

**RedGate Advisory Committee
14500 Avery Road
Rockville, MD 20850**

February 1, 2011

To: City of Rockville Mayor and Council members

Subject: Committee findings about the National Golf Foundation (NGF) Report and recommendations for action

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Summary of the NGF Report

In general, we found the NGF report to be a good product, as far as it went, outlining opportunities for both RedGate Golf Course and City leadership to improve. It provides good insight as to how RedGate arrived at its current situation and provides a solid blueprint as to what RedGate needs in order to succeed going forward. One area we find lacking is that it does not explore other revenue options suggested in many of its studies nationwide, where NGF addressed similar situations.

The report provides an excellent list of suggested course improvements with cost estimates, expected benefits, and projected revenue. It also provides a valuable discussion about RedGate's financial situation.

There are analyses of costs and income, and comparisons with "national averages". The NGF provides a roadmap for a series of low cost improvements and a better marketing program needed for RedGate to increase revenue and rounds of golf. Rather than depreciation, NGF suggests developing a "Reserve for Replacement" account, which is a more current accounting approach for golf courses. This reserve would be actual saved funds for use in future replacement of depreciated items (irrigation, clubhouse, cart barn, etc.).

The report concludes that the demand for golf in the Rockville area is above average on all measures compiled by NGF for the study, and there is a potentially large market for golf in Montgomery County. The report notes the large number of public golf courses that compete with RedGate, but states overall that the balance between supply and demand is favorable for golf operators in the local market.

As part of its study, NGF analyzed what led to RedGate's current state. The report mentions "controllable" factors and "uncontrollable" factors that led to the decline in numbers of rounds of golf played and decreasing revenue. Uncontrollable factors include the economic downturn in the national and local economy and Montgomery County Revenue Authority's (MCRA) aggressive commitment to upgrading its facilities, while reducing greens fees, thus stealing market share from RedGate. The report goes on to state that a lack of marketing over the years eventually caught up with RedGate. Further, in recent years the City has compounded the problem of poor marketing of the facility by creating confusion in the market about whether RedGate would remain open, likely contributing to the steep decrease in memberships and multi-play cards sold, and causing other golfers to simply stay away. Certainly this finding is corroborated by our own experience in the local golfing community, where we quite regularly receive comments from fellow golfers who are under the impression that RedGate has been closed or is closing.

The NGF study points out many of RedGate's positive attributes and opportunities to improve its financial position. The course is fundamentally attractive, has a group of dedicated employees who have a vested interest in seeing the course survive, and the RedGate management team has worked hard to reduce operating costs and attract new players with increased marketing and promotion activities. Furthermore, RedGate retains a robust tournament program and a loyal core customer base.

We were disappointed that the comparisons focused mostly on the MCRA and not on similar municipal courses in the suburban Washington D.C. area. The Herndon, Virginia municipal golf course, for example, is located in a city the same size as Rockville. It has similar demographics and is a good model for Redgate. Some years ago, Herndon hired an in-house golf director to manage the operation. He reports directly to the Town Manager, eliminating layers of bureaucracy that only add overhead costs to the golf course. The course was profitable in 2009 and earlier years, and lost \$58,000 in 2010, a manageable deficit.

The report indicates that the salaries and benefits at RedGate are higher than the national average. These estimates may or may not include the cost of living and real estate differences between remote areas such as Utah and Montana, and in what surveys call the affluent suburbs around Washington D.C. Our information indicates that the salaries paid to RedGate employees are in line with salaries paid at other courses locally, but the benefits associated with being City employees are higher, a credit to the City that takes care of its employees.

Overall, we would give the NGF report a passing grade.

Conclusions about the NGF core suggestion

The NGF report proposes outsourcing the management of RedGate Golf Course. Whether current staff would be able to replace their lost City jobs with positions with a new management company is highly questionable.

Outsourcing would reduce the City administrative fees, depreciation, and overhead charges currently allocated to the RedGate Fund. However, these administrative fees and overhead charges would need to be spread to other City funds, as the costs would still be part of the overall City budget. Current RedGate employees would lose their City jobs, thus saving the City some of the compensation and benefit costs of those employees, as the positions would presumably be filled by the management company with more part time and lower cost employees. In several places, the report highlights the savings to be gleaned from the City shedding these jobs.

Entering into an outsourced management company arrangement would add several line items of additional costs to the City's budget. As projected by NGF, based on their experience, this would include a management fee, administrative expenses passed through to the City as part of the management's company operating budget, and additional insurance and other costs associated with the management company alternative. Based on NGF's projection, by FY 2015 these additional costs will exceed \$383,000 annually. Of note, the estimated salary savings each year as a result of terminating the City employees is **less than** these additional line item expenses that would result from outsourcing to an outside management company.

Under an outsourcing arrangement, the City would still be responsible for all capital improvements, all expenses associated with operating the golf course (such as equipment ownership and maintenance), in addition to the contractor's expenses and management fee. The overhead administrative charge from the City to RedGate would be reduced, however, as mentioned earlier, these expenses would need to be reallocated to either the General Fund or the other Enterprise Funds, as those costs would still have to be paid by the City. **In short, none of the operating risk inherent in the self-operation scenario is shifted away from the municipality by virtue of entering into an outsourced management arrangement.**

In addition, we fear that long-term, dedicated, and loyal City employees, with lay-of-the-land knowledge of RedGate, will not be treated fairly by an outsourcing contractor in the transition, and that their skills and local knowledge could be lost soon after the transition.

We are concerned that an outside management company that has no investment in the program will make its money no matter what the revenue stream. Earlier this year, the City received some valuable insight in the responses to the Request for Information (RFI) that the City solicited. One company cautioned that if the contracting arrangement with the outsourced company places a burden on the company to show a profit, it will find

ways to show that profit and will achieve it by reducing vital expenditures, initiating a death spiral.

A couple of the companies responding to the RFI suggested a management consulting arrangement as a potential alternative to outsourcing. Under this type of arrangement, the City would maintain more control, but would have a professional golf management company guiding the operations, providing direction and experience on how to manage through a difficult period and transitioning to more profitable and efficient operations. We endorse this approach - ongoing consulting would provide independent evaluations, as well as professional advice and recommendations, to ensure that the Redgate program is successfully implementing the findings and recommendations made by the NGF.

Despite its good substance, the NGF core solution to outsource ignores the most powerful factor that occurred over the past ten years, which is the lack of true management of RedGate by the City. As in any thriving enterprise, funding for upkeep is essential for rounds to remain close to the 43,000+ referred to in the report. Additionally, revenue from assets that were originally intended to fund needed course improvements as part of the RedGate "enterprise fund" were stripped, thus providing increased pressure on RedGate. Recognition of that neglect was strongly acknowledged by Richard Singer in his presentation to the Mayor and Council during the January 10th, 2011 meeting. Examples include:

- Postponing the Point of Sale acquisition
- Confiscation of the of cell tower revenue
- Freezing of allocated funds during the 5 year plan
- Dismissal of two grounds crew employees, not replaced
- Creating an atmosphere of uncertainty by not making any effort to respond to bad press and erroneous articles
- Failure to include RedGate's various activities such as the Rockville Open in city recreation publications and press releases
- Confiscation of important land on hole #11 for the city maintenance facility. This caused an interruption of play during the reconstruction, and an unplayable hole after construction

These examples further underscore the need to have a "golf director" position created and the necessity to have it separate from Parks and Recreation as a stand alone department. No matter what path this Mayor and Council take, support is needed from the City, along with the need to step back and allow this valued green space to operate free of micro-managing by those who do not possess golf business acumen.

Regardless of the how and why RedGate got into the situation it is in, the focus should now be on how to improve the position of RedGate so that it can work toward becoming more profitable. We believe this review process allowed the City and all those involved with the facility to learn from previous management decisions. More importantly, the NGF study provides a roadmap as to how to get there. The RedGate Advisory Committee is fully committed to working with the City to achieve the common objective of seeing RedGate prosper. Lastly, the NGF core solution also ignores powerful forces that will occur demographically, developmentally, and economically in and around Rockville. Our City leaders should consider these trends and RedGate as integrated issues when planning for the future of the City and RedGate. All these forces hold much promise for the future of RedGate, and further highlight the importance of preserving the green space that we have.

RedGate Advisory Committee recommendations

Building a covered veranda to accommodate large outings is one of several excellent ideas in the NGF report. Bretton Woods, the World Bank and IMF golf course on River Road, has hosted as many as 100 outings a year. Large outings can bring 100-140 players to the course, many of whom might be playing it for the first time..

While this may be an aggressive example for RedGate, it does validate that the market exists. RedGate could expand and/or increase the number of 40-60 person outings it does. This would add additional revenue and not close the course to regular golf traffic.

A Leesburg, VA management company noted in their earlier RFI response that when it took over a northern Virginia golf course it was hundreds of thousands of dollars in the red. One of the things they did was to employ an individual with vast experience selling outings, memberships, and events. In one year, they increased revenue by \$500,000. This may also be an aggressive example, however the potential for an increased revenue stream at Redgate is significant.

There are individuals currently employed at RedGate that could do an excellent job as a Tournament Director and Marketing Representative to sell outings, memberships, and more rounds. A short-term consulting arrangement with one of the RFI management respondents could help get him off to a running start.

In our presentation to Mayor and Council last September, the Advisory Committee made nine recommendations to the Mayor and Council for other uses of the RedGate facility. NGF dismissed these ideas too easily, as being non-golf centric. We recommend that you revisit that section of our report and give our suggestions more consideration.

Short-term actions. We recommend that the Mayor and Council and City Manager adopt one of the two short-term alternatives discussed below, and a long-term 2011-2031 action plan.

The first short term alternative is to implement the low cost improvements suggested by NGF, capitalize on an improving economy with an increasing population, and hire a golf director (the average national salary at daily fee courses ranges from the midpoint of \$64,000 to the 75th percentile of \$80,000 annually). An independent golf director, similar to the one employed by Herndon, would have authority to make timely personnel and day-to-day management decisions pertaining to the golf course. Bringing a fresh face to the program would also provide needed restructuring and rebranding of the RedGate experience. This RedGate golf director will have the time to focus on the asset to ensure that the suggestions outlined in the NGF study are followed, and the resulting benefits are achieved.

In addition, appointing a golf director should take the golf program out from under the day-to-day management of the Parks and Recreation department, which is a complex organization that received 23% of the City's \$101M, FY2011 budget. This, coupled with its scores of facilities, activities and responsibilities, allows very limited quality time to focus on RedGate. This would enable the P&R director to focus on and justify the \$657.70 annual cost to each household to cover the costs (\$16M) that are not recovered from the Parks and Recreation programs in its current form. It is important to note that over the past ten years, the accumulated RedGate deficits cost each household a mere \$6.97 annually.

In this alternative, three people would report to the golf director, who would have direct reporting relationship to the City Manager (as the golf director at Herndon). The three people would be the golf pro, the superintendent of the grounds, and the marketing director. All would be on salary plans relative to 2010 conditions, not those of a decade earlier.

In this case, we recommend a management consulting arrangement, as suggested by respondents to the earlier RFI, as a lower cost alternative, one that will provide guidance and fresh thinking, possibly leading to some cross collaboration over time with organizations across the region.

The second short- term alternative is similar to the first but in this case, the City would outsource the course to a golf management firm. This too would bring a fresh face to the program. It almost certainly would result in substituting part time and lower cost employees for the current staff. This could be a workable alternative. Our reservation is that we cannot find meaningful savings from outsourcing to a golf management firm. Basically, the savings from the city employees' salaries will be used to fund the new line item expenses as a result of outsourcing. An improving economy and the NGF recommendations to better position RedGate's footprint are far more important.

Long-term, the City leaders may want to think beyond the current economic crisis, which seems to be ending, and think of the next “up cycle,” which appears to be happening. The next 20 years will be a period of unusually high growth in the City and County, as the following events may occur.

- The economic cycle enters a likely long- term growth cycle.
- One or more courses in northern Montgomery County may close, reducing RedGate’s competition.
- The City changes its policies to allow taller higher-rise development along the Pike.
- The population of Rockville grows by 40% to 100,000 people, or more, and there will be substantial growth in surrounding Montgomery County while creating new tax revenue and requirements for more recreation facilities.
- In this environment, RedGate is stimulus for housing sales and property rentals and will serve as a magnet to bring even more money to Rockville’s businesses
- Dense living in the core of Rockville City becomes the norm; green spaces become solutions to the pressures of living in close quarters.

Summary recommendations by the Advisory Committee to the Mayor and Council

A municipality must consider how it views its golf facilities. If the golf facilities are seen primarily as amenities to residents, like other park facilities with lower cost recovery, then the municipality should be prepared to realize lower economic return, and self-operation may make more sense. However, if the City desires a golf course profit center, then RedGate Golf Course must be run more like a business, free of political considerations that place constraints on revenues and operational efficiencies.

The RedGate Advisory Committee’s response is that we advise the short-term alternative, which establishes a golf director position reporting to the City Manager using the blueprint of the NGF Report to get RedGate back on track and operating more efficiently. At the same time, we urge the Mayor and Council to take a longer-term view and consider RedGate in terms of the powerful forces of change taking place in Rockville now and for at least another generation.

Understandably, this Mayor and Council may be weary and fatigued of this topic and may not have the fortitude or motivation to see this through. We understand that. But, this matter needs to be approached thoughtfully and carefully. It is a great task to filter and analyze all the information at your disposal with respect to the future of RedGate. As our elected City officials, we need and require that from you. This significant undertaking must also come with an understanding of the long-term portent of any short-term decisions made today.