IRS gives managers of munis a break on tax-exempt bonds

By PAUL H. JOHNSON

The Internal Revenue Service (IRS) has solved the second-greatest problem facing companies which contract to manage government-owned golf courses that are financed with tax-exempt bonds.

Even the IRS is powerless to deal with inclement weather, however, it has done the next best thing by lengthening significantly the permissible period that management contracts may cover without jeopardizing the federal tax exemption for interest income that investors earn on government-issued bonds used to finance the courses (the governmental borrower typically insists on maintaining the tax exemption qualification because it lowers by as much as a third the interest expense for the project).

The new rules are effective for management contracts entered into, modified or extended on or after May 16, 1997. Current contracts may be renegotiated to reflect these more liberal provisions.

The new rules will be a boon to owners of golf courses in the U.S. that are owned by governmental units, as well as approximately one in seven of the courses now under construction. Although precise numbers are not available, many are financed through issuance of tax-exempt bonds by the governmental course owner.

Since 1986, management contracts have been severely constrained by the following four requirements:

1. Compensation must be reasonable and cannot be based upon net income.
2. Variable compensation cannot exceed half of the total compensation.
3. The contract term, including renewals, cannot exceed five years.
4. The contract must be cancelable, without cause or financial penalty to the owner, after three years.

These 3- and 5-year provisions have forced management companies and course owners into short-term thinking which necessarily has led to higher fees and inefficiencies occasioned by having to change managers at least every five years.

The new rules will be a boon to owners by fostering greater certainty for longer management side within the business that has emerged more quietly.

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Wall Street taking a serious interest in management & learning center firms

By BUD LEEDOM

On an August day in 1993, an event took place that signaled a new era in the golf real-estate industry. The event merged corporate involvement in golf real estate with Wall Street capital. As the first few shares of National Golf Properties (NGP) crossed the ticker tape on the floor of the New York Stock Exchange, the golf real-estate market came of age.

Today golf real-estate investors have two developing segments within the golf real-estate market to choose from: golf courses and golf practice centers.

Corporate involvement in courses and practice centers has grown in separate and distinct stages. As of Oct. 5, 1996, the National Golf Foundation listed 15,447 existing U.S. courses, with 551 under construction. Within this growing golf course market, corporate consolidators first made their presence known.

American Golf was already an established and successful course owner/operator prior to spinning off its golf course holdings into National Golf Properties in 1993. NGP has grown steadily from 47 courses in 1993 to 115 today. NGP purchases courses that are poorly managed and marketed. Although acquisition deals are increasingly harder to come by, NGP purchased a record 34 courses in 1996, including 20 owned by then competitor, Golf Enterprises. NGP is the largest publicly traded owner of courses and second overall to privately held Club Corp. of America (CCA). CCA owns and operates 240 courses.

While NGP has successfully implemented its acquisition strategy and grabbed the attention of institutional investors and market observers, it is the equally dynamic management side within the business that has emerged more quietly.

Following the acquisition of a golf course, NGP immediately and almost exclusively hands over management responsibilities to its former parent, American Golf, through a triple net lease. This operational side of the course business is where substantial growth has taken place in recent years and where many...
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