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**COMMUNITY SERVICES - RECREATION & CULTURE
INFORMATION REPORT # 2015 - 39**

TO: Members of Council

COPY: Bob Shelton, CAO
Ian McDougall, Commissioner of Community Services
Anita Moore, Commissioner of Corporate Services
Peter Noehammer, Commissioner of Development and Infrastructure Services
Members of OLT

SUBJECT: Magna Centre Fitness Centre Potential Follow Up Report

ORIGIN: Community Services - Recreation & Culture

In accordance with the Procedure Bylaw, any member of Council may request an Information Report to be placed on a future Committee of the Whole agenda for discussion.

BACKGROUND

Committee of the Whole recently discussed Community Services Report # 2015 – 37, in which a fitness centre to be located in the current restaurant space at Magna Centre was explored. Out of the discussion, there was a request for additional information which is contained within this report.

COMMENTS

Staff was specifically directed to provide additional information on municipal comparisons as well as to provide additional background information that formed the operating projection summary provided in Report #2015 – 37.

Municipal Comparisons

There are many municipalities that offer Fitness Centres as part of the service delivery within the Recreation Department. These include (but are not limited to): Bradford, Aurora, Vaughan, Richmond Hill, Markham, King Township, Whitchurch-Stouffville, Barrie, Mississauga, Brampton, Ajax, Oshawa and Whitby. Each municipality contacted indicated that fitness centres traditionally operate at a net surplus overall. Pricing and service delivery varied dramatically from municipality to municipality depending upon market place conditions, municipal pricing philosophies and program packaging.

Some municipalities priced memberships at a high price point and offered an overall experience that competed with or surpassed the private sector (ie. Vaughan and Markham). While other municipalities offered services at a more affordable range that included a cross section of programming for entire families to benefit from a membership (ie. Bradford). The proposed operating model for Newmarket is more in line with Bradford. Memberships fluctuate over the course of a year but Bradford has shared that they peaked at 2,000 members. The conditioning room space in Bradford is similar in size to what is being proposed in Newmarket. By comparison, Vaughan and Markham who have priced services significantly higher than what is being proposed by Newmarket have a range of 800 to 2,100 members depending upon their facility.

Operating Model Revenues

The operating model that is being proposed includes a very affordable pricing structure with a variety of membership categories available. The table below outlines the proposed pricing structure:

Membership Category	Monthly Fee		
	Year 1	Year 2	Year 3
Single Adult	\$30.00	\$31.50	\$33.00
Cardiac Rehab	\$20.00	\$21.50	\$23.00
Single Student (16 years of age and older)	\$20.00	\$21.50	\$23.00
Household (Up to 2 adults, children living in same house)	\$55.00	\$58.00	\$60.00
Single Adult Assisted (for those who qualify to receive financial assistance through income test)	\$17.00	\$18.00	\$19.00
Single Student Assisted (for those who qualify to receive financial assistance through income test)	\$12.00	\$13.00	\$14.00
Household Assisted (Up to 2 adults, children living in same house, for those who qualify to receive financial assistance through income test)	\$30.00	\$31.00	\$32.00
Day Passes	\$8.00	\$9.00	\$10.00

Please note that the above pricing was prepared as a projection only and would be subject to Council approval as part of the annual fees approval process. However, the proposed pricing model positions the Newmarket operated fitness centre at a very affordable price point without severely undercutting local competition. This is a strategic placement to drive volume use and create overall value for the user. All existing single use or multiple visit passes to pools and walking track will continue to be sold, ensuring residents are provided with optimal number of options to address their health and wellness needs.

The revenue forecasts project a steadily, but cautiously slow membership increase over the course of the first three years. Seasonality of when individuals join a fitness facility is considered in the projections with a slight increase from month to month with peak levels reached by year three. The following table reflects total number of memberships anticipated by year end:

Membership Category	Total Number of Members at Year End		
	Year 1	Year 2	Year 3
Single Adult	175	230	260
Cardiac Rehab	130	150	160
Single Student	70	80	90
Household (assumes 2 Adults only in this projection)	400	530	570
Single Adult Assisted	70	80	90
Single Student Assisted	35	35	35
Household Assisted (assumes 2 adults only in this projection)	120	170	180
TOTAL (excludes day passes)	1,000	1,275	1,385

Please note in the above table that this represents only year end numbers. In year one in particular, it will be a gradual build up to reach that number by the end of the year. If membership sales are quicker than expected than the first year operating deficit would decrease dramatically. By way of reference, the Aurora Leisure Centre recently reopened after a very lengthy renovation and have just over 1,000 members before the end of the first year of operation.

It should also be noted that a programmable kitchen represents revenue generation opportunities through community programming outside of what has been included within the context of the fitness centre operating model. Examples of this type of programming could include: ethnic cooking classes; seasonal and holiday cooking classes; organic/health smart cooking. These revenue generation opportunities have the potential to further enhance the business model for the proposed renovations.

Operating Model Expenses

The operating model focusses on a very lean staffing model. There is one additional full time position identified – a Fitness Programmer. This full time position would be supported by one desk staff attendant during all hours of operation. Hours of operation for the purpose of this projection is from 6:00 am to 11:00 pm. However, please note that this is subject to budget approval processes and can be extended or reduced demanding upon consumer demand. All personal training and programming is based on an assumption of a commission based approach where staff only get paid for services rendered.

With respect to non-personnel expenses the following table breaks out these expenses in greater detail over the three year period:

Non Personnel Expense Category	Annual Expense		
	Year 1	Year 2	Year 3
Supplies (office, first aid, fitness balls, bands)	\$6,000	\$7,000	\$5,000
Maintenance and Cleaning supplies	\$2,800	\$3,750	\$3,050
Membership Software Expense (CLASS)	\$1,000	\$1,000	\$1,000
Marketing Expenses	\$3,000	\$4,000	\$3,000
Cleaning Contract or Additional Cleaning Staff part time	\$24,000	\$25,000	\$25,500
Equipment Lease	\$60,000	\$60,000	\$60,000
Lost Revenue (end of current lease)	\$35,000	\$35,000	\$35,000
Total	\$131,800	\$136,250	\$132,550

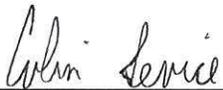
With the non-personnel expenses identified below, this identifies approximately \$150,000 worth of equipment to be leased over a three year period with interest charges incorporated. This would provide sufficient equipment for the space provided. If the fitness centre achieves projected outcomes, a new lease would be entered into upon year four. By incorporating this into the operating model, this positions the town to always have current, functional equipment while minimizing risk. It should also be noted that this assumption is based on the fact that leased revenue would remain at \$35,000 annually – all indications provided thus far have suggested that a lease holder may not be willing to pay that amount for this space in a new RFP.

Flexibility of Capital Improvements

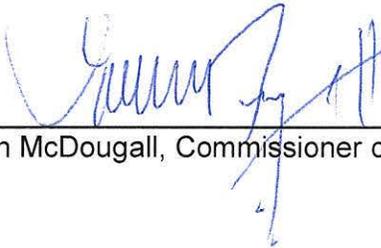
While staff are confident that a Fitness Centre would be a very successful addition to the Magna Centre, it should be noted that the renovations planned and operating model projected have minimized risk as much as possible. The major capital improvements required transform the kitchen into a useable, programmable space, and the restaurant space into another programmable space. In the event that a fitness centre is ever to be repurposed, a teaching kitchen would still be an incredible asset that would leverage continued revenue generating opportunities. Additionally, at the end of the three year period, all equipment could be returned and the space could be easily transformed into another programming space or could be issued for an RFP for a totally different kind of use of that space.

CONTACT

For more information on this report, please contact Colin Service, Director, Recreation and Culture at cservice@newmarket.ca or extension 2601.



Colin Service, Director, Recreation & Culture



Ian McDougall, Commissioner of Community Services