

Frequently Asked Questions About RedGate Golf Course

(updated 10/16/2011 by Art Stigile)

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1. Should taxpayers subsidize Rockville's RedGate golf course?

That's a question for each taxpayer to answer. However, it's worth saying that golf is neither a core City service nor an entitlement. It's a recreation program that was established with the explicit assumption that golfer — not taxpayers — would pay the full costs. Now taxpayers are being asked to take on a large amount of the costs for the long run.

Taxpayers need to decide for themselves whether the golf course provides benefits to the City at large, whether the benefits outweigh the costs, and whether using taxpayers' money to subsidize golf provides greater benefits than other uses of their money. Below are questions that should be part of our decision.

How large of a subsidy are we talking about? City staff estimate that continuing to operate the golf course under the current business plan by the City will require a subsidy that grows to \$923,000 by 2015. Alternatively, outsourcing the operation could reduce costs substantially and perhaps even allow the golf course to generate a small profit after several years. (*see: summary by Burt Hall, <http://www.rockvillemd.gov/redgate/RFP43-11.pdf>*)

Is it truly necessary for Rockville to operate a golf course when Montgomery County Government operates 9 public golf courses?

Does it make sense for Rockville to operate a golf course when, according to the National Golf Foundation report, 60 percent of the customer base does not live in the City and does not pay City taxes?

Is it the case that you would rather spend \$500,000 per year to subsidize golf than to put the money into improving parks or streets or other City-funded services in your neighborhood.

Would you rather spend the money for golf than to help non-profits meet the needs of disadvantaged folks in Rockville?

Specifically, what benefits do you think Rockville derives from a golf course, and are they worth the price?

Max van Balgooy asks a question that helps to frame the issue: “if we were offered 130 acres today (Red Gate is the second largest park in Rockville), what would most benefit the community? I don't think most people would say “golf course.” (*See Max's blog at <http://maxforrockville.wordpress.com/page/2/>*)

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2. Aren't golfers supposed to pay for the cost of RedGate golf course?

Yes. A March 2006 study prepared for the City stated this succinctly: “The golf course was established to be a self-sustaining and revenue-producing fund for the City.” (See: [RedGate Golf Course Financial Review](#), by Richard Romer, School of Public Policy, University of Maryland, March 2006, p. 11.)

The City established RedGate Golf Course with the explicit understanding that golfers would pay the costs, not taxpayers. That is why the City budgets for the golf course in a separate enterprise fund, instead of commingling golf course income and expenditures with other recreational activities in the General Fund. Mayor and Council reaffirmed this goal in May 2006, when they approved the Five-Year Business Plan for RedGate Golf Course stating that “RedGate should remain in an enterprise fund with the long-term goal of covering all direct and indirect operating costs, all capital costs, and generating cash reserves.” (See staff recommendation A: <http://docs.rockvillemd.gov/mayor-council/2006/21-06/21-06-item10.pdf>)

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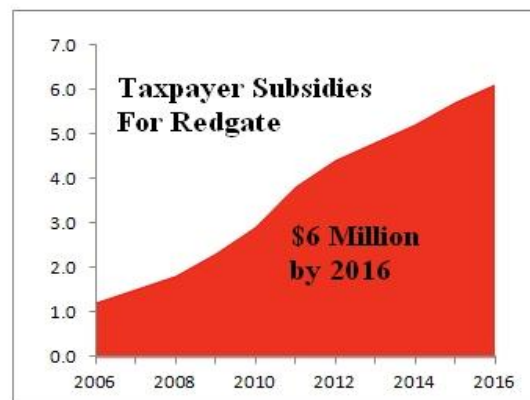
3. Is it true that RedGate golf course is losing money?

Unfortunately, yes.

“After covering all of its operating, overhead and capital costs for nearly thirty years, RedGate began operating in the red in FY 2000.” (See: [FY 2012 Adopted Operating Budget](#), p. 14-72.)

The additional subsidies included a 50 percent taxpayer subsidy of administrative expenses from 2006-2011 totaling \$540,350, another \$372,500 to fund capital improvements, and additional subsidies for commodities and marketing.

More ominously, despite the adoption of the 2006 business plan, the deficit has grown rapidly in recent years. Under the 2006 business plan, RedGate was supposed to begin operating “in the black” beginning in 2009. (See: See scenario C, [Five-Year Business Plan for RedGate Golf Course](#), prepared for meeting of Mayor and Council on May 22, 2006.)



Instead, the golf course lost \$339,038 in 2009. The following year the loss almost doubled, and the golf course ended FY 2010 with a \$546,329 deficit. (See: [FY 2012 Adopted Operating Budget](#), revenue minus operating expenses, page 4-11.)

The news for FY 2011 was even worse. According to the year-end financial report, the golf course lost more than \$717,000, when the \$2.4 million subsidy from the general fund is excluded. (See: [Fourth Quarter FY 2011 Financial Report](#), June 30, 2011.) These figures indicate that the number of rounds played dropped by another 4,500 rounds, to less than 28,000 rounds. This is less than half the levels in the late 1990s.

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4. How much will it cost taxpayers to keep RedGate golf course open in the future?

The answer depends on whether the City continues to operate the golf course under the current business plan or the City contracts with a private firm to run the golf course or continues to. Continued operation by City staff is the most expensive option, by far. According to the 2011 budget, which assumed continued operation by the City, the annual taxpayer subsidy would grow every year, reaching \$923,000 by FY 2015. (See: [FY 2011 Adopted Operating Budget](#), page 4-11.)

The FY 2012 budget assumes that a private management firm will begin to operate the golf course in the second half of this year. For budgeting purposes, City staff assume the cost of contracting with a private management firm is consistent with the 2010 report of the National Golf Foundation. (See: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville, Maryland](#), NGF Consulting, January 2011.)

Under this scenario, the golf course will require a taxpayer subsidy of \$426,000 in FY 2012 and \$490,000 each subsequent year through FY 2016 to cover operating expenses. In addition, taxpayers will be asked to contribute \$504,000 to pay for course improvements. That's a total subsidy for 2012-2016 of \$2.890 million. (see: [FY 2012 Adopted Operating Budget](#), page 4-10.)

The private management firm option assumes substantial savings in central administrative expenses and in labor costs. Several firms have submitted bids to operate the golf course. The top bids would greatly reduce or completely eliminate the net cost to Rockville taxpayers, for a total reduction in cost of more than \$4 million through 2015. (See: [June 11, 2011, memo from City Manager](#), Scott Ullery, to Mayor and Council.)

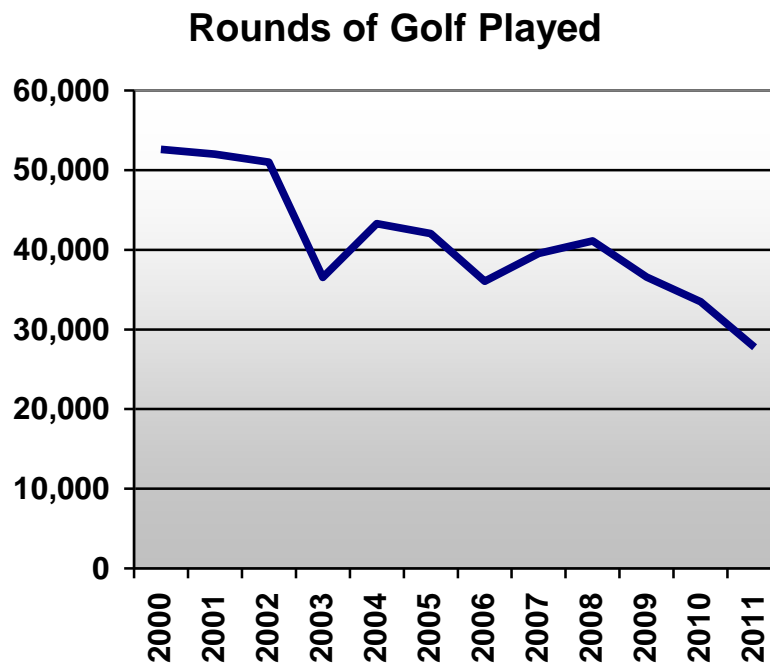
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5. RedGate paid for itself for almost the first 30 years. Why is RedGate losing money now?

Quite simply, we have too many public golf courses for the local market, and RedGate has steadily lost its customer base to the competition. In addition, RedGate's labor costs far exceed the cost of comparable golf courses. Add to that the fact that City staff are not experts at managing a golf course.

When the City opened the golf course, it was effectively the only option for middle income golfers. Today, there are 16 public access golf courses within 15 miles of Rockville, including nine that are run by Montgomery County Government. (see: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville](#), Maryland, NGF Consulting, January 2011, P. A-60)

The competition has taken a toll on RedGate's customer base. In the late 1990s, golfers played more than 60,000 rounds of golf at RedGate. Since 2006, when the City adopted its 5-year business plan for the golf course, the number of rounds played has exceeded 40,000 only once, in 2008. By 2010 the number dropped to 33,479, and based on year-end financial results for FY 2011, it dropped precipitously again in 2011, to about 27,750 rounds. (See: *Rounds played taken from June 11, 2011, memo from City Manager, Scott Ullery, to Mayor and Council. FY 2011 estimate based on forecast in FY 2011 Adopted Operating Budget and Fourth Quarter FY2011 Financial Report.*)



In addition to the reduction in its customer base, the NGF report observes that RedGate's expense structure is higher than standard in the industry, specifically pointing to high central administrative expenses and labor costs. (See: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville](#), Maryland, NGF Consulting, January 2011, p. A-8.)

The NGF report states that labor costs could be reduced by 25% to 50% with a private contractor running the course. (See: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville, Maryland](#), NGF Consulting, January 2011, p. A-73.)

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6. Is it true that the National Golf Foundation report about RedGate golf course concluded that the golf course could operate without taxpayer subsidies in the future?

No.

The initial NGF Report concluded that if management of RedGate were turned over to a private management firm, the golf course could eventually break even. However, City Staff identified a math error in the NGF report. When the NGF subsequently corrected the error, the figures showed that RedGate would continue to lose money for the foreseeable future under any of the options considered in the report. (See: [Letter to Bert Hall, Director of Parks and Recreation](#), from NGF Consulting, March 10, 2011.)

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7. The RedGate Advisory Committee says that the golf course has broken even, if indirect overhead expenses and depreciation are excluded. Is this true?

This is a case of cherry picking by the Advisory Committee. They exclude enough costs to make it appear that the golf course does not require taxpayer subsidies, and when even that distortion of the facts becomes impossible to sustain, they conveniently end the story with FY 2009 data. (see: [Appendix 1 to RedGate Advisory Committee Report](#).)

The losses beyond 2009 far exceed overhead and depreciation. As explained in question #3, 2009 is when the golf course's financial condition nose-dived, ending with a deficit of \$339,038. The following year the loss almost doubled, when the golf course end FY 2010 with a \$556,329 deficit. (See: [FY 2012 Adopted Operating Budget](#), page 4-10.) Figures just posted by City staff show even grimmer news for FY 2011, when the deficit shot up to more than \$717,000 (excluding the payment of a \$2.4 million subsidy from the general fund to forgive the golf course's accumulated debt). (See: [Fourth Quarter FY2011 Financial Report](#).)

According to the FY 2011 Budget, without a change in operations, the losses will continue to grow each year, growing to as much as \$923,000 by 2015. These losses far exceed the annual administrative charge and depreciation. (See: [FY 2011 Adopted Operating Budget](#), page 4-11.)

The failure to address these losses is a major shortcoming of the Advisory Committee Report and is inexplicable, since the information for years after 2009 were publicly available in City budgets published on the City website. Moreover, the Advisory Committee's analysis overlooks the \$960,000 of taxpayers subsidies provided to the golf course as a result of the 2006 business plan. (See: [June 11, 2011, memo from City Manager](#), Scott Ullery, to Mayor and Council.)

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8. Is the RedGate Advisory Committee correct that overhead expenses should be excluded from the golf course's budget?

Absolutely not!

This suggestion is disingenuous and misleading. Allocating full cost to the services that create the cost is the Gold Standard of modern budgeting. Every first year student in public finance learns this. It is recognized as a Best Practice by the Government Finance Officers Association, which has given the City awards for its budget for the past 20 years. (see: [Best Practice, Measuring the Cost of Government Service](#), Government Finance Officers Association, 2002.)

The NGF Report explicitly recognized that including overhead expenses in RedGate's budget is appropriate, stating "These expenses are essentially 'inter-City transfers' that could be considered items that other golf courses (both private and public sector) might consider normal and thus should be included as basic operating expenses." (see: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville](#), Maryland, NGF Consulting, January 2011, p. A-47.)

The reason for including full cost is simple — if you don't know the full cost, how can you make efficient and effective budget decisions?

RedGate provides two examples for why it is so important to include full costs.

First, if RedGate's budget failed to include administrative expenses, we would never have learned that taxpayers could cut the expense by 50 percent (or more) by contracting out management to a private management firm. (see: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville](#), Maryland, NGF Consulting, January 2011, p. A-73.)

If we are going to ask taxpayers to subsidize the golf course, surely we should try to reduce the expense to taxpayers as much as possible.

Second, the Mayor and Council's decision to use the 2010 general fund surplus to write off RedGate's \$2.4 million debt to taxpayers and replenish the general fund reserve was a direct result of the failure to include in the General Fund the full cost of taxpayers'

subsidies for RedGate. In fact, the General Fund budget had included \$0 for the golf course, even though hundreds of thousands of taxpayer dollars were being used each year to subsidize the golf course. This is explained more fully in a 9/6/2010 email from Art Stigile to Mayor and Council, alerting them to the fact that RedGate's \$2.4 million debt had reduced the General Fund reserve below the 15% level that is considered prudent. (*see: [9/6/2010 email from Art Stigile to Mayor and Council](#), re: questions for RedGate Advisory Committee.*)

This was an extremely dangerous situation, especially because it was totally unrecognized by Mayor and Council. If the subsidies had continued to be excluded from the General Fund budget, more than 40% of the General Fund reserve could have been gone by 2015.

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9. Is it fair to charge overhead expenses to the golf course if they aren't charged to other City recreation programs, such as the Swim Center?

This is a decision that needs to be made on a case-by-case basis. From a pure budgeting standpoint, it would be prudent to show the full costs in the budget for every City operation, even if Mayor and Council decide not to charge users for the full cost. As stated previously, we are able to make better decisions if they are fully informed about the cost. We do not avoid costs by ignoring them or by hiding them. We just misunderstand them and make less efficient budget decisions.

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10. Why isn't the golf course's budget part of the general fund budget, like the Swim Center and other recreational activities? Isn't this unfair?

The City charges full costs for some City services (for example, water and trash removal), and it charges less than full cost for other activities. The subsidy amount of the subsidy varies. Pages 2-7 through 2-10 of the 2012 Budget provide a detailed explained of the goals for recovering costs through user fees. (*see: [FY 2012 Adopted Operating Budget](#), pages 2-7 through 2-10.*)

There are several reasons why it might be appropriate to treat the golf course differently. Golf is an extremely expensive sport, and it is enjoyed by a relatively small number of people. The City established the golf course with the understanding that it would not be a burden to taxpayers. Otherwise, the City was unwilling to create the golf course. For that reason, it is sensible to keep the budget for the golf course in a separate enterprise

fund, so that we can easily see how well we are meeting the goal of 100 percent cost recovery through golf fees.

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11. How does the taxpayer subsidy for RedGate golf course compare to the taxpayer subsidy for the Swim Center?

Art Stigile published a detailed cost comparison for Rockville Central. His analysis showed that the subsidy per round of golf was 10 times the subsidy per visit to the Swim Center. (see: [Golf Subsidies 10 Times Greater Than Swim Center Subsidy](#), analysis by Art Stigile published on RockvilleCentral website, 9/13/2010.)

Why? Primarily because the number of annual visits to the Swim Center (around 300,000) is about 9 times the number of rounds of golf (around 35,000) played each year.

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12. Doesn't RedGate golf course benefit City taxpayers?

It certainly benefits golfers who choose to play at RedGate. But it is difficult to show any other benefits to the City. Given its location, it's doubtful that the golf course draws visitor to Town Center or to other City business establishments, such as restaurants, in the City. Given the many other golf courses available in the County, it's highly doubtful that people choose to live in Rockville because of the golf course. And any prestige that might come from operating a public golf course is diluted substantially by the nine golf courses that are operated by the County.

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13. How much of the taxpayer subsidy for RedGate golf course goes to City golfers versus golfers who are not City residents?

According to the National Golf Foundation report, 61 percent of RedGate's customer base live outside the City and do not pay City taxes. (see: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville, Maryland](#), NGF Consulting, January 2011, p. A-49. Of those golfers who responded to the NGF survey, 48% defined themselves as Rockville, non-resident, and 13% as non-resident passholders.)

This percentage would likely grow in the future, if the City follows the NGF recommendations for the golf course, because the NGF report's principal recommendation is to improve RedGate's facilities to attract more out-of-town golfers to tournaments at RedGate.

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14. Would closing RedGate mean that City golfers would not be able to play golf?

Not at all!

Montgomery County operates nine public golf courses in the County, and according to the NGF report, there are a total of 16 public access golf courses within 15 miles of Rockville. (See: [Strategic Outlook and Analysis of RedGate Municipal Golf Course in Rockville, Maryland, NGF Consulting, January 2011, P. A-60](#))

Note that it isn't necessarily true that the golf course needs to close to avoid burdening taxpayers. In 2009 the County Revenue Authority, which runs the County golf courses, expressed interest in taking over responsibility for operating RedGate. Also, the City recently received several bids from several private golf course operators, who had suggested business plans that could avoid subsidies by taxpayers. (see: <http://www.rockvillemd.gov/redgate/index.html>)

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15. What would the City do with the property if it closed the golf course?

That would require a serious conversation with City taxpayers. One obvious option is to return it to Mother Nature and operate it as a park.

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16. The RedGate Advisory Committee says the golf course will become an eyesore if the golf course is closed? Is that true?

That line is an insult to Rockville's taxpayers and their strong environmental ethic. You only need to look at the high quality of Rockville's many parks to know this is just a cheap scare tactic. Would anyone say that Glenview Mansion is an eyesore?

This is one of several cases of demagoguery, instead of analysis, in the Advisory Committee's report.

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17. I heard that the Mayor and Council voted use \$2.4 million of the 2010 general fund surplus to forgive the golf course's debt. What was that about?

That's correct, and it was absolutely necessary. In a 9/6/2010 email to Mayor and Council, Art Stigile described the need in great detail. (*See: [9/6/2010 email from Art Stigile to Mayor and Council](#), re: questions for RedGate Advisory Committee.*)

Briefly, RedGate's debt was being shown as part of the General Fund reserve, even though there was zero possibility that RedGate would ever earn sufficient money to repay the debt. The debt wasn't worth the paper it was written on, and it would have been impossible to convert the debt to cash, if the City had needed to use the General Fund reserve to pay for an emergency. As a result, the General Fund reserve had already fallen below the 15 percent level that is regarded as safe. Even more alarming is that, left unchecked, within 5 years more than 40% of the general fund reserve would have been invested in this worthless paper! This was a disaster just waiting to happen, and the really scary part of it was that Mayor and Council were totally unaware of the problem.

Let's give kudos to the Mayor and Council for taking quick action to solve the problem, once they learned of it. A week after Art's letter, they voted to use an unexpected 2010 surplus to replenish the hole left in the General Fund reserve by RedGate's deficits.

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18. The RedGate Advisory Committee says that fees earned from cell towers that are erected on the golf course are improperly being diverted to the general fund. Shouldn't this money instead be used to pay for golf course expenses?

Why? The income from the cell towers isn't generated by golf. It is earned as a result of the City taxpayers purchasing and owning the property. Why should the money be used for golf instead of to benefit taxpayers? This is an attempt by the Mayor Marcuccio, Councilmember Newton, and the Advisory Committee to redirect taxpayers' resources to the Golf Course without acknowledging that it constitutes a taxpayer subsidy.

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