

## SUMMARY

Intercollegiate athletics is an important part of OSU's operations and makes a major contribution to our students, the university, and the community. However, the program has operated at a deficit for the last three fiscal years and projections show that significant changes in the operating model are required to run a competitive and financially sustainable PAC-12 athletics program.

The interim Vice President for Finance and Administration and the Interim Provost convened a working group to review the current operations of athletics and to make recommendations on strategies to develop a sustainable operating model.

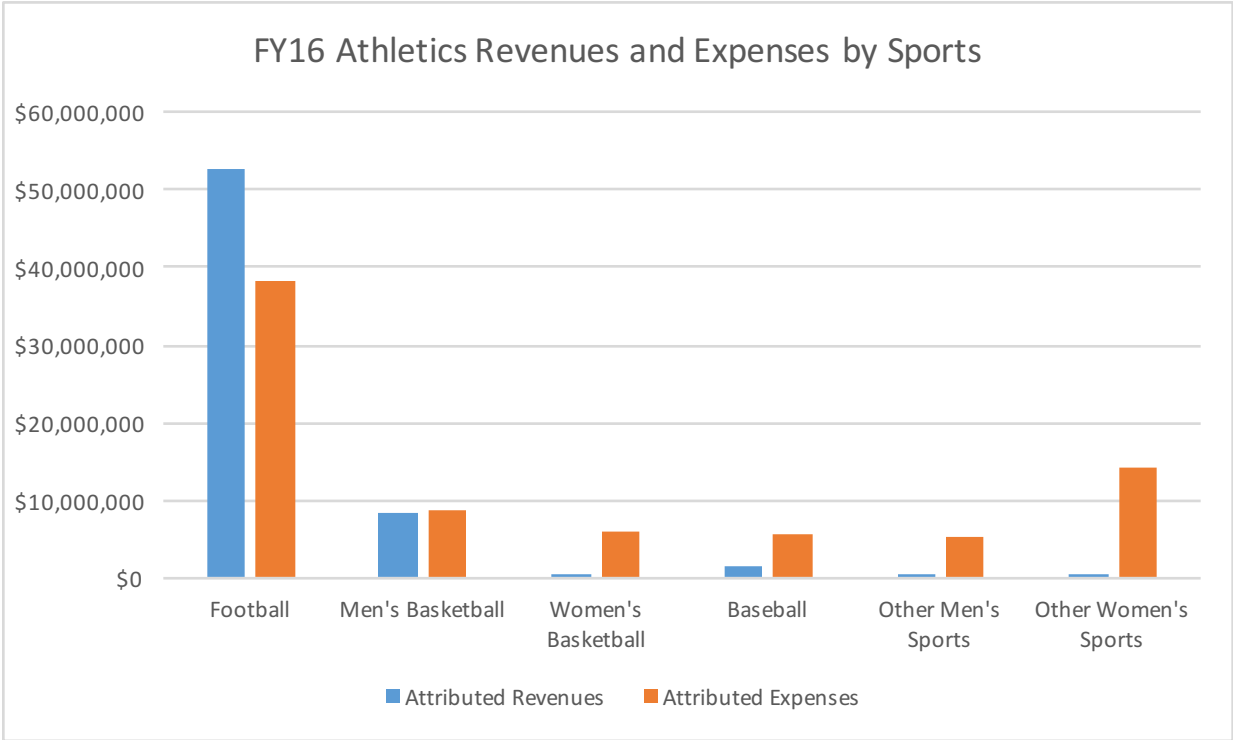
Some of the principal observations of the workgroup are:

- Membership in the PAC-12 enhances OSU's academic reputation, has some positive impact on recruiting undergraduates, and affords us national visibility we would not have otherwise.
- Athletic events provide an opportunity for student athletes and other students (band, trainers, student workers) to develop as individuals outside the classroom. They also provide many students a point of common participation, a sense of community, and can be a focus of engagement outside of the classroom.
- Annual spending by visitors to Corvallis for athletics events has a large impact on the local economy.
- There were multiple reasons for the operating deficits beginning in FY14
- Athletics provides a net positive contribution to Education and General funds if all of the sources of support (including non-scholarship student athletes) and all payments are taken into account (about \$5M net in FY15)
- Football generated direct net revenues of over \$15M in FY16 which help support general athletics operations and the costs of other sports. E&G support to athletics is largely for sports other than football and men's basketball.
- OSU's level and types of spending are not out of line with peers in the PAC-12 and nationwide.
  - OSU's level of spending is in the lower third of the PAC-12 and the changes in spending are not unusual for our peer universities. OSU is unusual in that total revenues declined somewhat from 2013 to 2015.
  - OSU's proportion of expenditures for coaches and staff is at the low end of peers but spending in "other expenses" is higher than the average for peers.
  - Ticket and gift revenues as a portion of total revenues are low at OSU compared to peers. The most unusual difference is the degree to which gifts as a proportion of operating revenues have declined in recent years.

Table 1 Summary of revenues and expenses for Athletics

Summary of Athletics Budgets, FY13 through FY17					
Reconciled to Banner Ending Net Working Capital					
The yellow highlighted line is the operating deficit (depreciation is another subject!)					
<b>Table 1: Master Budget Summary</b>					
REVENUES:	FY13	FY14	FY15	FY16	FY17
Ticket Sales	\$ 10,909,633	\$ 10,260,883	\$ 11,416,114	\$ 9,947,667	\$ 10,329,150
Pac-12/NCAA	\$ 23,895,692	\$ 23,345,359	\$ 26,941,370	\$ 29,979,367	\$ 31,427,806
Student Fees	\$ 2,565,348	\$ 2,502,830	\$ 2,502,549	\$ 2,597,200	\$ 2,673,568
Lottery Proceeds	\$ 784,243	\$ 440,000	\$ 440,000	\$ 453,200	\$ 453,200
Gifts, Grants and Booster Receipts	\$ 12,658,820	\$ 10,708,792	\$ 8,314,600	\$ 7,299,152	\$ 8,112,000
Foundation Support for Plant Funds					
Other Revenue	\$ 5,733,582	\$ 5,391,291	\$ 8,449,851	\$ 9,415,683	\$ 11,439,000
Institutional Support	\$ 3,645,702	\$ 3,354,375	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
<b>TOTAL REVENUE:</b>	<b>\$ 60,193,022</b>	<b>\$ 56,003,530</b>	<b>\$ 62,064,484</b>	<b>\$ 63,692,269</b>	<b>\$ 68,434,724</b>
EXPENSES:	FY13	FY14	FY15	FY16	FY17
Salaries & OPE	\$ 18,851,334	\$ 20,048,130	\$ 23,033,041	\$ 24,411,377	\$ 26,649,104
Team Travel	\$ 5,181,556	\$ 3,459,827	\$ 3,564,313	\$ 3,852,937	\$ 3,764,100
Home Events	\$ 2,203,544	\$ 2,736,129	\$ 3,174,062	\$ 3,468,040	\$ 3,352,300
Promotions	\$ 2,008,565	\$ 2,341,892	\$ 2,519,576	\$ 2,553,630	\$ 2,613,795
Recruiting	\$ 1,071,164	\$ 1,021,218	\$ 1,079,305	\$ 1,089,375	\$ 1,048,900
Financial Aid	\$ 8,895,563	\$ 9,450,699	\$ 9,459,689	\$ 10,284,009	\$ 11,973,927
Equipment, Uniforms, Supplies	\$ 1,041,353	\$ 952,103	\$ 3,341,332	\$ 3,544,640	\$ 3,781,000
Facilities Operations and Debt	\$ 10,123,856	\$ 9,689,983	\$ 10,209,575	\$ 9,931,521	\$ 10,978,700
Facilities Operations					
Foundation Expenditures	\$ -	\$ 2,220,400	\$ (150,133)	\$ (107,703)	
Other Expenses	\$ 9,283,182	\$ 9,997,669	\$ 13,269,782	\$ 13,965,319	\$ 13,707,280
Depreciation	\$ 5,274,948	\$ 5,988,247	\$ 5,165,313	\$ 4,579,864	\$ 5,988,247
Net Transfers (In) / Out	\$ 199,388	\$ (29,486)	\$ 310,000	\$ 140,000	\$ 440,000
<b>EXPENSES:</b>	<b>\$ 64,134,452</b>	<b>\$ 67,876,812</b>	<b>\$ 74,975,855</b>	<b>\$ 77,713,009</b>	<b>\$ 84,297,353</b>
<b>Operating Balance:</b>	<b>\$ (3,941,431)</b>	<b>\$ (11,873,282)</b>	<b>\$ (12,911,371)</b>	<b>\$ (14,020,740)</b>	<b>\$ (15,862,629)</b>
Beginning Net Working Capital	\$ (4,219,205)	\$ (3,335,964)	\$ (10,846,043)	\$ (21,499,118)	\$ (30,823,803)
Operating balance less depreciation	\$ 1,333,517	\$ (5,885,035)	\$ (7,746,058)	\$ (9,440,876)	\$ (9,874,382)
Net Additions or Deductions	\$ (450,276)	\$ (1,625,044)	\$ (2,907,017)	\$ 116,191	\$ -
Ending Net Working Capital	\$ (3,335,964)	\$ (10,846,043)	\$ (21,499,118)	\$ (30,823,803)	\$ (40,698,185)
<b>Direct institution \$ as % of expense:</b>	5.7%	4.9%	5.3%	5.1%	4.7%
<b>Student fees as % of expense</b>	4.0%	3.7%	3.3%	3.3%	3.2%
<b>Financial aid as % of expenses</b>	13.9%	13.9%	12.6%	13.2%	14.2%

Figure 1 Attributed revenues and expenses by sport (including direct and indirect expenses)



What is the net budget impact of athletics on the Corvallis Education and General Budget?

Institutional support from Education and General funds is an important part of the budget for athletics, but are there many transfers of funds from athletics to the E&G budget too.

In FY16, Athletics provided direct revenue to the Education and General fund (Table 3) through:

- Tuition and fees paid for scholarship athletes<sup>1</sup> (\$7.85M)
- Reimbursements for business and support services (\$1.50M)
- Net tuition and fees paid by non-scholarship athletes, most of whom would not have attended OSU without the opportunity to play Division I sports (\$4.97M)

These total revenues total \$14.32M.

Athletics also contributes to E&G revenues in some indirect ways:

- The band, cheerleading, and student athletic trainers engage about 350 students a term. If 25% of those students had attended another institution for opportunities to work with an athletic program OSU would have lost \$1.28M
- Athletics employs over 130 workers last year at total wages of about \$430,000. These funds augment financial aid that those students would otherwise have needed to attend OSU.

These indirect contributions total \$1.72M, with the total direct and indirect revenues totaling \$16.03M.

The University provides support to Athletics through:

- Direct institutional support, transferred to the Athletics budget (\$4.00M)
- Support for the Services for Student Athletes office in Academic Affairs (\$0.83M)
- Support for compliance, oversight, and support functions including the Faculty Athletics representative and NCAA compliance positions in enrollment management (\$0.24M)
- Business and support services (\$1.50M, offset by assessments to Athletics)
- Student fees passed through to fee-funded units for student athletes (\$1.76M--offset by fees paid from Athletics and student-athletes)
- Partial facilities support for Gill Coliseum (\$0.25M)

These total \$8.58M.

There are also some marginal costs in delivering academic program to student athletes and the students associated with athletic programs. Student athletes are less than 2% of the total student population so their marginal overhead cost is assumed to be the cost of providing direct course access. If it costs \$7000 to add one section of a 3-credit course for 25 students, it is

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<sup>1</sup> OSU has about 500 student athletes at a time, supported by 257 FTE of scholarships spread over about 320 students. 75% of the student athletes participate in non-revenue sports and 41% of student-athletes are women.

estimated the marginal delivery costs for the students involved (assuming 45 credit per year loads) are about \$2.46M. The student athletes are majoring in 9 different colleges with the highest numbers in PHHS (117), Liberal Arts (95), Business (78), and UESP (58).

These estimates for the direct and indirect costs for supporting Athletics total \$11.04M, leaving a positive contribution margin of about \$5M. Table 3 provides details of these estimates.

These estimates do not include indirect financial benefits to OSU from Athletics including the value of advertising through various broadcasts, indirect marketing for undergraduate recruiting, and the economic impact of sports tourists for the City of Corvallis, which is an important part of OSU's partnership with the City (estimated at \$31-36M annually based on reviews by ECONorthwest in 2011 and 2014).

It should also be noted that there are costs to OSU, at least for a number of years, if we did not have an Athletics program. Debt service on existing facilities is \$8.7M annually, declining to about \$5.8M in FY23 and remaining there for ten years. If the University operated some of those facilities for recreational sports or other activities there would be some operational costs. The loss of tuition from scholarship athletes would be about \$6.9M. OSU might be able to replace those students over time, but recruiting non-resident students in general is challenging.

It is often assumed that institutional support for athletics is subsidizing the high-profile and high-cost operations of men's football. However, men's football returns substantial net revenues to athletics (Figure 3), even after accounting for debt service on the stadium. Net revenues from football, institutional support, private donations (Our Beaver Nation), and other broadcast and licensing incomes support most of the other sports programs and most of the student athletes at OSU.

Athletics also receives some support from student fees (about \$2.6M in FY16) or about \$87 per student headcount. The fee income at other public PAC-12 Athletics programs ranges from zero (UW) to \$10.1M (ASU). Some programs charge for tickets instead of fees, or provide discounted pricing for student tickets. The average revenue for programs with fees (or associated ticket sales) is \$2.87M, or \$69 per student (most of the other public PAC-12 schools are larger than OSU). OSU's student fee is based on a 50% discount of market value and provides premium seating at events including 6000 seats at football and 2500 seats at men's and women's basketball.

**Table 3: Estimate of net Athletics Contribution to E&G**

Direct Revenues to E&G related to Intercollegiate Athletics	FY16 Estimates
Tuition Paid to University for Scholarship Athletes	6,942,622
Fees Paid to University	904,249
F&A Assessments Paid to University	1,500,000
Tuition paid by non-scholarship athletes	4,114,476
Student fees paid by non-scholarship athletes	854,990
<b>Subtotal:</b>	<b>14,316,337</b>
Indirect Revenues to E&G or in Support of Students	FY16 Estimates
25% of Tuition Paid by Associated Students (~87)	1,281,947
Hourly pay to student workers (financial aid proxy)	436,230
<b>Subtotal:</b>	<b>1,718,177</b>
<b>Total Revenues in Support of E&amp;G</b>	<b>16,034,514</b>
Expenses to E&G related to Intercollegiate Athletics	FY16 Estimates
Institutional Support	4,000,000
F&A Services Costs	1,500,000
Services for Student Athletes	828,942
Faculty Athletics Representative	85,000
Fees moved to appropriate self-support units	1,759,239
NCAA Compliance Positions	156,833
Gill Facilities Support*	250,000
<b>Subtotal:</b>	<b>8,580,014</b>
Expenses for educating 587 student athletes	FY16 Estimates
Marginal support costs for 587 students**	2,466,450
<b>Subtotal:</b>	<b>2,466,450</b>
<b>Total Associated Expenses to E&amp;G</b>	<b>11,046,464</b>
<b>Estimated Contribution Margin</b>	<b>4,988,050</b>

\*Gill is one of a small number of legacy agreements to support auxiliary

\*\*Student athletes are less than 2% of the total student population so their

Note: tuition for the non-scholarship athletes is estimated at the net tuition (after institutional aid) of the current mix of resident and non-resident student. The assumption is that recruiting replacements for those students, whether resident or non-resident, would be challenging in the current enrollment environment.

Table 2

**Table 6. Comparisons of revenue sources and expenditure categories for 2013, 2014, and 2015 between OSU and a selected group of peer institutions (noted below the table). The balance of operating revenue comes from rights and licensing revenues and other funds. The change in "School Fund %" for revenues in 2015 comes from a change in how depreciation was accounted for in that report (it was included in school funds in 2013 and 2014 and not included in 2015).**

	<b>TOTAL REVENUES</b>	<b>Ticket %</b>	<b>Gift %</b>	<b>Fees %</b>	<b>School Fund %</b>
OSU 2013	\$65,467,970	16.7%	19.3%	3.9%	14.8%
OSU 2014	\$63,301,794	15.9%	16.9%	4.0%	15.5%
OSU 2015	\$64,876,006	16.9%	15.1%	3.9%	6.8%
Peer Avg 2013	\$62,236,088	21.0%	20.4%	4.6%	7.4%
Peer Avg 2014	\$69,773,741	19.5%	21.5%	4.3%	7.9%
Peer Avg 2015	\$72,852,926	18.5%	19.5%	5.2%	6.1%

	<b>TOTAL EXPENSES</b>	<b>% Coaching/ Staff</b>	<b>% Scholarships</b>	<b>% Buildings</b>	<b>% Other</b>
OSU 2013	\$64,185,065	29.3%	13.9%	16.2%	40.6%
OSU 2014	\$73,020,003	27.4%	12.9%	14.8%	44.8%
OSU 2015	\$72,557,984	28.6%	13.1%	18.1%	40.2%
Peer Avg 2013	\$61,728,124	35.5%	14.7%	14.0%	36.1%
Peer Avg 2014	\$69,017,400	34.8%	13.8%	17.0%	34.6%
Peer Avg 2015	\$72,181,144	35.8%	13.7%	17.3%	33.3%

Arizona, Arizona State, Colorado, Washington State, Utah, Purdue, Iowa State, North Carolina State, Virginia Tech, Kansas State