MEMORANDUM

Date: May 19, 2021

To: The Honorable Chairman and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Re: Knott Development Response to Questions from the April 20, 2021 Board of Supervisors Discussion on the Kino Sports & Entertainment Complex

On April 20, 2021 the Board of Supervisors approved a Predevelopment Services Agreement (PDSA) related to the Kino Sports & Entertainment Complex. Approval of the PDSA obligated Knott Development to perform additional architectural, engineering, geotechnical, design-build and financial services to refine details for the proposed Iceplex and Field House elements of the Kino Sports & Entertainment Complex project.

During the Board discussion, Supervisors asked questions about prior local ice sports facilities; the need for additional ice sports venues; water consumption by ice rinks; labor considerations for facility construction; and the economics of sports and entertainment venues in light of the recent pandemic. I met with Frank Knott on May 7, 2021 to discuss these topics, as well as the overall project business plan. Attached is a letter from Frank Knott providing additional information related to the April 20, 2021 questions.

As work related to the PDSA continues, the overall project business plan and related Master Developer Partnership Agreement are being finalized by Knott Development and County staff. It is expected these documents will be distributed to the Board by June 8, 2021, prior to Board of Supervisors consideration on July 6, 2021.

Mr. Knott has indicated that he is regularly traveling to Tucson and is available to meet individually with Board members to discuss the project. Deputy County Administrator Carmine DeBonis Jr. is able to help coordinate and participate in such meetings.

Attachment

c: Jan Lesher, Chief Deputy County Administrator
Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Nancy Cole, Director, Capital Program Office
Reenie Ochoa, Director, Stadium District & Kino Sports Complex
Terri Spencer, Director, Procurement Department
May 18, 2021

Mr. Chuck Huckelberry
County Administrator
130 West Congress Street, 10th Floor
Tucson, Arizona 85701

Re: Kino District Questions

Mr. Huckelberry:

Thank you for the opportunity to respond to the questions posed by the Board of Supervisors (the “Supervisors”) during their April 20, 2021 meeting and pertaining to our planned Kino District development within the Kino Sports & Entertainment Complex. Our responses are grouped into the following categories: 1) the historical business model of ice sports facilities in Tucson; 2) Kino District Iceplex ("Iceplex") utilization; 3) Iceplex viability and repurposing capacity; 4) Iceplex environmental sustainability; 5) project labor considerations; and 6) public private partnership economics. I hope our responses provide the information and clarifications sought by the Supervisors and look forward to additional opportunities to engage with the Supervisors as the Master Developer Partnership Agreement ("MDPA"), development and construction processes move forward.

History of Local Ice Sports Facilities.
The Supervisors raise important considerations regarding the successful operation of an ice sports facility. On the one hand, the Supervisors directly identified the lack of operational success by past iterations of regional ice rinks. At the same time, the Supervisors’ questions highlight the effects associated with poor business model adoption and programming choice.

The lack of historical success for Tucson ice rinks was a development aspect we examined thoroughly with our local partners. Based on all available information, it is clear that rink closures were the result of timing, self-limiting business models and/or a lack of comprehensive facility programming. Of more limited guidance, the County’s unsuccessful 2009 Ted Walker Park procurement effort resulted from the lack of a suitable awardee and business model, not from the inability of the community to support an ice complex.

From a timing perspective, the twenty year period associated with the operation and closure of the most recent rink facilities predates the decade long state-wide expansion of, and galvanized interest in, ice hockey at the professional and amateur levels. It appears that the then-nascent stage of the youth and adult hockey community in Tucson posed unique challenges that were exacerbated by business model selection. In developing a robust ice sports facility, it is necessary to provide adequate diversification of facility programming. Prior attempts were deficient in this area. Programming two sheets of ice based solely on a small hockey and figure skating population (i.e., 30 players in the local youth hockey organization and a similarly limited adult hockey cohort) substantially increases the odds of business failure due to a reliance on the ubiquitous “build and they will come” philosophy.
Moreover, programming choice failed to include non-skating programming or variations to local skating, with no substantive travel hockey or tournament strategy (which was, itself, a nonexistent industry in the 1980’s and 1990’s and one only in its infancy during the early 2000’s). The difference between the 1987-2007 era and the present is significant. In its current iteration, the region is working with an entirely different generation of existing users, pent-up demand and external market participation potential.

It is the combination of skating, non-skating and tournament programming that provides an ice sports facility such as the Iceplex with an advantage, from both the operational and financial perspectives. In short, well-designed and diversified facility programming leads to paid ice time hours which, correspondingly, drives cash flow which leads to long-term operational stability and financial sustainability.

Iceplex Utilization.

As opposed to past regional efforts, the Iceplex is programmed and operates differently. Instead of hoping a small number of users are capable of economically supporting the facility, Knott Development, Iceplex management and anchor tenant partners engaged in a process that drove programming design in order to cater to local, regional and national markets. It is a model that ensures substantial facility use and financial stability upon opening. This is due to a focus on the most important barometer of any well-managed ice sports facility – paid ice time hours, whether by organizational contract or a la carte (i.e., session-based) programming attendance. The Iceplex is long on both revenue sources given its diverse programming.

Our programming already includes substantial contract users such as the Junior Roadrunners, Tucson Adult Hockey League (“Adult League”) and My Hockey Tournaments. During the predevelopment period within the MDPA, Knott Development will be announcing additional contract users such as national summer camp sponsors and a national prospect youth hockey league. Also included will be session-based program offerings such as public skating sessions, broom ball, learn to skate clinics, learn to play hockey clinics, ice bumper cars, curling, freestyle figure skating sessions, hockey skills training sessions, locally-sponsored summer camp programming, birthday parties as well as corporate events – a well-diversified mix of ice entertainment activities. Complementing both contractual and session-based attendance will be the Athletics Inclusion Foundation. As Knott Development’s site-based and community focused charitable endeavor, the Athletics Inclusion Foundation is projected to add 200 underserved children (and significant paid ice time hours) to both programming formats during its first three years.

In response to the Supervisors’ specific questions regarding local organization needs, a look at the Junior Roadrunners’ and the Adult League’s actual ice time demands quantify the underpinnings of a comprehensive facility with multiple sheets of ice. The Junior Roadrunners average approximately 50 players (12U, 14U, 16U, 18U) to 100 players (6U, 8U and 10U) on the ice simultaneously. These levels are far in excess of USA Hockey’s recommended concentration level for proper skill development. This type of player congestion is equivalent to holding a basketball practice with 50 players on a single court or a baseball practice with 60 players on a single diamond. In this type of setting, player development, enjoyment and participation levels materially suffer. In fact, the Junior Roadrunners currently have available merely 20% of the ice time they require. In a similar manner, based on its 5-year expansion and significant backlog of players, the Adult League is poised to greatly expand its current scheduling upon availability of added ice time. Representing a multi-hour, multi-day per week anchor tenant, the Adult League will double its current evening schedule upon the Iceplex’s opening and will offer sought after mid-day pickup game sessions.

While the majority of paid ice hours reside with these types of contract users, equally important are public and session-based programming options. Given their non-contract status, it becomes vitally important to design, schedule and predict consistently achievable attendance. In order to accurately project public and session-based
attendance, we engaged in an analysis of non-traditional ice sports facility markets, including one that is specifically relevant, Flagstaff. Given its smaller population in comparison to greater Tucson, Flagstaff’s public and session-based programming attendance served as one of the baseline proxies for the formation of the Iceplex’s business model. For instance, in order to meet hourly revenue requirements, we assume no more than 20 participants at a public open skating session — substantially similar to attendance figures in Flagstaff, which draws from a significantly smaller pool of actual and potential participants. Using a similar analysis and predictive framework for all permutations of session-based programming, Iceplex management and Knott Development constructed a business model that ensured financial stability assuming limited attendance volumes across non-contract programming.

Based on our existing user contracts and modest assumptions for non-contract, session-based usage, a focus on overall hourly use (as opposed to the number of ice sheets) clearly demonstrates the Iceplex’s viability. In any calendar year, there are approximately 17,500 hours of Iceplex programmable time. In order to achieve cash flow positive status, depending on the final development costs, only 8,500 to 10,000 paid hours are required (a 48-57% utilization/occupancy rate). Presently, the Iceplex has committed contract users and reasonably achievable levels of public and session-based hourly use approaching 13,000 hours, with the majority represented by contract users. It is clear, even at this point in the development cycle, that the Iceplex will open as a cash flow positive facility — a metric that will only improve with additional contract users retained during the predevelopment period within the MDPA.

Facility Viability and Repurposing.
As the Supervisors noted, the current pandemic presents a stark reality to business models requiring significant user attendance. It likewise requires operators to maintain adequate remedial plans to address any local, regional or national economic disruption. In the case of the Iceplex, its specialized function demands fiscal and design flexibility. To that end, the low utilization rate required to reach annualized positive cash flow provides the Iceplex with significant operational cushion in the face of prolonged economic malaise. Moreover, the Iceplex (in addition to the Field House and all other Kino District anchor elements) will maintain reserves sufficient to meet multi-year financial obligations. In this manner, Knott Development and Iceplex management will enable facility viability and financial integrity throughout varying degrees of periodic economic decline.

In the face of operational challenges, facility design requires the capacity and flexibility to adapt and repurpose programming. The Iceplex’s design, and experience of its management team, achieves this goal. Any of its rinks could be readily converted into 4 basketball courts, 4 volleyball courts, or 6 pickleball courts, adding to Field House capabilities. Alternately, each rink could be repurposed to a single indoor soccer, box lacrosse, field hockey or futsal surface. Finally, due to Knott Development’s and Iceplex management’s relationships with active indoor adventure sports program operators, each rink can be adapted to house action sports programming such as BMX cycling, skateboarding and rock-climbing attractions.

Environmental Sustainability.
Our designs and operational planning for Kino District’s facilities, in particular the Iceplex, take into account the unique environmental sustainability challenges posed by Southern Arizona’s climate. As noted by the Supervisors, a primary sustainability consideration involves Iceplex water usage. For comparison, in the Northeast and Midwest, similar facilities could be expected to initially utilize approximately 45,000 gallons of water to create three ice sheets and an aggregate of 9,000 gallons per day for resurfacing. Based on the local environment and long-term aridification concerns throughout the Southwest, from the outset our team was cognizant of the need for consumption mitigation efforts. While the initial water volume required to install our ice sheets is unavoidable,
alleviation of daily and annual operational water demands through passive and active conservation techniques will be achieved.

Water reduction efforts begin with our capture of runoff. Kino District’s civil design was devised to retain 100% of storm water runoff generated by the entire 90-acre site. In addition to site-generated runoff, Kino District’s retention system will tie into the County’s existing infrastructure to offload any available excess storm water captured throughout the remaining portions of the Kino Sports & Entertainment Complex. To further reduce reliance on aquifer-sourced resurfacing water, and using our system’s connection to County apparatus, Kino District will draw from local reclaimed water production sources. Utilizing specialized filtration systems, the Iceplex will convert all retained and reclaimed water to ice resurfacing volume. Knott Development’s widespread deployment of photovoltaic parking canopy systems throughout Kino District will offset the significant energy resources needed to operate the filtration systems.

Kino District’s mechanical systems serving all anchor buildings, including those maintained at the Iceplex and Field House, will augment our water savings efforts. Our primary goal in this vein is to utilize system enhancements to create a reduction in overall water usage to offset required Iceplex resurfacing. Secondarily, we seek to create additional sources of resurfacing volume. Among the implementations to be employed are recycling of Zamboni ice dump, zero flush urinals and reduced flow/automated fixtures. Linking to our site-wide retention design, anchor elements will utilize grey water recapture systems to contribute additional resurfacing volume to the Iceplex.

Water conservation efforts also extend to behavior modifications within Iceplex operations. Typically, ice resurfacing occurs after each used time slot, increasing resurfacing volume requirements. As a means to reduce water consumption, strategic resurfacing will be employed. Where safety and ice sheet conditions permit, Iceplex management will limit resurfacing activities to every 2-3 used time slots. While certain public uses are appropriate for these efforts, the greatest opportunities for reduced resurfacing activity are following figure skating sessions as well as 6U, 8U, 10U and 12U youth hockey practices.

At this juncture, the total reduction in the Iceplex’s dependence upon municipally provided water is not calculable with the exception of reduced resurfacing activities. Based on current Iceplex scheduling projections, staggered resurfacing, alone, could reduce aquifer dependence by approximately 270,000 gallons annually. More comprehensive and concrete consumption savings will be quantified during the predevelopment phase within the MDPA, and updated calculations will be presented to County staff and the Supervisors.

Project Labor Considerations.
From the outset of our development planning, we were aware of the community-based opportunities that exist with a large-scale development project of this nature. Beyond customary economic development benefits, we recognize that wide-spread local and regional job creation from development activities is especially important in a post-pandemic recovery.

From the planning perspective, and in line with our policy of supplementing our core design-build team with local consultants and major design-build subcontractors, we retained firms located in the Tucson and Southern Arizona markets or that had significant experience in the region. We are pleased that several local and regional firms joined our team, creating an initial layer of economic benefit to the region. Those firms include The Planning Center (master planning and landscape architecture), Ninyo & Moore (geotechnical services), Barker Contracting (solar contractor), Kittelson & Associates (roadway and traffic engineering), Haydon Building Corp (civil construction contractor), Dibble Corp (civil engineering), and DFDG Architecture (anchor element and associate Knott Development}
architect). Based on the broad scale of construction activity set to occur with the development of Kino District, the number of participating local and regional firms and the accompanying jobs created will substantially increase. Knott Development does not import contractors and subcontractors from outside jurisdictions.

The point raised by the Supervisors concerning local work force jobs and worker treatment strikes a personal chord. Our family’s business was founded by tradesman (specifically master carpenters and masons) in 1908. As the business grew into a large-scale construction and development firm, the lessons learned by my great grandfather as an ill-treated independent tradesman were passed to each succeeding generation as well as his dictates for fairness, respect, dignity and opportunity. The result was that our family did not subcontract trade work and skilled labor. Instead, those professionals were revered, long-term employees, many from whom I learned valuable work and life lessons.

These formative experiences have profoundly shaped my development approach. As a result, I am respectful of two equally important constituencies for this project; organized labor and small businesses. My team will be soliciting the entire local and regional labor market regardless of organizational status. Our bid evaluations will be based on a blended combination of experience, past performance/references and pricing. Our guidepost will be fair and open competition for trade partner selection. In order to foster additional local and regional relationships and to ensure that our development activities benefit a broad array of local and regional businesses, I have and will continue to reach out to local and regional labor and small business organizations in order to achieve the best possible result for Kino District, the County and the region.

Public Private Partnership Economics.

One important clarification to provide to the Supervisors relates to the economic construct of Kino District which, as was noted, is a public private partnership structure. While there are many variants to these types of arrangements, some of which do include public funding, our Kino District development plan is quite different. There is no County funding being provided for any portion of Kino District’s development costs. All of our required funding is proposed to be provided by private capital partners with whom Knott Development has extensive relationships. In addition, due to the structure of our public private partnership, the County will directly receive the majority of net cash flow generated by Kino District, an amount currently expected to total $350 million of the $7 billion in projected overall regional economic development benefits during the life of the project. Also, and in contrast to many public private partnership structures, Kino District will pay all applicable property taxes, without discount, as well as market-rate ground rent to the County.

Again, thank you for the opportunity to address these important questions raised by the Supervisors. I look forward to continuing this dialogue with the Supervisors, local and regional stakeholders and the general public as our work proceeds.

Regards,

Frank Knott