club Rentals	1,600	1,600	1,600	1,600	1,600	1,600
Pull Cart	1,500	1,500	1,500	1,500	1,500	1,500
Merchandise	86,900	87,000	88,800	89,200	90,900	89,100
F & B (non-Alc)	82,500	82,600	84,300	84,600	86,300	84,600
Alcoholic Beverages	86,900	87,000	88,800	89,200	90,900	89,100
Gift Certif.	27,300	27,300	27,800	28,000	28,500	27,900
Club Dues & Credit	24,100	24,100	24,600	24,700	25,200	24,700
<b>Operating Revenue</b>	<b>\$1,116,600</b>	<b>\$1,120,100</b>	<b>\$1,142,500</b>	<b>\$1,149,500</b>	<b>\$1,172,200</b>	<b>\$1,146,900</b>
<b>Less:</b>						
Merchandise COS	\$45,200	\$45,200	\$46,200	\$46,400	\$47,300	\$46,300
F & B COS	\$61,100	\$61,100	\$62,400	\$62,600	\$63,900	\$62,600
Alcohol Cos	\$34,800	\$34,800	\$35,500	\$35,700	\$36,400	\$35,600
<b>Total Cost of Sales</b>	<b>\$141,100</b>	<b>\$141,100</b>	<b>\$144,100</b>	<b>\$144,700</b>	<b>\$147,600</b>	<b>\$144,500</b>
<b>Gross Margin</b>	<b>\$975,500</b>	<b>\$979,000</b>	<b>\$998,400</b>	<b>\$1,004,800</b>	<b>\$1,024,600</b>	<b>\$1,002,400</b>
<b>Expenses</b>						
Maintenance Payroll	\$135,000	\$140,400	\$146,000	\$151,800	\$157,900	\$164,200
Maint. non-Payroll	208,000	212,200	216,400	220,700	225,100	229,600
Golf Operations Payroll	134,000	139,400	145,000	150,800	156,800	163,100
Golf Ops. non-Payroll	28,000	28,600	29,200	29,800	30,400	31,000
G & A	82,000	83,600	85,300	87,000	88,700	90,500
Management Fee	200,000	200,000	200,000	200,000	200,000	200,000
<b>Total Operating Exp.</b>	<b>\$787,000</b>	<b>\$804,200</b>	<b>\$821,900</b>	<b>\$840,100</b>	<b>\$858,900</b>	<b>\$878,400</b>
<b>Operating Income (Loss)</b>	<b>\$188,500</b>	<b>\$174,800</b>	<b>\$176,500</b>	<b>\$164,700</b>	<b>\$165,700</b>	<b>\$124,000</b>

## Duluth Golf System Combined Projected Future Performance (2011-2016)

<b>City of Duluth Golf System Combined Projected Economic Performance 'As-Is' Operation</b>						
<b>REVENUES</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>General Revenue</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
Green Fees	\$599,600	\$607,400	\$619,700	\$623,600	\$636,000	\$623,800
Season Pass	462,300	457,800	467,000	462,500	471,800	467,200
Cart Fees	306,300	305,700	311,000	309,400	314,700	309,600
Range Tokens	69,100	69,000	70,200	69,900	71,200	70,000
Locker Rentals	1,100	1,100	1,100	1,100	1,100	1,100
Club Rentals	2,800	2,800	2,800	2,800	2,800	2,800
Pull Cart	3,200	3,200	3,200	3,200	3,200	3,200
Merchandise	209,700	209,000	212,500	210,800	214,300	211,000
F & B (non-Alc)	177,400	176,900	179,900	178,600	181,600	178,800
Alcoholic Beverages	133,500	133,300	135,800	135,400	137,800	135,400
Gift Certif.	55,700	55,600	56,500	56,200	57,100	56,100
Club Dues & Credit	46,600	46,500	47,300	47,000	47,800	47,100
<b>Operating Revenue</b>	<b>\$2,067,300</b>	<b>\$2,068,300</b>	<b>\$2,107,000</b>	<b>\$2,100,500</b>	<b>\$2,139,400</b>	<b>\$2,106,100</b>
<b>Less:</b>						
Merchandise COS	\$165,500	\$164,800	\$167,400	\$165,600	\$168,200	\$165,800
F & B COS	\$106,700	\$106,400	\$108,300	\$107,700	\$109,600	\$107,800
Alcohol Cos	\$50,600	\$50,500	\$51,500	\$51,400	\$52,300	\$51,300
<b>Total Cost of Sales</b>	<b>\$322,800</b>	<b>\$321,700</b>	<b>\$327,200</b>	<b>\$324,700</b>	<b>\$330,100</b>	<b>\$324,900</b>
<b>Gross Margin</b>	<b>\$1,744,500</b>	<b>\$1,746,600</b>	<b>\$1,779,800</b>	<b>\$1,775,800</b>	<b>\$1,809,300</b>	<b>\$1,781,200</b>
<b>Expenses</b>						
Maintenance Payroll	\$261,000	\$271,400	\$282,200	\$293,400	\$305,200	\$317,400
Maintenance non-Payroll	391,000	398,900	406,800	414,900	423,200	431,700
Golf Operations Payroll	261,000	271,500	282,400	293,700	305,400	317,600
Golf Operations non-Payroll	52,000	53,100	54,200	55,300	56,400	57,500
G & A	152,000	155,000	158,100	161,300	164,500	167,800
Management Fee	400,000	400,000	400,000	400,000	400,000	400,000
<b>Total Operating Expense</b>	<b>\$1,517,000</b>	<b>\$1,549,900</b>	<b>\$1,583,700</b>	<b>\$1,618,600</b>	<b>\$1,654,700</b>	<b>\$1,692,000</b>
<b>Operating Income</b>	<b>\$227,500</b>	<b>\$196,700</b>	<b>\$196,100</b>	<b>\$157,200</b>	<b>\$154,600</b>	<b>\$89,200</b>
<b>Non-Operating Items</b>						
Depreciation	\$135,000	\$131,625	\$128,334	\$125,126	\$121,998	\$118,948
City Allocation Expense	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800
Bond Interest	\$10,200	\$6,500	\$0	\$0	\$0	\$0
Bond Amortization	\$5,800	\$2,900	\$0	\$0	\$0	\$0
<b>Total Other Items</b>	<b>\$217,800</b>	<b>\$207,825</b>	<b>\$195,134</b>	<b>\$191,926</b>	<b>\$188,798</b>	<b>\$185,748</b>
<b>Net Golf Income (Loss)</b>	<b>\$9,700</b>	<b>(\$11,125)</b>	<b>\$966</b>	<b>(\$34,726)</b>	<b>(\$34,198)</b>	<b>(\$96,548)</b>

## Summary of Golf Economic Performance

The results of the NGF analysis show that even with favorable weather and a somewhat stable economy, the City of Duluth should not expect this golf system to be profitable after all city overhead expenses are included in the evaluation. This is the case even with the elimination of the interest and principal, beginning in 2013. In all, the Duluth golf system is not generating enough revenue to cover growing expenses, unless fees are increased at a rate comparable to the expenses. The NGF does not see this as market supportable right now unless some upgrades are made to the facility to allow for both enhanced activity and increases in fees (third NGF scenario).

Further, it is important for NGF to note that this projection does not include any allowance for new capital or any new investment/upgrade in the golf courses. This is a key issue given the aging infrastructure and antiquated systems NGF has documented in this report. If some capital upgrade is not made to these facilities, it is very possible that even the above estimates of revenue may not be realized as the golfers in the market may find the golf courses totally undesirable.

## FINANCIAL PROJECTIONS “AS-IS” WITH CLOSURE OF LAKE-9

The second cash flow model is based on the same general assumptions as the first, with the exception that the City of Duluth would close the Lake nine holes at Lester Park immediately, with effect beginning at the opening of the golf season in 2012. The base assumptions in preparing this financial performance estimate are the same as shown in the previous scenario above, except:

- The NGF projects a decline to between 31,600 and 32,000 rounds per year at Lester Park through 2016, and a slight increase in play at Enger Park with rounds exceeding 50,000 each year from 2011 through 2016.
- NGF has assumed the sale of golf passes will fall at Lester Park to around 340 by 2014, with no change in passes sold at Enger Park GC.
- Beginning in 2012, maintenance expenses are reduced by 15% to reflect fewer holes to maintain, but other operational expenses are not adjusted. These estimates are then adjusted with the historical 4% annual increases in all personnel categories and 2% increases in all non-personnel categories through 2016.
- Interest and bond principal is assumed to end after 2012. Other City overhead and depreciation is assumed to continue through 2016.
- All other inputs are derived from the original “as-is” scenario.

## Pro Forma Estimate for ‘As-Is’ with Closure of Lake-9 (2011 – 2016)

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a pro forma for the next five years of operation, including a year-end projection for 2011 for each facility, and then for the overall combined system. As this is an estimate of future performance, all figures have been rounded to the nearest \$100 for simplicity.

## Lester Park GC Projected Future Performance (2011-2016)

<b>Lester Park Golf Course Projected Economic Performance 'As-Is' w/Lake-9 Closed Beginning 2012</b>						
Key actions	Close Lake-9		Operate on 18 holes at Lester Park			
	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected
<b>REVENUES</b>						
<b>General Revenue</b>						
Green Fees	\$268,600	\$241,700	\$260,300	\$260,300	\$265,500	\$265,500
Season Pass	198,300	176,200	170,800	170,800	174,200	174,200
Cart Fees	138,400	123,000	124,400	123,700	125,500	124,800
Range Tokens	26,400	23,500	23,700	23,600	23,900	23,800
Locker Rentals	900	800	800	800	800	800
Club Rentals	1,200	1,100	1,100	1,100	1,100	1,100
Pull Cart	1,700	1,500	1,500	1,500	1,500	1,500
Merchandise	122,800	109,100	110,400	109,800	111,400	110,800
F & B (non-Alc)	94,900	84,300	85,300	84,800	86,000	85,600
Alcoholic Beverages	46,600	41,500	41,900	41,700	42,300	42,100
Gift Certif.	28,400	25,300	25,600	25,400	25,800	25,600
Club Dues & Credit	22,500	20,000	20,200	20,100	20,400	20,300
<b>Operating Revenue</b>	<b>\$950,700</b>	<b>\$848,000</b>	<b>\$866,000</b>	<b>\$863,600</b>	<b>\$878,400</b>	<b>\$876,100</b>
<b>Less:</b>						
Merchandise COS	\$120,300	\$106,900	\$108,200	\$107,600	\$109,200	\$108,600
F & B COS	\$45,600	\$40,500	\$40,900	\$40,700	\$41,300	\$41,100
Alcohol Cos	\$15,800	\$14,100	\$14,200	\$14,200	\$14,400	\$14,300
<b>Total Cost of Sales</b>	<b>\$181,700</b>	<b>\$161,500</b>	<b>\$163,300</b>	<b>\$162,500</b>	<b>\$164,900</b>	<b>\$164,000</b>
<b>Gross Margin</b>	<b>\$769,000</b>	<b>\$686,500</b>	<b>\$702,700</b>	<b>\$701,100</b>	<b>\$713,500</b>	<b>\$712,100</b>
<b>Expenses</b>						
Maintenance Payroll	\$126,000	\$94,500	\$98,300	\$102,200	\$106,300	\$110,600
Maint. non-Payroll	183,000	137,300	140,000	142,800	145,700	148,600
Golf Operations Payroll	127,000	132,100	137,400	142,900	148,600	154,500
Golf Ops. non-Payroll	24,000	24,500	25,000	25,500	26,000	26,500
G & A	70,000	71,400	72,800	74,300	75,800	77,300
Management Fee	200,000	200,000	200,000	200,000	200,000	200,000
<b>Total Operating Exp.</b>	<b>\$730,000</b>	<b>\$659,800</b>	<b>\$673,500</b>	<b>\$687,700</b>	<b>\$702,400</b>	<b>\$717,500</b>
<b>Operating Income (Loss)</b>	<b>\$39,000</b>	<b>\$26,700</b>	<b>\$29,200</b>	<b>\$13,400</b>	<b>\$11,100</b>	<b>(\$5,400)</b>

## Enger Park GC Projected Future Performance (2011-2016)

Enger Park Golf Course Projected Economic Performance 'As-Is' w/Lake-9 Closed Beginning 2012						
Key actions	Close Lake-9			Operate on 18 holes at Lester Park		
	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected
<b>REVENUES</b>						
<b>General Revenue</b>						
Green Fees	\$331,000	\$342,700	\$349,500	\$349,600	\$356,600	\$356,600
Season Pass	264,000	261,800	267,000	264,800	270,100	267,800
Cart Fees	167,900	170,900	175,300	175,400	178,900	179,100
Range Tokens	42,700	43,500	44,600	44,600	45,500	45,500
Locker Rentals	200	200	200	200	200	200
Club Rentals	1,600	1,600	1,600	1,600	1,700	1,700
Pull Cart	1,500	1,500	1,500	1,500	1,600	1,600
Merchandise	86,900	88,400	90,700	90,800	92,600	92,700
F & B (non-Alc)	82,500	83,900	86,100	86,100	87,900	88,000
Alcoholic Beverages	86,900	88,400	90,700	90,800	92,600	92,700
Gift Certif.	27,300	27,700	28,500	28,500	29,000	29,100
Club Dues & Credit	24,100	24,500	25,100	25,100	25,600	25,700
<b>Operating Revenue</b>	<b>\$1,116,600</b>	<b>\$1,135,100</b>	<b>\$1,160,800</b>	<b>\$1,159,000</b>	<b>\$1,182,300</b>	<b>\$1,180,700</b>
<b>Less:</b>						
Merchandise COS	\$45,200	\$46,000	\$47,200	\$47,200	\$48,200	\$48,200
F & B COS	\$61,100	\$62,100	\$63,700	\$63,700	\$65,000	\$65,100
Alcohol Cos	\$34,800	\$35,400	\$36,300	\$36,300	\$37,000	\$37,100
<b>Total Cost of Sales</b>	<b>\$141,100</b>	<b>\$143,500</b>	<b>\$147,200</b>	<b>\$147,200</b>	<b>\$150,200</b>	<b>\$150,400</b>
<b>Gross Margin</b>	<b>\$975,500</b>	<b>\$991,600</b>	<b>\$1,013,600</b>	<b>\$1,011,800</b>	<b>\$1,032,100</b>	<b>\$1,030,300</b>
<b>Expenses</b>						
Maintenance Payroll	\$135,000	\$140,400	\$146,000	\$151,800	\$157,900	\$164,200
Maint. non-Payroll	208,000	212,200	216,400	220,700	225,100	229,600
Golf Operations Payroll	134,000	139,400	145,000	150,800	156,800	163,100
Golf Ops. non-Payroll	28,000	28,600	29,200	29,800	30,400	31,000
G & A	82,000	83,600	85,300	87,000	88,700	90,500
Management Fee	200,000	200,000	200,000	200,000	200,000	200,000
<b>Total Operating Exp.</b>	<b>\$787,000</b>	<b>\$804,200</b>	<b>\$821,900</b>	<b>\$840,100</b>	<b>\$858,900</b>	<b>\$878,400</b>
<b>Operating Income (Loss)</b>	<b>\$188,500</b>	<b>\$187,400</b>	<b>\$191,700</b>	<b>\$171,700</b>	<b>\$173,200</b>	<b>\$151,900</b>

## Duluth Golf System Combined Projected Future Performance (2011-2016)

<b>City of Duluth Golf System Combined Projected Economic Performance 'As-Is' w/Lake-9 Closed Beginning 2012</b>						
Key actions	Close Lake-9		Operate on 18 holes at Lester Park			
REVENUES	2011	2012	2013	2014	2015	2016
General Revenue	Projected	Projected	Projected	Projected	Projected	Projected
Green Fees	\$599,600	\$584,400	\$609,800	\$609,900	\$622,100	\$622,100
Season Pass	462,300	438,000	437,800	435,600	444,300	442,000
Cart Fees	306,300	293,900	299,700	299,100	304,400	303,900
Range Tokens	69,100	67,000	68,300	68,200	69,400	69,300
Locker Rentals	1,100	1,000	1,000	1,000	1,000	1,000
Club Rentals	2,800	2,700	2,700	2,700	2,800	2,800
Pull Cart	3,200	3,000	3,000	3,000	3,100	3,100
Merchandise	209,700	197,500	201,100	200,600	204,000	203,500
F & B (non-Alc)	177,400	168,200	171,400	170,900	173,900	173,600
Alcoholic Beverages	133,500	129,900	132,600	132,500	134,900	134,800
Gift Certif.	55,700	53,000	54,100	53,900	54,800	54,700
Club Dues & Credit	46,600	44,500	45,300	45,200	46,000	46,000
<b>Operating Revenue</b>	<b>\$2,067,300</b>	<b>\$1,983,100</b>	<b>\$2,026,800</b>	<b>\$2,022,600</b>	<b>\$2,060,700</b>	<b>\$2,056,800</b>
<b>Less:</b>						
Merchandise COS	\$165,500	\$152,900	\$155,400	\$154,800	\$157,400	\$156,800
F & B COS	\$106,700	\$102,600	\$104,600	\$104,400	\$106,300	\$106,200
Alcohol Cos	\$50,600	\$49,500	\$50,500	\$50,500	\$51,400	\$51,400
<b>Total Cost of Sales</b>	<b>\$322,800</b>	<b>\$305,000</b>	<b>\$310,500</b>	<b>\$309,700</b>	<b>\$315,100</b>	<b>\$314,400</b>
<b>Gross Margin</b>	<b>\$1,744,500</b>	<b>\$1,678,100</b>	<b>\$1,716,300</b>	<b>\$1,712,900</b>	<b>\$1,745,600</b>	<b>\$1,742,400</b>
<b>Expenses</b>						
Maintenance Payroll	\$261,000	\$234,900	\$244,300	\$254,000	\$264,200	\$274,800
Maintenance non-Payroll	391,000	349,500	356,400	363,500	370,800	378,200
Golf Operations Payroll	261,000	271,500	282,400	293,700	305,400	317,600
Golf Operations non-Payroll	52,000	53,100	54,200	55,300	56,400	57,500
G & A	152,000	155,000	158,100	161,300	164,500	167,800
Management Fee	400,000	400,000	400,000	400,000	400,000	400,000
<b>Total Operating Expense</b>	<b>\$1,517,000</b>	<b>\$1,464,000</b>	<b>\$1,495,400</b>	<b>\$1,527,800</b>	<b>\$1,561,300</b>	<b>\$1,595,900</b>
<b>Operating Income</b>	<b>\$227,500</b>	<b>\$214,100</b>	<b>\$220,900</b>	<b>\$185,100</b>	<b>\$184,300</b>	<b>\$146,500</b>
<b>Non-Operating Items</b>						
Depreciation	\$135,000	\$131,625	\$128,334	\$125,126	\$121,998	\$118,948
City Allocation Expense	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800
Bond Interest	\$10,200	\$6,500	\$0	\$0	\$0	\$0
Bond Amortization	\$5,800	\$2,900	\$0	\$0	\$0	\$0
<b>Total Other Items</b>	<b>\$217,800</b>	<b>\$207,825</b>	<b>\$195,134</b>	<b>\$191,926</b>	<b>\$188,798</b>	<b>\$185,748</b>
<b>Net Golf Income (Loss)</b>	<b>\$9,700</b>	<b>\$6,275</b>	<b>\$25,766</b>	<b>(\$6,826)</b>	<b>(\$4,498)</b>	<b>(\$39,248)</b>



## Summary of Economic Performance w/o Lake-9

The results show that the closure of the Lake-9 at Lester Park GC does not clearly place the Duluth golf system in a better economic position, as the slight reduction in expenses is off-set by loss of revenue. The NGF is only assuming a slight reduction in rounds at Lester Park, coupled with a slight increase at Enger Park. In all it is expected that the overall market environment in Duluth and the inability for the golf courses to attract much of a non-resident market will likely continue to impact this golf operation, even if the number of holes are reduced. It is not expected that the expense savings created by such a move would be enough to off-set revenue reductions, leading to no improvement in City golf operations. Further, the same lack of new capital investment to upgrade the golf courses is assumed in this scenario.

## FINANCIAL PROJECTIONS ASSUMING IMPLEMENTATION OF NGF RECOMMENDATIONS

NGF Consulting has created a cash flow model for the continued operation of the City of Duluth municipal golf courses under the same operational model, with the assumption of the City of Duluth implementing NGF recommendations, particularly the physical improvements to Enger Park GC. The key NGF recommendations assumed include:

- A new management agreement in place beginning in 2013 with a fixed \$100,000 per course plus 25% of net revenue.
- Enhancement of marketing to include improved web presence and new print efforts (magazines, brochures, billboards, etc.). Marketing budget is assumed to increase beginning in 2012, with enhancement of efforts beginning with full re-opening of Enger Park in 2014.
- Physical upgrades to Enger Park totaling approximately \$4.5 million will be undertaken financed by revenue bonds (\$4.5 million at 3% for 25 years = \$258,425 per year). The upgrades to be completed will include:
  - New Enger Park clubhouse, under construction in 2012 opening in 2013
  - Enger Park golf renovation in 2012 and 2013 (9-holes open ½ of 2012 and 18 holes only during 2013), fully complete by 2014.
  - Lester Park projects (clubhouse upgrades and cart paths) deferred until after 2016.
- The City of Duluth can maintain a program to increase fees and charges by an average of 2% per year, each year, to keep up with rising expenses.
- The City can begin selling alcohol at Lester Park in 2012.

## Inputs and Assumptions

The upgrade scenario is based on a “standard” set of uncontrollable factors (market, economy, and weather conditions). The projections cover a five-year period, or through the end of 2016. This projection is intended to show the City what it can expect from the golf operation in the next five years assuming upgrades to various aspects of the operation, including fee adjustments as recommended by NGF. Base assumptions in preparing this financial performance estimate include:

- The Duluth golf courses will remain under the present operating structure through the end of 2012, with a new management agreement in place for 2013 based on a fixed \$80,000 management fee per course, plus 10% of total gross revenue.
- The NGF projects rounds at Lester Park to be between 43,000 and 45,000 in 2012 and 2013 during the of the Enger Park GC renovation, with rounds increasing to over 43,600 after 2014.
- Enger Park rounds are estimated at under 27,000 in 2012 and 35,000 in 2013 during renovation period. Rounds are then assumed to rebound to over 48,000 when all renovations and upgrades are completed in 2014, with further increases to almost 56,000 by 2016.
- NGF has assumed selling around 1,050 total golf passes, including around 200 patron cards each year through 2016.
- The fee structure is adjusted based on NGF recommendations (see input table) beginning in 2012 at Lester Park and 2014 at Enger Park (after renovation). After increases, the NGF is assuming the City can maintain 2.0% growth every year in all green and cart fees through 2016.
- Merchandise revenue is assumed to continue to generate average per round revenue roughly equal to 2011, with adjustments as follows:
  - Revenue is reduced at Enger Park (75%) and Increased at Lester Park (37%) to account for temporary clubhouse facilities at Enger Park during construction of a new clubhouse.
  - Upon re-opening with a new clubhouse, Enger Park merchandise sales are increased 25% over 2012 and Lester Park is returned to 2012 levels.
- Food and beverage revenues are adjusted in similar fashion:
  - Revenue is reduced at Enger Park (75%) for 2012 and Increased by 55% beginning in 2013 to account for enhanced F & B facilities, including banquet capabilities.
  - Lester Park food and beverage operation is not adjusted during this period, except for alcohol sales increasing to match Enger Park beginning in 2012.
  - F & B cost of Sales is set at City-wide averages.
- Beginning in 2012, expenses are estimated using actual figures from 2011, with the historical 4% annual increases in all personnel categories and 2% increases in all non-personnel categories through 2016. Golf operation payroll at Enger Park is increased by \$40,000 beginning in 2014 to account for the new clubhouse. Marketing expenses are increased \$10,000 at each course beginning in 2012.
- Interest and bond principal is assumed at \$258,425 per year. Other City overhead and depreciation is assumed to continue through 2016.

The inputs for the pro forma are summarized in the following table:

Duluth Golf Enterprise Basic Activity Inputs Enhanced Operation						
Key actions	"As-Is"	Increase Mkg. + Enger Ren. Temp. CH at Enger 9-H for ½ Year	New Enger CH + only 18- H open at Enger + New Mgt. agreement	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes
Description	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected
Enger Fee Rounds	21,200	12,600	16,650	25,300	26,300	27,100
Enger Pass Rounds	27,900	14,100	18,400	23,100	26,450	28,800
<b>Total Enger Park Rounds</b>	<b>49,100</b>	<b>26,700</b>	<b>35,050</b>	<b>48,400</b>	<b>52,750</b>	<b>55,900</b>
Lester Fee Rounds	17,500	20,350	20,350	20,350	20,350	20,350
Lester Pass Rounds	22,500	25,000	23,000	23,250	23,250	23,250
<b>Total Lester Park Rounds</b>	<b>40,000</b>	<b>45,350</b>	<b>43,350</b>	<b>43,600</b>	<b>43,600</b>	<b>43,600</b>
<b>Total Rounds</b>	<b>89,100</b>	<b>72,050</b>	<b>78,400</b>	<b>92,000</b>	<b>96,350</b>	<b>99,500</b>
Enger Passes	600	300	400	525	590	610
Lester Passes	450	500	460	465	465	465

Duluth Golf Enterprise Basic Fee / Revenue Inputs Enhanced Operation (Beginning 2012)								
	Enger Park (2013)				Lester Park (2012)			
	18 Holes		9 Holes		18 Holes		9 Holes	
	Weekday	Weekend	Weekday	Weekend	Weekday	Weekend	Weekday	Weekend
Rack Rate	\$34.00	\$39.00	\$19.00	\$22.00	\$32.00	\$36.00	\$18.00	\$20.00
Patron Gold	\$28.00	\$34.00	\$17.00	\$18.00	\$26.00	\$32.00	\$15.00	\$17.00
Patron Platinum	\$14.00	\$17.00	\$8.50	\$9.00	\$13.00	\$16.00	\$7.50	\$8.50
Senior	\$25.00	\$28.00	\$15.00	\$17.00	\$23.00	\$26.00	\$14.00	\$16.00
Senior Patron	\$12.50	\$14.00	\$7.50	\$8.50	\$11.50	\$13.00	\$7.00	\$8.00
Juniors	\$17.00	\$20.00	\$12.00	\$15.00	\$17.00	\$20.00	\$12.00	\$15.00
Twilight	\$18.00	\$20.00			\$17.00	\$19.00		

Duluth Golf Enterprise Golf Pass Fees (2012)						
	2011	2012	2013	2014	2015	2016
Unlimited	\$650.00	\$675.00	\$688.50	\$702.27	\$716.32	\$730.64
Sr. Unlimited (62+)	\$450.00	\$525.00	\$535.50	\$546.21	\$557.13	\$568.28
Young Adult (19-24)	\$400.00	\$410.00	\$418.20	\$426.56	\$435.10	\$443.80
Junior Unlimited	\$275.00	\$275.00	\$280.50	\$286.11	\$291.83	\$297.67
Family	\$1,040.00	\$1,150.00	\$1,173.00	\$1,196.46	\$1,220.39	\$1,244.80
Patron Card	\$185.00	\$200.00	\$204.00	\$208.08	\$212.24	\$216.49

<b>Duluth Golf Enterprise Basic Average Revenue Inputs 'As-Is' Operation</b>						
	<b>2011 Projected</b>	<b>2012 Projected</b>	<b>2013 Projected</b>	<b>2014 Projected</b>	<b>2015 Projected</b>	<b>2016 Projected</b>
<b>Lester Park</b>						
Cart Fees	\$3.46	\$3.50	\$3.57	\$3.64	\$3.71	\$3.79
Range Tokens	\$0.66	\$0.75	\$1.00	\$1.02	\$1.04	\$1.06
Locker Rentals	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02	\$0.02
Club Rentals	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Pull Cart	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.05
Merchandise	\$3.07	\$4.00	\$3.10	\$3.25	\$3.32	\$3.38
F & B (non-Alc)	\$2.37	\$2.37	\$2.42	\$2.47	\$2.52	\$2.57
Alcoholic Beverages	\$1.17	\$1.77	\$1.81	\$1.84	\$1.88	\$1.92
Gift Certif.	\$0.71	\$0.71	\$0.73	\$0.74	\$0.75	\$0.77
Club Dues & Credit	\$0.56	\$0.56	\$0.57	\$0.59	\$0.60	\$0.61
<b>Enger Park GC</b>						
Cart Fees	\$3.42	\$3.50	\$3.57	\$3.64	\$3.71	\$3.79
Range Tokens	\$0.87	\$1.00	\$1.25	\$1.28	\$1.30	\$1.33
Club Rentals	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Pull Cart	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Merchandise	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
F & B (non-Alc)	\$1.77	\$1.00	\$2.25	\$2.50	\$2.60	\$2.70
Alcoholic Beverages	\$1.68	\$1.25	\$2.50	\$2.75	\$3.00	\$3.10
Gift Certif.	\$1.77	\$1.25	\$2.25	\$2.50	\$2.75	\$2.90
Club Dues & Credit	\$0.56	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60

### **Pro Forma Estimate for Enhanced Operation (2011 – 2016)**

Utilizing the above assumptions and activity/revenue estimates, NGF Consulting has prepared a pro forma for the next five years of operation, including a year-end projection for 2011 for each facility, and then for the overall combined system. As this is an estimate of future performance, all figures have been rounded to the nearest \$100 for simplicity.

## Lester Park GC Projected Future Performance (2011-2016)

<b>Lester Park Golf Course Projected Economic Performance Enhanced Operation</b>						
Key actions	"As-Is"	Increase Mkg. + Enger Ren. Temp. CH at Enger 9-H for ½ Year	New Enger CH + only 18- H open at Enger + New Mgt. agreement	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes
<b>REVENUES</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>General Revenue</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
Green Fees	\$268,600	\$347,100	\$354,100	\$361,200	\$368,400	\$375,800
Season Pass	198,300	211,700	198,600	204,800	208,900	213,100
Cart Fees	138,400	158,700	154,800	158,800	161,900	165,200
Range Tokens	26,400	34,000	43,400	44,500	45,400	46,300
Locker Rentals	900	1,000	1,000	1,000	1,000	1,000
Club Rentals	1,200	1,400	1,400	1,400	1,400	1,500
Pull Cart	1,700	1,900	1,900	1,900	1,900	2,000
Merchandise	122,800	181,400	134,400	141,700	144,500	147,400
F & B (non-Alc)	94,900	107,600	104,900	107,600	109,700	111,900
Alcoholic Beverages	46,600	80,300	78,300	80,300	81,900	83,500
Gift Certif.	28,400	32,200	31,400	32,300	32,900	33,600
Club Dues & Credit	22,500	25,500	24,900	25,500	26,000	26,600
<b>Operating Revenue</b>	<b>\$950,700</b>	<b>\$1,182,800</b>	<b>\$1,129,100</b>	<b>\$1,161,000</b>	<b>\$1,183,900</b>	<b>\$1,207,900</b>
<b>Less:</b>						
Merchandise COS	\$95,200	\$140,600	\$104,200	\$109,800	\$112,000	\$114,200
F & B COS	\$56,900	\$64,600	\$62,900	\$64,600	\$65,800	\$67,100
Alcohol Cos	\$17,700	\$30,500	\$29,800	\$30,500	\$31,100	\$31,700
<b>Total Cost of Sales</b>	<b>\$169,800</b>	<b>\$235,700</b>	<b>\$196,900</b>	<b>\$204,900</b>	<b>\$208,900</b>	<b>\$213,000</b>
<b>Gross Margin</b>	<b>\$780,900</b>	<b>\$947,100</b>	<b>\$932,200</b>	<b>\$956,100</b>	<b>\$975,000</b>	<b>\$994,900</b>
<b>Expenses</b>						
Maintenance Payroll	\$126,000	\$131,000	\$136,200	\$141,600	\$147,300	\$153,200
Maint. non-Payroll	183,000	186,700	190,400	194,200	198,100	202,100
Golf Operations Payroll	127,000	132,100	137,400	142,900	148,600	154,500
Golf Ops. non-Payroll	24,000	34,000	34,700	35,400	36,100	36,800
G & A	70,000	71,400	72,800	74,300	75,800	77,300
Management Fee	200,000	200,000	190,175	191,925	192,275	192,750
<b>Total Operating Exp.</b>	<b>\$730,000</b>	<b>\$755,200</b>	<b>\$761,675</b>	<b>\$780,325</b>	<b>\$798,175</b>	<b>\$816,650</b>
<b>Operating Income (Loss)</b>	<b>\$50,900</b>	<b>\$191,900</b>	<b>\$170,525</b>	<b>\$175,775</b>	<b>\$176,825</b>	<b>\$178,250</b>

## Enger Park GC Projected Future Performance (2011-2016)

Enger Park Golf Course Projected Economic Performance Enhanced Operation						
Key actions	"As-Is"	Increase Mkg. + Enger Ren. Temp. CH at Enger 9-H for ½ Year	New Enger CH + only 18- H open at Enger + New Mgt. agreement	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes
	2011 Projected	2012 Projected	2013 Projected	2014 Projected	2015 Projected	2016 Projected
<b>REVENUES</b>						
<b>General Revenue</b>						
Green Fees	\$331,000	\$197,100	\$270,100	\$474,700	\$501,000	\$526,000
Season Pass	264,000	126,000	190,000	254,400	284,200	302,400
Cart Fees	167,900	93,500	125,100	176,200	195,900	211,800
Range Tokens	42,700	26,700	43,800	61,700	68,600	74,200
Locker Rentals	200	0	0	0	0	0
Club Rentals	1,600	900	1,100	1,600	1,800	1,900
Pull Cart	1,500	800	1,100	1,500	1,700	1,800
Merchandise	86,900	26,700	78,900	121,000	137,200	150,900
F & B (non-Alc)	82,500	33,400	87,600	133,100	158,300	173,300
Alcoholic Beverages	86,900	33,400	78,900	121,000	145,100	162,100
Gift Certif.	27,300	14,800	19,800	27,900	31,100	33,600
Club Dues & Credit	24,100	13,100	17,500	24,700	27,400	29,600
<b>Operating Revenue</b>	<b>\$1,116,600</b>	<b>\$566,400</b>	<b>\$913,900</b>	<b>\$1,397,800</b>	<b>\$1,552,300</b>	<b>\$1,667,600</b>
<b>Less:</b>						
Merchandise COS	\$67,300	\$20,700	\$61,100	\$93,800	\$106,300	\$116,900
F & B COS	\$49,500	\$20,000	\$52,600	\$79,900	\$95,000	\$104,000
Alcohol Cos	\$33,000	\$12,700	\$30,000	\$46,000	\$55,100	\$61,600
<b>Total Cost of Sales</b>	<b>\$149,800</b>	<b>\$53,400</b>	<b>\$143,700</b>	<b>\$219,700</b>	<b>\$256,400</b>	<b>\$282,500</b>
<b>Gross Margin</b>	<b>\$966,800</b>	<b>\$513,000</b>	<b>\$770,200</b>	<b>\$1,178,100</b>	<b>\$1,295,900</b>	<b>\$1,385,100</b>
<b>Expenses</b>						
Maintenance Payroll	\$135,000	\$130,000	\$135,200	\$140,600	\$146,200	\$152,000
Maint. non-Payroll	208,000	200,000	210,000	220,000	224,400	228,900
Golf Operations Payroll	134,000	130,000	160,000	180,000	187,200	194,700
Golf Ops. non-Payroll	28,000	38,000	38,800	39,600	40,400	41,200
G & A	82,000	83,600	85,300	87,000	88,700	90,500
Management Fee	200,000	200,000	135,200	227,700	252,300	269,500
<b>Total Operating Exp.</b>	<b>\$787,000</b>	<b>\$781,600</b>	<b>\$764,500</b>	<b>\$894,900</b>	<b>\$939,200</b>	<b>\$976,800</b>
<b>Operating Income (Loss)</b>	<b>\$179,800</b>	<b>(\$268,600)</b>	<b>\$5,700</b>	<b>\$283,200</b>	<b>\$356,700</b>	<b>\$408,300</b>

## Duluth Golf System Combined Projected Future Performance (2011-2016)

<b>City of Duluth Golf System Combined Projected Economic Performance Enhanced Operation</b>						
Key actions	"As-Is"	Increase Mkg. + Enger Ren. Temp. CH at Enger 9-H for ½ Year	New Enger CH + only 18- H open at Enger + New Mgt. agreement	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes	Enger Renovation Complete. Enger on 27 holes
<b>REVENUES</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>General Revenue</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
Green Fees	\$599,600	\$544,200	\$624,200	\$835,900	\$869,400	\$901,800
Season Pass	462,300	337,700	388,600	459,200	493,100	515,500
Cart Fees	306,300	252,200	279,900	335,000	357,800	377,000
Range Tokens	69,100	60,700	87,200	106,200	114,000	120,500
Locker Rentals	1,100	1,000	1,000	1,000	1,000	1,000
Club Rentals	2,800	2,300	2,500	3,000	3,200	3,400
Pull Cart	3,200	2,700	3,000	3,400	3,600	3,800
Merchandise	209,700	208,100	213,300	262,700	281,700	298,300
F & B (non-Alc)	177,400	141,000	192,500	240,700	268,000	285,200
Alcoholic Beverages	133,500	113,700	157,200	201,300	227,000	245,600
Gift Certif.	55,700	47,000	51,200	60,200	64,000	67,200
Club Dues & Credit	46,600	38,600	42,400	50,200	53,400	56,200
<b>Operating Revenue</b>	<b>\$2,067,300</b>	<b>\$1,749,200</b>	<b>\$2,043,000</b>	<b>\$2,558,800</b>	<b>\$2,736,200</b>	<b>\$2,875,500</b>
<b>Less:</b>						
Merchandise COS	\$162,500	\$161,300	\$165,300	\$203,600	\$218,300	\$231,100
F & B COS	\$106,400	\$84,600	\$115,500	\$144,500	\$160,800	\$171,100
Alcohol Cos	\$50,700	\$43,200	\$59,800	\$76,500	\$86,200	\$93,300
<b>Total Cost of Sales</b>	<b>\$319,600</b>	<b>\$289,100</b>	<b>\$340,600</b>	<b>\$424,600</b>	<b>\$465,300</b>	<b>\$495,500</b>
<b>Gross Margin</b>	<b>\$1,747,700</b>	<b>\$1,460,100</b>	<b>\$1,702,400</b>	<b>\$2,134,200</b>	<b>\$2,270,900</b>	<b>\$2,380,000</b>
<b>Expenses</b>						
Maintenance Payroll	\$261,000	\$261,000	\$271,400	\$282,200	\$293,500	\$305,200
Maintenance non-Payroll	391,000	386,700	400,400	414,200	422,500	431,000
Golf Operations Payroll	261,000	262,100	297,400	322,900	335,800	349,200
Golf Operations non-Payroll	52,000	72,000	73,500	75,000	76,500	78,000
G & A	152,000	155,000	158,100	161,300	164,500	167,800
Management Fee	400,000	400,000	325,375	419,625	444,575	462,250
<b>Total Operating Expense</b>	<b>\$1,517,000</b>	<b>\$1,536,800</b>	<b>\$1,526,175</b>	<b>\$1,675,225</b>	<b>\$1,737,375</b>	<b>\$1,793,450</b>
<b>Operating Income</b>	<b>\$230,700</b>	<b>(\$76,700)</b>	<b>\$176,225</b>	<b>\$458,975</b>	<b>\$533,525</b>	<b>\$586,550</b>
<b>Non-Operating Items</b>						
Depreciation	\$135,000	\$131,625	\$128,334	\$125,126	\$121,998	\$118,948
City Allocation Expense	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800	\$66,800
Bond Interest	\$10,200	\$6,500	\$135,000	\$131,297	\$127,483	\$123,555
Bond Amortization	\$5,800	\$2,900	\$123,425	\$127,128	\$130,942	\$134,870
<b>Total Other Items</b>	<b>\$217,800</b>	<b>\$207,825</b>	<b>\$453,559</b>	<b>\$450,351</b>	<b>\$447,223</b>	<b>\$444,173</b>
<b>Net Golf Income (Loss)</b>	<b>\$12,900</b>	<b>(\$284,525)</b>	<b>(\$277,334)</b>	<b>\$8,624</b>	<b>\$86,302</b>	<b>\$142,377</b>



## Summary of Golf Economic Performance

The results of the NGF analysis show that the City of Duluth can vastly improve its golf system by enhancing its facilities (especially Enger Park), improving some business practices, adjusting fees and slightly modifying the management agreement. Of course, this is all predicated on favorable weather and a somewhat stable economy, but the City's economic position in the golf courses is improved even with the addition of \$258,000 in debt service beginning in 2013.

This is achieved by improving the golf product, thereby attracting new golf customers (particularly tourists) to the facility later in the decade at a time when the present clientele of senior golfers are expected to reduce golf activity. The enhanced clubhouse at Enger Park will allow for a greater volume of golf events, as well as other non-golf events that can bring strong economic return (weddings, banquets, parties, etc.). The slight modification in management fee will allow the City to save some money in slower years, while still allowing the golf management company to earn greater income if revenue can increase.

Further, it is important for NGF to note that this projection does include allowance for new capital investment at Lester Park, which as NGF has noted is needed at that facility. The resulting net income after debt can be used in later years (beyond 2016) to complete other projects noted on the NGF list that may become more urgent at that time (such as greens, turf, bunkers, irrigation, etc.).

## Justifications for Projections

NGF Consulting believes the enhanced financial projections created for the Duluth Golf system, under the assumptions noted above, are achievable with the staff and market environment in place in 2011. We base this assertion on the high awareness of the facility that already exists in the local Duluth market, augmented by NGF recommended improvements. NGF Consulting believes the financial projections created for Duluth, under the assumption of recommended changes being enacted, are achievable for the following reasons:

- Potential high quality of Enger Park and Lester Park Golf Courses compared to local competitors.
- Ability to host additional rounds due to cart path and drainage enhancements proposed at Enger Park, and the attractiveness of the new clubhouse beginning in 2014. Enger Park Golf Course is operating at rounds levels that are lower than actual capacity, and the facility has achieved rounds played levels well in excess of what NGF Consulting is projecting within the last five to seven years.
- Increased marketing emphasis through more "modern" approaches, as well as promotion of new improvements made at the facility will result in a change in the marketplace perception of Duluth golf courses.
- More proactive direct selling of larger tournaments and events; better golf experience to offer large group events.
- Improved food & beverage operation and facilities.
- Large population of the Duluth area and potential for regional economic recovery, resulting in increased discretionary income.

# Appendices

**A – Golf Course Life Cycle**

**B – Golf Industry Standards, Norms, and Operational Issues**

**C – Golfer Survey Program**

## APPENDIX A – GOLF COURSE LIFE CYCLE

# GOLF COURSE ITEMS EXPECTED LIFE CYCLE

### HOW LONG SHOULD PARTS OF THE GOLF COURSE LAST?

ITEM	YEARS	ITEM	YEARS
Greens (1)	15 – 30 years	Cart Paths – concrete	15 – 30 years
Bunker Sand	5 – 7 years	Practice Range Tees	5 – 10 years
Irrigation System	10 – 30 years	Tees	15 – 20 years
Irrigation Control System	10 – 15 years	Corrugated Metal Pipes	15 – 30 years
PVC Pipe (under pressure)	10 – 30 years	Bunker Drainage Pipes (3)	5 – 10 years
Pump Station	15 – 20 years	Mulch	1 – 3 years
Cart Paths – asphalt (2)	5 – 10 years (or longer)	Grass (4)	Varies

**NOTES:** (1) Several factors can weigh into the decision to replace greens: accumulation of layers on the surface of the original construction, the desire to convert to new grasses and response to changes in the game from an architectural standpoint (like the interaction between green speed and hole locations). (2) Assumes on-going maintenance beginning 1 – 2 years after installation. (3) Typically replaced because the sand is being changed — while the machinery is there to change sand, it's often a good time to replace the drainage pipes as well. (4) As new grasses enter the marketplace — for example, those that are more drought and disease tolerant — replanting may be appropriate, depending upon the site.

Component life spans can vary depending upon location of the golf course, quality of materials, original installation and past maintenance practices. We encourage golf course leaders to work with their golf course architect, superintendents and others to assess the longevity of their particular course's components.

The American Society of Golf Course Architects (ASGCA) thanks those at the USGA Green Section, Golf Course Builders Association of America, Golf Course Superintendents Association of America and various suppliers for their assistance in compiling this information.

The materials presented on this chart have been reviewed by the following Allied Associations of Golf:

For more information,  
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**262-786-5960** or  
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## **APPENDIX B – GOLF INDUSTRY STANDARDS, NORMS, AND OPERATIONAL ISSUES**

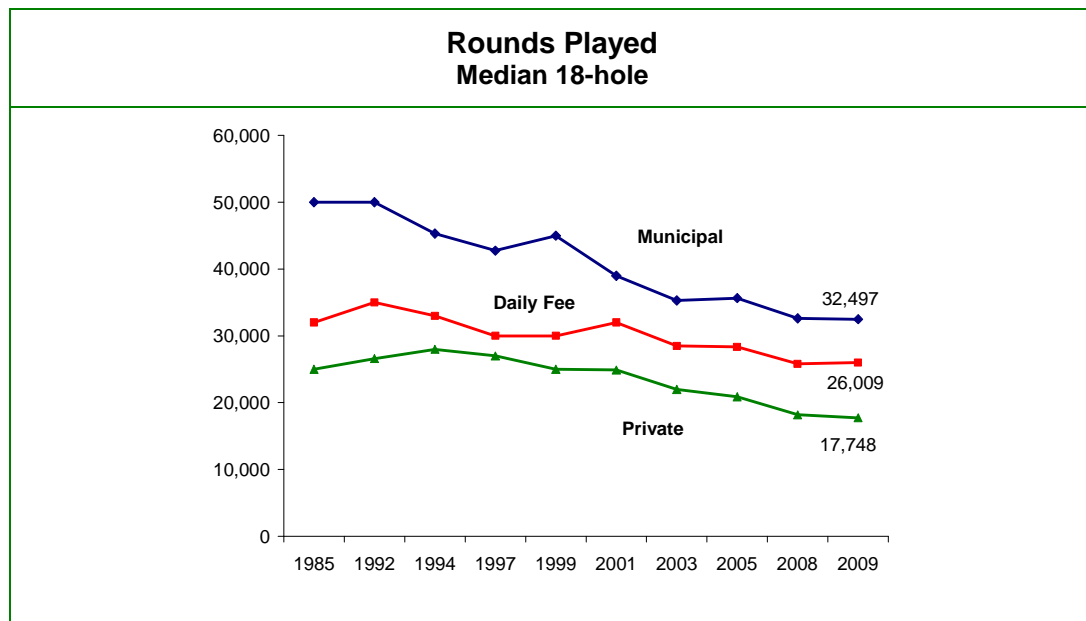
The NGF has presented a selection of basic golf industry information designed to help educate the City of Duluth on “reasonable expectations” for public golf operations in the U.S. Information provided includes operational norms for public golf courses (rounds, revenues, expenses, staffing) as well as some other “standards” consistent with successful public golf courses.

### **Public Golf Operational Norms**

For comparison purposes to City of Duluth golf courses, we present a review of selected NGF data collected from various surveys conducted in the last five years. This include data from the aggregate of all golf courses in the U.S. (by category), as well as data from selected sub-categories of golf facilities, including “Standard” (highest green fee under \$35), “Mid-Fee” (highest fee between \$35 and \$70) and “Premium” (highest fee over \$70). These data are detailed in the National Golf Foundation publication, *Operating & Financial Performance Profiles of 18-hole Golf Facilities in the U.S.* As Duluth is operating golf courses that fit into two separate categories, the NGF has included benchmark data for ‘mid-fee’ public golf courses, but does not have complete and accurate data for comparison on 9-hole Executive-length and par-3 courses. In addition, NGF Consulting has added estimates from the “*Future of Public Golf in America*” study completed in 2009 and presented at the annual NGF Golf Business Symposium.

### **Public Golf Facility Rounds Expectations**

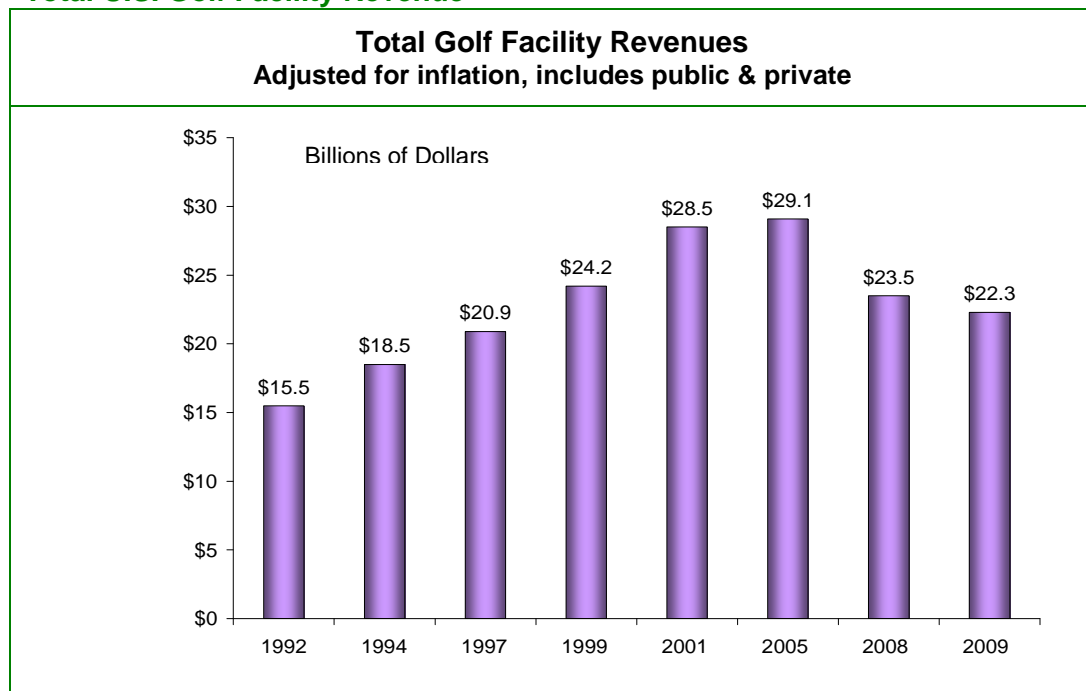
NGF research indicates that the average number of rounds played per 18-hole golf course has been declining in the last 25 years. The totals now stand at an average of 32,497 rounds for municipal golf courses, 26,009 for all daily fee (privately-owned, open to the public), and 17,748 for private (member only) clubs. We note these figures all represent significant declines since 1985, with acceleration of decline since 2001. As a benchmark comparison, average rounds per 18-hole municipal golf course was around 36,000± in 2005 and just over 33,500± in 2009.



### Public Golf Facility Revenue Expectations

NGF research indicates that the total of all golf facility revenues in the U.S. represents a \$22.3 billion industry, down from a peak of \$29.1 billion in 2005. The table below shows the NGF estimate for total golf facility revenue (public and private combined) in the United States for selected years since 1992.

### Total U.S. Golf Facility Revenue





### Average Revenue per Golf Facility

The NGF estimate for total revenue per golf facility in the U.S. now stands at \$1.5 million for daily fees, \$1.3 million for municipals, and \$3.4 million for private clubs. Again, we note that this is a full aggregate of all golf facilities in the U.S., inclusive of all climatic regions and facility types.

<b>Facility-Level Revenues</b> <b>Average Total Revenues</b> <b>18-hole - \$millions</b>			
	<b>2008</b>	<b>2009</b>	<b>% change</b>
Daily Fee	\$1.6	\$1.5	-6.1%
Municipal	\$1.3	\$1.3	-2.1%
Private	\$3.6	\$3.4	-4.7%
Source: National Golf Foundation and Golf Datatech			

### Revenue Detail for 'Mid-Fee' Public Golf Courses

Further detail on 'mid-fee' public golf facility operations in the United States has been collected by NGF over the years, a summary of which is presented below for 2005 and 2009. 'Mid-fee' public golf courses are those with green fees in the \$35 to \$70 range (excluding carts). The NGF consultants feel that this represents the best measure of comparison to performance at the Duluth golf facilities, and is used for this purpose throughout the NGF engagement for the City of Duluth.

Public Mid-Fee Average Revenues			
	<b>2005</b>	<b>2009*</b>	<b>% change</b>
Green fees, cart fees and member/pass-holder revenue	\$679,280	\$624,900	-8.0%
All other golf revenue	\$76,930	\$75,000	-2.5%
F&B revenue (incl. banquets)	\$214,400	\$182,200	-15.0%
Merchandise revenue	\$80,080	\$75,300	-6.0%
All other operating revenue	\$37,560	\$36,400	-3.1%
<b>Total Revenue</b>	<b>\$1,088,250</b>	<b>\$993,800</b>	<b>-8.7%</b>
Source: <i>Operating &amp; Financial Performance Profiles of 18-Hole Golf Facilities in the U.S.</i> , 2006 edition, National Golf Foundation, and "Future of Public Golf in America" study – 2010.			
*Estimated totals derived from sample research in 2009.			

### Public Golf Facility Expense Expectations

NGF research indicates that all golf facilities in the U.S. had a total of \$21.3 billion in direct operating expenses, down 20.5% from a high of \$26.8 billion in 2001. The table below shows the NGF estimates for total golf facility expenses (public and private combined) in the United States for selected years since 1992.

## Total U.S. Golf Facility Expenses



## Average Expense per Golf Facility

The NGF estimate for total expenses per golf facility in the U.S. now stands at \$1.3 million for daily fees, \$1.1 million for municipals and \$3.2 million for private clubs. Again, we note that this is a full aggregate of all golf facilities in the U.S., inclusive of all climactic regions and facility types.

<b>Facility-Level Expenses</b> <b>Average Total Expenses</b> <b>18-hole - \$millions</b>			
	<b>2008</b>	<b>2009</b>	<b>% change</b>
Daily Fee	\$1.4	\$1.3	-5.8%
Municipal	\$1.1	\$1.1	-1.2%
Private	\$3.4	\$3.2	-5.4%
Source: National Golf Foundation and Golf Datatech			

## Operating Expense Detail for 'Mid-Fee' Public Golf Courses

Further detail on 'mid-fee' public golf facility operational expenses in the United States from 2005 and 2009 are displayed below. The NGF consultants will use these figures for comparison to performance at Duluth City golf courses throughout the NGF engagement for the City of Duluth.



Public Mid-Fee Average Expenses			
	2005	2009*	% change
Total maintenance costs	\$377,160	\$414,900	10.0%
Golf car fleet costs	\$31,120	\$30,500	-2.0%
COGS F&B	\$86,360	\$76,200	-11.8%
COGS merchandise	\$56,450	\$44,600	-21.0%
Other expenses	\$315,280	\$365,700	16.0%
<b>Total Expenses</b>	<b>\$866,360</b>	<b>931,900</b>	<b>7.6%</b>
<b>Notes:</b> "Total maintenance costs" includes payroll, supplies, and equipment. "Other expenses" is a large category because it includes all non-maintenance payroll and all other operating expenses. Source: <i>Operating &amp; Financial Performance Profiles of 18-Hole Golf Facilities in the U.S.</i> , 2006 edition, National Golf Foundation, and "Future of Public Golf in America" study – 2010. *Estimated totals derived from sample research in 2009.			

### Other Expense Findings

NGF Consulting has also included basic information on golf industry 'standards' for all golf courses of all types in all climates. Industry standards can vary depending upon specific courses, but as a "rule of thumb," allocated spending in key areas coincide with the following percentages:

Key Area	Allocated Spending
Labor	50%
Products, Supplies & Repair	20%
Services (Incl. Equipment)	15%
Utilities	5%
G & A (Excl. Labor)	5%
Other	5%
Source: Golf Course Superintendents Association of America (GCSAA) and NGF Consulting. Expense totals do not include non-recurring capital expenses, amortization, or depreciation.	

### Public 'Mid-Fee' Average Revenue and Expense per Round

NGF research indicates that middle-fee public golf courses in the U.S. average \$30.58 in total facility revenue per round of golf in 2009. Of this figure, \$21.54 (70.4%) is derived from "golf" sources (green, cart, pass fees and driving range), with the remaining \$9.04 (29.6%) per round derived from "ancillary" (mostly merchandise, food + beverage) sources. Overall, this figure has declined by about 6.0% between 2005 and 2009, with the largest decline (12.5%) coming from food and beverage revenue.

<b>Public Mid-Fee U.S. Average Revenue Per Round</b>			
	<b>2005</b>	<b>2009</b>	<b>% change</b>
Total Revenue	\$32.54	\$30.58	-6.0%
Golf Revenue	\$22.61	\$21.54	-4.7%
F&B revenue (incl. banquets)	\$6.41	\$5.61	-12.5%
Merchandise revenue	\$2.39	\$2.32	-2.9%
All other operating revenue	\$1.12	\$1.12	0.0%
Source: <i>Operating &amp; Financial Performance Profiles of 18-Hole Golf Facilities in the U.S.</i> , 2006 edition, National Golf Foundation, and “ <i>Future of Public Golf in America</i> ” study – 2010			

Middle-fee public golf courses in the U.S. average \$28.68 in total facility expenses per round of golf. Of this figure, \$12.77 (44.5%) is derived from golf course maintenance, with the remaining \$15.91 (55.5%) per round derived from all other expenses. Overall, this figure increased by about 11% between 2005 and 2009.

<b>Public Mid-Fee U.S. Average Expense Per Round</b>			
	<b>2005</b>	<b>2009</b>	<b>% change</b>
Total maintenance costs	\$11.28	\$12.77	13.2%
Golf car fleet costs	\$0.93	\$0.94	0.9%
Total COGS	\$4.27	\$3.71	-13.1%
Other expenses	\$9.43	\$11.25	19.4%
<b>Total Facility Expense</b>	<b>\$25.91</b>	<b>\$28.68</b>	<b>10.7%</b>
Source: <i>Operating &amp; Financial Performance Profiles of 18-Hole Golf Facilities in the U.S.</i> , 2006 edition, National Golf Foundation, and “ <i>Future of Public Golf in America</i> ” study – 2010			

## **Golfer Expectations of Better Quality Public Golf Facilities**

Golf consumers have developed certain expectations about the package of amenities they expect at golf courses of various levels of quality. These expectations extend to both the physical attributes (maintenance) of a facility as well as the level of service provided. In this section, NGF will provide a basic “checklist” of amenities and services that are expected at various levels of golf course quality and should be considered within the overall program of the City of Duluth golf system. This includes a review of golf course facilities, support amenities, and service.

### **Golf Course Expectations**

A summary of categories of expectations for golfers at middle-to-better quality golf courses includes:

- Clean carts
- Good scenery
- Appropriate length and challenges (see below)
- Well maintained conditions
- Well maintained greens
- Well maintained fairways
- Well maintained tees
- Well maintained bunkers
- Clearly marked and visible yardage and hazard indicators
- Rough that is not too difficult and ball can be found
- Practice facility
- On-course facilities / water fountains

### **Clubhouse Expectations**

Basic expectations of golf course clubhouses from golf consumers at middle-to-better quality public golf courses include:

- Visually appealing entrance and landscaping
- Area to drop golf bags directly from auto
- Clean and clearly marked entrance
- Appropriate and visible art and decorations
- Visually appealing pro shop area
- Room to shop and view items for sale + ease of purchase
- Convenient restrooms cleaned twice daily
- Clear logistics and ergonomics (where do I go to check in?)
- Space and comfortable chairs to sit and relax
- Wi-Fi and cell service available
- Space to privately change clothes/shoes (if necessary)
- Nice views of the golf course
- Good food and beverage service

- Alcohol service (at least beer) and a comfortable place to go to enjoy food and drinks and reflect on their round with friends
- Big screen TVs in the lounge/bar and/or grill area that are always tuned to sports

### Service Expectations

Basic service expectations from golf consumers at middle-to-better quality public golf courses include:

- Availability of, and accommodation for booking tee-times
- Assistance with golf bag drop
- Ease of parking
- Friendly/courteous staff at check-in counter
- Pro shop stocked with appropriate basic items (balls, tees, gloves, etc)
- Carts cleaned and fully charged for a round
- Courteous starter attentive to golfer needs
- Management/staff attention to pace-of-play
- Courteous ranger moving play along
- Beverage cart service
- On-course restroom / drinking stations
- Ability to conveniently consume snacks/beverages after 9th hole (the “turn”)
- Assistance with golf bag after the round
- Ability to conveniently consume snacks/beverages after 18th hole
- Pro shop open when round complete

The above items represent the basic package of golf facility amenities expected by golfers to complete a better quality golf experience. Attention to these details will help produce repeat customers and strong “word-of-mouth” recommendations. In general, the facilities at Enger Park and Lester Park Golf Course meet these expectations with some exceptions to be addressed by NGF in our recommendations section.

### Merchandising Operations

Merchandise sales are an often overlooked aspect of golf operations. Most operators realize that it is important to carry some items as a convenience to their customers, some even see it as a profit center, but rarely is it seen as a significant source of income. Instead, it is looked upon more as a small add-on sale and is rarely given much attention. As a result, most operators are content with merchandise sales of \$2.50 or so per round. On the other hand, some operators see merchandise sales for what it can be – a major profit center for the golf operation.

In addition, savvy operators understand that the quality of the merchandise helps set the golfer's expectations for the course. For example, if a golfer comes in and sees a sparsely stocked pro shop, they are likely to conclude that the golf course is in financial difficulty, which may reflect on the quality of the golf course and its condition. Similarly, if the pro shop carries high-quality shirts and supplies, the golfer is led to believe the golf course is a higher-end facility that attracts higher-end golfers who can afford to play at better facilities.

The biggest key to success in merchandise sales is attitude. If a golf facility operator approaches merchandise sales as simply a minor add-on, it is likely to remain a low priority and generate little revenue. On the other hand, if the pro shop is viewed as a retail store, the entire perspective changes. The degree to which a golf facility can emulate successful retail store practices will determine just how successful that golf shop can become. Ideas to help move improve merchandise operations at public golf courses include:

- **Sales.** Always have merchandise on sale. Further, the merchandise on sale is not just the rejects, but includes popular selections as well. Merchandise should be rotated regularly through the sales tables and not kept on sale for more than a few weeks at a time.
- **Promotion.** The typical pro shop relies on a small sign placed strategically on a rack or table to announce items that are on sale. Merchandise sales can also be promoted on the Website, sent out in emails, noted on large signs in the lobby or grill area, or on smaller signs at the pro shop counter or even on the golf carts.
- **Inventory.** Successful retail stores recognize that having a strong inventory is important for two reasons: (1) it gives customers a wider selection, which increases the chances for a sale; and (2) full shelves are much more enticing to customers than sparsely stocked shelves.
- **Margin.** Most successful pro shops will have a cost-of-goods for merchandise sales of around 70-75%.
- **Know Your Market.** One of the biggest keys to success is to know your market and stock merchandise that is consistent with the golfers at the facility and the price point.
- **Logo.** One thing golf discounters and on-line stores do NOT have is your logo! Your logo is often the main reason buyers will purchase your shirts and caps, etc., because it is unique and gives them something to wear others won't have. The Duluth Golf system should strive to improve the golf logo for both Enger Park and Lester Park, and then promote it on all soft goods items (shirts, jackets, hats, etc.), as well on golf balls and umbrellas and other hard goods items.
- **Staffing.** The best pro shops will have staff that is dedicated to merchandise sales. There should be a merchandising manager who is knowledgeable on retail sales and knows both how to order and display merchandise successfully.

## Food and Beverage Operations

The food and beverage (F&B) operation at most golf courses is critical to the facility's profitability, either positively or negatively. The F&B operation, though, is more important to the success of a golf course than simply its direct contribution to the bottom line. What is often undervalued, perhaps because it is so hard to measure, is the F&B's impact to the overall desirability of a golf course and thus its effect on rounds performance.

There is no question that for most golfers a golf course's F&B operation significantly impacts the overall golfing experience. Given that a golf round usually takes four to four and half hours to play, a golf round is inevitably going to impact at least one meal for a golfer. Further, many golfers enjoy relaxing after a round of golf, preferably while eating and/or drinking. This is an important social time as the golfers reflect on the round, settle bets, and often discuss various issues that may have nothing to do with golf. (Notably, a golf course is a popular spot to conduct business).

As a result, a facility's F&B operation can be either an asset or a detriment to a facility. If the quality of food is excellent and the atmosphere and service are good, there is no doubt that the operation will have a positive impact on golf course performance. However, if the F&B is lacking (or even non-existent) it can deter a lot of players from even coming to the course. This is true if for no other reason than convenience. Given that the golfer is likely to need a place to eat either before, after or even during a round, if the golf course cannot provide the meal, the golfer must find another place – adding additional time and inconvenience to the round. Further, a golfer tends to want to satisfy thirst and hunger immediately. If this cannot be done at the golf course, the round can be much less pleasant.

On the other hand, if the food quality and service are good, it adds to the golf experience and increases the desirability of the golf course as a place to play. A high quality F&B operation can help make up for any deficiencies of the golf course. Similarly, a poor F&B operation can drag even a good golf operation down.

It is also important to understand that the F&B operation is not limited to the grill or restaurant, but definitely extends to the golf course. Many golf operators have discovered that offering a good beverage cart operation not only creates a new profit center, but also increases total rounds performance. Golfers tend to enjoy beverage cart service, when the operators are well-trained and personable and the prices and selection reasonable. It is not uncommon for a mid-level facility to average more than \$4 per round from beverage cart sales alone. Successful beverage carts include good servers and good selection, consistency (be available) and the sale of beer.

## **APPENDIX C – GOLFER SURVEY PROGRAM**

To be included in final report