

# 2015 Capital Funding Report



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## IAVM 2015 Capital Funding Report

### *Research and Production*

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# EXECUTIVE SUMMARY OF KEY FINDINGS

## OPERATING PROFIT VS. OPERATING DEFICIT

- In this survey, **64%** of the venues **operated at a deficit**, 3% broke even and **32% were profitable** in their most recently completed fiscal year.

## VENUES WITH OPERATING DEFICITS

- **87%** cover their operating expenses via operating revenues alone.
- **88%** of venues with operating deficits receive additional funding from non-operating revenue sources.
- The average amounts of funding available to those organizations with operating deficits is greater than the average amounts of the shortfall because many organizations provide additional funding in excess of the deficit.
  - **138%** is the average percentage of excess revenue received (additional funding amount divided by deficit amount).
  - **44%** receive funding in **excess of the deficit**, **41%** receive the **exact amount** and **15%** receive **less**.

## EXTERNAL FUNDING SOURCES REGARDLESS OF WHETHER OPERATING EXPENSES EXCEEDED REVENUES

- **83%** of all venues in the survey receive non-operating revenue funds from other sources, primarily a **city (35%)** or through **dedicated taxes (22%)**.
- **76%** receive external funding which creates a **budget surplus**, **58%** always, usually or sometimes and **18%** rarely.
  - **60%** keep it as a **general reserve**; **52%** allocate it to **capital projects**; **21%** allocate it to **renovation**.
  - **14%** give it back

## CONSTRUCTION EXPANSION/FINANCING

- **62%** of all participating venues have undergone major construction or renovation in the past 15 years.
  - **40%** financed using **government bonds**, **15%** used **authority bonds**, **27%** utilize **reserve funds**, **14%** rely upon **contributions/donations**.

## CAPITAL IMPROVEMENT/EXPENSE/REPAIR/ REPLACEMENT PROGRAMS

- **80%** have a capital improvement program in place.
- **90%** that have one budget for it annually.
  - **58%** of those that budget request the funding as **part of the normal annual operating budget cycle**.

## TENANT/VENDOR INVESTMENTS IN CAPITAL IMPROVEMENTS

- **26%** have tenants or vendors that invest in the venue's capital improvements.

# METHODOLOGY

Using an internet-based survey platform, the IAVM 2015 *Capital Funding Survey* was conducted from October 24, 2014 through March 9, 2015.

From a list of 1,350 venue organizations, a total of 156 completed surveys were obtained (54 convention centers, 37 arenas, 3 stadiums, 32 performing arts centers and 30 complexes) for a response rate of 12%. The sample characteristics of the participating venue types are shown below.

	<u>Total</u>	<u>Convention</u>	<u>Arena/Civic</u>	<u>Theater/ Performing</u>	<u>Complex</u>	<u>Stadium</u>
	<u>#</u>	<u>Center</u>	<u>Center</u>	<u>Arts Center</u>	<u>#</u>	<u>#</u>
<b>Total</b>	<b><u>156</u></b>	<b><u>54</u></b>	<b><u>37</u></b>	<b><u>32</u></b>	<b><u>30</u></b>	<b><u>3</u></b>
<b>Size of Venue *</b>						
Large	45	17	8	11	6	3
Medium	46	14	8	12	12	-
Small	64	23	21	9	11	-
Not answered	1	-	-	-	1	-
<b>Market Tier</b>						
1st Tier	49	19	11	11	5	3
2nd Tier	49	21	6	11	11	-
3rd Tier	56	14	20	9	13	-
<b>Venue is:</b>						
University based	27	-	14	9	4	-
Not university based	129	54	23	23	26	3
<b>Ownership</b>						
Public Owner (Government/Authority)	124	48	27	24	23	2
Not Public Owner (Private/Non-profit/Other)	32	6	10	8	7	1
<b>Management</b>						
Public Management (Government/Authority)	77	28	16	14	17	2
Not Public Management (Management Company/ Non-Profit/Other)	79	26	21	18	13	1
* = See next page for size descriptions						

## Definitions Used for Venue Size Classification

<u>Venue Type</u>	<u>Size of Venue</u>		
	<u>Large</u>	<u>Medium</u>	<u>Small</u>
Arena/Civic Center number of seats	over 12,000	7,501 - 12,000	up to 7,500
Stadium number of seats	over 35,000	15,001 - 35,000	up to 15,000
Theatre/ Performing Arts Center number of seats	over 2,500	1,501 - 2,500	up to 1,500
Convention Center/Exhibit Hall gross sq. ft. of exhibit space	over 500,000	100,001 - 500,000	up to 100,000
Note: Complexes and other types were asked to compare themselves relative to venues that are the same type; no quantification was used.			



## ANALYTICAL NOTES

1. In all charts and tables in this report, percentage totals may not add to 100% due to rounding.
2. Charts are shown for the *total sample of responding venues*. Differences by venue types are highlighted in text boxes, as needed.
3. The survey was international in scope. Exchange rate adjustments were made to the survey data to present all results in US dollars.
4. The data collection and calculation process was an extensive multi-step process. Significant effort was made to ensure that obvious errors or missing responses in the data were followed up and corrected. Averages and standard deviations were calculated and responses that did not fall within 2 standard deviations of the average were excluded<sup>1</sup>.
5. Readers interested in the 2015 tabular results by specific venue type can contact the IAVM Research Manager ([frank.ingoglia@iavm.org](mailto:frank.ingoglia@iavm.org)) to request this data in Excel format.

<sup>1</sup>Standard deviation is a statistical tool used to measure variability or spread of a sampling of data. In an analysis of collected data, there can be concern about the validity of survey conclusions should there be certain data that are dramatically different than all of the other collected data. A statistical rule-of-thumb for the type of data collected is that approximately 95% of the data falls within two standard deviations of the calculated average.

We hope you will find the following information useful and we encourage you to participate in future surveys. Should you have any questions on the Report, please contact Frank Ingoglia at [Frank.Ingoglia@iavm.org](mailto:Frank.Ingoglia@iavm.org).

## DETAILED FINDINGS

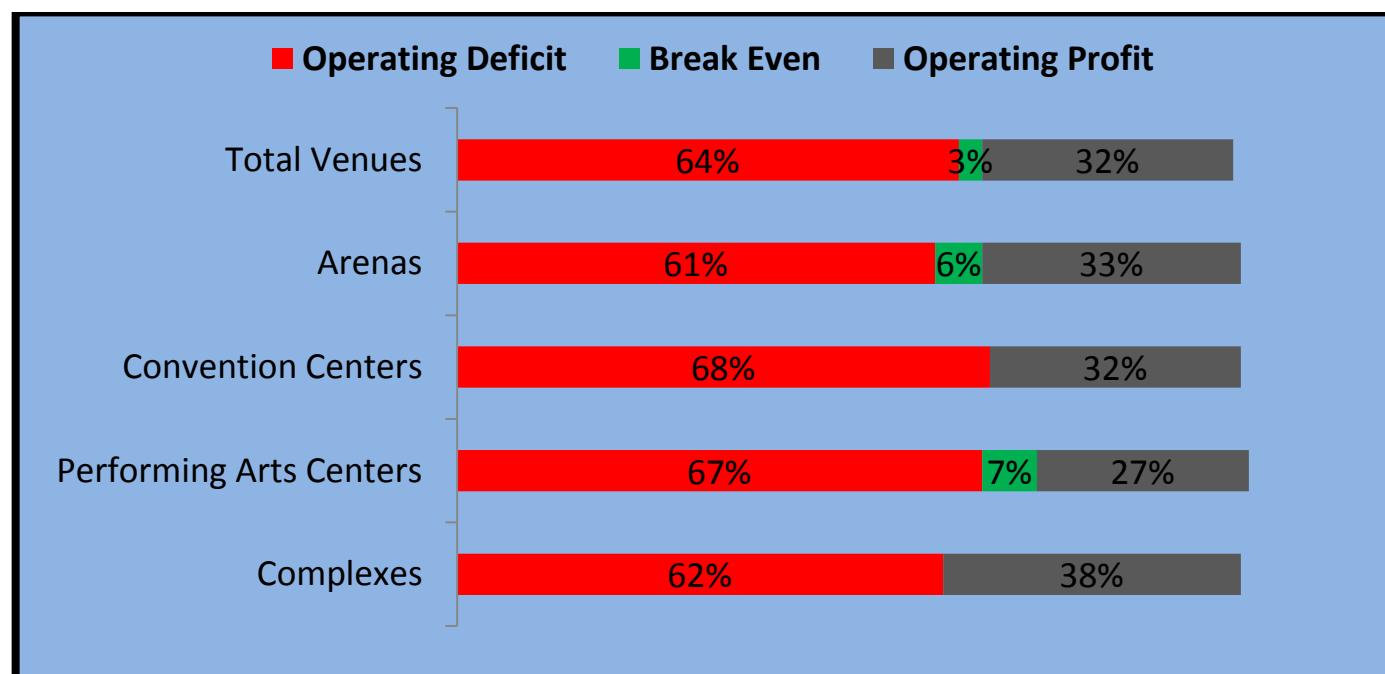
## Operating Profit vs. Operating Deficit

One of the primary objectives of this research was to quantify the percentage of venues whose operating revenues exceed their expenses, versus those that operate at a deficit. To ensure that all venues were reporting this information as comparably as feasible, the definitions below were provided and asked to be read prior to answering the questions.

**Total Operating Revenues:** Includes only those revenues directly generated by facility operations and recorded on the facility's financial statements. Do NOT include such items as governmental support, hotel tax generation, contributions, grants, etc.

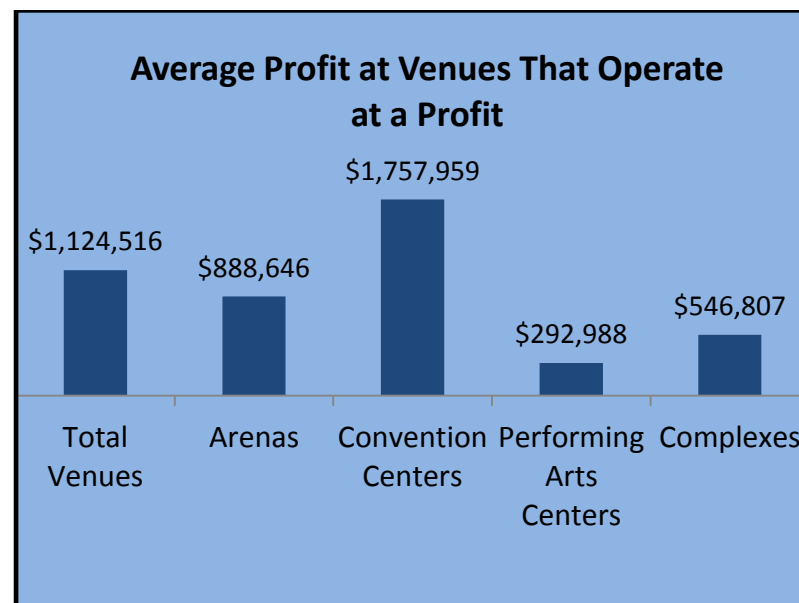
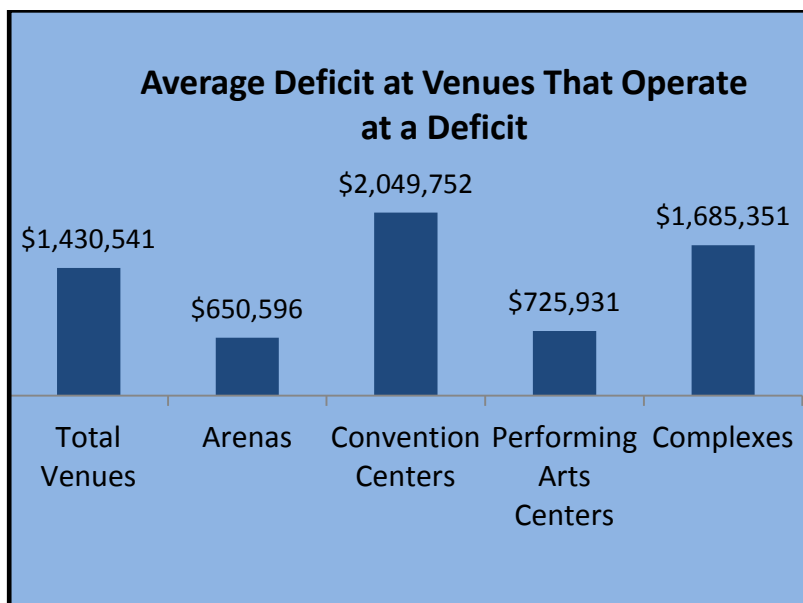
**Total Operating Expenses:** Includes only those expenses directly incurred as a result of facility operations and recorded on the facility's financial statements. Do NOT include principal or interest payments on facility debt and do not include equipment and facility improvements recorded as capital expense (or depreciation expense if recorded).

Examination of the revenue and expense figures provided by each respondent reveals that 64% of all the venues surveyed operated at a deficit, 3% broke even and 32% were profitable in their most recently completed fiscal year.



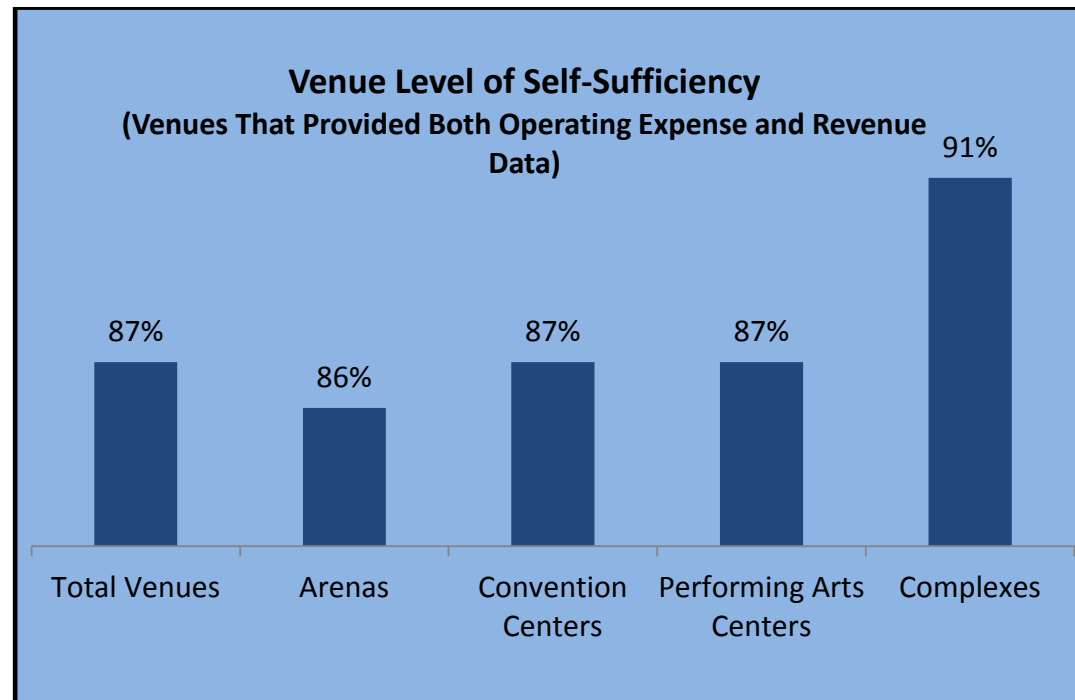
To provide some more in-depth perspective, we examined the average profits at those venues that experienced profitability and the average losses at those that operated at a deficit.

- At venues that earn less revenue than expenses, the average deficit of -\$1,430,541 among all venues ranges from -\$2,049,752 at convention centers to -\$650,596 at arenas.
- Where revenue is greater than expenses, the average profit among all venues is \$1,124,516 and ranges from \$1,757,959 at convention centers to \$292,988 at performing arts centers.



To measure how well venues perform financially in a more apples-to-apples comparison, we examined the Level of Self-Sufficiency, which is the operating revenue divided by operating expenses. This enables the venue manager to better compare his/her venue to others on a percentage basis rather than an absolute dollar amount basis, thereby removing such variables as size of the venue or actual dollar amount of the operating expenses and revenues.

In general, venues covered almost 90% of their operating expenses via operating revenues alone.



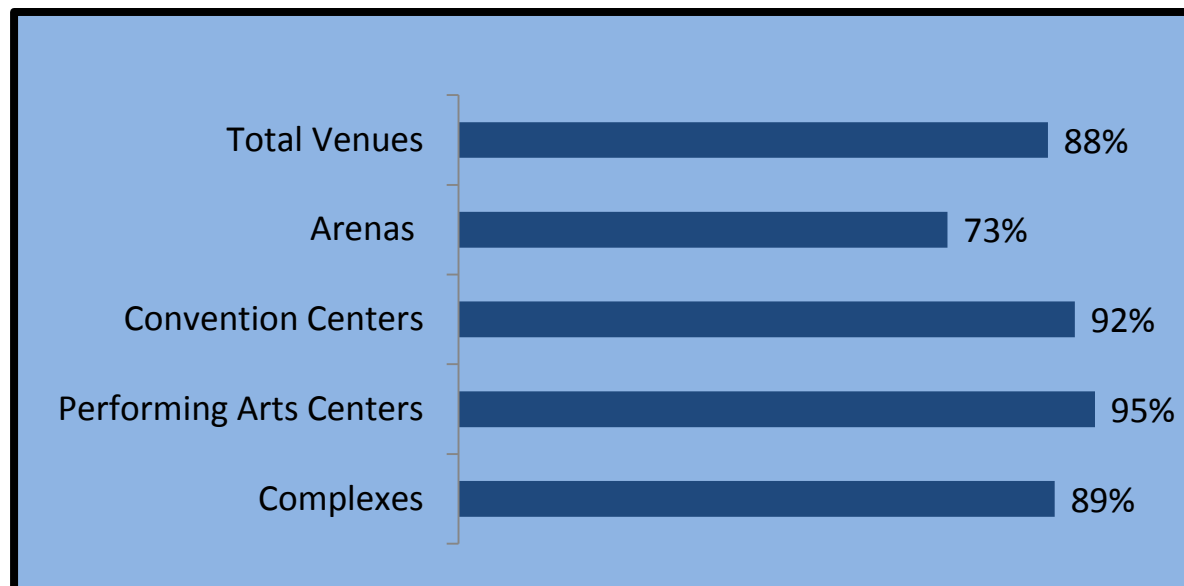
Note: To calculate the average Level of Self-Sufficiency, we first calculated the level for each individual convention center. We then calculated the average of these individual levels of sufficiency and excluded any outliers (those outside the two standard deviations threshold). The resulting percentage then is an average of the individual levels of sufficiency for all the venues included in the survey. This is an accepted procedure and is NOT the same as dividing the average earned revenue figure by the average operating expense figure.

## Operating Losses Covered by Non-Operating Revenue Sources

To follow-up our investigation to quantify the proportions of venues that experience operating deficits versus profits, we wanted to quantify how many venues received funds from non-operating revenue sources to cover some or all of the difference between operating revenues and operating expenses, and what is the average amount received.

Of venues with operating deficits, fully nine out of ten convention centers, performing arts centers and complexes receive additional funding from non-operating revenue sources; this percent is a little lower at arenas (73%).

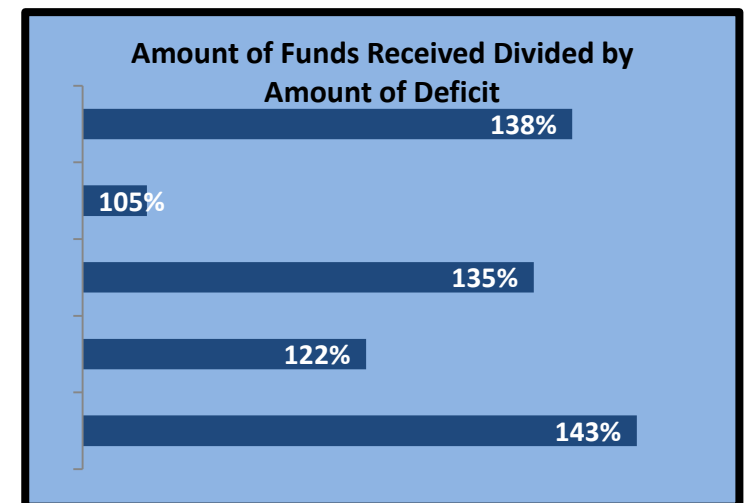
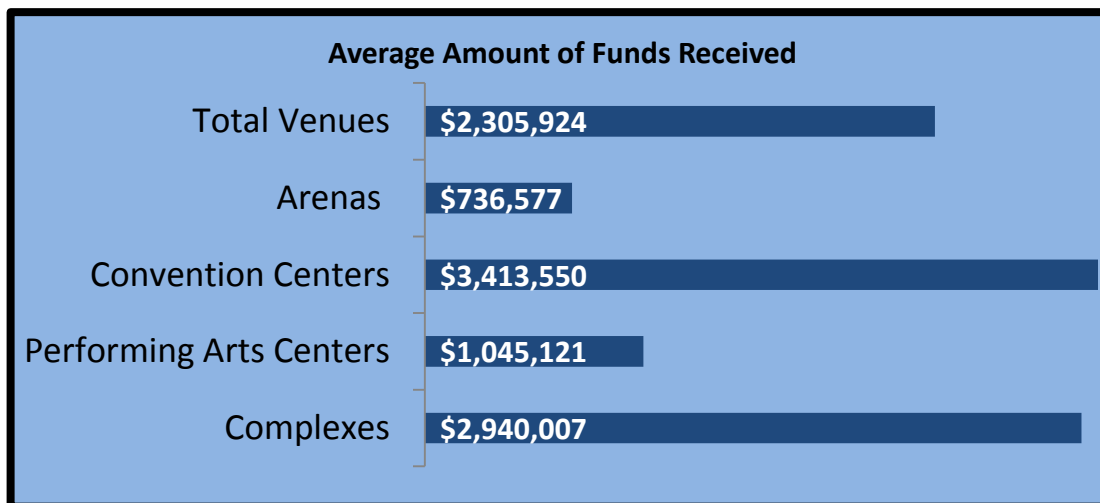
**Percent of Venues with Operating Deficit That Receive Funds from Non-Operating Revenue Sources to Cover the Deficit**



The average amounts of funding available to those organizations with operating deficits is actually higher than the average amounts of their shortfall because many organizations provide additional funding in excess of the deficit. As will be shown on Page 20, most keep it as a general reserve or allocate it to capital projects or to renovation; very few return any of it.

Once again, to create a more apples-to-apples comparison, we examined the amount of the funds received to cover the deficit divided by the amount of the deficit. Convention centers, PACs and complexes tend to be more highly subsidized compared to arenas.

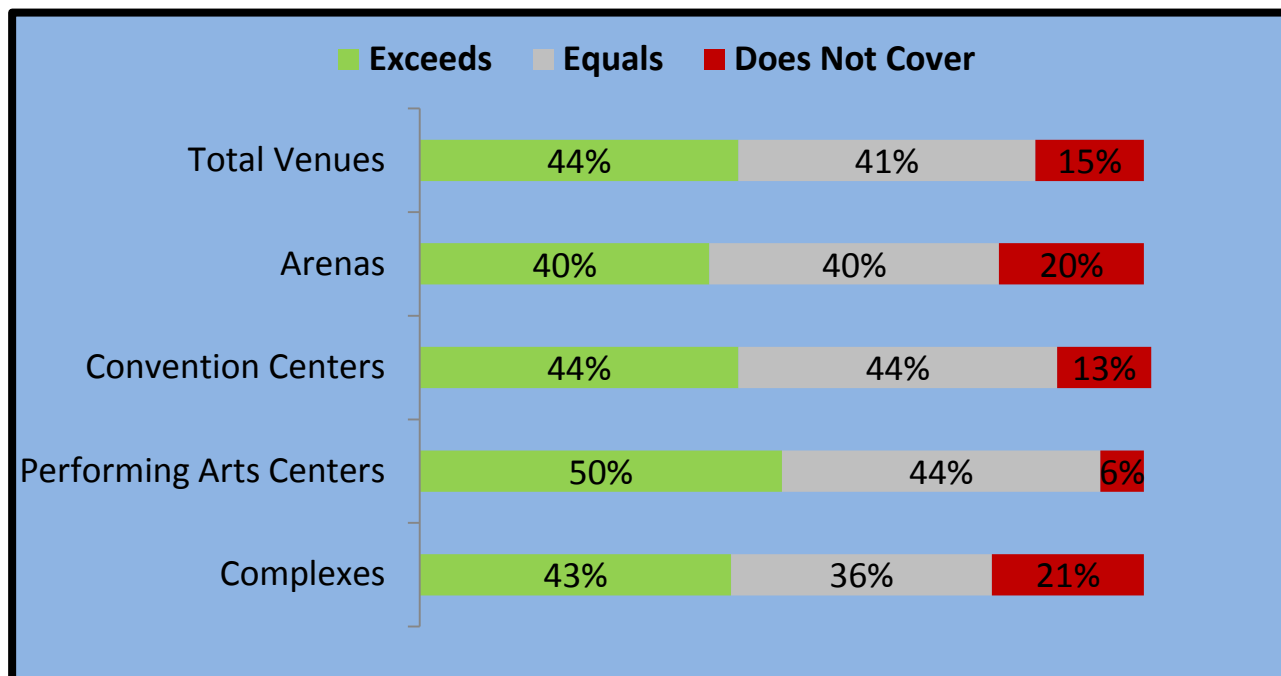
**Average Amount of Funds and Percentage of Funds Received From Non-Operating Revenue Sources to Cover the Deficit (Venues with Operating Deficit That Receive Funds)**



As a last step in this analysis, we wanted to quantify how many venues that experienced an operating shortfall and received additional funding from non-operating sources were provided with more than, the exact amount, or less than their operating deficit.

**Percent of Venues with Operating Deficit That Receive Funding From Non-Operating Revenue Sources That Exceeds, Equals, or Does Not Completely Cover the Deficit**

Between 4 and 5 out of ten venues report that their additional funding actually exceeds their realized deficit and roughly the same proportions receive the exact amount of the shortfall. Few indicate that some portion of their deficit is not covered.





## All External Funding Sources

The next section of interest was to determine all external funding sources available to venues. Specifically, respondents were asked:

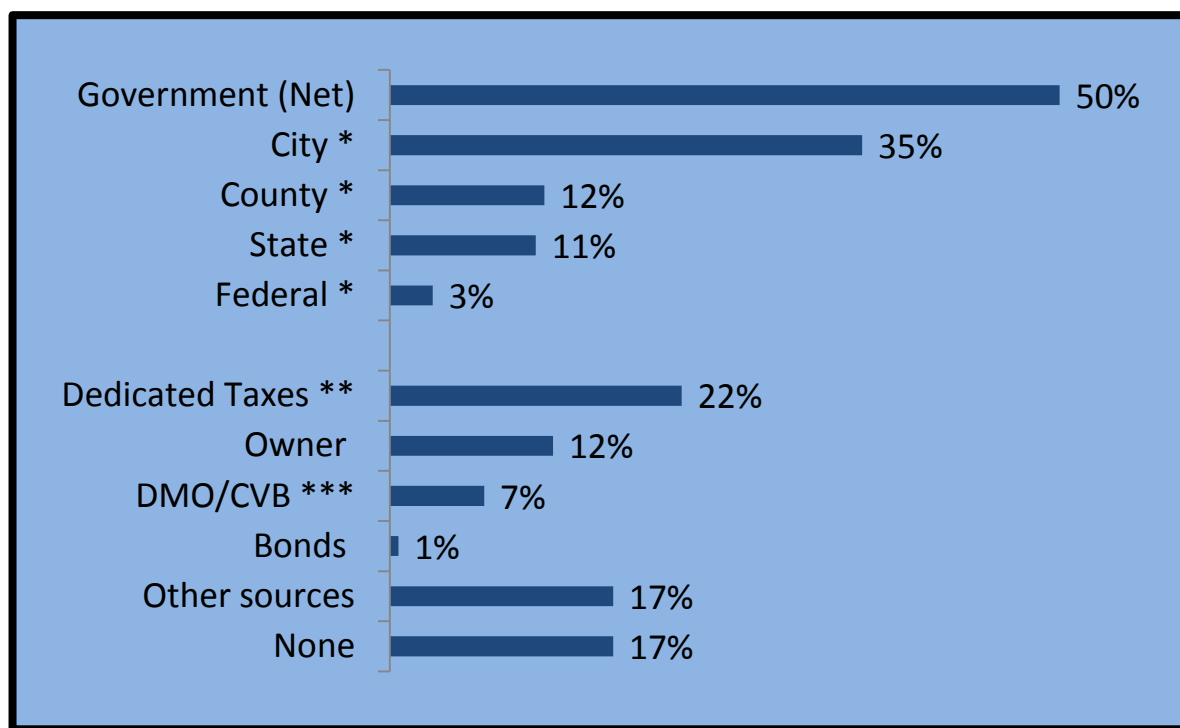
*This question covers all external funding your facility may have received that assisted in covering some part of your operating expenses **regardless** of whether operating expenses exceeded revenues or not. From which of the following sources did your organization receive non-operating revenue funds?*

**83%** of the venues surveyed reported that they receive non-operating revenue funds from other sources, primarily a governmental entity (50%) or through dedicated taxes (22%). Relatively few receive anything via a DMO/CVB (7%) or through bond financing (1%).

### Notable Venue Differences

- 33% of convention centers receive funding through dedicated taxes.
- PACs have greater access to governmental sources (72%) and other sources (31%); these were mostly contributions by private and corporate donors.

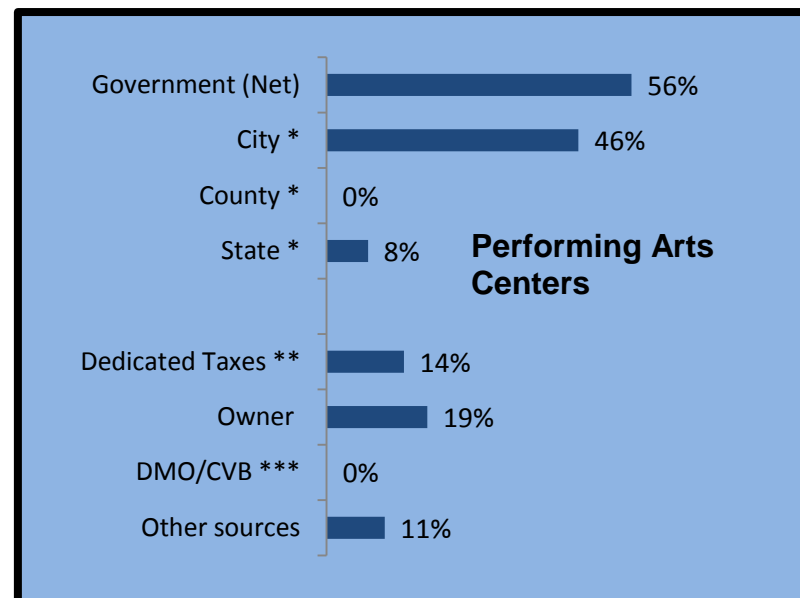
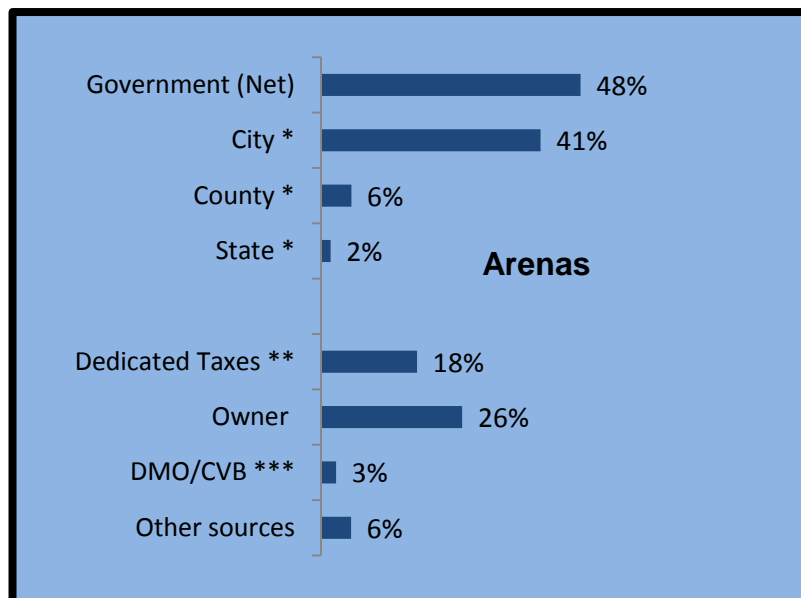
Sources of External Funding (Total Venues)



\* Budget allocation, transfer, grant, etc. \*\* Destination Marketing Organization or Convention and Visitors Bureau \*\*\* Transferred by government OR paid directly to venue lockbox account

In addition to understanding which external funding sources are available to venues, we wanted to learn how much money may be available from each source. Respondents were asked to provide the dollar amounts received from each of the sources from which they received funding. By adding the dollar amounts for each source and dividing this amount by the total of all the source dollar amounts, we're able to calculate the percentage of available dollars from each funding source.

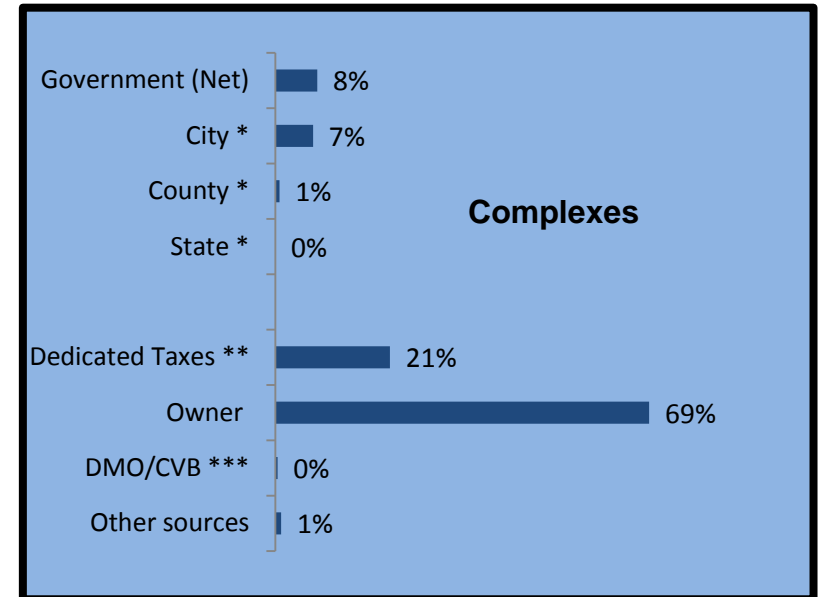
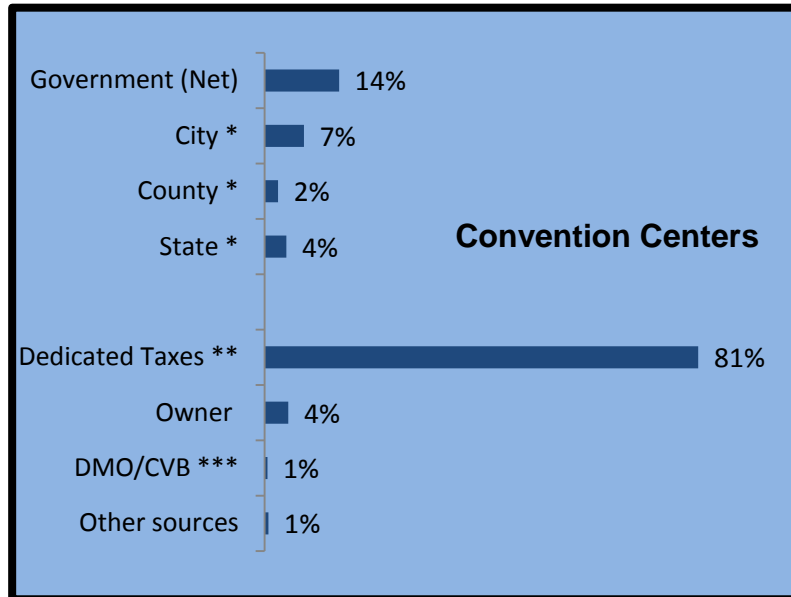
## Percentage of External Funding From Each Source



The external funding sources of arenas and performing arts centers are very similar. Most of their external funding comes from city government, and secondarily from dedicated taxes and owners.

\* Budget allocation, transfer, grant, etc.    \*\* Destination Marketing Organization or Convention and Visitors Bureau    \*\*\* Transferred by government OR paid directly to venue lockbox account

## Percentage of External Funding From Each Source



Both convention centers and complexes exhibit one major single source of external funding. At convention centers, it is dedicated taxes and at complexes, it is the owner itself.

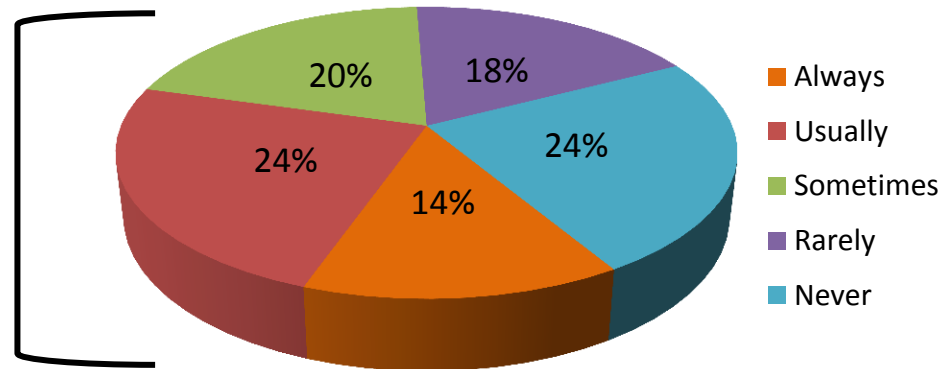
\* Budget allocation, transfer, grant, etc. \*\* Destination Marketing Organization or Convention and Visitors Bureau \*\*\* Transferred by government OR paid directly to venue lockbox account

## Surplus Funds

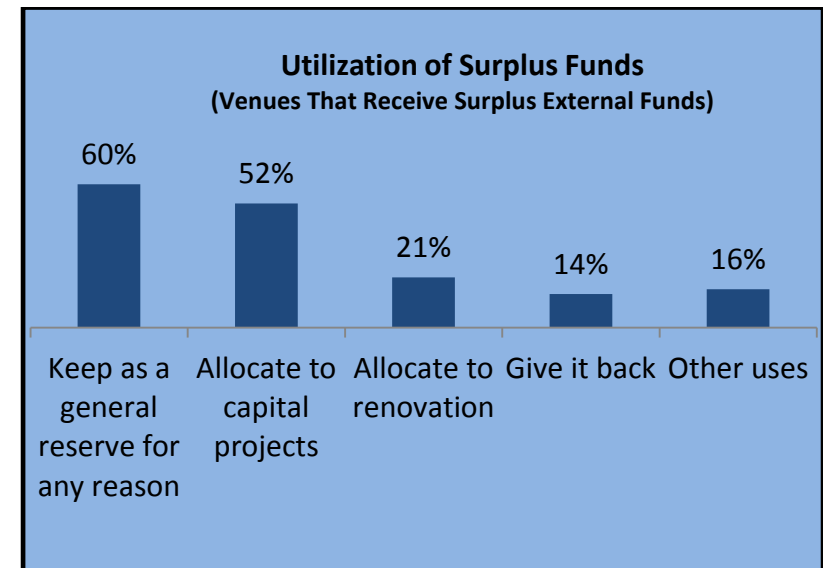
Following receipt of non-operating revenue funds to cover the difference between operating revenues and operating expenses, it is not unusual for most organizations to enjoy a surplus which is often dedicated to other portions of the operating budget or allocated to other capital projects or renovation.

**Frequency That Organization Has a Surplus After Receiving Non-Operating Funds  
(Venues That Receive Non-Operating Funds)**

58% of venues always, usually or sometimes receive external funding which creates a budget surplus for them.



Only 14% of venues that receive enough funds to generate a surplus return any of it. Most keep it as a general reserve (60%) or allocate it to capital projects (52%) or to renovation (21%).

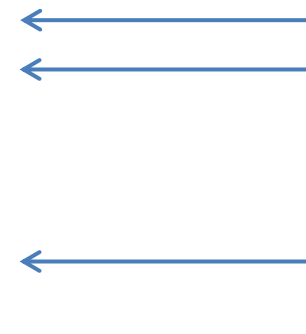


## Construction/Expansion Financing

Another objective of this research was to learn how venues finance their major construction or expansion costs. We asked respondents if their venue underwent any major construction or expansion in the past 15 years and if so, how was it financed?

**62%** of the survey participants' venues have undergone major construction or renovation, which is financed in a variety of ways.

- \* 40% via bonds issued by the government, 15% through authority bonds
- \* 27% utilize reserve funds
- \* 9% rely on bank loans
- \* 7% use TIF or similar funding
- \* 36% mentioned some other source, primarily contributions/donations (14%) and state grants (7%).



- ★ Convention centers are more reliant on authority bonds (24%) and less on reserve funds (14%) compared to arenas and PACs.
- ★ PACs are more reliant on donations/contributions (35%) and less on government bonds (25%).

Bond financing is typically achieved by levying lodging or hospitality taxes (38%) or some other taxes (26%), or via a variety of other means (43%).

- ★ Convention centers are the most frequent recipient of lodging/hotel tax financing (52%).

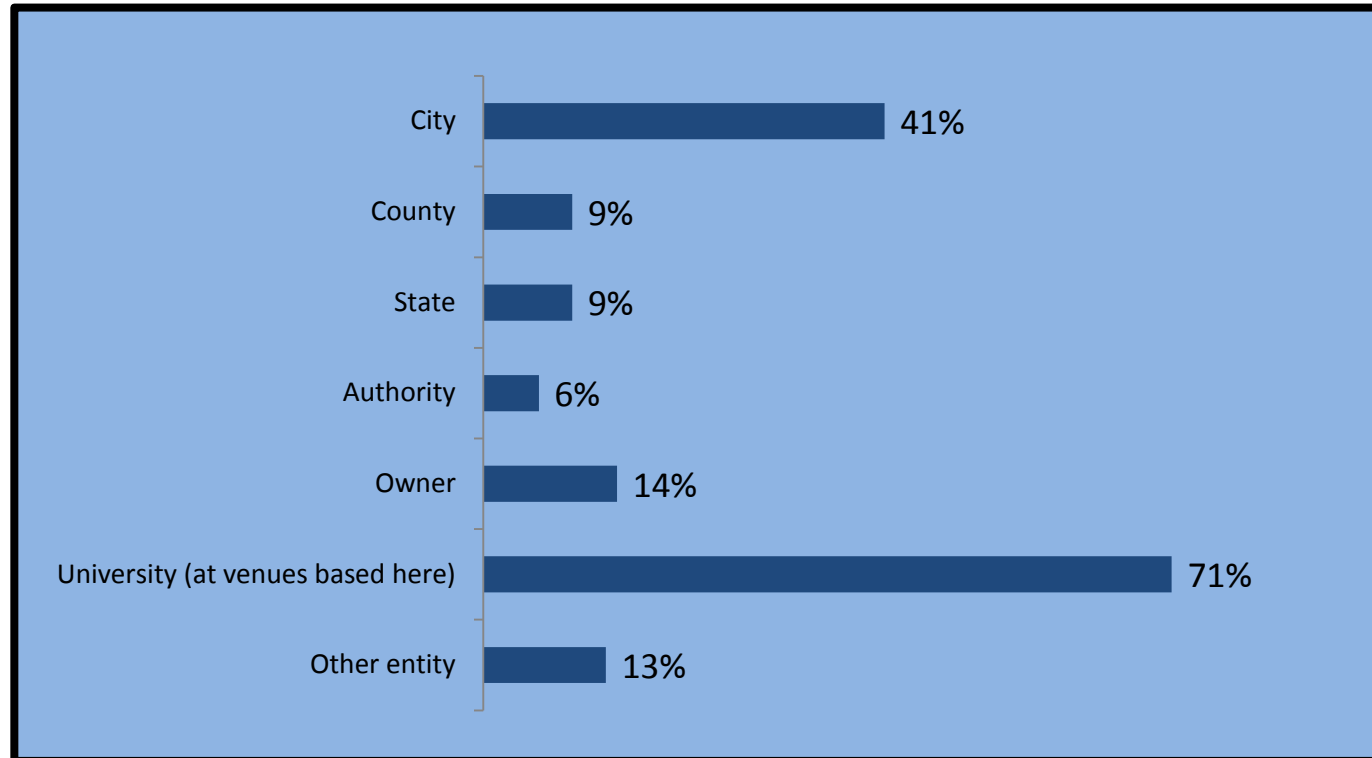
### How Bond Payments are Funded (Venues That Finance Using Bonds)



To find out which entity takes the lead or is responsible for bond/financing, all the venues that underwent any major construction or expansion in the past 15 years were asked to describe it to us; no pre-listing of possible responses were provided.

As plainly seen below, cities most often take the lead for bond/financing (41%), except at university based venues (71%).

**Entity Taking the Lead or Responsibility for Bond/Financing (Venues That Underwent Major Construction/Expansion)**



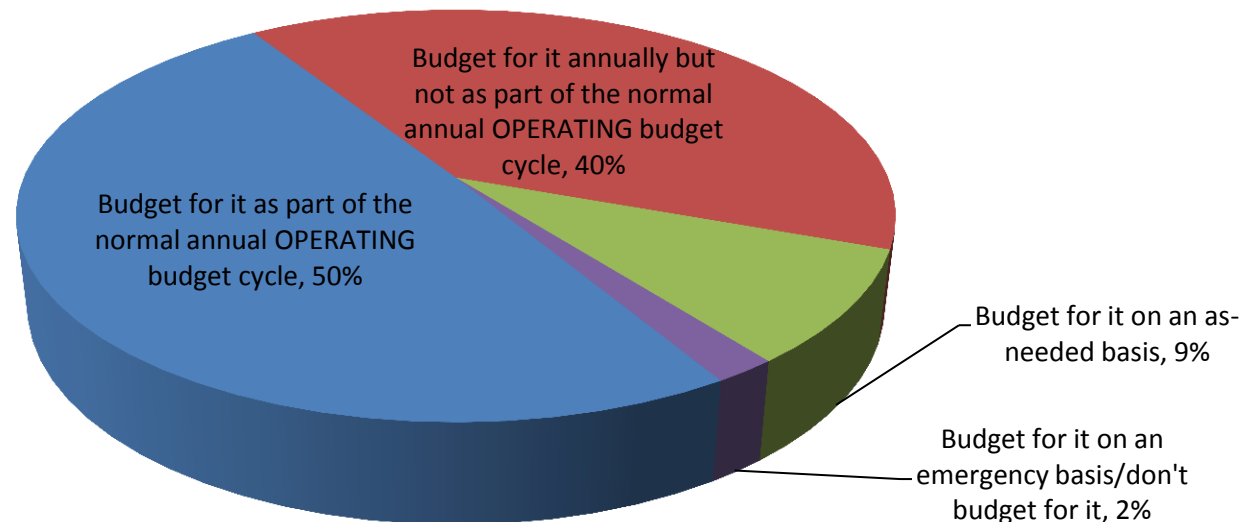
## Capital Improvement/Capital Expense/Capital Repair and Replacement Programs

Capital improvement projects are major and infrequent expenditures, such as the construction of a new facility, a major rehabilitation or repair of an existing facility, or the purchase of major equipment. Capital improvement projects are non-recurring expenditures that tend to be large both in physical size and in cost, and have a long-term usefulness (10 years or more). Examples of capital improvement projects can include such things as construction of a building, major rehabilitation of a portion of a building, purchase of new seating or lighting, etc. An additional objective was this research was to determine how many organizations have these programs in place, how they are budgeted and the source of the funding.

**80%** utilize this financial strategy.

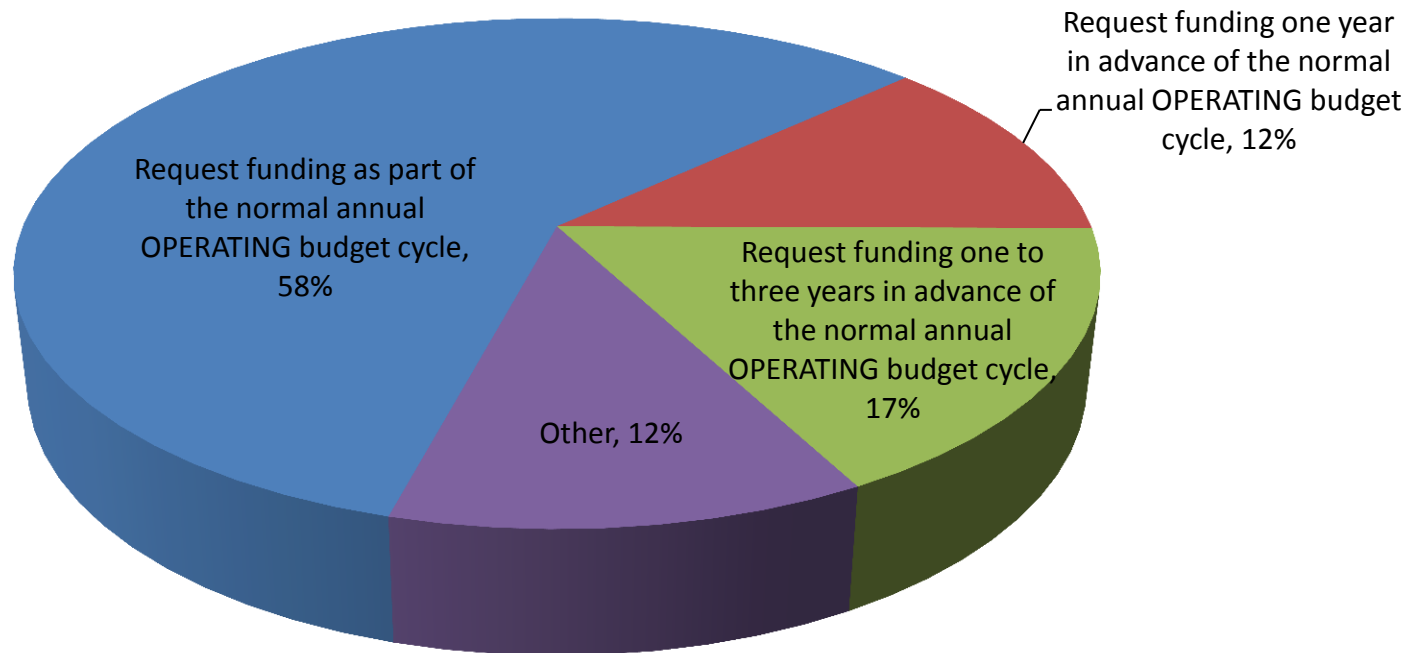
**90%** that use this financial strategy budget for it annually, either as part of the normal operating budget cycle (50%) or annually but not part of the normal operating budget cycle (40%).

**Description That Best Describes Capital Budget Program  
(Venues That Have Capital Programs)**



The majority of venues that budget for their capital programs request the funding as part of the normal annual operating budget cycle (58%). Almost one-third (29%) request the funding in advance of the normal annual operating budget cycle, either 1 year out (12%) or 1-3 years out (17%).

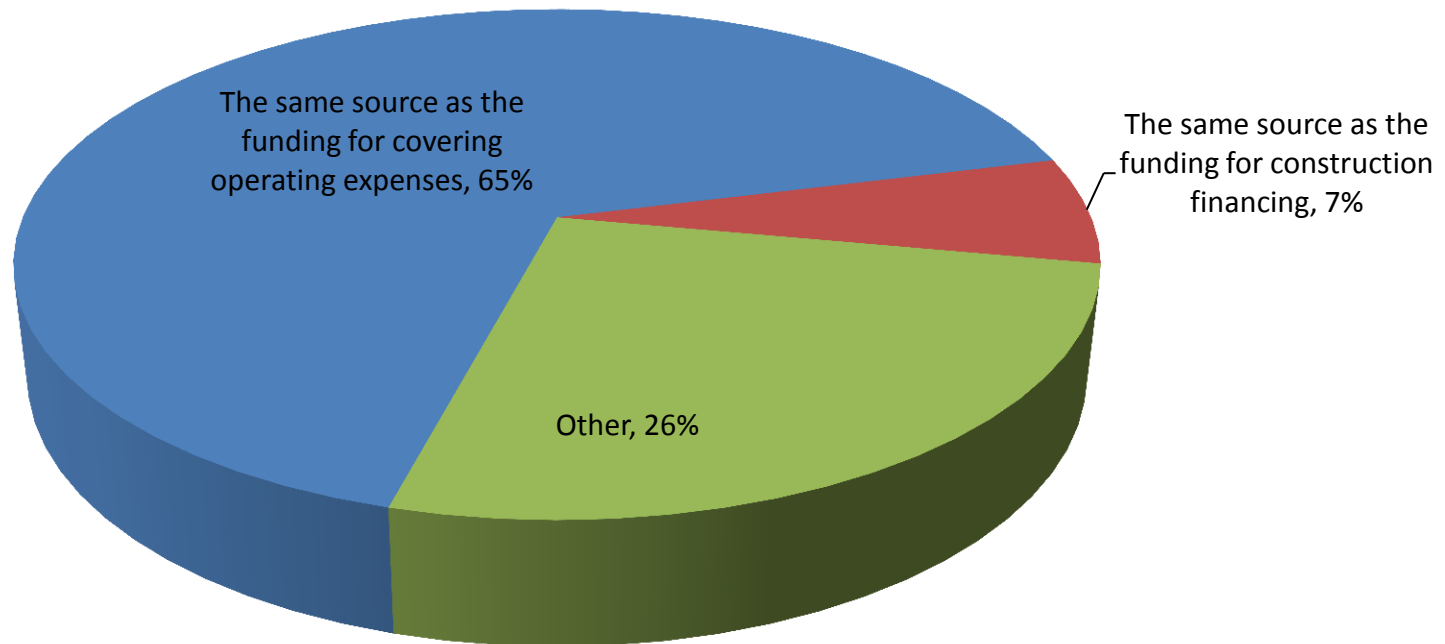
**Lead Time for Budget Development**  
(Venues That Have Capital Programs and Budget for Them)





Two-thirds of venues that have capital programs have them funded from the same source as the funding for covering operating expenses (65%). One-quarter (26%) use a variety of different methods and only 7% use the same source as construction financing.

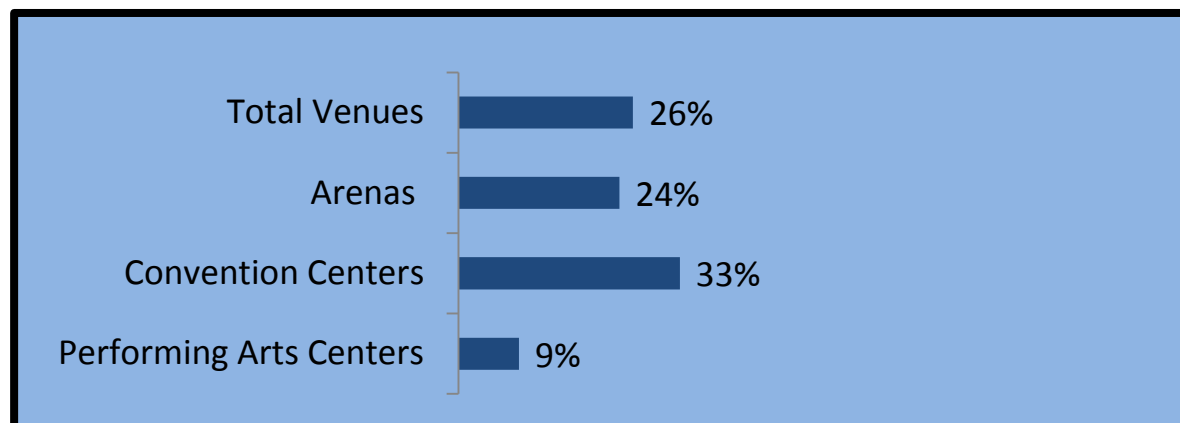
**Methods of Funding Capital Programs**  
(Venues That Have Capital Programs)



## Tenant/Vendor Investments in Capital Improvements

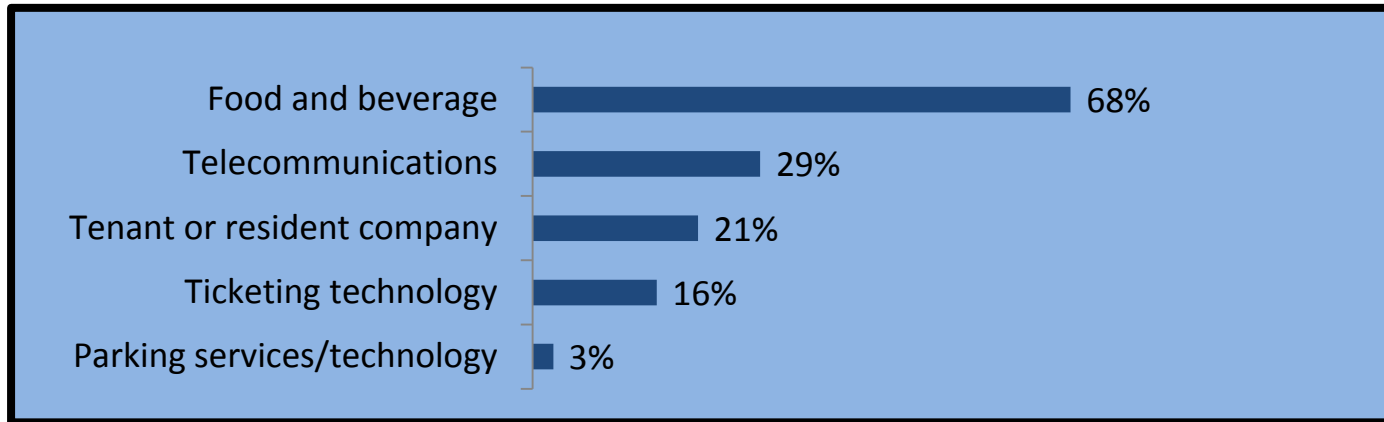
Investments in venue capital improvements may sometimes be shared with tenants or vendors and our survey revealed that this occurs at 26% of the venues, though not as often at performing arts centers (9%).

**Percent That Have a Tenant/Vendor Investing in Capital Improvements  
as a Condition of Their Contract (Total Venues)**



At venues that have tenants/vendors investing in capital improvements, food and beverage vendors are by far the most frequent investors (68%).

**Types of Tenants/Vendors That Invest in Capital Improvements as a Condition of Their Contract**  
(Venues That Have Tenants/Vendors That Invest in Capital Improvement)



In all instances, at venues that have tenants/vendors investing in capital improvements, the venue generally owns all or some of the equipment. Vendors/tenants are seldom the exclusive owners.

**Owner of the Equipment**

	Venue owns all	Vendor/tenant owns all	Both own some	Other arrangement	# of Responses
Food and beverage	69%	4%	23%	4%	26
Telecommunications	50%	30%	20%	-	10
Tenant or resident company	38%	13%	50%	-	8
Ticketing technology	50%	-	33%	17%	6
Note: There were too few mentions of parking services/technology to include data in this table.					