



MINNESOTA STATE HIGH SCHOOL LEAGUE

Finance Advisory Committee Recommendation

June 1, 2021

The Committee affirmed the guiding principles of the 2020 Finance Task Force.

- MSHSL activities and athletics are critical to the high school educational experience.
- Current MSHSL programming and support provided to member schools shall be maintained.
- A sustainable financial model for the short term and long term is required.
- The model must address equity and fairness and recognize the unique characteristics of our member schools.
- Sharing excess revenue back to member schools shall be a part of the financial model.

The Committee set a goal of determining a model that would embrace these guiding principles and would be straightforward and data driven. Each of the concepts included in the model are driven by the data of each member school and is based on the financial needs of the League. A fundamental concept is the establishment of a sustainable model which incorporates greater reliance on the predictable financial support of membership dues along with revenues of ticket sales, broadcast and sponsorships. The development of this sustainable model was established as a Strategic Directions of the Board of Directors in the fall of 2019, prior to the COVID-19 pandemic.

The following model recommendation is submitted by the Committee.

Membership Dues The *sustainable revenue target* determined to ensure sustainability from membership dues is \$4.5 m¹. This amount is predicted to be reduced each year through excess revenue from state tournament ticket sales, sponsorships and broadcast and streaming revenues from the preceding year. The annual membership dues will consist of three prongs identified below:

- **Base Membership Fee (Prong 1)** – This fee will be \$100 per member school. A lower membership fee reduces a disproportionate impact of this fee on very small schools or schools that participate in few activities.²
- **Per Activity Fee (Prong 2)** – This fee shall generate 60% of the membership dues beyond the base membership fee. Annually, the League has slightly more than 10,000 activity registrations by member schools.³
- **Per Student Fee (Prong 3)** – This fee shall generate 40% of the membership dues beyond the base membership fee and is based on the MSHSL Enrollment total. A school's enrollment (reported each year to MDE) is reduced by a number equal to 40% of its free/reduced population number. Annually, the total of all MSHSL Enrollments is just over 240,000 students.⁴

Initially the ratio of the amount attributed to per activity and to per student is 60/40 and will adjust to 55/45 in 2022-2023 and 50/50 in 2023-2024. Based on the registration data from 2020-2021, the fees for 2021-2022 will be \$225 per activity and \$6.35 per student.⁵

Revenue Sharing The second important aspect of the recommendation is the revenue sharing with member schools through the reduction of future membership dues when the League experiences *excess funds*⁶ at the end of the fiscal year. The excess funds will reduce membership dues in the following method:

- Tier 1 – Excess funds will reduce the per activity fee (60%) and per student fee (40%) according to the ratio established in the prior year's membership dues. This approach will be used until the per activity fee is at \$160
- Tier 2 – Remaining excess funds will reduce the per student fee only until it reaches \$1
- Tier 3 – Any remaining excess funds will reduce both per activity and per student equally.

Membership Dues Small School Modification Membership dues will be reduced for schools with MSHSL enrollments below 40 students. In considering the impacts of membership dues on the smallest schools, a sliding scale on the per activity fee is established for these schools. All schools will pay the \$100 membership fee and the annually determined per student fee. The per activity fee for these small schools will be as follows:

- Each school will be assigned a percentage calculated by dividing their enrollment by 40 and multiplying that result by the annually determined activity fee. (Ex. A 20 student school would pay an activity fee of 50% (20/40) of the activity fee)
- The lowest activity fee of any school would be 25% of the annually determined activity fee.

Additional information which further explains aspect of this model are on page 3.

Finance Advisory Committee Recommendation

Additional Information

¹The League operated on an annual budget of approximately \$9 m in recent years, prior to the Covid-19 pandemic. Due to the cancellation of two winter tournaments and the entire spring season, the 2019-202 budget finished nearer to \$7.6m. In anticipation of an interrupted school year with uncertain seasons and tournaments and some cancelling sponsors, the League established an initial budget of just over \$5 m. While the League offered seasons in all activities throughout the year, the return to state tournaments in winter and planned this spring has grown the budget to over \$7 m. Within all of these budgets, the League has consistently budgeted for catastrophic accident and concussion insurance for all students, League Office operations, coaches education and head coach certification, officials registration, education and certification, and staffing. This annualized cost is approximately \$5.25m. In establishing a sustainable model, the staff and committee believe that membership dues of \$4.5m and a profit of \$0.75m from tournaments will cover these annual costs. Should attendance at tournaments return to attendance numbers that existed prior to the pandemic, it is reasonable that the membership dues could be reduced by \$2m or more.

Membership Dues

²With approximately 500 member schools, the League anticipates that the membership fee will generate slightly more than \$50,000. This means that \$4.45 m will be generated through the per activity and per student fee.

³Given that the per activity fee will cover 60% of the \$4.45 m and that last year about 10,200 activity registrations were entered, the per activity fee is projected to be \$265. This per activity fee will be calculated to the nearest \$5 increment at or above the calculated amount.

⁴Given that the per student fee will cover 40% of the \$4.45 m and that last year just over 242,000 students were included in MSHSL enrollments, the per student fee is projected to be \$7.35. The per student fee is calculated to the nearest \$0.05.

⁵The League recently received notice that its application for a Paycheck Protection Program (PPP) loan from April 2020 was fully forgiven. This amount of \$621,000 was completely forgiven and is intended to offset the losses of the spring of 2020. At the same time, the League did apply for a second draw of the PPP loan and believes that this loan will be forgiven within the 2021-2022 fiscal year. The committee supports the reduction of the sustainable revenue target by the expected PPP revenue amount of \$621,000, which means that the membership dues will be reduced to \$3.879 m. The projected membership dues for 2021-2022 will be as follows:

- Per Activity Fee – 60% of \$3.829 m is \$2.298 m. When divided by 10,200 the fee is \$225.
- Per Student Fee – 40% of \$3.829 m is \$1.532 m. When divided by 242,000 the fee is \$6.35.

Excess Funds

⁶The Excess Funds will be calculated annually by subtracting the total expenses for the year from the total revenues. From this amount, any amounts that are needed to meet required reserved funds will be subtracted. The remaining amount will constitute the Excess Funds will be refunded to schools through the reduced membership dues for the coming year.

Finance Advisory Committee Next Steps

The Finance Advisory Committee will continue to meet through the 2021-2022 fiscal year and will monitor the financial impacts of the coming year and the general position of the League. Continued study will be done to review aspects of the financial model of the League including the newly designed model of membership dues, the unique aspects of cooperative agreements, and the establishment of a capital reserve fund to address future needs of the League.