

**MEMORANDUM**

**To:** Banking Committee  
**From:** Board Office  
**Subject:** Report on Feasibility Study for University of Northern Iowa Proposed Event Complex  
**Date:** October 9, 2003

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**Recommended Actions:**

1. Receive the report of the feasibility study on the proposed business plan, including the assumptions for revenues and expenditures, for the Event Complex conducted by C.H. Johnson Consulting, Inc., of Chicago, Illinois.
  2. Request that the University provide to the Board a recommendation concerning the program enhancements proposed by C.H. Johnson Consulting, proposed sources of funds for any recommended enhancements, and how these enhancements would affect the design and budget for the facility.
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**Executive Summary:**

In July 2003, the Banking Committee was asked to review the University of Northern Iowa's report on the proposed business and financing plans for the Event Complex, including the University's understanding that construction of the Arena would not begin until funding has been secured in the amount of \$19.5 million.

The Banking Committee was also asked to consider providing recommendations to the Board and University regarding the proposed financing plan.

The Banking Committee recommended that a third-party feasibility study be obtained to validate the business plan estimates of operating revenues and expenses.

As a result of a Request for Proposal process, in which Board Office staff participated, the firm of C.H. Johnson Consulting of Chicago, Illinois, was selected to undertake the study.

Matthew Summy and David Stone of C.H. Johnson Consulting will attend the October Banking Committee meeting and provide a report on the feasibility study.

The executive summary of the report is attached to this memorandum.

The study, which includes a market analysis and estimates of demand for the Event Center as well as the projected financial performance, concludes:

- The Arena has the opportunity to become the area's premier mid-sized facility, which will keep it out of direct competition with the larger and smaller venues and will make the University more attractive to a larger universe of events.
- The Event Complex has the ability to be financially self-sufficient and exceed the minimum requirements for debt service coverage.
- The Consultant's Field House Enterprise Financial Projection is included as Table 5-10 of the report. (Section 5, page 23; also attached to this memorandum.) Salaries, wages and employee benefits are projected to increase at an approximate annual rate of 2.8%, while operating supplies and expense would increase by approximately 2.5%.
  - The Board Office notes that historically the salary, wages and benefit increases have been higher and questions whether the projected increases are high enough.
  - The University's pro forma submitted to the Banking Committee in July included a four percent annual increase in most revenues and expenditures.
- The report notes that mid-sized venues can be successful, but "the facility program must contemplate the end-user and the business model must be developed in tandem with the physical program to ensure that revenue producing features are available to support the product types and that calendar management is handled appropriately." (Section 4, page 24)

While the consultants have indicated that the Event Complex has the ability to be financially self-sufficient as currently designed, they are encouraging the consideration of several programming elements that would improve the competitive position of the Complex, improve its appeal to University sponsors and event promoters, and enhance the revenue potential for the Facility.

These elements, which are estimated by Johnson Consulting to cost a total of \$2.4 million with a projected annual gross yield of \$464,500 (\$2,322,500 over a five-year period), include the addition of kitchen and vendor services areas, seating with premium seats, team store / merchandising with box office, and retractable seating for the north end. The consultants did not provide a financial proforma which included these additional costs or additional, projected revenue.

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**Background:**

July 2003  
Banking  
Committee

At its July meeting, the Banking Committee was provided with potential conditions for consideration in its review of the proposed business and financing plans for the Event Complex.

The Banking Committee discussed a number of specific items and agreed to the following:

Student Financial  
Support

1. Student Financial Support – Student Fees
  - a. There will be no increase in the current Field House (UNI-Dome) student (building) fee, which is \$90 per academic year, to support construction or operation of the proposed Arena.
  - b. The student activities fee(s) for athletics can be used to secure the issuance of bonds for the Arena but are not to be used to finance the debt service or operational costs of the Event Complex.

General Fund  
Support

2. Academics - General University Support
  - a. There is to be further discussion between the Board Office and the University regarding the proposed annual two percent inflationary increase in general fund support for the operations of the Event Complex above the FY 2004 budgeted level (\$730,830).

Planning Issues

3. Planning Issues – A revised business and financing plan should be presented to the Banking Committee at a future date and should reflect the following:
  - a. Updated fund-raising information including the status of pledges reported to be in arrears, as well as the status of additional fund raising efforts.
  - b. Review of the proposed loan agreement with the City of Cedar Falls.
  - c. Consultation with bond counsel to determine allowable uses of the Fieldhouse (UNI-Dome) surplus funds.
  - d. Completion of an independent third-party feasibility study to validate the business plan estimates of operating revenues and expenses.

Selection of C.H. Johnson Consulting, Inc. C.H. Johnson Consulting, Inc., was selected to undertake the independent third-party feasibility study as a result of a Request for Proposal (RFP) process.

Responses were received from five consulting firms; three of the firms were interviewed via conference calls; these calls included a representative from the Board Office.

As a result of the interviews, the firm of C.H. Johnson Consulting, Inc., was selected to undertake the study.

Johnson Consulting is a Chicago-based economics, sports, and real estate consulting firm with extensive experience in the planning (including economic and fiscal impact studies, financial analyses, and tax projections) and operation of public assembly facilities such as arenas, stadiums and performing arts centers.

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**Analysis:**

To complete its analysis and projections concerning the Events Complex, Johnson Consulting performed a number of tasks including the preparation of projections of the Event Complex future operating revenues, expenses and demand schedules for both the UNI-Dome and the planned arena, and the preparation of a cost-benefit analysis for elements that could be incorporated into the physical program for the Arena to enhance its long-term operating potential.

The Feasibility Study is broken down into the following sections:

- Report Letter
- Introduction, Methodology, and Executive Summary
- Market Analysis and UNI Facilities Operating Profile
- Arena Industry and Competitive Positioning Analysis
- Event Complex Demand and Operating Projections
- Facility Program Options

Field House System The report assumes that the Field House System, a self-liquidating, revenue-producing entity, will include the Arena when it is completed.

Market Analysis The objective of the market analysis was to identify factors that may affect the level of support that would exist for an additional sports and multipurpose facility at the University.

According to the consultants, characteristics such as population, employment, and income are not strict predictors of performance for university-based facilities. However, they provide insight into the capacity of a market to provide ongoing support for facilities or activities.

Johnson Consulting also assessed various conditions and characteristics of the University including current and projected student enrollment, athletic programs offered, resource support for entertainment programming, and the quality of existing facilities.

The consultants believe that by moving some of the athletic events currently held in the Dome and West Gym to the Arena, the Dome will be able to capitalize on more open days that can attract events such as concerts, family events, and trade shows. The additional open dates will generate higher revenues.

According to the consultants, the Event Complex demand is projected to increase to a maximum of 133 events and 654,000 attendees, as the Arena builds up a base of demand and proves its attractiveness as an events destination. These numbers compare to an average for FY 2001 – FY 2003 of 95 events held in the Dome and West Gym; the average annual attendance was 319,830.

Arena Industry,  
Competitive  
Positioning  
Analysis

The consultants noted that the nationwide trend to build new arenas and stadiums in the last decade has not been limited to large urban areas with major professional sports franchises but also includes suburban and mid-sized metropolitan areas and colleges and universities.

To maximize the impact of its facilities, the University must attract a high volume of visitation from outside the University population. The consultants note that the age, quality, and size of existing arena-oriented facilities in the region, points to a service gap for a high quality facility that is capable of hosting events targeted for mid-sized audiences.

The report analyzed three arenas (Peoria Civic Center Arena, Peoria, IL; Spokane Veterans Memorial Arena, Spokane, WA; US Cellular Center, Cedar Rapids, IA) to highlight important operating criteria.

Both the Peoria Civic Center and the Spokane Veterans Memorial Arena report net operating income. This has been attributed to the ability of these two facilities to offer priority to a range of higher revenue producing entertainment events, including concerts, family shows and other sports, which appeal to a broad cross-section of the marketplace in addition to the sports programming.

In the case of the Spokane Arena, the consultants note that on the design side a cognizant effort was made to address the end user and facility clients to ensure that it was a functional business. The Arena incorporates full functionality through the flexible configuration, revenue producing features, and other amenities.

In contrast, according to the consultants, the US Cellular Center struggles to balance a program schedule that is able to produce a net profit on an annual basis. The Center hosts a majority of consumer shows and conventions and only a smaller number of concert and family show events.

The consultants concluded this section of the feasibility study by stating,

“The success of facilities in mid-sized markets is far from assured given the complexities and challenges of the modern arena industry. Nonetheless, the emergence of a clear circuit of events geared toward mid-sized markets and the proliferation of product options in categories such as family shows, points to the opportunities for mid-sized venues. To be successful, however, the facility program must contemplate the end-user and the business model must be developed in tandem with the physical program to ensure that revenue producing features are available to support the product types and that calendar management is handled appropriately.” (Section 4, page 24)

Operating  
Projections

Johnson Consulting has indicated that implicit in its review is an evaluation of the feasibility of operating the Event Complex as a self-sufficient operation under a single management structure. Self-sufficient has been defined as “without additional annual operating support from the University or an increase in student fees.” (Section 2, page 1)

In July, the Banking Committee asked that there be further discussion between the Board Office and the University regarding the University’s proposed annual 2 percent inflationary increase in general fund support for the operations of the Event Complex. The Board Office had suggested that this amount not increase above the FY 2004 budgeted level of \$730,830.

General Fund  
Support

Table 5-10 (Section 5, page 23) of the report has University support of the Event Complex remaining constant at \$716,000 or the FY 2003 actual amount.

Types of Events

As noted above, the consultants attribute, in large part, the positive operating income for the Peoria Center and the Spokane Arena to the relative proportion of higher revenue generating activities that take place in the facilities.

In 2006, the year in which the Arena is scheduled to open, the consultants have projected a total of 116 events in the Event Complex; this number includes 60 UNI sports games/matches and 56 other events including high school commencements (4), high school football playoffs (7), high school football games (8), entertainment events (6), other sports (20), flat-floor events (6) and concerts (5) (see Table 5-6 of the Feasibility Study).

The projected total attendance (Table 5-8, section 5, page 19) in 2006 shows the following: UNI sports games/matches (176,600) and all other activities (292,100) including: high school commencements (27,200), high school football playoff games (59,500), high school football games (18,400), entertainment events (27,000), other sports (72,000), flat floor events (63,000) and concerts (25,000).

Table 5-10 - Field House Enterprise Financial Projection (Section 5, page 23) of the Feasibility Study is attached to this memorandum.

While the report (Section 5, page 31) indicates that salary levels are assumed to increase by four percent per year, Table 5-10 shows salaries, wages and employee benefits increasing by an approximate annual rate of 2.8%, while operating supplies and expenses would increase by approximately 2.5%.

- If salaries were increased by four percent per year after the Arena is open and no additional staff is added beyond those included in Table 5-15 (Section 5, page 31), the proforma would appear as included in Attachment C included with this memorandum.

Revenue from ticket sales for University athletic events are accounted for as Athletic Department revenue; for UNI-sponsored athletic events, the Athletic Department receives a 45 percent commission on gross revenues (less sales tax).

Table 5-10 shows the projected net concession income increasing from \$606,000 in 2005 (before the Arena opens) to \$1,198,000 with the scheduled opening of the Arena in 2006 and increasing thereafter.

- The consultants noted that the Arena will contain more points of sale than are currently available for existing events and will generally allow for a higher quality of food service in both the Arena and the Dome. In addition, since there is no true concession service in the West Gym, the relocation of volleyball, women's basketball, and wrestling to the new Arena will have a positive impact on sales.
- Table 5-12 (Section 5, page 27) includes the assumptions of gross per capita sales for each type of event. For example, the assumptions include an increase for gross per capita sales for UNI Men's Basketball Games from \$.90 to \$1.75, an increase of 94.4%. The Banking Committee may wish to request a further explanation of the increases included in the Table. (Net concession income is the largest single source of revenue once the Arena opens.)

Program Options While the consultants believe that the Event Complex has the ability to be financially self-sufficient and exceed the minimum requirements of debt service coverage, they are recommending, based on their experience with the development and long-term operations of comparable facilities that the University and Regents contemplate the addition of several programming elements that would improve the competitive position of the Complex, improve its appeal to University sponsors and event promoters, and, perhaps, most importantly, enhance the revenue potential for the Facility.

The consultants note that while these elements would require an additional capital outlay during the development process, their analysis indicates the revenue over the first five years would not only pay for the improvements, but yield additional revenue for the facility in the long term, thereby reducing the potential exposure and mitigate risk for the University and the Board. These items, which are summarized below, are detailed in Table 6-5 (Section 6, page 8):

- Kitchen and vendor services area for food and beverage service (estimated cost of \$1.2 million, estimated annual gross yield of \$196,500);
- Seating with premium services, including alumni area rental (estimated cost of \$750,000, estimated annual gross yield of \$134,400);
- Team store / merchandising with box office (estimated cost of \$175,000, estimated annual gross yield of \$77,400); and
- Retractable seating for north end (estimated cost of \$250,000, estimated annual gross yield of \$56,200).

Projected revenue from these enhancements is not included in the financial proforma, Table 5-10.

Johnson Consulting will provide an update on proposed program enhancements at the Banking Committee meeting.

The Board Office recommends that the University be asked to provide recommendations to the Board concerning proposed enhancements.