

# FUTURE ACTION ITEM #1

## FY2021 Athletics Budget Update and a Plan for Fiscal Recovery (Stacy Pearson/Pat Chun)

November 13, 2020

TO ALL MEMBERS OF THE BOARD OF REGENTS

**SUBJECT:** Revised FY2021 Athletics Budget and proposed actions to cover the additional deficit based on COVID-19 impacts and a longer-term fiscal recovery plan.

**PROPOSED:** That the Washington State University Board of Regents approve the changes to the FY2021 Athletics budget which are a result of ongoing changes related to the COVID-19 pandemic. Further, that the Regents approve a fiscal recovery plan to cover the additional Athletics operating deficit for FY2021 and resolve the accumulated deficit.

**SUBMITTED BY:** Stacy Pearson, Vice President for Finance and Administration

**SUPPORTING INFORMATION:** The WSU Department of Athletics provided an update on the FY2021 Athletics budget at the September 17-18, 2020 Board of Regents meeting. Since that meeting, there have been additional updates to the budget based on more recent decisions from the Pac-12 Conference and in compliance with the State of Washington and Whitman County COVID 19 Protocols.

Most significantly, the Pac-12 Conference announced the return to play for football beginning Nov. 7, men's and women's basketball Nov. 25, as well as start dates for the remainder of our varsity sports. Through January 1, 2021, the Pac-12 has mandated no spectators at any home events. The Pac-12 expects to complete an abbreviated season by December 19, which allows for postseason bowl games, albeit at projected lower payouts. The net effect is an increase in revenue projections from the Pac-12. Additionally, the Pac-12 will incur additional expense due to the resumption of all sports. Consequently, conference dues will increase. This revised budget is also adjusted to reflect the impact of fewer games on game guarantees (both paid and received) and team travel/game expenses. The most current revision to the Athletics budget is presented below. Attachment A provides greater detail.

	June BOR FY21	Aug-20 Update	Sep-20 Update	Oct-20 Update	Sept vs Oct Adjustments	
<b>REVENUES: (\$M)</b>						
Ticket Sales	8.7	0.6	0.6	0.0	(0.5)	No fans for MBB/WBB
Contributions/Endowments	11.9	9.3	9.3	9.3	-	
NCAA/Pac-12	38.0	21.6	21.6	27.8	6.2	Pac-12 Forecast
Royalties/Advert/Sponsor	3.3	1.6	2.1	2.1	-	
Waviers/Student Fees	4.8	4.8	4.9	4.9	-	
Other Revenue	5.3	3.6	3.6	2.9	(0.7)	Game Guarantees, Parking, Other
<b>Total Revenue</b>	<b>72.0</b>	<b>41.5</b>	<b>42.1</b>	<b>47.1</b>	<b>5.0</b>	
<b>EXPENSES: (\$M)</b>						
Compensation	28.7	26.7	25.3	25.3	0.0	
Scholarships	11.4	11.4	11.4	11.4	-	
Sport Programs	12.2	11.5	11.5	10.1	(1.3)	FB: Team Tvl; Game Exp FB.MBB.WBB
Marketing/Fund Raising	2.0	1.7	1.7	1.7	-	
Debt Payments	10.0	10.0	10.0	10.0	-	
Direct Admin/Dues	4.7	3.5	3.5	3.9	0.4	Pac-12 Forecast
Other Expense	8.1	7.1	7.1	6.6	(0.5)	Game Guarantees paid
<b>Total Expenses</b>	<b>77.0</b>	<b>71.9</b>	<b>70.5</b>	<b>69.1</b>	<b>(1.5)</b>	
<b>Net Income from Operations</b>	<b>(5.0)</b>	<b>(30.4)</b>	<b>(28.4)</b>	<b>(22.0)</b>	<b>6.4</b>	

Given the likelihood of additional changes in the winter and spring, Athletics will continue to update budget projections as decisions are made related to competition seasons and other COVID-19 related changes.

### **Fiscal Recovery Plan**

At the September 2020 Regents meeting, the University agreed to develop a plan of fiscal recovery for Athletics to address the current year fiscal impacts related to COVID-19; a longer term plan to eliminate deficit spending in Athletics (post COVID-19); and to pay off the accumulated deficit that has been reliant on maintaining reserves in other auxiliaries and self-support operations to maintain positive balances.

The proposed plan is outlined in Attachment B and is based on three important assumptions that WSU Regents and WSU leadership:

1. Supports the affiliation with a top-level intercollegiate athletics conference and program as a key and strategic means of increasing institutional visibility on a national scale, to the benefit of all WSU students, faculty, staff and communities.

2. Has determined that intercollegiate athletics is an essential element of the residential campus experience for the Pullman Campus, and understands that university support of intercollegiate athletics is an investment in the student experience that is essential to attracting and retaining students.
3. Understands that WSU intercollegiate athletics without membership in the Pac-12 would be financially unfeasible.

Within this context and framework, the following actions will address the COVID-19 pandemic revenue shortfall in the athletics budget for FY2021 and balance the athletics budget in FY2022 and beyond, including elimination of the accumulated deficit over time. These steps will require difficult decisions and disciplined financial management.

1. Address the projected \$22 to \$30M net revenue loss for FY2021 utilizing a financing opportunity being developed by the Pac-12 conference that is repaid solely through future Pac-12 media revenue distributions. This action, which is dependent on the final details of the conference's plan and whether its utilization by the University would comply with all applicable laws and regulations, would create a decrease in future media revenue distributions. For example, if WSU borrows \$30M, future media revenue distributions would decrease by approximately \$2M to \$3M per year, based on repayment terms and current market rates.
2. Balance the annual athletics budget starting in FY2022 by making permanent \$1M to \$2M of the \$7.9M FY2021 expenditure reductions.
3. An annual University commitment of \$2M to \$3M starting in FY2022 to provide institutional support of intercollegiate athletics.
4. Reset the Athletics budget model and develop a sustainable funding model to rebuild by investing new realized revenues in future growth.
5. Continue to assess debt refunding and restructuring opportunities for additional savings and/or reduced debt service payments.
6. Formalize a plan to repay the cumulative deficit starting after FY2022 and eventually eliminate reliance on other fund balances.

ATTACHMENTS: Attachment A: Detailed budget using NCAA expenditure and revenue categories and including footnotes.

Attachment B: Intercollegiate Athletics at WSU and a Plan for Fiscal Recovery

BY NCAA CATEGORIES	June BOR FY21	Aug-20 Update	Sep-20 Update	Oct-20 Update	Sept vs Oct Adjustments
<b>REVENUES: (\$M)</b>					
01 - Ticket Sales	8.7	0.6	0.6	0.0	(0.5) <sup>1</sup>
02 - Direct State/Gov Support	-	-	-	-	-
03 - Student Fees	1.3	1.3	1.4	1.4	-
04 - Direct Inst. Support	3.5	3.5	3.6	3.6	-
05 - Less Xfer to Inst.	-	-	-	-	-
06 - Indirect Inst. Support	0.4	0.4	0.4	0.4	-
06A - Debt Service, Lease, Rentals	-	-	-	-	-
07 - Game Guarantee Rev	0.2	0.2	0.2	-	(0.2) <sup>2</sup>
08 - Contributions	11.2	8.6	8.6	8.6	-
09 - In-Kind	1.6	1.6	1.6	1.6	-
10 - 3rd Party Compensation	-	-	-	-	-
11 - Media Rights	23.0	19.7	19.7	20.6	0.8 <sup>3</sup>
12 - NCAA Distribution	1.6	1.6	1.6	1.6	-
13 - Conference Dist	13.4	0.3	0.3	5.7	5.4 <sup>3</sup>
14 - Concessions/Novelties	1.3	0.4	0.4	0.4	-
15 - Royalties/Advert. etc.	3.3	1.6	2.1	2.1	-
16 - Sport Camp Revenue	-	-	-	-	-
17 - Endowment Distribution	0.6	0.6	0.6	0.6	-
18 - Other Revenue	1.8	1.0	1.0	0.4	(0.5) <sup>4</sup>
19 - Bowl Revenue	-	-	-	-	-
<b>Total Revenue</b>	<b>72.0</b>	<b>41.5</b>	<b>42.1</b>	<b>47.1</b>	<b>5.0</b>
<b>EXPENSES: (\$M)</b>					
20 - Athletic Aid	11.4	11.4	11.4	11.4	-
21 - Game Guarantee exp	1.3	1.3	1.3	0.7	(0.6) <sup>5</sup>
22 - Coaches Comp: WSU	13.7	13.3	12.6	12.6	-
23 - Coaches Comp: 3rd Party	-	-	-	-	-
24 - Admin Comp: WSU	15.0	13.4	12.7	12.8	0.0 <sup>6</sup>
25 - Admin Comp: 3rd Party	-	-	-	-	-
26 - Severance Pay	1.7	1.7	1.7	1.7	-
27 - Recruiting	1.5	0.4	0.4	0.4	-
28 - Team Travel	4.0	3.1	3.1	3.0	(0.1) <sup>7</sup>
29 - Equipment	2.2	2.2	2.2	2.2	-
30 - Game Expenses	2.8	2.7	2.7	1.5	(1.2) <sup>8</sup>
31 - Fund Raising/Marketing	2.0	1.7	1.7	1.7	-
32 - Sport Camp Expense	-	-	-	-	-
33 - Spirit Groups	0.1	0.1	0.1	0.1	-
34 - Facilities: Debt/Lease/Rental	10.0	10.0	10.0	10.0	-
35 - Direct Admin Expense	2.4	1.9	1.9	1.9	-
36 - Indirect Inst. Support	0.4	0.4	0.4	0.4	-
37 - Medical/Insurance <sup>9</sup>	0.6	2.0	2.0	2.0	-
38 - Dues & Memberships	2.3	1.6	1.6	2.0	0.4 <sup>10</sup>
39 - Student-Athlete meals	0.9	0.9	0.9	0.9	-
40 - Other Expense	4.6	3.7	3.7	3.7	0.0 <sup>11</sup>
41 - Bowl Expenses	-	-	-	-	-
41A - Coaches Bowl Bonuses	-	-	-	-	-
<b>Total Expenses</b>	<b>77.0</b>	<b>71.9</b>	<b>70.5</b>	<b>69.1</b>	<b>(1.5)</b>
<b>Net Income from Operations</b>	<b>(5.0)</b>	<b>(30.4)</b>	<b>(28.4)</b>	<b>(22.0)</b>	<b>6.4</b>

<sup>1</sup> Ticket sales reduced. Gates for MBB and WBB are taken out (assumption of no fans). Volleyball gate was already taken out, and Baseball gate is retained due to late spring and playing outside

<sup>2</sup> Game guarantees reduced. No longer receive game guarantee payment from cancelled Utah State away game

<sup>3</sup> Pac-12 projection. Biggest reason for increase is due to the re-introduction of Bowl games, due to the return of Pac-12 football in the fall. We have our abbreviated season complete by our normal date so all bowls will be eligible to be played. Payouts from Bowl games are significantly reduced due to attendance and sponsorship; primary source of funds is broadcast media rights. Media Rights are Pac-12 estimates based on talks with ESPN/Fox.

<sup>4</sup> Decrease in Other Revenue is primarily due to the loss of game day/RV parking money due to no fans at our football games

<sup>5</sup> Decrease in Game Guarantee Exp is due to the cancelled football game vs Univ of Idaho

<sup>6</sup> Small increase in Admin Compensation due to strategic staffing issues in Creative Video

<sup>7</sup> Team Travel savings from Football not travelling to Utah State due to the game being cancelled

<sup>8</sup> Game Operations savings in Football, MBB and WBB due to no fans in the stands. Volleyball was previously reduced

<sup>9</sup> Medical expense includes a budgeted net increase of \$1.4m for Covid testing of all student-athletes & selected staff

<sup>10</sup> Other Higher Dues from the Pac-12 due to increased costs related to opening of football in the fall

<sup>11</sup> Changes in compensation trigger changes in ERP assessment

## **Intercollegiate Athletics at WSU and a Plan for Fiscal Recovery**

### **Assumptions**

The following assumptions regarding the WSU Regents, President and leadership commitment to intercollegiate athletics support the financial options recommended below. Changes to these assumptions will change the recommended financial options.

- WSU's affiliation with a top-level intercollegiate athletics conference and program is a key and strategic means of increasing institutional visibility on a national scale, to the benefit of all WSU students, faculty, staff and communities.
- WSU intercollegiate athletics is an essential element of the residential campus experience for the Pullman Campus, and understands that university support of intercollegiate athletics is an investment in the student experience that is essential to attracting and retaining students.
- The operation of intercollegiate athletics without membership in the Pac-12 is financially unfeasible.

### **Background**

The role of intercollegiate athletics in university life has been extensively debated during the past 100 years. Dr. Schulz shared his perspective about the role of sports at a public research university of the twenty-first century in his letter dated July 31, 2018. The following builds on many of those perspectives.

### **Institutional visibility and reputation on a national scale**

Many large public research universities are intentional in their affiliation with a top-level intercollegiate athletics conference to increase institutional visibility on a national scale. Washington State University's affiliation with the Pac-12 conference and the inherent association and collaboration with these research universities provides a critical component of growing the University's national reputation. As a Pac-12 member, WSU is directly affiliated with world-class public and private research universities such as Stanford, Cal-Berkeley, UCLA, USC, and the University of Washington. Numerous Division I schools seek the prestige associated with membership in the Pac-12. In fact, there are 347 colleges and universities classified as Division 1 by the NCAA, but only 65, or 20 percent, are affiliated with the Power Five Conferences.

If there is agreement that Pac-12 membership is essential to WSU's visibility, reputation, strategic plan and emergence as a land grant research university of choice, it is necessary to commit to the investment of institutional resources to continue membership in the Pac-12 conference.

### **Intercollegiate athletics is an essential element of the residential campus**

WSU has supported intercollegiate athletics as an essential element of the residential campus experience. The opportunity to see WSU compete at an elite level against outstanding universities draws thousands of people to Pullman annually, which in turn provides a significant boost to philanthropic support and the local economy, which in turn provides the services and support desired by WSU students.

While intercollegiate athletics is deemed an essential element of the student experience, WSU is one of only a few institutions nationally that does not provide some level of institutional support for intercollegiate athletics each year.<sup>1</sup>

### **Financial Viability**

Membership in the Pac-12 is required for WSU to operate intercollegiate athletic programs regardless of level. For example, in the FY2020 athletics budget, approximately \$35M revenues came directly from Pac-12 media agreements and conference related revenue distributions. Additionally, athletics generated approximately \$3.3M in advertising and sponsorship revenues that are clearly associated with visibility brought by the Pac-12, the other universities appearing in Pullman on game day, and the related TV broadcasts. All coaches, staff, and sports programs could be eliminated and still not generate enough savings to offset the loss of these revenues made possible by membership in the Pac-12 conference. *Simply stated: Pac-12 membership is essential to the financial viability of intercollegiate athletics at WSU.*

### **Next Steps**

Within this context and framework, the following actions will address the COVID-19 pandemic revenue shortfall in the athletics budget for FY2021 and balance the athletics budget in FY2022 and beyond. These steps will require difficult decisions and disciplined financial management.

#### **First: Address the projected \$22 to \$30M net revenue loss for FY2021**

WSU cannot absorb the projected \$22 to \$30M<sup>2</sup> net loss for Athletics against other existing fund balances as was previously done. External financing options must be used to cover that level of loss. WSU is working with the Pac-12 conference officials and the other Pac-12 institutions to develop financing options through the Pac-12 that will allow member institutions to borrow with repayment occurring solely through a reduction of future Pac-12 media revenue distributions until the amount borrowed is paid off. This action, which is dependent on the final details of the conference's plan and whether its utilization by the University would comply with all applicable laws and regulations, would create a decrease in future media revenue distributions. As an example, if WSU borrows \$30M, future media revenue distributions would decrease by approximately \$2M to \$3M per year, based on repayment terms and current market rates. In addition, when the current Pac-12 media contract expires in 2024, there is expectation that media revenues will increase under a new contract which could enable more rapid repayment.

The decrease in future media revenue associated with the Pac-12 financing will require that Athletics make a permanent adjustment to their annual operating budget to cover this revenue adjustment each year. It is critical that the loss of media revenues associated with the financing be covered via permanent expenditure reductions, until future revenue increases are earned and available.

#### **Second: Balance the annual athletics budget starting in FY2022**

WSU will balance the Athletics budget starting in FY2022. This will require two actions.

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<sup>1</sup> According to the USA Today, LSU, Nebraska, Ohio State, Oklahoma, Penn State, Purdue and Texas were the only schools to report no subsidy money in 2012.

<sup>2</sup> Forecast amount subject to change.

Athletics will make permanent an additional \$1M to \$2M of the FY2021 expenditure reductions. (In total, up to 6% of the pre-COVID operating budget compared to the 10% reduction taken by University units for FY2021 and planned for the next biennium). Such reductions will be challenging and will impact staff and service levels in the department.

Additionally, whereas WSU deems intercollegiate athletics an essential element of Institutional visibility and reputation on a national scale for all campuses and the student experience that essential to attracting and retaining students at the Pullman campus, the University will begin providing an annual commitment of \$2M to \$3M in institutional support of intercollegiate athletics each year. NOTE: The investment of institutional support funds may be derived from all campus locations, with a higher proportion from the Pullman campus. The investment of institutional support will reduce financial flexibility should state support or tuition levels continue downward in FY2022.

### **Third: Restore and grow athletic budgets with new revenues when generated**

The third action step is a proposed method of thinking about budget rather than a financial action. Past leadership made financial commitments and built the athletics budget based on a hope of future revenues. That approach led to the current fiscal challenges.

With the difficult decisions already made in athletics, and by making permanent some reductions now, there is a unique opportunity to reset the athletics budget model and develop a sustainable funding model that will allow Cougar Athletics to quickly rebuild after the Pandemic by investing new revenues in future growth.

This budget approach and the steps above will free new revenues to drive growth, rather than backfilling deficits.

### **Fourth: Continue to assess debt refunding and restructuring opportunities for additional savings and/or reduced debt service payments.**

Based on our fiscal assessment of the existing outstanding debt, there may be additional opportunities to refund/refinance current Athletics debt when the debt is "callable." In addition, WSU will determine if there are financially feasible opportunities to restructure the current Athletics debt that can lower payments, extend the repayment period and/or allow for more cash savings in the next few years with the expectation that there will be full recovery in FY2023 and beyond. This option may need to be considered sooner if the Pac-12 financing is not available.

### **Fifth: Begin repaying the cumulative deficit**

After FY2022, it is essential that Athletics begin to make progress on the cumulative deficit and begin repayment efforts under a formal plan, as it is no longer viable to rely on the balances of other auxiliary and self-support operations to cover this large deficit.

One example of how debt refunding can be used to help reduce the accumulated deficit is if \$8.5M in recently refunded athletic facility bonds were to be used to reduce the accumulated deficit, effectively reducing the outstanding amount by approximately 10 percent. However, this is not recommended for the current fiscal year since it is not yet known if the cash from the refunding will be needed to cover other urgent expenses (like COVID-19 testing) or to help cover further declines in state funding and/or tuition revenues. At best this is a one-time option,



there would still need to be an ongoing commitment of annual payments from Athletics and/or other University resources to continue to pay down the deficit.