Municipal Golf — What’s the Best Management Path?

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When things get dicey, the Chinese have a tongue-in-cheek saying that goes something like this: “We are fortunate to live in interesting times.” For communities operating publicly owned golf course facilities, these are indeed “interesting times.” The Tiger Woods phenomenon has come and gone, and many facilities are in need of replacing lost rounds from the “good old days.” At the same time, the course-building boom of 1988–2008 has created an oversupply of golf options. Yes, the number of courses that open each year is currently dwarfed by the number of those closing their doors for good, but the supply and demand situation will take either more time, increased play or both to reach a reasonable equilibrium.

Accordingly, it’s never been so difficult for cities, towns and park districts to compete for golfers and argue for the annual funding to operate what can be the most expensive line item in a municipality’s recreational budget, so it’s understandable that agencies are taking an ever-closer look at the way these golf operations are managed. They are wisely seeking the most economically viable option, and there are basically four possibilities available. This article will explore the basic advantages/disadvantages of the first two, while Part Two of this mini-series, coming next month, will assess the last two:

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.

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.

Before deciding which of these options is best, it is incumbent on any governmental entity to do its homework and learn as much as possible about the golf facility in question, its strengths and weaknesses, and where it fits into the local golfing market. Once a facility's specific challenges are identified, that will help determine a) which option might be the best fit, and b) how to proceed. This assessment process often involves retaining an independent third party who can objectively evaluate the property, its market or market position and location, and the current operation situation onsite. Such an analysis can include a market survey and market-positioning analysis, facilities analysis and operational review. It would also typically include a cash-flow analysis and an evaluation of capital improvements that may be required to enable the property's best performance.

More on the proper evaluation of your facility later. Without further ado, let's explore the first two management options in more detail:

Direct Management

Some communities see this as the least costly option, because they can often use existing employees and existing equipment, and also avoid time-consuming and sometimes costly bidding or hiring procedures. The strengths of this method are a) it can (sometimes, but not always) be less costly than the alternatives, and b) the municipality is already familiar with said employees. This is one reason third-party analysis of the golf operation is so vital: If the existing golf management team is efficient and is squeezing every last bit of revenue from a municipal course operation, why make a drastic change to an indirect-management approach, private management company or lease arrangement?

The greatest weakness? Those employees are not always properly trained in the various skill sets required to effectively manage a golf course — a fact that might have been true for a long time, but has nevertheless gone undetected by city managers. When we consider agronomy, food and beverage, retail merchandising, marketing and other golf course management skills, we see great specialization required. With more competition from all those new courses built in the last 20 years, the lack of these skills becomes more detrimental to the operation's bottom line. Like anything else, having the right skills is critical. Trying to operate a golf course without them degrades the potential of a golf property's performance.

Indirect Management

With this mode of management, the city reaches into the marketplace for skilled personnel and hires them as employees of the city, town or park district. This addresses the specialized-skill issue. Key personnel might include a qualified and experienced general manager, a certified golf course superintendent, a PGA golf professional, or a food and beverage manager. In some cases, these functions can be (and often are) consolidated into one or two employees, providing the city with experienced golf industry personnel who report to either the city manager or possibly the director of recreation and parks. I've seen multiple cases where an experienced GM can jumpstart a municipality's ability to drive revenue by better utilizing existing facilities, like the course (more corporate tournaments) and clubhouse (more weddings and functions).

The weakness of this approach is that the city assumes all the costs associated with additional employees (salaries, benefits, days off, etc.) and there's a possibility that golf course employees may be required to be union-affiliated, which carries with it a number of responsibilities and obligations.

The Direct and Indirect Management options are essentially in-house solutions, which contrast with Private Third-Party Management and Leasing, two outsource options I'll discuss in the next installment.

That said, regardless of the management path you choose, much depends on the current state of the golf course property and its existing management team. Due diligence is required, no matter which of the four paths a municipality might take.

The first question to be asked is the most basic: What are the municipality's goals for the facility? There was a time, when governments were in better financial condition, when golf courses were built or acquired as a recreational amenity to the community. In such cases, the stated goal was simply to have the facility support itself financially — profitability was not an issue. As local governments have become more fiscally stressed and many golf courses have experienced a decline in revenues, these facilities began losing money and putting further strain on their government managers, often becoming political "footballs" and attracting the ire of nongolfing taxpayers.

If the goals for the course were always to make a profit, then the course was likely administered differently all these years, depending on performance. Indeed, some of these facilities may have survived the recent recession either with small profits or by just breaking even.

Post-recession, it seems as though every community I speak with has established the goal of financial profitability and market returns. An example? Fewer municipal courses today offer deep discounts to local residents than they had previously.

If the goal is to maximize financial performance, the course must be run as a business — and that necessarily requires proper market positioning, operating with best practices, and sometimes (most importantly) being able to quickly and positively respond to taxpayers who want to ensure the golf course is being put to its “highest and best use.”

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