



Connecting Athletics Revenues with the Educational Model of College Sports

C.A.R.E. Model of College Sports

Requirements to Alter the Distribution and Spending
of NCAA Division I Revenues

A NEW REPORT IN THE SERIES:
TRANSFORMING THE D-I MODEL

The complete series can be accessed at knightcommission.org.



Knight Commission
On Intercollegiate Athletics

A PROJECT OF THE JOHN S. AND JAMES L. KNIGHT FOUNDATION

SEPTEMBER 2021

Statement of the Problem

College sports in Division I, most notably in Football Bowl Subdivision (FBS) football, are in the midst of a runaway financial race that threatens to upend and undermine the educational model of college athletics. The major Division I revenue distribution entities (i.e., NCAA, College Football Playoff (CFP), and Division I conferences) distribute [more than \\$3.5 billion annually](#) in shared athletics revenues to their respective Division I institutions. With the expected expansion of the CFP, which is managed independently of the NCAA, and increased media rights for FBS conferences, these annual distributions will likely surpass \$4.5 billion in the next several years.¹

Without intervention, history is likely to repeat itself. Burgeoning NCAA, CFP, and conference revenues will be spent disproportionately on coaching compensation and athletics facilities, propelling the competitive arms race of Division I college athletics and intensifying the trajectory towards a professional sports model.

Systemic change, not incremental reform, is necessary to alter spending patterns and to more effectively allocate billions of dollars of athletics revenues towards education-centric priorities not directly associated with seeking competitive advantages. In other words, requirements or mandates are needed to ensure that distributed athletics revenues are spent to support an educational model for college sports, specifically advancing priorities such as college athlete education, health, safety, well-being, gender and racial equity, broad-based sports participation, and university academics.

Both supporters and critics of the existing system agree that the attention to increasing athletics revenues is overshadowing the educational, health, and safety concerns of college athletes. A [March 2021 survey](#) of more than 100 FBS athletics directors, conducted by LEAD1, found that 96 percent favored a model that would better manage spending and encourage investment in the principles highlighted in the Commission's recommendations. Similarly, there is wide-spread agreement that the current governance at the NCAA, conference, and campus levels has failed to develop systems that encourage financial responsibility, necessitating the need for regulatory intervention.

SYSTEMIC CHANGE, NOT INCREMENTAL REFORM, IS NECESSARY TO ALTER SPENDING PATTERNS AND TO MORE EFFECTIVELY ALLOCATE BILLIONS OF DOLLARS OF ATHLETICS REVENUES TOWARDS EDUCATION-CENTRIC PRIORITIES NOT DIRECTLY ASSOCIATED WITH SEEKING COMPETITIVE ADVANTAGES.

¹ The NCAA distributes nearly \$600 million annually from its March Madness tournament to Division I institutions. That giant pool of money is already dwarfed by a subset of FBS conferences, the "Power Five," whose conference media contracts approach a combined \$2.5 billion annually. Power Five revenues are driven primarily by the value of football rights, including revenues from the College Football Playoff (CFP), which is independent of the NCAA. The looming CFP expansion could see its collective distribution to Division I FBS conferences expand from more than \$500 million annually to an estimated \$1.5 billion annually.

Recommendation to Modify the Current NCAA Division I and CFP Financial System

The Knight Commission recommends systemic changes in its “Connecting Athletics Revenues with the Educational Model of College Sports” (C.A.R.E. Model). The C.A.R.E. Model stipulates that “shared athletics revenues” distributed by the major revenue generating entities for Division I (i.e., NCAA, CFP, and Division I conferences) be spent more directly to support an educational model of college athletics. The Commission believes systemic changes, grounded in the founding principles of college sports, can only be achieved through required actions, imposed by Congress or the respective governing bodies of college sports, as outlined below.

THE KNIGHT COMMISSION RECOMMENDS SYSTEMIC CHANGES IN ITS “CONNECTING ATHLETICS REVENUES WITH THE EDUCATIONAL MODEL OF COLLEGE SPORTS” (C.A.R.E. MODEL).

By utilizing the C.A.R.E. Model, the financial structure of college athletics – specifically, how shared athletics revenues are distributed and spent – will prioritize college athletes’ education, health, safety and well-being, athletics programs that provide broad-based opportunities, racial and gender equity, and university academics.

*The Commission proposes **five core principles** of the C.A.R.E. Model be adopted in law, regulation, and/or conference rules to guide the financial system:*

- ① **Transparency**
- ② **Independent oversight**
- ③ **Gender equity**
- ④ **Broad-based sports opportunities**
- ⑤ **Financial responsibility**

Each of these principles is absent, in whole or in part, from the current system.

A description of the principles follows.

*Two **overarching principles** to guide the distribution criteria and spending of shared athletics revenues:*

- 1 **Transparency.** Public disclosure of both distributed revenue allocations and the uses (i.e., spending) of such distributions should be required. Division I institutions also should be required to publicly disclose gender and ethnicity demographics of athletics program athletes and staff.
- 2 **Independent oversight.** An oversight entity should be established to approve all revenue distribution plans and their compliance with these principles. This entity should be led by a board with a majority of independent directors, who are not employed by the NCAA, CFP, member institutions, or the NCAA's or CFP's corporate or media partners. In addition, at least one-third of the board should be current and former college athletes. This entity should be granted authority by the NCAA, CFP, and/or by the appropriate governing body.

*Principles to define criteria for **distribution** of shared athletics revenues:*

- 3 **Gender equity.** Revenue distribution policies should be equitable with regard to gender. For example, if a distribution entity governs men's and women's sports, it cannot distribute any portion of revenues on the basis of athletics success in a men's sport only – as is currently the case in the NCAA revenue distribution formula, which rewards tournament success only for men's basketball teams in its “Basketball Performance Fund.”
- 4 **Broad-based sports opportunities.** Nationally generated revenues should be utilized to benefit all sports and athletes and not disproportionately support those sports that generated the revenue. The benefits of intercollegiate athletic activities are universal, regardless of the sport, and increasing athletic opportunities is educationally valuable for colleges and universities. As a minimum standard, any incentive pool to reward team athletics performance, such as those currently awarded by the NCAA for men's basketball performance and by the CFP for football team performance, should be altered to provide an equal incentive pool to reward schools for offering more teams than the minimum required for the Division I membership classification of the institution.

*Principles to direct **spending** of shared athletics revenues (e.g., the use of distributed shared athletics revenues):*

5 Financial responsibility. Division I conferences distributing shared athletics revenues to institutions should be required to implement a system that measures how the spending of such revenues are used to support athlete education, health, safety, and well-being, university academic programs, and athletics programs that provide broad-based opportunities and achieve racial and gender equity.²

This new mandate would require Division I conferences to provide meaningful incentives and penalties to encourage spending consistent with the broad educational mission for college sports. Caps and/or minimum financial thresholds to limit sport-specific spending—especially on athletics coaching and staff compensation, severance pay, and athletics facilities—should be adopted.

While each conference would design its system for incentives, caps, thresholds, and penalties independently, each conference would be obliged to submit its conference-based financial responsibility plan under this requirement for approval by the independent oversight entity described in Principle 2.

Financial responsibility in the C.A.R.E. Model can take many forms. Three illustrative examples of financial mandates that are consistent with the Knight Commission’s conference-based financial responsibility principle are briefly summarized on the following page. Additional examples would entail congressional or regulatory action.

² A conference-based approach for this principle is recommended because the relatively homogenous nature of conference schools gives presidents an opportunity to achieve consensus, and conference-level action is more likely to withstand antitrust scrutiny than collective national action.

Examples of the Financial Responsibility Principle: Financial Incentives, Thresholds, and Penalties

The following three examples suggest revenue distribution and spending policies that could be developed and utilized by Division I conferences to meet the financial responsibility requirements in Principle No. 5 of the C.A.R.E. Model. Compliance with the policies would be overseen and approved by the independent oversight entity described in Principle No. 2. [Note: It is anticipated the measures developed independently by each conference will vary to reflect the different revenue and spending profiles of Division I conferences and that these conference-based measures would more likely withstand antitrust scrutiny than collective national action.]

Example 1:

An amount equal to at least 50 percent of “shared athletics revenue distributions” must support athlete education, health, safety, and well-being and university academics.

Conferences could require each Division I institution to spend an amount equal to at least 50 percent of “shared athletics revenue distributions” on the education, health, safety, and well-being of college athletes and/or university academics. Revenues that are received from the NCAA and/or CFP (either directly, or indirectly via their conference) as well as conference-generated revenues from media contracts and conference tournaments would comprise the “shared athletics revenue distribution” that is subject to the 50 percent standard.

Systems and reporting requirements that already exist as part of the annual NCAA Financial Reports can be used to track and ensure compliance with the 50 percent standard without adding any administrative burden.

Using these existing financial reports, clearly defined revenue and spending categories would be utilized to determine the shared athletics revenues that would be subject to the 50 percent standard and what spending would qualify in meeting the standard. Calculations could use a multi-year rolling average, beginning with the 2020-21 fiscal year, to account for fluctuations in annual shared revenue distributions.

The following revenue and expense categories of the NCAA Financial Reports would be used in the calculation to meet the 50 percent standard in this example:

- » **Conference, NCAA and/or CFP generated revenues [Lines 13 and 13A]**
- » **College athlete aid (e.g., educational benefits) [Line 20]**
- » **Medical expenses and insurance premiums [Line 37]**
- » **Transfers of athletic funds back to the university [Line 50], which meets the investment in “university academics” designation**

Personnel expenses are purposely excluded from the calculations so that the support of athletes’ education, health, safety, and well-being is direct and consistent with established definitions in NCAA Financial Reporting documents.

Data analyses show that most Division I schools already meet the 50 percent requirement. Those institutions that do not meet this standard typically receive significantly higher amounts from shared athletics revenue distributions and would be required to allocate revenues differently by increasing educational benefits, adding scholarships or sports, or by transferring funding to university academics.

Example 1 Summary Data

CLICK HERE for a full list of Division I public institutions to further illustrate implementation of this example.

Benchmark is to spend at least 50% of Shared Athletics Revenue Distributions on Target Areas.				
If Column B divided by Column A is less than 50% (Column C), spending would require change (Column D).				
<i>*Data are based on a three-year average using 2017-2019 fiscal years.</i>				
Type of Institution	Column A	Column B	Column C	Column D
	Total Amount of Shared Athletics Revenue Distributions received by the median institution	Total Amount spent on the target areas of Athlete Scholarships/Educational Benefits, Athlete Medical, and/or University Academics by the median institution	Median percentage of Shared Athletics Revenue Distributions spent on the target areas of Athlete Scholarships/ Educational Benefits, Athlete Medical, and/or University Academics	Total Amount of Shared Athletics Revenue Distributions the median institution must spend differently to meet the minimum 50% benchmark
Median Power 5 public institution that <u>does not</u> meet requirement (N=43)	\$34,313,830	\$11,547,975	33.7%	\$5,608,940
Median Power 5 public institution that meets requirement* (N=9)	\$30,944,486	\$19,167,379	61.9%	\$0
Median Group of 5 public institution* (N=55)	\$4,816,875	\$10,090,322	209.5%	\$0
Median FCS public institution* (N=75)	\$1,041,313	\$5,096,490	489.4%	\$0
Median DI-No Football (basketball-centric) public institution* (N=46)	\$575,138	\$2,952,767	514.6%	\$0

*All public institutions in these classifications meet the requirement using these data.

N = the number of public institutions in each specific category.

Data source: Knight Commission’s College Athletics Financial Information (CAFI) database, using data reported by institutions on NCAA Financial Reports. (cafidatabase.knightcommission.org)

Example 2:

Limits on “regulated” operating expenses. Conferences could establish limits or spending targets for “regulated” operating expenses for each individual sport program, or for a group of programs where spending growth rates have soared (i.e., FBS football, men’s and women’s basketball). The limits would reflect the competitive division and/or competitive affiliation of the particular sport program. “Regulated” operating expenses could be defined to include specific costs, such as the sum of coaching salaries and benefits (as guaranteed by the university), salaries for support staff personnel, and recruiting expenses as defined currently in EADA reports (e.g., travel for recruiting evaluations/contacts, recruiting materials). Athletics scholarships, team travel, equipment, medical expenses, and other direct athlete financial benefits would not be included in the regulated operating expenses in this example. Competitive and/or financial penalties for exceeding the limits, and/or competitive and/or financial incentives for staying within the limits could be developed.

Example 3:

Addressing excessive coaching salaries through a “luxury tax” system. Conferences could establish a system that would address the disproportionate growth of coaching salaries by assessing financial penalties for total coaching salaries that exceed a certain limit, such as a total indexed to instructional salaries. Exceeding the established limits in such an index would trigger financial penalties.

The following two examples (4 and 5) envision congressional or regulatory action.

Example 4:

Change application of not-for-profit taxation rules to address excessive compensation for college athletics staff. The favorable nonprofit tax status college athletics programs enjoy is related to their “educational nexus.” Reasonable college athletic staff compensation should be defined (as a function/multiple of faculty compensation, or a function of athletic spending that benefits college athletes directly), and then excessive compensation could be treated as non-deductible, and subject to federal income tax.

For example, coaches and their compensation could be compared to their academic counterparts and capped at 2 to 3 times the median or average faculty compensation

for the university as a whole or tied to the top quartile of faculty compensation. All compensation over that institution-specific cap amount would then be taxed.

Congress has taken steps toward a luxury tax. In December 2017, it enacted a tax package that required non-profits to pay a 21 percent excise tax on their top five salaries above \$1 million, an excise tax that applies to universities.

Example 5:

Examples 1 through 3 above could be enacted through congressional or regulatory action as a mandate to apply to all Division I schools.



© 2021 Knight Commission on Intercollegiate Athletics
A project of the John S. and James L. Knight Foundation

knightcommission.org