

AGENDA
COMMITTEE ON INTERCOLLEGIATE ATHLETICS

May 10, 2016

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AGENDA

COMMITTEE ON INTERCOLLEGIATE ATHLETICS

May 10, 2016

1. Information Item: Athletics Special Review

At this meeting, Executive Vice Chancellor / Chief Academic Officer Dr. Houston Davis, and Vice Chancellor for Internal Audit & Compliance / Chief Audit Officer John M. Fuchko, III will deliver their report on intercollegiate athletics within the University System of Georgia. This review was launched in Spring 2014 at the direction of the Board and the Chancellor. Dr. Davis and Mr. Fuchko will present a series of policy recommendations generated from this review after delivering the report.

2. Approval Item: Revision of Board Policy for Intercollegiate Athletics 4.5

Recommendation: That the Board approve the following changes to BOR Policy 4.5 – Intercollegiate Athletics effective July 1, 2016.

Abstract: Proposed changes to BOR Policy 4.5 Intercollegiate Athletics include: 1) Allows limited use of institutional funds in support of intercollegiate athletic programs while also limiting the total percentage of athletics budgets that can be funded by athletic fees and institutional funds, i.e., requiring athletic programs to earn a percentage of their budget through other fund sources such as ticket sales, fundraising, sponsorships, etc.; 2) Reinforces the current prohibition on the use of Fund 10000 State Appropriations for intercollegiate athletics; 3) Limits annual growth in athletics expense by 5% with the exception of Power 5 Institutions (currently The University of Georgia and Georgia Institute of Technology); 4) Requires annual reporting of academic, fiscal, compliance and related issues to the Board of Regents and the Chancellor; 5) Provides for in-depth review of specific athletic programs as needed to proactively address fiscal, compliance, or other issues; and, 6) Require timely reporting of governing association infractions and/or investigations, projected financial shortfalls and associated corrective action plans, and other matters as relevant.

CURRENT POLICY WITH PROPOSED REVISIONS:

4.5 Intercollegiate Athletics

This policy governs USG institution establishment of intercollegiate athletics, expansion of sports, changes in intercollegiate athletic competition levels, and funding of intercollegiate athletics programs (BoR minutes, March 2013).

4.5.1 Purpose

Participation in and enjoyment of intercollegiate athletics are important components of the overall collegiate experience and also provide valuable benefits to the communities in which universities and colleges are located. The Board of Regents of the University System of Georgia is committed to promoting such participation and opportunities within the mission, values, and goals of each USG institution. However, decisions made with respect to athletic programs may have significant financial implications for the institutions, and, subsequently, affordability for USG students. These programs must be operated in an ethically and fiscally responsible manner consistent with the rules, regulations, and principles of the national intercollegiate athletic associations and the conferences with which the institutions are affiliated (BoR minutes, March 2013).

4.5.2 Board Oversight

The Board of Regents provides oversight and broad policy guidelines for the operation and budget activities of intercollegiate athletics programs in a manner consistent with the operation of other USG units (BoR minutes, March 2013).

4.5.3 Delegation of Authority

The president of each USG institution is assigned ultimate responsibility and authority for the operation, fiscal integrity, and personnel of the institution's athletics program, including appointment and supervision of the athletics director(s). Each president is also responsible for ensuring that the institution's athletics program is in compliance with all applicable federal and state laws, in compliance with the regulations of any athletic conference affiliation, and that the mission, values, and goals of the athletics program are compatible with those of the institution (BoR minutes, March 2013).

4.5.4 Authorization and Approvals

Any USG institution that wants to establish an intercollegiate athletics program, expand its current intercollegiate athletics program, make a change in conference that requires significant program or resource expansion, or change competition levels, shall first obtain approval from the Board of Regents. Prior to any action on behalf of the institution, the president of the institution shall first notify the Chancellor of the scope of the intended change and the Chancellor shall determine if written notice to the Board is required. If it is determined that a formal review and approval by the Board is required, the institution shall submit for that approval a full proposal to the Board of Regents for integrated review as outlined in Section 4.5.5 (BoR minutes, March 2013).

4.5.5 Criteria for Proposal of Athletics Expansion

Consideration will be given to proposals that:

1. Are based on an institution submission of a five-year operational and capital plan for intercollegiate athletics that includes projected expenditures and revenues and sources of funding including institutional funds, athletic fees, ticket sales, unrestricted endowment income, and other sources such as sponsorships, community giving, and alumni donations;
2. Demonstrate support and approval for the plan based upon widespread consultation with the institution academic and student governing bodies and community constituents;
3. Stipulate that grants-in-aid will be administered in strict compliance with intercollegiate athletic rules and regulations and may be funded from athletic fee revenues, unrestricted endowment income, and other allowable funding sources;

4. Assure that equitable athletic opportunity will be provided for members of both sexes, so that no person, on the basis of sex, will be excluded from participation in, be denied the benefits of, or be subject to discrimination in the overall intercollegiate athletics program of the institution;
5. Stipulate that the operation of intercollegiate athletics cannot come at the expense of academic programs and essential activities at an institution or by diverting funds from other major institution functions;
6. Discuss the facilities implications of any required changes in or additions to capital facilities in order to upgrade intercollegiate athletics; and,
7. Ensure that all funds utilized in support of the intercollegiate athletics program will be allocated, administered, and expended directly under the authority of the institution president in strict compliance with intercollegiate athletics regulations and institutional

guidelines for the establishment and conduct of institution intercollegiate athletics boards (BoR minutes, March 2013).

4.5.6 Monitoring

1. The USG shall ~~periodically~~ **annually** review institutional intercollegiate athletics programs for financial and program soundness. **To assist with this task, each President of an institution that participates in intercollegiate athletics shall furnish a report annually to the Chancellor that addresses academic, fiscal, and compliance issues associated with intercollegiate athletics. This annual report's format will be prescribed in the Business Procedures Manual.**
2. Institutions will provide to the Chancellor copies of the annual reports submitted to the appropriate national intercollegiate athletic association and conferences regarding academic progress and graduation success rates of student-athletes.
3. The Chancellor will submit a summary of the institution reports to the members of the Board and will advise the Board Chair of any Board actions needed.
4. **Each institution is to immediately notify the Chancellor of all NCAA/NAIA/NJCAA major infractions or investigations, conference investigations, or any other events or situations which might spark unusual public interest in the athletic program. As a part of the notification the institution should provide sufficient detail concerning the situation to ensure the USG can respond appropriately to inquiries.**
5. **Each institution is required to report to the USG chief business officer regarding all projected/known fiscal shortfalls, where current fiscal year intercollegiate athletic**

expenses are expected to exceed current fiscal year intercollegiate athletic revenues, as soon as it is determined, along with the reason(s) for the shortfall and the plan in both the short and long term for resolving the issue. Projected or actual use of institutional reserves in support of intercollegiate athletics must be highlighted in the required report.

6. There shall be an annual audit of any separately incorporated athletic association, with a copy of the audit to be filed with the USG chief audit officer (BoR Minutes, March 2013).

4.5.7 Management of Athletic Affairs

Management and control of intercollegiate and intramural athletic affairs shall be the responsibility of the respective institutional authorities. Each institution participating in a program of intercollegiate athletics is expected to take the necessary steps to ensure that its management of the program is in compliance with the provisions of applicable federal laws and the regulations of any governing body and athletic conference with which it is affiliated.

DUPLICATE of 4.5.6.5 removed
(BoR Minutes, 1983-84, p. 170)

4.5.8 Funding of Intercollegiate Athletic Programs

For the purpose of this policy, the USG has adopted the definitions of revenues and expenses provided by the NCAA for the Financial Reporting System as outlined below and to be further defined in the USG Business Procedures Manual. The NCAA Financial Reporting System aims to capture all revenues and expenses on behalf of an institution's intercollegiate athletics program, including those by outside entities, i.e. foundations, booster clubs, etc. and institutions similarly shall include all intercollegiate athletics revenue and expense to include entities operating on behalf of the institution's athletics program.

As used in this Policy, "Athletics Operating Revenue" is the total revenue generated by the institution's intercollegiate athletics program. "Direct Institutional Support" is the direct financial support provided by the institution to the athletics programs, e.g., tuition funds used to support intercollegiate athletic activities. "Subsidy" is the sum of direct institutional support and student fees and does not include the value of out-of-state tuition waivers. "Subsidy Percentage" is the subsidy divided by athletics operating revenue as defined in the USG Business Procedures Manual. "Athletics Operating Expense" is the total expense spent by the institution's intercollegiate athletics program. Athletics Operating Revenue, Direct Institutional Support, Subsidy, Subsidy Percentage, and Athletic Operating Expense shall be further defined in the USG Business Procedures Manual.

Institutions may expend Education & General fund resources on behalf of the institution's intercollegiate athletics program except as noted: Institutions must not expend Fund 10000 state appropriations on athletics and must not expend Education & General fund resources in support of athletic scholarships.

A. A form will be provided to ensure a standardized reporting format for each institution to annually report its intercollegiate athletics revenues and expenses in accordance with Section 4.5.6.1.

B. The subsidy percentage shall not exceed:

- **10% for NCAA DI-A institutions affiliated with the ACC, Big Ten, Big 12, Pac-12 or SEC; often referred to as the Power 5;**
- **65%: NCAA DI-A institutions affiliated with other conferences;**
- **75% for NCAA Division I-AA institutions;**
- **80% for NCAA Division II institutions;**
- **85% for NAIA and NJCAA institutions.**

C. Except for the Power 5 institutions, total athletic operating expenses may not increase by more than 5% annually unless approved in advance by the Chancellor.

D. Effective July 1, 2016, each institution exceeding the allowable subsidy percentage in the prior fiscal year shall submit to the Chancellor a plan for approval that reduces the subsidy over a fiscal year period, not to exceed four years, until the subsidy percentage complies with the requirements of subsection B. Failure to be in compliance in four years shall, at the discretion of the Chancellor, result in athletics programming mandates from the Chancellor including but not limited to reduction/change in sport offerings, change in conference affiliation, and change in governing body/division membership. Any institutions below these caps as of July 1, 2016 for Fiscal Year 2016 but exceeding them in a future fiscal year will have one year to get back in compliance.

4.5.9 Athletic Programs in Associate Degree Institutions

The USG associate degree institutions are authorized to establish and participate in a program of intercollegiate and intramural athletics. Intercollegiate football programs may be established only with prior approval of the Board (BoR Minutes, 1993-94, p. 185).

3. **Approval Item: Revision of Board Policies Related to Student Services 7.2.1.5 and Auxiliary Enterprises Revenues and Expenditures 7.2.2**

Recommendation: That the Board approve the following changes to BOR Policy 7.2.1.5 – Student Services and 7.2.2 – Auxiliary Enterprises Revenues and Expenditures effective July 1, 2016.

Abstract: The proposed changes are designed to ensure a consistent approach to intercollegiate athletics between BOR Policy 4.5 Intercollegiate Athletics and our financial policies as indicated below. The changes reinforce the allowable use of institutional funds, excluding Fund 10000 State Appropriations, in support of intercollegiate athletics subject to the limitations outlined in Board Policy 4.5. Additionally, the proposed policy change affirms that intercollegiate athletics supports the primary mission of the institution. Finally, the proposed changes provide for wording updates to reflect current fiscal affairs terminology.

CURRENT POLICY WITH PROPOSED REVISIONS:

7.2.1.5 Student Services

7.2.2 Auxiliary Enterprises Revenues and Expenditures

7.2.1.5 Student Services

The **Student Services** category includes expenditures incurred for offices of admissions and the registrar, and activities with the primary purpose of contributing to students' emotional and physical well-being and intellectual, cultural, and social development outside of the context of the formal instruction program.

It includes expenditures for student activities, cultural events, student newspapers, intramural athletics, student organizations, intercollegiate athletics (if the program is not operated as an essentially self-supporting activity **and is not reported as an auxiliary**), counseling and career guidance (excluding informal academic counseling by the faculty), student aid administration, and student health service (if not operated as an essentially self-supporting activity **and is not reported as an auxiliary**).

In recent years, some institutions have created an office of enrollment management. Expenditures for such an office are best categorized in Student Services.

7.2.2 Auxiliary Enterprises Revenues and Expenditures

Auxiliary enterprises revenues and expenditures shall be defined as all revenues received and expenditures made for functions and activities that are related to the mission of USG institutions including, but not limited to:

1. Housing;

2. Food Services;
3. Student Health Services;
4. Student Activities;
5. Intercollegiate Athletics (excluding intercollegiate athletics **activity** which ~~are~~ **is** operated under the authority of a separately incorporated athletic association);
6. Parking;
7. Transportation;
8. Stores and Shops; and
9. Vending and Other Services.

Refer to [Section 15.0, Auxiliary Enterprise Funds, of the Business Procedures Manual](#) for more information on auxiliary enterprise funds.

Auxiliary enterprise operations shall operate on a self-supported basis with revenues derived from student fees and other non-state sources, except as provided below. Each auxiliary enterprise operation shall be charged for its share of plant operations and maintenance expense as a direct expense, and/or charged on the basis of an allocation methodology, such as share of total institutional square footage. USG institutions may choose also to charge administrative overhead to recoup general costs expended on behalf of each operation. USG institutions shall, notwithstanding the above, allocate at least all direct expenses to the respective auxiliary. **In no instance may Fund 10000 state appropriations be used to fund athletic auxiliary operations.**

Each institution shall develop and update annually a five-year plan for each auxiliary enterprise operation that defines the level and manner of service to be provided, planned expenditures and sources of revenue, including projected fee requirements. The format and content of each plan shall be determined by the USG chief fiscal officer, but must minimally contain the following:

1. A statement regarding the role of the enterprise in the context of the institution's academic mission.
2. A statement of goals and objectives to be achieved over the course of the five-year plan.
3. A statement on operating strategy, including services to be provided and sources of revenue, including student fees.

4. A financial pro forma that projects future revenues and expenditures consistent with stated goals and objectives. The method used to allocate plant operations costs and other indirect costs, if charged, also shall be described in the five-year plan.
5. The plan shall provide for an adequate reserve to cover anticipated renewals and replacements and other contingencies, as necessary (BoR Minutes, January 2010).

Exceptions to the requirement that institutions operate their auxiliary enterprises on a self-supporting basis shall be recognized as follows:

1. Institutions may choose to operate some auxiliary enterprise activities on a loss basis, but must indicate in their five-year plans how the costs of such activities will be covered by revenues generated through other auxiliary operations and must also provide an alternative plan reflecting the elimination or privatization of the auxiliary. The Board of Regents may, upon recommendation of the Chancellor, direct the institution to eliminate or privatize the auxiliary (BoR Minutes, October 2013).
2. Institutions may apply **Education & General** general fund resources, **excluding Fund 10000 state appropriations for athletics**, to auxiliary enterprise operations where such expenditures can be justified as supporting the primary mission of the institution; however, use of general fund resources for auxiliary enterprise operations is strongly discouraged and must be approved in advance by the Chancellor under procedures established by the USG chief fiscal officer. **The Board of Regents has determined that intercollegiate athletics supports the overall mission of the institution and has authorized the use of Education & General Fund resources in support of intercollegiate athletics as outlined in Board Policies 4.5 and 7.2.2. Use of Education & General fund resources for intercollegiate athletics, excluding Fund 10000 state appropriations, is authorized as outlined in Board Policy 4.5 and as further defined in the USG Business Procedures Manual.** In no instance may **Education & General** general fund **resources** revenues be used to support athletic scholarships. The use and amount of **Education & General fund resources** general-revenues applied to the support of auxiliary enterprise operations shall be included in the five-year plan (BoR Minutes, October 2013).

Accounting records for auxiliary enterprises will be maintained on the full accrual basis. Therefore, funded depreciation will be required for all auxiliary enterprise service equipment, buildings, infrastructure and facilities, and other improvements. The reserve for depreciation will be used for repair and replacement of auxiliary assets according to guidelines provided in [Section 7.0, Capitalization, of the Business Procedures Manual](#). The funds collected will be left with the institutions (BoR Minutes, February, 2007).