

2002 Athletic Business Conference

*Building College & University
Recreation Facilities*

How Am I Going To Pay For All Of This?

Presented By:

Paul Brailsford & Terry Glanville

Presentation Outline

- Introduction & Objectives
- How Did We Get Here?
- What's an Extra Dollar Worth?
- Assessing Your Opportunities
- Planning Your Project
- Q & A Throughout



Introduction



BRAILSFORD & DUNLAVEY

Introduction



Today's Speakers

- **Paul Brailsford -CEO, Brailsford & Dunlavey**
 - ▶ Economist / Commercial Real Estate Background
 - ▶ 18+ Years of College & University Facility Planning
 - ▶ Almost 100 Sports & Recreation Facilities

- **Terry Glanville – Associate, Brailsford & Dunlavey**
 - ▶ Campus Recreation and Hospitality Background
 - ▶ Over 15 Campus Sports & Recreation Projects



Introduction



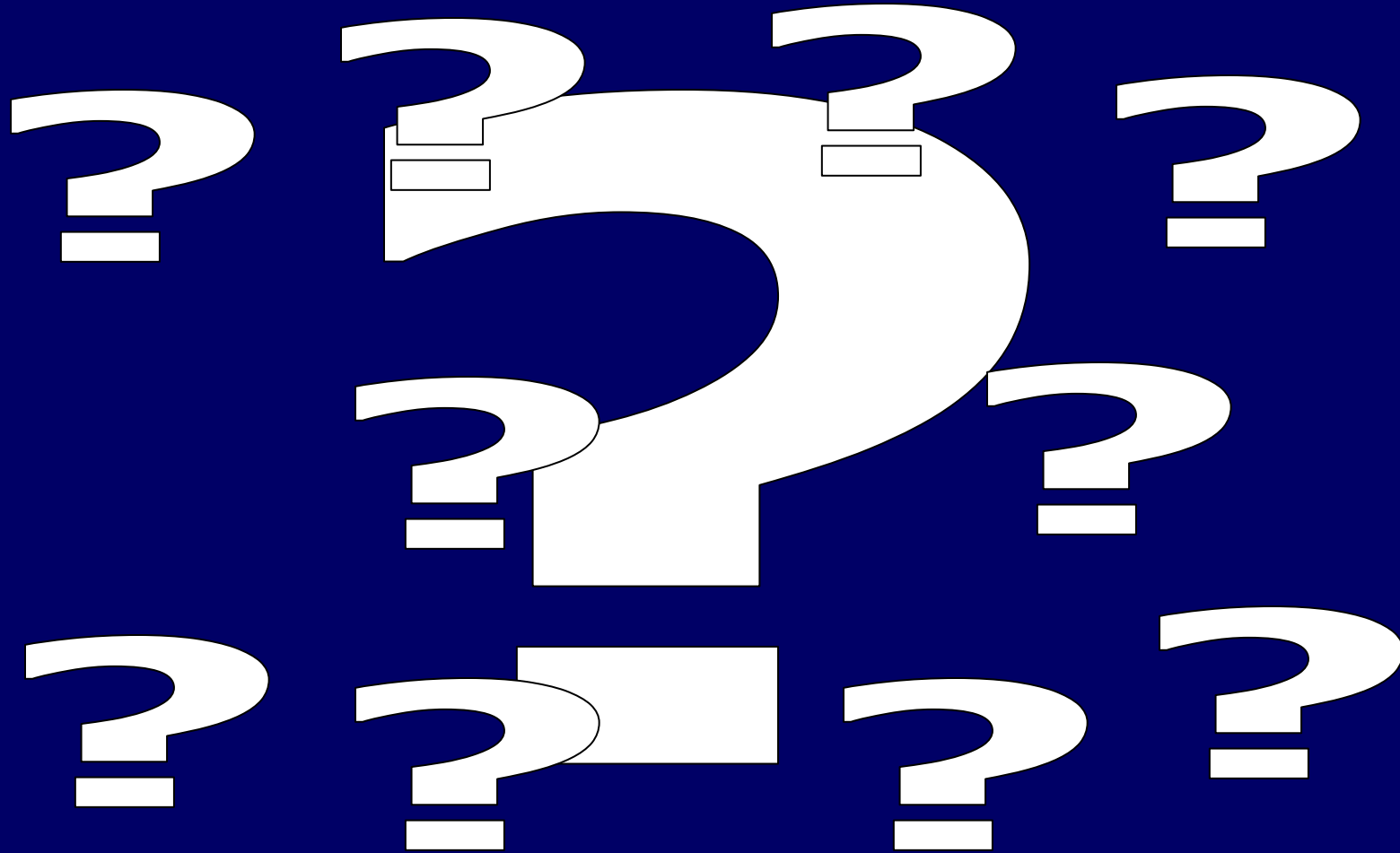
Today's Objectives

- **To Transfer the Value of Our Experience**
 - ▶ Strategic Understanding - Planning Your Revenue Sources
 - ▶ Capturing the Value

- **To Convey Some Operating Understanding**
 - ▶ Leveraging and Pricing Strategies
 - ▶ Market Implications



How Did We Get Here?



How Did We Get Here?

Eras of Campus Development

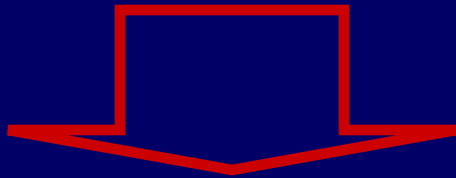
- Post WWI Period (the 1920's & 30's)
- Post WWII Period (the 1950's)
- The Modern Era (the 1970's)
- The Contemporary Era (1985 to Present)



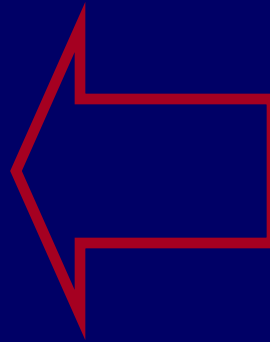
How Did We Get Here?

Cause / Effect Relationships: Contemporary Era

Shortage of Students /
Shortage of Funds



Quality of Life Focus /
Self-Supporting Projects



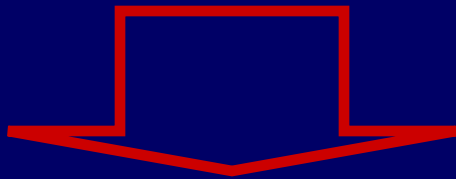
- Mid '80's, the supply of baby boomers dries up
- State & Federal budget expansions slow down



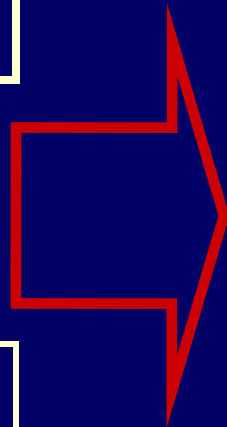
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Students => Customers
It's a "Buyer's Market"
Internal => External
Forces (mission => market)



How Did We Get Here?

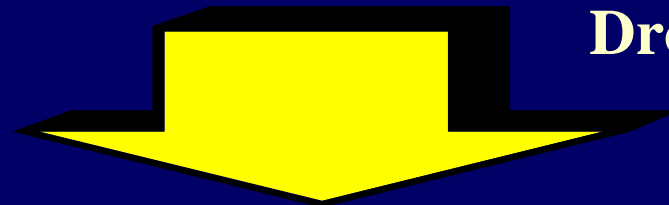
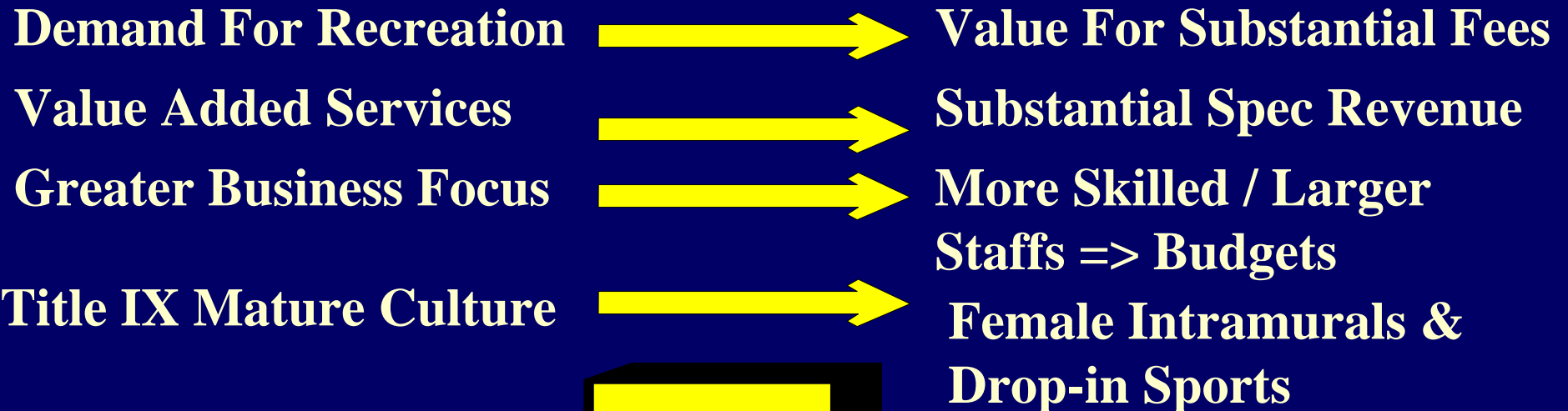
Market Shifts

P.E.& Athletics Focus		Recreation / Social Focus
Utilitarian Function		Dynamic Social Space
Limited Audience		Maximized Appeal
Shared Use Facilities		Special Purpose Buildings
Directed Programs		Market Driven Services
Free Employee Use		Fee Based Memberships
Male Dominated		Gender Balanced



How Did We Get Here?

Market Sifts / Common Responses








Most Exciting Campus Recreation Development Era Ever

 Substantial Resources Allows Large Projects to be Feasible Within Tolerable Risk Parameters



How Did We Get Here?

Continuing Shifts / Responses

Conservative Funding		Aggressive Financing
Student Focus		Entire University Community Focus
Modest Customer Expectations		Increasingly Consumer Oriented Society
Limited Range of Services & Programs		Increased Service Quality / Expanded Menu of Value Added Services
Increased Financial Performance		New Entrepreneurial Mindset Required



What's an Extra Dollar Worth?



What's an Extra Dollar Worth?

What Would You Use An Extra \$1 For?

- Increase Debt
 - ▶ Upgraded Quality
 - ▶ Increased Space
- Improved Level of Service
 - ▶ Value of Membership Package
 - ▶ Enhanced Service / Program Menu
 - ▶ Staff Quality (compensation level)
 - ▶ Staff Quantity
- Improved Collateral, Reserves & Other Uses



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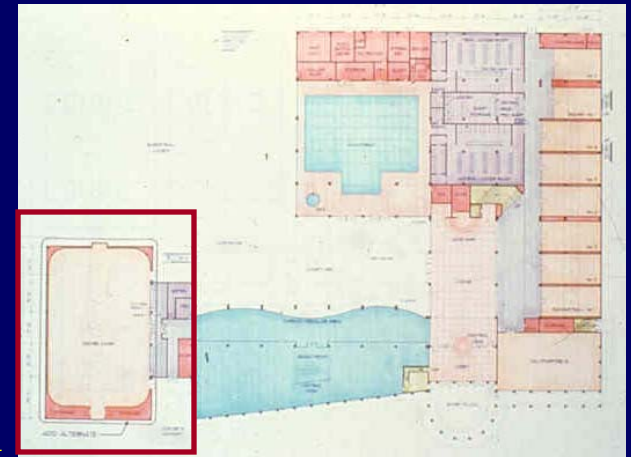
*Cost between \$150
- \$200 Per SF*



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Operating costs!



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What's an Extra Dollar Worth?

Concepts of Leverage

If: Interest Rates  *Then: Debt Capacity* 

If: Debt Term  *Then: Debt Capacity* 

If: Debt Coverage  *Then: Debt Capacity* 



What's an Extra Dollar Worth?

Institutional Risk & Funding Strategies

- Debt Underwriting
 - ▶ Debt Coverage Ratio & Collateral
 - ▶ Debt Term & Instrument

Net Operating Income = \$1

Understanding Debt Capacity:

Case #1	Case #2	Case #3
Debt Term = 20 yrs.	Debt Term = 20 yrs.	Debt Term = 30 yrs.
Int. Rate = 5.50%	Int. Rate = 6.50%	Int. Rate = 5.50%
DCR = 1.20:1	DCR = 1.10:1	DCR = 1.10:1
Debt Capacity = \$9.96	Debt Capacity = \$10.02	Debt Capacity = \$13.21



What's an Extra Dollar Worth?

How Do You Buy Debt?

- Cost of Issuance
 - ▶ Underwriters Discounts
 - ▶ Administrative & Legal
 - ▶ Insurance
- Pricing
 - ▶ Taxable vs. Tax-exempt
 - ▶ Fixed vs. Variable
 - ▶ Line Item vs. Bundled
- Other Costs



Assessing Your Opportunities



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Assessing Your Opportunities

Comprehensive list of revenue opportunities by category

SAV as a filter => operating paradigm

Limitations (physical & market)



Assessing Your Opportunities

What is Your Reality?

- Physical Limitations
 - ▶ Mandatory Student Fees
 - ▶ Voluntary Student Memberships
- Market Limitations
 - ▶ Mandatory Student Fees
- Operating Paradigm Issues
 - ▶ Alumni Memberships
 - ▶ Community Memberships



Assessing Your Opportunities

Revenue Opportunities – Entry Fees

- Exempt Users

- ▶ Mandatory Student Fees
- ▶ Voluntary Student Memberships
- ▶ Faculty / Staff Memberships
- ▶ Day Passes

- Non-exempt Users

- ▶ Alumni Memberships
- ▶ Community Memberships
- ▶ Daily Guest Passes



Assessing Your Opportunities

Market Analysis Techniques / Tools

1. Demographic Analysis
2. Focus Group Interviews \leftarrow Use at least twice!
3. Intercept Interviews
4. Off-Campus Market Analysis
5. Competitive Context Analysis
6. Student Survey \leftarrow Use twice if a referendum is involved!



Assessing Your Opportunities

Other Revenue Opportunities

- Services
- Programs
- Rentals / Events
- Retail (food & products)

Relationship to

- Patron traffic
- Patron Mix
- Membership rights
- Facility attributes
- Staffing capacity
- Marketing Efforts



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Strategic Asset Value Analysis

Creating the Filter & Developing Strategy: Strategic Asset Value Analysis

- Revenue Approach – Institutional Mission is Critical

Balancing Act:

- *Facility and Educational Outcome*
- *Membership Management*
- *Entire Community*

How effective are existing facilities?

How well do the facilities need to work?



Operating Paradigms

Development of Operating Paradigm

Understanding the Different Operating Paradigms in Connection to the Objectives of the Facility's Operation will Enable an Operator to Develop Different *Revenue Streams*, *Operating Expenses*, and *Staffing Needs*.

Recreation Center
Operating
Approach



Must Respond to
Operating Paradigm for
Revenue Maximization



Operating Paradigms

Program Driven Approach

Characteristics

- Revenue Maximization - Development & Marketing of Optional Programs Menu
- Differential Membership & Service Pricing Flexibility
- Patron Type Privilege & Service

Method

- Strong Customer Service Orientation
- Encourage Daily Patron Usage
- Marketing and Promotion of Traditional Recreational Services
- Maintain High Levels of Patron Satisfaction



Operating Paradigms

Program Driven Approach – Disadvantages

- Majority of Facility's Revenue – Speculative in Nature
- High Levels of Staff Marketing and Customer Commitment Necessary
- Enhanced Staff Skill Critical



Operating Paradigms

Facility Driven Approach

Characteristics

- Revenue Maximization – Facility Rentals and Events
- Facility Priority to High Income Opportunities

Method

- Strong Activity and Event Space Rental Orientation
- Marketing & Promotion of Flexible & Contemporary Recreation Spaces
- Less Staff Required for Facility Operation



Operating Paradigms

Facility Driven Approach – Disadvantages

- Limited Revenue Potential
- Comprised Customer Service and Customer Satisfaction – Hours of Operation and Access



Operating Paradigms

Traditional University Service Approach

Characteristics

- Student Demand – Maximizing Student Satisfaction
- Primary Focus on the Campus Community

Method

- Sufficiently Provided Recreation and Wellness Programs
- Limited Revenue Source Pursuit Beyond Employee Memberships
- Small, Moderately Skilled Staff within Limited Operation



Operating Paradigms

Traditional University Service Approach – Disadvantages

- Limited Revenue Potential – Dependent on Student Fees
- Lack of Ability to Maximize Revenue and Enhance Competitive Market Position
- Limited Programs and Services Available



Limitations

Creating the Filter & Developing Strategy: Physical Limitations

- Range of Program Elements
- Size of Program Elements
- Site Attributes
- Staffing



Parking, Proximity of
Market



Critical to Membership
Sales



What's an Extra Dollar Worth?

Illustrate the value of a dollar at various underwriting assumptions

Terms and Concepts of Leveraging



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Concepts of Leverage



Debt Coverage Ratio

- Mitigation of Costs
- Mixing of Tax-Exempt and Taxable Uses – Must be in Proportion to Tax Exempt Users
- Debt Coverage Ratio Must Match Concept of Risk



Concepts of Leverage



Tools & Methodology - Rules of Thumb

- **Student Fees Are the Primary Source of Revenue**
 - ▶ Most Fees Fall Within \$80 - \$130 Per Semester Range
 - ▶ Revenue Yield Tied to Fee Policy - Who Pays?
 - ▶ Use Correct Enrollment Basis
 - ▶ Understanding the Referendum Process – Leverage Higher Fees
- **Faculty & Staff Participation Typically 15% - 25%**
 - ▶ Account for Ramp Up
 - ▶ Demographics, Culture & Project Features Are Important
- **Other Income Can Add as Much as 30%**
 - ▶ Outside Memberships, Services, Rentals & Camps



Concepts of Leverage

Tools & Methodology - Rules of Thumb

- Current Tax-exempt Interest Rates Range Can be as Low as 4.75%
- Debt Terms Range from 20 to 30 Years
- Debt Coverage Ratios Range from 1.0:1 to 1.25:1



Developing Projections

Understanding Patron Capacity

Understanding Net Revenue (the cost of driving revenues – including general marketing activities / fixed and variable costs)

Membership Packages / Benefits & Value Added Services

Pricing & Access Philosophy & Selecting a Level of Service



Patron Capacity

Understanding Patron Capacity

- New and Existing Building Patron Capacity
- Implications of Membership Rates vs. Sales Volume
- Annual Patron Visits and Targeted Revenue



Development of
Operating
Paradigm



Net Revenue

Understanding Net Revenue

- The Associated Cost of Driving Revenues
 - General Marketing Activities
 - Fixed and Variable Costs
 - Staff and Service Requirements
 - Facility Requirements and Limitations

Expenses
must
Support
Net
Revenues



Membership Packages

Membership Packages / Benefits & Value Added Services

- Understanding and Applying Appropriate Operating Paradigm
- Perception of Value Critical to Membership Package – What am I Receiving for my Money?

Services Include:

Aerobic / Specialty Classes

Towel Service



Philosophy

Pricing & Access Philosophy & Selecting a Level of Service

- Understanding and Applying Appropriate Operating Paradigm – What is Your Level of Service?
- Cost Implications of Daily Pass vs. Membership – Perception of Value



Track: Facility Design and Construction

NEW! Colleges and Universities: How Am I Going to Pay for All This?

With campus recreation centers becoming increasingly spectacular, project costs are setting records each year. How are these projects being financed? This session not only answers this question, but also provides valuable insight into how to plan your project from a financial perspective. During this session, financing tools and techniques will be fully explored and attendees will learn about establishing project budgets and projecting financial performance. In addition, the importance of reconciling assumptions to establish internal consistency and methods of matching risk and leveraging strategies will be discussed.

You'll learn how to:

- Project revenue streams, including sizing a new student fee, rental income and service income.
- Develop a project development budget.
- Use a range of financing tools.

Who should attend? Architects, recreation professionals, student affairs administrators or anyone planning a campus recreation project who is either not familiar with the financial performance of the contemporary campus recreation center or who is not an expert in project finance.

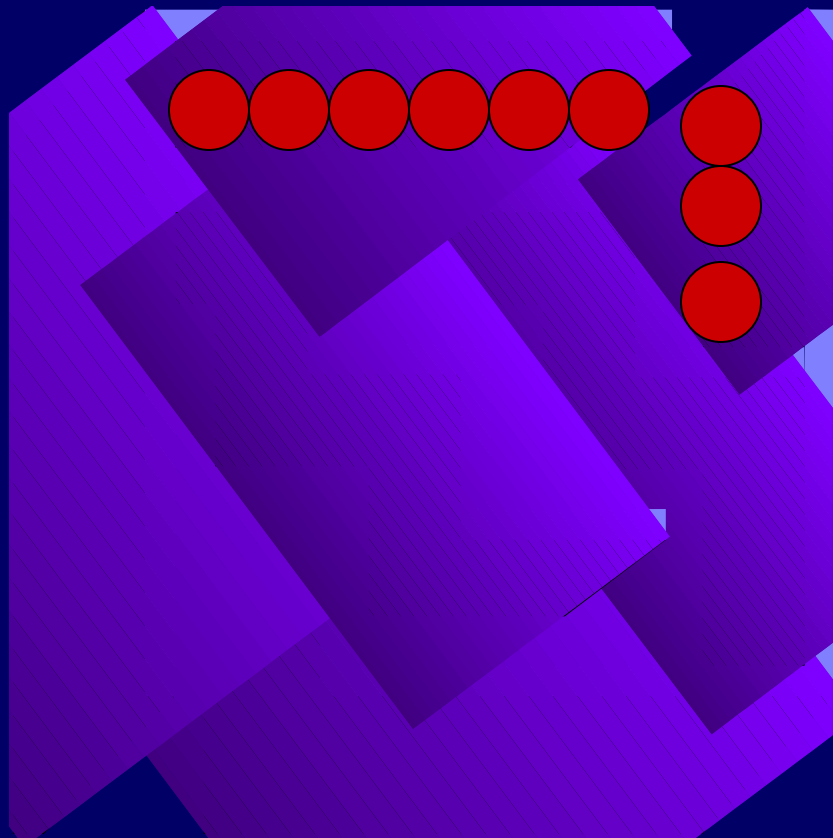
Faculty: Paul Brailsford, Chief Executive Officer, and Terry Glanville, Associate, Brailsford & Dunlavey

CEUs awarded: IACET, NASM



Programming Basics & Feasibility

Reconciliation Process

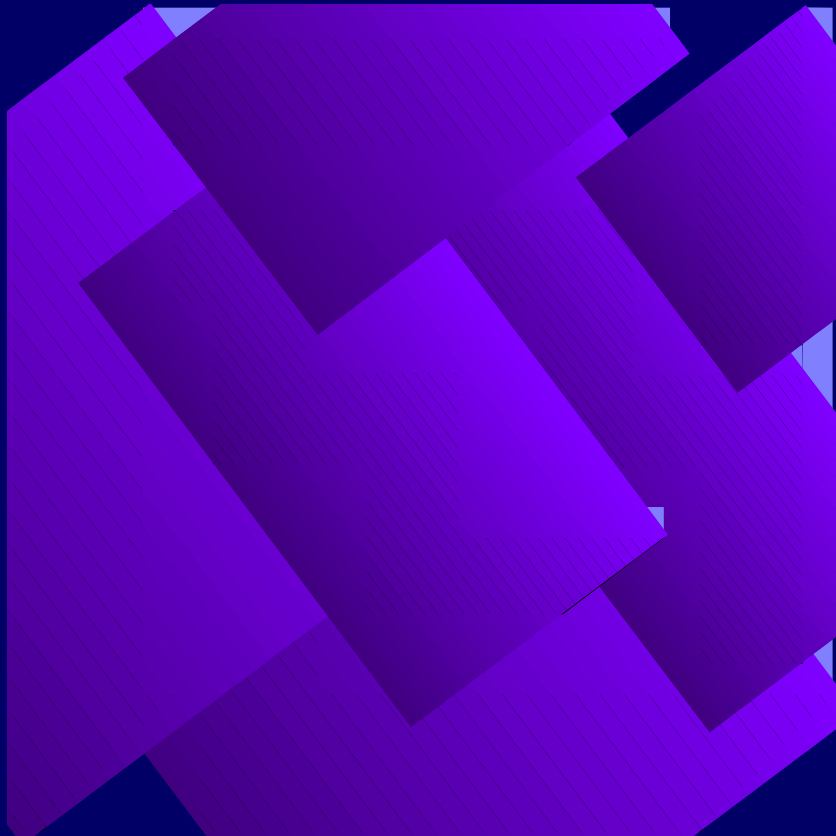


- Concept / Mission
- Demand / Program
- Program / Site
- Program / Cost (budget)
- Cost / Debt Capacity
- Revenues / Expenses
- Program / Revenues
- Capacity / Revenues
- Debt Capacity / Expenses



Programming Basics & Feasibility

Reconciliation Process



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- Capacity / Revenues
- Debt Capacity / Operating Costs



Programming Basics & Feasibility

Unmet Needs – Whose Needs?

- Varsity Athletics
- Sport Clubs
- Intramural Sports
- Physical Education
- Open Recreation & Fitness
- Wellness



Programming Basics & Feasibility

Common Project Concepts & Themes

- Comprehensive Recreation & Fitness Center
- Comprehensive Student Physical Activities Center
- Campus Wellness & Fitness Center
- Intramural Building



Programming Basics & Feasibility

Developing Strategy – Campus Recreation

Category	Value of Existing Facilities		
	High	Moderate	Low
I. Educational Outcomes			
<ul style="list-style-type: none"> Stress Mitigation (self-directed fitness) Leadership Development (intramurals & clubs) Professional Development (student employment) Long-term Financial Stability (fundraising) 			
II. Enrollment Management			
<ul style="list-style-type: none"> Recruitment /Retention (campus tour / expectations) Retention (consistency / quality of experience) 			
III. Campus / University Community			
<ul style="list-style-type: none"> Central Gathering Place Faculty / Staff / Student Interaction Alcohol Free Social Opportunities Alumni Relations 			



Programming Basics & Feasibility

Institutional Risk & Funding Strategies

▪ Debt Underwriting

- ▶ Debt Coverage Ratio & Collateral
- ▶ Debt Term & Instrument

NOI = \$2,500,000 ; Int. Rate = 5.5% ; Fees = 80%

Case #1

Debt Term = 20 yrs.

DCR = 1.25:1

Debt Capacity = \$24,000,000

Case #2

Debt Term = 30 yrs.

DCR = 1.10:1

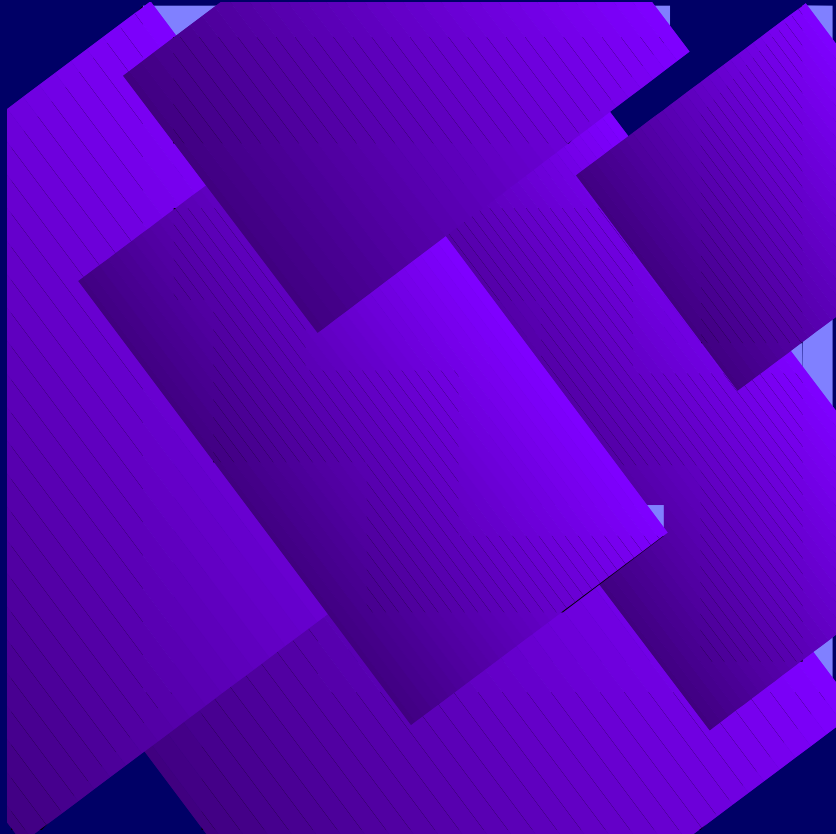
Debt Capacity = \$36,300,000

Student Fee Differential = \$50 => \$70 Per Semester



Programming Basics & Feasibility

Reconciliation Process



- Concept / Mission
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- Capacity / Revenues
- Debt Capacity / Operating Costs



Programming Basics & Feasibility

Some Quick Rules of Thumb

- 8.5 to 10.5 Gross Square Feet Per Student
 - ▶ Small Residential Campuses Are Higher
 - ▶ Large, Urban Non-traditional Campuses Are Lower
- Add 1 to 1.5 Gross Square Feet Per Employee
- Add 5 to 7.5 Gross Square Feet Per Alumni / Community Member
- Add for Non-redundant Academic & Athletic Spaces
- Subtract Usable Existing Spaces but Consider Sport Clubs & Efficiency of Existing Space

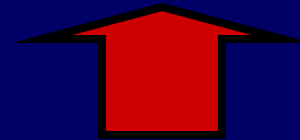


Programming Basics & Feasibility

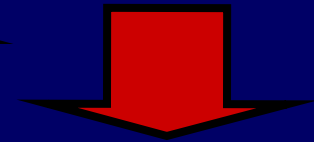
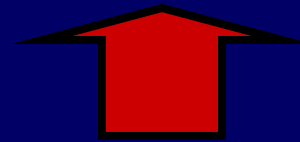
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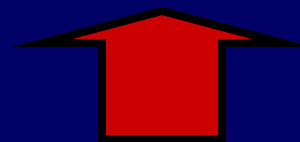
- ▶ Projected Enrollment Growth



- ▶ Residential / Commuter Mix



- ▶ Unique Cultural Considerations



Be Careful not to Undersize!



Programming Basics & Feasibility

Some Quick Rules of Thumb

- **Weight & Fitness = 1 Net Square Foot Per Student**
 - ▶ Gender mix
 - ▶ Commuter mix
- **Group Exercise = .5 Net Square Foot Per Student**
 - ▶ Adjust for sport club and passive recreation use
 - ▶ Gender mix
- **Wellness & Social Spaces are additional**



Programming Basics & Feasibility

Responding To Demand – Demand Based Programming

Student Responses

	Activity	Depth	Breadth	
1	WEIGHT MACHINES (NAUTILUS, CYBEX, ETC)	42.3%	72.7%	<i>1st Priority</i>
2	FREE WEIGHTS	41.0%	65.6%	
3	FITNESS (CARDIOVASCULAR MACHINES)	40.5%	68.0%	
4	AEROBICS (DANCE, SLIDE, STEP)	20.3%	51.2%	<i>2nd Priority</i>
5	INDOOR JOGGING OR WALKING	16.0%	53.5%	
6	BASKETBALL	15.6%	32.1%	
7	LAP SWIMMING	12.0%	39.3%	<i>3rd Priority</i>
8	RECREATIONAL OR LEISURE SWIMMING	9.3%	46.2%	
9	SPORT/CLIMBING WALL	8.7%	35.9%	
10	RACQUETBALL OR HANDBALL	7.7%	33.4%	
11	WATER AEROBICS	6.3%	30.0%	
12	VOLLEYBALL	6.2%	27.6%	
13	MARTIAL ARTS	5.7%	18.1%	<i>4th Priority</i>
14	INDOOR SOCCER	5.3%	18.7%	
15	TENNIS	5.3%	10.2%	
16	ROLLER OR FLOOR HOCKEY	4.6%	8.1%	
17	BADMINTON	3.5%	6.0%	
18	OTHER	3.1%	3.3%	



Programming Basics & Feasibility

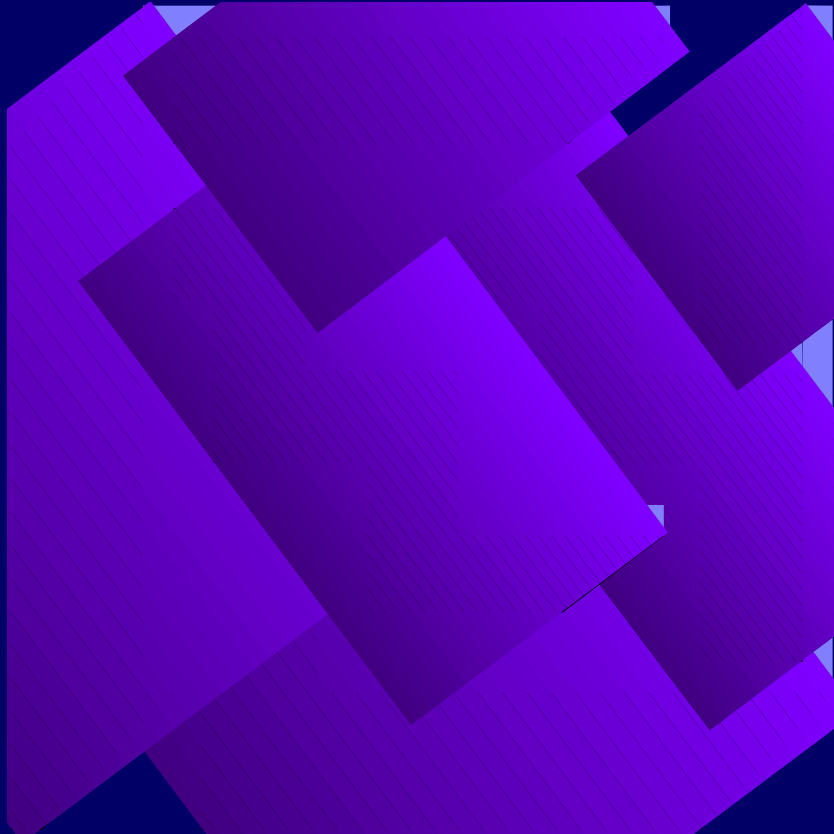
Responding To Demand – Demand / Program Reconciliation

Activity	Priority Category	Peak Accommodation	Space Type	Peak Demand	Space Allocation Based on Prioritization of Demand		
1 WEIGHT MACHINES (NAUTILUS, CYBEX, ETC)	first	75% to 85%	Sq. Ft.	4,252	3,200	to	3,600
2 FREE WEIGHTS	first	75% to 85%	Sq. Ft.	3,808	2,900	to	3,200
3 FITNESS (CARDIOVASCULAR MACHINES)	first	75% to 85%	Sq. Ft.	2,750	2,100	to	2,300
4 AEROBICS (DANCE, SLIDE, STEP)	second	55% to 65%	Sq. Ft.	3,470	1,900	to	2,300
5 INDOOR JOGGING OR WALKING	second	55% to 65%	Sq. Ft.	1,890	1,000	to	1,200
6 BASKETBALL	second	55% to 65%	Courts	8	4	to	5
7 LAP SWIMMING	third	40% to 50%	Lanes	7	3	to	4
8 RECREATIONAL OR LEISURE SWIMMING	third	40% to 50%	Sq. Ft.	2,890	1,200	to	1,400
9 SPORT/CLIMBING WALL	third	40% to 50%	Ln. Ft.	7	3	to	4
10 RACQUETBALL OR HANDBALL	third	40% to 50%	Courts	10	4	to	5
11 WATER AEROBICS	third	40% to 50%	Sq. Ft.	1,890	800	to	900
12 VOLLEYBALL	third	40% to 50%	Courts	2	1	to	1
13 MARTIAL ARTS	third	40% to 50%	Sq. Ft.	1,400	600	to	700
14 INDOOR SOCCER	third	40% to 50%	Courts	2	1	to	1
15 TENNIS	fourth	25% to 35%	Courts	280	70	to	98
16 ROLLER OR FLOOR HOCKEY	fourth	25% to 35%	Courts	1	0	to	0
17 BADMINTON	fourth	25% to 35%	Courts	3	1	to	1
COMBINED WEIGHT & FITNESS (Fitness Machines, Free Weights and Weight Machines)				10,810	8,200		9,100



Programming Basics & Feasibility

Reconciliation Process



- Concept / Mission
- Demand / Program
- Program / Site
- Program / Cost (budget)
- Cost / Debt Capacity
- Revenues / Expenses
- Program / Revenues
- Capacity / Revenues
- Debt Capacity / Operating Costs



Programming Basics & Feasibility

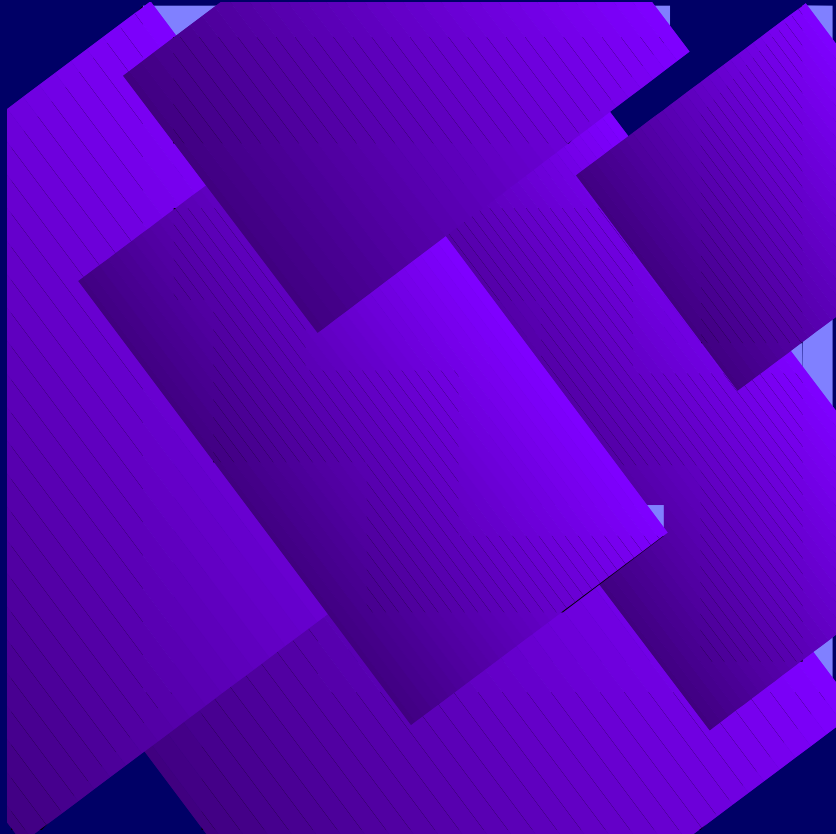
Program / Site

- Identify Main Level / Ground Floor Components
- Calculate Dimension of Large Inflexible Spaces
 - ▶ Gymnasiums
 - ▶ Natatoriums
- Understand Building Efficiency
- Don't Forget Site Development Costs
 - ▶ Relocation
 - ▶ Infrastructure & Site Development
 - ▶ Parking



Programming Basics & Feasibility

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Programming Basics & Feasibility

Program & Cost - The Dangers of Benchmarking

- Differences in Time
- Location Factors
- Program Allocation Factors
- Variable Campus Standards



Programming Basics & Feasibility

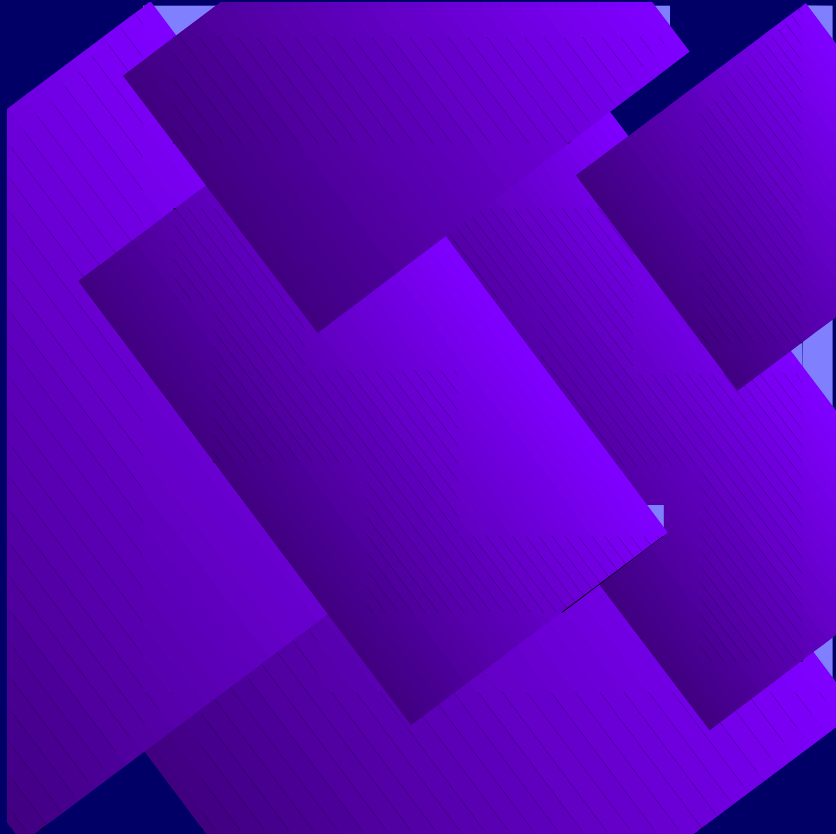
Program & Cost - The Dangers of Hidden Costs

- Site Costs
- Furniture, Fixtures & Equipment
- Soft Costs
- Owner Imposed Costs
 - ▶ Campus Infrastructure & Technology
 - ▶ Art & Special Features
 - ▶ Unrelated Special Projects



Programming Basics & Feasibility

Reconciliation Process



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Programming Basics & Feasibility

Debt Capacity Relationships

If: Interest Rates  *Then: Debt Capacity* 

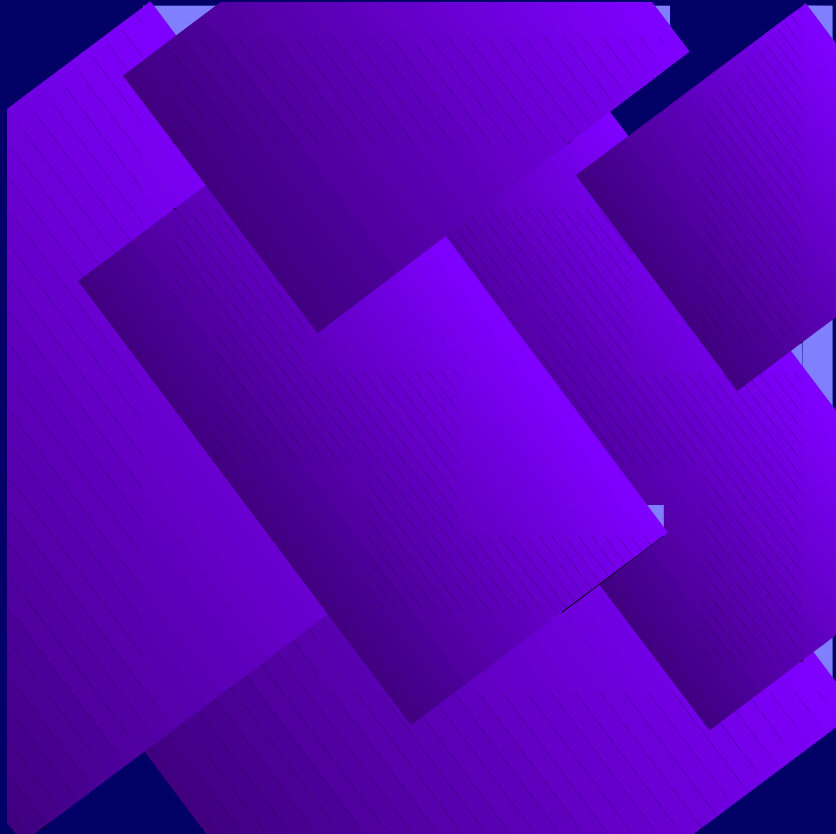
If: Debt Term  *Then: Debt Capacity* 

If: Debt Coverage  *Then: Debt Capacity* 



Programming Basics & Feasibility

Reconciliation Process



- Concept / Mission
- Demand / Program
- Program / Site
- Program / Cost (budget)
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- Program / Revenues
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Programming Basics & Feasibility

Revenues & Expenses

- Staffing Costs
- Marketing Costs



Programming Basics & Feasibility

Program & Revenues

- Competitive Quality
- Membership Components
- Rental Components
- Speculative Revenue Components
- Patron Capacity



Programming Basics & Feasibility

Patron Capacity & Revenues

- General Reconciliation With Targeted Populations
- Time of Day / Seasonal Fluctuations
- Program Specific Spaces & Balance



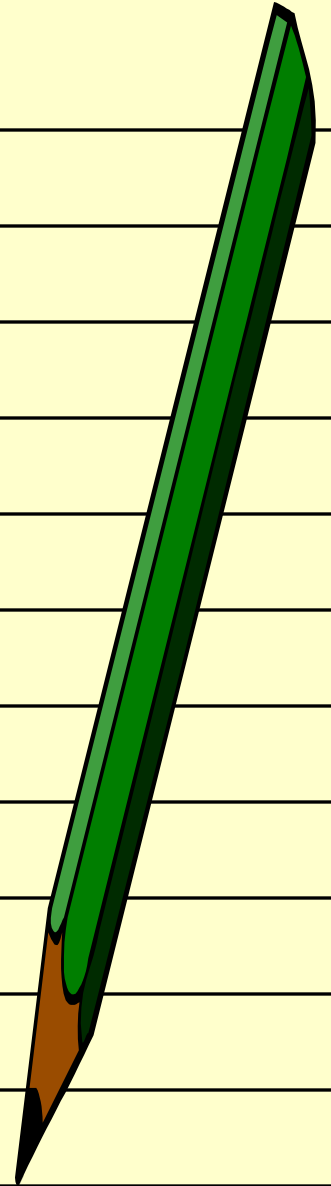
Programming Basics & Feasibility

Debt Capacity & Expenses

- General Operations & Maintenance
- Program Staffing & Level of Service
- Marketing, Management & Administration
- Institutional Charges
- Treatment of Reserves



Notes



2002 Athletic Business Conference Paul Brailsford & Terry Glanville