

# Muni Golf: Defeating the Daily Fee Owner?

by Fred Stewart  
NGF Regional Director

Since the introduction of public courses to the American scene in the late 19th century, municipal and daily fee courses have coexisted well. Both types have played a big role in the development of golf business.

Questions are arising, though, today, whether it is fair for the daily fee owner, the individual businessman, to have to compete with a facility operated by a city, state park system, or other forms of governmental agencies. The daily fee owner is subsidizing market competition with his own tax dollar.

According to the latest National Golf Foundation statistics, 58 percent of the nation's 11,370 golf facilities are open to the public. Of these, 5,014, 44 percent are daily fee courses, and 1,550, 13 percent, are municipal courses. Other studies by NGF indicate that 84 percent of the golfers play at public courses, 45 percent at municipal courses and 39 percent at daily fee courses.

Both municipal and daily fee courses have experienced impressive growth during the last decade. The number of municipal courses has increased by 741, a 72 percent gain, while the number of daily fee courses has increased by 2,499, a 76 percent gain. While the rate of growth of daily fee courses, during the last decade, holds a slight edge

over municipal courses, that trend has started to change.

High land costs, development costs, interest charges, operational costs, property taxes and inflation have combined to make it increasingly difficult for a prospective daily fee operator to put together a feasible package; at least in urban areas where public courses are most needed.

At the same time, the growth of new municipal courses has been stimulated by a series of federal aid programs available to qualified governmental agencies designed to encourage the construction of public recreation facilities, including golf courses. These programs include A Legacy of Parks: the Surplus Property Program, BOR Grants/Land and Water Conservation Fund, Farmers Home Administration Loans, Revenue Sharing, and HUD's new Title I of the Housing and Community Development Act of 1974. Additionally, municipalities and other governmental agencies have the legal authority to issue revenue and general obligation bonds for their share of facility development costs.

The manner in which municipal golf courses are planned, financed, organized, operated, and NGF's role in promoting municipal course

development have not gone without notice by the daily fee course operators. Joe Much, NGF's Pacific Northwest regional director, alluded to the problem daily fee course operators are having competing with municipal courses in a recent paper. At that time, Much indicated their rumble of discontent might soon become a roar. In some parts of the midwest it already has.

Daily fee course operators in Northeast Ohio and Central Wisconsin are concerned with their long run survival as a result of what they consider to be unfair competition by municipal courses. It is no coincidence that the two areas mentioned are at or very near the saturation point as far as public golf courses are concerned. Several of the counties in question have a population per public course ratio of as low as 14,000 per 18-hole course rather than the 20,000 to 25,000 long recommended by NGF.

The subject of government's role in the golf business-competition between Municipal and Daily Fee Courses received much attention at a public golf seminar the NGF sponsored last March in Cleveland. The daily fee course operators made several valid points regarding the manner in which municipal courses are planned, financed and operated and how they can be unfair competition.

Some of the reasons set forth in support of this claim by daily fee operators are: project feasibility not thoroughly researched, municipal courses cost too much to build, they don't pay taxes, don't have a legal right to compete with private enterprise, municipal courses are not self supporting, municipal course fees are too low, and they are operated in an inefficient manner thereby wasting taxpayer's money. Some of these claims have merit; others do not. Let's take a look at some of these.

**Municipal Course Feasibility Study** — While we have all experienced the frustration of working with a municipality interested in only a cursory evaluation of the feasibility of a proposed course, I am confident we would all agree that by and large municipalities do an adequate job of analyzing their market potential prior to undertaking the project. As always, it is

# Muni

CONTINUED

the fiascoes which people remember. Especially a daily fee operator adversely affected thereby.

**Municipal Courses Cost Too Much to Build** — Many daily fee operators express outrage at the cost of building a new municipal course today. A \$1 million budget is not uncommon for a new 18-hole municipal course with a maintenance equipment, maintenance compound, pre-opening maintenance, and modest clubhouse. Add in another \$600,000 to \$1 million for land and you have a total package price the daily fee operator cannot relate to when he knows he has difficulty meeting the debt service on a \$300,000 mortgage. However, when you consider the municipal course, if built properly, will be there to serve the public for at least 75 years, the cost can be justified. Consequently, this criticism is not valid in those market areas where the facility is in fact needed.

**Municipal Courses Don't Pay Taxes** — When pointing out the unfair competitive edge municipal courses have, daily fee operators are quick to point out they must pay property taxes while municipal courses do not. This charge certainly does have validity, particularly in those states where tax assessors have attempted to tax daily fee and private clubs at their highest potential and best use value. It should be noted that some municipal courses do pay property taxes indirectly, through a "payment in lieu of taxes" to the local government. For example, the City of Madison, Wis., which operates four municipal courses, receives a \$15,000 payment annually from the golf division to partially offset the loss in tax revenue.

**Municipal Corporations Don't Have The Legal Right to Compete With Private Enterprise** — This point has been challenged on many occasions by private enterprise. The courts have ruled municipal corporations have the power to maintain institutions which educate, instruct, and provide for the general well being of its inhabitants. The right to operate a public golf course

has been challenged specifically with the courts ruling in favor of the municipality. Early cases involving the Tennessee Valley Authority established the precedents used in determining other cases involving competition between governmental agencies and private enterprise

**Municipal Courses Are Not Self Supporting** — The charge that municipal courses are not self supporting is difficult to answer due to the great variety of accounting systems used by municipalities operating golf courses. Some don't charge all expenses against golf course income, others charge expenses actually incurred providing non-revenue producing recreational activities against the golf course income, some include only actual operating expenses against golf course income, while yet others charge debt service, departmental overhead and operational expenses against the golf course. As a result, one can build a strong case on either side of this argument depending on his point of view. Our own surveys indicate that about two-thirds of the municipal courses report they are operating at a self-supporting level.

Confusion surrounding the question of whether or not municipal golf courses are self-supporting points out the need for a uniform system of accounting to be used by courses. The Club Managers Association of America has a uniform system of accounts for use by private clubs which could easily be adapted to municipal courses. Such a system, if used by all municipal courses would then enable one to evaluate their profitability in an intelligent manner.

**Municipal Course Fees Are Too Low** — This point is the essence of the argument by daily fee operators that municipal courses are unfair competition. There are perhaps as many philosophies regarding establishing fees at municipal golf courses as there are systems of accounting.

Some municipalities establish fees on the basis the course should be completely self-supporting including debt service. Others have the philosophy that income should be sufficient to meet annual operating expenses.

Whatever their philosophy, their fee schedule obviously has a direct

effect on the fees which a daily fee operator can charge when competing in the same market area. Profit motive daily fee operators don't insist municipal course fees be identical to theirs, rather they be reasonably competitive with what they must charge in order to operate at a profit.

The daily fee operator represents one of the few remaining representatives of the private enterprise system at its best. He has invested his capital and must rely on his managerial skills, promotional ability and public relations efforts to attract and retain sufficient customers to make his business a success. Because he is profit motivated, he and his staff are more concerned with providing a quality golf experience for his customers than the typical municipal course employee. He relies on the extra pride of ownership his operation exudes to justify the higher fee he must charge over the municipal course in competition for the golfers patronization. Where a price differential of \$1 per 18 holes, \$1.50 to \$2 on weekends, exists between his fees and those at competing municipal courses, he is usually able to attract sufficient golfers willing to pay the additional charges in return for less crowded playing conditions and more personalized service.

**Municipal Courses Are Operated In An Inefficient Manner** — Many municipalities have difficulty answering the question, "Who's in charge here?" Consequently, the charge that municipal courses are operated inefficiently has merit in many instances. That is not to say all municipal courses are operated inefficiently. Each NGF regional director has several outstanding municipal courses in his region he can point to with pride. Unfortunately, they represent a minority of the total operations.

While the claims of some daily fee operators that municipal courses are unfair competition is a localized problem at present, the industry must be aware of the problem and take all action necessary to solve it to ensure the continued success, growth and popularity of both types of facilities. We have too great a stake in the success of the golf business to do otherwise. □