

Municipal Athletic Complex Operating Budget: Sources and Uses

SITUATION

- The MAC is operated predominantly with user fees and other earned income – approximately 96%.
- The MAC originally was significantly subsidized, first with federal revenue-sharing funds, then with property tax funds. That practice ended in 2003; since then there has been a small subsidy from the Hotel/Motel tax. In 2016, the subsidy will amount to about 4% of the operating budget.
- The City has broad authority for the allocation of existing Hotel/Motel taxes. MAC staff spend significant time soliciting and overseeing tournaments that fill hotel rooms in the community.
- An increase in the Hotel/Motel tax would require Legislative approval.
- MAC management has done a commendable job of operating within its means, but is short one full-time position, in management’s opinion. The facility has been dependent on part-time labor for many years; the recent increases in minimum wage rates strained the operating budgets.
- While the MAC operating budget as a whole is in balance, the baseball and golf operations tend to lose money and the ice arena tends to generate a surplus.
- Addressing deferred maintenance issues would help the operating budget by reducing time and money spent on repairing outdated equipment.
- Making capital improvements, such as a training facility or artificial turf would create opportunity for earned revenue growth.

Municipal Athletic Complex Capital Needs: Sources and Uses

SITUATION

The MAC has both maintenance needs and upgrade opportunities. The maintenance needs must be addressed. The City has the opportunity to leverage its capital investments to upgrade the MAC and increase its value as a critical amenity and economic development engine.

SOURCES

The Food and Beverage Tax Fund (F&B Fund) is derived from Legislatively-authorized taxes on the hospitality industry, as follows:

St. Cloud imposes a **1 percent** tax on liquor and food sold at restaurants and “places of refreshment” located within the city limits. The liquor tax applies to retail *on-sales* of alcoholic beverages, including wine and 3.2 beer, sold at licensed on-sale liquor establishments in St. Cloud such as bars, hotels, motels, restaurants, and clubs. The food tax applies to food and beverages (not subject to liquor tax) sold by restaurants, coffee shops, snack bars, or any other “place of refreshment” in St. Cloud.

Future Sales Tax Fund is derived from a Legislatively-authorized one-half percent local option sales tax, pursuant to a vote of the people in 2014. The electorate voted to extend the existing tax for the period beginning January 1, 2019 and ending no later than December 31, 2038 for a number of specific purposes. One purpose was an allocation of 20% of the taxes generated to Regional Community Centers.

Restrictions

The uses of these funds are restricted by law and governed by existing policy.

State law restricts the use of F&B funds to the River's Edge Convention Center and "related facilities", defined as the Municipal Athletic Complex (MAC) and the Paramount Theatre and Visual Arts Center. Our City policy has been to restrict these funds to the capital needs of the three facilities. The three facilities are intended to pay for their *operations* primarily with earned revenues, but depend on the F&B Fund to cover *capital needs*. The three facilities have varied degrees of success in meeting their operational goals and the F&B Fund is not currently adequate to meet capital needs. In the past, the City has not used General Obligation debt to make improvements in these facilities.

The ballot question that authorized the sales tax extension allocated 20% to "Regional Community Centers such as the Municipal Athletic Complex, River's Edge Convention Center, Paramount Theater and Arts Facility and Whitney Senior Center."

Obligations

Annual receipts into the F&B Fund are approximately \$1.5 million, with regular growth, and some interest earnings. The Finance Department maintains a projection model that has been quite accurate. There are currently four payment streams coming from the Fund:

- MAC 1998 Expansion debt [2016 amount: \$396, 480; last payment: 2017]
- Paramount 1998 Renovation debt [2016 amount: \$306,974; last payment: 2022]
- MAC 2008 Geo-thermal debt [2016 amount: \$86,867; last payment: 2023]
- River's Edge Expansion debt [2016 amount: \$707,987; last payment: 2036. This debt is not on a level-payment schedule; the annual amounts increase over the life of the debt, exceeding \$1.5 million by 2024]

The F&B Fund is the capital reserve for the three facilities and it is prudent to maintain a significant reserve in order to be able to respond to emergencies. The combined replacement cost of the three facilities is \$67.7 million; the combined annual operating budgets are approximately \$6 million. Administration feels that a reserve of \$1.8 million would be prudent, though we are currently somewhat below that level.

Some minimal capital expenditures are necessary and Administration budgeted for \$50,000 in distribution from the F&B Fund in 2016: \$25,000 each to the MAC and the Paramount. The Convention Center is able to generate a comparable amount from its operations.

The following projection of available funding is based on the Finance Department's revenue projections, the existing debt schedule, and projected distributions:

Capital Needs and Projected Funds

There are three MAC projects in the current CIP process:

- MAC Asset Protection (\$2.5 million)
- MAC Locker Room and Training Area (\$4.7 million)
- MAC Baseball Improvements (\$3.0 million)

These projects total \$10.2 million. In addition, the River's Edge Convention Center has capital projects totaling \$5.8 million, and the Paramount has capital projects of \$1.5 million. A significant portion of this money should be expended in the next five years, stretching the capacity of the City.

During the period 2017-2021, the projected funds available from the F&B Fund plus the community facility portion of the sales tax are projected to be \$4.0 million; during the subsequent 5 years (2022-2026) another \$8.3 million, for a total of \$12.3.

OPPORTUNITY

Thoughtful investment of City resources in the MAC can accomplish twin purposes – addressing the deferred maintenance issues that have accumulated during the period of economic recession and leverage investment by others. A bigger project can attract community and corporate support in a way that making routine repairs cannot.

Sources to consider, in addition to the existing sources noted above:

- Food and Beverage tax increase The Food and Beverage Fund has long-term commitments that limit the funds available for upgrades. Legislative authorization of any increase would be necessary.
- Grant funds The State of Minnesota's Mighty Ducks grant program changes from time to time, but may be a partial solution to arena air quality improvements. The program requires City matching expenditures. Other grants programs may also assist with some improvements.
- Issuance of debt Borrowing against future tax receipts incurs interest costs, but also allows a bigger scale project that boosts community interest.
- User funding The City is fortunate to have active user groups that are interested in helping to fund facility improvements that enhance their programming.
- State bonding Other Minnesota cities have secured State bonding support for athletic facilities. The MAC is a facility of regional and state-wide significance as a tournament facility; we can make a strong case for State support.
- Solar installations The arena roof has potential as a solar installation that could be part of a finance package. Unfortunately the roof – part of which is 33 years old – must be replaced first.
- Naming rights and other corporate sponsorship There is a potential for the sale of naming rights for an expanded or significantly improved facility. The proposed arena training facility is the best example at the MAC. The City must address maintenance and repair issues before, or as part of a major expansion.