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 National Golf Foundation estimates that 2,541 of the 15,703 golf courses in the U.S. 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 periods of time. The Internal Revenue Service (IRS) has announced that 2,541 of the 15,703 golf courses in the U.S. 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:

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Osborne, another Ciba veteran. In Vegas, Hintze was asked whether the merger of two such enormous companies had resulted in any product redundancy. "None whatsoever," he explained, adding that Banner, Subdue, Sentinel, Primo and Barricade are perfectly complementary and account for 70 percent of Novartis turf and ornamental sales. All of these products will be available for 1997 with full service and support, he said.

As for new product development, Hintze said to expect Novartis' first packaging innovation in August and six new products over the next four years. Medallion, a contact fungicide for ornamental use, will launch this year, he said.

Though not all the players were represented in Las Vegas, the various GPS cart-tracking companies garnered a great deal of attention. Currently, there are five manufacturers of these systems, which allow cart-renting golfers to measure their distances to the pin while also allowing course operators to know the exact whereabouts and pace of a particular cart.

The competition among these five manufacturers has been fierce. Indeed, at least two are in court claiming patent infringement. However, talking to various insiders, look for the following developments: 1) There will be a winnowing of manufacturers from five to three; 2) Patents mean nothing, so the various legal proceedings will only drain those parties of capital; and 3) These devices will really take off — and soon. According to one course operator who has a system already installed, "anybody charging more than $70 per round can't afford not to have these things." Why? Because people will pay the extra $10 to use the system, and they cost the operator half that amount per round.

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independent owners have sought professional managers to run their courses. American Golf, the largest operator of golf courses, leases approximately 250 golf courses nationally and is responsible for the daily operations and maintenance of each facility. NGP and American Golf constitute an example of closely tied firms with a clear division in course ownership and operation activities.

Many of the younger management companies are regional operators specializing in particular locations to achieve economies of scale. This market clustering has firmly established some companies in specific regions. In addition to institutional funding, companies such as CCA are actually providing seed capital to new management ventures to establish a foothold in a particular region.

The coming years will see the continued emergence of regional operators and the initial stages of consolidation between the operators themselves. These "super-regionals" will attract the attention of larger investors and eventually the public markets.

Newcomer, Meadowbrook Golf [GCN November 1996], publicly traded on the lowly Bulletin Boards, has already begun such a strategy by purchasing management companies on both the East and West coasts as regional operating divisions. Though Meadowbrook remains undercapitalized, this concept will likely provide a blueprint for further industry consolidation.

Alliances between management companies and large home builders is a relatively new concept. Management companies have established these ties to add business in newly constructed golf communities. Arnold Palmer Golf Management has allied with Toll Brothers on the East coast and Western Properties recently teamed with U.S. Homes following completion of the Heritage Palms golf community in Palm Springs, Calif.

O.B. Sports [GCN July 1996] of Portland, Ore., has differentiated itself by creating unique innovations in course management. On one 36-hole facility the

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March

6 — USGA Green Section Regional Seminar in Dallas. Contact 908-234-2300.

6-7 — GCSAA Seminar on Plant Nutrition and Fertilizers in Farmington, Conn. *

10 — GCSAA Seminar on Maximizing Turfgrass Disease Control in Cleveland. *

11 — USGA Green Section Regional Seminar in Rochester, N.Y. Contact 908-234-2300.

11 — USGA Green Section Regional Seminar in Ladue, Mo. Contact 908-234-2300.

11 — GCSAA Seminar on Lake and Aquatic Plant Management in Minneapolis. *

11 — GCSAA Seminar on Irrigation System Scheduling, Repair and Management in York, Pa. *

12 — USGA Green Section Regional Seminar in Lawrence, Kan. Contact 908-234-2300.

12 — GCSAA Seminar on Turfgrass Stress Management in Minneapolis. *

12 — GCSAA Seminar on Turfgrass Ecology in Syracuse, N.Y. **

19 — GCSAA Seminar on Irrigation Water Quality in Philadelphia. *

20 — USGA Green Section Regional Seminar in Lacey, Wash. Contact 908-234-2300.

20 — GCSAA Seminar on Drainage Systems in Phoenix. *

20 — GCSAA Seminar on Turfgrass Stress Management in Cincinnati. *

20 — USGA Green Section Regional Seminar in Baltimore. Contact 908-234-2300.

25 — USGA Green Section Regional Seminar in Lakeview, Colo. Contact 908-234-2300.

25 — USGA Green Section Regional Seminar in Kohler, Wis. Contact 908-234-2300.

25 — USGA Green Section Regional Seminar in Charlotte, N.C. Contact 908-234-2300.

27 — USGA Green Section Regional Seminar in Indianapolis. Contact 908-234-2300.

31 — USGA Green Section Regional Seminar in Industry, Calif. Contact 908-234-2300.

April

1 — USGA Green Section Regional Seminar in Des Moines, Iowa. Contact 908-234-2300.

1 — USGA Green Section Regional Seminar in Los Vegas. Contact 908-234-2300.

2 — USGA Green Section Regional Seminar in Pleasanton, Calif. Contact 908-234-2300.

3 — USGA Green Section Regional Seminar in Phoenix, Ariz. Contact 908-234-2300.

7 — USGA Green Section Regional Seminar in Honolulu. Contact 908-234-2300.

14 — USGA Green Section Regional Seminar in Orlando, Fla. Contact 908-234-2300.

17 — USGA Green Section Regional Seminar in Orlando, Fla. Contact 908-234-2300.

22 — USGA Green Section Regional Seminar in Nashville, Tenn. Contact 908-234-2300.

30 — GCSAA Seminar on Turfgrass Ecology in San Diego. *

May

1 — GCSAA Seminar on Turfgrass Stress Management in San Diego. *

5-7 — 81st Annual Southeastern Turfgrass Conference in Tyhok, Ga. Contact Dr. Wayne Hanna at 912-386-3599.

July

29 — Midwest Regional Turf Field Day in West Lafayette, Ind. Contact Midwest Regional Turf Foundation at 317-494-8039.

* For more information contact the GCSAA Education Office at 800-472-7878.