

Bay County Civic Arena

A Review of its Financial Performance and
Recommendations for Future Management



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Introduction

In July 2000, the Bay County Board of Commissioners adopted a business plan submitted by administration for the management of the Civic Arena. This resolution required an evaluation of the arena operations following two years of management.

During a special board meeting in November, 2001, a resolution was adopted that requested further information on the operation, possible sale, and alternative management structures.

This report is intended to address both resolutions.

Purpose of the Arena Project

After years of careful consideration the arena was constructed to:

- Encourage economic development in the community
- Provide enhanced recreational opportunities for citizens
- Generate sufficient revenues for operations and debt service
- Serve as a multi-purpose use facility for dryfloor activities

Our analysis concludes the arena is achieving some of its purposes including:

- Generating sufficient revenues to maintain operations
- The arena contributed over \$600,000 to the local economy in 2000 and 2001
- By hosting Toughman and similar events the arena has served multiple purposes

This study provides a listing of objectives achieved under County management. It also offers a plan to increase operating revenues. The study concludes with a list of recommendations to further enhance the financial success of the project.

Report Findings

As described in more detail on the following pages, this study found

- arena activities generated substantial local economic activity. Two national speedskating championships and several statewide hockey tournaments were held at the facility which attracted hundreds of out of town visitors to Bay County;
- during 2000 and 2001 the arena provided excellent recreational opportunities for hundreds of children and adults throughout Bay County and mid-Michigan;
- today, the facility generates sufficient revenues to cover all operating costs and a major portion of yearly debt service requirements;
- 1999 operating income was \$459,257 less than projected by the 1995 JRV study;
- 2001 surplus revenues for debt service increased by 24% over 1999 JRV surplus revenues for debt service, from \$133,266 to \$165,791;
- as a result of county management of the arena, operating expenses declined by 14% from FY 1999 to FY 2001, from \$891,406 to \$769,623;
- the net present value of the facility is \$2,012,393.

Arena Accomplishments

- Increased gross operating profit to \$165,791
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- Established the new SK8 Bay Figure Skating Club
-
- Established 27 new speed records and 1 new Worlds record during the Speedskating competition
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- Returned the physical plant to manufacturer specifications
-
- Host of the new Bay County Blizzard Jr. A hockey team
-
- Hosted the World of Toughman and August 2001 Toughman contests
-
- Working with the Bay County Hockey Association host of the MAHA Division 5 District Playoffs
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- Again in partnership with BCHA, host of the MAHA District 5 State Playdowns
-
- Grew the high school hockey league from 35 players to over 110 players
-
- Reduced personnel expenses by 12%, from 2000 to 2001
-
- Working with the BCHA started a new girls hockey team
-
- Increased hockey tournament revenues

Comparison of 1995 JRV Feasibility Study to Actual

The facility opened in the late Fall of 1997 with a single sheet of ice. In February 1998 the second sheet of ice was placed in operation. Therefore, the first full year of operations was 1999. The following table compares 1999 actual revenues with those contained in the 1995 feasibility study prepared by JRV.

	JRV Projection	JRV 1999 Actual	Difference
Income	\$1,485,739	\$1,024,672	(\$461,067)
Expense	889,596	891,406	(\$1,810)
Net Operating	\$596,143	\$133,266	(\$459,257)

Breakdown of Revenues:

	JRV Projection	1999 Actual	Difference
Ice Rental/Dryfloor	\$791,367	\$534,086	(\$257,281)
Hockey Tournaments	46,659	38,167	(8,492)
Public Skating	144,020	50,552	(93,468)
Learn to Skate	75,704	60,916	(14,788)
Drop In Hockey	13,952	14,086	134
Skate Rental	31,636	13,350	(18,286)
Skate Sharpening	68,868	25,190	(43,678)
Pro Shop Sales	96,820	119,915	23,095
Concession Sales	153,470	105,778	(47,692)
Coin Lockers	4,326	758	(3,568)
Vending	9,373	14,129	4,756
Video Games	11,742	13,985	2,243
Advertising	36,668	33,760	(2,908)
All Other Revenue	1,133	0	(1,133)
Total	\$1,485,738	\$1,024,672	(\$461,066)

Breakdown of Expenditures:

	JRV Projection	JRV 1999 Actual	Difference
Personnel Services	\$380,226	\$329,800	\$50,426
Supplies	22,968	157,161	(134,193)
Other services	437,442	398,472	38,970
Capital outlay	48,960	5,973	42,987
Total Expenditures	\$889,596	\$891,406	(\$1,810)

Comparison of Overall Financial Performance

The following financial statement summarizes the results of arena operations for 1999, 2000, and 2001.

	1999 - Actual JRV Management	2000 - Actual JRV & County	2001 Actual County
Revenues			
Interest, rents, and royalties	\$646,340	\$603,139	\$599,305
Charges for services	\$369,086	\$330,436	\$319,576
Reimbursements and refunds	\$46	-	-
Other Revenues	\$6,880	\$28,634	\$16,587
Total Revenues	\$1,022,352	\$962,210	\$935,468
Expenditures			
Personnel services	\$329,800	\$403,946	\$356,990
Supplies	\$157,161	\$118,045	\$110,446
Other services	\$398,472	\$318,691	\$297,076
Capital outlay	\$5,973	\$61,301	\$7,884
Total Expenditures	\$891,406	\$901,983	\$772,396
Revenues Over (Under) Expenditures	\$130,946	\$60,227	\$163,072

Revenues for debt service (“Revenues Over (Under) Expenditures”) increased 24% under county management, from \$130,946 in 1999, to \$163,072 in 2001.

Reasons for the improved performance include:

- Elimination of the JRV private management fee (Other Services item)
- Reduced cost of resale merchandise for both concessions and pro shop
- An overall decline in operating expenses of \$119,010

Debt Service and Subsidies

The following table highlights sources and uses for debt service.

Use of Funds for Debt Service	1999	2000	2001
Principal	\$175,000	\$190,000	\$205,000
Interest	312,966	298,366	282,566
Total Debt Service	\$487,966	\$488,366	\$487,566

Sources of Funds

Bangor DDA	60,996	61,046	60,946
Contributions	205,739	97,877	37,637
General Fund Transfer	134,000	139,544	89,438
Short Term GF Advance	0	0	11,546
Civic Arena Operations	87,232	189,900	288,000
Total Debt Funding	\$487,966	\$488,366	\$487,566

Of particular interest, is the decline in the general fund operating transfer for debt service. Transfers from the general fund declined, from, \$134,000 in 1999 to \$89,438 in 2001. Please note the amount of revenue for debt service from operations has exceeded the actual surplus revenues. This has resulted in some cash flow challenges for the facility.

Other Related Subsidies

For comparison purposes, we calculated the subsidy for other county owned and operated recreational facilities as follows:

Community Center	2000	2001	2002
	Actual	Actual	Budget
Revenues	\$27,589	\$131,750	\$53,005
Expenses	\$104,226	\$223,254	\$116,726
Subsidy	\$76,637	\$91,504	\$63,721

Swimming Pool

Revenues	\$17,822	\$27,922	\$30,000
Expenses	\$44,348	\$53,353	\$50,486
Subsidy	\$26,526	\$25,431	\$20,486
Total Subsidy	\$103,163	\$116,935	\$84,207

2002 Debt Service Payments

In 2002, debt service payments are due on May 1, 2002 followed by a November 1, 2002 payment. The projected sources and uses of funds for this payment are illustrated below and reflect the results of operations as contained in the 2002 budget.

Uses of Funds	May	November	Total
Interest	\$137,183	\$128,384	\$265,567
Principal	220,000	0	220,000
Total Uses of Funds	357,183	128,384	485,567

Sources of Funds			
From Operations	111,814	221,024	332,838
Less indirect expense	(54,344)	(108,688)	(163,032)
Net from Operations	57,470	112,336	169,086
Contributions	17,500	0	17,500
Bangor DDA	44,648	16,048	60,696
General Fund	183,221	(108,688)	74,533
Indirect Revenue	54,344	108,688	163,032
Total from General Fund	237,565	0	237,565
Total Sources of Funds	\$357,183	\$128,384	\$485,567

As illustrated above, we expect arena operations to generate \$332,838 in surplus revenues for 2002.

Of this amount, \$163,032 will be transferred to the general fund for indirect expenses. **This transfer is revenue to the general fund.**

The net transfer from the general fund totals \$237,565 of which \$163,032 is a transfer from the civic arena fund.

The net impact on the general fund, considering the benefits of indirect cost expenses to the general fund, \$74,533. This is less than the \$134,000 subsidy from the general fund for 2001.

Sale of the Arena

Barring an actual sale it is difficult to determine, without incurring considerable cost, the market value of the arena. A complete market analysis is beyond the scope of this report. Notwithstanding this, there are financial models to calculate the value of cash generated by the facility commonly known as discounted cash flow analysis as defined below.

Discounted Cash Flow (DCF) Analysis - “a method of evaluating an investment by estimating future cash flows and taking into consideration the time value of money.”

Net Present Value (NPV)- “the present value of an investment's future net cash flows

Based on these financial tools we calculated the Net Present Value assuming a 9% rate of return and a 3.5% annual increase in net cash flows.

Cash Flows

Year 1,2,3	\$171,610	\$177,616	\$183,833
Year 4,5,6	\$190,267	\$196,926	\$203,819
Year 7,8,9	\$210,953	\$218,336	\$225,978
Year 10,11,12	\$233,887	\$242,073	\$250,545
Year 13,14,15	\$259,314	\$268,390	\$277,784
Year 16,17,18	\$287,507	\$297,569	\$307,984
Year 19, 20	\$318,764	\$329,920	

Net Present Value \$2,012,393

Based on the displayed cash flows and a 9% rate of return, the future value of cash flows from operations is \$2,012,393. That is, if the facility is viewed as a one-time investment providing future payments, like an annuity, its net present value is just over \$2.0 million.

Using this calculation as a basis, it is not feasible to sell the arena given the \$6.8 million construction cost and underlying bonded debt. If sold for the value of future cash flows, the county would suffer a loss on its investment of almost \$5.0 million. Additionally, the bond instrument contains a provision preventing the redemption of the bonds during the first five years.

Further, the County would jeopardize its goodwill commitment to citizens who raised over \$1.2 million in support of arena construction.

Other Management Structures

Prior to adopting the business plan submitted by administration, the Board considered proposals from several private management firms. A copy of these proposals was previously provided to the board for review. At the time, it was determined the County's management plan provided the format for the optimal financial success of the arena.

Management by a non-profit group may represent the least cost method of operation. However, first one must overcome the bond covenants and develop a non-profit with sufficient financial reserves to purchase and operate the facility. Administration is not aware of the existence of any such group.

Evidence of Economic Development Activity

During 2000 and 2001, the arena hosted several large events including hockey tournaments, speedskating competitions and the Toughman events. Based on information obtained from the event organizers, we conservatively estimated the number of out of town visitors. We also estimated average local expenditures per person. The information is summarized in the following table.

Summary	Total Visitors	Average Expenditures	Average Days	Grand Total
Total Hockey Tournament	2,688	\$53.33	2	\$286,720
Total Adray League	1,008	\$53.33	1	\$53,760
Total Travel Hockey	2,352	\$53.33	1	\$125,440
Total Speedskating	1,152	\$47.50	2	\$109,440
Total Other	276	\$65.00	1	\$17,940
Grand Total	7,476			\$593,300

We used the “Michigan Economic Impact Calculator - Metro Regions” worksheet to further estimate the economic impact of the arena. This worksheet calculates values based on “party nights” versus individuals. Therefore, we estimated the number of “party nights” by dividing our total visits by the average group size, i.e., Toughman visitor’s =1 person for 1 day, hockey tournaments = 3 persons for 2 days, etc.

Based on this model and the foregoing assumptions, the arena generated \$684,010 in total spending and supports 20 jobs in the community.

The analysis summary provided by the worksheet including the impact of the multiplier effect follows:

“4,402 visitor party nights in the area resulted in \$684,010 total spending. 83% of this spending was captured by the local economy yielding \$569,773 in direct sales to tourism-related firms. These sales generated \$205,281 in direct personal income, \$306,150 direct value added and supported 16 direct jobs. Every dollar of direct sales yielded 1.485 in total sales effects including indirect and induced effects. With multiplier effects tourist spending resulted in \$846,209 total sales, \$308,715 in total personal income, \$479,005 total value added and supported 20 jobs.”

Elimination of Future Subsidies

Since FY 1999, a 13.4% actual reduction in costs (\$119,010) have helped to improve the financial performance of the Civic Arena.

Two full time positions in the FY 2002 budget were eliminated.

Based on the foregoing analysis, the arena must increase surplus operating revenues to eliminate future general fund subsidies.

The following recommendations outline several viable strategies.

Revenue Enhancement Plan

As noted previously, the arena is not generating the gross revenues projected in 1995. Considering our various strengths in operations, we prepared the following plan to guide future management priorities. This plan only reflects those items thought to generate new or additional revenues from operations.

Title	Description	Time	Gross Revenues
Disney Goals	At risk youth, specifically those enrolled in the Bay County After School program	Summer 2002	\$34,200
Summer High School League Expansion	Expand current 6 teams to include new teams from Midland and Ogemaw-Gladwin-Beaverton	Summer 2002	\$4,000
Adult League Tournament	New tournament for adult league players - 10 teams	Summer 2002	\$6,750
Advertising	All renewals plus one new Dashboard per month - 12 new sales	Year Around	\$7,200
	In ice logs - 4 @ \$750 each	Year Around	\$3,000
Summer Youth League	Partially replaces summer youth drop in - 100 youth @\$100 each	Summer 2002	\$10,000
Individual Registration	Replace adult league team registration - recruit 20 new players at \$150 each - switch to a 3 on 3 format	Spring 2002	\$3,000
Middle School Hockey League	New Summer program for Ages 11 to 14 - 4 teams, 20 hours ice @ \$170 hour	Summer 2002	\$3,400
Learn to Skate	New program format - 3 sessions (learn to stand, start, and stop) - then to current 7 session program - 350 new skaters less 100 in traditional program	Fall 2002	\$(1,750)
Blizzard Jr. A	Continue new program for a full season - 30 weeks of practice at 5 hours per week plus 24 games	Fall 2002	\$23,750
Public Skating	8 Theme sessions - 150 people each at \$4 plus 50 skate rentals at \$1.50 targeted at middle school aged and younger children.	Fall 2002	\$5,400
Dryfloor Events	Host Annual Camper and RV show and Home Builder's Show	Spring 2003	\$8,000
Total Plan Revenues			\$106,950

Recommendations

Based on the information contained in this study, we have concluded the arena has not achieved its expected level of financial performance. While the situation has improved under County management, it is still below the levels projected in 1995.

Based on the experience gained during the past two years and considering the County continues to manage the facility, we propose the following recommendations be adopted:

1. Appropriate funds from the operations budget and authorize the Chairman of the Board to sign a contract with Suburban Hockey of Farmington Hills, Michigan for management consultative services to further develop the revenue enhancement plan and strengthen operations. Specific objectives would include increasing surplus operating revenues by 25% each year until all debt service requirements are met. The contract would not exceed \$6,000 in FY 2002 and FY 2003;
2. Authorize the Chairman of the Board to sign a contract for up to three years with a private operator to schedule, promote and manage numerous dry floor events throughout the year. This contract would be based on a request for qualifications and experience issued by the Civic Arena and finance Department staff;
3. Authorize the submission of grant applications for the implementation of the Disney Goals program during 2002 and beyond.
4. Appropriate funds for the purchase and storage of a suitable material to cover the ice surface to accommodate special events during the peak ice season. The estimated cost is \$30,000 plus storage fees.

5. Direct the Finance Department to re-classify the arena fund as an activity of the General Fund, thus eliminating the need for further action to subsidize debt service and cash flow requirements. Such action will still permit a separate reporting of the results of operations for study and review by both the commissioners and administration.
6. Authorize a bid request for replacement of the useless seating in the Olympic Arena that was originally purchased by the former Assistant Manager of JRV Management. Patrons cannot see what is going on in the arena while seated because the seating is too low to the ground. More, improved seating will increase annual net revenues;
7. Announce a board policy decision to affirm County management indefinitely to assure the community, business sector, and customers that operations will continue uninterrupted and with certainty.