



MEMORANDUM

To: Richard Lariviere
President

From: Rob Mullens *RM*
Athletic Director

Date: September 28, 2010

Re: Operational Assessment

Your June 3, 2010 request to begin the operational assessment of the Athletic Department was extremely helpful. Jamie Moffitt has completed her work and the attached summary memo is meant to capture the keys issues discussed in our detailed briefing on Monday, September 27. The report has been invaluable in understanding the current financial landscape. Jamie has done outstanding work in thoroughly examining the Athletics enterprise to gain the knowledge necessary to layout our current status and begin planning for the future.


Athletics has experienced rapid growth over the past few years which played a key role in record results. The investments made have lifted UO Athletics to an elite level, enhanced our nationally recognizable brand and energized our passionate fan base. The next step is to create a management and financial infrastructure to maintain the recent momentum while ensuring our operation is fiscally sustainable in the mandated self support model. While the report notes the financial challenges moving forward, I am confident we will develop the necessary plans to increase revenue, manages expenses and ensure an effective and efficient operation as outlined in the memo.

UO Athletics is at a critical point in our history. It is imperative that we build a sustainable long term financial model to ride the recent momentum to an even brighter future. This fall Jamie and I will develop the long term financial projections for the department. We anticipate being in a position to have an updated version of the Legacy Fund model to you by winter term. Thanks again for your leadership and support.



To: Richard Lariviere, President

Rob Mullens, Athletic Director

From: Jamie Moffitt, Executive Senior Associate Athletic Director for Finance & Administration 

Date: September 27th, 2010

Re: Operational Assessment

Over the course of the last few months I have conducted the operational assessment of the Athletic Department that the President requested. Following are my findings and recommendations regarding the department's decision making structures and processes, contracts and personnel files, budgeting processes, and long term financial position.

New Administrative Decision Making Structures & Processes

During her tenure as Interim Athletic Director, Lorraine Davis reorganized the management structure of the senior athletic staff and pulled all of the core business functions (business office, budgets, finance, and human resources) together under the management of one Executive Senior Associate Athletic Director. Previously, management responsibilities for these various functions resided in different parts of the organization. This management restructuring has enabled the organization to implement new decision making processes to ensure that all new programs, initiatives, and projects are thoroughly vetted from a coordinated financial, human resources, and legal perspective before decisions are made by the Athletic Director. My recommendation would be that you keep this organizational structure in place going forward.

Comprehensive Internal Assessment of Personnel Files

With the help of Assistant Athletic Director Mark Ruckwardt, this summer we conducted a comprehensive review of the personnel files for all permanent Athletic Department staff. Phase one of this review involved collecting all personnel information into one set of personnel files housed in the Athletic Department's Human Resources department. Previously, due to the management structure of the department, personnel information was dispersed between the Human Resources office, the Business Office, General Counsel's office, and the Athletic Director's office. The Athletic Department's Human Resources office now holds a complete set of all personnel files for permanent staff.

During the second phase of the review, we individually reviewed each file to ensure that it contained all expected information (e.g., current contracts, position descriptions, performance reviews, outside income forms, necessary presidential and chancellor approvals, etc.). In total we reviewed 186 personnel files. All current staff have an enforceable employment agreement in place (SEIU contract for classified staff, standard or custom contract for Officers of Administration, Letters of Intent / MOU for those staff with long form custom contracts that are in the process of being finalized). The biggest issue identified during this review was the need to put in place a more structured Officer of Administration ("OA") performance review process. This will ensure that all OAs receive annual performance reviews and that their position descriptions are updated regularly. We plan on designing and implementing a new OA performance review process for the department this coming year.

New Budgeting Processes

We are in the process of implementing several new budgeting processes at the Athletic Department to improve financial management and reporting. They include the following:

- ***Restructuring the Chart of Accounts.*** We are restructuring the department's financial organization in BANNER to simplify our index structure and to enable us to improve our cash management, while still maintaining the accuracy of our management reports.
- ***Redesigning Budget Reports.*** We are creating a new set of monthly budget and expense reports that will enable units to better track actual expenditures vs. budgets and enhance accountability. We are also putting in place a new variance / adjusted budget analysis to enable us to better project year-end figures.
- ***Implementing Zero-Based Budgeting Process:*** In the Spring we will be implementing a new zero-based budgeting process to better understand the funding needs of all of the programs and departments. This process will require units to analyze their resource requirements at a more granular level and will enable the Athletic Director to make more informed decisions about how to allocate and align limited resources.

Long Term Financial Assessment

Over the past several years, the Athletic Department has enjoyed tremendous growth and success. We have nationally competitive teams, world-class facilities, and an elite coaching staff. Investments in new facilities, new programs, and new coaches have put Oregon Athletics in an unprecedented national position.

The investments necessary to achieve this success, however, have been substantial. Over the last few months, I have worked to gain a better understanding of the long-term financial position of the department. Although I am optimistic about the opportunities for substantial new revenue, it has become apparent that the department's operating budget will require careful stewardship to meet the collective goal of maintaining the department's self sufficiency. Fortunately, the Athletic Department has the benefit of the Legacy Fund (which currently holds over \$129 million in cash and pledge assets) to serve as a backstop to support the department.

The Arena was built with the understanding that the Athletic Department would be responsible for the annual debt payments. The original funding model projected that the Athletic Department would only rely on the Legacy Fund to support a portion of the Arena debt payments. It was expected that the Department would contribute between five to six million dollars of funds annually from the operating budget to help pay the debt payments. To date, the department has not been in a position to contribute any operating funds to the annual debt payments. This means that we have had to rely on, and will continue to rely on, the Legacy Fund more heavily than previously anticipated.

We are also going to need to turn to the Legacy Fund to finance some final construction costs of the arena. The escrow arrangements associated with the bonding of the Arena resulted in only \$192 million in available bond proceeds to support construction costs. \$6.8 million was set aside to pay the first arena debt payment and \$1.2 million was used to pay for bond related fees. All interest earned on the bond proceeds (\$5.1 million) was also required to be put in escrow to support the debt payments. Although this arrangement helped support the necessary debt obligations for the arena in FY2009 and FY2010, it means that the project does not have all of the funds necessary for completion of construction, without support from the Legacy Fund. I currently anticipate needing to request the president's permission later in the year to access approximately \$8 million from the Legacy Fund to provide the final funds necessary to complete the \$200 million project.

The Athletic Department clearly faces some significant financial challenges. However, with careful fiscal management, we can expect to strengthen the financial position of the department over a period of four to six years. Importantly, during that time period it is understood that we must remain self-sufficient and that we cannot put ourselves in a position that would require use of any state general funds. Over the next four to six years, we are going to need to turn to the Legacy Fund to cover the bulk of the debt payments due each year. Our strong reliance on the Legacy Fund in the upcoming years will reduce the projected 30-year balance of the fund.

In order to address the financial issues that we face, there are a number of important steps that we must take. These include:

- ***Prudent Fiscal Management of the Department's Expense Base.*** This summer we have already put in place more structured processes to control and manage expenses. As described in

another section of this report, all unbudgeted expenses are now reviewed thoroughly by both the Executive Senior Associate Athletic Director for Finance & Administration and the Athletic Director before any decisions are made. This spring we will be implementing a zero-based budgeting process that will enable us to allocate our limited resources as wisely as possible. It is imperative that we maintain these new cost containment procedures and that we further explore opportunities to reduce departmental costs.

- ***Selective Investment in Revenue Generating Areas of Department:*** Although it is critical that we control costs in the overall department, we are going to need to make investments in those areas of the department that drive our revenue. For example, we are going to be investing in a number of new staff positions to manage and operate the arena. We can only fully leverage the revenue potential of the facility – in terms of both athletic and outside events - if we have hired the necessary staff to operate it entrepreneurially and effectively. Similarly, we are going to need to make investments in our football program to ensure that our team remains a top national competitor. Football related revenues, whether from football tickets, associated DAF contributions, or media revenue, are critical to our financial viability.
- ***Full Exploration of all Current and Potential Revenue Streams:*** Over the next four to six years, it is going to be important that we look carefully at all of our existing and potential revenue streams to ensure that we are maximizing the funds that are brought in to support departmental expenses. Important sources of revenue going forward are expected to include:
 - New Media Revenue from PAC10/12 contracts (starting in FY2013)
 - New Revenue from Outside Events in the Arena (first full year in FY2012)
 - Football Tickets
 - Football DAF contributions
 - Basketball Tickets
 - Basketball DAF and Seat Construction fees
 - Facilities fees
 - Licensing and Merchandising
 - Internet initiatives

The financial challenges that we face are considerable. However, I am confident that we can strengthen the financial position of the department over a four-to-six year period. This coming fall we will be developing detailed multi-year financial models for the department. My expectation is that we will have an updated version of the Legacy Fund Arena model available for presidential review by winter term. This model will be adjusted to reflect our best understandings of the current financial situation.