



Council Agenda Report

FROM: Karen Larson, Parks and Recreation Director
Andrea Willer, Sports Center Manager

SUBJECT: Receive Presentation on Reinvesting in the Monterey Sports Center: Emerging Trends and the Pending Sports Center Operational Assessment (Not a Project Under CEQA Article 20, Section 15378 and under General Rule Article 5, Section 15061)

RECOMMENDATION:

That the City Council receive the report. Once the analysis is complete, the results of the Sports Center Operational Assessment will be reported at a future public meeting.

VALUE DRIVERS:

In collaboration with our community partners, work to improve the quality of life of all of our community members by fostering diversity, equity, and inclusion; championing equitable access to affordable housing; and maintaining a safe environment.

Serve as stewards of the City's financial resources through sound economic vitality efforts, streamlining operations, reasonable revenue enhancements, visionary long-term planning, fiscal transparency, and community partnerships.

POLICY IMPLICATIONS:

No new policy implications are associated with receiving the report.

FISCAL IMPLICATIONS:

No new costs are associated with receiving the report. The cost of the consultant to prepare the Operational Assessment is \$53,000. Expenditures and/or cost savings may result from future actions taken by the City Council based on information gained from the Operational Assessment.

In March 1992, with the adoption of Resolution 92-61, the City Council evidenced its intent to recover 75% of the Sports Center's operating costs. In Fiscal Year 2018, the Sports Center recovered 77% of its operating costs. The Operational Assessment will provide data to assist the City Council in developing the City's goals regarding the amount of desired cost recovery for Sports Center operations.

ENVIRONMENTAL DETERMINATION:

The City of Monterey determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA)(CCR, Title 14, Chapter 3 ("CEQA Guidelines), Article 20, Section 15378). In addition, CEQA Guidelines Section 15061 includes the general

rule that CEQA applies only to activities which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Because the proposed action and this matter have no potential to cause any effect on the environment, or because it falls within a category of activities excluded as projects pursuant to CEQA Guidelines section 15378, this matter is not a project. Because the matter does not cause a direct or any reasonably foreseeable indirect physical change on or in the environment, this matter is not a project. Any subsequent discretionary projects resulting from this action will be assessed for CEQA applicability.

ALTERNATIVES CONSIDERED:

The Council could choose not to receive the report.

DISCUSSION:

The pandemic took an outsized toll on public health and had a far-reaching impact on all business sectors, including the fitness industry. State mandates, social distancing, remote work, and contactless interactions led to \$15 billion in lost revenue for clubs and fitness studios in the U.S. last year. When gyms closed, people were forced to rethink their fitness routine. There was a surge in residential fitness equipment sales as they built in-home gyms. Virtual fitness programs exploded, and outdoor fitness and recreational activities boomed. People formed new habits which has had profound implications on the industry as a whole.

Pre-pandemic, the Sports Center had approximately 8,000 members and annual revenue near \$4.5M. Post-pandemic, both membership and revenue are trending at about 50% of pre-pandemic activity. Staff have stayed engaged with members, increased marketing efforts, and focused on core competencies while also introducing new programs to recruit and retain members.

While the Sports Center's membership sales, program registration, and revenue are steadily improving, a full operational assessment will identify the strengths, weaknesses, threats, and opportunities that are impacting recruitment and retention of members and program participants. Since City staff do not have the depth of expertise in this level of analysis, the decision was made to hire a qualified firm to complete the task.

A Request for Proposals was developed and posted through procurenw.gov. Three national firms responded to the request and staff interviewed the top two firms. Sports Facilities Companies (SFC) was selected and awarded the contract. SFC has a strong team including experts in fitness and sports facility management, recreation program development, community engagement, strategic planning, financial analysis, marketing strategy, brand development, and aquatics optimization. SFC has the depth and breadth of expertise needed for the scope of work required.

Sports Center Trends and Needs

Staff anticipated a slow rebuild assuming many members would be reluctant to return, or had developed new fitness routines, and therefore made every effort to minimize expenses in the first year of re-opening. To adapt to this new normal, significant operational changes were implemented. The Physical Therapy program was discontinued. Towel service, food service, and baby-sitting service were temporarily suspended. Hours of operation were reduced.

Additionally, only high-demand programs were offered. In the area of group exercise, this included yoga and HIIT (high-intensity interval training) which are trending up, as well as adding technology and leaderboards to the indoor cycling program. Aquatics focused on swim lessons for the highest-risk populations (5 and under) and pivoted to more private lessons than group lessons. Indoor sports also pivoted and offered smaller group clinics as opposed to large-scale leagues.

Outdated equipment was traded in and new Cybex treadmills and Stages bikes were purchased prior to reopening. All equipment was reconfigured to create more space, improve traffic, and elevate the customer experience.

Staff also developed strategic digital and print marketing to advertise the 30th Anniversary promotions on June 1, 2022. The one-day only promotion resulted in 445 memberships (95% of whom were new members) and \$24,931 in revenue. Since staff started publicly talking about the challenges we experience, the Sports Center has been experiencing a mini-boom in sales. April, May, and June revenue is 52% higher than the previous fiscal year.

The operational and programmatic changes have been very successful and resulted in revenue exceeding 147% of even mid-year budget projections. As of the writing of this report, staff expect to exceed revenue projections by approximately \$800,000.

Operational Analysis

SFC will lead the operational assessment to help refine the vision, define success, and create a plan that best meets the community's needs. Throughout the process, the SFC will incorporate real-world, real-time insights and best practices. The assessment and analysis are expected to take 16 weeks to complete.

Phase I: Strategic Planning

Existing Data Review and Market Analysis

This stage develops an understanding of the current fitness, aquatics, and sports spaces. The Project Team will review existing financials, detail of programs, performance/margins, existing marketing action plan/strategies, organizational and compensation structure, and review of existing contracts/agreements. In addition to reviewing Sports Center data, the Project Team will conduct local market research to further understand local opportunities and constraints to include analysis of demographic factors like population and density, income and spending, growth trends, etc. Additionally, the Team will conduct focused market-specific health/wellness, sports and recreation factors such as participation trends, analysis of existing service providers, and a review of local organizations.

Facility Visit, Strategic Planning Session and Department Interviews

Select members of the Project Team will physically tour the Monterey Sports Center to facilitate strategic meetings with facility leadership and facility staff. The meetings will encompass discussions related to existing financial projections, project goals, and plans for site development and renovation, as well as topics such as the business model, the program plan, design/space considerations, alliances with sports and other user groups, utilization, funding/financing, competition analysis and market share, management and staffing plan, and much more.

The Project team will also work with Sports Center staff to identify existing users and analyze utilization rates from pre-existing usage information. The team will review programming and booking schedules for the facility and activity areas, analysis of foot traffic and capture rates, assessment of fees/charges, and review of applicable trends or variations in users and utilization rates for the most recent five (5) years.

Member and Community Online Survey

The Project Team will develop and deploy an online community survey. The survey will focus on current users, past users, and non-users in order to obtain opinions and data related to:

- Past facility use
- Perceptions of the Sports Center as well as other existing facilities in the market
- Likelihood of participating in existing and new offerings
- Reasons for not using the Sports Center
- Facility amenity requirements and/or preferences
- Pricing insights and opinions in the areas
- Desired programs, classes, membership options and other community functions

Detailed Optimization Report, Operational Findings, and Recommendations

To culminate the stage of work/analysis, the Project Team will deliver an executive summary-level narrative report that includes insight into the historic performance of the facility, the financial opportunity and reality based on data findings. It will also cover the recommendations based on the evaluation of the asset, an identification of challenges, and an outline of recommended next steps for either short-term or long-term planning including finding and recommendations from the following areas:

- Organizational Development
- Business Development
- Operational Processes & Systems
- Programming Review
- Financial Performance
- Physical Complex/Facility

Phase II: Optimization and Financial Recommendations

Detailed Financial Forecast (Pro Forma)

Based on the recommendations made in Phase I, the Project Team will complete more in-depth research/analysis to produce a 5-year cash flow forecast and 20-year financial outlook. The pro forma documents are detailed, institutional-grade financial forecasts used to better understand Return on Investment and support decision making and financing.

The pro forma will provide detailed financial projections related to and based on:

- Ideal Business Model
- Realistic and/or recommended debt-to-equity mix and debt service
- Right-sized program spaces and space requirements
- Renovation costs based on recent, comparable projects
- Recommended parking
- Revenue product/program
- Direct/variable costs (cost of goods sold)
- Facility and operating expenses
- Management and staffing model
- Utilization projections
- Visitation and economic impact projections

Detailed Optimization Timeline

The Project Team will complete a detailed development timeline documenting the strategies and tactical action steps to be taken to develop the operation and see it to its optimal operational success. The Optimization Timeline provides a foundation for important decisions related to the strategic direction of the project and represents the detailed action items and strategies required to achieve the financial forecast produced in Phase I.

Conclusion

Staff is confident that SFC is an ideal match for this operational assessment. With the combined expertise of City staff and the SFC Project Team, this arrangement will help the City, specifically the Sports Center, forge the path forward and develop the foundation of an equitable, accessible, safe, economically viable, and sustainable plan for the Monterey Sports Center to serve Montereyans and the community for many years to come.

KL/aw

Writings distributed for discussion or consideration on this matter within 72 hours prior to the meeting, pursuant to Government Code § 54957.5, will be made available at the following link: <https://monterey.org/Submitted-Comments>