

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Iowa State Center Annual Report
Date: January 6, 2003

Recommendation:

Receive the annual report on the Iowa State Center for the year ended June 30, 2002.

Executive Summary:

The Iowa State Center includes the operations of Hilton Coliseum, Stephens Auditorium, Fisher Theater, and the Scheman Building, as well as various outdoor activities such as stadium concerts, barbecues, and dances.

FY 2002 was the 14th year of private management for the Iowa State Center. The management agreement continues to be based upon the concept that the private management company will increase programming and revenues that generate additional income, which more than compensates for the management fees.

In June 2001, the Board approved a new comprehensive management agreement with Spectator Management Group (SMG) for an initial term of five years with an option for a second five-year term. FY 2002 was the first year of management under the new agreement. SMG is responsible for the comprehensive management of the Iowa State Center, including but not limited to financial, human resource, operating, marketing, and programming.

The mission of the Center, its booking priorities and operating policies continue to be controlled by ISU.

Annual
Report

This report contains financial information, activities, and attendance statistics of the Iowa State Center. Iowa State Center is not a self-supporting unit of the University. During the University's annual budget process, it allocates funds to the Center in the form of a general operating subsidy and a utilities subsidy.

The Iowa State Center FY 2002 revenues were \$7.3 million and expenses were \$8.6 million. The Center used \$0.1 million from resources on hand and the University provided an operating subsidy of \$1.2 million. The University subsidy has decreased by 3.5% from FY 2001 to FY 2002.

Operating revenues of the Iowa State Center come from several sources. Concessions, catering and novelty receipts are the largest source making up 44% of total operating revenues. Other revenue sources include building and equipment rent, reimbursed costs, C.Y. Stephens Series, advertising, ticket handling, and promotions.

Net concession revenues decreased by \$42,382 (-9.2%) from FY 2001. These revenues were less than the prior year primarily due to 1) decreases in contemporary event ancillary revenues; and 2) decreases in Hilton concessions revenues due to lower per game attendance for men's and women's basketball games.

FY 2002 experienced a dramatic decrease in concert activity primarily due to the effects of September 11, 2001, and a significant downturn in the economy.

Annual Audit The Iowa Auditor of State conducted an audit on the Iowa State Center for the fiscal year ended June 30, 2002. The audit report indicated that the financial statements were presented fairly in all material respects. No findings were reported.

Strategic Plan:

Annually, the Board is presented with a report on the Iowa State Center in support of the strategic planning goal to provide effective stewardship of institutional resources (Key Result Area 4.0).

Background:

Iowa State Center Management The Iowa State Center includes the Hilton Coliseum, Stephens Auditorium, Fisher Theater, Scheman Building, and the Farmhouse Museum. The management firm is not responsible for Brunner Gallery, which is in the Scheman Building and Farmhouse Museum.

The primary objectives for ISU to have a management firm are to improve financial operations of the Center and increase the number, profitability, and diversity of programs at the Center. The management responsibilities include financial, human resources, operating, and programming including responsibility for concession stands, beverage sales, and novelty sales at the Center.

Following a Request for Proposal (RFP) process, the Board approved a management contract with Spectator Management Group (SMG) in June 2001. SMG assumed management responsibilities in August 2001.

SMG is a closely held joint venture company with two equal principals: the Hyatt Hotel Chain and ARAMARK Corporation. Currently, SMG manages 63 arenas, 7 stadiums, 31 performing arts centers, 44 convention centers, and 11 other recreational facilities.

Analysis:

FY 2002
Highlights

- The Conference Services Division held several special events as a result of partnership efforts between the Center, University Conference Services, and the Ames Convention and Visitors Bureau.
 - The largest event was the 17th Biannual International Pig Veterinary Congress. This event was last held in Sydney, Australia. Nearly 2,000 participants, mostly from overseas, attended the conference.
 - Two other collaborative events were the Lambda Chi Alpha Leadership Conference and the Wisconsin Evangelical Lutheran Youth Rally.
- The 27th Annual Iowa High School State Speech Contest was held for the first time at the Center and is expected to return for an additional three years.
- Other events include the annual Iowa All-State Music Festival, Iowa Music Educators Association, and the Iowa Shrine All Star Football Game, Banquet and Trade Show. These events continue to bring large numbers of potential ISU students and their parents to campus.
- During FY 2002, a change was made in the organizational structure of the Center involving programming. The divisions of Contemporary Programming and Performing Arts Programming were combined to form the Programming Division. The combined department has created greater efficiency and will maximize the Center's marketing and programming/event planning efforts.
 - During the first two quarters, the Center hosted two concerts, a sold out Aerosmith show in Hilton Coliseum and the annual Lorie Line Christmas Extravaganza in Stephens Auditorium.
 - In the last two quarters there were 11 concerts / special event bookings including three sold out events – Dave Matthews Band, prairie Home Companion, and Harry Connick Jr. – N'SYNC, Champions on Ice and Tim McGraw.
 - The performing arts component of Programming continued to be aggressive with the Season at Stephens Performing Arts Series, which consisted of 23 attractions and 25 performances. Final ticket sales revenue fell short of budget due to the events of September 11, downturn in the Iowa economy, and severe winter storms occurring on the nights of several shows.

- During FY 2002, the Center worked with the ISU Department of Environmental Health & Safety to obtain approval to conduct general admission (GA) festival seating concerts in Hilton Coliseum. Approval was sought to 1) improve the concert booking availability at Hilton Coliseum; and 2) increase revenue streams. The Center hosted its first GA concert in 2002 with the band Weezer. The success of the concert has increased building inquiries for general admission concerts.

Annual Report

The audited financial statements show FY 2002 operating revenues of \$7.1 million, a 4.5% increase over FY 2001. The operating transfer represents both a transfer from the general fund and a transfer from resources on hand. The transfer from the general fund has decreased by \$42,587, a 3.5% reduction.

Operating expenses of \$8.6 million represent an increase of 4.5% over FY 2001. Increases in operating expenses can be partly attributed to increased security costs as a result of the effects of September 11th.

	2001	2002
Operating Revenues	\$6,817,403	\$7,125,806
Non-operating Revenues	181,776	135,653
Operating Transfers	<u>1,227,447</u>	<u>1,332,719</u>
Total	\$8,226,626	\$8,594,178
Operating Expenses	\$8,226,626	\$8,594,178

Management Fees

The Center was managed by ARAMARK for one month of this fiscal period. ARAMARK was paid a monthly management fee of \$12,500, net of any expenses incurred over and above normal Center operating costs and a 10% commission of concessions and merchandise sales.

A new management agreement with SMG was effective August 1, 2001. This agreement established an annual fee of \$120,000 subject to annual adjustments and a 10% commission on net concessions and merchandise sales. The following table shows fees for the past ten years.

<u>Fiscal Year</u>	<u>Management Fee (net)</u>	<u>Commission Fee</u>	<u>Total Fees</u>
1993	\$143,932	\$ 98,524	\$242,456
1994	135,000	89,416	224,416
1995	120,000	123,197	243,197
1996	135,000	109,185	244,185
1997	134,000	120,737	254,737
1998	134,000	95,289	229,289
1999	134,000	128,868	262,868
2000	134,000	120,828	254,828
2001	150,000	117,470	267,470
2002	122,500	111,560	234,060

Concession Sales

The net return for concession sales, after the SMG concessions commission payment, has fluctuated over the years from 27.0% in FY 1987 (the benchmark year), to a high of 52.4% in FY 1995, to 35.3% in FY 2002. This fluctuation is a result of a variance in attendance.

The net concessions sales decreased by \$42,382 (-9.2%) from FY 2001. The University reports that the lower net return, compared to previous years, was due to 1) decreases in contemporary event ancillary revenues; and 2) decrease in Hilton concessions revenues due to lower per game attendance for men's and women's basketball games.

<u>FY</u>	<u>Gross Sales</u>	<u>Net Concessions</u>	<u>Net Return</u>
1987*	\$ 440,359	\$ 118,897	27.0%
1988**	762,734	221,193	29.0%
1989	616,050	234,099	38.0%
1990	746,020	331,233	44.4%
1991	923,272	433,938	47.0%
1992	850,686	401,524	47.2%
1993	985,931	430,852	43.7%
1994	889,511	426,076	47.9%
1995	1,233,487	646,347	52.4%
1996	1,092,144	560,270	51.3%
1997	1,207,370	650,042	50.1%
1998	952,891	388,213	40.7%
1999	1,288,683	597,699	46.4%
2000	1,209,319	479,160	39.6%
2001	1,175,903	459,125	39.0%
2002	1,179,981	416,743	35.3%

* Benchmark year.

** Ogden contract effective February 1988.

Conference Services

The following table compares the budget to actual for conference services at Scheman.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>%</u>
Rooms Sold	4,378	4,299	(79)	(1.8)%
Revenue/Room	\$189.19	\$213.05	\$23.86	12.6%
^{Sold} Room Revenue	\$828,300	\$915,905	\$87,605	10.6%
Scheman Revenue	\$1,010,050	\$1,021,588	\$11,538	1.1%
Scheman Net (Loss)	(\$424,442)	(\$214,086)	\$210,356	49.6%

Building and equipment rent accounted for 15.4% of the operating revenues in FY 2002. While the number of rooms sold for the year fell short of the budgeted amount, the revenue per room sold was significantly above the budget. The primary reason for this increase is due to increasing media rental revenue from groups requiring highly technical audiovisual equipment.

Programming FY 2002 experienced a dramatic decrease in concert activity primarily due to the effects of September 11, 2001 and a significant downturn in the economy. Although concert event days were down by 30% from FY 2001, total event days increased by 4% and event revenues increased by 8% over FY 2001.

	Days		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Athletic Events	60	62	2
Conference/Trade/Flat Shows	42	41	(1)
University Events	48	57	9
Concerts/Special Events	16	11	(5)
Fisher Theater	52	56	4

Attendance Total attendance at the Iowa State Center (including Brunner Gallery and Farmhouse Museum for which SMG is not responsible) in FY 2002 was 919,368.

<u>Fiscal Year</u>	<u>Total Attendance</u>
1987*	859,771
1988**	944,793
1989	894,063
1990	918,491
1991	806,184
1992	835,207
1993	972,858
1994	808,943
1995	1,005,181
1996	905,408
1997	895,523
1998	861,766
1999	1,052,777
2000	1,101,452
2001	873,738
2002	919,368

* Benchmark year

** Ogden contract effective February 1988

Employment Opportunities During FY 2002, the Iowa State Center continued to provide employment opportunities for 533 part-time employees with an aggregate part-time payroll of \$1,078,807. Approximately 60% of these employees were ISU students working in a variety of jobs such as technical production, front-of-house positions, including ushers and peer security, traffic control, custodial, concessions, and conference services.

Initiatives

Initiatives at the Iowa State Center during the year addressed marketing opportunities, organizational structure, and infrastructure needs including:

- Provided more exposure to the University by including the Iowa State University nameplate in 2,729 event advertising pieces;
- Upgraded food and beverage service in the Scheman Building by transitioning from plastic ware to china for meeting breaks and bar service;
- Developed a paid internship in collaboration with the Department of Apparel, Educational Studies and Hospitality Management;
- Created the Iowa State Center Safety Committee that meets on a monthly basis to address risk management and security issues;
- Developed and implementing a newly reformed Marketing Division; and
- Completed major capital projects including: 1) The Hilton Coliseum renovation that adds new women's restrooms, increases the exiting capacity by adding exit doors and creating ADA areas of refuge; and 2) The final phase of the parking lot and pedestrian light poles replacement.


Deb A. Hendrickson

Approved: 
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