



## **Executive Summary**

### **Background:**

Ballard\*King and Associates was contracted by the City of Albertville to provide an assessment of the feasibility to add a second sheet of ice to the STMA Arena. Ballard\*King and Associates (BKA) is a recreation facility planning and operations consulting firm based out of Denver Colorado. It should be noted that BKA has nothing vested in the outcome of a decision to expand the STMA Arena other than providing useful tools to help with the decision making process.

### **Market Analysis:**

Although the primary focus of this project is to assess the feasibility of adding a second sheet of ice to the STMA Arena the study reviewed the market conditions of the general service area. The STMA Arena primary service area population saw rapid growth during the early to mid-2000's until the recession slowed growth. The St Michael's/Albertville area growth seems to be driven by people moving from the inner rings of the Twin Cities metro area. The demographic profile of the community indicates that the age group distribution is somewhat mixed. There is a significantly higher concentration of under 5, 5-17, and 25-44 age groups than the national level. At the same time the percent of the 18-24 and over 45 age groups is lower than the national level. This information coupled with the higher percentage of young children validates there are a larger number of families with young children in the service area than found on a national level. The median age of the service area is significantly younger than the national level and the median household income is significantly higher than the than the national level. Age and income are two determining factors that influence people's participation in recreation activities, especially ice hockey. The demographic profile of the service area also suggests a generally ability to pay for a relatively expensive sport like ice hockey.

There are other ice skating facilities in the general area that will be impacted by adding a second sheet of ice to the STMA Arena. The youth hockey association currently buys an additional 490 hours of ice time on a seasonal basis beyond their use of STMA Arena. It will be a challenge for the other rink operators in the area to overcome and make up the 490 hours the STMA arena will be removing from the market place. This all adds up to a general condition that reflects a buyer's market. The primary reason for the buyer's market is that there





When an over saturation or supply exceeds the demand you have a buyer's market. Simply stated, the customers can effectively have rinks compete against one another based on ice time schedule and price. This is occurring in the Albertville area. Generally it is more difficult to sell non-prime time during a buyer's market. The presence of other service providers in service area will not impact the usage of the STMA Arena during the prime hockey season since the population served by the STMA Arena is concentrated in St. Michael and Albertville area. However, the demand for ice time does not appear large enough on a year around basis to support the operation of two sheets.

The manager of the Rogers Ice Arena indicated that the impact of another sheet of ice in the general area would reduce/shrink the amount of non-prime ice time sold and suggests that another rink will shrink the secondary market area for all the area providers.

The youth hockey program is in a slight growth mode although the total number of players is about the same as last year. The youth hockey association reports that the ice hockey program has grown to around 400 participants from a level of about 150 participants in 2001. The growth in youth hockey corresponds to the growth in population of the St. Michael and Albertville area over the same time period. The cost to play youth hockey is about \$1,500 per season for a Bantam age player. This fee does not include equipment, tournaments or travel costs. The fact that the youth hockey association has managed to grow slightly during the recession speaks to the strength and overall household income levels. When the economy came to grinding halt the participation in youth hockey remained strong.

The population of the service area has grown over 110% since 2000. A closer look at the demographic profile suggests that a good portion of the growth is people moving further away from the Twin Cities, in particular white middle to upper middleclass families. This demographic population is positioned financially to participate in ice hockey. The cost to play youth hockey ranges from \$1,400 to \$1,600 (excluding U8 age group). This fee does not include equipment, extra tournaments or travel costs.



**Operations:**

Assembling the operation plan presented a challenge in balancing the need to be conservative to protect the governmental agencies involved while at the same time recognizing the enthusiasm from the youth hockey and acknowledging the potential for significantly increasing the volume of ice rentals from a second sheet of ice. As a result, the operation pro-forma reflects a compromise position, especially with revenue projections. Specifically, ice arena rental have been calculated based on a schedule that reflects current usage and the volume of ice time being rented by the Youth Hockey Association from other ice rinks in the area.

There is some inherent cost savings associated with operating two sheets of ice, especially from a staffing perspective. In addition to staff efficiencies the operating pro-forma assumes that the expanded ice sheet will be a seasonal operation. There is nothing occurring in the general area that leads us to believe there is enough demand to justify keeping two sheets open on a year around basis. Some budgetary line items doubled, like insurance and propane, while other line items increase on an incremental basis, like water treatment (cooling tower), gas, water/sewer, telephone, building maintenance.

One recommendation is for the STMA Arena to enter into a long term agreement with the youth hockey association to commit to a specific number of hours during the peak season. This will provide a strong level of assurance that the ice time and cash flow will be guaranteed.

The operating pro-forma for the additional sheet of ice reflects and incorporates the efficient method in which the STMA is managed and operated. It is clear from benchmarking with other community skating facilities that the STMA is operated much more efficient that most other ice skating facilities in the area. However, the STMA cannot functionally operate a second sheet of ice without additional staff to accommodate the increase volume of business and adequately cover the hours of operation for a two-sheet facility.

**Summer Operation:**

The STMA Arena will be closing for an extended period this spring to provide some relief and mitigation of the permafrost build up that has occurred over the years. Closer examination into normal summer operation indicates that the primary user of summer ice is the high school hockey coach that operates a hockey camp for a two-month period. Typically coach Johnson rents about 12 hours per week. There are other miscellaneous rentals that occur but the demand



for ice time drops off significantly during the summer months. To illustrate, STMA has about 336 hours of useable ice available per month in the summer (reasonable hours). Based on 2012 statistics, STMA recorded a range from 80-99 hours per month of rentals during that period of time which equates to a 24% to 29% occupancy rate. In contrast, the occupancy rate for ice time during the hockey season is 85%-96%. One group, Transitional Development Hockey (TDH), operates an elite level program that uses about 70-80 hours of ice time in the spring/summer period. This group did not rent ice from the STMA Ice Arena in 2012 because TDH shops area rinks to find the lowest ice time rate and found a lower ice rental rate at another rink.

Strictly from a business model perspective keeping the ice rink open in the summer (April-August) should be examined. Without question this period of time is the most expensive time of the year to operate the ice arena. It is not uncommon to have monthly electric cost exceed \$8,000 in the summer months. The time of the year that is most expensive to operate also happens to be the time of year with the least demand for ice time. Ice rental rates from prime time drop from \$185 per hour during the hockey season to \$145 per hour during the summer months. The lower demand for ice time in the summer has created a market condition that requires ice arena operators in the area to reduce summer ice rental rates in an effort to generate sales. Operating the STMA Arena in the summer, with operating costs at their highest and the rental rates discounts the deepest, is a formula for losing money.

However, it should be noted that the availability of summer ice for hockey camps and player development is critical for the STMA program and High School team to stay competitive with other area schools. It seems many of the successful high school programs in the area have summer development programs in place. Unfortunately for the STMA operation providing this opportunity requires subsidizing the program to keep the ice available in the summer.

Closer analysis that examines a comparison of the 2012 fiscal year without ice from April through the end of August concludes that the STMA Arena would have increase their cost recovery rate to 112% and generated an operating surplus of \$30,632 if summer ice was not offered.



### **Youth Hockey:**

It should be noted that the STMA Youth Hockey Association is forced to go to some of these area rinks to supplement their need for ice time. It was reported by the hockey association that 40% of the ice time rented by the club annually comes from other rinks in the general area, primarily Monticello, Princeton, Blaine, Buffalo and St. Cloud. The youth hockey association submitted the following commitment for ice time if a second sheet of ice were added to the STMA Arena. It should be noted that the youth hockey ice time request for the second sheet of ice is about 1,106 hours, or about 42.5 hours per week based on a 26 week season. However, closer examination of the ice time request from the youth hockey association appears to exceed the ice time available. The mock-up schedule (page 13 below) indicates that there are only 36 hours of acceptable ice available with a second sheet of ice for youth hockey hours. If the youth hockey association truly needs an additional 42.5 hours per week they will still have to go outside the immediate area to acquire the 6.5 hours per week that goes beyond the 36 hours per week that are available to reserve with the second sheet of ice.

Representation from the youth hockey association reported that the association rents about 492 hours outside of the STMA (see page 14 below). The historical use of outside ice purchased by youth hockey association compared to the request for ice time for the second sheet of ice is significantly different. A correspondence from the current President of the STMAYHA indicates they will commit to 1,106 hours of ice time per season for the second sheet of ice. This request is 614 hours greater than what the youth hockey association is currently renting from other ice rinks. It should be noted that the additional 614 hours of ice time request represents about another \$113,590 (based on \$185/hr) in ice time costs above and beyond what the youth hockey association currently rents per year. Without a major fundraising campaign the increase usage of ice will increase youth hockey fees about \$284 per player.

### **High School Hockey:**

Ballard\*King and Associates met with the Activities Director from the school district. Currently the boy's varsity and junior varsity share ice time. An additional sheet of ice will provide the opportunity for the high school to split the varsity and junior varsity ice time. The girl's team is a co-op program and the cost for the program is shared with Monticello High School. The Activity Director reported that the high school would like to increase their ice time from the current level of 270 hours per season to 450 hours. Currently the cost for ice time is paid through funding the School District receives from the State of Minnesota. The



**STMA ARENA ASSESSMENT**

amount of funding the School District receives from the State is not likely going to increase and the probability of increasing the allocation or distribution of the funding that the School District does receive does not look promising based on other school district needs for the State funding it receives. This is an important factor because increasing the high school ice time usage by 180 hours per season will result in an increase of about \$26,000 per year. This will require significant higher activity fees per player (\$435), increased share of State funding the School District receives, or significantly more fundraising by the booster club, or some combination of the options that covers the increased cost. A more realistic scenario is that the high school will reduce the number of hours rented because the hours requested extend beyond the school's budgetary allocation.



### Operating Pro-Forma

The operations analysis represents a conservative approach to estimating expenses and revenues and was completed based on the best information available and a basic understanding of the project. Fees and charges, ice time usage and operating costs utilized for this study were based on the 2012 operation of the STMA Arena. There is no guarantee that the expense and revenue projections outlined in the operations analysis will be met as there are many variables that affect such estimates that either cannot be accurately measured or are subject to change during the actual budgetary process.

### Revenues

The following revenue projections were formulated from information on the specifics of the project and the demographics of the service area as well as comparing them to a potential ice rink schedule for a second sheet of ice and the competition for ice time during the summer months in the area. Actual figures will vary based on the size and make-up of the components selected during final design, market stratification, philosophy of operation, fees and charges policy, and priority of use. All revenues were calculated conservatively as a result.

<u>Category</u>	<u>2012 Actual</u>	<u>Second Sheet</u>
<b>Income</b>		
Ice Rental	\$273,779	\$472,489
Concessions	\$ 33,631	\$ 57,500
Other Rev (Advertising)	\$ 8,657	\$ 20,657
Vending	\$ 1,365	\$ 2,750
Open Skating	\$ 9,002	\$ 27,500
Interest	\$ 1,227	\$ 1,227
Misc	\$ 1,373	\$ 1,650
Total	\$329,034	\$583,773



**Expenditures**

Expenditures have been formulated on the costs that were designated by Ballard\*King and Associates to be included in the operating budget for the facility. The pro-forma below does not reflect a partnership agreement. All expenses were calculated to the high side and the actual cost may be less based on the final design, operational philosophy, and programming considerations adopted by staff.

<u>Category</u>	<u>2012 Actual</u>	<u>Second Sheet</u>
<b>Expenses</b>		
Salaries, wages, taxes & benefits	\$108,827	\$162,685
Supplies Office	\$ 1,057	\$ 1,525
Supplies Concessions	\$ 13,245	\$ 22,500
Fuel	\$ 1,931	\$ 3,200
Professional Services	\$ 5,742	\$ 7,742
Sales Tax	\$ 3,162	\$ 4,200
Telephone	\$ 1,048	\$ 1,200
Electric	\$ 73,796	\$129,150 <sup>1</sup>
Gas	\$ 4,683	\$ 9,350
Water	\$ 13,797	\$ 27,600
Refuse	\$ 2,066	\$ 3,250
Insurance	\$ 10,302	\$ 36,800 <sup>2</sup>
Administration	\$ 11,124	\$ 11,500
Misc	\$ 2,202	\$ 4,000
Depreciation	\$ 42,952	\$ 122,952 <sup>3</sup>
Repair Maintenance - Machines	\$ 7,351	\$ 10,000
Repair Maintenance – Building	\$ 18,913	\$ 23,500
Debt Service	\$ 0	\$260,000 <sup>4</sup>
<b>Total</b>	<b>\$322,198</b>	<b>\$841,154</b>

<sup>1</sup> Represents 75% of the existing cost because of more energy efficient equipment.

<sup>2</sup> Insurance increased based on the value of the asset being insured by \$4M.

<sup>3</sup> Increase based on straight line depreciation of \$4M asset over a 50-year period

<sup>4</sup> Based on \$4M debt retired over 30 years with a 5% interest rate



**Expenditure – Revenue Comparison**

Category	2012 Actual	Second Sheet
Expenditures	\$322,198	\$841,154
Revenue	\$329,034	\$583,773
Difference	\$ 6,302	(\$257,381)
Recovery percentage	102%	69%

This operational pro-forma was completed based on the best information available and a basic understanding of the project. However, there is no guarantee that the expense and revenue projections outlined above will be met as there are many variables that affect such estimates that either cannot be accurately measured or are not consistent in their influence on the budgetary process.



**Staffing levels:**

<u>Positions</u>	<u>Facility Budget</u>
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**Full-Time**

Assistant Manager	\$ 35,000
Benefits (30% of salaries)	\$ 16,843
<b>Total Full-Time Personnel</b>	<b>\$ 51,843</b>

Note: Pay rates were determined based on the pay scale for the City of Albertville. The positions listed are necessary to ensure adequate staffing and provide for full-time staff support to the operation. The wage scales for both the full-time and part-time staff positions reflect estimated wages for 2013.

<u>Positions</u>	<u>Hours/Wk</u>	<u>Facility Budget</u>
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**Part-Time**

Concessions (26 wks) (\$9.00/hr)	8 hrs/wk	\$ 1,872
Salaries		\$ 1,182
Benefits (7.65% of part-time wages)		\$ 143
<b>Total Part-Time Salaries</b>		<b>\$ 2,015</b>



### Revenue Worksheet

The calculations for ice time revenue (new) was derived by the following

Youth Hockey	832 hrs@ \$185/hr <sup>5</sup>	\$168,350
High School Hockey	80 hrs@ \$165 <sup>6</sup>	\$ 13,200
Private Rentals	104 hrs@ \$165/hr	\$ 17,160
<b>Total New Ice Rental Revenue</b>		<b>\$198,710</b>

### Conclusion:

BKA included debt service estimation into the operation calculation. At the time of developing the operation plan there was still some discussion occurring on the program, size and materials for the expansion and a specific project budget has not been developed. There are several factors that play into calculating debt service, including the length of time, amount of debt, bond rating and bonding capacity.

It is the opinion of Ballard\*King and Associates that the market size and demand for ice time is not large enough in St. Michael/Albertville to operate as a true enterprise fund that covers the cost of operation plus debt service given the current market conditions, ice rental rates and capacity of the user groups to pay higher rental fees.

The summary of probable operating costs and revenues below indicate that the STMA Arena will generate a net loss of \$257,381. City Council must decide if the need for expanding the ice program justifies the need for increasing general fund support for the operations.

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<sup>5</sup> Represents 90% of total ice time available for the 26 week prime season

<sup>6</sup> Represents a transfer of non-STMA hours and allows for moderate growth of activity hours. Hours that go beyond the school's budgetary allocation will require fundraising efforts to support ice time beyond 80 hours per season.



Potential Ice Schedule (26 wks)

STMAYHA Mock Schedule for a Second Sheet of Ice<sup>7</sup>

Start Time	Monday	Tuesday	Wed.	Thursday	Friday
7:00 AM					
8:15 AM					
9:30 AM					
10:45 AM					
12:00PM					
1:15pm					
2:30pm					
3:45pm	NWC -Vars				
5:30pm	NWC – JV	NWC - JV	NWC - JV	NWC - JV	NWC - JV
6:45pm	PWA/PWB	MITE	SQB2/SQC	10UA/10UB	12UA/12UB
8:00pm	PWB2/PWC	SQA/SQB	PWA/PWB	PWB2/PWC	14UA/14UB
9:15pm	BA/BB1	12UA/12UB	BA/BB1	14UA/14UB	PWB2/PWC

Start Time	Saturday	Sunday
8:00 AM	MITE	MITE
9:15 AM	MITE	MITE
10:30 AM	LTS	LTS
11:45PM	Youth Game	Youth Game
1:00pm	Youth Game	Youth Game
2:15pm	Youth Game	Youth Game
3:30pm	Youth Game	Youth Game
4:45 PM	Youth Game	Youth Game
6:00 PM	Game/Scrim	Game/Scrim
7:15 PM	OH SQ/10U	OH PW/12U
8:45 PM	Open	Open

<sup>7</sup> Schedule was developed by representatives from the STMAYHA.



**Ice Request for Second Sheet of Ice**

**Sheet 2 - Projected ice usage by STMAYH ( draft)<sup>8</sup>**

Description	Estimated hours	
<b>Current usage on others ice</b>		
Initiation level - outside ice moved to sheet 2	192	
U8 & U10 girls - outside ice moved to sheet 2	84	
Boys youth hockey - practice ice time rented at other arenas	67	
Boys youth hockey - scrimmages at other arenas	62	
Girls youth hockey - practice ice time rented at other arenas	87	
		492
<b>Total current usage on others ice shifted to sheet 2</b>		
<b>Additional usage</b>		
Tournaments		
Might - 1	30	
Squirt - 1	30	
Pee wee - 1	30	
Bantam - 1	30	
Girls U8 - 1	30	
Girls U10 - 1	30	
Girls U12 - 1	30	
Girls U14 - 1	30	
Assume YH only holds 4 of the potential 8 per year		120
Initiation and U8 ( 15 teams ) each taking on average 1/4 hour per week. ( 15 x 26 weeks x 1/4)		98
18 teams other than initiation and U8 each taking one more hour per week for 22 of 26 weeks = 396 ( 18 X22 weeks)		396
<b>Total potential demand by YH</b>		<b>1106</b>

<sup>8</sup> Preliminary draft was developed by representatives of STMAYHA.



**Addendum**

This addendum to the Ballard\*King report was assembled to identify some pending issues for Council's consideration during deliberation on the direction for the STMA Arena expansion.

**Debt Service:**

The debt service for funding the ice arena expansion represents a significant portion of the estimated expenses for the second sheet of ice. The \$260,000 estimated debt service accounts for over 30% of the pro-forma budget. Most municipalities do not assign debt service to the operating budget, especially Parks and Recreation facilities because there is usually a dedicated funding source identified to retire debt before project construction begins. Consequently debt service is not usually included in the operating budget for municipal recreation facility.

**Depreciation:**

Depreciation is another line item that typically does not show up in a Parks and Recreation facility budgets even though the current STMA budget includes depreciation. One criticism that could be raised by showing depreciation expense in the pro-forma is the consistency in which depreciation is applied to other City Departments. Is depreciation charged against the Police Department, Public Works, HR, Accounting and Administration in a similar fashion to the Ice Arena? If depreciation is removed from the pro-forma one alternative might be to designate any revenue surplus from operations into a depreciation or capital replacement account and allowed to build over time.

**Staffing levels:**

There may be some difference of opinion within the hockey interest over the pro-forma with the addition of a full-time staff position to the budget. In the opinion of BKA the STMA Arena is one of the most cost efficient budget models for an ice arena operation. Without question the staffing cost to operate STMA is lower than most other comparable facilities. It is inconceivable and unreasonable to think that the existing staffing level is adequate to operate a second sheet of ice. As a result an additional full-time position was added to bring the budget more in line with other ice rinks and most importantly, provide the staff resources necessary to assure adequate service levels.



**Non-Ice Events:**

One element not shown in the operating pro-forma is non-ice revenues. Although there is potential to generate revenue from non-ice events it has been our experience that these event revenues tend to be inconsistent. To error on the side of conservatism BKA did not include any non-ice revenue in the pro-forma. Another influencing factor for not including non-ice revenues is the fact there are 35 rinks within a 45-minute drive, many which are also trying to sell non-ice events and activities in the summer. At this point without a MOU or contracts for non-ice commitments are too speculative to be included any non-ice revenue in the pro-forma.

The following table illustrates the impact if debt service and depreciation were removed from the pro-forma for comparison purposes.

Category	Pro-forma for Second Sheet	Pro-forma less Debt and Depreciation
Expenditures	\$841,154	\$458,202
Revenue	\$583,773	\$583,773
Difference	(\$257,381)	\$125,571
Recovery percentage	69%	127%