UNIVERSITY OF MINNESOTA

CURRENT AND FUTURE FINANCIAL CHALLENGES IN INTERCOLLEGIATE ATHLETICS

by

The Office of the Vice President and Chief of Staff
University of Minnesota

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INTRODUCTION

Intercollegiate Athletics (ICA) plays an important role in the life and mission of the University of Minnesota. For students, it affords an opportunity to attain the highest level of competitive performance in amateur sport, an opportunity for educational and emotional growth for those who participate, and an opportunity to attend college to those who might not otherwise do so. For all citizens of the State of Minnesota, it provides spectator entertainment and promotes goodwill and support for the University.

The University community has long recognized the significant value that ICA adds to this institution. Specifically, the University has been unequivocal in its support of, and commitment to, the following five principles:

- 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;
- Developing and maintaining competitive excellence in Division 1A revenue sports;
- Maintaining existing levels of competition; and
- Preserving separate athletic departments for men's athletics and women's athletics.

These principles were intended to guide ICA management decisions which have, in turn, shaped ICA at the University of Minnesota into what it is today, a high-quality athletics program. While each of these principles is admirable, it has become clear that the financial costs associated with collectively maintaining these ideals are rapidly outpacing resources available to uphold them.

The Office of the Vice President and Chief of Staff (VPCOS) initiated a comprehensive review of the financial status of Intercollegiate Athletics in FY01 to ascertain the cause of persistent financial difficulties in ICA. A combination of factors has made it possible to conduct a thorough and substantive analysis of Intercollegiate Athletics finances:

- the decision to move executive oversight of ICA to the Office of the President (through the VPCOS) which eliminated conflicts of interest;

- the constitution of an Athletics Financial Group (AFG) to better manage the ICA department finances;

- the decision to combine athletics revenue streams and transfer responsibility for those funds from the athletics departments to the VPCOS; and

- the establishment of uniformity in record keeping within the athletics departments to allow an accurate comparison of data between the departments and with peer institutions.

The review of Intercollegiate Athletics finances revealed the following:

- Revenues generated by athletics are not sufficient to cover current expenses, requiring the University to subsidize almost $10.1M of athletics expenses annually, fully 23% of ICA's operating expenses.

- For the last two years, ICA has not met its revenue projections. Specifically, the revenue shortfall in FY00 was $950K, and in FY01 was $1.7M. Both departments have had to draw down extra foundation funds at higher than expected levels to compensate for revenue shortfalls which will negatively impact their respective foundation accounts for future years.

- Projections indicate that the minimum cumulative increases in ICA expenses will exceed $33M over the next five years.

- ICA has no reserves to meet current, or future, financial needs.

Like many of its peer institutions around the country, the University of Minnesota is facing increased accountability for budgetary decisions and a decreasing level of state funded support. This heightened scrutiny comes at a time when public universities are also focusing on the issue of escalating athletic expenses. The Board of Regents has also stated its expectation that the administration increase efficiency across all levels of the University, and identify programs that are financially at risk. The policy implications of the current and future financial challenges facing athletics must therefore be viewed in the context of the larger financial challenges being faced by the University as a whole.

The following report details the current financial standing of Intercollegiate Athletics, projects upcoming financial obligations, and identifies the major policy issues that must be addressed in order to develop meaningful long-term reform of Intercollegiate Athletics finances at the University of Minnesota.

INTERCOLLEGIATE ATHLETICS:
THE CURRENT FINANCIAL PICTURE

BACKGROUND

The University of Minnesota's Intercollegiate Athletics Department consists of two primary units, Men's Intercollegiate Athletics (MICA) and Women's Intercollegiate Athletics (WICA), and two secondary units, Athletics Facilities and Trademarks/Licensing (all of which are collectively referred to as Intercollegiate Athletics). In addition, there are two University units (Academic Counseling and Athletics Compliance) that provide support exclusively for ICA and several units (Facilities Management, Office of Student Financial Aid, and Office of the Registrar) that provide support more indirectly to ICA.

In many respects, ICA compares favorably to its peers in the Big Ten in terms of certain benchmarks, including the number of student athletes, the number of teams, and the size of the expense budget.[1]

BIG TEN ATHLETIC DEPARTMENT COMPARISON BY ATHLETES, TEAMS, & BUDGET
FY00

	Student Athletes	No. of Sport Teams	Total Budget
Minnesota*	635	22	$40,943,332
Big Ten Average	725	24	$40,286,445

**Note: For FY01, the University has 23 teams (rowing was added), and 721 student athletes.*

The revenue comparison, however, is less favorable. ICA generates $8M less in revenues than the average in the Big Ten. It is only because the University provides a

[1] Throughout this report, data is provided as follows: comparative data with other institutions : comes from the Equity in Athletics Disclosure Act Report (EADA) and Big Ten Financial Report. comparing the University to other Big Ten institutions, however, we will indicate final FY01 University of Minnesota, and budgeted information for FY02.

substantial level of institutional financial support that ICA's total revenues appear consistent with the average within the Big Ten.

U OF M AND BIG TEN REVENUES
FY00

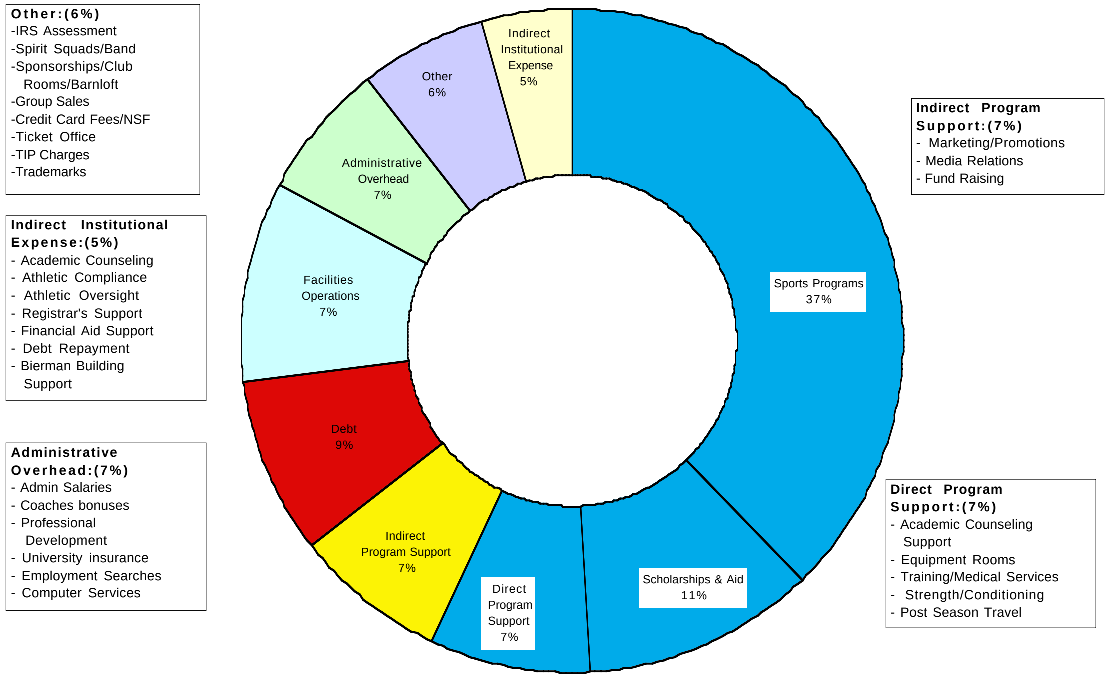
	Big Ten Average	U of M	Difference	Rank
Total Revenue (includes all institutional support)	$40,475,601	$40,053,229	($422,372)	5/11
Revenues Generated by Athletics (less institutional support)	$39,082,600	$30,944,369	($8,138,231)	8/11

Expenses

In FY01, total expenses[2] for athletics was $44.9.M. A detailed breakdown of athletics expenses is detailed below:

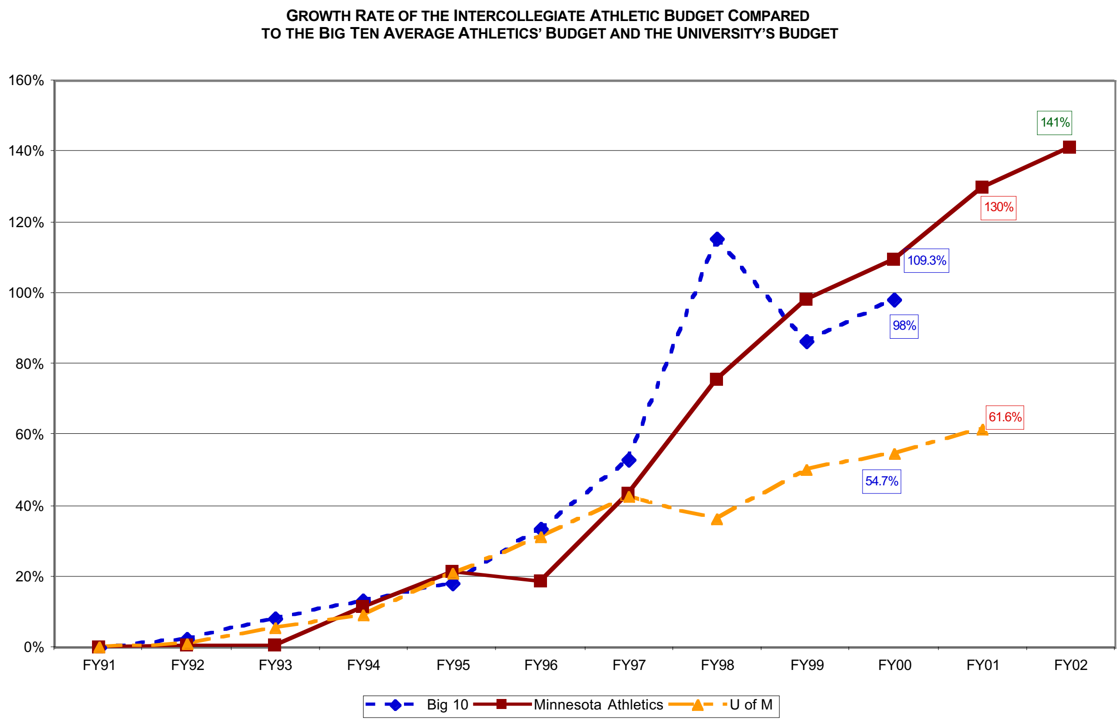
[2] Total expenses for athletics is distinguished from total expenses for ICA because it reflects athletics at the University, including $2M of indirect institutional support that is not inclu expenses, but rather, is reflected in other University units (i.e., Facilities Management, Registrar's Office). ICA's actual direct expenses in FY01 were $42.8M paid from ICA expense accoun

Total University Athletic Expense by Unit Function
FY2000-01
($44.9M)



For FY02, total expenses (including expenses funded by University support) for athletics are budgeted at approximately $47.1M.

Between FY91 and FY02, athletics expenses increased from $19.6M to $47.1M (budgeted), a 141% increase. As the following chart depicts, as of FY00, ICA growth is following the same trajectory as athletics spending at peer institutions in the Big Ten, which is twice the growth rate of the University's overall increase in expenditures.[3]

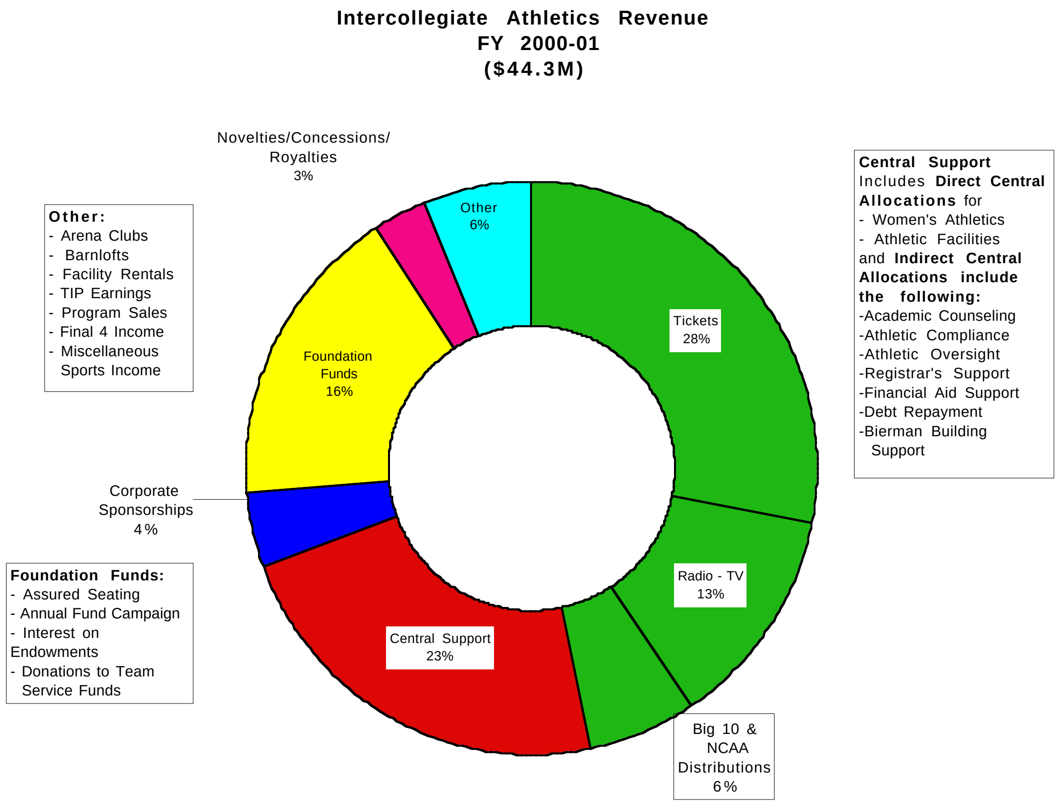


Note: *In FY98, Ohio State reported a capital expense of $82,159,369 and Wisconsin reported a capital expense of $32,327,560 which skewed the Big Ten average in that year.*

[3] Over the period FY91 to FY00 the University's total Educational and General (E&G) expenditu transfers on the Twin Cities campus increased by 50%, from $1,002,734,089 in FY91 to $1,502,249,53 E&G expenditures and transfers include the funds spent on all primary activities. They do not i spent on auxiliaries or the hospital (e.g., parking, athletics).

Revenues

The revenues that support the athletics enterprise come from a variety of sources:



Football, men's basketball, and men's hockey are responsible for approximately $24.7M (72%) of the $34.2M in revenues generated by athletics. For purposes of this report, football, men’s basketball, and men’s hockey are considered revenue sports because they are the only sports at the University of Minnesota that generate revenues in excess of their direct expenses and scholarships. The profits generated by these three sports for FY01 are listed below.

U OF M REVENUE SPORTS AND NON-REVENUE SPORTS COMPARISON
FY2000-01

Sports Program	Direct Program Expense	Scholarship	Total	Revenue Generated	Profit/ (Loss)
Basketball	$2,671.8	$89.0	$2,760.8	$9,059.5	$6,298.7
Men's Ice Hockey	$1,217.6	$194.9	$1,412.5	$5,457.5	$4,045.0
Football	$6,223.2	$1,052.6	$7,275.8	$10,253.0	$2,977.2
Subtotal	$10,112.6	$1,336.5	$11,449.1	$24,770.0	$13,320.9
All Other Sports (20)	$7,821.3	$3,773.6	$10,582.9	$727.6	($9,855.3)

Note: 1) $'s in thousands
2) Fifth-year aid and Summer School are not included as an expense.

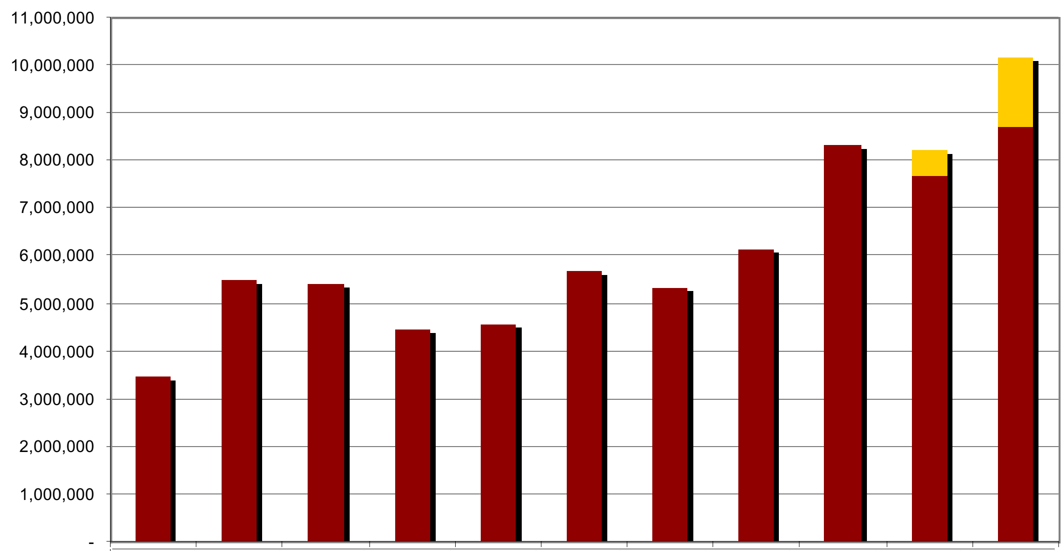
The two most profitable revenue sports at the University of Minnesota are men's basketball and men's hockey. In FY00, men's basketball and men's hockey also ranked first in the Big Ten in both revenues and net profits. In contrast, football is the University's least profitable revenue sport and ranks last in the Big Ten in both revenues and net profits (FY00 data).

After accounting for revenues generated by sports programs, the next largest source of revenues supporting athletics is the University.

Institutional Support

Over the last ten years, the proportion of athletics revenues funded by the University[4] has increased from 17.6% to 23%. In FY91, institutional financial support to athletics totaled $3,457,759 ($739,259 institutional support plus $2,718,500 from the State Special for women's athletics).[5] By FY01, the University's financial support for athletics had increased to $10.1M, which represents 23% of total athletics revenues.

INSTITUTIONAL SUPPORT
OF INTERCOLLEGIATE ATHLETICS



	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
State Special for WICA	2,718,500	2,684,926	2,684,928	2,732,187	2,979,975	3,079,975	3,200,950				
Institutional Support	739,259	2,800,508	2,709,955	1,720,081	1,567,031	2,595,476	2,140,444	6,118,581	8,331,087	7,682,738	8,715,773
Other Institutional Support	*	*	*	*	*	*	*	*	*	1,164,849	1,435,928
TOTAL	3,457,759	5,485,434	5,394,883	4,452,268	4,547,006	5,675,451	5,341,394	6,118,581	8,331,087	8,847,587	10,151,701
Percent of Athletics Total Budget	17.6%	28.0%	27.4%	20.4%	19.2%	24.4%	21.4%	20.9%	24.3%	21.6%	22.9%

For FY00 and FY01, this chart reflects total expenses for athletics. Institutional support includes WICA, athletic facilities, athletic compliance, and academic counseling. "Other" institutional support includes Registrars Office, Financial Aid, athletics oversight, capital debt, and facilities management. While we believe similar types of "other" institutional support

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4 The University funds its portion of ICA revenues from the operations and maintenance (O&M) appr received from the State of Minnesota.

5 In 1976, the legislature dedicated a $75,000 line item appropriation for WICA called The Women State Special (the "State Special"). By FY97, the State Special had increased to $3.2M. In FY Special for women s athletics was deleted as a line item from the University s overall state app instead was incorporated into the general operation and maintenance state appropriation.

was provided to athletics in earlier years, because of the difficulty in quantifying those amounts, they are not included for FY91 to FY99.

In FY01, the $10.1M in institutional[6] support of athletics was allocated as follows:

INSTITUTIONAL SUPPORT
INTERCOLLEGIATE ATHLETICS
FY01

Description	Amount
Women's Intercollegiate Athletics	$7,108,965
Athletics Facilities	$1,008,428
Subtotal Direct Support	**$8,117,393**
Academic Counseling (EVPP)	$371,298
Registrar's position (EVPP)	$48,529
Financial Aid position (EVPP)	$56,364
Athletics Compliance (OGC)	$227,082
Athletics Oversight (VPCOS)	$323,592
Capital Debt (Central)	$370,443
Facilities Management-Bierman (VPUS)	$637,000
Subtotal Indirect Support	**$2,034,308**
Total	**$10,151,701**

Based on the most recent comparative data for FY00, the following list depicts the amount of institutional/state financial support provided by Big Ten peers and other public institutions with separate athletics departments and the percentage it represents of the total athletics revenue budget at each institution:

[6] The combination of all athletic revenues into one central account has rendered the continued a institutional support to WICA and Athletic Facilities as a distinction without substance.

Comparison of Institution/State Support to Total Athletics Budget FY00

Big Ten Institutions	Institutional Support	Support as a % of Total Revenues
Minnesota	$8,847,587	21.6%
Northwestern	$6,004,772	24.4%
Illinois	$3,084,420	9.0%
Wisconsin*	$3,204,090	8.3%
Iowa	$1,856,993	5.2%
Big Ten Average	$1,459,110	3.6%
Indiana	$266,721	0.9%
Michigan	$174,100	0.4%
Michigan State	0	0.0%
Ohio State	0	0.0%
Penn State	0	0.0%
Purdue	0	0.0%
Other		
Texas	$3,082,271	6.0%
Arkansas	$1,035,552	3.6%
Tennessee	0	0.0%

**Includes $661,090 of State Aid.*

The level of institutional financial support that the University provides to athletics is out of alignment with its peers in the Big Ten and other comparable public institutions. As previously stated, in FY01 the level of institutional support was $10.1M and will increase to approximately $10.6M in FY02. The University's future financial support of ICA is projected as follows:

Projected Institutional Support of Athletics

Amount of

Institutional Support

FY03	$10,791,911
FY04	$11,287,065
FY05	$11,285,947
FY06	$11,256,924
FY07	$11,224,246
Total	$55,846,093

Note: Projections are based on the FY02 budgeted base plus central debt payments.

ANALYSIS

As an auxiliary operation, ICA is intended to be a fully self-supporting unit. That is, all revenues generated by Intercollegiate Athletics are intended to support all expenses associated with Intercollegiate Athletics. This is the expectation at most other Division I programs where revenues generated primarily by men's football and basketball are expected to be the primary means of support for all athletics operations and overhead.[7] While existing historical records don't reveal that ICA has ever been fully self-supporting, it is clear that the trend is moving toward more institutional support each year, not less. Understanding how the University came to be in the position of subsidizing such a large proportion of ICA's expenses requires an appreciation of the institutional policy decisions that have defined the extent of the University's investment in ICA, and an appreciation of the underlying factors that exist within ICA that influence the amount of institutional financial support ICA currently requires.

As stated earlier, the University has been unequivocal in its support of, and commitment to, the following five principles:

- 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;

[7] Although many Division I programs operate at a deficit, the level of financial subsidization re programs is not comparable to the level of financial support the University provides to ICA.

- Developing and maintaining competitive excellence in Division 1A revenue sports;
- Maintaining existing levels of competition; and
- Preserving separate athletic departments for men's athletics and women's athletics.

However, ICA has been unable to meet the increasing financial obligations necessary to support all of these principles simultaneously. Consequently, the University has had to substantially increase its subsidization of ICA over the years to bridge the gap between the costs of upholding these principles and the resources available within athletics to meet those costs. The prevailing assumption is that the amount the University invests in ICA is simply a reflection of the cost of maintaining a high quality women's athletics department. Not only is the premise underlying this assumption incorrect[8], but the combination of all athletics revenues (including institutional support) into one central account has rendered this a distinction without substance. Furthermore, the University's investment in ICA is not just about fulfilling a commitment to women's athletics.[9] In fact, Big Ten institutions and other universities throughout the country have managed to develop successful women's athletics programs without the level of institutional financial support the University provides. Rather, the level of the University's investment in ICA is a result of fulfilling its commitment to all five of the stated priorities for Intercollegiate Athletics.

In order to properly evaluate the financial challenges facing athletics, the University must reframe the issue to acknowledge the fundamental reality of the present situation:

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[8] The mischaracterization of the true rationale for the magnitude of institutional investment in an erroneous belief (shared by both departments) that revenues generated by men s sports are i support men s athletics, and that women s athletics is the primary responsibility of central admin practical implication of this premise is to effectively exempt profits generated by men s footbal hockey from responsibility for supporting fully 1/4 of program costs. From a management persp consequence of this logic is highly problematic because it: a) creates a disincentive to cont spending at the departmental level, b) encourages independent decision-making at the departme without appropriate regard for the potential impact of such decisions on collective long-term co accountability because neither department is "responsible" for the whole of athletics, and d) perception that central administration is available to fix inequities that are created and rescue excesses.

[9] While the University is committed to eliminating inequities between men's athletics and women' the magnitude of the University's investment in women's athletics can primarily be attributed to keep pace with growth in men's athletics. For example: the soccer and softball facilities were to the decision to invest $8M in football facilities; the addition of a women's rowing team was growth in the number of male student athletes that put the University further out of alignment proportionality; and the renovation of Bierman (which benefited both units) was in resp disproportionate growth in space allocated to men's athletics.

ICA's expenses exceed its ability to generate revenues by $10M per year. Specifically, the University's escalating subsidization of athletics can be directly attributed to efforts to compensate for the fact that ICA is out of alignment with its peers in the Big Ten in each of the following areas: excessive expenses (administrative overhead and debt service) and inadequate revenue generation (football and fundraising).

Administrative Support

By isolating administrative expenses from program (i.e., team) expenses, debt service, and capital expenses, ICA spends somewhat less on administrative support than the Big Ten average as noted below.

U of M and Big Ten Expense Comparison
FY00

	Big Ten Average	U of M	Difference	U of M Rank
Total Sports Budgets (Men's & Women's Sports Programs)	$20,966,935	$19,939,012	($1,027,923)	7/11
Total Administrative 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)	3/11
Total ICA Expense Budget (Sports Budgets, Administrative Expenses, Indirect Support)	$40,286,445	$40,943,332	$656,887	5/11

However, because administrative costs are a function of the number and composition of athletics teams, a more relevant comparison can be drawn by evaluating the University's administrative support costs against those of Big Ten schools that field a comparable number of intercollegiate sports. Thus, Minnesota (23 teams) is not comparable to Ohio State (35 teams), Penn State (29 teams), and Northwestern (18 teams). When compared to similar institutions within the Big Ten, Minnesota's administrative expenses are $1.8M higher than the average.

U of M and Big Ten Expense Comparison
FY00

	Average of Similar Big Ten Schools*	U of M	Difference	U of M Rank
Total Sports Budgets (Men's & Women's Sports Programs)	$20,276,466	$19,939,012	($337,454)	5/8
Total Administrative 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 ICA Expense Budget (Sports Budgets, Administrative Expenses, Indirect Support)	$35,944,122	$40,943,332	$4,999,210	3/8

**"Similar Schools" include Illinois, Indiana, Iowa, Michigan, Michigan State, Purdue, Wisconsin.*

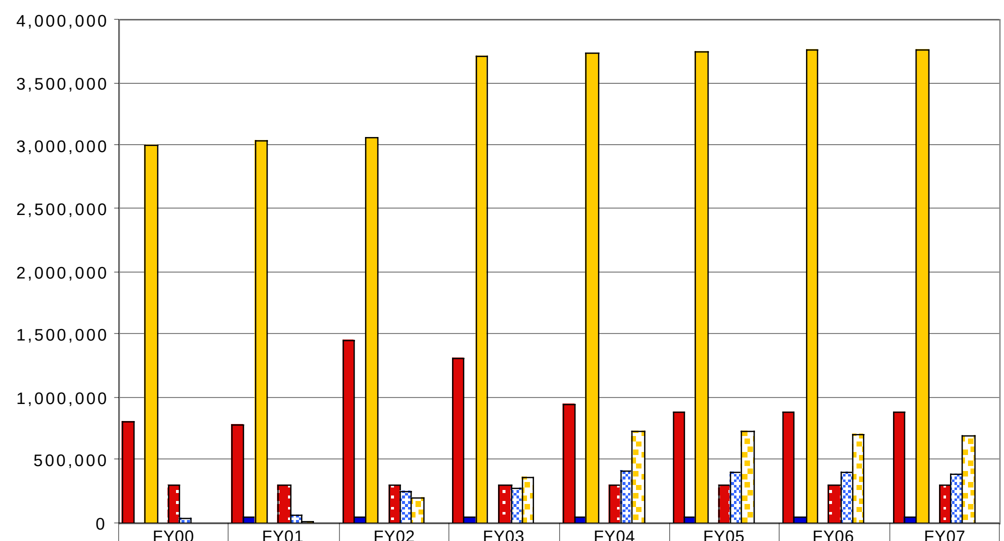
Excessive administrative costs are a factor in explaining why ICA's costs are out of alignment with comparable institutions. While it cannot be established from the available data that the University's separate department structure accounts for this disparity, it is a reasonable assumption that the inefficiency created by the separate department structure contributes to increased administrative costs. Unlike our Big Ten peers, the University not only has separate management for MICA and WICA, but separate administrative operations in the following areas: marketing and promotions, fundraising, media relations, athletics training, strengthening and conditioning, business operations, travel, etc. From a financial perspective, it is indisputable that this structure has created redundancy and duplication. From a management perspective, the lack of coordinated financial planning between MICA and WICA, the absence of consistent management decisions and strategies, and the failure to jointly evaluate and consider the long-term impact of financial decisions has also contributed to the financial exigency facing ICA.

Debt Service

Another proportionally higher expense for ICA is the amount the University expends on debt service for athletics facilities. Over the last ten years, $49M has been invested in new and renovated athletics facilities. This is in addition to the $34.8M of remaining debt on athletic facility projects initiated prior to 1990. While a portion of these new projects has been funded out of gifts, most have been funded with debt. By FY02, debt service on athletics facilities will total $5.3M and will increase to $6.1M by FY04.

The following chart and table depict how debt service is allocated between MICA and WICA projects, whether MICA, WICA, or the University is responsible for payment, and how Minnesota compares to its peers in the Big Ten.

Breakdown of Capital Debt Service by Source



	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07
MICA Facilities	808,443	780,597	1,450,419	1,307,830	952,433	879,422	879,422	879,422
WICA Facilities	0	48,000	48,000	48,000	48,000	48,000	48,000	48,000
Joint Facilities	3,002,027	3,038,684	3,067,856	3,710,858	3,734,500	3,747,070	3,758,535	3,765,574
Sub-total Department Paid	3,810,470	3,867,281	4,566,275	5,066,688	4,734,933	4,674,492	4,685,957	4,692,996
Central MICA Facilities	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Central WICA Facilities	38,496	60,310	253,992	276,095	410,625	409,507	401,480	388,731
Central Joint Facilities	0	10,133	203,800	371,594	732,218	732,218	711,222	691,293
Sub-total Central Paid	338,496	370,443	757,792	947,689	1,442,843	1,441,725	1,412,702	1,380,024
Total	4,148,966	4,237,724	5,324,067	6,014,377	6,177,776	6,116,217	6,098,659	6,073,020

BIG TEN DEBT SERVICE COMPARISON
FY 1999-00

Institution	Debt Amount	As a % of All Revenue Budget	As a % of Revenues Generated by Athletics
Minnesota	$4,148,966	10.9%	13.9%
Wisconsin	$4,782,078	10.3%	11.1%
Illinois	$3,034,769	8.8%	9.7%
Ohio State	$6,258,885	7.9%	7.9%
Michigan State	$2,716,552	7.4%	7.4%
Big Ten Average	$2,431,653	6.0%	6.4%
Penn State	$2,655,251	5.9%	5.9%
Michigan	$1,727,300	3.9%	3.9%
Iowa	$1,154,473	3.3%	3.4%
Northwestern	$269,906	1.1%	1.5%
Indiana	0	0	0
Purdue	0	0	0

Among its Big Ten peers, ICA dedicates the highest proportion of its revenues, almost 11%, to debt service.[10] This nearly doubles the Big Ten average of 6%. When athletics facilities debt is calculated as a percentage of revenues generated by athletics, the University is even more out of alignment when compared to other Big Ten institutions.

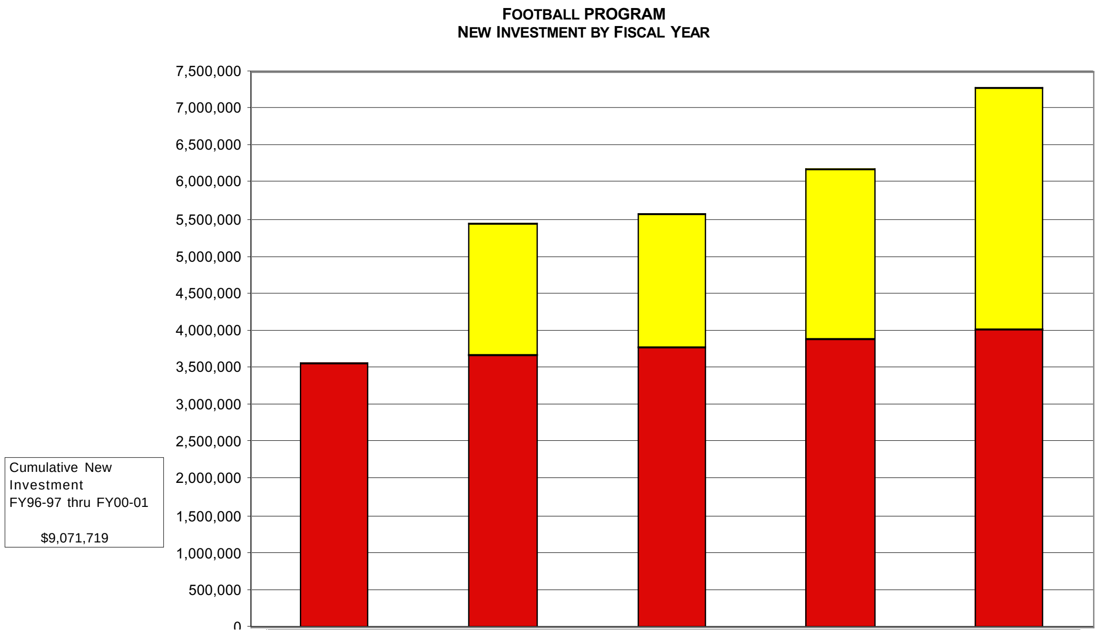
Football

Because men's basketball and men's hockey compete in venues that are essentially sold out, there is little opportunity to increase the number of tickets sold. As expenses continue to escalate, ICA's efforts to improve revenues have been directed at football, the sport with the most growth potential.

[10] The debt service as a percent of total resources for the University of Minnesota is 1.5%, which less than the 11% carried by athletics.

The University of Minnesota has a long, proud football tradition. While the University holds eighteen Big Ten championships and six national championships, these achievements all occurred prior to 1967. Despite a succession of coaches, the University has struggled to replicate its success of the late 1950's and early 1960's. In 1994, President Nils Hasselmo commissioned a Blue Ribbon Football Panel to make recommendations to improve the competitiveness of the football program. The Panel's report became the basis for an aggressive campaign to revitalize Gopher football and bring a tradition of winning back to the University of Minnesota. The Panel also recognized that success held the potential for increased revenues.

By the conclusion of the 1996 season, football had posted its sixth consecutive losing season and had not been to a bowl game since 1986. Gopher football also had the lowest expense budget in the Big Ten. In an effort to turn around the Gopher football program, MICA hired a new coaching staff and, pursuant to the Blue Ribbon Panel recommendations, began to invest significant resources in Gopher football. From 1997-2001, the expense budget for the football program increased from $3.5M to $7.3M. Over this same time frame, expenditures on football moved from number 11 to number 7 in the Big Ten. The following chart shows this new investment in football by fiscal year.



	FY1996-97	FY1997-98	FY1998-99	FY1999-00	FY2000-01
Expense Base	3,570,214	3,570,214	3,677,320	3,787,640	3,901,269
Inflation Adjustment(3%)	0	107,106	110,320	113,629	117,038
Sub-total	3,570,214	3,677,320	3,787,640	3,901,269	4,018,307
New Investment	0	1,758,810	1,784,439	2,270,967	3,257,503
TOTAL	3,570,214	5,436,130	5,572,079	6,172,236	7,275,810

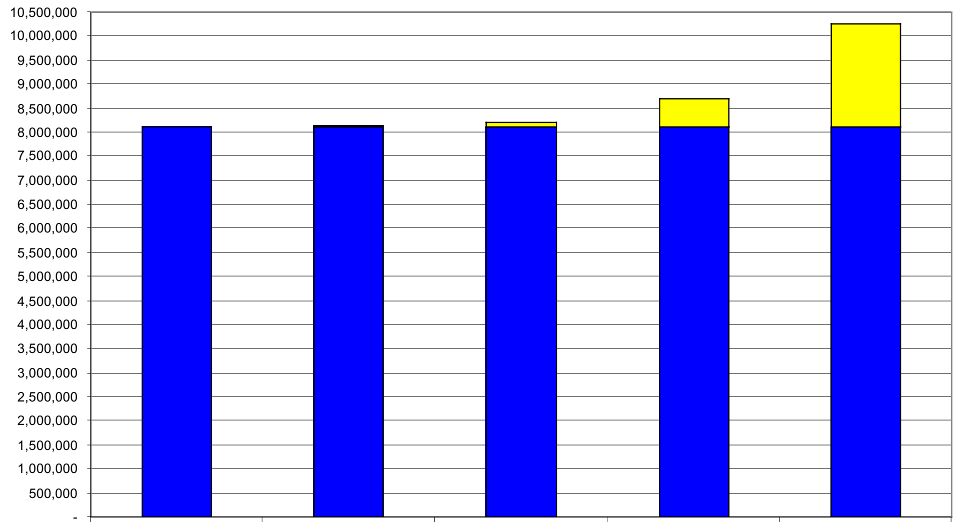
In addition to the $9M in cumulative new program investment in football from 1997-2001, an additional $8M was invested in new capital projects for football over the same time period.

U OF M FOOTBALL CAPITAL PROJECTS
1997-2001

Project	Cost	Funding
Phase I	$1,792,000	Gifts/Donations
Phase II	$3,000,000	Central Debt
Phase III	$2,823,000	Gifts/Donations
Gibson/Nagurski	$365,000	Gift/Donation
Total	**$7,980,000**	
Percent from Gifts/Donations	*62.4%*	
Percent from Central Debt	*37.6%*	

In total, over $17M in new resources have been invested in football since 1997. The results of these investments, however, have been mixed. With respect to the goal of improving competitive performance, Gopher football is a stronger and more competitive program. Notable successes include victories over Ohio State, Michigan State, Wisconsin, and Penn State; and consecutive bowl game appearances that have increased pride, spirit, and confidence in Gopher football. Another positive note is that the number of season tickets sold to students has increased from 6,518 in the 1996 season to 8,613 for the 2001 season. However, as the following charts depict, while gross revenues are up, the growth has not resulted in an increase in net revenues to ICA.

FOOTBALL PROGRAM



	FY1996-97	FY1997-98	FY1998-99	FY1999-00	FY2000-01
Revenue Growth	-	9,661	68,380	576,173	2,124,729
Revenue Base	8,128,238	8,128,238	8,128,238	8,128,238	8,128,238
TOTAL	8,128,238	8,137,899	8,196,618	8,704,411	10,252,967

Cumulative Revenue Growth:
FY96 - FY01
$2,778,9

NEW REVENUE BY FISCAL YEAR

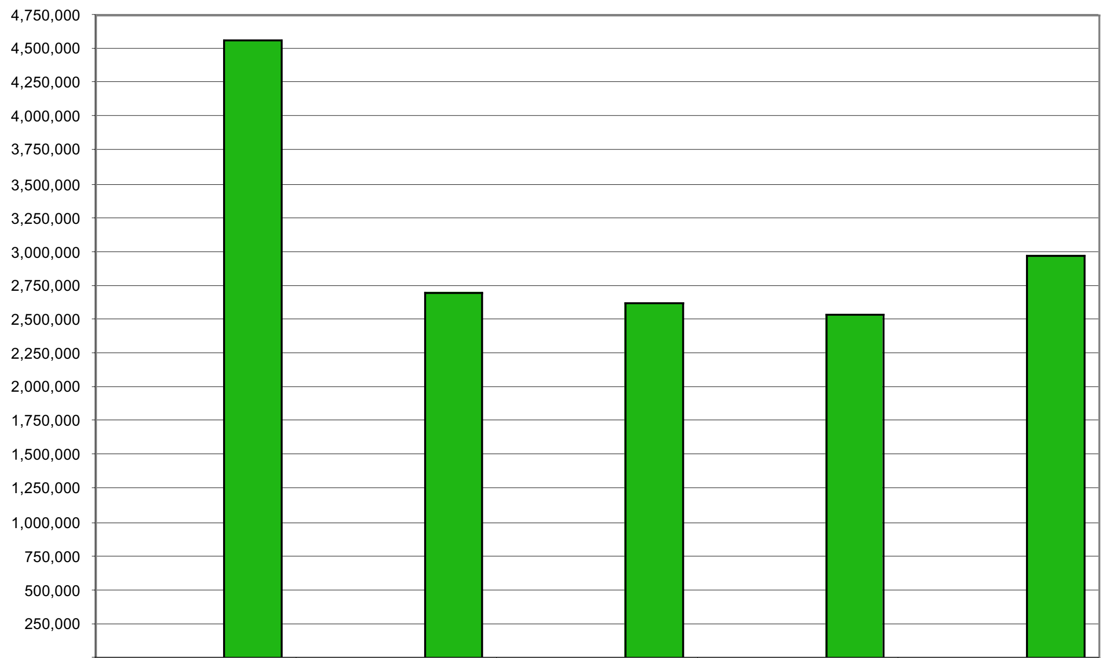
Although new revenues generated by football have yet to offset new expenses, there has been a change in the composition of football revenues. For example, from FY97 to FY01, revenues from football ticket sales almost doubled, from $2.6M to $5M. However, this improvement was largely the result of increased ticket prices, not increased attendance.[11] Over that same time period, there was a $1.8M decline in other revenues (primarily options and guarantees) thereby resulting in only a nominal increase in the total revenues generated by football through FY00. While football showed a significant increase in revenue for FY01, approximately $1.25M (59%) of that new revenue is attributable to the new Big Ten TV contracts. All Big Ten football programs will reflect a similar increase.

From a financial perspective, it might be appropriate to debate whether four years is an appropriate time frame in which to expect football to show a positive return

[11] Between the 1997 and 2000 seasons, football single game ticket prices have increased by 24% ticket prices have increased by 26%. As discussed on page 22, over that same time frame, average gopher football has increased by only 5%.

on investment. However, the figures are troubling when considering the fact that net profits generated by football have actually decreased by $1.6M since FY97.

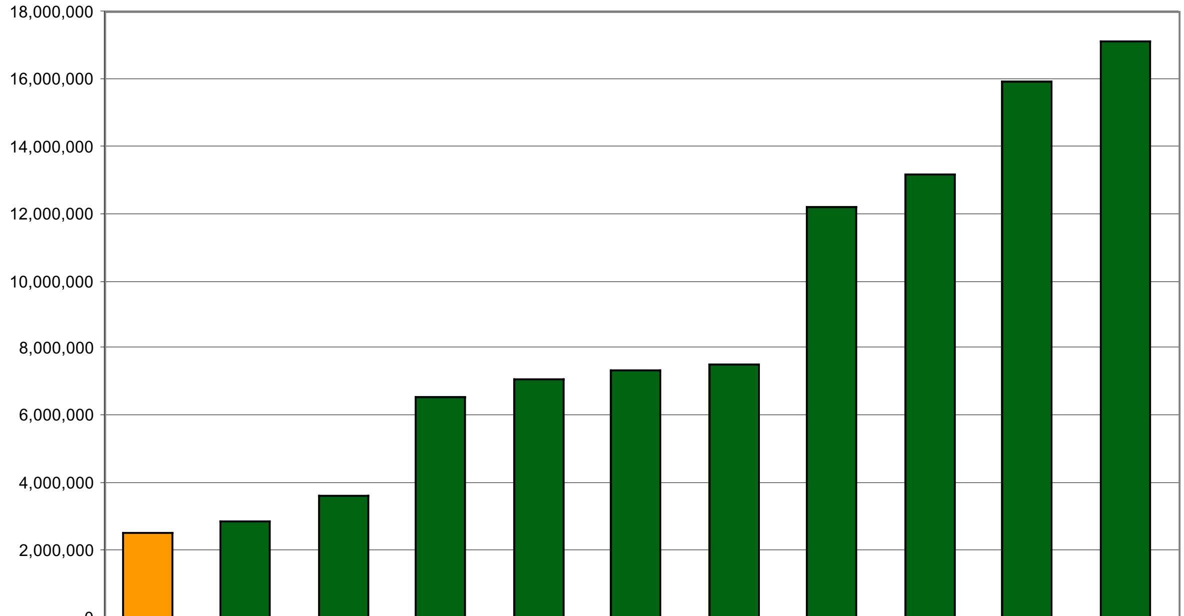
UNIVERSITY OF MINNESOTA
FOOTBALL PROGRAM NET PROFIT



	FY1996-97	FY1997-98	FY1998-99	FY1999-00	FY2000-01
Total Revenue	8,128,238	8,137,899	8,196,618	8,704,411	10,252,967
Total Expense	3,570,214	5,436,130	5,572,079	6,172,236	7,275,810
Net Profit	4,558,024	2,701,769	2,624,539	2,532,175	2,977,157

Furthermore, as depicted in the chart below, the University of Minnesota's football program posted the lowest profit margin in the Big Ten in FY00.

Big 10 Football Program Profit Comparison
FY00

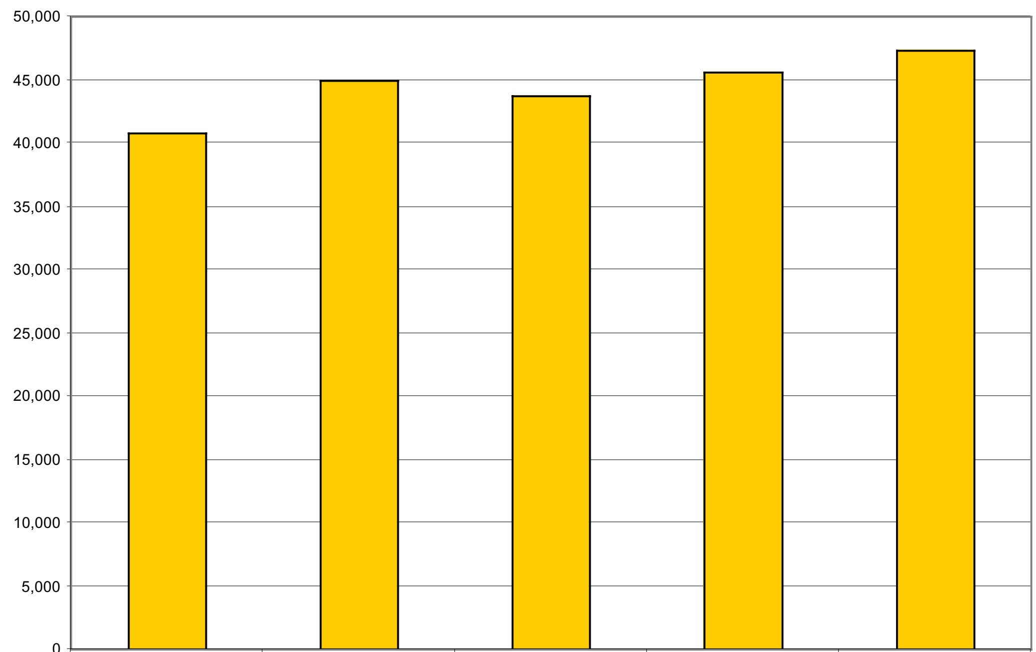


	Minnesota	Indiana	Northwestern	Illinois	Iowa	Michigan State	Purdue	Wisconsin	Michigan	Ohio State	Penn State
Net Profit	2,532,175	2,876,811	3,621,088	6,541,833	7,092,645	7,358,592	7,535,937	12,179,736	13,186,998	15,935,037	17,125,064
Average Attendance	47,352	51,870	39,140	54,550	59,410	64,250	56,150	74,500	93,970	86,750	85,050
Stadium Capacity	64,172	52,354	47,130	70,145	70,275	72,027	67,861	76,653	107,501	89,798	94,215

The financial bottom line: Despite a cumulative new investment in football of \$17M from FY97-FY01, cumulative new revenues earned by football total only \$2.8M over the same time period. An analysis of the total investment in football, including both programmatic as well as facility improvements, show that while the investment in football has resulted in a stronger and more competitive program, the financial investment has yet to break even. In an area with an ever increasing need for revenues, and the present inability to cover current expenses with revenues generated by athletics, any decline in profits is cause for concern. As profits generated by football have declined, and overall ICA expenses continue to increase, ICA's financial situation has become more precarious.

The foregoing analysis suggests a need to determine whether the underlying premise — that Gopher football can generate the profits needed to allow ICA to meet its future needs — is a realistic expectation. MICA's theory was built on an untested assumption: If you build it (a successful football program), they will come. Although the change in coaching staff for the 1997-98 season increased attendance by 4,000, there has been only a nominal increase in attendance since that time. Despite increases in marketing and promotions and consecutive bowl game appearances between the 1997 and 2000 seasons, reported attendance at Gopher football has increased by only 2,454, an increase of 5%.

FOOTBALL AVERAGE ATTENDANCE RECORD



	1996-97	1997-98	1998-99	1999-00	2000-01
Average Attendance	40,851	44,898	43,796	45,551	47,352

It is also important to clarify the meaning of "attendance." As the following table depicts, there are four ways of reporting attendance.

TABLE ON 2000 SEASON ATTENDANCE

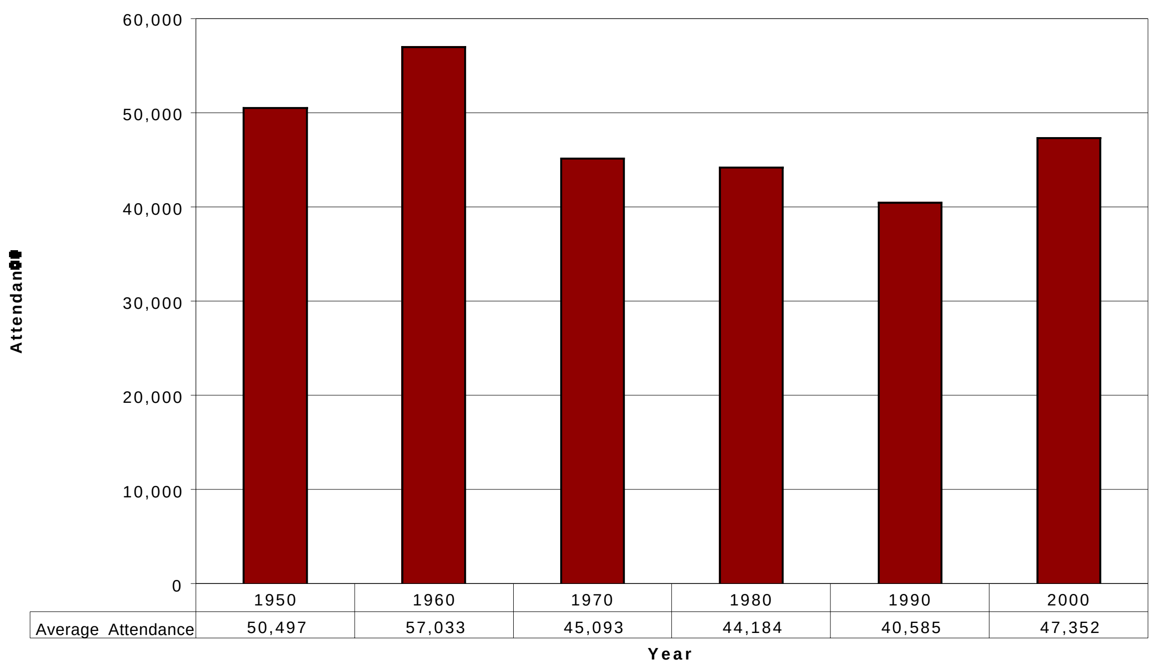
	Hand Count **<u>U of M</u>**	**Paid Attendance** **<u>U of M</u>**	**Paid and Complimentary** **<u>U of M</u>**	**Reported Attendance** **<u>U of M</u>**	**Reported Attendance** **<u>Big Ten</u>**
Average Attendance of All Home Football Games (6)	36,050	42,155	45,488	47,352	66,500
Average Attendance of All Home Conference Football Games (4)	40,556	45,661	48,661	50,573	69,200

- ***Hand Count:*** *fans going through the turnstiles*
- ***Paid Attendance Estimate:*** *actual number of tickets purchased*
- ***Paid and Complimentary:*** *actual number of tickets sold, plus free passes (tickets distributed at no cost)*
- ***Reported Attendance:*** *paid plus complimentary, and those individuals within stadium who don't require a ticket to enter (coaching staff, teams, media, band, spirit squads, concession workers, security, medical personnel, etc.)*

The first column reflects the number of ticket-holders who went through a turnstile on game day. Thus, on average 36,000 fans actually attended a Gopher football game in 2000. However, the reported attendance figure that is most frequently cited and which forms the basis for the official record is the 47,352 figure that appears in the fourth column. This number is calculated by adding column three (all paid and complimentary tickets, regardless of whether the ticket-holder was physically present) to the number of individuals present at the game who don't require a ticket to enter the stadium (teams, coaching staff, security, media, concession staff, band, technicians, medical personnel, etc.). By way of comparison, for FY00, the average attendance for our Big Ten peers was 66,500 for all home games and 69,200 for conference games.

A snapshot of attendance at Gopher football games for a 51-year period from 1950-2000 shows that average attendance for this time period was 47,925, slightly higher than current average attendance of 47,352. Although there have been twenty-two (22) seasons during this time frame when average attendance exceeded 50,000, only five (5) of those seasons occurred after 1968.

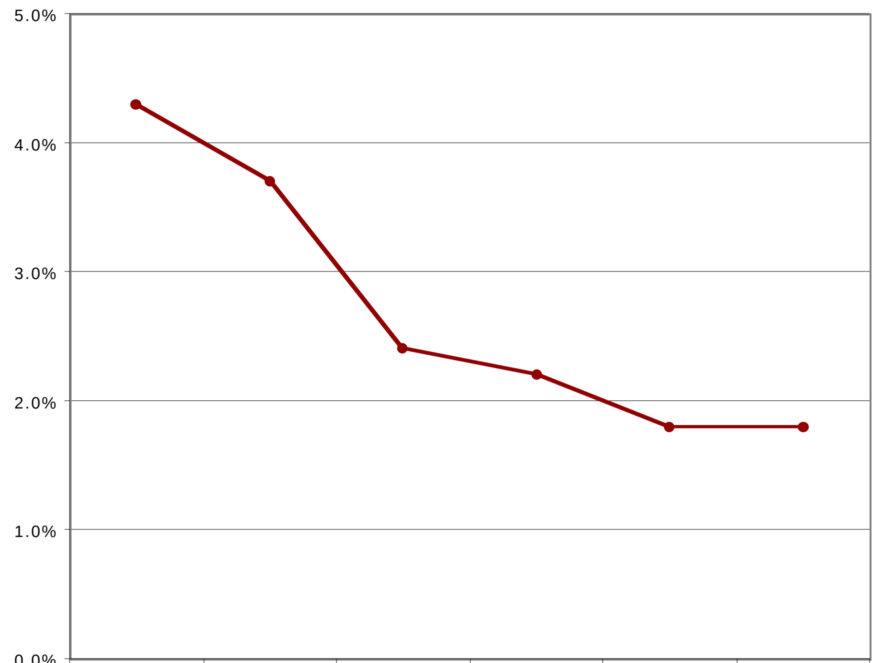
Football Average Home Game Attendance
1950-2000
(Reported Attendence)



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

Moreover, when viewed in the context of the population growth within the seven county metropolitan area, the proportion of residents attending Gopher football has declined significantly. (While there was increased attendance from 1982-87, the overall trend remains downward.)

Football Home Game Attendance Compared to Metro Area Growth



	1950	1960	1970	1980	1990	2000
Metro Area Population	1,185,694	1,525,297	1,874,380	1,985,873	2,288,721	2,642,056
Gopher Football Reported Attendance	50,497	57,033	45,093	44,184	40,585	47,352
Gopher Football Attendance as a % of Metro Area Population	4.3%	3.7%	2.4%	2.2%	1.8%	1.8%

*Average Gopher football reported attendance from 1950 to 2000 is 47,285.

With a stadium capacity of 64,172, and actual attendance that averages only 36,050, even a reinvigorated football program has yet to draw the audiences necessary to allow the football program to generate the revenues required to adequately support athletics. Whether a consistent winning program would reverse this trend remains to be seen.

Fundraising

Another area of concern in revenue generation is ICA fundraising. Athletics fundraising falls into one of two general categories: restricted (capital projects and endowed scholarships) or unrestricted (annual fund). The average dollars raised in the categories noted above for the past four years (FY98-FY01) are noted below:

ICA FUNDRAISING TOTALS: FY98-FY01

	Total Raised (4 Years)	Average Per Year	Percent of Total Raised
Annual Fund	$5,166,252	$1,291,563	21.4%
Capital Gifts*	$13,500,100	$3,375,025	56.1%
New Endowment Dollars	$3,334,576	$833,644	13.8%
Endowment Income	$2,081,421	$520,355	8.7%
Totals:	$24,082,345	$6,020,587	100%

**Capital gifts include assured seating funds that represent $6,577,273. Assured seating is an additional optional charge available to season ticket holders for men's basketball and hockey. This option provides ticket holders an opportunity to pay additional money above and beyond the cost of a season ticket in order to secure a "priority seat."*

The two types of fundraising that most impact escalating operating expenses are income from endowments for athletics scholarships and annual fund dollars. Income from endowments reduces the amount of operational dollars needed by the department to cover scholarship expense. Similarly, unrestricted annual fund dollars can also be used to offset operational expenses.

Athletics scholarships in MICA and WICA totaled $4.7M in FY00. Currently, the University has approximately $11M in endowed scholarships, an amount that generated enough income to cover 12.5% of athletics scholarship expenses in FY00. In FY01, only 11.9% of scholarship expenses were covered by endowment income.

ENDOWMENT FUNDRAISING FACTS

	FY00	FY01	*FY02 (Projected)

Total Scholarship Expense	$4,703,664	$5,110,068	$5,537.508
Endowment Principal	$10,625,767	$11,050,768	N/A
Endowment Income	$548,419	$607,792	N/A
Percent of Scholarship Expense Covered by Endowment Income	12.5%	11.9%	N/A

**If ICA's endowment principal for FY02 simply increases by the average of $833,644, the percent of scholarship expense covered will decline to 10.7%. In order to cover 12.5% of scholarship expense in FY02, ICA would need to increase the amount of funded endowment principal by $2.8M.*

As indicated below, the University of Minnesota has the lowest endowment for athletics scholarships when compared to other Big Ten schools.

BIG TEN MEN'S AND WOMEN'S ATHLETICS ENDOWMENT SUMMARY
FY1999-2000

Institution	Total Endowment Funds
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

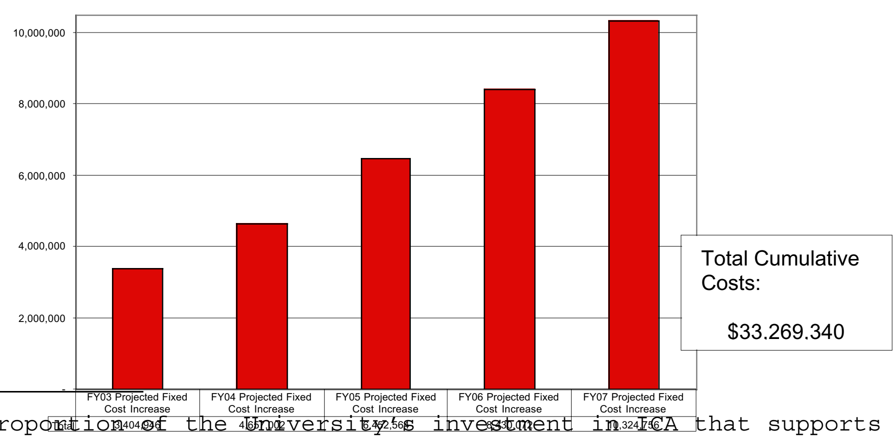
Due to a slowing economy, income earned from the endowment is declining. When combined with the increasing cost of attending the University, by FY07, endowment principle will need to increase by $12M (to a total of $23M) in order to fund the same 12.5% of scholarship costs covered in FY00.

INTERCOLLEGIATE ATHLETICS:
THE FUTURE FINANCIAL CHALLENGE

As an auxiliary unit, ICA is intended to be a fully self-supporting operation. Like the rest of the University, ICA is heavily labor intensive. Its expenses will continue to escalate simply by virtue of the fact that fixed costs (such as salary, fringe, and utilities) will continue to escalate. Similarly, increases in tuition and room and board are reflected in the cost of an athletics scholarship. As an auxiliary operation, ICA as a whole does not receive O&M dollars to offset increases in its fixed or program costs.[12] Rather, like any other auxiliary at the University, ICA is expected to cover these increases in fixed costs (along with any other program needs) by increasing its revenues, cutting its expenses, or some combination of the two.

A review of expense and revenue data for the period FY98 to FY01 indicates that ICA expenses increased an average of $2.6M per year, while revenues generated by athletics increased by an average of $604K per year. Assuming the size of the department remains constant, a conservative projection indicates that at a minimum ICA's annual expenses[13] will increase by over $10.3M by FY07. The following chart shows the projected increases in fixed costs by year.

FIXED COST CUMULATIVE TOTALS BY FISCAL YEAR
FY2003-07

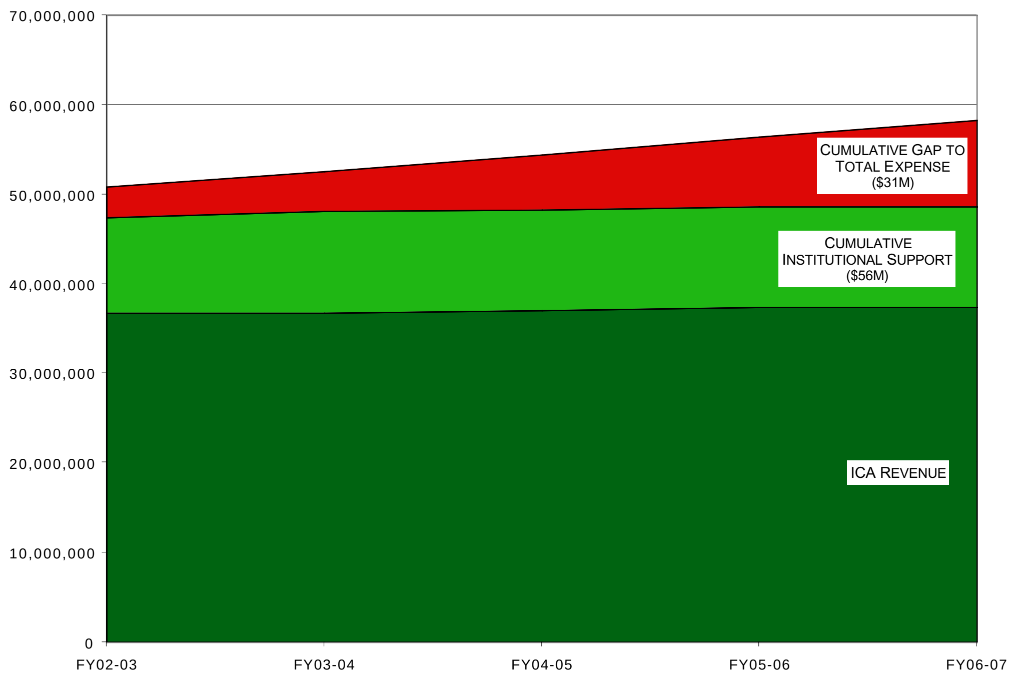


[12] However, the proportion of the University's investment in ICA that supports salaries and fringe increases in its O&M base each year.

[13] Annual expenses include increases in fixed costs such as base salaries, fringe, tuition, room ar debt service; and known financial obligations. Expenses do not include increases in fixed costs for athletic support services that appear in the budgets of other units (the indirect costs shown on page 10) paid out of institutional resources.

The cumulative increase in expenses over this five-year period (FY03-FY07) will exceed $33M. Assuming modest growth in revenues[14] generated by athletics over this time frame, and continuing the current level of institutional support (projected at $56M for FY03-FY07), the cumulative gap between ICA's expenses and revenues will be $31M. If the institutional investment were reduced, the financial challenge facing ICA would increase by the amount of the reduction. Using these assumptions, the following chart summarizes the financial situation facing athletics (and the University) over the next five years:

INTERCOLLEGIATE ATHLETICS PROJECTED REVENUE AND EXPENSE



	FY02-03	FY03-04	FY04-05	FY05-06	FY06-07
Total Expense	50,759,072	52,553,026	54,394,817	56,392,069	58,304,305
ICA Revenue	36,624,564	36,744,564	37,014,564	37,384,564	37,384,564
Institutional Support	10,791,911	11,287,065	11,285,947	11,256,924	11,224,246
Gap to Total Expense	-3,342,597	-4,521,397	-6,094,306	-7,750,581	-9,695,495

14 Revenue projections for FY03 to FY07 are based on FY02 budgeted revenues, plus any known future in TV/Radio contracts and NCAA/Big Ten distributions. Since ICA s costs are fixed and certain, t does not allow for speculative revenue growth. Rather, we define the full magnitude of ICA s discussion on pages 31-35 evaluates the revenue potential within ICA that is available to reduce the

Cumulative Gap: $31,404,376

INTERCOLLEGIATE ATHLETICS:
RESOLVING THE FINANCIAL EXIGENCY

The financial situation in athletics is no longer sustainable given the level of resources available to meet future needs. The problem of resolving the financial exigency that exists in Intercollegiate Athletics at the University of Minnesota is a complex and sensitive issue and one that will require thoughtful consideration. Many of the policy decisions and potential options for resolving the problem will involve difficult decisions. However, based on the financial realities facing ICA today and the projected challenges within the next five years, an effective plan must be developed to resolve the problem.

The ongoing financial challenges in athletics are occurring simultaneously with a new financial paradigm for the University brought on by:

- increased public scrutiny of funding choices;
- increased accountability for budgetary decisions;
- decreasing proportion of state funded support; and
- increased reliance on tuition.

Intercollegiate Athletics needs to fit into the new financial paradigm of the University; one, perhaps, that starts from our beginning premise. As an auxiliary unit, ICA should be fully self-supporting. While the administration should consider the viability of this principle as a long-term goal, ICA's inability to identify and generate sufficient new revenues to meet the fixed growth in their costs, much less the program growth they desire, mandates an immediate solution.

INCREASING REVENUES

To date, revenue growth has been the preferred strategy to address ICA's escalating expenses.[15] As previously demonstrated however, the increase in revenues generated by athletics have not kept pace with expenses. Moreover, ICA has failed to meet budgeted revenue projections for the last two years and has been forced to draw upon more foundation funds than anticipated to cover operating expenses. In FY00, the revenue shortfall was $950,000. In FY01, the revenue shortfall was $1.7M. Both departments have drawn down extra foundation funds to cover the revenue shortfalls. In FY01, MICA had to use $1.2M of future assured seating revenues to reduce its operating deficit this year (assured seating funds are set aside to pay debt service on the project fund). Additionally, because football is projected to fall $600,000 short of revenue projections for the 2001 season, the department is unlikely to meet revenue projections for FY02. Unlike many academic and auxiliary units, ICA has no reserves to cover current, or future, financial problems.

Potential areas for increased revenue subject to the department's control include non-revenue sports, men's basketball, men's hockey, football, and fundraising.

Non-Revenue Sports

There are limited opportunities to significantly increase revenues in the twenty (20) non-revenue sports. From a financial perspective, none of the non-revenue sports break even:

NON-REVENUE SPORT REVENUE/EXPENSE COMPARISON
FY01

Sports Program	Total Expense	Total Revenue	Loss	Ratio
W-Basketball*	$1,268,112	$44,578	($1,223,534)	4%
W-Volleyball*	$894,561	$121,765	($772,796)	14%
M-Track & Field, X-C	$785,567	$24,009	($761,558)	3%
W-Ice Hockey*	$767,058	$64,464	($702,594)	8%

[15] Though part of that revenue growth has come in the form of increased University subsidiza discussion assumes that future levels of institutional support will not be increased beyond that r

M-Baseball*	$767,891	$82,951	($684,940)	11%
W-Track & Field, X-C	$674,489	$18,174	($656,315)	3%
M-Swimming and Diving	$551,075	$16,257	($534,818)	3%
W-Rowing	$523,820	$1,650	($522,170)	0%
W-Gymnastics*	$553,422	$37,773	($515,649)	7%
W-Softball*	$553,482	$39,779	($513,973)	7%
W-Soccer*	$513,657	$34,987	($478,670)	7%
W-Swimming and Diving	$506,389	$29,687	($476,702)	6%
M-Wrestling*	$550,979	$112,668	($438,311)	20%
M-Gymnastics*	$363,185	$4,497	($358,688)	1%
W-Tennis	$350,845	$3,247	($347,598)	1%
M-Tennis	$383,226	$60,977	($322,249)	16%
M-Golf	$332,932	$25,062	($307,870)	8%
W-Golf	$242,153	$5,064	($237,089)	2%
Total	**$**10,582,843	$727,589	($9,855,254)	7%

NOTE:
1) 5th Year and Summer School is not included as an expense.
2) Total revenues include: ticket sales and cash contributions.
3) *Teams that charge admission.
4) Track & Field and Cross Country are actually separate sports though they have a combined budget. This accounts for the difference between the total of twenty non-revenue sports and the eighteen sports listed above.
5) Unlike the other non-revenue sports, rowing is still in a ramp-up phase. Once all scholarships are fully funded (FY05), the expense budget for rowing will be approximately $750K.

11.

Only eight (8) of the non-revenue sports generate ticket revenues in excess of $5,000. Since each of the following sports has capacity in their respective venues, the potential exists for continued growth in revenues. An analysis of FY01 ticket revenues generated by these sports, and how they compare with their Big Ten peers, appears below.

SPORT TEAM REVENUE/BIG TEN
FY1999-2000

Sports Program	U of M Actual Ticket Revenue	Big Ten Average Ticket Revenue	Highest Ticket Revenue in Big Ten	University Rank in Big Ten
Women's Basketball	$36,076	$197,045	Wisconsin $437,377	7/11
Women's Volleyball	$100,369	$36,527	**Minnesota**	1/11
Women's Soccer	$24,753	$5,780	**Minnesota**	1/11
Women's Softball	$17,897	$3,044	**Minnesota**	1/11
Women's Gymnastics	$38,712	$8,152	**Minnesota**	1/7
Women's Hockey	$76,551	$12,094	**Minnesota**	1/3
Men's Baseball	$32,264	$15,766	Ohio State $76,917	2/10
Men's Wrestling	$94,107	$25,525	Iowa $175,957	2/11

ICA currently posts the highest ticket revenues in the Big Ten in five non-revenue sports. Of the remaining three sports, baseball and wrestling already exceed the Big Ten average in ticket revenues for their respective sports. With new leadership, the potential exists to improve competitive performance and significantly increase ticket revenues through renewed enthusiasm and interest in a revitalized women's basketball program. If women’s basketball generated ticket revenues at the Big Ten average, it would result in an additional $160,000 in revenue. If all three sports generated the maximum ticket revenue in their respective sports, it would total $490,000.

Men's Basketball and Men's Hockey

As stated earlier, men's basketball and men's hockey are the most profitable programs compared to their peers in the Big Ten. However, because both of these sports compete in venues that are essentially sold out, there is little opportunity to increase the number of tickets sold. Accordingly, growth in basketball and hockey revenues has been primarily limited to increases in ticket prices. Currently, ticket prices for these sports are the highest in the Big Ten. Season ticket prices in men's basketball and men's hockey have increased by 42% and 39% respectively since 1996. Whether the market will continue to bear increases of this magnitude is questionable.

In addition to efforts to enhance ticket revenues, MICA has also attempted to identify new sources of revenue for men's basketball and hockey by constructing suites at Williams Arena and Mariucci Arena. Although only 40% of the barnlofts sold in FY01, sales for FY02 appear to be on track. Additionally, construction of the new suites in Mariucci Arena was also completed in October 2001, and sales for FY02 appear to be on track. However, until the debt service is paid off (Williams Arena barnlofts in FY03 and Mariucci suites in FY09), the departments will not realize an enhanced revenue stream from these projects. Once the debt service is retired, some or all of the revenues generated by these projects may be needed to address expected debt and operating expenses for the new hockey/tennis facility and may not be available to meet general operating needs of ICA.

Football

Football continues to be viewed as the sport with the most revenue growth potential. With a stadium capacity of 64,172, ample space exists to increase revenues from football ticket sales. However, as discussed on pages 17-25, efforts to increase football attendance and revenues have yet to meet expectations despite a stronger and more competitive program. Moreover, projections for the just completed 2001 football season reflect that football will fall $600,000 short of its revenue target despite a 16.7% increase in season ticket prices and average reported attendance has declined by almost 3,900 from the 2000 season.

Factors that set Minnesota apart from its Big Ten counterparts include an urban campus situated in a vibrant metropolitan area and a significant number of popular professional teams that compete in this market. These factors suggest a need to address whether the underlying premise, i.e., that football can grow to a level sufficient to support the financial needs of ICA, is a realistic expectation. Yet this untested view continues to drive significant increases in expenses associated with football and overall sports growth.

The most commonly cited explanation for football's inability to generate adequate revenues is our lack of an on-campus stadium. The assumption of a new football stadium on campus is a policy issue that resides at the University level, rather than at the department level, and is not a viable option to meet the projected $33M shortfall that ICA will experience in the next five years. Whether a stadium would address the long-term financial challenges facing ICA beyond the next five years is beyond the scope of this report and will require further study and analysis from a financial consultant.

<u>Fundraising</u>

Another opportunity to improve revenues is to increase fundraising for non-capital operating expenses and increase the endowment for athletics scholarships. As stated previously, in order to continue funding 12.5% of athletics scholarships by FY07, endowment principal will need to increase by $12M. Over the past four years (FY98-FY01), the average endowment principal raised by ICA was $834,000. Thus, endowment principal will need to increase by an average of $2.2M annually to reach the $12M necessary to fund the same level of athletics scholarships that were funded in FY00.[16] If ICA were successful in increasing endowment principal by $12M by FY07, it would generate approximately $600K in income that would be available to offset the projected $9.5M revenue shortfall in FY07.

With regard to the annual fund, which provides a source of funds used to offset annual athletics operating expenses, ICA has raised an average of $1.3M over

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[16] The new endowment must be fully funded by FY06 in order to generate income to offset FY07 sch
expense).

the past four years. This amount is already included in projections of available athletics revenues for FY03-FY07. In order to offset the projected increase in operating expenses, ICA would need to exceed (on an annual basis) the average of $1.3M currently being raised to impact the projected annual deficit within the ICA budget.

A feasibility study should be conducted to determine the amount of endowment or annual fund dollars that could reasonably be raised over the next five years to offset the projected $31.4M cumulative revenue shortfall.

REDUCING EXPENSES

The simple reality is that ICA revenues are not growing at a rate necessary to maintain its current size, much less meet its increasing expenses. In the absence of increased financial subsidization by the University, ICA will have a multi-million dollar annual deficit over the next five years. Furthermore, in accordance with University policy, deficit spending is not allowed. Since ICA is unable to meet its escalating expenses through revenue growth, the only viable strategy (short of a new infusion of institutional support) is to significantly reduce expenses.

Unfortunately, the cost reductions available to ICA, such as salary freezes or a reduction in athletics scholarships, would not be enough to meet its financial challenge. Only institutional policy decisions outside of ICA's purview will have the necessary impact on improving the financial standing of ICA.

INTERCOLLEGIATE ATHLETICS: POLICY CONSIDERATIONS

The president has called upon ICA to develop a compact agreement in which the department will identify its goals and objectives, align itself with institutional priorities, and set forth a long-term financial plan. However, the answer to the following policy question is necessary to provide direction before a compact can be developed:

What Does the University Want Intercollegiate Athletics to Become?

The following principles identified by the University and Board of Regents over the last twenty years have helped shape and define the Intercollegiate Athletics program we enjoy today:

- 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;
- Developing and maintaining competitive excellence in Division 1A revenue sports;
- Maintaining existing levels of competition; and
- Preserving separate athletic departments for men's athletics and women's athletics.

But as noted in this report, the financial costs associated with collectively maintaining these ideals have significantly outpaced resources available to meet them. With the expectation that the University adjust to a new financial paradigm, how does the current and future level of funding necessary to allow Intercollegiate Athletics to maintain these ideals fit into overarching University priorities? This is not just a financial issue, but also a highly symbolic one.