

Minutes*

Senate Committee on Finance and Planning
Tuesday, November 27, 2001
2:15 – 4:00
238A Morrill Hall

- Present: Charles Speaks (chair), Prince Amattoe, Brittny McCarthy Barnes, Jean Bauer, Stanley Bonnema, Charles Campbell, David Chapman, Daniel Feeney, Stephen Gudeman, Gary Jahn, Wendell Johnson, Michael Korth, Elo Charity Oju, Richard Pfitzenreuter, Rose Samuel, Michael Volna, Susan Carlson Weinberg [Mr. Amattoe and Professor Korth were to be connected by teleconference but the equipment malfunctioned.]
- Absent: Eric Kruse, Terry Roe, J. Peter Zetterberg
- Guests: Vice President Tonya Moten Brown; Liz Eull (Office of Budget and Finance); Gail Klatt (Audits); Laurie McLaughlin (Office of the Vice President for Administration and Chief of Staff); Professors Arthur Erdman, Marvin Marshak, Joseph Massey (Faculty Consultative Committee)
- Other: Cathy Gillaspay (Regents' Office)

[In these minutes: (1) classroom technology upgrades, flat tuition; (2) intercollegiate athletics financial situation; (3) the economic outlook]

1. Committee Business

Professor Speaks convened the meeting at 3:15 and turned to several items of Committee business.

-- The nominations of Professors Ken Heller and Jim Perry to the Classroom Advisory Committee were approved unanimously.

-- The Committee last year adopted a resolution concerning classroom technology upgrades; this year Vice Provost Swan and Mr. Fitzgerald appeared before the Senate Committee on Educational Policy and the Senate Consultative Committee and made a presentation. Does this Committee also wish to hear about classroom upgrades? Mr. Fitzgerald thought it would be a good idea, but that a presentation later in Spring Semester would be better. Ms. Weinberg said she would like to see data concerning classroom utilization. Professor Speaks asked that the Committee give him the license to fit in a presentation sometime later in the spring at an appropriate time during the budget preparation cycle. The Committee concurred.

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-- Professor Speaks asked that Committee members identify nominees for the Capital Projects Subcommittee in order that the names can be approved at the next meeting.

-- There is a proposal moving through the University requiring students to obtain permission to enroll for fewer than 13 credits in a semester. There is an alternative proposal which would impose a flat-rate tuition schedule (with allowances for per-credit tuition for truly part-time students). Does the Committee wish to ask Mr. Pfitzenreuter if he will prepare models of how such a tuition schedule might work? The Committee indicated it wished to see the information.

-- It was agreed that the Committee would hold an additional meeting on December 4 to consider the information that it was about to receive from Vice President Brown concerning the financial status of intercollegiate athletics.

Professor Speaks accepted a motion to close the remainder of the meeting, subject to the following understanding: (1) there will be minutes from the presentation by Vice President Brown, but they will be embargoed until after Dr. Brown makes the same presentation to the Board of Regents on December 14, (2) the contents of the discussion will be confidential until after the December 14 Regents' meeting, and (3) the discussion with Associate Vice President Pfitzenreuter will be entirely off the record. The Committee voted unanimously in favor of the motion.

2. The Financial Status of Intercollegiate Athletics

With the motion adopted, Professor Speaks now welcomed Vice President Brown and her colleagues to make a presentation concerning the financial status of intercollegiate athletics.

Vice President Brown began by noting that she has responsibility for the oversight of intercollegiate athletics, following a change in the administrative structure in December, 1999. At that time she was made responsible for athletics while academic counseling reporting was changed to the Executive Vice President and Provost and athletic rules compliance reporting was changed to the Office of the General Counsel. Dr. Brown said she sees her responsibility consisting of three elements: ensuring that intercollegiate athletics are aligned with University priorities and that there is fiscal accountability.

This report is intended to detail the current financial status of athletics, project future financial challenges and obligations, and identify major policy issues that must be addressed in order to develop long-term reform of athletic finances. The reason for this report now is to provide a financial reality check and because there are persistent financial problems in athletics and a need to restore financial viability. In addition, the University is faced with increased accountability for budget decisions and a decreased level of state support, other institutions are also focusing on the problem of escalating athletic expenses, the Regents have stated their expectation that the administration increase efficiency across all levels of the University and identify programs that are at risk financially, and the policy implications of current and future challenges facing athletics must be viewed in the context of the larger financial challenges facing the University as a whole.

In addition to the change in reporting lines, an Athletics Financial Group has been created, consisting of representatives from the Budget Office, the Vice President for Administration, fiscal managers from men's and women's athletics, directors of Athletic Facilities and Trademarks and Licensing, and senior administrators from men's and women's athletics. The purpose of this group is to

look at athletics financing from a wider perspective than one department. Dr. Brown noted that once she started asking question about athletic finances she could find no evidence that there had been a comprehensive review of them in recent years. She also pointed out that while her office has combined and manages the athletic revenue streams, the spending decisions have remained in the two athletic departments.

A short summary of the findings of the report are these:

- revenues generated by athletics are not sufficient to cover current and future expenses
- the University subsidizes almost \$10 million of athletics expenses annually, 23% of athletic operating expenses
- athletics has not met revenue projections for the last two years nor is it expected to do so this year
- projections indicate that the minimum cumulative increases in athletics expenses over the next five years will exceed \$33 million (including the \$10 million annual institutional support)
- intercollegiate athletics has not reserves to meet current or future financial needs.

The report Dr. Brown presented included a number of graphs and tables making various comparisons and reporting data over time. They included the following.

A comparison of Big Ten athletic departments by teams, athletes, and budget (1999-2000):

	# athletes	# teams	total budget
Minnesota	635 (721)	22 (23)	\$40,943,332
Big 10 Avg	724	24	\$40,286,445

(For 2000-01 and later, Minnesota added rowing and thus increased the number of athletes to 721 and the number of sports to 23.)

Minnesota athletics compares favorably to its Big Ten peers in terms of these benchmarks.

Total expenses for intercollegiate athletics in 2000-01 were \$44.9 million, which includes direct athletic expenses as well as approximately \$2 million in indirect institutional support (academic counseling, athletic rules compliance, athletic oversight, facilities management, Office of the Registrar, financial aid support, and central debt payments). For the current fiscal year, total expenses budgeted for athletics total \$47.1 million (including those funded by University support).

Of the expenses, 55% are related directly to the sports (including athletic financial aid); the remainder is indirect program support (e.g., media relations), debt, facilities, administrative overhead, indirect institutional expenses, and other.

One graph plotted for 1991 to 2000 the growth of budgeted expenses in athletics on the Twin Cities campus, the average Big Ten growth, and the growth of the University's overall budget. Big Ten athletic budgets increased 98% over the 10 years, the Twin Cities athletic budget increased 109%, and the institutional budget increased 55%. The Twin Cities athletics budgets 1991-2002 increased from \$19.6

million to \$47.1 million, an increase of 141%. This growth follows the same trajectory as at peer Big Ten schools, which is twice the growth rate of the institutional budget (excluding auxiliary units).

The University's program falls short, however, when compared to other Big Ten schools in terms of revenues GENERATED BY ATHLETICS; it generates \$8 million less than the average of the other schools.

	Big Ten Avg	U of M	Difference	Rank
Total Revenue (including all institutional support)	\$40,475,601	\$40,053,229	(\$422,372)	5/11
Revenue Generated by Athletics	\$39,082,600	\$30,944,369	(\$8,138,231)	8/11

It is only because of significant institutional support that the University's programs appear consistent with the Big Ten average. (The numbers 9, 10, and 11 in terms of athletically-generated revenue are Indiana, Purdue, and Northwestern.)

Revenues that support athletics come from a variety of sources; for 2000-01, ticket sales, radio and TV contracts, and distributions from the NCAA and Big Ten account for 47% of revenues. University support makes up 23%; foundation funds make up 16%, with the remainder coming from novelties/concessions/royalties and other sources. Football, basketball, and men's hockey generated 72% of the \$34.2 million in revenue generated by athletics (all revenues except the central support).

Revenue- and non-revenue sport comparisons, 2000-01:

Sport	Expense	Fin. Aid	Total	Revenue	Profit/(Loss)
Basketball	2,671,800	89,000	2,760,800	9,059,500	6,298,700
Ice Hockey	1,217,600	194,900	1,412,400	5,457,500	4,045,100
Football	6,223,200	1,052,600	7,275,800	10,253,000	2,977,200
Subtotal	10,112,600	1,336,500	11,449,000	24,770,000	13,321,000
All other sports	7,821,300	3,773,600	11,594,900	850,600	(10,744,300)

Only men's basketball, hockey, and football are considered "revenue-producing" because they are the only ones that generate revenues in excess of their direct costs plus financial aid. The two most "profitable" sports at Minnesota are men's basketball and hockey; they also ranked first in revenues and net profits in the Big Ten in 1999-2000. Football, on the other hand, is the least "profitable" revenue sport and ranked last in the Big Ten in both revenues and net profit in 1999-2000. (Only three other Big Ten schools participate in men's hockey; all participate in both football and men's basketball.)

Institutional support of intercollegiate athletics has increased over the last 10 years from 17.6 of athletic revenues to 23%. Up until 1995-96 there was a State Special appropriation for women's intercollegiate athletics; it was folded into the University's general appropriation after that. In 1990-91 institutional support for athletics totalled \$3.4 million (of which \$2.7 million came from the State Special); in 2000-01 that support had increased to \$10.1 million. The latter figure includes calculation of costs outside of athletics (e.g., in the General Counsel's office, Dr. Brown's office, etc.) that would not be incurred but for the presence of athletics; these indirect costs are \$1.4 million of the \$10.1 million institutional subsidy. Dr. Brown related that she could not accurately identify these indirect costs before 1999-2000.

The institutional support for athletics (2000-01) breaks down this way:

Direct support:

Women's athletics	7,108,965	
Athletic Facilities	1,008,428	
Subtotal		8,117,393

Indirect support:

Academic counseling	371,298	
Registrar's office	48,529	
Financial aid office	56,364	
Athletic compliance	227,082	
Chief of Staff office	323,592	
Capital debt	370,443	
Facilities management	637,000	
Subtotal		2,034,308

Total 10,151,701

Dr. Brown estimated that the total will rise to \$10.6 million for 2001-02.

The projected level of institutional support, assuming it stays at the current level and that only additional debt obligations on athletic projects would be added, would be as follows (that is, no additional O&M funds would be added for direct or indirect support of athletics):

2002-03	10,791,911
2003-04	11,287,065
2004-05	11,285,947
2005-06	11,256,924
2006-07	11,224,246
Total	55,846,093

Dr. Brown explained that understanding how the University came to be in the position of subsidizing athletics to the extent it does requires an understanding of two factors: (1) institutional policy decisions and guiding principles on the institutional view of athletics, and (2) four key areas in athletics that are out of alignment with peer institutions. The University has long recognized the value that athletics adds to the institution; in supporting excellence in athletics, the University has been committed to the following principles (which can be found in policy documents adopted over the years):

- striving for the highest levels of academic and competitive excellence in all athletics programs
- meeting the requirements of Title IX while aspiring to higher levels of gender equity (which means doing the right thing, more than just what is required by Title IX, in order that women have a quality experience in athletics)
- developing and maintaining competitive excellence in Division IA revenue sports
- maintaining existing levels of competition (which means not cutting sports)
- preserving separate athletic departments for men's and women's athletics.

The bottom line is that athletics has been unable to meet the increasing financial obligations necessary to support all of these principles; as a result, the University has had to substantially increase its subsidy of athletics in order to bridge the gap between upholding all these principles and the resources available within athletics to meet the costs.

The prevailing assumption has been that the University subsidy is simply a reflection of the cost of maintaining a high-quality women's athletic program. That is incorrect; the combination of all athletic revenues into one central account has rendered that a distinction without substance. The University's investment is not just about a commitment to women's athletics, it is about fulfilling its commitment to all of the five principles. Other Big Ten schools, moreover, have managed to fund women's athletic programs without the level of institutional support provided at Minnesota.

The University's escalating subsidy to athletics can be attributed to efforts to compensate for the fact that athletics is out of alignment with its peers in four areas: excessive expenses in administrative support (I) and in debt service (II) and inadequate revenue generation in fund-raising (III) and in football (IV).

Professor Speaks asked if the guiding principles are different at institutions that do not have a subsidy. They do not, Dr. Brown said. It is only the separate departments that are unique to Minnesota, Professor Marshak added. That is true nationally, Dr. Brown said; there are only five Division I-A schools with separate departments of athletics for men and women. Other schools have also cut teams while Minnesota has not.

I. Administrative support: in general comparisons with the Big Ten schools, the numbers are as follows:

	Big Ten Avg	UM	Difference	UM Rank
Total Sport Budgets	20,966,935	19,939,012	(1,027,923)	7/11
Total Admin Support	16,288,471	15,096,297	(1,192,174)	5/11
Debt Service	2,402,047	4,148,966	1,746,919	3/11
Capital Expense	894,092	99,115	(794,977)	11/11
Total Budget	40,266,445	40,943,332	656,887	5/11

This is somewhat misleading, however, because although it appears the University spends somewhat less on administrative support than other schools, Ohio State has 50% more teams, Purdue has 25% more, and Northwestern has considerably fewer. If compared with the other schools that have a comparable number of sports, Minnesota does not fare as well.

	Big Ten Avg Similar Schools	UM	Difference	UM Rank
Total Sport Budgets	20,276,466	19,939,012	(337,454)	5/8
Total Admin Support	13,269,182	15,096,297	1,827,115	3/8
Debt Service	1,916,453	4,148,966	2,232,513	2/8
Capital Expense	613,968	99,115	(514,853)	8/8
Total Budget	35,944,122	40,943,332	4,999,210	3/8

Dr. Brown said that administrative costs are a function of the number and composition of athletic teams, so this is the more relevant comparison. Minnesota's administrative expenses are \$1.8 million higher than the average of similar institutions. While the data do not establish that the separate department structure accounts for higher administrative costs, it's a reasonable conclusion, she said. The structure has created duplication and redundancy in athletic support services (sports information/media relations, training, strength and conditioning, marketing, fund-raising, fiscal management, human resources, etc.) Separate departments contribute to the problem because there has been little or no coordination of spending strategies or joint evaluation of the long-term impact of financial decisions.

Professor Speaks inquired if Dr. Brown could attach a dollar figure to the cost of maintaining two separate departments. Dr. Brown said she has been asked that question and suggests that the University work with the University of Wisconsin to compare staffing to see where Minnesota has more people.

II. Debt Service: Dr. Brown presented a graph and table illustrating capital debt service levels through 2006-07, the nature of the facilities being paid for (men's, women's, or joint use), and the source of funds to pay the debt service. A condensed version of the table follows (dollars in millions):

	From Athletics	From O&M	Total
1999-00	3.81	.33	4.15
2000-01	3.87	.37	4.23
2001-02	4.56	.76	5.32
2002-03	5.07	.95	6.01
2003-04	4.73	1.44	6.18
2004-05	4.67	1.44	6.12
2005-06	4.69	1.41	6.10
2006-07	4.70	1.38	6.07

Over the last 10 years, \$49 million has been invested in new and renovated athletic facilities; there remained as well \$35 million in remaining debt on athletic facility projects initiated before 1990. There is a myth that the debt service has to do with women's athletics, Dr. Brown commented; in fact, the vast majority of the capital expenses are for joint-use facilities.

By comparison with other Big Ten schools, Minnesota dedicates the highest percentage of its athletic revenues to debt service (nearly 11%). The others are as follows:

Minnesota	10.9	4.14 million
Wisconsin	10.3	4.78
Illinois	8.8	3.03
Ohio State	7.9	6.26
Mich State	7.4	2.72
Big Ten Avg	6.0	2.43
Penn State	5.9	2.66
Michigan	3.9	1.72
Iowa	3.3	1.15
Northw'n	.27	1.1
Indiana	0	0
Purdue	0	0

By comparison, debt service as a percent of total revenues for the University as a whole is 1.5%, significantly below the 11% carried by athletics. There is the argument that the athletic programs must make these capital improvements in order to keep up with their peers, but other schools do not have this level of debt because they do not have central support for debt payments, Dr. Brown concluded.

III. Fund-raising has been as follows for 1998-2001 (both departments):

	Total raised (4 years)	Percent of total
Annual fund	5,166,252	21.4
Capital gifts	13,500,100	56.1
New Endow Funds	3,334,576	13.8
Endowment Income	2,081,421	8.7

While 56% of the funds raised are for capital projects, the two types of funds that have the most impact on annual operating expenses are income from endowments (for athletic financial aid) and the annual fund. The University does not have comparable data from Big Ten schools on fund-raising but it does for endowments. For 1999-2000:

	Total Endowment Funds (Athletic)
Michigan	40,000,000
Indiana	30,000,000
Wisconsin	23,500,000
Penn State	23,500,000
Big Ten Average	20,600,000
Ohio State	20,000,000
Purdue	20,000,000
Iowa	15,800,000
Illinois	15,000,000
Northwestern	14,500,000
Michigan State	13,000,000
Minnesota	11,000,000

In terms of use of the endowment income, the data look like this:

	1999-00	2000-01	2001-02 (projected)
Financial aid expense	4.7 million	5.1 million	5.5 million
Endowment principal	10.6	11.0	n/a
Endowment income	.548	.608	n/a
Percent of financial aid covered by endowment income	12.5	11.9	10.7 estimated

In order to cover 12.5% of financial aid expense in 2001-02, the endowment principal would have to be \$13.8 million, assuming a pay-out of 5%.

Because of the slowing economy, Dr. Brown pointed out, endowment principal donations and interest income have decreased, but financial aid expenses have increased, creating an inverse relationship between expenses and the revenue to cover them. About \$830,000 per year is raised for the endowments (only \$425,000 in 2000-01). If that annual average of \$830,000 is what is raised during the current year, only 10.7% of financial aid expenses will be covered by endowment funds. Projecting further out, the endowment would have to rise to \$23 million by 2006-07 to cover the same 12.5% of financial aid expenses covered in 1999-2000. So, Dr. Brown said, the endowment must double in the next five years in order to stay even, which will require raising money twice as fast as in the last few years.

IV. Football: because men's basketball and hockey are sold out, efforts to raise revenues have been directed at football, which is seen as having the most growth potential. Dr. Brown recalled that there was a blue-ribbon football panel commissioned by President Hasselmo in 1994; its report, in 1995, became the basis for an aggressive campaign to revitalize Minnesota football with a goal of bringing back a winning tradition and increasing revenues.

In 1996 Minnesota football had the lowest expense budget in the Big Ten (in 1999-2000 it ranked 9th of 11 schools). Also in 1996 Minnesota completed its sixth consecutive losing season and had no bowl game appearance in 10 years. In December, 1996, a new coaching staff was hired and the University began investing significant resources in football, following the recommendations of the blue-ribbon panel.

In the last year that Jim Wacker was head coach (1996-97), the expense budget for football was \$3.5 million. Beginning in 1997-98, the expenses for football have been \$5.44 million, \$5.57 million, \$6.17 million, and \$7.28 million in the current year--a 104% increase in five years; the cumulative new investment in football has totalled over \$9 million. During the same time period, 1997-2001, \$7.98 million has been spent on capital projects for football. Of those expenses, 58% were paid from gifts/donations, 37% from central debt, and 5% from athletic debt. The total investment in football in the last five years has thus been nearly \$17 million (9 plus 7.98).

The results, Dr. Brown said, have been mixed. On the competitive side, the three losing seasons have been somewhat balanced by two winning seasons that culminated in bowl appearances and increased pride in the football team. On the financial side, however, the goal of increasing revenues to benefit athletics as a whole has not been met.

There has been an increase in gross football revenues, but the growth has not offset increased expenses so the net revenues to the athletics programs are down. The cumulative revenue growth from 1997-2001 was \$2.8 million, but \$1.25 million of that, in 2001, is attributable to the Big Ten television contract. The financial investment in football has not increased revenues in any significant way since 1997, Dr. Brown told the Committee. There was an increase in ticket revenue over the five years, from \$2.6 million to nearly \$5 million, but that was a result of increased ticket prices, not increased attendance (which increased only 5%). Offsetting the increased income was a decrease in other income by \$1.8 million. "Net profits" from football declined from \$4.5 million in 1996-97 to \$2.9 million in 2000-01.

Comparisons with other Big Ten football programs is enlightening. In terms of the "profit margin" (revenues minus expenses) produced by Big Ten teams in 1999-2000, Minnesota ranks at the bottom.

	Football "Profit" (millions)
Penn State	17.1
Ohio State	15.9
Michigan	13.2
Wisconsin	12.2
Purdue	7.5
Michigan State	7.3
Iowa	7.1
Illinois	6.5
Northwestern	3.6
Indiana	2.9
Minnesota	2.5

Is four years an appropriate time period in which to expect football to show a positive return on the investment made in it, Dr. Brown asked? Despite a cumulative new investment of nearly \$17 million since 1997, cumulative new revenues total only \$2.8 million. The answer to the question is not clear, but it seemed an appropriate time to take a snapshot of the situation and ask whether the University was comfortable with the trajectory. These data do raise a question about whether football can make more money, Dr. Brown said.

In terms of average attendance at football games, the numbers have increased only nominally in the last five years:

1996	40,851
1997	44,898
1998	43,796
1999	45,551
2000	47,352

Between 1997 and 2000, attendance increased by an average of only 5%, despite two bowl games.

Dr. Brown also explained the intricacies of counting attendance at football games. There are four methods:

hand count:	fans who actually attend (they are the ones who buy the hotdogs)
paid attendance:	tickets purchased
paid plus complimentary:	tickets purchased plus free passes
reported attendance:	includes everyone in the stadium--teams, band, concessions staff, etc.

It is the last measure that most schools, including Minnesota, use. But there is a significant difference between the hand count and reported attendance: for 2000, the average hand count attendance was 36,050 while the reported attendance was 47,352.

Dr. Brown next reported attendance records for the past 50 years.

1950	50,497
1960	57,033
1970	45,093
1980	44,184
1990	40,585
2000	47,352

Average attendance for 51 years was 47,925, slightly higher than last year's attendance of 47,352. Since 1968, there have been only five seasons with average attendance in excess of 50,000; there were seventeen seasons with an average above 50,000 before 1968, and the last year average attendance exceeded 50,000 was in 1987 under Coach John Gutekunst.

The population of the metropolitan area in 1950 was 1.2 million; in 2000 it was 2.6 million; it is from this area that the football program draws most of its fans. Average attendance at Minnesota football games, however, has not changed. In 1950, average attendance represented 4.3% of the metropolitan area population; by 2000, that percentage had shrunk to 1.8%. With a stadium capacity of 67,000, and actual attendance records of about 36,000, a reinvigorated football team has not been able to draw the audiences necessary to generate the needed revenues for athletics.

The future financial challenge is that athletic expenses will continue to escalate because fixed costs (salaries, fringe benefits, utilities) will continue to increase, increases in financial aid (tuition, room and board) will also increase, and athletics--like any other auxiliary at the University--is expected to cover increases in fixed costs and other program needs by increasing its revenues, cutting its expenses, or some combination of the two.

For 1997-98 to 2000-01, average annual expenses in athletics have increased \$2,600,000; average annual revenue has increased \$604,000. There is a shortfall of nearly \$2 million per year. If the size of the program remains constant, a conservative projection suggests that annual expenses in athletics will increase by \$10.3 million in 2006-07. Projected fixed cost increases are as follows:

2002-03	3.40 million
2003-04	4.66
2004-05	6.45
2005-06	8.43
2006-07	10.32

The cumulative total is \$33 million.

For the last two years (1999-2000 and 2000-01), the revenue shortfalls have been \$950,000 and \$1,700,000. For the current year, current projections indicate a revenue shortfall in football alone ranging from \$300,000 to \$600,000, which almost certainly guarantees that athletics will again not meet its revenue projections for the year. The shortfalls the last two years have met that athletics drew on its foundation funds to a greater degree than expected in order to cover operating expenses. Unlike many academic units, athletics has no reserves to cover current or future financial problems.

Even after drawing on foundation funds, Professor Speaks asked, was there still a debt? There was, Dr. Brown said, and the programs cut \$550,000 from their budgets.

In terms of projected revenues and expenses for the next five years, the picture is bleak. Assuming the institutional subsidy and other athletic revenues are flat, the projected gaps between revenue and expenses are as follows:

2002-03	3.34 million
2003-04	4.52
2004-05	6.09
2005-06	7.75
2006-07	9.70

The cumulative shortfall is \$31.4 million. Without institutional support, projected at \$11.2 million, the gap between revenues and expenses in 2006-07 would be \$20.9 million.

The financial situation in athletics is simply no longer sustainable given the level of resources to meet future needs, Dr. Brown told the Committee. The ongoing financial challenges in athletics are occurring at the same time the University faces a new financial paradigm, brought on by increased public scrutiny of funding choices, increased accountability for budget decisions, a decreasing proportion of the budget funded by the state, and increased reliance on tuition. Athletics needs to fit into this new paradigm, Dr. Brown said. As an auxiliary unit, athletics should be fully self-supporting.--but the viability of the principle of self-support should perhaps be considered.

The inability of athletics to generate new revenues sufficient to meet their fixed cost increases and desired program growth mandates an immediate solution. There are two possibilities: increase revenues or reduce expenses.

There are four areas to which one could look to increase revenues: (I) non-revenue sports, (II) men's basketball and hockey, (III) football, and (IV) fund-raising. Increasing revenue has been the preferred strategy to address escalating expenses, Dr. Brown said. She pointed out that none of the information she is presenting includes mention of a new football stadium. A decision about a stadium

will not be a department decision, it will be a University decision, and no stadium would be built in time to help athletics in the next five years. Professor Speaks said that Men's Athletic Director Tom Moe contends that a new stadium would increase winning and thus generate more revenue. Dr. Brown acknowledged that Mr. Moe holds that view but said it was unrealistic to think any stadium could help fix problems in the next five years.

I. There is a reason non-revenue sports are called non-revenue, Dr. Brown observed. She provided a table of data on the expenses and revenue for all of the sports besides men's basketball, football, and hockey. The costs of the program range from \$1.27 million (women's basketball) to \$242,153 (women's golf). The sport that generates the highest amount of revenue is wrestling, which covers 20% of its expenses. The deficits in the non-revenue sports range from \$1.2 million in women's basketball, \$772,796 in women's volleyball, to \$307,870 for men's golf and \$237,089 in women's golf. Overall, the non-revenue sports cost \$10.6 million, generate \$728,000 in revenue, so have a deficit of \$9.8 million. None of these sports break even, nor are they expected to.

There are only limited opportunities to increase revenues in the non-revenue sports. Of the eight that do generate a modest amount of revenue (over \$5,000), Minnesota has among the highest ticket revenue in the Big Ten: in five, Minnesota has the highest in the conference; in two, Minnesota is above the average. Only in women's basketball is Minnesota below average; if it were to reach the conference average, it would generate an additional \$160,000 per year.

II. Men's basketball and hockey have only limited growth potential. They are already the most profitable in the Big Ten, but they are also sold out. Season ticket prices have increased significantly since 1996, so it is unlikely the market will bear continued increases of that magnitude. New sources of revenue include constructing "barnlofts" in Williams Arena and suites in Mariucci Arena; until the construction debt is paid off, however, there will not be additional revenues available--and any additional revenues may have to cover the debt on the new hockey/tennis facility being built.

Professor Marshak asked if there had been consideration given to playing games at Target Center or Xcel Energy Center. Dr. Brown said it is an option that should be explored.

III. Football continues to be viewed as the sport with the potential for the most revenue growth. Previous efforts to increase attendance and revenues have been unsuccessful. With a stadium capacity of 67,000, there is room to increase ticket sales revenue; the most commonly-cited explanation for the inability of the football team to fill the stadium is the lack of an on-campus stadium which would allow new sources of revenue from premium seating, suites, concessions, etc. But increasing ticket revenues may be a more significant challenge at Minnesota than at other Big Ten schools because Minnesota is an urban campus situated in a vibrant metropolitan area with a significant number of popular professional teams. These factors, Dr. Brown said, suggest a need to question whether the underlying premise--that football revenue can grow to a level sufficient to support the needs of athletics--is realistic.

If football attendance were at capacity, how much more money will it generate, Professor Speaks asked? About an additional \$3 million per year, Dr. Brown said. So that still does not solve the problem, when one considers both the revenue shortfall and the institutional subsidy, Professor Speaks said. Dr. Brown concurred.

The University does have the lowest profit in football in the Big Ten; if it had maintained the \$4-million level in 1996, the program would be better off. If one looks at the huge variation in football profits in the Big Ten, the chief variable is attendance. For athletics to be self-supporting it must cover both the \$10 million institutional subsidy and the \$2.6 million shortfall; only four schools in the Big Ten do so. One would need a lot of data before one could conclude that a stadium would be salvation of the program. Attendance is key, Dr. Brown said; if the numbers increase, revenue would increase more in a University stadium (e.g., concessions income would also belong to athletics), but even if the University had its own stadium and profits increased \$1-2 million above the \$3 million increase that would come with capacity attendance, one has to ask if that would be worth the investment that would be required (in a new stadium) in order to generate the money. A stand-alone new stadium would not improve the net profit, Mr. Pfutzenreuter said; the debt service would eat up any profit. The athletic program assumes the cost of the stadium would be shifted to the University or the state, Dr. Brown commented.

Is there unmet demand for football, Professor Chapman asked? They need to win, Dr. Brown said.

IV. Athletics raises about \$833,000 per year in private funds. It would need to increase that to \$2.2 million annually to stay even in terms of the percentage of athletic financial aid funded by the endowment. Intercollegiate athletics would like to start a new fund-raising campaign, Dr. Brown reported; it has not been discussed, but one can ask if it would be feasible; it would need three times its current endowment to stay even. If the endowment were increased by \$12 million, needed to stay even, the additional income would be about \$600,000 per year, compared to the projected revenue shortfall of about \$9.5 million in 2006-07.

The funds raised tend to be for capital projects, Mr. Pfutzenreuter pointed out; Dr. Brown added that they would like to use the funds for capital projects for non-revenue sports, but that would add facility operating costs for sports that do not generate funds.

In terms of the annual fund, athletics raises about \$1.3 million per year. To have a significant effect on the projected increase in operating expenses, the amount being raised would have to be increased significantly. Dr. Brown suggested that a feasibility study be conducted to determine the amount of endowment and annual fund dollars that could reasonably be raised in order to offset the annual increases in expenses over the next five years.

The other option for reducing the gap between revenues and expenses is to cut expenses. Revenues are not growing at a rate necessary to maintain the current size of the program; without increased subsidization from the University, athletics will have a multi-million dollar annual deficit. In accord with University policy, deficit spending is not allowed. Since revenue growth does not appear to be a realistic option, significantly reducing expenses may be the only viable option. The cost reductions available to athletics, however, such as salary freezes or reductions in financial aid, would not be enough to meet the financial challenge. Therefore, Dr. Brown said, only institutional policy decisions made outside the purview of athletics will have the necessary impact on improving the financial situation of intercollegiate athletics.

The big question is "what does the University want intercollegiate athletics to become?" Answering that requires returning to the principles set out earlier. Intercollegiate athletics plays an important role in the mission of the University, which has long recognized the significant value that

athletics adds to the institution. Benefits of a strong athletics program include opportunities for students to attain the highest level of competitive performance in amateur sport, opportunities for educational and emotional growth for athletes, opportunities for some students to attend college who might not be able to do so otherwise, and it provides the citizens of Minnesota spectator entertainment, a sense of pride, and promotes goodwill and support for the University. Specifically, the University has been unequivocal in its support of and commitment to the five guiding principles for athletics (see the bulleted items on page 6 of the MS Word version of the minutes).

Because athletics has not had the money to support all of these principles, the University has increased its subsidy over the years in order to bridge the gap. If nothing is done, however, there will be a need for additional programs cuts so there will be 23 anemic, mediocre teams; the University will continue to honor its commitment to gender equity. The cost of these principles outpaces the ability of athletics to raise money.

She will not prescribe what should be done, Dr. Brown concluded; that will be up to the administration and the Board of Regents.

Professor Speaks noted that the Committee will hold a special meeting next week to discuss the materials that have been presented today. It appears that the only realistic way to close the financial gap is to cut expenses, and that will mean cutting sports. If non-revenue sports are eliminated, that would take away the intercollegiate athletic experience from a group of students most likely to graduate on time and who are a less likely cause of scandal. Dr. Brown disagreed, saying that athletes in non-revenue sports do not perform academically any better than athletes in the revenue sports.

What struck him, something he has never heard before, Professor Marshak commented, is that there are a lot of non-reciprocity students in athletics, which could be high cost (tuition) students for the athletics programs. That raises the question of for whom the University is providing athletic opportunities. Most students at the University are from Minnesota or reciprocity states; why are so many non-reciprocity students being recruited, who do not fit the profile of the rest of the student body? Presumably it is so the teams are more competitive. This does raise a policy question, he said.

It would be possible to break down the athletes by Minnesota/reciprocity versus non-reciprocity origins, Dr. Brown said. The golf team, for example, cannot get good domestic players so it recruits overseas. One can look at athletes by team, but the reason non-reciprocity students are recruited is for competitive purposes, she agreed.

Are Minnesota's teams more successful overall, Professor Marshak inquired? They are usually among the top in the Big Ten, Professor Campbell reported.

Professor Gudeman said that the \$4.9 million debt service sticks out; is it possible to look at the components of that debt and see if any of it can be cut? If golf were eliminated, for example, it might be possible to sell the golf course and use the money to pay down the existing capital debt.

There are a number of universities with a high academic reputation but without major sports programs, Professor Chapman said; would it be possible to strip down the program to the bare minimum? The minimum number of teams the University must have to remain a member of the Big Ten and NCAA Division I-A is 14, Dr. Brown said; among those are football and basketball, which bring in a lot of

money. Suppose they do not bring in enough, Professor Chapman said; could the University go to lesser level of competition? What would the analysis look like if the University assumed the costs for a lower level of competition? Dr. Brown said she was not sure; there are a lot of ways to structure athletics. Some schools have programs that are self-supporting. Are there values in amateur competition which make it worthy of public support? Is a hybrid possible? The University does not want to cut off its nose to spite its face, she observed; if it were to move to Division III, it would have to cover all the costs of the programs. The question is what does one want to accomplish; given that, what structure and principles are needed? What plan can be developed that would meet the goals? In athletics, she pointed out, the arguments are not all based on reason; there are politics, perceptions, and tradition to contend with as well.

Professor Speaks said that if the average non-revenue sport budget is \$500,000, and nine sports were cut, that would save \$4.5 million. Presumably such a cut would also mean reduced administrative costs, so the actual savings could be \$5 – 6 million. Dr. Brown agreed that if there are fewer teams, there is need for fewer academic counselors, fewer weight/strength coaches, and so on, but there would not be immediate savings (there are long-term contracts with coaches and the University would honor the financial aid commitment to students). The longer the University waits to decide, however, the longer it will take to reduce the institutional subsidy of athletics.

Dr. Brown thanked the Committee for taking the time to hear the presentation. She noted that she would be making the same presentation to the Advisory Committee on Athletics later in the week and then again to the Board of Regents on December 14. Mr. Pfutzenreuter added that the University has also been asked to appear before the sports stadium commission on December 13; he said he did not know what that discussion would entail.

Later in the meeting, Professor Campbell commented that there appeared to be the tacit assumption that the University would continue to use O&M funding at the level of \$10 million per year. He speculated that when the news of this level of subsidy became known on the campus there will be considerable difficulty and this Committee will be asked hard questions. Professor Speaks agreed.

3. Economic Outlook

Professor Speaks now turned to Mr. Pfutzenreuter to lead a discussion of the economic outlook. Mr. Pfutzenreuter distributed copies of a series of slides and noted that there would be a new revenue forecast on December 4 [which subsequently projected a \$2 billion deficit in the state budget].

On a graph showing GDP forecasts, earlier forecasts had a line going steadily upward for the period 2001-03 and beyond. The line sloped less upward with the September forecast; the October and November forecasts are sloping down and perhaps even more down, respectively. The most optimistic numbers were used to justify tax cuts and rebates, Mr. Pfutzenreuter pointed out. Now there is a prediction for a three-quarter recession, but it is not clear how far back up the numbers will go.

In a graph of savings and consumption, July 2000 to September 2001, the savings rate up to May, 2001 was negative; when the tax rebates began flowing out, the savings rate turned positive in July, 2001, and was projected by Lehman Brothers to grow even further in September. The conclusion the bankers are drawing is that the rebate checks went into savings, not spending.

Mr. Pfutzenreuter presented a pie chart illustrating how the state budget is allocated. It goes into the following categories:

32%	K-12 education
13	property tax aids and credits
22	health and human services
3	criminal justice
10	higher education
2	environment/DNR/agriculture
2	economic development
7	transportation
3	state government
2	debt
2	family/early childhood
2	other

Higher education's percent share of total state spending since 1980 peaked at over 15% in about 1987 and has since declined steadily, to the current 10%. There is a "double whammy" when the state economic situation turns negative, Mr. Pfutzenreuter said, and it could be that higher education will suffer a disproportionate cut when the state must deal with a budget shortfall.

The state has reserves totalling \$1.2 billion, including the reserve, budget balance, and cash flow account; it is not clear how much of that money will be used to cushion a shortfall. The problem, however, is not just with the current biennium; with revenues down in December, the revenue projection for 2004 and 2005 will also be down, which could affect the bonding bill because of projected debt service for bonds.

The state appropriation to the University is expected to increase by about \$36 million in 2003 (this does not include the funds from the Medical Education Endowment). The University has received a letter from the Department of Finance asking for models of 5% and 10% cuts in the budget; a 5% cut would eliminate the expected increase. A 10% cut would require reducing the budget by \$60 million.

The underlying assumptions from June, 2001, for the 2002-03 budget were these:

Resources

- an additional \$36 million in state appropriations
- a general tuition rate increase of 11.25%
- a \$150 increase in the University Fee (from \$150/semester to \$300 per semester)
- an increase in the IRS from 3.75% to 4.6% (but nothing for new Office of Information Technology charges)
- targeted recurring budget reductions of \$1.7 million.

Expenses

- general 3% salary/fringe increase plus an additional 3% faculty increase
- new building operations and facilities inflation

- additional debt service
- additional computer science faculty
- additional "other stuff"

It is not clear what the University would do if it faced cuts of \$30 to \$60 million.

There are political dynamics at play, Mr. Pfutzenreuter told the Committee. Everyone, including the Governor, is up for re-election. There will be redistricting; the timeline for that plan may conflict with the end of the legislative session. Will the Governor and the legislature work together? There is the House versus the Senate, Democrats versus Republicans, the issue of homeland security and the mood in the state, and the capital bonding session.

Professor Speaks thanked Mr. Pfutzenreuter for his presentation and adjourned the meeting at 4:15.

-- Gary Engstrand

University of Minnesota