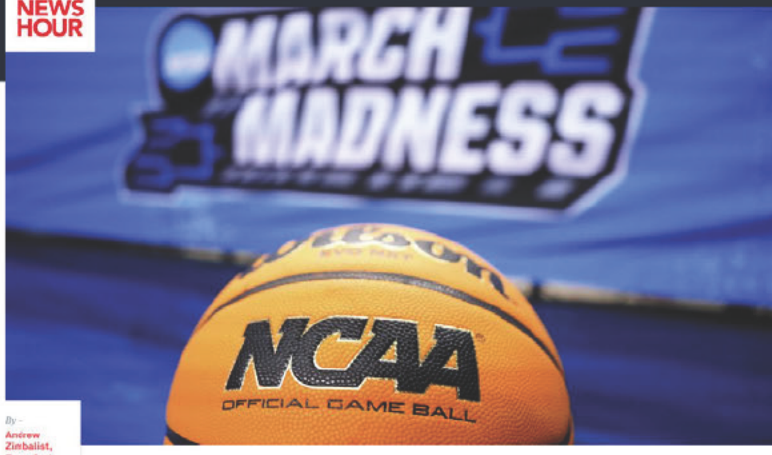

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Left: NCAA March Madness during a practiceat Greensboro Coliseum in Greensboro, North Carolina, March 16, 2023. Photo by Bob Donnan/USA TODAY Sports via Getty Images

By – Andrew Zimbalist, Econofact

Analysis: Who is winning in the high-revenue world of college sports?

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The Issue:

The U.S. hyper-commercialized system of college sports, which does not exist anywhere else in the world, is in a period of overarching transition and deep financial crisis. A select share of Division I college athletes produce billions of dollars of revenue every year for their schools. Almost all of this revenue comes from football and men's basketball.

And yet, expenditures by college athletics departments are such that, with the exception of a small number of schools, athletic expenses surpass revenues at the overwhelming majority of Division I programs. The median salary of head football coaches in the Division I Football Subdivision (FBS) is above $3.5 million, along with handsome perks and bonus provisions.

Due to longstanding rules of amateurism, the athletes themselves do not receive a salary even though some have an estimated market value of several million dollars. But change is coming. Even if it is in uneven fits and starts.

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The Facts:

- **Division I athletics generated $15.8 billion in revenues in 2019, according to the National Collegiate Athletic Association (NCAA), which regulates student athletics among 1,100 colleges and universities.** The NCAA report cites pre-pandemic data because 2019-20 and 2020-21 were outlier years. Men's basketball and football generate the vast majority of revenues with media rights, bowl revenues, ticket sales, royalties and licensing, donor contributions and other sources accounting for more than half of these revenues. Institution and government support as well as student fees accounted for the remaining 44 percent of the cash inflows to Division I athletic departments in 2019, according to the NCAA.
- **A combination of factors have contributed to generating revenues in the billions of dollars for some college sports.** Football is the highest grossing sport by far. Men's basketball, which brings the NCAA around one billion in revenues during March Madness, is second. Over the past forty years, several factors have increased opportunities to make money from college sports. The 1984 Supreme Court ruling on *NCAA v. Board of Regents of the University of Oklahoma* validated a competitive market for college sports television rights (see here). Football has benefited

enormously from the growth of television sports with the emergence of ESPN, cable sports, and regional sports channels in the 1980s; video replay technology in the 1990s and 2000s; and the introduction of streaming in the past 10 years (listen here). Moreover, the increase in college enrollment has expanded the potential audience and many U.S. universities and the NCAA have been willing participants in the commercialization of big-time college sports.

- **Even as commercial revenue streams have grown for top-billing football and men's basketball, athletic expenditures exceed revenues at the vast majority of schools.** In 2019, only 25 of 130 schools in the high-grossing Football Bowl Subdivision (FBS) whose members are large, mostly public universities (with some exceptions such as Notre Dame, Northwestern, and Stanford) reported positive net revenues (see here). In fact, the median athletic program in FBS in 2019 (the last pre-pandemic year) had an operating deficit of $18.8 million. The same was true in the other two Division I subdivisions: among the 125 schools of the Football Championship Subdivision (FCS) the median program ran a deficit of $14.3 million, and in DI without football (94 schools) it was of $14.4 million. Large and persistent athletic department deficits lead schools to increase student athletic fees (many exceed $1000 per student yearly) and contribute to increases in tuition. As the cost of attending college rises, so does student debt which reached a record of over $1.6 trillion in the United States in 2021.
- **Athletic departments are embedded in much larger non-profit institutions so their incentives and accounting are different from most businesses and professional sports.** Athletic departments do not have stockholders who demand bottom-line profits; instead they have stakeholders (boosters, alumni, students, administrators) who demand victories. Since players cannot be paid by the school, schools compete for players by employing famous coaches, building fancy facilities, providing perks such as unlimited "educationally-tethered" benefits, and awards of up to $5,980 for maintaining a C grade point average. As a result, athletic directors deploy funds to promote more victories and athletic departments run at substantial losses. It is possible that participating in big-time Division I sports also brings colleges returns beyond those captured by traditional revenue streams including boosting the image of the school, increasing student applications and enrollment, and increasing alumni donations. However, research finds the effect of participating in high-profile athletic contests on private donations range from no impact to a modest increase, or negative impacts when a team performs poorly (see here). Increases in donations to programs that compete in football bowls tend to be irregular and directed to athletic departments and may not provide as much benefit to the university overall. Any such donations are included in the reported athletic department's revenues. Competition in high-profile sports can boost a university's image but it can also expose it to negative publicity from coverage of cheating scandals and other negative news. And while there is uneven evidence that football and basketball wins increase the quantity of applications to Division I schools, the effect is relatively modest and short-lived.
- **The highest-grossing college athletes reap only a very small share of the revenues they generate during their college careers.** Of the $15.8 billion in revenues that went to the NCAA's Division I athletics enterprise in 2019, only $2.9 billion — 18.2 percent — was returned to athletes in the form of athletics scholarships and 1 percent spent on medical treatment and insurance protections. In contrast, 35 percent was spent on administrative and coach compensation and 18 percent on lavish facilities (see here). And, what goes to college athletes is distributed among men's and women's teams in many other Division I sports — such as track, lacrosse, field hockey, swimming, and wrestling — that do not generate the same revenues as football or men's basketball. A recent player-level analysis finds that the existing restrictions on paying college athletes effectively transfers resources away from students who are more likely to be black and more likely to come from poor neighborhoods towards students who are more likely to be white and come from higher-income neighborhoods.
- **Division I college football and basketball players face limited prospects after college. Fewer than 2 percent of college football and men's basketball athletes ever play a single game in the professional National Football League (NFL) or National Basketball Association (NBA).** In the existing system, the NFL and the NBA benefit enormously from the physical and emotional development of future players, as well as the

branding these players receive. The NFL and NBA pay nothing for this, unlike the situation in Major League Baseball where the average team spends upwards of $30 million annually on player development via the minor leagues and signing bonuses. And many of the college athletes who do not wind up playing in the professional leagues also do not have the backup of a valid education and bachelor's degree. The NCAA graduation rate statistics significantly overstate academic success of athletes and, by aggregating graduation results over all the NCAA sports, obscure the particularly low graduation success of the athletes in the highest-revenue generating sports: 52 percent of all NCAA Division-I men's basketball players and 38 percent of all Division-I football players who were full-scholarship recipients and required to be full-time students did not graduate as estimated using the Federal Graduation Rate (author's calculations using the NCAA Division I Graduation Rates Database – Based on 2018-2021 Federal Graduation Rate average of 2011-14 entering six-year cohorts).

- **Player compensation is currently in a rapidly changing landscape due to recent state legislation, court decisions, and pending cases.** Due to recent antitrust cases against the NCAA and state legislative action, students are now allowed to receive "cost of attendance" stipends up to approximately $6,000, unlimited educationally-tethered benefits, educational awards, and to receive payment for their name, image and likeness from third parties. Reportedly, some college athletes are now earning seven figures. Since payment is from third parties, the athletes can continue to remain students at, rather than employees of, the university. The House antitrust case currently in the 9th Circuit seeks 50 percent of television revenue to go to athlete compensation and the Johnson case in the 3rd Circuit seeks to have athletes declared employees under the Fair Labor Standards Act, and, hence, to be covered by minimum wages, overtime, worker's compensation and unemployment insurance. If athletes are paid by the university in any of these forms, it is likely that all income will be taxable (in contrast to current tuition scholarships).

What this Means:

There appears to be an **economic case to pay the student athletes**, particularly in revenue producing sports. The questions that beg attention are: Where will the money come from? What institutions and principles will govern how students are paid and how the pay is distributed? If the athletes unionize, what will be the bargaining unit? Will embracing further marketization move the athletes on certain teams further away from receiving a robust education and a degree?

One thing is clear: change will come. Fundamentally, the choices are to move toward unfettered commercialization, allowing relatively free and open labor markets for the athletes, or to move toward a more controlled system that caps expenditures, re-emphasizes education and provides adequate short- and long-term medical coverage to the athletes. The latter path would include committing sufficient funds to enhance athlete education, for comprehensive injury and medical care, and to pay for loss of income insurance to promising athletes whose careers were aborted by injury in college. This path would attempt to resurrect the central purpose of college sports as an extracurricular activity in the university, where students are devoted to learning and live a relatively sedentary and cerebral life.

To be legally acceptable, the NCAA would need a limited antitrust exemption to control coaches' and administrators' compensation. The NCAA functions principally as a trade association for coaches, athletic directors and conference commissioners and is unlikely to generate fundamental reform on its own volition. More recent experience indicates that leaving the structure of college sports up to judges is time consuming, very expensive, confusing, and capricious. Nothing is easy in Washington, D.C. these days, but Congress is the most promising venue for defining a coherent and financially viable system for intercollegiate athletics in the 21st Century.

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