

2015

BIRDIE Recommendation:
Harness Track Financial
Sustainability



Village Council Meeting
Assembly Hall
6/9/2015



Process of Evaluation

The project objective for this BIRDIE process was to determine if the Village could reduce the percentage of operating losses at the Harness Track, and how to make the facility financially sustainable. This study was related to the Village's strategic objective of Maintaining a Strong Financial Condition and Council's goal to Manage Operating Costs.

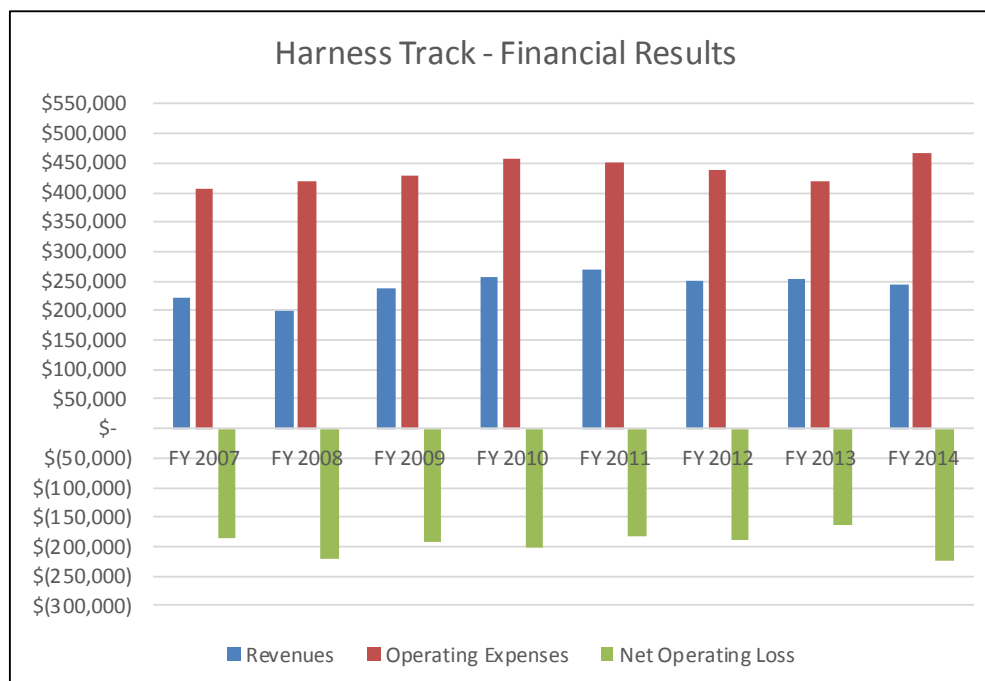
The BIRDIE team was comprised of the following members:



- Nancy Fiorillo, Village Mayor
- Ray Skellington, Harness Track
- Kay Whitlock, Show Promoter/Viewpoint Enterprises
- Garth Henry, Driving & Training Club President
- John Frye, Finance
- Angie Kantor, Human Resources
- Mark Wagner, Parks & Recreation

The Harness Track is a 111 acre horse training facility with a one mile track, a half-mile track, a five-eighths mile track, 17 barns, a tack shop, track restaurant, and other maintenance and office buildings on site. Standardbred training takes place from October 15th to May 1st, followed by various horse shows and other events in spring and late summer. A portion of the track property is also a contributing factor to the site's listing on the National Register of Historic Places.

One of the first things the team did was review the operations and finances of the track. From Fiscal Year 2007 through FY 2014, the average revenues at the track were \$241,338 while expenses averaged \$436,184. This resulted in an average net loss of (\$194,846) over this timeframe.





As stated above, the purpose of this study was to determine where the Village could reduce those operating losses and become more financially sustainable.

Conclusions

After evaluating all of the information gathered in the report that follows, the BIRDIE team has determined that the Village should be able reduce the percentage of operating losses at the Harness Track. This can be accomplished in the following manner:

- Adjustments to the Fees & Charges policy to increase revenues
- Operating expenditure reductions in the Harness Track budget
- Cost allocation corrections

By making adjustments to the Fees & Charges policy as recommended, this should result in an initial increase in revenues of \$26,800 in FY 2016. An adjustment of 3% annually is also being recommended for stall rentals which would result in additional revenues of \$53,500 by FY 2020.

The proposed operating expenditure reductions identified over the next five year planning cycle total \$37,100. Some of these are expenditures for a one time purchase or project, but it is anticipated that approximately \$30,000 in recurring savings can be found annually by FY 2020 if the recommended reductions are made.

The cost allocation corrections are related to work performed by the Harness Track staff as they maintain the grounds of the Fair Barn. We would seek to more accurately track actual costs for the work performed and allocate those costs to the Fair Barn budget instead of having them charged to the Harness Track budget.

Findings

The BIRDIE team has performed a comprehensive review of the Harness Track's operations. As part of this analysis, we looked at a number of different areas including revenues and expenses, the economic impact of facility to the area, staffing, while also reviewing the 2010 HT Business Model Review that was done by a previous committee.

While working through the BIRDIE process, the group ended up focusing on three primary considerations that would have the most significant impact: Revenue Analysis; Expenditure Reductions; and Cost Allocation Corrections.

Revenue Analysis

At the Harness Track, the largest source of revenue comes from stall rental income during the Standardbred training season. This includes full season and monthly stall rentals, grooms quarter rentals, and fees for cleaning out stalls. In FY 2015, the total revenue was \$204,930 from stall rentals. These totals are based on the fees charged as shown below according to the current Fees & Charges schedule:



BIRDIE Recommendation: Harness Track Financial Sustainability

Village of Pinehurst
Harness Track Stall Revenue Analysis by Fee Type
FY 2015

Fees	Rate	Units	Total Revenue
Full Season Stall Rental	\$ 825.00	236	\$ 194,700
Monthly Stall Rental	300.00	2	600
Grooms Qtr Improved	100.00	84	8,400
Occupant	30.00	5	150
Grooms Qtrs Prorate	3.00	50	150
Stall Clean out	6.00	28	168
Revenue			204,168
Interest on O/S Balance	1.50%		762
	Total Revenue		<u>\$ 204,930</u>

The above fees have been in effect since 2013 without an increase as we have attempted to keep rates the same while improving the facility. This has been the case even though the lease agreement does allow the Village to increase stall rent annually according to the Consumer Price Index (CPI).

We also looked at yearly adjustments to the full season stall rental rate in the amount of 3% and felt these should be considered to keep up with inflation and operating costs. The monthly stall rate is currently \$300 per month which was last updated in FY 2011. There have been less rentals on a monthly basis since that rate was established with the track's desire to have mostly season stall rentals. Our team felt this was still the direction we should be taking and that is reflected in the recommendations below.

The consensus was to propose a rate increase to bring in additional revenue based on the number of stalls and grooms quarters rented each season. By increasing fees, revenues are projected to increase by \$26,800 in FY 2016. With a 3% annual increase to stall rental rates for Full Season and Monthly thereafter, based on current capacity this would result in an estimated \$53,500 in additional revenues by the end of FY 2020.

During the past few years without an increase in rates, staff at the track has focused on facility improvements. These include rebuilding the training track surfaces by adding clay and renovating barn interiors to provide the trainers with a much better facility to train at in the winter months.

The last area of focus related to training revenues dealt with the grooms quarters where some of the staff hired by the trainers live during the season. The team was able to take a walking tour of the facility and see all of the barns that have rooms for rent and where they are located. The rooms are basic living quarters and of minimal quality.



Currently these rooms rent for \$100 per month and last year brought in approximately \$8,400 in revenue. In comparison, the cost to heat these rooms with propane gas last year was over \$16,000. As you can see, we are not covering our expenses for gas heat alone in the groom quarters. This will be addressed later in the expenditure discussion but the committee felt it was certainly reasonable to see an increase in what is charged to stay in the rooms during the training season to help offset this cost.

When discussing revenues, the group also considered a sliding scale for stall rent based on the number of horses a trainer had, early payment discounts, and fees related to horse shows and other events. The team determined our other fees charged were mostly in line, but that we could potentially increase the fee for RV Parking/Hookups if improvements are made at the barns to the electrical service to allow for Recreation Vehicles to plug in at the barns.

There was also discussion about extending the season for horse shows through the month of October. However, it was determined that the last two weeks of the month would not likely lead to more shows being booked as those dates are generally reserved for championships elsewhere, so additional revenues would not be likely from making that change at this time.

Expenditures

The next area of focus was on expenditure reductions and where the Village could potentially cut our direct costs as a way to reduce the operating loss. We also looked at our operations to determine what are the essential functions at the track in order to be able to manage the facility while also provide a high level of customer service to our users.

When looking at our expenditures, a lot of the initial discussion was focused on the groom quarters and the cost to heat them in the winter months. As mentioned previously, we spend approximately \$16,000 per year on propane gas to heat the rooms. There have always been issues with windows and doors left open while the heat is running which we have limited ability to control. There was also a discussion about the safety of having the gas-fired heating units themselves inside the barns and how comfortable we were with that.

The team considered quite a few options in regards to the grooms quarters including not allowing grooms to stay on the grounds, charging utility costs to the trainers and switching to a different source of heat. Garth Henry polled the trainers and it was determined that not allowing them to stay on the grounds would not be an option and likely lead to trainers not bringing horses to train in Pinehurst. When exploring the option of charging utility costs to the trainers, that is something that would be difficult to do. This is because we often have multiple trainers in a single barn, and we also have multiple grooms staying in certain barns, not all of whom even work for the trainer with horses in that barn.

Ultimately, the team felt the best way to handle this was to change the way we heat the barns. We received multiple quotes to change out the propane heating system with electrical base board heat. This would require a capital investment of \$16,800 to install the heaters and upgrade the electrical service in some barns. Essentially, for one year of what we've been paying for propane gas, we can change to the electric base board heat for all the rooms.



We anticipate this change will save the Village an estimated \$5,000-7,000 per year in utility costs, which means we would pay for the investment in less than three years.

Including the savings in utilities from the propane gas project, staff identified additional line item adjustments that could be made over the next four fiscal years in the Harness Track budget that will ultimately reduce expenditures by \$37,100. These reductions are as follows and the fiscal year the reduction can take place:

- \$5,000 LP gas savings from heating improvements FY 2016
- \$12,000 1 mile track clay improvements FY 2016
- \$4,000 Tap fee ½ mile track water FY 2016 *
- \$1,100 Pine straw spread in house vs. contractor FY 2016
- \$3,000 Advertising reduction – 100th Anniversary FY 2017 *
- \$2,000 Survey 1 mile track FY 2017 *
- \$10,000 Building materials for barn renovations FY 2020

**Indicates a one time savings*

Cost to Allocation Corrections

This is an adjustment related to maintenance of the grounds at the Fair Barn that is currently being handled by the staff at the Harness Track. These expenditures are being borne by the Harness Track and we would now more accurately track the actual costs for the work performed and allocate them to the Fair Barn budget instead.

Other Considerations

The committee looked at a number of other areas as part of the review of the operations and finances of the track. The perspective of all stakeholders in the track and its operation were considered including revisiting the 2010 Harness Track Business Model Review that was undertaken by a previous committee. We also looked at the current staffing levels for the facility and reviewed various scenarios to determine whether that was appropriate. There was some discussion regarding shifting a staff member in the off season to another department or division when the horses are not on the grounds. However, the workload at this time prevents that from being feasible, but it should continue to be monitored in subsequent years.

In looking at the operations of the facility, the committee felt there could be a reduction made to the size of the fleet at the track and that one of the trucks could be reallocated to another department. Staff has used the tractor and conditioners more on the tracks this year which should enable the truck to be freed up which will save on fuel and maintenance costs.

With the increased use of the tractor and conditioner to groom the training surfaces, this does present a need for a capital expenditure to replace the existing tractor as it is not strong enough or designed to pull the size conditioner that is needed to maintain the tracks. The proposed FY 2016 budget includes an 85 HP tractor and conditioner for the track that will be used to maintain the tracks and is sized properly to meet all of the facility's needs.



Discussion was also held in regards to the economic impact the facility has on the area and what it brings to the community. Garth Henry put together a survey of the trainers to show how much they spend on lodging, food, supplies, veterinarians, etc. while they are here during the training season. It's estimated that the trainers spend approximately \$1.5 million in the local economy each year while they are in Pinehurst and Moore County.

The committee also explored other uses for the track facility including the many events that are held on the grounds such as the 4th of July Fireworks, Concours d' Elegance, Relay for Life, etc. We all felt that there were opportunities to host more events on the site and that these should be explored as they become available. The track could and should be considered in some ways more like a park type setting and a venue that can be used for many more things when the horses are not in training. It is a popular location for residents to walk, jog, walking the dogs, hit golf balls, etc. We also host soccer and lacrosse practices at the facility as well as some cross country meets/practices for local high schools.

As was the case in the 2010 Business Model Review, the committee did briefly discuss the feasibility of closing the facility and maintaining the property for open space or a museum. While this might reduce annual losses we would still need to maintain the barns and grounds. This idea was unanimously rejected since it is not consistent with the intent of why the Village purchased the track in the first place. This would certainly not be in keeping with equestrian history we've been celebrating this year as we've marked the 100th year anniversary of the Harness Track.

Recommendations

The BIRDIE team unanimously recommends the following for Council consideration:

1. Increase Fees & Charges Schedule for FY 2016 to raise revenues at the Harness Track:
 - a. Full Season Stall Rental from \$825 to \$900
 - b. Monthly Stall Rental from \$300 to \$400
 - c. Grooms Qtr. Rental from \$100 to \$200
 - d. Occupant Rental from \$30 to \$60
 - e. Grooms Qtr. Prorate from \$3 to \$7
 - f. Stall Clean out from \$6 to \$10
 - g. Oversized Vehicle (RV) Parking from \$20 to \$35
2. Purchase 85HP Tractor & Conditioner to maintain training tracks per FY 2016 budget request.
3. Replace existing propane gas heating systems in barns with electric base board heaters and upgrade electrical service accordingly.
4. Reduce operating expenditures as specified in the report and maintain those reductions in subsequent budget requests.