

# Endowment Seating Program Offers a Win-Win Solution For Cal and its Alumni:

The University of California, Berkeley, has embraced an innovative solution, a customized version of Equity Seat Rights for universities, to raise \$250 million which will be invested into a new endowment to fund projects in perpetuity.

By: Jared Frank, ALSD

Equity Seat Rights (ESR) is a proprietary financing tool, developed by Stadium Capital Financing Group, that generates upfront, debt-free capital, which can be used for any purpose, including to fund new facility construction or renovation projects. While the use of the ESR process by a professional team emphasizes the value to the season ticket holders of building

equity in their seats, the ESR process is attractive to the University of California, Berkeley, because it creates a new endowment to fund current projects as well as perpetual needs. Donors have the option to purchase their seats upfront or can finance the asset up to 30 years. ESR appears destined for success with its early adoption on the west coast. By selling less than 5% of its seating inventory, the University of California, Berkeley, is employing a variation of the methodology to sell the rights to 3,000 premium seats in Memorial Stadium, while raising \$250 million in the process. Assuming a modest annual return on investment, the \$250 million is expected to grow to approximately \$1 billion over the next 30 years.

## How Equity Seat Rights Work

ESR is similar to having season tickets, but with an equity interest. It is not a Personal Seat License (PSL). Whereas PSLs simply provide rights to purchase tickets annually at the then current price, ESR licenses ownership. It changes an afternoon at a football game into an appreciating asset with significant tax benefits. It represents a contract that is a mutually beneficial agreement. ESR is a win for the university, who creates a new permanent bond with alumni and corporate sponsors, and monetizes a 30 year revenue stream upfront; it is also a winning proposition for a university's most generous donors. The "contract" states a university is obligated to reserve the ESR seat for its new owner into perpetuity or for a long-term period (e.g. 50 years), and the owner has the rights to use the ESR seat, sell individual tickets in the secondary market, and sell the ESR at any point at a free-market price. It also accommodates a legacy component, in which ownership easily passes down to the next generation; it protects from escalating ticket prices; and it guarantees access to premium tickets for the long term. Also, once the ESR is paid for, either upfront or through financing, tickets are basically free.

The most significant feature of the ESR methodology for the University of California, Berkeley, is the endowment aspect. Dave Rosselli, Associate Athletic Director of Development, who is spearheading the project for Cal, explains, "When Stadium Capital made the

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endowment a reality of this program, that's when it transformed what we were doing. That's when the donors said, 'we'll buy into this program, because any gift we make we know is going to live on forever and the money isn't going down the tubes into capital projects.' That's what made the difference for us." It is typical of any university's endowment program that invests capital so it can continue to generate money in perpetuity, and build the investment on a tax-free basis. "What Cal wanted to do is really change the way athletics are funded by building an endowment what would perpetuate itself and provide the athletic department with financial stability," adds Rich Magid, Chief Operating Officer for Stadium Capital Financing Group.

Cal indeed looks headed towards financial stability. "The endgame of this whole thing is Cal is going to raise \$250 million from the program and after 30 years they will end up with an endowment that is close to \$1 billion," says Magid. And \$1 billion may not turn out to be an aggressive expectation. Assuming a 7% interest rate over 30 years, the endowment will yield \$500 million. At 10%, the projected return is \$2 billion.

Cal worked with Stadium Capital for about a year to develop a design process. The results will change the way the athletic department funds its operation. The ESR program guarantees Cal will be able to properly fund its non-revenue generating sports and remain self-sustaining, which only about two-dozen athletic departments can claim. "The endowment will provide the athletic department globally with the

revenue it needs instead of specifically looking to raise money just for the rowing team or just for the track and field team," explains Magid. Moreover, new stadium construction or renovation projects can be realized without having to rely on dwindling state funding. The first capital project planned at Cal is a renovation to the west side of Memorial Stadium, home of the Cal Golden Bears football team. The plan involves building out three levels of "Equity Seat Right" seating- a field level, stadium level,

and university level. All include amenities such as parking and have access to private clubs.

Perhaps the most attractive feature for universities is the flexibility of the program. Stadium Capital works with schools individually to customize the process and tailor the methodology to the unique needs and desires of each institution. At Cal, the Equity Seat Rights program was morphed into what is being called an Endowment Seating Program (ESP), which is similar, but also quite different than the ESR model. The most significant difference is that Cal's donors were almost uniformly not interested in a perpetuity product even though it works against their interests. They felt it also worked against the university, which cannot predict the uncertain future. The ESP incorporates three rights terms (40, 45, and 50 years) depending on what amenities are selected. The only difference is instead of owning a seat forever, owners possess full rights for the designated years.

The ESP project is truly an exercise in customer service. Many of the details of the ESP, including the commitment levels, were derived from donor focus groups. The focus groups are organized by Stadium Capital and built into their service fee and turnkey approach. Stadium Capital met face-to-face with a contingent of Cal's top donors to gather input and further alter the program to achieve a product the donors would buy into and truly want to be a part of. In addition, Stadium Capital brought in an outside research firm to reach other donors. An email survey was disseminated to 4,000 donors asking for feedback regarding the ESP. A remarkable 30% responded. This amount of feedback is off-the-charts for that type of email survey device; of the 30%, 80% expressed interest in the program.

The data attained was used by Stadium Capital to build a sales management tool, which tracks Cal's contacts and converts "cold prospects" into genuine leads for the program. Cal has beefed up its sales staff and will handle the vast majority of the transactions in-house. The staff is an experienced group of development officers, who are experts in soliciting philanthropy. An outside firm is involved only with dealing with a small number of their highest end donors.

The benefits to the donors are immense, but the legacy factor was the main driver at Cal. Some families have been linked to the university for decades upon decades, and the ESP opens up a whole new option for donors to transfer seats down to their children or even be put in their estates. The existing ticket program does not allow the transferring of tickets. The license also transfers to any venue the Golden Bears might play in case of relocation of

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the stadium. Rosselli explains, “Donors can transfer it; they can sell it on the secondary market; there’s so many features associated with it that make it attractive to donors.”

The new endowment program will not be a major adjustment from the annual price points that most donors are currently used to paying. The traditional ESR model allows fans to pay the team or the university upfront or with financing from a financial institution. The only distinction with Cal is the university has chosen to be its own bank and will handle all financing itself.

Stadium Capital has set up three options for Cal donors- pay upfront, pay over five years, or pay over 30 years. “The program doesn’t put our donors too far beyond what they are used to contributing when you use the annual formula over a period of 30 years. If they go with the 30 year commitment, we’ve mirrored the donation levels basically to what they’re doing now,” adds Rosselli. And while the commitment is for up to 30 years, the ownership license is for up to 50 years, which means potentially possessing 20 years of free amenities on the back end.

Stadium Capital and Cal are also working with the university’s young alumni as a way to develop the next generation of donors. Those alums,

who have graduated within the past ten years, will be offered less expensive payment plans with scaled back amenities until they become more established professionally. An additional benefit to all donors is that a majority of the ESP purchase is considered a charitable contribution, which is tax-deductible. The remaining portion would not be tax-deductible because it would be for value received. An appraisal is currently being conducted to determine those percentages.

Fees paid to Stadium Capital are success based and always based on a percentage of the capital raised by the university. Built into the service fee is a license fee to use Stadium Capital’s proprietary methodology information and the following other services: financial analysis, sports marketing, customer surveys/focus groups, marketing brochures and other sales collateral pieces, and legal/accounting templates for contracts.

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Because Cal is a public institution, the California Board of Regents must approve the ESP. Preliminary reviews were planned for November with final approval coming some time next spring. Cal is taking soft commitments and letters of intent throughout the remainder of the football season to demonstrate to the Board that the project has tremendous interest and support, but will not sign contracts without Board approval. Cal does not expect a shortage of early commitments. In fact, they need to establish a priority point system for their donor honor roll, because more people are interested than seats are available. The 3,000 seats involved with the ESP means Cal only has to convince around 800 people to buy into it, assuming most people buy three or four seats. “We will have to manage the rollout in terms of a priority basis, because the demand is exceeding the inventory,” says Rosselli.

Stadium Capital Financing Group has created a turnkey service to assist professional teams and universities in generating a tremendous amount of capital in a relatively short period of time. At the university level, the incorporation of an endowment produces a winning solution for the school and its donors as evidenced by the University of California, Berkeley. By relinquishing only a minuscule percentage of its seats, Cal has secured financial stability and greatly enhanced the value of its athletic department. And the demand is exceeding the inventory- a clear indication that the program works. The Equity Seat Rights program is highly seminal and a harbinger to how other universities will look to fund their athletic operations. As Dave Rosselli portends, “I feel confident about the program’s success. We’ve taken so many precautions and investigated so many different angles to do our due diligence. But I do think that once we launch it, it will sweep across the country in collegiate athletics.”

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For further information, please contact Bill Dorsey at ALSD or review Stadium Capital’s website: [www.seatrights.com](http://www.seatrights.com).