

STAFF REPORT

To: Finance Committee Date: May 27, 2014
Via: Gary Jackson, City Manager
From: Barbara Whitehorn, Finance and Management Services Director
Prepared by: Frank McGowan, Strategic Planning & Performance Manager
Subject: Business plan options for Aston Park Tennis Center

Summary Statement: Presentation and review of business plan options for Aston Park Tennis Center. Consideration of two different service levels for Aston Park Tennis Center, including a "maintenance only" option and a second option of a 4-year, graduated fee increase for Aston Park Tennis Center passholders and for daily play.

Review:

City staff was asked to develop an RFP for the operation of the Aston Park Tennis Center with the goal of reducing the operating subsidy for the Tennis Center and developing a funding plan for capital investment. The City received one response to the RFP and the proposal was evaluated by management and staff.

Additionally, Finance Department staff was asked to review the Aston Park Tennis Center Operations and to develop business plan options for consideration. The options include a plan to provide maintenance only and eliminate all fees and revenue generating activities. Another option explores a four-year stepped fee increase along with additional revenue generating strategies.

Pros:

- Generates alternatives that may reduce the operating subsidy of the Tennis Center.
- May leverage the Tennis Center's position in the local tennis market.

Cons:

- Some options may increase fees for citizens wishing to use the facility.
- Reduction in subsidy may be incremental.
- Capital funding may build slowly.

Fiscal Impact: When compared to the local tennis market and the Aston Park Tennis Center's position in that market, the current passholder and daily court fees are in need of significant adjustment if user fees are intended to dramatically reduce the operating subsidy. The fiscal impacts are dependent on the service level the City wishes to provide.

Recommendation: Staff recommends City Council consider the analysis provided of the Aston Park Tennis Center operation and the options for future service delivery. The fee schedule is provided so that implementation may be built into future budgets.

Attachments: (1) Projected Budget - Maintenance Only Option
(2) 5-year Operating Budget Projection
(3) Proposed multi-year Fee Schedule
(4) Executive Summary

Aston Park Tennis Center Maintenance Only Option

Projected Budget FY 2016

TOTAL REVENUES	\$	-
EXPENSES		
Temp-Seasonal Salaries	\$	65,000
FICA	\$	4,030
Contracted Services	\$	8,875
Maintenance and repair of Equipment	\$	2,000
Supplies - Other	\$	16,895
Supplies - Uniforms	\$	500
Licenses Taxes & Fees	\$	1,703
Telephone	\$	500
Electricity	\$	12,000
Water and Sewer	\$	15,000
Fleet Maintenance Charges	\$	50
TOTAL EXPENSES	\$	126,553
TOTAL OPERATING SUBSIDY (LOSS)	\$	(126,553)

Five Year Operating Budget Projection

Aston Park Tennis Center

Year	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenue					
Passholder Fees	\$ 61,339	\$ 85,577	\$ 112,123	\$ 138,951	\$ 142,425
Daily Court Fees (hourly rate)	\$ 8,993	\$ 10,371	\$ 12,088	\$ 17,285	\$ 17,285
Programs, lessons, camps & clubs	\$ 9,100	\$ 9,555	\$ 10,033	\$ 10,534	\$ 11,061
Concessions	\$ 2,874	\$ 3,018	\$ 3,169	\$ 3,327	\$ 3,493
Pro shop & Misc. Revenue	\$ 6,321	\$ 6,321	\$ 6,321	\$ 6,321	\$ 6,321
Sponsorship	\$ -	\$ 5,000	\$ 5,000	\$ 7,500	\$ 10,000
Gross Revenue	\$ 88,627	\$ 119,842	\$ 148,733	\$ 183,918	\$ 190,585
Operating Expenses					
Compensation - Full Time Reg	\$ 85,040	\$ 86,741	\$ 86,741	\$ 88,475	\$ 88,475
Compensation - Temp/Seas.	\$ 38,103	\$ 38,200	\$ 38,200	\$ 38,200	\$ 38,200
Taxes & Benefits	\$ 36,313	\$ 37,039	\$ 37,039	\$ 37,780	\$ 37,780
Contracted Services	\$ 12,875	\$ 13,133	\$ 13,133	\$ 13,396	\$ 13,396
Services - Copying and Dupl	\$ 571	\$ 600	\$ 600	\$ 600	\$ 600
Services - Advertising	\$ 1,000	\$ 2,000	\$ 2,000	\$ 2,500	\$ 3,000
Maint & Repair - Equipment	\$ 1,926	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Training	\$ 460	\$ 500	\$ 500	\$ 500	\$ 500
Dues & Subscriptions	\$ 445	\$ 450	\$ 450	\$ 450	\$ 450
Supplies - Other	\$ 21,706	\$ 22,000	\$ 22,000	\$ 22,000	\$ 22,000
Supplies - Uniforms	\$ 390	\$ 390	\$ 390	\$ 390	\$ 390
Purchases for Resale	\$ 4,337	\$ 4,350	\$ 4,350	\$ 4,350	\$ 4,350
Licenses Taxes & Fees	\$ 771	\$ 775	\$ 775	\$ 775	\$ 775
Mileage Reimbursement	\$ 250	\$ 250	\$ 250	\$ 250	\$ 250
Bank Fees	\$ 709	\$ 710	\$ 710	\$ 710	\$ 710
Telephone, cable, internet, cell	\$ 2,022	\$ 2,025	\$ 2,025	\$ 2,025	\$ 2,025
Electricity	\$ 11,022	\$ 11,050	\$ 11,603	\$ 11,603	\$ 12,183
Water and Sewer	\$ 15,406	\$ 15,500	\$ 15,500	\$ 15,500	\$ 15,500
Fleet Maintenance Charges	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50
Motor Pool Charges	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50
Parking Lease	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Transfer to Capital Reserve	\$ 3,067	\$ 4,279	\$ 5,606	\$ 6,948	\$ 14,243
Total Expenses	\$ 243,513	\$ 249,091	\$ 250,972	\$ 255,551	\$ 263,926
Net Operating Profit (Loss)	\$ (154,886)	\$ (129,250)	\$ (102,238)	\$ (71,633)	\$ (73,341)

ATTACHMENT 3

Aston Park Tennis Center Passholder Rates

Passholder type	Current Price	Step up Price Year 1
Resident - Individual	\$ 160	\$ 160
Resident - Senior	\$ 130	\$ 200
Resident - Family	\$ 200	\$ 340
Resident - Senior Family	\$ 160	\$ 285
Non-resident - Individual	\$ 200	\$ 315
Non-resident - Senior	\$ 170	
Non-resident - Family	\$ 240	\$ 240
Non-resident - Senior Family	\$ 200	

Aston Park Tennis Center Daily Court Fee Rates

Daily court fee	Current rate	Year 1
Resident	\$ 5	\$ 8
Non-resident	\$ 7	\$ 10

*Assess the need to increase Daily Court Fees in year 4

ATTACHMENT 3

Step up Price Year 2	Step up Price Year 3	Step up Price Year 4
\$ 160	\$ 160	\$ 160
\$ 265	\$ 335	\$ 400
\$ 475	\$ 615	\$ 750
\$ 405	\$ 530	\$ 650
\$ 425	\$ 540	\$ 650
\$ 240	\$ 240	\$ 240

Year 2	Year 3	Year 4*
\$ 9	\$ 10	\$ 15
\$ 12	\$ 15	\$ 20

**Aston Park Tennis Center Business Plan Options
Executive Summary**

Attachment 4

Prepared by:

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Finance Dept.

Aston Park Tennis Center Business Plan Options

Executive Summary

Background

The Aston Park Tennis Center is centrally located in downtown Asheville, adjacent to the Central Business District, near Aston Park Towers, and is part of the WECAN neighborhood. The Tennis Center sits between Aston Park and the City's Park Maintenance facility. The Tennis Center features include 12 open-air, lighted clay courts, two "quick-start" courts, a practice backboard that doubles as a basketball court, and the Covington Clubhouse. The clubhouse features include a Pro Shop/Concessions/point of sale area, restrooms and showers, a gallery, office space and a meeting room.

Aston Park is one of the oldest parks in the City's system and has been used for tennis since near the beginning. The first three clay tennis courts were constructed in the park in the early 1900's (and were free to the public).

The Tennis Center was operated by Buncombe County for decades and returned to City of Asheville management in 2004. Upon its return to City oversight, significant capital improvements were made to the Tennis Center and the park. In 2006, capital improvements of \$676,000 were made to the facility and adjacent park with approximately 80% of the expenditures invested in the courts and clubhouse. The City of Asheville received revenue for the project through private donations of \$351,576 and through a Parks and Recreation Trust Fund grant of \$260,000. The balance of the project was funded through a transfer from the City's capital reserve.

The quality of the facility and courts was greatly improved by these investments and the City has continued to maintain and improve the facility. Most recently, two banks of courts have been lifted and rebuilt using CIP funds, improving the playing surface.

The clubhouse meeting room is also used by community groups throughout the year.

Operational Overview

The Tennis Center operates seasonally from April 1 to mid-December (weather permitting). Gearing up of operations and maintenance improvements typically starts mid-February each year.

The facility is open 7 days a weeks at 9 AM and closes at 9 PM during the summer months.

The facility is heavily used by leagues and league play is coordinated with the Asheville Tennis Association (ATA) to ensure that leagues are not dominating all courts during peak use times. The most intense use of the Tennis Center is during the City Open in July; however, the highest use month is August.

Aston Park Tennis Center Business Plan Options

Executive Summary

A strong partnership exists with the ATA and the group assists with outreach to low-income youth.

The facility currently operates with two year-round, full-time staff and hires three temporary-seasonal staff to supplement during the season. Full-time staff manages and coordinates all annual and daily maintenance. The staff coordinates with Recreation Center staff on tennis programming for youth Montford and Stevens Lee.

Court fees and passholder fees are collected by staff and recorded in the point of sale system. Court reservations, concessions, racquet stringing are also handled through the by the Pro Shop.

During the months the facility is closed, the full-time staff “burn off” comp-time they accumulated during the summer season. Additionally, they assist with basketball camps and with the *Women & Girls in Sports* programming efforts.

In the past three years, the annual operating subsidy for the Aston Park Tennis Center has averaged more than \$125,000.

Project Goal, Scope & Methodology

The Business Performance Consulting Program within the Finance Department was engaged by executive management with the goal of explore opportunities to reduce the operating subsidy for the Aston Park Tennis Center.

The specific project scope was to:

- Issue RFP for tennis operations
- Review & evaluate RFP responses
- Develop other business plan options for Aston Park Tennis Center that may reduce the operating subsidy
- Present options to the Finance Committee

The methodology used to develop tennis center business plan options included:

- Budget, Fee & Market Analysis
- Operational review (on site)
- Benchmarking research
- Interviews with management and staff
- Interview with ATA President
- Limited interviews with customers
- SWOT analysis
- Scenario analysis and modeling

Aston Park Tennis Center Business Plan Options Executive Summary

Request for Proposal for Tennis Operations

The City issued a Request for Proposals for Tennis Operations in December 2013. There was one respondent, Hulsing Hotels, Inc. dba Asheville Racquet Clubs (“ARC”).

The proposal was reviewed by management and staff from Finance Department and Parks and Recreation Department.

The proposal offered:

- A management fee of 4% of gross revenue
- Capped City’s losses at \$100 K per year
- 4% capital reserve
- Profit-sharing on net profits
- Projected profitability after three years

RFP determination

- Because the proposal still showed potential losses to the City annually, staff chose to consider alternatives
- Staff is offering alternative business plan options for consideration

Analysis of Current Business Environment

SWOT Analysis of Tennis Operations

<p><u>Strengths</u></p> <ul style="list-style-type: none"> • Unique position in market • Limited competition 	<p><u>Weaknesses</u></p> <ul style="list-style-type: none"> • Seasonal Business • Parking • Tracking customer use/flow
<p><u>Opportunities</u></p> <ul style="list-style-type: none"> • Pricing • Programming • Marketing and customer/passholder retention • Sponsorship 	<p><u>Threats</u></p> <ul style="list-style-type: none"> • Weather • Maintenance level & costs • Price sensitivity of customers • New entrants in the “Value” category or competitive pricing from existing competition

Aston Park Tennis Center Business Plan Options

Executive Summary

Key Issues

Under the current management model one of the top the key issues facing Aston Park Tennis Center is pricing. Prior to coming to the City of Asheville in 2004, prices were minimal, but the facility itself had not seen significant investment, so the experience matched the price. However, in the last 10 years, the City has invested approximately \$750,000 in the facility (exclusive of additional investment in the adjacent park). The quality of the courts has improved dramatically. It appears there was a missed opportunity to raise prices when the facility and courts were upgraded. The current pricing strategy has been focused on community accessibility providing bargain pricing without regard to market position as well as extending discounts to residents and seniors. The rates are significantly undervalued in relation to the quality of the facility and against the overall tennis market.

In order to set the price, a clear expectation of the appropriate level of service should be made clear. If the price is raised in an effort to reduce the level of subsidy without regard to maintaining the quality of the facility, the pricing strategy will fail.

Other key issues observed include the need to sustain and grow the customer base for tennis overall, maximizing revenue from multiple channels, and developing and maintaining passholders in the long-term.

Current Competitive Situation

There are essentially three tennis sectors in the Asheville area tennis market -- Economy, Premium, and Value. The competitors and their market position are shown in the table below.

Facility	Price (Free, Low, Mid, High)	Quality of Tennis	Market position
Asheville Racquet Club (2 locations)	<i>Mid-range to High</i>	<i>Very good to Excellent</i>	<i>Premium</i>
Aston Park Tennis Center	<i>Low</i>	<i>Range of Good to Very Good (depends on the court)</i>	<i>Value</i>
Biltmore Forest Country Club	<i>High (Exclusive)</i>	<i>Very good to Excellent</i>	<i>Premium (Exclusive)</i>
Cheshire	<i>Mid-range</i>	<i>Very good to Excellent</i>	<i>Premium</i>
City of Asheville Hard Courts	<i>Free</i>	<i>Range of Poor to Good</i>	<i>Economy</i>
Country Club of Asheville	<i>High (Exclusive)</i>	<i>Very good to Excellent</i>	<i>Premium (Exclusive)</i>
Omni Grove Park Sports Complex	<i>High</i>	<i>Very good to Excellent</i>	<i>Premium</i>

Aston Park Tennis Center Business Plan Options

Executive Summary

The Aston Park Tennis Center is the only player in the Value category. Without new entrants into the market, all of the competition is in the Premium category and there are opportunities to enhance our position within the Value category.

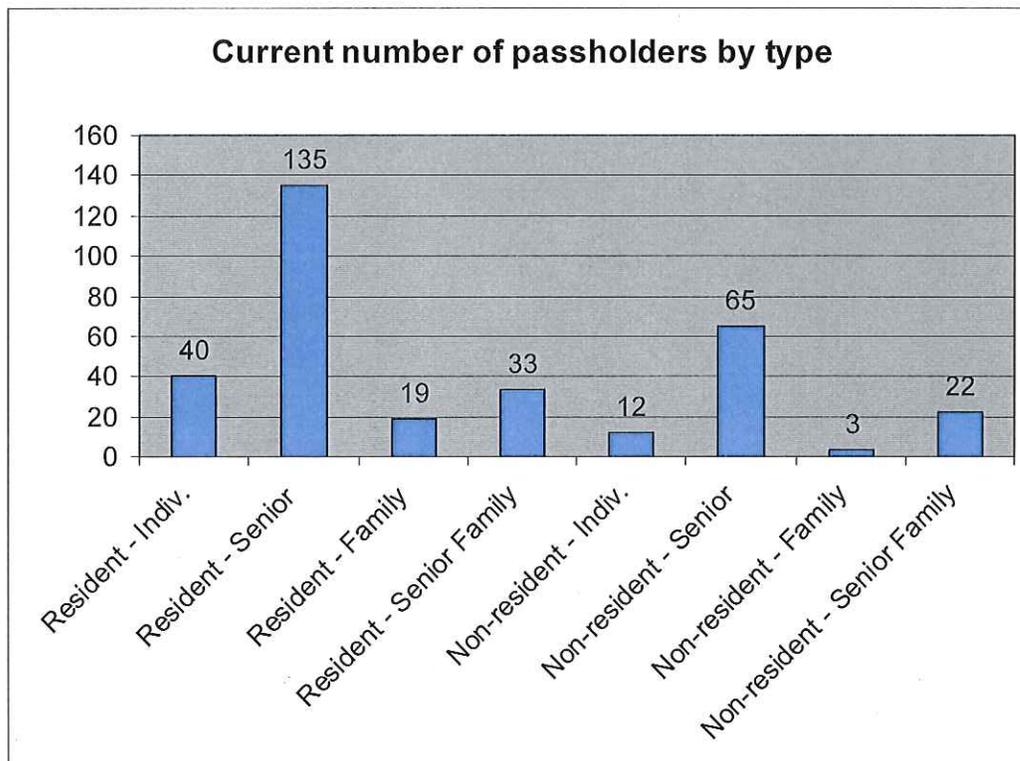
Customers

For simplicity, the customers of the Tennis Center can be divided into passholder and daily play categories.

Customers in FY 2013:

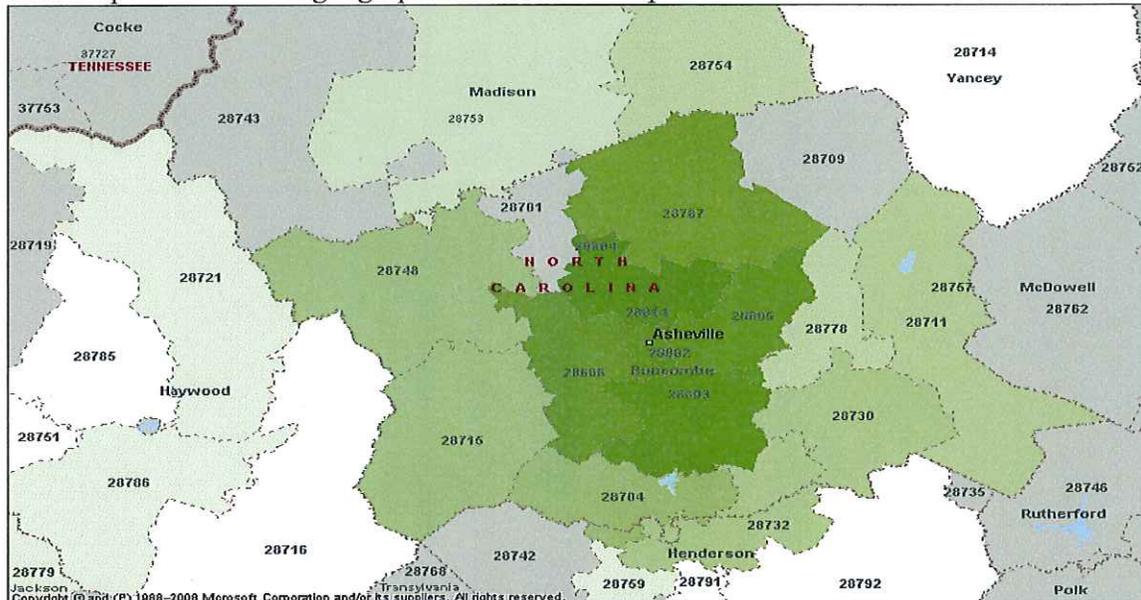
- 329 passholders
- 1040 daily play customers
- Approximately 33% of passholders and daily play customers are non-residents
- 77.5% of passholders are currently classified as “Senior”
- Note: Senior discount has been given to those age 50 and above

This table shows the different passholder types offered and the number of each sold in FY 2013:



Aston Park Tennis Center Business Plan Options Executive Summary

This map illustrates the geographic distribution of passholders in the local area:



RANGE

- Dark Green = 80**
- Light Green = 9**
- White = 1**
- Gray = 0**

Revenue

Passholder fees generate a majority of revenue generated by the Tennis Center. Daily play fees are relatively insignificant.

<u>Current year revenue</u>	Percentage of Total Revenue Generated
Passholders	69.69%
Daily Play	7.93%
Tourney, concessions, other	22.38%

Other Market Considerations

Customer parking is a concern for long-term financial viability of the Tennis Center. The dedicated parking is currently extremely limited. Some overflow parking exists at the Park Maintenance facility but is not always available. Parking has been allowed by a

Aston Park Tennis Center Business Plan Options

Executive Summary

property owner across the street, but there is no agreement in place. Future customer growth is dependent on having adequate parking available.

Competitive Advantages

Aston Park Tennis Center can compete by leveraging our competitive advantages in the local tennis market:

- Having only clay courts is a differentiator
- Offers very good quality tennis but few amenities (no locker rooms, child care, or fitness options)
- Arguably the only player in the “Value” category
- Given the limited number of quality tennis facilities in the metro area, it fills a gap in the market

In order to position ourselves properly, we should remember what we are not – we are not a health club, a premium player, and we offer no indoor court options.

Business Options for Aston Park Tennis Center

Positioning Options

Aston Park Tennis Center can position itself in the market in a variety of ways:

- A) Status quo. Estimated annual subsidy = \$120-\$150 K
- B) Raise prices without long-term capital and programming plan -- quality suffers
- C) Raise prices incrementally with a capital plan to maintain and increase quality, as well as expanding programming
- D) Offer the to the public for free, investing only in maintenance and capital

For the purposes of this project, only C & D are being presented. Since Option D is simpler, it is presented first.

Option D – Maintenance Only

Position

Economy/Bargain category

Product

The product is economy tennis on clay courts. It is assumed the City will maintain the courts at the current level using Temp-Seasonal staff. There would be no Full-time staffing. The City would cease the City Open tournament.

Aston Park Tennis Center Business Plan Options

Executive Summary

Price

No fees will be charged and no revenue will be generated from any sources. No capital funding will be generated from fees.

Placement

The tennis operation will be offered to any player at no cost without regard to residency.

Promotion

There will be no promotion of the facility.

Level of Subsidy

- Projected operating subsidy (loss) = (\$126,533)
- Projected operating subsidy (loss) over 5 years = (\$632,665)

Note: If desired, the level of maintenance in this scenario could be lowered from what is currently provided, however, it is expected that the long-term capital improvement costs would escalate by an unknown amount. Projections were not created for that scenario.

The projected budget for this option is Attachment 1 in the staff report.

Option C – Incremental Fee Increase

Key features:

- Stepped passholder and daily fee increases over four years
- Increase in fee-based programs, camps, clinics & lessons
- Ground lease to ensure adequate customer parking
- Recommendation: 95% of passholder revenue to operating & 5% to capital reserve

Position

Value (relative to Premium segment)

Product

The product is a full-service tennis facility on clay courts. The facility is staffed, maintained daily, and play/court use is regulated.

Price

The facility remains in the Value category; however prices are stepped up to the appropriate market rate over a four-year period. Increases are recommended for both passholder fees and daily court fees.

The recommended fee schedule is included as Attachment 3 in the staff report

Aston Park Tennis Center Business Plan Options

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Placement

The tennis operation will be offered to any player at with discounts offered to City of Asheville residents and resident seniors.

Promotion

- Presuming any fee increases are adopted, work with ATA and Community Relations Division to host information sessions
- Recruit passholders from leagues
- Year-round marketing & promotion effort
- Track play by passholders to measure use and effective rate paid
- Focus on customer retention and converting daily players to passholders
- Increase marketing & advertising

Level of Subsidy

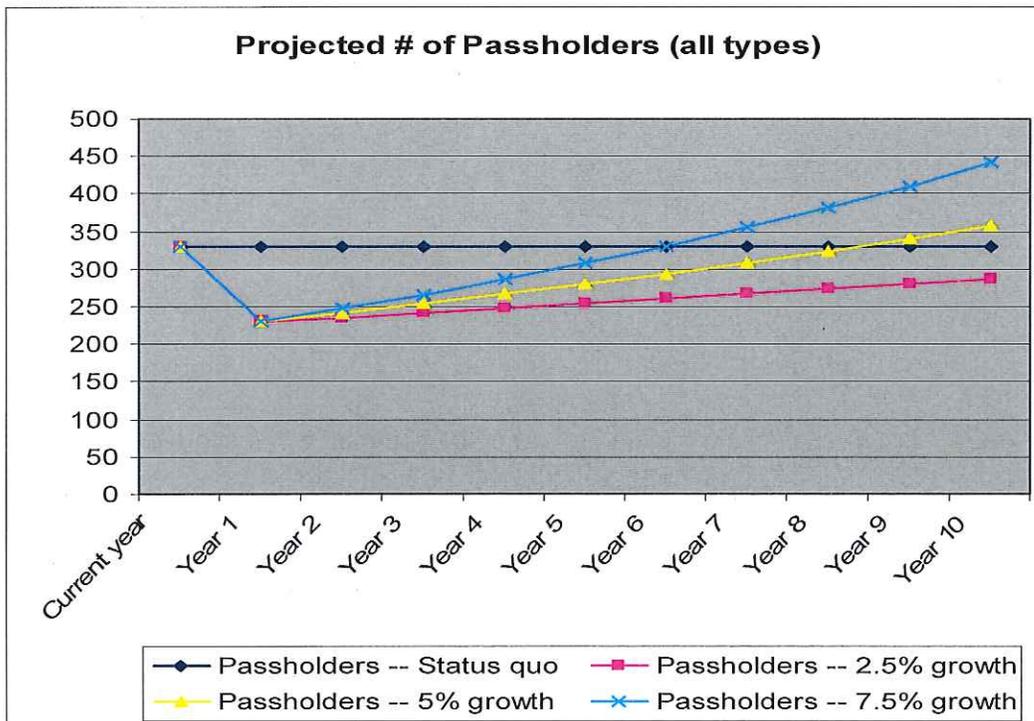
- Projected operating subsidy (loss) = *range* (\$154,886) - (\$73,341)*
- Projected operating subsidy (loss) over 5 years = (\$531,348)

*Assumes a modest 2.5% growth model and a 30% loss of current passholders.

The projected 5-year P&L for this option is Attachment 2 in the staff report.

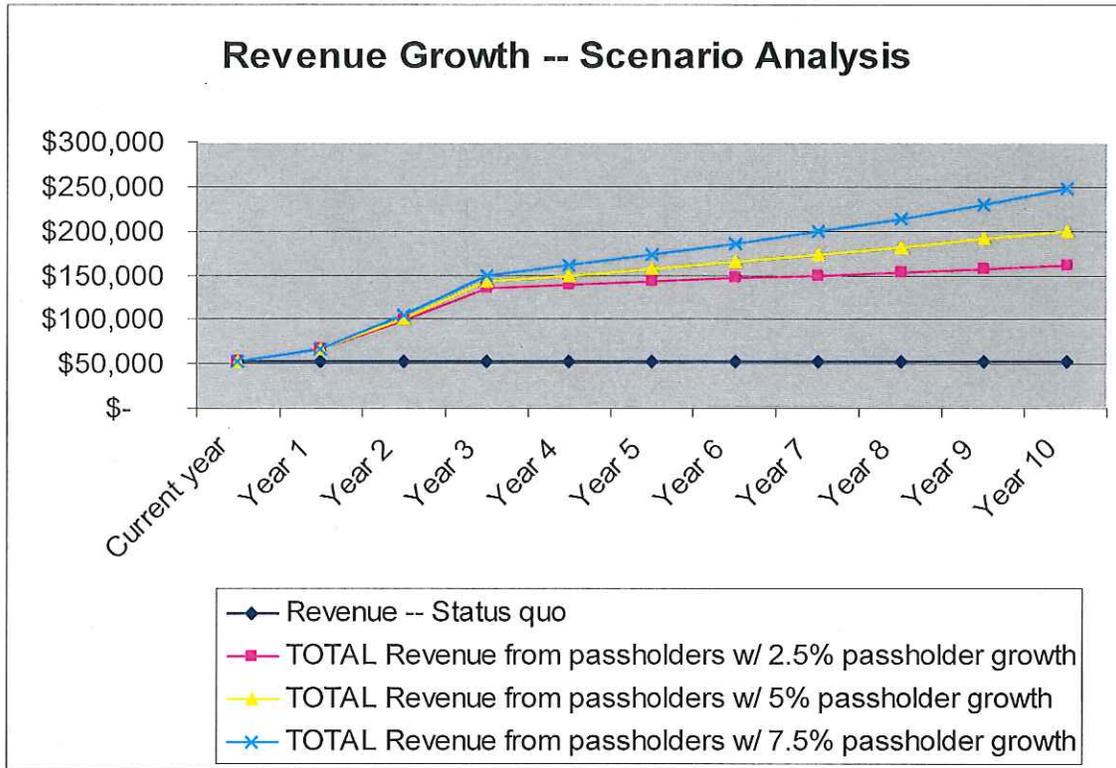
Revenue Growth

As prices are increased, it is assumed that some current passholders will not participate. A 30% loss in the number of passholders is projected.



Aston Park Tennis Center Business Plan Options Executive Summary

Even so, future passholder revenue is projected to exceed current revenue.



Expenditure Growth

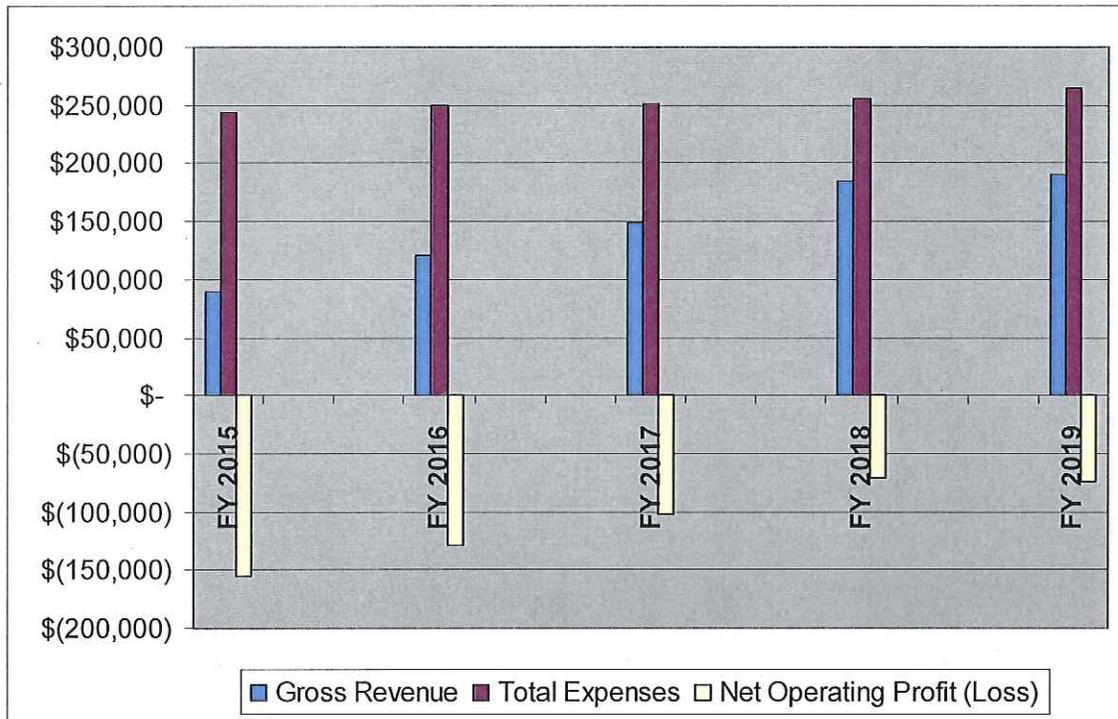
The expense budget in this scenario does increase due to the recommendation of securing a ground lease for additional, dedicated parking. Also, marketing and advertising is increased.

Aston Park Tennis Center Business Plan Options

Executive Summary

5-year Budget Projections

Using a modest growth model, the projected subsidy is cut to less than \$75,000 in five years.



Other Considerations

If desired, other methods could accelerate lowering the level of subsidy, including:

- Consider a 3-year stepped fee increase instead of a 4-year plan
- Re-engineering of full-time staff might be necessary, however, temp-seasonal staffing would need to be increased
- However, re-engineering may also cut service capacity if growth rate is underestimated