Athletics Financial Sustainability Plan

BACKGROUND

Intercollegiate Athletics began running substantial operating deficits in fiscal years (FY) 2014 and 2015. Given that projections for FY2016 were not improving, the Interim Vice President for Finance and Administration and the Interim Provost at the time convened a work group to review the current operations of Athletics and to make recommendations to President Ray on strategies to develop a sustainable operating model. The president received and endorsed the final report from the Athletics Financial Sustainability Workgroup on December 15, 2016. The report was presented to the Finance & Administration Committee in January 2017.

The report recommended a number of steps to bring athletics operating budgets back into balance by the end of FY2020, which were captured in a Memorandum of Understanding (MOU). With the arrival of the new Athletic Director, a revised MOU was executed in FY2017 adjusting some of the terms and timing of the recommendations.

The principal recommendations from the workgroup included:

- Develop a balanced operating budget based on recurring, annual revenue streams that match the cost of fielding competitive sports programs, and allocate one-time or non-recurring revenues (e.g., Pac-12 equity, projects, one-time distributions, etc.) to a reserve and investment fund and to addressing the accrued deficit.
- Implement changes on a timeline such that the FY2020 operating budget is balanced and the accrued negative net working capital does not exceed $46M.
- Assess the need to budget for cost increases mandated by external requirements, in particular costs of NCAA rules changes, regulatory compliance obligations and litigation decisions, or investments necessary to remain competitive including meals for athletes, full cost of attendance, and other pending issues.
- Implement changes in the sources of revenues and in overall expenditures to develop a recurring, balanced operating budget by FY2020.

CONTEXT AND CHALLENGES

Athletics has been a part of OSU for most of the university's history. An effective Division I athletics program must advance the mission of the university through the academic success of student athletes and engagement with the larger university community, reflect the values of the university, and be financially sound and clearly accountable to the university.

Membership in the Pac-12 Conference enhances OSU's academic reputation (e.g., eight of the Pac-12 schools are members of the Association of American Universities, four are ranked in the top 20 universities in the world, and nine are ranked in the top 100 universities in the world), has a positive impact on recruiting undergraduates, and affords national visibility the institution would not otherwise enjoy. Athletics provides opportunities for student athletes and other students (e.g., band members, trainers, student workers) to develop as individuals and provides many students a common point of engagement outside of the classroom.

The university's amount and types of spending for athletics are consistent with peers in the Pac-12 and nationwide, with OSU's level of spending falling in the lower quartile (bottom 25%) of Pac-12 universities. OSU does have challenges in maintaining a competitive program. Some of the operational challenges that led to the original deficit remain in play such as a somewhat remote geographic location, smaller market size, lagging success in football, and depressed football attendance as a result of later kickoff times. Also, recent changes in the federal tax code have impacted the revenue generated from ticket sales and related donations.

PLAN UPDATE

FY2020 is the final year of the Financial Sustainability Plan and Athletics will be close to a balanced budget at the end of the year as shown in Attachment 1. There have been a number of impactful changes within the athletic department since the start of the Financial Sustainability Plan. The plan was based on revenue numbers from when our football team was having consistently successful years and included a number of assumptions around growth in revenues. Since those estimates, there have been two football coaching changes that forced significant rebuilding within that program.

Athletics also had a change in leadership with new Vice President and Athletic Director, Scott Barnes, coming onboard in 2017. At that time, the work group was reconvened and considered some adjustments to the Financial Sustainability Plan recommendations, codified in a revised MOU at the time. These included the idea of refinancing the department’s long-term debt in order to free up money in current operations to invest in programs, improving the athletics program’s competitive success, and providing a small contingency fund. The recommendation to carefully review all of the department’s expenses, including the mix of sports, was reinforced. Subsequent to the issuance of the revised MOU there was an added complication when the 2018 federal tax code changes eliminated the ability for patrons to deduct seat-related gifts. This fundamentally changed the business model most Power-5 conference teams had used for raising gift and ticket revenues.

Athletics leadership has made a number of changes in its financial management, including the creation of new season ticket packages, merchandise and concessions initiatives, and additional sponsorship opportunities. The difficult decision was also made to cut one sport (Women’s Swimming), after it was determined that OSU would be unable to field truly competitive teams in that sport, given the existing facilities. This decision reduced operational costs and permitted reallocation of resources into sports for which OSU has greater promise for excellence.

The Athletics department staff has been diligent in its efforts to stay close to the plan, and expenses are tracking very close to the plan projections. However, the larger challenge has been revenue, as both ticket sales and gift income have lagged the projections in the plan. The Athletics department has taken cuts to its Education & General fund budget along with the rest of the university, effectively decreasing institutional support toward the department. The Financial Sustainability Plan’s call for $8M of institutional support by FY2020 is behind by a couple hundred thousand dollars over the last two years. The enrollment decline in FY2019 also reduced the Student Fee revenue available to Athletics.

Despite those challenges, Athletics has made significant progress in closing the operating budget deficits from over $9M annually to below $1M in FY2020. Further, the Financial Sustainability Plan accumulated deficit has not exceeded $46M: the total deficit is projected to be at $44.9M at the end of FY2020. The department has embraced transparency and accountability, with regular quarterly budget to actual updates to the president and vice president for finance and administration (VPFA).

The Athletics department is now looking toward achieving and maintaining a balanced budget over the next five years as shown in Attachment 1. They are projecting balanced budgets beginning in FY2021. Any future years when there is a deficit, the following years will operate with a surplus to cover it. There are a few known factors that are on the horizon that are important to future planning:

- Current financial projections are based on new, more conservative ticket and annual fund revenues that take into account the number of home football games, known opponents, and hosting the Oregon "civil war" games.
- Football revenues have significant opportunity for growth but will require continued investment to realize and maintain that growth.
- The university will negotiate and sign a new pouring rights contract that starts in FY2022, which can bring increased revenues. In FY2023, the Learfield rights revenue reduction with the conference will end. In FY2024, the Pac-12 will have a new TV deal, which is expected to provide substantially increased revenues to the conference.

UPDATED PLAN TO ADDRESS DEFICIT

At the end of FY2020, the accumulated deficit in Athletics is expected to be about $44.9M. This was expected in the Financial Sustainability Plan, but an updated plan to manage that deficit is necessary. In 2019, the Athletics Financial Sustainability Workgroup took a detailed look at the operations of the department and, while it was clear athletics could reach a balanced operating budget, it was extremely unlikely that the programs would ever generate substantial positive operating balances. This means that paying off the deficit from Athletics revenues would take decades and impair the ability of the department to field competitive programs (which in turn would decrease revenue and aggravate the problem).

Staff of the VPFA reviewed strategies to manage or absorb the deficit. The $44.9M deficit is part of the overall university's obligations. It is clear from the work of the Financial Sustainability Workgroup that the past institutional contribution to Athletics was unrealistically low and that, while Athletics can balance their operating budget, staff concur that it is very unlikely they can generate significant positive balances.

Based on the above information, the VPFA has determined that:

- Athletics will be responsible for any operating deficit (or surplus) from FY2021 forward.
- The accumulated Athletics deficit at the end of FY2020 should be funded by transfers from Education & General funds and/or the Internal Bank Service Center in increments over a period of six to eight years, as there is capacity to do so. It should be acknowledged that when Athletics refinanced their existing long-term debt to the Internal Bank in 2017 they committed to an additional $30.6M of interest payments, which will contribute to the cash flow in the Internal Bank.
- The terms of the MOU between the university and Athletics should remain in force, providing the VPFA flexibility to direct some portion of any athletics annual operating surpluses or major one-time funds to support Education & General operations.

NEXT STEPS

The collaborative financial review and planning for Athletics between the vice president and athletic director and the vice president for finance and administration will continue. Intercollegiate Athletics is in a time of major change and innovation in response to both internal and external pressures. Staff expects that managing these programs will continue to require evolving strategies and flexible management approaches, and the Board of Trustees will continue to be kept updated in the future.

Master Budget Summary	FY19	FY20	FY21	FY22	FY23	FY24	FY25	
	Actuals	Projection	Budget	Budget	Budget	Budget	Budget	%
REVENUES:								
Ticket Sales	$ 10,491,601	$ 9,115,806	$ 10,900,000	$ 9,500,000	$ 11,000,000	$ 10,300,000	$ 11,300,000	
Guarantees	$ 1,980,000	$ 534,000		$ 200,000	$ 250,000		$ 425,000	
Pac-12/NCAA	$ 35,240,370	$ 37,980,140	$ 39,309,445	$ 40,685,275	$ 42,109,260	$ 48,583,084	$ 50,283,492	3.5%
Miscellaneous Income	$ 12,200,236	$ 11,416,000	$ 11,856,320.0	$ 12,693,446	$ 12,789,315	$ 13,045,102	$ 13,356,004	2.0%
Camp Revenues	$ 1,536,931	$ 1,485,691	$ 1,530,262	$ 1,576,170	$ 1,623,455	$ 1,672,158	$ 1,722,323	3.0%
Student Fees	$ 2,579,294	$ 2,628,523	$ 2,628,523	$ 2,628,523	$ 2,628,523	$ 2,628,523	$ 2,628,523	
Lottery Proceeds	$ 453,200	$ 453,200	$ 453,200					
OBN Annual Fund	$ 7,810,561	$ 8,886,492	$ 9,300,000	$ 9,000,000	$ 9,500,000	$ 9,200,000	$ 9,600,000	
Other Revenue - Interest Income	$ 363,557	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	
Institutional Support	$ 7,177,760	$ 7,750,000	$ 8,000,000	$ 8,000,000	$ 8,000,000	$ 8,000,000	$ 8,000,000	
TOTAL REVENUE:	**$ 79,833,510**	**$ 80,259,852**	**$ 83,987,750**	**$ 84,293,414**	**$ 87,910,553**	**$ 93,438,867**	**$ 97,325,342**	
EXPENSES:								
Salaries & OPE	$ 28,450,890	$ 30,921,014	$ 31,727,302	$ 32,679,121	$ 34,313,078	$ 36,371,862	$ 38,554,174	
Labor Sub-Total:	**$ 28,450,890**	**$ 30,921,014**	**$ 31,727,302**	**$ 32,679,121**	**$ 34,313,078**	**$ 36,371,862**	**$ 38,554,174**	
Operating Budgets	$ 36,494,801	$ 36,204,776	$ 36,566,824	$ 36,932,492	$ 36,408,778	$ 38,593,304	$ 40,522,970	
Financial Aid	$ 10,220,925	$ 10,632,644	$ 10,811,623	$ 10,935,972	$ 11,264,051	$ 11,601,973	$ 11,950,032	3.0%
Operations Sub-Total:	**$ 46,715,726**	**$ 46,837,420**	**$ 47,378,447**	**$ 47,868,464**	**$ 47,672,829**	**$ 50,195,277**	**$ 52,473,002**	
Debt Service	$ 4,882,000	$ 4,882,000	$ 4,882,000	$ 4,882,000	$ 4,882,000	$ 4,882,000	$ 4,882,000	
Termination Pay	$ 1,108,192	$ 90,000	$ -	$ -	$ -	$ -	$ -	
Contingency	$ -	$ -	$ -	$ -	$ 1,000,000.00	$ 1,000,000.00	$ 1,000,000.00	
Miscellaneous Sub-Total:	**$ 5,990,192**	**$ 4,972,000**	**$ 4,882,000**	**$ 4,882,000**	**$ 5,882,000**	**$ 5,882,000**	**$ 5,882,000**	
TOTAL EXPENSES:	**$ 81,156,808**	**$ 82,730,434**	**$ 83,987,750**	**$ 85,429,586**	**$ 87,867,907**	**$ 92,449,139**	**$ 96,909,175**	
PROFIT (LOSS)	**$ (1,323,298)**	**$ (2,470,582)**	**$ 0**	**$ (1,136,171)**	**$ 42,647**	**$ 989,728**	**$ 416,166**	