The “Dues Dynamic”

Problem:

Monthly dues are periodically increased by the Board of Directors. Understanding the “dues dynamic” is critical to the Board’s ultimate decision on when and to what extent those dues should be raised. The following is a background report on monthly dues.

Issues:

1. Basic Financial Concepts:

A. **An ongoing operation**. The club will be here in the future. Therefore, all current decisions have long-term financial implications.
B. **The future will come**. We can anticipate future expenditures and must put monies aside annually to cover them.
C. **The Club is financially conservative**. The club “lives within its means.” It has not borrowed money for either operations or projects. Whenever the possibility has been suggested, it has always been rejected.
D. **The Club is a nervous investor**. Historically the Club has required that its cash be put into low risk, high liquidity instruments. Lowered risk and lowered returns are the results.
E. **Operations should not run at a loss**. Club operating departments are often money losers. The Club has adopted a position where the sum of the operating departments should never be less than zero.
F. **The Board makes financial policy**. Based on input form the Finance Committee and management, the Board ultimately adopts whatever guidelines it feels most appropriate. The manager is responsible for administering those policies. The manager’s performance is reviewed by the Finance Committee and the Board to ensure that their guidelines are being followed.
G. ***Cash is king!!!*** The actual cash position now and in the future will determine the scope of expenditures. The current cash position and projected cash positions are shared with the Board and Committee each month. Five year projections are made which identify anticipated sources and uses of funds. The success of this system is predicated on maintaining a “floor of cash” below which the club never spends. The committee has determined that this amount is $250,000 or roughly 5% of the value of the facility. In addition, the club must precisely identify capital expenditures into the future as well as extraordinary ongoing expenses (i.e. the beach lease) to ensure that this floor is not exceeded. Accurate forecasting and monitoring of cash inflows and outflows allows the club to use cash that was previously idle. ***Cash is everything and there is only one pile of cash for operations and capital expenditures. All revenues increase the pile and all expenditures decrease it.***
H. **The annual audit**. The audit at the end of each fiscal year ensures that our accounting system is sound, the reports accurate and the staff trustworthy. The audit is conducted in October and November at the close of our financial year.
I. **Necessities take priority over luxuries**. The club has many needs. Those needs which are related to the operational integrity of the club take priority over those which are extras or enhancements.

2. Sources of Cash:

The club can get money from:

a. Operating profits from the various operating departments: Bar, Dining Room, Grill.
b. Monthly Dues.
c. Admissions fees.
d. Assessments.

e. Investment income.
f. Bank loans.
g. Operating profits from various programs sponsored by the club--- youth, paddle tennis, volleyball etc.

It would be accurate to suggest that ***dues*** are the primary revenue source for all private clubs.

3. Uses of Cash:

Cash is used to subsidize “overhead.” Overhead would include such things as administration, maintenance, security, clubhouse expenses and the like which are not allocated to specific operating departments.

Cash is used to subsidize programs, services and operating departments which function at a loss. Such things as bridge, volleyball, the gym, the youth program, bar snacks, committee meals, the main dining room and the Fourth of July are examples.

Cash is used to refurbish and to renovate the existing facility on a regularly scheduled basis. Replacement of existing carpets, furniture, fixtures and the like are indicative of this use.

Cash is also used to upgrade existing furnishings, fixtures and facilities and to build additions to the existing facility. Installation of new playground equipment, improving the quality of furnishings and fixtures in the living room, construction of a gym and tear down / ground up rebuild of the Grill are examples of these uses. The timing of various projects and their scope will impact future cash flow and thereby the dues decision.

Members recognize capital improvements immediately. They notice program / service enhancements less quickly and they are almost oblivious to overhead costs. Selling a dues increase for “hard improvements” is often easier than selling an increase for “out of sight, out of mind” overhead expenses.

4. Major Operational Enhancements having a Cash Impact:

Several operational changes could have a significant impact on the budgeting process. The following are several real world examples that directly impact operating expenses. The “reasons” must always be quantifiable and tangible.

a. The introduction of a 401k employee benefit program.
b. The addition of a profit sharing employee benefit program.
c. An increase in the security operation.
d. An increase in housekeeping operations.
e. Increases in the maintenance department.
f. An increase in the hours of service for the locker rooms.
g. An increase in the hours of service for the front office.
h. Increases in the man hours required by the food and beverage operation.
i. Salary increases to reduce turnover in key management and supervisorial positions.
j. Utility costs increased to provide improved overnight security lighting.

5. Raising Cash through Each of the Seven Options and “The Perception of Value” for each:

a. Operating Department Profits:

Some departments can contribute to overhead expenses because they have "user fees" which more than cover expenses. The locker rooms and beach operation are examples. Since these already operate at a profit, one could increase the fees and thereby increase their contribution margin. However, the "point of member resistance" needs to be determined so that the value perceived always equals or exceeds the user fees paid.

Some departments can contribute to overhead because their operating margins are strong and their business exceeds that which is needed to cover direct operating costs. The Bar and Grill operations are examples of this. Value--- quality for the right price--- is always a consideration here and margins cannot be significantly increased without compromising member satisfaction. Business expansion is possible if non-members are permitted use of the facilities but doing so can compromise the club's tax exempt status and its concepts of both intimacy and privacy.

The Dining Room is traditionally the biggest cash drain on a private club since the fixed operating costs--- the kitchen and service staffs --- are large and the revenue base, by contrast, is relatively small. Dining rooms draw upon a small community of users, those users compare prices to area restaurants with different marketing opportunities and the days and hours of operation are limited given the modest demands and expectations of the using members. High profit private function helps subsidize the fixed operating costs. Business expansion is possible via non-member functions but doing so can compromise the club's tax exempt status and its concepts of both intimacy and privacy.

b. Monthly Dues:

Dues are the primary source of cash for the private club. Dues are "pure profit" and their increase nets the club the highest possible amount of usable cash for the "pain induced." Members compare their dues to those charged at comparable clubs and the idea of value--- quality received for the price paid--- is at the forefront of their thinking. Perception is as important as reality when it comes to monthly dues. If members think they're paying too much, they are. If they think they're paying the right amount for the goods, services and facility received, then they are as well.

Dues increases are the best way to increase revenues. The Board needs to determine what the "value perception level" is for the club and to equal, but never exceed the dues figure members associate with that perception.

c. Admission Fees:

Admission fees are those fees paid directly to the club by new members. These fees include those paid by Juniors, Associates and Regular members once admitted.

These fees are entirely "profit" and every dollar increase nets the club a comparable increase for operations. Value, again, is an issue since the "candidate community" compares the admissions fees charged to those charged at other clubs. What is “appropriate” is entirely in the mind of the candidate purchasing a particular membership.

These fees are fixed and can be raised or lowered by the Board at any time without prior approval by the general membership.

During good economic times these fees can be raised with little opposition. Sustaining “good time” fees during times of financial uncertainty is more problematic. Again, the Board rather than the market--- which adjusts the sale price of equity in the secondary market--- determines when the fees are changed and by how much.

d. Assessments:

Assessments are one-time charges to the members which are usually levied to fund specific capital improvements. Although some clubs have used assessments to cover operating losses, doing so is frowned upon by most boards. Since there are no direct expenses related to their collection, the monies received are a hundred percent usable.

Assessments are very controversial since they are often a significant financial “hit” on each of the members, reflect poorly on the budgeting expertise of the Board and become popular topics for those in opposition to the projects being funded.

Assessments are usually paid by the equity members and to a varying and lesser degree by all other membership classes.

e. Investment Income:

Investment income is received from invested cash reserves. Since clubs are fiscally conservative, the investment instruments used are usually low risk, low return vehicles.

Increases in investment income require an increase in cash reserves and / or an increase in the profit received from each invested dollar.

Members object to increasing cash reserves when no identified needs exist and are adverse to putting the existing cash reserves at risk using more volatile investment instruments.

f. Bank Loans:

Bank loans provide cash but the principle must be repaid with interest. This fact makes bank debt an unattractive way to raise cash for either capital expenditures or operations.

Clubs shy away from the use of debt given their conservative financial natures. Short term “luxuries,” such as on-going operations, are rarely funded using debt. Long term debt is sometimes incurred to cover capital expenses for projects which have an exceedingly long useful life. Doing so allows all who benefit from a given improvement an opportunity to pay for those improvements over time.

Banks are very comfortable lending clubs money since their debt positions are usually low, the facility and land have great value and there's a constant income stream from dues.

g. Profits from Programs:

Members pay for specific programs--- youth camp, volleyball tournaments, opera night--- with admission fees. Value is critical since participation is often related to the quality of the program provided and the cost of comparable quality in the marketplace. Members expect their club to exceed their "value perception" for the programs offered.

As a consequence, most programs offered lose money or, at best, break even and make little, if any, contribution to overhead.

Given the small number of programs and events being offered, and the slim to non-existent profit margins for each, this category seems an unlikely target for increased revenues and profits.

6. "Continual Incremental Improvements" and the Dues Push:

The management and Board intend to equal or exceed member expectations for goods, services and facility. As a consequence, member expectations are continually being raised. Doing so pressures the management and board to further improve the goods, services and facility to once again equal or exceed those expectations. There is a continual upward spiral in expectations, meeting those expectations, raising expectations once again, meeting them once again and so on indefinitely into the future. There is always an increased cost associated with improving goods, services and facility and then maintaining them at that improved level.

This philosophy of "continual incremental improvements in all goods, services and facilities" necessitates a continual increase in dues--- the "dues push"--- equal to the cost of providing those improvements.

7. Inflation and "The Dues Push":

The cost of operations increases each year due to inflation. Labor costs go up, insurance premiums increase, volleyballs become more expensive. Sometimes inflation is low, thereby keeping operating increases low, and at other times inflation is high, thereby increasing operating costs at an accelerating pace.

Operating efficiencies can moderate these increases. Sometimes "successes" in this regard rebound on one in future years---wages might be kept in check because of staff loyalty, only to find out in three years that no-one is willing to work for so little and that a "catch up" wage increase is required that outstrips normal inflationary increases. Deferred maintenance suddenly costs more because periodic maintenance was neglected to save money.

Overhead costs such as these inevitably cause a "dues push" on an annual basis. Labor is the biggest factor in this "push" since retaining trained, committed and enthused staff is critical to any successful private club. Inflation, expectations and performance increase labor costs and dues are the usual source of cash to offset those increases.

8. Classes of Dues:

Private clubs have several membership / dues categories.

Regular Members:

Regulars own equity and therefore pay the most dues.

Associate Members:

Associate members are non-equity members of the club but pay the same amount of dues as Regular members.

Junior Members:

Junior members are non-equity members who pay 35% of the dues paid by Regular equity members.

Non-Resident Members:

Non-resident members are non-equity members who pay one-half of Regular member dues.

9. Dues at Other Clubs:

Certain "rules of thumb" exist for club dues.

Members compare their club's dues to other clubs in their club category and locale while also comparing their dues to those in different club categories having comparable "qualitative" members within their general geographic area.

Country club dues are usually the highest, followed by city clubs and then beach / yacht clubs.

Beach / yacht club dues are roughly half the price of country club dues while they're usually 25% or so less than area city clubs of comparable "qualitative" memberships.

10. Standard and Predictable Dues Increases:

Some clubs have a history of increasing dues on a regular schedule---perhaps every year, two years or three years---at a predictable percentage. Doing so provides the Board, management and Finance Committee planning tools they might not otherwise have.

11. Revenue Increases based on Varying Levels of Dues Increases:

The following revenue increases would be realized annually from various monthly dues increases proportionately applied to all classes of membership for a hypothetical club of 650 members:

$10.00 per month	$83,850
$15.00 per month	$125,775
$20.00 per month	$167,700
$25.00 per month	$209,625
$30.00 per month	$251,550

12. The Dues Decision:

The Board should keep several important points in mind as it considers the dues decision:

a. The scope of future refurbishment projects will impact the dues increase under consideration.
b. The timing of future refurbishment projects will impact the dues increase under consideration.
c. The timing and scope of discretionary facility upgrades will impact the dues increase under consideration.
d. Projections for operations would suggest the need for an increased annual subsidy in the coming years.

e. Operating costs over the last three years have increased sufficiently to warrant a dues increase in the coming year if the Board intends to fund renovations and refurbishments at historical levels from dues income.
f. Area clubs will be increasing their dues. That amount needs to be known since most members compare their dues structure to comparable area clubs.
g. The historically acceptable level of dues increase --- that is, say a 7% increase every three years---will allow very little room for discretionary facility spending in the coming three years.
h. People will be more willing to accept a dues increase during good times than in bad.

Conclusion:

The General Manager and Board need to believe that a dues increase is necessary in the coming fiscal year; that the increase should follow historical guidelines; that the increase should be a given amount per month for Regular members and proportionately the same for all other classes of membership; that project scope and timing be adjusted to accommodate this funding level; and that the admissions fee for Regular Equity members be adjusted to reflect increases in the dues structure.