6.1 FINANCIAL ANALYSIS – RECREATION

Objectives

The objective of the financial analysis is to model the financial performance of an expansion to the PE Building for a new recreation center as well as renovations to the PE Building. The model projects operating revenues, expenses, and the needed Recreation Fee per student for operations. Furthermore, it projects the student fees necessary to support the debt service through the Student Building Fee.

Methodology

The project programs, development budgets and income statements are inputs within the model, thereby allowing any changes in assumptions within one of these components to automatically force a corresponding adjustment throughout the model. This approach maintains internal consistency and mitigates the need to undergo difficult project scope and cost reconciliation during the design process. B&D’s use of conservative assumptions throughout the analysis allows the University to proceed with the knowledge that detail-related decisions can be made within the established financial parameters without compromising the projects’ scope or quality. Due to variations in national and global economic and legal conditions, actual project costs, revenues and demand projections may vary and these variations could be substantial.

The assumptions within the financial model were determined in consultation with the Project Committee as a standalone operation opening fall 2015. The financial model can be found in Section 6.3.

Summary of Findings

Revenues

Two sources of fee revenues are calculated within the model to support both the operations of the recreation center as well as retire the debt service. Both fees are based on head count by credit hours taken. No increases in existing fees are required until the expansion opens. The base full-time Recreation Fee is $80 per semester, including summer term. The base full-time Student Building Fee is $180 per semester, including summer term. These fees apply the same to both main campus and COT students. The Recreation Fee is projected to escalate 3% annually.

Student headcounts in the model were provided by the University for the 2009/2010 academic year for both the main campus and COT, and no enrollment growth is factored in. Fall headcounts are 3,365 for the main campus and 1,406 for the College of Technology. Based on these assumptions, $780,000 in fee collection is projected in year 1.
Additional revenues comprise income from the following activities: special classes, recreation memberships, rentals/leases, and vending. Outside memberships to the facility for faculty and staff or alumni, skill classes, day passes, etc. is projected at $20,000 in year 1.

**Expenses**

Personnel expenses comprise salaries and wages of professional staff required to operate the new facility including existing staff positions. In addition, fringe benefits are included for the professional staff at 30% of salaries. Salaries within the model are based on NIRSA standards and escalated for inflation. The model includes salaries and benefits for six full-time staff positions including:

- A Director,
- An Assistant Director,
- An Associate Director,
- Two Program Coordinators, and
- A Custodian / Maintenance Employee.

B&D also provided an allowance for additional student and part-time staff positions that would be created as a result of the proposed new development. Over $319,000 is allocated for part-time student staff.

The pro forma assumes that the facility will cover all its non-personnel operating expenses. These include the following categories:

- Management, administrative, and maintenance,
- Sports equipment maintenance and repairs,
- Utilities,
- Building maintenance and repairs,
- Custodial supplies,
- Service contracts,
- Insurance, and
- Miscellaneous expenses.

All expenses are increased 3% annually.

**Capital Costs**

Based on an A&E Architects provided estimated cost of construction per square foot of $200 in today’s dollars (inclusive of demolition, site clearance, and site infrastructure), and escalated to the midpoint of construction, the construction cost for the project stands approximately at $7.5 million for new construction. Renovation costs to the PE Building are budgeted at $4.2 million.
FF&E costs are budgeted at $1.1 million. Additional soft costs are included in the budget at $3.7 million. Including all these costs, the total project budget totals $16.7 million.

Debt Service

It is assumed that the project will be debt financed. B&D projected a 30 year bond with an interest rate of 6.5% to generate an annual debt service of $1.4 million. It is estimated that a target debt coverage ratio for the student center would be 1.20:1.0. The Student Building Fee revenue provides sufficient revenue to meet the debt coverage ratio above, except in year 1 when the debt coverage ratio is 1.11:1.0.