THE DRAKE GROUP
Advancing Positive Legislative Change In College Athletics

October 24, 2024

Issue Report #8
Helping Congress Deal with College Athletics Financial Issues

The Drake Group (TDG) works with Congress on critical issues related to the conduct of collegiate athletics programs. Starting at the beginning of each academic year, we report on the top concerns we are addressing with members of Congress and executive agencies. This is report eight of ten.

Issue #8. Critical College Sport Financial Issues—Can Congress Help? For the past three years Congress has been besieged with issues related to college athlete compensation and benefits. No less than 29 bills dealing with athlete outside employment, name, image, and likeness (NIL) rights, medical benefits, gender equity, gambling, and financial reporting have been filed or announced—all with financial implications for higher education. External booster organizations ("NIL collectives") have been offering significant dollars or gifts under the guise of employment to assist schools in recruiting high school athletes, encouraging athletes to transfer. and helping college coaches retain their current athletes. Current NCAA rules do not permit "pay for play" but schools are seriously considering athlete employment and running athletic programs like professional sports. Lavish salaries to coaches and athletic directors and miniscule dollars spent on scholarships and medical benefits for athletes have been significant issues for three decades.

States have enacted laws allowing college athletes to receive unlimited NIL compensation and even permitting pay for play. The NCAA and its member institutions are facing antitrust lawsuits that could cost billions of dollars in past damages and future athlete compensation. Many have climbed onto the bandwagon arguing for athlete unionization and collective bargaining. Legislators argue that too many athletic programs are highly subsidized by non-athletics generated funds, depleting resources that could be spent on other areas of the institution. The NCAA and athletic directors are asking Congress for an antitrust exemption to protect them from lawsuits costing billions of dollars in damages.

What The Drake Group is Doing to Help. Understanding the economics of educational sport and how athletic programs operate are predicates for good federal legislation. Financial and other fact-based information is also essential for policy makers who are trying to make critical decisions about funding higher education institutions that are now considering paying athletes to play. Thus, whenever TDG experts meet with Congressional staff members for the first time, we deliver "college sport economics 101." We begin by refuting the most common myth— that athletics programs pay for themselves. Ninety-nine percent of all athletics programs are subsidized by student tuition, student activity fees, and the benefits of being housed within tax-exempt non-profit educational institutions. College athletic programs are far removed from being successful professional sport businesses.

But we are also careful to emphasize that there is nothing wrong with providing such subsidies if operating costs are reasonable and athletic programs serve important educational functions consistent with the size and nature of the institution. Congress must understand that athletic programs:

- are enrollment drivers – athletes comprise 11-18% of Division II and 23% of Division III undergraduate populations;
- are important programs delivering broad educational, social, and developmental higher education experiences for student participants;
- provide students with training for teamwork, leadership, and positive responses to performance pressures experienced in our capitalist society;
- use partial scholarships to generate full-paying students in all Divisions I and II institutions – the majority of athletes are not full scholarship recipients; and

- contribute to the development of campus and local communities, donor and alumni relations.

Then we deliver the following facts:

1. The NCAA's 360 Division I athletics programs generate $17.5 billion/year in revenues. Over half of that revenue is generated by the Power 5 (the 69 institutions in the Big Ten, SEC, ACC, Big12, and Pac12, with the Pac12 going through a major reconfiguration) that use their superior financial resources for:

    - hiring excessive numbers of coaches/administrative staff members;
    - building lavish facilities to attract prospective athletes; and
    - paying exorbitant coach/administrative staff salaries.

2. The most powerful Division I athletic programs (top 10 Division I football conferences comprising the Power 5 and the Group of 5 – 133 members) have successfully controlled the 1,200 member NCAA to best advance their commercial and program interests by threatening to leave, which would pull the financial rug out from under all other Division I, II, and III members. The success of these top programs has been enabled by effectively restricting athlete scholarship compensation and failing to expend sufficient resources on other direct athlete benefits such as academic support, athletic injury insurance, and medical benefits.

Division/ Subdivision	**Athlete Scholarships**	**Athlete Medical**	**Coach/Admin. Staff Salaries**
Power 5	**12%**	**1%**	**39%**
Group of 5	**19%**	**1%**	**36%**
FCS	**26%**	**1%**	**33%**
Basketball (no FB)	**27%**	**1%**	**35%**

Source of Financial Data: Division I – 2021-22 Data

Only a small percent of expenditures is used to provide direct athlete benefits. This benefit imbalance has produced populist calls to declare college athletes "employees" – a status that could provide them with collective bargaining power. Currently, college athletes have no real voting rights or power within the NCAA.

3. Institutional direct subsidies vary by NCAA competitive division and subdivision:

Division/ Subdivision	Student fees/general fund subsidies as percent of revenues*
Division I (188,485 athletes)**	
Power 5	**10%**
Group of 5	**56%**
FCS	**71%**
Basketball (no football)	**77%**
Division II (134,666 athletes)**	
With football	**96%**
Without football	**92%**
Division III (202,933 athletes)**	
With football	**100%**
Without football	**100%**

* *Sources of Financial Data: Division I – 2021-22 Data Division II – 2020-21 Data Division III – 2019-20 Data*

** *Source of participation data: 2023 NCAA Demographics Database*

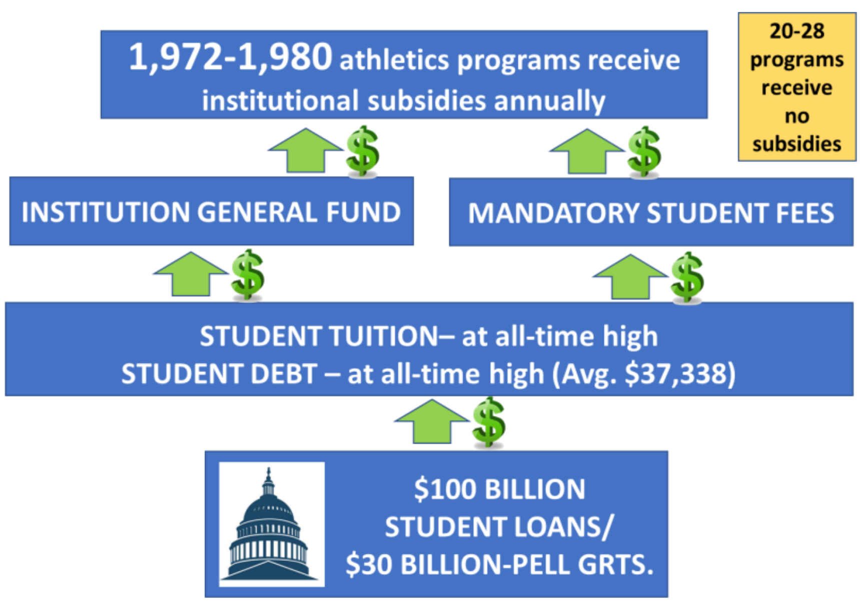
4. College sports must meet legal obligations and regularly use economic benefits of being embedded within non-profit educational institutions, neither of which are applicable to for-profit entities operating in the open marketplace, understanding that:

- Schools must comply with Title IX, treat male and female athletes equally, and provide sports that meet their respective interests.
- Private individuals and organizations cannot use the assets of non-profit institutions for private gain.
- Schools must use any excess revenues over expenses for their tax-exempt purpose – support of curricular and extracurricular educational programs.
- Athletic programs use non-profit indirect subsidies listed below that are not available to private for-profit entities to meet athletic program operating needs:
    - tax deductible donations from alumni and fans(Power 5=24% of total revenues; Group of 5=14%; FCS=12%; DI-non football=9%);
    - tax-free bonds for capital facility construction; and
    - exemptions from local/state sales and service taxes.

5. The increased expenses resulting from classifying athletes as employees would have a significant financial impact on institutions already facing the fiscal challenges of declining enrollment due to population birth rate changes.

6. Any student can be both a student and an employee and current mechanisms of institutional control of athlete time, compensation, and participation may arguably meet the common definition of employee. However, college athletes are neither "fish nor foul" but rather a hybrid in which student academic obligations are interrelated with athletes' time, travel, and physical demands. An emphasis on earning cash as a sport "employee" can easily become a student priority over academic achievement, ill-serving the vast majority of 188,000 Division I athletes who will not become professional sport athletes (fewer than 4 percent of NCAA Division I draft eligible football and basketball players are selected each year).

7. Congress has an important interest in controlling athletics program costs. College sports are heavily subsidized by non-athlete student activity fees and general fund allocations (tuition dollars) that are anchored by student loans from federal Higher Education Act appropriations. Average student loan debt of $37,338 upon leaving college is an important concern being addressed by Congress.



*2017-18 to 2021-22 five-yr. avg. Statistica.com

All of the above financial information provides essential context for bill writing before getting into the weeds of specific issues.

Asking for Your Support. We'd really appreciate your help in advancing these efforts. Consider helping fund TDG to continue this important work with Congress. We use membership fees and gifts to pay for student research, operate our communications platforms, and fund limited volunteer academic expert trips to meet with members of Congress—please note that 90 percent of our work educating Congressional staff members is via Zoom communication.

If you aren't a member already, please consider becoming one. Membership is nominal ($10/students, $35/faculty, $50/general) and gifts in any amount are appreciated. **We welcome you to do so here**. If you are already a member, thank you for your support.

We do what we do because we believe in the extraordinary developmental impact of intercollegiate athletics on participants — confidence, discipline, work ethic, and more. We believe in Title IX and the equitable treatment of male and female athletes. We also believe athletics programs contribute to a vibrant campus community and are part of the 'glue' that keeps alumni involved in higher education. We must keep these values and benefits while we solve the challenges created by the commercialization of college sport.

Thanks for your interest in our work and considering this request.

Gratefully,

Donna

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P.S. If you missed our first seven reports, you may access them here:

Issue Report #1 — Proposed Antitrust Settlement – Financial Implications for College Sport
Issue Report #2 — Failure of the U.S. Office for Civil Rights to Enforce Title IX
Issue Report #3 — Confronting the Failure of the NCAA Enforcement Process
Issue Report #4 — Gambling: The Biggest Danger to College Sport
Issue Report #5 — Athletics Injuries, Heat Related Illness, and Death
Issue Report #6 — Confronting Misinformation About Title IX
Issue Report #7— NCAA, Power Five, and Antitrust Attorneys "Trying to Pull a Fast One"