

Requesting Department:

Economic Development



**TO: BUDGET COMMITTEE MEMBERS**

**THROUGH: JOHN KROSS, AICP  
TOWN MANAGER**

**FROM: DOREEN COTT, ECONOMIC DEVELOPMENT DIRECTOR  
TIM LYNCH, HPEC GENERAL MANAGER**

**RE: CONSIDERATION OF A SECOND COVERED ARENA AT  
HORSESHOE PARK AND EQUESTRIAN CENTRE**

**DATE: APRIL 25, 2018**

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This item was requested to be considered by the Budget Committee by Committee Chairman Robin Benning.

**Background:** In August 2013 staff presented six options for the Council's consideration regarding the future of HPEC. One of the options presented was to take HPEC to the next level with several capital improvements to the facility. One of the improvements that staff suggested was to build a second covered arena (cover Arena #3).

Based on trending revenues, HPEC's maximum revenue capacity is right around the \$600,000 mark. If the second covered arena is approved, staff feels confident that HPEC will extend its operating season and grow existing events, thus increasing the ratio of revenues to expenses.

If we reference the current year FY 18/19 HPEC's expense to revenue ratio is approximately 33% (Expenditure total @ \$1,755,641; Revenue projection @ \$582,558).

Estimates indicate that adding a cover to Arena #3 revenues at the HPEC will conservatively increase an estimated 21% (or \$127,300) in the first year.

A second covered arena will add approximately 8 weeks to HPEC's high rent event season (4 weeks in the spring and 4 weeks in the fall). This project will also make HPEC more competitive as we compete for customers with West World and other venues in the valley. West World now has a climate-controlled arena, so a second covered arena will help against some of HPEC's bigger events being

recruited away. A second covered arena will make the facility more marketable and also reduce the risk of rain-out for a large event, thus resulting in a loss of revenues. In addition to the additional eight weeks of prime rent weeks, the second covered arena can help grow current 2-3 day shows with 4-6 day shows resulting in additional income.

Staffing levels will be minimally impacted by the change. HPEC runs similar crews on event and non-event days; the staff is just involved in different tasks. With an increase in stall sales there would be a need for additional temporary labor to clean stalls between events. We will also need to increase our bedding budget to accommodate the additional need. These expenditure increases have been reflected in the table below.

Estimated cost for the covered arena is \$500,000 with a Return on Investment (ROI) in approximately 4 years. Staff expects some ramp up time to secure new events and to grow existing events, if the project is approved.

Staff has raised \$160,000 towards the cost of the covered arena, bringing the Town's portion to approximately \$340,000. A list of the donors and sponsorship levels are attached to this report.

The table below shows **Current Revenues** with projections for the next five fiscal years, without the second covered arena (status quo).

**New Revenue** projections account for the addition of new events and the expansion of existing events if the project is approved.

The **Revenue (Subtotal)** shows the growth in revenues with the second covered arena in place.

	18-19	19-20	20-21	21-22	22-23
Current Revenue	\$ 582,570	\$ 600,050	\$ 618,050	\$ 636,590	\$ 655,690
New Revenue	\$ 127,300	\$ 188,540	\$ 249,940	\$ 311,400	\$ 311,400
<b>Revenue (Subtotal)</b>	<b>\$ 709,870</b>	<b>\$ 788,590</b>	<b>\$ 867,990</b>	<b>\$ 947,990</b>	<b>\$ 967,090</b>
Estimated Expenditure Increase	\$ (38,350)	\$ (54,480)	\$ (70,200)	\$ (85,930)	\$ (86,710)
<b>Net Income:</b>	<b>\$ 671,520</b>	<b>\$ 734,110</b>	<b>\$ 797,790</b>	<b>\$ 862,060</b>	<b>\$ 880,380</b>
Interfund Loan	\$ (4,250)	\$ (8,500)	\$ (12,750)	\$ (174,250)	
<b>Net Income (After Interfund Loan):</b>	<b>\$ 667,270</b>	<b>\$ 725,610</b>	<b>\$ 785,040</b>	<b>\$ 687,810</b>	<b>\$ 880,380</b>

\*Cumulative revenues indicate capital cost of A3 can be recovered within year 4 (21-22)

\*Assuming one 2.5 day show is replaced with one 6 day show each year for the first four years

\*Assuming year 5 levels out

Expenditures identified in this exercise include increased costs to temporary labor, bedding purchases, and seasonal utility averages. Also assumes that one 2.5 day show is replaced with one 6 day show each year for the first four years.

Starting with year 4, the capital cost of the covered Arena #3 is fully recovered by the additional cumulative revenues. Starting with year 5, once event show days have leveled off, cost recovery can conservatively increase to 44% (assuming 3% increases to revenues annually, and 10% increases to expenses annually).

In addition to the projections provided above, staff has recently received notice that two, 14 day barrel futurities are willing to sign a contract if construction begins on the second covered arena. Each barrel race event will bring 200 horses in stalls with projected earnings of \$100K in the first year; the first futurity would be in March 2019, and the second in January 2020.

The Executive VP of a canine agility show has also indicated that they would move their national championship show to HPEC if a second covered arena was available. The championship event is a five day show, with approximately 2,000 dogs, with estimated earnings at \$50K.

**Attachments:**

1. Covered arena donors and sponsorship amounts
2. HPEC 5-Year Expenditure
3. HPEC 5-Year Revenue Projections (Status Quo)
4. Event growth opportunities
5. Letter of interest from United States Dog Agility Association

### List of Donors Committed to the Arena 3 Project

1. Arizona Cutting Horse Association (AzCHA)	\$ 80,000
2. Dawn and John Champman	\$ 50,000
3. Arizona Reined Cow Horse Association (AzRCHA)	\$ 5,000*
4. Arizona Quarter Horse Association (AzQHA)	\$ 5,000
5. Southern Arizona Quarter Association (SAzQHA)	\$ 5,000*
6. Cowboy Mounted Shooting Association (CMSA)	\$ 5,000*
7. Kiser Arena Specialists	\$ 2,300*
8. Van Gemmel	\$ 1,000
9. Steve Sherwood	\$ 200*
10. Keefe Estate	\$ 500*
11. Kiwanis	\$ 302*
12. Friends of HPEC	\$ 6,002*
<b>Total</b>	<b>\$160,304</b>

All donors with \* next to the dollar amount have already made their contributions to the Friends of Horseshoe Park (FOHP) as part of the capital campaign. All others are waiting for confirmation that the project is moving forward.

The two larger donors, AzCHA and the Chapmans will provide 50% of their donation at the start of construction and 50% upon completion of the project.

### Horseshoe Park Equestrian Center - Five Year Expenditures

	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
	Recommended	Forecast	Forecast	Forecast	Forecast
Salaries & Fringes	676,347	707,043	739,505	773,868	810,280
Supplies & Service	473,370	487,571	502,198	517,264	532,782
Department Support Costs	178,650	184,010	189,530	195,216	201,072
Contingency	34,500	34,500	34,500	34,500	34,500
Capital Outlay	105,600	105,600	105,600	105,600	105,600
<i>Subtotal</i>	1,468,467	1,518,724	1,571,333	1,626,448	1,684,234
Debt Service	297,204	297,204	297,204	297,204	297,204
<i>Subtotal</i>	297,204	297,204	297,204	297,204	297,204
<i>Total Uses</i>	1,765,671	1,815,928	1,868,537	1,923,652	1,981,438

**Horseshoe Park  
Revenues - Five Year Plan**

	FY 2017/18 Forecast	FY 2018/19 Recommended	FY 2019/20 Forecast	FY 2020/21 Forecast	FY 2021/22 Forecast	FY 2022/23 Forecast
<b>475 - HORSESHOE PARK EQUESTRIAN CENT</b>						
341003 - MISCELLANEOUS REVENUE	1,040	1,071	1,103	1,136	1,171	1,206
365100 - SALE OF FIXED ASSETS	-	-	-	-	-	-
375000 - DEPOSITS	-	-	-	-	-	-
375001 - COMMERCIAL	158,100	162,843	167,728	172,760	177,943	183,281
375002 - NON-COMMERCIAL	45,900	47,277	48,695	50,156	51,661	53,211
375003 - VENDOR	2,240	2,307	2,376	2,448	2,521	2,597
375004 - SPONSORSHIP	5,100	5,253	5,411	5,573	5,740	5,912
375005 - CATTLE PENS	410	422	435	448	461	475
375006 - STALL RENTAL	127,500	131,325	135,265	139,323	143,502	147,807
375007 - BEDDING/SHAVINGS	117,300	120,819	124,444	128,177	132,022	135,983
375008 - TRACTOR/WATER DRAGS	10,890	11,217	11,553	11,900	12,257	12,624
375009 - CONCESSION SALES	3,770	3,883	4,000	4,120	4,243	4,370
375011 - OVERNIGHT/RV	88,240	90,887	93,614	96,422	99,315	102,294
375012 - SHOW OFFICE RENTAL	1,530	1,576	1,623	1,672	1,722	1,774
375013 - ARENA SET-UP	3,570	3,677	3,787	3,901	4,018	4,139
	<b>565,590</b>	<b>582,558</b>	<b>600,034</b>	<b>618,035</b>	<b>636,577</b>	<b>655,674</b>

### Opportunities for Event Growth at HPEC

HPEC currently has several events on the calendar that poised to take advantage of a second covered arena to expand their shows. Many of these 2 to 3 day events have the capacity to grow to 4 to 7 day events.

There are also multiple, smaller events that can be replaced by new larger, greater income generating events.

<u>Month</u>	<u>Current Length of Show</u>	<u>Event</u>	<u>Grow or Replace</u>
January	3 days	Arizona Reining Equestrian Team	Grow
January	2 ½ days	Border Wars (AzCMSA)	Grow
March	3 days	Arizona Mule Days	Grow
March	4 days	Ken McNabb Clinic	Replace
March	3 days	East Valley Arabian Horse Association	Replace
March	1 day	Multiple small shows	Replace
April	3 days	Interstate Miniature Horse Club	Grow
April	3 days	Sherri Gilkerson Memorial (AzRCHA)	Grow
April	2 days	Painthorse Show	Replace
April	3 days	Arizona Horseman's Challenge	Grow
May	1 day	Arizona National	Grow
May	2 day	Vintage & Vino	Grow
September	1 day	Flat Track Motorcycle	Replace
September	3 days	Grand Canyon Pro Rodeo	Replace
September	3 days	Arizona Cowboy Mounted Shooting	Grow
October	2 ½ days	San Tan Karting	Replace
October	2 days	Vintage & Vino	Grow
October	3 days	Arizona Reined Cow Horse Association	Grow
November	5 days	Arizona Cutting Horse Association	Grow
Nov/Dec	1 day each	Desert Diamond Barrel Race	Replace
December	2 ½ days	Flat Track Motorcycle	Replace
December		Multiple single day events	Replace

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**Fwd: 2018 Wild West Regional**

1 message

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**Tim Lynch** <tim.lynch@queencreek.org>

Wed, Apr 18, 2018 at 11:48 AM

To: Jennifer Broadhead <jennifer.broadhead@queencreek.org>

----- Forwarded message -----

From: **Andy Hartman** <ahartman@usdaa.com>

Date: Fri, Apr 6, 2018 at 5:42 AM

Subject: 2018 Wild West Regional

To: tim.lynch@queencreek.org

Good Morning Tim,

It was good to meet you and Robin at the Wild West Regional.

I wanted to follow up on our conversation. I was impressed with your facility. If/when you double the amount of covered arena space we (USDAA) would be interested in discussing the possibility of holding our Cynosport World Games at your facility. We alternate between east and west locations with Cynosport. This fall we will be holding Cynosport at WestWorld of Scottsdale (Oct 31 - Nov 4), so we will be back in the west in 2020. I would like to visit you and your facility with our President Ken Tatsch during that time.

Please keep in touch and let me know how you are progressing with the addition.

By the way, since we talked I have done some research on the murder of Elizabeth Congdon, very interesting.

Sincerely,

Andy

**Andy Hartman | Vice President**  
**United States Dog Agility Association, Inc.**  
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**USDAA**

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