

SOUTH DAKOTA BOARD OF REGENTS

Budget and Finance

**REVISED
AGENDA ITEM: 6 – H
DATE: October 2-4, 2018**

SUBJECT

SDSU Football Stadium Pro Forma

CONTROLLING STATUTE, RULE, OR POLICY

None

BACKGROUND / DISCUSSION

At the December 2013 Board Meeting, the Board approved the SDSU football stadium project. A provision within the approval was that SDSU had to provide the Board with annual updates of how the stadium was performing compared to the pro forma. The pro forma that was approved in 2013 is provided in Attachment I. Guiding elements of the original pro forma included the expectation of a 1.20 coverage ratio, self-funding of maintenance and repair, and a reserve equal to one year’s debt service payment. Originally, Board approval was premised on keeping profits within the facility to address potential down years, but SDSU requested that a one-year debt service reserve be put in place instead.

The second year of actuals as compared to the second year of the original pro forma can be found in Attachment I. While revenues were down by \$1,093,000 from the projection, \$400k of that was planned; when the debt service decreased by \$303,000 the Premium Seating Stadium Gifts of \$400 were not contributed to the project. Total operating expenses were down by \$292k. The coverage ratio ended up being 1.13 instead of the planned 1.28. M&R was estimated at \$428,000 but actual need was only \$244,000.

The stadium is currently operating in its third fiscal year and SDSU is requesting that the original pro forma be replaced with more accurate revenue and expense data based on actuals from the last two fiscal years. Further, that the annual report go to the Athletic Committee instead of the Board; that the basis for the M&R calculation be based on the

(Continued)

DRAFT MOTION 20181002_6-H:

I move to: 1) approve the revised pro forma for the SDSU Stadium, 2) change the reserve requirement from one full year of debt service, to a reserve of \$125,000 for every basis point below 1.20, and 3) move the annual reporting from the full Board to the Audit Committee.

construction cost of the roofed facility; and finally, that the debt service reserve requirement be changed. The original pro forma is included as Attachment II along with the proposed pro forma which is Attachment III.

Major changes proposed in the updated pro forma include updating the debt service, revenue, expenditures, and maintenance and repair needs. When the pro forma was developed in 2013, the bonds had not yet been issued and as a result, interest rates were estimated. Upon issuance, the bond interest rates were very favorable. The resulting bond payment was about \$300K less. Because of this lower debt requirement, the university has not needed to apply "Premium Seating Stadium Gifts" of \$400k to the pro forma as was originally projected in 2013. They would like to adjust the debt service and remove the Premium Seating Stadium Gifts as a fund source.

Other major proposed changes include increasing revenue projections for general ticket sales and including a sixth game ticket sales in each year going forward. The revenue from these games is expected to exceed original projections. Demand game revenue has been lower than the original pro forma projected and has been adjusted accordingly. Based on experience, the revenue for premium seating has been lower than projected. This is a result of remaining premium seating inventory yet to be sold. The original pro forma had the premium seating being nearly sold out very early in the pro forma. We continue to sell additional premium seats every year. As a result, the growth in premium seating revenue is phased in over a longer period in the proposed pro forma. While growth in premium seats is extended in the proposed pro forma, many of the current premium seats are on 10-year contracts, which provide a very solid financial base going forward. The net change in ticket revenue and premium seat leases is \$997k less than originally projected for FY19. Other items within the pro forma have had slight variances from the original pro forma, both positive (interest income) and negative (ticket sales for other events and other revenue) as can be seen in Attachment III. Overall revenues will go down by \$1,527,000, or \$1,127,000 after excluding the planned loss of \$400k for Premium Seating Stadium Gifts.

Expenses have also been reduced as some of the actual costs are lower than projected in 2013 and others, such as permanent staff for the stadium, have not been required and are eliminated. Instead of dedicated staff specifically for the stadium, custodial and security, for example, are paid for in the general and administrative line. This allows SDSU to adjust workload for the stadium more efficiently than having full-time personnel dedicated solely to the stadium. Additionally, other costs such as utilities have been less than the 2013 projection and specific event insurance and advertising expenses have not been required. A reduction in expenses for FY19 from the original pro forma to the proposed is \$646K, including the \$300k reduction in the bond payment. The coverage ratio will go from 1.40 down to a projected 1.10.

The total stadium cost was \$65,000,000. The original projections for maintenance and repair costs were based on this number. The actual construction costs for the roofed

facilities and turf were \$30,933,335. The bulk of the remaining costs were soft costs and the cost of the stadium seating. The 2% is now being calculated based on the construction cost. It is believed that this level of M&R will be sufficient due to the majority of the building material in the stadium being steel and concrete. The updated pro forma phases in annual maintenance and repair needs during the first five years of the stadium and then is inflated by three percent each year after.

SDSU is also requesting that they no longer be required to carry a reserve equal to one full year's debt service. A proposal has been discussed that would reduce the \$2.5 million reserve balance by \$125,000 for every basis point that SDSU's coverage ratio is below 1.20. This would allow for the elimination of the fund when SDSU gets to or above 1.20. It would be reduced to \$875,000 based on the FY18 coverage ratio of 1.13.

In summary, the proposed updated pro forma adjusts projections based on additional knowledge gained over the last five years, with two of those years providing actual revenue and expense data.

IMPACT AND RECOMMENDATIONS

SDSU would like to use the adjusted pro forma going forward. They feel that it provides a better view of future activity based on their experience over the last two years. SDSU would like to adjust the debt service reserve fund based on their annual coverage ratio. Finally, the original item called for annual updates to the Board. With the creation of the Athletic Committee, SDSU has requested that the annual report go to the Athletic Committee.

Using a pro forma that more closely aligns with the actual revenues and expenses from the first two years of operations may give a better picture of the operation. This approach is recommended.

There is no legally required coverage ratio for the stadium. The Board felt that the 1.20 ratio was an appropriate goal with appropriate risk coverage. Allowing the coverage ratio to go to 1.10 (the lowest point in the proposed pro forma) will still provide that all expenses are covered. This can be revisited in any given year should the projections not be met. This approach is recommended.

Changing the debt service reserve requirement to track with the coverage ratio provides risk coverage without requiring significant amounts of cash to be unproductive. This change is also recommended.

Having the report go to the Athletic Committee may be appropriate, but having it go to the Audit Committee may make even more sense. It is recommended that the report go to the Audit Committee in the future.

SDSU Football Stadium Pro Forma

October 2-4, 2018

Page 4 of 4

ATTACHMENTS

Attachment I – Original SDSU Football Stadium Pro Forma

Attachment II – FY18 Actual to Pro Forma Comparison

Attachment III – Proposed SDSU Football Stadium Pro Forma

Original Pro Forma from December 2013 BOR Item

SDSU Football Stadium Incremental Financial Projection (in \$000's)
\$36M bonds (4.55% over 25 years with first two year's interest capitalized)
Athletic Department Current Budget Incremental Funding

Ref		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	Operating Revenue										
1	Ticket Sales - SDSU Football	\$410	\$410	\$443	\$443	\$443	\$476	\$476	\$476	\$509	\$509
2	Ticket Sales - SDSU Football (Sixth Game)	\$137		\$148	\$148		\$159	\$159		\$170	\$170
3	Ticket Sales SDSU Football-Demand Games	\$1,193	\$1,193	\$1,299	\$1,299	\$1,299	\$1,405	\$1,405	\$1,405	\$1,511	\$1,511
4	Facility Fee (\$2/ticket sold)	97	86	97	97	86	97	97	86	97	97
5	Premium Seating Leases	2,251	2,296	2,342	2,389	2,437	2,485	2,535	2,586	2,637	2,690
6	Premium Seating Stadium Gifts	400	400	400	400	400	400				
7	Advertising & Sponsorship	43	268	275	281	289	296	303	311	318	326
8	Ticket Sales - Other Events	53	55	58	60	63	64	66	68	69	71
9	Gross Concessions	115	100	128	136	120	150	156	135	168	174
10	Net Catering	35	39	43	46	50	51	52	54	55	56
11	Net Novelties	3	3	3	3	3	3	4	4	4	4
12	Gross Game Day Parking	58	59	73	67	68	84	77	78	95	85
13	Other Revenue	77	81	87	91	97	102	103	104	105	107
14	Total Revenue	5,072	4,990	5,396	5,460	5,355	5,772	5,433	5,307	5,738	5,800
15											
16	Resources Designated for non football Athletic Operating Expenses										
17	Existing Football Ticket Sales	(649)	(662)	(675)	(689)	(702)	(717)	(731)	(745)	(760)	(776)
18	Existing Football Concessions	(40)	(41)	(42)	(42)	(43)	(44)	(45)	(46)	(47)	(48)
19	Existing Football Event Parking	(38)	(39)	(40)	(40)	(41)	(42)	(43)	(44)	(45)	(45)
20	Net Resources Available to Stadium	4,345	4,248	4,640	4,688	4,568	4,970	4,614	4,472	4,887	4,931
21											
	Operating Expense										
23	Salary - Permanent Staff	\$80	\$82	\$84	\$86	\$88	\$91	\$93	\$95	\$97	\$100
24	Benefits - Permanent Staff	26	27	27	28	29	29	30	31	32	32
25	General & Administrative	68	70	71	73	75	77	79	81	83	85
26	Utilities	160	164	168	172	177	181	186	190	195	200
27	Annual Maintenance & Repairs (M&R)	12	32	52	190	197	204	210	217	224	232
28	Event Insurance	20	21	21	22	22	23	23	24	24	25
29	Advertising	36	40	41	42	43	44	45	47	48	49
30	Miscellaneous	20	21	21	22	22	23	23	24	24	25
31	Gameday Expenses	128	109	138	145	127	156	161	137	169	174
32	Insurance/Service Fee (3% Bldg Authority)	84	84	84	84	84	84	84	84	84	84
33	Total Operating Expenses	634	650	707	864	864	912	934	930	980	1,006
34											
35	Excess of Operating Rev Over Operating Exp	3,711	3,598	3,933	3,824	3,704	4,058	3,680	3,542	3,907	3,925
36											
37	Annual Debt Service	2,813	2,813	2,813	2,813	2,813	2,813	2,813	2,813	2,813	2,813
38											
39	Coverage Ratio	1.32	1.28	1.40	1.36	1.32	1.44	1.31	1.26	1.39	1.40
40											
41	Excess of Op Rev Over Op Exp and Debt Service	898	785	1,120	1,011	891	1,245	867	729	1,094	1,112
42	M&R Requirement (Per BOR 6:6:7)	208	428	662	909	1,171	1,206	1,242	1,279	1,317	1,357
43											
44	Projected Avg Interest Earnings on Res Balance		17	17	17	17	17	17	17	17	17
45											
46	Amount Above (Below) Requirement	690	374	475	119	(263)	56	(358)	(533)	(207)	(228)
47											
48	Cumulative Above M&R Requirement	690	1,064	1,539	1,658	1,395	1,451	1,093	560	353	125

See Assumptions and Footnotes on next page.

Assumptions:

\$36M Debt Financed (annual debt service reduce \$78,000 for each \$1M reduction in financing)

\$2 Facility Fee on Non-Premium Tickets Sold

Non-Premium Ticket Sales at \$25 game x 3 x 5,470 per game (non-demand games) \$2 Increase Yrs 3, 6, 9

Non-Premium Ticket Sales at \$45 game x 2 x 13,251 per game (demand games) \$4 increase Yrs 3, 6, 9

Total Non-Premium ticket sales for 5 games = 42,912 = 8,583 average

Premium Seating assumes 100% of Community and Executive Suites and 85% of Loge and Club seats in year 1

Sixth game (non-demand) added in years 1, 3, 4, 6, 7, 9, 10 - Concessions, Parking revenues and Game Day Expenses also adjusted

Repairs and Maintenance assumes annual maintenance only - major M&R from RRR reserves

Facility cost assumed to increase by 3% each year for calculation of M&R requirement

Footnotes:

#1 \$25 Ticket no volume increase; \$2 ticket Yr 3,6,9

#2 Non-demand game

#3 \$45 Ticket no volume increase; \$4 ticket Yr 3,6,9

#4 On non-premium ticket sales

#5 2% annual growth

#6 \$2.4 M from Foundation seating agreements

#7 Growth 10% initial, then 2-3% increase

#8 HS events, concert, Growth 2-5%

#9 Growth 4-7% thru Yr 5, then 4%

#10 Growth 7-11% thru Yr 5, then 2-4%

#12 Growth 1-3% with periodic rate increase

#13 Club room and other rentals by non-university groups

#23 2-3% inflation

#24 3-4% inflation

#25 1-3% inflation

#26 2-3% inflation

#27 Annual Maint Only - Major M&R from Reserves

#29 11% Yr 2, then 2-4% inflation

#31 2-6% inflation

#32 SDBA 3% of Debt Service

#35 Line 20 minus Line 33

#39 Line 35 divided by Line 37

#41 Line 35 minus Line 37

#42 5 Year Phase In to 2% - \$52M Total Cost

#44 Assuming Investment Council 3.3% Average Rate

#46 Line 41 minus Line 42 plus Line 44

SDSU Football Stadium
FY18 Pro Forma to Actual Comparison

	2017-18 Pro Forma*	2017-18 Actuals	Difference
Operating Revenue			
Ticket Sales - SDSU Football	410,000	489,000	79,000
Ticket Sales - SDSU Football (sixth game)	0	107,000	107,000
Ticket Sales - SDSU Football - Demand Games	1,193,000	832,000	(361,000)
Facility Fee (\$2/ticket sold)	86,000	105,000	19,000
Premium Seating Leases	2,296,000	1,883,000	(413,000)
Foundation Gifts	400,000	0	(400,000)
Advertising & Sponsorship	268,000	268,000	0
Ticket Sales - Other Events	55,000	0	(55,000)
Gross Concessions	100,000	98,000	(2,000)
Net Catering	39,000	45,000	6,000
Net Novelties	3,000	0	(3,000)
Gross Game Day Parking	59,000	30,000	(29,000)
Other Revenue	81,000	40,000	(41,000)
Total Revenue	4,990,000	3,897,000	(1,093,000)
Resources Designated for non-football Athletic			
Operating Expenses			
Existing Football Ticket Sales	(662,000)	(662,000)	0
Existing Football Concessions	(41,000)	(41,000)	0
Existing Football Even Parking	(39,000)	(39,000)	0
Additional Transfer to Athletic Operations	0	0	0
Net Resources Available to Stadium	4,248,000	3,155,000	(1,093,000)
Operating Expenses			
Salary Permanent Staff	82,000	0	(82,000)
Benefits Permanent Staff	27,000	0	(27,000)
General and Administrative	70,000	110,000	40,000
Utilities	164,000	58,000	(106,000)
Annual Maintenance & Repairs	32,000	20,000	(12,000)
Stadium Capital Expenditures	0	0	0
Event Insurance	21,000	0	(21,000)
Advertising	40,000	0	(40,000)
Miscellaneous	21,000	28,000	7,000
Gameday Expenses	109,000	64,000	(45,000)
Insurance/Service Fee (3% SDBA)	84,000	78,000	(6,000)
Total Operating Expenses	650,000	358,000	(292,000)
Excess of Gain (Loss)	3,598,000	2,797,000	(801,000)
Plus: Interest Earned on Bonded Funds	17,000	31,000	14,000
Amount Available For Debt Service	3,615,000	2,828,000	(787,000)
Annual Debt Service	2,813,000	2,510,000	(303,000)
Coverage Ratio	1.28	1.13	
Excess of Gain (Loss) over Debt Service	802,000	318,000	(484,000)
M&R Requirement	428,000	244,000	(184,000)
Remaining Funds	374,000	74,000	(300,000)

* taken from the December 2013 Board Item where the pro-forma numbers were presented.

SDSU Football Stadium Financial Projection Update (in \$000's)

Ref		2016-17 Original	FY17 Actuals	FY18 Actuals		FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
	Operating Revenue												
1	Ticket Sales - SDSU Football	410	447	489		489	528	528	528	567	567	567	606
2	Ticket Sales - SDSU Football (Sixth Game)	137	141	107		107	116	116	116	124	124	124	133
3	Ticket Sales SDSU Football- Demand Games	1,193	712	832		748	874	785	917	824	963	865	1,011
4	Facility Fee (\$2/ticket sold)	97	83	105		105	105	105	105	105	105	105	105
5	Premium Seating Leases	2,251	2,169	1,883		1,883	1,921	1,959	1,998	2,038	2,079	2,121	2,163
6	Premium Seating Stadium Gifts	400											
7	Advertising & Sponsorship	43	-	268		275	283	292	300	310	319	328	338
7a	Interest Revenue		201	31		26	13	13	-	-	-	-	-
8	Ticket Sales - Other Events	53	-	-		-	-	-	-	-	-	-	-
9	Gross Concessions	115	217	98		103	108	113	119	125	131	138	145
10	Net Catering	35	44	45		47	50	52	55	57	60	63	66
11	Net Novelties	3	-	-		-	-	-	-	-	-	-	-
12	Gross Game Day Parking	58	29	30		31	32	33	34	35	36	37	38
13	Other Revenue	77	47	40		55	58	61	64	67	70	74	77
14	Total Revenue	4,872	4,090	3,928		3,869	4,086	4,056	4,236	4,252	4,455	4,423	4,683
15													
	Resources Designated for non football Athletic												
16	Operating Expenses												
17	Existing Football Ticket Sales	(649)	(649)	(662)		(675)	(689)	(702)	(717)	(731)	(745)	(760)	(776)
18	Existing Football Concessions	(40)	(40)	(41)		(42)	(42)	(43)	(44)	(45)	(46)	(47)	(48)
19	Existing Football Event Parking	(38)	(38)	(39)		(40)	(40)	(41)	(42)	(43)	(44)	(45)	(45)
19a	Additional Transfer to Athletic Operations		(280)										
20	Net Resources Available to Stadium	4,145	3,083	3,186		3,112	3,315	3,270	3,433	3,434	3,620	3,571	3,814
21													
22	Operating Expense												
23	Salary - Permanent Staff	80	-	-		-	-	-	-	-	-	-	-
24	Benefits - Permanent Staff	26	-	-		-	-	-	-	-	-	-	-
25	General & Administrative	68	29	110		111	112	113	114	116	117	118	119
26	Utilities	160	48	58		60	62	63	65	67	69	71	73
27	Annual Maintenance & Repairs (M&R)	12	19	20		21	21	22	23	23	24	25	25
28	Event Insurance	20	-	-		-	-	-	-	-	-	-	-
29	Advertising	36	-	-		-	-	-	-	-	-	-	-
29a	Stadium Capital Expenditures		142										
30	Miscellaneous	20	23	28		28	29	29	29	29	30	30	30
31	Gameday Expenses	128	57	64		66	68	70	72	74	76	79	81
32	Insurance/Service Fee (3% Bldg Authority)	84	78	78		77	77	77	77	77	77	77	77
33	Total Operating Expenses	634	396	358		363	368	374	380	387	393	400	406
34													
35	Excess of Operating Rev Over Operating Exp	3,511	2,687	2,828		2,750	2,947	2,895	3,053	3,047	3,227	3,171	3,408
36													
37	Annual Debt Service	2,813	2,514	2,510		2,511	2,511	2,513	2,514	2,511	2,512	2,514	2,514
38													
39	Coverage Ratio	1.25	1.07	1.13		1.10	1.17	1.15	1.21	1.21	1.28	1.26	1.36
40													
41	Excess of Op Rev Over Op Exp and Debt Service	698	173	318		239	436	382	539	536	715	657	894
42	M&R Contribution	208		244		247	371	494	618	637	656	675	696
43													
44	Projected Avg Interest Earnings on Res Balance					-	-	-	-	-	-	-	-
45													
46	Amount Above (Below) Requirement	490	173	74		(8)	65	(112)	(79)	(101)	59	(18)	198
47													
48	Cumulative Above M&R Requirement	490	173	247		239	303	191	112	11	70	52	250

