AGC gets restructuring deal

By DEREK RICE

SANTA MONICA, Calif. — American Golf Corp. (AGC), like its potential merger partner National Golf Properties (NGP), recently received a reprieve in the form of a restructuring agreement with its lenders.

AGC’s inability to make lease payments to NGP for several months has jeopardized the financial security of both companies. This was also one of the major factors that led to the proposed merger, which has been decried by industry insiders and shareholders as benefiting no one but David Price, who owns a large portion of both companies, and NGP executives including chairman and CEO David Pillsbury, who is also chairman and CEO of AGC.

Under the restructuring agreement, Bank of America granted AGC a limited waiver, which is subject to delivery of leasehold mortgages on certain golf courses leased by AGC. At press time, the process of preparing those leasehold mortgages was expected to be completed by Aug. 8, although there was no assurance that deadline would be met. Bank of America extended the maturity of AGC’s credit facility and private placement notes to the earlier of March 31, 2003, or the consummation of the AGC-NGP merger. In addition, Bank of America and AGC note holders have waived existing defaults and all potential future events of default other than specified “major defaults” during this period.

As additional security for AGC’s obligations, Price personally pledged approximately 3.6 million shares of common stock and National Golf Operating Partners (NGOP) common units, as well as a second deed of trust. He is required to substitute cash collateral for this collateral by Oct. 15 in the case of the shares and units and Sept. 30 in the case of the deed of trust.

Spokespeople for both NGP and AGC declined to comment on this agreement or previous agreements, saying that all necessary information is contained in the companies’ filings with the Securities and Exchange Commission.

There has been speculation that some NGP shareholders are agitating to counterbalance the votes of Price and the companies’ boards of directors. An AGC spokesman also declined to discuss the proposed merger or give a firm timeframe for a shareholder vote.

Courses face rising insurance premiums

By ANDREW OVERBECK

Since Sept. 11, insurance premiums have risen across the board, and some companies have abandoned the golf course market altogether. The recent up-and-down nature of the stock market certainly hasn’t helped matters.

"Companies that were attracted by high returns [to invest in the stock market] are getting out of the market," said Tom Marks, executive vice president for club programs for Bollinger Insurance.

That, coupled with falling profits, meant that premiums had to increase.

"The last several years have not been terribly profitable," said Bob Goldthorpe, head of St. Paul’s Eagle 3 program for golf courses, "In 1999, for every dollar that we brought in, we paid out $1.62. That is why premiums went up."

With premiums increasing and companies discontinuing service, many courses are scrambling to get new insurance carriers and to re-evaluate existing policies. According to industry experts, as courses go through this process, there are several must-have insurance items to keep in mind that are not covered by golf policies.

ENVIRONMENTAL LIABILITIES

Environmental liability coverage handles items like herbicide and pesticide overspray rider and fuel tank leakage.

"Five years ago, this was not available," said Ken Robinson, of Lumbar Robinson and Associates, a representative for Zurich and other carriers that offer golf insurance. "It is important for courses to have insurance for the worst-case scenario."

Westchester Country Club digs geothermal heating system

By JOHN TORSIELLO

RYE, N.Y. — Officials at Westchester Country Club have gone underground, at least as it pertains to the club’s heating and cooling needs.

A $7 million renovation at the historic layout, which hosts the annual PGA Buick Classic, has resulted in the conversion of the 80-year-old club’s management and the interior of the 26th floor hotel from a traditional heating and cooling system to a geothermal system.

The project’s contractor was R.J. Dooley & Associates of Poughkeepsie, N.Y. The firm has installed geothermal systems for over 17 years, including those at golf clubs in Georgia and the Midwest.

"Golf courses are a prime site for geothermal systems because of the available land," said Bob Dooley, owner of the firm. "This type of system can be installed anywhere. In fact, the Westchester site was one of the more challenging projects we have undertaken because we had to drill through bedrock."

Several workers were drilled to depths of 300 feet into solid granite located below open land at Westchester CC, which includes two golf courses, a hotel, clubhouse, tennis courts and other amenities.

The geothermal system runs water through underground pipes and uses a stable ground temperature to act as both a heating and cooling engine. (The earth’s temperature is a constant 55 degrees some 15 feet below the surface.) Water flowing through six miles of ductwork circulates to individual heat pumps in each room of the hotel, built on the turn of the 20th century.

The water passing through the piping cools rooms by absorbing heat during the summer and is warmed to heat the spaces during the winter. The recirculated water always returns to the building at 55 degrees. The club uses a backup boiler and water-cooling tower for kitchen and laundry operations.

Disruption to the club was minimal and the system was installed so as to be unobtrusive, Dooley said. At its peak, about 60 workers were involved with the project, which took a little over a year to complete.

"The vertical bores took up about an acre and a half," he said. "We picked an area in an open field off the first green of the South Course. It was either there or the driving range, and we felt the site we picked would cause the least inconvenience. We pulled top soil off the site back once we were done drilling."

"The technology made sense and the system is environmentally sound," said Bob James, the club’s executive director.

James said that while the geothermal system was somewhat more costly (around $350,000 more) than the
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this to protect against damage to their own property and the environment."

According to Marks, it is easier to get if the course has proper photographic and safety documentation to demonstrate that all systems are in good shape. "We also don't write coverage for underground storage tanks," he said. "They are harder to maintain and it is harder to see leaks."

ORDINANCE OF LAW COVERAGE

Ordinance of law coverage is especially important for older courses that have aged clubhouses that are not up to current building codes. "A clubhouse built in 1960 doesn't meet today's codes for disability, fire sprinkler, elevator, wind protection, electrical or plumbing," Robinson said. "You have to buy the extra protection because insurance will not pay for upgrades, it will only pay replacement cost to the like kind and quality to what had been built in 1960."

In order to insure for this need, Robinson recommends that courses hire a consultant to analyze what the added code upgrades would cost if a club had to rebuild its clubhouse.

MAINTENANCE EQUIPMENT REPLACEMENT

Along the same lines, Marks recommends that courses insure their maintenance equipment to replacement cost rather than actual cash value.

"If the maintenance burn downs, you could lose $500,000 worth of equipment, and if the equipment is insured for actual cash value you can have a significant shortfall," he said. "The inventory should be updated every year."

GROUNDS COVERAGE

Courses also need to consider grounds coverage, that can be expanded to cover areas beyond the playing surfaces.

"We define it as maintained roughs, bunkers and other landscaped areas," said Marks. "Previously, if a tree went down between the fairway and the rough, our obligation was to pay for the removal of the half that was in the fairway. Obviously that is ludicrous."

Such coverage is important because it gives courses the peace of mind that the whole course is protected. "We had a significant claim at the TPC at Sugarloaf a month before it hosted its first Bell South Atlanta Classic," said Goldthorpe. "A tornado touched down and downed hundreds of trees. It was a significant claim."

Having broad grounds coverage allowed the course to get back up to speed in time for the tournament.

BUSINESS INCOME

Should the golf course be damaged, the clubhouse disabled, or the maintenance equipment destroyed, owners can also be protected from lost business income.

"If anything happens that leads to a loss of revenue stream, ongoing profits and continuing expenses need to be quantified," said Robinson. "This is an endorsement that is often not well understood and needs to be handled properly."

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course had opted for a more conventional heating and cooling system, the amount of time it will take to recoup the extra cost is expected to be only a year and a half. The club expects to reduce its annual oil consumption by around 200,000 gallons a year.

"We budgeted $27,000 for oil last year and that figure is now $99,000 for the current year. And we may be even below that. This system will save the club considerable money down the road," James said.

The club has applied for a New York State alternative energy grant to help defray some of the cost of the new system, and has requested a special lower electricity rate offered by a local power company for reducing a building's overall energy consumption.

"This type of system makes a lot of sense for a country club, anywhere else where you have available land and are looking for a lot of individual control to heat and cool rooms," James said.
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a dangerous instrument. Ferrer's wife, incidentally, also sued the course with a loss of consortium claim.

In November 2001, however, the Court of Appeal of Florida, Third District, affirmed the Dade County Court's granting of summary judgment in favor of the golf course. The Court noted that "League members using golf cars in this situation are properly viewed as being co-bailors or joint adventurers." This distinction about whether a golfer was part of a league was fatal to Ferrer's case.

The defendant golf course was also victorious in September 2001 in a golf car suit brought against Lorain Country Club Ltd., in Lorain, Ohio. In that case, Joseph Ritenauer was injured after falling out of a golf car in which he was a passenger. Ritenauer argued that the golf course had earlier watered the grass on which the car was being driven as it went down a hill. The slick grass caused the car to spill. The legal issue turned on whether the wet grass was an "open and obvious danger," which states that "an owner owes no duty to protect business invitees from hazards which are so obvious and apparent that the invitee is reasonably expected to discover and protect against them himself." Ritenauer stated at deposition that, during the play on the first 12 holes, he noted that the grass was wet because it had been watered. In fact, he commented, "They were watering the whole course all day practically." Under the circumstances, the court felt that the wet grass problem was a clear danger to the accident, and ruled against Ritenauer.

Still another victory in a golf car case went to the owners of a golf course, American Golf Corp. (AGC), doing business as the Rivers Edge Golf Course, in Fayetteville, Ga. In April 2002, AGC won a defense verdict in a suit where a plaintiff claimed an ankle fracture, as well as head trauma, shoulder and back injuries after his car hit some boulders next to the cart path and overturned. The legal theory rested on a claim of premise liability and the alleged failure by the course to maintain safe brakes on the car. AGC defended by claiming that the plaintiff drove the car too fast and did not keep a proper lookout. Following a trial, the jury ruled in favor of AGC.

Although it seems to have been a decent year for golf courses as far as golf car claims are concerned, this does not mean that there is necessarily a defense trend, per se. The consistently favorable, from the course owner's point of view, decisions hinge on the particular circumstances of each case. In a particularly interesting case involving a golf course in Oklahoma, the course lost the first legal round in the Oklahoma Supreme Court.

As many readers may know, a hot issue in many states is the degree of legal liability that may be imposed on a business when it serves alcohol to patrons that subsequently become involved in accidents. This is exactly the legal issue facing Willow Creek Golf Club in Oklahoma City. The case began in 1997 when a man and his daughter were killed by a drunk driver, Neal Alexander Jr., near Oklahoma City. Alexander had been attending a golf scramble fundraiser and party at Willow Creek, which was sponsored by the Hillcrest Health Center.

During the evening hours, Alexander drank a number of beers on the golf course and had two more in the clubhouse, which were purchased with coupons given to tournament participants. Willow Creek did not furnish the drinks on the golf course, but did staff the open bar at the clubhouse where the coupons for drinks were redeemed. Alexander left the club and became involved in the accident, he was found to have a blood alcohol level of 0.19.

The survivors of the accident victims sued various individuals as well as both Willow Creek and Hillcrest Health Center. Willow Creek and Hillcrest both moved for summary judgment, which was granted by the lower court. In September 2001, the Supreme Court of Oklahoma, however, reversed the lower court as far as Willow Creek was concerned. It found that Willow Creek was not a social host (which might have protected it under Oklahoma law), but was instead a commercial vendor of alcohol. The court noted that the club was a licensed alcohol vendor and that it charged Hillcrest for each redeemed coupon. The summary judgment ruling in favor of Hillcrest, incidentally, was allowed to stand by the Supreme Court, since Hillcrest was not a commercial vendor of alcohol and was not, in the view of the Court, in a joint venture with Willow Creek. The case was sent back to the lower court and the parties are preparing for a trial that will likely come next year.

The best general advice that can be given to operators, managers and owners of golf courses is that the law varies often from state to state and, in any event, any case anywhere will have a specific set of facts that will often "make or break" the eventual outcome. Owners should try as much as possible to anticipate problems in advance rather than simply wait for an issue to arise.