Financing College Sports

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I. The Pursuit of Secrecy.

Academia would like to keep intact its image as a place where truth is pursued above all else. Chasing money, especially large sums, somehow doesn't fit nicely with this image. To keep up their image and protect their business interests, colleges reveal little about their athletic programs' finances. Having significantly raised tuition over the past decade, colleges are under pressure to prove good financial stewardship. Perhaps college administrators also fear that greater transparency for athletic department finances could call into question their ability to manage costs. Whatever the reason, the pursuit of secrecy has replaced the pursuit of truth when it comes to financing athletics.

The EADA Reports: keeping the lid on.

The drive to require equal opportunities for men and women in intercollegiate sports has forced colleges to publish some financial information about their sports programs. Colleges must file annual Equity in Athletics Disclosure Act (EADA) reports to the federal government.

Unfortunately, many colleges release to the public only limited parts of the EADA data, making detailed outside analysis difficult. In the Big Ten, Penn State, Northwestern University and Ohio State refused to release full EADA information. Penn State notes that it doesn't fall under Pennsylvania's Freedom of Information Act (FOIA) and Northwestern stated that private schools are exempted from FOIA. Ohio State wouldn't respond to a written request for the information. The limited EADA Reports are online at the U.S. Department of Education's website (http://ope.ed.gov/athletics/).

Colleges can't do math or keep their books straight.

Significant questions haunt the accuracy of the EADA reports. A 2005 USA TODAY investigation by Jodi Upton and Erik Brady found that: "Of the nation's highest-profile athletic programs, more than 34% had at least one error in the 2003 and 2004 revenue and expense figures kept by the Department of Education .." and that the "NCAA is not only aware there are errors but maintains an adjusted set of records that it declines to make public."

According to the USA TODAY investigators, the Department of Education takes a hands-off approach to the EADA reports. They quote Department spokeswoman, Jane Glickman, "We just collect the data, post it and move on. We don't question it or edit it."

While our colleges train most of the country's future accountants and mathematicians, they throw up their hands when asked to present an accurate tracking of spending by their athletic departments. The USA TODAY investigation reports Ed Goble, associate athletics director at the University of Texas, complaining: "There's a huge amount of frustration among those who have to produce the reports. The guidelines that are out there are very challenging."

Selena Roberts of the *New York Times* similarly expressed frustration at the lack of accurate financial reporting by the Rutgers University's sports program. She wrote in an email: "I've seen many documents on the athletic expenses at Rutgers. None were consistent." She was told by Robert Mulcahy, Rutgers' athletic director, that the college's football program lost about $2.9 million last year, which was below the $3.4 million loss she found in other publications; yet according to the information Rutgers sent the federal government, total football expenses and revenues balanced to the dollar ($10,667,167).

An examination of the complete reports of several Big Ten schools reflects some of the problems universities encounter in compiling EADA reports. Public Big Ten universities must respond to different state legislative requirements. Further, they may have differing organizational structures and bookkeeping conventions. For example, are student football tickets included in one general student fee? Are stadium concessions outsourced? Are there specific university procedures for handling alumni contributions?

Some differences among the reports' entries suggest laxness by the NCAA in setting clear accounting guidelines. For example, Purdue University reports salaries for its head football and basketball coaches that are far below the salaries of the other Big Ten coaches. This difference probably reflects how Purdue keeps it books rather than how it pays its coaches. Similarly Michigan State reported that its football and basketball coaching staff received "salary benefits" almost seven times greater than those received at the University of Illinois. One suspects that the actual benefits were similar, but that the systems' definitions differ.

No informed public discussions needed.

Much of the financial information prepared by colleges remains secret. The EADA worksheets promote this secrecy by stating at the top of the worksheets: "The institution is NOT required to make this worksheet available to the public." It's ironic that educational institutions, proclaiming to foster critical thinking and rational discourse, slam the door shut to informed discussions about their athletic programs with the fervor of the governments' intelligence agencies. But if colleges are producing multiple numbers to address an immediate public relations problem, no wonder they hide their data.

II. Analyzing Big Ten EADA submissions.

Eight of the Big Ten schools provided their full EADA reports. The following analysis draws on these reports to address the following questions[1].

- Do intercollegiate sports make or lose money?
- What are the most important revenue sources for college sports and how important are cash contributions from alumni and outside donors?
- How important are athletic scholarships in college athletic budgets?
- How much do money-losing sports cost colleges?

Some of the data problems listed above should cause the reader to treat the following analysis as tentative. More definitive conclusions would require a greater openness on the part of colleges and the NCAA. Nevertheless, the overall picture that emerges is not radically different among these eight Big Ten schools, suggesting a certain consistency in their treatment of many of the expense and revenue items. (For simplicity's sake, the following discussion will refer to these eight schools as the Big Ten.)

Do intercollegiate sports make or lose money?

Only three Big Ten intercollegiate sports recorded revenues that exceeded for all schools expenses – men's football, basketball and ice hockey (see table 1).

Table 1 lists those revenues and expenses that can be directly attributed to a specific sport. The balance of expenses and revenues that can't be assigned to any particular sport -- such as cash contributions from alumni, some salaries and benefits, capital expenses and debt services -- are generally negative. However, their impact is generally not so strong as to put a school's athletic program in the red. Only Indiana University's balance turns negative (-$1.8 million).

Yet, if the surplus money from the three moneymaking sports is subtracted from the athletic departments' financials, the ink turns completely red, ranging from -$22.7 million for the University of Michigan to -$4.3 million for the University of Illinois.

1. A closer look at moneymaking college sports.

While the EADA reports showed that men's ice hockey teams consistently posted revenues that exceeded their expenses, only the more northern Big Ten schools fielded teams. The following analysis looks only at those moneymaking sports teams that were fielded by every Big Ten school: football and basketball.

Table 1: Balance of Revenues and Expenses Allocated to Athletic Teams for Eight Big Ten Schools
($ thousands)

	Wisconsin	Purdue	Michigan	Minnesota	Michigan State	Indiana	Iowa	Illinois
Football	14,713	11,121	26,468	7,087	10,524	5,593	11,686	7,878
M Basketball	7,387	6,239	4,623	8,714	3,730	6,885	4,688	6,240
M Ice Hockey	2,147	no team	518	4,706	268	no team	no team	no team
W Basketball	-1,385	-785	-1,327	-698	-1,442	-1,178	-1,523	-944
W Ice Hockey	-966	no team	no team	-635	no team	no team	no team	no team
Baseball	no team	-369	-765	-686	-491	-728	-566	-251
M Golf	-174	-160	-275	-315	-65	-204	-132	-126
W Golf	-205	-277	-355	-241	-85	-268	-211	-126
Men's Gymnastics	no team	no team	-361	-403	-44	no team	-465	-190
Women's Gymnastics	no team	no team	-884	-501	-558	no team	-585	-195
Field Hockey	no team	no team	-809	no team	-685	-382	-608	no team
M Rowing	-391	no team	no team	no team	no team	no team	no team	no team
W Rowing	-979	no team	-1,329	-597	-868	-332	-768	no team
M Soccer	-446	no team	-494		-368	-631	no team	no team
W Soccer	-427	-384	-753	-428	-450	-586	-532	-253
Softball	-474	-344	-743	-599	-626	-565	-572	-327
M Swimming and Diving	-504	-381	-832	-607	-336	-637	-419	no team
W Swimming and Diving	-569	-389	-838	-373	-550	-640	-529	-184
M Tennis	-221	-226	-407	-300	-237	-367	-278	-307
W Tennis	-314	-245	-506	-346	-288	-460	-281	-196
M Track and Field, X-Country*	-647	-379	-826	-694	-494	-721	-603	-251
W Track and Field, X-Country*	-673	-352	-1,096	-645	-729	-884	-647	-285
Volleyball	-497	-676	-792	-722	-794	-622	-619	-262
Water Polo	no team	no team	-469	no team	no team	-413	no team	no team
Wrestling	-346	-334	-706	-252	-447	-474	-301	-268
Total allocated to a sport	15,030	12,061	17,044	11,465	4,965	2,385	6,737	9,956
Unallocated rev-exp	-8907	-3648	-8620	-9810	1490	-4215	-6594	-153
Total rev- Total exp	6,123	8,413	8,424	1,654	6,455	-1,830	143	9,803

Source: various 2003 Equity in Athletics Disclosure Act reports.

What are the most important revenue sources for the moneymaking sports?

According to the EADA reports, Big Ten football and basketball make most of their money selling tickets to the general public and providing broadcast rights to radio and TV stations (see table 2). It seems that if you can't pack them into the stands and get people to watch or listen at home, you won't make money. Cash contributions from alumni and others were relatively insignificant, averaging just under 4 percent of total football and basketball revenues.

To achieve any financial success, other intercollegiate sports will have to become better box office draws in the stands and over the airwaves.

Table 2
Principal sources of Football and Basketball Revenues
for selected Big Ten Schools
(percent)

	Ticket Sales to the Public and University/Faculty Staff (a)	Radio and Television (b)	(a) + (b)
Wisconsin	42	17	59
Purdue	46	23	69
Minnesota	41	28	69
Michigan State	56	20	76
Iowa	43	25	68
Illinois	35	27	62

Source: various 2003 Equity in Athletics Disclosure Act reports.

What do moneymaking sports spend the most money on and how important are athletic scholarships?

While colleges trumpet the importance of the educational opportunities provided football and basketball players, these opportunities appear to cost them relatively little. Athletic student aid accounts, at first glance, for about one-tenth to one-fifth, of the direct costs for these sports (see table 3).

Table 3

Major Expense Categories for Big Ten Football and Basketball as Share of Total Football and Basketball Expenses
(percent)

	Salaries, benefits, guarantees and options	Other	Athletic student aid	Adjusted athletic student aid*	Team Travel (including lodging and meals)
Iowa	51	17	11	4	5
Minnesota	46	24	16	5	7
Wisconsin	44	25	19	6	6
Michigan State	40	13	12	5	6
Illinois	29	4	14	5	9
Purdue	27	40	19	7	4

Source: various 2003 Equity in Athletics Disclosure Act reports.
* Adjusted to take into account unallocated debt and capital expenses.

Taking a fuller picture of the sports' expenses into account reduces the importance of athletic student aid even more. While the EADA worksheets list columns for assigning "Debt Service" and "Capital Expense" to particular sports, the Big Ten schools left those columns blank and reported them in the section for expenses unallocated to any sport. These unallocated expenses likely include such items as football stadiums, basketball arenas, sports medicine centers, etc. If one assumes that about half of the reported debt service and capital expenses relate to football stadiums and basketball arenas, a fairly conservative assumption, then athletic student aid for the players accounts for only 4 to 7 percent of Big Ten schools expenses for these sports. It appears that the Big Ten generally spends as much or more on team travel as on athletic scholarships.

Salaries, "salary benefits", guarantees and options for the coaching staff account for the greatest football and basketball expenses. (Purdue University proves an exception. However, its greatest expense category was "Other" which, given the highly competitive market for coaches, likely contains expenses that other colleges book as salaries.)

Since coaches' salaries are often a sensitive public relations issue for colleges, it's difficult to know how revealing the EADA data are. Still, it appears safe to conclude that coaches' remuneration accounts for about 40 to 50 percent of direct football and basketball expenses. Adjusted by including the costs of capital and debt expenses, as was done above for athletic student aid, coaches' remuneration is reduced to be about 15 to 20 percent of total football and basketball expenses.

What are the per player revenues for football and basketball?

Dividing the balance of revenues and expenses by the number of players provides another way of viewing the financial picture of college football and basketball (see tables 4 and 5). Even when adjusting these balances to take into account debt and capital expenditures, as was done above, the results are striking. Coaches, athletic department staff and many others contribute to the financial success of these sports, so it would be mistaken to interpret these figures as the amounts each player earns for a college. Nevertheless, it is clear that these figures, which represent the money remaining after all expenses are paid, exceed considerably the cost of athletic financial aid.

Table 4

2003 Football
Revenues minus Expenses per Player
(dollars)

	Unadjusted	Adjusted
Michigan	197,524	181,442
Wisconsin	127,937	108,574
Purdue	103,938	95,415
Michigan State	99,283	96,015
Iowa	92,745	73,613
Illinois	71,621	71,068
Minnesota	60,058	52,162
Indiana	57,075	46,322

Source: various 2003 Equity in Athletics Disclosure Act reports.
* Adjusted to include ¼ of total unallocated revenues and expenses.

Table 5

2003 Men's Basketball
Revenues minus Expenses per Player
(dollars)

	Unadjusted	Adjusted
Wisconsin	527,672	368,618
Minnesota	458,636	409,602
Illinois	445,715	441,376
Indiana	430,322	364,455
Purdue	389,952	332,953
Iowa	334,867	162,866
Michigan	243,338	129,918
Michigan State	207,232	187,985

Source: various 2003 Equity in Athletics Disclosure Act reports.
* Adjusted to take into account debt and capital expenses for stadiums and arenas.

2. A closer look at the money-losing college sports.

The data in table 1 reveal that the overwhelming majority of individual intercollegiate athletic teams cannot cover their expenses with revenues. Some of them have deficits of over a million dollars annually. The following analysis examines the financial information for these teams in more detail, putting this information into the more general context of college costs.

How much money do the money-losing sports lose?

According to the Big Ten EADA data, the Big Ten universities lost on average $9 million per year from the money-losing sports, ranging from -$14.6 at the University of Michigan to -$4.2 at the University of Illinois (see table 6.) Each of the intercollegiate money-losing sports (i.e., all men's and women's intercollegiate sports except men's football, basketball and ice hockey) lost on average over a half-million dollars in 2003 (see table 7). Women's basketball posted the greatest averages losses (-$1.2 million) and men's golf the smallest (-$181 thousand).

These figures likely understate the actual deficits of the money-losing sports, for they only include those expenses directly allocated to the sports and ignore unallocated expenses. These latter expenses are likely to be significant or treated differently among the universities for sports that demand major investments in special playing areas, such as golf.

Table 6

Total Financial Deficits Posted by Big Ten Money-Losing Sports
($ millions)

	Financial Deficit
Michigan	-14.6
Indiana	-10.1
Iowa	-9.6
Michigan State	-9.6
Wisconsin	-9.2
Minnesota	-9.0
Purdue	-5.3
Illinois	-4.2
	-71.6

Source: various 2003 Equity in Athletics Disclosure Act reports.

Table 7

Average per Team Financial Deficits Posted by Big Ten Money-Losing Sports
(dollars)

	Average Revenues minus Expenses per team
Michigan	-728280
Indiana	-560746
Wisconsin	-542169
Iowa	-535388
Michigan State	-503041
Minnesota	-502350
Purdue	-378521
Illinois	-277488
All Schools	-514925

Source: various 2003 Equity in Athletics Disclosure Act reports.

Who participates in the money-losing sports?

According to the EADA data, participants in the money-losing intercollegiate sports make up about only 1 to 2 percent of the entire undergraduate student bodies of the Big Ten schools.

While the revenues from the three moneymaking sports currently subsidize the money-losing sports, these revenues could just as easily be allocated to another university purpose, such as reducing tuition costs for all students or providing scholarships for needy students. After all, college athletic departments are part of a college organization; they're not self-contained profit centers with total discretion on how to use their revenues. Most Big Ten universities also have technology transfer offices that earn significant revenues for the university from the results of faculty research. While the individual science departments benefit from the revenues, they don't control them.

Since the university chooses to spend the gains in the moneymaking sports on the money-losing sports rather than in keeping general college costs down, this choice could be viewed as an implicit subsidy by non-participating students. Dividing the total negative balance for the money-losing sports by the non-participating undergraduate student body gives approximate estimates for this subsidy, both unadjusted and adjusted to take into account unallocated revenues and expenses as well as debt and capital expenses. (see table 8).

Table 8

Per undergraduate cost of money-losing sports
(US dollars)

	Per student balance	Adjusted Per student balance*
Michigan	-615	-807
Iowa	-505	-823
Indiana	-346	-521
Minnesota	-331	-596
Wisconsin	-330	-587
Michigan State	-315	-388
Purdue	-181	-352
Illinois	-145	-421

* Adjusted to take into account unallocated revenues and expenses as well as debt and capital expenses.
Source: various 2003 Equity in Athletics Disclosure Act reports.

In other words, if a university cancelled all of its money-losing sports or charged participants a fee to cover costs, it could use the resulting savings to decrease tuition for its undergraduates by the amounts shown in table 8. (Of course, current NCAA rules would have to be changed from the requirement that schools offer a certain number of Division I sports to be allowed to compete at the Division I level. As universities make these rules, they could also change them.)

The issue of equal opportunity in the money-losing sports.

Athletic scholarships are touted as a way of providing educational opportunities to players in return for their participation on an athletic team. Undoubtedly many players who could not have afforded to attend college have successfully used college athletics to get an education.

On the other hand, some players who receive athletic scholarships could afford to attend college without them. Several of the players on the 2005 University of Florida's championship basketball team were the children of former professional athletes. Most likely they did not depend on their athletic scholarships to get their college educations. Certainly when a sport is making money, it's difficult to criticize such athletic student aid, especially when it turn out that the aid is relatively small in comparison to the money the sport earns for the college.

The case for providing non-needs based athletic aid seems less obvious for the money-losing sports. In fact, given athletic aid's relatively small share of the money-losing sports' expenses, such aid seems a very inefficient way of providing educational opportunities to needy students. Simply taking the money spent on non-athletic expenses for the money-losing sports and dedicating it to scholarships for needy students would provide about five times as many educational opportunities as under the current system.

A closer examination of the money-losing sports reveals another disturbing aspect of today's college sports. According to the NCAA diversity reports, many of the money-losing sports are predominately non-African-American, non-Hispanic. While track and women's basketball are racially diverse, the other teams are not. This result probably reflects the lack of high school sports opportunities for many students from disadvantaged backgrounds. Very few poorer schools, whether predominately minority or not, can offer the types of athletic opportunities available in the wealthy suburban schools. Very few of the students from these poorer schools, whether in urban or rural America, can afford the early lessons and training necessary to compete at the collegiate level in most of the money-losing sports.

Today, relatively well-off students receive free or reduced-cost educations and special sports tutoring by participating on sports teams that cost colleges far more than the athletic aid. Without the athletic aid, many of these students would undoubtedly still attend college, unless it interfered with their professional plans.

Such was the case reported in the May 23, 2002, *St. Petersburg Times*. Ryler DeHeart, a highly-ranked high school tennis player, chose to go to the University of Illinois over the Ivy League. "I didn't want to go to an Ivy League school where tennis would take a backseat," he explained.

DeHeart received the opportunity after considerable hard work – he started playing tennis at age 8. He further explained that getting an education wasn't really what interested him. As the *St. Petersbug Times* reported: "DeHeart's goals for the next four years don't necessarily include a diploma. It's not something he likes to talk about, but it's a common practice for aspiring pros: Spend a couple of years in school, then focus on a tennis career."

According to the EADA data for the University of Illinois, the non-athletic aid for men's tennis (coach's salaries, team travel, equipment, sports camps, etc.) costs the university about $19,000 per player. While it's not clear if DeHeart would have qualified for financial aid based on need, that was never an issue. Instead, the University offered him an educational opportunity that he was lukewarm about and provided him a good sum of money to hone his sports skills.

And what about gender equality?

While all of the moneymaking sports are men's sports, many of the money-losing sports are men's sports as well. The Equity in Athletics Act assumes that providing women an equal opportunity in athletics means providing them an intercollegiate team. But the intercollegiate sports system is a highly expensive and inefficient way to provide athletic and educational opportunities when the sports lose money.

The EADA financial reports should be catching the attention of college presidents and causing them to rethink a large part of their college sports program. If a sport pays for itself, it's hard to argue against it. When it doesn't and when it costs large sums of money, college presidents should be thinking of other ways to provide their students, both women and men, with the sports opportunities that can build the character, teamwork and other qualities that are ascribed to today's intercollegiate system.

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[1] These questions ignore other important issues about today's college sports, such as:

- are the demands on college athletes, primarily men's football, basketball and ice hockey players, so great as to prevent them from getting a good education?
- Are an institution's educational standards eroded by the hunt for top players?
- Does the need to fill team rosters overemphasize varsity athletics in selecting students at smaller schools? and
- Are men's and women's varsity sports treated equally?