University of Oregon Senate
Senate Budget Committee
Report of Subcommittee on Arena Financing
January 9, 2008

Charge: To provide a comprehensive review of the arena financing plan and issue a report to the Senate Budget Committee, Faculty Senate, and President Frohnmayer which provides our assessment of the arena plan and its impact on the University of Oregon's budget.

Members of the Senate Budget Committee Subcommittee on Arena Financing:

John Chalmers, Associate Professor of Finance, LCB (Chair of Subcommittee)
Dennis Howard, Philip H. Knight Professor of Sports Business, LCB
Gordon Sayre, Professor of English, President of University Senate
Paul van Donkelaar, Associate Professor, Human Physiology, Vice President of the University Senate (ex-officio)

Members of the University of Oregon Administration (staff to the subcommittee)
Frances Dyke, Vice President for Finance and Administration
Melinda Grier, UO General Counsel
Laura Frieder Hazlett, Special Assistant to the Athletic Director
Dave Sparks, UO Foundation Trustee Emeritus

Process:
This group of eight met weekly during the fall of 2007 with most members in attendance each week. We have consulted experts both on and off campus and moreover, the work of our subcommittee was integrated in the design of the focus groups that were conducted by the athletics department. Prior to the adoption and release of this document President Frohnmayer, Provost Brady, Frances Dyke, Melinda Grier, the Faculty Advisory Committee, the Intercollegiate Athletic Committee, and representatives at the Athletics Department including Dave Sparks and Laura Frieder Hazlett have all been given the opportunity to offer corrections and comments to the substance and style of this report. This report has been unanimously endorsed by the Senate Budget Committee.

In this report, we offer:
1) Presentation of our accumulated information pertaining to the arena—including links to source documents where possible.
2) Analysis of the risks posed by the Arena financing plan.
3) Recommendations on a set of safeguards to protect the financial stability of the Athletics Department and the university.

The report consists of an Executive Summary (pages 2-4), the main discussion divided into nine sections (pages 5-24) and an Appendix (pages 25-29).

Executive Summary

The proposal for building a new basketball arena project at the University of Oregon is unprecedented in its scale and cost of construction, in its financing mechanism, and in the structure of the development process. In order to finance its construction the University has requested approval from the state to issue $200 million in tax-exempt F-bonds. To repay this debt the Athletics Department is pledging net revenues from the operations of the arena and the private donations collected annually through the Duck Athletic Fund (DAF). The arena will constitute the most expensive single building and largest amount of borrowing in UO history. Given these facts, it is especially important that the project be critically evaluated in light of the university's mission.

History of the arena project

- The proposed new basketball arena is a revival of the earlier arena proposal, which was halted for lack of funding in 2004. However, some aspects of the new arena project and its financing are different from the earlier proposal.
- The project was revived in the Summer of 2007. The Williams Bakery property, purchased in January 2005 for more than $22 million dollars financed with $27.4 in bonds, will be the site of the arena.

Capital project financing at the UO

The proposed arena is unusual compared to other campus capital projects, in that it is planned to be 100% financed through F-bonds, whereas an average for other projects over the past decade shows that 58% of the cost of new buildings have been financed with private gifts, with the remainder coming from a variety of sources including so-called F and G-bonds.

The condition of Mac Court

- The new arena would replace Mac Court, which is outdated and poses safety concerns, although similar concerns exist for many campus buildings.
- Because remodeling Mac Court to modern standards would probably cost as much as a new arena, replacement is the preferred option.
- The main goals for the replacement are to increase seating capacity by 37%, enhance the experience of athletes and fans, and increase revenues to the Athletics Department.

Cost of the new arena

- The total cost of the arena is estimated to be $196 million, plus at least $27.4 million for the land.
- This is significantly more expensive than any other recent comparable collegiate basketball arena project, and will require consistently high revenues if it is to pay for itself.
- The subcommittee did not consider the costs of providing any required parking facilities. The cost of providing parking requires careful subsequent study in connection with this project.

Revenue forecast

- The necessary increases in revenue will come overwhelmingly from men's basketball, and will depend upon income from the sale of season tickets. The prices of nearly all season tickets will

rise, and will include four elements: 1) a mandatory construction fee; 2) a required annual DAF contribution (in addition to any contributions already being made for football; 3) higher face value ticket prices; and 4) a $2 per ticket facility fee.

- Revenue estimates for the new arena have been provided from consultants' reports from 2003 and 2007, and from internal Athletics Department estimates. These estimates project an increase in operating revenues that range from 100% to 333% above the current revenue at Mac Court. It is noteworthy that the 2007 report from Conventions Sports and Leisure (CSL), a consulting firm hired by the Athletics Department, roughly doubles the estimate they provided in a 2003 report.
- To achieve the most conservative revenue projections offered by CSL, the average total cost of a season ticket, including the DAF contribution, ticket price and surcharge, but not the construction fee, above, will more than double. And other revenue streams will need to increase markedly as well. Advertising revenues will have to increase from $220,000 to $2,500,000.
- The Senate Budget Committee is concerned by the ambitious projections. We argue that the "conservative" estimates are in fact close to the maximum revenues that can be expected. Our concern arises in part from shortcomings of the CSL reports to provide a rigorous analysis connecting proposed ticket price levels to market surveys of potential ticket buyers and the demographics of the Eugene market highlighted in the CSL report.

The financing plan

- The payments on the $200 million of tax-exempt general obligation F-bonds, together with earlier bonds used to purchase the land for the arena will require approximately $13 million in annual debt service for the next 40 years. These payments will be made from arena revenues and, if necessary, by football fans' contributions to the DAF. However, since most, if not all, of those DAF contributions are already being spent elsewhere, they will be replaced in the Athletic Department budget by disbursements from the Legacy Fund, recently established by the generous gift from Phil and Penny Knight. The revenue projections that we and CSL have created attempt to show how much of the Legacy Fund will need to be spent for this purpose.
- This use of the Legacy Fund raises the issue of tax arbitrage. The university has utilized specialized legal advice to assess these concerns and is comfortable that these transactions comply with the tax law.
- The Oregon University System (OUS) has firm guidelines that limit the proportion that debt service on F-bonds can make up of the annual budget to 7%. The arena bonds will consume approximately 26% of this bonding capacity, and raise the likelihood that at some point roughly 9 years hence the university will come close to the 7% limit. This may affect other possible capital projects, such as a long-range plan to replace many of the campus residence halls.

Preliminary financial analysis

- The subcommittee has developed its own evaluation of the cash flow implications of the new arena, employing some of the research and assumptions detailed in the CSL report.
- This analysis demonstrates the implications of three revenue scenarios, assuming that the Legacy Fund earns 5% annually and that the gifts arrive over five years in amounts of $20 million per year. Under the most conservative of our revenue scenarios, where revenues are double what they are currently, but 50% of the CSL "conservative case", the Legacy Fund

draws run the Legacy Fund to a zero balance by 2024. If revenues generated by the new arena approach that of the "conservative" estimate, the Legacy Fund will cover any shortfalls in the Athletics Department budget and continue to grow over the long term.

- To conclude, arena revenues are difficult to predict, but strong revenues are necessary for the financial stability of the Athletics Department into the future. Also necessary are the financial success of the football program, dependable investment earnings from the Legacy Fund, and subsequent gifts that may increase the size of the Legacy Fund.

Recommendations

In light of the uncertainties detailed in this report, it is imperative that the risks to the university be well-understood, and that sufficient safeguards be adopted to ensure that the core mission of the university is not threatened by the arena financing plan. Towards this end, the Committee is making seven recommendations, of which only the titles are listed here in the executive summary:

- Transparency of financial outcomes
- Containing risk until such time as cost and revenue uncertainties are resolved
- Budget allocations in adverse situations
- Remediation and/or demolition costs for McArthur Court
- Use of construction fees
- Revenue sharing
- The cost of providing parking facilities deserves study

Report

The Senate Budget Committee believes that plans for new projects must be evaluated in the context of the University's mission with careful focus placed on securing the University's finances and maintaining a sense of proportion and priorities in planning for the institution's future.

> **University of Oregon Mission Statement:** The University of Oregon is a comprehensive research university that serves its students and the people of Oregon, the nation, and the world through the creation and transfer of knowledge in the liberal arts, the natural and social sciences, and the professions. It is the Association of American Universities flagship institution of the Oregon University System.

The arena project proposes the injection of some $327 million dollars into the Athletics Department to build a new facility, and commits the University to a $200 million, 40 year debt obligation. The magnitude of this proposed investment poses some financial risks to the institution because the bonds sold to underwrite the project must be self-liquidating and self-supporting. The current proposal pledges full repayment of the project's debt service and operating expenses from arena revenues and private contributions made annually to the Duck Athletic Fund. Full financial sufficiency (breakeven status) will require a revenue commitment of $16 to $17 million a year (for operating expenses and debt service). If it is to be financially successful, the arena project will require UO athletics fans to pay substantially higher prices than they pay today. Failure to achieve full financial self-support could potentially impact the University of Oregon's academic budget because ultimate responsibility for repayment of the bonds is borne by the institution not the Athletics Department. The charge of this subcommittee is to assess whether the financial plan for a significant investment in a non-academic facility may at any point impinge on the academic mission of the institution. Although this report cannot offer any assurances of the project's financial self-sufficiency, it does attempt to carefully analyze the risks associated with the substantial investment of institutional resources.

The UO Athletics Department has been financially self-supporting, without drawing any monies from the University's general fund, for several years now, and the new arena has been presented by President Frohnmayer and Athletics Director Kilkenny as essential for the program to become financially self-sustaining over the long term. However, the subcommittee believes the arena project contains significant risks and uncertainties. Moreover, the sheer scale of this investment challenges the perception that the University is focused on academic excellence as its top priority.

2) A Brief History of the effort to build a new basketball arena for the UO

Plans for a new arena have been ongoing for a number of years. During the summer of 2003, the University of Oregon announced plans to study various sites for a new basketball arena. In press reports at that time, a location in downtown Eugene, adjacent to Autzen Stadium, or on the site of the Lane County Fairgrounds were all considered possibilities. It was during this period that the consulting firm Convention Sports and Leisure (CSL) was first retained to produce a study of the costs, revenue projections and financial feasibility of the new arena project. Because CSL was also hired to produce the feasibility study on the current arena project, a report dated Dec. 17th, 2007, the first such report will be referred to as the 2003 CSL report.

In early October of 2003 the University announced that a site had been selected--the new arena would be constructed on the site of Howe Field, the softball and former baseball facility.[1] This proposal was discussed and debated from October 2003 through February 2004, when the plan was shelved. Critics of the Howe Field location raised concerns about the wisdom of destroying the softball field, the adjacent indoor tennis facility, and UO Outdoor Program trip barn, all in order to clear a footprint for the new arena. They also complained of the increased traffic and disruption from a larger basketball facility adjacent to a residential neighborhood. The UO Senate passed a motion on November 12, 2003 (US 03/04-1), declaring that the Howe Field site had been selected through a process outside the usual procedures, and that the Senate "urges and expects the University administration to submit its proposal to the Campus Planning Committee for review, and to follow other established campus planning procedures for the siting of the arena and associated facilities." Details of the debate are in the minutes.

In February 2004 the basketball arena project was put on hold. As the *Oregon Daily Emerald* reported, "The new cost estimate of $180 million, announced last month, was too high for the University to break ground by this summer. An initial study conducted for the University estimated costs at $90 to $130 million..... The Athletic Department...was prepared to finance $30 million with the extra $50 million coming from bond sales." The figures cited were roughly consistent with the 2003 CSL report, which gave a cost of $162,560,000 for the new arena, although that report was not made public at the time.

During 2004, the University was involved in negotiations to acquire the parcel of land occupied by the Williams Bakery, located on Franklin Blvd. adjacent to campus. At its Jan. 7, 2005 meeting the State Board of Higher Education approved the issuance of $27.4 million in bonds for this land acquisition. The sale was announced in early February 2005. The purchase price of the bakery was $22,231,816, enough to cover the cost of relocating the bakery to the Glenwood area between Eugene and Springfield. The difference between that figure and the $27.4 million allowed for funds to acquire smaller neighboring parcels. However, as the *Oregon Daily Emerald* reported on 10 Feb. 2005, "[UO Vice President Allan] Price said three additional properties near the bakery -- a medical building, a 7-11 store and a video store -- would have to be purchased in order to build an arena, and the University has had "a very limited amount of contact" with the owners of those sites, Price said, "We don't have any intention to acquire those additional properties unless and until we know an arena is going to happen," Price said. During the Fall of 2007, those three additional parcels were still outstanding. At its Sept. 7, 2007 meeting the State Board of Higher Ed. approved 7-2 a motion to authorize the UO to use eminent domain to acquire these properties. As we write in December 2007 negotiations for at least one of these parcels is, as far as we know, still underway.

[1] An index of news stories in the Register-Guard from 2002-2005 about the arena project is available at http://libweb.uoregon.edu/guides/architecture/oregon/arena.html

The arena project was revived in the summer of 2007, under the leadership of Athletic Director Patrick Kilkenny, who had taken over the job in the spring. The subcommittee learned that in late July, Athletics Department staff held a series of meetings to discuss the size, configuration, and cost of the facility. Preliminary news was disseminated to the Faculty Advisory Committee and the Intercollegiate Athletics Committee at meetings in July and August.

Then on August 20, 2007 at a press conference at the Casanova Center in Eugene, President Dave Frohnmayer and Director of Athletics Pat Kilkenny announced that Nike founder and CEO Phil Knight and his wife Penny would donate $100,000,000 to the UO Athletics Department to form the basis of a “Legacy Fund” which would secure the long-term self-sustainability of the Athletics Department, and allow the university to move forward on plans for a new arena.

3) How have capital projects at UO been financed?

In an effort to put the new Arena project in perspective, the subcommittee gathered data on how capital construction projects had been prioritized and financed in recent years. Many of these data were available in an August 2007 news release from President Frohnmayer entitled “University of Oregon Capital Construction: The Half-billion Dollar Decade (1997-2007).” The data was gathered by Chris Ramey, the Director of University Planning, and others, and includes $480 million dollars of new construction and renovation projects, specifying how much of the funding was provided through the Oregon legislative appropriations, revenue bonds, private gifts, student fees, and student housing rent payments. The subcommittee calculated that on average private gifts have supplied 58% of the funding for these projects. Some of the largest and most recent projects on campus in the “Half-Billion Dollar Decade,” have been funded in large part by gifts. For example, in the new additions to the school of music building, which will be renamed the Marabel Frohnmayer School of Music, 56% of the 17,200,000 cost is from private gifts. For the HEDCO Education building, 68% of the $48,100,000 is from private gifts. In contrast, the financing plan for the arena intends to have the entire cost funded by public monies, in the form of State of Oregon general obligation bonds.

There is an important distinction between the state bonds which funded portions of those two construction projects, and the bonds proposed for the new arena. In Oregon, Article 11(G) bonds have historically been used to finance higher education buildings, and have been repaid directly by the state. Recent practice has been to finance up to half the construction cost with these bonds. Article 11(F) bonds, on the other hand, are issued for projects that are intended to be self-liquidating, to pay back the debt from revenues the building itself generates, much like a toll bridge. For example, another recent UO project, the Living Learning Center, costing $27,000,000 and opened in 2007, is to be paid for from the housing fees paid by students who live in that building and in other UO residence halls. The new arena, like the Living Learning Center, is intended to be financed with 11(F) bonds repaid from the revenues generated by that UO entity, the Athletics Department. The distinction between G-bonds and F-bonds is important, but should not be construed to mean that the University’s academic programs do not generate revenue that can be used to repay debt. By the same token, the complete reliance on debt in the arena financing plan represents a departure for the Athletics Department. According to the Half-Billion Dollar Decade announcement, of the athletic facility construction undertaken during that period 1997-2007, private giving, directed by donors because of their philanthropic priorities and interests, accounted for more than seventy percent (72.2%) of the roughly $118 million in total capital improvements. For the expansion of Autzen Stadium between 2001 and 2004, only a third of the roughly $90 million cost was financed through bonds, and the Senate Budget Committee at the start of that project examined the finances and declared them to be sound and conservative. The Budget Committee wishes to stress that the arena financing plan is very different from the Autzen Stadium expansion project.

4) McArthur Court: its condition, its future

McArthur Court was built in 1926 and financed with recreation and facilities fees paid by UO students. It is currently among the two or three oldest venues used for NCAA Division I basketball games. It has been remodeled or reinforced several times, most recently receiving a new roof in 1996, and in its current configuration provides seating for just under 9000 fans. In addition to men's basketball, it is the venue for women's basketball and volleyball, and for men's wrestling, although wrestling is set to be discontinued after the 2007-08 season.

The subcommittee studied Mac Court with respect to its design and safety, as well as considering the feasibility of remodeling the structure for new purposes, or demolishing it and building new University structures on its footprint.

The limitations of Mac Court have been a primary motive for efforts to build a new arena. The building's design is not consistent with current building codes or standards. Its stairwells are cramped, with treads and floors made of wood. The steep pitch of the highest tier of seating exceeds allowable codes. Some seats have blocked sightlines, and fans sitting in them cannot see the scoreboard or even part of the court. The restrooms for fans, as well as the locker rooms for players, are antiquated. Mac Court is not in compliance with current standards for wheelchair access. All fans who are unable to ascend stairs must watch the game from court level, and such tickets are extremely limited.

McArthur Court is expensive to maintain, relative to its potential revenues. The Athletics Department lists these costs as $1.3 million per year in total operating expenses of which some $390,000 is for maintenance. The UO Athletics Department does not believe that it can substantially increase revenues from the sale of men's basketball tickets in McArthur court, not only because of its modest capacity but because it lacks the amenities for which fans might pay premium prices.

The safety concerns of Mac Court have been mentioned by President Frohnmayer and other UO officials as a reason why a new facility is urgently needed. Our subcommittee made an effort to evaluate the safety of Mac Court. We were informed that Mac Court, like all university buildings, is subject to building inspection, fire alarm inspections, fire sprinkler inspection and testing. In addition, fire pumps, standpipes, and fire extinguishers are inspected and tested per the fire codes. It is also noteworthy that the safety issues for Mac Court are quite different from other campus buildings given that the capacity of the facility is large but the usage is infrequent relative to other campus buildings.

Our subcommittee focused on the seismic risks, because the danger of earthquake threatens all University buildings, and because studies have been done that compare the risks of various university structures. On October 18th the subcommittee invited Chris Ramey, Senior Architect and Director of University Planning, to a meeting to discuss seismic risk studies and renovation potential for Mac Court. Mr. Ramey referred us to the University of Oregon Natural Hazard Mitigation Plan published in Winter 2006, which includes a detailed building by building assessment of Seismic risks (see page 7). The seismic risk of McArthur Court is not at the level of the structures which are of greatest concern (darkest purple on the map) and is in about the middle of the pack overall. According to the plan, buildings that are at a higher priority for additional seismic assessment and reinforcement include Esslinger, Friendly, Fenton, Hendricks, Knight Library, Lawrence, Susan Campbell, and Volcanology. As of this time, funding has been secured from an Oregon Legislature's deferred maintenance appropriation for extensive work on Fenton Hall, and some improvements to the School of Music are being completed in connection with the construction of the Music School addition. As funds become available, the central Power Station, Straub and Condon are the next in line for seismic improvements. We conclude that from the perspective of seismic safety, McArthur Court is not a top priority for retro-fitting or replacement.

Since the announcements in August and September of plans for the new arena, some members of the campus community, particularly students, have been vocal in a "Save McArthur Court" campaign. The ASUO senate debated in late October a resolution forwarded by Jonathan Bowers that protested the new arena in favor of a thorough renovation of Mac Court. The subcommittee and the Senate have not taken a position on the ASUO motion, but the subcommittee considered the feasibility of remodeling the structure for new purposes, or demolishing it and building new University structures on its footprint. We asked Chris Ramey and Athletics Department staff about the feasibility of such a renovation, which would likely involve completely gutting the existing structure and building a new arena inside the skin or facade of Mac Court. There was a consensus that such a project could be nearly as expensive as a new arena and would not result in the larger-capacity facility which the Athletics Department desires.

President Frohnmayer has expressed that in addition to being a new home for basketball and volleyball, the University as a whole will benefit from the arena in a number of ways including enhanced academic and leisure opportunities for the general university community and the reversion of McArthur court, or the site which it occupies, to academic purposes. In fact, President Frohnmayer announced in November 2007 a plan for a committee chaired by Robert Melnick, Professor of Landscape Architecture and Interim Executive Director of the Jordan Schnitzer Museum of Art, to develop plans for future buildings to replace Mac Court. It seems likely that Mac Court will be demolished, along with part of adjacent Esslinger Hall, currently the home of Support Services for Student Athletes, which is likely to have a new home in a new building on Franklin Boulevard near the new arena. It is important to address the issue of whether the Athletics Department will pay the costs of the ongoing maintenance and eventual demolition of Mac Court and Esslinger.

5) Cost of the new arena:

As noted in the previous section, the cost figures that were cited for the arena project when it was being planned in 2003-04 began at $90 to $130 million and grew to $180 million at the time the plan was put aside in February 2004. Since the effort was revived in August 2007, the cost being discussed has been $200 million. According to the subcommittee's phone conversation with Erik Judson of JMI, the design firm retained by the UO Athletics Department, the figure reflects approximately $45 million in design costs, and approximately $151 million in construction costs. In addition, $27.4 million was already paid to acquire land that is planned to be used for the arena. Rapidly rising costs for raw materials such as steel and concrete have been a concern expressed by President Frohnmayer and others in arguing that we must move quickly on the arena. Recent evidence suggests that the rise in construction costs has slowed dramatically, to 4.6% annually, the lowest rate in three and one-half years.

It is important to note that the construction cost estimates do not include the costs required to build any parking facilities which may be required by the City of Eugene. Parking garages built to meet city code requirements could add substantial costs to the arena project and have not been studied in this report.

The 2007 CSL report includes construction costs for each of 43 new collegiate basketball arenas built since 1995.[2] Among these, the average capacity is 10,873 and the average cost $65 million. The two most recent such projects opened in 2006: the Galen Center at the University of Southern California, and the John Paul Jones arena at the University of Virginia. The former seats 10,258 and cost $147 million[3] and the latter accommodates 15,219 fans and cost $130 million, according to the CSL report. In addition, the University of Missouri opened its new arena in 2004 at a cost of $75 million and a seating capacity of 17,000.

The CSL report also includes more detailed data for 17 of the 43 recent projects, data including the number of luxury suites and club seats (which generate more revenue than conventional seats), and the sources of financing. The largest amount of bond debt for any of these projects was for the Value City Arena in Columbus, OH, completed in 1998 and the home court for Ohio State University teams. Bonds were sold to pay for $59 million of the $116 million in construction costs. Several other large arenas, including Virginia's John Paul Jones center, were paid for entirely with private donations, and no bond debt.

The current plan for the UO arena is to accommodate 12,500 fans, and the design, development, and construction costs are estimated to be $196 million. While the subcommittee recognizes that construction costs have risen over time, it is clear that the Athletics Department is planning to build one of the finest on-campus basketball arenas in the country, and that substantially higher ticket prices will be required to finance it. It is worth raising the question of whether fans, if given the option, might prefer paying lower prices and watching games in a less expensive building.

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[2] Appendix B, page 2.

[3] The full cost reported by UVA for the John Paul Jones facility was $191 million which includes practice courts, a weight room, an academic center and a team store—all of this cost was privately financed through donations.

6) Revenue forecasts for the new arena

The projections of arena operating income are critical to the arena financing plan in two respects. First and foremost, revenues are the economic means through which the arena will pay for itself. Second, the sufficiency of the revenues pledged to debt service payments is a critical factor in the tax law analysis.

The new Arena's revenues, like Mac Court's revenues, will be driven by men's basketball season ticket sales. Potential revenues from non-UO events, such as concerts, rodeos or other spectacles, are a very small portion of potential revenues because independent promoters typically pay only a rental fee to the facility's owners. The cost of purchasing season tickets to attend Men's basketball games will include four separate price elements. First, in order to secure the right to buy season tickets in the new arena, fans will have to pay a mandatory construction fee beginning as early as 2008. Second, nearly all season ticket holders will be required to pay an annual Duck Athletic Fund (DAF) donation in order to secure preferred seating locations within the new arena.[4] Importantly, these DAF contributions will be in addition to any DAF donations made for football.[5] Third, those attending games will have to pay the face value of the ticket which will be substantially higher across all seating options in the new arena. Fourth, there will be a $2 facility fee imposed on all tickets sold for arena sport tickets. In fact, the facility fee is planned to be imposed on all athletic tickets sold that sell for more than $8 face value in non-arena sports.[6] In addition to ticket-related income, the Athletics Department anticipates substantial increases in advertising revenues. The subcommittee was recently informed that the Athletics Department "has offers of approximately $5.5 million per year for advertising revenue" from private firms hoping to become the Department's agent for the sale and execution of corporate sponsorships. Such contract relationships have become common in intercollegiate athletics. Typically, they include a sizeable annual revenue guarantee over a three to seven year period. It is difficult to determine the extent to which incremental advertising revenues related to such a rights fee guarantee could be attributed to the existence of the new arena. In the next section, this concern will be discussed in greater detail. The table below summarizes four sources of information that help to evaluate the estimation of arena revenues. These sources of information include current operating income from Mac Court, revenue projections from the 2003 CSL report, 2007 Athletics Department Revenue Estimates presented to the OUS Board November 2, 2007, and the 2007 CSL revenue estimates.

[4] Although prices related to season tickets, DAF contributions and construction fees for various seating options have not been finalized, the latest seating configurations provided by the Athletics Department show that 1,590 Upper Bowl seats would be exempt from DAF contributions and construction fees. These general admission seats would be sold at an average face value of $15 plus the $2 ticket surcharge.

[5] This represents a departure from past practice, whereby fans' donations to the Fund qualified them to buy season tickets for both football and men's basketball. The new policy would represent a significant additional expense for fans who wished to buy season tickets for both sports, and according to the CSL report it would differ from the practice at seven of the nine other Pac-10 Athletics departments. Only UCLA and Arizona currently require separate booster club donations specific to men's basketball season tickets.

[6] Non-arena sports include football, track and field, cross country, soccer, softball, lacrosse, men's and women's golf, men's and women's tennis (which currently do not charge fans for admission), and in the near future, men's baseball.

Summary of Revenue Estimates

Revenue Items	**Mac Court**	**CSL 2003 Baseline(p.7)**	**Athletic Dept. Low 2007**	**CSL 2007 Conservative**
Men's basketball	$2,256,000	$3,200,000	$4,752,000	$5,475,000
Premium Seating DAF	65,000	705,000	1,000,000	1,646,000
Student Ticket Allocation	660,000	620,000	660,000	660,000
Advertising/Sponsorships	220,000	1,000,000	1,500,000	2,500,000
Non-Arena $2 surcharge			1,250,000	1,250,000
Arena $2 surcharge		396,000	668,000	626,000
Women's basketball	375,000	630,000	630,000	735,000
Women's volleyball	18,000	16,800	21,000	21,000
Men's wrestling/Cheer	4,000	9,800		
Concessions	163,000	415,439	640,000	598,000
Other Event Revenues		1,688,154[a]		389,000
Merchandise		63,521	76,000	84,000
Total Revenues	**$3,761,000**	**$8,744,714**	**$11,561,000**	**$13,984,000**
Less Arena Expenses	1,303,000	3,180,048	3,691,000	3,511,000
Operating Income[b]	**$2,458,000**	**$5,564,666**	**$7,870,000**	**$10,473,000**
Non-student MBB tickets	6,800	8,000	8,800	8,800
Arena Capacity	8,950	12,600	12,500	12,500
Average Season Ticket Cost[c]	$352/seat[c]			$844/seat[d]

Notes:
a) Includes Non-university events, Commencement, Interest on Reserves, Parking.
b) Does not subtract program costs (e.g. basketball travel costs and coaches salaries) since these costs are independent of the venue.
c) Average Mac Court season ticket cost with DAF contributions is estimated by taking ($2,256,000 in MBB tickets + 65,000 in DAF)/6,600 season tickets = 351.67/seat
d) Estimated using 2007 CSL report:
Appendix F, p. 4, Avg Season Ticket Cost (34.47 + 2.00) x 18 games = 656.46/seat.
Appendix F, p.8, Avg Per Seat DAF = $1,646,120/8,800 seats (estimated # of season tickets) = 187.06/seat.
Average Season Ticket Price = $843.52.

There are four features that we focus upon in comparing the various estimates of Arena revenues. First, all the estimates of arena revenues contemplate at least a doubling of operating income and the 2007 CSL report contemplates a 333% increase in operating income over what is currently generated at Mac Court. Second, the 2003 CSL report issued a baseline operating income estimate that is approximately one-half of what CSL offers as a conservative estimate in 2007. Third, we estimate the average cost per seat for season ticket packages in Mac Court and in the new arena under the 2007 Conservative CSL estimate. The average season ticket price will more than double from $352 per seat to $844 per seat. Fourth, the CSL report indicates that revenue from "Advertising/Sponsorships" will rise from $220,000 in Mac Court to $2,500,000 in the new arena, in the conservative scenario. The subcommittee believes that opportunities to increase revenues through the sale of signage and corporate sponsorship packages will increase in the new building. However, it is very difficult to specify how much of the increase would be attributable solely to the proposed arena. Most major corporate sponsorships are sold as packages that include signage and media advertising elements across both basketball and football. It is likely that football will continue to be the most attractive alignment opportunity for corporate sponsors. Finally, all of these increased revenues must be placed in the context of the demographics in the Eugene/Springfield area. Appendix A of the CSL 2007 report describes the demographic and economic challenges faced by the Eugene/Springfield metro area in supporting an arena.

The most important takeaway from this table is that there is a lot of uncertainty among the experts in how much income the new arena will generate. What is certain is that if the arena does support itself, we are going to have to see much higher average prices and over 2,000 more season ticket purchasers. The increased burden borne by Oregon fans to pay for this new building is a serious concern. While Oregon fans are loyal and supportive, prudence requires that financial sensitivity analysis consider cases that are well below the so-called conservative case for revenues. For further context, we have provided additional information about the revenue estimates summarized above.

Operating Income at Mac Court: Fiscal Year End 2007

According the actual FYE 2007 budgets provided by the Athletics Department, Mac Court related revenues and costs are:

Revenue Items	**Revenue**	**Current Operating Expenses(1)**	**Program Expenses**	**Operating Income**
Men’s basketball (2)	$ 5,256,000		$ 3,515,000	$ 1,741,000
Premium Seating DAF	$ 65,000			$ 65,000
Student Tickets Fee	$ 660,000			$ 660,000
Women’s basketball	$ 375,000		$ 1,581,000	$ (1,206,000)
Women’s volleyball	$ 18,000		$ 838,000	$ (820,000)
Men’s wrestling/Cheer (2)	$ 4,000		$ 680,500	$ (676,500)
Advertising/Sponsorships	$ 220,000			$ 220,000
Concessions	$ 163,000			$ 163,000
Totals	**$ 6,761,000**	**$ 1,303,000**	**$ 6,614,500**	**$ 146,500**

Notes:

1) Mac Court Operations includes Salaries, Repairs, Materials, Utilities, Advertising, G&A, Game Day Expenses, Major Capital Repairs, Insurance.

2) According to the actual 2007 FYE 2007 budget, the men’s basketball program generated $2,256,000 in operational revenues. The Athletics Department recently informed the subcommittee that in 2006-07, that an additional “nearly $3 million” is attributable to men’s basketball from NCAA tournament revenues and from Oregon Sports Network broadcasts.

3) Included in these numbers is $4,000 in revenue from wrestling not itemized in the actual 2007 FYE numbers but found in the 2007-2008 budget.

Note that approximately 1,800 student seats in Mac Court are paid for with the $660,000 student allocation fee appropriated by the ASUO from student incidental fee. The revenue estimates do not anticipate an increase in this allocation, although it is likely that the number of student seats in the new arena will increase somewhat.

The 2003 CSL Report

In 2003 the UO Athletics Department hired CSL to prepare a feasibility study and revenue estimates for a new arena. As described in the resulting 2003 CSL report:

> The financial projections below are based on sound and attainable assumptions that address the ongoing management of a 12,600 seat, 385,000 square foot arena. Independent experts, working with the staff of the Athletics Department have provided all of the assumptions relating to the arena. When gathering data every effort was made to obtain multiple estimates for each variable in order to establish assumptions that were reasonable. [7]

In the 2003 CSL report, estimated gross revenues totaled $8,744,000 and estimates of arena expenses were $3,180,048 in the first year of operation, 2009-10. Thus, operating income was estimated to be $5,564,666 as shown in the table above. The 2003 CSL report was built around a very different financing arrangement than is now being proposed. Only about a third of the cost was to be financed with bonds, a "$55,000,000 municipal bond offering through the Oregon Facilities Authority" (p. 3) over 30 years. There were other aspects of the 2003 proposal which were much more attractive from the perspective of the University's academic mission. Most important was a plan for Net Income Sharing: "We have developed an income sharing arrangement in which the AD [Athletics Department] will garner 85% of dollars left after debt payments; 5% of net income will go toward building maintenance reserves and the remaining 10% of net income will go into a fund for NCP, its board of directors and the University President to support academic areas of campus that are achieving excellence." This kind of cross-subsidy from athletics to academics, if it were to be included in the current financing plan, would be welcomed by the subcommittee and no doubt by other UO faculty. Such a plan would make the UO one of only a handful of college athletic programs in the country that directly support academic programs at their institutions.

The 2007 Athletics Department Revenue Estimates[8]

When the new arena project was described by UO Athletic Director Pat Kilkenny during the Fall of 2007, he declared that he was "'comfortable' in saying that a new arena could generate $16 million annually."[9] And speaking to the Oregon State Board of Higher Education on Nov. 2, Kilkenny said "I can tell you that quite honestly I feel our numbers are incredibly conservative." and that "there is no plausible scenario where we feel we'll have to draw on the academic budget or on any of the state monies, even assuming there's almost a total meltdown in terms of our Athletic Department."

In mid-September 2007, the revenue estimates described by Director Kilkenny were released to the subcommittee. When questioned as to how the revenue projections were formulated,

[7] See page 7 of the 2003 report.
[8] OUS board meeting docket from 11/2/2007 p. 41.
[9] *Oregonian* Oct. 9, 2007

Athletics Department representatives explained that the revenue forecasts were developed using the following methodology: i) eleven individuals experienced in athletic operations and knowledgeable of the Oregon fan base associated with the UO Athletics Department (either as employees or as volunteers) were given a seating plan for a proposed new arena; ii) each individual was asked to independently provide an estimate of the most appropriate ticket price, mandatory Duck Athletic Fund contribution and construction fee for each type of seating option in the proposed new arena, ranging from courtside seats to upper bowl general admission seating; iii) these independent opinions on price and attendance numbers were collected and analyzed by a third party who used them as the basis for asserting the financial viability of the proposed arena project. The revenue projections provided from this strictly "in-house" estimation process were not subject to any market test or certification until the CSL conducted its market research in December 2007. As will be shown later in this report, the on-line survey results indicate that the initial revenue estimates provided by the Athletics Department were very optimistic.

Beginning in October subcommittee member Dennis Howard was invited to participate in the design and planning of focus group protocols and market surveys. The first one of these focus groups was held in conjunction with the USC football game on Oct. 27th, which drew to Eugene many committed supporters of Duck athletics. The focus group responses resulted in several changes to proposed ticket pricing plans. Responses to ticket price levels from Duck supporters in the Portland area were generally more favorable than from focus group members from the Eugene Springfield area. Focus group results are found on pp 25-42 and in Appendices D and E of the 2007 CSL report.

The 2007 CSL Report

The feasibility assessment prepared by CSL was completed on a tight schedule. Copies of the report arrived at the UO on December 14th, after an email survey of approximately 6000 ticket purchasers was sent out on Monday Nov. 26th, and was subsequently delayed by software errors. The exact design configuration of the seating bowl for the new arena was not finalized until after surveys had been sent, which may explain some discrepancies noted in our analysis below.

In Appendix 1 of this report, we evaluate ticket and DAF revenues predicted by CSL and, using the best information available to us, incorporate the survey results into an analysis of revenues for men's basketball. We focused on men's basketball in this analysis primarily because revenues related to men's basketball are crucial to sustaining the economic viability of the arena project. To summarize our analysis, the CSL 2007 "conservative" or low estimates, furnished in Exhibit 4 and throughout their report, are at the upper limit of what the data suggest customers are willing to pay. Accounting for the data from the survey results, our upper limit estimate of gross revenues is $7,313,271. Importantly, this gross revenue estimate accounts for all season ticket revenues as well as all annual DAF contributions required for the various seating options in the new arena. This is an important clarification because the revenue projections provided in the CSL report separates ticket revenues for men's basketball from DAF contributions. Therefore, a prudent assessment of the revenue-generating capabilities of the proposed arena must test financial viability in cases where operating income falls substantially below the conservative estimates provided by CSL's feasibility analysis.

7) The Financing Plan

On August 21, 2007 a summer meeting of the Senate Budget Committee was convened to inform the faculty of the UO's financing plan for the new arena in light of the recently announced gift to the newly created athletics Legacy Fund. The UO proposed to the OUS that the State of Oregon issue up to $200 million in tax-exempt Article 11(F) general obligation bonds to fund the design and construction of the new Arena. The $200 million in bonds will extend the bonding for this project to $227.4 million when the $27.4 million in bonds used to purchase the Williams Bakery site are included. These general obligation bonds are secured by the taxing authority of the State of Oregon, although the approvals obtained from the OUS and state Legislature certainly make it clear that the UO is responsible for generating payments for these bonds under all but the most dire financial circumstances. The debt service for the arena related bonds is anticipated to be about $13 million per year for 40 years.[10] The intended sources of repayment include arena operating income, and Duck Athletic Fund (DAF) collections.[11] The DAF collections are already being spent and do not represent new revenues available to the Athletics Department. The Athletics Department's two new sources of funds will flow from arena operations and the envisioned Legacy Fund. Legacy Fund balances may also be used to pay interest during the construction period for the arena. In the event that, contrary to expectations, arena operating revenue and Duck Athletic Fund collections are insufficient to satisfy debt service obligations on the bonds in any particular year, other sources of funds, including available Legacy Fund balances, would be used to make up the differences.

Currently the interest rates on the proposed bonds are likely to fall between 4.40% – 4.80%. These low interest costs reflect the benefit of two primary subsidies to the Arena project bonds. First, there is a federal subsidy which exempts bond interest income from federal taxation, thus resulting in lower interest rates. Second, the State of Oregon has pledged to pay these bonds back unconditionally, thus the Arena project has its financing co-signed by the taxpayers of the State of Oregon. These subsidies come with regulations and limitations.

A) Tax-exemption subsidy – arbitrage regulations

The Federal tax-exemption subsidy is available under stringent rules administered by the Internal Revenue Service (IRS). A primary abuse that the IRS monitors concerns so-called tax arbitrage. Tax arbitrage occurs when a borrower issues tax-exempt bonds at low, subsidized interest rates and then, taking advantage of the fact that State of Oregon bonds are not subject to taxes, opportunistically invests the tax-exempt bond proceeds in investments which offer higher rates of return because most investors are subject to tax.

The arena bonds and their connection to the Legacy Fund gifts tread into tax law territory where compliance with these arbitrage rules is delicate and must be examined carefully with bond counsel and the IRS. To better understand these issues our subcommittee had two discussions with Scott Schickli, a specialist in tax law who is of Counsel to Orrick, LLC. Mr. Schickli expressed the opinion that the financing plan is legal under the following three conditions.

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[10] This number includes the debt service on both bond issues. The $27.4 million dollar issue has $1,820,000 payments that extend 30 years. It is worth mentioning that whereas in August and September 2007 officials commonly spoke of a 30 year maturity on the bonds, the plan later changed to a 40-year debt service.

[11] DAF donations currently come almost entirely from Autzen seat donations that are required for football seat purchases.

First, the UO cannot issue more bonds that it needs to issue. The arena will cost $200 million to build. The Legacy Fund is not intended to pay for the arena, and in any case, it will reach its full level of $100 million over the next 5 years, with $20 million contributions expected each year. So as a practical matter beginning the arena in the summer of 2008 requires funds sufficient to build the arena.

Second, the donors to the Legacy Fund cannot impose a quid pro quo that directly links the Legacy Fund and the arena bond financing. We are concerned, and have explicitly inquired about the connection between the arena project, its proposed bond financing, and the conditions in the Legacy Fund gifts. Direct and public statements by Athletics Department officials have made it clear to us that if the arena is not financed by the $200 million dollar debt obligation, there will be no Legacy Fund gift. Mr. Schickli has offered his assurances that the conditions in the gift agreements do not violate the tax law.

Third, the UO cannot expect to pay debt service with the Legacy Fund gift nor can they secure the debt with the Legacy Fund gift. Revenue projections are critical to the financing plan. As long as *ex ante* revenue projections reasonably suggest that the arena will be self-supporting, then if in the future the Legacy Fund must be drawn upon there are limited sanctions imposed – namely some of the excess investment earnings must be rebated to the federal government. Because the conservative CSL revenue estimates[12] are below the debt service requirements for the arena, a critical opinion on this point is that pledging DAF donations connected to football to pay the arena bond debt service and then replenishing those DAF funds with Legacy Funds to balance the Athletics Department budget, does not invalidate the Federal tax-exemption subsidy. According to Mr. Schickli the pledge of preexisting DAF monies to support the arena, and the backfilling of required DAF monies with draws from the Legacy Fund, is allowed by the IRS. The condition that the Legacy Fund secures the debt is not at issue given that the debt are GO bonds issued by and secured by the state of Oregon.

A final concern expressed by Orrick was that even if the financing plan is clearly legal, there is always the risk that the IRS may interpret the law differently than the issuer and may bring an action against the issuer. Mr. Schickli used the term “optics” to describe how it is important that the financing and the statements surrounding it do not taunt the IRS. The IRS may take umbrage if the financing appears to exploit clever and legalistic interpretations that violate the spirit, but not the letter of the law. Thus, bond counsel urges great caution in how the arena financing plan is described. The subcommittee members have been present at meetings in which UO administrators described the financing plan in a manner which suggests that the Legacy Fund is a pledge securing the debt payments. These statements should be made with greater care, according to Mr. Schickli.

[12] We provide an analysis of these estimates in the next section of our report.

Potential Penalties for Arbitrage Violations
In the event that the IRS brings action against an issuer the following penalties are possible, according to Mr. Schickli:

"if the IRS concluded that certain amounts in the Legacy Fund should have been treated as replacement proceeds of the bonds, it would most likely demand that the Department [of Athletics] rebate to the IRS the amount by which the average investment yield on such Legacy Fund amounts exceeded the average bond yield, plus interest. Unlike arbitrage abuse situations, the IRS could only declare the bonds taxable as a result of failure to pay rebate if the failure to pay was due to willful neglect, and there is no argument that such would be the case here. It would be less likely that the IRS (assuming it found fault with the transaction) would conclude that the bonds failed to comply with the basic conditions for tax-exempt status, either from the start (by issuing bonds in excess of those necessary or later on, by leaving bonds outstanding when they should have been retired); if it did so, in order to avoid the IRS imposing tax on prior bond interest, the issuer/department would have to agree to make a payment to the IRS approximately equal to 50% of the tax that would have been imposed on the bonds in the current and past 3 tax years, assuming tax at a rate of 29%. Under no circumstances would criminal penalties be applicable unless there were bid rigging or kickbacks involved in the sale of the bonds or the investment of bond proceeds." (quoted from email of Dec. 21, 2007)

Avenues for Obtaining Assurances that the financing complies with IRS Regulations
An issuer can ask for a private letter ruling from the IRS which implicitly gives the IRS' tacit approval that the financing complies with the law. Obtaining a private letter ruling may take 4-6 months time and cost approximately $100,000 in legal costs. An alternative avenue is referred to as a pre-submission conference. This provides less formal assurance but is more expeditious and less expensive.

B) Limitations on use Debt at the UO—Subsidy from the State of Oregon
By agreement with the OUS[13], bond debt service for F-bonds cannot exceed 7% of the university budget. In 2007-08, projections by the administration show that there are approximately $193 million in outstanding F-bonds with associated debt service of $17.8 million. As a result, current debt service represents 3.4% (= 17.8/524.3) of the projected expense base. In 2008-09, after amortization of some existing debt, the $200 million arena debt, and additional debt issues are expected to increase outstanding f-bond debt to $399 million with associated debt service projected to be $29.7 million. As a result, debt service is projected to represent 5.2% (=29.7/567) of the projected expense base. Thus, the new arena will utilize approximately 26% (=1.8/7) of the 7% guideline. When combined with proposed housing projects, anticipated over the next decade, forecasts suggest that between 2010-2018 available debt capacity will be below $100 million falling to a low of $27 million in 2016-17 a year where the debt service to budget ratio is projected to hit 6.7%. The constraints on the use of bonded debts mean that bonds must be used judiciously and in a manner consistent with the University's mission because debt is a scarce resource.

[13] See transcript from 11/02/2007 OUS Board meeting.

8) Preliminary Financial Analysis of the Arena Financing Plan

We have studied to the only two financial plans that have been provided to our subcommittee over the last 4 months by the Athletics Department. These plans are insufficient in our view to evaluate the feasibility of the plan and as a result we have had to do our own due diligence rather than simply assess the Athletics Department's work. For example, the spreadsheets provided in the OUS board docket did not explain how debt service would be paid during construction.[14] Our work represents the most basic financial evaluation of the interaction between the cash flows required for the arena project in this section and is not intended to be definitive or a substitute for the Athletics Department's own analysis. However, we believe that our simplistic analysis illustrates the issues that we are concerned with and allow us to form basic impressions of the risks that the arena project imposes upon the university.

Our analysis begins with the 2007 CSL revenue estimates and runs three scenarios where revenues are 100%, 75% and then 50% of the CSL 2007 conservative case. The conservative case was used because analysis of the survey data indicated that this lower-end estimate provided the most realistic estimate of Oregon donors' willingness to pay the costs associated with attending Men's basketball games in the new arena. We assume that the Legacy Fund is invested in short-term U.S. Treasury securities earning 5%.[15] We assume that the Legacy Fund gifts come in five annual $20 million dollar installments beginning in June 2008.[16] We utilize the Athletics Department assumptions for annual increases of 2.5% in revenues and costs for program revenues and expenses beyond 2011. If ground breaking occurred in the summer of 2008, we are told that it is likely that the arena will begin operations in the fall of 2010 providing operating revenues for FYE June 2011. Bonds would be issued when construction commences in Summer 2008.

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[14] In mid-December we received a construction fund cash flow spreadsheet. The plan includes two sources of revenues for debt service during the construction period. First, funds paid by fans for seat licenses, second, investment earnings on unspent bond proceeds. The construction cash flow plan does not fully address the concerns that we have, however we have not accounted for these alternative sources of revenues in our analysis and therefore our analysis is more conservative.

[15] As of December 21, 2007, 2 year treasury yields are approximately 3.2%.

[16] According to the most recent information on the Legacy Fund provided to us by the administration, "pledges and cash received total $112 million, all but $4.5 million of which are signed pledges or received" but we were not given a schedule for the receipt of the additional $12 million, and therefore did not adjust the above analysis to reflect it.

Revenues at 100% of CSL 2007 Conservative Estimates

Legacy Fund Balance	**0**	**20,014,724**	**30,589,105**	**41,921,543**	**61,705,912**	**82,757,306**	**85,146,023**
Legacy Fund Gift Schedule	0	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	-
Legacy Fund Earnings	5%	-	1,000,736	1,529,455	2,096,077	3,085,296	4,137,865
Legacy Fund Used for Operations	**-**	**-**	**(10,426,355)**	**(10,197,017)**	**(2,311,708)**	**(2,033,901)**	**(1,749,149)**
Legacy Fund Sweeps from Operating Surplus		14,724	-	-	-	-	-
					Arena's 1st Yr Revenues		
		Bonds Issued	**1st Pmt Due**	**2nd Pmt Due**	**CSL Conservative (% of Conservative)**		
	% Revenues an	1	1	1	**100%**		
	Growth Rate yoy	1.035	1.035	1.035	1.025	1.025	1.025
	Actual FYE	1	2	3	4	5	6
	June 30, 2007	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**
Total Mac Court / New Arena Revenue	3,757,000	3,865,395	3,977,584	4,093,699	13,984,000	14,286,700	14,596,968
Mac Court / Arena Operating Expenses	1,303,000	1,348,605	1,395,806	1,444,659	3,511,000	3,598,775	3,688,744
Net Mac Court / Arena Income	**2,454,000**	**2,516,790**	**2,581,778**	**2,649,040**	**10,473,000**	**10,687,925**	**10,908,223**
Arena Debt Service Building			(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)
Arena Debt Service Land		(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)
Existing Debt Service	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Arena Sports Program Expenses	(6,614,500)	(6,862,544)	(7,110,588)	(7,288,352)	(7,470,561)	(7,657,325)	(7,848,758)
Non-Arena Sports Revenue	33,763,000	35,267,613	36,772,225	37,686,031	38,622,681	39,582,748	40,566,817
Non-Arena Sports Expenses	(36,204,500)	(37,287,169)	(38,369,838)	(39,355,755)	(40,353,399)	(41,375,984)	(42,424,134)
Operating Totals	**(9,602,000)**	**(11,185,310)**	**(22,196,422)**	**(22,379,037)**	**(14,798,279)**	**(14,832,636)**	**(14,867,852)**
Distribution from DAF (football seat revenues)	10,630,000	11,200,034	11,770,068	12,182,020	12,486,570	12,798,735	13,118,703
Athletic Department Budget -- (shortfall)/excess			(10,426,355)	(10,197,017)	(2,311,708)	(2,033,901)	(1,749,149)
Required Distribution from Legacy Fund		**-**	**10,426,355**	**10,197,017**	**2,311,708**	**2,033,901**	**1,749,149**
Operating Income surplus sweep to Legacy Fund		14,724	-	-	-	-	-

Under the 100% scenario, which according to expert analysis by a member of our subcommittee represents an upper limit on ticket purchasers' expressed willingness to pay, the arena project is unlikely to place a burden on the university's budget. While during the construction period, substantial draws are required from the DAF revenues, which would be back-filled out of the Legacy Fund, once the new arena is put into service the financial situation turns positive. The Legacy Fund balance, the top row of numbers, would reach $85 million by 2013 and would be growing, as earnings from Legacy Fund investments would outpace draws required by the Athletics Department to balance the budget. Provided that program expenses do not grow at a significantly faster rate than program revenues, this scenario would provide substantial resources to the Athletics Department and likely achieve the stated goals of the sustained self-sufficiency.

Revenues at 75% of CSL 2007 Conservative Estimates

Legacy Fund Balance	**0**	**20,014,724**	**30,589,105**	**41,921,543**	**58,209,912**	**75,514,831**	**73,892,182**
Legacy Fund Gift Schedule	0	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	-
Legacy Fund Earnings	5%	-	1,000,736	1,529,455	2,096,077	2,910,496	3,775,742
Legacy Fund Used for Operations	**-**	**-**	**(10,426,355)**	**(10,197,017)**	**(5,807,708)**	**(5,605,576)**	**(5,398,391)**
Legacy Fund Sweeps from Operating Surplus		14,724	-	-	-	-	-
					Arena's 1st Yr Revenues		
		Bonds Issued	**1st Pmt Due**	**2nd Pmt Due**	**CSL Conservative (% of Conservative)**		
	% Revenues an	1	1	1	**75%**		
	Growth Rate yoy	1.035	1.035	1.035	1.025	1.025	1.025
	Actual FYE	1	2	3	4	5	6
	June 30, 2007	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**
Total Mac Court / New Arena Revenue	3,757,000	3,865,395	3,977,584	4,093,699	10,488,000	10,715,025	10,947,726
Mac Court / Arena Operating Expenses	1,303,000	1,348,605	1,395,806	1,444,659	3,511,000	3,598,775	3,688,744
Net Mac Court / Arena Income	**2,454,000**	**2,516,790**	**2,581,778**	**2,649,040**	**6,977,000**	**7,116,250**	**7,258,981**
Arena Debt Service Building			(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)
Arena Debt Service Land		(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)
Existing Debt Service	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Arena Sports Program Expenses	(6,614,500)	(6,862,544)	(7,110,588)	(7,288,352)	(7,470,561)	(7,657,325)	(7,848,758)
Non-Arena Sports Revenue	33,763,000	35,267,613	36,772,225	37,686,031	38,622,681	39,582,748	40,566,817
Non-Arena Sports Expenses	(36,204,500)	(37,287,169)	(38,369,838)	(39,355,755)	(40,353,399)	(41,375,984)	(42,424,134)
Operating Totals	**(9,602,000)**	**(11,185,310)**	**(22,196,422)**	**(22,379,037)**	**(18,294,279)**	**(18,404,311)**	**(18,517,094)**
Distribution from DAF (football seat revenues)	10,630,000	11,200,034	11,770,068	12,182,020	12,486,570	12,798,735	13,118,703
Athletic Department Budget -- (shortfall)/excess			(10,426,355)	(10,197,017)	(5,807,708)	(5,605,576)	(5,398,391)
Required Distribution from Legacy Fund		**-**	**10,426,355**	**10,197,017**	**5,807,708**	**5,605,576**	**5,398,391**
Operating Income surplus sweep to Legacy Fund		14,724	-	-	-	-	-

The 75% assumption requires $10,488,000 in revenues in the first year of operations, just under three times what is brought in today at Mac Court. Under this scenario the construction years 2009 and 2010 require the indirect draws on the Legacy Fund of over $10 million each, to cover debt service on the bonds during construction. Thus, the top row of this exhibit shows that in June 2009 after two $20 million installments, the Legacy Fund has a balance of $30.5 mm. In FYE 2013 the Legacy Fund must draw 5,398,391 though that is offset by 3,775,742 in interest earnings, thus the Legacy Fund balance falls by less than $2 million dollars from 2012 to 2013. Under this scenario the balance of the Legacy Fund falls to $69.3 million in 2018 and from that point on the arena revenues and Legacy Fund earnings contribute positively to the Legacy Fund balance.

Revenues at 50% of CSL 2007 Conservative Estimates

Legacy Fund Balance	**0**	**20,014,724**	**30,589,105**	**41,921,543**	**54,713,912**	**68,272,356**	**62,638,342**
Legacy Fund Gift Schedule	0	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	-
Legacy Fund Earnings	5%	-	1,000,736	1,529,455	2,096,077	2,735,696	3,413,618
Legacy Fund Used for Operations	**-**	**-**	**(10,426,355)**	**(10,197,017)**	**(9,303,708)**	**(9,177,251)**	**(9,047,632)**
Legacy Fund Sweeps from Operating Surplus		14,724	-	-	-	-	-
					Arena's 1st Yr Revenues		
		Bonds Issued	**1st Pmt Due**	**2nd Pmt Due**	**CSL Conservative (% of Conservative)**		
	% Revenues an	1	1	1	**50%**		
	Growth Rate yoy	1.035	1.035	1.035	1.025	1.025	1.025
	Actual FYE	1	2	3	4	5	6
	June 30, 2007	**Jun-08**	**Jun-09**	**Jun-10**	**Jun-11**	**Jun-12**	**Jun-13**
Total Mac Court / New Arena Revenue	3,757,000	3,865,395	3,977,584	4,093,699	6,992,000	7,143,350	7,298,484
Mac Court / Arena Operating Expenses	1,303,000	1,348,605	1,395,806	1,444,659	3,511,000	3,598,775	3,688,744
Net Mac Court / Arena Income	**2,454,000**	**2,516,790**	**2,581,778**	**2,649,040**	**3,481,000**	**3,544,575**	**3,609,739**
Arena Debt Service Building			(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)	(11,250,000)
Arena Debt Service Land		(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)	(1,820,000)
Existing Debt Service	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Arena Sports Program Expenses	(6,614,500)	(6,862,544)	(7,110,588)	(7,288,352)	(7,470,561)	(7,657,325)	(7,848,758)
Non-Arena Sports Revenue	33,763,000	35,267,613	36,772,225	37,686,031	38,622,681	39,582,748	40,566,817
Non-Arena Sports Expenses	(36,204,500)	(37,287,169)	(38,369,838)	(39,355,755)	(40,353,399)	(41,375,984)	(42,424,134)
Operating Totals	**(9,602,000)**	**(11,185,310)**	**(22,196,422)**	**(22,379,037)**	**(21,790,279)**	**(21,975,986)**	**(22,166,335)**
Distribution from DAF (football seat revenues)	10,630,000	11,200,034	11,770,068	12,182,020	12,486,570	12,798,735	13,118,703
Athletic Department Budget -- (shortfall)/excess			(10,426,355)	(10,197,017)	(9,303,708)	(9,177,251)	(9,047,632)
Required Distribution from Legacy Fund		-	**10,426,355**	**10,197,017**	**9,303,708**	**9,177,251**	**9,047,632**
Operating Income surplus sweep to Legacy Fund		14,724	-	-	-	-	-

The final scenario considers a case where revenues are 50% of the 2007 CSL conservative estimates. This scenario represents an outcome where arena revenues are $6.9 million and operating income is $3.5 million, nearly two times the revenues brought in at Mac Court today. While we certainly hope this is not the revenue outcome, it is possible for this scenario to occur in circumstances that are far from cataclysmic. Prudent planning must account for the likelihood of declining attendance due to poor team performance and/or a poor local economy over a 40 year horizon. In this scenario, the Legacy Fund draws run the Legacy Fund to a zero balance by 2024. Again, the Legacy Fund balance draws during the construction period are over $10 million per year and beginning operations the draws remain in excess of $9 million though the impact on the Legacy Fund balance is attenuated by about $2 million in interest earnings.

It should be emphasized that these simplistic financial models, in assuming three possible levels of future revenues, make no assertions about which specific revenue streams may be lower or higher than the figures provided in the CSL report. Nonetheless, four sources of risk to the University are apparent. First, arena revenues are critical, variable and difficult to predict. Second, withdrawals from the UO Foundation DAF moneys that largely depend on football are critical to the financing plan. These DAF donations are well established and relatively dependable, though one worries that if the success of the football team were to wane for a number of years that these DAF donations might fall. Third, the management of financial risk for this project depends importantly on gifts from our long-term, critical partners and on the performance of those gift funds in the investment marketplace. Likewise, to the extent that gifts exceed those modeled above the margin of safety will grow. Fourth, we have assumed that the earnings rate on the Legacy Fund will be 5%. This is higher than one can earn in the safest U.S. Treasury investments today. However, it represents a relatively safe earnings stream. The Athletics Department has suggested that in its plan the Legacy Fund will earn 8% annually by investing the assets in the UO Foundation Willamette pool which has a historical average annual return that exceeds 10%. The risks inherent in exposing the Legacy Fund to market risks have not been incorporated into any analysis shared with our subcommittee and those risks are potentially very large and debilitating to this financing plan. If the Legacy Fund were invested in the Willamette Pool and the market were to lose a substantial percentage of its value, the margin of safety for the arena plan falls dramatically, especially if the decline were to happen early in the arena project's evolution. Given that our UO Foundation is managed by extremely competent and successful management, some might ask whether this is unreasonable to consider. However, competent managers are not immune to market fluctuations nor do they purport to be. As an example, the Oregon State Treasurer's office manages the PERS pension funds and has a history of very good returns. Over the last 37 years their average annual return is 11.26%. However in 1973, 1974 the fund lost 16.39% and 18.16% in successive years. While this happened only once in 37 years, it bears notice that the horizon of the arena bonds is 40 years.

Given that the University bears this market risk it is reasonable and prudent to require the Athletics Department to demonstrate that revenues from the arena are sufficient to retire the debt prior to exposing the Legacy Fund to market risks. This plan contains many significant sources of uncertainty. Investment policies that circumscribe that risk, until such time as some of these uncertainties are better understood, will help to resolve legitimate concerns about this plan. Once the arena revenues have been realized and the Legacy Fund has grown to a sufficient level, such safeguards can be relaxed.

9) Recommendations of the SBC for President Frohnmayer

In consideration of the risks described above, we recommend that President Frohnmayer develop a written agreement with the Athletics Department that will memorialize the understandings surrounding the arena financing plan. The University's budget and thereby its ability to pursue its mission deserve safeguards, while at the same time allowing for Athletics Department success to be rewarded with increasing levels of flexibility. We envision a small group of faculty (perhaps one from each of the Intercollegiate Athletics Committee, Senate Budget Committee, and one *ad hoc* member with specific expertise) would regularly review and evaluate this information and file an annual report with the University Senate.

Our recommendations are described below in general terms that may require future refinements.

1) **Transparency**: We recommend that the President ask the Athletics Department to provide timely, complete and transparent financial statements at a level of detail that allows careful evaluation of all Athletics Department operations. Among many other items, these financial

statements should include itemized arena revenues, expenses, Legacy Fund donations, earnings, withdrawals and balances. In addition, the Athletics Department should explicitly compare the growth in program expenses (assumed to be 2.5% in projections) to realizations. When necessary, the Athletics Department will be responsive to requests for additional information from this faculty group.

Given emerging information regarding arena revenues, we recommend that this faculty group be provided with a progress report in the fall of 2008 on the revenues and signed pledges generated by construction fees. If these sales are substantially behind forecasts (say 10%) then a) analysis will be shared on why this may be true, and b) this faculty group may ask that the Athletics Department hire a mutually-agreeable marketing consultant to reassess the ticket pricing strategies.

Finally, we recommend that the role of the IAC and the process of its interactions with the Athletics Department be enhanced and made explicit. For example, the Director of Athletics must make it a top priority to attend and report on all important Athletics Department issues at IAC meetings and major decisions facing the Athletics Department must be carefully explored with the IAC with sufficient time to allow the IAC to be meaningfully consulted.

2) **Containing risk until cost and revenue uncertainties are resolved**: Given that the University bears a multitude of risks, it is reasonable and prudent to ask the Athletics Department to demonstrate that revenues from the arena are sufficient to retire the debt prior to exposing the Legacy Fund to equity market risks. We recommend that the legacy fund remain invested in short-term, liquid investments, with little to no risk to principal, until such time as the Legacy Fund balance exceeds $75 million and arena operating income meets or exceeds the CSL conservative projections. While we recognize that investment policies are the responsibility of the UO Foundation, we believe that the endorsement of this recommendation by the President will provide clear and useful input to the UO Foundation in its development of its investment policy during the nascent stages of the arena project.

3) **Budget allocations in adverse situations**: If the University incurs costs resulting from challenges to the financing plan for the arena, those costs, legal or otherwise, will be borne by the Athletics Department budget. For example, if draws from the Legacy Fund exceed the earnings on the Legacy Fund and the Legacy Fund balance is at or below a prudent level,
   - any necessary budget cutbacks will be borne by the Athletics Department budget.
   - expansions of facilities and programs will be restricted.

4) **Remediation and/or demolition costs for McArthur Court:** If it is decided that demolishing Mac Court and/or Esslinger is required to return these sites to general academic purposes, costs related to demolition and remediation of the building sites will be borne by the Athletics Department budget, since these costs are required to return these sites to general academic purposes, which is part of the arena project.

5) **Use of construction fees**: If possible, construction fees collected to purchase various season ticket options will be used to reduce the amount of bonded debt. The structuring of the bond issue may take into account this possibility. A careful analysis of respondents' willingness to

pay a proposed construction fee provided in Exhibit VI-19 (p. 36) of the CSL report indicates that it would be reasonable to expect the arena project could capture from $20 to $30 million in advance construction fee payments. Payment of the construction fee can be made over a three year period. Earmarking construction fee revenues for debt reduction would honor the intention of the “construction” fee by ensuring its application directly to financing the project. At the same time, the commitment of this sizeable amount of revenue to debt reduction will substantially reduce the risks borne by the institution.

6) **Revenue sharing**: Provisions should be made to aid the academic mission of the university with unrestricted deposits into the general fund if: a) revenues from the arena exceed the CSL Conservative estimate, and b) the Legacy Fund, in combination with other event revenues, provides more than sufficient resources for the costs associated with running the Athletics Department. Deposits should reflect a meaningful portion of the Athletics Department's surplus.

7) **The cost of providing parking facilities deserves study**: the current plans that we evaluated did not discuss or evaluate the potential costs of providing parking facilities for the new arena. The cost of any required parking facilities and the resulting impact on the financial scenarios for the arena deserve careful study.

Appendix 1:
A Re-evaluation of the CSL Arena Revenue Estimates

The intent of this analysis is to reconcile survey respondents' willingness to pay (WTP) for designated seat locations within the proposed University of Oregon basketball arena with the revenue projections provided by CSL in Exhibit 4 and Appendix F (Financial Model) in the feasibility assessment presented to the University of Oregon Athletics Department dated December 17, 2007.

As described in Section VI of the CSL report, extensive market research was conducted to assess the potential demand for arena seating options by key target groups. The first stage of the market research process consisted of a series of focus groups conducted by the Ulum Group. Six focus group interviews were conducted (four in Eugene-Springfield, two in Portland) to gauge consumer reactions to a range of issues related to the proposed arena. One key objective of the focus groups was to allow participants the opportunity to express their opinion on a range of prices associated with men's and women's basketball, including season ticket prices, DAF and construction fees. A broad range of prices for each of these elements was tested as the basis for incorporating realistic pricing options in the online surveys that would be sent to a large, representative sample of key arena prospects. In early December, 2007, an online survey was distributed to four pre-designated groups. Three of the groups were segregated on the basis of their 2007 monetary pledge to the DAF.

Group A consisted of donors giving $10,000 or more annually. Group B consisted of donors giving between $2,000 and $9,999 annually, and Group C consisted of donors giving less than $2,000 annually. Separate random samples for each of these groups were derived. The sampling method was designed to survey a larger proportion of those DAF members that have historically demonstrated the strongest financial support of University of Oregon athletics to determine how price sensitive respondents were by their level of previous investment. In addition to DAF members, a separate sample of basketball and football season ticket holders and single-game tickets purchasers that do not currently donate to the Duck Athletic Fund were invited to participate in the study.

While the survey results are reported throughout the CSL report, it is not clear how the survey data were used to inform the financial analysis. The report provides no explicit connection between respondents' willingness to pay for various levels of seating inventory (club seats, lower bowl, etc.) and the revenue projections provided in Exhibit 4 and in the Financial Model provided in Appendix F of the CSL feasibility analysis. The Athletics Department has explained that CSL's methodology as proprietary, which in our view only enhances the need for an independent examination of data such as we provide here.

The following analysis attempts to provide a reasonable interpretation of the survey data, specifically related to respondents' WTP the various prices tested in the survey. The final section of this report offers a revised revenue forecast based on the expressed price tolerance levels of survey respondents.

Price Tolerance Levels Related to Club Seats

Club seats were tested at three price points: $1,600, $1,200 and $900. These figures represent annual cost, or the sum of the required DAF contribution and the nominal ticket price. On-line survey respondents were given the opportunity to indicate the likelihood of their WTP for one of these prices along a continuum ranging from “Definitely,” “Likely,” and “Possibly.” The following table shows the pattern of responses for four distinct donor groups at the three levels of probability of purchase.

Club Seats
Percentage of Survey Respondents Indicating Willingness to Pay at three Price Levels

	Definitely				**Likely**				**Possibly**		
Tested Price Level	$1600	$1200	$900		$1600	$1200	$900		$1600	$1200	$900
Group A	32%	46%	67%		36%	27%	19%		24%	22%	14%
Group B	11%	23%	42%		26%	29%	26%		47%	37%	21%
Group C	3%	6%	19%		7%	19%	28%		42%	39%	32%
Group D	4%	4%	11%		4%	10%	27%		28%	33%	32%

- Group A: Less than one-third of the respondents in this major donor group indicated they would “Definitely” pay $1600 for Club Seats. However, another 36% responded that they would “Likely” pay to the $1600 level. While respondents in Group A expressed broader support for lower price points of $1200 (73%) and $900 (86%), the data suggest $1600 is a reasonable price point for Club Seat inventory for this high donor group.
- Group B: The highest price point ($1600) appears to be a substantial stretch for respondents in the next highest donor group. Only 11% indicated a “Definite” willingness to pay $1600 and 26% responded they would “Likely” pay at that level. Barely a majority indicated a high probability of purchasing club seats at the medium price point of $1200. While 47% of Group B’s respondents said they would “Possibly” be willing to pay $1600, given the high level of uncertainty (only 11% indicated a “definite” willingness to pay that price), the data suggest $1200 would be the most reasonable price point for this important segment of Club Seat prospects.
- Group C: Severe price sensitivity is evident across all three tested price levels for this more modest donor segment. Only 3% of Group C respondents indicated “definite” interest in paying as much as $1600, and only a slightly larger number (6%) at the $1200 level. Even the response pattern at the lowest price level ($900) was tepid, with only 32% responding that they would “possibly” pay $900 for Club Seats. While a significant number (62%) of respondents in Group C expressed interest in Club Seats, the data indicate only a small number of this segment would likely purchase Club Seats at any of the targeted price points.

The data suggest a 2-tiered pricing scheme for Club Seat inventory with the “best” seats priced at $1600. These highest-priced club seats could be offered first and include the most preferred seat locations (rows closest to the floor). Recognizing that the club seats are among the “best seats in the house,” a second level of clubs could be offered at $1200. These would be targeted at primarily Group B level donors. Although the data suggest that these second-tier Club seats would also be attractive to a substantial number of Group A respondents as well as a small percentage of those in Group C.

<u>LOWER BOWL</u>
Lower bowl, non-club seats were tested at three price points: $1150, $800 and $650. The Table shows the pattern of response for four distinct donor groups at three different levels of probability of purchase: “Definitely,” “Likely,” and “Possibly.”

Lower Bowl Seating
Percentage of Survey Respondents Indicating Willingness to Pay at three Price Levels

	Definitely				**Likely**				**Possibly**		
Tested Price Level	$1150	$800	$650		$1150	$800	$650		$1150	$800	$650
Group A	9%	18%	32%		23%	27%	27%		45%	46%	35%
Group B	7%	22%	33%		25%	23%	26%		57%	49%	40%
Group C	8%	10%	20%		9%	18%	28%		42%	41%	36%
Group D	1%	3%	8%		7%	10%	21%		20%	34%	32%

- Group A: Consists of donors who have historically given $10,000 or more annually to the DAF. Less than one-third of this premium donor group expressed the intention to “definitely” (9%) or “likely” (23%) purchase tickets at the highest price point of $1150. Even at the $800 price level, less than half (45%) responded with a high degree of purchase intention. By far the largest segment of Group A respondents indicated only the “possibility” of purchasing at the $1200 and $800 levels. It was only at the lowest of the tested prices that a majority (59%) of respondents in this group expressed strong certainty of purchasing Lower Bowl tickets.
- Group B: The response pattern of those who have regularly given between $9,999 and $2,000 is very similar to Group A respondents. This group of respondents expressed a very tepid reaction to $1150, with only 7% expressing a “definite” willingness to pay at that level, a majority (57%) indicating only the “possibility” of purchasing lower level seats at that price point. It was only at the lowest tested price of $650 that a majority of Group B respondents expressed a high level of purchase intention.
- Group C: For this more modest donor group (less than $2000), the data indicate that the highest price levels would be beyond the price tolerance levels for all but a very small percentage of this segment. In fact, less than a majority (48%) express a willingness to pay even at the lowest tested price level of $650.

Based on the survey data, a multi-tiered pricing scheme would be most appropriate for Lower Bowl seating. The data indicate that only a relatively small percentage of respondents across all segments of donors would be willing to pay at the $1150 price level. The number is sufficient, however, to suggest that a portion—the best seats available from this inventory—could be priced at $1150. The remaining Lower Bowl inventory could be sold at $800 and $650 with price levels differentiated by seat location considerations.

The following section provides an estimate of the annual revenues that could be derived from the sale of Men's basketball season tickets across all seating options. The estimate includes Duck Athletic Fund annual contributions. The estimates are paced on the previous analysis of expressed price tolerance levels provided by survey respondents.

REVISED FINANCIAL MODEL

Seating Type	**# of Seats**	**% Occupied**	**Season Ticket Price and DAF**	**Projected Ticket Revenues**
Courtside	44	100	$4,700	$206,800
Club Seats (3,000)				
Tier One	1,500	95	$1,600	$2,280,000
Tier Two	1,500	95	$1,200	$1,710,000
Lower Bowl (2,450)				
Tier One	817	80	$1,150	$ 751,640
Tier Two	817	80	$ 800	$ 522,880
Tier Three	816	80	$ 650	$ 424,840
Upper Bowl				
Donor section	3,527	75%	$ 414	$1,095,136
Gen Admiss.	1,590	75%	$ 270	$ 321,975
TOTAL				$7,313,271

Given the absence of explicit seating configuration data, the above model required several assumptions. First, the CSL report does not provide a specific seat count for the number of Club seats planned for the new arena. The CSL report references 4,188 Lower Bowl donor seats. It is conceivable that the final design will allocate all 4,188 to Club Seats, but the above revenue projection assumes only 3,000 seats will be designated as Club Seats in the new arena. Allocating 3,000 club seats approximates the total complement of Club Seats currently available in Autzen Stadium. This analysis assumes comparable demand for this expensive, premium seating option in the new arena. Supported by price tolerance analysis provided in the previous section, the revised financial model above assumes half the Club Seat inventory could be sold at $1600 and the other half at $1200.

The remaining 1,188 Lower Bowl donor seats (4,188 less 3,000 Club seats) have been added to the 1,262 seats designated in the CSL report as "Mid-Bowl Donor" seats. In this analysis, the complement of Lower Bowl, non-Club seats, totals 2,450. Based on the previous WTP analysis, the financial model separates the 2,450 Lower Bowl seats into three tiers on the basis of price.

Price tolerance levels displayed by Groups A, B, and C respondents suggest a multi-tiered pricing plan would be most appropriate for Lower Bowl, non-Club seats, along the three tested price points of $1,150, $800, and $650. The analysis allocates one-third (817 seats) of the total inventory of 2,450 seats to each price level. The rest of the analysis incorporates the exact same data used by CSL for Upper Bowl seating in the "conservative" potential seating program and prices shown in Exhibit 4 and Exhibit VIII-4. Time constraints prohibited a careful comparative analysis of these data similar to the analysis performed for the Club Seat and Lower Bowl survey results. However, analysis of survey respondents' WTP the prices tested for the Upper Bowl seating options clearly indicate resistance to the higher price points. Finally, the above financial analysis incorporates the same occupancy assumptions used by CSL in their financial calculations.

Based on these assumptions, the annual ticket-related (gate receipts and DAF contributions) revenues projected for arena operations related to Men's basketball totals $7,313,271. Importantly, this gross revenue estimate accounts for all season ticket revenues related to men's basketball as well as all annual DAF contributions required for the various seating options in the new arena. This is an important clarification because the revenue projections provided in the CSL report separates ticket revenues for men's basketball from DAF contributions. Each appears as a separate line item in their financial model. The itemized revenue breakdowns provided by CSL are as follows:

	Conservative	**Aggressive**
Ticket Revenues (MBB)	$5,475,000	$7,701,000
DAF Contributions	$1,646,000	$2,417,000
Totals	$7,121,000	$10,118,000

The annual revenue projections estimated in this revised analysis clearly align with the conservative income estimates furnished by CSL in Exhibit 4 and throughout their report. Clearly, only one conclusion can be drawn from a careful examination of survey data related to Oregon fans WTP for seating inventory in the proposed arena. Any prudent assessment of the revenue-generating capabilities of the proposed arena will treat the CSL 2007 Conservative estimates as an upper limit of what Duck fans are willing to pay for admission to men's basketball games.

This revised analysis is limited to consideration of the survey data which examines respondents' opinions related only to men's basketball. However, it must be recognized that revenues related to men's basketball are crucial to sustaining the economic viability of the arena project. CSL's conservative estimate of total gross revenues for the arena's first full year of operation is $13,894,000. Of this total amount, in the subcommittee's judgment, over $10 million or approximately 75% is attributable to men's basketball. As explained above, the amounts of revenue to be expected from other sports and from non-UO events are minor by comparison. The Oregon fans' willingness to pay premium ticket prices, mandatory DAF contributions and sizeable construction fees are all associated with the men's basketball program.