

THE UNIVERSITY OF MICHIGAN

REGENTS COMMUNICATION

Item for Information

SUBJECT: FY 2018 Athletic Department Operating Budget

For the proposed FY 2018 operating budget described on the following pages, the Athletic Department projects an operating surplus of \$2.0 million based on operating revenues of \$182.4 million and operating expenses of \$180.4 million. Highlights of the operating budget are as follows:


- Football non-student ticket prices are increased from FY17. The FY18 budget reflects a six game home football schedule as compared to an eight game home football schedule in FY17.
- Conference distributions are projected to increase to \$51.1 million in FY18 from \$36.3 million in FY17 due mostly to a new conference television agreement.
- Other revenues are projected to increase to \$12.8 million in FY18 from \$7.0 million in FY17 as a result of game guarantee revenue associated with a neutral site football game.
- Total operating expenses are projected to increase approximately 5% between FY17 and FY18.
- Included in operating expenses is a \$4.0 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 a projected operating surplus of approximately \$2.4 million for FY17. The favorable operating outcome is primarily due to higher than anticipated conference distributions and licensing revenues.

Respectfully submitted,



Warde J. Manuel
Donald R. Shepherd Director of Athletics



Andra Krievs
Chief Financial Officer

June, 2017

Michigan Athletic Department
FY 2018 Operating Budget
(amounts in 000's)

	Fiscal Year 2017			Budget FY 2018	+ / -
	Budget	Projection	+ / -		
<u>Revenues</u>					
Spectator admissions	\$ 55,530	\$ 55,250	\$ (280)	\$ 46,390	\$ (8,860)
Conference distributions	32,847	36,336	3,489	51,060	14,724
Preferred seating and other gifts	35,655	36,627	972	37,477	850
Corporate sponsorship	17,692	18,022	330	17,825	(197)
Licensing royalties	8,427	10,800	2,373	8,596	(2,204)
Facility revenues	6,035	6,035	-	4,689	(1,346)
Concessions and parking	4,118	4,375	257	3,636	(739)
Other	6,218	6,968	750	12,759	5,791
Total operating revenues	166,522	174,413	7,891	182,432	8,019
<u>Expenses</u>					
Salaries, wages & benefits	62,641	64,100	1,459	67,100	3,000
Financial aid to students	24,107	24,800	693	26,300	1,500
Team and game expense	32,254	34,354	2,100	33,753	(601)
Other operating and admin. exp.	12,994	13,345	351	13,821	476
Transfer to University	3,575	3,825	250	7,875	4,050
Facilities expenses	9,612	9,369	(243)	10,320	951
Deferred maintenance fund transfer	5,000	7,000	2,000	4,000	(3,000)
Debt service transfer to plant fund	15,539	15,220	(319)	17,263	2,043
Total operating expenses	165,722	172,013	6,291	180,432	8,419
Operating surplus	\$ 800	\$ 2,400	\$ 1,600	\$ 2,000	\$ (400)

**University of Michigan Athletic Department
2017 – 2018 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	Projected	Budget
	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
Football	\$ 43,019	\$ 48,998	\$ 40,170
Men's Basketball	4,295	4,000	4,000
Ice Hockey	1,652	1,670	1,650
Other	<u>797</u>	<u>582</u>	<u>570</u>
Total	\$ 49,763	\$ 55,250	\$ 46,390

Memo:

Home football games	7	8	6
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2. **Conference distributions:** Expected Big 10 conference distributions primarily consist of conference television revenue, conference football bowl game distributions, and NCAA distributions.
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	Projected	Budget
	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
Preferred seating donations	\$ 29,406	\$ 30,127	\$ 30,127
Other expendable gifts	<u>7,540</u>	<u>6,500</u>	<u>7,350</u>
Total	\$ 36,946	\$ 36,627	\$ 37,477

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

**University of Michigan Athletic Department
2017 – 2018 Budget Notes and Assumptions
(dollar amounts in 000's)**

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.
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. **Other income:** Other income consists of guarantee payments received for away games, investment income, ticket handling fees, and other miscellaneous income.
8. **Compensation expense:** The Athletic Department has approximately 370 full time employees including those that have joint appointments with other University units, and various part time employees. Compensation expense includes full-time salaries and wages, temporary payroll, and fringe benefits for coaches, direct team support, administrative departments, and facilities.
9. **Financial aid to students:** The Athletic Department grants the maximum NCAA allowable scholarships to all varsity sports. The total maximum allowable scholarships for FY 2018 is 360.9, with an estimated in-state to out-of-state ratio of 25%/75%.
10. **Team and game expense:** Team and game expense is comprised of the following:

	Actual	Projected	Budget
	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
Team travel (includes net post season)	\$ 11,505	\$ 11,000	\$ 11,372
Training table, vacation board and medical	3,734	4,800	5,986
Equipment and supplies	4,106	5,716	5,637
Home game expenses	3,853	4,200	3,732
Non-conference guarantee payments	4,841	5,020	3,496
Recruiting	2,456	2,537	2,489
Other sport program expenses	<u>1,105</u>	<u>1,081</u>	<u>1,041</u>
Total	\$ 31,600	\$ 34,354	\$ 33,753

11. **Facilities expenses:** Facilities expenses consist primarily of repairs and maintenance, utilities, supplies and equipment, and other facilities expenses.
12. **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 2018, the budgeted transfer to the Deferred Maintenance Fund is \$4.0 million.

**University of Michigan Athletic Department
2017 – 2018 Budget Notes and Assumptions
(dollar amounts in 000's)**

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

	Actual	Projected	Budget
	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>
Insurance, IT, telephone, postage, supplies	\$ 3,257	\$ 4,048	\$ 4,373
Credit card fees	1,877	1,900	1,889
Hosting, food, and special events	1,691	1,600	1,512
University re-charges	1,153	1,197	1,187
Professional travel and conference dues	1,466	1,000	1,036
Marketing, promotions, and ticketing	1,040	900	993
Contract labor/services and consulting	1,807	1,000	927
Printing, publications, and photo expenses	835	600	723
Other expenses	<u>1,583</u>	<u>1,100</u>	<u>1,181</u>
Total	\$ 14,709	\$ 13,345	\$ 13,821

14. **Transfer to University:** Transfer to University consists primarily of an allocation of the Athletic Department's annual television distribution received from the Big Ten Conference and transfers related to recreational sports funding agreements.

15. **Debt service:** The debt service expense for FY 2018 consists of the following:

	<u>FY 2018 Budget</u>		
	<u>Interest</u>	<u>Principal</u>	<u>Total Debt Service</u>
Stadium project	\$ 5,643	\$ 3,565	\$ 9,208
Crisler Center projects	1,951	1,315	3,266
South Campus	2,129	940	3,069
Glick Family Fieldhouse	459	245	704
Stadium concrete	265	215	480
Hartwig renovation	114	80	194
Softball renovation	142	105	247
Rowing facility	<u>10</u>	<u>85</u>	<u>95</u>
Total	\$ 10,713	\$ 6,550	\$ 17,263