Financial Management of Intercollegiate Athletics Mirrors Institutional Financial Management

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In Hamilton Chapter of Alpha Delta Phi et al. v. Hamilton College et al., 128 F. 3d 59 (2d Cir. 1997), Judge Gleeson emphasized that "certain activities in higher education are so proprietary in nature that the applicability of the Sherman Act is not even questioned." He anchored the commercial end of the continuum by citing National Collegiate Athletic Association v. Board of Regents of the University of Oklahoma et al,. 468 U.S. 85 (1984), a successful Anti-trust challenge to the NCAA's tight regulation of televised college football. Yet similarly in Hamilton the court found Anti-Trust liability where the college had enacted a mandatory room and board policy for all students, thus restricting output and price in housing and dining services.

The close parallel of the two cases is one of many ways in which not only the legal affairs, but the financial management of intercollegiate athletics mirrors that of the sponsoring institutions. Hansmann (1980) has distinguished two types of not for profit organizations: donative, which are traditional charities, and commercial, which do not seek profit but sell some good or service. Both major college athletic departments and their institutions are hybrid not for profit organizations, in that each has some donative and some commercial aspects of operations. The most universal commercial activity on campus is the sale of instruction for the price of tuition. The traditional commercial pursuit in athletics is found in revenue derived from ticket sales. Tuition at four-year public universities increased by an average of 15 percent between 2008 and 2010 (Armario, 2012). The University of Texas, which led the nation in total athletic revenues with $150.3 million in 2011, derived the largest portion from ticket sales of $61.2 million (USA Today, 2012, citing data from NCAA Dashboard).

Both institutions and their athletic departments claim a source of revenue that has been rising rapidly in the last generation. The Bayh-Dole Act (1980), which provided that universities, among others, may own the intellectual property derived from research funded by the Federal government, has catalyzed externally sponsored research. Total sponsored research at the University of Michigan amounted to $1.07 billion for the fiscal year 2011. In athletics, revenues from media rights have exploded, attributable to the aforementioned decision of the Supreme Court opening televised college football, the rise of ESPN and other sport channels, and the outsourcing of radio coverage to contractors such as IMG. The University of Michigan ranked fifth in total athletic revenues in 2011, generating the highest revenues in the nation from media rights and licensing, $46.7 million (USA Today, 2012). However, institutions and their athletic departments continue to reflect characteristics of the donative not for profit, relying heavily on philanthropy. The University of Michigan had the second largest public university endowment for the fiscal year 2011, with assets valued at $7.8 billion, a 19.4 percent increase over the prior year (National Association of College and University Business Officers, 2012). Contributions to athletic departments take two forms, one in connection with priority seating programs, the other constituting outright donations. The contributions for priority seating generally are 80 percent deductible by the donor, with the remainder considered an imputed purchase price of the related tickets. The University of Florida received the largest total contributions to athletics in 2011, $42.0 million (USA Today, 2012).

Both public institutions and their athletic departments have achieved a measure of self-sufficiency: institutions from their states and athletic departments from their sponsoring institutions. For the fiscal year 2011, the University of Michigan received $362 million in state appropriations. Excluding net patient care revenues of $2.4 billion, total institutional revenues amounted to $4.5 billion, meaning state appropriations approximated 8 percent of non-hospital revenue (University of Michigan, 2011). Similarly, among the ten athletic departments with the highest total revenues, five had no institutional subsidy and none larger than the 4.2 percent subsidy at the University of Alabama (USA Today, 2012).

The authors will compare financial data of athletic departments with financial data of their institutions. Archival data

for the athletic departments will be derived from the website: http://www.usatoday.com/sports/college/story/2012-05-14/ncaa-college-athletics-finances-database/54955804/1. Archival data for the institutions will be retrieved from their financial statements, chiefly statements of revenues, expenses and changes in net assets. The authors will use a purposeful sample of 75 public institutions of higher education with the highest total athletic revenues. Data for athletic operations of private institutions are not in the public domain, hence their exclusion from the study. The authors will use longitudinal analyses to compare trends for the fiscal years 2006 to 2011 for the following: (1) ticket sales revenues and tuition revenues; (2) media rights and licensing revenues of athletics and grants and contracts revenues of institutions; (3) contributions to athletics and revenues from gifts to institutions; and (4) percentage of total athletic revenues derived from institutional subsidy and state appropriations as a percentage of total institutional revenues.

Both athletic departments and their institutions have weathered a prolonged economic downturn by maximizing revenues. In spite of this, both have preserved their tax exempt status. Athletic departments have sustained their not for profit character by subsidizing sports that do not generate revenue with surplus from men's basketball or football. Institutions have justified their charitable status through service, outreach, and other public engagement.