

INTERNAL MEMORANDUM

Date: November 1, 2022
To: SBURA Board
From: Jim Tevlin
Consultant, South Billings Boulevard Urban Renewal District
Subject: Sportsplex Update

On October 17, 2022, Jeff Muri, Scott Hanser, Andrew Houlihan and I met with City of Billings officials (Chris Kukulski, Mike Whitaker, Wyeth Friday & Andy Zoeller) to discuss the purchase of the Sportsplex. The City officials conveyed the reasons they could not support the purchase that was on the City Council's agenda for October 24, 2022. Considering this, SBURA withdrew their agenda item. Their City Council memo is attached below.

City Council Regular

Date: 10/24/2022
Title: SBURA and City Staff Recommendations Regarding Purchase of Sportsplex at 5000 Southgate Drive
Presented by: Wyeth Friday
Department: Planning & Community Services
Presentation: Yes
Legal Review Yes

RECOMMENDATION

The South Billings Urban Renewal Association (SBURA) Board recommends the City of Billings utilize tax increment finance funding from the South Billings Boulevard Urban Renewal District (SBBURD) to purchase the Sportsplex and approximately one acre of adjacent land located at 5000 Southgate Drive for \$3.8 million. SBURA's intent with recommending this purchase is to retrofit the facility to accommodate an ice rink and additional recreation facilities.

City staff has serious concerns with this recommendation as outlined in the Background Section of this memo and does not recommend the City move forward with this purchase.

BACKGROUND (Consistency with Adopted Plans and Policies, if applicable)

The City of Billings has been working toward development and construction of a multi-generational recreation center for the community for more than 6 years focused on siting the facility in the South Billings Urban Renewal District. A few decision points moving toward the ultimate completion of the recreation center project are described below:

- City, with SBURA Board support, purchased land adjacent to Amend Park in September 2018 for the purposes of locating a community recreational facility at the location
- City, with SBURA Board support, funded a South Billings Aquatic and Recreation Center Master Plan and Feasibility Study that was completed in 2019. This study identified the property adjacent to Amend Park (purchased in 2018) as the best location for a multigenerational recreation center that was expected to contain aquatics, courts, ice and other programming space for recreational activities. Other locations in the SBBURD were evaluated for the siting of the facility but were ultimately ruled out mainly due to the ability to locate the entire recreation facility at one location adjacent to Amend Park, the benefits of having Amend Park and the recreation facility together, and lack of space, parking and capacity at other locations in the District.
- The City, with SBURA Board support, funded a South Billings Recreation Center Design Study in its FY22 Budget that has been in the process most of 2022.
- On June 15, 2022, the Recreation Center Core Committee recommended a "full build" facility for the multi-generational recreation center consisting of four courts, two sheets of ice, a 50-meter competition pool and a leisure pool. The Recreation Center Executive Committee subsequently modified the Core Committee's recommendation by downsizing to a single sheet of ice. The Executive Committee was concerned that the estimated total cost was becoming too large to cover in a combined bonding of SBBURD funds and voter approved bond, and a single sheet of ice met the intent of the recreation center including all the identified community

needs. It was also understood that after the Centennial Ice Arena eventually closed that the second sheet of ice could be phased into the recreation center in the future. The Recreation Center Design team indicated that constructing one sheet of ice instead of two would decrease the total project construction cost by approximately \$16 million.

- At no time in the master planning process, or the design study process, was the Sportsplex identified as a component or viable location for elements of the facility, and purchase of the Sportsplex is not programmed in the recreation center design, current adopted City CIP, or the current adopted SBBURD budget.

SBURA Board and Consultant Explanation:

SBURA Board members and consultant Jim Tevlin this summer suggested the possibility of purchasing the Sportsplex facility located nearby for purposes of reconfiguring it to an ice facility and/or a multi-purpose recreational facility. Members of the Executive Committee suggested the SBURA Board could recommend to the City evaluating the Sportsplex to see if it could accommodate an ice skating rink. Members of the Executive Committee also cautioned SBURA Board members and Jim Tevlin that the focus of the community and Council is on design and construction of a multigenerational recreation center and too much attention or effort on the Sportsplex could create confusion and distraction for the community from the main goal of the recreation center project.

SBURA's due diligence efforts yielded the following:

1. The owner of the Sportsplex was willing to sell the facility for \$3.7 million. This includes the hockey dasher boards and all equipment located in the building.
2. SBURA determined that the facility needed additional space for parking and ingress/egress. Because of this, SBURA negotiated an agreement with the adjacent landowner to purchase approximately one-acre of land for \$100,000.
3. The facility could be retrofitted for a variety of recreational and community uses including ice and court-related activities, cheerleading, soccer etc.
4. If a 2023 city-wide referendum to seek taxpayer funding for a full-build recreational facility (plus other Parks & Recreation projects) were to fail, the District would still have a high-quality recreation venue.
5. A&E Design's estimate to construct an ice rink ranged from \$13 to \$16 million. This facility could be purchased and retrofitted for about \$6 million, thus saving the taxpayers approximately \$7 to \$10 million.
6. The facility could be reconfigured and operating in less than a year.
7. The facility's location would be a tremendous economic driver by attracting local, state and regional athletic events to Billings.
8. Funding would come from tax increment funds in a combination of cash and/or debt. Any debt funding would not require a city-wide vote or an increase in taxes.
9. Representative from the Billings Amateur Hockey League (owners of Centennial Ice Arena) have inquired about operating a new ice facility. This would greatly facilitate the pre-operating phase of the project.

Based on the above listed reasons, SBURA believes that purchasing the Sportsplex to add to the City's inventory of recreational facilities and is a sound financial and aesthetic investment. SBURA estimates the following costs for purchase and retrofit of the Sportsplex:

- Sportsplex purchase price: \$3,700,000
- Adjacent land purchase: \$100,000
- Estimated retrofitting cost: \$1,500,000
- Total Estimated Cost: \$5,300,000

The Sportsplex and adjacent land are owned by Farm to Market, LLC and Billings Lodging Investors, LLC, respectively. SBURA has negotiated a Buy/Sell agreement with Farm to Market, LLC with

contingencies requiring approval by both the SBURA Board and the Billings City Council. SBURA has also negotiated a Buy/Sell agreement with Billings Lodging Investors, LLC with the same contingencies specified in the Sportsplex Buy/Sell agreement, plus an additional contingency that SBURA successfully purchases the Sportsplex facility. On October 4, 2022, the SBURA board approved the above Buy/Sell agreements.

City Staff Concerns and Explanation:

City staff has expressed its concerns to the SBURA Board and consultant Jim Tevlin over the course of several months, and more so in the past few weeks as the SBURA Board continued to move this recommendation forward. City Administration, Parks, Finance and Planning have all been involved in the discussions of this purchase and are recommending the City Council not move forward with this purchase. The following are the concerns and specific reasons staff is not in support of this purchase:

Overall Concerns with SBURA Recommendation and Information:

- Aside from possibly installing an ice rink in the Sportsplex, which has not been fully investigated, there is no evidence this small facility could be retrofitted for a variety of recreational and community uses including court-related activities, cheerleading, soccer etc.
- There is no evidence that the Sportsplex metal building would ever be a high-quality recreation venue.
- Comparing construction estimates for a multigenerational recreation center to serve the entire Billings community with estimates for the possible retrofitting of the Sportsplex for ice skating as saving the taxpayers money is speculative without further investigation.
- Comparing the Sportsplex location and retrofitting it as a "tremendous economic driver" in relation to a multigenerational recreation center that will have courts, ice, aquatics and other programmable recreation space are not equal comparisons. Is the Sportsplex more appropriately characterized as a replacement and upgrade from the Centennial Ice Arena?
- The Sportsplex has been for sale for years. If the City were interested in the property, there is absolutely no rush in acquiring it and putting the City at risk of not doing its due diligence.

Financial Concerns:

- This purchase is not in the CIP. As a result, no planning for funding this purchase, nor the operating costs have been worked out. The City would be working through this purchase as well as figuring out the funding of any operating deficit on the fly.
- It is not certain the SBBURD would have the cash to purchase the Sportsplex based upon the TIF awards already approved, and anticipated projects to be completed. If the City were to purchase the Sportsplex, it may have to significantly shift some of its priorities and planned projects.
- It does not appear there will be funding available to do analysis/feasibility of the Sportsplex venue or funding to build out the building in FY23.
- SBURA has no ability to enter into multiple buy/sell agreements on behalf of the City. The City just recently went through an RFP process to select preferred Realtors. Members of the SBURA Board are not one of the preferred Realtors selected in the City process.
- SBURD says it is working on an operating agreement with Billing Amateur Hockey Association, who manage Centennial. While this may be an option for operating an ice facility, staff believes other management options should be considered if it is going to be a City-owned ice rink that will likely need a City subsidy for operating.
- The funds that will be used to purchase and build out the Sportsplex as an ice rink will directly reduce any funds available for the recreation center. The City Council has been clear, and the planning studies and design efforts to date have all been focused on the community's need for a multigenerational recreation center. The Sportplex does not further this objective in any way.

ALTERNATIVES

City Council may:

- Approve the recommendation from the SBURA Board for the expenditure of these tax increment finance (TIF) funds, or;
- Modify the recommendation from the SBURA Board for the expenditure of these TIF before taking action, or;
- Disapprove the recommendations from the SBURA Board for these expenditures of these TIF funds.

FISCAL EFFECTS

The recommendation from the SBURA Board is for \$3,800,000 of tax increment funds be disbursed to purchase the Sportsplex and the adjacent land. The annual operating expense will depend on how the facility will be reconfigured to accommodate certain recreational activities. An Additional \$1,500,000 is also estimated by the SBURA Board for retrofitting the Sportsplex for an ice rink and also would be expected to come from SBBURD TIF funds.

Based upon the anticipated cash flows (**attached**), if the City were to purchase this property, there could be very few or possibly no more development incentive awards for the rest of this fiscal year, and probably next fiscal year. Current ending cash balance for FY23 is projected to be \$722,187 depending upon when projects are completed and paid. The City needs to end the fiscal year with a cash balance of no less than \$500,000, as it has a debt payment occurring on 7/1 of each year.

Additionally, looking forward into FY24, there are not enough funds to complete all of the projects that are currently planned (TPA Group Warehouse Project, Gravel Streets Phase II, Sportsplex Remodel, and Recreation Center work) without borrowing funds or pushing projects into future years. Any borrowing that occurs will reduce the funds that could be available for the recreation center project. This means that either the overall recreation center project cost will need to be reduced or funding from another source (G.O. Bonds) will need to be increased for every dollar that is borrowed or used for any other SBBURD TIF projects. Finally, based upon anticipated cash flows, it is City staff's opinion that any planned remodel or construction on the Sportsplex would need to be deferred into FY24 or later, when funds are available.

Attachments

South TIF Cash Projections
