Matt Mullane: "Athletic Departments and the Collegiate Financial Landscape"

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Millions of people across the nation watch collegiate sports every year. College athletics are exciting, entertaining, and provide a thrill for all spectators. Many people believe that all of these athletic departments they observe are making large sums of money. However, this belief must be revised. Many people do not understand how the athletic departments play into the collegiate financial landscape itself. The business landscape of universities is split into revenue and expenditures. Revenue includes sources such as tuition and fees and the expenditures include education and athletics. In order to grasp the full concept of athletics and finances at the college level, a person must first understand the business side of an institution. Another widely unknown area of information about athletics is their indirect effects on colleges. An athletic department's performance and expenditures can affect the collegiate financial landscape greatly. The effects of athletic departments on the financial side of the university are the main reason that the schools put so much effort into having successful athletics. The role that athletic departments play in the collegiate financial landscape is critical. Athletics can lead to positive effects on the university and thus everyone wants to be the best. College athletics play a huge role in the entertainment for the nation. However, athletic departments play an even bigger role in the collegiate financial landscape and thus, the success, or failure, of a university.

In order to fully understand how the athletic programs work into the college financial landscape, a person first must know how the business side of a public university works. Where does the money come from and where is the money spent? These are two important questions that must be answered in order to understand the financial side of college. The main sources of revenue for universities is primarily four fold. The four important components include tuition and fees, government grants/subsidies, endowments, and the athletic departments.

The first component, tuition and fees, makes up a substantial portion of the university's revenue. Tuition varies from institution to institution, and it is important to note the difference in out of state tuition and in-state tuition. Out of state tuition is by far greater than in-state tuition and therefore out of state students are desired more by universities in an attempt to gain more money. Students attending the university are charged with many different kinds of fees. One type of fees is athletic fees. They can vary in amount and one example is Virginia Tech against Longwood. Athletic fees for students are $267 at Virginia Tech in Blacksburg however they are $2,067 at Longwood in Farmville. These athletic fees are mandatory of students in an attempt to compensate for the costs of the athletic programs (Sherfinski). Along with athletic fees, colleges gain money from fees such as library fees, parking fees, health fees, technology fees, and more. Parking fees are common on commuter campuses and are optional if students would rather use a form of public transportation. Health fees will cover any student's needs for the campus health centers. These fees are meant to provide students with critical abilities needed for the college life and without the fees the students would not have what they need because the colleges would not be able to pay to provide them (Tuition and Fees).

Public universities have always had one of their main sources of support to come from the government. They are provided funding by the government through subsidies, grants, and appropriations. The government funding is split between the local, state, and federal categories. Although, the federal and state government support far outweigh the local government support. Funds from the government depend on factors such as the size of the university and the amount of research each school does. This causes government support to vary from institution to institution. The universities rely on the external support and without it they would have to seek private support elsewhere. Lately, universities have suffered budget cuts by the government and have had to search elsewhere for a share of that portion of their funding. Universities that are able to take on debt are not widely affected by this decrease in external support. However, those who have already reached their limits of debt are forced to look into other options. Government support is highly important when it comes to universities because without it they would be lacking revenue and debt could possibly increase(Kiley).

Endowments are a key source of revenue for colleges even though they are very complex. Donors give the money to the school but impose restrictions that the institutions are legally required to uphold. These donations deliver a permanent source of revenue to support the institution. Endowments contribute significantly to the operating budgets at the universities with large endowments. At some schools, endowments are the largest source of revenue for the institution. These gifts from donors go toward areas such as athletics, education, and facilities. They also help keep tuition at a sensible level. Donations can come from anyone but a large amount of donations come from alumni and boosters. Larger endowments lead to higher prosperity and greatly benefit institutions (Facts about College and University Endowments).

The last main source of money is the athletic department. One source of this revenue is the athletic department fees that were discussed earlier. However, the largest portion of this revenue is ticket sales for the athletic events the university holds. In order to attend any sporting event held by the university, a person must buy a ticket to the event. Another source is television agreements that schools make to have their sports teams televised. Many sports are televised for viewers to be able to watch their favorite teams and the teams make money by being on television. Another source is the athletic merchandise sold by the university. Merchandise can be made for any sport and can be purchased by any fan of the sport. Universities sell this merchandise on campus and profit greatly from the sales.

Now that the first side of the landscape has been explained, a person must also grasp an understanding of the other side, the expenditures. Where do colleges spend their money? Since there are various different places for the money to go, it is better to narrow the spending down into two main categories, education and athletics. In the education department schools spend money on a wide number of things such as classrooms, teachers, computer labs, technology, and more. Universities spend money on athletics through various forms such as facilities, faculty, stadiums, etc. All of this money is envisioned as being spent for the students. Most people think that schools spend more on education than athletics. This is because there are far more academic students than student athletes.However, **schools actually spend six times more per athlete than they spend on academic students**. In 2010, school spending per athlete exceeded 100,000 dollars. Over the span of five years from 2005 to 2010, athletic spending increased at a speed that was double that of academic spending on a per-student measurement. Athletic spending rose to 92,000 in institutions that compete in top-tier Football Bowl Subdivisions. In contrast, spending on education increased to almost 14,000 between 2005 and 2010 (Division I schools spend more on athletes than education).

A large part of university spending is the staff the university must pay to work for them. Faculty is needed in both athletics and education. However, it may not be as even as you think. For example, Ohio State has 192 staff members in their English Department, with a support staff of about 50. In the English department, the number of faculty makes the staff to student ratio 1-to-280. Now in the athletic departments, Ohio State lists 458 people that work for them. In terms of the football team, this makes the ratio of faculty to football athletes 1-to-5. **So this all adds up to the fact that Ohio State treats football as 56 times more important than English.**When thinking about the student body and the football team, the student body is substantially larger in number and would seem to demand more money. This is not the case, and it does not only occur at big time football schools. California has a 1-to-296 ratio when it comes to staff to students in the English department. While their football teams ratio of faculty to player is 1-to-4. This calculates out to the fact that California values football as 74 times more important than English. It raises questions for many people to consider how important those high numbered faculties are to the sports teams. Should the money be spent more towards academics? Are all the staff members really needed in the athletic department? These questions are even more popular now that the government is cutting back on many funds for colleges. When it comes to the expenditures for universities, athletics and education are two main components and athletics seem to have an edge in importance (Easterbrook).

Now that the two sides of the financial landscape of a public university are better understood, the question to consider is how important are athletic programs when it comes to profit. Do all schools profit from their athletic programs? Does every sports team make a profit? Well first, **only 23 of 228 athletic departments at NCAA Division I public schools produced enough money to cover their own expenses in 2012.** Of that 23, 16 received some sort of subsidy as well. The only schools to cover their expenses with revenue and also have zero subsidy money in 2012 were LSU, Nebraska, Ohio State, Oklahoma, Penn State, Purdue and Texas. So, surprisingly to most, it is very rare for a school to actually make money from their athletic programs. The 23 schools were all from “Big Conferences” in the Bowl Championship Series (BCS). Many people think that all school's athletic departments generate large amounts of profit. However, only 13 athletic departments exceed 100 million dollars in total revenue. Also, many universities receive subsidies and institutional funds to help cover the expenses of their athletic departments (Berkowitz, Upton and Brady). Debt is a rising concern for public universities and research shows that between 2004 and 2008, the debt rose 56 percent to 178 million. Financial debt is weighing down on public universities as their expenses are far more than their revenue. Research shows that when major projects are in the works, the debt spikes as universities are spending way more in order to possibly make more in the future. The debt problem can be seen when looking at Oklahoma State over a five year period. From 2003-2008, the Oklahoma State University Athletics Department increased its budget by 65 percent. However its losses tripled during that period. Their losses went from 3.4 million in 2003 to 11 million in 2008. The revenue did increase, going from 24.4 million to 34.9 million. The problem was that expenses increased even more, going from 27.9 million to 46 million (Sander and Wolverton).

Oklahoma State University Athletic Department 2003-2008 Expenses, Revenue, and Net Losses

(in millions of dollars)

	Expenses	Revenue	Net Losses
2003	27.9	24.4	3.4
2004	33.1	27.5	5.6
2005	35.0	30.5	4.4
2006	33.5	27.3	6.2
2007	38.3	31.6	6.7
2008	46.0	34.9	11.0

Universities are losing money in their athletic departments and it’s not just something that happened in 2012. It was a problem in 2009 as well where 106 of the 120 athletic departments of I-A football lost money. Some sports are even being forced to be cut because of it. The University of California was forced to cut five sports in 2009. The losses sometimes are forced on schools just for playing games. In 2010, Ohio State lost nearly 80,000 dollars just for making it to the Rose Bowl. They earned 18.5 million for going to the game, however that went to the Big Ten Conference where it was divided among the schools and the league office. So Ohio State received only 2.2 million dollars and was forced to spend more than that on the bill to just make the trip. The losses of money by many athletic departments is a serious issue and possibilities to fix the problem have been looked in to. In 2005, Big Ten Commission Jim Delany spoke to Congress and suggested that a playoff in college football could generate three or four times more money than the current system does. This could possibly allow most teams to walk away with profit from succeeding enough in the season and making it to a big time bowl game. Unlike what happened to Ohio State where they actually lost money because of it. Athletic departments continue to suffer and debt weighs heavily on most. A very small percentage is lucky enough to actually make a profit off of their athletic programs (Murphy and Wetzel).

Another part of the discussion about the profit and expenses of athletic departments is which sports make money and which sports lose money. It may seem that there are many sports that are sure to make a profit from their ticket sales, merchandise, and other forms of revenue. However, mainly only two sports tend to make a profit. Those two are football and basketball. Some people think that really good baseball, soccer, hockey, or golf teams would make money as well but this is not the case. According to statistics in the “NCAA Revenue/Expense Division I report”, the median net revenue for college football in 2010 was 3.15 million per school. 43% of the teams in the BCS division for football generated a negative median net revenue of 2.87 million dollars in losses. The bigger schools that receive higher attention and have more fans because they are more known, obviously make more money off of football. However, those schools tend to have higher expenses as well. In basketball, there is an advantage when it comes to ticket sales. At the end of the season, March Madness provides the teams with a tournament that gives them more games to possibly play, and thus, more ticket and merchandise sales. However, it also leads to more expenses as schools spend more so they can compete. Considering the same schools from the BCS division of football, there was a median net generated revenue of 788,000 dollars per school. The same as in football, because some schools make much more than others, 44% of the schools being considered actually produced a negative median net revenue of 975,000 dollars. When the money is all put together from the big schools and the small schools in basketball and football, statistics show that some profit was created when it is consider in the terms of "per school". However many schools didn't even make money in the two sports that tend to actually make a profit. When revenue is considered, only two sports are really sources. Basketball and football do tend to make some revenue. Although, when it comes down to it, college sports are a losing cause financially. This is because even with the basketball and football profit, almost every other sports program within the university creates losses. This is the cause of the overall losses in athletic departments for many schools (How Much Revenue Do College Sports Produce).

The discovery of the fact that most universities actually lose money through their athletic programs makes people wonder why athletics are so desired and why schools spend so much on them. Another question that is pondered is whether or not performance in athletics affects the financial landscape as a whole. The solution to these answers is that athletics are important because of the indirect effects that benefit the college's financial landscape. One indirect effect influenced by performance are the endowments a school receives. Studies of Clemson University showed that success by the football team increased contributions to the school. Another study of

Northwestern showed that after its 1995 Rose Bowl appearance, the endowment level of the school soared. A third study concluded that a seven percent increase in alumni donations is an indirect effect of a football team winning a bowl game. Alumni and other donors will increase contributions if the university's sports teams are more successful. Since endowments play a crucial role in an institution's revenue and can be affected by athletics, a university's desire in athletics is high. Another indirect effect occurs in the government support department. Since government support depends on factors such as the amount of research a school does and the size of the university, this source of revenue can be indirectly affected by athletics. The athletic department's growth will lead to institutional growth which can then possibly result in growth of government support. Research shows that out of the 570 public universities considered, the ones with Division I football teams received around eight percent more money in appropriations from their state legislature than universities who did not participate in Division I football. When the University of Connecticut won the National Championship in men's and women's basketball, they obtained an additional billion dollars from the state legislature. The victories made the university more popular and institutional growth was a result which led to the additional legislature support. If a school's athletic department grows or succeeds, this could lead to institutional growth, which opens the door to a possible increase in government funding. With two components of revenue, endowments and government support, being affected by the athletic performance of a school, the third indirect effect of athletic success is of very high importance.

The third indirect effect is the effect on applications, enrollment, and therefore, the number of students attending the university. Research from 2004 found that universities who compete in Division I sports attract more applications and have students with higher average SAT scores than institutions who do not participate in Division I sports. Another study found that since there is higher desire to attend big time athletic universities, those universities can charge more in tuition and fees. Not only can these schools raise their tuition and fee prices, they can also raise their standards for college applicants because the number of applications rises. In 1983 when North Carolina State won the NCAA men's basketball championship, applications rose by 40 percent. This gives schools more possibilities to choose from, and when they have more possibilities, they can raise their standards in the applicants. Financially wise, the rise in applicants will lead to rises in tuition and fees since there are more students attending as well as a higher demand to attend the school and this will help the college's monetary funds. With more applications, average scores of the accepted will go up along with the amount of tuition the college receives (Getz and Siegfried). Another important aspect to consider when it comes to tuition is how success in athletics affects the number of out of state enrollees. Universities obviously want to attract the most out of state students as possible because they are worth more money. A study investigated whether or not success in Division I Collegiate Basketball affects out of state enrollment. The results showed that an increase in the number of rounds a team played in the NCAA basketball tournament led to an increase in the percent of out of state enrollees (Pope and Pope). People want to go to schools that have big time sports teams and research reflects that statement. If athletics are better, applications from in-state and out of state students increase, which leads to an increase in standards for applicants, an increase the number of students at the school, and an increase in tuition revenue. All of these indirect effects benefit the schools that have the best athletic programs. Not only in the student aspect discussed here, but also in the donations and government support aspects discussed earlier.

The indirect effects are the reason that universities spend such high amounts of money on athletics. The athletic market is very competitive economically because there can only be one winner, one national champion. The difficulty in athletics is that the champion's throne is what is valuable. If your athletic teams are the best, your school makes more. Thus, universities spend extensive amounts of money on athletics in an attempt to be the best. Every school wants to have the nicest stadium, the nicest facilities, and the best coaches in order to have the best teams. When schools do not succeed in athletics, they are tempted to invest in improving their chances to win. They spend large sums of money on the construction of stadiums and facilities in order to attract athletes and students to the school. With nicer stadiums and athletic facilities, the best athletes may be attracted to their school instead of another. Also, bigger stadiums means more ticket sale revenue. Unsuccessful athletics causes schools to raise coaching salaries in order to strengthen morale, or it can even cause universities to actually hire more expensive coaches. These investments are an attempt to better athletic programs, which indirectly will lead to a better financial landscape for the college. This is why universities spend so much on athletics. By spending on athletics, the university is investing, and this investing can possibly lead to great benefits (Getz and Siegfried).

Collegiate sports provide high entertainment for any viewer. However, as many viewers do not know, athletic departments play a huge role in the financial landscape of universities. Athletics play such a large role because of their indirect effects. These indirect benefits can come in endowments, government support, and tuition. Those departments are huge sources of revenue for universities. As revenue is one side of the financial landscape for universities, the expenditure side is the other. The expenditure side is made up of athletics and education. Many think that since universities have more academic students than student athletes, more money goes towards education but it is actually the opposite. Another misconception is that all athletic departments make a profit. **Only 23 of 228 Division I universities made money**

through their athletic departments in 2012. Aside from football and basketball, most other sports actually lose money no matter what school it is. **However, athletics are of high desire because of their valuable indirect benefits.** The indirect benefits result from having the most success therefore universities spend large amounts in an attempt to be on top. If your investment strategy pays off and your athletic department succeeds, the indirect benefits will be substantial. Since college athletics is a highly competitive market and every university desires to be the best in order to receive the most financial benefits, athletic departments play a huge role in the collegiate financial landscape.

Matt Mullane is an upcoming star in the sports writing world. He is a freshman at Florida State University and majoring in accounting. He enjoys all sports but his favorite sports are collegiate sports. His favorite two sports are college football and college basketball. He has been raised an Alabama fan but is learning to become a Seminole fan. In his free time, he enjoys watching sports and hanging out with friends.

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