Corporate Fees & Sinking Funds

At the 2011 AGM of the CYCSA the question was raised about the existence of a 'Sinking Fund' for the replacement of the Marina East pontoons and associated infrastructure. It was certainly not the first time that the question was asked and no doubt it will be asked again, however the answer is not a straight forward 'yes' or 'no'.

Also, parallel to the 'sinking fund' question is the issue of 'Corporate Fees', previously known as 'Maintenance Fees' and what this fee is actually for.

Members rightfully look to the current Board for an answer to the question of marina replacement and it has been an issue that this Board and previous Boards have been considering for many years.

So is there a sinking fund or not?

If you are looking for a bucket of money the answer is 'no', but if you look around you will see that the various Boards of the Cruising Yacht Club of South Australia have over time very consciously invested in property, and the result is that we now have one of the largest freehold land holdings of any yacht club in Australia. Our potential for future growth and development is envied by many.

In 2013 the CYCSA will celebrate its 40th anniversary, however for almost the entire first decade the Club was basically a committee that was tackling the difficult negotiation, approval and initial construction phase. The actual occupation of land and the original physical infrastructure of the Club is only around 30 years old.

The Club never set out to be a land owner. The Club was originally built on land owned by the government and we had a lease to occupy our North Haven property. Shortly after signing the lease the government sold the entire North Haven precinct to an interstate developer and the Club was left to either negotiate its future with them or purchase the land from them. The decision was made to purchase the land. Since that time the Club has strategically purchased a number of land titles in North Haven totaling over 36 hectares of property, including both land and water.

These acquisitions have not been handed to the Club on a plate. The significant growth of the Club, over a relatively short period of time, has been funded by membership subscriptions and corporate fees and carefully considered and managed by the Board.

Senior Members with licences to occupy berths at the Club are owners of units in a Unit Trust. The Senior Members that own these units actually own a share of the Club proportional to the number of units that they hold.

All Senior Members that have a licence to occupy a berth are required to pay 'Corporate Fees', previously known as 'Maintenance Fees'. The name was changed to 'Corporate Fees' a few years ago to better reflect what this fee was actually for. This fee has always been used for the day to day maintenance and operation of the Club and for funding acquisitions and the growth of the Club. The various decisions and actions of the successive Boards of the Club have transparently been reported in the annual accounts and it has been clear that the value of the assets owned by the Club have increased yet cash reserves have always been what could only be described as modest at best.

In the early 1980's the CYCSA pioneered floating marina pontoon systems in South Australia. The required marina maintenance and design life was very much an unknown as this form of structure was new globally.

The amount that Senior Members are currently charged by way of 'Corporate Fees' is based on a fee structure that has only marginally been altered by annual adjustments since its inception and has never been based on any predictions on the likely lifespan of the marina pontoon and pile system nor has it been based on the projected costs associated with such replacement.

In most marinas around the world, berths are now occupied under a lease with an expiry date of a similar period to the life expectancy of the marina structure itself. Boat owners leasing the berths pay an initial sum that is not dissimilar to the purchase price of a licence to occupy a berth at the CYCSA and then also similarly pay annual fees to maintain and operate the marina and associated facilities. The main difference between this fee arrangement and ours is that their berth by the very nature of the diminishing term of the lease is reducing in value and at the expiry of the lease they have to either repurchase the right to occupy the berth again or the marina operator will lease it to a new tenant. The benefit of this system is that the marina operator receives an injection of cash at about the same time that the marina replacement is required.

Approximately 20 years after the installation of Marina East the Board started focusing on the future replacement of this facility. Various concepts to develop some of the land that the Club had previously acquired were considered. The aim was to come up with a plan that would both potentially grow the Club and also return a surplus large enough to commence a substantial portion of the envisaged staged Marina East replacement program. The idea of Marina West was born.

As seems to be the case with every marina, it always takes a great deal longer to gain construction approvals than ever imagined. When the idea of Marina West was first tabled there was a high demand for larger berths and we imagined that the approval process was going to be pretty straight forward. After all we were building a marina facility in an existing marina basin. It shouldn't be that difficult surely? How wrong we were. The process took seven long years before the marina facility was opened, and unfortunately our opening coincided with the Global Financial Crisis. While construction costs of Marina West were met through the pre-sales of berths to members, the potential surplus that will be generated from the sales of the remaining berths unfortunately will take some time to eventuate.

Like most organisations the CYCSA is not immune from the global financial crisis. The reality is that the Club's land acquisitions are currently our sinking fund and the timing to try and capitalize on these assets is not good in this current economic climate.

Will there ever be an actual sinking fund?

For at least the last 10 years it has been the intention of various Boards to commence a formal sinking fund. The strategy chosen was to develop a new marina facility and crystallize the value of our land asset in the western basin while at the same time returning a surplus to assist in the replacement of Marina East. On the replacement of Marina East we would then have three relatively new marinas, Marina West, Port Vincent Marina and Marina East. As new marinas require less money to be allocated towards maintenance, the result would allow a portion of the corporate fees that are currently dedicated for maintenance to be invested into the sinking fund. A good plan, however the Global Financial Crisis has certainly slowed the desired outcome.

It should however be recognised that around a decade ago the Club operated with a significant overdraft facility. This facility has not been required for a number of years now and we have been in a relatively strong operating position and have money in the bank.

We should also be aware that the replacement of Marina East has already commenced. A few years ago we installed a new gangway and carried out civil works at the head of the gangway to allow access for new services. The ‘T’ Heads on AB and CD rows have been replaced as part of the upgrade program and a number of our original pontoons that were no longer serviceable have already been replaced.

The simple fact is that the current Board and management of the Club have inherited the decisions, strategies and infrastructure of our predecessors and while in most cases we are very fortunate to follow those before us we have been dealt a difficult, but far from impossible assignment over the next few years.