

Sports Subsidies Soar

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Money is harder to come by in virtually all realms of higher education these days, and competition for funds is likely to grow. So at a time when many colleges and universities are freezing salaries and positions and even furloughing employees, it is likely to disturb employees on some campuses that institutional subsidies for sports programs are large and growing.

That analysis is possible thanks to data on sports revenues and expenditures collected and published last week by *USA Today*. The newspaper asked universities that play football in the Football Bowl Subdivision, the National Collegiate Athletic Association's top competitive level (formerly Division I-A), for four years' worth of the financial disclosure forms they provided to the association as part of its regular survey of sports finances. The NCAA's own report on the data provides information only in the aggregate, but by publishing the data for virtually all public universities that play big-time football -- most private institutions and a handful of publics declined to make their forms public (see below) -- *USA Today* has made it possible to look at the situations at individual sports programs.

While the picture looks different depending on the institution, a few broad patterns are evident and worth highlighting:

- The vast majority of sports programs -- even those that purport to support themselves -- receive significant financial backing from their institutions to operate. Of the 99 institutions in the table below, all but four -- Louisiana State, Ohio State, and Purdue Universities, and the University of Nebraska at Lincoln -- reported receiving at least some revenues in the 2007-8 fiscal year from one of four categories of "allocated" revenues: student fees, direct state or government support, direct institutional support (general fund money), or indirect institutional support (facilities, energy costs, etc.).
- While 65, or two-thirds, of the sports programs reported having more operating revenues than operating expenses in 2007-8 -- meaning that they appeared to turn a profit -- just a quarter showed net profit after excluding the subsidy totals.
- 44 of the 99 sports programs derived at least a third of their operating revenues from student fees, institutional support or other allocated sources -- and 27 derived at least half of their revenues that way. Among the highest: Eastern Michigan, Florida Atlantic, Florida International, Kent State, Miami (Ohio), Middle Tennessee, Ohio, Western Kentucky and Western Michigan Universities, the State University of New York at Buffalo, and the University of Akron drew at least two-thirds of their operating revenues from allocated rather than generated sources (ticket sales, fund raising dollars, television and other deals, etc.).

A few caveats warrant mention.

First, there is legitimate debate in college sports about whether it is reasonable or appropriate to demand that sports programs be self-supporting. Defenders of such subsidies often note that Ivy

League and Division III colleges, whose sports programs are generally seen as being part of their institutions' broader educational missions, make no apologies about providing most of the financial backing for those programs, as they would for arts or music or other programs. The more that big-time sports programs are required or pushed to be financially self-supporting, some supporters of the programs argue, the more pressure they may feel to commercialize themselves.

Second, some of the "allocated" revenues that count in this analysis as "subsidies" can be seen as revenue that the sports programs would otherwise be generating on their own. The prime example of this is student fees, which many sports programs receive in exchange for providing free or discounted tickets to students -- tickets that, in some cases at least, they would otherwise be able to sell and produce revenue.

Still, the spiraling costs of college sports programs, and the sometimes surprisingly large and growing share of those costs that are covered with institutional or state dollars, have become a matter of concern on several campuses, and are almost certain to draw attention on others as higher education's fiscal crisis expands. The faculty at the University of California at Berkeley voted in November to require the sports program there to wean itself off millions of dollars in annual subsidies that had led to a \$31 million cumulative deficit that university leaders forgave in 2007. The extent of the deficits became known only because of faculty digging into past sports budgets.

The issue of sports spending has already appeared on the radar screen at the University of Cincinnati, too, where a universitywide panel concluded that the university's current sports budget (which runs an annual deficit of \$3.5 million) was insufficient for it to compete successfully in the Big East Conference, which it joined recently. To fully compete, the panel said, could require as much as \$11 million more spending a year.

While the panel said it was essential for the athletics department to stop running an annual deficit, several of its ideas for doing so -- including raising student fees and having the university absorb some or all of the department's \$24 million cumulative structural deficit -- would require a bigger commitment of institutional funds, at a time when Ohio's public universities, like many around the country, are facing more budget turmoil, not less.

"This has generated a lot of discussion about athletics vs. academics," acknowledged Sandra Degen, Cincinnati's vice president for research and a co-chair of the panel.

Like most public universities in California, San Diego State University has seen its state support cut sharply in recent years, and, promises from Gov. Arnold Schwarzenegger notwithstanding, more reductions are possible. Yet San Diego State has seen its subsidies for athletics rise from \$11 million to \$16 million in three years. A spokesman said in an e-mail message that allocations from the university's general fund had remained flat, and attributed the increase to a student fee increase designed to add women's lacrosse and keep the institution in compliance with statewide gender equity guidelines. "SDSU's athletic budget allocations from the university's general fund have actually remained flat," said the spokesman, Greg Hand.

The reports that the university submitted to the NCAA, replicated in *USA Today's* database,

indeed show San Diego State's student fee allocations to athletics rising from \$5.3 million in 2004-5 to \$6.3 million in 2007-8. But the reports also show "direct institutional support" to athletics nearly doubling, from \$5.3 million in 2004-5 to \$10.1 million in 2007-8.

"We are well aware of the fact the increasing general fund allocations to athletics cannot be an option given California finances," Edith J. Benkov, director of French and Francophone studies and chair of the San Diego State University Senate, wrote in an e-mail message.

In addition to virtually all of the private institutions that compete in the Football Bowl Subdivision -- including universities like Duke, Notre Dame, Stanford and others -- several public institutions declined to provide their NCAA financial forms to *USA Today*. They include the three state-related institutions in Pennsylvania -- Pennsylvania State and Temple Universities and the University of Pittsburgh -- and the U.S. Naval Academy.

More up-to-date financial data on the institutional subsidies to sports programs could be available soon, as NCAA members were required to submit their 2008-9 financial reports to the NCAA last week.

Commentary
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The article and accompanying database invite an obvious question: why are so many universities willing to subsidize athletics through either a direct transfer of institutional funds, assessing a dedicated student fee, or a combination of these? For instance, to compete in the Big East, Rutgers subsidizes 43% of its \$52 million budget, and is the extreme case among the 66 programs in the six major conferences (plus Notre Dame). Among the 120 universities apart from the Bowl Championship Series (BCS) conferences competing in the Football Bowl Subdivision (FBS), several programs in the Mid-American Conference (MAC), which have budgets in the \$20 million range, subsidize their programs in the 70-80% range.

Rutgers presumably seeks to realize intangible strategic advantages associated with prominence in athletics, benefits for an institution that are difficult to monetize, and ultimately grow out of the significant financial losses it is incurring. For MAC institutions, it is important to maintain a presence in the FBS, a marker of legitimacy as a leading university. Among large public universities, nearly all compete at the highest level, particularly the flagships that most MAC institutions aspire to emulate (at least to some degree) by adding doctoral programs and enhancing research. Why elite private institutions like Duke, Northwestern, and Vanderbilt likely subsidize athletics is more difficult to address, as they are not compelled to make public relevant data. But it is safe to conclude that they have reasons similar to those at Rutgers.

There are four sets of strategic advantages that prominent athletics affords universities (Toma, 2003). Each is connected to resource acquisition through effective external relations that enables the aspirations to national and international standing of otherwise local institutions. In other words, institutions leverage various intangible benefits connected with spectator sports in securing resources that serve broader institutional agendas.

Collegiate Ideal and Institutional Culture. Large universities must incorporate the collegiate atmosphere understood by the popular culture. Spectator sports enable expression of the collegiate ideal. Americans do not go to “university,” as in Europe, but to “college,” making athletics, like other expected non-academic pursuits, part of a legitimate university. Also, the forms institutional culture takes – symbols, language, narratives, and practices – are closely associated with athletics at large universities, with fewer opportunities for smaller, more intimate traditions (Trice & Bayer, 1993).

Institutional Legitimacy and National Brand. Institutions have what amounts to a national brand among popular audiences through athletics. For these audiences, participation adds distinctiveness and importance to campuses not necessarily nationally prominent in other areas. On a national level, spectator sports (along with geography) are what distinguish otherwise indistinguishable large universities (and otherwise indistinguishable states).

Local Involvement and Broad Accessibility. Spectator sports are accessible and relevant to local audiences in ways academic activities are not. They are what many “outsiders”

know and like about the institution, making “insiders” out of local communities that extend state or region wide. Athletics is a locus for many for the expression of the pride of place so critical in appeal for resources – and institutions regularly leverage such connections in external affairs.

Institutional Identification and Brand Equity. Athletics encourages identification with the institution among constituents. Sports enable them to relate to something that they perceive to be distinctive, central, and enduring, causing them to want to deepen and announce their affiliation. Similarly, strong brands created through athletics have tangible equity – awareness, associations, loyalty, and perceived quality (Aaker, 1996; Dutton, Dukerich, & Harquail, 1994; Toma, Dubrow, & Hartley, 2005).

Spectator sports are an historical accident, but one that provides opportunities in building campus community and enhancing external relations. These uses are intangible in nature but nevertheless perceived by institutions to be valuable. What value can an institution, particularly given aspirations to advance in prestige, put upon developing a national name? Similarly, what is it worth to enhance the appeal and accessibility of a university to area constituents? The research literature in higher education tends not to consider such questions directly.

Of additional note from the article and accompanying spreadsheet is that about one-third of the nearly 100 institutions listed subsidize athletics at less than 10% of operating revenues with effectively no subsidy at seven leading institutions and less than \$3 million at 15 programs. This pattern in the data clearly indicates that there are “haves” who can sustain extravagant athletics programs, “almost-haves” and “have-nots”. But as an industry, higher education is unwilling to make such distinctions. The FBS has institutions with budgets ranging from \$8-9 million at Arkansas State and Louisiana-Monroe to over \$100 million at Tennessee, Florida, Ohio State, Texas, and Alabama. All are deemed to be “big time” programs through their FBS membership.

Conference television contracts are similar in proportion. Beginning in 2009, the Southeastern Conference (SEC) began receiving \$55 million from CBS and \$150 million annually from ESPN-ABC through broadcast rights contracts – \$205 million in total. Splitting these revenues among the 12 athletics programs in the conference accounts for about \$17 million of their respective budgets. In contrast to the SEC, the Mountain West Conference television deal is closer to \$12 million per year, while the Western Athletic Conference contract is closer to \$4 million and the Mid-American Conference is about \$1.5 million. Bowl revenue is also apportioned to FBS conferences along these lines. Conference television revenue prompted the frenzy during Summer 2010, with the Big Ten inviting Nebraska to join as the twelfth member; the Pac 10 to purportedly invite Texas and five other Big 12 teams to form a 16-team “superconference,” before settling on adding Colorado and Utah; and the Big 12 thus on the brink of disbanding before deciding to stay with ten institutions.

In focusing on subsidies, the Lederman article frames the debate properly. There is increasing dialogue, driven by the most recent *Knight Commission on Intercollegiate Athletics* (2010) report about overspending on college sports. But there are several programs in which there is no evident financial problem perhaps other than sustaining what they have built. There is also equality of opportunity in athletics, as any institution can choose to invest in athletics as

they might other strategic activities such as enhancing student selectivity, research activity, or the endowment. Programs, like institutions, with lesser resources can compete in athletics, but those at the top have significant advantages. For instance, all but one of the national champions in football since 1998 have been in the top 20 in terms of level of resources devoted to athletics (Oriard, 2008).

It is impossible to appropriately consider the issue of overspending among the have-nots and almost-haves, as the Knight Commission argues, without embracing the fact that there is a meaningful, but unrecognized or ignored line between athletics programs that are subsidized and those able to generate sufficient resources to cover their expenses (and sometimes run a surplus). The problem then is not really the sustainability of intercollegiate athletics. It is instead whether institutions that must subsidize the enterprise to compete in the FBS are realizing sufficient intangible benefits that advance institutional aspirations toward greater prestige or have a reasonable prospect of someday doing so, thus justifying their athletics investment.

There are direct parallels to other university aspirations evidenced by the aggressive resource investments to advance institutional selectivity, research, and endowment. The arms race in athletics associated with facilities and compensation has direct parallels with trends on the academic side of institutions as they become more entrepreneurial and commercialized in response to increased competition. Institutional theory is correct here: universities are decidedly more interested in enhancing their prestige, and thus available resources, even when doing so may be inefficient.

There are the same proportional disparities in resources between large institutions and small ones as there are between and among athletics programs. For instance, the University of Michigan, the University of Wisconsin-Milwaukee, and the University of Wyoming would all label themselves as “research universities”. But Michigan had 20 times more in both research funding and endowment assets than UWM and Wyoming. Among the almost-haves in athletics, Virginia Tech was 50th in research funding at \$290 million and the University of California-San Francisco was 50th in endowment at \$1.2 billion – both about one-third of Michigan (Toma, 2009).

Various gaps in what we understand about athletics call for research. It is not enough to simply address, as does the recent Knight Commission report, what is happening, but is also essential to ask why matters such as aggressive spending are occurring. Similarly, it is straightforward, especially with relevant data now more available, to determine revenues, subsidies, and expenditures in athletics. The more interesting question is more challenging – what are the intangible benefits, if any, to institutions received in exchange for their investments in athletics? Finally, we tend to avoid questions about stratification among institutions in higher education, but the presence of have, almost-haves, and have-nots in athletics is paralleled in areas such as research expenditures and fund raising. Is such a situation inherent in American higher education?

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Discussion Questions

1. How much does isomorphism – institutions seeking to gain legitimacy and thus security through replicating leaders in an industry – drive have-nots and almost-haves to invest beyond their means in athletics?
2. Do institutions have a realistic alternative to investing in athletics, given the expectations generated by the popular culture and the need to generate external resources to sustain operations and enable ambitions?
3. Should higher education as an industry embrace more transparently the fact that not all universities who self proclaim to have “big time” athletics actually do?
4. Should the BCS be able to exclude, in effect, the other conferences on the basis of their investment in athletics being so much greater – or should all FBS programs have an equal opportunity to compete for a championship, as with the NCAA men's and women's basketball tournaments, even though larger programs almost always win?

5. What are the potential risks associated with investing in athletics – how much of a hit do institutions take when things go wrong, as with a scandal?
6. As institutions would need to band together to accomplish reform in an area such as athletics spending, is an appropriate coalition possible and who would be the logical entity to drive such a process?
7. Assess the circumstance of athletics on your campus. What strategy should leaders pursue given the position and aspirations of the institution?