



January 30, 2008

Dear Members of the Oregon Legislature:

Please excuse this rather impersonal and lengthy communication but I wanted to provide you with a comprehensive update on our arena project before you begin the work of the February session. I hope that I will also have an opportunity to speak with you in person during the upcoming session.

We are preparing to break ground this summer on a long awaited replacement for our beloved eighty-one year old McArthur Court. I write to outline the significance of this project to the university, its benefits to both us and the state, and to provide information that I hope will encourage your favorable consideration in February—which is critical as any delay could significantly increase costs for the project.

Who Pays for the new UO arena?

The University of Oregon is responsible for paying for the UO arena. No state funds, no state tax dollars, and no funding from the education portion of the UO budget will be used to construct the arena. The chancellor and I put this commitment in writing for the Ways and Means Committee (letter attached). We are seeking the Oregon Legislature's permission to issue Article XI-F(1) bonds, bonds the UO is responsible for retiring. Article XI-F(1) bonds are used to fund self-supporting auxiliary enterprises such as housing, parking, and athletics. Revenues from the arena and other athletic department revenues will be used to build the arena. To reiterate, no general fund dollars, state taxpayer dollars nor general institutional revenues will be used to construct the arena.

Can the UO athletic department afford the arena?

We have been planning to build a replacement for McArthur court for a number of years and have carefully developed a financing plan that has been thoroughly vetted by many inside and outside the university. This project has received more scrutiny, including outside consultants, than any other project in our history. Included in this process has been an analysis by external consultant Convention, Sports & Leisure International (CSL), the Department of Administrative Services, the Legislative Fiscal Office, UO Athletic Department, the UO Finance office, the Oregon University System, and a UO Senate Budget Subcommittee.

CSL is one of the premier sports venue advisors in the nation. The firm has completed more than 350 studies of athletic venues and has completed studies for more than half of the PAC-10 schools. Out of twenty-three other similar CSL projects—11 of which were for university projects including the Autzen Stadium expansion—all projects where the client followed CSL's recommendations met the projected benchmarks. The University of Oregon Athletic Department has previous experience with CSL. In 1999 through 2001, CSL compiled data and

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conducted multiple surveys and focus groups to advise the university on product mix and pricing data for the expansion of Autzen Stadium, which was completed in 2003. CSL's recommendations included nearly doubling the number of skyboxes we had planned for the south side of the stadium. After careful consideration, we followed their recommendation and immediately sold out all 29 skyboxes with a waiting list that remains today. Accordingly, we respect their advice and consider it to be sound.

CSL's report on the UO arena was completed in December and is available at <http://arena.uoregon.edu/> (select "Feasibility Assessment"). The fundamental conclusion by our analysts, and CSL, is that the arena and other athletic department revenues will be sufficient to pay the debt obligations. However, as an additional guarantee, the UO has the unique advantage of an athletic department operating budget safety net: the Oregon Athletic Department Legacy Fund. This fund, established with the very generous philanthropy of Phil and Penny Knight's \$100 million donation, will grow to more than \$150 million in five years. We have already raised more than \$107 million for this fund. The Oregon Athletics Legacy Fund is specifically designed to help provide the athletic department budget with a self-sustaining budget in perpetuity. Because the fund has been established as a quasi-endowment, both the principal and interest can be used to support the budget of the athletic department as needed.

As you may not know, the UO athletic department is one of only a handful of Division I programs in the country that are self-supporting, which means the athletic department receives no institutional support. The Athletic Legacy Fund and the new arena are key pieces of our plan to make sure that the athletic department moves from being self-supporting to self-sustaining. We are extremely grateful to Phil and Penny Knight for launching the UO on its way to achieving this goal. Their generous commitment to this endeavor falls on the heels of their earlier vital support for the law school, the library and many other important UO projects and initiatives. We are truly fortunate to have such loyal ducks.

Why build a new arena?

The current facility, McArthur Court, was built in the 1920's and needs to be replaced. The longer it takes, the more expensive it becomes. It makes no economic sense to delay the project because any delay will undoubtedly lead to significant increased costs. As an example, last year's construction inflation was 9 percent. If the legislature fails to approve the university's request, this could equate to \$18 million in additional costs if the project is delayed even one year. An inflationary impact of this magnitude could jeopardize the feasibility of the project. Our beloved Mac Court has served this institution well for more than eight decades, but it is one of the oldest facilities still in use in the nation and it has serious limitations. Again, the question is not whether Mac Court will be replaced but when and how much it will cost. As I hope I have underscored here, the longer it takes, the more expensive it becomes, making the legislature's action in February an economic imperative.

Is this the right location for the new arena?

The new arena will be built on the former Williams' Bakery site, now owned by the university (campus and site map attached). In a sense, the UO is redeveloping a former industrial site into a more environmentally conscious and appropriate use. The Williams' Bakery site is directly adjacent to the UO campus and fronts Franklin Boulevard, a major thoroughfare in Eugene, and a route for the new Lane Transit District EmX rapid transit line. Thanks to forward thinking transportation planners, a new EmX

station is directly across from the new arena site, providing an important mass transit resource for Oregonians attending events at the arena. Furthermore, the arena development, combined with other projects in the area, provides a new gateway to the community and campus. This is the ideal site in our community for a new arena.

The university prefers the on-campus location for the arena as it will allow students easy and safe access during the dark winter months when the facility will be most heavily used and will help to keep students out of cars and off the streets during arena events. I strongly prefer the site for these reasons alone. It is clearly the best site for our students.

Based on years of experience with Mac Court, we recognize that the best location for the arena is on a major thoroughfare with easy access to public transportation that serves Eugene, Springfield, and out-lying areas. Other on-campus locations, including the existing Mac Court site, would result in more traffic through the South University, West University, and Fairmount neighborhoods.

Will the new arena price out students and community members?

Arena revenue projections are based on increases in donor construction fees, club seating, and the like—and these pricing scenarios do increase the average ticket price. But there will be more seats available for students (still courtside as in Mac Court), and the ticket price scenarios include \$15 single game tickets, just as there are now in Mac Court. The difference is that the \$15 seats in the new arena will not have obstructed views like the \$15 seats in Mac Court. Better views will be just one of the improvements in fan experience the new arena will allow.

The various ticket pricing scenarios, overall increase in the average ticket price, and the number of tickets available will significantly increase the athletic department's basketball revenue. This is critical to ensure that the athletic department remains self-sustaining in perpetuity. The new arena allows the university to diversify its revenue streams to support all the other sports that provide such an important experience for our hundreds of men and women student athletes.

Do UO students pay for tickets to athletic events?

Student admissions to athletic events are purchased from the athletic department by the student government—Associated Students of the University of Oregon (ASUO)—using student fees. Individual students do not pay any additional amount for admission. Tickets are required for football and men's basketball because demand generally exceeds supply. Students simply show their ID card for free admission to all other regular season sports events (post season is handled differently, depending on the nature of the event). The athletic department sells student admissions to ASUO at a greatly reduced price for football and men's basketball. The cost of admissions is computed based on both the value of the seats if sold to the general public and the equivalent donation value of those seats.

For the current year, the total value of student tickets (ticket price and donation value) is \$2.8 million (\$1.5 million for football and \$1.3 million for men's basketball). ASUO will pay the athletic department half of that total amount. For the 2007 football season, the number of student tickets available ranged from 1,350 (games that were played before the start of fall term) to 5,670. For the 2007-8 men's basketball season 1,565 student tickets will be available each game, and the athletic department distributed an additional 305 student tickets (at no charge) for games played during winter break.

Will the arena jeopardize other UO projects?

Most UO projects are academic buildings that are funded with Article XI- G bonds and private gifts, not Article XI-F(1) bonds. Article XI-G bonds are funded with state appropriations, and as stated earlier Article XI-F(1) bonds are retired from institutional auxiliary revenues. The State Board of Higher Education has established a threshold for acceptable amounts of institutional debt for auxiliary funded projects at seven percent. The UO has conducted a careful analysis and projects that the arena and all other planned auxiliary projects—including our strategic housing plan—can be constructed without exceeding the Board’s seven percent debt policy.

Does the UO spend more on facilities for athletics or academics?

Academic buildings, not athletic facilities, have been our major priority for the last decade. In that time we have completed or advanced to active development \$480 million in construction projects. More than 75 percent has been for facilities that enhance the academic mission, the student experience and larger benefits to our community. Intercollegiate athletics, considered even broadly, accounts for only 24.7 percent of these facilities expenditures. Current and recent academic facility expenditures include a new \$48+ million education building (under construction), a \$15.2 million School of Music addition (under construction), \$7.9 million for a theatre addition (under construction), \$40 million business complex school (complete), and the exciting ready-to-open \$9.5 million Lorry Lokey Laboratories. And thanks to the generous support of this legislature we will soon get to work on a new \$60 million Integrative Science Complex.

We owe the legislature and our private donors a great deal of gratitude in helping us make significant progress in updating our academic campus to meet the needs of students in the twenty-first century. It has been an unprecedented success story that speaks to the value of leveraging private support and state investment, a partnership that underscores the institutions commitment to academic excellence. The arena project is another example of our commitment to excellence in all of our endeavors.

Why is the arena project so expensive?

The arena project will not exceed \$200 million. This is codified in our development agreement. To help put this in context, the most recently completed collegiate athletic arena in the Pac 10—the Galen Center at USC—cost \$147 million in 2006. With a four-year construction inflation rate of 38.3% and taking into account the difference between the LA and Eugene markets, that \$147 million would be approximately \$192 million in 2010 dollars. Perhaps a better comparison would be hard costs: \$130 million in hard costs for the Galen Center compared to \$155 million estimated for the UO arena. Using these numbers, the 2010 hard-cost equivalent for the Galen Center is even more than the hard costs for our project. And our arena will have at least 2,200 more seats and at least 100,000 more square feet than the Galen Center. The cost of the new UO arena is in line with recent Pac 10 facilities.

Will construction of the project pay prevailing wage?

Yes.

How will parking and transportation be managed?

I am confident that working collaboratively with the neighborhood and the City of Eugene we can minimize the transportation impact. Placement of the arena directly on Franklin Boulevard should help greatly in this regard.

Transportation consultant David Evans and Associates—a firm that is well respected and has worked on highly visible projects across the state including the I-5 Columbia River Crossing, the Interstate MAX line and Airport MAX, and the Hawthorne Bridge Rehabilitation—is studying the parking needs of the arena as part of a larger study of the transportation needs of the university, and we expect to receive their report in early March. We are waiting for the final study to help inform our decisions and in particular how to best integrate the parking needs of the arena with those of the entire campus.

Before I discuss our internal estimates and the additional surface parking spaces available to the university in the interim, I want to stress some key points. First, as with all new development, the arena project will meet city code regulations addressing parking and traffic. Second, what needs to be addressed is the incremental increase in capacity from Mac Court (9,087 seats) to the new arena (12,500-13,000 seats). In other words, we are not required to provide additional parking for 12,500-13,000 spectators but rather the 3,500 +/- additional patrons. Third, as any Fairmount, South or West University neighbor knows, campus parking is an issue that needs to be continually assessed and addressed with or without a new arena. It is my goal to address the university's parking needs as part of the planning for the added capacity of the new arena. Fourth, included in the price tag for the new arena will be a modest number of on-site parking spaces. And finally, we challenged David Evans and Associates to develop a plan to encourage the use of alternate means of transportation—one that is at least as aggressive as the very successful plan at Autzen Stadium. We are fully committed to the most aggressive plan we think is practical.

Our preliminary assessment of the transportation needs of a 12,500-seat arena on the Williams' Bakery site for evening and weekend events (when almost all of the university parking spaces used by students, faculty, and staff will be available) indicates a need for about 450 off-street parking spaces (again, we are waiting for the consultant's study for a more accurate assessment). The acquisition of the Romania site (now owned by the university) and the former DMV/ODOT site (pending) provides some 675 surface parking spaces without touching any of the existing buildings on those properties. On the north side of Franklin Boulevard, depending on the interest and willingness of the private parking lot owners who currently allow parking for football games, we could park 265 more for a total of 940 vehicles. This is an interim solution to be sure, but it does address the need for additional spaces when the arena opens.

Please allow me to take a moment to expand on the acquisition of the Romania and ODOT sites. Acquiring these properties is a once-in-a-generation opportunity for the university to address future needs. They are the only parcels available east of and nearly contiguous to our current campus boundary that do not require encroaching upon the residential portions of the Fairmount neighborhood. We will be planning for their use, both in the short term and more permanently. I hope this explains why we are comfortable in describing these sites as appropriate to address interim parking solutions.

Will the new arena meet sustainability standards?

The new arena will reflect our institution's values and standards, and those of the state and the community on sustainability. At a minimum, the structure will meet both the university's and the state of Oregon's standards for sustainable development which is presently a LEED Silver equivalent building. This also coincides with my support of the American College and University Presidents Climate Commitment that promises to

reduce the university's greenhouse gas emissions 80 percent by the year 2050 and includes as one method for achieving this promise the attainment of LEED silver equivalency on new construction.

As part of the sales agreement with the university, Williams' Bakery removed items and structural elements from its facility that could be reused. In keeping with the university's commitment to be environmentally and economically responsible, the bakery building will be deconstructed, not demolished. Partnering with BRING Recycling and Hoffman Construction, we anticipate the reuse or recycling of more than 95 percent of the materials by weight, keeping them out of landfills. I am proud of this, knowing it reflects success in an area important to both the university, the community and the state.

The site itself reflects our commitment to sustainable design: it is a redevelopment project replacing an industrial facility with a lower-impact facility; its proximity to campus provides an easy walk for the campus community; its location on a major thoroughfare with LTD EmX access supports the community's alternative transportation goals; and deconstruction of the bakery building, as opposed to demolition, will reuse and recycle 95 percent of the materials by weight.

The university will work to minimize the negative environmental impacts or noise, dust or erosion on the campus and the surrounding neighborhoods during the deconstruction, site preparation and construction periods. In keeping our commitment to the environment and to sustainable development, the process will also meet and likely exceed community expectations about air and water quality.

How big is the facility?

The new arena will be significantly smaller than Autzen Stadium with less than a quarter of the maximum capacity (12,500 to 13,000 in the new arena compared to just under 60,000 at Autzen Stadium). It will have an estimated 380,000 square feet. Early designs show a building of about six stories in height at the highest and tapering to lower heights on the edges of the site. For comparison, this is not much higher than McArthur Court, the difference being that the new arena's lowest floor, indeed the court itself, will be 30-40 feet below the level of the street, effectively lowering the overall height of the building. A preliminary illustration of the arena can be seen at <http://arena.uoregon.edu/>.

What issues are being raised by the affected residential neighborhood?

I assure you that we are working with the campus community and the affected residential neighborhoods as the arena project moves forward. That is not to say that we have consensus on all issues associated with the arena. I commit to you, as I have committed to the neighborhood association, to continue to listen to their concerns, to provide responses, and to work collaboratively toward some mutual agreements. Following are responses to some of the issues raised by neighbors.

- **Noise and Lighting:** At a neighborhood meeting in November, the athletic director, the design team, and I heard first-hand the neighborhood's desire to keep noise and light from the arena to a minimum. The design team is confident it can successfully achieve these goals through the design of the facility. The building's energy efficiency goals reinforce the need to have a well insulated and air-tight structure. Existing university properties will also provide a buffer

between the university and residential properties. As an indoor arena, there will be no outdoor speakers or field lighting as at Hayward Field and Autzen Stadium. Regarding inside lighting, based on the latest design the north side of the structure (facing Franklin, not the neighborhood) could have a glass facade. In general, outdoor lighting will be sufficiently focused to provide safe pedestrian access to and from the arena without transferring unnecessary illumination into the surrounding neighborhood. In concert with both University and City policies relating to outdoor lighting, solutions will be implemented which provide safety, minimize and hopefully eliminate light spill in to adjacent neighborhoods or into the sky, and are energy efficient.

- **Litter:** In the spirit of the Good ConDUCKt campaign at football games, we will educate ticket holders to be good neighbors and to respect private property. The university will work with Fairmount Neighbors to monitor and address the impact of litter in the neighborhood and we will clean up after games and events. The university works with litter pick-up groups after football games at Autzen Stadium, and we envision a similar program for the arena that can also serve as a fundraising opportunity for local non-profit organizations.
- **Effect on local businesses:** Numerous Fairmount neighbors expressed concern about a local supermarket and drug store (Market of Choice and Hirons). The arena site does not include either store and the university has no plans that involve these sites. We are committed to minimizing disruptions to these and other commercial neighbors. Neighborhood businesses like Market of Choice and Hirons are important to our students, faculty, and staff and those members of the university community play an important role in supporting the neighborhood's economic vitality. This may be a good moment to note the successful relocation of Williams' Bakery to a state-of-the-art production facility in Glenwood illustrating the very positive effect this project has already had on one long-standing business in our community. Regarding three other properties that are on the arena footprint, the university has reached an agreement for a voluntary acquisition of one; the university continues to negotiate with the leaseholders of the 7-Eleven property; and the university is proceeding to acquire the final outstanding parcel.

What is the economic impact of new arena?

The new arena, an entirely UO athletic department funded endeavor, will provide a much needed \$200 million boost to Oregon's economy and generate hundreds of construction jobs during a tightening economic climate—a critical period for Oregon's construction sector. The new arena also provides a new facility for the region and the community bringing important tourism dollars to our community. This will be the largest facility for events between Portland and Sacramento/San Francisco.

What will happen to McArthur Court?

It is my intention that the McArthur Court site will transition to academic use with the opening of the new arena. Although it is likely the existing facility will be deconstructed to make room for a more sustainable, safer building, no final decisions have been made. I have asked Robert Melnick, UO professor and former dean of the School of Architecture and Allied Arts—and a nationally and internationally recognized expert in cultural landscape evaluation and historic landscape preservation planning—to chair a university advisory group that will consider the best uses for Mac Court and its footprint after the

new arena opens. I hope to announce appointments to this important study group in the near future.

Conclusion

I hope the responses to these questions have provided important information for your consideration. We have developed a comprehensive and thoughtful proposal for how to replace an aging basketball facility without incurring additional costs on the academic portion of our budget or an obligation on the state's part to help pay for this project. We do need the legislature to allow us to issue debt, which is why we are before you this February.

Please contact me if you have any questions regarding the information enclosed in this letter or if you would like to speak with me about the project. We are trying our best to move forward in a way that ensures the long-term success of the institution and believe we have come up with a sophisticated response to a complex problem. It also happens to provide a tremendous economic boon to Oregon's economy. This is a win for us all in my view.

Warm regards,



Dave Frohnmayer
President

Attachments:

1. Joint Chancellor/UO President letter assuring no cost to UO academic budget
2. Campus/arena site map
3. Editorials in support of the project:
 - A. "When debt makes sense," Register-Guard, October 31, 2007
 - B. "Tipoff time, with an assist from Salem," Oregonian, January 5, 2008
 - C. "Arena clears key hurdle," Register-Guard, January 18, 2008

More information is available at <http://arena.uoregon.edu/> including the CSL report and an image of the latest building design.