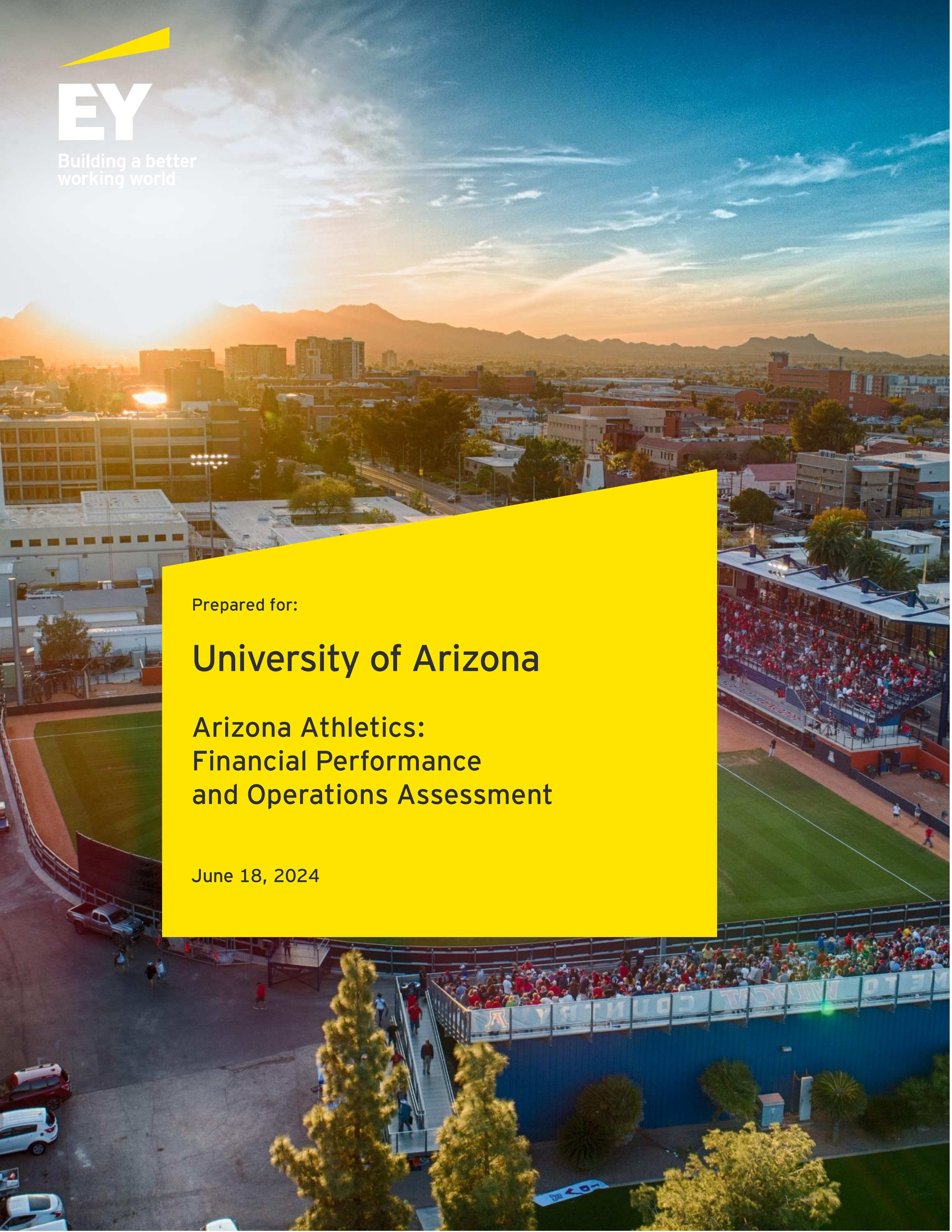

Building a better working world

Prepared for:

University of Arizona

Arizona Athletics: Financial Performance and Operations Assessment

June 18, 2024

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This report (the "Report") has been prepared by Ernst & Young LLP (EY), from information and material supplied by the University of Arizona (UArizona), for the sole purpose of assisting UArizona in conducting a financial and operational assessment of its athletics department, Arizona Athletics.

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1. Scope and methodology

Scope

The Arizona Board of Regents ("ABOR") on behalf of the University of Arizona ("UArizona") engaged EY to assess the financial and operational performance of UArizona's athletics department ("Arizona Athletics").

The goal of the study was to estimate the cost baseline for Arizona Athletics, assess existing processes and identify process changes needed to improve operations, identify potential revenue generation and cost savings opportunities, and estimate the potential future financial impact associated with these opportunities. The study included the following elements:

1. **Financial performance assessment**
    - Assess financial statements, budgets, and reports
    - Assess revenue streams, expenses, and budget variances
2. **Process assessment**
    - Assess financial processes and workflows, including budget processes, spending controls and approval processes
    - Assess procurement and expense management procedures
    - Assess third-party costs and outsourcing costs and opportunities
    - Benchmark structure and processes against industry leading practices and peer institutions
3. **Resource utilization**
    - Assess the allocation and utilization of resources
    - Assess cost-effectiveness of programs and initiatives
    - Advise on national benchmarks and comparators regarding structure and process
4. **Revenue generation**
    - Assess major sources of revenues generated by Arizona Athletics
    - Benchmark revenue sources against peer institution athletic departments

Methodology

EY performed the following activities as part of the assessment:

- Conducted interviews with Arizona Athletics leadership and staff to assess existing policies, processes, and workflows in the areas of:
    - Budget setting, monitoring, and reporting
    - Hiring and compensation changes
    - Purchasing card utilization and documentation
    - Travel and meal purchasing
    - Development processes and coordination with UArizona
    - Revenue generation processes, including ticket sales
- Conducted interviews with over 50 UArizona and University of Arizona Foundation ("UA Foundation") stakeholders, who have significant interaction with Arizona Athletics throughout the year, to understand their perspectives
- Analyzed Arizona Athletics financials (historic and year-to-date actuals) to identify revenue and expense trends over time, and to identify the drivers of each revenue and expense category

- Benchmarked Arizona Athletics against peer athletics departments, leveraging publicly available data from the National Collegiate Athletics Association ("NCAA"), Equity in Athletics Disclosure Act (EADA), and institutions' annual reports and websites. Peer athletics departments (and their institutions) were determined by UArizona. The primary comparison set included public institutions that belong to Arizona Athletics' conference for the upcoming year (Big 12)[1]. In some cases, additional peers were considered as requested by UArizona (e.g., peers from prior studies on specific topic areas such as development). Areas of benchmarking included:
    - Overall financial performance of Arizona Athletics (surplus/deficit) vs. peer athletics departments
    - Revenue sources and revenue trends for Arizona Athletics vs. peer athletics departments to identify potential opportunities to grow revenue and support long-term financial health
    - Expense trends for Arizona Athletics vs. peer athletics departments to identify potential opportunities to contain / reduce costs
    - Organizational structure of Arizona Athletics vs. peer athletics departments to assess how Arizona Athletics allocates its human resources across various sports and administrative offices (including the business office and the development office)
- Performed secondary research to identify challenges facing athletics departments across the country and potential implications of these trends for Arizona Athletics. Secondary sources included NCAA reports, EDEA reports from the Office of Postsecondary Education, Learfield Division I Ticker, national and local news outlets, and peer institution annual reports and websites
- Held regular meetings with UArizona and Arizona Athletics leadership to discuss findings, generate hypotheses, and incorporate input into analyses

[1] 13 public institutions included in all Big 12 peer set benchmarking: Arizona State University, Iowa State University, Kansas State University, Oklahoma State University, Texas Tech University, University of Central Florida, University of Cincinnati, University of Colorado Boulder, University of Houston, University of Kansas, University of Utah, West Virgina University; 3 private institutions in Big 12 were excluded from majority of benchmarking due to lack of data: Baylor University, Brigham Young University, Texas Christian University

2. Executive summary

Arizona Athletics supports approximately 500 student athletes participating in 22 sports. As a Division I school, it competes at the highest level of collegiate athletics. It is a significant contributor to UArizona's brand and impacts overall recruiting, retention, and alumni engagement. Additionally, Arizona Athletics generates $265m in economic output for the state of Arizona.[2]

Like many collegiate athletics programs, Arizona Athletics has historically operated at a deficit and is supported by investment from UArizona. In FY24, Arizona Athletics is expected to generate ~$99m in revenue before institutional support and incur ~$129m in expenses, of which 38% is personnel, 36% is non-personnel expenses linked to sports programs or administrative offices, 21% is debt service and campus administrative service charge, and 6% is student-athlete scholarships (excl. campus waivers). This is expected to result in a FY24 deficit of ~$30m.

In the past five years, collegiate athletics departments across the U.S. have faced unprecedented changes that have increased the cost to universities to provide athletics programs. In the near-term, financial pressures on athletics departments will continue to grow as name, image, and likeness (NIL) regulations are lifted and colleges enter revenue-sharing with student-athletes.

Arizona Athletics, under its new leadership, should consider opportunities to improve core business processes, strengthen internal controls, and increase transparency around spending trends and budget to actual performance—ultimately leading to both cost containment and additional revenue generation.

If implemented, the opportunities described in this report could potentially have an estimated $16m-$24m positive impact on Arizona Athletics' deficit (with $3.5m-$6m of the impact coming from cost efficiencies and $13m-$18m from new revenue generation). Implementing these opportunities could take 1-5 years and would leave Arizona Athletics better positioned to respond to the increasingly complex demands of running a high-performing athletics department in a fast-changing collegiate athletics landscape.

Arizona Athletics current state key findings (described in detail in Section 4):

- **Financial performance:** Arizona Athletics overall revenues have grown below the peer median from FY19 to FY23 (latest available peer year). Additionally, over the past five years (FY19 to FY24E), Arizona Athletics' expenses have grown at three times the rate of revenues, and faster than expenses at peer institutions. This has increased the need for institutional support and signals an opportunity to improve processes and contain costs.
- **People:** Overall, Arizona Athletics is comparable to peer athletics departments in the number of positions in the department relative to its size and complexity. However, some functional areas of the department (e.g., development office) are larger than at peer athletics departments. Some other areas (e.g., the business office) do not appear to have the optimal mix of roles and responsibilities within the function to support the department's strategic goals. In addition, an assessment of hiring processes (pre-dating new leadership) indicates that the department may have over designated hiring requests as urgent to request exceptions to hiring processes and controls, making it harder to control spending. Finally, protocols for awarding merit increases or incentives are not well established or communicated. Goals for functional areas as well as individual goals have historically not been clearly articulated. There is a disconnect between performance management and merit increases which do not appear tied to transparent goals and assessment of progress against these goals.

[2] McClinton, Luke, "Saban Leaves Behind an Inestimable Economic Legacy," The Crimson White, 18 January 2024

- **Budget setting, tracking, and accountability**: Arizona Athletics has several process breakdowns that result in low ownership of budgets by those responsible for spending and little budget-to-actuals tracking and analysis. Relative to peer athletics departments, Arizona Athletics is inconsistent in the way it classifies accounting transactions which in turn inhibits the department's ability to provide budget-to-actual spending reports quickly and accurately. In addition, Arizona Athletics starts it budget process late in the year and prepares budgets with minimal input from budget owners, based primarily on system data that is flawed—in part due to spend classification inconsistencies, but also because there has historically been a processing backlog for expenses. When a new fiscal year starts, sports programs may already find themselves in deficit (with invoices for prior fiscal year's travel being paid in current fiscal year). This means that many coaches have not seen a clear, realistic budget for over three years. The absence of a clear, realistic budget, with defined targets by unit/program, compounded with untimely processing of expenses, creates a context where Arizona Athletics employees do not trust the budget. It is challenging to instill accountability for spending when budget owners (coaches, department heads, etc.) have little ownership over it. Arizona Athletics leadership and administrators are currently working to correct these issues.
- **Purchasing:** Arizona Athletics has low coordination on purchases in travel, meal, and recruiting across sports. Over 60% of department employees have p-cards, which are used for day-to-day spending. This creates a processing backlog, decreases visibility of spending, and increases costs.
- **Development (gifts/fundraising):** Arizona Athletics receives less gift revenue and employs more staff in its development function than peer departments. Arizona Athletics sets relatively low goals for its development officers. A significant portion of development conversations focus on ticket-related gifts at the expense of longer-term, strategic priorities.
- **Ticket sales**: Arizona Athletics has higher attendance at sports events relative to peers, however, many of its football tickets are complimentary with no measured return on investment (ROI). UArizona has similarly sized facilities as its peers but offers less differentiation for premium seating and experiences. The department uses a relatively basic dynamic pricing tool compared to peers to capture value from single-game tickets.
- **Multimedia rights (MMR):** Arizona Athletics has partnered with a third-party provider to manage its MMR for the past ~15 years. The department receives a revenue guarantee which is meant to minimize variability in MMR revenue from year to year but limits ability to capture the full potential value of sponsorships for Arizona Athletics.

Arizona Athletics opportunities (described in detail in Section 5):

- **People:** Arizona Athletics could update its leadership roles and reporting structures to respond to financial pressures and prepare for future changes; align its development office structure with peer benchmarks to improve efficiency and ROI; and increase strategic and analytic capacity in its business office. The department could also better coordinate with central campus on hiring processes and controls while retaining appropriate flexibility for the unique hiring needs and seasonality of an athletics program. Finally, the department could also enhance transparency around merit increases tied to annual goals and merit/incentive pay.
- **Budget process and tracking:** Arizona Athletics could implement a priority-based budgeting process that involves budget owners early. Additionally, the department could improve budget tracking and reporting by implementing a consistent taxonomy for spending categories. Finally, the department could incorporate data analytics capabilities in the budget office to perform analyses that could be shared with budget owners regularly to promote spending transparency and accountability.
- **Purchasing:** Arizona Athletics could centralize travel decision-making and adjust meal policies to contain costs. The department could access economies of scale through changes to its purchasing procedures by consolidating spending with fewer vendors and reducing the number of p-cards in use.

- **Development:** The Arizona Athletics development function could align its development organization to peer benchmarks for efficiency, rebalance development officer portfolios to increase engagement with existing donors and prospective donors, reorient the content of major gift conversations to focus on long-term strategic and philanthropic priorities, align its customer relationship management (CRM) system with the rest of UArizona, and increase collaboration and use of shared resources with the UA Foundation.
- **Ticket sales:** Arizona Athletics could design new fan experiences to increase attendance at games. It could also refine its dynamic ticket pricing approach and assess ROI from its complimentary tickets and seating assignments to optimize revenue from ticket sales.
- **MMR sponsorships:** Arizona Athletics could initiate in-house management of MMR and explore naming rights opportunities to capture long-term value of its brand.

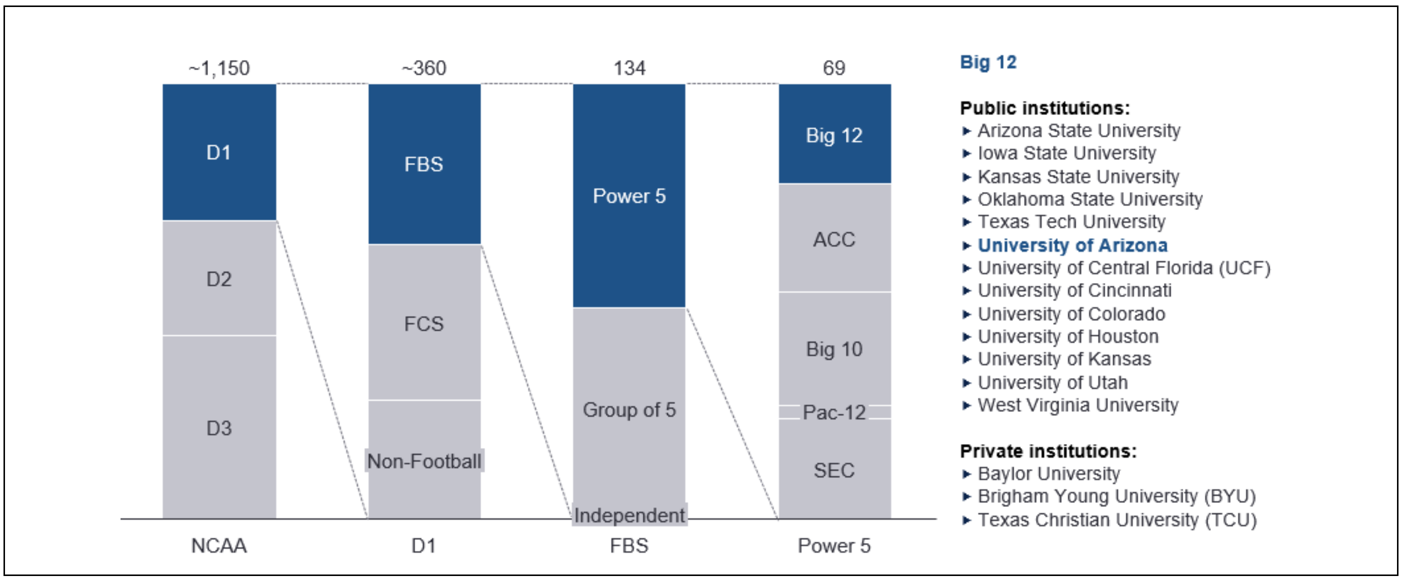
3. Collegiate athletics landscape and trends

The organization of collegiate athletics

As shown in **Figure 1** below, there are ~1,150 NCAA collegiate athletics programs in the United States. Arizona Athletics is part of the ~360 institutions that compete at the highest levels in Division I. Division I is organized into three subdivisions; Arizona Athletics is in the Football Bowl Subdivision (FBS), which typically plays at a more competitive level than other Division I programs.

Within the FBS, Arizona Athletics is part of the "Power 5," a grouping of the highest-earning and historically most-successful athletic conferences (Atlantic Coast Conference "ACC"; Big 10; Big 12; Pac-12; Southeastern Conference "SEC"). Through FY24, Arizona Athletics will be a member of the Pac-12, a group of western state schools (including Colorado and Utah). Arizona Athletics opted to leave the Pac-12 Conference in December 2023, and therefore will re-align as part of the Big 12 effective August 2024 (FY25). As of FY25 there will be only two teams remaining in the Pac-12 (Oregon State and Washington State).

Figure 1: *U.S. collegiate athletics program organization, FY25*[3]



Impact of athletics departments on their institutions and local/regional economy

Arizona Athletics is an important contributor to UArizona's brand and impacts overall student recruitment and retention, as well as alumni engagement. External studies indicated a correlation between the athletics success of an institution and the number of prospective student applications to the institution. When an institution has a successful athletics program, overall applications can increase by 3%-11% ("Flutie Effect").[4] [5] Athletic success can also enhance alumni and community engagement, which can translate into gifts and ticket sales revenue.

[3] "NCAA export" NCAA financial reporting system, June 2024, June 2024; AP News
[4] Anderson, M.L., "The Benefits of College Athletic Success: An Application of the Propensity Score Design," National Bureau of Economic Research, 2016
[5] Knowledge, H.W., "The Flutie Effect: How Athletic Success Boosts College Applications," Forbes, 2013.

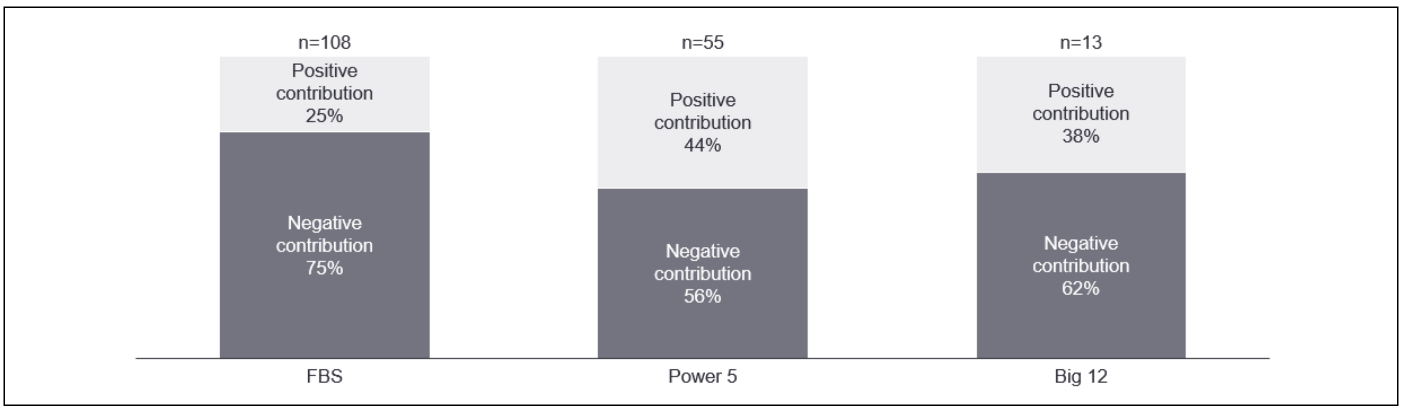
The University of Alabama offers a case study on what has been coined the "Saban Effect" after head football coach Nick Saban.[6] Under the leadership of head coach Nick Saban, Alabama won six national championships and multiple SEC titles from 2007 to 2022. The consistent high performance and visibility of the football program attracted nationwide attention and built community spirit. During this period, freshman applications increased from 12.5k to 42.4k annually, an 8% average annual growth rate compared to an average of 4% at all public 4-year institutions.[7] Notably, nearly 80% of applicants were from out of state. Overall enrollment at the University of Alabama grew by 51%, from 25.6k to 38.6k students, and included a record number of National Merit Scholars.[8] The University's endowment tripled to over $1 billion in 2022, and the University expanded its campus footprint through new dorms, recreational facilities, an engineering quad, and other capital projects. The football program's success yielded an estimated annual economic impact on the city of Tuscaloosa and the state of Alabama of approximately $200 million.[9]

In the case of Arizona Athletics, a report commissioned by UArizona highlighted that the department has generated approximately $265 million in economic output for the state of Arizona, $220m of which benefits Pima County and Tucson specifically.[10]

Financial performance of athletics departments across the country

Many institutions provide their athletics departments with an institutional subsidy to offset operating deficits in recognition of the benefits that athletics programs provide including the lasting impact on student-athletes, value to the University, and contributions to the local and state communities. In FY23, among the 108 public institutions in the FBS available data, 75% of athletics departments reported operating deficits and the corresponding institutions collectively invested a combined total of over $1b in collegiate athletics programs through institutional support (see **Figure 2**).[11]

Figure 2: *Public U.S. collegiate athletics programs by net contribution (deficit), FY23*[12]



Across the FBS, the athletics departments that generate a positive contribution tend to have larger football programs and generate a higher proportion of their revenue through donations and ticket sales, as shown in **Figure 3** below. These departments also tend to be part of institutions that are larger (in terms of enrollment)

[6] Griesbach, Rebecca, "The University of Alabama Offers One Case Study on What Has Been Coined the 'Saban Effect' After Head Coach Nick Saban," AL.com, 2 February 2024, via AL Education Lab
[7] IPEDS
[8] Stalnaker, Deidre, "Records Broken: UA Sees Highest Enrollment, National Merit Scholars," University of Alabama News Center, 22 September 2022
[9] McClinton, Luke, "Saban Leaves Behind an Inestimable Economic Legacy," The Crimson White, 18 January 2024
[10] Duval, Dari, Montanía, Claudia, Bronstein, Joe, Soderberg, Andrew, Frisvold, George, "Visitor Impacts of Arizona Athletics Events, FY2023," Arizona Athletics 2022-23 Economic Impact Report, University of Arizona Cooperative Extension—Department of Agricultural & Resource Economics
[11] Net contribution (deficit) calculated as generated revenue (not counting institutional support) less incurred expenses
[12] NCAA financial reporting system

and have more endowment on a per-student basis. Arizona Athletics' metrics have more similarities with those of athletics departments that operate at a deficit and therefore receive a subsidy from the central campus.

Figure 3: *Characteristics of collegiate athletics programs with positive and negative contributions, FY23 for Athletics metrics and FY22 for University metrics*[13]

	Athletics metrics (FY23)			University metrics (FY22)	
	% of Athletics revenue is football	% of Athletics revenue is donations	% of Athletics revenue is ticket sales	Full time equivalency enrollment	Endowment assets per FTE
Institutions with athletics departments that operate at surplus	48%	25%	18%	~35k	$87k
Institutions with athletics departments that operate at deficit	31%	14%	9%	~25k	$26k
UArizona	33%	17%	12%	~41k	$28k

In recent years, athletics departments have been experiencing an unprecedented amount of change. Conference realignment, macroeconomic trends, and the impact of recent court rulings have collectively increased the cost of running a high-performing Division I program (see **Figure 4**). Many departments are responding by modernizing their operations and incorporating new skillsets (e.g., data and analytics capabilities, partnership coordination). Arizona Athletics, too, has been affected by these trends. With new leadership in place since March 2024, the department has already begun to consider operational and organizational changes that may be needed to effectively navigate a rapidly changing collegiate athletics landscape.

Figure 4: *Key challenges facing collegiate athletics* ***programs***[14]

Conference realignment	▸ Institutions are permitted to change conferences, and do so for a variety of athletic, financial, academic, and strategic reasons. ▸ Recently, nearly all institutions in the Pac-12 Conference moved to other conferences; Arizona Athletics is transitioning to the Big 12 Conference beginning next season. ▸ This transition could result in increased revenue for Arizona Athletics through larger broadcasting and conference payments, but also comes with the need to invest in production capabilities to meet the new conference's specifications (e.g., television broadcasting capabilities).
Macroeconomic trends	▸ The growing business of college sports has created a competitive market for high-quality coaches, leading to higher base pay to attract talent and making it more challenging to retain key personnel. ▸ Additionally, non-personnel costs have increased as the US economy has experienced inflation, particularly in travel prices following the Covid-19 pandemic. Inflation since FY21 has significantly exceeded the Federal Reserve's target of 2%, with a peak of over 9% in June 2022 and rates remaining at over 3% in FY24.[15]

[13] NCAA financial reporting system; NCES Integrated Postsecondary Education Data System
[14] Auerbach, Nicole, and Williams, Justin, "How the House v. NCAA Settlement Could Reshape College Sports: What You Need to Know," The New York Times, 20 May 2024
[15] U.S. Bureau of Labor Statistics

Recent litigation and NCAA rule changes	▸ In June 2021, the US Supreme Court ruled in favor of a football player who filed a case against the NCAA for violating antitrust laws in regard to the provision of educational benefits for student-athletes. This decision resulted in the creation of the Alston fund, through which colleges can provide educational-related benefits to student-athletes, capped at $5,980 per-athlete annually.[16] ▸ In July 2021, a change in the rules regarding "name, image, and likeness" (NIL) went into effect, allowing students to monetize their personal brand. This policy gave students more leverage when deciding among universities and increased the burden on university programs to support students and coordinate with NIL collectives that fundraise for opportunities for students to secure endorsements, sponsorships, and other revenue-generating deals.[17] ▸ In May 2024, the NCAA and the Power 5 conferences voted to approve a settlement for three antitrust lawsuits, most notably House vs. NCAA. The settlement includes a total of $2.8b across the Power 5 in backpay to athletes from 2016 onwards, as well as a new revenue-sharing model for the future.[18] o The settlement proposes a direct revenue-sharing model from institutions to student-athletes. The NCAA, Big Ten, Big 12, Pac-12, Atlantic Coast and Southeastern conferences have agreed to the proposal, however, it is pending approval from a federal judge. Under the proposed model, each school could pay up to an annual cap of ~$20 million, calculated based on ~22% of the average Power 5 conference schools' main revenue streams (media rights, ticket sales, sponsorship). The cap is designed to increase annually by a market inflation adjustment percentage to reflect revenue growth but will be recalibrated every three years based on the most recent revenue figures. This approach ensures consistent annual growth while making significant adjustments periodically to reflect larger economic shifts. o These changes may increase the time and costs associated with compliance in the future. Institutions may need to enhance compliance systems to track, verify, and manage payments. This could involve updating financial reporting, auditing processes, and maintaining robust systems that can adapt to the annual increases and three-year reset cycles of the cap.

Collectively, these factors are expected to significantly increase the cost of running a high-performing Division I athletics department. Arizona Athletics is not alone in facing financial headwinds that have resulted in higher operating deficits. While many other R1[19] institutions with Division I athletics programs invest in their athletics departments, the expectation is that those departments are managed responsibly so that they do not become an excessive burden on the institution's overall budget.

The next two sections of the report provide an assessment of the financial and operational performance of Arizona Athletics from FY19-24 and identify opportunities for Arizona Athletics to operate more efficiently and generate more revenues going forward.

[16] Mulhern, J/ames, "NCAA v. Alston," Harvard Law Review, 10 November 2021.
[17] Murray, Laura C., "The New Frontier of NIL Legislation," Houston Law Review, 18 March 2023.U.S. Bureau of Labor Statistics
[18] Christopher P., Coleman, Dennis M., Han, Erica L., Young, David, Freshman, Daniel, Wheeler, Tatum, Myers, Kennedy, Gondalia, Parv, "NCAA and Power Five Conferences Agree to $2.8 Billion Proposed Settlement of Antitrust Litigation," Ropes & Gray LLP, 23 May 2024.
[19] R1 is a classification used by the Carnegie Foundation for the Classification of Institutions of Higher Education to identify doctoral universities with the highest levels of research activity.

4. Arizona Athletics current state assessment

Financial performance

As shown in **Figure 5,** Arizona Athletics revenue has grown at 3.1% annually between FY19 and FY23 (latest available year for peer comparison), lower than the median peer benchmark growth rate of 4.5% annually. Many of the schools above the median in revenue growth have large football programs, which drive ticket sales, donations, and conference payments.

Figure 5: *Arizona Athletics revenue growth rate (before institutional support) compared to public Big 12 benchmarks, FY19-FY23*[20]

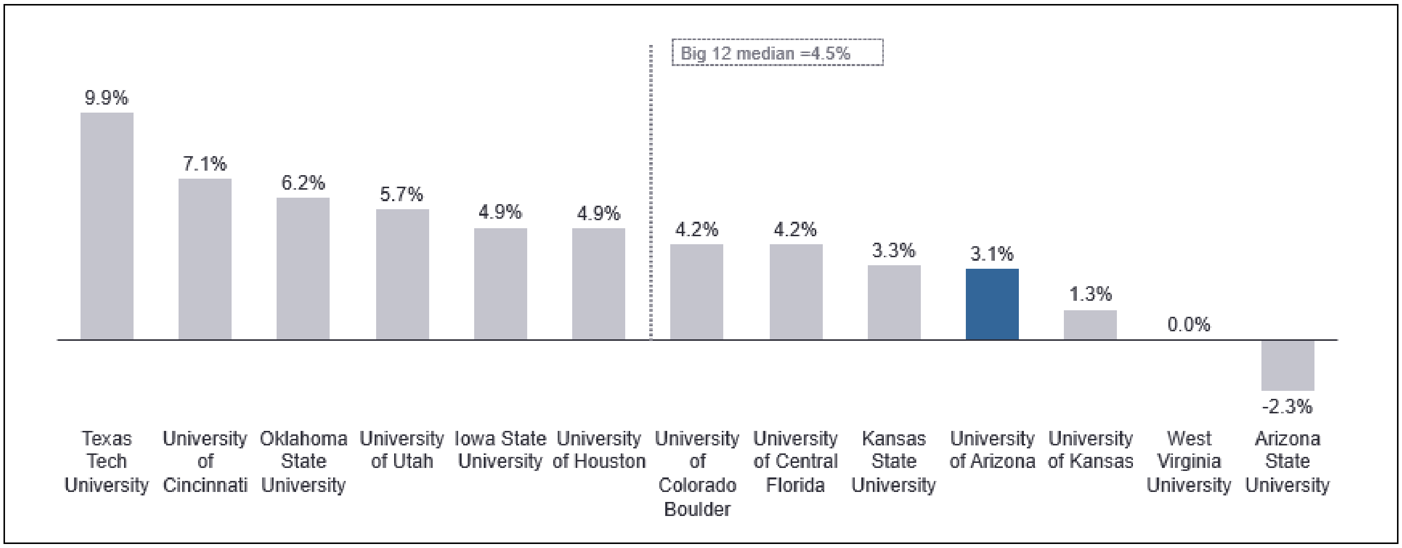
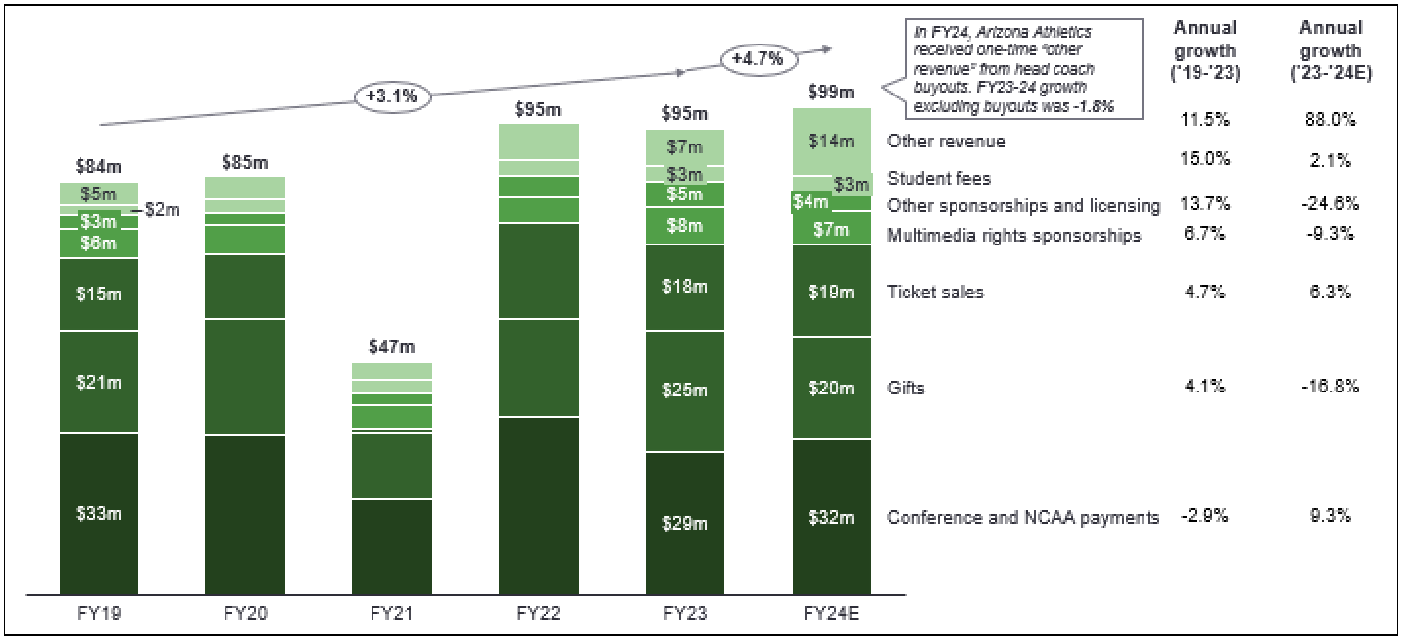


Figure 6 on the next page breaks out the components of Arizona Athletics' 3.1% annual revenue growth from FY19 to FY23. Revenue growth increased to 4.7% between FY23 and FY24, however this was primarily driven by one-time payments from other institutions for head coach buyouts (reflected in the 'other' revenue category). Without these payments, the rate would have shown an year-over-year decline of 1.8% from FY23 to FY24.[21] In addition, gifts (donations), multimedia rights, and sponsorships have declined slightly in FY24, necessitating increased revenue from tickets and other categories.

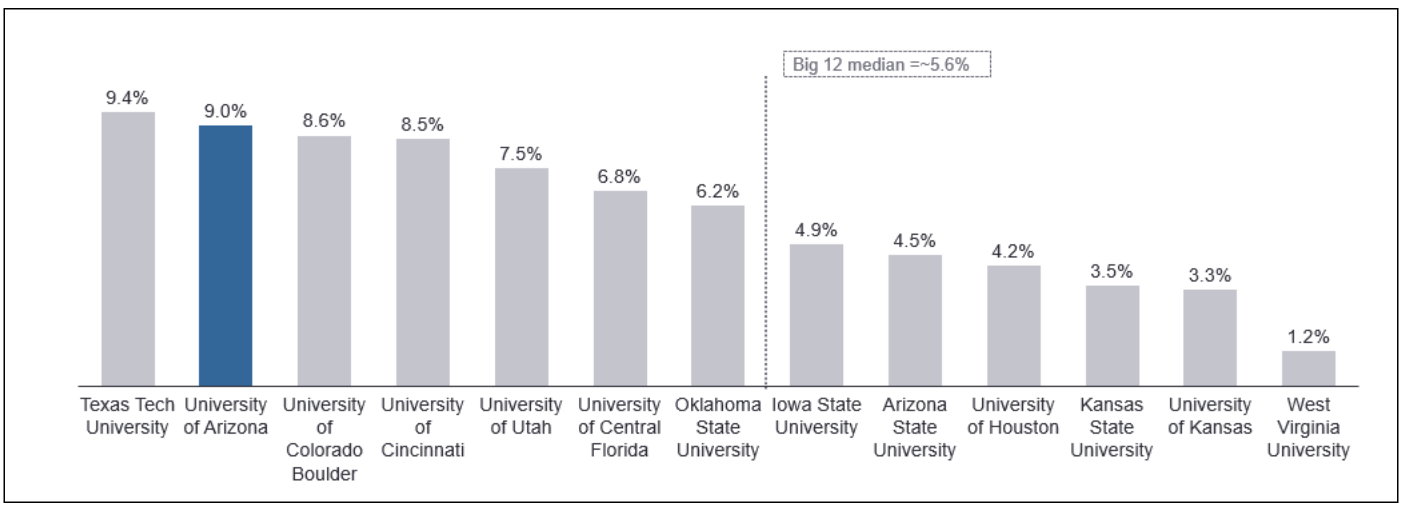
[20] Arizona Athletics internal data; NCAA financial reporting system as accessed through Sportico. Peer benchmarks and Arizona Athletics revenue in this figure include the impact of non-cash student waivers passed through as campus support
[21] Arizona Athletics internal data

Figure 6: *Arizona Athletics generated revenue (before general institutional support), FY19-FY24E*[22]



As shown in **Figure 7** below, Arizona Athletics expenses grew at a faster rate than the median peer benchmarks. Arizona Athletics had the second-highest expense growth among the Big 12 peers, at 9% per year. [Note: for comparability with publicly available peer data, expenses include student-athlete tuition waivers, which are a non-cash expense with a corresponding non-cash revenue offset from the institution. **Figure 8** which details Arizona Athletics expense detail does not include the tuition waivers.]

Figure 7: *Arizona Athletics expense growth rate compared to public Big 12 benchmarks, FY19-FY23*[23]

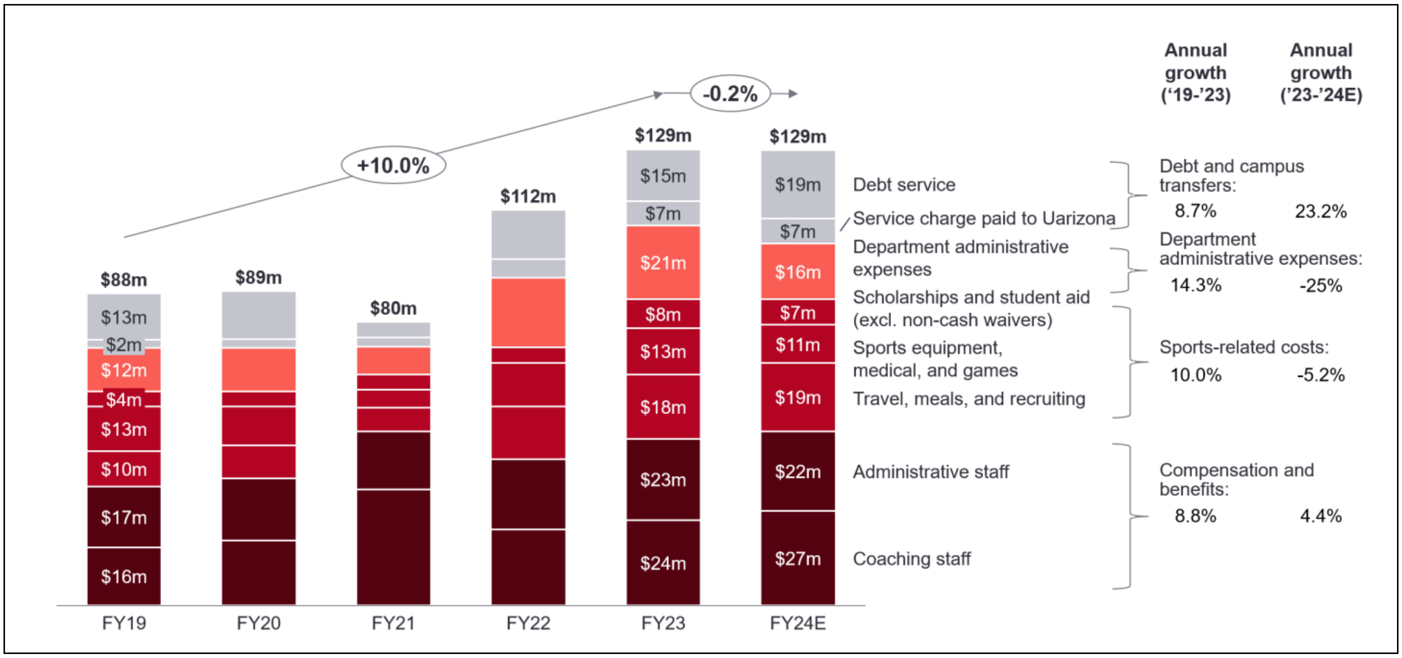


Annually from FY19-FY23, Arizona Athletics' expenses grew at over triple the rate of its revenues (10% vs. 3.1%), as shown in **Figure 8** and **Figure 6** respectively. Some of the growth in expenses has been market-driven, as referenced in Section 3. However, Arizona Athletics' internal operations — lack of clarity on budget processes, insufficient spending controls, gaps in approval processes, and limited coordination across sports programs –

[22] Arizona Athletics internal data, includes $3.75m in in-kind sponsorship revenue
[23] NCAA financial reporting as accessed through Sportico

have also led to spending growth beyond the rate of revenue generation. While Arizona Athletics has contained costs (0.2% decline in the past year), financial pressures are expected to continue to increase, in part due to recent settlements related to student-athlete revenue sharing that could add up to ~$20m in annual costs for athletics departments. Cost pressures in the future underscore the importance of cost containment where possible today.[24]

Figure 8: *Arizona Athletics expenses, FY19-FY24E*[25]



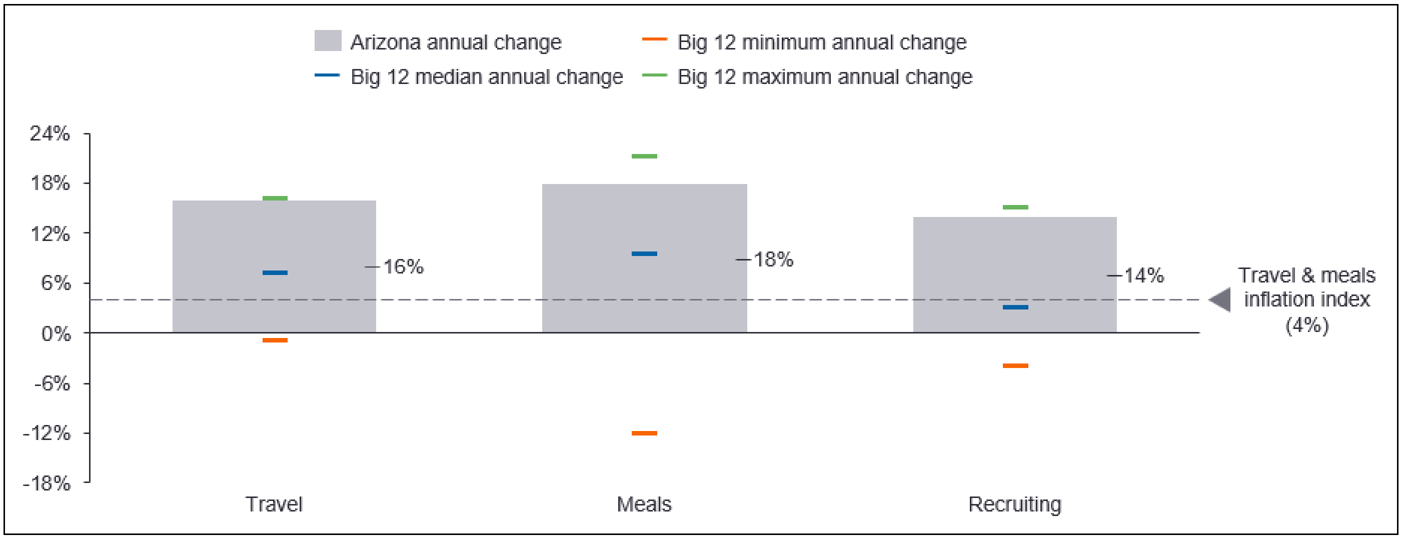
In the period from FY19 to FY23, personnel-related expenses have increased by an annual average of 8.8%, with an additional 4.4% in the past year to comprise 38% of Arizona Athletics' budget. Growth in personnel expenses has been driven primarily campus-wide market adjustments to compensation and an increase in coaching salaries to bring Arizona Athletics closer to peer institutions. Most coaching salaries at Arizona Athletics are near the Big 12 median. To maintain competitiveness, the Arizona Athletics offers coaching salaries that align with industry standards (see macroeconomic trends in previous section).

Sports programs and administrative costs grew 10% annually from FY19 to FY23, primarily due to increased spending in travel, meals, recruiting, and 'other'. Expenses in 'other' do not have sufficient detail captured in Arizona Athletics' reporting system to categorize, analyze, and compare against peers. 'Other' expenses also include one-time severance payments to former coaches and the previous Athletics Director.

At Arizona Athletics, travel, meal, and recruiting costs have grown faster than costs at peer institutions and market indices tracking inflationary costs in flights and hotels (see **Figure 9**). This is primarily due to lack of spending controls and regular budget tracking at Arizona Athletics.

[24] Auerbach, Nicole, and Williams, Justin, "How the House v. NCAA Settlement Could Reshape College Sports: What You Need to Know," The New York Times, 20 May 2024
[25] Arizona Athletics internal data

***Figure 9:** Arizona Athletics travel, meal, recruiting expenses compared to benchmarks and inflation, FY19-FY23*[26]



Process assessment and resource utilization

A high-performing athletics department relies on fair and transparent processes, policies, and practices. Clear communication of these elements is essential to build shared understanding and accountability across budget owners and sports programs. Recent transitions and pandemic-related disruptions have increased inefficiency and decreased transparency around Arizona Athletics' hiring and compensation, budget, and purchasing processes. Additionally, policies are not always applied or enforced in a standardized way. This has led to increased spending and resource utilization in areas that may not be aligned with Arizona Athletics' overarching strategic goals and priorities. This section describes the current state of three key areas: people (organizational structure, hiring and compensation processes), budget (budget setting and monitoring processes), and spending (purchasing processes).

1) People

Like many athletics departments across the country, Arizona Athletics experienced significant disruption to its personnel model during the Covid-19 pandemic, including high rates of turnover and a reduction in force. Recruiting and retaining strong talent will continue to be key to remaining competitive as a Division I program.

<u>1a. Organizational structure</u>

Arizona Athletics' leadership and staff are committed to exploring how to modernize and adapt their structure to meet the needs of the future and be responsible stewards of public funds. As referenced in Section 3, the last five years have brought significant changes to the way collegiate athletics departments operate, and the recent ruling on revenue-sharing with student athletes will fundamentally change the athletics business model.[27]

- **Leadership and reporting structure:** Arizona Athletics has not revisited its leadership team structure since before the pandemic. In March 2024, the department welcomed a new Athletics Director who is restructuring the current leadership team to create roles to focus on strategic revenue-producing opportunities and analytics to support Arizona Athletics in capitalizing on growth

[26] Arizona Athletics internal data; NCAA financial reporting system; French, Sally, and Kemmis, Sam, "Travel Inflation Report: June 2024," updated 3 June 2024, 12:40 p.m. PDT
[27] Murphy, Dan, and Thamel, Pete, "NCAA, Power 5 Agree to Deal That Will Let Schools Pay Players," ESPN, 23 May 2024, 07:34 PM ET.

opportunities. Additionally, Arizona Athletics, like peer athletics departments, has sports administrators for each program (these are leadership team members who also serve in an advisory capacity to sports programs/coaches). At Arizona Athletics, sports administrators are not empowered to hold coaches accountable to budget targets and priorities.

- **Development:** Arizona Athletics has more development staff compared to peer athletics departments and does not organize its staff geographically as many peer institutions do. See 'Development' under the Revenue Generation section for more detail on this area.
- **Business office:** UArizona has been undergoing university-wide centralization efforts in its overall business office. Arizona Athletics, like peer athletics departments, retains some business office functions within its athletics department to serve specialized needs. Currently, its business office uses existing capacity to process transactions and does not perform significant analytics and reporting. Additionally, it is not structured to promote spending efficiency and coordination across sports programs (e.g., travel coordination).
- **Sports support staff:** Arizona Athletics, like peer athletics departments, employs student workers to supplement roles filled by department employees. The student worker expense has grown 9% annually from 2019 to 2023 and may merit further exploration in the context of overall headcount and responsibility breakout. Some of the functions performed by student workers may be duplicative with those of full-time employees.

1b. Hiring processes and controls

Effective hiring processes and controls enable an athletics department to be nimble and respond to the changing demands of the market and achieve its strategic priorities while staying within the bounds of its budget. Currently, UArizona is in the process of centralizing its HR capabilities across all campus departments. Arizona Athletics is transitioning to follow this centralized model. In addition, in 2020-2021, the athletics department reorganized its job functions for non-sport staff to fall within UArizona's career architecture to provide more transparency in hiring, compensation, and progression.

While some of Arizona Athletics' positions (HR, business office) have been centralized as part of UArizona-wide initiatives, the department (like other collegiate athletics departments across the country) requires human resources specialization due to the unique nature of its hiring needs relative to the hiring needs of the central campus. For example, sports experience different seasonality patterns than the academic calendar; recruitment for coaches and other highly competitive positions occurs on a significantly faster timeline than for other university employees. At peer athletics departments, this need often translates into a specialized professional within the athletics department who acts as a liaison with central HR.

Historically, specific programs within Arizona Athletics characterized many hiring needs as urgent and sought exceptions to typical hiring processes directly from the University President – sometimes without involving the Athletics Director and/or the Athletics Business Office. While some of these needs were urgent (e.g., head coach leaving) others could have followed standardized procedures. As a result, hiring decisions (including incoming compensation levels) were made without validating budget and priorities across the entire department.

1c. Compensation – merit increases and incentive pay

In addition to market adjustments (e.g., for inflation), UArizona provides Arizona Athletics, like other units within the institution, the ability to award merit increases and incentive pay to encourage high performance among staff (the availability of a "merit pool" depends on the university's financial performance in any given year). At Arizona Athletics, merit increases and incentive pay do not follow established protocols. Historically, merit increases were awarded within Arizona Athletics without transparent criteria. Like other units, Arizona Athletics received its allocation of merit pay from UArizona if a merit pool was available in a given year. A small group within Arizona Athletics then determined who would receive merit increases during a one-week process that took place before performance reviews were finalized. Sport/program leaders did not receive communications about objective criteria considered for review or how the group was calibrating goal achievement across different areas. Perceived lack of transparency and objectivity can create an environment of skepticism or even mistrust that counteracts the goals of the merit increase program.

2) Budget process and accountability

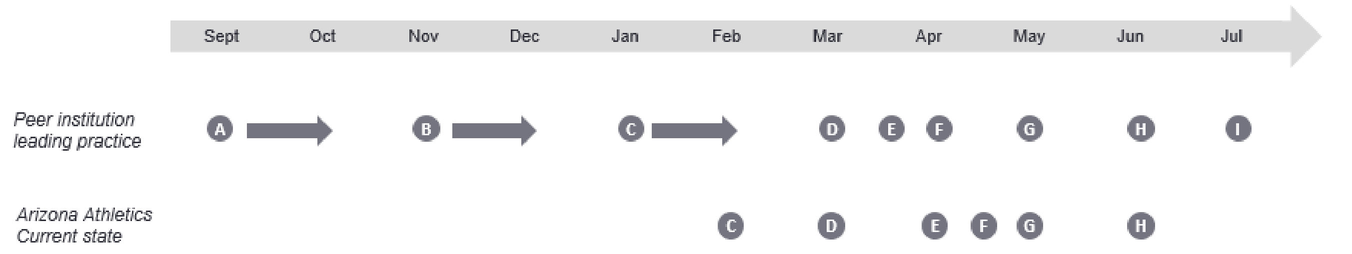
For collegiate athletics departments, budget development budget-to-actual tracking are critical in order to align resource allocation to strategic priorities and to support student-athletes. A transparent and well-managed budget allows athletics leaders and staff to uphold commitment to the Arizona Athletics mission, meet current and future challenges, and remain competitive while maintaining compliance with regulations.

Arizona Athletics has experienced several business process breakdowns during and following the Covid-19 pandemic; as a result, its budget process is delayed and does not accurately reflect spending needs. Additionally, Arizona Athletics is inconsistent in the way it classifies accounting transactions which inhibit the department's ability to provide budget-to-actual spending reports quickly and accurately.

2a. Budget development

The Covid-19 pandemic and associated staff turnover disrupted many budget processes at UArizona including within Arizona Athletics. As shown in **Figure 10**, the athletics department's budget process typically begins late, e.g., ~1-2 months before the due date for campus submission. The business office prepares budgets with minimal input from budget owners based on system data that does not accurately capture all prior spending actuals by the sports program or administrative office (see section 2b below for more detail on expense categorization and manual adjustments). Many coaches have not seen a clear, realistic budget for over three years. Additionally, there has historically been a processing backlog for expenses and when a new fiscal year starts. This results in sports programs potentially beginning a new fiscal year with a deficit, due to a prior year's spending (e.g., invoices from prior fiscal year's travel are paid in current fiscal year). The absence of a clear budget, with defined targets by unit/program, compounded with untimely processing of expenses, creates a context where employees do not trust the budget. It becomes challenging to instill accountability for spending when budget "owners" (coaches, department heads, etc.) have little ownership over it.

Figure 10: *Arizona Athletics current state of budget process as compared to peer institution leading practice*[28]



	Process step	Definition
A	Department planning	▸ Business office meets with coaches and program leaders to develop initial approach to budget
B	Input collection	▸ Coaches/programs submit initial budget figures to business office
C	Internal budget finalization	▸ Business office reviews with coaches/programs and finalizes overall budget
D	All funds submission	▸ Business office submits overall budget to central campus
E	Ticket and development revenue reconciliation	▸ Business office revises revenue assumptions as data becomes available
F	Budget finalization	▸ Business office meets with central campus to discuss updates to budget
G	Budget approval	▸ Central campus provides feedback and approves budget
H	Deadline to submit requests	▸ Business office requests modifications, if needed
I	Monthly check-ins with departments	▸ Business office provide update on actuals vs. budgets and discuss any adjustments to expenditures that may be needed

Arizona Athletics leadership and administrators are working to correct these issues. Following the recent leadership transition, Arizona Athletics has begun to take some steps to improve the budget process—by instituting a budget reporting template for coaches, holding monthly meetings between coaches, administrative units (e.g., marketing, development), and the business office, and developing proactive purchase orders based on budget expectations.

However, there is much room to improve. At peer athletics departments, the budget process begins ~5-6 months earlier or in the fall of the prior fiscal year. It involves multiple rounds of iteration with budget owners so that the budget reflects the priorities of programs and balances needs vs. wants across the athletics department. This approach allows time for review and collaboration with central campus around how athletics fits into the overall university financial picture.

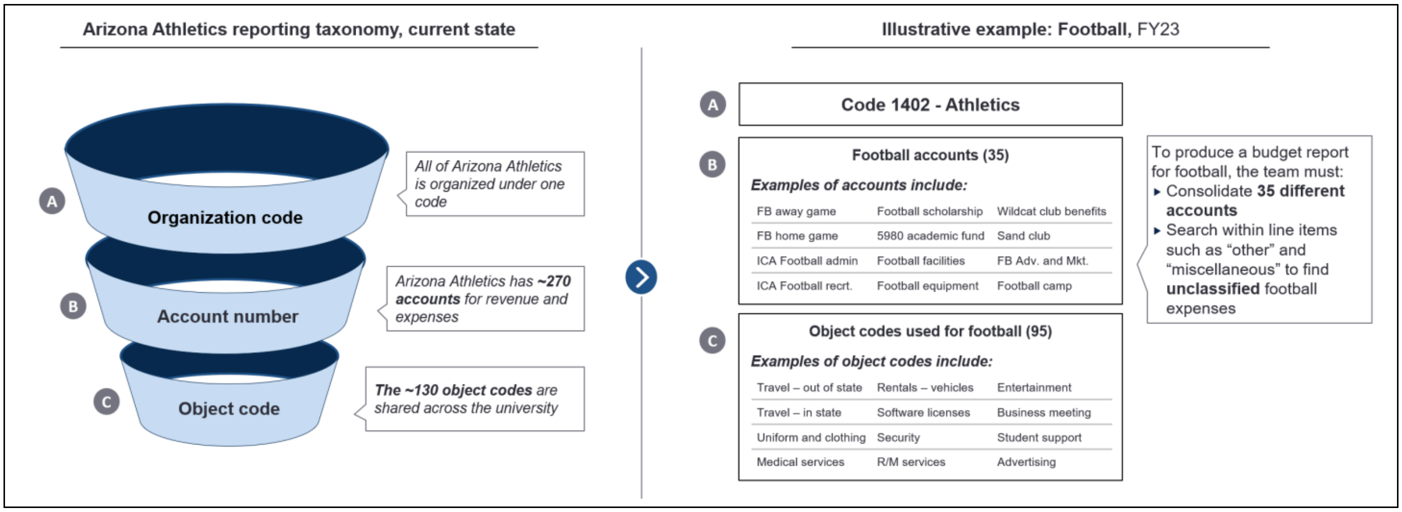
<u>2b. Budget tracking and reporting</u>

Historically, Arizona Athletics has not tracked budget-to-actual spending regularly, which has made it difficult to promote accountability and adherence to budget. This is related in part to the mix of roles/skillsets in the business office and in part to an absence of a cash-focused culture. The situation is further exacerbated by the process Arizona Athletics uses to enter transactions into its accounting system. In the current system, there is no nested taxonomy of sports and athletics expense categories. Instead, as shown in **Figure 11**, a single sport can appear across many different accounts (e.g., football scholarships, football away games). To assess spending by sport, a user must know all accounts associated with that sport and all sports-related transactions within non-sports accounts and add them together to develop a holistic view.
Additionally, users can categorize sport-related expenses in non-sport accounts (e.g., overall marketing, miscellaneous). Over $5.5m of total expenses in FY23 have item descriptions that suggest they are for a specific sport but appear as unallocated. A user would need to go line-by-line to read item descriptions and identify expenses to add to the total of sports accounts as outlined above, which can be time-consuming, and even then

[28] Primary research: internal interviews, peer institution interviews

may not capture all revenues and expenditures. Based on analysis of accounting entries for FY23, 14% of entries are completed as top-line adjustments with documentation outside the accounting system.

Figure 11: *Current state of budget reporting taxonomy and categorization process*[29]



Because of these data limitations, Arizona Athletics' business office is not able to perform dynamic reporting and faces risk (e.g., lost documentation). Coaches and budget managers do not receive regular, up-to-date budget-to-actuals reporting that would allow them to make informed decisions about where to adjust spending throughout the year. Coaches try to approximate spending progress and control costs as best they can individually, which adds considerable burden outside their core responsibility of leading sports teams.

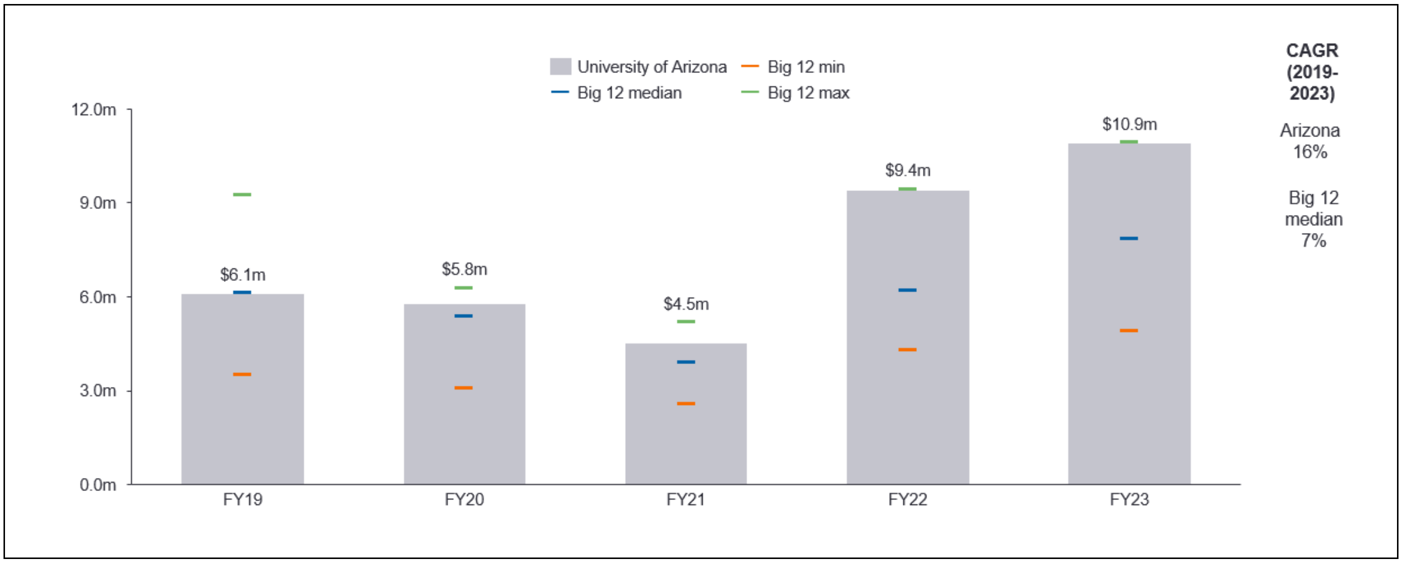
At peer athletic departments, data is categorized in a nested taxonomy that enables reporting by sport and by activity (e.g., recruiting) and topline adjustments are minimized. The business office acts as an analytics partner to provide coaches and budget managers regular, user-friendly reports on spending so they can focus on leading teams.

3) Purchasing

In FY23, UArizona spent approximately $11 million[30] on team travel (hotels, flights, meals, ground transportation, and other away game costs). As shown in **Figure 12,** this amount was the highest among Big 12 peers for both FY22 and FY23 and has grown at an annual rate of 16% since FY19, compared to a median growth rate of 7% among other Big 12 schools. [31] Annual travel and meal inflation during this period was 3-4%[32].

[29] Arizona Athletics internal data
[30] Arizona Athletics internal data
[31] NCAA financial reporting system
[32] French, Sally, and Kemmis, Sam, "Travel Inflation Report: June 2024," updated 3 June 2024, 12:40 p.m. PDT.

Figure 12: *Travel expenses across Arizona Athletics and the Big 12, FY19-FY23*[33]



3a. Travel – hotels and flights

Currently, most Arizona Athletics teams make hotel reservations through a third-party provider based on individual team preferences. Teams have different preferences, which leads to fragmented bookings that do not realize economies of scale. For example[34]:

- **Hotels:** 35% of bookings are with Brand A, 30% with Brand B, and 35% with 4 or more other brands
- **Commercial airlines:** 30% of flights are with Brand X, 30% with Brand Y, 20% with Brand Z, and 20% with 3 or more other airlines
- **Charter airlines:** Men's and women's basketball engage a third-party provider to coordinate charter travel, while football works directly with a commercial airline

[33] Arizona Athletics internal data; NCAA financial reporting system
[34] Arizona Athletics internal data for hotel and airline usage

3b. Meals (non-travel)

Meals (non-travel) have seen the highest rate of growth among sports program spending categories at 18%.[35] Arizona Athletics uses its in-house option for only 29% of non-travel meal spending.

3c. Recruiting

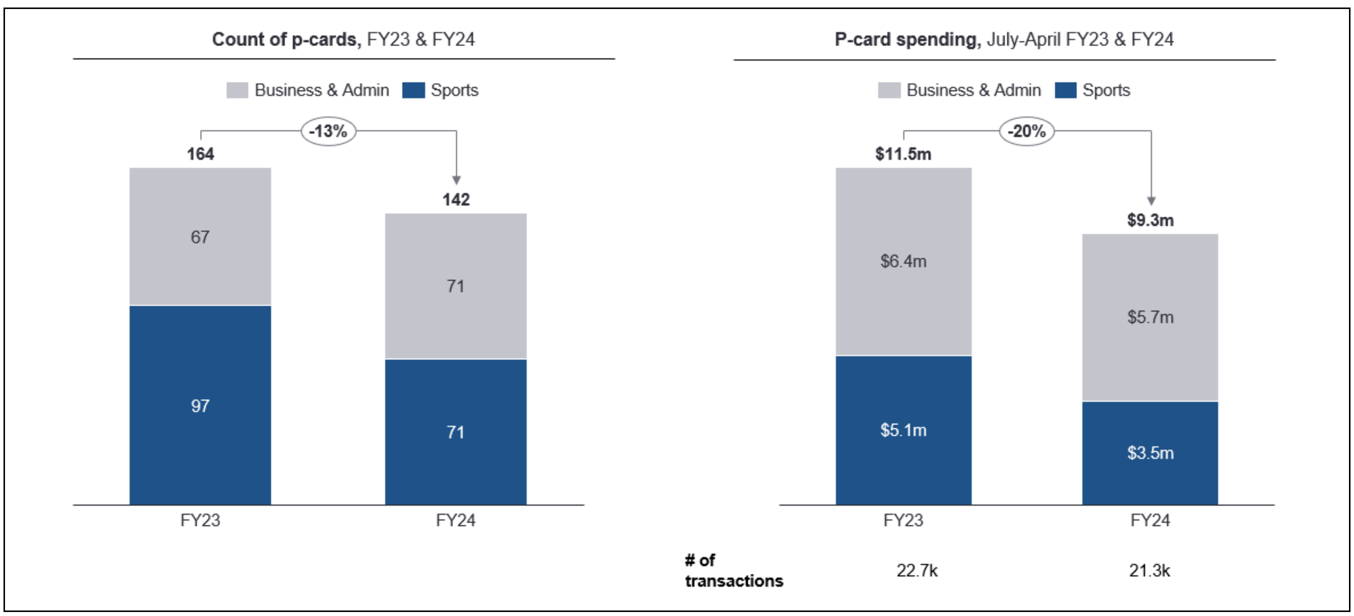
Recruiting spending is an important investment for the future of programs. However, sports currently make reservations for on-campus and travel recruiting events independently without coordinating to leverage savings.

3d. Procurement card (p-card) utilization

One reason for the increase in spending is lack of real-time visibility into purchases. Arizona Athletics relies on p-cards to execute a significant amount of its business, which could carry compliance, accounting, and vendor management risks.

Currently, approximately 25% of non-personnel operating spending was processed through a p-card.[36] Over 60% of Arizona Athletics employees had p-cards in FY24 and the average per-transaction limit was $11,000.[37] This limits Arizona Athletics' ability to plan to realize favorable pricing for bulk orders and to track anticipated expenses. Additionally, it adds accounting and reconciliation burden. Since last year, Arizona Athletics has started to reduce the number of p-cards in the department to place more controls on spending by not distributing p-cards to new employees (see **Figure 13**).

Figure 13: *Total count and spending for Arizona Athletics procurement cards (p-cards), FY23 and FY24*[38]



[35] Arizona Athletics internal data
[36] Arizona Athletics internal data, $11m of $46m in FY23; excludes "ghost card" expenses; a mechanism by which third-party vendor books on behalf of Arizona; P-card spending for FY23 is through April 2023 to show a comparable period
[37] Arizona Athletics internal data
[38] Arizona Athletics internal data

Revenue generation

As previously mentioned, Arizona Athletics revenue has grown at 3.1% per year between FY19 and FY23, lagging the growth rate experienced by many peer benchmarks. In the most recent year (FY24E), revenue has actually declined when one-time inflows for coach buyouts are excluded (see 'Financial Performance' above for more detail on revenue trends). This section describes the current state of three revenue-generating areas: development, ticket sales, and multimedia rights.

1) Development

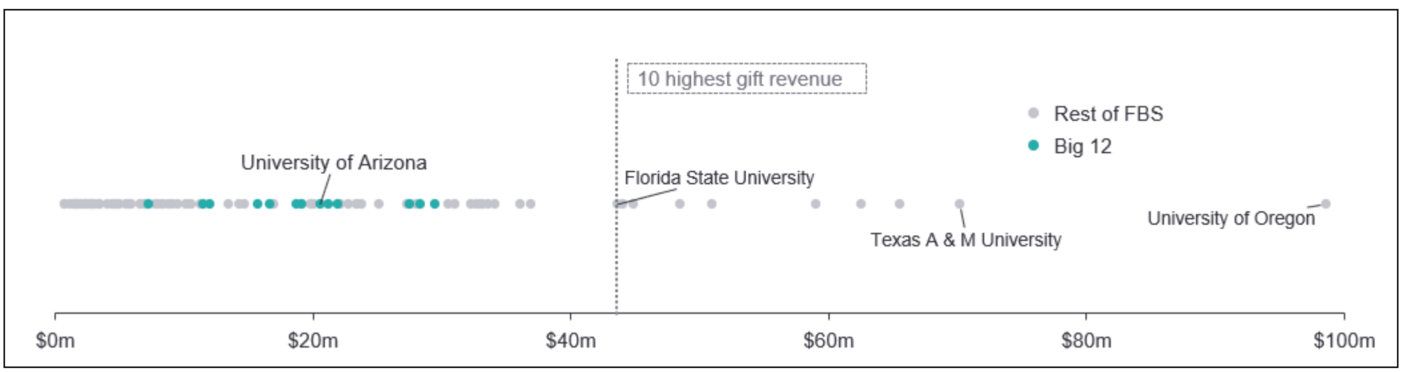
In FY23, Arizona Athletics received 26% of its generated revenue from gifts. Gift revenue can be classified into two categories: ticket-related gifts (i.e., donations to secure priority seating) and philanthropic gifts (e.g., donations for scholarships, capital projects, and other strategic priorities).

1a. Total giving

Arizona Athletics receives close to the median in total gift revenue among its Big 12 peer set and its growth rate for gifts has been less than half the rate of the Big 12 peer median (4% vs. 10% from FY19-FY23).[39]

When compared to all public institutions within the FBS who have reported FY23 data, Arizona Athletics ranked 40th of 108 institutions in total gifts raised on average from FY19 to FY23. As shown in **Figure 14,** average athletics-focused philanthropic giving at the top 10 highest fundraising schools ranged from $44-$98m per year during the period from FY19-23. The highest fundraising program, the University of Oregon, received a $300m gift in FY21 from Nike CEO Phil Knight. Without this outlier, the highest fundraising program would be Texas A&M ($70m per year on average). In the same period, Arizona Athletics raised considerably less ($20m on average annually).

Figure 14: *Average annual gift revenue for FBS subdivision schools, FY19-FY23*[40]



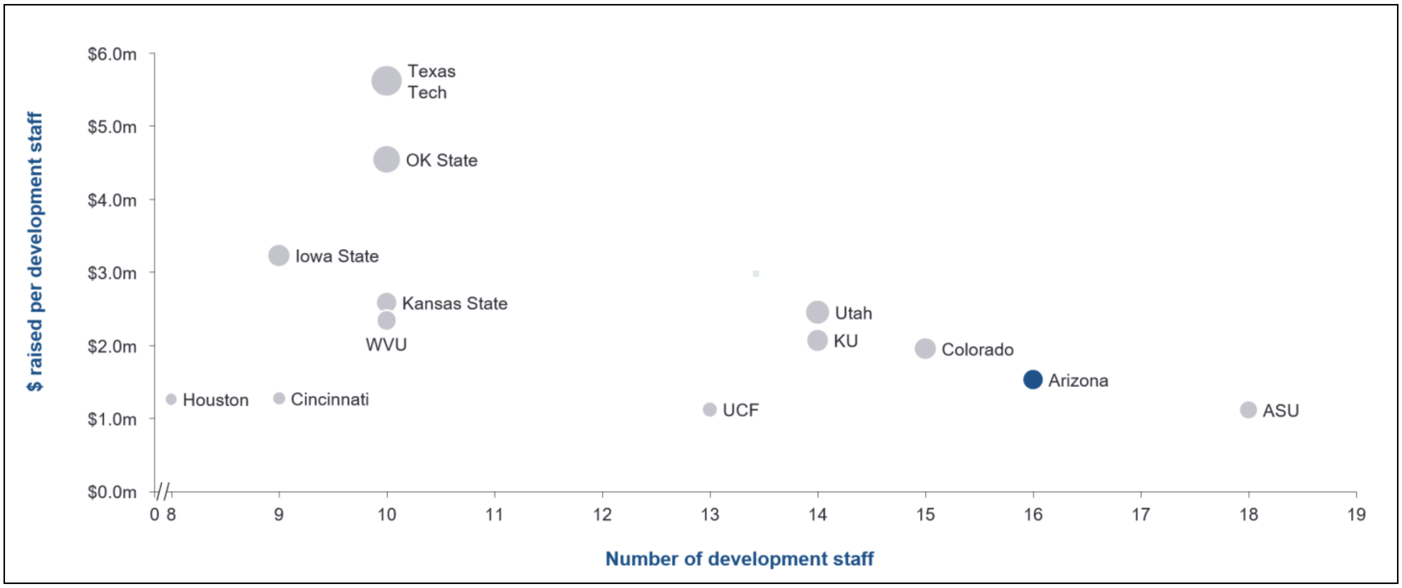
Arizona Athletics has highly ranked and competitive sports programs which would suggest that it could potentially achieve more gift support through donor engagement. For example, the Arizona Athletics football team is ranked #20 by the NCAA going into the next season, but athletics departments with lower football rankings have historically brought in more donation revenue.[41]

[39] NCAA financial reporting system
[40] NCAA financial reporting system
[41] Schlabach, Mark, "College Football Post-Spring Top 25 Rankings," ESPN, 20 May 2024, 07:00 AM ET

1b. Development efficiency (gift amount per development officer)

When considering gift dollars raised per development staff member[42], Arizona Athletics appears less efficient than other institutions in its conference (see **Figure 15**). The Arizona Athletics development office is larger and employs more senior staff versus junior-level staff when compared to its most efficient peers.[43] Arizona Athletics development staff include ten "frontline fundraisers" – major gift development officers (DOs) – as well as six other staff members who manage the Annual Fund, gift processing, and administration.

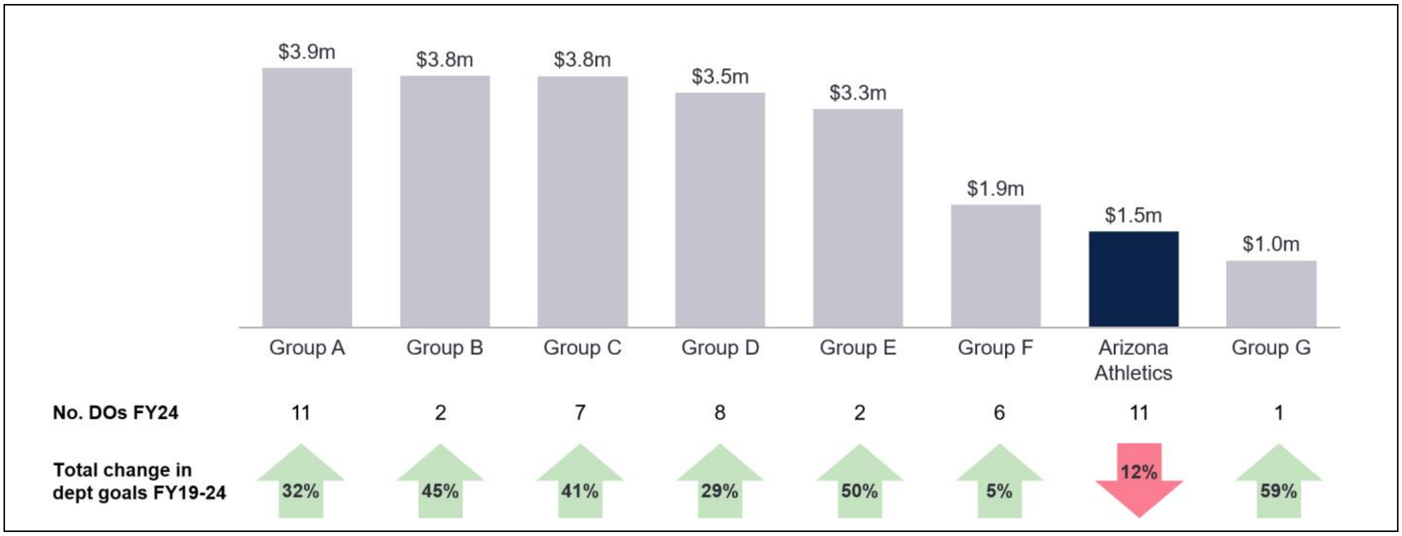
Figure 15: *Arizona Athletics and Big 12 development staff and dollars raised, FY23*[44]



Arizona Athletics' development function also appears less efficient when compared to internal UArizona benchmarks, as shown in **Figure 16.** The department's FY24 goals per DO were 12% lower than its FY19 goals and are lower than for many other development units at UArizona. Development activities and goals have also under-indexed on long-term strategic giving (e.g., building up endowment to fund strategic priorities).[45]

[42] For peer benchmarking purposes, development staff member includes all in the development function – not just major gift/development officers (ex. gift processing, annual fund)
[43] NCAA financial reporting system,
[44] NCAA financial reporting system; Arizona Athletics internal data; note: Baylor, TCU, and BYU excluded due to lack of publicly available NCAA data on total donations received; donations defined as funds contributed from individuals, corporations, associations, foundations, clubs or other organizations external to the athletics program above the face value for tickets); bubble size is proportional to the total value of dollars raised by Department.
[45] External report commissioned by UArizona in the area of athletics fundraising

Figure 16: *Arizona Athletics major gifts goals per DO compared to other UArizona units, FY19-24 average*[46]



1c. Development approach

Arizona Athletics may not be engaging with donors in a way that captures value and supports long-term success.

- Currently, major gift officer portfolios are larger than peer benchmarks (up to 500 vs. 100-150 individuals at peer institutions) and are not organized by shared characteristics (e.g., geography, sport). This can inhibit the ability to have high-touch, close relationships, and discussions of donors' long-term giving priorities.
- Additionally, major gift DO time is spent on transactional ticket-related opportunities instead of engaging with donors on ambitious multi-year plans as shown in **Figure 17**. At peer institutions, ticket-related priority seating gifts are often part of the Annual Fund, which frees major gift officer capacity to pursue strategic gift opportunities. At Arizona Athletics, three Annual Fund staff currently support annual unrestricted gifts below the major gift threshold, a similar count of staff to peers but peers also manage ticket-related priority seating donations.
- While UArizona alumni live and work across the U.S. (see **Figure 18**), there are nearly as many alumni with major giving capacity in California as in Arizona (see **Figure 19**). Today, Arizona Athletics development staff focus their efforts primarily in Tucson, Phoenix, and other areas of Arizona.
- Arizona Athletics does not have an established process for coordinating fundraising efforts with the UA Foundation, which manages fundraising on behalf of UArizona. Arizona Athletics tracks its interactions with donors in a separate CRM system, so there can be data gaps in donor contact and status tracking. In addition, reliance on a separate system hinders collaboration with other DOs across UArizona and prevents Arizona Athletics from taking full advantage of UA Foundation-offered professional development for DOs.

[46] Letters represent UA Foundation DO groupings where fundraising priorities and/or DOs overlap

Figure 17: *Percentage of development opportunities that are ticket-related, by rank of DO and value of ticket vs. non-ticket opportunities, FY23*[47]

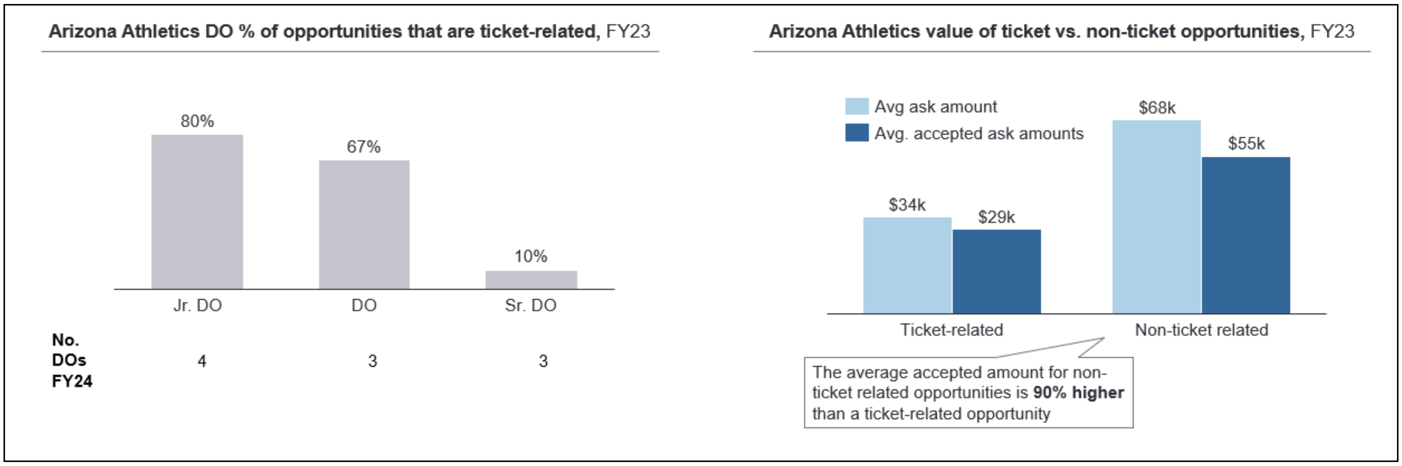
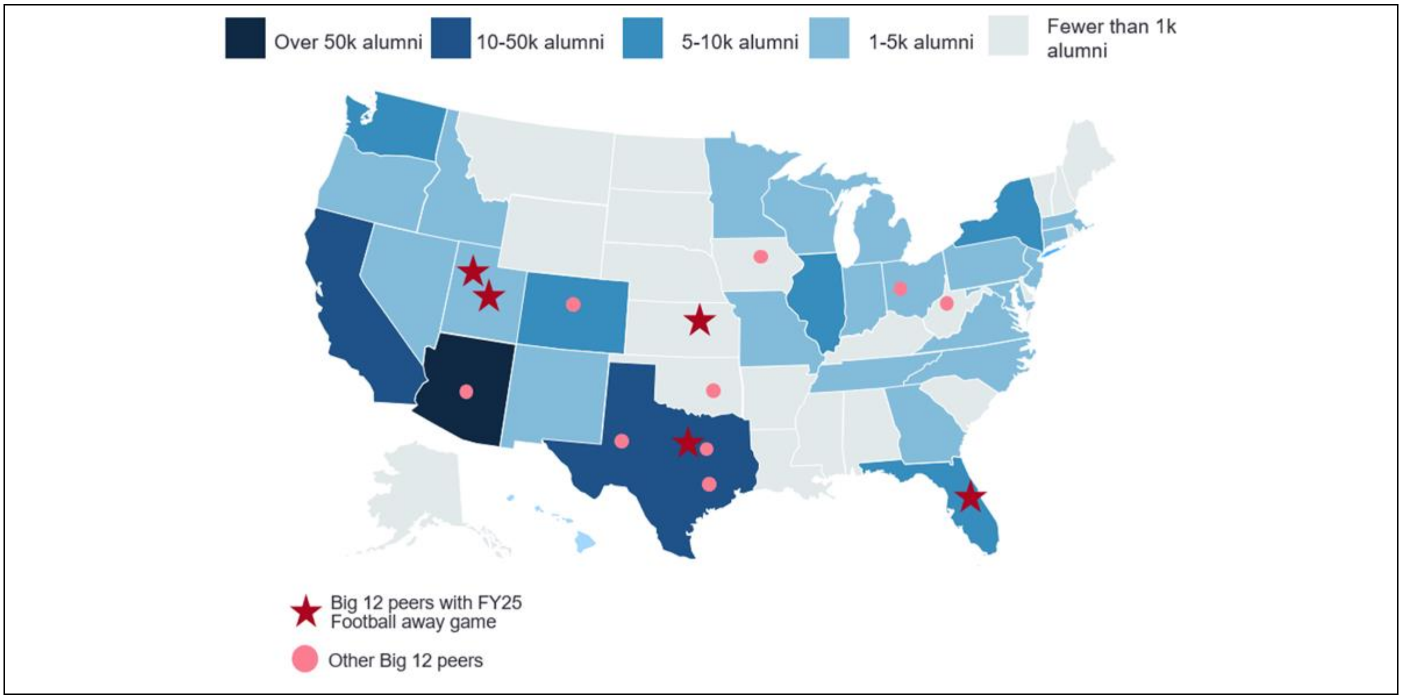
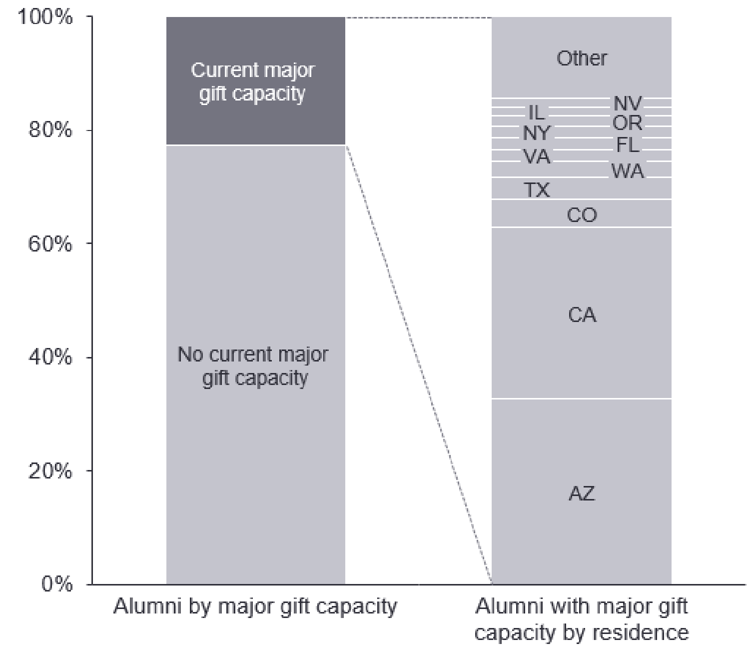


Figure 18: *UArizona alumni by location, FY24*[48]



[47] University of Arizona internal data (UA Foundation)
[48] University of Arizona internal data (UA Foundation); Excludes ~16k alumni the Arizona Foundation was unable to rate and ~92k blank alumni entries

***Figure* 19:** *UArizona alumni by major gift capacity and state of residence, FY24*[49]



2) Ticket sales

Ticket sales in FY23 represented ~19% of the revenue Arizona Athletics generates. Historically:[50]

- Close to 90% of ticket sale revenue comes from football (50%) and men's basketball (40%).
- On average, 60% of football's ticket sales were seats for individual games, while 40% were season ticket holder packages.
- On average, 30% of men's basketball's ticket sales were seats for individual games, while 70% were season ticket holder packages
- Arizona Athletics recently implemented ticket price increases in its football and men's basketball programs to be close to the Big 12 median; for FY25, football ticket prices increased 15-40% by section, and for men's basketball there is a planned 20% increase for tickets in all sections.

For individual tickets, Arizona Athletics follows a basic dynamic pricing model that allows it to differentiate ticket prices based on days remaining to game. Arizona Athletics is in the process of revisiting the design of its dynamic pricing tool for upcoming seasons. At peer athletics departments, dynamic pricing is based on days remaining to game, but also other factors such as popularity of the time/date scheduled, opponent caliber/rivalry, and number of tickets remaining. By employing analytics, peers are able to track live sales data and secondary market trends to inform dynamic pricing adjustments that capture value from demand.

For season tickets to football and men's basketball games, Arizona Athletics requires a capital campaign contribution to access tiered levels/zones. While Arizona Athletics has similarly sized facilities as peers (3k seats less than the median in football, 1k more seats than the median in basketball), peers have more differentiation in

[49] University of Arizona internal data (UA Foundation)
[50] Arizona Athletics internal data

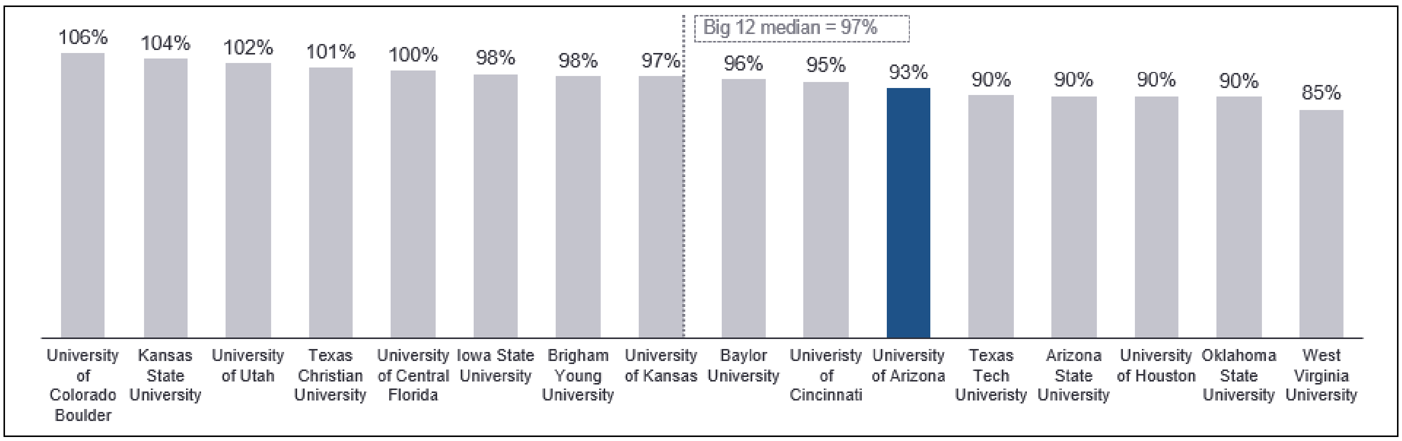
seating sections to offer premium experiences.[51] Implementing this type of strategy at Arizona Athletics may require an investment in facilities upgrades.

Season tickets typically come with parking passes and can be transferred and renewed without additional capital campaign contributions. The tiered pricing model is similar to peer athletics departments; however, peers require additional contributions to access parking and renew tickets.

2a. Football

Currently, Arizona Athletics football may not capture the full potential of its revenue. Attendance at Arizona Athletics football games has increased 8% from the 2023 season to the 2024 season and has rebounded to levels above 2019. However, as shown in **Figure 20**, attendance is below the median of Big 12 schools, particularly in Arizona Athletics' largest stadium sections[52].

Figure 20: *Big 12 average football game occupancy, Fall 2023 season*[53]



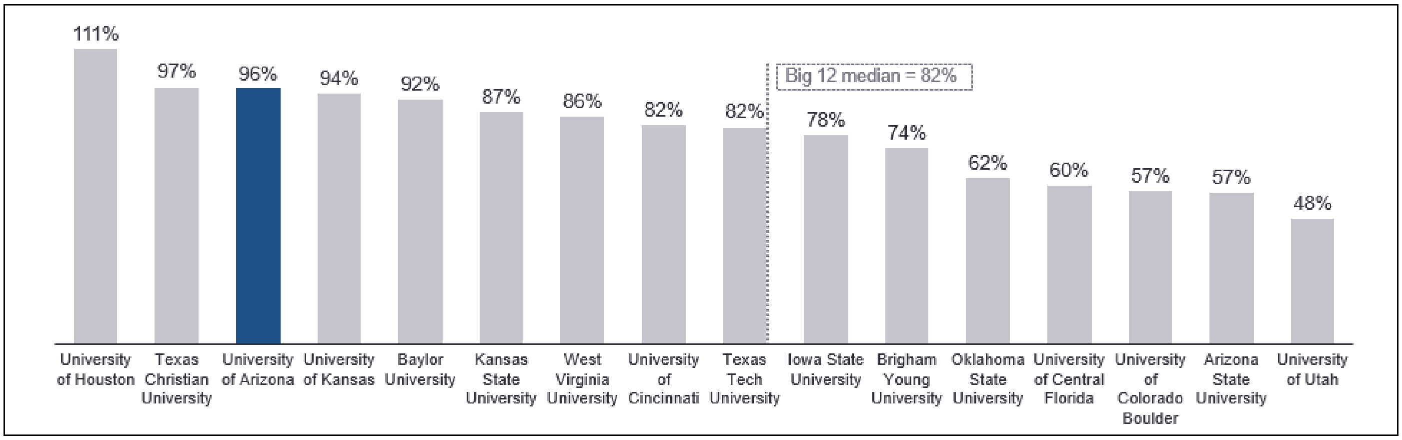
As one mechanism to increase attendance, Arizona Athletics has grown the number of complimentary tickets it offers. Many universities provide these types of tickets in exchange for high return-on-investment. For example, they can use tickets for donor events and corporate sponsors. However, at Arizona Athletics, complimentary football single-game tickets have grown from 16% of total tickets issued in FY23 to 25% in FY24, and complimentary football season tickets have grown from 19% to 22% in the same time period without commensurate returns in gifts from donors or multimedia right sponsorship value.

2b. Men's basketball

Historically, attendance at McKale Center for men's basketball events has been close to 100% and in FY23 Arizona Athletics had the third-highest overall basketball attendance among Big 12 schools as shown in **Figure 21**[54].

[51] The median Big 12 Football stadium has capacity of 50.5k, while Arizona Athletics' football stadium has a capacity of is 47k; the median Big 12 Basketball Arena has a capacity of 13.8k, while McKale's is 14.7k
[52] "2023 FBS Attendance Trends" Learfield DI.ticker
[53] Arizona Athletics internal data; NCAA financial reporting system
[54] "College Basketball Attendance 2023 Rankings Report", NCAA

Figure 21: *Big 12 average men's basketball game occupancy, Spring 2023 season*[55]

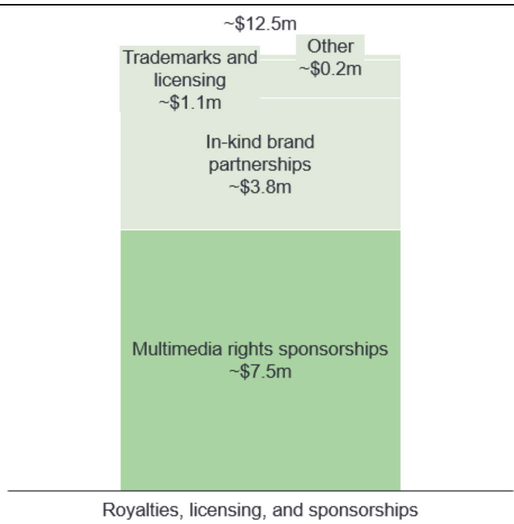


Given the high rate of attendance, Arizona Athletics has provided fewer complimentary tickets for basketball games than it has for football. Complimentary season tickets have been stable at a ~10% share of total tickets since FY19 and have a return on investment from corporate and individual sponsors. The proportion of single-game complimentary tickets has decreased from 17% of all tickets in FY23 to 13% in FY24. In FY25, Arizona Athletics has a planned 20% increase for basketball ticket prices across sections. However, the department has not recently conducted a study on seat assignments and philanthropic contribution levels.

3) Multimedia rights (MMR) sponsorship

In FY23 Arizona Athletics received ~13% of its generated revenue from royalties, licensing, and sponsorships. Most of this revenue is from multimedia rights sponsorship agreements that universities enter either directly with sponsors or with the brokerage of third-party providers. Additional segments in this category include trademark and licensing revenue from sales of branded items and the value in-kind brand partnerships.[56]

Figure 22: *Arizona Athletics royalties, licensing, and sponsorships revenue by component, FY23*[57]



Area	Definition
Other	▸ All other royalties, licensing, and sponsorships
Trademarks and licensing	▸ Sales of Arizona Athletics-branded items at campus stores and licensing outside of UArizona
In-kind brand partnerships	▸ Value of in-kind items such as clothing from corporate sportswear partners
Multimedia rights sponsorships	▸ Payments for external multimedia sponsorship of Arizona Athletics (currently managed by third-party, revenue received as a guarantee and potential revenue share per contracted terms)

[55] Arizona Athletics internal data; NCAA financial reporting system
[56] Arizona Athletics internal data
[57] Arizona Athletics internal data

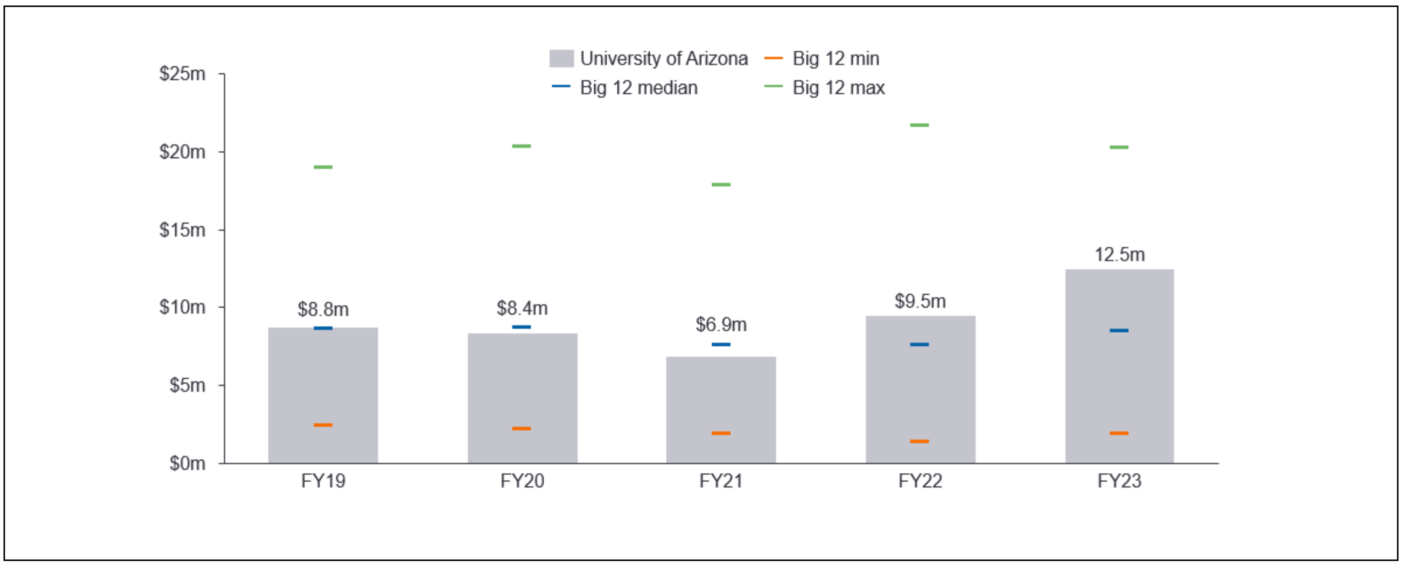
Arizona Athletics' total corporate sponsorship, advertising, and licensing revenue was above the Big 12 peer median in FY23 (latest available peer data) as shown in **Figure 23**.

The growth in this category has also been higher than the Big 12 peer median (9% vs. 3.5% from FY19-23) as shown in **Figure 24.**[58]

Still, the highest-earning schools in the Big 12 receive approximately double the revenue that Arizona Athletics does;[59] indicating that Arizona Athletics may have opportunity to expand this revenue category.

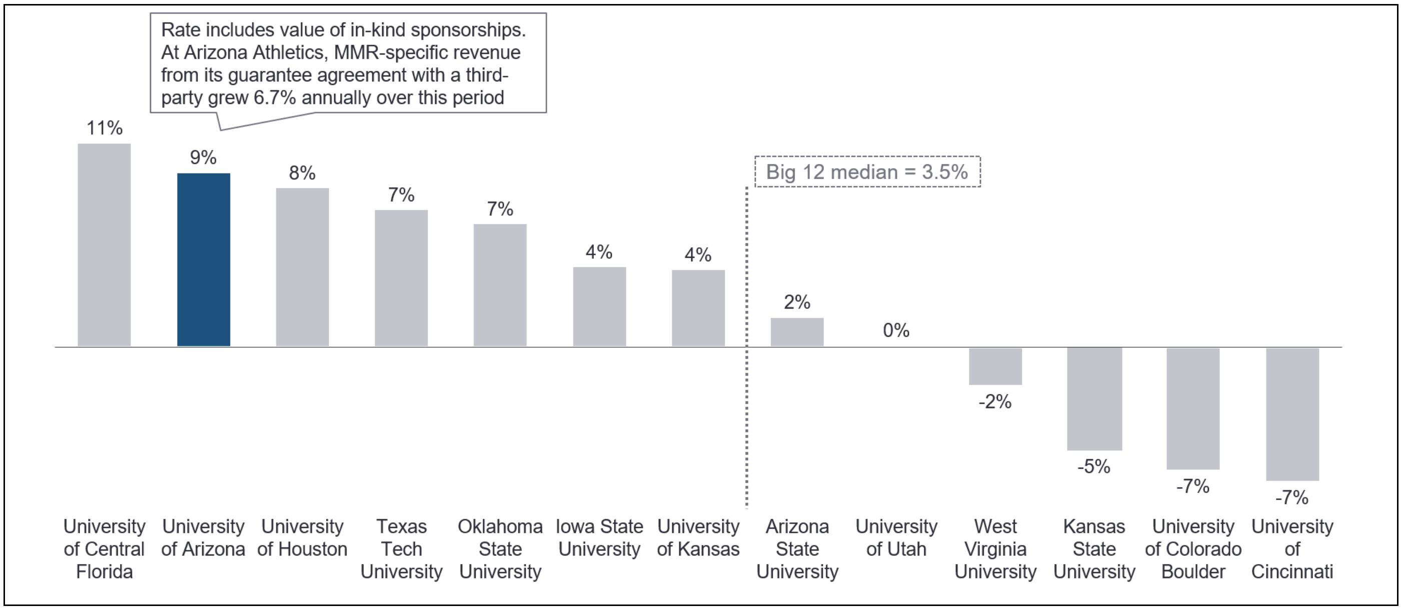
While the metric of corporate sponsorships, advertising, and licensing revenue, which includes MMR, serves as a helpful benchmark for analysis, it is crucial to recognize that this publicly reported figure also incorporates in-kind brand partnerships, trademark, and licensing revenues.

Figure 23: *Corporate sponsorships, advertising, and licensing revenue across Arizona Athletics and the Big 12, FY19-FY23*[60]



[58] NCAA financial reporting system
[59] NCAA financial reporting system
[60] Arizona Athletics internal data; NCAA financial reporting system

Figure 24: *Annual growth of corporate sponsorships, advertising, and licensing revenue across Arizona Athletics and the Big 12, FY19-FY23*[61]

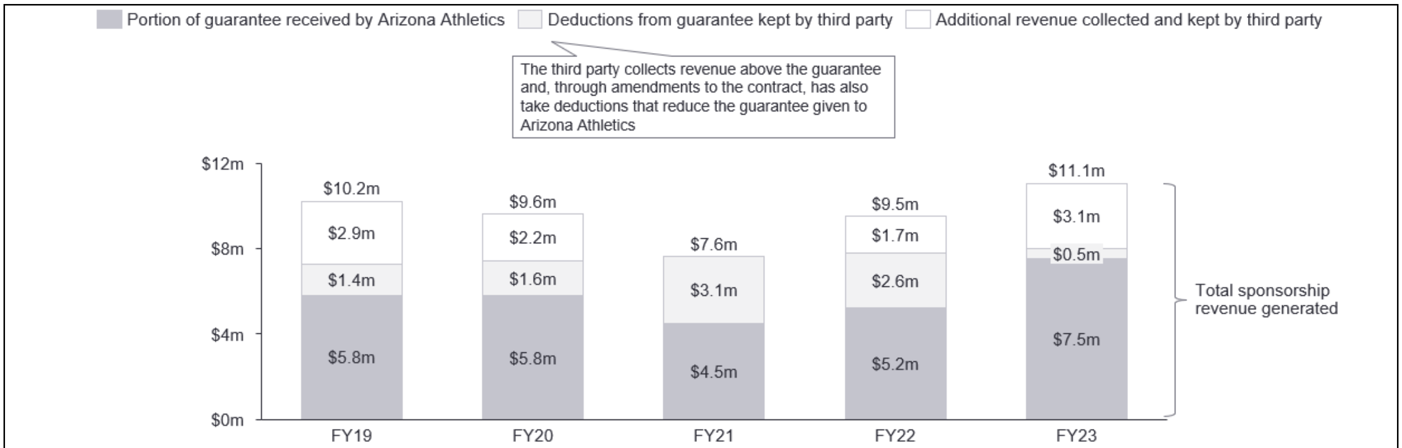


For over 15 years, Arizona Athletics has partnered with a third-party provider to manage its MMR. Under this agreement structure, the third-party secures MMR sponsorships and is expected to provide Arizona Athletics an annual guaranteed payment. However, as a part of this agreement, the third-party provider has the rights to take deductions off this guarantee, lowering the revenue received by Arizona Athletics. This type of agreement is common in collegiate athletics, as it is intended to provide a stable stream of income from the guarantee, particularly in situations such as the Covid-19 pandemic, when sponsorships were lower. This intended revenue predictability comes at a tradeoff of full revenue potential as the third-party provider receives a cut of all MMR revenue.

Based on its MMR agreement with the third-party provider, Arizona Athletics received only 68% of the aggregate value of the total MMR sponsorship revenue secured in FY23 (**Figure 25**). Also, Arizona Athletics did not get the full benefit of revenue predictability intended by this type of agreement. Deductions made by the third party from FY19-23 meant that while Arizona Athletics annual revenue guarantee ranged from $7.3-8m, the actual revenue received varied from $4.5-7.5m (**Figure 25).**

[61] Arizona Athletics internal data; NCAA financial reporting system

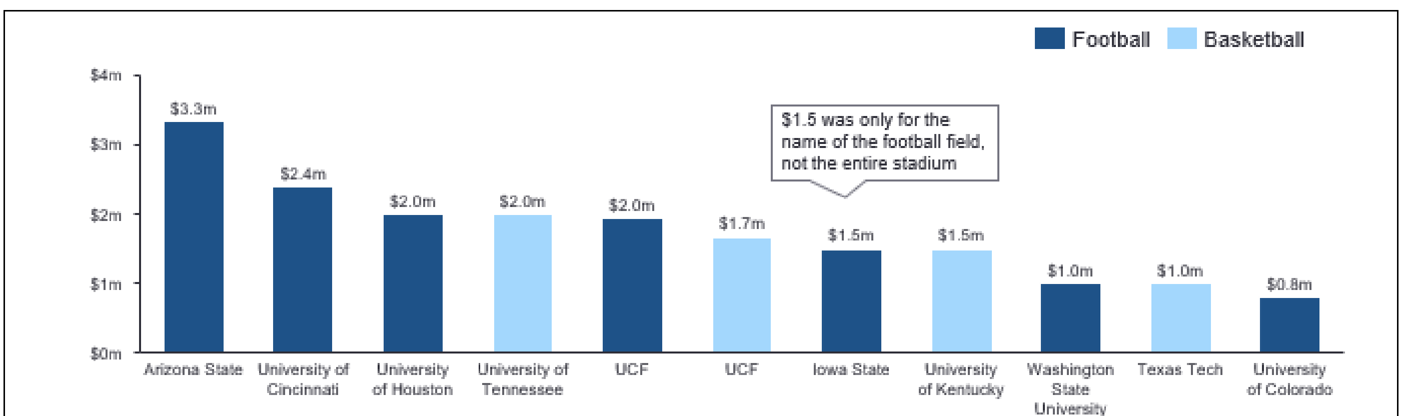
Figure 25: *Value of Arizona Athletics multimedia rights sponsorship and impact on Arizona Athletics revenue*[62]



	FY19	FY20	FY21	FY22	FY23
Percent of total sponsorship revenue received	57%	60%	67%	55%	68%
Percent of guarantee received	80%	78%	59%	67%	94%

In addition to annual multimedia sponsorships, many universities offer local and national organizations naming rights to stadiums and arenas in exchange for brand exposure. Currently, Arizona Athletics' two largest venues—its football stadium and basketball arena—do not have naming rights agreements in place. The venues have characteristics that may appeal to potential sponsors as there is no professional sports team in Tucson, and the Arizona Athletics' men's basketball team has had recent national exposure. For peers (as shown in **Figure 26**), recent naming rights deals have involved credit unions, food & beverage, technology, energy, banking, and healthcare companies, and provide ~$1-3m in revenue annually over a ~10-year term on average.

Figure 26: *Annual value and terms of recent collegiate athletics naming rights agreements*[63]



	Arizona State	University of Cincinnati	University of Houston	University of Tennessee	UCF	UCF	Iowa State	University of Kentucky	Washington State University	Texas Tech	University of Colorado
Year signed	2023	2023	2022	2023	2022	2022	2018	2020	2021	2020	2021
Term (years)	15	5	10	10	10	12	10	14	11	16	15

[62] Arizona Athletics internal data
[63] College websites; Learfield; JMI; ISE; Sports Business Journal

5. Arizona Athletics opportunities

The current state assessment (described in Section 4) and comparison to peer institution structure and practices point to six recommended opportunity areas for consideration by UArizona and Arizona Athletics. These opportunities, if implemented, could increase transparency, control spending, enhance revenue, and improve efficiency. Arizona Athletics can develop an implementation timeline by opportunity to achieve cost and revenue impact in 1-5 years.

- Three process and resource utilization opportunities: These focus on people-related changes, budget process and accountability, and purchasing process changes. Together, these opportunities could potentially have an aggregate impact of $3.5m to $6m annually at steady state. Changes (and commensurate savings) could be phased in over a three-year period.
- Three revenue generation opportunities: These focus on development, ticket sales, and multimedia rights and could potentially have an aggregate impact of $13-18m annually at steady state. Changes required to implement these opportunities (and commensurate revenue) could be phased in over a three- to five-year period.

Each opportunity is described below. For more detail on a potential implementation timeline, refer to Section 6.

Processes and resource utilization

1) People-related opportunities

Arizona Athletics operates in a competitive environment where people are key to success. Arizona Athletics has an opportunity to adjust its organizational structure – particularly in the areas of leadership, development, business office, and sports support staff – to prepare for these changes.

1a. Organizational structure

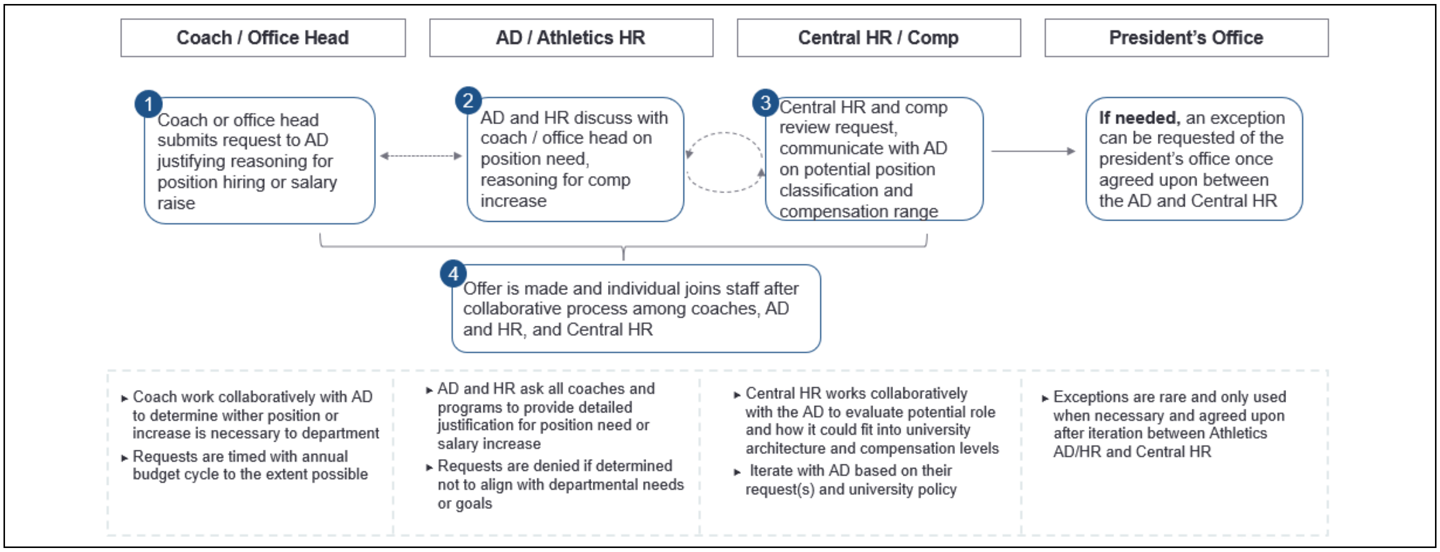
- **Leadership:** Arizona Athletics could evaluate the roles and responsibilities of its leadership team as it aligns to new market needs
    - For example, it could create dedicated positions to focus on revenue generation and operations and manage changes to the athletics business model. These positions would be expected to have positive ROI by increasing revenue and creating accountability for cost-containment practices.
        - The revenue-oriented position could focus on expanding revenue to offset new expenses created by recent changes in the broader athletics landscape (e.g., shifting NCAA regulations, proposed litigation settlements).
        - The operations-oriented position could take on a myriad of operational responsibilities to implement changes to key administrative processes and to free up capacity for the Chief Financial Officer role to focus on: developing a clear, realistic budget in collaboration with budget owners; instituting mechanisms to track and report on budget-to-actuals trends; and building up data analytics capabilities to inform data-informed decision-making by senior leadership).
    - Arizona Athletics could empower sports administrators to hold coaches accountable to budgets and spending.
- **Development:** As outlined in Section 4, Arizona Athletics' development office is larger and employs a higher ratio of senior-to-junior staff when compared to its most efficient peer benchmarks

  - To catalyze the necessary changes in its development office, Arizona Athletics could re-organize the development team's roles into major gifts, annual giving, and community/alumni events to align the team's structure to market benchmarks. It could also implement higher goals and accountability for meeting goals. For more detail on recommended development responsibilities, goals, and collaboration with the UA Foundation, please see the development section on p. 40.
- **Business office:** The Arizona Athletics business office is staffed at a level similar to peer benchmarks. However, it spends more time on processing activities as opposed to business analytics. Responsibility for transaction processing services could be transferred to the central business office to enable the Arizona Athletics business office functions to focus on developing analytics and forward-looking capabilities. Given the importance of tracking and reporting budget-to-actual spending, and the growing role of data analytics in informing business decisions, Arizona Athletics' business office could pivot to serve as analytical and strategic support for the Arizona Athletics leadership team and sports leadership. By shifting capacity from processing to analytics, it could also take on a bigger role in promoting coordination and spending efficiency across sports programs. The Arizona Athletics business office could undertake activities such as:
  - Assisting the Athletics Director in developing and executing a financial strategic plan with clear, measurable objectives for financial performance
  - Building a culture of data proficiency and transparency, and training sports and program leaders to understand and manage individual budgets
  - Setting clear benchmarks and goals to drive budget compliance, and holding program leaders accountable when budget guidelines are not met
  - Applying analytics to identify areas of budget efficiency, revenue growth, and sound financial practices
  - Maintaining forecasts and projections, including a 5-year strategic model, scenario modeling, ROI on capital expenditures modeling, and decision impact analysis
  - Standardizing team travel bookings, negotiating rates, and supporting compliance with internal travel policies; this could involve shifting responsibilities from a current position into a position dedicated to travel coordination (note: not a net new position, see purchasing process opportunities for more detail on travel coordination activities)
- **Sports supports staff:** Arizona Athletics could assess potential overlap in student and full-time employee role and responsibility to optimize headcount.

<u>1b. Hiring processes and controls</u>

As mentioned in Section 4, the university-wide HR centralization effort could help create more collaboration and coordination across UArizona. While Arizona Athletics will likely continue to have unique and time-sensitive hiring needs (e.g., mid-year coaching changes and competition for senior positions), it can look to minimize emergency requests and align with UArizona cycles. This could improve hiring transparency, equity, and budget compliance as shown in **Figure 27.**

Figure 27: *Illustrative potential athletics hiring process for increased budget controls and coordination with UArizona human resources*



<u>1c. Compensation – merit increases and incentives</u>

Section 4 noted that prior rounds of merit increases and incentive pay awards lacked transparency and were disconnected from the performance review cycle. In future years, when merit and/or incentive pay is available, Arizona Athletics could establish clear criteria and a calendar for awards to enhance transparency and foster a culture of shared accountability.

- In the beginning of a fiscal year, all employees could establish specific and differentiated performance goals with their managers.
- During a mid-year review, employees could discuss their progress towards these goals in a career conversation with their managers.
- If Arizona Athletics receives a merit increase pool for the following fiscal year from central HR, the Athletics Director could distribute it to managers based on predefined and transparent criteria.
- Managers would then award increases to employees based on the results of completed annual reviews and the assessment of goals in relation to the department's progress toward priorities.

2) Budget process and accountability-related opportunities

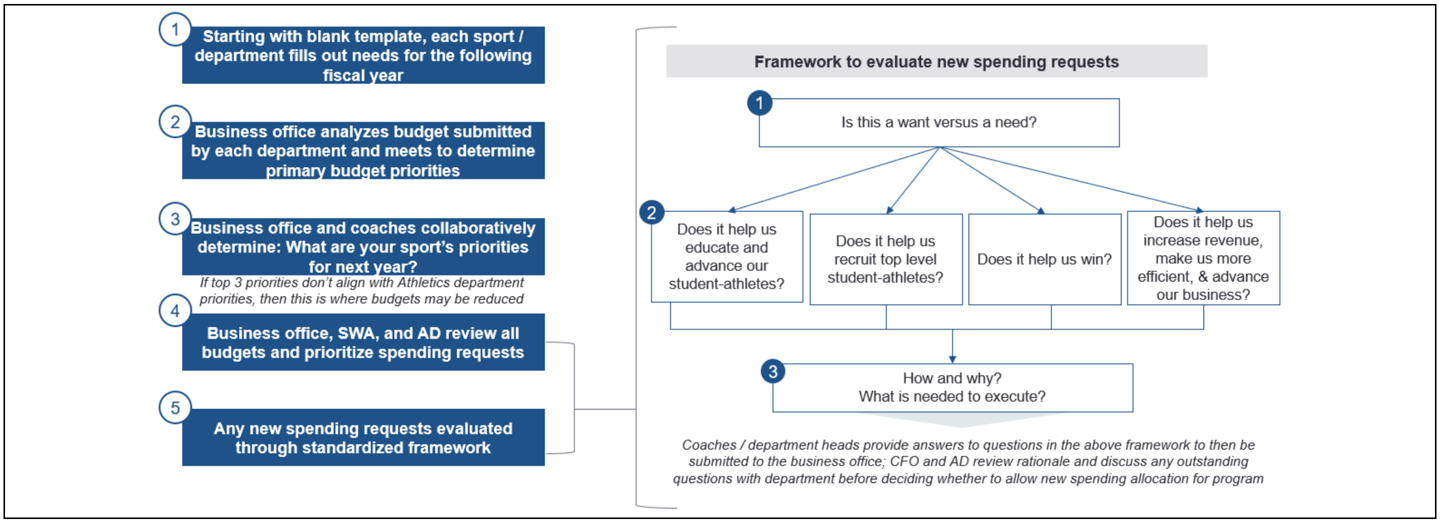
As outlined in Section 4, the Arizona Athletics budget process begins later and involves less input from budget owners than leading practices at peers would suggest. Additionally, data constraints hinder the department's ability to provide comprehensive and regular budget-to-actuals reports. To address these challenges, Arizona Athletics could take actions to enhance its budget and reporting process to promote transparency, buy-in, and accountability, as outlined in **Figure 28.**

<u>2a. Budget development</u>

- Arizona Athletics could implement a priority-based budgeting process to establish accurate budgets that reflect the costs of operating a top-tier Division I athletics department and allow for investment in areas that will enhance outcomes for student-athletes, quality of sports programs, reputation of the department, and overall financial stability. As part of this process, the department could set budget caps and revise budget override/ reapportionment approval process to reduce rogue spending.

- Arizona Athletics could also seek to incorporate input of budget owners from the start of the process to increase buy-in, transparency, and accountability throughout the year.
- Through its business office, Arizona Athletics could communicate the budget for the year, standardize a budget-to-actuals report, and report out on budget-to-actuals spending in a timely manner and with appropriate levels of transparency, while also holding budget owners accountable for budget performance throughout the year. This could involve updating controls and policies for consequences of overspending.

Figure 28: *Framework to evaluate new spending requests from sports programs and administrative offices*

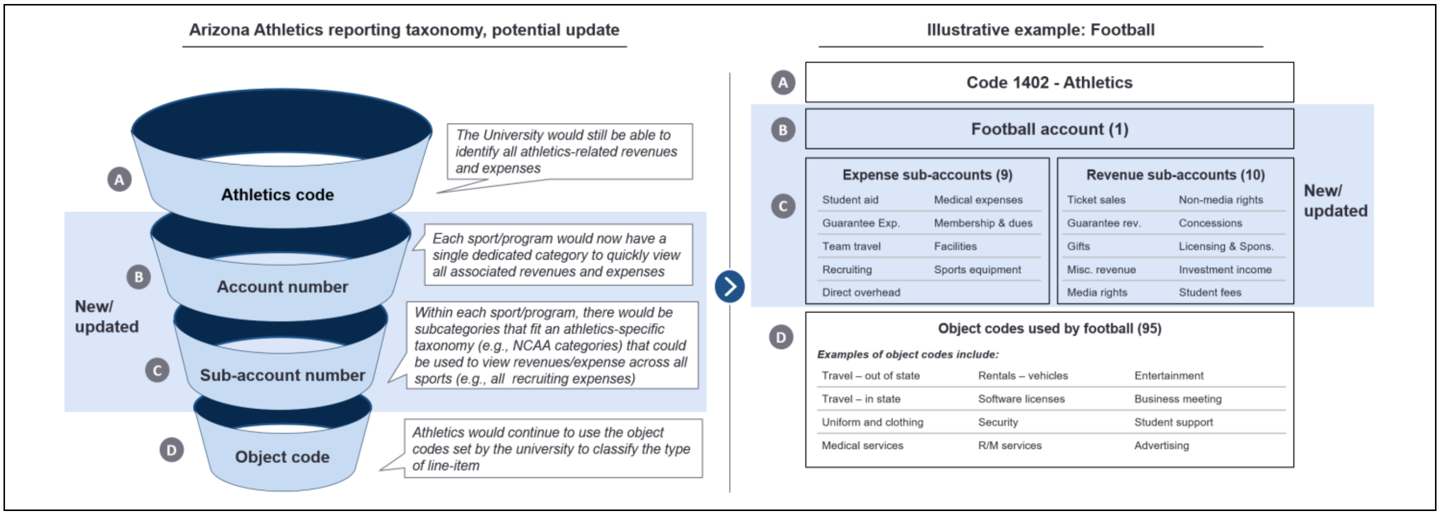


<u>2b. Budget tracking and reporting</u>

Currently, Arizona Athletics' accounting codes do not facilitate one-touch reporting by sports program or by type of revenue/expense. To improve budget tracking and reporting, Arizona Athletics could streamline the use of program and account codes within Arizona Athletics.

As shown in **Figure 29,** the department could limit sports to a single account. It could then use a consistent set of sub-accounts across all sports to define categories of athletics-specific expenses and revenues that are aligned to common industry categorizations such as NCAA. This layer would come between the sport account and the object codes used university-wide. This structure would give Arizona Athletics the flexibility to track and report vertically by sport and horizontally by athletics-specific type of spending. For example, it would be able to view all football spending in recruiting, travel, meals, etc. as well as all recruiting spending in football, basketball, volleyball, etc.

Figure 29: *Potential updated guidance for accounting taxonomy codes to enable increased budget tracking, reporting, and analytics*



Additionally, Arizona Athletics could:

- Train users on standard operating procedures for categorizing line items
- Implement dashboards and standardized reporting that reflect year-to-date spending towards budget that can be updated quickly with system data exports
- Capture more information directly within in the financial reporting system vs. as a manual adjustment
- Build capacity in the budget office to perform reporting and analytics (see *People* section)
- Follow leading practices for closing books and tracking budget to actuals in real-time

Implementing the above actions could help increase accountability among sports programs and offices and allow the overall Arizona Athletics department to better track and collect data to inform budget setting in future years.

3) Purchasing process opportunities

Arizona Athletics could develop policies to guide responsible spending decisions and implement standard operating procedures and approval flows to execute decisions for spending outside of plan. Arizona Athletics could also consolidate spending and realize scale efficiencies in areas such as travel, meals, and recruiting with the support of a dedicated role in the business office (not a net new position, see 'people-related opportunities' for more detail on potential adjustment to business office roles and responsibilities).

<u>3a. Travel – hotels and flights</u>

- Arizona Athletics could centralize hotel decision-making across all sports programs, revise its reservation policies, and create a dedicated travel coordinator role within its business office. This travel coordinator could standardize bookings across major chains, negotiate rates and support compliance with internal travel policies.
- Additionally, sports teams could limit the number of rooms booked by reducing auxiliary staff on trips and increasing room sharing (current average is less than1.5 people per room).[64]

[64] Arizona Athletics internal data

- The upcoming conference change will likely disrupt the existing travel schedule and require new hotels in different geographies. This could be an opportunity for Arizona Athletics to consolidate spending and enhance benefits (e.g., meal discounts, points, wifi) with one large hotel chain. Arizona Athletics has many hotel chain options in the cities in which it will compete (see **Figure 30**).
- Arizona Athletics could reevaluate internal travel policies and leverage these policies to negotiate favorable charter and commercial airline agreements.
  - Teams could be asked to maintain the size of travel parties within the limits of small and medium-sized charters, with overflow managed through commercial flights.
  - Teams could be expected to select the most cost-effective charter options based on flight distance, as commercial airline charters typically incur higher costs.
  - Arizona Athletics could establish long-term agreements with preferred carriers, potentially securing bulk discounts and added benefits.
  - Arizona Athletics could centralize commercial flight bookings through a travel coordinator to leverage economies of scale with major airline carriers.

Figure 30: *Illustrative – Big 12 hotel group options to realize potential economies of scale*

- Further coordination for travel meals and ground transportation could yield additional savings. The travel coordinator and third-party provider could negotiate bulk savings, while stricter controls would limit unnecessary overspend that does not directly benefit the student-athletes' well-being.

3b. Meals

- Arizona Athletics could adjust its at-home meal policy to use more cost-efficient dining options (e.g., negotiated price-per-pound at existing campus partner).
- Sports, especially those with significant meal expenses, could also set clear guidelines to limit the amount of food waste and focus on improving nutritional value per dollar spent while staying within budget targets.

3c. Recruiting

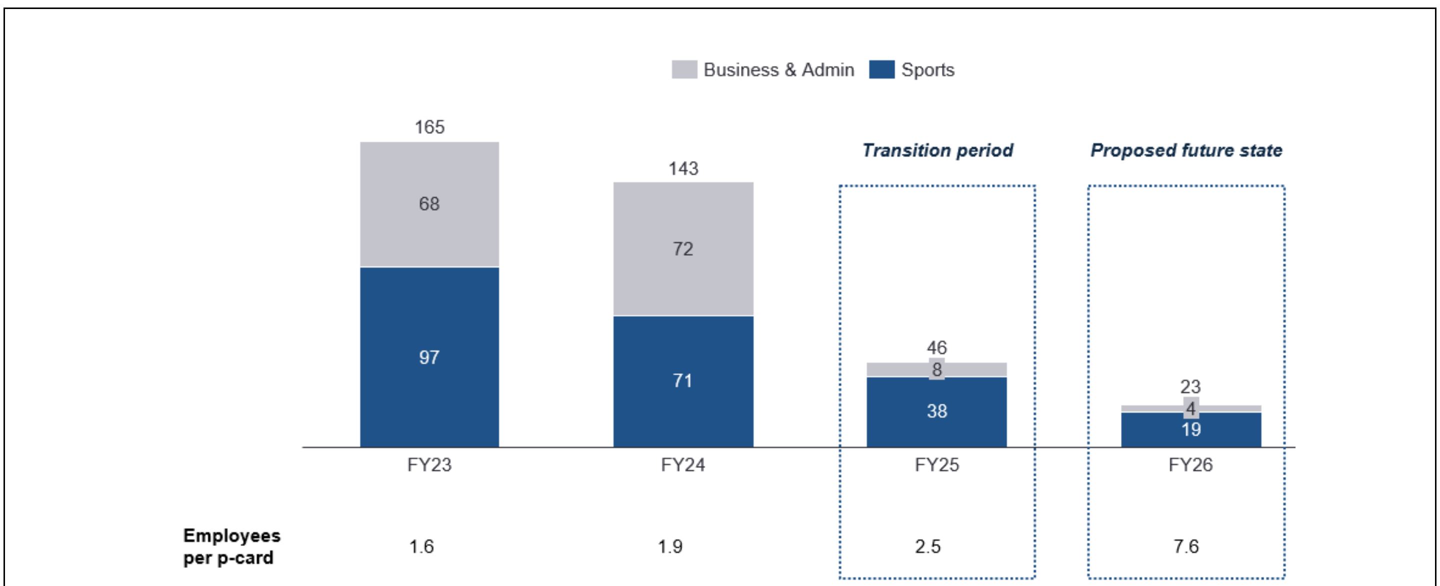
- Arizona Athletics could consolidate vendors for recruiting trips and track and redeem travel points obtained through coordinated travel (see 3a above).
- The department's travel coordinator could manage these points, to optimize use equitably across programs.

- It is important to note this strategy does not imply cutting or limiting recruiting activities, which are critical to competitive programs – particularly in the context of conference realignment and market trends, and given that Arizona Athletics' current recruiting spend is approximately half of the Big 12 conference maximum.

3d. Procurement cards

- Arizona Athletics could reduce the overall number of p-cards to 1-2 per sport and ~2-4 in total across business office and team support functions. It could instead use existing purchasing mechanisms (purchase orders, university contract vehicles, etc.). This change would create more spending visibility and enable greater adherence to budget. It would also enable better coordination with the rest of the university to negotiate pricing and volume with vendors.
- Arizona Athletics could designate FY25 as a transition period during which to assign two procurement cards to each sport, four to the business office, and four for team support functions that might travel (see **Figure 31**). This approach provides time for adaptation and adequate training to occur. Procurement cards would be issued to designated individuals within a particular sports team or administrative unit and would only be used by that individual, on behalf of their unit. The procurement cards would not be transferable to others within the unit. This approach could enhance expense tracking, documentation preparation, processing timelines, and accountability. It could also reduce processing need in the Arizona Athletics business office to free more capacity for strategic and analytical activities (see section on 'people-related opportunities').
- In FY26, after adequate time to establish new purchase orders and contract vehicles, Arizona Athletics could limit procurement cards to one per sport, two for the business office, and two for team support functions.
- Arizona Athletics could institute continuous and relevant training for p-card holders in order to promote adherence to UArizona policies.

***Figure 31:** Arizona Athletics historical p-card count and potential transition plan, FY23-FY26*



Revenue generation

Athletics departments have a unique environment for generating revenue and the most impactful levers over which they have direct control are development (gifts/fundraising), ticket sales, and multimedia rights. Arizona Athletics could capitalize on each of these revenue levers by reorienting its development operations toward long-term philanthropy, increasing attendance at football games and enhancing dynamic pricing efforts in overall ticket sales, and evaluating options to maximize multimedia rights.

1) Development opportunities

As the landscape and needs for athletics giving change, the Arizona Athletics development team could reassess its structure and approach to engaging donors around long-term strategic and philanthropic priorities. By structuring its department in line with peer benchmarks for efficiency and engaging donors in planning for long-term priorities, Arizona Athletics could improve its return on investment in development.

- As outlined in the *People* section, Arizona Athletics could align its development office staffing model to be in line with more efficient peer athletics department benchmarks.
- Arizona Athletics could also free up capacity for major gift development officers (DOs) by shifting responsibilities for ticket-related and priority seating requests to the Annual Fund. In circumstances that would qualify as a major gift, the Annual Fund staff could also involve a major gift DO.
- Additionally, Arizona Athletics could take a set of actions within the major gifts function to enhance DO relationships with the philanthropic community:
  - Rebalance DO portfolios to reduce the size of portfolios in line with peer benchmarks (100-150 individuals receiving active outreach).
  - Organize portfolios by shared characteristics (e.g., geography, sport interest).
  - Set clear expectations for DOs to collaborate closely with UA Foundation (and other DOs across the university) to coordinate donors' various giving priorities and existing relationships with the broader University.
- Each Arizona Athletics DO could be assigned a region of the country and expectations for travel and outreach, to engage donors in that territory.
- Additionally, when refining DO portfolios, Arizona Athletics could consider:
  - Giving capacity mix to balance potential donors with a DO's tenure/seniority and the mix of potential donors in the geographic assignment. Peer portfolios target:
    - 5-15% in the $1m+ bracket.
    - 25-35% in the $250k+ bracket.
    - 50-60% in the $50k-$250k bracket.
  - Stage of engagement mix to balance donors in different stages of engagement with UArizona and Arizona Athletics. Peer portfolios target:
    - ~35-50% of individuals in a portfolio in active cultivation stages (outreach ~2x per quarter).
    - ~30-40% spent on qualification (outreach ~1-2x per quarter).
    - ~10-15% on stewardship (outreach 1x per year).
- To accurately rebalance DO portfolios and enable ongoing updates, Arizona Athletics could transition from tracking donor engagement in its ticketing system to tracking on the same CRM as other DOs use university wide.
  - This could require a time-intensive, one-time transition of data between systems.

    - It could also necessitate updated guidance and training on the campus-wide CRM for Arizona Athletics staff.

- Arizona Athletics could set more ambitious, market-aligned goals for subsequent years to support the long-term sustainability of the Athletics department.
    - At peer institutions, DO goals are scaled by tenure and are typically $1-2m (Junior DO), $2-5m (DO), $6+m (Senior DO).
    - Individual goals at Arizona Athletics should be differentiated based on DO tenure and experience.
- Arizona Athletics could design multi-year philanthropic giving plans in close collaboration with the UA Foundation to engage with donors on many different types of giving vehicles (Annual Fund, scholarships, NIL, endowment, life income gifts such as charitable annuities, etc.) and areas (Athletics, main campus, health sciences, etc.) to fulfill their priorities throughout a lifetime of engagement with the University.

2) Ticket sale opportunities

The current state analysis of Arizona Athletics ticket sales suggests opportunities to increase paid attendance at games and enhance the department's dynamic ticketing approach. Football, as Arizona Athletics' largest capacity sport, has a particular opportunity to increase revenue. Investments that increase football viewership could also have an outsized impact on revenue beyond the category of ticket sales, as high football engagement can act as an accelerant for revenue from Arizona Athletics' conference and potential gifts from donors.

- Over the next few seasons, Arizona Athletics could design new, high-ROI fan experiences and explore strategies to add novel and premium events to increase revenue and attendance (particularly in football).
    - Arizona Athletics could consider popular opponents for the first football games of the season to drive momentum for the rest of the season.
    - These enhancements, in conjunction with the Big 12 football fanbase, could help increase attendance at football games closer to the Big 12 football attendance median of 97%[65].
- Arizona Athletics could explore strategies to enhance its dynamic ticketing approach, potentially with the help of a third party, by adjusting single-game pricing for multiple variables such as time and opponent to capture value.
    - The tool could be particularly useful for football, as ~60% of total game attendees purchase single-game tickets.
- Arizona Athletics could consider strategies to increase its return on investment from complimentary tickets and consider optimizing its parking and season ticket policy for potential additional returns.
- Although Arizona Athletics has recently repriced its stadium (refer to Section 4), it could consider adding additional premium sections that allow for differentiated pricing based on game experience in the future.
- Arizona Athletics could review seating assignments and corresponding donations, particularly for men's basketball, to assess fairness, increase transparency, and optimize revenue.

[65] DI Ticker 2023 FBS Attendance Trends

3) Multimedia rights (MMR) opportunities

As described in Section 4, Arizona Athletics may have room to grow its value from multimedia rights sponsorships. Shifting market dynamics and conference realignment suggest there may be an opportunity to increase revenue from traditional MMR sponsorship avenues and offer naming rights to currently unnamed assets.

In FY25, Arizona Athletics will be part of the Big 12 conference, which is known for its substantial viewership and media presence. In FY22 the Big 12 football championship had four million more viewers than the Pac-12 championship and Big 12 teams made on average $7m more through NCAA and conference distributions and media rights than Pac-12 teams[66]. Programs that are changing conferences, such as Arizona Athletics, have the opportunity to reevaluate their MMR strategies in light of potential new sponsors and audiences, which in turn may increase the potential value to be captured by the university.

- Arizona Athletics could consider alternative structures beyond a base guarantee with a third party to capture value from its MMR and maximize potential value with local and national sponsors.
- For example, an in-house model could strengthen Arizona Athletics' connection to corporate sponsors, elevate Arizona Athletics as a brand, and allow Arizona Athletics to focus on delivering more value to its partners.
- Additionally, an in-house model could allow for increased coordination of support for student-athletes in NIL strategies. NIL allows athletes to monetize their personal brand through endorsements and social media engagements, which could increase overall marketability and appeal of Arizona Athletics' sports programs.
- Arizona Athletics could explore naming rights opportunities for its two largest assets (McKale Center and Arizona Stadium) to capture value from its assets.
    - Peers have taken different approaches to coordinating these agreements; some have conducted in-house efforts while others have engaged a third-party search company.
    - A potential sponsor could provide naming rights payments with the option to also fund future renovations.
    - Named assets can further increase media coverage and enhance brand visibility for both Arizona Athletics and its potential sponsor(s).

In an in-house model, Arizona Athletics would trade the predictability of a revenue guarantee for the ability to capture larger payouts from the value of its brand over the longer term.

The in-house model could be structured as a separate legal entity. This entity would incur the direct costs of operations, receive payments from external sponsors, and transfer revenue (in excess of incurred costs) to Arizona Athletics. In its first year, the entity could have startup costs that would likely result in less revenue flowing to Arizona Athletics as compared to an existing third-party guarantee model. However, the in-house model has the potential to capture more value from the Arizona Athletics brand in subsequent years.

An estimate of the potential value of multimedia rights sponsorship for Arizona Athletics was developed by examining historical growth and potential new revenue levers, including:

- Current sponsors: a conservative estimate assumes historical contract renewal terms with moderate falloff during a transition period, while an optimistic estimate assumes less falloff during the transition.
- New local sponsors: a conservative estimate assumes the historical low rate of growth in new sponsors between FY26 and FY31 and an optimistic scenario assumes the historical high rate until reaching steady state based on an estimate of potential business capture/conversion. Estimates were developed based on analysis of local businesses by size and average sponsorship value.

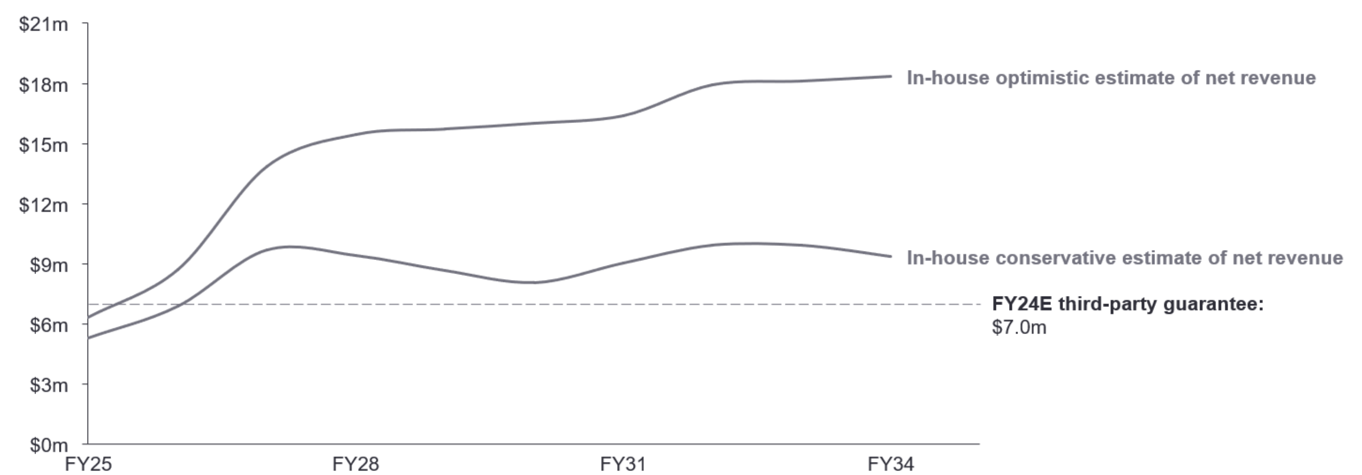
[66] NCAA financial reporting system

- New national sponsors: a conservative estimate assumes historical growth of new national contracts every two years at average historical contract value; an optimistic estimate assumes a more-ambitious growth based on peer benchmarks.
- Naming rights: a conservative estimate assumes sponsorships secured in line with the bottom quartile of recent deals for football and basketball facilities at similarly ranked peer institutions, while an optimistic estimate assumes second-highest quartile of recent deals in the peer set.

The net financial impact of moving to an in-house model would need to account for expenses of conducting activities in-house, which could range from $2-4m annually and $3-5m in one-time startup and capital investment costs.

This estimate implies that in the first 1-3 years, the net impact of an in-house model may be lower than the FY24 expected third-party guarantee. However, Arizona Athletics could capture at least as much value as its guarantee in a conservative estimate and could capture nearly 2.5x in an optimistic scenario (see **Figure 32**).

Figure 32: *Arizona Athletics estimated in-house multimedia rights net revenue scenarios compared to FY23 third-party guarantee, FY25-34*[67]



Potential financial impact of opportunities

Arizona Athletics expects a $30m deficit in FY24. If no actions are taken, this deficit could grow to $35m in FY25F. Implementing the potential opportunities described earlier could put in place mechanisms to increase transparency, control spending, and improve operational efficiency. A more efficient department will likely be better positioned to respond to the increasingly complex demands of running a high-performing collegiate athletics department in a fast-changing athletics landscape.

In addition, these opportunities could potentially reduce Arizona Athletics' operating deficit significantly, by as much as $16.5m - $24m annually in steady state, as shown in **Figure 33**. The full benefit of these opportunities may take 1-5 years to materialize, depending on the opportunity.

[67] Arizona Athletics internal data, analysis

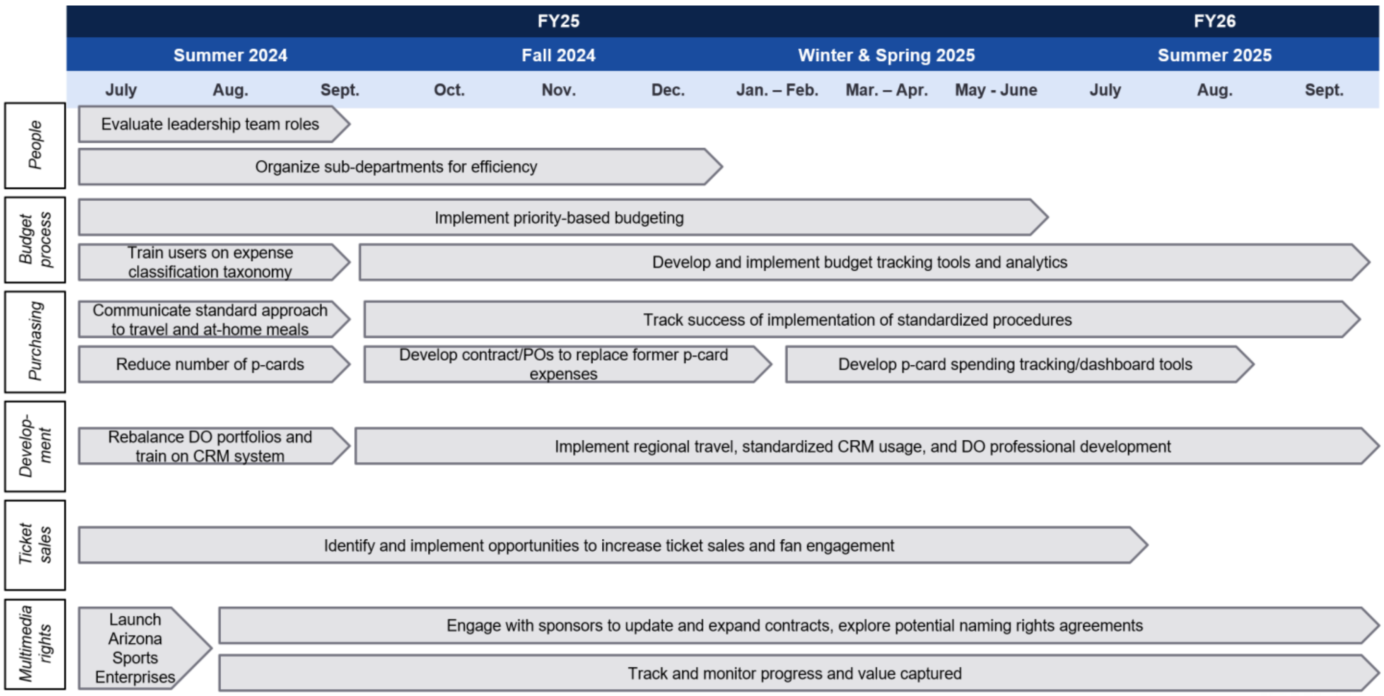
Figure 33: *Revenue and efficiency opportunities description, potential incremental impact and timing of impact*

	Opportunity description		Potential incremental impact in steady state (vs. FY24E)	Time to implement
Revenue opportunities	Development	▸ Restructure development to align with benchmarks for efficiency, rebalance portfolios, increase goals, shift ticket-related responsibilities, align to UA Foundation CRM, and track KPIs	~$9-10m	1-5 years
Revenue opportunities	Ticket sales	▸ Increase football attendance to align with the Big 12 median ▸ Explore strategies to enhance dynamic pricing ▸ Optimize return from complimentary ticketing strategies	~$2-5m	1-3 years
Revenue opportunities	Multimedia rights	▸ Launch an in-house MMR model to strengthen connections with corporate sponsors, elevate Arizona Athletics' brand, and enhance value to partners ▸ Explore opportunities to monetize naming rights for McKale and the football stadium	~$2-3m	1-5 years
		Total revenue opportunities	**~$13m-$18m**	
Efficiency opportunities	Personnel-related opportunities	▸ Streamline organizational structure and adjust roles and responsibilities to meet demands for the future	~$0.5m-$1m	1-2 years
Efficiency opportunities	Travel, meals, and recruiting	▸ Manage travel party size and negotiate pricing through economies of scale ▸ Set policies that control cost-effective at-home meal (e.g., Sands Club, per-diems) ▸ Offset recruiting costs by using hotel and airline points	~$3m-$5m	1-3 years
		Total efficiency opportunities	**~$3m-$6m**	
		Grand total	**~$16m-$24m**	

6. Implementation and next steps

Arizona Athletics has already begun to implement some of the recommended opportunities outlined in Section 5. Over the next year, the department can take a series of actions (as shown in **Figure 34**) to promote better business processes and resource utilization and to begin to capture additional value from its revenue opportunities.

Figure 34*: potential timeline of opportunity implementation, FY25*



<u>July to September 2024</u>

- **People:** organizational structure changes
- **Budget process:** accounting code taxonomy standard operating procedures, priority-based budget process communications and trainings
- **Purchasing:** implementation of travel coordinator, standardization of procedures for travel bookings and at-home meals, p-card rationalization (wave 1) and training
- **Development:** portfolio rebalancing in collaboration with the UA Foundation, FY25 goal setting, CRM training
- **Ticket sales:** study of leading practices for attendance and dynamic ticket pricing options at peers
- **Multimedia rights**: in-house MMR launch, contract transition, KPI and progress monitoring indicator development

<u>October to December 2024</u>

- **People:** refinement of organizational structure as needed
- **Budget process:** budget conversations with coaches and budget owners to set priorities for FY26, monthly meetings on budget, B2A template development and testing

- **Purchasing:** FY26 centralized travel planning, contract and purchase order development in conjunction with UArizona procurement, p-card dashboard development
- **Development:** implementation of regional travel model for DOs, individual and department-wide FY25 goal tracking, collaboration and check-ins with UA Foundation, additional CRM training as needed
- **Ticket sales:** fall season impact analysis and adjustments to approach as necessary
- **Multimedia rights**: sponsor engagement, naming rights partnership potential outreach list drafting, ongoing progress monitoring against KPIs

<u>January to March 2025</u>

- **Budget process:** B2A reporting template launch, continuation of monthly meetings with coaches, refinement of FY26 budget
- **Purchasing:** ongoing negotiation of scale discounts with providers, refinement of approach to scale discounts with key vendors, p-card training updates as needed
- **Development:** mid-year tracking to goals and approach refinement as needed, ongoing collaboration with UA Foundation
- **Ticket sales:** spring season impact analysis and adjustments to approach as necessary
- **Multimedia rights**: continued sponsor engagement, identification of potential shortlist of naming rights partners, mid-year assessment of progress against KPIs

<u>April to June 2025</u>

- **Budget process:** review of FY25, finalization of FY26 budget
- **Purchasing:** p-card rationalization (wave 2 – one per sport/program), review of travel, meal, recruiting, and p-card data from fiscal year
- **Development:** ongoing trainings as needed, evaluation of FY25 performance
- **Ticket sales:** evaluation of FY25 performance
- **Multimedia rights:** FY26 contract finalization, including potential naming rights agreements, end-of-year assessment progress against KPIs, goal-setting for FY26

7. Appendix: definition of revenue and expense terms

Revenue-related terms

Term	Definition
Conference and NCAA payments	Revenue distribution, grants, NCAA championship travel reimbursements and hosting payments, conference distributions
Gifts	Philanthropic gifts: contributions received from individuals, corporations, associations, foundations, or other organizations for the operations of the athletics program Ticket-related gifts: amounts received above face value for tickets used within the year ("priority seating", current due portion of pledge)
Ticket sales	Revenue received for sales of admissions to athletic events, includes sales to public, students, and faculty as well as processing fees
Multimedia rights sponsorships	Revenue received for radio, television, internet, digital, and e-commerce rights; in FY19-24E at Arizona Athletics this refers to the payment received from third-party MMR manager/provider
Other sponsorships and licensing	All other revenue from sponsorship, licensing, advertisement, royalties, and in-kind products and services as part of a sponsorship agreement
Other revenue	Guarantees, concessions, sports camps, investment and endowment income, all other
Student tuition waiver revenue recognition	Support from campus for fall enrollment student waivers; non-cash
Student fees	Fees assessed and restricted for support of intercollegiate athletics

Expense-related terms

Term	Definition
Coaching staff	Salaries and benefits for head coaches, associate head coaches, and assistant coaches
Administrative staff	Salaries and benefits for all other athletics department staff (leadership, development, business office, marketing, nutrition, weight room, academic support, etc.)
Travel, meals, and recruiting	Team travel for competition, non-travel meal allowances and food/snacks provided to student-athletes, transportation/lodging/meals for prospective student-athletes, institutional personnel on visits to prospective student-athletes
Sports equipment, medical, and games	Sports equipment provided to the teams, game-day expenses other than travel (officials, security, game day event staff, etc.), medical expenses and insurance for student-athletes, home-game guarantee payments
Department administrative expenses	Fundraising, marketing, spirit groups, facilities, repairs, utilities, IT (non-personnel), security (outside of game day), risk management, sports camps and clinics
Student tuition waiver expense recognition	Not included in expense or revenue - non-cash waivers for student-athlete tuition with institutional support revenue offset
Scholarships and student aid (excl. non-cash waivers)	Cash payments for student-athlete academic merit, room and board, and student-athlete categories not captured in waiver amount (e.g., online and summer classes)
Service charge paid to UArizona	Campus charge assessed to revenue-generating programs; calculated as a percentage of revenue and expenses
Debt service - other	Interest and current due portion of principal on bonds and loans; at Arizona Athletics this included for FY24E: stadium projects, football contract, skybox renovation, food service, FY23 deficit, 4+1 projects, McKale improvements, and SRB
Debt service - Covid-19 loan	Internal loan for pandemic-related shortfalls; interest payments only FY21-23, interest and principal FY24-36

Explanation of outliers and key data points

Term	Revenue considerations	Expense considerations
FY21	▶ **Conference and NCAA payments:** lower than expected due to decline in viewership from Covid-19 pandemic disruptions to play ▶ **Multimedia rights sponsorships:** third-party took deduction from guarantee due to the Covid-19 pandemic	▶ **Sports programs, administrative, and other expenses:** non-personnel expenses were reduced due to disruption to in-person play during the Covid-19 pandemic
FY22	▶ Not applicable	▶ **Other program and administrative expenses:** part of the increase in this category is due to a difference in the UArizona administrative service charge, an internal transfer calculated as a percent of revenue and expense
FY23	▶ Not applicable	▶ **Scholarships and student aid:** increase due to changes in regulation from 5980/Allston fund which permits additional academic merit scholarships for student-athletes ▶ **Severance:** includes severance expense for coach position changes ▶ **Debt service:** includes interest payments on the internal Covid-19 loan to fund prior deficits
FY24	▶ **Other revenue:** Arizona Athletics received in payments from other schools for coach buyouts ▶ **Gifts and ticket sales:** Arizona Athletics is transitioning its classification of a portion of ticket sale revenue from its 'ticket sales' classification to its 'gifts' classification due to changes in the tax code. Change in revenue in these categories is mainly due to reclassification	▶ **Severance:** includes severance expense for Athletics Director change ▶ **Debt service:** includes interest and principal payments on the internal Covid-19 loan to fund prior deficits

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