

Findings of the Duluth Golf Citizen Advisory Committee

Approved March 4, 2019

The Charge of the Duluth Golf Citizen Advisory Committee

This report was developed by a citizen advisory committee appointed by Mayor Emily Larson. Committee members were:

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

Mayor Larson assigned the committee a two-part charge:

1. Conduct a business and facility alternatives development and assessment process for Duluth Golf in the with the aim of advising the City how best to provide quality, reasonably affordable, public golf in Duluth on a financially sustainable basis, including financing for debt payments and infrastructure renovation.
2. Design the planning process to meaningfully engage the opinions of a broad swath of the community, including but not limited to golfers, and provide guidance that draws on relevant data, best practices, expertise, and analysis including analysis of the potential for partial closure and sale of some Duluth Golf assets.

Mayor Larson called on the committee to deliver at least one, and potentially two, final products. At minimum, the committee was called upon to draft and present written findings of fact unanimously endorsed by the Committee as substantially sound and accurate. To the extent possible, the committee was also called upon to attempt to come to agreement on more precise written recommendations on which golf facilities to retain, how to renew those facilities, and how to operate them on a financially sustainable basis. Foreseeing that agreement on specific recommendations might prove to be impossible, Mayor Larson provided that City administration might develop and put forth its own recommendations and provide an opportunity for Friends of Duluth Golf to present their own vision.

To support the committee's work, the City contracted with golf industry consultants to provide the following services:

1. Development and assessment of Duluth Golf business and facility options.
2. Assessment of golf facility conditions and development of capital investment options.
3. Public opinion research to illuminate the opinions of Duluth citizens (golfers and non-golfers) about the future of Duluth Golf.

Committee Affirmation That the Report is Substantially Sound and Accurate

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

The Value of Public Golf in Duluth

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

The City of Duluth Parks and Recreation mission is to promote the health and well-being of our community, environment and economy by facilitating recreational opportunities and coordinating the enhancement of our parks, facilities and natural resources now and into the future.

The City of Duluth Parks and Recreation vision is to be the central driving force in strengthening the heritage of a healthy, active community for future generations by continuing on the path of improving and enhancing our parks and facilities; protecting our natural resources; and developing partnerships to deliver recreation programs and services.

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

In 2018, an estimated 3,402 local citizens from Duluth and adjoining cities and townships played an estimated 57,940 rounds at City-owned golf courses, or an average of 17 rounds per person per year. For these citizens, the City's golf program is an important way to be healthy and active, connect with other people, and enjoy the natural world.

The Financial Condition of the Golf Industry Nationally and Locally

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

According to the National Golf Foundation, the number of golf courses in the United States increased by 29% from 1985 to 2005. Since 2006, the number of golf rounds played in the United States decreased by 23%, then stabilized at the current level of 23.8 million golfers. The increase in golf supply followed by the decrease in golf participation has created an unsustainable market imbalance that causes financial harm to golf courses by spreading a smaller number of golfers across a larger number of holes and depressing the ability of courses to increase rates to keep pace with increasing costs. The National Golf Foundation asserts that many courses need to close so that the industry as a whole can be financially sustainable. More than 150 courses per year have closed for the last several years and this trend is expected to continue (National Golf Foundation).

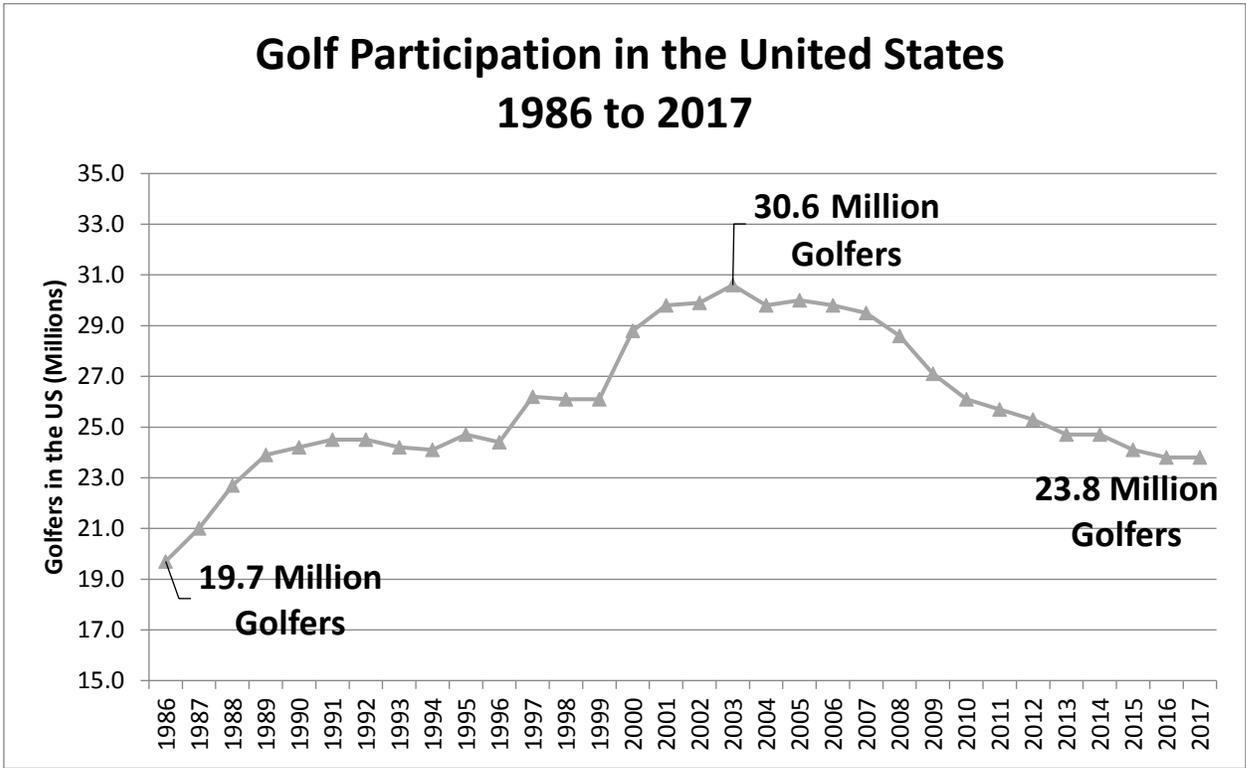


Figure I: US Golf Participants 1986 to 2017 (in Millions)
 Source: National Golf Foundation

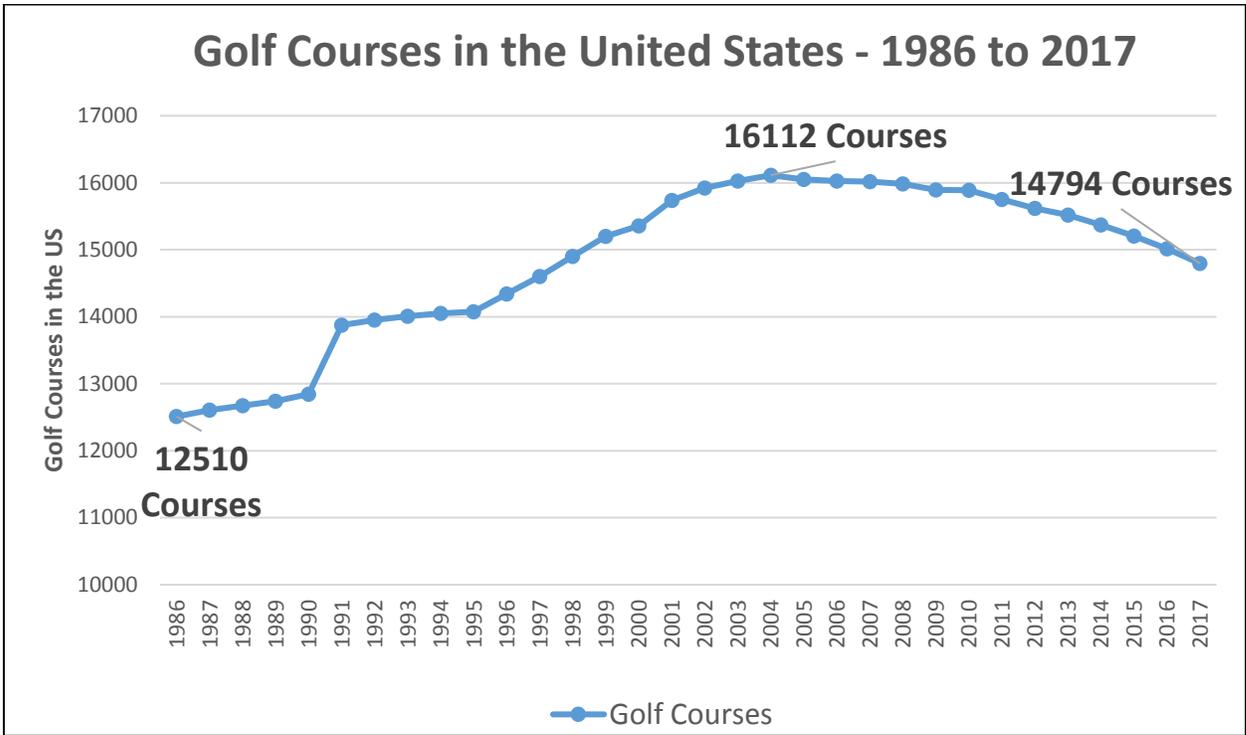


Figure II: US Golf Courses 1986 to 2017
 Source: National Golf Foundation

The same dynamic has been at play among publicly accessible golf courses in the Duluth area. A publicly accessible golf course is one that permits the public to play without having to become a member or stay in an associated hotel. Seventy-two new publicly accessible holes within 30 miles of Duluth opened in the 20-year period 1984-2003, representing 43% of the public holes currently in operation in the area. Government-owned courses constructed or expanded during the national golf boom include Nemadji in Superior, Lakeview National in Two Harbors, and Black Bear in Cloquet. The City of Duluth grew its own inventory by 50% from 36 holes to 54 holes in 1989.

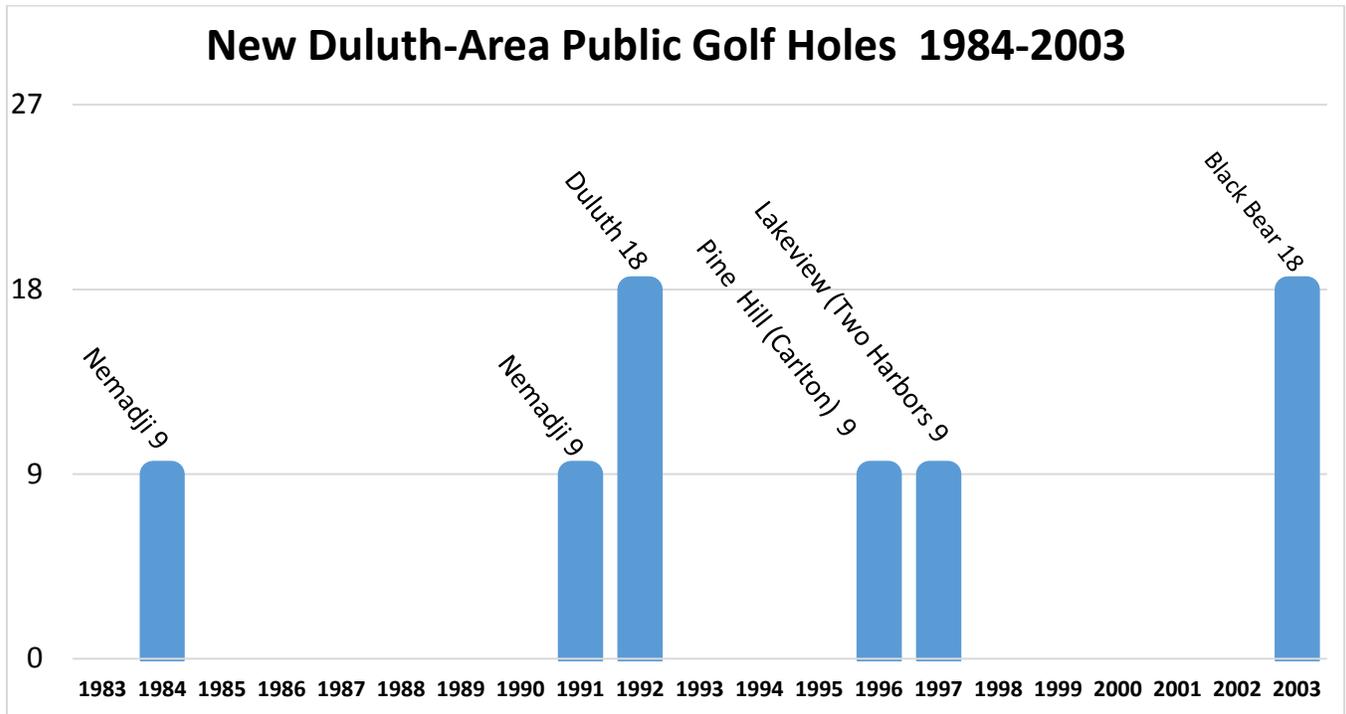


Figure III: New Duluth-Area Golf Holes 1984-2004

Source: Newspaper Archives

As in the nation, public golf courses in the Duluth area have seen significant decreases in participation following golf's peak in the 2000's. From 2000 to 2018, the number of rounds played at Enger and Lester decreased by 44% from 108,000 to 60,988 (33,714 at Enger, 27,920 at Lester). Municipal courses in Two Harbors and Superior have also reported diminishing participation and financial performance.

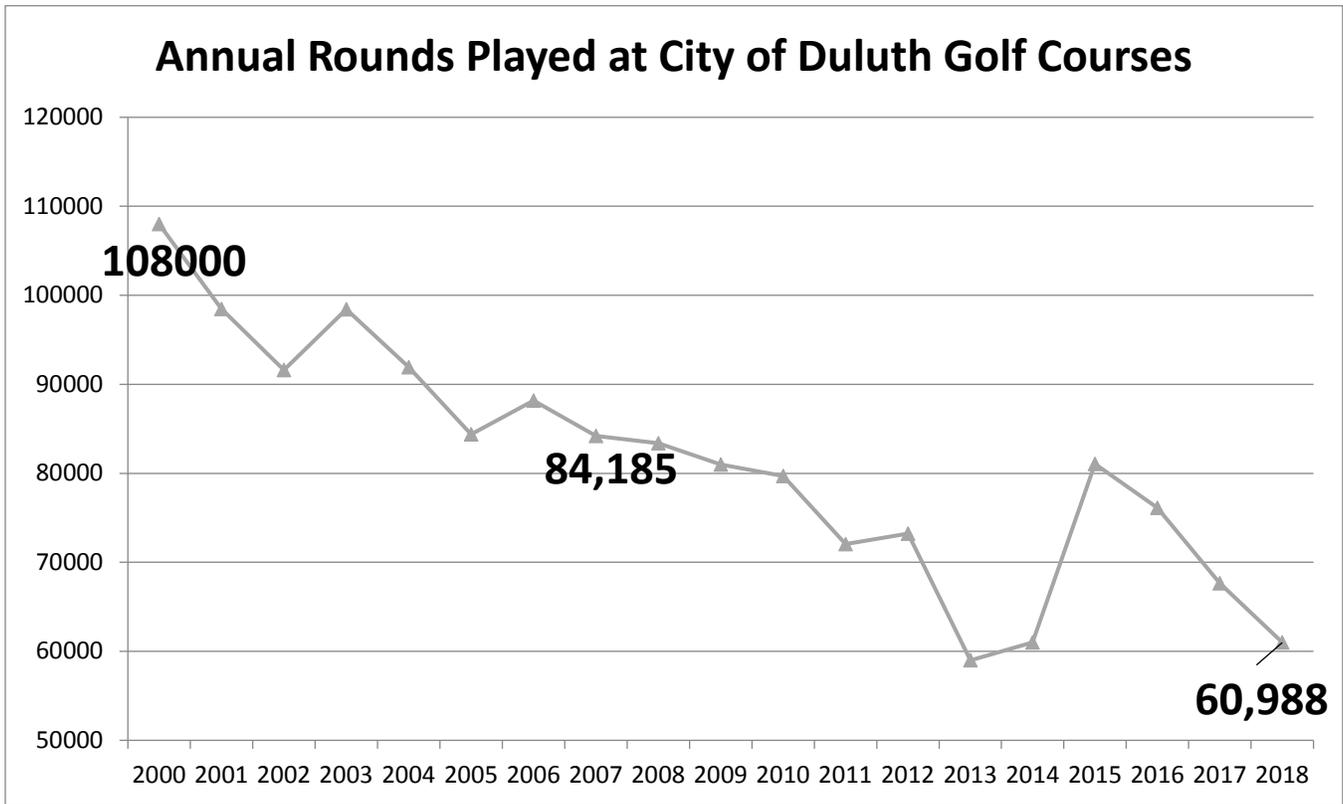


Figure IV: City of Duluth Golf Total Rounds 2000 to 2018

Source: National Golf Foundation

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

The Condition of City of Duluth Golf Infrastructure

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

Golf courses are comprised of built improvements with a finite lifespan. The last significant investment in City-owned golf infrastructure was 30 years ago. Golf course architect, Kevin Norby, was hired by the City in 2018 to conduct a comprehensive facility assessment. He characterized the condition of infrastructure at both facilities as “quite poor”.

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

The expected lifespan of a golf irrigation system is 20 years. Irrigation systems at Enger and Lester are each 30 years old. Growing portions of both irrigation systems have been rendered permanently inoperable due to failed system components and replacement parts that are no longer manufactured.

Managing and repairing system failures represents a large and increasing maintenance cost. Complete failure of irrigation systems would risk permanent harm to greens and tees. Irrigation water supply and storage at Enger has been insufficient since the 2012 flood destroyed the irrigation pond on Coffee Creek. Water supply and storage at Enger must be reconceived and reconstructed soon to avoid progressive deterioration of green infrastructure.

The Enger and Lester clubhouses were constructed in 1927 and 1933, respectively. Both fall significantly short of contemporary accessibility and safety standards. Both are severely deteriorated with significant structural problems that must be addressed soon to avoid potential collapse of walls and ceilings.

The City's inventory of golf maintenance equipment, vehicles and attachments is extremely old and deteriorated. Multiple units have reached or are approaching complete failure. Nearly all equipment has more than 3,000 hours of operation, the rough equivalent of putting more than 230,000 miles on a vehicle. The City needs to lease or buy a new fleet of maintenance vehicles and attachments to enable the course manager to maintain the course.

The deterioration of golf course infrastructure has been partially offset by significant improvements in routine golf course maintenance by current golf course manager, Billy Casper Golf, which has significantly improved the appearance and playability of greens and tee boxes.

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

The extreme deterioration of some Duluth Golf infrastructure may have already initiated and, if not, will eventually initiate a downward spiral in which deteriorating course conditions will depress participation and financial performance which will further worsen conditions. Increasingly frequent, significant, and irreparable system failures will diminish the quality of the Duluth Golf experience. Diminished quality will suppress participation and pricing power, worsen financial performance, and diminish the financial capacity of Duluth Golf to maintain, repair, or replace of golf infrastructure.

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

The cost of replacement irrigation systems can be reduced with limited negative impact on the quality of play by reducing irrigated acreage to only cover fairways, tees, and greens.

The cost of replacement water supply and storage facilities at Enger can be reduced by negotiating a cost-effective solution with the Minnesota Department of Natural Resources in exchange for City commitments to significantly reduce surface and ground water appropriations below historic levels.

The City can establish a functional, safe, reasonably attractive, and accessible clubhouse by purchasing a manufactured building rather than renovating the current building or replacing them with a building constructed entirely on site.

The cost of alleviating problems associated with chronically wet fairways and failing bunkers can be reduced by fixing only the worst fairways and bunkers.

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

Golf course architect, Kevin Nordby, prepared an initial report that identified \$26.7 million of capital improvements at the two courses. He characterized \$8.5 million of those improvements as critical with \$4.4 million in critical improvements at Enger and \$4.1 million at Lester. In response to committee concerns that the critical improvements might be unaffordable, Kevin Nordby prepared a supplementary report on Enger that eliminated some critical improvements and value engineered others to establish a barebones reinvestment plan with an estimated cost of \$3.7 million. Application of the same approach to critical investments at Lester would reduce the cost of barebones reinvestment there to roughly \$3.4 million.

The Enterprise Fund Model for Managing Duluth Golf Finances

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

Enterprise funds are accounting structures intended to be used to manage government activities that run in a manner similar to private businesses with the expectation that the activity will generate revenues sufficient to cover costs.

According to the State of Minnesota, an enterprise fund is the most appropriate accounting structure to account for government activities that meet one or more of three criteria:

- A. The activity is financed and operated on the basis of fee revenue in a manner similar to private business enterprises (Minnesota Office of the State Auditor, 2012).
- B. Capital borrowing in support of the activity is financed solely by revenues generated by the activity.
- C. Prices and fees are designed and intended to recover costs (including capital costs) (Minnesota Office of the State Auditor, 2014).

Historically, Duluth Golf has met all three criteria. While state law clearly recommends an enterprise fund as the most appropriate accounting structure for Duluth Golf, the City of Duluth probably has the latitude to operate the program within the General Fund or the Parks Fund if it wishes. Whether or not an enterprise fund is obligatory, enterprise funds are thought by municipalities to be a useful way to lend operational and financial discipline to large, expensive, and complex government services that, as a practical matter, need to generate fees that are sufficient to pay for most or all of the expense to provide the service.

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

According to the State of Minnesota Auditor, enterprise funds may be subsidized by other municipal funds if the activity provides a benefit to the entire community (not just those who participate in the activity). In such cases, City Councils should “base the subsidy on a conclusion by the municipality’s governing body that the enterprise serves to benefit the community as a whole. In addition, the municipality should have a policy or plan in place that specifies goals and objectives for the performance of the enterprise fund, including the amount of subsidy considered appropriate and reasonable in light of the value of the benefits to the community” (Minnesota Office of the State Auditor, 2014).

12. *Historically, all City of Duluth enterprise funds, including Duluth Golf, have been charged an administrative fee intended to offset the estimated cost the City of Duluth General Fund incurs to provide a variety of administrative support services (e.g. legal, accounting, regulatory, etc.).*

Because enterprise funds are intended to be self-supporting, it is customary for the General Fund to charge each enterprise fund an annual administrative fee equal to the estimated annual cost the City incurs to provide administrative support services for each fund. The estimated annual cost is periodically recalculated and the fee reset. In Duluth, the annual administrative fee charged by the General Fund to the Golf Fund has been as high as \$66,800 and as low as \$16,100 (the budgeted 2019 fee).

Potential Sources of Financial Support for Duluth Golf

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

- A. **General Fund** – The General Fund is the primary source of financial support for the Park Maintenance Division – which works in partnership with community groups to perform routine maintenance on park facilities – and the Property and Facilities Management Division – which is responsible for routine and long-term maintenance of park buildings. The support most often comes in the form of City-provided, or City-contracted, maintenance services. Most of the Park Maintenance budget goes to four things: 1) Comprehensive maintenance services for a few destination parks and trails; 2) Limited maintenance services like mowing, plowing, and garbage pick-up at other park properties; 3) Winter snow removal on sidewalks, parks, trails, and parking lots; and 4) Tree services. For activity-specific assets like ballfields, rinks, courts, and single-use trails, Park Maintenance typically delegates most programming and maintenance to user groups under formal agreements. Examples include hockey rinks, snowmobile trails, dog parks, and soccer fields.
- B. **Tourism Tax** – The Tourism Tax Fund has been a supplementary source of revenue for those few recreational activities that provide significant support for tourism in Duluth. State law says that proceeds from the City of Duluth’s base food, beverage, and lodging taxes, “Shall be used to pay for activities conducted by the City or by other organizations which promote tourism in the City of Duluth and to subsidize the Duluth arena-auditorium and the Spirit Mountain Recreation Area” (State of Minnesota, 1980). The City complies with this law by soliciting applications for tourism tax

support and evaluating those applications on the extent to which the applicant organization or project demonstrates significant past or likely future support for tourism.

- C. Half-and-Half Tax – The so-called “Half-and-Half” tax is a one-half of one percent increase in the lodging tax and an equivalent increase in the food and beverage tax. Per state law, the tax is intended to fund \$18 million of investment in public facilities that provide outdoor recreation experiences in a precisely defined area of western Duluth below Skyline Parkway bounded on the west by the boundary between Jay Cooke State Park and the City of Duluth and on the east by 13th Avenue West. The driving range for Enger Park Golf Course falls within this geographic area, provides outdoor recreation, and is therefore eligible for investment from this source. At this time, all \$18 million of half-and-half tax proceeds have either been spent or are dedicated to specific projects.
- D. Parks Fund – The \$2.6 million per year Parks Fund is the primary source of financial support for the Parks and Recreation Division whose role is to plan, renovate, and construct parks and trails and coordinate programming and events. More than half of the Parks Fund goes to pay for the City’s small Parks staff and seasonal Park Maintenance personnel. Much of the remainder is dedicated to community priorities such as out-of-school youth programming for children in our lowest income neighborhoods. The most fungible part of the Parks Fund budget is the \$500,000 capital budget. That \$500,000 per year is spread very thin across a system with 129 parks properties that collectively have well in excess of \$100 million of deferred maintenance.
- E. State and federal grants – The City applies for, and often receives, federal and state grants for construction or renovation of eligible park and trail improvements. Grant opportunities are limited by the often-narrow priorities of each grant program.
- F. Fee-based revenue – Unlike golf, most athletic activities in Duluth parks are managed by nonprofits that collect fees to cover program costs. Most fees are retained by nonprofits to cover program costs such as insurance, equipment, uniforms, travel, etc. Some fees are returned to the City to be reinvested in maintenance of athletic facilities.
- G. Asset sales – Generally, when assets managed under a given city fund are sold, the default practice is that sale proceeds remain in that fund. The City’s investments in recreational activities are spread across three funds – the Parks Fund, the General Fund, and the Golf Fund. For assets that clearly “belong to” just one of the funds, the City’s practice has been to retain the proceeds of asset sales within that fund. An example include golf maintenance equipment. The proper association of real estate assets and real estate sale proceeds with specific city funds is less clear and varies from case to case.
- H. Partnerships – For most recreational activities, Duluth Parks and Recreation partners with one or more nonprofits that provide programming, routine maintenance, fundraising, and/or capital improvements. The City usually enters into a formal agreement with each partner that outlines the City and the partner’s respective responsibilities and rights. For capital improvements, several individual partner organizations have provided cash and in-kind support well in excess of \$1 million.

- I. Borrowing – The City has limited ability to borrow, or bond, to pay for capital improvements to recreational facilities. State law prohibits the use of lower interest general obligation bonds to finance recreational facility improvements except in very limited circumstances such as providing matching funds to a federal or state grant. Other financing tools such as general obligation tax abatement bonds require a direct relationship between the taxes abated and economic development. That is very rarely true for recreational improvement projects. In lieu of general obligation bonds, revenue bonds can be used to finance improvements to recreational facilities. Revenue bonds must be paid back with revenues from the improved facility and are not backed by the full faith and credit of the City. This increases investor risk, interest rates, and the total borrowing costs that must be covered by program revenues.

Analysis of Potential Sources of Financial Support

14. *Based on currently available data and the current deteriorated condition of golf infrastructure, the case for Duluth Golf to immediately receive support from the Tourism Tax Fund is weak. When golf infrastructure is satisfactorily renewed, a case could be made to provide limited tourism tax support for the specific purpose of marketing Duluth Golf to tourists who are already here or already planning to come.*

Available data regarding the place of residence of Duluth Golf customers suggests that approximately 4000 golf rounds per year, or 6.5% of the annual total, are played by bona fide tourists residing beyond 50 miles from Duluth. The attractions that receive significant amounts of tourism tax – e.g. Spirit Mountain, the Great Lakes Aquarium, the Lake Superior Zoo, the Historic Union Depot, Glensheen, the DECC, etc. – can each demonstrate that they serve many times that number of tourists.

The limited numbers of tourists currently playing at Enger and Lester arguably make it permissible for the City of Duluth to provide tourism tax support for Duluth Golf. But while tourism tax support for golf may be permissible, it is difficult for the City to justify and defend providing limited tourism tax dollars to Duluth Golf instead of providing those dollars to other tourist-serving organizations that serve several times more tourists and do **not** receive tourism tax support.

Some have argued for investment of tourism tax in golf facilities on the grounds that the investment will lead to future tourist use of the golf courses. According to the City's golf facility consultant, Kevin Norby, the current condition of the courses falls substantially short of the standards necessary to attract tourists. The estimated cost to improve the courses to a standard that would motivate tourists to come to Duluth for the purpose of playing golf at Enger or Lester is more than \$10 million per course. That is financially prohibitive. The City might, however, be able to finance improvements to golf facilities sufficient to attract some of Duluth's existing 6 million annual visitors, a significant minority of whom are golfers, who are coming to Duluth for another reason and looking for things to do while here. In that event, the City could conceivably justify and defend providing limited tourism tax support for the specific purpose of marketing Duluth Golf to tourists who are already here or already planning to visit.

15. *The City should consider providing a limited operating subsidy for Duluth Golf from the General Fund and/or the Parks Fund roughly on par with the levels of support that are provided from these sources to other recreational activities that have similar levels of community participation. The support could be in the form of in-kind services and/or funding.*

Since the Golf Enterprise Fund was established in 1993, the City's aspirational policy has been that all golf expenses must be fully paid for by golf revenues without additional support from other City funds. For 25 years, the City has made extraordinary efforts to meet that demanding standard – commissioning studies and implementing their recommendations, transitioning from City management to contractor management, adjusting operating seasons, fine-tuning marketing, etc. Despite that effort, Duluth Golf has met the City standard of 100% self-sufficiency just a few times in 25 years.

The City has responded to the persistent shortfalls by authorizing the General Fund to provide significant de facto subsidies to the golf program of two sorts. First, the General Fund has provided \$2.4 million in interest-free loans to the Golf Fund, averaging nearly \$100,000 per year. The City has required the Golf Fund to develop plans and budgets to service that debt but has allowed the Golf Fund to forego repayment, without penalty, when the Golf Fund has had insufficient revenue, which has almost every year. Presuming that these loans are going to eventually be repaid, there is still a significant financial cost to the General Fund and a significant financial savings to the Golf Fund. The General Fund would have *earned* more than \$1 million in additional investment earnings if the \$2.4 million loan had been in City reserves rather than expended for Golf. Second, the Golf Fund *avoided* more than \$1 million in additional expense by borrowing interest-free from the City rather than from a bank. In the event that any portion of the debt is eventually forgiven, that will retroactively add significantly to the annual subsidy paid to the Golf Fund by the General Fund.

City leadership has sometimes had the General Fund pay for extraordinary golf costs –including some emergency building repairs, some state-mandated environmental mitigation, and some of the consultant costs for this golf study.

The large de facto annual subsidy the General Fund has provided to the Golf Fund exceeds what other comparably popular non-tourist activities receive and exceeds what the City can afford. Rather than continuing to insist on an unachievably high standard of complete self-sufficiency then, in practice, authorizing the General Fund to cover the shortfall with larger than we can afford subsidies, the City should make changes of two sorts. First, the City should make changes to the golf operation that decrease the amount of subsidy that will be necessary in the future. Second, the City should authorize, budget, and plan for a specific, moderate, annual subsidy comparable to the levels of support comparably popular non-tourist activities receive and consistent with the public's wishes for City support of golf. The subsidy could come from the Parks Fund and/or the General Fund in the form of cash and/or City services.

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

City Parks and Recreation staff know of no state or federal grant programs that provide capital funding for golf.

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

Under existing state law, cities may only borrow for golf capital improvements in Duluth by using revenue bonds. Revenue bonds are intended to be paid off with the increased golf revenue that results from capital improvements.

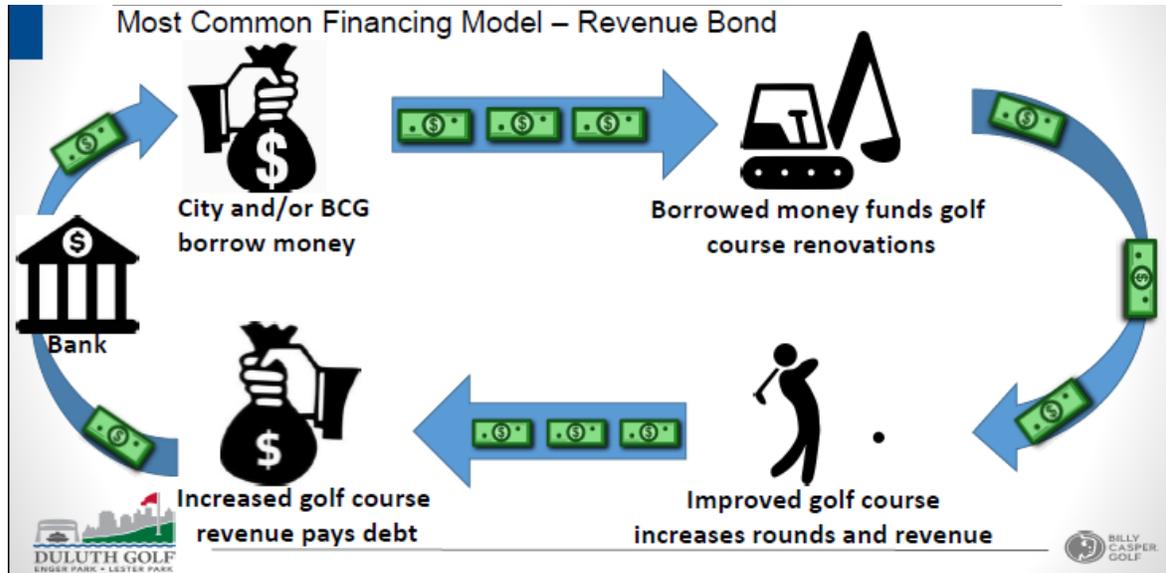


Figure VI: Infographic – How Revenue Bonding Works

Source: City of Duluth

18. Given the current financial weakness of Duluth Golf and the golf industry, and the magnitude of the financial risks for the City of Duluth General Fund, revenue bonding for Duluth Golf should be used judiciously and sparingly.
19. The case can be made that proceeds from the potential sale of golf-associated real estate assets should be retained in the Golf Fund and reinvested in golf facilities the City intends to retain.
20. There is opportunity to make the support of Duluth Golf’s nonprofit partners more impactful.

Some of the nonprofit golf leagues that use Duluth Golf facilities have for many years provided value-added services and fundraising support for golf capital improvements. The formation of Friends of Duluth Public Golf as an umbrella group represents an opportunity to bring all of the groups together to make those contributions more strategic and, ultimately, more impactful. The City and its nonprofit partners should think together about what volunteer services and fundraising the nonprofits could plausibly provide that would have the most beneficial impact on the program.

Financial Performance of the City of Duluth Golf Program

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

In 1988, the City of Duluth invested \$4.1 million dollars to expand and partially restore both of its golf courses. Funds were used to add 18 more holes (9 at each course), replace the irrigation system on all existing holes, and substantially renovate one existing 9 at each course. The General Fund fronted \$600,000 to cover cost overruns. The City borrowed the remaining \$3.55 million via a revenue bond to be paid off with golf revenue. The debt was refinanced two times, incrementally lowering the interest rate from 9% to 6.1% to 3.8%. In total, the City made \$7,259,930.65 in principle and interest payments on the capital improvement debt over a 20-year period or an average of \$362,997 per year.

Golf revenues were insufficient to finance debt payments in all but a few years from 1993, when payments began, to 2012 when the debt was retired. In those years when golf revenues were insufficient to cover all golf expenses, including debt service, the General Fund covered the difference by loaning money to the Golf Fund. Since 1993, the Golf Fund has accumulated a \$2.4 million debt to the General Fund.

The 1992 bond to pay for golf capital improvements was a calculated risk that the improvements to the golf course would increase golf revenue enough to cover all operating costs and debt service. Golf failed to meet that goal and shifted the shortfall to the General Fund. Today, the City faces the same necessity to reinvest in deteriorated golf infrastructure it faced in 1988. The difference is that Duluth Golf is much weaker financially today. Participation is down, prices are substantially lower after adjusting for inflation and annual operating performance is worse. As a result, the City must take even greater care in considering whether to borrow for golf capital investment in expectation that golf revenues will be sufficient to pay off the debt.

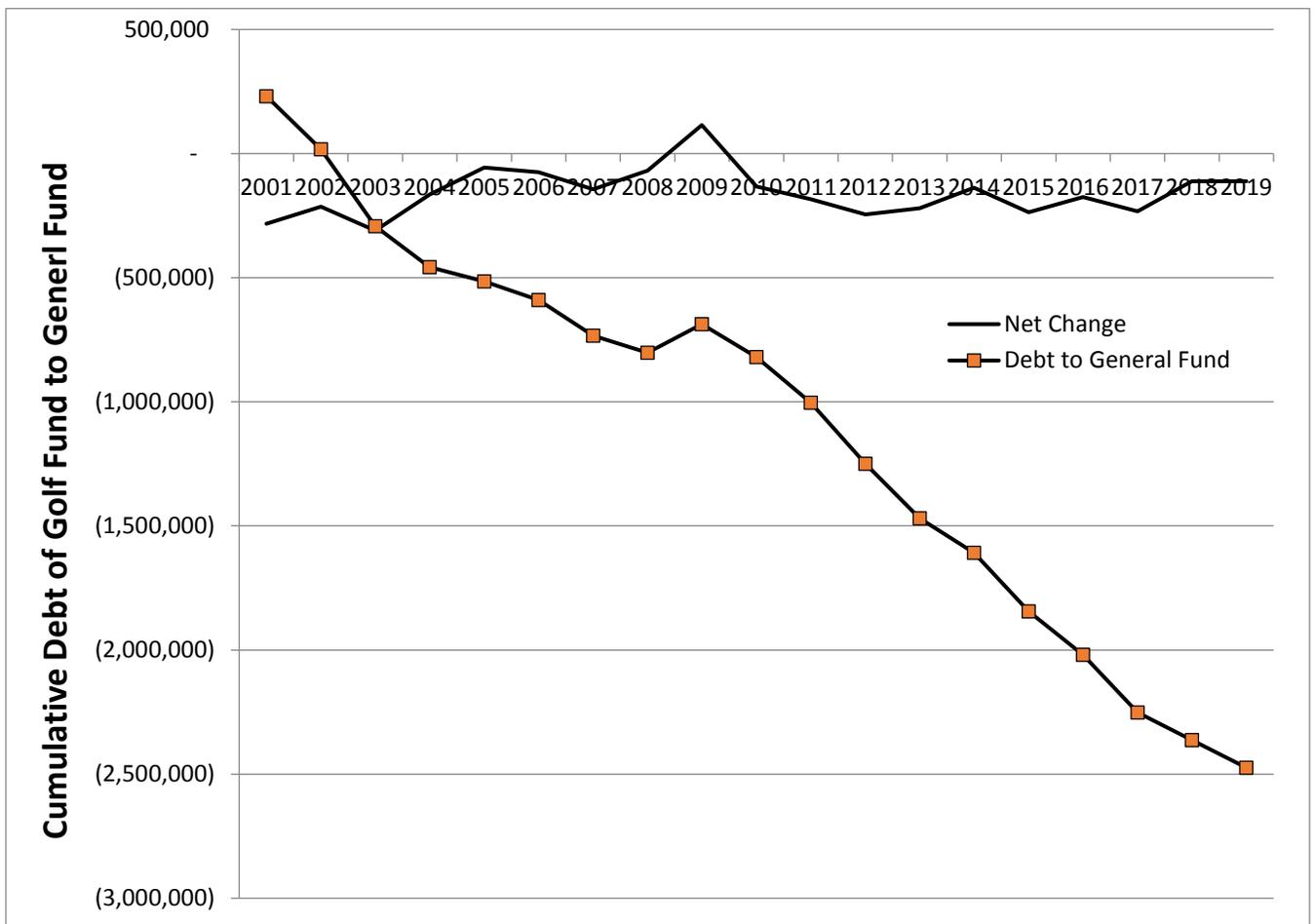


Figure V: Golf Fund Debt to General Fund 2000 to 2019 (in Dollars)

Source: City of Duluth

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

Oversupply of public golf in Duluth has caused financial harm to Duluth Golf in two ways. First, the smaller pool of golfers is spread across more Duluth-area holes and is playing fewer rounds at City courses. From 2000 to 2018, the number of rounds played at Enger and Lester decreased by 44% from 108,000 to 60,988. Second, local golf courses have not been able to increase rates to cover increasing costs. From 2005 to 2018, the greens fee to play 18 holes without a cart at Duluth Golf increased by just \$1, from \$25 to \$26. Adjusting for inflation, a \$25 greens fee in 2005 is equivalent to a \$34 greens fee in 2018. A business enterprise that is drawing 44% fewer customers and charging those customers 27% less has very limited capacity to cover operating costs and generate net revenue to finance capital improvements.

The difficulty of overcoming this market imbalance is compounded by the limited period each year when Duluth Golf can generate revenue to cover costs. In an average year, Duluth weather makes playing golf

a reasonably appealing proposition on just 185 days, meaning that Duluth Golf can only generate significant revenue on 1 of every 2 days. Some years there can be as few as 150 playable golf days per year.

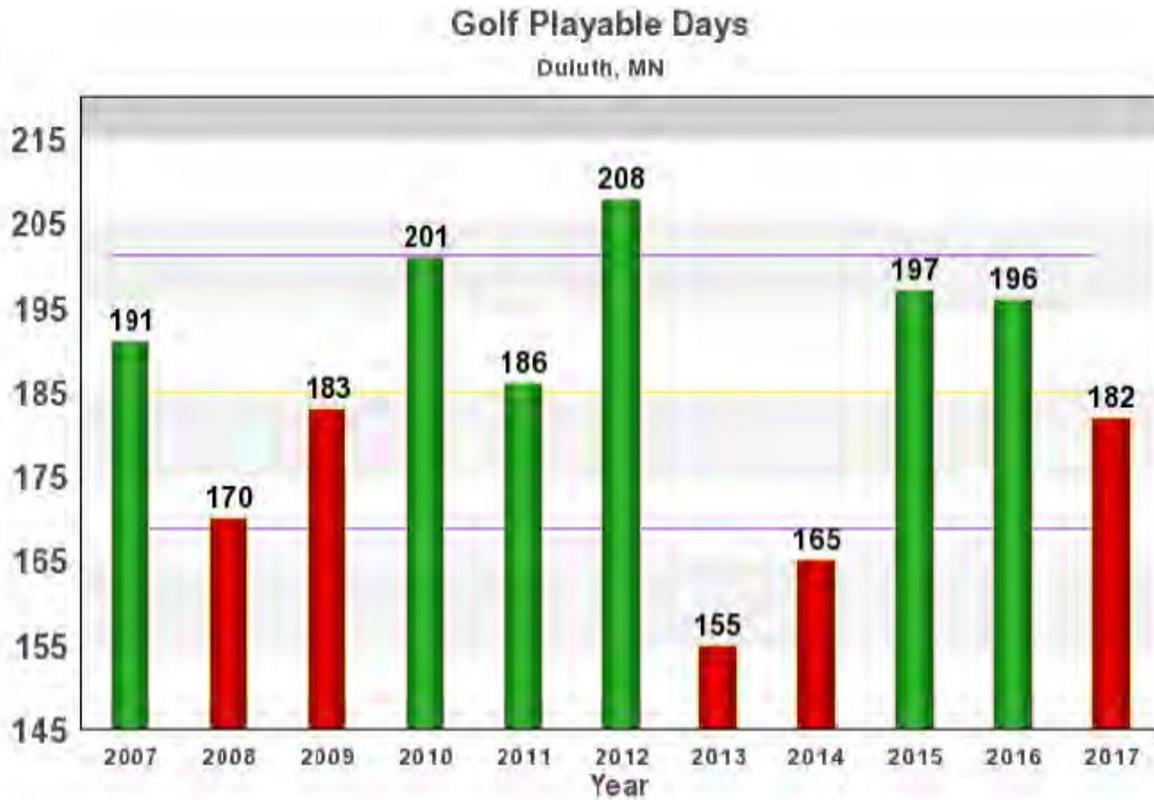


Figure VI: Playable Golf Weather in Duluth 2007 to 2017 (in Days)

Source: Weather Trends International

Duluth Golf's financial challenges are further compounded by the unusually large portion of total rounds played by season pass holders and the unusually large discounts pass holders receive per round. Averaging all golf revenues against all rounds played, Duluth Golf receives less than \$13 in revenue per round, half the single round rate of \$26. The industry benchmark for financial sustainability is for golf revenue per round to be at least 60% of the single round rate. To meet that standard, Duluth Golf would have to increase the cost of a season pass from \$750 to \$1000 per year.

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

In the absence of dramatic increases in Duluth-area golf demand or dramatic decreases in supply (neither of which is in the City's control), some downsizing of Duluth Golf is likely to be necessary to reduce capital costs to a level the City can afford, align the local supply of value golf with demand, concentrate a decreased number of rounds on a smaller number of holes, restore Duluth Golf's capacity to increase rates to keep pace with rising costs, and improve Duluth Golf's overall financial performance.

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

In recent years, golf revenues have fallen an average of \$100,000 per year short of golf operating expenses. If the City obligated Duluth Golf to pay down the current \$2.44 million debt over 25 years, the golf budget would be burdened by an additional \$100,000 in annual costs. The combination of existing annual operating deficits and \$100,000 annual debt payments would make it prohibitively difficult for the Golf Fund to finance capital renovations because net income would have to improve by roughly \$200,000 per year before any golf revenue would be available to pay for capital costs.

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

The corollary to this finding is that, if public financial support is necessary for redevelopment of any golf assets, that financial support cannot be provided in the form of discounted public property.

Redevelopment Opportunities at Enger and Lester

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

A preliminary study by the landscape architecture firm of SAS suggests that there may be sufficient room in the vicinity of the Enger clubhouse and driving range to construct significant multi-family housing simultaneous with reconfiguration and renewal of that area of the course. Such development could generate significant funds for reinvestment in Enger's failing irrigation system, clubhouse, and fairways. It could also boost golf business by locating avid golfers to live and play at Enger. The City of Duluth should further explore this opportunity.

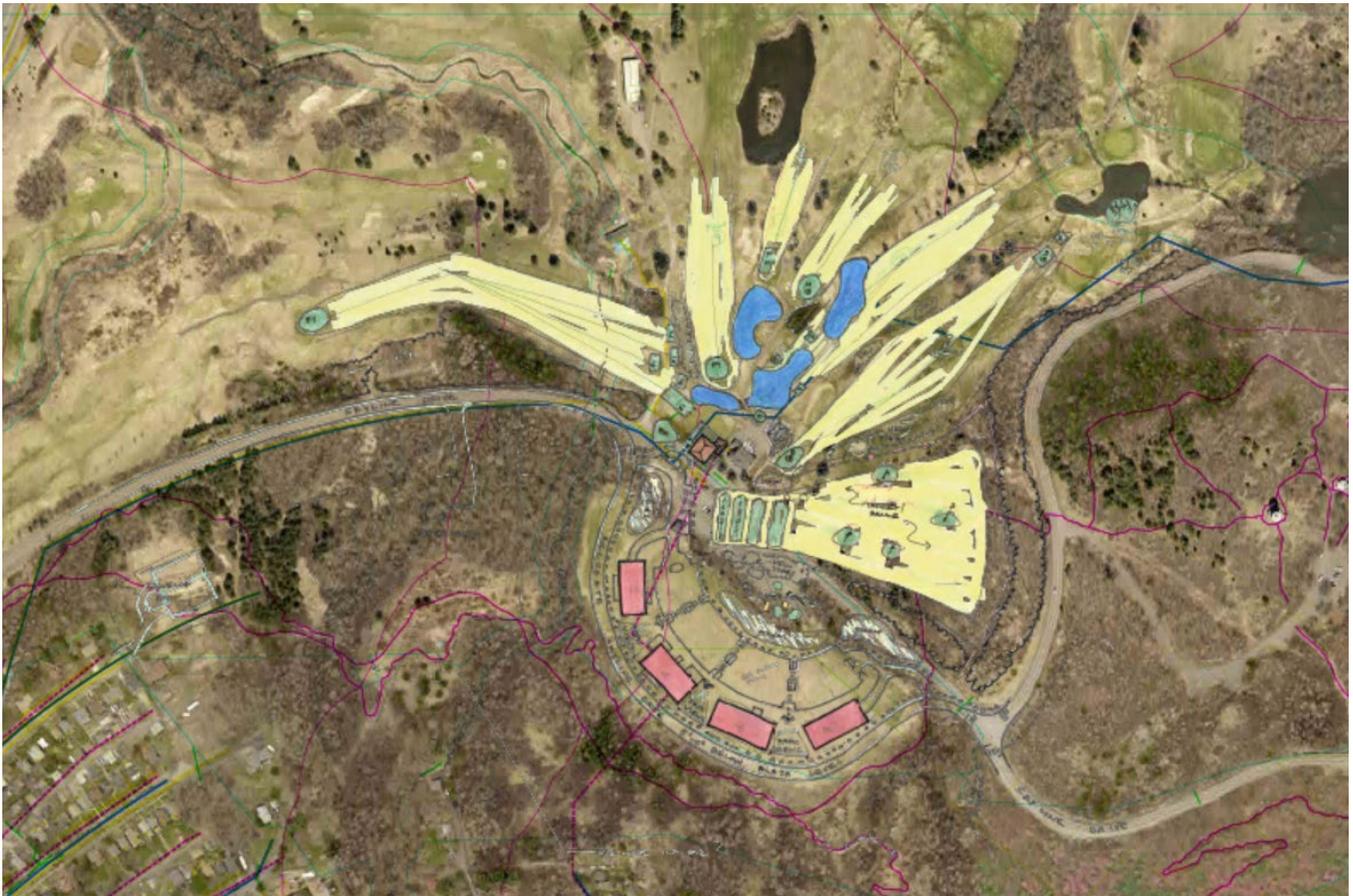


Figure VII: Conceptual Drawing of Potential Reconfiguration of Enger Driving Range Area

Source: SAS and Associates/City of Duluth

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

John Vigen of Ramsland and Vigen LLC conducted an independent market evaluation of the development potential of the property occupied by Lester Park Golf Course. The property is an exceptionally large, 269-acre, green space with extraordinary lake views and proximity to popular parks and trails, a vibrant neighborhood, and a well-regarded public elementary school. Development costs will vary widely across the site. Some lower areas of the course near Superior Street are relatively easy to develop with modest grades, developable soils, and close proximity to existing roads and utilities. Some upper areas of the course have steep grades with shallow bedrock and considerable distance to roads and utilities. Most of the site has a mix of characteristics that are advantageous and disadvantageous to development.

The size of the site poses challenges for prospective developers, particularly on the upper portions where utility and road infrastructure costs would be greatest. Historically, the rate at which housing is constructed and occupied in Duluth is quite slow, particularly for single-family homes. As a result, significant up-front investments in residential infrastructure are repaid slowly in Duluth, necessitating a less cost-effective approach with a number of small phases.

On the other hand, the current market for single- and multi-family housing in Duluth is propitious with historically high demand, a shortage of supply, and other sizable developments in the area nearly fully built out and occupied. The market is particularly strong in the Lakeside/Lester Park neighborhood of which the golf course is a part.

The City solicited proposals in 2014 from developers interested in purchasing and developing Lester Park Golf Course and has periodically received unsolicited inquiries since then. Developer interest in the site is serious, significant, and increasing.

The City entered into a license agreement with developer, Tom Sunnarborg, extending to December 31, 2019, that gives Sunnarborg exclusive right to negotiate with the City for the sale and development of Lester Park Golf Course. A Duluth native, Sunnarborg is an accomplished developer on a national scale most recently as the developer of the national award-winning Streamsong Resort and Spa in Florida which has a new world-class golf course at its center. The City has made no commitment to actually sell and develop any portion of the course.

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

In the absence of a specific development plan, Vigen's report offered an exceptionally wide range of potential market values that provides a weak basis for estimating sale proceeds. For preliminary planning for capital reinvestment, the Golf Committee has conservatively assumed sale values on the lower end of Vigen's ranges - \$500,000 per nine for nines to be retained for golf or green space and \$800,000 per nine for nines to be developed.

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

Tom Sunnarborg has affirmed that he might be willing to limit development to one nine and continue to operate 18 holes as a privately owned, publicly accessible course. This would be an alternative way to preserve at least some publicly accessible golf at Lester if the City decides to sell the property.

Public Opinion Research

The City of Duluth, in consultation with, and with the assent of, the Citizen Advisory Committee, commissioned a professional public opinion research firm to design and administer surveys and focus groups using contemporary science-based methodologies so as to provide a substantially accurate portrait of Duluth citizen opinions about the future of Duluth Golf. The committee met with and assented to the selection of the research firm, Zenith Research, advised Zenith on the purpose of the research, and reviewed, provided feedback on, and eventually approved the research methodology.

Zenith Research conducted three phases of research. Phase one was a randomly sampled phone survey of Duluth residents conducted from August 31 to September 5, 2018 by KW Call Center Services LLC. Phase one garnered 456 completed interviews and 400 partial interviews. To improve the representativeness of the results, the survey was organized to ensure proportionate representation by geography within the City of Duluth. The margin of error was 4.57% providing a 95% confidence level.

Phase two was an online survey conducted between October 12 and 23, 2018. Zenith Research emailed a link to the survey to 8,118 Duluth Golf participants who gave their email addresses to Billy Casper Golf and 600 Superior golf participants who send their email addresses to the City of Superior. The survey was comprised of many of the same questions posed to Duluth citizens in the phone survey plus new questions specifically for golfers. 676 individuals completed the survey. The margin of error was from 3.51 to 3.82 percent meeting the 95% confidence level.

Phase three was two focus groups, one comprised of 14 Duluth citizens who were Duluth Golf participants, a second comprised of 15 Duluth citizens who were not golfers. Both focus groups met on November 7, 2018.

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

The phone survey of Duluth citizens found that:

- 51% of Duluth citizens surveyed do not feel that it is important for the City to have a public golf program at all.
- The Duluth citizens surveyed expressed less support for City funding of public golf than for City funding of nine other City-owned recreational facilities including Spirit Mountain and the Lake Superior Zoo.
- 39% of Duluth citizens surveyed feel that the City should provide zero financial subsidy for Duluth Golf.
- 66% of Duluth citizens surveyed feel that the City should provide a subsidy of \$50,000 or less per year for Duluth Golf.

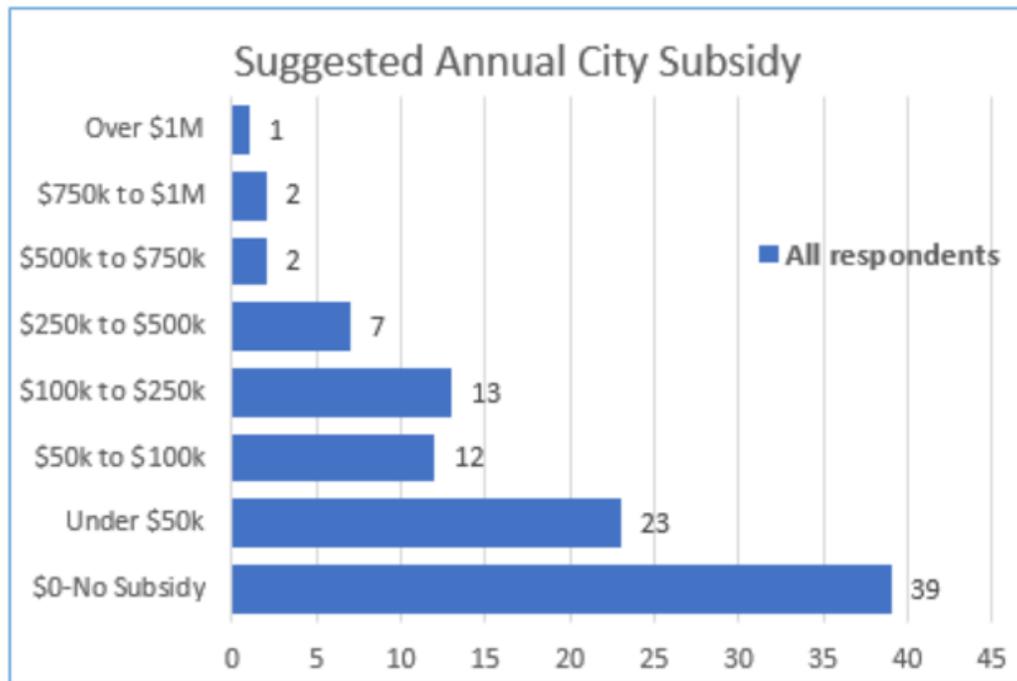


Figure VIII: Annual Subsidy for Duluth Golf Suggested by Duluth Citizens Surveyed

Source: Zenith Research

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

- 63% of Duluth citizens surveyed feel that the City should downsize Duluth Golf facilities to at least some degree.
- Three times as many Duluth residents surveyed specified downsizing or closure at Lester than those who specified downsizing or closure at Enger.

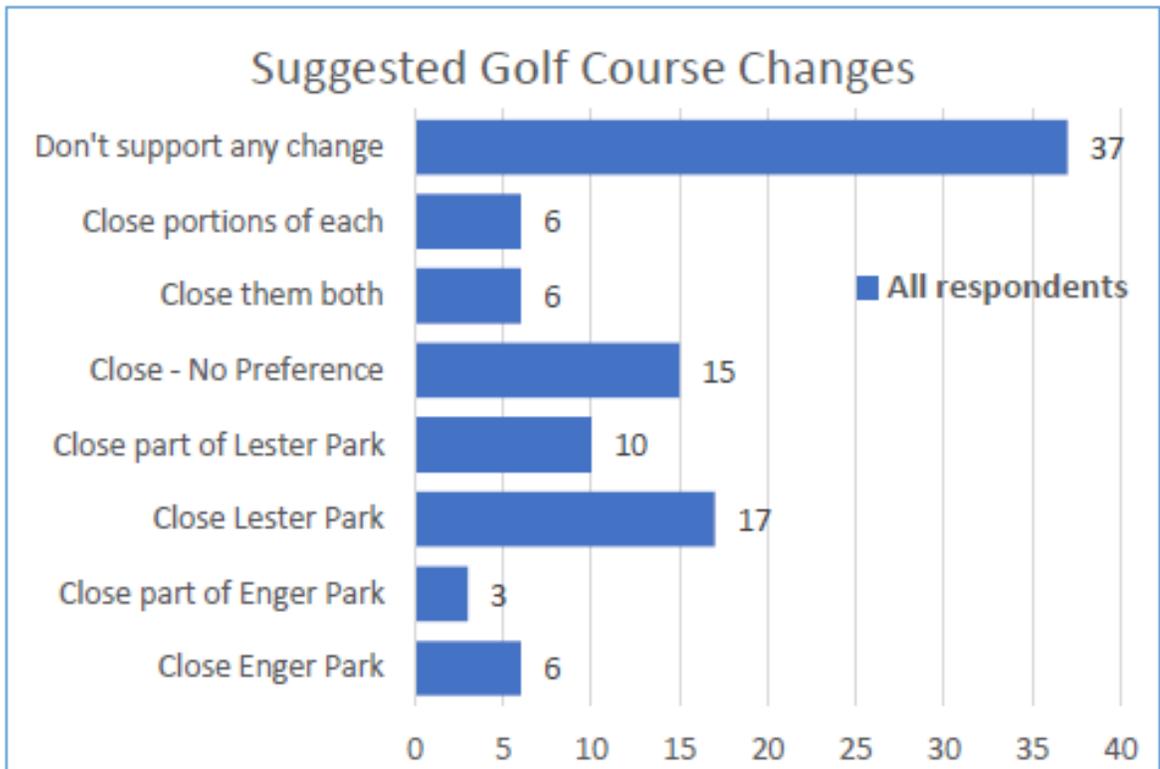


Figure IX: Duluth Golf Hole Closures Suggested by Duluth Citizens Surveyed

Source: Zenith Research

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

8,118 Duluth Golf participants who gave their email addresses to Billy Casper Golf were invited to complete an online survey independently administered by Zenith Research. The survey was comprised of many of the same questions posed to Duluth citizens in the phone survey plus new questions specifically for golfers. An online survey of Duluth Golf participants found that:

- 73% of Duluth Golf participants surveyed who reside in Duluth feel that it is important for the City of Duluth to have a public golf program.
- Duluth Golf participants surveyed who reside in Duluth expressed more support for City funding of public golf than for City funding of nine other City-owned recreational facilities.
- 33% of Duluth Golf participants surveyed who reside in Duluth feel that the City should provide an annual financial subsidy for Duluth Golf between \$100,000 and \$250,000.
- 47% of Duluth Golf participants surveyed who reside in Duluth feel that the City should provide an annual subsidy greater than \$250,000 per year.

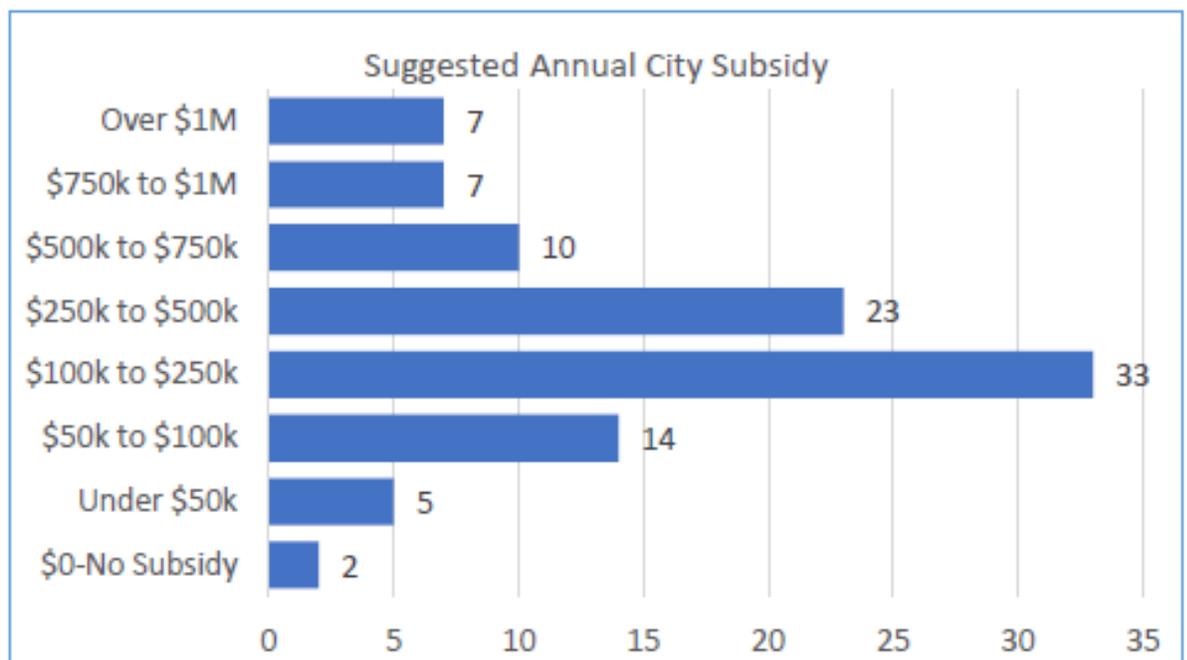


Figure X: Annual Subsidy for Duluth Golf Suggested by Duluth Golf Participants

Source: Zenith Research

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

- 54% of Duluth Golf participants surveyed who reside in Duluth feel that the City should downsize Duluth Golf facilities to at least some degree.
- Seven times as many Duluth Golf participants surveyed who reside in Duluth specified downsizing or closure at Lester than at Enger.

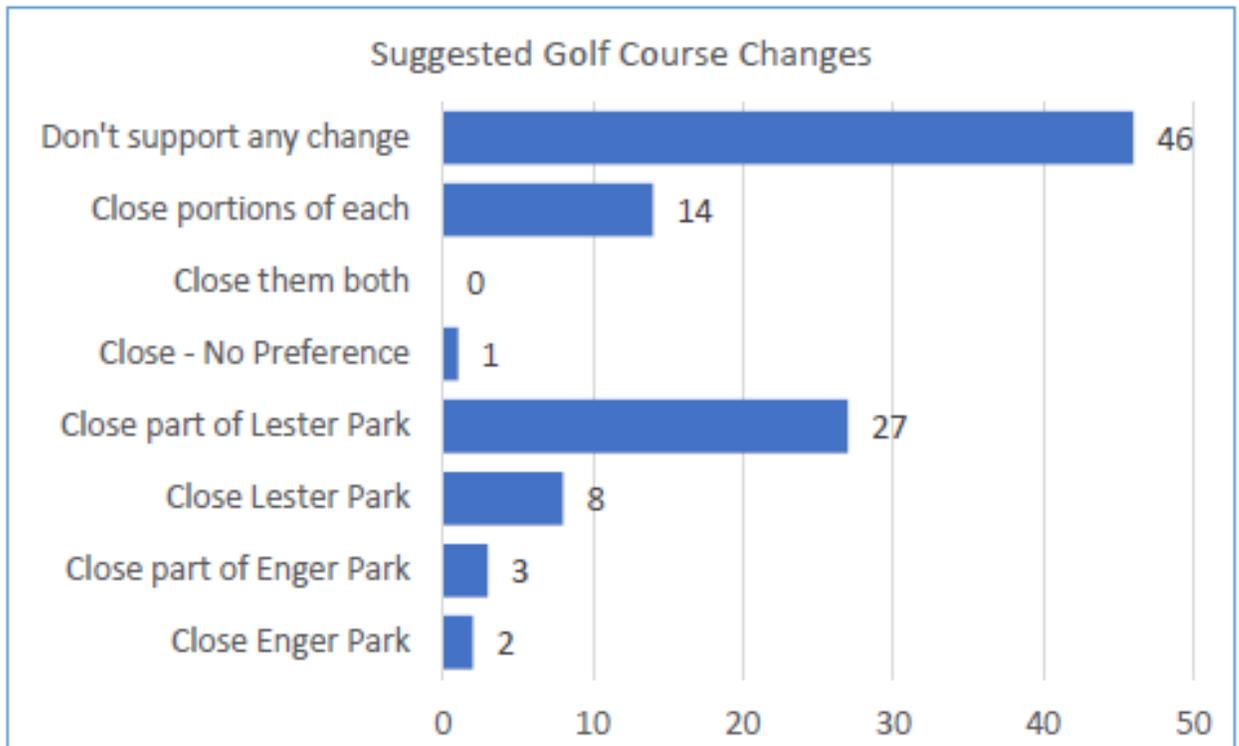


Figure XI: Duluth Golf Hole Closures Suggested by Duluth Golf Participants Surveyed

Source: Zenith Research

proceeds. This assumption was not to preclude the possibility of subsidy but to clearly quantify the amount of subsidy that would be necessary under each option to cover all costs.

The results were sobering. Assuming dedication of 100% of sale proceeds to reinvestment in golf infrastructure, every option requires far greater borrowing than golf revenues and golf sale proceeds can be expected to cover. The projected annual deficit, and therefore the projected annual subsidy that would be necessary, ranged from \$439,891 per year from one of the options to renew 27 at Enger to \$847,737 per year to minimally renew all of the current 54 holes.

In response to these findings, the committee then directed the consultant team to develop and model a lower-cost, value-engineered, plan to renew 27 holes at Enger, labeled, Renew Enger 27 Option V. The projected annual loss for this lower cost variant of the Enger 27 hole option improved from a loss of \$439,891 to a loss of \$191,447. Not that this is the projected loss prior to potential subsidies from golfers and/or the City of Duluth. There is opportunity for Billy Casper Golf, golfers, and the City to work together to eliminate that gap through a mix of cost saving measures, partner contributions, and City supports.

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

Figure XIII: Golf Facility Renewal Options Developed by Citizen Advisory Committee

36. Retention, renewal, and operation of more than 27 holes of golf is likely to require City of Duluth subsidies significantly in excess of the maximum \$50,000 annual subsidy that Duluth citizens say that they can support.

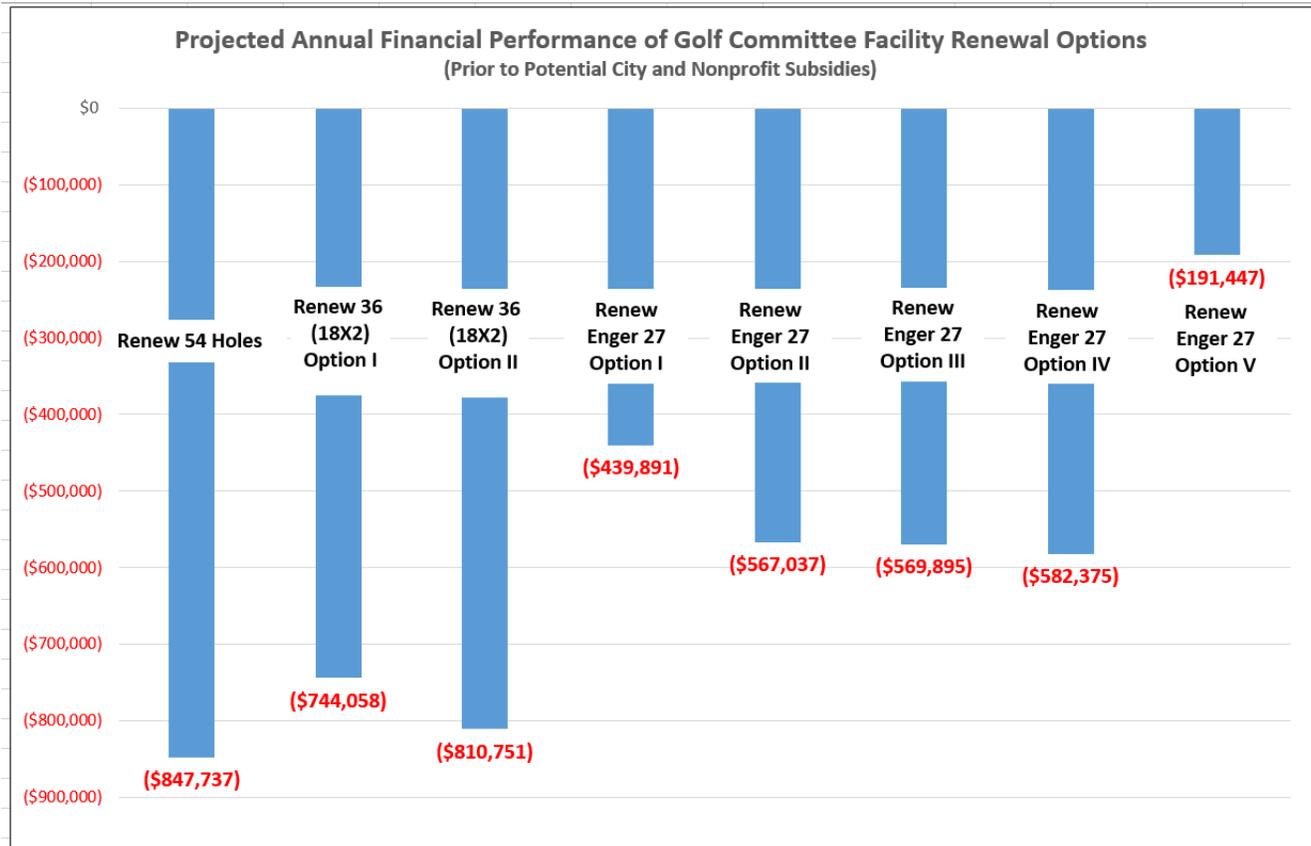


Figure XIV: Projected Annual Financial Performance of Facility Renewal Options

37. Retention, renewal, and operation of 27 holes is likely to be a significant financial challenge that may require annual borrowing costs in excess of \$200,000 per year for 25 years and risk the possibility that the City of Duluth General Fund will have to pay all or a significant part of those costs.

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

- 38. Potential City decisions to cease or reduce golf operations at a City-owned golf course are procedurally distinct from potential decisions to sell a park property.
- 39. The City of Duluth administration has the authority to close existing golf holes without Council approval.
- 40. State of Minnesota law prescribes a specific process by which super-majorities of the Planning Commission and the City Council may approve the sale of a park property.

In order for the City of Duluth to sell a park property such as Lester Park Golf Course or Enger Park Golf Course, state law dictates that 3/4 of the Planning Commission and 4/5 of the City Council must approve the sale. On the Planning Commission, that equates to a vote of at least 7-2 in favor of sale. On the City Council, a vote of at least 8-1 in favor is required.

End Note on Potential Sale of Green Space for Housing

The committee studied all aspects of Duluth Golf, including potential property sales, primarily from a golf business perspective. The committee did not closely examine those property sales from the perspective of the Imagine Duluth 2035 Comprehensive Plan with its holistic emphasis on housing, economic development, natural resource management, and green space protection

Very generally, Policy Two of the Comprehensive Plan, “Examine the Value and Need for All of Duluth’s Publicly Owned Open Space,” directs the City to:

1. Examine the optimum use of all publicly owned green space in Duluth
2. Permanently protect the vast majority of that acreage for recreational and environmental values
3. Sell a portion of the acreage to help meet the City’s needs for housing and economic development.

The City of Duluth is applying that lens to the greater Lester Park area in an effort to achieve the prescribed balance of increased protection and increased development. On the protection side, the City of Duluth is working with St. Louis County to purchase and permanently protect an additional 450 acres of at-risk tax forfeit property to be added to Lester Park. On the development side, the City of Duluth has been transparently examining the potential sale of 75 acres of Lester Park golf course for housing and mixed-use development and 185 acres of Lester Park golf course for continued operation as a privately owned, publicly accessible golf course.

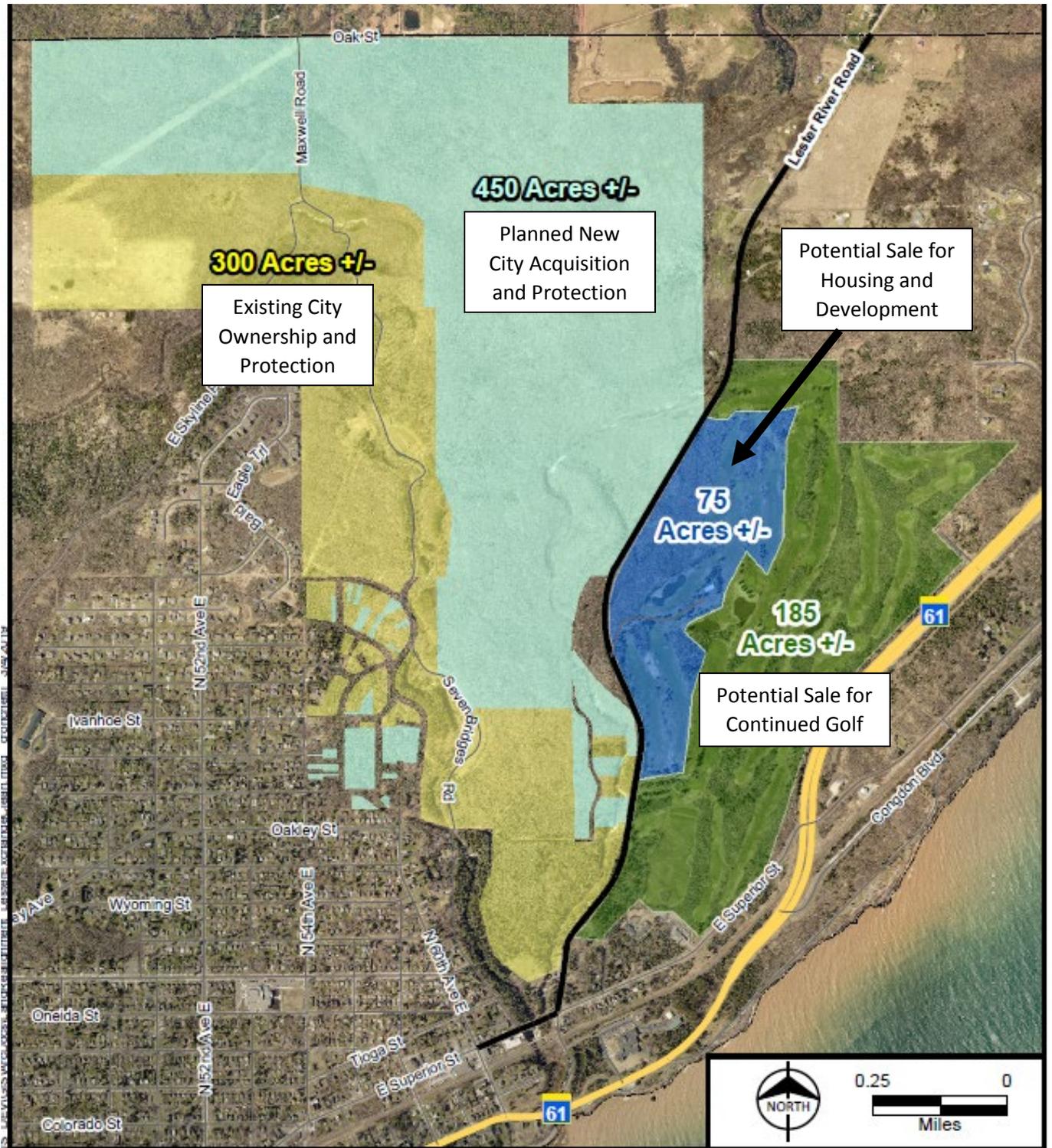


Figure XV: Public Land in the Lester Park Area

Source: City of Duluth Planning and Economic Development