

# Club Finances Demand Study of Varied Means

By CARL W. TRUAX

AS THE season for annual meetings reaches the peak and the annual statements come to hand, "we view with alarm" the growing tendency of typical clubs to spend borrowed money for improvements, thus adding heavy additional interest charges to the already large deficits, without any definite plan for ultimate liquidation of the fixed indebtedness.

The typical private club has a membership of around 300 members and enjoys an eighteen hole course of 6,500 yards, owned in fee by the club. The dues and assessments are generally in excess of \$150 per member per year. Established clubs of this general type have an annual membership turnover of 10 per cent; most of these clubs require standing and future assess-

ments to be paid to the club in connection with membership transfers.

Clubs of the foregoing type, and larger clubs, will find these suggestions of value when considering improvements, particularly when a closed mortgage already exists.

Country clubs are generally located in outlying territory and almost invariably have created for themselves unusual real estate values in their immediate neighborhoods. As a result of this factor, many clubs find themselves fortified with real estate of steadily increasing valuation\*, and hence very substantial credit standing. Clubs thus fortunately situated are able to finance improvements with considerable ease on their general credit and without further encumbering their properties.

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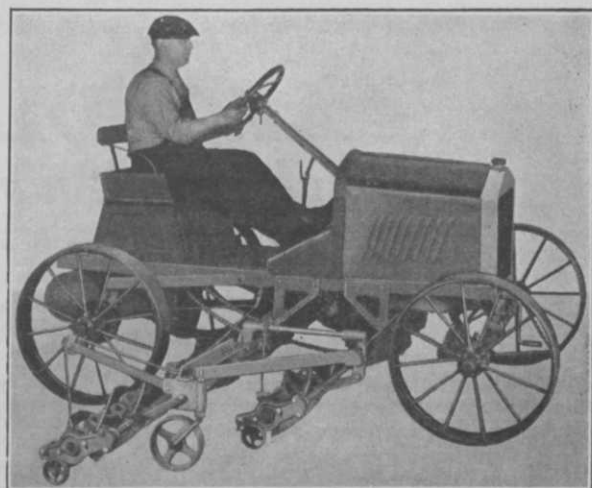
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These clubs can borrow more and more—and do! They say the land value is increasing tremendously, so “let the increment take care of the debts.” Fine, but the increment won't pay the interest, nor retire the debts; the increment merely provides more security for more loans carrying more interest in favor of “bigger and better deficits.”

You cannot realize on the increment and have the property and play golf on it. Maybe some day many of the clubs will have to move—because their land is too valuable or their neighborhoods too closely built up. But until that time comes the interest goes on.

It is interesting to note that of several hundred annual statements examined last spring, interest charges represented about 50 per cent of the total deficits, with few, if any, visible attempts to reduce interest charges. Perhaps if more serious attention were given to the part interest plays in the deficit, either the spending proclivities of the more ambitious members could be curbed or definite plans made for the elimination of interest charges.

**No Provision for Replacements**

Further, few clubs carry depreciation re-

serves or make any provision for depreciation or obsolescence of their physical plants. These replacements, always inevitable, are often of large amounts and give rise to further borrowings and interest! It is most peculiar that our cleverest business men—men who are highly successful in financing their own business—permit their financial judgment to depart from their club financing.

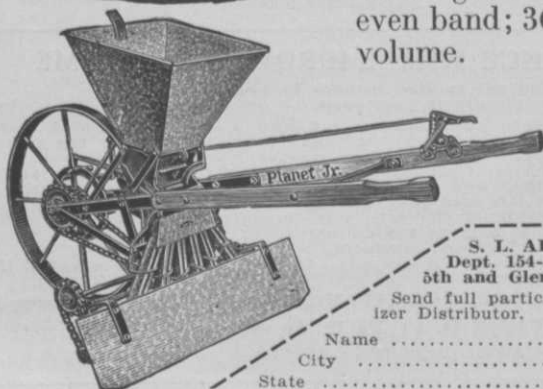
It is clearly the established policy of most clubs to pay interest rather than pay up—and to make provisions for replacements. Many of the clubs could have adopted an installment finance plan which, without burdening the members, would eliminate much interest from their budgets.

Clubs enjoying memberships paying dues and assessments annually of \$150 or more

*\*This increased valuation is very much like “paper profits” in the stock market. As long as the club exists, the property is worth whatever value the club cares to set upon it. But if the club disbands, it is another matter to realize on this artificial figure. Also, the tax assessor, seeing this increase, is liable to boost the club's taxes to an unpleasant level.—Ed.*

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will find unsecured serial assessment debenture the simplest type of security with which to finance improvements. This type of security is also practicable where the grounds are leased rather than owned, provided the issuing club is thoroughly established and has a substantial investment in the leasehold property. That the assessment debenture is a "standout" may be determined by a careful consideration of the other methods commonly used.

## Methods of Financing Improvements

1. The single assessment (sometimes spread over several payments), the "pay as you go" plan.
2. Out of current revenues—where there is an annual surplus in place of the usual deficit.
3. By private subscription (voluntary).
4. Sale of additional or unsold memberships.
5. Bonds on hand unsold from prior issues; additions to open mortgages.
6. General refinancing with an increase in the funded debt.
7. Additional (junior) mortgages (bonds).
8. Replacement through depreciation reserves.

9. Assessment debentures, secured or not.

## "Pay as You Go" Ideal Method

This plan admits no argument, but meets plenty of objections. The single assessment should be more popular but the demands of ambitious memberships are generally for improvements in excess of the paying capacity. Some improvements, such as landscaping, can be made piece-meal, and spread over several annual payments, but most improvements are of a character involving completion at once, and hence must be paid for at once. Under these circumstances the single or direct assessment plan is certainly anything but popular.

Glen View (Chicago district) recently spent around \$200,000 for ground improvements, such as wells, pumps, reservoir, drainage, turfing, and paid cash derived from immediately payable assessments. Unfortunately, many club memberships lack the paying capacity of Glen View members; others lack the nerve and foresight to put through an immediate assessment plan.

## Out of Revenues—Plan 2

This plan can be dismissed without dis-

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cussion; occasionally we find a club that can provide improvements out of current revenues, but there are so few clubs in this situation that any discussion would be of no interest whatever to the other clubs which break even or enjoy deficits and assessments.

### Voluntary Subscriptions—Plan 3

Subscriptions are frequently used in club financing, but are usually confined to special improvements of interest to a few members and paid for entirely by those who expect to derive all the benefits. For example, traps are often paid for by subscriptions from the trap shooters; archery, by the archers; playgrounds, by the parents. Voluntary subscriptions have no place in financing general improvements; in fact, would be highly resented by members unable or not desiring to contribute.

### Sale of Memberships—Plan 4

Clubs which have never completed their authorized memberships, of course, can secure limited funds through the sale of further memberships. Sometimes it is practicable to vote an increase in the membership and secure funds from the sales of the additional memberships. Usually there is strenuous objections to the increase or to the use of unsold memberships from original quotas. "The course is already crowded," is the argument. The sale of memberships may be considered only as a subsidiary method of financing.

### Mortgages—Plans 5, 6 and 7

Few clubs have unsold bonds remaining from prior issues, or open mortgage bond issues which can be extended. Still fewer clubs are unincumbered. Specific second mortgage issues are often used, to be retired by assessment.

Often a general or junior mortgage bond issue on all assets and equities is used. Such issues are without assessment, but are arranged to come due concurrently with the underlying mortgage. The principal, when due, is merged with the underlying mortgage, and the whole refinanced upon the basis of the increment in real estate values. However, this plan of financing provides never-ending interest charges which frequently cause the finance committees much embarrassment. It appears to be much more satisfactory gradually to retire the principal issues, and to pay for improvements either outright or on the installment plan through annual (serial) assessments.

The typical club generally need provide

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no specific security for the borrowing of improvement funds, particularly when the financing is done "at home," as described below.

However, improvement issues of established clubs are generally secured by deed (mortgage) in some way. Perhaps this is due to the influence of mortgage and general bankers who are more often than not appointed to special finance committees to plan the financing. These gentlemen think in terms of specific security; in fact, specific security is their habit of thinking in this particular respect, and hence, regardless of the high credit standing of the club, we find improvement funds unnecessarily secured by mortgages. If the finance committees would look more often to the well-established general credit of the clubs, fewer mortgages would result.

### Reserve Replacements—Plan 8

Only a few clubs include depreciation in their accounts. A splendid argument can be established against this practice. Clubs carrying adequate depreciation accounts, however, find their financing much simplified through this practice. The use of reserves is not general enough to warrant discussion here.

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In March GOLFDOM Mr. Truax will continue his consideration of club financial methods.

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