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MINNESOTA AMATEUR SPORTS COMMISSION PLAN

*Report to the Minnesota Legislature
January 2002*

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Department of Administration

MANAGEMENT ANALYSIS DIVISION

— 2001 Minn. Laws First. Spl. —
— Sess. Chap. 10 Art. 1 Sec. 12 —

— Subd. 6 —



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Jan. 22, 2002

The Honorable Senator Richard Cohen, Chair
State Government, Economic Development and
the Judiciary Budget Division
Minnesota Senate
317 State Capitol Building

The Honorable Representative Philip Krinkie, Chair
State Government Finance Committee
Minnesota House of Representatives
365 State Office Building

Gentlemen:

The 2001 Legislature directed the Department of Administration's Management Analysis Division to develop a self-sufficiency plan for the Amateur Sports Commission. Minn. Laws of 2001, 1st Special Session, Chapter 10, Article 1, Sec. 12, Subd. 6, states that:

The management analysis division, in consultation with the Minnesota Amateur Sports Commission, must report to the legislature by January 15, 2002, a plan for the commission to operate without a state subsidy, beginning July 1, 2003. The plan must describe: (1) new revenues the commission would obtain to replace state subsidies; or (2) plans for cost reductions so that anticipated revenues would equal expenditures, without state subsidies.

The Management Analysis Division greatly appreciated the assistance and cooperation of the commission's Paul Erickson and Aaron Koski. As required by M.S. 3.197, this report cost \$5,400 to produce.

Very truly yours,

David F. Fisher

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Report to the Minnesota Legislature

January 2002

*from the Department of Administration's
Management Analysis Division as directed in
Minn. Laws 2001, 1st Special Session, Chapter 10,
Art. 1, Sec. 12, Subd. 6*



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Department of Administration
MANAGEMENT ANALYSIS DIVISION

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Management Analysis Division

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fee-for-service management consulting group. We are in our second decade
of helping public managers increase their organization's effectiveness and efficiency.
We provide quality management consultation services to local, regional, state, and
federal government agencies.

EXECUTIVE SUMMARY

The 2001 Legislature directed the Department of Administration's Management Analysis Division to develop a self-sufficiency plan for the Amateur Sports Commission. Minn. Laws 2001, 1st Special Session, Chapter 10. Article 1, Sec. 12, Subd. 6 states that:

The management analysis division, in consultation with the Minnesota Amateur Sports Commission, must report to the legislature by January 15, 2002, a plan for the commission to operate without a state subsidy, beginning July 1, 2003. The plan must describe: (1) new revenues the commission would obtain to replace state subsidies; or (2) plans for cost reductions so that anticipated revenues would equal expenditures, without state subsidies.

Generally, the commission exists to

- create economic benefits by developing sport events and attracting major ones to Minnesota;
- create opportunities for sports participation by all Minnesotans; and
- establish Minnesota as a national model for Olympic and amateur sports.

It is unlikely that the commission will be able to raise revenues from existing activities to replace its appropriation. Amateur sports and amateur sport facilities generally do not produce significant net income to organizations that host these events and own the facilities. The commission's most likely source of revenue is the National Sports Center. The center's net income has averaged \$100,000 per year, but the commission's FY02 appropriation is \$660,000.

Most of the commission's staff would need to be laid off unless the commission significantly changes how the National Sports Center raises revenues, particularly by increasing revenues from events unrelated to amateur sports. Making the commission self-supporting implies changing the purpose and mission for which it was originally created and reexamining the state's role in promoting amateur sports. This change might reduce the commission's ability to attract national and international amateur sport events that create economic impact from out-of-state visitors' spending.

Excluding its focus on promoting amateur sports, the commission is another mechanism the state uses as an economic development tool. Other state programs and agencies are funded to attract visitors and businesses to the state. Comparing the commission's economic impact to these other agencies' impact to identify the highest return on all state dollars dedicated to economic development is an alternative method for deciding the level of appropriation for the commission rather than requiring it to be self-sufficient.

INTRODUCTION

The 2001 Legislature directed the Department of Administration's Management Analysis Division to develop a self-sufficiency plan for the Amateur Sports Commission. Minn. Laws 2001, 1st Special Session, Chapter 10. Article 1, Sec. 12, Subd. 6 states that:

The management analysis division, in consultation with the Minnesota Amateur Sports Commission, must report to the legislature by January 15, 2002, a plan for the commission to operate without a state subsidy, beginning July 1, 2003. The plan must describe: (1) new revenues the commission would obtain to replace state subsidies; or (2) plans for cost reductions so that anticipated revenues would equal expenditures, without state subsidies.

To develop this plan, the Management Analysis Division met with commission members and staff; reviewed financial statements, articles of incorporations, and other documents; and interviewed people from the commission's affiliate organizations and organizations that work with the commission.

Background¹

The 1987 Legislature created the Minnesota Amateur Sports Commission to promote amateur sports and develop amateur sport facilities. Minn. Statute 240A requires the commission to conduct a number of activities. The commission has grouped these responsibilities into a three-part mission:

- Create economic benefits by developing sport events and attracting major ones to Minnesota.
- Create opportunities for sports participation by all Minnesotans.
- Establish Minnesota as a national model for Olympic and amateur sports.

The commission consists of 15 voting members and four non-voting members. The commission's FY02-03 appropriation is \$1.3 million, and it currently has nine full-time employees. The commission also receives a \$750,000 annual open appropriation for payment to Minneapolis for a long-term use agreement with the city's Target Center.

The primary activities of the commission and its staff are

- management of the state-owned National Sports Center in Blaine and the Columbia Arena in Fridley;
- development of sports programs and events for the National Sports Center, other state-funded amateur sports facilities, and local governments, including bidding for national and international sporting events to be held at Minnesota facilities;
- development of amateur sports facilities around the state;
- administration of state grants for ice rink and soccer field development;
- sponsorship of the Star of the North State Games, an annual series of statewide amateur athletic games similar to the Olympic Games, and assistance to a local government as the games' host city; and
- development of sport and physical fitness activities to increase participation of all Minnesotans.

¹ This section is summarized from Minnesota Amateur Sports Commission's 2000 annual report and web site, Minn. Statutes 240A, FY02-03 budget documents and commission-provided information and documents.

To accomplish its statutory responsibilities, the commission created three closely affiliated non-profit organizations: the National Sports Center Foundation, the Minnesota Amateur Sports Commission Foundation, and the Star of the North State Games, Inc.

The commission created the National Sports Center Foundation to develop amateur sports on the commission's behalf and to operate the state-owned National Sports Center in Blaine. The commission appoints the foundation's board of directors and can remove directors. The foundation must obtain the commission's consent when hiring the foundation's executive director and top management. The commission approves the foundation's annual budget and reviews the foundation's monthly revenue and expense statements at commission meetings. The foundation must operate the center so that it achieves a positive cash flow. An agreement between the commission and foundation specifies the foundation's duties, which include operating and maintaining the center, hosting sports and non-sport events at the facility, renting it to other organizations, and improving and expanding the center's facilities. Commission staff assist the foundation in bidding for national and international sport events and developing and hosting ones for Minnesota athletes at the center.

The commission created the Minnesota Amateur Sports Commission Foundation to "create maximum sport and physical fitness participation opportunities for all Minnesotans regardless of gender, race, age, geography or economic status"² – components of the commission's statutory functions. The foundation has its own board of directors, and all commission members are voting members of the foundation. The commission appoints an administrator to perform fund-raising, grant processing, and administrative duties for the foundation. The foundation donated \$21,000 to various organizations in 2000.³

Minn. Statute 240A.06 requires the commission to "sponsor and sanction a series of statewide amateur athletic games patterned after the winter and summer Olympic Games." The Star of the North State Games, Inc. (SOTN) performs this function for the commission by conducting "annual events designed to provide all Minnesota citizens with an experience in amateur sports ... that promotes health, fitness, and good sportsmanship."⁴ The Games are held annually in a host city. Commission staff work with the host city and provide administrative support to the SOTN board under an agreement. The commission has no legal role in the SOTN's governance or board member appointment but may appoint a non-voting ex-officio board director.

² Bylaws of the Minnesota Amateur Sports Commission Foundation, Article II.

³ Minnesota Amateur Sports Commission Foundation's 2000 Form 990 filed with the Internal Revenue Service.

⁴ Bylaws of Star of the North State Games, Inc., Article II.

POTENTIAL REVENUE SOURCES

This section discusses potential revenue sources that the commission could obtain to operate without state funds. The potential sources are based on the commission's "assets" that could generate income: the National Sports Center, staff expertise and skills, and a long-term lease agreement with Minneapolis' Target Center.

National Sports Center

The Blaine facility has 52 soccer fields, a 12,000 seat outdoor stadium, a cycling track (velodrome), a 58,000 square foot indoor sports hall, a cafeteria and residence hall, a four-sheet ice arena, and an 18-hole putting course. The center also operates a two-sheet ice arena located in Fridley and will open a National Youth Golf Center in 2003. Sport events and activities include archery, basketball, broomball, cycling, figure skating, ice hockey, jazzercise/precision dance, public ice-skating, rugby, soccer, track and field, and volleyball. The center averaged 2.5 million users annually in 1999 and 2000.⁵

The National Sports Center Foundation operates the center under contract with the commission, and the foundation is financially self-sufficient. The foundation's 2000 net income was \$75,000 and 1999's was \$2,600.⁶ Commission staff report that the foundation's net income has averaged \$100,000 per year. The foundation's 2000 year-end cash reserves, which represent unspent retained earnings carried forward from previous years, were \$267,000.⁷ This amount is less than one month's operating expenses for the \$9 million dollar operation; according to the Minnesota Council of Nonprofits, most organizations should have cash reserves to cover at least three months' expenses.

State money has funded only capital expenditures, though commission staff perform functions related to the center's operation and management. Commission staff note that that the commission has not requested state capital asset preservation funds for the facility since its construction because foundation revenues have paid for facility repairs and equipment replacement.

Table 1 shows that the foundation's major revenue sources are participant fees, facility rentals, and concessions. Participant fees are derived from high school, college, recreational, and national governing bodies' sport participants: a team fee and individual player fee.⁸ Major corporate sponsors are Schwan's Foods, Wells Fargo, Sprint, Coca-Cola, Norstan, and Infinitivity. The Minnesota Wild also makes in-kind contributions as part of an agreement involving state financing of St. Paul's Xcel Center.

⁵ Minnesota Amateur Sports Commission 2000 Annual Report, 22.

⁶ Grant Thornton, LLP., Financial Statements and Report of Independent Certified Public Accountants of the National Sports Center Foundation, Dec. 31, 2000 and 1999.

⁷ Grant Thornton, LLP., Financial Statements and Report of Independent Certified Public Accountants of the National Sports Center Foundation, Dec. 31, 2000 and 1999.

⁸ A national governing body is the organization with the sole authority to supervise and regulate its particular amateur sport and to sanction sporting events that can lead to Olympic qualification.

TABLE 1. National Sports Center Foundation 2001 projected revenues

Revenue source	Revenues (in millions)	Percent of total
Participant fees	\$4.3	46%
Facility rentals	\$2.3	25%
Concessions	\$1.0	11%
Commissions and reimbursed expenses	\$0.8	9%
Sponsorships and in-kind contributions	\$0.6	6%
Ticket sales	\$0.3	3%
Total	\$9.3	100%

SOURCE: Foundation Board of Directors, November 2001 financial statements

Commission and Foundation members and staff commented on the commission's ability to become self-sufficient. Their general points were:

- The commission's mission of promoting amateur sports and the economics of hosting and developing sporting events are contrary to self-sufficiency. Interviewees state that event fees are already high and increasing them will price the center out of the market. Competition for national and international events is strong and the intent of bringing them to Minnesota is not to earn money on the event itself but to generate revenues for local businesses and governments from out-of-state visitors' spending.
- The foundation is already maximizing revenues to the extent possible and any increase in net income should be used to create reserves for capital expenditures, to cover potential revenue shortfalls, and to develop new programs or expand existing ones to increase the center's utilization.
- Less popular sports would not be supported and attention would be given to the larger sport and non-sport events that generate net income for the center. Traditionally in amateur sports, the more popular ones subsidize the less financially self-sufficient ones, even at the Olympic level.
- The \$600,000 in annual sponsorships and contributions is important for covering the difference between expenses and other income but further increases are limited. Interviewees noted that corporate sponsorships are vulnerable to such economic slowdowns as the current one. They also said that further sponsorship opportunities are limited because amateur sport events are typically not televised to a larger audience and there is competition from the Twin Cities' four major professional sports teams. Some sports, such as cycling and track and field, do not generate large crowds and participants so corporations are not interested in sponsoring events or buying naming rights to the facilities that these sports use.

The National Sports Center might be considered similar to a convention center: a publicly funded facility built to attract visitors to the state. Two articles state that these types of facilities rarely make an operating profit and attempting to do so might require such facilities to generate money from local events at the expense of attracting out-of-

state visitors, which bring true economic benefits to the area. Such facilities could be regarded as "community loss leaders."⁹ Businesses, local governments, and the state receive such a facility's economic benefits in the form of business revenues and taxes from the visitors' spending. The commission estimates that events at the National Sports Center and other affiliated amateur sports facilities and other commission-supported events generated \$53 million annually in economic impact from out-of-state visitors in 1999 and 2000.¹⁰ Commission and National Sports Center Foundation members and staff believe that the commission provides benefits to many citizens and communities and more than repays its state appropriation in the economic impact of the sport events it attracts, conducts, and supports.

Staff Expertise and Skills

The traditional need for a sports commission evolved from the activities of chambers of commerce and conventions and visitors bureaus because of the specialized promotional efforts required for attracting and hosting sport events.¹¹ Minnesota Amateur Sports Commission staff provide a number of services for the National Sports Center Foundation, Star of the North State Games, Inc., local governments wanting to host sport events, and the ten public entities that operate other state-funded amateur sports facilities. These services include bidding for national and international sports events and technical assistance in planning, marketing, organizing and conducting these events.

One option to support the commission would be to charge the entities that directly benefit from commission staff expertise and time. The commission's statute would need to be changed to allow the commission to charge fees for staff time, related expenses and overhead costs, and to deposit such fees into a revolving fund for the commission's use. Like the National Sports Center, the other amateur sports facilities are meant to attract national and international sporting events, as well promote Minnesota as a national model for Olympic and amateur sports. However, the potential to charge these entities appears limited. These facilities and local governments that host the Star of the North State Games are already assuming a risk that the event itself will not break even, and two of the affiliated sports facilities' directors report that their owning agencies are already subsidizing these facilities' operations. These facilities and local governments may be unwilling or unable to pay for any commission services.

The commission also performs functions on behalf of the state that might be most appropriately funded with state dollars because there is no entity to directly charge. Commission staff administer state grants for ice rinks and soccer fields and grants from other entities, such as the U. S. Olympic Committee, and lead the identification and development of new amateur sport facilities and other activities to promote amateur sports generally.

⁹ Steven E. Spickard, "Economic Impact of Convention and Conference Centers," Economics Research Associates 1998, Dec. 29, 2001, <www.hotel-online.com/Neo/Trends/ERA/ERAImpactConventionCenters.html#3>, and Federal Reserve Bank of Minneapolis, *fedgazette*, March 2001, Dec. 29, 2001 <minneapolisfed.org/pubs/fedgaz/01-03/>.

¹⁰ Minnesota Amateur Sports Commission, 2000 Annual Report, 9.

¹¹ National Association of Sports Commission, "Sports Commission 101," Dec. 29, 2001, <www.sportscommissions.org/membership/sports_commission.html>.

Target Center Agreement

The commission receives a \$750,000 annual open appropriation for payment to Minneapolis on a long-term use agreement for the Target Center. In return, the commission is entitled to use the Target Center for up to 50 days per year for hosting amateur sports events. The agreement's terms require the commission to pay for all event-related facility costs, which commission staff report are too high to allow the commission to take advantage of the facility to any great extent. Minn. Statute 240A.08 permits the commission to "sell a date at the arena to another group for any purpose" but the agreement states that the commission can only use its dates for amateur sport events unless mutually agreed to by the commission, city, and Target Center's contracted operator. These restrictions make it unlikely that the commission could receive any significant revenue from using or selling its Target Center days.

COST REDUCTIONS

This report's legislation requires "plans for cost reductions so that anticipated revenues would equal expenditures." Almost three-quarters of the commission's appropriation is for compensation for full-time staff.¹² Because the potential revenue sources discussed previously seem unlikely to cover the commission's expenses, most of the commission's staff would have to be laid off.

If the legislature reduces the commission's appropriation, it should consider repealing many of its statutory responsibilities. The Management Analysis Division estimates that the minimum level of funding to retain the current executive director and executive assistant, plus commission-related expenses, would be \$200,000 per year.¹³ This level of staffing would not allow the commission to fulfill many of its statutory responsibilities. For example, two commission staff work halftime on the Star of the North State Games; it is unlikely that a host city will pay their salaries, so the statutory requirement for the commission to sponsor these games should be repealed. The Minnesota Amateur Sports Foundation is also unlikely to pay for commission staff time. The commission's responsibilities might be limited to management and oversight of the National Sports Center and attracting sport events to it.

If the commission does not receive even a \$200,000 appropriation, then it will need to have the National Sports Center Foundation set an annual budget that achieves a net income of \$200,000 more per year than current efforts, starting in calendar year 2003. This increase in net income would involve discontinuing sport events that do not generate significant income, increasing revenue from non-sport events, and reducing the foundation's administrative, marketing, and maintenance expenditures that are least likely to affect revenues. For example, the foundation's financial statements show that facility rentals, and soccer and hockey events generate net income to cover the center's administration, marketing and maintenance expenses while cycling, track and field, golf, and ice sports events lose money.¹⁴

Because some commission staff provide support to events run at the center, the foundation may have to increase earnings by more than \$200,000 per year to pay for that time or to hire any laid-off commission staff. For example, commission staff assist with planning and out-of-state marketing for the National Sport Center's largest sport event, the Schwan's USA Cup youth soccer tournament.

¹² Minnesota Accounting and Procurement System, Roster Staffing report and Budget versus Expenditure Report for the commission, both dated Nov. 30, 2001.

¹³ Calculated from Minnesota Accounting and Procurement System, Roster Staffing report and Budget versus Expenditure Report for the commission report, both dated Nov. 30, 2001.

¹⁴ Foundation Board of Directors, November 2001 financial statements.

CONCLUSIONS

It is unlikely that the commission will be able to raise revenues from existing activities to replace its appropriation. Amateur sports and amateur sport facilities generally do not produce significant net income to organizations that host these events and own the facilities. These facilities are typically built and operated by government or non-profit organizations because the private sector does not find it profitable to do so. The National Sports Center's ability to earn a small net income and not require a direct state subsidy for operations is probably an exception for these types of facilities.

Most of the commission's staff would need to be laid off unless the commission significantly changes how the National Sports Center raises revenues, particularly by increasing revenues from events unrelated to amateur sports or discontinuing sports that do not generate significant net income. Making the commission self-supporting implies changing the purpose and mission for which it was originally created and reexamining the state's role in promoting amateur sports. This change might reduce the commission's ability to attract the national and international amateur sport events that create economic impact from out-of-state visitors' spending.

Excluding its focus on promoting amateur sports, the commission is another mechanism the state uses as an economic development tool. Other state programs and agencies are funded to attract visitors and businesses to the state. Comparing the commission's economic impact to these other agencies' impact to identify the highest return on all state dollars dedicated to economic development is an alternative method for deciding the level of appropriation for the commission rather than requiring it to be self-sufficient.