

Junior and Associate Memberships

Junior and Associate Concerns---Real and Perceived Issues:

The number of Associate members has grown over the last ten years, in large measure because Associates can remain Associates until age forty and because those who were never Junior members can now join directly as Associates. Because of this, there now exists an “Associate Bubble” with a large number of Associates moving rapidly toward age forty and the inevitable purchase of an equity membership.

Although people apply as Associate members, they are really processed as Regular members and simply given the option to “finance” their equity purchase over time. This mandated savings plan is really no more than the purchase of an option to buy at some future date. They can exercise their “option” without further processing since they were actually processed according to “equity candidate standards” when they first applied. However, this option does not guarantee the purchase price of an equity membership since the owner of the equity membership, rather than the Board of Directors, sets the sale price of their equity membership. On the one hand, this is a plus if the market falls since the Associate can exercise their option to purchase at any time, thereby taking advantage of a favorable “buyers” market. On the other hand, if the selling price of memberships continues to rise, or if they choose not to buy till the last moment, they may be stuck purchasing an equity membership priced far above the expectations they created at the time of joining.

In years past (i.e.---the late sixties), when the club had authorized but un-issued stock to sell, they could guarantee a purchase price for approved Associates. This being the case, Associates were allowed to pay for the membership in equal payments over a number of years, taking actual possession of the equity when the final payment was made.

The current Associate membership doesn’t allow for this since the Club no longer has either treasury stock to sell or authorized but un-issued stock available for purchase. For that reason, the Board can no longer guarantee a purchase price to new Associates. History has shown that the price of membership can balloon upward or crash downward depending on market dynamics.

The price of equity is currently at an all time high. Associates are concerned with the prices now quoted. Parents of Associates are concerned that their kids won’t be able to afford a membership. Members in general worry that “good people will be lost.” People are talking about “doing something” to resolve the problem within the free market currently used to price equity memberships.

Is this a perceived problem or a real one? To the manager’s knowledge, one Junior member resigned knowing that the purchase of an equity membership at age forty would represent too much of a “reach” for a grade school teacher like herself. Another member,

an Associate, resigned at age forty because they really didn't use the club enough to warrant a purchase. Will it be more of a problem when the current Associates reach forty? Perhaps, but perhaps not. Will they come up with the money when push comes to shove? Are people discouraged from joining as Associates or as Juniors given the anticipated high cost of an equity membership?

The Strategic Planning Committee has been asked to explore the "Associate Bubble," determine if there is a problem with the currently configured Associate membership and present options to the Board for future consideration.

Equity Prices Over the Years:

Selling members set the price of equity in the secondary marketplace. The Board has influenced these prices over the years (Committee Members are encouraged to read the General Manager's White Paper on *The Selling Price of Equity in the Secondary Marketplace* to better understand the pricing mechanism) by releasing equity into the marketplace via the issuance of authorized but unissued membership stock, the sale of recaptured equity stock, the creation of a Non-Resident Membership, the changing of the conversion age for Associates and Juniors and the increase in or decrease of "transparency" in the marketplace.

The club historically has not used admissions fee adjustments as a tactic for reducing the total price to the buyer. What seems to have happened is that the club captured a higher transfer fee as the market rose, then when the market softened it maintained the same fee in order to maintain the income stream for its capital needs. In a declining market the buyer benefited at the expense of the seller while the club maintained its admissions fee. In rising markets the club has adjusted its admissions fee to take advantage of the increasing value of the equity by either increasing the fixed fee or establishing a percentage transfer fee that maximizes the "transactional return." However, since changing back to the \$5,000 fixed admissions fee, the club purchasing member, rather than the club, has benefited from the fixed price that currently exists. This philosophy, interestingly, is at odds with the practice at other clubs where the club tries to take advantage of a rising market to recapture some of the appreciated value of the membership asset.

Conclusions---Options:

What should the Committee recommend and what should the Board adopt in response to the "Associate Bubble" which is currently building? The following options are the most obvious:

1. **Do nothing:** The market, though slow, will ultimately remedy the situation. Fewer buyers will arrive, prices will drop, more buyers will appear and a balance will be created. This approach essentially says that short term tactical problems should not drive long term strategic thinking.
2. **Up the age limit:** If action is felt necessary to ease the pain of an equity purchase, simply raise the Associate age limit from forty to forty five. This would put the Associate in the middle of their most productive income years while allowing significantly more time to accumulate dollars in the Associate Trust Account.
3. **Up the annual contribution:** If the Associate Trust Account is intended to equal, or almost equal, the anticipated purchase price of an equity membership, then increase the required annual contribution. In addition, in order to avoid a balloon payment on their birthday each year, have the Associates billed monthly as part of their regular statement. The annual amount could be adjusted, if necessary, as a percentage of the average selling cost of an equity membership in the previous year.
4. **Allow Associates two years of unlimited "turndowns":** All approved candidates for Regular membership have unlimited "turndowns" of offered memberships for one year.

Simply extend those turndowns to two years for Associates. This will also pressure sellers to reduce their asking price since the pool of buyers at any one time would be reduced. However, the Associates truly have eight years of unlimited turndowns since they can purchase any offered membership at any time given the fact that they were processed as Regular members during their initial application.

5. **Fix the price of an equity membership:** The club has a “free market history” in the secondary marketplace. However, they could overthrow this tradition and fix the price of memberships below the market, thereby facilitating the purchase of equity by Associates.
6. **Create a Non-Equity Special Associate Membership:** As with the Los Angeles Country Club, a Special Associate non-equity category could be created and sold, at a fixed price, to those who had been Associates. This would keep the price of regular equity sales down and would stabilize the purchase price of a Special Associate Membership. The down side would be an increase in the membership base, a no-no as far as “the concept of intimacy” goes for the club.
7. **Create a Non-Equity Special Associate Membership for Legacies Only:** Since families are important, and generations of families are more important yet, the Board could create a Special Associate membership for legacies, that is, for children of members. This would keep the family together, make a very large statement to the member community about values and solve the most painful problem, that of children being denied membership because of “resource complications.” However, in a meritocracy like our own, there are members who might suggest that this type of favoritism is both unnecessary and counter-productive.

In considering its options, the Committee and Board need to recognize that private club membership is always expensive, that it is always a luxury, that “entitlements” are anathema in a “meritocracy” such as ours and that “buying in” is only part of the expense of ownership since dues have to be paid each month and goods and services are never free. Sometimes you do the member a disservice by getting them “hooked” on the club experience then giving them unrealistic expectations about affordability. A balanced approach is required and compassion for the Associate will sometimes be in conflict with “justice.”