

STANDING COMMITTEES

Finance and Asset Management Committee

Approve Intercollegiate Athletics Financial Stability Plan

RECOMMENDED ACTIONS

It is the recommendation of the administration and the Finance and Asset Management Committee that the Board of Regents:

- 1) Approve the Intercollegiate Athletics Financial Stability Plan (FSP); and
- 2) Temporarily modify Internal Lending Program (ILP) loan covenants through FY 2019:
 - a. Suspend the Debt Service Coverage covenant
 - b. Reduce the minimum unrestricted fund balance to \$10 million

BACKGROUND

The University of Washington Department of Intercollegiate Athletics (ICA) has a long and proud history of financial stability. The Huskies have served as a source of campus pride for many students, faculty and alumni, competing among the nation's elite athletically and academically while remaining fiscally responsible. Additionally, ICA has historically operated without any state subsidy and a campus investment that is modest in comparison with peer institutions. Presently, ICA faces a budget deficit for the eighth time in the last 25 years, due to unexpected increases in industry operating expense and limited revenue growth. ICA financial reserves are able to cover the current shortfall, but financial pressures within a changing national intercollegiate athletics landscape remain.

In accordance with BOR policy and in collaboration with the Offices of Planning and Budgeting and Treasury, ICA has developed a FSP that reduces the deficit associated with ICA's operations beginning in FY 2017. ICA is exploring additional revenue options before making further cuts that would negatively impact competitiveness, equity, or student-athlete welfare. ICA has updated its three year proforma to reflect the new financial stability plan.

FINANCING PLAN

ICA will use reserves to address the projected FY 2016 deficit and has taken actions to immediately reduce operating expenses. ICA will continue to explore

STANDING COMMITTEES

Finance and Asset Management Committee

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options to achieve financial solvency by FY 2019. This will be accomplished through revenue enhancements, expense reductions, and debt restructuring.

Intercollegiate Athletics will report on the progress of this plan semi-annually beginning in October 2016.

ADMINISTRATIVE REVIEWS AND APPROVALS

The Financial Stability Plan has been reviewed and approved by the Athletic Director, Senior Vice President for Planning and Management, Interim Vice President for Finance and Facilities and Associate Vice President for Treasury.

Attachment

Intercollegiate Athletics FY16 Budget Report and Financial Stability Plan



Intercollegiate Athletics

FY16 Budget Report and Financial Stability Plan Board of Regents Presentation

June 9, 2016

Student–Athlete Success in FY16

> Academic Success

- 17 teams recorded a GPA higher than 3.0, an all-time department high
- Husky Football recorded highest Team GPA in program history
- 67% of student-athletes received a 3.0 or higher in winter quarter, including 151 on Dean's List
- Two student-athletes were selected to the inaugural prestigious Husky 100 class

> Department Achievements

- Washington is currently ranked 13th nationally in the Director's Cup (*through Winter 2016*)
- Husky Football went to a bowl game for sixth consecutive season
- Women's Golf won the 2016 National Championship!
- Women's Basketball advanced to the NCAA Final Four; Women's Volleyball won the Pac-12 Championship and reached the NCAA Elite Eight
- More Spring success: Softball to Sweet Sixteen, Women's Crew 5th at NAAs, Men's Crew competing for national title, Baseball in NAAs for second time in three years

Executive Summary

- > ICA implemented multiple cost-saving measures in FY16 but is still projecting a deficit and will not meet its UW internal loan requirements *(see Page 11)*
 - The FY16 deficit will be fully covered by ICA reserves; however, this is not a one-year challenge
 - ICA has run a deficit eight times in the past 25 years
- > ICA, in collaboration with the Offices of Planning and Budgeting and Treasury, has drafted a three-year Financial Stability Plan (FSP) for Board of Regents' approval at the June meeting
 - This three-year period will allow the Athletic Director and new ICA CFO time to strategically address the financial situation
 - The FSP assumes continuation of campus support for university funded gender equity tuition waivers *(see Page 12)*
- > Since FY14, evolving national factors within college athletics have contributed to ICA's current financial state and future projections
- > ICA will reduce expenses by \$2 million in FY17 and will explore additional future revenue opportunities before making cuts that would negatively impact student-athlete welfare, competitiveness, and equity

Recommended Actions

- > Reset ICA proforma
 - Reflects three-year plan (FY17-FY19)

- > Temporarily modify ILP loan covenants through FY19
 - Suspend debt service coverage covenant
 - \$10 million minimum unrestricted fund balance
 - Revisit covenants in FY19

- > Ongoing Reporting
 - Present periodic briefings to BOR Chair, FAM Committee Chair and ASA Committee Chair as appropriate
 - The Semi-Annual Borrower Report (SABRe) in October will show final FY16 results
 - Athletic Director and CFO will be responsible for continued communication and plan development in partnership with Treasury

Major Factors Impacting ICA Financials

- > **Increased Investments in Student-Athlete Welfare**
 - Husky Athletics supports a broad-based, equitable, diverse and competitive athletic program
 - Initial investments associated with NCAA reform have grown overall expense from FY13 to FY16 by over \$2.7 million annually
 - Investments in critical areas include mental health, nutrition, strength and conditioning, medical, cost of attendance, and degree completion

- > **Increased Expenses in FY14 Set New Baseline**
 - Significant expense increase in FY14 due to new facilities (maintenance and day of game) for Husky Stadium, Husky Ballpark and Husky Track
 - Salary increases due to first cost-of-living adjustment since 2008, as well as new football coaching staff change
 - Tuition increases

- > **Debt Service**
 - ICA's financial picture changed considerably after debt service payments for Husky Stadium took effect
 - In FY15, debt service payments increased from \$14.6 million to \$17.5 million as Husky Stadium and Husky Ballpark loans began to amortize

- > **Limited Revenue Growth**
 - National trends in game attendance in football and men's basketball have impacted Washington as well
 - TV game times, unpredictable scheduling and "competition with the living room" all act as contributing factors
 - Gate revenues (with associated contributions) have declined significantly since FY14

- > **ICA's Financial Challenges Were Significant in FY15**
 - In FY15, a one-time multimedia rights payment of \$7.3 million from the Pac-12 helped cover a significant gap for ICA (*see Page 13*)
 - Without this payment and university funded tuition waiver support of \$1.94 million, ICA would have run a significant deficit

Comparative FY14 Financial Information

- > ICA receives the least financial support (campus investment plus student fees) of any Pac-12 public school

University	Revenue	Expense	Total Campus Investment	Total Campus Investment (% of Revenue)	Student Fees	Student Fees (% of Revenue)	Combined (Campus Investment + Student Fees)	Combined (% of Revenue)
Utah	\$56	51	9.9	17.46%	6.1	10.77%	16	28.57%
Oregon State	63	73	12.3	19.41%	2.5	3.95%	14.8	23.49%
Colorado	64	64	12.2	19.01%	1.5	2.37%	13.7	21.41%
Washington State	54	68	10.1	18.57%	1	1.82%	11.1	20.56%
Arizona State	75	75	10.1	13.48%	0	0.00%	10.1	13.47%
Arizona	100	96	7.9	7.91%	0	0.00%	7.9	7.90%
California	90	90	5	5.52%	1.4	1.60%	6.4	7.11%
UCLA	86	86	2.7	3.14%	2.7	3.07%	5.4	6.28%
Oregon	196	110	2.2	1.10%	1.7	0.87%	3.9	1.99%
Washington	100	86	3.5	3.54%	0	0.00%	3.5*	3.50%

Debt service not included in expenses
 Table excludes private Pac-12 universities (Stanford and USC)
 Dollars in millions | Source: <http://sports.usatoday.com/ncaa/finances/>

* Current FY16 campus investment for Washington ICA is \$1.94 million for university funded gender equity tuition waivers. This \$1.94 million covers 50% of the total gender equity tuition amount.

ICA Financials FY13–FY19

ICA FINANCIAL STABILITY PLAN

Base Case Proforma

	Pre-Stadium	Post-Stadium			Three Year Financial Plan			CAGR (FY14- FY16)	CAGR (FY17- FY19)
	Actual	Actual	Actual	Estimated	Projected	Projected	Projected		
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019		
\$'000									
Beginning Balances	24,666	35,647	32,967	32,111	17,286	11,680	12,460		
OPERATING REVENUE									
Gate Revenue	20,481	28,830	25,422	24,528	23,420	27,156	26,271	-7.8%	5.9%
Contributions	26,599	24,031	22,778	21,695	28,209	32,520	26,135	-5.0%	-3.7%
NCAA/Conference Distributions	22,453	24,935	28,462	29,961	33,507	35,235	35,870	9.6%	3.5%
Multimedia Rights Signing Bonus	0	0	7,300	0	0	0	0	-	-
Other Income	15,540	22,479	25,693	25,284	29,127	29,715	30,162	6.1%	1.8%
Total Revenue	85,073	100,276	109,655	101,468	114,263	124,625	118,439	0.6%	1.8%
OPERATING EXPENSES									
Salaries	23,908	26,786	29,089	30,335	33,294	35,033	36,832	6.4%	5.2%
Benefits	6,945	7,155	6,585	8,485	9,414	10,034	10,574	8.9%	6.0%
Athletics Student Aid	10,894	11,806	11,959	12,979	13,413	13,726	14,194	4.8%	2.9%
Sport Operational Expense	19,845	23,349	25,400	26,128	27,924	28,294	28,202	5.8%	0.5%
Other Expenses	14,617	17,001	17,278	17,892	19,107	19,787	19,762	2.6%	1.7%
Projected Budget Cut	0	0	0	0	(2,000)	(2,060)	(2,122)	-	-
Total Expenses	76,209	86,097	90,311	95,819	101,152	104,814	107,441	5.5%	3.1%
Unidentified Revenue Enhancement/Expense Reduction							8,000		
NET OPERATING REVENUE	8,863	14,178	19,344	5,649	13,111	19,811	18,998	-36.9%	20.4%
Debt Service	1,138	14,583	17,477	17,689	16,232	16,232	16,232	10.1%	0.0%
Capital Expenditures	4,932	7,952	1,624	2,785	2,485	2,800	2,800	-40.8%	6.1%
+/- Adjustments - Cash vs Accrual, Gain/Loss on Investment	8,188	5,677	(1,099)	0	0	0	0		
CASH FLOW	10,981	(2,680)	(856)	(14,825)	(5,606)	780	(34)		
ENDING BALANCE	35,647	32,967	32,111	17,286	11,680	12,460	12,426		

> Revenue enhancements included in proforma:

- Launch of new ICA fundraising campaign (estimated \$1.7 million annually)
- Don James Center renewals will positively impact revenues for FY17 and FY18
- Football gate revenues currently assumes modest growth: 3% annual ticket price increase through FY17; one-time 5% ticket price increase in FY18; 3% ticket price increase thereafter
- Men's basketball gate revenues currently assumes modest growth
- Continuation of campus support for university funded gender equity tuition waivers

> Expense reductions included in proforma:

- Annual \$2 million reduction beginning in FY17
- Restructured ILP loan and assumed 4.5% interest rate

> Other notes:

- ICA will fall under \$10 million reserves for ending balance FY19 if additional revenue opportunities are not realized

Proforma Comparison

PROFORMA VS ACTUALS

FY14 - FY16

> Revenue Notes

- Total revenues met or exceeded proforma in FY14 and FY15
- Lagging gate revenue was offset by NCAA conference distributions
- The one-time multimedia rights payment in FY15 created a positive variance to proforma revenues
- Total revenues in FY16 were \$4.4 million below proforma due to continued decrease in gate revenue and contributions.

> Expense Notes

- Salaries and Benefits were higher than proforma due to new coaching staff, cost-of-living adjustments and additional staffing necessary to manage new athletic facilities
- Sports Operational and Other Expenses were higher than proforma due to significantly higher cost of operating and maintaining new facilities, including video board operations
- Student-athlete welfare costs higher than projected
- Initial proforma expense projections were set using erroneously low base

	FY 2014			FY 2015			FY 2016		
	Proforma	Actual	Variance	Proforma	Actual	Variance	Proforma	Estimated	Variance
\$'000									
Gate Revenue	29,225	28,830	(395)	29,498	25,422	(4,076)	30,171	24,528	(5,643)
Contributions	21,517	24,031	2,514	22,894	22,778	(116)	23,173	21,695	(1,478)
Naming Rights	1,250	400	(850)	1,250	400	(850)	1,250	1,400	150
NCAA/Conference Distributions	22,900	24,935	2,035	26,113	28,462	2,349	27,317	29,961	2,644
Multimedia Rights Signing Bonus					7,300	7,300			
Other Income	21,355	22,079	725	22,884	25,293	2,409	23,979	23,884	(95)
Total Revenue	96,247	100,276	4,029	102,639	109,655	7,016	105,890	101,468	(4,422)
Salaries	25,576	26,786	1,210	26,858	29,089	2,231	27,108	30,335	3,227
Benefits	7,092	7,155	63	7,278	6,585	(693)	7,284	8,485	1,201
Athletics Student Aid	11,885	11,806	(79)	12,541	11,959	(582)	13,388	12,979	(409)
Sport Operational Expense	16,545	23,349	6,804	17,004	25,400	8,396	17,578	26,128	8,550
Other Expenses	13,522	17,001	3,479	13,666	17,278	3,612	14,151	17,892	3,741
Total Expenses	74,620	86,097	11,477	77,348	90,311	12,963	79,508	95,819	16,311
Less: Capital Expenditures	2,500	7,952	5,452	4,000	1,624	(2,376)	4,000	2,785	(1,215)
Less: Debt Service	14,938	14,583	(355)	19,416	17,477	(1,939)	20,082	17,689	(2,393)
+/- Adjustments - Cash vs Accrual, Gain/Loss on Investment		5,677			(1,099)				
Projected Cash Flow	4,189	(2,680)	(6,868)	1,875	(856)	(2,731)	2,299	(14,825)	(17,125)

* These numbers show 2012 Board-approved proforma but do not reflect recent financial presentations to the Board.

Potential Future Revenue and Risks

> Potential Revenue Enhancements

- Renegotiation of athletic apparel contract
- New ICA fundraising campaign could exceed expectations
- Football gate revenues could exceed expectations
- Men's basketball gate revenues could exceed expectations
- Future benefit of Pac-12 Network distributions

> Potential Risks

- Impacts of future litigation
- Challenges to amateurism...pay to play
- Lifting limits on scholarship amounts and other NCAA legislated items
- Revenue sports underperform expectations, contributing to lower gate and contribution revenue

> ICA will need a period of time to explore these opportunities and risks before implementing reductions that will negatively impact our student-athletes

Next Steps

- > Periodic briefings to BOR Chair, FAM Committee Chair, and ASA Committee Chair as appropriate
- > Semi-Annual Borrower Report (SABRe) in October will show final FY16 results
- > Athletic Director and CFO leadership will be responsible for continued communication and plan development in partnership with Treasury

ICA Financial Covenants Related to ILP Loan

> Financial Performance

- Minimum 1.1 debt service coverage. Debt Service Coverage is measured at the end of each fiscal year.

> Other Requirement

- ICA unrestricted reserves will be no less than one year of debt service beginning the fiscal year ended 6/30/2014. Additional reserves must be held if debt service coverage is less than 1.25 times. These additional reserves are calculated as the amount of net operating income necessary to bring debt service coverage to 1.25 times.

> Continuing Disclosure

- Annual ICA Audit for every year the loan is outstanding and Proforma vs. Actual report for the first ten football seasons in the new stadium including the calculation of debt service coverage. Continuing disclosure is due to the Treasury Office by January 15th of each year.

Background of University Funded Tuition Waivers

- > The University of Washington has granted ICA gender equity tuition waivers annually since new state legislature began in 1991
- > The full use of these gender equity waivers continues to be an essential part of ICA's ability to maintain compliance with both federal and state gender equity laws
- > Washington's commitment to women's programs has resulted in remarkable results, including seven national championships across five women's programs since 1991
 - Women's national titles: Crew (1997, 1998, 2001), Volleyball (2005), Cross Country (2008), Softball (2009), Golf (2016),
 - Additionally, three new women's sports programs have been formed since 1991: Soccer, Softball, and Beach Volleyball
- > In FY14, it was determined that ICA's financial projections could afford them the responsibility to cover 50% of these costs for the first time ever, impacting the FY16 budget by approximately \$1.94 million and contributing to the overall deficit being projected for the year
- > The agreement to adjust central support for tuition waivers was done with the intention of not unnecessarily compromising ICA's long-term financial profile.

Pac-12 Multimedia Rights Agreement

- > Washington, Stanford, and Arizona State were the first schools to enter into an agreement with the conference to manage media rights when current agreements expire
 - As “early adopters”, these schools have the ability to shape the relationship in the years ahead
- > Washington is the only school thus far to accept a signing bonus (\$7.3 million) for joining the Pac-12
- > Under the current structure, this bonus (plus any accrued interest) will be credited against future distributions beginning in 2025
- > The Pac-12 Conference is amenable to accepting repayment of the signing bonus at any time and letting Washington void the current agreement
- > Washington’s agreement with IMG expires in 2025