



Never Convert an Existing Club to Refundable Equity

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As the initiation fees for country and golf clubs have dramatically increased over the past several decades, many long-time club members are looking for ways to benefit from their club's enhanced value. This situation exists because the majority of established, older clubs have little or no equity refund for members when they resign. Most long-time club members paid only hundreds or a few thousand dollars to join their club. Yet, the new generation of members is now paying \$20,000, \$50,000 and, in some cases, even \$250,000 to join. You can see why some older members want to raid the treasury. However, there is no justification for this, and it would be very detrimental to the club to let it happen.

Some Equity Component Clubs Should Exist

Yes, there is a place for true equity component clubs that allow membership initiation fees to float with the market or be raised periodically by their boards. These clubs will usually give resigning members somewhere between 25% and 75% of their membership's selling price, however, the selling members usually continue to pay dues, assessments and minimums until their memberships are sold.

Many times these clubs were created as real estate-oriented community clubs or start-up golf clubs. Their founding members had to put up significant initiation fees to purchase the club from the developer or to fund the millions necessary to start a new club. From a practical viewpoint, the only way these new members could be attracted to put up the necessary significant at-risk capital was by offering a refundable feature.

In the new, residential development areas of Florida, Arizona, California and other resort locations, equity refunds for both new and existing clubs are commonplace.

Established Country Clubs Don't Need Equity Conversion

As clubs mature and establish themselves with waiting lists to join, the refundable equity (if at all possible) should be reduced and, ultimately, eliminated for new members. However, it is important to continue honoring the promised equity refund for all existing members until they are all paid off.

At McMahon, we recommend that clubs eliminate their refund provisions for future members. Surprisingly, this does not cause a negative impact on attracting new members. In fact, there is a significantly positive impact for existing members since the once refunded equity dollars now

stay in the club to fund necessary capital improvement and maintenance projects, thus keeping dues lower.

Two very successful clubs, Farmington Country Club in Charlottesville, Virginia, and Troon Golf and Country Club in Scottsdale, Arizona, eliminated their equity refunding for new members some time ago. Both clubs have had success in this effort and have strengthened their financial position as a result. A true axiom in the club world is, **“Don’t reward members for resigning by giving them big refunds.”** Reward new members for joining and existing members for staying by giving them lower dues.

Why Do Some Members Want Their Country Club to Convert to Refundable Equity?

In the club world, it is hard for a fine, old club to justify creating a major refund liability if it does not have refundable equity today. The primary reason to create such an equity refund is to reward members who want to resign. These somewhat self-serving members will justify the refunding as a benefit to all members. In reality, it is not a benefit to the vast majority of existing members who remain in the club, since their dues will have to increase significantly to make up for the lost funds given to the resigning members.

Most clubs use their initiation fee revenues to fund necessary capital projects for the golf course, clubhouse and other facilities. These projects occur at all clubs and are more akin to maintenance and repair necessities. If a club gives away a large portion of its existing initiation fee revenues to resigning members, the dues for all remaining members must be raised to make up the difference. A typical club with an 18-hole golf course needs a minimum of \$500,000 to \$800,000 each year in maintenance and repair funding just to stay even with essential upgrades. It is hard to justify creating a refund for older members who want to leave the club.

Negative Impact of Private Club Refundable Equity

A simple capital funding example for a club that offers a 50% equity refund policy for resigning members is explained. The conversion to equity would negatively impact a typical 400-member country club with annual initiation fee revenues of \$800,000 as follows:

Example: Country Club with 400 Members

Annual initiation fee income from new members	\$ 800,000
Less revenue lost because of new equity program that offers 50% equity refund to departing members	(\$ 400,000)

Remaining net available for capital improvements	\$ 400,000
Funds needed for capital improvements	\$ 800,000
Shortage that existing members must pay by having higher dues	\$ 400,000

Result: Existing members must pay an additional \$1,000 in annual dues to overcome the \$400,000 shortage created by the equity refunds to resigning members.

Conclusion

From the above analysis of a resigning members' equity refund program, it is foolish to revert to a refund policy that depletes a club's capital resources. Members should not join clubs as an investment with a profit expectation. Great clubs exist to give their members and families the best possible club service and experience at the best possible price. Each club should look at its mission statement, and rarely will it be found that a club exists for its investment potential to its members. Country clubs need to keep their dues and initiation fees as low as possible, and this is best accomplished by not offering an equity refund to resigning members. As for equity refunds helping to attract new members, they don't. New members are never thinking about leaving a club while they are joining it, thus offering a future refund feature is of little value. As always, there are exceptions to every rule, but very seldom is it wise to add an equity refund component to an existing club that does not have one.