

FINANCIAL PROJECTIONS and BUDGETS

Both the SF/ISG Study and the City/ARC 2020 Study developed financial operating costs and revenue projections as part of the overall Aquatic Center model. The City/ARC Study developed operating models for the three City/ARC Options. The SF/ISG Study developed the financial projections for the SF Preferred Option and also analyzed the City/ARC projections for each option. During the Feasibility Study process SF/ISG worked closely with Bellevue Parks Staff in reviewing and analyzing current operational costs and revenue at the BAC/Odle and to a lesser extent the operating budgets of the South Bellevue Community Center. The SF/ISG Study included a more in-depth analysis of many factors impacting the financial model, particularly on the revenue side, including the following. A more detailed review of SF/ISG stakeholder meetings and engagement is included in the Methodology Section.

- Bellevue, Eastside, Regional, and National aquatic facilities and programs
 - Public, Private, Community/Neighborhood, School District, and YMCA facilities
 - See Report sections on Current Facilities, Eastside Facilities, Regional needs and Best in Class facilities
 - Review of market membership and daily use fees, pool lane rental rates, event rentals, class fees, wages
 - Review of org charts and management and staffing structures
- In depth discussions with Bellevue based and Eastside competitive aquatic groups
 - See Competitive Aquatic Section
- In depth discussions with local sport governing bodies relevant to competitive events and training camps
 - See Competitive Event Section
- Meetings and interview with BAC/Odle and SBCC management staff
- Interviews and program analysis with the majority of outside program providers currently renting pool space at the BAC/Odle
 - See Aquatic Programming Sections of this Report, specifically Swim Lessons, Therapy, and Special Needs Programming
- Interviews and analysis of comparable and Best in Class Aquatic Facilities in the country
- Several open public meetings of aquatic stakeholders

The detailed financial analysis and projections in each of these areas are included in their respective section. This Financial Analysis Section focuses on pulling all of these specifics together and identifying trends, opportunities, and risks while comparing the SF/ISG Study analysis and the City/ARC 2020 Study analysis. This analysis will include the following:

- Budgeting structure and methodology for the SF/ISG Study
- Variances between the SF/ISG Study and the City/ARC 2020 Study
- Opportunities for enhanced revenue
- Opportunities for reduced costs
- Revenue and Cost growth projections
- Next Steps

Structure and Methodology

The format ISG uses in the budget projections reflect a facility management orientation that can be effectively used by management in operating facilities. It also provides more detailed analysis and projections broken down by component and programs of the Aquatic Center to further help make key design and related programming analysis and decisions. The SF/ISG Study break down the financial projections/budget into several elements:

- Operational Expenses
 - Fixed operating costs including non-program staff, utilities, maintenance, equipment, office, marketing, credit card fees, City shared administrative costs, general expenses and miscellaneous contingency allowance.
 - Utilities costs broken out by specific body of water and dry-side spaces
- Program Expenses
 - Variable expenses linked directly to programs including instructors, trainers, program materials, specific program marketing
 - Broken out by specific programs to help determine the return on investment and “profit” from specific programs
- Facility Revenue
 - Membership, punch passes, and drop in fees
 - Training pool rentals
 - Event revenue
 - Therapy/Rehab pool rentals
 - Non-competitive facility rentals and special events
 - Rentals by outside program providers
 - Aquatic
 - Dry-side
 - Birthday parties, etc.
 - Sponsorship
 - Sales
- Program Revenue
 - Programs run by the City
 - Educational programs
 - Camps
 - Swim Lessons
 - Aquatic Fitness
 - Dry-Side fitness
 - Recreational programs
 - Concessions
 - Concessions are included in programming to facilitate profit/loss calculations
 - Child-Watch Program
 - Child-Watch included in programming to facilitate profit/loss calculations
 - Program specific sponsorship
 - Revenue to support program scholarships
- Program Net Cost/Revenue Analysis
 - Analysis of specific program costs and revenue
 - Calculates profit margin for each key program
- Profit & Loss Summary and Comparison of SF Preferred and City/ARC 2020 Study Option #2 financial model

- Detailed comparison by cost and revenue centers
- Comparison of Net Revenue (Deficit) and Cost Recovery
- Comparison of growth trends

Each of these components of the SF/ISG Study Financial model include a Year Zero prior to the opening of the BHAC and the first five years of operation. Year Zero includes the staffing and operational expenses leading up to opening (See Management and Staffing Section).

The current Bellevue budgeting and accounting structure for the BAC/Odle and the SBCC do not break cost and revenue down by program and component to quite the same extent as the SF/ISG Budget model. This makes it more difficult to analyze specific program costs and revenue for the analysis of existing Bellevue programs and project financial models for the BHAC. The BAC/Odle budget does do a good job of identifying the rental revenue by program group, but not by the specific body of water. The SBCC also does not break out its rental revenue by space which also makes it difficult to specifically analyze the need and demand and project demand and rental potential of dry-side fitness and community function space for the new BHAC. All of the data needed for these breakdowns exist but are not tracked in separate line items and would require manually breaking out the revenue and costs. During the Next Steps of the process it will be helpful to break out these costs. It will also be helpful for future budget analysis of existing Bellevue aquatic and recreation facilities to include this more detailed breakdown in the budgeting/accounting model for the facilities to better support management analysis.

FINANCIAL COMPARISON SUMMARY

Following is a Summary Comparison table of the key financial data points of the three City/ARC 2020 Study Options and the SPLASH*Forward* Preferred and Alternate Options. The detailed financial analysis follows the Summary Comparison table.

Financial Comparison Summary (Year 2/Base)
(Rounded Off)

	City/ARC 2020 Option 1	City/ARC 2020 Option 2	City/ARC 2020 Option 3	SPLASHForward Preferred	SPLASHForward Alternate
Gross Sq Ft	94,000 sq ft	126,000 sq ft	162,000 sq ft	125,000 sq ft	124,000 sq ft
Capital Cost*	\$70,000,000	\$89,000,000	\$110,000,000	\$88,000,000	\$87,000,000
Capital Maintenance Reserve (annual)	\$150,000	\$200,000	\$250,000	\$200,000 (increases by 3% annually)	\$200,000
Capital Reserve 20 Year Accrual	\$3,000,000	\$4,000,000	\$5,000,000	\$5,375,000	\$5,375,000
Net Operating Revenue(deficit) Without/With Reserve Fund	(\$1,300,000) (\$1,450,000)	(\$800,000) (\$1,000,000)	(\$1,200,000) (\$1,450,000)	(\$440,000) (\$640,000)	(\$425,000) (\$625,000)
Cost Recovery (approx.) Without/With Reserve Fund	74% 72%	85% 82%	81% 78%	92% 87%	92% 87%
Event Economic Impact: Direct Spend**	\$6,400,000	\$8,000,000	\$8,400,000	\$10,400,000	\$10,400,000
Annual Visits	479,000	559,000	614,000	600,000	600,000
Hotel Room Nights	NA	NA	NA	12,000	12,000
City Sales Tax Revenue *** (Events and Daily Ops)	\$84,000	\$84,000	\$84,000	\$150,000	\$150,000

NOTES:

**assumes surface parking*

***SF/ISG calculations of Economic Impact are in conjunction with Visit Bellevue data.*

****City/ARC only calculated event driven Sales Tax.*

Profit and Loss Comparison

Despite variances in budget estimates and detail, the Net Revenue (Deficit) projections and Cost Recovery of the SF Preferred Option and the City/ARC 2020 Study are quite close. Following is a comparison summary of the Budget Projections for each Model. The City/ARC Budget Model uses Year Two as the base line in the 2020 Study projections and then decreases the base year by 20% for Year One projection. The SF/ISG Model uses a Year One Base and projects growth by budget line item to project Year Two. For comparison purposes the Year Two projections in both models provide the best like comparison.

NOTE: SF/ISG have used back up financial detail from the City/ARC calculations provided by the Bellevue Parks Staff that were not included in the Final City/ARC 2020 Study Report to breakout Operational and Program Costs and Facility and Program Revenue Detail.

Base Year/Year Two P & L Comparison

Budget Category	SF/ISG Budget SF Preferred Option	City/ARC Budget Option #2	Variance SF/ISG Model to City/ARC Model
Operational Expenses	\$4,213,067	\$4,318,169	\$(105,102)
Program Expenses	\$632,129	\$551,227	\$80,902
City Admin Share Allocation	\$678,327	\$681,716	\$(3,389)
TOTAL EXPENSES	\$5,523,524	\$5,551,112	\$(27,588)
Facility Revenue	\$4,216,091	\$4,011,120	\$204,971
Program Revenue	\$870,720	\$728,336	\$142,384
TOTAL REVENUE	\$5,086,811	\$4,739,456	\$347,355
NET REVENUE (DEFICIT)	\$(436,713)	\$(811,656)	\$374,943
Cost Recovery	92.1%	85.4%	+6.7 % Points

The detailed P & L Summary with revenue and expense categories is included in the next four pages.

Budget Back-up Documents and Line-Item Detail

The full budget detail supporting the P & L Summary for the SF Preferred Option and comparisons to the City/ARC Option #2 is included in the following Attachments:

- ***Operational Expenses:*** ***Attachment #22A***
- ***Program Expenses:*** ***Attachment #22B***
- ***Facility Revenue:*** ***Attachment #22C***
- ***Program Revenue:*** ***Attachment #22D***
- ***Program Net Revenue Analysis:*** ***Attachment #22E***

These cost and revenue center budget worksheets include Year Zero through Year 5 as well as a comment column providing detailed comments for specific line items. These worksheets also include color highlights of the following:

- Significance Variations between the SF/ISG Study and the City/ARC 2020 Study
- Items to Review in the Next Steps phase
- Potential for reduced costs
- Potential for increased costs
- Potential for increased revenue

Five Year Projections and Comparisons

Both Studies developed a five year annual P & L projection, but used slightly different methodology. Bellevue Parks Staff asked that both costs and revenue projections after Year 2 be based on 3% annual increases, which is the rate that the City uses for budgeting purposes.

The SF/ISG growth projections are based on developing the initial year budget projections and then using cost and revenue projections based on specific line items and program considerations. The Profit and Loss Summary by category on the previous page shows the growth by year of each expense and revenue category in the SF/ISG budget projections. The SF/ISG Budget Projections also included a Year Zero to identify pre-opening costs (See Section on Management and Staffing).

The City/ARC 2020 Study developed a base line year which was used as Year 2 with Year 1 costs calculated at 90% of Year 2 base (12% increase in costs from Year 1 to Year 2) and Year 1 revenue calculated at 80% (25% increase in revenue from Year 1 to Year 2) of Year 2. The City/ARC 2020 Study growth rates are applied evenly across each cost and revenue category.

Five Year P & L Summary for City/ARC 2020 Study Option #2

Category	Year 1	Year 2	Year 3	Year 4	Year 5
Total Expenses	\$5,176,001	\$5,751,112	\$5,923,646	\$6,101,355	6,284,396\$
Expense Growth Rate		12%	3%	3%	3%
Total Revenue	\$3,791,565	\$4,739,456	\$4,881,640	\$5,028,089	\$5,178,932
Revenue Growth Rate		25%	3%	3%	3%
Net Revenue (Deficit)	\$(1,184,436)	\$(811,656)	\$(842,006)	\$(873,266)	\$(905,464)
Cost Recovery w/o Reserve	76.2%	85.4%	85.3%	85.2%	85.1%
Cost Recovery w/ Reserve	73.3%	82.4%	82.4%	82.4%	82.4%

Five Year SF/ISG Model and City/ARC Model Comparison

Model	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
SF/ISG Model						
Net Revenue (Deficit)	\$(146,240)	\$(671,494)	\$(436,713)	\$(432,267)	\$(448,414)	\$(481,674)
Cost Recovery		86.9%	92.1%	92.4%	92.4%	92.1%
City/ARC 2020 Model						
Net Revenue (Deficit)	NA	\$(1,184,436)	\$(811,656)	\$(842,006)	\$(873,266)	\$(905,464)
Cost Recovery		76.2%	85.4%	85.3%	85.2%	85.1%

Assessment of Growth Rate Projections

The City/ARC Budget Projection calculates Year One Revenue at 80% of their Year 2 Base Year projections (a 25% increase from Year 1 to Year 0). The SF/ISG Model projects higher Year 1 Revenue based on the immediate demand for training space and other rental revenue. While some revenue streams such as membership and swim lessons will ramp up more slowly, meetings with the School District, Aquatic Club teams, and current outside providers utilizing the BAC/Odle indicate that the Year 1 revenue from these sources will be close to maximum, without any normal “ramp-up” year. Based on this input SF/ISG projects Year 1 revenue to be 88% of Year 2 revenue (a 14% increase from Year 1 to Year 2).

SF/ISG understand the Bellevue Parks Staff approach to projecting 3% annual growth across expenses and revenue beginning in Year 3, adopting normal City budgeting norms. However, SF/ISG believe that the revenue growth in Year 3 and beyond should be higher. SF/ISG do anticipate that fixed operation costs should grow at the City norm of 3% with variable costs likely growing faster linked to increased growth in program participation and revenue. SF/ISG base this assumption on the following:

- Assuming membership, drop-in, rental rates, and class fees all increase at roughly the same rate as inflationary costs, the true growth of revenue over expenses will be driven by participation and membership, use, and program growth.

- These growth elements will be driven by several factors
 - Population Growth
 - The City/ARC 2020 Study demographics indicate a projected growth of 8% in population and households in the City of Bellevue and the Eastside from 2019 to 2024. All indications are that this growth will continue past the projected opening of the Aquatic Center and continue to drive increased use and participation in facility programs
 - The City/ARC 2020 Study also indicates a projected 15% increase in Median Income in Bellevue and the Eastside from 2019 to 2024 providing more disposable income for participation in aquatic programs and facility use and membership.
 - Program Evolution and Maturity
 - Well-structured aquatic programs do not reach maturity after only one year. Participation and growth build on the program base.
 - As new children enter the swim lesson program the current children continue in the program through the full progression, continuing to build participation
 - Feeder programs and available space support the growth of area aquatic club teams and high school aquatic teams increasing the need for more training space
 - *NOTE:* Even in Year 3 and Year 4 the SF/ISG models do not project full training space utilization, so there is space to continue to expand these programs.
 - Introduction of new programs
 - Best practice program management will continue to introduce new programs and aquatic fitness and cross-training trends to drive program growth
 - As the Aquatic Center becomes more and more an integral hub of the community SF/ISG also anticipates that sponsorship and advertising revenue will also increase within City guidelines.
- Based on these factors, SF/ISG anticipate that annual revenue growth can actually increase at 5% annually beginning in Year 3 and beyond, increasing Cost Recovery incrementally over time.

Analysis of Variances between SF/ISG Study and City/ARC 2020 Study Projections

In many cases, the variances between the SF/ISG Study and the City/ARC 2020 Study budget projections arise from the more detailed analysis conducted by SF/ISG during the Feasibility Study. Specific Variances by budget line item can be found in the budget detail in *Attachment #24*.

Key expense variances include the following:

- Operational Expenses
 - Overall Expense calculations only vary by \$25,000 (0.5%) between the SF/ISG and the City/ARC Projections in Year 2.
 - SF/ISG projects approximately a \$60,000 per year decrease in part-time non-program staff based on streamlining of some part-time staff responsibilities
 - SF/ISG anticipate additional part-time staff savings are achievable (See Management and Staff Section of this Report)

- The SF/ISG utility costs project to be approximately \$17,000 to \$20,000 less per year (2.5%) than the City/ARC projections based on the smaller volume of water in the SF Preferred Design compared to the City/ARC Option #2.
- SF/ISG budgets additional funds for staff training, professional development, and travel to meet facility goals (See Management and Staff Section of this Report)
- Program Expenses
 - SF/ISG projects and increase of \$111,100 in part-time program instructors and trainers (*See Management and Staffing Section of this Report and detail in Attachment #24B*)
 - Mostly in dry-side fitness programs instructors
 - Some in Learn to Swim instructors
 - Some in programs not offered in the City/ARC Program Model of Budget

Key Revenue Variances include the following:

- Facility Revenue
 - Overall Facility Revenue is projected to be approximately \$200,000 higher in the SF/ISG Budget Model (increase of 5% above the City/ARC Revenue Projection)
 - Inclusion of outside providers of scuba, kayak, and recreation programs renting pool time (\$12,000/year)
 - Increase of \$30,000 in club training rental
 - Higher utilization rate at a lower hourly lane rental rate than the City/ARC Study
 - Based on initial commitments from aquatic sport team user groups
 - See Competitive Aquatics Section of this Report
 - Event Revenue (*This is the largest variance between the two Budget Models*)
 - Based on specific event schedules and fees developed by SF/ISG in conjunction with potential host teams and local and regional sport governing bodies
 - Using facility event rental rate that is 10% lower than the rate projected in the City/ARC Budget Model but projecting a more robust event calendar
 - Event Facility Revenue: +\$45,000
 - Event Concession Revenue: +\$43,000
 - No event concession net revenue in City/ARC Model
 - See Event and Concession Sections of this Report
 - Other Event Revenue: +\$65,000
 - Rental of Fitness Facilities: +\$10,000
 - None factored into City/ARC Budget Model
 - See Dry-side Fitness and Function Space Section of this Report
 - Rental of community function and meeting space: +\$30,000
 - None factored into City/ARC Budget Model
 - Similar revenue currently at the SBCC
 - Sales (not including Concessions): +\$12,000
 - Vending machines
 - Kiosk sales of basic swim equipment (caps, goggles, misc. other items)
- Program Revenue
 - SF/ISG projects \$140,000 in additional Program Revenue above the City/ARC Budget Model

- Slight projected decrease in Aquatic Fitness Revenue based on free classes with membership but added some revenue in aquatic personal training
- SF/ISG project a \$60,000 increase in dry-land fitness, cross training, and personal training over the City/ARC Budget projections
 - Significant programs offered outside of the classes free with membership as well as projected non-member class drop-in fees
- Increase of \$65,000 in total Learn to Swim Program Fees (=14% increase)
 - SF/ISG projected a 20% non-member registration for swim lessons at the 20% non-resident premium
 - City/ARC projections did not include any non-resident students, although they did project 30% non-resident members and users in the membership/drop-in projections
 - SF/ISG used essentially the same number of participants in youth group lessons
 - Increase of 37%(+\$15,000) in the fast growing private and semi-private lesson category over the City/ARC Projections
 - Private and semi-private lessons are very popular in Bellevue and the Eastside as reported by private providers and other facilities
- Programs included in the SF/ISG Program Model but not included in the City/ARC Program Model
 - Lifesaving, First Aid, CRP, Instructor, and other Certification Courses: +\$40,000
 - Critical to training Aquatic Center staff as well as a good revenue stream
 - Summer Recreation Swim & Dive Team: +\$19,000
 - Youth Summer and Holiday camps: +\$50,000
 - Triathlon Camps/clinics: +\$ 6,000
 - Senior Specific Programs: +\$11,500
 - Partnerships with area Senior Living Centers and Senior Community Programming
 - Specific programs above and beyond basic programs included in membership
 - Can be aquatic or dry-side fitness or other programs
- SF/ISG does not include any Daily Food Concession Revenue per the request by Bellevue Parks Staff to exclude this category, but the City/ARC Study does show \$97,000 in Food Concession Gross Revenue, but the net revenue in the City/ARC Study is actually a loss.

Potential Additional Revenue Streams

There are several potential revenue streams in comparable Best in Class Facilities that are not currently included in the Revenue Projections per instructions from Bellevue Parks Staff or conservative approach to revenue projections. Potential incremental revenue include the following:

- Sponsorship and Advertising (See Sponsorship and Advertising Section of this Report)
 - Potential initial conservative projections can range from \$50,000 to \$75,000 annually

- Several comparable Event/Multi-Purpose Aquatic Centers can generate up to 4% to 6% of total gross revenue, approximately (\$200,000 to \$250,000 annually in the case of the Aquatic Center
- Management model includes staff to support this effort
- Daily Food Concessions
 - Current City/ARC Option #2 Budget Model projects a net loss of \$20,000/year in food concessions.
 - Very few facilities project or live with annual losses in Food Concessions.
 - In most cases the Best in Class facilities outsource food concessions leasing space or receiving a percentage of gross sales (KCAC collects a flat 15% of gross sales from their food concession provider
 - SF/ISG recommends further exploring options in the next steps.
- Membership Enhancements
 - Corporate Membership Programs
 - Hotel Guest user passes as part of partnership with Visit Bellevue affiliated hotels in Bellevue
 - Depends on accessibility of Aquatic Center site
- New Programs
 - Community programs outside of fitness, aquatics, and recreation
 - Explore community classes such as those offered at the SBCC
 - Can be assessed in the analysis of community dry-side needs in the Next Steps
 - Jr. Lifeguard and Competitive Lifesaving Programs
 - Very popular in California with growing popularity in the Pacific Northwest
- Partnership Revenue based on partnership exploration in the Next Steps
 - Boys and Girls Club of Bellevue
 - Health Care Providers (Wellness and Therapy)
 - Bellevue College
 - Other

LONG TERM REPLACEMENT RESERVE FUND BUDGETING

A very important element of a successful and long term financially sustainable aquatic facility is the planning and budgeting for long term capital replacement and maintenance for the facility. This budget does not include regular annual maintenance, but it does assume that the regular annual maintenance is performed on the appropriate basis. Both SF/ISG and City/ARC have factored an annual budget allocation to fund a Capital Replacement and Maintenance Reserve Fund. Both the SF/ISG and City/ARC Business Models include an initial annual allocation to the Reserve Fund of \$200,000 in Year 1. The City/ARC 2020 Study Model maintains the \$200,000 as a constant annual allocation.

SF/ISG believe that more funding is necessary for a suitable Reserve Fund. The SF/ISG Model maintains the annual allocation as roughly the same percentage of overall expenses, increasing the annual allocation annually by 3%, comparable to projected increases in annual fixed operating cost.

Based on this 3% annual increment, the Reserve Funds achieves a much higher long term accrual. The variance in the accrual in each model is as follows. The added \$1.3M in the SF/ISG Reserve Fund Model is important to the long term upkeep of the BHAC and can be accomplished relatively painlessly within a stable Cost Recovery model. *A more detailed annual accrual worksheet is included in this report as Attachment #23.*

Summary and Comparison of Reserve Fund Accrual

Model	Year 1	Year 5	Year 10	Year 15	Year 20
SF/ISG					
Annual Increase: 3%	\$200,000	\$225,102	\$260,955	\$302,518	\$350,701
Fund Accrual	\$200,000	\$1,061,827	\$2,292,776	\$3,719,783	\$5,374,075
City/ARC					
Annual Increase: 0%	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Fund Accrual	\$200,000	\$1,000,000	\$2,000,000	\$3,000,000	\$4,000,000
Variance	\$0	\$61,827	\$292,776	\$719,783	\$1,374,075

City of Bellevue Sales Tax Revenue

The BHAC will generate City Sales tax revenue from multiple sources including: Event driven hotel, hospitality, and visitor spending; taxable memberships; taxable facility rentals; program fees, and miscellaneous revenue. The State of Washington Sales Tax Codes treat Pool facilities differently from comprehensive recreation centers. In a pool only facility few fees and revenue are taxable. In a comprehensive recreation center with fitness components and pools many more spending categories are considered taxable. This is also true of the SBCC, where significant portions of overall revenue is taxable. With assistance from the Bellevue Parks Staff SF/ISG identified the full range of taxable spending/revenue at the BHAC to analyze potential tax generated. These calculations were also supported by the analysis of taxable revenue at the existing SBCC. The City Sales Tax is calculated at 0.85%. Following is a summary of projected City Sales Tax revenue generated by the BHAC.

City of Bellevue Sales Tax Revenue SF/ISG Study Projections

Revenue Category	Year 2 Sales Tax Revenue	Year 5 Sales Tax Revenue	Years 1-5 Tax Total	City/ARC Option #2 Year 2
Membership & Drop-in Fees	\$16,950	\$18,522	\$85,322	Not Calculated
Program Revenue	\$5,181	\$5,661	\$26,157	Not Calculated
Training Rental Revenue	\$6,044	\$6,604	\$31,042	Not Calculated
Event Rental Revenue	\$2,967	\$3,518	\$15,825	Not Calculated
Other Facility Rental	\$2,329	\$2,545	\$11,821	Not Calculated
Event Direct Revenue	\$116,266	\$137,051	\$618,908	\$84,000
TOTALS	\$149,738	\$173,902	\$789,075	\$84,000

Details of these tax calculations are found in Attachments as follows:

- ***Summary of Bellevue Sale Tax Revenue is included in Attachment #24.***
- ***The detailed analysis of all local, county, and state taxes linked to events, including Transient Occupancy taxes is included in Attachments #13B, 14B, and 15B.***

Financial Confidence and Risk Level

SF/ISG feel confident in its enhanced Revenue and Cost Recovery Model projected in this Study. SF/ISG also has identified additional incremental revenues streams and some limited opportunities for expense reduction to further increase this confidence level. The increased detail in the SF/ISG analysis is an important foundation of this increased confidence level.

The City/ARC 2020 Study expressed a confidence range of +/- 5% to 10% on the final projections. SF/ISG understands that any pro-forma projections this far in advance of final design, site selection, construction, and changes in the overall economy will impact the actual financial performance. SF/ISG projects a confidence range of +10% in Cost Recovery to a minus 2% to 3% in Cost Recovery; more likely to improve the financial performance than to perform more poorly.

The City/ARC 2020 Study Report makes the following statement: "...some of the revenue associated with competition rentals and practice rentals could be characterized as moderate-to-aggressive in nature." (City/ARC Study Report, page 159) The City/ARC Report also describes the aquatic club and team environment in Bellevue and the Eastside as follows: "The degree to which the private clubs in the Bellevue area support aquatics, specifically high school swimming and club swimming is a phenomenon that B*K (Ballard*King Consultants on the ARC Team) has not observed anywhere else in the country." (City/ARC Study Report, page 84). Based on this observation by the ARC consulting team and SF/ISG in-depth engagement with and initial commitments by aquatic clubs and sport governing bodies SF/ISG is very confident in the projections of competition and training revenues in the SF/ISG Financial Model.

The Next Steps in the project development process should include more formal expressions of intent to utilize the BHAC and projected rent by aquatic clubs, user groups, event hosts, and sport governing bodies to further solidify revenue projections.

FINANCIAL ANALYSIS NEXT STEPS

The most important role for the Financial Model and Methodology during the Next Steps in project development is its use as a tool in evaluating design options, further identifying the impact of further analysis of the dry-side and community components, and exploring partnership models. It will also be a useful tool in evaluating how to integrate membership models of existing facilities with a new BHAC and exploring operating cost and staffing efficiencies across the linked facilities.

- Begin development of potential partnership financial models, including both capital and annual funding
- Further detailed analysis of current SBCC budget and exploring accounting updates to tracking system to help analyze fitness, membership, and community function space needs and opportunities for the BHAC and its impact on the SBCC
- Further analysis of current resident/non-resident membership and use to establish a more accurate baseline for future projections and discussions with potential regional partners
 - Neighboring communities
 - Workday business users from outside Bellevue
- Further engagement with potential user groups, event hosts, club teams, and sport governing bodies to confirm use and rental intent to support financial projections
- The financial model can be an analytic tool in further assessing potential sites, evaluating the impact of sites on the financial model.
- Further development of the funding model and source of funds