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When Bigger Is Better ***An Ice Arena Business Roundtable EDGE – May/Jun 2004 Expanding an ice arena can be risky business, especially during difficult economic times when others are experiencing reduced traffic and even closing their doors. But with adequate demand, strategic planning and savvy marketing, adding a sheet of ice and other amenities can be a wise move. ISI recently talked to five representatives of arenas that have expanded or are in the process of expansion. Here, they share their experiences, observations and suggestions. The Participants Reynold Fauci, Manager William G. Mennen Sports Arena Morristown, N.J. Lisa Fedick, President Wonderland of Ice Associates Inc. Bridgeport, Conn. Jon Gustafson, Manager Logitech Ice at San Jose San Jose, Calif. Robert Mock, Skating Director Center Ice Arena Delmont, Pa. Scott Slavensky, Owner Skatetown Roseville, Calif. ISI: Please give us a brief history of your facility. Fauci: In 1973, the Mennen family, known for their aftershave and deodorant products, donated a prime 35-acre tract of land adjacent to their plant to the Morris County Park Commission. After an overwhelmingly successful bond referendum, the William G. Mennen Sports Arena opened in January 1975 as a single-surface sheet of ice with 2,500 permanent seats, locker rooms, snack bar, party room, pro shop and fireplace. The facility became an instant success with Saturday and Sunday afternoon public sessions drawing 1,000 people regularly for the two-hour period. Figure skating, hockey and the ISIA group program all operated at capacity with waiting lists. After several years of trying to balance programs and all of our skating groups demanding more ice, a second referendum was put before the public, asking for support of the addition of a second ice surface. The referendum passed and a second 200 X 85 ft. ice surface was added in 1986. The second surface not only provided more opportunities to our skaters, but, as intended, it gave us the flexibility to host a greater number of non-ice activities such as trade, dog, craft and antique shows as well as circuses, concerts and wrestling, just to name a few. However, with the growth of skating in the '90s — specifically, synchronized team skating, hockey and speed skating — the demand did not subside, and the push for a third surface began. An independent study found what we already knew — that the Mennen Sports Arena had the property, infrastructure and staffing to support a third surface. The county board gave the approval for the project to begin. In March 2002, the third surface opened and has been a smashing success and met all expectations. Fedick: The Wonderland of Ice was originally built by the city of Bridgeport, Conn. in 1968, as a sheet of ice with a roof over it. As the popularity of ice skating in the area increased, the city continued to upgrade the facility at the end of each skating season. In the fall of 1975, the building was completely enclosed and the existing lobby and concession area was completed. By spring 1989, the arena, in desperate need of maintenance and a complete facelift, was operating six months a year at a deficit of over a quarter of a million dollars annually. It was at this point that the city decided that privatization of the facility was its only option. My company, the Wonderland of Ice Associates Inc.,***

began operating the Wonderland of Ice on Sept. 19, 1989. Now, we're at the next step in our evolution, preparing to give this tired building a total makeover, thanks to $4.22 million in state, city and private funding. Phase I, targeted for completion in December, includes expansion of the existing facility by building a second NHL regulation-size skating surface, a two-story common area including a lobby concession, a pro shop, team locker rooms, party rooms, an off-ice training room with weights and a ballet/dance studio. Space for a restaurant is being built for future development. Phase II will consist of renovating the existing rink once construction of the new skating surface is complete. Renovation is scheduled to begin by late next spring and be completed by late fall 2005, in time for the winter skating and hockey seasons. Gustafson: The original Logitech building — rinks 1 and 2 — was constructed in 1993. The building was renovated in 1999-2000, when we added a third rink and NHL training facility for the San Jose Sharks. All in all, the current building is approximately 140,000 square feet. The facility is owned by the city of San Jose and we, San Jose Arena Management/San Jose Sharks, have a management agreement with the city. We are currently in the approval process of adding a fourth rink with restaurant/bar capabilities. We plan on breaking ground very soon, with an anticipated completion date before December. Mock: Center Ice Arena is a private venture of the Nese, Mazzenga and Franci families and built by Nese Construction. The original construction was completed in June 1997. We began with two NHL ice sheets, a skate shop and Rudy's Sub Shop (snack bar). In 1998, we added Boulders Miniature Golf Course. In 2000, it was apparent that we needed more space, and construction began on a large party room and conference area and a full-service fitness center open to the skaters and the general public. A video arcade was added, along with a reconfiguration of the parking lot to allow for additional traffic. The additions were a total success. In the spring of 2003 we began construction of our third NHL ice sheet. We opened the third sheet — completely sold out — in August 2003. Slavensky: Skatetown is a dual surface, 61,679 sq. ft. facility. Phase I (36,490 sq. ft.) was completed in December 1997 and Phase II (25,189 sq. ft.) opened in June 1999. We are privately owned. Our expansion included an 85 X 200 ft. rink, four locker rooms, offices above the locker rooms, and seating for 434. ISI: What factors prompted/are prompting the decision to expand your facility? Gustafson: Simple answer — demand! Ever since we opened the doors for rink 3 we have been full. For the longevity of the sport, especially in the nontraditional skating markets, there has to be room for growth. Slavensky: With only one surface, we could not handle the demand for ice. The primary demand was adult hockey leagues. Two other rinks in our region had failed previously and we were nervous about starting off with two surfaces. We purchased enough land for a two-surface facility and designed our project so that a second surface could be added if the demand was sufficient. Mock: The first expansion was the result of needed additional space for parties, meetings and the demand for an in-house fitness program for our guests. Additionally, adding the arcade opened up more space in our lobby for the ever-increasing levels of foot traffic. The second expansion of the third ice sheet was the result of four factors: (1) The two original ice sheets were completely booked to the point where we had no room for

development of new or expanded programs and we were reaching the saturation point in accommodating new customers. (2) There was a clear demand for additional ice time in our area. (3) We were developing additional skaters in our instructional pipeline faster than expected. This group would be creating even more demand on the available ice time in the near future. (4) The U.S. economic climate was improving and we wanted to be ahead of the curve. Fauci: Requests for additional ice by our primary user groups has always been a major factor in the decision process in determining expansion. In addition the cost of operating two or three sheets as opposed to one sheet does not double and triple with each additional surface, although the revenue does. The other factor at our facility is the ability to host non-ice activities. The surface with 2,500 seats will host non-ice events April through early September, still keeping ice on the other two floors year-round with minimal impact to activities. Fedick: In 2001, with just three years remaining on the third option term of the original lease, I returned to the city of Bridgeport Department of Economic Development to ask for guidance and assistance with some major, costly repairs that were now necessary to keep the arena viable. This was around the same time the city was building the 8,000-seat Arena at Harbor Yard, which has become home to the Sound Tigers, the New York Islanders AHL affiliate. The response from the city, quite frankly, shocked me — their desire was not to "put a Band-Aid" on an ancient facility, but to expand and renovate the Wonderland and turn it into a "state-of-the-art" twin rink. Their next sentence was "figure out how to do it and get back to us …" Almost three years later to the day, we announced our plans to expand. The funding is a combination of city and state bonding, some of which is grant money and some that will be repaid as part of the lease. There is also a private component in the funding. The city, however, will absorb the most financial risk, as they are the owners of the building. Along the way, in my dealings with the State Department of Economic Development, I stumbled upon a group of curlers who had been looking for a permanent home in our region for many years. The synergy of the two projects was there, so, to make a long story short, the Nutmeg Curling Club will be constructing an addition to my building, which will house three lanes of dedicated curling ice measuring 50 X 150 feet. They will share the refrigeration systems and pay a percentage of the maintenance and all of their own utilities. The curlers will contribute 100 percent of the construction capital of their building and then pay a monthly land lease. Their ice will be available for my use during their off season from April to September. To me, this is a win-win situation. ISI: What kinds of programs do you offer? How has your programming changed since your expansion? Mock: We offer an extensive variety of programs. The major key to our programming is our hockey development program and our National Figure Skating School. We have a staff of 25 coaches instructing on all public sessions, figure skating sessions and special hockey sessions for private lessons. We have the largest ISI program in western Pennsylvania and an extensive USFSA test and competition program from beginners thru international levels. Due to the third rink, we have been able to expand the program to include The Center Ice and Blades of Western Pennsylvania USFSA Figure Skating Club. The hockey program is anchored by the Allegheny Badgers Hockey, which is the largest program in the

Pittsburgh Amateur Hockey League. We are the home of numerous high school and college teams. We host a great number of special events shows, exhibitions, tournaments, schools and competitions. Center Ice is also the home of Power Stride International Hockey School. With the addition of the third ice sheet, we have been able to help Allegheny Hockey to continue to grow, and we have increased our list of high school teams playing at Center Ice Arena. Besides the addition of the figure skating club, we have been able to expand the size of our test session using three sheets, and we are considering bidding for national skating events. Our newest growth area has been the addition of the Pittsburgh Speed Skating Club, which is the only U.S. Speed Skating program in western Pennsylvania. They have added Olympic-level coaching to their fast-growing program and will host their first speed skating event this spring. We are considering the addition of curling for 2004-5. Fauci Fauci: Being a county facility, we have developed primary user groups that operate the various skating programs within the arena: a high school league, a house league and a travel program, including girls' hockey; an ISI club and a USFSA club, including a precision team; and a speed skating club. The arena works with these clubs but they are run independently through their board and bylaws. Each program expanded through the allocation of additional ice with the opening of the second and then the third surface. The arena runs the ISI learn-to-skate program, adult summer leagues, kids' and adult drop-in hockey, private teaching sessions and figure skating and summer hockey schools. The opening of the additional surfaces directly allowed our primary user groups to provide women's hockey teams for all levels and two precision teams. Several new high school teams were able to join our league and we were able to offer additional practice time to all our clubs. Naturally, public sessions and learn-to-skate times were added to ensure availability to all patrons. The added surfaces also allowed us to run both hockey and figure skating camps simultaneously during the entire summer. In the past, the weeks were shared, so it was always a battle. Fedick: We offer programs in almost everything. In the past few years, since some other arenas have opened in our area, our peak schedule has become a little easier to handle. At one point, the Wonderland was home ice to six high schools, two universities, three high school girls' teams, two youth hockeys, a AAA youth hockey program, USFSA and ISI figure skating clubs and a group of short-track speed skaters. This was all wonderful — every minute of ice time was rented by the hour — but at the same time, it was horrible and could have turned into the glide path to self-destruction. There was no time for in-house developmental programs, which ultimately drive every one of your other programs. There was no time to expand hours and opportunities for the recreational skaters. Many of the user groups simply did not have enough ice to make their programs viable and/or competitive. In my opinion, the figure skaters have always been the hardest hit, and they are the most loyal, 12-month customers. Due to the drastic cuts in freestyle time during the hockey season, our scenario has never been able to include top-level coaches and/or competitors. The figure skating programming will expand to include extended freestyle hours and on-ice classes, as well as learn-to-skate and a bridge program. We have already taken the largest step in our future development. After 35 years and countless philosophical differences, last fall

we parted company with our resident youth hockey program, a 40-plus hour per week hourly customer, and took the program completely in-house. At the completion of the first season of the Wonderland Wizards, we have over 400 families participating, and Mite and Squirt travel teams ranked in the top three in the state. The program is healthy, with a waiting list for next season, and poised to explode with the addition of the second sheet of ice. Expansion and renovation of the rink will provide much-needed additional practice ice for our scholastic customers and expanded programming for the general public, and offer the skating-related on- and off-ice training facilities that support our athletes. Having two sheets of ice and the curling rink will also enable us to bid on many national and international events, such as the ISI Winter Classic. Our proximity to the arena downtown will make us eligible to host major USFSA international events. And then there are always weekend hockey tournaments … Slavensky: We offer all the normal programs that any modern ice rink offers. The biggest impact that we had was the ability to grow our youth and adult hockey leagues. Without the second rink, we could not handle the demand for adult leagues. We are able to get our adult league players home at a reasonable time, which enables them to continue playing hockey when they might otherwise not play due to how late they would get home. Gustafson: We have always had a wide variety of programming and take pride in that. We are the only rink in northern California that offers curling. We have weekly speed skating and ice dance sessions as well as special-needs sessions and much more. With the upcoming expansion, we are looking to add to our existing programming by offering more curling and speed skating, and supplement these programs with new programs such as sled hockey. ISI: Has the decision to expand met your expectations and proved financially sound? Mock: We spent a lot of time researching before we made our decision to expand. We had a dilemma: Either grow or begin to lose our market share in our primary area. The financial return has been excellent and we clearly made the right decision. Slavensky: Our gross income has not increased significantly since we added the second rink. This was primarily due to the large public sessions that we had when we first opened. Our public sessions dropped considerably after our first year, and the income from our other programs that have grown due to the availability of ice has replaced the lost income from public sessions. I'm not sure that the expansion was a sound investment by itself. Had we not opened a second surface, there would have been some unmet demand that might have helped justify a competitor coming to town. We still have lots of ice available, even during our peak season, which we believe has kept someone else from deciding to build a competing rink in our market. When we made the decision to add the second rink, we assumed that the public session attendance would continue, despite experts telling us that it would not. Had we known how much our public sessions would drop, we may not have moved forward with the expansion. Gustafson: This is the toughest part of this business! This is also why there is not a rink in every town, especially in California. These buildings are expensive and costly to run. From an investment point of view, the return on investment is not great, but our stance has been that we are investing in the community and the future of hockey and our fan base. As for financial planning, we have a business plan that supports a certain investment, and we stick to

it. Fauci: The expansion from one sheet to two surfaces in 1986 met our expectations in the fact it provided additional ice time to our users and allowed us to offer skating programs to a much larger audience and more non-ice activities. However, the second surface did much more: It turned a facility that was losing a great deal of money each year into a break-even operation. It has been almost two full years since the opening of our third surface and since that time we have exceeded all our expectations. We new the demand for ice from October through March was there, as all prime times were committed prior to opening, but an area of concern was spring and summer ice scheduling and programs, and they have both done very well. Financially, the third surface has put us substantially in the black; not only have we achieved our pre-established revenue goals, but the third surface has proved to be much more energy-efficient than expected. In both expansions, staff increases were minimal. Therefore, most expense increases were directly attributed to that surface's energy and maintenance costs. ISI: Each of your facilities started conservatively, with expansion coming only in response to proven demand. Knowing what you know now, would you go about it the same way if you had it to do all over again? Slavensky: I would strongly suggest the stepped approach that we have used. When planned correctly, I don't believe that there is a significant premium in the cost of this approach. If you plan properly, you can always add another rink. If you overbuild, you can't return your second rink for a refund. Fauci: No, I would have designed the facility with three surfaces from the beginning and provided an enclosed viewing area and ancillary space for revenue sources other than the ice, such as a pro shop, a snack bar, party areas and a training room. We have been very fortunate in that each expansion has worked out pretty well, considering the surfaces were added 10 and 28 years after the original building was built. A great number of innovations have taken place during that period. Being a county facility that was using pre-approved bond referendums for expansion, we were very restricted with the available dollars for our projects. We would have liked to increase, add and improve the items I mentioned above. I guess what I'm saying is in the future an ice rink has to be much more than just a place to ice skate; it has to provide an environment that everyone can enjoy and feel they receive full value for their dollar.

Fedick: Knowing what I know now, I would have started working toward expansion much earlier in my lease term. Initially, I did not think of it as a realistic option. Although they have always been supportive of our efforts, the extent of the involvement from the city on the project came as a complete surprise. Gustafson: The same way. This is the second expansion (rink 4) and it will be much more straightforward, adding a rink and dressing rooms as opposed to a rink and an NHL training facility. Mock: We certainly learned a few things along the way, but it was a very good decision. ISI: Has your decision to expand been key to your facility's success? Fedick: Had we not been able to announce the expansion this year, we would most likely have lost several high-profile, key clients to a new $12 million facility just up the road. Mock: We had two choices: to sit on our past success or to forge ahead with new construction. It was a choice of lead, follow or get out of the way in our market. We chose to lead! If you are not growing, you are going backward — you cannot sit at one point and maintain success and growth. It was

this statement that was the clincher that set the third rink into motion. The result: incredible success. Fauci: Yes. Without expansion, our facility would not have been able to support its operation and probably would have changed into a different use within the county. In addition, the programs would not have been able to expand and they would have either looked for or developed alternative venues or just evolved into lesser programs. Slavensky: I don't believe so. I have seen some very successful operations that are single-surface. Frankly, I believe that we might have been more profitable if we were a single surface. Gustafson: Absolutely. We expanded and upgraded the existing facility to make it better, and that has added to our success. The first expansion also included an NHL training facility. We're fortunate to be associated with the San Jose Sharks; it gives us an immediate competitive advantage and challenges us to the same high standard as the HP Pavilion at San Jose, where the Sharks play. ISI: Is there sufficient demand to use all of your sheets of ice year-round, or do you shut any of them down or use them for alternative purposes during the off-peak season? Gustafson: We're currently full with all three rinks. We're open 358 days a year, 5 a.m. to 1 p.m. Slavensky: We have lots of ice that doesn't get used even during our peak season, and much of that ice is during prime times. During the summer, we have even more ice that doesn't get used. We also discount our target price for summer programs. We have explored shutting down our second sheet during the summer, including the idea of covering our second sheet with a carpet kit for indoor soccer, but have decided to invest in our skating programs, hoping that they will grow. Fauci: We operate two surfaces with ice year-round and one surface with ice from September through early April. As I mentioned earlier, we use our main arena 2,500 seats April through September for a wide variety of non-ice activities. To date, there has been the demand to utilize almost all of the ice, but, within the last year, three double- and two single-sheet facilities have opened in our primary area. The rinks have opened as a result of hockey groups looking for that prime time ice slot, November through March. I believe we have now reached our saturation point for this area, especially during non-winter months. We will find out shortly. Fedick: I believe that, with a little creativity, the demand exists to fill both sheets of ice 12 months a year. In the 15 years that we have been at Wonderland, however, the ice has been taken out three times and I currently have no sub-floor heating — I'm thinking the permafrost must be getting close to China by now. The current plan is to take each rink off-line every other June and July for maintenance. We also have the option of using the curlers' ice in their off-season, from April to September. Mock: We planned from the beginning to close one ice sheet for the first summer. We have community-family activities booked for the entire summer. The third ice sheet was built with 14 large doors that can be raised to create a pavilion effect for events that allow people to use both the building and the parking lot. The remaining ice sheets are sold out for the summer season.

ISI: What advice or warnings would you offer to others considering a facility expansion? Fedick: You should probably ask me again in a year, as we will be open for business during the entire expansion project. If you have the vision and can make the finances work, then just do it. My best advice would be to remember that

you must be prepared to do more than just rent ice — strong in-house programming is the key to a successful future. Mock: There are always trouble spots when you expand. You can bet on it. We calculated and recalculated our parking. What we didn't factor in was the additional growth in instructional programs, public sessions and increased attendance at hockey games (due to our location), which resulted in a serious parking shortage. We are already in the planning stages for an extensive parking lot expansion for 2004-5. Another area of concern was the additional strain on equipment. The increased activity created more demand and maintenance on resurfacers, edgers, refrigeration, etc. There was a steep learning curve in arena operations. The wear and tear on our staff created morale problems. As excellent and motivated as they are, they were on overload trying to keep up with the daily duties and the additional demands of getting the third ice sheet up and running. We had to regroup and adjust to get back on track. Slavensky: Do a thorough financial projection and be realistic in your assumptions. Get some help from someone who is in a similar market to the one you are considering operating in, even if you have to pay for that help! Be sure to design your building so that it can be used for something other than an ice rink if your projections don't turn out to be accurate. Fauci: Make sure there is enough demand for activities year-round, not just during the winter months. Perform a thorough independent study. Provide enough space for all ancillary sources of income. You must have a minimum of two ice surfaces. Develop a multipurpose facility. Gustafson: Make sure you have a sound business plan and a great general contractor. Stick to what you can afford. Spend money on the most important things in your business and cut out the frills where necessary. Timing is everything.