

July 1991

BUREAU OF
RECLAMATION

Federal Interests Not
Adequately Protected
in Land-Use
Agreements



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Resources, Community, and
Economic Development Division

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July 11, 1991

The Honorable George Miller
Chairman, Subcommittee on Water, Power, and
Offshore Energy Resources
Committee on Interior and Insular Affairs
House of Representatives

The Honorable Mike Synar
Chairman, Environment, Energy,
and Natural Resources Subcommittee
Committee on Government Operations
House of Representatives

This report responds to your requests that we review the Department of the Interior's Bureau of Reclamation land-use agreements with the city of Scottsdale, Arizona, to determine whether (1) the terms and conditions of the agreements are consistent with federal law and (2) the activities approved under the agreements are consistent with applicable agency policies and guidance. As agreed, we did not determine the legality of individual activities approved under the land-use agreements. In addition, you asked us to determine whether the potential exists for the Bureau to enter into similar agreements elsewhere.

Results in Brief

In two separate agreements, one in 1982 and the other in 1985, the Bureau transferred about 760 acres of its lands to the city of Scottsdale for 75 years for recreation development. The Bureau transferred these lands under the authority of the Federal Water Project Recreation Act, which is designed to promote the development of project lands and water areas in the public interest for recreation and fish and wildlife purposes. The terms and conditions of the land-use agreements between Scottsdale and the Bureau do not appear to be contrary to the act. Two major recreation facilities were developed on the Bureau lands—a combination equestrian center and theme park and a golf complex. The city subsequently leased these facilities to private commercial operators in exchange for a percentage of gross revenues. The operators of these facilities generated about \$24 million in gross revenues from 1988 through 1990, and the city was entitled to receive about \$1.5 million in compensation.

In the absence of comprehensive agency policies and guidance, local Bureau officials made key agreement decisions based on their own personal judgment. Specifically, local Bureau officials (1) agreed to the long-term use of these lands with no compensation to the federal government; (2) approved several commercial, for-profit activities, the type and scale of which are not usually found at public outdoor recreation sites on federal lands; (3) approved a reservation policy that grants priority access to a select group of facility users; and (4) allowed the private operators to set public-use fees without verifying the data used to set such fees. Furthermore, although the Bureau must approve development plans, it does not have adequate monitoring and oversight policies and procedures to ensure that the facilities are being developed and operated in accordance with the terms and conditions of the agreements. The Bureau has approved three other similar agreements in Arizona, and additional land-use agreements may be entered into under the act.

Until the Bureau develops policies and guidance on how to structure and administer these types of recreation agreements, the negotiation of any future agreements or approval of further development under signed agreements should be postponed.

Background

Each year millions of people visit federal recreation lands. Visitor accommodations and services on these lands are generally provided by private entrepreneurs under concession agreements entered into with the federal agencies responsible for administering the lands. In recent years attention has been focused on issues such as the quality of services provided to the public by concession operators, the fairness of the charges to the public for these services, the extent of concessioners' profits, and the fees paid to the government by these concessioners. We have recently testified and reported on some of these issues.¹

The Federal Water Project Recreation Act of 1965 (P.L. 89-72) gives the Bureau broad authority to make federal lands at water resource projects available to nonfederal public entities to promote the development of the lands in the public interest for recreation. Nonfederal entities are required to pay at least 50 percent of the cost to develop the recreation facilities and all operation, maintenance, and replacement expenses. The act does not, however, define what constitutes recreation. In addition, it

¹See *Recreation Concessioners Operating on Federal Lands* (GAO/T-RCED-91-16, Mar. 21, 1991) and *Federal Lands: Improvements Needed in Managing Concessioners* (GAO/RCED-91-163, June 11, 1991).

does not require the government to be compensated, nor does it preclude the government from being compensated, for the use of its lands. The act does, however, require that the Bureau approve the nonfederal public entities' recreation development plans.

Under this authority, the Bureau has entered into land-use agreements, which involve concession-type activities, for recreation use on some of its lands, including those in Scottsdale. The lands covered by the Scottsdale agreements were acquired by the Bureau during the 1970s at an average cost of about \$4,500 per acre. The lands are part of the flood control component of the Central Arizona Water Project. Under the agreements, the Bureau retains title to the property, and the lands may be used for recreation purposes only as long as they are maintained for their primary purpose of flood control.

The Bureau has 300 recreation areas located primarily in the western United States: 167 are managed by nonfederal public entities, and the remaining 133 are managed by the Bureau or other federal agencies. Generally, the areas are developed in conjunction with the construction of federal water projects and involve water-related recreation activities including marinas, picnic areas, and campgrounds. In 1989 private concession operators at the 133 recreation areas managed by the Bureau or other federal agencies generated about \$9 million in revenues, while compensating the Bureau about \$300,000. Although complete financial information for the 167 recreation areas managed by nonfederal entities is not available, in 1989 the operators of the two Scottsdale leases alone generated revenues of about \$8.2 million with no fee compensation to the Bureau.

The Equestrian Center and Theme Park Agreement

The 1982 agreement and subsequent amendments between the Bureau and the city of Scottsdale provided 361 acres of Bureau lands to develop an equestrian center and theme park. The city's original concept plan for the area was revised and approved by the Bureau in 1985 and again in 1988 to add additional nonequestrian attractions.

In 1986 the city leased the area to a private operator for operation and further development. The lease provided for phased development of the area. Development of phase one, the equestrian center, was funded primarily by the city. The development of phase two, consisting primarily of the theme park and other tourist attractions, is to be funded by private financing.

As of March 1991, the following facilities had been constructed under phase one:

- one covered multiuse arena with seating for 6,500 spectators and eight open arenas,
- two polo fields,
- 10 barns containing a total of 480 permanent horse stalls,
- utility hookups (water and electricity) to accommodate 400 recreational vehicles,
- a 10,000-square-foot facility for meetings and other large events,
- two administration buildings, and
- one restaurant.

Construction of phase two will proceed as private financing becomes available. Facilities planned for phase two include

- a “main street” with commercial shops for gifts, clothing, food and beverages, as well as veterinary and blacksmith services;
- a theme village center providing entertainment (shows, rides, and movies) as well as tours of the park;
- a village with a movie production studio, additional offices for park administration, and a gas station; and
- a cultural village with museum and educational facilities, a zoo, an 8,000-seat amphitheater, and lodging.

The Bureau also approved an arts and crafts bazaar to be open each Friday, Saturday, and Sunday in conjunction with equestrian events. The bazaar, with spaces for about 180 participants, was approved to operate on a trial basis until April 14, 1991.²

According to city officials, the city’s cost to construct phase one totaled about \$10 million, including about \$226,000 in federal funds. The private operator stated that an additional \$10 million to \$12 million has been spent for other capital improvements, operation and maintenance, and research and development. We could not, however, verify the private operator’s total investment. Neither the Bureau nor the city had any specific information concerning the investment, and the private operator declined our request for that information.

²On April 3, 1991, the Bureau denied the city’s request to extend operating the bazaar beyond April 14, 1991.

From 1988 through 1990, gross revenues totaled about \$3 million. The city's lease with the private operator provides that it receive 2 percent of gross receipts from all operations. Under these terms, the city received about \$58,000 in fee compensation. Appendix I provides additional details on the equestrian center and theme park.

The Golf Complex Agreement

The 1985 agreement between the Bureau and the city provided about 400 acres of Bureau lands to develop a golf complex. In anticipation of obtaining the lands from the Bureau, the city contracted with PGA Tour Investments, Incorporated (PGA-TI) in 1984 to manage and operate the complex.³ The golf complex began partial operations in December 1986 and became fully operational in August 1987. The complex includes two 18-hole courses: a championship course on which the annual Phoenix Open professional golf tournament is played (an event that attracts tens of thousands of visitors annually to the Scottsdale area) and a municipal course.

According to city officials, the total cost to construct the golf complex was about \$20 million, including about \$62,000 in federal funding. From 1988 through 1990 (the first 3 years of full operation), the golf complex generated more than \$21 million in gross revenues. About 60 percent of the revenues were from the golf courses; the remainder came from other operations, such as food, beverage, and merchandise sales. The city's lease with the private operator provides that it receive 10 percent of the golf course revenues and 2 percent of all other revenues. Under these terms, the city was entitled to receive about \$1.4 million in fee compensation. Appendix II provides additional information on the golf complex.

Agreements Not Contrary to Legislation, but Implementing Policies and Guidance Needed

In passing the Federal Water Project Recreation Act, the Congress gave the Bureau broad discretion to make its lands available under such terms and conditions that would best promote the development of the lands in the public interest for recreation. Our review of Scottsdale land-use agreements with the Bureau found that none of the terms and conditions, on their face, appear to contradict the requirements of the act.

The Bureau's "Water and Power Instructions" provide general guidance on the agreements; however, they do not provide any specific guidance

³The city contract is with the Tournament Players Club (TPC), a corporate subsidiary of PGA-TI. However, PGA-TI actually operates the golf complex. PGA-TI is a wholly owned subsidiary of PGA Tour, Inc., the professional golf organization that sanctions and cosponsors professional golf tournaments.

on such key matters as fee compensation to the government for the use of its lands or on the type of development that constitutes the appropriate promotion of recreation. The only specific condition contained in the Bureau's instructions is that the agreements should not exceed 50 years in length.

The Government Is Not Receiving Fee Compensation for the Use of Its Lands

The Federal Water Project Recreation Act does not require the Bureau to obtain revenues for the use of its lands, nor does it preclude the Bureau from doing so. In the absence of statutory guidance and agency policies and guidance, local Bureau officials concluded that it was appropriate for the government not to receive fee compensation for the use of Bureau lands since transferring the lands supports the Bureau's goal of providing such lands for recreation. Local officials believed it was more appropriate for the city to share in the revenues since the city, not the federal government, was funding most of the development costs.

Although the Bureau was not required to do so, seeking fee compensation for the use of federal lands is encouraged by other statutes as well as by the Office of Management and Budget (OMB). For example, the Independent Offices Appropriations Act of 1952 encourages agency heads to charge fees for the use of public resources. These fees are to be fair and based on the value of the service provided to the recipient. Furthermore, OMB Circular A-25 states that fair market value should be obtained when federally owned resources or property are leased or sold. Using this guidance, the Forest Service, for example, requires concessioners operating ski areas on Forest Service lands to pay a fee even though the Forest Service usually does not contribute to development costs of the ski areas. In 1989 the fees that ski area concessioners paid to the government averaged about 2 percent of their gross revenues.

Large, Commercial For-Profit Activities Approved

Lacking guidance on what constitutes appropriate development of lands in the public interest for recreation, local Bureau officials used their personal judgment when approving such plans. For example, at the equestrian center and theme park, the Bureau has approved—in concept—the development of a main street with commercial shops, a theme village center providing entertainment (shows, rides, and movies) and tours of the park, a movie production studio, a gas station, and an 8,000-seat amphitheater. These facilities will not be developed until private financing becomes available.

Several commercial, for-profit facilities—the type and scale of which are not usually found at public outdoor recreation sites on federal lands—have also been constructed. Bureau officials approved development of these facilities on the basis that they would support park events or serve as a draw for additional visitors to scheduled events. For example, a restaurant at the equestrian center and theme park was originally approved by the Bureau as a food service support facility with hours of operation in conjunction with park activities. However, because of staffing and other problems associated with operating a restaurant intermittently, the city—on behalf of the operator—received approval from the Bureau to open the restaurant even when there were no scheduled park activities. In March 1991 we found that the restaurant, which had an indoor seating capacity of 530 and an estimated outdoor seating capacity of 500, was operating daily as a full-service restaurant.

The Bureau also approved an arts and crafts bazaar with space for about 180 participants to operate each Friday, Saturday, and Sunday when other equestrian events were scheduled. The equestrian center and theme park operator entered into an agreement with a subcontractor to operate the bazaar. The subcontractor, in turn, rented spaces to the individual participants. The bazaar operated on a trial basis until April 14, 1991. While the bazaar was to operate in conjunction with equestrian events, we found that it frequently operated when no other events were scheduled. Items for sale included handbags, clothing, jewelry, hats, and a large variety of western and nonwestern merchandise. According to a Scottsdale city official, the bazaar was more of a retail outlet than an arts and crafts market.

Finally, in March 1991 a 10,000-square-foot meeting and event facility opened. The facility was designed to be used for dances, parties, and other large functions and has an estimated seating capacity of 600.

According to promotional materials distributed by the operator, the equestrian center and theme park can host “private, public, and corporate functions” for groups of 10 to 50,000 people, with convention facilities for corporate picnics, meetings, and barbecues. The promotional materials also invite potential customers to use their imagination in proposing an activity to be held in the park.

**Priority Access Granted to
a Select Group of Users**

Bureau instructions governing land-use agreements do not address the issue of public access. Without such instructions, local Bureau officials approved a reservation policy at the golf complex that limits public use.

The policy sets aside 20 percent of the tee times on each course on a priority basis for use by PGA Tour, Inc., or its designees. In turn, PGA Tour, Inc., has made a portion of its priority tee times (as much as 50 percent during the peak season) available to guests of the adjacent resort hotel.

According to local Bureau officials, the final agreement on an 80/20 split between tee times available to the general public on a first-come, first-served basis and those available to PGA Tour, Inc., and the hotel on a priority basis was a negotiated compromise between the Bureau, which wanted to minimize restrictions on public access, and PGA Tour, Inc., which wanted a greater percentage of tee times available for priority reservation. Bureau officials told us they had no formal agency policies or instructions to guide their negotiations, and in the absence of any such guidance, the 80/20 split seemed reasonable.

Although one city official conducts cursory spot checks of the golf tee time reservation sheets several times each year, neither the Bureau nor the city has established any oversight procedures to ensure that 80 percent of the tee times reserved for public use are in fact available on a first-come, first-served basis.

Public-Use Fees Set by Operator

Similarly, the Bureau has not developed guidance on establishing public-use fees for recreation activities on its lands. Without guidance, local Bureau officials required the golf course fees to be based on fees at comparable area courses. Fees at the championship course are determined by the private operator on the basis of fees at area private and resort courses, and fees at the municipal course are determined on the basis of those charged at other area municipal courses. The fees charged to play the courses are adjusted annually and vary, depending on the season of the year. Currently, the fee at the championship course is \$80 for one 18-hole round of golf during the peak season—including a mandatory golf cart. At the municipal course, the peak season fee is \$16 plus \$12 for a nonmandatory golf cart. Appendix II contains detailed information on golf fees.

Land-Use Agreements Are Not Adequately Monitored

Under the Federal Water Project Recreation Act, the Bureau is responsible for reviewing and approving development plans for the lands it makes available to promote recreation in the public interest. However, current Bureau policies and guidance do not set clear standards for adequate monitoring and oversight of land-use agreements to ensure that

facilities are being developed and managed in accordance with the approved plans. As a result, local Bureau officials are relying on the city to monitor the day-to-day activities of the private operators. The local Bureau officials believe that this arrangement is appropriate since the federal government has only a minimal financial investment in the facilities.

We also found that the Bureau is relying on information from nonfederal sources without independently verifying the data. For example, although fees at the golf complex are to be based on comparable courses, the Bureau has not independently determined that the courses selected by the private operator are actually the most appropriate for comparison or that the fees reported for the comparable courses are in fact the amounts charged. Instead, local Bureau officials rely on information provided by the operator and the city. The Bureau's agreements with the city do not preclude independent verification of the fees charged.

Similar Agreements Have Been Approved

The Federal Water Project Recreation Act authorizes the Bureau to enter into agreements to promote the development of land in the public interest for recreation. In addition to the two agreements with Scottsdale, we identified three similar agreements local Bureau officials negotiated with other nonfederal public entities in Arizona under the same authority. These agreements are with Maricopa County, for the use of 25,000 land and water acres; the city of Phoenix, for the use of 1,500 acres; and Pima County, for the use of 100 acres. Terms of the agreements range from 75 to 100 years, including renewal options. Recreation activities proposed for development on these lands include equestrian centers, golf courses, sports fields, community centers, hiking trails, picnic areas, and campgrounds. Two of the three agreements anticipate, but do not currently require, federal cost-sharing in developing the recreation facilities. The remaining agreement specifies federal cost-sharing up to \$8 million to develop the facilities. None of the agreements provide for the federal government to be compensated for the use of its lands.

According to Bureau headquarters officials, it is possible that additional land-use agreements will be entered into under the act. Because these agreements are negotiated at the regional or local level and centralized information is not maintained, headquarters officials were unable to tell us whether any other agreements were pending.

Conclusions

Concessioners operating on federal lands are generally required to compensate the government for the use of its lands. The Bureau is not being compensated for the use of its lands in Scottsdale because local Bureau officials decided no fee compensation was warranted under the agreements. However, the city of Scottsdale was entitled to receive about \$1.5 million in fee compensation from 1988 through 1990 under its leases with private commercial operators.

Without comprehensive agencywide policies and guidance on the terms and conditions of land-use agreements, local Bureau officials made decisions based on their personal judgment. These decisions included approving several commercial, for-profit activities, the type and scale of which are not usually found at public outdoor recreation sites on federal lands, and a reservation policy that restricts public use.

The Bureau has responsibility for ensuring that the terms and conditions of the agreements are complied with even when day-to-day management has been transferred to nonfederal public entities. This responsibility extends not only to ensuring compliance with the agreement terms and conditions but also to establishing adequate monitoring and oversight procedures during the life of the agreements. Without adequate guidance on monitoring and oversight, the Bureau has no assurance that federal interests are being adequately protected when local Bureau officials negotiate with nonfederal public entities for the use of Bureau lands.

It is possible that local Bureau officials will enter into similar agreements with other nonfederal public entities in the future. Without agency guidance, local Bureau officials will again have to rely on their personal judgment.

Recommendations to the Secretary of the Interior

In order to ensure that federal interests are adequately protected in any future agreements for the nonfederal use of Bureau lands for recreation, we recommend that the Secretary of the Interior direct the Commissioner of the Bureau of Reclamation to expeditiously establish policies and guidance on

- when and under what conditions (1) the government should be compensated for the use of Bureau lands, (2) public access restrictions are permissible, and (3) private operators should be allowed to establish public-use fees;

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- what constitutes the appropriate development of lands in the public interest for recreation; and
 - monitoring and oversight, including verification of limits placed on public-access restrictions and public-use fees established by private operators.

We also recommend that any future negotiation of agreements with non-federal public entities or any approval of further development under existing agreements be postponed until the Bureau has established and implemented the above policies and guidance.

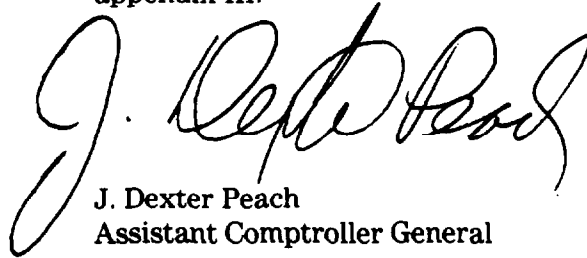
We performed our work at the Bureau's headquarters, regional, and Arizona Project offices, where we reviewed files and interviewed officials knowledgeable about applicable laws and regulations and the circumstances of the Scottsdale agreements. We documented available information on similar Bureau agreements in Arizona. We also reviewed pertinent city records and interviewed key representatives of the city of Scottsdale responsible for administering the two recreation areas, and we spoke with the on-site managers for the two private firms that operate the areas. We obtained additional information from a representative of PGA of America and reviewed fee information on Phoenix area golf courses published by the Arizona Golf Association.

Our review was conducted from July 1990 through May 1991 in accordance with generally accepted government auditing standards. As agreed with your offices, we did not obtain formal written agency comments on a draft of this report. We did, however, discuss the contents of this report with an Assistant Commissioner for the Bureau and with other officials from the Bureau's headquarters, regional, and Arizona Project offices. These officials generally agreed that the information presented was accurate.

Unless you publically announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to the appropriate congressional committees, the Secretary of the Interior, and the Commissioner of the Bureau of Reclamation. We will also make copies available to other interested parties upon request.

This work was performed under the direction of James Duffus III, Director, Natural Resources Management Issues, who may be reached on

(202) 275-7756. Other major contributors to this report are listed in appendix III.



J. Dexter Peach
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Abbreviations

OMB	Office of Management and Budget
PGA	Professional Golf Association
PGA-TI	PGA Tour Investments, Incorporated
RV	Recreational Vehicle
TPC	Tournament Players Club

The Equestrian Center and Theme Park

The equestrian center and theme park (the park) began as the replacement for an equestrian-oriented neighborhood park that was being displaced by expansion of Scottsdale's municipal airport. In 1981 Scottsdale prepared a master plan for the new park that included horse stables, equestrian arenas, horse jumping facilities, a clubhouse, a start point for extended trail rides to areas off the park, bicycle paths, picnic areas, and a park headquarters.

The park opened in 1983 with just one arena and a few other limited facilities. As planning for additional facilities advanced, the concept expanded to that of a "world-class, multi-use equestrian center and tourist destination recreation facility." A 1985 master plan for the park included expanded equestrian facilities and added a tourist destination area featuring a museum, restaurants, a fitness center, tennis courts, a swimming pool, and a camping area. In order to attract a greater variety of visitors to the park, the city revised the master plan in 1988 to add additional nonequestrian features, including

- a "main street" with commercial activities such as gift shops, clothing stores, food and beverage facilities, and veterinary and blacksmith services;
- a theme village center providing entertainment (shows, rides, and movies) and tours of the park;
- a village with a movie production studio, additional offices for park administration and limited support services for the convenience and safety of visitors (auto/recreational vehicle gas and service, etc.); and
- a cultural village with museum and educational facilities, a zoo, an 8000-seat amphitheater, and lodging.

The Bureau's analysis of the revised master plan concluded that it presented some unique but permissible uses of the lands and that it generally reflected the city's goal of having a world-class equestrian center and tourist recreation destination area.

Land-Use Agreement Between the Bureau and the City of Scottsdale

The 1982 Bureau agreement with the city transferred 132 acres to the city for construction of the park. When the city's development plans were expanded in 1985 to include tourist destination facilities, the city requested an additional 224 acres from the Bureau. A 1987 amendment transferred 5 additional acres, bringing the total acres leased to the city to 361.

The Bureau agreed to pay 50 percent of some of the park's development up to a maximum of about \$230,000, with the city being responsible for funding any additional costs beyond that amount. The agreement also requires the city to administer the park for "public outdoor recreational use" and to have any changes to the plan approved by the Bureau.

The agreement includes the following terms and conditions.

- The contract has an initial 50-year term with a 25-year renewal option, which was added in 1986.
- The city assumes responsibility for all operation, maintenance, and replacement expenses.
- The city is allowed to collect fees for entrance to the park and use of park facilities. The fees are to be used by the city to develop, operate, maintain, or improve the park.
- The city is permitted to enter into Bureau-approved, third-party agreements to develop, operate, maintain or improve the park for public recreation purposes.
- The Bureau has authority to monitor city management of the park, and Bureau approval is required for certain operational changes including increases in fee schedules and major design modifications. The Bureau does not have authority to directly monitor the activities of third-party operators.

Terms of the City's Lease With the Private Operator

In 1986 Scottsdale entered into a lease with the K-Lin Corporation to operate and further develop the park. The K-Lin Corporation was selected over one other competing firm.

The city's lease with the operator is for 50 years with a 25-year renewal option. The lease essentially required the city to fund construction of the equestrian center (phase one) and required the operator to fund development of the nonequestrian facilities (phase two). Under the lease, the city receives 2 percent of gross receipts from all park operations. The lease directs the operator to keep accurate financial records, which are to be available for inspection by the city or its authorized representatives. Any increases in fees must be approved by the city and the Bureau. The lease also provides that

- the private operator may sublet or subcontract with other entities to provide services,
- the facilities must be available to the general public on an equal basis upon payment of applicable fees, and

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- the private operator be allowed to use an advance reservation system for assigning priority in the use of park facilities.

Capital Investment

According to city officials, the city had spent about \$10 million to develop the park through December 1990, including about \$226,000 received from the Bureau. The city raised its portion of the development funds through the sale of revenue bonds. City payments to retire the bond debt will be about \$1.1 million annually until the year 2005. In addition to \$10 million of city and federal funds that have been spent, the private operator maintains that an additional \$10 to \$12 million has been spent for capital improvements, operation and maintenance, and research and development at the park. While the lease authorizes the city to inspect the operator's financial records, neither the Bureau nor the city had any specific information concerning the private operator's investment in the park, and the private operator declined our request for that information.

Operations and Public Use

At the time of our review, phase one, the equestrian center, was in operation. Permanent phase-one facilities include

- one covered multiuse arena with seating for 6,500 spectators, and eight open arenas,
- two polo fields,
- 10 barns containing a total of 480 permanent horse stalls,
- utility hookups (electricity and water) to accommodate 400 recreational vehicles,
- a 10,000-square-foot facility for meetings and other large events,
- two administration buildings, and
- one restaurant.

In addition, some temporary horse stalls and other nonpermanent facilities have been installed at the park to support activities. Construction of phase two has not begun and there is no formal schedule for its development.

The park facilities are available for reservation by any group, association, or individual on a first-come, first-served basis; they may be reserved up to 1 year before the planned event. Those contracting to use facilities annually for 3 or more days are allowed to make preliminary arrangements 3 years in advance. Following satisfactory completion of each annual event, reservations for the following year may be finalized.

Most of the operator's efforts since taking over management of the park have been directed toward promoting the existing facilities and initiating revenue generating activities. Promotional materials distributed by the operator state that the park specializes in hosting "private, public, and corporate functions" for groups of 10 to 50,000 people, with convention facilities for corporate picnics, meetings, and barbecues. The types of activities advertised in the promotional materials include rodeo events, horseback riding, hayrides, polo, picnics, horseshows, desert steak fries, auto auctions, dog shows, sporting events, concerts, charity events, and theme parties. The promotional materials also invite potential customers to use their imagination in proposing an activity to be held in the park.

The two largest events hosted by the park each year are the Scottsdale Annual Arabian Horse Show and the Barrett-Jackson Auto Auction (a nationally-televised auction of classic and specialty automobiles). According to the operator, each event draws 80,000 to 100,000 visitors annually. A variety of other events were scheduled during 1990, including polo matches, horse shows and other equestrian competitions, rodeo practice and instruction, a dog show, a bicycling event, and performances by a major touring circus. Events generally occurred on weekends and lasted from several hours to several days.

The operator entered into agreements with two subcontractors to use the park's facilities for commercial operations: a horse rental concession that operates daily and an arts and crafts bazaar that rented up to 180 retail spaces each Friday, Saturday, and Sunday. The bazaar was approved by the Bureau to operate on a trial basis until April 14, 1991.

Finally, the operator proposed and/or initiated a variety of other activities at the park intended to increase revenues.

- In January 1990 the operator requested permission from the Bureau and the city to offer long-term parking of recreational vehicles (RV) for up to 8 months. The RV area is intended to support visitors attending park events. The private operator stated that numerous patients at the Mayo Clinic in Phoenix had expressed an interest in using the RV facilities while in the area for treatment. The Bureau denied the request for long-term parking, citing the federal policy that limits stays at federal campsites to 14 days.
- In December 1990 the operator opened a large full-service restaurant that was originally intended to have hours of operation in conjunction with scheduled events. Because of staffing problems associated with

operating a restaurant intermittently, the operator—through the city—requested (and the Bureau approved) the restaurant's opening on a daily basis.

- The operator is planning to construct an amphitheater to host musical events and other cultural events that would accommodate about 8,000 spectators. Both the Bureau and the city have given conceptual approval to the project.

Fees charged the public for use of the park facilities are to be based on fees at comparable facilities. According to the operator, some of the fees are based on charges at equestrian facilities in other parts of the country because comparable facilities do not exist in the Scottsdale area. The initial fees that were established at the time the private operator assumed management have not changed because the operator believes the market would not support an increase.

Admission to many events is free. However, our review of scheduled events with admission fees showed charges ranging from as little as 50 cents to as much as \$17.00.

Revenue From Operations

The city's lease with the private operator requires that the city receive 2 percent of the gross receipts from all park operations. According to quarterly reports prepared by the operator, total park revenues for the 3-year period 1988 through 1990 totaled about \$3 million, and the city received about \$58,000 as its revenue share.

The Golf Complex

The golf complex includes two 18-hole golf courses: the championship (Stadium) course, on which the annual Phoenix Open professional golf tournament is played, and the municipal (Desert) course. Each course has its own separate clubhouse facility. The golf complex was constructed primarily on Bureau lands, although portions are on city-owned lands. For example, 14 of the 18 holes at the championship course are built on Bureau lands, while all or part of the remaining 4 holes and the clubhouse are on city property adjacent to Bureau lands. At the municipal course, the clubhouse and 15 of the 18 holes are on Bureau lands. The other three holes are on city property.

At the time the city was designing the golf complex, it was also soliciting proposals nationally from groups interested in constructing and operating a resort hotel that would be located adjacent to it. The city believed that the presence of such a tourist-destination resort would provide a source of customers for the adjacent golf complex that would be important to its economic success. After evaluating competing proposals, the resort hotel contract was awarded to Princess Hotels International.

Land-Use Agreement Between the Bureau and the City of Scottsdale

The Bureau land-use agreement with the city specifically approves building and operating a golf complex that includes both a championship-quality and a municipal-type golf course. The June 1985 agreement transferred management and use of about 400 acres to the city for the golf complex.

The agreement includes the following terms and conditions.

- The initial term is for 50 years with an additional 25-year renewal option.
- The city funds construction costs and has responsibility for all annual operating, maintenance, and replacement expenses.
- The golf courses must be open for use by the general public. (However, there is a reservation system that sets aside up to 20 percent of the available golf starting times for priority scheduling by nonpublic users.)
- Fees charged for play on the championship course must be comparable with fees at other resort courses in the Phoenix/Scottsdale metropolitan area,¹ and fees charged at the municipal course must be comparable with other area municipal courses. (Fees may not be discounted for

¹The Bureau, the city, and the private operator have mutually agreed to include private courses as resort courses for setting comparable fees.

members of select nonpublic groups, unless the same discounts are also available to the general public.)

- The Bureau has authority to monitor city management of golf complex activities, and advance Bureau approval is required for certain operational changes at the golf complex—including increases in fees charged to play golf, changes in the reservation policy at the golf courses, major design modifications, and terms of third-party agreements. The Bureau does not have authority to directly monitor the activities of the private operator.

The Bureau receives no share of revenues generated from recreation or commercial activities on the lands nor any type of fee compensation for use of the lands.

Terms of the City's Lease With the Private Operator

In December 1984, in anticipation of obtaining Bureau lands, the city of Scottsdale entered into a lease with the PGA Tour Investments, Incorporated (PGA-TI) to manage the two planned golf courses and the use of the clubhouse.² The agreement, contingent upon the city's obtaining use of the Bureau lands, has an initial 50-year term and a 25-year renewal option.

The lease requires the city to pay all costs to design, construct, and complete the golf complex. The city also agreed to provide the first \$300,000 needed to buy "rolling stock" (golf carts and maintenance equipment), but this funding was later released to the operator for general use. In return, PGA-TI agreed to pay all operating and maintenance expenses at the facility and to purchase any additional rolling stock that was needed. The agreement provides that the city will receive 10 percent of the golf course revenues, and 2 percent of all other revenues from the sale of food, beverages, and merchandise.

In addition to the above terms and conditions, the agreement provides the following.

- The golf complex is to be used only as a golf facility open to the general public. This includes a reservation system that provides limited priority access to the championship course for certain nonpublic players (the

²The city contract is with the Tournament Players Club (TPC), a subsidiary of PGA-TI. However, PGA-TI actually operates the golf complex. PGA-TI is a wholly-owned subsidiary of PGA Tour, Inc., the professional golf organization that sanctions and cosponsors professional golf tournaments.

city also applies the reservation policy to the municipal course); however, those receiving priority are required to pay the same fee as the general public.

- At the municipal course, initial fees were set in the range of \$10 to \$15 and annual increases are limited to not more than similar increases at “comparable courses in the Greater Phoenix area.” Annual fee increases at the municipal course must be approved by the city.
- At the championship course, the fees charged are determined by the operator at its sole discretion and are not subject to city review and approval.³
- The main restaurant and the pro shop areas of the championship course clubhouse must be open to the general public; however, other areas may be reserved for exclusive nonpublic use.
- Public play may be suspended for not more than 14 days each year for purposes of holding the Phoenix Open golf tournament and related promotional activities.
- The operator’s financial records are to be available for inspection by the city.

Capital Investment

According to city officials, the total cost to construct the golf complex was about \$17.8 million, which includes a grant of about \$62,000 received from the Bureau. The city itself provided direct construction funding of \$17.7 million. Most of that amount (about \$16.6 million)—raised through the sale of bonds—represents long-term debt to the city that is to be retired with the city’s share of revenue from golf complex operations. The city funded the remaining \$1.1 million in capital improvements by agreeing to forgo a portion of its fee compensation during the first 5 years of golf complex operations. According to a city official, the city will be required to make payments of about \$1.8 million annually until the year 2004 to retire the bond debt it incurred to construct the golf complex.

Operations and Public Use

The championship course is 1 of 11 Tournament Players Club (TPC) golf facilities in the United States. The TPCs are a network of golf facilities with stadium-type courses operated by PGA-TI that each host at least one Professional Golf Association (PGA) Tour or Senior PGA Tour golf event annually. Stadium courses are designed specifically to provide large spectator viewing areas throughout the length of the course. Most of the

³Bureau approval is required for increases in fees charged at the championship course. And Bureau approval is based on supporting fee data that have been reviewed and validated by the city.

other TPCs are both owned and operated by PGA-TI. Limited TPC memberships are available at each of the 11 TPC facilities, and networking privileges allow TPC members and their guests access to all TPC courses around the country.

All of the memberships available in the Scottsdale TPC were sold by PGA-TI to a local real estate development company in December 1985. That sale included the outright purchase of all 150 regular memberships and an option to purchase 100 corporate memberships. The option subsequently expired in September 1986. Under the sale agreement, the developer would be allowed to activate and transfer the memberships to other parties from time to time as part of future real estate transactions. As of December 1990, four regular memberships and 13 corporate memberships were active in the Scottsdale TPC. The four regular memberships had all been activated from the 1985 sale agreement. Seven of the 13 corporate memberships had been purchased by three separate businesses and the remaining six memberships had been issued on a complimentary basis.

The championship course at the golf complex opened in December 1986 and hosted its first PGA Tour golf tournament in January 1987. The municipal course opened in August 1987. The total rounds of golf played are shown in the following table.

Table II.1: Annual Rounds of Golf Played at the Golf Complex

Year	Championship course	Municipal course	Total
1987	42,764	21,849	64,613
1988	52,303	64,377	116,680
1989	58,274	71,895	130,169
1990	51,919	69,469	121,388

The Bureau-approved reservation policy at the golf complex provides that at least 80 percent of the available tee times on each golf course will be available to the general public annually on a first-come, first-served basis. The policy allows up to 20 percent of the tee times available on each golf course annually to be reserved on a priority basis for use by PGA Tour, Inc., and guests of the resort hotel. On any given day, however, the policy allows up to 30 percent of the tee times to be reserved on a priority basis, as long as the annual average does not exceed the 20-percent limit. According to the golf course operator, as much as one-half of the priority tee slots during the peak season have

been allocated to the hotel for use by its guests. To obtain priority, reservations must be made more than 7 days in advance. At 7 days prior to the play date, the reservation book is opened to the general public. Reservations made more than 7 days in advance count against the priority limitation. Reservations made within 7 days of the play date are counted as play by the general public even if the players would otherwise have qualified for the priority access.

Revenue From Operations

During its first 3 years of full operation (1988 through 1990) the Scottsdale golf complex generated more than \$21 million in revenue. Of that amount, about \$16 million was from the championship course and about \$5 million from the municipal course. Golf play at the two courses brought in 60 percent of the revenue, primarily through charges for greens fees and cart rentals, and other sources generated 40 percent of the revenue—primarily sales of food, beverages, and merchandise at the clubhouse pro shop.

Revenues at both of the golf courses have grown in each succeeding year since the golf complex opened. For example, 1989 revenues compared with 1988 were 15 percent higher at the championship course and 11 percent higher at the municipal course. In 1990 revenue increases at the championship and municipal courses were 8 percent and 5 percent, respectively, over 1989 revenues. Table II.2 below summarizes the rates charged since the golf complex opened in 1987.

Table II.2: Summary of Rates Charged to Play One 18-Hole Round of Golf at the Golf Complex

	1987/88	1989	1990	1991
Championship course^a				
Jan. 1 - Apr. 30	\$53.00	\$60.00	\$75.00	\$80.00
May 1 - June 15	35.00	53.00	55.00	57.00
June 16 - Sept. 3	35.00	35.00	37.00	37.00
Sept. 4 - Dec. 30	53.00	53.00	55.00	57.00
Municipal course				
Oct. 1 - Apr. 30	\$15.00	\$15.00	\$16.00	\$16.00
May 1 - Sept. 30	10.00	10.00	11.00	11.00
Cart rental (18 holes)	10.00	10.00	12.00	12.00

^aRates shown include fee for golf cart rental, which is required on the championship course.

The city's lease with the private operator provides that it receive 10 percent of the golf course revenues and 2 percent of all other revenues. Under these terms, the city was entitled to receive about \$1.4 million in fee compensation.

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