City of Auburn

Office of the City Manager

To: Mayor LaBonté and the Auburn City Council
From: Clinton Deschene, City Manager
Subject: Summary of Dual Surface Ice Arena Budget
Date: September 28, 2012

The attached information and this memo serve to outline the major aspects of Monday's executive session regarding the Ice Arena. I am sharing this with you early so that you can review and consider the information before the meeting. I have reviewed this information and the lease with Mr. Schott today, Friday, September 28, 2012 and he provided some insight. Please consider the remainder of this letter as an explanation to the information on the spreadsheet.

<u>Budget Spreadsheet</u>
An initial item to understand is that this is only a one year budget. I can and will provide more analysis and forecasts; however, I think you will see that aspects of growth and risk in future years are included in this one year analysis. I am taking this approach so as to concentrate on a single year budget and not to overload you with information or hypothetical estimates of future years.

Also, the City will need to have $1.2 million dollars committed in the event a Council opts out of the lease in the future. More research will have to occur on how is best to budget these funds. At this time, there would be no more than half available in unrestricted fund balance and this would place the City at its minimum balance. The remaining $600,000 would need to come from other sources or from an increase in taxes next year. However, with the two year notice requirement, I would recommend the cost be phased over two years (half this year and half next). These funds may have the potential to be used for operating losses as well.

The spreadsheet when reading from left to right includes the following information:

- The first (4) columns include the name and description of the expense and revenues and estimated hours of rental.
- The next major column is Ingersoll 2012. This column includes the unaudited financials for Ingersoll Arena for the year ending June 30, 2012.
- Next is the column entitled A/L Dual Surface. This is the full year amounts for each line item.
- Finally, there are columns labeled for each month showing the projected costs by month. The benefit of this is to show months of profit and loss so that enough cash flow is established to sustain the facility. Please notice that September and June are the months with significant losses; it will be important to prepare for this when we open.

The spreadsheet when reading from the top down includes the following information:

- Income is the first category and starts with leagues, then schools, and so on.
- Any item in yellow is either potential revenue with no firm data for the income sheets or an area where significant projecting needed to occur.
    - One example, L/A Edge, has commonly accepted that they would rent ice time, but I didn't have a commitment letter when this was drafted. Understand this uncommitted line would total as a group at no more than 300-400 hours if forecasted, generating

    - $60,000-$80,000 of revenues. (I would note that some of the regional leagues could exceed those estimates in the 5 year or more range, but it would be dangerous to plan on these in the first years of operation.)
        - "Growth in Year One in Rentals" does estimate that in addition to all our primary ice users we will find $67,500 in new users. This is risky per my judgment but was recommended by others as a realistic estimation.
    - Please also note that Rouesseau's have not supplied a sheet but prior history makes this a very reasonable estimate.
    - Naming is a $50,000 expectation that the Rinks will generate interest for surfaces, scoreboards, the building, etc.

- Pro-shop and Concession stand are based upon renting the space to a private sector operator. Projections at best.
- Tournaments are two tournaments operated by the City itself with all profits to the facility. I would envision one on Columbus Day weekend concentrating on Canadian teams and one in the spring as an annual Twin Cities Championship tournament.
- The other revenues are based upon actual income at Ingersoll with projected growth.
- The City has not included projections for High School Graduations, concerts, etc.
- There is also belief that public skating revenues will increase.

The next categories moving down the page are the expenses. The following explains most of the lines:

- Director/Marketing is a full-time position tasked with the business operations, marketing, and fundraising of the facility.
- Operation is a full-time person overseeing scheduling, ice time, maintenance, and relationships with renters.
- Admin. Assistant is a full-time office person who aids the first two in the day to day operations, budgeting, and recordkeeping.
- Two Ice Attendants are staff caring for the ice.
- Two Part-time ice are staff assisting the ice attendants for the extra hours.
- Overtime is based upon some weeks needing more than the schedule hours.
- Uniforms will purchase shirts for all staff.
- Health Insurance is based upon six benefited positions.
- Advertising is a general budget to be utilized by the director.
- Equipment Inspection through Gas are all projections based upon Ingersoll and a rough industry standard that costs will increase by at least 50%. If one surface is closed for low periods of the year, summer for example, we could expect a reduction in utilities.
- CIP is an annual contribution to a reserve for future capital costs.
- Debt Service Ingersoll is the annual debt for existing loans on Ingersoll. It is not in the Dual Surface budget but is a cost that needs to be considered.

<u>Overall, the expenses versus revenues show a $286,370.71 loss for the operation of the new arena</u>. There are two other ways to review the results. First, in my research a comparable facility in Arvada Colorado indicates that 30% of expenses to operate a dual surface ice arena must come from taxes. 30% of our projected expenses ($1,472,714.58) are $441,814. Although higher it does give credence to the budget. This isn't to say we can't do better, but this does support the budget I am presenting.

Second, is to understand Ingersoll, for all intents and purposes, breaks even. Ingersoll's ice rental income for all users was $349,043 last year. The new dual surface is estimated at $699,925, an increase of $350,882. The new debt service and taxes for the facility are $770,283. The difference between the rental growth and new expenses results in a loss of $419,401, another strong indicator that the forecasts in the presented budget are accurate.

At the bottom of the budget are various items that can impact operation costs.

<u>Conclusion</u>

Economic Growth of the city will be increased by the construction of this facility. Safe forecasts are $2 million a year for approximately 4 years. This is roughly $38,000 per year in new (non-TIFed) tax revenue or $152,000 by year 4. Projections beyond this are too speculative.

It is clear that without looking to items such as fundraising, operational savings, interest rate savings, and increased use this facility could break even or profit. The facility could also exceed the projected loss of $286,000. This risk is with the City and is mitigated mostly by a two year opt out.

I look forward to your questions and review.