Contact: Joan Racki

UNIVERSITY OF NORTHERN IOWA MCLEOD CENTER

Action Requested: Consider recommending to the Board the actions detailed in the attached memoranda for the McLeod Center project.

Executive Summary: The McLeod Center project provides for construction of a 6,100 seat multipurpose arena which will host athletic events, including men's and women's basketball games, volleyball matches, wrestling meets, and other education and entertainment events. The facility is being constructed immediately to the south of the UNI-Dome.

At its March 2006 meeting, the Property and Facilities Committee deferred action on the University of Northern Iowa's request for approval of a revised budget, and the acquisition and financing of scoreboards and a video display system for the McLeod Center. The Committee also raised questions regarding the best method to provide concessions and catering at the Center. The steps the University of Northern Iowa has taken to address the concerns raised by the Committee regarding these areas are addressed in the attached memoranda. The following are included:

Section	Page
Acquisition of Scoreboards	2
Concessions and Catering	5
Revised Project Budget	7

ACQUISITION OF SCOREBOARDS

Action Requested: Consider recommending to the Board acquisition of scoreboards and a video display system from Daktronics, Inc., for the McLeod Center at a cost of $875,849, and authorization for the University to enter into a financing agreement for the purchase.

Executive Summary: Since the March 2006 Board meeting, the University of Northern Iowa has explored options to obtain, at the lowest possible cost and with the least financial risk, scoreboards for the McLeod Center. The following summarizes the actions taken by the University and the information obtained:

(1) The University documented its goals for the scoreboard which are to: (a) obtain, install, and test scoreboards prior to the November 18, 2006 opening of the McLeod Center, and (b) realize $218,000 of net advertising revenue per year as required by the Field House Enterprise (which includes the McLeod Center) Business Plan.

(2) The University asked Daktronics Sports Marketing to clarify its proposal to provide scoreboards in return for marketing rights. Daktronics was unwilling to take the risk of providing scoreboards in return for marketing rights. The University reports that the major reason for the hesitation is the limited media exposure that the University of Northern Iowa currently receives. The University does not have the same TV or radio exposure as the University of Iowa and Iowa State University. Both universities are attractive clients for sports marketing companies since they have television and radio contracts that provide the viewer exposure that the marketing company is seeking.

(3) The University reviewed again one financing option which was included in the Daktronics bid. Under this scenario, Daktronics would become obligor on third-party financing on a ten-year loan in the amount of $875,849 at an interest rate of 9 percent. The firm would apply advertising revenue against the loan; after meeting the threshold amount of $164,475, any remaining advertising revenue would be split between the University and Daktronics, based upon an agreed percentage. Daktronics would not guarantee any net revenue to the Field House Enterprise, which would put the Business Plan at risk.

(4) The University prepared two scenarios (see Table 1, page 4) to compare the option for which the University requested approval at the March 2006 meeting (Scenario 1) and the option detailed in Number 3 above (Scenario 2). According to the University's calculations, over ten years, $3,777,633 of advertising revenue would be required if the scoreboards were purchased and financed through non-vendor financing, and $6,004,750 of revenue would be required if the scoreboards were "accepted" in return for advertising rights. The University concluded, and the Board Office concurs, that Scenario 1 would be less risky to the Field House Enterprise and to Intercollegiate Athletics.

(5) The University explored entering into a marketing assistance contract with Daktronics Sports Marketing; the firm would provide professional marketing assistance to the University's Sports Marketing staff in return for a sales commission. Advantages of this approach include additional sales personnel, knowledge of appropriate advertising pricing, and information on regional and national firms willing to advertise in sports venues.

(6) The University will ensure that any contract with Daktronics Sports Marketing will reserve the University's right to issue a Request for Proposals to sports firms interested in marketing the advertising rights of the University's sports venues in the future.

(7) The projected $600,000 to $800,000 of annual advertising revenue that the University anticipates receiving compares favorably with the amount other universities working with Daktronics Sports Marketing have received, as shown below:

Affiliation	State	Sport-Venue	Annual Advertising Revenue
D-1-AA Univ.	Louisiana	Football	$400,000
D-1-AA Univ.	North Dakota	Football	$1,100,000
D-2 Univ.	South Dakota	Football/basketball	$400,000
D-1-AA Univ.	South Dakota	Football/basketball	$800,000
NAIA Univ.	South Dakota	Football/basketball/softball	$152,000
D-1-AA Univ.	New York	Basketball/hockey/football	$150,000

As a result of the activities taken, as outlined above, the University believes, and the Board Office concurs, that University financing of new scoreboards and a video display system provides the best method to obtain quality scoreboard and video board hardware in the McLeod Center by its November 2006 opening, while maintaining the marketing rights for the McLeod Center, maximizing potential revenue, and minimizing risk to the greatest extent possible.

Additional Information: Consistent with the Board's procurement policies, a request for proposals (RFP) was issued by the University's Purchasing Department for the scoreboards and video display system. Bids were received from Daktronics Sports Marketing of Brookings, South Dakota and ADSystems of Ft. Myers, Florida. The evaluation committee determined that the bid from ADSystems was not compliant with specifications contained in the RFP. Daktronics, Inc. has been selected for award pending Board approval. The bid amount of $875,849 included scoreboards and their installation, a video display system and its installation, and a performance bond. The size modifications for the scoreboards on the north end of the McLeod Center which increased the price to $929,778 (as presented at the March meeting) are no longer being considered.

As outlined above, the University believes that the best approach is to finance the cost of the scoreboards and video display system over five years, which is less than the estimated useful life of ten years for these items, utilizing a taxable (non tax-exempt) loan in the amount of $875,849. The University anticipates using taxable financing since the display of advertising would be considered to be a "private business use." According to federal requirements, no more than 10% of the proceeds of a tax-exempt financing can be used for private activity purposes.

This loan would be subordinate to the outstanding bond indentures for the Field House Enterprise (of which the McLeod Center is a component) and would not be collateralized by the pledging of any assets.

Table 1. McLeod Center Scoreboard Analysis

Requirements: (1) obtain, install, and test scoreboards prior to the November 18, 2006 opening of the McLeod Center, and (2) realize $218,000 of net advertising revenue per year as required by the business plan.

Scenario 1 -- Borrow $875,849 and purchase the scoreboards outright.

Strategy: Obtain a taxable loan and purchase the equipment outright.
Principal = $875,849; amortization = 10 semi-annual payments of $102,912.
Sign a *marketing only* contract with a vendor for up to 10 years to take advantage of professional marketing. In return, the vendor will be paid *up to* 15 percent commission.
Intercollegiate Athletics irrevocably gives up its revenue stream from advertising rights on all fixed and digital signage in the McLeod Center as per the Field House Enterprise business plan.

	One-Year Cost	Ten-Year Cost
Annual loan payments for five years at 6.09 percent	$ 205,824	$1,029,120
Net Income Required by Business Plan (see Notes)	218,000	2,180,000
Daktronics Sales Commission at 15 percent of Gross	75,232	568,513
Required Advertising Sales	$ 499,056	$3,777,633

Scenario 2 -- Accept scoreboards from Daktronics in return for advertising rights.

Strategy: Sign a marketing agreement giving up all marketing rights and obtain equipment.
Advertising Rights Given Up = All signage both fixed and digital in McLeod Center, plus virtually all other advertising rights.

	One-Year Effect	Ten-Year Effect
Annual loan payments for 10 years at 9 percent (vendor is obligor)	$ 136,475	$1,364,750
Sales Commission -- flat amount	28,000	280,000
Revenue Sharing to Daktronics -- 50 percent after $164,475 threshold	218,000	2,180,000
Net Income Required by Business Plan (See Notes)	218,000	2,180,000
Required Advertising Sales	$ 600,475	$6,004,750

Conclusions:

Purchasing the scoreboards results in an interest expense savings of $335,630 and a sales commission savings of $1,891,487. Required advertising sales would be reduced by $2,227,117. With Scenario 1, Intercollegiate Athletics would give up its advertising rights on fixed and digital signage only. With Scenario 2, Athletics would give up virtually all advertising rights. If the University became dissatisfied with the vendor's marketing efforts, it could terminate the vendor with Scenario 1. An expensive buyout would be necessitated to terminate the vendor under Scenario 2. If the threshold in Scenario 2 is not met, the vendor is permitted to extend the contract for one year, or the University may elect to pay the shortfall. Clearly, an outright equipment purchase would be less risky to the Field House Enterprise and to the Intercollegiate Athletics Enterprise.

Notes: The net income required by the Business Plan was assumed to be the flat amount of $218,000 per year. The time value of money was not computed.

CONCESSIONS AND CATERING

Requested Action: Receive the report from the University on its efforts to address the concerns raised by the Property and Facilities Committee regarding concessions and catering at the McLeod Center.

Executive Summary: At its March meeting, the Property and Facilities Committee asked the University to review its food service operations, specifically concessions and catering in the McLeod Center. Net concession revenue is an integral part of the projected revenue for the Field House Enterprise, of which the McLeod Center is a component; this information was included in the financial pro forma for the Enterprise presented to the Board in November 2003.

Since the March Board meeting, the University reports that it has revised its food service delivery strategy and taken other actions to ensure that it is minimizing risk and maximizing revenue related to proposed food operations at the McLeod Center. Actions taken by the University follow:

(1) The University documented its food service goals for the McLeod Center. These are to: (a) provide quality food and beverage products at a reasonable price and (b) achieve the annual net concessions revenue included in the Field House Business Plan.

(2) A financial review of a return on investment for building a catering kitchen revealed that the most appropriate model for the McLeod Center would be not to invest in a full catering kitchen facility, but to provide catering using established resources, such as on-campus catering or off-campus caterers.

(3) Although a catering kitchen will not be constructed in the McLeod Center at this time, the University has determined that it is necessary to install a limited amount of equipment and storage facilities (walk-in freezer and refrigerator) on the lower level of the venue to support concessions operations.

(4) The University researched bond covenants and the Federal Internal Revenue Code as they affect tax-exempt revenue bonds. If the University were to use a private concessionaire, there are a number of issues that must be further investigated, as tax-exempt revenue bonds were used to partially finance the McLeod Center.

(5) The University prepared an income statement (see Table 2, page 6) for UNI-Dome Concession Operations, which shows FY 2005 generated sales of $961,622 and net income of $554,077 or 57.6 percent of total sales. Net income after revenue sharing was $426,900. The Field House Enterprise Business Plan, which includes revenue for both the UNI-Dome and the McLeod Center, includes net concessions revenue of approximately $600,000.

Table 2. UNI-Dome Concession Operations Income Statement

		In-House Operation				Outsourced Operation
		2005	2004	2003	2002	2001
Revenue:						
Concessions revenue	$	958,646	747,630	545,210	537,730	-
Commissions from Swansons		-	-	-	-	240,301
Rental income		1,426	800	1,150	650	-
Commissions on merchandise		1,550	2,935	300	500	-
Total revenue		961,622	751,365	546,660	538,880	240,301
Expenses:						
Salaries, wages and benefits		84,590	80,178	75,116	66,140	-
Cost of sales		214,809	174,146	108,338	108,693	-
Other supplies and services		83,671	70,621	63,260	87,260	-
Insurance		3,244	2,189	(201)	2,114	-
Repairs and maintenance		3,042	2,146	1,307	5,282	-
Equipment		18,189	-	13,133	-	-
Total expenses		407,545	329,280	260,953	269,489	-
Revenue over expenses		554,077	422,085	285,708	269,391	240,301
Less revenue sharing:						
Intercollegiate Athletics		97,068	97,739	72,236	72,354	62,785
Concert promoters		30,109	-	-	-	-
Total Commissions		127,177	97,739	72,236	72,354	62,785
Net income after revenue sharing	$	426,900	324,346	213,472	197,038	177,516

Note: Swansons held the UNI-Dome concessions contract through June 30, 2001. Their contract was terminated as of that date due to U.S. Treasury regulations affecting tax-exempt revenue bonds.

REVISED PROJECT BUDGET

Action Requested: Consider recommending to the Board approval of the revised budget in the amount of $25,959,048 for the McLeod Center project.

Executive Summary: The current project budget of $24,208,199 (approved in September 2005) includes funding from: 1) the UNI Foundation with agreements guaranteeing payment of its commitment to the project ($20,825,000); 2) proceeds from the 1991 sale of the University golf course ($1,200,000); 3) a City of Cedar Falls loan ($500,000); and 4) additional borrowing ($1,683,199). The September 2005 budget was an increase of $1,365,000 from the November 2004 approved budget and was to provide the additional funding for construction of the Hall of Fame, including the costs of construction, design, inspection and administration, and associated art work. This increase was funded by the UNI Foundation (an additional commitment of $1,165,000) and golf course sale proceeds (an additional $200,000 from earnings on the quasi-endowment).

The University requests, at the May 2006 meeting, approval of a revised budget for the project in the amount of $25,959,048 (see Table 3, page 9); the increase of $1,750,849 (above the September 2005 approved budget) would provide scoreboards and a video display system for the facility, furnishings and equipment items, and replenish the contingency which has been drawn down through approved change orders and proposed changes currently in process.

Fund sources for the revised budget include an increased commitment of $500,000 from the UNI Foundation, additional funding of $375,000 from earnings on the proceeds from the 1991 sale of the University golf course, and a taxable loan in the amount of $875,849 for the scoreboards and video display system. The UNI Foundation would execute an amendment to its existing agreement with the Board to guarantee payment with its general credit for its portion of the budget increase.

Details of Project: McLeod Center

Project Summary

	Amount		Date	Board Action
Permission to Proceed			Nov. 2001	Approved
Architectural Agreement (Herbert Lewis (Kruse Blunck [HLKB], Des Moines, IA)	$ 1,487,300	[1]	May 2002	Approved
Program Statement			Oct. 2002	Approved
Schematic Design			April 2003	Report Received
Initial Review, Capital Project Evaluation Criteria			July 2003	Report Received
Final Review, Capital Project Evaluation Criteria			Nov. 2003	Report Received
Revised Schematic Design – Option C			Nov. 2003	Approved
Project Description and Total Budget – Option C	20,183,199		Nov. 2003	Approved
Architectural Amendments (HLKB)s				
Architectural Amendment #1	106,445		Nov. 2003	Approved
Architectural Amendment #2	200,000	(est.)	Nov. 2003	Approved
Architectural Amendment #3	48,314		Nov. 2003	Not Required[2]
Architectural Amendment #4	45,232		Nov. 2003	Not Required[2]
Architectural Amendment #5	47,775		Nov. 2003	Not Required[2]
Architectural Amendment #6	47,866		Nov. 2003	Not Required[2]
Architectural Amendment #7	35,035		Nov. 2003	Not Required[2]
Architectural Amendment #8	45,045		Nov. 2003	Not Required[2]
Architectural Amendment #11[1]	6,941		June 2005	Not Required[2]
Construction Contract Awards (All Awards to Cardinal Construction, Waterloo, IA)				
North UNI-Dome Improvements—Phase 1	276,820		Aug. 2004	Ratified
UNI-Dome Utility Relocation	Reject Bids		Aug. 2004	Ratified
General Construction	19,452,000		Nov. 2004	Approved
Revised Project Budget	22,843,199		Nov. 2004	Approved
Construction Change Orders (Cardinal Construction)				
Change Order #1	- 388,505		Feb. 2005	Not Required[2]
Change Order #2	- 46,676		Feb. 2005	Not Required[2]
Change Order #3	43,587		Mar. 2005	Not Required[2]
Change Order #4	41,269		Apr. 2005	Not Required[2]
Change Order #5	43,347		May 2005	Not Required[2]
Change Order #6	28,653		June 2005	Not Required[2]
Change Order #7	28,753		July 2005	Not Required[2]
Change Order #8	49,054		Aug. 2005	Not Required[2]
Change Order #9	33,147		Sept. 2005	Not Required[2]
Change Order #10	19,822		Nov. 2005	Not Required[2]
Change Order #11	46,245		Nov. 2005	Not Required[2]
Change Order #12	36,231		Dec. 2005	Not Required[2]
Revised Project Budget	24,208,199		Sept. 2005	Approved
Revised Project Budget	26,033,199		March 2006	Deferred
Scoreboard	950,000		March 2006	Deferred
Construction Change Order #13	1,365,735		April 2006	Approved
Revised Project Budget	25,959,048		May 2006	Requested
Scoreboard	875,849		May 2006	Requested

[1] The original approved fee of $1,903,200 also included funds for design of the Human Performance Center; the fees are now being tracked separately; amendments #9 and #10 are for the Human Performance Center.

[2] Approved by University in accordance with Board procedures.

Table 3. UNI McLeod Center Budget History.

	Initial Budget Nov-03	Revised Budget Nov-04	Revised Budget Sep-05	Proposed Revised Budget May-06
Uses of Funds:				
Construction	$ 16,700,000	$ 19,760,000	$ 20,984,500	$ 21,975,000
Design, Inspection and Administration	1,750,000	2,000,000	2,150,000	2,250,000
Furniture and Equipment[1]	715,000	400,000	400,000	265,000
Scoreboards				875,849
Artwork	101,000	114,216	121,041	125,416
Contingency	917,199	568,983	552,658	467,783
TOTAL	$ 20,183,199	$ 22,843,199	$ 24,208,199	$ 25,959,048
Sources of Funds:				
City of Cedar Falls Loan	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Proceeds from Sale of Golf Course	1,000,000	1,000,000	1,200,000	1,575,000
Additional Borrowing	1,683,199	1,683,199	1,683,199	1,683,199
Taxable Loan - Scoreboards				875,849
UNI Foundation Funding:				
Arena Gifts and Interest[2]	16,084,186			
Undesignated Funds	915,814			
Bond Proceeds[3]		8,591,049	8,591,049	8,591,049
Funding Contract		8,408,951	8,408,951	8,408,951
Contract Amendment 1		2,660,000	2,660,000	2,660,000
Contract Amendment 2			1,165,000	1,165,000
Contract Amendment 3	-	-	-	500,000
Subtotal - UNI Foundation	17,000,000	19,660,000	20,825,000	21,325,000
TOTAL	$ 20,183,199	$ 22,843,199	$ 24,208,199	$ 25,959,048

[1] The original project budget included $350,000 for scoreboards; this amount was subsequently reduced to $130,000. The budget for which approval is requested at the May 2006 meeting does not include any funding for the scoreboard within the furniture and equipment line item.

[2] Includes amount on hand or pledged for project.

[3] Since gifts for the project to the UNI Foundation extend over a number of years, bonds were sold to provide the needed construction funds. Proceeds from the sale for the project totaled $8,591,049.