

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

SUBJECT: FY 2012 University of Michigan Department of Athletics Operating Budgets

For the proposed FY 2012 Operating Budget (described in detail on the following pages), we project an operating surplus of \$11.4 million based on operating revenues of \$121.2 million and operating expenses of \$109.8 million. The budgeted operating surplus will be used to fund our ongoing capital needs and facility renewal projects. Highlights are as follows:

- The budget reflects an eight game home schedule for football (seven home games were played last year, along with the outdoor hockey game in Michigan Stadium). Higher ticket prices in 2011 also contribute to added spectator admission revenues, offset by the impact of not having the outdoor hockey game.
- Budgeted priority seating and other annual gifts has increased to \$26.1 million from \$21.0 million in FY 11 to reflect that premium seating areas are essentially sold out for the 2011 football season.
- Budgeted salaries & wages, financial aid, and team and game expense all reflect the addition of men's and women's lacrosse as varsity sports (competitive seasons to begin in winter 2012 for the men, and 2013 for the women).
- Budgeted debt service has increased \$2.2 million because of debt incurred for the Stadium and Crisler Arena projects.
- 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.

We are also pleased to report that based on preliminary results, we project that the operating surplus for FY 11 will be \$7.4 million, approximately \$2.7 million more than budgeted. The favorable outcome is primarily due to collections of additional premium seat donations, which are recorded in the period when the associated gift is received.

Respectfully submitted,



David A. Brandon
Donald R. Shepherd Director of Athletics



Jason J. Winters
Chief Financial Officer, Department of Athletics

June, 2011

MICHIGAN ATHLETIC DEPARTMENT
FY 2012 Operating Budget
(in thousands)

(in thousands)

		FY 10/11					11/12 over 10/11			
	FY 09/10 ACTUAL	BUDGET	PROJECTED	PROJ VARIANCE	FY 11/12 BUDGET	% Change		\$ Change		
						Budget	Projected	Budget	Projected	
<u>REVENUES</u>										
Spectator admissions	\$ 38,400	\$ 38,193	\$ 38,643	450	\$ 45,588	19.4%	18.0%	\$ 7,395	\$ 6,945	
Conference distributions	18,435	20,226	20,591	365	21,948	8.5%	6.6%	1,722	1,357	
Priority seating and other annual gifts	19,297	20,972	25,069	4,097	26,153	24.7%	4.3%	5,181	1,084	
Corporate sponsorship	14,015	14,021	13,975	(46)	14,328	2.2%	2.5%	307	353	
Licensing royalties	4,016	4,100	4,750	650	4,774	16.4%	0.5%	674	24	
Concessions and parking	2,052	2,285	2,931	646	3,006	31.6%	2.6%	721	75	
Facilities	1,866	1,743	1,813	70	1,825	4.7%	0.7%	82	12	
Other income	1,463	798	888	90	796	-0.3%	-10.4%	(2)	(92)	
Investment income	2,762	2,700	2,719	19	2,800	3.7%	3.0%	100	81	
CURRENT FUND REVENUES	\$ 102,306	\$ 105,038	\$ 111,379	\$ 6,341	\$ 121,218	15.4%	8.8%	\$ 16,180	\$ 9,839	
<u>EXPENSES</u>										
Salaries, wages & benefits	\$ 33,340	\$ 35,703	\$ 37,796	(2,093)	\$ 39,205	9.8%	3.7%	\$ 3,502	\$ 1,409	
Financial aid to students	15,646	16,206	16,150	56	17,293	6.7%	7.1%	1,087	1,143	
Team and game expense	15,044	16,925	16,625	300	18,109	7.0%	8.9%	1,184	1,484	
Facilities expenses	8,011	8,148	8,938	(790)	9,834	20.7%	10.0%	1,686	896	
Deferred maintenance fund transfer	4,500	4,500	4,500	-	4,500	0.0%	0.0%	-	-	
Other operating and administrative expenses	5,716	6,342	6,723	(381)	7,674	21.0%	14.1%	1,332	951	
Restructuring contingency	-	1,500	1,981	(481)	-	n/a	n/a	(1,500)	(1,981)	
Debt service transfer to plant fund	2,309	10,983	11,254	(271)	13,220	20.4%	17.5%	2,237	1,966	
CURRENT FUND EXPENSES	\$ 84,566	\$ 100,307	\$ 103,968	(3,661)	\$ 109,835	9.5%	5.6%	\$ 9,528	\$ 5,867	
NET OPERATING SURPLUS	17,740	4,731	7,411	2,680	11,383					
<u>Transfers and capital expenditures:</u>										
Capital expenditures from current funds and transfers to plant and other funds	(2,558)	(2,400)	(35,358)	(32,958)	(29,896)					
Transfer from quasi-endowment and other funds	-	-	3,837	3,837	-					
Net transfers and capital expenditures	(2,558)	(2,400)	(31,522)	(29,122)	(29,896)					
INCREASE (DECREASE) IN CURRENT FUND BALANCES	\$ 15,182	\$ 2,331	\$ (24,110)	\$ (26,441)	\$ (18,513)					

University of Michigan Athletic Department
2011 – 2012 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 08	Actual FY 09	Actual FY 10	Projected FY 11	Budget FY 12
Football	\$ 34,555	\$ 31,698	\$ 34,016	\$ 33,160	\$ 41,315
Basketball	1,908	2,010	2,246	2,120	2,200
Hockey	1,799	1,845	1,783	3,134	1,800
Other	<u>380</u>	<u>300</u>	<u>355</u>	<u>229</u>	<u>273</u>
Total	\$ 38,642	\$ 35,853	\$ 38,400	\$ 38,643	\$ 45,588

Memo:

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

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

	Actual FY 08	Actual FY 09	Actual FY 10	Projected FY 11	Budget FY 12
Television (football and basketball)	\$ 13,932	\$ 14,429	\$ 14,887	\$ 16,625	\$ 17,577
NCAA basketball based distributions	2,436	2,549	2,848	3,102	3,168
Football Bowl games	2,038	1,844	1,883	2,470	2,231
Other miscellaneous	<u>384</u>	<u>351</u>	<u>350</u>	<u>364</u>	<u>773</u>
	\$ 18,790	\$ 19,173	\$ 19,968	\$ 22,561	\$ 23,749
Less amount contributed to University	<u>1,523</u>	<u>1,568</u>	<u>1,615</u>	<u>1,970</u>	<u>1,801</u>
Net conference distributions	\$ 17,267	\$ 17,605	\$ 18,353	\$ 20,591	\$ 21,948

University of Michigan Athletic Department
2011 – 2012 Budget Notes and Assumptions
(all dollar amounts in 000's)

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:

	Actual FY 10	Projected FY 11	Budget FY 12
Minimum PSD donations	\$ 8,923	\$ 8,925	\$ 8,736
Michigan Stadium club seating areas	4,979	8,150	8,126
Michigan Stadium suites	2,838	4,925	4,842
Lacrosse "Founders" gifts			1,500
Other gifts	<u>2,557</u>	<u>3,069</u>	<u>2,949</u>
Total gift income	\$ 19,297	\$ 25,069	\$ 26,153
Note:			
Donations for premium areas (suites & clubs)		\$ 13,075	\$ 12,968
Additional ticket income for suite and club areas	<u>n/a</u>	<u>1,766</u>	<u>2,167</u>
Gross revenues for Michigan Stadium premium seating		\$ 14,841	\$ 15,135

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.
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 262 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 FY 08	Actual FY 09	Actual FY 10	Forecast FY 11	Budget FY 12
Coaches and team staff	\$ 13,239	\$ 13,534	\$ 15,478	\$ 18,117	\$ 16,956
Compliance, sports information, and other administration	3,400	3,516	3,731	4,405	5,041
Athletic medicine, conditioning, academic support	2,841	2,903	3,277	3,547	3,895
Facilities	2,745	2,793	2,788	3,190	3,289
Sports marketing, development & studio operations	869	1,009	1,031	1,056	1,532
Ticket and business office	801	867	860	888	849
Fringe benefits	<u>5,833</u>	<u>6,532</u>	<u>6,793</u>	<u>6,593</u>	<u>7,643</u>
Total	\$ 29,728	\$ 31,154	\$ 33,958	\$ 37,796	\$ 39,205

University of Michigan Athletic Department
2011 – 2012 Budget Notes and Assumptions
(all dollar amounts in 000's)

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:

	Actual FY 08	Actual FY 09	Actual FY 10	Projected FY 11	Budget FY 12
Team travel expenses	\$ 4,458	\$ 4,896	\$ 4,458	\$ 4,819	\$ 5,719
Equipment	2,507	3,135	2,950	2,773	2,855
Home game, hosted events, & officials	2,524	2,604	2,675	3,786	3,932
Training and medical expenses	836	931	957	1,060	995
Recruiting	1,269	1,415	1,286	1,451	1,502
Vacation board	591	685	625	742	757
Post season expenses, net	722	483	420	325	700
Booster & "special account" expenses	705	495	417	527	531
Other sport program expenses	1,215	984	1,264	1,142	1,118
Total	\$ 14,827	\$ 15,628	\$ 15,052	\$ 16,625	\$ 18,109

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:

	Actual FY 08	Actual FY 09	Actual FY 10	Projected FY 11	Budget FY 12
Repairs & maintenance	\$ 3,041	\$ 2,758	\$ 2,891	\$ 3,500	\$ 3,279
Utilities	2,456	2,862	3,341	3,250	4,310
Supplies & equipment	1,020	1,126	1,003	1,280	1,373
Other facility expenses	836	842	776	908	872
Total	\$ 7,353	\$ 7,588	\$ 8,011	\$ 8,938	\$ 9,834

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:

	Actual FY 08	Actual FY 09	Actual FY 10	Projected FY 11	Budget FY 12
Corporate sponsor, marketing, and development expenses, including television production costs	\$ 2,191	\$ 1,785	\$ 1,191	\$ 1,526	\$ 1,982
Postage, equipment & ticket expenses	1,191	882	936	1,169	1,246
University re-charges	751	773	785	814	863
Insurance	326	374	445	425	631
Telephone	397	508	426	520	448
Publications & printing	385	350	213	261	248
Professional travel	349	342	289	438	479
Band expenses, excluding post-season expenses	223	238	244	238	256
Big 10 conference and other dues	102	101	65	85	113
Other expenses	1,236	875	1,122	1,247	1,408
Total	\$ 7,151	\$ 6,228	\$ 5,716	\$ 6,723	\$ 7,674

University of Michigan Athletic Department
2011 – 2012 Budget Notes and Assumptions
(all dollar amounts in 000's)

15. **Contingency/restructuring costs:** For the FY 2011 Budget, Athletics established a line item to account for contingent and restructuring actions designated by the Athletic Director. Included in this line item for estimated FY 11 expenses include the following:

Football severance costs	1,060
Other Staff severance costs	355
Search firm costs and relocation expenses	<u>566</u>
Total estimated restructuring costs - FY 11	1,981

16. **Debt service:** Debt service and associated debt is summarized as follows:

	FY 2012 Budget			Scheduled Balance	
	<u>Interest</u>	<u>Principal</u>	<u>Total Debt Service</u>	<u>June, 2011</u>	<u>June, 2012</u>
Stadium project	6,470	2,945	9,415	144,440	141,495
Crisler projects (including PDC)	1,169	880	2,049	19,765	38,885
Fieldhouse	518	215	733	11,245	11,030
Stadium concrete	314	170	484	7,345	7,175
Hartwig renovation	132	65	197	3,025	2,960
Softball renovation	165	85	250	4,485	4,400
Rowing facility	<u>32</u>	<u>60</u>	<u>92</u>	<u>635</u>	<u>575</u>
Total	\$ 8,800	\$ 4,420	13,220	\$ 190,940	\$ 206,520
Plus bridge loans against pledge receivables				<u>6,170</u>	<u>3,005</u>
Net debt service - Operating Fund				\$ 197,110	\$ 209,525

17. **Transfers to Plant Fund for capital expenditures:** Capital expenditures and estimated plant fund transfers are budgeted at \$29.9 million for fiscal year 2012 and largely consist of funding for Crisler and Yost Arena renovation projects.