



December 12, 2016

Mr. Ryan Botkin
Wittliff | Cutter | Austin PLLC
1803 West Avenue
Austin, Texas 78701

Re: Cost and Lost Revenue Analysis – Baylor University Sexual Assault Crisis

Dear Mr. Botkin:

Pursuant to your request, HSSK, LLC (“HSSK”) reviewed and analyzed available information related to the sexual assault crisis at Baylor University (“Baylor”). Specifically, I was asked to estimate and quantify the costs that have been or may be incurred by Baylor, as well as to estimate and quantify any revenues that have been or may be lost by Baylor as a result of the sexual assault crisis.

Methodology & Information Relied Upon

The methodologies applied in my analysis are commonly relied upon by experts in my field to estimate and quantify past and future economic harm resulting from specific events. However, any analysis such as this one is subject to the availability, quality and reliability of the information that form the basis for the underlying estimates and projections. My analysis and conclusions are based on the information I was able to review given the limited time provided to complete my analysis and are subject to and will likely change as additional information becomes available or is analyzed.

While I relied upon information from a variety of sources, Baylor has not provided complete information related to the sexual assault crisis at this time. As a result, I reviewed certain publicly available information and documentation related to Baylor, as well as other institutions in and outside the Big 12 Conference (“Big 12”) including, but not limited to, the following:

- Information related to the Baylor sexual assault crisis.
- Financial and accounting information such as audited financial statements, IRS Form 990s and Equity in Athletics Data Analysis (“EADA”) reports provided to the United States Department of Education.
- Articles and other information published by the media.
- Information related to the child sexual abuse investigation at Pennsylvania State University (“Penn State”).¹
- Information related to settlements with sexual assault victims at other institutions.
- Information provided by individuals associated with the Bears for Leadership Reform.

¹ While I utilized information related to the child sexual abuse investigation at Penn State, there are differences in the facts and circumstances surrounding the Penn State child sexual abuse investigation and the Baylor sexual assault crisis.

Past and Future Estimated Costs Analysis

I estimated both the past costs that Baylor may have incurred since the beginning of the sexual assault crisis in September 2015, as well as the costs that Baylor may incur over the next three years.² I attempted to estimate and quantify the past and future costs by category in as much detail as possible given the availability and quality of the information. The results of my analysis summarized below and in Exhibit I reflect that Baylor's costs could be as much or more than \$121.7 million.³

Estimated Past and Future Costs (in millions)			
	Past	Future	Total
Estimated Costs			
Settlements / Agreements with Key Former Employees	\$22.5	\$2.1	\$24.6
Sexual Assault Investigation Costs	5.0	0.0	5.0
Victim Settlements	2.0	15.0	17.0
Legal / Consulting and Public Relations Costs	13.1	19.8	32.9
Hiring of Interim / New Employees	0.2	0.5	0.7
Title IX / Compliance Improvement Costs	1.3	10.2	11.5
Potential Fines / Sanctions	0.0	30.0	30.0
Total Estimated Costs	\$44.1	\$77.6	\$121.7

Past and Future Estimated Lost Revenues Analysis

I estimated the past revenues that Baylor may have lost since the beginning of the sexual assault crisis in September 2015, as well as revenues Baylor may lose in the future. My analysis compares projections of what Baylor's revenue from non-governmental contributions, gifts and grants ("Private Contributions") would have been with and without the sexual assault crisis during the 2016 – 2019 academic years based on Baylor's Private Contributions revenue during the previous ten years.⁴

To project what Baylor's Private Contributions revenue would have been during the 2016 – 2019 academic years absent the sexual assault crisis I applied Baylor's average annual Private Contributions revenue growth rate of 5.8% ("Baylor Historical Growth Rate") prior to construction of the new football stadium.⁵ To project what Baylor's Private Contributions revenue will be during the same time period as a result of the sexual assault crisis I utilized Baylor's actual Private Contributions revenue for the academic year ending May 31, 2016, assumed no growth in 2017 and then estimated Private Contributions revenue will grow at the Baylor Historical Growth Rate in

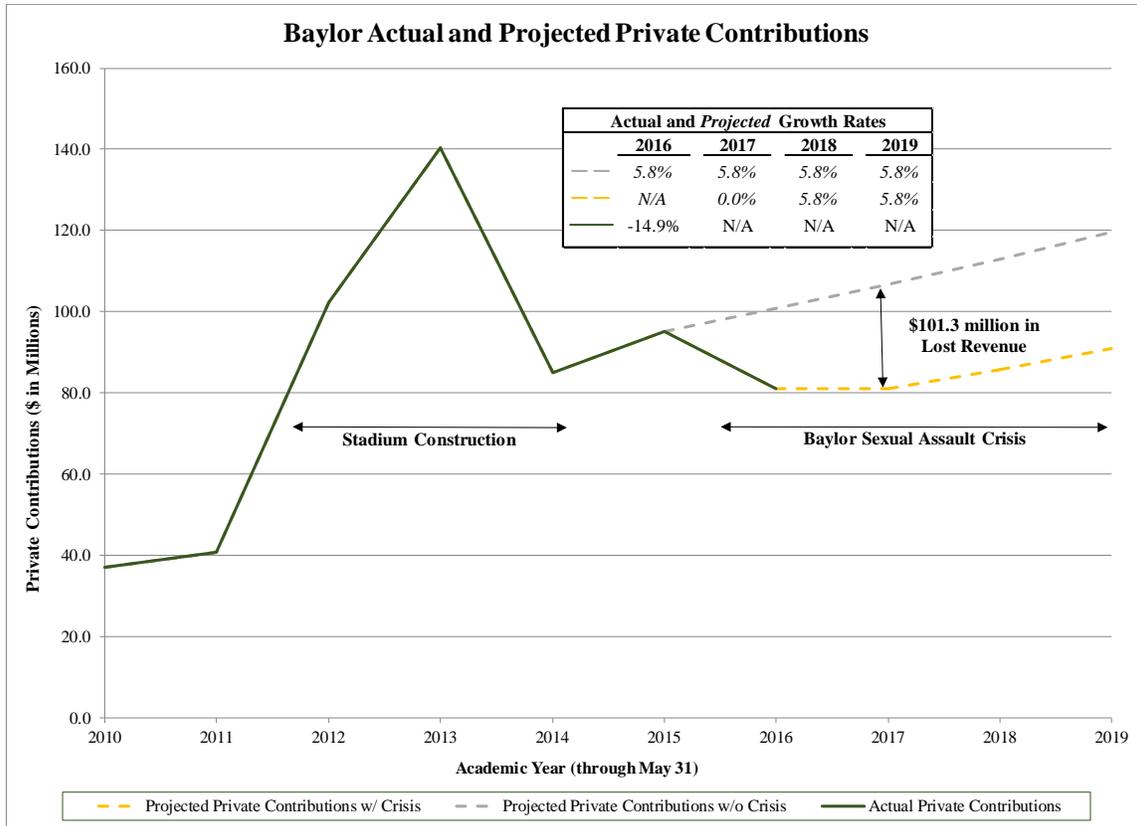
² I utilized a four-year period as Penn State incurred costs associated with the child sexual abuse investigation from November 2011 through at least June 2015.

³ Baylor's Audited Financial Statements indicate operating expenses increased by 14% to \$636 million for the academic year ending May 31, 2016. This 14% increase is inconsistent with Baylor's average 6% increase in operating expenses during the previous five years. The difference amounts to approximately \$44.7 million in additional operating expenses which is consistent with my estimation of \$44.1 million in past costs.

⁴ While I utilized a four-year period to estimate Baylor's lost revenues, it is difficult to project when Baylor may recover as the recovery period has varied for other institutions and is impacted by many variables.

⁵ Baylor Historical Growth Rate is based on Private Contributions revenue during the 2005 – 2011 time period.

2018 and 2019.⁶ The results of my analysis summarized in the chart below and in Exhibit I reflect that Baylor’s lost revenue could be as much or more than \$101.3 million.



Conclusion

As more fully set forth in this letter, and based on the evaluation and review of the available information, it is my estimation that the financial impact of the sexual assault crisis at Baylor could be as much or more than \$223 million consisting of \$121.7 million in costs and \$101.3 million in lost revenues through 2019.

Sincerely,

Jared Jordan
 Managing Director
 HSSK, LLC

⁶ Baylor’s Private Contributions revenue declined by almost 15% for the academic year ending May 31, 2016. The decline may be attributed to events other than the sexual assault crisis. However, even assuming half of the decline is related to other events, Baylor’s estimated lost revenues would equal \$71.7 million during the 2016 – 2019 academic years. Baylor’s athletic department revenue also declined by over 14% for the academic year ending May 31, 2016.

Cost and Lost Revenue Analysis - Baylor Sexual Assault Crisis

	Estimated Costs / Lost Revenues		
	Past	Future	Total
	(\$ in millions)		
ESTIMATED COSTS			
<u>Settlements / Agreements with Key Former Employees</u> ^[1]			
Art Briles - Head Football Coach	\$17.0	\$0.0	\$17.0
Kenneth Starr - President / Chancellor	5.0	0.0	5.0
Patty Crawford - Title IX Coordinator	0.0	1.8	1.8
Tom Hill - Associate Athletics Director / Director of Facilities	0.5	0.0	0.5
Colin Shillinglaw - Assistant Athletics Director	0.0	0.3	0.3
Total Settlements / Agreements with Key Former Employees	\$22.5	\$2.1	\$24.6
<u>Sexual Assault Investigation Costs</u>			
Pepper Hamilton Investigation - Fees and Expenses ^[2]	\$5.0	\$0.0	\$5.0
Total Sexual Assault Investigation Costs	\$5.0	\$0.0	\$5.0
<u>Victim Settlements</u>			
Title IX Lawsuit Settlements ^[3]	\$2.0	\$15.0	\$17.0
Total Victim Settlements	\$2.0	\$15.0	\$17.0
<u>Ongoing Legal / Consulting and Public Relations Costs</u>			
Legal / Consulting Costs ^[4]	\$12.0	\$18.2	\$30.2
- Representation Related to Big 12 and NCAA Inquiries			
- Thompson & Horton Law Firm - Title IX Lawsuits			
- Jeff Chapman (Gibson Dunn) - Governance Review Task Force Coordinator			
- John Olson (Gibson Dunn) - Governance Review Task Force Resource			
- Raymond Cotton (Mintz Levin) - Governance Consultant			
- Cathy Trower - University Governance Consultant			
- Independent Monitor			
Ketchum / G.F. Bunting (Public Relations) ^[5]	1.1	1.6	2.7
Total Ongoing Legal / Consulting and Public Relations Costs	\$13.1	\$19.8	\$32.9
<u>Costs Associated with Replacing Key Former Employees</u>			
Head Football Coach ^[6]	\$0.0	\$0.3	\$0.3
President ^[7]	0.0	0.2	0.2
Athletic Director (Mack Rhoades) ^[8]	0.2	0.0	0.2
Total Costs Associated with Replacing Key Former Employees	\$0.2	\$0.5	\$0.7
<u>Title IX / Compliance Improvement Costs</u>			
Office of Title IX - Increased Funding (Staffing and Improvements) ^[9]	\$0.0	\$1.0	\$1.0
Baylor Counseling Center - Increased Funding (Staffing and Improvements) ^[9]	0.0	5.0	5.0
Baylor Department of Public Safety - Increased Funding (Staffing) ^[9]	0.0	0.3	0.3
Other Costs Associated with Implementation of Pepper Hamilton's Recommendations ^[10]	1.3	3.9	5.2
Total Title IX / Compliance Improvement Costs	\$1.3	\$10.2	\$11.5
<u>Potential Fines / Sanctions</u>			
Fines / Penalties ^[11]	\$0.0	\$30.0	\$30.0
Total Potential Fines / Sanctions	\$0.0	\$30.0	\$30.0
Total Estimated Costs	\$44.1	\$77.6	\$121.7
ESTIMATED LOST REVENUES			
<u>Lost Revenues</u>			
Decline in Private Contributions	\$32.6	\$68.7	\$101.3
Total Lost Revenues	\$32.6	\$68.7	\$101.3
Total Estimated Costs / Lost Revenues	\$76.7	\$146.3	\$223.0

Cost and Lost Revenue Analysis - Baylor Sexual Assault Crisis

Notes:

- [1] Baylor has not provided information related to settlements / agreements with key former employees. As a result, the estimated costs are based on media reports and information provided by individuals associated with the Bears for Leadership Reform.
- [2] Baylor has not provided information related to fees and expenses for the investigation conducted by Pepper Hamilton. As a result, the estimated costs are based on investigation costs incurred by other institutions, media reports and information provided by individuals associated with the Bears for Leadership Reform.
- [3] Baylor has not provided information related to settlements of Title IX lawsuits. As a result, the estimated costs are based on average settlement costs for Title IX related lawsuits at other universities, as well as settlements related to the child sexual abuse investigation at Penn State.
- [4] Baylor has not provided information related to costs for legal and consulting services. As a result, the estimated costs are based on a percentage of legal and consulting costs incurred at Penn State during the 2011 - 2016 time period related to the child sexual abuse investigation.
- [5] Baylor has not provided information related to costs for public relations services. As a result, the estimated costs are based on media reports and information provided by individuals associated with the Bears for Leadership Reform.
- [6] Estimated costs are based on fees paid to search firms for head football coach hires at other universities in the past three years.
- [7] Estimated costs are based on a percentage of the estimated first year compensation.
- [8] Estimated costs are based on a percentage of the estimated first year compensation.
- [9] Baylor increased its 2016 - 2017 Operating Budget to include \$6.3 million for staffing increases in Student Counseling, Office of Title IX and Department of Public Safety as well as facility improvements to the Baylor Counseling Center and Office of Title IX.
- [10] Other costs associated with the implementation of Pepper Hamilton's recommendations include the formation of various task forces, training costs and software implementations, among others. Estimated costs are based on costs incurred at Penn State to implement recommendations following the child sexual abuse investigation.
- [11] While the NCAA has notified Baylor that it will not pursue "Penn State-Like Punishment," fines and penalties may be significant and could be as much or more than \$30 million.