



RUTGERS

THE STATE UNIVERSITY
OF NEW JERSEY

Robert L. Barchi, President

July 30, 2015

Ann Gould
Rutgers University Senate
Rutgers, The State University of New Jersey
59 Dudley Road, Room 370
New Brunswick, NJ 08901

Dear Dr. ~~Gould~~, *Ann*

Thank you for your report, “The Rutgers Athletics Program’s Income, Expense and Deficit: Report and Recommendations,” which considers the financial aspects of the Division I Athletics program at Rutgers—New Brunswick.

I appreciate the time and effort that your committee members invested in this study, and I extend my deep appreciation. Only through these kinds of constructive discussions can we move Rutgers forward to a better, more financially secure future. I will respond to the specific recommendations offered in the report in the pages that follow, but first allow me to provide additional context for our athletics program that goes beyond past financial performance.

First, I encourage all of us to look to the future rather than the past. More than a decade ago, Rutgers made decisions that set the course for our current athletics program, and, to a large extent, predetermined its present financial trajectory. There is little value in parsing those decisions or their impact further. Rather, based on a sound business plan, our focus must be on moving the Department of Athletics forward from its current budget deficit to one of cost neutrality. This is a goal that I have committed to before this leadership body, the Board of Governors, and members of the State Legislature, and in many other public venues. My commitment to that goal has not changed.

Full membership in the Big Ten Conference has provided Rutgers with many benefits, but the most immediately tangible advantage of this elite membership—and one that directly answers the concerns raised in your report—is that Big Ten membership provides a clear financial path to our goal of cost neutrality in athletics within the next 7 years. I will return to this point below, but first let me speak to a neglected area of the analysis that is essential to a comprehensive fiscal picture of what our investment in athletics has to offer the broader university.

The issues surrounding the funding of Division I athletic programs at large research universities are complex, and go far beyond an analysis of an athletic program’s statement of revenue and expenses. The Senate’s report provides an opportunity to extend our dialogue by considering some of these more nuanced aspects of the “costs and benefits” of athletics in the university setting.

Our membership in the Big Ten provides other important and quantifiable benefits beyond our annual member return from the league. Significantly, it provides us entrance into the CIC, an institutional and

intellectual coterie of the best of our peer and peer-aspirant institutions, generating unparalleled research resources and educational benefits for our faculty and students.

Still more quantifiable is the increased advertising and national media exposure Rutgers gains through its D-1 program as a member of the Big Ten. That exposure and the national presence it will build over time allows us to showcase the full breadth of Rutgers University and its mission, and to spotlight the impressive range of its education opportunities, outstanding student performance, and the research and teaching achievements of its remarkable faculty.

Nationally televised commercials during Big Ten athletic events have raised our institutional and academic profile. Viewed in millions of homes across the nation through the Big Ten Network, these spots showcase our scholarly and professional research activity, and, in doing so, position Rutgers in the national perception coupled with such aspirational peers as Michigan and Wisconsin and alongside Penn State and Maryland, peer institutions that directly and successfully compete for New Jersey's brightest students. A recent independent professional assessment of the value of these television placements, based on viewership and ad length, is in excess of \$2.4 million during FY15 alone. The Senate report does not take this "in kind" revenue into consideration.

Does this exposure have any positive impact on Rutgers? While discussions with focus groups and alumni across the country clearly indicate that it does, there are more tangible indicators. Last year, our first year in the Big Ten, Rutgers' out-of-state applications increased by 14% and international applications by 40% over the same time period in the prior year. Many of these new domestic out-of-state applications originated in the Midwest. That this jump corresponds precisely to our new national athletic media exposure makes the correlation difficult to ignore. As you no doubt realize, the financial impact of an increase in non-resident students on tuition revenue is quite significant. While our AAU public university peers averaged 31.5% non-resident first-year enrollments in 2014 and the public Big Ten schools averaged 37% in that year, Rutgers–New Brunswick's incoming class last year included about 16% out-of-state and international students. An increase in out-of-state enrollment composition of just 4% (e.g., from 16% to 20%) at Rutgers would generate \$3.3 million net tuition revenue (NTR) in year one, without increasing expenses. If that increase were maintained over four years, the annual NTR would grow to \$10 million (a cumulative NTR gain of about \$27.5 million over those four years), and that's assuming a 20% attrition in year one and 15% additional attrition in years 2 and 3 for each cohort. These very real financial benefits should be considered in an analysis of our investment in athletics.

Moody's recent downgrade of the State of New Jersey's credit rating triggered a similar credit-rating review of Rutgers University. This agency had recently rated Rutgers at one level above New Jersey's credit rating prior to the state's downgrade, but most financial observers projected a corresponding downgrade for Rutgers—especially since Moody's has only rated three national public universities at two levels above the credit ratings of their home state. However, after a thorough review, Moody's reaffirmed our AA3 rating, making Rutgers the fourth public university to be rated two levels above its state's rating. Their comprehensive report identified two "significant strengths" that led to this decision, and one of them was our Big Ten and CIC membership, with its concurrent elevation of our national brand. I needn't emphasize the significance of our strong credit rating for the lower cost of capital for Rutgers, or the extent to which Moody's confidence in our credit rating is predicated on our financial stewardship, particularly in its validation of our fiscal plan in Division I athletics at Rutgers.

Philanthropy is another vital area that is not considered in the Senate's financial review of Athletics. Rutgers fundraising has shown dramatic growth over the past two years. This year, our first in the Big Ten, we exceeded \$180 million in fundraising, compared to \$132 million in FY13 and \$148 million in FY14. This change reflects in part a strong increase in athletics fundraising. Of the historic \$1 billion we raised to close the largest capital campaign in Rutgers' history this year, donors to athletics contributed more than \$100 million, one-tenth of the campaign goal. While we have much to do to build a culture of philanthropy at Rutgers, fundraising in athletics has increasingly become a major contributor to the athletic budget and to our overall philanthropy. With our increased national exposure in Division I sports, we have good reason to expect those contribution levels to grow significantly over the next decade.

Finally, and perhaps most importantly, let me revisit a fundamental revenue assumption in the Senate report. The report's fiscal projections were predicated on an early estimate of \$23 million annual payment from the league that Rutgers would receive in our first year as full equity partners in the Big Ten (2021.) While league confidentiality agreements preclude me from providing projected revenues, the national press has reported projected annual league revenues for each of the Big Ten schools for 2021 in excess of \$40 million. Without commenting specifically on these public reports, I can say that we feel this is a conservative figure that can be used for internal planning purposes. These reported revenue projections clearly support our prior statements that indicate that we will achieve cost neutrality in athletics by 2021. In fact, over the first decade of fully vested membership in the Big Ten, just the differential between this revenue value and that assumed in the Senate report will exceed \$200 million. We are well on our way to our goal of reaching not only a point of budget neutrality, but also a point where athletics becomes a net financial supporter of our academic programs, as it is for many of the Big Ten schools.

Let me return at this point to the specific recommendations of the senate report.

A-1: Design and enforce a plan to eliminate all financial losses as well as all internal subsidies within 5 years.

While I share the University Senate's goal of reducing university subsidies to the New Brunswick athletic program, it is not realistic to expect that all such subsidies, from both discretionary funds and student fees, can be eliminated prior to our first year as full equity members in the Big Ten and its network (FY21). According to data from USA Today's "NCAA Finances" website, only seven universities out of 230 public institutions listed reported no internal subsidies for their Division I athletic programs in FY 2014, the most recent year posted. To require that Rutgers leap from among the most heavily subsidized programs nationally to among the select few with no subsidies at all earlier than FY21 is simply setting the university up for failure. And it could, in the immediate and foreseeable future, have the adverse effect of reversing the important gains we have made in university fundraising and out-of-state enrollments.

However, as noted in the Senate's report, we already have in place a multi-year plan for the athletic department that will eliminate the need for subsidies from university discretionary funds by FY21. This multi-year business plan includes anticipated increases in revenues as a result of our membership in the Big Ten Conference, as well as anticipated increases in expenses in areas referenced by the senate report. We review and update this plan yearly, and I remain confident in and committed to it.

A-2: Pursuant to A-1, the Athletics program should prepare medium-term and long-term budget plans.

We agree, and already do so. As discussed above, we already prepare a detailed funding plan for Rutgers—New Brunswick athletics that runs through 2021-22 and is updated annually. I expect this plan to be reviewed by the athletic department on a regular basis within each fiscal year and adjusted as necessary when circumstances warrant. As part of our internal budget and finance process, we routinely review multi-year projections for all university units, including athletics.

A-3: Responsibility for implementing the plans described in A-1 and A-2 should rest with the Athletics Director.

We agree. The Athletic Director oversees the department's budget and finances, and ensures that we make satisfactory progress toward our goal of reducing the university's financial support for programs under her watch within the established timeline. (In fact, achieving our budget goals is a key criteria of the Athletic Director's annual compensation package.) As is our customary practice, the Senior Vice President for Finance, the New Brunswick Chancellor, the Board of Governors Committee on Intercollegiate Athletics, and I provide additional oversight of the athletic department's operations, and will continue to do so in the years ahead.

In addition, as part of the reorganization of the Rutgers financial control structure, the chief financial officer for the athletics department now has a direct reporting line to the Senior Vice President for Finance (SVPF) as well as to the Athletic Director, and she works directly with the SVPF and his staff in developing and managing the department's budget.

A-4: Retain a consultant/expert to assist in formulating the plans described in A-1 and A-2.

The Athletic Director and other university representatives will continue to meet regularly with their Big Ten colleagues to identify best practices for implementation at Rutgers. When appropriate we use expert external consultants in specific areas of athletics management, but only where their skills will add substantive value to our planning process. Recently this has included athletics fundraising, Title IX and Facilities compliance, and athletics marketing.

A-5: Under no circumstances should the university undertake expansion of existing facilities or construction of new facilities for Athletics – in particular, expansion of the football stadium—until Athletics no longer has a deficit of expenses over revenues.

During the past three years, we have undertaken planning and construction of more than \$800 million in academic buildings in New Brunswick, Newark and Camden, all of which will be completed within the next two years. During this period, we have carried out no major capital projects for athletics.

Some capital investments in athletics facilities are required to satisfy federal Title IX mandates and various NCAA and league requirements. In addition, it is important that Rutgers stay competitive on the field and court in order to optimize the projected benefits of Big Ten membership, and the correlative advantages in fundraising, admissions, and the national branding that I enumerated above.

Because we centered our current athletics business plan around our fully vested membership in the Big Ten, we will, from time to time, need updated training facilities commensurate with attaining and

maintaining that level of competitive play and our nationally televised presence. These needs have been outlined recently in the Physical Master Plan, recently approved by the Board of Governors, under the rubric, "Plans for athletics, covering a forward-looking 15 year period." This section of the Physical Master Plan anticipates remediation for Title IX deficiencies, compliance with NCAA requirements, and the provision of adequate practice facilities for many of our teams. Let me state emphatically, the Master Plan does not include a capacity expansion of the football stadium.

My commitment that new athletic facilities be financed through athletic fundraising or supported within the future budget of the athletics department is a matter of public record. Given that mandate, I see no rationale for a general or unilateral ban on all athletic department construction. If the need exists and an appropriate financing mechanism has been identified, we should not expect athletics to await an artificial deadline before upgrading critical athletic facilities and infrastructures.

A-6: Eliminate the allocation of student fees to Athletics.

First, allow me to clarify some misconceptions about the use of student fees to subsidize the athletic department's budget. Student fees do not pay for intercollegiate football. In fact, football and men's basketball do not receive any funding from student fees. Thus, by proposing the elimination of student fees, the Senate committee is effectively asking the university to eliminate Olympic sports (i.e. soccer, women's swimming, women's crew, gymnastics, wrestling, etc.) at Rutgers—New Brunswick that could not otherwise survive without fee subsidization. This action would underestimate and undervalue the role that sports play in fostering student satisfaction, as many students and alumni have told us, by creating a sense of intercampus unity and school spirit in New Brunswick. What's more, cutting fee support would also end free student access to major events in football and men's and women's basketball.

While many Big Ten universities do not utilize student fees to support their intercollegiate athletic programs, those institutions are among the minority nationwide and their sports programs are among the oldest and most profitable; they have been in a large sports market for much longer, and thus have had longer to get their financial houses in order. In fact, the two newest members of the Big Ten, Rutgers and Maryland, currently follow the national norm with respect to student fees. According to the USA Today's database, outstanding academic institutions such as Georgia Tech, North Carolina, Virginia, and UCLA each used student fees to support their athletic programs in FY 2014. Although we would all prefer that university athletic programs support themselves without such fees, it is not reasonable, for most institutions, to expect that athletics can be completely self-sufficient in the short term. At Rutgers, our first goal is to phase out the use of discretionary funds for athletics; once achieved, we can then consider a plan to reduce or eliminate student fee support.

Finally, while the Senate report focuses on the athletic department in New Brunswick, these recommendations must be considered in the broader context of athletics at Rutgers—Camden and Rutgers—Newark as well. The report states: "In an era of serious financial stringency for students and their families, compelling students to contribute to the Athletics Program can no longer be justified." Students at Newark and Camden currently pay an athletics fee roughly comparable to that in New Brunswick. Following the Senate report's argument to its inevitable conclusion, were the university to eliminate student fees for athletics in New Brunswick, it would have to consistently apply that rule across Rutgers. Such an action would eliminate intercollegiate athletics at Camden and Newark altogether, as their Division 3 programs do not have sufficient external revenues (media contracts, ticket sales, donor support, etc.) to remain financially solvent, much less fiscally independent. These are the kinds of unfortunate, if unintended, consequences of making blanket rules about the use of student fees.

Most universities and colleges rely on athletics – whether at the club or league level—to help foster a sense of student cohesion, school pride, and overall student satisfaction—not to mention as a vital forum for alumni outreach, school identification, and foundation support. These are issues and outcomes that would require a larger university-wide discussion among representative groups of students, staff, and faculty at Rutgers—Camden and Rutgers—Newark prior to making such a recommendation.

For these reasons and those already mentioned under financial considerations above, I cannot support this recommendation.

A-7: All financial losses funded by University discretionary funds and by student fee allocations should be considered loans, to be paid back as soon as possible.

First, the New Brunswick student fees that go to intercollegiate athletics are designated and collected specifically for that purpose. No fee money is shifted from other university fee-designated areas of allocation to athletics. In fact, money allocated to the various fee-designated categories at Rutgers is never moved, co-mingled, or reallocated for purposes other than that for which it was identified and collected, nor are the categories ever merely interchangeable.

Second, while discretionary funds could be used for other purposes—academics, research, deferred maintenance, debt service, etc.—it would be a dangerous precedent for the university to require any area of designation (whether academic, educational enrichment, student activities, or athletics, etc.) to reimburse supplemental funding at a future date. One can easily imagine the slippery slope of such rationale if consistently applied. If an academic department or school operating in the red required university support, would it not be this recommendation’s intention to implement a “pay-back-or-shut-down” policy there as well? I understand and share the desire for mechanisms of accountability for all university units—as I have outlined clearly here—but we cannot simply create new precedents that might, at some point and time, have significant unseen consequences.

We have, however, established an internal banking mechanism as part of our financial redesign process. This internal bank will allow us to create loans with specific interest rates and payback provisions that can be accessed by university units under certain well-defined circumstances. Initiatives in athletics that are financed through this mechanism will require payback with interest. Loans from the internal bank cannot be used to cover operating expenses.

B-1: Athletics should provide copies of the annual NCAA filings to the University's faculty representative to the NCAA, University Senate, and the faculty councils for Newark, New Brunswick, Camden, and RBHS, and should post a copy on the Athletics website.

We agree that copies of our annual NCAA filings should be available to interested parties. The NCAA reports filed annually by the athletic department in New Brunswick are public documents currently available to anyone who requests them. I will ask the Athletic Director to share these documents with the University Senate and the faculty representative on a regular basis.

B-2: Athletics should prepare an annual detailed budget statement of revenue and expenses. This budget statement should be presented and discussed with the Presidential Advisory Committee, and provided to the University’s faculty representative to the NCAA, University Senate, and the faculty councils for Newark, New Brunswick, Camden, and RBHS, and should post a copy on the athletics website.

With an annual operating budget of less than \$70 million, the New Brunswick athletic department is arguably the most transparent and heavily scrutinized component of Rutgers' \$3.7 billion overall budget. The annual budgeting process is a part of university management and, as is the case with nearly every other public research university, is not part of shared governance. Even the Big Ten's mandate of strict, contractual confidentiality from its members' university presidents and governing boards assumes this as standard managerial practice. I do not believe that any new public budget document from athletics can provide any greater transparency or more detail than the financial reports already required by the NCAA and the United States Department of Education. And, as I said, those reports are publicly available.

B-3: The President should establish a Presidential Advisory Committee on management, budget and planning for athletics.

Rutgers already has an Intercollegiate Athletics joint committee of the Board of Governors and Board of Trustees whose mission it is to provide oversight of the Department of Athletics' management, budget, and long-term planning. This committee includes governors, trustees, and faculty, and has access to all information used in preparing the department's budget. The committee's recommendations are then reviewed by the joint Board Committee on Facilities and Finance, with its broader representation from among these same constituencies. Both committees oversee the work of internal management teams that include athletics finance, central finance, and budgeting personnel.

I remain unconvinced that this management process would be facilitated by creating another committee whose mission and membership constituency would simply reproduce the large and representative committee already in place.

B-4: Reports should be made to the University Senate Budget and Finance Committee.

Given that the university's annual reports to the NCAA are public documents, the University Senate Budget and Finance Committee can easily track the athletic department's yearly progress toward greater self-sufficiency, and may comment on such at any time. While the Athletic Director may, on occasion, address the University Senate or its Budget and Finance Committee on a particular matter related to her department, I do not concur that a standing report, other than those already provided, is required. Again, creating redundant reporting mechanisms to constituencies already broadly represented is not sound management practice and simply dilutes accountability and leadership in other vital areas of shared governance and university management. No other university division, academic school, department, or program is held by the Senate to the same level of scrutiny, even though many of these units' budgets are far larger and have a greater impact on overall university finances.

In conclusion, I wish again to thank everyone in the University Senate who provided input during this review of the New Brunswick athletic department's financial health. I look forward to a continued dialogue with the Senate on this important topic as we progress toward our common goal of achieving greater fiscal self-sufficiency for the Rutgers—New Brunswick Department of Athletics.

Sincerely,

A handwritten signature in blue ink, appearing to read "Bb", is written over the typed name "Robert Barchi".

Robert Barchi