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PRIVATE CLUB PRACTICE GROUP

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A Message from Ned

Capital Budgeting Part Two: Financial Planning for Capital Expenditure

The next facet of Capital Budgeting in this two-part WSN series is to look at the nine capital financing options and determine how the projects will be financed.

This is something of a 'chicken or the egg' dilemma. Do you calculate the total cost of all the projects on the list and then raise that amount? Or is it the more likely scenario that the amount you think you can reasonably raise determines which projects get done, making the ranking of the projects very critical?

Where will the money come from? However the Club wants to disguise it, the vast majority of funds will come from past, current and future members. In past years, in good economic times, and even now at some very affluent Clubs, the total cost would be divided by the number of members to arrive at the capital assessment. How many members would “vote with their feet” and leave the Club if that were to happen? To avoid this, Clubs have to come up with more creative financing options. My experience is that there are nine capital financing options Clubs have used. On the back of this WSN, you will find a list of the nine options with brief pros and cons of each one.

Which one of these options is the best for your Club? It depends, but it is probably a combination of several of them. You need to take an honest look at your current strategic and financial positions and compare yourself to your competition to determine the best result for your Club.

See you at the Club,

Ned McCrory
Private Club Practice Group
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TIPS

- Make sure to take an honest look at your Club's current strategic and financial position before you make a decision.
- Keep in mind that in most cases the money will come from past, current and future members.
- When considering new revenue streams, think about conducting a survey to make sure you are building something people/members want.

Ned and Corinne Grimaldi (Executive Director at Carolinas Chapter CMAA) at the Carolinas CMAA Chapter Conference

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Nine capital financing options Clubs have used, and their pros and cons:

» **Cash/Investments**
PRO – money is already there
CON – ‘Rainy Day’ fund is gone

» **Line of Credit**
PRO – access to funds is already in place
CON – short-term debt used for long-term asset

» **Initiation Fees**
PRO – this is what they should be used for, not operations
CON – funds from new members are being used to fund a project to benefit all members

» **Member Bonds**
PRO – friendly debt, interest rate can be less than bank debt
CON – may be required to be subordinated to bank debt

» **Member Assessment**
PRO – current member gets the use of the project they paid for
CON – could trigger member resignations

» **New Revenue Stream**
PRO – diversify revenue, enhance member experience
CON – revenue stream may not be enough to pay off new debt

» **Sale of Club Assets**
PRO – can turn an unused Club asset to cash
CON – gone forever

» **Bank Borrowing**
PRO – monthly debt payments are paid by the members using the asset
CON – bank is now looking over your shoulder and you need to comply with loan covenants

» **Naming Rights**
PRO – no one “has” to do it
CON – petty jealousy among members