Agenda Report

May 7, 2008

TO: City Council Through Ed Tech

FROM: Rose Bowl Operating Company

SUBJECT: Brookside Golf Club Operations and Master Plan Update

RECOMMENDATION:

This is an information item only.

BACKGROUND:

Current U.S. Golf Business Financial Climate

Many articles have been written over the past few years regarding stagnant golf participation in the United States. The National Golf Foundation (NGF) has stated that the number of people playing golf has remained relatively flat over the past five years. Even though the number of individuals playing golf is stagnant, the number of rounds (18-hole/9-hole starts) played is down from 518 million in 2000 to just under 485 million in 2006. According to NGF statistics, the greatest growth of participation and rounds played during the past six-decades, were between 1990 and 2000. During the 90's, rounds grew nationally from 421 million in 1990 to the peak of 518 million in 2000. Over the past few decades, there have been periods of stagnant growth, but not as long as the current 8-year stagnation.

It should also be noted that for the past few years, the net growth of golf courses being built in the United States is at a six-decade low. Currently, there are approximately 16,000 golf facilities in the country and during the past five years the net growth of golf courses (openings minus closures) on an annual basis is less than 35. The largest net growth of golf courses in the country was between 1990 and 2000 (which mirrors the greatest growth of golf rounds played) when the annual net gain exceeded 250 per year. This growth was fueled by basically two items: 1) hundreds of residential projects across the country were being developed as golf course communities in order to sell real estate and 2) NGF's statement that we need to build a golf course a day for ten years to keep pace with the demand.

Golf experts state that the recent stagnation of the growth of golf can be contributed to individual's life style, specifically time. RBOC staff has spoken to numerous golfers that play Brookside, regarding their availability to play golf today versus ten years ago. The consensus is lack of time, especially on weekdays. It appears that individuals are working more hours now, than ever before, and as well as other responsibilities, such as family, keep them from playing.

Golf experts recognize this issue and have begun addressing it. Golf industry leaders, including the United States Golf Association, PGA of America, and PGA TOUR, have come together and developed the GOLF 20/20 program. This partnership has resulted in bold new programs to expand the number of golfers in our nation. With an eye to the future, a dedication to golf's growth, and a broad base of industry support, GOLF 20/20 will help create a solid foundation for expansion and vitality well into the 21st Century. The mission of GOLF 20/20 is to align the global golf community behind initiatives that address the future of golf in a strategic manner, with an emphasis on accelerating growth in participation and interest by creating new avenues of access to the game of golf. It should be noted that one of GOLF 20/20 initiatives is The First Tee and that The First Tee of Pasadena is one of the 203 chapters across the country. The First Tee facilities introduce golf to youth that have not had the chance to be exposed to the game and the life-long values associated with the game.

GOLF 20/20 2005 Golf Economy Report

Even though golf participation is stagnant and rounds have declined, golf revenues are up. Attached is *The 2005 Golf Economy Report* by SRI International, which was commissioned by GOLF 20/20. This Executive Summary describes the U.S. golf industry in the year 2005, including revenues and economic impact generated, and compares these estimates to the year 2000. As mentioned earlier, golf participation has been stagnant the past few years, but the U.S. economy is up. It is estimated that the 2005 U.S. golf economy accounted for $76 billion worth of goods and services in 2005, up from $62 billion in 2000. Also, golf facility operations, alone, produced $28 billion in 2005, up from $20.5 billion in 2000. The report is promising in lieu of the stagnation of golf participation. It should also be noted, that according to U.S. Census data, the $76 billion golf economy is larger than the motion picture and video industries and that revenues generated from golf facility operations exceed that of all other professional and semi-professional spectator sports combine. Golf generates more than $3.5 billion annually for charities across the country.

Brookside Golf Operations continues to flourish

Brookside Golf Club has experienced a decline in rounds, from 2000 to 2005 which has been the case throughout the country during the same time frame. Even though there has been a decline in the rounds played at Brookside (6% decrease, 2005 versus 2000), revenues continue to increase. In 2007, Brookside reported approximately 140,000 rounds played while revenues were at an all time high. Below is a chart comparing Brookside rounds versus national rounds from 2000 through 2005.

	2000	2001	2002	2003	2004	2005
Brookside (36-holes)	153,141	157,833	160,236	151,471	145,086	144,332
National Avg. (18-holes)	36,333	35,610	34,118	33,378	33,019	32,666

It should be noted that the decrease in rounds is only reflected during the week. Weekend play is still in great demand, and players are turned away due to the limited availability of tee times. Over the past five years, Brookside has done a good job in improving the quality of our product which has helped drive revenues. During this same five year period, RBOC/City revenues have increased from $2,600,000 in 2002, to over $3,100,000 in 2007. This increase has been achieved through improving the golf experience at Brookside by investing over $3,000,000 in CIPs on the courses, improved course maintenance standards, and by increasing percentage rents received from AGC.

Although Brookside is not immune to the challenges that are facing the golf industry, including stagnant participation, increasing costs associated with the operations of a golf course, specifically utilities (water is the single largest expense, other than employee costs) and competition, Brookside continues to meet each challenge. AGC, which has met and exceeded the RBOC/City's expectations that were set in 1986, is profiting much less from the operation of the two courses, than they did a few years ago, due to rising expenses associated with operating the facility. AGC has informed staff this is the case at many of the other properties they operate for municipalities in Los Angeles County. A record number of golf course management companies have consolidated or gone out of business the past ten years due to rising costs associated with the operation of golf properties.

The following pages of this report will demonstrate how the City/RBOC has met Brookside's challenges in the past and will meet them in the future. Included is the historical operational summary of Brookside operations as well as the current 10-year Master Plan that will continue to keep Brookside one of the most financially successful municipal golf facilities in the country.

Brookside's History

The City of Pasadena (City) opened Brookside Golf Club (C.W. Koiner Course) in 1928. The second course, E.O.Nay Golf Course, was built in the mid 1940's. Both courses were designed by famed golf course architect William P. Bell. Over the years, Brookside has been considered among the finest municipal courses in the Southland. Brookside is proud to have hosted PGA TOUR events, such as the Pasadena Open in the early 1930's (Ben Hogan's first PGA TOUR start was in the Pasadena Open) and the 1968 Los Angeles Open. Other events hosted at Brookside include three LPGA TOUR events in the mid 1960's, as well as the 1974 National Publinx Championship. Brookside is also home to the 75 year-old Pasadena City Championship, which is one of the largest Amateur Championships in the Country.

When Brookside opened in 1928, the City maintained and operated the course. The food and beverage operation, as well as the golf shop operation, were concessioned out to golf professional and a restaurant operator. In the early 1980's, the City came to the conclusion that the courses needed substantial capital improvements (CIPs) in order to keep the facility competitive. Unfortunately, due to various reasons, Brookside was operating in the red and the City had limited funds, if any, to invest in the courses.

Many municipalities were facing similar financial issues with their golf courses in the 1980's. Municipalities found a solution and that was to have a professional golf management company operate their golf operations. Pasadena looked at various options and it was determined to have a golf operator assume day-to-day operations as well as make capital improvements.

American Golf Corporation (AGC) entered into Agreement Number 12,651 with the City for the exclusive right to operate and maintain the Brookside Golf Courses for a period of ten years, beginning February 1986, and ending January 1996. The agreement required AGC to invest $650,000 in CIPs. In the first year of AGC's operation of Brookside, AGC paid the City $650,000 in rent. The previous year, prior to AGC, the City lost $200,000 on the golf course operation. In one year, the City saw an $850,000 turn-round. This dramatic turn-around is attributed to AGC investing $650,000 in CIPs, as well as improved course conditions, improved customer service and AGC's expertise in marketing.

Six years later, in 1992, the City amended AGC's agreement by extending the term for an additional ten years to January 2006, with a five-year option, which shall expire on January 31, 2011. AGC exercised its five-year option and currently has approximately three years remaining on its lease agreement. Subsequently, AGC assumed the food and beverage operation at Brookside from the Arroyo Seco Food and Beverage Co. (they had been operating the food and beverage operation at Brookside since 1985) in September 2004, and that agreement shall also expire on the same date as AGC's golf course agreement in January 2011. Below are the two current agreement deal points for AGC's golf course operation and food and beverage operation. Also included are John Wells Golf Shop (JWGS) operation's current deal points. JWGS has operated the golf shop for the City/RBOC since 1980, and his agreement expires at the same time as AGC's two agreements. It should be noted that JWGS has been awarded "Top 100 Golf Shop in America" for the past 20 plus years. JWGS is one of only two municipal golf shops in the country that have been given this award for 20 plus years.

American Golf Corporation

Agreement No. 12,651 and Amendments (Golf Operation)

Agreement Summary: Operate and maintain the Brookside Golf Courses

Term of Agreement: February 1986 through January 2006 with a five year option through January 2011

Payment: AGC agrees to pay RBOC for the right, license and privilege of operating and maintaining the Golf Courses, a minimum yearly amount, by minimum monthly payments, or by a sum of percentages of annual gross receipts, whichever amount is greater.

Minimum Monthly	2007 - $1,300,000 @ $108,333 per month
Payments:	2008 - $1,350,000 @ $112,500 per month
(Remainder of Agreement)	2009 - $1,400,000 @ $116,666 per month
	2010 - $1,450,000 @ $120,833 per month
Percentage Rent	40% of golf carts, driving range, tournament fees and other income
Years 2007-2011:	30% of green fees
CIP Fund:	10% of green fees to help fund Arroyo Seco CIP
	4% of all gross revenues to be set-aside for golf course CIP

Total of Percentage Rent and CIPs $$ Years 2007-2011: 42.4% on all gross revenues derived from all golf course fees.

RBOC Event Parking: AGC is responsible for all direct expenses associated from any paid parking implemented on the golf courses. RBOC and AGC each receive 50% of gross revenues generated from the golf courses.

AGC Responsibility: AGC is responsible for all costs associated with operating and maintaining the golf courses including, but not limited to: personnel, material, supplies, equipment, tools, services, supervision and administration. In 1986, AGC was required to invest a minimum of $650,000 in CIPs on both courses.

RBOC Responsibility: RBOC to assist AGC in securing all permits or licenses in order to properly perform and fulfill AGC's obligations under the agreement. RBOC staff (Project Manager) shall be responsible to work with AGC to assure AGC obtains the full cooperation and assistance of the RBOC subject to the terms of the agreement.

American Golf Corporation

Operating Agreement 12,231 and Amendments (Food & Beverage Operation)

Agreement Summary: Operate, manage and maintain the restaurant and refreshment stands.

Term of Agreement: September 2004 through January 2011

Payment: AGC agrees to pay RBOC for the right, license and privilege of operating and maintaining the restaurant, a minimum yearly amount, or by a sum of percentages of annual gross receipts, whichever amount is greater.

Minimum Annual Payments 2007-2011: $425,000 annually.

Percentage Rent Years 2007-2011:

12 ½ % of gross receipts from restaurant/refreshment stands on non-Rose Bowl Event days.
15% of gross receipts from restaurant/refreshment stands on UCLA game days.
20% of gross receipts from restaurant/refreshment stands on Rose Bowl Game/National Championship Game Days.

CIP Fund: No CIP Fund

AGC Responsibility: AGC is responsible for all costs associated with operating and maintaining the Clubhouse (excluding Golf Shop) and refreshment stands. AGC shall pay for all utilities, building maintenance, maintenance of clubhouse grounds, and maintenance of equipment and furnishings, excluding the RBOC responsibilities.

RBOC Responsibility: RBOC shall maintain the outside of the Clubhouse and roof, and shall repair and maintain major plumbing and HVAC system, veranda and patios, exclusive of furniture. RBOC shall pay for all utilities associated with the operation of the HVAC system. RBOC shall pay for water. AGC to pay RBOC $1,000 monthly for Clubhouse landscape maintenance.

John R. Wells, Inc.

Agreement No. 12,603 and Amendments (Golf Shop Operation)

Agreement Summary: Operate and maintain Brookside Golf Shop and to provide instructional services.

Term of Agreement: February 1985 through January 2011

Payment: JWGS agrees to pay RBOC for the right, license and privilege of operating and maintaining the Golf Shop, 5% of all gross receipts, with no minimum annual payment.

Percentage Rent Years 2007-2010: 5% of all gross receipts, excluding instructional services and rentals.

JWGS Responsibility: JWGS is responsible for all costs associated with operating and maintaining the golf shop including, but not limited to: personnel, material, supplies, equipment, tools, services, supervision and administration.

RBOC Responsibility: RBOC shall maintain the outside of the Clubhouse and roof, and shall repair and maintain the plumbing and HVAC system, veranda and patios, exclusive of furniture.

Over the past twenty-two years AGC, which is one of the oldest and by far largest golf course operator in the country, has done a tremendous job in operating the courses at Brookside. Not only have revenues increased dramatically, the golf experience has greatly improved. Concurrently, since assuming the restaurant lease in 2004, AGC has greatly improved the food and beverage operations as well as increased revenues. It is anticipated that in FY 2008, AGC will pay the RBOC and City over $3,000,000 in rent and capital improvement revenues from the golf courses and food and beverage operations at Brookside. It should be noted that in 1985, the last year the City operated Brookside, the courses operated Brookside at a loss of approximately $200,000 annually. It is anticipated that by the end of AGC's agreement in 2011, AGC will have paid the City and RBOC in excess of $40,000,000 for the rights to operate the Brookside Golf Courses. In addition, the City/RBOC will have received another $10,000,000 from the food and beverage and golf shop concessions. Staff has been told by golf industry experts that Brookside is one of the most financially successful municipal golf operations in the country. Below is a chart showing RBOC rent and capital improvement revenues received from the operations at Brookside over the past 23 years:

Year	Golf Operations	Food & Beverage	Golf Shop
1985 City Operated	($-200,000)	$185,000	$ 52,000
1986 AGC Operated	$ 665,000	$189,000	$ 60,000
1987	$ 778,000	$208,000	$ 67,000
1988	$ 799,000	$219,000	$ 77,000
1989	$ 883,000	$227,000	$ 78,000
1990	$1,008,000	$245,000	$ 82,000
1991	$1,153,000	$258,000	$ 83,000
1992	$ 954,000	$331,000	$ 91,000
1993	$1,529,000	$309,000	$100,000
1994	$1,356,000	$321,000	$111,000
1995	$1,586,000	$270,000	$ 99,000
1996	$1,641,000	$270,000	$108,000
1997	$1,889,000	$306,000	$111,000
1998	$2,001,000	$306,000	$103,000
1999	$2,099,000	$362,000	$110,000
2000	$2,071,000	$392,000	$105,000
2001	$2,117,000	$375,000	$125,000
2002	$2,088,000	$391,000	$120,000
2003	$1,974,000	$375,000	$120,000
2004	$2,049,000	$375,000	$120,000
2005	$2,216,000	$400,000	$ 95,000
2006	$2,552,000	$400,000	$ 91,000
2007	$2,586,000	$425,000	$ 91,000
1986-2007	**$35,994,000**	**$6,954,000**	**$2,147,000**

AGC has approached staff regarding renewing its agreements with the RBOC. Although AGC's agreements will not expire for another 33 months, staff has begun discussions with AGC on possible extensions of agreements. During staff's discussions with AGC, staff is analyzing other municipal golf management agreements around the country in order to ensure that the RBOC is maximizing its revenues and operations at Brookside. Because the Golf Shop agreement with

John Wells, Inc. expires at the same time as AGC's agreements, staff is analyzing this contract as well.

As mentioned earlier in the report, AGC is the largest golf operator in the country, with over 175 golf facilities nationwide. Many of AGC's properties are on a lease basis, where they pay the landlord a percentage of revenues as well and cover all expenses. Other AGC properties are on a management contract, where the landlord pays all the expenses as well as pay AGC a management fee. The City/RBOC has a lease agreement with AGC. AGC pays the City/RBOC 42.4% on golf revenues and 12.5% on food and beverage revenues. These percentages are among the highest Percentage Rents in the golf industry. The City/RBOC has been very pleased with this lease agreement, as we assume minimum risk with such a high industry return. Staff believes that it is in the best interest of the golf courses, the RBOC and the City to continue negotiations with AGC to extend the agreement because AGC:

1) is headquartered locally,
2) is the largest and most financially sound golf course operator in the country, and
3) for over twenty years has been a strong financial partner to the City/RBOC.

Because of the challenges the golf industry faces today, the majority of golf course operators are operating courses on a management basis only and are unlikely to assume the risk of operating courses that they do not own.

Due to the financial success of Brookside, the golf facility played a key factor in funding past improvements at the Rose Bowl and will play a major role in the upcoming Rose Bowl Strategic Plan. Staff believes when the Strategic Plan has been approved, Brookside will be a substantial, if not the largest, financial component of the Plan

Brookside Master Plan

In 1999, the RBOC ratified and approved American Golf Corporation's (AGC) selection of John Harbottle III to perform architectural services for purposes of formulating a vision and plan for necessary restorations, capital improvements and upgrades (Master Plan) to the Brookside Golf Course. In 2001, the RBOC received an update on the Master Plan and directed staff to complete the Plan and to identify potential costs and funding sources. Staff and Mr. Harbottle completed a draft of the Master Plan in 2002, as well as costs associated with the renovation, along with current and future funding sources to complete the project. In December 2002, both the RBOC and the City Council approved the Brookside Golf Club Master Plan. The intention of the Master Plan was to not only improve the golfer's experience, but also keep Brookside competitive in today's golf market.

The Master Plan consists of a series of golf course improvements which develop course character, conditioning, strategy and playability. The Master Plan does not develop a new character at Brookside, but rather enhances the "classical character" which already exists. The Master Plan is a resource guide to future improvements to the courses and ensures all changes are well-thought out and in the overall best interests of the RBOC, golfers and surrounding community.

The goals of the Master Plan are to: 1) create an environment for optimum course conditioning, 2) enhance the classical strategy and character of the courses, 3) keep the courses enjoyable for the novice player, yet challenging to the experienced player without slowing playing conditions, and 4) improve current circulation through the course on Rose Bowl event days.

Below is the Master Plan Renovation Timeline and budget. The Master Plan budget is $8,065,000 over an eleven year period. Staff was cautious on recommending completing the Master Plan in a shorter time, for fear of impacting golf course revenues. It should be noted that only golf course revenues, not already earmarked for the Rose Bowl, are used for Brookside improvements.

BROOKSIDE MASTER PLAN

PROJECT YEAR	SCOPE OF WORK	BUDGET	STATUS
FYE 2003	New Central & Field Satellites Replace Mainline & Laterals North of Washington, Wiring, Heads and Irrigation Design Management	$1,675,000	Complete
FYE 2004	Renovate Practice Facility	$ 180,000	Complete
FYE 2005	Renovate Tees Course #2	$ 435,000	Complete
FYE 2006	Renovate Tees Course #1	$ 535,000	Complete
FYE 2008	Renovate Fairway Bunkers	$ 540,000	Complete
FYE 2009	Renovate/Re-turf Fairways	$ 560,000	Under review
FYE 2010	Renovate/Re-turf Fairways	$ 590,000	" "
FYE 2011	Renovate/Re-turf Fairways	$ 620,000	" "
January 31, 2011	**AGC & John Wells contracts expire**		
Feb. 2011 Dec. 2113	Renovate (36) Green Complexes	$2,600,000	
	Tree Maintenance	$ 260,000	
	Develop Short Game Facility	$ 70,000	
Total		**$8,065,000**	

Funding for all projects through FYE 2011 is as follows:

Source	Amount
1) AGC Settlement	$ 552,000
2) $1 Green Fee Set Aside Fund 1998-2003	$ 860,000
3) RBOC Retained Earnings	$ 338,000
4) RBOC 12% Rent from Concessionaires 2004-2011	$1,780,000
5) CALFED Grant	$ 90,000
6) 4% Golf Fee Set Aside Fund 2004-2011	$1,680,000
7) 10% Set Aside of Green Fees for Arroyo Seco CIP	$ 275,000
Total	**$5,575,000**

The cost to complete the projects from 2003, through 2011, is $5,135,000. Sufficient funds will be made available to fund these projects. The additional $2,490,000 that is needed to complete the remaining Master Plan from February 2011, through December 2013, is expected to be obtained from the Golf Course Operator who is awarded a new lease to operate Brookside in 2011.

Staff is pleased to say that the five projects, from FYE 2003, through FYE 2008, have been completed on time and within budget. In addition, the golfing public has been very pleased and receptive to the improvements to-date. It should also be noted, during this renovation period, revenues have increased dramatically, partially due to the improvements to the courses. In contrast, during this time period, the revenues at the majority of municipal golf courses in Los Angeles County have remained flat.

Proposed Master Plan Revision

Since the approval of the Brookside Master Plan in 2002 by the RBOC and City Council, the use of potable (drinking) water for use as irrigation has become an issue. Irrigation water is crucial in the maintenance of turf and landscape of a golf course. Not only has the cost of potable irrigation water increased significantly over the past five years, but its availability has been reduced significantly. Recently, due to the current draught conditions, City Council has approved a voluntary 10% reduction of the use of potable water for all users in Pasadena. Staff is fearful that in the future, potable water for use as irrigation could be limited or even eliminated due to the water crisis in California.

Staff is currently working with the City in finding alternative water sources for irrigation. Included is the feasibility of the use of reclaimed water as well as tunnel water. Tunnel water is the water that flows from the surrounding hills into the flood control channel. Staff is looking at ways to capture this water and use it for irrigation and filling the lakes on the golf courses.

Because of the possibility of a potable water shortage for irrigation in the future, staff is revising the Brookside Master Plan, which centers on a water conservation plan. Included in the revision is the feasibility use of an alternative water source (reclaimed and tunnel water) to irrigate the courses, the possibility of reducing irrigated turf, as well as the feasibility of using a draught tolerant grass that can be irrigated with reclaimed water. One project that we are recommending to delay implementation is the re-turfing of 36 fairways, as the water conservation plan may effect how we re-turf the fairways.

Staff would like to revise the current master plan to incorporate a water conservation plan which would include the possible use of an alternative water source for irrigation. Staff would like to present a revised Brookside Master Plan in the summer of 2008.

FISCAL IMPACT:

For calendar year 1986, AGC paid the City approximately $665,000 in rent and capital improvement revenues from the operation of Brookside. Twenty-one years later, for FY 2007, AGC paid the City/RBOC approximately $3,000,000 in rent and capital improvement revenues from Brookside's golf/food & beverage operations. It is anticipated that from February 1986, through January 2011, AGC shall pay the City/RBOC over $40,000,000 in rent and capital improvement revenues for the right to operate Brookside's golf/food & beverage operations. It should be noted that the City/RBOC will have received an additional $10,000,000 in rent revenues from the food and beverage and golf shop agreements during this time period.

The cost to complete Brookside's 11-year Master Plan is $8,065,000.
Revenues to fund this project are as follows:

Source	Amount
1) AGC Settlement	$ 552,000
2) $1 Green Fee Set Aside Fund 1998-2003	$ 860,000
3) RBOC Retained Earnings	$ 338,000
4) RBOC 12% Rent from Concessionaires 2004-2011	$1,780,000
5) CALFED Grant	$ 90,000
6) 4% Golf Fee Set Aside Fund 2004-2011	$1,680,000
7) 10% Set Aside of Green Fees for Arroyo Seco CIP	$ 275,000
8) Golf Course Operator Contribution for New Lease	$2,490,000
Total	**$8,065,000**

Projects completed to-date (FYE 2003-FYE 2008)	**$3,365,000**
Projects to be completed as part of current Master Plan	
A) Renovate (36) Green Complexes	$2,600,000
B) Fairway Re-turfing (under review)	$1,770,000
C) Tree Maintenance	$ 260,000
D) Develop Short Game Facility	$ 70,000
E) Water Conservation Plan	TBD
	$4,700.000

Respectfully submitted,

for William E. Thomson, President
Rose Bowl Operating Company

GOLF 2020

VISION FOR THE FUTURE

The 2005 Golf Economy Report

Executive Summary

OVERVIEW

Since its emergence as a major spectator sport in the 1920s, the game of golf has provided lifelong recreational opportunities and enjoyment for millions of people. Golf attracted nearly 40 million participants to golf facilities in 2005.[1] Since the first Golf Economy Report, the number of golf courses grew from approximately 15,000 in 2000 to more than 16,000 in 2005. Today, Tiger Woods remains one of America's most revered athletes and the golf industry is recovering from declines in revenue and participation following the "dot.com" bust in 2000 and the economic fallout from 9/11/2001.

Beyond its sport and recreational value, golf is at the heart of a major industry cluster that generates jobs, commerce, economic development, and tax revenues for communities throughout the country. **The U.S. golf economy accounted for $76 billion worth of goods and services in the year 2005.** This represents an average annual growth rate of 4.1 percent since 2000 ($62 billion),[2] and primarily reflects growth in golf facility revenues, real estate, and golf-related tourism. Golf industry growth over this five-year period stayed ahead of inflation, which averaged 2.5 percent per year from 2000. In addition, this report estimates that **golf generated a total economic impact of $195 billion in 2005, creating approximately 2 million jobs with wage income of $61 billion.**

This Executive Summary describes the U.S. golf industry in the year 2005, including the revenues and economic impact generated, and compares these estimates to the year 2000. It highlights changes in the golf industry in the five years from 2000 to 2005, and presents the performance of different golf industry segments. A more detailed description of data sources, estimation methodology, and industry segment estimates can be found in the complete *2005 Golf Economy Report* published by GOLF 20/20 and available at golf2020.com.

Delineation of the golf industry cluster and development of the corresponding analytical model were first undertaken in 2002. SRI and GOLF 20/20 worked with key golf industry stakeholders to forge a consistent industry measurement and reporting framework, which accounts for the myriad contributions of golf to the national economy. Since then, SRI, GOLF 20/20, and a number of state-level task forces have applied this methodology to the impact of golf on state economies.[3] This 2005 report updates the *2000 Golf Economy Report*[4] and includes improvements to the analytical model, based on SRI's experience with both national and state data sources in recent years. In addition, the *2005 Golf Economy Report* presents the direct, indirect, induced, and total economic impact of golf on the U.S. economy, which was not included in the 2000 estimate.

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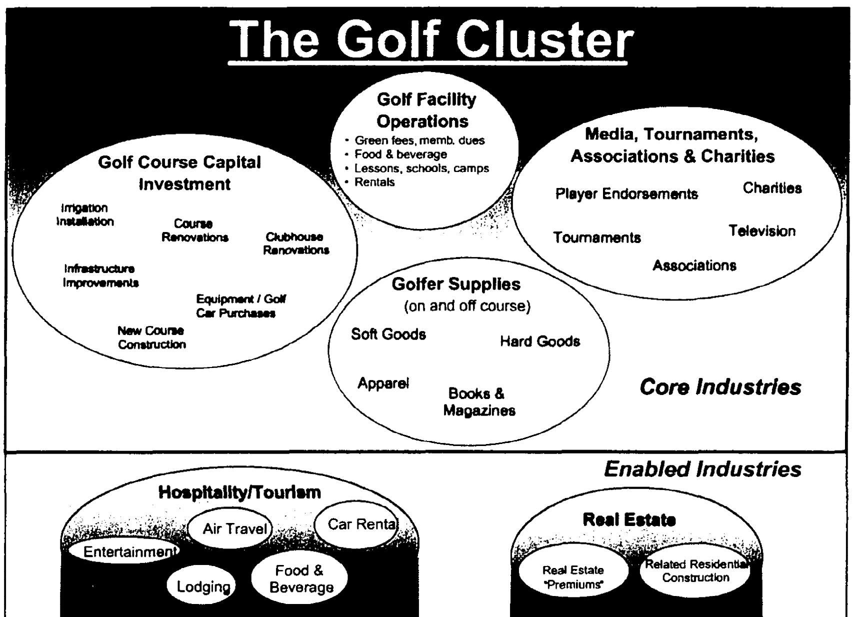
[1] National Golf Foundation (2007), *Golf Industry Report*, Volume 7, Second Quarter 2007.
[2] This is calculated using a compound average annual growth rate.
[3] State studies have been undertaken by SRI for Iowa, Louisiana, Massachusetts, Michigan, Minnesota, Ohio, Texas, and Virginia.
[4] SRI International (2002). *The Golf Economy Report*, http://www.golf2020.com/Reports/2020_GER_F.pdf

This report was researched and written by SRI International, commissioned by GOLF 20/20, and funded through support from the Allied Associations of Golf: The CMAA, GCSAA, LPGA, NGCOA, PGA of America, PGA TOUR and USGA.

ANALYTIC FRAMEWORK

The Golf Industry Cluster map pictured below illustrates the analytical framework employed to measure the comprehensive set of golf-driven industry components in the year 2000. This framework, with several improvements, is again applied to the analysis of golf in 2005.

To arrive at economic impact, we first estimated the size of the golf economy in the country, mapping out where the golf industry begins and ends, and then estimating the size of each of these industry segments. We divided the golf industry cluster into two main categories: (1) core industries and (2) enabled industries (see figure).



Source: SRI International (2002).

The golf industry cluster begins with the golf facilities themselves and with the other core industries that produce goods and services used to operate facilities and to play the game: golf equipment and golf apparel manufacturers, golf course architects, and club management services. The game of golf further enables a number of other industries, such as golf-related tourism and real estate development.

Having defined the core and enabled golf industries, it is possible to estimate the size of each industry segment and to total them for an overall estimate of the size of the golf economy. Multipliers can then be applied to calculate the ripple effects of these economic activities in terms of: (1) impact on total economic output and (2) impact on total employment. However, this process is complicated by the fact that, while most of these industries produce golf-related goods and services, many companies may not limit their activities exclusively to the golf industry. Therefore, in general, our approach is to include only those revenues that are directly attributable or linked to the game of golf. In so doing, we used a number of different estimation techniques to ensure that our final estimates are reasonable and robust.

THE 2005 GOLF ECONOMY

SRI estimates the total size of the national golf economy in 2005 was approximately $76 billion. This estimate is comprised of $43 billion in core industries and an additional $33 billion in enabled industries, as illustrated in the table below.[5]

The total U.S. golf economy grew by $13.8 billion over this five-year period, representing an average annual growth rate of 4.1 percent.[6] This compares to an average annual inflation growth rate of 2.5 percent from 2000-2005.[7]

Size of the U.S. Golf Economy by Industry Segment, 2000 and 2005 ($ million)

Golf Facility Operations	$20,496	$28,052
Golf Course Capital Investment	$7,812	$3,578
Golfer Supplies	$5,982	$6,151
Endorsements, Tournaments & Associations	$1,293	$1,682
Charities	$3,200	$3,501
Real Estate	$9,904	$14,973
Hospitality/Tourism	$13,480	$18,001
TOTAL GOLF ECONOMY	$62,167	$75,938

Note: Columns may not sum due to rounding of individual estimates.

From 2000 to 2005, U.S. golf economy growth was driven primarily by three industry segments: golf facility operations, golf-related real estate, and hospitality/tourism.

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[5] All figures, unless otherwise noted, have been adjusted to year 2005 dollars using the implicit GDP price index (sometimes known as the GDP deflator).

[6] This is calculated using a compound average annual growth rate.

[7] U.S. Bureau of Labor Statistics, Consumer Price Index, http://www.bls.gov/cpi/

In 2000, the size of the total golf economy was $62.2 billion. Facility revenues grew from $20.5 billion in 2000 to $28.1 billion by 2005. Tournament and association revenues also increased during this period, while golf course capital investment declined substantially—the result of a slowing rate of golf course construction during this period, as well as a changing economic landscape for operators which reduced average annual capital expenditures. In the enabled industries, golf community construction followed the national housing boom growing to $14.9 billion in 2005. Golf-related hospitality/tourism also exhibited strong growth, rebounding from the decline following 9/11 to reach $18 billion.

The size of the golf economy is significant and comparisons to other industries illustrate this point. It is larger than newspaper publishing, performing arts and spectator sports, and the motion picture and video industries.

Size of the U.S. Golf Economy in Comparison to Other Industries, 2005 ($ billion)	
Newspapers[1]	$50.1
Spectator sports and related industries[2]	$64.7
Motion pictures and videos[2]	$73.9
Golf	**$75.9**

Note: Revenues for comparison industries adjusted from 2004 dollars to 2005 dollars using the GDP deflator.
Source: [1] U.S. Census Bureau, "2004 Service Annual Survey, Information Sector Services," published December 2005; [2] U.S. Census Bureau, "2004 Service Annual Survey, Arts, Entertainment, and Recreation Services," published April 2006. "Spectator sports" includes all professional and semi-professional sports. Operating before a paying audience.

GOLF'S ECONOMIC IMPACT

Golf's impact on the U.S. economy includes both the direct effects of economic activity in the core and enabled golf industries, as well as the indirect and induced (or multiplier) effects on the overall economy. In economics, the idea of the multiplier is that changes in the level of economic activity in one industry impacts other industries throughout the economy. For example, a portion of each dollar spent at a golf course is spent by the course owner to purchase goods and services for the golf operation. The producers or these goods and services must, in turn, increase production—these are indirect effects. In addition, golf course employees spend a portion of their incomes on personal goods and services, and this requires companies in a myriad of other industries to hire employees and increase output to meet this demand—these are induced effects.

Therefore, golf's total economic impact includes both the employment and wage income of those employed in golf-related industries, as well as the employment and wages generated in other sectors of the economy through subsequent purchases of goods and services by golf industry employees.

Overall, in 2005, the $76 billion national golf economy generated:

- A total impact of $195 billion for the U.S. economy, including the indirect and induced economic impacts of the golf industry's activities.
- A total impact of 2 million jobs.
- Total wage income of $61 billion.

Multiplier Impacts on National Economy, 2005

Industry	Direct	Indirect	Induced	TOTAL OUTPUT ($ million)	TOTAL JOBS	TOTAL WAGE INCOME ($ million)
Golf Facility Operations	$28,052			$81,231	913,161	$25,932
Golf Course Capital Investment*	$3,578			$4,872	38,749	$1,498
Golfer Supplies**	$6,151			$7,126	71,149	$2,164
Endorsements, Tournaments & Associations	$1,682			$5,403	57,656	$1,871
Charities***	$3,501			-	-	-
Real Estate ****	$14,973			$39,933	317,570	$12,276
Hospitality/Tourism	$18,001			$56,549	668,120	$17,444
TOTAL	**$75,938**			**$195,115**	**2,066,404**	**$61,183**

Note: Some of the industry segments included in the direct economy calculations are excluded from the economic impact estimation, because they do not represent new economic activity or their inclusion would result in double-counting. Economic impact analysis is calculated on $63.2 billion of direct golf economy revenues. The following industry segments are excluded in the economic impact analysis: (1) *capital investment—only new golf course construction is included for this category since other types of golf facility capital investment are typically financed through facility revenues (and therefore not included because of double counting); (2) **golfer supplies—only the retail margin from the sale of golfer supplies is included in economic impact estimation, since the U.S. is a net importer of golf equipment and apparel; (3) ***charitable giving—this is a transfer of income rather than new economic activity; and (4) ****golf premium—this is a transfer or assets rather than new economic activity.

Golf Facility Operations

At the center of any golf economy lies the golf facilities—the largest component in terms of revenues. The revenue that flows through a golf facility comes primarily from greens fees, membership fees, range fees, golf car rentals, and associated spending on food and beverages. This revenue, in turn, supports a host of supply sectors including golf equipment manufacturers, food and beverage providers, and turfgrass equipment and maintenance service providers. The country's 16,052 golf courses, 1,900 stand-alone ranges, and 1,392 miniature golf facilities generated $28.1 billion in revenues in 2005.

Golf Facility Revenues in 2005 ($ millions)	
Golf Facilities	$26,957.9
Practice Ranges & Alternative Facilities	$1,094.3
TOTAL[1]	**$28,052.3**

Note: [1]Golf facility revenues exclude on-course merchandise sales, which are included in the Golfer Supplies industry segment. Column does not sum due to rounding.

Golf facility revenue is quite impressive on its own, but is even more so when compared to other popular sports. For example, all spectator sports, including baseball, basketball, football and hockey revenues, brought in $24.4 billion in 2005. The gaming industry had annual revenues of approximately $26.5 billion, and fitness and recreational sports centers had annual revenues of $16.8 billion in 2005.[8]

Golf Course Capital Investments

Every year, existing golf courses invest in renovating pro shops and clubhouses, improving greens and tees, repaving cart paths, and other improvements. Average facility capital investments declined substantially from 2000-2005 reflecting a changing economic landscape. SRI estimates that existing golf facilities made a total capital investment of $2.2 billion in 2005.

In addition to maintaining and renovating existing facilities, considerable investment is made each year in constructing new golf courses. Investment in golf course construction includes the costs of constructing the golf course, clubhouse, pro shop and maintenance buildings, as well as the initial outlay on equipment and course amenities.

In 2005, approximately 390 golf course construction projects were underway (268 new facilities and 122 major golf course expansion projects). These 390 projects represent a sharp decline from the 707 construction projects undertaken in 2000. New golf course construction has been in decline since 1998, reflecting a correction of golf course supply and demand. SRI estimates new golf course construction contributed $1.4 billion to the U.S. economy in 2005.

In total, golf course capital investments were $3.6 billion in 2005.

[8] U.S. Bureau of the Census, *2004 Annual Survey: Arts, Entertainment, and Recreation Services*, April 2006.

U.S. Golf Course Construction and Capital Investment in 2005 ($ millions)	
Existing Facility Capital Investment	$2,159.2
New Golf Course Construction	$1,418.8
TOTAL	$3,578.0

Note: Only the New Course Construction category is included in the economic impact analysis, because it represents new economic activity. Golf course capital investment is typically financed through golf facility revenues, so including both Golf Course Capital Investment and Golf Facility Operations in economic impact analysis would result in double-counting.

Golfer Supplies

In 2005, American golfers spent significant sums on items, such as golf balls, golf clubs, golf apparel, and golf books. The United States is home to a number of companies that manufacture golf equipment, golf apparel, and other golf-related products. The economic value that accrues to the U.S. economy comes from both the production and retail sales of such items. However, because the U.S. is a net importer of golfer supplies, we focus on the retail side of the picture at the national level.

In 2005, Americans spent $6.2 billion on golfer supplies. Of this amount, the largest proportion, or $3.7 billion, was spent on equipment, such as golf clubs, golf balls and golf bags. Americans purchased $1.5 billion worth of apparel, including popular polo shirts with golf-related brands (Ashworth, Cutter & Buck, Nike Golf, etc.) that are worn on and off the course. Golf magazines represented approximately $860 million of total purchases in 2005. These magazines range from large, general interest golf magazines, such as *Golf Digest* and *Golf World*, to regional and specialty magazines such as *Travel & Leisure Golf*. Finally, Americans spent approximately $65 million on golf books in 2005. These golf books include course guides, instructional books, golfer biographies—such as John Daly's *My Life In and Out of the Rough*—histories of the game, and other golf-related topics. In total, golfer supplies totaled $6.2 billion in 2005.[9]

[9] In calculating the economic impact of these retail sales, the economic multiplier is applied to the margin that the retailer makes from the sale of the golf product (i.e., the retailer's net revenues after covering the cost of purchasing the wholesale golf equipment or apparel from the manufacturer). The margin that U.S. retailers and golf facilities made on the sale of golfer supplies in 2005 totaled $2.5 billion.

Consumer Purchases of Golfer Supplies in 2005 ($ millions)	
Equipment	$3,724.4
Apparel	$1,500.5
Magazines	$860.8
Books	$65.2
TOTAL	**$6,150.9**

Note: This includes on-course and off-course purchases of golf equipment, apparel and media.
Endorsements, Tournaments, and Associations

Endorsements, Tournaments, and Associations

This portion of the golf cluster encompasses industries related to advertising and entertainment, where customers see golf as a source of entertainment—watching the U.S. Open on TV—as well as a participation sport. It includes major tournaments, industry and player associations, and endorsements of individual players. Total revenues for this industry segment reached $1.7 billion in 2005.

Tournaments

Major golf tournaments directed by the PGA of America, the PGA TOUR, the United States Golf Association (USGA), and the Ladies Professional Golf Association (LPGA) generated approximately $954 million in 2005. Tournament revenues include fees generated by selling broadcast rights to tournaments, corporate sponsorship of events, and spectator ticket sales and merchandise purchases.

Endorsements

Some golfers are themselves mini-advertising and product endorsement industries, often earning more off the golf course than on the golf course. Endorsement earnings can come from both golf-related industries (club and apparel manufacturers) as well as completely unrelated industries, such as food and automobiles. While golf superstars are the most visible of these endorsement recipients, many other professional golfers receive smaller sums for endorsing products. In total, SRI estimates that golfers received $265 million in 2005.

Associations

Numerous golf associations represent different segment of the industry in the United States (e.g., golf professionals, course owners, merchandisers, superintendents, etc.). These associations provide valuable services to their members, including updates on equipment and rules, personal job and retirement benefits, certifications, professional development assistance, referral services, and information. The major national-level associations, such as the PGA of America, the USGA, the Golf Course Superintendents Association of America (GCSAA), are represented at the state- or regional-level by chapters. In 2005, the aggregate size of these professional associations was approximately $464 million.[10]

Endorsements, Tournaments, and Associations in 2005 ($ millions)	
Major Tournaments	$953.7
Player Endorsements	$265.0
Associations	$463.6
TOTAL	**$1,682.3**

Charities

The U.S. golf industry makes substantial contributions to a variety of charities. Golf course owners, operators and golf professionals are happy to serve as access points for annual fundraising by local service organizations. Golfers pay fees to play charity golf tournaments at their local golf club or a neighboring facility, with proceeds going to local charities or local branches of national charitable foundations. Revenues accruing to golf courses have been included in the Golf Facilities segment above, and the portion going to charities is included here. Overall, SRI estimates that the amount of charitable giving attributed to the game of golf in the U.S. to be $3.5 billion in 2005.[11]

U.S. Golf-Related Charitable Giving in 2005 ($ millions)	
TOTAL	**$3,501.1**

Note: Charitable giving is not included in economic impact estimation, because it represents a transfer of income rather than new economic activity.

[10] A small number of associations (though representing a large share of economic impact) secure a large percentage of their revenues from professional golf tournaments. These tournament-related activities are included exclusively in the "Tournaments" section above.

[11] This estimate is derived from a national study based on the number of charitable golf outings held; the discounted fees, services and staff time for these events; as well as the charitable giving associated with professional golf tournaments. National Golf Foundation (2002). *The Charitable Impact Report*, November 2002.

Real Estate

Real estate developers are increasingly using golf to attract new home buyers to vacation properties and primary residences. Golf affects real estate on two fronts: golf community residential construction and the impact of the location of golf courses on home values. An estimated 63,840 golf course homes were constructed in 2005 at a total cost of $11.6 billion. Additionally, SRI estimates that new golf courses generated $3.3 billion in increased real estate value or premium (the premium is the additional amount a buyer is willing to pay for a home or property located on a golf course or within a golf community). In total, we estimate the total value of golf-related real estate to be approximately $14.9 billion in 2005. This represents a 51% increase in economic activity for golf-related real estate and is consistent with the historical peak of the housing market in 2005 in terms of units sold.

U.S. Golf-Related Real Estate in 2005 ($ millions)	
Golf-Related Residential Construction	$11,628.0
Realized Golf Premium	$3,345.4
TOTAL	**$14,973.4**

Note: The sale of existing homes is considered a transfer of assets rather than new economic output, so the golf premium that is realized in the sale of an existing home is not included in the economic impact analysis.

Hospitality/Tourism

Across the country, golf has enjoyed increasing popularity, whether it is the primary motivation for a trip or is connected to other recreational time spent with friends and family, or business colleagues. Golf resorts attract business meetings and vacationers, and golf is often a secondary activity for those visiting friends and family. Core golf enthusiasts follow professional golfers and thousands of fans attend major tournaments.

SRI estimates that approximately 39.8 million golf person trips were taken in 2005 with average golf tourism spending of $452 per person per trip. In total, golf-related travel expenditures amounted to an estimated $18.0 billion in 2005.

U.S. Golf-Related Travel Expenditures in 2005	
# Golf person trips (million)	39.8
Average travel $ per person per trip	$452
TOTAL ($ MILLIONS)	**$18,001.2**

CONCLUSIONS

- The game of golf is an industry in its own right, and contributes significantly to the U.S. economy.
- From 2000-2005, U.S. golf economy growth was 4.1% annually, slightly ahead of the inflation rate of 2.5%.
- Growth was driven primarily by facility operations, the impact of the national housing boom on golf-related real estate, and recovery in the tourism sector following 9/11/2001.
- Golf facility operations experienced gains driven primarily by higher revenues and also by a net gain in the number of courses.
- Golf economy growth was dampened by a slowing rate of golf course construction (representing a correction in the oversupply of courses) and significantly lower, average capital investment made by facilities in response to the changing economic landscape.
- Golf equipment and supplies sales remained relatively level over this period.
- As a $76 billion industry, the continued health and growth of the golf industry has a direct bearing on future jobs, commerce, economic development, and tax revenues for a large number of U.S. communities and industries.
- The total economic impact of golf on the economy of the United States in 2005 was $195 billion.
- The golf economy includes a total impact of 2 million jobs, and total wage income of $61 billion.