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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