Maximizing your public golf assets

By BILL HUNSCHER

There's a courtship playing out in the golf business these days. There are some 2,200 municipally owned courses out there, and management companies want to operate them.

Why? Assuming an average of $900,000 in revenues per course, times the 2,220 municipal courses (give or take) that are still operated by cities, towns and counties, nearly $2 billion in potential revenue remains. Additionally, municipalities are leveraging the private sector to build new courses on public lands — further expanding the universe of potential business.

Across the country, municipalities are smartly seeking ways to enhance income and increase services from these courses, these "public assets." Cities and towns are beginning to recognize their golf courses as the commodities they've become. This article is intended to outline some of the issues, opportunities.

THE DOWNWARD SPIRAL

Many municipalities I talk with find their courses in what I call "The Downward Spiral." Because excess cash flow from municipal courses gets siphoned off into the general fund (in order to pay for various other, non-cash-generating public uses), municipal courses oftentimes have a great deal of deferred maintenance and/or equipment shortages.

Because of the deferred maintenance, the value delivered by the golf experience is not optimal — meaning resident resistance to rate increases is tremendous. This, in turn, "caps" revenues and, in an increasing expense environment, reduces economic return from the golf asset. This reduced economic return further reduces the funds available to improve the course, which further deteriorates the golf experience and economic return. And so on and so on...

By way of example, an article written by the Reason Public Policy Institute points out that "the federal government owns 300 golf courses which, when properly accounting for all costs, lose about $60 million per year."

At the same time that many municipally owned courses are deteriorating, the market for brand new, privately developed and/or renovated courses offering first-class golf experiences has never been more robust.

According to the National Golf Foundation, roughly 435 courses opened in 1997 with another 911 under construction — the highest total in more than 20 years of tracking golf course development. The point here: The bar is being raised across the country. When it comes to the golf experience, players expect more value for their dollar.

BREAKING THE CYCLE

I believe privatizing a public-owned golf facility is the most expedient way to break this downward spiral. For the right economic deal, a private company will invest significant amounts of its own capital and, in a very short timeframe, complete the deferred maintenance required to make the public course competitive.

Further, through guaranteed rent payments, a municipality's partnership with a private company is an effective way to insulate a municipality from the risks associated with the golf business, namely weather and increased competition.

So how does the private sector do it? The formula for success in the privatization process is fairly straightforward. First step: Invest the capital required to significantly improve the product. Second step: Increase rounds and revenues at the courses by marketing the heck out of these improvements, installing reservation systems and other "tricks of the trade." Third step: Rationalize the expense structure via proven operating systems, buying power across all areas of the business, and creating efficiencies with the labor pool.

THE ISSUES ASSOCIATED WITH PRIVATIZATION

The privatization process is by no means simple and requires a bit of courage on the part of public officials. It also requires a clear understanding of the issues and benefits — their communication to golfers (voters) in the community is vital. Some of the concerns that are typically raised?


Bill Hunscher

Loss of Jobs — In my experience, a public/private partnership can be crafted where no net job-loss occurs. This can be accomplished by the private operator hiring existing staff

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Bill Hunscher is senior vice president of corporate development at Arnold Palmer Golf Management Co. LLC. He lives and works in San Francisco.

Maximizing profits

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at the course, which is oftentimes a positive event for the workers as they are offered not only competitive compensation packages, but upward mobility within a growing golf management company.

Rate Increases — Probably the scariest thing for golfers. My response to this is simple: The golf course belongs to the citizens of the municipality and before any price increases take place, the new management company must earn them via dramatic increases in golf course quality, and therefore value.

Loss of Control — After all, the public golf course belongs to the citizens of the city. Why give the private operator free reign to do whatever he pleases with our asset?

The answer is simple: Municipalities must make sure there are tight controls and accountability regarding promises the operator makes and the quality levels at which the course is operated. Appoint a contract administrator and an advisory committee (comprised of golfers) to provide input and hold the operator's feet to the fire.

TYPES OF DEALS

Basically there are two types of deals that are structured between municipalities and private operators: management contracts and leases. Many municipal courses have been constructed with tax-exempt financing which limits the management contract to 5 years total with a 3-year "kick-out" provision. Recent Internal Revenue Service (IRS) regulations changed to provide for much longer-term deals (up to 15 years), provided a large part of the management company's fee is fixed.

For municipal contracts not constrained by tax-exempt financing regulations, a long-term lease structure is possible. Under a lease, the operator guarantees a fixed rent, typically with a sharing arrangement covering revenues and/or operating income. The long-term nature of the deal provides time for the operator to earn return on its investment, allowing for major capital and course improvements to affect resident satisfaction and revenues.

Whether a management contract or lease, the longer the term, the more incentive the operator has to "invest" in the property. In my experience, this generally begets a more successful public/private partnership.

KEY ELEMENTS

To close this article, I'd like to leave behind a few kernels of advice relative to the structuring of a request for proposal (RFP) and the ultimate selection of a course operator. With nearly 24 percent of the municipal courses already privatized, there are a number of well-constructed RFPs.

The common elements found in successful RFPs are (i) propose a fair deal, balancing the capital investment required with the financial return provided the private operator, (ii) clearly spell out the needs and requirements of the municipality as it relates to the base line of quality, service and investment expected, (iii) provide room for the proposers to use their experience and creativity to exceed your expectations (especially in this competitive environment), and (iv) hold the operator accountable for each and every commitment put forth during the proposal process — over-promising and under-delivering is the largest cause of failure of the privatization process.

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