

HOMESTEAD COUNTRY CLUB

REQUEST TO THE APTA FOR A GRANT OF
\$20,000 TO EXPAND PADDLE IN KANSAS CITY

MAY 2011

PROJECT SUMMARY

Homestead is in position to make a big impact in Kansas City paddle by eventually doubling the number of courts in the area and opening the door for players who lack the means to join one of two exclusive clubs that offer paddle. However Homestead finds itself in a tight financial position, short of the cash and borrowing capacity necessary to purchase courts on its own. Nevertheless, a passionate group of paddle boosters and Homestead's head tennis pro (paddle enthusiast and Kansas USPTA pro of 2010) along with a supportive group of current members have put their respective shoulders to the wheel to craft a creative solution.

The Kansas City paddle league has been growing. It recently added several high-quality tennis players and expanded play from one to two nights. This year we had 76 full-time players utilizing four local platform courts over two nights a week during the season. Of those 76, only 30 are members of one of the two clubs with courts. The remainder have no place to practice or share the sport with their spouses, kids and friends. The Carriage Club and Kansas City Country Club, currently the only two paddle locations with two courts each, require initiation fees of \$20,000 and \$55,000, respectively - out of reach for most players (notwithstanding the member selection processes). For KC paddle to continue its growth, Kansas City needs courts that are accessible. Of the roughly 150-200 players in the area, less than half have courts they call home.

With the help of the APTA, Homestead plans to purchase two new courts (eventually four) and invite non-members to become "platform members" for the months of October through March for a monthly fee well below the normal amount. We plan to offer these platform memberships at fees ranging from \$100 per month for a single junior to \$150 for a family. A platform member would pay no additional fees for court time and would pay only for the months in paddle season (minimum Oct – Mar). In addition to attracting several existing players, we believe these courts will become a recruiting ground as recent paddle converts, many of them club tennis pros, find a base from which to introduce the sport to friends and tennis peers.

Of the three bids we've received, Reilly Green Mountain's looks most attractive with a quote for \$108,000 fully-installed with re-worked aluminum planks. Financing will potentially come from three sources:

1. Current Homestead members will be offered permanent "platform member" status with a one-time fee of \$500. We estimate around 50 of 300 members will take that option ahead of court construction. This is a "one-time" special offer. Post-construction the fee will rise to \$550 and then 7.5% per year capped at \$750.
2. Potential APTA grant
3. Bank financing – We are working closely with a local bank and have a verbal agreement for a loan at 7.5% with 10 year amortization, secured by the courts and sufficient personal guaranties. Essentially 10 members will lend their financial status to the platform cause, each shouldering limited guaranties of \$12-15,000.

The loan will be repaid primarily through two sources (see financial model in exhibits):

1. Outside platform memberships, mentioned above, with monthly fees ranging from \$100-150 during the season
2. Guest fees – all non-members (including Homestead members who have not paid \$500 to become platform members) will pay guest fees of \$10-15 per use of courts

Our plan is to somehow build a warming hut this fall and eventually two more courts (four total) as the player population expands. Currently there is a groundswell of support for a warming hut sooner than later and new financing schemes are loosely thrown around over drinks. Whether the hut becomes a reality *this* season or not, we feel that four courts and a hut are an eventuality given Homestead's strong tennis/social bent along with outside platform memberships that will likely increase along with the sport's rising popularity in KC. An APTA grant will allow us to more aggressively solicit private financing for the hut since it will not require us to press hard for additional cash for the initial two court project. If we can get two courts and a hut in place this fall, we feel the paddle culture will firmly take hold and drive interest and growth much faster than two courts alone.

BACKGROUND: PADDLE IN KANSAS CITY

Our best collective recollection is that Kansas City paddle began in 1963 when East Coast transplant John Moses (APTA Hall of Fame 1973) brought three wooden courts to the Kansas City Country Club. In 1991 those three courts were swapped for two aluminum courts that, as of today, account for 50% of the city's capacity. Carriage Club procured its courts in the late 1970's thanks to the efforts of Kirkland Gates, still the head tennis pro there. Those courts, largely unaltered since installation nearly 40 years ago, compose the other 50% of current capacity. Today the initiation fee for Kansas City Country Club runs \$55,000 and Carriage charges \$20,000. While both are great clubs and gracious paddle hosts, they are anything but open to the public as well as highly selective in the admissions process. Both allow for league play, but league players who aren't members have no standing outside of Tuesday nights. Of 76 permanent league members, 46 don't belong to a paddle club. Of 150-200 players in Kansas City, less than half have access to courts outside of league play.

Nevertheless, these four courts have been home to the Kansas City Paddle League since it began with eight players in the mid 1980's. Eventually the league grew to 48 players (4 courts x 4 players per court x 3 time slots on Tuesday evenings) where it plateaued for several years. Last year entrepreneurial paddle commissioner Andy Metzler (two-time St Louis Open champion and former Tarheel tennis player) expanded the league to two nights and 19 courts for a total of 76 players. In addition to quantity, the quality of Kansas City paddle is on the rise. In addition to Andy we've added Pete Stroer who played at Texas and has the hands of a young Scott Bondurant as well as Travis Helgeson who played #1 at Georgia. This inflow of talent has fed on itself and paddle is seeing strong interest from the city's top tennis players, young and old. We can't imagine a better time to increase the supply of courts in an achievable, affordable way.

Along with the league, the Kansas City Open has grown since its start in 2000. Typically played in mid-January, the KC Open began with 12 teams in year 1 and has been at capacity (24 teams) for the last several years. In that time, we've seen top-ranked players come to town including Scott Mansager and, in 2010, Chris Gambino. The tournament consistently draws teams from Chicago, St Louis, Omaha and Springfield, IL as well as the occasional New York and Boston. Over the years KC has sent players to Nationals in Long Island and Cleveland as well as a President's Cup. We feel that new, accessible courts can get us back in the national swing.

BACKGROUND: HOMESTEAD COUNTRY CLUB

Homestead was founded in 1952 and began operations the following year. It is an **affordable**, family-oriented tennis and swim club with 16 hard courts (four bubbled in winter), a 50 meter Olympic pool, fitness, dining and entertainment. The tennis scene at Homestead is vibrant – adult social events are typically sold out, filling all 16 courts. The JTL program is the best in the city where over 100 juniors bring home the JTL trophy year after year. The competitive adult program is also thriving with over 140 adults actively playing Tencap, a local competitive tennis league.

While utilization of the swimming and tennis facilities is as strong as ever, membership at Homestead has declined over the last 15-20 years. Though membership peaked at over 600, it has settled at under 300 as we head into the spring of 2011. The budget does not allow for capital projects outside of maintenance. The board has produced a radical new fee schedule allowing members to pay for either swimming or tennis, but not the other, if they so choose. In addition, they've lowered winter dues and eradicated food minimums in the winter months; all of this in response to the exit interviews of former members. As of this April, a new full member would pay only a **\$500 initiation fee** and monthly fees as low as **\$225** (for swimming or tennis-only) and limited to \$315 for both. In addition, winter fees (Oct-Mar) are discounted by 20% for the first time in club history. Homestead has always been an affordable club in an affluent part of town, but now its business model is changing to allow members to select which services they value. It's the perfect time to carve out a platform membership and attract outside platform members.

In essence, the club is searching for something to keep the club pertinent and make it vibrant during the winter months. The needs of Homestead could not mesh more perfectly with the needs of the KC platform tennis community. I truly believe this project will simultaneously transform Homestead into a lively winter club and provide a tremendous boost to the size and quality of Kansas City platform tennis.

BACKGROUND: THE KANSAS CITY TENNIS MARKET

While Kansas City is clearly not Southern California, tennis is on the upswing here and paddle is most certainly on the rise. Roughly 2,300 local adults play in the Tencap league, a local club league very similar to USTA league play. Another 2,300 (many overlaps) play in USTA. Of those, a small fraction play paddle. These players provide a large resource of talent and drive. We can

tap this resource with a simple affordable introduction to the sport. We cannot overstate how many quality tennis players would like to try paddle but simply can't commit to Tuesday evenings and therefore have no real opportunity. Now they'll have one and the sport will take a giant step forward here.

HOMESTEAD + PADDLE

Once paddle is established at Homestead, we intend to take advantage of the "new toy" excitement by injecting several new programs to excite those already interested, attract those on the bubble, bring in the kids, and create a "platform" for more talented players to pursue national-level tournaments. Our vision includes the following:

- First, provide for PPTA certification for head pro Kevin Kowalik
- Expand the KC paddle league on Tuesday and Wednesday evenings
- Work to sustain a women's league, perhaps Thursday evenings
- October Platform Party and intro to the sport for many
- Platform Party for juniors along with the club pros
- Junior clinics begin in October – likely 2 or 3 weekly slots based upon skill level
- Adult clinics – one or two evenings and one weekend slot
- Adult mixers similar to tennis (rotating mixed doubles)
- Provide home base for the 12th annual Kansas City Open
- Member/Guest – men's and women's
- Men's night, Women's night – potentially Sunday and Monday evenings
- A paddle Superbowl event makes a lot of sense

FINANCIALS – WHY WE NEED THE APTA

As you can see in the financial model (appendix – p. 1), we estimate that roughly \$75,000 of the \$119,000 total project cost must be financed in some way. Why? Homestead has learned that mandatory assessments are not taken well by the membership, often leading to heightened member turnover. Thus, the paddle "assessment" is optional and we estimate 50 members will participate at the outset. The liquidation value of paddle courts, likely around \$40,000, cannot begin to properly collateralize a \$75,000 loan. All other assets are pledged to the club's primary lender. Thus the lender requires a conservative model to cash flow the loan, a first security interest in the courts, and roughly 200% of the loan value covered by quality personal guaranties. The lender has requested 10 or fewer guarantors willing to take on this exposure. In speaking with a variety of suitable members, we've learned that limited (versus unlimited) exposure is required and that a maximum of \$12-15,000 has thus far yielded 8 of the 10 necessary. While we feel confident in our ability to attract the final two, the math (10 x \$15,000) gets us to \$150,000 in cumulative guaranties which allows for a \$75,000 loan. Clearly we will push to move the number of platform members above 50, but we'd need to get to 87 to make it work without a grant – a coin flip at best. In order to avoid an upcoming price increase due to rapidly rising aluminum prices (see appendix), we must execute this contract in the next few weeks.

Without the APTA grant, we will likely:

1. pay more for the courts as we absorb the rising aluminum price
2. be forced to urge members beyond their comfort zone in lending their own credit to the project
3. borrow more money
4. be unable to fund a warming hut this year
5. raise fees to potential winter platform members to cash flow the higher loan amount
6. or, worst case, scuttle the project (which would really bum us out since this is our 6th year of passionate lobbying)

Thank you for your consideration and for all that you do for this great sport.

QUESTIONS?

Please don't hesitate to email or call

Chace Brundige

cbrundige@waddell.com

work: 913 236 1887

mobile: 913 961 3580

home: 913 677 4249

APPENDIX

p. 1 – First year operating model including accruals for resurfacing and incidentals

p. 2 – Aerial view of Homestead featuring the open space for paddle to the southeast of the tennis courts and northwest of the gym/locker room

p. 3 – Chart of the recent price of aluminum (just for the heck of it)

ELECTRONIC ATTACHMENTS

Attached to the email containing this document were three competing bids for the construction of platform tennis courts at Homestead.

- Reilly Green Mountain (pdf)
- Bulletworks (pdf)
- Premier Platform Tennis (Word doc)

Courts (per court)	\$ 54,000	installed w/ lights
Sidewalk	1,500	
Landscape	500	
Taxes, other	2,032	
Electrical/conduit	750	
Other	500	
	59,282	
# courts:	<u>2</u>	
	118,564	

TOTAL OUTLAY OF \$ 500 per member

294 members

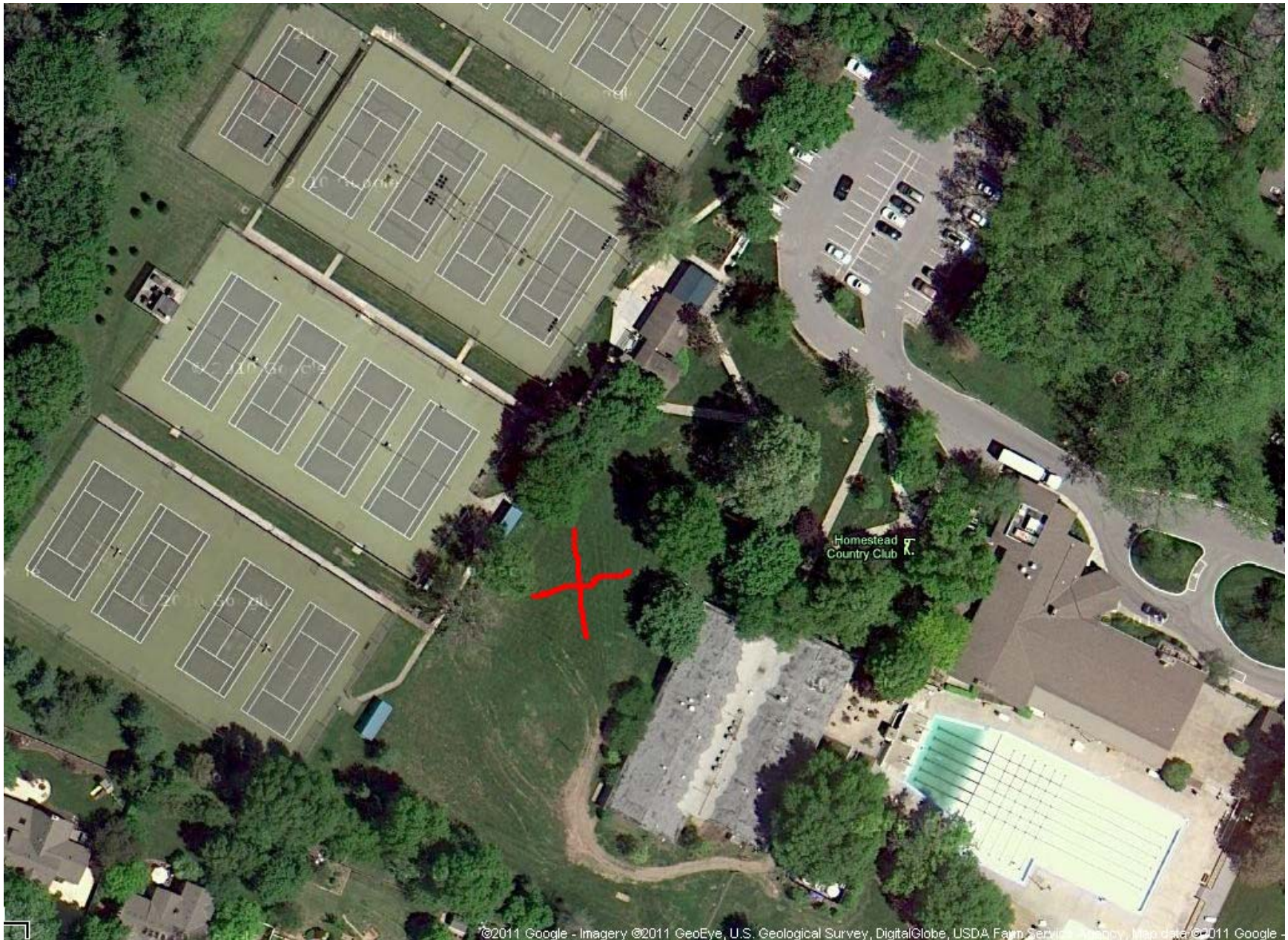
10 yrs
7.50% APR
Monthly pmt: \$873

Notes:
Heaters \$3,000 per court
~\$15/hr to operate
Paddle hut ~ \$50,000

Less: members up-front	25,000	50 members electing their fair share cost
Less: APTA Grant	<u>20,000</u>	
	<u>\$ 73,564</u>	to finance

				Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	YR 1
Loan payment (prin + int)				(873)	(873)	(873)	(873)	(873)	(873)	(873)	(873)	(873)	(873)	(873)	(873)	(10,479)
Electricity				(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(150)
Light bulbs				(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(50)	(300)
Resurface accrual (\$6k every 5+ yrs)				(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(1,200)
Screen tightening															(250)	(250)
Incidental															(2,000)	(2,000)
	<u>per month</u>															
Member impact																
New mem	0	@	\$360	0	0	0	0	0	0	0	0	0	0	0	0	0
Retained	0	@	\$360	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-HCC member Winter deal (family, single, junior)																
Family per month	5	@	\$150	750	750	750	750	750	750	0	0	0	0	0	0	4,500
Single per month	10	@	\$125	1,250	1,250	1,250	1,250	1,250	1,250	0	0	0	0	0	0	7,500
Junior per month	5	@	\$100	500	500	500	500	500	500	0	0	0	0	0	0	3,000
Court Usage																
League	4	@	\$50	100	200	200	200	200	100	0	0	0	0	0	0	1,000
Permanent	0	@	\$0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guest fees	16	@	\$15	240	240	240	240	240	240	0	0	0	0	0	0	1,440
Bar	50	beers @	\$1.50	75	75	75	75	75	38	0	0	0	0	0	0	413
Food	0	servings@	\$1.50	0	0	0	0	0	0	0	0	0	0	0	0	0
Balls	10	sleeves	\$1.50	15	15	15	15	15	8	0	0	0	0	0	0	83
TOTAL				1,882	1,982	1,982	1,982	1,982	1,837	(973)	(973)	(973)	(973)	(973)	(3,223)	3,556

X marks the spot. Room for 4+.



The price of aluminum has rebounded strongly from its recent lows last summer...

