

College Sports Are Big Business, but Not Nearly as Big as College Itself

Fans flock to stadiums, arenas, and TVs, and the money rolls into major athletic departments even as higher education budgets are squeezed

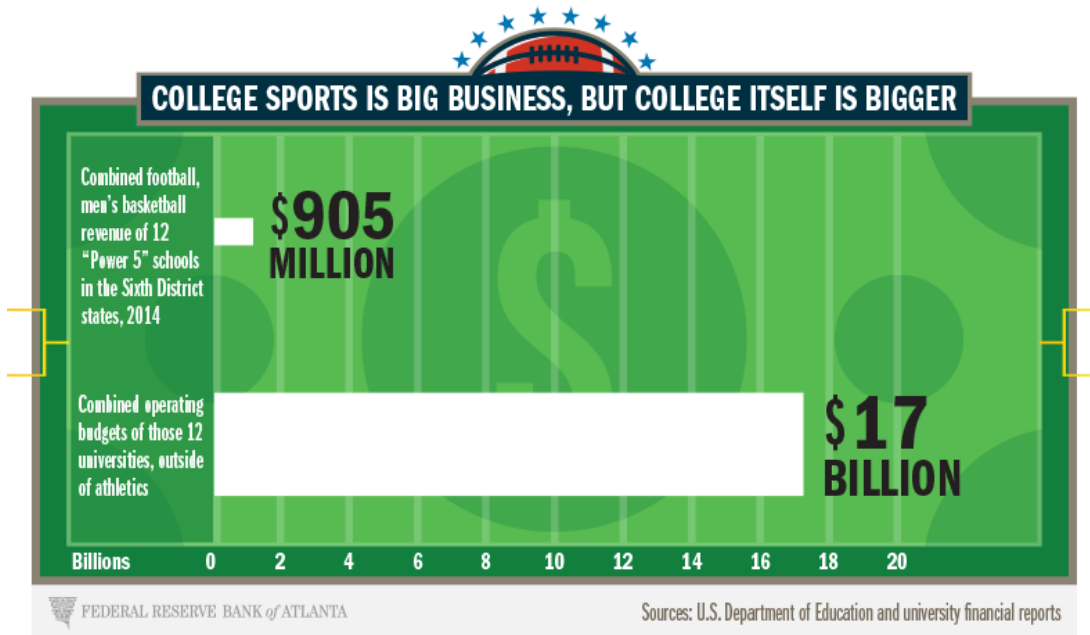
November 28, 2016



On autumn Saturdays, half a million or so people in the Southeast gather to scream, clap, boo, curse, and chant mantras.

Half of those half million go to bed smiling—their team won. The other half is less pleased. One thing they all do, though, is spend money attending college football games. Millions more across the country watch on television, programming that the TV networks pay dearly to broadcast. Big media firms figure to profit by selling commercial time at six figures for 30-second spots.

College sports at the highest level are indeed big business, and perhaps nowhere more than in the Southeast.* Yet the universities themselves have a far larger economic imprint on their communities and states than their famous football and basketball teams. By one simple measure, the impact may be about 17 times as big. (See the infographic.)



Nearly a billion in football, hoops money

That's not to say sports isn't lucrative at the highest level of the college games. The dozen top-level university athletic departments in the region together brought in nearly a billion dollars in 2014 from the major revenue-generating sports of football and men's basketball, according to U.S. Department of Education figures. The take at the dozen schools rose more than 80 percent over 10 years, after adjusting for inflation, while expenses climbed even faster.

College football, especially, is embedded in not just the wallets but also the culture of the Southeast. But along with money, the outsize profile of collegiate sports attracts scrutiny. Many observers lament the financial might of quasi-professional sports entertainment on campuses that have cut academic departments and rely increasingly on lower-paid, part-time faculty in the face of reduced state spending on higher education.

There is an opposing view. Some researchers contend that winning football and men's basketball teams garner publicity that helps universities expand their student applicant pools. Some powerhouse programs even funnel money into academics. The athletic department at Louisiana State University (LSU) channels at least \$7.2 million a year to the school as part of a five-year agreement [approved in 2012](#) to help offset severe state budget cuts.

LSU, however, is among comparatively few schools playing big-money sports. Most colleges actually spend, and lose, money on their athletic programs, according to the *Chronicle of Higher Education*, among others. And even the millions generated by giants of the "Power 5" football conferences amount to a small percentage of overall university budgets. Thus, while every dollar surely helps, the quest for athletic glory generally does not produce a significant boost to overall university finances, says Joel Maxcy, head of the Sport Management Department at Drexel University and [a recent speaker at the Atlanta Fed's Public Affairs Forum](#).

"It's not something that really helps schools offset state budget cuts, which have been across the board for universities," says Maxcy.

Benefits come in other areas, though. Butler University estimates it garnered television exposure worth \$1 billion from trips to college basketball's championship game in 2010 and 2011, which led to a 40 percent increase in student applicants, for example. Other schools, including Texas Christian University, Virginia Tech, and Alabama, have seen applicant numbers rise in part because of football success, Maxcy says. Officials at Alabama largely credit the school's successful football team for a substantial increase over the past several years in out-of-state students, who pay higher tuition than in-state students.

Plus, winning teams unite students, alumni, and university communities. These intangible benefits are difficult to quantify, Maxcy acknowledges, but appear to be real. And while there is a clear link between winning and heftier donations to athletic programs, it's unclear whether sports victories translate into more generous alumni giving to academic programs, he explains.



Nearly a million people attend University of Florida sporting events annually, spending about \$70 million. Visitors to educational and cultural events, including hospital visits, spend \$185 million, according to university figures. (Photo courtesy University of Florida)

Head coaches are big financial winners

It's clear that money keeps flowing in college sports. Four of the 14 Southeastern Conference (SEC) schools have on-campus football stadiums that seat more than 100,000 people, while several others accommodate 80,000-plus. They are typically sold out. Average annual pay for the league's head football coaches is \$4.1 million a year, according to *USA Today*. Athletic departments also heavily reinvest in facilities, Maxcy says. Many Division 1 schools across the country boast not only mammoth stadiums with luxury suites and state-of-the-art video boards, but also lavish office and locker room complexes featuring indoor waterfalls, golf simulators, and laser tag.

Such splendor can seem incongruous with the realities of higher education funding. In response to lower tax revenues amid the Great Recession, Southeast states slashed higher education budgets and many have not fully restored them. Between 2008 and 2015, cuts in per-student state funding for public colleges ranged from 39 percent in Louisiana to 18 percent in Tennessee, according to the [Center on Budget and Policy Priorities](#), a nonpartisan research institute in Washington, D.C.

Meanwhile, the money pouring into top-level collegiate football and basketball programs hardly slowed. At the elite athletic schools, most of that money comes not from public coffers, but from alumni, fans, broadcasters, and corporate sponsors like apparel firms. Yet outside of the very top tier of collegiate athletic departments, schools spend millions in student fees and other monies to sustain their sports programs. Among more than 1,000 members of the National Collegiate Athletic Association, only 66 play football in the "Power 5" leagues that dominate air time and championships, and about 300 play in the highest basketball classification.

"It's a big business at a small fraction (of schools), but a really visible and important one," Maxcy says.



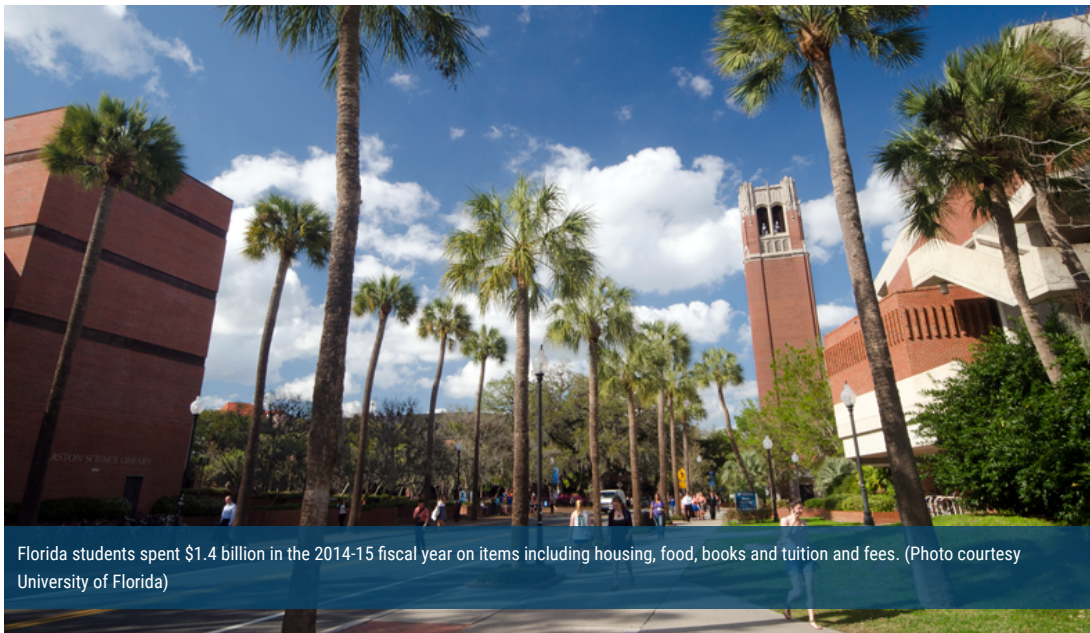
LSU's athletic department contributes at least \$7.2 million a year to the school as part of a five-year agreement approved in 2012 to help offset severe state budget cuts. (Photo courtesy Louisiana State University)

Even at the majority of schools that must subsidize sports, the goal is largely the same: visibility. More and more schools continue to initiate football programs. Georgia's Kennesaw State and Georgia State universities, and the private Mercer University, all launched football programs in the past several years. Georgia State and Kennesaw both poured millions into football from fees paid by students, part of the \$10.3 billion public universities themselves channeled to athletics between 2010 and 2014, according to the *Chronicle of Higher Education*.

Where some see a misguided effort to keep up with far bigger athletic programs, administrators appear to see real value. Despite Louisiana's well-publicized higher education funding crisis, smaller state schools in recent years continued spending on athletics. "You think about sports doing well, you get exposure there that you otherwise couldn't pay to get," Sam Domiano, vice president of administration and finance at Southeastern Louisiana University, told *The Advocate* newspaper in February. "The university might not otherwise be receiving some of that."

Devoting limited college resources to athletics strikes some researchers as ill-advised. [A 2013 study](#) by Donna M. Desrochers of the American Institutes for Research points out that athletic departments on average spend three to six times more per athlete than institutions spend to educate the average student. "College athletics certainly provide nonfinancial benefits that are important to institutions, such as campus spirit, name recognition, and reputation," wrote Desrochers, a principal researcher at the institute. "But other campus benefits appear modest, with boosts in applications, enrollments, or fundraising often a short-lived bonus resulting from a championship season."

Nonetheless, basic economic theory, Maxcy says, suggests that university administrators continue spending on athletics because they truly believe the benefits outweigh the costs.



Florida students spent \$1.4 billion in the 2014-15 fiscal year on items including housing, food, books and tuition and fees. (Photo courtesy University of Florida)

Sports dollars are big, but not compared to overall university budgets

Context is important. Nine of the dozen Power 5 schools in the Southeast are members of the SEC and three are in the Atlantic Coast Conference. Those 12 universities—10 public institutions and the University of Miami and Vanderbilt University—took in cumulative revenues of \$905 million in 2014 from football and men's basketball. In real, inflation-adjusted 2014 dollars, the 2014 figure represented an 82 percent increase in 10 years.

A billion bucks, give or take, is serious money. But in the same fiscal year when the big-money sports schools generated those revenues, the combined operating expenses of the 12 universities topped \$17 billion, according to the schools' financial statements. For instance, LSU athletics' \$10 million contribution to the university in 2015 was no doubt welcome, yet it constituted a small percentage of the school's roughly \$800 million operating budget.

At LSU and other universities, the biggest share of spending is on salaries and benefits for faculty and staff. So while sports are highly visible, and throngs of fans doubtless create an economic boost for college towns, the actual operations of universities appear more economically significant than ball games.

Consider Gainesville, home of the University of Florida (UF) and a metropolitan area of 277,000 people. Gator football and men's basketball revenues totaled more than \$85 million in 2014, according to U.S. Department of Education data. Fans attending UF sporting events spent about \$70 million in Gainesville in the 2014–15 fiscal year, according to a university study. At the same time, though, the university's outlay for employee compensation and benefits was \$1.8 billion, accounting for nearly a fifth of all personal income in the Gainesville metro area in 2014, according to figures from the university and the U.S. Bureau of Economic Analysis. Including nonpermanent employees such as students, the university and affiliated organizations, notably a hospital, provide more than a quarter of the metro area's nonfarm employment.



This might not make compelling TV, but university operations across the Southeast have a bigger economic impact than do sports. (Photo courtesy University of Florida)

Sports might not help, probably don't hurt academics

The economics of college sports are compelling, at least for the comparatively few big-revenue athletic schools. But some researchers believe high-profile sports hinder a university's educational mission. Murray Sperber, a longtime Indiana University professor and now a visiting professor in the University of California Berkeley's Cultural Studies of Sport in Education program, wrote a landmark book on the subject, *Beer and Circus: How Big-Time College Sports Is Crippling Undergraduate Education*.

In a memorable passage, Sperber writes, "Many universities, because of their emphasis on their research and graduate programs, and because of their inability to provide quality undergraduate education to most of their students, spend increasing amounts of money on their athletic departments, and use big-time college sports ... to keep their students happy and distracted and the tuition dollars rolling in."

Distracted and happy may be no way to go through life. Nevertheless, it's hard to firmly establish a relationship, good or bad, between sports and the quality of a school's academics, Maxcy says. Sure, he posits, it would be wonderful if all campuses were teeming with intellectually curious students pursuing knowledge purely for knowledge's sake. But many students enjoy their diversions, and want them in a college, he adds. In the end, Maxcy figures, winning teams may not help universities academically, but they don't seem to hurt, either.

Regardless, the "circus" is unlikely to leave town soon. Not with financial arrangements in place like the SEC's two-year-old television platform. A collaboration between the conference and ESPN, the SEC Network is already generating subscriber fees of about \$550 million a year, according to media reports, and more than a decade remains on league TV contracts adding up to nearly \$3 billion.

*The Southeast refers to the six states of the Atlanta Fed's district: Alabama, Florida, Georgia, Louisiana, Mississippi, and Tennessee.



Charles Davidson

Staff writer for *Economy Matters*

RELATED LINK: Public Affairs Forum, "[The Economics of College Sports](#)" (October 26, 2016)