The role of powered golf cars in today's golf course operation

By Joe Much, NGF Regional Director

Part I of this article appeared in the August, 1980, issue of GOLF BUSINESS. In it, author Joe Much, Regional Director for the National Golf Foundation in Monmouth, Oregon, explained several of the key factors that must be considered when contemplating purchase of a golf car fleet. In Part II, he explains the various options available to finance such a fleet, including types of leasing arrangements. Ed.

Financing Fleet Acquisition

The matter of financing depends upon whether the club or the professional purchases or leases the fleet. It should be noted that some clubs elect to concede thė entire golf fleet enterprise to the professional as a portion of his remuneration. The practice is more prevalent at private clubs and considerably less at daily fee operations, in which the owner/operator usually controls every major source of income.

Proponents of ownership (as opposed to leasing) maintain that any club which is profit-oriented, well-capitalized with a healthy debt-equity ratio, and in solid operating condition may find that a purchase decision offers opportunity to take advantage of depreciation which can shelter earnings from taxes. A lessee, at comparative costs, may end up making more net dollars. Any club unprepared to provide these services is going to find leasing cars the more practical and profitable method of fleet acquisition.

While ownership is on the rise, proponents of leasing still point out that any operation which is tax-exempt or municipally-owned probably should not purchase any capital equipment such as golf cars. If use, rather than ownership of a fleet, will produce the desired convenience and profit, why bear the responsibility and headaches of ownership? Among the advantages they claim for leasing:

1. It increases or maintains current levels of working capital without changing a club's current debt-equity ratio. In other words, it permits "off balance sheet financing".
2. It provides up to 100% financing as opposed to the 70% to 90% financing usually available through traditional capital equipment financing sources.
3. It permits a club to obtain more than one capital item at the same time.
4. It can provide a hedge against product obsolescence.
5. It offers flexibility in expansion or contraction of fleet size.
6. It does not preclude purchase of the equipment at any time during or at the end of the lease period.
7. It can eliminate the need for staff maintenance and service personnel.
8. Leasing helps improve cash flow.

Leasing arrangements

All major manufacturers of golf cars and their distributors have devised many and varied ways of financing leased cars. Today, decisions as to how to lease are complicated, but only because of the many variations available to the lessee. In addition to the original "straight" or "true" lease, which provides no maintenance, for a given period of years, there are the following:

1. FULL SERVICE AND FULL MAINTENANCE LEASES.
2. PURCHASE-OPTION LEASES. These contracts usually run for two, three or four years because the dealer needs sufficient time to be assured of a reasonable profit. It may be figured on a percentage basis or by the month. Most dealers require an income of $800 to $1,000 per car per year to show a profit and properly service the fleet. In the case of four-wheel cars the figure would be more like $1,000 and sometimes more.
3. SKIPPED PAYMENT LEASES reflect a club's seasonal income. For example, a warm climate club might select a 12-month payment plan, while one in the North might prefer to make payments only during the six to eight months it is open for play.
4. ESCALATING PAYMENT LEASES, designed fo rnew clubs whose income will increase over several years.
5. MINIMUM GUARANTEE LEASES, under which the club guarantees the lessor a share of revenues for a minimum number of rounds annually.
6. SHARED REVENUE LEASES, which grant both the club and the lessor a fixed percentage of all fleet revenue. This generally ranges from a 70/30 to a 50/50 split, depending upon the amount of service rendered by the lessor, with the higher share to the lessor.
7. VARIABLE SHARED REVENUE LEASES provide an increased use incentive for the club. Under this arrangement, the lessor's percentage decreases as revenue increases beyond various levels.
8. MEMBER-SHARED DEPRECIATION PLAN. This is a truly innovative arrangement, primarily for clubs whose members are in the upper income bracket. Under this plan, one or more members might purchase a golf car fleet and lease it to their club under mutually agreeable conditions. The member/owners gain the tax shelter from depreciation and the club receives the use of a profit from the fleet without capital investment.
9. TOURNAMENT FLEET LEASES are available on a per diem basis for clubs which have scheduled events requiring an unusually large number of cars for a short time.

Choosing the Product

When determining which car to lease or purchase, the golf facility operator, or whoever is to make the decision, should take the time to test a number of different cars under the same turf and climatic conditions. More or less in order of priority, they should consider the following factors:

1. QUALITY. Generally you get what you pay for. The car should be sturdy, well-designed and engineered and prepared to endure rough treatment. Warranty protection on parts and workmanship is important.
2. RIDEABILITY. The car should have a comfortable ride, what-

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ever the combination of seat cushioning, shock absorbers or spring suspension used.

3. EASE OF MAINTENANCE. All functional parts should be easily accessible. Ready availability of parts is important. A technical manual and parts book should be requested for assurance that replacement parts will be available for the life of the car.
4. GENERAL HANDLING QUALITIES. Check handling on turns, braking for smoothness and firmness, steering ease, starting performance, stability, etc.
5. TRADE-IN VALUE. Investigate projected value after three or four years of normal use and care and compare.
6. ORIGINAL COST. Most cars on the market are in comparable price brackets for value received. Quoted prices should include freight, batteries and chargers. Manufacturers' prices are usually f.o.b. the factory. Watch for hidden charges.
7. APPEARANCE. Most modern cars pass the appearance test, but preferences can be accommodated. Any color is usually available, but all cars should be the same for ease in paint touch-ups. Names or crests on cars mean extra expense.
8. TYPE OF TIRES. The use of wider, softer tires for golf cars is virtually universal. Wider tire print spreads the weight of the car and reduces compaction of soil. Lower inflation pressure brings better traction and reduces risk of tire damage from rocks, tree roots, etc.

How many cars?

Fleet sizes vary widely depending upon the type of golf facility, the affluence of clientele or membership, physical characteristics of the course and climate during the playing season. No satisfactory rule of thumb has been developed for municipal and daily fee courses, where experiences vary widely from course to course, often within the same general area. Operators of public facilities would be wise to conduct a study which would consider weekly traffic figures and patterns, nature of the customer and weather conditions. They might start out modestly, possibly with a leased fleet, until a satisfactory norm is established. A survey of municipal facilities in 1979 showed fleets averaging between 19 cars in the West North Central area and 54 in the South Atlantic.

Resort courses also vary, but a good estimate is one car for every 800 to 900 rounds of golf played annually. A 1977 resort golf course survey showed a median fleet of 71 cars with high figures ranging all the way up to 360 cars for major, multiple-course resorts.

Latest averages developed for private clubs show about 40 cars, but the range is wide. Some smaller clubs in rural areas may have only a few member-owned cars; larger, exclusive facilities may have 100 or more. Here again, when considering acquisition, a club would do well to think in modest numbers, such as one car for every 15 to 20 golfing members or six to eight cars for every 100 golf bags maintained in the club storage room.

Too few cars or too many cars can have equally expensive consequences. Generally fleet owners should shoot for a minimum of 120 rounds of golf per car per year. Well-managed fleets will get 175 rounds per year and some will go as high as 250 or more.

Some experts suggest a club might use the rules of thumb above, estimate the number of cars needed and then acquire just a few cars less than that number. Having fewer than needed sometimes creates a psychological demand for cars and when more are needed the demand can be met easily.

Insurance

The question of insurance on golf cars needs little discussion by owners and operators of fleets. A sufficient amount of insurance is plainly necessary, particularly in view of mounting claims and awards.

If a club leases cars, the cost insurance is borne by the lessor. In such cases, the club attorney or someone competent to rule on coverage accorded the club and its members should check the golf car lease agreement. If a club owns its cars, then a minimum of \$200,000/\$300,000 liability insurance, plus \$50,000 property damage and coverage for fire, theft and vandalism should be secured. Vandalism today is the chief cause of golf car damage throughout the country. Cost for this type and amount of insurance will average about \$35 per car per year.

Operation of golf car program

The question as to who should

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operate and manage the golf car program and who should derive the profits from it has found different answers in different types of golf operations. In private clubs the golf professional often handles the matter and is compensated in direct proportion to his responsibilities.

Profits from golf car rentals have been so great that course owners and some private clubs are buying or leasing their own cars and retaining a large share of the profits themselves. In these cases, satisfactory arrangements are generally worked out in which, for a share of the revenue, the professional is given the responsibility and management of all golf cars. If he is also charged with maintaining the cars, his compensation should be based on net profit.

Individually-owned golf cars are permitted on many courses and will have a heavy bearing on the profitability of the fleet operation. It is up to the management of each facility to determine the advisability of this practice and many today are restricting, phasing out or banning personal cars. The decision may hinge on any of a number of considerations, including how much members or customers are willing to pay for use of the course and storage privileges. Unless that figure adequately compensates the club or course operator for the loss of revenue through rentals, a review and possible change of policy is indicated.

Very few clubs and courses today have found the perfect answer for the sometimes "political" problem of individually-owned golf cars, but the Oro Valley Country Club of Arizona may have come close. Member-owned cars are allowed on the course but *no storage* is provided for them. Owners pay $300 annually for the privilege of operating their cars on the course and further agree to make their cars available on call to the club for rental purposes 10 times each year. At a $10 rental fee, this adds another $100 each year to the club's golf car revenue.

Since there are 10 member-owned cars in operation on the course, the club's fleet of 46 can be increased by more than 20% for peak traffic periods. And finally, when a member operating his own car invites a rider to accompany him, that rider pays a standard rental fee to the club.

Oro Valley Country Club has been showing more than $80,000 revenue annually from golf car operation.

Promoting car usage is a public relations function and should be handled as such. Good maintenance and cleanliness are vital to the promotion of repeated use of cars at any course. Whether the cars are managed (or owned) by the professional, one of his assistants or someone else, they should always be lined up neatly where they are visible to the potential customer and ready for use. Someone should ask every player who registers whether he would like to play from a golf car. And the process of getting him and his clubs into a car should involve a minimum of time and no red tape.

The use of cars is habit-forming and the popularity of a newly-installed golf car fleet at any club will increase rapidly. Important revenue will follow. **GB**