



EDGEHILL GOLF ADVISORS

Executive Golf Market Summary Report

Madison Park District Golf Courses

Madison, Wisconsin

Prepared for:

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November, 2017



Introduction

Stuart Lindsay of Edgehill Golf Advisors was contacted by Mr. Charles Romines, Assistant Director of the Madison Park District to inquire about providing an assessment of the golf operations of the 4 Madison Parks golf properties in order to assist in future planning. Although the budget for this assessment was very limited; we were able to design a project making efficient use a variety of services and information sources from Edgehill and Pellucid Corp., a leading golf information company. The major components of the project are:

1. National Golf Industry Market Conditions and Trends
2. Madison Local Market Conditions
3. Current Golf Operations and Course Conditions
4. Observations and Issue Identification

Pellucid, its President Jim Koppenhaver and Edgehill are nationally recognized as golf industry thought leaders. Over the past 15 years they have developed analytic tools for golf demographics, weather adjusted performance metrics and customer franchise development.

“Every year at the PGA Show, the most valuable thing I do is attend the presentation by Koppenhaver and his sidekick, Stuart Lindsay of Edgehill Golf Advisors. I’m obviously not the only one who values their opinions. I attended their morning presentation at the PGA Show, and it was standing-room only, with about 25 people lined up against the walls because no seats were available. I took that as an indication that people are looking for good information to help them cope with the industry’s seemingly perpetual stagnation.” Marty Kaufmann, GolfWeek

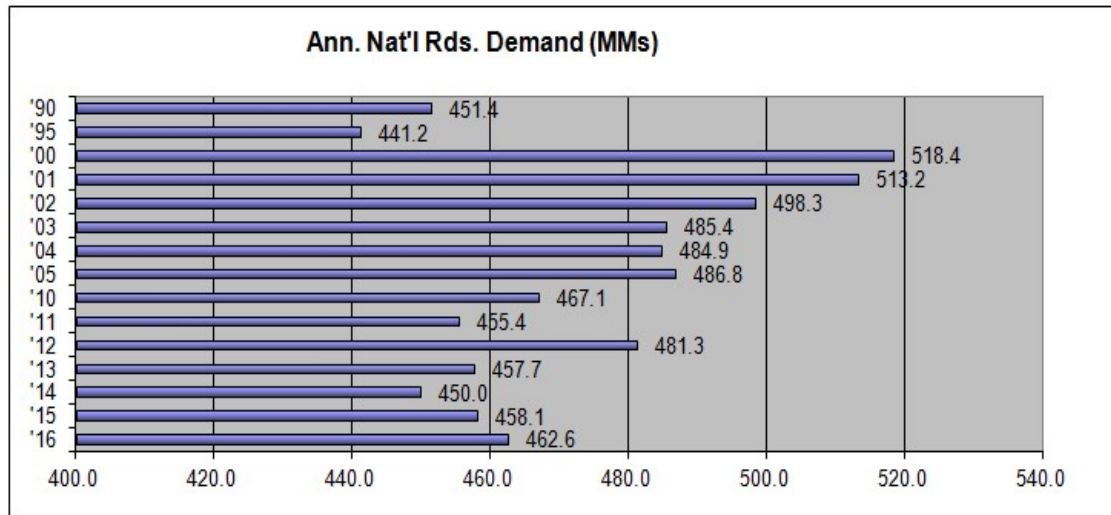
Pellucid and Edgehill have provided services to well over 100 Municipal golf courses in over a dozen states. The challenges faced by the Madison Parks golf operations are similar to issues faced by municipalities across the US. However, we recognize that each golf operation presents some unique nuances and situational issues. It was our goal to provide some fact based perspectives that will help guide the Madison Parks decisions regarding future golf operations.

US National Golf Industry Conditions and Trends

The golf industry in the US has been in a protracted period of contraction following a rapid expansion in the 1990’s. Pellucid has tracked key measures of Participation, Annual Frequency, Course Supply and Velocity since 2000 along with consistent survey data from 1980 courtesy of the National Sporting Goods Association. Our Course Supply database is also dated to provide information on course opening and closure counts over time since 1900 (actually 1894). Mr. Romines has been provided with a full copy of our annual State of the Industry presentation. It contains more details, but the following charts are indicative of industry trends.

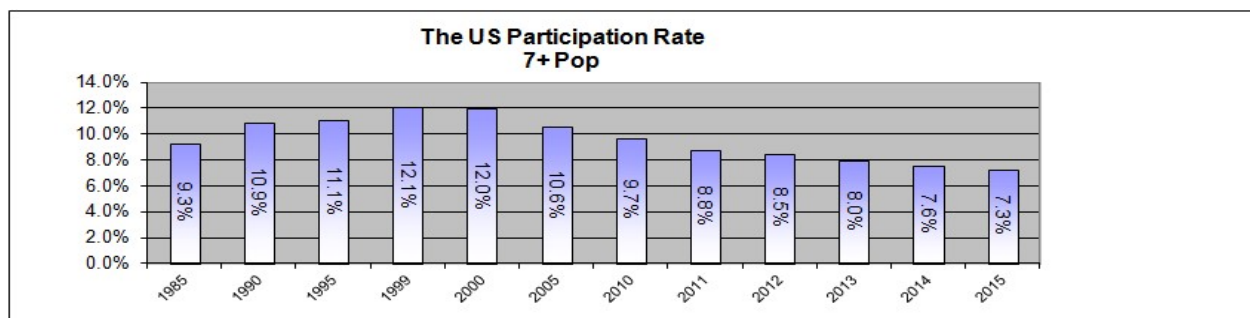


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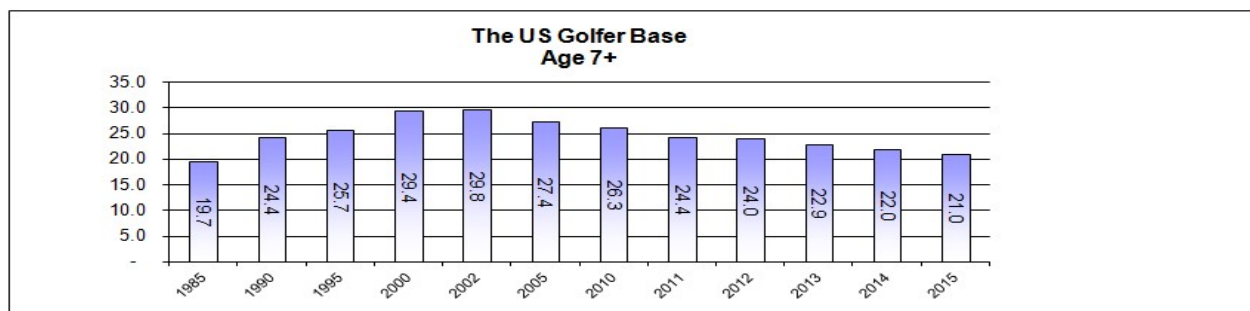


Rounds played have fallen from a peak of 518 million in 2001 to 463 million in 2016. Since 2010, rounds played have tracked with national weather variation. **This does indicate “stability” in rounds demand.**

Participation has also declined when measured as a percentage of population.



As a result, the number of golfers is also falling, as is shown in the following graphic. After peaking at just below 30 million in 2002, the number of golfers in the US is currently estimated at 21 million. (Survey results are based on prior year data).





These problems with Participation and rounds demand have resulted in course closures outnumbering course openings since 2006. After adding 35% of supply 1988 – 2005, course closures have exceeded openings by almost 1500 (8%) since 2005.

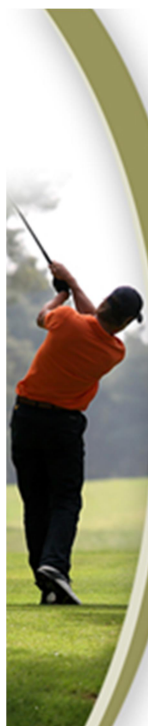
Year	Net EHE Gain/Loss	# of EHE Closings	# of EHE Openings	Total EHEs	Ann. Red. Rate	5-yr CAGR Red. Rate
'16(e)	(155)	(176)	22	13,727	-1.1%	-1.0%
'15	(225)	(234)	9	13,882	-1.6%	-0.9%
'14	(143)	(185)	42	14,107	-1.0%	-0.8%
'13	(144)	(158)	14	14,249	-1.0%	-0.6%
'12	(141)	(155)	14	14,393	-1.0%	-0.6%
'11	(120)	(150)	30	14,534	-0.8%	-0.4%
'10	(61)	(107)	46	14,654	-0.4%	-0.3%
'09	(90)	(140)	50	14,715	-0.6%	
'08	(34)	(106)	72	14,805	-0.2%	
'07	(9)	(122)	113	14,839	-0.1%	
'06	(26)	(146)	120	14,848		
'05	31	(94)	125	14,874		
'04	88	(63)	151			
'03	103	(68)	171			
'02	182	(38)	220			
'01	252	(32)	284			
16-Yr Sum	(491)	(1,971)	1,481			

In addition to the trends of falling participation, rounds demand and course closures; Pellucid and Edgehill have done extensive work on “Age Group” participation over time. Decisions regarding future golf operations need to take these trends into consideration as well. In the chart below, there are several key points:

- There are more older (55 – 75) golfers than ever before
- Older golfers play more frequently so this age segment is helping to keep rounds demand stable.
- There are considerably fewer golfers in the younger Age Groups (18 – 44).
- Since the younger segments play fewer annual rounds (frequency), the decline in this segment is being offset by higher participation and frequency from older golfers.
- This should keep rounds demand relatively stable for the next decade.
- However, beyond the next decade; rounds demand is likely to fall further.



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Golfers That Were 45–54 in 1995 are 65–74 in 2015: Their Golf Migration Pattern as They Age is Telling...

Year	Age Groups*					
	18-24	25-34	35-44	45-54	55-64	65-74
1995	2,419	5,644	4,861	3,628	1,802	1,613
2005	2,942	4,438	5,385	4,188	2,982	1,521
2015	1,206	2,642	3,127	3,254	3,283	3,013
Cross Reference			29.3%	-42.3%	-33.4%	-17.0%
By Age Group	-50%	-53%	-36%	-10%	80%	87%

* Number of golfers, 2+ rds/yr frequency

- Increased frequency is masking attrition among “baby boomers”
- We still end up with a big increase in older golfers

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To best summarize the condition of the golf industry on a national level, here are our overall observations:

- Golf Participation has dropped as a percentage of population from 12.1% in 1999 to 7.3% in 2015 – a drop of **39.7%**
- The number of golfers has declined from 29.8 Million in 2002 to 21.0 Million in 2015 for a drop of **29.5%**
- Rounds demand has fallen from 518 Million in 2001 to 463 Million in 2016 – a drop of **10.6%**
- The aging of the golfer base and attendant higher frequencies have kept demand from falling further and staying relatively static since 2010 on a “weather adjusted basis”. (More on weather adjustment later in this report)
- About **9%** of the golf facilities in the US have closed (net of openings) since 2005.
- Relatively static rounds demand is anticipated over the next 10 – 12 years.

As we noted earlier, every golf market is not identical to the US. The points outlined above are expected to impact the Madison market as to Participation and Frequency trends; however the Madison market has some marked differences in terms of base Participation and Frequency.



Madison Golf Local Market Analysis

The Pellucid GLMA Report answers 8 primary questions:

1. How many golfers are in your local draw area?
2. What is their average frequency in rounds per year?
3. What is the per capita “play rate” (combines population, participation and frequency measures)?
4. Do HH Income and Pop Age skews in your draw area suggest upside rounds potential?
5. What is the supply level and mix by access type and price class in your draw area?
6. How many annual rounds in total and by type of supply are the facilities reporting?
7. How many rounds per 18 holes is your price class reporting?
8. Does your market show a normal “demand curve” (i.e. lower-priced facilities get higher rounds-per-18 holes than higher priced facilities)?

The GLMA Report uses 3 primary sources:

1. Pellucid proprietary national mail consumer survey to 180,000 households, state level results along with survey data from the National Sporting Goods Association.
2. Pellucid compiled database of over 15,000 US golf facilities (not including stand-alone driving ranges)
3. Licensed US Census data, 2010 actual, 2017 estimate and 2022 projection

For this report, we used distances of 10, 30, 30 Minutes surrounding the subject properties. We ran GLMA Workbook data for Monona, Odana and Yahara (due to proximity, the Glenway data would be very close to Odana data). We typically consider the 30 Minute drive time as the usual market for a subject golf course; although we have increasingly paid attention to the 10 Minute market data as “time issues” have become more of a sociological factor. It should also be noted that the 30 Minute drive time data is relatively similar for all the properties. We have provided all the GLMA Workbook data to Mr. Romines as part of this project, but here are some important excerpts.

The starting point for the GLMA is to look at overall golf participation in the 10, 20 and 30 minute areas surrounding the properties. Based on Wisconsin statewide participation data, we look at the baseline and then will adjust based on Income, Age and Ethnicity factors found in the makeup of the local population.



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Wisconsin golf Participation is 14.4% - almost double the national average (7.3%). Frequency of 18.9 annual rounds is about 15% below the national average of 22, but the net result is that Wisconsin has one of the highest “Play Rates” in the US (Play Rate is Rounds per Capita). These rates apply to all the Madison properties.

When we apply Age, Ethnicity and Income factors from the 10 Minute areas around each facility; we can see if any “local” issues will impact the positive Wisconsin statewide data above.

	Monona	Odana	Yahara
Age Index	104	91	102
Ethnicity Index	113	108	113
Income Index	114	113	121

The lone negative Index (<100) is for Age surrounding Odana. We attribute this to the “student age” bias due to closer proximity of University of Wisconsin related housing. **In the end, the significant positive Indices for all the properties indicate that demand in the local Madison market should meet or exceed demand based on statewide data.**

The real issue for golf demand in the Madison golf market is what we term “Supply Dilution”. This is a measure of historical population growth compared to historical golf development.

Geography: (3 Selected) Golf Course: 10, 20, 30 Minute Radii: Odana Hills Golf Course					
	1995 Holes	2000 Holes	CAGR	2014 Holes	CAGR
Private	90	108	3.7%	108	0.0%
Public-Premium	90	144	9.9%	198	2.3%
Public-Value	63	135	16.5%	135	0.0%
Public-Price	9	18	14.9%	18	0.0%
Learning & Practice	18	18	0.0%	18	0.0%
Total	270	423	9.4%	477	0.9%
Pop % Chng-CAGR			-1.1%		1.8%
Ann Supp. Absorp/Dilution*			-10.5%		0.9%
Cume Supp. Absorp/Dilution			-105.0%		-94.0%
* Reports requiring summarization use only the largest Radius or Drive Time around each center point to calculate					

At -94%, Odana has the highest Supply Dilution ratio of the 3 properties with Monona coming in at -63.2% and Yahara at -61.0%. All these numbers are extremely high when compared to the national average of -9.8%. The national index peaked at about -34% in 2005, but has been reduced by the 1,481 “net” closures noted earlier.

- The Madison market has had explosive golf development since 1995.
- The market is significantly over-supplied way in excess of an over-supplied national market.
- This is a major factor in declining rounds demand at the Madison Parks courses prior to 2015 (although rounds data is considered unreliable prior to 2015)



Site Visits

We visited Monona, Odana and Yahara on November 1, 2017. We met with Mr. Romines, Theran Steindl (Operations Supervisor) and Ryan Brinza (Head Golf Professional). It should be noted that Edgehill has visited Odana and Yahara on previous occasions. In the course of our work over the years, we have also visited more than 10 other golf facilities in the Madison market.

We reviewed Maintenance Expenditures and were provided with rounds data for 2015, 2016 and year to date 2017. Additionally, we spent some time discussing the operational changes from the prior “concessionaire” structure to direct management by Madison Parks. Due to some national attention, the legal issues and application of the “Fair Dealership Law” has given us a little background information.

The first overall comment would be that playing conditions appear to be improved since previous visits. The same can be said for first impression areas and clubhouse condition.

- Greens, Tees and Fairways appear to be in good condition and consistent at all the properties.
- Bunkers at Monona and Yahara need work – Odana’s bunkers appear to be in better shape.
- Equipment is generally older but the Staff is doing a good job of maintaining it and making efficient use through sharing equipment among the properties.

At \$530,000 before Fleet and other City charges, the maintenance budget at Yahara is at the low end of what we would consider reasonable and customary for a 36 Hole facility.

At \$377,000 before City charges, the maintenance budget at Odana is in the middle of what we consider reasonable and customary expenses for an 18 Hole facility.

At \$220,000 before City Charges, the maintenance budget at Monona is in the middle of what we consider reasonable and customary expenses for an 9 Hole facility.

Golf Operations expenses for the 3 properties are reasonable and below average of what we see in the golf industry. We noted that Theran Steidl and Ryan Brinza both serve in helping to manage all 3 facilities. This efficient use of supervisory personnel contributes to the relatively low cost of golf operations. We also got the impression that Mr. Romines’ experience as a superintendent has also been a very positive factor in what we observe to be improved conditions at Odana and Yahara and consistent playing condition of Greens, Tees and Fairways across the 3 properties.



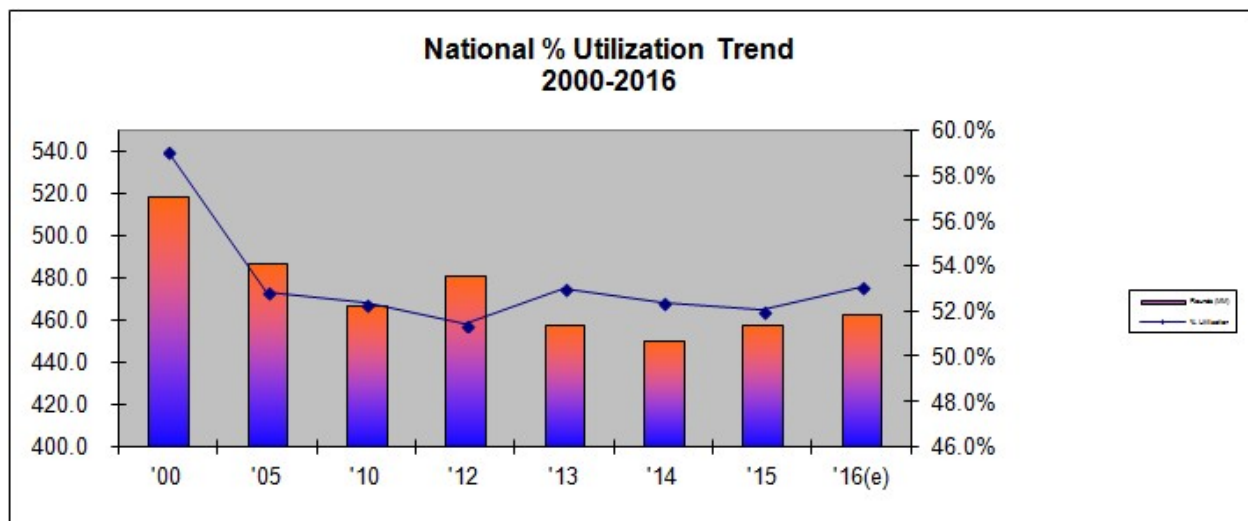
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When we look at rounds performance, we introduce Pellucid's proprietary methodology for determining Golf Playable Hours. In partnership with the WeatherBank group within Accuweather, we have hourly weather readings from the closest US Official Weather Reporting Station for every golf course in the US. Our formula includes adjustments for available daylight through the season, high and low temperatures, precipitation, wind speed and other measures to accurately measure golf course capacity on year to year, month to month and day of the week metrics. We also provide a 10 Year Normal benchmark. A copy of our analytics for KMSN is included with this report. Weather Adjusted Capacity (WAC) is incorporated into the provided rounds data below to provide Course Utilization percentages (CU%).

	2015 (55,816 WAC)		2016 (55,558)		2017 (54,106)	
	Rounds	CU%	Rounds	CU%	Rounds	CU%
Yahara –	41,728	37.4%	42,972	38.7%	32,742	30.3%
Monona –	16,506	29.6%	16,718	30.1%	16,711	30.9%
Odana –	33,214	59.5%	34,212	61.6%	32,195	59.5%

Note: Yahara is 36 Holes and WAC is 111,632

As a point of reference, weather adjusted national course utilization is about 52%; and Wisconsin has traditionally been close to that average.



While Madison weather has been relatively consistent over the last 3 years and the data for Monona and Odana were also consistent, we asked about the big drop in Yahara's rounds (and CU%). This initiated some additional discussion. Mr. Romines indicated that Yahara had lost about 70 "playable days" due to wet course conditions. We would also add that our attached



Cognilogic Weather report shows an abnormally wet and cold March and Friday, Saturday and Sunday WAC losses higher than the overall decline of 3% for all of 2017. However, those weather variations do not totally explain the loss of 70 playable days at Yahara.

Mr. Romines explained that there are drainage issues at Yahara that need to be addressed. One suggestion is that the age of the course would indicate that original drainage has deteriorated. Another suggestion is that a decision to maintain higher water levels in nearby Lake Monona has impacted adjacent wetlands and changed the drainage at Yahara. In any event, there have been some relatively recent drainage changes that have impacted rounds and revenue.

The next question is how much it would take to address the drainage issue at Yahara and where the money would come from. This broadened the conversation and helped further identify the core issues facing Madison Parks and their golf operations:

- **Current golf operations are essentially a “break even” proposition**
- **Reserves for Capital Improvements are non-existent**
- **Yahara needs Capital Improvement for drainage issues to reverse rounds declines and prevent further turf quality erosion.**
- **Equipment replacements will be required.**
- **There are other Capital Expense needs** – cart paths at Yahara and the clubhouse roof at Odana.

Overall Observations

We have established several key factors in evaluating the challenges facing Madison Parks and their golf operations – many are positive and some are negative:

- Expenses are being well controlled.
- Management is efficient.
- Playing conditions are generally good, and improved since the transitions to Parks Department management.
- Rounds demand is likely to remain stable over the next decade.
- Madison is a good golf market in terms of Participation and rounds demand
- Unfortunately, Madison is a very over-supplied market and pricing power is limited due to intense competition.
- Future trends in Participation indicate rounds demand may decrease in the future
- There are definite Capital Improvement needs

It appears that the Madison Parks staff is doing a very efficient job of operating the current properties. The overall playing conditions at the facilities have improved. We would also add that current management is being proactive by adding “blended” tees at Yahara which addresses



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the issue of the aging golfer base we outlined in this report. The decision not to offer “senior rates” should help avoid the revenue erosion of having senior rates and having a higher and higher percentage of rounds being played by 55+ golfers. This is a major issue on a national level.

Conclusions

The City of Madison is at a crossroads with golf operations. The drainage issues at Yahara must be addressed – the continued erosion of playing conditions that caused the major drop in rounds during 2017 will ultimately lead to operational losses for Madison golf operations as a whole.

The over-supply situation in the market makes pricing competitive. This will continue to be an issue into the future. While rounds demand should stay stable for the next 10 years, we project rounds demand will start to decline further at that point. Additionally, good playing conditions need to be maintained in order to stay competitive.

To be blunt, if the drainage issues at Yahara are not fixed, it should be closed. There is a caveat to that approach – **if Yahara is repurposed to support other recreational activities and those are not “self-supporting”, the Yahara property will most likely have a negative impact on the Parks’ budget.**

On the positive side, Odana is a very good performer with high course utilization and good demographics. Monona is currently operating at essentially breakeven and has seen stable rounds over the past 3 years. It should be noted, however, that Odana needs a new roof, Monona needs some extensive bunker work and reseeding and the overall equipment fleet is in need of some major replacement.

We would also add that a factor in the current efficient operations is the “shared skills” of the management staff that are spread over all the facilities. Closure of Yahara would affect some of that personnel efficiency.

Absent available funding to address the issues outlined above, another possible alternative would be to consider the sale of some acreage to fund the Capital Improvement needs outlined in this report. Glenway provides the “entry level” golf experience also provided at Monona and is less costly to operate. Monona has relatively low course utilization (even though consistent) that was well below that of Yahara prior to the development of the new drainage issues.

It is our considered opinion that the potential closure and sale of part of the Monona property is an alternative that should be explored. As we see similar situations facing municipal golf operations across the US; this type of solution is becoming a more commonly explored option. In this case, this alternative would potentially allow Madison the ability to continue offering “affordable” golf experiences in the Madison golf market.

