MINUTES OF THE REGENTS’ COMMITTEE
ON UNIVERSITY AUDITS

Date: Thursday, July 15, 2004

Place & Time: Campus Center Conference Room 220
University of Hawai‘i at Mānoa
3:45 p.m.

Committee Members Present: Regents Yamasato (presiding)
Albano
Haynes
Kakuda
Lee (ex-officio)

Committee Member Excused: Regent Kawakami

Note: Regent Kawakami was extended as a holdover Regent.

Other Regents Present: Regents Bender
Kai
Lagareta
Tanaka
Tatibouet

Others Present: David McClain, Acting President, University of Hawai‘i
Herman Frazier, Director of Athletics
David Iha, Executive Administrator and Secretary of the Board
Carl H. Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Kakuda moved to approve the minutes of the meeting of the Regents’ Committee on University Audits held on April 30, 2004. The motion was seconded by Regent Albano and unanimously carried.

Management Discussion and Analysis of the Intercollegiate Athletics Department, University of Hawai‘i at Mānoa

Athletic Director Frazier informed that the Department of Intercollegiate Athletics experienced a complete management change during the 2002-2003 fiscal year. The previous year, the
Department had a 1.5 million dollar deficit and covered the deficit by utilizing all the reserves. The commitments that were made to coaches and programs forecasted a deficit for the 2002-2003 fiscal year as early as August of 2002. Obviously there were serious attempts to increase revenue whereby the proposed deficit could be reduced. The new management team requested relief from the Chancellor's Office and sought additional funding from the Ahahui Koa Anuenue (AKA Booster Group) to supplement revenue. The Chancellor's Office provided $1 million in the form of a loan and the booster group provided $1 million over and above the annual amount it normally provided to the program.

Consequently, with all the above results the department still operated in the red for 2003 and will show a deficit albeit reduced for the 2004 year as well. The obvious reasons for the 2003 deficit were decreases in arena rentals; decreased gate revenues in Men's Basketball, Football, and Women's Basketball. At the same time, there were increased expenses due to a new contracts for the Mens' Basketball Coach, Men's Volleyball Coach, and a new Athletic Director. Unfortunately, with all of the turnover there were accrued vacation payouts and other factors affecting the bottom line of the overall program. This amount is also included in the final deficit numbers as shown for Fiscal 2003.

During the 2002-2003 fiscal year the new director created a plan to come to the Board of Regents for a revised three-year plan in ticketing to help future revenue planning. This was needed because it was easy to assess that we were required to make changes to be financially secure for the future. The results of this change will be helpful from 2004-2006. However, the plan has been revised to now coincide with the new five-year plan that was presented at the June meeting.

The department also changed the renewal dates for Football ticketing which will have a tremendous impact on the net assets between 2002-2003-2004. In the past, the department renewal dates were either late June or early July. In order to effectively market our Football program, our greatest asset was moving the dates up earlier in the spring. This is a common practice throughout our industry and therefore affects our cash balance in the latter portion of each fiscal year. The revenue is booked as deferred revenue and recognized in the following fiscal year, beginning July 1\textsuperscript{st}. The change in marketing strategy allowed the department to sell tickets for the 2003 football season as early as April of 2003, and for the 2004 football season as early as March 2004. In the future they will continue to aggressively market football season ticket renewals as early as March, providing an opportunity to obtain a quick early peak in revenue for the next fiscal year. The Five-Year Plan is a blessing in this regard because it provides the department, campus and the Board a clear benchmark and roadmap for ticket pricing and how to approach any change in ticket prices over the years.

The fiscal year 2004 had not been as difficult to manage as 2003 but still had some issues that lead to current change in net assets. Gate receipts were down in many revenue sports compared to pre-season estimates. Baseball revenue missed the mark by $20,000; Men's Basketball by $125,000; Football by $500,000; Men's Volleyball by $100,000; Women's Basketball by $15,000; Women's Volleyball by $200,000 (this was somewhat an issue because three years ago the Department elected to host a Women's Tournament not owned by us and we played two early season games and had to share the revenue). Obviously, the above calculations are the main
areas coupled with $200,000 estimated less television revenue because ESPN picked up a game that was not available to Pay-Per-View.

Expenditures are less in many areas but the majority of expenditures continue to come in two major areas. The first is salaries that Director Frazier firmly believes going into 2004-2005, he has a handle on. Secondly, the additional expenses in women's sports, primarily the Cross Country, Track and Field team, which counts as three sports. There has also been an increase in expenses for the Swimming Team. Recently significant changes have been made to the budgeting and internal expense reporting processes to insure reports are provided to management on a timely basis, allowing time to make changes to the marketing strategies to improve revenue and expense corrections well before the end of any sport season.

During the 2003-2004 fiscal year, their Business Office personnel went through some changes that left a void in obtaining financial information on a timely basis. It was at this time that the assistance and support received from the Vice Chancellor’s Office to help provide the accurate financial picture of where the Department was headed and it was during this time they recognized that the current budget process and the entire system was not in conformity of an Intercollegiate Athletics Program. They took the initiative to completely revamp the entire budget process. Obviously change is not always willingly accepted, however, in order to better get a grasp on everything, change was necessary. The department has changed drastically over the years and the system needed to change along with the growing improvements. The changes drafted by the Athletic Director along with the Associate Athletic Director for Administration (Tom Sadler), basically involved removing and reallocating line items that the sport coach or unit manager had no control over. By moving these line item expenses like personnel, medical expenses, camps, and post-season, out of the individual budgets of each program, the unit managers will now have budgets that more clearly illustrate their expenditure limit. Before the end of the first quarter of fiscal year 2005, the directors, with the assistance of their new fiscal officer will have this budgeting and expenses reporting strategy firmly in place to meet the goals of the five-year plan. The new system has already been implemented with the budget process for fiscal year 2004-2005.

The new five-year plan was presented to the Board in an abbreviated form during last month’s Board meeting. While the plan may seem ambitious, Director Frazier reiterated his earlier sentiments made at last month’s Board meeting that the revenue projections are conservative and that the overall plan is very doable. They believe the revenue projections for 2005 will set the tone for the plan. They have also joined forces with AKA to incorporate the Athletic’s five-year plan into their five-year plan. AKA and the Department of Intercollegiate Athletics have the same goals and that is to make the Department self-sufficient. That obviously is a lofty goal as it will be one of 30-40 institutions in America that will operate in the black. The AKA plan obviously will include a combination of premium seat donations and the former dues structure they have all rolled into one. This is a hybrid of the previous relationship they had over the last two years. This is a major component of the five-year plan. It also has the most potential to be understated in the revenue projection.

In addition to Premium Seat Donations, the area of television/Pay-Per-View has great potential. They are on the tip of the iceberg and they see this revenue increasing as early as 2005.
There are two competing entities for the television/Pay-Per-View rights at this point and they feel there is the potential for additional takers. The new bid process starts during the 2004-2005 fiscal year for a contract start date of 2005-2006.

The existing radio rights have been good over the years, however he stated that they anticipate an increase in these fees. The current contract has been structured to coincide with the new bid process for television. The process starts during the 2004-2005 fiscal year for a contract start date of 2005-2006.

The Western Athletic Conference Distribution will see a new increase due to a new television contract that has been signed. The negotiations were ongoing over the last six to seven months and were finally signed at the end of June 2004. Secondly, the changes in the Western Athletic Conference (WAC) will affect the amount of money they receive because the outgoing schools will have to forego some revenue and the incoming schools will have to pay an entry fee, all of which will be divided on a larger share basis to the incumbent schools of the WAC.

He stated that they firmly believe the stadium endowment revenue projections are conservative. The market is starting to change and it will have a positive affect on that particular revenue stream. In years past that amount was as high as $900,000 per annum.

The scholarship endowments will increase annually as well. They continue to add to the corpus of most of those accounts and have long-term contracts that are still ongoing.

Lastly, the E-Ticket Hawai‘i is in its first year and they received $100,000. Once the word continues to grow in this area, there will be significant increases in the online ticketing.

On another note, Financial Guarantees will see an increase in the coming years. The plan is to have all non-conference football games scheduled for the next five years to correspond with the Five-Year budget. By signing these contracts early it will solidify the non-conference away opponents and some of these games will be played on the road for large guarantees. Currently it shows a particular line flat but it will change for the better.

On the expense side, what was presented is the base for the future. For the 2004-2005 fiscal year, we project the need for a $17,901,817 expense budget. We can accomplish this by reducing each individual budget by an average of 3%-5%. Last year’s un-audited expenses came in at $18,204,309. Given the revenue projection, the expense has to coincide because that is how they are driven. The expenses in years 2005-2009 will have to reflect changes in our industry, airfares, competitive schedules and obviously, salary increases. We also have to factor in inflation which will affect every program on campus.

The Department also anticipates that in the future, many additional teams we sponsor will make it to post-season competition. The problem with success in some of these areas is not a one-to-one ratio on reimbursements from the NCAA. All sports do not receive 100% reimbursement. Furthermore, our gender equity plan also requires us to finances our women’s program with additional dollars.
A brief report was provided on the support from Koa Anuenue, most of which is in the form of scholarship funds.

Regent Lagareta stated that the Regents will support Director Frazier’s plan and will look forward to results in the future. Regent Haynes concurred, moving to approve the five-year plan as presented. The motion was seconded by Regent Albano and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 4:05 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: July 29, 2004

Chairperson Patricia Y. Lee
Members, Committee on University Audits
Acting President David McClain
Chief of Staff Sam Callejo