

JQH Arena Task Force Report

Executive Summary

Introduction

On October 19, 2010, following 16 months on campus, former Missouri State Auditor Susan Montee presented the findings of the audit of Missouri State University. That report included items related to JQH Arena and raised several questions regarding the facility.

In response to that audit, Missouri State University President James E. Cofer, Sr. appointed an 11-member Task Force to review JQH Arena and address the issues raised by the State Auditor. Dr. Cofer asked for the Task Force report by April 1, 2011.

The Task Force was chaired by Brent Dunn, Vice President for University Advancement, and included three faculty members, two students, one community member, and four administrators. The Task Force's first meeting was November 16, 2010, and there were six additional meetings through March 2011.

What follows is the Task Force Report, which was unanimously approved by the 11 members.

Summary of Key Findings

This report addresses the issues raised by the Auditor and responds to the specific charges presented to the Task Force by President Cofer. Here are the five key findings of the Task Force:

- JQH Arena is a valuable asset for Missouri State University. While the facility provides one of the finest venues in the country for the intercollegiate athletics program, it also provides a premier venue for the University to hold convocations, commencement ceremonies, entertainment and cultural events, and other special events. It is a showpiece and “front porch” for the University and the region that will be used for 50 years or more. In a recent review of arenas around the U.S. by the Stadium Journey website, an independent reviewer, Bill Kintner, posted his impressions of JQH Arena: “JQH Arena is one of the best arenas built in the last 30 years. It makes my top 10 college basketball arenas in the country.”
- The administrators and Board of Governors involved in the decision to accept the \$30 million gift from Mr. Hammons and build JQH Arena acted in good faith, completed the proper due diligence, and developed the best financial plan possible. The decision to proceed with JQH Arena was a good one, especially since the \$67

million arena was essentially built for half-price, thanks to Mr. Hammons' gift. If the opportunity presented itself today, the Task Force would make the same decision as was made in 2006.

- The year the arena opened was the largest year in Bears Fund gifts received. Nearly \$3 million was contributed; however, the year before JQH Arena opened, \$2 million was raised which went to athletics. The opening of JQH Arena added an additional \$2 million in debt service. Each year since then, Bears Fund gifts have declined along with season ticket sales. These declines are the main reason there is a shortfall of \$2 million. While the bond payments are being paid as scheduled with gifts and seat assessments, extra gifts to athletics are declining which affects the athletics budget.
- The budgets for intercollegiate athletics and JQH Arena are inextricably intertwined. It is impossible to deal with one without dealing with both. The same is true for the budgets of the various athletics facilities, especially when it comes to the limited number of staff members who service all athletics facilities.
- Given the three years of experience with JQH Arena and the new economic realities, the University must recalibrate its plan and implement multiple initiatives in order to ensure the long-term vitality of JQH Arena. These initiatives should deal with both enhancing revenues and reducing expenditures.

Responses to Charges from Dr. Jim Cofer

Charge 1:

Determine the baseline for financial viability based on the original documents.

In preparation for the new arena, plans for the initial construction costs, and on-going operation and bond payments were developed.

Of the \$67 million construction costs, \$30 million came in the form of a gift from Mr. John Q. Hammons and another \$7 million came from other private gifts. Since the construction came in under budget, there were bond proceeds and bond interest available to use as one-time funding in the first year of operation.

A pro forma was developed for on-going expenses and bond payment. These were conservative estimates based on research that had been completed. For example, "Letters of Intent" received from Bears Fund members and season ticket holders were used to map out the annual seat assessment chart for both men's and women's basketball (See Addendum 1). For the Prime Overtime Club, the experience at other schools such as Wichita State University, and the University of Missouri, University of South Carolina and University of Virginia were factored into the pro forma. At the

\$2,000 annual seat assessment level, \$500 was to be transferred to the Prime Overtime Club line for membership because all \$2,000 seat assessments were automatically enrolled in the Club.

Here is a summary of the results:

- All suites were sold and the revenues exceeded the pro forma. Predicted suite revenues on the pro forma for the first year were \$617,500. The actual amount received was \$685,334.
- While Letters of Intent exceeded the men's basketball annual seat assessment pro forma and were slightly under the women's basketball annual seat assessment pro forma, these Letters of Intent were not binding and were allowed to be altered in the summer of 2008 – in the end, some ticket holders lowered their annual seat assessment, others increased their seat assessment – in 2008-09, the first year JQH Arena was open, the Bears season tickets and seat assessments were slightly above the pro forma while the Lady Bears basketball tickets and assessments were \$500,000 below the pro forma.
- Even though memberships were priced significantly lower than at other arenas, the Prime Overtime Club memberships were overestimated in the pro forma, which led to a shortfall of approximately \$540,000 in estimated revenues.
- Estimated revenues of \$50,000 in signage were not realized because signage monies remained in the athletic budget, not the JQH Arena budget.
- Prior to JQH Arena, Annual Seat Assessment money could be dedicated to a specific sport. In 2008, ASA money was specifically for a seat assessment account and could not be designated to a specific sport. Most donors made their ASA gift and did not pledge a gift amount to a specific sport, thus a shortfall in athletic operating funds.

For the first year, the JQH Arena budget was balanced. FY09 was not. The \$1.3 million shortfall in season ticket sales, seat assessments, and Prime Overtime Club memberships was offset by the excess revenue from the bonds because the project was under budget, as well as interest earnings on JQH Arena bond.

Charge 2:

Determine the true state of the financial condition and operations of the arena (see Addendum 2).

Here is a summary of the financial conditions for Fiscal Year 2011.

- The operating revenues and expenses budgeted for JQH Arena for Fiscal Year 2011 are expected to meet budget. Non-operating revenues will come in as budgeted as well.
- The shortfall will occur in the athletics budgets – annual seat assessment revenues were used to fund the bond payments for JQH Arena and donors did not make extra gifts for specific sports.
- Prime Overtime Club sales did not meet budget. The Prime Overtime Club revenues were greatly reduced from the original budget. In FY11, \$50,000 was budgeted, but the actual amount received was \$33,350.
- Women’s basketball sales continued to decline even further with a shortfall of \$727,000 from the pro forma.
- A decrease in the sale of men’s and women’s basketball season tickets in Fiscal Year 2010 and Fiscal Year 2011 also contributed to what is now a \$2 million shortfall in athletics.

Charge 3:

Assure the policies dealing with the arena are fair, complete and sensible considering the financial condition.

An Operations Policy Manual was drafted by the JQH Arena staff. The Task Force has reviewed the manual and determined policies are appropriate and consistent with other athletics and entertainment venues. The manual now includes proposed rental rates for non-athletic University users.

Charge 4:

Develop a plan to specifically address any deficiency discovered in financing, ongoing operations, policies and scheduling.

Based on its research and discussion, the Task Force offers the following recommendations for implementation by the University and the Department of Intercollegiate Athletics. The Task Force recognizes the solution is a multi-year effort and the Department of Intercollegiate Athletics may develop additional and/or complementary solutions to the recommendations.

- Increase efforts in the sale of annual seat assessments and season ticket campaigns. The task force is pleased a new position - Director of Ticket Sales - will be hired to increase sales.

- Additional positions in Development will assist in increasing private gifts for athletics.
- Because JQH Arena is an asset to the entire University, explore the possibility of having the university pay for utilities on an annual basis, much like other buildings at the university – this would result in an annual savings to the JQH Arena budget of approximately \$100,000.
- Explore the feasibility and possible implementation timeline to initiate a student fee for athletics.
- Maximize arena sponsorship opportunities.
- Maximize season ticket sales by rescaling annual seat assessment areas for men’s and women’s basketball.
- Consider charging a parking fee for non-athletic events held at the arena, as well as re-evaluating fees for parking at athletics events.
- Combine the JQH Arena, Hammons Student Center and Plaster Sports Complex budgets into one in order to create “true” financial picture of athletic venues – combining the budgets will recognize the shared personnel and other resources among the three facilities.
- Review suite lease pricing and potential sub-leasing.
- Increase the number of concerts and special events.
- Explore the advisability of and interest in selling alcohol at men’s and women’s basketball games.
- Increase and market special packages for membership in the Prime Overtime Club, including food and drink for each game.
- Explore the possibility of increasing the facility fee surcharge on each ticket sold for an event in JQH Arena.
- Re-examine online ticketing, ticket software and distribution to enhance ticket sales.
- Charge a rental fee to university departments, except athletics, for use of JQH Arena. We have suggested a \$2,000 daily fee; however, athletics already pays for usage of the Arena for men’s and women’s basketball.
- The University should recognize and acknowledge JQH Arena and intercollegiate athletics budgets are inter-related, so they must be viewed together to gain a complete and accurate view of revenue and expenses – since the first year of JQH

Arena, annual seat assessments and ticket sales have declined for several reasons, including the teams' success and the economy....increasing annual seat assessments and ticket sales will have the most profound long-term impact on improving the athletics budget....Athletics will need to further investigate its revenues and expenses to decrease the current \$2 million shortfall.

Task Force Membership

Brent Dunn, Vice President for University Advancement, Task Force Chair
John Bollinger, Student Member
Randy Blackwood, Executive Director of Athletics and Entertainment Facilities
Nila Hayes, Chief Financial Officer
Dr. Jim Hutter, Associate Professor, William H. Darr School of Agriculture
Mike Ingram, Community Member
Kyle Moats, Director of Athletics
Dr. Philip Rothschild, Assistant Professor, Department of Management
Dr. Christina Simmers, Associate Professor, Department of Marketing
Clif Smart, General Counsel
Jacob Swett, Student Member

Addendum 1:

Men's and Women's Basketball Final Letter of Intent – April 2008

Addendum 2:

JQH Arena Budget vs. Actual for FY09, FY10, FY11 through April 30, 2011

Auxiliary System Fund-Intercollegiate Athletics – Statement of Revenues, Expenses and Changes in Net Assets for the Years Ended FY08, FY09, FY10 and Projected FY11

Addendum 3:

JQH Arena 2011 Operations Policy Manual

Addendum 4:

JQH Arena Rate Sheet 2010-11