

**FACILITIES OVERSIGHT COMMITTEE
OF THE BOARD OF REGENTS
WESTERN KENTUCKY UNIVERSITY**

May 19, 1997

AGENDA ITEM 1 - Call to Order

Required statutory notice having been given, a meeting of the Facilities Oversight Committee of the Board of Regents of Western Kentucky University was held in the L. D. Brown Agricultural Exposition Center. The meeting was called to order at 9 a.m., CDT, by Mr. Cornelius A. Martin, Chair.

AGENDA ITEM 2 - Roll Call

Ms. Kristen T. Bale
Ms. N. Joy Gramling
Mr. Cornelius A. Martin

Mr. Mudge was absent, and Regent Mendel was in attendance.

Others present were Interim President Barbara G. Burch; Mrs. Liz Esters, Staff Assistant and Secretary to the Board of Regents; Dr. Charles Anderson, Vice President for Information Technology; Dr. James Ramsey, Vice President for Finance and Administration; Mr. Fred Hensley, Vice President for Institutional Advancement, Ms. Deborah Wilkins, University Counsel.

Mr. Martin introduced special guests:

Mr. Dennis Griffin, Bowling Green-Warren County Chamber of Commerce
Mr. Ron Nelson, Warren Rural Electric Cooperative Corporation
Mr. Gary West, Bowling Green-Warren County Tourism Commission

Mr. Martin asked Vice President Ramsey to give a brief overview of the air conditioning project for the Agricultural Exposition Center.

Dr. Ramsey noted, "This project has a long history; it goes back to 1990. In the 1990 session, the Kentucky General Assembly authorized a \$350,000 project for heating and air conditioning of the Agricultural Exposition Center. The \$350,000 project was authorized as \$250,000 from state funds and \$100,000 from Western funds for a total of \$350,000. There's been some confusion on exactly what the authorization was in 1990; let me read to you from the budget as enacted by the General Assembly of 1990. It's under the capital construction part of

the budget and its called Brown Agricultural Exposition Center. *‘This project will convert heating from electric resistance to natural gas. To do so, requires the addition of 400 to 600 square foot mechanical room to house a gas fired boiler, a chiller, and related equipment, including pumps. In addition, air conditioning will be added to the facility.’*

Sometime about 1992, Western initiated this project. At that time, it was determined that the \$350,000 authorization would not be enough to fully fund both heating and air conditioning, but the decision was to move forward with the heating part of the project. That project proceeded and about \$280,000 was spent to date (\$250,000 of general fund appropriation and about \$30,000 of our own money). The spent-to-date \$280,000 did not make the full conversion on the heating project, so there is still a portion of the heating project that is unfinished.

In 1996, as part of our budget submission to the General Assembly, we realized that this was an important priority project that needed to move forward; and to finish the heating and to move forward on the air conditioning part of the project, we needed additional General Assembly authorization. We requested another \$350,000 in authorization at the 1996 budget. In retrospect, we did not request enough authorization to move forward. One of the issues that we have in front of us today is how much statutory authority we have from the General Assembly for this project. One could suggest, and I think Frankfort would probably argue that we have \$350,000 in project authorization from 1990, \$350,000 in project authorization from 1996, so a total of \$700,000 in project authorization. We spent \$280,000 on the project, so I think Frankfort would probably interpret that we have about \$420,000 in authorization unspent, unutilized. The latest (from Mark Struss working with the engineering firm) cost estimate for completing the heating portion of the project and air conditioning the facility is about \$650,000.”

“So, I think one of the issues facing the Board is how do we proceed from a statutory authorization perspective. Options are:

- Request an official interpretation from the Secretary of Finance as to how much authorization we have on the project. When you ask the Secretary of Finance to make budget interpretations, that is the budget interpretation and it may be what you want; it may not be what you want.
- Assume that you don't have enough statutory authorization to proceed at this time and try to break the project into two phases. Phase A, which would be \$420,000 or less, and then Phase B which would be the remainder. Sometimes, projects don't fall neatly into phase category.
- Assume that we don't have enough statutory authorization and go to the General

Assembly in January and ask for more authorization;

- Proceed based on the notion that we believe that we do have the authority and that we can move forward. If we can get over the statutory authorization issue, then from a financial perspective, we're now looking at a project that's \$650,000.

I think that the best estimate on what the recurring cost would be with regard to the utility bills we could probably give you would be probably around \$30-40,000 a year.

“There are probably several options in terms of funding sources that we can look at:

- A fund balance allocation from our fund balance. Our unallocated fund balance today is about \$4.1 million; if we have a \$650,000 project, we can draw that \$650,000 from the \$4.1 million.
- A second source of funds is from the Department of Agriculture which has some funds from various sources that they can contribute to the project.
- A third source of funds would be private donations and private gifts.
- A fourth option would be to go back to the General Assembly and ask for more General Fund money. The total project ends up being over \$900,000. The General Fund so far has put \$250,000. We could include this in our capital construction request to the General Assembly.
- A fifth option is the idea of the ticket surcharge on events that are held here. We had sort of played with the idea that if we could develop some solid figure based on a ticket surcharge that one possibility would be for Western to make an internal loan to the project and then pay the loan off through the recurring revenues generated through the ticket surcharge.

“I think that's a brief history of the project. As I see it, there's really two issues: 1) the statutory authorization issue, and 2) how we are going to pay for it is the financial issue.”

Mr. Martin asked about the economic impact of having an air-conditioned facility, and Dr. Gordon Jones, Interim Head of the Department of Agriculture addressed the questions with the following comment: “At the present time, we have about 125-130,000 people attending this facility here for some kind of event during the year. Last year, there were 156 different events here; 45,000 people per year come to events that are some kind of paying events that use the facility. Many of these events are public service events for example, the Kentucky Department of Agriculture used it for a number of events. We think that if it were air conditioned about 10,000 extra participants would use the facility in the summer time, and many of those would be new participants who would be good prospects for Western Kentucky University. The projected additional revenue generated by having this facility airconditioned would be about \$40,000 per summer. The events in the summer are national youth livestock activities that we are unable to accommodate in the summer time. There's a facility at the Kentucky State Fairgrounds of course

that is air conditioned. That's very expensive, and families don't like to stay in Louisville. They'd much rather be in Bowling Green because there are excellent hotel facilities within two or three miles of this facility. Western Kentucky University, not just Agriculture, would be at a tremendous advantage by having the facility air-conditioned.”

Mr. Darrell Towe commented that currently there are approximately 156 events per year, with the potential for 200 plus; so the facility is only operating at about 70 to 75 percent capacity, and the goal is to get us close to 100 percent capacity.

Mr. Ron Nelson from Warren RECC commented as follows:

“First of all, we strongly believe that the Ag Center is truly a community and regional asset, and we've always believed this and always tried to promote it. We certainly believe that the Convention Center is an indication of how valuable that type of facility is to the community; and it is already basically booked up. The hotel facilities are all reaping the benefits and quite obviously all the community.

“At this facility, certainly, cattle shows and horse shows are part of it, but we believe that there could be other types of entertainment and shows just as we have used it for annual meetings. We had approximately 3,000 people attending those annual meetings, and we were one of the customers that were pushing for air conditioning for several years. We found that just the change in what people want in their entertainment for their programs. It used to be we had annual meetings in tents. We graduated, and it finally got to the point that they kept writing us back saying we want air conditioning now. It was just plain hot. Even though there were big fans out there and if you were ever in attendance of one of them, it gradually got hotter as the night went on for some reason.”

“Therefore, we commissioned TVA to do a study in conjunction with the request from Western in providing air conditioning for the facility. You all already know that it was a total electric facility at one time and that transformation and those service panels are still in place so it's quite obviously got plenty of electric power for whatever choice you make. It was set up for air conditioning. Our proposal with TVA was for the most cost effective measure unless they actually install heat pumps. Because of the actual installed costs, it was more economical than any other proposal that we could see. The operating costs would have been more economical. By installing the boiler system now, you would be providing some redundant facilities if you went with a heat pump installation. A heat pump installation, I believe, would be more economical than putting in a straight air- conditioning system.

It “Our studies indicate that a geothermal system would have been the best option. was a giant step and the state board of education was not receptive to the geothermal at that time. This was in 1992. There are some other problems that will evolve and that is through maintenance. We had extensive discussions with Kemble Johnson, Wayne Mandeville, Charlie Wolfram and others discussing how to operate that system, and one of the characteristics of this facility is you have an imported red clay on the base of that arena. Whenever you have events in that arena, it emits a great dust. As soon as you air condition the facility, unlike heating the facility, you have moisture now that you must contend with and when you put dust and moisture together, you have mud. So it will be another thing to consider and we were looking at the filtering system that would be required to keep that system as clean as possible without actually damaging that system over time. If it's not properly cleaned and maintained regularly, then it will be stopped up.

“We certainly believe that it can be done and should be done and we back it 100 percent. We've talked with TVA and we haven't had a chance to do any further study since the 1992 meetings with Western and the decisions that were made at that time. You already have an engineer that's made a proposal to you. We believe that this project should carry on; and we believe also that, the dynamics are changing for utilities dramatically and we have to look at our business just that way--as a business. We have to unbundle our costs so that we know exactly how our money is proportioned. We believe that this facility would be a giant step and actually be a profit-making facility for the community. We believe that the community would use it that much. If the pay structure could be constructed in such a way to recover some of that, we believe that it would be a paying investment. You would pay for that investment in a short time simply because you could market this facility every day and it would be utilized every day. If you're going to air condition the building, your costs are going to go up for maintenance. The electric bill for water is going to go up. Right now, you don't air condition. All you have are fans. This room and the other room are the only two rooms air conditioned and I want to say the sales arena, perhaps. That's all that's air conditioned now. So you would see a raise in your electric bill simply because you're adding air conditioning for 40 or 50,000 square feet out there. But that would be well justified in the amount of use that it would have, and if you could charge something for the use of that, either in user fees or ticket fees. It would be a lot less costly than the convention center, and they're doing very well. We believe that it would be a very marketable structure. It would certainly be an asset to Western and the entire community and in fact, the entire region. We don't have any ideas on the amount of money that TVA perhaps could provide. As you know, you know where TVA is. They held its meetings right here in this community just a month ago. Warren Rural Electric is in that same position. However, I could say that there could be some monies obtained from Warren Rural Electric perhaps as an interest fee loan that we would recover through a facilities charge on a monthly basis. That amount I wouldn't have. Our Board would have to decide that amount, but we certainly could do some negotiating with Western and hopefully we could help in some way. And we would be glad to assist you in a study that you might want and of course our studies would be free if you want them.

Mr. Martin suggested that the idea of selling the name of the arena had not been discussed. Vice President for Institutional Advancement Fred Hensley stated, “We've never been involved in commercial sales of a facility at this point. I would say that if we pursue private funding for this project, I think the greatest possibility to be successful would be to assess our data base to determine how many individuals there are who might be interested in agriculture. I would say to you that one of the most difficult things is the existing facility. If we were talking about a new facility or enhancement, I realize air conditioning does mean some type of enhancement towards facilities, most donors like to give to new things--things they haven't seen before, enhancement they can see. In a corporate setting, however, that's not necessarily the case.”

Mr. Gary West mentioned his experience with selling advertisement on the Western Kentucky University scoreboards. Businesses were asked if they would buy a scoreboard; they bought the scoreboard at a cost of \$2500 or \$2600 with rights for the life of the scoreboard. It was a very good investment. It was for the size of the display of the advertising, the back of the

message board was around \$35-40,000 over a 5-year commitment. Mr. West stated, "That might be a route to go in the Arena with some nice lighted boards. We can say we have "X" number of people coming into the Arena per year. The sponsor's message would be seen by these people, and you'd be surprised by the money you can generate and be kind of a soft sale and not yet be out there renaming the building. You might be able to generate \$150,000 per year."

Mr. Martin stated he saw this as a whole new avenue and could envision such names as Southern States and John Deere, and others. The possibilities are unlimited.

It was felt that there was potential to sell these on a five or ten-year commitment. It's easier to sell over a \$5000 per year for ten years. With a \$50,000 commitment for one entity, you sell 10, 15 of these and the money adds up pretty quickly.

Dr. Ramsey indicated "there also may be some people who we can sort of leverage other opportunities on campus with opportunities out here. For example, Pepsi has the rights out here. Now if we had just bid the rights for soft drinks out here and bid it on a five-basis. We bid it campus-wide with the rights to sell in Diddle Arena and the rights to sell in Marriott Food Services. You're not getting a lot of money from Pepsi but you're getting a little money from Pepsi, so there may be some opportunities where we can leverage some things on campus or out here as well. Now, I think you make a good point that the advertising market out here may be different, but there may be some cases where we're doing something for someone on campus and we could sort of tack this on to the existing contract and pick up some additional funds as well. There have been some good ideas kicked around."

In terms of timing for completing the proposed air conditioning, Dr. Ramsey stated, "We're doing our best for next summer's season!" Mr. Struss felt that would be a stretch given the time required to initiate the project, get the engineering completed, actually complete construction. It takes 30 to 45 days to get a secretary's order; another month before a consultant is assigned--three or four months minimum.

Dr. Ramsey stated, "If we were to have a loan, that helps us with statutory authority issues. A loan from you all is better than a loan from us. It's interest free. In terms of statutory authorization, it gets us private money in the facility and speeds up some things in Frankfort. I think the State's position, though, is that this is a state-owned facility and they would still find

the architects, the engineers, so it would still be a slow process in terms of the state bureaucracy but there are a lot of advantages to us having private money into the deal. That gets us over some of the hurdles in Frankfort. We'd have to work on that, but our ears perked up with the possibility of a loan from either TVA or Warren Rural Electric.”

Mr. Martin indicated he would like to explore the idea of the selling of space. Dr. Burch commented that Fred Hensley as Vice President for Institutional Advancement would be a key player; someone up from the Business College possibly will be selected to help in this connection and pull all of this together for the June meeting. Dr. Burch stated, “The one that you just mentioned about funding the building names or some part of the building, I suspect that our campus is one of the few that has done so little of that. Almost every campus does that kind of thing. We need to take a serious look at it.”

Mr. Martin asked Mr. Hensley to take the ball and run with it in conjunction with Dr. Burch and Dr. Ramsey and come back with a proposal for the Committee in one month based on some concrete numbers that could be shared with the Board at its next meeting.

Mr. Martin stated, *“I think we’ve got one chance to do this thing right, and let’s do it right, let’s not botch it, and that’s from the type of system we put in to the way we fund it.”*

With no further business to come before the Committee, meeting adjourned.

