

## QUALITY OF LIFE - Priceless



We have been fortunate to call Black Butte Ranch our home for the over 26 years, and we have seen many improvements. The physical facilities have either been upgraded or replaced. The golf courses have been redesigned and maintained in pristine condition. It is truly a Special Place.

Unfortunately, in recent years I believe the Association Board lost sight of the value of the Ranch's quality of life in the pursuit of unfulfilled financial gains. I feel like the proverbial frog in the pot of hot water, but I won't succumb quietly.

Attached are three newsletters I wrote in 2019 in an attempt to communicate my concerns to anyone willing to read them.

Sincerely,

Phil Gerber  
RR60



## Is Black Butte Ranch at a tipping point?

by Phil Gerber

### A Little Background

Our family vacationed at Black Butte Ranch a couple summers in the 1980s and fell in love with the area. In 1989 I purchased a lot in the Rock Ridge section and had a vacation home built. At the time we were living in Portland and came to BBR whenever we could. There was something magical about turning off the highway into the Ranch after the drive from Portland that made the stress of city life evaporate. The Ranch had a unique quality that's hard to quantify. It was pristine, yet was starting to show its age. It was elegant, yet not pretentious. There was an invigorating tranquility about the Ranch that was, as they say, priceless.

In 1997 we decided we had one too many homes. We sold our Portland house and moved to the Ranch full time. I promised my wife we would build another house more suited to year round living. It only took me 6 years to find a lot and build a new home. In 2003 we moved in and have enjoyed it ever since.

*IF BLACK BUTTE RANCH  
WAS A PUBLICLY TRADED  
CORPORATION, I'D  
CONSIDER SHORTING IT.*

Over the past 20+ years I have seen many changes in the Ranch. Physically, the Ranch has been refreshed and updated with numerous capital projects. However, in 2008 the Association Board shifted focus and, with good intentions (an assumption), began redefining the economic culture of the Ranch. It's all about

money and misguided objectives. Let me explain.

It is important to remember that Black Butte Ranch is unique in that all common ground and facilities are owned by the homeowners association. Thus, the homeowners are totally financially responsible for the Ranch, and are the primary source of funds. To avoid homeowner dues being taxed, the Ranch's for-profit commercial activities are owned by the Association's wholly owned for-profit corporation. This corporation does not generate sufficient revenue to cover its expenses and annually receives significant funds from the Association, i.e. homeowner dues.

## What Happened

In 2008, the Association chartered the **Black Butte Ranch Business Model Evaluation Task Force** to "perform a 'clean slate' review of the Ranch Business model that defines how Ranch resources and assets are used to fulfill the current mission statement in a sustainable way." As stated in the task forces final report:

*The Task Force's initial objective is to work within the Ranch's Mission Statement to find ways to leverage the Ranch's assets to generate sufficient incremental net income to keep the increase in homeowner annual out-of-pocket contribution equal to or less than inflation while covering the required maintenance of existing facilities.*

*Achieving this goal will require that we find opportunities generating very roughly \$450,000 of incremental net income.*

The final report focused on directing the corporation to aggressively pursue revenue opportunities primarily from day guests, small groups and special events. Services for and benefits to homeowners were never mentioned other than potentially reducing increases in homeowner dues. This report has served as the basis for the Association Board's decisions, or lack thereof, since 2008. So, how have these policies affect me as a homeowner?

Our dues have increased about 73% since 2008 and homeowners have funded over \$21,000,000 in new Ranch facilities, through special assessments and debt. The corporation's focus on attracting day guest, golfers and special events such as weddings has resulted in increased marketing staff and an annual marketing budget that peaked at approximately \$800,000. In spite of the increased marketing and the weddings, the association still subsidizes the corporation annually.

Whether intentionally or unintentionally, the Association Board has directed the Corporation to focus on Black Butte Ranch as a destination resort not a residential community.

- Their focus is on guests and events, not homeowners.

- We pay resort prices in our restaurants, yet we are subsidizing them through our dues.
- Our Lodge has been turned into a wedding venue with limited or no access for homeowners.
- While we attract an increasing number of guests, our recreational facilities are becoming overcrowded diminishing homeowner enjoyment.

Simply put, I'm paying dues to have non-homeowners enjoy the facilities I paid for with my assessments. What was the Ranch's invigorating tranquility is becoming a party environment.

## On the Horizon

The board is developing plans to **replace the general store** with a new building, estimated cost - \$1,300,000. The Ranch leases the current general store to a third party. This provides a steady revenue flow with little or no additional expense. However, the Board is favoring giving the store to the Corporation to run. A glowing report was presented to the Board (by the same person responsible for the 2008 Business Model Evaluation Task Force report) outlining how profitable the general store would be. All the corporation has to do is hire a manager with mini-market experience, find staff to operate the store 7 days a week for a minimum of 1.5 shifts, effectively manage inventory levels within budget and make a profit, What could go wrong?

**The General Store is only the tip of the capital expenditure iceberg.** Replacement of the current lodge with a facility to support the corporation's wedding business is a major component of the Board's vision. While, to my knowledge, there is no budget for the project at this time, \$20M- \$25M should be in the ballpark. Remember, a new lodge won't directly benefit homeowners. Its primary purpose is to generate more wedding and group meetings business which will put increased pressure on other Ranch facilities diminishing homeowners enjoyment of the very facilities they paid for and pay to maintain.

I believe the Ranch's most valuable asset doesn't appear on its balance sheet. It is the quality of life represented by the Mission Statement. Over the past 10 years our mission statement has been under attack for the stated purpose of generating revenue to reduce our dues. So far the only thing reduced is the Ranch's quality of life.

## Pressure on Dues

If the corporation continues to focus on attracting more guests and special events and homeowners approve the construction of a new lodge/convention/wedding structure, then the character of the Ranch will be significantly changed for the foreseeable future. How this will affect property values and dues is open to debate.

The cost to maintain the Ranch has increased significantly with the addition of new facilities. Marketing costs to attract day guest and golfers is in excess of \$500,000 per

year. As new services and facilities are added, labor and marketing costs can only increase. The Board assumes the increased revenue will more than offset the increased operating costs and debt service. This is highly speculative and potentially irreversible.

## **Alternatives**

In subsequent newsletters I will explore various alternatives to the Ranch's current commercialization strategy. ~~Until then, I encourage you to visit my website: [www.bbinsight.com](http://www.bbinsight.com).~~ I also welcome your thoughts regarding Black Butte Ranch and its future. You can email me at: [box1172@icloud.com](mailto:box1172@icloud.com).



## Alternative 1: Back to the Future

### The Tipping Point

My first newsletter posed the question: *Is Black Butte Ranch at a tipping point?* In 2008 the **Black Butte Ranch Business Model Evaluation Task Force** report made the case that the Ranch assets were being under utilized. It proposed that increasing day guest and special events could generate additional revenue, reducing future dues increases. Since 2008 this has been the Association Board's management focus.

As a result of this de facto conversion of the Ranch into a for-profit destination resort, homeowners are making a financial investment in commercial activities that are increasing operating costs while overcrowding the Ranch. And dues continue to increase - 73% since 2008. If the Ranch continues on its present course, is it sustainable? Financially? Probably - at least until we run out of homeowner money or the cost of ownership causes a significant reduction in home prices. However, I contend it is the Ranch's **quality of life** that is in greatest jeopardy.

### About Face

Imagine if we could return the Ranch to the vision of the original developers and the Mission Statement:

*A high quality, family oriented, recreation and residential community, preserved in its naturalness with limited commercial activities and necessary regulations to preserve the safety, tranquility and future value for its owners, their families and guests.*

My dream begins by viewing the Ranch more like a city than a destination resort. Focus our resources on providing services that directly benefit homeowners, rather than developing commercial enterprises targeting the general public. Reevaluate the Ranch's long range marketing strategy and position in the Central Oregon economy.

## **A Road Map to get Back to the Future**

Assuming the Ranch's mission statement still represents homeowner values, consider these objectives for the Ranch.

1. Reposition Black Butte Ranch from a destination resort to a recreation community with resort like amenities.
  - This may require a Corporation President with city management experience rather than resort experience.
2. Significantly reduce corporation staff, overhead and scope of operations without significantly reducing service levels.
3. Increase full time residency to 30% within 3 years.
  - Focus marketing on the Ranch's quality of life, great amenities, security and financial stability.
4. Reduce homeowner dues by \$100 - \$200 per month without reducing homeowner services.
  - No one said it would be easy.

To accomplish these objectives will require a significant shift in the board's priorities and vision for the Ranch's future. It will also require critical financial and operational evaluations of all ranch services.

## **Out of the Box Ideas**

I believe it is easier to critique someone else's idea than to create one's own idea. So, here are my ideas, have at it.

## **Action Items**

## **1. Eliminate weddings and catered parties, except for homeowners and their immediate family.**

Historically, weddings on the Ranch were only allowed for homeowners and their immediate families. However, as a result of the 2008 Business Model Evaluation Task Force's report, the Board saw the potential for weddings to increase Ranch guest business and corporation revenue. As a result, a significant commercial wedding operation has been created with significant additional staffing and marketing expenses. Homeowners are now financially committed to a wedding catering commercial enterprise.

### **“Weddings are so beautiful and are such a happy event.”**

Yes, weddings are beautiful, if you are a participant. I see them a little differently:

- They block access to the Ranch's signature view point for me and other guests.
- When there is no wedding, the Lodge has the warmth and charm of a mortuary, with dead space overlooking dead space, save for the bouquet at the entrance left over from yesterday's service.
- Weddings overcrowd the parking lots, requiring more parking lot in the future.
- During wedding, Aspen Lounge is too noisy and service suffers.
- Wedding guests rent weekends, taking the heart out of peak season rentals.

### **As a homeowner, I would like to see...**

- A detailed P&L for the Ranch's wedding business for the last 2 years including marketing costs.
- A revised wedding business plan based on weddings limited to homeowners and their immediate family and without any marketing costs

## **2. Suspend the Lodge Task Force until a business plan is submitted to and approved by homeowners.**

Over the past two years, the Lodge has been transformed into a wedding venue and special events restaurant. Homeowners have had limited access and fewer reasons to go to the Lodge. I am beginning to wonder if homeowners need a lodge anymore. (I'm being a little facetious, but I think the question is still valid.)

## **3. Shift the Ranch's marketing focus from attracting visitors to attracting residents.**

The majority of the Ranch's \$700,000 (est) marketing budget targets weddings, golf and resort guests. Over the past 50 years, Black Butte Ranch has established itself a great place to vacation. However, few think of it as a great place to live. I'm amazed how few people, even locals, are aware of the amenities behind the gates. Not many residential communities have their own fire department, police department, on-site EMTs, two golf courses, multiple swimming and tennis facilities, bus service to local schools, on-site maintenance staff **and** are totally owned by the homeowners. With the population growth in Central Oregon and options to telecommute, Black Butte Ranch has the potential to attract full-time residents, if properly positioned and promoted.

Currently, the number of full-time residents is unknown. It is estimated to be about 150 or 12% of the homes are owner occupied 6 months or more per year. About half of those are full-time residents and tend to be retired. We need to attract various age groups to keep the Ranch vibrant.

Expanding the number of full-time residents won't happen without a vision on the board and a commitment to make it happen. Unfortunately, this concept appears to be totally foreign to corporate management's experience, much less their interest.

#### **4. Lease the Ranch's main restaurants - the Lodge, Aspen Lounge, Lakeside and Roberts Pub - to one or more third party operators.**

Some might argue that we'd lose control of the restaurants, but do we have control now?

The only consistency with our restaurants is inconsistency. During weddings and special events, service in the restaurants is cannibalized. Hours of operation are determined by budgetary constraints, not homeowner service levels. Our dues and assessments built the restaurants and our dues subsidies them annually.

Ranch management is focused on creating high-end resort dining experiences with little profit incentive other than meeting budgets. If our restaurants lose money, the Association (i.e. homeowners) covers the loss.

#### **5. Create an in-house real estate company.**

This is one commercial enterprise that directly benefits current and future homeowners, and requires little initial investment - assuming we don't acquire an existing realty. In addition, staffing costs are minimized since the realtors are on commission. All real estate company profits accrue to the Ranch.

This is not a unique idea. Pronghorn, Brasada Ranch, Sunriver and Eagle Crest all have an in-house real estate companies. This would not exclude other realtors from listing and selling Ranch properties, but they would not have a physical presence on the Ranch.

## **Head Swimming...Eyes Rolling, Yet?**

By this point, I hope I have at least stimulated intellectual curiosity. I realize challenging the status quo is risky. Please don't assume I think these ideas are the answer. My objective is to stimulate thinking and focus on the horizon instead of the ground at our feet. Whatever your opinions are regarding my ideas, we all have one thing in common. We cherish Black Butte Ranch and want it to prosper. We just have different ideas how it should be done.

I welcome your insightful feedback, pro or con.

**insight**

The ability to see and understand clearly the inner nature of things, esp. by intuition  
**A clear understanding of the inner nature of some specific thing**



Black Butte Ranch in 1972

## Alternative 2: A Last Resort

by Phil Gerber

### Follow the Money

My first newsletter posed the question: *Is Black Butte Ranch at a tipping point?* In my second, *Back to the Future*, I outlined a strategy to return Black Butte Ranch to a homeowner centric operating philosophy with limited commercial activity. This newsletter explores developing Black Butte Ranch as a commercial destination resort, but with a twist.

### Is there a silver lining?

I am concerned that continued investments in resort facilities will result in a net increase in expenses resulting in increased dues. Other than profits from Ranch operations, homeowners are the ONLY source for funds for the Ranch. Loans can provide interim financing, but ultimately homeowners have to cover them. A critical issue is that while expenses are variable, the number of homeowners paying dues is fixed. Unlike other organizations, we cannot increase our homeowner base only our dues. As homeowners, we're in a box.

### An Idea way outside the box

What if we revisited our 1987 decision? We have done a good job of establishing the Ranch's potential as a destination resort. Maybe now it's time to let someone else with resort experience take Black Butte Ranch to the next level.

What if we sold the parts of the ranch outside the gates to a resort developer? Of course the land inside the gates would continue to be owned by the Homeowners Association. Our Mission Statement would have to be rewritten, but the reality of recent increased commercial activities has already shredded our Mission Statement.

### **So, how would this benefit homeowners?**

1. The proceeds from the sale of the resort properties could be used to fund an endowment to fund future Black Butte Ranch Association capital projects.
2. Corporation staff would be significantly reduced.
3. Corporation annual expenses would be significantly reduced.
4. Marketing costs would be significantly reduced and refocused on promoting BRR as a residential community.
5. The new Resort management should view homeowners as customers, not donors.
6. The Association Board and Finance Committee could focus on serving homeowners and maintaining the Ranch's safety and security instead a creating new ways to attract visitors.
7. Resort capital improvements would **not** be financed by homeowner, reducing the need for future assessments.
  - The resort operator may want to build a new lodge including guest accommodations, not necessarily on the current lodge's site.
8. Homeowner dues should be significantly reduced and pressure on future increases also reduced.
9. The resort properties would have professional management and not be subject to Association/Finance Committee micro-management.
10. More opportunities for homeowners who rent their homes.

### **Additional thoughts**

1. Can an appropriate buyer be found?
2. Homeowners would lose control of the resort properties, not that they have much control now.
3. What properties would be included in the sale? (See graphics on last page)
  - Would/could Country House and Lodge Condos be included?
  - Would Big Meadow golf course be included?

- If so, consider contracting Glaze Meadow maintenance with the Resort Developer.
  - Numerous options to be considered. (See attached map)
5. Increased visitors in peak season could overcrowd recreation facilities.
  6. How much additional volume can our sewer system handle?

This idea would require significant research similar to that done when we purchased the property from Books Resources. In all honesty, when I started writing these newsletters I considered this a satirical, worst case scenario. However, as I began looking closer at the direction the ranch is going, this option not only looks attractive it may be the best case scenario.

I'm sure I have raised more questions than answers, and hope this generates some serious discussions.

## **A Short Black Butte Ranch History**

Black Butte Ranch is a unique place in many ways and its history is fascinating. In addition to talking with some of the "old-timers", I turned to Peggy Lucas's book "*There is a Place*".

Today's Black Butte Ranch began in March 1969 with a partnership between Portland's Mountain Park Corporation and Brooks Scanlon. Mountain Park Corporation owned the original Black Butte Ranch and Brooks Scanlon owned the adjacent parcels of land. One year later in June 1970, Brooks Scanlon purchased Mountain Park Corporation's interest in the project, and began development and property sales. By the end of 1970, 104 homesites and 14 of the 16 condominiums had been sold.

In 1971, Brooks appointed a group of nine homeowners to the board of directors of the Black Butte Ranch Homeowners Association. They were told Brooks planned to turnover ownership of all Ranch roadways, bicycle paths, swimming pools, pool structures, tennis courts, water distribution system and the "greenbelt" areas including the meadow to the Association in the early 1980s. This gave the Board 10 years to develop the fiscal and administrative policies and procedures to manage the Ranch.

In January 1982, a bargain and sale deed was recorded transferring the properties to the homeowners association. However, it was agreed that Brooks would be retained as the ranch manager. Books Resources then formed the Black Butte Ranch

Corporation as a stand-alone subsidiary to own the Brooks assets not included in the transfer and to manage the Association and condominium properties. In 1986 the Board notified Brooks it was ready to takeover Ranch management from Brooks Resources.

In July 1986, Brooks notified the Board of Directors it planned to sell its Black Butte Ranch assets. The BBR Association conducted an extensive business appraisal and eventually offered Brooks \$4.8 million for their Black Butte Ranch assets. Brooks asking price was \$9.2 million. In November 1986, Brooks accepted the Associations offer of \$5.2 million.

The Association then focused on presenting the offer to homeowners for a vote. As Peggy Lucas noted in *There is a Place*:

*It seemed obvious that most owners favored the proposal in order to maintain control of the Ranch and to retain its non-commercial, private character.*

After many homeowner meetings and some creative financing, on March 14, 1987 homeowners approved the acquisition of Brooks assets with a vote of 1001 in favor and 112 opposed. Homeowners now totally owned Black Butte Ranch.

## **That was Then, This is Now**

For 21 years the Association boards prevailed in keeping the Ranch non-commercial and private. During this time Ranch facilities were significantly upgraded, but commercial type ideas were rejected, including building a motel along Big Meadow's 9th fairway and opening an assisted living facility where the administration building is today. Someone even proposed a hotel in the middle of the Meadow.

In 2008 the Black Butte Ranch Business Model Task Force submitted their report. The report determined that annual homeowner dues increases could be kept at or below the level of inflation, if "**very roughly** \$450,000 of incremental net income" could be generated. To accomplish this, the report made several operational recommendations for golf and food and beverage to increase profitability. In addition it recommended increasing the access registration fee by \$1. It also strongly recommended increasing small group meetings and day guests. Interestingly, there were only two references to weddings in the report. One to specifically exclude them from small groups and day guests. The other was a graphic showing homeowners supporting the use of the wedding tent.

Since 2008, Corporation management, with full support of the BBR Finance Committee, began aggressively pursuing day guests and group gatherings. Weddings became a major part of this strategy. As a result, marketing costs and staffing were increased to support the wedding business. In addition, the lodge was converted into a wedding venue all but inaccessible to homeowners. Now the Board is pondering a new lodge to facilitate more and larger weddings and group meetings. Who is going to pay for this? We are!

The Ranch's marketing efforts have been successful in attracting weddings, group meetings and vacation renters. Corporate management is doing a great job catering to these guests and the Ranch has a destination resort feel. Unfortunately, many feel the sense of community outside the gates has disappeared and homeowners have become second class citizens.

## Potential Black Butte Ranch Resort Properties



### Potential Resort Parcels



#### Parcel Options

1. Lodge and Lakeside area
2. Lodge and Country House Condos
3. Big Meadow Golf Course and Sports Field
4. Horse Pasture, Paddock and General Store

#### Excluded Parcels

- Welcome Center
- Administration Building (Option: Rent space to Resort Mgmt.)
- Lake Phalarope
- Meadow