STUDY OVERVIEW

Purpose

In August 2001, Montana State University retained Carr Sports Associates, Inc. (CSA) to provide the University with *Financial Considerations for the Montana State University Athletic Department.* This process was particularly vital to the long-term strategic direction of the Department because of a history and projections of recurring General Operations and Facilities Debt.

The Consultants were charged with providing the Executive Director of University Budgets with a written report, which includes the following:

1. A compilation of general observations regarding the finances and staffing of the MSU Athletic Department.

2. The identification of specific circumstances, commitments, expenditures levels, staffing levels, or revenue gaps, which appear to be above/below, the norms for comparative institutions, and/or which may be cause for concern in regard to the Athletic Department's maintenance of a balanced annual budget.

3. A set of suggestions which:
   - Describe how other campuses have dealt with similar problems such as these; and/or
   - Outline potential solutions that MSU should consider.

Process

The process involved interviewing various MSU Athletic stakeholders as well as reviewing University, Big Sky Conference, selected peer institutions and NCAA materials. The *Athletics Program Financial Review Coordinating Committee* (Oversight Committee) provided Institutional focus.

OBSERVATIONS AND RECOMMENDATIONS

Focusing on current and historic issues that greatly affect the Athletic Department's financial condition, the Consultants identified eleven specific areas for attention. The Consultant's analysis and recommendations are as follows:

I. MSU Athletic Department Design and Infrastructure

- The absence of basic operating instruments - Mission Statement, Strategic Planning, Business Plans, up-to-date Organizational Charts and a formal Policy and Procedures Manual have confused University and Athletic Department constituencies, especially when financial support is needed.

  Recommendations:
  1) Develop and distribute a University-wide adopted Athletic Department Mission Statement.
  2) Develop a comprehensive Athletic Department Strategic Plan involving key University and Athletic constituents that accurately depicts the Department's strategic direction.
  3) Require formal Business Plans that reflect the Department's annual and long-term revenue generating goals for departments within Athletics, especially those within External Affairs.
  4) Create a formal up-to-date Athletic Department organizational chart, which reflects current job descriptions and vertical concentration on the Department's highest priorities including much needed revenue.
  5) In concert with University Administration and Finance, create a "Revenue Generating Team" composed of staff representing External Affairs units, Athletic Budget and Fiscal Manager and Auxiliary Services.
  6) Develop a comprehensive Athletic Department Policy and Procedures Manual.

- The lack of a fully coordinated External Affairs team inhibits Athletics ability to achieve long-term financial growth and stability.

  Recommendations:
  1) Expand present Associate A.D. for External Affairs oversight to include Athletic Development, Ticket Operations and other appropriate revenue generating and customer service areas.
  2) Provide information and communication technology equipment and systems that integrates Athletic External Affairs units with the University Foundation and Alumni Association.

- Recent personnel data from the Conference Office shows that MSU Athletics staffing levels (FTE and PT) are consistent with other Big Sky Conference institutions.

  Recommendations:
  1) Fill the vacant Athletics Major Gifts/Foundation position
  2) Re-establish Marketing and Promotions position
  3) Create a more centralized Compliance position to minimize the University's vulnerability

II. National Developments Affecting NCAA Division I and I-AA

- Nationally, there are no imminent changes in NCAA Division I or I-AA football that will produce significant new revenues or increase expenses for the Big Sky or MSU football.
  Recommendation:
  1) Athletics should pay particular attention to proposed NCAA scheduling and attendance criteria for I-A teams that may reduce the opportunities for I-AA teams to play at I-A stadiums for large financial guarantees.

III. Competitive Performance

- Even though MSU's Athletic operating budget is in the upper level of both Division I-AA and the Big Sky Conference, its sports teams have had a moderate level of success in the Big Sky Conference. However, it is difficult to suggest a correlation between financial support and competitive success. Institutions simply do not operate in identical environments.
  Recommendations:
  1) Establish sports specific competitive performance goals for each MSU sports team and evaluate performance-utilizing measurements such as Big Sky Conference Championships, NCAA Championships, post-season tournaments and the Sears Director's Cup.
  2) Sports specific performance goals will require the University and Athletics to reach an agreement on resource allocations required to achieve goals while strengthening accountability with coaches and Athletic Administrators based on those allocations.
  3) All sports teams should have strategic plans to best achieve competitive performance goals.
  4) All sports teams' budgets should reflect those strategic plans for improvements.
  5) All sports teams should undergo "zero based" budgeting for the next two Fiscal Years (2003 & 2004) to accurately establish base funding thresholds.

IV. Division I-AA Fiscal Environment

- Recent NCAA Division I-AA and Big Sky Conference surveys portray the increasing reliance on institutional funds for Intercollegiate Athletics. Big Sky schools indicate close to 70% of the average Big Sky program revenues are supported by institutional support, including fee waivers or student-athletic fees.
  Recommendations:
  1) It is imperative that the Athletic Department be perceived as a viable part of the educational enterprise or there will be constant questioning of the Institution's financial commitment to Athletics.
  2) With the growing reliance on institutional funds to support an athletic department's budget, it becomes more evident that a consensus be reached as to the goals and objectives of MSU's Athletic Department.

V. MSU Athletics Revenue Considerations

- The financial issues at MSU do not appear to be a function of a limited budget. In fact, MSU's athletic budget at over $7 million is significantly larger than the average Division I-AA athletic budget of $5.4 million in 1999 and the current average budget in the Big Sky Conference of $6.3 million.

- The difficulties in balancing the budget come from the level of debt service included in the expense budget. Very few athletic programs would be able to support an annual debt requirement of such magnitude without the identification of a substantial donor base or donor commitment.

- As a percentage of total Athletic revenues, institutional support, including Fee Waivers and Student Athletic Fees, are comparable at 62.6% of total revenue with the percentage of the average Division I-AA athletic program at 57.2%. The major difference is MSU's Student Athletic Fee revenue is only 8.7% of total revenue compared to 22.5% of the average I-AA program budget and 17.3% of the average Big Sky school revenues.

  A survey of Big Sky Conference Members FY01 Athletic Budgets shows that MSU's total Athletic Fee amount of $583,500 was the lowest in the Conference.
  Recommendations:
  1) Re-evaluate the amount of Student Athletic Fee revenues needed to meet long-term Athletic Department Budget needs.
  2) Consider scheduled Student Athletic Fee adjustments to support University/State imposed increases for Tuition, Fees and Room and Board.

- NCAA I-AA institutions like MSU find it extremely difficult to fund a full-scholarship football program as well as a broad-based program for men and women in a climate of limited resources and inadequate revenue generation. This responsibility places tremendous pressure on the institution's controlled funding and all areas of the Athletic Department struggle to operate with less than adequate funding.
  Recommendations:
  1) It is imperative that the greater University community makes a conscious decision that intercollegiate athletics is an integral part of the Institution's Mission and that the cost for operating the program is an appropriate and affordable investment of institutional resources.
  2) Base funding requirements along with financial goals for Athletics must be shared and properly presented to both University and Athletics constituents.
  3) Athletics, in concert with University Administration, must develop a financial plan or pro forma to assist with its fiscal forecasting. The pro forma should be supported by a reliable set of assumptions based on historic and projected data.
  4) Revenue forecasts must be accurate and not unrealistically inflated to meet budget needs.
  5) The University should determine the adequacy of Institutional funding required complying with Title IX.

6) Reevaluate the amount of Fee Waiver allocations to Athletics. Emphasis should be on Women's Sports, Out-of-State Waivers and for Auxiliary Scholarship aid.
7) A formal "case" for annual cash contributions must be better articulated and openly shared with Athletic constituents.

VI. MSU Athletics Expense Considerations

- The difficulties in balancing the Athletics budget come from the level of debt service included in the expense budget and the resulting pressure the sizeable level of debt places on the entire enterprise. While the largest components of the MSU expense budgets compare reasonably well with peer benchmarks, the significant debt service carry forward places unreasonable strain on the already fragile financial environment. It is not feasible to assume that a future profitable program will yield a surplus large enough to cover an on-going accumulation of this magnitude.

  Recommendations:
  1) A more conservative approach to revenue and expense projections must be implemented to more accurately forecast future operations. Actual revenue has too often been less than projected revenue, making reasonable planning difficult.
  2) Once a balanced budget (revenue meets expense) is achieved, the University should consider a long-term amortization schedule for the remaining debt carry forward. This will allow the Athletic budget to make fiscal progress and provide incentive for prudent spending.
  3) All Athletic Department budgets should be "zero-based" for the next two Fiscal Years (2003 & 2004) with emphasis on reducing expenses.
  4) Strict Department-wide policy and procedures for budget formation and implementation should be further developed and adhered to.
  5) Identify additional opportunities for relief to Athletics from University inter-departmental charges, e.g.; 4% administrative surcharge and auxiliary services fees for regularly scheduled major athletic events.
  6) Consider reducing non-essential personnel positions. All positions should be reviewed for specific contributions to the Department's organizational design, mission and strategic priorities.

VII. Athletic Development/Fundraising

- By Division I-AA comparisons, MSU's Athletic Development activities under the Athletic Scholarship Association (ASA) are a relatively mature support system. ASA's fundraising approach is fairly balanced between Alumni Outreach, Annual Giving, and Priority Seating; the exception is Major Gifts and Planned Giving.

  Recommendations:
  1) To achieve long-term financial growth and stability, the University and Athletics should create a contemporary Athletic Major Gifts fundraising model for MSU Athletics.

2) Provide up-to-date information and communications technology equipment and systems that allows ASA, Athletics' External Affairs and the University Foundation and Alumni Association to share their respective customer databases.
3) Fill the vacant full-time Athletics Major Gifts position in the Foundation.
4) The ASA Board of Officers, along with the senior staff of the Athletic Department should assess all aspects of the annual fund and marketing outreach to identify the most effective methods to increase the annual yield.
5) A formal "case" for annual cash contributions must be better articulated and openly shared with Athletic constituents.
6) A more formal synergistic relationship must be established between Athletics and the University Foundation and Alumni Association.
7) University and Athletic Administrators should convey the necessity of unifying of all sports specific Booster Clubs or "splinter groups" and their respective activities under the ASA.
8) Develop and implement a formal business plan for better defining and expanding the ASA Chapter Development program.

VIII. Athletic Facilities and Debt Service

- Many of the fiscal challenges that currently face MSU Athletics involve the debt associated with a series of much-needed facility improvements substantially completed in 1998. However, the associated bond indentures of Phase II of the Stadium Project require the Athletics-operating budget to absorb substantial debt service levels. These levels are unusually high when compared to recent NCAA and Big Sky debt service data.

  Recommendations:
  1) Many athletic development officers find scholarships to be attractive to potential donors and the opportunity to assist a student-athlete is certainly a worthy investment. It would be a valuable strategic move for a portion of current institutional funding of Athletics to be redirected from scholarships (tuition, room, board, books and fees) to debt service and fundraising efforts for Athletics to be refocused on scholarship aid for student-athletes.
  2) In addition to Major Gifts, a concerted effort to focus on scholarship fundraising can provide critical momentum for MSU's Athletic development efforts, generate additional funding for Athletics and allow current funds to be reallocated to debt service.
  3) Develop Major Gifts strategies that focus on "naming rights" and completion of the Stadium Sky Suites.

IX. Image and Identity of MSU Athletic Program

- The financial problems experienced by MSU Athletics have received high visibility from the media for several years. This negative publicity on the image of the entire University is extremely damaging and reduces the confidence and support of the general public, boosters and major donors.

Recommendations:

1) Athletics and the University should demonstrate a unified effort for addressing Athletics financial issues.
2) Athletics and the University should create and embrace a long-range financial plan that is strategically centered on accurate expense and revenue projections. This plan should be openly shared with both University and Athletic constituents.

X. Equity Access and Title IX Compliance

- Over the past decade, MSU has taken giant strides in its efforts to achieve compliance with Title IX. In response to the NCAA Institutional Certification process, MSU developed the "*Equity Plan for Intercollegiate Athletics 1996-2001"*, which defines the Institution's goals and strategies for achieving both gender and minority equity. However, the Athletic Department realizes it pledge to gender equity and Title IX Compliance requires significant ongoing resource allocations.

Recommendations:

1) To be certain of its exact status, the University should authorize a private, expert review of its current compliance with Title IX. This review will provide an appropriate plan of action to avoid further complications.
2) Incorporate financial requirements into the Athletic Department's financial pro forma.

XI. NCAA Certification

- In 1995-96, the NCAA Committee on Athletics Certification approved MSU for a ten-year period, subject to MSU's completion of a Five-Year Interim Report. The process of preparing that report is beginning in Fall 2001. The University will describe its progress toward its declared goals stated in its 1996 Report and will receive a Peer Review Team visit in 2002. As is always possible, there may be required adjustments for the MSU Athletic Department in several areas of operation with significant financial implications.

Recommendations:

1) The University should be pro-active in dealing with its NCAA Five Year Interim Status Report. By reviewing critically its progress toward its stated goals in the original 1996 NCAA Certification report, MSU can move quickly to avoid negative findings.
2) The University must be prepared to respond positively to any mandatory corrective actions stipulated by the Peer Review Team in 2002.
3) Any Certification financial requirements should be incorporated into the Athletic Department's financial pro forma.