

RELIEF

77B and Self-Aid Renew Club Life

By HERB GRAFFIS

NO ONE has been able to give a valid reason for the delay of golf clubs in readjusting their financial foundations to changed conditions. Railroads, other business enterprises and real estate ventures went into receivership when the boom blew up, but golf clubs until the past six months kept stalling off wise and urgently needed revisions.

Possibly the hope of each administration that drastic readjustment could be avoided until a new administration was elected had something to do with the delay.

Those clubs that were forced into foreclosure, to emerge as fee courses instead of private clubs, often have not proved to be the great bargains the foreclosers expected. Competition within the fee-course business and between privately owned fee courses and municipal courses, generally leaves very little for carrying charges under the murderous rate-wars of the last few years, and maintenance budgets necessary to keep the courses attractive have been out of the question.

Possibly the news that fee-course operation was no depression gold mine brought about a more elastic and patient attitude on the part of golf club security holders and permitted more latitude in a sound, longer term plan of getting the out-of-luck clubs in good shape again. Unquestionably, too, section 77B of the Federal bankruptcy act, to which club attorneys have turned for help, has been a great aid in getting the clubs' squared away for the new day.

It appears in some of the metropolitan districts that the situation of the private clubs is much brighter than it has been in years past. Reduction of fixed annual charges is making it possible for clubs to operate profitably without inflation in the membership roster limits. You can take the Chicago district as a fair example of how the waiting list days may return when the clubs are able to ease the strain of boom-time schedules of fixed charges.

In 1926 the average authorized membership of private clubs in the Chicago district was 250 as a limit. When the club house was thought to need extension or the course was considered to require remodeling, additional memberships were authorized to defray capital expense. It was easier to authorize new members than to get them; thus the clubs got in over their heads. In four years the average private club found that it had authorized 300 members, at around \$1,000 apiece for the new members' initiation. But the club was lucky if it had 260 members, and the \$40,000 deficit in initiation fees, together with the shortage in dues and house revenue expected from the newcomers, provided the misery for directors' meetings.

If golf club membership limits were returned to the reasonable figures set before the clubs became overly optimistic, there should be—according to a conservative estimate—around 3,000 on the waiting lists of private clubs in the Chicago district today. With financial readjustments finally being accepted and forced on golf

clubs, the trend toward smaller memberships of active members at reasonable prices already is definite. This looms up as one of the very sweet uses of adversity to golf clubs.

In getting a picture of what golf clubs have experienced in readjusting, GOLFDOM has obtained statements from clubs that either have successfully gone through the change or are in the middle of revision with bright promise of success.

Details of some of these cases are given here and will be continued in an early issue of GOLFDOM. Names of clubs are deleted.

Here are some reorganization facts on a club that was among the first to file under section 77B, as given by its attorney as follows:

Better Than Some Stocks, At That

Our club had been gradually getting into an increasing debt for the past five or ten years. When the membership began to decrease in the last three or four years and our revenues were consequently less, it was a struggle to operate on our current receipts. Finally we came to the point where despite a 50 per cent increase in members in 1934, we still had difficulty paying operating expenses and trying to catch up some old debts.

In line with other business structures, we deemed it not only proper but essential to our very existence to re-align and reconstruct our corporate existence; we, therefore, filed a petition in the Federal Court, which was duly approved. We then filed a schedule and plan proposing to issue to each stockholder a similar share of stock, to pay all of our secured creditors in full (about \$35,000) and having previously carried 6 per cent interest, we secured an agreement to renew the indebtedness at 3 per cent for a short period of years.

We then proposed to cancel entirely \$18,000 worth of certificates held by our members which were taken out about ten years ago and were non-interest-bearing, secured by deed of trust on the land, which, in reality, constituted a third mortgage. This, we proposed to cancel without paying anything therefor. Lastly, we proposed to pay our unsecured creditors 10 per cent on the dollar, divided into two payments over a period of eight months.

We think that we will have no trouble at all securing two-thirds consent of all creditors, unless it be the last named, who are the general, unsecured creditors. If our plan is accepted by that proportion of each class of creditors, the Court will turn the property back into our hands and we will have had an immunity bath, as it were, and be on a much sounder operating

basis and in a position to go ahead in a good, healthy condition.

No Bankruptcy Here

A western club case was handled by obtaining cooperation of the bondholders, and without interrupting operation of the club or destroying nucleus of private club membership around which a logical new plan was built.

This affair is described by its prime-mover as follows:

In December, 1933, our club had an indebtedness of \$190,000, including \$148,000 of mortgaged bonds and \$23,000 of unsecured notes. The membership, and consequently the income, was reduced to such a point that the club was not paying operating expenses, and taxes, assessments and bond interest were delinquent.

There were approximately 55 bondholders. I persuaded six of the bondholders to act as a committee and presented to the club and the bondholders a plan of reorganization under which bondholders would turn in their bonds and accept stock in a new golf club instead, the old club to convey to the new club all of its properties, thus obviating foreclosure and/or receivership.

It required several months to convince all of the bondholders of the merit of the plan, but it was finally done, and the new club was incorporated by the bondholders as a non-profit corporation, but with certificates of stock; by-laws provide that dividends not exceeding 5 per cent shall be paid from net receipts and additional earnings shall be used to retire the stock. When the stock is retired, ownership of the club will revert to those members of the original club who are still members of the new club in good standing.

The functions of the club were not interrupted and the membership has been substantially increased. By the grace of the bondholders, noteholders were given stock in the new club to the amount of their notes for the reason that the majority of them were members of the club and their goodwill was desired. While the stock of the new golf club is owned by the former creditors of the old club, it is under conditions which secure to the playing members a continued operation of the club with no problem of management or financing.

Members of the club who were not bond or noteholders have no proprietary interest, but, nevertheless, enjoy the same club privileges as before. The Board of Trustees was, of course, elected from the stockholders (former bondholders) and is headed by a Chairman and all officers of the club are members of the Board. The officers include a president, who is really president only of the membership for golf and social functions.



The dance floor at the Palma Ceia GC, Tampa (Fla.) well-managed club, is a special design and composition bought at a bargain from the Century of Progress exposition. It's one of the most beautiful outdoor dance floors among country clubs.

This ideal structure was made possible only by the full cooperation of the bondholders, who wisely preferred to continue the club rather than acquire the club properties by the usual legal method. The club has a business management, but must, nevertheless, serve the membership to its satisfaction or, of course, it cannot prosper.

Not Clear Out Yet

Although many clubs have done excellent jobs of working toward salvation during the depression, there continues to be the problem of getting cooperation from people who hold first mortgages on the properties, although these security holders have long since taken complete losses on many other of their earlier deals.

Stubbornness to concede that golf clubs must reorganize away from pre-depression figures, may force several clubs to seek relief under Section 77B, whereupon the mortgage holders may not fare as well as they would by cooperating with club officials who have been setting the club on a financial basis suitable to these times.

Such a case is described by the president of a well-operated club in a moderate-sized midwestern city:

Our club has had a very remarkable experience during the past several years. Three years ago when the season officially closed we found ourselves with ac-

counts receivable for uncollected dues of better than \$5,500.

This of course put the club financially in such shape that the old-timers were inclined to throw in the sponge. A younger group with a few of the real stable old-timers got together and decided that conditions could be bettered with a good business management.

Our bond indebtedness at that time included \$100,000 first mortgage 6% issue which called for a \$3,000 principal payment starting with 1932, stepping up each year until 1944. Because of the depression the active membership roster between 1930 to the close of 1932 after we had sifted many of the uncollectables dropped from 324 to 184.

The writer was elected president and immediately organized committees and adopted stringent rules regarding dues payments and so forth. We started a membership campaign giving family privilege proprietary memberships to eligible prospects gratis, they paying only the transfer fee of \$10.00. These were reclaimed memberships.

Sixty-six new members were obtained in 6 weeks in 1933 and 57 in 1934. At the same time we refused to pay interest and principal and forced a refinancing plan of our first mortgage paying 3% interest for 1½ years, 4% for one year and stepping up each year at the rate of 1% until we had reached 7%.

A serious program of reconstruction and course improvement was laid out and a campaign for retirement of the second mortgage adopted. Before the end of 1932 all outstanding accounts were paid in full

and the club was again in the good graces of the business men. During 1934 through trades and exchanges and cash, we were able to repurchase all of the second mortgage bonds and at the annual meeting at the close of the season burned the second mortgage as part of the program for that evening.

At the time of the original refinancing of the first mortgage we realized that this program was temporary and it now reaches a point where the interest increase on the first mortgage is again becoming serious from the financial point of view. It is our opinion that we should refuse to pay the interest and take some steps to make a reasonable adjustment because the original members who paid \$250 for their memberships have taken a 100% cut and others holding other securities have taken tremendous cuts in general in their investment files.

A "New Deal" Plan

One of the metropolitan district clubs which suffered membership loss severely because of its location rather than because of any lack of character in plant and operation, is coming out of the slump in good shape.

The plan which the reorganization is following is described by the president:

The bonded indebtedness of our club was originally \$125,000 and, with a membership during good times of between 250 and 300, it succeeded in reducing the indebtedness to a principal amount of \$50,000, which indebtedness matures this next fall.

About two years ago, when the depression was in full swing, our membership reached a low of 90 members. This was due in part to a lack of effort to secure new members during that one season. During the winter of 1933 and the spring of 1934 we were up against the proposition of either securing a great number of new members or levying an assessment upon the old ones.

An assessment at such a time is dangerous to consider as it might cause a loss of still further members, so we started on a strenuous membership campaign, selling equity memberships for \$1.00 and allowing members to pay dues from the month they joined. On this basis we secured 110 new members and felt that we would go into the new year at least on an even keel. As it happened, however, great losses in membership were sustained in the fall and winter, due, among other things, to worry over the financial situation of the club and, on the part of a number of individuals, their own particular financial situations.

Our fiscal year ends September 30th, at which time any member can resign. Up

to September 30th, 1934, the average amount of dues received by us from all of the new members was \$50 each. The increased number of members required increased operating expenses, and the result was a deficit. All during this time the creditors were held in check through the heroic efforts of our treasurer.

A survey of the situation during the month of January, 1935, disclosed that we had somewhere in the neighborhood of 120 members of good standing and an impatient group of creditors. We could not figure where we could operate during 1935 and still take care of the carry-over of claims for the past several years. The situation was submitted to the members and a special committee appointed to consult with the Board of Directors to provide a method of reorganization. After consideration of various ideas and plans, it was decided to petition for relief under Section 77B.

On February 16th, 1935, a petition was filed, which was approved by the Court as having been filed in good faith, and an order was entered putting the golf club permanently in possession. A further order was entered restraining all creditors from taking any affirmative action on their claims and requiring that they file claims in the Federal Court by March 25th, 1935.

A plan has just been agreed upon which will be presented for approval and confirmation within thirty days. This plan is in substance as follows: A new corporation is to be formed immediately. The present members of the club, together with new members as they are secured, will join this organization. The new organization offers to issue new bonds in the principal amount of \$50,000, dated as of the date of the confirmation of the plan and payable on or before ten years from their date, with interest at the rate of 4%, payable semi-annually. It is intended, out of net income, to set up a reserve for liquidating this indebtedness.

Unsecured claims amounting to approximately \$27,000 will be reduced to forty cents on the dollar, for which the new organization will issue debentures payable on or before five years from the date of the confirmation of the plan and bearing interest at the rate of 3% per annum. A reserve will be set up from net income to pay or purchase these claims from time to time. Taxes and reorganization expenses will be paid by the new organization.

As heretofore stated, the old club can operate until confirmation of the plan, under supervision of the Federal Court. In order to be able to so operate, arrangements are being made whereby the members of the new club can pay their dues into the old club until such time as the plan is confirmed, and they will be given

credit on their new club dues for any monies so paid.

In order to avoid the great loss of members over the winter season, it is intended to reduce the dues to \$120 per year, of which \$60 will be payable April 1st, 1935, and the balance in monthly installments up to and including the month of September, 1935.

An executive committee of three is to be appointed by the president, subject to the approval of the Board of Directors, whose duties are rather novel in the way of golf club management. One member of this committee is to be an expert accountant and all of them must be familiar to a certain extent with golf club operation. This committee will prepare the budget for the year and from month to month, and their directions will be followed implicitly by the Board of Directors. They will employ a manager and will be in direct charge of the various departments of the club involving the expenditure of money.

The only regular committees which the members will operate will be the Sports and Pastimes and the Entertainment committees. It is commonly known that most of the operating losses sustained by golf clubs are through the activities of the various and sundry committees who do not always follow their budgets very closely.

It is also intended to have the president of the women's organization in the club serve in an advisory capacity with the Board of Directors so that more consideration can be given to the women's activities.

A Membership chairman of the new organization has been appointed and he is gathering around him a group of the most energetic members. A very active membership campaign will be conducted, and the Chairman promised that we should have at least 150 new members in the club by the first of May. This is quite an undertaking, but considering the cost of playing golf at our club as compared with other clubs, and the fact that it ranks up with any of them as far as its course is concerned, should be helpful in securing new members. Most clubs have dues of \$200 a year or better. Our new club fills the need of a great number of people who must play at a private club and still cannot quite afford to allot too much money for their golf.

A BILL has been introduced in the Minnesota legislature to authorize leases of state forest lands by the state conservation committee to non-profit organizations for public golf courses.

S. P. Jermain, Veteran Golf Notable, Dies at Toledo

SYLVANUS P. JERMAIN, one of the beloved and constructive factors in American golf for many years, died in a Toledo (O.) hospital, April 20, after a lingering illness. Jermain was perennial president of the Toledo Golf league, active in the formation and operation of the amateur circuit that includes Toledo, Detroit, Cleveland and Buffalo, and a long time member of the USGA Public Links section. He was active in the formation of the Public Links section and was honored by the Toledo public parks players and authorities.

Jermain was one of the first club officials to waive the old caste restrictions on pros. At the National Open of 1920, held at Inverness where he was one of the leading members since the club's inception, Jermain saw to it that the pros were treated as welcomed and honored guests. The pros never forgot that, and when the National Open was played at North Shore in 1933 Jermain was presented with a token of pro esteem.

In his youth he was a good player, and always an ace of sportsmen. Reverses in business and health during his declining years, worked severely on him, but never to such an extent that he would not eagerly contribute of his remaining energies to the advancement of the game.

As a farewell to Jermain, golf can repeat, "Well done, thou good and faithful servant," with sincerity and sorrow.

Golf Course Costs Solved; Members Do the Work

PERHAPS the answer to getting members acquainted with the problems of golf course maintenance is that given in smaller town golf clubs, such as the lively club at Lander, Wyo. Here there are committees responsible for the maintenance of each hole. Instead of hiring men for the work, the committee members themselves clear rocks, level and grade ditch banks, raise tees, rake fairways, construct sand greens and trap and do all the other early season work on the course.

Membership of the club is divided into committees which do this work each Sunday. After the course was put into shape team matches were played with neighboring clubs.