“Be Careful What You Wish For”: A Response to Professor Andrew Zimbalist’s “Dollar Dilemmas During the Downturn: A Financial Crossroad for College Sports”

Jeffrey Orleans
Special Advisor, Council of Ivy Group Presidents

Back to Basics

Amid lively debate during the January 2010, NCAA Scholarly Colloquium about whether Division I athletics faces a financial “crisis”, there emerged a consensus that Division I collectively at least has reached, in Prof. Zimbalist’s word, a “crossroad” (Zimbalist, 2010). This paper argues that before choosing any particular route away from this intersection, there first should be a clear destination: an approach that will provide long-term discipline to financing big-time athletics, rather than simply change balance sheets in the short term without transforming the underlying financial culture that has brought us here in the first place. Developing this framework also will provide an opportunity to reinforce an essential premise of funding intercollegiate athletics at the vast majority of American institutions: that it is appropriate to allocate general-purpose institutional funds in athletics when that investment is made in ways that are educationally and financially sound.

This new structure should rest on four principles:

• Institutions should commit to maintaining balanced budgets, without “emergency” use of institutional funds beyond what those budgets contemplate initially.

• Conferences should commit to providing frameworks that will help their institutions meet these commitments.

• National athletic accounting standards should be complete, transparent and consistent across institutions, so that schools and conferences—and the public—can measure and compare efforts and results in meaningful ways.

• Practical budgetary guidelines should be developed, so that schools and conferences can translate their commitments into achievable working expectations.

Jeffrey Orleans is Special Advisor, Council of Ivy Group Presidents
This paper will develop this approach in some detail, and then will consider Zimbalist’s proposal to ask Congress to exempt the operation of Division I football from the federal antitrust laws, to enable collective regulation and limiting of coaches’ compensation. While there would be savings from his proposal to reduce the number of football grants-in-aid, and more revenue (with a potentially wider distribution) from his proposal to replace the football bowl system with a national championship structure, neither proposal is likely to advance the central goal of creating long-lasting financial discipline, as opposed to simply making bottom lines somewhat better in the short run.

A Congressional exemption, in contrast, would seem to guarantee at some degree of discipline, on the assumptions that the higher education community would use the exemption after going through the difficult process of securing it, and that Congress then would consistently review the effects of its legislation. As suggested later, seeking such an exemption will be a public and complicated process, and it’s likely that there will be only one chance to make that effort: even with a good long-term framework in place, therefore, this proposal should command our attention.

As a final note of introduction, it should be acknowledged at the outset that no framework or principles, no matter how complete on paper, will result in real and lasting change unless the institutions that compete in Division I decide, at every relevant level, that they really want to achieve change—and that even then, change will depend on the resolution of significant differences within the Division I membership. The approach proposed here is thus certainly not sufficient in its own right.

At the same time, it seems manifest that a systematic approach is necessary, both to shape the debate that will be needed to resolve those differences, and because the evidence is overwhelming that without clearer expectations against which to measure institutional results, too many institutions will continue to make unrealistic financial decisions, with unfavorable financial results.

Preserving the Legitimacy of Institutional Funding

Zimbalist reinforces other recent analyses in suggesting that the core financial issues are in Division I football, the sport with the largest budgets. It is often claimed that those large budgets are needed because “surplus” revenues from football are needed to underwrite much of the cost of sponsoring other sports. But the data seem to show instead that Division I football is at collective financial risk, as more schools spend increasingly more money on football but then do not meet their own budgetary goals, spend unbudgeted general funds to meet the resulting deficits, and claim that they cannot see how to break this cycle (Knight Commission on Intercollegiate Athletics, 2009a, 2009b).

This summary is not a criticism of the “revenue” model as such. It is an assertion that we should consider the model’s current results carefully and unsentimentally across all of Division I, and that we should change the culture of Division I so that the next decade’s financial trends show consistently balanced budgets rather than frequent insolvency.

Certainly some Division schools do very well, competitively and financially, in any year, and some of those do very well every year. But by definition, each year about half the competitors in each subdivision of Division I football will perform badly on the field, which is not a sound basis for good long-term performance at
the bank. Only a comprehensive approach to financing will work for all schools over time, regardless of whether any one school is 10-and-2, or 2-and-10, in any particular autumn.

Yet we’ve been here before. In the first era of modern athletics “reform”, in the late 1970s, the financing and problems of big-time athletics were described almost exactly as many do today, with assertions that big-time football costs were out of control (especially coaches’ salaries), that big-time sports generally were divorced from institutions’ educational purposes, and that presidents could not respond except in some concerted way that they felt unable to develop.

In the ensuing years, however, revenues in big-time athletics rose dramatically through the growth of cable television and the end of the NCAA football television monopoly, the growth of conference and bowl football television revenues and NCAA and conference basketball tournaments and television revenues, and the emergence of sports sponsorship and marketing as a multibillion-dollar business sector. Conversely, the schools that play big-time football still are a distinct minority among American colleges and universities, and even on those campuses the dollars involved can be relatively small fractions of overall institutional budgets.

Why, then should Division I feel any special urgency to act now? And why should the larger higher education community, which inevitably would be affected by any approach to Congress for a legislative solution, consider involving itself in the financial troubles of these few schools, whose athletic programs after all receive the bulk of public attention and financial support, and who thus presumably should be able to find their own solutions?

The confluence of three factors suggests a greater urgency now than three decades ago:

- The larger number of schools and dollar amounts involved mean that more schools are at more risk if the system stumbles. With few exceptions, growth in revenues has led not to athletic endowments and long-term stability, but rather to the accelerated trends of spending and deficits of recent years. And as Knight Commission on Athletics Co-Chair Gerald Turner noted during the Colloquium, the NCAA “certification” process, successful in other governance and academic areas, has had no apparent effect on finances.

- As the NCAA and various conference television packages come up for renewal in the next few years, however, there is substantial uncertainty across Division I about the level and distribution of the core television revenue streams: whatever the success of leading conferences such as the Big 10 and SEC, it is unclear how much money will be available across Division I generally. And given the current financial strains within higher education, institutional “rescues” for faltering athletic programs are controversial at best and divisive at best, and demands only will increase for financial prudence, and for athletics to ameliorate overall institutional financial problems rather than aggravate them (Thelin, 2009a and 2009b).

- Finally, this system has developed in a period of increasing Congressional, judicial and media scrutiny of higher education, both athletically and generally, often about issues as to which Division I disagrees passionately (a national football playoff among them). And many faculty and other “reformers” who were relatively pleased with the past decade’s academic reforms in athletics
seem to have given up on the possibility of changing the finances of Division I athletics from within, and now may be interested in more radical change. The athletic community will have more control over changes that it initiates than over “reform” that originates in Congress or otherwise is imposed externally.

Perhaps most importantly, precisely because Division I athletics are so visible, what happens in these programs ultimately shapes the public perception of all of collegiate athletics—and however indirectly, affects the financial circumstances and trends that affect all of collegiate athletics, not just in football but across all sports. It is thus a bad thing for all of college athletics, at every level, when the institutions in Division I seem unable to fund athletics in a stable manner.

Specifically: Higher education always has assumed that intercollegiate athletics costs more than it produces in revenue at virtually all schools, and that athletics potentially deserves institutional support at all schools, because athletics produces qualities that we want in our graduates, no matter what sport they play. If public skepticism about the finances of big-time athletics means that allocating institutional funds to athletics is viewed as subsidizing profligate athletic departments, rather than as investing in students through athletics, then institutional funding of athletics as an educational activity is at risk in all sports, at all institutions.

The legitimacy of institutional funding for athletics will not be preserved unless we change the structure that has brought us to these circumstances, rather than seek simply to cut costs and/or to increase revenues. That is, before considering the kinds of specific proposals offered by Zimbalist and others, Division I athletics needs a financial approach that offers the potential for real discipline across all institutions: that provides explicit guidance for everyone involved—from trustees to faculty, from tuition-paying parents to athletic budget directors—as to how to do athletics financing well. Only with a cogent framework within which to apply a Congressional exemption, after all, can we know what to ask of Congress in the first place, how to tell Congress why an exemption actually would be effective, and how then to demonstrate to Congress that it is being effective.

None of this is to suggest eliminating “commercialism” or “entrepreneurism” in athletics, which are and will remain present in some way in every institution—and not just in athletics at that. Nor is it to mandate “one-size-fits all” funding models or institutional or conference strategies. Rather, we should provide good templates, for many diverse conferences and institutions, to structure and pay for athletics as a valued institutional activity, and to assure, as Prof. Makar noted during the NCAA Colloquium, that the brunt of financial risk does not fall on women’s sports or on so-called nonrevenue or Olympic men’s sports (Makar, 2010).

That is, we must define the elements of public, workable models that relate athletic activities, expenditure levels and funding sources to an institution’s educational mission, and that fit within an institution’s regular management and financial practices. Institutions and conferences then need to find specific approaches that will work for them over time, so that they do not exceed their anticipated needs for institutional support, whether those expectations are substantial or minimal—so that, in other words, schools will balance their budgets in the ways that they say they will.

This kind of discipline may require a new clarity about institutional intentions for athletic programs, and about whether those intentions are being met. But it also will provide a way to legitimately “claim victory” when an institution’s chosen
financial principles actually are carried through—a welcome change from constant budget overruns (and from the bad publicity that accompanies them), as well as a basis for enlisting the kind of non-Division-I support, from across the broad higher education community, that would be needed for any approach to Congress.

Principles for Financial Discipline

The framework proposed here as a basis for Division I financial discipline has four elements. Two are matters of commitment: presidential commitments to maintain balanced athletic budgets, and conference commitments to promote financial discipline across their members. And two are matters of technique: full and transparent accounting, so that institutional communities and the public generally can know how commitments are being kept, and a toolkit of measures for designing those commitments in the first place across more than 300 diverse Division I institutions.

A presidential commitment to balanced athletic budgets is the correct way to consider the issue that’s usually phrased as “whether institutional funds should be used to support athletics.” That is, as already noted, investing institutional funds is appropriate if the institution has sound internal reasons for doing so, and institutions will vary in how they make that assessment.

On the other hand, there appears to be no good reason for an athletic department consistently to need more institutional funds than are budgeted—or for an institution consistently to supply them. It is that situation that leads to the use of institutional funds being portrayed not merely as “subsidies” but as “bailouts”, and it is the pattern of those situations that then calls into question the use of institutional funds for athletics at every level of competition.

Instead, athletic budgetary practices and outcomes, including the levels of institutional support, should turn out to be what an institution says they will be in the first place, so that an institution states appropriate expectations and then meets them, with consequences if there are consistent deficits. Consistently “missing the budget” skews overall institutional budgets and leads to disaffection with athletics: both are bad outcomes, and both can be avoided—and the validity of allocating institutional money to athletics can be affirmed—if institutions do what they say they will do in the first place.

This kind of accountability is of course not only what institutional presidents should undertake, but essentially what the Division I-A presidents implied that they would undertake when they initiated the 1990s “restructuring” that provided them with voting control over the entire NCAA: they now are “the NCAA”, and the financial responsibilities clearly are theirs. Yet it’s neither surprising nor unreasonable, given the highly and visibly competitive nature of Division I athletics, for those same presidents now to indicate, in the recent Knight Commission survey, that it’s very difficult for them to act individually, and that they need ways to act collectively (Knight Commission, 2009b).

A second area of commitment, therefore, is for conferences to publicly set and enforce clear financial expectations among their members. Conferences are the vehicles through which institutions already act together, based on shared values and aspirations and in ways that reflect the great diversity of Division I athletics, without having to seek a national consensus. The members of every Division I
conference should be able to set guidelines for proper athletic financing within that conference, according to their own particular circumstances, and then to provide their own ways to assure that each conference member lives up to its commitments.

A pair of tools will be needed to help conferences, presidents, and athletic directors make and keep these commitments. As both the Knight Commission panel and Zimbalist discussed at the Colloquium, the first is clear and public accounting, consistent and complete across different kinds of institutions and including all relevant areas such as debt service, student fees, tuition waivers, total compensation packages, and booster-group accounting. Only with full and comparable public data can institutions set realistic expectations for themselves, measure how well they meet those expectations, and use the experience of other institutions to inform both their planning and their practical efforts.

The second tool, which as of January 2010 was being considered by the Knight Foundation for a spring 2010 report, is a menu of financial definitions, measurements, and presumptions that institutions and conferences can use to construct their expectations, based on their different missions and revenue and expenditure expectations. As is true in areas outside athletics, institutions will choose different measures and timeframes as benchmarks, and have different ways of responding to changed circumstances, whether helpful or challenging ones. But a common menu clearly will help institutions more effectively make and apply those choices, and compare their results to other institutions: “open books” will be more helpful if it’s clear that those books are presenting useful data in the first place.

Institutions and conferences will need to address a variety of questions to develop truly useful commitments and techniques; here are two examples.

- In choosing what revenue streams to rely on, institutions will differ as to the proper level and use of student fees, whether a baseline of institutional general-fund support is essential, and the degree to which athletics should be supported by external revenues. What will matter is not the specific choices that an institution or conference makes in these regards, but that the choices are clear and realistic, and that the chosen expectations then are met.

- That is, what will need to be the same across all conferences is the expectation that over time, institutions will have the discipline to meet the athletic budgetary goals that they establish for themselves, for their own institutional reasons, without extra or emergency institutional funding. Only then will it be clear that the athletics claim on tuition and other general-fund revenues is a legitimate one.

- As Prof. Toma summarized at the Colloquium (Toma, 2010), and as others have described in detail (Gould, 2003; Slaughter and Leslie, 1997), some institutions now engage in far more entrepreneurial and competitive practices outside athletics than do others, so that athletic financial practices that might seem over-the-top at some campuses are much more consistent with other institutions’ overall approaches. Thus in assessing “commercial” practices in athletics we no longer can use the answer that seemed so obvious 30 years ago—“just apply the regular institutional financial standards to athletics”—not only because schools are so much more diverse in these respects, but because in many nonathletic areas, institutions aren’t yet satisfied with the policies they’ve worked out.
Moreover, while competition for faculty members, for example, needn’t necessarily have “winners and losers”—while all schools, in theory, can attract good faculty member even if some outspend others—athletic competition is by definition a zero-sum game: there will be competitive losers as well as winners, and in turn they will have a harder time financing “success” even as they define it. Even at the most entrepreneurial institution, therefore, expectations for athletic revenues and funding will need to be tempered by the often harsh realities of the athletic marketplace.

**Going to Washington**

Assuming, then, that we do reach the financial “red zone”, Zimbalist has ably met the challenge of calling a potentially game-changing play. But even with a long-term approach to disciplined athletic financing in place, it will be a complicated and public process to determine whether to approach Congress, and with just what kind of request, and any such approach should reflect careful consideration of at least three questions.

- **What should a legislative request encompass?** It’s likely that there will be only one chance to get Congressional action, so that attempt needs to be complete and demonstrably effective. It should consider, for example, whether to address just coaches’ compensation, or also other big-ticket budget item such as recruiting. And we should remember that what some observers might consider the most direct precedents for an antitrust exemption—in the major professional leagues—include overall salary caps and revenue-sharing, both of which will be problematic in Division I.

Nor would designing this request be simply a matter merely of assembling the right technical elements. Rather, any legislative proposal should specifically promote long-range, overall financial responsibility by reinforcing the elements of a disciplined approach, whether the four that I have identified or any others that may be used, so that we are not simply addressing short-term deficits but strengthening long-term accountability.

- **What form of accountability will Congress request?** It seems certain that Congress will expect not simply periodic review of the effects of any exemption, but some means to assure that those effects actually will be positive.

For example, when Congressman McMillan proposed an antitrust exemption so that the NCAA could regulate television, in the 1990s, the legislation provided that if the NCAA did not take advantage of the exemption within a year, Congress automatically would consider direct legislative regulation. Could permission to regulate coaches’ salaries be met, analogously, with the expectation that the I.R.S. would have the right to determine if the resulting framework would be consistent with its “excess compensation” standards for highly-paid employees in tax-exempt entities? And would higher education then be willing to have those new precedents applied across campuses generally?

- The preceding question implies the final one: **Would asking Congress to legislate about athletics cross a threshold as to the likelihood of greater general Congressional regulation of higher education?**
Certainly Congress already can seek to legislate about higher education whenever it wants to, and after a half-century of accepting federal money and the rules that accompany it, there’s little basis for questioning such efforts. But one reason that higher education remains comparatively unregulated in many ways is that since the McCarthy-era hearings almost 60 years ago, the higher education community has made clear that it considers regulation to be potentially threatening to academic autonomy.

We should acknowledge that sometimes higher education has unduly resisted oversight that in the long run has clearly been appropriate. But in the main the academy’s relative autonomy has been crucial to the development of the unique American mix of public and private institutions, of every variety. Especially given the recent Congressional attention noted above, we should be satisfied that approaching Congress about the specific matter of athletic financing would not endanger that autonomy.

Prof. Zimbalist’s paper effectively lays out the reasons for addressing the financing of Division I athletics and a potentially dramatic way to do so through Congressional action. I hope this paper has provided a useful perspective on the more fundamental structural changes that will be needed to make such an initiative truly effective in the long run. As I write this article in January 2010, I will be curious to see how developments between now, and its publication six months later, will affect how the reader views what both of us have written.

Notes
1. Jeffrey Orleans was Executive Director of the Ivy League from 1984 to 2009 and is currently a consultant to the Knight Foundation Commission on Intercollegiate Athletics. The views expressed in this paper are entirely his own.
2. The text will refer to “Division I athletics” rather than to the “Football Bowl Subdivision” (formerly Division I-A) or only to football within Division I. While trends differ somewhat across the three Division I subdivisions, and between football on the one hand and men’s and women’s basketball and other sports on the other, the issues and the needed changes are substantially the same across all of Division I, and as a practical matter the proposed model would (and should) apply across all of Division I.
3. Similarly, the level of coaches’ compensation is addressed here as a key element in rising overall costs, not as to whether that level is or is not “right” as a result of “market forces”, or in comparison with faculty or presidential compensation, or to the funds that student-athletes may receive as athletic “grants-in-aid”.
4. See the essays collected in Massengale, 1979; cf. Atwell, et al., 1980, p. 13: “The athletics governing bodies have not acted in any significant ways to control costs because the ‘haves’ in the system do not want to risk losing their competitive advantages to the ‘have-nots.’ . . . .The solution to the impending financial dilemma is not the elimination of the semipro [sic] model but, rather, controlling it so that it continues to benefit institutions without driving them to bankruptcy. The only hope for such a solution is that athletics governing bodies act at the earliest moment to control semipro athletics. However, precedent does not suggest that such control is likely to occur.”
5. Former UNC-Chapel Hill men’s basketball coach Dean Smith has put it succinctly: “‘Burgeoning commercialization’ was born on the very same day that college presidents, athletic directory, and conference commissioners invited television on campus to show our games in exchange for a huge amount of money.” (Smith, 2002, p. 326).
6. The extreme theoretical argument for not engaging these issues is that “the rich schools always will pay something to assure that the poorer schools survive, so they will have schools to beat.” Even assuming that to be true, it still would not be an efficient way to structure athletics, for either group of schools—and in any event a majority of Division I schools—likely would argue that major-conference bowl and television revenues, and NCAA “basketball” revenues, simply aren’t distributed that widely across all of the Division.

7. A partial list of athletic matters that have been the subject of recent or proposed legislative or judicial scrutiny includes whether coaches’ compensation levels violate I.R.S. guidelines for tax-exempt organizations, the overall tax-exempt status of intercollegiate athletics revenues, whether restrictions on salary levels for part-time coaches and grant-in-aid levels for student-athletes violate the antitrust laws, and whether the Bowl Championship structure violates those laws (Jenkins, 2009). The most emphatic and continuing scrutiny of nonathletic matters has been Senator Charles Grassley’s concern with “pay-out” percentages from the largest university endowments (Lewin, 2010).

8. “In the realm of higher education reform, intercollegiate athletics is the one that got away—permanently. . . . Is reform necessary?—yes. Is it possible—no. . . . The best higher education can hope for is that eventually universities will cut loose their programs in football and basketball, making the university a sponsor rather than an owner of the enterprise.” (Zemsky, 2009).

9. Financially-based questions become even more pointed when accompanied by questions about “off-the-field (or court)” behavior of “big-time” athletes. Bad conduct is certainly unrepresentative of all football student-athletes, and of all athletes generally, but it’s very visible, and it skews how the public generally—and faculty, very specifically—view athletes and athletics even at non “big-time” institutions.

10. Former Harvard University President Derek Bok unintentionally described the qualities that we might hope are provided by athletic participation when he noted that “when business leaders describe what they most need from the young managers and engineers they employ, they regularly stress not only strong communications skills and an ability to think critically and solve problems, but also a capacity to collaborate with others and work with diverse populations, a sensitivity to ethical problems, [and] a strong self-discipline. . . .” (Bok, 2006, p. 305).

11. A better question than whether “commercial” practices will continue to be used to generate athletics revenue is how Division I can better define the relationship between the financial support permitted for student-athletes in the “revenue-producing” sports and the huge amounts of revenue that their competitions produce, especially by abandoning a focus on “amateurism” that is no longer very clear or precise. As the late Prof. Stanton Wheeler put it, “. . . the ultimate irony [is that t]he more the NCAA earns in television and other profits, the more it argues that the product is amateur athletics: To pay the athletes would destroy the uniqueness of the product. So the only way to make the billions of dollars now generated by varsity athletic programs is to protect the athletes from receiving any of it.” (Wheeler, 2004, p. 217).

12. In Divisions II and III, for example, substantial investments of institutional funds are unquestionably essential, and are not viewed as “subsidies” any more than are similar investments in academic departments whose “revenues” clearly will not pay their full costs. Even in Division I, most institutions expect that some such funds will be necessary, with the amount varying according to the institution’s funding philosophy and athletic revenue expectations.

13. A sample of nonathletic practices resembling athletic approaches that have been criticized as overly “commercial” or “entrepreneurial” would include bonuses for presidents and/or development
offices if institutions meet certain fund-raising goals, substantial and highly personalized compensation schemes to attract or retain faculty or senior administrators, “hulls and whistles” competition in building ornate student unions, and aggressive student recruitment through use of “merit” aid and/ or Early Decision programs.


References


