

Funding its future

Protect your golf course by looking at long-range financial plans

BY MICHAEL D. VOGT, CGCS, CGIA

When assembling a long-range plan for properly funding capital projects on a golf course, a club manager, superintendent and green committee should know when funds will be required. A sound plan must provide the appropriate amount of funds to meet the needs of each golf course component, feature or piece of equipment. A stable contribution to a fund that supports capital replacement will guard against diminishing the course's long-term and short-term assets.

A funding plan shouldn't vary much from year to year. It's recommended that funding a capital replacement plan be done on a monthly allocated basis to avoid large, sudden expendi-

tures that upset a club's normal cash flow. A reserve study for golf asset replacement is smart business and makes sense. A golf reserve study consists of two parts:

- A physical analysis – a visual inspection by a course maintenance expert that results in a comprehensive inventory of design/equipment elements and a prioritized schedule of future replacement costs; and
- A financial analysis that recommends a minimum and stable level of funding into a reserve account during the next 15 to 20 years so a club has the money for capital projects when needed. A well-executed golf reserve study becomes the basis of a long-range financial



ASSET MANAGEMENT

plan to provide continuity and dependability for maintaining a high-quality course for years.

A reserve study starts with accumulating the raw data needed to evaluate a unique golf course operation. Generally, an inventory of all golf assets is developed with appropriate age and condition information, ranging from all golf facilities, buildings, irrigation systems, down to all maintenance equipment. The inventory and condition data should be digested into useful tables identifying dates of purchase/construction and original costs.

A reserve study is formulated in an easy-to-use, understandable narrative about property conditions, recommended cost-saving methods and normal replacement times. The reserve study is tailored specifically to a club's goals and objectives and becomes the centerpiece of a long-range golf strategic plan.

A reserve study clearly identifies long-term assets and near-term replacements, adequate

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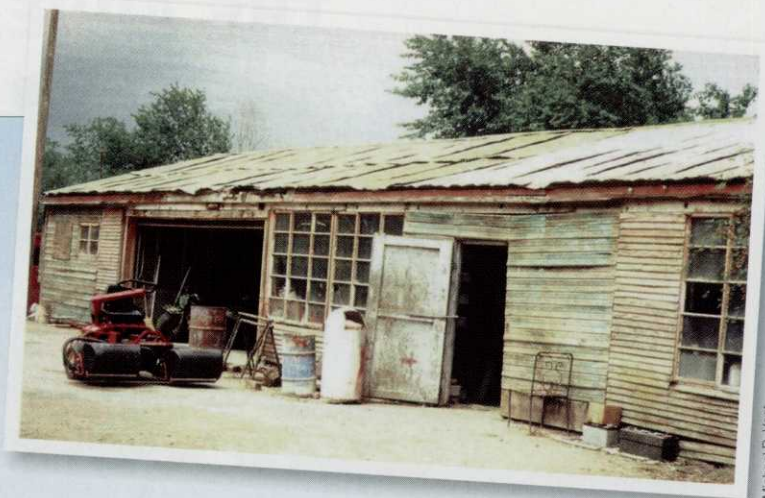
and actual funding for future repairs and replacements, normal routine maintenance, life cycle capital replacements, etc. On-site visual inspection and historical analysis of each property/equipment component determines theoretical useful lives and measures remaining useful lives accurately. A narrative explains the best practice method for capital repairs, partial or phased replacement, and complete replacement.

The goal is to save money and help develop a realistic plan for future capital spending to

maintain a consistent, stable, financial capital improvement plan, and to assure a good capital improvement environment for years.

FUNDING METHODS

To protect the appearance, value, playability and safety of a golf property, it's essential for management to create a financial plan that provides funding for the projected replacements. In years past, many public and private golf courses typically left the capital funding of assets to the best



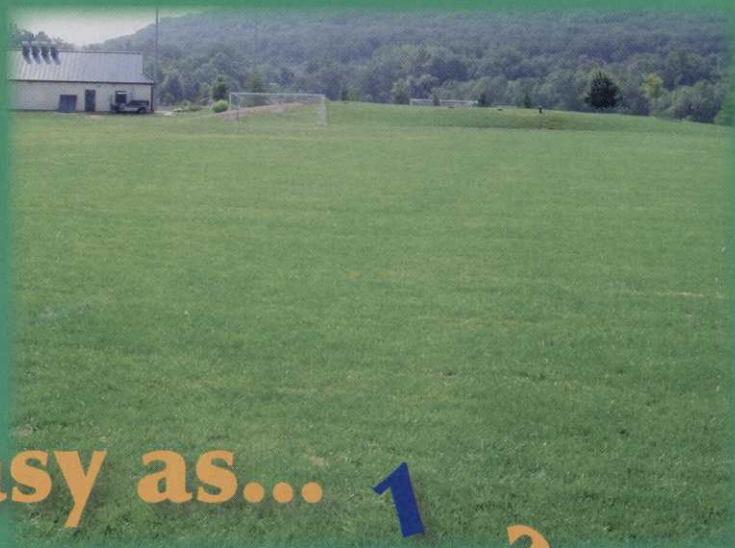
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judgment of management, with private clubs funding capital projects from special assessments or initiation fees. In the public sector, taxpayers voted on bond issues from the municipality, and privately owned golf courses normally made due until funds could be allocated from revenue or, in some cases, institutional lending.

To short-circuit these knee-jerk reactions to capital replacement needs, management staffs began funding a special account for asset replacement. In conformance with American Institute of Certified Public Accountant guidelines, replacement reserve analysis evaluates the current funding of replacement reserves by two generally accepted accounting methods: the cash-flow and component methods. In effect, this look into the future smoothed the highs and lows of asset replacement and made for a better maintained business model and renewed worn assets, saving valuable cost of funds and increasing the quality of a product.

The cash-flow method calculates minimum annual funding of replacement reserves that will fund project replacements identified in the replacement reserve inventory from a common pool of replacement reserves and prevent replacement reserves from dropping below a minimum recommended balance.

In this method, minimum annual funding remains the same between peaks in cumulative expenditures called peak years. This is the preferred funding method for most asset reserve studies. This newer cash-flow funding method provides adequate reserves without the requirement of carrying a large unused balance, thus reducing the annual contributions to the reserve fund. Under the cash-flow funding method, the reserve fund is established as an aggregate pool of funds with no individual line item budgets. Funds set aside to adequately cover all reserve expenditures included in this pool are funded so the reserve pool never drops below zero.

The component method is a time-tested and conservative funding model developed by Housing and Urban Development in the early 1980s. The component method treats each projected replacement in the replacement inventory as a separate account, and deposits are made to



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On-site visual inspection and historical analysis of each equipment component determines theoretical useful lives and measures remaining useful lives accurately.

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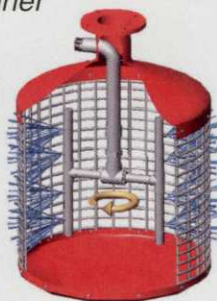
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Case Study

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each individual account, where funds are held for exclusive use by that item.

Over time, the component method reveals hidden drawbacks. Suppose an irrigation system, for example, is 10 years old and was allocated no funding in the past. Based on a useful life of 30 years and a cost to replace of \$1 million, we have missed 10 years of funding at \$33,333. To catch up, the business would need to fund the irrigation system \$50,000 per year to establish funds before the target replacement date. This accelerated funding has a result of becoming financially burdensome and in most cases won't be funded in full. This funding scenario will be especially pronounced at older clubs and golf courses that haven't had a reserve funding plan in place.

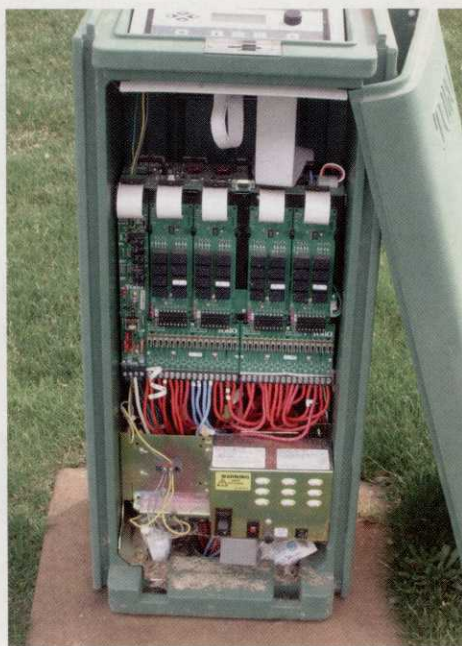
Funding a special account for asset replacement makes for a better maintained business model and renewed worn assets – such as a controller, turf care center and pump station – saving valuable cost of funds and increasing the quality of a product.



THINK AHEAD

At golf and country clubs, the need for long-range golf course planning is paramount to each club's success. While day-to-day golf course maintenance management is vital, the wise clubs have forward thinkers and have a plan for continuous improvement to the golf course and its associated buildings and equipment. **GCI**

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