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Practical Considerations for Sustainability: "On the Other Hand"[1]

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In a recent *Washington Post* article, William M. Kirwin and Gerald Turner (Chancellor of the University System of Maryland and President of Southern Methodist University, respectively) claim without equivocation that the present business model in the 120 universities that comprise the NCAA Football Bowl Subdivision (FBS) is unsustainable. Writing on behalf of the Knight Commission on Intercollegiate Athletics, both advocate that data and common sense should drive institutional leaders toward immediate reform.

Who Can Argue?

However, given past habits and individual institutional drive for competitive excellence, immediate reform is not likely to take place. So long as individual interests remain at risk, the collective will to undertake meaningful reform will not be found.

There is no doubt that athletics has a life of its own, one that defies logic and normal models of supply and demand. Although it is hard to argue against Professor Fort's historical analysis that there has been at least adequate economic support for the growth in college sports heretofore, it is nevertheless important to look at some of the problems that athletic directors perceive to be of concern and that will, at minimum, be a factor in our ability to sustain the rates of growth that we've seen in the last decade.

Professor Fort's historical analysis brings some comfort that future economic survival is possible given past patterns. Nonetheless, while comforting, it is important to look at the practical problems facing Athletic Directors, Presidents, and governing boards. In this regard, it is my belief, and the consensus of my peers, that the current pace of financial increase cannot be comfortably maintained. In addition to the analysis of past historical patterns, we need to look at factors that could affect the future. Whether such factors are probable or not, it is important for all of us to be aware of how they may impact the financial landscape.

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Here Are Some Factors To Consider

Yes, Broadcast Revenues Will Increase, but. . .

Although broadcast revenues will likely continue to increase, past increases have come at the price of a certain loss of control (and revenue) at the local level and a general degradation of home venue time scheduling and diminished attention given to the needs and interests of the local fan. In addition, the new agreements virtually guarantee anyone the ability to be an *electronic* fan in any number of sports, potentially lessening ticket demand at local venues, particularly since the attending fan is no longer the first priority in scheduling. Although there will be no *abrupt* decline in demand, we need to be aware of the potential for more gradual, subtle, but lasting declines in home venue interest. This will be particularly problematic as we try to restore attendance from prerecession levels. With the rapid increase in availability of *all* sports in broadcast or internet media, we need to be aware that actual game attendance is a habit that may not be in place yet for younger generations.

The Rate of Growth for Coaches' Compensation Cannot Remain Unchecked

In addition to the direct effect on individual program cost, we need to be aware of the importance high coaching salaries in the court of public opinion and in Washington. While the Internal Revenue Service can be a sluggish bull, we still need not wave red-flags in its face. Despite the pessimistic outlook from Congressional Budget Office's recent report on the difficulty to tax athletic revenues generally, we need to remember that both the IRS' 1998 and 1999 overturned tax rulings on quid pro quo contributions to college athletics can always resurface and perhaps survive the eleventh hour lobbying that struck down the predecessor rulings. We need to be careful when we say that no tax dollars go to support our programs, keeping in mind that we are subsidized by tax-deductible contributions and other revenue streams that are not taxed.

As an example, one outstanding colleague—possibly smelling a taxpayer backlash over paying a basketball coach more than 35 times what the governor earns—after the Governor took a 10% pay cut—introduced the Coach in a lengthy opening statement that stressed how that coach and other school coaches were not paid out of state funds, but from revenue generated by the school's basketball and football teams. "We do not," he said, "use state appropriation or university funding to pay our coaches, except for his base salary of $400,000, the bulk of the compensation is derived from our multimedia rights contract that includes radio and television agreements, other sponsors and conference revenue sharing."

At a time when President Obama declared that "everyone's got to have some skin in the game," the game of big-time college sports appears immune. This immunity, however, is tenuous. Although it was seen by some as political grandstanding, the 2006 U.S. House Ways and Means Committee scrutiny of the NCAA is, at minimum, a cautionary tale:

In a sharply worded letter to the then NCAA President Myles Brand, the chairman of the House Ways and Means Committee pointed to the lucrative television contract, coaches' escalating salaries, and schools' "state-of-the-art" facilities. He questioned college athletics' connection to higher education.

"Most of the activities undertaken by educational organizations clearly further their (tax) exempt purpose," Rep. Bill Thomas, R-Calif., wrote. "The exempt purpose of intercollegiate athletics, however, is less apparent, particularly in the context of major college football and men's basketball programs." He asked for and received a response from the NCAA.

This conversation escalated what had been a low-key congressional review of the association's tax status in conjunction with a two-year look at not-for-profits in general.

Spokesman Erik Christianson said the NCAA disputes the "underlying assertion that having not-for-profit status is linked to the amount of revenue that an organization generates."

The NCAA's projected budget at that time anticipated nearly $563 million in revenue, including $503 million from its TV contract with CBS. Some $332 million is distributed to member leagues and schools, about 60% of that through student-athlete welfare, academic-enhancement and other funds. The remainder is paid out according to schools' success in the NCAA men's basketball tournament, another point of contention in Thomas' letter.

Gary Roberts, director of Tulane's sports law program (now Dean at Indiana School of Law), dismissed the inquiry as grandstanding. "There's not a snowball's chance in hell that something like (revoking the NCAA's exempt status) would pass Congress. This is just congressmen seeing an opportunity to make a splash and get their name in the newspaper," he stated.

A change in the tax-exempt status of the NCAA and its member schools would send shock waves through the college sports economy, says Smith College economist Andrew Zimbalist. With a smaller tax break or none at all, boosters probably would reduce their giving. Schools more strapped for cash than ever, would have to be stingier in paying coaches. Mr. Zimbalist further stated, "College sports has grown into a standard commercial enterprise—with only a tip of the hat to the academic environment they exist in."

Setting aside the external matters, for athletic directors, one of the more troublesome effects of the "market-driven" salaries of football and men's basketball coaches is the difficulty in maintaining a sense of proportion in other spending in day to day matters. The potential for highly compensated coaches to develop fiefdoms is considerable. The question becomes "if you're paying me $2 million, how can you question my judgment on this personnel matter or the cost of this charter?" With quasi-religious internet followings, the plot thickens.

And market-based or not, the gender-equity pressures and effects are alive and well. We are not willing or able to make market-driven decisions, so we just inflate everything else up to avoid the confrontation.

Anti-Trust and the Cost of Attendance

The likelihood of favorably surviving another antitrust legal action involving the provision of the full cost of attendance for student-athletes may not be very great.

The acquiescence (settlement) of the players' attorneys with handsome attorney's fees and the plea that "we can't afford to pay the full cost of attendance" may not prove persuasive a second time. Absorbing this cost for 300–400 FTE student-athletes might take a substantial bite out of any new lucrative broadcast contracts!

From my perspective—the future is cloudy!

Note

1. Katie Hill, Sr. Associate Athletic Director/Financial Affairs at Clemson University assisted with this response.