TRENDS IN FINANCING AND AVAILABILITY OF CAPITAL[1]

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Abstract.--The past, present and future of recreation enterprise financing is developed in this paper. Developers need to utilize all available methods of financing sound projects. The long-term solution to the problems depend on better information, improved educational programs, and a loan program tailored to the needs of this industry.

HISTORICAL PERSPECTIVE

Early travelers utilized small hotels, roadside cabins, restaurants, taverns and other service facilities for their needs. They often camped at the side of the road. Sportsmen generally felt that all public and private land was available to them for hunting and fishing.

The resort industry in many states got its start as hunting and fishing camps. These consisted of crude cabins with outdoor plumbing and a row boat.

From these beginnings, the recreation-tourism industry gradually evolved into what we know today. Included are resorts that cater to visitors during all four seasons, attractions that provide entertainment to large numbers of people, motels, restaurants, golf courses, ski hills, and all of the support enterprises.

The commercial recreation sector has been enhanced by the development of many national, state, county and city parks and recreation programs.

Recreation enterprises have generally been small, family owned businesses, often located in remote locations. They often have been under financed and having managers with little training or experience. The recreation industry is plagued with short seasons, unpredictable weather, government regulations and governmental competition.

In 1965, we held a public policy forum in Fifield, Wisconsin on the topic of "Financing for the Recreation Industry." It was attended by leaders from local government, the resort industry and bankers. The meeting was called because of the problem of securing loans to upgrade and expand resorts and other recreational enterprises. It was the conclusion of the leaders attending that:

1. There was a need for educational programs to improve the management of enterprises.

2. New governmental programs were needed to provide long term loans to recreational enterprises.

It would be interesting to repeat the Fifield conference of northern Wisconsin leaders at this time. Their recommendations might be about the same in 1980 as they were in 1965. Our basic problems remain.

The cost of capital has varied somewhat over the years but always seems to gradually increase. During the 50's and early 60's, interest rates for commercial loans were in the 5 to 6 percent range. From the mid 60's through the mid 70's the interest rates generally increased to the 8 to 9 percent range. In the late 70's, we saw a rapid escalation of interest rates with prime interest rates reaching as high as 15.5 percent.

Recent higher interest rates have been accompanied by shortages in the money mar-

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ket. Only the most profitable enterprises receive loans in times of high interest rates and tight money supplies. Recreation enterprises with their traditional low profitability end up on the bottom of the priority list.

Most financial discussions center around the availability of mortgage loans needed to finance recreation developments. We are also concerned with the amount of equity that must be invested by the owner/developer. In many cases this limits the size of projects that can be developed and contributes to the project's security.

ANALYSIS OF LENDING SOURCES

Commercial recreation enterprises have relatively few sources of mortgage financing for new or expanded businesses. They generally are banks, the Small Business Administration and the Farmer's Home Administration. In some instances, the Economic Development Administration has provided mortgage funds.

Banks

The prime sources of funding for small businesses has been their local banks. They have the capability of making loans on the real estate, equipment, and operating capital. Banks generally have lending limitations to individual borrowers of approximately 20 percent of their capital and reserves. They also have a total lending limitation. Innovative bankers have provided mortgage dollars to clients by utilizing correspondent banks, by syndicating loans with other lenders and by utilizing SBA or FmHA guarantees.

Small Business Administration (SBA)

The SBA was established by Congress to aid, counsel and protect the interest of small business concerns in order to preserve the nation's free enterprise system. SBA provides loans or loan guarantees for land, buildings, equipment, inventory and working capital. Generally, money is provided by a participating bank with SBA guaranteeing up to 90 percent of the loan. Loans do not exceed $350,000.

The scope of the SBA loan program in 1976 was provided in a paper prepared by Dr. Malcolm Bevins (Table 1). Similar information for 1977, 1978 and 1979 was provided directly by SBA.

Table 1.--SBA Loan Approvals (Total U.S.)

INDUSTRY DESCRIPTION	NUMBER OF LOANS			
	1976	1977	1978	1979
Eating Places	1,983	2,620	2,739	2,668
Hotels, Motels and Tourist Courts	238	286	344	274
Gasoline Service Stations	482	587	557	565
Drinking Places	286	306	318	275
Miscellaneous Recreation & Amusement	132	201	223	200
Sporting Goods and Bicycle Shops	304	367	331	306
Aircraft, Go-Cart, Motorcycle Dealers		119	101	96
Gift, Souvenir, Novelty Shops	182	224	265	223
Boat Dealers	53	80	72	70
Sporting and Athletic Goods Mfg.		53	41	51
Trailer Parks and Campsites	42	52	64	46
Trailer and Mobile Dwelling Mfg.		12	12	11
Camera and Photo Supply Store	49	54	48	49
Boat Building and Repairing	24	46	43	46
Arrangements for Transport	36	28	41	60
Sporting and Recreation	20	20	20	14
Public Golf Courses	7	21	17	11
Small Arms Mfg.		6	3	1

Source: Mr. Richard P. Lewis, Director, Reports Management Division, Small Business Administration, Washington, D.C., Feb. 6, 1980.

Table 1 (con'd).--SBA Loan Approvals (Total U.S.)

INDUSTRY DESCRIPTION	VALUE OF LOAN ($ in Millions)			
	1976	1977	1978	1979
Eating Places	$153	$244.8	$292.5	$311.1
Hotels, Motels and Tourist Courts	$ 36	$ 56.6	$ 74.7	$ 61.3
Gasoline Service Stations	$ 24	$ 33.3	$ 39.9	$ 31.7
Drinking Places	$ 18	$ 23.1	$ 24.3	$ 26.0
Miscellaneous Recreation & Amusement	$ 16	$ 30.6	$ 29.7	$ 31.5
Sporting Goods and Bicycle Shops	$ 16	$ 22.1	$ 21.2	$ 25.9
Aircraft, Go-Cart, Motorcycle Dealers	$	$ 9.6	$ 8.5	$ 8.4
Gift, Souvenir, Novelty Shops	$ 6	$ 9.5	$ 12.1	$ 12.3
Boat Dealers	$ 5	$ 9.1	$ 7.3	$ 6.8
Sporting and Athletic Goods Mfg.	$	$ 7.4	$ 6.8	$ 9.0
Trailer Parks and Campsites	$ 4	$ 7.4	$ 10.0	$ 7.8
Trailer and Mobile Dwelling Mfg.	$	$ 1.7	$ 2.3	$ 1.6
Camera and Photo Supply Store	$ 3	$ 2.7	$ 3.0	$ 3.7
Boat Building and Repairing	$ 2	$ 5.8	$ 6.0	$ 6.2
Arrangements for Transport	$ 2	$ 1.1	$ 1.5	$ 3.2
Sporting and Recreation	$ 2	$ 2.1	$ 2.4	$ 1.3
Public Golf Courses	$ 1	$ 4.4	$ 3.7	$ 1.7
Small Arms Mfg.	$	$ 1.1	$ 0.5	$ 0.1

Source: Mr. Richard P. Lewis, Director, Reports Management Division, Small Business Administration, Washington, D.C., Feb. 6, 1980.

Farmer's Home Administration

The Farmer's Home Administration of the U.S. Department of Agriculture has the authority to make loans for outdoor recreation. They make loans under 1) Business and Industry, 2) Recreation Facility loans to farmers and 3) Community and Non-Profit Loans program. Commercial recreation enterprises can apply for Business and Industry loans. Under this program, the FmHA would guarantee up to 90 percent of the loan. Generally, FmHA makes loans of over $350,000. They cannot make loans in or near metropolitan areas (over 50,000 population).

Dr. Bevins reported the number and amount of loans made for recreation in 1972 and 1976. they are listed in Table 2.

Table 2.--Financial Assistance Programs Extended to the Recreation Sector (Total U.S.) by the Farmers Home Administration, USDA, 1972 and 1976.

PROGRAM	NUMBER OF LOANS		AMOUNT OF LOANS	
	1972	1976	1972	1976
Business & Industry (Recreation Loan Guarantee)	0	69	0	$37,858,028
Recreation Facility Loans to Farmers	48	38	$1,807,820	1,772,090
Community & Nonprofit Loan Program	9	17	N/A	3,800,000

Source: Data supplied by Farmers Home Administration, August, 1977.

In comparison, Wisconsin's FmHA loans for recreation during the past five years is as follows:

	# Loans	Total Loaned
Nonprofit Corporation	2	$ 96,000
Municipality	1	340,000
Individual Recreation (Farmers)	96	2,789,000
Profit Corporations (Guaranteed)	7	8,193,000

Economic Development Administration

The EDA has authority to make loans for recreation enterprises in EDA designated areas. These generally are areas of high unemployment. However, most of their dollars are allocated to public works projects. It is difficult for commercial recreation enterprises to qualify for EDA funding because most are not labor intensive.

INNOVATIVE APPROACHES TO FINANCING RECREATION PROJECTS

We are in an era of tight money, fluctuating interest rates (generally higher), soaring construction costs, and shifting markets. Yet there are recreation projects that need to be built, and enterprises that should expand. Financial advisors will need to help prospective businesspersons, and developers utilize the financial tools available to them. Following is a review of some of the finance systems used by financial managers.

Industrial Revenue Bonds

Many states have a program to assist new industries to get started in the communities. Generally the municipality will authorize a municiple revenue bond issue so that they can be sold to investors as tax-free municiple bonds. However, in most cases the local municipality does not guarantee the bonds. The bonds are sold to banks, individual investors or mutual funds. The advantage is that new mortgage dollars are brought into the community and the borrower has a favorable interest rate. The bond rating is based on the individual project and the developer.

In some states, outdoor recreation and tourism related developments are eligible to utilize the industrial revenue bonding program. In other states, they are excluded or there are limitations on its use. New or amended legislation may be required in several states to make this program applicable to the recreation enterprise.

Tax Incremental Financing (TIF)

A new program for Wisconsin, Minnesota, Iowa, California, Oregon and perhaps other states is the utilization of Tax Incremental Financing to assist new developments. It has been used initially to revitalize blighted areas, but has potential use for some recreation developments. Basically in the Tax Incremental District (TID) created, the municipality uses taxes accruing from the increased value of the property in the district to amortize loans used for all or part of the improvements. It has financed land write-down, cost of providing city services, and in some cases construction costs. This program would seem to have the most potential in urban areas but with some application in the more rural communities.

Joint Venture Capital

A joint venture is generally when two or more parties gamble together on the success or failure of an investment. In the past, it has been a group of two or more investing a combination of land resource, expertise and equity to secure traditional mortgage financing to build a business. Many of the mortgage bankers and insurance companies now want to be included as a limited or full partner in the business. The advantage to the developer comes in the early years because she/he is not locked into rigid debt service payments. Each investor receives a percentage of the profits. The advantage to the lender comes in the form of early years tax credits and losses, a share of the appreciating value of the business and a continuing share of business profits. A joint venture in and of itself does not create any legal relationship between the parties. This is done through formation of a corporation or a limited or general partnership.

Limited Partnerships

A limited partnership is a legal business entity that provides a vehicle for developers to put together equity from several investors. In this arrangement, there is a general partner who provides all of the management with/without some equity dollars and a number of limited partners providing most of the equity investment. The limited partners offset profits, losses and tax credits of the partnership directly against other income. Limited partner investors generally have financial exposure only to the extent of their investment provided they do not enter into the management. They trade the right to participate in Management decisions for the security of limited exposure.

Condominium Financing

Some recreation related projects are financed by the user. This is usually done through the condominium vehicle. In this development strategy, apartments, campsites, boat slips, etc. are sold to the recreational user. In some cases, purchases are made by investors with the prospect of rental income. In condominium projects the developer/manager does not have the burden of capital costs to amortize out of operating income. This type of development was observed first in areas of high recreation demand and generally high land costs. There were condominium apartments and/or town houses on the ocean front in Florida and in the ski resorts of Colorado, condominium campgrounds in California and Michigan and condominium marinas on the Great Lakes. A variation of the theme is the use of Interval Time Share Condominium Sales. In this scenario, users purchase the use of the condominium unit for a specific period. For example, a user might purchase the use of the condominium for the first two weeks in July and would have the use of it every year during this period.

Stock Corporations

Equity capital can be accumulated for recreation developments through the sale of stock to investors. This allows for larger scale enterprises than might be possible by an individual with limited resources. It also spreads the investment risk to a number of individuals. Stock sale is used by both profit and nonprofit corporations.

The nonprofit corporation is a popular way of financing and operating many outdoor recreation enterprises. Most notable are golf and country clubs, hunting and fishing clubs, swimming clubs and tennis or racketball clubs. In this mode of development, the users are the owners and fees are set to cover costs of operation.

Public/Private Coorperative Ventures

A combination of public/private investments have been used in a limited degree in the past. Generally, it occurs when state or federal parks lease land or provide land for recreation development. Examples are the western ski areas where the ski slopes and trails are generally part of the National Forest and resorts and campgrounds leased to private operators by the U.S. Park Service.

Many rural communities with limited population will need to be innovative and get cooperation from all possible sources if they hope to provide the recreational opportunities enjoyed by more metropolitan areas. Think for a moment about the swimming club (nonprofit) and the high school that joined forces to build an indoor swimming pool in Madison, Wisconsin. This same concept could be used by smaller communities for a number of activities needing expensive facilities.

For example, an indoor tennis club requires 100 players (members) per court to have a profitable club. However, if the local school system needs additional physical education space and the facility were located properly it could be used by the school during the day. The tennis club could use the facility during the late afternoon and evening hours. Each would have the use of the facility during their prime time. By cooperating in a venture, small communities could provide more recreational opportunities to their people.

LONG TERM SOLUTIONS

The problems of financing and the availability of capital are not unique to the field of recreation. Over the years we have observed all other sectors experiencing similar problems and to some degree solving their financial problems.

The recreation sector has its special problems. They relate to the seasonality of many recreation businesses, low level of managerial abilities in many small businesses and generally low profits in the industry. The state of the economy and the fuel situation creates additional uncertainties.

Research Information

If the recreation sector is to compete for scarce equity and mortgage dollars, we must have the necessary tools. Information (facts) on the recreation sector is often sadly lacking. Without this information, it is difficult to prove the feasibility of new or expanded enterprises.

If we are to secure financing, researchers need to provide current, reliable information related to:

1. Supply of recreation facilities.

2. User studies giving profiles, demands, trends and expenditures.

3. Threshold studies showing the number of people required to support specific enterprises.

4. Investment costs for each type of recreation development.

5. Impact and costs of recreation/visitor spending.

6. Typical operating statements (standards) for the several recreation enterprises.

Education

Critical to the solution of financing problems is the delivery of research and information to decision-makers. This function is being carried out to varying degrees in the several states by University Extension Programs, the Vocational-Technical schools, colleges and universities and by individual consultants. One of the larger educational efforts in recreation is in University of Wisconsin-Extension. In Wisconsin a team of nine specialists (7.2 FTE) at the Recreation Resources Center work with some 50 county and area agents to provide research and information to recreation managers through workshops and individual assistance.

Information more than anything else will help solve our finance problems. This current, reliable information must be in the hands of the owner/manager/developer of recreation facilities. It must also be understood by the lenders. A knowledgeable developer dealing with an informed lender has the best chance of success.

Local people in a community often do not participate in the financial transaction. However, their understanding and support of projects can be critical to the projects success. We need to provide information on the benefits and the costs to the community of new or expanded enterprises.

Legislation

The recreation sector has long argued for financing programs that are tailored to meet their needs. Features desired would be:

1. Long term mortgates.

2. Modest equity requirement.

3. Fair interest rates (comparable to other good investments).

4. Repayment schedules designed to correspond with peak income months.

5. An agency that is informed and knowledgeable regarding recreation.

6. A minimum of paperwork.

7. Decisions in a reasonably short time.

8. A recreation sector program that will not need to compete with manufacturing, agriculture, retail and other service businesses for available financing.