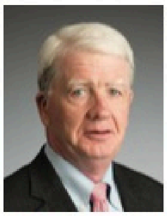
What are some of the trends in financing capital expenditures?



In reviewing financing for proposed capital expenditure projects, clubs consider the following alternatives:

Finance from operations. Those fortunate clubs that have funds available from operations for capital expenditure projects can use this most favorable option. Usually, this is not the case.

Assess the membership. The capital expenditure or replacement can be financed by a membership assessment called a capital improvement assessment—typically $40 to $75 per month for today's clubs. These assessments are generally allocated to a capital improvement fund to finance board-approved projects, or sometimes to repay debt incurred for past capital improvement expenditures. This option offers the flexibility to adjust the assessment to meet the planned expenditures.

Set aside all or a portion of initiation fees. Initiation fees can be set aside to finance capital improvement projects or to repay debt incurred for capital improvement expenditures. However, this method has a key disadvantage: Initiation fee income can vary dramatically.

Borrow funds. If borrowed from a lending institution, the amount borrowed, together with interest thereon, must be repaid from future revenue or assessments. Additionally, clubs sometimes borrow funds from their members for capital improvements by issuing bonds or certificates, which may be non-interest, or low-interest, bearing.

To protect against cash flow problems should membership decline, some clubs adopt the policy that bonds or certificates cannot be redeemed until a new member is available to purchase a new bond or certificate. However, issuing or increasing the value of bonds or certificates only increases evergreen "debt" and negatively impacts future cash flow, making this method generally inadvisable.

Sell property. In order to raise funds, some clubs have resorted to selling club property (e.g., land, air rights, artwork, etc.). This can be a very contentious issue and can incur large tax liabilities. With proper planning and advice, tax liabilities can be minimized and possibly eliminated if the club is a tax-exempt 501(c)(7) social club and can qualify for the "reinvest rules."

Combining methods. The most common way to finance capital expenditures is a combination of the ways previously discussed, thus, the club is not depending solely on one funding source.

Do nothing at all. Often because of the club's pre-existing debt, frequent membership assessments, and operations not generating enough dollars, many clubs ignore their capital improvement project needs. However, this is really not a viable long-term alternative.

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