

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

**AGENDA ITEM: 7 – Q
DATE: March 27-29, 2018**

SUBJECT

SDSU Stadium Financials

CONTROLLING STATUTE, RULE, OR POLICY

None

BACKGROUND/DISCUSSION

At the December 2013 Board meeting, the Board approved the financing for the SDSU football stadium. That item included a pro forma provided by SDSU showing revenue and expenditure estimates for the first ten years after the stadium’s completion. The Board requested annual updates on the financial picture of the stadium, specifically asking for comparisons of actuals to the pro forma. Attachment I shows the numbers from the pro forma and the actuals for fiscal year 2017.

The stadium approval included a requirement that SDSU set aside funds in a debt service reserve account equal to the largest annual debt service due on bonded debt associated with the stadium. The amount to be set aside is \$2,592,525. At the end of FY17, SDSU had \$1.35 million in the fund. Currently that fund has a balance of \$2.65 million.

Attachment II is a cash flow statement for the SDSU stadium fund. This statement is being provided because there is some cash activity not reflected on the income statement. This is cash being collected by SDSU for future years that is available for immediate use. This cash is not reflected in the revenue and expenditure statement for FY17 as it is revenue being collected in advance for FY18 premium leases (unearned revenue). SDSU is tracking this and moving the appropriate amount of revenue to the income statement when it is applicable.

IMPACT AND RECOMMENDATIONS

When comparing the pro forma to the actual results, the net operating results from the stadium reflect a decrease of (\$1,025,000). Revenues were down by almost \$1 million. A high level review immediately identifies foundation gifts as the major contributor to the lower number. The foundation gifts were removed from the pro forma by SDSU when the debt service came in \$300,000 lower than expected. The elimination of the gifts removed \$400,000 each year for six years.

(Continued)

INFORMATIONAL ITEM

Another factor was lower than estimated ticket sales. The demand games and premium seating leases did not meet pro forma projections. The sales total for the premium seats looks close but that number includes approximately \$379,000 of sales for the fall 2016 season. When this total is removed, it shows that the premium seat total was approximately 80% of projected. The demand game totals were only 60% of projected. Revenues were aided by concessions being higher than projected. There was a concert at the beginning of the school year and Aramark donated all of the concession proceeds back to SDSU.

SDSU's expenditures were a little higher than outlined in the pro forma if you include the additional transfer of \$280,000. The transfer covered approximately \$50,000 in expenses that were indirect in nature (such as janitorial costs) and the remaining \$230,000 was designated for non-football athletic operating expenses. SDSU's utility expenditures were lower than what had been estimated. This is partially due to the fact that the electricity used by the stadium is paid for by general funds.

A requirement of the pro forma was a commitment by SDSU to set funds aside 2% for M&R. Assuming 20% of the facility value is to be covered each year for the first five years, the total M&R commitment for year one is \$208,000. The total used for this calculation was the \$52 million construction cost. That total includes the field and other non-building costs. SDSU feels that 2% of the total facility cost is more than what is needed to maintain the facility and will be requesting a change to the base number used for the 2% calculation. The board office has recommended that SDSU set up a separate fund to hold the M&R funds and pay for future M&R expenditures.

The impact of lower revenues has reduced the coverage ratio from a projection of 1.25 to an actual result of 1.07 for FY17. While this is only the first year of operation, SDSU will need to continue to monitor the stadium operations to ensure that debt service requirements as well as M&R needs can be met.

ATTACHMENTS

Attachment I – FY17 Pro Forma to Actual Comparison

Attachment II – FY17 Cash Flow for SDSU Stadium Fund and Debt Service Fund

SDSU Football Stadium
FY17 Pro Forma to Actual Comparison

| | <u>2016-17</u> <u>Pro Forma*</u> | <u>2016-17</u> <u>Actuals</u> | <u>Difference</u> |
|-------------------------------------------------------|-------------------------------------|----------------------------------|--------------------|
| Operating Revenue | | | |
| Ticket Sales - SDSU Football | 410,000 | 446,712 | 36,712 |
| Ticket Sales - SDSU Football (sixth game) | 137,000 | 141,321 | 4,321 |
| Ticket Sales - SDSU Football - Demand Games | 1,193,000 | 712,079 | (480,921) |
| Facility Fee (\$2/ticket sold) | 97,000 | 82,589 | (14,411) |
| Premium Seating Leases | 2,251,000 | 2,168,942 | (82,058) (1) |
| Foundation Gifts | 400,000 | 0 | (400,000) (2) |
| Advertising & Sponsorship | 43,000 | 0 | (43,000) (3) |
| Ticket Sales - Other Events | 53,000 | 0 | (53,000) |
| Gross Concessions | 115,000 | 217,176 | 102,176 |
| Net Catering | 35,000 | 43,966 | 8,966 |
| Net Novelties | 3,000 | 0 | (3,000) |
| Gross Game Day Parking | 58,000 | 29,252 | (28,748) |
| Other Revenue | 77,000 | 46,537 | (30,463) |
| Total Revenue | 4,872,000 | 3,888,574 | (983,426) |
| Resources Designated for non-football Athletic | | | |
| Operating Expenses | | | |
| Existing Football Ticket Sales | (649,000) | (649,000) | 0 |
| Existing Football Concessions | (40,000) | (40,000) | 0 |
| Existing Football Event Parking | (38,000) | (38,000) | 0 |
| Additional Transfer to Athletic Operations | 0 | (280,000) | (280,000) (4) |
| Net Resources Available to Stadium | 4,145,000 | 2,881,574 | (1,263,426) |
| Operating Expenses | | | |
| Salary Permanent Staff | (80,000) | 0 | 80,000 (4) |
| Benefits Permanent Staff | (26,000) | 0 | 26,000 (4) |
| General and Administrative | (68,000) | (28,742) | 39,258 |
| Utilities | (160,000) | (48,389) | 111,611 |
| Annual Maintenance & Repairs | (12,000) | (18,745) | (6,745) |
| Stadium Capital Expenditures | 0 | (141,769) | (141,769) |
| Event Insurance | (20,000) | 0 | 20,000 (4) |
| Advertising | (36,000) | 0 | 36,000 (4) |
| Miscellaneous | (20,000) | (23,098) | (3,098) |
| Gameday Expenses | (128,000) | (57,085) | 70,915 |
| Insurance/Service Fee (3% SDBA) | (84,000) | (77,737) | 6,263 |
| Total Operating Expenses | (634,000) | (395,566) | 238,434 |
| Operating Gain (Loss) | 3,511,000 | 2,486,008 | (1,024,992) |
| Plus: Interest Earned on Bonded Funds | 0 | 201,192 | 201,192 (5) |
| Amount Available For Debt Service | 3,511,000 | 2,687,200 | (823,800) |
| Annual Debt Service | 2,813,000 | 2,513,500 | (299,500) |
| Coverage Ratio | 1.25 | 1.07 | |
| Excess of Gain (Loss) over Debt Service | 698,000 | 173,700 | (524,300) |
| M&R Requirement | (208,000) | (208,000) | 0 (6) |
| Remaining Funds | 490,000 | (34,300) | (524,300) |

* taken from the December 2013 Board Item where the pro-forma numbers were presented. There was a footing error of \$200,000 in Total Revenue in the December item. That error has been corrected above.

- (1) This revenue source would generally be collected in March and April for the next years football season. This year there were some funds collected for both the Fall 2016 and Fall 2017 football seasons. The amount that is applicable to the Fall 2016 season was \$379,000. This figure is being disclosed to allow future year comparisons.
- (2) The pro forma included annual gifts for 6 years of \$400,000 from the foundation. SDSU and their Foundation decided that the gifts were no longer needed when actual debt service numbers came in \$300,000 under estimated. This decision eliminates a total of \$2.4 million from the pro forma spread-out over six fiscal years.
- (3) There were no adversting dollars in FY17. The increases will begin in FY18.
- (4) These expenses were not specifically separated out for the stadium. They are blended in with the overall expenditures for athletics. It is to be assumed that part of the additional \$280,000 that was transfered will cover these expenses.
- (5) SDSU received interest income on their bond funds from the South Dakota Building Authority. SDSU used these funds to make a portion of the debt service payment in FY17. These are one time funds.
- (6) SDSU M&R requirement is calculated by taking 20% of the hard building cost and multiplying that by 2%. The hard construction cost of \$52,037,000 was determined in the December 2013 Board Item. SE SDSU feels that 2% of the total facility cost is more than what is needed to maintain the facility and will be requesting a change to the base number used for the 2% calculation.

**SDSU Football Stadium Operating Fund
Cash Flow for FY17**

Cash Flows from Operating Activities

| | |
|------------------------------------------|---------------|
| Current Year Ticket Sales | \$1,300,112 |
| Future Years Ticket Sales | \$0 |
| Current Year Premium Leases | \$2,168,942 |
| Future Year Premium Leases* | \$167,430 |
| Facility Use Fee | \$82,589 |
| Parking | \$29,252 |
| Concessions | \$217,176 |
| Advertising & Sponsorship | \$0 |
| Other Event Ticket Sales | \$0 |
| Catering | \$43,966 |
| Other Revenue | \$46,537 |
| Expenditures for Personal Services | \$0 |
| Expenditures for Travel | \$0 |
| Expenditures for Contractual | (\$276,962) |
| Expenditures for Supplies and Materials | (\$90,151) |
| Expenditures for Capital Outlay | (\$28,453) |
| Transfer to Athletics | (\$1,007,000) |
| Transfer to M&R Fund | \$0 |
| Net Cash Flows from Operating Activities | \$2,653,437 |

Debt Service Activities

| | |
|---------------------------------------------|---------------|
| Transfer for FY17 Debt Service | (\$2,310,749) |
| Transfer for Debt Service Reserve Fund | (\$481,991) |
| Total Cash Used for Debt Service Activities | (\$2,792,740) |
| Fiscal Year 2017 Change in Cash | (\$139,303) |
| Fiscal Year 2017 Beginning Cash | \$335,173 |
| Fiscal Year 2017 Ending Cash | \$195,871 |

* These ticket sales are not reflected on the revenue and expenditure statement because they are for future years. The cash is available for use because the tickets are non-refundable. At the end of FY17, SDSU had \$651,240 in unearned revenue on the balance sheet for this fund.

Cash Flow for the Debt Service Reserve Fund

| | |
|--------------------------------------|-------------|
| Beginning Cash Balance 7/1/16 | \$871,966 |
| FY17 Contributions from Stadium Fund | \$481,991 |
| Ending Balance 6/30/17 | \$1,353,957 |