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Inside this issue:

Linking Up	pg. 1
Weatherproofing Golf Course Revenue	pg. 2
Legal Implications of Golf Course Conversions	Pg. 3
Dollars and Turf	pg. 3
Acquisition Opportunities	pg. 4
Practice Tee	pg. 6

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Linking Up

by Larry Hirsh

The policy and operations of the club shall be determined by a 15 member board of governors.” Such statements are typically found at the beginning of the governance section of the bylaws of many private clubs. Since the functions of boards sometimes vary from club to club, this article examines the practical functions along with the legal fiduciary obligations of the boards and the individual members.

In order to better understand what boards do, the list below of typical board functions should help:

- Establish rules as necessary from time to time
- Enforce rules
- Financial Planning and budgeting
- Strategic and Long Range Planning
- Establishing club programs
- Hire key management and staff
- Membership Admissions Club Policy

Sometimes, boards often perform other functions (like deciding what’s on the menu or administering rules during a club golf tournament) which is often seen as “micro-management” and from a practical standpoint can hinder the club’s success.

At a recent seminar I attended the segregation of responsibility between

a club’s board and its management was very succinctly described as the board having the responsibility of planning giving the management team the responsibility of operating. Unfortunately, this is not always the case. All too often, the board oversteps this boundary.



While it may seem trivial and sometimes ill-advised such a practice can also be in violation of a board’s responsibility to the club and its members. Not only does the board have a fiduciary obligation, but there are some in Congress who would like to make it law, as evidenced by the enactment of the Sarbanes-Oxley Act (SOX). Though focused on charitable organizations, accounting procedures and corporate governance, SOX shed light on governance issues related to private clubs that suggest a list of “Best Practices” including specific issues common to private clubs not always carried out in accordance with recommended “best practices”.

Of particular interest to us are the following best practices, as suggested by an article in Board Room Magazine:

“Do Long Range Planning” – This is an area of particular concern be-

(Continued on page 5)

Weatherproof Golf Course Revenue, by Jeff Hamlin

Many of April's professional golf tournaments were dominated by one player: the weather. Jackets were all the rage at the Masters at Augusta National, and not just the green ones. Players and spectators faced winds and freezing temperatures throughout the week.

In Orlando, during April's PGA Ginn Open, rain dominated the play. "We bring rain to places that have not had rain in years," said PGA caddy Tat Shiely. "We were going to do a 9 hole practice round Monday afternoon and just as we teed off, the skies opened up. We did our practice round on Tues-

Golf course owners are well aware of how rain, drought, heat and cold, can impact revenue and costs.

day and it poured. We actually had to come in for an hour, because of lightning."

Golf course owners are well aware of how rain, drought, heat and cold, can impact revenue and costs. It's not just during tournaments: year round, the weather causes rounds played to be above or below expected levels. That's why owners need a weather risk strategy, especially in areas impacted by climate changes.

San Francisco based WeatherBill, Inc. published a 2007 study analyzing historical weather data to determine changes and trends in

annual Golf Playable Days (GPD), defined as over 45 and under 105 degrees Fahrenheit and less than ¼" of rain. The study is based on 195 cities and 30 decades-worth of National Weather Service data.

"Warming temperature trends during January, February and March were the most impressive weather change we observed," says David Freidberg, CEO of WeatherBill. "Half the cities in our study showed significant increases in temperature, particularly in the Southeast and Southwest. Rainfall changes were more widespread across the year and across cities."

For the last decade, Fortune 100 companies have used Weather Contracts, not insurance, to protect their bottom lines from bad weather. Now companies of all sizes, like golf courses, have access to affordable, easy-to-use weather contracts developed by WeatherBill. Through the use of weather contracts any business can make annual revenues predictable, even when the weather is not.

How it works

A golf course in North Carolina might lose an average of \$5,000 of revenue every day between May 1 and September 30 when rainfall exceeds ½ an inch. Based on historical weather data, the course owner might expect to have ten days with at least ½ an inch of rain during the summer. To manage the risk of an unusually rainy year, the golf course owner could purchase a contract that pays \$5,000 every day beyond the tenth when rainfall exceeds ½ an inch. During an unusually rainy year, the

course would receive \$5,000 on the eleventh day of at least ½ inch of rain, another \$5,000 on the twelfth day and so on. During a year with 20 days of rainfall greater than ½ an inch, the course would receive payments totaling \$50,000. These payments would allow the course owner to meet revenue targets, even in a year with a record number of rainy days.

As opposed to insurance, weather contract payments are automatic and immediate. Contract buyers do not have to file claims or submit any paperwork to get paid. Payments are based solely on the occurrence of the specified weather event, not any proven financial loss, turning bad weather into good news for course owners.

Bad weather is the news

Global warming and climate change are making headlines. WeatherBill's data shows the Intergovernmental Panel on Climate Change's (IPCC) predictions for more frequent heat extremes, heavy precipitation and drought are already occurring in parts of the U.S. The data shows more rainfall between April and September in many cities in the East and Southeast, more drought in the West, and higher temperatures across the country.

(Continued on Page 4)

For the last decade, Fortune 100 companies have used Weather Contracts, not insurance, to protect their bottom lines from bad weather.

According to information gathered by the National Golf Foundation, last year 146 golf courses closed in the United States. There were a variety of reasons for the closures including reduced play, oversupply, and basic financial issues, but the primary reason for closures was to convert the property to residential or commercial development. Although the number of closures remains small as a percentage of the total number of courses, the value of open property in heavily developed areas will drive continued conversion of courses to new development.

Florida has more golf courses than any other state and there have been 45 closures in the past five years, or 3.7% of the total supply, according to the National Golf Foundation. While there have been more closures in Florida than in any other state there are several other states where closures as a percentage of total supply has been higher, such as Georgia and South Carolina. These are primarily the result of oversupply and need for open land in rapidly developing areas. Another trend in rapidly developing areas for which no statistics have been compiled is the partial conversion of golf course property into residential development. Often a golf course owner will be approached by a developer to convert a corner or sliver of property not utilized for the course. These partial conversions are a significant benefit to the course owner, providing needed revenue to maintain golf operations.

There are many legal issues associated with the full or partial conversion of courses to residential or commercial development. Almost all of these conversions require a rezoning or an amendment to the existing land use designation from open space, recreation, or agriculture to residential or commercial. The rezoning or amendment requires a public hearing, and provides an opportunity for objections by neighboring property owners who may have purchased their property specifically for access to the adjoining course or for the view afforded by being adjacent to the course. Almost all course conversions are contentious due to concern by neighboring property owners, particularly in areas where a golf course may be the last bit of green space in an otherwise heavily developed area.

Depending on the jurisdiction, issues raised in the rezoning or land use amendment process also include the effect on the road network from the intensification of land use. Many developed areas have roads which are heavily congested, and converting a 150-acre golf course into residential development will result in an increase in traffic on these already congested roads. Another issue often raised in conversions, including partial conversions, is the lack of school capacity for the proposed residential development. Neighbors already concerned about the lack of open space and view are typically incensed by the notion that new residences will be built and further burden existing overcrowded schools.

The rezoning process requires an interdisciplinary team of attorneys, environmental consultants, engineers, traffic consultants, planners and government relations consultants. The process typically takes well over a year, and will often involve litigation.

Duke Woodson, partner with Foley & Lardner LLP, heads the firm's environmental law practice in Florida. He is also a member of the Real Estate Practice and Golf & Resort Industry Team. He represents business and governmental clients throughout the state in environmental compliance and permitting matters. A significant portion of Mr. Woodson's practice now involves the sale of environmentally sensitive lands to government. These sales are on behalf of private clients and involve traditional real estate transactional work, as well as a governmental component in working with Water Management District or FDEP staff on acquisition issues. He has represented clients in the sale and purchase of over 85,000 acres of land with a value exceeding two hundred million dollars.

Where the Dollar Hits the Dirt — Water Woes

By Shaun Henry

From the emerald green images of Augusta National to the golden fescues of the British Open, public perception and water management go hand in hand. An increasing number of courses are straying from the old "Green is Good" theory. Education and expectation management are key to the acceptance of sometimes not-so-green golf courses. In fact, several clubs we have worked with recently adopted maintenance standards that state irrigation will be managed for playing conditions and turf health rather than for color alone.

Water can be both the lifeblood and the destroyer of golf turf – too little resulting in turf dormancy or death and too much causing a host of problems including diseases, algae, rooting problems, turf dependency and wet wilt, among others. Superintendents in hot humid regions walk a fine line balancing the water needs of golf turf while avoiding the detriments of excess moisture in extreme weather. Rain is often a welcome friend during droughty weather, but too much at the wrong time can be devastating to fine turf. It is often said that it is easier to apply water to a course than to remove it, making the point that you can never have too much drainage.



(Continued on Page 4)

Water Woes, *continued from page 3*

Water restrictions and availability plague many regions and individual courses. A water emergency plan should be developed well in advance of a water shortage and can include strategies for alternative water sources, a regulatory agency drought irrigation plan, foot and cart traffic control, modified mowing practices and a strategy for communication/PR with course patrons and media. Drought plan and communication resources are available from the Golf Course Superintendents Association of America (GCSAA) at: www.gcsaa.org/resources/links/drought.asp.

In addition to the environmental benefits of water conservation, the golf industry can gain from educating the golfing public that green is not always good, or at least not better. Any way you slice it, increased public acceptance of an occasional tinge of brown on the links is good for the environment, good for public relations, good for the turf, good for course conditions, good for the game and with any luck, good for the bottom line. That's "Where the Dollar Hits the Dirt."

Shaun Henry is a 13 year member of the GSSAA, former golf course superintendent and a staff appraiser-consultant with Golf Property Analysts



Is Pleased to Announce the Sale Of:

Alcoma Golf Club
Penn Hills, PA

To: **Alcoma Land Company, LLC**

GPA participated in the transaction as broker for the seller,
Alcoma Golf Club.

Acquisition Opportunities

Tanglewood Country Club – Cleveland, OH: Private club with 18-hole golf course, pro-shop, maintenance facility **\$3,200,000** (Clubhouse incl. for \$4,600,000)

Montclair CC –Prince William County, VA: 18-hole private golf course, clubhouse, a clubhouse structure **\$3,500,000.**

Under Contract

More information available on
www.golfprop.com/brokerage.

Interested parties may contact Larry Hirsh for more information at 800-775-2669.

Weatherproof, *continued from page 2*

On the surface, current weather trends look favorable for many U.S. golf courses. Average annual GPD are increasing in 95 cities.

“The average number of Golf Playable Days across the US is 268 a year,” says Freidberg. “In the West and South, given the extended season, the average golf course can expect 297 playable days a year versus the 226 days in the Northeast and Midwest.”

However average playable days are only part of the weather story. Weather predictability is also critical. WeatherBill's data shows that it will be harder to accurately forecast annual revenues for golf courses in 33 U.S. cities where the weather is becoming less predictable. Two of those cities are Augusta, Georgia and Orlando, Florida. Note to golf course owners in those cities: make the green jackets waterproof and make your bottom line weatherproof.

For more the full report on WeatherBill's study of the effects of climate change on golf playable days, please see www.weatherbill.com/golfstudy.

Jeff Hamlin is Director of Business Development at WeatherBill (www.weatherbill.com) in San Francisco, CA. Jeff has worked in the non-insurance weather risk market since its inception in the late 90's and is one of the world's leading authorities on use of weather contracts in managing weather related revenue risks. Jeff has been a guest speaker at conferences regarding weather risk management in the U.S., Europe, Japan, and Central America.

Club Boards, *continued from Page 1*

cause so many clubs (mine included) do not have either strategic or long range plans. It is my experience that this lack of planning is contributing to the challenges and in some case failures of many private clubs, especially those in smaller markets and those clubs considered “middle-market” clubs. In many cases member-controlled boards with frequent turnover simply become overwhelmed by the current problems at hand and forego long range planning in favor of simply paying the bills. As such, some clubs borrow money to fund operations, simply hoping for a turnaround but never plan how to do it. They continue to do the same things, expecting different results and get deeper and deeper into trouble because nobody wants to raise dues or assess members on “their watch”.

“Ensure Proper Use of the Club’s Assets” – Because there is often no long range planning, clubs fail to utilize their physical assets and infrastructure in the most beneficial (to the club) ways. This can entail failing to utilize existing facilities efficiently or the unwillingness to modify or add facilities in order to maintain or enhance the club’s image or market position. The best term for this is “Highest and Best Use”. This does not in any way suggest that all clubs with such an opportunity should sell to the next developer, however any club should take the necessary steps to understand their assets and should plan how they can best be used for the club’s long term future through capital improvements and the establishment of an appropriate fund for replacements

“Use of Outside Experts” – Many clubs are reluctant (because of the cost) to engage outside experts to assist in planning or decision-making. Such experts bring to the table, not only the experience of having seen a wide variety of similar problems (and solutions) but also emotionless objectivity that is impossible when board members are pondering decisions that will impact a club

that has become part of their way of life. Despite the typical high success and intelligence level of most club board members, their success did not occur from operating a club. Just like their clients and customers relied on their professional expertise, the board needs to rely on the professional expertise of not only their in-place management, but also when appropriate consultants specifically trained for and experienced in solving the wide variety of issues that confront clubs.

There are several other “best practices” and fiduciary responsibilities listed in Mr. Reilly’s article, but these seem to be the ones I come across most frequently in my practice.

Club boards have unique dynamics. They are usually made up of people who are successful in their chosen fields of endeavor and typically are very independent individuals. In some cases, board members choose to serve because of the potential social benefits or perceived business opportunities. In all cases, they want to do what’s best for the club, or at least their vision for the club. Some (as we all know) have their own agenda, which while usually borne of the highest integrity sometimes go contrary to what’s best for the overall club (including the club’s present and future members). Proper planning allows for consistency as boards change over time.

The “club culture” is changing. Husbands now share family responsibilities with their wives and often need *permission* to play golf. Research done by the McMahon Group indicates that only 15% of younger (under-50) members are “very satisfied” with their club and 75% are unhappy with their club’s family program. Given the board’s responsibility to plan, it is imperative that having the right people help ensures that this is done objectively and ensures that the board fulfills its legal and fiduciary obligations to the membership of the club.



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The Practice Tee

- ◆ **GE Capital Corp.** recently retained **GPA** to provide appraisal services for **four (4) “TPC” courses** located in **FL (2), NC and MI.**
- ◆ **GPA** has recently been retained by **First National of America** to provide a market value appraisal of the **Eagle Oaks GC** in **Monmouth County, NJ.**
- ◆ **Orion Bank** recently retained **GPA** to provide appraisal services in connection with **Thistle Golf Club** in **Calabash, NC**
- ◆ **Pocono Manor Investors** recently retained **GPA** to provide consulting services in connection with **Pocono Manor Golf Club and Resort** in **Monroe County, PA.**
- ◆ **Thomas Whittington, Esq.** recently retained **GPA** to provide appraisal services for the **Frog Hollow Golf Club** in **Middletown, DE.**
- ◆ **Bellwood Lake Partnership** recently retained **GPA** to provide appraisal services in connection with **Cascades of Texas Golf Club** in **Tyler, TX.**
- ◆ **Peak Resorts** recently retained **GPA** and our sister firm **SKI Property Analysts** to provide appraisal services for **Mount Snow and Attitash Ski Resorts** in **VT and NH.**