# Focus On ... the Economy

## Rational Capital Planning In Irrational Times

## By Paul C. Mueller

They are inescapable – the dire headlines of another key segment of the economy in turmoil. The sub-prime mortgage crisis, fluctuating oil costs and a roller coaster securities market all point to continued financial uncertainties for the foreseeable future.

The club industry was once partially insulated from the most severe economic fluctuations. Yet these problems have now reached your club. The effects may be initially subtle and become evident in decreased food and beverage revenues, reduced golf rounds or lower member attendance at special events. More significant examples would be a cancelled wedding or an increase in the membership exit list equity reimbursements. Subtle or not, the cumulative effects of these changes on your profit and loss statement will become apparent.

As several economic forecasts predict several years of continued uncertainty, this is not the time for planning paralysis. As the P & L statement worsens, the struggle between daily operating expenditures and capital expenditures only intensifies. These irrational times reinforce the fact that every general manager, controller and all executive staff need to strategize the correct time and expenditure of each operating and capital dollar.

In recent years, increasing costs of labor, materials, energy and insurance have stressed the operating budget. Often these increased costs leave the capital budget items short changed. Necessary capital projects, such as the replacement of the roofs or air conditioning equipment, may get deferred until money is available. Deferral of a capital replacement for a year may not at first seem detrimental. If deferral becomes a pattern over several years, the club faces a slippery financial slope – always playing catch up. Members may view this operational pattern as less than optimum and perceive it as decreased member service.

The majority of clubs now budget separate capital annual member assessments to fund the estimated capital repair and replacement expenditures. Traditionally, the club will add the assessments to the variable initiation fees, transfer fees and depreciation values to fund the expenditures and maintain reasonable ongoing balances. Maintaining a separate fund was not always the rule. In the past, commingling of operating and capital accounts was more common and resulted in an accounting nightmare. Only a dedicated account will accurately maintain contributions and expenditures.

During both good and bad economic times, the club should think of this dedicated capital fund as its financial safety net. Although the fund exists, the question arises if that net is sufficient to meet your club's capital needs. In this current economic period, the uncertainty of variable fund sources and ever-increasing operating and capital expenses may raise doubts from the members, committees and management that the account is adequately funded and if the club can continue to fulfill its fiduciary responsibilities to the members.

An increasing number of clubs across the country are answering these financial challenges with proactive and fresh thinking. Clubs are discovering that one of the most economical and effective strategies for meeting the challenges of monthly and annual capital management is the capital asset plan.

The capital asset plan is an independent financial and architectural analysis of all your club's assets. Through onsite visual inspections by qualified and experienced professionals, interviews with key club staff and review of financial and architectural records, the plan identifies the age, quantity, existing condition and the remaining service life and costs for repair and replacements for each asset during the next 20 years. The plan includes all of the assets of the clubhouse, golf course, recreation amenities and all other capital asset unique to your club. The capital asset management spreadsheet then aggregates these individual costs to create the recommended annual capital budget and maintain reasonable fund balances (your safety net) for each of the next 20 years.

The plan may identify that the club has sufficient capital funds and anticipated assessment income. Conversely, the plan may identify that the club is not able to meet its current obligations under the present assessment structure. This second scenario is likely to increase during the next few years of uncertain economic conditions. However, the value of the capital asset plan remains. Although the club may not be able to meet the recommended capital fund income, management now has the knowledge of the years and costs of the necessary expenditures needed to make professional evaluations and potentially difficult decisions as to the specific use of the available funds.

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From management's perspective, the value of the independent and expert opinion of the plan is important to note. Everyone recognizes the need to plan. However, the time and the expertise of the club staff to accurately and efficiently evaluate all of the club's assets are simply not available. Certainly, internal asset lists and depreciation schedules are a start to understand the age and possibly the quantity of a club asset. More often than not, this information is contradictory or incomplete. Therefore, only a current survey of the quantity, condition and remaining service life of club assets by an independent and experienced professional will result in an accurate capital asset plan.

Once implemented, the plan is an excellent management tool to organize and prioritize both your upcoming and long-term capital repair and replacement expenditures. The plan is also ready for immediate use by your long range planning committee and key club staff. The value of the plan continues as it is also an integral part of your club's strategic business plan to fulfill its fiduciary duty and to maintain the club to your member's expectations.

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