Equity to Non-Equity Club Transition Process: A "How-To" Guide

Considering an Alternative to the Self-Funded Equity Club

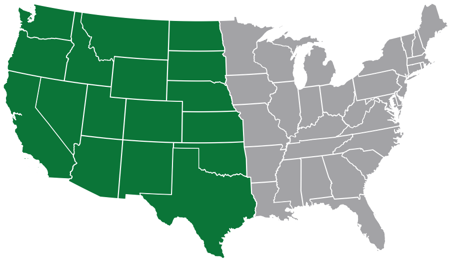
The member-owned, or "equity" club, is a long-held traditional way of structuring a social organization – akin to a homeowners' association for managing common area in a residential development or a parent-teacher organization for managing the parents' involvement in their local school. The equity club model provides for ownership of the real estate and the operating business of the club by its members, which brings with it the self-funding of the property by the members (both debt and equity). It also provides for self-management by elected boards and committees who serve in rotating terms and attempt to represent the disparate interests of the various segments of the member population (e.g., golfers, tennis players, diners, families with young children, and retirees).

The tax-exempt status of many non-profit 501c7 clubs has served two primary purposes that no longer seem broadly useful: (1) a tax exemption is useless if a club generates no taxable income, as is the case at over 80% of equity clubs; and (2) the ability of tax-exempt clubs to discriminate in selecting new members seems outmoded in modern times and hurts membership growth.

Because of problems with the self-funding mechanism, and an emerging view that member boards lack the requisite expertise and an efficient governance system to manage a complex operating business, many former equity clubs have converted to a non-equity model in the last 20+ years – turning the funding and the operation of the club over to professional hospitality firms specializing in private golf clubs that have their own capital to fund the business and the relentless need to invest in upkeep and new amenities.

Many Board members at equity clubs are curious about the non-equity club alternative, but don't know quite where to start. This article is intended to serve as a basic "how-to" guide based on the actual experiences of other equity clubs that have made a successful transition to the non-equity model.

"Of the 4,000 private golf and country clubs in the US, approximately 2,400 are owned and operated by the members themselves."



Step 1: Exploring the Non-Equity Club Alternative

The first step is for a Board member, or a committee formed for the purpose, to reach out to one or more private club operating firms with both ample capital and a good reputation, to determine if there might be potential interest in facilitating a non-equity club transition. An initial phone conversation introducing the club and the non-equity concept can be followed by a more detailed phone or in-person presentation by the club operator. If the concept has potential appeal for the club, then a Non-Disclosure Agreement is typically signed by the club operator so that any financial or membership information shared by the club is kept confidential. The club operator will then request a short list of basic information, such as recent financial statements, membership counts, copies of club bylaws, and operating information regarding payroll, water, maintenance and environmental issues. A phone call or email discussion may be needed to clarify some of the provided information.


Immediate capital improvement projects are typically funded by the operator.

Next, typically the club operator will want to visit the club, to see the golf course, clubhouse and entire property, as well as visit the surrounding area clubs. This site visit allows the club Board representatives to become acquainted with senior representatives of the club operating team, ask questions about their approach to managing clubs, and ensure a good personal fit and shared vision for the future of the club.

Step 2: Obtaining a Detailed Proposal

Assuming that the site visit was mutually positive, the next step is usually for the club operator to develop a specific proposal for the club to consider. Typical elements might include:

- Club debt is paid off, or restructured and assumed, by the operator.
- An agreed list of capital improvement projects is committed to be funded and completed by the operator.
- An advisory board of members, similar to the club's current Board of Governors, is appointed to represent the voice of the membership as to capital priorities and service improvements going forward.
- A series of written covenants is agreed upon, based on the concerns expressed by the Board regarding the future of the Club, its traditions, its culture, and other unique factors. Typical covenants include:
    - The club must remain private.
    - Restrictions are placed on certain real estate development activities that may harm the club environment.
    - No assessments can be imposed on the members.
    - Restrictions on dues increases and other charges.
    - Preservation of key amenities and traditions at the club.

Once the committee is satisfied that a reasonable package has been developed, the club operator may be invited to make a full presentation to the Board of Governors.

Step 3: Vetting the Operator

Either before or after a detailed proposal is developed and presented to the Board, a committee or group of Board members typically vets the qualifications and references of the proposed club operator. It is a good idea to speak with Board members of the operator's other similar clubs:

- How has the performance matched up with the operator's promises?
- What capital improvements were expected and made?
- How do members view the service and quality delivered by the club operator?
- Is the financial situation of the club improved since the transition?
- Is the club healthy and growing its membership?

Some boards like to visit some of the operator's other clubs, to see first-hand the quality of staff, the golf course conditions and the overall member experience. Much can be learned on-site, by talking to club members and observing the operator's approach to club management.

Step 4: Negotiating the Agreement

The next step is to draft the necessary agreements to effectuate the transition to a non-equity club owned and operated by the club management firm. This is simpler than most imagine.

The club's bylaws and membership agreement / application will require minor adjustments, primarily to reflect the fact that member voting will no longer be required for all operating decisions at the club – although the Advisory Board will serve the same "voice of the membership" function going forward. The operator's counsel will also provide a purchase and sale agreement for the real estate, liquor license and other operating permits, equipment and other assets of the club.

The covenants are perhaps the most important part of these documents, for the membership may be comfortable transferring the real estate and other financial burdens of the club to the operator, but of vital importance to all members will be the preservation of the club culture, the club's traditions, the integrity of the property and amenities, each member's monthly and annual costs, and other unique factors at every club.

The Board must ensure that the transfer documents are more than a mere real estate transaction, and preserve all the critical elements of what the club truly means to the membership.

The final step is a Town Hall meeting with the membership.

Step 5: Gaining Consent from Board and Membership

Once counsel for the club and the operator have developed a set of mutually agreed documents, the Board typically will vote to approve the proposed transaction – and will execute the documents, subject to ratification by the members.

Club bylaws typically require a 51% or 67% vote of the members (with varying definitions of a quorum) to approve a major transaction such as a sale of the club or transition to non-equity status. The Board will notice a special meeting to consider the proposed transaction, and make available a summary for all members to review and consider. At the special meeting, the Board will present the rationale for the transaction and the Board's evaluation of its alternatives. The club operator will be invited to make a brief presentation of its qualifications and the terms of the non-equity transition – typically focused on the covenants to protect the membership and the planned capital improvements to be undertaken. Members will have many questions, and a Q&A session is useful to air these discussions. The membership vote to ratify the transaction is usually held at the special meeting or within the week following, depending on the bylaws.

The agreements already executed by the Board automatically become effective with the member ratification vote, and the club operator takes operating responsibility immediately – and the most urgent capital projects can also begin right away.

How-To Guide to Exploring a Non-Equity Transition

Step 1: Exploring the Non-Equity Club Alternative

- Board shares information under NDA.
- Visit to Club by club operator.

Step 2: Obtaining a Detailed Proposal

- Club operator makes a formal proposal.
- Presentation to the Board.

Step 3: Vetting the Operator

- References checked.
- Club visits made.

Step 4: Negotiating the Agreement

- Agreements prepared by Operator and negotiated with Committee / Board.
- Terms reviewed and negotiated.

Step 5: Gaining Consent from Board and Membership

- Membership Town Hall meeting to inform membership, answer questions.
- Membership vote to ratify the transaction.