

City of Becker

Pebble Creek Golf Club

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Management and Operational Analysis

Final Draft

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Executive Summary

Philosophy

To ensure that a municipal golf course is fiscally self-sustaining, which is the better management and operational philosophy?

- **Commodity Strategy:** Offer the lowest competitive rates with the goal of generating a high volume of rounds to provide a recreational experience to the local citizens while deferring capital expenditures until essential and funding any financial shortfalls from the City's general fund or through the assumption of debt?
-
- **Innovative Strategy:** Provide a value-based customer experience at fair market value with continual capital reinvestment in the core asset with the hopeful goal of generating local and regional participation?

For the past three years, that question has been ***debated to a stalemate*** by the Mayor, City Council, and citizens, including season pass holders and other golfers. The answer to that philosophical choice has become a component of a larger debate as to whether the financial goal for the City of Becker's Pebble Creek Golf Club is to break even on a net operating income basis, to break even on a cash flow basis (prior to interest, taxes, depreciation and amortization), or to accept an annual subsidy from the City's general fund.

During this time, recommendations from operational reviews conducted in 2009 were not implemented. Technology installed was not fully leveraged. Marketing efforts have been scant and diffused. Disputes about proper green fees have been ongoing. Known capital improvements were deferred. As a result, during this time, the quality of the core asset from the perspective of the season pass holders (members) has deteriorated and the financial performance suffered.

What is surprising is that the Mission Statement for the Pebble Creek Golf Club, excerpted from the City's budget documents, answers the primary question for which the debate continues:

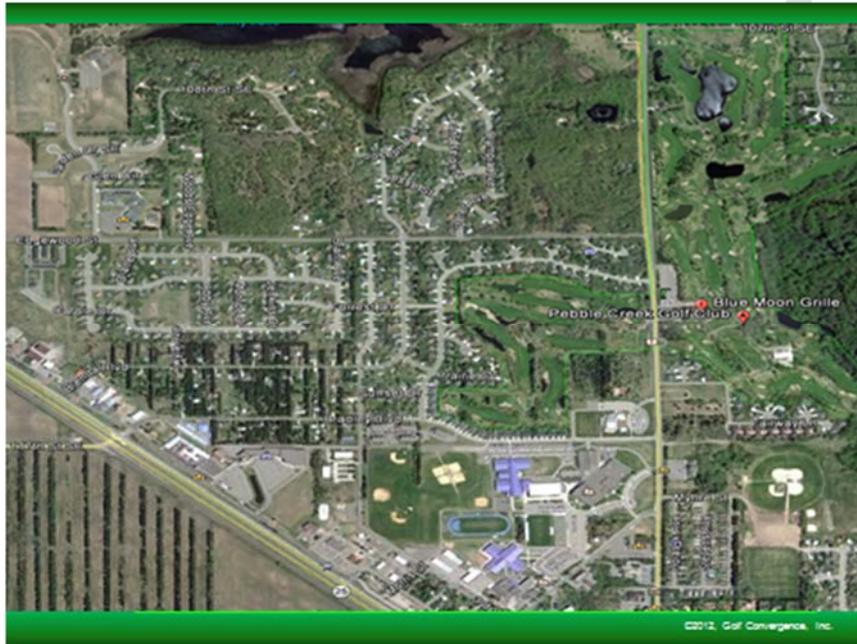
*"To provide a fun, relaxed atmosphere where customers can experience a **premier golf facility with personalized hospitality, great playing conditions and nice amenities.** Operate in a **fiscally responsible manner** while being an asset to the community in all aspects."¹*

The innovative strategy is the central focus of the City's golf course mission statement, though it is opposed by the Mayor and a minority of citizens who believe that highly discounted golf will stimulate demand and generate incremental revenue.

¹ Note: The Executive Summary, at 21 pages, is excessively long, and we apologize for that. It is our experience that a reader, at best, will read only this portion of the business plan before forming conclusions and creating dissenting arguments.

The purpose of this study is to provide the economic data, customer assessments, and professional analysis to address these issues, answer the lingering questions and provide guidance to ensure the proposed \$3.9 million capital investment outlined in the master plan approved by City Council on September 18, 2012 is judiciously allocated over an appropriate time frame to guide the golf course to fiscal sustainability.

The Pebble Creek Golf Club that is the subject of the debate is listed as a \$4.725 million City asset and is highlighted below:



Historical Perspective

The current financial challenges faced by the Pebble Creek Golf Club are clear when golf revenue is viewed on a departmental basis:

	2009	2010	2011	% Decrease from 2009
Green Fees	616,187.36	533,054.68	516,313.31	19.34%
Golf Carts	176,877.42	154,436.93	165,057.72	7.16%
Driving Range	34,432.60	31,246.29	26,205.05	31.40%
Pro Shop	110,300.30	105,623.61	107,364.24	2.73%
Total Golf Revenue	937,797.68	824,361.51	814,940.32	15.08%

Note: 2011 Average Revenue per round was \$29.91.

The published financial statements, which include non-recurring income, depreciation and fund transfers, show a net operating loss of \$1,022,531 during the past three years, resulting in subsidies of \$558,963 as illustrated below:

Category	2009	2010	2011
Revenues	877,909	851,880	956,716
Expenses	1,060,068	1,033,617	941,559
Cash Flow	-182,159	-181,737	18,983
Depreciation	229,506	226,748	221,364
Net Loss before Fund Transfers	411,665	408,485	202,381
Transfers from Golf Lot Fund	157,000	222,903	179,060
Net Loss	254,665	185,582	23,321

The brand image of the City of Becker is influenced by the successful operation of Becker Furniture World and Pebble Creek Golf Club. In a city of 4,538 residents with an annual operating budget of \$9.4 million, continuing operating losses at the golf course have the potential to jeopardize the financial solvency of this city, which has only \$5.4 million in non-dedicated reserves.

Thus, creating a business plan on which a consensus can be built is vital.

Self-Evident Truths about a Golf Course

There are four fundamental principles that govern the management of a golf course.

- 1) A golf course is a living organism that requires constant capital investment approaching \$130,000 per year for greens, irrigation systems, bunker sand, tee complexes, forestry practices, etc. A golf course is not an arboretum.
- 2) Ninety percent of all golfers reside or work within 30 minutes of a golf course. Fifteen percent of the golfers generate 60% of the annual revenue. The typical golf course has only 6,000 distinct customers each year, and they generate the 25,000 rounds played. A new POS system that has not been fully implemented would provide a definitive answer, but we project that as few as 4,000 distinct customers played at Pebble Creek during 2012.
- 3) Customer loyalty to a course occurs when the experience received equals or exceeds the fees charged. To the extent that the price exceeds the experience, customer attrition occurs. In numerous surveys conducted by Golf Convergence, and confirmed in the golfer survey performed for this review, course conditions are the primary determinant in a golfer selecting one course over another. The Pebble Creek Golf Course is deemed a superior course layout by local and regional golfers in the NW Minneapolis corridor. The course conditions have

deteriorated over the last three years, in the opinion of season pass holders, but other golfers think conditions remain unchanged.

- 4) Golfers average 41.5 years of age with median household income of \$85,800, of which nearly 80% are Caucasian and 78% male. The customers of the Pebble Creek Golf Course average 48.5 years of age, have median household income of \$99,563, and are 88.7% male in the United States.

Beyond these governing tenets, there is an undercurrent that greatly influences the management and operation of a **municipal** golf course, as reflected below:



City Council usually believes that a golf course, operating as an enterprise fund, should be a fiscally self-sustaining community benefit. Course management and staff consistently seek investment capital to renovate and upgrade the golf course to ensure a superior experience is provided. Taxpayers who don't play golf (they represent 89.1% of the population within ten miles of Pebble Creek) feel that general fund dollars should not be allocated to subsidize the recreational experience of the affluent. Lastly, golfers, particularly, season pass holders (members) feel entitled to pay far less than fair market value for many reasons, including as taxpayers, they feel that they are financially supporting the City through property taxes from which many derive marginal personal benefit, as their children are grown and no longer use the school system.

Aligning common interests is always a difficult task. There is no single issue likely to dominate a City Council meeting more than the "correct" management and operational philosophy for a municipal golf course. The heated discussion frequently begins when green fees, particularly annual season pass rates, are established for the forthcoming golf season. We fully expect a heated debate with the price increases proposed from this review, increases needed to support the forthcoming renovations in the golf course.

Reviews like this one are rarely fully implemented, but are watered down by the politics of appeasement. Voting members whose opinion is in the minority will arrive excessively late to a committee meeting long-scheduled and then maintain that more information is required and decisions should be deferred pending their review. Accountability is compromised, with a preference to acquiescence and the display of social graces rather than addressing the passive aggressive behavior of dilettantes.

Such behavior was evidenced during this review when the Golf Advisory Committee was scheduled to review the survey and to begin to implement minor course modifications, such as bunker repair, prior to the course closing in 2012. Achieving a consensus which becomes immediately executed is one of the many challenges we noted at Pebble Creek Golf Club.

If this report has any merit and future value to the City of Becker, it will break the stalemate regarding the different operating philosophies creating the current paralysis. Such predatory practices need to stop. Action is required—now.

In addition, to the extent that the principles herein outlined are adopted and implemented, this report will begin the process of restoring the golf course to a path of fiscal self-sustainability.

The Hand Dealt

What action should now be taken? Decisions can't be formulated in a vacuum but need to include the uncontrollable and controllable factors impacting the golf course.

An analysis of those factors is presented below:

Strengths	Weaknesses	Opportunities	Threats
Unique championship layout	Location	Marketing	Politics of Appeasement
City Asset	Clubhouse design	27 holes	Competition
Management	Deferred maintenance	Renovation	Capital requirements

The core asset, the championship layout, is clearly superior, and while rankings as to what is the “best course” are subject to widespread opinion, it is our professional opinion that Pebble Creek is currently among the top three golf courses in the northwest Minneapolis market. This opinion was formed by “secret shopping” 15 courses that directly compete with Pebble Creek and conducting a golfer survey of consumer preferences and loyalty.

The economic woes the course is facing are largely from uncontrollable factors, including the oversupply of the market. Since the golf course was built in 1988, supply of golf has greatly expanded within a 30-mile radius. Twenty-five and a half golf courses have been built, as evidenced by the chart below:

Miles from Pebble Creek	Course Name	City	County	# of Holes	Year Built	Type of Course	Rack Rate
12.2	Riverwood National	Monticello	Wright	18	2006	DF	48
29.8	Windsong Farms Golf Club	Maple Plain	Hennepin	18	2003	PE	100
27.9	The Refuge Golf Club	Oak Grove	Anoka	18	2001	DF	58
25.4	Blackberry Ridge Golf Club	Sartell	Stearns	18	2001	DF	50
13.6	Territory Golf Club	Saint Cloud	Sherburne	18	2001	DF	39
29.5	Pioneer Creek Golf Course	Maple Plain	Hennepin	18	2000	DF	55
25.8	The Ponds Golf Club	Saint Francis	Anoka	27	2000	DF	46
12.4	Vintage Golf Course	Monticello	Wright	18	2000	DF	32
15.1	Cedar Creek Golf Course	Albertville	Wright	18	1999	DF	51
26.8	City View Golf Club	Cold Spring	Stearns	9	1999	DF	24
17.9	Stone Creek Golf	Foley	Benton	9	1998	DF	19
20.4	The Veterans Golf Course	Saint Cloud	Stearns	9	1998	MU	23
16.9	Southbrook Golf Club	Annandale	Wright	18	1997	DF	42
27.5	Rush Creek Golf Club	Maple Grove	Hennepin	18	1996	DF	124
14.2	Fairway Shores Executive Golf Course	Zimmerman	Sherburne	9	1996	DF	20
17.5	Wild Marsh Golf Club	Buffalo	Wright	18	1995	DF	55
24.4	The Greens At Howard Lake	Howard Lake	Wright	9	1995	DF	20
8.8	Eagle Trace Golfers Club	Clearwater	Wright	18	1994	DF	49
27.5	Sanbrook Golf Course	Isanti	Isanti	27	1994	DF	40
18.5	Boulder Ridge Golf Club	Saint Cloud	Stearns	9	1994	DF	24
20.6	The Links At Northfork	Ramsey	Anoka	18	1992	DF	60
17.7	Albion Ridges Golf Course	Annandale	Wright	27	1991	DF	41
24.9	Oak Hill Golf Club	Rice	Benton	18	1991	DF	35
27.3	River Oaks Golf Club	Cold Spring	Stearns	18	1990	DF	37
19	Fox Hollow Golf Club	Saint Michael	Wright	27	1989	DF	60
0	Pebble Creek	Becker	Sherburne	27	1988	MU	55

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Note: the average 18-hole green fee price of courses built since 1988 in Pebble Creek’s competitive market is \$53.85. The 18-hole prime time rack rate green fee for Pebble Creek is \$41.00.

The implication of this growth in supply within the 30-mile radius of Becker has significant consequences. An additional supply of 637,500 rounds of golf has been created during the past 24 years. Pebble Creek, when it first opened, was enjoying over 40,000 annual rounds. Today, rounds hover around 25,000.

It could be postulated that the primary factor contributing to the decrease in rounds at Pebble Creek is the new courses that were built, the majority of which, are closer to the Twin Cities than Pebble Creek. Combine the economy, the cost of gasoline, and the time-crunched society in which we live and one can quickly conclude that Pebble Creek’s challenges are from **UNCONTROLLABLE** factors. If Pebble Creek was not a superior course layout, future prospects would be extremely dim.

Below is a calculation as to where the golfers have gone:

Where Have the Golfers Gone?

The Expanding Market	The Numbers
Courses added since Pebble Creek built	25.5
Rounds per course	25,000
Rounds absorbed out of market	637,500
Pebble Creek market share loss (100%/25*50%)	3%
Rounds lost due to uncontrollable factors	19,125
Current rounds	25,000
Rounds potential	44,125
1990 Rounds	40,000
Rounds Cushion	4,125

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Will Decreasing the Green Fee Attract The Lost Customer?

Our firm, while serving clients for the past 25 years, has yet to hear a single time from any golfer, “We should raise the green fees because the value we are being provided far exceeds the price we are being charged.” To the contrary, golfers continually maintain that prices should be lowered and that rounds will increase accordingly. They speak from self-interest, not from a communal concern for the financial welfare of the golf course.

We believe that strategy is flawed for two reasons. A 25% decrease in prices, as advocated by some within the community, would require a 33 1/3% increase rounds to generate the same revenue. That is unlikely to happen, because there is insufficient demand in the marketplace, as documented in the geographic local market analysis performed for this report. It should be noted that a 25% increase in prices will generate the same revenue, even if rounds decrease by 20%. A tertiary beneficial impact of fewer rounds is that course conditions improve. Thus, the odds are in the house’s favor to raise – not lower – prices.

The chart below reflects current weekend price with cart at \$55 and a new rate proposed by a small by vocal group, at \$40 inclusive of cart.

A highly flawed strategy

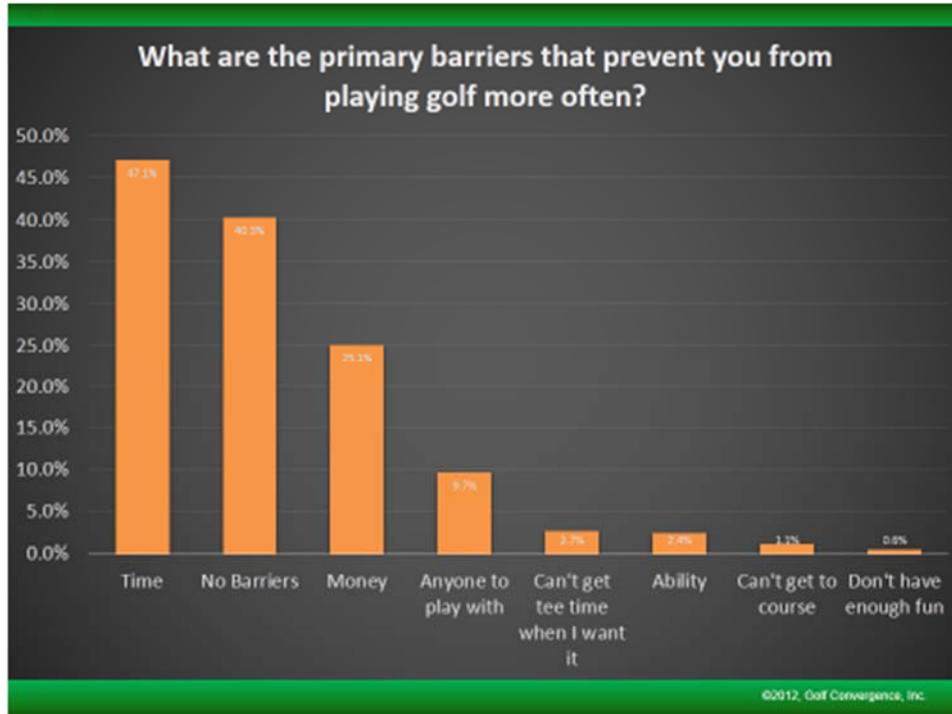
Course is too remote to attract rounds

Category	Amount
Rack Rate	\$55
Proposed Rate by Local Group	\$40
% Discount	27%
% Increase in rounds to break-even	37.8%
Additional Rounds Required to Generate Same Revenue as Today	9,375

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There is insufficient demand in the market to generate the incremental rounds required to equal current revenue.

Secondly, from the survey conducted as an integral part of this management and operational review, golfers indicated that the primary barriers to playing more golf were time or they were playing as much as they could, as shown below:



Thus, reducing green fees is likely to result in decreasing revenue and net losses.

This analysis leads to a single topic. What is the role of municipal golf today?

The Role of Municipal Golf

A municipal golf course serves a vital role in a City, providing value-based recreation and leisure entertainment to its citizens.

Why? It serves as an entry door to the game as it introduces individuals to the game, its rules, and its defining culture. It is the only sport in which professionals are role models who demonstrate that referees are not necessary for an event to be fair and fun.

For families and friends, golf is an opportunity to enjoy each other's company via a walk through nature's preserve. For the competitive athlete, it is an arena to demonstrate one's ability. For business men and women, it is an office, and for those who are retired, it serves as a place to meet, exercise, and enjoy the reward for a life of diligent effort.

During the past decade, and specifically since 9/11, the financial priority for the allocation of municipal funds has been police and fire, while other municipal services compete for the remaining resources.

Thus, it is essential to understand the organizational framework in which the golf course operates within a City's defined charter of providing leisure services. Parks and Recreation systems across this country provide three types of services:



- **Core Essential Services:** These are services the city must provide to manage parks. They would include providing parks and open space for no cost, park maintenance, security, administration, and essential parks-related duties that are considered totally public good services. These types of services are typically supported by tax dollars.
- **Important Services:** These are services which provide for the public good and for the private good. Examples of Important Services would include programs such as swim lessons, summer day camps, and after-school programs.
- **Value-Added/Discretionary Services:** These are services that are nice to provide if money is available to support the services and if the community is willing to invest in them through user fees. These services would include **golf**, senior trips, fitness programs, and individual instructional classes and lessons.

With golf clearly a value-added/discretionary service, the investment in this asset, in our professional opinion and contrary to the opinions of a vocal minority in the City of Becker, the golf course needs to be **fiscally self-sustaining**, especially since private enterprise can often adequately fulfill this need for the citizens. It is with this understanding that the recommendations within this report were framed.

Where to Now?

The issues have been identified. The question remains, “Do you raise your prices to fund the deferred capital investment required or do you invest first and improve the customer golfing experience and then raise rates?”

Accepting the course’s mission statement as drafted and agreeing with the vision as a premier facility that is fiscally self-sustaining, after 20 years of deferred capital improvements, a judicious and conservative path of investment is recommended, based on the following timetable:

Capital Improvement Schedule		
Spring 2013	162,590	Remove trees on 1, 4, 5, 10-13, 15-18
		Remove trees on 1, 2, 4, 6-8, 11, 12, 16-18 and No. 9 on the Local Nine
		Install new trees to improve diversity & aesthetics
		Remove bridge on 2
		Remove rock mulch and timber edging on 2,4,5,7, 13 and 16
		Remove 13 existing sand bunkers at No. 1, 2, 4, 5, 7, 8, 10-12, 14 and 17
		Excavate pond on 2 and re-grade fairway to reduce flooding
Fall 2013	71,600	Directional signage
		Seal coat cart paths to improve longevity
		Repair cart paths on 1-4, 8, 13
		Selectively remove ash tees and plant new species for improved diversity
Spring 2014	127,100	Reconstruct 20 existing sand bunkers on the White Nine
Fall 2014	145,200	Reconstruct 23 existing sand bunkers on the Red Nine
Spring 2015	81,240	Construct 11 new sand bunkers on the White and Red Nines
Fall 2015	110,640	Remove 6 existing sand bunkers on 2-5 on the Local Nine
		Reconstruct 11 existing sand bunkers on the Local Nine
Spring 2016	95,220	Repair fairway drainage on 9, 10 and 13
		Correct fairway drainage and pond edge on 1
		Correct fairway drainage on 9
		Correct fairway drainage on 13
Fall 2016	91,250	Construct new tees and level existing tees
		Construct new forward tees on 2, 8, 9, 13-16
		Construct new back tees on 3, 8 & 17
		Reconstruct existing tees on 3, 4, 6-9, 14 and 17
Spring 2017	200,905	Construct driving range tee & new bag drop, staging area
		24,000 sf. practice tee
		Heated range building - 12 stalls
		Reconstruct bag drop, cart staging area and pro-shop entry.
	1,085,745	

Note 1: The 18-hole configuration is Red/White as known by the majority of golfers

Note 2: \$1,085,745 is prior to 20% for final design/construction and administrative fees

Note 3: Projected minimum investment from master plan is \$838,557.

The master plan suggests an investment of \$3.9 million, which includes a 10% contingency and construction and administration of the numerous projects. While a new maintenance building (\$1.05) million, a new irrigation system (\$1.1 million), and extending carts paths are desirable (some will be absolutely mandated within the next decade), it is our professional opinion that funding all improvements concurrently is ill-advised. The financial risk being assumed is too great without the surety of increased play. The geographic local market analysis performed reflects that of the 52 golf courses operating within the 30-mile radius from Pebble Creek, only 41 are required for supply to meet the demand. Combined with the limited playing season and the insights provided from the customer survey, these market conditions indicate the necessity of a conservative fiscal path. Where Will the Money Come From?

The investment in Pebble Creek must come from two sources concurrently – the City providing the initial seed capital of \$234,190 to ensure the 2013 capital improvements are funded and from the users of the golf through appropriate green fees that are priced based on the increased fair market value of the experience being provided.

While a golf course has over 80 different rates by golfer type, time of the day, day of the week, and time of the year, presented below are the recommended 2013 rates for the primary rate categories from which over 75% of the revenue is generated.

Rate Structure	2007	2008	2009	2010	2011	2012	2013
Green Fees							
Weekday 18 Holes - Championship	31	34	37	37	34	34	35
Weekday Unlimited Play With Cart							60
Weekend 18 Holes -	39	42	45	45	41	41	45
Weekend Unlimited Play with Cart							75
Senior 18 (M-F before noon) (Age >=65)	21	22	24	24	26	26	30
The Local 9 – Adults			24	24	12	12	15
Senior 9 (M-F before noon) (Age >=65)	8.5	10	13	13	16	16	18
Junior 9 (M-Fri. before noon & after 3 Sat & Sun)(under 18 years)					13	13	15
Punch Pass Card - 20 rounds							680
Punch Pass Card - 30 rounds							900
Punch Pass Card - 40 rounds							1040

Rate Structure	2007	2008	2009	2010	2011	2012	2013
Golf Carts							
18 Holes	14	14	16	16	14	14	14
9 Holes	8	8	9	9	9	9	10
Trail Fee (personal golf cart)	450	450	480	530	530	530	550
Season Pass (one rider)	450	450	500	500	500	750	N/A
Season Pass (Add Spouse)	210	210	250	250	250	250.00	N/A
Unlimited Season Pass (\$1 Check-In Fee)							\$0
Individual	990	1200	1300	1300	1200	1200	1300
Add Spouse	300	500	550	550	450	450	700
Add Dependent (under 18 yrs)	100	250	275	250	150	150	150
Junior (under 18 yrs)	250	400	450	375	250	250	400
Max. Fee per Household (Family of 4)					1900	1900	2250
Limited Season Pass (\$5 Check-In)							N/A
Individual	680	1000	1100	1100	750	750	N/A
Add Spouse	300	400	450	450	200	200	N/A
Add Dependent (under 18 years)	100	200	250	250	50	50	N/A
Junior (under 18 years)	250	350	375	375	100	100	N/A
Driving Range							
Small Bucket - 1 Token		3	4	4	4	4	5
Large Bucket - 2 Tokens		5	7	7	7	7	7.50
Range Pass (season pass holders)(all pass holders in household)		100	150	150	100	125	200
Range Pass Public		150	225	225	150	175	300

While some will over-emphasize the price increases, many rates remain unchanged, including Twilight, 9-hole weekday play, Junior 18, Junior 9 on local, 18-hole cart fees, and the Season Pass supplemental rate for dependents.

The greatest controversy from this recommendation will come from season pass holders who use the course with the greatest frequency. They will be the primary beneficiaries of the course renovations and, in equity, should proportionately fund their appropriate share of the capital improvements. From the survey conducted, these golfers average 47.2 years of age and have

median household income of \$134,200. Their heated and emotional argument that they are entitled to a discount because they can't afford to pay should fall on the deaf ears of City Council, the City Manager, and the Director of Golf. As Shakespeare stated, "Thou doth protest too much" – as evidenced below, in a chart which highlights that the season pass holders pay an average of \$18.03 per 18 holes to play golf, a 56% discount to the highest posted rack rate.

As of September 25, 2012	Passes Sold	Revenue & Per Round Detail
<u>Unlimited Season Pass (\$1 Check-In Fee)</u>		
Individual	40	48,000
Add Spouse	12	5,400
Add Dependent (under 18 year)	4	600
Junior (under 18 years)	7	1,750
	1	0.00
	64	55,750
<u>Limited Season Pass (\$5 Check-In)</u>		
Individual	68	51,000
Add Spouse	25	5,000
Add Dependent (under 18 yrs)	5	250
Junior (under 18 yrs)	4	400
	98	56,650
<u>The Local 9</u>		
Household (Family of 4)	23	9,200
Individual	29	7,250
Add Dependent (under 18 yrs)	10	500
Junior (under 18 yrs)	31	3,100
Household (Family of 4) w/BCC Membership	23	6,900
	93	26,950
Total from Season Passes		139,500
Check In Fees: Unlimited Season Passes		3,970
Check In Fees: Unlimited Season Passes		14,731
Total Revenue		154,628
Rounds Played: March to September		8,448
Revenue Per Round from Season Pass Holder		\$18.03
Discount from Highest Rack Rate		56.02%

With the fall golf season now upon us, season pass holders will play more frequently than the general population, further reducing the revenue per round received by Pebble Creek.

The fair market value for season passes is illustrated below:

What is the Right Price for A Season Pass?

Criteria	National	Pebble Creek – Rack Rate
Holes	18	18
Playable Days	180	180
Playing Frequency	36%	23%
Rounds Played	65	42
Rate Rack	55	55
Frequency Discount	32%	54%
Annual Fee – Fair Market Value	\$2,431	\$1,250

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Note: The 36% playing frequency with a 32% discount was determined based on a national survey of golf course operators conducted by Golf Convergence in April, 2012.

At the 2012 season pass rate of \$1,200, season pass holders at Pebble Creek are anticipated to use the pass 36% less frequently (36% -23%/36%) than the national average and receive a discount 68% higher (54% - 32%/32%). While the fair market value of the season pass is \$2,431, such rate, is politically unpalatable and uncompetitive in the local market. The gradual transition from season passes to higher yielding multi-play punch cards is advised.

By promoting season passes and failing to set them at fairly market value, the City continues to coddle a minority of customers, 255, compromising the City's fiscal prudence.

While there will be many "Yes, buts" upon golfer review of this information, a cacophony of chaos is surely to arise from the limited season pass holders when it is recommended that this generous subsidized support of the well-to-do be eliminated. However, it is important to recognize the potential to increase revenue through the introduction of a pass punch program offering discounts of 15% for 20 rounds at \$680, 25% for 30 rounds at \$900 and 35% for 40 rounds at \$1,040. They will be paying per round, \$34, \$30, and \$26, respectively, with the ability to use the pass during prime time.

The Local Nine – Boon or Bane?

Of great interest is the emotional connection many local residents have to the Blue, or as renamed two years ago, the Local 9. The re-marketing of the golf course was to attract the junior golf and local golfers for a leisurely round of golf.

To create the local 9, management reduced green fees from \$22 to \$12 for adults and \$5 for juniors. By offering a golf experience reduced in size and price, maintenance expenses were cut by \$57,500 by eliminating pond maintenance, tee boxes, approaches, verticutting, and top dressing. The following areas witnessed reduced maintenance: bunkers, fertilizer application, weed control, aerification and leaf cleanup. Finally, portable toilets, an anathema for women, were reduced and various sections of the local 9 were no longer mowed.

Financial statements prepared by management show that the 9-hole golf course, in its altered configuration, is “profitable,” with gross revenues of \$66,341, offset by operating expenses of \$28,021. Such expense statements, in our opinion, only reflect the incremental direct costs of operating the nine holes and fail to include appropriate administrative allocations and indirect costs incurred in operating the Pebble Creek complex.

One has to question the luxury of operating a local 9 holes in a community of 4,538 residents. Competing 27-hole golf courses in the NW Minneapolis market, i.e., Albion Ridge and Fox Hollow, have leveraged the “nine” holes to offer unlimited play specials to attract very successful incremental play. While the Blue 9 is the least preferred by regional golfers, based on the survey conducted for this review, we believe it is of sufficient quality that if the maintenance standards were reinstated and Pebble Creek marketed an “unlimited play” rate, the course would experience a comparable boost in incremental play similar to that experienced by its competitors.

Why the prediction of increased play? Pebble Creek, as voted by regional golfers, has the highest loyalty rating in the NW Minneapolis market.

Benchmarks to Achieve Profitability

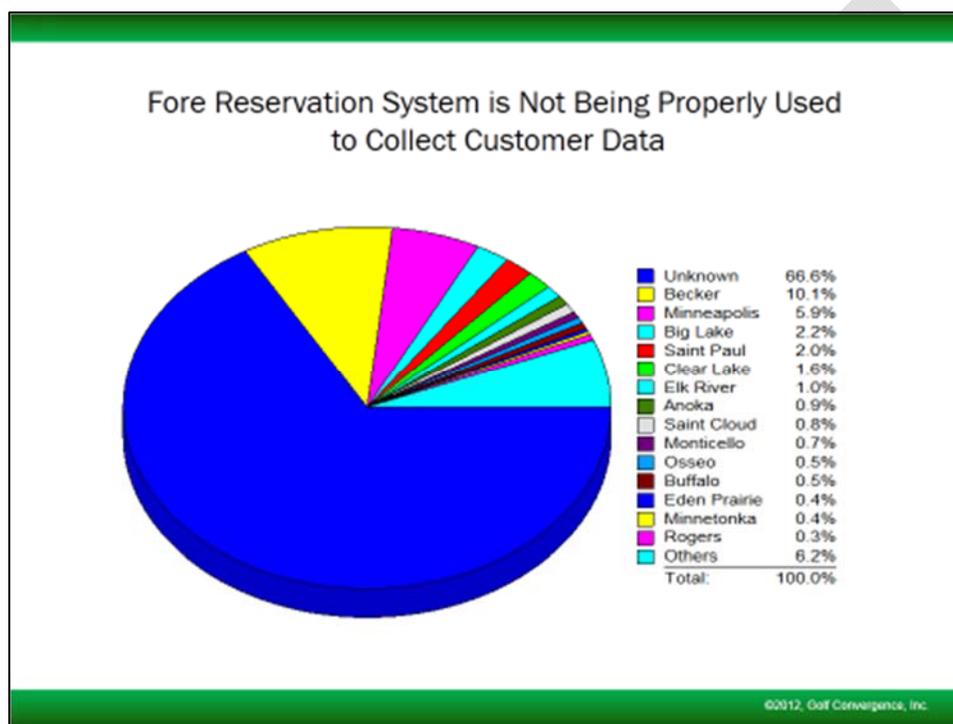
Can Pebble Creek achieve fiscal sustainability? It is important to note that for the year 2011, the golf course generated POSITIVE cash flow of \$18,983. While one could debate whether expenses such as insurance (\$69,842), chemicals and fertilizers (\$60,058), utilities (\$50,244), and fuels (\$17,500) might be further reduced, sustained profitability is more dependent on increasing revenue rather than reducing expenses.

The core asset of the Pebble Creek Golf course is superlative. The key to incremental revenue will be generated from proper pricing of green fees to match the experience created and through leveraging technology to benefit from cost-effective marketing. While the golf course spent \$25,000 on advertising in 2011, the installation of the FORE Reservation system in 2012 holds fabulous potential – if properly used. Considering that the golf course has created a customer database exceeding 4,000 email addresses, the opportunity to gain incremental

revenue by tying tee time reservations to customer transactions will increase from regional play when customer relationship marketing is used.

Presented below are recommendations the City of Becker can implement immediately to ensure continued positive cash flow sufficient to fund the capital renovations required:

- 1) Customer transaction tracking, which is not occurring, should commence. The identification of core, acquired, and defector golfers is essential to boost profitability. Presented below is a screen shot from the system, in which 66.6% of customer transactions remain unidentified as to customer type.



The golf course does not know empirically who its best customers are by dollar spent. Marketing efforts, including periodic electronic newsletters to properly promote the golf course, are currently negligible and should be adopted.

- 2) The staff should be retrained in the proper use of the FORE Reservation system commencing with attending the software firm's annual user meeting.
- 3) Consideration should be given to hiring "full-time seasonal" workers in the Pro Shop rather than depending on 1 "full-time" yearly employee and 15 hourly workers. One of the hires should be a marketing specialist to proactively and consistently communicate the Pebble Creek brand. In our review, we heard many individual stories that Pebble Creek was the premier course years ago, but that you no longer hear about.

- 4) To increase off season revenues, we have seen other northern golf courses install a golf simulator and generate sufficient revenue that the payback on the investment is typically less than two golf seasons. With Becker's winter climate, this optional amenity might be considered.

The Bottom Line

A fundamental principal of a management and operational review is to determine upside potential. The chart presented below highlights that Pebble Creek will continue to face challenges in the short term until the capital renovations, deferred for 20 years, are completed and proactive marketing can again establish the course as a regional favorite among golfers:

Pebble Creek	Financial Projections				
	2013	2014	2015	2016	2017
Revenue					
Green Fees	748,680	809,772	859,667	895,626	915,565
Carts	157,584	191,126	200,636	207,293	210,729
Merchandise	97,500	105,456	111,878	116,398	118,738
Food and Beverage - Rental	15,000	15,000	30,000	30,000	30,000
Range	26,000	28,122	29,834	31,040	31,663
Golf Simulator	0	0	0	0	0
Other	13,000	14,061	14,917	15,520	15,832
Total	1,057,764	1,163,537	1,246,932	1,295,877	1,322,526
Merchandise	68,250	73,819	78,315	81,479	83,116
Food	0	0	0	0	0
Beverage	0	0	0	0	0
Total Cost of Goods Sold	68,250	73,819	78,315	81,479	83,116
Net Operating Income	989,514	1,089,718	1,168,617	1,214,398	1,239,410

Operations	2013	2014	2015	2016	2017
Administration	75,000	78,000	80,340	81,947	82,766
Maintenance	594,500	622,939	645,371	660,900	668,859
Pro Shop	368,756	362,099	227,940	233,262	235,987
Total Expenses	1,038,256	1,063,039	953,651	976,108	987,613
EBITDA Before Capital Reserves	-48,742	26,679	214,967	238,290	251,797
Capital Reserves	234,190	272,300	191,850	186,470	200,905
Cash Flow	-282,932	-245,621	23,117	51,820	50,892

The financial projections presented are not what are forecast to happen but rather set a goal of what should occur if the golf course can achieve positive cash flow within three years.

The conclusion of this review is that unless the capital investment is made, the golf course will succumb to the “death spiral” with losses continuing. An investment, if judiciously made, combined with an emphasis on leveraging technology to engage in customer relationship management, can have a positive result. It will take a consensus among the current Mayor, City Council and the cooperation and understanding of season pass holders and local golfers that the core asset of Pebble Creek is very special and that collectively each group needs to invest to preserve the integrity of the golf course.

Management and Operational Review for City of Becker's Pebble Creek Golf Club (PCGC)

Analysis and Research Performed

To undertake this management and operational review, Golf Convergence employed a precise methodology of eight steps. These steps and the knowledge gained from each are summarized below:

Step	Function	Description	Knowledge Gained
1	Strategic	Geographic Local Market Analysis	Do the demographics indicate that there is sufficient demand to meet the available supply of golf courses? Based on the age, income, ethnicity, and population density, what type of facility would create the highest probability of a fiscally sustainable golf operation?
2		Weather Impact Analysis	Are the current losses being realized a function of adverse weather or of management policies? Are there sufficient playable days to generate a return on the proposed investment?
3	Tactical	Technology	How effectively has an integrated golf management solution been deployed to create the collection of data required to properly manage the golf course?
4a		Key Metrics	How does the operational performance of PCGC compare to the 15 industry benchmarks that measure strengths and weaknesses?
4b		Financial Modeling/ Revenue Management	Are the proposed course renovations on the 27-hole regulation course, driving range, and new maintenance facility financially viable? What debt service can the golf course cover? Have accurate financial models that support proactive decision-making been developed. What is the current utilization and REVPAR?
5	Operational	Golf Operation and Course Agronomic Review	What is the current physical state of the golf course? What is the optimal and best use of the property? What are the recommendations for facility expansion and layout modification?
6		Management, Marketing, and Operational Review	Does the value provided equal or exceed the associated fees? Are the proper operating procedures consistently deployed through each step of the "assembly line of golf"?
7		Customer Preferences	Who are your core customers and how much do they spend? What is the annual retention rate of your golfers? What are the barriers to increased play? What are the primary reasons they select one course over another?
8		Customer Loyalty	How loyal are your customers? What are the key loyalty drivers that create satisfaction, and what is the financial referral impact of promoters versus the negative impact of detractors?

Step 1: Analysis of regional and local trends in public golf, including supply and demand

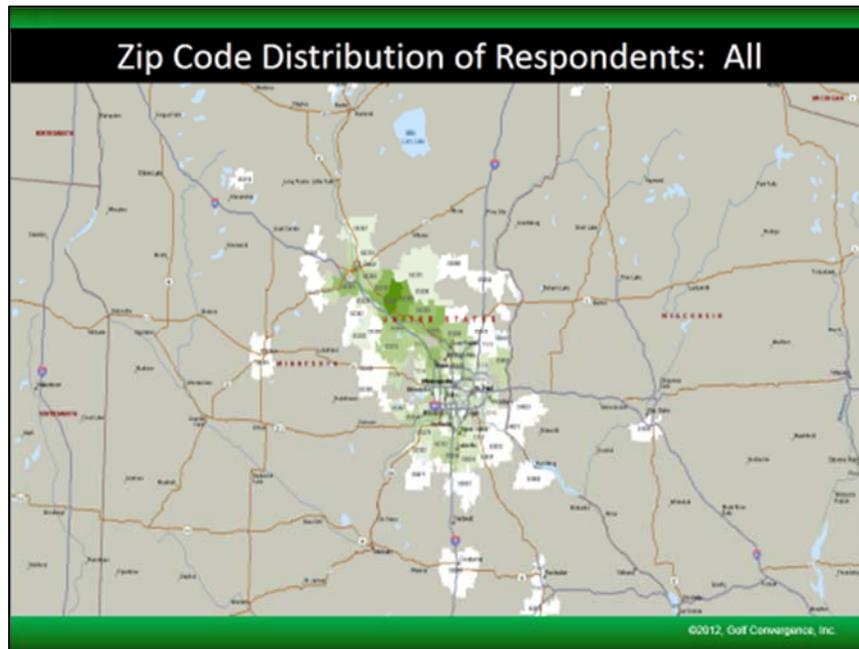
Geographic Local Market Analysis

For this operational review, we conducted intensive research of the demographic trends, the local golfer base, supply levels, the current supply/demand balance, and the impact of historical supply dilution. This analysis is undertaken because we have learned from conducting strategic analyses for over 200 golf courses, certain characteristics, as highlighted below, are predictable:

Just the Facts: The Industry	
90% Rounds	30 minutes
15% of Customers	60% of revenue
Distinct Customers	6,000: 4 to 7 courses
Barriers	Time
Defectors	50%
Game	Caucasian, Rich, Old, Male

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As an integral part of crafting this management and operational review, a 25-question electronic survey was undertaken. Respondents were from the following areas:



Based on the survey of golfers, it was enlightening to compare their responses and the statistics they represent to the responses and statistics gathered nationally.

Demographic	National	Total	Season Pass	Teemaster
Gender – Male	81%	88.7%	84.0%	97.6%
Age	41.8	48.5	47.2	49.4
Income	\$85,100	\$99,563	\$134,206	\$85,914
Education	N/A	14.9 years	15.6 years	16.0 years
Courses Per Year	4 to 7	10.2	9.5	9.5
Rounds Per Year	18	37.5	39.9	32.3
1 st Criteria	Course Condition	Course Condition	Course Condition	Course Condition
2 nd Criteria	Price	Price	Price	Price

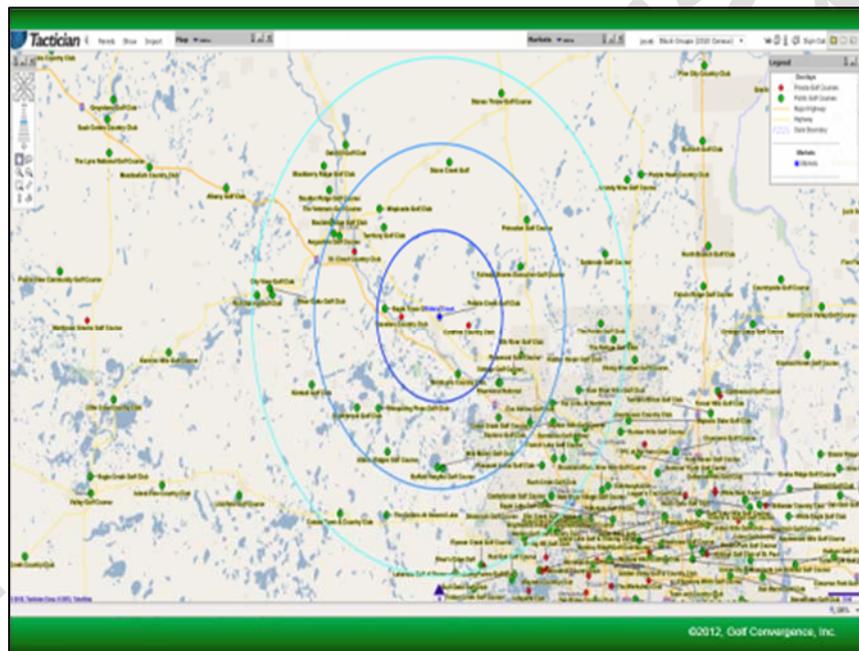
Note: In conducting the survey, we filtered the responses in the aggregate, by season pass holders and based on a separate email sent to Teemaster golfers, a reservation service with a large presence in the Minneapolis market.

The age, income levels, the number of different courses played, and the rounds per year were significantly higher among Pebble Creek customers compared to national averages. However, what is important to a golfer in selecting one course over another, course conditions and price, were consistent.

What these statistics indicate is that the Pebble Creek golfer, being older, is likely to be overly price sensitive, creating great political resistance and chaos when faced with possible price increases. Their feigned answer before City Council will be, “If you raise the rates, we will go elsewhere.” We suggest you call their bluff.

Consequently, in determining the competitive forces surrounding Pebble Creek, golf courses that are located within 10/20/30 miles from the City of Becker were evaluated.

The competitive map locates the golf courses within 30 miles of downtown Becker.



Note that Pebble Creek’s location on the outer side of the NW Minneapolis places them at a competitive disadvantage, and the metroplex golfer has many convenient alternatives. Thus, providing a superior experience – not the lowest price - is essential.

Demand

The City of Becker golf market is very unique. (See Appendix 1 for a detailed demographic analysis of the Pebble Creek Golf Club (PCGC).

To undertake an operational review for PCGC, it is necessary to first measure the potential for each course individually, and second, to consolidate those financial projections to create a

concentric perspective for the enterprise. Presented below are the geographic local market demographics for the City of Becker:

Category	10	20	30	Minnesota	U.S.
Demographics					
Age (Median)	32.60	34.20	34.80	37.20	37.10
Age (Index)	88	92	94	100	100
Income (Median Household)	\$71,793	\$ 65,355	\$70,113	\$59,442	\$51,618
Income (Median)	139	127	136	115	100
Disposable Income (Median Household)	\$58,223	\$43,550	\$57,000	\$59,442	\$45,301
Disposable Income (Median)	129	96	126	131	100
Ethnicity (% Caucasian.)	95.40%	92.70%	92.40%	85.30%	73.90%
Ethnicity Index	129	125	125	115	100

Note: An age index of 88 represents that the population is 12% younger than the U.S. population.

These statistics indicate strong demand for the Becker market. While the income is slightly negative, the income, disposable income and ethnicity with the PCGC trade area are very positive.

The unique nature of the Becker market is seen from an analysis of the MOSAIC® lifestyle database. MOSAIC is a geo-demographic segmentation system developed by Experian and marketed in more than 20 countries worldwide. These 12 classifications are based on a wide range of demographic characteristics displayed below:

MOSAIC Lifestyle Database					
12 Lifestyle Groups: 1 st Most Golfers					
	Life Style Groups	Examples - 1	2	3	4
1	Affluent Suburbie	America's Wealthiest	White-collar Suburbie	Enterprising Couples	Small-town success
2	Upscale America	Status-conscious consumers	Affluent urban professionals	Urban commuter families	Second-generation success
3	Small-Town Contentment	Second City homebodies	Prime Middle America	Suburban Optimists	Family Convenience
4	Blue-Collar Backbone	Neuvo Hispanic Families	Working Rural	Lower-income essentials	Small-City endeavors
5	American Diversity	Ethnic Urban Mis	Urban Blues	Professional Urbanities	Mature America
6	Metro Fringe	Steadfast conservatives	Southern Blues	Urban Grit	Grass-roots living
7	Remote America	Hardy Rural Families	Rural Southern Living	Coal and Crops	Native Americans
8	Aspiring Contemporaries	Young cosmopolitans	Minority Metro communities	Stable careers	Aspiring Hispania
9	Rural Villages and Farms	Industrious country living	America's Farmlands	Comfy country living	Hinterland families
10	Struggling Societies	Rugged rural style	Latino Nuevo	Struggling City Centers	College town communities
11	Urban Essence	Unattached Multi-cultures	Academic Influences	African-American Neighborhoods	New Generation Activists
12	Varying Lifestyles	Military Family Life	Major University Towns		

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It is from these statistics that major chains such as Starbucks, Nordstrom, and Best Buy determine where to build stores. The basic premise of geo-demographic segmentation is that people tend to gravitate towards communities with other people of similar backgrounds, interests, and means. The vast majority of golfers can be classified in the Affluent Suburbia, Upscale American, and Small-Town Contentment Profiles.

The vast majority of individuals who live in or near PCGC fall within the MOSIAC profile are in the Small-Town Contentment, as shown below:

**MOSAIC Lifestyle Database
12 Lifestyle Groups**

	Population Groups					
	Radial Trade Area, 10 miles		Radial Trade Area, 20 miles		Radial Trade Area, 30 miles	
	Number	Percent	Number	Percent	Number	Percent
Affluent Suburbia	13,430	26.8%	65,358	23.5%	205,485	34.4%
Upscale America	3,119	6.2%	22,937	8.3%	61,598	10.3%
Small-town Contentment	26,429	52.7%	86,555	31.1%	142,849	23.9%
Blue-collar Backbone	0	0.0%	2,672	1.0%	3,499	0.6%
American Diversity	0	0.0%	6,303	2.3%	7,077	1.2%
Metro Fringe	2,148	4.3%	31,654	11.4%	50,089	8.4%
Remote America	2,538	5.1%	2,538	0.9%	3,295	0.6%
Aspiring Contemporaries	0	0.0%	6,149	2.2%	12,687	2.1%
Rural Villages and Farms	1,329	2.7%	32,689	11.8%	77,393	13.0%
Struggling Societies	0	0.0%	12,065	4.3%	15,920	2.7%
Urban Essence	1,126	2.2%	6,236	2.2%	13,719	2.3%
Varying Lifestyles	0	0.0%	2,826	1.0%	4,002	0.7%
Total	50,119	100.0%	277,982	100.0%	597,613	100

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PCGC Golf Course is located within the demographics naturally supportive of golf.

Supply

When considering price, quality, proximity, and accessibility to the PCGC, golfers have many viable alternative courses to play that are in close proximity to Becker, which is important, since proximity from work/home to the golf course is a determining factor in measuring the viability of a golf course and its tendency to prosper. A detailed list of courses within 30 miles of PCGC and in the State of Minnesota is included in the research deliverables to this report not included herein.

Presented below is a summary of the supply of golf courses within a 30-mile radius of the Becker area:

Supply of Golf Courses

Category	10	20	30	Minnesota	U.S.
18-Hole Equivalents	5.0	22.0	48.5	412.0	14,882.0
Public 18-Hole Equiv.	3.5	19.5	43.5	363.5	10,593.5
Private 18-Hole Equiv.	1.5	2.5	5.0	48.5	4,288.5

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While the above chart reflects the number of 18-hole equivalents, a standard measure of golf course supply within a local market, the segmentation of those courses by price point and public/private status allows for greater insight as to the potential of an individual facility. For the Becker market, these statistics are presented below:

Profile of Golf Courses

Category	10	20	30	Minnesota	U.S.
Premium >\$71	0	0	1	26	1,293
Value \$40-\$70	3	13	27	186	3,846
Price <\$40	0	8	19	51	6,464
Private/Public Mix	40%	13%	10%	11%	26%
Premium/Value Mix %	0%	0%	4%	12%	25%
Premium >\$71 %	0%	0%	3%	10%	11%
Value \$40-\$70 %	100%	62%	57%	43%	33%
Price <\$40 %	0%	38%	40%	12%	56%

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Note: Price listed is based on a weekend green fee, inclusive of cart.

This chart reflects that the market for golf in City of Becker has an abundance of “value - \$40 to \$70 golf courses.” Somewhat surprisingly, the market is lacking an abundance of

“premium” golf courses that would be anticipated based on the disposable income, but the season’s relatively short length mitigates against a large capital investment.

Demand versus Supply – Is the Market in Balance?

To evaluate the economic potential of this golf course, it is appropriate to examine the demand demographics within a 30-mile radius of PCGC, measuring the number of avid golfers, total participation, golfing fees, and golf fees per round. These statistics for Becker are presented below:

Golfer Profile						
Golfer Statistics	10	20	30	Minnesota	Top 100 CBSA	U.S.
Avid Golfers	1,487	7,157	16,025	148,631	4,588,467	5,830,900
Total Golfers	5,547	26,705	59,796	554,592	17,121,145	26,322,000
Golfing Households	4,510	21,711	48,615	450,888	13,919,630	21,219,240
Rounds Played	59,981	304,460	690,586	6,693,520	331,605,184	498,326,240
Rounds Played Locally	34,488	176,173	397,248	3,721,072	187,507,840	279,190,432
% of Rounds Played Locally	57%	58%	58%	56%	57%	56%
Golfing Fees	1,705,426	9,230,588	26,734,916	269,428,192	13,849,543,680	20,179,122,176
Golfing Fees Per Household	378	425	550	598	995	951
Rounds Played Per Golfer	10.81	11.40	11.55	12.07	19.37	18.93
Golf Fees Per Round	28.43	30.32	38.71	40.25	41.77	40.49
Golf Participation	11.07%	9.61%	10.01%	10.35%	8.43%	8.57%
Total Population +18	35,427	203,293	442,489	4,063,588	152,879,503	232,116,402
Population	50,119	277,982	597,613	5,356,246	203,040,187	307,156,296
Households	17,386	100,059	215,555	2,105,737	75,901,326	113,900,256
Population/Household	2.88	2.78	2.77	2.54	2.68	2.70
Golfers per 18 Holes	1,109	1,214	1,233	1,346	2,323	1,737
Avid per 18 holes	297	325	330	361	623	392
Avid Household Index	76	83	84	92	159	100

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The golfing fees per household, golf fees per round, rounds played per golfer, and the number of avid and golf participants are all below the national average based on the Tactician analysis.

How can the results of the survey we conducted in September 2012 contrast so markedly with the statistics prepared by Tactician, a national firm providing business mapping and local analytics and the National Golf Foundation who conducted the national golf consumer survey? The Pebble Creek survey, because of its superior course layout, captures a concentrated segment of avid golfers that are extremely loyal to the facility.

Further, when the demand statistics are measured against the supply of golf courses to determine the relative balance of demand versus supply, the weakness of the City of Becker’s golf franchise becomes very evident:

Demand vs. Supply

Category	10	20	30	Minnesota	U.S.
Supply					
Total Facilities	5	24	52	479	15,751
If Market In Balance	4	18	41	379	14,882
Golfers Per Facility	1,109	1,113	1,150	1,158	1,671
Public Facilities	3	21	47	428	11,528
If Market In Balance	3	13	29	270	10,594
Golfers Per Facility	1,849	1,272	1,272	1,296	2,283
Private Facilities	2	3	5	51	4,174
If Market In Balance	1	5	12	109	4,289
Golfers Per Facility	2,774	8,902	11,959	10,874	6,306

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Note: This calculation is meant to measure the **relative strength and potential** within 30 miles of each golf course. Because the calculation is based on the number of avid golfers and doesn't weigh the relative importance of age, income, ethnicity, or general population density, it would be inappropriate to conclude an actual number of courses that should be built or closed.

The supply versus demand figures presented reflect that there is only a need for 41 golf courses within 30 miles of PCGC, contrasted with the 51 currently in operation. The market is oversupplied, which confirms the challenges PCGC is facing based on being among the furthest from the metroplex. Marketing to cabin people, vacationers, campers via play and pay specials while a possibility, is unlikely as most zoom by on the Interstate.

A final measurement of demand in a market is the avid intensity index. It calculates the number of avid golfers, those who play over 25 rounds per year within a geographic local market, versus the national average. For the City of Becker, the facts are not positive, as evidenced below:

Avid Intensity Index

	10	20	30	Minnesota	U.S.
Intensity Index - National					
Golf Intensity Index	76	83	84	92	100
Avid per 18 Holes	297	325	330	361	392
Public Golf Intensity Index	77	67	67	74	100
Avid per Private 18: Calculated	425	367	368	409	550
Private Golf Intensity Index	73	211	236	225	100
Avid per Private 18: Calculated	991	2,863	3,205	3,065	1,360

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From this chart, the clear conclusion is that the increase in golf courses since the construction of Pebble Creek in 1988 has created excessive supply in relationship to avid golfer demand; therefore, the golfer can be very selective in choosing a course. Thus, the experience offered becomes vital.

Final

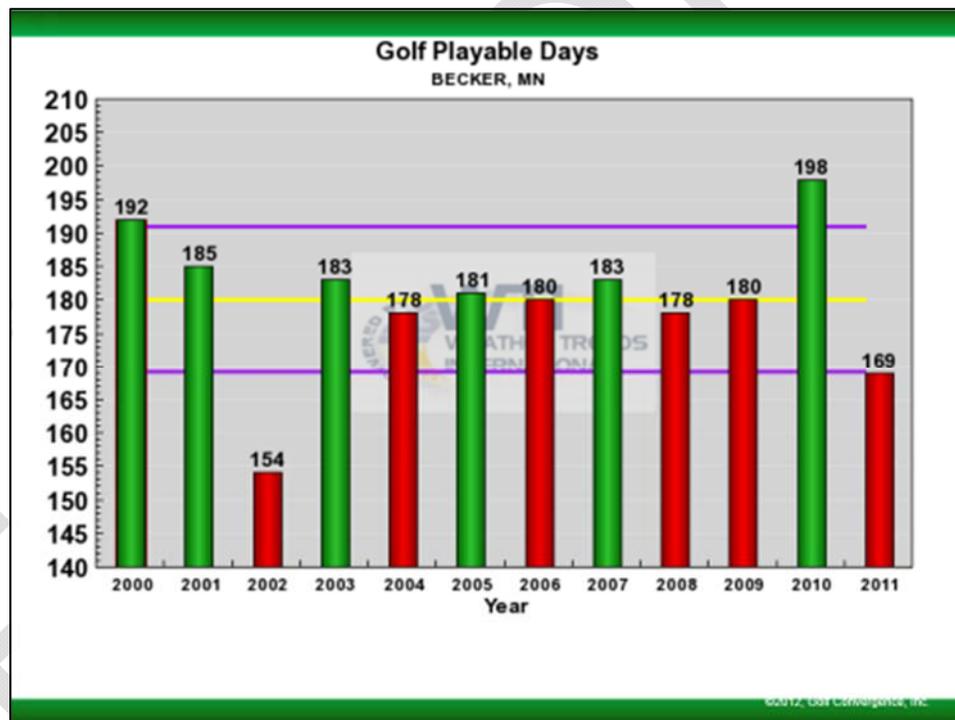
Step 2 - Weather Impact Study

The axiom that “if rounds are up, it’s because of good management and if rounds are down, it’s because of bad weather” is a standard joke, but golf is an outdoor sport. Experts estimate that over 90% of rounds are played when the temperature is between 55 and 90 degrees. Rain, snow, and wind are mitigating factors that will reduce the number of playable days.

Monitoring the number of playable golf days in a year compared to a 10-year trend allows an analyst the opportunity to filter the financial information to clearly differentiate between the impact of weather and the impact of management on a course’s performance.

Annual Golf Playable Days

In three of the past 4 years (2008 – 2011), the amount of playable days at PCGC was significantly below Becker’s 10-year average. That is very comforting and provides insight as to an uncontrollable factor in the decline in golf course gross revenue. On average, there are 192 playable golf days per year in Becker, as illustrated below:



Based on this chart, and the knowledge that weather to date for 2012 has been very favorable, it would be reasonable to expect a resurgence of revenue in 2012.

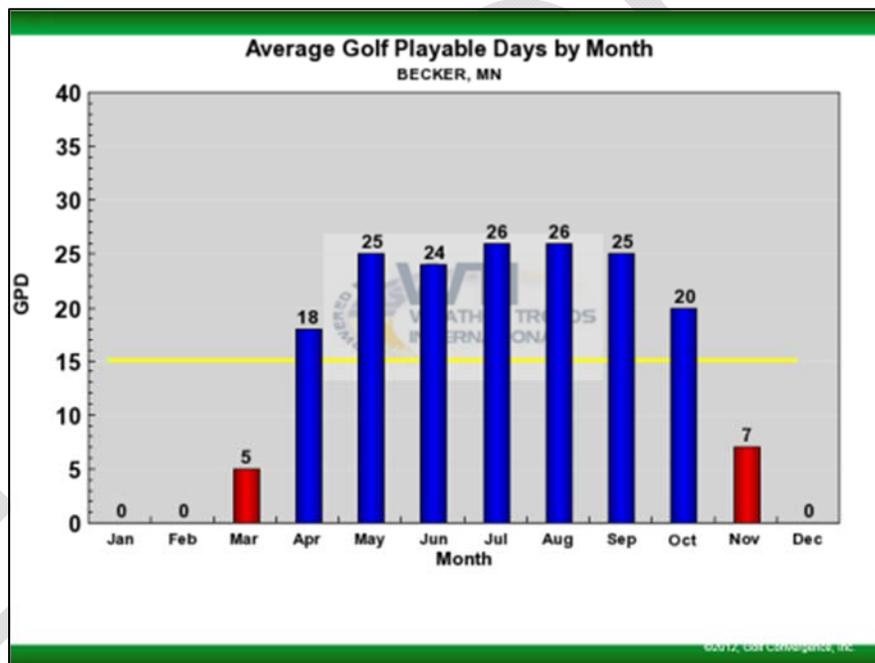
If the weather pattern returned to “normal,” what could be expected in revenue growth? The answer is encouraging, as charted below:

Description	Amount
10 Year Average Playable Days	192
2008 - 2011 Playable Days	182
Unfavorable Weather Last 7 Years	10
Revenue Per Playable Day (3 Year Average)	5,078
Potential Incremental Revenue from Normal Weather	50,078
% Increase in Revenue	6.3%

It would not be unexpected for revenue to increase from the \$814,158 in 2011 to over \$900,000 in 2012, if good weather seen throughout 2012 continues into a late fall before winter sets in.

Viable Operating Season

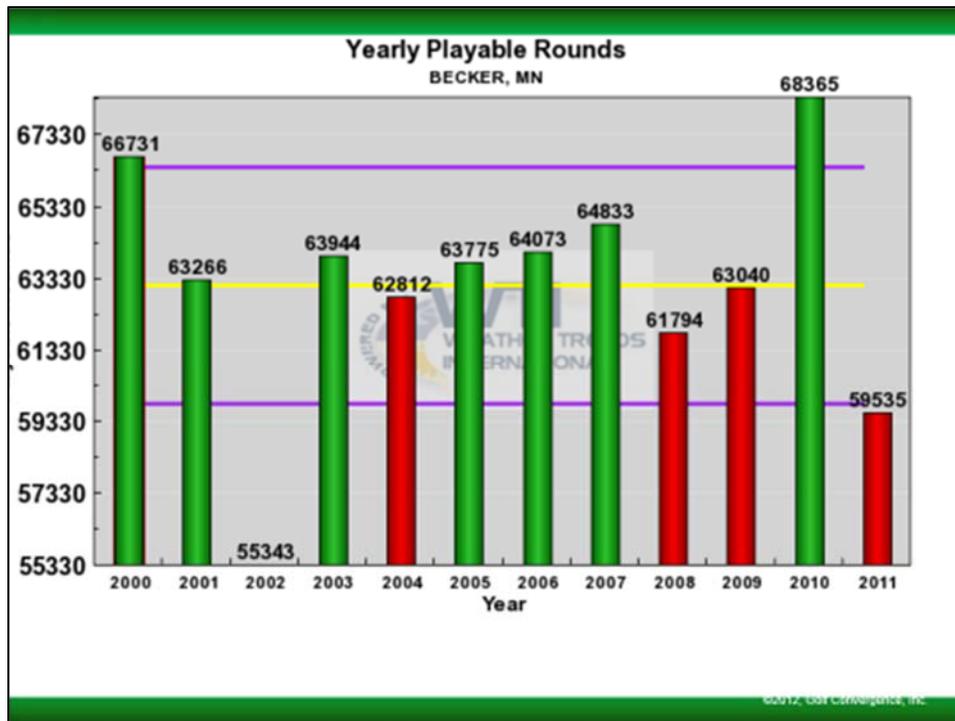
A second analysis of weather playable days determines the City of Becker effectively has a 7-month golf season, as illustrated below:



A golf facility that is open 7 months per year comes with operational challenges in balancing full-time and seasonal staff. The temptation is to use a lot of seasonal staff to avoid benefits. However, these employees, who are the lowest paid and the least vested in ensuring a superior customer experience, are the employees who most frequently interact with the customers and therefore define the customer experience.

Yearly Playable Rounds

A third analysis has been undertaken to determine the efficiency of management, this by comparing actual rounds played to the course's theoretical capacity, based on weather patterns.



The capacity of a golf course is defined by its potential number of starts from sunrise to two hours before sundown on the number of playable days available, presuming a starting interval of 8 minutes.

In contrast to the airline and hotel industry, in which utilization exceeded 70% in 2011, the utilization of the golf course industry was 52%. Rounds at PCGC for the 27-hole complex for the past four years have been 28,417 (2008), 27,029 (2009), 24,933 (2010) and 27,429 (2011). Thus, the 28.3% utilization at PCGC was far below industry averages, which typically, and at PCGC, results from supply exceeding demand and possible the experience of the golf course which has not seen capital investment in 20 years sliding.

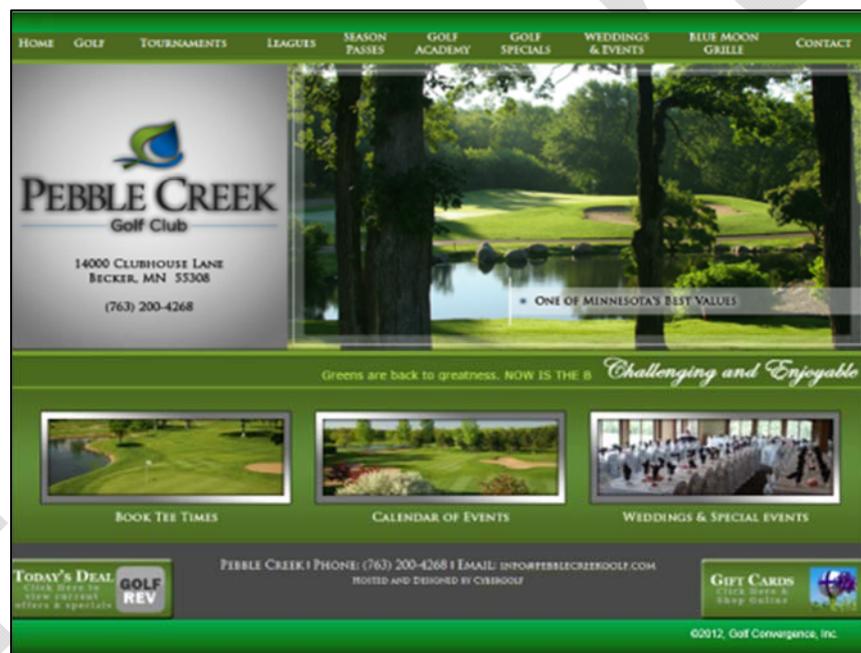
Step 3: Technology

Who Is the Customer?

A fundamental test for any business is identifying who its customers are and what they are spending. Thus, we reviewed the use of technology by analyzing the golf course's internet use, its integration of tee time reservations with the POS, and its deployment of email-based communication.

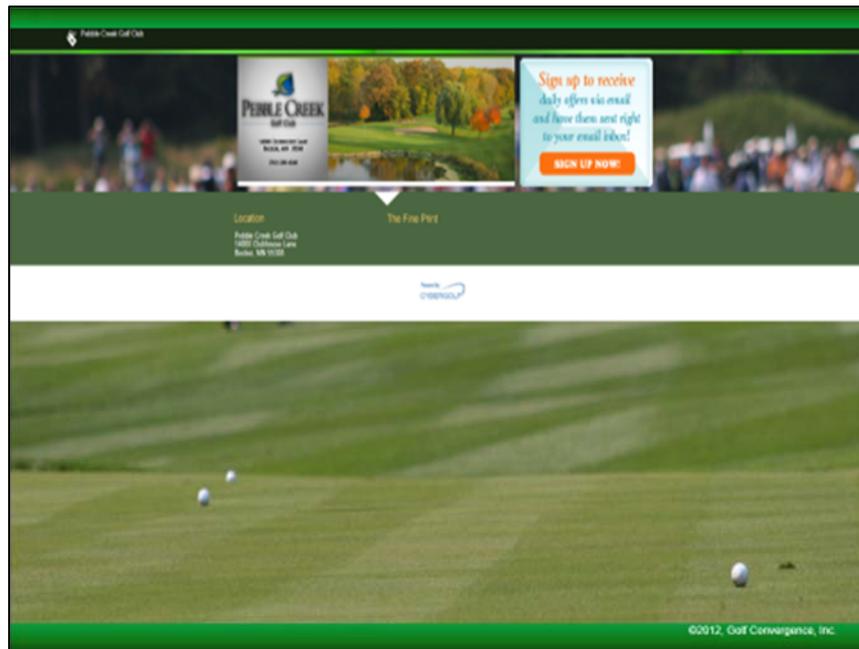
While the City installed a superior golf management software program provided by Fore Reservation Systems. The ability of the Fore Reservation system to build a customer database and generate insightful executive reports is superior. Its market analysis system automatically generates emails to golfers based on pre-defined events and is marvelous. However, the system is not being effectively used.

In contrast, the web site as designed by Cyber Golf is graphically attractive as illustrated below:

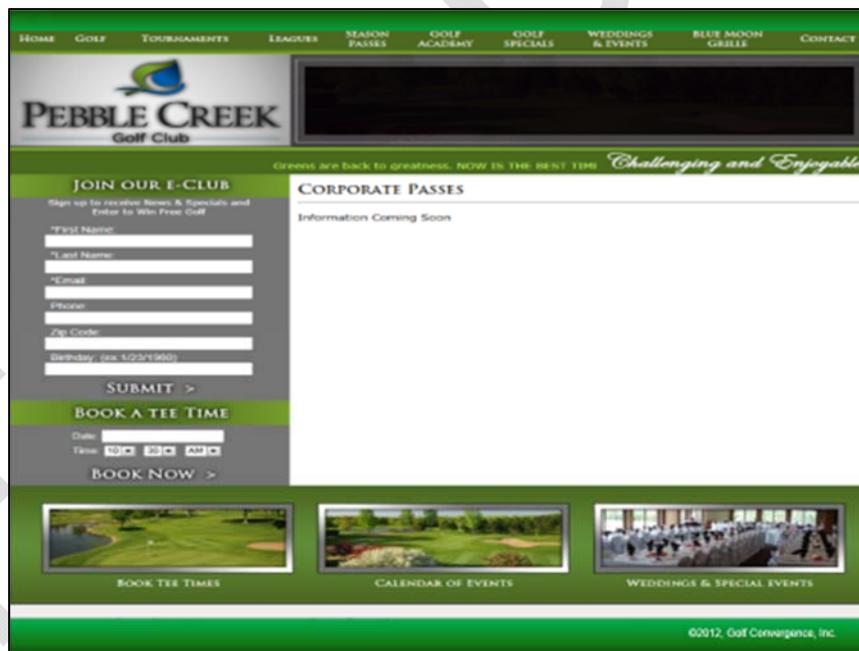


One might question “today’s deal” promoting discounts on the home page and the lack of the ability to book a tee time from the home page without having to first click “book tee times.” One will note that all airlines, on their home page, immediately provide the consumer the ability to reserve. That concept should be incorporated into the Pebble Creek site over the winter.

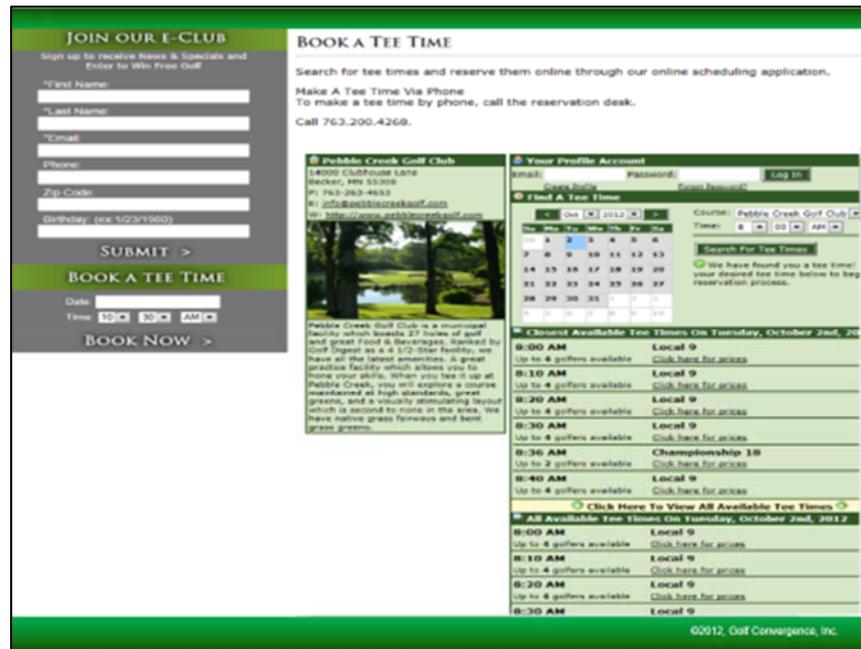
The site should be maintained “current.” One will note below that clicking on the “today’s deal” tab links to a blank page.



Or, information on corporate passes is marked “coming soon” in early October, 2012:



Just as egregious is that the online tee time reservation system displays 100% of available tee times as noted below:



Competitors will often view a golf course's available tee time reservations to determine their relative strength in the market. It is suggested that available times be limited to 4 times per query.

With respect to the home page, it should include a button to sign up for e-specials and tournaments and a newsletter to create golfer loyalty.

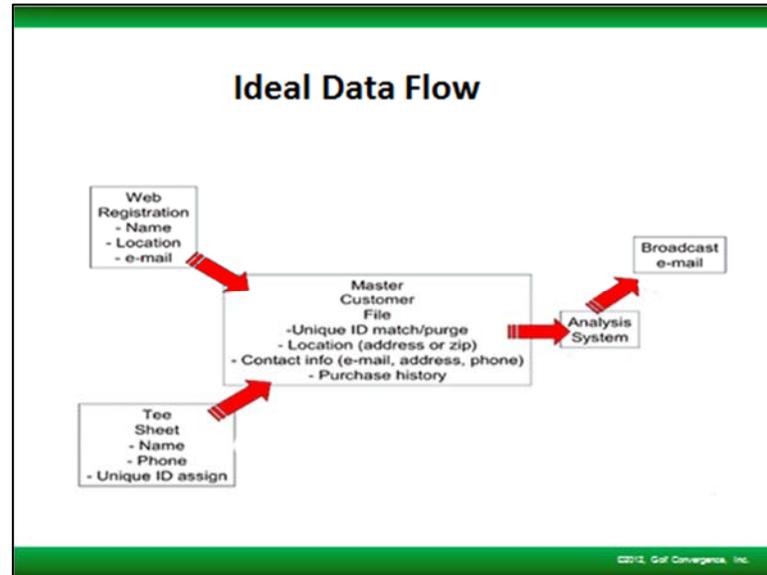
The key to market positioning is establishing strong, exclusive brand recognition. This could be occurring more effectively for the PCGC. One might address the ineffective use of title and meta tags in promoting the golf course on the Internet. Google searches for Pebble Creek pulled up the golf course in the fourth position.

The Formula for Proper Adoption of Technology

The formula to profitably operate the course is simple and consists of the following steps:

- Create a customer database of upwards of 4,000 names.
- Integrate the Tee-Time Reservation System with POS.
- Issue identification cards and/or capture golfers' email addresses.
- Communicate with your customers via an opt-in email marketing program.
- Display tee times by best available time or price (maximum two times displayed).
- Center a marketing focus on your Web site.
- Develop a consolidated reporting system, and monitor the 15 key management benchmarks.

As noted in the list above, the golf course, while it is in on the right path, is still a long way from ideal in its utilization of technology. The ideal system will have the following components:



An online registration system integrated into the POS system can identify specific golfer interests, such as last-minute tee times, tournaments, and other course activities.

For the survey launched on August 23, 2012, the email statistics confirmed that greater efforts can be placed in this area, as noted below:

Launch Date	Emails Sent	Open	Clicked Through	Bounce Rate	Unsubscribe
Aug 23, 2012 5:51AM	4,305	23.21%	11.52%	10.36%	0.35%

The bounce rate of 10.36% indicates that the database is not being maintained and culled of bad addresses. The unsubscribe rate is also high.

The correct deployment of technology will yield the following benefits:

- Maximize Revenue
 - Web-based marketing presence
 - Reservation cards sold for premium access
 - Dynamic yield management
 - Create a distinct PCGC Golf Course brand

- Increase Operational Efficiency
 - Better internal control
 - Timely and more meaningful reporting
 - Elimination of repetitive tasks by staff
 - Enhance customer service
 - 24-hour access to tee-time reservations
 - Email communication of promotions, tournaments, and updates
 - Sell prepaid gift cards online

In conclusion, the proper use of technology is to create a management and marketing advantage. The creation of a unique selling proposition (such as affordability) that is communicated to the existing customer base will boost revenues. This can only be done effectively if technology is properly installed and utilized.

Final Draft

Step 4: Financial Analysis

While the geographic local market analysis and weather impact study evaluate the strategic investment opportunity from a macroeconomic perspective, a financial analysis, along with a market review, look at the microeconomic perspective of each golf course as a stand-alone entity.

The financial prospects for PCGC showing an amazing slide in revenue per round over the past four years, as shown below:

	2008	2009	2010	2011
Revenue	\$1,105,032	937,797.68	824,361.51	814,940.32
Rounds	28,417	27,029	24,933	27,249
Yield Per Round	\$38.89	\$34.70	\$33.06	\$29.91

Fee Structure: What Is a Fair Value?

Are the customer experience and the resulting value derived at PCGC so inferior to justify a 23% decrease in yield during the past four years?

Usually, the prices charged by municipal golf courses serve as the standard from which all other area golf courses determine their fees.

There are many ways to establish the green fee:

- 1) A percentage of the construction cost
- 2) Based on value provided
- 3) Based on competitors' prices

For PCGC, based on the proposed capital investment over the next five years, \$59.00 would be an appropriate rack rate green fee for prime time, 18 holes with cart. Currently, the prime time rack rate with cart is \$55.00. The typical course green fees in the United States and Minnesota are shown below:

Type of Course	United States		Minnesota		Holes	Median Age	Average Age	Median Fee	Average Fee
	Courses	%	Courses	%					
Daily Fee	9,233	58.10%	337	69.63%					
Municipal	2,393	15.06%	94	19.42%					
Private Equity	2,602	16.37%	34	7.02%					
Private Non – Equity	1,632	10.27%	18	3.72%					
Private – Other	31	0.20%	1	0.21%					
Total Private	4,265	26.84%	53	10.95%					
Total Minnesota			484	100.00%	7,479	1970	1966	41.00	45.11
Total US	15,891	100.00%			268,254	1969	1965	41.00	52.05

The State of Minnesota has far fewer private clubs, a fact which allows daily fee and municipal golf courses the opportunity to attract and retain avid golfers. (See Appendix Steps 6A and 6B for a comprehensive pictorial essay of PCGC and its competitors.)

The guidepost for a management and operational review is the value provided to the customer. To the extent that the experience exceeds the price, value is created and customer loyalty is developed. Conversely, to the extent that the price exceeds the experience created, value is squandered and customer attrition occurs.

Value in golf derives from two basic components shared by all golf courses: the physical infrastructure - property, plant, and equipment (the course, the clubhouse, and maintenance equipment); and secondly, the human element – the personnel.

To determine the appropriate price to charge, we need to evaluate the value provided to the golfers. To the extent the price charged exceeds the experience, customer attrition occurs. When the prices are comparable to the experience provided, a golf course will thrive.

Presented below is the “**median**” financial performance of all 18-hole and 27-hole golf courses nationally, municipal golf courses nationally, municipal golf courses in the Minnesota PGA Section and Pebble Creek:

Financial Benchmarks - Median

	18 Holes		27 Holes		18 Holes	27 Holes	Pebble Creek
	All	Municipal	All	Municipal	Minnesota PGA Section - Municipal	Minnesota PGA Section - All	
Rounds	22,000	30,000	34,000	45,250	26,400	26,250	27,249
Peak-Season Green Fee - 18 Holes	\$65	45	67	51	\$46	\$55	\$55
# of Full-Time Employees	14	6	20	10	4	6	2
# of Full-Time Golf	3	3	4	3	1	1	1
# of Full-Time Maintenance	5	4	7	4	3	3	1
# of Part-Time Employees Facility Wide	25	20	35	31	29	48	38
Facility Revenues	\$1,375,000	978,249	2,200,000	1,472,444	680,000	1,100,000	814,940
Membership Fees and Dues	\$297,500	96,500	359,000	145,000	*	*	139,500
Green Fees	\$250,000	440,548	410,000	800,000	340,000	*	376,813
Cart Fees	\$167,119	190,239	240,876	255,000	120,000	*	165,057
Merchandise Revenue	\$125,000	86,000	193,387	150,000	80,000	*	109,623
EBITDA	\$205,435	142,406	375,000	280,000	*	*	107,364
Revenue Per Round	\$62.50	32.61	\$64.70	\$32.54	25.76	\$41.90	29.91

Note: Minnesota PGA Section includes Minnesota, North Dakota and South Dakota. Source: 2011 PGA Performance Trak. ©2012 Golf Convergence, Inc.

Note 2: Only 11 municipal golf courses reported within the Minnesota PGA Section. Where insufficient courses report, PGA PerformanceTrak indicates “*” in the line item of the report.

There are some anomalies in the data. It is unfortunate that the financial benchmarking of golf courses in the United States is more “art than science.” Of the 15,677 golf courses in the United States, less than 20% submit their financial statistics to PGA PerformanceTrak, and even those who do, do not submit information for all 44 reports that are provided from this service.

With that limitation understood, considering its location with a 180-day playing season, the financial performance of Pebble Creek reflects what one would anticipate. The variance in total facility revenue is probably attributable to Pebble Creek receiving rental income (\$15,000) from the operation of the clubhouse restaurant, whereas, it is believed that the other golf courses operate this revenue activity by themselves.

The financial comparison answers the question, “What is the potential performance of a municipal golf course?” which is reflected below:

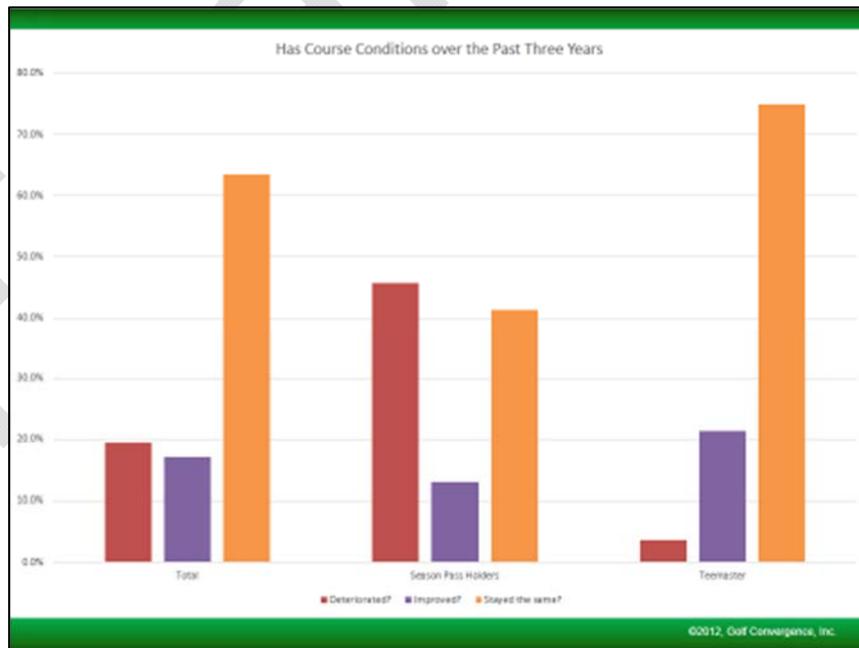
Municipal Golf Courses: What's Possible? 18 Hole Golf Course

	Platinum Top 10%	Gold Top 25%	Silver Median	Steel - Bottom 25%	Pebble Creek
Rounds Played	50,000	40,000	30,000	22,865	27,249
Full Time Employees	20	11	6	5	2
Total Revenues	2,081,461	1,400,000	978,249	615,128	814,940
Green Fees	1,000,000	710,867	400,548	215,000	376,813
Cart Fees	360,000	280,000	190,239	120,000	165,057
Merchandise	205,000	140,000	86,000	50,000	107,364
Golf Shop Salaries	455,052	276,000	182,908	128,000	155,233
Maintenance Salaries	498,000	357,269	250,000	150,000	283,356
Maintenance Expenses	538,500	350,000	142,406	58,000	216,026
EBITDA	1,000,000	572,541	487,000	50,000	18,893

Source: 2011 PGA Performance Trak
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Of concern is the statistic that Pebble Creek's EBITDA (earnings before interest, taxes, depreciation and amortization) is far beyond industry averages.

Worthy of further examination are maintenance salaries and total maintenance costs, if for no other reason than this area of Pebble Creek's operation drew a lot of negative comments from City Council representatives and season pass holders, as noted in the survey results below:



While 65% of the general public and 72% of Teemaster survey respondents felt golf course conditions have stayed the same during the past three years, 45% of season pass holders felt course conditions had deteriorated.

The Dilemma with Maintenance Expenses

With respect to maintenance, the annual cost of maintaining the various types of golf courses, usually laid out on about 150 acres of land, can vary from \$200,000 to more than \$2.5 million. The National Golf Foundation reported the following total maintenance costs in a report titled, "Operating and Financial Performance Profiles of 18-hole Golf Facilities in the U.S."²

Description	Annual Maintenance Costs
Public Mid-Range Frostbelt	\$377,160
Public Mid-Range Sunbelt	540,660
Public Premium Frostbelt	555,460
Public Premium Sunbelt	825,640
Private Mid-Range U.S.	611,240
Private Premium U.S.	1,412,720

This study was updated in 2010 by the National Golf Foundation. Public Frostbelt courses generating less than \$800,000 in revenue had, on average, maintenance budgets of \$308,700. The maintenance budgets for golf courses generating \$800,000 to \$1.3 million in revenue was \$486,600.³

Another set of financial benchmarks are provided by PGA PerformanceTrak are illustrated below:

² National Golf Foundation, "Operating and Financial Performance Profiles of 18-hole Golf Facilities in the U.S.," 2006 edition, pages 4, 10, 17, 24

³ National Golf Foundation, "Operating and Financial Performance Profiles of 18-hole Golf Facilities in the U.S.," 2010 edition, pages 15, 19

	PGA Performance Track					
	18 Holes		27 Holes		18 Holes	Pebble Creek
	All	Municipal	All	Municipal	All - Minnesota PGA Section	
Golf Course Maintenance Payroll & Benefits	\$272,784	250,000	450,000	350,000	146,300	266,587
Other Maintenance Expenses	294,424	220,000	501,013	359,826	172,695	221,782
Total Maintenance	\$567,208	470,000	951,013	709,826	318,995	488,315

Note 1: Minnesota PGA Section includes Minnesota, North Dakota and South Dakota
Note 2: Insufficient number of Minnesota 27-hole golf courses reported. All data marked "**"

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It was interesting to note during this review that two competitors of Pebble Creek, Albion Ridge and Fox Hollow, both 27-hole daily fee golf courses, stated that their maintenance expenses were \$300,000 and less than \$400,000, respectively. While those numbers might create alarm to the superficial observer, it should be noted that private enterprises can provide employee benefits far more cost-effectively, and those costs are always an expensive component of a municipal golf operation.

In that Pebble Creek is maintaining 27 holes, and in that it reduced its maintenance budget in 2011 by over \$200,000, one might conclude that maintenance expenses, considering the age of equipment were appropriate.

However, the scope of this management and operational review was expanded to include an in-depth analysis of Pebble Creek's maintenance and agronomy operations.

Step 5: The Physical Assets – Resources on Which to Grow

PCGC is a 27-hole golf course configured as follows:

	Yardage	Par	Slope Rating
Red	3,497	36	133
White	3,375	36	134
Blue	3,321	36	122

The average slope rating for U.S. golf courses built prior to 1980 is 120. Since 1980, the slope rating has increased to 127. This indicates that PCGC's red and white nines would be considered a "more difficult" golf course suited for avid golfers.

The master plan established and approved by City Council on September 18, 2012, outlines that deferred capital expenditures approach \$3.9 million. We concur with the findings and recommendations contained therein.

The course layout and the associated investment is one component of a successful golf course operation. Another important element is the how that asset is maintained through appropriate agronomic practices.

The Review Performed

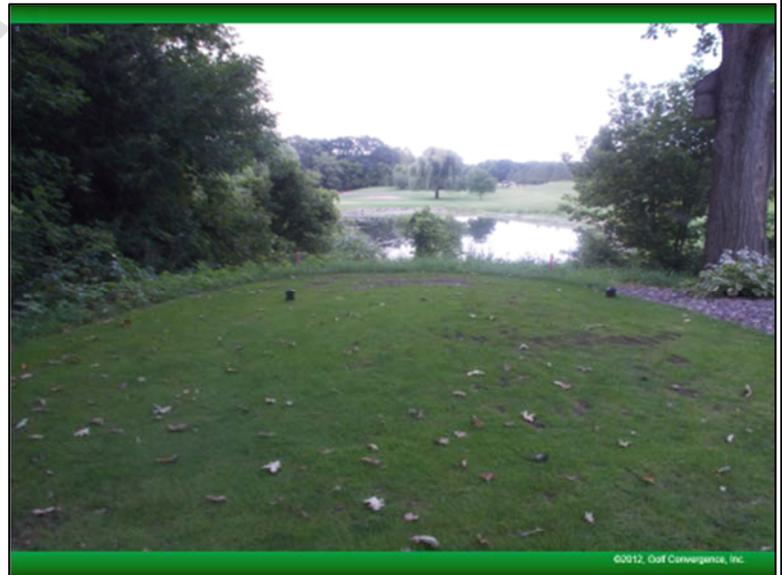
Course conditions for the 27-hole course were reviewed in combination with the impact of trees on course playability and golfer experience. Included in this review was an evaluation of soil profiles, turf conditions, and maintenance practices, including hitting various golf shots off tees, fairways, rough areas, and bunkers, as well as putting on numerous greens on each nine to evaluate green speed, smoothness, texture, and quality from a golfer's prospective. Interviews were conducted with management and staff.

Perspectives

Course conditions, on the days the reviews were conducted, were very good and consistent with comparable municipal operations. Clearly, course conditions on the White and Red Nines were superior to the Blue Nine. Golf course mowing, aeration, fertilization, disease control, soil analysis, fiscal management, and employee supervision were all at very acceptable levels. Greens and fairways on the Blue Nine are mowed less frequently, with many teeing areas not mowed at all. The decreased emphasis on the quality of course maintenance on the Blue Nine has, in our opinion, a negative impact on the golf experience on this nine and on the reputation of the golf facility in general.

Specifically, we noted:

- ◆ **Putting services**, as evaluated by the consultant on September 10th and 11th, were good. Greens were of an acceptable speed and smoothness for a quality public golf course. The greens on the Blue Nine were of lower quality than the other two nines.
- ◆ **Tees** are mounded in the middle due either to improper construction or topdressing only the middle of tees. The entire teeing ground should be used. We noted a tendency on many tees to use the middle to excess and underutilize the front and back areas.
- ◆ The age of **golf course equipment** needs to be addressed with an eye toward replace worn out equipment for mowing greens, fairways and rough areas. Approximate cost for needed mowing equipment is in the area of \$265,000. The fairway aerator is beyond repair and the reel mower sharpener and bed knife grinder are original equipment purchased in 1987.
- ◆ **Course bunkers** are in need of significant improvements. Bunker edges need considerable improvement as does the quality and amount of sand in the bunkers. Stones from soil beneath the bunkers rise to the surface in some bunkers. These stones are unsightly and can damage clubs.
- ◆ **Turf** on 6 hole, blue tee, White Nine is of poor quality due to shade caused by numerous trees. The tee shot on this par-three into the green is obstructed by trees on the left side, as pictured:
- ◆ Numerous **willow trees** have been planted on fairways, and they can interfere with hole playability and customer satisfaction with the facility. These trees utilize considerable amounts of water and have shallow roots which



compete aggressively with turf. It is understood these trees were planted by a former superintendent and were not included in original course architecture.

- ◆ The many **ponds and water features** on the course add to the desirability and character of Pebble Creek. The **cattails** need to be controlled annually as a part of general course maintenance.

The algae and aquatic weeds have not been properly controlled this year, presumably due to budget constraints.



Ensuring Consistent Playing Conditions through Agronomic Practices

To optimize the revenue potential of Pebble Creek, it is recommended:

- ◆ The maintenance practices on the Blue Nine should be upgraded.
- ◆ The amount of nitrogen applied to fairways from 4 pounds of N per 1,000 sq. ft. to 3 pounds of N per 1,000 sq. ft. The 4th pound should be applied only if the growth patterns indicate another pound is required.
- ◆ Front and back teeing areas should be used when possible.
- ◆ Bunkers need considerable renovation and maintenance. Bunker edges need to be smoothed and reestablished. Sand needs to be replaced and the depth increased. At least weekly, the stones should be removed by hand prior to raking.
- ◆ Areas in fairways which lost turf due to heat stress should be reseeded with desirable grasses to offset the Poa Annua which will otherwise dominate, or continue to dominate, these areas. A tractor mounted slitseeder/overseeder should be utilized for overseeding. It is recommended the purchase of this seeder be strongly considered. A used unit in good condition may be an option.

- ◆ A program to replace the mowing equipment for greens, fairways and rough areas should be implemented. Leasing or lease purchasing should be considered to spread the fiscal impact over a period of years. In addition, the reel mower and bed knife grinder are 25 years old and in need of replacement. The fairway/tee aerator also needs replacement.
- ◆ The management of trees on the course and on the perimeter of the course is an issue to be addressed by the superintendent and the director of golf. Pebble Creek, like almost all courses, needs to address tree maintenance, including trimming and possibly removal, as required, to assure course quality and playability.
- ◆ The algae and weeds in the ponds need to be controlled. Investigate the cost to employ a pond management firm, or purchase and apply chemicals such as Cutrine Plus to properly manage weeds and algae in these ponds.
- ◆ The driving range tee mats need to be replaced with a tee-line driving range mat which is glued to the concrete and similar in performance to grass. This improvement will be well received by customers over what is currently in use.
- ◆ The Superintendent should attend annual regional and national turf grass conferences.

Step 6 – Operations & Marketing

Key Benchmarks

Knowing who your customers are, their spending preferences, and their playing frequency is fundamental to maximizing your net income, increasing your operational efficiency, and enhancing your customer service. This knowledge is the essential foundation for a meaningful marketing program. Without this information, most golf courses greatly minimize their revenue opportunities.

A leading golf course management company⁴ that serves more than 100 public golf courses has identified certain predictable characteristics:

- 1) A golf course, on average, has 8,000 distinct customers, from a minimum of 3,500 to a maximum of 11,000.
- 2) 10% to 20% of those customers are “initiators” and make the tee time.
- 3) 50% of those customers play the course only once per year.
- 4) 50% of those who play will not return the next year.
- 5) Only 13% will play six or more times.
- 6) Customers average six rounds played at a specific course per year.
- 7) 20% of a golf course’s wallet share will come from core golfers who play 40 rounds per year.
- 8) Customers become at risk of not returning when they haven’t played your course in 90 days.
- 9) The response rate from customers offered a 20% off coupon, a 10% off coupon, or merely receiving acknowledgement that they are missed is nearly the same.

It is fair to conjecture that golfers at the City of Becker have comparable profiles, except that this golf course probably serves only 4,000 distinct customers annually.

However, because the POS system is not properly utilized, measuring any of the key metrics is not possible at this time.

By the proper adoption of technology, PCGC will be able to engage in Customer Franchise Analysis to identify retained customers, defectors, and new acquisitions. Targeted messages to appropriate golfer segments can be automatically created and delivered monthly. (Note: as a general rule of thumb, a course should only send an email to its entire list of golfers two or three times per month.)

Implementation of pro-active marketing will greatly boost revenues for PCGC.

⁴ Peter Hill, Billy Becker Golf Management, “Programming for Profit,” February 4, 2009 presented at NGCOA Multi-Users Conference.

The Assembly Line of Golf

From the time an individual contemplates playing golf to the time that golfer leaves the golf course, there are a number of touch points through which the customer experience is defined, as highlighted below:

Touch Point	Municipal	Daily Fee	Resort	Private Club	Military
Reservations	X	X	X	X	X
Club Entrance	X	X	X	X	X
Bag Drop		X	X	X	
Cart: GPS		X	X		
Locker Room Before Round			X	X	
Pro Shop	X	X	X	X	X
Range	X	X	X	X	X
Starter & Marshalls	X	X	X	X	X
Beverage Cart Attendant		X	X	X	
Halfway House			X	X	
Cart Return—Club Cleaning			X	X	
Locker Room After Round			X	X	
Bar/Restaurant	X	X	X	X	X
Likely # of Contact Points	6	9	13	12	6

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Our review of PCGC indicated that each customer touch point has the opportunity to enhance customer service. The fundamental challenge from which nearly all golf course customer problems emanate is the poor positioning of the clubhouse and its interior layout.

The customer's first impressions when entering PCGC is a negative message regarding parking, as pictured:



What accentuates this negative first impression is the fact that the golf course sign is partially covered, confusing the first-time visitor as to where to enter the course, as pictured here:

There are many other customer service issues: the dumpster as the customer proceeds from pro shop to the range, the ball machine building needing paint, directional signs to the short-game area, and a bulletin board in the clubhouse that is, at best, tacky, as shown here.

Management and staff often forget, because they see these eyesores daily, the impression made on the first-time customer and the conclusions they reach as to the customer experience obtained.

Integrated as part of this report is a “secret shopper” report regarding all of the observations made regarding the Pebble Creek Golf Club experience, including the fact that the lower level of the clubhouse could easily be confused for a military building with its yellow painted cinder block walls.



Final

Step 7 - Customer Survey

Creating an operational review requires a clear understanding of the golf industry and the unique characteristics that define the sport.

Presented below are some statistics regarding golf in the United States provided by the National Golf Foundation:

- There are 26.2 million golfers in the United States.
- 36.7 million Americans are golf participants, defined as anyone ages 5 and above who either played a round of golf or visited a golf practice facility.
- More than 45 percent of golfers (11.9 million) are between the ages of 18 and 39. Seniors (ages 50 and over) comprise another 33 percent, or 8.6 million.
- There are 5.76 million female golfers; they represent 22 percent of all golfers. And 6.1 million juniors play golf.

There are 16,057 golf facilities, 11,690 of which are open to the public.

- Only 22 percent of all golfers regularly score better than 90 for 18 holes on a regulation-length course. For females, the percentage is just 7 percent, and for males, it is 25 percent.
- The average 18-hole score is 97 for men and 114 for women. It's an even 100 for all golfers.
- The average scores have changed very little over the years.

In conducting a management and operational review, it is invaluable to obtain a current perspective of the customer database by identifying customers' ages, genders, net incomes, ethnicities, playing frequency, favorite golf courses, and price point barriers. The key point being measured is the opportunity to increase current market share.

We conducted a survey of the golfers in the City of Becker

The survey remained open for 10 days, generated 727 responses from a survey sample size of 4,312 email addresses, providing a 90% confidence factor and a margin of error on the results of 5% +/- . The completion rate for those starting the survey was 86%, an acceptable average that suggests the survey was well-constructed.

Who Is the Pebble Creek?

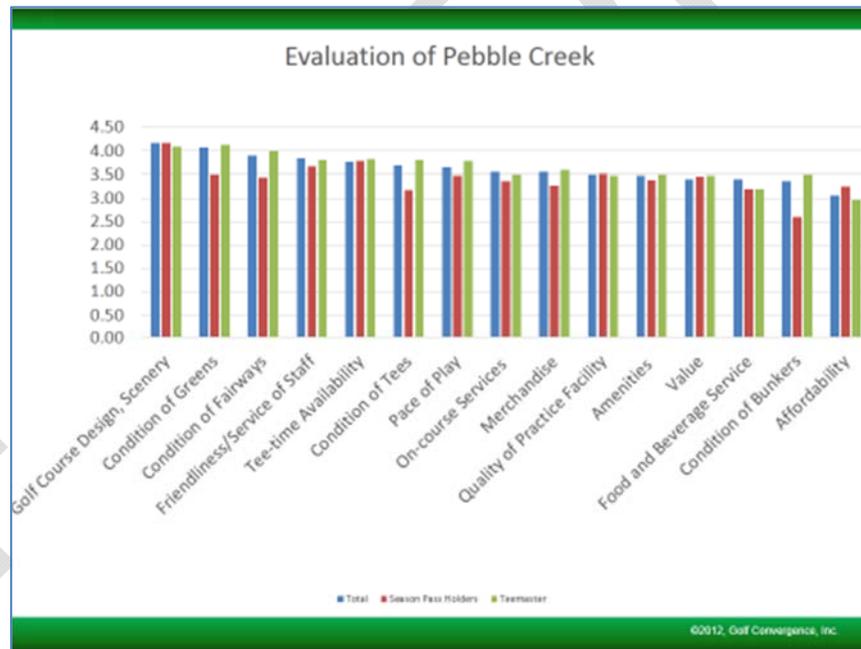
The geographic local market analysis performed in Step 1 of the Golf Convergence WIN™ formula indicated that the City of Becker’s golfers were likely to be Caucasian, slightly older, and with above-average income. The survey confirmed that fact.

The respondents average 48.5 years of age, have median household incomes of \$99,563 (nearly 25% higher than the average income of a Becker resident), are 88.7% male and 92% Caucasian, and play 37.5 rounds annually.

Also of note: the median household income of PCGC season pass holders is \$134,206, and they play twice the rounds at twice the number of courses, 10.2, than most avid golfers nationally.

What Do Golfers Like about Pebble Creek Golf Club?

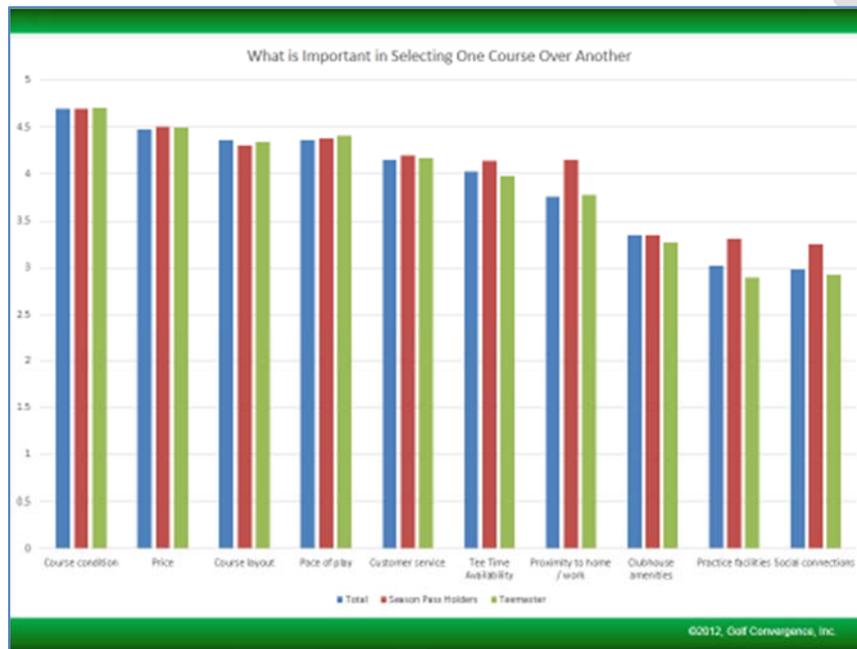
The golfers were asked to rate 21 attributes of PCGC. What always surprises us about these surveys is that the golfers always get it right. Presented below is a comparison of these factors:



The scenery and aesthetics and the conditions of the greens were rated high. Affordability, conditions of bunkers, and food and beverage service were cited as deficient.

What Is Important?

When asked, “What factors are important to you in selecting one course over another?” the results of the City of Becker survey were consistent with other surveys conducted by Golf Convergence and by leading trade organizations such as the Golf Course Superintendents Association of America. Positive impressions of conditioning and value (price/experience delivered) predict success, as shown below:

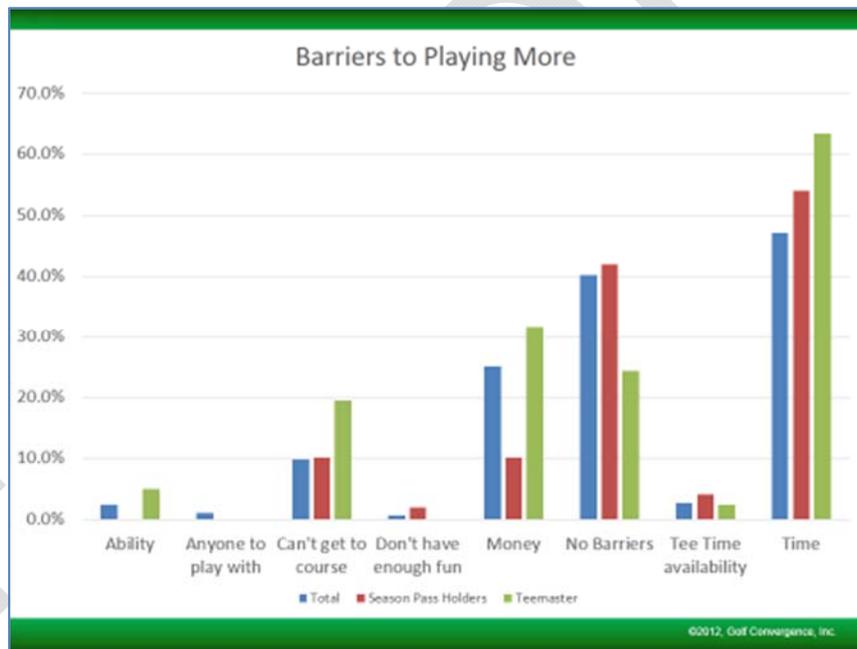


Since a large part of the "experience" equation is the conditioning of the golf course, this should be no surprise. Of concern is the fact that the survey respondents ranked “price” as the 2nd most important criterion for choosing what course to play.

With affordability rate as the most deficient criteria, the price of the green fees and the value being provided needs to be closely examined. Golfers often maintain that if the prices were lowered, the increase in rounds would offset the lower fees. Such a trade-off is perilous, as noted in the chart below:

Decrease in Price	Number of Additional Rounds Required to Offset Discount
5%	5.26%
10%	11.11%
15%	17.65%
20%	25.00%
25%	33.33%
30%	42.86%
35%	53.85%
40%	66.67%
45%	81.82%
50%	100.00%

Despite many survey respondents asking for lower prices, discounting makes little economic sense, as the golf course only achieves 50% yield on the rack rate advertised. Considering that the median household income reported is \$99,563, and \$134,206 among season pass holders, a rate increase could easily be absorbed by the constituents to help fund the capital investment sought. Price doesn't seem to be a barrier to current play, as shown below:



The answer "time" and "no barriers" are troubling in that they are uncontrollable factors. With this in mind, it is that the unlimited play daily rate will entice golfers from the metroplex to play the superior Pebble Creek Golf Club.

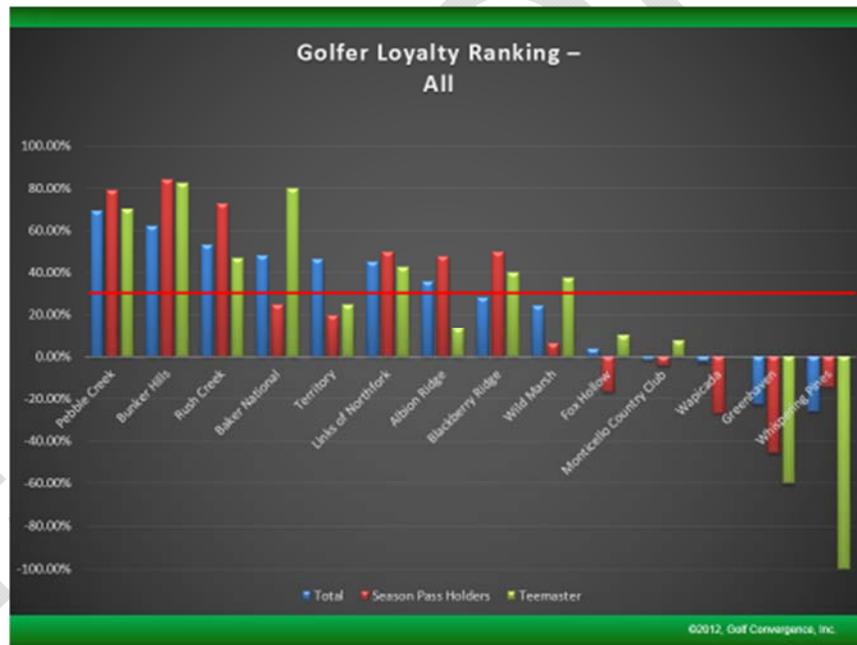
How do the facts support that recommendation?

Step 8 - Customer Franchise Analysis

The customer franchise analysis (CFA) provides operators with the first tool to win the share-of-golfer battle caused by the current oversupply environment in many markets. The CFA leverages information in the operator’s point-of-sale (POS) or electronic tee sheet system to understand and target key customer groups regarding financial metrics. The CFA measures customer franchise health, such as the number of unique guests acquired, retained, and lost, as well as the spending level of each group down to the individual customer level.

In undertaking this operational review, a golf course must identify core customers, spending patterns, customer retention, turnover frequency of golfers, zip code distribution, course utilization, revenue per available tee time, and revenue per tee time purchased. These critical metrics have not been created by the third-party contractor.

However, we were able to ascertain those factors that are vital to golfers in the City of Becker. With a national average being 26, the PCGC loyalty score was a very encouraging 70.3., as noted below:



Note: “Promoter Score” is a term to measure the loyalty of customers to a facility. Are they “promoters” of that enterprise? The national average is 26. A negative score represents that the facility has more detractors than loyal customers.

Of sole concern was that the season pass holders at Pebble Creek ranked their loyalty to Bunker Hills higher than to Pebble Creek. But among all golfers within the NW Metroplex, Pebble Creek has a 7.0 higher favorable rating than Bunker Hills. The courses closest to Pebble Creek, including Albion Ridge, Blackberry Ridge, Fox Hollow, Monticello Country Club, Wapicada, and Whispering Pines, are below the median with respect to golf loyalty.

With PCGC leading among all competitive courses, one must ponder whether objections to raising the green fees are a “bluff” by the season pass holders or are their concerns valid? Based on their median household income, it is our “guess” that their focus on price is a bluff.

Should City Council call the season pass holders’ possible bluff? If prices are raised, some will clearly leave. However, as illustrated in the chart below, Pebble Creek could increase prices 25%, lose 20% of rounds currently played, have better course conditions from decreased use, and possibly lower maintenance costs with the same revenue.

Increase Price	Decrease Rounds
5%	4.76%
10%	9.09%
15%	13.04%
20%	16.67%
25%	20.00%
30%	23.08%
35%	25.93%
40%	28.57%
45%	31.03%
50%	33.33%

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Why are those loyalty share numbers important? Loyalty correlates to wallet share, and the percentage of wallet share a course receives from its golfers is a highly predictive factor of success. Higher wallet share equals higher revenue equals higher net income. Wallet share represents the percentage of a golfer’s money spent at each golf course versus the total amount spent annually by the golfer.

It is much easier to attract a greater wallet share of an existing customer through building loyalty than it is to attract a new customer to the golf course. Promoters refer five golfers per year to the facility, while strong detractors can provide up to five negative references.

In our professional opinion, the City’s current annual loss is largely attributable to “limited play season pass” which provide the purchaser the opportunity to play 7 days per week, weekends, and holidays limited to after 12 p.m. In 2012, there were 98 limited season pass holders. Presented below is a price-sensitivity analysis focusing on raising the annual rate versus the projected decrease in pass sales:

The insights provided from this survey reinforced the recommendation contained here regarding the allocation of capital resources, as highlighted below:

Current

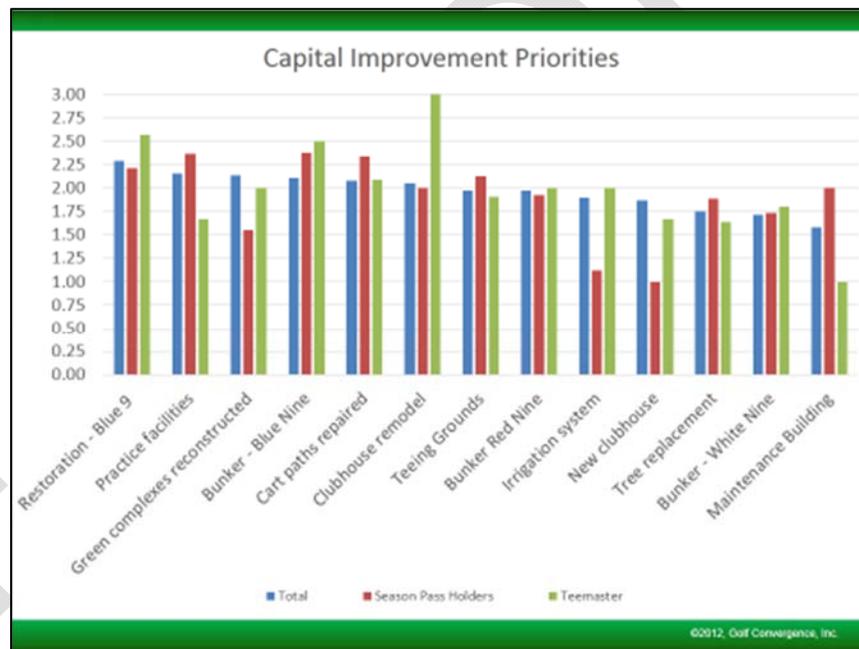
		Current Price	New Price	50	75	Current 100	125	150
Current	Price	\$750.00		37,500	56,250	75,000	93,750	112,500
Scenario 1	Price Increase	100%	\$1,500					
	Member Decrease	50%		25	38	50	63	75
	Net Membership Fees			37,500	56,250	75,000	93,750	112,500
		Rate	Rounds					
	Former Members Play	55.00	15	20,625	30,938	41,250	51,563	61,875
	Total Revenue Impact			58,125	87,188	116,250	145,313	174,375
	Net Gain (Loss)			20,625	30,938	41,250	51,563	61,875
Scenario 2	Price Increase	25%	\$938					
	Member Decrease	25%		38	56	75	94	113
	Net Membership Fees			35,156	52,734	70,313	87,891	105,469
		Rate	Rounds					
	Former Members Play	55.00	15	10,313	15,469	20,625	25,781	30,938
	Total Revenue Impact			45,469	68,203	90,938	113,672	136,406
	Net Gain (Loss)			7,969	11,953	15,938	19,922	23,906
Scenario 3	Price Increase	50%	\$1,125					
	Member Decrease	50%		25	38	50	63	75
	Net Membership Fees			28,125	42,188	56,250	70,313	84,375
		Rate	Rounds					
	Former Members Play	55.00	15	20,625	30,938	41,250	51,563	61,875
	Total Revenue Impact			48,750	73,125	97,500	121,875	146,250
	Net Gain (Loss)			11,250	16,875	22,500	28,125	33,750

All three scenarios point to higher revenue for Pebble Creek.

The outcry from those who have historically benefitted and now feel entitled would create such a political distraction and a potential short-term economic revenue loss that they would likely stage a boycott to protect the unrealistic fees. Only the very brave would take on such a challenge, even though the data reflects that season pass holders accounted for only 44% of the green fee revenue while consuming 56% of the rounds played.

Why is this important? If the golf course is currently losing over \$200,000 annually, is contemplating a large capital investment, and has limited ability to raise prices to reflect the increased value provided to the golfer, the return on such an investment is doubtful. Many respondents commented that they were seeking lower fees, family season passes, and discounted rates for seniors. In this environment, the commitment of significant capital is precarious.

The insights provided from this survey reinforced the recommendation contained here regarding the allocation of capital resources, as highlighted below:



We concur with the survey respondents that restoration of the Blue 9, because of the additional revenue opportunities, is preferred. We place a greater emphasis on first restoring the bunkers on the White and Red 9's, as those improvements will likely have the greatest short-term revenue impact by ensuring a more contemporary look for the course and by enhancing playing experience.

Summary – A Community Asset of Costly Potential

Undertaking a management and operational review for PCGC necessitated the evaluation of the potential of the facility, the future investment required, the highest and best use of the property, and if the experience offered to golfers was consistent; all of these were evaluated with the goal of creating a financially self-sustaining entity if possible. Our evaluation of the PCGC golf course concluded that challenges exist, as noted below:

Project	PCGC
Strategic	
Vision - Competitive Mix	Yellow
Demographics	Green
Weather - Recent	Green
Tactical	
POS/TTRS	Yellow
Web Site	Yellow
Financial	Red
Operational	
Course Layout	Green
Agronomic	Yellow
Deferred Capital	Red
Clubhouse	Red
Range/Short Game	Yellow
Food and Beverage	Yellow
Tournament/Outing Site	Green
Parking	Green
Golf Playing Preferences	Green
Customer Loyalty	Green

Key: Red – negative
Yellow – neutral
Green – positive

PCGC is dated, in need of capital, and likely to see short-term operational losses.

The golf course's location between the metroplex and Brainerd creates an enormous amount of summer traffic "passing by." I-94 was backed up for 10 miles with cars heading back to Minneapolis on a Sunday afternoon, as evidenced here:



The limited playing season and customer expectations of low-priced value golf render a significant up-front capital investment, a hazardous financial proposition.

Unfortunately, the capital investment required to bring current this facility will not likely create a positive return on investment in the short term.

Thus, the City Council members must decide to what extent they are willing to subsidize, in the short-term, a recreational asset utilized by a small minority of the population, a minority that has the financial resources to enjoy golf and whose need is adequately met in the Becker community by private enterprise.

The long-term hope is that the golf course, because of the superior course layout, can once again attract regional participation to ensure that it becomes a tangible asset of economic value and an intangible asset enhancing the brand image of the City of Becker.

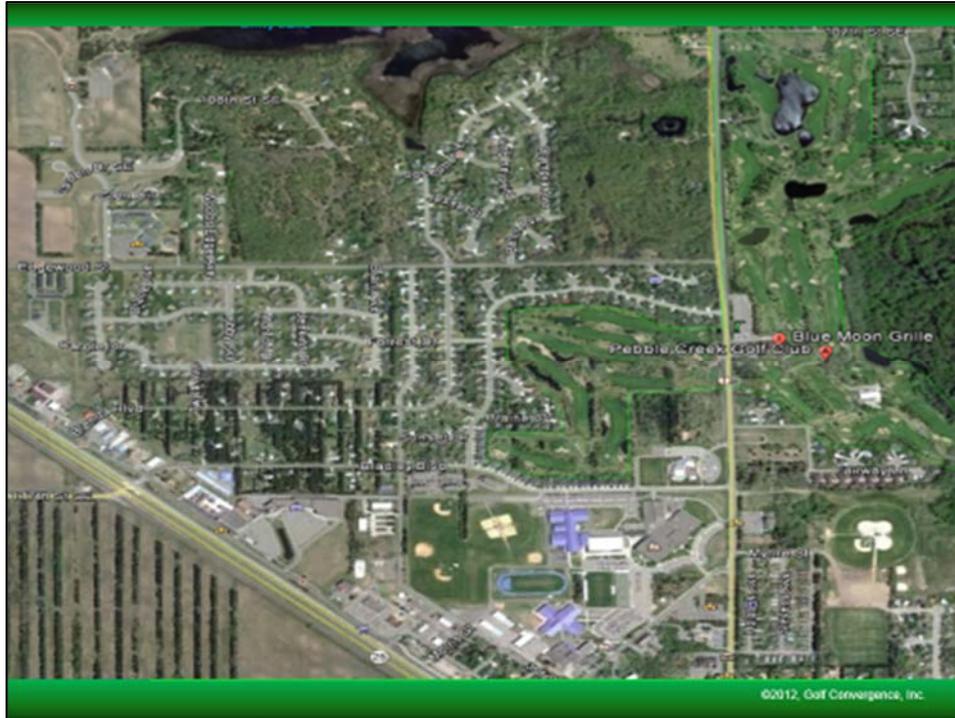


Final Draft

APPENDIX A – Research Performed

Scope of Work

The City of Becker was seeking to complete a management and operational review for a proposed redesign of the 27-Hole Pebble Creek Golf Club course highlighted below:



The conclusions contained in this report have been reached based on the evaluation of:

- ◆ Weather Playable Days review
- ◆ Technology adoption
- ◆ Financial Statements
- ◆ Architectural review of physical layout and condition of golf course
- ◆ Capital improvement needs
- ◆ Competitive review of courses
- ◆ Fee structures
- ◆ Management systems and alternatives
- ◆ Golfer survey

The analysis also included a review of the market and financial performance of the course, as well as an analysis of national, regional, and local trends in public golf, including supply and demand.

Attached to this report are the research and data that support the conclusions presented.

The chart below summarizes the research from which the conclusions and recommendations in this report were formed. This data was presented to the City of Becker as a supplement to this report.

Task	Document	Date
Step 1 - City of Becker - Geographic Local Market Analysis	Power Point	8/5/2012
Step 1 - City of Becker - Geographic Local Market Analysis	Excel	9/28/2012
Step 1 - NGF Golf Demand Report: 10 20 30 Miles	Adobe Acrobat	8/5/2012
Step 1 - NGF Golf Supply Report	Adobe Acrobat	8/5/2012
Step 1 - NGF Facility Report: 10 20 30 Miles	Adobe Acrobat	8/5/2012
Step 1 - Tactician Demographic Trend Report	Adobe Acrobat	8/5/2012
Step 1 - Tactician Income and Disposable Income Report	Adobe Acrobat	8/5/2012
Step 1 - Tactician MOSAIC Comparative Population Report	Adobe Acrobat	8/5/2012
Step 1 - Tactician Population Greater than 18: 10 20 30 Miles	Adobe Acrobat	8/5/2012
Step 2 - Weather Trends International Playable Days Report	Adobe Acrobat	4/17/2012
Step 2 - Playable Day Analysis vs. Management Performance	Excel	9/28/2012
Step 4 - Financial Comparison to National - State Benchmarks	Excel	8/21/2012
Step 4 - 2009 - 2011 Operating Statistics Review	Excel	9/27/2012
Step 5B - Agronomic Review - Dennis Lyon	Adobe Acrobat	9/18/2012
Step 5C - Herfort-Norby Golf Course Master Plan	Adobe Acrobat	8/13/2012
Step 6A - Competitive Course Review : Pebble Creek	Adobe Acrobat	8/15/2012
Step 6B - Competitive Course Review : Pebble Creek Competitors - 10 golf courses	Adobe Acrobat	8/15/2012
Step 7A - City of Becker Customer Survey	Adobe Acrobat	9/4/2012
Step 7B - City of Becker Raw Data Files - - Survey Summary	Microsoft Excel	9/4/2012
Step 8 - Pebble Creek Patron Customer Loyalty Analysis	Power Point	9/4/2012

This analysis also included review of:

1. 2011 Consolidated Annual Financial Report for City of Becker
2. 2009 - 2011 Historical Data, by G/L account code, for Pebble Creek
3. 2008 - 2011 financial data by line item - unaudited
4. Meeting with City staff and Golf Course Management to discuss questions/issues arising from review of above
5. Identifying any contractual or use-permit compliance issues.

6. Preparing findings and recommendations, including plan for financing improvements and achieving financial stability

7. Conducting site visits on August 13 - 15, 2012 and September 10 - 12, 2012

It is our hope that this operational review achieves the goal of aligning common interests.

Limitations of Study and Caveats

This management and operational review engagement, like many, has taken many twists and turns, creating some unanticipated challenges, including the following:

- ◆ The City has not created a strategic business plan for the golf course, so the vision for the facility isn't defined.
- ◆ The facility's adoption of technology, including meaningful customer tracking, was lacking. A thorough yield management analysis to determine the revenue potential of the facility was therefore restricted in scope.
- ◆ The political environment, with strong insistence on maintaining unreasonably low season pass fees, effectively constrains the magnitude of prudent investment that will be required to produce a sustainable financial return.
- ◆ The Clubhouse is architecturally challenged. The associated third-party lease for food and beverage is not being renewed upon the conclusion of the 2012 golf season. These issues present some unique ongoing operational challenges that were beyond the scope of this limited golf course review. The ability of the City to successfully resolve these operational issues will have a direct impact on the sustainability of the golf course.

APPENDIX B: How a Management and Operational Review Relates to a Strategic Plan?

A management and operational review aims to objectively and rationally uncover the strengths and weaknesses of the existing business or proposed venture, opportunities and threats presented by the environment, the resources required to carry through, and ultimately the prospects for success.

In its simplest terms, the two criteria to judge feasibility are 1) cost required and 2) value to be attained.

As such, a well-designed management and operational review should provide the historical background of the business or project, a description of the product or service, accounting statements, details of the operations and management, marketing research, policies, financial data, legal requirements, and tax obligations.

A management and operational review is the precursor to the development of a strategic plan, which is a written document that defines a golf course's future direction. It is a beacon with which elected officials, the facility's lessee, management and staff of the golf course, golfers, and the taxpayers can see the value proposition for the enterprise. A strategic plan provides a consensus for future direction, one that can be measured and evaluated.

Without a defined management and operational review, effective tactical plans cannot be developed. Without tactical plans, efficient operational execution cannot occur.

This guidepost for the implementation of the strategic plan is an understanding of the value provided to the customer. To the extent that the experience exceeds the price, value is created and customer loyalty is developed. Conversely, to the extent that the price exceeds the experience created, value is squandered and customer attrition occurs.

Value in golf derives from two basic components shared by all golf courses: the physical infrastructure - property, plant, and equipment (the course, the clubhouse, and maintenance equipment); and secondly, the human element - the personnel.

How these resources, as depicted below, are applied determines the experience created.

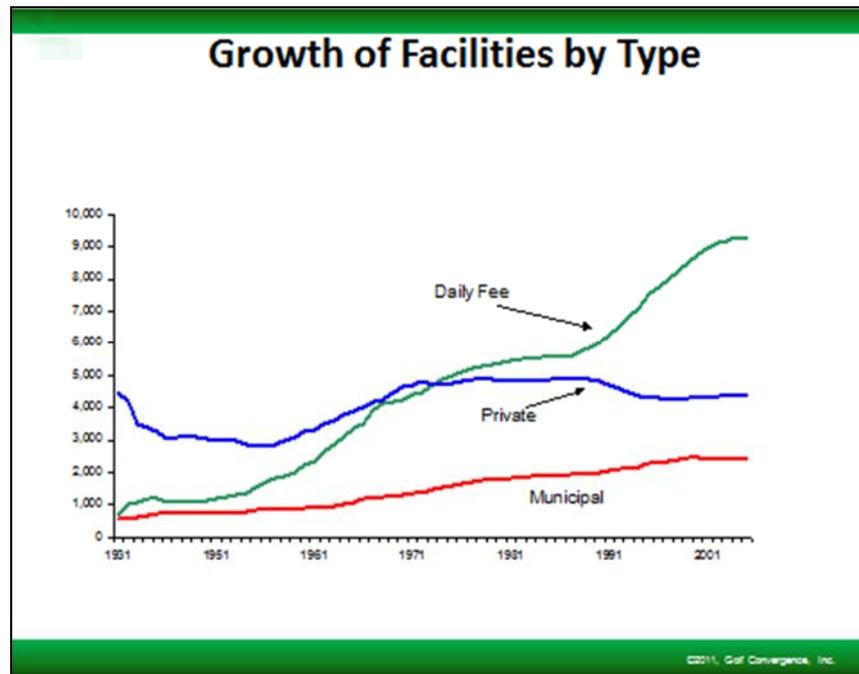


While the creation of a new strategic plan for the PCGC was beyond the scope of this analysis, understanding the facility’s role within the community in providing a leisure-based entertainment experience was fundamental to determining the feasibility of the proposed options available for the golf course.

The Role of Government in Golf

Golf started in North America in the late 1880’s. Access was largely through private country clubs.

Because of the origins of the game within the U.S. as private and club-based, municipalities filled the void for the public by building golf courses as part of their Parks and Recreation programs. The need for municipalities to continue to operate golf courses has been largely eliminated by the evolution of daily fee golf courses – those open to the public via private enterprise—which became a significant factor starting in the 1960’s, as illustrated below:



The current debate: Is providing golf to citizens an essential function of government?

The role of government is to provide those essential services to a society, services that could not otherwise be provided efficiently or effectively by private enterprise. Hence, police, fire, water, sanitation, and highways are usually within the bailiwick of government. But if a need of the citizens is adequately met by private enterprise, should the government provide that service if it is not essential to the health and welfare of its citizens?

It is impractical for a government to sustain losses from the operation of a golf course to serve a small portion of the electorate.

The Organizational Structure of Municipal Golf

Municipal golf courses serve various constituencies, including: City of Becker City Commission, Management/Staff, Golfers, and ultimately, Taxpayers.

The mission statement of a municipal golf course can range from generating the largest possible return on investment to merely creating a value-based recreational opportunity, or alternatively, catering to the perceived needs of niche groups. Some golf courses also emphasize the value of teaching core values to young golfers.

The national brand image of municipal golf courses often gets a bad rap, especially those facilities viewed as an entry door to the game; they often are downtrodden and degrading.

Such is not the case at PCGC. Both management and staff are dedicated, hardworking, and passionate about creating value. But decision-making in response to the uncontrollable factors reported, as well as the lack of resources, often impairs their ability to execute.

With that considered, the real organization chart for most municipal golf courses is as follows:



With this understanding of the macroeconomic factors prevalent in our nation, the microeconomic influences affecting the local golf course, and the current political, economic, and financial environment observed in the City of Becker, this much is clear— if the City is to provide golf, it must do so in a way that ensures that the golf course is financially self-sustaining and free from general fund support.

Two beacons of hope for the future of golf suggest that perhaps in the intermediate, and maybe even in the long term, PCGC might be viable.

First, on November 16, 2011, the National Golf Foundation reported that there are positive developments that suggest the golf industry has reached some balance, as noted below:

National Golf Foundation Reports November 16, 2011

- Latent demand – millions of non-golfers interested in taking up the game
- Dedicated PGA of America Golf 2.0 initiatives to help activate interested non-golfers
- Economic recovery should aid increases in rounds played and spending
- The expected net closure of golf facilities over the next decade should help improve the dilution of demand at the golf course level
- We expect the combined result of these factors to reverse the trend and provide a rise in golfers and rounds per 18 holes.

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Second, municipalities, recognizing that labor expenses and the associated fringe benefits are the source of many of their financial challenges in operating golf courses, are seeking privatization of those operations. By December, 2011, 43% of all municipal golf courses had privatized.

Wisely, the City of Becker has leased its associated restaurant to a third-party firm. Thus, this liability that is faced by many other municipalities currently is a non-issue for the City.

Understanding the global perspectives on the economy and the micro-economic forces impacting the golf industry provide the appropriate framework by which an understanding of the recommendations contained within this report were made.

Global Perspectives – Current Economic Outlook

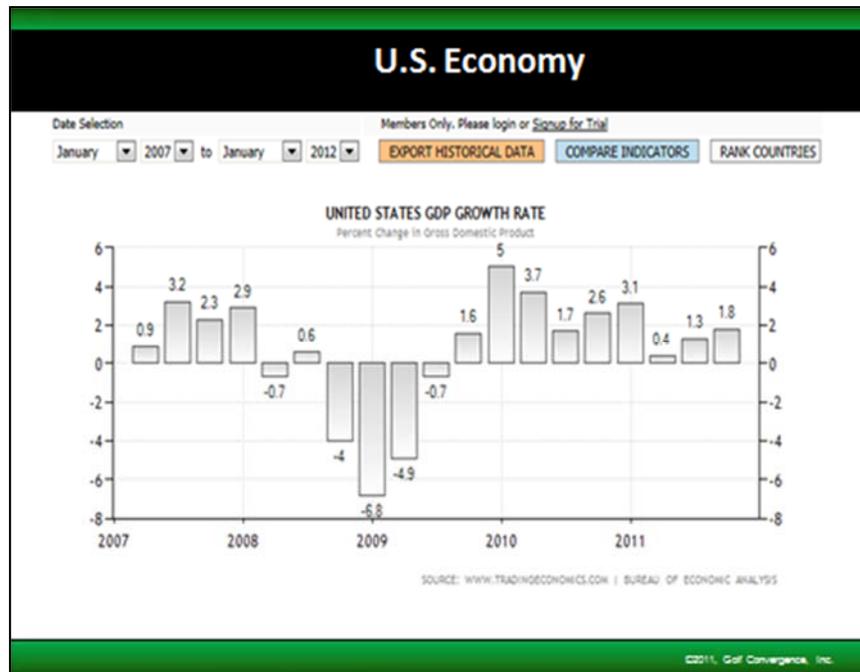
Golf is a recreational sport that consumes the disposable income of its patrons. Golf competes for the entertainment dollars of its consumers.

The financial prosperity of golf is indirectly correlated to the world economy. To measure the impact of current economic conditions on the golf industry, in April, 2010, the National Golf Foundation (NGF) included at its annual symposium a presentation titled, “Economic and Capital Markets at Home and Overseas.”⁵

⁵ IHS Global Insight, “Economic and Capital Markets and Homes and Overseas,” April 29, 2010, Slide 4

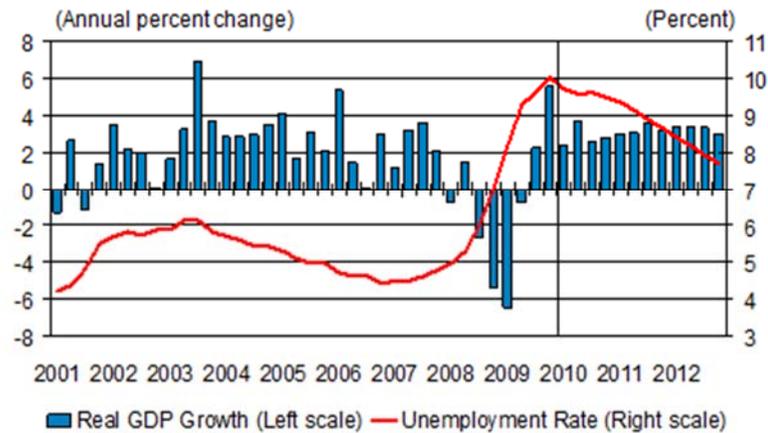
The speaker, Chris Holling, Vice President of IHS Global Insight, presented the case that the U.S. economy was at a crossroads. Negative factors included high unemployment, reduced asset values, tight credit, and high debt burdens. Countering those factors are real income growth, low inflation, low interest rates, and the stock market rally.

The net result of those factors becomes reflected in the U.S. GDP growth rate, as highlighted below:



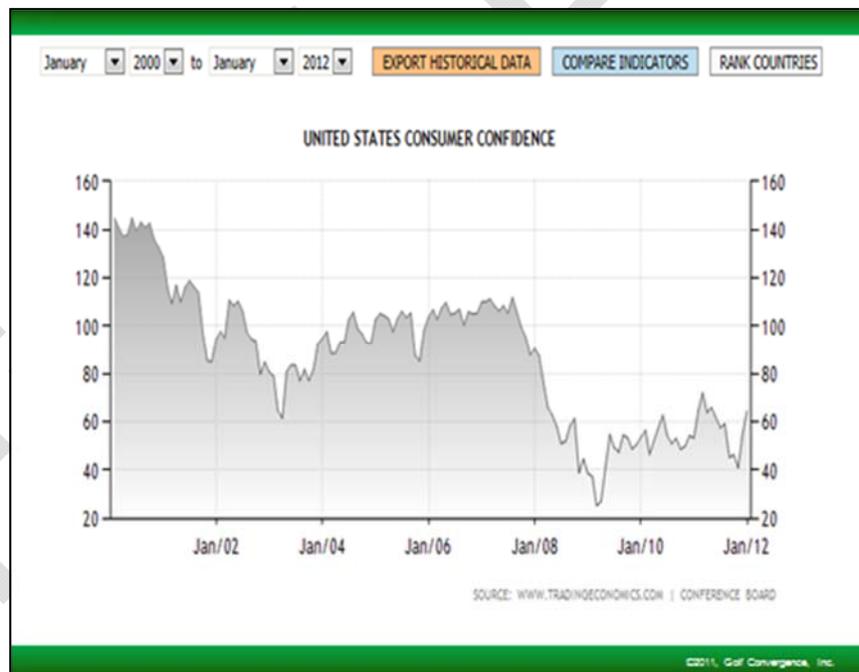
Of great concern is that the economy is considered at full employment when unemployment is 4%. Unemployment is expected to exceed 7.5% for the next three years. That factor alone has a significant impact on consumer confidence and on the average disposable income available for recreation and entertainment.

The U.S. Economy Advances



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Another important economic measure is the Consumer Confidence Index. Presented below is the U.S. consumer confidence index, sourced from the Conference Board, Inc.:



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After two months of considerable gains in November and December, the Consumer Confidence Index is now back to levels seen in April 2011.

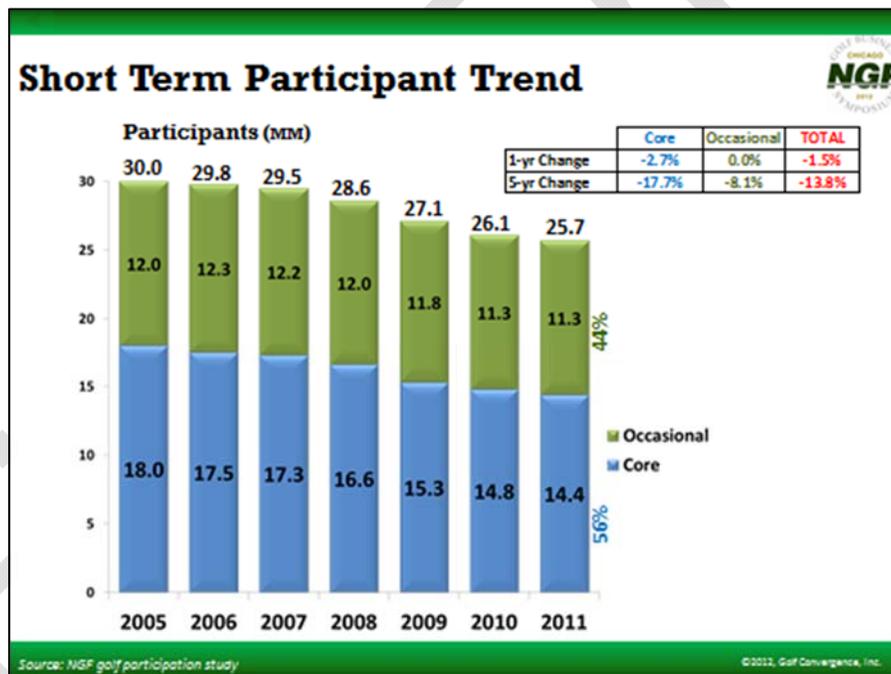
Looking ahead, consumers are more optimistic that business conditions, employment prospects, and their financial situations will continue to get better. While consumers are in a somewhat more upbeat mood, it is too soon to tell if this is a rebound from earlier declines or a sustainable shift in attitudes. While consumer confidence improves, it remains far below the levels achieved a decade ago.

Why is consumer confidence important? Since golf is a recreational activity that consumes disposable per capita income, the higher consumer confidence is, the greater is the probability that entertainment activities, such as golf, will be sustainable.

Analysis of National Trends in Public Golf, including Supply and Demand

All economic forecasts from leading industry research groups forecast a “flat industry” for the foreseeable future. For the next decade, the sport is likely to remain at 25 to 30 million participants, and revenue growth will only come from market share increases (stealing your competitors’ customers) or price increases.

Those conclusions are reached based on overall golfer trends, as reflected below:

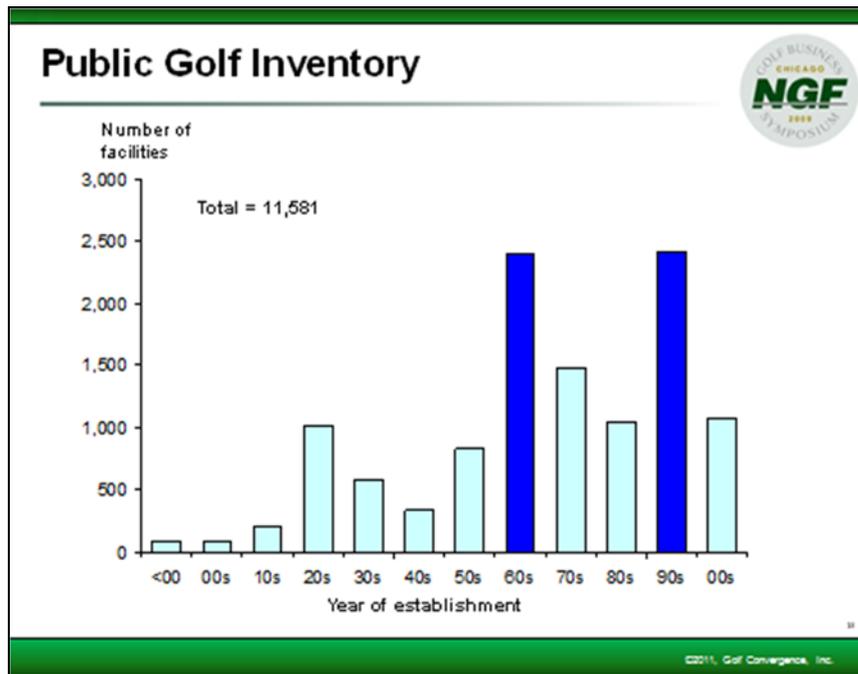


The net decrease of 1.4 million golfers from 2009 to 2011 included 5.2 million golfers who left the game; their numbers were not offset by the 1.8 million beginners and the 2.0 million former golfers who returned to the sport.

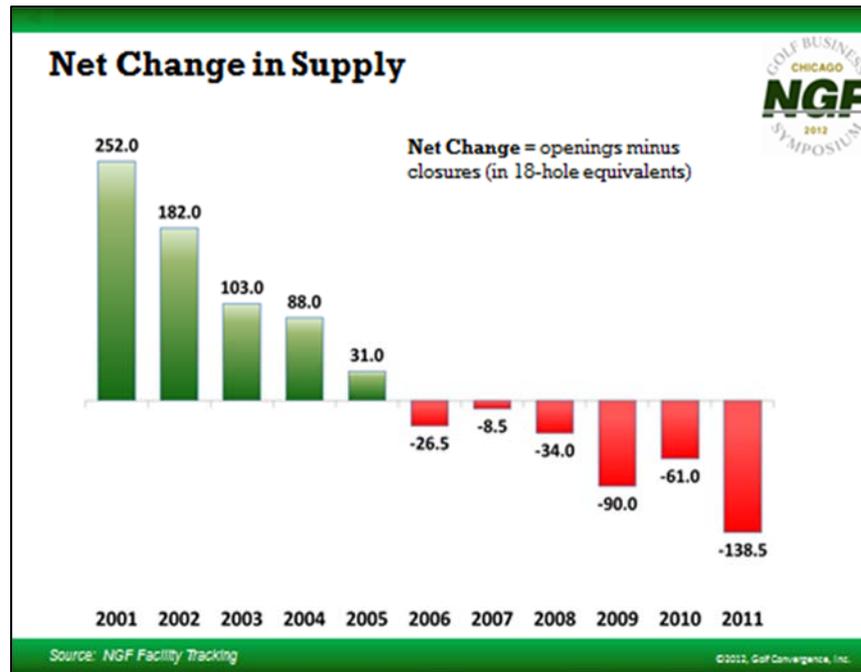
Since 1990, the growth in the number of golf courses is up 24%, while the number of golfers has increased only 16%. As a result, rounds played at each golf course have fallen from

40,400 in 1990 to 31,303 today. During this same period, while the number of golfers has fallen 9.2%, rounds volume has fallen 2.7%.

Today's supply imbalance is attributable to the golf courses opened during the '60's and the '90's, as reflected below:



For the past six years, and for the first time in history, more U.S. courses have closed than opened, as evidenced in the following chart:



Thus, the largest contributing influences are “uncontrollable factors” at a national level, and a quick reversal is not likely. And there are no foreseeable changes which will provide the City of Becker the opportunity to grow its golf course operation based on a surge in demand or a dramatic reduction of supply.

In 2009, The National Golf Foundation published an extensive study on “The Future of Public Golf in America,”⁶ which cited that 15% of golf courses rated their financial health as extremely poor. Of those golf courses, 56% of daily fee golf courses were considering closing and selling, and 26% of municipal golf courses were evaluating the same alternatives. Uniformly, with rounds and revenue off, losses had increased, maintenance standards were deteriorating, capital investments were deferred, and discounting practices were being used to boost rounds. The City of Becker has experienced the same situations.

As a result, the NGF concluded the golf courses most at risk⁷ were:

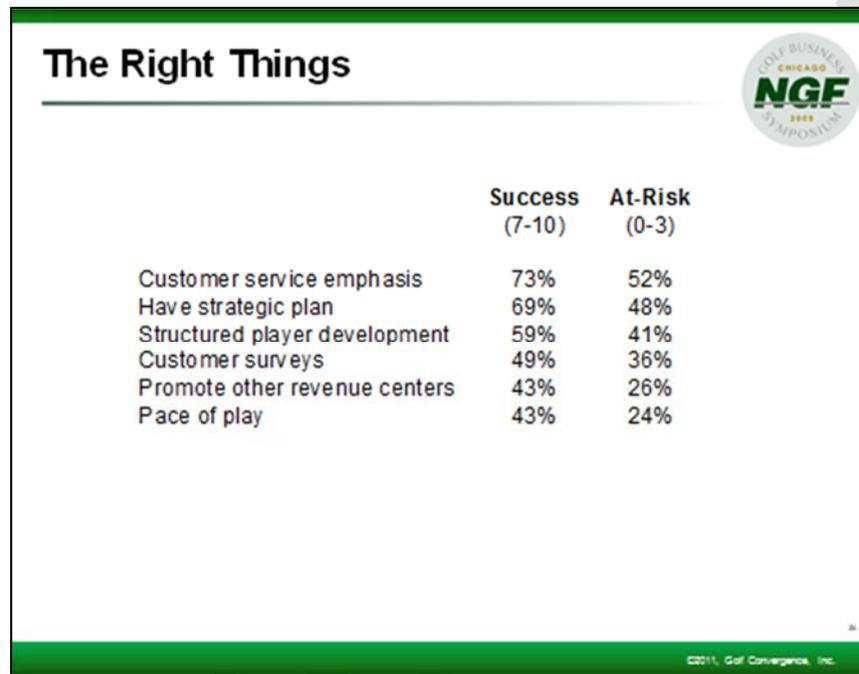
- Facilities with lower price points
- Alternative facilities
- Facilities in less-populated areas

⁶ National Golf Foundation, “The Future of Public Golf in America,” April 22, 2009, Slides 1 -43.

⁷ National Golf Foundation, “The Future of Public Golf in America,” April 22, 2009, Slide 21.

PCGC, being located in a less populated area, is at risk of closing, even though its green fee (\$34) and cart fee (\$14) are above the national average of \$40 for an 18-hole prime time green fee with cart.

The NGF study further revealed significant differences between how successful golf courses were operating in contrast to those courses that were financially challenged. These differences are reflected below:⁸



	Success (7-10)	At-Risk (0-3)
Customer service emphasis	73%	52%
Have strategic plan	69%	48%
Structured player development	59%	41%
Customer surveys	49%	36%
Promote other revenue centers	43%	26%
Pace of play	43%	24%

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Maintaining customer databases, engaging in email marketing, and publishing newsletters are additional traits of successful facilities that have been widely recognized over the years. While the City of Becker doesn't fully engage in such activities, these missing marketing activities increase its risk of failure. Fortunately, Information Systems Technology systems are in place at PCGC, so these deficiencies are correctable.

The Business of Golf – Balancing Demand and Supply

In theory, business is actually very simple. It is simply balancing supply against demand. By establishing the price that correctly balances the value delivered commensurate with market demand, net income is maximized.

Business can be made very complicated. The permutations of operating a successful golf course increase quickly when one considers the factors that impact supply (the number of golf courses) or those factors that affect demand (course conditioning, price, weather, service, and customer demographics and preferences).

⁸ National Golf Foundation, "The Future of Public Golf in America," April 22, 2009, Slide 26.

In a perfect market, customers purchase products that satisfy their needs or desires for prices they determine to be the best value. Golfers purchase a round of golf for the price that creates the social status they seek, for the networking they want to achieve, for convenience to home or business, and for the recreational and leisure experience.

Unfortunately, capitalism is not about perfect markets. Inadequate information, undisciplined decision making, and government intervention can create aggregate failure. The essence of capitalism is for the successful entrepreneur to gain a strategic advantage over competitors within an imperfect market.

The goal of the golf course owner should be to blend the following triad:

- 1) Superlative information
- 2) Disciplined decision making
- 3) Crisp execution

But that first component, superlative information, starts with an understanding of the breadth and depth of the golf industry.

An understanding of macroeconomics as it relates to supply and demand and the underlying performance, structure, and behavior of the golf industry creates the essential perspective necessary to craft an operational review as part of an operational analysis for which this study was commissioned. In the previous pages, we have examined macroeconomic supply and demand changes, but it is necessary to take a microeconomic perspective regarding demand.

A Closer Look at Demand – What Is the Profile of a Golfer?

In 1899, when 307 golf courses existed in the United States, Thorstein Veblen, the author of *The Theory of the Leisure Class*, expressed his opinion that golf was a game in which individuals participated to demonstrate their conspicuous consumption of leisure⁹. In essence, individuals were attracted to the sport to demonstrate their superior financial position and to flaunt their lack of need for work as America transitioned from an agrarian to an industrial society.

From that meager beginning, golf in the United States has grown to a \$24.8 billion industry in which 26 million golfers play 463 million rounds while frequenting 15,882 facilities.

Despite that growth, more than 110 years later, golf has not lost its elitist brand. Two-thirds of golf rounds are played by those with a household income of at least \$85,500, and whose

⁹ Thorstein Veblen, *Theory of the Leisure Class* (Oxford, Oxford University Press), 1899. http://en.wikipedia.org/wiki/The_Theory_of_the_Leisure_Class.

median age is 41.9. The national median household income is \$51,618, with a median age of 37.1. For every round played in the U.S. by someone who is Hispanic or African American, Caucasians play seven rounds. For every round played by a female, men play 5.1 rounds. The fact that Generation Y is playing 58% less than baby boomers is hardly the foundation for an industry hoping for dynamic growth.

The harsh economic environment, combined with adverse weather during the past several years, particularly in Becker, has contributed to the fact that golf is a struggling industry in which the supply of facilities exceeds demand. Over the past six years, 358.5 more U.S. courses have closed than opened. We forecast that 1,659 U.S. facilities will close in order to balance the industry.

The financial health of the business of golf can be measured by many numbers. Three of the most effective are the relationship between the number of golf courses, the number of golfers, and the number of rounds played. Many factors influence those three components.

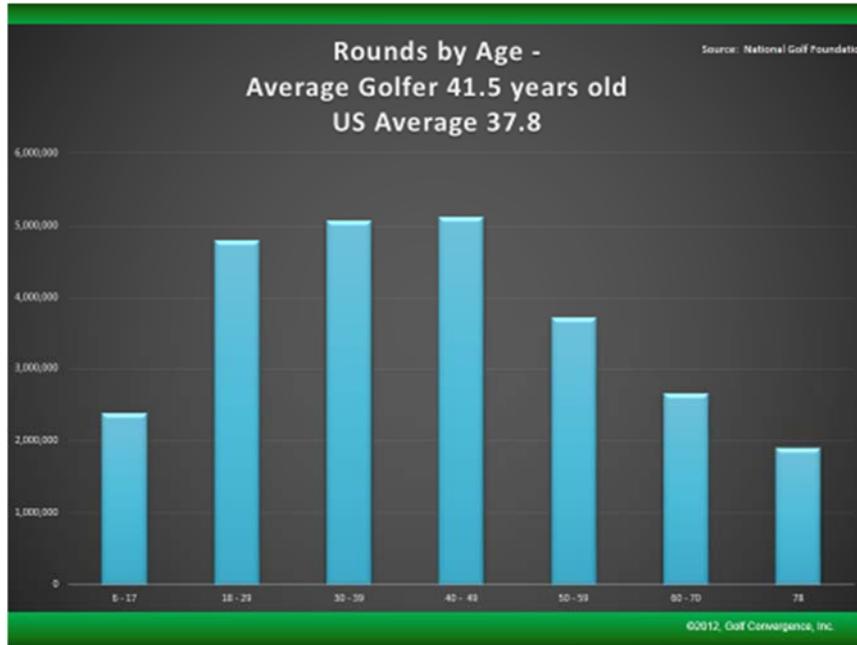
In order to compute the number of golfers and the number of rounds, we first need to define “golfer.” The National Golf Foundation defines a “golfer” as an individual, age 6 or older, who played at least one round in the past year. “Core golfers” are defined as those adults 18 or older who play between eight and 24 rounds per year. The term “avid golfer” is used for those golfers who play more than 24 rounds per year. Other industry research groups use “12 years or older” as the benchmark for what constitutes a golfer. Again, the golf industry’s methods of gathering statistics are not standardized.

Another term that causes much debate is “round.” When you play a “round,” have you played nine or 18 holes? The most common use of the word “round” merely means “a start.” In other words, a golfer teed off on at least one hole.

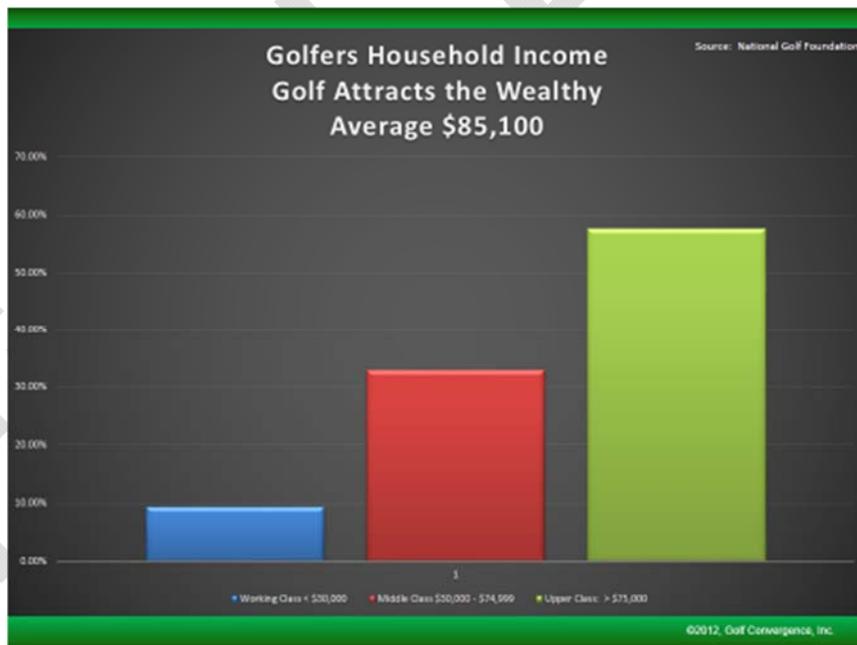
With the term “golfer” now defined, a further analysis reveals that the game of golf is all of the following:

- 1) Golf is a game of the aging population.
- 2) Golf is a game of the wealthy.
- 3) Golf’s growth is constrained by the time-crunched nature of our society.

As has been demonstrated in economic surveys conducted throughout the world, golf thrives in cities where the population is aging. Over 68% of all golf rounds are played by those older than 43 years of age, as reflected below:



The City of Becker's population is 12% younger than the national average. And not only is golf a game whose participants are aging, golf is also a game of the wealthy, and the sport is clearly losing its middle-class appeal, as reflected below:



The fact that golf is an elitist game is clearly demonstrated with the statistic that indicates that those with incomes of less than \$34,999 play only 3.45 rounds per year, while those with incomes greater than \$75,000 play 431% more, or 14.89 rounds per year. Golf is clearly losing its middle-class appeal.

Fortunately for PCGC, the median household income within 30 miles of the golf course is 36% above national averages—\$71,793 contrasted to the national median household income of \$51,618. Those statistics indicate a positive in market potential for PCGC.

All of this begs the question as to why golf is not more popular among the young, middle, and working classes.

First, the game is difficult to learn, and if you're not very good at it, it isn't a lot of fun. Second, the cost to even begin playing is high—clubs, shoes, golf balls. It's not uncommon to invest at least \$500 to more than \$3,000 to start. Third, a round of golf consumes the better part of a day. Fourth, the attitude present in many male-dominated pro shops creates a harsh and unfriendly environment for many women. Finally, many golf course personnel believe that they are "members" of the club, not "workers" at the club.

While the demand/supply imbalance bodes poorly for golf, such imbalance masks a more subtle and pervading problem that is retarding the growth of the game. That problem is the significant change in the demographics of how our society functions in the United States. Sociologists track seven major categories to determine the nature of a society, some of which are technology (medicine, computers), social trends (reduced social conformity), and demographics (baby boomers and Gen X).

Within the seven categories, when three or more become altered significantly, society changes. That is what has occurred during the past seven years. Labeled the "time crunch," societal changes include the following:

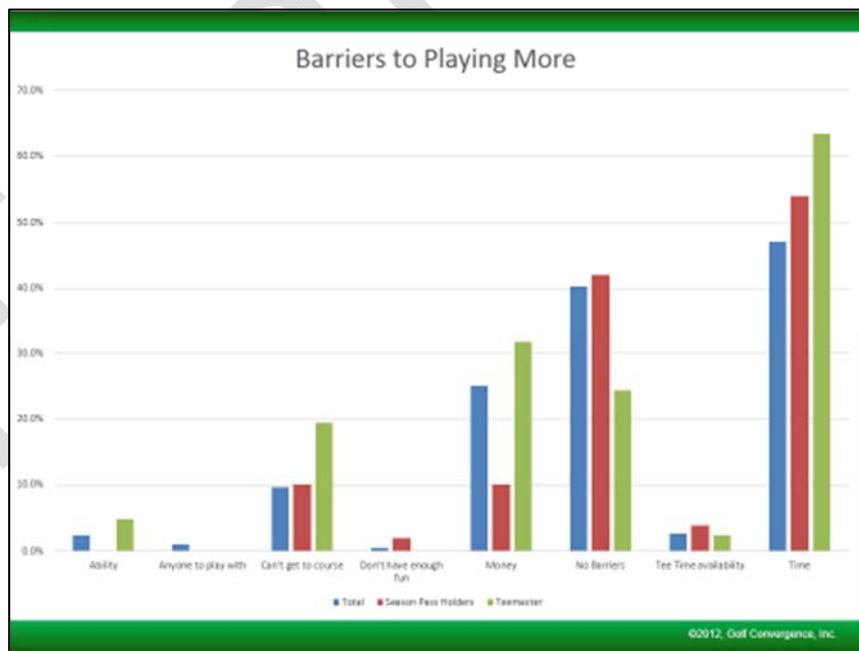
A Time Crunched Society

1. The **technology trap** of endless improvements: the more empowered technology makes you, the more you are expected to do.
2. The **update mandate**: We must be constantly updating our information: our devices (phones, email), our knowledge (events, educations), our values (tolerance to risk, work, etc.). We have dramatically increased our "work cycles." Employee productivity is up 24.2 in the past ten years.
3. The **marketplace of endless choices**: (47 car manufacturers, hundreds of models, thousands of choices.) Shopping takes a lot more energy, thought and time.
4. We have become an **experience economy**: Starbucks to see it made, KrispyKreme to watch it bake, Harley to gather on weekends at events to participate.
5. **Lifestyle integration**: Our key value is that everything must be efficient and we can do it at once, causing the erosion of the barriers between home, work, and commuting.
6. **Child centeredness**: Our focus on wants, needs and desires have transferred from ourselves to our children. There is now a social status attached to the "child first" attitude. Our parents put themselves first. We put our children first.
7. **Conspicuous activation**: Status is now achieved by showing how busy you are and how many activities you are involved in.

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The time crunch, in which 50% of all families are divorced and 80% of existing families have dual wage earners, has completely redefined the concept of leisure.

In undertaking this operational review for the City of Becker, we asked, "What are the primary barriers to playing golf?" The survey results are outlined below:



The survey results are not encouraging. “Time” and “No Barriers” are uncontrollable factors that will have a negative impact on the golf course’s future potential. The survey for the City of Becker also confirmed that the individuals who utilize the golf course mirror the national demographic trends regarding age and household income.

The factors of golf’s lessening popularity and changes within our societal framework have created the downward environment that PCGC has experienced recently.

Final Draft