

# Pricing and Financial Operating Analysis for a Proposed Pierre Recreation & Events Center



April 18, 2016



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Mr. Tom Farnsworth  
Director, Parks and Recreation  
P.O. Box 1253  
222 East Dakota  
Pierre, South Dakota 57501



Dear Mr. Farnsworth:

Conventions, Sports & Leisure International (CSL) has completed our pricing and financial operating analysis for a proposed Pierre Recreation & Events Center (PREC or Center). The analysis and findings presented herein are intended to assist the City of Pierre (City) and other community stakeholders in evaluating important factors relative to the operations of the proposed Center.

The analysis presented in this report are based on estimates, assumptions and other information developed from industry research, data provided by the study's stakeholders, surveys of potential facility users and local representatives, discussions with industry participants and analysis of competitive/comparable facilities and communities. The sources of information, the methods employed, and the basis of significant estimates and assumptions are stated in this report. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur. Therefore, actual results achieved will vary from those described and the variations may be material.

The findings presented herein are based on analysis of present and near-term conditions in the Pierre as well as existing interest levels by the potential base of users of additional facilities. Any significant future changes in the characteristics of the local community, such as growth in population, corporate inventory, competitive facility inventory and visitor amenities/attractions, could materially impact the conclusions developed as a part of this study. As in all studies of this type, the estimated results are based on competent and efficient management of the potential Center and assume that no significant changes in the demand markets or assumed immediate and local area market conditions will occur beyond those set forth in this report. Furthermore, all information provided to us by others was not audited or verified and was assumed to be correct.

This report has been prepared for the internal use of the City and should not be relied upon by any other party. The report has been structured to assist stakeholders in evaluating facility pricing and financial operating analysis of a potential PREC and should not be used for any other purpose. This report, its findings or references to CSL may not be included or reproduced in any public offering statement or other financing document.

We sincerely appreciate the assistance and cooperation we have been provided in the compilation of this report and would be pleased to be of further assistance in the interpretation and application of our findings.

Very truly yours,

*CSL International*

CSL International

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# Study Background & Purpose

A new \$14.5 million Pierre Recreation & Events Center (PREC or Center) is being considered for development in Pierre. As currently envisioned, the facility would provide approximately 57,000 gross square feet of flat floor event space (including 40,600 square feet of contiguous multipurpose sporting and event space) and seating for as many as 3,500 people. The open configuration could provide space for 100 trade show booths, up to four full-sized basketball courts or one larger central area for a larger single event (such as a concert or a featured game on a single court). The facility would replace Pierre's former downtown City Auditorium, which was closed in 2010 due to structural concerns and subsequently demolished in 2014.



As planning for this project continues, there are a number of fundamental questions relative to the operations of the proposed facility that have remained unanswered. As opposed to a comprehensive feasibility study, our analysis focused strictly on the following two important operational characteristics of the proposed PREC:

- Task 1. Facility Pricing Analysis
- Task 2. Financial Operating Analysis

We begin with a summary of our findings and recommendations relative to these tasks, followed by the extensive research and analysis conducted to arrive at these conclusions.



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# PREC Pricing Recommendations

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# PREC Pricing Recommendations

In an effort to maximize revenues for the City (any to minimize any operating loss) as well as to present a fair, competitive value for users of the proposed recreation and event center, we have conducted an analysis of the pricing of rentable spaces at the PREC. As part of this exercise, we have collected and summarized the rental rates and terms associated with renting space within a set of competitive (in-state) and comparable (national) facilities. As applicable, we have also collected data regarding discounting practices and booking policies in place at each facility. As is necessary to provide an “apples to apples” comparison of rental rates among similar facilities, we have presented per-unit data in terms of per-day, per-hour, per-court, per-square-foot and other such measures.

Our pricing analysis also included more than 60 individual telephone interviews with event planners representing the potential market for the PREC. Event organizers were asked a series of questions regarding their potential future interest in the PREC, as well as their past experiences, expectations, and preferences with regard to pricing at the proposed venue. Based on this research, we recommend a set of flexible pricing guidelines that vary by event type and are often negotiated on a case-by-case basis. Our findings and recommendations relative to market supportable rental rates for the PREC have been segmented into the following types of events that represent the primary market for the facility:

- Youth Sports - Practices/Competitions
- Youth Sports – Tournaments
- Youth Activities
- Community Sports & Recreation
- Entertainment Events
- Meetings and Banquets
- Tradeshows and Public/Consumer Shows

A much more detailed summary of our research effort relative to facility pricing is presented later in this report. Additionally, we have collected several sample event contracts from peer facilities within the region and across the country. These documents are presented under separate cover.

# PREC Pricing Recommendations

## Youth Sports - Practices/Competitions

- Youth Sports are highly likely to use the new facility. Potential uses include:
  - Practices for basketball, volleyball, wrestling, soccer/futsal, tennis, cheer, or gymnastics; batting practice for baseball/softball and competitions for cheer, wrestling, and gymnastics.
  - The cost of renting space and the availability of a new facility are the primary concerns.
- It will be important to “balance” the facility’s event calendar to prioritize larger tournaments and other events that can drive both facility revenue and economic impact, while also meeting the needs of the local community.
- Rental rates for youth sports and competitions should be kept to a minimum and should be targeted at between \$15 to \$20 per court hour.

## Youth Sports - Tournaments

- Potential tournaments include: wrestling, basketball, volleyball, gymnastics, cheerleading and dance.
- Youth Sports tournaments are generally more open paying higher usage fees than general use by practices and competitions.
- Rental rate structures vary widely for youth sports tournaments (i.e., flat fee per day, flat fee for the duration of the event, per team fees, etc.).
- Developing and maintaining relationships with key event organizers will be important to success in this event market.
- Pricing for tournaments will require PREC management to be flexible and approach each event on a case-by-case basis.
- Rental rates should target \$1,000 to \$1,200 per day for use of the entire facility, while being sensitive to the particular needs (and smaller budget) for smaller events.
- The PREC will also have the ability to collect commissions on the sales of any tournament-related merchandise (shirts, etc.). When possible, a commission of 10 to 15 percent of gross sales should be implemented.

# PREC Pricing Recommendations

## Youth Activities

- Youth Activities expressed strong interest in using the PREC; however, they are unlikely to pay significant amounts of rent.
- Most organizers indicated that cost was the biggest factor in choosing a host facility. Many currently receive free or heavily discounted rent at area facilities.
- These events should be booked with a lower priority than tournaments and other events that have the ability to drive revenue and (when possible) room nights and associated economic impacts.
- Rental rates for small or regular gatherings should be kept to a minimum: as low as \$5 to \$10 per court hour, when necessary.
- Many competitive and comparable facilities offer rental rate discounts of between 30 to 50 percent for non-profit organizations. We suggest similar practices be implemented for the PREC.
- Rental rates for special events organized by these groups should target per-square-foot rates that are similar to what is charged by competitive and comparable venues. Focusing on rates within South Dakota, \$0.04 per square foot, per day is a reasonable target. Again, these rates should be open to negotiation and the non-profit discounts discussed above are likely to often apply.

## Community Sports and Recreation

- Local sports and recreational organizations are very likely to utilize the new facility for practices, leagues, and competitions.
- Desirable times fall between 5-9 pm on weekdays, oftentimes overlapping with desired time slots for youth sports.
- Many events pay block-hourly fees (such \$75 to \$100 per court for 4 hours).
- Based on our market research, we suggest higher rates for community sports and recreation events than those to be charged for youth sports practices and competitions. A target of \$20 to \$25 per court hour should be set for this market segment.
- Larger tournaments and regional events (which can last 2 to 3 days) should be charged a higher rate of up to \$30 per court hour.

# PREC Pricing Recommendations

## Entertainment Events

- Various forms of live entertainment could provide limited opportunities for the PREC to attract high revenue-generating events.
- Overall, entertainment organizers are less interested in the facility than sports groups, as it is not designed specifically for live entertainment (i.e., load in/out, seating, staging, sound, light, etc.).
- Pierre is too small of a market for some promoters of larger events.
- Some promoters pay flat fee, others pay a percentage of the box office receipts.
- The rates charged by the PREC should reflect the size and scope of the event. Every act and rental agreement is different and promoters expect the ability to negotiate rental terms on a case-by-case basis.
  - Organizers of smaller, local events could be charged as little as \$500 to \$750 per event.
  - Larger regional and national events could generate between \$1,200 - \$5,000 in rental revenue (per event).
- The PREC will also have the ability to collect commissions on merchandise sales. Commissions of 20 to 30 percent of gross sales should be implemented.

## Meetings and Banquets

- Meetings and banquets offer a limited opportunity for events (and revenue) at the PREC.
- The provision of upscale, state of the industry, divisible meeting space, food service, hotel rooms and related amenities are required to attract several such events.
- For statewide and regional meetings, the city's environment is also an important consideration. Attendees want things to do (restaurants, retail, entertainment, etc.).
- Among South Dakota event facilities that provide some level of meeting space, rental rates average approximately \$0.07 per square foot per day. We suggest that the PREC target a rate of \$0.06 per square foot per day for any available breakout meeting space.
- For larger groups seeking to rent the entire venue, rates should not exceed \$650 per day. These events should be booked with a lower priority than events that are able to generate greater amounts of rent and/or economic impact.
- In the event that outside vendors are used to cater PREC events, commissions of 10 to 15 percent of gross sales should be implemented.

# PREC Pricing Recommendations

## Tradeshows and Public/Consumer Shows

- The majority of tradeshows and public/consumer shows interviewed are unlikely to use the PREC.
- Many of these events qualify for free rent (at their current facilities) based on their ability to generate catering revenue and room nights.
- Those expressing an interest in the PREC would use the facility for conventions, workshops, conferences and meetings.
- Based on our interviews, tradeshows and public/consumer shows with an interest in the PREC are not likely to generate much more than \$250 per day in facility rental revenue.
- Consideration will need to be given as to whether or not the facility (or the community) is willing to “subsidize” facility rent in an effort to attract these events in exchange for the benefits of food and beverage revenue and room nights/economic impacts.



# PREC Pricing Recommendations

The key to pricing a very multipurpose recreation and public event facility such as the PREC is flexibility. Although it is prudent to create and loosely implement a formal facility pricing sheet, the reality is that several factors are typically considered when determining the ultimate rental rates for facility use and many deals are negotiated on a case-by-case basis. Many facilities stress the importance of looking at the overall picture—in that they consider the total revenue an event could generate, with greater rental rate reductions given for those events that generate sufficient revenue to more than offset the rental rate reduction. For instance, when negotiating a rental rate, factors taken into consideration often include anticipated concessions sales, operating costs, commissions, hotel room nights generated and the overall economic impact of the event on the local area. Furthermore, demand for a particular date can also determine the willingness of a facility to reduce a rental rate. Dates in high demand may warrant less of a price reduction than an off-season or unfilled date. It is common within the industry to offer significant discounts to non-profit organizations. Occasionally, clients who cannot afford a rental rate may be given a price reduction in order to help make the event possible (with the hope that, in the future, the event will be able to pay full rent). Incentives are occasionally offered to lure recurring clients and/or events such as locked in rental rates for long-term facility users, or discounts for multi-year events.

Based on conversations with facility management of competitive and comparable venues, approximately 90 percent of all contracts are negotiable. It is suggested that the PREC implement this “big picture” approach in order to attract events to the new facility. Reducing rental rates under the knowledge that potential revenues will offset the rate reduction is an important way to retain clientele while staying in line with recent industry changes, which often demand facility rental discounts.

To account for inflation and other cost-related changes within the event industry, public event facilities typically increase rental rates periodically over time. Several competitive and comparable facilities have a specific rate increase methodology in place to offset inflation and other cost increases. These pricing modifications can take effect annually or every few years. PREC management should consider implementing an annual periodic rental rate increase (or a review process) to account for inflation and other cost increases. However, the frequency of rental rate increases should be balanced with the financial needs of the facility and that of client relationships and/or demand for facility utilization. Specifically, if the strength of client relationships is weak and/or if demand for the facility is low, then frequent rental rate increases may result in lost business. We suggest annual increases to account for inflation at a rate of three percent. In addition, this three percent annual inflation figure, as well as other important operational policies, should be reviewed annually and subject to further modification as necessary.

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# PREC Financial Operating Estimates

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# PREC Financial Operating Estimates

We have also conducted a financial operating analysis for the proposed PREC assuming the development of the previously outlined building program. The results of this analysis will help the City and other project representatives make informed decisions with regard to public investment in recreation and event facilities in Pierre. Based on the potential event mix and facility rental rates (both of which are derived through our interviews with potential user groups), the financial performance of competitive and comparable recreation and event center facilities, and our extensive experience in and knowledge of the event facility industry, we have evaluated the potential operating revenues and expenses for the PREC.

Similar to our analysis of facility rental rates, we have collected and analyzed a great deal of recent financial operating statements from competitive (in-state) and comparable (national) facilities. This exercise involved benchmarking of common revenue and expense line items (i.e., Rental Fees, Concessions, Advertising/Sponsorships, Salaries/Wages, Utilities, Insurance, etc.).

Assuming qualified management, efficient operations, and an aggressive will to sell and promote the venue, this section presents estimates of financial performance for the facility for a stabilized year of operations at the PREC (in 2016 dollars). This comparison of revenues and expenses will enable project stakeholders to evaluate the level of public subsidies that may be required for annual facility operations.

# PREC Financial Operating Estimates

Important assumptions used in our analysis include the following:

- There will be no material changes to the identified building program for the PREC.
- The PREC will be aggressively marketed and offer competitive rates.
- The PREC will generate spending on rentals, programs, concessions, advertising/sponsorships, etc. that is consistent with recent history of other competitive and comparable venues (adjusted for local conditions in Pierre).
- The facility will be owned by the City of Pierre and operated City's Parks and Recreation Department.
- Concessions will be provided in-house (as opposed to a third party). The PREC will not provide a full-service kitchen suitable for event catering.
- Ample free parking will be provided to accommodate demand.
- A sales and marketing plan will be implemented to attract business before the facility is constructed.
- Event programming will aim to maximize sports and practice/training activities during both peak and off-peak times.
- The facility will be professionally managed by experienced staff that can focus on business development, while effectively managing the day-to-day operations to control expenses and meet targets.
- There are no significant or material changes in the supply or quality of existing venues in the local or regional marketplace.

# PREC Financial Operating Estimates

|  | PREC<br>Base Case  | PREC<br>High Case  |
|--|--------------------|--------------------|
| <b>Revenue</b>                             |                    |                    |
| Facility Rental & Activity Fees            | \$175,000          | \$235,000          |
| Ticket Revenue/Fees (net)                  | 10,000             | 17,500             |
| Service Fees & Equipment Rental            | 10,000             | 15,000             |
| Concessions & Vending (gross revenue)      | 85,000             | 120,000            |
| Advertising/Sponsorships/Promotions        | 10,000             | 17,500             |
| Naming Rights                              | 0                  | 10,000             |
| Other <sup>(1)</sup>                       | 12,500             | 20,000             |
| <b>Total Operating Revenue</b>             | <b>\$302,500</b>   | <b>\$435,000</b>   |
| <b>Expenses</b>                            |                    |                    |
| Salaries, Wages & Benefits                 | \$375,000          | \$400,000          |
| Sales and Marketing                        | 17,500             | 22,500             |
| Concessions <sup>(2)</sup>                 | 59,500             | 84,000             |
| Utilities                                  | 80,000             | 90,000             |
| Insurance (building)                       | 27,500             | 32,500             |
| Services (event, professional, contracted) | 35,000             | 40,000             |
| Supplies                                   | 25,000             | 30,000             |
| Maintenance and Repairs                    | 20,000             | 25,000             |
| Other <sup>(3)</sup>                       | 35,000             | 40,000             |
| <b>Total Operating Expenses</b>            | <b>\$674,500</b>   | <b>\$764,000</b>   |
| <b>Operating Profit (Loss)</b>             | <b>(\$372,000)</b> | <b>(\$329,000)</b> |

(1) Includes items such as interest, promotions, decorating, various commissions, damage fees, etc.

(2) Assumes a 30 percent profit margin on gross sales.

(3) Includes items such as printing, travel, equipment, postage/shipping, training, vehicles, subscriptions and memberships, etc.

Note: Figures are presented for a stabilized year of PREC operations in 2016 dollars.

Sources: CSL International; competitive and comparable facilities, 2016

Based on our analysis of recent year financial operating statements of competitive (South Dakota) and comparable (national) recreation and event facilities, the results of our interviews with more than 60 potential users of the PREC, and historical data from the other City operations, we have developed financial operating estimates for the proposed PREC.

This financial forecast is a reflection of the service philosophy of the facility's primary purpose: to be a City-owned and City-operated facility that serves a need in the community, hosts a variety of event types that attract both local and non-local attendees and participants, and is competitive with other service providers in the region. Figures are presented for both base case and high case scenarios, representing varying levels of event activity and the resulting financial performance.

As noted to the left, in a stabilized year of operations, the proposed PREC could potentially generate between \$302,500 and \$435,000 in total revenue. Revenue generated from facility rental/fees and concessions sales is likely to represent more than 80 percent of total revenue.

Total operating expenses for the PREC are estimated at between \$674,500 and \$764,000. Expenses related to salaries, wages and benefits, and utilities represent the largest components of expenses to be incurred by the venue and could be expected to represent approximately two-thirds of total operating expenses.

For planning purposes, the total operating loss for a proposed PREC is estimated at between -\$329,000 and -\$372,000 in a stabilized year of operations (in 2016 dollars). Additionally, based on industry averages, approximately 0.5% of facility development costs should be directed annually to a capital reserve/replacement account. In the case of the PREC, this could approximate \$72,500 per year.

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# Facility Pricing Analysis – Competitive Facility Pricing

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# Statewide Competitive Facilities

We have included a total of 12 facilities across the state of South Dakota in our analysis. These venues include traditional fixed-seat area facilities (such as the Rushmore Plaza Civic Center), community recreational and aquatic facilities (such as the Spearfish Recreation & Aquatics Center) and school gymnasiums and community gyms (as available in Rapid City, Watertown, etc.). The following map highlights the location of these facilities.



| #  | Facility                       | Market         |
|----|--------------------------------|----------------|
| 1  | Recreation and Cultural Center | Aberdeen, SD   |
| 2  | Swiftel Center                 | Brookings, SD  |
| 3  | Handley Center (1)             | Deadwood, SD   |
| 4  | Huron Arena                    | Huron, SD      |
| 5  | Corn Palace                    | Mitchell, SD   |
| 6  | Mitchell Recreation Center     | Mitchell, SD   |
| 7  | Rushmore Plaza Civic Center    | Rapid City, SD |
| 8  | Community Gyms                 | Rapid City, SD |
| 9  | Recreation and Aquatics Center | Spearfish, SD  |
| 10 | Civic Arena                    | Watertown, SD  |
| 11 | Middle School Gymnasium        | Watertown, SD  |
| 12 | Summit Activities Center       | Yankton, SD    |

(1) Facility is currently under initial construction.

# Statewide Competitive Facilities

## Facility Program Details

With 40,600 square feet of contiguous floor space and the ability to accommodate up to four full-sized basketball courts, the PREC will be larger than all of the South Dakota facilities considered in this analysis. The Sanford Pentagon, located in Sioux Falls, provides approximately 160,000 total square feet and nine basketball courts; however, they did not provide rental rate and financial operating information for this analysis.

| #  | Facility                       | Market         | Largest Contiguous Floor Space (sq ft) | Maximum Basketball Courts | Maximum Seating Capacity |
|----|--------------------------------|----------------|--|---------------------------|--------------------------|
| 1  | Recreation and Cultural Center | Aberdeen, SD   | 10,000                                 | 2                         | 3,200                    |
| 2  | Swiftel Center                 | Brookings, SD  | 30,000                                 | 1                         | 6,500                    |
| 3  | Handley Center (1)             | Deadwood, SD   | 5,000                                  | 1                         | limited                  |
| 4  | Huron Arena                    | Huron, SD      | 14,800                                 | 1                         | 4,800                    |
| 5  | Corn Palace                    | Mitchell, SD   | 39,200                                 | 1                         | 3,250                    |
| 6  | Mitchell Recreation Center     | Mitchell, SD   | 5,600                                  | 1                         | limited                  |
| 7  | Rushmore Plaza Civic Center    | Rapid City, SD | 34,500                                 | 1                         | 9,200                    |
| 8  | Community Gyms                 | Rapid City, SD | 13,500                                 | 1                         | limited                  |
| 9  | Recreation and Aquatics Center | Spearfish, SD  | 9,000                                  | 2                         | 500                      |
| 10 | Civic Arena                    | Watertown, SD  | 32,400                                 | 1                         | 5,800                    |
| 11 | Middle School Gymnasium        | Watertown, SD  | 6,000                                  | 1                         | limited                  |
| 12 | Summit Activities Center       | Yankton, SD    | 14,000                                 | 3                         | 3,400                    |

(1) Facility is currently under initial construction.

Source: CSL International, 2016

# Statewide Competitive Facilities

## Facility Rental Rates (arena & court space)

| #  | Facility                  | Market         | Rate (largest space) | Daily Rental Rate Details   | Hourly Rental Rates   | Commissions   |
|----|---------------------------|----------------|----------------------|---|---|---|
| 1  | Recreation & Cultural Ctr | Aberdeen, SD   | No daily rate        | No daily rate   | Commercial: \$100 for 3 hours, \$50 for each additional hour; Community/Charitable: half price  | 15% on food or merchandise, 5% on ticket sales  |
| 2  | Swiftel Center            | Brookings, SD  | \$1,500              | <b>Standard:</b> \$1,500 per day or 10% of gross revenues. <b>Nonprofit:</b> \$1,125 per day, move in/out is 50% of the rental fee/day  | No hourly rates   | 25% on merchandise sold by renter, 35% on merchandise sold by building  |
| 3  | Handley Center            | Deadwood, SD   | No daily rate        | No daily rate   | \$20/hour, free rent to nonprofits given deposit for cleaning   | None  |
| 4  | Huron Arena (1)           | Huron, SD      | \$685                | <b>For profits:</b> Day 1: \$685, Day 2: \$645, Day 3: \$ 640, with option to take % of ticket sales; <b>Nonprofits charging admissions:</b> Day 1: \$470, Day 2: \$460, Day 3: \$ 455; <b>Nonprofits/Civic Groups:</b> Day 1: \$335, Day 2: \$330, Day 3: \$325. 5% ticket tax on ticketed events. | No hourly rates   | None  |
| 5  | Corn Palace               | Mitchell, SD   | \$1,750              | <b>Standard:</b> \$1,750; <b>Nonprofit/Educational:</b> \$1,000; 25% deposit required; \$250 to have alcohol  | No hourly rates   | 7% on tickets, 30% on alcohol, 10% on recordables, 20% on other merchandise   |
| 6  | Mitchell Recreation Ctr   | Mitchell, SD   | \$100                | \$100 per day   | No hourly rates   | None  |
| 7  | Rushmore Plaza Civic Ctr  | Rapid City, SD | \$2,250              | \$2,250 or 10% of ticket sales capped at \$7,500; nonprofits receive 30% discount, schools 50% discount   | No hourly rates   | 18% on outside caterers, 30% on facility sales of merchandise, 20% (negotiable) on event sales of merchandise, and 10% of recordables sales |
| 8  | Community Gyms            | Rapid City, SD | No daily rate        | No daily rate   | \$35 per hour, school and government functions free   | None  |
| 9  | Recreation & Aquatics Ctr | Spearfish, SD  | No daily rate        | No daily rate   | Resident \$30, Non-resident \$75, Non-profit \$60; rental includes 15 min of setup/teardown   | None  |
| 10 | Civic Arena               | Watertown, SD  | \$650                | <b>Standard:</b> \$650 plus \$0.15 for every guest; <b>Civic/nonprofit:</b> \$500, <b>School use:</b> free  | Mornings: \$200 standard, \$250 civic; Afternoons: \$275 standard, \$200 civic; Evening: \$400 standard, \$300 civic; Morning & Aftersnoon: \$400 standard, \$300 civic; Afternoon & Evening: \$550 standard, \$400 civic | 5% of ticket sales, negotiable percentage of merchandise  |
| 11 | Middle School Gymnasium   | Watertown, SD  | \$200                | <b>Weekdays:</b> \$160 standard; \$120 Civic; <b>Weekends/Holidays:</b> \$200 standard, \$160 civic   | 3 hour rates- Weekdays: standard \$80, civic \$50; Weekends/Holidays: standard \$100, civic \$80; extra hours are half the 3 hour rate  | None  |
| 12 | Summit Activities Center  | Yankton, SD    | \$280                | \$280   | \$180 for four hours  | None  |

(1) Different rates are available for partial day rental

Source: CSL International, 2016

# Statewide Competitive Facilities

## Facility Rental Rates (meeting space)

Among South Dakota multipurpose sports and entertainment facilities that integrate some level of breakout meeting space, rental rates are typically charged by the day and range from \$0.02 to \$0.13 per square foot per day. On average, rates approximate \$0.07 per square foot per day.

|   | Rental Rate/day | Square Feet | Rental Rate/hour | Rate per Sq Ft |
|---|-----------------|-------------|------------------|----------------|
| <b>Brookings, SD</b>                    |                 |             |                  |                |
| Daktronics Banquet Room (1)             | \$600           | 6,800       |                  | \$0.09         |
| County Room (1)                         | \$600           | 4,600       |                  | \$0.13         |
| <b>Rapid City, SD</b>                   |                 |             |                  |                |
| Rushmore Hall North                     | \$800           | 13,000      |                  | \$0.06         |
| Rushmore Hall A/B/C/D                   | \$400           | 6,500       |                  | \$0.06         |
| <b>Mitchell, SD</b>                     |                 |             |                  |                |
| Mitchell Rec Center Conference Room (2) |                 | 375         | \$10.00          |                |
| <b>Spearfish, SD</b>                    |                 |             |                  |                |
| Recreation Center Party Room (2)        |                 | 570         | \$40.00          |                |
| <b>Aberdeen, SD</b>                     |                 |             |                  |                |
| Eagles' Nest (2)                        | \$50            | 3,000       |                  | \$0.02         |
|   |                 |             | <b>Average</b>   | <b>\$0.07</b>  |
|   |                 |             | <b>Median</b>    | <b>\$0.06</b>  |

(1) Nonprofit groups receive 25 percent off

(2) Square footage estimates are based on a ratio of 15 square feet per person

Source: CSL International, 2016

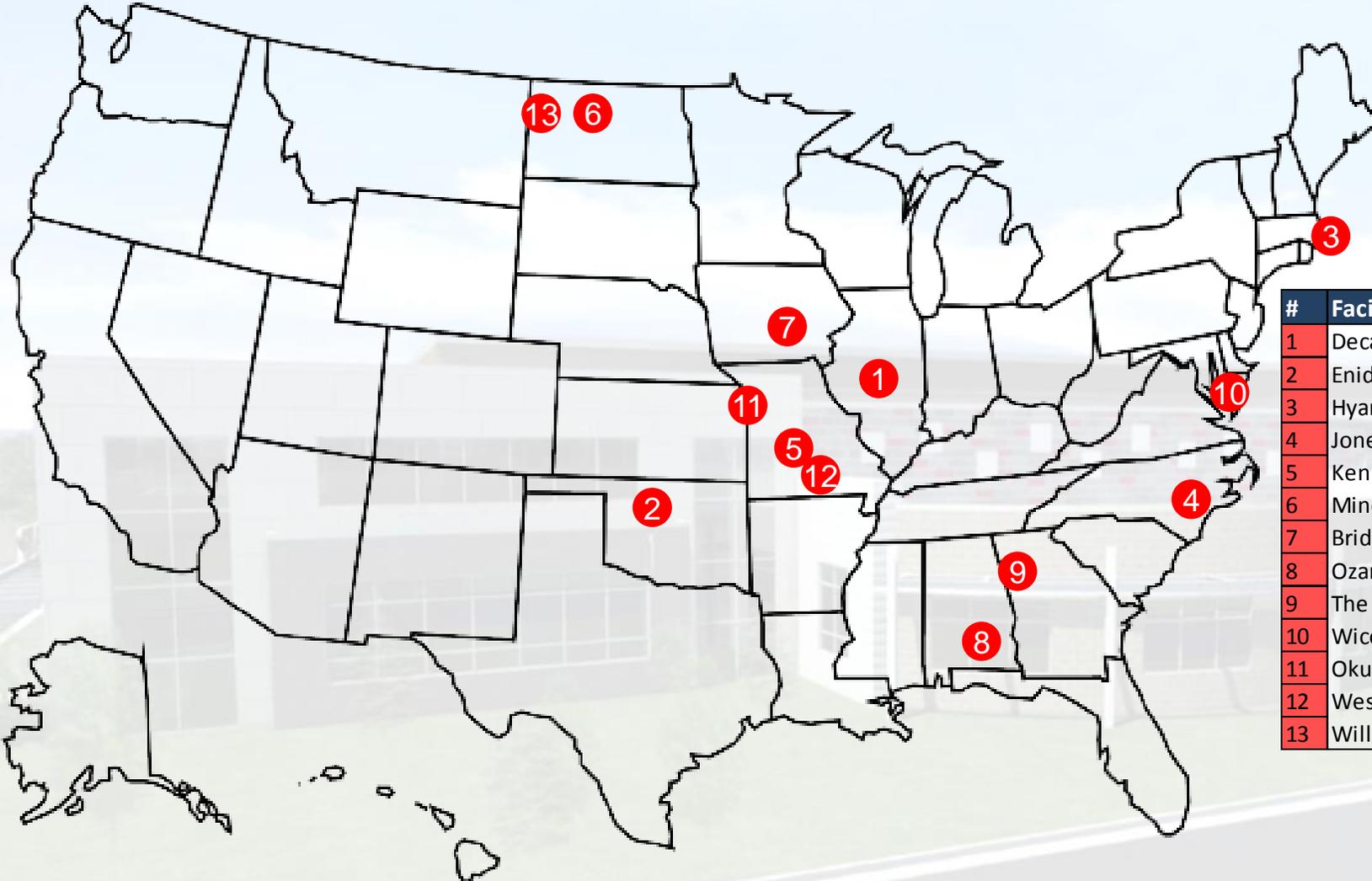
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# Facility Pricing Analysis – Comparable Facility Pricing

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# Comparable National Facilities

Our analysis of comparable national venues consists of 13 multipurpose facilities across the United States, as depicted in the map below.



| #  | Facility                         | Market           |
|----|----------------------------------|------------------|
| 1  | Decatur Civic Center             | Decatur, IL      |
| 2  | Enid Events Center               | Enid, OK         |
| 3  | Hyannis Youth & Community Center | Hyannis, MA      |
| 4  | Jones County Civic Center        | Jones County, NC |
| 5  | Kenneth E Cowan Civic Center     | Lebanon, MO      |
| 6  | Minot Municipal Auditorium       | Minot, ND        |
| 7  | Bridge View Center               | Ottumwa, IA      |
| 8  | Ozark Civic Center               | Ozark, AL        |
| 9  | The Forum                        | Rome, GA         |
| 10 | Wicomico Youth & Civic Center    | Salisbury, MD    |
| 11 | Okun Fieldhouse                  | Shawnee KS       |
| 12 | West Plains Civic Center         | West Plains, MO  |
| 13 | Williston Area Recreation Center | Williston, ND    |

# Comparable National Facilities

## Facility Program Details

With 40,600 square feet of contiguous floor space and the ability to accommodate up to four full-sized basketball courts, the PREC will provide more floor space than 11 of the 13 comparable national venues. In terms of seating capacity, the PREC will offer 92 percent of the overall average of nearly 3,800 seats.

| #  | Facility                         | Market           | Largest Contiguous Floor Space (sq ft) | Maximum Basketball Courts | Maximum Seating Capacity |
|----|----------------------------------|------------------|--|---------------------------|--------------------------|
| 1  | Decatur Civic Center             | Decatur, IL      | 28,000                                 | none                      | 3,200                    |
| 2  | Enid Events Center               | Enid, OK         | 33,000                                 | 1                         | 3,887                    |
| 3  | Hyannis Youth & Community Center | Hyannis, MA      | N/A                                    | 2                         | limited                  |
| 4  | Jones County Civic Center        | Jones County, NC | 11,600                                 | 1                         | 1,000                    |
| 5  | Kenneth E Cowan Civic Center     | Lebanon, MO      | 46,000                                 | 1                         | 5,000                    |
| 6  | Minot Municipal Auditorium       | Minot, ND        | 13,200                                 | 1                         | 5,000                    |
| 7  | Bridge View Center               | Ottumwa, IA      | 30,000                                 | 1                         | 2,931                    |
| 8  | Ozark Civic Center               | Ozark, AL        | 16,000                                 | 1                         | 3,600                    |
| 9  | The Forum                        | Rome, GA         | 20,400                                 | 1                         | 4,174                    |
| 10 | Wicomico Youth & Civic Center    | Salisbury, MD    | 28,000                                 | 2                         | 5,600                    |
| 11 | Okun Fieldhouse                  | Shawnee KS       | 56,500                                 | 4                         | 3,329                    |
| 12 | West Plains Civic Center         | West Plains, MO  | 27,800                                 | 1                         | 4,000                    |
| 13 | Williston Area Recreation Center | Williston, ND    | 56,400                                 | 4                         | N/A                      |

Note: N/A indicates cases where information was not available.

Source: CSL International, 2016

# Comparable National Facilities

## Facility Rental Rates (arena & court space)

| #  | Facility                       | Market           | Maximum Daily Rental Rate (largest space) | Daily Rental Rate Details   | Hourly Rental Rates  | Commissions  |
|----|--------------------------------|------------------|---|---|--|--|
| 1  | Decatur Civic Center           | Decatur, IL      | \$1,650                                   | \$1,650/day for arena   | None   | None   |
| 2  | Enid Events Center             | Enid, OK         | \$6,000                                   | \$3,000 minimum or 10% of gross revenues; 50% off for community events booked less than 30 days out                               | None   | 25% on merchandise that the facility sells, 10% on merchandise that the renter sells |
| 3  | Hyannis Youth & Community Ctr. | Hyannis, MA      | No daily rate                             | No daily rate   | 6-8 AM: \$75/hour; 8 AM-10 PM: \$100/hour  | None   |
| 4  | Jones County Civic Center      | Jones County, NC | \$700                                     | If no alcohol only \$600/day  | None   | None   |
| 5  | Kenneth E Cowan Civic Center   | Lebanon, MO      | \$1,700                                   | 2 days: \$3,200, 3 days: \$4,200, 4 days, \$5,100, move in/out is \$500/day; 50% off for nonprofits                               | None   | Negotiable 10%-15% on food and beverage, including alcohol                           |
| 6  | Minot Municipal Auditorium     | Minot, ND        | \$650                                     | \$650 per day or 10% of gross ticket sales, whichever is greater after state sales tax; setup/takedown \$250/day                  | \$30 per hour for rehearsals and athletic practices                                | 20% of liquor sales; 20% of merchandise sales  |
| 7  | Bridge View Center             | Ottumwa, IA      | \$2,250                                   | Can be split into 3 rooms, \$800 each per day; setup/takedown rate is 50% of daily rate   | None   | Merchandise: 20% if event is selling, 25% if facility is selling; 10% on recordables |
| 8  | Ozark Civic Center             | Ozark, AL        | \$1,000                                   | Concerts and trade shows pay \$1000/day, Commerical private shows pay \$800/day, and civic/nonprofits/charities pay \$500 per day | None   | Negotiable commission on merchandise   |
| 9  | The Forum                      | Rome, GA         | \$1,250                                   | 1250  | None   | 25% on merchandise   |
| 10 | Wicomico Youth & Civic Ctr.    | Salisbury, MD    | \$3,625                                   | \$3,625 or 10% of ticket sales, whichever is greater, 10% of total fee added back on for facility capital improvements            | None   | Box office fee of 3.5% on tickets sold, negotiable percentage of merchandise         |
| 11 | Okun Fieldhouse                | Shawnee KS       | \$2,200                                   | If event ends before 4 PM, event gets \$500 off   | October 1-March 31: \$60/hour, April 1-May 31: 50/hour, June 1-Sept. 30: \$45/hour | 10 % on catered food   |
| 12 | West Plains Civic Center       | West Plains, MO  | \$1,200                                   | Commercial: \$1200/day, Non-profit: \$600/day, Move-in/Move-out: \$400/day  | None   | 10% of catering bill, 10%-15% of alcohol sales (negotiable)                          |
| 13 | Williston Area Recreation Ctr. | Williston, ND    | \$500                                     | Nonprofits get 50% off  | \$25 per court per hour  | None   |

Source: CSL International, 2016

# Comparable National Facilities

## Facility Rental Rates (meeting space)

|                                | Rental Rate/day | Square Feet | Rate per Sq Ft |
|--------------------------------|-----------------|-------------|----------------|
| <b>Decatur, IL</b>             |                 |             |                |
| Meeting Room                   | \$85            | 1,269       | \$0.07         |
| <b>Lebanon, MO</b>             |                 |             |                |
| Small Meeting Room (1)         | \$150           | 1,068       | \$0.14         |
| Large Meeting Room (1)         | \$300           | 3,815       | \$0.08         |
| <b>Salisbury, MD</b>           |                 |             |                |
| Danang Conference Room (2,3)   | \$300           | 2,250       | \$0.13         |
| Flanders Conference Room (2,3) | \$625           | 4,500       | \$0.14         |
| <b>West Plains, MO</b>         |                 |             |                |
| Redbud (4)                     | \$70            | 816         | \$0.09         |
| Dogwood 1 (4)                  | \$70            | 1,116       | \$0.06         |
| Dogwood 1, 2, & 3 together (4) | \$190           | 2,880       | \$0.07         |
| <b>Grand Island, NE</b>        |                 |             |                |
| Small Conference Room          | \$150           | 1,600       | \$0.09         |
| Large Conference Room          | \$750           | 8,000       | \$0.09         |
| <b>Minot, ND</b>               |                 |             |                |
| 201 A, B, and C                | \$200           | 2,016       | \$0.10         |
| 108                            | \$175           | 1,368       | \$0.13         |
| 103                            | \$75            | 672         | \$0.11         |
| <b>Ottumwa, IA</b>             |                 |             |                |
| Conference Rooms 1-5 combined  | \$450           | 7,000       | \$0.06         |
| Conference Rooms, separate     | \$100           | 1,400       | \$0.07         |
| <b>Average</b>                 |                 |             | <b>\$0.10</b>  |
| <b>Median</b>                  |                 |             | <b>\$0.09</b>  |

- Among comparable national facilities that provide breakout meeting space, between two and five rooms are typically offered. Individual rooms range in size from 700 to 8,000 square feet. Larger rooms often provide the ability to be sub-divided into smaller rooms that provide a more intimate setting.
- Rental rates are typically charged in terms of full-day rental for each room, with daily rates of between \$70 and \$750.
- Published rental rates for meeting space among comparable venues average approximately \$0.10 per square foot per day, ranging from a low of \$0.06 (in West Plains, MO and Ottumwa, IA) to a high of \$0.14 (in Lebanon, MO and Salisbury, MD).

(1) Nonprofit groups receive 25 percent off. If outside food/beverages are brought in additional fees of \$25-50 per day are assessed.

(2) Square footage estimates are based on a ratio of 15 square feet per person

(3) Nonprofit groups receive 50 percent off.

(4) Nonprofit groups receive 30 percent off.

Source: CSL International, 2016

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# Facility Pricing Analysis – Interviews with Potential PREC Users

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# Facility Pricing Analysis

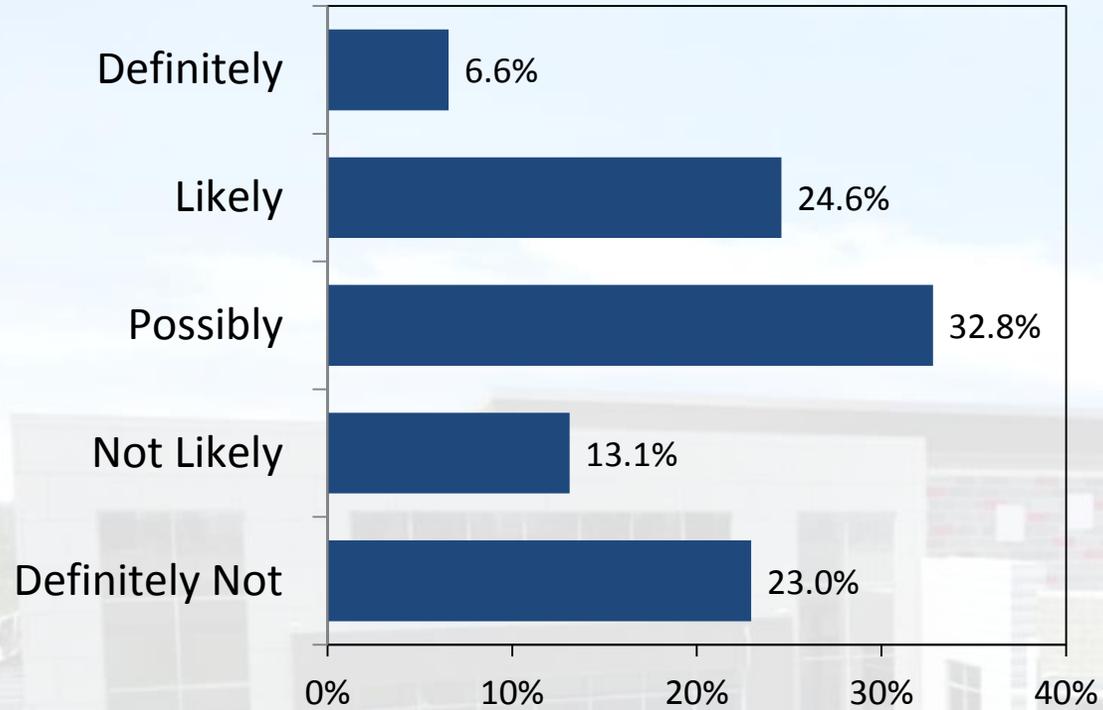
## Organizations Interviewed

Our facility pricing analysis also consisted of more than 60 individual telephone interviews with event planners representing the potential market for the PREC. Information regarding their likelihood of using the PREC, past experiences with other facilities, and their expectations, and preferences with regard to pricing at a new recreation and event center in Pierre.

|   |                                      |  |
|---|--------------------------------------|--|
| Activities Roundup                          | How-Kota Archery Club                | Rumble in the Jungle Cheer & Dance Competition |
| Adult Softball                              | Huffman Productions                  | S.E. South Dakota Pheasant Assn.               |
| Ag Field Day                                | Hughes/Stanley 4H Program            | SD Discovery Center                            |
| American Legion                             | Live Nation                          | Society for Creative Anachronism               |
| Bank West                                   | Moments to Cherish Bridal Show       | South Dakota Academy of Family Physicians      |
| Boy Scouts of America                       | Musical concerts                     | South Dakota Agribusiness Association          |
| Boys and Girls Club                         | National Wild Turkey Federation      | South Dakota Auto Dealers Association          |
| Capital Area Pickleball Association of SD   | Oahe Homebuilders Home Show          | South Dakota Beef Industry Council             |
| Capital Area Soccer Association             | Oahe Steel Tip Darts League          | Special performances i.e. Second City          |
| Capital City Baseball Association           | Optimist Youth Girls Volleyball      | State High School League                       |
| Capitol Cheer                               | Pierre Fire Department               | State Surplus Sale                             |
| Central Plains Dairy                        | Pierre Horseshoe Club                | Statewide Science Fair                         |
| Circus                                      | Pierre Horseshoe League              | Street Masters                                 |
| Dakota Farm Show                            | Pierre Men's Basketball League       | Tae Kwon Do                                    |
| Dakota Territory Gun Collectors Association | Pierre School District Athletics     | United Way                                     |
| Destination Imagination                     | Pierre Tennis Association            | Works Entertainment                            |
| Ducks Unlimited                             | Pierre Women's League Volleyball     | YMCA Sports                                    |
| Exchange Club                               | Pierre Youth Orchestra               | Youth Basketball Tournaments                   |
| Feld Entertainment                          | Pierre/Fort Pierre Rotary            | Youth Wrestling                                |
| H2O Artist Agency                           | Pierre/Ft. Pierre Kiwanis Club of SD | Zonta Club of Pierre                           |
| Hosanna Dance Studio                        | Post 8 Teener Baseball               |  |

# Facility Pricing Analysis

## Likelihood of using the PREC



Source: CSL interviews, 2016

Event planners were first asked to indicate the likelihood of their organization using the PREC in the future, assuming the facility met the needs of their event(s). Respondents were given various options of indicating interest in holding a future event at the PREC from “definitely” to “definitely not” hold an event at the facility in the future.

The positive response percentage (“definitely use”, “likely use” and “possibly use”) among potential users of the PREC approximates 64 percent. A significant percentage of this positive interest (33 percent) can be viewed as “tentative” interest (i.e., those that indicated “possibly” hold an event at the PREC, rather than “likely” or “definitely”). Conversely, approximately 36 percent of all respondents indicated a lack of interest in utilizing the PREC as a host facility for their future event(s).

While these results certainly indicate significant demand for the PREC, these response levels may also reflect a lack of exposure of Pierre to some market segments.

# Facility Pricing Analysis

## Reasons for a lack of interest in using the PREC

Among those expressing a lack of future interest in using the PREC, the following concerns were noted:

- We don't have funds available to rent space.
- Our event is tied to I-29 corridor, where the dairy industry is.
- We need at least 112,000 square feet.
- The cost would be too much. We don't want to change locations.
- Our events are too small for this facility.
- Our show is based in Brookings. Pierre is too far away.
- Our Pierre chapter just closed and we only hosts banquets where there is an active chapter.
- The Expo center is already too big. We don't see a large change in the support for the show.
- Portable horseshoe pits are traditionally placed on a cement surface.
- Riggs has an auditorium meant for live performances such as ours.
- Our local club is too small.
- We would want an auditorium/conference center/meeting rooms/hotels close by.
- Pierre is too far away.
- We are tied to Vermillion and are too small to go anywhere else.
- We currently use the Ramkota and are happy there.
- We don't have many members west of the Missouri River and I-29 corridor.
- Ramkota has the full-service kitchen needed to cater our events.
- We need a large, dedicated theatre--like the Riggs for special performances.
- The facility would be too small. We'd need to fit 120 cars inside, along with 15,000 square feet for the tradeshow.
- We require a larger market/population base. Sioux Falls is about the smallest market we consider.

# Youth Sports - Practices/Competitions

We have summarized information and data collected for a variety of event types, including youth sports, youth activities, community recreation, entertainment events, meetings and banquets, tradeshow, public/consumer shows, and other flat floor functions. CSL conducted interviews with the following organizers of youth sporting events:

- Capital Area Soccer Association
- Pierre School District Athletics
- South Dakota High School Activities Association
- Capital City Baseball Association
- Pierre Tennis Association
- Oahe Family YMCA
- Capitol Cheer
- Post 8 Teener Baseball
- Pierre Youth Basketball
- Optimist Volleyball Tournaments
- Rumble in the Jungle Cheer/Dance
- Pierre Wrestling

- Youth Sports are highly likely to use the new facility. Potential uses include:
  - Practices for basketball, volleyball, wrestling, soccer/futsal, tennis, cheer, or gymnastics; batting practice for baseball/softball.
  - Competitions for cheer, wrestling, and gymnastics.
- Currently, these activities use the following facilities in Pierre: T.F. Riggs High School, Kennedy and Jefferson Elementary Schools, Oahe Family YMCA, and Griffin Park.
- Some concerns these groups have are:
  - Cost of rental space at a new facility.
  - Scheduling. Most youth sports could only use the facility outside of school hours.
  - Need for an easy-to-use batting cage for baseball and softball players.
- For per-court space rental, these groups are willing/would expect to pay:
  - \$8 – 12 per court hour for a team, but would pay more for desired times
  - Many users would prefer free rent, but would be willing to partner with the new center in some way.
- Amenities that groups would expect as part of the rental:
  - Proper court/performance equipment for basketball, volleyball, cheer, dance, tennis, and gymnastics.
  - An easily operable batting cage, hung from the ceiling, with hitting mats and L-nets.
  - Facility services, such as set-up, cleaning, and takedown.
  - A quality sound system and affordable concessions.

# Youth Sports - Tournaments

CSL conducted interviews with the following organizers of youth sporting events:

- Capital Area Soccer Association
- Pierre School District Athletics
- South Dakota High School Activities Association
- Capital City Baseball Association
- Pierre Tennis Association
- Oahe Family YMCA
- Capitol Cheer
- Post 8 Teener Baseball
- Pierre Youth Basketball
- Optimist Girl's Volleyball
- Pierre Wrestling
- Rumble in the Jungle Cheer and Dance Competition

- Youth Sports tournaments are generally more open paying higher usage fees than general use by practices and competitions.
- Potential tournaments include:
  - Wrestling meets
  - Youth basketball, volleyball, and futsal tournaments
  - South Dakota State High School Championships for gymnastics, single-class volleyball, and cheer and dance
- Currently, some smaller tournaments are using T.F. Riggs High School and local middle schools.
- The PREC offers the potential to bring several new tournaments to Pierre that are not currently able to be accommodated by existing facilities.
- Based on our market research, tournaments with an interest in the PREC would be willing to pay:
  - Smaller tournaments \$600 per day, larger tournaments: \$1,000-\$1,200 per day.
  - Some tournaments are structured such that teams pay an entry fee of \$100-\$175 each (with many tournaments consisting of between 40 and 60 teams. The facility would negotiate with the organizer on that basis.
  - Tournament organizers would prefer to negotiate with the facility on a case-by-case basis.
- One organizer commented “This facility absolutely has a future as a tournament facility.”
- Drop-down gym dividers (from the ceiling) will be important to separate the individual courts.
- Tournaments need to establish a reputation to be successful in Pierre:
  - Must be well organized, with experienced referees.

# Youth Activities

CSL conducted interviews with the following youth activities groups:

- Activities Roundup
- Boys and Girls Club
- South Dakota Discovery Center
- Agricultural Field Day
- Destination Imagination
- South Dakota Statewide Science Fair
- Boy Scouts of America
- Pierre Youth Orchestra

- Youth Activities expressed strong interest in using the PREC; however, they are unlikely to pay significant amounts of rent.
- Currently, local youth organizations use the YMCA, Armory, Riggs High School, and the Discovery Center.
- These organizations would consider hosting the Activities Roundup, Agricultural Field Day, contests/tournaments, the Pinewood Derby, weekend workshops, rehearsals, and concerts at the PREC.
- Most organizers indicated that cost was the biggest factor in choosing a facility.
- Current rental rates:
  - These events are oftentimes provided free or heavily discounted rent.
  - Some event organizers spend as much as \$1,500 to \$2,000 to rent facilities for large special events.
  - Few event planners pay setup/takedown or other facility service fees.
- Proposed rates—most would expect to receive a nonprofit discount:
  - Small or regular gatherings: \$0 to \$10 per court hour.
  - Special events: \$500 to \$2,000 per day for the full facility, depending on the space needed and services provided.
- Expected amenities: tables, chairs, A/V system, flexible flooring, kitchen, concessions, pipe and drape.
- The Boys & Girls Club and the Discovery Center would continuously use the PREC if they were partners/tenants of the facility. If not, they would still use the facility occasionally.

# Community Sports and Recreation

CSL conducted interviews with the following community recreational organizations:

- Adult Softball League
- Hughes-Stanley 4H Program
- Pierre Men's Basketball League
- Capital Area Pickleball Association
- Oahe Steel Tip Darts League
- Pierre Women's Volleyball League
- How-Kota Archery Club
- Pierre Horseshoe Club and League
- Pierre Tae Kwon Do

- Local recreational organizations are very likely to utilize the new facility for practices, leagues, and competition.
- Currently, these events are using T.F. Riggs High School, Buchanan Park, the Isaac Walton Center, Griffin Park, and the Pierre Indian Learning Center, among other facilities.
- Many organizers expressed concerns about reserving a regular time at the new facility. Desirable times fall between 5-8 pm on weekdays, oftentimes overlapping with desired time slots for youth sports.
- The PREC may not be "specialized" enough for some activities, like shooting, archery, horseshoes and darts.
- Rates: Current
  - Some organizers pay long-term fees (for example, membership fees at the YMCA or a yearly fee at Isaac Walton).
  - Others events pay block-hourly fees (such \$75 to \$100 per court for 4 hours).
  - Outdoor recreation associations prefer to use free facilities at local parks when possible.
  - Few event organizers pay any additional charges for services or equipment at their current facilities.
- Rates: Proposed
  - The majority of activities would be willing to spend between \$10 and \$25 per court hour.
  - Tournaments and regional events would typically be willing to spend \$200-\$300 for each court per day for up to 3 days.

# Community Sports & Recreation

(continued)

- Community recreational event organizations would expect:
  - Sufficient storage space for sporting and other event equipment.
  - Setup-takedown and other fees should be included with facility rental fees.
  - Batting cage and hitting mats are required to attract any regular baseball or softball use (practices, etc.).
  - Pickleball requires sufficient space in between courts to keep players and spectators safe.
  - Basketball needs scoreboards, a wood floor, square glass backboards, and breakaway rims.
  - 4H requires drive-in access to easily load and unload livestock.
- As an indoor facility, the new recreation center could bring in activities that generally can't meet during the winter, such as horseshoes and softball.



# Entertainment Events

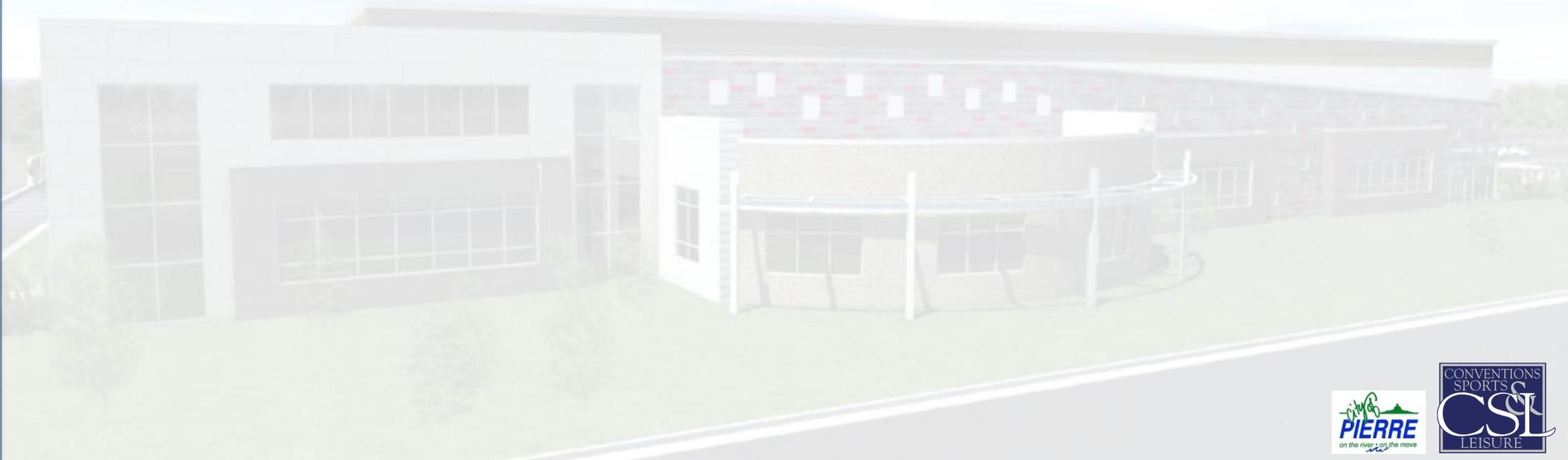
CSL conducted interviews with the following entertainment organizers:

- Shrine Circus
- Hosanna Dance Studio
- Local Musical Concerts
- Feld Entertainment
- Huffman Productions
- Second City
- H2O Artist Agency
- LiveNation
- Works Entertainment

- Various forms of live entertainment could provide limited opportunities for the PREC to attract high revenue-generating events.
- Overall, entertainment organizers are less interested in the facility than sports groups, as it is not designed specifically for entertainment (i.e., load in/out, seating, staging, sound, light, etc.).
- Local promoters expressed more of a positive interest in the PREC than regional and national promoters.
  - Some are currently looking for more space to host events, as existing venues are often already occupied.
- Currently, some shows use the Ramkota Hotel, T.F. Riggs Auditorium, and the Stanley County Grandstand.
- Potential users would consider hosting concerts (especially country and Christian music), dance shows, or a circus at the PREC.
- Concerns:
  - Pierre is too small of a market for some promoters of larger events.
  - Many larger national acts would need a local promoter to assist in organizing and marketing the events in Pierre.
- Current rental rates vary by venue and by act. Some promoters pay flat fee, others pay a percentage of the box office receipts.
- Acceptable rent:
  - Local organizers: \$300 to \$750 per event.
  - Regional/National organizers: \$1,200 to \$5,000 per event. Every act and rental agreement is different and promoters expect the ability to negotiate rental terms on a case-by-case basis.

# Entertainment Events (continued)

- Additional facility-related service charges also vary: some events pay none, others must pay for stagehands, security, ushers, cleaning, and additional electricity.
- Promoted entertainment events would require the following facility amenities to use the PREC:
  - Space to sell novelties and concessions.
  - Sound and lighting—modern PA and A/V systems.
  - A VIP space (dressing rooms), a vending area for food, and access to tables and chairs.
  - Circus would like ability to house animals nearby.
  - The provision of air conditioning will make the facility much more attractive to entertainment events.



# Meetings and Banquets

CSL conducted interviews with the following organizations:

- American Legion
- Exchange Club of Pierre
- Pierre/Ft. Pierre Kiwanis Club
- United Way of Pierre
- BankWest
- National Wild Turkey Federation
- Southeast South Dakota Pheasant Federation
- Zonta Club of Pierre
- Ducks Unlimited
- Pierre/Ft. Pierre Rotary
- South Dakota Academy of Family Physicians
- Society for Creative Anachronism

- Meetings and banquets offer a more limited opportunity for events (and revenue) at the PREC.
- Currently, most organizations meet at the Ramkota Hotel, Capitol, Fort Pierre Community Center, the First Methodist Church, Oahe State Park, or local restaurants.
- The provision of upscale, state of the industry, divisible meeting space, food service, hotel rooms and related amenities are required to attract several such events.
- Organizers would consider hosting fundraisers, meetings, awards ceremonies, craft shows, and state conventions at the PREC.
- Potential concerns included cost and the lack of an attached hotel and conference center.
- Pricing: Current
  - Local group meetings and events: \$150 to \$500 per day in total rent.
  - Larger groups: around \$2,000 to rent the entire facility for a weekend.
  - In addition to facility rent, food service is the primary additional charge that groups typically pay for.
  - Some larger events order a predetermined dollar amount of catered food in exchange for free or heavily discounted rent.
- Pricing: Potential
  - \$150 to \$500 per day.
  - Meeting planners are inclined to pay less for a facility without meeting rooms or an attached hotel.
- Meeting and banquet event planners typically require tables, chairs, easily available catering, and an excellent A/V system.
- Some events would expect on-site help with A/V systems, set-up/takedown services, and the ability to serve alcohol.
- For statewide and regional meetings, the city's environment is also an important consideration. Guests want things to do (restaurants, retail, entertainment, etc.).

# Tradeshows and Public/Consumer Shows

CSL conducted interviews with the following tradeshow and public/consumer show organizers:

- Central Plains Dairy Show
- Moments to Cherish Bridal Show
- Street Masters of Pierre
- Dakota Farm Show
- Oahe Homebuilders Home Show
- South Dakota Auto Dealers Association
- Dakota Territory Gun Collectors Association
- South Dakota Agribusiness Association
- South Dakota Beef Industry Council

- The majority of tradeshows and public/consumer shows surveyed by CSL are unlikely to use the PREC.
- Historically, these events have used the Ft. Pierre Expo Center and the Ramkota Hotel and Convention Center.
- Agricultural tradeshows are tied to the I-29 corridor and are unlikely to come to Pierre.
- Other shows are satisfied with their current facilities and see no pressing reason to change.
- Those expressing an interest in the PREC would use the facility for conventions, workshops, conferences and meetings.
- Rates: Current
  - Many events qualify for free rent based on their catering revenue and room nights generated.
  - Facility rental fees are generally low: between \$50 to \$250 per day.
- Renters would expect PREC facility rental to include setup, takedown, A/V systems and services, and free parking.

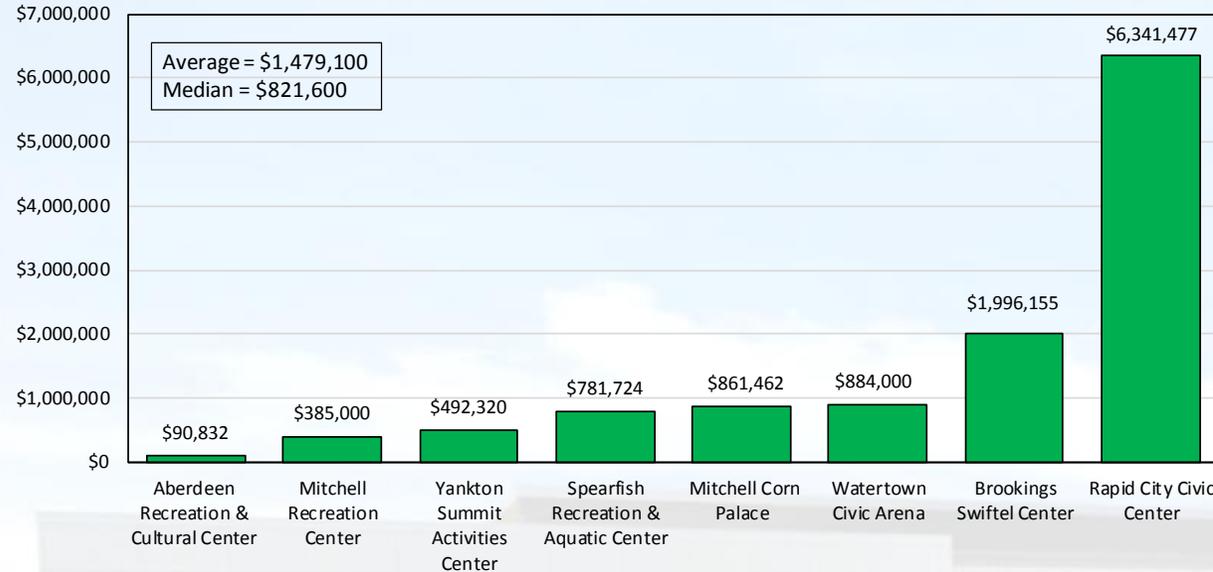
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# Financial Operating Analysis – Competitive & Comparable Facilities

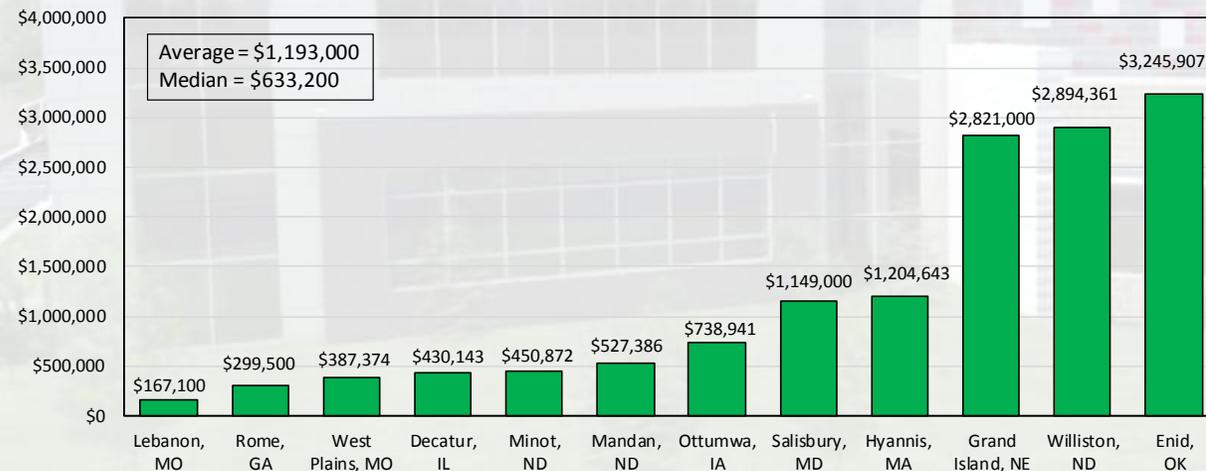
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# Competitive & Comparable Facilities

## Comparison of Gross Facility Operating Revenue



Source: CSL International; facility management; 2016



Source: CSL International; facility management; 2016

- Our financial benchmarking analysis considers only operating revenue. Non-facility related-operating revenue (such as parking, tax subsidies, etc.) have not been considered.
- Facilities that have offer the flexibility to not only host large ticketed entertainment events, but also conventions, meetings, weddings, etc. are typically able to generate the most revenue (such as those in Rapid City and Brookings).
- Among competitive in-state facilities, annual gross operating revenue ranges from approximately \$91,000 (in Aberdeen) to more than \$6.3 million for the very multipurpose and highly-utilized Rapid City Civic Center. Excluding this facility, average revenue is \$784,500.
- Venues in Enid, OK and Grand Island, NE operate as part of a larger complex of facilities and thus are able to generate greater levels of revenue.
- The new \$70+ million Williston Recreation Center is able to generate significant revenue through its waterpark, memberships and a wide variety of youth and adult programs.
- Excluding these three facilities, the average total revenue among comparable national facilities approximates \$595,000.
- As noted earlier, given the facility program associated with the PREC and our market analysis indicating less of an ability to generate rental and other revenue, our estimates of PREC revenue are generally less than what is realized by competitive and comparable venues.

# Comparison of Revenue Line Items

## Rent

- South Dakota Facilities
  - ✓ Ranges from \$3,000-\$1,200,000; average is \$235,000.
  - ✓ Accounts for up to 50% of facility revenues.
  - ✓ Event facilities earn much more rent—such as the Swiftel Center (\$1.2 million).
  - ✓ Community recreation centers (in Spearfish and Mitchell) earn less rent and more membership/activity fees.
- National Facilities
  - ✓ Rent ranges from \$68,000-\$476,000; average is \$228,000 with a median \$173,000.
  - ✓ Some facilities generate nearly all their income from rent—the Bridge View Center and the Cowan Center.
  - ✓ On average, rent accounts for 35% of total facility revenue.

## Membership and Activity Fees

- South Dakota Facilities
  - ✓ 4 of 8 facilities collect membership or activity fees.
  - ✓ Range from \$46,000-\$600,000; averaging \$356,000 with a median \$380,000.
  - ✓ Average: 75% of revenue, median 81% of revenue at facilities that collect these fees.
  - ✓ Facilities that collect these fees tend to be community recreation centers.
- National Facilities
  - ✓ 5 out of the 13 facilities collect membership or activity fees, ranging from \$150,000-\$2.3 million per year.
  - ✓ On average, a facility collects 49% of its revenue from these fees, with a median of 49%.

**Ticket Revenue:** generally only collected at larger facilities that attract ticketed entertainment events.

- ✓ South Dakota: Only the Corn Palace collects ticket revenue—in 2015 it collected \$207,000; or 24% of revenue.
- National Facilities
  - ✓ 4 out of 13 collect ticket revenues, but only 2 generate a significant portion of revenue from them.
  - ✓ Enid: 50% of revenue; Grand Island: 66% of revenue—both are large-scale event facilities.

# Comparison of Revenue Line Items

## Service Fees & Equipment Rental

- South Dakota Facilities
  - ✓ 3 out of the 8 facilities isolate service and equipment rental fees.
  - ✓ These proceeds account for up to 5% of total revenue at South Dakota facilities.
  - ✓ Range from \$1,200-\$53,000 annually.
- National Facilities
  - ✓ 6 of 13 facilities charge service fees—generally event-focused centers, not recreation-focused centers.
  - ✓ Service fees account for up to 49% of revenues, with a mean of 20% and median of 19% of revenues.
  - ✓ In absolute amounts, service fees range from \$3,000-\$780,000 per year.

## Concessions

- South Dakota Facilities
  - ✓ 6 of 8 facilities sell concessions, earning between \$7,000 and \$3 million, with a mean of \$753,000 and a median of \$198,000.
  - ✓ Concessions sales range from 1% to 53% of facility revenues, with a mean of 26% and median of 24%.
  - ✓ Event facilities, like the Swiftel Center (\$1.1 million, 53% of revenue) rely more on concessions for revenue than rec centers do.
- National Facilities
  - ✓ 10 out of 13 list concessions revenue; it ranges from \$5,500-\$760,000 per year; the mean is \$208,000 and the median is \$106,000.
  - ✓ Facilities collect between 1% and 36% of their revenue from concessions, with a mean of 17% and a median of 19%.
  - ✓ Similar to the competitive in-state venues; the national facilities that are focused more on entertainment and other events tend to generate considerably more concessions revenue as a percentage of total revenue than facilities focused on local recreation.

# Comparison of Revenue Line Items

## Advertising, Sponsorships, and Promotions

- South Dakota Facilities
  - ✓ 3 of the 6 facilities collect advertising revenue, ranging from \$30,000-\$395,000, with a mean \$157,000 and median \$46,000.
  - ✓ These revenues represent between 2% and 6% of total revenue; with a mean and median of 4%.
  - ✓ Only larger event centers (Corn Palace, Rushmore Plaza Civic Center, and Swiftel Center) generate this type of revenue.
- National Facilities
  - ✓ 5 of 13 receive advertising revenue.
  - ✓ Range: \$5,600-\$88,000, with mean \$71,000 and median \$12,000.
  - ✓ Represent between 1% and 10% of facility revenue, averaging 5% and having median of 3%.

## Merchandise

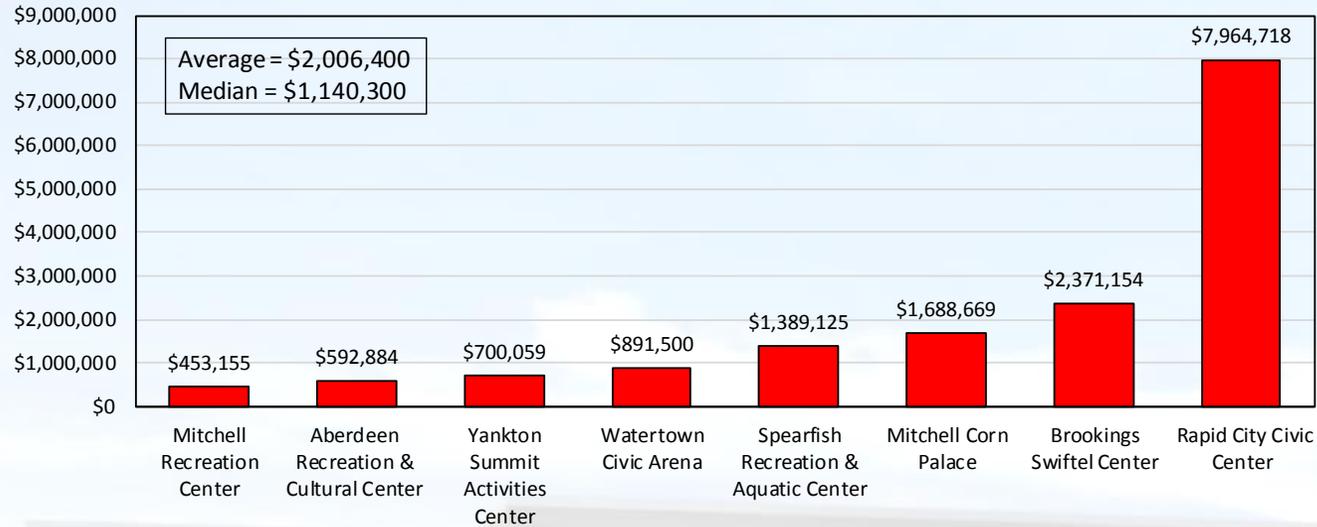
- South Dakota: Only 3 out of 6 facilities list merchandise sales, and it represents less than 1% of total revenue at each.
- National: Only 3 out of 13 facilities list merchandise sales, and it also accounts for less than 1% of total revenue at each.
- **Naming Rights** of all facilities studied, only the Swiftel Center has a naming rights contract (which is for \$50,000 per year).

## Other Revenues

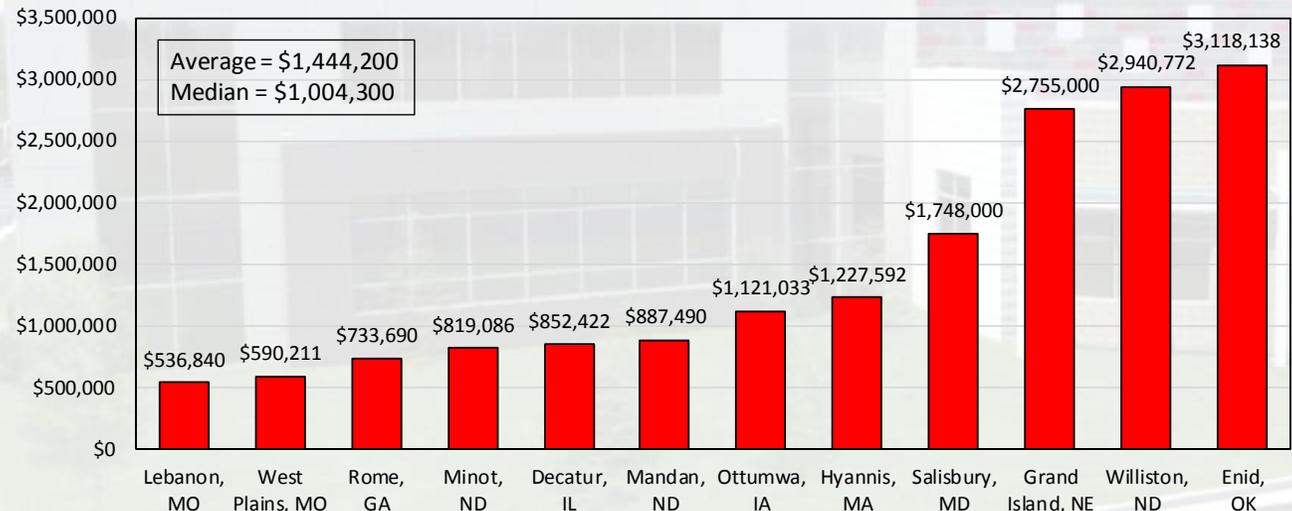
- South Dakota Facilities
  - ✓ Large event centers (Corn Palace, Rushmore Plaza Civic Center, and Swiftel Center) generate between 25% and 35% of their revenue from other sources.
  - ✓ Local recreation centers earn between 1% and 4% of their revenue from other sources, averaging \$12,000.
- National Facilities
  - ✓ Other revenues range from \$4,800 to \$177,000, with a mean of \$88,000 and median of \$55,000.
  - ✓ Generally account for up to 20% of total facility revenues.
  - ✓ Little difference between recreation centers and larger event centers—both tend to generate similar amounts and proportion of their revenues from the other category.

# Competitive & Comparable Facilities

## Comparison of Facility Operating Expenses



Source: CSL International; facility management; 2016



Source: CSL International; facility management; 2016

- For purposes of our analysis, non-operating expenses (such as depreciation and large capital improvement projects) are not considered.
- The Rapid City Civic Center incurred nearly \$8 million in total annual expenses, which is more than three times more than the next closest facility (Swiftel Center). Excluding these large, flexible facilities, total expenses among the South Dakota facilities approximated \$953,000.
- Mitchell's Corn Palace realized nearly \$1.7 million in expenses, while the single court Mitchell Recreation Center incurred just over \$453,000 in operating expenses.
- Several of the South Dakota recreation centers integrate aquatic centers, which can be very expensive to operate and maintain.
- Total expenses among the highly active and very multipurpose facilities in Enid, OK, Williston, ND and Grand Island, NE range from \$2.75 to \$3.5 million.
- Excluding these three facilities, total expenses range from a low of \$537,000 (in Lebanon, MO) to nearly \$1.75 million (in Salisbury, MD). Average total annual expenses approximate \$946,000.

# Comparison of Expense Line Items

## Salaries and Benefits

- South Dakota Facilities
  - ✓ Range from \$306,000-\$1.8 million, with a mean of \$791,000 and median of \$692,000.
  - ✓ Accounts for between 22% and 70% of total expenses, with a mean of 54% and median of 57%.
  - ✓ Relative to total expenses, salaries and wages are proportionally less at large event centers.
- National Facilities
  - ✓ Range from \$249,000-\$1.8 million, with a mean of \$656,000 and a median of \$534,000.
  - ✓ Comprise between 24% and 64% of total expenses, with mean of 50% and median of 53%.

## Sales and Marketing

- South Dakota Facilities
  - ✓ Only 4 of the 8 facilities have isolated sales and marketing expenses.
  - ✓ In all cases, they are below 3% of the total expenses.
  - ✓ Range from \$6,000-\$145,000; with a mean of \$51,000 and a median of \$26,000.
- National Facilities
  - ✓ 7 out of the 13 venues break out sales and marketing as an expense.
  - ✓ Range between \$10,000 and \$86,000, with a mean of \$28,000 and a median of \$20,000.
  - ✓ Always below 4% of expenses, with mean a and median of 2%.

## Concessions

- South Dakota Facilities
  - ✓ 4 facilities list concessions expenses. The Rushmore Plaza Civic Center is the highest at \$2 million, or 26% of total expenses.
  - ✓ All other venues cite concessions expenses of below 5% of total expenses. High of \$62,000 and median of 3% of expenses.
- National Facilities
  - ✓ 3 out of 13 list concessions expenses, ranging from \$18,000 to \$291,000.
  - ✓ Mean expense is \$147,000; median expense is \$133,000. Both the mean and median account for approximately 5% of total facility expenses.

# Comparison of Expense Line Items

## Utilities

- South Dakota Facilities
  - ✓ 5 of the 8 reported utility expenses.
  - ✓ Range from \$14,000 to \$197,000; with a mean of \$92,000 and a median of \$89,000.
  - ✓ Utilities make up between 2% and 16% of expenses, averaging 10%.
- National facilities
  - ✓ 11 of 13 national facilities reported utility costs.
  - ✓ Range: \$134,000- \$680,000; averaging \$266,000, with a median of \$204,000.
  - ✓ Account for between 5% and 39% of expenses; with a mean of 26%.

## Insurance (Building)

- South Dakota Facilities
  - ✓ 4 of 8 venues break out building insurance costs.
  - ✓ Range from \$29,000 to \$39,000; with a mean of \$33,000 and median of \$30,000.
  - ✓ Always between 1% and 5% of expenses, with mean and median of 2%.
- National Facilities
  - ✓ Insurance costs range from \$10,000 to \$23,000, with a mean of \$17,000 and a median of \$16,000.
  - ✓ Insurance costs comprise between 1% and 4% of total expenses, with mean of 2%

## Services (event, professional, contracted)

- South Dakota Facilities
  - ✓ Rec centers tend to incur fewer service-related expenses than larger event centers (such as the Rapid City Civic Center & Corn Palace).
  - ✓ Generally range from \$7,000-\$81,000; averaging \$48,000.
- National Facilities
  - ✓ 7 out of 13 national facilities list expenses related to various services.
  - ✓ Typically range from \$10,000 to \$128,000; averaging \$62,000.
  - ✓ Service costs range from 1% to 9% of total expenses, averaging approximately 5%.

# Comparison of Expense Line Items

## Supplies

- South Dakota
  - ✓ Costs for miscellaneous operating supplies range from \$18,000-\$40,000 per year, with a mean of \$26,000.
  - ✓ Make up between 1% and 9% of yearly expenses.
- National Facilities
  - ✓ Expenses related to supplies typically range from \$17,000-\$186,000; with a mean of \$58,000.
  - ✓ Account for between 1% and 6% of expenses, averaging 4%.

## Maintenance and Repairs

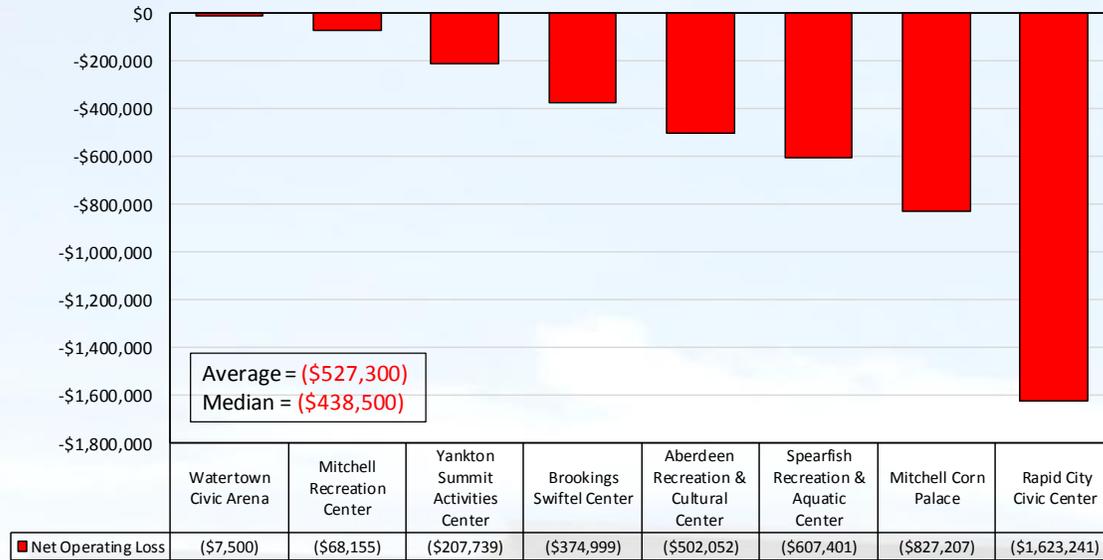
- South Dakota Facilities
  - ✓ Older facilities such as Rushmore Plaza Civic Center and the Corn Palace have the highest maintenance and repair bills:
    - Rushmore Plaza: \$1.7 million, 22% of total expenses—a large, aging facility that host many events.
    - Corn Palace: \$230,000, 14% of total expenses—needs to be redecorated every year
  - ✓ Smaller facilities range between \$12,000 and \$25,000; averaging \$16,000.
  - ✓ Smaller facilities spend between 1% and 4% of their budgets on maintenance and repairs, with mean and median of 3%.
- National Facilities
  - ✓ The majority of national facilities spend between \$2,000 and \$90,000 on maintenance and repairs, with a mean of \$44,000.
  - ✓ Maintenance and repairs typically account for between 1% and 12% of total expenses, averaging approximately 5%.

## Other Expenses

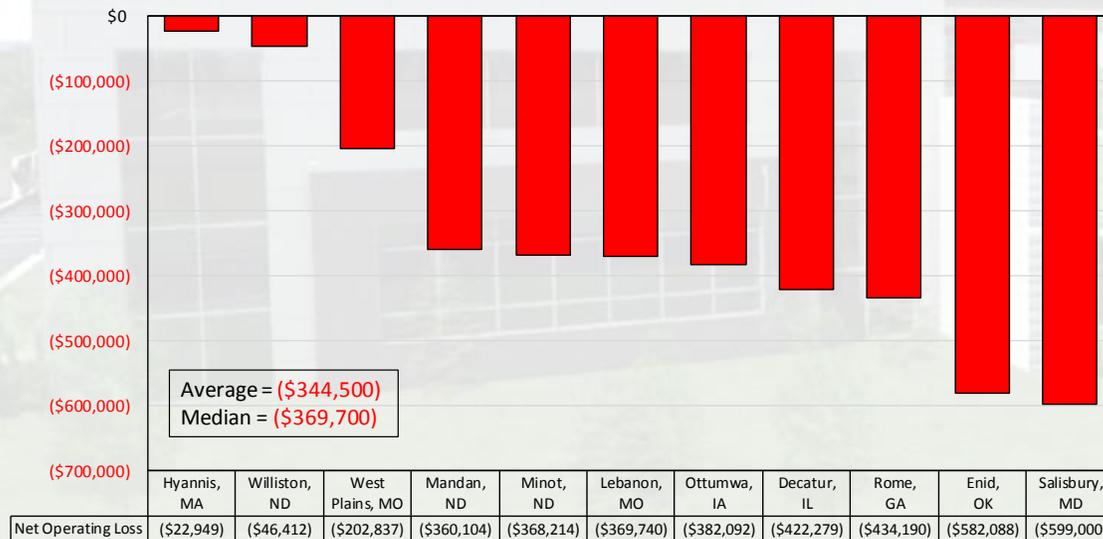
- South Dakota Facilities
  - ✓ Range from \$7,600 to \$944,000; mean of \$222,000 and median of \$145,000.
  - ✓ Other expenses make up between 2% and 30% of expenses, with mean 12% and median 7%.
  - ✓ Facilities with high miscellaneous expenses are either large event facilities or serve school districts.
- National Facilities
  - ✓ Other expenses tend to range from \$1,000 to \$132,000, with a mean of \$60,000.
  - ✓ Other expenses comprise between 1% and 13% of total expenses, averaging approximately 5%.

# Competitive & Comparable Facilities

## Comparison of Net Financial Operations



Source: CSL International; facility management; 2016



Source: CSL International; facility management; 2016

- Based on the most recent year of financial statements provided, all of the competitive (in-state) and comparable (national) venues operated with an annual loss.
- Among competitive South Dakota facilities, total operating losses range from a high of -\$1.6 million (at the Rapid City Civic Center) to just -\$7,500 (at the Watertown Civic Arena, which is able to benefit through some shared costs with the School District).
- Excluding these two facilities, average total operating losses approximated \$-431,300 among in-state facilities.
- It should be noted that recreation centers in Mitchell, Yankton and Spearfish integrate pool and water amenities, that directly impact their bottom line.
- Total operating losses at comparable national facilities range from nearly \$600,000 (at the Wicomico Youth and Community Center) to just under -\$23,000 (at the Hyannis Youth and Community Center, which is able to generate significant activity and membership fees).
- Among the 11 comparable national facilities that provided financial information, average total operating losses approximated -\$344,500.

# Competitive & Comparable Facilities

## Funding of Operating Loss

We have also examined how the annual operating losses are funded among the competitive and comparable venues. Based on our conversations with facility management, the following exhibit summarizes our findings.

| Facility                                 | Annual Operating Loss | How are Operating Losses Funded?   |
|--|-----------------------|--|
| Watertown Civic Arena                    | (\$7,500)             | Watertown School District  |
| Mitchell Recreation Center               | (\$68,155)            | City of Mitchell   |
| Yankton Summit Activities Center         | (\$207,739)           | School covers costs for utilities and custodians. City covers maintenance. |
| Swiftel Center, Brookings                | (\$374,999)           | City-from general fund and BBB tax   |
| Aberdeen Recreation and Cultural Center  | (\$502,052)           | City-general fund  |
| Spearfish Recreation and Aquatics Center | (\$607,401)           | City of Spearfish  |
| Mitchell Corn Palace                     | (\$827,207)           | City of Mitchell \$400,000; Entertainment Tax \$385,000                    |
| Rapid City Rushmore Plaza Civic Center   | (\$1,623,241)         | BBB tax  |

| City, State     | Annual Operating Loss | How are Operating Losses Funded?  |
|-----------------|-----------------------|---|
| Williston, ND   | (\$46,412)            | Williston Area Park District  |
| West Plains, MO | (\$202,837)           | BBB tax revenue-supposed to be for Capital expenses, but often used for operations. |
| Minot, ND       | (\$367,764)           | City of Minot   |
| Lebanon, MO     | (\$369,740)           | City of Lebanon   |
| Ottumwa, IA     | (\$382,092)           | City of Ottumwa   |
| Rome, GA        | (\$434,190)           | Floyd County  |
| Enid, OK        | (\$582,088)           | Dedicated hotel tax   |
| Salisbury, MD   | (\$599,000)           | Wicomico County   |