



UNIVERSITY OF OREGON
College of Arts and Sciences

February 13, 2008

Dear Senator Kurt Schrader, Rep. Mary Nolan, and members of the Joint Legislative Ways and Means Committee:

I write as President of the UO Senate and a member of the Senate Budget Committee's subcommittee on Arena financing. This group has been meeting since last September, working with the cooperation of UO Athletic Department staff and central administration to examine the financing plans for the proposed new UO basketball arena. The subcommittee consists of myself, Associate Professor of Human Physiology Paul van Donkelaar, who is Vice President of the Senate this year, and two members from outside the Senate who have special expertise:

Dennis Howard, Knight Professor of Business, is on the faculty of the Warsaw Sports Marketing Center, and the author of *Financing Sport* (2nd edition, 2004). He has served as a paid consultant and delivered expert court testimony on numerous stadium and arena planning projects.

John Chalmers, Associate Professor of Finance in the Lundquist College of Business has published research, provided expert testimony, and worked in industry on tax-exempt bonds.

Our final report was issued on January 8th and endorsed by the full University Senate on January 23rd. This document provides an independent and well-informed analysis of the revenue projections and the fiscal risks of the plan. I wish to present on behalf of our subcommittee an update on our report and a recommendation to the legislature as it considers the \$200 million bonding authority for the arena.

Our committee's analysis: an independent, expert voice.

You have likely heard from many constituents about this project. I would like to point out that among the several studies of the arena project and estimates of its revenues, including the one that came to light less than a week ago, our committee's is the only to study fans willingness to pay, and analyze it in an open and transparent manner. The CSL report does not disclose how they incorporated fans willingness to support the Arena into their financial projections.

Our conclusion was that with the optimum revenue structure, comprising seat licenses, annual donations to the Duck Athletic Fund, and face-value season ticket prices, the arena could reap \$7,313,000 in the first year of operation. This includes only ticket-related revenues, not concessions or advertising. These calculations are based upon an increase in the average total annual cost per seat from \$352 today in Mac Court to \$844 in the new arena. This is a large increase, and we believe it is very close to the maximum the market will bear. These revenue estimates also require that an additional 2,000 season tickets are sold at these higher average prices. I would like to quote from Mr. Gleason's ECONorthwest report: "For many consumers, basketball tickets are a luxury item to be consumed when the economy is trending upward and teams are winning. Weakness in the economy and lackluster teams could cause ticket sales to fall short of expectations." We believe that the "aggressive" revenue projections produced by CSL are simply unattainable.

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The bottom line: the operations of the Arena will require subsidy

We wish to emphasize that according to our revenue estimates, the new arena will not be a self-supporting facility. It is only by virtue of the monies from the Legacy Fund that this project will enhance the bottom line of the UO Athletic Department.

The basic revenue and expense figures, drawn from the 2007 CSL report commissioned by the Athletic Dept. and cited in our report p11, indicate that gross ticket revenues together with advertising and seat licenses (and including a generous portion of the revenue from the agreement with IMG announced yesterday), will be \$13.9 million per year. Debt service for the 30-year bonds together with pre-existing obligations will come to around \$14.6 million once construction is complete. Operating expenses for the new facility will be \$3.5 million according to CSL's estimates. Hence the arena will be about \$4 million a year in the red.

Our committee's first recommendation to the UO administration is for transparency: the UO faculty, staff, and students, through the Senate, need to know the arena's construction and operating costs and its ticket-related revenues with timely and complete disclosure. If revenues are less than anticipated, the athletic department needs to absorb this risk by cutting expenses. We also believe that the AD would be well-advised to engage faculty experts in thinking about the pricing model for tickets in the new arena.

The importance of the Legacy Fund

Phil and Penny Knight's gift is fundamental to the success of this project, and we are very grateful to them. If construction begins this summer on a new arena, it will not be ready for games until the 2010-11 season at the earliest. Thus two years of debt service will have to be paid out of the Legacy Fund. And because net revenue from the arena is likely to be negative even after it opens, the dependence on Mr. Knight's gift will continue indefinitely.

Therefore, it is of the utmost importance to safeguard the Legacy Fund and preserve its principle with a conservative investment strategy. At this moment, I think we can all agree that the economic outlook is uncertain, and this project cannot afford a Legacy Fund that is depleted by market losses. Thus our committee's second recommendation is for an investment strategy that would keep the principal in very safe investments during the first 5-10 years of the fund.

Summary:

Our subcommittee is prepared to endorse the arena financing plan and urge you to approve the bonding authority for it, provided that three key recommendations from our report are implemented. These are:

- 1) Full transparency and disclosure of arena costs and revenues during the full 30-year term.
- 2) Prudent investment strategy for the Legacy Fund that eliminates risk to principal.
- 3) Continuing financial self-sufficiency on the part of a UO Athletic department that will assume the risks of this project and manage its programs accordingly.

Our full report is available on the UO Senate website or directly from me.

Respectfully,
Gordon Sayre

