

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

SUBJECT: FY 2017 Athletic Department Operating Budget

For the proposed FY 2017 operating budget described on the following pages, the Athletic Department projects an operating surplus of \$0.8 million based on operating revenues of \$161.8 million and operating expenses of \$161.0 million. Highlights of the operating budget are as follows:

- Football season ticket prices remain unchanged from FY16. The FY17 budget reflects an eight game home football schedule as compared to a seven game home football schedule in FY16.
- Corporate sponsorship revenues projected to increase to \$17.7 million in FY17 from \$16.2 million in FY16 due mostly to new apparel agreement.
- Facility revenues projected to increase to \$6.0 million in FY17 from \$4.6 million in FY16 as a result of rental revenues associated with a special event in the stadium.
- Total operating expenses projected to increase approximately 4% between FY16 and FY17.
- Included in operating expenses is a \$5.0 million transfer to a deferred maintenance fund. The deferred maintenance fund is used as a means to provide for major repair and rehabilitation projects for athletic facilities. The Athletic Department expects to continue to set aside additional funds in future years for this purpose.

Based on preliminary results, the Athletic Department has projected break even operating results in FY16 after a \$2.2 million debt stabilization fund return.

Respectfully submitted,



Warde J. Manuel
Donald R. Shepherd Director of Athletics



Andra Krievs
Chief Financial Officer

June, 2016

Michigan Athletic Department
FY 2017 Operating Budget
(amounts in 000's)

	Fiscal Year 2015/16			Budget	
	<u>Budget</u>	<u>Projection</u>	<u>+ / -</u>	<u>2016/17</u>	<u>+ / -</u>
<u>Revenues</u>					
Spectator admissions	\$ 45,918	\$ 44,821	\$ (1,097)	\$ 49,089	\$ 4,268
Conference distributions	34,712	34,533	(179)	34,586	53
Preferred seating and other gifts	34,800	34,899	99	35,655	756
Corporate sponsorship	15,812	16,202	390	17,692	1,490
Facility revenues	4,596	4,596	-	6,035	1,439
Licensing royalties	7,738	7,738	-	8,427	689
Other	10,036	9,886	(150)	10,337	451
Total operating revenues	153,612	152,675	(937)	161,821	9,146
<u>Expenses</u>					
Salaries, wages & benefits	59,580	59,991	411	61,949	1,958
Financial aid to students	22,028	22,979	951	24,107	1,128
Team and game expense	25,714	27,583	1,869	28,245	662
Other operating and admin. exp.	14,389	14,133	(256)	12,994	(1,139)
Transfer to University	1,800	1,550	(250)	3,575	2,025
Facilities expenses	10,313	8,807	(1,506)	9,612	805
Deferred maintenance fund transfer	5,000	5,000	-	5,000	-
Debt service transfer to plant fund	14,788	14,788	-	15,539	751
Total operating expenses	153,612	154,831	1,219	161,021	6,190
Operating (deficit) surplus	-	(2,156)	(2,156)	800	2,956
Debt stabilization return	-	2,156	2,156	-	(2,156)
Adjusted operating (deficit) surplus	\$ -	\$ -	\$ -	\$ 800	\$ 800

University of Michigan Athletic Department
2016 – 2017 Budget Notes and Assumptions
(dollar amounts in 000's)

Basis for accounting: The University of Michigan Athletic Department manages its financial activity through the use of four different types of funds: the Operating Funds; the Endowment Funds; the Other Post-Employment Benefit Fund, and the Plant Funds. The Operating Fund budget is presented herein. A consolidated financial statement is prepared annually and audited by PricewaterhouseCoopers LLP.

The Operating Fund budget includes most of the revenues and expenditures of the Athletic Department, with the exception of endowment gifts and associated market value adjustments (which are recorded in the Endowment Funds), capital gifts and depreciation (which are recorded in the Plant Funds), and an allocation of the University's actuarially determined annual other postemployment benefits expense and liability (which is recorded in the Other Post-Employment Benefit Fund).

Governmental Accounting Standards Board Statement No. 33 ("GASB 33") requires that unconditional promises of private donations be recognized as revenue in the year the pledge was given, provided all eligibility requirements, including time requirements, have been met. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts.

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

	Actual FY 13	Actual FY 14	Actual FY 15	Projected FY 16	Budget FY 17
Football	\$ 39,160	\$ 43,650	\$ 35,612	\$ 38,973	\$ 43,056
Men's Basketball	3,610	4,241	3,921	3,625	3,800
Ice Hockey	1,835	1,904	1,587	1,580	1,700
Other	<u>522</u>	<u>421</u>	<u>783</u>	<u>643</u>	<u>533</u>
Total	\$ 45,127	\$ 50,215	\$ 41,903	\$ 44,821	\$ 49,089

Memo:

Home football games	6	7	7	7	8
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2. **Conference distributions:** Expected Big 10 conference distributions consist of the following:

	Actual FY 13	Actual FY 14	Actual FY 15	Projected FY 16	Budget FY 17
Television	\$ 19,111	\$ 19,943	\$ 22,510	\$ 22,248	\$ 23,235
NCAA basketball based distributions	4,206	4,002	4,409	4,292	4,118
Football Bowl distribution	2,298	2,752	4,724	7,265	6,505
Other	<u>208</u>	<u>758</u>	<u>786</u>	<u>728</u>	<u>728</u>
Total	\$ 25,823	\$ 27,455	\$ 32,429	\$ 34,533	\$ 34,586

University of Michigan Athletic Department
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3. **Preferred seating donations and other expendable gifts:** Gift income includes minimum donations due for the University's preferred seating donation (PSD) programs, gifts required for premium seating privileges in various venues, and other expendable gifts. Expected preferred seating donations and other expendable gifts are as follows:

	Actual <u>FY 13</u>	Actual <u>FY 14</u>	Actual <u>FY 15</u>	Projected <u>FY 16</u>	Budget <u>FY 17</u>
Preferred seating donations	\$ 27,468	\$ 28,524	\$ 29,161	\$ 28,399	\$ 29,155
Other expendable gifts	<u>3,817</u>	<u>6,743</u>	<u>6,404</u>	<u>6,500</u>	<u>6,500</u>
Total	\$ 31,285	\$ 35,267	\$ 35,565	\$ 34,899	\$ 35,655

Preferred seating donations 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. In addition to being impacted by on-field performance, licensing royalty revenue can be cyclical based on fashion trends, industry and economic factors. In the past ten years, licensing revenue has ranged from \$3.8 million to \$6.8 million.
5. **Concessions and parking:** Concessions and parking income includes game-day food and merchandise concession commissions and game-day parking revenue.
6. **Facilities:** Facility income includes fee and rental revenue from Michigan Stadium, Golf Courses, 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 ticket handling fees, guarantees received for hockey and basketball away games, and other miscellaneous income.
9. **Compensation expense:** The Athletic Department has approximately 360 full time employees including those that have joint appointments with other University units, and various part time employees. Compensation expense by area is as follows:

	Actual <u>FY 13</u>	Actual <u>FY 14</u>	Actual <u>FY 15</u>	Projected <u>FY 16</u>	Budget <u>FY 17</u>
Coaches and direct team support	\$ 22,519	\$ 25,304	\$ 32,107	\$ 31,538	\$ 33,593
Administrative departments	10,295	11,424	12,278	12,349	11,988
Facilities	4,240	4,544	4,461	4,621	4,318
Fringe benefits	<u>7,981</u>	<u>8,632</u>	<u>8,899</u>	<u>11,483</u>	<u>12,050</u>
Total	\$ 45,035	\$ 49,904	\$ 57,745	\$ 59,991	\$ 61,949

10. **Financial aid to students:** The Athletic Department grants the maximum NCAA allowable scholarships to all varsity sports. Total grant-in-aid equivalencies budgeted for FY 2017 is estimated to be approximately 350 with an estimated in-state to out-of-state ratio of 25%/75%.

University of Michigan Athletic Department
2016 – 2017 Budget Notes and Assumptions
(dollar amounts in 000's)

11. **Team and game expense:** Team and game expense is comprised of the following:

	Actual FY 13	Actual FY 14	Actual FY 15	Projected FY 16	Budget FY 17
Team travel (incl net post season)	\$ 8,095	\$ 8,722	\$ 8,567	\$ 10,500	\$ 9,659
Equipment and supplies	4,057	4,623	4,208	4,383	5,236
Game expenses	3,648	4,594	4,366	4,944	4,895
Training table, vacation board and medical	2,266	2,256	3,482	4,801	5,240
Recruiting	1,859	1,961	2,109	2,271	2,237
Other sport program expenses	<u>1,018</u>	<u>854</u>	<u>881</u>	<u>684</u>	<u>978</u>
Total	\$ 20,943	\$ 23,010	\$ 23,613	\$ 27,583	\$ 28,245

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

	Actual FY 13	Actual FY 14	Actual FY 15	Projected FY 16	Budget FY 17
Repairs & maintenance	\$ 3,527	\$ 3,977	\$ 3,981	\$ 3,700	\$ 3,937
Utilities	3,516	3,824	3,678	3,300	3,530
Supplies & equipment	1,106	1,229	1,062	1,000	1,046
Other facility expenses	<u>1,141</u>	<u>1,025</u>	<u>877</u>	<u>807</u>	<u>1,099</u>
Total	\$ 9,290	\$ 10,055	\$ 9,598	\$ 8,807	\$ 9,612

13. **Deferred Maintenance Fund Transfer:** In 2002 the Athletic 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. In FY 2017, the budgeted transfer to the Deferred Maintenance Fund is \$5.0 million.

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

	Actual FY 13	Actual FY 14	Actual FY 15	Projected FY 16	Budget FY 17
Telephone, supplies, postage, IT, insurance	\$ 2,950	\$ 3,233	\$ 3,681	\$ 3,953	\$ 4,141
Hosting, food, and special events	1,702	2,573	1,649	1,580	1,418
Merchandise, parking, & credit card fees	2,057	2,171	1,635	2,064	2,206
Production and contract services	1,264	1,629	2,145	1,980	1,578
Professional travel and conference dues	1,165	1,296	1,419	1,250	959
Marketing, promotions, and ticketing	1,378	1,865	1,498	1,050	677
University re-charges	1,281	1,111	1,193	1,049	1,197
Printing, publications, and photo expenses	1,004	811	762	672	516
Other expenses	<u>428</u>	<u>490</u>	<u>519</u>	<u>535</u>	<u>302</u>
Total	\$ 13,229	\$ 15,179	\$ 14,501	\$ 14,133	\$ 12,994

15. **Transfer to University:** Transfer to University consists primarily of an allocation of the Athletic Department's annual Big Ten Network distribution received from the Big Ten Conference and a transfer related to a recreational sports funding agreement.

University of Michigan Athletic Department
2016 – 2017 Budget Notes and Assumptions
(dollar amounts in 000's)

16. **Debt service:** The debt service expense for FY 2017 consists of the following:

	FY 2017 Budget		Total Debt
	<u>Interest</u>	<u>Principal</u>	<u>Service</u>
Stadium project	\$ 3,460	\$ 5,800	\$ 9,260
Crisler Center projects	1,540	2,236	3,776
Glick Family Fieldhouse	256	472	728
Stadium concrete	205	274	479
Hartwig renovation	75	117	192
Softball renovation	105	146	251
Rowing facility	80	14	94
South Campus	<u>759</u>	<u>-</u>	<u>759</u>
Total	\$ 6,480	\$ 9,059	\$ 15,539