



## *A Message from Ned*

### ***Capital Budgeting Part One: Prioritizing the Capital Expenditure***

The two facets of Capital Budgeting I want to focus on in this two part WSN series are prioritizing the capital expenditures and financing options for those capital expenditures. It is my experience that Clubs tend to be very good at the Operating Budget. The difficulty arises when the Capital Budgeting piece is added. Since this is a bit out of the comfort zone, it often doesn't receive the attention it deserves.

The National Club Association (NCA), Club Director Reference Series states, "When considering capital expenditures there are often several projects that compete for the attention of the Board. Setting realistic priorities is particularly critical when a Club has limited resources. Ranking insures that the most important and most critical needs will be addressed first. Clubs should consider the following three steps when prioritizing capital expenditures: 1.) mandatory, 2.) necessary and 3.) desirable." This guidance is wonderful in theory, but we all know that the reality in prioritizing capital expenditures comes down to political factors more than it should. We have all attended enough Board meetings to understand that these political factors are inherent in what projects get done, which projects are vetoed or delayed, and how the projects are funded.

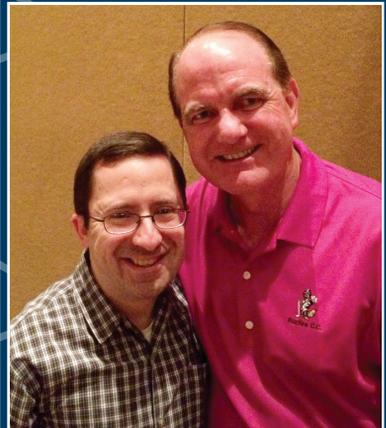
Unfortunately, the reality is that prioritizing capital expenditures may be determined more by the bully, or whoever talks the loudest, than by the merits and benefits of the various projects. In an ideal situation, the list will be prioritized based on financial viability and enhanced member experience. Eventually the process plays out and the capital projects will be prioritized. Stay tuned for part two of this WSN series to determine how these projects can be financed.

See you at the Club,

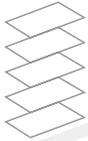
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## **PRIORITIZING TIPS**

- Don't let the one that talks the loudest be the one to prioritize the Club's capital expenditure list.
- Try to set realistic priorities and rank projects according to most critical needs.
- Don't let political factors affect how these priorities are ranked.
- Come prepared with the pros and cons of your priorities to defend your case.



**Ned McCrory with Jerry Trieber, the VP of Finance at Crescent Hotels and Resorts and Global President of HFTP at the HFTP Florida Chapter Conference.**



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### Three steps to consider when prioritizing capital expenditures:

- » **Mandatory** - The mandatory category obviously would include expenditures that are necessary for the continued operation of the Club. Usually these are unanticipated and need to get done immediately. Think health department mandates, fire code violations, food safety issues, or perhaps an irrigation system that is not functioning properly, or at all.
- » **Necessary** - The necessary category would include items that need to get done, but perhaps could be delayed. Think golf carts that could be replaced this year or next, same for greens equipment, and an upgrade of kitchen equipment that, while nice to have, could be delayed.
- » **Desirable** - The desirable category is defined by NCA as “projects that should be considered as part of the ongoing effort to maintain the club and its facilities in a condition suitable to meet the demands of the membership.” Think pool remodel or locker room renovations, something that would truly enhance the member experience.