

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

SUBJECT: FY 2011 University of Michigan Department of Athletics Operating Budgets

For the proposed FY 2011 Operating Budget (described in detail on the following pages), we project an operating surplus of \$4.7 million based on operating revenues of \$105.0 million and operating expenses of \$100.3 million. The budgeted operating surplus will be added to our operating reserves. Highlights are as follows:

- The budget reflects a seven-game home schedule for football (eight home games were played last year). Higher season ticket price in 2010, the outdoor hockey game in Michigan Stadium, and ticket revenue for new football club areas offset the impact of one less home football game.
- Budgeted priority seating and other annual gifts has increased to \$21.0 million from \$13.7 million in FY 10 to reflect the premium seating areas available for the 2010 football season. Budgeted debt service has increased \$8.8 million because of debt incurred for the Stadium project.
- Included in operating expenses is a \$4.5 million transfer to a deferred maintenance fund established in FY 2003. The deferred maintenance fund is used as a means to provide for major repair and rehabilitation projects for our athletic facilities. We expect to continue to set aside additional funds in future years for this purpose.
- The budget reflects a new line item of \$1.5 million for contingencies with respect to restructuring actions designated by the Athletic Director.

We are also pleased to report that based on preliminary results, we project that the operating surplus for FY 10 will be \$16.1 million, approximately \$7.3 million more than budgeted. The favorable outcome is primarily due to advance collections of premium seat donations, which are recorded in the period when the associated gift is received. The accumulation of operating surpluses will be used to fund our ongoing capital needs and facility renewal projects in FY 2011 and beyond.

Respectfully submitted,



David A. Brandon
Donald R. Shepherd Director of Athletics



Jason J. Winters
Chief Financial Officer, Department of Athletics

June, 2010

MICHIGAN ATHLETIC DEPARTMENT
FY 2011 Operating Budget
(in thousands)

10/11 over 09/10

	FY 09/10				FY 10/11			% Change		\$ Change	
	FY 08/09 ACTUAL	BUDGET	PROJECTED	PROJ VARIANCE	BUDGET	Budget	Projected	Budget	Projected		
<u>REVENUES</u>											
Spectator admissions	\$ 35,853	\$ 37,714	\$ 38,265	551	\$ 38,193	1.3%	-0.2%	\$ 479	\$ (72)		
Conference distributions	17,605	18,306	18,343	37	20,226	10.5%	10.3%	1,920	1,883		
Corporate sponsorship	13,505	13,760	13,760	-	14,021	1.9%	1.9%	261	261		
Priority seating and other annual gifts	12,752	13,700	19,331	5,631	20,972	53.1%	8.5%	7,272	1,641		
Licensing royalties	3,810	4,100	4,070	(30)	4,100	0.0%	0.7%	-	30		
Concessions and parking	1,890	1,887	1,922	35	2,280	20.8%	18.6%	393	358		
Facilities	1,855	1,774	1,749	(25)	1,748	-1.5%	-0.1%	(26)	(1)		
Other income	1,582	863	863	-	798	-7.5%	-7.5%	(65)	(65)		
Investment income	3,164	2,345	2,675	330	2,700	15.1%	0.9%	355	25		
<i>CURRENT FUND REVENUES</i>	\$ 92,016	\$ 94,449	\$ 100,978	6,529	\$ 105,038	11.2%	4.0%	\$ 10,589	\$ 4,060		
<u>EXPENSES</u>											
Salaries, wages & benefits	\$ 31,154	\$ 33,958	\$ 33,418	540	\$ 35,703	5.1%	6.8%	\$ 1,745	\$ 2,285		
Financial aid to students	14,833	15,734	15,584	150	16,206	3.0%	4.0%	472	622		
Team and game expense	15,628	15,791	15,716	75	16,925	7.2%	7.7%	1,134	1,209		
Facilities expenses	7,588	7,580	7,680	(100)	8,148	7.5%	6.1%	568	468		
Deferred maintenance fund transfer	4,500	4,500	4,500	-	4,500	0.0%	0.0%	-	-		
Other operating and administrative expenses	6,226	5,923	5,823	100	6,342	7.1%	8.9%	419	519		
Contingency	-	-	-	-	1,500	n/a	n/a	1,500	1,500		
Debt service transfer to plant fund	1,436	2,139	2,139	-	10,983	413.5%	413.5%	8,844	8,844		
<i>CURRENT FUND EXPENSES</i>	\$ 81,365	\$ 85,625	\$ 84,860	765	\$ 100,307	17.1%	18.2%	\$ 14,682	\$ 15,447		
<i>NET OPERATING SURPLUS</i>	10,651	8,824	16,118	7,294	4,731						
<u>Transfers and capital expenditures:</u>											
Capital expenditures from current funds and transfers to plant and other funds	(7,220)	(2,275)	(2,140)	135	(2,400)						
Transfer from quasi-endowment and other funds	601	-	-	-	-						
<i>Net transfers and capital expenditures</i>	(6,619)	(2,275)	(2,140)	135	(2,400)						
<i>INCREASE (DECREASE) IN CURRENT FUND BALANCES</i>	4,032	6,549	13,978	7,429	2,331						

**University of Michigan Athletic Department
2010 – 2011 Budget Notes and Assumptions
(all dollar amounts in 000's)**

Basis for accounting: The University of Michigan Athletic Department manages its financial activity through the use of three different funds, the Operating Fund, the Endowment Fund, and the Plant Fund. The Operating Fund budget is presented herein. (A consolidated financial statement is prepared annually and audited by PricewaterhouseCoopers).

The Operating Fund budget includes most of the revenues and expenditures of the Athletic Department, with the exception of Endowment Fund gifts and associated market value adjustments (which are recorded in the Endowment Fund), capital gifts and depreciation (which are recorded in the Plant Fund).

Governmental Accounting Standards Board Statement No. 33 (“GASB 33”) requires that the promises of private donations be recognized as receivables and revenues in the year the pledge was given, provided they are verifiable, measurable, and probable of collection. The Athletic Department Operating Fund budget presented herein records gifts when received (i.e., on a cash basis).

1. **Spectator admissions:** Spectator admissions are net of associated guarantee payments to visiting schools and consist of the following:

	Actual FY 07	Actual FY 08	Actual FY 09	Projected FY 10	Budget FY 11
Football	\$ 29,819	\$ 34,555	\$ 31,698	\$ 33,970	\$ 32,598
Basketball	2,104	1,908	2,010	2,310	2,125
Hockey	1,985	1,799	1,845	1,810	3,235
Other	<u>163</u>	<u>380</u>	<u>300</u>	<u>175</u>	<u>235</u>
Total	\$ 34,071	\$ 38,642	\$ 35,853	\$ 38,265	\$ 38,193

Memo:

Home football games	7	8	7	8	7
Regular season football games	12	12	12	12	12

2. **Conference distributions:** Expected Big 10 conference distributions consist of the following:

	Actual FY 07	Actual FY 08	Actual FY 09	Projected FY 10	Budget FY 11
Television (football and basketball)	\$ 9,371	\$ 13,932	\$ 14,429	\$ 14,887	\$ 16,597
NCAA basketball based distributions	2,319	2,436	2,549	2,848	3,068
Football Bowl games	1,947	2,038	1,844	1,883	2,131
Other miscellaneous	400	384	351	350	400
	\$ 14,037	\$ 18,790	\$ 19,173	\$ 19,968	\$ 22,196
Less amount contributed to University	570	1,523	1,568	1,615	1,970
Net conference distributions	\$ 13,467	\$ 17,267	\$ 17,605	\$ 18,353	\$ 20,226

**University of Michigan Athletic Department
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3. **Priority seating and other annual gifts:** Gift income includes minimum donations due for the University's Priority Seating Program ("PSD"), gifts required for premium seating privileges (new club level and suite areas opening at Michigan Stadium for the 2010 season), and other annual giving programs. Expected annual giving is as follows:

	Projected	Budget	
	<u>FY 10</u>	<u>FY 11</u>	
Minimum PSD donations	\$ 8,688	\$ 8,650	
Michigan Stadium club seating areas	4,745	6,191	
Michigan Stadium suites	3,248	3,493	
Other gifts	2,650	2,638	
Total gift income	\$ 19,331	\$ 20,972	
Note:			
Donations for premium areas (suites & clubs)		\$ 9,684	
Additional ticket income for suite and club areas	n/a	1,333	
Gross revenues for Michigan Stadium premium seating		\$ 11,017	

Priority and premium seating gifts are recorded in the year in which they are received. Revenue from collected ticket sales associated with premium areas is deferred at year end and is recorded in spectator admissions revenue in the fiscal year in which the associated games are played.

4. **Licensing royalties:** Licensing royalties are primarily from apparel and product licensees that use the University's mark in merchandising operations. Royalties can be particularly cyclical based on fashion trends, industry and economic factors, and, as well as on-field performance. In the past ten years, licensing revenue has ranged from \$2.9 million to \$5.3 million, with an average of \$4.0 million.
5. **Concessions and parking:** Concession and parking income includes game-day food and merchandise concession commissions and game-day parking revenue.
6. **Facilities:** Facility income includes the fee and rental revenue from the University of Michigan Golf Course, the Varsity Tennis Center, Yost Ice Arena, and the various other athletic department facilities.
7. **Investment Income:** Investment income includes the return from the University Investment Pool (UIP) program as well as the quarterly distribution from Endowment and Quasi-Endowment Funds.
8. **Other Income:** Other income consists of guarantees received for hockey and basketball away games, ticket handling fees, and other miscellaneous income.
9. **Compensation expense:** The athletic department has approximately 255 full time employees including those that have joint appointments with other University units, and various part time employees, interns, and graduate assistants. Compensation expense by area is as follows:

	Actual	Actual	Actual	Forecast	Budget
	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>
Coaches and team staff	\$ 11,234	\$ 13,239	\$ 13,534	\$ 15,112	\$ 15,611
Compliance, sports information, and other administration	2,808	3,400	3,516	3,796	4,405
Athletic medicine, conditioning, academic support	2,498	2,841	2,903	3,277	3,547
Facilities	2,537	2,745	2,793	2,788	3,190
Sports marketing, development & studio operations	784	869	1,009	1,031	1,056
Ticket and business office	773	801	867	870	888
Fringe benefits	4,664	5,833	6,532	6,544	7,006
Total	\$ 25,298	\$ 29,728	\$ 31,154	\$ 33,418	\$ 35,703

**University of Michigan Athletic Department
2010 – 2011 Budget Notes and Assumptions
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10. **Financial aid to students:** The athletic department grants the maximum allowable scholarships to all varsity sports. Total grant-in-aid equivalencies are approximately 335 with an estimated in-state to out-of-state ratio of 30%/70%.

11. **Sports programs:** Sports program expense is comprised of the following:

	<u>Actual</u> <u>FY 07</u>	<u>Actual</u> <u>FY 08</u>	<u>Actual</u> <u>FY 09</u>	<u>Projected</u> <u>FY 10</u>	<u>Budget</u> <u>FY 11</u>
Team travel expenses	\$ 4,015	\$ 4,458	\$ 4,896	\$ 4,769	\$ 4,819
Equipment	1,822	2,507	3,135	2,786	2,773
Home game, hosted events, & officials	1,996	2,524	2,604	3,000	3,786
Training and medical expenses	810	836	931	1,044	1,060
Recruiting	949	1,269	1,415	1,297	1,451
Vacation board	560	591	685	668	742
Post season expenses, net	463	722	483	600	600
Booster & "special account" expenses	554	705	495	537	527
Other sport program expenses	863	1,215	984	1,015	1,167
Total	\$ 12,032	\$ 14,827	\$ 15,628	\$ 15,716	\$ 16,925

Post season expenses are estimated based on the likelihood of participation in post season events for the majority of varsity sports. The post-season budget assumes that the football bowl expenditures will not exceed the bowl expense allowance received.

12. **Facility expenses:** Facility expenses consist of the following:

	<u>Actual</u> <u>FY 07</u>	<u>Actual</u> <u>FY 08</u>	<u>Actual</u> <u>FY 09</u>	<u>Projected</u> <u>FY 10</u>	<u>Budget</u> <u>FY 11</u>
Repairs & maintenance	\$ 2,655	\$ 3,041	\$ 2,758	\$ 2,654	\$ 2,700
Utilities	2,577	2,456	2,862	3,200	3,500
Supplies & equipment	702	1,020	1,126	1,073	1,080
Other facility expenses	743	836	842	753	868
Total	\$ 6,677	\$ 7,353	\$ 7,588	\$ 7,680	\$ 8,148

13. **Deferred Maintenance Fund Transfer:** In 2002 the department established a Deferred Maintenance Fund as a means to provide for repair and rehabilitation projects for the athletic physical plant. Transfers from the Operating Fund to the Deferred Maintenance Fund are reflected as operating expenses in this presentation.

14. **Other operating and administrative expenses:** Other operating and administrative expenses consist of the following:

	<u>Actual</u> <u>FY 07</u>	<u>Actual</u> <u>FY 08</u>	<u>Actual</u> <u>FY 09</u>	<u>Projected</u> <u>FY 10</u>	<u>Budget</u> <u>FY 11</u>
Corporate sponsor and development expenses, including television production costs	\$ 1,917	\$ 2,191	\$ 1,862	\$ 1,262	\$ 1,398
Postage, equipment & ticket expenses	1,104	1,191	1,013	969	1,174
University re-charges	736	751	736	755	777
Insurance	292	326	395	455	465
Telephone	340	397	378	387	395
Publications & printing	335	385	475	289	261
Professional travel	297	349	402	402	438
Band expenses, excluding post-season expenses	219	223	236	238	238
Big 10 conference and other dues	98	102	105	105	105
Other expenses	952	1,236	1,046	961	1,091
Total	\$ 6,290	\$ 7,151	\$ 6,648	\$ 5,823	\$ 6,342

**University of Michigan Athletic Department
2010 – 2011 Budget Notes and Assumptions
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15. **Contingency:** For FY 2011 Budget, Athletics has established a line item to account for contingent and restructuring actions designated by the Athletic Director.
16. **Debt service:** Debt service and associated debt is summarized as follows:

	FY 2011 Budget			Scheduled Balance	
	Interest	Principal	Total Debt Service	June, 2010	June, 2011
Stadium project	6,381	2,845	9,226	147,385	144,540
Fieldhouse	528	205	733	11,460	11,255
Stadium concrete	321	160	481	7,515	7,355
Hartwig renovation	135	60	195	3,090	3,030
Softball renovation	169	85	254	4,570	4,485
Rowing facility	35	60	95	695	635
Total	\$ 7,569	\$ 3,415	10,984	\$ 174,715	\$ 171,300
Less amounts collected on pledges in Plant Fund			-		
Net debt service - Operating Fund			\$ 10,984		

17. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$2.4 million for fiscal year 2011 and consist of various renovation projects.