AGENDA ITEM 15b

MEMORANDUM

To: Board of Regents

From: Board Office

Subject: Purchase and Financing of New Scoreboard and Videoboard for Kinnick Stadium

Date: December 1, 2004

Recommended Action:

Consider the University of Iowa's request to acquire a new state-of-the-art scoreboard and videoboard from Daktronics of Brookings, South Dakota, for Kinnick Stadium, and to authorize and direct the Executive Director to approve and execute the loan agreement and such other documents as may be necessary as approved by bond counsel.

Executive Summary:

The University of Iowa requests approval of the purchase and financing of a new state-of-the-art scoreboard and videoboard for the south stands of Kinnick Stadium.

In March 2004, the Board approved the Kinnick Stadium Renovation project. The $86.8 million estimated project cost included $1 million in funding for acquisition of a new scoreboard/videoboard and sound system; the University indicated that an additional $3 million in costs would be funded outside the project.

The purchase of a new scoreboard involves the buyout of the current agreement with Actions Sports Media (ASM). On August 1, 1997, the University of Iowa entered into a ten–year agreement with Gameday Sports Network, Inc. of Tulsa, Oklahoma (now known as Actions Sports Media of Portland, Oregon) for a new video advertising display unit with the related controls in Kinnick Stadium.

- Pursuant to Article XIV of the Video Screen System Agreement with Actions Sports Media (included as Appendix A), the University of Iowa proposes to exercise its option to purchase the video screen system located at Kinnick Stadium and terminate the relationship for marketing of advertising.
- The Purchase Option Price ($1,970,091.36) and the Buyout of Future Advertising Contracts ($279,375.00) total $2,249,466.36.

In response to a Request for Proposals (RFP) for a new video screen system scoreboard issued on September 8, 2004, the University received two bids on September 27, 2004. Factoring in purchase price, warranties, and other performance factors, the University's evaluation team ranked the Daktronics proposal as superior.

The University requests approval to proceed with the purchase of a new scoreboard for Kinnick Stadium from Daktronics; the following summarizes the costs of the new scoreboard, the costs of the buyout with ASM, and the proposed method(s) of financing the costs.

Item	Cost	Proposed Method(s) of Financing
Daktronics equipment bid	$2,013,300	Taxable loan from Wells Fargo (anticipated 6.18% interest rate, 10 year term; semi-annual payment of $135,552)
Estimated cost of Control Room equipment / software (to be bid in April 2005)	750,000	Financed through project budget (revenue bonds)
Estimated cost of Sound System (to be bid in April 2005)	500,000	Financed through project budget (revenue bonds)
Subtotal	$3,263,300	
Action Sports Media Equipment Buyout	1,970,091	University internal loan to Athletics; loan likely to be for 5 years with terminal balloon payment; assumed interest rate of 5%, annual payment of $250,800
TOTAL	$5,233,391	
Funding in Approved Renovation Budget	-1,000,000	
Additional Funding Needed	$4,233,391	*

*The cost of the buyout for future advertising contracts is not included above; the University reports that this total cost of $279,375 will be charged to current year operations as the revenues from the affected advertising contracts are earned.

Advertising revenues will flow through the Athletic Facilities (bonded) Enterprise; to meet the bond covenants, the loan payments will be made from the system fund of the enterprise. In FY 2004, the actual advertising revenue was $650,000; the estimated annual total of the loan payment requirements (Wells Fargo and internal loan) included in the table above is approximately $522,000.

Background:

1995 Agreement with Daktronics	In June 1995, the Board approved the University of Iowa entering into a ten-year agreement with Daktronics, Inc. to acquire new scoreboards for six campus locations. The University received immediate ownership of the scoreboards and Daktronics reserved the right to sell advertising on designated scoreboard panels at Kinnick Stadium and Carver / Hawkeye Arena for the life of the agreement. The value of the equipment to be installed was \$1,518,000; the purchase was to be financed over a ten-year period at an interest rate of 13.5%. Under the terms of the agreement, Daktronics guaranteed the University \$40,000 in annual income. The projection of total annual revenue to the University based on a ten-year agreement and not including the guaranteed income was \$467,780.

1997 Agreement with Gameday Sports

In June 1997, the Board approved the University entering into a ten-year agreement, effective August 1, 1997 (with one ten year renewal period) with Gameday Sports Network, Inc. of Tulsa, Oklahoma, (now known as Action Sports Media – ASM) to install a new state-of-the-art video advertising display unit (right front panel which consisted of a series of light bulbs was replaced with a 20 x 20 television set) with the related controls in Kinnick Stadium for the start of the 1997 football season.

There were two components to the contract:

- ASM financed the purchase and installation of the video screen, related equipment and the support (known as the "System" with an estimated cost of $3,247,352) in Kinnick Stadium; and
- ASM was given certain marketing rights for sponsorship advertising within Kinnick Stadium, revenue being shared with the University.

Gameday Sports guaranteed revenues to buy out the advertising rights of Daktronics for the existing signage at Kinnick Stadium and Carver/Hawkeye Arena (estimated at $1.0 million in 1997) over a period of eight years which corresponded to the remaining term of the Daktronics agreement.

Gameday retained titled to the new video display unit and assumed all costs of installation and maintenance of the unit; under the terms of the agreement, the University could purchase the System at a price to be determined according to the Agreement (see Appendix A).

In 1997, the University projected to net at least $400,000 more in advertising revenue from local, regional, and national sponsorship programs under the Gameday proposal than would have been generated under the original arrangement with Daktronics; under the terms of the agreement, the University and Gameday were to share jointly in developed advertising revenues.

Daktronics was to continue to remain responsible for maintenance of the six Daktronics scoreboards, for which the agreement was signed in 1995.

Kinnick Stadium Renovation

In March 2004, the Board approved the University's plan to proceed with the Kinnick Stadium Renovation project. The estimated project cost included $1 million in funding for a new scoreboard/videoboard and sound system and identified an additional $3 million in costs to be funded outside the project.

Justification for New Scoreboard

The University has provided the following justification for the acquisition of a new scoreboard/videoboard:

- The existing scoreboard's remaining useful life is three years vs. ten years for a new scoreboard;
- Replacement parts are no longer being manufactured for the current scoreboard and are becoming more difficult to locate on the used parts market;
- The super–structure supporting the current scoreboard is significantly larger than what is required for a new scoreboard; and
- By integrating a new lighter designed scoreboard into the stadium façade, it complements the south end zone plaza area which is being designed to be a gateway to the campus.

Demolition Contract

On August 6, 2004, a contract in the amount of $79,000 was awarded to Maxwell Construction to demolish the Kinnick Stadium south end zone stands following completion of the football season. A key component of this project is the removal and disposal of the existing obsolete scoreboard. Salvage options were included within the project scope.

Statutory Provisions

Under the provisions of the Iowa Code Chapter 262, the Board is authorized to construct, equip, maintain and operate self-liquidating and revenue producing facilities at the universities; the Board is also authorized to borrow money to construct or improve these facilities.

Board Policies

Board policies help ensure that goods and services are competitively bid. Written bids for the universities are required for purchases which are expected to exceed $10,000; movable or fixed equipment (when the latter is not part of a capital project) costing more than $1 million require approval of the Board.

Athletic Facilities Bond Covenants

The bond resolution for the outstanding Athletic Facilities Revenue Bonds, under which the bonds for the Kinnick Stadium Renovation project will be issued, provide that there be no encumbrances on the facilities included in the system, including Kinnick Stadium. An encumbrance would include a security interest lease.

Analysis:

Action Sports Media Buyout	Pursuant to the terms of the Agreement with ASM, on October 28, 2004, Athletic Director Bowlsby sent a letter to ASM giving notice of the University's desire to terminate the agreement effective November 21, 2004. The buyout amounts agreed to by ASM and the University are as follows:

Purchase Option Price for Equipment, Nov. 21, 2004	$1,970,091.36
Buyout of Future Advertising Contracts that Extend through 2015*	279,375.00
TOTAL TERMINATION PRICE	$2,249,466.36

*Under the terms of the 1997 Agreement, Section 14.5, the University can elect to pay this amount as it becomes due or can elect to negotiate a mutually agreeable net present value payment. In response to a question from the Board Office, the University indicated that the payment would be charged against current operations as affected advertising revenues are earned.

Scoreboard Purchasing Process

A Request for Proposals (RFP) was issued on September 8, 2004, for a new scoreboard. The RFP was sent to the following vendors:

Vendor	Location
Barco Media	Logan, Utah
Daktronics	Brookings, South Dakota
Mitsubishi	Lawrenceville, Georgia
Tubeart	Milwaukie, Oregon
Fairtron Corporation	Des Moines, Iowa
White Way Sign	Chicago, Illinois

RFP Responses

On September 27, 2004, responses to the RFP were received from Daktronics and Barco Media. The responses to the RFP were evaluated independently by nine individuals from the University's Department of Athletics, University's Department of Purchasing, University Design and Construction Services, University's Facilities Management, HNTB Architects, Newmann-Monson Architects, M.A. Mortenson, and WJHW Sound Consultants.

The evaluation team recommended the purchase of the Daktronics equipment. Daktronics had a more complete bid response and a lower total cost when including the service contract costs for years 4–10. Additionally, the University reports that Barco did not fully respond to several sections of the RFP.

Bid Summary

Item	Daktronics	Barco Media
Base Bid Price	$1,617,500	$1,465,673
Performance Bond	11,000	14,657
Alternate A1 – Northeast Scoreboard	90,700	114,284
Alternate A2 – Northwest Scoreboard	258,700	270,735
Alternate A3 – Add 2nd Rotating Sign NE	17,700	15,463
Alternate A4 – Add 2nd Rotating Sign NW	17,700	14,936
Total Equipment Cost	$2,013,300	$1,895,748
Alternate C1 – C7 Service Contract*	$ 164,500	$ 369,642
Total Bid Cost	$2,177,800	$2,265,390
Total Bid Points Awarded by RFP** Evaluation Team (out of possible 10,000)	9,030	8,140

*Under either RFP response, the University can elect anytime prior to year four of the agreement to accept the labor and service warranty extension quotes for years 4-10 identified as alternate C in the RFP. The University wishes to accept the warranty at this time so that the entire package can be put together at the beginning. The University can cancel this warranty without penalty before the end of the third year. The University reports that additional analysis will be performed before the first warranty payment is due (beginning of year 4) to determine the financial benefit of accepting the warranty.

**Factors considered in awarding points: response to general specifications, including company requirements and the scope of work; cost of ownership; reliability; service response time; vendor assistance; user friendliness; references; and cost (points awarded without extended warranty cost) The criteria for evaluation of the proposals and the point distribution used in the evaluation were listed in the RFP.

Control Room Equipment / Sound and Public Address System

The University must also purchase control room equipment and software to operate the scoreboard (estimated cost of $500,000–$750,000) and replace the Kinnick Stadium sound and public address system (estimated cost of $500,000). It is anticipated that these two contracts will be bid in April 2005 to take advantage of additional months of experience with new technologies.

Financing

The University requests approval to proceed with the purchase of a new scoreboard for Kinnick Stadium from Daktronics. The University proposes the following financing/payment plan to terminate the contract with ASM and purchase a new scoreboard / videoboard:

- The sum of $1,970,091 to terminate the contract with ASM would be financed through internal University loans (the source of which would be Income from Treasurer's Temporary Investments [TTI]) to Athletics. The University will likely structure the loan to be of a five year duration with a terminal balloon payment in anticipation of growing advertising revenue. At an assumed annual interest rate of 5%, the University estimates an annual payment of $250,800 with a balloon payment of $1,107,000. (The University reports that the interest rate on the internal loan to Athletics will be no less than the University's cost of capital on the interfund loan with repayment to the TTI pool on a monthly basis.)

- The sum of $2,013,300 to purchase the scoreboard/videoboard would be financed through a taxable (non-tax exempt) loan from Wells Fargo that is subordinate to the outstanding bond indentures and is not collateralized by the pledging of any assets. The loan agreement would be for a period of 10 years; an estimated annual interest rate of 6.18%, semi-annual payments would be $135,552.

  - Payment provision would be similar to those of the Board's master lease agreement.

  - According to federal requirements, no more than 10% of the proceeds of a tax-exempt financing can be used for private activity purposes. The display of advertising would be considered to be a "private business use;" consequently the University proposes to use taxable (non-tax exempt financing) to purchase the scoreboard / videoboard.

  - The loan cannot require the pledging of assets due to the requirements of the bond covenants as outlined earlier in this memorandum.

  - In response to an inquiry from the Board Office, the University reports that it is appropriate to assume that the new scoreboard will have a useful life of 10 years and that it be financed over that period of time. The University reports that Daktronics, the proposed vendor, has a long tradition of producing scoreboards. The bid received from the firm provided an option to enter into a service agreement for parts and labor that would keep the boards operational for the ten-year period.

- The sum of $1,000,000 - $1,250,000 to acquire control room equipment/software and sound system would be charged directly to the Kinnick Stadium Renovation project and financed through the planned sales of revenue bonds for the project.

The University has indicated that advertising revenues would be dedicated to the payment of the Wells Fargo loan and the University's internal loan to Athletics. The University reports that in FY 2004, the actual advertising revenue was $650,000 which is greater than the $522,000 estimated annual loan payment requirements to Wells Fargo and the internal loan.

- According to bond counsel, the outstanding Athletic Facilities Revenue Bonds and the bonds that will be issued on a parity with those bonds for the Kinnick Stadium Renovation are secured by the net revenues of the athletic and recreational facilities of the University. The gross revenues of the system include all rents, profits and income derived directly from the operation of the system and include advertising revenues. Since those revenues must first be used to pay debt service on the outstanding bonds and the bonds to be issued and must be considered in the coverage for those bonds, the revenues may be used to pay the Wells Fargo loan in any year only from the system (surplus) funds after debt service and reserve fund payments have been made.

Joan Racki
Joan Racki

Approved: Gregory S. Nichols
Gregory S. Nichols

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APPENDIX A
KINNICK STADIUM SCOREBOARD PURCHASE OPTION

ARTICLE XIV
1997 CONTRACT WITH GAMEDAY SPORTS NETWORK, INC

Section 14.1 Purchase Option. At any time during the Initial Term of this Agreement University shall have the option (the "Purchase Option") to acquire the System from Gameday. The Purchase Option may be exercised by delivering written notice of such exercise to Gameday delivered pursuant to the notice provisions of this Agreement.

Section 14.2 Purchase Price. The purchase price for the System in the event the Purchase Option is exercised during the first 180 months of the Initial Term and Renewal Term, if any, shall be the amount of principal which would be outstanding on the date of purchase of the System had Gameday (a) sold the System on the Commencement Date at, (b) a purchase price equal to $2,700,000.00, (c) accepted a promissory note in an amount equal to (i) the entire purchase price plus (ii) the cost of installing the System, plus, (iii) all sales tax if any, due in connection with acquisition of the System, payable in 180 equal monthly installments at an annual rate of interest of five percent (5%) per annum as payment of the Purchase price, and (d) all monthly payments on such note had been timely paid. The purchase price for the System in the event the Agreement is extended to a second term, and the Purchase Option is exercised in the final sixty (60) months of that term shall be One Dollar ($1.00).

Section 14.3 Closing. Closing of the Purchase of the System by the University pursuant to Section 14.2 above shall occur sixty (60) days after Gameday receives notice of such intent by the University. At closing University shall deliver the purchase price calculated pursuant to Section 14.2 above and Gameday shall deliver a bill of sale covering the System to such party as University may designate.

Section 14.4 Maintenance, Warranty, Insurance. If University exercises the Purchase Option and acquires the System then from and after such date Gameday shall not be required to maintain the insurance required in Article IX hereof. Gameday agrees to assign all rights under the Standard Warranty and Full Service Maintenance Agreement to University to the extent the Standard Warranty and Full Service Maintenance Agreement are assignable or in effect at the time of closing.

Section 14.5 Payment Between Parties. In the event the University purchases the System under this Article, the University may elect to continue or terminate the marketing of advertisement relationship with Gameday, and:

(a) If the University continues the marketing relationship, Gameday shall pay to the University fifty percent (50%) of Advertising Revenue for each calendar year following such exercise by the University for the remaining terms of the Agreement;

(b) If the University terminates the marketing relationship, resulting in the termination of this Agreement, the University shall remit to Gameday as compensation for Gameday's interest in all outstanding advertising and promotions contracts, fifty percent (50%) of that Advertising Revenue which represents an increase in value over the University's sponsorship commitments attributable to Kinnick Stadium existing upon the Commencement Date of this Agreement. The University shall pay Gameday such sum by one of the following payment methods to be determined solely by the University:

    (i) the net present value of the above sum (calculated pursuant to a mutually acceptable formula); or

    (ii) payments of the above amounts shall be remitted to Gameday as received over the remaining life of said contracts.