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Colorado Joins Campus Arms Race With Stadium Deal: Muni Credit.

The University of Colorado is joining the athletic-facilities arms race with a \$155 million football stadium overhaul as it seeks to revive a struggling program and keep pace with conference competitors.

The public university sold a record \$304 million of tax-exempt bonds last month, according to data compiled by Bloomberg. It will use \$100 million for the stadium on the flagship Boulder campus, and \$25 million will go toward a parking garage. The rest will refinance debt and fund projects such as a \$49 million student village, bond documents show.

Colorado switched conferences in 2011, joining the Pac-12 when it signed a record \$3 billion TV broadcasting contract. The West Coast grouping's 12 members have been pouring money into facilities, leading athletics-related debt to more than triple from 2005 to 2012, according to the Knight Commission on Intercollegiate Athletics.

"Facilities expansion has played such a large role in athletics spending," said Amy Perko, executive director of the commission, which has sought to rein in the cost of college sports and increase graduation rates for athletes. "The consequence has been concern about that spending, especially when there's a flatline on the academics side."

Bowl Dreams

Athletics spending per athlete by universities competing in football's top echelon rose 40 percent from 2005 to 2012, adjusting for inflation, outpacing a 6 percent jump in academic outlays per student, according to the commission, funded by the Miami-based Knight Foundation. More than three-quarters of the 127 schools subsidize sports with student fees and other institutional revenue, Perko said.

While the securities Colorado sold last month are backed by revenue such as tuition and other student fees, the athletics department in Boulder is required to pay back its share of the debt with resources such as ticket sales, said Ken McConnellogue, a spokesman for the university. While the football program generated an \$11 million surplus last year, the athletics department had a deficit of about \$8 million, according to a state auditor's report.

'Arms Race'

"Everyone is aware of the arms race," said McConnellogue. "Under our position as a new member of the Pac-12, facilities matter and our facilities have not been upgraded in some time."

Boulder is the largest of the four campuses in the system, which has a combined student body of about 58,000. State funding for higher education in Colorado has been falling — it accounted for 4 percent of Boulder's operating revenue in 2013, down from 16 percent in 1990, according to the university.

As a result, Boulder has sought to broaden its appeal to out-of-state students, who accounted for almost 37 percent of enrollment last school year and pay almost \$46,000 a year in tuition, room and board, more than twice in-state rates, according to the university.

Moody's Investors Service rates the University of Colorado bonds Aa2, third-highest. The system's debt load has risen 50 percent since 2009 to \$1.9 billion, Moody's said. McConnellogue said much of that debt is related to construction on the Anschutz Medical Campus, financed in part by gifts from billionaire Philip Anschutz.

'Top Tier'

"The university is top tier and the credit is terrific," said Ron Speaker, president of Equus Private Wealth Management LLC, a municipal bond investor in Carbondale, Colorado, with about \$103 million in assets.

The university sold 10-year debt to yield 2.32 percent, equivalent to a taxable interest rate of 3.84 percent for investors in the top federal tax bracket, according to Bloomberg data. U.S. Senator Charles Grassley, an Iowa Republican, has criticized the use of federally tax-exempt bonds for college football stadiums, questioning the public value.

Football is a hallowed tradition in Boulder, dating back to 1890 and integral to the school's out-of-state appeal. While the Buffaloes won a national title in 1990, they have struggled lately, posting the worst record in school history at 1-11 in 2012. Mike MacIntyre, a new coach, went 4-8 last year. His salary of \$2.4 million a year is more than twice his predecessor's compensation, and his contract stipulates that the school move to revamp the stadium.

New Seats

The university last month raised the cost of the project to \$155 million from the \$142 million approved in December. The tally includes removing aging bleachers and installing loge boxes and club seats. The work also includes building an indoor practice field, weight-training and locker rooms and new athletics offices. Capacity will fall to about 50,500 after the project, from around 53,600 now, according to the school. Fundraising and corporate sponsors will cover some of the costs.

The project will "maximize the competitiveness and academic performance of student athletes," the school said in a prospectus for the bond sale. "Planned facilities improvements will create a more efficient and productive department, enhance recruitment, assist in retaining top talent, and foster an environment to support ongoing fundraising for intercollegiate athletics."

The University of Washington, which is also in the Pac-12, sold tax-exempt bonds in 2012 and lent \$246.5 million to its athletics department for a \$281 million football stadium overhaul. The University of California, another conference member, reopened its stadium in 2012 after spending \$321 million replacing bleachers with seats, building a training center and making upgrades to meet earthquake codes.

Nike Founder

The University of Oregon, also in the Pac-12, built a football training center that opened last year. Plans from 2012 put the price tag at about \$68 million, paid for through donations from Phil Knight, a founder of Beaverton, Oregon-based Nike Inc. (NKE)

Outside of the conference, Colorado State University in Fort Collins wants to raise \$110 million in

donations for a \$254 million venue to strengthen its football program and raise its profile nationally. Texas A&M University has embarked on a \$450 million redevelopment project.

While spending is largely driven by television revenue, the cost side of college sports grew more complicated after a federal judge ruled this year that the National Collegiate Athletic Association must scrap rules designed to prevent student athletes from being paid like professionals.

“Expenses go up and up with these programs,” said Andrew Zimbalist, a sports economist at Smith College in Northampton, Massachusetts. “It’s a tough game to keep up.”

By Michael McDonald Sep 2, 2014 7:07 AM PT

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