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).


Paul Johnson

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

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Paul Johnson is an attorney in Jackson, Miss. He can be reached at 601-927-3094.

Wall Street taking a serious interest in management & learning center firms

By BUD LEEDOM

On an August day in 1993, an event took place that signaled a new era in the golf real-estate industry. The event merged corporate involvement in golf real estate with Wall Street capital. As the first few shares of National Golf Properties (NGP) crossed the ticker tape on the floor of the New York Stock Exchange, the golf real-estate market came of age.

Today golf real-estate investors have two developing segments within the golf real-estate market to chose from: golf courses and golf practice centers.

Corporate involvement in courses and practice centers has grown in separate and distinct stages. As of Oct. 5, 1996, the National Golf Foundation listed 15,447 existing U.S. courses, with 551 under construction. Within this growing golf course market, corporate consolidators first made their presence known.

American Golf was already an established and successful course owner/operator prior to spinning off its golf course holdings into National Golf Properties in 1993. NGP has grown steadily from 47 courses in 1993 to 115 today. NGP purchases courses that are poorly managed and marketed. Although acquisition deals are increasingly harder to come by, NGP purchased a record 34 courses in 1996, including 20 owned by then competitor, Golf Enterprises. NGP is the largest publicly traded owner of courses and second overall to privately held Club Corp. of America (CCA). CCA owns and operates 240 courses.

While NGP has successfully implemented its acquisition strategy and grabbed the attention of institutional investors and market observers, it is the equally dynamic management side within the business that has emerged more quietly.

Following the acquisition of a golf course, NGP immediately and almost exclusively hands over management responsibilities to its former parent, American Golf, through a triple net lease. This operational side of the course business is where substantial growth has taken place in recent years and where many

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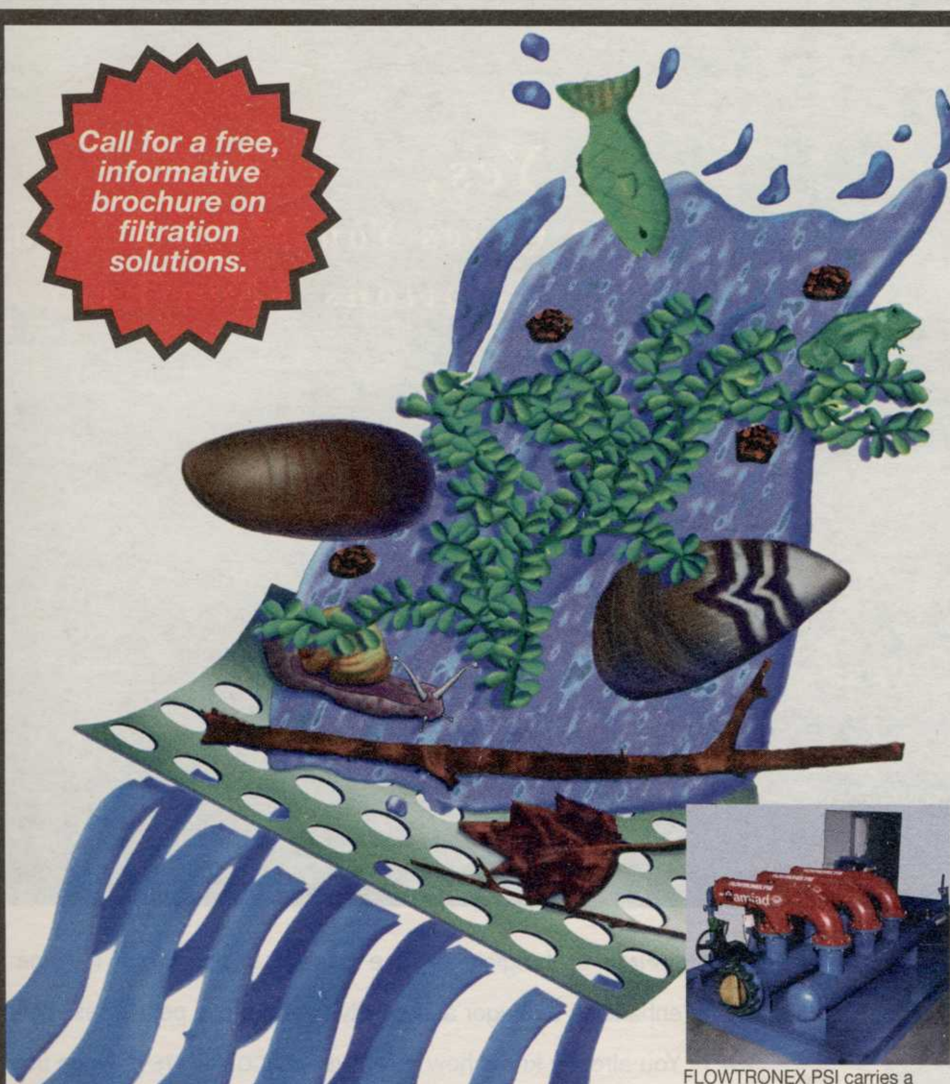
Bud Leedom is publisher of Golf Insight & Investing, *a San Diego-based newsletter which covers the corporate and investment world.*



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CIRCLE #105

Phillips comment

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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.

Leedom comment

Continued from page 9

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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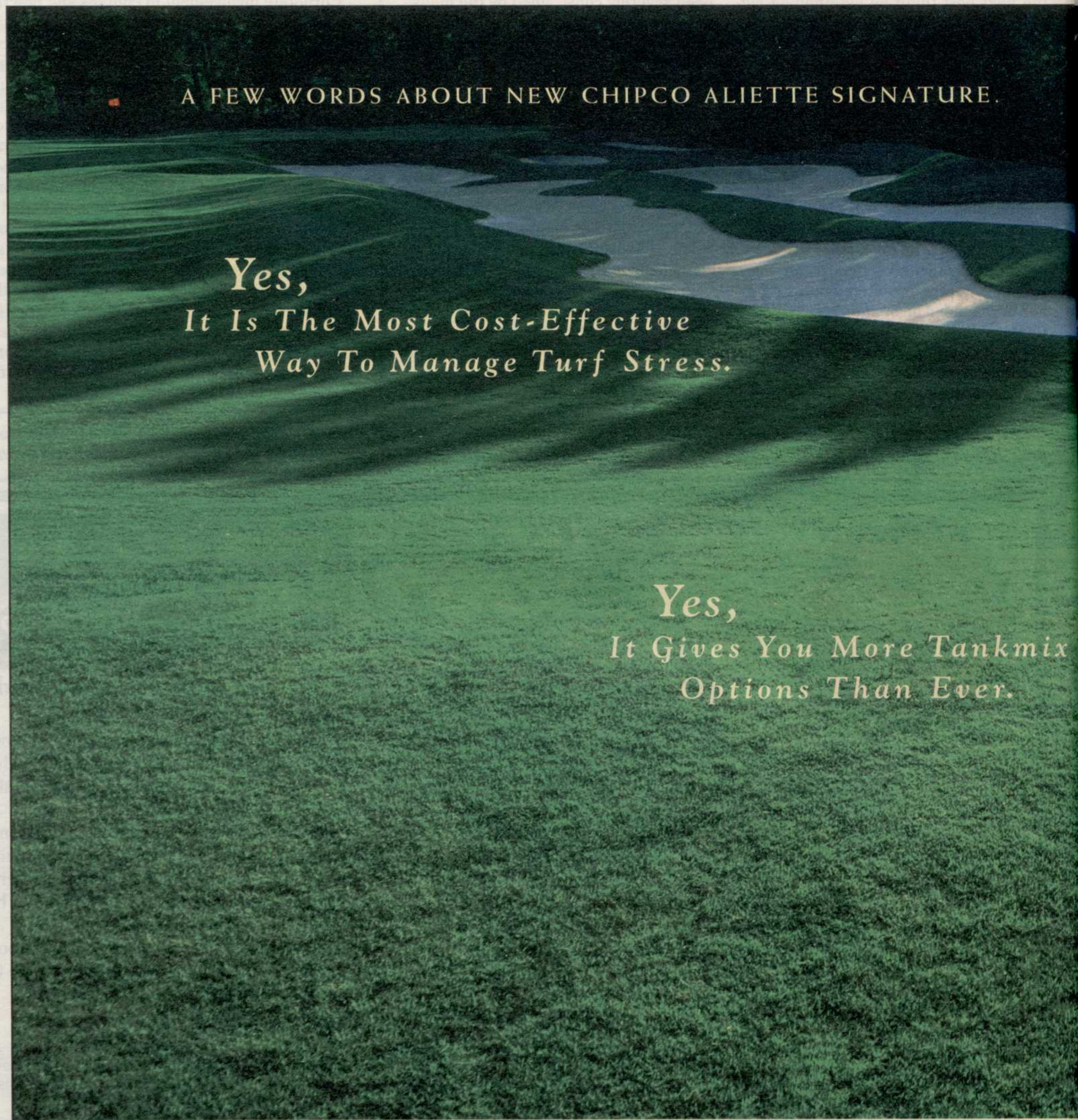

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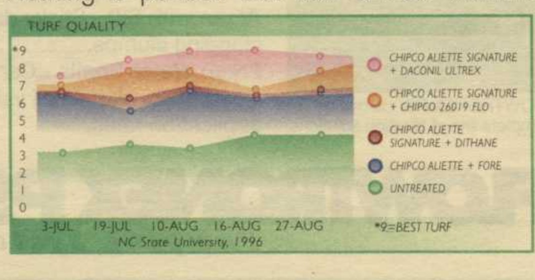

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March

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. **

12-13 — *Reinders 13th Turf Conference in Waukesha, Wis.* Contact Ed Devinger at 414-786-3301.

13-14 — *GCSAA Seminar on The Assistant Superintendent: Managing People and Jobs in St. Louis. **

18 — *USGA Green Section Regional Seminar in Hauppauge, N.Y.* Contact 908-234-2300.

18 — *GCSAA Seminar on Irrigation System Operation and Principles of Design in Washington, D.C. **

18 — *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 Lakewood, 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 Las Vegas.* Contact 908-234-2300.

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

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

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

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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 — *51st Annual Southeastern Turfgrass Conference in Tifton, Ga.* Contact Dr. Wayne Hanna at 912-386-3360.

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.*

Leedom comment

Continued from page 10

company alternates play on its two courses between private members and public-fee golfers. New course development interest is also coming from resort operations that seek to offset the seasonality of such sports as skiing.

Among publicly-traded companies, NGP led in 1996 with a solid 38-percent gain in share price in addition to its 6-percent dividend yield. Golf Trust of America recently completed its own public stock offering and has become the second golf course real estate investment trust on the market. The company owns 10 courses scattered throughout the Southeast.

The recent hoopla in the golf real-estate sector has involved practice centers. The stunning success of Family Golf Centers [*GCN* September 1996], both business-wise and in the stock market led to the emergence of a host of competitors. Family Golf, the leader in golf practice center ownership with 33 facilities, has focused the attention of Wall Street into what has generally been an outer-fringe of the golf real estate market. The firm's refined strategy of bringing a consistent experience to the practice center business has made Family Golf the envy of the industry amidst the race to consolidate.

Several factors have given rise to the recent practice-center growth, such as the resurgence in the number of golfers to over 25 million as reported by the NGF; time constraints placed on many golfers; higher green fees; tighter golf course availability; and, most important, the growth potential of only 1,600 golf practice facilities compared to over 15,000 golf courses.

Another factor is access. Many observers feel the future of golf will rest on the ability of golf center operators to actually bring the game to the golfer. While business professionals do not have the time to play a round of golf during the week, a well situated golf practice center may entice a business golfer to spend an hour at the driving range. Look for operators to seek out these new locations in future practice center development.

Among the three publicly-traded practice-center operators, two completed public offerings in 1996. Golden Bear Golf, Inc., which completed its public offering in August 1996, is clearly going head-to-head with Family Golf. Family Golf was originally a licensee of the Golden Bear trade name to establish familiarity for its 'Golden Bear' Golf Centers. However, Golden Bear Golf, Inc. legally took back its rights to the Golden Bear name in order to use it for its own practice-center acquisition strategy. Golden Bear owns 12 practice centers and plans to acquire an additional 10 in 1997.

Family Golf completed a large secondary financing in 1996 that will enable the company to rapidly accelerate its acquisition activities. The smallest member of the group, MetroGolf, completed its public offering in October 1996. MetroGolf owns five golf facilities and plans a more restrained acquisition strategy. Senior Tour Players Development entered this market with its purchase of the Las Vegas Golf Center in November 1996. The practice center segment should remain the most active part of the golf real estate market in 1997. Lower costs of entry and largely untapped potential will dramatically increased activity in the years ahead.

NGP's stellar share price performance has kept interest high on Wall Street as evidenced by the successful launch of Golf Trust of America. Growing corporate involvement in the race to consolidate courses and practice centers, coupled with this ready pool of eager capital, will result in dramatic growth in the golf real-estate market over the next several years.

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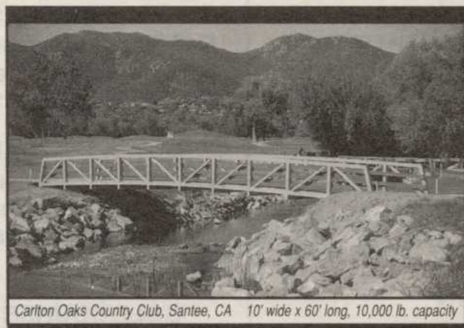

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