Stadium Needs Push Debt in U.S. College Athletics to $1 Billion

Nov. 19 (Bloomberg) -- Todd Turner hasn't been on the job five months and the University of Washington athletics director is already facing a financial crisis.

With football ticket sales sagging, he's drawing from a reserve fund and says he may need as much as $150 million, partly through a bond sale, to renovate the Huskies' 84-year-old stadium in Seattle. It's the kind of budget crunch that Myles Brand, president of the National Collegiate Athletic Association, says may be looming at schools in the NCAA's top division, I-A.

Brand, 62, says athletics expenses, including debt service, have risen so dramatically that any unexpected shortfall could derail some departments. A survey of 87 Division I-A schools shows total bond indebtedness at more than $1 billion.

``Where do we get the money to fix the stadium? That's the challenge,'' says Turner, 53. ``It's not millions. It's tens to hundreds of millions. You can only borrow so much. How do you pay the debt service?''

Average athletics expenses have grown at 7 percent to 8 percent annually in the last six years, Brand says. That's double the 3.7 percent average annual increase in university costs as a whole during the same period, according to the Higher Education Price Index published by Wilton, Connecticut-based Commonfund, which manages endowments for nonprofit organizations.

``The growth we've seen in college athletics can't be sustained,'' Brand says. ``Budgets will be even tighter in the future. And without new revenue streams, how are they going to pay the debt? We need to have a national dialogue on this very soon.''

`Lost Our Senses'

Tom McMillen, a former National Basketball Association player who represented Maryland in Congress for six years, says the priorities of universities that spend heavily on sports may be askew.

``We have to wonder if, as a country, we've lost our senses on all these public-funded stadiums,'' says McMillen, 52, now chairman of Washington Capital Advisors, a merchant bank based in Landover, Maryland. ``If we could do it all over again, I don't think this is the model of college sports that we would choose.''

A turning point may not arrive, he says, until a university faces bankruptcy.

``Without it, the spending and borrowing will continue,'' he says.

Twenty state-supported universities are carrying more than $40 million each in athletics debt, according to documents obtained under state and federal open-records laws. The average annual athletics budget in Division I-A is $27 million, the Indianapolis-based NCAA says.

Ohio State

Ohio State University, a sports powerhouse for decades, carried the most debt with $202.7 million, according to the survey.

Private institutions that don't receive taxpayer funds aren't required to disclose such information and were excluded from the survey.

Other schools carrying large amounts of debt include the University of Wisconsin, in Madison, $90.8 million; the University of Virginia, in Charlottesville, $88 million; and Virginia Tech, in Blacksburg, $81.7 million.

Virginia Tech took on debt to renovate parts of its football stadium, adding revenue potential by building 38 executive suites, priced at $55,000 to $100,000 per season, and six club- seat areas priced at $1,500 to $2,000 per seat.

`Rainy Day' Fund

The university, taking a more conservative approach than many schools, required the athletics department to project revenue based on 75 percent stadium occupancy and to set aside three years' worth of debt service in a ``rainy day'' fund.

Virginia Tech Associate Athletics Director Tom Gabbard, 58, says he understands Brand's concern, though says it shouldn't be an issue for the Hokies, whose record this season in football is 8-2.

``If we went 2-8 for a couple of seasons and came up short, we'd have three years to get it fixed,'' Gabbard says. ``We've guarded against things going bad for us. You can never predict the future.''

Athletics directors cite a range of reasons for the pressure to construct new arenas and related buildings, including crumbling structures, fans demanding better amenities and what Brand and others call an ``arms race'' to recruit better high- school athletes and win wealthier donors and positive publicity.

``We have a standard of living, and it's our job to enhance that standard,'' says University of Akron Athletics Director Mike Thomas, 44.

Luxury Suites

The Ohio school will use some combination of bond sales and donations to finance construction of a new 30,000-seat football stadium for $40 million to $60 million with the sale of luxury suites and club seats.

Some colleges, such as the University of South Carolina, are stepping outside traditional funding options. The Columbia, South Carolina-based school is bringing live concerts to its basketball arena.

The NCAA's Brand says schools that find creative ways to expand programs and fund debt are an asset to collegiate sports - - as long as they don't become too commercial.

``Increasing commercialization of the game is definitely not the answer,'' he says. Brand recently lauded the University of Michigan and Ohio State for rejecting an offer by San Antonio- based SBC Communications Inc. to buy naming rights to the schools' annual football game for $2.12 million over two years.

Big increases in television-rights contracts over the past 10 years are unlikely to continue, says Neal Pilson, 64, former president of CBS Sports.

`Leveling Off'

Walt Disney Co.'s ABC network agreed in 1998 to televise college football's Bowl Championship Series for $550 million over eight years.

``National rights-fee deals are heading toward a leveling off,'' Pilson says. ``Competition and a slower economy are among the reasons. But I don't think we'll see another big run-up for quite some time.''

The University of Washington's athletics department is typically one of the most successful in college sports, with 11 Pacific-10 Conference football titles since 1959. The Huskies' fortunes have slipped -- the football team's record is 1-9 this season and the coach has been fired.

Washington has trimmed its athletics budget by $2 million. It's facing declining ticket sales and donations, plus rising scholarship costs. The school, which is carrying $15.1 million in debt, has already paid $1 million in attorney fees to defend against a legal complaint by former football coach Rick Neuheisel, who was fired for gambling, according to the school.

`Crisis Point'

``In some ways, we are at a crisis point now,'' Turner says. ``We have enormous needs that are facility-driven and budget- driven. The pressures to keep that up are tremendous.''

The school is assessing the soundness of its stadium's concrete and plumbing and needs to add restrooms and concession stands, Turner says.

``We have to broaden our base of supporters and look to alumni and friends,'' he says. ``It won't be simply through buying tickets.''

University of Michigan Athletics Director Bill Martin is facing similarly difficult choices at the Ann Arbor campus.

Michigan Stadium, built in 1927, needs repairs to its concrete structure, plumbing and electrical systems, Martin says. Its seats are too narrow, and it lacks ample restrooms and concession stands.

Martin, 64, says he was embarrassed two years ago when Wisconsin lost to Michigan, and the visitors had to fly home without showering because the plumbing was broken.

``Michigan's stadium is functionally and economically obsolete,'' he says.

Search for Revenue

Martin, whose department is carrying $8.1 million in debt, says he'll need at least $20 million to $30 million for basic repairs. To win approval for the project, he'll need to find new revenue streams.

The answer, he says, may lie in Columbus, Ohio, where the Ohio State Buckeyes financed a $200 million renovation of the school's stadium and other athletics venues by selling bonds in 1999 and 2002.

The Buckeyes' stadium was built in 1920, and the concrete was beginning to disintegrate, says Athletics Director Andy Geiger, 65.

The repair bill, he says, was $55 million, and he didn't have the money. So the university lowered the field to add higher- priced club seats, built luxury suites to lease to businesses and added concession stands. The $15 million in additional annual revenue generated by the project paid for repairs, a new home for the displaced track, and debt service.

`No Default'

Should revenue run short, Ohio State's athletics department would have to find more donors or cut teams, says Bill Shkurti, senior vice president for business and finance at the school.

``We would not permit a default,'' he says.

At the University of Cincinnati, the Bearcats are building a $116 million athletics center that will also house nonsports offices, including the school's health services. Of the $92 million in costs allocated to the athletics department, $50 million will come from donors and $42 million from bond sales, according to Jim Plummer, Cincinnati's chief financial officer.

Plummer says the athletics department's debt of $64.2 million is more ``in line'' than the university's $1 billion in debt. He says the department budget would have to be adjusted should private donations fall short.

Tuition and Fees

Bonds sold by universities for athletics are backed by tuition and fees paid by students. While internally the athletics department might be required to pay the debt, it is the university's central administration that is responsible to investors, says Bill Ahern, 45, who oversees more than $1 billion in municipal bonds at Boston-based Eaton Vance Corp.

``Whether it's for athletics or English, it doesn't matter,'' Ahern says. ``It's the university that owes the money, and they're a pretty safe bet.''

Ohio State University's 5.125 percent bond maturing in 2031 has traded recently at about 104 cents to the dollar, with investors getting a yield averaging about 4.6 percent. The bond is rated AA by Standard & Poor's and Aa2 by Moody's Investors Service. That yield is equivalent to the yield on an index of comparably rated municipal debt, indicating that investors see no more risk than average for the Ohio bond.

Not all schools have to borrow. In 1999, state officials in Connecticut approved spending $90 million in tax receipts to build a football stadium in East Hartford for the University of Connecticut.

``Athletics galvanizes the state,'' says University of Connecticut President Philip Austin, 62. ``It gives us a platform to make a case for funding capital improvements to the academic side of the university as well.''

Winning Record

Connecticut's football program has a record of 20-13 since joining Division I-A in 2002. The athletics department's debt is $1.6 million.

The University of South Carolina says it has spent about $110 million upgrading athletics-related buildings and fields and constructing a basketball arena in the past decade.

``If there is ever a shortfall in fund-raising, we have to pay the debt out of our budget,'' says Athletics Director Mike McGee, 65. ``So it behooves us to think creatively and find other ways to generate revenue.''

McGee hired a sports-arena management company, which booked acts such as Bruce Springsteen and Elton John for the basketball arena. By the end of their first year, South Carolina had grossed $11 million in sales.

``If you borrow too much,'' McGee says, ``then you become the tail that wags the dog, and your decisions become, `I've got to cover my butt.'

``But we feel we have done a good job building our business, and now we are proposing a new baseball stadium and amphitheater.''

Athletics Debt for Selected NCAA Division I-A Schools

School	Total Debt June 30, 2004	2004-2005 Debt Payment
Ohio State	$202,671,862	$14,965,863
Wisconsin	$90,762,661	$4,353,491
Virginia	$88,049,000	$5,984,300
Georgia	$85,051,408	$4,524,447
Virginia Tech	$81,740,000	$6,185,096
Oklahoma	$79,260,000	$5,298,221
Florida State	$74,865,000	$1,615,000
Michigan State	$72,701,243	$2,892,738
Texas	$69,900,000	$7,400,000
Purdue	$65,220,000	$4,700,000
Tennessee	$64,479,239	$7,688,536
Nebraska	$64,380,000	$4,877,000
Cincinnati	$64,202,345	$4,877,000
Oklahoma State	$59,080,000	$2,554,045
Alabama-Tuscaloosa	$57,960,724	$8,415,733
Arkansas	$53,025,000	$5,037,869
Colorado	$45,853,960	$3,392,087

Source: University documents supplied in response to open-records requests.

To contact the reporter on this story:
Curtis Eichelberger at ceichelberge@bloomberg.net

To contact the editor responsible for this story:
Michael Sillup msillup@bloomberg.net

Last Updated: November 19, 2004 00:10 EST

Print