

Minutes - KTC Executive Meeting
September 10, 2018 @ 7:00pm
KTC

In attendance: Viki Andrevska, Mike Bartlett, Doug Bowie, Bob Goddard, Paula Loh, Taco Meuter, Nerissa Mulligan, David Stocks, Gill Turnbull, Chloe Wilson

Absent: Bud Nelson

- 1. Review/approve minutes of meeting from August 29, 2018**
Minutes approved as amended.

- 2. Capital Project Discussion**

Appendix A: Tom Thayer's report

Appendix B: Site Drainage and Concrete Slabs report

Appendix C: Finance Committee report

- a. At the August 29th board meeting, after 3 hours the board had not yet discussed most of the material presented to the board on the capital project and reached any decisions. The board thus decided to reconvene at a separate meeting dedicated to capital project discussion.

General discussion about the Capital Project and President's Report was developed.

- b. The board needs to discuss the capital project and reach some decisions around the direction of the project. In particular, a general level of debt capacity for our capital improvements needs to be decided, and whether or not we are certain that the current proposal (the clubhouse on the lawn, 8th court, and lighting 2/3) is still the project that makes the most sense for the club.
- c. Three items to be discussed in particular:
 - i. Tom Thayer's meeting with the Finance Committee (Summary notes presented by Tom) and the updated Finance Committee's assessment
 - ii. President's Report submitted for the August 29 board meeting
 - 1. Motion: Chloe moves (and Mike seconds) that spending on the current proposed project (clubhouse on the lawn) be suspended for 2 months in order to give us an opportunity to explore an alternate project in which we instead renovate/rebuild the clubhouse in place, and that a budget of up to \$5,000 be approved for this purpose. Motion carried.**

A new committee will be formed to hire and liaise with a professional and report progress to the board. Board members will then be able to make a choice between the two options (target end of October). **Chloe, Mike and Taco. Doug will think about it.**

To inform the member about the status of the Capital Project. Short report for more information look up at the link. Chloe will draft and distribute to the board for approval a paragraph regarding the status of the Capital Project.

- iii. Report submitted by the Capital Project Committee for the August 29 board meeting

3. Set date for next meeting (Proposed date: Wednesday, September 26th, 7pm)

4. Other business

\$1,500 for repairing the cracks on court 2 and 3. We all agreed to do this. Paula will coordinate with Chris.

Doug will look into trimming the trees in appropriate time. A professional to do the weeding and lawn maintenance a couple of more times.

5. Adjournment at 9:27pm

Appendix A

Tom Thayer
September 9, 2018

NOTES FOR SEPTEMBER BOARD MEETING

I want to talk briefly about: 1) debt capacity and 2) setting \$ aside in reserves to cover future expected costs and contingencies

Debt Capacity

The most important thing in determining how much debt the Club can afford is the size and sustainability of our annual net cash flow. Net cash flow is the money the Club earns which is available to pay principal and interest on debt AND to build up savings to cover future costs and contingencies.

The 2017 Treasurer's Report estimates the estimated future sustainable cash flow at \$74,100. The July 2018 Finance Committee report (page 4) ***reduced that estimate to \$35,000*** by deducting additional amounts for property taxes, increased wages (as a result of the Provincial minimum wage increase) and anticipated costs related to court, grounds, and building maintenance.

To an outsider, it appears that the Board has accepted these increases without a response. This erodes our cash flow and our ability to undertake a reasonable capital project.

For example

*The \$11,500 wage increase

I think we knew it was coming over a year in advance.

Could we have done something? Anything?

Could we have raised fees and provided a good explanation?

Could we have launched some sort of advertising/publicity campaign aimed at attracting new members and holding on to old ones?

I have no idea what we could or could not do but I think we should have started something last October.

Is there a plan to deal with this? Maybe not in year one but over several years?

I understand the choice in 2018 was whether to freeze fees or reduce them. That seems like we have given up.

Camp fees?

I think our main competition increased their fees.

Problem this year? If so, good idea to start now addressing those issues.

Publicity/Marketing effort (by professionals) to attract and retain
Never done this – 5000 tennis players in Kingston; could we attract 1%?

Steward hours

Standard week 83 hours. Do we need stewards all day on the weekends? Until 8:30 on weekdays? Going to 12 hours on weekdays and 4 hours on weekends would save close to \$7,000.

Camp counselor hours

Look at 2016 vs 2017 hours

* Property Taxes

Property taxes – what a jump!!! Don't know anything about PT, other than a short conversation at MPAC. I'd be very surprised if there was no wiggle room there. Are there guidelines, interpretation bulletins, rulings, etc. If we presented our case one way, might we save \$?

I truly don't know, but if the HST is any guide, it is worth a try. It consumed more than 100 hours of my time and lots of discouragement, but it paid off to the tune of \$50K so far and that will go on at a rate of about \$7K a year.

At any rate, a \$20,000 increase catches my eye and I think it is worth 100 hours to see if there is any space. I am told there are people that specialise in PT. There may be nothing there but it is worth a thorough look

I feel that the Board is so focused on the capital project that it may be letting some operating matters slide. Ironically, over-attention to the capital project may be making the capital project less attainable.

****** *Set goal to get back to Jim Martin's \$75K and then keep going***

ARE WE RESERVE HAPPY?

- Operating Reserves
- Court Maintenance Reserve
- Building and Grounds Reserve
- Accumulated Surplus

After 10 years: $100 + 140 + 100 + 90 = \$430$

I think we should think twice about the operating reserve. If we need emergency funds, why not a stand-by line of credit? I understand Jim Martin brow beat Infrastructure Ontario into accepting the idea of sharing debt security with another institution. That IS an accomplishment.

Strong annual cash flow would provide \$ to meet future needs. For example \$90,000 annual cash flow would be enough to cover the annual cost of \$900,000+ debt AND add \$30,000 to our accumulated surplus each year. This could be used to resurface courts, reroof clubhouse, retire debt early, etc etc.

I think amounts set aside for court, building, and grounds are excessive. If we generated healthy cash flow and retired the debt early (say after 17 years) that would free up lots of \$ for all the maintenance you could ever dream of.

Of course, if you have no confidence in the future of the Club, of its ability to attract new members, raise money, control costs, then don't consider a capital project.

Appendix B

Site Drainage & Concrete Slabs

Paula Loh

September 10, 2018

Should we keep the concrete slabs currently underneath the courts?

Q: Would this save money?

A: A negligible amount, along with the loss of benefits and incurring higher costs in the future to eventually extract them

Q: Could we continue to have high-quality flat courts?

A: There is no guarantee, whether we keep the concrete slabs or whether we remove them. It is recommended that the best course of action is to remove them and follow proper procedures to construct new courts.

History of the Concrete Courts

George Clark

- joined the club sometime between 1968-1970
- All the concrete courts had cracks. Each court consisted of four concrete slabs and frost heave lifted one slab more than its neighbour, creating a real hazard for players.
- thinks they were covered with asphalt in 1972-73

Neil Neasmith

- joined the club as a junior
- playing on the concrete courts was like playing on the sidewalk - the surface was very coarse and tough on tennis balls (maybe three sets before most of the fuzz was worn off) and tough on shoes
- the cracks were getting deeper, which created some "bad bounces"
- we had a company try to lessen the coarseness of the courts by using a polishing machine (fortunately, the experiment was only on one court) which created a court so fast, it resembled playing on ice
- agrees with George that the courts were probably paved over in the early 70s

Ground Penetrating Radar (GPR) – how it works

GPR is a technique that is responsive to electrical conductivity properties which are not easily correlated with the material properties of interest to structural engineers, such as concrete strength and the detection of corrosion.

The positive aspects are that you can get an image of the interior in a non-invasive way. ie. locate where rebar is, its estimated depth, and estimate if the rebar was installed in the correct zone of

the concrete. You may be able to see severely decayed areas of concrete and may be able to detect some areas of horizontal cracking (as water invasion may change the electrical properties which could then be interpreted as fractures). The limitations of GPR acquisition from the surface makes it difficult to detect vertical fractures. The resolution of the images is low, which makes precise interpretation difficult.

Scott McNeely, Structural Engineer – comments on retaining/removing slabs for Courts 2 & 3

With the GPR you can't tell much about the slabs, but the rebar at 30cm spacing and down 20cm is pretty good (ie; not a poor 10 cm slab with little rebar). You can't tell how much life is left in the slabs.

To check the condition, you could take some cores and they can be patched easily, but it might be better to sawcut the asphalt in test "patches" to look at the surface. Then the asphalt would have to be patched.

There is no reason to rush to get rid of the slabs if they are performing well; they are just hard to work around. To install any drainage you would have a backhoe driving around on the courts and slabs and it could cause damage.

I suspect the slabs cracked (or had sawcuts) and they started to get wider and wider (freeze/thaw, wear). Eventually the cracks could not be patched without the patch being un-level, therefore they paved over everything.

It should be possible to add drainage around the concrete pads. The 750 diameter drain would be a little more difficult (you could not raise the existing grade). Then the drainage would be available for a future court 7 (and 8).

A swale is not a good idea. The best is to drain to a catch basin, even if it is on Hill St.

I do not think any of this will affect the costs much, though. The savings of not removing the concrete pads will be offset by the difficulty of working around them with possibly smaller equipment and hand digging.

Getting better drainage is always going to be good. It will help the other existing concrete slabs to last longer (courts 1, 4,5,6).

Doug Prinsen, Civil Engineer – telephone conversation in response to reading information about GPR and Scott McNeely's comments

Agrees with information about limitations of GPR.

The slabs for Courts 2 & 3 can be retained, but he has concerns. In addition to the construction loading (ie. heavy equipment travelling over the courts), there are new penetrations for the wiring and the poles, as well as patching the old net post/anchor holes.

If keep the concrete, we don't need such a large pipe for drainage. We do need drainage for the lawn area, though. The micro method of having to use smaller equipment to work around the existing concrete is inefficient.

If remove the concrete, we can elevate the courts. Removal of concrete is quick and easy at this point in time. It is hard to quantify the additional cost to remove it in the future; would have to then work around light poles, electrical conduit, and net posts/anchors.

He considers the drainage quote from one of the contractors to be inexpensive.

If we keep the concrete slabs and there is no connection to the Hill Street sewer:

- then we have only surface drainage and would be trying to improve a little bit on what is already there. May not be able to capture all the water off the lawn.
- would need to install a pumping system to provide sub-drainage for the new courts (7 & 8)
- the City will still require stormwater control (ie. a swale)
- we would be unable to raise Courts 2 & 3, which minimizes what can be done for surface drainage
- we could save approximately \$50K off the quote, however this figure would be substantially reduced by the increased costs to work around the concrete pads to install lighting. Even the fencing would be slower to do. It would be difficult to get quotes on this cost differential. In the end, there would be small savings.

Chris Smith, Canada Court Supply – comments on new court construction

(notes previously distributed to the board February 22, 2018)

If we leave in the concrete pads, there is always the chance that whatever you put on top of them will crack. To be foolproof, his advice is to remove them. He sees this approach as exercising due diligence and accountability. Based on the total value of our project, the cost to remove them is worth the value to do so. He estimates a cost of \$10K to remove each pad.

Re-installing concrete slab is a waste of money and a waste of time. It is unnecessary. Build a proper base of stone (granular) for the court to sit on. It is not done by using a combination of materials. He has never built a court any other way.

Make sure that you have the right slope, drainage systems, and compaction.

Make the contractor aware if there is a water issue on the property before the work is done, to avoid extra charges. Water under the court isn't unusual; just need to plan for it.

There is no guarantee that the area would not settle. New courts *do* crack. There is no control over the frost, despite your best efforts. To minimize the chances of problems, compact the granular material very well, otherwise bird baths will form, as well as cracks (cracks can show up even after three years).

Hire an engineering firm to do geotechnical testing (\$1,000-1,500) on the base while the work is underway. Test each layer as it is laid. Need to make sure that compaction is uniform across all the courts. This ensures that the work is done to spec. Best to deal with an engineer to direct the contractor to do the appropriate work.

Appendix C

FINANCE COMMITTEE UPDATE September 10, 2018

Confusion regarding the term “Reserve”. We have used this term to indicate the sum of both an expenditure of costs incurred during the year, and a “real” reserve for expected costs that are incurred less frequently (e.g., the court painting cost every 5-7 years, and repaving cost every 25 years). Also, when it's an expenditure, it's a capital expenditure: cash is spent and the cost won't be deductible from income in the year it is incurred, but spread over time as depreciation. Thus, the reserve is partly a deduction from cash flow, and partly a shift of funds from the general account to a capital savings account. Perhaps a better term would be Annual Capital Replacement & Reserve, or ACR&R, or just R&R.

In any case, if we don't anticipate and save the “real reserve” portion, then we won't have these funds when we need them and risk having to continually seek to borrow money to pay for capital replacement projects, putting us in an unnecessary bind every time.

Discussion with Tom Thayer, former KTC treasurer:

We had a discussion with Tom Thayer on Wednesday September 5. He made general comments but did not provide an analytical approach. He was optimistic that we can raise membership and camp fees without reducing numbers or revenues. We pointed out that KTC's history shows that this is not likely, and that the required combined fee increase would be a drastic \$50-60K/year, in the absence of donations and grants. He believes we can hire publicity/marketing people to increase revenues more than the advice might cost. He believes that we can reduce steward hours by 25%, despite all the recent board discussions that point to increasing hours or even hiring a manager. He believes more work can be done by volunteers. He believes we can save on property taxes by hiring an expert to fight the assessment. This would be nice, but *a priori* it makes more sense to base our projections on the known policies of MPAC. Tom made a useful technical suggestion re. the capital reserves: take them from the buffer (as done originally) rather than from EBITDA (done to simplify the analysis). See discussion above.

In contrast to Tom, the Finance Committee cannot be either optimistic or pessimistic, but it should be realistic. We have simply made projections based on the current operations of the club – and have come up with a borrowing limit in the range of \$400K, not \$800K, not \$700K and not zero.

The bottom line is: improve the operations of the club – increase cash flow – and you can afford more debt. But lenders want to see that this effort is already consistently successful. They put less stock in us saying we're optimistic that it will be successful in the future.

Recap of Feasibility of Project so far (adjusted to take the capital reserves from the buffer):

A) **Full \$1.579M Lawn Project** (Cost Estimate now \$1.579M; Usable Cash \$494K)

A1) If we take a loan of \$400K, the cash flow buffer would be \$22K (before any R&R estimated at \$28K). The **shortfall** would be \$684K – can we get enough grants & donations? Not likely.

A2) If we take a loan of \$1.084M (no grants or donations), the DSCR would fail (0.65) and the buffer would be a negative \$28K, even before any R&R. **Not feasible.**

A3) If we take a loan of \$542K (shortfall requires \$543K in grants & donations), the DSCR would be met (1.3) and the buffer would be \$12K, before any R&R (\$28K). Difficult to meet the **shortfall**, and we'd run into financial trouble a few years down the road.

B) **Limited \$1.372M Lawn Project** (Usable cash \$496K; only rebuild courts 1,7, and 8, leave pad under 1,2,3) If we take out all the court costs for 2&3, leave the pad under 1, and forget about all the drainage issues, the cost in 2019 drops to \$1.372M. (Technically and cost-wise it does not make sense to leave court 8 fallow.)

B1) If we take a loan of \$400K to satisfy the DSCR, the buffer would be \$25K, before any R&R (\$28K), slightly less than the R&R. The **shortfall** would be \$477K – can we get enough grants & donations? Not likely.

B2) If we take a loan of \$877K (no grants or donations), the DSCR would fail (0.84) and the buffer would be -\$11K, even before any R&R (\$28K). **Not feasible.**

B3) If we take a loan of \$565K (shortfall requires \$312K in grants & donations), the DSCR would be met (1.3) and the buffer would be \$12K, before any R&R (\$28K). Difficult to meet the **shortfall**, and we'd run into financial trouble a few years down the road.

In other words, nothing works. Even if we just do the smallest project (B), take out the biggest "permissible" loan (B3), and somehow can get grants and donations of more than \$300K to cover the shortfall, the buffer would not be sufficient to meet the R&R requirements during the term of the loan (\$12K/\$28K). **And R&R are just the *expected costs*.**

Apart from the financial problems above, the President's report of August 29 shows that moving the clubhouse to the lawn, by our property's physical limitations will always result in:

- Reduced open space making socializing less comfortable
- Cramped indoor space inevitably colonized by campers
- Reduced security due to the clubhouse's location right on Napier St.
- Poor court layout with fewer options
- Loss of tree cover
- Loss of Charm: Clubhouse on the lawn detracts from the original charm of KTC
- Drainage complications and costs

Therefore, we *have* to look at option C: \$908K Renovation project, directly comparable to B above:

C) Renovation and update (Cash \$510K, leave all pads, rebuild court 7 with asphalt)
If we go ahead with this, now \$908K project and a loan of \$398K to satisfy the DSCR, the buffer would be \$40K, before any R&R (\$24K (7 courts)), in other words, the **buffer exceeds the R&R**, allowing us to accumulate savings for unexpected costs and flexibility for new opportunities. The **surplus** borrowing capacity would be an additional \$321K for a DSCR of 1.30; as we would need to borrow only \$398K, the DSCR is a healthy 2.35.

Capital Project Pros and Cons – Direct and Indirect Impact on Costs and Revenues

LAWN PROJECT & EIGHT COURTS: CONS

1. High cost estimate of Project so far, based on (re)building courts 1, 7 & 8
2. Inadequate Free Savings, Cash flow and Loan restriction mean a Funding Shortfall
3. Operating reserve of slightly more than \$100,000 is insufficient to cover shortfall
4. Little likelihood of generating enthusiasm for donations
5. Little likelihood of sufficient free cash flow to maintain courts, buildings etc.
6. Complexity of project implies multi-year impact on revenues and facilities
7. Building location requires that staffing be increased during the day for much of the season. (see PROS:3)
8. New building plus hitting wall add up to a 130 foot wall facing Napier St.
9. There won't be any financial flexibility to partner with the city or other parties in establishing indoor tennis or even a seasonal bubble.
10. Limited Court Configurations reduce shade/no shade options for members, make lesson courts more obtrusive and at the same time reduce usable court widths on some courts (1,7,8)
11. No ability to enjoy viewing court play on the three north courts from the deck
12. Limited ability to enjoy viewing court play on court 3 as the viewing area is essentially a thoroughfare
13. Limited ability to enjoy viewing court play on court 6 as the tiny lawn will limit courtside seating
14. Less durable courts: costly drainage issues and increased frequency of bird baths
15. Tiny lawn, deck and lobby result in packed and noisy gatherings, garbage storage at the deck
16. Less secure, limited and awkward storage
17. Added Cost of maintaining 8 courts vs lower demand.
18. High likelihood a competing indoor/outdoor club will be established within 15 years
19. Disabled washroom is a high-risk access point into the main building
20. Reduced parking on site, required accessible parking
21. Requires major additional expenditures on soft costs such as design, engineering

PROS

1. LED lights on courts 2 & 3 will attract more players
2. Indoor Lobby – but dark, and restricted by physical limitations of the KTC property
3. Steward desk at front door → easier to interact with people as they come in (See CON:7)
4. Some slightly wider courts, but others will often be restricted by divider nets
5. 8 courts – may reduce pressure on court availability, but fewer guaranteed wide courts

* Awaiting confirmation by Wilkinson

RENOVATION & SEVEN COURTS : PROS AND CONS PROS

1. Lower cost of Project
2. Free Savings and Cash flow require less than \$400,000 in borrowing
3. Palpable enthusiasm for donations to restore historic clubhouse
4. More than sufficient free cash flow to maintain courts, buildings etc.
5. Simplicity of project implies one-year off-season impact on revenues and facilities
6. Building location requires no increase in staffing vs the present.
7. LED lights on courts 2 & 3
8. New building plus hitting wall add up to only 30 foot wall facing Napier St.
9. There will be financial flexibility to lead partnerships with the city or other parties in establishing indoor tennis or even a seasonal bubble.
10. A variety of Court Configurations permit shade/no shade options for members, make lesson courts unobtrusive and at all times maintain usable court widths on all courts
11. Full ability to enjoy viewing court play on the two north courts from both lower and upper deck
12. Full ability to enjoy viewing court play on court 3 as the viewing area is the size of the existing lawn
13. Full ability to enjoy viewing court play on court 6 as the generous lawn will permits stadium seating
14. 6 durable concrete courts: opportunity to observe quality of rebuilt court 7, whether concrete or asphalt
15. Huge lawn, bigger decks, partially covered lower deck, and upper games room allow people - including campers- to separate, resulting in more privacy and less stressful, quieter gatherings
16. Garbage remains hidden in 10x10 garden shed between courts 1 and 7
17. Hitting wall can be fixed in place
18. The attached back shed can provide secure, easily accessible storage.
19. Maintain lower Cost of 7 courts for periods of lower demand.
20. Disabled washroom is a secure room that can be used when no stewards are present. No access point into the main building
21. No change in Parking on site

CONS

1. High likelihood a competing indoor/outdoor club will be established within 15 years
 - * Awaiting confirmation by Wilkinson

KTC Capital Project Assumptions & Background:

From 2014 & 2015 meetings with Bob Keene (former IO rep)

DSCR: IO likes 1.3 to 1.4 but prefers 1.4: **USED: 1.3**

UPDATED: Interest rates: IO forward fix or expectation would add 0.75% per year into the future → this would add 1.5% between now (3.9%) and Summer 2020 when terms would be set. **USE: 5.4%**

Loan to value not to exceed 50% for IO **USED: 50%** From

historical information

Membership rate change affecting membership numbers: in 2002-03 a 20% increase in prices was followed by a 30% decline in memberships, from 389 to 274. After the price increase was reversed in 2004, membership rose to 383. Between 2014 and 2017 prices increased 15% and membership subsequently dropped from 580 to 483, or 17%. In 2018 prices were not increased (i.e., declined in real terms); memberships now stand at 478. In 2017 we gained 16 more members in September; in 2018 that would bring us close to the 490 projected. **USED: maintain rate regime and membership numbers**

Expectations during and after construction

Membership to decline in the year after construction commences, then go back to before; for borrowing analysis we are not permitted to assume that membership will increase as a result of a project, either the increase in lit courts or the increase in number of courts. (I do expect the addition of lights on courts 2 & 3 to result in a few more members.) **USED: no increase in membership, as per IO**

UPDATED: An extra steward shift to be required each weekday for 18 weeks out of 24 (**for the lawn option**). This will cost about \$8,500 p.a. Weekends to remain the same.

Capital Replacement expenditures are required to maintain the facilities. This has to come out of the annual cash buffer, if any. **USED: historical court renewal schedule; 1% rule for rest**

Property Tax based on project hard costs, phased in depending on when completed, as per MPAC.

UPDATED: Courts 2 and 3 get lights and new painting; are rebuilt or not depending on project scope.

Cost of drainage, DSR, hitting wall, engineering, tree removal, building design had not been included in the 2017 calculations for the lawn option. **We corrected this in 2018.**

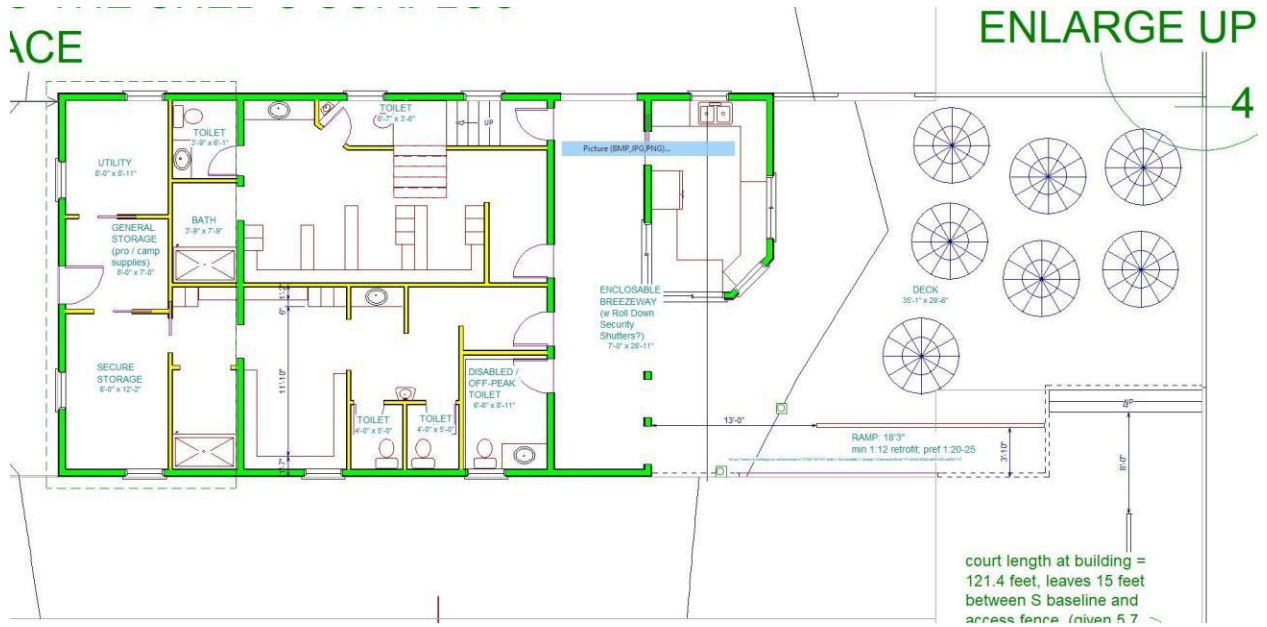
Construction inflation 5% according to Eric Davies (property developer); Mark Nelligan (estimator) suggests 2.5%. I am inclined to follow Eric on this. The quotes in 2017 were presumably for a **2018 start**, but that isn't explicitly stated. → 2019 project costs may increase from +2.5% to +10.25%

\$100,000 Operating reserve required for unexpected operating and construction costs as well as payment of P&I, in the absence of revenue coming in during the off-season.

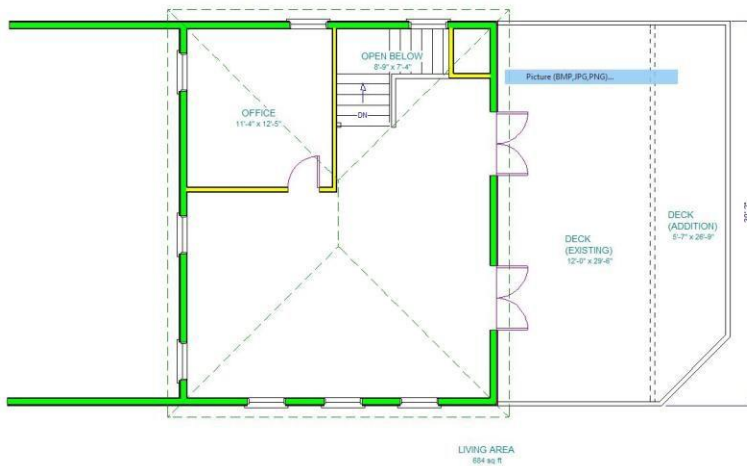
Expectations for grants & meaningful donations are set at zero. This reflects their general unpredictability, as well as our current financial strength and the concomitant recent failures to obtain

grants, and the lukewarm appetite to donate towards the lawn project.

KTC Capital Project (Preliminary Renovation Drawings)

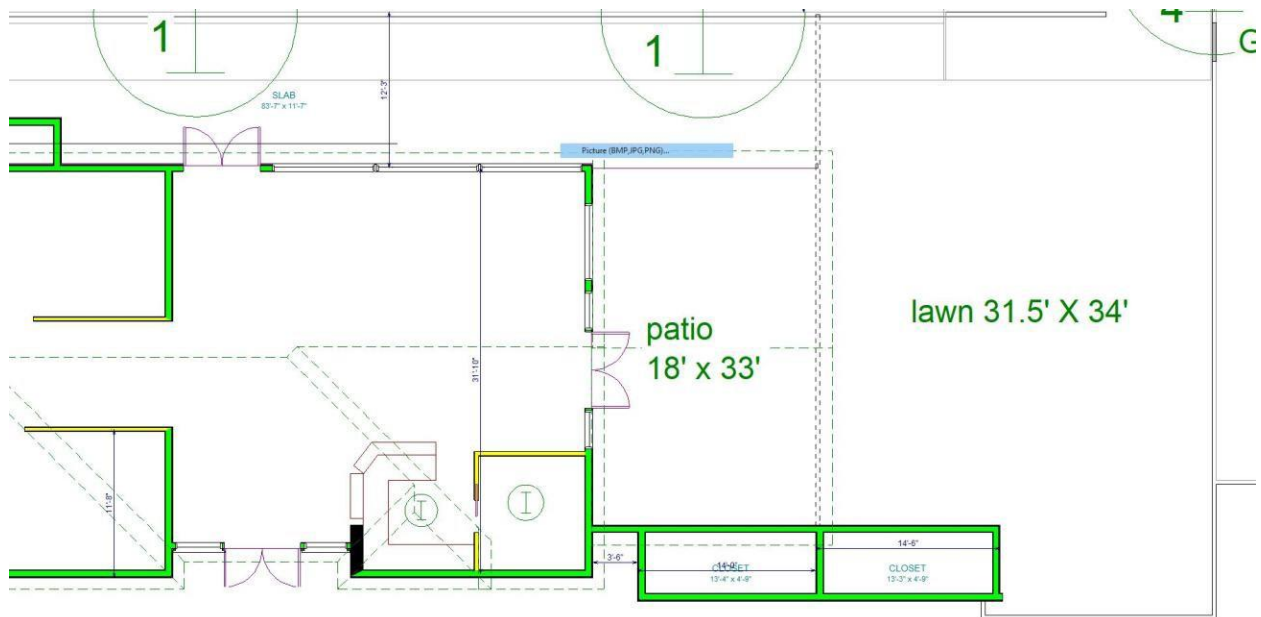


Renovation and Update: Keep existing Building Structure; part of the back shed is repurposed to enlarge the change rooms. Steward Kiosk on Widened & Lengthened Lower Deck (33'x25' sun-drenched, plus 17'x30' area under the upper deck, including 10'x16'kiosk).



Renovation and Update: Existing Second Floor is kept, Upper Deck is enlarged from 29.5'x12' to 29.5'x18' to cover steward kiosk, and foundations are rebuilt for entire structure, to carry two stories (including over back shed).

KTC Capital Project (Lawn Option Layout of Lounge, Patio & Lawn)



Under the far more expensive **lawn option**, the size of the lawn is reduced by **80%**, from 45'x120' to little more than 31.5'x34'. And of the original 120 feet of open lawn facing the road, only about 17 feet remain, next to Ct 6. In addition, the patio receives limited sunshine, mostly in the early morning. As a result the lounge is also dark most of the day. These problems cannot be overcome as they result directly from locating the clubhouse on the lawn.