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This chapter reviews the main sources of financial data on intercollegiate athletics and the budgeting processes used in athletics.

Finances and College Athletics

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In 2008–2009, the National Collegiate Athletic Association (NCAA) generated television and marketing revenues of approximately $591 million, college sports apparel sales topped $4 billion, and several schools signed multimedia-rights deals for more than $100 million (Berkowitz, 2009; National Collegiate Athletic Association, 2009). At the Division I level intercollegiate athletics is big business, and it is becoming more so among Division II, III, and National Association of Intercollegiate Athletics (NAIA) programs. In this environment, the most effective and successful leaders understand the importance of acquiring, analyzing, and using financial information to make informed decisions. This chapter introduces the public sources of financial data on intercollegiate athletics and describes the budgeting process for effective decision making.

Public Sources of Financial Data for Intercollegiate Athletics

A good place to gather information for intercollegiate athletics as a whole is the NCAA. The NCAA's Web site has a link to "budget and finances," which takes readers to information about the NCAA in general as well as information about each division within the NCAA. The charts in Figure 1.1 are from that Web site and show budgeted revenues (inflows) and expenses (outflows) for the NCAA from the beginning of September 2008 to the end of August 2009. (In some instances, revenues are referred to as "sales," and expenses are sometimes referred to as "costs.") Most of the NCAA's

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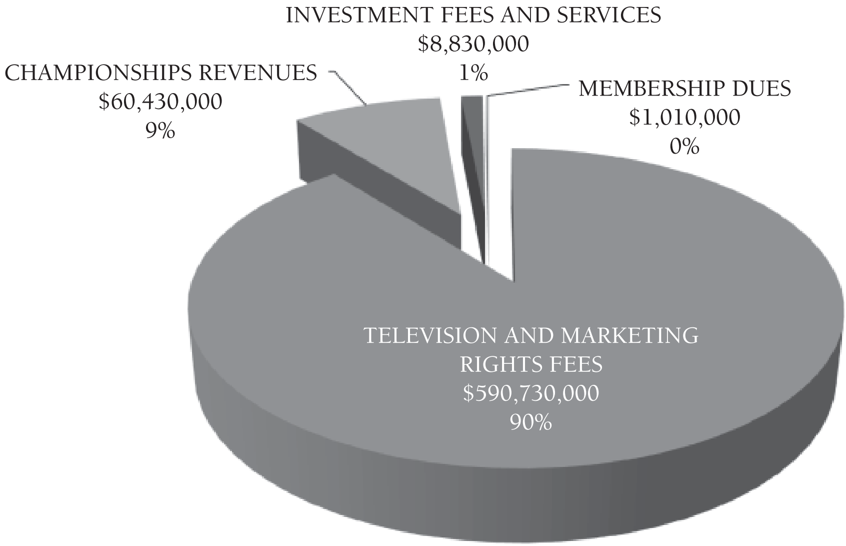
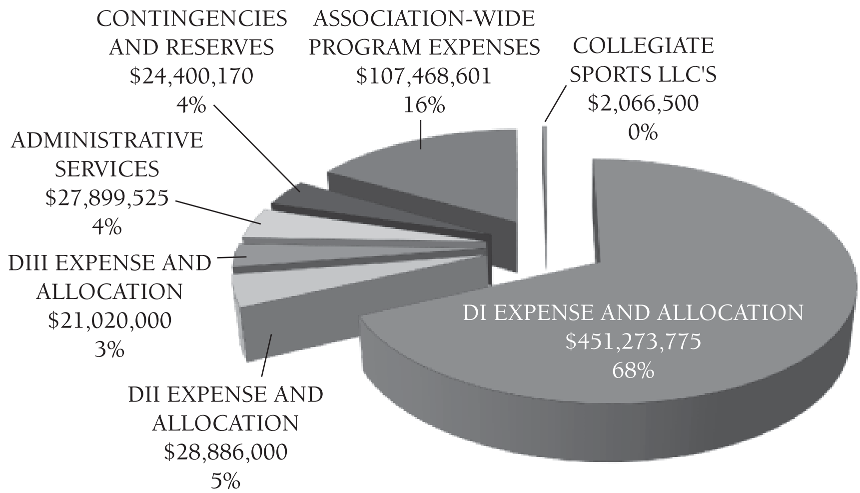
Figure 1.1. NCAA budgeted revenues and expenses for 2008–2009*





revenue comes from television and marketing rights fees. The $591 million received for such fees in 2008–2009 represents 90 percent of total revenues. The largest expense category for the NCAA is "Division I (DI) expense and allocation," totaling $451 million (68 percent of total expenses). In a more detailed budget provided on the NCAA's Web site, this expense category is broken down into multiple items. The two largest items are "distributions to DI members," totaling $387 million (59 percent of total expenses), and "DI championships and programs," totaling $64 million (10 percent of total expenses). Although the NCAA Web site provides good summary statistics for intercollegiate athletics as a whole, it does not provide institution-specific details.

Financial information related to athletics for most institutions can be found through the U.S. Department of Education's Web site (http://ope.ed.gov/athletics). This Web site provides financial information for postsecondary academic institutions that participate in intercollegiate athletics and in the federal student financial assistance program. Institutions that meet these two criteria must file the Equity in Athletics Disclosure Act (EADA) form with the U.S. Department of Education. This annual filing includes information on athletic participation, coaching staff and salaries, revenues and expenses, and other related information. Much of the information is broken down by gender as well as type of sport (such as football, basketball, and volleyball). The Department of Education's Web site allows users to acquire information on specific institutions or to acquire aggregated information by sorting the data by sanctioning body (including the NCAA and NAIA), state, conference, undergraduate enrollment, or type of institution (four-year, two-year, public, and private, for example). It is important to keep in mind when using these data that not all institutions classify specific revenue and expense items in the same manner, especially prior to 2006. In August 2004, the NCAA updated its "agreed-on procedures" for reporting financial information to more clearly define what institutions should include in specified revenue and expense line items. These new definitions went into effect in early 2006 and reduced, but did not eliminate, discrepancies in the ways that institutions report revenues and expenses.

Finally, in 2008, the NCAA started providing, on a password-protected Web site, what it refers to as "dashboard indicators." Currently there are twenty-six indicators, most of which pertain to financial information. Jim Isch, the chief financial officer at the NCAA, describes the dashboard indicators as "graphic comparisons of the annual financial picture of the institution's athletic program versus a set of comparators" (http://ncaa.org/wps/ncaa?ContentID=145). Once users select a dashboard indicator, they are shown a graphical presentation of how their institution compares to a predefined (such as by conference) or custom-designed (including individually selected peer institutions) group of institutions on the selected indicator over the previous three years. Currently only a select group of individuals (presidents, athletic directors, and others) have access to the dashboard indicators.

Given this general description of where financial data for intercollegiate athletics can be acquired, we turn our attention to describing the budgeting process and how budgets can be used to make informed decisions.

What Is a Budget?

A *budget* is a projected set of financial consequences based on future plans, goals, and objectives. *Budgeting*, the process by which athletic departments prepare budgets, entails projecting specific revenues and expenses for a given period of time. Each revenue or expense item listed in a budget is commonly referred to as a *line item*.

Two of the most common of the many types of budgets are *capital budgets* and *operating budgets*. A capital budget focuses on large, long-term construction projects, such as a new academic services center or the renovation of an existing stadium. An operating budget focuses on the day-to-day activities of an athletic department, athletic team, or support unit, such as marketing. In this section we focus on operating budgets.

A budget is a useful decision-making tool because it requires administrators and coaches to think about the future and to quantify their expectations. Budgets can be used to guide decisions about everything from how much to pay new or existing coaches, to the implications of cutting specific programs or units. The format and level of detail of a budget vary across institutions and sometimes across programs within an institution. At one extreme, a budget may contain only a limited number of highly aggregated revenue and expense line items. Table 1.1 provides an example of an aggregated budget for a Division I athletic department. At the other extreme, a budget may contain multiple pages of detailed projections of specific revenue and expense line items. To picture a more detailed budget, imagine each line item in Table 1.1 being broken down by sport, such that under the line item "Ticket sales," there would be a line listing the projected dollar amount of ticket sales for each individual sport. On the expense side, a more detailed budget might take a line item like "Travel" and not only break it down by sport, but also by detailed expense category, such as airfare, hotel, and food. Individual administrators and coaches at lower levels within an athletic department are generally responsible for individual line items within an athletic department's overall budget, while more senior administrators assume responsibility for the budget as a whole.

Budgets are often expressed in dollars, but may also include other metrics, such as labor hours, number of personnel, or units (such as the number of footballs needed for spring practice) that help justify the dollar figures. The period covered by a budget is referred to as the *budget horizon* and can vary from a short-term weekly operating budget to a long-term, ten-year capital budget (money for a new stadium, for example). Typically shorter-term budgets are more detailed because there is less uncertainty about expected outcomes one week from today than there is five years from today. This does not mean, however, that short-term budgets are more important than long-term budgets. In fact, in higher education, athletics, or the business world, many argue that success comes from thinking about what will happen to an organization next year, not next week.

Table 1.1. Sample Division I Athletic Department Operating Budget, 2009–2010

	2009–2010 Projections	*Percentage of Total Revenues*
Operating Revenues		
Ticket sales	$10,200,000	26%
Contributions related to season tickets	7,600,000	19
NCAA and conference distributions	6,400,000	16
Multimedia rights	3,600,000	9
Other sponsorships	2,400,000	6
Student fees	6,200,000	15
Concessions, souvenirs, and parking	800,000	2
Investment income	2,000,000	5
Other miscellaneous revenues	800,000	2
Total operating revenues	$40,000,000	100%
Operating expenses		
Salaries and benefits	$16,000,000	40%
Scholarships and financial aid	5,600,000	14
Travel	2,800,000	7
Day of game	2,400,000	6
Guarantees paid to visiting teams	1,600,000	4
Advertising	1,600,000	4
Supplies and equipment	1,200,000	3
Utilities, repairs, and maintenance	3,200,000	8
Other miscellaneous expenses	4,000,000	10
Total operating expenses	$38,400,000	96%
Operating income	$1,600,000	4%

Budgets can be used for planning purposes or performance assessment purposes, or both. It is common in both intercollegiate athletics and the business world to use budgets for both purposes. That is, individuals or departments are asked to create a budget that quantifies their expectations of the future, and then periodically their actual performance is measured against their expected performance. To facilitate the review process, budgets often contain three columns: one that lists the originally forecasted numbers, one that contains actual results, and one that calculates the difference between the two. Understanding the difference between the original forecasted numbers and the actual outcomes is critical to improving the ability to budget accurately over time.

For example, an athletic director might meet with each coach after their respective season ends to review the difference between their team's actual performance and expected (budgeted) performance. If during this review they find that an expense line item ended up being higher than the budgeted amount, they can discuss the reasons why this occurred and whether these reasons are expected to persist. If the reasons are likely to persist (for example, the cost of air travel has increased and is not likely to revert to lower levels in the foreseeable future), future budgets can be appropriately adjusted to reflect these changes.

Preparing Budgets: How Is It Done, and Who Is Involved?

The budgeting process for most athletic departments in general starts with a revenue forecast, since revenue forecasts influence many of the other line items listed in a budget. Revenue forecasts should include projected unit quantities (such as number of tickets sold or number of students) and unit prices whenever possible. After preparing the revenue forecast, administrators and coaches must consider the expenses their respective departments or programs will incur during the period. Some of the expenses will vary with the level of forecasted revenue (for example, the cost of goods sold at concession stands will vary depending on the number of tickets sold). An expense that varies depending on the level of activity is called a *variable expense*. Keeping in mind the revenue forecast when forecasting variable expenses is critical. Other expenses, such as the fixed portion of a coach's salary, will not vary with the level of forecasted revenue. An expense that does not vary depending on the level of activity is called a *fixed expense*.

Preparing a budget can be done in several ways. If the budgeting process involves dialogue between senior administrators and lower-level personnel, it is called *participative*. Many athletic departments use a participative budgeting process because in most cases, lower-level administrators and coaches better understand the individual line items they are responsible for in the athletic department's budget than do more senior administrators. Furthermore, involving lower-level personnel increases the probability that everyone in the athletic department is committed to creating and using budgets to manage their respective departments or programs.

A participative budgeting process usually has several steps. First, senior administrators lay out assumptions that lower-level administrators and coaches use to build their respective budgets. Lower-level personnel then communicate their preliminary budgets up the organization. The preliminary budgets that senior administrators receive may affect their initial expectations and are either incorporated into the overall athletic department's budget or used as a basis for dialogue with the lower-level coach or administrator who submitted the budget. This feedback loop may continue for several rounds. Once all parties in the process agree on the details, the budget is formally approved by the athletic director or other top administrator and then communicated to the entire athletic department.

Note that although participative budgets are the norm, smaller and less decentralized athletic departments may opt to use a more top-down budgeting process where senior administrators create the budget and simply communicate it to lower-level administrators and coaches. The primary cost of using this more dictatorial method of setting budgets is that it may adversely affect the commitment of lower-level personnel to the budgeted numbers since they did not help create them. This potential cost should not be underemphasized; without buy-in from lower-level personnel, budgets become less useful as a management and decision-making tool.

Using a top-down budgeting process offers several potential benefits. For example, short-term budgets that are imposed by senior administrators are more likely to be consistent with the strategic long-term goals and objectives of the athletic department. When budgets are created using a participative, bottom-up approach, the likelihood is higher that individual program budgets will conflict with the long-term goals and objectives of the athletic department. A second benefit of using a top-down budget is that the budgeting process can be relatively quick because it requires less back-and-forth between senior administrators and lower-level personnel.

Budgets Are Based on Assumptions: Garbage In, Garbage Out

Creating a budget is easy. Creating an accurate budget is not. Creating accurate budgets requires individuals to make valid assumptions about the quantitative impact of multiple future events. This is not a trivial exercise and often involves as much art as science. Typically the more time and effort individuals spend acquiring information and making informed assumptions, the higher the probability is that their budgets will be accurate. The opposite is also true, which is why the term "garbage in, garbage out" is often used to describe the process of making assumptions and creating budgets.

Prudent administrators and coaches rely on several sources of information in settling on the assumptions they ultimately use to prepare their respective budgets—for example, the previous period's budget and actual performance, as well as macroeconomic inputs such as the state of the local economy, the level of competition, and market size. Individuals can access innumerable sources when making assumptions; in fact, the problem they often face is not one of finding sources but rather one of bringing diverse sources together to make a well-justified assumption.

Recent surveys on the budgeting practices of U.S. corporations have found that those responsible for creating budgets tend to rely most heavily on past performance when predicting future performance. For example, a manager might calculate the average growth rate in revenues over the past three periods and then use this rate as the primary source for making an assumption about the growth in revenues next period. This practice is commonly referred to as *incremental budgeting* or *add-on budgeting*, because future budgets are simply past budgets adjusted for an expected incremental increase or decrease next period. Setting budgets in this manner is popular because in most settings, past performance is a reasonable signal of future performance, and starting the budgeting process with data on past performance is much easier than trying to create assumptions from scratch.

It is important to keep in mind that a “good” budget is an accurate budget. An inherent assumption embedded in using the incremental-budgeting approach is that past conditions are often reflective of future conditions. In fact, this may not necessarily be the case, especially in environments where athletic directors and coaches are simultaneously trying to comply with NCAA, conference, and gender equity regulations while dealing with deteriorating economic conditions or other new or fast-changing conditions. Another potential drawback of using an incremental budgeting approach is that individuals tend to be biased toward incorporating incremental increases rather than no changes or incremental decreases. When a program’s performance in the previous period was unusual, either exceptionally good or bad, this bias can result in inaccurate budgeted numbers the following period. A final caveat to using an incremental budgeting approach is that it typically assumes that the line items listed in the previous period’s budget are valid and do not need to be justified each period going forward. Continually relying on the line items in the previous period’s budget can result in outdated and incrementally less accurate budgets going forward.

An alternative approach (albeit one that is quite extreme) to incremental or add-on budgeting is the concept of *zero-based budgeting*. This form of budgeting requires individuals to start fresh each period as if they were creating a budget for the first time. This requires not only thinking about how individual line items will change from period to period, but also whether each line item should be included in the budget. Few business organizations or athletic departments use zero-based budgeting because of the time and resources required for the process. However, new projects, especially ones such as the construction of a stadium that are unlike previous projects, essentially require zero-based budgeting. In addition, periodically requiring administrators and coaches to go through the thought process of creating a zero-based budget can result in more accurate budgets over time.

Keeping Budgets Current: Updating Assumptions

In most athletic departments, the budgeting process is conducted once a year and can take anywhere from a couple of weeks to several months depending on the size of the department and whether the department uses a top-down or participative approach. At the University of Washington, the budgeting process starts in early April and concludes in early June. The timing of the process is typically dictated by an institution’s *fiscal year*. A fiscal year is a one-year period used for planning and budgeting purposes, and for state institutions, their fiscal year often coincides with their respective state government’s fiscal year. For example, the State of Washington and the University of Washington share the same fiscal year: July 1 to June 30.

A lot can happen in only one year. One way to keep administrators and coaches vested throughout the year in the budgeting process is to use *flexible budgets*. A flexible budget incorporates different activity levels for key inputs (such as labor hours or tickets sold). Typically it contains a column for a baseline budget alongside columns for various activity levels. Using flexible budgets allows administrators and coaches to clearly see the financial implications of changes to their key assumption (such as the impact of lower-than-expected ticket sales or student fees). Creating and altering flexible budgets is quite simple using Microsoft Excel. Flexible budgets are commonly used by businesses because they are relatively easy to implement. Even flexible budgets, however, may not accurately capture the impact of operating in rapidly changing environments. A more radical approach, and one that is also much more time-consuming to implement, is the use of *rolling* (or continuous) *budgets*.

Under a rolling-budget system, administrators and coaches within an athletic department prepare budgets for a fixed number of periods. For example, everyone might prepare budgets for each of the four quarters within a year. The four quarters do not have to match up with the athletic department's fiscal year, though having the first rolling budget start at the beginning of the fiscal year simplifies the process. At the end of each period, administrators and coaches update their budgets for all subsequent periods and add on a new period at the end. For the University of Washington, this means that administrators and coaches update their budgets for the next three quarters (October–December, January–March, and April–June) and then add a budget for an additional quarter (July–September). As a result of individuals' continuously updating and adding a period to their budgets, rolling budgets always contain a constant number of periods. These budgets can help administrators and coaches make informed decisions using current information, but only if those responsible for updating and adding on to their budgets actively participate in the process each period. If not, the old adage of "garbage in, garbage out" applies.

Potential Advantages and Disadvantages of Budgeting

Conventional management accounting textbooks, academic literature, and practitioners in business and intercollegiate athletics suggest that when individuals are committed to and actively involved in the budgeting process, its advantages far outweigh its disadvantages. This section first discusses the primary advantages of using budgets and then several potential disadvantages of using budgets.

- *Better goal alignment and resource allocation*. The budgeting process compels administrators and coaches to think about their program's goals and the financial implications of those goals. It also forces them to consider how their goals align with the overall goals of the athletic department. As

a result, budgets tend to facilitate the efficient allocation of scarce resources across programs within an athletic department. They also serve the role of an explicit or implicit contract between senior administrators and lower-level personnel with respect to the allocation of resources and performance expectations.
- *Improved communication and coordination*. The budgeting process, particularly one that is participative, facilitates communication within an athletic department. Communicating with those above, below, and at the same level within an individual's departmental hierarchy helps align the individual's goals and objectives with the goals and objectives of others.
- *Increased motivation and performance measurement*. Budgets can be used for incentive purposes to motivate individuals to achieve a desired level of performance. When used in this manner, administrators and coaches who meet or beat their budgeted numbers (by either generating more revenue or incurring lower expenses relative to the budget) can be explicitly rewarded according to their incentive compensation contracts. Using budgets in this manner is quite common in the business world and is becoming more common in intercollegiate athletics. Academic research shows that providing individuals with incentives to achieve challenging but realistically attainable budget targets effectively motivates them to exert effort towards achieving the targets (Merchant and Manzoni, 1989; Tully, 1994).
- *Improved attitude*. Budgets can be used to affect the attitudes and behaviors of individuals. Lower-level administrators and coaches who are actively involved in the budgeting process are more likely to internalize the goals and objectives of the athletic department and work toward achieving them. They are also more likely to feel a sense of accomplishment when budget targets are met or exceeded.
- *Better control*. Budgets are used as a control device to assess whether the athletic department and individual programs are moving toward achieving their goals and objectives. Comparing the difference between actual results and budgeted figures allows administrators and coaches to assess the validity of their original assumptions and, if needed, plan alternate courses of action. When used in this manner, budgets can serve as an early warning sign that original expectations were either unrealistically low or high and that potential corrective actions are needed.

Although most athletic departments use budgets for planning or performance assessment purposes, or both, budgets also have several potential disadvantages:

- *Increased gamesmanship*. Directly linking administrators' or coaches' compensation to budgeted numbers may encourage gamesmanship in the budget-setting process, as well as in activities that managers choose to pursue so that they can meet or beat their respective budgets. For example, if a coach's compensation depends on the number of games won during a season, the coach may choose to schedule games against weaker opponents to increase the probability of winning more games. It is possible that tension exists between senior administrators and lower-level personnel with respect to what constitutes an acceptable performance threshold. On one hand, senior administrators have an incentive to set high budget targets in an attempt to maximize the effort put forth by lower-level administrators and coaches. On the other hand, the lower-level administrators and coaches whose performance will be measured against the budget have an incentive to prepare a *slack budget*—one that is easier to attain than an honest estimate. By proposing a slack budget, individuals not only reduce the expectations of senior administrators, but also increase the chance that they will meet their targets and be awarded additional compensation. Since senior administrators are often dependent on lower-level administrators and coaches for information about their respective programs, lower-level personnel typically have the ability to influence their budget targets. Thus, it is important to keep in mind that any line item in a budget that is linked to an individual's compensation may be padded with slack in order to maximize the chance that the individual will meet the budget target.

- *Wasteful spending*. Besides these gaming behaviors, budgets can create a "use it or lose it" mentality. This wasteful behavior is particularly prevalent when next period's budget is simply a reflection of last period's actual performance plus an adjustment. When budgets are set in this manner, administrators and coaches have an incentive to use their entire budget or risk receiving less next period. A sign of this type of behavior is excessive spending at the end of a budget period. One potential way to mitigate this behavior is to provide individuals with incentives to maximize sources of revenues and minimize expenses so that their behavior is more closely aligned with the athletic departments' overall goals and objectives.
- *Consumption of time and resources*. Acquiring and analyzing multiple sources of information, as well as creating and updating budgets, takes time and resources. This is especially true when the goals and objectives of senior administrators differ from those of lower-level administrators and coaches. When this is the case, agreeing on a budget may take considerable time and effort.

Conclusion

Being an effective leader in intercollegiate athletics requires an understanding of how to acquire, analyze, and use financial information to make informed decisions. Two important skills that fall under this broad requirement are knowing how to access and use external sources of financial information to make informed decisions and knowing how to prepare and use budgets to make informed decisions. This chapter introduced these skills. Our goal in doing so is to plant a seed that we hope will grow among tomorrow's leaders in intercollegiate athletics.

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