

HERSHEY COMMUNITY CENTER | DERRY TOWNSHIP, PA

Professional Opinion Report

MARCH 2019



PREPARED FOR:

DERRY TOWNSHIP

EXECUTIVE SUMMARY

Sports Facilities Advisory, LLC (SFA) has produced this Professional Recommendations Report to provide the Township of Derry with key feedback, insights, and recommendations related to the plan, design, and budget for the Hershey Community Center (HCC).

In order to understand the goals and desired outcomes for the HCC, SFA worked with the HCC project team to define short-term and long-term success factors for the new facility. Resulting from SFA's facilitative process, the project team identified that in order to be considered successful, the HCC must be:

- Accessible
- Additive
- Essential
- Multifunctional
- Multigenerational
- Sustainable

Within the Report that follows, SFA has provided a detailed assessment of dozens of factors across four primary topics outlined in the scope of work. The three most important findings/recommendations by topic are:

- Market Factors
 - There are several positive market factors that justify the design of the HCC and point to the opportunity for the HCC to achieve its goals.
 - The previous work identifies many but not all key market factors, and it is unclear as to how the financial forecast and business plan integrates market factors into the operating model and pro forma.
 - The Township's decision to enter into or avoid direct competition with existing fitness service providers will dictate the market opportunity and will dramatically impact which market factors are most important in achieving success.
- The Operating Model
 - The operating model is currently reflective of the decision to enter into direct competition with existing fitness service providers and charge full fair market rates for memberships and programs.
 - The Township must decide between four membership models: private facility membership, multi-location/partnership membership, aquatics-only membership, and day passes only. SFA recommends that the Township only considers the first two of those options.
 - Each of the membership model options has strengths and weaknesses, and the Township should evaluate each option based on revenue potential, number of people served, ease of administration, community support, risk mitigation, and operational flexibility.
- The Facility Program/Design
 - The HCC has been designed based on the requirements of the programs and services that will be offered; this program-driven design process will be a key factor in the ability of the HCC to achieve its goals.
 - SFA has recommended four potentially unaddressed operational practices based on the facility program/design: create offsetting schedules for pools, limit ingress and egress, limit access to locker rooms and restrooms, and create a plan to offer concessions during times when the concessions tenant is not operating.

- SFA has identified three potentially unaddressed build-out recommendations based on the facility program/design: insulate the upstairs fitness center from the downstairs senior center and multipurpose rooms, add equipment to maximize court flexibility, and find spaces to incorporate the “fun factor.”
- Financial Performance Expectations
 - The revenue projections in the current pro forma are potentially overstated based primarily on a higher-than-expected capture rate and a membership model that reflects fees at the very high end of what the Township is likely to approve.
 - The staff structure and budget for staff salaries, taxes, and benefits in the current pro forma are both too robust, particularly if the revenue is overstated and sustainability is a primary goal.
 - Other expense projections in the current pro forma are potentially understated based on a split salary for the director, low taxes and benefits for part-time staff, and potentially very low operations and maintenance allocations.

Ultimately, SFA recommends that the Township quickly finalizes its decision related to entering into or avoiding direct competition with existing fitness service providers, then completes the following six steps:

1. Conduct a more thorough assessment of competitors/existing service providers to understand pricing, price sensitivity, schedules, services, membership benefits, etc.
2. Create a financial forecast that reflects the desired membership model for the HCC (if it is different from the current model).
3. Engage in discussions with existing service providers to either discuss goals for partnerships or set expectations for competition.
 - a. Note: if the HCC is going to enter into direct competition, the Township may elect to eliminate this step.
4. Adjust the financial forecast to reflect the impact of partnership terms or a competitive approach.
5. Gain support and buy-in from key Township stakeholders.
6. Initiate a communication, education, and expectation setting plan to make the community aware of the approach and operating model for the HCC.

INTRODUCTION

In December of 2018, Sports Facilities Advisory, LLC (SFA) was engaged by the Township of Derry, PA to review the design, operating plan, and budget for an estimated \$32 million multipurpose facility to be developed at the current site of the Hershey Recreation Center. The new facility, which will be called the Hershey Community Center (HCC), will feature a 50-meter competitive swimming pool, an indoor recreation pool, an outdoor leisure pool, a fitness center, group exercise rooms, a child watch area, a full-sized gymnasium, meeting rooms, multipurpose arts and activity rooms, a commercial kitchen, concessions areas, and more. Additionally, the HCC will be the site of a new senior center catering to the recreation needs of the area's older adult population.

The HCC is intended to create a unique, active, multipurpose, multigenerational destination that will serve the sports, recreation, and fitness needs of the community for decades to come. It will create a vibrant hub for residents to gather and interact as well as a premier aquatics destination for visitors to play, swim, and compete in water-based activities and events.

In order to achieve those short-term and long-range intended outcomes, the HCC will have to be planned and operated utilizing the best practices for sports and recreation facility development and management. The intent of this Professional Recommendations Report is to build on the planning work that has already been completed for the HCC and to provide key insights and recommendations that help to improve the plan.

Scope of Work

SFA's agreement includes two phases of work, the first of which culminates with this Professional Recommendations Report and the second of which, if engaged, will culminate in the development of a new detailed financial forecast (pro forma) that is reflective of the elements from this Report that are adopted by the Township.

To complete Phase I, SFA engaged in the following steps:

- Step 1: Project Kick-Off Call
- Step 2: Existing Data Review and Market Analysis
- Step 3: Development Planning and Strategy Session
- Step 4: Professional Recommendations Report

Definitions of Success

As a critical step to creating a prosperous path forward for the HCC, SFA worked directly with the HCC project team to define success. While it is not always possible for all desired definitions of success to be accomplished in full and simultaneously, the comprehensive set of definitions of success serve to set the parameters for facility planning, development, and operating decisions.

Through SFA's facilitative process, the HCC project team determined that in order to be successful the facility must strive to be:

- **Accessible**, creating a hub for meaningful engagement regardless of skill level or ability to pay; executing on an operating plan and offering a schedule that maximizes residents' access to the HCC
- **Additive**, providing assets and programs that significantly "add to" and minimally "compete with" the assets and programs already being offered to residents by existing local service providers

- **Essential**, creating a destination so integral to residents' daily life that the community could not imagine the community without the HCC; creating an environment in which residents take ownership by providing input and interacting with the facility operators
- **Multifunctional**, catering to a wide variety of activities, interests, and pursuits for the entire community
- **Multigenerational**, expanding recreation options for people from every age group
- **Sustainable**, achieving a financial performance threshold that improves on the bottom-line performance of the existing Hershey Recreation Center and comes as close to cost-neutral as possible

It must be restated that those definitions of success do not necessarily exist in harmony with one another. In fact, some of those desired outcomes directly oppose one another, such as being available to everyone regardless of ability to pay and coming as close to cost-neutral as possible. That said, SFA recommends finalizing and memorializing the definitions of success for the HCC as a way to maintain perspective and make decisions in the future.

Components of the Professional Recommendations Report

The foundation of this Professional Recommendations Report is based on a variety of sources, including but not limited to a Ballard*King & Associates market analysis, a Ballard*King & Associates operations analysis, a Derry-created preliminary business plan, a Derry-approved pro forma, and a variety of facility design documents.

This Report reflects an in-depth review of all of those documents, incorporates a variety of additional factors related to independent research, project team member interactions/input, and SFA's real-world operations experience, and includes a detailed set of reactions, insights, and recommendations related to:

- Market Factors
- The Operating Model
- The Facility Program/Design
- Financial Performance Expectations
- Conclusion and Next Steps

While this Professional Recommendations Report cannot address every individual factor and topic for consideration, it is intended to identify the key points to be addressed in order to assist in creating the most successful path forward for the HCC.

ABOUT SFA



Since 2003, The Sports Facilities Advisory (SFA) has represented a portfolio of more than \$10 billion in planned and operational sports, recreation, wellness, and entertainment facilities for more than 2,000 communities around the world.

Our mission is to improve the health and economic vitality of the communities we serve. We are deeply committed to improving access to sport for all and to helping our clients develop models for programming and financing that are socially and fiscally productive. We are advisors, partners, financial modeling experts, and facility operations professionals.

Our team of experts, network of partners, and spheres of influence are unparalleled within the industry. We have helped shape outcomes for millions of people through our planning and funding services, and along the way have created an extensive system of industry alliances, preferred vendors, funding partners, and national organizations that allows us to elevate SFA projects onto a national stage.

Additionally, SFA has access to current, real-world operational data through Sports Facilities Management, LLC (SFM), the country's leading youth and amateur sports and recreation facility management company. This gives SFA real-time access to data on construction and start-up costs, program and sales trends, operating systems, revenue generation opportunities, and expense containment strategies, making our financial forecasts the most credible and reliable planning and financing resources in the industry.

Clients that engage SFA throughout each stage of planning and funding recognize seven primary benefits:

1. **Unmatched credibility and reliability** for all required planning and funding support documents
2. **Improved probability of project financing** based on the modeling of customized, right-sized facilities with analyses backed by key performance indicators and national benchmarks
3. **Increased political and community support** through the engagement of key stakeholders and decision-makers throughout the planning and funding processes
4. **Progression through a proven, successful funding system** that gets the right projects financed with the right partners under the most beneficial terms and conditions
5. **Integration into an expansive network** of partners, vendors, funding sources, and national organizations
6. **Reduced risk** throughout the future development and operating phases based on the creation of program-driven facility plans and the modeling of best practices for long-term, sustainable operations
7. **Enhanced long-term impact** through facilities, programs, and services that positively influence the economic, physical, and social health of the community

We know the importance of sport: it improves outcomes for children, strengthens families, and creates healthier communities. As your advisors and partners, we are committed to developing the plan that gives you the most likely path forward and we can work with you to execute that plan.

HCC MARKET FACTORS

A thorough assessment and understanding of key market factors must be at the center of all sports and recreation facility plans, designs, operating models, and financial projections. When SFA develops a comprehensive opportunity analysis, recommends a facility program, develops a business model/operating plan, and creates a detailed financial forecast, market factors set the foundation for every decision and recommendation.

While SFA did not create the facility program/design, operating plan, or financial forecast for the HCC, we are able to contrast our processes with the work that has been performed to develop a set of insights and professional recommendations for improving on the plan and/or identify a set of action steps that should be taken.

Key Points of Consideration Related to Market Factors

SFA's full analytical process includes an eight-step, 68-factor assessment for each activity that will be offered at a new facility. Of those steps and factors, more than 70 percent of the analysis is directly tied to market factors that fit into the categories of:

- Market Size
- Demographic and Socioeconomic Characteristics of Potential Customers
- Activity Participation Rates
- Competitors/Existing Service Providers
- Growth or Decline in the Potential Customer Base

How the Current Plan Addresses and Utilizes Market Factors

Based on SFA's review of the existing data, the current plan identifies some but not all of the critical market factors that SFA recommends analyzing. Additionally, the plan does not appear to fully utilize those factors as drivers to the financial forecast.

At a high level, each of the categories above are addressed in the current plan in the following ways:

- Market size
 - The market size is defined based on municipal boundaries with a primary market of 26,511 households and a secondary market of 83,921 households.
- Demographic and socioeconomic characteristics of potential customers
 - The demographic and socioeconomic characteristics of potential customers are detailed in the Ballard*King & Associates market analysis, though how they are integrated into the financial forecast and what impact they have on the model is unclear.
 - Based on the capture rates for pass holders (stated as 8 percent of the primary market and 0.35 percent of the secondary market), it does not appear that demographic and socioeconomic factors play a primary role in determining the number of pass holders.
 - Based on projected registrations for programs – which are nearly identical across all activities – it does not appear that demographic and socioeconomic factors play a primary role in determining the number of program participants.
- Growth or decline in the potential customer base
 - The existing financial forecast demonstrates projections for a single year (year two) of operations, which negates all factors related to growth or decline in market size, activity participation rates, etc.

- This topic is detailed further in the Operating Model section of this Report but suffice it to say the forecast needs to detail at least a five-year operating model in order for the Township and HCC to properly plan for operational needs and budgetary requirements during pre-opening, post-opening ramp-up, stabilization, and maturation periods.
- Activity participation rates
 - Similar to demographic and socioeconomic characteristics, sports participation rates are detailed in the Ballard*King & Associates market analysis, though how they are integrated into the financial forecast and what impact they have on model is unclear.
 - For example, the Ballard*King & Associates market analysis reports that 8.3 percent of the population participates in basketball while only 3.8 percent of the population participates in volleyball, but both activities are projected to yield 20 participants for each camp and clinic offered.
 - SFA recognizes that there are other factors determining the number of participants, and it is possible that the forecast analyzes and applies those factors in ways that are not explicitly evident.
- Competitors/existing service providers
 - The Ballard*King & Associates market analysis identifies and profiles the programs and facilities in the market, though the impact they have on model is unclear.
 - Importantly, the plan must be reflective of several factors that are influenced heavily by competitors/existing service providers, including membership and programming options, schedule, pricing, etc.
 - Most importantly, SFA's interactions with the project team make it evident that the Township has not finalized the model it wants to operate under with regards to competing with existing service providers. This topic is detailed further in the Operating Model section of this Report but suffice it to say the model the Township/HCC chooses will dramatically impact the importance of competition and could result in adjustments to the financial forecast.

Insights and Professional Recommendations

Market Size, Demographic and Socioeconomic Characteristics, and Growth or Decline in the Potential Customer Base

To gain a preliminary understanding of the market factors that will influence the opportunities for the HCC to achieve its current projections, SFA conducted an in-depth analysis of the market size, demographic and socioeconomic characteristics, and growth or decline in the potential customer base of the local and sub-regional market. The goal of this portion of the analysis is to determine the key characteristics of the most regular users of the HCC.

The table on the following page shows some of the key demographic factors SFA uses in analyzing the utilization of facilities by the local population and sub-regional population. While these statistics do not serve as strict predictors of a facility's opportunity to meet its objectives, SFA has developed a proprietary analytical process that considers these factors and several others as part of the financial forecast, sports participation projections, and other analyses which will be critical if SFA is engaged for Phase II.

Category	10 minutes	15 minutes	30 minutes	60 minutes
Population – Number of People	40,103	77,849	497,324	1,759,930
Population – Number of Households	16,179	30,994	201,110	684,522
Median Age (U.S. Avg.: 38)	40.2	42.6	41.1	41.3
Median HH Income (U.S. Avg.: \$56,000)	\$67,975	\$72,436	\$60,114	\$61,496
% Above/Below Adjusted Cost of Living (Index: 108.0)	12%	20%	-1%	2%
Growth Projections – Next 5 Years	3.20%	3.40%	3.05%	3.00%
Spending (Rec. Lessons)	\$155	\$161	\$127	\$130

Sources: ESRI ArcGIS

As the chart demonstrates, SFA utilizes a drive-time analysis to determine the potential trade areas as opposed to using municipal boundaries. The reason for SFA’s assessment based on drive times is that sports, recreation, and wellness participants commonly consider the time it takes to get to and from a facility as a more influential determinant of purchasing decisions than the distance (in miles) or the address (i.e. municipal boundaries) of the facility.

While the chart above outlines demographic and socioeconomic factors across four drive times, a full SFA financial forecast analyzes 11 different drive times. Importantly, different activities – both in terms of general type (e.g. swimming for fitness vs. participating in a basketball league) and in terms of intensity (e.g. recreational volleyball vs. competitive/traveling volleyball) – have different trade areas. As such, a reliable and credible financial forecast should incorporate market factors from the drive times that are most influential for each individual activity.

Market Size, Demographic and Socioeconomic Characteristics, and Growth or Decline in the Potential Customer Base Insights and Recommendations

The following insights add context to the data above and are based on SFA’s experience in the planning, opening, and management of successful sports and recreation facilities. While none of the insights below can fully predict the success of the HCC, the information below—along with a much larger set of data and research that SFA analyzes as part of its full analytical process—assists in determining the market opportunity and creating a detailed financial forecast.

- Population/Market Size:** The local (up to 30-minute drive time) and sub-regional (up to 60-minute drive time) markets both meet important density thresholds for population size based on SFA’s experience. With a local population of roughly 500,000 people, the local market is considered dense and primarily suburban. With a sub-regional population of over 1.75 million, the sub-regional market is considered dense with a mix of suburban and urban population bases.

As demonstrated, population size should also be measured by the number of households within the drive times. While the population thresholds for individuals and households almost always correspond, there are different purchasing behaviors for different products

and services. Notably, in most cases participants in a sports league or recreation activity register as an individual or as part of a team, but each player pays their own fees. On the other hand, fitness-based memberships are most commonly offered for individuals or at discounted rates for multiple members in the same household (e.g. a husband and wife who both want to be members of the same fitness club can usually purchase a couple's membership at a discounted rate compared to purchasing two individual adult memberships).

SFA considers the dense population size to be positive factors for the performance of the HCC and recommends that population size based on drive times, individuals, and households are used as factors in the development of a comprehensive five-year financial forecast.

- **Population Growth:** The population is expected to increase in the immediate areas and all drive time intervals until at least the year 2022, with estimates of 3.0 percent to 3.4 percent growth in all local and sub-regional drive time intervals. This is near the national population five-year growth rate, and given that the trade areas already meet key thresholds for density SFA views this level of growth as a positive factor for performance.
- **Age:** The median age within all local and sub-regional drive time intervals vary from 40.2 to 42.6, which is markedly higher than the national average of approximately 38. Based on the goal of the facility to be programmed and utilized as a multifunctional and multigenerational community asset, the design and addition of assets and spaces that cater to activities for people of all ages, and the integration of the senior center as a tenant and user of shared spaces within the main facility, SFA believes the operating plan and design of the facility is well suited to the population.
- **Median Household Income:** The median household income levels in the immediate trade area (up to a 15-minute drive time) are significantly higher than the national average of approximately \$56,000. When adjusted for the cost of living, the median household income in the local trade area is up to 20 percent higher than the national average, indicating that the local trade area has up to 20 percent more disposable income than the average community.

As expected in a sub-regional market with both rural and urban population bases, household income normalizes beyond the 15-minute drive time and is generally in line with the national average.

While SFA considers the median household income of the immediate trade area as a positive factor for performance and the median household income of full local and sub-regional markets as a neutral factor, it must be noted that there is a distinct difference between disposable income and willingness to spend on memberships, programs, and activities. As such, SFA recommends the HCC finalizes its pricing structure and begins the process of communicating, educating, and setting expectations for the community as soon as possible.

- **Spending on Recreation Lessons:** Related to the distinction between ability to pay and willingness to pay, one of several factors SFA uses in a full analysis is spending on recreation lessons. Based on the location, socioeconomic factors, and other communities SFA has served, it would be expected the spending on recreation lessons would be approximately \$120. In the immediate trade area, spending on recreation lessons is up to \$161, which SFA views as a positive factor for performance and an

indicator that the community is willing and able to pay for high-quality programming and services.

Overall, the market size, demographic and socioeconomic characteristics, and growth in the potential customer base all support the facility design and operating plan for the HCC. That said, it is unclear as to whether or not the current pro forma appropriately and accurately applies these factors in the financial forecast, and there are some significant assumptions in the forecast that do not appear to use both these factors and real-world operational insights to create the projections. There is more detail on that point in the Financial Performance Expectations section of this Report.

Activity Participation Rates

To gain an understanding of the potential users of the HCC, SFA analyzed participation rates for both sports/recreation and fitness programs. Unlike the information in the Ballard*King & Associates market analysis, SFA utilizes a proprietary analysis that focuses on core participation rates as opposed to general participation rates. The difference between core and general participation is the frequency with which participants engage in the activity; by focusing only on core participation, SFA is able to assess the number of potential participants who would engage regularly enough to register for and/or pay for a program, as opposed to counting all participants (including casual participants), many of whom do not engage frequently enough to register for and/or pay for a program.

The table below shows SFA's projection of core sports/recreation participants by activity within the 15-minute, 30-minute, and 60-minute drive time radii. In a full analysis, SFA would use this information to determine the number of participants for each type and intensity of activity. The highlighted activities are those that could be accommodated on a regular basis at the HCC; the other sports/recreation activities have been included to provide context to participation rates across a wide spectrum of activities.

Potential Participants by Traditional Sport (Sample)				
Sport	Core Participation	Local Participants (15 Minutes)	Local Participants (30 Minutes)	Sub-Regional Participants (60 Minutes)
Basketball	4.85%	3,772	24,100	85,284
Swimming	4.17%	3,250	20,762	73,472
Tennis	3.58%	2,789	17,816	63,046
Soccer	3.08%	2,396	15,307	54,167
Baseball	2.77%	2,159	13,795	48,818
Volleyball	2.46%	1,913	12,219	43,240
Softball	2.12%	1,650	10,542	37,307
Ice/Figure Skating	1.43%	1,115	7,121	25,201
Football	1.41%	1,099	7,018	24,835
Gymnastics	1.20%	932	5,953	21,066
Flag Football	0.96%	746	4,768	16,874
Pickleball	1.05%	817	5,221	18,477
Futsal	0.92%	715	4,569	16,170
Ice Hockey	0.84%	653	4,171	14,761
Track & Field	0.71%	555	3,549	12,558
Cheerleading	0.59%	458	2,923	10,344
Lacrosse	0.47%	369	2,356	8,337
Wrestling	0.45%	352	2,250	7,963
Swim Team	0.45%	350	2,239	7,923
Field Hockey	0.23%	183	1,167	4,130

Sources: SFA, National Sporting Goods Association, Sports & Fitness Industry Association

In addition to sports/recreation activities, SFA has analyzed participation rates for fitness programming. The table below shows SFA's projection of core fitness participants by activity within the 10-minute and 15-minute drive time radii. The difference in drive-time radii between sports/recreation and fitness is a key distinction that must be understood and integrated into a full, detailed operating plan – in general, people will travel no more than 15 minutes on a regular basis to get to their primary fitness center, whereas they will drive 30 minutes or more to get to a sports/recreation destination on a regular basis.

Potential Fitness Activity Participants		
Fitness Activity	10-min. Participants	15-min. Participants
Walking for Fitness	10,146	19,697
Free Weights (Dumbbells)	4,483	8,703
Treadmill	3,834	7,443
Running/Jogging	3,598	6,985
Weight/Resistance Machines	2,930	5,687
Stationary Cycling Upright	2,364	4,590
Free Weights (Barbells)	2,228	4,326
Elliptical Motion Trainer	2,209	4,287
Bodyweight Exercise/Training	1,930	3,747
Yoga	1,465	2,844
High Intensity Training	1,260	2,445
Swimming for Fitness	1,185	2,300
Choreographed Exercise to Music	1,042	2,022
Cross-Training Style Workouts	905	1,757
Stair Climbing Machine	732	1,421
Kettlebells	677	1,313
Stationary Cycling (Group)	455	884
Pilates Training	450	874
Aquatic Exercise	435	845
Barre	363	705
Cardio Kickboxing	272	528
Boot Camp Style Training	271	526

Source: SFA, National Sporting Goods Association, Sports & Fitness Industry Association

Activity Participation Rates Insights and Recommendations

Based on the data above and based on SFA's experience in planning, developing, and managing youth and amateur sports/recreation/wellness facilities, SFA has the following core insights and recommendations related to and based on activity participation rates:

- Swimming for recreation and fitness are much higher volume programs in terms of number of participants than competitive swimming, but often competitive swimming gets a disproportionately high amount of focus and time in a facility.
 - While this may be acceptable and planned for, widespread community engagement and use should be considered when developing schedules for the natatoriums.
 - That said, the 50-meter pool provides a unique opportunity to support the needs of the area's competitive swimmers and creates a differentiated asset that can assist in attracting, hosting, and retaining competitive swimming events on a regional level.
 - The combination of the 50-meter pool and separate recreational pools will allow the HCC to meet the needs of all potential aquatics-based participants.

- The court-based portion of the facility may not independently meet the needs of the local community.
 - The operator should partner with other facilities, including the four on-campus gymnasiums, to offer multi-location leagues and programs that attract a greater number of participants based on opportunities to play in larger programs that offer a variety of options and levels of competition.
 - Leagues and programs should be developed to cater to all age groups, and it is very likely that adult leagues and member drop-in times will be limited to off-peak times during the peak season for youth volleyball and basketball. As such, a communication, education, and expectation setting plan should be implemented as soon as possible.
 - The facility design will need to allow for quick changes between programs, activities, and age groups.
- The fitness industry has diversified in its offerings and the HCC should plan to offer a variety of classes that cater to less traditional, emerging fitness training trends such as high intensity interval training, cross-training workouts, barre, combat-style training, etc.
 - These programs focus on shared experiences in a group setting that promotes comradery and accountability; they have been proven to improve member satisfaction and retention, and as such should be considered for inclusion at the HCC.

Competitors/Existing Service Providers Insights and Recommendations

The Ballard*King & Associates market analysis identifies and profiles the programs and facilities in the market in a sufficient manner, so SFA has not included its research on this topic in this Report. However, one of the most critical decisions and determining factors in the HCC plan is directly related to competitors and existing service providers: **the Township must decide whether the HCC will go into direct competition with other local fitness service providers or seek to create partnerships and/or dual membership options with existing fitness service providers that limit competition.**

More than any other topic or factor, this principal decision will influence the role the HCC plays in serving the community, the opportunities for the HCC to achieve its definitions of success, and the financial performance of the HCC.

HCC OPERATING MODEL

The operating model in the business plan for the HCC must be reflective of the Township's intentions for delivering sports, recreation, and wellness services to its residents. When SFA develops a comprehensive opportunity analysis, recommends a facility program, develops a business model/operating plan, and creates a detailed financial forecast, we work directly with the project team and key stakeholders to create the operating model that best achieves the definitions of success for the facility.

Based on SFA's interaction with the project team, the majority of the operating model is very well planned and reflective of the desired outcomes for the facility. In general, the business plan includes seven sections, most of which are either addressed in other portions of this Report or have been developed with a plan to apply existing Parks & Recreation infrastructure, staffing, programs, etc. to the HCC.

While this Professional Recommendations Report cannot address each of the topics that should be reflected in the operating model and business plan in full detail, it can provide insights to key factors from the topics that are currently in the operating model and that SFA recommends should be addressed in greater detail and/or by evaluating multiple options.

Key Points of Consideration Related to the Operating Model

The operating model and business plan for the HCC should be dictated by the Township's desired:

- Long-Range Definitions of Success
- Value Propositions
- Key Differentiators
- Use of Financial Resources
- Use of Human Resources
- Product and Service Offerings
- Strategic Alliances
- Financial and Impact-Based Success Metrics

Each time a decision is made about the how the operating model will be set up, these topics should be reviewed to ensure the plan is in alignment with the intended outcomes of the HCC.

How the Current Plan Creates the Operating Model

To summarize the key components of the operating model reflected in the current plan:

- The HCC is planned to be operated by Parks & Recreation.
 - The majority of the HCC leadership staff will be transferred from the current Hershey Recreation Center or will be new positions.
 - The positions listed as Director, Recreation Center Manager/Asst. Director, and Childcare Manager will be split between the HCC and other responsibilities outside of the HCC.
- The HCC is projected to maximize revenue by entering into direct competition with existing fitness and sports/recreation service providers, offering full membership options and charging a fair market rates for pass holders and program participants.
 - There will be program registration discounts for pass holders.
 - There will be increased pass and program fees for non-residents.
- The HCC is planned to offer a robust set of programs for people of all ages in a year-round capacity, including programming in the five primary categories of:
 - Developmental

- Educational
- Fitness
- Recreational
- Sports
- The HCC is planned to have several key partners that have influenced design and will influence operations, including:
 - The Mohler Senior Center (senior activities)
 - The People Movers (senior transportation)
 - The Derry Township School District (middle school and teen program)
 - The Hershey Public Library (student programs)
 - The aquatics community (full range of aquatics programs)

Insights and Professional Recommendations

As stated throughout this Report, the most critical unresolved decision within the operating model is whether the HCC will enter into or avoid direct competition with existing fitness service providers. While SFA cannot make this decision for the Township, we can provide several insights and options for memberships.

Related to the general membership options, there are four models that the HCC could implement:

- Model 1: Private Facility Membership
 - In this model, as is projected in the current financial forecast and reflected in the business plan, the HCC would offer membership options at a fair market rate and under a structure that is in line with a traditional, private, for-profit fitness center.
 - Note that this model has high revenue generating potential but also has high risk from a community support, competition, and flexibility perspective.
 - Also note that Power Train Gym, which has an existing partnership with the Township, is only two minutes away from the site of the HCC, meaning that the fitness-based membership markets for each facility almost entirely overlaps.
- Model 2: Multi-Location/Partnership Membership
 - In this model, the HCC would partner with existing service providers to offer aquatic membership add-ons to non-HCC gyms in addition to full HCC facility memberships.
 - If this option is selected, SFA recommends limiting the number of partners in order to maintain value and create a realistic execution plan.
 - Based on the existing relationship and the reported quality of the operation, SFA recommends that Power Train Gym is the only partner in a multi-location/partnership structure.
 - Note that this model has the opportunity to serve more people and mitigate several risk factors, but will require additional administrative functions from both a human and financial tracking perspective.
 - Also note that because of proximity, Power Train Gym and the HCC will have almost entirely overlapping geographic markets, meaning that the number of new, full-paying members may be significantly less than projected in the current forecast.
- Model 3: Aquatics-Only Membership
 - In this model, the HCC would only offer a membership for the aquatics components and would either sell day passes or eliminate any membership for gym-based fitness.
 - Note that this model would mitigate several internal risk factors but would limit revenue potential and either create unfair competition with private gyms or reduce the value of the HCC as a multifunctional asset.

- **Model 4: Day Pass Only**
 - In this model, the HCC would eliminate all membership options only charge visitors for daily use.
 - Note that this model would be easy to administer and provide great operational flexibility but would severely limit revenue potential and would be very difficult to staff effectively.

While there are several variables that influence the strengths and weaknesses of each option, SFA recommends comparing the models based on six factors: revenue potential, number of people served, ease of administration, community support, risk mitigation, and operational flexibility.

Ultimately the Township should determine if those six factors are in fact the most important factors and should decide how each model compares on each of the final factors, the table below demonstrates how SFA would rank each option based on our understanding of the goals of the HCC and the opportunities in and climate of the market.

	Revenue Potential	# of People Served	Ease of Administration	Community Support	Risk Mitigation	Operational Flexibility
Model 1: Private Gym	1	3	2 (T)	4	4	4
Model 2: Multi-Location	2	1	4	2 (T)	2	3
Model 3: Aquatics Only	3	2	2 (T)	2 (T)	1	2
Model 4: Day Pass Only	4	4	1	1	3	1

Based on all of the factors above, the design of the HCC, and SFA's understanding of the HCC project team's goals, SFA recommends only the private gym (Model 1) and the multi-location/partnership (Model 2) options are considered.

As stated throughout this report, final decisions related to operating model – and particularly related to the membership options – should be immediately paired with a communication, education, and expectation setting plan to inform the community of what they should expect at the HCC.

HCC FACILITY PROGRAM/DESIGN

Overview of Facility Program/Design

Critical to the success of any sports, recreation, and wellness facility is that the building is designed to accommodate the programs that will be offered within it; this is called program-driven design. Too often SFA is engaged in a scenario in which we have to provide planning, financial, programmatic, and/or operational advisory services in a facility that was fully designed or built without a detailed understanding of the opportunities for programs and events to succeed, and the operator is forced into design-driven programming.

The design process is typically extremely lengthy, and as such there are too many factors to list that should be considered “key points of consideration.” Similarly, given the amount of time that has been spent on design and the stage of the process the HCC is in (the bid process had already been opened at the time this Report was created), there is limited value in listing “how the current plan addresses facility program/design.”

That said, following a detailed review of the design documents and after an in-depth discussion with the project team, SFA is confident that most of the decisions for the design of the HCC were made with input and thorough planning that was led by the Parks & Recreation team, which consists of experienced program developers and facility operators. As such, SFA’s recommendations for facility program/design are primarily focused on what may be unaddressed operational considerations necessitated by the design.

Insights and Professional Recommendations

SFA’s insights and professional recommendations for operational considerations and final build-out decisions can be broken into categorized into seven topics, four of which are related to operational practices and three of which are related to final build-out decisions.

- Operational Recommendation: Create Offsetting Schedules for Pools During Non-Peak Hours
 - The most controllable expense in a facility like the HCC is staff salaries, and the largest source of staff salaries will be lifeguards.
 - With two indoor pools and one outdoor pool, there will be very few opportunities to create staffing efficiencies when more than one pool is open.
 - In order to limit the number of lifeguards required and limit expenses related to lifeguards salaried, the HCC should create an offsetting schedule to limit the times during which more than one pool is open.
- Operational Recommendation: Limit Ingress and Egress
 - The HCC is planned with three primary exterior exits, one at the main lobby entry, one near the competitive natatorium, and one at the senior center. Visitors to the senior center can enter the first-floor multipurpose classrooms area from the back of the senior center, and visitors from the natatorium entry can access the entire facility once they have passed the check-in counter.
 - With that level of access, it will be difficult to limit non-member use of the HCC during swim meets and senior center hours.
 - As much as possible, the operating plan should limit use of interior and exterior access points to the main facility.
- Operational Recommendation: Limit Access to Locker Rooms and Restrooms During Non-Peak Hours
 - With six locker rooms and 12 restrooms, the HCC has a significant number of spaces that require regular cleaning.

- During all non-meet times, the upstairs restrooms that serve the natatorium spectator seating should remain locked.
 - During non-peak hours, two of the four locker rooms and two of the four restrooms between the indoor natatoriums should remain locked.
- **Operational Recommendation: Plan for Concessions Options during Off-Peak Times**
 - Given the fact that the facility will have a tenant controlling the majority of concessions, the HCC will have limited control over hours of operations for concessions.
 - The lease agreement with the concessions tenant should include a provision that allows the HCC to sell a limited set of “grab and go” food and beverage items at any time during which the HCC is open but the concessions area is not.
- **Build-Out Recommendation: Ensure Sound and Vibration Insulation from the Fitness Center to the Senior Center and Multipurpose Rooms**
 - With a second-floor fitness center that is positioned on top of the senior center and low-activity multipurpose rooms, there is a risk of noise and vibrations from fitness participants and group exercise classes becoming an issue for people on the floor-level below the fitness center.
 - The flooring and ceiling between those spaces should be reinforced and outfitted with sound absorbing finishes.
- **Build-Out Recommendation: Maximize Court Flexibility to Minimize Congestion**
 - As stated earlier in this Report, the court area may not independently meet the full demands of the community.
 - In order to maximize flexibility and minimize change-over time, the cross-courts should be separated with a drop-down curtain and the basketball hoops and volleyball net should all be placed on mechanical roll-down systems.
- **Build-Out Recommendation: Find Spaces to Enhance the “Fun Factor”**
 - The current plan does not have significant space dedicated to entertainment amenities that could be critical in maximizing the number of visitors and participants to the HCC.
 - When finalizing the design, use of spaces, and FF&E list, the HCC should identify opportunities to include areas and equipment that provides entertainment options for children, teens, and adults that are not engaged in sports or fitness activities.

HCC FINANCIAL PERFORMANCE EXPECTATIONS

Key Points of Consideration Related to Financial Performance

Perhaps the most important decision-making tool for a facility like the HCC is the financial forecast.

As outlined earlier in this Report, when SFA develops a comprehensive opportunity analysis, recommends a facility program, develops a business model/operating plan, and creates a detailed financial forecast, we use a proprietary eight-step, 68-factor analytical process to determine the opportunity a facility to generate revenue, control expenses, and create a plan that allows for short-term and long-term performance optimization. Our systems are based on real-world operations and reflective of key performance indicators, national benchmarks, and key industry trends. Furthermore, we regularly reverse-engineer our analyses in order to compare our projections with current operational and financial data in an effort to ensure we are constantly refining our financial forecasting tools.

While SFA's process is certainly not the only process capable of producing reliable financial forecasts, any process that is intended to set conservative, credible, and achievable performance benchmarks should be compared to real-world operations and include a detailed analysis and integration of a myriad of factors related to:

- Catchment area/market size
- Demographics and socioeconomics
- Participation rates
- Competition factors
- Fair market values and price sensitivity
- Management capabilities
- Growth factors

How the Current Plan Sets Financial Performance Expectations

While the current pro forma and business plan seems to recognize many of the factors above, it is unclear how – if at all – those factors have been used to develop a realistic financial forecast. In particular, there are a few items related to revenue that suggest that the current forecast may not be achievable for the HCC.

- The largest source of revenue comes from membership and admissions, which at \$1.98 million of the \$3.17 million budget represents 62 percent of the projected revenue.
 - The primary calculation to arrive at membership and admissions includes an 8 percent capture rate of all households in the defined primary market and a 0.35 percent capture rate of all households in the secondary market.
 - Based on SFA's experience, the market area is slightly understated as a result of using municipal boundaries instead of a drive-time radius, but the primary market will be the only area from which memberships are sold because of the limited time people are willing to drive for a fitness facility. These two factors roughly cancel each other out, so the size of the market is relatively negligible.
 - A more significant concern is raised by the 8 percent capture rate. Fitness industry data shows that roughly 18 percent of all households have a fitness center membership, meaning that the HCC is projected to capture 44.4 percent of all fitness center members in the area.
 - Given local and sub-regional competition from the YMCA, Power Train Gym, Gold's Gym, Planet Fitness, Anytime Fitness, the Athletic Club of Hershey, New York Fitness Clubs, and other competing service providers,

- the 8 percent capture rate (44.4 percent of potential members) could be overstated.
- Beyond the projections for the number of standard members, which yields \$1.72 million, there are projections for daily visitors, 10-admission pass members, one-month non-renewable members, and three-month non-renewable members that combine to add the additional \$259,000 that produces the total \$1.98 million.
 - It is unclear how these projections were derived as they are hard-coded, but there may be some overlap in the standard members and the daily/non-renewable members.
 - Compounding the possible issue of members and visitors being overstated, the revenue per member is likely to be at the very top of the options the Township weighs and is very likely to be higher than the actual amount charged per member.
 - It should be noted that there is an adjustment for non-resident users that would be asked to pay a 25 percent increase over the residential rate.
 - It should also be noted that the projections do not include any reduction of revenue for the scholarship of people who cannot afford to pay the full market rate. Given the Township's goal to make the HCC accessible to everyone regardless of ability to pay, a scholarship allocation should be added to the model as a reduction of revenue.
 - As outlined throughout this report, the membership model must be finalized before any of the projections are considered reflective of the true operating model.
 - Programs account for an additional \$502,000 (15.8 percent of revenue). As stated earlier in this Report, program participation projections are hard-coded and are not apparently based on the analytical factors that should be used in creating a financial forecast.
 - Other revenue streams, including group/corporate, front desk resale, outdoor pool concessions, child watch, special events, and vending are also hard-coded.

Insights and Professional Recommendations

Based on the existing data, SFA has identified the following insights and recommendations for consideration:

- In general, the financial forecast should be reflective of at least a five-year period. The current forecast projects year two of operations only, which limits the Township's ability to plan for long road to reaching maturity.
 - In reality, facilities like the HCC have four primary operational phases
 - **Pre-opening**, which occurs before the facility is open and generating regular and substantive revenue. During pre-opening, the facility will absorb operational expenses related to staff, marketing, professional services, and more.
 - **Ramp-up**, which typically occurs during the first 12-24 months of operations. During ramp-up, the facility/operator undergoes a "feeling out" period during which revenues are light and expense control mechanisms are in their infancy.
 - **Stabilization**, which typically begins after the facility has been operating for 12-24 months and typically lasts for another one-two years. During stabilization, revenues start to normalize and expense control mechanisms are being refined.
 - **Maturity**, which is can be achieved as quickly as two years after opening but can take four-five year to achieve. Once maturity is reached, the facility/operator has effectively maximized revenue generation and has implemented all strategies for controlling expenses.

- Given this standard cycle, the HCC needs a financial forecast that includes allocations for pre-opening operating expenses and demonstrates a conservative path to maturity.
- Related to revenue, the Township must decide its approach to offering and selling memberships and the financial forecast should be updated to:
 - Reflect the final membership structure.
 - Commit to ways to create value for members and improve the value of the membership, which can include:
 - Limiting the number of visitor passes that can be purchased in a year.
 - Eliminating the non-renewable membership option.
 - Standardizing discounts for residents and households with multi-person memberships.
 - Include an allocation for need-based scholarships.
 - Includes free group exercise classes and other member benefits.
- Related to expenses:
 - The staffing model may be much more robust than justified, particularly if revenue is less than projected in the current model.
 - As stated above, salaries are the largest and most controllable expense for a facility like the HCC.
 - SFA uses a calculation that sets targets for salaries, taxes, and benefits (STBs) as a percent of revenue.
 - The standard target for STBs is 35-45 percent of revenue.
 - In a facility with this much water and with this design, STBs of 50-65 percent of revenue could be justified.
 - In the current pro forma, STBs are 79 percent of revenue.
 - If the revenue is in fact overstated, STBs could quickly become close to or greater than 100 percent of the revenue, which would create a scenario in which the HCC could not possibly achieve its financial performance goals.
 - As provided by Councilman-Hunsaker (CH), a decision should be made related to the role of the director.
 - SFA and CH agree that the director of the HCC should be a dedicated position and not one that has split responsibilities with non-HCC functions.
 - As provided by CH, the budget for taxes and benefits for part-time employees should be updated.
 - In the current model, part-time taxes and benefits are budgeted at 10 percent of salaries, which is not enough to cover the true costs of payroll administration, FICA, workman's compensation, etc.
 - SFA recommends changing this budget to 21 percent of salaries.
 - As provided by CH, the operations and maintenance budget is potentially very understated.
 - SFA recommends performing a more thorough analysis to create a conservative and reliable operations and maintenance budget.

CONCLUSION AND NEXT STEPS

Based on SFA's direct interaction with the HCC project team, SFA understands that the HCC is intended to be:

- Accessible
- Additive
- Essential
- Multifunctional
- Multigenerational
- Sustainable

In order to determine the opportunities for the HCC to achieve those definitions of success, how the current plan sets a path toward attaining those goals, and what additional factors and processes should be considered to improve on the plan, SFA completed the following steps in order to develop this Professional Recommendations Report:

- Step 1: Project Kick-Off Call
- Step 2: Existing Data Review and Market Analysis
- Step 3: Development Planning and Strategy Session
- Step 4: Professional Recommendations Report

As a result of this work, SFA has concluded that the market and the facility design both support the achievement of the project team's definitions of success, but that the operating plan and financial forecast should be reviewed to ensure they are reflective of the Township's final decision related to membership-based fitness offerings.

In order to ensure that all plans are fully reflective of the Township's intentions, SFA recommends that the Township finalizes its decision about the HCC's approach to competing for or partnering in the membership-based fitness sector and then completes the following steps:

1. Conduct a more thorough assessment of competitors/existing service providers to understand pricing, price sensitivity, schedules, services, membership benefits, etc.
2. Create a financial forecast that reflects the membership model for the HCC (if it is different from the current model).
3. Engage in discussions with existing service providers to either discuss goals for partnerships or set expectations for competition.
 - a. Note: if the HCC is going to enter into direct competition, the Township may elect to eliminate this step.
4. Adjust the financial forecast to reflect the impact of partnership terms or competitive approach.
5. Gain support and buy-in from key Township stakeholders.
6. Initiate a communication, education, and expectation setting plan to make the community aware of the approach and operating model for the HCC.

SFA is available to assist in any or all of the next steps and welcomes the opportunity to work with and serve the Township of Derry to develop the most successful path forward for the Hershey Community Center.