

5.0 OPERATING BUDGET IMPACT OF CAPITAL IMPROVEMENT PLAN

The development and enhancement of facilities and the acquisition of additional parklands as presented in the recommended Capital Improvement Plan (CIP) will impact Metro Parks' operating budget. Specific recommendations to develop new facilities, enhance existing facilities, develop new regional community centers, consolidate or replace existing neighborhood centers, and the acquisition of additional parklands and greenways will also provide both new revenue opportunities as well as new expenses.

The following paragraphs frame the potential operating impacts of such developments. These estimates of economic performance are intended to inform decision-makers as to the broader financial implications (i.e., net positive or net negative) that should be considered with the development of new recreation assets. They do not consider the qualitative or quantitative investment value of the developments (i.e., return on capital or return on investment).

Table 5-1. Average Annual Revenue and Expenses

Revenues	FY 1997-2000 Average
Revenue Producing Facilities	\$ 7,438,000
Other Revenues	\$ 832,000
Total Revenue	\$ 8,270,000
Expenses	FY 1997-2000 Average
Revenue Producing Facilities	\$ 8,222,000
Undistributed Expenditures	\$ 16,967,000
Other Expenditures *	\$ (1,248,000)
Total Expenditures	\$ 23,941,000
Funding Deficit	\$ 15,671,000
Average General Fund Contribution	\$ 5,671,000
Earned Income Percentage	35%

* Difference between expenditures distributed to revenue producing activities and total reported expenditures

Source: Metro Parks and Economics Research Associates

The basis of financial comparison is the three year average for both revenues and expenses, presented in Table 5-1. Over this time period, Metro Parks averaged total revenue of \$ 8.27 million, with the majority arising from revenue generating activities of the Special Services Division. Total expenditures averaged just under \$ 24 million. The \$ 15.6 million deficit between earned income and expenditures is provided for through general fund contributions. Overall, the system generates just over one-third of its budget from earned income sources.

5.1 IMPACT TO REVENUE

Under the recommended CIP, much of the existing base of revenue producing facilities and activities will remain unchanged. These facilities should continue to generate revenues near historic averages.

Several projects, however, will have direct impact on Metro Parks' operating budget. CIP recommendations with revenue generating capacity include the Skate Park, expansion of Hamilton Creek Marina, the addition of practice ranges at McCabe and Two Rivers Golf Courses, and enhancements to Wave Country. The new regional community centers will contribute the most significant source of new revenue to operations.

5.1.1 Skate Park

The development of a new skate park adjacent to Wave Country in Two Rivers Park will provide an additional venue for skateboarders, in-line skaters, and bike riders. The proposed location coincides well with the addition of a pedestrian bridge from Shelby Bottoms to Two Rivers Park and the improved accessibility this should provide. The skate park's location adjacent to Wave Country should provide some economies of scale as well as improve the overall destination appeal of the park.

Presented in Table 5-2 is an illustrative income statement for a Skate Park. Anticipated revenue sources would include daily fee passes, a multi-use pass to encourage repeat visitation, food and beverage sales, and rental sales. The location next to Wave Country should provide opportunities to cross utilize food and beverage outlets, thus increasing the productivity of the outlet.

Staffing represents the largest expense item for a skate park. Other expense items include utilities, materials and supplies, and other miscellaneous costs. The model assumes that insurance would be provided through the department's policy. However, should additional coverage be required, this could impact operating performance.

ERA research indicates that skate parks that are municipally developed often range from a no-fee, no fencing, use-at-your-own-risk facility to a fenced, for fee, supervised activity. In many instances these more heavily operated facilities generate positive net incomes. The ability to generate profits, however, is always predicated on maintaining relatively small payrolls, a situation that may or may not be suitable in every situation and ultimately should be reviewed by Metro Parks and the County’s risk manager.

Table 5-2. Illustrative Economics – Skate Park

Revenues		
Multi-Use Pass Price (Buy 8 Get 10)	\$	52
Multi-Use Passes Sold		800
Membership Revenue -		\$ 41,600
Daily Passes		3,500
Daily Pass Price	\$	6.50
Non-Member Daily Pass Revenue -		\$ 22,750
Total User-Days		11,500
F&B Per Capita Spending	\$	2.50
F&B Revenue -		\$ 28,750
Equipment Rentals (15 percent of non-members)		525
Average Rental Cost (pads, equipment, etc.)	\$	4.00
Equipment Rental Revenue -		\$ 2,100
TOTAL REVENUE -		\$ 95,200
Expenses		
Payroll (2.5 FTE's @ \$20,000)	\$	50,000
Burden @20%	\$	10,000
Utilities	\$	3,000
Materials & Supplies	\$	5,000
Misc.	\$	2,500
TOTAL EXPENSES -		\$ 70,500
NET INCOME POTENTIAL -		\$ 24,700

Note: Model depicts the distribution of revenue and expenses for a prototypical lighted skate park. Actual results will vary.

Source: Economics Research Associates

5.1.2 Hamilton Creek Marina

Hamilton Creek Marina continues to generate the highest percentage of net income among the system’s income producers. During the past three years, profit margins have consistently ranged above 40 percent of operating revenue. As presented in Table 5-3, slip rentals represent the single largest source of revenue, typically generating over 95 percent of the annual total.

Previous expansions of Hamilton Creek Marina were accomplished using three years of prepaid slip rentals to fund the project. This unique form of public-private partnership should be explored again as a means to fully capitalize on the continued levels of pent up demand. Wait lists for dock space are 6 to 8 months for dry storage space, 3 years for a standard wet slip, and 8 years for the large wet slips. Given that beach slips and rack space are typically available, either immediately or within a very short period, any expansion should focus on wet slip and dry storage opportunities.

As presented in Table 5-4, a one-finger pier expansion would provide 28 additional large wet slips. A reconfiguration of the existing dry storage would accommodate eight additional large boats. Combined, these changes could add nearly \$38,000 in additional slip rental revenue. Ancillary revenues from rentals, equipment sales, and food sales would generate another \$ 830 per year. Based on a 30 to 40 percent profit margin, the \$38,626 in additional revenue would equate to new net operating income of \$ 11,588 to \$15,450 per year, respectively.

Table 5-3. Hamilton Creek Marina - Recent Operating Performance

Revenues	FY 1998	FY 1999	FY 2000
Slip Rental	\$ 176,092	\$ 178,585	\$ 187,037
Rental Receipts	\$ 93	\$ 37	\$ 56
Equipment Sales	\$ 1,745	\$ 1,654	\$ 1,029
Food Sales	\$ 5,682	\$ 5,597	\$ 5,441
Total Revenue -	\$ 183,612	\$ 185,873	\$ 193,563
Total Expenses -	\$ 102,705	\$ 108,937	\$ 115,685
Net Operating Income -	\$ 80,907	\$ 76,936	\$ 77,878
NOI Percentage -	44.10%	41.40%	40.20%
Revenue per Slip (all slips)			
Slip Rental	\$ 622.23	\$ 631.04	\$ 660.91
Rental Receipts	\$ 0.33	\$ 0.13	\$ 0.20
Equipment Sales	\$ 6.17	\$ 5.84	\$ 3.64
Food Sales	\$ 20.08	\$ 19.78	\$ 19.23
Total Revenue Per Slip	\$ 648.81	\$ 656.80	\$ 683.97

Source: Metro Parks

Table 5-4. Illustrative Economics - Marina Expansion

Revenue	#	Monthly Rent	Prepaid Rent Potential
Dry Slips (26'-36')	8	\$ 55	\$ 4,840
Large Wet Slips (26'-36')	28	\$ 107	\$ 32,956
Total/Weighed Average -	36	\$ 1,145	\$ 37,796
New Slip Revenue -		\$ 37,796	

Other Revenues	\$/Slip		
Rental Receipts	\$ 0.20	\$ 7	
Equipment Sales	\$ 3.64	\$ 131	
Food Sales	\$ 19.23	\$ 692	
Subtotal Other Revenues -		\$ 830	
Total Additional Revenue -		\$ 38,626	
NET INCOME POTENTIAL -	30 - 40%	\$11,588 - \$15,450	

Source: Economics Research Associates

Discussions with the Hamilton Creek Marina manager indicated that the addition of another pier of wet slips or expansion of the dry storage area would likely require Corps of Engineer approval. Further, the pier expansion would possibly require modifications to the anchoring system of the floating piers.

5.1.3 Wave Country

Built in the mid-1970s, Wave Country opened as a state-of-the-art aquatic facility. Since then, the addition of a water slide in the 1990s represents the most significant change to the facility. Market factors, the most prominent being the opening of Nashville Shores and the closing of the Opryland theme park, have created competitive alternatives and diminished sources of demand, respectively. These two factors, combined with the lack of any new facility attributes, have led to lackluster performance during the past several operating seasons. Visitation during the past three years averaged just over 85,000 users, and more recently was closer to 71,000 users, both of which are well below historic highs of well over 100,000 users.

Much like attractions at theme parks that are updated or expanded on a typical three-year cycle, Wave Country is in need of new investment to reinvigorate its appeal. The timing is appropriate given the planned construction of a pedestrian bridge from Shelby Bottoms to Two Rivers Park and the potential addition of a skate park detailed in this master plan.

Creating a modern water park would require that certain features be added or expanded including: a children's play area, three water slides with unique features, upgrading of support facilities, implementation of a coordinated theme, and overall improvement to facility aesthetics.

As many communities have realized, effectively upgrading older and tired aquatic facilities can have a dramatic impact on both utilization and financial performance.

As detailed in Table 5-5, Wave Country generated average annual revenue of \$ 555,044 between 1998 and 2000, attracting 85,115 users on average, and generating per capita income of \$ 6.52. This utilization represents a 15 percent penetration rate of the county's 2000 population.

Assuming the facility improvements generated new interest and yielded a penetration rate of 20 percent, just under 114,000 potential users would visit the facility annually. Given the planned improvements to access and the skate park addition, these estimates may even be conservative. Generating per capita total revenue equal to 70 percent of the adult ticket price (presented in an \$ 8 to \$ 10 range), annual revenue would increase from \$ 83,000 to \$ 243,000 *above* the three-year average. Potential net operating income, at a 25 percent profit margin not atypical for modern aquatic facilities, would equate to between \$ 159,000 and \$ 199,000 per year.

Table 5-5. Illustrative Economics - Enhanced Wave Country*

1998-2000 Wave Country Averages	Dollars		
Revenue	\$	555,044	
Paid Attendance		85,115	
	Per Capita Revenue -	\$ 6.52	
Marginal Attendance Estimate			
Market Population 2000		569,891	
Average Penetration Rate 1998-2000		15%	
Market Penetration Rate w/ Enhanced Wave Pool		20%	
Potential Wave Pool Attendance		113,978	
Current Attendance		85,115	
	Marginal Wave Pool Attendance Increase -	28,863	
Adult Ticket Price	\$	8.00	\$ 10.00
Per Capita Revenue @ 70 percent of Adult Ticket Price	\$	5.60	\$ 7.00
	Total Revenue Potential at Enhanced Wave Pool -	\$ 638,000	\$ 798,000
	Change in Revenue Over 1998-2000 Average -	\$ 83,000	\$ 243,000
	Expenses (75%) -	\$ 479,000	\$ 599,000
	Net Operating Income Potential at Enhanced Wave Pool	\$ 159,000	\$ 199,000

* Includes, for example, such features as a diverse offering of slides, kid's play area, refurbished support structures, introduction of a more cohesive theme, and improvements to facility aesthetics

Source: Economics Research Associates

5.1.4 Golf Practice Ranges

Golf practice facilities at McCabe and Two Rivers Golf Courses will assist Metro Parks in maintaining their market share of area golfers while providing a new source of net income. Based on the historical performance of the range facility at Harpeth Hills at \$0.74 per 9-hole start (\$ 70,000 in range revenue based on 94,276 starts), the combined revenue impact is estimated at \$ 188,000. A 15 percent revenue premium was attributed to the McCabe facility due to the expectation that the facility will be lighted and provide longer hours of operation. Combined expenditures are estimated at \$ 82,500 per year, providing net positive cash flow of \$ 105,500 in a stabilized year. ERA's estimates for practice range revenues, expenses, and departmental profit are presented in Table 5-6.

Table 5-6. Illustrative Economics - Golf Practice Range Additions

Revenues	Two Rivers	McCabe	Total
Annual 9-Hole Starts	\$ 92,000	\$ 140,000	\$ 232,000
Range Revenue per Start */**	\$ 0.74	\$ 0.85	\$ 0.81
Total Range Revenue -	\$ 68,000	\$ 120,000	\$ 188,000
Expenses			
Seasonal Incremental Labor Costs	\$ 15,000	\$ 25,000	\$ 40,000
Range Balls	\$ 10,000	\$ 15,000	\$ 25,000
Utilities	\$ 2,000	\$ 7,000	\$ 9,000
Repairs and Maintenance	\$ 3,500	\$ 5,000	\$ 8,500
Total Range Expenses -	\$ 30,500	\$ 52,000	\$ 82,500
Departmental Profit -	\$ 37,500	\$ 68,000	\$ 105,500
Profit Margin -	55.10%	56.70%	56.10%

* Based on Harpeth Hills range performance of \$70,000 per 94,276 9-hole starts.

** McCabe range revenue per round provided a premium of 15 percent due to lighted facilities.

Source: Economics Research Associates

5.1.5 Regional Community Centers

The model proposed for the regional community centers is a 40,000-sf shell (on average) that would house a variety of community and recreation functions. The financial potential of such assets is, as expected, clearly linked to the balance between fee activities and non-fee activities. More specifically, the level of programming versus non-programmed activities, and the fees charged to participate will directly impact the financial potential.

The fees that programs generate magnify their impact on financial performance. Thus, a community center with a limited focus on programming, but equal numbers of daily fee and pass users, might indeed generate a net operating deficit on an annual basis. Conversely, a heavily programmed facility could generate an operating surplus.

The degree to which these new community centers could add or subtract from financial operating performance of the Metro Parks system will depend not only upon the degree to which programming is emphasized, but also the established pricing.

5.2 IMPACT TO EXPENSES

Under the recommended CIP, the unchanged existing base of revenue producing facilities and activities should continue to generate expenses near historic averages. Further, current overhead and undistributed costs associated with operations should not change substantially under the plan.

The additional expenses associated with new or enhanced revenue-producing facilities were discussed previously. Several items, however, will contribute to Metro Parks' expenses with limited or no potential for cost recovery. They include the addition of several smaller neighborhood community centers, acquisition of new parklands and greenways, and the reduction/elimination of future deferred maintenance.

5.2.1 Neighborhood Community Centers

In addition to the regionally serving community centers, the master plan identified several opportunities for new smaller-scale neighborhood community centers as well as the consolidation or elimination of existing centers. In total, four of these neighborhood-scale centers are planned for openings while two facilities are identified for closing/consolidation. The net gain of two facilities will add new expenditures. These expenses were calculated by dividing the average community center expense of \$3.6 million across the existing 22 community centers that Metro Parks operates. An appropriate expense reduction was made in the time frame that the plan identified for facility closings; and increases to expenses were made as the new facilities were added. This timing reduced expenses by \$ 165,000 during the first two years of the CIP (two facilities were removed and only one added), and increased expenses by \$ 330,000 over the historic base thereafter as the remaining three neighborhood centers are added.

5.2.2 New Parkland Greenway Acquisition

The acquisition of parklands by Metro Parks will contribute operating expenditures to the annual budget. The current experience is that Metro Parks incurs virtually no expenses for its undeveloped holdings. Parks with minimal development will incur charges for mowing, trash removal, and some sanitary facilities. The most heavily developed parklands will likely require some permanent staffing, equipment investment, and an overall higher level of maintenance over and above what minimally maintained parkland

would require. To improve the financial planning capabilities of Metro Parks, these items should be considered in the decision to acquire additional lands. The cost allocation presented in Table 5-7 represents the actual cost to maintain parklands and greenways in today's dollars.

The addition of new parkland, greenways, and athletic fields, etc. are anticipated to add just over \$1.0 million in annual operating costs in the first two years of the plan, \$2.1 million per year over the next three years, and nearly \$3.4 million per year thereafter.

Table 5-7. Annual Cost Allocation for Newly Acquired Parkland and Greenways

Level of Development (excludes facilities)	Cost (per acre / mile)
Low (limited active use of land)	\$ 1,000
Medium (play ground, ball fields, primitive sanitary)	\$ 3,000
High (fields, trails, permanent restrooms, developed facilities)	\$ 5,000
Greenways (cost per mile)	\$ 1,000

Source: Metro Parks and Economics Research Associates

5.2.3 Elimination of Current Maintenance Deficit

The process of developing this master plan provided the opportunity to identify deferred maintenance items. Over time some of these items have converted from deferred maintenance to capital requirements as the cost to rehabilitate exceeded the cost to develop new. Eliminating deferred maintenance is a major component of this plan. Reduction of future deferrals, however, will require that daily operating maintenance be adequately funded. Based on an internal review by Parks' staff, \$2.5 million in increased spending is included to bring operating and maintenance deficit budgets to levels that reduce the amount of deferred maintenance that converts to future capital expense.

5.3 SUMMARY OF BUDGET IMPACT

The combined effect of the improvements and additions will be evaluated for its impact on the operational budget. Metro Parks must determine an acceptable percentage of earned income, and an analysis of fees for revenue producing facilities and enhancements must be completed to fully evaluate cost recovery opportunities.

