Report

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Committee on Budget and Fiscal Affairs

October 9, 2013

<u>Outcome of Dialogue over Big East Exit Fee</u>

Following the decision by the Board of Trustees at its May meeting to reconsider who should ultimately pay for the Big East exit fee, a subcommittee of the Senate Committee on Budget and Fiscal Affairs (SBC) has met 7 times from May to July with Lou Marcoccia (Executive Vice President and Chief Financial Officer) and Gwenn Judge (Director of Budget and Fiscal Planning). In these meetings, we have considered a wide range of potential scenarios, ranging from Athletics paying only its pro-rated share of the fee (the initial decision of the Trustees) to having it repay the entire fee (the Senate resolution).

After careful examination of each option, we have reached a compromise consisting of two parts: First, that Athletics should directly fund 25% of the exit fee, in increments, over a ten year period. Second, we also recommend an expedited repayment schedule, should unrestricted revenues from joining the ACC exceed expectations. In summary, this compromise would <u>increase</u> Athletics' financial obligation from approximately $375,000 (5%) through taxation to a **minimum** direct obligation of $1,875,000 (25%) plus the prospect of additional revenue shortening the University's 10-year budgeted payback period. The $1.875 million to the Responsibility Centers is in addition to the estimated $20 million that the non-Athletic centers are projected to receive as a result of taxes and participation from the Athletic Department from ACC revenues. The total financial benefit to the schools and colleges over the ten-year period would total approximately $17 million.

The issue of who should pay the Big East exit fee has been controversial because any decision needs to balance the interests of Athletics with those of the rest of the University. Therefore, we outline here, for the Senate and the University community, why we accept this compromise as reasonable. To the extent possible under constraints of confidentiality about sensitive financial information, we also explain why other scenarios, especially those closer to the Senate resolution, were rejected as fiscally unsustainable. We have tried to explain the direct and indirect implications of these scenarios without getting into the complexities of Responsibility Centered Management (RCM), yet the principles of that budgeting system do fundamentally influence how costs and benefits get allocated.

1. We accept the basic premise of the Trustees that Syracuse University as a whole does benefit **financially** from switching conferences. Originally the SBC disagreed with the Trustees' decision that the University as a whole should absorb the exit fee because its decision shifted the financial burden of the exit fee to all academic and non-academic units. However, based on additional information, we are persuaded that these other units will indeed see a fiscal benefit, despite the additional direct cost.

2. However, we still disagree with the Trustees' decision that the University, as a whole, should absorb the exit fee, because too much of the financial burden falls to these other units. In effect, relying solely on taxation of increased revenue (as a projected result of joining the ACC) results in Athletics indirectly covering merely 5% ($375,000) of the exit fee, while the rest of the University carries 95% ($7,125,000) of this cost. We think that Athletics needs to cover a greater share of the overall cost, and to do so through increasing its portion of the repayment.

3. Discussions, therefore, centered on what percentage of the exit fee would be financially feasible for Athletics to bear, both immediately and over a ten-year period. We reviewed a number of options, starting with the possibility that Athletics would pay the entire fee, in line with the Senate resolution. Here, we summarize the scenarios that received the most attention.

    a. In light of the five-year budget projections, and based on additional information from the Administration, it is clear that Athletics cannot bear the burden of covering the full cost of the exit fee, especially in the short term. Simply put, the Administration insists (contrary to recent media reports) that Athletics will run a deficit (projected negative carryover balance) during the current five-year budget plan, which only a move to the ACC seems likely to resolve.

        i. Questioning their claim, we viewed the projected 5-year budget of Athletics to determine if there were any major expenses (such as salaries) that were scheduled to increase. We concluded, based on the confidential information made available to us, that none of the projected costs were growing disproportionately.

        ii. Furthermore, we accepted that the RCM budgeting system would require additional subvention for Athletics, should it be required to cover the full cost of the exit fee. In effect, the option in line with Senate sentiment merely offers a less transparent way of making all other units cover the exit fee.

    b. To reduce the impact on Athletics, yet still retain full pay-back, we offered a "mortgage interest option" whereby Athletics would be allowed to "deduct" the entire cost of the exit fee from its taxable revenue. However, we eventually accepted the Administration's view that even this scenario shifted too much of the cost (approximately 80%) to Athletics, because its budget would have no way to balance itself.

    c. Other scenarios aimed at different ways to split the cost of the exit fee closer to 1/3 paid by Athletics and 2/3 by the remainder of the University. These alternatives appeared reasonable, as they significantly enhanced the budget projections of all academic units while shifting more of the exit fee to Athletics. However, concerns remained over Athletics' projected deficit. Therefore, discussions continued over the precise percentage that Athletics could reasonably bear, including mechanisms for calibrating the timing of repayment with anticipated graduated growth in ACC-generated revenue.

4. In the end, our discussions focused on 25% of the exit fee, paid over a ten-year period, as the portion that Athletics could bear. The proposal we have agreed to support would: (i) increase Athletics' financial obligation to a minimum direct obligation of $1,875,000 over ten years, and (ii) require Athletics to pay an additional 15% of any windfall unrestricted revenues beyond taxes and participation. The overall effect of the additional 15% of windfall unrestricted revenues going to non-Athletic Centers combined with other RCM unrestricted revenues assessments and participation would be approximately a 50/50 split. Crucially, it is with the understanding that 15% of windfall unrestricted revenues to the Athletic Department will be shared at an enhanced level with the other Responsibility Centers that we endorse this proposal.

    a. We proposed that windfall unrestricted revenues resulting from ACC membership (such as an ACC television network) should be used to reduce the ten-year payback period for the exit fee if such revenues were realized. Thus, Athletics could reduce the 10-year timeframe for all Responsibility Centers to repay the entire exit fee while ensuring that any additional revenues from the ACC also benefit the other Responsibility Centers, which paid 75% of the exit fee. (This would be equivalent to paying off a mortgage early.)

    b. We further proposed that windfall unrestricted revenues should provide a return to the non-Athletic Responsibility Centers beyond the scheduled distribution of this agreement. Any windfall revenue would be shared with all Responsibility Centers regardless due to the RCM system of taxation.

We think that this recommendation to the Chancellor and Board of Trustees offers a reasonable balance between the interests of Athletics and other units of the Syracuse University. The whole campus will benefit from greater revenues for Athletics resulting from the conference switch. Yet, an essential part of the compromise reinforces the academic mission: the requirement that better ACC payouts (or other enhanced revenues that cannot be projected at this time) will automatically help to repay non-athletic departments for their initial 75% of the exit fee. Overall, greater revenues would free even more funds for academic pursuits sooner, giving everyone in the University Community reason to be satisfied.

Approved: Senate Budget Committee 9/9/13