BRIEFS

ZMETROVICH MOVES TO EXECUTIVE SPORTS

Michael Zmetrovich has been appointed vice president of the Club Services Division at Executive Sports. For the past three years, Zmetrovich was the director of Landauer Associates Golf Services Group, where he was responsible for marketing, sales and management of the firm's national golf and club consulting practice. Executive Sports, a division of Golden Bear International, is a global sports management company specializing in professional golf tournament management, corporate sports marketing and golf club management and marketing.

Zmetrovich

BROTHERS JOINS WALLACE

John Brothers, former VP of Finance and Administration for Paragon Golf Construction and CFO of Nicklaus/Sierra Development, has joined Wallace & Associates, a certified public accounting firm in Dayton, Ohio. Brothers will be responsible for developing the firm's real estate, construction and golf-related business.

GUEST COMMENTARY

Problems and solutions for tax assessments

By LARRY HIRSH

As local governments and school districts become increasingly squeezed for operating revenues, real-estate owners are asked to bear a larger burden. Golf courses seem to be an easy target in the search for property tax revenues. Why not? Only 12 percent of the population plays golf and most golfers are perceived by non-golfers as "rich people in bright clothes chasing a little white ball." Moreover, when schools, police and fire protection are at risk, golf courses certainly are politically acceptable targets.

The choice of perceptions on valuation methodologies which determine property assessments differ generally depending on which side of the equation one takes.

Appraisers traditionally rely on three approaches to value. These are the income approach, the sales-comparison approach and the cost approach.

Income Approach — A set of procedures through which an appraiser derives a value indication for income-producing property. A measurement of the present worth of future benefits.

Sales-Comparison Approach — A set of procedures through

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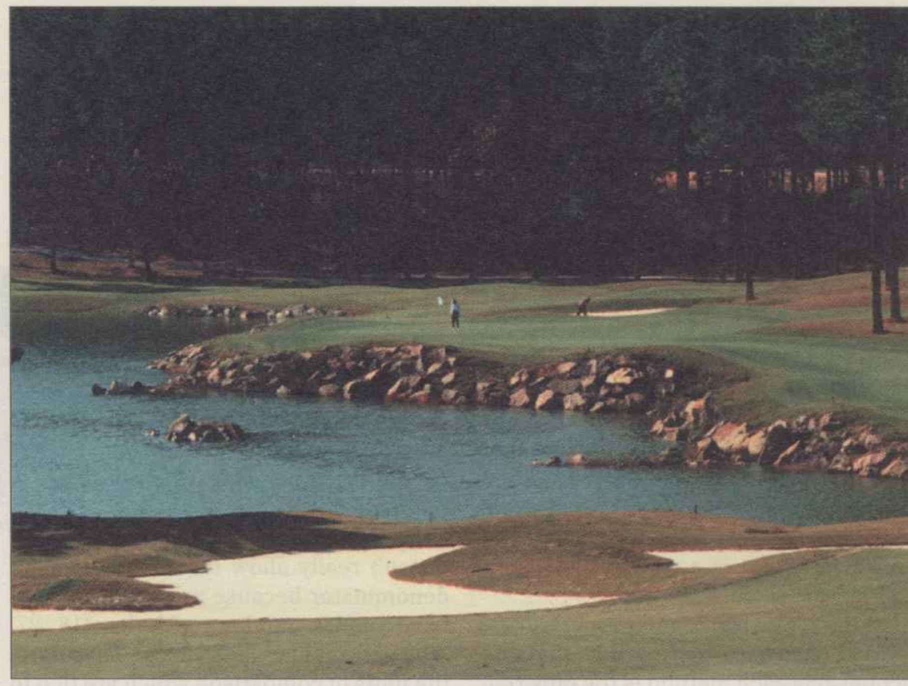
Larry Hirsh is president of Golf Property Analysts, a Harrisburg, Pa.-based golf course appraisal firm.



Pinehurst Plantation, a U.S. Golf Communities-managed property.

Golf Ventures, USGC tie the knot

By PETER BLAIS

ORLANDO, Fla. — Course operators Golf Ventures Inc. of Salt Lake City and U.S. Golf Communities (USGC) of Orlando, Fla., have signed an agreement amounting to a reverse merger.

Golf Ventures operates three courses in Utah and USGC six golf properties and related real estate scattered throughout the United States.

Under the pact, Golf Ventures will issue 26.6 million authorized, but unissued, shares of common stock representing 81 percent of the post-transaction shares outstanding. The assets of USGC will be merged with Golf Ventures.

"We're ready to go public and should close within the next 75 days," said USGC President Warren Stanchina in mid-September. "This will give us better access to more capital. We have an engagement letter from Oppenheimer [& Co. Inc.] to do our secondary offer."

The stock issue should raise $50 million over the next nine months, Stanchina said, allowing USGC to pay off the remainder of its debt and look at acquiring additional golf course facilities and real estate.

USGC's six projects are located in central and south Florida, North Carolina and Texas. They include such properties as Pinehurst Plantation (Pinehurst, N.C.) and Cutter Sound Golf and Yacht Club (Stuart, Fla.).

Golf Ventures projects include Red Hawk International Golf & Country Club, Cotton Manor and Cotton Acres, all located in St. George, Utah.

Stanchina, a class "A" PGA golf professional with 25 years experience in golf course community development, acquisition and management, will become chairman of the board, president and chief executive officer (CEO).

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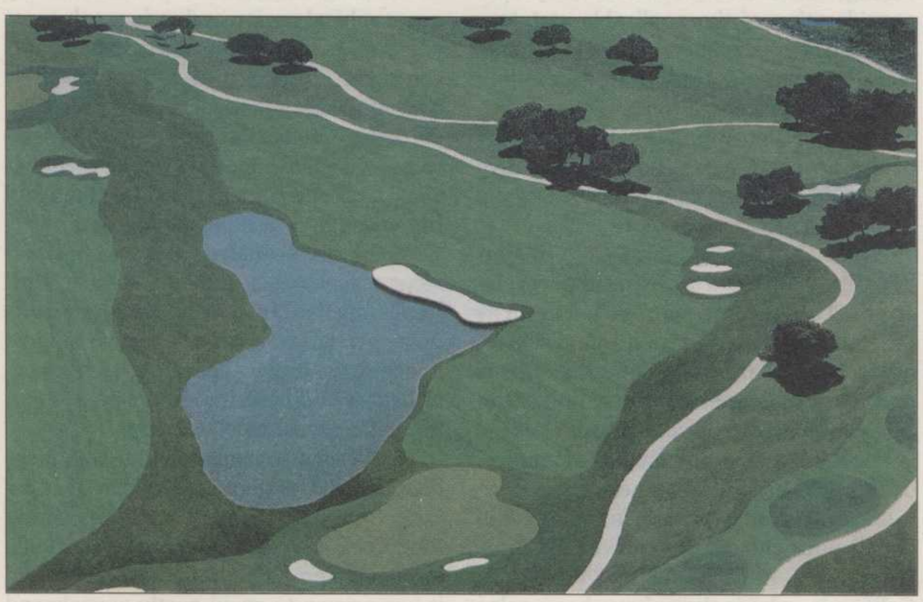

AGC MOVES ON SAN DIEGO

The 6th hole on the River Course located at American Golf Corp.-managed Riverwalk Golf Club in Mission Valley, San Diego. Opening in early 1998, the newly designed, daily-fee course is located on the site of the former Stardust Country Club. Developed 50 years ago, the original Stardust course hosted the San Diego Open, started by Bing Crosby. "The location of the property is phenomenal," said Tom Frost, regional vice president for American Golf. "It's in the heart of San Diego within minutes from the beach, Sea World and the zoo. Its proximity to Hotel Circle makes it a natural for San Diego conventions and tourists." Now this location has a course to match due to the efforts of father and son architects Ted Robinson and Ted Robinson Jr. Over 500,000 cubic yards of soil were used to create numerous elevation changes and undulating fairways. Gone is the old practice range and in its place is a 7-million-gallon lake, which serves as both a reservoir and way station for migratory birds.

PERSONNEL CORNER

Some people don't know when they have it good

By VINCE ALFONSO

The front counter at The Rail was positioned perfectly. While standing behind the counter facing my customers, a simple turn to my right revealed the 10th tee, to my left the 1st tee and I could turn around behind me and see the putting green and driving range.

I had just sent a foursome to the 1st tee, when a man and woman approached the front counter. They looked to be in their 70s and definitely on a mission. The man pointed over my right shoulder, obviously pointing at something on the golf course, and said, "Do you like that thing?"

I turned around, scanned my putting green and driving range for clues. Finding none I turned back to the gentleman and said, "I'm sorry, what thing?"

He said, "That silver thing at the range."

I said, "Oh, my range servant!"

"Yea," he said. "How do you like it?"

"It's great," I said. "It's always here in the morning before I arrive. It doesn't complain about working late, never takes a break, even for lunch and it has never asked off for prom. Oh, it gets sick every once

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Vince Alfonso Jr. is a 40-year, golf-industry veteran, president of Alfonso Creative Enterprises Inc., and owner of Kimberling Golf Course near Branson, Mo. He can be reached at 417-639-4370.

COMMENTARY

New Internal Revenue Service rules may not ease management constraints with public agencies

By RICHARD J. THORMAN

Richard Thorman has more than 25 years of golf-related residential and resort experience. His projects have included planning, financing, development, construction, marketing and operational bottom-line responsibility for major golf companies.

Several articles have recently been published which indicate that the new IRS ruling (Revenue Procedure 97-13) will stimulate golf management companies and public agencies to enter long-term agreements on projects financed by tax-exempt municipal bonds. Superficially, the new rules may lead one to the above conclusion. However, real-life experience may demonstrate that the new rules don't help the situation at all. In several recent negotiations between cities and management companies, the companies determined that the new ruling did not create an environment that was more favorable than what existed under the 1986 rules.

Historically, under the 1986 rules, management contracts for golf facilities financed by tax-exempt municipal bonds could not be written for longer than five years. Additionally, the city or agency involved could cancel the contract after the third or fourth years without a financial penalty.

This creates two adverse effects. One, management companies do not want to invest funds and resources and build up the business at a golf course that could have the contract canceled at the end of year three and/or face a municipal bid process at the end of year five. Two, the city might be able to sell the bonds either quicker or at a better rate if the investors knew that the management company was involved for the long term.

Extending the term of contract to fifteen years, as provided by the new rule, might seem to be the answer. Upon close examination though, the rule calls for 95 percent of the compensation to be based on a fixed periodic fee and not tied to profits or gross income of the golf course. Therefore, only 5 percent of the fee can be tied to incentives. Cost of living increases are allowed.

Economics 101 says that investment is based on risk vs. reward. The reasons management companies are willing to invest funds and resources in golf projects are based on what they see as an upside reward which accrues due to increases in gross and net profits based on marketing and management skills and the growth of a potential golf market. When the management company is forced to receive 95 percent of the fee on a periodic fixed rate either the city or the management company will be on the losing end.

In order to produce an acceptable return, on a 15-year fixed fee, the management company will have to establish a fee which includes the projected acceptable return.

The pitfalls are obvious. If the golf course does not produce up to the hoped-for projections, then the city is paying too much. If the golf course produces more than the projections, then the management company is not rewarded for its efforts. The only management companies that may be happy with the situation created, by the new ruling, may be "custodial" in nature.

One approach to creating mutually beneficial longer-term agreements, may be for the city and the management company to look at taxable public bonds plus private funding by the management company. Normally, taxable municipal bonds may cost only 135 to 150 basis points more than the total cost of the tax-exempt bonds and the taxable municipal bonds do not carry the restrictive management "term/fee" provisions required by use of the taxable municipal bonds. Under this "public-private investment" approach, the city would issue the taxable bonds and the management company would invest private funds as a partner. With the management company investing as a partner, the amount of funds borrowed by the city should be substantially less than if the city were to fund the golf course using only tax-exempt bonds. Therefore, the cost to the city should be substantially lower and the management company will have a long-term contract and a major incentive in making the project a success.

Due to the above, cities need to carefully examine the best approach to financing a golf course to achieve the best funding source(s) for each particular situation.

USGC merges

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Duane Marchant, Golf Ventures chairman, president and CEO, will remain a member of the board of directors and assume responsibilities as vice president/Western region. At closing, Golf Ventures will change its name to Golf Communities of America Inc., and its corporate headquarters will be relocated to Orlando.

"We're looking at several acquisitions," Stanchina said. "We have our (USGC's) six courses plus three of Golf Ventures.

"What will make us different is that we acquire the golf operations and the real estate. Everyone is going the other way (golf-only facilities), but this is the way for us to go."

Oppenheimer will act as a financial advisor for the merged firm and assist the company in obtaining additional capital to fund its growth objectives.

The transaction is expected to close in November.