Municipal Golf — What's the Best Management Path? (Part Two)

In Part One of this series on municipal golf management strategies, we concluded by establishing this fact: Today, regardless of how golf operations were viewed in the past, municipalities are seeking to maximize financial performance and compete with an oversupply of competitive golf properties.

Today, there is additional political pressure to ensure that municipal golf courses do indeed represent the "highest and best use" of publicly owned land.

That's really where municipal golf finds itself in 2014. With privately held golf courses being shuttered in record numbers, and still more competition for golfers than ever before (an amazing irony), it's only natural that municipalities are looking at their golf operations with greater scrutiny. Indeed, privately held golf courses are closing their doors because those owners have assessed what the highest and best use is for those properties, and they've decided (in some cases) it's not golf! In other cases, it is golf — only with more prudent management or proper market positioning.

A decision on how and who should manage municipal golf facilities is not so simple. It must be carefully weighed, because while municipalities have options, there is no single way that is right for every facility. Each individual community has its own goals and objectives. Each individual golf market is different. Only when all these factors have been soberly and independently assessed — and reckoned in terms of the finances, the market and existing personnel skills — can an appropriate and effective decision be made.

In the first installment of this series, we looked at the pros and cons of two "in-house" management options:

Direct Management: Whereby the city engages its existing employees to manage the entire golf course operation, usually as part of the park and/or recreation department.

Indirect Management: Whereby the city hires experienced golf industry professionals (also, typically, as part of a park/rec department budget) to operate the golf course and report to the city manager.

Here in Part II, we will discuss the two major “outsource” options:

Private Management: Whereby the municipality retains a third-party, private management firm on a contract basis for an extended period (three years or more). In these cases, the third party and the municipality share revenues and costs, though often the third-party manager has revenue incentives built in.

Lease to Private Firm: Whereby the right to operate the golf course is leased entirely to a private firm or individual, which/who retains all the revenues and is responsible for the operating expenses in return for a rental payment, which often includes performance percentage rents.

Private Third-Party Management

This option has become very popular in recent years and has been an area of growth in the golf industry as many golf management firms add management contracts to their portfolios. Many municipalities have concluded that they need professional assistance to achieve revenue optimization, and there are a number of substantial and qualified firms in the marketplace seeking such assignments. The primary benefits of engaging a management firm — along with their high level of expertise and the number of experienced personnel in various disciplines — have been summarized by the National Golf Foundation, which recently concluded the following in response to this question: Why hire a golf management company?

- **Personnel Policies:** One of the most glaring areas separating municipal governments from private enterprise is in relation to personnel policies and costs. This is particularly true with regard to:
- **Benefits:** Municipalities typically offer rich benefits packages — far superior to what is normally considered “market” within the golf industry. This results in the municipality paying far more for labor and benefits than competing privately owned facilities.
- **Termination:** With most privately owned golf courses, if an employee is not productive, they are terminated — and often quickly. With government agency employees, it can be difficult to terminate unproductive employees.
- **Incentive:** With most municipal golf operations, where all the employees are employees of the municipality, often there are few or no incentives given to the managers or key staff members for superior performance. As a result, municipal golf managers often earn the same secure income regardless of the success, or lack of success, of the facility.

- **Marketing:** Most municipalities lack the marketing expertise critical to succeeding in today's highly competitive golf industry. Management firms have staff and expertise focused on marketing and the experience of knowing what works and what doesn't.
- **Procurement:** Municipalities are often constrained with mandated policies and lengthy procedures to purchase everything from daily supplies to large equipment needs. The management firms have large-volume purchasing relationships offering discounts that can be used to the facility's advantage.
- **Budget Constraints:** Sometimes budgetary problems in other departments can have an adverse effect on golf operations.
- **Slow Response:** Often, due to bureaucracy, decisions by government-owned and -managed golf courses are slow to respond to rapidly changing market conditions, especially when it comes to marketing decisions. The expertise and ability to make timely decisions of a qualified management firm is key to reacting effectively to the ever-evolving market.

Management fees can be significant. However, as indicated at the outset of this discussion, it is a very competitive market, and most management contracts contain performance incentives, which create effective public-private partnerships for municipal golf course operations. Additionally, most firms would argue they could either save the city an amount that exceeds their management fees, via efficiencies, or make it up in additional revenues created by their marketing expertise.

When considering private management firms, a municipality should know whom they'll be dealing with (a person) and what the firm's strengths and weaknesses are. Also, it's a good idea to find out where their other facilities are located, i.e., if any are competitive. Simply having other courses nearby can be a good thing or a bad thing. On the one hand, there's a potential conflict of interest as the firm may be forced to, at times, promote one course over another. On the other hand, proximal courses under a single management umbrella can procure bulk supplies (fertilizer, sand, hamburger patties) more cheaply. That's a substantial efficiency. All this needs to be evaluated based on the facts at hand — another argument for a third-party evaluator.

Leasing

Golf course leasing became popular in the 1990s with the advent of Real Estate Investment Trusts as an exit strategy, for some owners, and as a financing vehicle for others. This strategy proved to be ineffective in the long term, and when the bubble burst in the golf course market, around 2000–2002, many of these leases were "upside down," exacerbating the market problems.

For golf courses, the fundamental difference between leases and management contracts is who takes the risk. If a course is struggling, owners (in this case, municipalities) will often look to a lease as a bailout — though it's hard to find a lessee willing to assume that risk.

Leases, while still not as common as they are in other property-management scenarios, have become a little more common with golf properties, but they can be difficult to evaluate because of the limited size of the market and the varying elements involved in golf property leases.

Leasing has a distinct advantage for the lessor (owner) in that they receive a contractual payment for the right to operate the golf course, and in most cases a percentage of revenues or profits over and above a pre-established amount. The flip side is the risk that the lease will cut corners on costs, neglect the property, ultimately default and leave the owner with a big mess to clean up. Obviously, any municipality considering a lease needs to investigate potential lessees with great scrutiny.

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