An alternative approach to municipal golf course management: the private, not-for-profit corporation

by Lynnie Cook

There are many private golf course management companies that have taken control of failing, or marginally successful, municipal golf course operations. These management companies, while skilled in turning around failing operations, have one indisputable objective.... profitability. And although there is nothing wrong with creating a profit, it is the direction, use and means of creating a profit that led to the formation of a new concept in golf course management...the private, not-for-profit corporation.

Baltimore, like many municipalities, had experienced financial and operational problems trying to manage its five golf courses. During the late 1970s and early 1980s, Baltimore lost more than $500,000 annually on the operation of its five municipal golf courses. The lack of profitability resulted in a reduction of the funds allocated to the golf courses by the City Council and Parks Department.

This reduction in funding resulted in the facilities falling into total disrepair. There was no money to replace worn carpet, to repair leaking roofs, to purchase seed and fertilizer, to control the spread of crabgrass, or to properly maintain vital mowing equipment.

Budget reductions also caused the playing conditions to deteriorate. The PGA and LPGA relocated two tour events, previously held on Baltimore City courses, to other cities. And, Baltimore's Pine Ridge Golf Course, which was one of the region's finest public facilities, was removed from Golf Digest's listing of top 100 courses.

Recognizing the problem, Baltimore's then Mayor William Donald Schaefer formed a committee to assess the golf course operation and to make appropriate recommendations. The committee was comprised of prominent business leaders, Baltimore City's director of Parks and Recreation and director of Golf Course Maintenance.

While the committee identified many operational problems that would require further attention, their report identified four major areas that attributed to the decline of the golf courses: 1) Lucrative contracts with the existing golf professionals; 2) Excessive labor budget 3) Insufficient funding of general expenses; and 4) the effects of politics on business decisions.

Different Management Options

Recognizing the need for a shift in management the committee assessed the various management options that could be used to correct the problems. The management alternatives included: 1) Existing, for-profit, management companies; 2) an Enterprise Fund; 3) a Revenue Authority; or 4) a Private, Not-for-Profit, Corporation, also known as a 501(c)3 corporation.

1. Private Management Companies: These companies have a proven track record in the management of golf courses. They bring experience and needed capital to the facilities. Unfortunately, the profits generated by a for-profit organization are divided three ways.... between the management company, taxes and the golf course. And, regardless of how the profits were divided, a large percentage of the money would ultimately leave the municipality.

2. Enterprise Fund: Creating this fund would allow the revenues from golf course operations to be channeled into a designated account for golf course operations. Unfortunately, while a designated account would allow the courses to identify golf course funds, funding procedures and approvals would remain in the hands of politicians. The City Council and Park Board would still control how, and when, the money would be used.

3. Revenue Authority: This authority is similar to an Enterprise Fund in that the money would go to a designated authority established to run specified operations. A revenue authority is a tax-exempt organization that can generate needed capital through tax-exempt bonds. Politics would be somewhat removed from the daily decision process, but never totally eliminated. Unfortunately, each board member for the authority is a political appointee and the authority may have more than one purpose. The golf courses may end up funding future recreation centers, softball fields, public pools and other activities not associated with golf.

4. Private, Not-For-Profit, Corporation: Although it had never been tried before, the committee viewed this approach as incorporating the best features of each of the methods listed above. * As a 501 (c)3 organization, the corporation is required to use all of the operating revenues on the golf course(s). * Because it is a local entity, revenues stay within the municipality.- * Local/on-site management can quickly

respond to problems. * Capital projects can be financed through private bank financing... no tax dollars are used. * All of the workers are employees of the corporation... not civil servants who may be members of different unions. * Once the board of directors has been established, future and/or additional board members are appointed by the existing board (unless appointments are otherwise provided for in the corporate by-laws). * No Politics * The corporation has only one purpose... to manage golf course operations on behalf of the citizens of the municipality.

The Committee's Paradigm

Although the committee saw the obvious benefits of managing the courses with a private not-for-profit organization, there were several issues that they needed to be addressed: 1) The new organization would not have any assets, 2) The fate of the existing golf course employees, and 3) Managing golf courses with a private, not-for-profit, organization had never been done before.

The committee addressed each of the issues as follows:

1. Assets: The initial funding came from the City in two forms: a direct loan and a line of credit. The mayor directed the City to provide the new company with a $125,000 bridge loan to cover all of its expenses during the first month of operation.

The City also made arrangements for the corporation to receive a $350,000 line of credit to purchase badly needed maintenance equipment. (The money would be paid back in installments over a five-year period.)

2. Existing Employees: While it was decided that the existing employees would be transferred to other positions within the City, they could apply for positions with the new company. Specifically, the new management agreement incorporated the following language; "...all personnel now employed by the City to work on the golf course properties shall remain City employees.

It is also understood that the Baltimore Municipal Golf Corporation (BMGC) may have need for the skills and talents of some of these persons and the City hereby authorizes BMGC to offer employment to City employees at such rates and on such conditions as BMGC shall choose. Such employees do not have to accept such an offer and, if not, will remain City employees."

3. New Concept: Although this management concept had never been put to the test

with golf courses, the Mayor was confident that Baltimore had the talent to manage the courses if they were removed from the control of politicians. He accepted the less-than-favorable newspaper articles, the negative comments by his director of Parks and Parks Board president, and moved forward with plans to create the nation's very first private, not-for-profit, golf course management company.

The Mayor Takes The Lead

Under criticism from the press, golfers and his own director of Parks and Recreation, Baltimore's then Mayor William Donald Schaefer, choose to accept the findings and recommendations of the committee and created the Baltimore Municipal Golf Corporation (BMGC).

The infrastructure of BMGC is typical of any organizational chart from a Fortune 500 company. The ten-member volunteer Board of Directors is composed of prominent business leaders, the president of the Park Board, and average golfers.

This blend of concerned citizens provides the corporation with strong business insight while staying in tune with the needs and desires of the customers. Having the president of the Park Board as a member of the Board of Directors provides direct contact to the mayor, who is kept abreast of BMGC's activities.

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The Board meets every month to review financial statements. The Board listens to reports from key administrative personnel (executive director, director of maintenance, director of golf, and the comptroller), who discuss the past month's accomplishments, problems, and look at proposals for the upcoming month.

The specific content of these monthly meetings is shared with everyone at BMGC. Monthly financial reports are also distributed to the individual golf course superintendent and head golf professional. These monthly statements provide both individual and corporate-wide financial data that are the staffs' tool for assessing their relationship to corporate goals.

To ensure that City officials are kept informed, BMGC sends them quarterly financial reports and an audited annual report. The annual reports are also available to any citizen upon request.

What Has The Nonprofit

Organization Accomplished?

Since its inception, BMGC has accomplished more than anyone thought possible. It turned around the floundering golf course operations that were losing over $500,000 annually, thus providing the City of Baltimore with over $5,000,000 in savings over the first 10 years of operation.

BMGC's Board has directed more than $4,200,000 in capital improvements. It should also be stressed that the capital improvements were made without using tax dollars or bond issues. Funding for operational expenses and capital purchases come from playing fees.

Aside from the purchase of new maintenance equipment at each facility, major expenditures have included roofs, air conditioning, carpet, bathrooms, computerized irrigation systems and pumping stations, upgrading of all facilities to accommodate individuals with disabilities, and construction of a new clubhouse and golf cart storage facility.

Well thought-out managerial decisions, programs and practices have made it possible for the citizens of Baltimore to enjoy the lowest greens fees in the Mid-Atlantic states. There have been no increases in the top greens fees since 1988.

In 1992, an activities fund was established to make it possible for Baltimore City youth to compete in regional and national competitions. BMGC contributes $225,000 per year to this fund that has benefited over 5,000 young people.

BMGC also remains committed to expanding one of its 18-hole facilities. The expansion will include an 18-hole golf course, a three-hole handicapped training facility plus an educational nature trail and field office.

City children continue to enjoy summer golf camps, tournament programs, and on-course instruction throughout the year. A yearly tournament series provides a wide variety of golfing competition for all levels of individual and team players, in formats that would otherwise be unavailable to the public golfer.

Its management concept was so creative, that BMGC became the first recipient of the Reilly Award, presented in a national competition to determine the best idea for change in parks and recreation. It has also received recognition from the National Golf Foundation, The United States Golf Association, The American Therapeutic Recreation Association, conservation groups, the national press, and local news media.

BMGC has also had two of its courses rated among the top ten public facilities in a tri-state area. Above all, however, the concept has received the trust and admiration of the general public.

The private, not-for-profit format has proven to be an excellent solution for managing municipal golf courses. Its sound approach will work with any municipality, regardless of its economic or operational condition. However, the municipality must be truly interested in the betterment of its golf course(s) and it must allow the organization to function independently of local government.

In simple terms, the private, not-for-profit format works because it is operated and managed like a business. One that is sustained by the very people it is chartered to serve... the golfing public.

How Baltimore Chose

to Resolve its Problems

The text of the article indicated that the golf course assessment committee identified four major problems with the existing operation. Below is a brief summary of how Baltimore resolved those issues.

1. Contracts: The golf professionals' contracts allowed the pros to receive 100% of the revenue from the pro shop, food service and driving range. Furthermore, they received 80% of the revenue from golf cart rentals (while paying none of the expenses).

Resolution: The golf professionals became employees of the corporation. They receive a salary, bonus (based on performance), 100% of their lesson, club repair and club rental income, and, 50% of the pull cart revenue.

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2. Excessive Labor Budget: Wages had grown to 85% of the entire operating budget, while the industry average was approximately 57%.

There were 120 full-time workers and no seasonal/part-time workers. (This resulted in too many workers during the slow season and too few workers during the busy season.) The benefits package for these employees had grown to 50% of the labor budget.

There was excessive leave and overtime policies, and equipment repairs were conducted by an off-site central maintenance department that was slow, unreliable and expensive.

Resolution: The full-time staff was reduced to 65 workers that included five administrative personnel. The total staff was adjusted to the seasonal needs of the each facility. (During the busy season the total labor force might increase to over 300 workers.) The benefit package was reduced to 35% the labor budget.

These changes adjusted the percentage of money being allocated to labor from 85% to 56% of the operational budget.

3. Insufficient Funding: Under Parks and Recreation, all of the revenues received from golf course operations went into the General Fund. Yearly budgets and capital improvements required the approval of the Parks Department and City Council. Not only was there a decline in the money being allocated to the courses, it could take months or years to get approvals for capital projects.

Resolution: By forming a private, not-for-profit corporation, all of the revenue generated by the golf courses was used for the management and up-keep of the facilities.

The new board of directors oversees the facilities and meets every month to review financial reports, capital projects and operational/policy issues. The Board can quickly address any needs of the courses.

4. Political Influence: Crucial operating decisions that required immediate action were held up by multiple Park Board and City Council meetings. When decisions were made they were politically motivated.

Resolution: By creating a private, not-for-profit company, the organization would be free of bureaucratic red-tape as it implemented sound business principles. The Board of Directors and management staff, could concentrate on, and quickly address, the needs of the golfing public.

A Basic Outline For Creating

a 501(c)3 Corporation

If your municipality decides that it wants to create a private not-for-profit organization to manage its golf course(s), several legal issues need to be resolved: 1) Appointment of the Board of Directors, 2) Articles of incorporation, 3) Application for 501(c)-3 status with the IRS, 4) Corporate By-Laws and 5) the creation of a Contractual Agreement with the City.

1. Board of Directors: The Assessment Committee recommended a chairperson who, in turn, selected five Board members. The Mayor then appointed three Board members bringing the total to nine. The all-volunteer Board of Directors receives no compensation and/or reimbursement for their time, work and effort. The initial term of the Board Members was from one to three years. Subsequent appointments were for three years.

2. Articles of incorporation: In Maryland, this application is made to the Department of Assessments and Taxation. Its application identifies: * The name of the corporation, * The purpose of the organization, * How the corporation will be operated, * The powers of the corporation relative to section 501(c)-3 of the IRS code, * The corporation's address, * The fact that it is not authorized to issue stock, * The names of the Board members, and, * The process for the dissolution of the corporation

3. Application for 501(c)-3 Status: This application is made directly to the Department of the Treasury for the United States. The IRS responds with an advance determination letter indicating the preliminary tax exempt status under tax code 509(a)(2). The final determination is made when more information is available.

4. Corporate By-Laws: This document will describe, in more detail, the functions of the Board and Executive Staff. The information may include, but is not limited to: * Board Membership * Board Terms * Board Powers * Annual Meetings * Special Meetings * Notice of Meetings * Quorums * Indemnification * Executive Officers * Chairperson * Subordinate Officers * Compensation * Plus sections on Finance and Sundry

Provisions

5. Contractual Agreement: The success of the organization will be, in part, predicated on the terms and conditions provided in this document. It would be impossible to describe every condition that might be of importance to your particular situation, however, the contract should include: * The term * Payments (if any) * Identification of real property, personal property, fixtures, and existing inventory * Exclusions (i.e., specific roads, buildings, bodies of water, etc.) * The right to sublet certain operational areas (i.e., food service) * Assignments of contracts * Personnel * Fund Raising * Endowment Fund (i.e., a capital fund for course improvements, expansions and/or additions) * Municipal Funding * Financial Recording * Insurance and Indemnification * Damage or Destruction * Default * Termination