

BOARD OF REGENTS MEETING

Fiscal Year 2022 Operating Budget Deep Dive 1: Intercollegiate Athletics

INFORMATION

This item is for information only.

BACKGROUND

The financial impacts of COVID-19 on Intercollegiate Athletics (ICA) have been significant, and will continue into Fiscal Year (FY) 2022. In FY 2021, ICA's revenue decreased by roughly \$65 million due to the department's inability to host fans at events and the loss of TV revenues resulting from football cancellations across the Pac-12 in the fall. ICA enacted a variety of significant deficit mitigation actions and achieved additional savings through collaborative efforts with Office of Planning & Budgeting and Treasury. As a result, ICA anticipates ending the year with a deficit of roughly \$10 million.

There is still much uncertainty about the extent of COVID-19's financial impact on ICA in FY 2022. This uncertainty hinges entirely on the number of fans ICA will be able to host at events throughout the year – and in particular, at football in the fall of 2021. The FY 2022 budget presented here is conservative and assumes 50 percent capacity constraints in Husky Stadium, however other scenarios – including one without capacity constraints – have also been provided. This presentation highlights the mitigation actions that have already been approved for FY 2022, as well as the proposal to distribute up to \$10 million from the Internal Lending Program (ILP) Rate Stabilization Account to pay FY 2022 ILP debt service as additional one-time assistance.

The Board will be asked to consider the \$10 million ILP distribution for FY 2022 debt service in June, along with ICA's FY 2022 budget.

Attachments

1. UW Intercollegiate Athletics | FY22 Preliminary Budget, based on information available as of April 30, 2021
2. Intercollegiate Athletics Annual Financial Review, May 12, 2021

UW Intercollegiate Athletics | FY22 Preliminary Budget

based on information available as of April 30, 2021

FY22 - Mid Range Scenario

Beginning Fund Balance (does not incl. capital gifts) \$19,572,000

REVENUE

Gate Revenue	\$21,458,000	a)
Contributions	\$28,261,000	b)
NCAA / Conference	\$39,786,000	c)
Royalties, Adv & Sponsorships	\$12,963,000	
Tuition Waivers / HEERF II Funding	\$4,613,000	
Other Revenue	\$8,782,000	d)
TOTAL REVENUE	\$115,863,000	

Revenue notes:

- a) Assumes 50% capacity at football in fall 2021 (30K fans)
- b) Reflects return to typical fundraising efforts (\$5M annual, \$23M seat-related)
- c) Assumes Conference distributions return to pre-COVID level (no loss of TV revenue due to game cancellations)
- d) Other Revenue reflects game day revenue based on 50% capacity (concessions, parking, etc.) and the ability to host outside events (i.e. graduation) in spring 2022

EXPENSE

Salaries	\$39,268,000	e)
Benefits	\$9,817,000	
Athletics Student Aid	\$16,688,000	f)
University Overhead	\$0	g)
Sport Operational Expenses	\$47,356,000	h)
TOTAL OPERATING EXPENSES	\$113,129,000	

Expense notes:

- e) Assumes no additional furloughs, voluntary salary reductions, position eliminations, etc.
- f) Aid estimation reflects roster sizes given returning fall sport seniors, and tuition increases proposed by OPB
- g) University Overhead exemption approved by leadership
- h) Assumes full operations, teams returning to typical competitive schedules. Also includes \$1.75M placeholder related to Name, Image, and Likeness and NCAA vs. Alston case outcomes.
- i) Reflects Internal Lending Program rate reduction from 4.25% to 4.00%
- j) Pending Board of Regents approval in June 2021
- k) Includes replacement of turf in Husky Stadium (significant expense, needed every 5-7 years for safety of student athletes)

Debt Service	\$13,990,000	i)
<i>Pending: Board approval of ILP payment coverage via Rate Stabilization Fund</i>	(\$10,000,000)	j)
Minor Capex/Deferred Maint	\$3,760,000	k)

CASH FLOW AFTER INVESTMENT IN CAPITAL **(\$5,016,000)**

Forecasted Ending Reserve Balance \$14,556,000



Intercollegiate Athletics

Annual Financial Review

Board of Regents Presentation

May 12, 2021

Executive Summary

- COVID-19 has had a significant negative impact on ICA's operations and continues to cause great uncertainty
 - FY21: loss of \$65M in gate revenue, seat-related donations and TV revenue
 - FY21 revenue losses partially offset by \$20M in ICA expense cuts plus \$15M additional fundraising effort
 - Required that ICA rapidly implement new health and safety protocols
 - Significant shift in operating plan with 21 of 22 teams in competition post January 1
 - FY22: multiple financial scenarios exist based on ICA's ability to host fans at football in Fall 2021
- Proposed FY22 budget is conservative and reflects 50% capacity constraint at Husky Stadium in the fall. ICA will be ready to operate at full capacity if permitted by local and state health officials; financial impact of that scenario is also included.
- Presentation illustrates mitigation actions already approved for FY22, as well as one additional action that will go to the Board for approval in June. Actions aim to ensure that ICA recovers from the pandemic losses with a reserve in order to weather continued operational risks and to build again toward a self-sustaining operation.
- Additional areas of significant impact to collegiate athletics whose financial impacts remain unclear:
 - Name, Image and Likeness legislation
 - NCAA vs. Alston

Guiding Principles for Resource Allocation

- Maintain sport sponsorship and operations for all 22 teams
- Student-athlete support services fully funded
 - Medical health and wellness / mental health services
 - Sports performance / nutrition
 - Academic services / student development
 - Financial aid / compliance
 - Diversity, equity and inclusion programming and education
- Prioritize investments recommended by medical team and COVID-19 committee
- Proactive mitigation strategies to financially recover as quickly as possible

Mitigation Actions Taken in FY21

ICA Actions	Institutional Actions
10% reduction in salary and benefits through: <ul style="list-style-type: none">• Voluntary salary reductions by all contract staff• 2-4 week furlough for all pro and classified staff• FTE reductions to 17% of staff• Permanent layoffs of 4% of staff positions	Exemption from UW Overhead
27% reduction in operating expenses	Exemption from 5% Gift Fee for COVID-related giving
Significant fundraising effort (\$21.5M goal for annual giving vs. typical \$5M)	ILP debt deferral
Use of \$10M of department reserves	\$2M in Higher Education Emergency Relief Funds for student aid and support services

FY21 Update

- a) Pac-12 distribution higher than originally anticipated due to very few MBB game cancellations
- b) Adjusted revenue to reflect \$2M in HEERF II funding for student aid and support services
- c) Other Revenue lower than originally expected due to inability to rent out facilities for graduations in the spring
- d) Sport Operational Expenses reduction reflects continued diligence to achieve cost savings wherever possible.
- e) Actual football refunds were roughly \$2M less than originally anticipated; in addition, roughly \$6M in FY20 revenue from IMG and the Pac-12 were actually received after July 1, 2021.

UNIVERSITY of WASHINGTON

	Sept 2020 BOR Update	Apr 2021 Forecast
Beginning Fund Balance (does not incl. capital gifts)	\$29,268,000	\$29,268,000
REVENUE		
Gate Revenue	\$0	\$0
Contributions	\$32,095,000	\$32,560,000
NCAA / Conference	\$20,128,000	\$23,188,000 a)
Royalties, Adv & Sponsorships	\$9,958,000	\$10,364,000
Tuition Waivers / HEERF II Funding	\$4,501,000	\$6,501,000 b)
Other Revenue	\$6,842,000	\$5,408,000 c)
TOTAL REVENUE	\$73,524,000	\$78,021,000
EXPENSE		
Salaries	\$33,868,000	\$33,083,000
Benefits	\$8,447,000	\$8,720,000
Athletics Student Aid	\$16,405,000	\$16,231,000
University Overhead	\$0	\$0
Sport Operational Expenses	\$28,207,000	\$27,269,000 d)
TOTAL OPERATING EXPENSES	\$86,927,000	\$85,303,000
Debt Service	\$1,000,000	\$998,000
Minor Capex/Deferred Maint	\$2,571,000	\$2,521,000
CASH FLOW AFTER INVESTMENT IN CAPITAL	(\$16,974,000)	(\$10,801,000)
Reserve adjustments: cash vs. accrual, football refunds	(\$6,390,000)	\$1,105,000 e)
Forecasted Ending Reserve Balance	\$5,904,000	\$19,572,000

Mitigation Strategies for FY22

Approved / Reflected in FY22 Budget	Will be presented for Regental approval in June 2021
Additional year of UW Overhead exemption	Coverage of *up to* \$10M of FY22 ILP payment through ILP Rate Stabilization Account
Additional year of 5% Gift Fee exemption for COVID-related giving	
Reduction in ILP interest rate from 4.25% to 4.00%	
ICA to carry forward 10% operating budget cut from FY21 for teams and administrative units in all categories except recruiting; additional salary and benefit savings will be achieved by maintaining some of our staff vacancies.	

**FY22 - Mid
Range Scenario**

Beginning Fund Balance (does not incl. capital gifts) \$19,572,000

FY22 Proposed Budget

Revenue notes:

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- c) Assumes Conference distributions return to pre-COVID level (no loss of TV revenue due to game cancellations)
- d) Other Revenue reflects game day revenue based on 50% capacity (concessions, parking, etc.) and the ability to host outside events (i.e. graduation) in spring 2022

Expense notes:

- e) Assumes no additional furloughs, voluntary salary reductions, position eliminations, etc.
- f) Aid estimation reflects roster sizes given returning fall sport seniors, and tuition increases proposed by OPB
- g) UWOH exemption approved by OPB
- h) Assumes full operations, teams returning to typical competitive schedules. Also includes \$1.75M placeholder related to NIL and Alston.
- i) Reflects ILP rate reduction from 4.25% to 4.00%
- j) Pending BOR approval in June 2021
- k) Includes replacement of turf in Husky Stadium (significant expense, needed every 5-7 years for safety of student athletes)

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Debt Service \$13,990,000 i)
Pending: Board approval of ILP payment coverage via Fate Stabilization Fund (\$10,000,000) j)

Minor Capex/Deferred Maint \$3,760,000 k)

CASH FLOW AFTER INVESTMENT IN CAPITAL **(\$5,016,000)**

Forecasted Ending Reserve Balance \$14,556,000

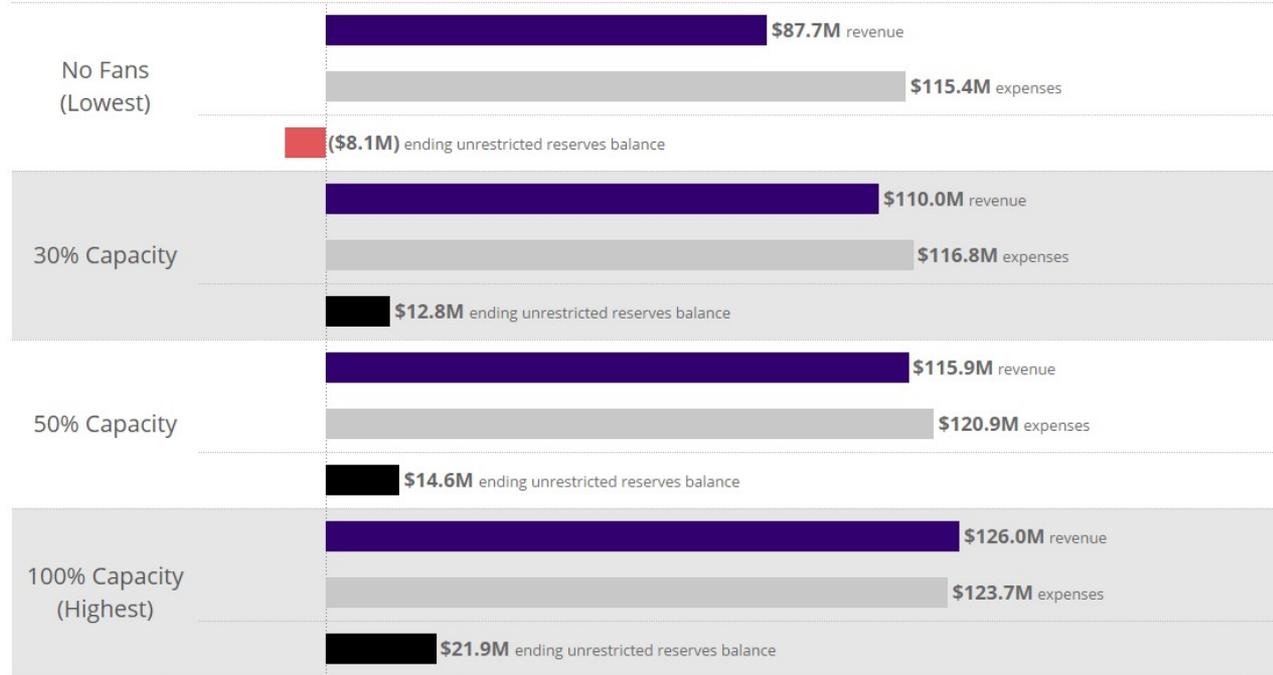
FY22 Scenarios

Potential for significant revenue variation (\$87.7M - \$126.0M) based on capacity constraints and fan attendance.

However, opportunities for expense savings are limited; assumes full operations and a return to typical competitive schedules, plus additional expenses related to NIL and Alston.

Expense totals assume Board approval of up to \$10M from ILP Rate Stabilization Account in each scenario.

Financial Scenarios for FY22



Health & High Performance Center / Basketball Operations Building Update

- Received Board approval in February 2020 meeting
- Selected 3 Design-Builder finalists in April 2020 but paused selection process given uncertainties surrounding COVID-19
- Project Delivery Group confirmed shortlisted Design-Builders' proposed staff still available and have the capacity to execute the project; selection anticipated by early June 2021. Architect selection process to follow immediately after.
- Will modify project based on following parameters:
 - Reduce budget from \$60.5M to \$45-50M
 - This revised budget allows the project to be fully-funded by existing donor pledges
 - ICA will work with Design-Build team to develop scope and budget options
- Donor interest in moving forward with the project is still very high; ICA will have \$15M in-hand by end of FY21

Next Steps



- Budget and \$10M ILP coverage up for Board's approval in June 2021 meeting
- Continue to complete Quarterly Borrower Risk Reports throughout FY22, pending Board approval in June 2021 meeting
- Will work collectively with OPB and Treasury to monitor financial performance and ensure mitigations are identified and acted upon