CASE STUDY:
Preserving & Enhancing Private Clubs

Overcoming Mandatory Membership Helps a Florida Club Thrive

ConcertGolf Partners

Fountains Country Club | Lake Worth, FL

The Fountains Country Club, with 54 holes of championship-caliber golf designed by Von Hagge and Devlin, is part of a 1,767-home master planned community in Lake Worth, Florida. With expensive homes nearby, one might assume that recruiting and retaining members would be easy. But Fountains Country Club faced a handful of issues that are not easily fixed.

First, the club had a mandatory membership requirement. Homeowners and HOAs in the community were suing the club to remove the covenant that required homeowners to be members. The rule, imposed in 2004 to help support the club's operations, led to unforeseen consequences - home prices in the community were artificially depressed because everyone had to pay club dues on top of their HOA dues. Residents were winning these lawsuits, and members were quitting the club in droves as a result.

At the same time, Wells Fargo Bank declared a series of defaults by the club on its nearly $10 million in loans, which were used to fund renovation projects during better days. Fewer members meant lower revenues, making it difficult for any equity club to quickly change its cost structure to offset the lost revenues. But large banks tend to be rigid and unforgiving.

Last, the Board's plan to sell off the closed North Course to homebuilders to pay down the debt and fund new improvements was met with several obstacles. The homebuilders kept finding new problems in their "due diligence" and lowering their price. In addition, the club had to pay mounting bills from lawyers and engineers, while somehow keeping the club's cash flow at breakeven, trying to avoid another member assessment.

Lawsuits, loans and land. This three-headed monster of board challenges continued to build pressure on the club from 2014 to 2017. Could the board at Fountains Country Club find a solution that addressed all these issues?

Read on to find out.

The Fountains Country Club Community

Fountains Country Club opened in 1972 as the anchor amenity of a residential community with 1,767 homes covering 965 acres in the middle of Palm Beach County. The club itself occupies 412 acres, with a main clubhouse of approximately 52,000 square feet, and an 11,000 square foot fitness complex with 12 tennis courts. The three championship golf courses were designed by renowned golf architects Von Hagge and Devlin.

The Fountains gated community contains 19 subdivisions – homes range from small condominiums for retirees all the way up to 5,000 square foot estate homes. At Fountains, the south communities, those located below the canal, contain the larger, more expensive homes – and homeowners who tend to support the Club. The north consists of more modest condos and townhomes with fewer golfers and club members. Many describe the conflicting groups as "the Hatfields and McCoys." Needless to say, club debates about dues increases or assessments were often contentious.

The Challenges of Mandatory Membership

"Bundled" communities, where you buy both a home and a club membership as part of a package, are often also called "mandatory membership communities." Historically, many master-planned golf communities in Florida and other states were developed this way. However, The Fountains was not originally set up this way – residents could choose whether they wanted to join the club or not.

Even before the 2008 recession, Fountains faced some membership challenges, not unlike many other private clubs. The club struggled to find full-paying golf members. There were plenty of social members playing cards, but at much lower dues rates than the coveted golf members. Fountains CC was treading water, barely replacing annual member attrition each year, but often with lower-paying social members and not by attracting younger golfing families.

In 2004, the club decided to address its membership stagnation and slowly declining dues income, in part, by asking all Fountains residents to pitch in – since the club is the central amenity and all homeowners benefit from its success, why not require everyone to maintain at least a social membership at the club? Well, the courts see this differently. Many residents and sub-HOAs sued the club over this new mandatory membership requirement - and stopped paying their dues in the meantime. And they won. Since the original plan for the development did not include mandatory club membership, the court ruled that the later addition of a mandatory membership requirement was not valid.

Increasing Debt, Declining Membership

In 2007, the club borrowed $15 million to fund major renovations to the main clubhouse and the fitness complex. The projects were well-received by the membership, but in hindsight the timing was not ideal. The recession of 2008-09 hit many clubs hard, and Fountains was no exception.

With membership declining due to the recession, and members protesting the mandatory membership requirement by simply not paying their dues, revenues and cash flow at the club were under pressure. It was difficult for each new board to pay down the bank loan - using funds that could otherwise have been spent on new and upgraded facilities. To fix its mounting issues, the Fountains board began interviewing the leading golf management companies. They eventually hired Kemper Sports to manage the club, but course conditions suffered due to cost-cutting and the cash flow issues remained.

By 2017, the discussions with Wells Fargo Bank were contentious. The bank wanted a sizeable paydown of its loan by the wealthy club members. Surely the club's members – largely wealthy and successful folks – could each make a small contribution to pay down the loan and correct the loan default? Perhaps the under-utilized North Course – the club's third and lesser course – could be sold off to real estate developers to pay down the loan? There must be a solution.

A Proactive Board

Fountains was fortunate to have three championship golf courses that wove gracefully through the high end residential communities of the Fountains. The South Course is widely considered the best course, with undulating terrain and water on 16 of its 18 holes, and the West Course has its adherents among the membership. For several years, the club's boards had concluded that the lesser of the three golf courses was not necessary. There was not enough play on the North Course, and the maintenance costs made the upkeep a burden. In 2016, the club decided to close the North Course and sell the land to homebuilders or developers. The idea was that an extra $10-15 million from the sale of the land would go a long way toward reducing debt and funding capital projects at the club. As many equity clubs have found, this is not always a simple solution.

The first problem that clubs must face are the varying demands of potential buyers. Real estate developers are prepared to get entitlements to build homes, but their price is the lowest by far. Homebuilders can offer a higher price for golf course land, but you find out over time that they need the land wrapped up like a Christmas present – with all the soil and environmental issues resolved, neighborhood meetings completed and all the county approvals in hand. Learning this on the fly is no fun.

Another challenge is running a breakeven club operation while paying for the sale of the land. It is not unusual for a club to spend a million dollars or more on lawyers, soil engineers, traffic consultants, environmental experts and other vendors before getting to the end of a three-to-five year odyssey that prior boards thought would be a quick road to cash. Raw land is just that – raw. No one buys it for a good price if you're selling it as-is. Where was the board going to find millions to pay for legal fees and due diligence costs, all while trying not to assess the membership?

Many board members tout their real estate expertise from successful careers in the industry. However, often they have day jobs – and so the daily grind of lawyer meetings, county hearings and attention to detail over years of processing entitlements is just not feasible for a part-time club board of directors. You begin to see why real estate developers exist. They do this for a living.

There were several instances in which the board had proposals in hand from leading homebuilders or developers. But they ran into another issue: the need to get 500+ club members in a town hall meeting to understand and approve a letter of intent with the buyer. Or to establish a real estate subcommittee of the board to work on the project. Or to learn about the newest setback from a pond expansion requirement, or arsenic in the soil requiring expensive remediation, or a price reduction from the chosen buyer at the last minute. It is hard to make decisions this way.

A Different Solution

In late 2017, Board President Jeff Hamburger and his executive committee realized that, for the club to thrive, they must create a new path forward. The North Course land was not yet sold, membership counts were still declining, and Wells Fargo was pressing harder to get its loan repaid. Something had to be done.

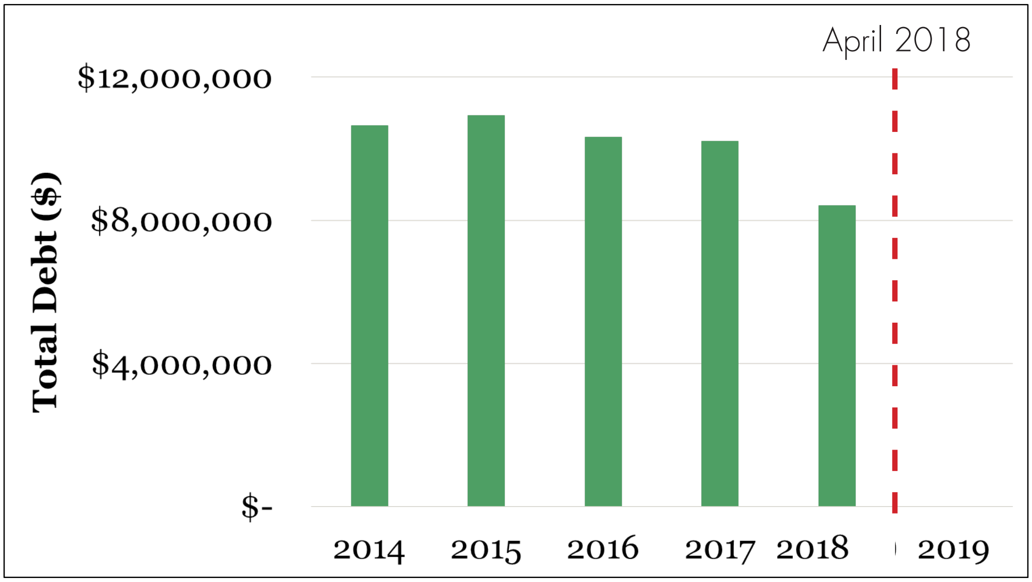
The Board narrowed its options to a local developer proposal and a recapitalization by Concert Golf Partners. After conducting reference calls and site visits to similar clubs, the board unanimously chose to present the membership with the Concert Golf proposal, which would:

1. Pay off the entire $10 million bank loan;
2. Fund $3.5 million of capital improvement projects at the club, including the long-desired resort-style pool;
3. Eliminate the mandatory club membership requirement, which was depressing home values;
4. Reduce dues rates by 20-30%; and
5. Prohibit member assessments forever.

Concert Golf would deal with the North Course land sale over time and proceeds would be used to help fund its recapitalization of the club. They had done this before at other clubs, and they had the balance sheet to absorb the time and the costs to get it done. Even better, without having to negotiate the sale of the North Course or assess members to pay off the bank loan, the club's entire wish list would be fulfilled - now.

Not surprisingly, after a series of town hall meetings, webinars, and small group sessions to bring members up to speed on the recap deal, the board's proposal was ratified by a 97% vote of the members.

	Before	Current
All-in Annual Dues	$19,854	$14,000
Initiation Fee	Various	$10,500



A Transformation Is Underway

Concert Golf Partners immediately undertook several long-deferred capital projects at FCC:

- A fully renovated golf course, including major irrigation and drainage upgrades
- A new resort-style pool is nearing approvals
- New bocce courts, tennis court lighting and fitness equipment
- Clubhouse renovations, including kitchen upgrades

Dues rates at Fountains Country Club have been reduced dramatically to match market levels - now that the club's debt is paid off, there's no need for breakeven budgeting.

The recapitalization with Concert Golf Partners has been good for everyone at Fountains, not just those who are club members. Home prices have shot up by an average of 63 percent. Homes that were languishing on the market because of the mandatory $20,000-per-year club membership are now selling for $150,000 more - imagine the homeowners' joy! And realtors say the buyers are all-cash. Just a few months after the town hall meeting announcing the end of mandatory membership, hardly any homes remained for sale at the Fountains.

	Pre-Concert Golf	Post-Concert Golf	Change (%)
Avg. Sale Price ($)	$208,676	$359,393	72%
Avg. Price ($) / Sq. Ft.	$83	$135	63%
Avg. Days on Market	140	90	35%

Source: MLS data all single family homes within the South Fountains community that closed between 2015-2019. In the last 5 years, 27 SFH properties were sold pre-CGP; 22 were sold post-CGP.

"...the value of our homes have increased since the Club partnered with Concert Golf. **Units that had lingered on the market have now sold.**"

Fountains Realtor

No matter how great the challenge, there is a comprehensive solution. Fountains Country Club in Lake Worth, Florida, proved in 2018 that all their capital and management issues could be solved by partnering with Concert Golf.

"We **got rid of our debt, our mandatory membership requirement and our self-funding issues** - all in one transaction. It all seemed **too good to be true**."

Jeff Hamburger
Board President, Fountains Country Club