

UNIVERSITY OF CENTRAL FLORIDA
UCF Athletics Association, Inc.
May 16, 2022

Proposed Fiscal Year 2022-23 Budget for the UCF Athletics Association

Information Discussion Action

Meeting Date for Upcoming Action: May 19, 2022 UCF Budget and Finance Committee

Purpose and Issues to be Considered:

The UCF Athletics Association (UCFAA) has prepared the budget for the fiscal year ending June 30, 2023. Upon approval by the board of directors the budget will then be presented to the President and the University Board of Trustees through the Budget and Finance Committee for approval in its May 25th meeting.

The budget format for all Direct Support Organizations (DSO) changed recently to reflect a standardized approach emphasizing a cash position. Previously, UCFAA presented to its Board of Directors a combined budget to show not only gross revenues and expenditures of UCFAA, but also the UCF Stadium Corporation. While this method attempted to give the reader a fuller understanding of UCFAA's financial activity and the impact the Stadium has on UCFAA's operations, the "net transfers" were difficult to track from DSO to DSO. The new format is meant to provide the Board with a more transparent budget emphasizing annualized expenses supported by annualized revenues. The approved Stadium Corporation budget can be provided as supplemental information to this board upon request.

Background:

For FY2021-22:

- Lost revenue recovered via federal HEERF funds will help stabilize the current budget. Exhausting one-time HEERF funds as quickly as possible to provide cash liquidity is the immediate goal.
- Student athletic fees and conference revenues are projecting higher than anticipated when preparing the budget revision earlier in the fiscal year.
- American Athletics Conference (AAC) exit negotiations are on-going and impact components of the current budget and FY23 proposed budget. Another AAC exit fee payment of \$2.5M is scheduled on June 10, 2022.
- In examining the current budget, the lack of operational repair and replacement (R&R) funding has been evident over the past several years. As the useful life of items expire, emergency replacement costs create negative budget variances. Also, we are approaching nearly 60 staff/coaching turnovers during this fiscal year. Transition costs such as moving expenses, temporary housing arrangements, interview expenses, IT equipment, and at times salary adjustments such as the new women's basketball staff all impact budgets across the board.
- A significant surplus is projected due to the one-time revenue stream of HEERF funding. While providing projected actuals has been a challenge, Senior Vice President for Administration and Finance Gerald Hector and UCFAA CFO Terry Donovan are working closely together to address problems as they arise. Providing cash liquidity and reducing operating debt for the UCFAA is the point of focus.

For FY2022-23:

- Budgeted student athletic fees are conservative to avoid projected shortfalls after the start of the fiscal year. Also, enrollment reductions have been forecasted by IKM.
- The HEERF number is an estimate of unspent funds carried over into FY23. HEERF funds are expected to be available in May therefore the carryover is very likely to change.
- Football tickets, premium seats on the West Side as well as Cabanas are included to represent a consistent format as previously reported but are pledged to Stadium Corporation. Parts of this budget tie to “Revenue received from SC Transfer” in a later section to accurately represent UCFAA cash flow. This budget includes football tickets as well as all other sport tickets sales such as baseball, softball, soccer, women’s basketball, etc. Men’s basketball ticket sales only represent the portion retained by the UCFAA.
- Other donations for operating reflect increased R&R needs. Sources include sport specific donations and Shareholder Society funds needed for operations this year. Fundraising for facility projects will continue to be a point of emphasis.
- Football game guarantee and one men’s basketball guarantee.
- Corporate sponsorships revenue is currently budgeted significantly higher but attainable as businesses rebound from Covid-19.
- Pledges used for debt service are associated with the Roth Athletics Center.
- NCAA/conference distributions are finalized in June after AAC board meetings. As of April 26, 2022, they have not provided projections for next year. Increase budget is based upon historical information but is expected to vary.
- Other revenues are segmented for transparency to inform the Board of two additional revenue streams. Variance from FY22 budget was approximately \$800k in E&G funds that were budgeted for Title IX support but did not materialize.
- Scholarship support increased in FY22 to assist the Association in funding student-athletes who received an additional year of eligibility due to the interruption of their competitive seasons caused by the COVID-19 epidemic. Support reverts to historical levels next year.
- Revenue from the Stadium Corporation transfer ties to actuals approved by its board. This was previously shown as a “net” number. Linked to Guaranteed Royalty and Rent expense in Uses that had not been previously detailed.
- Scholarship expenses are reduced from the previous year to account for fall and winter student-athletes who received an additional year of eligibility dropping off.
- Compensation is increasing from the previous year largely due to contractual salary increases plus adjustments to existing staff. Approximately 60 positions turned over from the previous year creating fully annualized salary expenses including women’s basketball staff.
- Sport operations budgets have decreased from actuals as we implemented a zero-based budget practice. FY22 actuals include bowl game expenses. Bowl game expenses (nor revenue) have not been budgeted due to location variability.
- Support operational increases reflect additional expenses for football gameday that campus had previously paid but UCFAA did not budget. Utility costs are projected to be 17% higher next year. Nutritional program was underbudgeted last year and reflective of actuals this year. Insurance premiums projected to be significantly higher.
- Non-recurring expenses are primarily focused on deferred maintenance for our facilities that are showing extensive wear-and-tear. Each facility was scrutinized and prioritized. The “needs” list totals over \$6M.
- Anticipated AAC exit fee pending conference negotiations.
- Guaranteed Royalty to the Stadium Corporation for advertising plus UCFAA rent paid for stadium use. This expense was previously shown as a “net” number in the prior budget formats.

- Retained Earnings shown as an expense demonstrated for liquidity. Cash flow is a constant concern so this budget line item will be present for years to come. Early analysis of our cash burn rate suggests a long-term goal of 15% of gross revenues to maintain enough liquidity for healthy cash flow. The Association closed its operating line of credit during FY21 further necessitating the need for cash reserves on hand.
- UCFAA debt service includes annual debt service on the Roth Athletics Center, funded by donations, and the construction line of credit with Fifth Third Bank. Donations for pledges were moved up to Operating Revenues. The University agreed to defer its \$1 million loan repayment for FY21 and FY22. \$1M repayment begins again in FY23.
- All stadium R&R expenses will be funded by the UCFAA directly and have been included in this budget including rust remediation.

Conclusion: This budget format emphasizes cash flow to the Association while detailing annual revenues in support of annual expenses. It is not meant to be a Financial Statement presentation but rather a budget evaluation tool for the Association’s Board. Living within our means has been emphasized and will require financial discipline. Stabilizing cash flow for fiscal sustainability and reducing short-term operating debt have been the priorities thus far. Once we navigate through these choppy cash flow times, our goal will be to provide a 3-year outlook to this board. We are anticipating this to be a rough draft as there are many unknowns at this time that will shift expenses/revenues across fiscal years. The biggest uncertainties include a) how much HEERF can be spent in FY22 vs FY23, b) the final cost of exiting the American Athletics Conference and c) how quickly we can resolve short-term debt to create a healthy cash position. We make progress every day.

Recommended Action:

Adoption of the budget by the UCF Athletics Association Board of Directors.

Alternatives to Decision:

Modify or reject the budget of the UCF Athletics Association, Inc.

Fiscal Impact and Source of Funding N/A

Authority for Board of Trustees Action: N/A

Florida Statute 1004.28

Florida Board of Governors regulation 9.011

UCF Regulation 4.034

Contract Reviewed/Approved by Attorney Liaison N/A

Attorney Liaison has approved adding this item to the agenda

AVP for DSOs has approved adding this item to the agenda N/A

Chair of the Board has approved adding this item to the agenda

Submitted by:

Terry Donovan, Senior Executive Associate Athletics Director, CFO

Supporting Documentation:

Attachment A: FY2022-23 UCFAA Proposed Budget

Facilitators/Presenters:

Terry Mohajir, Vice President and Director of Athletics

Terry Donovan, Senior Executive Associate Athletics Director, CFO