



Summary Report:
Laurel Aquatic Recreation Center (LARC)

March 19, 2018

PROJECT BACKGROUND

Victus Advisors was engaged by a **Yellowstone County** stakeholder group* facilitated by Big Sky Economic Development and Beartooth RC&D in October 2017 to conduct an independent analysis of Yellowstone County's (the "County") sports venues and sports marketing opportunities.

As part of this analysis, Victus Advisors was asked to analyze the market and financial feasibility of a potential new aquatic and recreation center in Laurel (LARC).

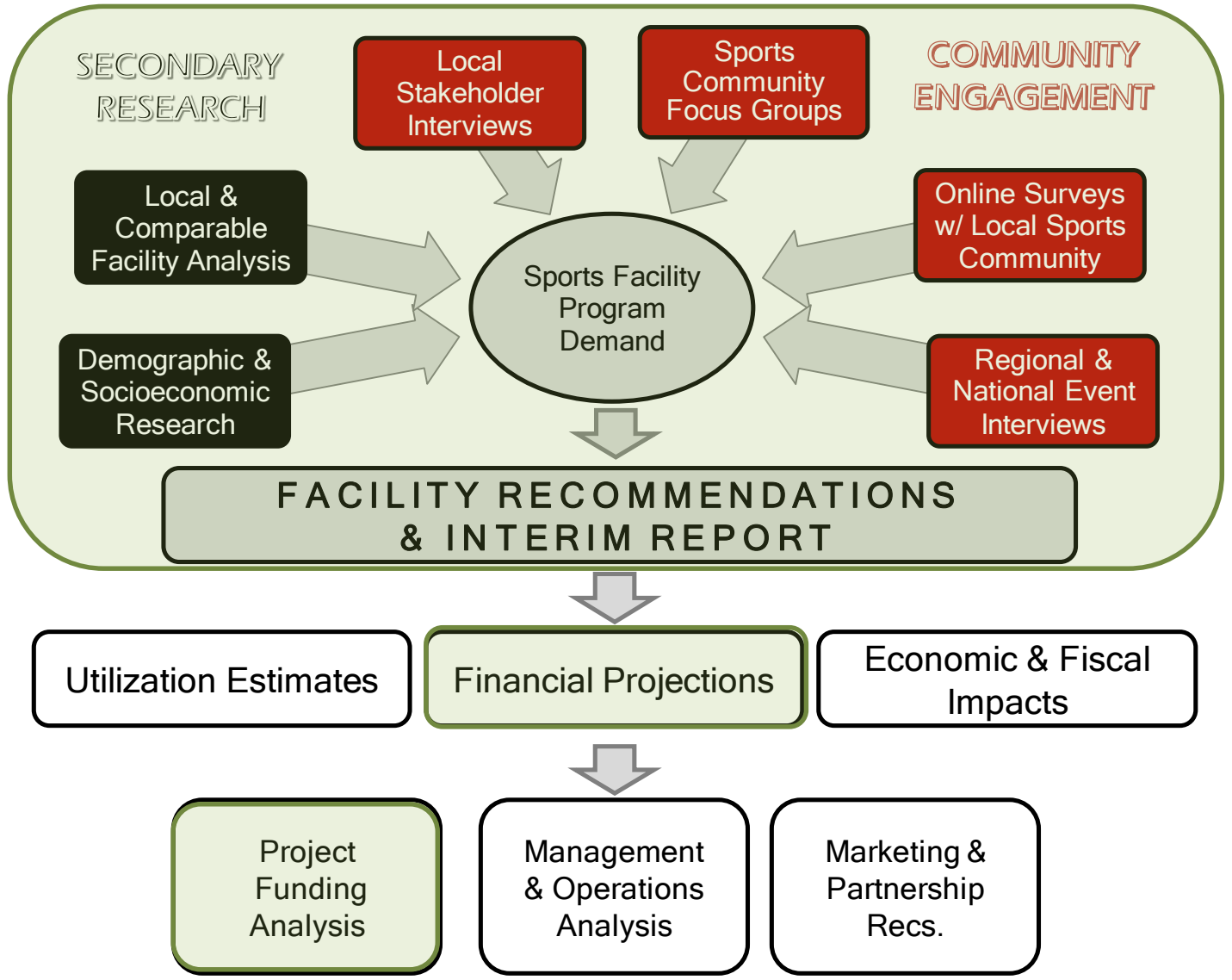
Our primary project tasks and goals for this study included, but were not limited to:

- Reviewing existing plans and documents, such as the Visit Billings 2017-2018 Marketing Plan, 2016-17 Community Health Needs Assessment Report, Billings Parks & Recreation Master Plan, USA Swimming Enterprise Plan for a New Aquatic Center in Billings, and LARC Enterprise Plan.
- Engaging local sports community stakeholders and sports facility user groups to assess the strengths and weaknesses of the Yellowstone County sports facility market
- Identifying and recommending potential improvements to Yellowstone County's current facility and venue inventory
- Recommending the type and location for sports venue development in Yellowstone County

** Stakeholders who funded this sports market/facility study include: Laurel Aquatic Recreation Complex, Montana Department of Commerce, Visit Billings, Laurel Urban Renewal Agency, South Billings Urban Renewal Association, Billings Aquatics Club, and Montana Swimming. The study process was facilitated by Big Sky Economic Development and Beartooth RC&D.*

PROJECT METHODOLOGY

- PHASES:**
1. MARKET STUDY & SPORTS COMMUNITY ENGAGEMENT
 2. INTERIM REPORT
 3. FACILITY UTILIZATION & FINANCIAL OPS.
 4. FACILITY DEVELOPMENT & OPERATIONS ROAD MAP



**Note: Green highlighted boxes represent relevant components to LARC*

LARC BACKGROUND

Laurel Aquatic Recreation Complex (LARC):

- A group of Laurel residents started LARC in 2015 with the goal to build a recreation complex. Their preferred facility would include a swimming pool, community event center, and community gym with up to three courts.
- Led by Ken Gomer and Faye Wood, LARC has raised just over \$50,000 towards project development. Additionally, just over \$100,000 has been earmarked for a swimming pool in Laurel by a donor from the community.
- The potential complex would primarily benefit the residents of Laurel and the surrounding areas, including West Billings, with the pool intended to host swim meets for local and regional swim teams.
- LARC representatives acknowledge that the potential complex would not target large tournament activity, but rather for nearby high school events and swim meets.



Laurel Public Swimming Pool:

- Built over 60 years ago, the pool is currently operated by the Billings YMCA.
- Annually, the City of Laurel generates approximately \$15,000 in pool operating revenue against \$70,000 in operating expenses.
- In addition, the City has spent more than \$75,000 in capital expenditures over the past five years to keep the pool operational.



Jaycee Hall:

- “It is functional but lacks a commercial kitchen and some of the items needed for weddings and other functions.”
- Additionally, the facility cannot host a large number of attendees (Max capacity of about 50), forcing larger parties to move to venues in Billings.



Old Laurel Middle School Gym:

- Currently condemned, the facility was the only indoor gym space available to the public in Laurel.



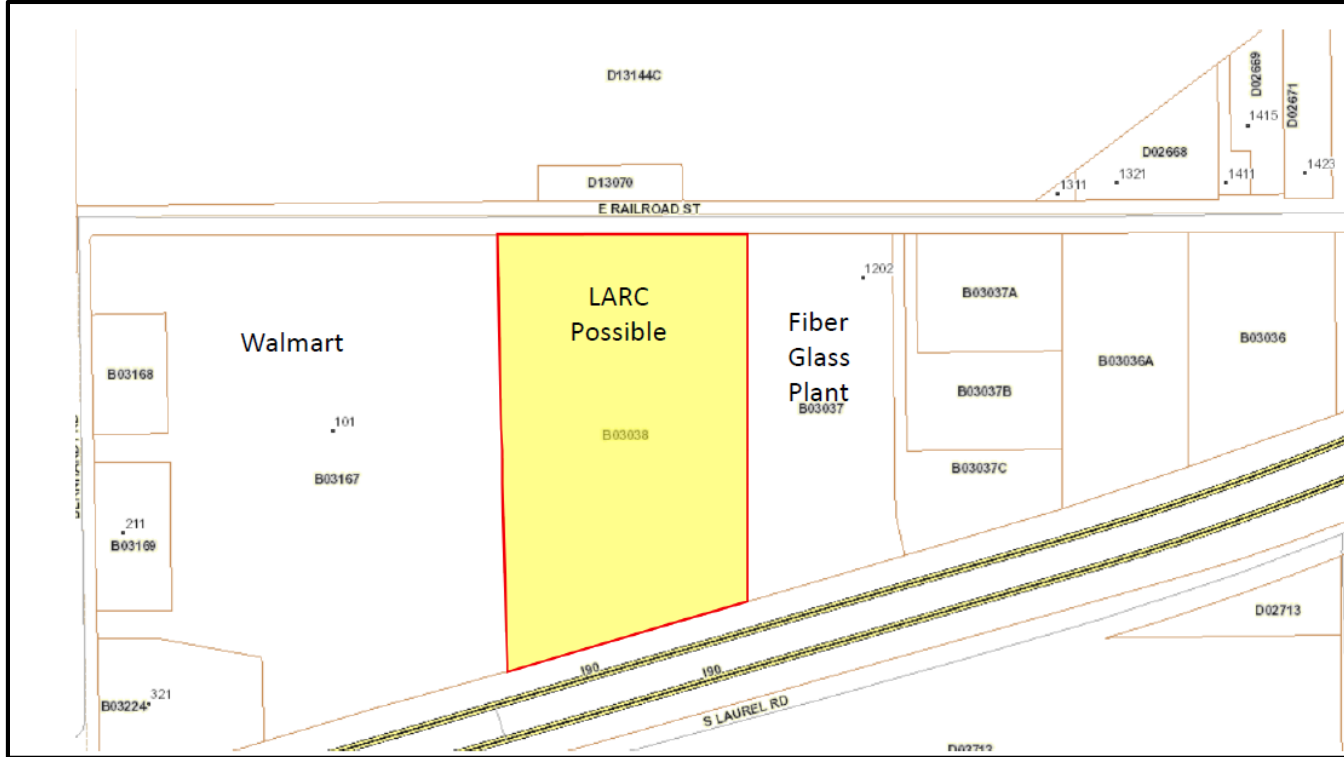
POTENTIAL COMPARABLE FACILITY

After an extensive research of comparable facilities throughout the region, and based upon our understanding of LARC needs, Victus found that the Paul Stock Aquatic and Recreation Center in Cody, Wyoming is a model facility that the City of Laurel could benefit from:

- Opened: 2001; Owner: City of Cody; Operator: Cody Parks & Recreation (privately supported)
- Cost: \$9.9M (estimated \$17.1M in 2017 dollars*); Funding: 100% private (Stock Foundation)
- Footprint: 71,237 sq. ft. (43,500 sq. ft. aquatic center; 27,757 sq. ft. recreation)
- Features:
 - 3 full-sized basketball courts (also used for multi-purpose event rental space)
 - 8-lane x 25-yard lap pool and a diving board
 - Leisure pool
 - Weight room



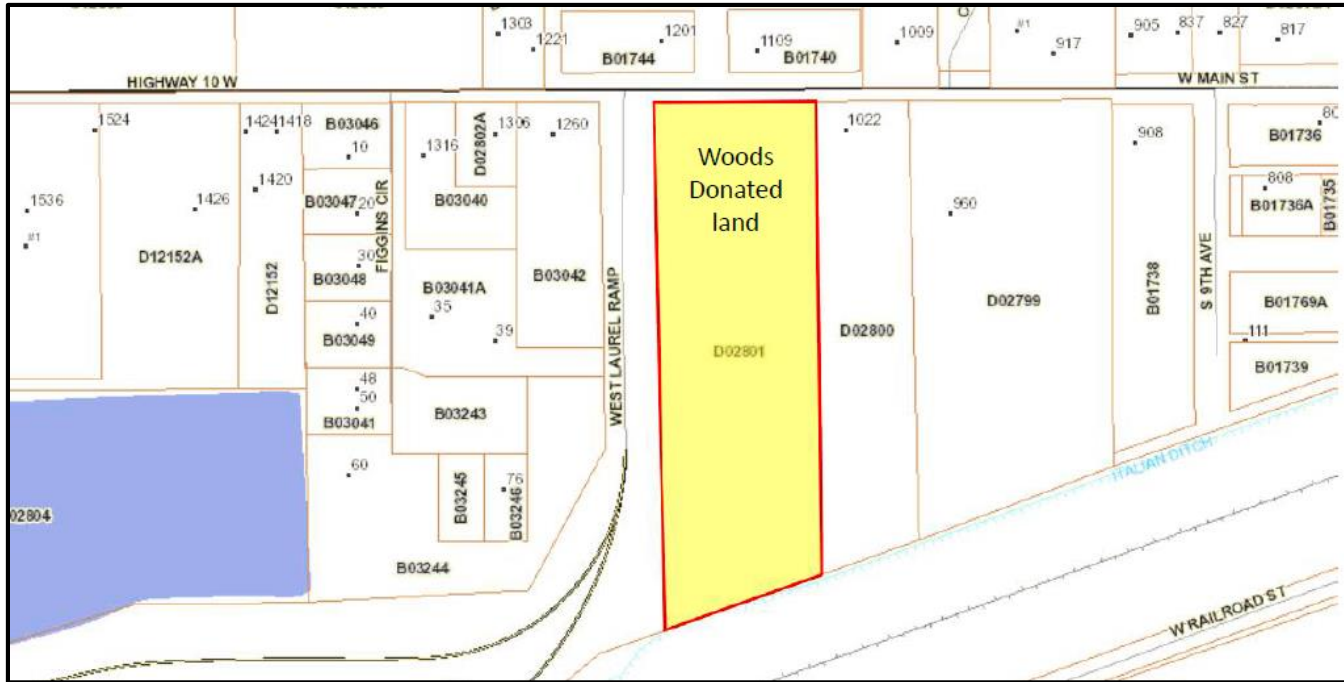
POTENTIAL LARC LOCATION #1



Source: Laurel Aquatic Recreation Complex

There are 10 acres available next to the Walmart in Laurel. This location is optimal because of its proximity to the highway, retail, and dining. The lot would still need a new sewage system. The assessed value of this lot of land is over \$1.6 million.

POTENTIAL LARC LOCATION #2



Source: Laurel Aquatic Recreation Complex

The Woods donated land is also 10 acres. While the assessed value is nearly \$62,000, the land would be donated to LARC. As with Potential Location #1, this lot still need a new sewage system, however Potential Location #2 does not currently have the traffic congestion of the other site.

That said, according to LARC, this Location #2 could potentially leverage the new interstate interchange that is being built approximately two miles to the west of the site, which could drive more vehicle and pedestrian activity via subdivisions, retail, and hospitality development within the area.

EXPECTED LACK OF CITY FINANCIAL SUPPORT

In November 2017, Victus Advisors met with local government officials from the City of Laurel and the Laurel Urban Renewal Agency (LURA) to gauge potential interest and support for the Laurel Aquatic Recreation Complex. Key takeaways from this group included:

- There was a consensus among the group that there is a lack of quality indoor space for recreation and community events in Laurel. Additionally the Laurel Public Swimming Pool (outdoors) is “falling apart.” According to City officials the pool costs the City more than \$55,000 annually to operate. Furthermore, the City’s capital expenditures to maintain the pool over the last five years have exceeded \$75,000.
- The group agrees with LARC that a multi-purpose community center, gym space, and indoor pool are needed in Laurel, however they also indicated that the potential annual operating costs of such a facility were not currently available in the City’s budget, and that even the current costs of operating the Laurel Public Swimming Pool in the summer may not be sustainable for the City.
- City and LURA officials declared that there are no local government or renewal agency funds available for this project, as other infrastructure needs (intersections, railroads, etc.) have taken priority. Additionally they expressed that there is very little tolerance for new taxes or new spending among Laurel voters. They cited a recent \$58 million school bond that was recently voted down. Furthermore in 2005 an outdoor pool master plan (\$3.2 million, or \$4.7 million in estimated 2017 dollars*) never even went to vote because the project was deemed too expensive by City leaders.

** Estimated according to the Turner Building Cost Index*

ADDITIONAL CHALLENGES FOR LARC

- The City of Laurel has a population of 7,171, representing 6% of the County's total population. As a result, with a small tax base and a facility that would focus primarily to serve the needs of Laurel residents and the surrounding communities, public funding from the County or outside of the community appears unlikely.
- The Paul Stock Aquatic and Recreation Center in Cody, Wyoming cost \$9.9 million to build in 2001 (approximately \$17.1 million in 2017 dollars) and was funded 100% privately by the Paul Stock Foundation (\$7.1 million) and a capital campaign (\$2.8 million). In addition, the Stock Foundation also committed an additional \$2 million to help support the annual operations of the facility. LARC representatives believe that they could raise up to \$1 million within the Laurel Community and are optimistic that a \$20 million bond issue could be feasible. Ultimately, they acknowledge that outside help would be needed.
- While there are several suitable lots of land available within Laurel, all would still require significant infrastructure improvements such as a sewage system, etc.

FINANCIAL MODEL - KEY ASSUMPTIONS

The following key assumptions were utilized by Victus Advisors in order to develop operating and financial projections for the proposed Laurel Aquatic Recreation Complex (LARC) in Laurel:

- The complex would be approximately 55,000 sq. ft. in size and have the following features:
 - ❑ 30,000 sq. ft. aquatic center
 - 8-lane x 25-yard lap pool
 - Leisure pool
 - Concession and merchandise stand
 - ❑ 25,000 sq. ft. recreation and community center
 - 3 full-sized basketball courts (would also be used for multi-purpose event rental space such as banquets, community events, etc.)
 - Meeting/event room for private rentals
 - Concession stand
- Financial projections have been developed for both the aquatic center and multi-purpose community center and are based on estimated programming, practice, league, and tournament usage.
- The complex will be operated by LARC, or another such non-profit organization.
- No assumptions have been made yet for debt service or capital improvement funds.
- The complex will offer competitive rental rates and will primarily be used by the local community.
- It has been assumed that LARC would develop or enhance public sports leagues such as adult and youth basketball, etc., as well as camps, clinics, and other such revenue generating events. In this model, we have assumed that these programs would be operated by the facility operator.
- These projections are based on current market circumstances, and thus assume that there will be no other major changes to the available sports/recreation facility inventory within Laurel.
- The financial projections displayed on the following page utilize a variety of additional assumptions, including data gathered from third-party sources, information provided by LARC representatives and various local municipalities, and Victus Advisors' industry experience. There will be differences between these projections and actual events, and these differences may be material.

FINANCIAL MODEL (CONT.)

Operating Revenues:	Aquatic Center	Gymnasium & Community Center	Combined Operations
Programming (Camps, Lessons, Leagues, etc.)	\$234,000	\$102,400	\$336,400
Membership & Admission Fees	\$217,425	\$22,000	\$239,425
Rental Income	\$61,440	\$69,300	\$130,740
Concessions & Merchandise (Net)	\$42,000	\$21,000	\$63,000
Total Revenues:	\$554,865	\$214,700	\$769,565
Operating Expenses:			
Salaries, Wages, & Benefits	\$488,000	\$238,500	\$726,500
Utilities & Chemicals	\$117,005	\$57,623	\$174,628
General & Administrative	\$57,300	\$47,750	\$105,050
Materials/Supplies	\$32,031	\$5,270	\$37,301
Maintenance/Repair	\$24,000	\$11,216	\$35,216
Total Expenses:	\$718,336	\$360,359	\$1,078,695
Net Income (Loss):	(\$163,471)	(\$145,659)	(\$309,130)
Estimated Cost Recovery:	77%	60%	71%

Note: Presented in 2018 dollars

In a stabilized year of operations, it is estimated that the operations of an aquatic center and multi-purpose community center in Laurel would generate a cost recovery of 71%, meaning that the complex could require annual operating subsidies of nearly \$310,000.

A description of each revenue/expense estimate is provided on the following pages.

Conclusion:

- As shown on the previous pages, it is estimated that there could be an operating deficit of more than \$300,000 per year for the Laurel Aquatic Recreation Complex at full build-out.
- It is also recommended (as was done with Paul Stock Recreation & Aquatic Center in Cody, Wyoming) that an operations/maintenance fund be established. Methods to raise funds could include the establishment of a community recreation district and/or continual fundraising efforts by LARC.

- **Capital Needs:**

	Aquatic Center	Community Center	Combined Operations
Estimated Annual Operating Losses:	\$163,471	\$145,659	\$309,130
Typical Useful Life of a Sports Facility:	25	25	25
Total Long-Term Operating Losses:*	\$5,960,032	\$5,310,620	\$11,270,652
Net Present Value of Operating Losses:**	\$3,119,857	\$2,779,913	\$5,899,770

* Assumes 3% annual inflation

** Assumes 5% discount rate

At full build-out, the combined operations of the aquatic center and the community recreation center is estimated to generate an annual operating loss, requiring as much as \$11.3 million in operating subsidies over 25 years. As a result, a long-term capital reserve fund with a net present value greater than \$5.8 million should be established to subsidize the operations of the facility.

This capital reserve fund can also be drawn upon by facility owners/operators to pay for necessary capital maintenance and improvements as the facilities age.

CONCLUSION & RECOMMENDATION

Conclusion:

- A group of Laurel residents started LARC in 2015 with the goal to build a community recreation facility, ideally including a multi-purpose community center, gym space, and indoor pool, all of which are needed in Laurel, but the costs to both build and operate the facility with public funds does not appear feasible. Therefore, it is likely that LARC would have to privately raise the funds to construct and operate the facility.
- While LARC has been able to raise some initial funds and engage the community, there is a considerable gap between the amount they have preliminarily raised and the potential total costs of building and operating a facility such as the Paul Stock Aquatic & Recreation Center.
- That said, LARC intends to commence a capital campaign soon, and a potential new facility could be phased/scaled based upon the amounts they are ultimately able to raise.

Recommendation:

- Victus Advisors recommends that LARC representatives should ramp up their fundraising efforts in an effort to raise enough funds to build at least one of their desired facilities (community event center, indoor pool, indoor gym), if not all.
- If LARC is unable to raise enough funds for a new facility, Victus recommends that the funds they do raise could be used by LARC (not the City) to help maintain the existing pool, support its annual operations, and potentially complete some capital improvements/enhancements, rather than risk the pool closing due to a lack of City budget support.

Recommendation (Cont.):

- If LARC is able to raise the funds to construct a community facility in Laurel, they should consider proposing the establishment of a community recreation district to support the ongoing operations of the facility. The following two examples are recreation districts currently established in Montana:
 - ❑ The Beartooth Park and Recreation District (BPRD) in Stillwater County, Montana was created in 2003. The BPRD is funded through a levy with a maximum of 4 mills. With an annual budget of approximately \$62,700 the BPRD maintains Hawkins Park, Absarokee Swimming Pool and the Absarokee baseball/soccer complex. Some additional funding for these facilities are raised through Associations that benefit from these facilities.
 - ❑ The Colstrip Parks & Recreation District (CPRD) was formed in 1987 after voters approved a three mill maximum levy. In 1989 voters approved raising the mill levy from three to six mills with the additional three mills earmarked for the development of a park, youth baseball stadium, and a golf course. The CPRD maintains the community center, the pool, the park system, bike paths, Castle Rock Lake area and trail, the ice skating/hockey rink area, the clubhouse and golf course. The CPRD has an annual budget of just over \$2.6 million. It is worth noting that about 96% of collections are from the property values of the existing power plants.



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