

**Case Study:
Unprecedented
Challenges -
Athletics Director
Decision-Making
During A Pandemic**



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Unprecedented Challenges Athletic Director Decision-Making During A Pandemic

It was the July 4th holiday, and Janine Janice Smith, the athletics director in her sixth year at Newfound State University, finally had a moment to reflect. Since early spring, when the pandemic started, she and NSU had been working at an extraordinarily intense pace to navigate challenges that few in her industry could have anticipated.

Independence Day would be different this year - there would be no large gatherings or community fireworks - but at least it provided a moment for Janine to think about the myriad challenges that she would face in the coming weeks and months.

Coaches and staff in the athletics department were relying on her for guidance and support. What would happen to their jobs and livelihoods? Student-athletes were experiencing a great deal of stress and uncertainty about the coming year. Many of them just had their seasons cancelled. Would they be able to return in the fall and play? The university was under financial pressure because of concerns about fall semester enrollment. What impact would this have on the athletics department? And, the recent tragedy involving George Floyd added intensity to discussions about social justice and was another important dimension that needed to be appropriately considered in plans moving forward.

From her home office, Janine took a deep breath and reflected on the circumstances that she faced.

Newfound State University

Newfound State University is a Division One program that joined a Group of Five conference fifteen years ago. NSU is a popular and affordable public school in a large state with an enrollment of 20,000 undergraduate students (57% female) and another 7,000 graduate students. It's often the second or third choice for students from the state, who prefer the larger state flagship school that is part of a Power Five conference. The acceptance rate of NSU is usually around 50%.

University Financial Concerns

Most of the students who attend NSU are cost-sensitive and, increasingly, there are concerns about the student fee that helps to fund the athletics program. Each semester, undergraduate students pay fees of \$440 in addition to their tuition, approximately half of which goes to help fund the athletics program and the other half to fund campus recreation and other extracurricular programs. Earlier in the summer, there was discussion about whether the students should have been refunded the fee from the spring semester because spring sports were cancelled. Such a refund would have exacerbated the COVID-19 related financial issues for the athletics department because student fees generate approximately \$9M in revenue annually and fund just over 20% of its budget (see Appendix A). Ultimately, the department determined the fee would not be refunded because sports were played for more than half of the semester. However, whether or not the fees would be

available for the fall semester if sports are not played remains an open question, and is something that Janine must pay close attention to.

In addition, the campus plans to operate its classes mostly remotely in the fall semester. University leadership is concerned about enrollment melt from cost-sensitive students opting out until classes resume in person, and is projecting a \$12M shortfall in tuition revenue for the fall semester. While this isn't an overwhelming number in the context of the university's overall \$3B budget, other financial pressure on campus operations - such as decreased revenue from housing and dining and increased costs for COVID-19 testing and cleaning - is projected to create an overall deficit of \$60M for the upcoming fiscal year.

The university is likely to implement several cost-cutting measures for the upcoming academic year. Final decisions have not been made, but Janine is anticipating a campus-wide salary and hiring freeze at the very least. During the previous economic downturn, the university implemented an operating budget reduction of 10% by targeting different reductions from various units on campus. The athletics department was forced to reduce its operating budget by 12%, which resulted in the discontinuation of two sports.

These cuts occurred several years before Janine's arrival, and her highly effective leadership has been able to heal the wounds caused by these circumstances, but it will be important for her to work with university leadership to avoid further sport cuts caused by the current downturn.

Athletics Department Background

NSU is a Group of Five program that has enjoyed moderate levels of success across the board, qualifying for the NCAA tournament in men's soccer and women's basketball the prior season. In addition, the football program has been strong, reaching a bowl game last season after a record of 8-4.

The athletics department now sponsors 19 teams. In their most recent EADA filings, they reported that 55% of NSU student-athletes were female. NSU Athletics is currently compliant with "Prong 1" of Title IX by passing the substantial proportionality test, but they don't have much room to spare, and must be mindful that the pandemic does not produce a net reduction in participation opportunities for female student-athletes compared to male student-athletes.

Janine is generally pleased with the quality and stability of the coaching staff - especially in the revenue-generating sports of football, men's basketball, and women's basketball. The morale of the head coaches has been strong, and several have turned down more lucrative offers from other schools to remain at NSU because of the positive culture there. Janine is particularly concerned about the impact the pandemic will have on athletics department morale and finances, and how coach satisfaction might change as a result.

Some coaches - including in football, men's basketball, and women's basketball - have annual bonuses and raises built into their contracts while others are awarded raises based on the overall salary increases that are provided to university staff. The pandemic makes it unlikely that salary increases will be provided to campus staff during the upcoming year, so Janine must consider how the raises that some coaches are contracted to receive would be viewed by various stakeholders - like university administration and other coaches and staff who would not be receiving raises. And, she needs to evaluate the morale and trust dynamics that could be associated with a decision to ask certain coaches to forgo their contracted raises. She does not want her best coaches to start looking for opportunities outside of NSU.

Athletics Department Financials

The NSU fiscal year (FY20) closed only a few days earlier on June 30. The projected revenue and expense budgets for NSU in FY20 were both \$41M, which is around average in their Group of Five conference. Please see Appendix A for an overview of NSU's financial results for FY20 and projections for FY21.

The cancellation of the NCAA men's basketball tournament in March and the subsequently reduced NCAA revenue distribution created an unexpected \$1.5M revenue shortfall. Additionally, NSU saw a \$1.5M decrease in annual giving revenue because it was unable to engage in its traditional "Give Day" event in April that usually raises significant annual giving income for the department. At the time, NSU Athletics was concerned about the appropriateness of aggressive fundraising efforts focused on its athletics teams and instead directed its focus on helping raise funds for university COVID-19 relief efforts. Janine believes that significant annual giving revenue remains on the table because "Give Day" was not held, and is contemplating creative methods that could be employed in the next few months to solicit these annual donations and make up for the lost revenue from the spring. Lastly, there was about \$250k in additional lost revenue because baseball and softball games were cancelled and from various other ancillary events that didn't occur in the spring.

However, despite these unexpected revenue shortfalls, the cancellation of spring sports provided opportunities for significant savings. Teams were not competing, so there were no travel expenses or home game management costs. Additionally, no recruiting took place in the spring and all professional development travel was cancelled. Costs that were usually associated with fundraising events and other operations were saved as well. Accordingly, NSU was able to balance its budget at the conclusion of the fiscal year, even with the revenue shortfalls (please see Appendix A).

Looking Ahead At Financial Challenges

The main financial concerns for Janine and NSU were related to the upcoming fiscal year (FY21) and the uncertainty ahead. The only sure thing was that revenue would be negatively impacted again, but it was not clear yet by how much.

There was a high probability that football ticket revenue would be impacted negatively by public health restrictions on fan attendance. In addition, it was possible that their upcoming football guarantee games - totaling \$2M in revenue - might not be played if schedules were disrupted. From her reading of the cancellation policies in the contracts, it was unclear if changing guarantee games due to COVID-19 would trigger force majeure cancellations or be considered a contractual breach. In addition, even the relatively modest media rights income that NSU received from its conference TV deal was at stake if games could not be played as scheduled.

From a fundraising standpoint, Janine was unsure how donors would react in a challenging economic environment. The S&P 500 had bounced back sharply after its March lows, but was still in negative territory for the year and analysts were cautious about the economic outlook. Even if donor portfolios had mostly recovered, it was unclear how supportive they would be under such uncertain circumstances.

If the pandemic was not resolved by the end of the calendar year, it was possible that NSU would also have to go without ticket revenue for basketball. And if the NCAA men's basketball tournament was impacted again, NSU's NCAA revenue distribution would be reduced for a second consecutive year, further compounding its financial difficulties.

The bottom line for Janine is that she knew there would be significant revenue shortfalls again in FY21. NSU Athletics would be in a challenging financial position. She would need to find ways to substantially reduce costs while maximizing the efficiency and operations of staff to still provide a comparable student-athlete experience. All options would be on the table, and she would need to identify some creative solutions that had the smallest possible impact on NSU's student-athletes, coaches, and staff.

Looking Ahead At Operational Challenges

It was clear that NSU would also need to adjust its operational procedures to take into account COVID-19. On May 28, the NCAA had published a document entitled [“Resocialization of Collegiate Sport: Action Plan Considerations”](#) that contained a lengthy set of recommendations and standards to guide the resumption of athletics activity on campus.

The NCAA recommendations introduced a number of new procedures related to symptom screening, testing, contact tracing, facility sanitization, and other safety measures. If athletics activity was to resume at NSU, staff and student-athletes would need to quickly learn new procedures and execute them with minimal errors in order to maintain a safe environment. There would also be a new emphasis on precise communication between administrators, coaches, student-athletes, sports medicine staff, and other campus personnel. And, the documentation of policies and procedures - and in particular, documenting that student-athletes and coaches acknowledged these new policies - would become very important in the eyes of Janine's colleagues from campus legal and risk management.

Janine thought deeply about whether NSU was prepared for these new operational challenges. She concluded that the department would need to grow its operational capabilities to be successful in the upcoming year while the pandemic was impacting college sports. She specifically considered whether to examine various technology-driven solutions to help the athletics department be prepared to handle the new operational stresses caused by COVID-19. NSU athletics would need to operate with more efficiency and better communication in an environment where mistakes could have problematic consequences.

What Should Janine Do?

Janine contemplated a few specific questions about her next steps.

1. Should she pay coach bonuses and provide raises in situations where they are contracted? What options does she have? What are the consequences of each option?
2. It was clear that a significant revenue decrease was on the horizon, but precisely how much of a decrease was not yet clear. What are the cost cutting options available to her? What are the impacts and consequences of pursuing each of these options? Which options should she pursue first and which should she seek to avoid? What should her guiding principles be in deciding about cost reductions?
3. The upcoming year would be filled with the potential for unusual expenses related to COVID-19 testing and scholarship aid for student-athletes who've had their eligibility extended. What should Janine do in order to account for these possible additional expenses? Should she approach the donor base to ask for help? If so, what approach should she take and what are the risks and opportunities involved?
4. What is the best way to help NSU prepare for the coming operational challenges? Would technology products or services be able to help NSU deal with these challenges posed by COVID-19? Are there possible solutions that help solve both operational and budgetary constraints?
5. Given the financial and operational challenges of the upcoming year, what campus partners will Janine especially need to rely on for campus support? What can Janine do to make sure she will be best supported by these partners?

Decision-Making Scenario: Non-Conference Football Games Are Cancelled

As the summer continues, more information about the fall becomes available. By August, it is clear that the football season will be impacted and that most FBS leagues will be transitioning to a conference-only schedule for 2020.

This means that the guarantee games NSU was slated to play will be cancelled. Financially, this creates a net shortfall of \$2M from Janine's original projection depicted in Appendix A that she now needs to plan for.

The table below describes the courses of action that Janine could consider to manage this projected \$2M shortfall.

Option	Savings amount	Notes
Reduce football team operations budget to account for cancelled games	\$300k net savings from football by not playing 3 non-conference games	No negative impacts since the games are already cancelled.
More reductions in non-football team budgets	Amounts can vary up to \$1M, depending on the depth and breadth of cuts	Cuts would reduce travel even further for all teams and impact competitive opportunities for student-athletes.
Furloughs	10 furlough days for everyone in the department creates \$611k in savings	Will negatively impact morale.
Layoffs of various staff and coach positions	Up to \$500k	There will be no fans at games in the fall, so it might be possible for NSU to survive without certain personnel. However, this would create negative morale.
Hold open operations positions and rely more heavily on technology solutions	Net savings of \$200k	Hold open a handful of positions for the time being and rely on operations software to help a reduced staff get by in the interim.
Cancellation of some non-revenue sport seasons	Up to \$1M	Savings could be achieved, but inequity regarding which teams are able to play and which teams aren't would cause problems.
Renegotiate retention bonus owed to football coach	\$250k is owed to the football coach at the end of 2020 season	Could negotiate with the football coach to defer this retention bonus to a future year in exchange for a contract extension.
Interest-free loan	Up to \$1M	NSU Athletics could secure an interest-free loan from campus. However, this would create additional financial obligations in future years.

Cut sports	Approximately \$1.5M saved for each team that is cut	NSU Athletics is in compliance with Title IX, but will fall out of proportionality compliance with any net reduction in women's participation opportunities. Additionally, cuts will create strong donor resistance from certain groups.
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Janine must make a plan to account for the \$2M revenue shortfall and report her plan to the NSU President in the next few days. Which combination of these options should she pursue to account for the \$2M shortfall, and why?

Newfound State Intercollegiate Athletics Financial Summary

FY20 = July 1, 2019 to June 30, 2020 FY21 = July 1, 2020 to June 30, 2021

Revenue	FY20 Budget	FY20 Actual	+/- FY20	2020-21 Budget (projected)	+/- from FY20 Actual	FY 21 notes
Student Fees	\$ 8,990,520	\$ 9,223,324	3%	\$ 9,223,324	0%	Budgeting flat in student fees, but whether the full student fee is able to be collected is still an open question at this point.
Institutional support	\$ 12,200,000	\$ 12,200,000	0%	\$ 12,566,000	3%	Budgeting for the university to continue its support at an inflationary rate of increase.
Ticket Sales	\$ 2,510,904	\$ 2,255,904	-10%	\$ 505,904	-78%	Projects no fans at football games and 50% at basketball. But whether fans can attend is still unclear.
NCAA and Conference payouts	\$ 3,500,334	\$ 1,976,991	-44%	\$ 3,500,334	77%	Projecting payout at FY20 budget. Status of 2021 NCAA MBB tournament still unclear, however.
Game Guarantees	\$ 2,353,600	\$ 2,203,600	-6%	\$ 2,510,000	14%	Currently budgeting that FB guarantee games will proceed, but still unclear.
Sponsorships / Pouring Rights	\$ 1,502,344	\$ 1,449,344	-4%	\$ 1,449,344	0%	Budgeting flat from FY20, but uncertain whether potential fall disruption will create rebate for 3rd party rightsholder.
Annual gifts	\$ 4,500,234	\$ 2,976,745	-34%	\$ 4,600,000	55%	Budgeting for annual giving to bounce back to at least budgeted FY20 levels. However, economic picture remains unclear.
Endowment payouts	\$ 4,561,236	\$ 4,558,893	0%	\$ 4,558,893	0%	Projecting flat endowment payout. Markets have recovered significantly, but lots of uncertainty ahead.
Miscellaneous	\$ 550,000	\$ 545,002	-1%	\$ 545,002	0%	Flat.
Total revenue	\$ 40,669,172	\$ 37,389,803	-8%	\$ 39,458,801	6%	Current revenue projection is down 10% from FY20 actual and down 18% from FY20 budget.
Expenses	FY20 Budget	FY20 Actual	+/- FY20	2020-21 Budget (projected)	+/- from FY20 Actual	Notes
Payroll						
Coach	\$ 9,578,030	\$ 9,485,640	-1%	\$ 9,485,640	0%	Budgeting for no salary increases, but no furloughs or layoffs yet. Must reconcile how contracted raises will be handled.
Staff	\$ 6,334,489	\$ 6,448,000	2%	\$ 6,448,000	0%	Budgeting for no salary increases, but no furloughs or layoffs yet.
Salary savings less vacation accrual	\$ (213,000)	\$ (338,000)	59%	\$ (738,000)	118%	Projecting to keep positions open and monitor vacation usage closely.
Sub-total, payroll	\$ 15,699,519	\$ 15,595,640	-1%	\$ 15,195,640	-3%	
Scholarships						
Sun-total, scholarships	\$ 10,897,449	\$ 10,554,456	-3%	\$ 10,897,449	3%	Tuition to remain flat. Spring sport seniors to return within team scholarship budgets.
Operating expenses						
Sport team operating budgets	\$ 7,068,230	\$ 5,067,365	-28%	\$ 6,068,230	20%	Budgeting for a decrease of \$1M in operating costs from FY20 budget. Will decrease further if fall games not played.
Pre-season meals, housing	\$ 478,000	\$ 448,000	-6%	\$ 478,000	7%	Flat from FY20. May decrease if fall sports are impacted.
Post season expenses	\$ 667,000	\$ 421,322	-37%	\$ 667,000	58%	Flat from FY20. May decrease if postseason play is impacted.
Staff unit budgets	\$ 1,726,760	\$ 1,183,402	-31%	\$ 1,183,402	0%	Flat from FY20 actual and 31% decrease from FY20 budget. Significant cuts in marketing, ticketing, development expenses.
Medical/Sports Medicine	\$ 475,000	\$ 587,433	24%	\$ 1,174,866	100%	Projecting a doubling of FY20 actuals due to testing costs.
Facility operating costs	\$ 3,161,000	\$ 2,648,544	-16%	\$ 3,161,000	19%	Projecting flat from FY20 budget. May go down if events are not played. May go up if cleaning costs go up for events.
Other miscellaneous	\$ 674,000	\$ 882,000	31%	\$ 694,220	-21%	Inflationary increase from FY20 budget. Testing and other medical costs moved to medical budget.
Sub-total, Operating	\$ 14,249,990	\$ 11,238,066	-21%	\$ 13,426,718	19%	
Total expenses	\$ 40,846,958	\$ 37,388,162	-8%	\$ 39,519,807	6%	Expenses projected to increase 6% from FY20 actuals.
Net surplus or deficit	\$ (177,786)	\$ 1,641		\$ (61,006)		Budget is mostly balanced on this projection. However, significant uncertainty remains.